

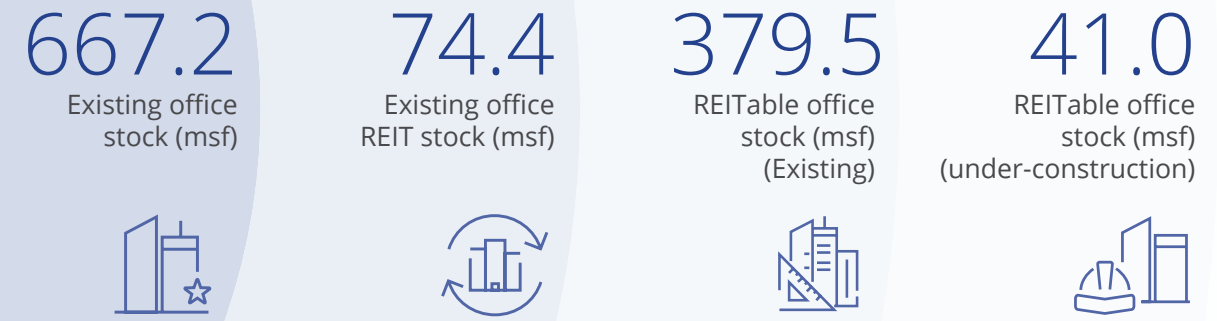


REITs

- gaining larger ground in **Indian real estate**

Huge potential of REITs, yet to be unleashed in India's office market

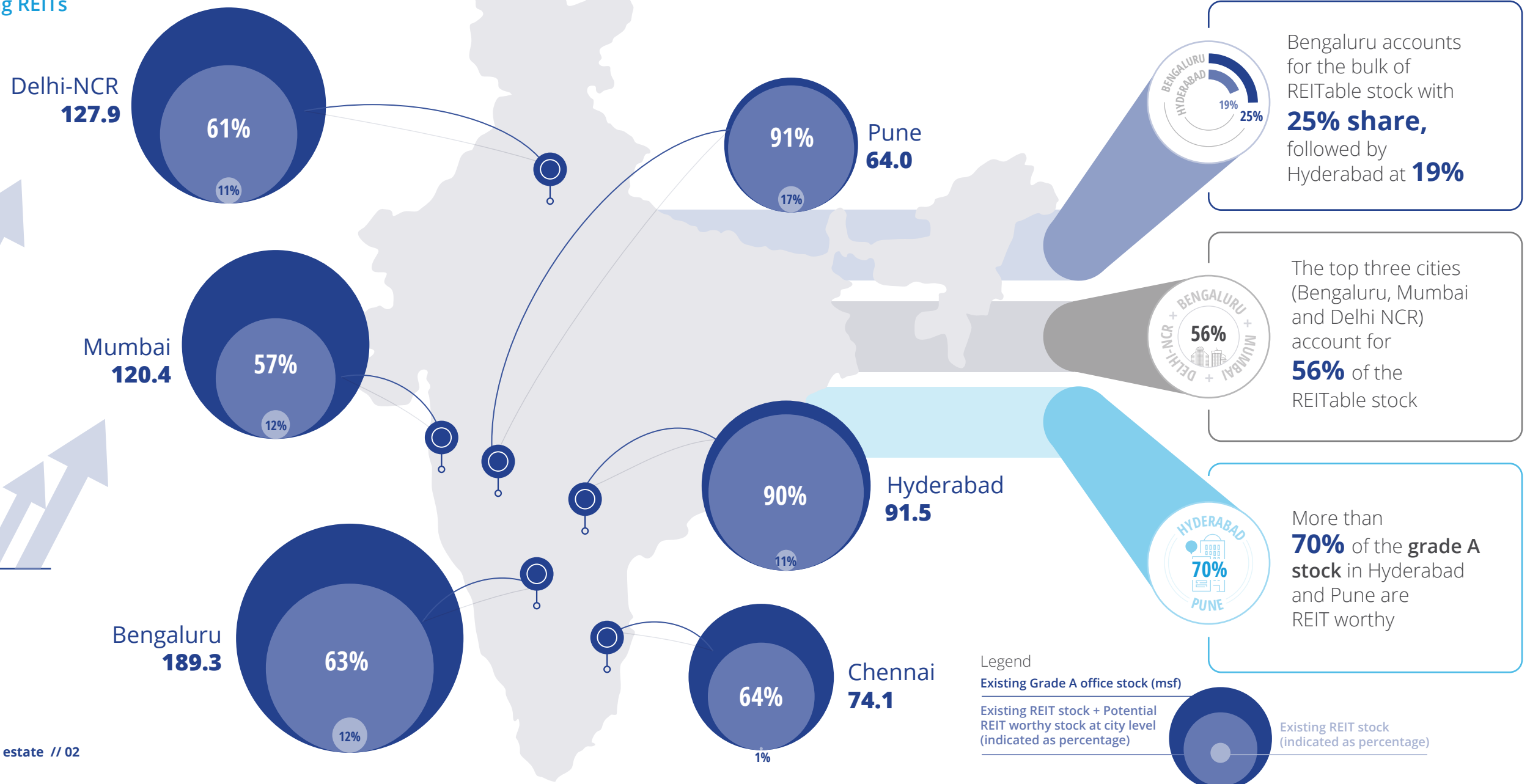
REITs in India - A quick glance



City-wise break-up of existing REITs

About **11%** of India's existing Grade A office stock are already listed as REITs

