"Mindspace Business Parks REIT's Analyst Day – Day 1"

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

Vinod Rohira: Thank you very much firstly for accepting the invitation and coming and meeting us here. Its good to meet you all across the table. I hope that, for you all it's the most fruitful one and half days that we spend together to show you our assets in Thane Belapur Micro Market and Pune.

Before I jump into the asset, the team on the right needs to be congratulated. They did a phenomenal job with leasing in the last financial year. But to do 4.5 million square feet is no easy task in the shadow of the pandemic. Since the team is here, I would like to congratulate them for the hard work they have done and I am sure they will continue to do so for our assets.

We started off the REIT with c.28 million square feet. Today we stand at 31.8 million because we have seen opportunities for certain redevelopments which increase density and also as the FSI went up in some of our parks. Today our potential has moved up to 31.8 million square feet and that will still go up. What is critical is that because the rents in our market have risen and the rents are firming up, we are seeing mark-to-market opportunities going up even further. When we started the financial year, we were at an in-place rent of c. INR 55.9 per square feet on an average on our portfolio, today we stand at c.INR 61.7 per square feet in the portfolio 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 same store committed occupancy as 84.2%, 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, which people thought was a laggard because of existing vacancy levels. Today this has become an opportunity for us to release 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 we are seeing demand ramp up. As you can see on the slide, the new area that is getting built has already got preleased. So, this is just a snapshot of how these assets have really panned out.

What you're seeing on your screen is Mindspace Malad the way it was back in the year 2000. If you told someone that we want to go and build office parks in Malad, the client used to question our wisdom and say nobody goes to Malad even to see housing let alone office. And I remember taking people from South Bombay, and when you cross Worli, they thought they are leaving the city. Today, I don’t have to sell Malad as a location to anyone and you have the best names globally sitting in that asset. We were cheaper than Bangalore at that point in time and the best financial services companies became our tenants, and that's really helped fuel the growth for Pune for the next decade. When Mumbai stopped providing office supply as everyone was interested to build only residential, the clients moved to Pune for expansion.

In the year 2000, we realized the potential of the city was growing from the island to the suburbs. There were 6 million people in this quadrant at that point in time, and the talent for Mumbai was there in the Western suburbs and we took the call of developing our assets in Malad. Over the last 10–15-year period, we realized that this entire eastern quadrant was energizing itself in terms of affordability and we realized that the residential densities of Western suburbs would not be able to support if the city had to grow. We realized that it was the eastern suburbs and the mainland was actually creating the residential catchments which is going to make us and the city grow. Hence, we looked at Airoli East way back in 2007. And today you have 9 million people living in this quadrant which is larger than Pune or any other city for that matter. When we completed the first building in that park, we had Capgemini and Accenture come to us. Accenture was based in Vikhroli back then and they signed 50,000 square feet which they have ramped up to 1.5-2 msf across our 2 parks in Airoli. So that's how these clients have grown in this micro-market. Just to give you a snapshot of this micro-market, if I tell you Hinjewadi, you won't flinch because you will feel Hinjewadi is an established IT catchment and it is the Pune's flag bearer for IT. Let me tell you - Hinjewadi cumulatively is 15 million square feet while Thane-Belapur Road alone is 21 million square feet and you combine that with Thane, it is 30 million square feet. You have 300,000 techies working on this one street which is double what Hinjewadi has. But when I say Hinjewadi, nobody flinches. In my view, Thane Belapur Road actually should be recoined as IT corridor from Mumbai and that's what really it represents. When you say 22 odd million people for Mumbai, you have 9 million people that are sitting on the mainland, and now with the infrastructure that the city is putting together, I think it will be 10-15 years ahead of any other city in the country, maybe even more with the 175 kilometers of metro network and the road networks. We are fortunate that we don't have to build 150-kilometer ring roads to integrate a city. The island and mainland are just a Creek away and all we have to do is a couple of kilometres of bridges and you integrated the mainland with the island. Mumbai city as an island is 440 odd square kilometers. And out of that, the National Park is about 120 odd square kilometers. Now, integrating the mainland with the island cumulatively, your entire population is actually growing in this belt, and with the trans-harbour bridge, the new airport and all the other metro connectivity infrastructure that they'll share on the screen, we see the entire epicenter moving in the next five years. Travelling from Navi Mumbai to Pune you save between 60 and 90 minutes of time compared to island city. You can imagine if Pune and Navi Mumbai get connected within one and half to two-hour distance. Navi Mumbai will be the hub airport. And then suddenly you will see this entire area grow, which is the reason we took that position.

It's been a 10-year journey for us in this market. Unfortunately, because of COVID, we got that two-year hiccup, but we are clearly seeing what we had envisaged- as the island starts becoming expensive, most of the residential demand is moving here. All the work for support services is going to move as talent resides here and in the last two years, we've actually seen that happen here between the two parks. Between the 2 parks we have c. 7,800,000 square feet of SEZ and all of that was occupied by SEZ clients. Now we are waiting for the SEZ law to change and allow for two primary modifications to the legislation. One is that they allow for unit-wise denotification which then allows half a floor in a building or one floor in a building to be non-SEZ. The second thing occupiers want to do is to allow rupee billing, so you can be in the SEZ and do rupee trade which was earlier not allowed. By doing that you can do domestic business and international business in the same building and park. Just with these two changes, suddenly the dynamics will change. In the meanwhile, you could identify assets that are easily available to denotify as an entire building, so this building B9 we are in currently is an example of that. It was initially planned for million square feet in the SEZ. We de-notified this building and you see how this has got lapped up. We have applied for a denotification of a building that is c. 400,000 square feet, opposite B9 in the SEZ portion. We have applied for denotification because it's an independent block. Once that gets de-notified, we will be able to just lease it off. In any case, as Plan B, we are hoping that the legislation will come sooner than September, and then we'll have a far better opportunity to lease spaces like these for the larger audience of tech which is waiting to occupy them.

