



## Embassy Office Parks REIT IPO Note

### MARKET DATA – Embassy Office Parks REIT

Issue Size (₹Cr)*	4,750
No. of Units *	15.83cr
Issue Open Date	18 march 2019
Issue Close Date	20 March 2019

\* Including anchor investors

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Embassy office parks ("Embassy") is coming out with REIT IPO, being the first in India, is looking to sell around 15.83 crore units at Rs299-300 per unit. The minimum bid size is 800 units totalling Rs. 239,200 - 240,000 as the minimum investment with further multiple of 400 units. It can be traded at minimum lot of 400 units. Issue opens on Monday, 18.03.19 and closes on Wednesday, 20.03.19.

Embassy office parks own a high quality office portfolio in India that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. Its Portfolio comprises seven best-in-class office parks and four prime city-center office buildings totalling 32.7 msf, with strategic amenities, including two completed and two under-construction hotels totalling 1,096 keys, food courts, employee transportation and childcare facilities.

### Key Strength:

**Best-in-class office properties with high quality infrastructure:** Embassy is India's leading commercial properties developer bringing Grade A office space in the prominent business cities of India

**Diversified, Marquee tenant base:** Top 10 clients contribute 42.3% of the gross rental income with average commitment (WALE) of 7.4yr. Clients include Marquee name like IBM, Cognizant, Cerner, PWC, Nokia and JP Morgan

**Long term contract with tenant with contractual escalation:** Typical leases with tenants have tenures of 9-15 years with built-in contractual rent escalations of 10.0-15.0% every three to five years

**Highly-experienced management team drives value:** Led by Michael Holland (CEO of the Manager, founder of JLL India; ex-CEO of Assetz Property Group) and Vikaash Khdloya (Chief Operating Officer) along with senior management team average experience of 20 years in operating, developing, leasing and managing commercial real estate in India

**Improving demand supply dynamics for commercial properties:** Absorption for commercial properties was higher than supply (Top 7 cities in India) leading to consistent reduction in vacancy rate from 23.1% in 2012 to 15.0% in 2017, which is expected to further come down to 12.0% in 2019

### Investment Rationale

Embassy issue should appeal to investors who look for high yield based real estate investment in India. Apart from stability of rental yield, Embassy also offers incremental yield as rental escalation is embedded in the contract with its tenant. Being hard assets located in premium cities of India, investors should expect inflation based improvement in the value of underlying assets. Indicatively, REIT should be able to generate 8% return in form of dividend and interest initially plus the increase in value of underlying assets in line with inflation should give 11 – 12% return in long term.

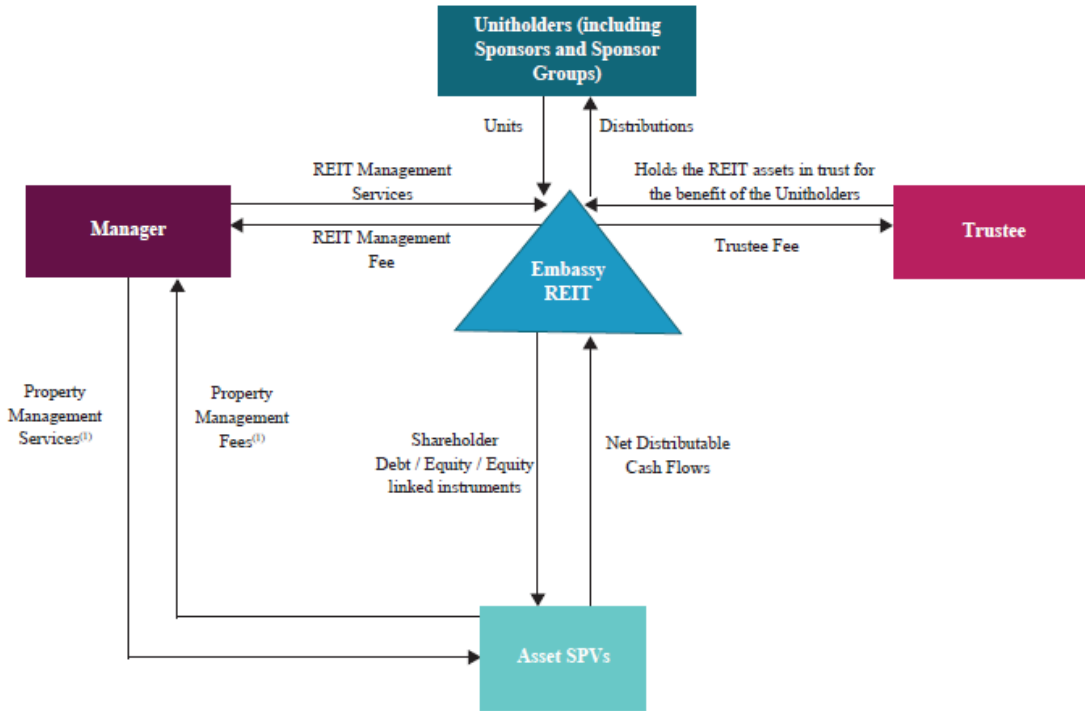
### Key Risk:

Most of the business Parks operate at very high occupancy rate, leaving limited room for further upside while it can be risky if there is churn in tenant. However, Embassy seems to be in comfortable position with high committed tenant and should be able to quickly fill the outgoing tenant due to its premium locations and properties.



## Structure of a REIT

Embassy Sponsor and the Blackstone Sponsor are the Sponsors of the Embassy Office Parks REIT. Embassy Office Parks Management Services Pvt. Ltd. "EOPMSPL" has been appointed as the Manager to the Embassy REIT. EOPMSPL is held by the Embassy Sponsor and certain entities forming part of the Blackstone Sponsor Group. Axis Trustee Services Limited has been appointed as the Trustee to the Embassy REIT.



Under the REIT Regulations, the Embassy REIT is required to ensure compliance with, inter alia, the following investment conditions under Regulation 18 of the REIT Regulations:

- Invest not less than 80% of the value of its assets in completed and rent and/ or income generating properties
- Not more than 20% of the value of its assets may only be invested in certain permitted forms of investments (whether directly or through a company or LLP) which include, among other things, under construction properties, completed but not rent generating properties, listed or unlisted debt of companies or body corporates in the real estate sector and specified securities, including unlisted equity shares of companies which derive not less than 75% of their operating income from real estate activity according to the audited accounts of the previous financial year;
- For projects implemented in stages, the portion of the project (including any land which is contiguous and an extension) that is not completed and rent or income generating is required to be counted as an "under construction" property; and
- Not less than 51% of the consolidated revenues of the Embassy REIT, and the Asset SPVs, other than gains arising from disposal of properties, must at all times arise from rental, leasing real estate assets or other income incidental to the leasing of such assets.

## Distribution rules

100% of the cash flows received by the Holdco from the underlying SPVs are required to be distributed to the Embassy REIT, and not less than 90% of the net distributable cash flows generated by the Holdco on its own shall be distributed to the Embassy REIT, subject to applicable provisions of the Companies Act.

## Utilization of IPO proceeds

IPO amount	4750cr
Debt reduction	3700cr
Asset purchase (acquisition of the Embassy One Assets)	460cr
Corporate expenses	580cr



## Key asset information

Embassy office parks own a high quality office portfolio in India that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. They are the first listed REIT in India on the Stock Exchanges and they believe there is no other office portfolio of comparable scale, diversity and quality in India today.

## Performance over the last 3 years and 9 months

- Leased 6.8 msf of total office space and achieved average re-leasing spreads of 48.0% on approximately 2.7 msf of re-leased space;
- Achieved 80.9% tenant retention rate, with 7.7 msf of office space renewed (including exercise of renewal options), without incurring material tenant improvement capital expenditure ("TI capex");
- Demonstrated a 7.1% Same-Store Rental CAGR across the Portfolio Assets and the Portfolio Investment over FY2016 to FY2018, by attracting and retaining high quality tenants;
- Portfolio grown by 3.1 msf through strategic acquisitions and the continued build out of our office parks;
- Achieved a Committed Occupancy of 95.0% as of December 31, 2018 and maintained Occupancy at greater than 93.4% at the end of the last three fiscal years; and
- Undertaken extensive renovation programs, including successful upgrades of 33 office lobbies and 7 food courts.
- 80.9% of the Gross Rentals from our 160+ marquee tenant base is contracted with leading multinational corporations and approximately 43.4% is contracted with Fortune 500 companies such as JP Morgan, Google and Microsoft. Our high quality tenant base, along with long-term contracted rentals (weighted average lease length of 7.0 years) provides considerable stability to our Portfolio.
- Revenue have grown from operations by 15.4% over FY2016 to FY2018.

