

Industry Real Estate

Overview

In the fourth quarter of 2008 Croatia's gross domestic product (GDP) stood at HRK 82.753 bln, down 12.94% year-on-year. The country's financial intermediation, real estate, renting and business activities sector contributed 19.8% to the GDP, while the domestic construction sector accounted for 6.92% of the GDP. The country's real GDP growth in the fourth quarter of 2008 was 0.2% compared to the same period a year earlier, the lowest real growth since the first quarter of 2000. The household spendings dropped by 3.2% and the government costs climbed by 2.7% on the year. In the period between October and December 2008 Croatia's export declined by 2.5% and import were down by 7.1% year-on-year.

In 2007 GDP of the country amounted to HRK 275.078 bln, of which HRK 45.479 bln was generated by financial intermediation and real estate sector.

As of end-2008 employment in the real estate sector stood at 89,531 workers, which accounted for 7.31% of the employed population in the country.

According to data from the Central Bureau of Statistics of Croatia, the number of the registered companies, active in real estate activity stood at 5,955 in end-March 2009. The active companies numbered 4,893. Privately-owned real estate companies totaled 4,822, while the state-owned were 42. The real estate cooperatives were 3 in the first quarter of 2009.

GDP at Current Prices (HRK bln)

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	2008	2007	2006	2005	2004
Agriculture, hunting, forestry and fishing	4,826	4,866	5,135	4,184	19,011	16,400	15,578	14,725	15,090
Manufacturing, electricity, gas and water supply	13,544	16,280	15,164	14,765	59,753	55,271	50,683	47,293	45,543
Construction	5,724	6,494	6,435	6,006	24,659	20,907	19,044	16,736	14,940
Wholesale and retail trade	8,214	9,795	9,636	8,477	36,122	34,431	31,156	29,254	26,578
Hotels and restaurants	2,000	5,762	3,524	1,505	12,791	11,802	10,510	9,712	8,809
Transport, storage and communication	6,230	7,816	6,223	5,211	25,480	24,479	22,466	20,561	19,569
Financial intermediation, real estate, renting and business activities	18,164	16,156	17,006	16,418	67,743	61,795	54,881	48,630	42,355
Public administration and defence	12,888	12,787	12,077	12,118	49,870	45,351	41,738	39,273	36,499
Gross Value Added	71,590	79,958	75,199	68,683	295,430	270,436	246,056	226,184	209,382
Taxes on products less subsidies on products	11,164	13,505	11,676	10,385	46,729	43,787	40,285	38,183	36,168
GDP	82,753	93,462	86,875	79,068	342,159	314,223	286,341	264,367	245,550
GDP growth at Constant Prices					2,40%	5,50%	4,70%	4,20%	4,20%
Inflation					6,10%	2,90%	3,20%	3,30%	2,10%

Source: Central Bureau of Statistics of the Republic of Croatia

Indicator	Croatia's position	Total number of countries, included in the survey
Doing business	106	181
Global Competitiveness	61	134
Business Sophistication	72	134
Economic Freedom	116	179

Sources: World Bank; World Economic Forum; Heritage Foundation.

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Inward FDI flows by sectors 2004 - 2008

Financial intermediation	44%
Real estate	8%
Refined petroleum	8%
Wholesale trade	6%
Retail trade	5%
Oil & gas extraction	5%
Hotels & restaurants	3%
Other	21%

Source: Croatian National Bank

	2004	2005	2006	2007	2008**	2009*	2010*	2011*	2012*	2013*	2014*
FDI as % of GDP	2,00	3,60	6,50	8,10	5,90	4,00	4,30	5,40	6,00	6,20	6,50
FDI, net in bln EUR				3,483	2,811	1,793	1,934				

* preliminary data

** projected data

Source: Croatian National Bank

Geography

The real estate market in Croatia is most active in the country's capital, Zagreb, and along the Croatian coast, mainly in the Istria region in the north, the Split and Dalmatia regions and the Dubrovnik and Neretva regions in the south.

Major Developments

Regulation

From January 2008 the administrative bodies of large towns can approve the issue of building permits. In October 2007 was introduced a New Spatial Planning and Construction Act according to which the number of issued building permits would be reduced and the procedure decentralised.

Following the amendments to the Mediation in Real Estate Act from October 2007, the Croatian Chamber of Commerce should keep a Registry of Companies and Directory of Estate Agents. The new act was expected to provide legal safety for clients of real estate mediators.

Following amendments to the Croatian Distraint Act published in the Official Gazette on July 12, 2005, the Croatian Chamber of Economy has had a register of all properties sold under enforcement procedures (distraint). The register is available to the public at

The Distraint Act outlines the procedures used by courts to implement the collection of debts based on distraint and certified documents and claim security instruments (insurance procedure) unless otherwise specified by special legislation.

(Editor's note: The term 'claim' designates the right to a specific collection, act, lack thereof or distress).

Source: Croatian Chamber of Economy

The Croatian parliament amended the Law on Ownership and Other Real Property Rights in June 2006. According to the amendments, foreigners need only approval from the Justice Ministry in order to buy real estate in the country.

Prior to the amendments, foreign citizens and enterprises who wanted to acquire real estate in the Republic of Croatia, other than by inheritance, had to seek consent from the Ministry of Foreign Affairs. Foreign investors and legal entities are free to acquire real estate in Croatia provided that the principle of reciprocity is met, that is only if Croats are allowed to buy property in their countries.

Croatia must fully liberalise its real estate market by 2009, as a move towards membership in the EU.

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The Croatian Government announced in February 2006 it would seek changes in legislation that will enable the state to have priority when privately-owned property located on the country's Adriatic islands is being offered for sale. The move was in line with the government's efforts to protect the property which it considers as national wealth. The government will not sell state-owned real estate, but will grant concessions on it, according to Croatia's Prime Minister Ivo Sanader.

The draft amendments to the Law of Islands affects 746 small temporarily populated and unpopulated islands. The government will not ban the owners from selling their real estate property on the islands, but proposes that the owners have to offer it first to the state at market prices.

The central government will have to respond to the offers within 30 days, and if it is not interested in buying, the owners should offer the property to the counties, towns or municipalities, in which the islands are located. If all these potential buyers also show no interest in the offers, the owners will be able to sell their property to all others.

The market value of the real estate on these islands is estimated at HRK 5.5 bln. The government is planning to buy property worth HRK 500 mln.

Companies

Croatian closed-end real estate fund Quaestus Nekretnine d.d., registered by the Croatian Financial Services Supervisory Agency on Jan 17, 2008 and managed by Quaestus Invest d.o.o., reported a HRK 226.503 mln net asset value as of end-June 2008, which ranked it first among closed-end real estate investment funds in Croatia. Fima Propius d.d., which was the leading real estate fund until March 2008, ranked second with a net asset value HRK 186.196 mln.

Other

In January 2009 Croatia's real estate market recorded a decline of between 70% and 80% year-on-year, which could lead to the closure of many real estate agencies according to the Association of Real Estate Agencies at the Croatian Chamber of Commerce. The decline was due to financing difficulties and the recession. The increasing interest rates, stronger credit terms and a fall in the Croatian Kuna exchange rate also had a negative effect upon the Croatian real estate sector.

In March 2009 Croatia via state-owned company Plinarco d.o.o., Zagreb opened a tender for the construction of the natural gas pipeline - sections II, III and IV of the gas pipeline system Lika - Dalmatia, the main gas pipeline Slobodnica-Donji Miholjac and installation of the auxiliary measuring-reduction stations. The construction will be financed by the European Investment Bank - EIB, Luxembourg.

In February 2009 Ingra d.d., a leading Croatian construction company and the authorities of Iraqi Kurdistan signed a protocol on cooperation in the construction of health facilities. The next step will be the acceptance of Ingra's bid with projects and the signing of contracts on the construction and equipment of hospitals. According to preliminary estimates, the value of construction works, which should start this spring, is some USD 180 mln, and the value of all works is USD 500 mln.

Ingra d.d. also signed a EUR 2.4 mln deal in Algeria for the design, delivery and assembling of a hydro-mechanical equipment for a local dam, as well as a EUR 5.4 mln deal over the expansion of Stora harbor and the restructuring of Marsa Ben M'Hidi harbor. Moreover, the company stated that it awaited the finalization of the tender for the construction of a EUR 70 mln military hospital in Algeria.

In February 2009 Ingra d.d. announced its consideration to sell sports hall Arena Zagreb in order to finance its current liabilities concerning the Zagreb Arena construction. The reason for this decision is the delay in payments by the city Zagreb on a rent which monthly amounts HRK 5.4 mln as well as deposit for the Zagreb Arena hall. Problem occurred when city Zagreb refused to take over the sport hall until permanent working permit is obtained which left Ingra without expected liquidity inflow.

