"Mindspace Business Parks REIT's Analyst Day"

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(Note: This document has been edited for clarity wherever required)

Kedar: Hello everyone, Welcome to Mindspace Business Parks REIT's Analyst Meet – 2022. Firstly, let me take a moment and introduce the Key personnel's present here. We have Mr. Vinod Rohira – Chief Executive Officer, Ms. Preeti Chheda – Chief Financial Officer, Mr. Devashish Gupta – Head Commercial Leasing – West, Mr. Rajan M G – Head of Asset Management and Mr. Govardhan Gedela – Head Corporate Finance. We would be starting with a brief presentation by the team followed by quick Q&A session. This shall then be followed a site tour of our assets. I would now like Mr. Rohira to take it forward from here. Thank You.

Vinod: Thank you very much firstly for accepting the invitation and coming and meeting us here. I hope that, for you all it's a fruitful day that we spend together to show you our assets in Thane Belapur Micro Market today.

We started off the REIT with c.29.5 million square feet. Today we stand at 31.9 million because we have seen opportunities for certain redevelopments which increase density and as the FSI went up in some of our parks. Today our potential has moved up to 31.9 million square feet and that will still go up. What is critical is that because the rents in our market have risen and are firming up, we are seeing mark-to-market opportunities going up even further.

Our Committed Occupancy stands at 86.9%, current Market Cap is 216 Bn and NOI achieved in H1 FY23 is INR 8.2 Bn. We have our prominent presence in 4 out of top 6 Indian office markets which are Mumbai Region, Hyderabad, Pune and Chennai.

When we started the financial year 2021, we were at an in-place rent of c. INR 51.8 per square feet on an average on our portfolio, as on September 2022, the number stands at c.INR 63.0 per square feet and we still have an upside. We are expecting the mark-to-market opportunity to rise from here on. Having said that, while we look at the committed occupancy as 86.9%, we see that as a massive opportunity because three things have happened today. Supply has constrained itself because the cost of capital has gone up, inflation has gone up and speculative supply is just not coming in most micro-markets, so the vacancy becomes valuable because we can then lease it really quickly when the demand comes back to the market and the tenant wants real estate on an immediate basis. We are seeing this trend play out in the building we are currently in. As you can see, this asset is getting quickly lapped up in terms of leasing. The traction and demand we are already witnessing on assets like these are phenomenal. Today this has become an opportunity for us to re-lease spaces quickly as the employees are coming back to the office and occupiers are asking for more space for expansion.

Whether it's Hyderabad or Mumbai region or Pune or Chennai we are seeing demand ramp up. As you can see on the slide, the new area that is getting built has already got pre-leased. So, this is just a snapshot of how these assets have really panned out.

The top talent today is asking for a far more experiential environment than what it used to be earlier, Which is why asset management becomes important. You may build the asset, but then how you energize it and put life into it really makes a difference. We are able to do that across our parks. And that is why, as we mentioned in the last 1.5 years that Grade A assets will continue to see attractive occupancies from new tenants who are coming.

That's exactly what's happening. In a micro market, if you have a Grade A versus a Grade B asset, the Grade B asset, even at a discount, will not get leased. The Grade A asset will first get leased. And we are seeing that across India.

These are some of the other assets which we either acquired or converted. This was a mall that we bought over, and converted to office. If you ever get a chance, you must go and see this. Today, if you see this, you won't believe it was a mall. But when we were converting the mall, no tenant was believing that it can convert to office. Today, it's amongst the best office buildings in Pune.

Our asset in BKC was the erstwhile Citibank building which we bought retrofitted, converted, and leased out. And this is a Pocharam asset, which is in the eastern part of Hyderabad. So, this is just to give you an idea about why taking a dominant position and a long-term view of assets matters in countries like India and markets which are going to develop. If you see, this is Malad in the year 2000. It was just barren land with a creek on the back. That was where the first Mindspace was built.

At that point in time, it was difficult to conceive that commercial real estate can come up in CBD or an SBD in Malad. But we got Bank of America, Citibank, JP Morgan, Morgan Stanley, Merrill Lynch there and Malad is what it is today. Today after 15 years and 20 years, you don't have to sell Malad to anyone. The same way, this is what we saw of Airoli East in 2007.

If you look at Hyderabad in 2004, it was only boulders and rock. And today Madhapur is the CBD of Hyderabad. The first building we leased at INR 21 psf, now the rents are close to INR 70 psf. That's how assets change, micro markets change, infrastructure changes. You must take a long-term view of what you build. Today to replace these assets, you will not get the land. The land will never be at those prices. With the construction cost, if you just calculate intrinsic value, you will know what we are talking about.

