



Property Derivatives

Market Overview
July 2008

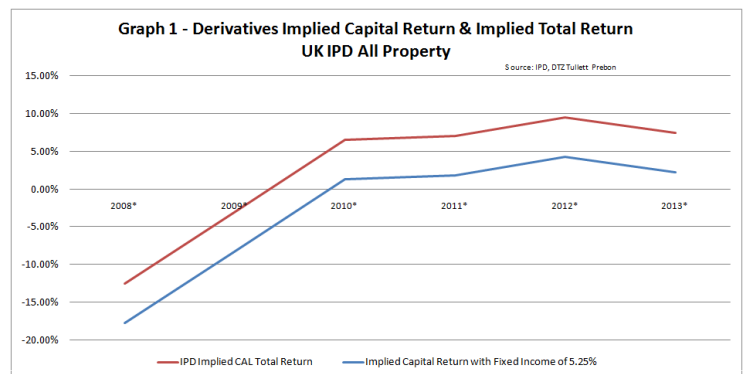
The big story in the UK derivatives market centred around the release of IPD's monthly estimate of total returns for June. A number of forecasters were predicting -0.9% for the month, but the number in fact came in at -1.73% which included a capital value fall of -2.17% on the month. The IPD monthly estimate of the annual index year to date after Q2 is at -6.37% total return and -8.95% capital return.

UK Market Overview

As a result of the IPD release derivative prices immediately sold off across the curve. The December 2008 contract was probably least affected, but still dropped 50 basis points to a -13% mid-price at Friday's close. The biggest falls were recorded in the 2009 and 2010 contracts. Before the IPD number was released, the December 2009 contract had a mid-market of -7.25% and the December 2010 a mid of -3.25%. At the end of the Friday these mid-markets were -8.25% and -4% respectively. Since then, prices have rallied as shown in Table 1.

The equity markets were also adding downward pressure to property derivative prices. The last couple of weeks were particularly volatile in UK equities as gloomy news stories emerged almost hourly. The housebuilders were once again dominating the headlines with reports that this uncertainty in the housing market could lead to 100,000 job losses. This continuing bearish sentiment is making unattractive reading of the implied total returns over the next few years.

With six months remaining, the 2008 contract would appear to be well priced at 12.50%. However, with a much bigger-than-expected fall in June and grim news merging daily, is a further 6.13% fall enough? Will the valuation falls be immediate or gradual? Whatever your view, these prices once again offer good opportunities for trading. The implied capital fall is shown in graph 1 shown above.



UK All Property Indicative Mid Prices		
Tenor	Mid Price (pa)	Implied Return (pa)
Dec 07 - Dec 08	-12.50%	-12.50%
Dec 07 - Dec 09	-7.75%	-3.00%
Dec 07 - Dec 10	-3.00%	+6.50%
Dec 07 - Dec 11	-0.50%	+7.00%
Dec 07 - Dec 12	1.50%	+9.50%

Table 1

Tullett Prebon 28.07.08

European Market Overview

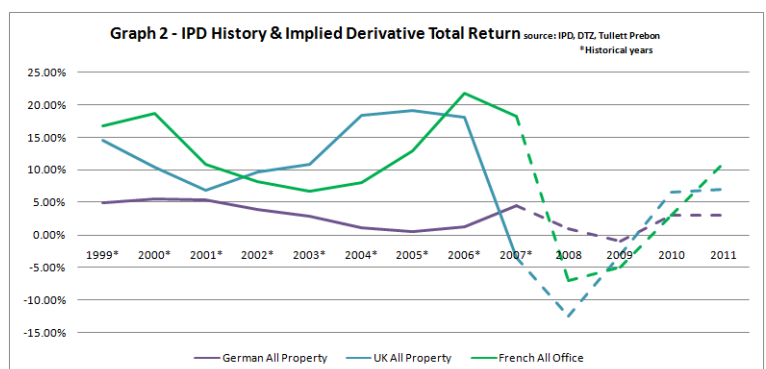
Again, trading in the European property derivatives market has been light over the last month. Prices in the French office market have been stagnant but are beginning to show signs of further weakness with the slowing of European economies the only visible driver. German prices, on the other hand, have sold off significantly. In our last edition we mentioned the likelihood of German prices following those in the UK and France, this has started to happen over the last few weeks and looks set to continue. Current indicative mid-prices are shown in Table 2.