According to the latest real estate report by the Centar Nekretnina web portal, there was a minor correction of prices in the real estate market in the first quarter of 2009. In order to stimulate the market, some banks launched promotional home sale offers, but without a considerable effect.. However, the initiative also showed that developers could afford to cut their prices by 10%, and banks can keep their rates frozen. They expects economic forecast for the remainder of the year to play a key role in the Croatian real estate market.

In March 2009 Raiffeisen Bank Austria and 25 construction companies launched the sale of 555 flats throughout Croatia at discount prices in the first phase. The prices of flats built by those 25 general contractors, that are RBA clients, will be reduced between 10% and 29% and interest rates on housing credits, granted by this commercial bank for this purpose will be lower between 10% and 25%. Thus, interest rates will go between 5.5% and 6.25%, and prices - between EUR 950 to EUR 3,150.

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The European Bank for Reconstruction and Development (EBRD) announced in August 2006 its EUR 35 mln investment, alongside Israeli property developer BSR Europe, to create a real estate joint venture for Eastern Europe. BSR Europe will invest around EUR 50 mln, while other investors will provide a combined EUR 30 mln in equity in partnership with the joint venture, bringing the total investment potential to EUR 115 mln.

The joint venture will redevelop, develop, manage and own real estate in the capitals and in smaller towns and cities in Bulgaria, Croatia, Georgia, Moldova, Montenegro, Romania, Russia, Serbia, and Ukraine, it added.

The funds will be invested gradually over the coming years in projects that will be brought to the joint venture by BSR Europe.

Croatia is currently carrying out a EUR 45 mln project to set up a joint information system of its real estate and land registers (ZIS) to improve transparency and facilitate investments. The project is financed by a World Bank loan and grants from the European Union. It was started in 2003 and will be completed in 2008. The developer of the project is Ericson Nikola Tesla JSC – Zagreb.

Leading Companies

Closed-end Real Estate Investment Funds				
Fund	Net Asset Value (NAV) as of November, 2008 (mln HRK)	NAV (mln HRK) as of November 2007	NAV (mln HRK) as of 2006	NAV (mln HRK) as of 2005
HPB Real d.d.	30,360	-	-	-
ZIF Fima Proprius d.d.	174,437	195,862	-	-
Jadran Kapital d.d.	86,689	92,885	85,076	-
Ucka-Marjan d.d.	7,323	7,824	-	-
Quaestus Nekretnine d.d.	224,797	-	-	-
Terra Firma d.d.	48,133	52,118	52,202	44,040
Terra Mediterranea d.d.	26,935	27,396	25,957	-

Source: Croatian Financial Services Supervisory Agency

Leading Real Estate Companies in 2007	
Company	Total Revenue in HRK
Zagrebacki Holding d.o.o. (Zagreb)	4 306 435 110
Policentro Rijeka d.o.o. (Rijeka)	595 499 554
Zagra Nekretnine d.o.o. (Zagreb)	219 959 937
Synerga Nekretnine d.o.o. (Zagreb)	186 714 611
RL Eta d.o.o. (Zagreb)	167 635 697
Zagreb GSE d.o.o. (Zagreb)	139 025 739
Nivonekretnine d.o.o. (Zagreb)	112 220 874
Bacal Alpha Nekretnine d.o.o. (Zagreb)	108 171 126
Stanoing d.o.o. (Varazdin)	97 487 134
K.I.D Ulaganja d.o.o. (Zagreb)	96 582 467
Alpe Adria Investments d.o.o. (Zagreb)	95 791 351
S Immorent Alfa d.o.o. (Zagreb)	93 712 014
Gradski Centar Upravljanje d.o.o. (Zagreb)	93 306 532
Total	6 312 542 146

Source: Lider press d.d.

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Leading Real Estate Agencies

Adriatic Property Services (Zagreb, Croatia)
 CB Richard Ellis Ltd (Zagreb, Croatia)
 Exeat (Zagreb, Croatia)
 King Sturge Ltd (Zagreb, Croatia)
 Ozana (Zagreb, Croatia)
 Staza Ltd (Zagreb, Croatia)
 Zagreb Real Estate & Consultancy (Zagreb, Croatia)
 Zagreb West (Zagreb, Croatia)

Employment

Number of Employees under Labour Contract

	Q1 2009	2008	2007	2006	2005
Real estate activities	4945	89531	82,271	72,048	67,100
Total employment	1223934	1222652	1,181,077	1,124,697	1,095,465
Share (in %)	0,40%	7,32%	6.97%	6.41%	6.13%

Source: Central Bureau of Statistics of the Republic of Croatia

Average Monthly Net Salary (HRK)

	Jan - Mar 2009	2008
Real Estate	4500	5452
Average Wage for the Country	5498	5178
Share (in %)	81,85%	105,29%

Source: Central Bureau of Statistics of the Republic of Croatia

Supply

Residential real estate

In March 2009 the number of building permits increased by 14.2% on the year to 1,103, of which 80.2% were for new constructions. The total number of building permits in the period January – March 2009 increased by 28.1% on the year to 2,833. In the first quarter of 2009 the volume of construction works dropped by 0.3% on the year. In March 2009 the share of construction works on new construction made up 62% of the total.

The number of housing units completed in 2008 increased by 30% year-on-year to 7,875. Total useful area rose by 27.75% on the year to 540,543 sq m.

In 2009 demand for homes continues to outstrip supply. Zagreb is still Croatia's largest and fastest growing residential market and prices rose by 15% annually during the past few years. In 2008 the average asking price was about EUR 2,040 per sq m or 0.6% higher than a year earlier. There is a lack of higher-quality premises although the market becomes more sophisticated, developers can be expected to increase the supply of quality residential units. Supply and demand for high-grade residential units are expected to continue growing in the next period, as the developing market creates favourable conditions for them and residential rents are likely to stay near their current levels.

Lower cost housing was hit by the economic crisis, which will affect in the construction industry. Over the past few years the number of constructed flats increased and supply exceeded demand in 2007, when 25,000 flats were constructed. The expectations for 2009 are supply of flats to halve in 2008. Although input costs are rising, selling prices are not expected to fall.

In 2007 the total number of issued building permits declined by 5.0% from 2006.

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Issued Building Permits in April 2009

	Number	Useful floor area (sq m)
Residential buildings	628	188754
Non-residential buildings:	137	112223
-- Hotels	4	12692
-- Public buildings	5	2732
-- For wholesale and retail	22	22905
-- For telecommunications	28	2137
-- Industrial buildings and warehouses	25	27634
-- Others	53	44123
Total new buildings	765	300977

Source: Central Bureau of Statistics of the Republic of Croatia

Issued Building Permits in December 2008

	Number	Useful floor area (sq m)
Residential buildings	890	594678
Non-residential buildings:	201	549323
-- Hotels	19	90112
-- Public buildings	10	59762
-- For wholesale and retail	32	283413
-- For telecommunications	32	1612
-- Industrial buildings and warehouses	31	39075
-- Others	77	75349
Total new buildings	1091	1144001

Source: Central Bureau of Statistics of the Republic of Croatia

Issued Building Permits

	Jan-Mar 2009		2008		2007		2006		2005	
	Number	Value (HRK bln)	Number	Value (HRK bln)	Number	Value (HRK bln)	Number	Value (HRK bln)	Number	Value (HRK bln)
Buildings	2323	4295	9812	10889	11,378	22.831	12,135	19.272	12,253	15.999
Civil engineering works	510	2625	2469	1392	1,423	10.670	1,440	7.410	1,565	8.558
Total	2833	6920	12281	12281	12,801	33.501	13,575	26.682	13,818	24.557

Source: Central Bureau of Statistics of the Republic of Croatia

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Sales of New Housing Units by Location

	2008			2007		
	Number	Useful Floor Area (sq m)	Average Price (HRK/sq m)	Number	Useful Floor Area (sq m)	Average Price (HRK/sq m)
Zagreb	1612	99413	14315	1767	112784	12308
Regional cities	1413	92233	9703	1343	82177	9803
Total for the country	3025	191646	12095	3110	194961	11252

Source: Central Bureau of Statistics of the Republic of Croatia

Building Permits for Home Construction

	Jan-Feb 2009	2008	2007	2006	2005
Number	2509	24585	24,877	25,517	23,484
Useful floor area (sq m)	221123	1994128	2,088,495	2,150,055	1,982,425

Source: Central Bureau of Statistics of the Republic of Croatia

Completed Homes

	2008	2007	2006	2005
Number	7875	6,054	7,151	4,566
Useful floor area (sq m)	540543	423,126	468,578	297,235

Source: Central Bureau of Statistics of the Republic of Croatia

Office real estate

Office real estate, completed in 2008 reached two thirds of the completed offices in 2007 and one fourth of 2006 level. The half of the total new supply was delivered in the second quarter of 2008. By the end of 2008, the total office stock was approximately 570,000 sq m.

