

Embassy Office Parks REIT

Acquisition of Embassy Business Hub, Bangalore

28 March, 2023



Press Release

Embassy REIT Announces ₹3,348 million Acquisition of Embassy Business Hub in Bangalore

- Expands presence in North Bangalore with a 1.4 msf campus-style Grade A office property
- NOI and NAV accretive transaction at an attractive 4.5% discount to average of two independent valuations
- Stable cash flow visibility from 0.4 msf area nearing completion, with further growth upside from 1 msf development

Bangalore, India, March 28, 2023

Embassy Office Parks REIT (NSE: EMBASSY / BSE: 542602) ('Embassy REIT'), India's first listed REIT and the largest office REIT in Asia by area, announced today that it has agreed to acquire Embassy Business Hub, a 1.4 million square feet ('msf') office property in Bangalore, for a total enterprise value of ₹3,348 million (\$41 million). Embassy REIT plans to primarily fund the acquisition through debt at 8.1% interest cost per annum, for which it has secured binding commitments from leading financial institutions.

Embassy Business Hub, a 59-acre campus-style business park, is situated in the high visibility growth corridor of North Bangalore, and is close to both the airport and Embassy REIT's 15.2 msf flagship property Embassy Manyata. Embassy REIT is acquiring Embassy Sponsor's affiliates' share of 1.4 msf total leasable area, of which 0.4 msf is nearing completion and 93% pre-committed to Philips, a global electronics major and member of the Fortune Global 500 and the balance 1 msf is in early stages of development.

Vikaash Khdloya, Chief Executive Officer of Embassy REIT, said,

"Embassy REIT's acquisition of this high-quality, well-connected, wellness-oriented business park expands our dominant presence and office offerings in Bangalore, which undisputedly remains the most sought-after office market in India. This tuck-in acquisition is priced attractively, embeds further growth in the REIT portfolio, and creates long-term value for our Unitholders."

Transaction Highlights

- Total enterprise valuation of ₹3,348 million (\$41 million) at a 4.5% discount to the average of two independent valuations
- Fully financed acquisition with binding commitments from leading financial institutions at 8.1% interest cost per annum
- Attractive acquisition with expected Net Operating Income ('NOI') yield of 8.25%, proforma NOI accretion of 104 bps and proforma Net Asset Value ('NAV') accretion of 2 bps, all on a stabilized basis
- Secured a Right of First Offer ('ROFO') for future phases of Embassy Business Hub, totaling 46 acres, further extending REIT's growth options