Similarly, the 1A-1B building in Madhapur asset is an example of what we just mentioned to you, the asset that was earlier built, we demolished this building after the tenant vacated and now this is the kind of building that is getting built here. So, that was 320,000-odd square feet building, this is a 1.3 million square feet building getting built in that layout.

In Airoli West, we signed up for two blocks of 320,000-odd square feet each with data center operators. The first block is now ready to get delivered two months prior to schedule. We shall hand it over in February 2023. And the second block will now start. We've seen a serious amount of data center interest in this part of the city and the country.

This is the building in which we are right now, which is now complete and it's almost fully pre-let. 50% of the building is already occupied. The rest of them are doing their fit-out. This we de-notified and offered it as a non-SEZ offering within a park which was otherwise SEZ. The leasing team did a fantastic job of making sure they could move the epicenter for the BSFI and tech companies in fintech to come and occupy these spaces. And today we are seeing more demand than what we have as supply.

That's the balance building that's completing in Pune. And the next block, which we are really excited about, which is a 1 million square feet, which is under construction in our Kharadi Park. Some of you are traveling tomorrow, so you'll get an opportunity to see it.

These are some of the ROFO assets which were identified at the time of our REIT offering. First one is now complete, handed over to a global tech giant, Qualcomm, who has leased the building from us. And now we have also received a notice for another asset from Sponsors which we are currently evaluating to introduce into the Portfolio.

This is a Chennai asset, which is under construction. The first block got pre-leased to Shell. That's getting ready to hand over. So, we got a built to suit customer there. And the second and the third buildings are now under construction. And the other asset is in Juinagar. 450,000 built to suit building is getting constructed for a client, 1 million square feet is already built there. Once that is significantly complete, we will have an opportunity to look at it further.

This is just to give you a snapshot of the growth. We've done 10.2 million square feet gross leasing since listing. When people thought probably COVID was the end of offices as we knew it. Last year was our best year. We leased 8.3 million square feet since listing. So that's the kind of volume we were able to do being at the right place, right time, building the right assets in the right micro markets.

So that's where being in the right micro markets matters, building the right assets matters. That's exactly where you're seeing this culminate, where cumulatively you've seen the distribution. I'm not reading out those numbers to you, but what's important to understand is that in-place rent has moved up 21% in a market where you would have probably thought rents will come down. The trajectory is visible to you and the net asset value has grown. Physical occupancy which was always a fear for the first 18 months, nobody discusses that anymore. We are now at 41% occupancy. There also if you divide that into micro-occupancies, some of the large GCCs, GICs have been slow to ramp up. The rest of the third-party occupiers are almost between 75% and 85%. The average is showing you 41%. But otherwise, most of the smaller occupiers are already at between 80% and 90%.

This is just the mix and profile of our tenants. We've been fortunate to have the top names, because for us, the strategy has always been a tenant with good credit profile. High rent is not the most relevant criteria, but the best tenant is the most relevant criteria. And that is how we've grown. And to be honest, each of these tenants have taught us something new about upgrading our asset. And, because of all these tenants, that are way ahead of the marketplace in their thinking and their analogy in terms of what they want as asset, it just changes the game. And we just pick on those and then go on adding them as our standard features for our assets. And that's what we continue to build. So, if you see, primarily, MNCs are 77%, top 10 tenants are 36%, and the fortune 500 is almost 30%. That's really what the key is to what we want to do and continue to focus on in terms of occupancy.

This is the initiative that, of course, is a constant play for us within our organization. It is more a culture than just trying to get a rating. We believe, and we were the first ones who did the first green building in 2006 for commercial assets, which were gated communities. Mr. Ravi Raheja chaired that committee in 2006 to set it up, because we realized that that was the only way to go. And today, everything we build is either LEED Gold or LEED Platinum certified.

We further moved on to far greater certifications than that from an air quality management point of view. For example, we measure the AQI of common areas to show what is the air quality inside lobbies, inside office spaces, etc,.

If it is to do with water recycling, in the last two and a half years, we upgraded our parks where the water treatment plants were of an earlier version of technology. We realized that this will be the need in the future. We spent serious amount of capex upgrading all those STPs to bring them up to the latest standards. And today, the quality of water and the ability to recycle between 80% and 90% of that water has been achieved because we are able to have that technology in place.

