Real Estate Market Study
in the Republic of Croatia

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REAL ESTATE MARKET STUDY

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1. INTRODUCTION

The past fifteen years have witnessed a great real estate market boom in the transitional countries. The real estate market growth, along with the legislation amendments, has put the real property registration system in the Republic of Croatia, i.e. the cadastre and land registers, under heavy duress that, given the historic legacy of the records and the low degree of technological equipment spread, has become an obstacle to the smooth real property market development.

Having recognized the needs and significance of the reform for ensuring the rule of law and developing the Croatian economy, the Ministry of Justice and State Geodetic Administration have jointly and systematically implemented activities in the past eight years with the objective of having the status of real property registration regulated and land administration modernized in the Republic of Croatia. Apart from the regular activities and many bilateral projects, the most significant part of the reform is the Real Property Registration and Cadastre Project financed by the World Bank loan, state budget funds and European Union grants. Its main objective has been to develop an efficient land administration system and real estate market.

During 2001 and 2002, the first Real Estate Market Study was produced during the Project preparation. Apart from other analyses, it provided guidelines for the Project activities. The Loan Agreement was signed in January 2003. It will formally close on June 30, 2010. Therefore, a new Real Estate Market Study was produced at the end of 2009.

The Study is the result of an independent, expert assessment conducted as part of the final assessments of the Project efficiency, effectiveness and sustainability while, at the same time, it underlines the guidelines on how to continue the land administration reform in the Republic of Croatia.

In the Study, the „Organized Land“ Project visual identity that, due to its visibility among the public and professionals, has become a synonym for the entire reform encompasses also the overall activities implemented by the Ministry of Justice and State Geodetic Administration and influencing the real estate market.
1.1. STUDY OBJECTIVES

The Real Property Registration and Cadastre Project referred to as "Organized Land" was initiated in 2003 by the Croatian Government with the basic objective of building an efficient land administration system aimed at contributing to the development of efficient real property markets and increasing the legal security in real property transactions.

The research objective is to develop a comparative real estate market analysis with the objective to measure progress on the real estate market, conditioned by activities conducted within the Organized Land project.

The comparative analysis is focused on the following areas:

- development of an efficient land administration system with the purpose to develop the real estate market
- quality, efficiency and effectiveness of the land administration services provided by cadastral and land registry offices
- increase in the security of real property transactions
- Increase in the investments related to housing, agriculture, commerce, production and services

The analysis has focused on assessing the efficiency of the real estate market from the point of view of investors, owners and other real property title holders.

The relevant general information such as e.g. number of inhabitants, income per capita, income structure and sources of budget financing, etc. were collected as part of the study. Furthermore, relevant information was also collected on the impact of more secure ownership rights and cadastral surveys on the local government units and other key stakeholders, effects of transactions performed faster on the real estate market et al.

The analysis has encompassed the following aspects:

- defining the scope, dimensions, participants, status and limitations of the real estate market in Croatia,
- updating the basic activities related to market prices and pricing information,
- market development research,
- defining the status of activities of various service providers and their influence, and unresolved issues related to the creation of the efficient real estate markets (agents, appraisers, banks and investment experts),
- assessment of the real estate market efficiency by foreign investors,
- determining the obstacles to the development of efficient real property markets,
- proposing the development directions for the purpose of creating an efficient real estate market.
1.2. ABSTRACT

The Real Estate Market Study represents an analysis of the situation at the real estate market with the special emphasis on the real estate market field directly affected by the activities implemented under the Organized Land Project i.e. the scope of the real property transactions in general and legal security of the real property transactions.