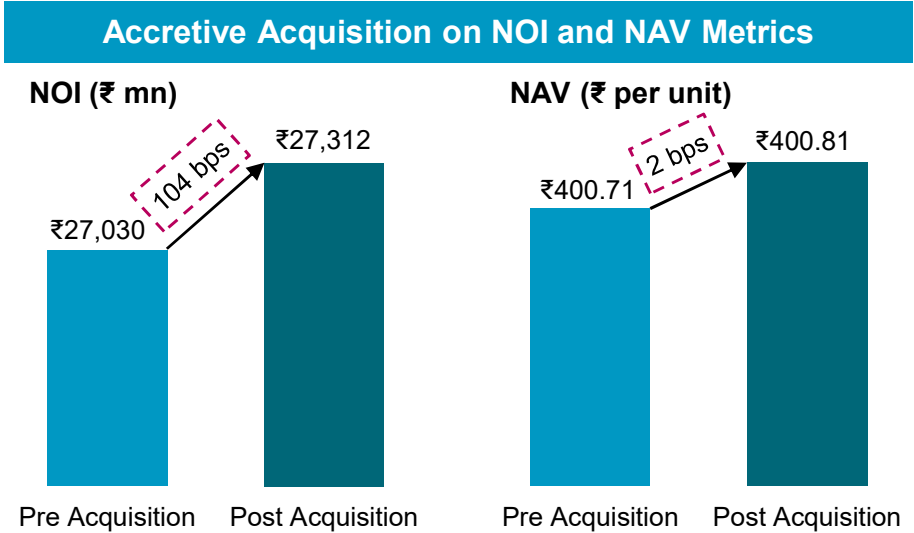
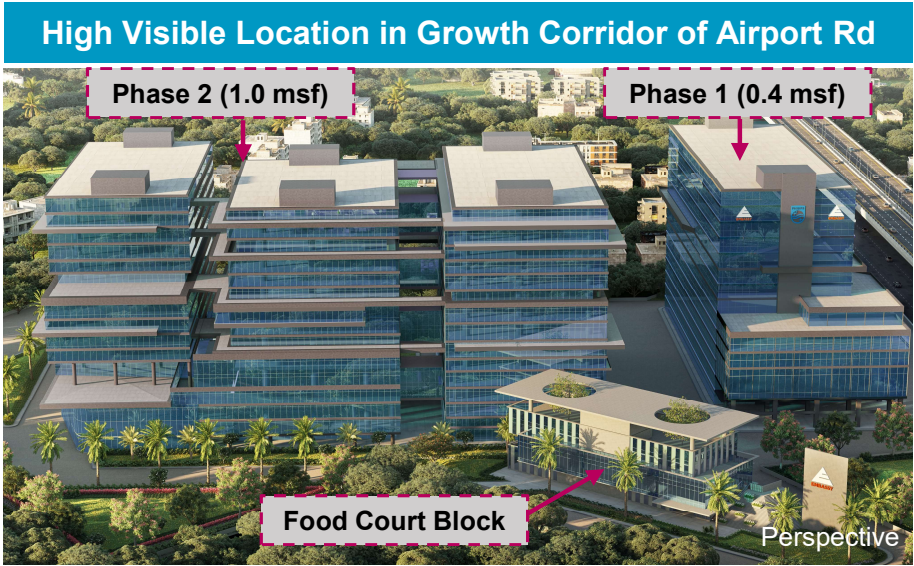
Embassy REIT followed stringent related party safeguards, including securing approval by independent directors of the Board of the REIT Manager and a fairness opinion from Axis Capital Limited to the Board of the REIT Manager. Additionally, REIT Manager will not receive any fees linked to the acquisition. The acquisition is expected to be completed on or before April 30, 2023, subject to completion of customary conditions precedent.

Ernst and Young LLP provided financial and tax due diligence services and S&R Associates served as the legal advisor to Embassy REIT. Axis Capital Limited provided a fairness opinion to the independent directors of the Manager to Embassy REIT for the proposed acquisition and opined that, subject to assumptions and limitations of the scope, the acquisition value is fair, from a financial point of view, to the public Unitholders of Embassy REIT.

Executive Summary

Embassy Business Hub, a campus-style Grade A office property, expands Embassy REIT's presence in North Bangalore. Attractive tuck-in acquisition with financing fully secured

Highlights	1.4 msf	93%
	Total Leasable Area	Committed Occupancy in Area Nearing Completion ⁽¹⁾
Financing	₹3.3 bn (\$41 mn)	4.5%
	Total Enterprise Value ⁽²⁾	Discount to Avg. of 2 Independent Valuations
Governance	<ul style="list-style-type: none"> Acquisition GAV less than 1% of REIT's Sep'22 GAV Transaction to be financed primarily through debt Debt fully tied at attractive pricing of 8.1% per annum <ul style="list-style-type: none"> Secured binding commitments from leading financial institutions 	
	<ul style="list-style-type: none"> Strong related party safeguards followed, including approval by independent directors of the Board Fairness opinion from Axis Capital Limited obtained by independent directors⁽³⁾ No acquisition linked fees to the REIT Manager 	



Notes:

(1) 371k sf / 93% Built to Suit for Philips with remaining ~30k sf / 7% as growth option
 (2) Proposed financing plan of upto ₹3,372 million through debt at 8.1% p.a. cost and net consideration towards equity shares of target SPV (upto ₹15 million) to be funded entirely through internal accruals of Embassy REIT
 (3) Axis Capital Limited in its fairness report opined that subject to the assumptions and limitations of the scope, the proposed value of the acquisition is fair, from a financial point of view to the public Unitholders of Embassy REIT
 (4) Refer to notes in slide 9 for further details

