Property Derivatives

Market Overview

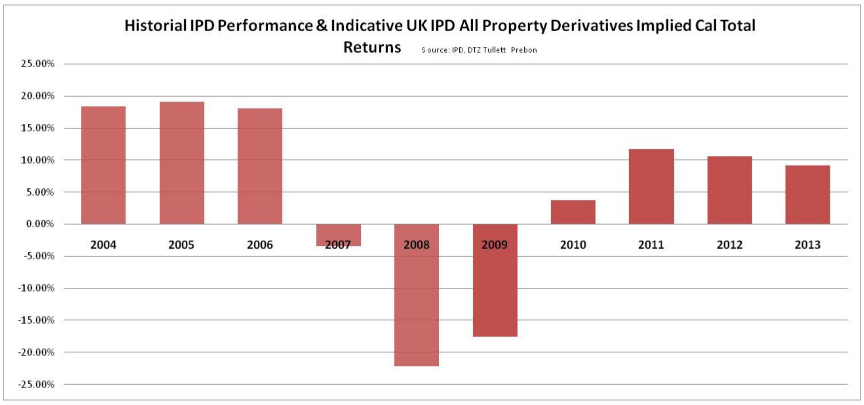
April 2009

UK Market Overview

Is it too early to be hopeful of a recovery? Apparently so! The glimmer of hope at the end of March continued into April; after the first week of trading the REIT prices had rallied, Nationwide mortgage figures were suggesting a 0.9% rise month on month, Taylor Wimpey had agreed a £2.5bn financing deal, and there was even some genuine buying interest in the derivatives. As the month proceeded, various economic indicators have washed out all of the so-called 'green shoots'. UK GDP is expected to shrink by 3.5% in 2009, unemployment figures passed the 2 million mark and the Council of Mortgage Lenders reported that close to one million people in the UK are now in negative equity. The British Retail Consortium also said that UK retails sales fell 0.7% on a like for like basis between January and March compared with 2008. Also not forgetting Mr Darling's budget, which was met with fierce opposition by some, including the British Property Federation for not doing enough to help the beleaguered property world.

The IPD monthly index came in at -2.44% total return, which was broadly in line with expectations. So far in 2009 we have seen a 9.18% fall in capital values using the IPD monthly estimates. Recent research from the PMA (Property Market Analysis) and DTZ forecast All Property capital declines in excess of 25% in 2009, in part driven by accelerating rental declines.

As a consequence of this sustained negative sentiment, bids in the derivatives market have subsided a little from three weeks ago, despite a spirited performance by the REIT market. The longer end of the curve traded on a couple of occasions , the Dec 12 at 1.50% and 1.40% respectively. It has since fallen back down to a mid of 1.30%. The most volatile part of the curve is the Cal 10, which at the beginning of April had a mid price of 4%. Today the mid is 2.5%, reflecting the view that 2010 will be another challenging year contrary to Mr Darling's forecasts. All in all, it has been a slow couple of months; volumes for the first quarter are to be released at the beginning of May, but expectations are for a substantial decrease from Q1 2008; interest from end users is still high, and we expect to see improved flows in the second half of the year.



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

UK All Property Indicative Mid Market Prices		
Tenor	Mid Price (pa)	Implied Total Return (pa)
Dec 08 – Dec 09	-17.50%	-17.50%
Dec 08 – Dec 10	-7.50%	3.71%
Dec 08 – Dec 11	-1.50%	11.69%
Dec 08 – Dec 12	1.40%	10.62%
Dec 08 – Dec 13	2.90%	9.13%

Table 1 Tullett Prebon 29.04.09

EUREX Exchange

Eurex continued on her merry way throughout April. There were more trades with particular interest in the Mar 12 maturities. As of the 29/4/09, 46 lots have traded (each lot = £50k) There was also a Webinar in conjunction with Property Week which addressed the issues surrounding the property derivatives market, and how to trade them on the futures exchange.

