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# Market Report

## Croatia Real Estate

March 19, 2024



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## Country stats

4.3%

GDP growth  
Q4/23, yoy

2.8%

GDP real growth  
in 2023, yoy

6.8%

Unemployment  
rate, 1/2024

4.1%

Inflation rate YoY,  
2/2024

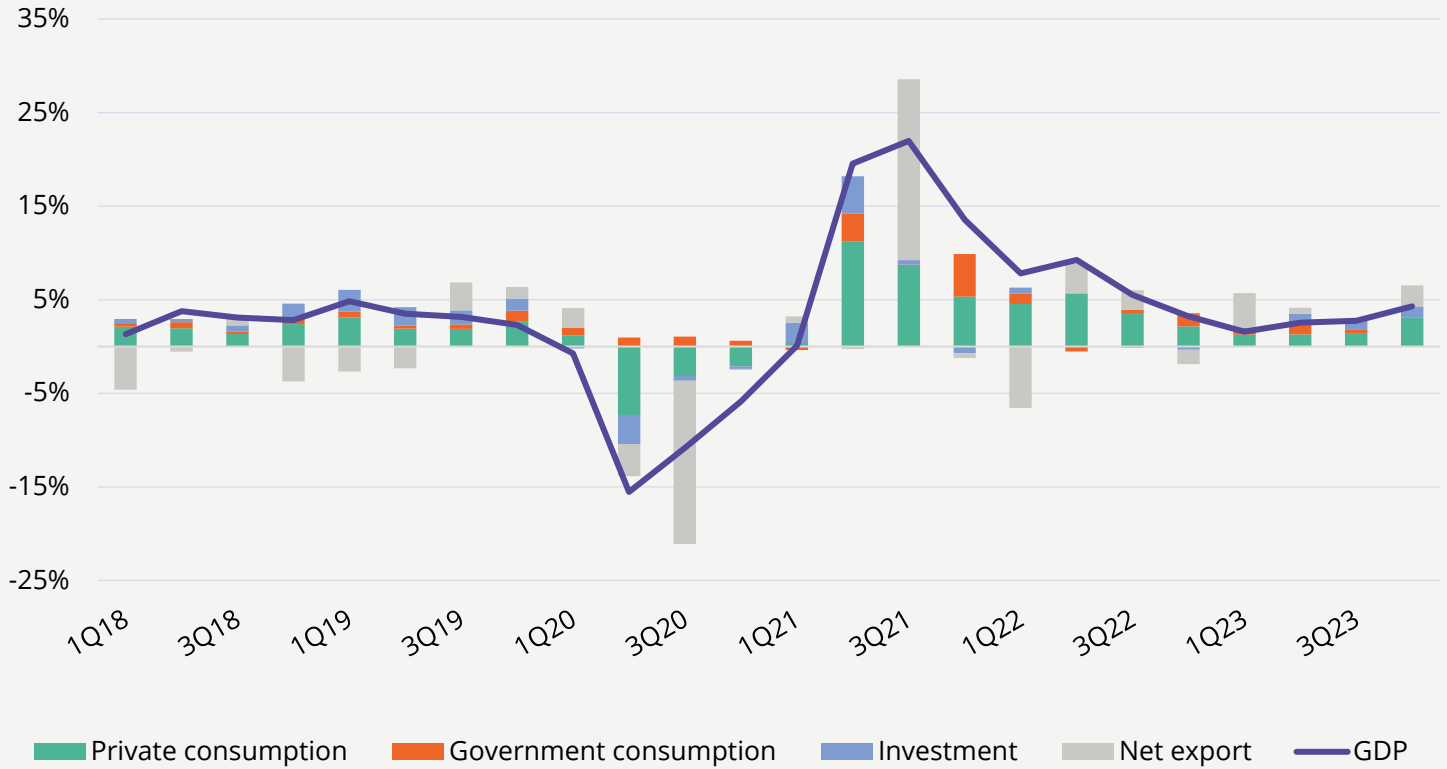
3.9M

Population

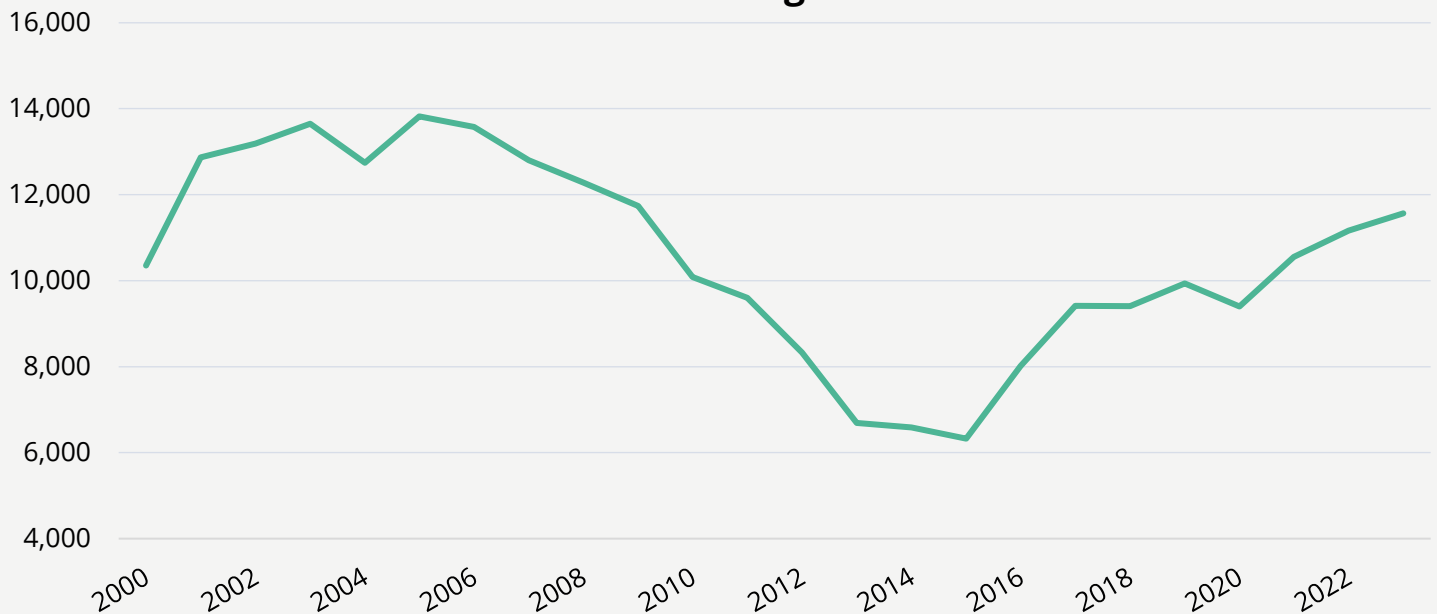
## Economic Overview

- Croatia is one of the largest economies in Southeast Europe by nominal gross domestic product (GDP). Croatian GDP amounted to approx. EUR 76 billion or **EUR 19,700 per capita**, in 2023.
- Croatia's economy has been expanding for 12 quarters in a row. In 2023, Croatia's GDP growth remained robust, amounting to 2.8%, thus positioning Croatia among the fastest-growing economies in Europe. Croatian Central Bank expects Croatia's **economic growth to accelerate to 3.0% in 2024**, reflecting stronger household consumption.
- Private spending was supported from favorable wage trends and robust consumer confidence. Robust growth in investments was boosted by European Union funds, including those allocated within the 2014-2020 multiannual financial framework, which needed to be utilized by the end of 2023.
- After a decade of EU membership, Croatia has successfully entered both the **Euro and Schengen zones** in 2023. The removal of border controls has eliminated the long lines at the land border crossings with Slovenia and Hungary, benefiting tourism which contributes to nearly 20% of GDP.
- The average CPI year-on-year inflation rate was 8.0% in 2023, down from 10.8% year in 2022. Average long-term government bond yield with a remaining maturity of about 10 years was 3.8% in 2023, according to CNB.
- Croatia's total capital ratio is above the European Union average which makes the banking system relatively stable and recession resistant. As a result of high liquidity in the banking sector, the interest rates hike was less pronounced compared to other countries in the European area. The share of **Non-performing loans** ("NPLs ") in total loans and advances **fell to 2.7%** at the end of the third quarter of 2023, according to CNB.
- **Development activity is still well below the levels from the "golden real estate and construction period"** from 2003 to 2008. The primary obstacles to more investment are bureaucratic hurdles, a tax system characterized by frequent changes and complexity, unpredictability and lengthy time in securing building permits and slow spatial planning processes.

