



CROATIAN REAL ESTATE MARKET OVERVIEW H2 2020

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Croatian real estate market overview

H2 2020



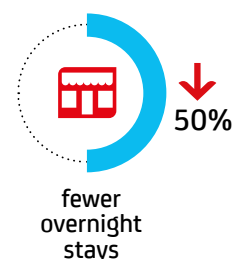
The continuation of the Covid-19 virus pandemic that had significantly affected the economy and all other aspects of life had globally marked the second half of 2020. Two strong earthquakes - the first that hit the Zagreb area at the end of March 2020, and the second that hit the Banovina area at the very end of the year, further aggravated circumstances in Croatia.



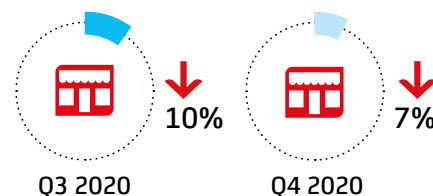
The strict lockdown that was in force in the Q2 2020 was lifted due to the improvement of the epidemiological situation and the special measures in Q3 2020 were kept in a much milder form, with the basic recommendation to avoid mass gatherings, use protective masks and maintain social distance. In the last quarter, the number of citizens infected with Covid began to rise, as did the number of hospitalizations and deaths related to Covid, resulting with the new lockdown. The new lockdown mostly affected smaller service-type businesses - restaurants and cafes could only operate for delivery, recreational and other indoor services were closed, and shops and cultural institutions continued to operate with a limited number of visitors.



Due to the almost complete country opening during the summer, the results of the peak tourist season were better than previously expected, but still poor compared to 2019. Hotel operators introduced strict cost control during the first half of the year, primarily through staff cost reductions, hotel closures and the postponement of capital investments and the offer of accommodation in the peak season was limited. The results varied significantly by region and accommodation unit type, car destinations” and accommodation units more suitable for maintaining social distance, such as camps, recorded better results, while “airplane destinations” suffered significant losses due to the limited number of flights.



With poor tourism sector performance and despite government measures to help the economy and prevent large-scale layoffs, the decline in GDP has been significant. We expect a slight growth of GDP in 2021, but it will again significantly depend on the results of the tourist season in addition with the vaccination status among the population.



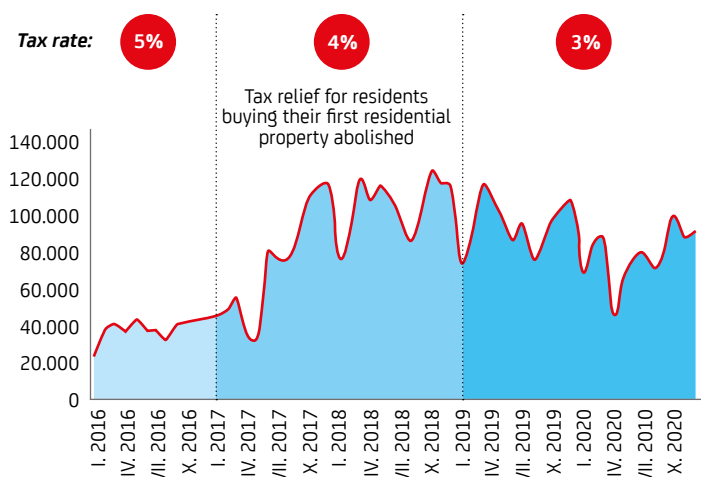
In addition to the Covid epidemic, two strong earthquakes have marked a previous year, causing a significant material damage. The Government has passed the Law on Reconstruction in September with aim to speed up the reconstruction of damaged buildings, but its implementation did not begin until the end of 2020. In the next period, a significant engagement of the construction sector in the reconstruction works is expected, which could additionally propel the already present trend of rising prices of construction works.

