



Property Derivatives

Market Overview
December 2008

UK Market Overview

As Christmas falls upon us once again, reasons to celebrate are few and far between this year. What had started off at the beginning as a blip in the economy at the start of the year, has now fully escalated into what will be a long drawn out recession. We have seen the nationalisation of Northern Rock and AIG, the rescue of Bear Sterns, the rise and fall of oil prices, the melting of Iceland and the bail out of major investment banks with the exception of Lehman Brothers. As the year closes we have seen what is hopefully one last parting shot as it emerged that many of the most reputable global firms had fallen victim to a \$50bn fraud associated with Bernard Madoff. With unemployment figures still rising, and general investor confidence at all time lows, the sun does not appear to be glimmering too brightly on the horizon in 2009. However, at least 2008 is finally drawing to close!

The IPD's monthly estimate of the annual index, -5.19%, once again broke the record for the lowest monthly fall since records began in 1980 for a second successive month. 2008 has now seen a -20.45% fall for the year so far. Even the burliest bear could not have imagined such a fall at the beginning of the year. At the end of January, two weeks after the IPD number became a fixed percentage, replacing the LIBOR +/- Spread format, the Dec 08 mid price was -12.50%, even then consensus forecasts were suggesting that the derivatives market was too low. The Dec 09 contract now has a mid of -19.50%, and implied returns are sinking lower for 2010 implying -2.34% for the year. Although prices are already low, the current climate suggests that in 2009 pricing could fall further.

In the wider economy, the full grip of the recession is plain to see on the high street. The average shopper now fully expects discounts of up to 50% off of most white goods. 'Largest Ever Sale' is a sign that litters shopping centres up and down the country, and January should only bring further reductions. The collapse of Woolworths last week sparked manic scenes of bargain-mad shoppers still willing to part with their cash. Christmas will, however, be the make or break period for many retailers. According to the Deloitte Christmas Retail Survey, 24% of customers will be spending less this year than last Christmas, whilst 57% will be spending about the same. The survey also shows that people will be staying in more over the festive period than in previous years, as transport, food and mortgage costs have risen dramatically over the last year.

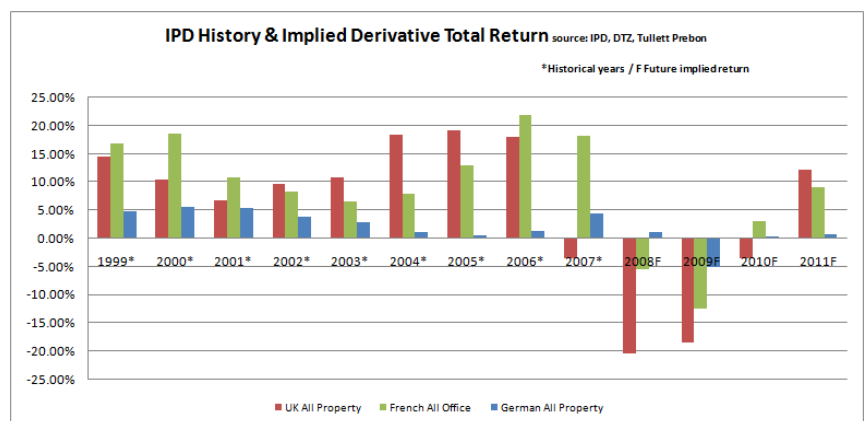
The FTSE continued its roller-coaster ride this month, now hovering around 4100. Redemptions are still an issue with the highest profile causality being the New Star Asset Management. The embattled fund manager was forced to suspend redemptions on its £470 million International Property fund in order to head off a fire sale of assets.

Despite all the gloom, it is pleasing to report that there has been an upsurge in property derivatives activity in the UK all the way along the curve. There has been the occasional, seasonal dip in volumes, but deals are done daily in this market. The ability to trade in and out of property exposure at the current, heavily discounted prices, whilst outperforming the IPD index makes derivatives a compelling tool for all investors. At the start of the month, most of the interest was on the longer dated end of the curve, but more recently there has been interest in the shorter term too.

