

TOPICS OF THIS ISSUE:



Mirko Orešković
Investinženjering d.o.o.
Author of the book:
Construction's Projects Book



Ward Stocker and Fabijan Matošević
Victorios Real Estate

CREN Patrons:

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1. TOPIC OF THIS ISSUE



Mirko Orešković
Investinženjering d.o.o.
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Procedures open room to creative freedom

We kindly ask you to introduce yourself to our readers.

I was born in 1943, I graduated, and completed my master's and doctoral studies at the Faculty of Civil Engineering at the University of Zagreb. I have been married for more than four decades, and my wife has been my main support in everything I do. I have a daughter, a son-in-law, and two wonderful granddaughters aged seven and five and a half.

I've been lucky that at the time of my first professional efforts as a student I received a scholarship from the civil engineering company Industrogradnja, which made it possible for me not only to find employment, but also to develop professionally, and back then in the 1960-ties there were not so many jobs available for civil engineers – you see everything happens again and again in cycles.

I don't have any intentions to talk much of my professional development, and how I underwent the whole process of professional training – starting as a trainee at the construction site, planner, consultant, supervisory engineer, organiser and head of construction at complex building sites, director of the

civil engineering department at the Urban Planning Institute of the City of Zagreb, but I need to highlight my role as the operational manager for the construction and renewal of the facilities needed for the organisation of the 1987 Universiade (Student Olympics) in Zagreb and in other Croatian cities. At that time, we had an ambition to achieve, it was a period marked by enthusiasm and building efficiency, the time when I gained invaluable experience in managing construction projects. Later on, this experiences transformed into professional and scientific passion, which I cannot resist even today. As of 1989, I have worked as a co-founder and director of Investinženjering, and I've always had the same professional enthusiasm, curiosity and scientific interest.

All my professional life, I have continuously asked myself how final the acquired knowledge and the skills are, and I've asked myself questions about the well-foundedness of legal limitations and requirements that limit the engineering profession in its social mission and in their responsibility for sustainable development. This was the basis for my social and professional activity. I have been pointing out

what are the illogical and restrictive provisions in the existing legislation, I proposed legislative amendments, I suffered defeats, but I did not give up. I can hardly be satisfied with the results, there is still too large a gap between political decision making and responsible professional thinking, and unfortunately this is all to the detriment of us all – the taxpayers, the investors and providers of engineering services in developing building projects.

And thus I have also been, or still am, the president of the Croatian Chamber of Architects and Civil Engineers, member of the Steering Committee of the Croatian Chamber of Civil Engineers with a series of additional duties, such as the chairman of the Committee for International Cooperation, chairman of the Committee for Professional Issues, member of the Council for Cooperation with Institutions of Higher Education, I participate in preparing various publications etc.

I am one of the founders of the European Council of Engineers Chambers, where I was also a president in a three-year term (2004-2007), and today I am a Supervisory Board member; and for many years I have been the representative of Croatian civil

engineers in the European Council of Civil Engineers.

What I am particularly pleased about is that I have been selected as a coordinator for the implementation of development of projects within the Engineering Initiative for Regional Cooperation. This is an informal, but firm association of engineering chambers from the territory of former Yugoslavia, which pursues the goal of advancing the engineering profession in this region, for the benefit of all our associations, economies and states, which are separate, but dependent on one another. Naturally, professional awards were also a part of my journey – the Croatian Chamber of Civil Engineers awarded me a Lifetime Achievement Award, and declared me their honorary member. Awards are a nice incentive, no matter what we say to reduce their importance, and along with the pleasure, they also provide me with an additional incentive to continue with intense professional work and scientific activity.

Investinženjering d.o.o. is also active in the field of development. You were the developer of a business and residential building in Banjavčičeva ulica in Zagreb. Tell us more about that project.

Investinženjering d.o.o. is not a typical developer, it is a respectable Croatian private consultancy firm established in 1989, which has been providing complex engineering and other

consultancy services for third parties in developing significant building projects, starting from the development of spatial planning, architectural design, civil engineering, installation design, construction management, construction supervision, energy certification, and managing most complex construction projects with the aim of implementing the requirements, expectations and limitations defined by the investor.

We reached the position of a developer by continuously developing ourselves – starting from the very year when we were founded, when we still used rented premises below the south stands of the skating rink Šalata, followed by rented premises on the corner of Berislavičeva Street and Zrinjevac, and then in our own business premises on Trg žrtava fašizma, which became too narrow for us at the beginning of the new millennium, so that we decided to build our new premises ourselves. Obviously we did not lack experience in managing building projects for third parties.

Our project is exemplary for the conditions under which construction projects in Croatia were developed, so I will briefly describe some of the specific features of this project, which are unfortunately a common phenomenon.

After the Decision to launch the project, we started long and burdensome negotiations with owners of the neighbouring buildings, which partly ended in settlements, with

compensations paid to the neighbours, based on realistically unfounded requests, and partly in complaint proceedings and appeals with respect to conditions set in the location permit. The whole process delayed the beginning of the construction works by more than six months. Naturally, parties to these proceedings bore no consequences following their unfounded complaints and appeals.

