India REITs
Heralding a new era in real estate investments
April 2019
Preface

This year, India witnessed the launch and successful listing of its first Real Estate Investment Trust (REIT) by Blackstone and Embassy. This key event marked the opening of a fresh investment avenue and unfolded a bright new chapter for the country’s real estate sector. The euphoria over the launch has settled down now and both global and domestic investors are closely assessing its performance. REITs give retail investors an opportunity to invest in commercial properties which was until now only a dream. To add to it, the Securities and Exchange Board of India reduced the minimum allotment value from the initial INR 2,00,000 to INR 50,000 only giving further push to retail investors to invest in this new investment vehicle.

REITs originated in 1960 in USA and were adopted in 35 countries thereafter. It has become an alternate investment instrument with global value exceeding USD 1.7 tn in 2018. This growth has been driven by returns higher than equity markets over the long term. Since this is a new product in India, we have analysed and shared factors that influenced its evolution across the globe through this report. This helps us estimate the potential of REIT worthy assets, understand return expectations and forecast trends for India.

We believe that the entry of REITs in India is a step towards institutionalisation of real estate assets in the country. Some of its dynamics like mandatory valuations, regular updates, research coverage and disclosures relating to assets managed by REITs could lead the market to transparency. We expect this to help the Indian market mature and become more professional in times to come.

Ramesh Nair
CEO & Country Head, India
JLL
India REITs - Heralding a new era in Real Estate investments

- USD $1.7 tn Global REIT asset value
- 101 mn sq. ft. of upcoming office space REIT opportunity from 2019-21
- Embassy Office Parks REIT- Asia’s largest in area terms
- USD 35* bn of potential REIT value
- 294* mn sq. ft. of potential REITable office space

*Indicates REITable asset from stock as on 2018 and includes Embassy Office Parks REIT
Real Estate Investment Trust (REIT) - A Global Perspective

As India has witnessed the first successful REIT listing, a study of the global REITs scenario would help to put in perspective expected growth in the current product as well as further scope for listing REIT worthy assets in India.

REITs originated in 1960 in USA to provide access to all investors, especially small investors, to income-producing real estate. The growth of REITs has been driven by returns higher than equity markets over the long term. It has gradually grown to become an alternate investment vehicle with global value exceeding USD 1.7 tn. In order to gather a global perspective, we have analysed the international REITs market in terms of adoption timelines, country-wise share and its evolution as witnessed in USA and Singapore. We have specifically chosen USA and Singapore for our analysis, because USA pioneered the concept and Singapore is similar to India in terms of investment climate and financial tax reforms.

Significant growth in adoption of REIT regulations post 1990s

Though USA was the first to introduce REITs to the world, adoption of REITs picked up around 1990-2000, when countries with major office space markets like Japan, Singapore and Canada adopted regulations to usher in REITs.

- The gradual growth in investments by banks and financial institutions due to low interest and high liquidity led to many countries adopting the REIT regulations to institutionalize real estate sector investments between 1990-2000 period.
- One of the common factors observed across most countries adopting REIT has been slow change in regulations.
- This slow change in taxation norms and other REIT norms has led to delay in listing of REITs in some countries. For instance, the first REIT in Singapore was launched in 2002 despite the regulations being in force from 1999.

Moreover, though 35 countries has adopted REITs, only a few has seen real activity and growth in this area.

Countries with more evolved real estate investment markets account for major share of REITs

Countries with large and developed real estate markets have attracted both domestic and international capital, which is a key factor for the growth of REITs. Development of REITs has also been witnessed in deep and liquid equity and debt markets, as well as markets with a mature and reasonably open corporate environment.

Developed Markets See Higher Share Of REITs

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of REITs</th>
<th>Sector Market Cap (USD bn)</th>
<th>% of Global REIT Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>200</td>
<td>1094</td>
<td>64.84%</td>
</tr>
<tr>
<td>Japan</td>
<td>61</td>
<td>114</td>
<td>7.24%</td>
</tr>
<tr>
<td>Australia</td>
<td>50</td>
<td>90</td>
<td>5.76%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>52</td>
<td>78</td>
<td>5.56%</td>
</tr>
<tr>
<td>Canada</td>
<td>47</td>
<td>54</td>
<td>2.92%</td>
</tr>
<tr>
<td>France</td>
<td>29</td>
<td>61</td>
<td>2.02%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9</td>
<td>32</td>
<td>1.87%</td>
</tr>
<tr>
<td>Singapore</td>
<td>35</td>
<td>54</td>
<td>1.81%</td>
</tr>
<tr>
<td>Germany</td>
<td>6</td>
<td>4</td>
<td>0.26%</td>
</tr>
</tbody>
</table>

