Embassy REIT

Q2 FY2022 Earnings Call

October 29, 2021

CORPORATE PARTICIPANTS

Michael Holland – Chief Executive Officer (CEO)

Vikaash Khdloya – Deputy CEO & Chief Operations Officer (COO)

Aravind Maiya – Chief Financial Officer (CFO)

Abhishek Agarwal – Head of Investor Relations and Communications

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for the Embassy REIT's second quarter FY2022 Earnings Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions at the end of the presentation during the question-and-answer session. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference - Mr. Abhishek Agarwal, the Head of Investor Relations and Communications for Embassy REIT. Sir, you may begin.

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Abhishek Agarwal

Head of Investor Relations and Communications

Thank you, operator. Welcome to the second quarter FY2022 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter and half year ended September 30, 2021 a short while back. As is our standard practice, we have placed our quarterly financial statements, earnings presentation discussing our performance, and a supplemental financial and operating databook in the Investors section of our website at www.embassyofficeparks.com.

As always, we would like to inform you that management may make certain comments on this call that one could deem forward looking statements. Please be advised that the REIT's actual results may differ from these statements. Embassy REIT does not guarantee these statements or results and is not obliged to update them at any time. Specifically, the financial guidance and any proforma information that we will provide on this call are management estimates, based on certain assumptions and have not been subjected to any audit, review, or examination procedures. You are cautioned not to place undue reliance on such guidance and information and there can be no assurance that we will be able to achieve the same. Further, there are significant risks and uncertainties related to the scope, severity and duration of the Covid pandemic; and the direct and indirect economic effects of the pandemic and related containment measures on Embassy REIT and on our occupiers.

In a positive move, on August 11, 2021, Embassy REIT units started trading with the reduced single unit lot size. On expected lines, this regulatory change is resulting in a gradual expansion of our retail Unitholder base, which has doubled since April'21 and tripled in the last twelve months. We welcome the continued broadening of our investor base. Further, Indian stock exchange NSE announced inclusion of Indian REITs and InvITs in relevant NSE indices; however this decision was later put on hold by NSE. Globally, REITs, as an asset class, contribute significant weight to benchmark equity indices which are actively tracked by fund managers to construct their portfolios. We remain confident that, post consultation and further analysis, all relevant stakeholders and market participants will reach a consensus that enables Indian REITs' inclusion in key Indian indices at the earliest opportunity.

Joining me today are Michael Holland, the CEO; Vikaash Khdloya, the Deputy CEO and COO; and Aravind Maiya, the CFO. Mike will start off with the business overview and strategy followed by Vikaash and Aravind. We will then open the floor to questions.

Over to you, Mike.

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Michael Holland
Chief Executive Officer (CEO)

Thank you, and let me start by welcoming Abhishek Agarwal, our recently appointed Head of IR and Communications, an appointment made in parallel with the recent appointment of Ritwik Bhattacharjee as our Chief Investment Officer, announced last quarter.

So, good evening and thank you all for joining us on the call today to review our Q2 FY2022 results.

This quarter, we have again seen the continuation of multiple positive trends.

First, the Covid data trend in India continues on a positive trajectory. Cases and deaths in India are at less than 5% of the May/June peaks and this has been the case for some time now. Vaccination roll-out in key urban centres is strong and last week India reached the 1 billion vaccination milestone. In all our four markets, lockdowns have been lifted and business activities are reviving. We are witnessing an uptick in physical occupancy across our properties, and we expect a material increase post-Diwali. We are supporting our occupiers with their back-to-work plans and are anticipating 15-20% physical occupancy levels by the end of this year. This backdrop is encouraging.

Second, driven by the continuing acceleration in technology and digital transformation across the world, the tech sector continues to report strong earnings, growth and, most importantly for us, strong hiring. In addition, with technology blurring physical boundaries, global corporates continue to drive India business expansion through high-quality, skilled and cost-effective talent, with an additional 500 Global Captive Centres ('GCCs') expected to be setup in India over the next 4 years as per a recent report by NASSCOM. That is in addition to the existing, growing 1,400 GCCs already employing 1.4 million people across key office markets in India. These two aspects, tech sector investments and GCC growth, are extremely positive for us given that these sectors represent over 70% of our occupier base.

The third positive trend is that leasing in our markets is showing early but very clear signs of revival. The record hiring is starting to crystalize into new leasing and longer term RFPs with 20 msf of RFPs currently active in our four markets. Our significant Bangalore concentration continues to be a core strength. Bangalore is expected to lead office demand rebound and our current pipeline is encouraging.

The fourth positive trend relates to a number of favorable regulatory changes – the trading lot size reduction for REITs and the recent changes permitting domestic insurers and now FPIs to invest in REIT debt – all these steps are in the right direction and continue to deepen, expand and diversify our investor base.

So multiple external positive trends over the past quarter, which are complemented by a couple of significant highlights driven by our active management.

Our strong showing in ESG was recognized with a Four Star rating awarded by GRESB – the global standard in ESG benchmarking for real estate and infrastructure investments. This reflects our commitments, matched by actions, not only around our environmental impact in terms of energy, waste, water, and biodiversity but also the impact on our communities and stakeholders, and our overarching governance principles.

Another highlight has been the ₹46 billion refinancing and a significant 300 bps interest cost savings which Aravind will expand upon. This debt raise demonstrates the confidence of the local market in our platform and is an important milestone in our financing journey. It further strengthens our balance sheet, continuing the two year trend of significant reductions in our overall cost of debt.

So a great deal to be positive about around our business and the macro environment – all trending in the expected direction laid out in our previous earnings calls. This quarter, with ₹5,365 million distributions, 0.7 msf leasing activity and 15% rent escalations on 1.4 msf leases, we are on track to deliver on our FY2022 guidance and we can see strong indicators of customer demand in FY2023.