In later stages of the construction we were also faced with financial difficulties of the contractor, which – due to outstanding commitments towards subcontractors – directly affected the pace of construction. In order to resolve this problem we had to – among other things – activate contractual guarantees, and based on all these measures we managed to finalise construction and to obtain a building permit, but the finalization of the project was delayed by eleven months in comparison to the initial plan.

In the very beginning, the apartments were selling at a pace higher than expected, but soon the demand waned as the result of market disintegration. However, we did succeed in selling all the apartments, but we still have 3500 square meters of unsold business premises, which poses a significant burden to our company.

However, I have to emphasize that we are still very proud of the project we



Photo: Residential and business building at the corner of Tuškanova and Banjavčičeva Streets



Photo: Residential and business building at the corner of Tuškanova and Banjavčičeva Streets



Photo: Residential and business building at the corner of Tuškanova and Banjavčičeva Streets

implemented, regardless of the fact that we did not manage to sell business premises and irrespective of the difficulties connected with that.

At the corner of Tuškanova and Banjavčičeva Streets we built a residential and business building, which was the first reconstruction and expansion of an old industrial facility in the urban area, and objective observers assess it as one of the highest achievements in the segment of urban buildings. Renewal, reconstruction and expansion of a former industrial facility, built in mid last century as a central distribution warehouse, was performed following the highest building criteria of comfort, functionality and energy efficiency.

The project consists of corner buildings, with their respective addresses in Tuškanova 41 and in Banjavčičeva 1. The basement, ground floor and the first floor in the building in Tuškanova Street accommodate business premises of Investinženjering, and from the second to the sixth floor there are residential units. The building in Banjavčičeva has business premises in the basement, the ground floor and on four upper floors,

whereas the fifth floor accommodates residential units in the form of separate “houses”. In order to provide the owners and users of both residential and business premises with all amenities, we built a three-level underground parking in the yard of Tuškanova/ Banjavčičeva, with the entrance from Banjavčičeva Street – with three-levels of underground garage, whereas at the ground level there is a green area and some open air parking spaces.

We have built a total of twenty eight apartments, ranging from ninety to hundred and fifty square meters, five thousand square meters of business premises and a hundred parking spaces. Everything is built in accordance with the highest technical and commercial requirements, a total of fourteen thousand square meters.

We congratulate you on publishing the book Construction’s Projects Book. There are relatively few specialized publications of this sort on our market. Can you tell us what inspired you to write this book?

Your question implicitly contains an answer, but still only partially. When you have professionally engaged in managing building projects for years, and this is a skill that requires a special place in the constellation of engineering services, and when you have been applying state-of-the-art achievements and developing your own, then you are faced – as you have said – with a lack of adequate literature in Croatian, and also with the attitudes, proposals and demands by foreign authors whose experience and research results differ from yours. And this inspires you to transfer something that you have been saying and applying often into a firmer medium, into a book. And the incentive to write the book came from my distinguished colleague and expert in managing building projects, prof. Vladimir Skendrović, D.Sc., who once said to me, I quote: “You use every opportunity to talk about procedures, their purpose, justifiability and use. Why don’t you write a book about it, people will read it.” So, when you have the intention, you need an incentive, and this is where my incentive came from.