Note: Sector Market Cap has been converted from Euro to $ USD at the rate of 1 EUR = 1.1648 USD
Source: European Public Real Estate Association REIT survey 2018

- Large institutional investor classes like pension and insurance funds, private equity funds and corporate and private investors have led to progressive growth of REITs across asset classes and types. They have also helped in making the market deeper.
- Progressive regulations and tax reforms have influenced the progress of REITs across countries.
- Though REITs was introduced in 2000 in Japan (much later than in some other countries like Singapore and Canada), the aggressive role played by banks and corporations led to faster growth of REITs here.
- United Kingdom despite its late start of REITs (in 2007) garnered a larger share of the sector’s market capitalization, compared with some others like Hong Kong and Singapore, due to it being an international finance hub drawing large institutional investments in real estate.

The growth of REITs in the USA, where it originated and in Singapore which adopted it much later in 2002, exhibits one similarity- gradual growth. The reasons for slow growth are different and a deeper analysis provides insights into various factors that influenced the evolution of REITs in these countries.

Source: National Association of Real Estate Investment Trusts
Gradual growth in REITs markets globally

USA, which pioneered the concept of REITs, has been analysed to understand how the REITs market evolved over the years. USA REIT had its share of vicissitudes based on broad factors affecting the economy as well as factors specific to real estate. The study of REITs market in Singapore is relevant to India due to similarities in financial market and regulation. The study of these markets throws up some interesting conclusions:

**Slow initial response due to newness of product and stringent regulations in United States**

![Graph showing the growth of REITs market in USD bn from 1971 to 2018](image)

Note: Market capitalisation in USD bn
Source: National Association of Real Estate Investment Trusts

REIT as an investment vehicle, took a long time to gain the acceptance of retail investors during the initial years (from 1960-1986). Stringent regulations led to a slow start. Later, mortgage REITs were floated by many banks to lend to the booming construction market and generate fee income. However, the crude oil crisis of 1971 led to high inflation levels thereby impacting overall returns on this instrument as well.

The tax reforms laws of 1986 allowed REITs to both own and operate properties, giving more control to management and greater influence on earnings. This led to strong growth in REITs market during 1986-1990. Post the 1990s excessive office space stock and investments led to decline in commercial real estate values affecting the returns of REITs. New forms of REIT structures like umbrella partnership helped revive growth in the later period.

2000-2008 saw high growth in real estate driven by low interest rates and easy availability of debt capital. This was in fact, a precursor to the real estate bubble that led to the global financial crisis in 2008. REITs values declined substantially during this crisis.

The period 2008-18 saw gradual recovery with REIT players raising equity capital to reduce their debt exposure. Recovery in commercial real estate and diversification strategy, helped deliver better returns from REITs in the coming years.
REIT guidelines were released by the Monetary Authority of Singapore in May 1999, but the first REIT to be listed in Singapore did not take off. The first REIT was launched by CapitaLand - SingMall Property Trust. Its public offering took place in November 2001 and it was scrapped when the issue was only 80% subscribed.

In 2002, CapitaLand relaunched the REIT which was lapped up by the investors due to relaxed tax regulations. This ushered in the start of the REIT market in Singapore.

From 2005, waiver of stamp duty for properties acquired by REITs over a period of five years starting 2005, gave a major boost to the REIT market with the number of REITs doubling by 2006.

Singapore also enacted full tax exemption for individual Singapore-listed Real Estate Investment Trusts (S-REIT) investors irrespective of their nationality. This was over and above the capital gains tax exemption on disposal of shares in S-REITs and led to strong growth of REITs market.

Lack of familiarity with new asset class resulted in slow growth during the initial years from 2002-2005.

The impact of Global financial crisis in 2008 resulted in a sharp fall followed by recovery in 2009. Since 2010, S-REITs markets expanded due to increased focus on securitisation and inclusion of overseas assets.

