CB RICHARD ELLIS | MARKET VIEW

Czech Retail

H1 2008

Approximately 60,000 sq m of modern SC space was completed in H1 2008 and another 194,300 sq m are expected to be completed in the second half of the year. Year 2008 is expected to be a record breaking year in terms of the new modern SC supply.

As our "Cross Border Retailers" survey indicates, the Czech Republic ranked close to the territory of the Advanced Emerging Markets.

Rental levels in Prague shopping centres range from €30.00 - €70.00/sqm/month for units of less than 100 sq m. Prague prime rent for similar size SC units reached €120.00/sq m/month. The regional SC operate at the level of €20 - €45/sqm/month.

H1 2008 AT A GLANCE

Vacancy Rate ➡

Prime Rents ⬆

Prime Yields ⬆

New Supply ⬆

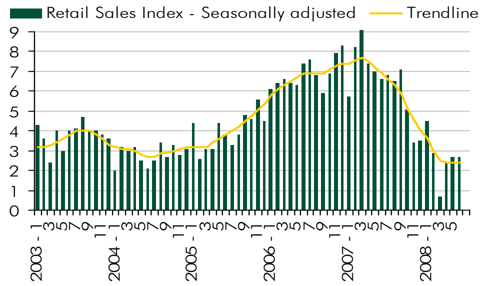
ECONOMIC OVERVIEW

The Czech economy entered a period of slower growth with real GDP growing by 5.4% y/y in Q1 2008 (compared to 6.3% in Q4 2007) and by 4.6% y/y in Q2 2008. One of the primary factors for the slowdown in GDP growth is the inflation rate, which increased from 5.4% at the end of 2007 to 6.7% at the end of H1 2008. This had a negative impact on the purchasing power of households and put pressure on household expenditures. The second deceleration factor was the appreciation of the CZK relative to the Euro, negatively influencing the economic activity of the business sector. The main driver of GDP growth was high external demand contributing to increasing net exports. GDP growth is forecasted to remain on a weakening trend in 2008, but it still remains well above the EU 27 average (1.4%).

The growth of retail sales is slowing down, with the retail sales index only at 2.7 y/y in June 2008. The sale of electronic appliances, furniture and household articles were the main drivers of growth. Inflation is expected to decline toward year-end, reaching 5.7% by December. This slow decline will not allow households to dramatically increase the real value of their expenditures; however, the average annual consumer spending should still continue to reach healthy growth levels of 4% in 2008 and 2009, slowing down to 3.5% in 2010. These levels are ahead of the EU27 with 2.8% growth in 2008. Consumer expenditure in the Czech Republic tends to mirror GDP growth, which is a trend similar to the rest of the EU countries over the past few years.

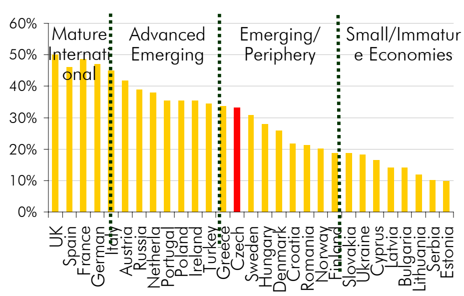
As the graph on the right shows, it is evident that the tightening labour market produces an upward movement of average wages. The unemployment rate is decreasing across the Czech Republic and reached 4.2% at the end of H1 2008. In Prague, the average wage increased from CZK 26,453 (€1,067) in H2 2007 to CZK 28,635 (€1,155) in H1 2008 and many other Czech markets are experiencing a similar pattern.