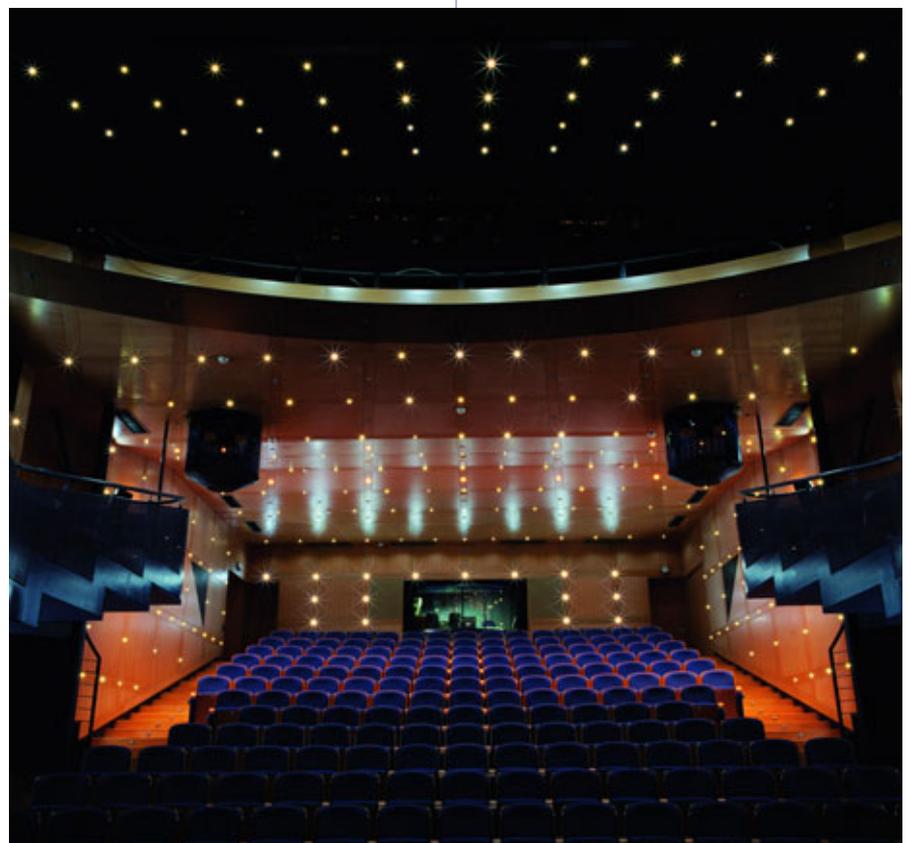


Photo: Zagreb Puppet Theatre

Using this opportunity of speaking about books, I think I should mention that I am writing a new, extensive book on managing building projects with my colleague, Mr. Mladen Bandić, D.Sc., but I will say more about it at some other occasion.

Who is this book for?

I don't want to sound pretentious, but this book – although it's focused on building projects – can also be used in daily practice of any project team that is developing a certain project. Why and how?

Because a building project at its beginning is totally and undeniably virtual, and only by developing it do we get the final result – the building. And any other project is also virtual at the beginning.

management, but primarily for practitioners engaged in implementing building and construction projects. I think it could also be useful for students as optional reading.

How is the book Construction's Projects Book structured?

The idea that you wish to present in any book requires adequate structuring. That is the fact and a requirement that any responsible author has to face, and respond to it in a way that will leave no room to any doubt about the author's intention or provoke any doubts about the results. And the structure of a book is its planned contents. The better you plan the contents, the simpler it will be to respond to the requirements of the idea that you wish to present.

In structuring the book that you

of concepts 'building project' and 'construction project'; in the Introduction I explained the need for such a book; in the Project Implementation Management Model I presented the basis of the model that I developed, which is in line with many years of experience and scientific research; in the chapter on the Project Communication Channel I provide arguments for the necessity to set up a unique system of project communications. With this chapter I rounded up the necessary theoretical introduction into the next chapter – the Project Book, in which I explained the necessity of creating a Project Book as the basic document, in which you specify the conditions and the implementing agents of various project activities. If it weren't for the broad experience base of this book, the publication would not have achieved its



Photo: Building of the State Archives in Sisak



Photo: Building of the State Archives in Sisak

Therefore, the basis for the project, formulations, procedures, instructions given for building projects may be transformed into general project requirements.

And the particular basis, formulations, instructions and procedures are read and interpreted in accordance with the requirements and the limitations of a particular project.

It is precisely for this reason that I feel that this book can be useful for everybody and it is actually meant for everybody who engages in project

referred to, my initial intention was to process one very narrow segment from the extremely complex discipline of managing a building project. The limitation that one sets in the beginning not only provides direction, but it compels one to approach the topic in a way that will make it possible for the reader to gain insight into the general definitions and to fully understand the messages you are conveying. I will try to explain the structure I used in a nutshell.

Before the introduction I wanted to remove any potential misunderstanding

purpose, so in the chapter Experience in Applying the Project Book I attached two concrete examples of implementing a building project.

The main topic of the book is the Project Book. Tell us more about that.

How can I answer this question without going into too much detail and yet not to omit saying anything that will only occur to me tomorrow as something I should have said?

So, in a nutshell:
First of all, the Project Book is a

document, which still needs to become rooted in our practice. Secondly, at the very beginning of any project, the Project Book needs to determine the following: project objectives, necessary human and financial resources; define internal project limitations and limitations coming from project environment; it is necessary to define in advance the way of responding to changed project demands; define conditions for the way information is generated, organised, processed and transferred. It is particularly important to establish a hierarchical system for decision making, and all this has to be based on clear project procedures, which take into account the demands of various project development stages. It is for this very reason that the Project Book has to be structured according to the predominant contents presented in the book at hand. Those who are interested in that will find it in the special subchapter entitled Contents of the Project Book.

What part of the book would you highlight and why?

In line with my affinities, and in the light of my own relationship with this book, I cannot answer this question as you stated it. This book is an integral whole, and if we speak of the importance of its individual parts then I truly cannot say what part I would highlight as particularly important. But

if you insist, I would highlight the text Before the Introduction, because of the message I intended for any benevolent reader – user: Project implementation provides the touch of reality, of what has happened and the sense of the virtual – what is probably about to happen, so in project management we have to constantly strive to increase the level of certainty in expecting project results.

Management of building projects is a very demanding process, which requires a certain level of coordination, monitoring the deadlines and costs. In your experience and in your opinion, what are the strengths and the weaknesses of Croatian projects?

Before I concretely answer your question, I am obliged to draw your attention to a notorious fact that in project management we very often misuse the term coordination and the action behind this word.

The need for coordination is created as a response to project changes, or in a worse case to project disturbances. Why do changes in projects or project disturbances occur? The answer is more than simple and it's very precise: due to lack of project discipline.

