



DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – February 2008

IPD SWAPS

UK IPD Performance & Market Overview

Overview - IPD Monthly Index, January 2008

The rapid correction experienced in November & December 2007 has somewhat slowed with total return on the January 2008 IPD Monthly Index coming in at -1.56%. This total return comprised -1.99% capital return and +0.43% income return with the weakest sector in terms of total returns being industrial at -1.86%.

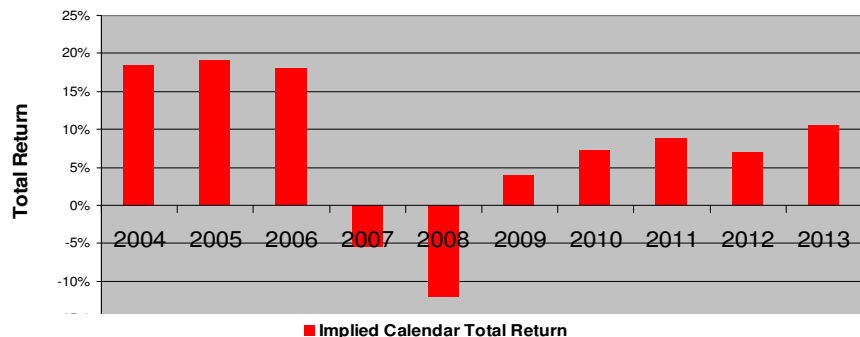
Volumes for property derivatives in 2007 broke through £7bn, up from £3.9bn in 2006 and current estimates are that £1bn traded in January 2008. Momentum has certainly picked up in this market and even the most hardened, 'old school' property investor is now making enquiries to try and find out what all the fuss is about!! With pricing at current levels, considerable opportunities exist.

Last month we discussed the probability that there would be a further spell of buying in the derivatives market and sure enough, over the last two weeks, this has happened. The pricing has remained pretty static in the one-year contract but for two-year contracts and beyond, prices have moved up. Looking at various property forecasts, the outlook for 2009 onwards is now looking considerably better than that for 2008. See the implied total returns graph below that show what property derivative mid-market prices imply for future calendar years.

IPD All Property Implied Total Returns 18.02.08

UK All Property Indicative Mid Prices	
Tenor	UK All Property Mids (18/02/08)
Dec-08	-11.50%
Dec-09	-4.25%
Dec-10	-1.00%
Dec-11	1.00%
Dec-12	2.00%
Dec-16	4.00%

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At the IPF PDIG quarterly breakfast on 1st February, the speaker panel of property professionals was asked what they felt total returns would be in 2008 in the range between -5% and -10%. We are already at -1.56% which suggests further falls through the year. Whatever the view, the current level at which one can buy exposure to IPD for 2008 is -11.5%. At this level guaranteed out performance of IPD All Property index is possible. The table above shows the current price per annum to pay or receive IPD total return.

European Overview

Trading in the European property derivatives market in 2008 has been tentative. Whilst there are ongoing interests in French Offices, trading has been thin. The German All property index has seen more activity, although still subdued. German prices have followed the UK and France and moved lower as the impact of the credit crunch and tighter lending takes its toll on all markets. Mids for both France and Germany can be seen opposite. Enquiries into trading the Dutch, Spanish and Swedish property derivative markets were also received this month.

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	3.50%	3.25%
Dec 07 - Dec 09	0.50%	N/A
Dec 06 - Dec 11	4.00%	3.50%

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The UK Residential Market – HPI Index

As with the commercial market, there are some pretty interesting opportunities in residential property derivatives. With current mid markets shown below. These prices are at all time lows but could potentially fall further. However, in the cold light of day do we really think house prices will be 9% lower 5 years from now? Add inflation to the mix and these prices actually imply even bigger falls in house prices.

HPI	MID	Yr on Yr return	HPI	MID	Yr on Yr return
0y	100	0% Today	5y	91	-1.80%
1y	92	-8.00%	7y	99.5	-0.07%
2y	88.5	-7.25%	10y	107	0.70%
3y	88.5	-3.83%	15y	125	1.67%
4y	88.5	-2.88%	20y	145	2.25%

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Historical Publications

For historical newsletter publications, please see www.dtz.com and to the property derivatives section. Alternatively for further commentary please see our Property Week monthly column in the last issue of each month.

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 this or any of the above please contact:

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