Embassy REIT

2nd Annual Unitholders' Meeting – Responses to Key Questions

August 27, 2020

A. Impact of COVID-19

1. What has been the impact of COVID-19 on Embassy REIT's business operations?

Office Portfolio

In India, COVID-19 started to emerge as a potentially significant business disruptor in late February 2020 and lockdowns commenced in late March 2020. However, Embassy REIT entered this crisis in a position of great strength, with high occupancy across the portfolio, low vacancies across our leading markets, strong balance sheet, a diverse and international set of strong covenant tenants and so on.

Our parks and buildings were open and operational throughout the lockdowns within the guidelines prescribed by the government. We continue to monitor the ramp-up in the number of employees returning to our buildings – currently, over 95% of our occupiers and around 16,000+ people are operating from our parks. Many occupiers are planning only a gradual return to workplace and we continue to prioritize delivering a safe workplace for their employees. Our extensive work with our occupiers to help them navigate through the crisis is reflected in our robust 98.9% rent collection numbers for Q1 FY2021.

Hotel Portfolio

Both globally and in India, the hospitality sector has witnessed a challenging operating environment due to the pandemic with a virtual halt to travel since early March 2020. We therefore temporarily closed our two 477 key operating hotels in April and reopened them in mid-June 2020 post lockdown relaxations. Both hotels continue to witness skeletal occupancy and we expect hospitality demand to remain muted for the remainder of this financial year 2020-21. Our hospitality team has implemented several cost saving measures while adequately servicing occupied rooms. As both Hilton and Four Seasons are reputed global brands, they have instituted safety protocols at par with global standards and this will aid in occupancy ramp-up when travel re-opens.

Our hotels represents <1% of our pre-COVID NOI and hence the impact of hospitality slowdown is limited on our overall portfolio.

Solar Portfolio

We have seen drop in solar energy consumption of around 20% in Q1 FY2021 as compared to the average monthly consumption of solar power produced by our solar plants. The surplus energy is currently being banked and can be utilized over the course of the remainder of current financial year until March 31, 2021 or can be returned to the grid at a fixed price, thereby limiting the impact of COVID-19 induced lower consumption offtake.

2. Has there been any material impact on rent collections from occupiers due to COVID-19? Have we provided any rental waivers, rebates or deferrals to assist the occupiers impacted severely?

Since the start of the pandemic, we have worked extensively with our occupiers in providing business continuity and minimizing their hardships through active dialogue. A number of our ancillary amenity and small business tenants and certain of our office occupiers had requested rent waivers and/or rent deferrals for April 2020 and beyond and we have considered these on a case by case basis. We have consistently maintained that our office occupiers are required to comply with their lease obligations and pay rents.

Our office rental collections have remained strong and not been materially impacted due to COVID-19. We have achieved 98.9% collections for Q1 FY2021 and July and August 2020 rental collections are also in line. Further, to support our food court, ancillary retail and small business tenants through the pandemic, we have provided rental rebates totaling 1.4% of our annual rents.

3. **What has been the impact of COVID-19 on current occupancy, upcoming renewals and escalations? Will we see the 92% occupancy rate fall in the coming months?**

   We have maintained a stable occupancy through the COVID-19 pandemic and our occupancy was at 92.2% as at June 2020.

   Of our FY2021 lease expiries of 1.9 msf, we have already backfilled or are in discussions to renew 650k sf total area. The remaining 1.3 msf expiries are likely exits during the course of this financial year – of which 0.5 msf relate to occupiers facing COVID-19 headwinds and cost pressures and the balance 0.8 msf is part of normal occupier churn. These include instances of occupiers relocating to a different micro-market, consolidating to self-owned or another property, rebalancing existing portfolios and undertaking portfolio housekeeping.

   We view churn as part of 'business as usual' and see it as an opportunity to replace legacy occupiers with higher quality growth occupiers and re-set rents to market. By way of example, over the last four years, we have backfilled 4 msf in total or 1 msf annually at impressive 47% re-leasing spreads. The likely exits for FY2021 form only 5.5% of our annualized rental obligations and current in-place rents on these leases are 13% below market. While there may be a timing gap to backfill these spaces and may affect occupancy levels in the short-term given overall pause in decision making, we remain positive on new deal activity as corporates finalize their plans.