On the slide, you can see pictures of what we had got at Madhapur. You can see there were only boulders and rocks, today when you go to Madhapur you will not recognize this picture because it has one of the best CBD-level quality commercial real estate. On those few streets, 77 million square feet has got built-in Hyderabad in 15 years. The first client for us back then was Bank of America who took the building from us here at ₹21, a square foot. Today we have built 11 million square feet there and we are seeing more potential to build more in that park, including a million square feet worth of vacancy that we started with at the beginning of the year. We are very happy because that supply is going to give us massive amounts of push on mark-to-market rentals and we are already seeing the demand come back. In addition, we're already exploring the redevelopment of assets where we want to convert those assets into modern buildings by increasing density. So the first opportunity is the 1.3 million square foot asset from a c. 361,000 square foot odd asset which we are demolishing to rebuild. We've also upgraded the navigation at Madhapur. What you're seeing on the slide is the elevated walkway corridor with cafes and lounges. It's become the talk of the town.

Now you will see Pune on the slide. That was the land in 2016 when we signed up. We were fortunate to get Barclays, who believed in the vision. They wanted 1,000,000 square feet global centre to be built for their captive use. We'll go and see that asset tomorrow. I'm hoping all of you will be there to be able to experience the asset. We had the head of real estate of one of the most valuable companies in the world who came to the park a few months ago. And he sent me a personal email note saying that this is the best park he has seen in Asia.

This was the Citibank building in BKC which we acquired and completely renovated it. You won't recognize it now for those who may have seen it before.

These are some of the under-construction assets. This is the building where you're standing in. And we are seeing significant traction of demand. It's already 60% leased out. We are very confident of leasing the rest of the building.

That's the data center building that is behind us on that side. That's the first block. And that's another building in Pune. Because we have nearly zero supply in the Kharadi park we are preparing to bring this supply quickly. Here it was earlier planned at c.0.6 msf and we got extra FSI and now it's over a million square feet that's under construction. We want to finish this building as fast as we can because we are seeing very strong demand for the park.

This is just a snapshot of 8.1 odd million square feet of gross leasing. The big takeaway for us has been that the clients have moved their attention towards occupying grade A assets with Grade A asset managers. Looking at the change in demand dynamics we are sure our grade A spaces will get lapped up quickly, while for grade B/ grade C, you will not find customers quickly and your overall overhang of vacancy is going to continue to be visible in every market and you will have to analyze that very differently. If you get down on the ground, you will find that assets like the one we are in currently are just not there. Asset management levels that you see here are just not there. Clients today are not worried about rent, they want asset management, and they want all the other aspects that are relevant. For financial performance I want Preeti to lead.

Preeti Chheda: We've discussed all the financial numbers in depth over the calls, but despite COVID overhang, we've done a good job in terms of achieving our financial numbers. There have been challenges in the last two years because of COVID, but we have collected 99% of our rents. For us, the last two years have been the best years in terms of leasing.

Now just one point to make here - when we were on the roadshows for the IPO the one question which kept coming all the time was on yield. I don't think many believed in terms of the growth in the portfolio. I hope that in the two years we have been able to demonstrate growth also and hopefully in the years to come we continue to do so. One of the good things which we've achieved during the COVID pandemic was in terms of reducing our debt cost - when we started off in March 20, we were at almost 9.2% and We managed to get it down to c.6.6%. Now the cycle is reversing, but we will try to see how we optimize our costs going forward also.

Vinod Rohira: While we were doing all of these upgrades, we were under the pressure of vacancies and tenants not coming back and every investor called asking whether work from home is going to change the fabric of office. We didn't distract ourselves from making sure that we use this as an opportunity to upgrade our assets. We did 3-4 things during the downtime. Primarily ,we put ourselves in the higher gear for sustainability and we said whether it is my oldest asset or it's my brand new asset, all of those should be right at par in terms of sustainability. When a client comes back, he is confident that this is an asset that is right on top, so whether it was sewage treatment plant technologies, whether it was recycling, whether it was garbage disposal systems, whether it was energy efficiency, whether it is ratings for wellness, whether it's air quality inside your office spaces or common spaces. All the buildings right from the first generation to fourth generation are going to start looking the same in terms of the backbone of technology, support infrastructure and environmental initiatives.

We got the British Safety Council's 9 ‘Swords of Honour’ awards across 7 assets which is a testament to the efforts we have put in. Having committed to the EV100 and the RE100 initiatives, what we are doing now is predominantly all the power that we consume to supply air conditioning, the elevators, the common lighting, etc. are moving towards green, so we will be completely renewable energy in a few years. For the buildings we are constructing going forward, we are tying up with the utility providers to provide 100% renewable energy. So most of our parks going forward will be able to provide you with 100% renewable energy. That is the promise we made to ourselves and we're moving in that direction really quickly.

Devashish why don’t you come here and give a brief on the demand profile a bit?

Devashish Gupta: Morning everybody. As Vinod has said, Navi Mumbai as a strategy was always SEZ for us. However, post the direct tax benefit really going away, several companies were not very keen on the SEZ space. But there is enough demand for non-SEZ space and post the clarification in the legislation, I'm sure that there are enough and more takers from the island to come to this side of the city. We've seen some real good names with traction coming and accepting Navi Mumbai as a location given their need for good quality spaces. As we said almost half a million square foot would be available in this micro-market, but if we see it minutely- they want integrated large parks and you won't see many in this region, except certain captive offices. On the slide, this region predominantly along the entire Thane Belapur Road, has very few large format campuses. You've got Capgemini, that's the second-largest center in the world with 45,000 people working there across three and a half million square feet.

What you are seeing on the screen, that's the path in the east where we'll be driving through after this and you'll see a lot of upgrade activities that we've undertaken. The DNA of that park was altogether different. Earlier it was more of individual buildings with boundary walls created. Every client wanted to have its own secured space, but I think over the past couple of years the entire concept has changed. We've opened up the entire park, we have done the walkway and stairways. You'll really see the elements that we've added there, and these are being appreciated by most of the clients. Our willingness to change lobbies, and our willingness to get them up to what the new spaces are offering is what makes a difference. I think that's a real game-changer, which has been appreciated by every client. We are adding recreational and high street retail outside the park at Airoli E, so this will become a real buzz when open because it can cater to everyone from outside who's coming in and also to the occupants of our park. This sixty thousand square feet of retail space will just change the game.

