



OAK INVESTMENT MANAGEMENT GROUP



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Croatian Real Estate

Croatia is set to join the European Union at the beginning of next month. It is a country with great potential for real estate investment and development but one where successive governments have failed to clean up the fundamental ruptures / injustices of the past that have been visited on real estate owners. This issue rumbles on from the past and is unlikely to go away until a fundamental, wholehearted reform of the system is allowed.

The market in Croatia is stymied by the lack of clean resolution of historical land issue rights. Clean and absolute title is the key to a proper functioning real estate market. Without clear rights to the real estate no one will take a risk in order to gain expected reward from development or investment. The sad thing is that a small minority of cases can have a disproportionate effect on the whole market; the worst 5% of land issues drags down the 95% for which there is no issue whatsoever.

How is it possible to profit as an investor in a pragmatic manner given these constraints? Buying from court bankruptcy proceedings or from new developments (on undisputed land) is the only way to ensure integrity of title. Otherwise, some sort of private or stated sponsored insurance scheme will have to be implemented that can at least give comfort whilst there is final resolution to these land issues (courts take about seven years to hear a commercial dispute case).

Croatia has some superb touristic assets but these need to be monetised more. Their seasonality is chronic and all attempts must be made to lengthen the season. The 'soft' infrastructure around all these touristic assets needs to be ameliorated and intelligent design needs to be incorporated into urban planning to facilitate the already impressive 'flexing' of small villages in the winter to urban clusters in the summer.

Croatia needs to develop different sub-sectors in the real estate market other than the volatile tourist market. The country has rich agricultural land which is under served, inadequately managed and as a result is woefully deficient in investment. Constraints against foreign investment and development of these resources now need to be lifted as they are anachronistic and self-defeating.

But the biggest area required for overhaul is residential real estate in the major towns. This needs to attract internal and external investment in order to drive the quality as well as the quantity of decent housing to every type of occupier in Croatia. As with the rest of Central and Eastern Europe too much attention has been lavished on the top end of the market without realising the true depth and potential of the mid-market is the most lucrative road for developers. Occupiers, developers, banking institutions and government in Croatia would all benefit if the basic commodity of all real estate world wide – the residential housing market – worked in terms of stock added, turned over and re-developed. This would contribute towards sensible pricing, an expanded market and higher standards. This is how Croatia can take most advantage of joining the common market of the European Union and capitalise on this historic moment.

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