

# EMBASSY REIT

REIT Overview

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BUILDING RELATIONSHIPS  
ENRICHING LIVES

MARCH 2019



**EMBASSY** OFFICE PARKS

# What is REIT

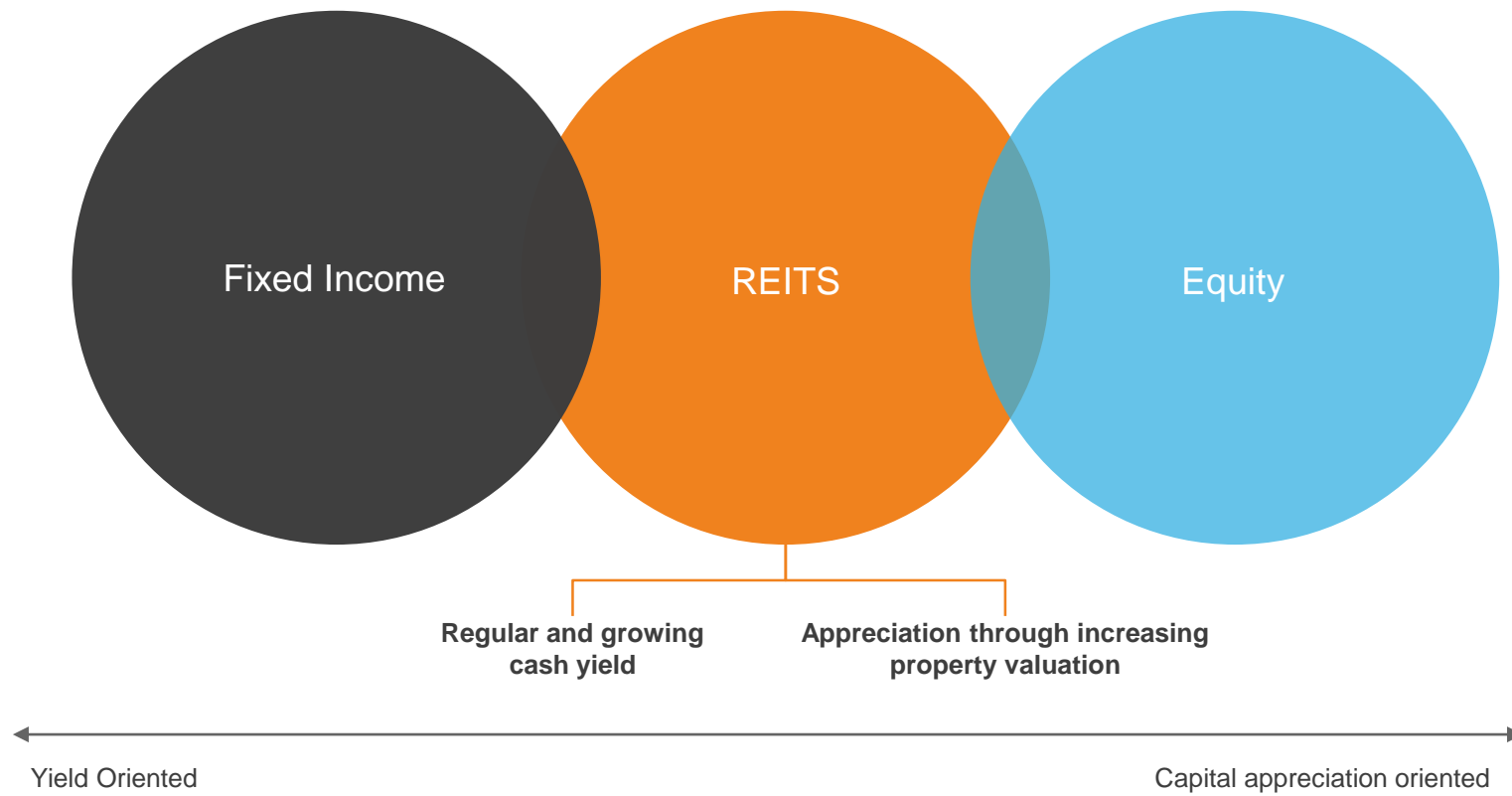
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- ▶ **REIT stands for Real Estate Investment Trust**
- ▶ **A REIT is a tax-efficient vehicle that**
  - enables owners of real estate to pool income generating assets together in a portfolio; and
  - allows investors to buy ownership in real estate assets in the form of equity
- ▶ **REITs globally are a US\$2 trillion asset class; first REIT started in the US in the 1960s**
  - REITs are universally accepted by global institutions and individual investors as product that provides:
    - Liquidity
    - Transparency
    - Diversification
    - Dividends
    - Performance
- ▶ **REITs have to pay out majority of their earnings as distributions to unitholders**
  - Indian regulations require REITs to pay out 90% of distributable cash flows
- ▶ **REITs must have at least 80% of their assets be completed and income-producing**
  - A low level of development (20% or less) means less risk to the cash flows
- ▶ **REITs are typically listed on stock exchanges through an Initial Public Offering (IPO)**
  - Once listed, they serve as permanent capital vehicles to raise debt and equity in the capital markets to acquire new assets to grow

