

CZECH BUSINESS PROPERTIES

II/2007



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Main Topic

Office-Space Market in the Czech Republic

The real estate market in the Czech Republic is developing very rapidly, with both supply and demand growing each year. In this issue of our newsletter, we will take a closer look at the development of the office-space market. This segment of the market in the Czech Republic can be divided into two main areas – Prague and regional cities in the Czech Republic.

In the last two years, Prague recorded significant development of the office-space market. By the end of 2006, the total amount of modern office space had reached 1,978,000 m² (this category includes both newly built offices and buildings that have undergone renovation and fulfil demanding quality requirements).

The **supply** of office space in 2006 reached 160,000 m², of which only 10% involved older modernised buildings. In comparison with 2005, the supply of office space grew by nearly 10%. This year we expect there to be nearly 200,000 m² of office space; the supply should be at a similar or higher level in 2008 and 2009.

Demand for modern office spaces is growing continually. In 2006 the volume of concluded lease contracts reach 265,000 m² and over 40% of newly completed projects in Prague were occupied at the beginning of 2007.

The **vacancy rate** in 2006 amounted to 8%, though thanks to the increase in supply and the continual initiation of new projects, we expect the vacancy rate to increase to around 15% by the end of 2009.

Rental rates in Prague are shown in the following table. In spite of the growing supply of office space, we do not expect these rates to decline.

| OFFICE SPACE – Average rents (EUR/m²/month) | | |
|---|-------------|-------------|
| City | Min. | Max. |
| Prague | | |
| City centre | 18.50 | 20.00 |
| Greater centre | 15.00 | 17.00 |
| Outlying areas | 13.00 | 15.00 |
| Brno | | |
| Brno | 11.50 | 14.00 |
| Ostrava | | |
| Ostrava | 9.50 | 12.00 |
| Plzen | | |
| Plzen | 10.00 | 11.00 |

Regional office-space market

In the past two years, the office-space market in individual regions of the Czech Republic has begun to develop in conjunction with the strengthening demand for modern spaces and investors' continually growing interest in new locations. The greatest interest is currently focused on Brno, Ostrava, and Plzen.

Brno can offer a total of 120,000 m² of modern office space. Among the largest and most important projects in this area are the Spielberk Office Centre (approx. 12,000 m²), Brno Business Park (16,000 m²) and Platinum (8,000 m²). These projects are already mostly occupied. The vacancy rate in this region is in the range of 15-20%, which will continue to be affected by the construction of new projects. Base rents are in the range of EUR 11-14/m² per month.

Amounting to roughly 20,000 m², the supply of office space in **Ostrava** is substantially smaller than in Brno. Among the largest projects in Ostrava are Axis Office Park (10,000 m²) and the Ostrava Science and Technology Park. We expect that the supply of modern office space in this metropolis will grow significantly and by the end of 2008 could amount to nearly 60,000 m². Karolina and Orchard are among the new projects offering modern office spaces. The average base rent in Ostrava is around EUR 10/m² per month.

In the past year **Plzen** has become a highly demanded location with regard to modern offices. Currently, the supply of office space in Plzen is not large and consists mainly of renovated spaces. Newly prepared projects include Business Avalon Centre (11,000 m²) and Axis Office Park Plzen (10,000 m²).

