



CROATIAN REAL ESTATE MARKET OVERVIEW H1 2020

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Real estate market overview H1 2020



The first half of the 2020 was the most challenging one in the past few decades period due to Covid-19 virus pandemic, which significantly affects the global economy, but also accelerates trends and creates changes that will certainly sustain in the long run.



In order to prevent the virus spreading, Croatian Government introduced extraordinarily measures (“lockdown”) in March which were on force for several weeks. During the lockdown period the retail stores were closed, with an exception on essential-goods stores, traveling was limited both within the country and across borders, educational institutions were closed and public transport suspended. Non-essential retail stores and restaurants were allowed to work for online orders only and it was recommended for employers to establish work from home where possible. After the lockdown was suspended, special measures remained in a much milder form, with the basic recommendation of avoiding mass gatherings, using protective face masks and maintaining social distance.



Although the Government introduced different measures to assist the country’s economy, aiming mostly to prevent or slow down large scale layoffs, the lockdown resulted with 15,1% GDP y-o-y decrease in Q2 2020, the deepest ever recorded. On the other side, the State’s economy was in a more resilient position at the time of the pandemic outbreak compared to the period preceding the 2008 great financial crisis, so a somewhat faster recovery is expected despite the record fall of GDP.



Although the pandemic and the lockdown have changed the way we use the real estate, their impact to the real estate market was still moderate in H2 2020, resulting only with market slowdown, i.e. a fewer number of transactions.

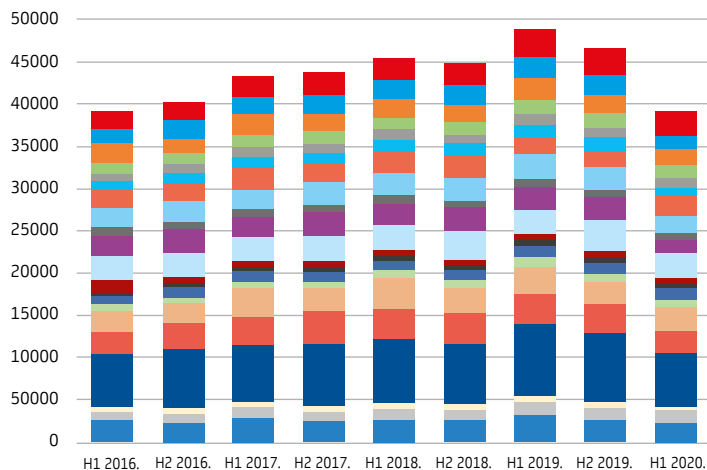


The impact of the pandemic on the real estate market will probably be visible in the coming period, and it will greatly depend on the results of the tourist season, since the share of tourism in the State’s GDP is among the largest in the world. The tourism sector is strongly linked to the employment rate, revenues from the tourist accommodation and related services and available funds for further real estate investments.



In addition to the virus epidemic, the year was also marked with the severe earthquake that struck Zagreb and the surrounding area in late March, causing serious material damage on more than 25.000 properties, most of which relate to older downtown buildings and family houses in the northeast of the City, with estimated value of the damage on the real estate greater than 10 billion euros. The Government has immediately started preparing a special law with the aim of speeding up the reconstruction process, but due to the complexity of the law and political circumstances, the law is expected to be passed in the second half of 2020.

THE NUMBER OF REAL ESTATE SALE AND PURCHASE AGREEMENTS IN CROATIA IN HALF-YEAR PERIOD



Note: the data shows the number of purchase and sales transactions recorded in the eNekretnine database as of September 30th 2020, not the complete number of transactions

Source: <https://nekretnine.mgipu.hr/>, Data processing: Zane

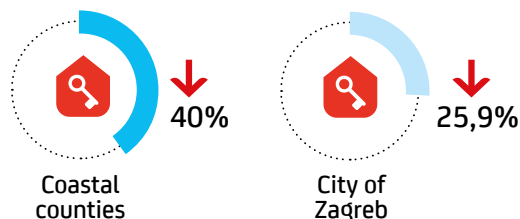
According to data recorded in the national database eNekretnine as of 30th September 2020, the number of real estate sale and purchase agreements in H1 2020 was lower compared to H2 2019 and H1 2019, for 16,1%, 19,9% respectively, but the data for the subject period is still being processed so we expect the total difference in the number of transactions to be lower.

