

A 'real' player

PHOTOS: SANJAY BORADE



Virwani: 'major corporate entity'

director, South, JLL India, which was mandated for the deal. "It's a collaborative approach of building the campus where the lesser and the lessee would come together and put on their thinking caps to build the right campus with the right solutions for themselves. In fact, Embassy is also providing incubation space for its tenant."

Currently, Embassy, a pioneer in the leasing model of commercial space and development of integrated office parks, enjoys a strong client portfolio of over 100 MNCs and blue chip (around 15 Fortune 500 companies), employing 160,000-odd people across these business parks. These include big names like IBM, Microsoft, Fidelity, Cognizant, CISCO, Yahoo, Goldman Sachs, Accenture, TCS, Mercedes-Benz, ANZ, Barclays and Vodafone.

Despite sluggish market conditions, in 2014 the company leased out 5.6 million sq ft of office space out of the total office space absorption of around 10 million sq ft in the whole of Bangalore market. It added 27 new clients (from diverse fields) including Lowe's, Rolls Royce, OLA Cabs, Volkswagen and Rockwell. This year, till March 2015, the company has leased out 530,000 sq ft of space to 11 tenants, which include Seagate (124,000 sq ft), Mercedes (74,000 sq ft) and Quest (60,000 sq ft). While it enjoys an average occupancy rate of 96 per cent across its parks, the company annually earns around ₹850 crore from its rental portfolio at an average rental of about ₹48 per sq ft per month.

"Our association with Embassy group commenced with our Infantry Road office," says Prasanna Gonuguntla, vice-president, product development, Mercedes-Benz Research and Development India. "While working on our new facility, Embassy Crest, we experienced the same quality standards of professional knowhow, diligence, flexibility and support from the Embassy group as was expected of them. This is why, we were able to complete a Daimler standard building on time,

Embassy creates the largest portfolio of income-yielding assets

Last year, when the Embassy group, in partnership with PE player Blackstone, acquired a 106-acre business park on the Outer Ring Road of Bangalore, in one of the largest commercial real estate deals worth ₹1,200 crore, the Bangalore-based realtor managed to edge out DLF as the country's largest commercial office space developer. The acquisition has taken the company's total commercial real estate holding to about 30 million sq ft, as against DLF's 27.50 million sq ft.

With this acquisition, Embassy Office Parks (EOP), the 50:50 joint venture between the Embassy Property Developments Pvt Ltd (EPDL), a holding company of the group, and the PE giant, now boasts a strong portfolio of four office parks spread across Bangalore and Pune. It plans to build another 13-14 million sq ft over the next three-four years, including eight

million sq ft in this newly acquired office space – named Embassy Tech-Village, where Flipkart has already inked the largest office lease deal in the country for a period of 10 years.

The e-commerce major has signed up to lease two million sq ft commercial space from the Embassy group at an annual rental of about ₹180 crore, which translates into about ₹52 per sq ft – a rental that's in line with prevailing market trends. Embassy will develop a modern 'plug and play' facility for Flipkart in a phased manner in the next three years. The country's largest e-tailer, which has formulated a mega expansion plan, will shift its operations from multiple locations to this campus which will accommodate its 20,000-odd employees.

"Embassy will be building a classic design-built campus for Flipkart," says Juggy Marwaha, managing

even when faced with many technical and structural challenges and working under stringent timelines.”

Adds Narayan Ramalingam, managing director, Lowe's India: “Our entry into Bangalore was an important step towards ensuring Lowe's is well-positioned for the future. Building a world class GIC, focussed on technology and analytics, will help Lowe's further its transformation to an omni-channel retailer and provide customers with more personalised shopping experiences. Establishing our campus in Embassy provides access to the strong and growing talent base available in Bangalore. Embassy has been good to work with throughout the process. They've been committed to learning and understanding our needs and helped bring the project to fruition.”

As a group, Embassy has a total portfolio of 37 million sq ft of development (completed), which also include six million sq ft of premium residential development. The company has a minor exposure in retail and hospitality too, where it has launched the 247-key Hilton Hotel last year at its centrally-located Embassy GolfLink Park in Bangalore. Moreover, the developer has added a 240-key Four Seasons Hotel in North Bangalore (under construction, to be ready by 2017-18) by acquiring a one-million sq ft lifestyle project, designed in a mixed-use format. The company, along with Blackstone in their second deal last year, acquired the 73 per cent stake held in the CityView project by Goldman Sachs' Whitehall Fund and the remaining by Dayanand Pai's Century Real Estate Holdings.

The project, valued at ₹605 crore, has a debt component of about ₹275 crore, owed to a consortium led by State Bank of India. Apart from the hotel property, the project comprises 110 branded residences, 150,000 sq ft of office space and 60,000 sq ft of retail space.