Current situation

Public logistics centres

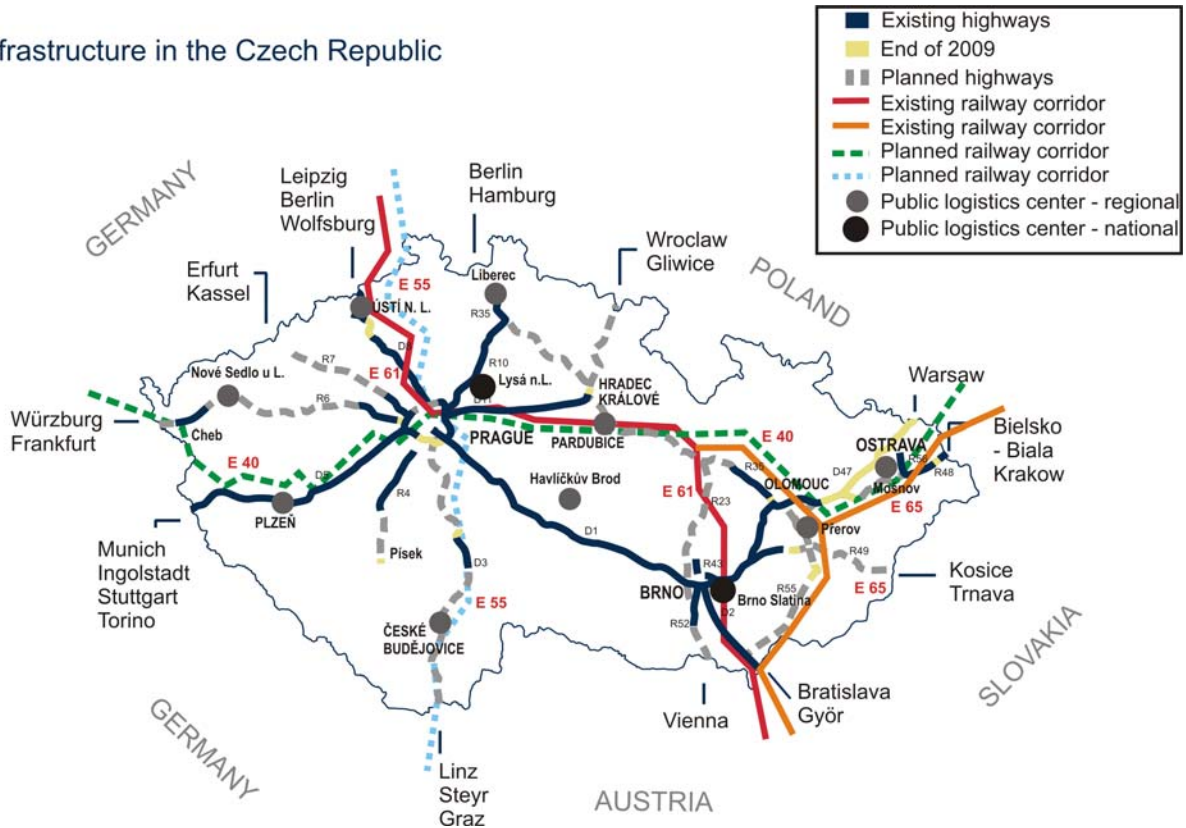
At the end of 2006, the Czech Logistics Association (CLA) introduced an initiative to support the development of logistics, particularly the building of public logistics centres (PLCs) in the Czech Republic. Due to CzechInvest's focus on the preparation of strategic industrial zones, which involve significant transportation activities, representatives of the agency were invited to take part in a **working group** of logistics specialists whose members include the Transport Union of the Czech Republic, the Association of Forwarding and Logistics, universities and the Ministry of Transportation.

PLCs serve the broad public interest; services are provided to any interested party **on a non-discriminatory basis**. This should be focused primarily on small and medium-sized enterprises. PLCs will be established in locations with high current and development potential of production and usage and must be multi-modal, i.e. they should be linked to multiple types of transportation including a terminal for combined transportation. Before commencement of operation of

a PLC, its operator is obligated to publish the contractual conditions, prices and scope of provided services.

The priority criterion for the **location of a PLC** should be demand for its services, i.e. a location with the greatest concentration of industry and population and in an area with the greatest usage. Two centres of nationwide importance should be established in Central Bohemia and in the Brno area.

Infrastructure in the Czech Republic



The Moravia-Silesia region, in cooperation with the statutory city of Ostrava and CzechInvest, is negotiating the preparation of the first public logistics zone in the close proximity to Leoš Janáček Airport and the Mošnov strategic industrial zone.

Due to the above-mentioned reasons, the establishment of PLCs should be financed through public resources. **Support for the construction of PLCs** is thus included in the new Operational Programme Transportation financed from European Union funds for the 2007 – 2013 period and also concerns the national programme of support for the initial phase of new lines of combined transport for the 2006 – 2010 period. In order for projects involving regeneration of so-called brownfields to be more attractive for future investors, a limited scope with support for logistics is anticipated in the Properties Programme of the Operational Programme Enterprise and Innovation.

The PLC concept was presented in greater detail on 19 April 2007 within the transportation programme of the URBIS Invest international trade fair in Brno (<http://www.czechinvest.org/en/property-invest-czech-en?term=18+%E2%80%93+19+Apr.+2007&place=Brno%2C+Czech+Republic>).

Brownfields

Office spaces instead of brownfields

The success of brownfield revitalisation depends on quality planning of the given site's future use, which in most cases should be multipurpose. A combination of activities brings new life to neglected sites, giving them purpose and prompting people to readopt long forgotten locations.

What chance do brownfields have on the office-space market?

The trend of air-conditioned open spaces cannot be ignored. There are also customers who are looking for interesting spaces for their business activities. Spaces in old factories can offer such customers an alternative to modern steel structures. Former factories, textile mills, sugar mills and other such structures can provide an original way to underscore the image of interesting firms.

Successful brownfield projects in Prague include the Holešovice Brewery, Palace Křížík in Anděl, Corso Karlín and Kotelna in Karlín.



