

Prague Offices

Q3 2008

„...total take-up in the first three quarters of 2008 has already exceeded 2007 annual take-up...”

„...a quarterly new supply of 116,000 sq m of modern office space was the highest in the past eight years...”

„...Prague prime office rents within prime city centre locations in Q3 2008 increased and reached €23.00 sq m/month...”

Q3 2008 AT A GLANCE (q-o-q)

Take-up	↑
Vacancy Rate	↑
Prime Rents	↑
Prime Yields	↑

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OFFICE STOCK

The amount of **modern office space** in Prague currently totals ca. **2,418,000 sq m**. The locational distribution of modern office stock as of Q3 2008 was as follows:

- 51% in the Inner City submarket of which 10.5% was vacant;
- 29% in the Outer City submarket of which 7.2% was vacant;
- 20% in the City Centre submarket of which 4.1% was vacant.

Total modern office stock within Prague comprises of 69.3% new build and 30.7% refurbished stock. The majority of office space in the pipeline is new built, therefore, its share of the total stock will continuously increase in the future.

NEW SUPPLY

In Q3 2008, **116,000 sq m** of modern office space was completed, which is the highest quarterly amount for the past eight years. The amount of completions in the first three quarters of 2008 is 75% higher compared to the same period in 2007. Most of the new supply (60%) was completed in Prague 4 - Kavčí Hory Office Park, The Park building 12 and Česká pojišťovna Headquarters; other large projects were Argo Alfa in Prague 6 and Corso Karlín II in Prague 8. The impact of new supply on the market was significant and resulted in an increase in vacancy by 74,000 sq m. Approximately 36% of the new supply had already been leased in Q3 2008.

DEMAND

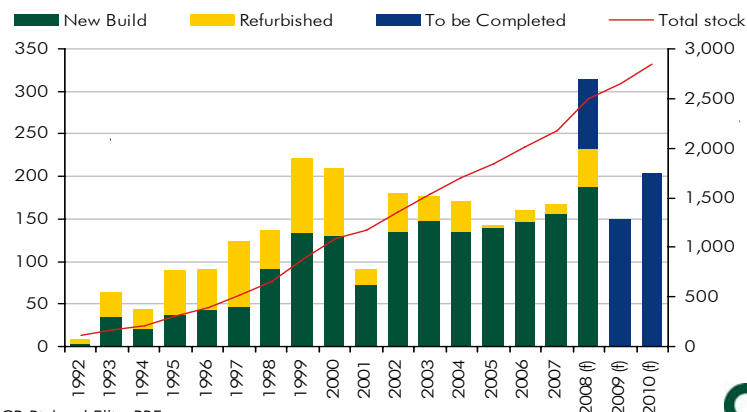
In Q3 2008, **take-up** of office space increased by 14% compared to Q2 2008, and reached **72,000 sq m**. Total take-up remained strong and in line with the previous three quarters. It reached 205,300 sq m in the first three quarters of 2008 and has already exceeded 2007 annual take-up (195,200 sq m). The average deal size in Q3 2008 was 830 sq m, a slight increase in comparison with the average deal size in 2007, which stands at 680 sq m, but slight decrease compared to 1,000 sq m in Q2 2008. A total of 87 lease transactions were closed (63 in Q2 2008) and only two deals exceeded the level of 5,000 sq m.

The flagship deals signed in Q3 2008 were:

- Česká spořitelna (13,000 sq m) in Trianon Office Building, Prague 4;
- ČKD Praha DIZ (8,000 sq m) in Kolben Cube, Prague 9;
- Hill's Pet Nutrition Manufacturing (3,600 sq m) in Gemini B Building, Prague 4.

With regards to take-up within districts, the leader in Q3 2008 was Prague 4 with a stable share of 35% of total take-up. Prague 9 is becoming a very attractive location (25.2% of Q3 take-up), and looking at the pipeline projects we believe that its share on total take-up will remain strong in the future.