Stable Cash Flow and MTM Upside on Area Nearing Completion

Phase 1 of Embassy Business Hub comprises 0.4 msf of leasable area of which 93% is already pre-committed to Philips, thereby providing stable cash flow visibility with embedded rent growth



Actual Picture

0.4 msf

Phase 1 – Area
Nearing Completion;
OC Expected by Oct'23

PHILIPS

93% Pre-Committed to
Fortune Global 500
Company

8.25%

Stabilised NOI Yield, 61
bps Spread to REIT's
Trading Cap Rate

18%

MTM Potential
in Addition to 15% CRI⁽¹⁾

Notes:

- (1) CRI refers to Contractual Rent Increase every 3 years
- (2) Mar'23 Picture
- (3) Refer to notes in slide 9 for further details

Growth Upside through Active Development

Phase 2 of Embassy Business Hub comprises 1.0 msf of leasable area and is currently in early stages of development, thereby providing further growth potential at an attractive 12% yield



1.0 msf

Phase 2 – Active Development Pipeline

Sep'27

Completion Timeline for Entire Phase 2⁽¹⁾

12.03%

Yield on Cost, 353 bps Spread to Capex Financing Cost⁽²⁾

90%

Post Acquisition, REIT's Active Development in Bangalore⁽³⁾

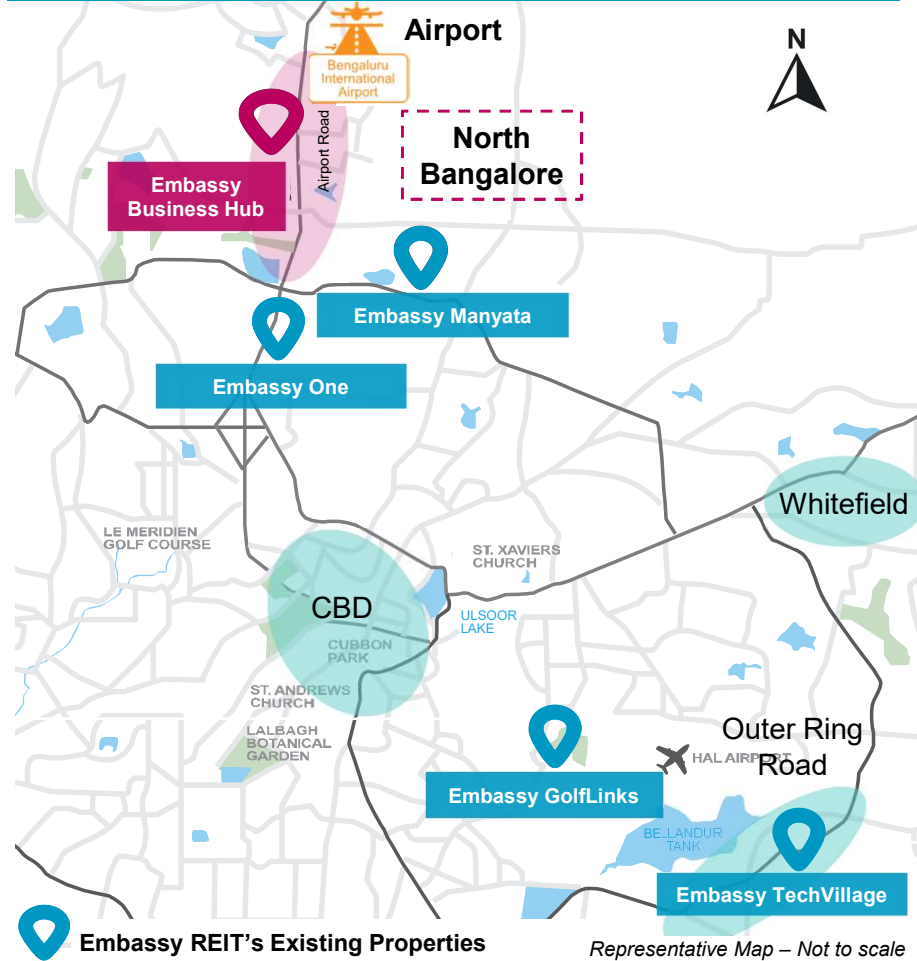
Notes:

- (1) Phase 2 comprises of 3 blocks, to be delivered in a phased manner commencing Sep'26 onwards
- (2) Blended interest cost during construction assumed at 8.5%
- (3) Computed basis area under active development
- (4) Refer to notes in slide 9 for further details

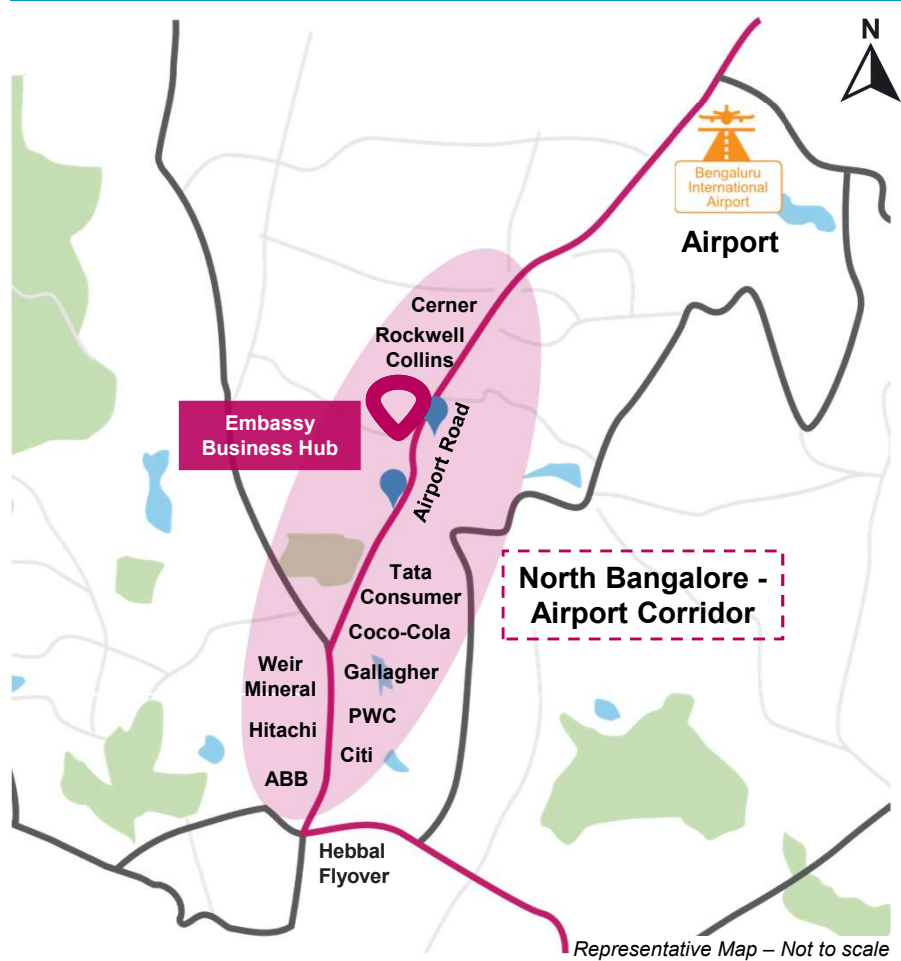
Expanding Presence in North Bangalore's Growth Corridor

With proximity to both airport and to REIT's flagship Embassy Manyata property, Embassy Business Hub cements REIT's dominant presence in North Bangalore