Robust pipeline

Embassy stepped in to buy this project after construction giant Shapoorji Pallonji threatened to take legal action against Goldman Sachs



Holland: 'full faith'

and Century Real Estate Holdings – both of whom were jointly developing the CityView project. Shapoorji had claimed that the promoters had abandoned the project and hadn't cleared dues amounting to ₹82 crore. Bollywood's leading actress Deepika Padukone, along with some Infosys co-founders, was among the first to invest in this Four Seasons branded residences that carried a price tag of over \$1 million.

Embassy currently boasts a robust construction pipeline of 13 million sq ft, comprising three million sq ft of commercial space and around nine million sq ft of residential space also. The group, which boasts a historic land parcel of about 1,700 acres, registered a consolidated turnover of ₹1,357 crore in 2014-15; ₹1,822 crore in 2013-14 and ₹1,029 crore in 2012-13. In the last three years, ever since Blackstone invested \$200 million in the group to form a 50:50 joint venture EOP, there has been a visible traction in terms of its commercial portfolio. Currently, the US-based PE giant has a total exposure of about \$500 million in various projects by the Embassy group.

“At Blackstone, our investment approach has always been to partner with fundamentally great businesses, managed by experienced and passionate promoters. In Embassy, we found a partner, who is willing to embrace challenges and newer ideas, keep striving for excellence and take joint

decisions for overall value creation for the stakeholders. That we have made multiple investments in other assets of Embassy group demonstrates how our partnership has progressed since our first investment in Embassy Manayata Business Park in September of 2011. There is great collaboration and immense respect among both teams which helps business grow rapidly, thereby greatly enhancing value,” says Tuhin Parikh, senior managing director, Blackstone.

“Our partners, particularly Blackstone and HDFC, have added huge value to our overall business,” says Jitu Virwani, 49, chairman & managing director, Embassy group. “In addition to meeting our funding requirements, they have played a big role in our overall progression. Their expertise and governance related acumen have helped us immensely in evolving as a major corporate entity.” Virwani believes that land talks to him and he could make out just by seeing any land parcel whether that piece would work out for him or not and it was this passion that saw him aggregating a land parcel of about 1,000 acres in North Bangalore near the new airport. Even before the new airport was conceptualised, he had started purchasing land pieces in that area. Today, he is sitting pretty on a goldmine worth thousands of crores of rupees.

In fact, Virwani has real estate in his blood. His father, Mohan Virwani,



Gopinath: 'diversified offerings'

81, (not pursuing any business interests at present) was a small-time contractor/developer in Bangalore and he started going to his father's construction sites even when he was in college in 1982. Despite his father's opposition, he would keep visiting the sites and enjoy knowing the nuances of real estate. Finally, he was put on the cumbersome job of getting approvals from various civic and government agencies and that honed his ability further.

In 1992, the Virwanis started a full-fledged partnership firm, Virwani Builders, which put up its first commercial/office development – Embassy Point at Infantry Road in Bangalore. The office building still hosts the company's registered office. This was followed by few more office developments including Embassy Square, another prominent office building at Infantry Road. With these developments, the Virwanis inscribed their name as a top office space developer in Bangalore.

By the late 1990s, the real estate market started showing signs of a slow-down and that took its toll on the Virwanis also. There was a severe cash crunch situation, followed by family dispute. In 1999, his father and the younger brother (he is currently pursuing his own real estate business in Bangalore) separated from the business. It was a tough period for Virwani who, however, accepted this as a challenge. By 2002, the market

was gradually on the recovery path and Bangalore had started emerging as a preferred IT destination for MNCs. This was the time when he was approached by IBM, which wanted to lease 200,000 sq ft of office space in its Embassy GolfLink Park. Though he had a client, he didn't have the capital to build the space. Most of the banks they approached, didn't show favourable response.

Game changer

At about that time, HDFC, which already had a minor debt exposure of around ₹5 crore to the company, came to its rescue and that proved to be a game changer for the company, which never looked back thereafter. Virwani and his CFO, Gopinath A.T. met HDFC chairman Deepak Parekh in his Mumbai office and put up their case. Parekh was convinced by their office park concept, even as IBM had already given its letter of intent and, as against the loan requirement of ₹25 crore, sanctioned ₹30 crore. He also left instructions that at no point in time should the construction of this project suffer due to a funding issue. "We have a long association with the Embassy group. We have been funding them for quite some time now. They have created a good implementation team. Their quality of construction and speed of delivery is quite superior. They have always tried to live up to their promises," says Parekh. HDFC got involved in the

development of the park to the fullest extent, with an exposure to the tune of about ₹540 crore. Currently, the country's largest mortgage player has a total exposure of about ₹3,500 crore (a mix of debt, and equity from its domestic & offshore funds) to the group.