RETAIL SALES INDEX (Y-O-Y)



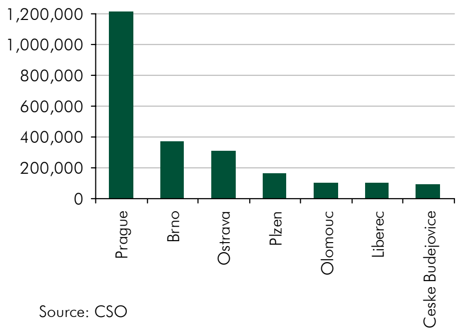
Source: CSO

% OF INTERNATIONAL RETAILERS PRESENT



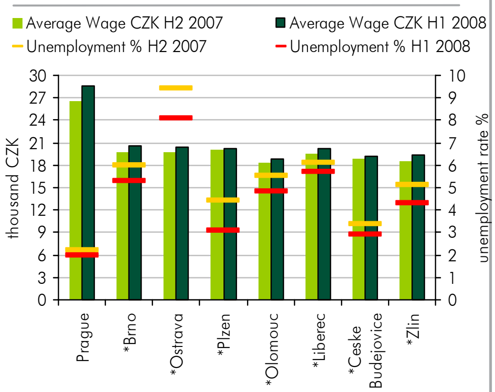
Source: CB Richard Ellis

CITY POPULATION



Source: CSO

LABOUR MARKET COMPARISON



Source: CSO, MPSV

* Regional Data

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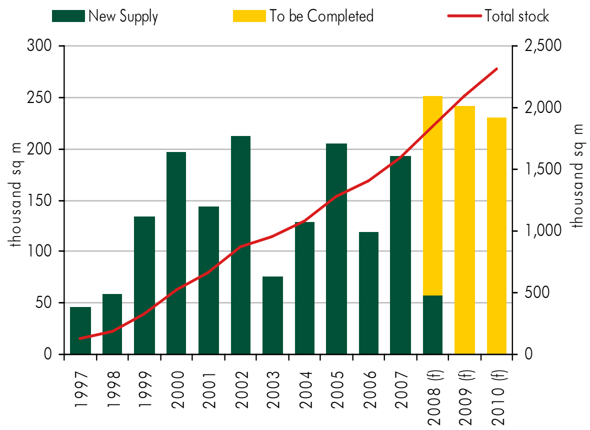
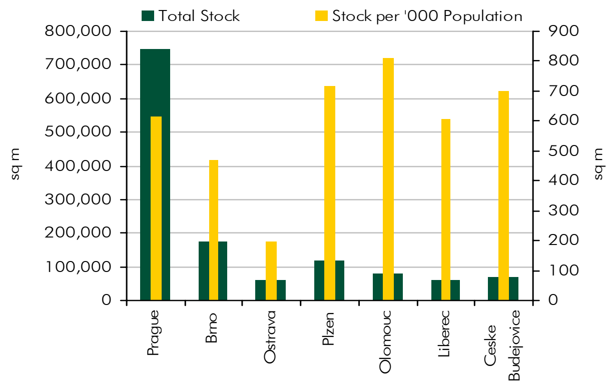
SHOPPING CENTRE DEVELOPMENT IN CZECH REPUBLIC



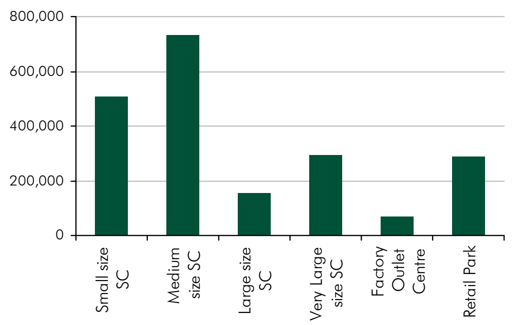
Source: CB Richard Ellis

SHOPPING CENTRE STOCK



Source: CB Richard Ellis

RETAIL STOCK ACCORDING TO TYPE



Source: CB Richard Ellis (based on ICSC definitions)

SHOPPING CENTRE STOCK & NEW SUPPLY

The amount of modern shopping centre (SC) space (with a Gross Leasable Area – GLA of more than 5,000 sq m) in the Czech Republic currently totals ca.1,652,000 sq m. Since the beginning of 2004, the total supply has increased by 74%. Much of the retail growth can be attributed to the accession of the Czech Republic to the EU and resultant strong macroeconomic improvement. The income of Czech households has been rising over the last four years, and it has been further supported by a declining unemployment rate.

