

# M&G UK Residential Property Fund



Fund Profile  
Q2 2021

## Key quarter-end figures

Net Asset Value (NAV)  
**£1,160 million**

Leverage as % of NAV  
**0.0%**

Cash  
**2.8%**

## Fund details

Fund manager  
**Alex Greaves**

Launch date  
**5 June 2013**

Fund structure  
**Luxembourg FCP-FIS**

Status  
**Open-ended**

Investment style  
**Core/core plus**

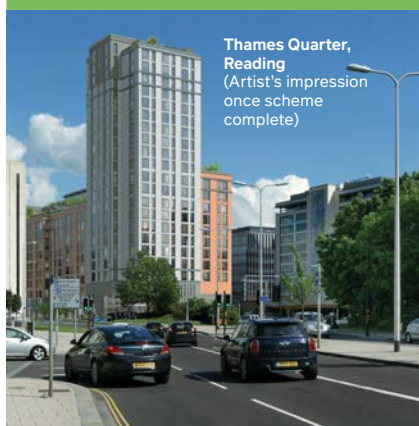
Denomination  
**GBP**

Valuations  
**Quarterly**

Dealing days  
**Quarterly**

Financial year end  
**31 December**

Initial minimum Subscription  
**A units: £2,000,000**  
**B units: £20,000,000**  
**C units: £40,000,000**  
**D units: £100,000,000**



Thames Quarter, Reading  
(Artist's impression once scheme complete)

The value of an investment in the fund will fluctuate, which will cause the fund's unit 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.

## Risks associated with this fund

- 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 prospectus.
- 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 values.
- Further information about the risks that apply when investing can be found in the fund's prospectus.

## Investment objective

To invest only in real estate assets, mainly in residential real estate assets located in the UK, predominantly in the Private Rented Sector (PRS).

## Investment strategy

To access sustainable and growing income streams derived from a research-based approach to the private rented sector (assured short-hold tenancies), in areas with good transport networks, proximity to centres of strong economic activity with good employment opportunities and located close to good/outstanding OFSTED rated schools for the target demographic of young professionals and families. We aim to achieve this by either purchasing standing investments or forward fund developments and targeting a long-term annual net return of 6%+, with an annual 3%+ distribution yield.

### Fund performance

Annualised performance	Current quarter	One year	Three years	Five years	Since inception
Fund	0.4%	0.7%	2.2%	3.4%	7.2%
12 months to 30 June	2021	2020	2019	2018	2017
Fund	0.7%	1.7%	4.3%	5.0%	5.6%

Past performance is not a guide to future performance.

Source: M&G Real Estate as at 30 June 2021. Performance is shown net of fees.

## Portfolio overview

No. of schemes  
**33<sup>1</sup>**

Average scheme size  
**£33.2 million<sup>1</sup>**

No. of units  
**3,556<sup>1</sup>**

Occupancy rate  
**94.2%<sup>2</sup>**

Gross yield  
**4.79%<sup>3</sup>**

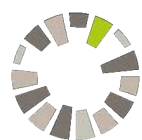
Net yield  
**3.53%<sup>3</sup>**

Estimate Rental Value (ERV)  
**£26.2 million<sup>3</sup>**

<sup>1</sup>Includes five forward-funded developments and one asset pre-golden brick.

<sup>2</sup>Stabilised assets by unit (excl. units for sale).

<sup>3</sup>Stabilised assets only.



G R E S B  
★ ★ ★ ★ ☆ 2020

Awarded a GRESB green star score of 78/100 versus a peer average of 70/100

## Fund commentary

The UK private rented sector (PRS) continues to show resilience versus commercial property. The Fund is a good diversifier against other asset classes and UK commercial property as well as having defensive characteristics which have been evidenced during the pandemic; rent collection across the portfolio has remained above 97% per month over the past 12 months. Furthermore, occupancy continues to be strong at 94.2% on the stabilised assets at the end of June.

The Fund is invested in well located, high quality homes in areas of strong economic strength. The portfolio comprises of 33 assets; 22 are stabilised, five assets are leasing up and six assets are under development. The Fund is predominately located in London and the South East but is actively seeking opportunities to diversify across the UK and is targeting to reduce the Fund's holding in London to 60%. Recent acquisitions have been in Bristol, Brighton and Bournemouth and the Fund is also seeking to increase its allocation into the suburban residential sub-sector following the success of its initial investments at The Green, Crawley and The Cavalry, Arborfield. Additionally, the residential team has commenced the disposal of the 522 units in the seed portfolio, these are being sold on an individual basis over the next three years. Currently, 81 units are either under offer, exchanged or completed with offer prices averaging 5% above investment value.

Furthermore, the Fund's investment base is secure and stable comprising institutional investors with long-term investment horizons. Investor demand for the Fund continues with inflows predominately from UK institutions, taking the capital queue to £48.2m as at 30 June. The queue is now overcommitted by c.£28m to financing the existing developments on site. Therefore, the draw down time scale for new capital has reduced to six months. The Fund is now actively seeking new capital from investors.

### Sustainability

The Fund's integrated ESG strategy remains at the top of the residential team's agenda and focuses on the creation of well-designed, environmentally efficient homes that encourage a sense of community and wellbeing. The Fund has embarked on the development of its net zero pathway strategy, which is critical to the its commitment to achieving net zero carbon by 2050.

