

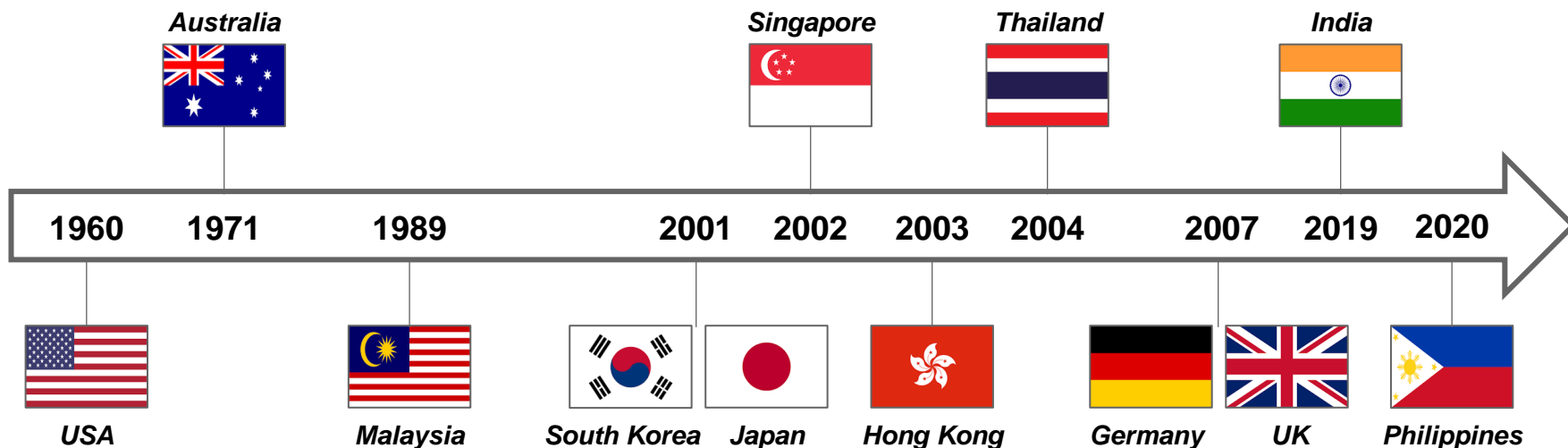
Basic Concepts of Real Estate Investment Trusts

Discussion Materials

26 August 2021

REITs: Globally Accepted For 60 Years

History of REIT Launches in Major Economies



1960

First REIT started in the US

US\$ 1.9 trillion

Value of Publicly-listed REITs globally

400+

Number of REITs globally

What is a REIT?