The total Zagreb office stock continued to be rather low compared to other capitals in the region, for comparison – the total stock is less than half the volume of that of Bratislava, Slovakia, a city with the similar number of population.

For 2009 there is a very little new space expected to be delivered to the market.

In 2008, most of the Class A office space in Croatia was located in the capital Zagreb, while the other larger cities like Pula, Rijeka, Split, Dubrovnik and Osijek had Class A and B office space. More than 95% of the newly built Class A offices - about 260,000 sq m, and 45% of the Class B were built between 2005 and 2008. At the beginning of 2009 there were only a few offices under construction in Zagreb, covering a total of 80,000 sq m.

In 2007 a total of 65,000 sq m of office real estate stock was delivered in Zagreb, which was below the initially expected 65,700 sq m.

In 2007 Zagreb office real estate market remained the most developed segment and made up 75% of the overall value of the office market in Croatia. The remaining 25% were divided between the other big cities Rijeka, Split, Dubrovnik and Pula in western Croatia and Osijek, in eastern Croatia. A total 170,000 sq m Class A office space was delivered in 2007 and about 50,000 sq m of Class B office real estate stock was expected to be delivered in 2008. In 2007 office stock of both Class A and Class B was 770,000 sq m. Some the big business centres completed in 2007 were Almeria Business Centre of 45,000 sq m leasable area and Grand Centre of 14,000 sq m leasable area.

In 2007 the office real estate market witnessed an oversupply due to the completion of several buildings at the same time.

Zagreb's office real estate stock remains relatively low compared to the other CEE capitals. Croatia's capital has an estimated office stock of around 600,000 sq m, half of which is class A.

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Zagreb Office Market					
	2009f	2008f	2007	2006	2005
Annual supply (sq m)	60 000	78 000	65 000	115 000	40,000
Take-up (sq m)	70 000	75,000	110 000	75 000	55,000
Prime rental level (EUR/sq m/month)	13-17	13-18	13-18	14-18	15-18
Vacancy rate (%)	5,0	5.0	8.0	13,0	12.0

Source: DTZ

(*Editor's note: The figures for 2008 and 2009 in the table above are forecasts.)

Selected Office Transactions in Zagreb in 2007		
Building	Tenant	Size (in sq m)
Net City	T Mobile	7,000
Almeria	ABB	3,000
Almeria	Splitska Banka	4,500
Almeria	Agrokor	1,000
Almeria	Zagreb Sport Association	1,000
Almeria	Siemens	9,500
Zagreb Tower	World Bank	1,300
Zagreb Tower	Pfizer	1,000
Zagreb Tower	Deloitte	2,100
Eurotower	Erste Bank	N/A
Eurotower	ZB Invest	N/A
Eurotower	CAIB	N/A
Eurotower	Erste Securities	N/A
Eurotower	Hidrocommerc	2,000
Eurotower	Zagrebacka Burza (Stock Exchange)	1,000
Eurotower	KPMG	2,000
Eurotower	AZ Fond	1,000
Eurotower	Zuric & Partner	1,000
Avenue Center	ZaBa	2,000
Avenue Center	OTP Bank	1,000
Fingo	SPAZ	1,400

Source: DTZ

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Shopping Centre Stock by Location in Zagreb end-2008	
Edge-of-town	43,00%
Centre	26,00%
Mid-town	18,00%
Out-of-town	13,00%
Source: CBRE	

New Retail Supply 2009 - 2010

Shopping Centre	Opening	GLA in sq m
City Center One (Phase II)	2009	15,000 sq m
SC Dubrava	2009	26,000 sq m
Westgate (Phase I)	2009	50,000 sq m
Arena Centar (Phase I)	2010	60,000 sq m
SC Vrbani	2010	20,000 sq m

Source: CB Richard Ellis

The retail real estate market is one of the most dynamic sectors in the country. With the strengthening of the economy, citizens' growing purchasing power and the prospects of Croatia joining the EU by 2010, make the Croatian market increasingly interesting to both local and foreign investors. Zagreb is Croatia's strongest and fastest developing retail market, although the larger Croatian towns such as Varazdin, Rijeka, Zadar, Sibenik, Dubrovnik and Osijek have increased retail and investment activity.

Current shopping centre stock in Zagreb stands at around 230,000 sq m of GLA and is made up of nine existing shopping centres. Some 110,000 sq m GLA of this is contained in three shopping malls of City Centre One, Mandi and Avenue Mall, were completed in 2006 and 2007.

In the second quarter of 2008 thirteen new shopping centres, which will bring some 600,000 sq m additional GLA to Zagreb's retail scene, are in the pipeline. Some of these new projects include Shopping City Zagreb Westgate in Zapresic, M2 Buzin Supernova project, Bluehouse's Vrbani neighborhood shopping centre and LS Property's Zagreb Mall shopping centre in the eastern part of the town. Many of the projects in the pipeline consist of modern and sophisticated schemes with larger stores, different forms of leisure and entertainment, including bowling, wellness and play areas for children.

The big box market in Zagreb is expected to continue growing in 2009. Some of the strongest players in Zagreb's big box market include Konzum with seven supermarket stores, Billa, Getro, Mercator, Lidl, Pevec and Bauhaus. The big box market is also strong in other larger urban centres such as Osijek, Rijeka and Zadar, in which there are some 10-15 big box stores, in addition to one or two actual shopping centres.

As a result of the current economic climate, some of the pipelines have been delayed or cancelled.

Compared to the other capitals in the region the supply of modern retail space in Zagreb remains low.

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The retail real estate market in Zagreb is still under-developed. The availability of space on the high street in Zagreb has remained almost unchanged over the last few years, although the demand has been constantly growing.

In the period 2008-2013 more than 10 new shopping centres, with an overall area of 545,000 sq m, are scheduled to open doors. At least 75% of the projects are expected to be completed and all popular brands that are not yet presented will enter the Croatian retail market.

The local retail market expects shopping centres of new formats such as outlets, neighbourhood centres that combine retail and leisure area, as well as power centres, combining shopping and warehousing area. By the end of 2008 two fashion outlets are planned to open doors. The first one Roses Fashion Outlet in Sveta Kriz will open 20 km east of Zagreb and Prigan Outlet in Sveta Ivan Zelina, 10 km of Varazdin, northern Croatia.

In 2008 two new shopping malls, Prebendarski Vrtovi and Metropolis, with a total area of 68,000 sq m, are to open.

In 2007 two shopping centres, Avenue Mall and Shopping City Mandi, with a leasable area of 26,000 sq m and 17,500 sq m, respectively, were completed. Avenue Mall comprises a multiplex cinema and a large Konzum supermarket and Shopping City Mandi offers mainly furniture and household goods.

Until 2007 there were only two big shopping centres in Zagreb - King Cross and City Center One, located in the western part of the city.

The food sector in Croatia is still largely dominated by local hypermarkets and supermarkets, although international chains Metro, Billa, Lidl, Slovenian Mercator and German Kaufland have already entered the market. Leading retailers such as Carrefour, Tesco, Ahold or Auchan have not expanded to Croatia yet. Along with the new malls, some shopping centres opened in the 1990s, such as Importanne Centar, Importanne Galeria, the Italian-developed Mercatone Center and Centar Kaptol, operate successfully.

The Jankomir area in western Zagreb, the city's highest concentration of modern retail stock, has become an attractive retail destination outside the city centre. The King Cross Shopping Center, opened in 2002 and covering 36,000 sq m as well as Metro, Baumax, and Bauhaus outlets are located there. In 2006 outlets of Kika and OBI were built in the Jankomir area.

Selected Shopping Malls in Zagreb 2006-2010

Centre	Delivery date	Total area (sq m)	Developer	Location	Major Tenants
City Center One	2006	48,000	Real East (AUT)	Jankomir (west city)	Interspar, Peek&Cloppenburg, New Yorker, Hervis and Mango
Avenue Mall	2007	36,500	GTC (ISR)	Novi Zagreb	Konzum, L'Oreal, New Yorker, Benetton, Marks&Spencer, Zara
Shopping City Mandi	2007	28,500	Gruppo Zamparini (ITA)	Slavonska (east city)	Tommy, Hg Spot
Prebendarski Vrtovi	2008	18,000	Ungelt/Spectrum, Ovag (HR)	City Centre	N/A
Buzin Shopping Center	2008	30,000	Immorent (AUT) Hidrocommerc (HR)	Buzin	N/A
City Centar Zagreb	2009	60,000	TriGranit (HU)	South-west city (Laniste)	N/A
MDD Dubrava	2009	25,000	MDD Developments (HR)	East city (Dubrava)	N/A
Shopping City Zagreb	2009	50,000	ATP Group (AUT)	Zapresic (north of Zagreb) N/A	N/A
Vrbani Shopping Center	2009	27,000	Orbis Holding (HR)	West city (Vrbani)	N/A
Cvjetni Trg	2010	30,000	HOTO Group (HR)	City Center	N/A
Shopping Center Spansko	N/A	83,000	N/A	Spansko	N/A

Source: DTZ

Industrial Real Estate

In the first quarter of 2009 Croatia's total built industrial stock stood at 605,000 sq m, of which approximately a third is modern warehousing. Most of existing industrial space is located in the old industrial zones along Zagreb's ring roads, in the eastern and western directions to Zitnjak, Jankomir and Jastrebarsko. The warehousing market remains Croatia's least developed property sector. A good number of warehousing projects are developed in larger towns beyond the ring roads, near the main motorways. Several major commercial warehouse projects are built along the E59 and E70 highways leading to Western Europe. Following new retail developments, there is a demand for a new warehouse space. The Zagreb Business Park is currently the only modern logistics park in the country.