This means that coordination is the response to lack of project discipline, and project discipline can be

ensured by a project plan and project procedures. So the conclusion is that coordination is fully unnecessary in case there is project discipline. But in order not to create any misunderstandings, managing projects means making essential decisions on time in order to remove causes for any changes or disturbances, or in a worse case to remove the consequences of such changes.

However, I will answer both of your questions now: Quality, cost and time management are crucial tasks of a project manager. The scope, the limitations and the requirements of the task are defined in the Project Programme, or – even better – in the Basic Project Book.

The success of achieving project results depends on how clear, precise and comprehensive the information in these documents is. During project development, the manager has to make decisions that will not jeopardize the basic relations between quality, time and cost, and this is certainly not an easy task in real space and time of project implementation.

The second part of your question would be difficult to answer without comprehensive research, so that I can only state my impression, which is far from being scientifically founded, and it is only a result of my personal experience.



Photo: Plinacro building



Photo: Plinacro building

Construction projects in Croatia are not particularly different from the general experience in this field. Depending on the investor's preferences, individual project objectives are (not) weighted, and then – in line with the relationship between these weights, one can(not) speak of (lack of) project success. As I have said, I can generally conclude that Croatian building projects are better when it comes to the requirements related to keeping a certain level of planned costs, but they have weaknesses with respect to abiding by the envisaged deadlines. Quality is mostly the result of the influence of changes in time and cost of project implementation. Unfortunately, lately we have seen a dramatic drop in the quality of project documents, which articulate the requirements of the investors, so that a large quantity of unforeseen work is almost a regular phenomenon, basically as a consequence documentation, which has not really been finalized. Why this is so? Because of unreasonably low fees that the investors impose for the development of project documents, which are based on tenders decided by criterion of the lowest price. And in my opinion this is the reason for general lack of efficiency, and after all for the social damage that nobody is held accountable for, because everything was done in accordance with the law, and what is the result? Who is accountable for the result? Because for any result, no matter how pathetic it is, we will try to find some justification, and we are not ready to discuss reasons. I honour any good examples that can be mentioned in this context, but there are not so many.

Cost monitoring is one of the most important parts of project management. Do you have advice for our readers on this topic?

When we speak of the costs of building projects, and many others as well, we always have to bear in mind that project specifications are the basis for planning and monitoring expenses. And

the specifications are the result of our knowledge, anticipations and sometimes even speculations. We should therefore not be surprised by additional costs, which are either the consequence of decisions made in later stages or of incomplete specifications. These costs simply remained hidden somewhere at the beginning of project planning, and they do not imply an increase in real project costs, but simply harmonization or bringing these costs to a realistic level, as required by the project at hand. So one should not complain about additional expenses, but about inadequate initial planning. Naturally by this I mean contracted costs, and not additional requests by the investor, which supersede what was previously defined in the project.

It is therefore my advice to investors and your readers to always envisage a reserve in their calculation of total expenses, to cover unconsidered, i.e. unplanned costs, which are managed by the project owner alone.

Quality planning and good quality communication between all project participants are extremely important in the initial stages of the project. What should we pay particular attention to in that respect?

In the initial stage of project development, or in the very beginning of the project, it is extremely important to set a clear and efficient way of communication between the participant in a building project or any other project, and this is achieved by designing project procedures, which should be introduced in due time, forming the project communication channel. Its capacity and quality are of utmost importance for the final success of the project.

In installing and using the project Communication Channel, there is a need to plan and use instruments and tools, which safeguard the communication channel from irregular interventions from outside of the

project, but also adequately prevent irregular activity within the project team.

Planning the data “production”, the way of transforming data into information, further processing of information, summarizing it for higher levels of use, and particularly for decision making purposes, all these are of crucial importance for project success.

The planned flow of information has to take into account the way of collecting and maintaining data, quality and frequency of data processing, hierarchical adjustments when data are transformed into information, through which process they gain new quality, all of which are further processes in line with project requirements reflected in project procedures. To sum up, quality planning is the foundation of project discipline thus also the foundation of project success.

In your book you have emphasized how “There can never be one too many a meaningful project procedure”. The forms are extremely important as well. What is your experience, to what extent are projects in Croatia being implemented according to previously defined procedures, and what would you recommend to professionals and developers with respect to this topic.

As I have emphasized in my book, meaningful procedures minimize the time that project participants need to perform routine tasks, and they allow time and space for innovation and creativity. There is never too much of that in project planning and implementation.

In this area, Croatian experience is not satisfactory. We still rather lean on intuition, on “originality” in searching for answers to ordinary questions that require nothing but a “modest” but efficient routine approach.

I would therefore recommend to the professionals and developers not to run away from procedures, not to

understand them as necessary evil, but to use good procedural experience, to develop them and promote them in accordance with the particular needs of their projects, and particularly to develop a practice of recording events, to rely on the memory, but in the form of good quality and permanently recorded information.

