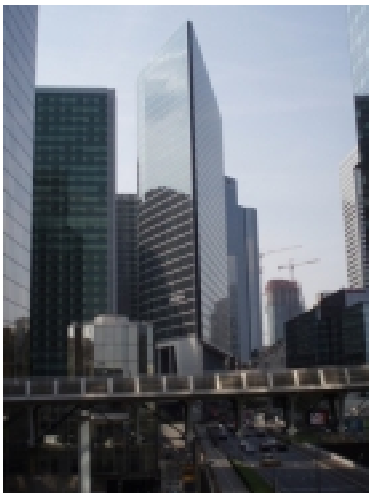
CPI will be facing foreign competition this year



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Similarly to 2009, also last year the real estate market was dominated by Czech and Slovak buyers who increased their share in year-on-year domestic real estate investments from 50 to last year´s 71 per cent. From the remaining 29 per cent share of foreign investment, U.S. investors had the largest "bite" (EUR 119 million) as well as Austrian (EUR 46 million). A survey by King Sturge nevertheless expects the share of Czech and foreign buyers to start to offset this.

Real estate investors showed the greatest interest last year in office properties (EUR 317 million, 47 % of total transactions), furthermore in retail buildings (EUR 166 million, 25 % share). On the other hand, the least transactions were carried out in the "industrial property" sector (EUR 39 million and 6 % share) and rental residential real estate (EUR 33 million and 5 % share), yet King Sturge expect a growth of the number and volume of transactions of logistics properties. For example, the company VGP announced negotiations on selling a part of their portfolio worth roughly EUR 300 million. Overall, further increase in real estate investment volume is expected in 2011, the conservative estimate is at approximately EUR 600 – 700 million, the optimistic scenario expects reaching of real estate transactions volume of up to one billion EUR.

Czech Republic: TOP-TEN real estate investments in 2010

Price in million EUR	Property	Buyer	Buyer´s country of origin	Seller	Period of 2010
108	Intercontinental	Westmont Hospitality	USA	Strategic Hotels & Resorts	Q4
72	City West (2 buildings)	CPI	CZ	Finep	Q4
71,5	City Empiria, City Forum	Member of Generali PPF Group	CZ	ECM	Q2
49	IGY České Budějovice	CPI	CZ	GE Real Estate	Q4
40	Melantrich Building	REICO	CZ	La Salle	Q4
33	Blocks of flats in Litvínov	CPI	CZ	Unipetrol	Q2

29,3	Longin Business Centre	CPI	CZ	Invesco	Q4
25	Nestlé Building	CPI	CZ	Sekyra Group	Q1
23	Retail portfolio	CPI	CZ	JHT	Q1
20 (estimate)	Česká typografie / Vítek centrum	Penta Investments	CZ	S+B CEE Beteiligungs verwaltung	Q1

Source: King Sturge,5th January 2011

No. 1 player: CPI

No. 1 investor in the Czech real estate market last year was Radovan Vítek´s company CPI. This company bought property for a total of EUR 292 million, representing 44 % share of the total value of investments. CPI Group thus currently holds the position reserved solely for foreign institutional funds before the financial crisis.

Last year´s investment activities of CPI, according to King Sturge analysis, can be described as follows:

- CPI Group benefited from the favourable situation in the Czech real estate market, namely the absence of elite foreign investors from Germany and Great Britain;
- CPI has diversified its real estate portfolio (purchases of retail, office and warehouse properties);
- the group bought quality property with long-term leases for yields (rates of return), profitable in the long term and which are expected to decrease in the future (ie. price of the properties will grow on the contrary;
- CPI Group has the following advantages over its competitors: it operates in home background with long-term, detailed knowledge of it, moreover it is flexible in decisions on purchasing and future use of the building (attractive asset management, negotiations with tenants, sales strategy etc).

“The position of CPI was exceptional in the Czech real estate market last year. Unlike CPI other Czech and Slovak investors are mostly interested in smaller properties worth 10 to 15 million EUR. Many of these properties are offered privately only to particular parties concerned, often to individuals. Last year they were buildings such as A-Keramika in Prague 5, ČSOB building in Anglická street in Prague 2 or CCS building in Chlumčanského street in Prague 8,“ Jan Kovařínský from King Sturge says.

Keeping up with Europe

King Sturge analysts´ cautious optimism is also supported by other studies and forecasts. For example, according to the recently published analysis by the consulting firm Dun & Bradstreet, the investment climate across Europe began to improve in the second half of last year. The Czech Republic, however, is – not surprisingly – not considered the best investment destination of the Old Continent – these are, according to Dun & Bradstreet, Switzerland, Germany and Norway (it is worth noting in this context, however, the often mentioned relation of economic development in Germany and the Czech Republic).

Dun & Bradstreet has nevertheless lowered investment rating for nine European countries during the past year – for Belgium, Spain, Greece, Iceland, the Netherlands, Portugal, Hungary, Ireland and France (the case of Spain, Greece and Portugal it was a repeated lowering), whereas they raised the rating of Germany, Poland, Switzerland and at the end the year also of Iceland. Poland and the Czech Republic mentioned above are included in the moderate risk on return of investment category, Slovakia is rated one rank higher.

“Our analyses show that risks continued to grow in the past year. Nevertheless, we experienced a fragile improvement of investment climate in Europe at the end of 2010 which should also continue this year,“ says Alena Seoud, director at Dun & Bradstreet for CZ and SK and she adds: “In comparison with the turbulent period of 2008 – 2009 when our company downgraded most countries and no European country was left in the lowest risk category, this is a favourable turn for European economy.“

In accordance with this, King Sturge expect both increase of real estate investmens in the Czech Republic and return of foreign investors who will show interest mainly in:

- office and retail A-class buildings with long-term leases in sought-after locations;
- small and medium-sized projects (office and residential projects), by private investors;
- retail projects (shopping centres in Prague and regional capitals, independent DIY-supplies stores and food hyper/supermarkets in the regions);
- projects taken over by their financing banks (the case of Continental in Brandýs nad Labem last year);
- logistics and industrial complexes (e.g. announced transaction by VGP).

Stavební fórum discussion meeting in collaboration with AVANT Fund Management on “Specifics of qualified investors funds financing“ will be held at Jalta hotel, 45 Wenceslas Square, Prague 1 on Tuesday 18th January 2011 between 11 am and 1 pm

Programme:

- differences of qualified investor funds and standard credit policy of the banks
- definition of possible financing conditions
- related control of the depository

More information on the programme and on-line application form can be found on the discussions website ":http://www.stavebni-forum.cz/diskuse2011.

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