Property Derivatives

Market Overview
February 2009

UK Market Overview

Over the last month, the property world has come under intense pressure; daily news coverage has centred on rights issues, valuation write downs, and covenant breaches. UK REITs have been particularly hard hit this month, with Land Securities and Hammerson shedding over 25% of their value, and several more rights issues in a bid for fresh equity to shore up their balance sheets. UK REITs have been desperate for liquidity amid the decline in property values to ease LTV levels. Land Securities alone is looking to raise £756 million, British Land £740m and Hammerson £584m with further capital raising expected from SEGRO, Brixton and Liberty.

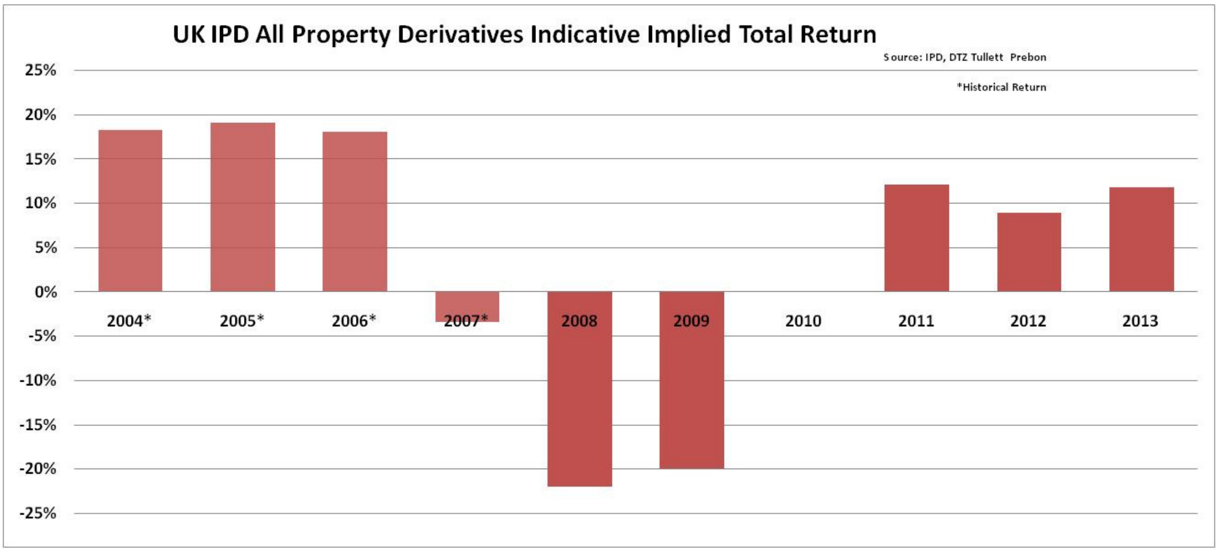
IPD released their first Monthly Index for January 2009 and it continues to be negative although the extent of the falls seem to be slowing. All property capital values fell 3.0% in the month and rents fell 0.8% making January the third month in a row to see negative annualised rental growth.

The worst performing sector in January was retail at -3.2% capital growth, followed by offices at -3.1% and industrial at -2.5%. In January the initial yield softened 19bp to 7.24% and the equivalent yield softened 25bp to 8.70%.

Despite the fall in REIT prices and the IPD monthly index, the derivatives market actually stabilised in February after a long period of sustained falls. Current IPD swap prices are pricing in over a 60% fall in capital values from the peak in July 2007 to the trough but imply that we may see positive total returns again by December 2010. This begs the question of whether we will near the bottom of the market by the end of 2009. The graph below shows the UK IPD All Property historical and implied future total return.

UK All Property Indicative Mid Market Prices		
Tenor	Mid Price (pa)	Implied Total Return (pa)
Dec 07 – Dec 08	-22.00%	-22.0%
Dec 07 – Dec 09	-21.00%	-19.99%
Dec 07 – Dec 10	-14.50%	0.15%
Dec 07 – Dec 11	-8.50%	12.15%
Dec 07 – Dec 12	-5.25%	8.95%

Table 1 Tullett Prebon 23.02.09



Past performance information contained in this material is not an indication of future performance

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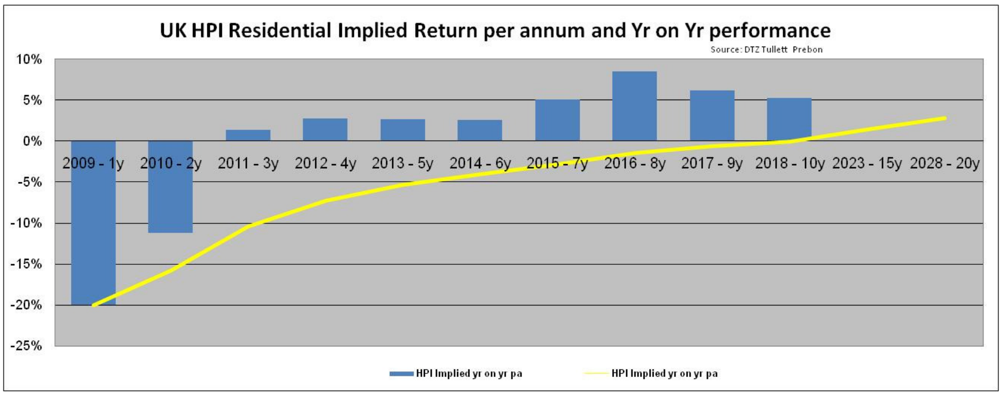
UK Residential HPI Market Overview

It seemed unlikely with jobs being shed across all sectors, and access to credit is still significantly curtailed, that mortgage approvals should actually rise. However the HBOS HPI figure for January came in at +1.9% (seasonally adjusted) which was a major surprise. After 11 months of consecutive falls, at last there seemed to be a light, albeit just a flicker. Politicians, eager to find any positive outcome from their economic policies, heralded the bottom of the cycle while others that were less optimistic dismissed the number as a mere anomaly.

The accompanying statement from Martin Ellis at HBOS confirmed as much: “It is always important not to place too much weight on any one month's figures.” Interestingly around the same time last year, after 5 successive monthly falls in the non-seasonally adjusted index, the February figure was up 1.13%. For now most pricing in this market is still based out of the December fixing. We await the next monthly figure eagerly.

Activity in the HPI market increased a small amount this month. There was a notable desire for information about the HPI market from mortgage companies, equity release firms, and cash rich investors who feel that forward levels are now looking extremely attractive. Trades have been executed in the short end of the market stabilising the pricing, although there has been interest all along the curve.



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HPI	MID Price	Implied pa Return
0y	100	Dec 08 Start
1y	80.0%	-20.0%
2y	71.0%	-11.3%
3y	72.0%	1.4%
4y	73.0%	1.4%
5y	75.0%	2.7%
7y	81.0%	3.8%
10y	95.0%	5.6%
15y	113.0%	-
20y	135.0%	-

Table 2 Tullett Prebon 23/02/09

Indicative pricing available at: Bloomberg – TPPROP<GO> & Reuters Real Estate & Reuters – TPPROP

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 at** www.propertyweek.com or contact:

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