Procedures are a fruit of systematic and reasonable planning, and as they mature, they become the foundations for objectively assessing the state of the project at any point of its development cycle. You should therefore always prefer procedures rather than project improvisation and arbitrary decisions, which we too often consider to be the foundations for the success of our projects. But in doing so, we often fool ourselves, we even outright lie to ourselves.

In your book you have mentioned examples of real project implementation – development of real estate projects. What projects are those?

I think that anybody who takes the book in their hands will easily recognise what projects these are, so I will avoid answering directly to this question. The ones who are really interested in that should read it in my book. There, they will find concrete examples that illustrate the application of some principles, but also two examples of very concrete experience in the implementation of the Project Book, the response to its demands, which was initially marked by misunderstanding and rejection, but in the end it was accepted. Because the result of applying the Project Book, and primarily of applying the procedures, was in the end acceptable for all project participants and for many it was also very instructive. It still remains to be seen how far are we ready to go in that direction, to continue trying and learning.

I am personally more than convinced that good project practice is not repeating other people's experience, but

constantly attempting to upgrade it and adapt it to the demands of a concrete project, the conditions that arise during the life of the project, which are also in line with general and particular, social and individual interests.

Which of your projects do you consider most interesting and in which projects did you learn most?

If you are open to challenges, if you are curious and trying to use previous experience and gained knowledge in a way that you upgrade them and develop them, then you will discover something interesting in any project that you work on, regardless of the role you have: the demands and the challenges are different. And then you wonder what would be the right answer to this simple, yet demanding question. No, I cannot say what projects – out of the many that I participated in – in one way or another – are the most interesting, so I will just list projects, which have posed a professional challenge and encouraged me to scientifically and professionally re-examine the methods and procedures applied in project implementation.

So, I will enumerate them in chronological order, assuming that the names of these projects mean something to a broader audience, and that they are a part of collective memory: underground passage of the central railway station in Zagreb; sugar factory in Virovitica; tramway in the south of Zagreb – first tramway crossing across the Most mladosti bridge towards Novi Zagreb; sports and accommodation facilities for the needs of the Universiade 1987 in Zagreb, when we've changed the image and the way of life in Zagreb, although unfortunately only temporarily; the Importanne Centar in Zagreb, at the time when we started building our own state of Croatia and were very enthusiastic; Zagreb – Split motorway, both an engineering and an economic endeavour, which can hardly be matched by any other building project; Hypo Alpe Adria Centar in Zagreb, which announced a general

economic and building boom, not only in Zagreb.

How do you perceive property and building markets today, and how do you envisage the future?

Unfortunately, currently there is no property market in Croatia, there is simply no demand. This is the fact that we in the construction business have been faced with for too long now. The decline started in 2008, and a steep drop continued until this very day. Where is the end to this trend, which has dire effects on the society, I don't know. But I do know that this trend can and must be reversed, primarily by changing the social climate. We have to exchange messages of lethargy, going with the flow and reconciling ourselves with the status quo with messages of realistic optimism.

What should these messages be based on? Primarily on the need that things should be better for all of us, and they should be better today. This means that potential investors have to stop speculating that their investments will be cheaper tomorrow than they are today, and that the conditions for marketing their project results will be better tomorrow.

And in order for this to happen, politics should send a clear message that it will no longer support the strong, but the weak, in order to preserve their integrity in accordance with our social responsibility as individuals and society as a whole. And those who are strong should be given incentives, as they will be the driving force of development and in this development they will pull the ones who are weaker, but still strong enough to follow this development. And this development has to be useful for everybody, not just for some.

How to achieve this? I only have one answer. The policies have to rely on professional know-how to the greatest possible extent and develop those building projects, which are of interest to the Republic of Croatia. And they have to define conditions

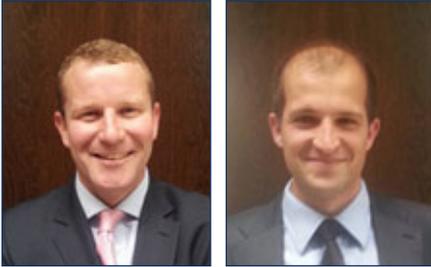
for their implementation together with the professionals. Because, lack of investment in building projects means inevitable social and economic stagnation. Stagnation is not just standing in one place, unfortunately it means lagging behind. And I do not wish that kind of future for my

granddaughters in our beautiful homeland.

Despite the recent state of play and social awareness and economic relations, I perceive a bright future. Changes are necessary and as such they are inevitable. And in order for the changes to happen as soon as possible, we have

to be able to identify social priorities. We are currently witnessing a social uproar and the media are showing a corresponding interest for this topic, but this is very far away from any real social interest. However, unfortunately this cannot be used as proof that we have truly recognised real social priorities.

2. TOPIC OF THIS ISSUE



Ward Stocker and Fabijan Matošević Victorios Real Estate

Victorios is a new real estate company which focuses on exploiting a gap in the property investment and development markets. Its two partners, Ward Stocker and Fabijan Matošević have many years' experience in European real estate and are now building a new venture with a focus on single tenant long term income, specifically targeting big box retail, offices and logistics. This includes both standing investments and development opportunities on a build-to-suit basis or in under-supplied sectors. Technology crucially underpins the business as they stress innovation as a key driver of real estate services and investment. In this interview for CREN they provide their views on the status of the Croatian real estate market in the wider European context in light of Croatia's imminent EU accession.

