



Ústí nad Labem Driving Ahead

Summary

- > The final piece of the D8 highway puzzle now in place with an official opening planned for December 17. This is only the second complete highway leading from Prague to German border.
- > There is limited current stock of industrial and logistic warehouses in the D8 highway corridor ready for occupation now will drive future development of warehouses, with potential of quadrupling the stock in Ústí nad Labem region.
- > On the basis of survey with Developers and Logistic Operators we believe that the proposed infrastructure improvements eg. the Hradec Králové – Olomouc and České Budějovice – Austria highway corridor could experience a similar development pattern in coming 1-5 years and will therefore attract occupier, developer and investor interest.
- > On top of this, changes to the government decision-making process should shorten (we hope) and simplify the highway-building programme from 2017 onwards.
- > The Ústí nad Labem region with an unemployment rate of 85%, which is significantly higher than the country average, plus its geographical position is set for an increase in development activity.

Highways - the backbone of Czech transport

Given the location of the Czech Republic at the heart of Europe and the country's reliance on exports, means that a good highway network is key to the future growth of the economy.

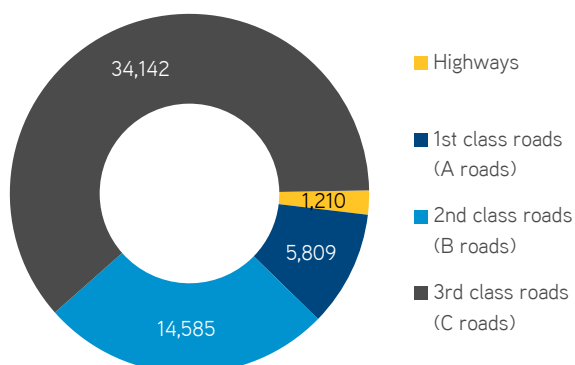
The current road network comprises 55,746 km of roads, but only 2.2% (1,210 km) are classed as highways. With the completion of the last section of the D8 highway this month, the Czech highway network will grow to 1,226 km.

Note: highway is defined as dual carriageway with at least 2+1 lanes in each direction with a speed limit of 130 km/h.

D8 – History

The D8 highway is a major connection route between Prague and Dresden, Germany, forming part of the E50 international route. Due to various delays in its construction, the highway to date was not fully completed. This is a 30-year saga: given that the first section of this highway commenced back in 1984. Construction of other sections have followed on piecemeal basis over the succeeding years. In 2006, the road connected with the German highway network in Saxony however a 16.4km section between Lovosice and Řehlovice was left unfinished. The reason being disagreements with various activists' groups as to the exact route of the road because this segment planned to run through a protected landscape area. This led to objections, which caused a significant delay in the construction of this segment. The highway is therefore only finally opening in full this month.

Road Network Length by Type (km)



Source Rsd.cz, data as of mid-year 2016



Highway Network Outlook

According to the Ministry of Transport, the expansion of the Czech highway network situation should improve significantly during 2017. First of all, a further 140 km of highways is set to commence construction in addition to what is already under construction (see map below). This will be a notable shift in the completion of the highway network. Secondly, a new Act on Public Tenders should simplify and thus notably shorten the preparation and construction of new roads. Thirdly, a further step in simplifying the planning process is the proposed change to the Construction Act, which should cut the necessary time for obtaining the relevant permits. In the past, the whole process has frequently lasted up to 12 years, which is plainly counterproductive and unhelpful.

The priority of the Ministry of Transport is completion of the Prague Ring Road and the R35 highway which is planned to alleviate traffic volume on the D1 highway by connecting Hradec Králové with Olomouc. Only after these roads are complete will the new D3 highway to České Budějovice and Austria get going.

So what do such changes mean for the Czech Republic? In order to assess the general opinion among Czech Logistic Operators and Developers of warehouses, we conducted a survey. We asked both groups firstly what they expected from the highway construction program and which parts they felt

are more important to their business? Secondly we asked how they think the D8 completion will contribute to the development of the logistic infrastructure to the north of Prague towards the German border.