There are expectations for delivering 110,000 sq m of new logistics space to the market in 2009, consisting of 40,000 sq m at the Zagreb Business Park and the 70,000 sq m at the Immorent Jastrebarsko facility.

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In 2008 Zagreb's total industrial stock remained very low although there was a significant demand for a new modern warehouse space.

In 2008 the total take-up was less than in 2007 due to the lack of available space and also as a result of the economic climate. The majority of the modern stock in Zagreb continued to be owner-occupied, and one of the modern facilities offering the Class A logistics space was newly developed Zagreb Business Park. Phase I of this development, covering 56,000 sq m, was delivered to the market in 2008. Alca, who already have approximately 18,000 sq m of their own space in Sveta Helena, are currently in the process of constructing around a further 17,000 sq m. This space will also be used for their own purposes.

In 2008 was completed a new exit at Rugvica. There is more than 40,000 sq m of occupied logistics space. The new exit has significantly improved access to the zone with several hundred thousand square meters of land suitable for the development of a logistics park.

Zagreb Industrial Pipeline in 2009

Location	Useable Area (GLA) in sq m
Sveta Helena	17000
Sveta Nedelja	40000

Source: CB Richard Ellis

Industrial Stock by Location in Zagreb end-2008	
Sv. Helena	10,00%
Rugvica	13,00%
Velika Gorica	1,00%
Jastrebarsko	9,00%
Sv. Nedelja	22,00%
Zapresic	1,00%
Jankomir	13,00%
Zitnjak	27,00%
Other	3,00%

Source: CBRF

Industrial Stock Delivered in 2007	
Industrial Zone	Area in sq m
Alca Sveta Helena	60 000
Zagreb Business Park Phase I	57 000
Magma Jastrebarsko	30 000
Lidl – Kriz	30 000
MSan Rugvica	15 000
Total	192 000

Source: King Sturge

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Planned Business Zones in Zagreb in 2008	
Project	Area in sq m
Business zone Bistra	150,000
Immorent Jastrebarsko	40,000
Zagreb Business Park phase II	40,000
Business zone Veliko Trgovisce	30,000
Total	260,000

Source: King Sturge

Occupied Industrial Stock by Location in 2007	
Industrial Zone	Area in sq m
Sveta Helena	35 000
Rugvica	43 000
Velika Gorica	5 000
Jastrebarsko	30 000
Sveta Nedelja	75 000
Zapresic	5 000
Jankomir	45 000
Zitnjak	90 000
Other	10 000
Total	338 000

Source: CBRE

Plans for the development of the industrial real estate in Croatia include the completion of several business zones, covering a total area of 323,800 sq m, to go operational in Zagreb over the next years. The first stage of Zagreb Business Park was completed in 2007 and covered 57,000 sq m, of which 50% already occupied. The whole project comprises nearly 97,000 sq m of warehousing space. The second stage is scheduled for completion by the end of June 2008. Zagreb Business Park is located along the southwestern stretch of the Zagreb - Ljubljana motorway, 5 km away from Zagreb. In end-2007 Billa opened its 18,000 sq m warehouse there. Lidl-Kriz industrial zone, comprising 30,000 sq m and delivered in 2007, is already half full.

In 2007 the industrial and logistics stock in Croatia totalled approximately 600,000 sq m, of which some 400,000 sq m was built in 1970s and 1980s and is still operational.

In 2007 the number of building permits for construction of industrial buildings and warehouses totalled 357, down from 426 in 2006. Zagreb's logistics facilities are limited and do not meet the requirements of the European standards. Most of the existing stock was built in the 1980s. Site assembly is still problematic and build-to-suit premises dominate the market. As many as 348,770 sq m of new warehouse and logistics space, mostly for rent, will be completed by the end of 2008.

The traditional industrial zones of Zagreb are Jankomir, Zitnjak and Buzin. Currently 13 Free Zones operate in Croatia, which are state-subsidised industrial parks offering much cheaper serviced land than that available in Zagreb as well as a range of investment incentives.

Demand

Residential real estate

In 2009 demand for homes continues to outstrip supply. Zagreb is still Croatia's largest and fastest growing residential market and prices rose by 15% annually over the past few years. In 2008 the average asking price was about EUR 2,040 per sq m or 0.6% higher than a year earlier. There is a lack of higher-quality premises although as the market becomes more sophisticated, developers can be expected to increase the supply of quality developments. Supply and demand for high-grade residential units are expected to continue to grow in the next period, as the developing market creates favourable conditions for them. As a result, residential rents are likely to stay near their current levels.

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Lower cost housing was hit by the economic crisis, which will affect in the construction industry. Over the past few years the number of constructed flats has increased and supply exceeded demand in 2007, when 25,000 flats were constructed. The expectations for 2009 are supply of flats to decrease by 50% year-on-year. Although the input costs are rising, selling prices are not expected to fall.

In December 2008 the average asking price for a flat in Zagreb was EUR 2,006 per sq m, down 0.7% from November 2008 and 1.4% from December 2007.

The average asking price for a sq m of a house in the Zagreb area in December 2008 was EUR 1,317, up 1.6% from the previous month and 8.5% from December 2007.

In December 2008 real estate prices along the Adriatic coast did not record a significant change from the previous month, but went up 4.6% year-on-year. The average price for a vacation house or apartment is EUR 2,042 per sq m.

On the national level, real estate prices went up 2.2% year-on-year in 2008.

Average Prices of Residential Real Estate in Some Eastern European Cities as of H1 2008			
Country	City	Location	EUR/sq m
Serbia	Belgrade	City centre	2 357
		Old part	3 138
Croatia	Zagreb	City centre	2 784
		Dubrovnik	5 379
		Outskirts	3 255
Albania	Tirana	-	722
	Durres	-	637
Bosnia and Herzegovina	Sarajevo	City centre	1 778
Macedonia	Skopje	-	886
		Ohrid	1 246
Slovenia	Ljubljana	City centre	3 566
Montenegro	Podgorica	City centre	1 738
		Budva	3 232
		Herceg Novi	2 615

Source: Central Bank of Montenegro

Demand for new and modern residential properties in Zagreb outstripped the supply in 2007 and extended further in 2008. The local market was dominated by Croats, while foreigners preferred to lease or buy properties mainly along the coast – Istrian peninsula and Dalmatia.

In 2007 the demand for holiday homes focused on small and low-price apartments and houses. The number of sold dwellings in the country totalled 3,100 in 2007, down from 3,389 in 2006. More than 50% of the sold dwellings in 2007 were in Zagreb.

The average price of a new dwellings in Croatia increased by 25.9% year-on-year to HRK 11,252 in 2007. In Zagreb the average price of new dwellings reached HRK 12,308, up by 34% year-on-year. The main reasons for the strong demand for new residential property were the rise of wages and the improved mortgage conditions.

In 2007 sale prices of second hand apartments in the centre of Zagreb stood at EUR 3,000 and EUR 4,000 per sq m. In the western and southern areas of the capital, prices of new dwellings ranged from EUR 1,700 to EUR 2,500 per sq m. Average prices of residential properties along the Adriatic coast stood at about EUR 2,000 per sq m for apartments and EUR 1,800 per sq m for houses. In Dubrovnik, western Croatia prices of homes stood higher than the average for the coastline and reached EUR 4,000 per sq m.

In 2007 the monthly rental levels in Zagreb varied between EUR 8.0 and EUR 20 per sq m depending on the location. Average rents for apartments were in the range of EUR 8.0-12 per sq m a month and those for houses located in the hills – between EUR 11 and EUR 20 per sq monthly.