At Airoli E, initially, we had built those retail communities on the inside, but they were not very feasible because they were not open to the public due to SEZ restrictions. We really changed the mindset later on to de-notify the space to get outsiders also to use it. Today we have redone the entire facade of the building while the clients have been operational and that's the elements that you see on the slide. That was the entry of the path from the previous gate. We really changed the entire experience there and existing clients are also willing to pay you that upside while they are renewing the space. These are all the collaborative spaces that we've created there, we've opened up the entire Green Zone. We made these spaces more friendly for people to really come and start using them rather than the conventional green spaces we used to create. These are more biophilic concepts of the green spaces being used by people and the last mile occupants. That's the building where we are sitting, and if you look at the entire DNA of this building also, the entire double-height entrance provides a different experience altogether. Normally in IT buildings, you would have seen a single layer of lift lobbies. Over here, the entire experience right from the entrance where a client enters, he just feels that he is in a premium high-end building. These smaller elements really matter in the decision-making process for the clients. I now open the floor for questions

Biplab Debbarma: Two questions- First is what would be the physical occupancy in Airoli East and West? Second question - What would be the approximate size of high street retail that you are planning?

Vinod Rohira: 30-35% is the approximate physical occupancy and the retail area is about 60,000 square feet.

Adhidev Chattopadhyay: When you were referring to 30-35% sort of footfalls, so does it mean that at least 70 to 80% of the overall employees are coming in based on hybrid work models? How should we read the numbers? Eventually maybe by September-October or later, during the year, where do you see the numbers are trending towards like?

Vinod Rohira: You may have probably 30% Monday, Wednesday, Friday, but some overlap, so cumulatively 60% of your employees are touching the office. I think before the end of the year, if we don't have another COVID-19 hiccup, you will see 60-70% back on the desk.

Adhidev Chattopadhyay: So that effectively would be something similar to pre-COVID, where I guess always there would be some floating?

Vinod Rohira: Yes you're right, it used to be between 80 and 90% pre-COVID.

Adhidev Chattopadhyay: The second question, the rentals are still low compared to what similar IT hubs are. Let's say in Bangalore and other places where you have a Sarjapur at almost Rs.100 plus, you are still at just north of 60 which I think is the average for Airoli micro-market. So do you see a gradual escalation in the rent or do you see a rerating of the market rentals in this place considering the infrastructure developments which are coming up over the next few years?

Vinod Rohira: We believe in the asset and think that there is room for rents to grow. We are very happy to get the right tenancy and the minute you get the right tenants you will see rents firming up. We don't have supply and this building (building 9) is a classic example. The clients that have taken space here are already asking for the next phase of growth. We have told them to take the neighboring building.

Mohit Agarwal: My first question is on the Airoli asset. I am just trying to understand the market. You said that there's 5,000,000 square feet of supply. I guess basically it's 22-25 million square feet and there's about 25% vacancy is that? Is that what you mean by 5,000,000? Are these SEZ or Non-SEZ?

Vinod Rohira: No. What is happening is take for example between our parks we have about 2 million. There's one park in Ghansoli, which is about 1.5 million. There's one in Juinagar side which is 1,000,000 and rest vacancy spread in a few buildings which is around about a half a million to a million. Most of it is SEZ.

Mohit Agarwal: Also, the under-construction inventory. If you look at Cushman numbers, about 3-4 million square feet is under construction. I guess 1,000,000 square feet is what we are doing the B9 building. What are the others like? Is it also the new supply?

Vinod Rohira: What has happened is this market has seen large data center demand. Yeah, so everything that was on the drawing board, speculative has moved towards data center. And it's just that demand which has gone on fire. If I had this park open today, I would probably have leased it fully to data centers. So that's where the demand has shifted for the speculative space that was going to get built. We see that as an opportunity because we can cater to both. Part of it being data center and the rest of it for the tech footprint. If we look at the infra development that is happening things are at another level. Just between Thane and here there's a flyover that is getting built. Today it's a 40-minute ride or a 15-minute train ride. Airoli to Thane is just one station away. But with that flyover you will save 25 minutes. So in 20 minutes you will be in Thane. They are putting a flyover between Mulund and Airoli. That flyover is under construction right now and it is in addition to the existing flyover. There's a flyover coming from Palava all the way and cutting across to connect to the existing Mulund-Airoli flyover. So the residential catchment can reach this workplace in 20 minutes. And we have the railway line network already functional from Thane to Vashi and the Metrorail network for Navi Mumbai is already up and in addition you're integrating the mainland with the island through trans harbour link. We were able to get most of the Vikhroli footprint to come to Airoli that too with no infra back then. Now with the infra that's coming up, we can perform even better. Soon, you will be able to sit across the Eastern highway and this Thane-Belapur road will become one more highway of Mumbai. Otherwise, when you look at Western Express Highway and Eastern express highway, you don't look at Thane Belapur Rd in the same breath. The way we see it is that these are the three highways of Mumbai.

Mohit Agarwal: My next question is on the overall demand. A couple of quarters back on one of the con calls you had said that while the large RFP's are back in the market and I guess which is reflected in our under-construction releasing as well, the smaller 50,000 to 1,00,000 square feet RFPs are yet to come. Any status on that you know on have these smaller RFPs come back?

Vinod Rohira: See the RFP's that get spoken about are really the 1-2 million square feet which are primarily between Bangalore and Hyderabad. Those RFP's are present in the marketplace for past six months, thereafter you will see the 50,000 and the 100,000 which we are already starting to see in those micro markets. They are now slowly moving towards the 200,000 and the 300,000. That's the exciting piece. Now we are getting inquiries for 200,000 and 300,000 at one go, which is a big endorsement of their intent to return. Clients who have taken space are already asking more space for growth, and they're asking us when will rest of the buildings get de-notified. What is also happening is earlier you were cramping them at 50 square feet of person. Now you're putting them in 80-90 square foot per person and on top of it you want collaborative spaces, you want networking spaces and you want the Wellness spaces, which helps real estate demand. These are the trends we had discussed two years ago and it has started to play out.

Kunal Lakhan: You mentioned about increasing the density in Hyderabad. Now, this is very different from our earlier strategy. Three years back our USP was having low-density assets. So, what is the thought process now? And whatever you're planning in terms of densification, what's the total potential increase in the leasable area or however you want to quantify it?