Properties	Year of commencement	Total leasable area (msf)	Completed/operational leasable area (msf)	Committed occupancy	No of tenants	Ownership	Lease year pending	Historical rent growth (CY2013-1Q2018)	Market Value (Rs. Cr)
<b>Bengaluru</b>									
Embassy Manyata	2006	14.2	11.0	99.70%	64	Freehold		9.0%	13,274
Embassy one	2017	0.3	0.0	2.00%		Freehold			597
<b>Mumbai</b>									
Express towers	1970	0.5	0.5	97.50%	28	Leasehold	43	1.50%	1,881
Embassy 247	2009	1.2	1.2	88.10%	28	Freehold		0.30%	1,716
FIFC	2012	0.4	0.4	55.40%	10	Leasehold	69	1.30%	1,492
<b>Pune</b>									
Embassy Techzone	2008	5.5	2.2	84.80%	23	Leasehold	81	8.80%	2,072
Embassy Quadron	2008	1.9	1.9	91.40%	24	Leasehold	81	9.00%	1,452
Embassy Qubix	2011	1.5	1.5	100.00%	47	Freehold		8.00%	1,019
<b>Noida</b>									
Embassy Oxygen	2011	3.3	1.9	91.90%	22	Leasehold	78	10.50%	1,958
Embassy Galaxy	2007	1.4	1.4	100.00%	31	Leasehold	77	8%	837
<b>Portfolio investments</b>									
Embassy Golflinks ^	2004	2.7	2.7	100.00%	20	Freehold		10%	2,607
<b>Total</b>		<b>32.7</b>	<b>24.5</b>						<b>28,904</b>

^ 50% economic interest



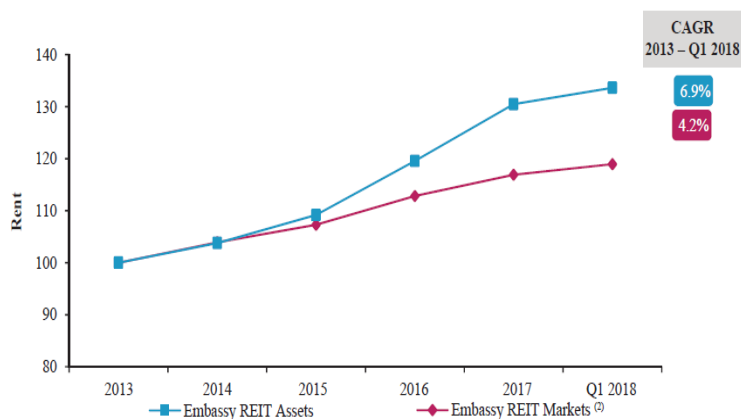
Infrastructure / Amenities	Year of commencement	of Keys/MW	Occupancy	Ownership	Market value
Four seasons at Embassy one		230			792
Hilton at Embassy Golflinks	2014	247	67.70%	Freehold	488
Hilton at Embassy Manyata		266			
Hilton garden Inn at Embassy Manyata		353			215
Embassy Energy (Solar park)	2018	100		Freehold	1,082
<b>Total Keys (4 Properties)</b>		<b>1096 keys</b>			<b>2577.2</b>
<b>Solar Power</b>		<b>100 MW</b>			