Let me handover to Vikaash to expand on some of the business and operating highlights.

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Vikaash Khdloya
Dy CEO and Chief Operations Officer (COO)

Thank you, Mike and good evening everybody.

Business and operating highlights for Q2 include:

- Total lease-up of 713k sf at 20% spreads with an encouraging 500k sf forward pipeline;
- Successful rent increases of 15% on 1.4 msf across 22 leases;
- Construction in full swing on our 5.7 msf development projects, with 1.1 msf JP Morgan campus on-track for handover by end of the year; and
- Continued focus on our ESG strategy, with recent Four Star GRESB rating for our operating portfolio.

Let me take you through the details.

First, an update on our occupiers' return-to-work programs
The overall Covid situation and vaccination coverage continues to improve in India. There has been an uptick in the number of corporates moving ahead with their return-to-work programs. While the physical occupancy at our properties is currently at around 10%, we expect this to ramp-up to 15-20% by end of this year led by the increasingly positive sentiment amongst occupiers. Apart from wellness focused initiatives, our teams continue to support occupiers in their vaccination drives and back-to-office plans.

Moving to our leasing performance and outlook

We achieved total lease-up of 713k sf at 20% leasing spreads in Q2. This comprises 169k sf of new leases at 13% spreads and 544k sf renewals at 21% spreads, including an early 'blend-and-extend' lease of 511k sf with a global telecom player. We are seeing a pickup in enquiries and site visits, a 66% increase in Q2 vs Q1, and our forward leasing pipeline is encouraging at 500k sf.

We remain on track with our previous guidance on expiries and renewals for this year – of the 1.9 msf expiries, we have renewed 0.4 msf area and have seen 0.5 msf of exits till Q2. Of the balance, 0.9 msf remain as likely exits with a 64% mark-to-market potential. Taking into account Q2 lease-ups and exits, our portfolio occupancy stands at a healthy 89% on our 32.3 msf operating area. Similar to previous quarter, we secured 100% of scheduled rent escalations in Q2 - a 15% increase on 1.4 msf across 22 leases. We are on track to achieve the remaining 14% escalations on 4.1 msf across 35 leases due for the remainder of the fiscal.

Our discussions with occupiers indicate significant pent-up demand due to postponed leasing decisions since the onset of the pandemic. This, coupled with increasing vaccination coverage, record tech spends and robust hiring trends, signals a strong revival for the office leasing market in 2022. Large occupiers are initiating expansion and consolidation plans as reflected by an increase in active RFPs in the market. Occupiers continue to gravitate towards institutional grade wellness-oriented buildings to attract and retain talent and to bring them back to offices. Our best-in-class portfolio and our 'total-business-ecosystem' product offering positions us as the landlord of choice.

Another positive for us is that Bangalore currently contributes to over half of active pan-India RFPs. Given its position as India's strongest office market, Bangalore is expected to be at the forefront of demand revival in India. With its established ecosystem of tech companies, global captives and unicorn startups, a highly skilled talent pool and availability of institutional quality offices, Bangalore continues to be the preferred location for global corporates. With around 75% of our portfolio concentrated in Bangalore, we are well placed and are already seeing clear signs of traction for our Bangalore properties.

Next, an update on our development projects

During the quarter, construction continued at full pace on our 5.7 msf development projects across Bangalore, Pune, and Noida. Labour ramp-up has been positive and is back to peak levels. The 1.1 msf JP Morgan campus at Embassy TechVillage is on-track for handover by end of the year. The balance 4.6 msf will be delivered over the next 3 years and matches with the demand rebound expected starting 2022. We are building into the gap both on timing and location and we are extremely well positioned given over 70% of our development pipeline is in Bangalore.

We continue to progress well on our infrastructure and upgrade initiatives across locations. The flyover and skywalk at Embassy Manyata as well as the Embassy Quadron asset re-positioning are nearing completion. Development planning for the proposed metro stations at ETV and Embassy Manyata in Bangalore and at Embassy Quadron in Pune are currently underway. As always, all such initiatives are aimed at adding long-term value to our existing properties and enhancing our complete business ecosystem offering.

Finally, our asset management updates

- Both of our operating hotels saw encouraging uptick in occupancy given lockdown relaxations and domestic travel revival. Occupancy increased to 28% in Q2 compared to 10% in Q1, with a corresponding positive impact on our hotel EBITDA. Construction of the 619 keys Hilton hotels at Embassy Manyata is progressing well and we have initiated commercial engagement with corporates and are targeting a June 2022 launch.
- On the ESG front, we are targeting 75% of energy contribution through renewable sources by 2025 and to that end, we are in advanced stages of procuring 20 MW of rooftop solar installations across our properties. Entailing a total capex of around ₹950 million, this initiative will enable 25k tonnes reduction in carbon emissions besides significant energy cost savings. A payback period of 3 years and a projected IRR of over 30% reflects our constant efforts to integrate ESG priorities into our business strategy.
- We also participated for the first time in GRESB assessment, a global benchmark, and achieved an impressive Four Star rating for our operating portfolio. ESG excellence is a journey for us and we are confident that we will continue to demonstrate tangible enhancements over the coming years. Given the scale and importance of the ESG topic, we will be commencing investor presentations and calls focused on our ESG roadmap and actions.

We are also focused on inorganic growth and continue to evaluate acquisition opportunities which fit our criteria of high-quality, large-scale business parks located in the right micro-markets and which are accretive and offer further upside through active asset management. Our balance sheet strength and ability to raise capital at attractive costs positions us well to pursue growth.

