

What if?

It maybe a generalisation (but a relatively accurate one) to say that UK and European end-users who deployed derivative strategies have had an overall positive experience from doing so. Their participation was mainly, and quite sensibly, as a hedger - being that they were "long" physical property and there were the beginnings of a consensus forming in '06 and '07 that UK commercial property might not be quite the iron-clad investment proposition it was for the two previous years. This piece is not to poke with a stick at those who did not hedge at the time. Actually not all the funds had achieved clearance to hedge back then, the volume "hedge-able" was not open-ended and of course the future of property returns was not as clear at the time as hindsight facilitates now. In any case, someone gets poked with a stick about hedging on page seven this month.

This piece is to quantify the cost of not hedging such that the rather different opportunities of 2009 are not overlooked by quite as many people as missed the boat last time.

R&M is fortunate to have had this matter summarised elegantly by the open-minded and pioneering PRUPIM. As regards risk management the company are an example to its peers. The below slide is an updated version of one presented by PRUPIM Director of Property Derivatives Will Robson at an industry meeting on 29th January 2009.

A positive return of 31.85% in 2007 would sit comfortably in any end-user accounts right now. Risk&Manage@Tradition.Com

"The RBS Property Derivatives Primer: The PD `FAQ` Resource"

The key findings of the report are:

- The volatility of property synthetic prices is a good proxy of the volatility for direct physical real estate
- There is price transparency of property derivatives with prices quoted daily (at least for the UK)
- There is liquidity of property derivatives: bid-offer spreads are much tighter than many other forms of real estate
- Over time property derivatives has been a better forecasting tool to predict the future of real estate performance than the broader real estate profession
- Global trading volumes for property synthetics will be approximately £25 billion in 2009, with over half of this concentrated in the UK
- In many countries around the world property indices on which derivatives are based, are a good and fair representation of underlying market performance
- We also show that the chance of an index being manipulated is remote

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What if you'd Hedged...

IPD Annual Index Total Returns

		2006	2007	2008	2009
IPD	IPD Annual Index	18.10%	-3.42%	-22.15%	-22.10%

Dec-09 Short Swap Contract Performance at Different Dates

Trade Date	Hedge Price	2006	2007	2008	2009
Mar-06	8.00%	-10.10%	11.42%	30.15%	30.10%
Jan-07	9.75%		13.17%	31.90%	31.85%
Jan-08	-5.00%			17.15%	17.10%

All prices indicative. Derivative pricing used herein consistent with that supplied by Tradition Property.

Slide concept used with kind permission of PRUPIM

Finding the Bottom

According to new figures from Atisreal, prime investment yields have started to stabilise. Yields in all commercial property sectors – with a few exceptions in secondary sub-sectors – remained static in February.

Since January, yields in the retail divisions have each moved out by 25 basis points to between 8.00% and 9.50%. Industrials were up by 50 points to between 10.50% and 11.50%. A sentiment survey by Atisreal also found that 85% of the 50 investors it questioned believed that prime capital values would reach rock bottom within the next nine months.

UK commercial property capital values fell 26.30% in 2008 according to the IPD UK annual index. Figures released in February 2009 show total returns for the year fell 22.10%. The retail sector was the poorest performer with total returns dropping 22.60% in the year, followed by the office sector at -22.40% and industrial at -21.20%. IPD's index represented just under £130billion in value for 2008 across 11,214 assets. All property rental growth for 2008 fell 1.20% but Capital Economics says it expects a peak-to-trough fall in commercial property rents of at least 20%.

IPD's UK Quarterly Property Index for Q4-08 showed All Property UK commercial property capital values fell by a record -14.40%, this being an annual decline of -26.40%. And according to the IPD UK Monthly Index, the pace of UK commercial property capital value falls eased in January with a -3.01% decline. After three successive record monthly capital value declines over the final quarter of last year, peaking at -5.84% in the month of December, the tempered decline is an encouraging start to 2009. Total returns for the first month of the new year were consequently much improved also, returning -2.40%, the least worst monthly return since September 2008. As such UK commercial property outperformed both equities and bonds during January, which returned -5.83% and -3.31%, according to the FTSE All Share Index and the FT Gilts 5 - 15 Years Index respectively.

The Association of Real Estate Funds and HSBC Global Asset Management reported that total returns for all pooled funds for Q4 2008 were -18.70%, taking annual returns for 2008 to -32.00%, compared to -6.70% over 2007. EG Capital calculated that 20 of the 64 specialist and balanced unlisted funds that submit data to the IPD Pooled Property Fund Indices will have breached their targets if values continue to fall. EG's finance magazine said that values fell 3% in January. More than 25% of all capital raised for private equity real estate funds last year was for investment into distressed and debt opportunities, according to a new report called The 2009 Real Estate Distressed and Debt Review from Prequin.

Sectors

Demand for offices and shops fell to new lows in the last quarter of 2008, so said the most recent RICS Commercial Property Survey. More than 70% more of RICS members reported a fall than a rise in occupier demand. The figure represents the fastest pace that demand for offices and shops have declined on record. A RICS spokesman said *"New government packages such as loan guarantees schemes and the separation out of toxic assets are welcome developments for both corporate occupiers and investors into commercial property... The collapse of sterling and improved valuation metrics compared to continental Europe could encourage some investment interest, as the year progresses. There is already real evidence of this with increasing number of opportunity funds being set up"*.

Cushman & Wakefield said that because of retailer administrations, 11% of shops on the average high street are now vacant. The figure is 15% in Scotland and the Midlands. RICS said a marked decline in the completion of new developments failed to halt rising supply. Bluewater shopping centre in Kent however is defying the credit crunch with footfall for January 2% ahead of last year. More than six million shoppers visited during November and December. Don't these people know there is a recession on?

Cushman's Central London Business Briefing reported the amount of vacant offices in central London has increased by 36.50% in the last 12 months as companies shed staff, consolidated their property holdings or relocated to alternative locations. The agent said that although the figure is the highest for two years, the commercial property market is **"Well placed to recover on the upturn"** because developers have been cautious in building speculative offices without pre-agreed tenants. According to a new survey from office move specialist Liquid Space. More and more UK companies are subletting space in their offices as opposed to moving. Knight Frank said office supply has been brought under control so quickly that tenants could have to pay above-market rents to secure pre-lets in 2011-12. He said that the industry's **"air of realism"** had prevented the sharp rise in availability seen in the previous recession, which could lead to occupiers clamouring for space when they start expanding again.

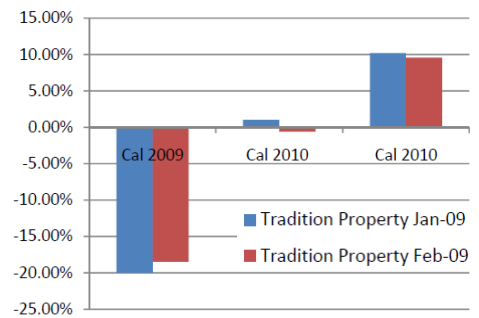
The take-up of big box warehouses is tipped to fall in 2009 despite reaching record levels last year, so say Jones Lang LaSalle. More than 19m sq ft of deals were done on sheds of 100,000 sq ft or more in 2008, but activity declined sharply in the second half of the year, representing a 70% drop compared with the first half of 2008 and by 50% on the same period in 2007.