Additional **57%** of the total Grade A office stock, in the top six cities hold the potential to be REITed



Source: Colliers
 Note:
 1 Data is as of Q1 2023 and pertains to Grade A buildings only
 2 Top six cities in India include Bengaluru, Chennai, Delhi NCR, Hyderabad, Mumbai and Pune

Legend

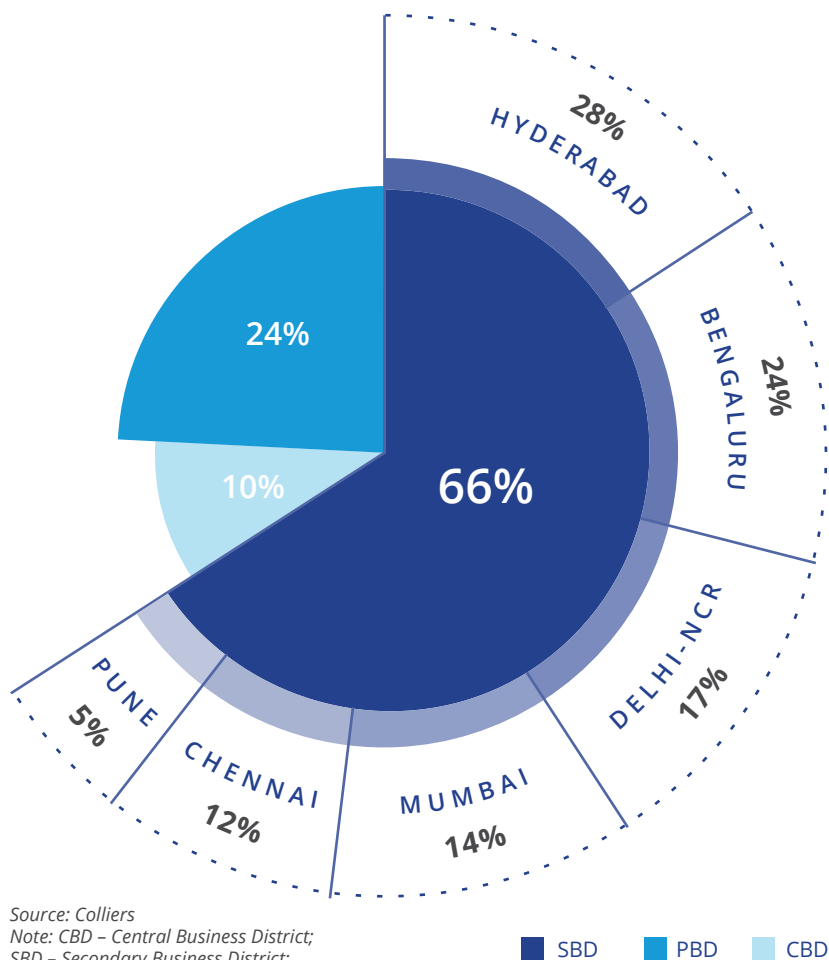
Existing Grade A office stock (msf)

Existing REIT stock + Potential REIT worthy stock at city level (indicated as percentage)

Existing REIT stock (indicated as percentage)

About two-third of REITable Grade A office stock falls under SBDs of top six cities

Pan India Micro Market wise share of REITable stock



Source: Colliers
 Note: CBD – Central Business District;
 SBD – Secondary Business District;
 PBD – Peripheral Business District






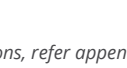
Hyderabad's SBD accounts for the highest quantum of REITable stock amongst the top six cities followed by Bengaluru's SBD

About **80%** of the Grade A office stock in the SBDs of **Hyderabad** and **Pune** are REITable

Led by limited new supply and ageing buildings, **CBD** accounts for only about **10% share** in overall REITable stock. However, these buildings hold a huge potential for upgradation

