

PruFund investment insights: a closer look at property

 a 5 minute read

Property is one of the main types of assets that the PruFund range of funds invests in. While it's probably one of the easiest asset classes to understand, your financial adviser has given you this article so that you can learn a bit more about property investments.



Introducing property

When PruFund funds invest in property, the investment managers buy buildings, such as offices, warehouses and shopping centres. They aim to make money for our investors by renting out these buildings and, in time, selling some of them on at a profit. Improving their décor, fittings and facilities may increase the value of the buildings, at both rental and sale. And we can also sometimes change the purpose of existing buildings so that they become more profitable.

PruFund funds invest in property because it typically offers an attractive and steady income, along with the potential for growth in the value of each building. Because property prices tend to be more stable than those of shares, property investments can add an important element of diversification (or variety) to the PruFund portfolio. Over the coming pages, we take a look at the different sectors of the property market and take a look at the team who manages the PruFund property investments.

We recommend that you read this article about property investment and get in touch with your financial adviser if you have any questions. They're best placed to help you understand what investment options are right for you. **Please bear in mind that the value of your investments can rise as well as fall, and you may get less back than what you invest.**



Diversification: how and why we do it

Diversifying (or varying) investment in property means that we spread your money between many different investments, which helps to reduce the overall risk. Read on to find out more about how and why we do this.



Investing sector by sector

One way in which we spread the risk of property investments is by investing in different areas or sectors of the overall property market. The property we invest your money in falls into four main categories: industrial, offices, retail and living.

Industrials are buildings such as warehouses and factories. The rise in popularity of online shopping has been boosting demand for warehouses and other logistics facilities, and the Covid-19 pandemic has accelerated this.

Offices are spaces used for commercial or professional business, and due to the pandemic the demand for offices has declined. This is because working from home became well established during the Covid-related lockdowns, and it seems unlikely that people will abandon this even when the pandemic is over. For this reason, PruFund focuses on high-quality offices, especially in London, for which demand is likely to remain.

Retail real estate is property within the commercial sector used for shopping. The high street has been suffering from the rise of online shopping, as have traditional shopping centres. The pandemic has accelerated the changes that were already underway in this sector. But out-of-town retail warehouses have done well because of the way that they mesh with online shopping, through 'click and collect' and their role as distribution hubs for online orders. Supermarkets have also done well because they were able to stay open throughout lockdown.

The chart below shows the global split of property investments by sector in the PruFund Growth Fund.



Source: M&G, 30 September 2021



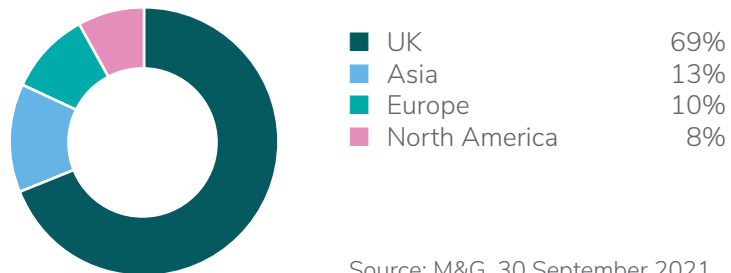
Diversification: how and why we do it (continued from previous page)



Investing around the world

Although most of PruFund's property investments are in the UK, our investment managers also invest in property in Europe, the US and Asia. This provides an important element of diversification within PruFund's property investments. If the UK property market isn't doing well, other property markets may continue to perform positively – in which case, our geographical diversification will provide some benefits for our investments.

The chart below shows the global split of property investments by region in the PruFund Growth Fund.



Source: M&G, 30 September 2021





Our investment strategy in practice

Here we take a look at the team who manages the PruFund property investments, and we find out about some of the properties they've bought and sold for the PruFund Growth Fund during 2021.



Introducing M&G Real Estate

M&G Real Estate is the specialist property manager for M&G.

Recognised as one of the world's leading property investors, its portfolio spans all sectors and 29 countries. Its team of investment managers has decades of experience in buying, selling and managing properties. Globally, M&G Real Estate manages more than £35.5 billion of assets (as at 30 September 2021) on behalf of their clients, which includes Prudential Assurance Company and, in turn, PruFund Growth Fund.



Some new purchases and lettings

PruFund's holdings in the office sector expanded through buying offices at 65 Leadenhall Street in the City of London, as M&G Real Estate believes that London is one of the areas where office use will recover most rapidly from the Covid-19 pandemic. M&G Real Estate also agreed a significant new letting agreement at Avon House on Oxford Street in London, where retailer Superdry has signed a ten-year lease.



And some sales too

In the retail sector, the team sold high-street property in Exeter and Northampton. The high street is facing considerable challenges from the rise of online shopping and out-of-town retail parks, which means that demand for high-street units is falling. So M&G Real Estate decided it was no longer appropriate to retain these assets. The team also sold industrial properties in Huntingdon and Daventry.



Considering the wider impact on society

Environmental, social and governance concerns are important to many of our investors who want to make the world a better place. So these factors are crucial considerations when deciding where your money is invested. This is particularly important in property because buildings are a major source of carbon emissions.

By driving environmental improvements and increasing the operational efficiency of its buildings, M&G Real Estate is committed to achieving net zero carbon emissions across its global real estate portfolio by 2050. Over 30% of its global asset portfolio (by value) has a green building certification, and the team continues to work to improve each property's ESG credentials.

It's always a good idea to know where your money is invested. If reading this article has made you want to know more about the PruFund range of funds, you might also be interested in reading our regular report 'A closer look at PruFund: your quarterly market overview' or our other articles about bonds, shares and alternative investments. Ask your adviser if you'd like to receive any of them.

If you have any questions after reading this

We hope that you've found this insight into property investments interesting and helpful. If you have any questions, it's always best to speak to your adviser. Only your adviser will have a complete view of your situation and be able to answer questions with your financial goals in mind.

