

# M&G Real Estate

Recently, **Alex Eidlin**, managing director – Asia Pacific with Institutional Real Estate, Inc., spoke with **Ng Chiang Ling** of M&G Real Estate. The following is an excerpt of that conversation.

*Tell us a little bit about M&G Real Estate and its offering in Asia.*

M&G Real Estate is an income-driven, long-term real estate investor. We manage about US\$29 billion in real estate assets across the world in the UK, continental Europe, North America and Asia. All our investment decisions are backed by proprietary research and active asset management through specialist sector teams. M&G Real Estate has been active in Asia for over a decade, focusing on core assets with a strong yield. We have investments in Australia, Japan, Singapore, South Korea and Hong Kong. We currently see a lot of opportunities in Asia, and we are actively working toward increasing our asset base. Our strategy is in line with that of the company throughout the world — we are looking for stable, high income yielding assets with prospects for capital growth as well.

*What are you looking for in possible new acquisitions in Asia?*

New investments will be in line with our mandate to deliver good dividends along with capital growth. We also are looking at additional yield through opportunities for value creation. In terms of new assets for our fund, we are interested in properties that will provide diversification, as well as improve the risk-adjusted returns of our portfolio. For example, we could consider an office building with the potential opportunity to increase the rents by a significant amount. That may lead to some tenant turnover in the short term, but, in exchange, that property would provide a much stronger income stream in the future. We might equally be interested in an asset that has a strong income stream but may not have as much room for capital appreciation in the longer term. When you look at these two different investments together, they combine a strong income from the current yield and the possibility for value creation. Such a combination would work very well for our fund and also complement the rest of the assets in our portfolio.

*Where are you planning acquisitions at the moment in Asia?*

When we consider where we will focus our acquisition efforts, I would say we do things at



**Ng Chiang Ling** is director of acquisitions at M&G Real Estate, based in Singapore. She heads the firm's acquisition activities for Australia, Singapore and Hong Kong, as well as supporting the Tokyo-based team on Japan investments. Prior to joining M&G Real Estate in January, Chiang Ling worked in the real estate private equity division of Goldman Sachs for 15 years, covering various markets in the Asia Pacific.

## 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 (US\$29.2 billion) of assets under management (as at 31 December 2013) across UK, Europe, Asia and North America.

## CORPORATE CONTACT

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two levels. One is we look at our own fund and strive to provide a well-balanced, diversified portfolio for investors. The second is to look at the merits of each individual asset, against the backdrop of the trends in the relevant country and sector. At the moment we are looking at assets in Singapore, Hong Kong and South Korea, but these are opportunity driven. We are also interested in assets in Japan and Australia, including in cities outside of the major hubs like Tokyo and Sydney, but which still have strong economic fundamentals over the long run. We will consider various sectors, including office, logistics, residential and retail. Ultimately, we are driven by the profile of the underlying income stream and our assessment of whether that stream of income fits well in our portfolio.

*You have been in this business for some time. How have the Asian real estate markets changed over the years?*

The Asian real estate landscape has grown tremendously over the past 15 years in tandem with the economic growth and increased wealth in the region. Asia also has benefitted from a much wider investor participation over time. When I first started in the Asian property markets, it was very much dominated by opportunity funds. Over time, other investors have begun to participate in these markets. Now you see sovereign wealth funds, core funds and more recently even family offices investing in Asian real estate. With wider participation also comes greater transparency, as well as liquidity. I think we, at M&G Real Estate, are part of an early market movement into the core real estate investment space in Asia. While there is now more competition, our investors have demonstrated an increasing understanding of our products and we have seen that their willingness to commit larger pools of capital has also increased.

*What attracts foreign investors to the region?*

Firstly, Asia is an increasingly important source of global economic growth and capital. It is not only a manufacturing base. It has huge markets for selling products and ideas as well. As the business opportunities in Asia increase, the real estate market also grows. Secondly, for foreign investors, Asia provides diversification to their portfolio. In the recent financial crisis, Asian markets held up much better than those in Europe and the US, and investors have taken notice. Thirdly investors' confidence in the Asia Pacific region has grown significantly as people have become much more familiar with these markets. Some of these foreign investors may have initially invested on a small scale in the opportunistic funds in the late 1990s. We have seen a couple of property market cycles now, and so people have done well and have seen how Asia works. Over time, foreign investors have gained more confidence and are now investing in the region in a bigger way.

*China has been growing nonstop for more than 20 years. Will it continue to grow? Will growth continue in other Asian countries?*

China will continue to be a very strong powerhouse in the Asia Pacific area. It may be going through a short-term rationalisation, if you will, but it is a very big economy. Much of the growth in China's real estate has only been seen in the major cities so far. As the country develops and moves towards a more balanced economy, I would imagine that there will be many other cities in China that will provide attractive opportunities for investors looking for strong dividend income. To my mind, China will be a key opportunity in the next 15 years, but alongside China there are other countries that are stabilising in the region and may also produce core opportunities for investors.

*What other emerging countries do you think will be coming up on investors' wish lists?*

In the Asia Pacific region, there is a fair amount of interest in the Philippines and Indonesia. I think investors' interest in Vietnam is still very strong, and some way down the road, maybe even Myanmar could become a possibility as well.

*Where do you see Asia's real estate market in five years?*

I believe the next five years look fairly stable with a positive trend. Many of the markets are beginning to recover from the shake-out from the financial crisis in 2008. I think now is a very opportune time to be looking at Asia. Interest rates are low, and will probably remain low over this period. We also think opportunities definitely exist to improve underlying rents and enjoy a relatively decent return on the equity as well.

*And where do you see the market in 15 years?*

Over the longer term, it is possible that we will see economies stabilising and not having as many significant upheavals as there were in the past in this region. Asia's developing democracies will bring more buying power. If this trend continues, I think that more markets will open up to us to invest in the core real estate space. The stock of real estate assets will definitely increase in 15 years, and Asia will cement its place as a key strategic real estate allocation for international investors. ♦



**Case study: Merado Daikai, Kobe, Japan**

Merado Daikai, a five-storey retail and office property in central Kobe, is one of M&G Real Estate's latest acquisitions in Asia. Located in an established urban residential neighbourhood of central Kobe, the building enjoys prominent corner frontage along a major road and is adjacent to major transport links. The acquisition is in line with the firm's strategy to diversify into Japan via non-discretionary retail offering a high cash yield and defensive income profile. It underscores the opportunities for reliable income streams in Japanese real estate outside of Tokyo.