

Vacancy rates are falling:

The overall Prague vacancy level has fallen to 11.3%, with the vacancy of new build schemes dropping below 10%.

EXECUTIVE SUMMARY

With only one year remaining before accession to the European Union, the Czech Republic is making final preparations for entry. GDP growth in the Czech Republic is remaining higher than the average in the EU-15 and is expected to continue, carried by private and governmental consumption and consistently high levels of FDI.

The Prague office market continues to perform well, despite struggling markets in other parts of the world. First quarter take-up was higher than average; the quantity of vacant space is declining; and new high-quality office space is entering the market at sustainable levels. Generally, the market appears more optimistic, and the outlook for this year is bright.

Take-up in the first quarter reached approximately 55,000 sqm. The Mafra deal at Anděl Park for 12,000 sqm was a good percentage of the quarter's total take-up. In addition, the take-up figure includes three lease renegotiations. Excluding the renegotiations, net take-up is still above average.

During the first quarter the average transaction size was approximately 450 sqm. Twenty-five percent of all space let last quarter (with the exception of the Mafra deal and the renegotiations) was let in Prague 4.

Only two development projects were completed in the first quarter – Florenc Building (10,000 sqm) and Evropská 37 (3,700 sqm). An additional 52,000 sqm are planned to come online in the second quarter. The total new supply expected to be delivered to the market in 2003 is approximately 142,000 sqm.

Rental levels in the Prague office market are remaining stable, with the prime rent at €19/sqm/month. The top rent being achieved for non-central locations is €16/sqm/month, while €14.5 can be achieved in the best buildings in an out-of-town area.

The vacancy levels for Prague office space, especially high quality space, is continuing to fall. The overall vacancy rate has fallen to 11.3% with the vacancy of new-build schemes dropping below 10%.

No change has occurred to the prime yield for office investment properties. The market is expecting the prime yield dipping below 9%; however, this is contingent upon the owner of a class A1 building in the city center willing to sell.

Q@G

this quarter at a glance

⌚ prime rental values

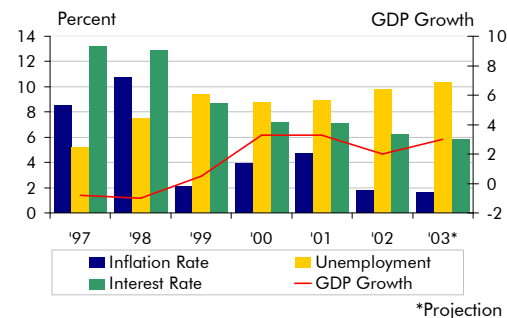
á prime yields

ä vacancy rates

Ⓔ take-up

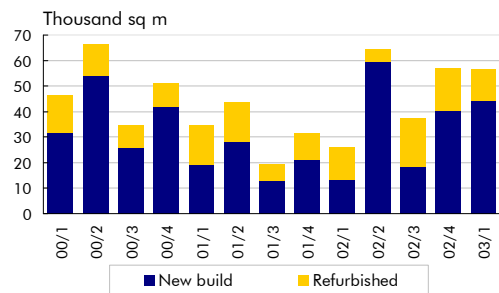
Change Q4-Q1

Czech Economy



Source: Ministry of Finance

Take-up



Source: CB Richard Ellis

Largest deals in Q1 2003 (1000 sqm +)

Tenant	Size	Building
Mafra	12,000	Anděl Park
Cesky Mobil	12,000*	Vinice
Hewlett Packard	7,600 (4600*)	BB Centrum 'C'
Unilever	3,500*	Thámová 18
Kooperativa	1,875	Na Žertvách
GE Capital Bank	1,145	The Park
British Council	1,100	Bredovský dvůr
Icom Communications	1,020	Corso Karlín

Source: CB Richard Ellis

*Lease renegotiation

ECONOMIC OVERVIEW

Preparations of the Czech Republic to enter the European Union, set to May 2004, are approaching a successful conclusion. The opening of the economy towards Europe brings vast expectations and many opportunities for all members of the market.

Despite sober prognoses of global economic growth and less optimism regarding economic revival in Europe, this year's forecasted GDP growth in the Czech Republic is expected to reach 2.2 – 3%. Similar to last year economic growth during 2003 will be buoyed by solid household consumption and government expenditure.

The foreign trade deficit increased to \$US 300 million in the first quarter of 2003, mainly due to sluggish external demand from the EU, especially Germany, as well as a loss of competitiveness connected to the strong currency. Inflation has been in the negative during Q1 2003, but a slight upturn (to approximately 1.6%) is expected in the next six months, as prices of food and imported goods should become more expensive. Restructuring of the labor market has been followed by rising unemployment, leveling up in the first quarter to slightly over 10%.

Despite tough competition for foreign direct investment, the Czech Republic leads the group of Central and East European countries in attracting foreign investments per inhabitant, with record inflows of USD 8.4 billion in 2002. The privatization of remaining government stakes in state-owned enterprises is expected to attract significant amounts of foreign direct investment and the major inflow of greenfield projects is expected to continue. This year an estimated USD 5 – 7.5 billion is expected to be invested, which shows the persistent interest of investors.

TAKE-UP

Take-up in the first quarter of 2003 was over 55,000 sqm and indicates an upswing for this year's estimations in office letting. The largest deal of the quarter, Mafra (12,000 sqm) at Anděl Park, accounts for 22% of the quarter's total take-up. The gross take-up also comprises three lease renegotiations; however, even by removing these three transactions, the net take-up remains above average at approximately 35,000 sqm.