Arena Holešovice Brewery



Kotelna

As for projects in the preparation stage, revitalisation of the Bubny railway station is a multifunctional project including office spaces which will be implemented by Orco Group. Another prepared project involves the revitalisation of the Walter factory in Radlice, where the Red Group development company is planning construction of apartments as well as office spaces.

Of course, the question is to what extent current developers will preserve parts of the original structures and offer a view of the past to future users, and to what extent they will use only the interesting location of sites, demolish everything and construct new, modern buildings that will not in any way differ from other projects.

The conversion of old factory buildings into office spaces is very attractive and today is probably the most attractive alternative from the perspective of investment. However, the way projects are implemented begins and ends based on the profit that the given developer attains.

On CzechInvest's website at <http://www.czechinvest.org/en/brownfields>, you will find **reference offers of brownfields in individual regions**. These offers are derived from a research study of brownfields throughout the Czech Republic.

Legislation

Impact of new laws on the dynamic development of the real estate market

Last year's amendment to the **Act on Collective Investment** No. 224/2006 Coll. brought about significant changes in the area of investment instruments. Among other things, tangible prerequisites were created for the establishment and operation of **property funds** as a new instrument of collective investment. Thanks to the elimination of the minimum investment limit of CZK 2 million, the above-mentioned amendment made property funds accessible to smaller investors. Special property funds can have the form of open share funds that can invest directly in property (purchase, sale, operation) or gain participation in real estate companies.

A **public private partnership (PPP)** can be a suitable instrument for financing the regeneration of brownfields. This was substantially supported in the first half of last year with approval of the

framework for cooperation between the private and public sectors – Act No. 139/2006 Coll., on Concession Contracts and Concession Procedures (the **Concession Act**). On the basis of this cooperation, the private sector will provide the necessary financial resources and the public sector will take on the main risks associated with the given investment project. The Concession Act governs the conditions and procedure of public tenderers in the conclusion of concession contracts and is a general norm that applies to all concession contracts if a special act does not stipulate otherwise.

EU Structural Funds

Support for construction of administrative buildings from European Union programmes

Support which will be provided during the 2007 – 2013 period from structural funds through the Ministry of Industry and Trade of the Czech Republic and CzechInvest is not focused on construction of office buildings. The only exception involves projects resulting in the creation of spaces used for business support services and technology centres. Support can be obtained within the Properties Programme for construction or renovation of rental buildings.

Another possibility for at least the partial utilisation of EU resources is construction on brownfield sites. For sites regenerated with financial support, a definite limit will apply in the use of 50% of the supported area for the manufacturing industry. It will then be possible to use the remaining area without conditions, e.g. for office buildings.

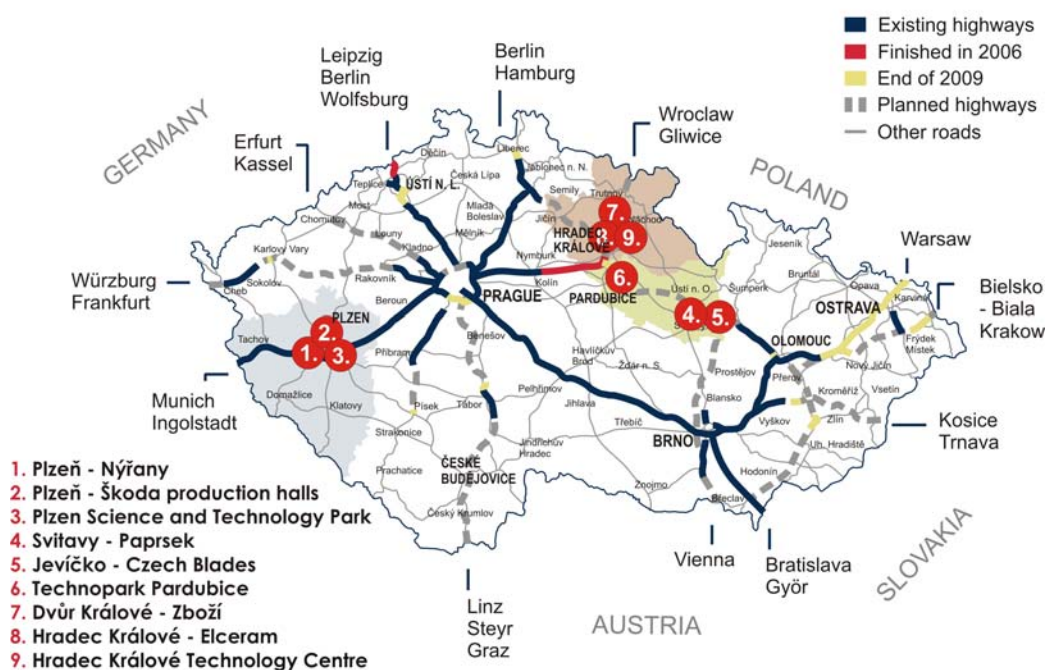
From other programmes, support will be provided for the construction of administrative properties supported within the Training Centres, Prosperity, and Cooperation Programmes, though their subsequent use will always be specifically defined by the aims of the individual programmes.