### GDP growth components



### Number of issued building permits all buildings



## Zagreb stats

1.6M

Existing office stock,  
m<sup>2</sup>

13K

Under construction,  
m<sup>2</sup>

120K

Pipeline, m<sup>2</sup>  
2025 - 2028

3%

Average vacancy  
rate

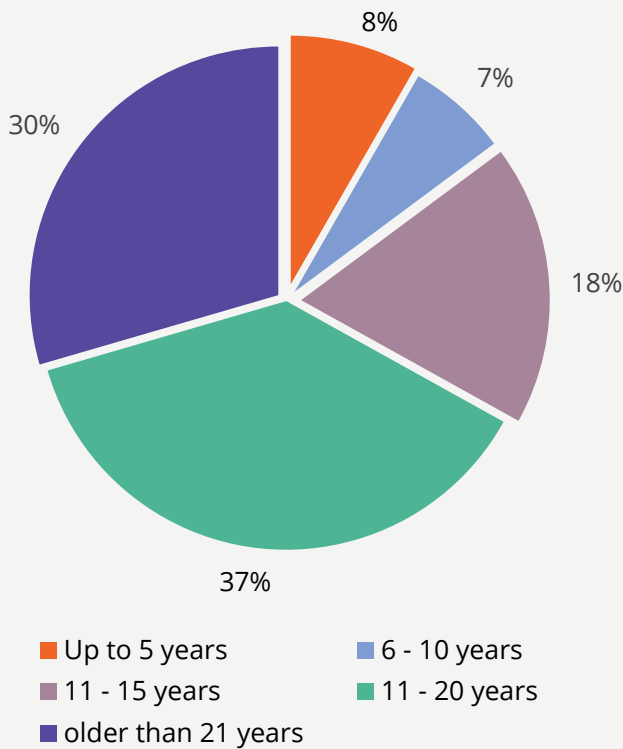
€14

Average monthly  
Class A rent / m<sup>2</sup>

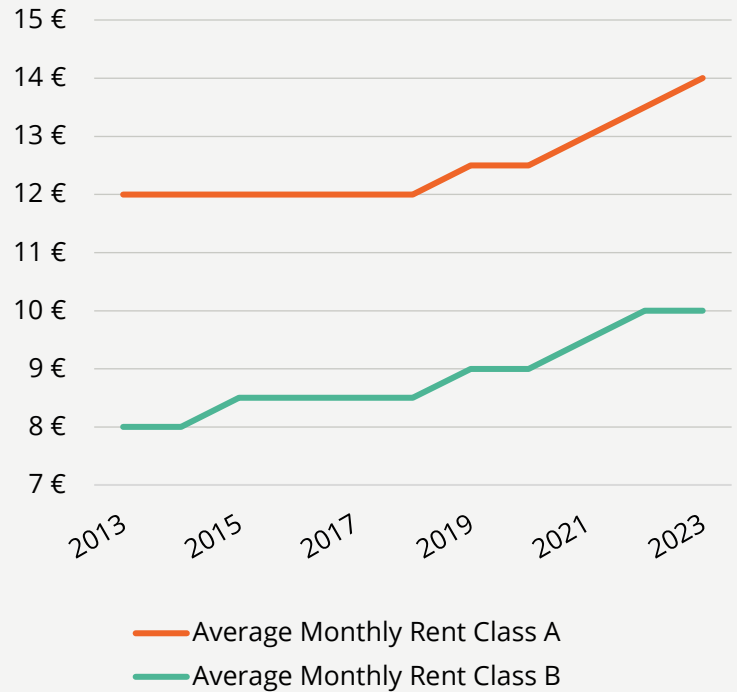
## Office Market

- Croatia is renowned for its historic buildings. Nevertheless, there is a significant shortage of modern office space throughout the entire country, as the demand far outweighs the available supply. This is especially evident in the country's capital Zagreb, where thousands of people still work in buildings damaged in the earthquakes from 3 years ago. Therefore, **the market is ready for a new development cycle in the office sector.**
- The **vacancy rate** in Zagreb **is at a historical low** of approximately 3.0%, while in the rest of the country, it remains in the single digits for Class A buildings. Class A and Class B account for approx. 44% and 56% of office space in Zagreb, respectively.
- The scarcity of office space has resulted in increased rental rates. However, due to high inflation and indexation clauses, negotiations between landlords and tenants resulted in lower real rental growth than expected.
- After multiple work interruptions, the Westgate Tower, now renamed **Dalmatia Tower, was finally opened in 2023** in Split. Croatia's tallest building, developed by Westgate Group, will accommodate both a hotel and office spaces.
