DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – January 2008

IPD SWAPS

UK IPD Performance & Market Overview

Overview - *IPD Monthly Index, December 2007*

Please forgive the delay in releasing our latest Derivatives Newsletter, but last week saw such volatility across all markets that by the time a piece had been written, it was fit only for fish ‘n chips!!!! (“No different from your normal copy, then” my colleague quips!) This volatility, particularly in the global stockmarkets, is continuing today and looks set to continue for the forseeable future.

Bizarrely, the one area that has ridden this volatility rather well is the property sector. In fact property stocks in general have rallied from their recent lows. Unfortunately, the same cannot be said of UK property derivative prices. Whilst we saw a small wave of buying in the first week of the year, (and derivatives prices jumped briefly by between 100 – 200bp), that optimism soon disappeared with the DTZ Research forecasting the IPD monthly estimate as -3.6%. The actual number came in at -3.72%. Another record monthly drop now 2 in a row. December 2007 Capital values fell 4.13%, and for Q4 2007, capital values fell 9.96%.

So derivative prices across all periods have fallen further. You will have noticed that the numbers contained in the table below have changed. This is because on Jan 15th, after much discussion with the leading market participants, the way derivatives are quoted was simplified. Rather than quoting libor +/- a spread, now it’s a fixed %. So the Dec 08 contract for example has a mid of -11.5%. This means that if you ‘buy’ the swap, you pay -11.5% (so receive 11.5%) to your counterparty and receive the performance of IPD. (Or pay it out if it’s a negative number!!) No quarterly cashflows, simply one annual interest payment versus one annual property payment.

Lack of understanding has been a major deterrent for many potential derivatives market users. Hopefully this simplification of terms will enable even the most hardened derivative cynic to take the plunge.

With pricing still at these all time low levels, those funds that are measured against IPD, can guarantee out performance of the IPD index by some considerable margin. Particularly the contract maturing at the end of 2008. However, the debate remains: will the prices fall yet lower, or have they bottomed out? With Dec 08 now pricing close to a 30% fall in capital values from the high of June 2007, general consensus seems to be that at these prices buying looks to be a better option than selling!!

UK All Property Indicative Mid Prices

Tenor	UK All Property Mids (29/01/08)
Dec-08	-11.50%
Dec-09	-4.25%
Dec-10	-1.00%
Dec-11	1.00%
Dec-12	2.00%
Dec-16	4.00%

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European Overview

Whilst French and German property derivative prices have remained buoyant over the last few months, despite collapsing UK prices, last week saw German prices being hit. The Dec 06 - Dec 11 German All property price has fallen by approx 200bp. (2% p.a.) French prices have also softened but to a lesser degree. Latest mids can be seen to the right:

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	3.50%	3.25%
Dec 07 - Dec 09	0.50%	N/A
Dec 06 - Dec 11	4.00%	3.50%

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The UK Residential Market – HPI Index

With the US cutting interest rates by 0.75% last week, expectations of a cut over here have risen. However inflation is still a very real issue, so moderation is expected. Regarding house prices, talk in the press over the last few months seems to have gone from 'maybe prices will stagnate', to ' prices may fall slightly and then stagnate'. HPI derivatives are pricing in falls of around 9% for 1y, falling to 11% (in total) for 2y then stagnating for 2yrs before prices start to pick up 5yrs from now.

Such low prices have undoubtedly restricted deal flow. Whilst we have transacted a few deals, the market is thin and a bout of optimism in the UK housing market is very much needed.

HPI	MID	Yr on Yr return
1y	91	-9.00%
2y	89	-5.50%
3y	89	-3.67%
5y	89	-1.80%
10y	103	0.30%
15y	125	1.67%
20y	145	2.25%

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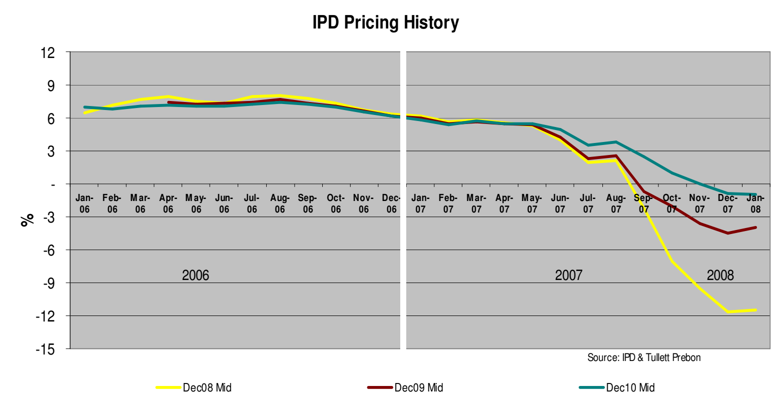

Indicative pricing available at:

Bloomberg – TPPROP<GO> **Reuters – TPPROP**

Click *'Indicative swap prices from Tullett Prebon information'* on www.propex.co.uk

DTZ Research produces a number of publications that cover the European markets in detail. For further information on this or any of the above please contact:

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