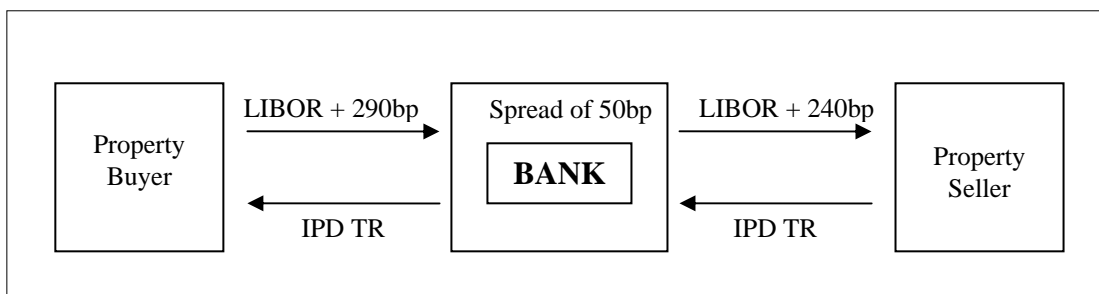


Property Derivatives:
A Meaningful Introduction to Property Derivatives

Key details:

- Commercial property is the top performing asset class in the UK over 1, 3, 5 and 10 year periods. Total return for 2005 was higher than forecast at 19.1%.
- Property derivatives are contracts that allow you to take a synthetic position on direct property investment.
- The main contract is the 'All Property' total return swap.
- Property swaps involve exchanging IPD (Investment Property Databank) index returns for LIBOR plus an agreed margin.
- All known deals to date have had a duration of between one and five years.
- IPD does break down the 'All Property' index into key sectors (Industrial, Retail, and Offices) and sub-sectors allowing the user of property derivatives to take positions on very specific types of property.
- The IPD annual total return index dates back to 1971 and the IPD sector and sub-sector indexes date back to 1981.

How does a total return swap work?

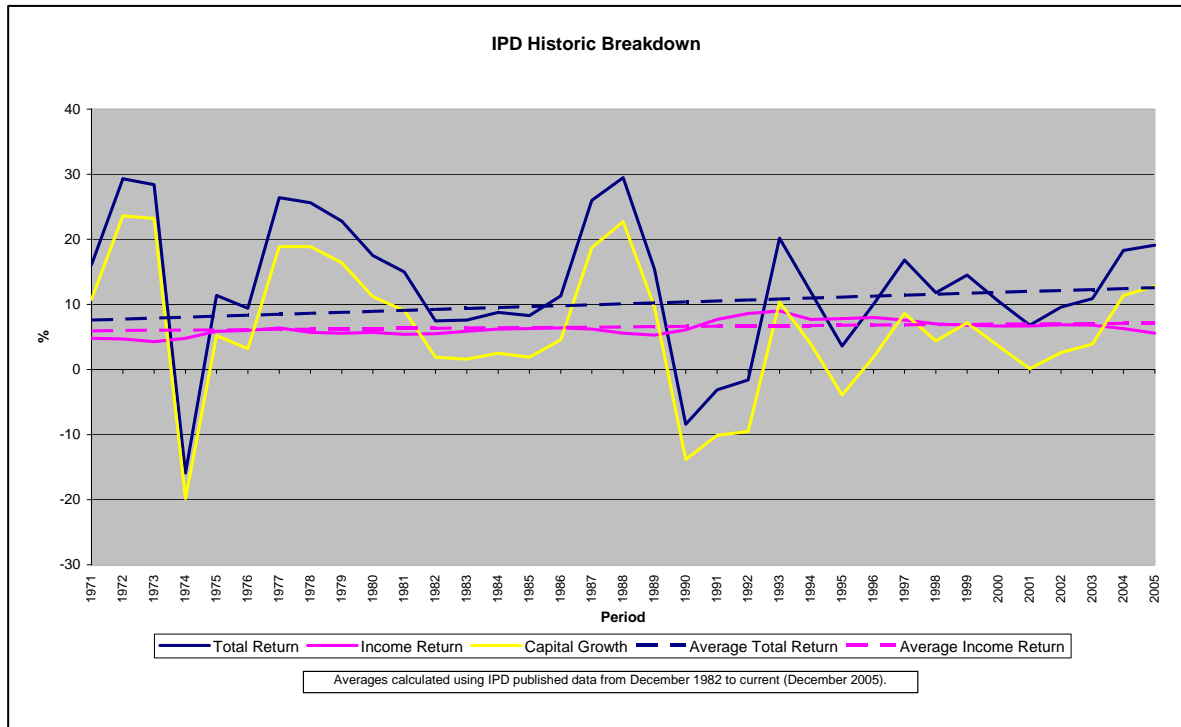


- The buyer will pay LIBOR, plus a fixed margin, and will receive the IPD.
- The seller will receive LIBOR, plus a fixed margin, and pay the IPD.
- The spread over LIBOR represents the expected behaviour of the IPD over the duration of the swap, such that the NPV of both buying and selling are the same, excluding the bank's spread.

Where is the market now?

- The IPD has for the last couple of years been returning above the long run average return, leading most analysts to conclude that underlying property has been fully priced.
- Many forecasters believe that there is limited potential for further capital growth over the next 1-3 years
- Although the majority of trades have been 3 year deals done against the Total Return Index, other more complex trades have been done including:
 - Sector trades (office and retail)
 - Forward Trades
- Total turnover in 2005 was roughly £800 million
- Total turnover in Q1 2006 is estimated to be in the region of £800 million

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How do property derivatives compare with traditional physical purchase?

- Property derivatives are not subject to the supply and demand limitations of physical purchase (assuming liquidity within the derivatives market).
- Transactions are quick and cheap; round trip savings of roughly 7%.
 - Savings are greater still if viewed as ‘sale with agreement to repurchase.’
- A swap on the IPD can deliver instant diversification.
- Portfolio sector weightings can be altered without incurring Stamp Duty Land Tax (SDLT).

Who are the natural users of property derivatives?

- Fund managers who need to invest cash for short term performance enhancement (BUYERS).
- Fund managers who wish to lock in portfolio out-performance, in relation to the IPD (SELLERS).
- People looking to hedge the profitability of a development or investment (SELLERS).
- People managing portfolios that are protected by negative ‘break-up’ covenants, or subject to negative marriage values (BUYERS AND SELLERS).
- Tactical Asset Allocators (BUYERS AND SELLERS)
- People looking to achieve highly leveraged positions on the market (BUYERS AND SELLERS)

Property Derivatives:
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Where is JCRA?

- JCRA can facilitate in the implementation of property swaps, subject to liquidity, and can offer advice on fair terms. Our experience in this area is drawn from extensive knowledge and participation in other established derivative markets, and through analysis of historical and forecast IPD index trends.

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