To proactively drive and evidence environmental improvements at the assets, the Fund is targeting green building certification of 75% by the end of 2021. Previously, the Code for Sustainable Homes (CSH) was used as the Fund's green building certification provider and 69% of the stabilised portfolio's units by value have achieved a CSH green building certification, however the CSH has been phased out. Therefore, the Fund has rolled out BREEAM in Use certification across nine assets in the portfolio. We anticipate the assessments to be completed before year end. Furthermore, all assets target a minimum EPC rating of B, and currently 97% of the portfolios operating assets have EPC ratings of C or above. Additionally, the Fund has appointed a specialist consultancy to support the development of a sustainable development and refurbishment framework which will establish minimum requirements for all new residential developments, this should enable the team to reduce the embodied carbon across the portfolio and help reach the net zero carbon by 2050.

Customer engagement is another key focus of the Fund in order to build a feeling of community amongst the residents and as restrictions on movement have eased, our customer relationship managers have reinitiated events at the assets. For example, weekly outdoor bootcamps have taken place at the assets in Bath and customers at the Green in Crawley have created a residents' herb garden. During mental health awareness week we used our social media platforms to promote mental health awareness to over 1,500 customer. We continue to refine our service offering to grow the community and sense of wellbeing at our schemes as whilst beneficial to our residents it also means happier customers who wish to rent for longer and better maintain their homes.

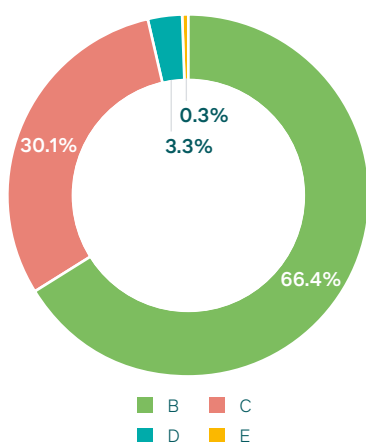
## Market Outlook

Economic sentiment has continued to improve following a rapid turnaround in business and consumer spending, leading to four consecutive months of economic expansion by May 2021. The rapid pace of vaccinations is helping to bolster the economy as well as the labour market with employment generally increasing. Bottlenecks in supply chains, rising commodity prices and pent-up demand have seen inflation rising above the Bank of England's target rate in June. If higher inflation persists, this could result in monetary policy being tightened sooner than expected. However, the current volatility in prices is expected to remain short term in nature, suggesting that the interest rate will remain around historic lows while the economy recovers.

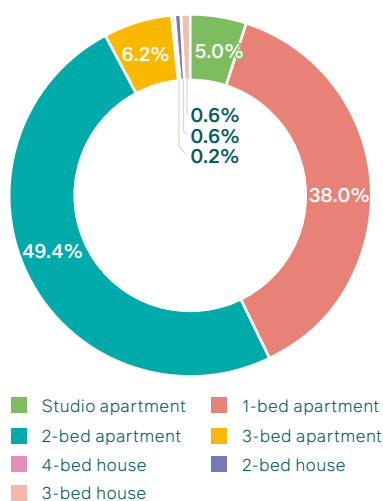
The UK housing market has maintained its resilience and demand continues to significantly outweigh supply, contributing to double-digit house price growth (13.4% per annum in June, a more than 16 year high). Although mortgage availability has improved since the onset of the pandemic, higher prices continue to present affordability challenges for would-be first time buyers.

In the rental market, tenant demand is accelerating as COVID-19 restrictions ease. Over the last year, demand has focussed on suburban living to parts of Outer London and commuter towns boosting rental growth in those areas, which we expect to continue post-pandemic. This shift combined with weaker international demand, has impacted the more central parts of London most acutely. However, sentiment appears to be returning as people start to return to the office, as rents are now looking more affordable, particularly in London, and we expect these early signs of recovery to strengthen further. At the same time, the removal of COVID-19 restrictions should also act to return stock that was repositioned into the long-term rental market at the start of the pandemic to the short-let market, reducing rental supply. These factors are expected to support a gradual rental recovery this year and stronger medium-term rental growth of c. 3% per annum in London (2021-2025).

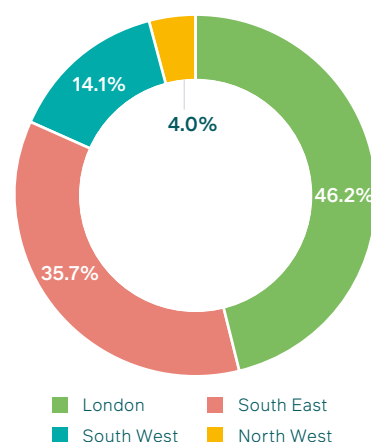
EPC<sup>4</sup> ratings – by no. of units<sup>5</sup>



Split – by unit type<sup>5</sup>



Geographical weightings – by unit<sup>5</sup>



<sup>4</sup>Energy Performance Certificate (EPC).

<sup>5</sup>Stabilised and leasing assets.

May not sum to 100% due to rounding effects.

## Fund manager profile

Alex is the Head of Residential and is responsible for setting investment strategy and for delivering outperformance for our residential strategies. He oversees the Assistant Fund Manager for the M&G UK Residential Property Fund.



Alex Greaves

As head of our residential capability at M&G Real Estate, Alex has built a team from inception. Between them they have more than 35 years' experience and have secured a pipeline agreement with two house-builders, and contracted over £1 billion 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.

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

## Residential track record

- M&G UK Residential Fund comprising assets and commitments of £1.2 billion across over 3,500 dwellings comprising 33 schemes.
- 29 UK pension fund investors, including 16 UK local government pension schemes.
- Launched one of the UK's first institutional PRS Funds.
- Development of one of the UK's first, institutionally funded, build-to-rent housing scheme at North Acton
- Completed £1 billion of forward-funded and forward-purchased build-to-rent developments, comprising 19 schemes, since 2014.
- Developments and homes with strong sustainability credentials achieved GRESB 4-star status in 2020.
- Robust platform and dedicated team of residential real estate experts. □

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