What happens globally is, sewage treatment plants can be further upgraded to even make them drinking water compliant. We are one and two layers away from doing that, we want to do it in our parks now with those new technologies. We want to be ahead of the curve, which is why we built in those technologies. Now, one may argue it's expensive, but we said, no, it's needed. For the next 10 years, we don't have to worry about it. So which is the reason why those things really matter. If you look at this, this is just a culmination. If we go back to ESG, for us, we ventured on that journey from a sustainability point of view between five and 10 years ago. We have to speak about what we were doing right, and this is what we have got this year. We are now in the development benchmark - 94/100 by GRESB rating. And our target is to crack this in the next 1.5 years, the team on your left Mr. Rajan, who's just joined us for asset management. Their primary target is to make sure we are amongst the top two, three across of Asia, not because we want the rating, but because we believe that's the culture of the organization to take forward.

It's not just about sustainability. It's about social responsibility. It's about the environment. It's about governance. It's about inclusiveness. It's not something that is only looked at as a rating, but it's something that you eat, breathe, sleep, and promote. So that's our target. Otherwise, all of these, and there will be many more like these which will come. But our target is really to make sure we are ahead of the curve.

That's the asset overview, when you're looking at Mumbai as a map, for us, we started off with a Mindspace in Malad. That time, we had 5 million people in the western suburbs. And that's where the human capital was. But as we built, we realized that average salaries had moved up to INR 60,000 and INR 70,000 at that point in time. And the talent was becoming expensive. We decided to move to the eastern quadrant at that point in time, because we realized that the residential catchment was growing in this cluster, and the island had got expensive. If you had to compete globally, Mumbai had to give affordable housing. The infrastructure here was already built because it was completely controlled by MIDC. So, you didn't have to worry about roads, rail network, electricity, water supply, optic fiber etc. All of that was already there. And there is a huge push for further infrastructure. This area was ahead of its curve compared to any other part of the city. And we realized that it was a matter of time that the density of housing is going to move on this side.

We took a punt on this location from a long-term point of view. Similar to when Malad was made, people questioned our stance on Airoli. Today, Thane Belapur Road has more tech footprint than Hinjewadi has. I don't think anyone of you may know it, but if you start calculating and stacking up, you have more tech footprint here than it is in Hinjewadi. And you have 9 million people on the eastern quadrant. It's equal to the populations of Pune, for example.

But we think of it very differently because we are so overshadowed by the island, we don't think about the mainland. And to us, the island and the mainland are going to get completely integrated with the trans-harbor link network, the metro networks, the airport. The epicenter is moving. We just lost two years in COVID, so all of that got disrupted. But now the footprint is getting more clearer, where you have to integrate the mainland with the island. And fortunately for us, we don't have to build massive ring roads, because it's just sitting next to each other. All we have to do is build bridges across the creek, and which is what the successive governments have focused on to do, because they've realized that the residential catchment is here.

If you just look at this as the metro network, you will realize this is no longer Navi Mumbai and Mumbai. It's MMR. And this is where your cluster of development is really going to merge. And you will not see it differently. Today, from BKC, we take 45 minutes to Airoli or 45 minutes to Andheri East. But when I tell you, Andheri East to say, yeah, it's not big deal. If I tell you Airoli, you feel you're leaving the city and going home. So that's really where the perception needs to move. We have already seen it. But it's like when I was speaking to most of you in the room, you had come here for the first time. But this has been part of Mumbai for 50 years. That's how it is. But I'm glad now at least you may have a different perception of this micro market. So what we're trying to explain is, Infra just changes the game. And Mumbai is way ahead of everyone in Infra. And which is why you're going to get this integrating so fast.

The biggest endorsement for this area is the demand for data centers. Data centers are not like fly-by-night operators who come and take a five-year office and move on. They are putting infrastructure which is 10 times more in terms of capex than what you're going to build and provide to them. They have to be 200% sure about the location they choose, the infra around it, the long-term stability of their occupancy, client base, and the future disruptions that might occur in technology when they're choosing a location. And Navi Mumbai as a region has been chosen to be taking away lion's share of data center demand for the country.

And that says a lot about a particular location because you cannot risk that. You can't move. It's not like an office that you may wind up and go to another building somewhere else. You can't move a data center. So you have to be 200% sure why you're picking the micro market, why you're in this location, what are the reasons for it. And that's really triggered a massive demand for data centers. That should tell you something about the stability and the long-term vision about this footprint.

This is all the infra that's already coming. Most of it is already built and the rest of it is getting built in this region. They are ahead in terms of the infra they have built, and they are integrating. So the entire metro network for Navi Mumbai is almost ready. Mumbai is still building now. But we are not aware of it. Once it starts commissioning and gets integrated, you will realize the difference.