Gopinath, who has been with the company for over two decades now, narrates one interesting moment when Parekh jokingly asked Virwani (when he was leaving his office, after getting approval for his loan): "So, when are you buying your S Class Merc?" Though, at that moment, Virwani didn't say anything, he decided never to buy a Mercedes and has still kept his promise. "Those words still play in my mind. It was much more than buying a Merc. What Parekh meant was that how I used the borrowed money. His advice and suggestions have played a big role in shaping up my businesses and goals," says Virwani, who is also a dedicated equestrian and owns and maintains a state-of-the-art international riding academy in Bangalore. The school provides training in equestrian sports and boasts of a highly-accomplished team. He has three sons and a daughter. His elder son Karan, 23, has just joined his business after completing his Bachelors in Business Administered from University of Kent, while others are still pursuing their studies.

The next decade or so was quite eventful for the group when it started building up its portfolio of commercial/office and residential space. By 2010, about 70 per cent of its business was coming from office parks. For further expansion, the company decided to raise ₹2,400 crore from the capital markets. But, due to unfavourable market conditions in 2010-11, it had to abandon its plan and look for other avenues. That was when Blackstone stepped in. The PE player, who had been conservative in its approach to the Indian real estate so far, found the market quite lucrative due to realistic valuation. The market, on the other hand, was looking for liquidity. Adopting a safer approach, Blackstone decided to invest in income-generating, low-

risk assets and found a right partner in the Embassy group, which already had in excess of 10 million sq ft of office space, generating rental income in excess of about ₹500 crore.

In 2012, Blackstone brought in \$200 million to form a 50:50 JV – Embassy Office Park (EOP) – with Embassy group. This EOP currently owns and maintains four office parks, including one IT SEZ in Pune, which the PE major acquired in December 2011 from the DLF-Hubtown joint venture for ₹810 crore. Named Embassy TechZone, the IT park, spread over an area of 68 acres, is located at Hinjewadi in Pune. With three million sq ft of potential development, the park (one of Pune's early IT parks), boasts of 13 clients including IBM, Flextronics, ATOS and Siemens, over a leased area of some 1.8 million sq ft, which has about 80 per cent occupancy.

Embassy GolfLinks, strategically located off the Intermediate Ring Road in Bangalore, is the first office park by the group. Spread across 65 acres of primes land, this fully-developed park hosts 20 tenants over 2.7 million sq ft of office space. With clients like IBM India, Goldman Sachs, 24x7 Customer, NetApp India and almost 100 per cent occupancy, it is also home to Bangalore's first Hilton Hotel. The company is also planning to build two more hotels (400 keys), both of which will be part of its EOP parks.

Improving scenario

Planned as an integrated facility with commercial, residential, hospitality and retail components, its Embassy Manyata Business Park is located on 110 acres of land in North Bangalore. With a potential built-up area of 18.5 million sq ft, of which over 10.7 million sq ft is currently operational, it is one of India's largest IT-specific business parks, which offers SEZ and non-SEZ options for office occupiers. It has recorded an impressive repeat business from its tenant base (38 tenants, 99 per cent occupancy), which includes IBM India, Cognizant, Nokia Solutions, ANZ and Target. The park was voted the best commercial project in Bangalore at the 2014 CNBC



Lala: 'client servicing critical'

Awaaz Awards.

The EOP's fourth office park, Embassy TechVillage, is strategically located in the heart of Bangalore's IT corridor and is well-connected with the IT hubs of Whitefield and Electronic City, as well as all other parts of the city, including easy access to city's central business district (CBD). Recently acquired, the 106-acre development is planned as an integrated project with commercial, retail and residential components. It has a total potential built-up-office area in excess of 10 million sq ft, with 1.9 million sq ft already completed. With about 82 per cent occupancy, it is already home to 16 tenants, including, Cisco, OPI, Nokia, Sony and Ness.

"We have a strong relationship with our customers who have shown full faith in our ability and, hence, we have always been able to lease much before we deliver the space. The recent deal with Flipkart is a case in point," says Michael Holland, CEO, Embassy Office Parks. The EOP is aiming to take its rental income to about ₹1,300 crore in the next three-four years, on the back of the gradually improving market scenario. As against its existing rental average of about ₹48 per sq ft, the company is currently commanding a rental in excess of ₹53 per sq ft for new lease. And, it is expected to improve to ₹60-70 in the next two-three years in a market like Bangalore, where new corporates are

taking position and existing ones are expanding their base.