Year-on-year trend in the number of real estate sale and purchase agreements varied through counties from significant decrease to mild increase.

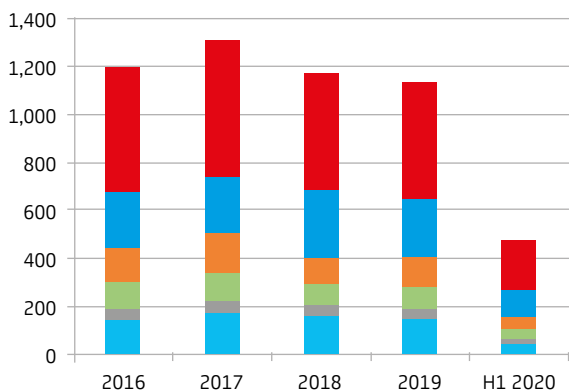
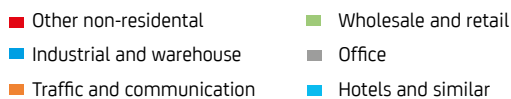
The highest decrease was recorded in coastal counties, Zadar, Primorje – Gorski Kotar and Šibenik – Knin in particular, where it stood around at approximately 40%.

The trend in the continental counties varied from significant decrease, highest recorded in Bjelovar-Bilogora (28,4%) and Varaždin County (26,2%), to mild increase, which was recorded only in Sisak-Moslavina (8,3%) and Virovitica – Podravina (4,6%), according to data processed as of as of 30th September 2020.

In the City of Zagreb and Zagreb County, which take up almost one fourth of total countries sale and purchase agreements, the y-o-y trend recorded 25,9% decrease, 7,5% respectively.



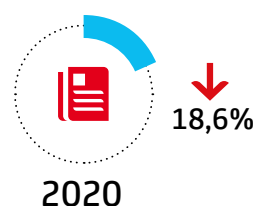
BUILDING PERMITS FOR NEW NON-RESIDENTIAL BUILDINGS



Izvor: DZS

The number of building permits issued for new non-residential buildings in the Republic of Croatia in HY1 2020 continued the downward trend which had started in 2018. The annual decline in the number of building permits in HY1 2020 was 18,6% lower compared to the same period of 2019.

The number of building permits varies for buildings of different types: an increase was recorded only in the number of building permits issued for office buildings (5%), while the number of building permits for other non-residential buildings decreased in different rates, varying from 33% (hotels) to 7% (industrial buildings).

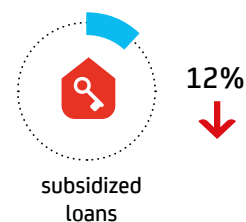


Residential real estate



- The residential real estate market was in positive momentum prior to Covid 19 outbreak. The main market driver was the City of Zagreb, with 14,7% y-o-y increase in prices in Q4 2020 – the highest recorded.
- As a result of high demand and favourable economic trends, the construction of predominantly residential buildings in Zagreb was intense over the past few years, and most projects have been fully commercialized in the early stages of construction, regardless of the location and size of the building. Although the interest from foreign developers was strong, the main developers were still local companies.
- During the lockdown period the number of transactions decreased, but both the number of transactions and achieved prices were under the strong impact of the state's Subsidisation of Housing Loans Program. There were 3628 loans in Croatia approved through public tender for state's subsidized housing

loan held in April, which was 12% less compared to tender held in the fall 2019. New tender for subsidized loans is planned for fall 2020.