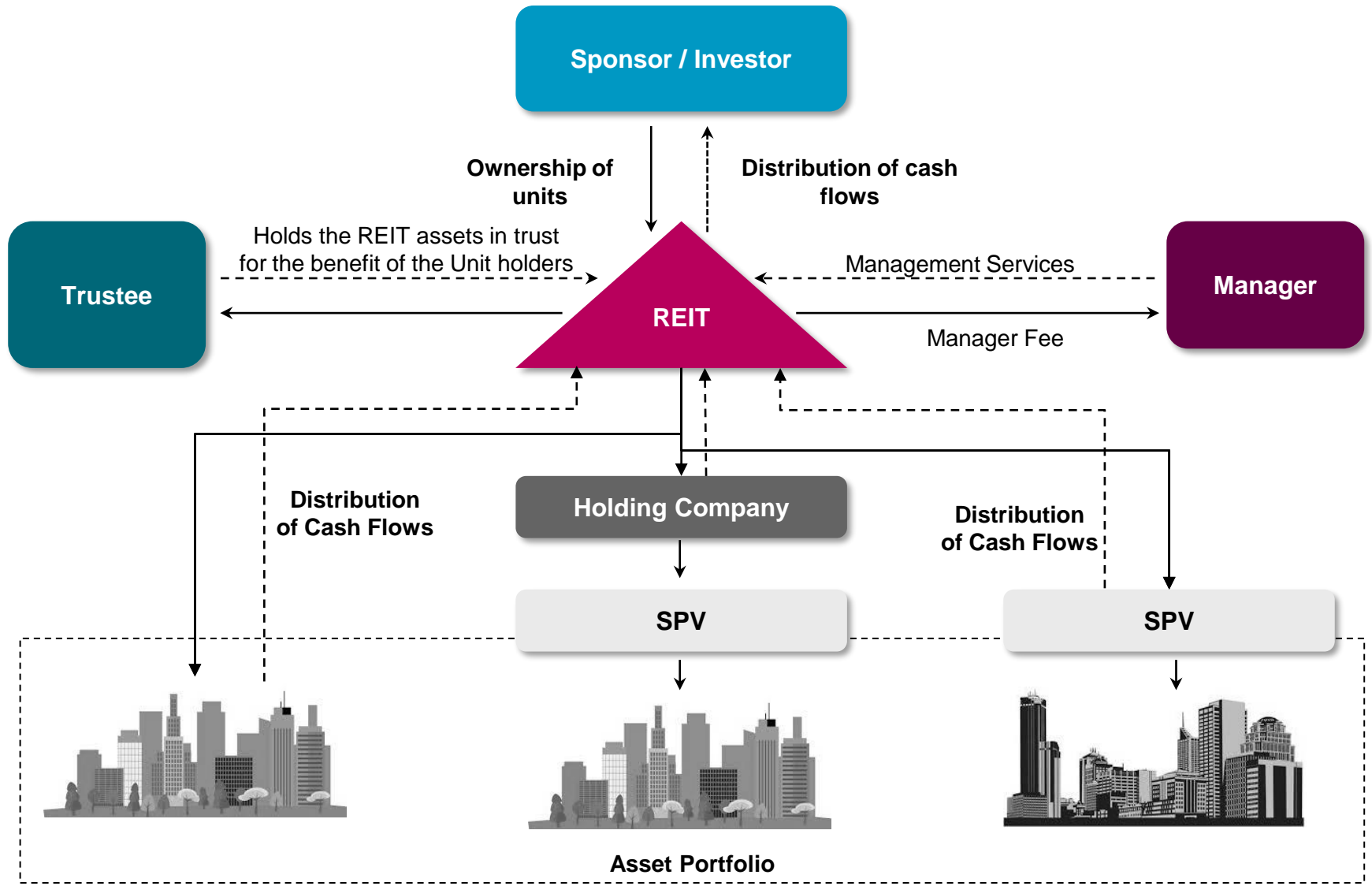
- ▶ REIT stands for 'Real Estate Investment Trust'
- ▶ REITs own, operate and manage a portfolio of income generating commercial properties
- ▶ REITs give investors access to the benefits of owning high-quality commercial real estate assets in small sizes
- ▶ REITs are listed on the Indian stock exchanges and investors can buy REIT units just like any other shares of any listed company; No more minimum trading lot size requirement
- ▶ REITs are highly regulated investment structures that MUST pay out 90% of the Net Distributable Cash Flows (NDCFs) semi-annually
- ▶ Indian REITs have adopted stringent corporate governance standards, with transparent quarterly and semi-annual reporting, robust related party safeguards, caps on leverage, and professional management teams

Global REITs – Major Constituents of Listed Real Estate Universe

REITs contribute 72% of the listed real estate universe in the most mature REIT markets and 56% of the global listed real estate market capitalization

	Total Listed Real Estate	REITs Market Capitalization	
	\$bn	\$bn	As % of Total Listed RE
Global Markets	4,071	2,275	56%
Developed Markets	3,027	2,170	72%
Emerging Markets	1,044	105	10%
US	1,540	1,492	97%
Canada	86	72	84%
France	63	55	87%
United Kingdom	104	92	89%
Australia	110	105	96%
Singapore	115	75	65%
Mexico	18	15	85%
Japan	277	158	57%
Hong Kong	238	29	12%
Average	279	280	75%

How are REITs Structured?



What Assets Can a REIT Own?

PERMITTED

Rental income

earning real estate projects

Commercial Sectors

Offices, hotels, retail, industrial, healthcare

Min. 80%

completed & income producing assets

Max. 20%

under-construction assets

NOT PERMITTED

Residential (houses, apartments)

Speculative landbank

Leverage Restrictions

Unitholder approval needed for Debt to Capitalization above 25%

Debt to Capitalization capped at 49%

Regular Communication with and Disclosure to Unitholders

Through regular communication with unitholders, Indian REITs have led to an improvement in transparency, disclosure standards and professionalism within the real estate sector

Earnings Materials

Published quarterly and benchmarked to global disclosure standards

Earnings Call

Held quarterly by management

Half-yearly Report

*Published semi-annually
(NOT Required by Listed Companies)*

Independent REIT Valuation

Conducted half-yearly

Unitholder Meetings & Webinars

Held throughout the Year

Annual Meeting

Held once a year

How do REITs Generate and Distribute Income?

