M&G Shared Ownership Fund

Fund Profile
Q2 2021

Fund details

Fund launch
3 March 2021

Fund structure
English Limited Partnership

Seed commitments
£215 million

Seed investors
6

Status
Semi open-ended

Investment style
Core/core plus

Geographic focus
England

Leverage
0%

Target total net return
5-7% per annum

Denomination
GBP

Valuations
Quarterly

Dealing days
Quarterly

Financial year end
31 March

Registered Provider (RP) with profits status
Approval received 5 November 2020

Minimum commitment
£5 million with manager discretion

Source:
The Hyde Group

The value of an investment in the fund will fluctuate, which will cause the fund's price to fall as well as rise and you may not get back the original amount you invested. There is no guarantee that the fund will achieve its objective.

Investment opportunity

Shared Ownership investment offers an expanding opportunity to secure long-dated, inflation-linked income with exposure to house price growth, while also addressing the UK housing shortfall and helping occupiers with contracted incomes onto the property ladder.

With the delivery of affordable housing a political priority, and rising demand for new, flexible living solutions as the Private Rented Sector (PRS) grows, Shared Ownership has the potential to become a mainstream housing tenure, accessible to the vast majority of UK households.

Not only is the sector underpinned by strong long-term fundamentals, we believe it is also well placed to provide a reversionary investment in the current environment. Combining the opportunity with institutional expertise in residential investment makes a compelling case for investing in the burgeoning Shared Ownership market.

Risks associated with this fund

The fund may be exposed to the possibility that an occupier will not meet its lease obligations. The fund's investments may be illiquid; as a result it may be difficult for the fund to realise, sell or dispose of an investment at an attractive price, at the appropriate time or in response to changing market conditions. Where market conditions make it hard to sell the fund's investments at a fair price to meet investors' redemption requests, the board of the fund may temporarily defer redemption requests as provided for in the fund's private placement memorandum (PPM). Changes in interest rates may adversely affect the market value of some of the fund's investments. Real estate values can be affected by a number of factors beyond the fund's control and may be subject to long-term cyclical trends that can give rise to volatility in valuations. Please note this is not an exhaustive list. Further information about the risks that apply when investing can be found in the fund's PPM.

Why is Shared Ownership attractive to occupiers?

- An affordable home: providing access to the housing market in areas of acute need
- A stable home: security of part-ownership with a reliable landlord
- Increasing the supply of affordable homes
- Supported by both major political parties

Why invest in Shared Ownership?

- Index-linked income streams[1] with annual RPI uplifts
- Cash flows provide access to house price movements
- Social benefit; addresses housing shortfall
- Stable and defensive cash flows
- Low voids in income stream post first-tranche sale
- Low operating costs

Investment objective

To deliver an inflation-linked income stream with exposure to house price growth. The fund seeks to generate a long-term total net return of 5-7% per annum with a target annual 3% distribution yield.

Investment strategy

The fund seeks to acquire Shared Ownership homes in desirable locations, typically close to centres of strong economic activity and good transport networks, for aspirational homeowners from a wide social demographic, in employment or with contracted incomes.

Occupiers will acquire a share of a home with or without a traditional mortgage. The fund retains the remaining equity share and receives an inflation-linked rent. In accordance with the Capital Funding Guide produced by Homes England, rent is set at 2.75% of the market value of the unsold equity with annual uplifts that should not exceed a maximum of RPI plus 0.5% per annum.

The fund will acquire a mix of standing stock, forward-purchase and forward funding development opportunities with large scale housebuilders and housing associations.

As a Registered Provider (RP), the fund will be able to access a wider market and acquire homes from other RPs and directly from developers through their Section 106 obligations. When acquiring standing stock, we will be providing capital to housing associations to unencumber their balance sheets, allowing them to recycle capital back into new homes, regenerating communities and creating new ones. In doing so, such organisations are able to deliver social and affordable housing targeted at occupiers with a greater social need.

We believe focusing on Shared Ownership gives us an advantage when compared to broader affordable housing strategies. The inflation-linked nature of the Shared Ownership income stream and low operating costs are attractive to the long-term horizons of institutional investors.

Registered Provider benefits

- Appropriate governance will be ensured. This will facilitate improved relationships with occupiers, partners and stakeholders who will have the assurance of dealing with a reputable and appropriately governed operator
- Access to a wider market for stock sourcing including through acquiring from developers through their Section 106 obligations
- Improved ability to influence the direction of the sector and the tenure
- Potential access to grant funding
- Potential stamp duty relief

Forward funding benefits

- Enhanced returns: acquiring assets at a discount to market value and benefiting from first-tranche sale profits
- More high quality, purpose-built stock: our experienced team has a greater ability to influence the design, creating a better end product
- Additionality: the fund is seeking to alleviate the housing shortfall in England by delivering more affordable homes to the market, regenerating and creating communities
- Introduce sustainable design features: the fund is targeting a B EPC rating as a minimum for new developments. This proactive approach increases longevity of assets and prevents depreciation in value

[1] Rent is set at 2.75% of the unsold equity.