## Diversifying with a REIT creates a more balanced and efficient portfolio

- ▶ REITs provide regular, growing cash yield with steady capital appreciation through increasing property valuation

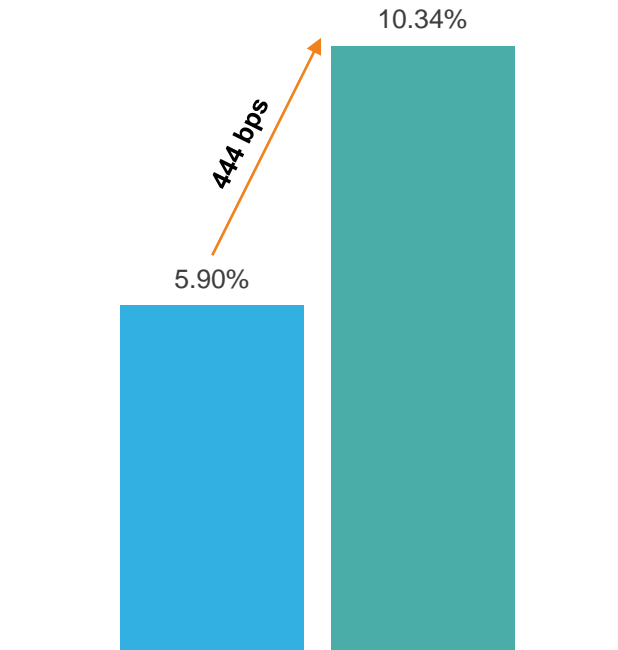
- ▶ Globally, real estate accounts for 60% (c.\$220 tn) of total global assets. Investors prefer commercial assets within the broader real estate asset class