Rental income is generated from underlying real estate assets held in the portfolio

Asset Quality

- ▶ High-quality institutional grade commercial properties in key metro cities attract premium rentals

Tenant Quality

- ▶ Diversified and high-credit quality Multinational Companies (MNCs) pay rentals on time

Lease Term

- ▶ Stable cash flows due to long-term nature of lease contracts

Minimum 90% of the available NDCF is REQUIRED to be distributed to unitholders (at least semi-annually)

Benefits of a REIT vs Direct Investment vs Equity Shares

	REIT Units	Direct Investment in RE ¹	Real Estate Equity Shares
Investment Characteristics	<ul style="list-style-type: none"> ▶ Minimum lot size of 1 units ▶ Freely transferable listed securities ▶ Professionally managed ▶ No entry / exit load 	<ul style="list-style-type: none"> ▶ ₹ 25 lakh onwards (for strata units) ▶ Illiquid, lock-ins & non-transparent market ▶ Hassles in managing assets ▶ Transaction costs involved 	<ul style="list-style-type: none"> ▶ Minimum lot size of 1 share ▶ Freely transferable listed securities ▶ Professionally managed ▶ No entry / exit load
Asset and Tenant Quality	<ul style="list-style-type: none"> ▶ Grade A assets in prime locations, primarily office ▶ Multiple marquee tenants across sectors 	<ul style="list-style-type: none"> ▶ Usually, strata interests in standalone buildings ▶ Usually exposed to single tenant risk 	<ul style="list-style-type: none"> ▶ Grade A / B assets with a mix of office / residential / retail ▶ Multiple tenants across sectors
Return Profile	<ul style="list-style-type: none"> ▶ Returns driven by capital appreciation and regular cash distribution (90% mandatory) 	<ul style="list-style-type: none"> ▶ Returns driven by a timely and profitable exit 	<ul style="list-style-type: none"> ▶ Returns driven by capital appreciation and dividends (NOT mandatory)
Tax Efficiency	<ul style="list-style-type: none"> ▶ Dividends are tax exempt 	<ul style="list-style-type: none"> ▶ Dividends are taxable 	<ul style="list-style-type: none"> ▶ Dividends are tax exempt
Leverage Profile	<ul style="list-style-type: none"> ▶ Restricted to 49% Net debt / Total Enterprise Value 	<ul style="list-style-type: none"> ▶ No restrictions 	<ul style="list-style-type: none"> ▶ No restrictions
Governance Standard	<ul style="list-style-type: none"> ▶ High 	<ul style="list-style-type: none"> ▶ High 	<ul style="list-style-type: none"> ▶ Lower than REIT standards
Risk Profile	<ul style="list-style-type: none"> ▶ Lower than other commercial real estate vehicles 	<ul style="list-style-type: none"> ▶ High 	<ul style="list-style-type: none"> ▶ Higher than REIT profile

Notes:

- (1) Assumed Real Estate (RE) held through an SPV
 (2) Excluding applicable surcharges and cess

Highly Regulated To Protect the Interests of Unitholders

Securities Exchange Board of India (SEBI)

- ▶ SEBI (REIT) Regulations, 2014
- ▶ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ▶ SEBI (Issue and Listing of Debt Securities) Regulations, 2008
- ▶ SEBI (Prohibition of Insider Trading) Regulations, 2015

Reserve Bank of India

- ▶ Foreign Exchange Management (Non-debt Instruments Rules), 2019

Others

- ▶ Indian Trusts Act, 1882
- ▶ Companies Act, 2013
- ▶ Competition Act, 2002

Regulatory Framework for Indian REITs

India REITs have to adhere to a strong SEBI regulatory framework aimed at protecting unitholder value

Asset and Distributions

- ▶ Minimum 80% of value in completed and income producing assets – hence, less risk to cash flows
- ▶ Restrictions on speculative land acquisition
- ▶ Minimum 90% of distributable cash flows to be distributed semi-annually

Debt

- ▶ Majority unitholder approval required if debt exceeds 25% of asset value
- ▶ Debt cannot exceed 49% of asset value

Corporate Governance

- ▶ 50% independent directors on the Board, with 50% representation on all committees
- ▶ REIT Manager can be removed with 60% approval of unrelated unitholders
- ▶ Alignment with unitholder interests due to a distribution-linked management fees structure

Related Party Safeguards

- ▶ Sponsors are prohibited from voting on their related party transactions
- ▶ Majority unitholder approval required for acquisition or disposal of asset which exceeds 10% of REIT value
- ▶ Acquisition or sale price of new asset cannot deviate from average valuation of two independent valuers by + / - 10%
- ▶ Fairness opinion from independent valuer required if related party leases exceed 20% of the underlying asset

Snapshot of Indian REITs

The Indian REIT market continues to evolve since the listing of the first REIT in April 2019

3 REITs - 86 msf⁽¹⁾

Across India's top
commercial office markets

₹ 580 Bn.

Market
Capitalization

₹ 167 Bn.