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Average Price of Housing Units in Zagreb (EUR/sq m)		
Location	New Housing Units	Second Hand Housing Units
City centre	2,700-3,500	1,800-3,000
North	2,200-4,500	1,900-3,500
East	1,800-2,500	1,400-2,200
South	1,500-2,000	1,800-2,500
West	1,500-2,000	1,800-2,500

Source: King Sturge

Average Price of New Housing Units in Croatia (HRK/sq m)

	2008	2007	2006	2005	2004
Zagreb	14315	12,308	9,159	9,228	10,450
Regional cities	9703	9,803	8,939	8,522	7,831
Total average for the country	12095	11,252	8,939	8,912	8,978

Source: Central Bureau of Statistics of the Republic of Croatia

Sales of New Housing Units by Location

	2008			2007		
	Number	Useful Floor Area (sq m)	Average Price (HRK/sq m)	Number	Useful Floor Area (sq m)	Average Price (HRK/sq m)
Zagreb	1612	99413	14315	1767	112784	12308
Regional cities	1413	92233	9703	1343	82177	9803
Total for the country	3025	191646	12095	3110	194961	11252

Source: Central Bureau of Statistics of the Republic of Croatia

Office Real Estate

The Class A office space in Zagreb is limited and as a result the rent level retained strong in the first quarter of 2009. Vacancy levels were at their lowest level in the past five years and with very little new space expected to be delivered in the next 12 months, the rate may decrease even further.

Take-up levels in 2008 decreased by some 55% year-on-year and the total take-up in Zagreb office market was 50,000 sq m.

Despite the decrease in renting office real estate, there is still significant demand on the market.

In the first quarter of 2009 the financial sector was the major player in the demand of office space, with a share of 39% of the total office space demand. Some 10,000 sq m of take-up came from the public sector, which was almost a 70% increase on the year and this trend will continue for the next three years.

By the end of 2008 there was a steady decrease in the office vacancy rate, reaching below 5.0%, a level not witnessed since 2005. The expectations are for the further drop in 2009.

Low vacancy levels combined with relatively stable demand have continued to drive rents upwards.

At end-2008 rents increased by 6.0% year-on-year. Particularly for smaller office areas, the rent levels stood at more than EUR 18 per sq m. In 2009 rents will continue to go up, even at a slower pace.

In 2008 the rental price for the Class A offices ranged between EUR 15 and EUR 16 per sq m per month and the sale prices of a few buildings points to EUR 2,000-2,500 per sq m for the Class A and EUR 1,400-1,800 per sq m for the Class B. The yield was in the range between 6.0% and 8.0%.

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Zagreb Office Rents in Q1 2009

Office Class	EUR/sq m/month
Class A	16.50 to 18.50
Class B	12.00 to 14.00
Class C	8.00 to 10.00

Source: CB Richard Ellis

Office Take-up by Sector end-2008

Financial Sector	39,00%
Professional Sector	13,00%
Public Sector	11,00%
Manufacturing & Energy Sector	4,00%
Business Services Sector	2,00%
Computers & Hi-tech Sector	1,00%
Other	31,00%

Source: CBRE

Zagreb Office Rents* end-2008

Office Class	EUR / sq m / month
Class A	16.50 to 18.50
Class B	12.00 to 14.00
Class C	8.00 to 10.00

* Based on a 300 sq m unit

Source: CBRE

The prime rents in Zagreb are slightly lower than in other eastern European capitals. The monthly rent prices in the Croatian capital in the first half of 2008 ranged from EUR 15 per sq m to EUR 19 per sq m. The price for prime Class B and C office space, especially in the city's outskirts, ranged between EUR 10 per sq m a month and EUR 14 per sq m a month. The monthly rental rates grew by up to EUR 1.0 per sq m in the first six months of 2008 compared to the same period a year ago.

The sale prices of Class A office space in Zagreb stood at between EUR 2,000 per sq m and EUR 2,500 per sq m, while Class B office stock was sold from EUR 1,400 per sq m to EUR 1,800 per sq m in the first half of 2008, according to Colliers International.

More companies tend to move out from Class B and C offices in the Zagreb's CBD to Class A offices located outside the city's centre. The advantages of less central locations are higher quality of office space, more parking spaces and easier road access.

In 2007 total take-up of leased office space in Zagreb increased to 100,000 sq m from 75,000 sq m in 2006, proving the initial forecasts. Banking and insurance sector accounted for 25.24% of the total take-up, followed by the financial and professional services sector with 21.56%.

The occupancy rate of Class A offices also rose and stood at 93% in 2007.

Average office rents for Class A offices varied from EUR 15 to EUR 18 per sq m per month in 2007. Class B and C office rents ranged between EUR 11 and EUR 14 per sq m per month and EUR 8.0 to EUR 10 per sq m per month, respectively.

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Office Take-up by Sector in 2007	
Sector	Take-up in %
Advertising, media	0,90
Banking and insurance	25,24
Consumer goods	1,05
Finance/Professional services	21,56
IT	5,69
Legal	5,81
Manufacturing/Construction	10,97
Chemicals	0,69
Pharmaceuticals	2,60
Public sector	5,81
Telecom	0,77
Car industry	1,16
Oil	17,76
Other	0,90

Source: CBRE

Retail Real Estate

The international retailers and the newcomers entering the market, such as Pepe Jeans, Patricia Pepe, Penny Black and Aldo show an interest in the Zagreb retail market. The expected new retailers in Zagreb include AnnChristine, GAP, Humanic, C&A, Starbucks and Costa Coffee (already present in Split). Thus, the global financial crisis and more difficult economic conditions seem not to deter retailers from expanding to Zagreb.

In 2008 demand for retail space in Zagreb remained strong, however, there was a limited availability and a very little take-up. In 2008 there was a significant pre-leasing activity. The larger developments expected to be delivered to the market in next two years include the extension of City Centre One, SC Dubrava, Westgate and Arena Centar.

In 2008 demand for retail spaces both on high street locations and in shopping centres continued increasing. The rental rates for spaces in shopping malls are not expected to change much in the near future; once the retail projects in the pipeline get completed and start operating in 2010 and 2011, the rents will decrease as the supply of spaces increases and the market becomes more tenant rather than landlord dominated.

The rents on high street retail locations are not expected to change much due to limited supply and limited growth potential of rentable space in downtown prime locations. In 2008 the shopping centre rents in Zagreb ranged between EUR 15 and EUR 80 per sq m per month and the average range was between EUR 30 and EUR 50 per sq m per month. Rental levels for prime locations were considerably higher ranging from EUR 80 to EUR 120 per sq m per month. Rental levels in other Croatian cities are 15% to 20% lower than in Zagreb, but are expected to increase parallel with the growth of the retail sector.

Demand for retail property in Zagreb rose in 2007 which was attributed to the limited supply of retail space. Forecasts show that take-up levels will continually increase until demand is satisfied.

The rents on the Zagreb high street remained very high in 2007, exceeding EUR 100 per sq m while rents in the new shopping centres were much lower, varying between EUR 20 and EUR 30 per sq m. For 2008 rentals on the Zagreb high street are projected to grow to over EUR 120 per sq m, while rentals in the shopping malls are expected to mark a decrease due to the opening of new outlets.

In 2007 the rents of the retail spaces at Avenue Mall shopping centre stood at EUR 20 to EUR 80 per sq m a month. Rents at the King Cross Shopping Centre were some 10-15% lower than those at Avenue Mall. Rental level at Centar Kaptol was EUR 20-40 per sq m a month.

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European prime retail rents	Prime Retail Rent EUR/ sq m	Prime Retail Rent EUR/ sq m	Prime Retail Rent EUR/ sq m	Prime Retail Rent EUR/ sq m
Location	2005	2006	2007	2008
Ilica Street, Zagreb	650	780	1440	1440
Source: King Sturge (Q1 2009)				

Industrial Real Estate

In the first quarter of 2009 the rent level for logistics space in and around Zagreb was at EUR 5.90 per sq m per month and remained very high particularly compared to other countries in the region.

The market is hindered by a lack of modern warehousing stock and a prevalence of owner-occupied space, and with the high cost of land, which ranges between EUR 50 and EUR 70 per sq m in prime locations.

Demand by prospective occupiers is being driven by the food and retail sectors, distribution and freight forwarding companies. In 2008 some 100,000 sq m was taken-up, of which 70,000 sq m was in modern logistics facilities.

In the first three months of 2009 prime rental levels for large industrial space remained stable at EUR 72-78 per sq m per year, and light industrial units' rents stood at EUR 54 – EUR 72 per sq m per year.

Prime investment yields for large industrial space in Q1 2009 stood at 9.00% compared to 8.00% a year earlier. One of the significant transactions in 2008 was the acquisition of the Zagreb Business Park by Helios Properties for EUR 68 mln.

Zagreb	Standard industrial < 5,000 sq m	Large industrial > 5,000 sq m
Prime rent (EUR/sq m/ a year)	54 - 72	72-78
Prime Yield (%)	9,50	9,00

Source: King Sturge (Q1 2009)

Interest in industrial space in central and eastern Europe (CEE) is projected to keep rising in 2008, as manufacturers and warehouse operators have already taken advantage of using cheaper locations in the region.

