

Resilient performance



Rohira: offering a collaborative platform

Mindspace REIT has positioned itself strongly with a well-diversified portfolio

Despite the recent challenges in the office space, Mindspace Business Parks REIT, sponsored by the K Raheja Corp group, has shown a great deal of resilience. Having grown its Net Operating Income (NOI), a key indicator of the profitability of commercial office assets and a key factor in determining their value, by 8.2 per cent to around ₹1,486 crore in FY22 from ₹1,374 crore in FY21, the listed REIT has recorded an NOI of ₹818.6 crore in H1FY23, an increase of 13.5 per cent over H1FY22. The distribution among unit holders for H1FY23 stood at ₹563 crore or ₹9.5 per unit with an annualised distribution yield of 6.9 per cent.

Mindspace REIT got listed on the BSE and NSE on 7 August, 2020. On the BSE, it listed with a premium of 10.55 per cent over its issue price of ₹275. The ₹4,500-crore IPO received a good response from institutional and non-institutional investors. This was the second REIT on the exchanges after Embassy Office Parks' listing in March

2019. In February 2021, Brookfield India REIT's ₹3,800-crore IPO closed with 8 times oversubscription. Mindspace REIT share/unit is currently (as on 20 December 20, 2022) priced at around ₹338 with a high of ₹388 and a low of ₹311.

Growing at around 17 per cent, the revenue from operations in H1FY23 stood at around ₹988 crore, even as the full period of FY22 saw the revenue increasing to ₹1,750 crore with a 7.4 per cent YoY increase. It recorded a gross leasing of 2.1 million sq ft in H1FY23, while the gross leasing in the 12-month period of FY22 stood at 4.5 MSF. In the second quarter of FY23, the committed occupancy of its portfolio rose by 130 bps (QOQ) to 86.9 per cent with a WALE (Weighted Average Lease Expiry) of 6.8 years, which provides stability to its portfolio.

In H1FY23, out of the total area leased, 0.89 MSF was re-leased, while the REIT achieved a 28 per cent re-leasing spread during the period. Besides, in the gross leasing of 2.1 MSF in H1FY23,

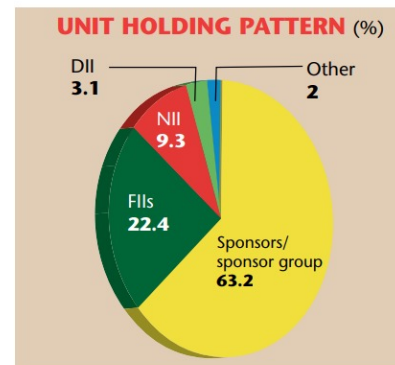
around 38 per cent was leased to new tenants. Leases were signed with 44 tenants including L&T, Axis Bank, Johnson Controls, Real Page, Tablespace, Mindtree, eClerx and ACI Global. The average rent for areas leased in H1FY23 stood at ₹62 PSF/month.

High quality tenant base

With offices in Mumbai, Hyderabad, Pune and Chennai, Mindspace REIT currently has a total leasable area of 31.9 MSF across three brands – 'Mindspace', 'Commerzone' and 'The Square'. The portfolio comprises 24.9 MSF of completed area, 2.4 MSF of under construction area and 4.6 MSF of future development area. Boasting one of the largest Grade-A office portfolios in India, the Mindspace portfolio consists of five integrated business parks and five quality, independent office assets. It has a diversified and high-quality tenant base, with over 185 tenants as of 30 September, 2022.

Most of the buildings in the portfolio are either Gold or Platinum Green Building Certified (IGBC/LEED). The assets provide a community-based ecosystem and have been developed to meet the evolving standards of tenants, and the demands of 'new age businesses', making them one of the preferred options for both multinational and domestic corporations.

Into its third year of operations, Mindspace REIT has received 5 Star GRESB Rating and is ranked fourth in



the Asian Office for Development Portfolio. It has also received a 4 Star Rating for Standing Investment from GRESB, the leading global ESG standard for real estate and infrastructure investments. It has been awarded 9 'Sword of Honour' Awards on the back of its Five Star Occupational Health and Safety Ratings by the British Safety Council, spanning over 23.5 MSF.

"Despite the challenges, we have recorded one of the best periods of leasing. We have achieved healthy re-leasing spreads and our NOI has grown consistently. As envisaged, we continue to see demand for Grade A institutionally-managed office assets as the preferred choice by our global clients as their return-to-office plans are now in motion. As organisations are moving back to working from offices, we are ready with renewed vigour to partner with our tenants and become integral to their growth stories. At Mindspace REIT, we are committed to build an ecosystem that helps attract and retain employees and offer them a collaborative platform to think, connect and grow," says Vinod Rohira, CEO, Mindspace REIT.