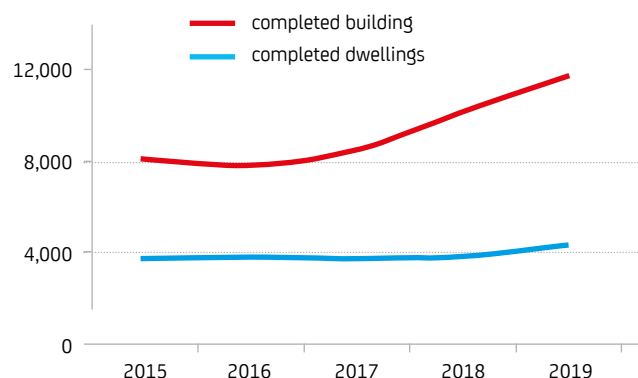


- As a result of the earthquake, the supply of Zagreb prime city center residential properties decreased - the number of damaged properties is significant, and potential buyers are not willing to buy the older buildings that do not meet modern seismic resistance standards, so we expect diversification of the prices of residential properties in city center.

THE NUMBER OF COMPLETED RESIDENTIAL BUILDINGS AND DWELLINGS

The number of completed residential buildings and dwellings was relatively stable in the 2014 – 2018 period, when approximately 3700 - 3800 residential buildings were built per year. In 2019 the increase in number of completed residential buildings was recorded – there were 4316 completed buildings, which was 12,9% higher than in 2018.

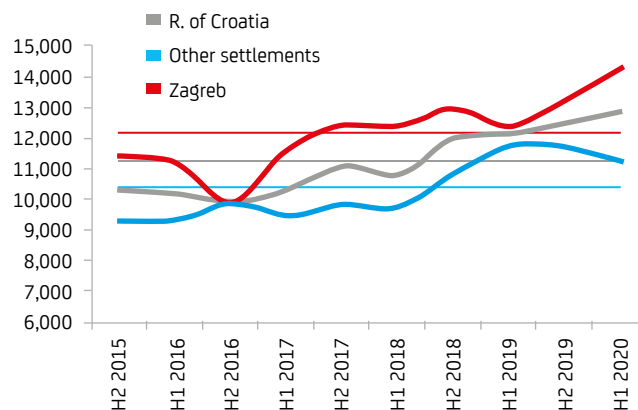
The number of completed dwellings was stable in 2014 – 2016 period and it stood around 8000 per year. Period of growth has begun in 2017, annual growth rate was highest in 2018 (19,4%) and the growth rate in 2019 was still high at 15.6%



Source: CBS

THE AVERAGE PRICE OF NEW DWELLINGS SOLD (KN / m²)

The average price of new dwellings sold varies considerably in the observed areas (Republic of Croatia, Zagreb, other settlements), but the H1 2020 recorded the highest prices for the past 10 years period in the City of Zagreb and Republic of Croatia. The highest average price of new dwellings sold in other settlements was recorded in H1 2019, followed by two consecutive periods of decrease in H2 2019 and H1 2020, which on half year basis stood at 0,3% and 3,9%, respectively.

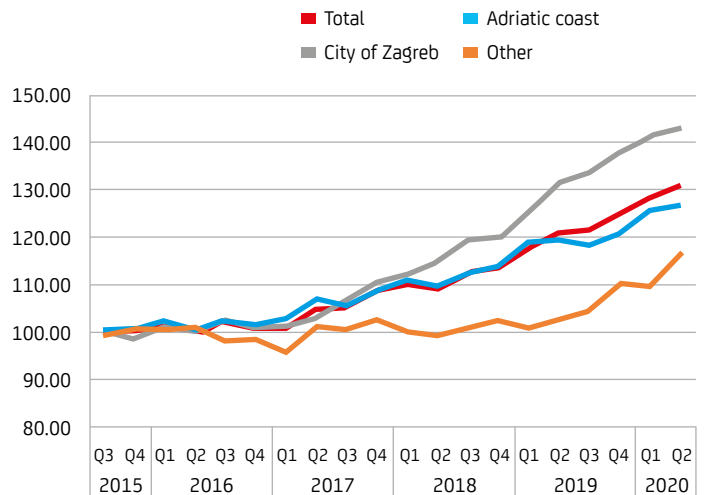
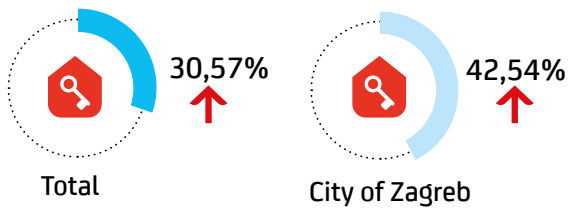