On the commercial derivative side of the market, February turned out to be a quiet month for deals; with a couple of periods of inactivity. That said it was busy as regards client enquiry into banks and brokers. One bank commented that **"we have been deluged with client enquiries for swaps notes and options"** another said **"At times during this quarter it has been like the busier times in 2007 and 2008"**. It is clear those with investment plans for 2009 are increasing looking toward the derivative market where purchase prices are quite simply a country mile better in straight value terms.

Average derivative prices were little changed, some movement in the Cal-09/Cal-10 spread but the "strip" prices the market is based on changed beyond recognition as the 2008 value came out of the strips after publication of the annual IPD All Property Index.

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The UK Commercial Property Page Two



UK COMMERCIAL PROPERTY FORECASTS		TR%		
		Cal 2009	Cal 2010	Cal 2011
Tradition All Property Forward Curves				
Tradition Property	Jan-09	-20.00%	1.00%	10.20%
Tradition Property	Feb-09	-18.50%	-0.60%	9.60%
Change		1.50%	-1.60%	-0.60%

House Prices Only 35% Higher by 2028?

Average UK house prices fell by 2.30% in December according to the latest figures from the Department for Communities and Local Government. But Hometrack said there were some signs last month of increased activity in the market and suggested house prices in England and Wales fell by 0.80% in February to stand 10% percent lower than a year ago. Indeed RICS showed cash-rich bargain-hunters accounted for the recent increase in new buyer inquiries. Some 38% of inquirers wanted an investment property.

Hometrack's house price survey, which is based on estate agents' and surveyor estimates of selling prices, has persistently shown lower price falls than data from mortgage lenders such as Nationwide, which reported a 17.60% annual February fall. Nationwide's assessment was their 15th consecutive monthly fall which took the price of an average house down to £147,746, the lowest level since April 2004 and 20.60% percent down on the peak of over £186,000 pounds reached in October 2007. The Society said falls in borrowing costs since December 2007 had reduced the cost of an average monthly mortgage payment by £226 pounds for borrowers with a standard variable rate. Hometrack said houses took an average 12 weeks to sell (which sounds relatively prompt, no?), and sellers typically achieved 88.30% of their initial asking price and that the number of sales agreed was 60% down on a year ago. The recession, fear of unemployment, a severe shortage of >80% LTV mortgages borrowers all conspire to suppress the market. According to the latest figures from the RICS, the number of homes being sold fell to a record low of three properties per estate agent in January. Actually that statistic could be much worse.

The fall in house prices is slowing, according to Chesterton Humberts figures. The agency reported that house prices fell by 1.70% since December 2008. According to the Chesterton Humberts Price Poll of Polls, conducted by the Centre for Economics and Business Research, the average house price in England and Wales is now £167,751. It also represents an annual fall of 15.30% nationally.

The now state-owned Northern Rock bank plans to increase its mortgage lending by up to £14 billion over the next two years. Changes will be made to how Northern Rock is organised so that the back book of mortgages is managed separately to other business freeing the company to focus on growing its new, more measured lending. So another big punt on the UK house price to address the affect of The Rock's previous, err, big punt on the UK house price. Funny old world. That said, this aspect of the UK government's remedial efforts could actually oil the wheels and was widely welcomed.

The Council of Mortgage Lenders said the number of home repossessions leapt by half in the three months to December compared with the same period in 2007 to 10,400, down slightly from 11,100 in the previous quarter. Forty thousand Brits lost their homes through repossession last year, the highest number since 1996 and analysts say the figures are going to get worse as house prices slump and the recession bites.

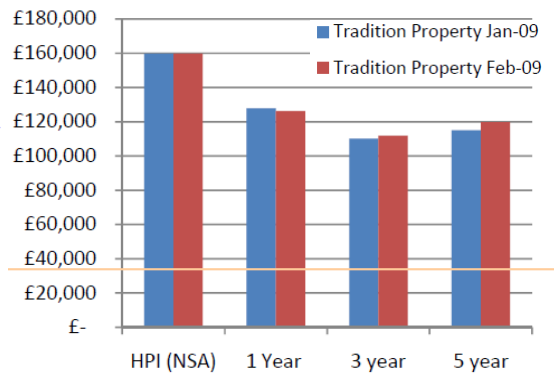
According to the British Bankers' Association, the number of mortgages approved in January was down half on the figure for the same time last year. Mortgage availability remains good particularly for people who have a load of money and don't need one. A total of 77,481 new mortgages were approved in January with a combined value of £7.60bn - down 50% and 59% on twelve months ago. However, the figures were respectively 1.2% and 4.8% higher than in December 2008. Research firm Capital Economics said January's data adds to the impression that lending volumes *"have found a floor..."* and *"A significant recovery in mortgage lending is unlikely before 2010."*

The number of mortgage approvals in January was 31,000, according to the Bank of England, the same level as in December, and 4,000 up from the low in November. However, mortgage lending is still only 60% of the levels last January. The total net lending to individuals in January was £1.10 billion bringing the 12-month growth rate to a fall of 3.10%. RICS chief economist Simon Rubinsohn called for the government to *"Make speedy progress with its plans to introduce the guarantee scheme for mortgage-backed securities as announced in the Pre Budget Report"*. The CML said that the number of mortgages lent to house buyers fell last year to just 516,000, down by 49% from the level seen in 2007 and a 34-year low.

The derivative market took the "statistical blip" that was the increase in the Halifax HBOS (err, Lloyds) HPI from Dec-08 to Jan-09 in its stride. Forward prices for one thru three years were little changed but average UK house price for five years hence fell £4,795 to £119,864. Basically the derivative market expects the average UK house price to 20% lower than current prices by 2010, 31% lower than current in 2012 (the low) and 28% lower than current five years. HPI traders looked to have agreed to switch to quoting "Dec end-dates" or "whole year strips" instead of the current rolling 12, 24 and 36 month protocol. If this sticks it will be an advance for the market that brings consistency to pricing.

It is understood a 20 year HPI derivative deal was reported to have traded in the market, the price was thought to be in the region of 35% over the current price. Everyone who ever went to a dinner party and spoke about house prices thinks the house price in 20 years time will be double, triple or even quadruple current value. Interesting innit?