UK All Property Indicative Mid Market Prices		
Tenor	Mid Price (pa)	Implied Return (pa)
Dec 07 - Dec 08	-20.50%	-20.50%
Dec 07 - Dec 09	-19.50%	-18.49%
Dec 07 - Dec 10	-14.50%	-3.55%
Dec 07 - Dec 11	-8.50%	12.15%
Dec 07 - Dec 12	-5.00%	10.39%

Table 1

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Past performance information contained in this material is not an indication of future performance



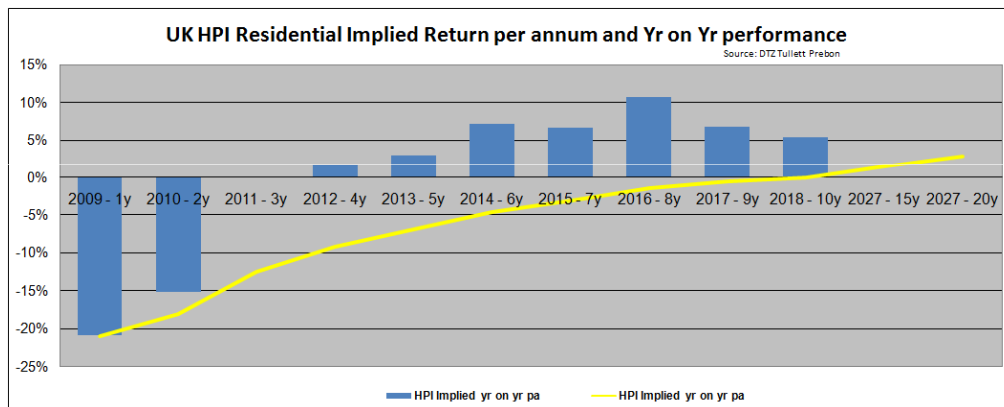
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UK Residential HPI Market Overview

The residential property derivatives market received some welcome media attention this month with articles in the Daily Telegraph and the FT, not to mention coverage on Radio 4 and Radio 5. The HBOS HPI number for November was -3.14% (Non Seasonally Adjusted - NSA), and the derivatives market is leading the way in terms of forecasting with the low to be around 2-3 years from now. The average price of a home in the UK is now £162,848, down from the peak in August 2007 of £201,181.

The market is pricing in a further 36% fall, which would amount to the biggest post-war property crash in this country, equating to over a 55% fall peak to trough. John Varley, head of Barclays, this week said 'we are probably half way through' the residential property slump. If 3 years from now is the low point on the derivative curve, then the longer dated contracts do still appear to be good value; the problem the market has faced for several months now is the lack of liquidity on the buy side, pushing the prices artificially down in the long end.



HPI	MID	Implied pa Return
0y	100	
1y	79.0%	-21.0%
2y	67.0%	-15.2%
3y	67.0%	0.0%
4y	68.0%	1.5%
5y	70.0%	2.9%
7y	80.0%	6.7%
10y	99.5%	5.3%
15y	117.0%	
20y	139.5%	

Table 2 Tullett Prebon 17.12.08

Indicative pricing available at:

Bloomberg – TPPROP<GO>

Reuters Real Estate & Reuters – TPPROP

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** at www.propertyweek.com or contact:

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Addendum –

Property Futures

On February 9th 2009 Eurex, the futures exchange, intend to launch a property futures contract based on the IPD UK All Property Annual Index. Furthermore, by the end of 2009, it is their intention to offer futures contracts on each of the UK sectors – office, industrial and retail.

With a contract size of £50,000 and the elimination of credit issues due to a central clearing system, this should open up the property derivatives market to a significantly wider audience. There will of course be initial concerns over liquidity, but, Eurex are confident that with the growth of the OTC market, futures are the next logical step.

The DTZ / Tullett Prebon partnership have been at the forefront of property derivatives development and it is our intention to offer easy, efficient access to this new product.

For further information on how to access this market, please contact one of the team.