128
billion kuna
estimated value of
the damage caused by
Zagreb and Banovina
earthquakes



Covid-19 pandemic and the earthquakes have initiated trends and created changes that will certainly sustain in the long run. The number of employees working from home has increased significantly, interest in real estate that does not meet modern anti-seismic standards and real estate in downtown Zagreb has decreased, and interest in family homes and real estate on the outskirts of larger cities and surrounding smaller towns has increased.

REAL ESTATE TRANSACTION TAX REVENUES (1.000 KN)



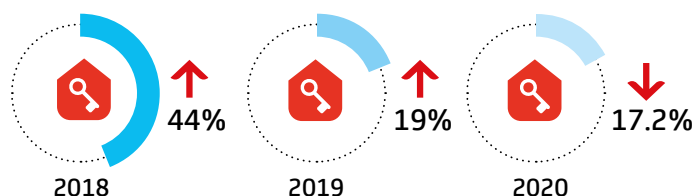
Source: Ministry of Finance RC, Tax Administration Service

Note: due to changes in the taxation of real estate transactions, the data for the following three periods is not fully comparable: 1st period – 2016, 2nd period – 2017 and 2018, 3rd period – 2019 and 2020

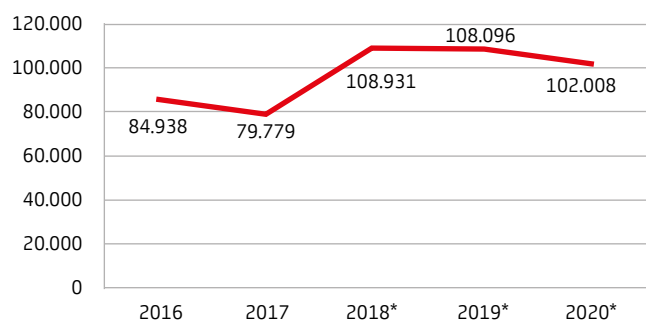
Despite frequent changes in the taxation system in the past few years, a strong positive trend in real estate tax revenues i.e. the value of real estate sold in the period from 2017 to 2020 is clearly visible.

Excluding data for 2017, due to increased coverage of taxation compared to 2016, the largest annual growth in sales volume was recorded in 2018 (44%), followed by 19% growth in 2019. Due to the market slowdown driven by Covid-19 epidemic and the Zagreb earthquake, the 17.2% y-o-y decline in sales value was recorded.

Value of real estate sale transactions



THE NUMBER OF REAL ESTATE SALE AND PURCHASE TRANSACTIONS IN CROATIA



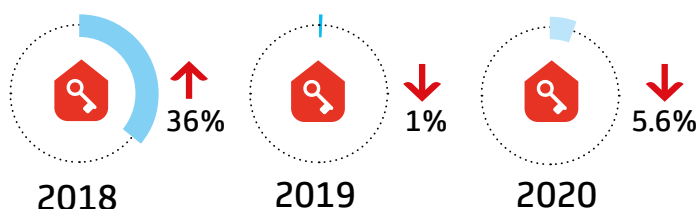
Source: Ministry of Finance, Tax Administration Service

Note: *the data is subject to change
The review does not contain statistics on the total sales but only on the sales of real estate for which the Tax Administration has established the tax and issued the tax account

In 2018 there was a significant increase in the number of real estate sale and purchase transactions in Croatia compared to the number of transactions in 2017 (36%) and the number of transactions in 2019 stood at the same levels. In 2020, the total number of transactions decreased by 5.6% compared to 2019.