- GTC and KfK have been the most active developers of office buildings in Zagreb in the last few years. The pipeline includes projects from established developers like VMD, but it also features market newcomers such as Landmark PMC.
- Because of a significant increase in construction costs on one hand and a sluggish progression of rental rates on the other, the yields generated from development projects are closely aligned with those from existing investments, indicating minimal additional risk premium. We anticipate that this will change with the introduction of new projects in the capital's CBD and the long-awaited substantial growth in rental rates. The **first developers who build green Class A office towers** in the CBD area of Zagreb **will attract a number of blue-chip international tenants** and set the prime rental rates upward (currently between €17 and €20/m<sup>2</sup> per month).
- High energy costs have increased the occupancy costs and reinforced the case for green buildings and shift towards sustainability. **Demand for flexible workspaces** is also **on the rise.**

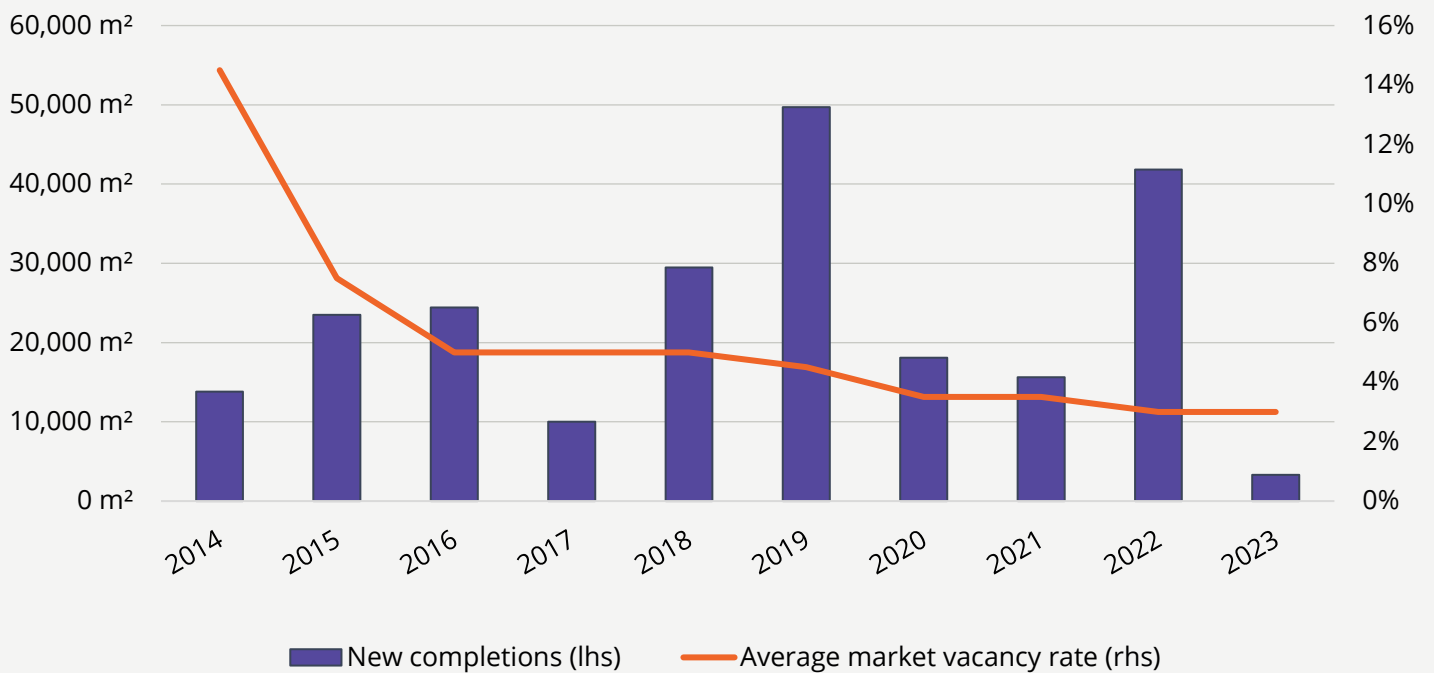
### Office surface by age



### Office headline rent per m<sup>2</sup> by class



### Office completions and vacancy rate



## Country stats

1.6M

Malls and retail parks stock, m<sup>2</sup>

70K

Under construction, m<sup>2</sup>

190K

Pipeline, m<sup>2</sup>  
2025 - 2028

&lt;3%

Average vacancy rate

€20-24

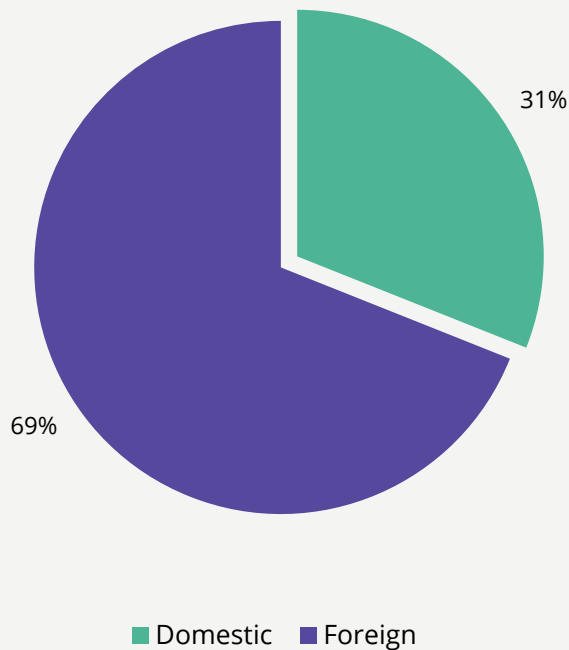
Shopping malls average weighted rental rates / m<sup>2</sup>

