

reas on.point

Q1 2011

Residential Market in Prague

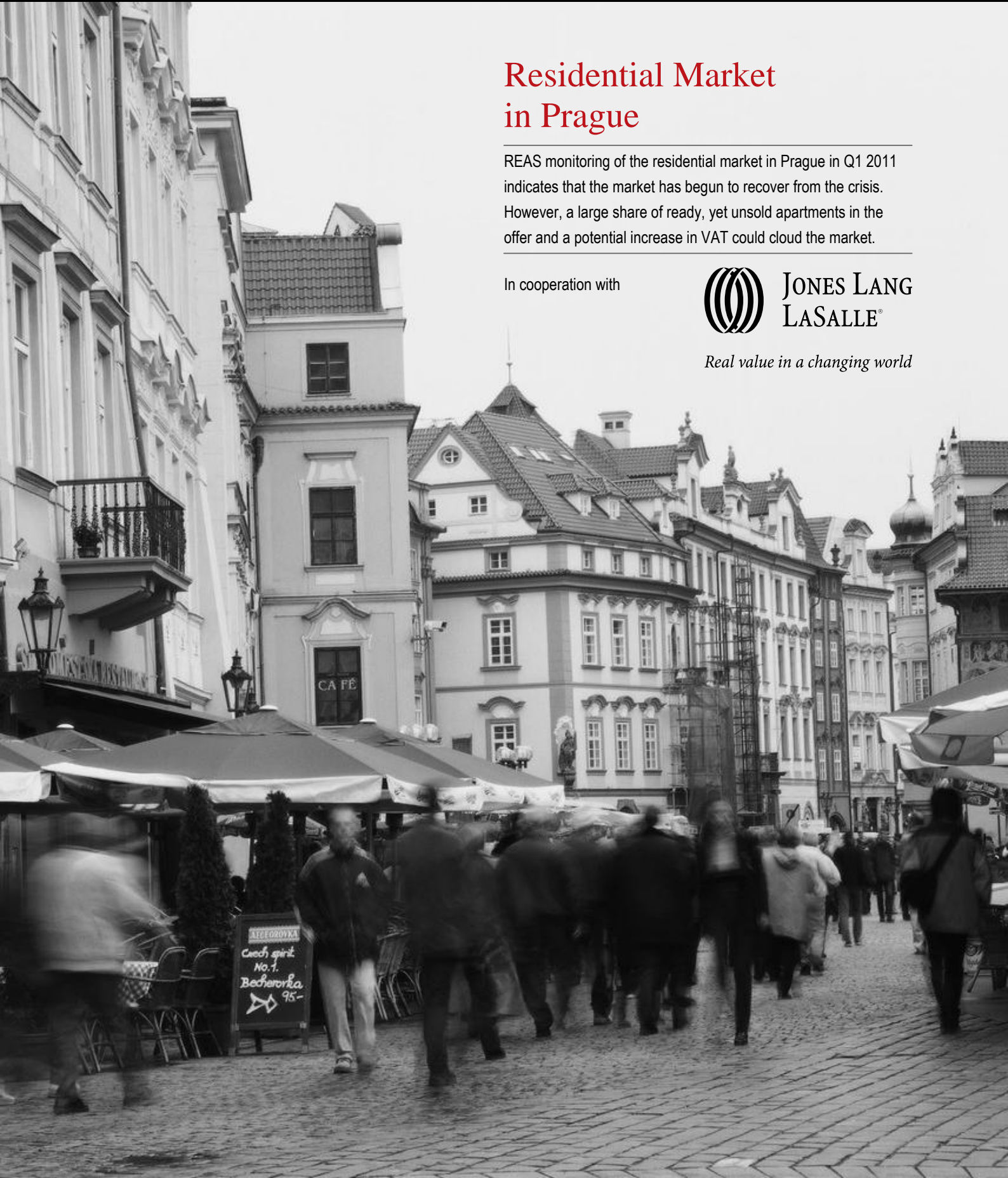
REAS monitoring of the residential market in Prague in Q1 2011 indicates that the market has begun to recover from the crisis. However, a large share of ready, yet unsold apartments in the offer and a potential increase in VAT could cloud the market.