The research illustrates the data that undoubtedly proves the fact that a significant progress has been made in this two segments and especially in the following elements:

(a) significantly improved work of land registry offices, both in the sense of processing the backlog of the past as well as of processing the new cases,
(b) the land registers have been digitized and, apart from uploading the land registry data and textual data of the cadastral municipal documentation (opera) on the Internet, the access to the data and control of the real property records have been facilitated, as proved by multimillion number of searches for the above-mentioned data,
(c) by implementing the cadastral resurveys as well as using other methods, significant improvements have been made in standardizing the real property data between the cadastral records, land registers and the actual situation in the field,
(d) the registration of the real properties and related titles has been significantly accelerated, which is a precondition for the growing number of the real property transactions, especially with regards to buying the real properties with mortgage loans,
(e) due to the public information campaign conducted under the Organized Land Project about the importance of registering the real property, a growing number of registration requests and entering other data on the existing real properties has been noted as well as the civic initiatives related to the harmonization of the real property records. This has had the additional impact of reducing the time necessary for implementing the official procedures related to this segment,
(f) the new legislation has greatly obstructed the possibilities for illegal construction and, finally but not less important,
(g) due to the activities conducted under the Organized Land Project, a positive climate has been created on the otherwise “grey” real estate market, that has given a strong impetus to the market growth and development.

When collecting the information for this analysis, we have relied on the data collected from the relevant institutions, regardless of whether the data has already been announced and published or whether the data has been prepared for the purpose of this analysis. The data has also been collected through in-depth interviews with the relevant target groups agreed in advance. The in-depth interviews tested the trends indicated by the previously collected data. In total, 60 respondents at five different locations (Zagreb, Rijeka, Zadar, Split and Osijek) were interviewed.

Two phenomena strongly influenced the presented results in the conduct of in-depth interviews for the purpose of the real estate market research. The first phenomenon relates to the fact that the real estate market activities have been in strong decline due to the global economic crisis in the second half of 2008 and throughout the entire 2009, then there were problems with the sale of the existing real properties, the new projects have been completely halted, and there was a lack of funds on the market together with very negative trends in general. When talking to the respondents, it was very difficult to divert the course of the interview from the current situation at the real estate market to some other trends that took place in the past few years and that were important to us in order to be able to offer objective information of importance to this study. This effect is visible in the opinions of the respondents shown here.

The other phenomenon that appeared during the interviews with the respondents when we tried to determine their perception of the Organized Land Project effects, was the fact that today the real estate market participants take for granted the positive changes resulting from this Project i.e. very few people remember the period of ten or less years ago when the support to be offered by the land registries and cadastre was non-existent or, rather, it took several weeks for even the simplest
procedures such as obtaining a title certificate, and the process in general could not be compared with the level of services offered today by the institutions.

However, since it is human nature to incessantly and constantly seek improvements and an even greater progress in the service quality provision, it is easy to forget what the situation looked like before. We become too critical about what the situation looks like today so we are unable to judge it objectively. This manifests itself the most during the simplest procedures that are no longer the topic of the discussions regarding the real property registration procedure because these transactions have become really simple, efficient and reasonably priced.

Taking into account the above-mentioned, when preparing this study we have nevertheless tried to give an objective picture of the real estate market in its entirety with the special emphasis on the residential property market since it is the one most directly linked to the Organized Land Project effects because the market has experienced the greatest growth particularly in this segment.

The study presents the general information about Croatia of relevance for the real estate market and gives a detailed overview of the legislative framework that, in the wider sense, regulates the real estate market. Furthermore, statistics directly linked to the real estate market are presented and certain recommendations are offered with regards to the development directions for the purpose of creating a more efficient real estate market together with the descriptions of obstacles preventing such a growth.

The analysis gives a particularly detailed overview of the legislative framework since we were of the opinion that this is the main platform for defining the real estate market trends, especially because the interviews with the respondents showed that their standpoints regarding the application of the legislation regulating the real estate market were equable and can be summarized by saying that the real estate market participants believe that the legislative framework is too complicated, often incomplete and that certain legislative acts are to a certain extend mutually conflicting.

The study also gives a very detailed description of the real property registration system in the cadastre and land registries and the influence of the condominium splitting on the ownership issue since it regards the basic elements for creating the legal security on the real estate market and this is particularly linked also to the activities implemented under the Organized Land Project. The data collected in this segment clearly demonstrates the progress and achieved improvements.