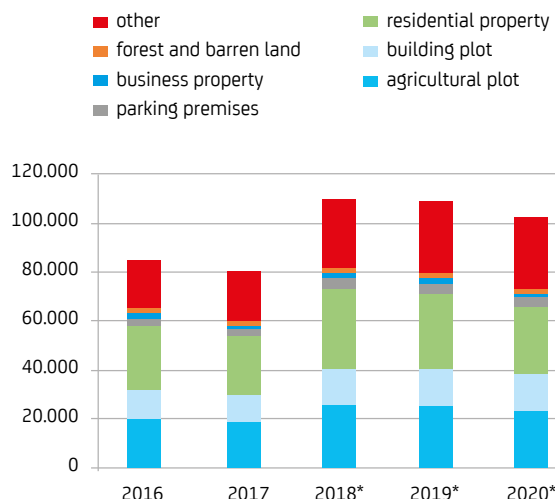
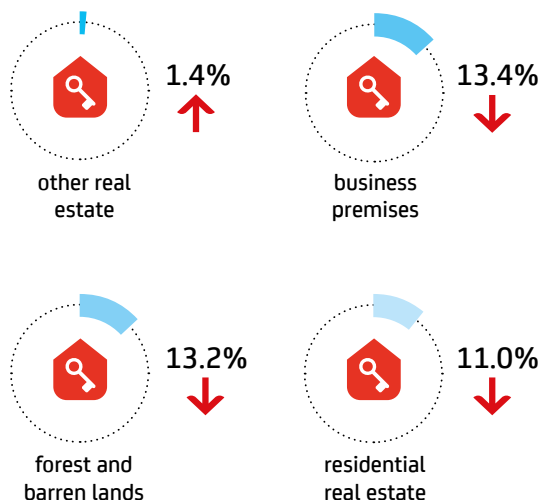
The trend in the number of sale and purchase transactions through counties has varied and despite the overall decline, eight counties recorded the increase in the number of sales in 2020. The increase in the number of sales was recorded in mostly less developed continental counties and was primarily caused by the “city breakaway trend” and additionally by the State’s subsidizing housing loans program. Covid-19 epidemic and the Zagreb earthquake have triggered the city breakaway trend, increasing the interest in family houses, agricultural land and construction land outside of larger cities.

The majority of the total transactions made through the period from 2016 to 2020 refers to dwellings, apartments and houses (total 26.6%); agricultural land (23.0%) and construction land (14.5%).



THE NUMBER OF REAL ESTATE SALE AND PURCHASE TRANSACTIONS BY PROPERTY PURPOSE

After a strong increase in the number of real estate transactions recorded for almost all types of real estate in 2018, in 2019 an increase was recorded only in the number of transactions of construction plots (2.0%) and in the category of other real estate (5.4%) and in 2020 only in the category of other real estate (1,4%). The largest decline in the number of transactions in 2020 was recorded in the business premises (13,4%), forests and barren lands (13,2%) and residential real estate (11,0%).

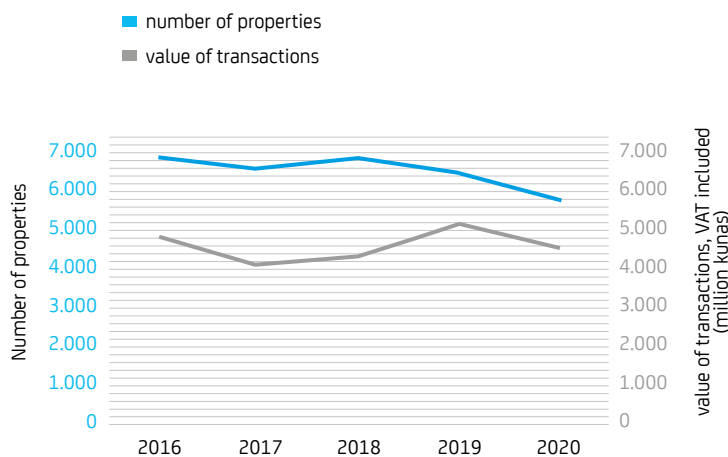


Source: Ministry of Finance, Tax Administration Service

Note: *the data is subject to change

The review does not contain statistics on the total sales but only on the sale of real estate for which the Tax Administration has established the tax and issued the tax account