To conclude, we are encouraged by the significant uptick in leasing activity and we remain focused to convert our leasing pipeline. With our high-quality portfolio concentrated in the right markets, our strong relationships with occupiers, our continuing investments in our properties and our ESG initiatives, we are well placed to benefit from the demand rebound in 2022 and beyond.

Over to Aravind now for the financial updates.

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Aravind Maiya
Chief Financial Officer (CFO)

Thanks, Vikaash. Good evening, everybody.

Financial highlights for Q2 include:

- Net Operating Income grew by 30% YoY to ₹6,236 million, with NOI margin of 85%;
- Distributions of ₹5,365 million or ₹5.66 per unit for the quarter, with 80% as tax-free;
- Raised total of ₹46 billion of debt at 6.5% to refinance existing zero-coupon bond, resulting in substantial c.300 bps interest cost savings; and
- Maintained a robust balance sheet with low leverage of 24% and ample liquidity of ₹14 billion.

Now let me take you through the details:

First, an update on our recent successful debt raise

Following the recent IRDAI approval permitting insurance companies to invest in REIT debt, we raised ₹3 billion of listed debt in Q2 at 6.8% coupon for a 5-year tenure to refinance in-place construction debt. This debt-raise was strategic for us as we attracted first-time participation by insurers and resulted in a 110 bps positive refinance spread.

More significantly, in October, we successfully raised ₹46 billion debt comprising ₹31 billion of listed NCDs at 6.5% fixed coupon and ₹15 billion of term loan from a leading bank at 6.35% floating coupon. These proceeds will be utilized to refinance our existing zero-coupon bond for which we exercised our call option for early redemption on November 2, 2021. This refinance yields a significant c.300 bps or ₹1.3 billion proforma interest cost savings annually and helps us pare REIT's overall cost of debt to 6.8% from the original 9.4% at the time of listing.

Another positive for us is that this debt raise attracted strong interest from a wide pool of investors including banks, mutual funds, general and life insurers. Besides increasing the debt maturity to 4 years, we have successfully locked in fixed interest rate for ~70% of the total debt raised. This helps our overall debt stack as it staggers our debt maturities and also simplifies our cash flow through for distributions to our Unitholders.

Post the refinance, our balance sheet continues to remain robust with ample liquidity of ₹14 billion, low leverage of 24%, low overall interest cost of 6.8%, no near-term debt maturity for next 2 years and an additional proforma debt head room of ₹120 billion.

As we move forward, the recent regulatory changes by Indian central bank to allow FPIs to invest in debt securities of REITs is very positive. This proactive announcement will help expand and diversify our potential capital pool and will enable further reduction in our cost of capital.

Next, an update on our Q2 financial performance

- **Revenue from Operations** grew by 36% to ₹7,352 million, reflecting 14% rent escalations on 4.8 msf leases, ramp-up in hotel occupancy and revenue accretion due to the completed acquisitions of Embassy TechVillage and CAM operations of Embassy Manyata and Embassy TechZone in the previous year. The impact of these positives was partially offset by few occupier exits.

- **Net Operating Income (NOI)** grew by 30% to ₹6,236 million, in-line with increase in our Revenue from Operations. This increase was partially offset by cost relating to CAM operations of Embassy Manyata and Embassy TechZone acquired in previous year. Our EBITDA grew by 28% to ₹6,053 million, in-line with our NOI increase.

- **Net Distributable Cash Flows (NDCF)** grew by 27% to ₹5,368 million. The Board of Directors have declared a Distribution per Unit ('DPU') of ₹5.66 for Q2, representing a 100% payout ratio. With this, Embassy REIT has now cumulatively declared distributions of ₹10,711 million or ₹11.30 per unit for first half of this financial year. Also, I would like to highlight that 80% of our Q2 distributions are tax-free to our Unitholders.

Moving to other financial updates

- Our independent valuers completed fair valuation exercise of our properties for the half year ended September and assessed the Gross Asset Value (GAV) of the portfolio at ₹475 billion, up 2% from March. Bangalore, India's best office market, contributes a significant 74% of REIT's overall value. Our Net Asset Value (NAV) as of September stood at ₹388.26 per unit, in-line with our NAV as of March.
- As updated previously, in February of this year, we filed the scheme of arrangement to collapse the two-tier holding structure of Embassy TechVillage entity, and we expect to receive approvals by March 2022. Upon simplifying this holding structure, we expect the tax-free component of our distributions to increase to 85% from the current 80%. This will further enhance the overall post-tax distributions yields to the benefit of our Unitholders.

Lastly, an update on our FY2022 Guidance

Last quarter, we provided guidance for FY2022 with our mid-point NOI at ₹23,700 million with a range of +/-3.5% and our mid-point DPU at ₹21.50 per unit with a similar range. This guidance was based on certain key assumptions which were detailed during last quarter's call. These include the positive impact of ETV acquisition, 14% rent escalations on 7.7 msf leases and total lease-up of 0.9 msf. Along with this, we had also factored the impact of anticipated exits and cash burn for our operating hotels. We are focused on delivering our NOI and quarterly distributions to our Unitholders and remain on-track with our earlier guidance for this financial year.

As I conclude my remarks, I would like to re-iterate that our strong balance sheet provides us access to long-term capital at attractive cost and we continue to be favorably positioned to capitalize on growth opportunities. Further, post refinancing our zero-coupon bond, all our debt will become coupon bearing. This simplifies our distribution framework, increases predictability of our quarterly distributions, and enables better understanding of the yield and growth components of our total return story, especially for the growing retail investor segment.

Over to Mike for his concluding remarks.

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Michael Holland
Chief Executive Officer (CEO)

Thank you, Aravind.

