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MarketView

Czech Rep. Property Investment

H1 2011

Quick Stats

	Change from H1 10	Change from H2 10
Investment Volume	↑	↑
Prime Yields	↓	↓
Number of deals	↑	↓

Prime Yields

	H1 2011
Office	6.50%
Shopping Centres	6.50%
Industrial	8.25%

Hot Topics

- In total, €723 mln was invested in H1 2011.
- Investment activity in industrial and retail sectors increased. There is renewed interest in the regions.
- Foreign investors returned to the market with a share of 83% of total investment turnover.

H1 2011 - the expert's point of view

Stuart Bloomfield, Head of Capital Markets Czech Republic: "There are a number of extremely encoraging indicators showing the recovery within property investment in the Czech Republic, most noticibly the total investment volumes which may reach EUR 2 bln by year end. The diversification of the market in terms of investor nationality, market sector and activity within the regions are further evidence of an increasingly healthy market."

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GENERAL

• Investment activity improved, H1 2011 more succesful than 2010 as a whole

Investment activity started on the path to recovery in H2 2010 and continued in H1 2011. The total investment volume of ca. EUR 723 million transacted in the first half of 2011 already exceeded the total invested in 2010 as a whole. The increase in investment turnover reflects a shift of investors' attention from core European markets. Investors appear to perceive the Czech market as less risky and furthermore offering an opportunity for portfolio diversification. In H1 2011, eight transactions were closed, dominated by the sale of the VGP and Europolis portfolios.

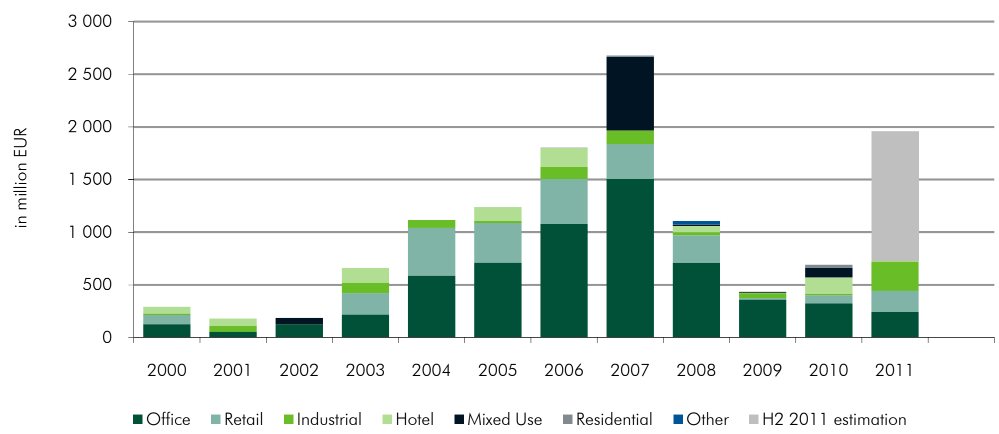
• Office sector lost its historical dominance , other sectors increased markedly

Office premises historically account for the largest share of investment turnover. During H1 2011 the office sector was surpassed by industrial investment volume (EUR 280 million) which accounted for 39% of total volume. Office and retail transactions accounted for 34% (EUR 244 million) and 28% (EUR 199 million) of total volume respectively. The increasing volume of industrial and retail transactions as well as signs of resuming investment activity in the regions indicate that investors are tending to be less risk averse, a trend which began to show towards the end of 2010.

• Attention of foreign investors returned in H1 2011

The importance of local buyers increased dramatically through the recession, however with the shift of attention from core European markets, the interest of foreign investors returned in H1 2011 and they accounted for 83% of total transaction turnover. UK investors dominated with a total volume of EUR 280 million (share of 39%), followed by Austrian investors (EUR 248 million, 34%) and German investors (EUR 75 million, 10%). Czech purchasers were responsible for 17% of total transaction turnover (EUR 120 million) and their attention concentrated on retail.

Annual Investment Volume in Czech Republic 2000 – 2011



Source: CB Richard Ellis

OUTLOOK

• With investors focus having shifted more towards Germany and CEE countries, especially those linked to the German economy, we believe investment activity in 2011 could exceed EUR 2 billion. The main focus in 2011 will remain on prime property with secondary assets seeing minimal yield corrections.