"The return-to-office plans of occupiers are gaining increased traction. The average physical occupancy at our parks has risen from 31 per cent in June 2022 to 41 per cent at the end of October 2022. While hybrid work models have been adopted by certain companies, issues like moonlighting, data security, etc are making technology companies re-look at their work-from-home strategies. Organisations see the advantages that workplaces offer when it comes to harnessing the power of social connect, collaboration, ideation, peer-to-peer learning, enhanced data security and the other intangible aspects that enhance productivity and make a strong case for work from office," adds Rohira.

Colliers, in its recent report says that after two years of slow demand for commercial offices, 2022 is likely to close on a new historical high, with gross absorption likely to touch 50 million sq ft. This is likely to represent a 52 per cent rise in total leasing from the previous year. Occupiers have been optimistic about their future workplace needs, after a gap of two years, and were snapping up office space across the top Indian cities. Bengaluru is likely to account for about 33 per cent of the gross absorption,



Mindspace, Airoli

followed by Delhi-NCR and Hyderabad.

"2022 is likely to be a landmark year in commercial office real estate. Collaborating, brainstorming and creating a dynamic culture are the three pillars of any workplace post-pandemic. During 2023, slow decision-making could result in leasing activity of about 35-38 million sq feet. In 2023, Bengaluru followed by Hyderabad is expected to see most of the new supply across the top six cities," states Ramesh Nair, CEO, India and Managing Director, Market Development, Asia, Colliers.

Diversified portfolio

Mindspace REIT boasts of a marquee tenant base, even as the tenant portfolio is well diversified. 77 per cent of rentals come from MNCs, while the share of the top 10 tenants in rentals is 36.4 per cent. Fortune 500 companies contribute 30.2 per cent to the overall rental income. In the technology sector, the portfolio has tenants like Accenture, Wipro, Genpact, IBM, Cognizant, CSC and L&T and in financial services, Barclays, UBS, HSBC, BNY Mellon, HDFC and Allstate are tenants. Besides, there are tenants like Schlumberger, Amazon, Qualcomm, Verizon, UHG and Thompson Reuters.

This diversified portfolio of tenants with over 75 per cent of rentals coming from large MNCs has lent resilience to the overall portfolio against any market headwinds noticed in the last couple of years during the Covid period. Notably, no single tenant contributed more than 5.7 per cent to its gross contracted

rentals. The REIT has seen 75 per cent of rental expiries re-leased in H1FY23, accounting for 1.3 MSF of area. Similarly, re-leased area stood at 2.8 MSF in FY22, 2.2 MSF in FY21 and 1.1 MSF in FY20. The average re-leasing spread during this period is 25.5 per cent. Re-leasing spread includes spread on extensions and on leasing of vacant areas.

Mindspace's portfolio comprises five integrated business parks and five quality independent offices, totalling 31.9 MSF of leasable area. These are spread across the Mumbai Region, Hyderabad, Pune and Chennai. Integrated parks like Mindspace Airoli East and Mindspace Airoli West are located in the Mumbai Region, while Commerzone Yerawada and Gera Commerzone Khairadi are in Pune and Mindspace Madhapur is in Hyderabad. Besides, there are five independent office projects, which include Paradigm Mindspace Malad and The Square, BKC in the Mumbai Region; Mindspace Pocharam in Hyderabad; The Square, Nagar Road in Pune and Commerzone Porur in Chennai.

In the overall portfolio which is currently market valued at around ₹27,300 crore, the Mumbai region with total leasable area of 12.9 MSF and committed occupancy of 80.3 per cent, commands an average rental of ₹62.8 PSF/month, whereas Hyderabad with 12.8 MSF of leasable and committed occupancy of 90.9 per cent fetch an average rental of ₹60.5 per sq ft. Similarly, Pune with 5.4 MSF and occupancy of 99.3 per cent generates an

PORTFOLIO OVERVIEW*	
Total Leasable area	31.9 msf
In-place rent	₹63 psf
Committed Occupancy	86.90%
WALE	6.8 years
Total portfolio market value	₹27,300 crore
*as of Sept 30, 2022	

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average rental of ₹69.2 per sq ft, while Chennai which currently has the smallest share in the portfolio with 0.9 MSF of leasable area and committed occupancy of 59.5 per cent, fetches an average rental of ₹64.4 per sq feet per month.

