

Industrial market Quick Stats compared to Q3 2009

	Greater Prague	Pan Czech Republic
New Supply	↓	↑
Total leasing activity	↑	↓
Vacancy rate	↓	↗
Rent	→	→

Q4 2009 Hot Topics

- Vacancy rate slightly decreased to 18.6%
- Only 8,100 sq m completed.
- Only 63,400 sq m under construction representing 84% decrease y-o-y
- Total leasing activity reached ca. 115,000 sq m
- Net effective rents ranged 3.00-5.00 EUR/sqm/month.

2009 Hot Topics

- Industrial stock currently stands at 3.11 million sq m with app. 50% located in Greater Prague and 50% in the Pan Czech Republic
- Vacancy rate increased y-o-y by 3.3 p.p.
- 425,000 sq m completed in 2009.
- Speculative construction almost disappeared.
- Rents were subject to regional differences.

ECONOMIC OVERVIEW

The performance of the Czech economy in 2009 generally corresponded with the economic situation in Europe (EU-27). Like Europe as a whole, the Czech economy experienced its sharpest decline in Q1 2009 with a drop of -4.8% y-o-y and -4.4% q-o-q (-4.8% y-o-y, -2.4% q-o-q in EU-27). While Czech y-o-y economic growth was -5.5% in Q2 2009 (-4.9% in EU-27) and -4.1% in Q3 2009 (-4.3% in EU-27), the Czech economy actually grew in both Q2 2009 (+0.2% q-o-q) and Q3 2009 (+0.8% q-o-q). The downturn was caused mainly by external factors. The fall in foreign demand hit Czech industry strongly. Industrial production contracted as industrial orders fell, construction activity decreased considerably and retail trade declined due to weak domestic demand, which was caused by the weaker labour market. On the other hand, the Czech koruna (CZK) slowly recovered from significant depreciation at the beginning of 2009 and inflationary pressures remained minimal due to low demand and low commodity prices. Although the Czech economy has already started to show signs of recovery, the level of growth in 2010 and beyond remains uncertain and depends mainly on the sustainable recovery of foreign demand.

The Czech labour market deteriorated throughout 2009 and the registered unemployment rate as measured by the International Labour Organisation (ILO) reached 7.4% in Q3 2009. The labour market will probably continue to weaken in 2010, although at a slower pace than in 2009. Despite the substantial growth in the unemployment rate in 2009, the Czech Republic's unemployment rate remained among the lowest in the EU-27.

Inflation at the end of October dropped by 0.2% y-o-y and reached its lowest point since 2003. The forecast average inflation rate in 2009 is 0.8% y-o-y and is expected to remain at a low level also in 2010.

The Czech National Bank (CNB) cut its interest rates in December 2009 for the fourth time in the last 12 months. The 2W Repo rate currently stands at its historical low of 1%. With this rate decrease, the CNB brought the 2W Repo Rate into line with the ECB main rate, which has remained at 1% for the last few months.

The Czech economy is now encountering a problem of a high budget deficit, which is estimated to have reached 6.6-6.9% of GDP (CZK 192,4 billion) for 2009, in comparison with a planned deficit of 1.5% of GDP (CZK 38,1 billion). However, the situation is similar in other European countries.

Key Economic Indicators

	2006	2007	2008	2009*	2010*
GDP growth (% real change pa)	6.1	6.1	2.7	-4.2	1.4
Recorded unemployment rate (%)	7.7	6.6	5.5	8.1	9.6
Inflation (CPI), y-o-y avg. (%)	2.5	2.8	6.3	0.8	2.2
Current-account balance/GDP	-3.1	-3.2	-3.1	-1.5	-2.1

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

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DEVELOPER-LED WAREHOUSING AND LOGISTICS MARKET IN THE CZECH REPUBLIC

The 2009 industrial market experienced a difficult year as it was strongly affected by the global economic downturn. However, signs of revival were witnessed in the second half of the year – in both Q3 and Q4 demand for modern warehouse space exceeded 100,000 sq m and the vacancy rate started to decrease at the end of the year. Only the next quarters will show if this trend continues.

