"Mindspace Business Parks REIT Q2 FY25 Earnings Conference Call"

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(This document has been edited for clarity and accuracy wherever required)

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q2 FY'25 Financial Results of Mindspace Business Parks REIT Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Garewal. Thank you and over to you, sir.

Nitin Garewal: Good evening and thank you for joining Quarter 2 FY'25 Earnings Call for Mindspace Business Parks REIT.

At this point, we would like to highlight that the Management may make certain statements that may be forward-looking in nature. Please be advised that our actual Results may differ materially from these statements. We do not guarantee these statements or results and are not obliged to update them at any point of time.

Kindly note that we have uploaded our "Operational and Financial Performance metrics" in a spreadsheet format on our website in Investor Relations section. This has all the data since our listing that we have been disclosing in our Investor Presentation for your ease of reference. We will be happy to hear your feedback on this so that we can make it more helpful for you.

I would now like to welcome our CEO – Ramesh Nair and our CFO – Preeti Chheda.

They will walk you through the "Business Update and the "Financial Performance during the Quarter 2." We will then open the floor to Q&A.

I will now hand over the call to Ramesh. Over to you.

Ramesh Nair: Thank you, Nitin. Good evening, everyone, and thanks for joining today.

I am happy to share with all of you that we have had another good quarter at Mindspace REIT. We are accelerating our growth. We are achieving strong results and creating value for all our stakeholders.

I completed my first year as CEO of Mindspace REIT in September. I wanted to thank our Investors and Analysts for all the support which I got over the past one year. My gratitude to our Independent and Non-Independent Directors, especially Mr. Ravi Raheja, Mr. Neel Raheja and Mr. Vinod Rohira, for their guidance and support, which is helping us grow over the past one year. I am lucky to have three of the best brains in commercial real estate guiding me.

I will now share some of the key highlights of the last 12 months:

Our NOI grew from 4.79 billion to 5.03 billion. It's the first time we have crossed 5 billion in terms of NOI. Our distribution grew from 2.84 billion to 3.05 billion crossing 3 billion again, for the first time. Our LTV is at a very healthy level at 21.9%. Our borrowing cost again is at a very healthy 7.93%. We achieved in the last one-year a gross leasing of 5.6 million square feet and net leasing of 1 million square feet.

Our committed occupancy increased from 87.6% to 91.7% over the last 12 months. We improved again our committed occupancy in Airoli to 82% tackling what had previously been a big challenge for us. Our in-place rentals grew from 67 to 70.4 per square feet over the last 12 months. Our data center portfolio grew from 0.6 million square feet to 1.7 million square feet.

Our overall portfolio grew from 32.3 million square feet to 34.7 million square feet. We have already upgraded 13 buildings with another 9 currently underway.

Our GAV increased from 287 billion to 313 billion. NAV increased from 369.9 per unit to 392.6 per unit. We signed 68 new F&B outlets in our park. We gave returns of over 25% to investors, including our distributions over the last 12 months.

We have also successfully demarcated 2.1 million square feet of SEZ area in Airoli under the new regulations. We have introduced lots of new amenities across our parks.

We conducted over 4 client surveys and one client tenant survey to demonstrate our commitment to seeking feedback, which we will use for continuous improvement. We also organized close to 50 events in the last one year for our tenants to drive engagement and thereby increasing work from office.

I am happy to mention that across our portfolio, attendance has crossed 74% in the last quarter.

Now let's come to the quarterly performance:

The Indian office market continues to remain strong. Q3 Calendar Year '24 continued the positive momentum witnessed earlier this year. We are very well-positioned for sustainable and profitable growth.

On the market front, I would like to highlight a few IPC insights which have seen in the last few weeks:

The JLL Report stated that there is record-breaking leasing of 53 million square feet in the first three quarters of the Calendar Year 2024. Gross leasing in third quarter is nearly 20 million square feet, which is up 8.2% marking the second highest quarter ever. Increased demand across various industry segments from both global and domestic firms continue. Global occupiers accounted for around 57% of the Q3 leasing activity. Net absorption again, across the top seven cities reached 12.16 million square feet, the highest this year marking of 15% quarter-on-quarter increase. The vacancy rate fell to a two-year low now standing at 16.8%.

