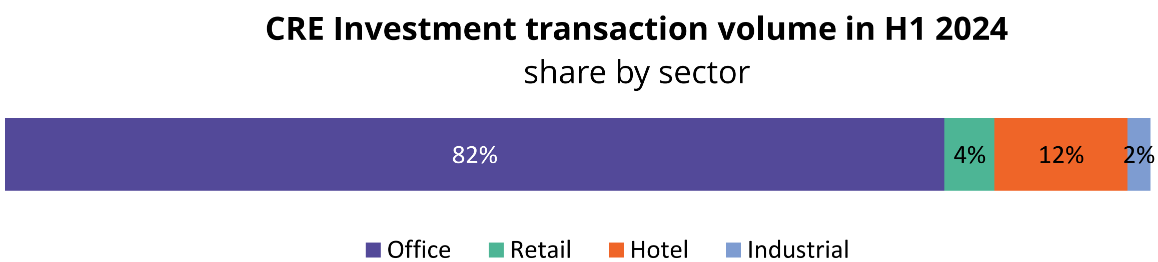
CRE investment market report

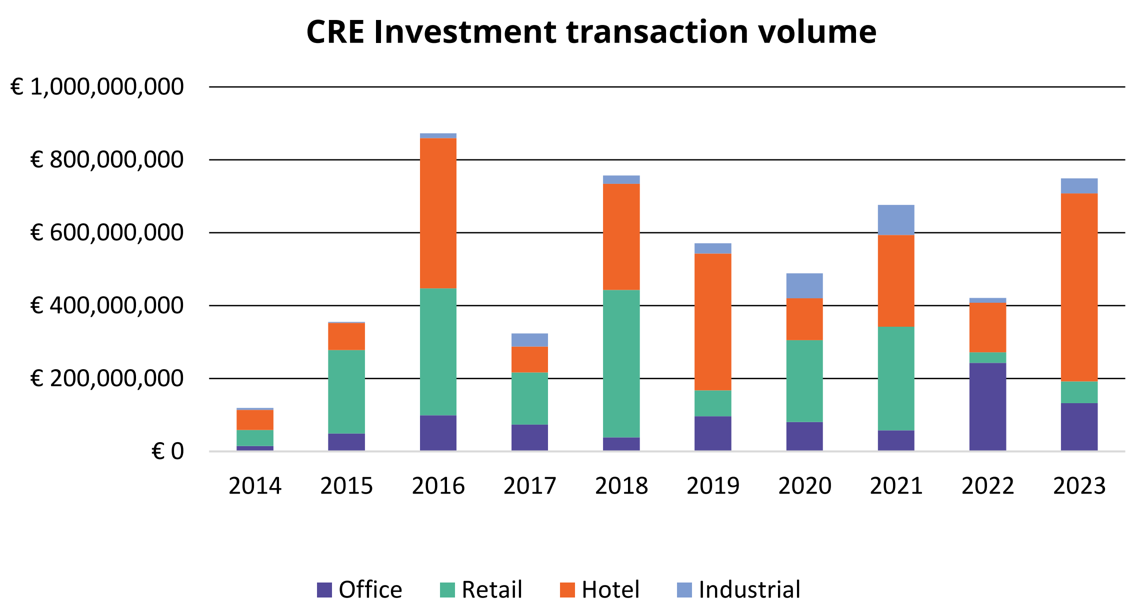
H1 2024 Croatia

Investment market slowdown in H1 2024

The volume of commercial real estate transactions reached **over EUR 120 million** in the first half of 2024, which is approximately **40% lower** than in the same period of 2023. The primary reason for this seven-year low in the first half of the year is the shortage of available properties. Investors tend to focus on areas with opportunities and strong market fundamentals, leading to most activity in the capital Zagreb, or the coastal cities.

Most investors are seeking office or logistics properties, but there is also significant interest in large hotels (over 200 rooms on the coast or in Zagreb), hotel chains, retail parks with long WAULTs and dominant shopping malls. Core and Value-add strategies are prevalent due to a lack of opportunities for Opportunistic investors. We are still in a **strong seller's market** as the demand for quality properties outstrips the supply.





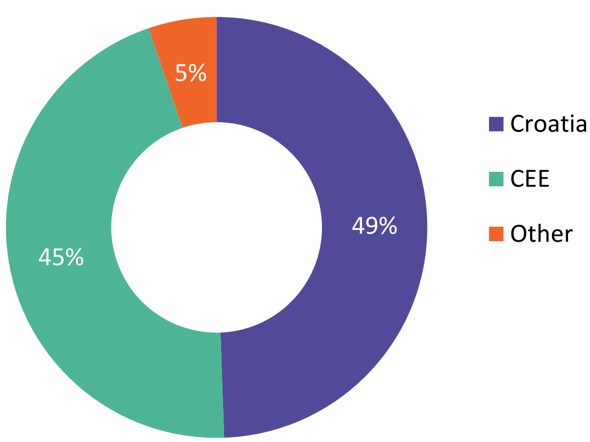
Source: Avison Young

Who is selling and who is buying?

