CB RICHARD ELLIS

BRNO OFFICES

H1 2008

During H1 2008, only 8,400 sq m of new space was completed in Brno. New developments coming to the market within the next 6 months represent 14,100 sq m. However, increased development activity should resume in 2009.

The overall take-up levels in Brno during H1 2008 decreased by 35% compared to H2 2007 and reached only 17,600 sq m.

The overall market vacancy rate remains stable at ca. 20%.

H1 2008 AT A GLANCE (y-o-y)

	Inner City	Outer City
TAKE-UP	↓	↑
VACANCY	↑	↑
RENTS	→	→

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MARKET IN PERSPECTIVE

The Czech economy performed well in H1 2008 with real GDP growing by estimated 4.5% y/y in Q2. While the completion of several office projects in Brno have been delayed until next year, this was due to the projects' original unrealistic timing, rather than to any slowdown of the economy. The new supply added to the market in H1 2008 was only 8,400 sq m, which represents only 21% of the modern office stock added to the Brno market in H2 2007.

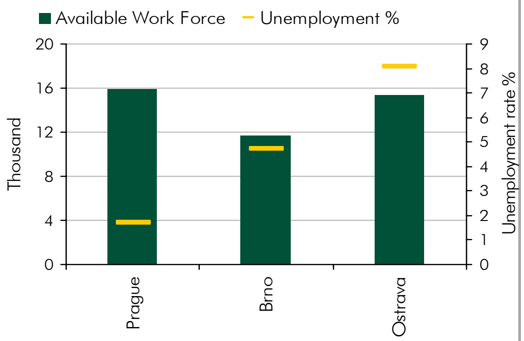
Average wages in Brno are 75% of Prague's average wages, which combined with Brno's well-educated population contributes to attractiveness of Brno's labour market. 19% of the population in the South Moravian region hold a university degree, which is the second largest proportion in the Czech Republic after the Prague region.

Take-up figures confirm the continous strong demand from the technology sector, with the IT sector representing 62% of the overall take-up in H1 2008. Take-up by international tenants remains strong and significantly exceeds local realized demand with a share of 79% of total take-up.

As in 2007, the asking rents for space in class A office buildings remain stable, ranging between €11-13 sq m/month. Because the overall vacancy rate has remained stable at around 20% and because of planned developments in the pipeline there is only very limited space, if any, for rents to increase in the short to medium term.

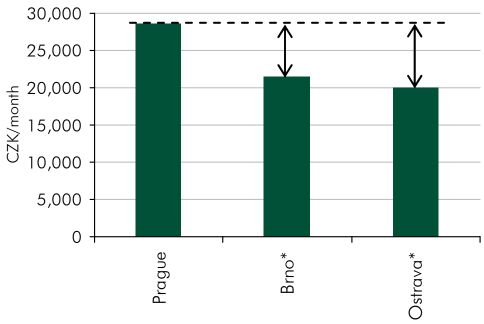
As the charts indicate, Brno continues to be a very competitive location in terms of wage and rental costs as well as quality and availability of the work force.

LABOUR MARKET COMPARISON



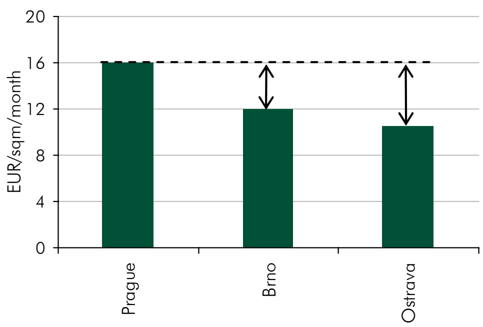
Source: MPSV, CSO

AVERAGE WAGE COMPARISON Q1 2008



Source: CSO, *CB Richard Ellis estimates based on CSO

AVERAGE CLASS-A OFFICE RENT COMPARISON



Source: CB Richard Ellis

H1 2008 INDICATORS	INNER CITY	OUTER CITY
STOCK (sq m)	150,800	58,700
SPACE UNDER CONSTRUCTION (sq m)	55,600	27,100
TAKE-UP H1 2008 (sq m)	12,000	5,600
NEW SUPPLY H1 2008 (sq m)	1,900	6,500
VACANCY	24%	13%
HEADLINE RENT (€ /sq m/month)	15.00 – 13.00	12.50 - 10.00