Separately, as CBRE Report spoke about how there has been a very good, robust leasing activity in H1 which extended into Q3 with the space take up of nearly 19 million square feet. Leasing activity hit a nine-month record of close to 54 million square feet. 17% year-on-year jump in office leasing in Q3 2024, with the quarter witnessing rental growth across many micro markets. This is driven by sustained leasing activity, demand for high quality assets and reduced vacancy levels.

The strong office momentum from H1 extended into Q3 with the 19 million square feet of space getting absorbed. Leasing activity again hit a nine-month record high of 54 million square feet. Office leasing saw a 17% year-on-year growth in Q3 2024. The rental rates also increased in many micro markets driven by consistent leasing demand or preference for premium assets and falling vacancy rate.

The Knight Frank report stated that the office market is again poised for a record year. GCCs are the highest consumers of office space in Q3 2024 contributing to 37% of the volume. Growing presence of GCCs and demand for domestic companies continue as key leasing drivers.

To Conclude:

The office market outlook remains positive with continued demand diversification. I have repeatedly highlighted our growth drivers, and we will briefly highlight them for all of you again:

We expect NOI to grow by over Rs. 900 crores over the next three to four years because of leasing of our 2.1 million square feet vacant area, particularly in Airoli. Completion of 4.4 million square feet of under construction projects. Planned development of 3.9 million square feet. Mark-to-market rentals and contractual escalations will also help us cross this 900-crore mark. Future acquisitions, whether from sponsors or third parties, will further drive growth and expansion.

Now coming to key announcements regarding new developments of Quarter 2 of FY'25:

We have made good progress in expanding our portfolio, which now stands at 34.7 million square feet. This is thanks to the strategic signing of three built-to-suit data centers with Princeton Digital Group totaling 1.05 million square feet at Airoli West. This strengthens our Navi Mumbai position as the #1 destination for data centers in India.

We received Board approval to acquire c. 260,000 square feet area in Mindspace Madhapur from a third-party owner. This enhances our ownership and consolidation within one of India's largest and best office business parks.

On our operating performance, we have achieved very strong leasing this quarter with several new leases signed. We leased 2.1 million square feet during the quarter. We are pleased to report an increase in committed occupancy rates by 60 basis points to 91.7%. Our market position remains strong with six out of the nine parks maintaining occupancy rates more than 95%. We realized a releasing spread of 27.8%, which increased our in-place rent to 70 per square foot per month.

We received approval for all our applications for demarcation of SEZ space. Total demarcated space now stands at 2.1 million square feet across Airoli East and West. We have already leased more than 900,000 square feet of this area. Changes in SEZ policy have eased leasing concerns for us in the Navi Mumbai market.

Coming to the Financial Performance of the quarter:

Revenue and NOI grew by 6% and 5.1% year-on-year respectively. For the first time, our NOI crossed Rs. 5 billion. Our distribution crossed Rs. 3 billion again for the first time, it's an increase of 7.5% on a year-on-year basis and came in at Rs. 3.05 billion.

Our strong balance sheet and low debt levels provide us with financial flexibility to pursue growth opportunities.

On the development front, projects are progressing well. The new office space is scheduled for timely delivery. R2 in Kharadi, Pune and B8 Data Center in Gigaplex. Airoli will be ready in Q4 of this financial year.

On the amenities side, we have been improving tenant experience with world class amenities in our park by adding more terrace amenities, by adding more fitness and medical centers, better access controls, better baggage and metal scanners, gaming arenas, separate jogging bike lanes. All these are designed to offer a seamless experience for our tenants and their employees.

We recently conducted a survey of 100 plus clients and received high ratings on key parameters such as the responsiveness of Mindspace Representatives, handling of queries and the quality of the landscaped open areas. We have noted the feedback, and we are also working on improving areas where we scored low. This client centric approach ensures we elevate tenant satisfaction across all touch points.

We are also focused on many tenant-centric innovations. We are committed to delivering a hospitality-like experience across our lobbies. We are enhancing our power by adding more retail offerings. We have expanded our F&B offerings improving overall tenant experience. We have also prioritized women safety and have implemented measures across our parks to ensure a secure environment for everyone.