In cooperation with

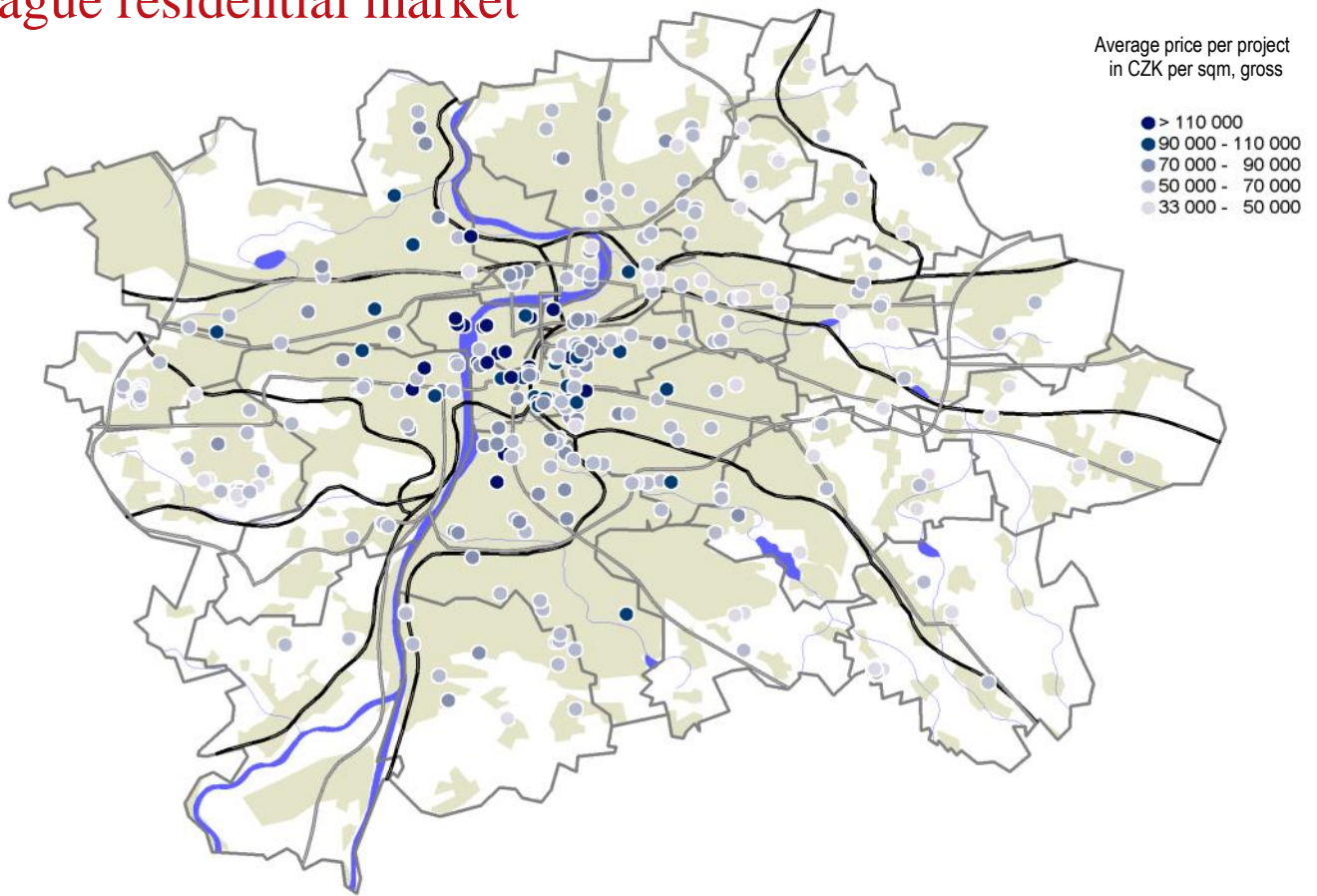


JONES LANG
LASALLE®

Real value in a changing world



Prague residential market



Prague's residential market showed a reasonable rebound in 2010 from its crisis year of 2009. Furthermore, the Czech capital city reveals much better development prospects than most other markets within Central & Eastern Europe.

Prague is one of the largest and at the same time one of the most stable residential markets within Central and Eastern Europe. The annual scale of dwelling starts and completions leveled at approximately 6,000 to 7,000 units during the past couple of years. Within the region, this is a scale which has only been topped by Warsaw and Budapest on a longer term perspective. The major portion of housing construction in Prague concentrates on apartments in multi-dwelling buildings. Within the Czech Republic, the share of Prague with its satellite cities and other suburban areas comprises approximately 50% of all apartments built in the country. In addition to a large primary market offer, Prague possesses relatively well developed rental and secondary housing markets. Beyond the reasonably strong local demand and demand formed by migration into the city, the Czech capital also proved to be a haven for both domestic and foreign property investors, foremost, due to the city's gateway function for international companies into the region and also because of its attractiveness for tourists.