The rent and lease real estate market segment has also been addressed as a part of the market holding unused potential. It has also been demonstrated by stating the facts in the analysis that it is possible to book significantly greater effects on that market.

Furthermore, the analysis of the assessment of the real estate market effectiveness by foreign investors has been produced along with the comments to the opinions expressed by foreign investors with regards to their entry onto the real estate market in the RoC, and the obstacles to such investments.

The findings of the study show that in the past ten years, the main urban centres of the Republic of Croatia and, especially, the City of Zagreb have recorded an outstanding growth of the real estate market as a consequence of the accelerated economic growth, urbanization and modernization of larger cities, more favourable loan conditions and greater financial power of the population.

The general information about the Republic of Croatia of relevance for the real estate market clearly demonstrate that the majority of the data related to the fluctuations of the population shows trends that are positive for the real estate market, especially in larger towns. This is particularly visible in the fluctuation of the number of the persons employed. Until 2008, the trend of growth was stable and certainly positively influenced also the solving of the housing needs for a greater number of people while in the segment of business premises, this trend suggests the growth of companies and needs for larger business premises of higher quality. This is confirmed also by the growing number of companies in general.
Similarly, the positive trend influencing the real estate market is also visible in the continuous growth of the average net salary and the forms regarding citizens’ consumption. The positive trends are visible also from the data on the building activities share in the GDP and the data related to the number of issued building permits.

The land registry office statistics shown here clearly demonstrate a positive trend in processing the land registration cases and in reducing the number of days required for registering various rights in the land registries. It is clear that the number of days required for registering a mortgage at the RoC level is almost 4 times smaller as compared with 2004 while the number of days required to register titles at the RoC level has been reduced by a third. This data clearly suggests the influence of this segment on the market growth in general and in particular in the part of the real properties financed by mortgage loans where the speed of processing the applications for registering a mortgage and the legal security in general are a key precondition for the entry of the banks onto the mortgage market. Under this positive influence, most commercial banks have renounced the traditionally adopted approach of securing the housing loans through the system of guarantors and joint debtors so today the real property lien is acceptable to most banks as the only instrument for securing the loans.

It is precisely due to the above-mentioned that the growth of the real estate market in the past ten years is particularly pronounced in the residential real property segment, especially the real properties intended for permanent habitation but also in the segment of the real properties for temporary sojourn or vacation. Additionally, the real estate market growth has been affected by the adopted legal regulations that have significantly alleviated the business relations on that particular market and are as follows: giving licences to the real estate market agents, reducing the paperwork for obtaining the necessary permits, decentralizing the State apparatus responsible for issuing the permits and licenses to the building contractors by market segments.

The opening of the market towards the EU members and the new legal regulations inciting the market liberalization has also influenced the growth so the part of the Study describing the attitudes of the foreign investors about the real estate market in the RoC, describes in detail the importance of the activities implemented in order to improve the efficiency of the elements on the real estate market required to incite foreign investments in this segment, and furthermore describes also the attitudes of foreign investors illustrating their opinion that enough has still not been done. Since the preconditions for positive trends at the real estate market in the upcoming years are based precisely on increased direct foreign investments in this segment, it is necessary to further develop the market elements that influence the most the decisions by foreign investors about the real estate market investments such as transparency in obtaining the building documentation, fiscal burdens and benefits applied in entrepreneurial zones and areas of special state concern, etc.

The study also describes the expected future trends on the real estate market. Part of the segment where further, more significant investments in the projects are to be expected is the segment of industry and logistics, primarily the big, organized logistical centres, and the projects of developing industrial facilities as well as the relatively underdeveloped segment of the so-called „leisure“ real properties, i.e. real properties intended for entertainment and leisure so a more significant progress is anticipated in this segment, too, in the upcoming years, primarily in the projects of developing entertainment facilities with different offers ranging from cinemas, video and lottery halls, commercial premises to sports, recreational, wellness and similar premises.