## Retail Market

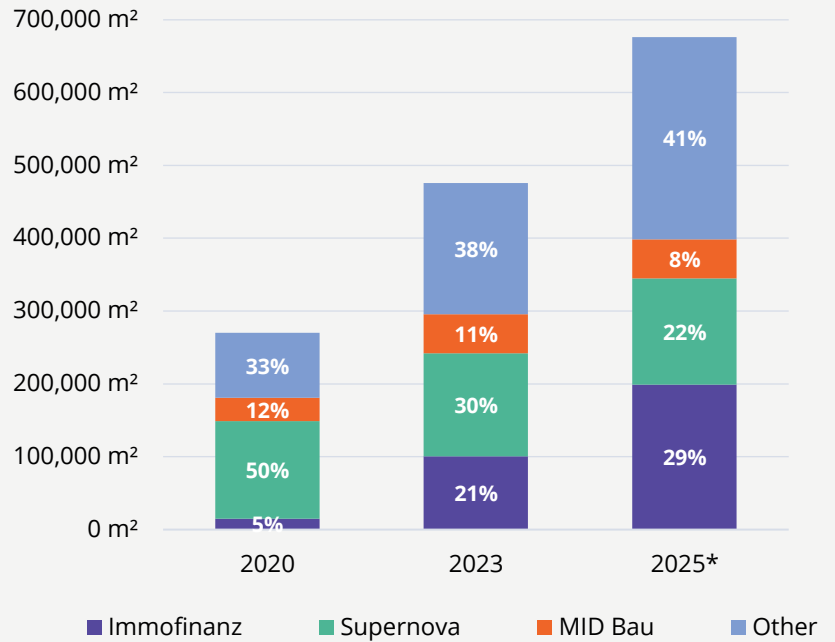
- Shopping mall supply was stable in recent years, while the increase mostly occurred in the retail parks segment which spread in the secondary and tertiary cities. By 2025, all cities in Croatia above 10,000 residents will have a retail park and/or a shopping mall.
- The market can be regarded as mature with limited possibilities for new schemes, mostly as concept repositioning.
- The majority of retail park expansion has been propelled by the development of **Immofinanz's Stop Shop schemes**, which increased its market share in the total area from 3% in 2020 to 22% in 2023 and will take over the leading position from Supernova by 2025 if it completes all currently active projects.
- Vacancy rate in modern shopping malls and retail parks is mostly structural, below 3%. Higher level of vacancy is present in some older properties with outdated concept.
- High street has slightly declined as the shopping malls and retail parks have become a more sought after destinations. Zagreb market might be positively shaken with the news that **Nama department store** on the main square and Kvatrić square **will be sold on auction**. New buyer will have an excellent opportunity to reposition Nama property into a modern scheme with upscale brands which are missing in the capital city.
- The international brands are eyeing Croatia as an expansion opportunity. Ale-hop, Spanish clothing brand and H&M Home are new additions to the market.
- Increase in energy costs between 2021 and 2022 have stabilized during 2023 period. Proactive landlords are looking at opportunities to install solar panels to achieve higher level of sustainability for their malls and retail parks.
- The rents were stable in 2023, while the landlords achieved additional revenue propelled by inflation via turnover rent which varies between 4% and 8% of the store's turnover, depending on the market segment.