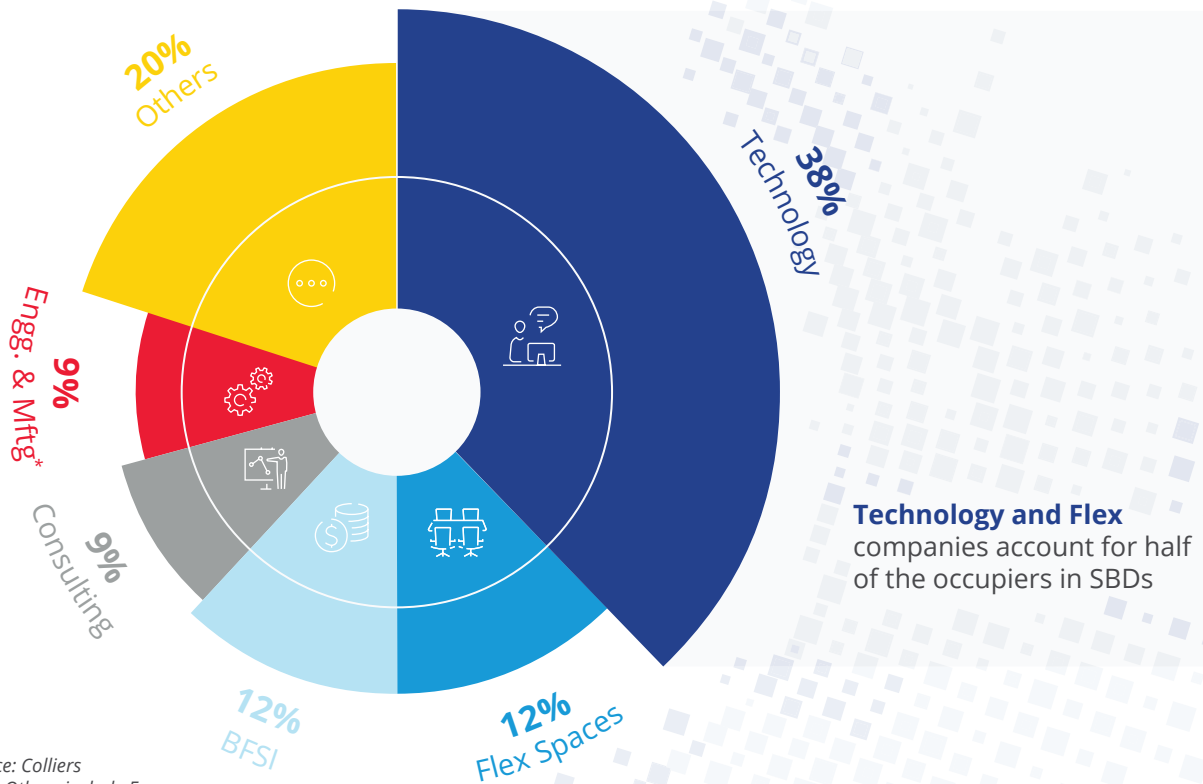
About **half** of the total Grade A office stock in **PBDs** of top six cities are eligible to become REIT

Micro Market wise share of REITable stock in top six cities of India

CITY	CBD	PBD	SBD
BENGALURU 	2%	35%	63%
CHENNAI 	7%	27%	66%
DELHI-NCR 	31%	0%	69%
HYDERABAD 	1%	4%	95%
MUMBAI 	8%	29%	63%
PUNE 	17%	54%	29%

Source: Colliers
 Note: For market definitions, refer appendix

Tenant profile for the SBDs of the top six cities (2022)



Source: Colliers

Note: Others include E-commerce, Healthcare & pharma, etc.

*Engineering and Manufacturing

Market outlook remains positive for REITs in SBDs of top six cities

City	Vacancy (as of Q1 2023)	Vacancy forecast 2023-2024	Rental change (2023 vs 2021)	Rentals forecast 2023-2024	Top demand drivers
BENGALURU	7.7% ↓	==	-1.7%	⤴	Technology, Consulting
CHENNAI	13.4% ↑	⤴	6.0%	⤴	Technology, BFSI
DELHI-NCR	22.9% ↑	⤴	0.8%	==	Technology, E-commerce
HYDERABAD	19.5% ↓	⤴	0.1%	==	Technology, Engg. & Mft.
MUMBAI	13.6% ↓	⤵	0.5%	⤴	BFSI, Flex Spaces
PUNE	10.5% ↓	⤵	2.1%	⤴	Flex Spaces, Technology