Approximately 60,000 sq m of modern SC space was completed in H1 2008 (Galerie Fenix in Prague 9, Zlate Jablko in Zlin, Central Most in Most). Another 194,300 sq m are expected to be completed in the second half of the year. As the graph on the left shows, 2008 is expected to be a record breaking year in terms of new modern SC supply. The sizes of the schemes under construction vary from small to medium size, with a GLA ranging from 10,000 sq m to 25,000 sq m. There is one large scheme, Arkady Pankrac, with a GLA of 45,000 sq m, expected to be completed in H2 2008.

Prague accounts for 45% of the total SC stock in the Czech Republic. 48% of Prague SC are traditional small size schemes followed by 33% of traditional medium size schemes. There are several traditional large schemes with a total GLA of more than 40,000 sq m, almost all of which lie on the outskirts of Prague. With regard to shopping centre location within Prague, at present the majority (40%) of SC supply lies in the Outer City area (in general easily accessible by metro). However, we can see a shift in the past two years with investors trying to secure more premium locations in the Inner City submarkets (26% of Prague SC stock) or City Centre submarkets (34% of Prague SC stock) such as Zizkov, Holesovice or Pankrac. Looking at the projects in the pipeline, this trend is even more visible.

Demand for easily accessible high quality retail space has caused rapid expansions of retail schemes in close vicinity of Prague Metro stations. Similarly, train stations throughout the Czech Republic are being transformed into important modern retail and social centres. This will occur in the form of either revitalization, as seen in Prague with the Main Train Station due to be finalized in 2011, or creation of mixed use office, commercial and residential projects at the location of certain train stations, including examples such as Smichov City or a similar project in Holesovice (Prague Bubny).

Types of retail schemes and their share of the total retail stock in the Czech Republic differ from those in Western Europe. While in Western Europe we see a higher percentage of specialized centres, in the Czech Republic the retail schemes are mainly traditional with a mix of retailers selling a variety of products (fashion, home furnishings, electronics, food and other). Many shopping centres, especially outside of Prague, developed as extensions of existing hypermarkets or supermarkets. The majority of SC schemes (61%) are small and medium size (GLA below 40,000 sq m) with a similar tenant mix in each SC. Looking further into the future, retail schemes in the Czech Republic are likely to become more specialized. However, due to the limited number of international retailers present in the market at the moment, the situation is not expected to change in the short to medium term.

VACANCY

Demand for retail space continues to be high in well-located and strong performing centres. The majority of retail stock brought to the market was fully let upon opening. However, there are evident disparities between shopping centres depending on the location and quality of the scheme. With ambitious modern schemes coming to the market, the shopping centre hierarchy has now become more clear. Tenants in under-performing schemes are looking for more attractive locations, which forces the less successful schemes to review their strategies. We expect some SCs to undergo extensive refurbishments. In order to remain competitive, further extensions of existing projects are also planned (Avion Shopping Park Brno, Futurum Hradec Kralove and Olympia Brno).

RENTS

Rental levels for retail units within shopping centres are dependent on size and location within the scheme as well as on the location within a city or a region. Rental levels in Prague shopping centres range from €30.00 - €70.00/sq m/month for units of less than 100 sq m. Prague prime rent for similar size SC units reached €120.00/sq m/month and we do not expect that this level will be exceeded in H2 2008. Brno shopping centre rents for similar size units range between €25 - €45/sq m/month. Other regional SCs operate at the level of €20 - €38/sq m/month. We believe that continuous strong GDP growth resulting in rising consumer spending puts a pressure on a good performance of retail assets. As a result, rents in strong performing centres are expected to increase.

YIELDS

At the end of H1 2008 the prime shopping centre yields increased by 25-50 bps to the level of 6 - 6,25%. We believe that the shopping centre yields will follow the overall development of yields in the real estate markets and that the situation will become more clear towards the year-end.

OUTLOOK

Despite the increasing saturation of the Prague retail market, four new shopping centres with a GLA of 30,000 sq m or more are planned to be completed by 2010. However, as the competition in Prague and other large cities becomes stronger, developers are searching for new alternatives in smaller markets such as Jihlava, Kladno or Kolin. Since the regional projects have to reflect the smaller population of the regions, the size of the shopping centres in the pipeline ranges from 10,000 to 25,000 sq m of GLA.