Furthermore, great improvements are expected also in the field of hotel industry and the so-called „MICE“ segment or the segment of conventions, seminars, meetings and other incentives that are rudimentary present on the Croatian market and where the potential is great given the outstanding geographical location of Croatia. As has been stated previously, the real estate market in Croatia is at present in great economic stagnation and even in decline in some segments. Under the influence of the global crisis, one of the ways it is reflected on our market is the correction of interest rates/capital prices i.e. their significant
increase and the lack of capital in general. The afore-mentioned affects and will continue to affect both the investors and the real property buyers or rather further course of the real estate market development in general so the study, under „Overview of the formal and informal relationships between the real estate market participants”, describe among other things the influence of banks on the real estate market in general or rather the banks have been assessed as the generator of this market, thus additionally emphasizing the importance of the regulated ownership status over the real property since such a situation is the basic precondition for the entry of the banks on the real estate market.

At the very end, the Study offers opinions by the respondents encompassed by the research, as well as by the team that has produced the study, about the obstacles to the real estate market development in general and in particular related to the Organized Land Project as well as the draft guidelines for the development of a more efficient real estate market.

1.3. METHODOLOGY OF THE REAL ESTATE MARKET ANALYSIS

In order to reach the research objectives, the following two research procedures were used:
1. Desk research – collecting secondary data
2. In-depth interviews with relevant target groups

1.3.1. Desk research

Desk research or research at the desk is the collection of secondary data of interest. Secondary data is the data that was not collected, processed and published for the purpose of this Project evaluation but had existed before.

As part of this research, the following two desk researches were conducted:
  a) collection of secondary general data
  b) collection of secondary, real estate market specific data.

The collected secondary general data is the data concerning the relevant, general, demographic information on the real estate market. It refers to the information that, first and foremost, suggests the extent of the real estate market and its potential i.e. the framework under which the real estate market actually functions.

Some of the data gathered in this segment are as follows:
  - for the residential market segment: population trends, vital population index, migration balance, comparison between age groups et al.
  - for the office real estate market segment: number of registered companies, number of employees, employment structure according to the size of a company, average net salary et al.
  - for the agricultural real estate market segment: number of agricultural households, available size of agricultural land by household et al.

The desk research which collected secondary specific data related to the real estate market focused on the data on the real estate market fluctuations: number of transactions (sales), amount of taxes paid from the title of the real property transactions, number and type of real estate market participants et al.

While the first desk research will relate to the general information aimed at obtaining an impression on the size, potential and strength of the real estate market, the second desk research yields exact information on the real size of the real estate market (finances, number of sale transactions, transaction structure), who the participants are et al.
The data was gathered at the following two levels:
   a) data for the entire territory of Croatia;
   b) data for the 5 locations of interest: Zagreb, Zadar, Rijeka, Split and Osijek.

Desk research or analysis of secondary data was conducted on the basis of consultations with the following sources having the data of interest:
   a) Central Bureau of Statistics (CBS) – available information on the population, construction sector, economic indicators, agriculture, issued construction permits et al. The available publications and the information from Internet pages were consulted, and official queries for the targeted information were sent.
   b) Croatian Chamber of Economy (CCE) – information on the number of companies and their structure. The CCE Internet page was browsed and official queries for the targeted information were sent.
   c) Ministry of Environmental Protection, Physical Planning and Construction – the information on physical plans. The Internet page of the institution was browsed.
   d) Croatian National bank – the information on the banking sector (loans, interest rates). The Internet page was browsed and official queries for the targeted information were sent.
   e) Local government units – the information on the budgeting structure, income, contributions and fees for utility services et al. Official queries for the targeted information were sent.
   f) Zane d.o.o, in-house database.
   g) other sources – information from various institutions, professional associations, published information and other information available on the Internet.

As can be deduced from the above-mentioned, there were two ways of accessing the data:
   a) using the available information published on-line or in the form of books, magazines or newspapers
   b) requesting the information from the institutions that were believed to have such information.

