

Quick Stats

Change from
q-o-q y-o-y

GDP growth	↓	↓
Unemployment	↑	↓

ECONOMIC OVERVIEW

In Q3 2008 the annual growth rate of the Czech economy slowed in real terms from the level of 6% at the end of 2007 to 4.2%. The slowdown was caused both by external and internal factors. External effects included economic slowdowns of the main trading partners of the Czech Republic and the resulting difficulties of export-oriented producers, which were aggravated by a strong Czech crown (CZK). The main domestic reason was slower real growth of household expenditures caused primarily by the y-o-y increase of consumer prices. Household spending was the decisive factor for GDP growth in the same period of 2007. External trade in goods and services was the main driver of economic growth (2.8 p.p. contribution to GDP's growth) despite a significant fall in y-o-y growth of exports from 13.9% in Q2 to 5% in Q3. However, the Czech Republic's GDP growth is still significantly higher than the EU27 average level which in the third quarter grew only by 0.8%, with some countries having fallen into a recession. Government forecasts for 2009 and 2010 indicate that, despite a slowdown, the national economy will continue to outperform EU27 levels.

After more than two years of continuous decrease, the registered unemployment rate increased in 2008 to 6.0%. There are significant differences across regions in unemployment rates, which range from 2.1% in the Prague Region and 4.5% in the Central Bohemian Region to 8.5% in the Moravian Silesian Region and 10.3% in the Ustecky Region. In Q3 2008 the average gross nominal wage increased by 7.9% y-o-y to CZK 23,144.

The average inflation rate in 2008 stood at 6.3% y-o-y, and moved down from 7.5% in January 2008 to 3.6% in December 2008. It was the highest average annual inflation rate since 1998 when it was higher than 10%. The main reasons were higher food prices and a higher VAT rate (increase in lower tariff from 5% to 9%) for some goods and services. As a reaction to the strong appreciation of CZK, the Czech National Bank decreased the 2W repo rate four times this year to the current level of 2.25%. Inter-bank (PRIBOR) interest rates decreased at the beginning of H2 2008 (mostly in reaction to the Czech National Bank's decrease of the 2W repo rate), however, PRIBOR did not react to further decreases of the 2W repo rate, but slightly increased it to the current level of 3.89%.

Key Economic Indicators

	2005	2006	2007	2008*	2009*
GDP growth (% real change pa)	6.3	6.8	6.0	4.2	1.4
Average wages (% nominal change y-o-y)	5.3	6.4	7.3	8.1	4.7
Recorded unemployment (%)	8.9	7.7	6.0	6.0	7.0
Inflation (CPI), y-o-y avg. (%)	1.9	2.5	2.8	6.3	3.5
Current-account balance/GDP	-1.3	-2.6	-1.8	-3.3	-2.3

*predictions, UniCredit Bank CZ, Czech National Bank.
Sources: Czech Statistical Office, Czech Ministry of Finance, UniCredit Bank, Czech Ministry of Labour and Social Affairs

Quick Stats

	Change from	
	Q3 08	Q4 07
New Supply	↓	↑
Take-up	↓	↓
Vacancy Rate	↗	↑
Prime Rents	→	↑

Hot Topics

- Total take-up in 2008 proved very strong with 260,300 sq m leased.
- New supply in 2008 achieved a historical record, with 323,100 sq m of modern office space completed.
- Almost 50% of 2008 completions took place in Prague 4, which was also the most attractive location in terms of take-up
- Prime rents remained stable across all submarkets in Q4 2008.

• Office Stock in 2008 increased the most in the Inner City

The amount of modern office space in Prague currently totals ca. 2.5 million sq m. The distribution of modern office stock by location as of Q4 2008 was as follows:

- 50% in the Inner City submarket, of which 11% was vacant;
- 31% in the Outer City submarket, of which 9% was vacant;
- 19% in the City Centre submarket, of which 4% was vacant.