The country's IT capital is expected to see a total supply of 12.98 million sq ft this year (a fourth of total supply in seven major cities), coming from players like Embassy, RMZ Corp, Brigade, Prestige and others. "Despite the overall slowdown, Bangalore as a market has been the largest occupier of office space in the last few years. Most importantly, the market has been quite steady in terms of demand and supply dynamics as also rental growth, and going forward as well, it would maintain its momentum," says Ram Chandnani, managing director, transaction services, CBRE South Asia.

Apart from its office parks, the company's portfolio includes residential projects, where it is undertaking nine million sq ft of premium residential space across five projects in Bangalore and one in Chennai. As part of its residential offering, it is putting up Embassy Grove. Spread over eight acres of prime land, it is an exclusive villament complex located near the Karnataka Golf Association's 18 hole Golf Course. These 106 lavish, 4-bedroom duplex and triplex units of 4,600-6,000 sq ft comes at a price of ₹7.2 crore per unit (say, ₹15,500 per sq ft). Another 51-acre residential project, Embassy Boulevard, just 12 km from the new airport, is a premium gated community, designed by Singapore-based Andy

Fisher Workshop. A serene enclave of 170 spacious villas in sizes of 4,000-7,400 sq ft is selling at ₹6.5-11 crore.

“While our focus is on the commercial segment of the real estate business, we have also tried to keep our overall offering diversified in order to emerge as a complete real estate player,” says Gopinath. “Going forward, we would continue to explore the market with this approach.”

While the company is involved in developing projects across various segments of the real estate value chain, it has put in place an integrated facility management arm, Embassy Services Pvt Ltd, to manage its properties measuring over 20 million sq ft of space across IT parks, commercial and residential spaces. Operating since 1993, the company, backed by a team of 100 core employees and about 3,000 outsourced people, provides a wide range of services ranging from housekeeping, engineering and security to transport and landscaping. “Besides development, how we serve our clients – that too, on a consistent manner – over a longer period, is something quite critical for our business. It is our services that play a big role in developing a long-term relationship with our big basket of clients,” says Pradeep Nenumal Lala, CEO, Embassy Services.

The group is planning to execute its existing pipeline of projects which will continue to revolve around commercial office space, even as there is also a move to strengthen the residential offering. The company is launching a 300-acre integrated township project in north Bangalore. Besides, it has already planned a 200-acre Embassy Knowledge Park project in its land parcel located near the new airport. In a significant development, the group is also entering into the warehousing and logistics space. It has already formed a joint venture with Maini group and is looking to put up a logistic park somewhere near Bangalore. “We want to leverage

our expertise of IT parks into our new venture,” says Virwani. “Anyway, the space of logistics and warehousing holds immense potential in future and we want to be part of that story.”

Virwani was all prepared to list the country's first Real Estate Investment Trust (REIT) on Indian bourses, but has decided to abandon the whole process after the Union Budget failed to bring in the much-needed clarity on the taxation front. The company had already hired Morgan Stanley, Goldman Sachs and Standard Chartered as lead bankers for the issue, which was aimed at raising about



₹5,000 crore. Experts believe that, with a strong portfolio of income-generating assets, Embassy is the most suitable candidate for introducing instrument like REIT in the Indian market, as and when the government addresses the issue of taxation.

Next phase of growth

With all these developments in pace, Embassy is all set to enter into its next phase of growth. Over the last few years, ever since it joined hands with Blackstone, the company has witnessed remarkable traction in its portfolio of office space. It has already surpassed country's largest player DLF and hopes to continue to sustain its momentum going forward as well in the backdrop of its robust pipeline of developments. The company's office park model has given it a distinct edge over its peers

since corporates prefer a complete ecosystem, as compared to stand-alone structure.

It has also built up a strong clientele of 100-odd corporates, whose association over the years, has provided the company a much required credibility in terms of delivery and services. Going forward, it plans to continue to leverage this. That's the reason it is getting the tenants much before it constructs and delivers the space, adding hugely to its risk mitigating ability.

Its presence in the Bangalore market also plays a big role since this market has shown steady progress even during the sluggish market condition in the past. Though rental values have moved slowly over the last three years, the same is expected to see some real growth in the wake of improving demand, which will help the company expand its top line. Apart from commercial space, the company also has a presence in the residential segment, which helps it diversify its overall portfolio, along with a little component of retail and hospitality. Now, the company is also intending

to replicate its successful model into its new venture in the field of logistics. However, it remains to be seen how it fares in this relatively new segment of business.

As an entity, the group has been quite innovative and shown quite a progressive approach in the business of real estate. While many of its peers in the industry have shown reluctance in joining hands with PE players and some haven't have that good experiences, the company has set an example by creating one of the most prolific partnerships in the industry. Having created the strongest portfolio of income-generating assets, the company is also well placed to monetise the same for future expansion programmes and prepared to start its journey of second phase of growth.

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