



Property Derivatives

Market Overview
March 2009

UK Market Overview

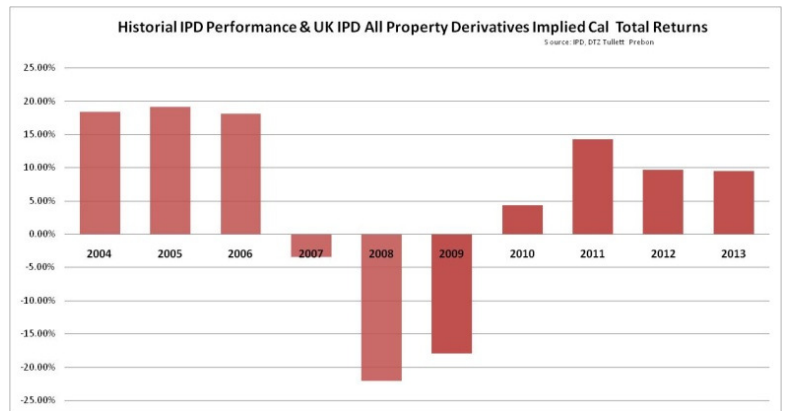
The start of the month saw another 3.1% wiped off capital values in the IPD monthly index for February (39% down from the peak in July 2007). There was further gloomy news in the form of office lettings in the City which were down a fifth on the previous month. UK house prices fell a larger than expected 1.8% in February, and official unemployment figures surpassed 2 million in the UK for the first time since 1997.

Despite this news, as the month has rolled on, one cannot help but get caught up in a slight spring awakening. There have been significant rallies in the stock market led by banking and property stocks with various pieces of positive news both here and across the pond. Standard Chartered revealed that they foresee a further rally in REIT prices. Many of the rights issues have been taken up by savvy investors, and more than 4.7 million homes were sold last month in America spurred on by first-time buyers snapping up foreclosure bargains. Green shoots may be appearing.

UK All Property Indicative Mid Market Prices		
Tenor	Mid Price (pa)	Implied Total Return (pa)
Dec 08 – Dec 09	-18.00%	-18.00%
Dec 08 – Dec 10	-7.50%	4.34%
Dec 08 – Dec 11	-0.75%	14.26%
Dec 08 – Dec 12	1.75%	9.63%
Dec 08 – Dec 13	3.25%	9.47%

Table 1 Tullett Prebon 26.03.09

This sense of optimism is certainly manifesting itself in the property derivatives market. At the beginning of the month, the market was pricing in a capital value decline of 58%. This value is now more than 3.5% higher at -54.65%. The Dec 10s and Dec 11s in particular have continued their upward trend, which has significantly reshaped the curve. The market is now expecting commercial property to bottom out more rapidly than first anticipated at the beginning of the year. The 'Cal 10' contract or period from Dec 2009 to Dec 2010 had a mid market of -1.0% at the very beginning of March. Today the mid price is around the 4.75% level and looks like it could move still higher.



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

European Overview

Activity in the European markets has continued to be slow. However, at the start of March there was some aggressive selling in the Dec 09 contracts, which has resulted in a sharp fall in prices right the way along the curve. Could the French All Office and German All Property markets be following the trend of the UK? If this is the case there could be some potential opportunities to buy at low prices, although deciding on the best tenor may be difficult as the recovery may be drawn out.

EUREX Exchange

Encouraging news has also come in the Eurex property futures market, where the first series of trades have been carried out. The trades reportedly have tenors out as far as March 2012. Most market participants now agree that the futures platform may have a large part to play owing to counterparty risk of default in the OTC market. The £50,000 threshold opens up a whole new wave of users into the market.



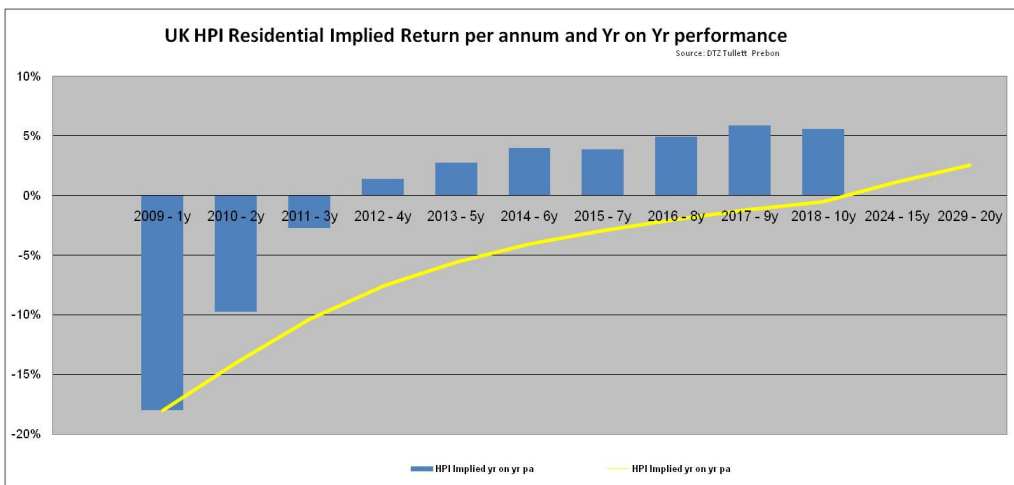
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UK Residential HPI Market Overview

The trend in the commercial market was echoed in the residential market. Nationwide released their monthly figures for the rate of mortgage lending at the start of March, which were worse than expected with a -17.8% annual decline (-1.8% MOM). This, coupled with the Bank of England's statement that net mortgage lending only rose by £690m in January, less than half of what analysts had predicted, painted a dark picture of the residential market. However, some positive news came from Rightmove.co.uk, who claimed that the average asking price for a UK home had increased 0.9% MOM to £218,081 in March.

This has translated into an improvement in the front end of the derivatives curve. The Halifax HPI is expected to fall a further 27% from Dec 08 levels, equating to a peak to trough fall of 43%. Consequently the back end of the curve has suffered with a more prolonged recovery ahead. The market is not expecting house prices to return to current levels for more than 10 years, and from the peak 2007 for more than 15 years.



HPI	MID Price	Implied pa Return
0y	100	Dec 08 Start
1y	82.0%	-18.0%
2y	74.0%	-9.8%
3y	72.0%	-2.7%
4y	73.0%	1.4%
5y	75.0%	2.7%
7y	81.0%	-3.0%
10y	95.0%	5.6%
15y	113.0%	-
20y	135.0%	-

Table 2 Tullett Prebon 26/03/09

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:

Gary McNamara
Tel: +44 20 7643 6248
Email: gary.mcnamara@dtz.com

Rob Atkin
Tel: +44 20 7200 7059
Email: ratkin@tullettprebon.com

Darren Gerard
Tel: +44 20 7200 7059
Email: dgerard@tullettprebon.com

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