



Fact sheet

DTZ Fair Value Index™ methodology

DTZ Fair Value Index™ launched to measure investor opportunity in world's commercial property markets

- **First ever forward-looking commercial property value index**
- **Results based on the aggregation of detailed Fair Value assessments of 180 global markets, as Index measures attractiveness of market opportunities**
- **Fair Value assessments consider expected return as well as required return for each market**
- **17 quarterly indices offer broad global coverage by region and sector**
- **Index results to be distributed by premier financial data providers, such as *Bloomberg LP* and *Thomson Reuters***

DTZ Research has launched the first ever forward-looking commercial property value index. The Fair Value Index offers investors insight into the relative attractiveness of current pricing in prime office, retail and industrial property markets across Europe, Asia Pacific and the US, based on DTZ Research's extensive market forecast coverage. The Index is supported by a rigorous and robust methodology, which has been developed over the last two years.

The index offering consists of a suite of 17 different Fair Value Indices that will provide investors with a comprehensive assessment of relative value across the world's commercial property markets by region and property type. Each index will be updated quarterly on the back of DTZ Research's property market forecasts. The indices are based on a quantified assessment of whether pricing in 180 individual markets (defined by city and sector – for



example: London City offices) is attractive to investors, and signal to investors which regions and sectors offer the best value.ⁱ

The quarterly index updates, together with the relevant press releases, will be publicly distributed via a number of premier financial data providers, such as Bloomberg LP and Thomson Reuters (ReutersRealEstate.com). The indices are publicly available and DTZ Research welcomes other media partners to participate in this exciting opportunity.

Extensive market coverage

DTZ Research produces 17 Fair Value Indices covering a broad range of regions and sectors, and global indices to aggregate the regional findings. Table 1 presents the index coverage and the number of individual markets included in each.

Table 1: Breakdown of Fair Value Indices – number of markets covered

Region	Office	Retail	Industrial	All-property
Europe ¹	42	26	27	95
Asia Pacific	23	18	9	50
US	19	16	---	35
UK	12	---	---	20 ²
Global	84	60	36	180

1. The UK is included in the European index.
2. Four UK retail markets and four UK industrial markets are included in the global coverage, but this is regarded as insufficient to form an index.

Fair Value Index scores are based on the proportion of commercial property markets within the index coverage that offer investors expected returns above or below their estimated risk-adjusted required return. The Index scores range from 0 to 100: with readings close to 100 indicating that most of the markets covered by the Index offer attractive returns; and, readings close to zero indicating that the markets covered generally offer inadequate returns.

ⁱ Appendix 1 provides a full list of the markets covered in each region.



Identifying opportunities to invest in global markets

DTZ Research assesses Fair Value in property markets by comparing the annualised returns a property investor could expect over a five-year time horizon in their chosen market with the estimated risk-adjusted required return for that market. This is defined as the return available from a government bond of the same duration, allowing for the additional cost and risk associated with property investment.

The expected return from property investment is determined by the market yield and forecast future capital growth, driven by a combination of rental growth and changes in yield.

For instance, the results for Q2 2010 compare the returns an investor could expect from property investment over the five-year period term from end Q2 2010 to end Q2 2015, with the required return based on the end Q2 five-year government bond yield.

Having made this comparison, we can then assess whether the market is over or under-valued. Table 2 provides some examples of our current findings (for more detail on our methodology see the DTZ Research Fair Value Methodology report at www.DTZ.com).

We classify markets into three categories:

- **HOT**: expected returns exceed required returns. Property is under-priced and these markets offer attractive buying opportunities to investors
- **WARM**: expected returns are approximately equal to required returns. Property is appropriately priced and investors can earn adequate returns in these markets.
- **COLD**: expected returns are below required returns. Property is over-priced and investors should avoid these markets

Markets estimated to be more than five per cent under-valued are classified as **HOT**. If a market is estimated to be more than five per cent over-valued it is classified as **COLD**.



Markets trading in between this range at close to Fair Value are classified as **WARM**. Table 2 illustrates the way in which we apply these classifications.

Table 2: Selected Fair Value classifications for Q2 2010

Market	Estimated required return	Expected return	Property over or under-priced	Degree of over-pricing (negative indicates under-pricing)	Classification
London City offices	7.6%	10.9%	Under	-11.6%	HOT
New York offices	9.0%	10.4%	Under	-5.1%	HOT
Paris CBD offices	7.6%	8.2%	Under	-2.6%	WARM
Sydney retail	10.1%	9.8%	Over	1.3%	WARM
Barcelona offices	9.9%	7.9%	Over	7.9%	COLD
Shanghai retail	8.8%	4.8%	Over	17.2%	COLD

It is important to note that these classifications reflect our view on the market performance on average. Stock selection remains critical to investment performance: **HOT** deals can be done in **COLD** markets and vice versa.

Aggregated sector and regional indices

Based on the number of markets rated as **HOT**, **WARM** or **COLD**, DTZ Research has constructed Fair Value Indices to provide an overview of the state of investment markets in different sectors and regions.

Scores above 50 indicate that more markets in a particular sector or region are rated **HOT** rather than **COLD**, and vice versa. Likewise, the higher the score, the greater the number of **HOT** relative to **COLD** markets.



The index calculations are based on the following formula:

$$(H - C)/(T)*50+50$$

Where:

H = Number of **HOT** markets in the sector or region

C = Number of **COLD** markets

T = Total number of markets covered

The highest index score attainable is 100 (achieved if every market is rated as **HOT**) and the lowest is 0 (achieved if every market included is rated as **COLD**). The mid-point is 50, and this score is achieved if there are an equal number of **HOT** and **COLD** markets. Some examples of the composition of the index are provided in Table 3.

Table 3: Example index results for Q2 2010

Fair Value index	Markets covered	HOT	WARM	COLD	Index value Q2 2010
Global all-property	180	76	71	33	62
Europe offices	42	3	23	16	35
Asia Pacific retail	18	8	8	2	67

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