This is this asset, which is 50 acres, 5.2 million square feet. We have a committed occupancy of 68%. We have close to about 1.6-odd million in the SEZ which we are waiting to unlock. Post the DESH policy or equivalent flexibilities are allowed to get occupiers within the SEZ who are not doing dollar billing or who have domestic operations we will be able to unlock more supply and lease. We have seen leasing traction in non SEZ assets, which is why we're really excited about DESH coming through so that we can unlock more of these assets and offer them to the demand.

You are right now in Gigaplex Building 9. This building was previously conceived as SEZ. We de-notified this block and we were able to lease it quickly. Now we are trying to de-notify building 5 while DESH policy is in pipeline, so that we have plan B in place for leasing if DESH takes a couple of months more.

We also have kept certain portion aside for future development. This was an option to offer to the sponsor to buy out that land for residential, we actually canceled that option and took it back. We got the first client for data center on that portion of land. The first block we just built, and we are delivering it soon. And then we'll start the second block. It gives us the potential to either build more commercial future space or build more data center space in this block. So that is future development potential for this park. Once we unlock the SEZ, then we will decide what we want to build faster so that we can prepone the demand and take care of the demand dynamics.

Let’s move on to Mindspace Airoli East. This was built earlier than this park. This is, again, 50 acres. That's fully SEZ. We are waiting for the DESH policy or the de-notification policy to come through. Whatever is the vacancy, we'll be able to then lease. This is a very pretty park. Once you go there, you will see how different it is and how lovely a work environment it is compared to anything else you're seeing in the city or anywhere else.

This is just a snapshot of how we have changed with the times. I don't want to spend too much time trying to explain to you on a picture because you're going to get the opportunity to see it. But all I want you to remember is really look at the left-hand side of the image. This you will not see now because the buildings have already got upgraded, the park has already got upgraded. So this was when we started leasing at INR 25 and INR 26 a square foot. Today, we are able to get between INR 58 and INR 60 a square foot in this park. And once the unlocking happens, I think this will still further grow because the assets are phenomenal. You should go and see them.

Here we had another portion of land in the front which we decided to build high-street retail which is right now under construction. This will be a game changer for Airoli as a destination and our park because this will allow for outsiders to be able to come and entertain. People will experience food and retail. Because it was the front portion of land which we had not built, now we are monetizing that to build retail. And this is planned for fine dining, recreational dining, entertainment. So, this is really going to change the game and it will further boost the park's visibility and offer far greater amenities to the occupiers inside.

This is Pune as a market. I don't know how many of you have actually seen Pune and seen how tech has grown there. In 15 years or 18 years ago, Pune had no real tech except for Hinjewadi. Today, Pune does 6 million square feet a year (in terms of leasing), which is pretty much split between West Pune and East Pune. East Pune would do about 3.5 million. And they've continued to do this even through-COVID. We've seen Pune as the most stable demand compared to most of the other markets in the last two to three years.

So, in this footprint, we have three parks in the eastern quarter. The first one was built 15 years ago, which is now due for upgrade. And we are starting works to change it. Just the way you're seeing this park, you will see that park change. The other one was a park in Kharadi, which we started in 2018. We were fortunate to get a BFSI tenant to sign a built to suit which just triggered the park. Today most of the completed space here is let. We expect the building that is getting completed will also get let before it's finished. And, we really want to bring up the 1 million sf that is under construction quickly because we have no supply. And if you see that park, you'll realize what I'm saying.

So, now you are looking at the Yerawada Park. It's very well-built. We are preempting the upgrade, even though it doesn't really need it. But we want to bring it up to speed with what we built in the other parks.

We hope that all of you would have, at some point in time, get a chance to go see it. Because feeling and seeing assets will make a big difference to understanding what office parks are going to look like and why tenants choose park A versus park B and why you are far more stickier with what you build. It's really important to understand because the intrinsic value in a REIT is the embedded value of the real estate. And if you understand that, that you know where the REIT is headed and how it's going to be able to deliver.

This is a forest we have built on top of five layers of parking. So if you're standing here, you won't feel you're on a parking floor. And these trees have grown taller. And most employees want to sit here and work. They don't want to sit on their desk. And this is just a game changer from the way new talent is coming in. We have Barclays, Allstate, British Petroleum, Mindtree etc. The top companies have come and taken space there. There are a few other clients that are signing. So, it's just phenomenal the way this park has gone.

This was the mall which I discussed with you, which we converted to office. It's now fully let. We have a 30,000 square foot left on that 650,000-700,000-odd square foot in the new block.

Preeti: Hi, everyone. This is a quick snapshot of how our financial performance has been since this time. NOI, which is one of the key indicators for us as a REIT, has been consistently going up. During the COVID time, we received almost 99% of our rentals. Of course, we did see some exits, but last two years, I would say, in terms of the gross leasing also, have been the finest years for us. And we are hoping that as things start getting better, it should only improve from here.

