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Slew Of Real Estate Indices Launched

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A number of new indices that will allow commercial real estate to be traded synthetically have been launched over the past few months. A partnership between Real Capital Analytics, Delta Rangers and Corridor Capital is working to create a business that will use a transaction-based index to match buyers and sellers for synthetic trades. At the same time, Radar Logic is close to launching a real estate index that it says will provide a price per square foot data on a daily basis for 25 metropolitan statistical areas (MSAs) in the continental U.S.

The indices are part of a broader move within the commercial real estate sector seen over the past year in which market participants are launching indices to spur the growth of derivative trades on commercial real estate. Until recently, there were just a handful of commercial real estate indices, including the Morgan Stanley REIT index and the NCREIF index.

RCA is providing a database of property transactions for indices that have been developed by Jeff Fisher and the MIT Center for Real Estate. The 29 indices will include national, regional and metropolitan market returns by sector, said Neal Elkin, principal. RCA will deliver the data to calculation agent, which will publish the indices.

Elkin will be moving from RCA to head Real Brokerage, a newly formed company that will match buyers and sellers on synthetic real estate transactions. Over the long term, RCA plans to expand its index business to Europe and Asia, Elkin said. "While there is strong demand for an appraisal-based index, there is also interest in a complementary transaction-based index," he said.

Radar Logic wants to create a statistically valid measure of the average price per square foot in a given geographical market price, which will allow real estate to be treated like a commodity, said Michael Felder, principal. The company hopes that market participants will use the index to develop derivative strategies for commercial real estate. The company joined forces with Ventana, a mathematical consulting firm that helped develop the technology.

The Radar Logic index will have an impact on participants that include fixed-income investors, developers, real estate investment trusts and property owners. Developers or lenders who want to hedge against prices when their buildings come on line could do so efficiently, Felder explained. Likewise, developers with

limited resources but which nevertheless wanted exposure to certain markets could buy options.

Other Recent Launches

* CMBX, the first synthetic commercial mortgage-backed securities index. A European version of the index is in the works (REFI, 1/15).

* A partnership between the The Chicago Mercantile Exchange and real estate index firm Global Real Analytics are planning the first exchange-based commercial real estate futures and options contracts. The contracts will be based on GRA CREX, a more extensive version of existing GRA Commercial Real Estate indices that is being put together (REFI, 9/8).

* Wachovia Securities developed six new indices for preferred securities, five of which are targeted to real estate investment trust preferred shares. The indices include an aggregate index for the entire preferred securities market, as well five specialized indices (REFI, 6/9).

* Barclays Capital structured an investment that pays out if housing prices fall. The two-year notes are linked to the Philadelphia Stock Exchange Housing Sector Index, and investors receive 115% return on capital if after two years the index is below its starting level. If at maturity the index is equal to or above the starting level, investors' capital is returned (REFI, 6/16).

* The National Association of Real Estate Investment Trusts and FTSE Group are rolling out a new series of REIT indices, including the FTSE NAREIT U.S. Real Estate Index will be launched on March 6 (REFI, 2/24/06).