On the ESG and sustainability achievements, we continue to lead the market with our ESG goals. While we received the title of "Global Listed Sector Leader" for office for Office Development Benchmark, we also received GRESB 5 Star rating for the third consecutive year. Mindspace REIT outperformed GRESB and peer average scores for both office development and standing investment benchmark. We scored 99 out of 100 and 91 out of 100 respectively. Overall, we stand committed to innovation and sustainability.

In conclusion, we are optimistic about the positive trends in the industry. We are confident of our ability to maintain this momentum. Our commitment to innovation, tenant satisfaction and sustainability keeps us well-positioned for the future.

Thank you all for your time. I will now hand it over to Preeti for further "Financial Updates" of the quarter.

Preeti Chheda: Thank you, Ramesh. Good evening everyone.

We have had yet another quarter of strong financial performance. Q2FY'25 saw healthy growth in both revenue from operations and net operating income. Our revenue from operations for Q2 FY'25 stood at INR 6.2 billion, a year-on-year growth of 6%. Similarly, NOI for the quarter was INR 5 billion, a YoY growth of 5.1%, our NOI margin from core renting continued to remain steady at 85%.

We also continue to grow our distribution year-on-year. For the 2nd Quarter of FY25, we announced a distribution of INR 3.05 billion which is about INR 5.15 per unit, a year-on-year growth of 7.5%. As Ramesh mentioned, this is our second consecutive quarter of distribution growth led by strong operating performance.

The gross value of our portfolio increased 4.8% to INR 313 billion. Key contributors to the value accretion were the three additional data centers we signed with PDG at Mindspace, Airoli West. Further, the addition of newer areas and ongoing development has also helped grow the value of our portfolio.

We are constantly working to enhance the value of our portfolio through efficiency enhancements, redevelopments, utilization of unutilized FSI potential.

NAV per unit at September 30th ‘24 stood at INR 392.6, up 3.2% from INR 380.5 at March ‘24. Our loan-to-value continues to remain low at 21.9%. This healthy balance sheet gives us enough headroom for acquisitions and also development within the portfolio. Again, as Ramesh mentioned, we received approval from the Board for the purchase of 260,000 square feet from a third-party owner at our Mindspace Madhapur Park. The acquisition cost of INR 2.75 billion together with transaction cost shall be funded out of debt. Our cost of debt remained at 7.9%. We have worked to optimize the mix of a borrowing at SPV and REIT level to achieve the best possible cost of funding.

During the quarter, we received approval from SEZ Authorities for denotification of a Pocharam asset. We have appointed advisors for divestment of the asset. We hope to hear from our advisors on the progress on the divestments over the next two to three months as they reach out to potential buyers for the asset.

We have progressed well with the demarcation of certain SEZ spaces at our Airoli, Navi Mumbai Park as non-processing area. So, far we have received approval for the demarcation of 2.1 million square feet of SEZ spaces. Filling-up of these existing vacancies, together with completion of development pipeline over the next two to three years shall drive NOI growth. Ramesh has already alluded to this.

With this I hand over the call to the operator to open the floor for questions. Thank you everyone.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from Puneet from HSBC. Please go ahead.

Puneet: Congratulations on great numbers. Ramesh, if you can also talk a bit about the supply side part of the equation on the industry side it will be very helpful. What kind of new supply are you seeing and how much of it is really competing in some sense.

Ramesh Nair: I remember when I met you a few years back, I had told you that residential has around 10,000 developers in India and office had around 45 developers in India. That 45 developers number today, Puneet, I think maybe around 15. So, today, concrete is being poured only by the best developers in the country, and that numbers are only around 15 and you know most of these 15 names. Not very worried about supply as such because if you look at our four key markets where we have a presence, we have a presence in all the prime locations. Madhapur, when we acquired the asset 20 years back was the peripheral district. Today Madhapur, the IPC brokers call it the CBD of Hyderabad. Airoli again today, which a lot of people called peripheral but is at 16 minutes' drive from Godrej Vikhroli which is again Rs. 185 market**.** So, not worried about supply. The industry is hugely consolidated, and we are pouring concrete in all the four markets, increasing our supply. Again, let's look at it from an office point of view. Airoli, Navi Mumbai has a lot of land, but what has also happened in a market like Airoli is today because of the data center boom happening land prices have shot up from 4-5 years back, which is maybe 6 crores an acre today people are quoting 35 crores to 40 crores an acre. So, nobody can buy land at 40 crores an acre and build an office park as such and then still compete with us on rentals. So, we have advantages across. In Chennai it really doesn't matter out of the 1.0 million square feet we have, the balance 70,000 square feet which will get leased in the next few days or a few couple of weeks. So, again, that's not a problem. So, even in our prime locations we are not worried about future supply as such. I was in Hyderabad two days back looking at supply around Madhapur. We are like 97% occupied there and all the competing projects around us were also between 97% to 100% full so not a worry.

