

Czech Rep. Property Investment

H1 2010

Quick Stats

	Change from	
	H2 09	H1 09
Investment Volume	↓	↑
Prime Yields	↓	↓
Number of deals	↑	↑

Hot Topics

- In total, €196 mln was invested in H1 2010.
- Local investors were responsible for the largest transactions.
- 75% of all investment activity occurred within the office sector.

H1 2010 - the expert's point of view

Stuart Bloomfield, Head of Capital Markets Czech Republic: "Buyers are still selective however the discrepancy in the expected pricing levels of vendors and potential investors appears to be narrowing further. Since the beginning of the crisis we have only seen vendors pricing expectations softening in order to achieve sales. As of the end of H1 2010 yields for prime office and retail properties have experienced a modest decrease by 15 basis points. This is the first decrease after five consecutive quarters indicating buyers are willing to be more competitive to achieve successful purchases."

GENERAL

- **Investment activity in 2010 recorded better start than in 2009**

Investment turnover in H1 2010 was lower than in H2 2009, however this is in line with the historical trend. It is normal for lower volumes during H1 with an increased level in H2. The important comparison is that total investment turnover in H1 2010 (ca. €196 million) more than doubled when compared to the first half of 2009 (ca. €73 million) indicating a significant upturn. In H1 2010, twelve transactions were closed, with the sale of City Empiria being the largest transaction.

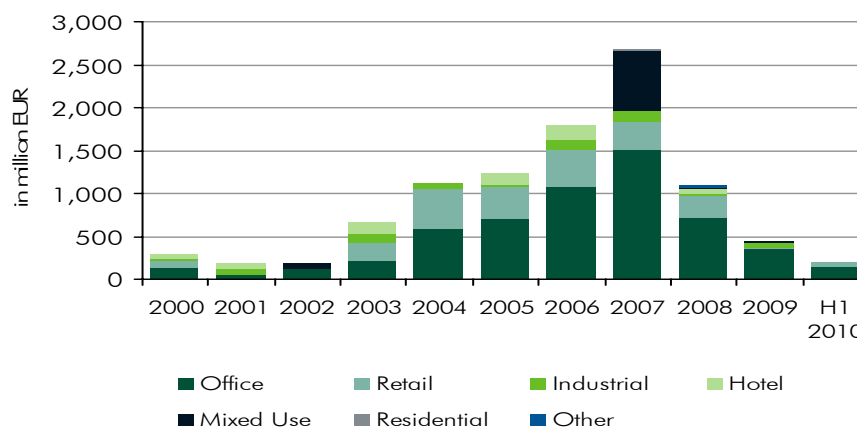
- **Office premises continue to be the most demanded sector in H1 2010**

Investment turnover for office premises amounted for €149 million in nine office transactions, which represents a 76% share of H1 2010 total investment turnover. As all office transactions took place in Prague, the numbers also confirm that Prague remains the most attractive location. The only other transacted sector was retail, with a total volume of €47 million in three retail transactions, all of which were located outside Prague.

- **Local investors dominated the Czech real estate market**

In H1 2010, local investors were responsible for the largest investment transactions, with a transacted volume amounting to €157 million (80%) of total transaction turnover. From foreign investors, Austrian were the most active, accounting for 17% of total investment turnover.

Annual Investment Volume in Czech Republic 2000 – H1 2010



OUTLOOK

- The prime rents and yields across Europe remained broadly stable in the second quarter of 2010. Due to the downward pressure in some of the major European centre's, prime yields are 30-50 basis points lower than a year ago. The performance of the wider European capital markets provides a valuable insight into the direction of the Czech real estate investment market.
- The CB Richard Ellis office yield index for the EU-15 fell by 4 basis points in the second quarter of 2010, however falls in yields are confined only to prime properties.

- Foreign investors started to view the Czech Republic and Poland separately from the rest of CEE, which was visible through yield compression in most of the sectors in Q2 2010.

- The first six months proved that when institutional type product comes to the market, there are buyers whose expectations are close to prime yields. As such, we expect to see an increasing level of investment activity from institutional and equity investors in the second half of 2010.

- May net inflows into German open-ended funds hit negative figures of – €1.44 billion. The uncertainty over the New German Investment Act proposal is making it difficult for the GEOFF sector to implement short-term strategies. Falling liquidity levels forced another round of temporarily closures, with 11 funds closed to redemptions in mid June 2010.

- Occupational markets are still slow, with a lower number of lease transactions and a high share of renegotiations. Prime office rents remained stable in the majority of European cities in Q2 2010, with the CB Richard Ellis EU-15 Rent index increasing by 0.5% quarter-on-quarter. Preference for income security through longer unexpired lease terms is evident.

- A lack of stock is expected to effect investment volumes throughout 2010 and increase competition and perhaps lower yields during competitive tenders. Prague’s office pipeline has been significantly reduced with only a relatively low level of supply in 2010-11 expected.

