DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – March 2008

IPD SWAPS

UK IPD Performance & Market Overview

Overview

What a month!! At the time of our last update, all financial markets were experiencing extreme volatility. Well, since then, the volatility has moved up a couple of gears! Stocks, bonds, interest rates, commodities are all fluctuating wildly. The credit crisis seems to be worsening – the latest casualty being Bear Stearns with rumours of other banks / institutions that may follow. Comparisons with 1929 are being made with depressing regularity and not surprisingly this volatility is also apparent in UK property derivative prices.

The rapid correction in the UK commercial property market is still occurring but continually slowing with total return on the February 2008 IPD Monthly Index coming in at -0.97%. This total return comprised -1.39% capital return and +0.42% income return with the weakest sector total return being industrial at -1.04%.

February 29th saw the release of the IPD Annual total return. Whilst the sum of the monthly estimates came in at over -5%, the actual annual index number was -3.42%. This certainly raised a few eyebrows in the derivatives market. General consensus was that the actual would be 20-30 basis points better than the estimates, but not over 150 basis points which is accounted for due to the difference in stock of each portfolio.

Before the release of the annual IPD number, derivative prices started to rally all the way along the curve. The December 2008 contract moved from a -12.25% mid price up to -10.75% in just a few days. However, following the data release, the bids moved back to -12.5%, in anticipation of further falls being factored into the index. The December 2008 contract settled at -12.5% until the news that Bear Stearns was in trouble emerged, resulting in yet another drop to -13.25%. The next few days of turmoil resulted in a low print of -14.0% on the December 08. However we've seen another bounce and we have a mid market of -11.7%.

The Dec 09s and Dec 10s have also been moving around but to a lesser degree, and the 4y, 5y and 6y contracts have actually behaved pretty sensibly and drifted lower in a uniform manner.

The Dec 08 and Dec 09 contracts are still pricing in significant falls in total returns. But are these falls too big?? A few weeks ago the property world seemed to believe they were. But recent conversations have gone from 'No way….' to 'well, anything is possible'. It hardly constitutes a change in sentiment, but it's certainly the realisation that this year is going to get tougher!

UK All Property Indicative Mid Prices

Tenor	UK All Property Mids (26/03/08)
Dec-08	-11.70%
Dec-09	-4.25%
Dec-10	-1.20%
Dec-11	1.00%
Dec-12	2.00%
Dec-13	3.25%

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European Overview

The French and German property derivative markets continue to attract interest, and transactions in both markets have occurred over the last month. Pricing has remained pretty stagnant and we feel will remain so until the release of the IPD annual results next week. Consensus seems to be that French Office performed very well in 2007 and to a much lesser degree the same for German All Property. Current mid markets can be seen to the right:

Tenor	French All Office Mids	German All Property Mids
Dec 06 - Dec 09	2.75%	3.25%
Dec 07 - Dec 09	-2.50%	N/A
Dec 06 - Dec 11	3.00%	3.50%

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The UK Residential Market – HPI Index

Sentiment in the UK housing market has changed. A few months ago there were many forecasters / journalists who felt house prices were set for a period of stagnation. Falls seemed unlikely, but we should prepare ourselves for a period of zero growth. Whatever supply issues exist, mortgage rates are higher and lending criteria has become far more stringent. This seems to be taking time to filter through to the various indices, but it's impact should certainly be felt. Morgan Stanley's Chief UK Economist David Miles stated last week that the UK housing market could fall by 10% in 2008 and if you look at www.housepricecrash.co.uk you'll witness some really bearish sentiment along with interesting indicators.

Pricing in the derivatives market has once again been thin, mainly because of the lack of buyers. Fears of just how low the HPI might fall and a lack of liquidity have resulted in mid prices dropping even further, particularly in the 2-5 year part of the curve. Current indicative mid prices are shown to the right.

HPI	MID	Yr on Yr return	HPI	MID	Yr on Yr return
0y	**100**	**0% Today**	**5y**	89.0	-2.20%
1y	92	-8.00%	**7y**	96	-0.57%
2y	87	-6.50%	**10y**	103	0.30%
3y	86	-4.67%	**15y**	115	1.00%
4y	87	-3.25%	**20y**	145	2.25%

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Indicative pricing available at:

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

Click *'Indicative swap prices from Tullett Prebon information'* on www.propex.co.uk

Historical Publications

For historical newsletter publications, please see www.dtz.com and the property derivatives section. Alternatively for further commentary please see our monthly Property Week column or contact:

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