Total modern office stock within Prague is made up of 70% new build and 30% refurbished stock. The majority of office space in the pipeline is new build, therefore, its share of the total stock will continuously increase in the future.

• New Supply reached a record amount in 2008

With 91,000 sq m of modern office space completed in Q4 2008, the overall completions in 2008 achieved a record amount of 323,100 sq m (see the chart on page 3), representing an increase of 88% y-o-y. Prague 4 was the submarket where the most completions (47%) took place in 2008. The most significant completions in 2008 were City Tower (43,800 sq m), Kavčí Hory Office Park (36,800 sq m) and Gemini B (15,900 sq m) in Prague 4, Palladium (19,500 sq m) in Prague 1, and Explora Business Park Jupiter (18,400 sq m) and Office Park Nove Butovice C (7,100 sq m) in Prague 5. The impact of the new supply on the market in 2008 was significant and resulted in an increase in vacancy by ca. 100,000 sq m.

• Despite lower Q4 take-up, demand was very strong in 2008

Despite a lower take-up of 51,000 sq m in Q4 2008 (27% decrease q-o-q), 2008 as whole proved very strong with 260,300 sq m leased. The take-up level in 2008 was close to the historically strongest year 2006 which saw take-up of 285,500 sq m. A total of 310 lease transactions were closed in 2008 with an average deal size of 850 sq m. This represents a slight increase in comparison with the average deal size of 680 sq m in 2007.

The major transactions closed in 2008 were:

- Raiffeisen Bank in City Tower (17,500 sq m, Prague 4),
- Siemens in City West (24,000 sq m, Prague 5),
- Ceska Sportelna in Trianon (12,700 sq m, Prague 4),
- JNJ Global Business Services (5,500 sq m) in Factory Office Centre, Prague 5.

With regard to Q4 2008, the other flagship deals apart from JNJ Global Business Services were DHL (2,900 sq m) in Explora Business Centre Jupiter, Prague 5 and Clearstram Operations Prague – Deutsche Börse Group (2,200 sq m) in Corso Karlin II A, Prague 8.

Prague 4 was the most attractive location in 2008 with a 30% share of annual take-up. Prague 5 was the second highest with a 25% share, however, this was influenced by one large transaction (Siemens in City West). The Financial sector was the largest driver of demand in 2008 (27%). This sector together with the Manufacturing and Professional Services sectors combined to account for 67% of total 2008 take-up.

Indicators at the end of 2008

	CITY CENTRE	INNER CITY	OUTER CITY
Total Stock (sq m)	481,800	1,260,400	769,000
Space under construction (sq m)	13,700	119,500	113,600
Existing vacant space (sq m)	18,200	141,400	65,500
Prime rent (EUR/sq m/month)	21.00-23.00	15.00-17.50	13.00-15.00
New completions 2008 (sq m)	31,500	184,800	106,800

VACANCY

Approximately 63% of the new quarterly supply had already been leased in Q4 2008, thus the city-wide vacancy rate this quarter increased only marginally. However, from a y-o-y perspective, net absorption in 2008 (230,000 sq m) was not sufficient compared to the amount of completions (323,100 sq m) and the vacancy rate increased by 3.2 p.p. to the current level of 8.96% in 2008. The vacancy rate for Class A buildings was 10.3% in Q4 2008, an increase from 5.7% in Q4 2007, whereas the vacancy rate in class B buildings remained stable at around 5.5%.

In Q4 2008, one of the highest vacancy rate increases y-o-y was recorded in Prague 4 (from 4% to 12%), where the take-up, despite being strong, did not keep up with the amount of office space completed. However, we expect take-up in Prague 4 to remain strong, especially in H1 2009, which together with limited amount of completions planned for this submarket in 2009, may cause the vacancy rate to decrease significantly. Prague 6 & 7 are the submarkets with the highest vacancy rates, both having recorded 7 p.p. y-o-y increases in vacancy to ca. 20% in Q4 2008. At the end of 2008, ca. 225,100 sq m of Prague office space was immediately available, of which 37% was located in Prague 4.