Vinod Rohira: For Hyderabad, there is nothing called density you can build as much as you want. The only cap is really the Civil Aviation height. If Civil Aviation height changes, you might see some guys building 100 storey buildings there, which may not be a right strategy. So having said that, our park is just 2 density. And everything around us is about 7-8 nine times the land area density. So cumulatively on 110 acre Park we have about 25 odd acres worth of open spaces for road networks and recreational spaces. It is an Oasis now purely because of the density that you see all around. Fortunately for us, if you see any of these parks, our internal roads are wider than the main roads in most cities. That has been designed purely because we wanted to make sure densities can be taken care of in the future because we were always going to own and manage them. The main road outside is 60 feet. But we have made all our internal roads 120 feet. Upon that we have made 10 feet for walkways and pathways so we don't have to worry about enhancing infrastructure to take care of the increase in density. All we are looking at is probably moving from a two to three density in Hyderabad which doesn't move the needle at all. And by just doing a few more buildings we will still not even touch three, because the land parcel is 110 acres. So, if I want to increase one FSI, I put another 5-6 million square feet. They are doing eight times the density in the neighborhood. We don't want to do that. Obviously, we want to be really selective in what we build and we want to continue to command the premium. Just a simple thing- we created the skywalk, which connects the metro station to every single building in our park. Imagine that a four-acre land parcel earlier used to be 4,00,000 square feet, now it is 1.2 million square feet which means you have over 12,000 people working in that building.

They get off the metro station which is half a kilometer away to cross the most busiest road. When you're going for that last mile travel, you're going to take a rickshaw just to go to work across the road. Now you get off the metro station without getting off the platform and you're in your building. So, all clients are coming back to us asking do you have space here because you don't want to stress your talent out. Earlier, for the last mile, you had 20 buses standing there to pick them up and drop them half a kilometer. Imagine the carbon footprint saving by creating the skywalk which cost us Rs. 20 crores to do. The MA&UD minister, KT Rama Rao came in and inaugurated and said every park in Hyderabad should aspire to be like this. These are the elements that make the difference when a client is coming, it can just change your decision matrix. The clients who visit our park immediately point out that this is low density, it's got all the infra, it's got all the amenities, it's got all the recreation and it's got the conveniences. That's really where the value addition comes from and we are right there in that sweet spot. That's why the more we can build the better it is for us.

Kunal Lakhan: Will you cap around 3 times density then?

Vinod Rohira: I don't know how the market moves. I'd love to go further as I have density infrastructure that can take even more but I don't see we crossing that anytime soon.

Sai Karthik: My first question is you mentioned about 32-35% current occupancy but I'm keen to understand if your clients in the park have recruited more people than they were pre-covid and by what proportion?

Vinod Rohira: The macro numbers you've seen primarily point to almost a 30% growth of employees cumulatively for the tech sector and you have seen a 30-35% attrition rate. Bangalore has seen 55% attrition rate. Pune has seen about 35% attrition rate. Airoli markets have seen about 20% attrition rates. So cumulatively, you will need more space for sure. They are only waiting to see whether it's six months, 12 months, or 18 months down when you will have 70-80% on the desk. I think that's the only way and the rest of it is a given. Around 16-18 months down you will not see that volume of supply coming for grade A compared to the demand.

Sai Karthik: My second question is, in the interim, is there a 25% demand destruction? Because instead of 90% people visiting the offices earlier vs you getting to 65% now? Would that also reflect in the incremental leasing activity that the clients are doing when they're recruiting for a certain number of people that hybrid is now factored in their leasing practice?

Vinod Rohira: There is no straightforward answer right now. Clients are still exploring their combination of things. Bottom line is that businesses are growing. The signal we are getting from the global offices is that we need you back on the desk. The difference India has is your average age is 27 in the tech space versus 41 anywhere else in the world. You know how our housing works vs a well-managed grade A asset like ours. In this office environment, you have backup power, you've got water supply on your tap, you can get your coffee the way you want it. You move to a residential suburb where you're working from home you don't have backup power, in small housing societies the internet bandwidth is not there, water is not there, housekeeping is not there. Hence, if you're in the city, you would rather come to office than work from home. If you're working from home in Tier 2 and Tier 3, then you're working from home in tier 2 or Tier 3. But please understand you're bringing in millions of kids into the workstream. All you have to say is if you're willing to work in person, that resume is preferred and everyone will start coming back. And the minute you want to get your kids into school, you want a good social neighborhood you have to come back to the big cities. So, it's a 12-18 month wait. The silver lining is that the volume of people being hired because of growth in the tech space is massive that if you shave off 5% or 10% it doesn't make a difference you are still going to have them back asking for space. If you remember earlier pre-COVID, there were 18 months of bench strength of growth embedded in the space, they used to take which the last two years have either filled up or surrendered back. Now they are again back to the net zero positions. Six months of stability and you'll want bench strength for growth. Nobody's even talking about that.

Sai Karthik: And as we move away from the COVID situation and there is noise that we've entered into a global recessionary phase especially for the tech companies. Along with that, the entire private equity funded VC funded spaces also sort of taking the back seat. Is that visible in terms of your discussions already?

Vinod Rohira: Recession should not be viewed in the same light for India. If you remember, during last recession due to cost pressures a number of GCCs and GICs came into India which is when the outsourcing wave started really. Globally, you're not getting the talent at that price level as that in India. Everything's moved to digital or is moving towards digital so where do you go? You will see that demand automatically come into India.

Saurabh Kumar: We heard that India will move back from 80 to 120 square feet per person. Have you actually seen that, or is that talk now pretty much over the big clients?

Vinod Rohira: We've already started to see in Hyderabad. In our ROFO asset the densities are at 150 square feet per person. It has started to happen. The big boys will start giving that signal and then you will start seeing the rest of them come. But 50 and 60 square feet is no longer possible. Even if you go to the coworking guys now, they're saying 40 square feet per person is like a bad word. They are building 80 and 100 square feet per person otherwise the client won't come.

Saurabh Kumar: What's your exposure to this coworking and startups?

Vinod Rohira: 2% currently which might rise to 3-3.5% depending on who the client is.

Amandeep Singh: When you mentioned 35% physical occupancy this is for the entire portfolio or this asset. How is it for this Airoli W park we are in currently?

Pankaj Gupta: It is in line with the portfolio. Hyderabad may be a bit lagging.

Amandeep Singh: When you say raw material cost inflation has been higher for the new developments, so in the focus presentation you gave balance capex guidance of Rs. 23.5 billion. How much of this would also include the raw material inflation which happened over the last two years. Can you quantify the construction cost inflation?