Because as you would know, we still have some vacancies in the park. And as Vinod had mentioned, we're waiting for DESH bill to come in. Once that comes, we'll be able to unlock a lot of the vacancies which we have in the portfolio.

We were about 95% in terms of occupancies pre-COVID. We'd seen occupancies coming down, but again, we are now starting to see occupancies getting back. And we hope to, in the next couple of quarters, to get back to normal. Our distributions, we've consistently distributed around INR 4.5 per unit every quarter. And we hope to continue with this. And as I said, once our NOI starts getting better, we should see better on this front as well.

This has been largely our shareholding pattern. 63% of the units are held by the sponsors. Among our key investors, we have ADIA, who came in when

Blackstone exited the portfolio. They (Blackstone) were in the portfolio even before we went for IPO. ADIA is one of our largest shareholders now. We have Capital Group, which holds another large chunk. And then we have the Singapore Government which holds another large amount.

On the retail investors, we've seen a significant increase in the unit holders especially after SEBI allowed the trading lot to reduce to one. So, after that we're almost adding almost 8,000-to-10,000-unit holders every quarter. So today we are at about 43,000 in terms of our unit holders, largely driven by more retail participation.

Quickly on the ESG front, Vinod has already dwelled on the subject. And as Vinod rightly said, we were one of the pioneers. Mr. Ravi Raheja was a founding member of the India Green Building Council. Most of our buildings in the portfolio are green and whatever has not been green, we are working to make those green. Especially in the last 1 year, 1.5 years, we have embarked on a lot of green initiatives. We have always been doing, but now the focus is on making sure that every aspect of ESG is embedded in everything we do, right from your governance to the way employee and our community and stakeholders are handled and obviously in the way we do business which constitutes a working group, whose responsibility is to ensure that various aspects of ESG are taken care of, what we should be doing at all our parks, or even our stakeholder engagement.

So that's broadly on the governance structure. What has our ESG journey been so far? We came out with our first sustainability report early this year, that was just the start. We have much more to deliver on that front. As I said, almost all our buildings in the portfolio are green now, barring a few which also should be converted. We have a five-star rating on the development side and four on the standing investment side from GRESB. We've already committed to EV100 and RE100, RE100 is a renewable energy commitment, and EV100 is your electric vehicle commitment. We are one of the first real estate entities to commit to EV100 and RE100.

We already have green loan in the portfolio and we intend to work on green bonds. . And, green energy is something which, again, which is of a great focus for us. We want to see at various parks of ours how much of our energy can be moved to green. We have already committed certain targets already on this front. And we keep working every quarter as we go by to see how much more can we convert to green.

Our overall ESG strategy, the roadmap, the targets, long-term targets, short-term targets, all of it is now in place so that we can work in a more structured manner on the ESG front. What more do we want to do, at least in the near future? Dow Jones is something that's, again, a sustainability index which we want to work on. We're already working on a Net Zero roadmap. We'll see in the next few years; we get to a Net Zero situation. Green bonds are something which we are working on as we talk. Green leasing is also something which we've discussed with our leasing team also. And we'll be working with them to make sure that some of our leases we can move towards green leasing as well.

On the governance side, of course, we have an elite board. I think among the REITs, we are the only one which has almost two-thirds independent board. While SEBI requires us to have 50% independent, we have a two-thirds independent board. Our chairperson is also independent. And I think almost everything which is required in terms of ensuring that all the unit holders have enough comfort on the governance side is already in place, right now things like the anti-corruption policies, to the code of conduct. Even on the related party front, SEBI itself has a very robust regulation in place. Where in all related parties go to audit committee on any kind of related party transaction that goes to the unit holders, the sponsors don't vote.

For example, when we are taking any ROFO asset, then it's the minority shareholders who will be voting for those assets. So, on the governance front, we try to ensure that we are ahead of everybody to give that kind of comfort to all the stakeholders.

Vinod: What is important is to make sure you build the right sustainability asset. It's not about the rating alone. So for example, in all of these buildings now that we are building, we moved from air-cooled chillers to water-cooled chillers about seven, eight years ago. Now we are doing a certain amount of level of water cool chiller standards, which will bring down your energy consumption footprint. So take for example if you're in a 15-year-old building, you're technically in an air-cooled chiller environment. Your average electricity bill is 35 to 40 rupees a square foot for the air conditioning. By moving to the latest technology, chillers which are highly rated from a platinum point of view, your energy bill drops down to between 9 and 12 rupees a square foot.