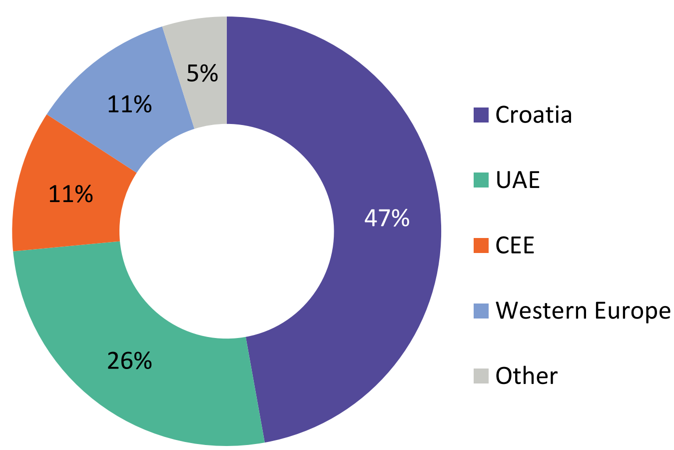
Since 2019, the share of Croatian investors in the total CRE transaction volume has been steadily increasing. In H1 2024 **domestic players accounted for 49%** of the total volume. The growth in domestic investor participation can be attributed to increased profits from their businesses (non-RE), home-country bias and a strong preference for real estate, which remains favorite asset class for Croatian citizens. In addition, some domestic buyers are acquiring office buildings for own use and switching from leasing to owning office space.

Among most notable transactions, **CPI Property Group** continued selling its properties as part of a wider deleveraging strategy. In H1 2024, Grand Center and Zagrebtower were sold to **Nekretnine Istok** (owned by Mr. Pezić) and **OTP Bank**, respectively. Additionally, CPIPG sold Sunčani Hvar, a hotel chain on the island of Hvar, to **Eagle Hills**. Eagle Hills once again outbid competitors at the last moment and bought their second hotel chain in Croatia.

Buyers by origin in H1 2024



Buyers by origin in 2023



Source: Avison Young

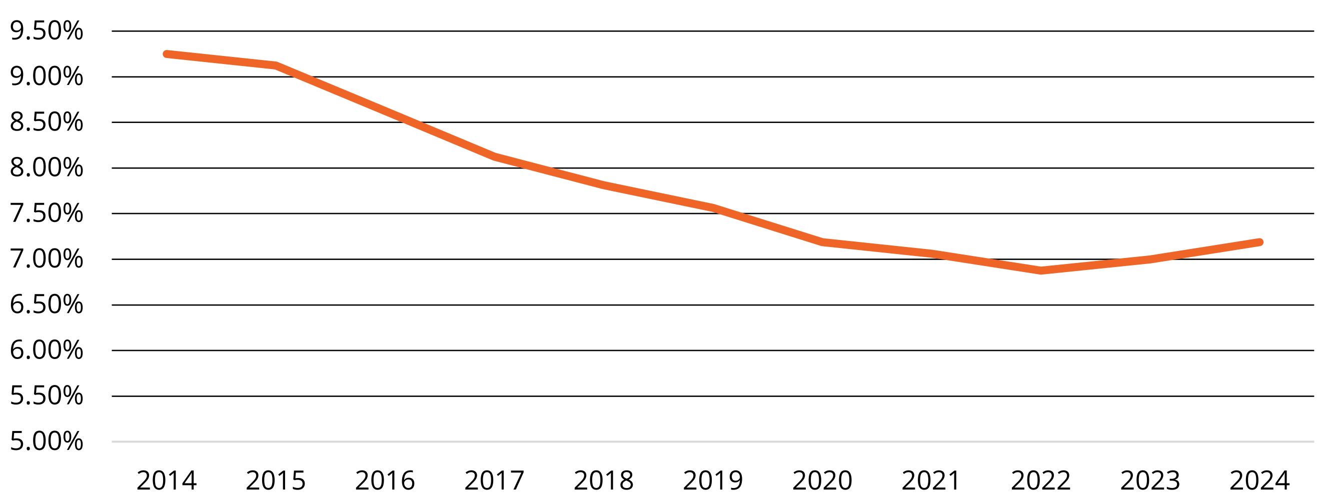
Yields have remained steady

H1 2024 saw no change in yields. Prime yields are in region of **7%,** with minor variations across different sectors. It could be argued that certain Class A office buildings are labeled "prime" merely because of the lack of newer stock and competition, hence the reported prime yield of 7.50% should be reconsidered when a real prime product comes to the market.

CRE transaction activity typically involves **up to 40 deals** annually across all sectors, and yield evidence and volumes are often not disclosed. If interest rates decrease, we expect prime yields for retail and office to return to levels before interest rate hike (approx. 0.5 pp lower). **Capital values (€/m²) have increased** for properties with indexation clauses due to the strong growth in underlying rental income.

OFFICE	RETAIL	INDUSTRIAL	HOTELS
7.50%	**7.00%**	**7.50%**	**6.75%**

CRE average prime yield (all sectors)



Source: Avison Young

Where are the opportunities?

With most owners not in a hurry to sell and a shortage of non-performing loans (NPLs), buyers should broaden their investment criteria and be prepared to react quickly when good opportunities arise on the market. Partnering with developers or considering forward purchase deals are viable options for securing income-generating properties. We see such opportunities in the office and logistics sectors. Additionally, conversions or value-add opportunities can also be effective strategies.

Several smaller hotels and family-owned hotels have been put up for sale, but these assets typically attract only local buyers and are often significantly overpriced.

The retail parks market is becoming quite saturated. Most of the prime assets have already been sold, and properties in tertiary cities do not attract institutional capital unless they are part of a bundled portfolio or platform deal. Several of the dominant shopping malls in coastal cities have been targeted for years by many investors. It remains to be seen who will be the lucky buyers and when.

The momentum is currently on the sell side and will likely remain so until new pipeline projects and competition in modern stock enter the market.

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