High Visibility Property in Close Proximity to Airport



North Bangalore Witnessing Rising Demand from GCCs



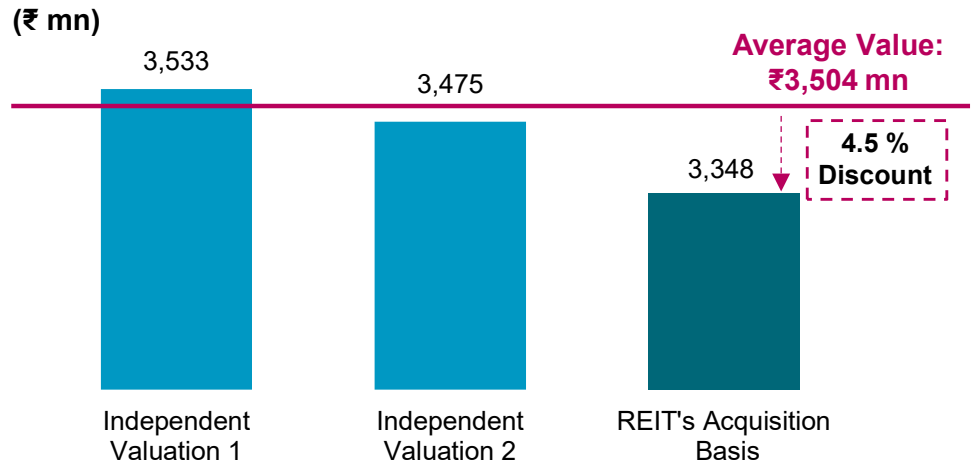
► Acquisition of highly visible and well-connected property expands REIT's office offerings in Bangalore, its core market
 ► Enables further inroads in North Bangalore, a micro-market witnessing an influx of Global Captive Centers (GCCs)

Notes:
 (1) Source: Newspaper and media articles. Indicative list of occupiers in North Bangalore. Actual legal entity names of the occupiers may differ from the names referred above
 (2) Refer to notes in slide 9 for further details

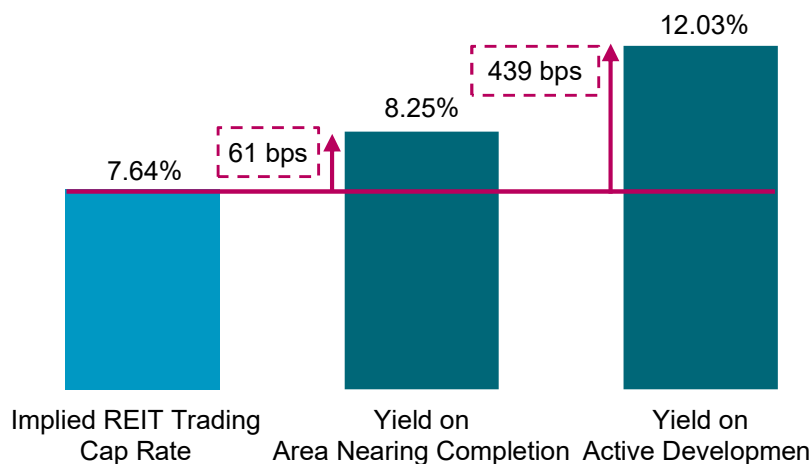
Attractive Tuck-in Acquisition, Fully Secured Financing

Total enterprise value of ₹3,348 mn (\$41 mn) is at a discount of 4.5% and will be primarily funded through debt. NAV accretive transaction at a positive spread to REIT's trading cap rate

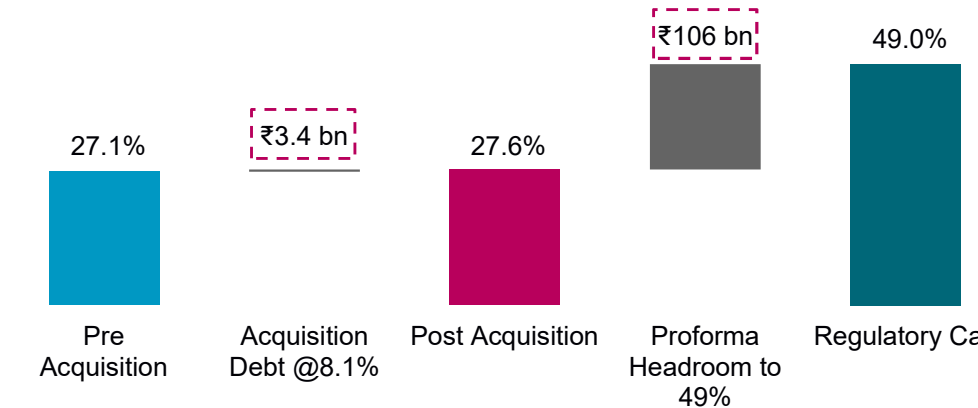
Discount of 4.5% to Avg. of 2 Independent Valuations