### Construction plan over FY2019—FY2021:

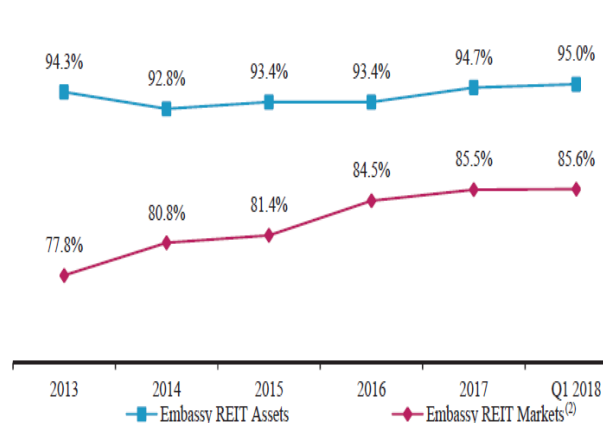
Asset	Location	Area (msf/keys)	Expected Completion
<b>Development completed by FY2021</b>			
Embassy Manyata Front Parcel Offices	Bengaluru	0.8	FY2021
Embassy Manyata M3 Office Block	Bengaluru	1.0	FY2021
Embassy Oxygen Tower 2	Noida	0.6	FY2021
Embassy Techzone Hudson Block	Pune	0.3	FY2021
<b>Total FY2019-2021</b>		<b>2.7msf</b>	
<b>Development completed post FY2021</b>			
Embassy Manyata	Bengaluru	1.5	
Embassy Oxygen	Noida	0.7	
Embassy Techzone	Pune	3.0	
Hotels at Embassy Manyata	Bengaluru	619 keys	
<b>Total post FY2021</b>		<b>5.2msf / 619 keys</b>	
<b>Total Development</b>		<b>7.9msf / 619 keys</b>	

## Rent and Occupancy analysis

### Historical rent growth



### Committed occupancy

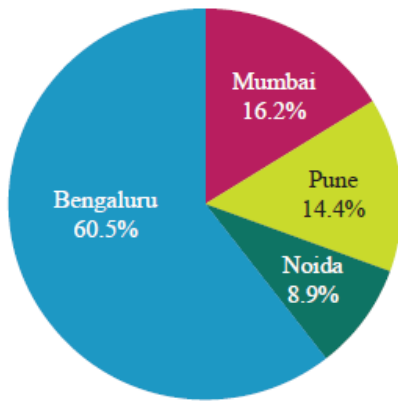




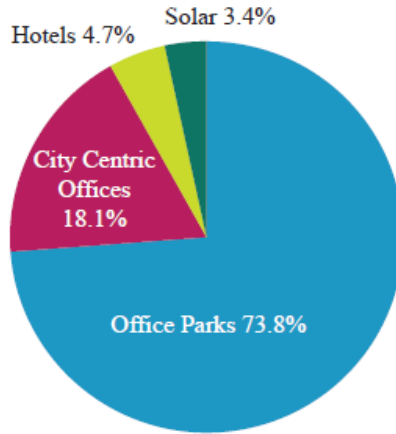
# Embassy Office Parks REIT

Their Portfolio comprises seven best-in-class office parks and four prime city-center office buildings totaling 32.7msf as of December 31, 2018, with strategic amenities, including two completed and two under-construction hotels totaling 1,096 keys, food courts, employee transportation and childcare facilities. They believe to have invested in amongst the highest quality assets in the best performing submarkets of India's key office markets of Bengaluru, Pune, Mumbai and Noida.

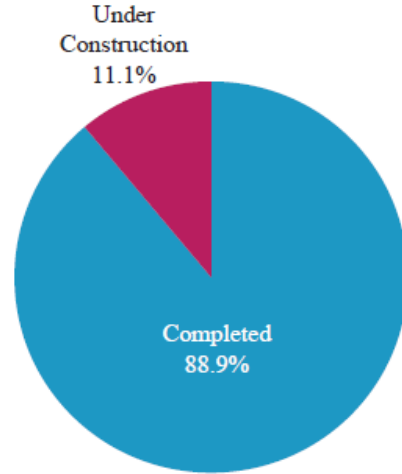
Market Value by Geography



Market Value by Asset Type



Market Value by Construction Status





## Key strengths

### Best-in-class office properties with high quality infrastructure

Although their properties have world class infrastructure and high-quality tenants, capital values for their assets as per CBRE's valuation are \$150 per square foot as of March 31, 2018, implying a 82.9%-95.2% discount to Grade A properties in New York, Tokyo and Hong Kong. Moreover, capitalization rates for such properties in India at 7.5%-8.5% represent a 175-575 bps premium to capitalization rates for assets of similar quality and tenant profile in countries like the United States, Japan and China.

### Highly occupied by a diversified, high quality, 'sticky' multinational tenant base

Their assets had 95.0% Committed Occupancy as of March 31, 2018 (10.0% higher than the overall India office market). As of December 31, 2018, their Committed Occupancy remained at 95.0% and their weighted average lease length was 7.0 years. Their tenants are truly international with approximately 80.9% of Gross Rentals contracted with leading multinational corporations and approximately 43.4% of Gross Rentals from Fortune 500 companies.