- **Total leasing activity in Q4 exceeded 100,000 sq m again**

In Q4 2009, total leasing activity stabilized across the entire Czech market and reached ca. 115,000 sq m, a slight decrease by 4.6% q-o-q. But, in Q4 2009, the net take-up made up 76% of the total leasing activity and reached 87,000 sq m, representing an increase by 33% q-o-q.

For all of 2009, total leasing activity reached ca. 380,000 sq m, representing half as much as in 2008 and the lowest amount since 2006.

- **Only 8,000 sq m completed in Q4**

Contrary to the three-year quarterly average new completions of 150,300 sq m, in Q4 2009, only 8,100 sq m in one hall was completed.

In 2009 as a whole, thanks to the strong construction activity at the beginning of the year, the overall industrial stock increased by 15% y-o-y with ca. 425,000 sq m of modern warehouse space completed in 2009.

- **Space under construction down by 84% y-o-y**

At the end of Q4 2009, ca. 63,400 sq m of modern warehouse space in five halls was under construction, representing an increase by 52% q-o-q, but a significant decrease compared to the 390,000 sq m that were under construction at the end of Q4 2008.

Construction activity through 2009 was very weak compared to previous years. Whereas in the years 2006-2008 the average amount of space under construction in one quarter reached 549,000 sq m, in 2009 the average was only 83,000 sq m. But in 2009, speculative construction almost disappeared – only 15.4% of space was speculatively under construction by the end of 2009.

- **Vacancy rate slightly decreased in Q4**

In Q4 2009, the low amount of new supply was absorbed by the market. Net absorption reached 14,500 sq m exceeding new supply meaning overall vacancy slightly decrease to 18.6%.

During 2009, some tenants vacated their premises or downsized their operations and this fact in combination with the significant decrease in leasing activity caused the vacancy rate to increase 3 p.p. y-o-y.

- **Rents were subject to regional differences**

As of 2009 year end, net effective rents ranged 3.00-5.00 EUR/sqm/month, however, they were subject to regional differences.

In 2009, a slight decrease in net effective rents was monitored across the whole Czech Republic, but a more significant drop was witnessed in the more competitive regions.

Q4 2009 Indicators

	TOTAL	GREATER PRAGUE	PAN CZECH REPUBLIC
Stock (sq m)	3,311,000	1,619,000	1,692,000
Space under construction (sq m)	63,400	7,800	55,600
Total leasing activity (sq m)	115,000	60,000	55,000
Vacancy rate	18.6%	17.9%	19.2%
Existing vacant space (sq m)	615,000	291,000	324,000
Net absorption (sq m)	14,500	5,900	8,600
New completions (sq m)	8,100	0	8,100
Net effective rents (EUR/sqm/month)	3.00-5.00	3.50-5.00	3.00-4.50
Prime industrial yield	8.75%		

SUBMARKET 1 – GREATER PRAGUE

In Q4 2009, total **leasing activity** in the Greater Prague Area reached 59,800 sq m; a slight increase 5% q-o-q but a significant drop by 27% y-o-y. In Q4 2009, net take-up significantly grew compared to Q3 2009 (representing 73% of leasing activity compared to 40% in Q3 2009).

In Q4 2009, **net absorption** reached 5,900 sq m and the **vacancy rate** slightly decreased to 17.9%.

In Q4 2009, no new industrial hall was **completed** in Greater Prague and only 7,800 sq m of modern warehouse space was **under construction** (two halls in Prague North/Northeast), which represented a decrease of 95% y-o-y in space under construction.

In **2009**, total leasing activity reached 224,000 sq m – almost half the 2008 leasing activity. In 2009, 227,000 sq m of modern warehouse space was completed out of which ca. 84% was leased at the end of the year. But, the amount of 2009 new supply exceeded the 2009 net absorption (146,000 sq m) leading in vacancy rate growth by 4.4 p.p. y-o-y.

