

## India Office RE: Investing/Leasing Assessment during COVID

In this note, we look at empirical evidence of CRE investment and leasing trends amid Work-from-home (WFH) / lockdowns due to COVID

Despite lockdowns, both institutional & retail demand remained robust

### US\$5.7Bn investment despite COVID

#### Commercial Real Estate continues to attract strong institutional demand amid pandemic...

- Despite COVID/WFH concerns, ~INR 42,650cr (US\$5.7Bn) of Leased Asset Transactions in 2020
- Strong interest from Institutions & retail investors alike
- Mindspace REIT alone got INR 24,000cr+ of Investor demand (1,861cr X 13x); excluding anchor portion of INR 2,644cr
  - Projected dividend yield: ~7.0%

#### 2020 Office Sale Transactions

#	Transaction Date	City	Building	Buyer	Seller	Total Size (MM sf)	Deal Size (INR Cr)
1	4Q 2020	Bangalore	Embassy Tech Village	Embassy REIT	Embassy,Blackstone	9.2	9,780
2	4Q 2020	Bangalore	Portfolio of Office, Malls & Hotel assets	Blackstone	Prestige Estates	13.3	9,160
3	4Q 2020	Bangalore	Godrej Fund Management <sup>(1)</sup>	Godrej	Puravankara	1.0	1,200
4	4Q 2020	Bangalore, Hyd	Portfolio of office assets	Brookfield	RMZ	12.5	14,680
5	3Q 2020	Mumbai	Mindspace Business Parks REIT <sup>(2)</sup>	IPO/ OFS	Mindspace	29.5	4,500
6	2Q 2020	Bangalore	Embassy REIT units <sup>(3)</sup>	Public markets	Blackstone	-	2,270
7	1Q 2020	Mumbai	Lodha Excelus	Varde Partners	Lodha	0.7	1,055
<b>Total</b>							<b>42,645</b>

Sources: Industry sources

Notes: (1) Deal is a forward purchase and at land stage; (2) New issue of REIT units of INR 1,000cr and Offer-for-sale of INR 3,500cr; (3) Deal is secondary sale of REIT units by a sponsor through block deals

High quality assets  
continue to do well;  
decent new  
leasing/renewals at  
escalated rents

## Strong leasing momentum despite WFH/lock-down

	Embassy REIT	Mindspace REIT
<b>Area Re-leased/extended<sup>1</sup></b>	0.41 MM SF	0.56 MM SF
<b>New area leasing</b>	0.33 MM SF	0.48 MM SF
<b>Average re-leasing spread</b>	17.0%	33.1%
<b>Rental collections</b>	99.5%	99.0%+

- High commercial demand, low vacancies, and limited construction provides visibility on business sustainability and potential to scale up operations for quality asset owners
- Re-leasing with higher spread<sup>2</sup> demonstrates the long term intent of corporates to continue to occupy office space over WFH as the future workspace strategy
- New leasing and strong collections indicate robust demand for quality office space, ensuring wellness and safety of employees

Source: Embassy REIT Investor Presentation Q2 FY2021 (data for H1 FY2021); Mindspace REIT Financial Presentation Q2 FY2021 (data for H1 FY2021)

Notes:

1. Includes leasing of early termination areas; extensions granted for expiring leases; Re-leasing of contractual expiries, vacant areas
2. Re-leasing spread refers to higher rent achieved upon re-leasing compared to the original rent, and indicates willingness of tenant to continue in the same office space at higher rent

## Few new leasing examples (since lock-down)

#	Tenant	Building / Development	Developer / Landlord	City	Area (MM sf)	Rent (INR psf/mth)	Transaction Date
1	Standard Chartered Bank	DLF Downtown Taramani	DLF	Chennai	0.77	85	4Q'20
2	Wells Fargo	Divyasree Orion	Divyasree	Hyderabad	1.30	70	4Q'20
3	Amazon India	Godrej Two	Godrej	Mumbai	0.26	NA	4Q'20
4	Apple	Minsk Square Building	Prestige Estates	Bangalore	0.40	170	3Q'20
5	Morgan Stanley	Commerz III	Oberoi Realty	Mumbai	1.10	NA	3Q'20
6	Google India	Bagmane Rio Business Park	Bagmane Group	Bangalore	1.20	NA	2Q'20
7	GSK Pharma	Bagmane Capital-Luxor	Bagmane Group	Bangalore	0.15	NA	2Q'20

Source: Industry sources

## WFH: a vacancy risk or short term phenomena?

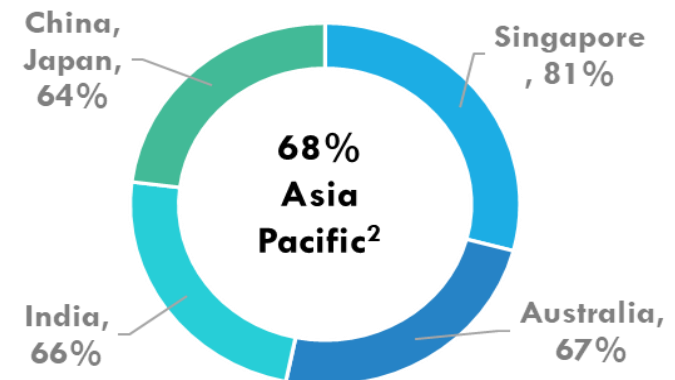
### Early Assessment

- Due to COVID-19, corporates across sectors adopted work from home (WFH) due to lock-downs/social – distancing requirements
- Corporates taking additional steps of providing flexible WFH routines to employees or internet infrastructure at home
- Higher acceptance of remote working will lead to more distributed and diverse workforce; and some sectors, such as technology, would be best placed to drive this trend
- Expectation that demand for office spaces may fall as corporates consider extending WFH on a permanent basis

As per JLL survey<sup>2</sup> on 1,500 employees from 5 countries across APAC on views about their experiences as they re-enter the workplace

- At the height of COVID-19, an average of 68% of employees surveyed in the region worked from home, with Singapore leading at 81%
- **However, 61% of employees working from home in Asia Pacific said they missed going to the office, same number is 82% in India**
- Across the region, the human aspect of office was the most missed element

#### % of employees working from home



## New Realization

- WFH will bring more flexibility & efficiency, but its not a replacement for office:
  - Deprivation of human connect and bonding
  - Loss of ideation which is many a times driven by adhoc collaboration vs. agenda based meetings
  - Blurring of lines between personal space/time and that of business, increasing emotional stress
  - Challenges around data privacy and long-term productivity
- Offices also play an important role in defining company culture by creating a shared purpose and collaborative working environment
- COVID-19 response has accelerated digital transformation and technology spends globally. Increased costs and scaling pressures likely to further increase offshoring to India
- Some loss of demand in the medium term is expected to be neutralized by de-densification and demand from post-COVID emerging industries
- **Conclusion**
  - **WFH will lead to more flexible work policies and realignment of RE strategies, but cannot replace office need**
  - **India may in fact benefit due to its IT focus and competitive rents, that augurs well for increased offshoring/remote working**

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