OFFICE DEVELOPMENT IN PRAGUE



Source: CB Richard Ellis, PRF

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VACANCY

At the end of Q3 2008, almost **8.6%** of modern office space in Prague was immediately available, representing 3.1 p.p. increase compared to previous five quarters, when the vacancy rate hovered around 5.5%. The vacancy rate for Class A buildings is currently 9.6%, an increase from 6% in Q2 2008, whereas the vacancy rate in class B buildings is stable at 4.8%.

Due to the limited amount of completions, the vacancy rate in the City Centre remained stable throughout 2008 at around 4%. The submarket primarily contributing to vacancy growth was Prague 4 (an increase from 5.5% to 11.8%), where 40% of total unoccupied office space was located. In Prague 6, the vacancy rate almost doubled and reached 22%. This was caused by a high amount of completions and lack of significant transactions in Q3 2008. Prague 7 is the area with the second highest vacancy rate of 16.9%, however, this vacancy level was quite stable compared to Q2 2008 and Q3 2007.

RENTS

Prague prime office rents within prime city centre locations in Q3 2008 increased in comparison to Q2 2008, and reached **€23.00 sq m/month**. Due to limited availability of good quality office space and very limited supply in the pipeline in the Prague City Centre, we can expect that rental growth will continue in the long term. With regard to Inner City and Outer City submarkets, rental levels remained stable compared to Q2 2008 and reached €17.50 sq m/month and €15.00 sq m/month respectively. Service charges range from €3.00 to €4.50/sq m/month.

OUTLOOK

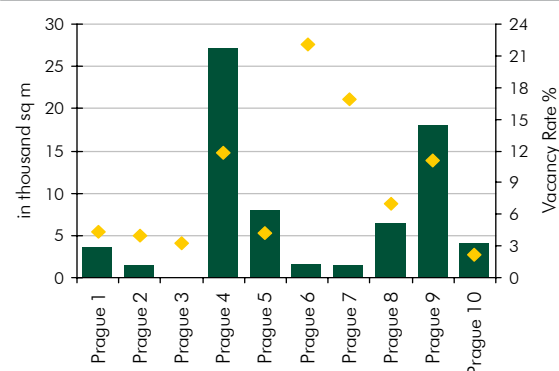
We expect approximately 82,200 sq m of office space to be completed in Q4 2008 and ca. 150,000 sq m in 2009.

Among the most significant projects to be completed in Q4 2008 are:

- Rádio Svobodná Evropa (23,000 sq m) in Prague 10,
- Explora Business Center – Jupiter (18,420 sq m) in Prague 5,
- Gemini, Build. B (15,900 sq m) in Prague 4,
- Prosek Point, building B (8,400 sq m) in Prague 9,
- Office Park Nové Butovice C (7,100 sq m) in Prague 5.

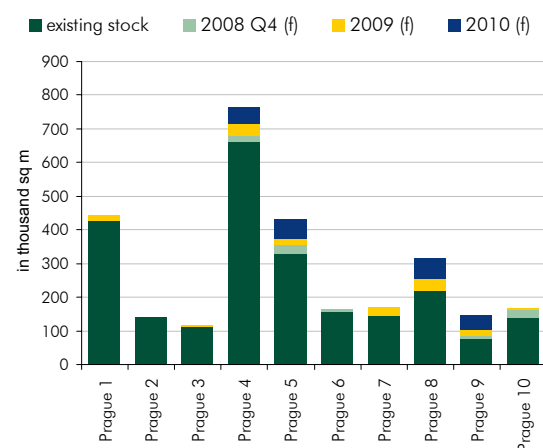
Looking at the pipeline of projects expected to be completed in Q4 2008, almost 40% of office space is already pre-leased. As a result, we do not expect the vacancy levels to increase in the short term. However, in the current global economic climate, we expect take-up in 2009 to decrease in comparison with 2008. This may result in new office completions in 2009 being absorbed at a slower pace, thus creating further upward pressure on vacancy rates in the medium to long term. Predicted pipeline for 2010 is high, however, difficulties in obtaining development financing are likely to reduce it. Developers are more likely to wait for certain pre-lease ratio before starting construction, which may postpone the completion dates of some projects.

