



DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – October 2007

IPD SWAPS

UK IPD Performance & Market Overview

Overview - IPD Monthly Index, September 2007

The eagerly awaited IPD UK Annual Index Estimate for September came in in at a 17 year low of -1.15% last Friday compared with +1.9% for equities and +0.5% for gilts. This comprised Capital growth down 1.6%, offsetting the positive income return of 0.4%. This means returns so far this year are +3.4%. And whilst many forecasters are still predicting total returns of between 4% and 6% for 2007, the murmurs from the derivatives world are that between 0% and 1% is looking more realistic.

Price action in the Dec 07 total return swap has been limited, but our mid market is currently L-1450, which implies a total return of 1.07%. The most active trading recently has been in forward starting swaps, in particular the Cal 09. This means taking a view on the UK All property index between 31/12/08 and 31/12/09. As the contract starts in Dec 2008, buyers feel the worst of the slump should be over and this week it has traded from L-315 up to L-200. If you perceive positive total returns for 2009, as most forecasters do, then this still looks a real buy.

The Dec 10 & Dec 11 contracts are also well supported on the bid side, thus emphasising the view that we should be well out of the slump by then.

The big debate on everyone's lips over here is "can England's bullish World Cup run turn the UK commercial property market ?"
Now, that may even be beyond the midas touch of our Jonny.....!!!!

Tenor	All Property Mids
Dec-07	-1450
Dec-08	-925
Dec-09	-775
Dec-10	-450
Dec-11	-350
Dec-12	-275
Dec-16	-50

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European Overview

French Offices and German All property are still the only two markets trading with any regularity. France has continued to sell off which makes sense bearing in mind what has been happening to UK swap prices, but Germany has held firm and mids have barely moved since the last newsletter. The most dramatic drop has again been in the French All Office Dec 06 – Dec 09 contract where the level has fallen 95bp in the month and 125bp over the past two months. This has for the first time placed future performance expectation in Germany ahead of that in France, as the German levels have remained consistent.

Recent trading has been relatively light, but the pricing moves have been significant. All property total return in Germany was 1.3% in 2006.

Even taking into account the valuation issues, should swaps in German All property be higher than those in French Offices??

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	125	130
Dec 07 - Dec 09	-100	
Dec 06 - Dec 11	100	125

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The UK Residential Market – HPI Index

Historically we British, when stuck for something to say have commented on our inclement weather. It is the 'safe bet' topic of conversation – unoffensive and something which affects us all. However, over the last few months the UK housing market has threatened the weather chat!! "What a terrible summer!" is in grave danger of being replaced by "House prices are looking a bit toppy, aren't they?" There are programmes on TV and newspaper articles almost daily discussing UK housing issues.

Most ask the question: "how long can this go on??" Well the Halifax House Price Index reported a fall of 0.6% in September, whilst Q3 prices increased by 0.9% compared with 2.3% in Q2 and 3% in Q1. We have certainly slowed down and the -0.6% number for September begs the question: "Is this just the start of a long term fall??"

The 2y derivative price is implying a fall of 6.5% (mid) between now and Sept 2009 and the 5y, a fall of 4% (mid). This can't really be defined as a collapse, but more a small fall followed by a long period of consolidation.

HPI	Bid	Offer	HPI	Bid	Offer
1y	91.0	96.0	5y	93.0	99.0
2y	91.0	96	10y	102	110
3y	91.0	96	20y	150	160

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The 10y mid is 106 so a mere 6% increase from now until Sept 2017. It will be interesting to see how increased liquidity over the forthcoming months effects prices.

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 any of the above please contact:

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