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Price Validity
 The prices shown in this report are indicative mid-points. Property derivative transaction prices may vary from mid values shown and are dependent on deal size, duration and market liquidity. For the full run of PD Prices please contact Property@Tradition.Com

UK RESIDENTIAL PROPERTY FORECASTS

		HPI (NSA)	1 Year	3 year	5 year
Tradition Future HPI					
Tradition Property	Jan-09	£ 159,818	£ 127,854	£ 110,274	£ 115,069
Tradition Property	Feb-09	£ 159,818	£ 126,256	£ 111,873	£ 119,864
Change		£ -	£ 1,598	-£ 1,598	-£ 4,795

Housing

with Quinn Eddins @ Radar Logic and Clayton Dillon Tradition Property NY

In December 2008, improvements in home affordability and low mortgage rates contributed to a 7% year-over-year increase in home sales in the 25 metropolitan statistical areas (MSAs) tracked by Radar Logic Incorporated. According to the December 2008 RPXTM™ Monthly Housing Market Report released in February by Radar Logic, transactions increased in 14 of the 25 MSAs, with the largest increase in metropolitan areas where sales of foreclosed homes constitute a significant share of total transactions, particularly Las Vegas, Phoenix and the five California MSAs covered by the report. Sales of foreclosed homes by financial institutions, together with sales to third parties at foreclosure auctions, increased 177% in the 25 MSAs between December 2007 and December 2008. Over the same period, all other sales decreased by 17%. These foreclosure-related sales, which Radar Logic calls motivated sales, are characterized by significant price discounts compared to other sales in the same MSA. These discounts range from 20% to over 50%, depending on the MSA. As motivated sales increased as a share of total sales, the shift in the mix of sales contributed to a decline in home prices. Between December 2007 and December 2008, the 25-MSA composite price decreased by 22%. If the mix of motivated sales and other sales had remained unchanged since December 2007, the composite would have declined by 16%.

"As foreclosures increase and sales outside of foreclosure decline, motivated sales are starting to represent a significant percentage of the transactions we observe in several of the MSAs we track, particularly in the West," said Michael Feder, Radar Logic's president and CEO. "As motivated sales increase, the prices they receive will likely become more the norm than the exception."

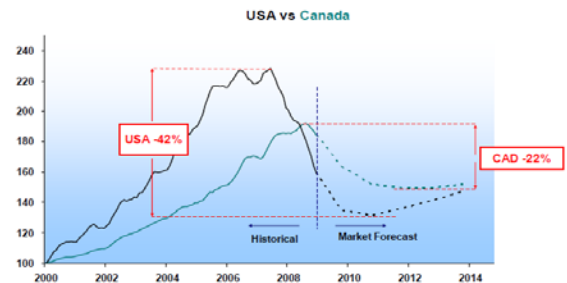
- The growth in transactions from December 2007 to December 2008 marks a significant improvement over the previous year, when transactions dropped in each of the 25 MSAs and declined 40% overall versus 2006.
- Prices in all 25 MSAs declined between December 2007 and December 2008, largely due to the increase in motivated sales as a share of total sales.
- The normal seasonal decline in prices and transactions from November to December abated compared to 2007 in most MSAs.
- The Manhattan condominium market experienced a year-over-year price increase, largely due to closings on new construction, which likely were priced well before the closing date. The weakness of the market was reflected in a substantial decline in transactions relative to December 2007.

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The US/Canada Spread: The Line Forms on the Right...

North America could become the fastest growing PD market in the world if effort and transparency of prices has anything to do with it. As such the difference in house price between these two giant countries can be better viewed and, unlike consultancy estimates or research conclusions actually traded. Note the expected peak to trough move in Canada of 22% versus the 42% of the US. This disparity along with the expected volatility difference between the two markets makes it a great target for a derivative play. Those wishing to raise money start and hedge fund to trade this should form an orderly queue. Risk&Manage@Tradition.Com

Historical Index and Forwards
U.S. RPX vs Teranet – National Bank House Price Index™
(Both indices rebased at 100 in 2000)



Commercial

U.S. commercial property prices by institutional investors posted their greatest quarterly fall in 22 years, according to an index developed by the Massachusetts Institute of Technology Center for Real Estate. The transaction-based index, which MIT developed in 1984, fell 10.60% percent Q4-08, surpassing the record fall of 9% seen in Q4-87. The index tracks the prices that institutions such as pension funds pay or receive when buying or selling commercial properties like shopping malls, apartment complexes and office towers. The index fell a record 15% percent in 2008.

The index's performance means that prices in institutional commercial property deals that closed during the fourth quarter for properties such as office buildings, warehouses and apartment complexes are now 22% below their peak values attained in the second quarter of 2007. The index has fallen in five of the past six quarters, but the recent drop is by far the steepest.

The MIT Center for Real Estate also compiles indexes that gauge movements on the demand side and the supply side of the market that it tracks. The demand-side index, which tracks prices potential buyers are willing to pay, has fallen for the past six quarters, and is down 23 percent for the year and 31 percent since its mid-2007 peak. The Index saw a total return for 2008 of just 3.70%, down sharply from the 15.80% recorded in 2007, and the lowest level since 1994.

Despite the softening of investment yields, Canadian direct property still outperformed equities, which fell by -31.40% according to the MSCI Canada Index, and REITs which returned -39.30% according to the FTSE EPRA/NAREIT Index, but trailed bonds which returned 15.2%, as measured by the JP Morgan 7-10 Year Government Bond Index. Risk&Manage@Tradition.Com

US Commercial All Property	Mid-Price
Dec 09	-16.25%
Dec 10	-11.00%
Dec 11	-7.13%
Dec 12	-5.13%
Dec 13	-2.89%

US Commercial Sectors	Mid-Price
Dec 10 Apartments	-12.13%
Dec 10 Industrial	-10.13%
Dec 10 Office	-11.13%
Dec 10 Retail	-11.63%

US Residential 25 City	Mid-Price
Dec 09	\$160.75
Dec 10	\$148.50
Dec 11	\$150.25
Dec 12	\$153.50
Dec 13	\$158.00

US Residential Cities	Mid-Price
Dec-09 New York	\$190.00
Dec-09 LA	\$205.00
Dec-09 Miami	\$102.50

Canada Commercial All Property	Mid-Price
Canada All Prop Dec-09	-5.50%
Canada All Prop Dec-10	-3.50%
Canada All Prop Dec-11	-1.50%
Canada All Prop Dec-12	0.50%
Canada All Prop Dec-13	2.00%

Canada Residential	Mid-Price
Dec 09	111.50
Dec 10	103.50
Dec 11	102.00
Dec 12	102.00
Dec 13	103.50

South Korea plans to waive capital gains tax for those buying new homes in provincial areas this year when they sell them within five years as unsold new homes pile up. The finance ministry said unsold new homes stood at a record 162,570 units at the end of November, of which 150,104 were located in areas outside the capital and its neighbouring cities. It also said companies opting to cut wages in exchange for keeping their workers would be given a special tax refund.

Housing prices across South Korea fell for a fourth consecutive month in January as the economic slump deepened in the face of a global recession, data from the country's top lender Kookmin Bank showed last month.

China: Stunning HK Negative Equity Stat

Chinese urban property prices fell by 0.90% in January from a year earlier, the government said last month. The property sector is a pillar of the Chinese economy, accounting for about a quarter of all investment.

The estimated number of mortgages in negative equity in Hong Kong surged a whopping 326% in the fourth quarter to 10,949 cases as property prices fell, data from the Hong Kong Monetary Authority showed. The LTV ratio of the mortgages in negative equity rose to 112% from 107% last year.