REAL ESTATE TRANSACTIONS SUBJECT TO VAT IN THE REPUBLIC OF CROATIA



Source: Ministry of Finance, Tax Administration Service;

Note: the number of properties and transaction value based on VAT applications

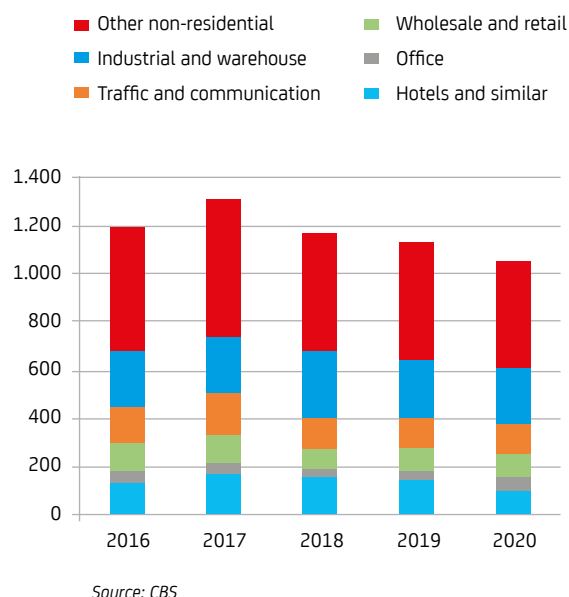
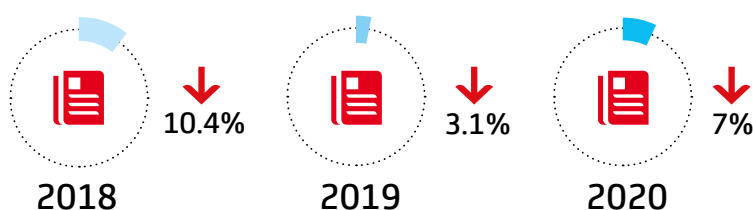
Apart from real estate transaction tax, real estate transactions in Croatia can also be charged with value added tax, with one transaction subject exclusively to one type of tax. Value added tax is obligatorily applied to deliveries of construction plots and newly built properties whose supplier is a VAT taxpayer, and may optionally be applied to deliveries of other types of real estate, provided the acquirer is also a VAT taxpayer with the right to deduct tax input in full.

The number of property transactions that were subject to VAT system in the period from 2016 to 2019 was relatively stable and ranged from 6500 to 6900. The 5775 property transactions subject to VAT system were recorded in 2020, which is 11.5% less compared to 2019. The value of property transactions subject to VAT in the same period varied significantly, the maximum 5.11 billion kunas including VAT was recorded in 2019, and the 2020 recorded a 10.4% annual decrease.

BUILDING PERMITS FOR NEW NON-RESIDENTIAL BUILDINGS

In the last 5-year period, the number of issued building permits for new non-residential buildings peaked in 2017, followed by a consecutive downward trend in the last three years. The annual rate of decline in the number of building permits was 10.4% in 2018, 3.1% in 2019 and 7% in 2020.

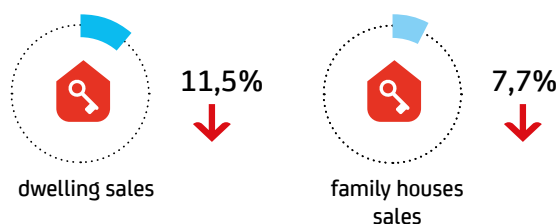
The trend in the number of building permits issued in 2020 varied significantly for different types of buildings compared to 2019. An increase was recorded in the number of building permits issued for office buildings (50%), commercial buildings (14%) and industrial buildings (1.7%), and the number of issued building permits declined for hotels (33.1%), traffic buildings (9.9%) and other non-residential buildings (10.8%)



