



Capital markets

RPX helps funds hedge exposure

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More than \$250m of derivatives contracts based on Radar Logic's residential property index (RPX) had traded since its launch in September, the research group said.

Property derivatives allow investors to take a view on the health and direction of the US housing sector without having to buy property directly or invest in housing-related stocks such as homebuilders or mortgage lenders.

As the shake-out in the US housing sector continues, hedge funds, investment banks and property groups have looked to the RPX to hedge their exposure to specific geographic areas.

"A lot of people who used the ABX market to take a view on the housing market are now also looking at RPX as a way of taking a macro view on housing that is independent of the credit risk of the mortgage market," said Andrew Samawi, head of residential property derivatives at Icap.

The RPX is based on prices per square foot of residential real estate in 25 US metropolitan areas, along with a composite national index, and contracts of up to five-year maturities are common.

Six active dealers, including [Morgan Stanley](#), [Deutsche Bank](#) and [Merrill Lynch](#), provide liquidity to the over-the-counter market.

In contrast, the ABX is an index of derivatives linked to a basket of subprime mortgage-backed bonds.

Michael Feder, chief executive of Radar Logic, believed the RPX index was also more representative of the residential property market than traditional indices such as the S&P/Case Schiller index, which do not track sales of new homes and condominiums.

Housing futures contracts based on the S&P/Case-Shiller home price and composite indices for markets including New York, Chicago and Los Angeles have been trading on the Chicago Mercantile Exchange since May 2006.

In September and October, 504 Case-Shiller contracts valued at \$27m were exchanged, according to the CME Group.

One trader closely involved in the development of the index said much of the trading had been concentrated in the hedge fund community.

Nonetheless, the trader said, the index had begun to attract the attention of homebuilders, pension funds and other investors looking to hedge their exposure to the housing market.