SUBMARKET 2 – PAN CZECH REPUBLIC

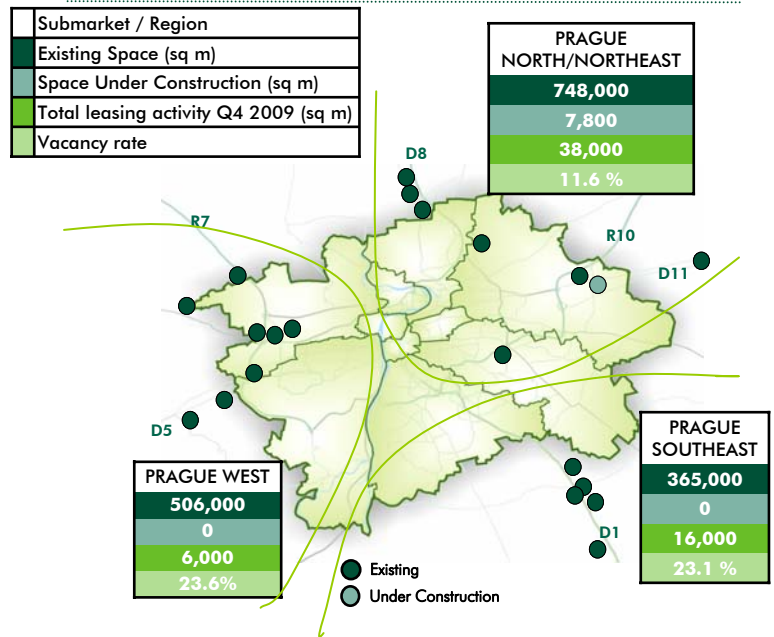
Regional markets were active for the second consecutive quarter with total leasing activity of 55,200 sq m in Q4 2009 (an increase 45% y-o-y). Almost half of Q4 2009 total leasing activity took place in the South East. Net take-up represented 79% of total leasing activity (growth compared to 67% in Q3 2009).

In Q4 2009, **net absorption** was in line with new supply meaning the **vacancy rate** stood still at 19.2% q-o-q.

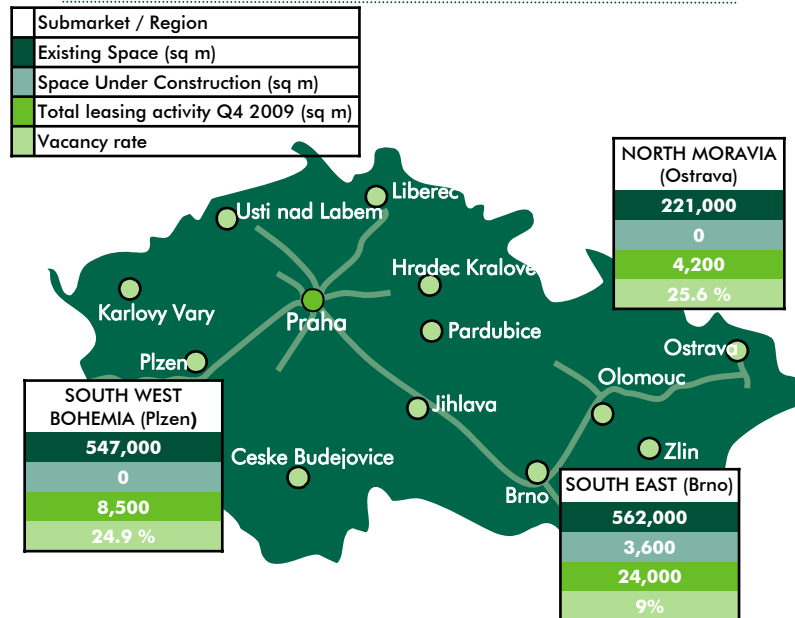
In Q4 2009, only 8,100 sq m of fully pre-leased space in one hall was **completed**. As of Q4 2009, 55,600 sq m was **under construction** out of which more than 94% was already pre-leased. But still, the amount of space under construction decreased by 76% y-o-y.

At the beginning of **2009**, regional markets experienced a more significant downturn compared to the Greater Prague area leading to only 38,000 sq m being leased in H1 2009 and to the growth of the vacancy rate to more than 20% as of H1 2009. However, in H2 2009, the demand for modern warehouse space in regions revived - the H2 2009 total leasing activity more than three times exceeded the amount of leased space in H1 2009; the vacancy rate decreased during H2 2009 but still, the 2009 total leasing activity was less than half of 2008 amount. In 2009, ca. 200,000 sq m was completed (less than in the Prague area) representing a decrease 54% y-o-y.