Vinod Rohira: This building B9 in Gigaplex which we are currently in was significantly complete, so we didn't have that challenge there. The building that is now getting built 1 msf in Pune and the 1.3 million redevelopment Hyderabad, both we have provided for where we see the marginal increase in cost. But we've seen the rents from up in those micro-markets, so we are comfortable.

Pritesh Sheth: I wanted to understand what the tenant mix is here in our park, both in Airoli West and Airoli East and once we de-notify, how do you see the change in mix happening? Secondly, since you told that data centers are in huge demand in this is micro-market. How does that contribute to changing the rental mix from where it is right now because of the higher demand are we seeking higher rents from those tenants?

Vinod Rohira: If I can just name a few clients- Accenture, L&T Infotech, Atos. Across all of these guys, they have 1 or 2 buildings with us and all of them in the last two years have renewed for another 5 and 10-year tenure. In fact, Wipro renewed a full building and is asking for more space. These are the profile of tenants occupying the SEZ space and in the non-SEZ space you have fintech and support services demand. Coming back to the second part of your question, which was data center. Data centers primarily cost you about twelve-thirteen hundred rupees a square foot more to build compared to a regular commercial building. Primarily, the data center guy is far more risk-averse than anyone else. He doesn't want to partner with a fly-by-night operator. He wants an asset manager who will deliver on time because his contractual obligations are very high. So for that, they will pay you top dollar if you can build fast and if your land titles are clear. These are 40-year contracts with 20-year lock-ins with 12-15% escalation. Wherever the opportunity is to do data center we are doing.

Mohit Agarwal: Can we have any number of NDCF guidance or NOI or occupancy?

Preeti Chheda: We should see growth from where we ended FY22, both in terms of NOI as well as NDCF. I can't give you a number because that's not been our practice. As I mentioned that all the leasing which we have done in FY22, a lot of that rent has still not started which is going to start over in FY23. So that should definitely add to NOI and therefore NDCF as well. The team on your right who's sitting there is already targeting 90-plus percent occupancy by the end of the year. So that should give you some direction as well. These numbers can be achieved provided things fall in place in the policy side.

Sai Karthik: In terms of your decision-making on some of these ROFO assets - at the time of IPO there was a certain valuation methodology WACC and cap rate that was used at the time when our G-Sec was close to six and a half. How is that mood now over the last two years? Now that we are at a 7.5% terminal rate?

Preeti Chheda: The valuer had in September 2021, taken one reduction in WACC rate because there was a significant reduction in the interest rates. That was the only 25 basis point reduction in WACC that the valuer had factored in and the cap rate has remained the same since our IPO valuation. Despite the cap rates at which you know transactions have been happening in the market the valuers have retained the same cap rate. It's only the WACC that has changed. Now, obviously as we move ahead now, the start of the cycle where you are seeing the interest rate reversing. Today a lot of our portfolio has NCDs which are locked in for good three years. Even on the loans side, where you know some of our loans, the transmission generally takes longer. When the interest rates started falling, the banks took quite some time for us to get the benefit of those reduced interest rates. Also, what happens is most of these loans have reset dates. It is not that the interest rates on loans keep moving every day. Some of them have a yearly reset, some of them have six monthly resets. Even if these rate hikes set in, it will take a little time to get transmitted. It is not going to happen overnight. I'm sure that as we move forward, the valuer at an appropriate time will revise WACC and cap rate to that which they are seeing in the market.

Sai Karthik: We've been very conservative in terms of our balance sheet management on the leverage front. And as we head towards the phase where a lot of the ROFO assets are coming, going to come on board, what will be our balance sheet management policy in terms of debt and equity?

Preeti Chheda: We've said that in the past we'll be comfortable with the debt moving in terms of the gearing somewhere around 25-30%. We have a huge amount of headroom as we are just at 15.7% today. Till we reach 25-30% we will be very comfortable and when we start breaching those levels we will go for the next round of equity raise so we are happy to raise more capital in form of equity as and when the need arises.

Saurabh Kumar: If you actually lever up the IRR which you can generate on such a portfolio can be in the high teens. Do the unitholder still believe in the dividend takeout and not too much on the capital appreciation?

Preeti Chheda: I think REITs are still being looked upon as more of an income play than a growth rate. Truthfully, we would have loved if investors have started looking at total unitholder return, but I really don't think that people have reached to that level where people are starting to discuss with us what is the total unitholder return. I think the discussions even today are more around what is the yield which the instrument is giving. I guess your question is very valid and that's the way even we as the management would like the unitholders to start looking at because there's enough of embedded growth inside the portfolio and also in the ability of the REIT to acquire assets and grow the portfolio. While all investors do appreciate the robust balance sheet and the low leverage that we have and our ability to grow much faster, but today if you ask, I think the concentration is more on the yield than the total return.

Vinod Rohira: The bottom line is the uncertainty was driving you towards yield. Now when the uncertainty is going away, you will be obviously keeping one eye on growth. And total return will start playing out. We will be taking larger debt calls where we see the asset is going to in the long term, give you the return.

"Mindspace Business Parks REIT's Analyst Day – Day 2 "

June 3, 2022

MANAGEMENT: **MR. VINOD ROHIRA – CHIEF EXECUTIVE OFFICER,**
MS. PREETI CHHEDA – CHIEF FINANCIAL OFFICER,
MR. DEVASHISH GUPTA – HEAD COMMERCIAL LEASING (WEST)-SALES & MARKETING,
MR. PANKAJ GUPTA – SVP ASSET MANAGEMENT & FACILITIES MANAGEMENT
MR. GOVARDHAN GEDELA – GENERAL MANAGER-FINANCE AND INVESTOR RELATIONS

Vinod Rohira: I hope you all had a nice, relaxed night. I'm glad that you've come to Pune, because for us, this city is also very important. The government is focusing a lot on infrastructure development because of which we believe that this city will have a greater demand in the coming years. The supply-demand equilibrium has largely been in balance because the density of land development so far has been under control and also because you had most of the city's important areas as cantonments which is similar to Bengaluru. The lung space in the city will never go away because the greenery is there in all the cantonment lands. With the ring road coming in and the Metro Rail network underway as we speak, these are going to help the demand for office space grow.

The town planners have learned what to do right and at what time. Pune is already on that journey which will help Pune go a long way.

