

Are REIT's results echoing the revival of the office leasing market?

Q2 FY22 results of the 3 listed office REITs show early signs of the office sector stabilizing after a severe covid-19 induced disruption in 2020

India's first REIT (Real Estate Investment Trust) debuted in 2019 and since then two more REITs have listed. All three are backed by strong sponsors and / or marquee global investors. Between them, they own ~67MM sf of operational Grade A office portfolio across the top 6 markets. Their operational performance is a good barometer for the health of the broader office sector.

Key highlights from the results:

	Embassy Office Parks REIT	Mindspace Business Parks REIT	Brookfield India Real Estate Trust
Occupancy (% / Change)	89% 	85% 	85% 
Leasing / Renewals (last 6 months)	1.3MM sf	2.1MM sf	0.2MM sf
Rent Increase (vs. in-place rent)	20.0%	21.6%	3.0%

What are the trends we are seeing?

- **Occupancies are stabilizing and demand is improving:** Active RFPs (tenants looking for space currently) stood at ~26MM sf
- **Bangalore is seeing strong demand:** Accounts for 56% (~14.6MM sf) of the total active RFPs
- **Market rentals remain stable** with an increasing bias in few markets like Bangalore; **clients are signing up to mark-to-market escalations**
- **Institutional investors continue to keep faith in the sector** – private equity investments of INR11,000 Cr+ in first 9 months of 2021; on the public side, Embassy REIT raised (QIP and secondary sale by one of the Sponsors) INR5,700 Cr+ in the last 12 months
- There is **consolidation towards well-managed, better quality offices** – which benefit the REIT portfolios and other high quality Grade A offices
- Fundamentals of the tech enabled offshoring business remain strong – **Hiring levels at IT companies (proxy for office space demand) was 2x of the previous 5 year average in FY22**
- While current physical occupancies are low, most tenants have announced back-to-office plans driven by high vaccination and lower infection rates

What does the future look like?

We expect office markets to bottom out over the course of next 3-4 quarters – function of demand recovery (improving Indian economy and global tech trends) and delayed supply of new office space (supply discipline from larger players). We continue to have a positive view on the sector over the medium term with a selective/cautious approach to investments in the sector given near term uncertainty

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