Today, there are around 35 REITs listed in Singapore covering various property types like commercial, residential, hospitality, hospitals, industrial, and retails. Many of these are also cross-border REITs and own properties outside of Singapore.

The analysis of global trends in REITs market would be incomplete without the study of returns provided by this real estate vehicle. The following study delves into the long-term returns generated by REITs as compared to equity markets.
The long-term prospects of any new investment avenue depend on the returns offered compared to existing options. The concept of returns comparison also raises questions of the accompanying risk, investor profile, and inherent tax implications. Returns from REITs are made up of regular rental incomes (similar to an annuity) as well as capital appreciation of the underlying real estate assets. Rental incomes provide certain and stable returns, while capital appreciation (through sale of assets or from appreciation of under construction properties) provides equity-like returns. We have analyzed below long-term returns of broader market and compared them with returns on REITs.

**REIT Index performance (annualized total returns)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Australia</th>
<th>Singapore</th>
<th>Japan</th>
<th>United Kingdom</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>11.7</td>
<td>13.0</td>
<td>7.9</td>
<td>-5.7</td>
<td>7.4</td>
</tr>
<tr>
<td>5</td>
<td>7.1</td>
<td>6.2</td>
<td>3.9</td>
<td>2.9</td>
<td>9.0</td>
</tr>
<tr>
<td>10</td>
<td>5.7</td>
<td>11.0</td>
<td>8.7</td>
<td>0.9</td>
<td>7.4</td>
</tr>
</tbody>
</table>

*Note: Data as of September 28, 2018. Source: S&P Dow Jones Indices LLC.*
Singapore-REIT has outperformed the overall equity markets index

Key trends that defined REITs growth globally

1. Real estate sector saw a period of strong growth due to high liquidity and low interest in developed nations
2. Adoption of REITs picked up during 1990-2000 period with gradual growth in investments by banks and financial institutions
3. Growth of REITs in a few countries has been driven by the depth of investment climate; presence of institutional players has provided depth and maturity to the markets
4. Adoption of REIT has been gradual due to lack of clarity on the new instrument and missing records on returns. However, policy push, product innovations and overall economic momentum have helped growth.
5. REITs globally have been able to deliver high risk adjusted returns as it strives to deliver the best of equity and debt market returns
6. REITs have been less susceptible to volatile equity markets have delivered steady returns over long periods
Discovering the new investment world of REITs in India

India witnessed the successful launch of its first REIT- Embassy Office Parks in March 2019 and this has signalled the coming of age of Indian real estate. This first REIT was launched nearly five years after the regulations were notified in 2014. Two factors- progressive regulations and robust investor interest have contributed to the success of this REIT. This coupled with lessons from global experience, enable us to predict the future outlook for REITs in India.

Market friendly regulations have created a favourable REIT environment

Regulations in India have been market friendly and this has enabled the offtake of REITs.

Comparison of REIT regulations

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Japan</th>
<th>Australia</th>
<th>Singapore</th>
<th>Hong Kong</th>
<th>Malaysia</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gearing limit</td>
<td>Unrestricted</td>
<td>Unrestricted</td>
<td>45%</td>
<td>45%</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Ability to undertake development?</td>
<td>☒</td>
<td>☒</td>
<td>Yes, but only within stapled vehicle</td>
<td>Up to 10% of AUM</td>
<td>Up to 10% of AUM</td>
<td>☒</td>
</tr>
<tr>
<td>Restriction on foreign assets?</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>Shareholding restrictions</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>Tax for individual unitholders</td>
<td>20.30%</td>
<td>Income tax</td>
<td>0%</td>
<td>0%</td>
<td>Income tax</td>
<td>Income tax</td>
</tr>
<tr>
<td>Tax for corporate unitholders</td>
<td>35%</td>
<td>30%</td>
<td>17%</td>
<td>0%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>Withholding tax for foreign investors</td>
<td>15.30%</td>
<td>49%</td>
<td>10%</td>
<td>☒</td>
<td>24%</td>
<td>5%</td>
</tr>
<tr>
<td>Management</td>
<td>External</td>
<td>Internal</td>
<td>External</td>
<td>External</td>
<td>External</td>
<td>External</td>
</tr>
</tbody>
</table>

