



# DTZ Tullett Prebon - Derivatives

## Property Derivatives Market Overview – September 2007

### IPD SWAPS

#### UK IPD Performance & Market Overview

Overview - IPD Monthly Index, August 2007

With IPD's July estimate coming in significantly lower than all expectations (+0.17%), the August number was eagerly anticipated. DTZ research were forecasting a very bearish 0.1% total return for August which seemed to reflect market sentiment and on Friday they were proved to be pretty accurate as the number came in at -0.01%.

Most forecasters have adjusted their 2007 year end returns to between 5 - 8%. The derivatives market is **less** bullish. The reality is that there are no buyers of UK All Property total returns for 1 or 2 years and beyond that time frame buyers are extremely scarce and very defensive with their pricing. The mid-markets we are publishing below are very much 'indicative', largely because liquidity has dried up.

The sub prime crisis must take the majority of the blame for this but it is also worth looking at some of the trading that occurred earlier this year and at the end of 2006 when Dec 07 and Dec 08 All property swaps were trading at Libor **plus** a large spread. As recently as mid March the Dec 07 All Property TRS had a mid-market of L+200. For those unfortunate few that took long positions back then, a 700bp fall is a pretty bitter pill to swallow by any standards.

On a more positive note, the mid market levels we are now seeing make pretty attractive levels to buy certainly 3, 4 or 5yrs out and many fund managers seem to be contemplating the 'obvious' trade of placing their cash on deposit and going long the IPD All property index at Libor **minus** a large margin.

Tenor	All Property Mids
Dec-07	-625
Dec-08	-800
Dec-09	-625
Dec-10	-500

Tullett Prebon (bp over Libor as at 25/09/07)

#### European Overview

Swap prices in the two main European markets (French Office and German All Property) were pretty slow to react to the recent market mayhem. It has only been in the last 10 days that they have come into line as offers to sell exposure have fallen. This drop in pricing been most noticeable on the French IPD market as the Dec 06 Dec 09 contract has fallen from a mid of Euribor + 415bp to Euribor + 220bp over the past month. This has reduced the spread of France over Germany. Recent trading has been relatively light, but the pricing moves have been significant.

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	220	130
Dec 07 - Dec 09	-50	120

Tullett Prebon (bp over Libor as at 25/09/07)



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### The UK Residential Market – HPI Index

The August / September numbers published by Halifax, Nationwide and Rightmove all point to a continuing slowdown in UK house price inflation. In fact Rightmove's September number was a -2.6% fall for the month.

The effects of the US sub-prime crisis can now be felt here in the UK. Liquidity has dried up in the money markets and 3-month money had been trading at a high c. 7%. Northern Rock was the most high profile casualty, but longer term the UK housing market is likely to suffer.

The increases in base rates to 5.75% are biting and will continue to do so, probably to a greater extent as many fixed mortgage deals roll off over the next few months.

The HPI market, like many markets is struggling with liquidity. Nobody is bidding HPI derivatives for 5yrs or shorter. And beyond that, any bids being shown are low, to say the least. HPI derivatives are pointing to difficult times ahead in the UK residential market.

HPI	Bid	Offer	HPI	Bid	Offer
1y	-	100.0	5y	-	108.0
2y	-	102	10y	-	116
3y	-	103	30y	-	271.5

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25-Sep-2007

#### Indicative pricing available at:

**Bloomberg – TPPROP<GO>**

**Reuters – TPPROP**



Click '*Indicative swap prices from Tullett Prebon information*' on [www.propex.co.uk](http://www.propex.co.uk)

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

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