DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – December 2007

IPD SWAPS

UK IPD Performance & Market Overview

Overview - *IPD Monthly Index, November 2007*

"The shadow of the property crash of the early 1990s is looming over the industry as deal volumes collapse to a third of their previous level and property funds take further drastic steps to prevent a liquidity crisis."

This was the opening paragraph on the front page of the FT on December 4th. Those 'drastic steps' were the introduction of 12-month redemption periods, thus preventing panic. Whilst articles such as this, which appear in the press with astonishing regularity at present, result in a dearth of transactions in the physical market, property derivatives prices move with sentiment. Therefore the impact of the latest news, good or bad, is reflected in pricing immediately. And, as such, prices have continued to slide.

The table to the right shows our current mid markets and the price change from last months newsletter now on a November basis (i.e. from 30th Nov07 to 31st DecXX).

The graph on the following page shows historical pricing move on various IPD contracts.

Tenor	UK All Property Mids (18/12/07)	UK All Property Mids (21/11/07)
Dec-07	-3500	-2250
Dec-08	-1750	-1450
Dec-09	-1100	-925
Dec-10	-725	-650
Dec-11	-500	-500
Dec-12	-350	-400
Dec-16	-150	-100

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The December 2008 contract as at 15/11/2007 starting on 31st October 2007 & ending on 31st December 2008 was implying a total return of -8.9% for that period. One month later the same contract was implying total returns of -11.4%. When income return is removed this implies a fall of circa 17% in capital value. However, 'out of adversity comes opportunity' and over the last week or so opportunist buyers have begun to emerge. The longer contracts i.e. those maturing in December 2010 and 2011 have started to look attractive as the valuation correction is seemingly well underway.

Last Friday's IPD monthly Index all property total return for November 2007 came in at -3.63%, the largest fall in monthly returns ever and more than double the -1.76% in May 1989. This -3.63% comprised capital growth down -4.02%, offsetting the positive income return of +0.39%. This means total returns in 2007 are -1.80% having fallen from a peak of +4.61% in July.

European Overview

Trading in French Office and German all property has been thin and prices have remained at similar levels to last month. With the UK coming under strong selling pressure there are those that feel European prices should also be lower, but as yet they are unaffected.

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	100	130
Dec 07 - Dec 09	-275	N/A
Dec 06 - Dec 11	-25	125

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The UK Residential Market – HPI Index

Prices in the UK residential derivatives market have also slipped, although not as dramatically as those in the commercial sector. The chart below left shows our current mids.

David Owen, chief Economist at Dresdner Kleinwort, was quoted in the Telegraph last Tuesday saying: ‘ I'm no longer comfortable with this view that the housing market can just tread water for a few years. What's much more likely is that there will be outright falls in house prices – probably of 5-10%’.

Current derivatives pricing certainly support his view. As with IPD swaps, these low prices in HPI are potentially offering some excellent buying opportunities, particularly 4 years and beyond.

HPI	MID	Yr on Yr return
1y	91.0	-9.00%
2y	90	-5.00%
3y	90	-3.30%
5y	93.0	-1.00%
10y	104	0.40%
20y	154	2.20%

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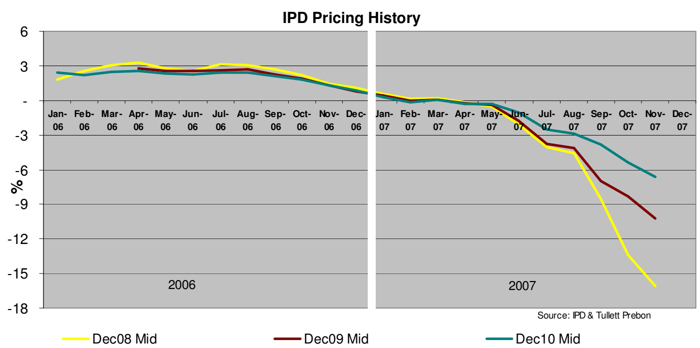

Indicative pricing available at:

Bloomberg – TPPROP<GO> **Reuters – TPPROP**

Propex

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 this or any of the above please contact:

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