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2022 INVESTMENT MARKET OVERVIEW & 2023 OUTLOOK

Croatia & Slovenia



Deal volume & trends

The total transaction volume of commercial real estate in 2022 was around €400 million in Croatia and around €50 million in Slovenia.

Decrease in volumes in both countries over previous year was mostly caused by lack of opportunities offered on the market. Volumes failed to underscore the true scope of demand, as investor interest is meeting limited supply.

Geographically, transaction activity in Croatia in 2022 was strongest in Zagreb with approx. 75% of total volume, while coast accounted for approx. 20% of total CRE transaction volume.

In Slovenia, spotlight is on capital city Ljubljana, which accounted for approx. 50% of volume in 2022. However, there is visible

demand for secondary cities as well (especially in retail segment).

Office and logistics assets are still the primary focus for many investors. In retail, focus is on resilient assets such as big-boxes and retail parks. Most sought after are properties with indexation in place and with long WAULTs.

In Croatia there is also strong demand for mixed-use HTL products and developments, which comprise second-home components. International hotels brands are looking to expand in both markets.

Both Croatia and Slovenia hold investment grade credit ratings from all major agencies. Recovery from recent crises was quick, but economic growth is expected to significantly slow down in 2023.

FIGURE 1:
CRE investment transaction volumes, Croatia & Slovenia

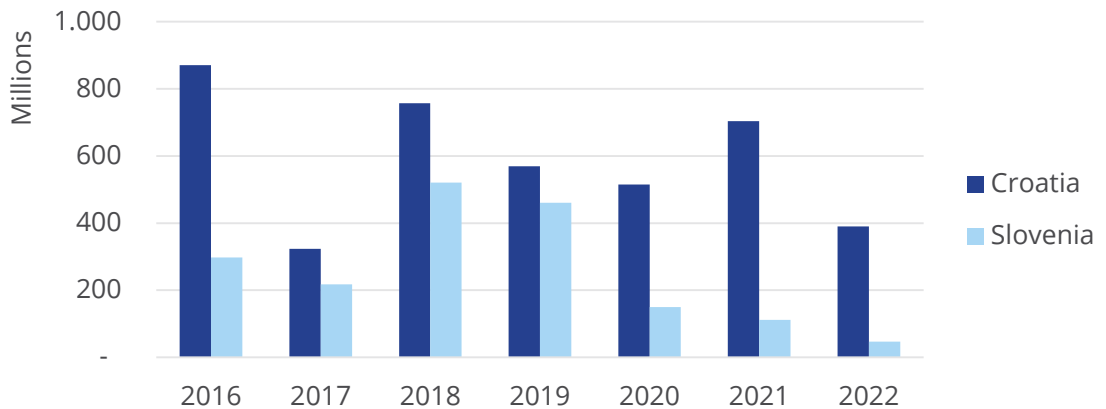
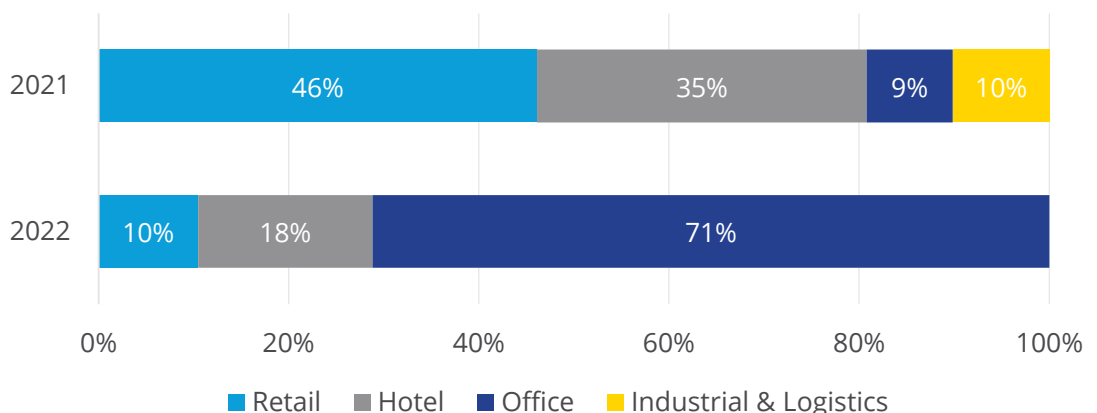


