



# DTZ Tullett Prebon - Derivatives

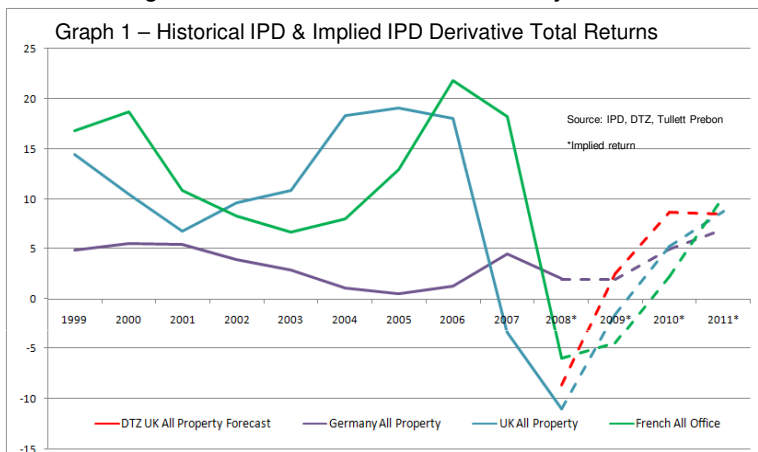
## Property Derivatives Market Overview – June 2008

### UK IPD Performance & Market Overview

IPD's monthly number for May came in lower than expected at -0.75% with DTZ Research forecasting -0.80%. There is currently extreme volatility and uncertainty across all markets – interest rates, stock markets, commodities and property is no different. This year is continuing to be a very tough year in property and credit issues are not easing. From the derivatives perspective, a golden question is whether all or most of the valuation correction will be reflected in the 2008 index or will there be a significant overflow into 2009 and beyond. Current indicative mid prices can be seen in Table 1.

These prices imply further capital falls through 2008 and also in 2009. IPD capital values have fallen 16.75% from their peak in July 2007 to May 2008 with current derivatives prices implying the capital falls could reach 26-28% to the end of 2008.

After the surge in derivative prices at the end of May, reportedly on the back of a large 'buy' order, the market stalled whilst trying to find the a level. Prices did fall back, but not to the all time low levels of a few weeks back, and they have since stabilised.



Most forecasters have revised their 2008 total return forecast closer to the levels derivatives have been implying for months. DTZ Research are forecasting -8.6% for 2008 with Colliers recently moving their forecast to -9.1% from -2.5%. The forecasts for 2009 and 2010 now make interesting reading and potentially offer some good trading opportunities.

DTZ research forecasts total returns in 2009 at 2.5% and 8.7% in 2010 with Colliers at 4.4% & 8.1% for the same periods. Interestingly the Cal 09 swap (i.e. Dec 2008-Dec 2009) can currently be bought around the -1% level.

Tenor	UK All Property Indicative Mid Price (pa)
Dec07 – Dec08	-11.00%
Dec07 – Dec09	-6.00%
Dec07 – Dec10	-2.50%
Dec07 – Dec11	+0.50%
Dec07 – Dec12	+1.75%

Table 1

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### European Overview

Europe has seen some light trading in property derivatives over the last month. Once again trading has been concentrated around French Offices and German All property. French prices have moved slightly higher, whilst German prices moved higher but have since sold off and are beginning to look rather fragile. Current indicative mid prices can be seen in Table 2.

The credit crisis has not yet impacted German property derivative prices despite it's impact on the rest of the German economy and property industry. Experience tells us that it may only a matter of time before the market pricing softens. The current implied returns are shown in Graph 1 above.

Tenor	French All Office Mids	German All Property Mids
Dec 07 - Dec 08	-6.00%	2.00%
Dec 07 - Dec 09	-5.25%	2.25%
Dec 07 - Dec 10	-2.75%	3.00%
Dec 07 - Dec 11	0.50%	4.00%

Table 2

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### IPD SWAPS

### UK Residential HPI Market Overview

The HBOS house price index, released in early June, fell 2.4% in May. This was certainly no surprise, with transactions at their lowest levels for over 7 years and mortgage approvals down 56% from this time a year ago. Mortgage lenders now require substantial deposits for both outright purchases and buy-to-lets and these conditions don't look like improving. House builders and estate agents are bearing the brunt of this lack of finance with massive share price falls and an increasing numbers of redundancies.

Inevitably, residential derivative prices have continued to slide. The current indicative mid market prices can be seen in Table 3.

Last month we discussed how the 10y level looked a very attractive buy. It has moved up slightly but still looks attractive at 105. The 3y contract last traded at 78 and also looks a tempting buy. With the volume of weak housing data emerging almost daily, the next 12 – 18 months will see the HBOS index fall quite dramatically and as such, the likelihood of it's recovery may be sooner than anticipated.

There is still the key issue of supply and demand. 147,000 new houses will be built in 2008, down 27% from 2007 and the smallest number since 1945. This is nowhere near the government's target of 240,000 per year. The questions is will this be enough for the market to rise again?

HPI	MID	Yr on Yr return
0y	100	0% Today
1y	85	-15.00%
2y	79	-10.50%
3y	76	-8.00%
4y	79	-5.25%
5y	82	-3.60%
7y	90	-1.67%
10y	105	0.71%
15y	120	2.00%
20y	140	2.67%

Table 3 Tullett Prebon 26/06/08

#### Indicative pricing available at:

**Bloomberg – TPPROP<GO>**

**Reuters – TPPROP**



Click '*Indicative swap prices from Tullett Prebon information*' on [www.propex.co.uk](http://www.propex.co.uk)

#### Historical Publications

For historical newsletter publications, please see [www.dtz.com](http://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](mailto:michael.cutteridge@dtz.com)

#### Gary McNamara

Tel: +44 20 7643 6248

Email: [gary.mcnamara@dtz.com](mailto:gary.mcnamara@dtz.com)

#### Rob Atkin

Tel: +44 20 7200 7059

Email: [ratkin@tullettprebon.com](mailto:ratkin@tullettprebon.com)

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