Top 10 Tenants	Total area (msf)	WALE (years)	Gross rentals % of total	Sector
	3.6	5.7	13.9%	Technology
	3.2	7.3	10.8%	Technology
	0.6	6.1	2.6%	Healthcare
	0.3	12.4	2.5%	Research, consulting & analysis
	0.6	5.9	2.4%	Telecom
	0.3	7.1	2.3%	Financial services
	0.5	13.6	2.2%	Technology
	0.5	13.6	2.0%	Retail
	0.3	7.2	1.8%	Technology
	0.5	2.5	1.8%	Technology
<b>Total</b>	<b>10.4</b>	<b>7.4</b>	<b>42.3%</b>	

### Strategically located in top-performing markets with high barriers to entry

Their Portfolio is strategically located in India's four key office markets of Bengaluru, Pune, Mumbai and Noida. More than 135.8 msf office space was leased in these markets between CY2013 and Q1 2018, which exceeds the total absorption for eleven global cities including New York, San Francisco, Central London, Shanghai and Tokyo over the same period. Their assets have outperformed their markets with 940 bps higher Committed Occupancy as of March 31, 2018 and 270 bps higher rent CAGR over the last five years and three months due to their high quality and premium locations.

### Highly-experienced management team drives value through proactive asset management

Led by Michael Holland (CEO of the Manager, founder and former country head of JLL India; ex-CEO of Assetz Property Group) and Vikaash Khdloya (who will be the Deputy CEO / Chief Operating Officer of the Manager prior to the listing of the Units), their senior management team comprises eight people and has an average experience of 20 years in operating, developing, leasing and managing commercial real estate in India. Over the last three years and nine months, the team has leased 6.8 msf of total office space, grown our Portfolio by 3.1 msf through strategic acquisitions and by building out our office parks, pioneered tenant engagement programs and undertaken extensive renovation and repositioning programs as well as major asset upgrades.

### Renowned Sponsors with global expertise and local knowledge

Their Co-Sponsors – Embassy Sponsor and Blackstone Sponsor – combine a deep knowledge of local markets with global expertise and best practices in investment and asset management. Embassy is a leading Indian real estate company, which has completed over 45 msf of office and residential development. Blackstone Sponsor is a part of Blackstone, one of the world's



leading investment, real estate and alternative asset management firms. Blackstone Real Estate was founded in 1991 and is the largest real estate investment manager in the world with \$119 billion of investor capital under management as of June 30, 2018.

## Projected financials by the REIT

Particulars (Figures in Cr)	2017	2018	2019	2020	2021
Revenue	1,485	1,612	1,882	2,304	2,512
Growth in revenue		8.5%	16.8%	22.5%	9.0%
Net operating income			1,614	1,967	2,145
EBITDA	1,240	1,241	1,517	1,856	2,026
Cash Flow from Operating Activities	987	1,251	1,349	1,608	1,825
NDCF			1,634	1,910	2,074

## Key Risk Factors

Most of the business Parks operate at very high occupancy rate, leaving limited room for further upside while it can be risky if there is churn in tenant. However, Embassy seems to be in comfortable position with high committed tenant and should be able to quickly fill the outgoing tenant due to its premium locations and properties.