So, to summarize:

We continue to see multiple positive trends – be it India's Covid situation, our occupiers' industries, office leasing market, the regulatory landscape for REITs, as well as our leasing, development, and debt market performance. We are delivering in-line with our distributions guidance and are on-track with our ESG journey. All in all, with the strength and resilience displayed by Embassy REIT through the last 18 months, we are well-positioned for future growth as we emerge from the shadow of the pandemic.

We're happy to drill into any details in Q&A.

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QUESTION AND ANSWERS SESSION

(Note: The Q&A has been edited for clarity)

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kunal Dayal from Bank of America. Please go ahead.

Kunal Dayal: I have three questions: First one is you've had substantial renewals this quarter. So, wanted to check if anything stands out here on parameters like either pricing, duration, density, or anything else that you might have observed? The second one is if you could remind us of what exactly is that you are trying to achieve renewing a lease two to three years ahead of time? And then the final one I had is to your comment on Bangalore having an especially strong pipeline. I do understand the general strengths that the city has to offer but are there any more recent factors that might have emerged pre-COVID that is driving this trend?

Michael Holland: So just to summarize, so you're saying a), in terms of the deals and renewals, was there anything particular in the negotiation elements of it, the second why do the blend in extend and the third piece I don't think we were clear on that, pipeline.

Kunal Dayal: If I could also sort of go back to the second question, it was more about why is the renewal happening two to three years ahead of time and then the third was more around Bangalore, I think the comment was it comprises 56% of the lease pipeline in the country. So, is this general strength that the city typically sees or some new factors that emerge in its favor?

Michael Holland: I'll just comment on the first and third points and then I'll ask Vikaash to talk about the significant early renewal that we did. In terms of key issues on either new leases or renewals, I think the one thing that we see is really it's not about the price, it's not about the rental rate, it's significantly about the availability of premises, it's about the timing and it's about the quality of the product. There is a requirement for flexibility. Piece of that is about expansion, ability to expand and we believe that gives us a competitive advantage. It significantly as I said about the qualitative aspect, we think that our complete business ecosystem aligns to that. And in terms of why Bangalore, majority of the pipeline is coming there. Frankly, it is a reflection of the fact that Bangalore represents at least a third and maybe up to 40% of the technology related market, the startup market and a third of the GCCs are here in Bangalore whether in terms of staff and exports. There are multiple reasons why Bangalore for the last five years has consistently been the largest office market in terms of absorption. I think that number 31% is an average over the last five years. And in terms of the RFPs which is the India market today, 26 million square feet, 56% of those are in Bangalore. It's a natural corollary and I think that's the competitive advantage we've had given the 74% in this market. I will ask Vikaash to speak specifically to that early renewal.

Vikaash Khdloya: On your second question, while we can't disclose this lease, but in general terms our decision-making about each deal takes into account specifics from that occupier scenario including the scale, covenant, pricing, let's say growth, shrinkage exit assessment, what's the current portfolio status of the asset and the detail terms are on the table for the lease, etc., Sometimes these occupiers are looking to

consolidate and at times will also potentially exit. So in this case just speaking of the outcomes, we did execute early blend extent achieved a 35% spread on the market trend and also brought forward revenues from FY'25, '26 to much earlier apart from locking in an escalation at a higher percentage than what was in the current contract, we actually logged in 22% of the next four years upcoming expiries at Manyata ensuring a zero void if there would be an exit option. So all in all, we are pretty pleased about the outcome especially given it's a new ten year lease with a lock-in of five years and we continue to look at multiple alternative approaches and based on specifics of each deal we will take a call whether we renew early or sometimes it may also be a case that we let the tenant exit given we believe we have a significant mark-to-market opportunity. So, it really depends on specifics of 80 deals. This deal we think is a great outcome simply because we achieve a good mark-to-market, and we bring forward revenue by a couple of years.

Moderator: The next question is from the line of Amandeep Singh from Ambit. Please go ahead.

Amandeep Singh: So firstly, whilst overall occupancies remain stable at 88.5%, can you give us your outlook on lease-ups for the specific assets like Embassy Quadrant in Pune, Embassy Oxygen, Noida and FIFC in Mumbai?

Vikaash Khdloya: You mentioned FIFC, Quadrant and Oxygen. In terms of these three assets, occupancy has been subdued compared to some of our other assets but in the recent past we have seen some traction in FIFC we are in discussions with the 500,000 pipeline that you see. It does contain one or two leases that we are discussing at FIFC. Mumbai, generally as a market has seen subdued demand compared to rest of the technology-driven markets like Bangalore, Pune, and Noida. In Quadrant if you recollect, we had done a deal last year with the Australian telecom player and right now we're in discussions with them for expansion space and typically these are the kind of occupiers we like to attract the global captives who start with a certain base and continue to grow. If you see one of the slides in the deck, we have completed the entire asset repositioning of Quadrant and while it will take a couple of quarters to fully stabilize the assets, but the early signs are increasing both because of the infrastructure project, a new road and connectivity which is now linking Hinjewadi, Pune in the west as well as a plan metro where we are in discussions to see if we can explore direct inlet into our park. In terms of Oxygen, which is Sector 1.4 in Noida, it remains the best asset in that micro market and one of the only institutional grade assets. Again, Noida as a market caters to a certain set of occupiers. The current profile of occupiers that we have is pretty good; however, to lease up the balance space which comprises of the recently delivered tower-2 we think may take a couple of quarters, but we think we'll be the first beneficiaries as and when the rebound happens on all the three assets, they are super, top-quality assets in each of the respective micro markets.