NZ

IPD released the Property Council / IPD New Zealand Property Index for the 12 months to December 2008 last month. According to the index, total returns for direct property investment stood at 9.40%, down from 22.40% over 2007. The primary catalyst for the fall was a decline in capital returns, down to just 2.10% in 2008 compared with 13.70% over the previous 12 month period. Income returns weakened marginally to 7.20%, from 7.70% in 2007.

Australia

Government data in Feb showed prices of established houses fell 3.30% percent in the fourth quarter compared to the same period in 2007, when they were "soaring" (in the context of house price this word now copyright Express Newspapers). The Australian government is also expected to announce a second package of fiscal stimulus measures, in an attempt to limit any rise in unemployment. Prime Minister Kevin Rudd on Monday told a news conference the government would "*Move heaven and earth*" to support the Australian economy.

Australian retail sales surged in December as government hand-outs, lower borrowing costs and falling petrol prices boosted household spending power, providing vital support to an economy teetering on the brink of recession. The 3.80% jump in seasonally adjusted sales was the biggest in over eight years and far above median forecasts of a 1.40% increase. The boost was timely as the A\$1 trillion economy still GREW by 0.10% in the third quarter

Asia Pacific Derivative Development

Suck on a thoughtful tooth as you hear news that Asia's first listed residential property futures contract set for launch in Australia this year. Mmm. The CME fluffed both commercial and housing futures contracts in the US (and were unlucky with timing and index marketing), it beggared belief that Eurex launched UK commercial mid-recession fully cognisant that the current market was "nascent" volume-wise and imbedded in OTC culture. And now the Aussies are launching a resi futures contract before any significant PD volume has taken place in the whole region. But hey, who knows? Like the Eurex launch, it could either be an inspired and timely move or a piece of very silly "me too" business. Only time will tell.

Back when futures contracts were traded by people on a trading floor wearing silly jackets there was significant overhead linked to a new contract launch. The need to gain the support of the member firms in the contract's shaping and deployment focussed the attention of exchange business developers making them "I dotters and T crossers".

These days futures markets exist on-line and exchanges can have an idea and throw a contract out there. It is of course much cheaper that way but does not always facilitate business development excellence. Comfortingly for OTC business developers who work somewhat differently from their futures cousins, there have been attempts at things like wine and shrimp futures. And who can forget the cheese futures market? For bless-ed are the cheese makers... Risk&Manage@Tradition.Com



Are you immune to recession?

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Mainland European Round Up

Germany: No Sexy Story...

The potential for banks to lend on property has been boosted by the reopening of the German "Pfandbrief" market. Deutsche Postbank recently sold €1 billion Pfandbrief, the first since the market closed last autumn. Pfandbriefs are triple-A bonds secured on commercial and residential mortgages and sold by German banks to investors. If investors are buying and the market is functioning, they allow German banks to lend more from their balance sheets, because selling loans as bonds takes those loans off balance sheet.

There are several German banks which have allocations to lend on UK property this year, including WestImmo, Helaba, DekaBank, Postbank and LBBW.

Caroline Phillips, head of securitisation at Eurohypo and a board member of the European Commercial Mortgage Securities Association, said: *"...For German banks to lend, they definitely need Pfandbrief to be back."* Udo Scheffel, Chief Executive of German residential property company GBW said *"German residential property is boring. There is no sexy story. But today, boring is beautiful"*

In accountancy firm PricewaterhouseCoopers' latest annual survey of real estate executives and fund managers, and four German cities were in Europe's top 10. Munich and Hamburg were the top two investment locations in Europe for 2009.

Peter Brock, managing director of Grainger Deutschland said *"German residential is going to become increasingly attractive for institutional investors seeking long-term, low-risk cash flows"*. Adjusted for inflation, German house prices fell less than 1 percent in the year to end-September, compared with a fall of more than 14 percent in Britain, according to data compiled by property consultancy BulweinsGesa. This year AXA Investment Managers launched a new German residential property fund and is aiming for an annual return of at least 5%.

Spain: Government Help

Spain's eight biggest banks last year formed or resurrected property wings that have bought up €7.80 billion worth of property from struggling home-owners and developers. The number of Spanish homes sold in December fell 26% compared to a year earlier and the number sold in 2008 was down 28.60% from 2007.

Hungary: Help... from the Government

Hungary's cabinet has proposed providing government guarantees on mortgage loans for households who cannot pay their instalments because of job losses, government spokesman *"The government won't buy homes, won't give a gift... it will provide a guarantee for up to two years,"* a spokesman said. Foreign currency mortgages have been widely popular in Hungary as high domestic interest rates made forint mortgages prohibitively expensive. But the forint has fallen 17% versus the euro over the past three months and 30% over the past six months, sharply raising payment obligations and putting some households in a difficult financial situation.

Denmark

IPD published the IPD Denmark Annual Property Index for 2008 last month. According to the index, investment in Danish commercial real estate returned 3.10% last year, compared to 10.10% over 2007. The best performing sector of the four principal markets was Retail for the second year in succession, returning 7.60%, while the poorest performer was Residential which, at -6.50%, was the only market to record a negative return.

Sweden

The SFI / IPD Swedish Annual Property Index for 2008 was also released in February. According to the index, total returns for the year fell to -3.30%, a substantial fall from the 14.70% return achieved in 2007. Swedish property outperformed equities but lagged behind bonds, which returned -39.50% and 15.70% respectively.

Cross Border

Aberdeen Property Investors said in a research note *"We expect UK property returns to outperform, followed by the Nordic region and the euro zone over the coming five years. Prospects for central Europe are poor due to a withdrawal of risk capital by foreign investors,"* Aberdeen predicted a 4% annual return from euro zone office properties between 2009 and 2013 and 2% in central and eastern Europe. For retail it expected total returns of about 3.50% percent in the euro zone. The investment house commented *"Occupancy rates and rental values for office space across Europe would fall next year, with rents declining most sharply in Barcelona, Dublin, Frankfurt, Madrid, and Moscow. But Brussels, Lisbon and Vienna would experience more modest declines because those cities were less dependent on the financial sector"*.

Cross-border commercial property investment activity fell to 45% of total European activity in 2008 the reduction in the number of large investment deals that are often dominated by international investors.

The average European deal size plummeted from €42m in 2007 to €29m in 2008.

The reduction in cross-border activity was also driven by the decrease in investment activity in the large European markets. The top three buyers in the market – German, American and British – remained unchanged on the year before, buying more than €25 billion of real estate between them. This is more than half of all cross-border acquisitions completed in 2008. German investors are the most international investors in Europe, spending around €10bn outside their home market in 2008.

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SAMPLE WORLDWIDE PD PRICES*		End Jan-09	End Feb-09
French All Office	Dec-09	-10.50%	-10.50%
German All Property	Dec-09	-2.50%	-1.50%
Swiss All Property	Dec-11	2.00%	1.25%
Canadian All Property	Dec-09	N/A	-5.50%
Canadian Resi	Dec-09	N/A	111.50

*For more dates and countries Property@Tradition.com

Rock is Dead, They Say...