Source: Colliers

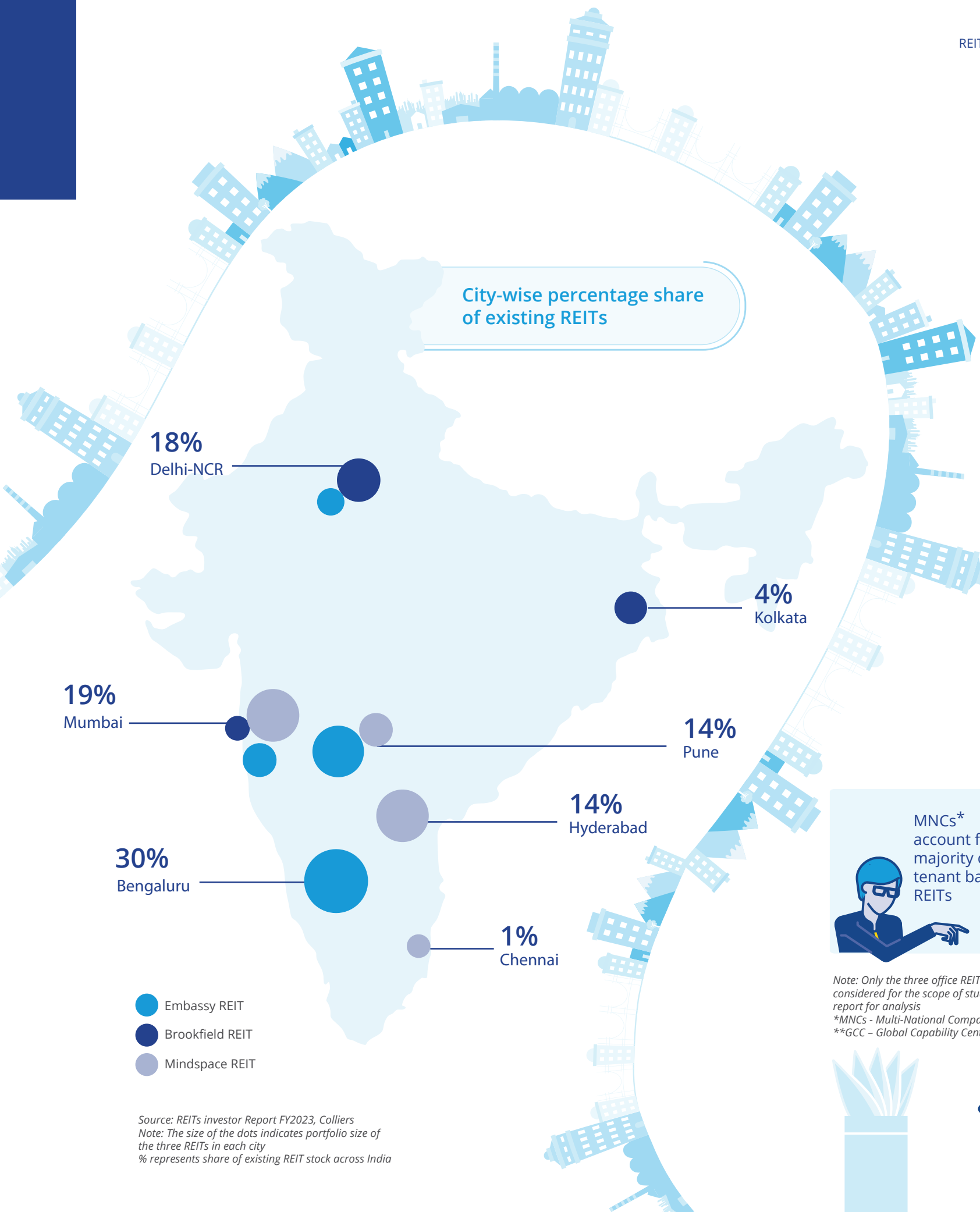
↑↓ Arrows indicate the level of vacancy from the overall city's office vacancies as of Q1 2023

REITs' journey so far

REITs have been established as a promising alternate investment platform to raise funds in the real estate sector. Presently, the Indian REIT market is at an early stage compared to many global REIT markets. The maiden REITs of India comprise of office assets and have now entered the retail asset classes as well. Slowly and steadily REITs are becoming a part of investors' portfolio. So far, the listed REITs in India have successfully provided an annualized distribution yield return of 6-7%. As the Indian REIT market continues to mature, it has the potential to attract more domestic and international investors, diversify its asset classes, increase market liquidity, and provide stable returns to investors.

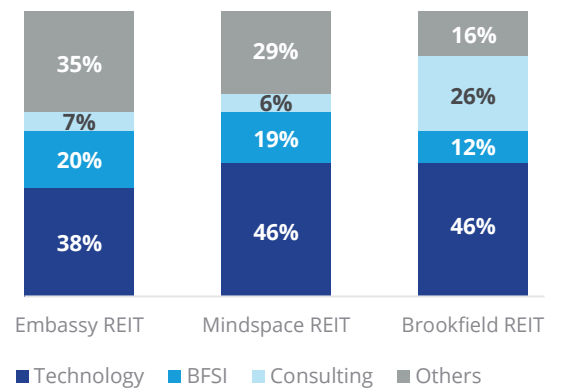


Source: REITs investor Report FY2023, Colliers
 *Note: Upcoming portfolio includes under-construction and future supply both



Source: REITs investor Report FY2023, Colliers
 Note: The size of the dots indicates portfolio size of the three REITs in each city
 % represents share of existing REIT stock across India

Tenant profile of existing REITs



Source: REITs investor Report FY2023
 Note: Others include E-commerce, flex spaces, healthcare & pharma, etc.