So you can contribute that much reduction in the carbon footprint. We are doing ESG because we believe in the future, you have to be conscious in terms of the carbon footprint. Because these chillers will last you between 12 and 15 years. So you have to invest heavily. Those cost you far greater than putting an air-cooled chiller. They're like 50%, 60% more expensive.

But you want to do it because you want to make sure it is sustainable in the true sense. Similarly for water conservation and recycling. Similarly for all the other things.

You're now looking at a Durgam Cheruvu Lake. I don't know how many of you are aware of what is Durgam Cheruvu. It was a bad sewage pond in the middle of Madhapur. We've cumulatively spent about 15 odd crores to upgrade this and today it's like the Joggers Park of Madhapur. We've created the walkway all around the lake, cleaned up the water, created aerators, done the whole facility management, put all the infrastructure. Today, everyone there blesses us because every morning now they have a space to go walk. And we did that because we wanted to upgrade the community.

Then during COVID, the government was struggling with hospitals. They asked us to build this hospital in 90 days. We built 200-bed hospital with full facilities in 90 days and delivered it to the government. So these are the things we constantly do, because what can you do to upgrade the environment around you is really critical. And what can give benefit back to the people who have actually helped us grow in those micro markets.

Today we are building another school in Hyderabad, which is 20, 30 kilometers away. This is actually up and got inaugurated, I think, a couple of weeks ago. So a lot of these things we are doing constantly, but we are very selective about what we want to do and which market we want to do it, what is going to give the true value back in the future to the community that we did, the most.

And as I mentioned to you from a carbon footprint point of view, when we built our first buildings on an average you would give a connected load, just to give you a little bit of a technical spin, 1.5- KVA per 100 square feet of power infrastructure. Some clients would even ask you, 2 KVA per 100 square feet. Today, we have brought that down to 0.6 KVA per 100 square feet. So we have actually brought it down to one-third of the carbon footprint we built 10 or 12 years ago, because of putting in efficient equipment, designing the buildings efficiently, making sure the heat loads are distributed right, the glass is correct. So today the energy bill has come down to one third of what people used to pay 15 years ago.

Same thing we're doing for our water treatment plants. Now, of course, we have embarked on the EV journey. So we want to make sure we make a significant difference with the EV charging infrastructure within our parks. And as much as we can, we want to go on providing for transport within our park through EV, as well as to be able to make sure that we encourage the last mile in EV, and we don't have any of the fossil fuels burning. So if you see our Hyderabad Park, for example, the metro station is at our footstep fortunately, but because it's a 110-acre park, nobody is really going to walk. Even if it's a half a kilometer, we take a rickshaw. So what we did is to give them that experience, we integrated it right from the platform of the metro station, connecting a foot over bridge which is fully covered with escalators and elevators, taking you to literally every building in our parks.

It's just dramatically reduced the carbon footprint. Many people just walks from the metro station to their building and we didn't put just staircases, we put elevators and escalators. Our objective was to reduce the carbon footprint. We spent almost INR 25-odd crores doing the foot over bridge to connect it to all of our buildings in the park.

So these are the things that, as an initiative, we are wanting to be as sensitive as we can to whatever difference we can make in the long term. And that is a constant effort that we are putting into all of our parks everywhere. It's like during COVID, we realized the need for upgrading the air-handling units, because the fear was that, , the air conditioning systems can recycle the same viruses back into the workspace. So we changed them. We added additional layers of filtration and UV filtration to make sure that we can mitigate that.

No customer came and asked us that. There was no occupancy. But we did it because we said that's the cleanliness level we want for our parks. And today, 90% of our buildings are already upgraded. Right from the first generation building to today, it's got the same infrastructure.. So these are the things we constantly do. And we don't wait for someone to come and tell us to do this. We want to make the change because we believe the change is important.

This is, of course, our other CSR activities which we constantly do. We focus a lot on education and the charity of education, because there's a huge space of and dearth of infrastructure we need to build for this country. So wherever we see meaningful contribution, we want to continue to do it.

Thank you very much for the patient listening. We are happy to take questions, and then we will show you around the sparks.

Analyst: So in terms of the flyover bridge, which you had mentioned that was constructed, so is it easy to get the approvals from the authorities and what is the process for it, taking this initiative?

Vinod: In most markets, we are not finding it difficult to get approvals. In the B2B space, it's easier because it is standard. You're building above the standard that's required. And you're doing it because you're going to own the asset. So we make sure we build the density of that infrastructure higher than what is required from an approval point of view.