### Ownership distribution, Shopping mall and retail park stock

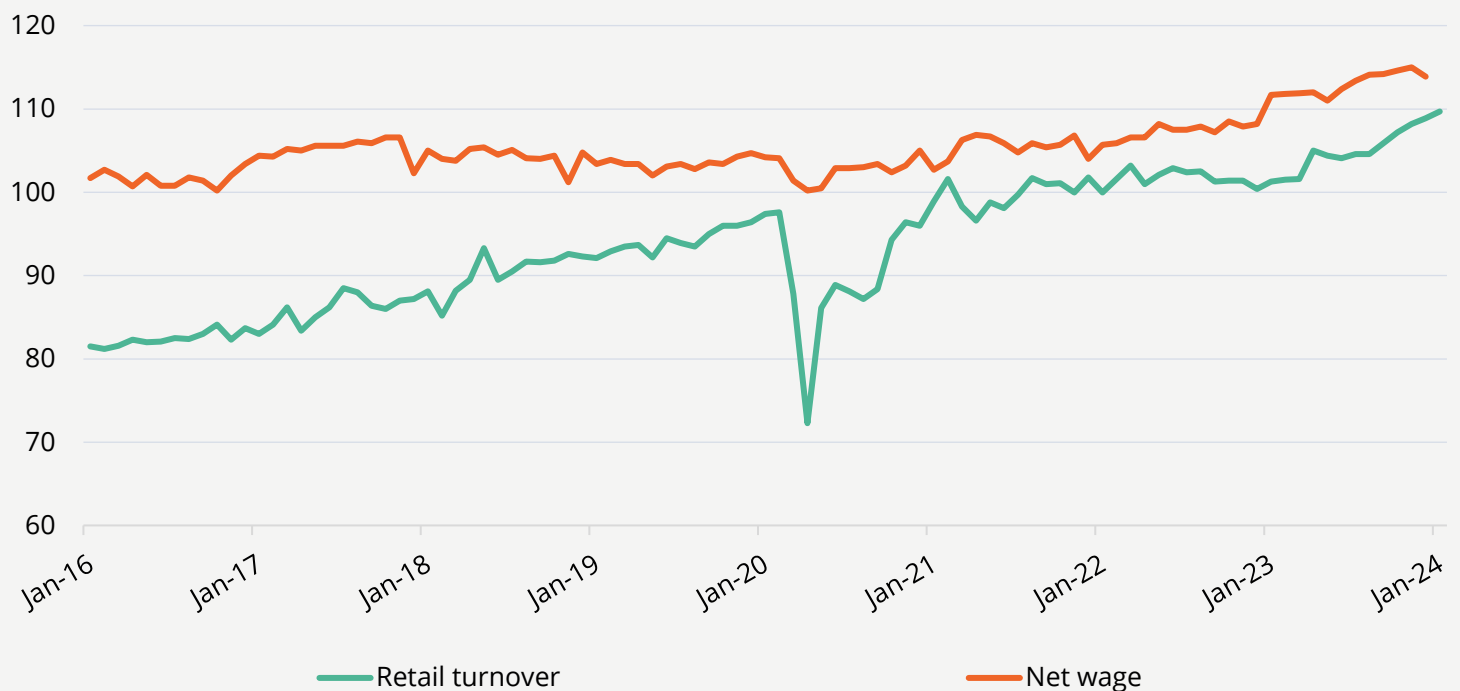


### Retail parks ownership distribution per surface: 2020-2025 period



\*If projects with construction permit are completed

### Retail trade and real net wages index real turnover, seasonally and calendar adjusted indices, 2021=100





## Zagreb stats

1.6M

Modern stock, m<sup>2</sup>

+400K

Under construction, m<sup>2</sup>

+250k

Pipeline, m<sup>2</sup>  
2025 - 2028

&lt;3%

Average vacancy rate

€6.5

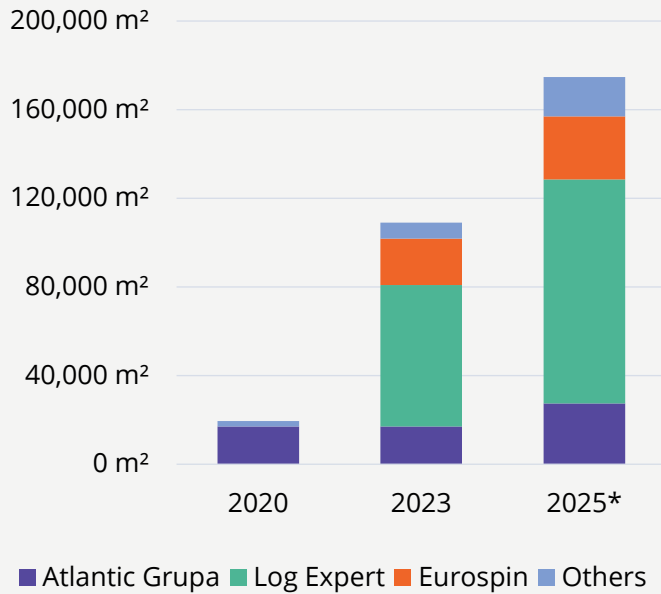
Prime headline rent /m<sup>2</sup>

## Warehouse &amp; Logistics Market

- Warehouse and logistics market has experienced the strongest growth of new supply among other commercial real estate segments for the last 5 years.
- Main hubs are Žitnjak and Jankomir in Zagreb ring; business zones Meridian 16, Sveta Nedelja, Bistra, Jastrebarsko, Zdenčina, Sv. Helena, Luka on the outskirts of the city.
- Other main regional logistic centres are Kukuljanovo (Rijeka), Dugopolje (Split), Kneginec (Varaždin), Podi (Šibenik), Zadar and Osijek.
- Several large-scale projects are under construction and similar number is in the pipeline with valid location or construction permit. Among the most significant are **RC Europe** (Bregana >80k m<sup>2</sup>), **Spar LDC** (Donja Zdenčina >60k m<sup>2</sup>), **Orbico LDC** (Donja Zdenčina >60k m<sup>2</sup>) and **Lidl LDC** (Križ >60k m<sup>2</sup>). **Log Expert** is the most active developer with projects in Osijek, Rijeka, Donja Zdenčina, Velika Gorica.
- Accolade Group** has entered the Croatian market and has obtained a building permit for its first industrial hall of approximately 50,000 m<sup>2</sup> in Donja Bistra area north of Zagreb. The renowned developer plans to expand across the country.
- Vacancy is on historically low level and the new supply is not expected to increase it as the new projects have prelease contracts or are owner-occupier schemes.
- Prime headline rent has slightly increased** since 2022 and stands at €6.5/m<sup>2</sup> due to rising demand and limited supply. Secondary locations achieve between €3/m<sup>2</sup> and €5/m<sup>2</sup>. The rents for the modern tailor-made premises will increase in the coming years.
- Land price** is a limiting factor for new development as it is difficult to find a scalable (10 ha) plot at a sustainable price level. The price range is between €10-25/m<sup>2</sup> for 20-50 km radius from Zagreb, €30-50/m<sup>2</sup> for 10-20 km radius from Zagreb and €50-80/m<sup>2</sup> for industrial land plots inside the Zagreb ring.