Amandeep Singh: Just an extension to this, in the opening remarks which you mentioned that physical occupancies on an overall basis remain at 10%, so can you help us understand how does this stack up across micro markets for your portfolio and by when do you or the tenants are expecting to have a substantial occupancy say more than 50% employees back to office, any sense on that?

Michael Holland: In terms of people back in in the premises. We monitor this at least on a weekly basis. Today, we've been speaking to pretty much all our occupiers across all the parks. We've got a good handle on the fact that post-Diwali many of the largest occupiers are looking at bringing back between 20% and 40% of their employees, it varies with different companies, and it varies also by city. At the moment Bombay

is much more advanced in terms of head count than some of the southern markets, around about 50% in one of our assets in Bombay. So, that leads us to believe that between 15% to 20% of the head count will be back by year-end and that will be rising further in the new year. It's hard to give an absolute number because clearly, we've got 193 tenants, so plenty of variables in there, but that's the trend that we're seeing. Very clear, back to work trend.

Amandeep Singh: So, over the last few quarters there have been talks around the dedensification but obviously the fresh lease ups were not happening. Now in that context with RFPs floating in and site visits picking up, can you give us some sense on how the de-densification is taking up place on ground?

Michael Holland: There's really three variables in this and frankly a lot of our comments a year or 18 months ago in the first quarter of the pandemic have been borne out to be the case. There are three broad variables: one, hybrid working. So will everybody be in the office going forward, there's definitely a conclusion that the office is still at the heart of businesses, senior leaders I'm sure your team want people back in the offices but there will be more flexibility in work. That is perhaps something that dials down a little bit, the quantum of space that might be required. But on the other side, you look at the hiring data and how that is really off the charts has doubled in the last five years, average in terms of hiring and growth. And the issue about de-densification tends to be taken into account the third variable, tends to be taken into account when people are refurbishing or expanding their spaces and certainly, we have numerous examples where companies are reducing density from maybe a hundred square feet per person to 120, some tenants talking about 150 square feet per person. We believe in the mid-term that they will continue to be a net positive in terms of the requirement for space both in terms of quantity and qualitatively.

Moderator: The next question is from the line of Puneet from HSBC. Please go ahead.

Puneet: My first question is on Manyata. The occupancy continues to decline there. What's happening there and when should we see it bottoming out?

Vikaash Khdloya: As we mentioned earlier, a chunk of the 1.4 million square feet exit that we laid out at the beginning of the year are from Manyata, because some of the 15-year legacy leases expire in this year and also some bit in next year and that is the reason why as I mentioned earlier that in some cases we kind of remove early then and extend where we are seeing the terms are favorable and there's a huge mark-to-market opportunity of 100%, 120% or 70% whatever that is because it's a 15-year-old lease. We prefer to encourage some of the occupiers to exit if they can't pay those rentals we are targeting. In this case we will in next two quarters have gotten more exits of the remaining 0.9 million square feet this balance which we have shown as potential exits which still totals up to a 1.4 million square feet and we think that will get reflected in the Manyata occupancy in the next two quarters. Let me take a step back and just give you the way we look at it, right. We are not too overly worried about the occupancy, first day of Manyata, we just look at more directionally where the asset is going and what kind of rent, what kind of tenant occupiers we are attracting. Just to give you an example, of the 500,000 square feet pipeline that we have kind of indicated for next quarter about 83% of that is from Bangalore and a big chunk from Manyata. So, just churn and void is a normal part of business, and we are just focused on ensuring we achieve those mark-to-markets, and sometimes there may be downtime. Just to summarize, there would be certain exits in Manyata in the next two quarters and probably in the next year as well, but directionally we are pretty pleased with the kind of pipeline we

are attracting, in some cases we will evaluate if we develop with an additional FPI potential if possible or to refurbish the older buildings as they become vacant to achieve those higher rentals. Again, it's an opportunity and case-to-case basis we take that call. And again, the infrastructure at Manyata, with the new road that has come up, Hilton Hotel, I mentioned, we're targeting a launch in June, it's going to really make a lot of difference, it's a huge positive from an occupier. Perspective. I think we're doing the right thing from a leasing term perspective and that will surely reflect in terms of the leasing traction as we move forward.

Puneet: My second question is on the early expiry. You have 0.5 million square feet expiring early or renewing early. Now from your NPV perspective, is it largely same or is it that just some part of it got front ended in terms of escalation but on NPV it would be slightly inferior?

Vikaash Khdloya: Actually, that's a good question. Of course, there's a lot of qualitative factors we decided why we would agree to this extent while in some other cases like I mentioned for a large occupier we let them exit. In this case we really ensured that on a 10-year basis we achieved those market rentals and NPV basis we are positive as if the lease was renewed at market based on the existing lease structure. So, we are actually better off, and we have also preponed some of the revenue and also got a fresh lock-in. So, it’s a pretty good deal for us, NPV wise we are positive, and we have preponed the revenue.

Puneet: So basically, pre-COVID period, then you would have estimated that this would expire in '24 versus that and now you're saying it's still NPV positive?

Vikaash Khdloya: As I mentioned earlier, you can see some of the details on Slide #36, again as I said on a 10-year basis if you were to do the renewal in '25, '26 we are still better off doing it today both on NPV basis as well as on several other qualitative factors that I kind of laid out earlier.

Puneet: My last one is on the Golf Link. The dividend from there seems to have gone up from what used to be 300 million quarterly to 450. Is it the new run rate that we should think of and what has driven this increase?

Aravind Maiya: If you go back in time till last year, there was a debt at Golf Link level from REIT, there was cash extraction which is happening in that firm and the balance cash flow was being distributed in the form of dividend to both the shareholders. Now last year that loan was fully repaid and from this year onwards it's only the dividends which are being distributed. To answer your question in specifics, yes, you can consider this as the current run rate for now.