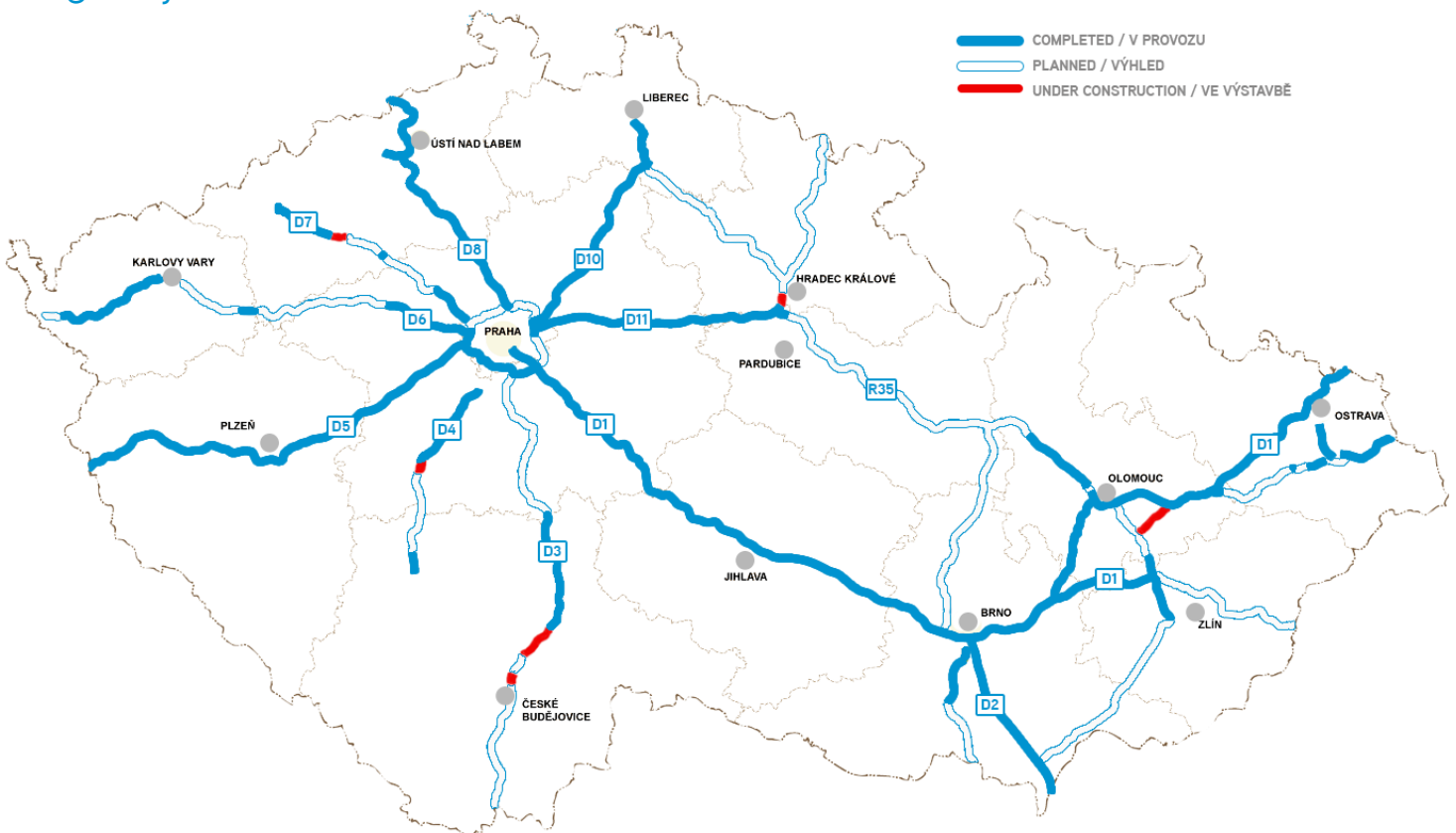
D8 Industrial Stock

The D8 highway actually spans three geographical regions of the Czech Republic, namely Prague, Central Bohemia and the Ústí nad Labem region. With the final piece of the road puzzle in place it will be the second fully completed highway connecting Prague with Germany that is free of interruptions. As such, we see this so called “D8 corridor” as an attractive location for industrial and logistic parks.

Across the whole of the three affected regions, the total stock of modern warehouses is 3.09 million sqm, which is 50% of the total warehouse stock of the Czech Republic. However, more specifically located in the immediate proximity of the D8 highway (a corridor of maximum 10 km away from the road) there is only 506,000 sqm (16.4% of the warehouse stock in those mentioned regions) From the D8 corridor stock to date, the vast majority is in Greater Prague Area with only 30% in the Ústí nad Labem region.