Source: CBS

ANNUAL AVERAGE HOUSE PRICE INDICES (Ø 2015. = 100)

Average annual housing price indices are also demonstrating strong market growth. According to the annual index, the prices of residential real estate in the second quarter of 2020 were 30,57% higher than the prices in 2015, and the main generator of growth was the City of Zagreb, which recorded an increase of 42,54% in the same period.

The growth rate of the existing dwellings prices (34,23%) was significantly higher than the growth rate of the newly built dwelling prices (11,34%).



Source: CBS

Office real estate



- With the completion of office space in 2019 in Zagreb whose area was similar to the area of office space completed in the preceding three years, the total area of leasable office space exceeded 1,000,000 m².
- The office real estate market in Zagreb was stable in Q4 2019 and Q1 2020, but in the Q2 2020 it was disrupted by the Covid 19 epidemic, ie the “lockdown” measure, and the earthquake, which triggered opposite market trends.
- National anti-Covid 19 recommendations for employers included establishment of home office in all industries where applicable putting the part of the office space out of service, so the tenants were negotiating rent deductions or deferments. At the same time, Zagreb earthquake caused temporary demand rush, driven by companies that operated in severely damaged offices in older buildings in downtown Zagreb, which had kept vacancy rates at low 4%.
- There were two completions in H1 2020 in Zagreb area: Euro Daus mixed use project with 7,500 m² on Radnička Road East and GTC's Phase 2 of Matrix project with 10.000 m² of office space along Slavonska Avenue.
- The construction of previously launched developments continued - the headquarters of Infobip in Buzin, which should be completed in early 2021, and the office building within the BHB Domus project, in the Heinzelova / Branimirova the domestic developer zone, whose completion is expected by the end of this year.
- In the H1 2020 the local developer began with the development of the large scale project City Island in Buzin area. On the total coverage of approximately 80,000 m², the development of 250,000 m² of commercial space is planned in phases, and the 1st building with 15,600 m² whose construction has begun will host the new headquarters of Nova TV.
- Although the impact of the epidemic on office space is currently limited, the epidemic has brought structural changes in the way the office space is used, such as a higher share of employees working from home, which will have a long-term impact on the market.
- The results of research conducted by various consulting companies point to the fact that employers will try to maintain a new organizational scheme that includes at least occasional work from home even after the epidemic is over. The trend of office “open space” began to slowly backdown before the epidemic, and due to the recommendation to maintain social distance which will certainly be active in the coming period, office premises will require more area per employee. Because of all of the above, the demand for flexible office spaces will increase.

OFFICE SCHEMES COMPLETED IN H1 2020

Project	Location	Investment type	Area (m ²)
Matrix Office Park	Zagreb East	2. phase of office park, premises for lease	10.000
Agram	Zagreb East	Mixed use (business and sports) project	6.000

OFFICE SCHEMES UNDER CONSTRUCTION

Project	Location	Investment type	Area (m ²)
Alpha Centauri Campus	New Zagreb West	Infobip headquarters, for owner's purpose	12.000
BHB Domus	Zagreb East	Residential – business complex, commercial premises for sale	5.600
Nova TV HQ	Zagreb South - Buzin	Headquarter in new large scale project	15.600
Dalmatia Tower	Split	Business skyscraper, mixed use	30.000