Before I just jump into the presentation let me tell you how we got into Pune. As a geography, we entered the city about 17-18 years ago in commercial real estate. In residential real estate, the sponsor group has been here for a while. They have done a lot of residential projects in Pune, going as far as 25 years to 30 years back and we know this city well. The first project we did for commercial real estate was part of Raheja Woods, which was a residential project in Kalyani Nagar. Our master plan was really to build all residential around it. We only built about four wings of the residential space at that point in time. We carved out a portion and we showed that to HSBC and finally got them to sign a build-to-suit in Kalyani Nagar. Even now if you pass through Kalyani Nagar, it is an iconic building 20 years later. After taking up that building, HSBC expanded and actually took three buildings from us in that same zone, and we converted the rest of the project to commercial and that's how we really started in Pune. Then we got a land opportunity at Yerwada. And at that point in time, we had competition from Magarpatta. The best boon that happened for us is because there would be no development around you except for infra. Security will be at its highest level and the abundant greenery would stay as it is because there's a golf course right behind our park. It was just perfect for us to create a gated community campus and we built the first Commerzone business park in Yerwada that's a 2.5 million square foot park and now it has been there for 12 years and we are now in the process of renovating it.

Later we got this opportunity in Kharadi, in the eastern region of Nagar Road where we saw demand would come for commercial real estate. Previously there was a mall being run in Nagar Road. We took it over and renovated the mall in seven months and today we earn rent of over Rs 90 per square feet and it's one of the most prime asset in Pune. It looks like the best office building and most clients want to take it because of the sheer size, volume, lobbies, escalators, parking and elevators. That's the kind of demand we are seeing for this kind of a product and we are leased out.

When we got Kharadi we had a credible competitor present in the micro market. When we came here, we realized that traditionally the way we were building was favouring the decision maker who would come in his/her own car. Hence, the focus was primarily providing infrastructure to cater to this audience. But we changed our thinking while making our new assets about how to design our products. What we used to generally do is while doing a master plan we will draw a line and we will put buildings on the side and we'll take the main road in the middle. We realized that you have 80% of the population that's really coming from public transport, the parking facilities we are building, are only for 10 to 15% of your building users. The parking you generally build is 1 in 850 square feet and the density is 100 square feet per person, so for every eight people there is one car park and rest of them are coming in any case by public transport and we don't give them the experience they want when they come to the workplace and they are our main customers. So, we turned that around and we said vehicles are going to come just once in the day and go away, but the pedestrian traffic is going to be here throughout the 12 hours of the day and they should not need to feel cramped or pushed over or anxious when a car is passing them or a vehicle is coming across or a bike is going full speed while you're crossing. Keeping that in focus, we changed the DNA of this park and today I think this is getting appreciated as amongst the best parks in India. Once you go out and see it you will figure out why are we saying this.

Let’s start the presentation. The eastern quadrant of Pune commercial market is really Nagar Road, Viman Nagar and Kharadi. As the primary marketplace, you will see between 2-3 million square feet getting leased in this micro-market annually. And in the western quadrant you have Baner, Balewadi, Hinjewadi and the markets in the west which will also see another between 2.5-3 million square feet of leasing annually. Pune is a market can do 6 million square feet annually. We are amongst the dominant players here (amongst the top 3) and we like this market. Consumers understand us, we understand the product and we feel very confident in this market today. Every part of the project where we are pouring concrete, we already have an interest from customers. Before we even finish half the building, we prelease. If I could double the volume of this park, I would lease double the volume of this park right now that's how we are seeing the opportunity for ourselves.

On the screen, this is our Commerzone Yerwada project which we built earlier and we are upgrading it. Commerzone Kharadi is about 26 acres with total leasable area of c. 3 million square feet. The in-place rental today is at 72, but what's important to understand here in the park is its DNA. Let me explain to you - there was a gradient on this land and to utilize the gradient we built 5 layers of parking above this lobby. We created a true biophilic landscape of 6 acres sitting on top of the parking. When you go into that landscape, you will not feel you're above five layers of parking and why we did that is because when this project is complete, you will have 35,000 people coming in and out. Each of these buildings on the podium level is a footprint of 1 acre and we deliberately did not create any office in that footprint as we wanted to merge the external landscape with recreation inside. And what this has done is that you have 6 acres of recreation and six acres of continued internal recreation taking the total recreation space to 12 acres. No park can give you this and this is really where the value add is massive. Between these buildings, whether it is auditoriums, play areas, meeting rooms, recreation spaces or food courts, name it what you want, and that amenity is being provided inside the park. When we started, these were the two buildings where we did a build-to-suit for Barclays. They wanted a Global Center for themselves equal to anything they built all over the world. And they were very sticky about specifications and we were very happy because they contributed to the asset. They spend serious amount of Capex in adding value to the asset and that to us was real value add they were bringing. By partnering with them, we were embarking on a journey globally on figuring out the wellness quotient and that is the learning Barclays gave us. There was a matrix on Wellness and happiness quotient at the workplace and they had a Swedish firm who did this research for them. The research said that these are the features we need in the asset. We were to be able to provide that Wellness quotient. Generally, what happens - during workday most of these people will have a 20-minute break. Now in the 20 minutes, if you can drop down their anxiety levels they have something to look forward to at the workplace and it changes the game. Take for example when we build large fancy residential complexes, you think of providing swings, you say we provide hammocks, you say we'll have a nice pond and a water park area. We asked ourselves, why can't we do that in the office building? It's the same individual who is leaving his home and coming to the workplace. Why do we jacket him like a machine when he's in the workspace? Why can't we keep the EQ level alive? So for that, we changed the entire DNA of the recreation space and that's really what is making a massive difference. In this park, you will see ducks and you will see fishes which would be here once the park is fully ready. Currently, you have hammocks, you have swings, you have sleep pods, you can hang on what you like and watch on Netflix movie if you want. In the 20 minutes, you can actually dip your feet in a pond and nobody will disturb you. This is what the techie really wants and it is not part of your office we are providing. As an occupier, you're static because you're just leasing net space and everything else around is coming to you as a package. Now, if we don't think about those people who are working, we would have never designed our park in that fashion and today this has become a start point for us.