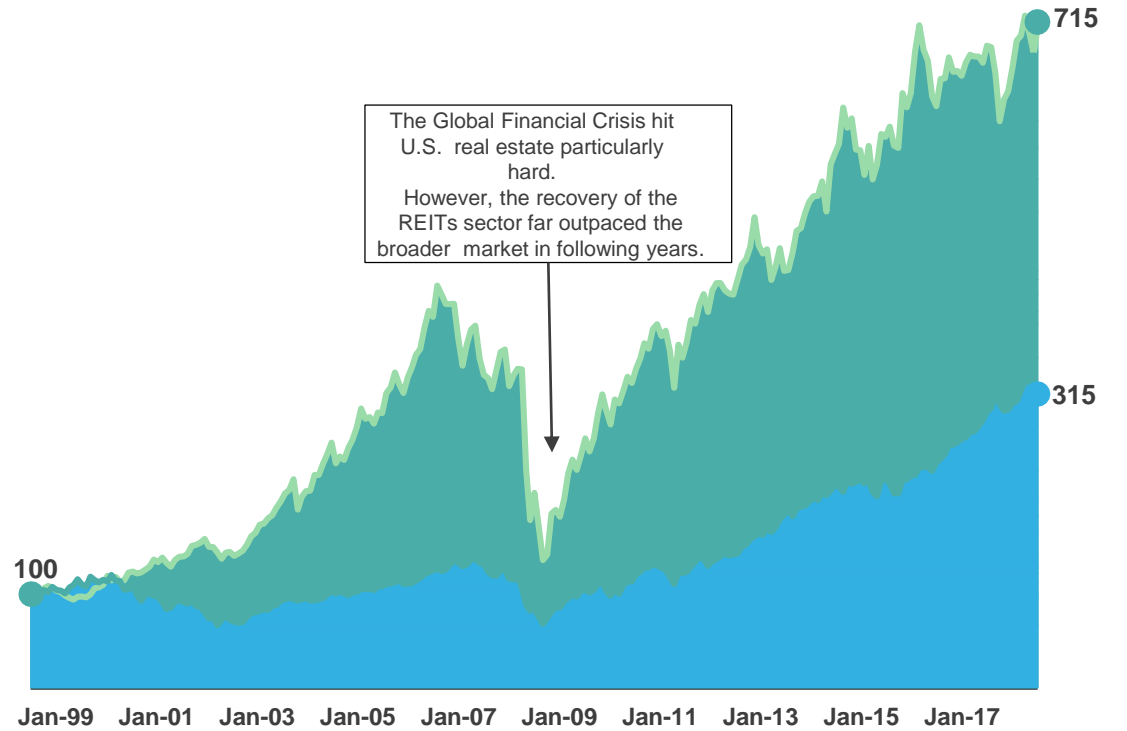
# Historical REIT Performance

▶ Over the past 20 years, the NAREIT All REIT Index has outperformed the S&P 500 by c.444 bps

Annualized Total Return  
(20 Years)



Indexed Total Return  
(20 Years)



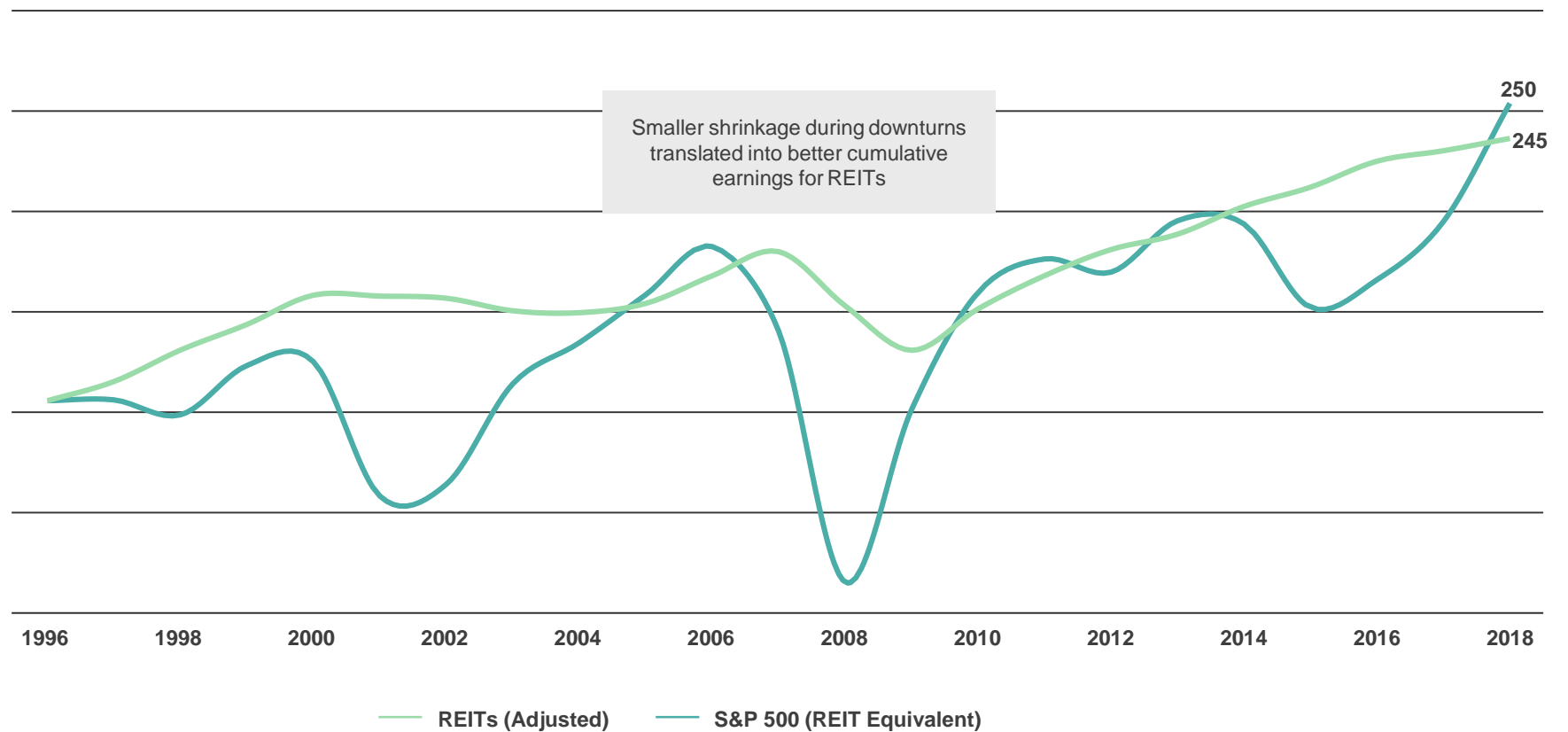
S&P 500 (TR)