Source: Regulatory websites

- REIT regulations proposed in 2014 have been progressively reformed to make REITs feasible and ensure safeguarding investor interest
- Besides tax reforms, the listing of REITs and the holding period of REIT units has also been modified to attract retail investors
- REITs operators who have prudently managed their debt are in a better position to expand and increase unitholder returns in the future. Indian regulations have been progressive by allowing REITs to raise debt up to 49% of the value of REIT assets compared with some other countries like Singapore and Hong Kong

Continuous institutional flow of funds to provide initial momentum to REITs

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,291</td>
<td>4,255</td>
<td>4,107</td>
<td>5,424</td>
<td>5,665</td>
</tr>
</tbody>
</table>

Source: JLL Research
India has attracted USD 21.7 bn of institutional investments in Indian real estate during 2014-18 period. This has been more than twice the investments (USD 9.4 bn) in previous five years.

Returns expectation in India

The launch of REITs in India has opened the most important question of returns. Returns expectation in an economy is guided by the risk free rate at the lower end of the returns spectrum and equity returns at the higher end. We have analysed the long-term returns from equity, mutual funds and risk free bonds to understand the returns scenario in India.

Risk premium of 650 bps reflects higher return expectation from emerging markets
• Equity markets returns based on the movement of the SENSEX over the last ten years have given a compounded annual returns of 13.9%.

• Returns from equity markets have fluctuated over the decade indicating the volatile nature of investments.

• 10-year bond yield has generated a CAGR return of 7.3% in line with the repo rates set by the Reserve Bank of India (RBI).

• Retail investments in mutual funds has increased over the years and influenced return expectations:
  - Multi-cap funds have generated CAGR in the range of 15-17% over 5-10 year horizon.
  - Equity linked savings scheme with large retail participation has given CAGR returns of 16-17% over 5-10 year horizon setting the benchmark for expectations.

The comparison of the various existing investment options indicate that REITs returns have to compete with other investment options to attract retail investors. However, insurance and pension funds that look at asset classes with long term returns perspective would actively consider REITs due to their ability to provide stable returns over longer horizon.
The Case For Higher Returns

High risk free rate governs return expectations in India

In India, the repo rates have been higher due to underlying inflation rates and the risk premium for investments in the India. This has led to higher yields from risk free instruments compared to other developed markets globally. The higher risk is also reflected in higher capital appreciation from stocks. And this is one of the reasons why return expectations from REITs in India is higher compared to other developed markets where the risk free rate is much lower.

Apart from the inflation linked return expectations, REITs returns from rental income are expected to see an upward trend, due to robust demand-supply scenario in office space markets. The flow of investments in office spaces is expected to drive capital values upwards, providing capital appreciation to REIT valuations. The combined impact is expected to drive higher returns from REITs in India.

India office rentals and capital values trends

India’s office market with 541 mn sq. ft. Grade - A stock has seen average annual demand of 30 mn sq. ft. over last 4 years. In 2018, the office absorption has exceeded 33 mn sq. ft., with an expectation that the absorption will be even stronger during 2019 with a forecast number of about 38 mn sq. ft.

This strong demand for office space is attributed to the growing interest from domestic as well as multinational companies. India offers good quality Grade A office space at competitive rentals when compared to several matured markets of APAC, EMEA or USA. Bengaluru, Mumbai and Delhi NCR are the top Indian cities which will lead the office market in terms of overall activity - new supply and leasing, while the cities such as Hyderabad and Pune are also attracting large number of IT occupiers in recent years. These cities are likely to drive the office growth to a large extent owing to their competitive rents, better infrastructure and good quality assets.

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**Rising trend in office rentals due to robust demand with limited quality supply**

<table>
<thead>
<tr>
<th>Index</th>
<th>Rental price index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>100</td>
</tr>
<tr>
<td>2014</td>
<td>102</td>
</tr>
<tr>
<td>2015</td>
<td>104</td>
</tr>
<tr>
<td>2016</td>
<td>106</td>
</tr>
<tr>
<td>2017</td>
<td>108</td>
</tr>
<tr>
<td>2018</td>
<td>110</td>
</tr>
</tbody>
</table>

Source: JLL Research

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**High investment flows chasing limited quality assets leading to appreciation**