Primary Equity
Proceeds Raised
Since 2019

**₹ 53 Bn.
Distributed**

More than entire Nifty Realty
Index Combined

AAA

Credit Rating

**Benchmark Global
Indices**

FTSE Russell/ EPRA-
NAREIT / S&P / MSCI –Small
Cap

**Strong Retail
Ownership**

High Standards

of Corporate
Governance

Enhanced Liquidity

Through reduction in
Trading lot sizes

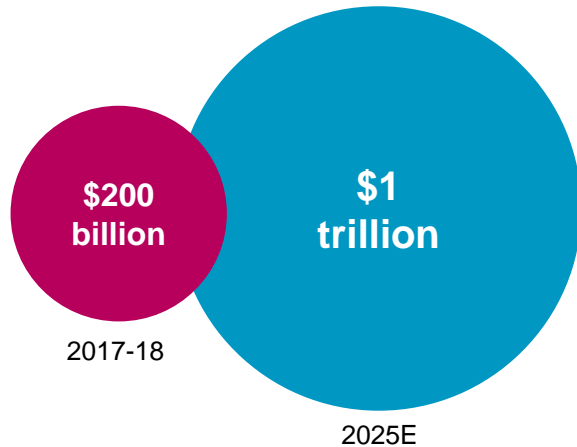
Notes:

⁽¹⁾Refers to total area (under construction, development potential and completed area)

India – The Global Digital Talent Nation

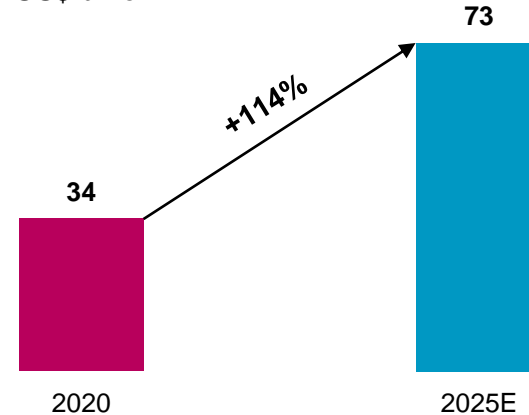
India’s tech industry continues to report record earnings, hiring and business pipeline. Attracting and retaining Indian tech talent is a key priority for these global businesses

Surge in India’s Digital Economy⁽¹⁾



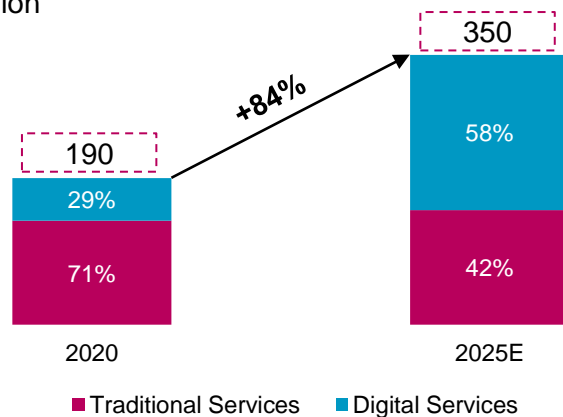
India’s Continuing GCC Growth Story⁽²⁾

Revenue in US\$ billion



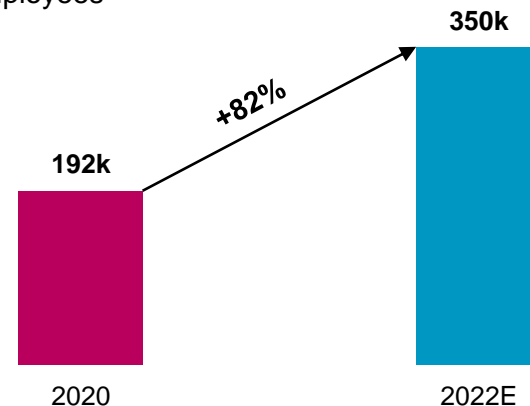
Record Revenue Growth Led by Digital Tech⁽³⁾