About 40% of the existing tenants in REIT assets are from the Technology sector. Share of sectors such as E-commerce, healthcare and renewables is also on the rise

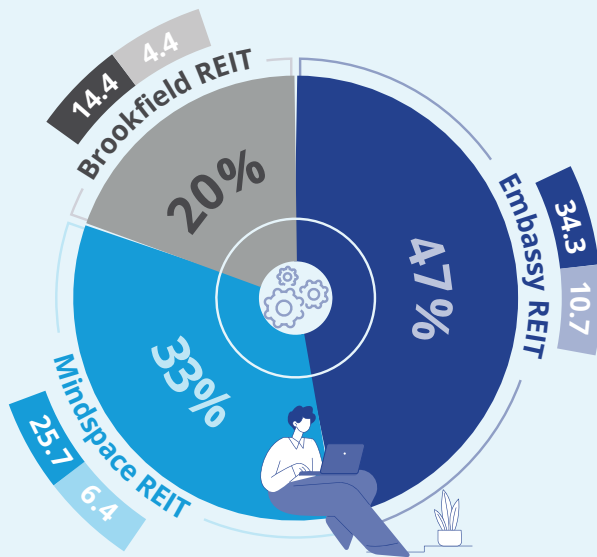
MNCs* account for majority of the tenant base in REITs

In the next few years, Tech sector is likely to boost the expansion of Indian REITs. Market outlook for office sector is likely to remain strong led by healthy demand from Tech companies, data centers, life sciences and GCCs**

Note: Only the three office REITs are considered for the scope of study in this report for analysis
 *MNCs - Multi-National Companies
 **GCC - Global Capability Centers

Operational overview of REITs

REITs - completed vs under-construction portfolio



Over **22 msf** of REIT supply is under-construction, which is expected to come in the next 1-2 years

Bengaluru followed by Pune is likely to see over **52%** of the total upcoming REIT supply in the next 1-2 years, highest across the spectrum

Legend

- Dark is completed portfolio units (in msf)
- Light is upcoming portfolio units (in msf)

Source: REITs investor Report FY2023, Colliers

Operational parameters for REITs remain buoyant despite global economic headwinds

>86%
Occupancy

In-place Rent
4%
YoY rise

6-8
WALE* (Years)

Gross Leasing
FY2023
30-70%
YoY rise

Source: REITs investor Report FY2023 | *WALE - Weighted Average Lease Expiry

Regulatory framework continues to evolve to make it attractive for investors

- The Union budget 2023 brought in parity in taxation of incomes for REIT unitholders by bringing in 'repayment of debt' under the tax bracket.
- Amendments by government in March 2023 have softened the tax impact on REITs. As per the revised norms, the tax will be liable only towards the extra amount that comes from the deduction of cumulative distribution and initial issue price.
- Minimum investment limit is reduced to INR10,000 – 15,000 with a lot size of one unit from INR50,000, requiring a lot size of 200 units. This will enhance liquidity in the market and prompt more listing in REITs.
- Foreign portfolio investors (FPIs) can now invest in debt securities issued by REITs, which encourages global funds' participation in India's office growth story.
- The regulatory framework of REIT Regulations would be extended to FOPs* to provide similar tax benefits for SEBI registered REITs.

Reforms in REITs, such as reduced investment requirements, tax benefits, minimum capital requirements, etc. will continue to expand investor base for REITs, attracting domestic and foreign capital.

Source: Union Budget 2023-24, SEBI, Colliers | *FOPs - Fractional Ownership Platforms