Participant: Are you worried at all that the newer-looking buildings will give competition to your portfolio is that something on your mind at all and how are you going to address that?

Ramesh Nair: That's a great question, Puneet. And that's exactly the reason why we have been energizing our parks over the last few years, spending a lot of money on upgrades and look at Hyderabad, we are learning also. In Hyderabad, a couple of our competitors did good parks, we learned from them, and we are creating our world Class Experience Center. We were spending like Rs. 150 crores to create the best club facility in the country there. We are spending money today on landscaping. We are spending money today on amenities. You saw all the F&Bs which we have opened. All our focus on ESG. We have completed Close to 13 buildings upgrades, 9 are ongoing and YTD what we are planning to upgrade in the future is 10. So, upgrades is something that we need to do. There are times when you are spending like Rs. 1000 a square feet to just in upgrades and some of our buildings you should see like our Building 4 in Madhapur, today the lobby would look better than a newer building. So, those investments are happening very, very proactively. Like I said, 13 completed, 9 ongoing and 10 planned for the future. So, that's a significant part of our portfolio.

Puneet: And also, if you can talk about your data center business model, how much do you need to invest and is it just limited to building, utilities and maybe any other investment that you may need to do some thoughts there?

Ramesh Nair: Data centers, definitely something which is, the country and Navi Mumbai is going to see a lot of boom. The sad part is we have run out of land for future data center development. But today, if you look at our REIT, I don't think there's any developer who has five data centers in their portfolio. We are number one, I think not this one or two data centers which someone has, Bangalore, there is one. Otherwise, most of these data centers are either being invested by the COLO players themselves or the hyperscalers. So, data center was one of the strategic priorities we have been focusing on for some time now. And that strategy has now paid off with us having 1.7 million square feet and five data centers. So, I wish we had more land, but with 5 currently we have to stop our data center development.

Puneet: And how much would you need to invest if you can also talk in terms of megawatts of power that is five data centers will have?

Ramesh Nair: See, previously we could have these thumb rules on megawatts, but Puneet what we are seeing is with improvement in chips and NVIDIA and all that stuff happening, square footage is not translating directly into megawatts because what we are building today is going to be occupied, let's say, 1.5 years down the line and at that time, megawatts could become doubled the way the technology speed is improving. So, I would have told you an answer for this six months back, but today at the base at which technology is improving, things are significantly changing every month in terms of data center storage capacity.

Participant: And would you be investing in all the utilities or just the cold shell?

Ramesh Nair: So, what we are doing is we are giving them a cold shell, which is basically the structure. A typical office building today costs us close to Rs. 5,000. The data center building which we are giving to our clients, that cost us around Rs. 7,000. So, we give the shell, we are not investing in MEP and Racks and we have no intention to get into the data center business as such, other than being developers and giving space to people who give us long-term commitments. And there is a lot more stability in rentals. Not to forget that some of these leases, they're also signing at 4% increased rent escalations, which also helps us.

Puneet: Okay, so no more questions. Thank you.

Moderator: Thank you. The next question comes from Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: So, a couple of questions from my side. First, when we look at your leasing in Q2, most of the tenants are engineering, manufacturing, professional services, co-working, etc. But we don't see too many tenants from the tech space. So, wanted to get your views on what is happening there? Do we expect to pick up sometime soon or will that continue to lag? That's the first question. Second, both committed and actual occupancies have gone up. So, what levels do we expect to end FY25 with? And lastly, the occupancy in the SEZ versus non-SEZ space? Thank you.