<table>
<thead>
<tr>
<th>Index</th>
<th>Capital values index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>100</td>
</tr>
<tr>
<td>2014</td>
<td>104</td>
</tr>
<tr>
<td>2015</td>
<td>108</td>
</tr>
<tr>
<td>2016</td>
<td>112</td>
</tr>
<tr>
<td>2017</td>
<td>116</td>
</tr>
<tr>
<td>2018</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: JLL Research
Growing transparency, urbanisation, healthy economic fundamentals and positive sentiments are the key underlying drivers of Indian real estate. All these factors along with proactive reforms are attracting several investors in a big way to invest in India’s commercial real estate. Emergence of new office space occupiers, continued demand from IT/ITeS, GCC along with BFSI space is expected to keep office demand robust over next three years. The mismatch in demand and supply is expected to push up rentals in prime markets in line with past trends. Apart from demand-supply conditions, the secular escalation of rentals tracking the inflation/currency deprecation effectively keeps the dollar rentals unchanged.

The optimistic REIT scenario, with a long-term outlook of gradual growth, makes it imperative to look at the real estate assets which are RIET worthy. We have looked at the commercial office space in India as the preferred choice for REIT due to the favorable factors discussed above. While selecting the REIT worthy assets we have used the following criteria, to arrive at the potential REIT stock and its value based on current market conditions.

**Parameters for REITable Assets**

Commercial office assets that meet all the below parameters are considered REITable:

1. Includes operational lease-only projects from top 7 cities
2. Office properties with area greater than or equal to 200,000 sq. ft.
3. Projects with vacancy less than or equal to 20%
4. Assets under single ownership or Strata sold assets owned by institutions

The recent success of the first REIT in India underlines few key trends that will guide the growth of REITs in India. Some of the key trends that will pan out are:

1. REITs are expected to make a gradual start in line with global trends
2. Positive factors like progressive policies, smaller lot size, tax efficiency, strong investor interest, presence of global investors would act in favour of REITs
3. Some challenges like limited knowledge of the new product, lack of returns record and alternative investment options would lead to gradual pace of growth of REITs
4. Buoyant equity markets would affect returns expectations of the investors
5. Office market REITs driven by strong demand - supply conditions would drive returns of REITs
6. The successful listing of India’s first REIT would attract more players to list their assets through REITs
**India REIT office space worthy assets - 294 mn sq. ft. potential valued at USD 35 bn**

India’s Commercial office segment has been the favorite asset class of institutional investors over the years. This is borne by the fact that nearly USD 17 bn has been invested in the form of direct investments as well as through entity level investments during 2006-2019. A detailed analysis of the office market based on asset ownership, size of the property, leased space and asset quality has been used to arrive at REITable office space.

In order to arrive at the REITable assets in India, the focus has been on low hanging fruits in terms of single ownership, larger floor space with good occupancy rates. JLL research indicates that **294 mn sq. ft.** of office space stock would be eligible for REIT. This would translate to potential investment of **USD 35 bn**

(* Indicates REITable asset from stock as on 2018 and includes Embassy Office Parks REIT)

**Bengaluru to lead REITable office space share**

<table>
<thead>
<tr>
<th>City</th>
<th>REITable space share (mn sq. ft.)</th>
<th>REITable value share (INR bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bengaluru</td>
<td>33%</td>
<td>31%</td>
</tr>
<tr>
<td>Mumbai</td>
<td>17%</td>
<td>24%</td>
</tr>
<tr>
<td>Chennai</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Delhi NCR</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Kolkata</td>
<td>1%</td>
<td>8%</td>
</tr>
</tbody>
</table>

1. Bengaluru with large IT spaces occupied by prominent global players with quality asset spaces will be the most favoured for REIT. Most of these assets are singly owned by developers or large funds make it easier to aggregate the assets and manage them for REITs.

2. Bengaluru has the highest REITable assets totalling 97.8 mn sq. ft., worth USD 10.7 bn, followed by Mumbai at 49.7 mn sq. ft., worth USD 8.6 bn.

3. Legacy commercial office markets of Mumbai and NCR would supplement the IT/ITES occupied REIT space in terms of diversification and competitive yields.

4. Mumbai being half of REITable basket of Bengaluru commands USD value almost close to Bengaluru. This is mainly attributed to the high per sq ft office capital values of Mumbai.

5. Chennai, Pune and Hyderabad are the other preferred choices by IT/ITES and GCC would drive the next order of REIT space in these cities. Presently, Chennai contributes about 13% of the total REITable stock with 12.6% share in total value.