Indian REITs on the global map



Inception of REIT across global markets



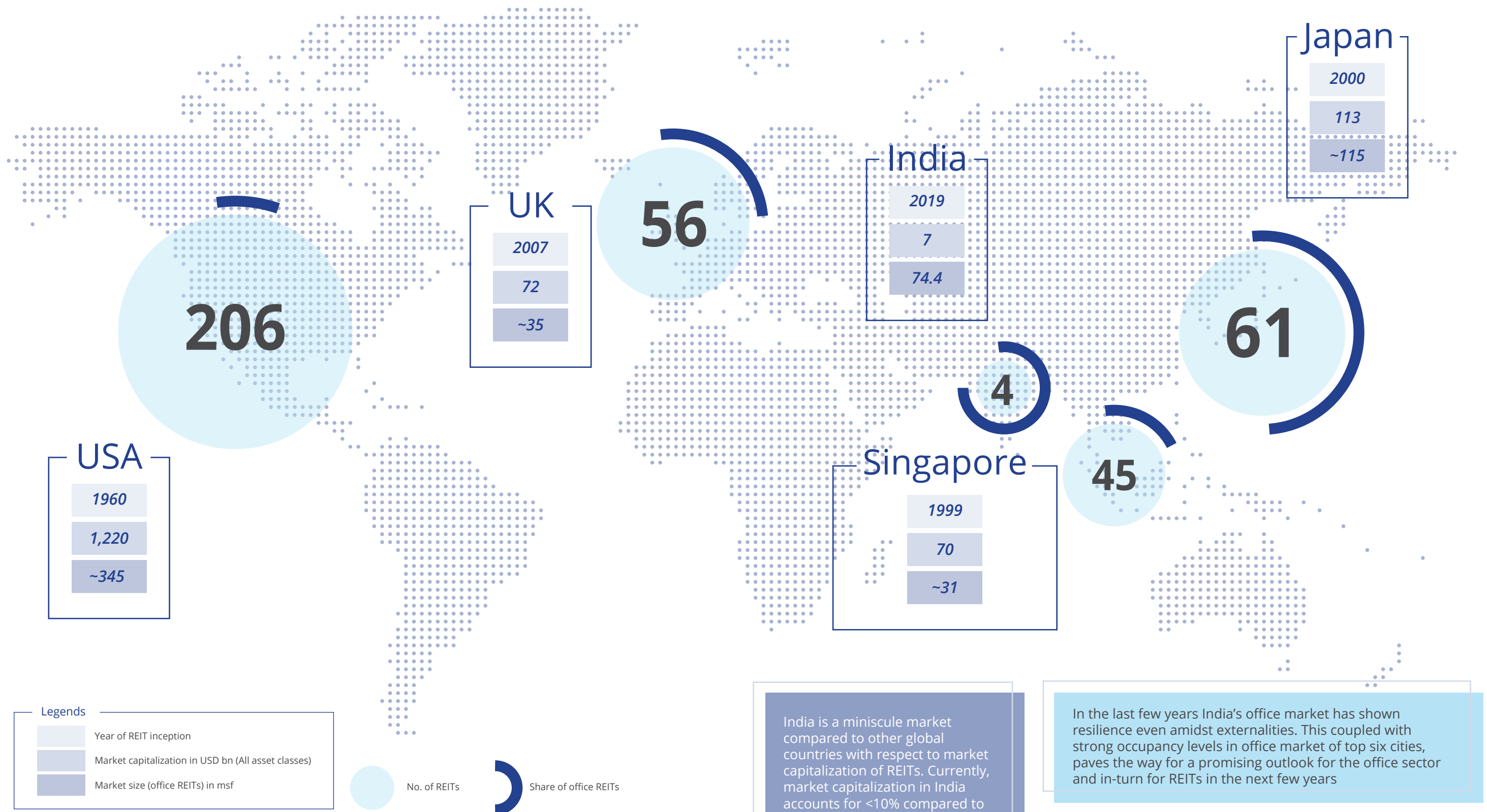
US is the earliest and amongst the most established market for REITs, accounting for the highest quantum of REITs' portfolio across the globe. Most of the other countries came up with REITs between 2000-2010, with India being the most recent

Most of the countries have expanded their REIT portfolio for multiple assets like office, retail and industrial within 5-10 years

While currently India has REIT presence in only office and retail sector, we are likely to see REITs expansion in other sectors as well

Source: Global REITs Reports, Industry, Colliers
 Note: Apart from the mentioned asset classes, matured markets such as the USA also have REITs in data centers, student housing, infrastructure assets, etc.

Lower capital requirements in Indian REITs makes it a cost-effective real estate investment medium