• The office sector will remain the centre of investors attention but investment in more diverse asset classes as seen in H1 2011 is expected to continue.

• Czech prime yields for office and retail now stand at 6.50% (a drop of 25 b.p. compared to H2 2010). Yields have compressed for the third time since the beginning of 2010 after a long period of stagnation from Q1 2009 to Q1 2010. Yields in the Czech Republic are still close to the cyclical peak and we therefore expect to see continued yield compression in all sectors throughout 2011 and continued into 2012.

•Occupier markets have resumed their activity and are strengthening further; however, the Czech industrial market see high level of renegotiations.

• A lack of stock resulting from low development activity since 2009 can affect investment volumes in 2011 to a certain extent. However, a number of construction projects commenced in 2010 with completion expected at the end of 2011 or 2012.

• Sustainability certification importance continues to increase whether selling or leasing a building.

• The positive influence of low supply in maintaining rental values is expected to continue. Prime Prague rental levels remained stable across all sectors in H1 2011.

• In the main European markets, yield shifts were modest, with investors continuing to assess pricing very closely, and investment turnover moderating. The industrial market saw the largest yield reduction over the quarter (22 bps), while office and retail yields each saw declines of five basis points or less.

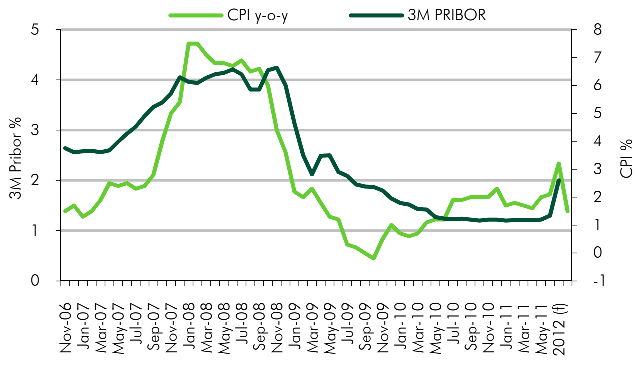
• In the main European markets, retail rents rose by an average of 1.7% in Q2 2011, office rents were stable and industrial rents eased very marginally.

• German Open-ended Funds saw close to €24 million net withdrawals in May 2011. While this is a third consecutive quarter of net outflows, sentiment is noticeably less negative than for instance March when almost €450 million was withdrawn. Another fund re-opened and some re-openings may be on the horizon as the two-year deadline is approaching. As at mid-July – 12 German Open-ended Funds were frozen to redemptions. With €24.3 billion of funds under management, they account for 28% of the sector between them. Of the twelve funds, four are in liquidation and eight temporarily closed to redemptions.

Taxes in the Czech Republic

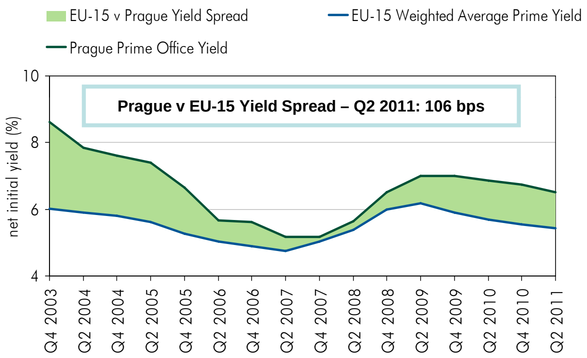
Corporate Tax	19%
VAT	10% / 20%
Property Transfer Tax	3% of the selling price
Property Tax	Nominal

Inflation and Interbank Market Rates



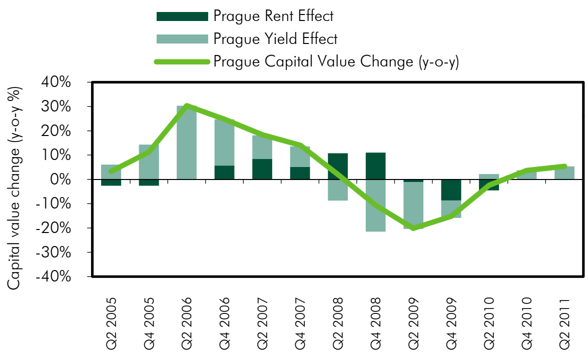
Source: UniCredit Bank

Prague vs. EU-15 Prime Office Yield



Source: CB Richard Ellis

Prague Prime Office Capital Value Movement



Source: CB Richard Ellis

SELECTED H1 2011 INVESTMENT TRANSACTIONS:

• CA Immo acquired almost 200,000 sq m of office and retail space in the Czech Republic from Europolis for a price of ca. €234 million.