Ramesh Nair: So, in terms of sector-wise breakup of leasing, I agree with you totally that tech leasing has dropped. I think that's also reflective of the overall IT services industry. So, in terms of leasing, this time it was engineering and manufacturing 42%, co-working around 17%, and manufacturing and processes around 12%. So, in terms of occupancy, second question of yours, which is what is our estimate? We are hoping to reach something like 93.5% by end of this financial year, that's the target and looking like we would reach there. In terms of vacancy of SEZ NPA versus non-SEZ, like I mentioned, we have a total vacancy right now of 2.1 million square feet. SEZ vacant area is 0.6 million square feet. Non-SEZ vacant area is 1.5 million square feet. One year back, we were talking exactly opposite numbers and this is mainly because how proactive we've been in terms of getting our unleasable SEZ spaces demarcated real fast. Our non-SEZ committed occupancy (including NPA converted spaces) today is 88.8% and SEZ committed occupancy is 90.8%. Total SEZ area today, which is at 2.1 million square feet, like I mentioned, which is converted to NPA, and we have leased 45% of that. So, only 0.5 million square feet of non-converted area remains vacant. I was kind of deep diving into our Airoli parks and the NPA converted but vacant today stands at 11 lakhs square feet, partial SEZ vacancy. So, Sometimes our floor plates are 50,000, 70,000 square feet. Some of these, if one tenant leaves partially, the others we cannot demarcate that, so that stands at around 210,000 square feet. NPAs to be applied, where we know a tenant is going to vacate, but to start the paperwork we will have to wait till the tenant moves out. That stands at 170,000 square feet. NPA initiated is around 83,000 square feet. SEZ committed by tenants today, that's 46,000 square feet. And NPA to be applied is c.250,000 square feet. So, you total all this up, that comes to that 17 lakh square feet, which is vacant. So, we are really digging deep. Tenants even half-floor, quarter floors, where tenants, we can't demarcate. We have a full-fledged strategy in terms of how we can get that lease. So, a lot of thinking going behind the scenes there, Parvez.

Moderator: Thank you. The next question comes from Pritesh Sheth from Axis Capital. Please go ahead.

Pritesh Sheth: Firstly, specifically on Airoli, your leasing outlook there. How do you see occupancy rising, given the breakup of numbers that you have provided. We know what is the outlook there over probably this year or next couple of years? I am sure you would have reacted earlier as well in previous calls, but just update on that.

Ramesh Nair: Great question, Pritesh. So, if you look at Airoli, I am a lot more bullish than what I was one year back, mainly because we have managed to get all that vacancies, SEZ vacancies demarcated. Look at our recent deals. We have signed a GCC for 257,000 square feet with one of the very large chemical companies globally. There's another big manufacturing company who has taken 70,000 square feet in the last quarter, again a GCC. Yesterday I heard that another banking GCC has taken 400 seats with a co-working player within our campus. Navi Mumbai definitely we've seen some of those images of what's happening in the San Francisco Silicon Valley of India. And I think Navi Mumbai has given all the positives from quality of life, to talent availability, to cleanliness, to traffic, to safety, to low attrition, cost of living, real estate cost, all that is definitely we are seeing momentum towards. One other good point which came up, Pritesh, you are in Bombay, you would have seen that announcement of where the government a few weeks back took the toll off. And look at, in Bombay the toll actually used to divide Mumbai and Navi Mumbai. That's significantly changed in terms of merging both the cities. Again, on the infra front, there's so much being written about Navi Mumbai's infra, which I am sure you are aware of, whether it's the trans harbor link, whether it's the Navi Mumbai Metro Rail Corporation, Navi Mumbai International Airport, the Kalwa bypass bridge, the Digha station which has come, six minutes walking from Gigaplex or Airoli Katai Naka elevated freeway which is going to get ready soon, the Mumbai Coastal road which is coming up and Panvel-Karjat suburban rail. So, the all the massive infra which everybody has been talking of we saw the Shinde image, the flight, the airports, the plane landing at the international airport. So, all these are definitely going to help Navi Mumbai, and we have been beneficiaries to the changing mindset of IT services, BFSI and manufacturing GCCs in Navi Mumbai.