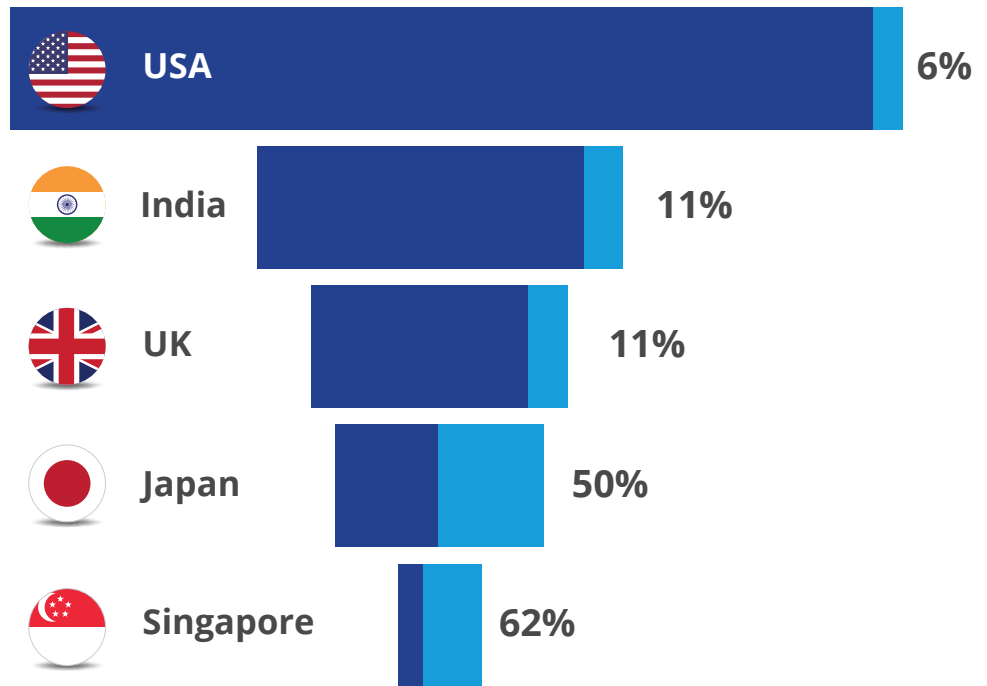
Source: Global REITs Reports, Industry, Colliers
 Note: Countries for REIT comparison are chosen based on REIT maturity, performance and basis data availability
 Market capitalization is as of March 2023 for UK and May 2023 for all other countries

India is a miniscule market compared to other global countries with respect to market capitalization of REITs. Currently, market capitalization in India accounts for <10% compared to the top countries like the USA and Singapore. However, the Indian REIT market is currently evolving and holds significant potential for growth

In the last few years India's office market has shown resilience even amidst externalities. This coupled with strong occupancy levels in office market of top six cities, paves the way for a promising outlook for the office sector and in-turn for REITs in the next few years

Compared to other APAC markets like Singapore, Indian REITs also have 73% lower capital requirements, which makes funding avenues for REITs more cost-effective

Office REIT penetration at the global level








Source: Global REITs Reports, Industry, Colliers
Note: Only listed REITs are considered for this analysis

■ Total Grade A office Stock
■ Office REIT Stock

While US accounts for the **highest quantum of REITs**, it has the **lowest share of REITs** in the overall portfolio. However, major APAC markets, like Singapore and Japan account for more than 50% of their office portfolios as REITs

India currently has about **11% share of REITs** in the overall Grade A office stock, with a **scope of about 57%**. In tandem with other APAC countries like Japan and Singapore, having a higher penetration rate for REITs in India can make the office sector more organized and corporatized with better returns

Regulatory framework and tax incentives

	 USA	 UK	 India	 Singapore	 Japan
Restrictions on Foreign investors	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Distribution requirements	At least 90% of its ordinary taxable income of each year	100% of the property income dividends received from the REITs	At least 90% of its net distributable cash flows to unit holders	At least 90% of the taxable income in a Financial year	Must pay dividends in excess of 90% of its distributable profits
Tax Incentives	The capital gains are taxed at 0%, 15% or 20%, depending on the investor's income level for the year. In addition, a portion of the dividend may be listed as a non taxable return of capital	No tax on rental distributions and gains for investors	Interest/Rentals- Taxed at slab rates Dividend- Exempt ¹ Repayment of debt ² - Amount in excess of issue price ³ will be taxed as income from other sources as slab rates Short-term capital gains taxed at 15%; long-term gains taxed at 10% (after 36 months).	Income from Singapore properties distributed within the financial year is tax exempted, otherwise taxed at 17%	J-REITs are subject to tax at the rate of 37%, however, distributions are deductible based on certain requirements

*SGX - Singapore Stock Exchange

Source: Basis Country-wise regulatory authorities, Industry, Colliers

¹based on whether the underlying SPV has opted for concessional tax regime

²As per revised norms.

³ If the repayment of debt amount does not exceed the issue price, then it will get capital gains tax treatment

In India, real estate properties or securities must be within the country's territory for acquisition, while **major REIT markets face no such restrictions**. REITs in mature markets like Singapore, Japan, USA and UK can invest in real estate assets of foreign countries too. India too can have such **flexibility** for REITs which can expand India's presence in global markets

Major established REIT markets do not have any listing requirements while India, UK and Singapore mandates the listing of the REIT in an established stock exchange, for them to **avail tax benefits**

In 2021, the RBI allowed Foreign Portfolio Investors (FPIs) to invest in debt securities issued by Indian REITs, aiming to corporatize the real estate sector and attract global funds



REITs expanding into other sectors

India's first Retail REIT

During May 2023, India's first Retail REIT Nexus Select Trust was listed on stock exchange, expanding the investible cosmos for investors. Nexus Select Trust owns 17 Grade-A urban retail centers across 14 cities, covering a leasable area of **9.8 msf**.