An accessible means of home ownership

Portfolio overview

We have agreed a strategic partnership with the Hyde Group, a well-established, G15[2] London-based housing association. Through this partnership, we have identified a seed portfolio of existing Shared Ownership homes as well as a pipeline of over £300 million of new stock, which the partnership will seek to deliver over the next three years.

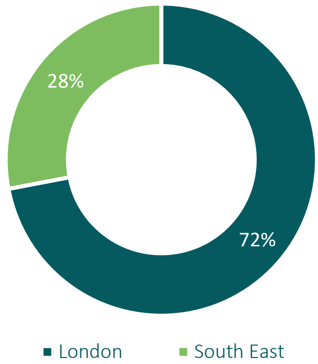
Over 420 homes across 19 schemes were acquired as part of the first transaction, including fully occupied, low-rise apartments and houses in Greater London and Kent.

We anticipate exchanging contracts on the second phase of the seed transaction, comprising two forward funded, low-rise apartment development schemes in Greater London, by the end of Q4 2021.

We are also currently in advanced discussions with another well-established, G15 housing association, and are seeking to agree another strategic partnership, similar to the agreement with the Hyde Group, by the end of this year.

Furthermore, as an experienced investor in the residential sector, we will leverage our existing industry relationships with developers and housebuilders, such as Watkin Jones and Telford Homes. The residential team will also continue to foster new relationships with other developers and Registered Providers to generate further sources for stock.

Figure 1. Geographic breakdown



Source: M&G Real Estate, as at 30 June 2021.

Market outlook

Sentiment has continued to improve off the back of an ongoing surge in business and consumer spending. This is likely to mean that the economy will have returned to pre-pandemic levels of output by early 2022, with interest rates expected to remain low in the medium term. We believe that this will provide support to both the housing market and the wider economy.

In itself, the housing market remains robust, supported by a pandemic-led shift in living preferences and the government's Stamp Duty Land Tax (SDLT) holiday. Combined with a record number of mortgage approvals, UK house prices are rising at their fastest pace in more than 16 years (13.4%)[3]. This has sharply reduced affordability across much of the country.

[2] The G15 is the group of London's largest housing associations.

[3] Nationwide, July 2021.

House Price to Earnings (HPEs) ratios are now at record highs for the UK[4], with the commuter areas surrounding London looking particularly unaffordable at 6-7x single person gross earnings.

In London, these ratios remain extremely elevated at more than 9x single person gross earnings, pushing home ownership out of reach for a significant proportion of the city's population.

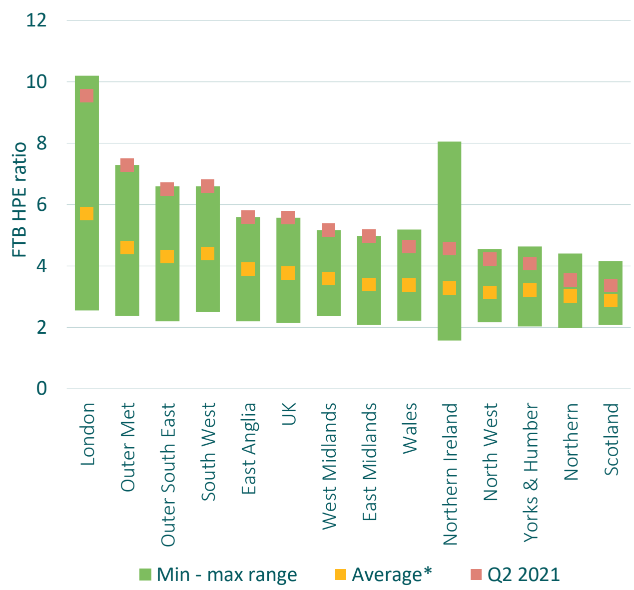
Fundamentally, housing demand remains out of kilter with supply, and is intensifying as the number of households in the UK continues to grow. Yet house building is still only at around half the 300,000 pa level targeted by the government, and has inevitably been affected by the pandemic. This may further exacerbate the UK's housing shortage and place further upwards pressure on house prices.