As you can see and we'll go up and give you an example. As you can see the water bodies on the screen, now these ponds are deliberately created with six inches of water. You can just take your shoes off and put your feet in the water. These are all Wi-Fi enabled zones. Sit down for 20 minutes, eat your food, have a conversation and go away. All of those things make a huge difference because people are always intimidated when they look at the manicured landscape, they don't go close by because it looks good from the window. We wanted to make it really biophilic that you feel you're in a true forest and not in a manicured space. Your anxiety levels can come down only when you see nature in its true form. A lot of elements have gone here and I'm spending more time with you because a lot of passion has gone into building this asset. This is the master layout. These are the two buildings that got taken by Barclays. We started the third building which is this building we are in currently. We had an insurance company from Chicago. My team and I had gone to meet them in Chicago and their campus there is 380 acres with 5,000 people. They wanted space in one building in Pune to add 5,000 people. To satisfy a client like that is no simple task. He was looking at campuses all over India to say that I want to give the same experience to whatever degree we can. They visited several cities in India and then they shortlisted this asset. The ideas we brought into this asset give us a massive opportunity but also poses a challenge for us. How do we take this now and put it into all our parks? That's really what we are doing now and that's why you are seeing the transformational change. Like Commerzone Yerwada you saw in a picture, few months down the road it will start looking like this park. All of those things are now happening across all our projects in India where we are bringing in these ideas and actually upgrading all of our assets. I now hand the presentation to Preeti to take you through ESG.

Preeti Chheda: Many of you may not have heard us talk about ESG, but we were one of the first ones almost 15 years back, who actually led the LEED initiative in India. Ravi Raheja was the first one from the developer community to be a part of the Green Building initiative in India. We were the first ones to actually have our buildings LEED-certified, hence, sustainability has not been new to us. We have been doing sustainability for the last 15 years now and over years our focus on sustainability has grown manifold. Today, after 15 years we have investors who in every meeting are asking us what are you doing on sustainability?

Most of the buildings that we have built are all Gold certified or Platinum certified. We are just trying to increase the standards as we go along. In the last financial year, we drew up an entire road map on ESG till 2050. There are a lot of targets that will happen over a period. We sat down last year and said we have been doing many things on ESG, now let's do in a more organized manner. We identified 3 pillars that we want to focus on. The first one was resource conservation and efficiency which takes into account - water consumption, energy consumption, renewable energy amongst others. The second pillar focuses on Community relations, the ‘S’ of your ESG. It encompasses all the initiatives which we are doing on the social front. Even within the office, concepts of gender neutrality, encouraging women to take positions in the mid and senior management and our contribution to the upliftment of the communities around us are the areas which we are focusing more on. Then we have responsible business conduct as the third pillar. We don't want to limit ourselves only to the organization, but all the stakeholders around. Be it our vendors, our tenants, our employees, or our surroundings we want to make sure that our ESG programs embed everything which we want to do.

While we have the board which oversees the ESG implementation, every quarter we have another subcommittee that comprises of board members and the management including myself which drives all the ESG programs in the organization. We also have one operational committee, ESG Committee which holds esteemed members from various disciplines. And then we have working groups that are created across disciplines to drive all the initiatives which we have in place.

Vinod Rohira: Take for example water treatment plants. When we built a project like this the norms were not stringent when we got the occupation certificate. You'll be surprised to know leaving aside Mumbai, the regulations have changed significantly. Here in Pune, they first ask you to sign an undertaking that you will not insist on water supply and only then we will give you an Occupancy Certificate (OC). How do you run an enterprise like this with global customers having no water supply? How do you create that ecosystem? Today we can tell you proudly that our STP systems in these buildings are one layer away from drinking water capability. We have reached that level of compliance. The mandatory level of compliance is still way below, and their objective is to recycle water so that you can use it for flushing. We are one layer away from drinking water compatibility. Because we know two years later when the rules change, we can't be changing the infrastructure again. These are platinum-certified buildings that have platinum-rated chillers. For example, in this building, the air conditioning cost of electricity comes down by 30%. Imagine what is this doing to the client. Now in our older buildings before we upgraded, on an average with air-cooled chillers client paid Rs. 30 per square foot on the electricity bill. Now they will pay Rs.14-15 per square foot on electricity bill just because we changed the chiller technology for the building.

We make sure we deliver it in the asset and the benefits start getting demonstrated as the client occupies it and that value add gives you the premium because you want stickiness of the customer. The Client will not find an adequate asset capable of delivering this level of infrastructure.

These are things you must focus on for the long term, and that's why sustainability is ingrained in our system. Today if I tell you I have a Wellness certificate, you will recognize my building. But what does Wellness mean? It means good air quality for the consumer inside. For good air quality, in a post-COVID scenario, you need to have certain layers of filtration in your air conditioning systems. We have upgraded all our assets across our parks where you have those layers of filtration already embedded in your air handling units. These are things we are doing irrespective of a client asking us to do them because we believe in them. And that's really the core to our sustainability agenda.

Preeti Chheda: Let me take you through the things we have done over the last 12 to 18 months. We were the first real estate entity in the country to commit to EV100 and RE100 initiative. EV is basically electrification of your vehicles, so all the vehicles in our parks will be electric vehicles. We're not going to use any form of petrol. The next one was RE100 which is related to renewable energy. We have said that for all our common areas we will achieve 100% renewable energy usage. We were the first entity in the country to commit to those.

As a group, for the last several years we have been spending a lot of money on the education side and on a lot of health initiatives. We already have a college and we also have a trust which runs a hospital. These are initiatives that are not new to the group, it's just that now we are consolidating all efforts such that all of this gets done in a more organized manner and it's reported. ESG framework is something which we've already laid and in the years to come, we will make sure that we progress and achieve many more milestones. The starting point is for us to come up with a comprehensive sustainability report, hopefully, we should be out with it soon, so all the targets that we are taking on sustainability should be available and we will start tracking our performance on each of those. We'll participate in GRESB, which is well recognized. We will also participate in DJSI, that's again another benchmark tracked by investors.

Look at our net Zero road map which is a long journey of achieving a net zero position, but we will have certain targets which we have committed to achieve till 2030 and 2050. We will embark on that journey and keep making progress on that.

We already have solar rooftops on some of our projects and are in the process of installing on others and we are in the process of finishing that in the next few months. On water portability, Vinod already spoke of that. All the waste which is getting generated on our part, 100% of that is processed. We don't really waste any of those things and we have been doing them for a long time. In the last 10 years, whatever we've built is all green gold or platinum-certified. A lot of buildings were earlier built long back in the past but we are making sure that we convert even those buildings to LEED-certified. Hopefully, in the next few years we should have the entire portfolio which should be LEED certified.