The residential market of Prague demonstrated a much better performance in 2010 than in 2009, which seems to have marked the bottom of the bust cycle. The most positive development trend during 2010 was observed in the increase in sales. As a matter of fact, the Czech banking sector remained firm and expanded by 15 percent against 2009, thus supporting the growth in property transactions. In addition, the Czech Republic recorded one of the highest proportions of fully compliant real estate loans, along with Slovakia and Poland. Prague also noted relatively stable price levels. Having said that, price negotiations were still par for the course throughout 2010. However, the housing market of Prague is still off from the heydays of 2006-2007. The annual level of dwelling starts fell to a ten year low. On the other hand, the number of apartments in the market offer is still high and the share of ready, yet unsold units within the overall market offer might be a reason for concern. Moreover, the proposed VAT increase from a reduced rate of 10%, relevant for the majority of apartments, to 20% is upsetting the market.

Construction statistics

A recent release of the Czech Statistical Office stated that more than 6,100 dwellings were completed in 2010. Out of this, almost 4,700 units were apartments in multi-dwelling buildings which confirmed the expectations of our market monitoring conducted in mid-2010. This level fits into the long term average scale of Prague’s primary market. It should be noted though that completions are a result of investment decisions taken a few years before, meaning that the completions of 2010 still partially reflect the market’s boom period. In contrast, a little less than 2,900 dwellings started was the weakest performance within a decade. Thus, statistics indicate that new market activity remained low in 2010.

Supply and market offer

The market observed a growing trend of new market supply towards the end of the year, which eventually indicated a return of optimism at least by some residential development companies. During the last half a year, we monitored approximately 40 housing projects, containing about 1,800 apartments, newly launched to the market within Prague’s administrative borders. In total, the market offer in Q1 2011 exceeded 7,000 apartments offered for sale in more than 300 residential development projects, subdivided into more than 350 phases. About 2,600 apartments remained unsold in completed buildings, i.e. a critical share of 37% of the entire offer.

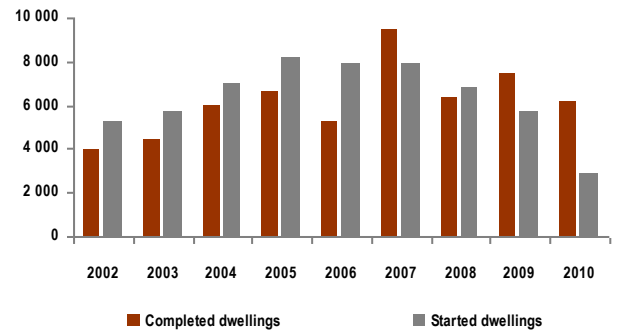
Demand and pricing

Demand was on the rise again in 2010, though at a gradual pace. Banks provided individuals with more than 50,000 new mortgage loans countrywide, whereas the largest amount of loans concentrated on Prague. The volume of mortgage loans increased by 15% year on year, but is still far from the volume reached between 2006 and 2008. According to our market monitoring about one fourth of the total market offer was sold during H2 2010, which in the long term must be viewed as highly unsustainable. Still, it meant an upturn compared to 2009 results. The majority of sales were recorded in the lower priced market segments, leaving more high priced units in the offer. As a consequence, the average price increased slightly. The distribution of units per price brackets show, that mode as well as median were considerably lower than the market average.

Market outlook

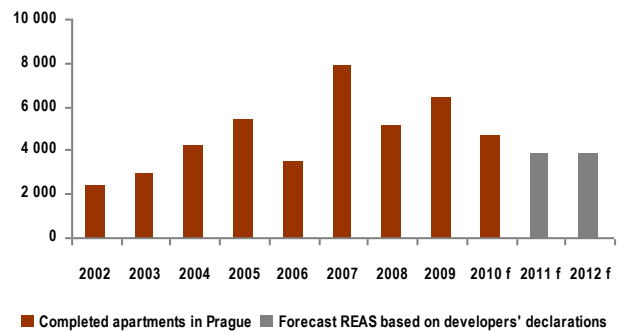
The residential market of Prague continues to be recognized as a stable market and should be able to continue attracting the interest of property investors and developers. However, developers will only expand their activities, once land sellers are willing to revise their price expectations on investment plots. Limited new supply may prove an opportunity to sell off the ageing market offer, provided that developers reduce prices in this market segment which is highly unadjusted to demand in terms of pricing, unit sizes and quality. The proposed VAT increase may well hit hard on both homebuyers and developers.