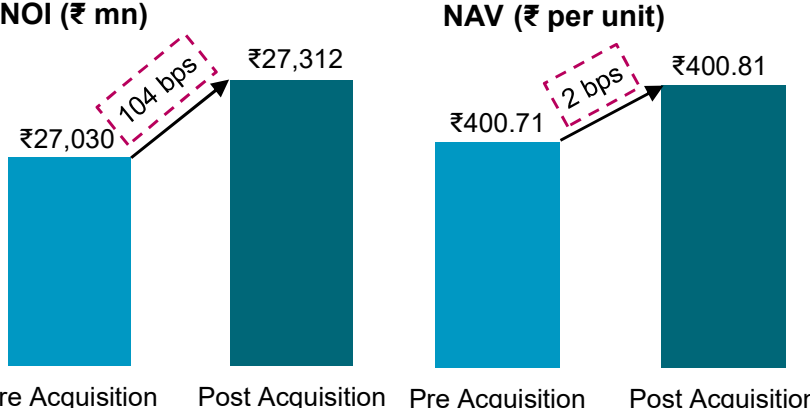
Acquisition Basis vs REIT's Trading Cap Rate



Debt Financed, Maintains Low Leverage⁽¹⁾



Accretive Acquisition on NOI and NAV Metrics



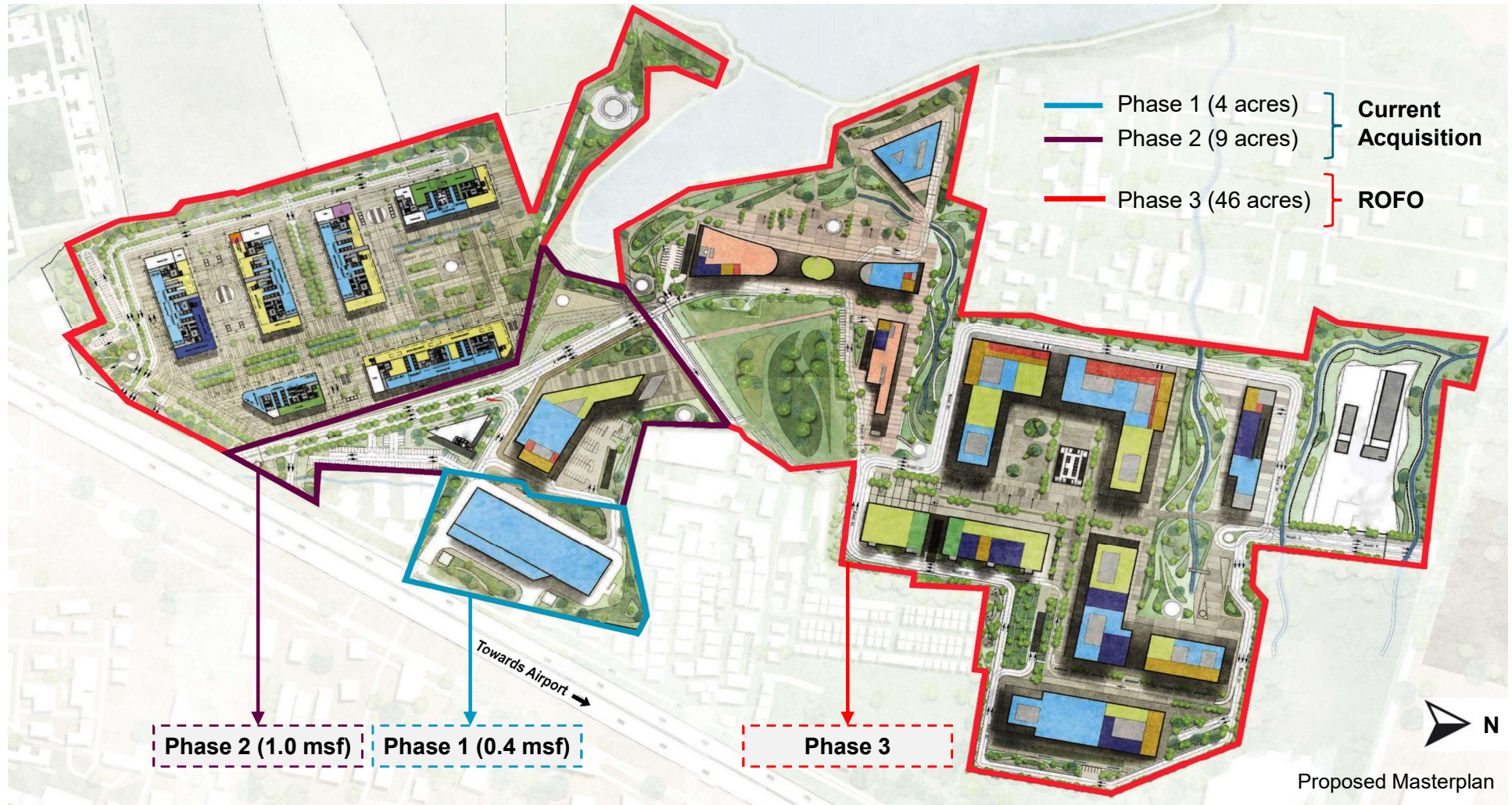
▶ TEV sets up to estimated 8.25% stabilized NOI yield for Ph 1 (0.4 msf) and proforma 12.03% yield on cost for Ph 2 (1.0 msf)
 ▶ Financing for acquisition fully secured with binding commitments from leading financial institutions

Notes:
 (1) Calculated based on Net Debt to GAV ('Gross Asset Value') and the proposed financing plan. Embassy REIT's pre acquisition GAV computed based on Sep'22 valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, in conjunction with value assessment services undertaken by CBRE
 (2) Refer to notes in slide 9 for further details

7

Opportunity to Create the Next Embassy Manyata

Secured Right of First Offer ('ROFO') from Embassy Sponsor for future phases of Embassy Business Hub, totaling 46 acres, further extending REIT's growth options



► ROFO obtained from Embassy Sponsor and affiliates for Phase 3 development, spread over 46 acres, adjacent to Phase 1 and Phase 2 developments forming part of the current acquisition

Notes:
(1) ROFO validity for a period of 10 years from the acquisition closure date
(2) Refer to notes in slide 9 for further details