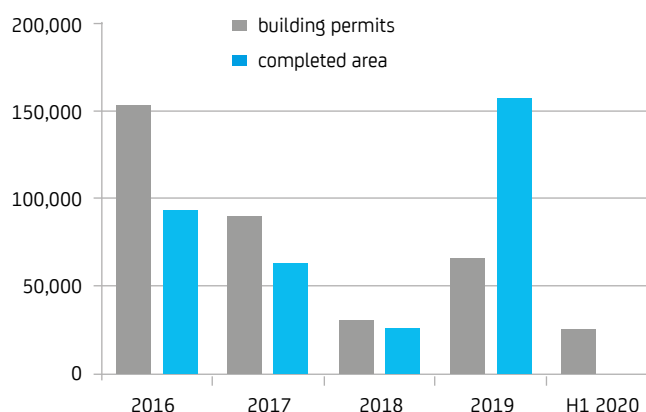
Average monthly rent in
Zagreb stood at

12,5 EUR/m²

OFFICE PREMISES IN CROATIA – BUILDING PERMITS ISSUED AND COMPLETED PREMISES (m²)

The area of completed office premises and the area of office premises for which the building permits have been issued has considerably varied in the last few years, with large differences between consecutive years.

In 2019 a strong positive shift was recorded - 158,213 m² of office space was built, which is the highest recorded area in the past 10 years.



Source: CBS

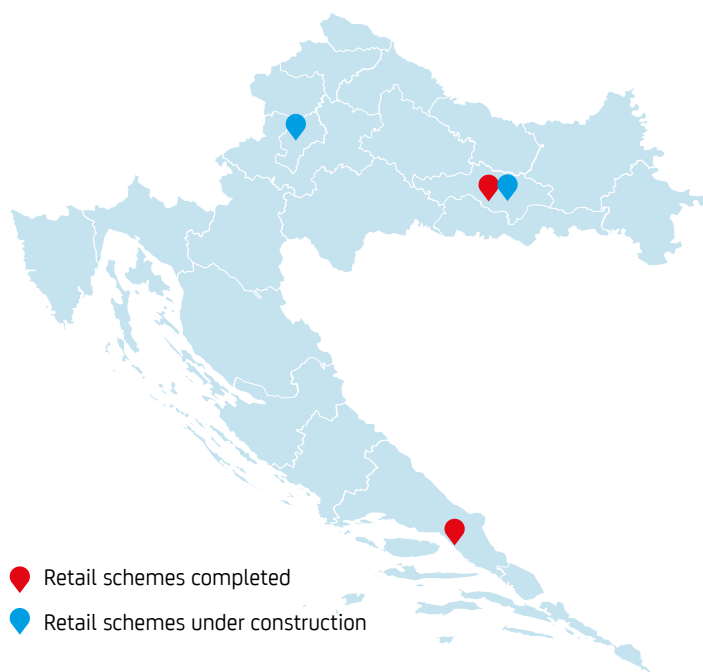
Retail real estate



- Although the retail market was very stable at the time of the epidemic outbreak, the trade sector, along with the tourism sector, was most affected by the epidemic, and shopping centers were the most exposed because they were not allowed to operate for a few weeks during April and May.
- In order to make up for the accumulated losses, the most of the tenants have managed to negotiate rent reliefs for that period. Grocery stores, drugstores and other essential – goods stores were exempted from the lockdown measure and online commerce of all types of goods saw an increased turnover.
- The vacancy rate in the prime shopping centers remained low at 3%, while the average monthly rent was stable at around 19 EUR / m².
- Food retailers are continuing with development of their standalone retail stores and expansion of their sales network in smaller cities, the most active ones were Plodine, Lidl, Konzum and Tommy. A new food retailer is entering to the market: Italian Eurospin has announced opening of 20 stores throughout the country till the end of 2021, with first opening in Zadar planned for Q3 2020.
- There were no new completions of shopping centers in Zagreb area and the completions in other cities added 30.000 m² retail area to the market: Supernova opened a retail park in Požega and SPOT mall with 19.000 m² of GLA was opened in Makarska, becoming the largest shopping center between Split and Dubrovnik.
- Two commercial projects in City of Zagreb should be completed in 2021: reconstruction of the Supernova Kaptol center at the beginning, and new shopping center Z with 34,000 m² area

launched by a local developer in Špansko by the middle of the year.

