



Property Derivatives

Market Overview
September 2008

UK Market Overview

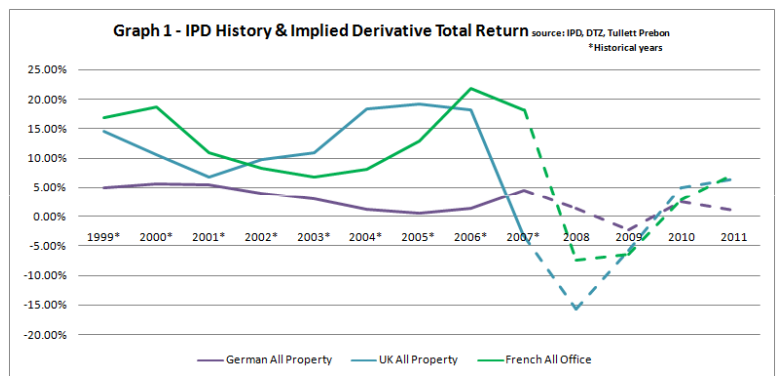
It is very difficult to know where to begin after 10 astonishing days in the financial markets. The like of which we will (hopefully) not witness again. At last the full impact of the credit crunch is being felt. Tremors were felt this time last year with the Northern Rock debacle, but generally that was derided as a foolish business model. Seeing Lehman, Merrill and HBOS in dire straits and for a while Morgan Stanley and even Goldman Sachs on the ropes has really brought home the seriousness of the situation. All this and we haven't even mentioned Freddie Mac and Fannie Mae or AIG !! Various Governments have stepped in to restore a little confidence and legislation has been passed to prevent Bank shares being shorted. This has certainly calmed things down but confidence remains very fragile.

It was our intention to write a very positive newsletter explaining how the IPD monthly release for August, had bolstered property derivative prices and was perhaps revealing light at the end of the tunnel, unfortunately this has not been the case.

The August IPD monthly estimate of the annual index came in better than expected -1.17% which included a capital value fall of -1.63% on the month. The IPD monthly estimate of the annual index year to July 2008 is at -8.91% total return and -12.40% capital return.

Immediately after the release, derivative prices firmed up as a trend was developing. The monthly estimates for June, July and August were -1.73%, -1.37% and -1.17% respectively. The valuation cuts looked to be reducing. Was this the beginning of a period of stability?

Well, the financial markets then went into meltdown. And derivative prices immediately collapsed all along the curve. The Dec 08 contract now has a mid of -15.5%, but this could conceivably drift even lower. The Dec09 have seen nearly 2% falls during the month. See Table 1 for current indicative mid market prices.



UK All Property Indicative Mid Market Prices		
Tenor	Mid Price (pa)	Implied Return (pa)
Dec 07 – Dec 08	-15.75%	-15.75%
Dec 07 – Dec 09	-10.75%	-5.75%
Dec 07 – Dec 10	-5.50%	5.00%
Dec 07 – Dec 11	-2.50%	6.50%
Dec 07 – Dec 12	0.25%	11.25%

Table 1

Tullett Prebon 23.09.08

European Market Overview

Prices in France and Germany have also been impacted by the volatility of the last couple of weeks, although less than the falls in the UK.

Germany in particular seems to be weathering the storm with considerable resilience. This could reflect the general concern whether the falls will be reflected in the index, rather than what is actually happening or going to happen in the German market. See table opposite for mids. See Table 2 for current indicative mid market prices.

Tenor	French All Office Mids	German All Property Mids
Dec 07 - Dec 08	-7.50%	1.25%
Dec 07 - Dec 09	-7.00%	-0.50%
Dec 07 - Dec 10	-3.75%	0.50%
Dec 07 - Dec 11	-1.00%	0.63%

Table 2

Tullett Prebon 23.09.08



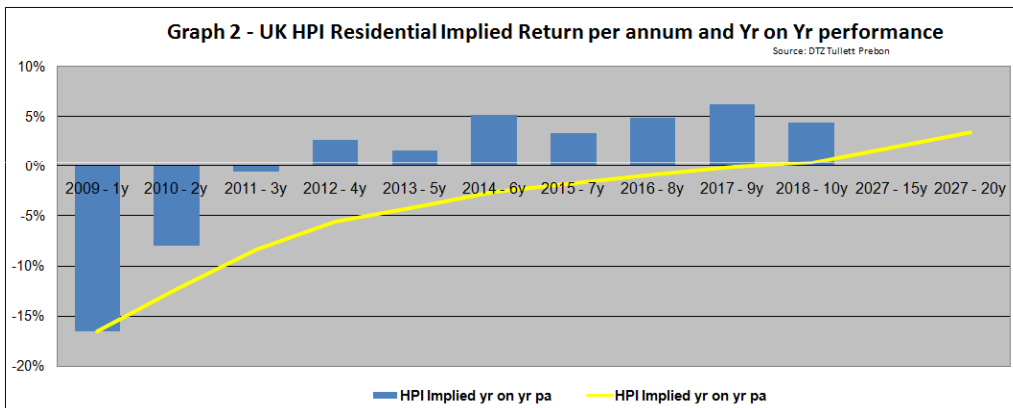
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UK Residential HPI Market Overview

The RICS reported that the number of transactions are at their lowest levels since records began. This was reiterated by the FT who reported that agents in several regions were reporting fewer than one sale per week. Clearly the market is almost at a standstill. The key issue is that significant deposits are now required to secure a mortgage. The mortgage rates themselves are down, but with at least a 10% deposit required for the majority of mortgages there is no sign of the situation easing.

As such, we expect the HBOS house price index to continue falling month on month. Derivative prices are inevitably lower after the turmoil of the past fortnight. In fact the 10y contract is back down to a mid market of around 105, implying the index in August 2018 to be 5% higher than it is today. Current indicative mid market prices can be seen in Table 3 below.



HPI	MID	Implied pa Return
0y	100	
1y	83.5%	-16.5%
2y	77.0%	-8.0%
3y	77.0%	-0.5%
4y	79.5%	2.7%
5y	81.0%	1.7%
7y	88.5%	3.4%
10y	103.5%	4.5%
15y	122%	
20y	150%	

Table 3 Tullett Prebon 23.09.08

Indicative pricing available at:

Bloomberg – TPPROP<GO>

Reuters Real Estate & Reuters – TPPROP



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

Historical Publications

For historical newsletter publications, please visit www.dtz.com/derivatives. For further commentary and information, please see our monthly column in **Property Week**, or contact:

Michael Cutteridge

Tel: +44 20 7643 6350

Email: michael.cutteridge@dtz.com

Gary McNamara

Tel: +44 20 7643 6248

Email: gary.mcnamara@dtz.com

Rob Atkin

Tel: +44 20 7200 7059

Email: ratkin@tullettprebon.com

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