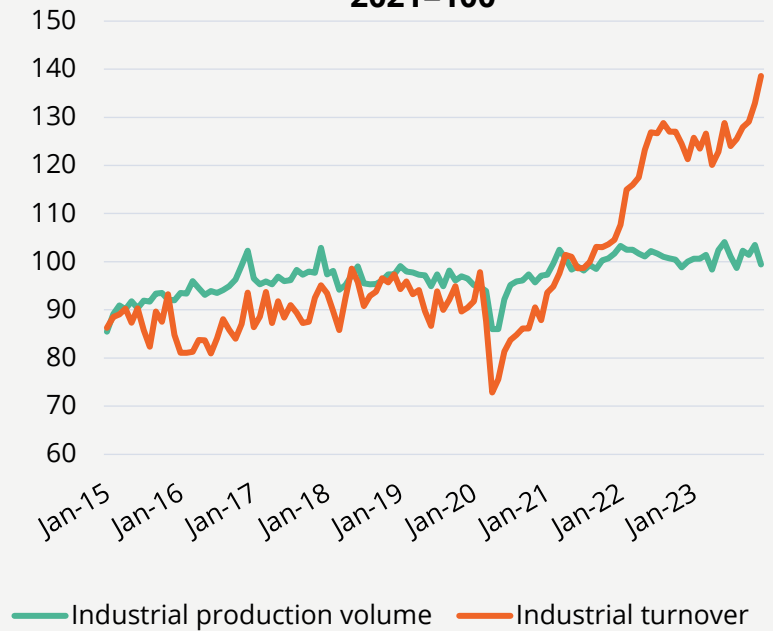


### Meridian 16 business park, total supply per year and users

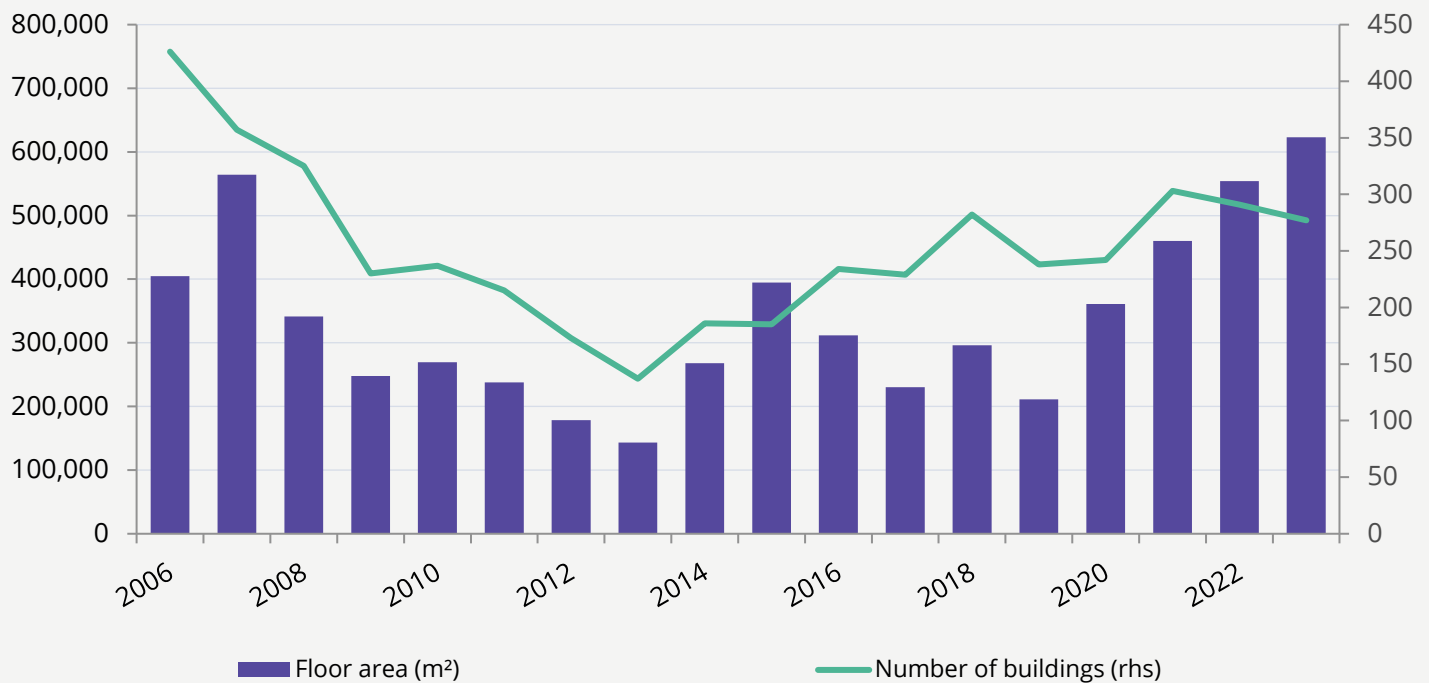


\* If projects with location permit are completed

### Industrial production volume and turnover indices, seasonally and working-day adjusted, 2021=100



### Industrial and logistics buildings, issued building permits (m²) and number of buildings



## Country stats

881

Hotels  
& resorts  
(categorized)

10%

Branded hotel  
keys  
(international  
brands)

31%

Share of 3  
leading hotel  
companies in all  
hotel & camp beds:  
Valamar,  
Maistra/Adris &  
Lukšić group