TAKE-UP & VACANCY IN PRAGUE DISTRICTS Q3 2008



Source: CB Richard Ellis, PRF

PRAGUE'S OFFICE SUPPLY



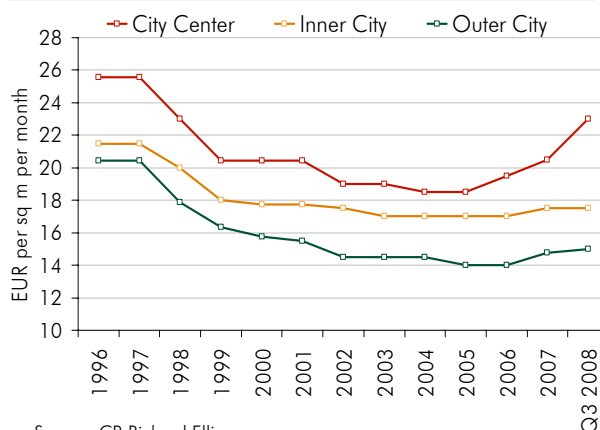
Source: CB Richard Ellis, PRF

PRAGUE PRIME OFFICE RENTS

	€ per sq m per month	
	Minimum	Maximum
City Center	21.00	23.00
Inner City	15.00	17.50
Outer City	13.00	15.00

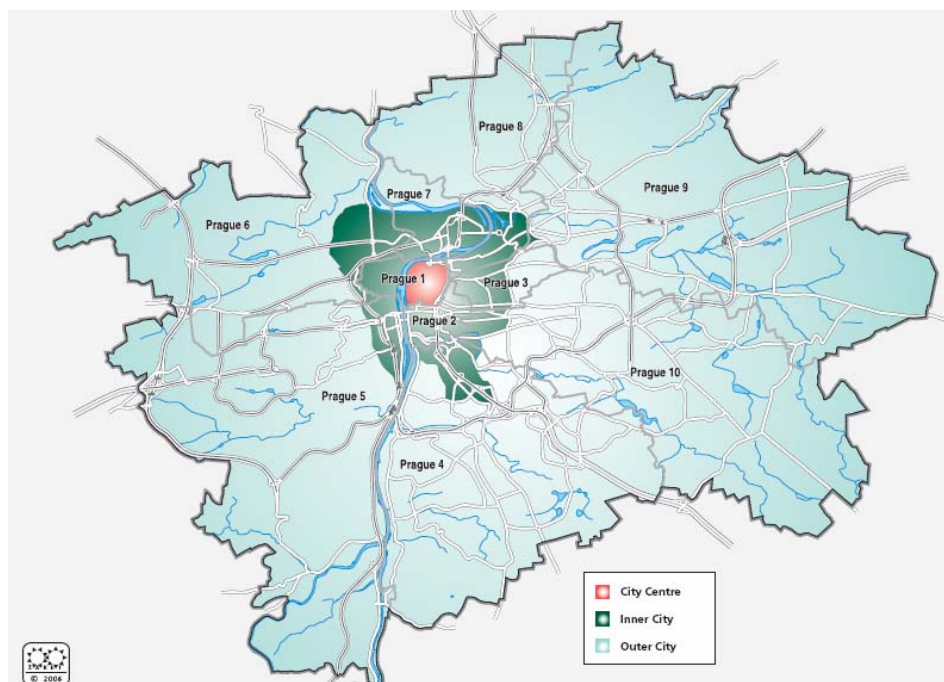
Source: CB Richard Ellis

PRAGUE PRIME RENTS



Source: CB Richard Ellis

Prague Office Submarkets



DEFINITIONS:

STOCK – modern office space in class A and B buildings;

VACANCY RATE – a ratio of vacant office space to total stock;

TAKE UP – office space that has been leased in a given period, includes leases, renegotiations, pre-leases and sub-leases

PRIME RENT – typical 'achievable' open market headline rent (can be hypothetical) for a unit of standard size commensurate with demand in each location, of highest quality and specification and in the best location in a market at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is very limited or made up of unusual one-off deals;

SERVICE CHARGE – includes all applicable services and utility costs, excluding directly measured electricity consumption.

Source: CB Richard Ellis

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