In light of growing issues around affordability, the government continues to prioritise affordable housing supply. Shared Ownership in particular has been growing as a tenure type, with Shared Ownership housing starts reaching a high of nearly 23,000 in 2019/20[5].

The government's recent adjustment to the Shared Ownership model, making the scheme easier to access, is expected to boost demand for Shared Ownership. This, in tandem with increased supply, suggests that there is significant scope for growth of the Shared Ownership sector in the future, in our view.

[4] Ministry of Housing, Communities & Local Government, June 2021.
[5] Ministry of Housing, Communities & Local Government, June 2021.
Note: All data M&G Real Estate as at 30 June 2021, unless otherwise stated.

Figure 2. First-time buyer house price to earnings ratio



*Q2 1983-Q2 2021

Source: First Time Buyer, Nationwide as at Q2 2021.

Our residential track record

- Experienced investor, managing residential, including Shared Ownership assets, since 2000, with an extensive network of industry relationships
- Acknowledged leader in social housing finance; over 20 years and over £6 billion[6] of lending
- Well established platform; c.£3 billion international residential portfolio, over 5,000 units across over 150 schemes
- c.£2.5 billion invested in UK residential
- 33 UK PRS schemes and over 3,500 PRS operating units
- Completed £1 billion of forward funded and forward purchased UK Build to Rent developments, comprising 19 schemes
- Innovative manager: launching the UK's first institutional PRS strategy and forward funding the development of one of the UK's first institutionally funded, Build to Rent housing schemes in North Acton, West London
- Development of an innovative property management platform, operated by Savills

[6] M&G Investments, as at December 2020.

About

M&G Real Estate, the property fund management arm of M&G Investments, is a specialist investor in all major real estate sectors across the globe. We focus on generating long-term, income driven returns through active management and offer institutional investors exposure to real estate through both pooled vehicles and segregated mandates.

- Over £34 billion of assets under management[7]
- Top-30 global real estate investor[8]
- Responsible for managing property investments for over 260 institutional investor accounts
- Invested in over 950 real estate assets across 29 countries
- £12.3 billion of transactions completed globally in 2018-20

We also have a dedicated Responsible Property Investment team that enables us to respond to the growing range of environmental and social issues that can impact property values. Ten of our funds (including the M&G UK Residential Property Fund) have been awarded Green Stars in the 2020 Global Real Estate Sustainability Benchmark (GRESB) Survey – meaning they are among the highest ranked for sustainability globally.

Alex Greaves
Head of UK and European Living

Alex is responsible for setting investment strategy and for delivering outperformance for our residential strategies. He will oversee the Lead for the Shared Ownership product.

Alex has built M&G Real Estate's residential team from inception, which comprises four investment managers and two asset managers. Between them they have more than 35 years' experience and have secured a pipeline agreement with two housebuilders, and contracted over £1 billion of forward funding deals. The team also benefits from the support of dedicated individuals within the research, sustainability, development and construction, transaction management, and portfolio management teams.

Prior to joining M&G Real Estate, Alex spent seven years at Grainger with responsibility for the Schroders ResPut Fund and the Grainger Geninvest JV with Genesis Housing. He also set up Grainger's Ramp platform and managed its partnership with Lloyds Banking Group for distressed borrowers.

Alex is a member of the Royal Institution of Chartered Surveyors (RICS) as well as Investment Property Forum (IPF), and is the chair of the British Property Federation Residential Committee.

Christopher Jeffs
Lead for the strategy

Chris is the Lead for the M&G Shared Ownership Fund. He will help to develop investment strategy, oversee investments, and the day to day running of the fund. Previously, he worked as head of the industrial and logistics team, responsible for the strategic management of over £3 billion of assets across the UK. Prior to this, he was an investment manager in the retail team, responsible for the strategic management of c.£1.6 billion of retail and leisure assets. Before joining M&G Real Estate in 2014, Chris worked in BNP Paribas Real Estate's recovery and restructuring department, leading the asset management and disposal of distressed residential portfolios with a value of c.£200 million on behalf of banking clients.

Over his career he has transacted over £1 billion of real estate, which includes c.£200 million of forward funding and forward-purchase agreements comprising over 50 deals across commercial, residential and alternative sectors. Chris has also been involved with a number of development projects with a total GDV of c.£250 million.

Chris has an MSc in property development from the University of New South Wales, Sydney, is a member of RICS and the IPF, and is a qualified Law of Property Act (LPA) receiver.

[7] Assets under management including cash.
Note: All data M&G Real Estate as at 30 June 2021, unless otherwise stated.

[8] Global real estate ranking according to PFR/IREI Global Real Estate Investment Manager Report 2020.

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