In US\$ billion



Record Hiring by Indian Tech Companies⁽⁴⁾

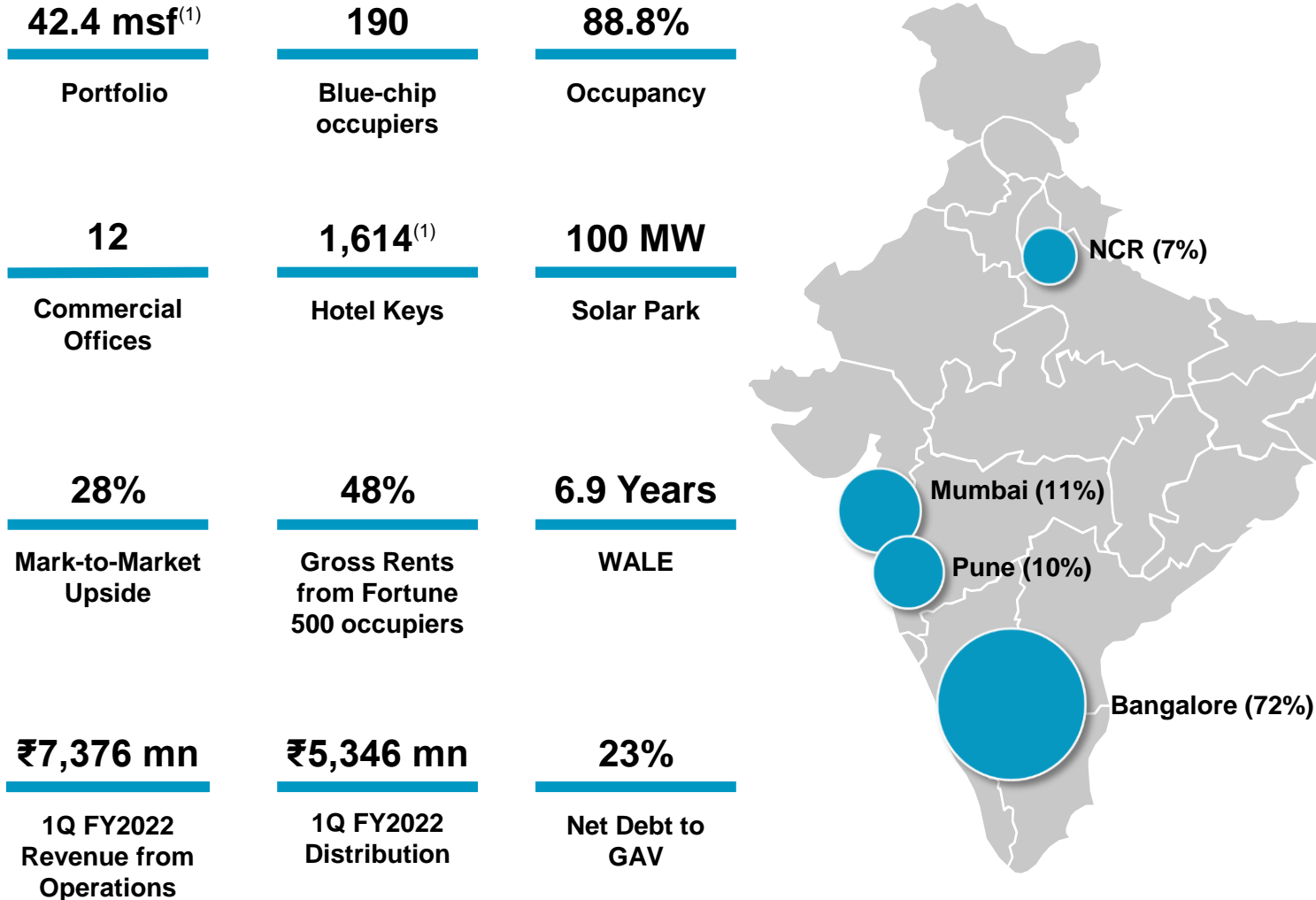
No. of employees



Source:
 (1) NASSCOM - The Technology Sector in India 2021, Feb'21
 (2) NASSCOM, Deloitte – GCC Value Proposition for India, Jun'21
 (3) NASSCOM - Future of Technology Services, Winning In This Decade, Feb'21
 (4) Kotak Institutional Equities – IT Services, Apr'21

Who We Are: Quick Facts

We run a commercial office portfolio that serves as essential corporate infrastructure to global occupiers, including many technology companies