More information on programmes of support and the announcement of individual calls is available at <http://www.czechinvest.org/en/enterprise-development>.

State of Business Properties in Regions

Detailed listing of three regions: Plzen, Pardubice, and Hradec Králové.

Highway Network in the Czech Republic



Supply in the Plzen region by size of offered locations

Plzen region

| Area of offered properties (ha) | Number | Available area (ha) | Total area (ha) |
|---------------------------------|--------|---------------------|-----------------|
| < 2 | 2 | 1,1 | 1.1 |
| 2-10 | 11 | 59.38 | 84.33 |
| 10-30 | 5 | 98.95 | 124.95 |
| Σ | 18 | 159.43 | 210.38 |

The most prepared spaces are currently in the Plzen region. The land-use ruling is currently for approx. 40 ha. The first 2.3 ha will be available from Q3 2007.

Plzen – Nýřany

Available area: 194.2 ha

Total area: 194.2 ha

Technical infrastructure: all in zone

Transportation infrastructure:

- expressway 0.25 km
- international airport 110 km
- railway station 2 km

Plzen – Škoda production halls

Total of 7 halls, 1 planned project (total available 35,935 m²).

Technical infrastructure: all in zone

Transportation infrastructure:

- expressway 3 km
- international airport 100 km
- railway station 7 km

Plzen Science and Technology Park

Construction of Phase I began in September 2006 and will be completed in August 2007.

Available area:

- land 27,500 m²
- buildings 4,680 m²

Total area:

- land 27,500 m²
- buildings 8,010 m²

Transportation infrastructure:

- expressway 5.7 km
- international airport 95 km
- railway station 5.7 km



Supply in the Pardubice region by size of offered locations

Pardubice region

| Area of offered properties (ha) | Number | Available area (ha) | Total area (ha) |
|---------------------------------|--------|---------------------|-----------------|
| 2-10 | 6 | 29.75 | 60.76 |
| 10-30 | 2 | 50.00 | 71.20 |
| Σ | 8 | 79.75 | 131.96 |

Jevíčko – Czech Blades

Available area: 2,119 m² (2 floors)

Technical infrastructure: all in zone

Transportation infrastructure:

- expressway 55 km
- international airport 60 km
- railway station 1 km



This zone offers infrastructure in sufficient capacities to satisfy the greatest demands of investors:

Svitavy – Paprsek

Available area: 28 ha
 Total area: 38.2 ha
 Technical infrastructure: all in zone
 Transportation infrastructure:
 - expressway 65 km
 - international airport 64 km
 - railway station 1 km

TechnoPark Pardubice

Complex of five three-storey buildings; Phase I will be completed in H1 2008

Total area:
 - buildings 8 400 m²
 Transportation infrastructure:
 - expressway 24 km
 - international airport 4.4 km
 - railway station 7 km

Supply in the Hradec Králové region by size of offered locations

Hradec Králové region

| Area of offered properties (ha) | Number | Available area (ha) | Total area (ha) |
|---------------------------------|--------|---------------------|-----------------|
| < 2 | 4 | 1.98 | 2.90 |
| 2-10 | 3 | 17.85 | 29.65 |
| 10-30 | 4 | 51.39 | 68.40 |
| Σ | 11 | 71.22 | 100.95 |

Prepared zone for all types of investments:

Dvůr Králové – Zboží

Available area: 12 ha
 Total area: 12 ha
 Technical infrastructure: all within 1 km
 Transportation infrastructure:
 - expressway 70 km
 - international airport 50 km
 - railway station 4 km



Hradec Králové Elceram

Available area: 4,500 m²
 Technical infrastructure: all in zone
 Transport infrastructure:
 - expressway 12 km
 - international airport 26 km
 - railway station 1 km

Hradec Králové Technology Centre

To be established by the end of 2007 in a former military mess hall located on the site of the airport in Hradec Králové.

Total area:
 - buildings 2,817 m²
 Transportation infrastructure:
 - expressway 17 km
 - international airport 29 km
 - railway station 2 km



Events

Participation in the Property Invest Czech Spring 2007 seminar at the URBIS INVEST trade fair

CzechInvest organised the Property Invest Czech seminar on 18-19 April 2007 within the accompanying programme of the URBIS INVEST 2007 trade fair at the Brno Fairgrounds. Presentations from this seminar are available for download at <http://www.czechinvest.org/en/property-invest-czech-en?term=18+%E2%80%93+19+Apr.+2007&place=Brno%2C+Czech+Republic>.

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Source: Newton I.T., ČTK, daily press