



TOPIC OF THIS ISSUE:

Interview

Vedrana Jelušić Kašić

Director for Croatia
European Bank for Reconstruction and
Development (EBRD)

“So far, EUR 2.7 billion have been invested in more than 150 individual projects. Last year, we invested about EUR 210 million in Croatia, and this year we expect the investments will exceed EUR 250 million.”

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and a successful
New Year!*

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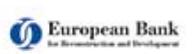
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2. TOPIC OF THIS ISSUE



Vedrana Jelušić Kašić Director for Croatia European Bank for Reconstruction and Development (EBRD)

In your opinion, what are the greatest challenges that Croatian economy is faced with and do you recognize the indicators, which would transform these challenges into benefits?

The two main challenges I would like to mention are strengthening of small and medium-sized enterprises and improvement of investment climate. The EBRD is investing significant efforts into providing support to this sector, and it does so in two ways, not just by direct financing, but also in cooperation with commercial banks, with which it develops programmes to fund SMEs and also through the development of regional capital funds as a new alternative to company development.

The geographic position, along with the membership in the EU and knowledge of the Western Balkans countries, are the foundations of the economic platform, which needs to be modernized further to attract the investments and enhance trade, as well as exchange of goods and services.

Enhancing the investment climate primarily means accelerating the process of obtaining investment-related permits, but also changing public awareness to support investors, either local or foreign investors. In numerous neighbouring countries, it is the “foreign” investments that were the motor of development. Recently, we have often been hearing about “Fićo rescuing Serbia”, which is partly correct because Serbia expects more than EUR 1.6 billion revenue from exports by the Fiat, which employs as many as 3.700 persons in Serbia, which is even more than it was envisaged by the contract.

Investors’ interest in Croatia has evidently increased, and I hope this will

be recognized and used to the greatest benefit of the economy. Investors are interested in various sectors, including energy, infrastructure development and tourism. There is special interest in development projects concerning sea ports and ports on inland waterways.

How much has the EBRD invested in Croatia so far and in how many projects?

So far, EUR 2.7 billion have been invested in more than 150 individual projects. Last year, we invested about EUR 210 million in Croatia, and this year we expect the investments will exceed EUR 250 million. We believe that there are investment opportunities available and we want to work.

“Investors’ interest in Croatia has evidently increased, and I hope this will be recognized and used to the greatest benefit of the economy.”

“The first objective relates to mitigating the impact of crisis by stimulating sustainable growth through providing support to the corporate sector, domestic and foreign investors. Another objective is to contribute to project development and the best possible use of EU Funds. The third strategic component relates to providing support to further restructuring of public companies or companies in majority state ownership with the aim of increasing their competitiveness.”

Are there any differences in the availability and quantity of funding, project evaluations and other parameters now that Croatia has become an EU member?

The availability of funds has not changed by Croatia's membership in the EU, however – the transitional criteria are more demanding. Areas with greatest potential include the SME sector, infrastructure funding and energy, especially sustainable energy sources.

A couple of years back, from the beginning of the crisis, there are evident changes in types of financing by the EBRD, and by commercial banks as well. Out of the total financial envelope in this period, what is the share of funds dedicated to investments, and what share is used to re-finance the existing credits?

The structure of financing reflects the demand and the situation on the market. Since the beginning of the crisis, the funding by the EBRD has increased greatly. Investments in operational and financial efficiency are becoming more frequent, as they are aimed at increasing competitiveness, especially now that Croatia is an EU

member, and in the environment of weakened demand. Refinancing of existing credits this year will amount to 20-25% of aggregate bank commitments.

The EBRD's objective is not exclusively to finance, but also to support development. What are the key sectors where such development is necessary?

It's the SME sector, developing the market for venture funds and further investments into railway infrastructure, sea and river ports. The EBRD is financing the regional VC funds, which can invest in Croatian companies as well. In November, we have signed a financing contract with the Earlybird Digital East Fund, amounting to USD 35 million, and this is the first Western European VC fund, which is investing in this region.

I expect that in 2014, an operational Enterprise Development and Innovation Facility (EDIF) will be launched, which will initially amount to EUR 145 million, and which was initiated by the EU, EIB and EBRD with the aim of supporting SMEs in the region, including Croatia. This Facility will include the Enterprise Expansion Fund (ENEF).

Besides direct funding, the Bank often participates in efforts aimed at improvement of the institutional framework. What has been achieved in 2013, and what do you intend to work on in 2014?