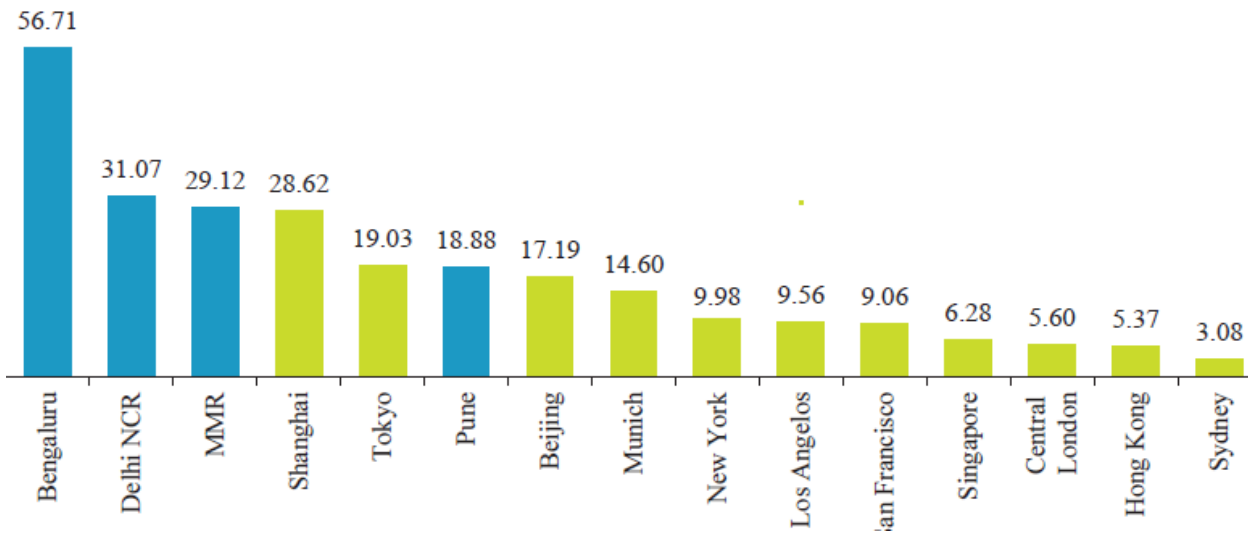
## Industry Analysis

### India Office Market

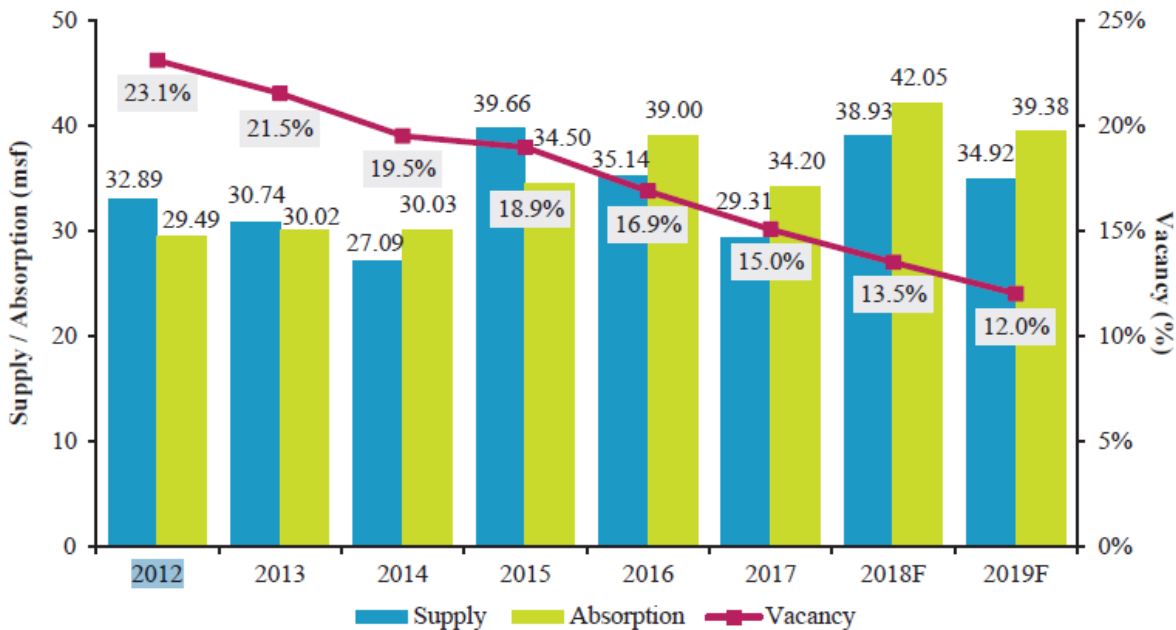
India's office real estate landscape has changed significantly in the past two and a half decades. Since the early 2000s, Grade A office stock has grown more than 20 times from approximately 25 msf as of 2000 to approximately 548 msf as of March 31, 2018 and is concentrated in the Top 7 cities comprising of Delhi NCR, Mumbai Metropolitan Region ("MMR"), Bengaluru, Chennai, Hyderabad, Pune and Kolkata. Private equity investments in the Indian real estate sector have grown by 17.7% from US\$ 3.8 bn in 2012 to US\$ 8.6 bn in 2017. Various Sovereign and Pension Funds are setting-up and expanding their India presence, their long-term investment horizon of 10 to 15 years will add further stability to the Indian office market.