Croatia was ranked 22nd by the U.S.-based global real estate company Cushman & Wakefield with annual total occupancy cost down 7.0% to EUR 84 per sq m. Rents are expected to rise on the back of speculative schemes which are scheduled for completion in 2008.

The demand for industrial real estate was growing in 2007 due to the growth in trade and business volume but still there is little modern stock available on the market.

In 2007 Average rents of the existing warehouses were between EUR 5.5-6.5 per sq m a month for larger units and EUR 6.0-8.0 per sq m a month for smaller and medium units.

Occupants include international retailers and large domestic producers, such as Philip Morris, Lagermax, Kuhne & Nagel, Billa, Lidl, Time Shuttle, AWT, Fructal Zagreb, MUP Republike Hrvatske and Croatia Airlines.

Sale prices of new industrial stock in 2007 ranged between EUR 1,000 and EUR 1,100, whereas the price of older warehouses varied between EUR 500 and EUR 750. Land prices in prime locations stood at EUR 50 to EUR 70 per sq m and in secondary locations were from EUR 25 to EUR 50.

Investments

The International Monetary Fund (IMF) projected Croatia's economic growth at 2.4% and -3.5% for 2008 and 2009, respectively. The country's average CPI inflation is expected to climb to 6.1% in 2008 compared to 2.9% in 2007 and drop to 2.5% in 2009.

According to IHS Global Insight Croatia's 2008 GDP growth will slow down to under 2.5%. Expecting the global economic crisis to deepen in 2009 IHS Global Insight projects a 0.5% GDP growth for 2009, while the Croatian National Bank expects an 1.5% GDP growth.

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Inward FDI flows by sectors 2004 - 2008

Financial intermediation	44%
Real estate	8%
Refined petroleum	8%
Wholesale trade	6%
Retail trade	5%
Oil & gas extraction	5%
Hotels & restaurants	3%
Other	21%

Source: Croatian National Bank

	2004	2005	2006	2007	2008**	2009*	2010*	2011*	2012*	2013*	2014*
FDI as % of GDP	2,00	3,60	6,50	8,10	5,90	4,00	4,30	5,40	6,00	6,20	6,50
FDI, net in bln EUR				3,483	2,811	1,793	1,934				

* preliminary data

** projected data

Source: Croatian National Bank

Active Investors since 2003

DEGI	Germany
Immoeast	Austria
Generali	Italy
Signa Property Fund	Austria
S Immobilien	Austria
BA Real Invest	Austria
Aggmore	UK
Helios	UK
Europolis	Austria
Bluehouse Capital	Greece
Dawnay Day Carpathian	UK
Hypo Alpe Adria Immobilien	Austria

Source: CB Richard Ellis

Experts forecast for 2009:

- Vacancy levels in the office sector to remain under 5.0% and rental growth to continue;
- Further pre-letting activity in the retail sector;
- Limited activity in the industrial sector;
- A continuing trend of increasing yields.

Company Investments

Being one of the top tourist destinations, holiday homes market in Croatia is an attractive investment opportunity. However, permanent lack in supply and increasing demand from abroad played a key role in property pricing. The Croatian holiday homes market is still facing undersupply, predominantly driven by the continuous planning – although the major planning along Croatian coast, there is a lack of building land at reasonable price.

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According to the Centar Nekretnina's price index, asking price marked 10.9% year-on-year increase in the first half of 2008. Average asking price was EUR 2,053 per sq m for flats and villas. Based on this estimation, the average asking price is still acceptable and quite lower in comparison with other Mediterranean destinations. According to Centar Nekretnina the property asking price along Croatian coast climbed by almost 35% between May 2006 and May 2008.

Croatian building company Porr Hrvatska d.o.o. and Israeli real estate developer Atia Group will invest EUR 60 mln in the construction of an 8.0 ha residential complex in Sambor, near the Croatia capital Zagreb in the autumn of 2009.

Hungarian construction company TriGranit Kft. started the construction of the Arena Centre shopping mall in Zagreb in September 2008. The company plans to invest EUR 220 mln in the new shopping mall with more than 60,000 sq metres of sales space. The new mall is expected to open in 2010.

Polish property developer Globe Trade Centre (GTC) opened a EUR 69 mln shopping and office centre Avenue Mall in Zagreb in August 2007. The new six-floor mall, covering 80,000 sq m, consists of 126 outlets, including a supermarket, coffee shops, six restaurants and nine multiplex cinema theatres. The centre's office tower will also comprise 8,500 sq m of office space.

Globe Trade Centre also projects to construct an over EUR 100 mln golf resort on the northern Adriatic peninsula of Istria and a EUR 42 mln retail and office complex in Zagreb. GTC has also been shortlisted to turn an office building into a hotel in the Adriatic city of Split.

The first Croatian specialised Internet database with information on property offered for sale in Croatia, GoHome.hr, was presented in May 2007.

S Immorent Leasing International Holding, the Croatian subsidiary of Immorent AG, the leasing unit of Austrian Erste Bank, generated EUR 71.7 mln in new business in 2006, up about 80% year-on-year. S Immorent Leasing holds 16% of the Croatian real estate leasing market in 2006. The completion of the Eurotower office tower worth 49 mln and the EUR 16 mln Eurocentar office building, were the most important projects for S Immorent Leasing in 2006.

Residential Real Estate

In September 2008 Croatian construction company Industrogradnja d.d. signed a contract for the construction of two mixed-use residential and office buildings worth EUR 10 mln in Zagreb. The construction works are planned to start at the end of 2008.

In July 2008 Croatian real estate developer CCS Ulaganja planned an investment of EUR 180 mln for the construction of a complex of luxury residential and office buildings in Zagreb. The Sava Park complex will be located on the bank of the Sava river and will consist of luxury high-rise buildings, a health centre, a multimedia library, a kindergarten, shops and bank offices. The construction works are scheduled to start in 2009 and to be completed within two years.

In April 2008 Luxembourg-based real estate developer Orco Property Group announced its plans to invest about EUR 100 mln in the construction of a tourist complex and a marina on the Croatian Adriatic island of Obonjan under a 50-year concession deal. The construction works of Obonjan Riviera complex, to be completed in two phases, are scheduled to begin in early 2010 and to finish in 2013. The complex will be developed on 65,000 sq m and will consist of hotels, apartments and villas, as well as sport, beach, relaxation facilities and 100 berths in the harbour.

In October 2007, Dutch-based Real Estate Group N.V finalized a deal for a 45,000 sq m plot in Laniste, a suburb of Zagreb, Croatia. The company planned to build a 90,000 sq m residential complex of 1,300 apartments worth EUR 98 mln. The selling price of the project is estimated at EUR 130 mln.

On September 28, 2007 The European Bank for Reconstruction and Development (EBRD) disclosed a project for Jadranka Hotels d.o.o., including the refurbishment of the group's existing hotel portfolio and improving the existing hotels to the international 3 - 4 star ranking. EBRD is going to finance the project with EUR 24.4 mln of the total cost which was estimated at EUR 75.3 mln.

Dutch-based Nanette Real Estate Group, listed on the London Stock Exchange, announced in May 2007 it had sealed a preliminary agreement for the acquisition of a 15,000 sq m plot in Zagreb for EUR 63 mln. The company plans to build 580 apartments marketed to the local middle class market. The deal was carried out through the company's fully-owned Croatian subsidiary and was completed in June 2007.

"We are delighted to have entered our fourth country of operations. Croatia fits all our requirements: a vibrant economy growing at over 4.0%, with a demonstrable need for high quality modern residential housing. Zagreb is seeing significant regional migration, which has in turn increased demand," the group's chairman Shaul Lotan said in the statement.

Croatian privately-owned real estate developer Degrad will invest some EUR 100 mln into building a residential complex, named Iver, in the capital Zagreb. Degrad got a loan to finance the investment. The complex will cover 13 hectares in the eastern part of Zagreb and will have 1,000 flats, a school, a kindergarten, a sports hall, a swimming pool and a shopping centre. Its construction was to start at the beginning of 2007 and will take two years to complete.