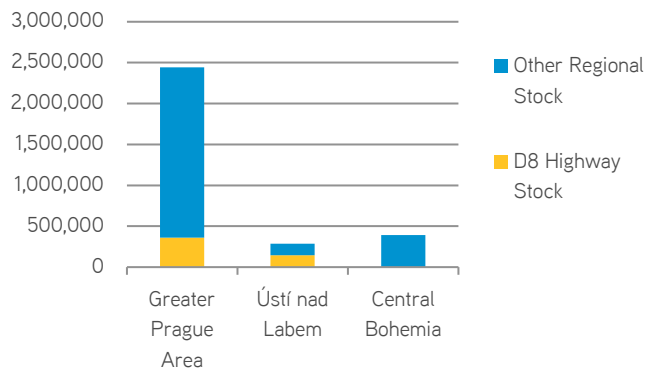
In terms of immediate availability there is only 21,700sqm that is ready for occupation today along the D8 highway corridor (representing vacancy of 4.30%). Larger space availability (>5,000 sq m) was limited to only one single property. Majority

Highway Network & Outlook



of the available stock was again in the Greater Prague Area while the Ústí nad Labem region offered only 2,400 sq m in one property close to the D8.

Industrial & Logistic Warehouse Stock - D8 Highway Corridor



Source: Industrial Research Forum, Colliers International

The Survey

Our survey was split in two sections, with a slight modification in the questions posed to Developers versus those aimed at Logistic Operators.

Road Network

One of the questions, posed to both recipient groups, was to identify which of the planned highway constructions (see map) would be of most benefit the road network (aside from the full completion of Prague ring road).

The response from both groups differed slightly. Logistic Operators mostly said the R35 highway from Hradec Králové to Olomouc as it would offer an alternative to the D1 highway (the busiest highway in the country and also currently undergoing an upgrade), while the Developers were more inclined to select the D11 highway from Hradec Králové to the Polish border. The connection with Austria via the proposed D3 highway to České Budejovice and further towards Linz was also mentioned by both groups as another highway construction that would be welcomed.

“We are talking about a new connection between Czech Republic and Germany, something we were waiting for for many years. Good infrastructure is a pillar for building efficient logistics.”

LUKÁŠ SMÝKAL, DHL

Development potential

In order to assess future development potential, we asked Logistic Operators whether the region’s attractiveness is increasing with the D8 completion and which regions are likely to benefit the most. Developers were also asked whether they plan to launch speculative new construction in the proximity of the D8. With the exception of smaller developers who focus on local development, the response of the major Developers was almost identical. Which was they either already have industrial parks along the route with further phases of development planned or they have purchased land for future development. Suitable land availability to the North of Prague is also a major constraint limiting Developers’ plans to grow their business beyond the currently planned pipeline. The consensus of Logistic Operators was that the D8 completion will increase attractiveness of warehouse distribution centres in this region. Therefore they are monitoring the activity of their clients and are willing to lease new warehouse space depending on demand.

Impact of D8 opening

Logistic Operators were asked about cost savings resulting from the final leg of the D8 opening. The majority of these Operators expects savings in tens of minutes per each journey. Depending on the total number of operated vehicles, the savings can reach hundreds of Euros per day. What they perceive as more beneficial is the increased efficiency which will now be achievable for internal nationwide logistics. We have also received feedback that the cost reduction achieved by any time savings will partially be off-set by the higher road toll costs. The road toll rate for the utilisation of highways will be higher in comparison with the 1st class roads (A roads) which served as the main bypass of the missing D8 segment. Larger savings can thus be expected only in case the logistic operators were using other roads which are excluded from the road toll system.

Note: The toll amount varies largely from CZK 0.8/km to CZK 11.76/km, depending on the vehicle type, its European exhaust emission standard class and the total number of vehicle axles.

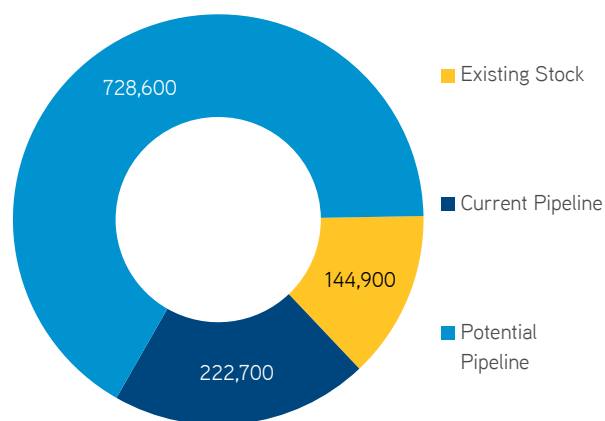
The Pipeline

The current development pipeline of D8 highway corridor, according to what Developers have announced as available for future occupation, comprises 223,000 sq m of modern warehouse space. Out of this some 39,300 sqm is already under construction.