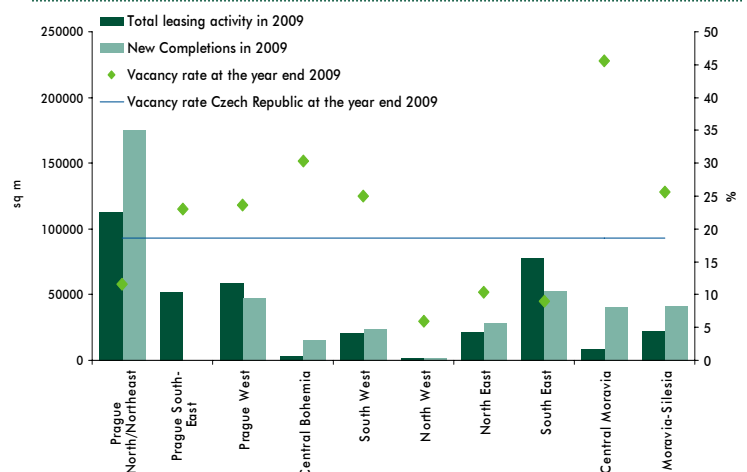
Warehouse & Logistics Space in Prague



Warehouse & Logistics Space in Czech Republic



Regional markets in 2009



Note: Pan-Czech Republic submarkets according to NUTS 2 regions

OWNERS OF DEVELOPER-LED WAREHOUSE SPACE

The first pie chart clearly shows that the Czech Republic's industrial property market is largely controlled by a handful of specialized industrial developers.

VGP was the most active developer in terms of new construction as its share grew from 8% in 2008 to 14% in 2009.

In terms of total leasing activity, the dominance of the three largest developers is significant – they gained 67% of the market. In 2009, ProLogis was the most successful developer in terms of total leasing activity with 28% of market share (increase from 15% in 2008), followed by VGP with 20% share (a decrease from 27%) and CTP with 20% (a fall from 22%).

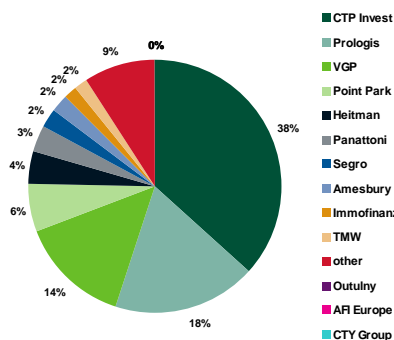
2010 OUTLOOK

- We believe the year 2010 will be as difficult as 2009 for all types of companies active on the industrial market.

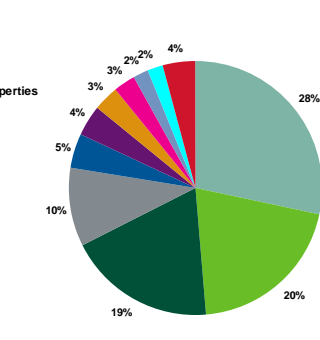
In 2010, we expect:

- developers to mainly focus on leasing of their existing stock instead of construction of new halls;
- very limited new space to be built on speculative basis; if developers start construction for specific tenant, it is only in case of long-term lease in prime location;
- rents not to dramatically change; the development of rents is connected with the demand – if demand remains low, we do not expect huge changes in rental levels; on the other hand, in the case of very strong demand and the lack of sufficient modern warehouse, we believe rents may grow;
- vacancy rate to slowly decrease due to limited 2010 supply;
- no new foreign developer to enter the Czech Republic market;
- lease renegotiations to continue as tenants are interested in cost savings, more flexible leases or downsizing of their current premises;
- the reemergence of foreign companies relocating to the Czech Republic as a cost saving exercise.