RENTS

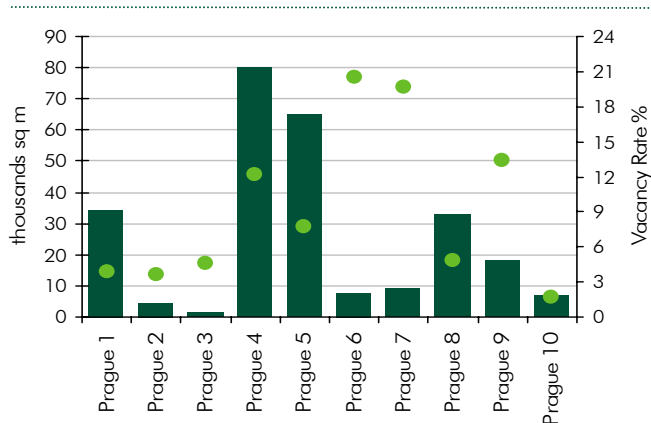
Prague prime office rents remained stable in all submarkets in Q4 2008 in comparison to Q3 2008. There was no significant upward pressure on rents in the Inner City and Outer City submarkets, as the amount of completions was higher than the net absorption. With regard to the City Centre submarket, we witnessed a rental correction in Q3 2008, with the prime rent increasing to the current level of €23.00/sq m/month. This was due to the limited availability of good quality office space and very limited supply in the pipeline. However, we believe that current demand is not sufficient to push prime rents higher in the first half of 2009.

OUTLOOK

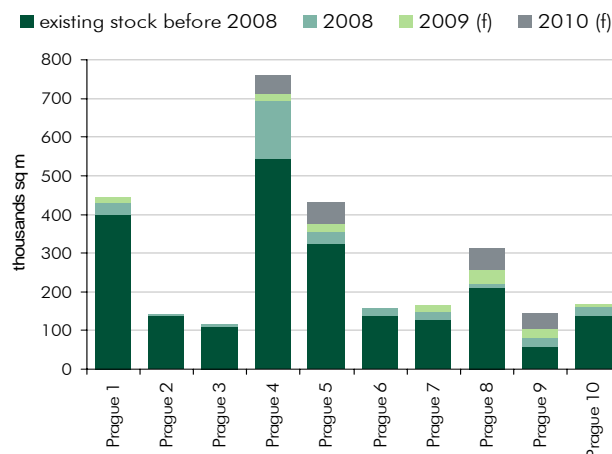
We expect only ca. 120,000 sq m of modern office space to be completed in 2009. This amount is in contrast with recent years, and is below the ten-year average (190,000 sq m). Among the most significant projects to be completed in 2009 are Trianon in Prague 4, Factory Office Centre in Prague 5, Prague Marina Office Centre in Prague 7 and River City Amazon Court in Prague 8.

With 20% of office space in the pipeline for 2009 already pre-leased, we do not expect the impact of the new supply on the market to be significant. On the contrary, even with a drop in demand in 2009 of 30%, we believe the vacancy rate will come under downward pressure throughout the year.

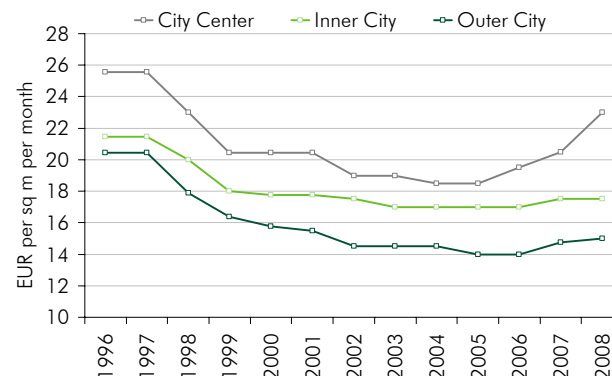
Take-up & Vacancy in Prague Districts in 2008