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Office Real Estate

Major Office Completions and Pipeline 2008-2010				
Project	Completion	Location	Area (sq m)	Developer
Ilica 1	2008	City centre	7 000	Frankopan nekretnine
Mani centar II Buzin	2008	Buzin, Out-of-town	8 000	Mani d.o.o.
Otok 24 sata II	2008	Novi Zagreb	5 500	Imobilia Tehno
Kvaternik plaza	2008	Wider centre	2 131	Vegrad
Safir Telur Radnicka	2008	Secondary business zone, Wider centre	4 219	Dal-Koning
Sigma centar	2008	Wider centre	3 438	Sigma centar
HG spot	2008	Novi Zagreb	2 000	HG spot
Poslovni centar Romeo i Julija	2008	Secondary business zone, Wider centre	8 000	Uni-Rad Gradnja
Poslovni centar 2000 B	2008	Secondary business zone, Wider centre	6 311	Oktavijan
Erste Tower	2008	CBD	12 500	Erste Bank Group
VMD Vukovarska-Folnegoviceva	2008	Secondary business zone, Wider centre	4 850	VMD
Census	2008	Wider centre	7 600	Census
Cimos	2008-2009	Ljubljanska Avenue, Wider center	23 000	Berny commerce
Grand Svetice	2008-2009	Wider centre	15 000	Grand investicije
Gradska kavana (Ban centar)	2009	City centre	15 000	ZABA, IGH
Avenue Park	2009	Secondary business zone, Wider centre	40 000	GTC
Sky office tower	2009-2010	Rudes, Wider centre	30 000	Zagrebmontaza, Dalekovod
Centar Crnomerec	2010	Wider centre	55 000	Konstruktor inzenjering

Source: King Sturge

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Major Office Completions and Pipeline 2007-2009				
Project	Completion	Location	Area (sq m)	Developer
Hypo Centar	2007	Slavonska avenue	15,000	Hypo-Alpe Adria (AUT)
Mepling	2007	Svetice (East city)	7,500	Local developer (HR)
Avenue Center	2007	Novi Zagreb	7,000	GTC (ISR)
Almeria II	2007	Vukovara	13,000	Trius (HR)
Ilica 1	2007	City centre	4,200	Frankopan (HR)
Heraklo	2007	East city (Maksimir)	4,000	Heraklo (HR)
Centar 2000	2007	Radnicka cesta	8,000	Oktavijan (HR)
Almeria III	2007	Vukovara	7,000	Trius (HR)
Radnicka 50	2008	Radnicka cesta	14,000	Local developer (HR)
Erste Tower	2008	CBD	12,500	Erste Bank Group (AUT)
Romeo & Julia	2008	CBD	8,000	Iilirika (SLO)
Grand Svetice	2008	Svetice (East city)	12,000	Grand (AUT)
Sky Office	2009	Ljubljanska avenue	N/A	Dalekovod (HR)
Nove Tehnologije	2009	CBD	6,400	Podravka (HR)

Source: DTZ

In January, 2008 Austrian real estate investment company Sparkassen Immobilien acquired an office building in Zagreb and several residential and office buildings in Vienna for a total EUR 60 mln.

In November 2007 Germany's Signa Property Funds Group bought the Hoto Tower office building in Croatia's capital Zagreb for EUR 71.6 mln.

The Croatian top telecom T-HT, majority owned by Deutsche Telecom, is the sole tenant, with a 15-year lease contract, of the Hoto Tower, built in 2004.

Austrian real estate company Immoeast, the subsidiary of Immofinanz for Central and Eastern Europe, bought the Grand Center office and shopping project in Zagreb for EUR 40 mln in December 2006. Immoeast provided 80% of the funds and the rest came from real estate company Generali Immobilien AG. AIV d.o.o, the Croatian subsidiary of Generali Immobilien, took over the property management of the Grand Center on January 1, 2007. The 21,400 sq m centre consists of offices, shops, storage area and an underground car park. Around two thirds of the centre, opened in October 2006, have been rented out. "With two specialised shopping market centres, one residential construction project and an office centre, Immoeast is widely engaged in the region", CEO Karl Petrikovics said. "The EU accession of Bulgaria and Romania will have a positive impact on the real estate market in south eastern Europe", he added.

Retail Real Estate

By 2010 Zagreb will have a total of 800,000 sq m of GLA retail shopping centre space. There is prediction demand for high street locations to remain high and to grow. Some of major projects out of Zagreb include Interspar and Grobnik retail projects in Rijeka, Dalmare shopping center in Sibenik and Verdispar's in Varazdin.

Driven by the large FMCG chains such as Interspar, Mercator and Konzum new retail projects will be opened.

Dalmatia Capitol Park is the first integrated retail park in Croatia, covering more than 105,000 sq m. The Park is situated on the intersection of the A1 Zagreb-Dubrovnik motorway and the Split – Bosnia and Herzegovina highway.

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Major Retail Completions and Pipeline in Zagreb 2008-2011			
Project	Completion	Area (sq m)	Developer
Prebendarski Vrtovi	2008	8 000	Ungelt/Spectrum
Metropolis	2008	60 000	Termocommerce
MID Shopping centre Dubrava	2009	27 000	MID developments
Shopping City Zagreb (Zapresic)	2009	107 000	ATP/Red Serve
Laniste shopping centre	2009	60 000	Tri Granit
Buzin Shopping Centre	2009	30 000	Immorent/HK
City centre One – phase II	2009	25 000	Kaufmann & Co.
Vrbani project	2009	20 000	Bluehouse Capital
Shopping centre Spansko	2010	60 000	Urba Zapad and Factum
Mercury Project	2010	60 000	LS property
Cvjetni trg	2010	15 000	Hoto Grupa
M2 Shopping centre	2011	60 000	M2
Total		532 000	

Source: King Sturge

Major Retail Completions and Pipeline in Split 2008-2011			
Project	Completion	Area (sq m)	Developer
City center One	2009	50 000	Kaufmann & Co.
Koncar	2010	50 000	Tulipman
Dalmatia Capitol Park, Dugopolje (phase I)	2010	105 000	Poseidon Group
Mertojak	2010	20 000	Agrokor
Total		225 000	

Source: King Sturge

In May 2008 joint venture between U.S.-based real estate investors JER Partners and UK investment and development specialist Poseidon Group planned to build a retail centre near Split, Croatia's second largest city. Dalmatia Capitol Retail Park, to offer a 105,000 sq m retail area, is expected to open doors by end-2009. According to Croatian daily Poslovni dnevnik the investment in the project stands at EUR 140 mln.

In March 2008, Warsaw-based real estate developer Globe Trade Centre (GTC) planned to build a EUR 40 mln shopping centre in Osijek, eastern Croatia. The centre will offer 28,000 sq m of retail area and is expected to be opened by the end of 2009.

In January 2007 Croatian company Arsenal Holdings, specialising in real estate project development, announced its plans to invest EUR 27 mln in the construction of a multi-purpose trade centre in Zadar, and Austria's Erste Bank will invest EUR 21 mln in the same project.

Five-storey trade centre City Galeria will be built in the city of Zadar, on the central part of the country's Adriatic coast, and will cover some 45,000 sq m. City Galeria will be annexed to another local existing trade centre, the Trgovinski Centar, which spans on 18,000 sq m. City Galeria will feature stores, restaurants, galleries, six cinema halls, as well as a 400-car parking lot. The project is expected to be completed by October 2008.

The first shopping centre in eastern Zagreb, Zamparini's MANDI shopping centre, was opened in September 2007. The 28,000 sq m shopping centre has 50 shops, four supermarkets, cafes, and 750 outdoor parking spaces.

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Industrial Real Estate

Slovenian logistics company Intereuropa opened an EUR 11.4 mln logistics centre on September 19, 2007, located in Croatia's Samobor, near Zagreb, as part of its strategy to expand in southeastern Europe.

Samobor logistics centre, spanning on nearly 44,000 sq m and featuring modern infrastructure, equipment and a warehouse, will help the company to offer the entire logistics services package in Croatia and the region of southeastern Europe.

Intereuropa plans further investments in Croatia by 2011, which would result in creating more jobs and strengthening the company's position in the region.

Associated Industries & Factors

In the fourth quarter of 2008 the value of construction works totalled HRK 5.724 bln, down from HRK 6.494 bln in the third quarter of 2008.

According to data from the Central Bureau of Statistics of Croatia, the number of the registered construction companies stood at 23,072 in end -March 2009. The active companies numbered 14,343. Privately-owned construction companies totalled 13,966, while the state-owned were 96. The construction cooperatives were 159 in the first quarter of 2009.

According to data from the Croatian National Institute of Statistics, the number of registered construction companies at end-2007 was 17,616, compared to a total 252,645 companies in Croatia. The active companies in the construction sector numbered 10,806 of which the privately-owned ones totalled 10,450, state-owned were 94 and the cooperatives were 135.

In 2007 the value of construction works totalled HRK 19.663 bln, of which HRK 8.113 bln for civil engineering projects and HRK 5.826 bln for building constructions.

Value of Construction Works

	2008	2007	2006
Construction of buildings as % of total	45,50%	41,50%	39,30%
Civil engineering works as % of total	54,50%	58,50%	60,70%
Total in bln HRK	23,260	19,66	18,45

Source: Central Bureau of Statistics of the Republic of Croatia

According to data of the World Travel and Tourism Council (WTTC) the contribution of the travel and tourism sector to the Croatian GDP is expected to rise to 28.1% by 2019 from the forecast 23.6% for 2009.

GDP in real terms for the sector is expected to decline to -7.7% in 2009 and by an average 6.1% annually over the next 10 years.