NAREIT - All REIT Index

# Earnings Stability of REITs

- ▶ REIT earnings have been less volatile than the broader S&P 500, particularly during economic downturns, resulting in higher cumulative earnings over the last 22 years

**Earnings Growth**  
(indexed to 100)



# Strong Regulatory Framework

## ▶ India REITs have to adhere to a strong regulatory framework aimed at protecting unitholder value

Consideration	Regulatory Framework
Execution Risk	<ul style="list-style-type: none"> <li>▶ At least 80% of total value must be comprised of leased, income generating properties</li> <li>▶ Restrictions on speculative land acquisition</li> </ul>
Leverage	<ul style="list-style-type: none"> <li>▶ Majority unitholder approval required if debt<sup>(1)</sup> exceeds 25% of asset value</li> <li>▶ Debt cannot exceed 49% of asset value</li> </ul>
Strong Corporate Governance	<ul style="list-style-type: none"> <li>▶ 50% independent directors on the Board, with 50% representation on all committees</li> <li>▶ REIT Manager can be removed with 60% approval of unrelated unitholders</li> <li>▶ Alignment with unitholder interests due to a distribution linked management fees structure</li> </ul>
Free Cash Utilization	<ul style="list-style-type: none"> <li>▶ Minimum 90% of distributable cash flows to be distributed semi-annually</li> </ul>
Related Party Transactions	<ul style="list-style-type: none"> <li>▶ Sponsors are prohibited from voting on their related party transactions</li> <li>▶ Majority unitholder approval required for acquisition or disposal of asset which exceeds 10% of REIT value</li> <li>▶ Acquisition or sale price of new asset cannot deviate from average valuation of two independent valuers by +/- 10%</li> <li>▶ Fairness opinion from independent valuer required if related party leases exceed 20% of the total REIT area</li> </ul>

(1)Debt includes consolidated borrowings and deferred payments of the REIT, Hold Co and SPVs.

## Benefits of a REIT vs Direct Investments

- ▶ REITs provide an attractive opportunity to invest in commercial real estate through large, diversified, well managed, liquid, tax efficient platforms

	Investments in India REITs	Direct Investment
Investment Characteristics	<ul style="list-style-type: none"> <li>▶ Minimum investment of Rs 2 lakhs with no cap</li> <li>▶ Freely transferable securities listed on stock exchange</li> <li>▶ No entry/exit load or cost on purchase/sale of units</li> </ul>	<ul style="list-style-type: none"> <li>▶ Rs 25-200 Crores for strata interest</li> <li>▶ Illiquid and non-transparent secondary market</li> <li>▶ Brokerage costs, selling expenses, legal fees, stamp duty</li> </ul>
Diversified Portfolio with High Quality Tenants	<ul style="list-style-type: none"> <li>▶ Grade A assets in prime locations across various cities</li> <li>▶ Multiple tenants across sectors with high credit worthiness</li> </ul>	<ul style="list-style-type: none"> <li>▶ Usually strata interests in standalone buildings</li> <li>▶ Usually exposed to single tenant risk</li> </ul>
Return Profile	<ul style="list-style-type: none"> <li>▶ Returns driven equally by regular cash distributions and capital appreciation</li> </ul>	<ul style="list-style-type: none"> <li>▶ Returns driven by a timely and profitable exit</li> </ul>
Tax Efficiency	<ul style="list-style-type: none"> <li>▶ Dividends are DDT exempt</li> <li>▶ 10%-15% capital gains tax on sale of listed units</li> </ul>	<ul style="list-style-type: none"> <li>▶ Subject to 20% DDT on distributions</li> <li>▶ 20%-30% capital gains tax at exit</li> </ul>
Perpetual Growth Platform	<ul style="list-style-type: none"> <li>▶ Professionally managed by an experienced team with the ability to drive rental growth</li> <li>▶ Ability to grow portfolio by acquiring assets without additional investment by the same investor</li> </ul>	<ul style="list-style-type: none"> <li>▶ Private investor to negotiate lease terms with tenants</li> <li>▶ Limited liquidity to acquire additional assets</li> </ul>

# THANK YOU

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