Figure 1: Dwellings completed and started in Prague



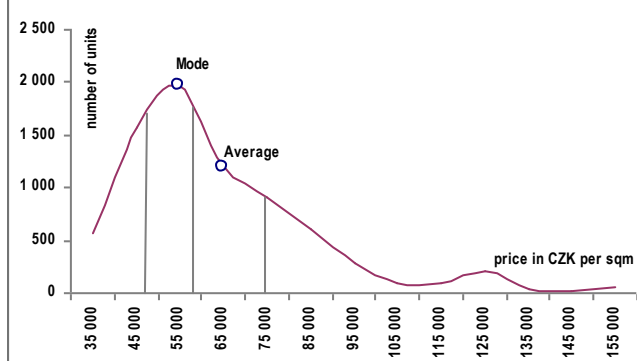
Source: Czech Statistical Office

Figure 2: Completions of apartments in Prague



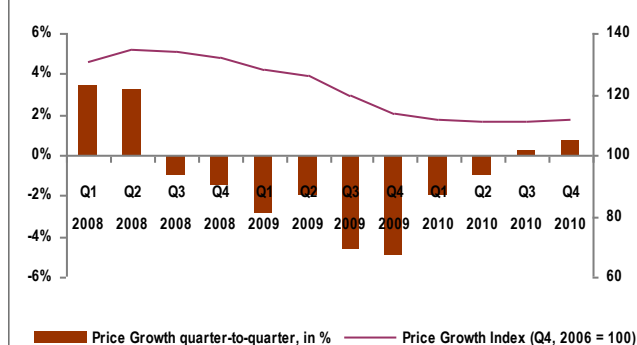
Source: Czech Statistical Office; REAS

Figure 3: Distribution of gross asking prices, Q1 2011



Source: REAS

Figure 4: Residential Price Growth in Prague, 2008—2010



Source: REAS

The report has been prepared by REAS in cooperation with Jones Lang LaSalle

About REAS

REAS is an advisory company specializing in issues relating to the residential market. Since 1997, we have been cooperating with developers, banks, investors and other entities operating in the residential market. Only during the five previous years we worked for over 300 different clients, effectively supporting them in the process of project planning and implementation. Based in Poland, REAS is expanding its services to clients across the CEE region since 2006. REAS commenced a continuous monitoring of the Prague, so far accumulating data on more than 600 projects in a GIS-based database system. This knowledge allows REAS to offer a broad range of market analysis services and to devise long-term market forecasts supporting the process of strategic planning. For further information, please visit our Web site, www.reas.pl.

About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2009 global revenue of \$2.5 billion, Jones Lang LaSalle serves clients in 60 countries from 750 locations worldwide, including 180 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of almost 150 million square metres worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with approximately \$38 billion of assets under management. For further information, please visit our Web site, www.joneslanglasalle.com.

Services offered

As a result of a cooperation agreement signed between REAS and Jones Lang LaSalle, we offer the following integrated services in commercial and residential real estate in the Czech Republic and Slovakia:

- Market monitoring, research and analysis in CEE housing markets
- Development consultancy and competition analysis of residential projects
- Highest and best use analysis and feasibility studies
- Development land appraisals and sales
- New housing units sales and related services
- Individual sales of apartments, houses, apartment buildings and hotels

Contacts:

Maximilian Mendel

Director, CEE Research & Advisory
R E A S | Residential Advisors
Warsaw
+ 48 22 380 21 18
maximilian.mendel@reas.pl

Andrea Čechurová

Residential Consultant
Jones Lang LaSalle
Prague
+ 420 227 043 134
andrea.cechurova@eu.jll.com

Ján Zibura

Senior Valuer
Jones Lang LaSalle
Prague
+ 420 227 043 215
jan.zibura@eu.jll.com

Residential Market in Prague • Q1 2011

OnPoint reports include quarterly and annual highlights of real estate activity, performance and specialised surveys and forecasts that uncover emerging trends.

www.reas.pl

www.joneslanglasalle.com