Puneet: So, 300 has become 450 now?

Vikaash Khdloya: Yes, that's it.

Moderator: The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: My question is again on physical occupancy across the parks. So, is there a threshold range beyond which you see that, so somebody mentioned 40%, 50%, is there a range beyond which you see a sharp pickup in leasing demand coming back or you think that these things are not very strongly correlated? Also, if you could remind us of what was the physical occupancy pre-COVID levels? I'm

assuming it was not 100%. The second part of that question is in terms of returning back to office, is the commentary from the tech tenants and the non-tech tenants are different considering that tech guys are seeing a very high attrition, so return to office may be influenced by that factor?

Michael Holland: Those are three big questions. I think the preoccupancy frankly, yes, we were not tracking daily occupancy in the way that we were, we would have assumed it would have been somewhere in the order of 85% of the theoretical full number. Is there a threshold? I think there's multiple factors that are coming into it at the moment. Once one gets past a critical threshold which we think probably is in this 15% to 20% where we're going, we think by the end of this year, we think occupiers will have broken through the concerns that they have when they're looking at other occupiers that many of the occupiers are not prepared to go first so to speak. We think that we will see a rapid increase, and this is based on talking to so many occupiers across the portfolio. We will see a rapid increase post-Diwali and in the new year we definitely see a significant variation in the way in which it works for different tenants. I think we've said before on course that we see some of the India technology companies have been more aggressive at getting people back even at the end of the first lockdown, we definitely see the domestic facing companies particularly in Bombay have higher numbers going back and probably it's fair to say see the most resistance to going back from the west coast GCCs, shall we put it that way. That said, one of those a global name, we understand that directly post-Diwali they're bringing 50% of their people back. So, there's variation across the board but one thing is absolutely clear -- the trend will rapidly increase post-Diwali.

Mohit Agarwal: My second question is on the industry level supply. So, in your presentation, you've been tracking the CBRE number that there's been a 23% reduction in supply. Can you help us understand as to is this supply being shelved permanently delayed or like converted into resi, some color if you can give on that?

Vikaash Khdloya: If you look at slide 24, we do track the supply coming up especially in our market. So, decline is basically either supply that got pushed out simply because if something's to be delivered in two or three years from today it should very well be in the full activity on the ground on construction front. We think some of these are facing liquidity and financing issues, one. Two, some of them are just really not realistic both in terms of timeline or the grade-A product quality. So that's what we believe. Now again whether these projects will come up and the relevant supply in later course of time, maybe, we don't know today, but clearly today what's happened is that both the labor availability as well as the momentum on construction has consolidated to fewer, larger institutional landlords who have the financing availability. Some of the standalone grade A, minus these kinds of developments which have been announced or halfway through have got pushed out because those are the kind of landowners or landlords who are looking at some pre-commitment to move forward in construction, whereas our approach has been since the first lockdown that we knew demand would rebound and we continued with construction into actual phase. We think some of it may come with a little bit of deferral of time and some of it may just never see the light of the day.

Mohit Agarwal: Do you have any internal target, or you want to share any guidance on when can your blended occupancy levels be back to pre-COVID levels of around 95%?

Michael Holland: I don't think that we would hazard a specific time when that will happen, what we can say is that clearly the leasing demand side appears to be on a strong positive trend given the 700,000-odd square feet

of leases that we've done in last quarter, the strong pipeline that we've got in hand in this current quarter and next quarter. So, that's trending in a positive direction. We've declared the likely exits a couple of quarters ago. There's no change to the numbers that we gave you a couple of quarters ago. The next two quarters probably will be in a similar place where we are today, and we would hope that by early FY'23 we start to trend upwards.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: You seem to be a lot more optimistic this time about leasing compared to say what you were a few quarters back, right. So, could you help us understand anecdotally, I mean what are you hearing from some of your large clients which can help us understand, I mean, where the confidence stems from because you did allude to the fact that you see a strong sort of pent-up demand play out in the next fiscal year?

Michael Holland: As you rightly say, we are seeing an encouraging trend and part of that positivity comes from looking at the data, so the 711,000 leases this quarter and pipeline as I said database, some of it is from the pipeline which is conversations with our occupiers. Many of the deals that we do are with our existing occupiers. We actually have the happy position with one of our occupiers where given there's no vacancy in the park that they occupy in Bangalore, they're looking at taking up some space with us in Pune. So, we have that benefit that comes from that. We're seeing and hearing of the strong hiring and strong demand from numerous tenants and we're seeing multi-phase new leasing and multi-phase growth. It's a database side of things, but it's also anecdotal from a number of our tenants across the portfolio, but it's very-very clear and I'm sure most people on the call will be aware of this if you speak to any of the GCCs who are actually doing deals out there in the market at a market level not with us, the number of deals that have been done in Q2 versus Q1 is up 50%. So, it's a clear upwards trend.

Vikaash Khdloya: Just to add to what Mike said, right, the pipeline that we've indicated and just to give you a flavor, of course, we have the banking, financial services as well as the technology companies in that pipeline, but also, we have sectors across a spectrum like telecom, automobile, healthcare, eCommerce companies as well as FMCG, logistics, engineering and research and consulting. We've just seen across the board occupier starting to take decision or at least preparing themselves to take decisions given that over the last six to eight quarters literally they've just frozen the real estate plans, but at the same time the business has grown, and they've continued to hire people. There was another question earlier that is there a correlation between the physical occupancy and the space take up. Interestingly in some cases it's not, simply because they've got new business or they have offshore, they have a different process, and they really need a new space to accommodate the team even though in the existing premises that they may have if the occupancy may be just 10% or 15% on a physical occupancy basis. I think it's just a lot of pent-up demand and the landlords who have a really big space, landlords who can kind of be flexible and provide the standards and wellness that the occupiers expect I think we're really well placed as we move forward into the next year.