The potential development pipeline for D8 highway zone is however much bigger. At least a further 730,000 sqm of new warehouses are in preparation phase for future development within the D8 corridor.

The total potential pipeline could thus help the total stock in this region to at least quadruple. It is apparent that the Developers were securing land in advance of this last section of the D8 being finished and over 70% of this pipeline is located in Ústí nad Labem region.

Stock & Pipeline – Ústí nad Labem region, D8 Highway Corridor



Source Colliers International, Industrial Research Forum



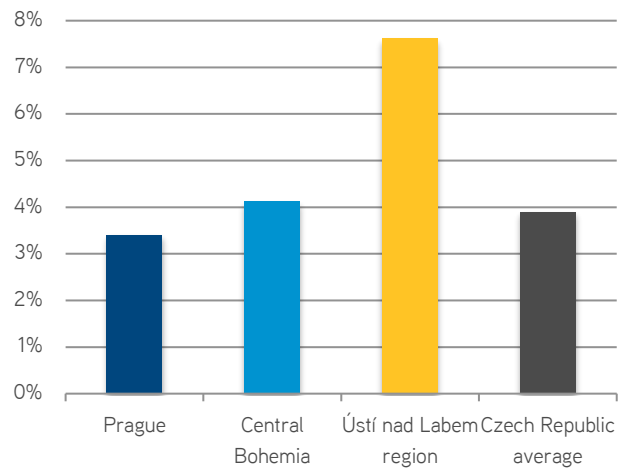
A Complete D8 – An Opportunity for Ústí nad Labem?

By the end of November the Czech Republic had one of the lowest unemployment rates in Europe at 3.90%. This reflects in the pressure on wage growth but also in shortage of available labour in the most developed regions. Ústí nad Labem on the other hand is a region with the highest unemployment rates – by the end of November it was at 7.62%. However there are even significant unemployment variations within the region itself. The district of Most for example has the highest unemployment at 10.1% (second highest in the whole Czech Republic) while the city of Ústí nad Labem has 8.5%. The lowest unemployment in the region is in Litoměřice at 5.9%, but this still ranks 17th worst among the 77 Czech districts.

At the same time, the salary level stood below the national average (see the graph across). Ústí nad Labem region thus offers a unique combination of available/relatively cheap workforce. This stands out once compared to the other established highway network routes to Germany such as the Plzeň region (along the D5 highway) where the unemployment level is at the other end of scale at around 3%.

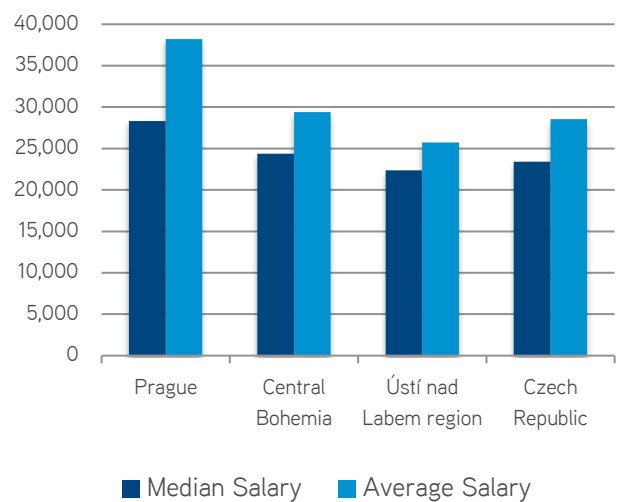
While the D8 completion is an opportunity for all regions of the Czech Republic, Ústí nad Labem has the prerequisites to become a rising star on the industrial and logistics markets of the Czech Republic and even wider Central Europe.

Unemployment Rate in Regions along D8 Highway Corridor



Source: Ministry of Labour and Social Affairs

Salaries in Regions along D8



Source: ISPV.cz

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