37%

Average hotel  
occupancy rate in  
2023

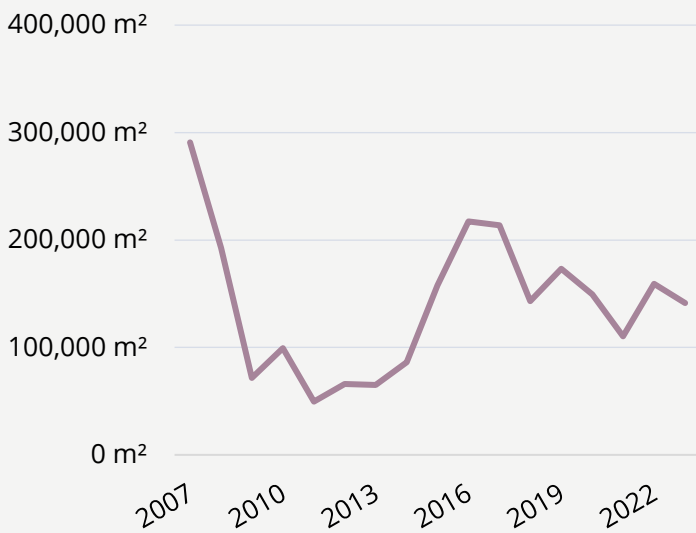
## Hotels &amp; Resorts Market

- In 2023, there were **20.6 million arrivals and 108 million overnights** in Croatia, which was 9% and 3% more respectively compared to 2022, according to the national Tourist Board. Foreign tourist arrivals accounted for 86.5% and domestic tourist arrivals for 13.5% in 2023. The most visited destinations remained Rovinj, Dubrovnik and Poreč.
- Hotels and resorts account for only **approx. 15% of the total bed capacity** within tourist accommodation establishments. However, private accommodations continue to predominate the overall supply.
- Several family-owned hotels have been put up for sale as the younger generation is hesitant to continue running a hotel business.
- Prominent projects under development include **Hyatt Regency Maraska Hotel** in Zadar, being developed by the Dogus Group; **Hotel Marjan** in Split, by Maistra/Adris group; reconstruction of **Grand Villa Argentina** in Dubrovnik by Adriatic Luxury Hotels (Lukšić group) and the **Marriott Riva's Hotels & Resorts** in Ičići near Opatija, developed by Hungarian entrepreneur Mr. Lorinz Meszaros in collaboration with the domestic developer DDG Group.
- The pipeline is modest but includes resorts with luxury brands. Valamar Riviera, the leading tourism company in Croatia, announced the continuation of its investment in **Pical Resort** in Poreč, the largest investment in Croatian tourism in 2024, with investment amount at EUR 139 million. Hotel Pical 5\* will be open all year round and will have 513 accommodation units.
- The increase in Average Daily Rate (ADR) outpaced the rise in operating costs, resulting in enhanced bottom-line performance across the majority of major hotel chains in Croatia. Hotel ADRs ranged between €70 for 3\* to €450 for best 5\* hotels in 2023. EBITDA margin for leading hotel chains was in region of **30%**.
- The unjustified above-inflation spike in prices at many hotels and restaurants, despite lower quality of service, poses a significant threat to Croatian tourism industry in the forthcoming years, as the perceived value for money diminishes overall. Among other biggest challenges are seasonality and a shortage of skilled and experienced workers.

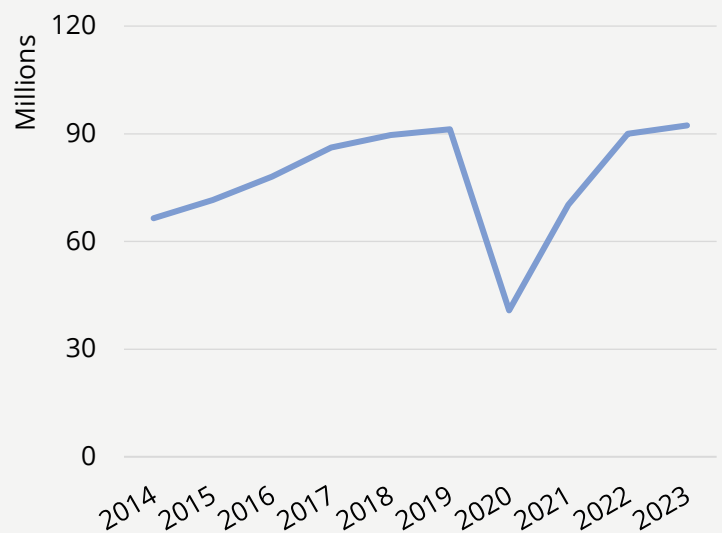
### Croatia - Beds in accommodation establishments



### Building permits for Hotels, floor area



### Tourist Overnights in Commercial Accommodation



## Country stats

2.4M

Existing number  
of apartments

2.3k

Average new  
apartment price per  
m<sup>2</sup> in €

11%

Housing prices  
growth in  
Q3 2023 yoy

5%

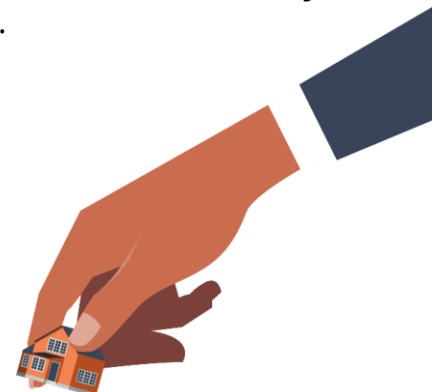
Average annual  
housing prices  
growth in the last  
20 years