As the absorption remains high in the Indian cities, vacancy is coming down consistently and rentals are on uptrend as shown in charts below:

Select Major Global Cities - Cumulative Absorption in msf (2013 - Q1 2018)



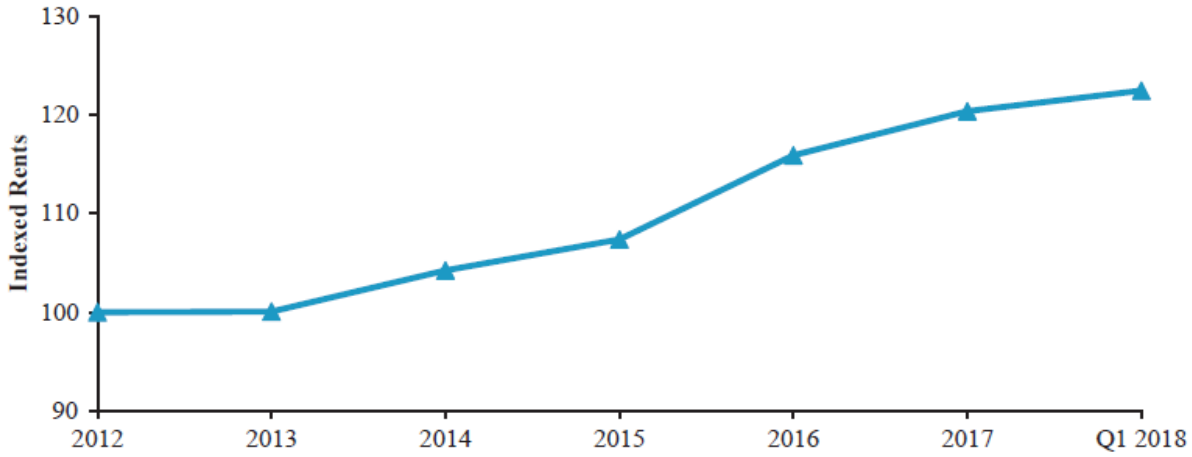
India (Top 7 Cities) - Supply, Absorption & Vacancy



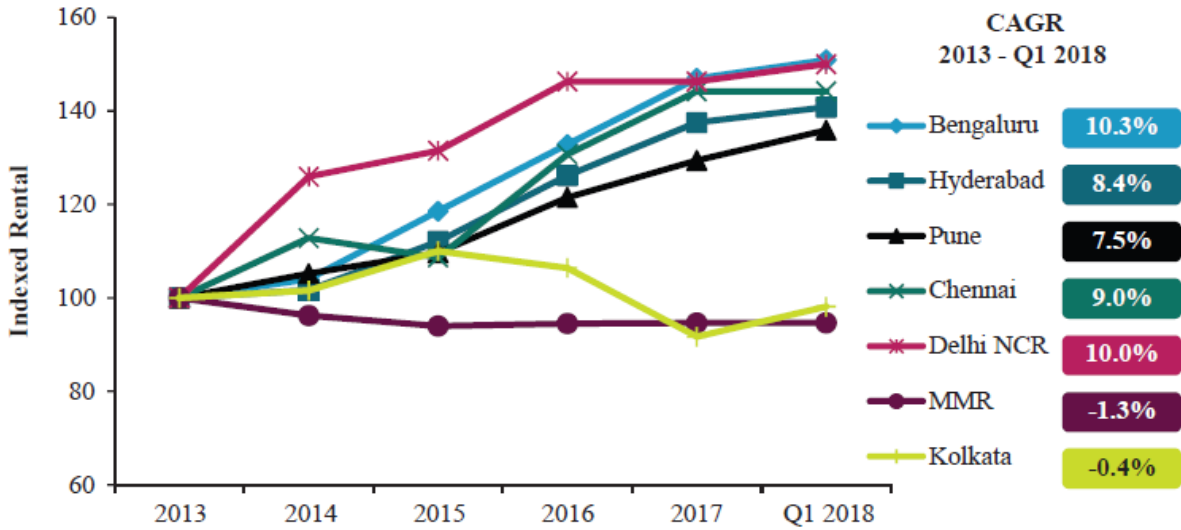




**India (Top 7 Cities) - Rental Trends**



**Top 7 Cities - Rental Trends**





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