Pritesh Sheth: What would be your leasing outlook there? I mean, in the next couple of years, will Airoli assets be back at 95%? How do you think about that?

Ramesh Nair: What I would say is, today the market is anywhere between Thane and Navi Mumbai, which is today the Rs. 60 to Rs. 75 market of Mumbai has a demand of around 2 million square feet every year. And in that, we over the years have brought in at least 50% of that market. And that would be in terms of having a realistic expectation of a million square feet to be leased in our parks, every year.

Pritesh Sheth: Second, on building 4 which is coming up at Kharadi end of this year, we are only 6 months away from delivery. What's the leasing status there in terms of pre-commitments or the pipeline that we are seeing?

Ramesh Nair: Before we get into the leasing status, that building is on track for completion in January-February of 2025. 90% of the work is more or less completed. The OC will come very soon, the CFO approvals will come very soon. That building what we call R2 internally, which is the building four, that's the total leasable area of 1.04 million square feet. We are in advanced stages of talking to a GCC for the full building. We also have an IT services company which has shown interest for half the building and another GCC which has shown interest for the other half of the building. So, we have a backup also. But very, very good chance that the GCC we are talking to will lease the full building and hopefully we will be able to share some good news very soon.

Pritesh Sheth: And on Madhapur, I think you mentioned not much supply coming up there. We will have two buildings in FY27 and our existing vacancy is also very low there. What would be your outlook on rentals there? Like Kharadi, you would be planning to lease it out at the later part of the construction stage where you have six months or a year away to deliver those buildings and probably wait for how market is and you know decide on rent or what's your strategy there or whether leasing would be the first priority rather than rentals?

Ramesh Nair: Actually, very good question, Pritesh. So, our Hyderabad building we are at the fourth level. We have crossed more than 23% of the building completion. A lot of concrete being poured. I was there reviewing the construction progress two days back. We have placed most of the contracts, the MEP, façade, all that contracts have been placed. This is going to be a 1.5 million square feet building. There are two active tenants who have shown interest in this park. Now we need to take a call. If we want to do the lease now or should we wait a little bit further down because the building would get somewhere completed around early to mid-2026. So, that's the call we need to take, but that wouldn't, the Hyderabad, the first building, wouldn't be stressing me at all right now because market is super-hot and there is absolutely no supply in and around our park. So, we can actually command a very good rental. And today, a lot of leases which are happening in some of our properties which are a little old itself are like 80 bucks, so we have crossed the Rs. 80 rental and not worried about rental and not worried about absorption for that building. The next building, I think we would wait a little bit, the building 8, which is a 1.7 million square feet building. Right now, we are overall reached only 15% stage in that building in terms of construction progress. So, we have enough time to... And we want to create a nice multi-talented building there. We don't want to be in a hurry to do pre-leasing there because we have seen in Hyderabad, if you can wait a little bit, we won't wait till the last three months, we can see that the rentals will go up. So, the rentals today in Hyderabad, Madhapur is in its early to mid-80s. We definitely see this increasing by the time building 8 comes up and we will be the beneficiaries of that. But not at all stressed about leasing these two buildings, Pritesh.

Pritesh Sheth: And one last, if I can push. 3.9 million square feet upcoming pipeline that you have, which is probably not yet started. Can you provide a split of that? I understand like 1 million square feet is the data center. Another 1.5 million square feet is the new building that you are looking to do in Airoli East, but you know, apart from these two, what am I missing out here?

Ramesh Nair: The data center, if you have announced, that's 1.05 million square feet. Building 15 in Airoli East, that's 1.5 million square feet. We decided to start this at quarter back when we announced it because we saw the leasing momentum pick up very well. We also have building 17 in Airoli East, which is going to be nearly 8-8.5 lakh square feet building. This will have 2.5 lakhs square feet of hotel which is already being branded as Hyatt Regency and 6 lakhs square feet of office coming there. We also have another 600,000 square feet potential which we are calling Building 18 in Madhapur. So, that's what the total is going to be in terms of newer buildings from our Group.

Pritesh Sheth: And timeline of delivery would be four years from here on?

