Ostrava Offices

H1 2008

During H1 2008, there was no new supply delivered, however, with the expected completion of the Orchard complex there will be an additional 22,000 sq m coming to the market in the second half of 2008.

Take-up in H1 2008 in Ostrava was only 3,200 sq m.

The overall market vacancy rate in H1 2008 fell to 18%, which is 4 p.p. decrease since 2007.

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

TAKE-UP	↓
VACANCY	↓
RENTS	→

CONTACT

Richard Curran
+420 221 711 026
richard.curran@cbre.com

Paulina Husova
+420 221 711 037
paulina.husova@cbre.com

Jan Lovetinsky
+420 221 711 042
jan.lovetinsky@cbre.com

MARKET IN PERSPECTIVE

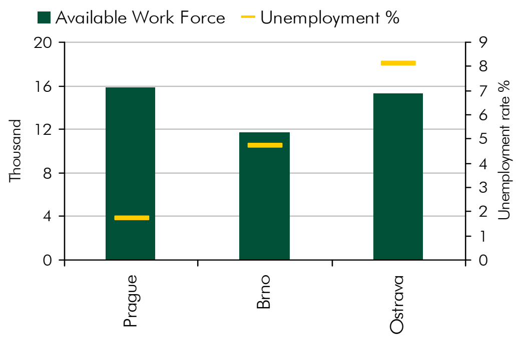
The main metropolis of the Northern Moravia region, Ostrava, is the 3rd largest city in the Czech Republic with a population of ca. 336,000 inhabitants and 1,200,000 people living within a radius of 50 km. Its strategic position close to Poland and Slovakia, and thus proximity to automotive manufacturers and suppliers located within the region is leading manufacturers and logistics providers to move to Ostrava. The city is well linked to the regional airport and important railway lines as well as the D1 highway, which will run through Ostrava upon its expected completion in 2010, and will connect Prague, Brno, Ostrava and Poland. Ostrava is a former mining city quickly transforming into an important commercial and cultural regional centre.

State incentives and EU subsidies are successfully supporting new business opportunities in this region, especially in the fields of manufacturing, business support services and technology/IT. Combined with Ostrava's skilled workforce, with a high number of graduates in the technical and engineering fields, and lower average wages in the Northern Moravia region compared to Brno and Prague, the region has already attracted many international companies, a number of which are active in Business Process Outsourcing (BPO).

Since 2006 Ostrava recorded a sharp rise in office development activity, which further accelerated in 2007. Its total modern office stock increased from 10,000 sq m at the end of 2005 to 74,000 sq m in Q2 2008. The market has significant potential, but is still relatively small and emerging. As a result, each new building completed has a high impact on the total office stock. The high vacancy rate is a common characteristic for emerging markets and it tends to fluctuate greatly.

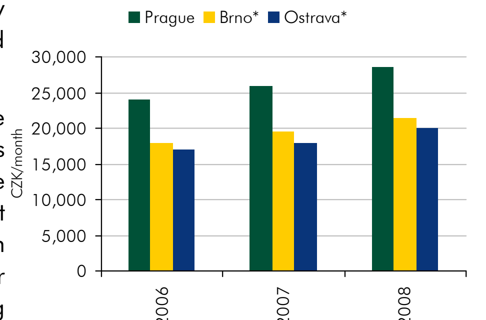
Due to increased activity on the supply side, real rents have remained rather stable. Rents are predominantly denominated in CZK, thus the differences in headline rents in class A buildings (€12.50 in H1 2008 as opposed to €11.50 in 2007) are based on the recent appreciation of CZK. Prime office rents in class A offices have now reached €13.25.

LABOUR MARKET COMPARISON



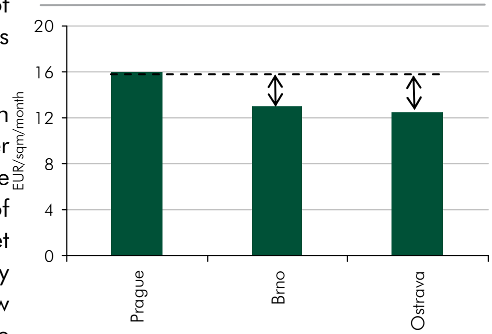
Source: MPSV, CSO

AVERAGE WAGE COMPARISON



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

AVERAGE CLASS-A OFFICE RENT COMPARISON



Source: CB Richard Ellis

H1 2008 INDICATORS

STOCK (sq m)	74,000
SPACE UNDER CONSTRUCTION (sq m)	57,600
TAKE-UP H1 2008 (sq m)	3,200
NEW SUPPLY H1 2008 (sq m)	0
VACANCY	18%
PRIME RENT (€ /sq m/month)	13.25