6. Hyderabad and Pune, both have similar share in REITable space and value as well.
India REITs - Heralding a new era in Real Estate investments

Impending opportunity of 101 mn sq. ft. REITable space in next three years

<table>
<thead>
<tr>
<th>Year</th>
<th>Mn Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019E</td>
<td>34.0</td>
</tr>
<tr>
<td>2020F</td>
<td>32.8</td>
</tr>
<tr>
<td>2021F</td>
<td>34.3</td>
</tr>
</tbody>
</table>

Note:
1. New completions above 200,000 sq ft has been considered
2. Projects by prominent developers with strong execution records have been included

Source: JLL Research

Out of the office space completion expected in 2019, we expect 34 mn sq. ft. of REITable office space opportunity as the existing regulations allow investment in under construction projects. This could help REITs to gain from the upside in rentals as well as capital appreciation. Similarly, 2020 and 2021 will open up 32.8 and 34.3 mn sq. ft. of new completion of REITable space respectively.

Though commercial office space is expected to offer a large opportunity for development of REITs in India, other asset classes like Retail, Warehousing and Hospitality also offer scope. India’s organized retail with 253 malls in top cities occupies ~ 80 mn sq. ft. space. Large institutional investors have already picked up stakes in fully operational malls, while many have invested in greenfield assets. The retail sector is becoming more and more organized in terms of its mall spaces and would see emergence of REIT ready space after some years.

The warehousing and logistics sector, which has undergone a paradigm shift post GST and advent of new trends in technology, has witnessed a flurry of investment plans by major funds during the last two years. As per a study by JLL India Industrial Services, 2018 witnessed a 22% y-o-y growth in total stock in Grade A & B warehousing space in the top eight cities totaling 169 mn sq. ft. compared to 138 mn sq. ft., a year ago. Investments to the tune of USD 5.5 bn have been announced, as the outlook on returns prospects offered by the sector is positive. JLL expects emergence of REITs in this segment after a few years. Hospitality sector which is showing signs of growth will also offer options for REITs in future.
Embassy Office Parks REITs snapshot

1. Portfolio of 32.6 mn sq. ft. comprising 24.2 mn sq. ft. completed and 2.9 mn sq. ft. under construction office space and proposed development area of 5.5 mn sq. ft.
2. REIT also owns four hotels (1,096 hotel keys) of which one is operational and the balance are under construction and a 100 MW captive solar plant within the office parks.
3. The REIT has reported revenues of INR 16 bn in FY 2018.
4. The market value of the current portfolio as of March 2018 is estimated at INR 301 bn. across the current operational assets.

Significance of India’s first REIT issue

- Higher share of individual investors (57%) in the Embassy issue - reflects readiness on the part of retail investors.
- Oversubscription to the tune of 2.5x despite uncertainty in primary and secondary markets
  - Drying up of IPO pipeline (only 2 IPOs in Jan-Mar 2019 versus 14 during Jan-Mar 2018)
  - Decline in S&P BSE Realty Index by 10% during last 1 year
- REIT stock trading at 13% premium to allotment price as on 18th April 2019.
- Greater acceptability to newer investment instruments in the past - overwhelming response to IRB Infrastructure Investment Trusts (InvIT) and India Grid trust (oversubscribed by 8.6x and 1.2x respectively) floated during May 2017.
- Easy to understand investment avenue - Revenue visibility and higher predictability of returns mainly depending upon occupier demand, rental growth and capital/appreciation of office spaces.

Embassy Office Parks REIT Overview

EMBASSY OFFICE PARKS REIT IPO subscription details

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Category</th>
<th>No.of shares offered/reserved</th>
<th>No. of shares bid for</th>
<th>No. of times of total meant for the category</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Institutional Investors</td>
<td>38,866,800</td>
<td>83,375,200</td>
<td>2.15</td>
<td>45%</td>
</tr>
<tr>
<td>1(a)</td>
<td>Foreign Institutional Investors (FIIs)</td>
<td>62,005,600</td>
<td>2.15</td>
<td>74%</td>
<td></td>
</tr>
<tr>
<td>1(b)</td>
<td>Domestic Financial Institutions (Banks/ Financial Institutions (FIIs)/ Insurance Companies)</td>
<td>5,195,200</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1(c)</td>
<td>Mutual funds</td>
<td>11,426,000</td>
<td>14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1(d)</td>
<td>Others</td>
<td>4,748,400</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Other Investors</td>
<td>32,389,600</td>
<td>100,100,800</td>
<td>3.09</td>
<td>55%</td>
</tr>
<tr>
<td>2(a)</td>
<td>Corporates</td>
<td>30,830,400</td>
<td>31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2(b)</td>
<td>Individuals Investors / NRI and HUF</td>
<td>57,264,400</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2(c)</td>
<td>Others</td>
<td>12,006,000</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>71,256,400</td>
<td>183,476,000</td>
<td>2.57</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: National stock exchange website
Conclusion