In 2009 WTTC ranked the Croatian travel and tourism sector 44th in absolute size among 181 countries worldwide, 27th by relative contribution to the national economy and 24th by expected demand for tourist services in real terms. Croatia's world market share in 2009 stood at 0.16%. The country's market share in central and eastern Europe is 3.0%.

WTTC forecast that the tourism sector in Croatia will generate USD 17.819 bln in 2009 and the tourism revenue will gradually grow to USD 38.339 bln annually by 2019.

The sector employs 313,000 people, accounting for 26.3% of the total employment in the country. The number of employees in the sector will increase to 390,000 people in 2019 or 28.3% of the total country's employment.

GDP in real terms for the sector was expected to rise to 6.4% in 2008 and by an average 7.1% annually over the next 10 years.

In 2008 WTTC ranked the Croatian travel and tourism sector 49th in absolute size among 176 countries worldwide, 24th by relative contribution to the national economy and 9th by expected demand for tourist services in real terms. Croatia's world market share in 2007 stood at 0.16%. The country's market share in central and eastern Europe was 5.96%.

The European Union's tourism sector was expected to contribute 3.6% to GDP in 2007 compared to 3.9% in 2006, according to the WTTC. Croatia's travel and tourism sector ranked 51st in absolute size worldwide and 33th by relative contribution to the national economy in 2006, according to a WTTC survey. WTTC forecast that the tourism sector in Croatia would generate USD 13.716 bln in 2007 and the tourism revenue would gradually grow to USD 34.159 bln annually by 2017. The demand for tourist services was estimated to grow by 7.8% in 2007 and by 7.9% annually in real terms in the next ten years. Croatia's tourism sector was expected to contribute 19% to GDP, which was seen at USD 8.979 bln for 2007. The sector employed 249,000 people, accounting for 21.6% of the total employment in the country. According to the WTTC, Croatia's world market share in 2007 stood at 0.2% and was forecast to grow continually.

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In the first quarter of 2009 the total number of the tourist dropped by 14% and the total overnights number declined by 16.65% compared to the same period in 2008. Foreign tourists arrivals and overnights accounted for 47.7% and 49.8%, respectively, of the total number of tourist arrivals and overnights. Most tourists came from Germany, Italy, Slovenia and Austria. Germans made up 11% of all foreign tourists in Croatia in January-March 2009 and 14.6% of the overall foreign overnights for the period. In the first three months of 2009 arrivals and overnights of German tourists decreased by 34% and 37% year-on-year, respectively. Italians made up 15% of all foreign tourists in Croatia in January-March 2009 and 9.68% of the overall foreign overnights for the period. In the first three months of 2009 arrivals and overnights of Italian tourists decreased by 19% and 14.5% year-on-year, respectively. In 2007 Croatian government officials expected tourist arrivals to reach 11 million annually by 2010. The number of tourist overnights rose by 9.0% year-on-year to 5,910,604 for the first five months of 2007. Most tourists came from Germany, Slovenia, Italy, Austria and France.

The Croatian Government provides subsidies for the construction of small family hotels aiming to boost tourism in hinterland areas. Some 500 such hotels are expected to be opened by the end of 2009.

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Basic Indicators of the Tourism Sector

	Q1 2009	2008	2007	2006	2005
Number of tourists	478000	11261000	11,162,406	10384921	9995000
Number of overnights	1194000	57103000	56,005,492	53006946	51421000

Source: Central Bureau of Statistics of the Republic of Croatia

Tourist Arrivals and Overnights

	Arrivals		Overnights		Arrivals			Overnights		
	Q1 2009	Q1 2008	Q1 2009	Q1 2008	2008	2007	2006	2008	2007	2006
Domestic tourists	250338	272805	599178	673856	1845702	1,855,715	1,726,045	6477972	6,430,862	5,985,002
Foreign tourists	228491	285688	595326	759296	9415105	9,306,691	8,658,876	50625522	49,574,630	47,021,944
Total	478829	558493	1194504	1433152	11260807	11,162,406	10,384,921	57103494	56,005,492	53,006,946

Source: Central Bureau of Statistics of the Republic of Croatia

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Foreign Tourist Arrivals and Overnights in Croatia

	Arrivals		Overnights	
	Q1 2009	Q1 2008	Q1 2009	Q1 2008
Germany	25150	38137	86893	138031
Slovenia	23420	28914	57637	67448
Italy	34313	48931	75318	104069
Austria	27910	34960	77588	106168
Czech Republic	2963	3331	9314	10651
France	6878	6870	16220	15352
Serbia	9107	10373	21762	24397
United Kingdom	5975	7370	18230	22239
Hungary	4921	5652	12544	14480
Bosnia and Herzegovina	17109	19018	52700	59417
Japan	14103	11865	16889	14989
Netherlands	2467	3146	6810	7447
USA	6623	9912	15004	25165
Other	228491	285688	595326	759296
Total	228491	285688	595326	759296

Source: Central Bureau of Statistics of the Republic of Croatia

The loan portfolio of the Croatian commercial banks totalled HRK 239.94 bln at end-October 2008, up by HRK 5.76 bln from the previous month and HRK 29.32 bln higher on the year. Mortgage loans accounted for 40.9% of total loans. Loans to companies rose by 11.79% year-on-year to HRK 93.9 bln at the end of October 2008.

At end-March 2008 the loan portfolio of commercial banks stood at HRK 215.03 bln, up 1.5% month-on-month and 12.2% year-on-year. Loans to households increased by 16.3% on the year to HRK117.01 bln at end-March 2008, whereas loans to companies rose to HRK 88.1 bln, up by 7.4% year-on-year. Mortgage loans represented 40.6% of the total.

The loan portfolio of the Croatian commercial banks reached almost HRK 211 bln at the end of 2007, up 15% from a year earlier. It rose by HRK 5.6 bln, or 2.73% from the previous month.

Loans to households reached HRK 112.9 bln in December 2007, up 0.85% month-on-month and 18% on the year. Mortgage loans made up more than 40% of the total. The banks' loan portfolio also includes lending to local governments.

The transfer of real estate property is generally subject to a 5.0% Real Estate Transfer Tax, which is paid by the buyer.

The law provides for a number of real estate transfer tax exemptions (general tax exemptions and tax exemptions for property brought into a company).

The acquisition of newly built property is subject to a 22% VAT under the Value-added Tax Act.

Corporate tax in Croatia is 20% and agent's fees on investment deals typically range between 1.0% 2.5% of the purchase price.

The Croatian Ministry of Finance recorded a HRK 375.5 mln revenue from taxes on property in 2005, up 5.5% year-on-year. This revenue was collected in full from real estate transactions as a result of their rising number as well as increasing real estate prices.

Revenues from property taxes are projected in line with the expected developments in the real-estate market, where both prices and trading volumes are growing, and with the developments in the overall economic activity. The Ministry forecasts to increase by 7.8% year-on-year its revenue from property taxes, to HRK 465.7 mln in 2007, by 8.0% in 2008 and by 8.2% in 2009.

As of March 1, 2008, the portfolio of the the Croatian Privatisation Fund included a total of 1,112 companies, of which 86 were in the real estate, renting and business sector and 101 were construction companies.

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As of June 9, 2009	Number of Companies	Total EquityCapital (HRK bln)	State equity (HRK bln)
Construction	84	1,78	0,2
Real estate, renting and business activities	73	3,06	1,3
Total companies in the portfolio	1112	177,6	21,8

Source: Croatian Privatisation Fund

Forecasts

The International Monetary Fund (IMF) projected Croatia's economic growth at 2.4% and -3.5% for 2008 and 2009, respectively. The country's average CPI inflation is expected to climb to 6.1% in 2008 compared to 2.9% in 2007 and drop to 2.5% in 2009. According to IHS Global Insight Croatia's 2008 GDP growth will slow down to under 2.5%. Expecting the global economic crisis to deepen in 2009 IHS Global Insight projects a 0.5% GDP growth for 2009, while the Croatian National Bank expects an 1.5% GDP growth.

Inward FDI flows by sectors 2004 - 2008

Financial intermediation	44%
Real estate	8%
Refined pretroleum	8%
Wholesale trade	6%
Retail trade	5%
Oil & gas extraction	5%
Hotels & restaurants	3%
Other	21%

Source: Croatian National Bank

Experts in the sector forecast that the increase of the low-cost flights to coastline airports in Croatia will be followed by a growing demand for holiday properties in the country over the next years. It is also expected that the share of British investors on the Croatian real estate market is going to expand.

Industry references

Newspapers, Trade Journals & On-line Information Sources

InfoNekretnine – weekly magazine

www.croatiapropertyservices.com

Suvremena trgovina – monthly magazine

Gradevinar – monthly magazine

www.htn.hr

www.realestatecroatia.com

Trade associations

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Fairs & exhibitions

Tegra – 31th International Fair of Construction, Equipping and Air-Conditioning
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