FIGURE 2:
Transactions volumes by sectors in 2021 and 2022, Croatia & Slovenia





Investors & yields

Foreign capital is traditionally present on Croatian and Slovenian markets and generates most of the transaction activity. However, in the last few years domestic institutional investors (primarily pension funds and large insurers) made more decisive shift toward commercial real estate.

This trend is expected to continue as new regulation will enable Croatian pension funds to increase share of alternative investments and invest directly in real estate.

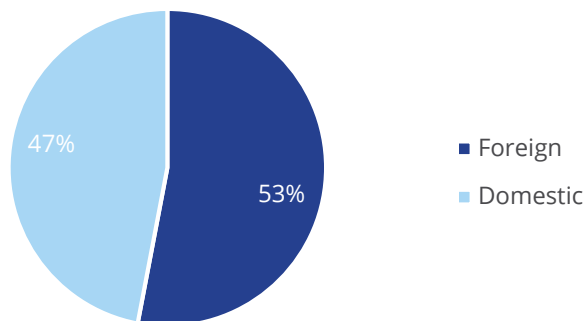
The largest transactions in Croatia in 2022 refer to the Croatian portfolios of foreign real estate companies / funds that were subjects of acquisitions.

Namely acquisition of Tower Property Fund by South African RDC Property Group and acquisition of S IMMO by Czech's CPI Property Group. In HTL sector, largest deal recorded Brown Hotels Group from Israel with acquisition of majority stake in Jadran Hotels in Rijeka.

In Slovenia, domestic investors, such as ALFI RE fund, were most active in 2022. However, foreign capital is looking for opportunities to enter or expand in the market. Especially attractive are larger ticket sizes.

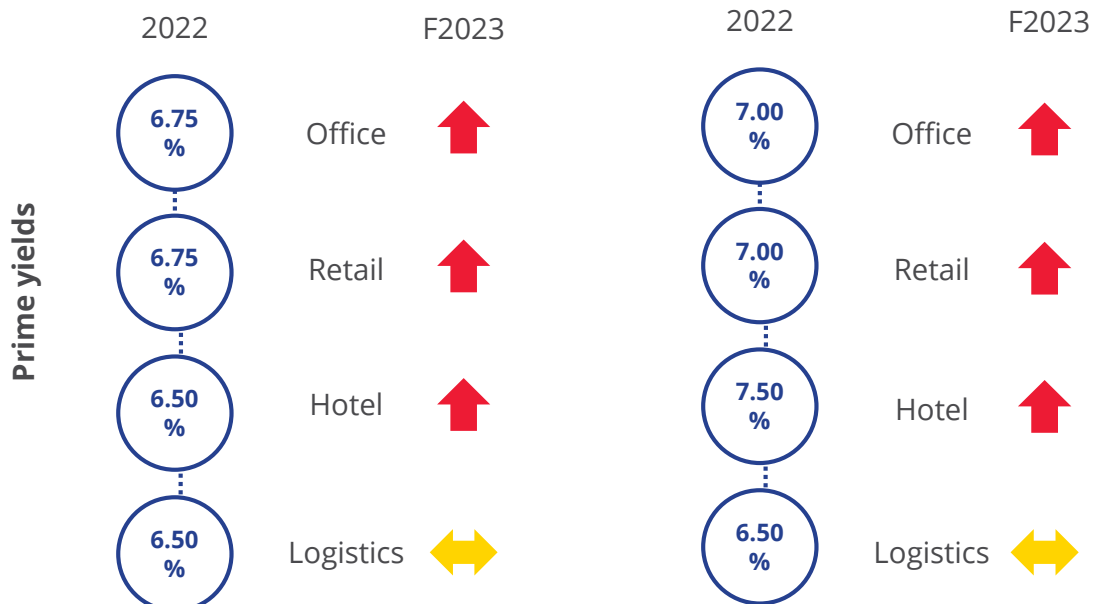
Prime net yields on standing investments in Croatia and Slovenia stand at around 7.0%. Yields stabilized in 2022, after being under pressure in the last couple of years.