Residential real estate market



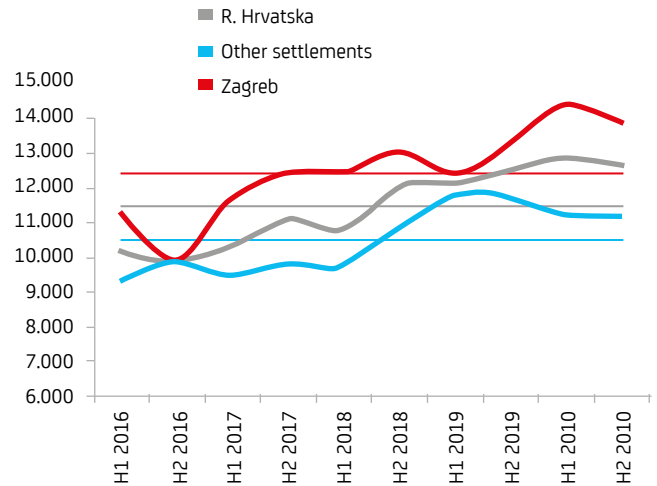
- The residential real estate market was very dynamic in H2 2020, under the influence of few factors - the Covid -19 epidemic, the effects of the Zagreb earthquake and the continued Subsidisation of Housing Loans Program.
- Due to the market slowdown caused by the Covid epidemic, in 2020 there were 11.5% fewer dwelling sales in Croatia than in 2019, and the number of family house sales decreased at slightly lower rate (7.7%). The pandemic has also affected the rental market - a sharp decline in tourist activity in Zagreb and on the coast resulted with non-operating housing units for short-term rent; the supply of residential real estate available for long-term rent has increased.
- The majority of the residential real estate market is concentrated in the city of Zagreb, which takes up 35.9% of the total number of apartment sale and purchase transactions. The Zagreb's residential market in 2020 was under the strong influence of the earthquake, which naturally reduced activity in the Zagreb city center. The city breakaway trend was further encouraged by Covid measures, which increased interest in single-family homes and shifted the focus to real estate outside the center. Despite the negative trends and with uncertainties regarding the reconstruction process, the most of the sellers in the City Centre were not willing to correct their asking prices, keeping the market in the City Centre on hold.
- The intense construction of predominantly residential buildings in Zagreb has continued, with high presale results regardless of the location and size of the project.
- State's Subsidisation of Housing Loans Program has also affected the residential real estate market, causing a sharp periodic increase in the asking prices of residential real estate and the decrease in the number of sale transactions prior to the tender for subsidies. The 4,535 housing loans were approved in the fall 2020 tender, which is the largest number of approved loans since the 2017 program launching.



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 highest prices in the past decade were recorded in the first half of 2020 in the City of Zagreb and Republic of Croatia and in the second half of 2019 in other settlements.

In the second half of 2020, there was a slight decrease in the average price of new dwellings sold in all observed areas, ranging from 1.1% to 3.5% compared to the previous half-year. Compared to the same period of 2019, the increase was recorded in the Republic of Croatia (1.2%) and the City of Zagreb (4.3%), and a decrease in the other settlements (4.9%).