Analyst: Just one small question, you just mentioned that you have moved from air-cooled parts to water-cooled parts. So the number that you mentioned, 30 to 40 rupees people are paying versus 9 to 12 now, that is per day or how is it?

Vinod: Per square foot for per month.

Analyst: Per square foot for per month, okay.

Vinod: And that is the electricity bill that's going directly to them. It's not that we are charging them. They started saving to the consumer.

Nilesh: This is Nilesh here from Deutsche Bank. Thanks for inviting us over and such an enlightening presentation. I had a couple of queries. I think one, we've heard about green bonds and a lot of those green things. Green leasing is the term I heard first time here, so maybe something that I'd like to know more about. And secondly, maybe Preeti, for you, how do you see the changing macro environment affecting the cap rates? I mean, is there a cap rate, if I may call it, we've always seen a compression for the last, I mean, foreseeable past. Is there a cap rate expansion that you see coming through because of what's happening?

Preeti: Yes, Nilesh. On the green leasing front, essentially what green leasing contemplates is a commitment from the tenants also to contribute towards your ESG efforts. So obviously, every lot of tenants being MNCs would be doing a lot on the ESG front, but green leasing actually requires to incorporate what exactly is going to be done on the environment side into your lease document itself. So that there is a contracted commitment to work towards those ESG initiatives. So that's essentially what green leasing would entail. You will contract with the tenant on various parameters which you'll work together with the tenants on the ESG. So that's essentially what green leasing is.

On the cap rate compression, yes of course you're right that over the last couple of years we have really seen contraction of cap rates. I think there are two things which really work on capital rates. One of course is your interest rate that goes without saying. I think the second thing which we have observed over so many years is the demand supply situation also has a serious bearing. So while interest rates irrespective of where they are, I think the quality of assets, the demand supply in every micro market also has played a big role. What we have also seen is there is huge amount of interest from lot of the private equity investors for completed assets.

Core assets is something which they are being extremely comfortable with and major chunk of the FDI which has come into the portfolio has been on the completed side than the development side. So all the larger private equity investors are building portfolios of completed assets and the acquisitions that they have done also are completed assets. So what's happening today is if you see we have already exhausted most of the larger parks. We are really not left with huge completed commercial real estate to buy. Now what is available will be maybe smaller parks or standalone buildings whether CBD or otherwise.

I think while you are right the interest rates should lead to expansion of cap rates but given that you have very little available on the completed side to buy that again keeps the pressure on the cap rates. Because you just don't have large portfolios to acquire I mean whatever left over also is now institutionally held. So therefore, that will be one reason why you continuously see pressure on the cap rates.

Vinod: I'll just add to what she's saying. Bottom line again comes back to intrinsic value of the asset.. So if it's Grade A asset, which is occupied by a Grade A tenant, it's a factor of that which yield you're willing to pay because you're at the end of the day investing in the intrinsic value of the asset.
And like she mentioned, Grade A assets are just not available. Most of them are institutionalized already. The rest of them are strata titles, which you do not want to touch even if the guy gives you 9%. So that's where really the play is. So you have to see it on the micro level, on the asset, and on the occupancy, and the longevity of that asset.

Analyst: Couple of questions. One is on Airoli West. Essentially, if DESH bill comes into play in whichever form and shape you get, what you're looking for, what sort of tenants do you see them on from? Because the typical SEZ tenants are obviously not looking to come in here. So that's one.

Vinod: Technically the tenants remain the same. Micro markets determine the quality of human capital available. So Mumbai as a region has always been seeing a huge demand for fintech and BFSIs. Now having said that, also there has been a technology footprint for tech services. So in our SEZ, a lot of the tech guys came in. The advantage of SEZ has gone away purely because there is no clarity on the continuity. So the same tenant is coming into the non-SEZ space, because for him, it's about continuity of business. If suddenly the SEZ bill gets extended by another 10 years for discussion sake, and DESH comes in some shape or form, the guy will again take the SEZ space. To him, it's about the ecosystem, access to human capital, and the type of work he's doing.

So for example, if you take this building, and who are the tenants here? There is TaskUS, there is HDFC Bank, there is ShareKhan, there is Dow Chemicals. So you see the spectrum and they are all doing tech service for their primary businesses globally. And that's what's really driving demand. So you have a mix of domestic tech, these are not call centers, these are tech services.

You'll see a few of these offices and get a sense for what is being occupied and what kind of talent is coming. So all of those tenants will keep coming in. The bottom line is you have access to 9 million people. And because the cost of living is affordable, most of the tech footprint is migratory.
So if you have cost of living, social infrastructure, and a great brand to work with, the kids today want to migrate. They don't really care. They carry their backpack and they move. And that's where talent comes if the infra around it is there. So today, unfortunately, when you look at Mumbai, you see INR 350 rent and INR 2 lakh rupees to rent a two bedroom. That's no longer the criteria at all.