The publication by the Urban Land Institute and PriceWaterhouse-Coopers called *"Emerging Trends in Real Estate® Europe"* is a trends and forecast note now in its sixth edition. The report provides an outlook on European real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas and other real estate issues.

Pages 24 and 25 of this year's report touch on PD. Overall their coverage was positive towards property's "on-paper" representation but we thought it appropriate to take issue with one PD linked quote that was reproduced. Ready? **"They are too complex, not transparent. There is no future for these products."**

It is, of course, perfectly acceptable to have an alternate view of PD to that held by this newsletter and the companies behind the nearly £30 billion notional value traded since 2004. It takes all sorts. However there is a difference between measured counter-argument on this enormously important subject and complete rubbish.

"They are too complex..."

These deals are so simple the broker trade confirmation fits on one A4 page. Actually, just nine lines of information describe each deal if you include the four that are the date, deal number and who bought and sold the thing. On the other hand, buying and running a property portfolio, now that would be complex...

"They are not transparent..."

Commercial and resi mid-prices out to 2018 and 2038 respectively and are published by all active banks and brokers every day. Tradition Property's own price report goes out free to several hundred people each evening. Commercial "calendar year" prices and a selection of forward house prices published in Risk & Manage which goes out free to more than 40,000 real estate people every month. Reuters, Bloomberg publish PD prices 24/7 and even the old school property trade press reproduce PD prices in certain of their publications. US PD prices are available open-access on the web on the Radar Logic and Markit websites. Not transparent? They are flipping everywhere!

"There is no future for these products..."

Well there is certainly no future for property derivatives if the success or failure of the market rests on those who use the illusion of complexity and opaqueness as a fig-leaf to conceal ignorance or not having hedged when total returns were +9.75%. The attempts of bankers and their brokers to bring "falling value insurance" to the property market deserve a more measured and honest reception.

Fortunately, the future of PD sits more with the hard working bankers and brokers and their innovative pension companies, asset manager and hedge fund clients.

The first half of 2009 might not pan out as the best two quarters PD ever had volume-wise, but when the market finds a bottom, when sentiment changes either way, volume will eclipse anything we have previously seen.

Rock is dead. Long live rock.

Risk&Manage@Tradition.Com

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It's the Economy, Stupid

The BoE dropped the UK base rate by 0.50% to 0.50%. The last time interest rates were this low, fire had just been invented and the wheel was still in the planning stage. Further the Bank is to expand the amount of money in the system by £75 billion in an attempt to boost bank lending - a process known as "quantitative easing" or "having exhausted all the other ideas".

Britain's economy shrank 1.50% in the three months to December — the sharpest rate of decline since 1980 — and the International Monetary Fund expects Britain to be the hardest hit among the world's biggest economies this year.

Howard Archer, an economist at Global Insight said *"Corporate failures, mortgage repossessions and individual bankruptcies all seem set to rise substantially through 2009."* The number of company winding up petitions issued by courts in England and Wales rose 18 percent on the year in the final quarter of 2008 to 3,382, the Ministry of Justice said.

A downturn in stamp duty and delayed construction tax payments has contributed to a £10.10 billion reduction in central government receipts for the financial year so far compared with the same stage of the 2007-08 financial year. Stamp duty fell to £441m in January, which is less than half the £994mio raised a year earlier, reflecting the downturn in housing and equities.

More than £1billion of tax payments of all types by more than 60,000 businesses, particularly in construction, have been delayed because of the "time to pay tax arrangements" introduced in November to help businesses affected by the recession.

Figures from the Department for Communities and Local Government show the number of homes being built have dropped to the lowest level since records began in 1980. Its data shows seasonally adjusted housing starts declined to 16,300 in the quarter to December, 27% fewer than the previous three months and 58% below the year before.

Capital Economics has said it continues to expect a double-digit decline in all-property rental values this year *"The occupier market is only in the early stages of a major downturn, and we expect all-property rental values to decline by around 10% both this year and next."*

The Asset Protection Scheme is seen as crucial to capping potential losses at British banks and restoring confidence to the sector. Whatever one's political colour, you cannot fault the UK government right now for not showing willing. Like the US, the UK government seem about doing everything it takes to get the train back on the tracks. And where there's will, there's a way.

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Historic PD Data Both UK Resi and Commercial From 2005

Other data available for France, Germany and Switzerland

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Reuters Real Estate

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- Key indices for derivatives in US, UK & China (Hong Kong)
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Ich bin ein Frankfurter

Not everyone knows President Kennedy's most famous piece of German speaking and expression of brotherhood also meant "I am a donut" being that certain German cities give their names to food types. Berlin, the donut; Hamburg... well you get the picture. Frankfurt is of course home to the sausage and one of Europe's key futures exchanges. And Eurex figures on the property derivative radar again this month.

In case it had not already been brought to your attention, the volume of property futures traded on Eurex/IPD contract last month was a rather sorry zero.

The first sour foretaste of failure's bitter pill prompted supporters of the contract to say variously that they *"Did not expect any volume"* and *"Didn't really want any anyway"* along with that one about *"Being in it for the long term..."*.

Privately Eurex/IPDers would have loved to have "out-volumed" the OTC in February but it was not to be. A few OTC-ers could scarcely disguise their schadenfreude, most, actually, could not care less either way but a few tried to make some trades and came up against the bureaucracy of futures broking/clearing set-up and simply gave up and took the kids away for half term instead.

So after a somewhat fractious run up to launch, rather predictably Eurex/IPD has less popularity than the 1995 German Eurovision song contest entry among many of the OTC community, but don't be too quick to write off those plucky Frankfurters and their IPD futures supporting friends just yet.

The contract's central clearing component really IS something of value. Maybe after receiving "Nil Point", the great and the good at the Exchange will take heed of the advice they received from many corners and forget the futures contract in favour of a clearing mechanism for OTC swaps.

More likely the exchange will allow more time for the handful currently interested to navigate their way back from Gran Canaria and through futures account setup which is a bit like sticking drawing pins in your face. Risk&Manage@Tradition.Com

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Salmond and Those Awful Speculators

The heavy pressure that the property sector has suffered in anticipation of impending rights issues has been exacerbated over the past few months with hedge funds targeting the sector. Data Explorers says the level of stock out on loan that could be used to take short positions has almost doubled since the beginning of November across the property sector. This has climbed from about 6% to slightly less than 11% as short-sellers divert attention from banks. According to Scotland's First Minister Alex Salmond, short selling is the act of "spivs and speculators".

Of course Mr Salmond may have overlooked how much tax the institutions the firms containing these *"spivs and speculators"* have previously paid into the UK (which still included Scotland despite his efforts) in years past.

Many believe that *"spivs and speculators"* with their apparently vulgar short selling ideas actually provide a service to the financial markets by keeping the market-value "honest" preventing some companies from inserting their collective heads in the sand. Of course, to commodity or derivatives markets people, the idea that one cannot easily sell short something believed to be over-valued is utterly bizarre.

It is an unsolvable conundrum that "speculation" on a stock, index or a commodity is to some, you know, a bit grubby - while "speculation" that the value of a property portfolio goes up is an "investment business" that showers regularly using a good soap.

