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# Press Release

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## **HERMES PREDICTS 2014 WILL SEE REAL ESTATE INVESTORS ENTERING THE RESIDENTIAL SECTOR**

The next 12 months will see a greater focus from UK institutional investors on the residential sector, as the government looks to find a solution to the housing supply shortage, claims Chris Taylor, CEO of Hermes Real Estate Investment Management Limited (HREIML).

Hermes' 2014 property predictions also speculate a trend towards an international real estate diversification that will lead to greater inflows of capital into the UK market.

**Chris Taylor, CEO of Hermes Real Estate Investment Management Limited said:** "This is likely to centre around London, where pricing is ahead of the pre-financial crisis peak and domestic investors will increasingly look to diversify their exposures elsewhere in the UK and across the globe."

Infrastructure will also shape the future real estate market in London, with major projects like Crossrail becoming a driving force behind redefining the Central London office map and radically altering how occupiers perceive locations. This is evident in areas like King's Cross, with Google's decision to occupy 1m sq ft, while the opening of Crossrail stations at Tottenham Court Road and Paddington have also galvanised strong demand for nearby properties.

With regards to the retail industry, the yield gap between prime and secondary property is currently at its widest level since 1991, at over 450 bps in the UK. Hermes calculates that relatively attractive returns can therefore be secured by discerning investors in 2014 as the UK economy recovers, particularly for those with an in-depth understanding of the occupational markets.

**Chris Taylor continued:** "The bifurcation within the retail sector will continue, with good opportunities within both the large and dominant destination centres at one extreme, and the smaller and non-discretionary centres at the other, while the medium-sized centres look increasingly vulnerable to technology and on-line shopping."

Hermes also draws attention to the 'elephant in the room' for 2014. **Chris Taylor went on to say:** "However, our confidence in future performance prospects from direct real estate is tempered by the spectre of artificially low interest rates and historically high record levels of debt. We question whether Western economies have yet to really tackle these challenges."

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**Notes to Editors:**

**Hermes Fund Managers**

Hermes is a unique fund manager – we have been an industry leader in Responsible Investing for over thirty years and offer clients the unparalleled combination of:

- Our **Multi-Boutique Structure** gives institutional and pension fund clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.
- Our **Investment Office** is a crucial function, acting as a performance risk 'radar' for all boutiques' investment activity and is central to our mission to deliver Sustainable Risk-Adjusted Alpha to all our clients.
- Our commitment to behaving as a **Responsible Asset Manager**, not merely by being a 'Responsible Investor' in quoted companies but also by applying these principles across all asset classes and by behaving as a 'good fiduciary' on behalf of our clients.

Hermes' investment solutions include:

- **Bonds:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives:** Commodities, Hedge Fund Solutions, Real Estate, Private Equity, Infrastructure
- **Equities:** Global, Emerging Markets, Small & Mid Cap, Europe, Japan

Hermes manages assets on behalf of more than 170 clients\* across these investment areas with £26.1 billion\* assets under management. Additionally, we support pension funds and other global institutional investors worldwide in meeting their ESG responsibilities through our market leading Hermes Equity Ownership Services, which takes on a stewardship role engaging globally on more than £129 billion\* of assets.

\*Please note the total AuM figure includes £3.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 30 September 2013.