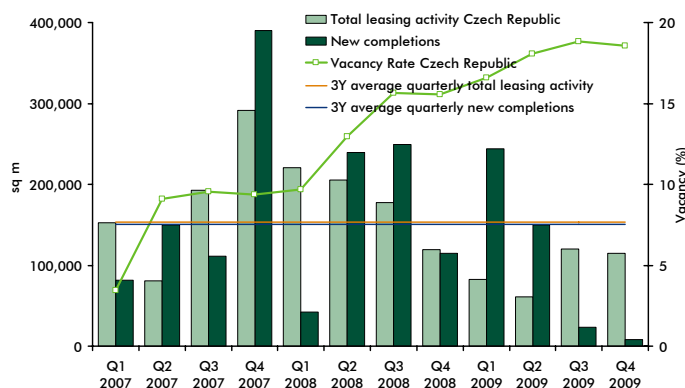
Ownership Share – existing stock as of 2009



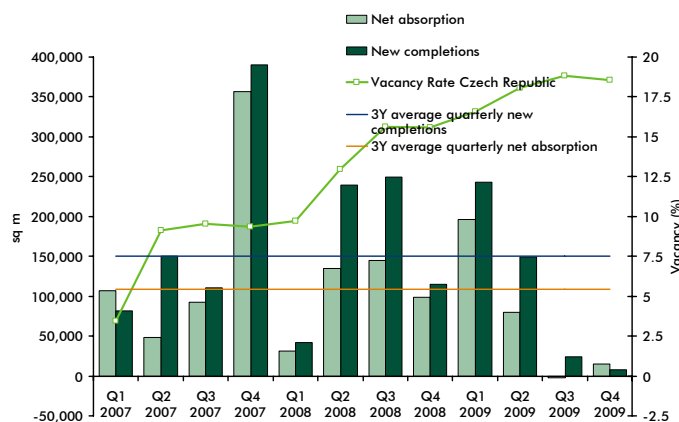
Ownership Share – 2009 Total leasing activity



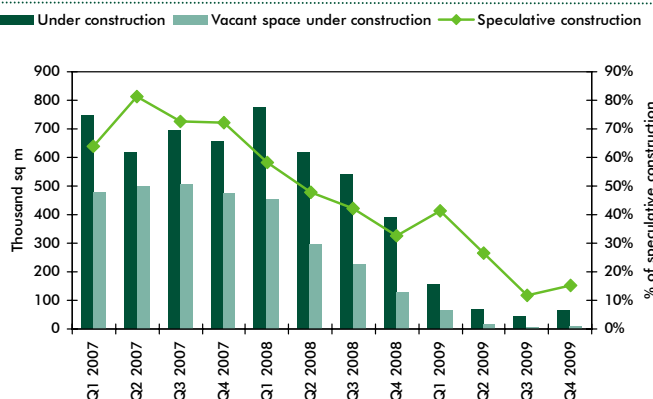
Industrial Market Trend (incl. Total leasing activity)



Industrial Market Trend (incl. Net Absorption)



Speculative construction



Selected Public Industrial Transactions, Q4 2009

Tenant name	Project name	Submarket*	sq m
Kwesto	CTPoint Jihlava	2	7,100
Brose	CTPark Novy Jicin	2	4,800
Laconex	VGP Park Horni Pocernice	1	3,100
Leoni	D5 Logistics Park	2	2,400
Potten & Pannen	IOG Cestlice Industrial Park	1	2,000

* Submarket 1 – Greater Prague Area, Submarket 2 – Pan Czech Republic

Rental levels in the Czech Republic



Definitions

STOCK – warehousing space in modern, Class-A, developer-led schemes

VACANCY RATE – a ratio of vacant warehouse space to total stock

TOTAL LEASING ACTIVITY – total warehouse space that has been leased in a given period (does not include temporary deals, which are less than 1 year); defining moment is the signature of legally binding document such as future agreement/lease agreement.

NET TAKE-UP – total leasing activity in a given period minus leases signed in which a tenant stayed in the same warehouse space (i.e. lease renewals, lease extensions, lease renegotiations).

UNDER CONSTRUCTION – developer-led warehouse space currently being developed

NET ABSORPTION – the change in occupied stock within a market during the survey period; the main factors that cause the net absorption and take-up to be different are lease extensions, pre-leases signed in previous survey period, tenants moving between existing premises or tenants leaving the industrial market.

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