   Further, of our 7.1 msf leases due for escalations during the course of FY2021, we have delivered 14% rental increases on 1.8 msf across 22 office leases during Q1 FY2021, in-line with our target schedule. We are confident to deliver 13% rental increase on the remaining 5.3 msf leases due for revision during remainder of this financial year, given these leases are already 49% below market.

4. **What mitigating steps have been undertaken by management to reduce the impact of COVID-19 on Embassy REIT's operations and financials?**

   We have implemented international-standard safety procedures including enhanced sanitization and deep cleaning, fumigation, social distancing protocols and daily communication with occupiers. We have also initiated technology driven solutions in our properties such as optical thermal cameras, touchless visitor management, advanced air filtration and UV cleansing systems.

   Our teams have ensured that all of our properties are 'COVID-19 Secure' and we have shared comprehensive 'Return to Workplace' playbooks with all occupiers to assist them in managing the phased re-population of their offices.

   Further, in early April 2020, we also instituted a cost savings programme for FY2021 targeting savings across our operating, hospitality and corporate overhead costs. We continue to remain judicious on our costs and our strong NOI margins reflect the positive progress made on this initiative.

B. Market Outlook

1. **What is the demand outlook for Indian commercial office leasing in general and for Embassy REIT portfolio in particular, especially in context of increasing acceptance of Work-from-home by corporates?**

   Going forward, we anticipate 2-3 quarters of muted demand due to a pause in decision making while corporate occupiers get past the short-term operational challenges and determine their mid-term strategies. Given that COVID-19 infection spread has likely not yet peaked in India, this pause in decision making may impact new deals throughout this financial year, and thereafter we anticipate decision making and deal activity to pick up especially for landlords like Embassy REIT with high quality properties and focus on employee health, safety and wellness. Demand is likely to be driven by tech occupiers and continuing investments by global captives expanding their presence in India. This increasing demand from technology occupiers coupled with low vacancies in our key markets and declining new market supply, our properties are well positioned to secure a greater market share over the medium-term.

On the Work-from-home front, there has been a great deal of conjecture, domestically as well as globally. However, it is clear that in India, working from home has significant challenges around physical and digital infrastructure, as well as the softer issues of career, community, learning, and the building and maintenance of corporate culture. It is likely that there will be more flexibility in terms of workplace with a hybrid of traditional office and home locations. This will ultimately play out with more flexibility in terms of working hours and location but with the office as the core business hub providing better quality, lower density spaces with high standards of safety and wellness for the best international companies. This shift will work to the advantage of a portfolio such as Embassy REIT and our total business ecosystem product, with our high-quality large-scale integrated campus environments and a broad range of amenities for our occupiers and their staff.

2. **What is your outlook on upcoming supply for Indian commercial real estate in general and for Embassy REIT portfolio in particular?**

Forecast market supply has been in decline since late-2019 and is shrinking further post the COVID-19 outbreak and the consequent labour and liquidity challenges for most developers in India. The two year forward supply estimate by independent consultants has fallen from 119 msf in January to 80 msf in June 2020 of this year, a 32% decline in just two quarters, and this trend is likely to continue.

Our assessment is that actual comparable and competing supply for our portfolio is a significantly lower proportion of this reduced supply estimate. This will further consolidate demand for institutional quality projects with healthy financing and project completion predictability to Embassy REIT's benefit.

3. **Do you expect rentals to hold in your key markets? What rental growth is expected over the next year?**

The in-place rents on our 26.2 msf completed portfolio are currently 29% below market and hence resilient. In the past few years, our markets have seen healthy rental growths but due to the ongoing COVID-19 pandemic and the resultant pause in real estate decision making, we believe rental growth will be muted in the next couple of quarters and will return thereafter. As decision making around demand returns back, and with the already low vacancies, and shrinking supply, this will support rental growth going forward, especially for our 'total business ecosystem product offering' and for our core markets of Bengaluru and Pune.

C. Growth Prospects / Acquisitions

1. **What will be the key growth drivers for Embassy REIT going forward?**

The key growth drivers of Embassy REIT continue to be both organic and inorganic levers.

