

18. Property Market

The Czech property market is increasingly attractive for foreign investors due to the fact that the availability of space for production facilities has been boosted by a major government programme designed to support the construction and development of industrial zones, brownfield regeneration and development of speculative buildings, premises for R&D and shared-services centres. Major international and Czech developers are still seeking opportunities for development of industrial, logistics and business parks.

INDUSTRIAL REAL ESTATE AND WAREHOUSE MARKET

In 2009 the market was influenced by a drop in demand, with the majority of developers suspending speculative development. The industrial market could react very quickly to changed market conditions, with new supply dropping already in 2009 and then further in 2010 to 186,000 m². So far in 2011 ca. 51,000 m² were completed.

Total stock of modern A-class developer-led logistics and industrial space amounted to 3.647 million m² at the end of Q2 2011. There is currently ca. 242,000 m² of modern class-A warehouse space under construction, of which ca. 13% is not pre-leased. Roughly 173,000 m² of warehouse space could still be completed this year.

The vacancy rate remained almost stable at 8.6% compared to 8.92% in the previous quarter, however on annual basis it decreased considerably from 15.9% recorded in Q2 2010. A total of 314,000 m² of modern warehouse space was vacant at the end of the first half of the year.

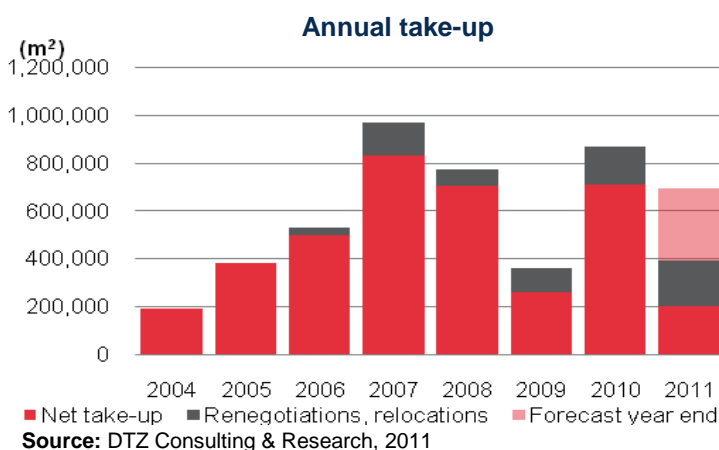
Vacancy decreased mainly in West Bohemia and in Moravia-Silesia although only marginally, in most other submarkets it remained stable. Until the end of the year a continued modest decrease in vacancy rates is expected.

After a drop in demand recorded already in 2009, 2010 saw signs of recovery with gross take-up reaching 867,000 m² and net take-up excluding renegotiations amounting to 707,000 m² (an increase of 171% compared to 2009 net take-up). In the first half of 2011 so far gross take-up of 392,600 m² was almost the same as recorded in H1 2010, while net take-up of 198,300 m² was 37% lower than in the same period last year. The results confirm that landlords succeed in retaining tenants, there have been practically no relocations within the stock. The activity of new occupiers who are expanding and moving from older premises to modern warehouse space or those who are entering the Czech market is slowing down considerably.

Occupational activity concentrates mainly in the Greater Prague area, South Moravia and West Bohemia. 3PL companies dominated take-up in 2011 due to several large renegotiations, followed by end-users and manufacturing companies. The median deal size in Czech Republic amounts to cca 5,000 m².

DTZ predicts total take-up in 2011 could reach between 600,000-700,000 m². Due to the lower availability of space in most of the submarkets, this is also putting upward pressure on rental levels.

Headline rents for modern logistics space have remained stable at €3.6-4.3 per m²/ month. It is forecasted that prime headline rents will increase towards year-end to around €4.40 per m² per month.



Key Industrial Market Indicators in the Czech Republic

Year	New supply	Gross take-up
2005	343,900	381,000
2006	543,000	527,600
2007	912,400	967,100
2008	711,500	773,700
2009	443,000	361,000
2010	186,000	867,200
2011	51,000	392,600