Cooperation with the Ministry of Agriculture is still very good. In October, we have closed a project, which resulted in the protection of designations of origin and geographical indications for the tangerines from the Neretva valley and the kulen of Baranja. This was a joint project implemented by the EBRD and the FAO, in cooperation with the Ministry of Agriculture, the Association of Fruit Farmers of Neretva “Mandarina” from the town of Opuzen, the Association of kulen manufacturers “Baranjski kulen” from Beli Manastir and the food processing company Agrokor.

We have supported the preparation of the Factoring Act, together with the Ministry of Finance, the HNB, Hanfa and the Factoring Association. The demand for factoring services is increasing, and it is expected that factoring products might contribute to releasing the operating capital and increasing liquidity. The EBRD has provided funds to hire Croatian and international legal experts, who have shared their experience and examples of regulations from different countries (primarily Germany, Italy, Austria, Hungary, Slovenia and the Czech Republic). The draft Act has been prepared and it is expected that it will be forwarded to the parliamentary procedure in early 2014. Last week, we have signed the first direct financing for a factoring company - Raiffeisen Factoring, in the amount of EUR 10 million, and we expect these funds to be committed already this year.

We have also provided technical assistance to support the development of a joint IT platform for regional integration of stock markets in cooperation with the Zagreb, Belgrade and Macedonian Stock Markets.

Institutional investors are interested in new capital market instruments such

as shares collateralized with certain categories of property, so that we are considering an initiative to initiate the adoption of the Securitization Act together with the main actors in the financial market and the regulators.

What is the EBRD strategy for Croatia for the forthcoming period of three years?

This strategy was approved in June this year, and it is based on three strategic objectives. The first objective relates to mitigating the impact of crisis by stimulating sustainable growth through providing support to the corporate sector, domestic and foreign investors. Besides direct funding for the companies, we plan to provide earmarked funding for financial institutions with the aim of providing support to the SME sector by means of long-term sources of finance.

At the beginning of the year, we have financed further development of Piramida, the Croatian manufacturer of glass packaging for the pharmaceutical industry, which was taken over in 2012 by the regional risk capital fund Blue Sea Capital. This year we supported the restructuring of the ABS Sisak (formerly Steelworks Sisak) owned by the Danieli Group. This year we provided a long-term credit facility to Zagrebačka banka for SMEs and for funding energy efficiency as there is increased interest in energy investments.

Another objective is to contribute to project development and the best possible use of EU Funds. The Bank has strategic focus on working with the competent institutions to identify development areas where it will be possible to jointly use the EU funds and the EBRD funds. The European Parliament has just approved a multiannual financial framework for the period 2014-2020 amounting to EUR 960 billion, of which EUR 325 billion for the cohesion policy, and 53% for EU-11: the “new” EU members, including EUR 9 billion for Croatia. An efficient use of EU funds may support economic growth, as it will spur the activity of range of accompanying industries related to the main

implementing authority of the project, such as the construction industry or machinery manufacture. The EBRD may help prepare and finance the national component. Successful cooperation was achieved with Hrvatske vode at some

Sometimes we finance bigger projects jointly. The financial arrangements amounting to EUR 307 million for the Atlantic Group included both IFC and the EBRD and several leading commercial banks.

“Last year, three international financial institutions, the EBRD, the EIB and the IFC have presented their joint two-year action plan to promote growth in Central and South-Eastern Europe, in which they committed to invest EUR 30 billion.”

15 EU projects that funded local water supply and sewage networks without any city or state guarantees, so without additional burden to the public budget.

The third strategic component relates to providing support to further restructuring of public companies or companies in majority state ownership with the aim of increasing their competitiveness. In this segment, we are providing support to the restructuring of the Croatian Railways, with planned earmarked funding for HŽ Infrastructure until the end of the year.

How do you cooperate with other international and financial institutions that have their operations in Croatia?

Last year, three international financial institutions, the EBRD, the EIB and the IFC have presented their joint two-year action plan to promote growth in Central and South-Eastern Europe, in which they committed to invest EUR 30 billion. According to the first report of October this year, it was confirmed that so far, they have committed EUR 16 billion under this Action plan, of which the EBRD provided EUR 2.5 billion out of the planned 4 billion. All three institutions together have committed more than EUR 1.1 billion in Croatia this year.

Before becoming the EBRD director for Croatia, you have spent several years at the EBRD, managing the projects in the agribusiness sector in the region. What projects have you worked on?

More than 13 years I have worked in the agribusiness sector, working on almost all the projects of financing the food and beverage industry and retail, which were funded by the EBRD in more than 14 countries. During past seven years, I was in charge of the South-East Europe and I coordinated and managed projects in this sector.