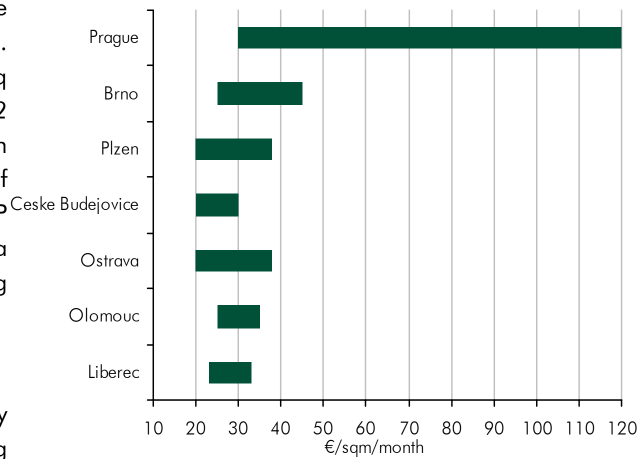
A trend of building factory outlet centres is noticeable in the last five years. In addition to the two already existing outlet centres (Freeport and Fashion Arena) there are two more expected to be completed (Galerie Moda in 2008 and Exit 66 in 2009). The outlet schemes sell brand products that may be surplus stock, prior-season or low selling at discounted prices. It is too early to say what impact the outlet schemes will have on consumer behaviour, but we believe that their success is based on professional management and distinctively reduced prices of merchandise.

SHOPPING CENTRE RENTAL LEVELS IN THE CZECH REPUBLIC H1 2008

Centre Category for units of ca. 100 sq m	From €/sqm/month	To €/sqm/month
Prague Shopping Centre	30	120
Prime Regional Centre	30	45
Secondary Regional Centre	20	30

Source: CB Richard Ellis

SHOPPING CENTER RENTAL VALUES for units of ca. 100 sq m



Source: CB Richard Ellis

SELECTED PROJECTS IN THE 2008 / 2009 PIPELINE - PAN CZECH REPUBLIC

Project name	Size (sqm)	Developer
Arkády Pankrác	45,000	Unibail-Rodamco/ECE
Interspar/shopping mall Jablonec nad Nisou	37,000	CSIA
City Park Jihlava	27,900	PSJ Invest
Forum Ústí nad Labem	22,000	Multi Development
Nisa Liberec – 2nd phase	20,500	ING Real Estate
Forum Liberec	20,000	Multi Development
Palác Pardubice	17,000	Afi Europe

Source: CB Richard Ellis

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Source: CB Richard Ellis

DEFINITIONS

SHOPPING CENTRE STOCK – modern shopping centre (SC) space with a Gross Leasable Area of more than 5,000 sq m

SC SIZE – Small SC (5,000 – 19,999 sq m of GLA), Medium SC (20,000 – 39,999 sq m of GLA), Large SC (40,000 – 79,999 sq m of GLA), Very Large (GLA of 80,000 sq m and above); based on ICSC definitions

RENT – rent negotiated and paid by tenant as a part of the letting, not reflecting the value of any other incentives that they might have negotiated; expressed in Euro per sq m/month

For more information regarding the Market View, please contact:

CZECH REPUBLIC BUSINESS TEAM

MANAGING DIRECTOR
Richard Curran
Richard.Curran@cbre.com

VALUATION
Mikulas Molnarfi
Mikulas.Molnarfi@cbre.com

PROJECT MANAGEMENT
Petr Spacek
Petr.Spacek@cbre.com

RETAIL AGENCY
Tomas Beranek
Tomas.Beranek@cbre.com

Robert Brydone
Robert.Brydone@cbre.com

OFFICE AGENCY
Jan Lovetinsky
Jan.Lovetinsky@cbre.com

GLOBAL CORPORATE SERVICES
Katarina Wojtusiak
Katarina.Wojtusiak@cbre.com

CEE HOTELS
Daniel Koetser
Daniel.Koetser@cbre.com

RESEARCH
Paulina Husova
Paulina.Husova@cbre.com

INDUSTRIAL AGENCY
Filip Kozak
Filip.Kozak@cbre.com

CAPITAL MARKETS
Pavel Schanka
Pavel.Schanka@cbre.com

CEE RESEARCH
Jos Tromp
Jos.Tromp@cbre.com

EMEA Offices

Abu Dhabi
(971) 2 681 4399

Aarhus
CB Richard Ellis
Cederholm A/S
(45) 70 22 9602

Aix-en-Provence
(33) 4 42 60 01 31

Amsterdam
(31) 20 626 2691

Athens
CB Richard Ellis- Atria
(30) 210 360 3667

Barcelona
(34) 93 444 7700

Belfast
(44) 28 9043 8555

Belgrade
(381) 11 222 3407

Berlin
(49) 30 72 61 54 0

Birmingham
(44) 121 609 7666

Bratislava
(421) 2 3255 3300

Bristol
(44) 117 943 5757

Brussels
(32) 2 643 3333

Bucharest
CB Richard Ellis
Eurisko
(40) 21 3131020

Budapest
(36) 1 374 3040

Bulawayo
(263) 9 630 20

Cape Town
Broll Property Group
(27) 21 419 7373

Casablanca
(212) 229 532 50

Copenhagen
CB Richard Ellis
Cederholm A/S
(45) 70 22 9601

Dubai
(971) 4 362 0818

Dublin
(353) 1 618 5500

Durban
Broll Property Group
(27) 31 277 2900

Edinburgh
(44) 131 469 7666

Frankfurt
(49) 69 17 00 77 0

Gaborone
(267) 3188 200

Geneva
CB Richard Ellis
PI Performance
(41) 22 322 80 60

Glasgow
(44) 141 204 7666

Gothenburg
(46) 8 4101 8700

Hamburg
(49) 40 80 80 20 0

Harare
(263) 4 707 101

Helsinki
Realia Management Oy
(358) 207 80 3750

Hoofddorp
(31) 23 565 7700

Istanbul
(90) 212 259 36 29

Jersey
(44) 1534 874141

Johannesburg
Broll Property Group
(27) 11 441 4000

Kampala
(256) 41 345165

Kiev
(38) 44 390 0000

Krakow
(48) 12 626 0168

Leeds
(44) 113 233 7666

Kolding
CB Richard Ellis Cederholm A/S
(45) 70 22 9603

Lisbon
(351) 21 311 4400

Liverpool
(44) 151 227 4611

London
(44) 20 7182 2000

Lyon
(33) 4 72 83 48 48

Madrid
(34) 91 598 1900

Malaga
(34) 95 207 0710

Manchester
(44) 161 455 7666

Marbella
(34) 95 276 5130

Marseille
(33) 4 96 11 46 11

Milan
(39) 02 303 7771

Moscow
(7) 495 258 3990

Munich
(49) 89 2420 600

Nairobi
(254) 20 272 4848

Neuilly sur Seine
(33) 1 46 24 53 46

Oslo
Atrium AS
(47) 40 00 57 66

Palma de Mallorca
(34) 97 145 6768

Paris
(33) 1 53 64 00 00

Port Elizabeth
Broll Property Group
(27) 41 363 5559

Porto
(351) 226 167 240

Poznan
(48) 61 855 1931

Prague
(420) 224 814 060

Pretoria
Broll Property Group
(27) 12 431 7180

Rome
(39) 06 4523 8501

Sofia - Elta Consult AD
(359) 2 987 7647

Southampton
(44) 23 8033 8811

Stockholm
(46) 8 4101 8700

Saint Petersburg
Maris Properties LLC
(7) 812 346 5900

Tel Aviv
M.A.N. Properties Real Estate
Consultants
(972) 3 561 6161

The Hague
(31) 70 750 8900

Thessaloniki
CB Richard Ellis-Atria
(30) 2310 279248

Toulouse
(33) 5 62 72 44 60

Valencia
(34) 96 316 2890

Vienna
(43) 1 533 4080

Warsaw
(48) 22 544 8000

Wroclaw
(48) 71 719 8908

Zagreb
(385) 1 487 8600

Zaragoza
(34) 97 648 4635

Zurich
CB Richard Ellis PI Performance
(41) 44 226 30 00

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