Venkat Samala: Secondly, post-COVID what we are seeing is there is a lot of growth in the new age startup companies in terms of hiring as well. So, is that also translating in terms of better easing interest versus what it used to be before for you guys?

Michael Holland: The startup sector, the pre-IPO segment that clearly is like frankly or all other areas of the technology

universe are hiring significantly and so we're seeing pressure from whether they be the well-established international name or within the market this start-up environment, I think we all know the hiring numbers are very strong. Those smaller start-up type of operators, they often need flexible space. This is another reason why as part of our total business ecosystem environment. We tend to have on our large part some sort of co-working shared space player and in fact one of the deals that we did this last quarter was with such an operator. Again we try to provide that broad amenitised offering for whether it be startups, whether it be GCCs or whether it be the core IT sector products or services and all of them are growing, it's not any one sector, we have had one Indian more than a start-up but a pre-IPO business that in the early stages of the pandemic was talking to us about surrendering some space actually, they then reversed that conversation with us given the fact that they were hiring so many people and growing. It's growing across the segment, and we try to provide a different product within each part for all of those segments.

Venkat Samala: I know it's still very early days but anything that you think or maybe early feelers that you're getting about the impact of hybrid working on the structural leasing demand moving forward, anything that you may be picking up in India or even from the other geographies where the occupancies are higher than what it is in India?

Vikaash Khdloya: On hybrid working, there's been a lot of talk. So, while the impact of office market due to the increased flexibility around hybrid working, there will be some impact we think it will be offset by massive headcount growth and de-densification. We remain at the top of the pyramid and the very clear message that's coming from the occupiers is that they want the people back in offices. So, you that's why we think that even with the hybrid model more space will be required for collaboration, leisure, amenities, and wellness. We've heard news of all the top IT services firms, are starting to ask the employees to come back to office. And interestingly, when these corporate leaders want the employees to come back, one of the ways they will do is to have great offices in great locations which is exactly what we do and what we offer at Embassy REIT. So, we think while the optimal balance of work from home, hybrid versus office will evolve over time and may differ for each company and sector, the massive growth in the occupier headcount and in the businesses and the de-densification impact which we think will definitely play out in the medium-term will more than offset it and occupiers will require more space for collaboration and they will tend to move towards grade-A top of the quality landlords to have and attract and retain the talent and bring them back to work.

Venkat Samala: And with a large pent-up demand that you are seeing, I know it's very early days but is there a possibility that FY'23 could be similar to what we saw usually in the pre-COVID days, I know it's very early days but is there a likelihood of that happening?

Michael Holland: We wouldn't speculate on that, but I think that you can take from our comments and the data that we're on a positive trajectory.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: Hi, this is Vivek Ramakrishnan. I had two questions. We just talked about the hybrid model. Would you believe that post-COVID the space per capita will actually increase where there will be more social distancing and etc., without the companies actually distorting the earnings model? Second question is again related to Manyata where since the clients have invested in the space, the employees are

comfortable, and they've been there for 15 years what is causing them to exit?

Vikaash Khdloya: Why don't I take the second one which is easy and then I'll hand over to Mike for the first question. So again Manyata, these are legacy leases 15 years back, the escalations with sub-market, usually we have 15% every three years, when the lease was done in 2006 or '07, the escalations were 10%. So, over a period of 15 years the passing rent fell much-much-much below the market trend. Market grew at about 10% CAGR over the last 15 years generally speaking in Bangalore given the low base it started from. So clearly you can imagine that some of the occupiers, the businesses may not have kind of really moved up the value chain in terms of sophistication as they move forward and for them to pay the mark-to-market rentals which in Manyata now touching triple digits in many of the recent deals that we did, some of the occupiers would want cheaper options and which works really well for us in fact because that gives us an opportunity to bring in new age occupiers and as I mentioned before in some cases we actually revisiting and looking at refurbish the spaces or do we do a complete redevelopment where we can potentially enhance and in some cases double the available SSI and the size of the building. So, I think it is a mix of both. We see it as an opportunity and some occupiers do churn out given that there will be new age occupiers as we spoke about the large captives who are doing high-end processes and technology or digital solutions and who are the propensity to just pay higher the kind of market things that we like. So, we think it's a normal course for us.

V Ramakrishnan: Sorry, if I can just follow up that question before the answer to second question, so would the people who leave go to lower grade offices, is that what they're doing because anyway the A-grade offices the price is pretty much constant across?

Michael Holland: That's the challenge that the occupiers are facing and what we understand from the occupiers as well as from the brokers when such decisions are taken, right, because we would want to achieve a range and there's a mismatch on what they are expecting, it's a tough HR decision for them and that's why these are very few cases but for them the numbers matter more, we do hear a lot of pushback from the HR and the people side, but at the end of the day sometimes the business still wants to move forward with that.

V Ramakrishnan: Can I comment, Vivek on your question about space per capita. I think if you're talking about per capita in terms of the number of people physically accommodated within a space, then the answer is certainly, yes, there will be a decrease in density. So, this point that we made about 100, 120, 150 square feet per person. If you say space per capita based on the total employee base some of whom may not be attending office, I think that that's unclear at present that depends on the type of business, how they use their space. What is very clear now after so many months of this discussion and debate is that particularly the high quality GCCs many companies view their workspace as a place, that is part of their business culture, and they are using that space for the culture building, the innovation, the collaboration and so forth. So, the qualitative aspect of the space is probably for those companies more important than the quantitative density side of things. So, this is particularly important at a time when you've got high churn in your people base and some of you on the phone have been writing about the attrition in the technology industry. So, we're in an interesting time where companies are hiring significant numbers of new people, they're trying to maintain and build their existing corporate culture and many of those occupiers have voiced sentiments but that's particularly difficult when people are not in the office. So, it all gels together from our perspective that people, companies will want to come back to higher quality culture building office operations.