You can get similar rents and cheaper in a 5-kilometer radius from here than you get in Bangalore. That's what the clients have realized. That's why now they're coming to these places, because they think the talent is there. There's affordable housing. Social infrastructure is there. And if I'm putting the right brand, I'm getting the talent. In fact, in places like this, the attrition is far lower than in bigger cities where the demand for people is greater than supply. So it works the reverse.

Analyst: Second question, so while you're driving down this path, once you cross Airoli East, some of the paths that you drive through before you take a left, that seems a little constructed. Maybe eventually, if it gets paved out, that access we thought could be…

Vinod: Which access are you using?

Analyst: When you drive from Thane-Belapur road, you cross Airoli East and then you drive further down, so that road seems a little small for you can drive in further down towards Thane, and then taking the left towards, is that something you look at or?

Vinod: Yes, I'm glad you asked that question. After 1.5 hours, if you still have a doubt on the location, then let me spend another 10 minutes. There are five flyovers getting built in this location. So once the one flyover is coming from Thane, once that is complete, you might probably be here in 20 minutes, which takes you 45 minutes. But the rail infrastructure is one station from Thane to Airoli. They are adding another station called Dighe, which is next to our park here. So we will be the biggest benefactor once that station comes through, because you'll have a foot-over bridge to the park. Having said that, there's another bridge which is coming all the way from Palawa connecting to the Airoli connector to Vikhroli-Mulund.

Once that bridge is almost done, human capital can then have a INR 5,000 rent accommodation and reach in 10 minutes to my park. And the housing is available, infinite, and the talent is there. So to us, that infra is gold. There is a road, which is built parallel to this main Thane-Belapur road, which also goes to Thane. So if you may not have realized, all the truck traffic has actually moved to that road. And that's creating the bypass. Then there's a metro connectivity, in addition to this rail network, which is coming all the way from Thane going up to Juinagar, which they are now starting work on the south-central road.

So the infra that's coming here is just changing the game. Actually, if you came here 10 years ago, this was a 60-foot road. Today, it's a 150-foot road with flyovers on every junction. This infra is not even on the western Express highway. Now if I just flip this question to you and I say, if you're in central of Bangalore and you want to go to Whitefield, it will take you 1.5 hours. Here it takes you from BKC CBD in 45 minutes. There's a big difference in infrastructure. This city is way ahead. It's just that we've not learned to market it correctly. It's just perception. Unfortunately, it takes time. But infra, we are way ahead of the curve.

Analyst: We are looking at only completed projects. or which is pre-leased or which is already 100%, 80%, 90% leased, or are we open to acquiring assets which have a majority land with future development potential?

Vinod: We have no challenge in taking a risk on leasing, but we don't want to take a risk on quality of assets. And we are more than happy to buy Brownfield assets, because we believe we a significant advantage in buying that. Most institutionalized purchasers don't want to take a risk on unlet properties. We can take that if we believe the asset is right and the micro market is right. We are looking at all kinds of assets. If we were to only look at the universe of completed assets, we won't get an opportunity. And probably because of the yield compression and this, that, and the other, we may not get a yield accretive asset to buy.

Fortunately for us on the sponsor side, there's huge amount of pipeline of assets that fit the bill for us in terms of what we as a REIT look at for assets and in every micro market there was significant footprint of under construction. There are assets in the pipeline which are right up there for us to take and those will continue to fuel our footprint in the region.

On the other side, we are open to any asset in micro markets where we believe we make a significant difference. So if you ask me to buy a 2 lakhs square foot building in one corner in Bangalore, I may not buy it even if it's very good. Unless I believe the asset has a long-term value. But we want to be significant players in each of these micro markets. So if we see long term value, we want to be there. We have the gunpowder to be able to buy. Because our debt is still between 16% and 17%. So we're constantly looking, but we're not getting the right value where it's value-accretive for our investors. But we are very aggressively looking for assets.

Preeti: The only thing which we have to obviously bear in mind is the 80-20 because REIT doesn't allow us to go beyond 20% on the development side. But today we have enough of headroom on that front also. We're just about 7% on the development side. So we have enough of headroom out there, but obviously, we won't be able to take too much of development into the portfolio. Keeping that 80-20 in mind, we will be open to whether Brownfield or core assets.

Vinod: Thank you. I hope the session was useful. If you don't mind now let's move to the site visit followed by Airoli East. Thank you.