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SUPPLY

Brno's modern office stock (office space in modern, class A/B schemes) currently stands at ca. 209,500 sq m, of which 74% is of class A quality and 72% is located in the Inner City submarket area. During H1 2008, only 8,400 sq m of new space was completed, of which 77% was completed in the Outer City. However, according to the development pipeline projected for H2 2008 and 2009, this does not appear to be a new trend as 69% of pipeline space is planned for the Inner City Submarket.

DEMAND

The overall take-up levels in Brno during H1 2008 decreased by 35% compared to H2 2007 and reached only 17,600 sq m. The majority of take-up activity took place in the Inner City submarket with 12,000 sq m taken up. However, the Outer City submarket has shown a long-term trend of increasing take-up and compared to H1 2007 take-up increased by 53%. The IT sector remains the main driver for demand and has increased its share of total leased space since 2005 to 42%. 91% of new take-up in H1 2008 was for class A office space.

VACANCY

As the graph shows, the overall market vacancy rate remains stable at levels seen in 2007 at ca. 20%. Due to new completions the vacancy rate in the Outer City submarket in H1 2008 increased by ca. 3 p.p. and reached 13%. The vacancy rate for the Inner City currently stands at 24%. The vacancy rate for Class A buildings is currently 27% whereas the vacancy rate in class B buildings increased to 5% from 1% in H2 2007. New developments coming to the market within the next 6 months come to 14,100 sq m, which should not increase the overall vacancy dramatically.

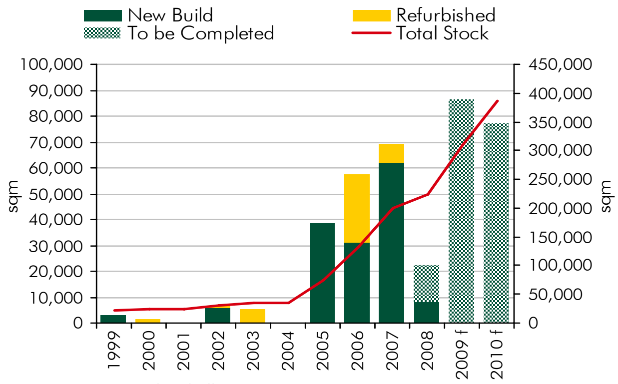
FUTURE SUPPLY

Development completions in 2008 are relatively low compared to 2007. However, increased development activity should resume in 2009 as another ca. 85,000 sq m of stock is planned for delivery, with 68,600 sq m already under construction. The amount of space due to be added to the market in 2010 is expected to amount to ca. 77,000 sq m, although final figures will depend on availability of financing.

MARKET OUTLOOK

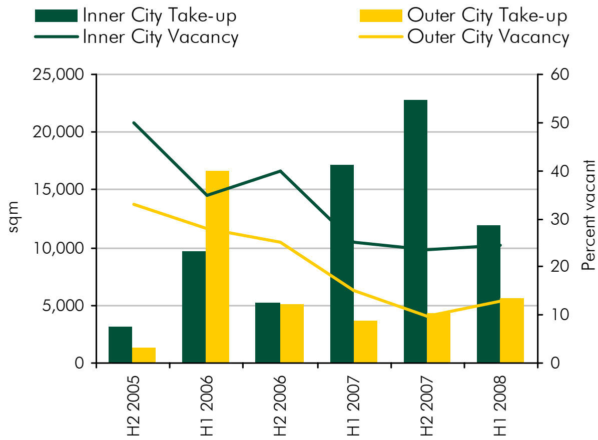
- Development completions in Brno in H2 2008 will reach approximately 14,100 sq m.
- The Inner City submarket will account for 69% of the overall pipeline development planned through year-end 2009
- Office take-up in Brno should remain stable in H2 2008.
- The supply-demand balance will not be sufficient to produce upward movement in rental levels.