Moderator: The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

C Sridhar: I have a few questions. One is this from the 20 million RFP. Can you just give us maybe some type of color on these RFPs, are we thinking more shorter tenure RFPs as we are seeing in smaller areas people looking for or just some color if you could provide, just trying to understand if anything's changed versus pre-COVID? Vikaash, at the end of the last call, you had said that of the 1.2 million square feet which would be vacated for the nine months you wouldn't think you'd be able to backfill more than 240k. Just where are you on that since we progressed another quarter, do you think does that change at all? And then just one question for Aravind. We start seeing the DPU impact from this quarter itself, right, we had guided for Rs.1.5, that I think works out to about five months of interest cost. Do you see that in fact for over a five-month period? Mike, there's a forecast for about 45 million gross absorption from next year which is there on the presentation that's put out by CBRE which is pretty much CY'18 levels of absorption and the absorption which we had before we went vertical in CY'19. So, I'm just trying to pick your brains. That seems like a pre-COVID year of absorption.

Michael Holland: I'll take number one and I'll just comment there on four as well. So, I think you you've analyzed it exactly how I would look at that, that 45-odd million square feet growth, it doesn't match 2019 but it's probably if you look at the previous three years, 2018 and back you're probably looking at that type of a number. I think we are hearing sentiments that calendar year '23 will be the year that we really see the numbers coming back in in full force, but we're seeing a good demand on the RFP side for next year as well, just to answer your question number one. You asked about what sort of RFPs we are seeing. So, across the country that includes markets of 26.1 million square feet, you asked about what's the size and scale and I'm looking at these and they range from 25,000 up to 3 million square feet. So, it is a whole variety of largely international names, ranging from as I say 50,000 up to 3 million, some of the big global names across the board, I would say primarily GCC 20 million out of the 26 million, and the balance is primarily technology. I hope that answers the question. It's a good question.

Vikaash Khdloya: Let me just do in terms of total new lease up whether it is re-lease or lease a fresh space or existing vacant space, we had factored in our guidance for 50,000 square feet till now which was two quarters about 290,000 square feet and we have a healthy pipeline for the coming quarter. So, it's looking encouraging. We just want to wait for one more quarter. We really focus on converting the 500,000 square feet pipeline for Q3 and we are hoping that we'll be able to exceed the 450,000 square feet new lease of guidance which includes the re-leases and backfill that we set out in the guidance. So, we will have to see how fast we can convert them into binding contracts and maybe next quarter we can give you a better flavor, is there an upward kind of a potential on the number that we lay down on new leasing and back step.

Aravind Maiya: So just to answer the third question, Yes, your numbers are correct, the impact kicks in from Q3, it's approximately a Rs.1.5 impact for this year and it will be approximately a Rs.3.2 annualized impact for FY'23.

Moderator: The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: The first question is on this rent support from JP Morgan. So, when does this end? You have alluded

that and by December '21 we'll be completing and possibly handing out the structure. Should that move into the rental income from the fourth quarter of this year?

Aravind Maiya: The rent support continues till March '22. So, what happens is there is a six-month rent free which is agreed with JP Morgan as per contract. So, if we do end up delivering this in Q3 which is what is planned, factoring in the six-month rent-free then the rent start kicking in from the second quarter of next year. So, there is a potential one-month lag in us receiving rentals in the next year.

A Chattopadhyay: Till March, this rent would continue, right?

Aravind Maiya: That's correct.

A Chattopadhyay: The second question is on the hotels. Now that travel has gradually beginning to pick up. So how are you seeing the occupancies now trending up based on forward bookings at our hotels and when do we think we'll have positive surpluses both on the NOI and both on NDC upfront from the two operational hotels if you can give some clarity?

Aravind Maiya: So, it was a very significant uptick for us in this quarter in occupancy as compared to 10% and the cash burn for this quarter was as low as Rs.2.8 crores approximately as compared to closer on Rs.9 crores last quarter. So, if this current trend continues, we expect to break even probably in the next two to three quarters. So that's the way we are seeing hotel business going. While the occupancy has picked up, I think what we still need to achieve is in terms of increasing the ARR, I think that's something which will pick up only in due course and may take a few more quarters for that to happen.

Vikaash Khdloya: If I can just add to what Aravind said the business on books for the coming quarter Q3 looks pretty encouraging, right. So, we're seeing the wedding season, we are seeing revival of domestic travel, we are seeing staycation. So there seems to be a general positive sentiment on hotel occupancy and we're hoping that we can convert the cash burn quickly into positive and then move forward from there and contribute meaningfully into the distribution.

Moderator: We'll take that as a last question. I will now hand the conference over to Mr. Mike Holland, CEO, Embassy REIT for closing comments.

Michael Holland: Excellent. Well, thank you very much for those questions. I think you'll have clearly picked up a positive sentiment about the overall direction. We're very grateful to you for your interest in Embassy REIT not just this quarter but over the past couple of years. Most of the data points that we covered today are covered with the information on our website. We're always happy to engage further additional clarification if required. We will be getting in touch with some of our analyst community to discuss having an investor day in due course when travel is appropriate. So, until then, we thank you and we wish you a very happy Diwali from the whole of our management team. Thank you and good evening.

Moderator: Thank you very much. On behalf of Embassy Office Parks REIT, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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