FIGURE 3:
Origin of investors in Croatia & Slovenia in 2022



Croatia

Slovenia





Outlook

Although more developed markets, where changes occur faster, have recorded corrections in pricing, in Croatia and Slovenia there has not yet been evidence of pricing recalibration. Moreover, some domestic buyers from the non-RE sector closed CRE transactions at higher prices (they do not have a traditional investment logic) and thereby influenced higher expectations among other sellers as well. Nevertheless, the caution of investors was noticed on the market.

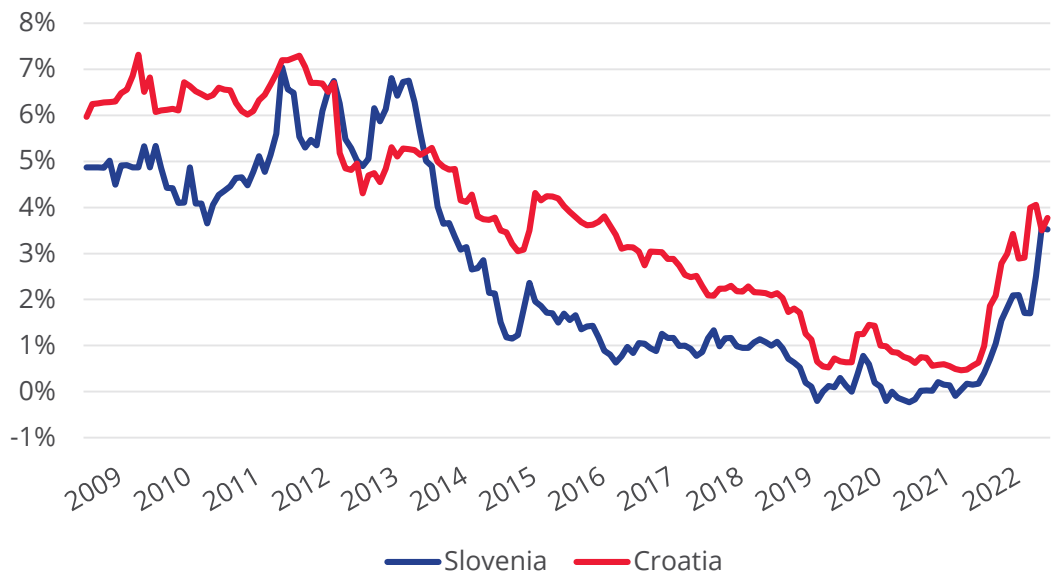
Globally, inflation and higher interest rates will continue to weigh on investor decision making in 2023. Defensive assets are expected to drive the activity, although there is expected renewed focus on opportunistic plays in 2023.

Focus on ESG criteria and ratings will continue. Apart from regulatory reasons, this is response to occupier demand, but it can also provide benefit from lower asset operational costs in the long-term.

Potential recession, rising interest rates and bond yields are likely to impact CRE yields in Croatia and Slovenia. However, we expect that this will be partially or fully mitigated by competition for deals (too much money chasing too few deals) and inflation panic (RE providing good inflation hedge with indexed lease agreements). Moreover, in Croatia, positive impact is expected from entrance into Euro zone and Schengen area. Hence, rise in yields, if it occurs, will be mild.

Moreover, over the past years, spread between bond yields and CRE yields in Croatia and Slovenia was among widest in EU (around 7-8 percentage points before interest rate hikes). Therefore, we expected that this premium will compress in the coming period.

FIGURE 4:
Long-term government bond yields (%), Croatia & Slovenia



Sources: Eurostat

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