That one can sell short PD with ease, but can only do so on the REIT market with difficulty makes for an interesting value trading opportunity which has not yet been given the wide financial markets attention it deserves.

In a recent survey concerning what 10 famous people one would like to have around the dinner table, Alex Salmond rated just behind *"the nutcase on the bus"*. Risk&Manage@Tradition.Com

The prices shown in this report are indicative mid-points. Property derivative transaction prices may vary from the mid-values shown and are dependent on deal size, duration and market liquidity.

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Tradition Property would like to thank and acknowledge the following companies as regards use of their input /data: Lloyds TSB, IPD, NCREIF, Markit, Radar Logic, EGI, ReutersRealEstate.Com, those quoted and all the PD market players whose bids and offers enable us to generate the indicative levels in this report.

Meet the New Boss...

It's early two thousand and something and the board of the bank decides it is time for a new CEO. The process of eliminating the wrong candidates delivers the final two chaps in line for the job. Candidate One is a measured type who believes in the bank's founding principles, is committed to steady growth along conservative lines and has some modern ideas around enhancing core business. If he were a football (soccer) manager he'd be the type who based his team on having a good goalie, defence and midfield. All in all, Candidate One is a safe pair of hands and an all 'round good egg.

Candidate Two however has a reputation for intimidating people, went to the same school as two of the Board, has a lovely head of hair and plans to diversify the bank towards owning a planet other than Earth. If he were a football manager he'd buy a Bentley Continental and a Brazilian centre forward before lunch on his first day.

So what is the Board to do? Remember it is early two thousand and something... Go with Mr Boring Sensible-Pants or run with the scary man who foresees ownership of Venus?

Frankly, it was only going one way once the board got their teeth into those Venusian profit projections...

Often the people who rise to high office have all manner of qualifications and qualities, however they are not always the qualifications and qualities needed for the specific high office to which they have been promoted.

Err, Sorry...

Some of the UK's prominent ex-bankers said sorry (sort of) last month. This was of course most welcome indeed. However, when questioned the gathered group frequently blamed this other chap, Global Forces, who is widely copping the blame for nearly everything lately and must be completely hopeless. It makes you wonder how this Mr Forces character ever got the gig in the first place.

On further investigation it seems this Global Forces fellow isn't a regular chap at all but a composite character of around 1000 key decision-making politicians, bank CEOs, sub-prime mortgage salesmen, compliance, risk managers and regulators whose combined actions seem to absolve all individual personal responsibility. Which is handy.

One of the results of all this focus on what certain banks did, or did not do, is a move by the UK and US governments to cap bank bonuses.

It seems rather sensible not give a bonus to the people responsible for blowing up the bank by turning it into a great big fat punt on the UK and US house price. In fact sending them to work in a salt-mine with a flea in their ear may be even more appropriate. But getting all steamed up because an equities or inflation bank-trader got the bonus he/she was due based on what he/she made for the bank in line with the bank's compliance rules and his contract is quite another thing. Traders who have acted responsibly and made the bank money by using their wits and experience while trading inside their prescribed limits should surely be at the back of any 2009 capping queue and quite possibly not in it at all. An interdealer broker being supportive of his mates at client banks? Whatever next?

Banks & PD

The banks who have stuck with PD will undoubtedly come out of 2009 with a distinct competitive advantage over those who chose not to be part of the revolution. The banking/PD services being provided in this, of all years, may well define who the "Go-To" banks are when the market is a hundred times the current size.

With an effective and liquid "on-paper" representation of real estate, the next downturn (for t'is all a cycle...) will be somewhat less of a surprise.

Derivatives are sometimes blamed for CAUSING volatility, people can mistake sharp moves in forward curve prices for actual asset price moves; it's not the same. But derivatives CAN have a smoothing effect on physical prices and frequently DO have a smoothing effect on individual P&Ls.

A liquid property derivatives market wont stop the ill-equipped but well groomed numpties of the next cycle rising to high office and beating around the bush with the wrong end of the stick (it is just how things are), but it can provide a transparent forward clearing price for the world's biggest asset class and act as an early warning and forward planning system.

You know, there is nothing wrong with having a totally long-only, one-way bet on commercial property or the house price; real estate funds, property companies, house-builders and lending banks did it for years and made out very nicely - the problem, of course, comes when the market turns, liquidity in the physical asset market dries and is even slower to transact than during normal times.

In what might be the most sensible thing ever written in this newsletter we have previously offered: *"The physical real estate market has 19th century liquidity and transaction times, but a need for 21st century risk management potential"*.

Does any property company exec reading this want to debate that assertion? Risk&Manage@Tradition.Com, we'll publish whatever you have to say...

One wonders what would have happened if, over the last two years, we had had widely traded, deeply liquid PD market of the same scale as the gargantuan Interest Rate Swap market? Such a PD market where all shades of global investor, pension, insurance companies and banks hedged and invested using PD in a serial manner, day-in, day-out...

- Might the REAL price for real estate risk have become more apparent, and sooner, under such a scheme?
- Might banks have been able to lend more smartly with a liquid forward curve to trade?
- Might property owners be better able to plan and manage their chosen exposures?
- Might we be able to re-use this excerpt from a past R&M article again?

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Having weathered the storm, property managers continue to plan ahead, writes Phil Craig of Financial News

Owning a diversified portfolio of European property can mean more than holding the traditional range of offices, shops and factories. How about football stadiums, medical centres and cinemas? Axa, the largest real estate investment manager in Europe, owned stakes in all three last year – including holdings in two Swiss football stadium complexes that, between them, hosted nine Euro 2008 matches. Exposure to such a high-profile tournament would excite many investors, especially considering the associated shops and apartments that Axa also held, plus the opportunities for client entertainment. But in a move that reflected the priorities of property managers last year, Axa sold its stakes before the tournament's first whistle was blown. The sales turned out to be a good move – Axa made a profit on both disposals, rare in a year that saw investors looking for bargains from forced sellers. Property investors across Europe struggled last year in the face of fundamental and technical factors as the impact of the wider economic downturn and tighter financing for property deals squashed transaction volumes and prices. In October, half the German open-ended property funds – major participants in Europe – stopped investors from withdrawing money, and all but one have remained closed. But the biggest change in the European investment management industry last year was the acquisition by Aberdeen Asset Management of two large property houses, Goodman and DEGI. The deals pushed Aberdeen from being one of the pack to the second largest investor in the region. The five largest direct property investors in the region have weathered one of the most difficult periods for property in recent times, but face an uncertain future. Financial News profiles each of them for Risk & Manage below.