+€6k

Newbuild projects  
prices per m<sup>2</sup> in  
Zagreb downtown

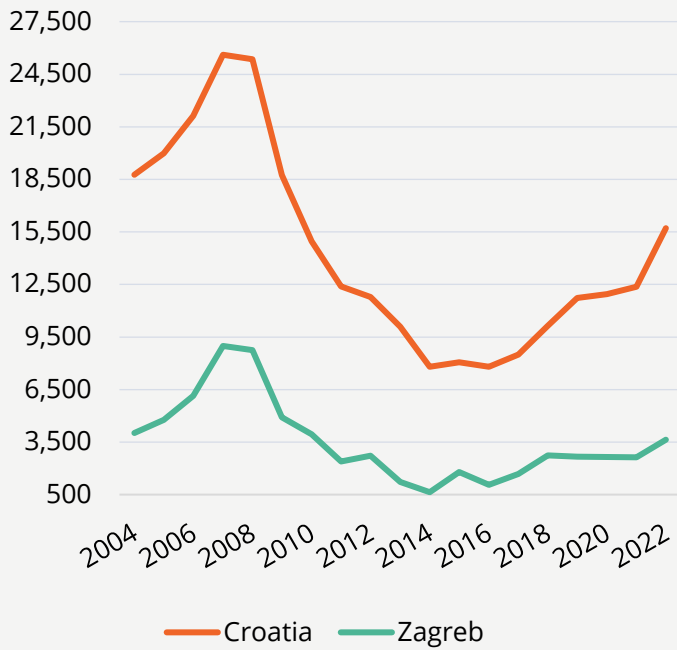
## Residential Market

- Croatia is currently in a **housing crisis** due to high demand, low supply, and soaring prices.
- The construction activity has picked up but has a long way to go to return to the pre-GFC levels. Considering the existing apartments stock in the country and the average annual number of built apartments in the last 10 years, **the replacement rate is 231 years**.
- Strong economy has been pushing the demand and prices up throughout the whole country. Zagreb recorded approx. 8,500 or 40% of all apartment transactions in 2023, followed by Split (1,200 ~ 6%), Osijek (1,060 ~ 5%), Zadar (800 ~ 4%), Karlovac (470 ~ 2.2%) and Rijeka (380 ~ 1.8%).
- The shortage of supply is not only a result of lower new build volumes, but also of increasing number of housing units being converted to short-term tourist rentals. High tourist demand, lack of new hotels, favorable tax treatment for short term rentals and property management agencies ensuring zero-hassle for the owners, have led to a massive increase of units in a private accommodation.
- The current situation in the housing market presents **an opportunity for foreign developers** with capacity to build large scale projects.
- The demand-supply dynamic has led to elevated real estate prices and diminished options for the buyers. Housing prices have surged **by 60%** over the past five years.
- Buyers seeking primary residences are trying to compete with investors in rental properties, second-home buyers and entrepreneurs seeking housing for the growing foreign work force.
- A combination of increasing interest rates, high prices, and limited supply culminated in a **reduction in sales volumes by approximately 20%** in 2023 compared to 2022.
- Among bigger cities, average asking prices are still below **2,000 €/m<sup>2</sup>** in Osijek and Karlovac, while Rijeka and Zagreb are in region of **3,000 €/m<sup>2</sup>**. The average asking price in Split is approx. **€4,100 €/m<sup>2</sup>**.

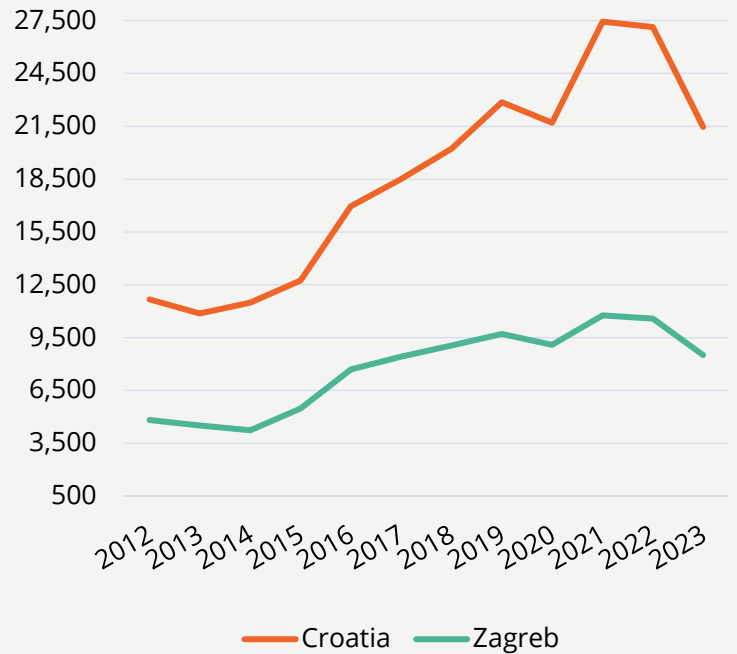




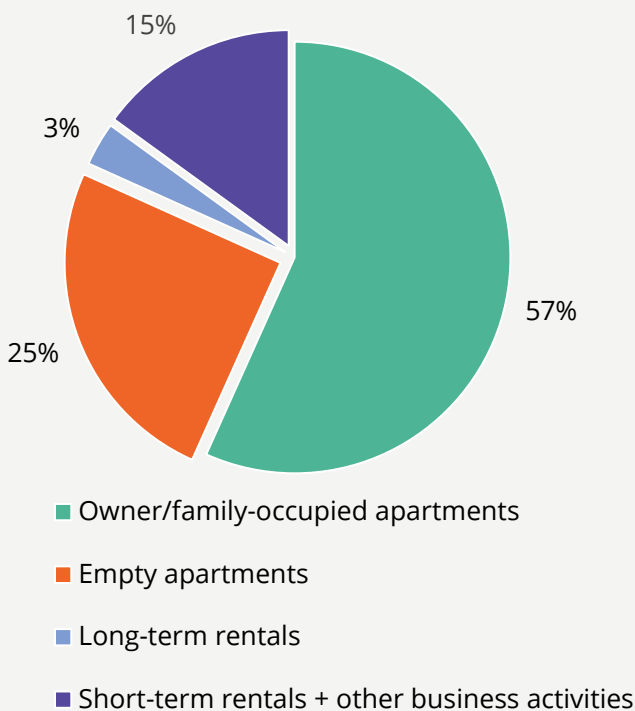
## Completed apartments



## Apartment transactions



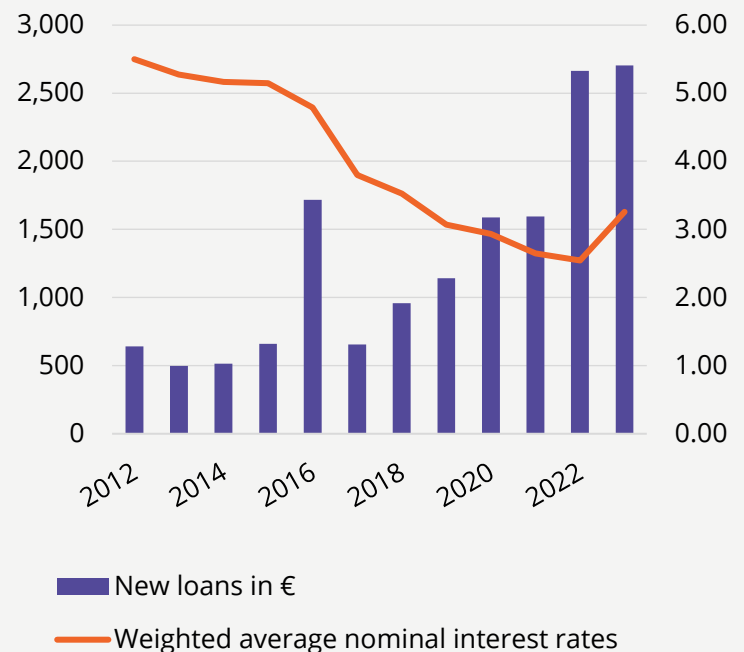
## Apartments by usage



New loans (million €)

## Housing Loans

Weighted average interest rates (%)



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- Feasibility Studies, Highest and Best Use Analyses, Development Advisory
- Tenant Representation
- Valuation

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real estate professionals

**19**

countries worldwide

**100+**

offices across the world



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