REIT in the retail sector will institutionalize the segment and allow individual investors to own rent-yielding retail assets, thus allowing bigger & smaller investors to reap benefits of its innate growth potential. REIT in Retail is timely to unlock potential real estate value, as the sector is bouncing back, with developers & investors focusing on building, operating & acquiring profitable retail assets.

Making ground for other sectors

Consistent returns and success of REITs for office market assets has laid a strong foundation for other asset classes as well. While the country has already seen the listing of its first Retail REIT in May 2023, players in the industrial sector have also started consolidating their portfolios as they have started eyeing Industrial REITs, buoyed by expansionary activity in this space. The first quarter of 2023 saw an 11% YoY surge in industrial and warehousing leasing in the top five* cities driven by 3PL players. Moreover, Grade A warehousing facilities, offering advanced technology and improved efficiency, are increasingly being preferred by the occupiers. Led by heightened demand in the sector, developers amongst Lodha and others are likely to come up with the first industrial REIT in the country.

*Note: *Top 5 cities include - Bengaluru, Chennai, Delhi NCR, Mumbai and Pune*

Indian REITs portfolio



Ground work in progress

Source: REITs Industry profile, Colliers



Green Initiatives by REITs

REITs in India, target to have **95-100%** of their existing and new developments to be **LEED/IGBC certified** with minimum gold rating as their short-term goal

By 2025, all the REITs plan to increase their renewable energy consumptions by **30-35%**. Embassy REIT targets to have renewable energy consumption to **75%** by **FY2025**

During Q4 2022, all the 3 office REITs in India got a **5-star rating from GRESB*** for their ESG performance and scoring was above the global average

For their long-term goal, REITs have targeted to reach **net-zero by 2040-2050** and have aligned with the goals of their occupiers, investors and other key stakeholders

Indian REITs actively seek green building certifications to meet sustainability and energy efficiency standards, supporting India's net-zero targets by 2050. Post Covid-19, REITs are prioritizing health and wellness, aligning with best global practices for sustainable growth



Source: Industry Profiles, Colliers

*GRESB - Global Real Estate Sustainability Benchmark

Way forward and opportunities for REITs in India

- With 379.5 msf of Grade A REITable stock, Indian office sector holds huge opportunity for REITs, especially in the SBDs of top six cities
- The looming recessionary concerns and reduced hiring in the tech space, might cause a short-term dent in demand for office spaces. However, the future of REITs look optimistic, led by its regulatory framework, robust demand and conducive ecosystem
- The framework for REITs has been constantly improving for better transparency, returns and policies to increase investor confidence. The policies can be further made more attractive by governing bodies by providing tax concessions and relaxing norms
- With the first few REITs having paved the way for success, REITs are likely to be expanded into diverse sectors like Industrial and Logistics and see further growth in office and retail sectors
- Taking cues from the global markets, developers can also consider exploring REITs in alternative asset classes such as data centers, hospitality, healthcare, education, etc.
- As sustainability is increasingly becoming a business norm in the real estate sector, green buildings are finding their way into funds and investment portfolios. Going ahead, we expect a larger share of green buildings in REIT portfolios

Appendix

Market Definition	CBD	SBD	PBD
Bengaluru	CBD	SBD 1, SBD 2, ORR	Electronic City, Whitefield, North, Sarjapur Road & Mysore Road
Chennai	CBD & Off CBD	Guindy, OMR Pre-toll, MPR, PTR	OMR post toll, GST and Ambattur
Delhi NCR	Aero City (CBD 2), Connaught Place (CBD 1), Cyber City (CBD 1), Golf Course Road (CBD 3), MG Road (CBD 2), Saket (CBD 3), Sector 16 A and 16B; Bhikaji Cama Place, Dundaheera, Golf Course Extension Road, Institutional Sectors 32 and 44, Jasola, Nehru Place, NH-8, Noida Expressway, Okhla, Sector 62, Sector Road, Sohna Road, South	Delhi - Southern Peripheral Road (SPR), Techzone Greater Noida, Udyog Vihar	Manesar
Hyderabad	CBD	SBD, Off SBD	PBD
Mumbai	CBD, BKC	Andheri East, Worli/Prabhadevi, Lower Parel, Kalina, Powai	LBS/ Eastern suburbs, Goregaon, Malad, Thane, Navi Mumbai
Pune	SB Road, Camp, Bund Garden, Yerwada, Kalyani Nagar	Baner, Balewadi, Bavdhan, Pashan, Hadapsar	Kharadi, Hinjewadi, Viman Nagar, Nanded City, PCMC

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