Now these are some initiatives that we have taken on the social front. I think one big representation is the work that we've done in Hyderabad to beautify the entire Durgam Cheruvu lake. It is a water body which is just next to our park and we have focused our efforts to make sure that we convert the lake from a dying water body into a vibrant ecosystem that the local populace is proud of. If you guys go to Hyderabad we would love to show you the way we have renovated the surroundings around the lake. It is one of the most sought-after weekend outing destinations. We contributed a lot during COVID and built a hospital for the government. We are partnering with the government to set up a school in Hyderabad. These are some of the initiatives which we have been taking working together with the government of each of the locations where we are present and helping them run these initiatives.

We are working towards ensuring there are no fatalities at any of our sites. We want to make sure that we acquire assets that are ESG compatible assets even if they are not LEED-certified. We want to make sure that when we acquire such assets they should have scope to convert them into LEED certified buildings. With that I open the floor to questions.

Biplab Debbarma: My question is it a necessity to do ESG, as in if you don't do it there might be an impact commercially or is it a compulsion like government has done it or client is saying that we want this? Does it give you an edge over others, or is it just a discussion of voluntary decisions as a part of a responsible organization or as a part of CSR?

Vinod Rohira: It is our primary strategy. It is in the primary core DNA of our organization. If you want to be relevant in space, you have to think 10-15 years forward. As I mentioned to you, we are building platinum today, we are getting Well certification, and we are planning all of those things which will keep us ahead of the competition. Very few customers are appreciating and understand it today. You may not get any economic benefit back today. But the minute the awareness increases, they will ask every single building to give you that. And if that developer can't give you, then the tenant is going to walk away. That is the reason why we keep telling you that the definition of grade A building is changing the minute you are strata sold. Can you get like-minded owners to say- ok let's change the chiller, lets change the DG sets, let's change the STP. Will you be able to achieve what you want because you may say my rent is not going up immediately? Why should I do it? You have a larger area you spend but I'm not going to do it. Then what will you do when the demand walks away - destroy that asset? Now for us it's not only about building the asset, it is about asset management and it is about the relationships we carry with corporates. On the flip side, if I can give him a delightful experience, he'll first choose me as the priority partner for his expansion across geographies. So that to us is critical because if you want to do volume and you want to do significant work, you must be relevant in the space, I don't think we have a choice. I don't think anyone has a choice. You have to be a responsible citizen. You have to ensure that sustainability is on top of your priorities and agenda. Then you decide smartly what layer you want to add or keep it enabled for adding in the future as costs of technologies come down. Take for example- solar, even if we want to fill the rooftop up, we will get about 2% energy saving from that, still we are doing that across our rooftops. What is the game-changer is what we are doing from asset management is making sure 50% of the electricity generated is connected to the building’s common services. Those common services should by default become clean energy. Then taking for example our asset management guys have created an initiative where they converted water from the air and now we are installing that across of our parks. All your drinking water consoles will be air captured, converted to water, and we have successfully demonstrated it and now we are doing it. It is not mandated. Nobody's speaking about it, but we just believe it has to be done. We are doing it across of our parks. It's expensive but we want to do it. Those are the initiatives that have to be done because you believe in them.

Amandeep Singh: When you mention 35% renewable energy by 2025, what this would be as on date?

Pankaj Gupta: I think we are between 10 and 12% currently. Total renewable energy at a portfolio level is 10% and for our portion, it is almost 30%.

Amandeep Singh: For the school building in Hyderabad, are you also witnessing some inquiries or partnerships from your tenants like let's build it together because it would help them fulfill their CSR obligations?

Vinod Rohira: That's not happening as of now and very few customers are in that direction.

Ashish Mendhekar: What is the differential which you are getting on green loans?

Preeti Chheda: Nothing as of today. You're paying the same cost whether you're doing a green loan, or you're doing a normal loan, but I think today that's not the consideration. I think as markets still need to mature, not too many green loan offerings are there. Probably you may get some edge over the normal loans, but today there's no differential. We are doing green loan more as a commitment towards sustainability than for getting a better pricing.

Vinod Rohira: I'm happy you asked that question because you know we are as a citizen, we've always been reactive in our practices. We don't want to be in that situation. We want to apply for green loans not because we want to get a benefit out of it. If the benefit comes in the form of recognition, if it comes in the form of ratings or if it comes in the form of 10 bps down in terms of cost, that's bonus. What's important is that we want to be green compliant because we want to.

Kunal Lakhan: Post pandemic, I think tenants have become more and more focused on ESG compliant or their criteria are kind of increasing, am I right?

Vinod Rohira: Not yet. We are hopeful it should happen because it further differentiates grade A supply like ours versus others.

Kunal Lakhan: You did highlight that the demand for Grade A supply is strong, but Grade A per say is a very murky definition, so according to you how much of the grade A supply is actually compliant? Are you seeing some shift happening from grade facilities that are not a compliant?

Vinod Rohira: I think we are 12 months away from there and it's going to happen where they will be pushed to take sustainability as top criteria. Earlier if an RFP was called out, you would have 14 projects on that RFP because the job of the IPCs is to cover every single building. Today the client is telling them I want credibility, I want the landlord that has asset management experience, I want sustainability as my primary criteria, I want to make sure what is the how flexible is the landlord to customize my asset, even if it's 1,00,000 square feet or its 5,00,000 square feet. We've kept on saying this, to us a tenant is not about leasing, it's about credit risk because he's paying me the rent. You need a tenant that is far stickier and he pushes the envelope for you to build a better asset. Whatever we have built actually encompasses learnings that have come from our large customers. We have done significant work with regards to fire code. The code can pass out the 65%. But our own stringent standards will not pass it because we will think of our toughest customer and design our specifications. We don't go to the code and say lets have 3 staircases for 40-50,000 square foot building as the code allows for it. But we will put 4 staircases in a 45,000 square foot building. You might argue it is not required. One fire anywhere in the world and the norms change. Can I add another stack is in a building, I can't. But if I'm extra compliant, I have overdesigned spec from a health and safety protocol point of view, the client's just not going to go. There are reasons scientifically why we have overdesigned. Those assets in that level because we are going to own them, we know it's a 60 - 70 year asset. It's not for 10 years. It's not a brochure-driven asset, which I'll sell away in five years. These are all strategic assets for us.