Excluding the Mafra deal and lease renegotiations, the average transaction during the first quarter was approximately 450 sqm. The highest proportions of take-up were in Prague districts 4 (25%) and 1 (19%). Due to the fact that Prague 1 offers, on average, smaller floor plates, this district had the highest number of transactions, but the average transaction was only approximately 200 sqm.

TAKE-UP cont.

At 12,000 sqm each, the Mafra and Český Mobil deal/renegotiation gave the Advertising/Media and Telecommunications sectors an obvious lead. Without these transactions, however, the IT, Banking/Finance, and Insurance sectors continue to demand the most space.

SUPPLY

At the end of the first quarter modern Prague office stock stood at 1.3 million sqm. Of this 60% is new build, the remainder being modern refurbished buildings.

Only two new schemes were completed in the first quarter, Evropská 37 (3,700 sqm) and Florenc Office Centre (10,000 sqm). These two completions account for just over 10 percent of the total new supply expected in 2003. The Florenc Office Centre came online with a substantial prelet to KPMG.

A noteworthy amount (37%) of the year's total planned supply is set to come online in the second quarter. The largest planned completions during Q2 will be Palác Flóra (18,000 sqm) and the first phase of River City Prague (20,200 sqm).

Total supply during 2003 should be approximately 142,000 sqm, which represents a 20% decrease over 2002. Furthermore, this figure includes the completion of the T-Mobile Center (29,000 sqm), which is being committed to Radio Mobile (the country's second largest mobile telephone operator). Several other buildings, such as Polygon House and the Mango building, have already secured prelets.

CB Richard Ellis estimates that around 400,000 sqm of office space is in the pipeline and will be delivered during the next three years.

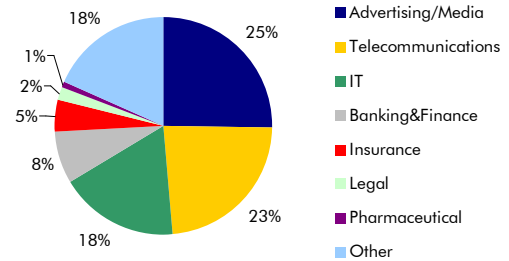
RENTS

Prime rents in the Prague office market are remaining stable, holding at approximately €19/sqm/month.

Although Prague 1 remains the favored destination in terms of the number of transactions, districts such as Prague 4 and 5 are attracting more and more tenants. "Out-of-town" projects, such as BB Centrum and Office Park Nové Butovice, are competing with centrally located schemes by offering high quality space and lower rents.

CB Richard Ellis does not expect any dramatic changes to occur in the Prague real estate market during the next two years. Despite entry into the European Union scheduled for May 2004, we predict that rents will remain approximately the same.

Q1 2003 Take-up



Source: CB Richard Ellis

Office Market Supply Q1-2 2003

Q	Building	District	Total Office Area sqm
1	Evropská 37	6	3700
1	Florenc Building / KPMG	8	10000
2	Mango Building	1	3300
2	Nagano Office & Tech. Park III	3	5700
2	Palác Flóra	3	18000
2	Portheimka Office Center	5	2838
2	River City / Danube House	8	20200

Source: CB Richard Ellis

Prime Rents - €/sqm /month

Sub-market	Minimum Rent	Maximum Rent
City Center		
Class A	16	19
Class B	15	17
Midtown		
Class A	13	16
Class B	12	14
Out of Town		
Class A	12,50	14,50

Source: CB Richard Ellis

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VACANCY

The slowdown in supply over the last three years, together with high levels of take-up, have brought the vacancy level down to just over 11 percent for Prague as a whole. Vacancy for new-build stock has dipped below 10%, whilst the vacancy in refurbished buildings is just above 13%.

Despite ranking second in terms of total office stock, Prague 4 has almost the lowest vacancy rate – approximately 4.5%.

During the last three years developers have delivered office space at a more sustainable level. This has been facilitated by the market becoming more transparent and more developers seeking consultancy services.

YIELDS

The prime office yield is approximately 8.5-9%. Due to the shortage of A1 class office buildings for offer in the city center, we predict that yields for the best buildings in Prague 1 may dip below 9% during 2003.

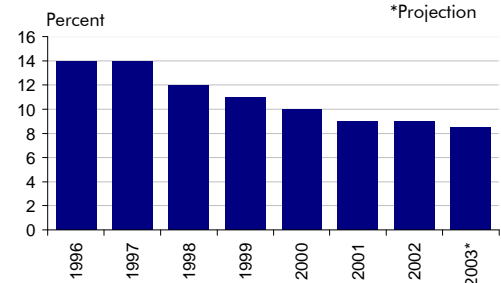
However, this will depend largely upon the willingness of building owners to sell.

Office Vacancy

District	Available Space sqm	Months Take-up*
1	48,200	16.8
2	16,800	14.9
3	4,900	26.7
4	11,200	1.7
5	16,000	18.3
6	10,200	5.6
7	9,200	9
8	21,800	43.6
9	7,500	31
10	3,700	27.8
Total	149,700	9.7

*Months take-up refers to the number of months that it would take to absorb the current available space assuming take-up at the level seen in 2002

Prime Yields



Source: CB Richard Ellis

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