• EPISO acquired a logistics portfolio of approximately 370,000 sq m focused around Prague from VGP for ca. €280 million.

• CPI acquired two shopping centres Olympia Teplice and Olympia Mlada Boleslav from CA Immo and Union Investment for ca. €55 million and ca. €42 million respectively.

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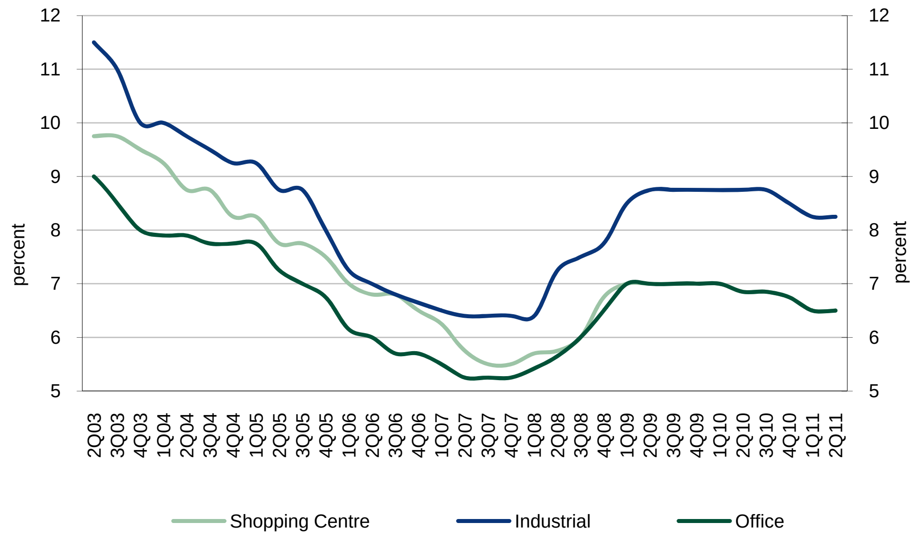
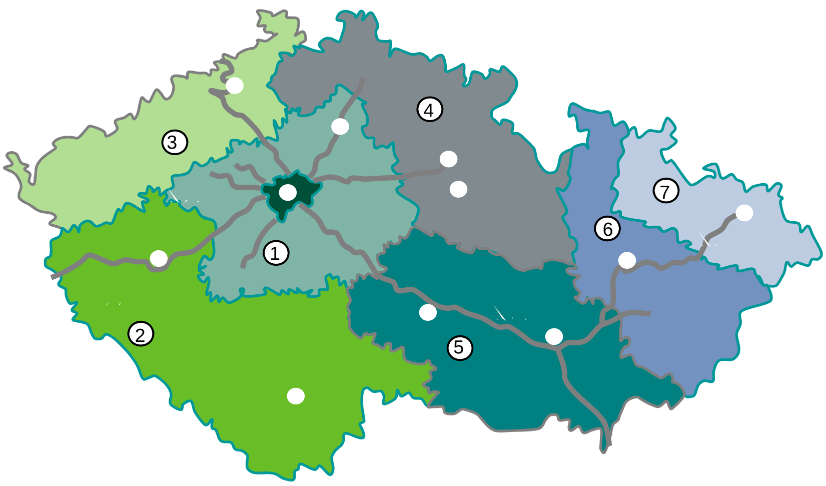
Prague Prime Yield Development



Source: CB Richard Ellis

Czech Republic Map



1 – Central Bohemia
2 – South West
3 – North West
4 – North East
5 – South East
6 – Central Moravia
7 – Moravia-Silesia

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