Source: DTZ Consulting & Research, 2011

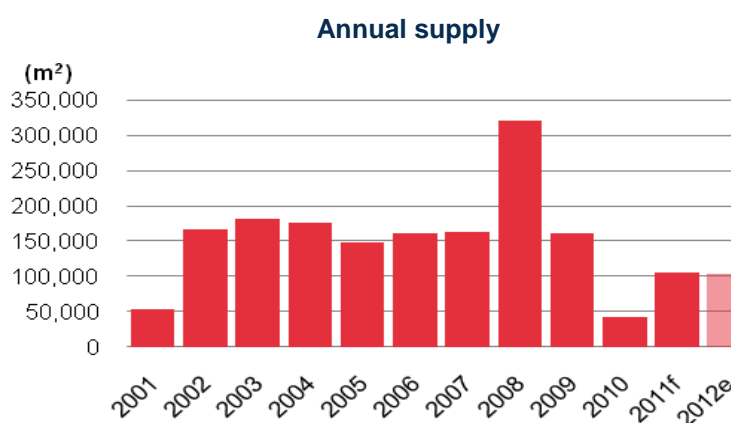
OFFICE MARKET

After the record-breaking year of 2008, when the supply of new office space reached 321,000 m², 2009 brought only 162,000 m² to the market. Affected by the slowdown in demand and tougher financing conditions development activity almost halted resulting in new supply of 42,000 m² in 2010. This was the lowest new supply since end of 2001.

Total office stock in Prague reached 2.715 million m², in Q2 2011, made up of 32% B class properties and 68% A class, first hand and second hand. In the first half of 2011 new supply totalled 19,600 m². For the remainder of the year DTZ forecasts the completion of ca. 86,400 m², which will add up to an annual supply of 106,000 m². This is two and half times more than in 2010, but still significantly below the averages of the years 2002-2009. DTZ has revised the forecasts for supply pipeline in 2012 downwards and expects ca. 103,400 m² to be completed.

In total, there are ca. 322,000 m² of office space vacant. The vacancy rate decreased on an annual basis by 1.6 p.p. from 13.2% in Q2 2010 to 11.9% in Q2 2011.

In the first half of the year 2011 gross take-up amounted to 173,000 sq m, 78% more than in H1 2010, net take-up reached 120,929 sq m, one and half times more than in the same period of 2010. Companies from the finance and banking sector followed by professional services companies were most actively leasing or renegotiating space in the first half of 2011, closely followed by IT companies, who have lead the take-up charts last year. Leasing activity concentrates mainly into districts of Prague 4, primarily area of Pankrác as well as Michle, followed by Prague 5.



Prime rent (EUR/m²/month)

Location	Prime headline rent (EUR/m ² /month)
Prague	
Prague city centre	20 – 21.00
Inner city	15 – 17.50
Outer city	13– 14.50

Source: DTZ Consulting & Research, 2011

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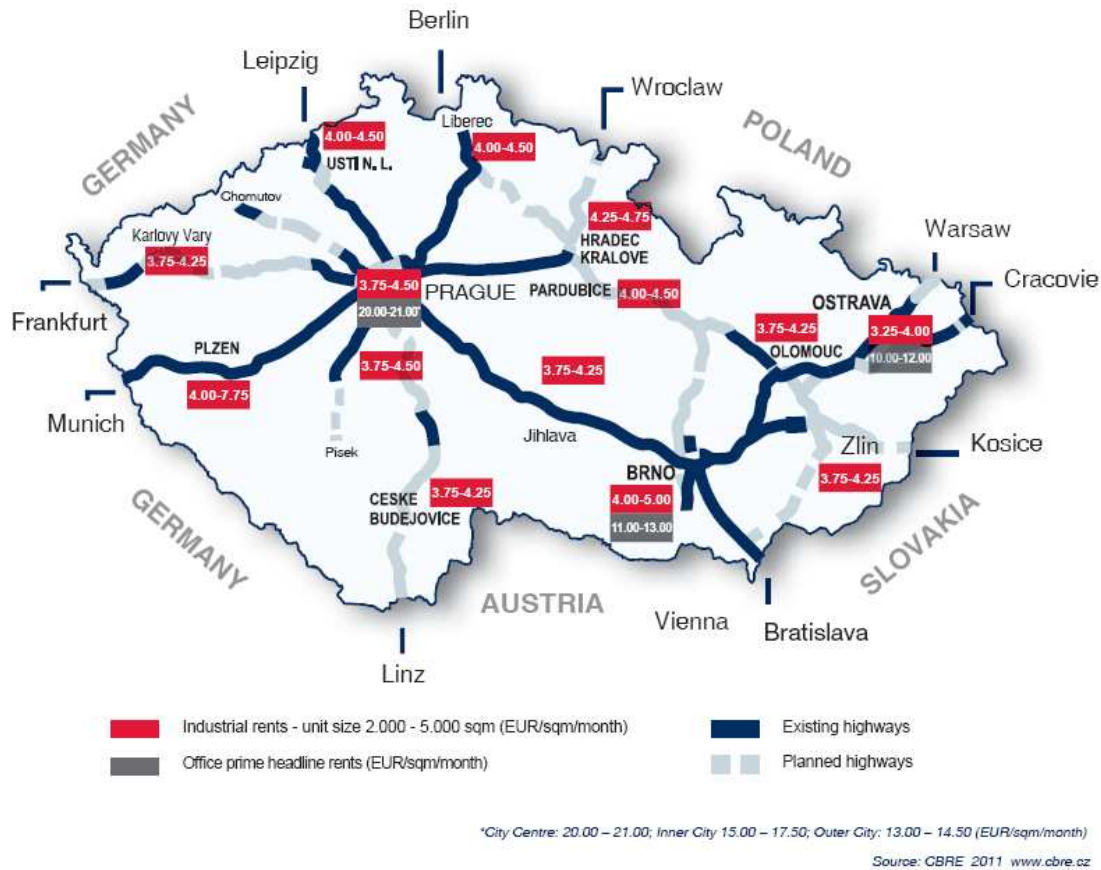
Key Office Market Indicators for Prague