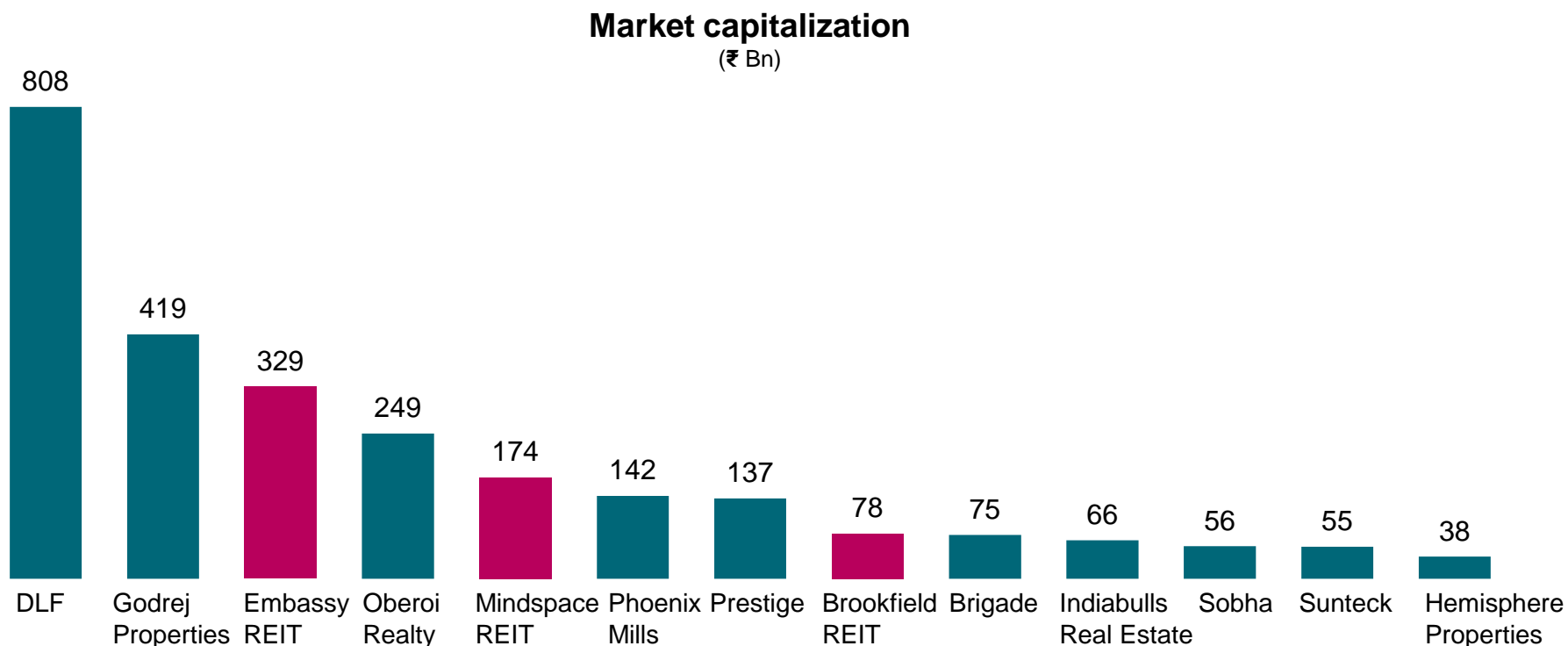


Notes: City wise split by % of Gross Asset Value (GAV) considered per Mar'21 valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, in conjunction with value assessment services undertaken by CBRE. Valuation exercise undertaken semi-annually. For further details refer notes on slide 49

(1) Includes completed, under construction and proposed future development

Indian REITs rank among top 10 listed real estate players in India

In short span of over 2 years since listing, Indian REIT's market capitalization rank among top 10 listed real estate players in the country



Listed REIT Landscape in India

	Embassy Office Parks	Mindspace Business Parks	Brookfield India REIT
Ticker (NSE)	EMBASSY	MINDSPACE	BIRET
Ticker (BSE)	542602	543217	543261
Listing Date	April 01, 2019	August 07, 2020	February 16, 2021
Market Capitalization¹	₹ 329 Bn	₹ 174 Bn	₹ 77 Bn
Geographic Focus	Bengaluru, Mumbai, Pune, Noida	Mumbai, Hyderabad, Pune, Chennai	Mumbai, Gurgaon, Noida, Kolkata
Total Completed Area²	32.3 msf	23.8 msf	10.3 msf
Leased Area²	28.7 msf	20.1 msf	8.8 msf
Sponsors	Blackstone, Embassy Group	K Raheja Corp	Brookfield

Notes:

(1) Based on closing price on NSE on August 18, 2020

(2) As of June 30, 2021

REIT Taxation: A Brief Summary

Nature of Income	Taxability/Exemption	Withholding Rate (WHT)
Dividend received from SPVs distributed by REIT *	Exempt u/s 10(23FD)	NA
Interest received from SPVs distributed by REIT	Taxable u/s 115UA (3) - Resident – Applicable rate - Non-Resident –5%	- Resident – 10% (194LBA) - Non-Resident – 5% (194LBA) - Cat I & II AIF and MF - NIL
Capital Gains & Other Income taxed in hands of REIT and distributed by REIT	Exempt u/s 10(23FD)	NA
Capital Gains on Sale of REIT Units through Stock Exchanges	Taxable - u/s 111A / 112A LTCG** – 10%, STCG – 15% or treaty rate if beneficial	NA

Notes:

* Dividend received from a SPV which has not opted for the concessional tax regime (25.17%) u/s 115BAA is exempt in hands of Unitholders. In case SPV has opted for section 115BAA, dividend would be taxable in the hands of Unitholder and also subject to WHT @ 10%