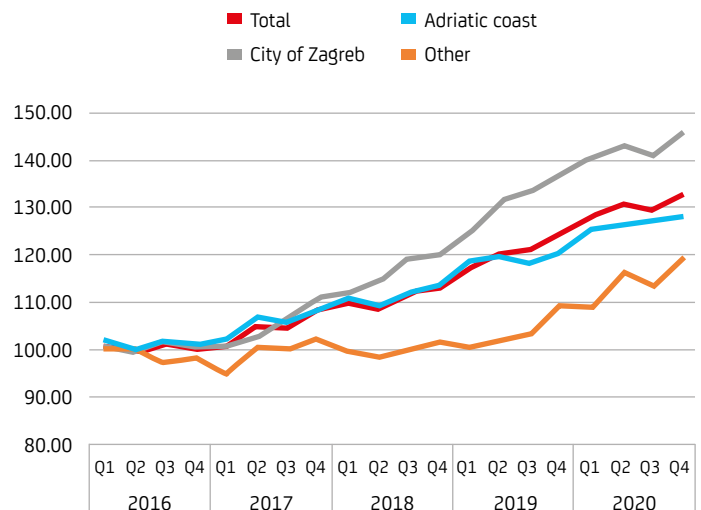


Source: CBS

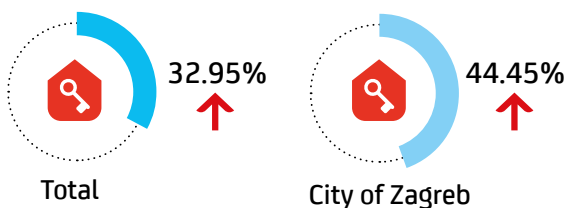
ANNUAL AVERAGE HOUSE PRICE INDICES (Ø 2015. = 100)

Average annual house price indices also indicate almost constant strong market growth from 2016 to the 2nd quarter of 2020, a slight decline in the 3rd quarter and a new growth in the 4th quarter of 2020. According to the annual index, residential property prices in the Q4 2020 were 32.95% higher than prices in 2015 in the Republic of Croatia, and the main generator of growth was the City of Zagreb with 44.45% increase recorded in the same period.

The prices of the existing housing stock in the Q4 2020 increased by 37.45% compared to 2015, which is significantly more than 8.66% rate recorded in the same period for the prices of apartments in newly constructed buildings.



Source: CBS



Office real estate market



- The majority of the office market in Croatia is concentrated in Zagreb, where the total area of office space available for lease exceeds 1,000,000 m².
- The market was relatively stable until the beginning of 2020, but it was disrupted in the Q2 2020 by the Covid-19 epidemic and Zagreb earthquake, which triggered opposite trends whose effects were still visible in the second half of 2020.
- After the lifting of anti-epidemiological measures in the Q3 2020, the recommendation to establish work from home schemes where possible was again in force in the Q4, so part of the office premises was out of use. Various studies point out that the remote working trend will retain even after the epidemic is over and that most of the surveyed employees preferred working from home for one to three days a week. Due to this trend and new organizational office schemes, a demand for flexible office spaces is set to increase.
- In the H2 2020, a small flexible office project Wespa spaces was completed and offered to the market, located on the 2,500 m² within the Green Gold Center. There were no other completions of office projects in the past period. The monthly rents and the vacancy rates in the existing office properties remained stable, despite the effects of the pandemic and earthquake on the market.
- Several office projects of various sizes are under construction and smaller scale projects are mostly in the final stages of construction. The largest project under construction is City Island in Buzin with a planned phased construction of 250,000 m² of commercial space. The first building with 15.600 m² is under construction and it will host the new Nova TV headquarters.
- There are also a few projects in the pipeline, but at the earliest stages of development (land plot purchase and design) and undefined construction kick-off dates.

OFFICE PROJECTS UNDER CONSTRUCTION

Project	Location	Investment type	Area (m ²)
Alpha Centauri Campus	Zagreb south	Infobip headquarters, building for owner's needs	9.000
BHB Domus	Zagreb east	Residential – business complex, business premises for sale	5.600
City Island Buzin	Zagreb south	Office premises for lease, 1st phase with 3 buildings under construction	25.000
Dalmatia Tower	Split	Mixed use business tower	30.000
D3 centar	Zagreb east	Office premises (previously planned as hotel)	4.650

Monthly rents in Zagreb:

14-15 EUR/m²
prime premises

7-10 EUR/m²
secondary premises

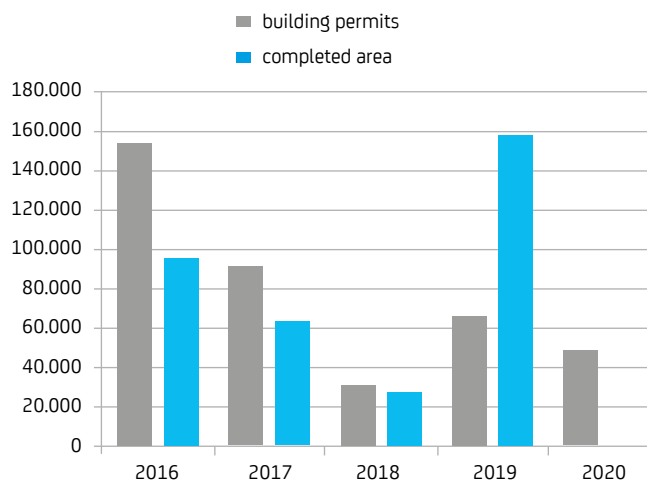
5%
vacancy rate

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 were issued has considerably varied in the last few years.

Regarding the past five years, the area of office space for which a building permit was issued reached its peak in 2016, followed by two years of strong consecutive decline. The 2019 recorded a new positive shift: the area of office space for which a building permit was issued has doubled compared to 2018, and 2020 saw the new decrease in the area of space for which a permit was issued (27% y-o-y).

The trends for completed office area were similar in the 2016 - 2018 period but the peak was recorded in 2019: the area of office space completed in 2019 was the largest one in the past ten years.



Source: CBS

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Retail real estate market



- The operation and the expansion of the retail sector in 2020 was significantly disrupted by the economic crisis caused by the Covid-19 virus epidemic, with different impact on the various parts of the sector, depending on the sales format, store formats and type of goods sold.
- The impact of the epidemic and anti-epidemiological measures was hardest on the classic shopping centers, which were closed during April and May and operated with a limited number of visitors at the end of the year. Retail parks performed somewhat better due to their concept in which it was easier to comply with social distancing measures, but also due to the lower maintenance costs compared to classic shopping centers.
- The vacancy rate in primary shopping centers slightly increased, but remained at low levels, and the monthly rents remained stable.
- High street premises in Zagreb were under the impact of several negative trends, which resulted in an increase in the vacancy rate, but monthly rents also remained stable. Rental prices of high-street premises ranged from 30 to 140 EUR / m², with final price depending on the micro location, the size of the space, visibility and the size of the shop window.
- Several stores in Zagreb center closed due to structural damage caused by the earthquake and the passenger foot flow has dropped significantly due to the relatively slow renovation process and the lack of tourists. As a result, market activity was weak, with twice as many closures than new store openings.
- The number of visitors and consequently the turnover has decreased in high street premises in coastal cities, especially in ones whose target group were primarily tourists.
- According to the type of goods, food products and home goods retailers recorded the best results since they took over the part of the turnover from the café bars and restaurants, whose business was limited to delivery only at the end of the year.
- Food retailers continued with building their own premises and expansion in tertiary cities, albeit at a slower pace. The new food

discount retailer – Eurospin entered to the market with its first store opened in Zadar and planned 20 openings throughout the country till the end of 2021.

- There were no new completions of retail projects in the Zagreb area but there are two projects in the final phase of construction. The reconstruction of the Kaptol center of 16,500 m² was in progress in the city center, part of the center is already completed and in operation, and the part is in the final phase of reconstruction. Shopping Center Z in Špansko is also in the final phase of construction, with a total area of 34,500 m² and expected opening by the end of 2021.
- We expect that the interest of consumers in the next period will be slightly higher for retail parks, while the classic shopping centers and high street stores will depend more on the lift up of the epidemiological measures and the tourist season. 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.