- We expect that the interest of consumers will be slightly higher for retail parks and high street stores than for classic shopping centers in the next period, given that it is easier to follow anti-epidemiological measures in such type of premises. Reduced consumer spending, rise in the share of online shopping in total trade, which was further accelerated by the Covid 19 epidemic, and the possible regulation or ban on working Sundays will put additional pressure on retail real estate.



- Retail schemes completed
- Retail schemes under construction

RETAIL SCHEMES COMPLETED IN H1 2020

Project	Location	Investment type	Area (m ²)
Supernova Požega	Požega	retail park	11.000
Shopping center Spot	Makarska	Shopping mall	19.000

RETAIL SCHEMES UNDER CONSTRUCTION

Project	Location	Investment type	Area (m ²)	Planned completion
Kaptol Center	Zagreb Center	Shopping center redesign	16.500	H1 2021
Shoping Center Z	Zagreb West	Shopping center and retail park	32.500	2021

Average monthly
rent in Zagreb:

17-21 EUR/m²
prime shopping centers

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Industrial real estate



- The industrial and logistic real estate market saw an increase in newly built premises and a very low vacancy rate in the period prior to epidemic outbreak. Although the demand was high, activity of the market was low due to limited supply of modern leasable stock, pushing the investors into building logistic centres for their own needs.
- Two big developments were completed in H2 2020: phase 4 of Zagreb Logistics Park in Sveta Nedelja with 15000 m² leased to Milšped, and Manšped's Logistic Distribution center in Kukuljanovo zone with 9.900 m² GFA. The developer of Zagreb Logistics Park - Helios has announced phase 5 of the park, which will add 3.400 m² to the market.
- As a result of increased demand and limited supply, the vacancy rate in modern stock remained below 2.5%.
- The Covid 19 epidemic could further stimulate the development of the logistics sector, which has continuously been considered as the most underdeveloped part of the real estate market in Croatia. The share of online commerce in Croatia is lagging behind global trends, but its benefits have emerged in the midst of the pandemic and it will be necessary to provide adequate facilities to support online commerce in the future.

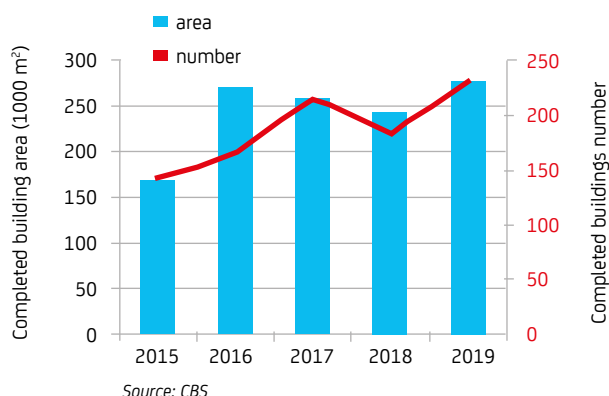
Monthly lease for
warehouse space

5.5 EUR/m²
first-class premises

2 – 4 EUR/m²
second-class premises

depending on the characteristics
of the space (location, equipment,
traffic connections, etc.)

THE NUMBER AND THE SURFACE AREA (m²) OF COMPLETED INDUSTRIAL BUILDINGS AND WAREHOUSES



Over the past 10 years, the area of completed industrial buildings and warehouses has varied significantly. A record area and number of completed industrial buildings and warehouses were recorded in 2019 - 232 buildings with a total area of 277,657 m² were completed.



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