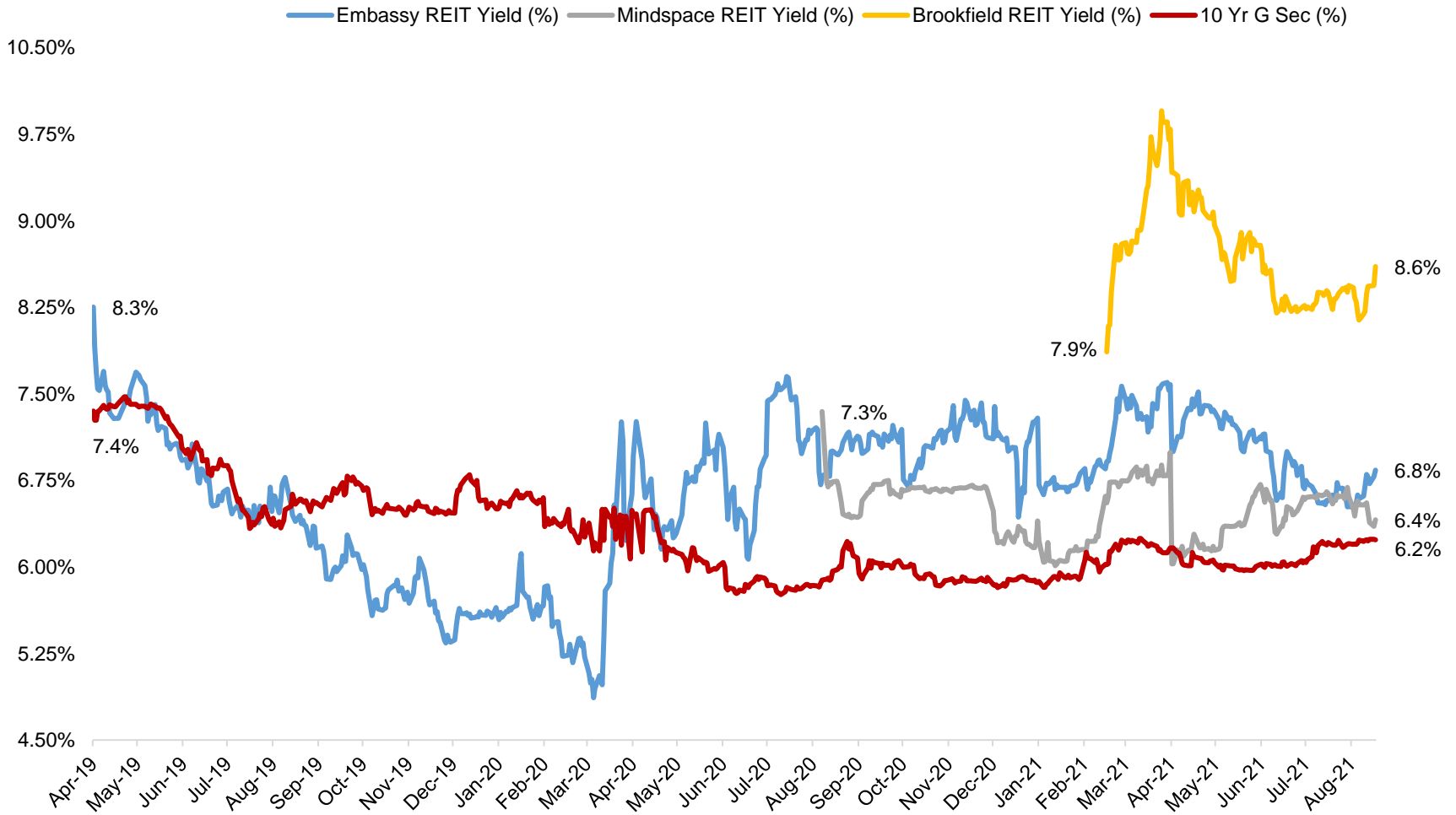
** Held by unitholders for more than 36 months

Tax rates excluding applicable surcharge and cess

REIT Yields v/s 10 Year G-Sec

REITs currently trade at c. 20 – 240 bps spread to the prevailing 10 Year G-Sec rate

Implied Yield v/s 10 Yr G Sec



Source: NSE, Bloomberg. Data as of August 17, 2021

Notes: For Embassy Office Parks, determined the rolling yield basis the Street Consensus of NDCF Estimates

Appendix

Management Fee Structure Comparison

Compared to international counterparts, Indian REITs have a significantly lower and simpler fee structure to drive value to unitholders