To start, could you please introduce yourselves and provide a bit of a background to your new business.

Ward Stocker: The motivation to start the company came as part our constant efforts to push ourselves to grow our experience in new markets and sectors and provide a service to our clients fundamentally based on trust and long term relationships. We are a very young company and started full time in January of this year with a lot of excitement and focus. I worked with Fabijan at a major international real estate consultancy for a number of years in their investment department when we started considering setting up Victorios. Being at early stages we are now dedicated to building the business and brand by exploiting what we feel is a clear gap in the market for investment management and advisory services.

Fabijan Matošević: We felt that many of the existing real estate service providers operate in a fashion that was increasingly distancing their employees from clients which made it difficult to build a relationship of understanding and ultimately provide a good, well rounded and dedicated service. Having worked together with Ward for a number of years, clear synergies grew between our approach to work and skillset which

complemented each other naturally within the business. A key benefit of being a start-up business is that we are able to set all processed up from scratch – and in these challenging economic conditions, the ability and flexibility to adapt is crucial for success. We also have full flexibility to adapt to the market and are constantly looking at new opportunities.

As you pointed out, we are now finding ourselves in very challenging economic conditions. In deciding to start up on your own in the current environment, how does your business differ from many of the existing companies in the market?

Ward Stocker: The benefits of starting up in a recessionary environment often outweigh the costs. This is because we have the unique opportunity to learn from what has not worked and turn fully adapt to new conditions and the needs of our clients. We are fundamentally strategy driven, rather than sector or geography driven, which seems to be the norm across European real estate business. Therefore, we crucially provide specialized investment opportunities to investors whose needs we thoroughly understand.

Fabijan Matošević: I like to think that we provide a holistic approach to

investment. When providing a service to a client we aim to understand fully the motivation and drive behind their investment decision and crucially

Fabijan Matošević: Liquidity drives real estate markets and investment activity. Whether that be equity or debt, liquidity determines the level of activity,

European economic turbulence, making equity investment in many cases more competitive than debt throughout SEE.

“The benefits of starting up in a recessionary environment often outweigh the costs. This is because we have the unique opportunity to learn from what has not worked and turn fully adapt to new conditions and the needs of our clients.”

What do you believe are the main issues which have put Croatia and SEE at such disadvantaged position, compared to other, more developed markets?

Ward Stocker: Croatia and the SEE region are seen as very small markets with few investors’ active or looking at opportunities in these geographies. Size, lack of exit and general perception of SEE as “piddly little markets” are often cited as the main reason there is no activity in the traditional real estate sector in this market. On top of this, the political situation and the perception of widespread corruption and lack of transparency are issues which contribute towards the overall risk level investors assess when considering an investment opportunity. As these issues are not perceived as prevalent in more mature markets, investment focuses there.

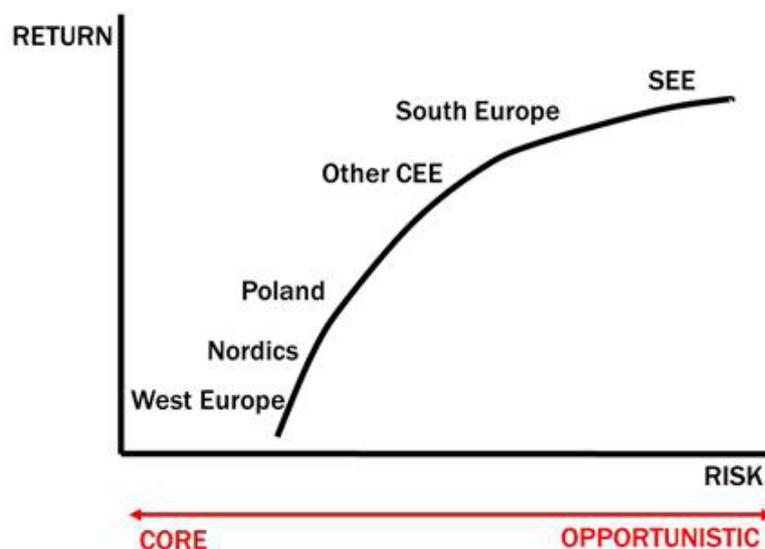
Fabijan Matošević: A major issue facing Croatia and regional market is one of misaligned expectations. In addition to the political and regulatory challenges the country is facing, there are also more subtle yet powerful forces which are hindering any substantial investment drive. These issues relate to the expectations of private sector players in the market whose return requirements and pricing expectations

we take a proactive approach in understanding and negotiating the capital structure of the deal as a key element of each transaction. We aim to do this at early stages of each transaction. Very often this is left to the client to deal with, which misses a crucial opportunity to add value to them. Moreover, unlike much of the real estate sector, technology lies at heart of all our business processes and is an area we are heavily investing in.