Ramesh Nair: Right now, we are saying three years for building 15 and building 17. Again, maybe close to three years for building 18 in Hyderabad. The data center will be a phased development with the first building. See, the data center building's advantage is its low rise. We can deliver it quickly. There are no basements. Your DGs and all that is kept in a separate building next to you. So, most of these buildings are not more than seven stories high. So, in terms of speed also we can complete quite fast, Pritesh.

Moderator: Thank you. The next question comes from Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: Ramesh, you mentioned that you are looking at occupancy by the end of this year at about 93.5%. So, what would be the gross leasing assumption that you have taken for the second half? And which assets would be these for?

Ramesh Nair: We are hoping to lease more space in Airoli. We don't have much of space left in Madhapur. But but that will also get leased around 3 lakhs square feet. I think we will at least do a couple of lakhs square feet plus Chennai, whatever, 70,000 square feet. So, we are looking at 2 million square feet as an overall thing for the year.

Mohit Agarwal: Two million from the second half?

Ramesh Nair: Second half of the year.\

Mohit Agarwal: The other thing you spoke in your introductory remarks about Rs, 900-crores NOI to come from all the development projects that you are taking. So, that's 10 million square feet, which includes the yet-to-lease portion and area under construction plus future development, correct?

Ramesh Nair: That's right. You have 2.1 vacant area, 4.4 of under construction and planned of 3.9.

Mohit Aggarwal: So, within this, for both your under-construction piece and your future development, what is the kind of yield on cost that one should expect and if we're going to put into both the separate buckets, is it similar or is it different for your under construction and future development projects?

Preeti Chheda: It will be similar for both. I don't think both of them will be different. Now obviously when we are doing any of these developments, at least we want to look at low double digit development yields. Of course, sometimes it becomes a little difficult, if we have historical land, then it becomes easier. Obviously, if you are buying new land and doing then it's a little tighter, but double digit is what we generally aim for.

Mohit Aggarwal: 12% to 14% is the right range?

Preeti Chheda: Around 12ish give or take.

Mohit Aggarwal: And lastly, you also mentioned about upgradation CAPEX, you know, you have been upgrading your Madhapur building. So, you mentioned about Rs. 1000 per square foot, approximately on an analyzed basis, how much would that budget be for upgradation of your properties?

Ramesh Nair: This year, our overall CAPEX is around Rs. 1100 crores, overall CAPEX. In that the CAPEX for upgrades is around Rs. 170 crores.

Moderator: Thank you. The next question comes from Tanvir Sure, who is an individual investor. Please go ahead.

Tanvir Sure: Hi, I just wanted to understand how the data center deals are structured. Do they have any life, I mean, is there a, like do clients keep switching or how is the deal structured once the building is made?

Ramesh Nair: So, what we do is, we do typically a 20-year initial term where there is an option to renew for two additional terms of 10 years each. There is a lock-in period of 15 years, which is where the rent is confirmed. And like I said, we do the base building, which costs anywhere between Rs. 6,500 to Rs. 7,000. And all the MEP, all the other stuff internally, DG sets and all the Racks and air conditioning inside, everything is done by the client who in this case is a COLO player who would subsequently give it to many people or he would give it to a hyperscaler. So, that's how the model is. We are not in the data center business, we are in the business of providing data center space, real estate space for data center operator.

Tanvir Sure: So, you said there's a 15-year lock-in and that includes escalation as well?

Ramesh Nair: Yes. Escalations typically are around 4% annually for the data center deals which we have.

Moderator: Thank you. The next follow-up question is from Pritesh Sheth from Axis Capital.

Pritesh Sheth: Just one question for Preeti. On the NDCF rolldown, the finance cost at REIT level was Rs. 160 crores last quarter and this quarter it's down to Rs. 87 crores. What has led to that lower number and how should we think about it going ahead?

Preeti Chheda: I think the only difference is because we had MLD which we redeemed in the first quarter. So, we add that bulk of Rs. 80 crores of MLD interest which got repaid on redemption. So, that's like a one-off thing that happened in Q1. So, you are not seeing that recur. So, these are the numbers which you could go with for Q2. Thank you everyone and wish you all a Happy Diwali.

Ramesh Nair: Thank you, everyone, Happy Diwali.

Moderator: Thank you. As there are no further questions from the participants, that concludes this conference. On behalf of Mindspace Business Parks REIT, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.