Notes

1. All figures in this presentation are as of February 28, 2023, unless otherwise specified. All figures corresponding to year denoted with "FY" are as of or for the one-year period ending (as may be relevant) March 31st of the respective year. Similarly, all figures corresponding to year denoted with "CY" are as of or for the one-year period ending (as may be relevant) December 31st of the respective year
2. Some of the figures used in this presentation are approximations and / or have been rounded-off to the nearest decimal for ease of presentation. For convenience purposes only, exchange rate used in this presentation is \$1 = ₹82
3. Actual legal entity names of the occupiers may differ from the names referred above
4. Embassy Business Hub is expected to comprise a total leasable area of approximately 2.1 msf upon completion of Phase 1 and Phase 2. Of this, Embassy Sponsor's and affiliates' area share of entitlement that forms part of the current acquisition is 1.4 msf. Of this 1.4 msf, 0.4 msf of Phase 1 is currently nearing completion (371k sf or 93% pre-committed to Philips) and the balance 1.0 msf of Phase 2 is in early stages of development. Philips also has a right (but not an obligation) to lease the remaining vacant area (approximately 30k sf) in the Phase 1 building. Building Occupancy certificate ('OC') for Phase 1 is expected by October 2023. Phase 2 comprises of 3 blocks and is expected to be delivered in a phased manner commencing Sep'26 onwards
5. Target Special Purpose Vehicle ('SPV') denotes the entity Embassy Constructions Private Limited ('ECPL')
6. Total Enterprise Value ('TEV') of ₹3,348 million shall be subject to adjustments in relation to net debt, working capital and other customary adjustments, as agreed among the parties. Proposed financing plan refers to upto ₹3,372 million through debt at 8.1% per annum interest cost and net consideration towards equity shares of target SPV (upto ₹15 million) to be funded entirely through internal accruals of Embassy REIT. Debt financing includes ₹2,500 million at 7.99% interest cost with yearly reset and ₹872 million at 8.3% interest cost with quarterly reset
7. Mark-to-Market ('MTM') potential computed basis market rent as per latest CBRE estimates (as of Feb'23) and in-place rent for the committed Philips lease which has a Weighted Average Lease Expiry ('WALE') of 5+5+5 years
8. Embassy REIT's Gross Asset Value ('GAV') and Net Asset Value ('NAV') considered per Sep'22, valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, in conjunction with value assessment services undertaken by CBRE. Valuation exercise undertaken semi-annually
9. Implied REIT Trading Cap Rate calculated as ratio of Embassy REIT's mid-point Net Operating Income ('NOI') guidance of FY2023 (REIT NOI + 50% NOI of Embassy GolfLinks), divided by TEV of completed portion. TEV = Market Capitalization + Net debt and other adjustments as on September 30, 2022. Market Capitalization computed as current units outstanding multiplied by closing price as per NSE as of March 24, 2023
10. Yield on Area Nearing Completion or Stabilized NOI Yield for Phase 1 calculated as ratio of stabilized NOI for the completed portion of Embassy Business Hub divided by TEV of the completed portion plus pending building cost including interest during construction. Stabilized NOI calculated as NOI from 371k sf area pre-committed to Philips and NOI from the remainder area considering Philip's growth option
11. Yield on Active Development or Yield on Cost for Phase 2 calculated as ratio of stabilized NOI for the active development portion of Embassy Business Hub divided by TEV of the development portion plus pending building cost including interest during construction. Blended interest cost during construction assumed at 8.5%. Stabilized NOI calculated as NOI from active development basis average CBRE market rent, adjusted for 2% vacancy provision
12. Proforma NOI accretion calculated on the basis of Embassy REIT's FY2023 mid-point NOI guidance and stabilized NOI for 0.4 msf of Phase 1 of Embassy Business Hub
13. Proforma NAV accretion calculated on the basis of Embassy REIT's Pre Acquisition NAV (refer point 7 above) and target SPV's NAV as of February 28, 2023 (based on valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, with value assessment services undertaken provided by CBRE South Asia Private Limited), assuming proposed financing plan and other adjustments
14. Independent Valuation 1 – Valuation undertaken by Ms. L Anuradha, with the assessment and review report issued by Cushman & Wakefield India Private Limited
15. Independent Valuation 2 – Valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, with value assessment services undertaken provided by CBRE South Asia Private Limited
16. Axis Capital Limited is an affiliate of Axis Trustee Services Limited (the Trustee to Embassy REIT). Axis Capital Limited may have in the past provided, and may currently or in the future provide, investment banking services to Embassy REIT and/or its portfolio companies or respective affiliates that are unrelated to the proposed acquisition of Embassy Business Hub, for which services Axis Capital Limited has received or may receive customary fees
17. All details included in the presentation consider 100% stake in GolfLinks Software Park Private Limited ('GLSP'). However, Embassy REIT owns 50% economic interest in GLSP SPV which owns the Embassy GolfLinks property. Embassy REIT's GAV and NAV reflect only Embassy REIT's 50% economic interest in GLSP

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