You have worked in many countries throughout the region and beyond, how would you say Croatia and the region compare with Western European markets?

Ward Stocker: During the previous market peak, Croatia and many other countries in South Eastern Europe (SEE) were seen as attractive markets offering a good refuge from the low yielding, overheating Western European markets. Now, since the onset of the downturn, these markets are fundamentally seen as more opportunistic markets. With most investors having lost nearly all appetite for risk, the markets have turned to allegedly safer investment locations in core European countries of UK, Germany and Poland. Croatia and broadly SEE markets are seen as some of the riskiest markets in Europe. This makes it very difficult for traditional investment managers to justify any meaningful allocation of capital in these markets.

growth or decline of any one real estate market or sector. Indeed, both more developed markets and SEE are driven by liquidity – Western Europe by its availability and SEE by its lack. Even for the same relative location within a major city, build quality and tenant profile, SEE will now find it significantly more difficult to attract suitable investment capital than an otherwise identical opportunity in a major city in Western Europe. Due to the high risk premiums attributed to Croatia versus core markets, investment activity was largely driven by investors replacing more traditional lenders as a result of the withdrawal of debt financing for corporate occupiers. This was in turn a consequence of lending margins increasing sharply in response to wider



“I like to think that we provide a holistic approach to investment. When providing a service to a client we aim to understand fully the motivation and drive behind their investment decision.”

are totally misaligned with the wider European risk return patterns, thereby making any meaningful investment activity very difficult. Overpricing and mispricing of risk of incumbent market participants is a standard feature of immature markets.

How do you think the wider European economic troubles are affecting Croatia and the region? How do you think investors have been affected by the prolonged sovereign debt crisis and do you see a resolution to this in the near future?

Ward Stocker: The prolonged sovereign debt crisis has affected the European investment landscape to the extent that it has reduced the flow of capital and availability of debt across the continent and beyond. Investment managers who guarantee certain equity returns, have naturally moved down the risk curve to markets where banks continue to lend at reasonable margins. In SEE lending margins make it very difficult to generate reasonable returns on investors' equity. A key trend throughout Europe is the emergence of new sources of capital that has somewhat mitigated the fall of domestic investors' capital capacity and limited the fall of activity. These investors come from more exotic locations in the Middle East and Asia and have a specific set of investment criteria. A potential resolution to the subdued market conditions is to understand their requirements and build strong relationships with these investors as they grow their share of capital allocation to European real estate.

Fabijan Matošević: The elevated level of risk within Europe and uncertainty caused by the sovereign debt crisis, has increased the risk aversion of property

investors in Europe. Overall investment volumes have fallen 57% in Europe between the peak in 2006 and 2012, according to some estimates. This kind of statistic is sufficient to make investors carefully consider where to put their capital. For this reason Croatia and SEE have suffered significantly as investors have moved to more liquid markets. Every issue can be resolved, and the key is to swiftly adapt to new market conditions by getting an understanding of return criteria and prevalent investment strategies: adding values where others don't see it.

“Every issue can be resolved, and the key is to swiftly adapt to new market conditions by getting an understanding of return criteria and prevalent investment strategies: adding values where others don't see it.”

Do you think the current political and economic situation and Croatia's EU accession in July justify investors' aversion to these markets?

Ward Stocker: While Croatia's EU accession will have a positive impact on the local real estate market, most of the issues that have hindered investment will continue to be here as Croatia continues on its reform and development path. Nevertheless, there will undoubtedly be a positive push in sentiment both locally and internationally as full membership status is seen as a positive sign in the Country's political and socioeconomic reform efforts in the past years. We do not expect EU accession itself to

provide a boost in activity on its own. Most importantly, investment activity across Europe continues to be driven by market liquidity and the availability of good quality stock – factors which supersede issues of political and economic integration.

Fabijan Matošević: When considering the relative risks and opportunities within Croatia and comparing them with those in mature markets, in light of the stage in the economic cycle in Europe it is challenging to justify the divergence in activity purely through market size and exit risk. For it is fear of rejection among the European investment community and herd-like mentality that is causing investors to focus all on the same markets and opportunities.

How would you say investment strategies have changed among property investors in Europe over the past real estate cycle and what are investors focusing on in the current environment?

Ward Stocker: Property investors now increasingly look for security in their investments and investment managers are under great pressure to deliver on this mandate. While previously security primarily meant investing in prime, city centre locations and good quality buildings, it now also means investing in a strong tenant mix or single tenants with long, unbreakable leases with limited income leakage. Such sophistication of investment criteria has resulted in a greater level of due diligence required, which means deals take longer to complete as investment managers are ever so cost conscious and focus on increasing productivity while keeping a close check on headcount.

Fabijan Matošević: A shift down the risk curve and a focus of capital on more core opportunities has meant that the European real estate landscape is generally less diverse from the point of view of real estate investment

and other market participants take now. If there is decisive action to assess their portfolios and take action to manage underperforming assets, we could expect recovery to begin within the next 18 to 24 months.

Croatia or the region that investors may consider?