Axa Real Estate Investment Management

External assets under management in Europe: €40bn (\$50.7bn)

Asset breakdown: UK 12%, Nordics 3% rest of Europe 85%

Axa is the largest direct property investor in Europe thanks in part to the insurance assets of its parent group, which make up about half of its funds under management. It invests 37% of its assets in French property, and this bias appears to have helped it weather the difficult markets last year. Steve Smith, head of asset management, said the biggest fallout in the property markets has been in the UK, Spain and Scandinavia is starting to turn negative, but the French market has so far reacted less badly. He said the rental market in Paris, driven in part by government and quasi-governmental institutions, is still strong. Axa's real estate business is primarily managed from Paris, after its chief executive Pierre Vaquier restructured the business in late 2007 to encourage the regional teams to work together more closely. It is pushing further into Scandinavia and reviewing its operations in eastern Europe, revealing two weeks ago that it has hired staff in Stockholm. However, John Verpeleti, who led its central European office, left in December to join a private equity group. Smith said the group's operations in the region were under review: *"We are not replacing him. We are reviewing our activities in central and eastern Europe. We have been cautious there for the past four years or so, but in the next two or three years there will be a big market there."*

Aberdeen Property Investors

External assets under management in Europe: €27bn

Asset breakdown: UK 24%, Nordics 33%, rest of Europe 39%, elsewhere 4%

Aberdeen Asset Management's property business has benefited over the past year from the passion of Martin Gilbert, its chief executive, for growth by acquisition. It bought German property funds business DEGI, and UK property group Goodman Property Investors. Before the deals, Aberdeen's assets under management were focused in the Nordic region, but now it boasts substantial UK and continental assets. Rickard Backlund is group chief executive for Aberdeen Property Investors. He said the business is building its fund management teams to better invest existing assets rather than to launch new funds, and is outsourcing property management efforts. It sold its Belgian arm in November, which, said Backlund, was entirely focused on property management.

ING Real Estate Investment Management

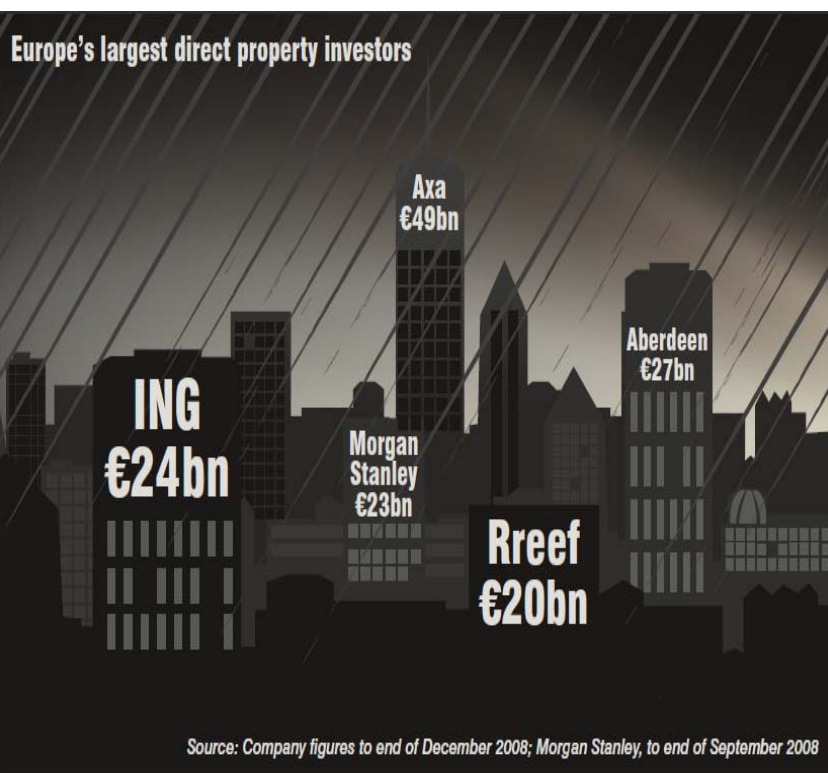
External assets under management in Europe: €24bn (estimated)

Asset breakdown: UK 13%, rest of Europe 77% (estimated)

ING's European real estate investment management business had a busy year. ING's funds engaged in several transactions, including a co-investment with a sovereign wealth fund in an Italian shopping centre worth €400m. It was the largest deal in the Italian retail market to date.

It also made several changes to its senior team: Will Rowson, head of European acquisitions, was made chief investment officer for the region, and UK head Robert Houston was made global head of the investment management business, after his predecessor David Blight left to return to Australia for personal reasons. Kevin Aitchison, formerly head of the UK's segregated accounts and joint ventures, took his place in the UK.

CONT. Next Page



The Survival Tactics of Europe's Top Five

Cont.

Morgan Stanley Real Estate

Assets under management in Europe: €23bn (end September 2008)

Asset breakdown: Undisclosed

Morgan Stanley Real Estate's European business is led by Marco Polenta and in many ways it operates under the radar, feeding into private placement funds and without a substantial retail funds presence. It is influential in the European market, holding stakes in property companies including the Canary Wharf Group. Two weeks ago, the bank said Owen Thomas, who led the real estate business from 2001 to 2005 before moving over to run investment management, had returned to take charge of the global real estate unit. He remains head of the parent bank's Asian operations.

Rreef Alternative Investments

Assets under management in Europe: €20bn

Asset breakdown: Undisclosed

Rreef Alternative Investments is Deutsche Bank's alternatives division, which focuses on real estate alongside infrastructure and private equity. The European real estate division, led by Pierre Cherki, is focused on the western developed markets with some assets invested in the central and eastern emerging markets. Chris Papachristophorou, chief executive of the company's opportunity funds division, said that last year Rreef was relatively cautious, focusing more on managing existing assets. He said: *"For the future, the focus will be on opportunities in the more mature western markets. It will be back to basics. On a risk-adjusted basis I think the more mature markets offer more, though the emerging markets will offer some good opportunities in the medium to long term."*

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Kingston Smith at MIPIM - 9th to 13th March 2009

The Kingston Smith team is looking forward to MIPIM 2009. Martin Muirhead and Heather Powell will be attending from Monday to Friday. In these uncertain times protecting your assets and positioning your business for the next cycles makes good business sense. With values depressed now is a great time to act.

The top rate of income tax increase in April 2011 to 45%, along with increases in NIC mean the overall rate of tax of extracting profit from a Company could be 52.78%. Planning and action now to ensure that you will benefit from the capital gains tax rate of 18% could **increase your net of tax cash by 73%**. Non UK jurisdictions still offer great planning opportunities albeit at a greater cost.

To arrange a meeting with our experienced and constructive partners who ensure their clients receive value for money please contact us by either email or phone:-



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Rents in Central London – A Tenant's Agent View *By Simon Korn*

Guest Feature

Simon Korn is a niche commercial estate agent/realtor acting for tenants in London's Mayfair. The firm specialises in the local office sector and frequently acts on behalf of hedge fund clients and other corporates. Simon Korn is one of the top three fee earning Acquisition Agents in the UK. So, some views from the tenant side...



"With the financial crisis has come a lack of confidence in the central London office market and hence a disparity between landlords and tenants expectations.

Over the last few years we have seen the rise of the financial services sector dominated by businesses such as hedge funds, private equity firms, mergers and acquisitions and other companies allied to this industry.