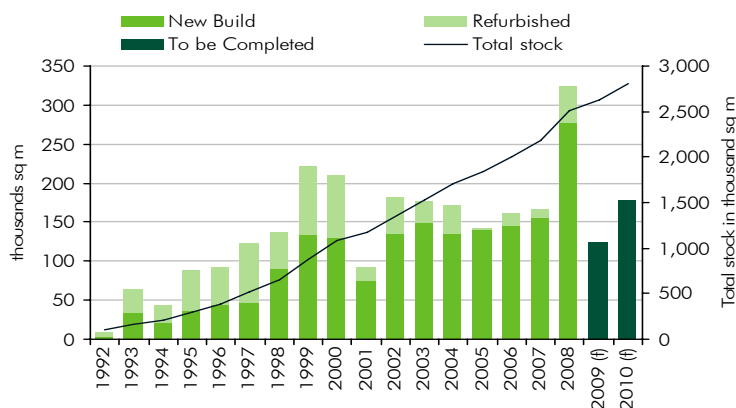
Prague Office Supply



Prague Prime Rents



Office Development in Prague



Definitions

Stock – modern office space in class A and B buildings;

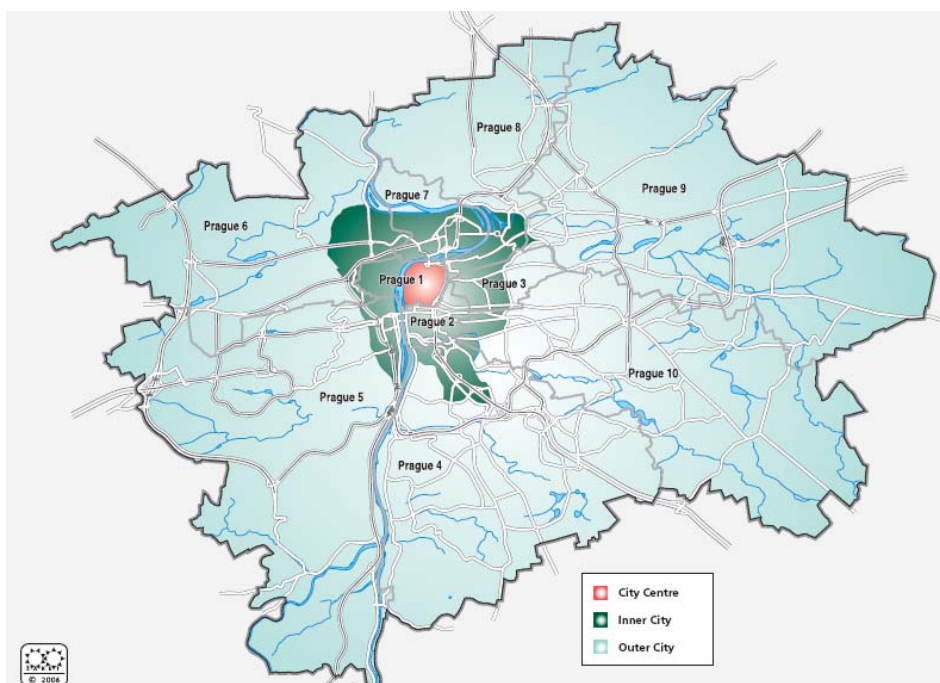
Vacancy Rate – a ratio of vacant office space to total stock;

Take up – office space that has been leased in a given period, includes leases, renegotiations, pre-leases and sub-leases

Prime Rent – typical 'achievable' open market headline rent (can be hypothetical) for a unit of standard size commensurate with demand in each location, of highest quality and specification and in the best location in a market at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is very limited or made up of unusual one-off deals;

Service Charge – includes all applicable services and utility costs, excluding directly measured electricity consumption.

Prague Office Submarkets



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