The listing of India's first REIT heralds the institutionalisation of real estate assets and indicates increased maturity of real estate markets. While the launch of REITs symbolizes that markets have definitely become more professional and transparent, this new investment vehicle will in turn, ensure further transparency and maturity. This is because mandatory valuation of properties, regular updates, research coverage and disclosures relating to assets managed by REIT will be essential, resulting in increased professionalism and transparency in real estate markets.

Growing knowledge of the product will ensure acceptability and gradual increase of retail interest in this segment. The instrument will enable retail investors to partake of the massive opportunity in the commercial markets real estate pie, which until now was only a dream. This was largely on account of lack of access/restricted access to these assets, due to the value and volume of funds required.

From the developer’s perspective, a large source of funding is opening up. A small percentage of mutual fund investments made by retail investor getting channelized into REIT, would enable access to large funds for the real estate developer as well as PE player.

JLL believes that India's current office markets have potential REITable space of 294 mn sq. ft. with valuation upwards of USD 35 bn. India's commercial office space is expected to dominate the REIT market due to robust growth, resulting in rising rental yields and steady rise in capital values. REITable opportunity in new office completions is expected to be 101 mn sq. ft. during 2019-2021 reflecting the huge REIT investment potential in office space alone. Apart from Office, Retail, Warehousing and Hospitality segments will offer additional scope for REITs as these sectors are expected to see growth in scale and enhanced investor interest over the years.

The growth of REITs as an investment vehicle would hinge upon the policy push given. Tax efficiency resulting from investment in REITs will help Indian REIT players compete with other countries to attract investors. Firstly, tax benefits provided to investors and REIT sponsors would be crucial for the growth of the REIT market and the policy needs to be consistent in this regard. Secondly, the current regulations permit only rent yielding assets for listing under REIT. Residential real estate segment (which accounts for 85% of the total under construction real estate value) is effectively left out. Regulations that will help to bring this segment under REIT need to be evolved for Indian real estate.

Despite certain challenges in terms of investor awareness about the product currently, interest is expected to increase over the years, based on our understanding of other REIT markets. And the success of this first REIT is a definite promise that there will be many more in the offing.
About JLL

JLL (NYSE: JLL) is a leading professional services firm that specialises in real estate and investment management. Our vision is to reimagine the world of real estate, creating rewarding opportunities and amazing spaces where people can achieve their ambitions. In doing so, we will build a better tomorrow for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.3 billion, operations in over 80 countries and a global workforce of over 90,000 as of December 31, 2018. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com

About JLL India

JLL is India’s premier and largest professional services firm specialising in real estate. With an estimated revenue for FY 2018-19 expected to be approx. INR 4,000 crore, the Firm is growing from strength to strength in India for the past two decades. JLL India has an extensive presence across 10 major cities (Mumbai, Delhi NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata, Ahmedabad, Kochi and Coimbatore) and over 130 tier I & II markets with a cumulative strength of close to 11,000 professionals.

The Firm provides investors, developers, local corporates and multinational companies with a comprehensive range of services. This includes leasing, capital markets, research & advisory, transaction management, project development, facility management and property & asset management. These services cover various asset classes such as commercial, residential, industrial, retail, warehouse and logistics, hospitality, healthcare, senior living and education.

JLL India won the Five Star Award for ‘Best Property Consultancy at the International Property Awards Asia Pacific 2018-19. The Firm was also recognised amongst the ‘Top 100 Best Places to Work in India’ in 2017 & 2018 in the annual survey conducted by Great Place to Work® and The Economic Times. It has also been acknowledged as ‘Property Consultant of the Decade’ at the 10th CNBC-Awaaz Real Estate Awards 2015. For further information, please visit jll.co.in

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