I will only mention some of the projects by countries, because there were more than 40. In Bosnia and Herzegovina, we have financed Bimal, VF Komerc, Bingo, Konzum BiH, Jami. In Macedonia, we supported Vitaminka, Vitalija, Mik Sv. Nikole. In Kosovo we financed Albi, Pestova, Haxijaha, and in Romania Expur Saipol. In Bulgaria Oliva, Boni Holding. In Monte Negro we supported Voli and Mesopromet. In Serbia we financed Štark, Grand Kava, Nectar, Idea, MK Grupa, and Victoria Grupa. In Croatia, there were Agrokor, Atlantic Grupa, Spar and earlier Dukat, Getro and Vetropack straža, which have repaid their loans in the meantime.

Can you compare this industry within the region, and how do you see Croatia’s development in this area? What can

be done in order to increase Croatia's competitiveness?

From among the 34 countries, in which the EBRD has its operations, Croatia is ranked among the better developed transitional countries. However, despite its high ranking, Croatia's economy is still in recession. In order to stimulate it, there is a need for investments and for fresh capital. Bearing this in mind, we should welcome the strategic investors who are bringing in capital and competitive know-how.

To what extent is the EBRD involved in the real estate development industry and how do you see the EBRD's involvement in this industry in the forthcoming period?

We are funding the real estate industry directly and through property funds. EBRD has invested in several large commercial properties in Zagreb, Split and Osijek, both directly and indirectly through real estate funds where we are significant investors. The Bank is still very interested in direct funding of good

quality real estate projects in Croatia, with partners who have the necessary financial capacity and experience. We are very interested in urban regeneration projects in large cities where we expect to see major improvements of energy efficiency, and also our participation in the public-private partnership models. Along with the traditional real estate projects, we are very much interested in investing in projects in tourism, both greenfield projects and refurbishment of the existing facilities.

How is the EBRD involved in the energy sector and the renewable energy sources?

The renewable energy sources have a key role in enabling the transfer to low-carbon economy, so that it is important to continue supporting the investments into new facilities and to combine these investments with continued improvements of the regulatory framework.

The Bank supports the development of renewable energy sources and it tries

to apply an integrated approach to this sector. For instance, by investing into efficiency in industry, ensuring financial resources for projects of renewable energy sources. We have been funding the Pelet Group, Agrokor Energy and several energy efficiency projects, among others projects with Podravka and Sisak Steelworks. We have also provided earmarked facilities for funding the energy efficiency projects and renewable energy sources.

EBRD, together with a strategic partner, has shown an interest in two privatisations in the financial sector. What is the current status of the EBRD in this context?

We have supported the privatisation process by expressing our general interest to participate, together with a strategic partner. However, will EBRD indeed be involved in this equity financing, really depends on the needs of the strategic investor, and on its familiarity with this market.

3. STATISTICS

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

	average price EUR/m ²	price range EUR/m ²
ZAGREB		
Housing		
Apartments	1.654	977 – 4.000
Houses	1.640	727 – 8.182
Commercial space		
Offices	1.764	700 – 4.200
Business premises	1.943	722 – 7.420
Office blocks	1.849	132 – 3.793
COAST		
Housing		
Apartments	2.199	818 – 5.700
Houses	1.756	90 – 18.269
Commercial space	1.750	80 – 4.338
Tourist facilities	2.109	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.

Upon your request, Burza nekretnina composes statistical reports of ask prices and achieved prices in 2-10 days' time.

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

3.2.1 Construction work indices, September 2013

According to gross indices, in September 2013, as compared to September 2012, construction works decreased by 1.1%. According to working-day adjusted indices, in September 2013, as compared to September 2012, construction works decreased by 2.6%. According to seasonally adjusted

indices, in September 2013, as compared to August 2013, construction works increased by 2.7%.

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

3.2.2 Building permits issues, October 2013

In October 2013, there were 701 building permits issued, which was by 0.3% less than in October 2012. The total number of building permits issued in the period from January to October 2013 was by 24.6% less than in the same period of 2012. In October 2013:

- by types of constructions, 79.9% out of the total number of permits were issued on buildings and 20.1% on civil engineering works

- by types of construction works, 77.6% of permits were issued on new constructions and 22.4% on reconstructions.

According to permits issued in October 2013, it was expected for 607 dwellings with the average floor area of 105.6 m² to be built.

Advice: *Building permits issues, October 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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