Eurex Futures Prices on the IPD UK All Property Index	
Contract Expiry	Mid Price
Mar-10	82.25
Mar-11	103
Mar-12	110
Mar-13	111.75
Mar-14	116.05

Table 2 Tullett Prebon 29/04/2009

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European Overview

April saw the release of both the French and German annual IPD results, both of which raised a few eyebrows. The French All Office total return was -2.53%, which led some to suggest that the French property market would not be as severely affected as the UK.

The reverse has happened in the short end, and general consensus is now that the majority of the correction in the French office market will occur in 2009. Since the results were released, the 1 year contract has been trading at -20.0%. With offers down at these levels, there has been some interest amongst the end users on the bid side.

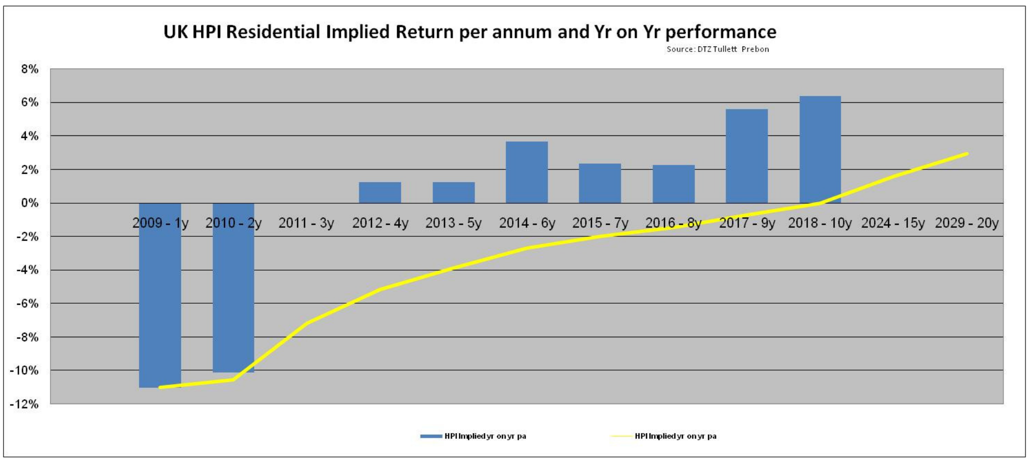
The German number was equally surprising coming in at +3.54%. With the cataclysmic events of 2008, we were left wondering how total returns could only fall by 1.0% from the 4.5% total returns in 2007. Of the German sector composition, the retail market faired the best, with 4.5% total return, and the residential market (much out of sync with the rest of Europe) actually returned a positive capital value.

UK Residential HPI Market Overview

The forth coming months are equally unsure in the residential market. Conflicting data does little to allay our uncertainties. Nationwide figures of mortgage approvals were up 0.9% in March, and there appeared to be a surge in demand as the warm sun beamed down over the Easter weekend. Current pricing, out of the Dec fixing, has drifted slightly higher over the past couple of weeks, as encouraging data has filtered through from positive property surveys. Both RICS and Hometrack have suggested an increase in agreed home sales.

With unemployment still rising, in particular at an alarming pace in the construction sector, it is hard to envisage the property cycle going anywhere but south. The HPI number for March supported this claim with a 1.36% drop month on month. It is now apparent that January's positive figure, cutting against the grain of nine consecutive months of negative growth, was indeed a seasonal blip.

All eyes will be on the next HPI number, but we expect to see negative growth in the housing market for the foreseeable future.



HPI	MID Price	Implied pa Return
0y	100	Dec 08 Start
1y	89.0%	-11.0%
2y	80.0%	-10.1%
3y	80.0%	0.0%
4y	81.0%	1.2%
5y	82.0%	1.2%
7y	87.0%	-2.0%
10y	100.0%	6.4%
15y	119.0%	-
20y	142.0%	-

Table 3 Tullett Prebon 29/04/09

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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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