	2004	2005	2006	2007	2008	2009	2010	H1 2011
Annual supply	175,000	148,000	162,000	163,000	321,000	162,000	42,000	19,600
Gross take-up	131,400	178,500	285,300	195,200	260,300	246,300	214,700	173,000
Vacancy Rate	15.06%	12.50%	7.70%	5.76%	8.96%	11.94%	13.15%	11.86%

Source: DTZ Consulting & Research, 2011

Generally, net effective rents across the Czech Republic remained stable. However in some regions with low vacancy, rents grew slightly.

Rental Levels of Business Properties in the Czech Republic (EUR/sqm/month)



Rents in industrial/logistics properties

Region	Rent (EUR)/m ² /month	Region	Rent (EUR)/m ² /month
Central Bohemia	3.75 - 4.50	Plzen	4.00 - 4.75
Hradec Kralove	3.25 - 4.75	Prague	3.75 - 4.50
Karlovy Vary	3.75 - 4.25	South Bohemia	3.75 - 4.25
Liberec	4.00 - 4.50	South Moravia	4.00 – 5.00
Moravia-Silesia	3.25 - 4.00	Usti	4.00 - 4.50
Olomouc	3.75 - 4.25	Vysocina	3.75 - 4.25
Pardubice	4.00 - 4.50	Zlin	3.75 - 4.25

Source: CzechInvest, 2011

BROWNFIELDS

Brownfields have gained importance mainly since 2002. There are two key reasons for this: the possibility of receiving grants from EU funds and public pressure to use these sites for new investments. There is now a continually updated database of available brownfield locations online at <http://www.czechbrownfields.cz/> and <http://www.brownfielddy.cz>.

The extensive mapping of brownfields in all regions of the Czech Republic was completed in 2007. This study identified 2,355 brownfields covering a total area of more than 10,000 ha. However, the actual number of all brownfields, including those not mapped, is probably a few times higher.

The majority of brownfields are in private ownership. Due to this, we offer in our database approximately 400 brownfields whose owners have given consent.

There is a considerable amount of requests for contacts to specific brownfield owners each quarter. Demand markedly increased due to investment incentive for production of photovoltaic energy.

Former military sites are currently the most often regenerated brownfields. Such properties have been acquired by local authorities with the aim of finding new uses for them. However, an increasing number of other types of sites are being successfully regenerated not only for industrial uses, but also for other business activities.

Brownfield overview

Past usage of site	No. of sites	Percentage	Total area	Average area of site
Agriculture	821	34.9%	1 840.4 ha	2.2 ha
Industry	785	33.3%	4 232.2 ha	5.4 ha
Civic amenities	304	12.9%	413.3 ha	1.4 ha
Military	151	6.4%	2 394.1 ha	15.9 ha
Residential	95	4.0%	88.3 ha	0.9 ha
Tourism	22	0.9%	22.4 ha	1.0 ha
Other	177	7.5%	1 144.3 ha	6.5 ha
Total	2 355	100%	10 326.3 ha	4.4 ha

Source: CzechInvest, 2011

Brownfield ownership

Type of ownership	Number of sites	%
Private	1 708	72.5
Public	478	20.3
Unresolved	169	7.2
Total	2 355	100

Source: CzechInvest, 2011

Brownfield indicative allocation

Population	Number of sites	%
0-2 000	1 144	48.6
2 001-10 000	590	25.1
10 001-50 000	344	14.6
over 50 000	277	11.8
Total	2 355	100

Source: CzechInvest, 2011