- Conversely this is expected to be a positive factor in maintaining rental values.

- Sustainability certification is becoming increasingly important whether selling or leasing a building.

- We expect investors to continue to focus on latent CGT liabilities and discount offers accordingly.

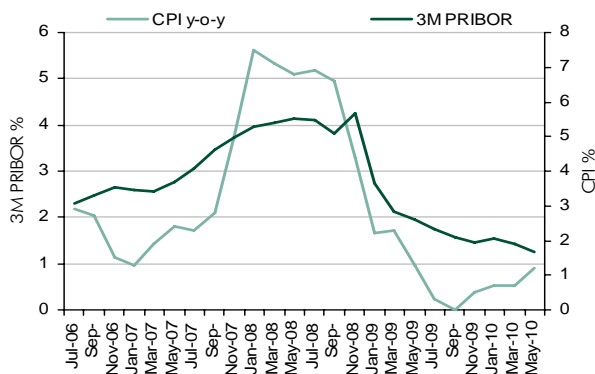
- Investment in riskier secondary properties will remain low, largely dependant upon availability of opportunities. Secondary values are expected to remain weaker for longer.

Taxes in the Czech Republic

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

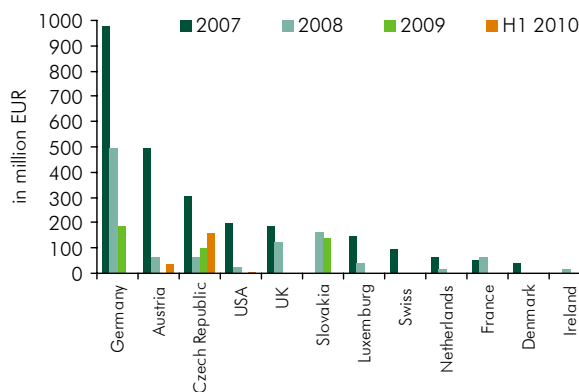
* Rates valid since 1st January 2010

Inflation and Interbank Market Rates



Source: UniCredit Bank

Activity Top 10 Investor Nationality



Source: CB Richard Ellis

SELECTED H1 2010 INVESTMENT TRANSACTIONS:

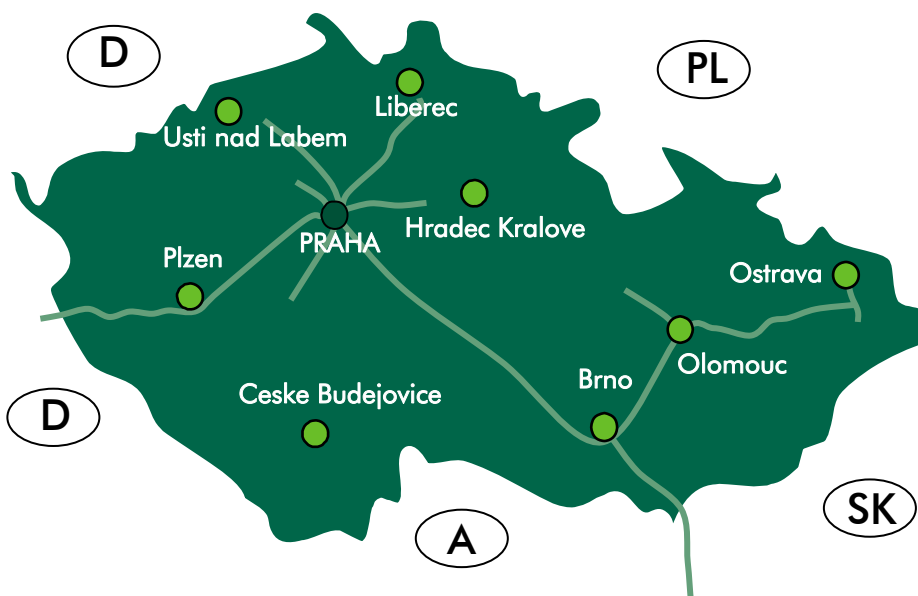
- PPF Generali acquired City Empiria, ca. 22,600 sq m of office space in Pankrac in Prague 4 from ECM. The price is believed to be around €71.5 million.
- Hypo Real Invest AG acquired Vysehrad Victoria in Vysehrad in Prague-Nusle for approximately €13.7 million. The size of the office premises totals 5,180 sq m.
- Hypo Real Invest AG acquired Andel City SO 16+17 with ca. 6,500 sq m of office space in Prague 5 from UBM for ca. €17.5 million.
- CPI acquired a retail portfolio in Litomerice and Mlada Boleslav for a combined price of approximately €41.4 million from JTH group.

Prime Yields

	2008	2009	H1 2010
Office	6.50%	7.00%	6.85%
Shopping Centres	6.75%	7.00%	6.85%
Industrial	7.75-8%	8.75%	8.75%
Hotel	7.50%*	8.25%	8.5%

* Capitalisation rate based on stabilised trading year

Czech Republic Map



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