Investing in Good Density and Smart Urban Growth

Richard Gwilliam, Head of Research, M&G Real Estate

ULI UK Annual Conference, 5th June 2018
‘Good density’ underpins positive property fundamentals

Good density benefits rental fundamentals by making occupiers more likely to locate there

Source: Urban Land Institute, M&G Real Estate
Good density: Innovation
Cities that capture growth from innovation

INNOVATIVE CITIES RANKING – TOP 20

Eindhoven
Dortmund
Espoo
Munich
Paris
Zurich
Geneva
Helsinki
Cambridge
The Hague
Stuttgart
Hannover
Arhus
Brussels
Dusseldorf
Mannheim
Milan
Luxembourg
Frankfurt
Stockholm

Innovative workforce (standardised score)

Source: M&G Real Estate, EPO, PMA, Eurostat, World Bank, QS
Rental growth vs innovative cities

Strong correlation between towns with innovative forces and rental growth

Average rental growth (2005-2015)

Innovative workforce (standardised score)

Source: M&G Real Estate, PMA, EPO
Investors tend to price in rental growth expectations

Yield vs innovative cities

High innovation/
Good value

Low innovation /
Poor value

Source: M&G Real Estate, PMA, EPO
Good density: Connectivity
Cities that capture growth from urban mobility

CONNECTIVITY SCORE MAP: 64 CITIES STUDIED

CONNECTIVITY RANKING – TOP 20

<table>
<thead>
<tr>
<th>CITY</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris</td>
<td>1</td>
</tr>
<tr>
<td>Berlin</td>
<td>2</td>
</tr>
<tr>
<td>Stockholm</td>
<td>3</td>
</tr>
<tr>
<td>Stuttgart</td>
<td>4</td>
</tr>
<tr>
<td>Zurich</td>
<td>5</td>
</tr>
<tr>
<td>Munich</td>
<td>6</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>7</td>
</tr>
<tr>
<td>London</td>
<td>8</td>
</tr>
<tr>
<td>Hamburg</td>
<td>9</td>
</tr>
<tr>
<td>Helsinki</td>
<td>10</td>
</tr>
<tr>
<td>Bremen</td>
<td>11</td>
</tr>
<tr>
<td>Barcelona</td>
<td>12</td>
</tr>
<tr>
<td>Vienna</td>
<td>13</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>14</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>15</td>
</tr>
<tr>
<td>Dusseldorf</td>
<td>16</td>
</tr>
<tr>
<td>Dublin</td>
<td>17</td>
</tr>
<tr>
<td>Malmo</td>
<td>18</td>
</tr>
<tr>
<td>Lisbon</td>
<td>19</td>
</tr>
<tr>
<td>Hannover</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: M&G Real Estate, 2018
Connectivity ranking metrics
Cities with enabler & effect scores > 50 more likely to provide sustainable property fundamentals

Enablers
- Wi-fi speed
- Free hotspots
- % of journeys to work using green modes
- Length of dedicated cycle paths
- Transit web apps
- Urban mobility strategy
- Infrastructure spend
- Electric vehicle chargers
- Car sharing schemes

Effects
- Affordability
- Transport emissions
- Passenger satisfaction
- Awards
- Public transport speed
- Commute time to work
- Hours spent in traffic
- Safety & security

City density category
- High: Above 5,000 residents per square km
- Medium: Between 2,001 and 4,999 residents per square km
- Low: Up to 2,000 residents per square km

Source: M&G Real Estate, 2018
Density, Connectivity & Innovation

Investing in cities benefiting from good density and smart urban growth

Top 20 European Cities
- Innovation
- Connectivity

Prime Office Yields Q4 2017 (%)

Source: M&G Real Estate, May 2018
Impact on investment appraisals
Allowing for density metrics

Source: M&G Real Estate
*M&G RE’s “DESI Logistics Score” is based on the European Commission’s Digital Economy and Society Index
For Investment Professionals only. This document is for investment professionals only and should not be passed to anyone else as further distribution might be restricted or illegal in certain jurisdictions. The distribution of this document does not constitute an offer or solicitation. Past performance is not a guide to future performance. The value of investments can fall as well as rise. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and you should ensure you understand the risk profile of the products or services you plan to purchase. This document is issued by M&G Investment Management Limited (except if noted otherwise below). The services and products provided by M&G Investment Management Limited are available only to investors who come within the category of the Professional Client as defined in the Financial Conduct Authority’s Handbook. They are not available to individual investors, who should not rely on this communication. Information given in this document has been obtained from, or based upon, sources believed by us to be reliable and accurate although M&G does not accept liability for the accuracy of the contents. M&G does not offer investment advice or make recommendations regarding investments. Opinions are subject to change without notice.

M&G Investments and M&G Real Estate are business names of M&G Investment Management Limited and are used by other companies within the Prudential Group. M&G Investment Management Limited is registered in England and Wales under numbers 936683 with its registered office at Laurence Pountney Hill, London EC4R 0HH. M&G Investment Management Limited is authorised and regulated by the Financial Conduct Authority. M&G Real Estate Limited is registered in England and Wales under number 3852763 with its registered office at Laurence Pountney Hill, London EC4R 0HH. M&G Real Estate Limited forms part of the M&G Group of companies. M&G Investment Management Limited and M&G Real Estate Limited are indirect subsidiaries of Prudential plc of the United Kingdom. Prudential plc and its affiliated companies constitute one of the world’s leading financial services groups and is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.