Last month saw the first Spanish property derivative trade. It was a 2-year deal between Banco Santander and Grosvenor. To date European transactions have occurred in France, Germany, Switzerland, Italy and now Spain. The Netherlands and the Nordic countries must surely follow soon. The current implied returns are shown in the graph 2 on the right.

Tenor	French All Office Mids	German All Property Mids
Dec 07 - Dec 08	-7.00%	1.50%
Dec 07 - Dec 09	-6.00%	0.00%
Dec 07 - Dec 10	-3.00%	1.00%
Dec 07 - Dec 11	0.50%	1.50%

Table 2

Tullett Prebon 28.07.08





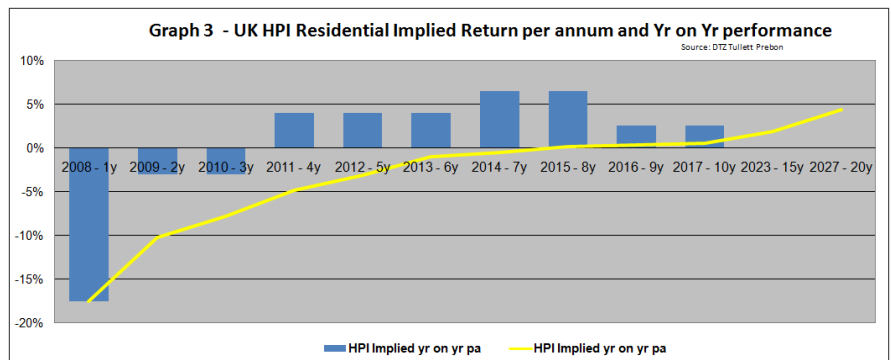
Property Derivatives

Market Overview
July 2008

UK Residential HPI Market Overview

The HBOS HPI data for June, published earlier this month, showed a monthly fall of 2% and an annual fall of 6.1%. This brings house prices back to the levels of August 2006.

Residential derivative prices have not moved a great deal over the last month. The 1-year price has slipped lower, reflecting the fact that a significant reduction in transaction volumes are feeding into the index every month. However further along the curve, prices have stabilised and even crept up a little. In particular the 10-year contract, which now has a mid of 107, up from the recent low of 100. Some good news at last.



The big question from the derivative perspective is: how long will this housing slump last? The 3-year contract is still the lowest part of the curve, but with interest rates now looking as if they will be cut early next year, if not before, and several of the major mortgage lenders starting to **reduce** their rates over the last two weeks, could the recovery come sooner than these prices suggest?

It is more than conceivable that the 1-year and 2-year contracts will continue to be sold but the 3-year contract and beyond are offering attractive buying opportunities. Table 3 shows the current indicative mid-prices and what they imply on a per annum basis.

Graph 3 above shows what the current indicative mid pricing of the HBOS HPI is implying as a year on year return & implied return per annum. This suggests that positive returns will come back in 2011 but it will take 8 years to get back to the values of today.

HPI	MID	Implied pa Return
0y	100	
1y	82.5	-17.50%
2y	79	-10.25%
3y	76	-7.83%
4y	80	-4.88%
5y	84.5	-3.10%
7y	93	-0.50%
10y	107	0.54%
15y	125	N/A
20y	155	N/A

Table 3 Tullett Prebon 28.07.08

Indicative pricing available at:

Bloomberg – TPPROP<GO>

Reuters Real Estate & Reuters – TPPROP



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

Historical Publications

For historical newsletter publications, please visit www.dtz.com/derivatives. For further commentary and information, please see our monthly column in **Property Week**, 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

This is for information purposes only and does not create any legally binding obligations on the part of DTZ or Tullett Prebon and/or its affiliates; it does not constitute professional, financial or investment advice and must not be used as a basis for making investment decisions. The products are aimed at investment professionals and are not available to private individuals.

Tullett Prebon is authorized and regulated by the Financial Services Authority.

Accordingly, this material is directed at eligible counterparties and authorised persons; professional or prospective professional clients; existing investors in a substantially similar property fund; and clients and newly accepted clients of DTZ Corporate Finance Limited where reasonable steps have been taken to ensure that any investment is suitable. The value of investments can go down as well as up and an investor may not get back the amount invested. Past performance information contained in this material is not an indication of future performance. This material should not be relied upon by persons of any other description. This document is intended for the use of the addressee or recipient only and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purpose, without the prior written consent of DTZ Corporate Finance Limited.

Issued by DTZ Corporate Finance Limited, 1 Curzon Street, London W1A 5PZ, authorised and regulated by the Financial Services Authority.

July 2008