M&G Real Estate

Recently, ***Geoffrey Dobrmann,*** *publisher and editor-in-chief of* The Institutional Real Estate Letter – Americas, *spoke with* ***Tony Brown,*** *chief investment officer of M&G Real Estate. The following is an excerpt of that conversation.*

Tony Brown is Chief Investment Officer of M&G Real Estate and a member of the M&G Real Estate board. He provides overall leadership and oversight to M&G Real Estate's fund managers and investment teams across the global fund range. He has more than 20 years' real estate investment experience across the United Kingdom, continental Europe and Asia. Most recently he was Managing Director of Lend Lease Investment Management, EMEA, where he was responsible for a business managing $3.3 billion of real estate and $4.1 billion of infrastructure funds on behalf of more than 50 institutional clients. Prior to joining Lend Lease, Brown was Fund Director at Schroder Investment Management, where he worked for 14 years. He was responsible for the Schroder Exempt Property Unit Trust, the largest balanced property unit trust in the U.K., with investment in approximately $16.5 billion of assets. He started his career with Cushman & Wakefield where he worked for three years as a graduate surveyor in the firm's London office.

I understand you recently joined M&G Real Estate. What attracted you to the firm?

When I was first approached about joining M&G Real Estate last year, one thing that struck me was the scale of the opportunity that the business has going forward. I could see the success of the wider M&G Group over the past 10 years, and I could see that the real estate arm of M&G was ambitious along similar lines. The business is actually 150 years old this year and has a very long heritage of investing in real estate. Aligned to this heritage is a strong performance track record and a loyal client base. Of key significance is the fact that M&G is clearly backing the growth of the real estate business in its growth plan because the group sees real estate as an area of increasing interest and investment. I think it is rare in your career that you get the opportunity to join a business that has plans as ambitious as ours.

That leads right into my next question, which is where do you see the business going?

The future for the M&G Real Estate business is to capture more external capital. As part of that, we are also becoming more international. We have set up offices across Europe and in Asia in recent years. I see the business building on its existing track record, having a greater balance towards external clients rather than internal ones, and increasing its global reach.

I understand M&G Real Estate has started investing in U.K. residential, which is, if I understand correctly, a new asset class for institutional investors. Why have you started investing in U.K. residential?

The history of residential investment goes back a long way, but in recent decades the market has been dominated by private investors. The buy-to-let market in the U.K. has increased exponentially over the past few years, but very few institutions have invested in the private rented sector (PRS), so it is a new asset class in that sense. We believe U.K. residential's time has come because the supply and demand dynamics are very strong. We are a small island with increasing numbers of people living on it. There are demographic and social changes through immigration, through people changing jobs more frequently and moving around more for work, through increased rates of divorce and separation, through more single-person households, and through the relatively high barriers to home ownership. So there are many reasons for people to rent. The level of private renting in England has doubled over the past decade to 4 million households. We see it as an interesting asset class, to which we can bring a professional edge — both through our extensive experience in commercial property and through our dedicated team of resi specialists. As a large investor, we can achieve economies of scale to reduce operating costs while providing the kinds of facilities that appeal to our customers and may encourage them to stay for longer. We have started off by seeding a portfolio with more than $165 million of assets, most of which are based around London, and we expect to attract significant capital into that area.

Where else do you see good investment opportunities at the moment?

Starting with the U.K., we have seen a large compression of yields at the prime end of the market across all types of property, whether it be shopping centers, office or industrial. Up until recently, investment has been focused on prime assets in London, which have benefited from large inflows of international capital. But, because it is so competitive to buy in London, investors are now looking further afield to find value. The U.K. economy looks healthier now, and some commentators are describing it as a Goldilocks recovery, where economic growth is allied to low inflation. A stronger economy will translate into rental growth across most of the U.K. property markets, opening up investment opportunities beyond London — in the rest of the South East and into the bigger regional cities, such as Manchester, Birmingham, Leeds, Bristol, Glasgow and Edinburgh. At the same time, we believe there is value to be had in selectively finding good development opportunities. There are other interesting areas as well — alternative property sectors like healthcare and leisure have strong fundamentals in terms of supply and demand.

And what about the rest of the world?

If you look further afield, on a macro basis, the U.S. was the first economy in the developed world to recover after the global financial crisis. And U.S. asset pricing actually re-based very quickly. If you move across to Continental Europe, Germany is leading the way in terms of recovery. Capital has been flowing into the major German cities, Munich and Berlin in particular, for over a year now. Yields have compressed quite significantly, and, as in the U.K., that is translating into increasing demand in Germany's secondary cities. If you look at Southern Europe, the euro zone break-up is now much less of a possibility than it would have been even 12 months ago. In Spain, some of the more opportunistic real estate investors are starting to get interested. We, for the moment, believe the best value for core investors can be achieved in some of the better quality locations in Central and Northern Europe, rather than by moving to Southern Europe where we still think there are a lot of risks. Turning to Asia, we have seen a recovery in the Japanese market on the back of some of the newer economic policies instituted by Prime Minister Abe. Certainly we see Japan as a key area for growth. It represents about two-thirds of the investable real estate universe in Asia, and we believe it will be of increasing interest to investors as its economy picks up.

How important is sustainability to your investments? How do you approach responsible property investment (RPI)?

Sustainability very much forms a central part of our investment thinking. There is, of course, a fundamental moral obligation around sustainability, which, as a responsible investor, M&G Real Estate takes very seriously. But, from a commercial perspective, we believe there are increasing legislative demands that have to be met around energy efficiency, as well as opportunities for reduced costs both for us and for our occupiers. We think that will lead occupiers to differentiate more going forward between those properties that are using energy efficiently and those that aren't. We believe it is good management to have properties that lead the way in terms of sustainability, whether in the design of the buildings or in the day-to-day operation, both of which are important. For us, it is embedded into our process in terms of what we do day-to-day.

Where do you see the property market in five years' time?

If you look forward, the real estate market in general mirrors where we see M&G Real Estate's business in the sense that the demand for real estate has become more international. The amount of cross-border activity is likely to continue to increase. If that happens, investors will be looking for fund managers who are capable of managing assets across the geographies of the world — not only those who have cross-geographical representation but who also have specialist skills in each market. We expect that the fund managers who have the scale and reach to serve investors in that way will do well, and those who don't will struggle. The large fund managers, such as ourselves, will continue to compete and increase their market share. ❖

CORPORATE OVERVIEW

M&G Real Estate is a specialist investor in all major property sectors across the globe. Employing over 200 people including an investment team of more than 60 professionals, the firm's focus is on generating income-driven long-term returns for its investors. The firm's history dates back to 1864 when its parent company Prudential plc began investing in property. Now, M&G Real Estate has £17.6 billion ($29.2 billion) of assets under management across U.K., Europe, Asia and North America.

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