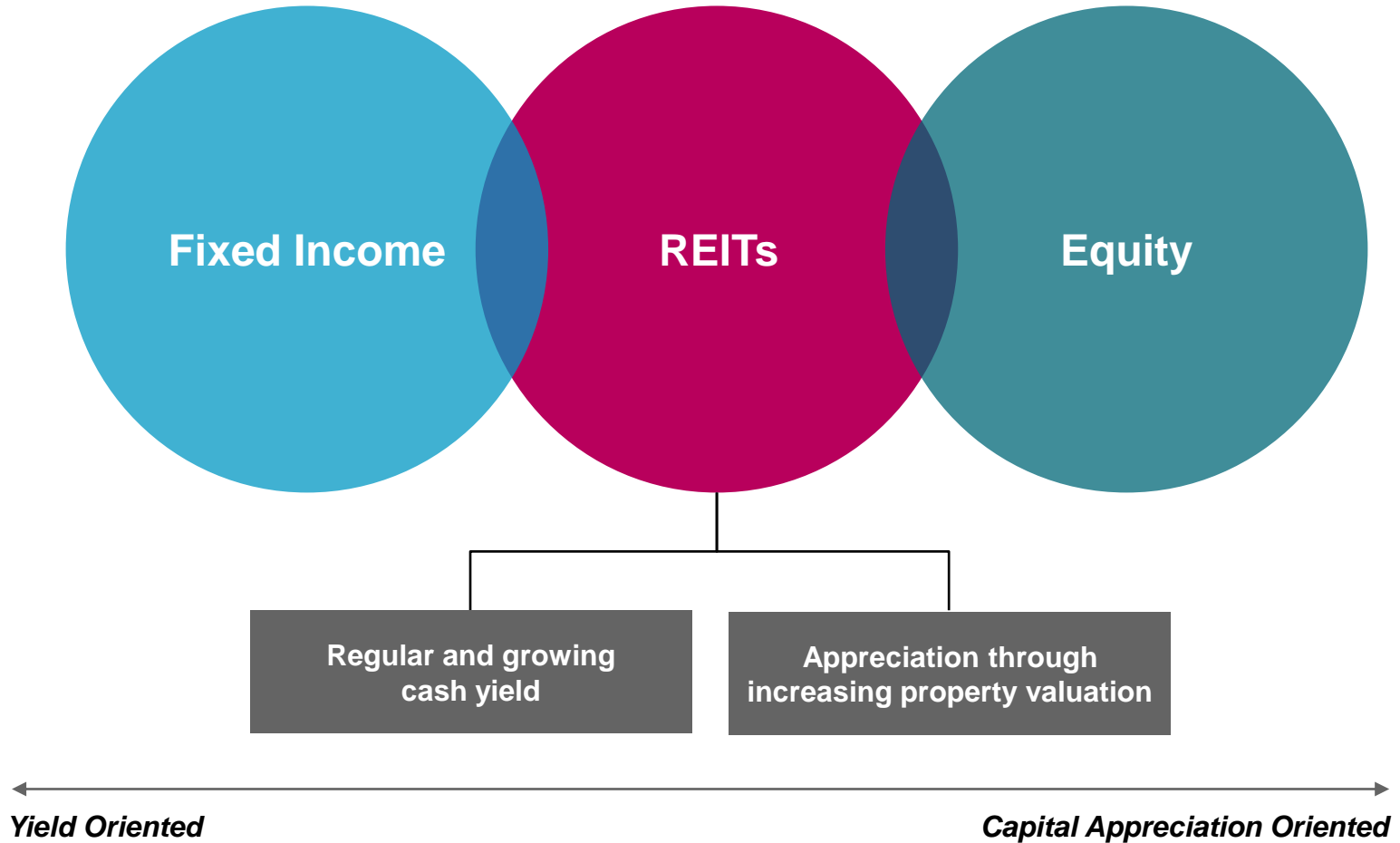
	Indian REITs ¹	Select Asian REITs ²
Property Mgmt. Fees	3% - 3.5% <i>of Total Rents</i>	2% - 3% <i>of Gross Revenue or / and Net Property Income</i>
REIT / Performance Fees	0.5% - 1% <i>of Net Distributable Cash Flows / Distributions</i>	3% - 5.25% <i>of Net Property Income</i>
Base Fees	Nil	0.1% - 0.5% <i>of Gross Asset Value</i>
Acquisition Fees	Nil	1% <i>of Acquisition Price</i>
Divestment Fees	Nil	0.5% <i>of Sale Price</i>

Notes:

- (1) Based on the fee structure adopted by the 3 REITs listed in India
- (2) Based on the fee structure adopted by select key REITs / trusts listed in Singapore

REITs – A Hybrid Product between Equity and Fixed Income

REITs provide regular yield with steady capital appreciation via increasing property valuation



Who can Invest in Indian REITs?

- ▶ Any investor (domestic / foreign / retail / institutional) can buy REIT units in India
- ▶ No minimum trading lot size; previous minimum trading lot size of Rs 50,000 and 200 units done away with now
- ▶ Investors can purchase REIT units through a demat account, similar to how they would purchase shares in a company
- ▶ Indian REIT units can be bought / sold freely on either NSE or BSE – either online or through a broker
- ▶ Investors can also buy REIT units through participation in REIT IPO upon listing

Why Invest in REITs?

Liquidity

REIT units are freely traded in stock markets like equity shares

Transparency

Strong governance framework and disclosure requirements from SEBI

Asset Quality

Fractional ownership in professionally-managed Grade A commercial assets

Distributions

Income stability due to requirement to distribute at least 90% of cash flows semi-annually

Performance

Upside participation in capital appreciation from organic / inorganic growth

Diversification

Investment in a high-quality diversified portfolio across sectors / cities