For the coming quarters, we are focused on continuing to deliver on organic growth for our business through active asset and lease management and building healthy leasing pipeline as occupiers formulate their mid-term real estate strategies. The upcoming 13% contracted escalations on 5.3 msf leases, 29% mark-to-market opportunity on our operating portfolio and our 2.7 msf ongoing development are key to our NOI expansion.

We also continue to actively pursue acquisition targets and opportunities which are value accretive and complementary to our existing portfolio in terms of scale, quality and location. With our low leverage, robust balance sheet and prudent capital management approach, we are well-positioned to capitalize on the appropriate opportunities for the benefit of our Unitholders. There is liquidity stress in the market which may lead to developers looking at various means to raise financing, including potential sale of their assets. This would create opportunity for Embassy REIT, given its strong balance sheet and ability to finance acquisitions.

2. **How is the development pipeline of 2.7 msf proceeding? Are there any pre-leasing commitments so far?**

Post easing of the lockdown restrictions in June 2020, we resumed construction work on our 2.7 msf ongoing on-campus development projects due for delivery beginning June 2022. We continue to invest in health and safety of our workers through numerous safety precautions at all our construction sites.

Our on-campus development is an integral part of growth of our existing large-scale business parks. Our strong balance sheet puts us in a robust position to invest and deliver these new projects despite overall supply deferrals and slippages in the market. We expect market demand to normalize by the end of the year post which we will aim to start pre-letting the buildings to further de-risk the development.

3. **Is Embassy REIT looking for acquisition opportunities in this current environment? If so, what are the opportunities under consideration? How will these be financed?**

   We are actively engaging to identify acquisition opportunities in the market as we believe that REIT as a vehicle is well-suited for accretive inorganic growth, especially given our disciplined balance sheet with low leverage. We are looking for opportunities which are accretive, and for irreplaceable trophy assets in top-tier Indian cities with high-quality tenants and which will be complementary to our existing portfolio and our offering of total business ecosystem.

   We have also re-commenced our analysis of Embassy TechVillage ROFO asset which we had paused last quarter due to the pandemic outbreak. We are also looking at a few other opportunities in the market and will update the Unitholders at an appropriate time post completion of our analysis.

   With the returning confidence in equity capital markets and our significant debt headroom of ₹112 billion, we are confident of the financing options available to the REIT for funding any inorganic growth opportunities.

D. Distributions

1. **Are there any changes to the distribution strategy of Embassy REIT?**

   Our distribution payout ratio in the previous year FY2020 was c.100%. There is no change to the dividend distribution policy of Embassy REIT, and we continue to be committed to quarterly distributions. Our strong balance sheet and ample access to liquidity gives us the confidence to do so. In terms of the percentage on distribution, we are obliged under the REIT regulations to distribute 90% of our net distributable cash flows. We will continue to endeavor to maximize distributions to the benefit of our Unitholders.

2. **What are the different components of distributions made by Embassy REIT? What is the taxability of each of these components for domestic and foreign Unitholders?**

   Distributions to the Unitholders of the Embassy REIT can be characterized as dividend or interest or amortization of debt received from the underlying property-level SPVs ('Special Purpose Vehicles'). From a tax perspective, the distribution to the Unitholder retains the same character and proportion as the underlying income stream received by the REIT Trust and is taxable (as applicable) in the hands of the Unitholders basis their residential status.

   While there is no tax incidence for distributions in the form of dividend and amortization of debt received from underlying SPVs, distributions in the form of interest are taxable in the hands of Unitholders depending on their respective tax category. Upon simplifying our holding structure, the proportion of our dividends to our overall distributions is likely to increase to over 60%, comparing favorably to 6% for Q1 FY2021. We anticipate that our dividend and SPV level debt amortization components, taken together, will represent over 75% of our distributions post March 2021. This will be a positive given REIT dividend is fully tax free for investors and will further enhance the overall post-tax distribution yield, especially for domestic institutional and retail investors.

   Details of taxability of each component for domestic and foreign Unitholders along with applicable tax rates, can be found in Investor Relations section on Embassy REIT's website or by clicking this link.