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SUPPLY

Ostrava's modern office stock (office space in modern, class A/B schemes) currently stands at ca. 74,000 sq m. As the graph to the right shows, office space added to the market in 2006 and 2007 forms ca. 85% of the total office stock in Ostrava. Approximately 50% of total office space is of class A quality. In H1 2008, there was no new supply added to the market, however, with the expected completion of the second phase of the Orchard complex, an additional 22,000 sq m will be coming to the market in H2 2008.

DEMAND

Overall take-up levels in Ostrava have been mirroring the increasing stock coming to the market in 2006 and 2007. The highest take-up in Ostrava was recorded in 2007 with 25,100 sq m taken-up. Take-up in H1 2008 reached 3,200 sq m. However, due to the rise in availability of class A premises upon completion of the second phase of the Orchard project, take-up is expected to increase in H2 2008. A similar pattern of leasing activity as occurred in Brno is evident in Ostrava, where the IT sector was the main driver for demand with a share of 39% of total take-up in 2007 and 55% share of total take-up in H1 2008. With regard to the tenants' origin, approximately 70% of the total leased space in H1 2008 was taken by international companies, which has been a continuous trend since 2006.

VACANCY

As the graph to the right shows, Ostrava's overall market vacancy rate in H1 2008 fell to 18%, which is 4 p.p. decrease from 2007. The vacancy rate for class A office space in H1 2008 was 32%, whereas the vacancy rate in class B buildings stands at 6%. The above-mentioned vacancy rates are comparable with the levels seen in the Brno office market.

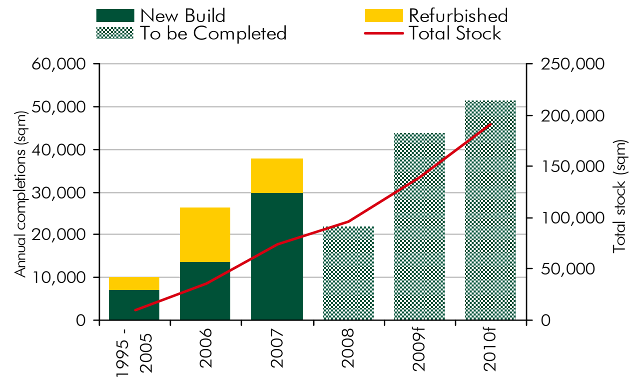
FUTURE SUPPLY

The expected office supply coming to the market in 2009 is ca. 40,000 sq m. Another ca. 50,000 sq m of office space is planned for 2010. However, the real office supply will strongly depend on availability of financing. A considerable development pipeline, including 56,000 sq m of office space, should be completed within the Karolina mixed-use development project over the period of the next eight years. The first phase development with 25,000 sq m of office space is expected to be completed in 2010. We believe that, taken as a whole, the Karolina project will expand the city centre district to the south.

MARKET OUTLOOK

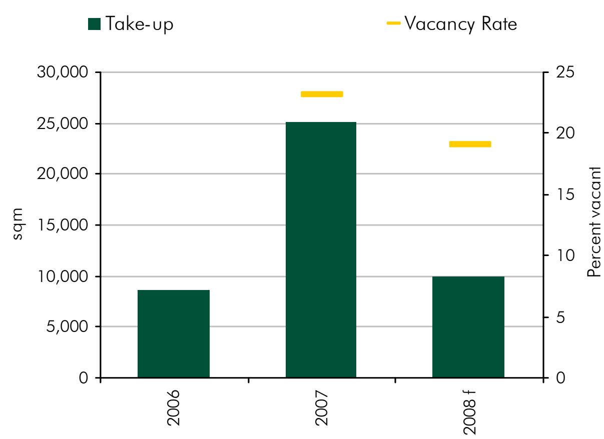
- Development completions in Ostrava in H2 2008 will reach ca. 22,000 sq m.
- Office take-up in Ostrava is expected to increase in H2 2008.
- In H2 2008, the vacancy rate should remain stable at around 18%
- As a result of relatively high vacancy rates, rents are expected to remain stable in H2 2008