Average monthly rent in Zagreb:

20 EUR/m²
prime shopping centers

COMPLETED RETAIL PROJECTS IN H2 2020

Project	Location	Investment type	Area (m ²)
Jug Mall	Čakovec	Shopping center, former Betex factory	4.000
Park & Shop Krk	Krk	Retail park	5.500
Mipcro	Ivanec	Retail park, former factory	3.100
Capitol Park Sisak	Sisak	Retail park, former Konzum supermarket	4.200
Capitol Park Ivanič Grad	Ivanič Grad	Retail park, former Konzum supermarket	5.000

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Industrial real estate market



- Industrial segment is still the least developed real estate market segment, despite the country's excellent geographical position and constant ecommerce growth.
- High costs of land acquisition and contribution fees were main reason for the lack of investments in this sector. The rules for categorizing and calculating contributions for industrial premises (with the exception for factories) continues to outweigh the investment, compared to other types of real estate developments. Additionally, the lack of investment is also affected by high construction costs, the lack of suitable construction plots on appropriate locations and the unwillingness of investors to take risks.
- Due to the above reasons, there is a constant trend of building logistics centers for investors own needs and the majority of logistics buildings are owner occupied. There is also a trend of built to suit projects. Due to the very limited offer of modern spaces, the vacancy rate for existing centers is constantly very low (2.5%) and the typical rents are in the upper part of the average price range in the countries in the region.
- After the completion of two large-scale projects in the first half of the year, there were no new completions of industrial projects in the second half, and the lack of suitable industrial plots was recorded. Two big companies have publicly announced their demand for suitable industrial plot for large-scale projects (Rimac cars and Pevex).
- However, the development of the industrial and logistics space sector intensified in the previous period, which is partly due to the strengthening of online sales. The share of e-commerce in Croatia has continuously lagged behind world trends, but according to some reports, Croatia achieved a record increase in online shopping in 2020, for the support of which it is necessary to provide adequate logistics facilities.
- Several major projects are in the pipeline and under construction, part of which will be owner occupied and part will be offered for lease. With the completion of the projects in the pipeline and projects under construction, the available area for lease in the Zagreb area will increase by 13% of the currently available area.

Monthly lease for
warehouse space

5.5 EUR/m²
first-class premises

2 – 4 EUR/m²
second-class premises

2.5%
vacancy rate

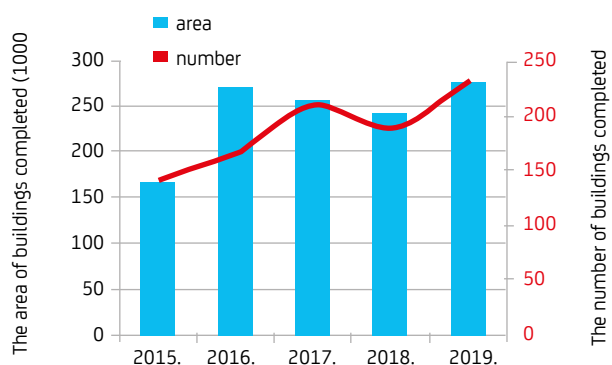
INDUSTRIAL SCHEMES UNDER CONSTRUCTION

Project	Location	Area (m ²)	Planned completion
Logistic park Log Expert One, for lease	Velika Gorica – Meridian 16	68600	Q4 2021
Eurospin – logistic center and office building for owner's needs	Velika Gorica – Meridian 16	29000	Q4 2021
Logistic distribution center Cargo Partner	Velika Gorica – Meridian 16	12900	Q4 2021
JGL, warehouse for owner's needs	Kukuljanovo	6000	Q4 2021
HP, business sorting center for owner's needs	Kukuljanovo	5000	H1 2021

INDUSTRIAL SCHEMES IN THE PIPELINE

Project	Location	Area (m ²)	Planned completion
Logistic park RC Zone Samobor, for lease	Samobor	70000	Q1 2023
Logistic distribution center Lidl, for owner's needs	Križ, Ivanić-Grad	29000	Q4 2021

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



Source: CBS

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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