Ward Stocker: Opportunities within Croatia and the region are ample, and many have been discussed at the recent conference in Zagreb. Croatia's imminent EU accession will provide a welcome boost to morale as local businesses get access to a 500m people market. In terms of the real estate market, the greatest opportunities rest in the logistics and retail sector. We believe the retail sector will continue to expand focussing on regional markets, many of which remain undersupplied. The logistics sector will also benefit as the growth and saturation of the retail market will push demand for logistics space.

The corporate sector will continue to benefit from changing financing market as corporates seek alternative, non-banking financing methods to support and expand their activities in light of now having access to a much greater market catchment. Therefore there will continue to be extensive opportunities in the long income investment sector. This will mean that there will also be a number of investors that may enter the market that could previously not have done so due to having a remit only to invest in EU member states. Finally,

“It is difficult to say when we expect markets to recover as this depends on the approach key lenders and other market participants take now. If there is decisive action to assess their portfolios and take action to manage underperforming assets, we could expect recovery to begin within the next 18 to 24 months. ”

strategies. Up until the beginning of the downturn, investment strategies were diverse and covered the full spectrum of the risk curve, with large number of investors focussing on opportunistic strategies and on core, income strategies. Now, with many investment managers having gone bust and opportunistic strategies harder to sell, value retention and long income strategies account for a major chunk of investment activity than ever before.

Fabijan Matošević: Lack of innovation and the unwillingness to adapt to fundamentally new market conditions is a major issue for the Croatian real estate market. Too many participants are too close minded and struggle to accept the new market norm: more work for less reward. The market needs to adapt rapidly to the shifting investment strategies, increasing tenant bargaining power and demand for quality. This may temporarily mean reduced profitability

What do you think are the main obstacles for Croatia and challenges it will face on the path to recovery? When do you expect its real estate market to recover?

Ward Stocker: Assuming political and socioeconomic reform remains on the agenda of policymakers of all factions, we should see the private sector take a more proactive approach and solution driven attitude towards investment. This includes getting clarity of the situation in the banking sector by taking a reality check of property values and loan to value ratios and increasing the transparency of local real estate participants' expectations on pricing and returns given the risk associated with Croatia. It is difficult to say when we expect markets to recover as this depends on the approach key lenders

“Lack of innovation and the unwillingness to adapt to fundamentally new market conditions is a major issue for the Croatian real estate market. Idleness is the worst option and this is the greatest challenge.”

in the short term, but is sure to bring long term benefits. Idleness is the worst option and this is the greatest challenge.

Given the market situation and key challenges facing Croatia you have identified, what do you believe are the positive and attractive opportunities in

Croatia has great potential to grow its investment market by diversifying its tourism sector and investing in research and development which will provide it with long term resilience. The greatest opportunity for local market players therefore rests in identifying these opportunities and aligning themselves with them.

Fabijan Matošević: The growing maturity of the market and arrival of new investors and retailers will have a dual positive impact on activity within Croatia. Directly through these investors increasing their exposure to Croatia and indirectly through their demands for improved business efficiency and

business processes within the Croatian real estate sector. The development of the logistics sector has not followed in the footsteps of the retail sector, mainly due to onerous construction, taxation and land costs. As these barriers are slowly lifted, retailers will look to increase the efficiency of their

operations by moving into modern logistics space. We feel innovation in the provision of retail and professional services will mean technology will take centre stage over the medium term, as the Croatian economy matures alongside the rest of Europe.

3. STATISTICS

3.1. Average Asking Prices of Real Estate Offered for May 2013

	average price EUR/m ²	price range EUR/m ²
ZAGREB		
Housing		
Apartments	1.579	549 – 6.667
Houses	1.695	341 – 9.167
Commercial space		
Offices	1.814	700 – 4.865
Business premises	1.991	722 – 7.500
Office blocks	1.733	132 – 3.793
COAST		
Housing		
Apartments	1.964	545 - 8.196
Houses	1.830	90 – 18.269
Commercial space	2.014	80 - 4.338
Tourist facilities	1.986	146 – 15.748

Average is calculated on the basis of the currently quoted prices on the Burza nekretnina d.o.o. (Real Estate Stock Market Ltd.), which is available online: www.burza-nekretnina.com.

3.2. Statistical Reports of the Central Bureau of Statistics from the Area of Construction

Construction work indices, March 2013

According to gross indices, in March 2013, as compared to March 2012, construction works decreased by 10.6%. According to working-day adjusted indices, in March 2013, as compared to March 2012, construction works decreased by 2.3%. According to seasonally adjusted indices, in March

2013, as compared to February 2013, construction works decreased by 2.2%.

Advice: *Construction work indices, March 2013, Central bureau of statistics, Zagreb, 2013*

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It is our wish that the Croatian Real Estate Newsletter / CREN be a source of speedy and quality information for all who are active in the real estate sector – developers, planners, contractors, mediation agencies etc.

Please send your comments, proposals and opinions to cren@filipovic-advisory.com to help us improve CREN and make it the leading medium on the Croatian real estate market.

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