OFFICE DEVELOPMENT OSTRAVA



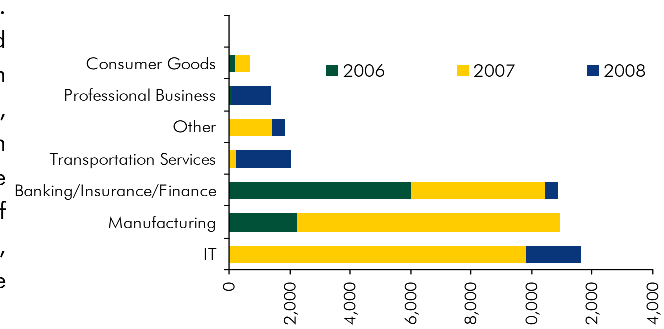
Source: CB Richard Ellis

TAKE-UP AND VACANCY BY SUBMARKET

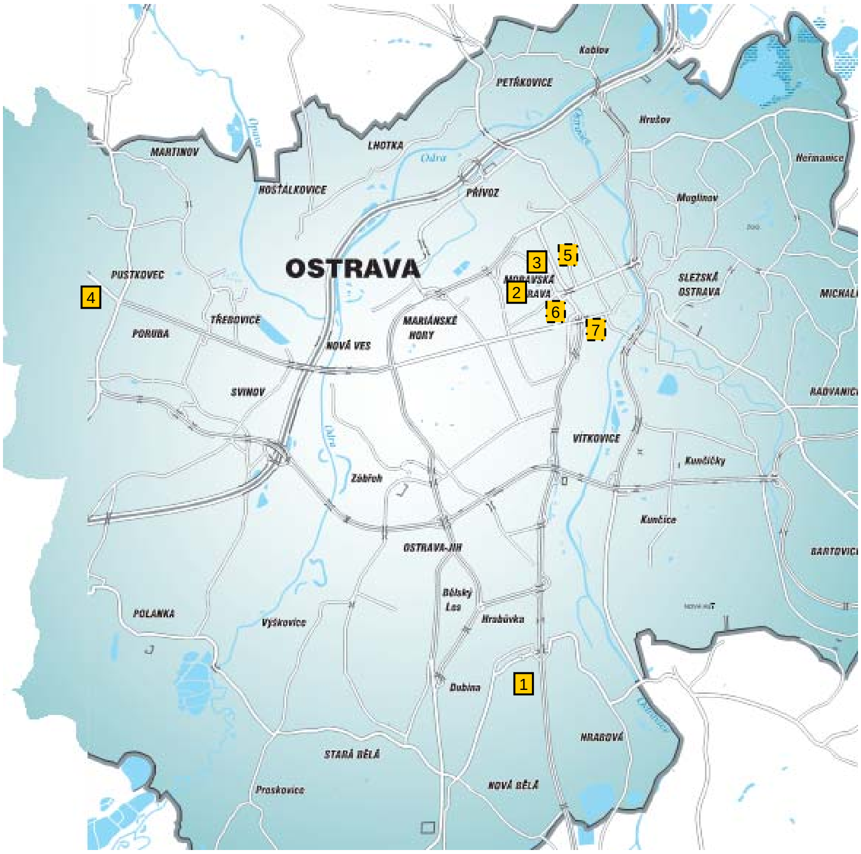


Source: CB Richard Ellis

OFFICE TAKE-UP BY SECTORS



Source: CB Richard Ellis



Existing Projects

1) Axis Office Park
2) Varenska Office Cente
3) The Orchard
4) Science & Technology Park

Planned Projects

5) Nordica Ostrava
6) IQ Ostrava
7) Karolina

Source: CB Richard Ellis

For more information regarding the Market View, please contact:

CZECH REPUBLIC BUSINESS TEAM

MANAGING DIRECTOR
Richard Curran
richard.curran@cbre.com

OFFICE AGENCY
Jan Lovetinsky
jan.lovetinsky@cbre.com

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

INDUSTRIAL AGENCY
Filip Kozak
filip.kozak@cbre.com

VALUATION
Mikulas Molnarfi
mikulas.molnarfi@cbre.com

Robert Brydone
robert.brydone@cbre.com

CEE HOTELS
Daniel Koetser
daniel.koestser@cbre.com

CAPITAL MARKETS
Pavel Schanka
pavel.schanka@cbre.com

PROJECT MANAGEMENT
Petr Spacek
petr.spacek@cbre.com

RETAIL AGENCY
Tomas Beranek
tomas.beranek@cbre.com

RESEARCH
Paulina Husova
paulina.husova@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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