OFFICE DEVELOPMENT BRNO



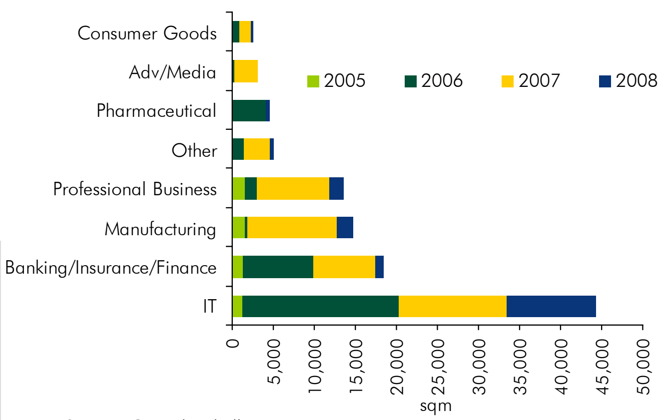
Source: CB Richard Ellis

TAKE-UP AND VACANCY BY SUBMARKET



Source: CB Richard Ellis

OFFICE TAKE-UP BY SECTORS



Source: CB Richard Ellis

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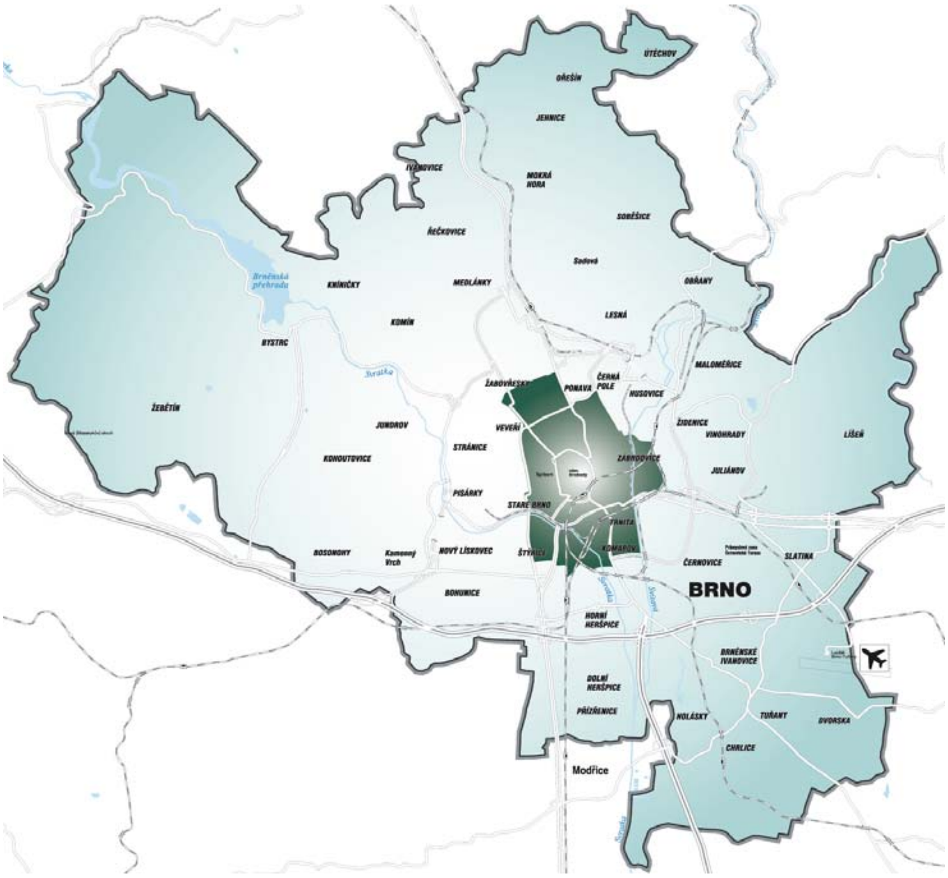

Source: CB Richard Ellis

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