



DTZ Tullett Prebon - Derivatives

Property Derivatives Market Overview – April 2008

The UK Residential Market – HPI Index

With the UK housing market making front-page news almost daily, we felt that this month the residential derivatives market is a good place to begin.

The 1-year derivative price is implying about a 13% fall in the UK HBOS house price index and the 2-year, a further 9% fall. This is indeed a setback, but a correction of this size merely brings prices back to their Dec 2006 levels. If a house move was completed 6 months ago, then potentially the current valuation is lower than the price paid, but what is more important is the ability to service the debt in the current period.

Mortgage rates have risen over the last month or so despite base rates being cut, but whilst these rises are painful, they are not of the scale seen in the 1990s. Currently the lack of funds available for homebuyers is starting to have a profound effect on the housing market and only time will tell if the Bank of England's £50 billion injection into the financial system in an effort to thaw the frozen mortgage market will help.

Transactions in the derivatives market have been through something of a lull. The sellers are reluctant to sell 'down there' whilst the buyers are quite happy to be patient. As before, we see the most attractive prices in the longer dated maturities. The 10y derivative has a mid price of 103, potentially even lower.

HPI	MID PRICE	Yr on Yr return	HPI	MID PRICE	Yr on Yr return
0y	100	0% Today	5y	85.0	-3.00%
1y	87	-13.00%	7y	90	-1.43%
2y	82	-9.00%	10y	103	0.30%
3y	80	-6.67%	15y	124	1.60%
4y	82	-4.50%	20y	145	2.25%

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European Overview

IPD released several European results this month and a series of derivative trading activity in the lead up to the release of the results. The recent IPD results and current mid market prices are shown in the table below:

The traded French All Office index came in at 18.16%. Interestingly the Dec06-Dec07 contract was trading at around 18% prior to its release.

The German All Property came in at 4.49% total return and the Swiss All Property saw a total return of 7.12%. Derivatives were also trading in both these markets in the build up to each release at levels close to the actual result.

It is interesting to note that Retail was the best performing sector in each country shown with the exception of Ireland and the UK. The UK has led the market correction with French Office looking to follow as per the derivative pricing.

Source: IPD	All Property	All Retail	All Office	All Industrial
France	17.79%	22.36%	18.16%	14.34%
Netherlands	11.30%	13.40%	11.30%	11.70%
Ireland	9.90%	9.20%	10.60%	9.70%
Italy	9.23%	9.68%	9.07%	9.02%
Switzerland	7.12%	10.01%	6.91%	N/A
Germany	4.49%	6.84%	3.31%	7.10%
UK	-3.42%	-6.08%	-0.48%	-3.45%

Tenor	French All Office Mids	German All Property Mids
Dec 07 - Dec 08	N/A	2.00%
Dec 07 - Dec 09	-3.00%	2.25%
Dec 07 - Dec 11	-2.25%	3.75%

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IPD SWAPS

UK IPD Performance & Market Overview

In commercial property derivatives, short term UK prices have been pretty stable. The IPD monthly estimate of the annual for March came in at -0.86%. Less of a fall than in previous months certainly, but the valuation correction continues. Year to date, industrial has been the worst performing sector, with retail and office very close as the best performer in the first 3 months of this year on the monthly index. A quicker recovery of the retail sector is a trend that has been experienced in previous cycles – will it lead the recovery this time?

There was a spell of buying shortly after our last newsletter and prices moved up marginally, but since then they have drifted back down to previous levels. Predictions of 40,000 job cuts in the City have not helped bolster prices and mid April saw something of a sell off in the mid part of the curve particularly the Dec09 & Dec10 contracts. During this sell off the Dec 08 contract held up quite well. Reading into this, the short sharp correction that was originally envisaged is now not so short and would appear to be spilling over well into 2009 and even into 2010.

Current Mid-prices can be seen to the right:

Tenor	Indicative Mid Price (pa)
Dec07 – Dec08	-12.50%
Dec07 – Dec09	-6.00%
Dec07 – Dec10	-2.50%
Dec07 – Dec11	+0.50%
Dec07 – Dec12	+1.70%

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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:

Michael Cutteridge

Tel: +44 20 7643 6350

Email: michael.cutteridge@dtz.com

Gary McNamara

Tel: +44 20 7643 6248

Email: gary.mcnamara@dtz.com

Rob Atkin

Tel: +44 20 7200 7059

Email: ratkin@tullettprebon.com

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