Until the summer of 2008 it had become somewhat of an obsession with these companies to try outbid each other in order to obtain the best space and indeed to be seen /identified by competitors as paying the highest rent. This allied with the growing shortage of good quality space termed in the property world as "Grade A" office space fuelled the market so that rents went through the £100 p sq ft barrier, reaching £140 p sq ft in St James's Square for the very best space on offer.

It was often the case that a new property coming to the market with a number of floors to let would see rents rising by 20% from the first letting in the building to the last over a period of as little as 3 months.

These companies used the fact that they could afford these high rents as a demonstration to their investors of not only how good they were at what they did but that by being able to afford these high rents that their company was also therefore the most successful. The dictum was "I want it, I can afford it, I'll have it".

Although these companies chose only to occupy offices in Mayfair and St James's, by taking all the available space in these areas, they created shortages throughout central London as other more traditional companies had to seek out offices at more affordable rents elsewhere and hence rents were pushed up in all areas.

Well of course this all changed in October 2008 when Lehman crashed and confidence disintegrated.

As an agent specialising in representing tenants and dealing with lettings, lease renewals and rent reviews on their behalf, it had until this time always been possible to advise a tenant on any given building to the nearest £ p sq ft in rental value. However, the market has been changing so quickly since the downturn in October 2008 that this has now for the first time become virtually impossible to do.

During the 90's recession everyone was singing from the same sheet whether they were a tenant disposing of a lease or a landlord wanting to let vacant space. The market had only changed gradually over a year or so.

Everyone was looking to damage limitation and were just trying to find a tenant as quickly as possible. Tenants were encumbered with long leases based on past markets when a tenant would have expected to take premises and stay there for a number of years and hence long leases of 5/10 or 15 years were the market accepted norm. The majority of leases did not benefit from break clauses and indeed it was a rarity to find a lease with a break as the idea of a break only really came into being after the recession when companies realised that they must never again be put in a position where they were paying a high rent in a falling market with little chance of finding someone to take over and also because most companies would expect to stay in their offices for a number of years only looking at minimal growth over a period of time.

At least some lessons were learned and once the market started to pick up again in late 1997 the practice for shorter leases came into being where a tenant, at that time the forerunner of the hedge fund, the 'dot.com' came into being and started taking leases for 3/5 years. as they were so inundated with investment, they thought that every 6 months they would be expanding and would need to move so, whilst not necessarily looking to be paying the highest rent, would take space far larger than they actually needed and then look to move again within a few years once they outgrew their space. At the time this also created a shortage because there was a substantial amount of space being leased by these companies but not physically used until they grew into them and this in turn, as we all knew created a mini short lived boom.

The difference at the moment is that this has all happened so quickly nobody can quite believe the change that has taken place.

To explain the difference is pretty simple.

Companies have been entering into shorter term leases which generally, although dependent on size, offices suites up to 3,000 sq ft have generally been for 5 years with 3 year breaks and larger space would be for 10 year with 5 breaks. Because of the shortage created around mid 2007 by the financial services sector, larger companies were even being forced by landlords in some cases to take leases for 10 or 15 years without break.

We now come to the crunch of why there is such disparity.

The traditional landlord is now run by an asset manager who tends to be quite young, without general property experience and with their eye on the capital value of the building as a whole and taking into account performance for their bank, their investors and of course the board. Everyone seems to be on a performance based bonus so transparency has disappeared.

A landlord needs to see a headline rent which in return affects the capital value of the building and which keeps the shareholders and the bank happy as of course loan to value has now become all important. Previously these companies were run by directors who generally had vast experience whilst answerable to the shareholders and bank did not operate under the same constraints. **CONT.**

Rents in Central London – A Tenant's Agent View CONT.

By *Simon Korn*



The other reason for requiring a high headline rent is that the landlord may well have a rent review/lease renewal within the building where there is a suite to let or within a building in close proximity and so therefore any rental agreed will have created evidence, so long as the level is high.

These landlords are usually advised by the larger 'conglomerate' agent. Now most of these agents are very good however as they tend to act for landlords and not tenants, they do not fully understand the tenant psyche and added to this, they are all so worried about losing their jobs at the moment. It is very hard for them to stand up to their landlord client and tell them how far rents have actually retracted. They seem to think that there are tenants who will still pay £80 p sq ft for the best space in Mayfair

Tenants on the other hand have had the foresight to enter into shorter term leases, by way of earlier expiry or break and have quite clearly learned some of the lessons of the last recession. So those tenants looking to dispose of their offices are now looking at damage limitation for a minimal period up to either their next break or lease expiry which thankfully may not be too far away and are not shackled with the problem of values.

Whereas tenants wanted open plan space ready to be fitted out to their own specification, those tenants now looking to take offices are insisting that the space should already be fitted out and ready for their immediate use and as luck would have it, the majority of tenants now tend to work in an open plan layout with a few offices and meeting rooms, so those tenants looking for space are likely to be able to occupy new offices with very little to no changes being made.

We are inundated with enquiries and finding that most of these potential tenants are looking to occupy space in Mayfair at a rent/net affective rent of between £45 and £60 p sq ft and we are advising that their best chance of success is with an existing tenant who wants to dispose of their space as they are not shackled with the constraints of a landlord and indeed this is where the market is really active at the moment.

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The Subprime Mortgage Business Explained

Heidi is the proprietor of a bar in Berlin. In order to increase sales, she decides to allow her loyal customers - most of whom are unemployed alcoholics - to drink now but pay later. She keeps track of the drinks consumed on a ledger (thereby granting the customers loans).

Word gets around and as a result increasing numbers of customers flood into Heidi's bar. Taking advantage of her customers' freedom from immediate payment constraints, Heidi increases her prices for wine and beer, the most-consumed beverages. Her sales volume increases massively.

A young and dynamic customer service consultant at the local bank recognizes these customer debts as valuable future assets and increases Heidi's borrowing limit. He sees no reason for undue concern since he has the debts of the alcoholics as collateral. At the bank's corporate headquarters, expert bankers transform these customer assets into DRINKBONDS, ALKBONDS and PUKEBONDS. These securities are then traded on markets worldwide. No one really understands what these abbreviations mean and how the securities are guaranteed. Nevertheless, as their prices continuously climb, the securities become top-selling items.

One day, although the prices are still climbing, a risk manager (subsequently of course fired due his negativity) of the bank decides that slowly the time has come to demand payment of the debts incurred by the drinkers at Heidi's bar. However they cannot pay back the debts. Heidi cannot fulfil her loan obligations and claims bankruptcy.

DRINKBONDS and ALKBONDS drop in price by 95%. PUKEBONDS perform better, stabilizing in price after dropping by 80%. The suppliers of Heidi's bar, having granted her generous payment due dates and having invested in the securities are faced with a new situation. Her wine supplier claims bankruptcy, her beer supplier is taken over by a competitor. The bank is saved by the Government following dramatic round-the-clock consultations by leaders from the governing political parties.

The funds required for this purpose are obtained by a tax levied on the non-drinkers.

Spotted Paulo.Gomes@Tradition.Com - Author unknown

STOP PRESS... UK HOUSE PRICE DOWN 0.38% (£610)
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