“Our IT and office spaces are distinguished by their scale and infrastructure. They are located in the established micro-markets of their respective portfolio markets, with proximity and connectivity to major business, social and transportation infrastructure. We believe that our portfolio assets allow us to attract large, quality tenants and position us as the ‘landlord of choice’ for large multinational clients who have a pan-India presence,” says Rohira who is also the manager of the REIT, and has a core management team of six people led by Preeti Chheda, chief finance officer and compliance officer.

Chheda has over 20 years of experience (including 12 years with the K Raheja Corp, which is also the sponsor of the REIT), in equity and debt fund raising, acquisitions, overseeing the management of commercial real estate assets, raising private equity for real estate projects, and investor relations and financial reporting.

Rohira, an MBA from the Booth School of Business, Chicago and a law degree holder from Mumbai University, began his career with the K Raheja Corp over two decades ago. He has, during his tenure, pioneered the concept of landmark business districts, premium residential and retail complexes, which have become reference points in Indian real estate. He is a key member of the leadership team that has built the K Raheja Corp into one of the leading names in the Indian real estate sector.

In the next 6-24 months, Mindspace is looking to add 3.3 MSF of leasable area across six projects (including a Data Centre at Mindspace Airoli West) to the five existing parks. The REIT is investing around ₹2,100 crore in these projects. Most of this capex is funded through debt. Moreover, the REIT is also evaluating acquisition of a 0.16-MSF leasable area office project (The Square Avenue 98) at BKC Annex, in Mumbai from K Raheja Corp SPV, Sundew Real Estate Pvt Ltd. The completed project is fully leased. Shareholders



of Sundew RE have already expressed interest in selling 100 per cent equity shares to Mindspace REIT.

Besides, the manager is also evaluating acquisition of another ROFO (Right of First Offer) asset (Commerzone Raidurg) from the sponsor group in Hyderabad. The 1.82 MSF leasable area office project received the OC in April 2022 and currently tenant fit-outs are in progress.

Issuing Commercial Papers

“With central banks across the globe raising interest rates and pulling out liquidity from the system, the cost of capital has gone up and liquidity conditions have tightened. We expect this to limit the addition of new supply which should augur well for Grade A office spaces. This, coupled with inflationary pressures, is ensuring that the upcoming supply in the market will have to come in at higher rentals thereby aiding MTM growth in our portfolio,” says Rohira.

Meanwhile, Mindspace REIT has completed issuance of Commercial Papers of ₹100 crore for a maturity of three months at an interest rate of 7.20 per cent per annum. Mindspace’s Commercial Papers are rated CRISIL A1+, the highest rating by CRISIL. The fund will be utilised towards meeting the working capital requirement of its asset SPVs. Loan to value of Mindspace REIT stood at 16.8 per cent as on 30 September 2022, the lowest amongst its peers.

With this move, Mindspace further broadens its debt profile. At the time of its IPO, in August 2020, the entire borrowing was in the form of asset SPV level bank borrowing. Over the past two-odd

years, Mindspace REIT has consciously diversified its lender portfolio and reduced its borrowing costs via multiple fixed-cost debenture issuances which are primarily subscribed by mutual funds, pension funds and insurers.

“After successfully exploring capital market fund raising through issuance of multiple debentures, we are glad to be the first Indian REIT to raise funds through Commercial Papers. This is part of our larger strategy to diversify our lender base and optimise borrowing costs and the maturity profile of our well-staggered debt book. Going forward, as part of our larger ESG commitment, we will also explore opportunities to raise funds via issuance of green bonds,” states Rohira.

“REIT is a fantastic investment product for the Indian RE sector. Earlier, investors had no access to instruments like these which allow them to investment in RE units directly. These instruments are managed by competent managers, which further boost the confidence of investors. Though it is a new investment avenue in the Indian context, it is going to attract a large pool of investors going forward,” says Ambar Maheshwari, CEO, Indiabulls Assets Management Co Ltd.

With all these developments in place, Mindspace REIT has positioned itself quite strongly in the REIT (Real Estate Investment Trust) space, which is still to catch up in the India market. Despite all the recent challenges, the K Raheja Corp-sponsored REIT has demonstrated satisfactory performance.

The portfolio, with over 185 tenants, has no single tenant contributing more than 5.7 per cent to its gross contracted rentals. Large MNCs contribute over 70 per cent to its overall rental income, something that gives it a great deal of resilience to withstand market headwinds. The manager and its core management team have continued to maintain a good relationship with their tenants and this has resulted in 75 per cent of rental expiries re-leased in H1 FY23, accounting for 1.3 MSF of area. With over 86 per cent of committed occupancy and all key markets showing a gradual surge in demand, the REIT is well poised to leave its mark in the market. ♦

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