The process of the data collection and its elaboration until its final insertion into the research report consisted of several stages:
1. Collection of the information from available sources
2. Data analysis that encompassed several steps:
   o detect lacking or illogical information and continue with the collection of information in order to complete the information and remove inconsistencies,
   o remove duplicate information collected from different sources,
   o assessment of the importance of all collected information,
   o selection of the most important information,
   o grouping the information into logical entities,
   o insert the information into the preliminary draft of the report in a standardized form in terms of fonts, tables, graphics, etc., and
   o offer comments on the information, as necessary.

Some of the data collected is shown as a base index defining the relative, quantitative change. The fixed base index is the computed indicator expressing the change over a certain period in relation to the chosen base period. The index value is 100 (initial value, no changes with regards to the base period) as compared to the null value (denotes a percentage drop of the measured phenomenon) or the value exceeding 100 (denotes a relative percentage increase of the measured phenomenon). The value of rise or fall in percentage can easily be calculated as the absolute difference between the index value over a certain period and number 100 serving as the point of reference.
1.3.2. In-depth interviews with relevant target groups

In-depth interviews have two objectives:

1. Complete the information gathered by collecting secondary information (desk research). This information is often incomplete, unavailable or it is necessary to double-check its reliability or accuracy. Real estate market participants can offer the information that completes the gathered materials.
2. Assessment of the factors that are not easily gauged and accessible in the publications, based on the experiences of the real estate market participants. This refers to: satisfaction of the parties acting on the market with certain market segments, determination of obstacles (legislative, cultural, political, etc.), development of efficient real estate markets, perception of the time needed for the sale transactions and real property registration, perception of the influence of the land administration system on the Croatian real estate market, evaluation of informal relationships (social leverage, financial influence, etc.) and their influence on the real estate market, etc.

In-depth interviews have yielded a clear, complete and rounded picture on the Croatian real estate market, its trends and perspective, and all that needs/can be done in order to improve the present situation. Without conducting in-depth interviews and interviewing the real estate market participants, it would be impossible to give the general assessment of the current state of the market and interpretation of the gathered information in a meaningful way.

In total, 60 respondents from eight groups at five different locations (Zagreb, Rijeka, Zadar, Split and Osijek) were interviewed. The groups encompassed by the research are as follows:

- real property owners: persons who have bought at least one real property in the last three years and have direct experience with the real property purchase process and the title registration,
- lawyers: lawyers from law offices specialized and representing the parties in the area of interest, with at least five years experience from the related field;
- licensed surveyors: licensed surveyors from geodetic offices with at least five years of experience in the field;
- developers: big developers at selected locations, company owners or general directors/presidents of the board with at least five years of experience in investing in the real properties;
- bankers: the bank employees in charge of the loan issues for the real property buyers, real property investors, etc. with five years of working experience related to the real estate market operations;
- real estate agents: owners, directors or other employees with at least five years of experience working in the field and with the parties involved,
- State Geodetic Administration employees: surveyors with at least five years of working experience at the SGA and familiar with the cadastre system;
- local government employees: employees with five years of experience working in the local government units on the jobs related to the field of research.
### Table 1  Respondents' structure

<table>
<thead>
<tr>
<th></th>
<th>Location</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Zagreb</td>
<td>Zadar</td>
</tr>
<tr>
<td>Real property owners</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Lawyers</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Licensed surveyors</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Developers</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Bankers</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Real estate agents</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>State Geodetic Administration employees</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Local government employees</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>

The respondents were recruited in the following two ways:

1. By the so-called snowball method: This refers to the procedure whereby eligible respondents are found among familiar persons. The method used when finding the real property owners and, sporadically, with other groups of respondents.
2. Recruitment by phone from the Puls Agency office in Split. Used for all other groups of respondents except for the real property owners.

In-depth interviews were conducted by the specially trained moderators from Puls Agency. This refers to moderators having experience in conducting in-depth interviews and having passed the basic education on the meaning of in-depth interviews, the rules for conducting in-depth interviews (impartiality, offering no suggestions, further questioning of answers which have not been elaborated sufficiently but are important statements by the respondents, keeping the interview on track and not allowing to stray from the topic, etc.) and especially trained by all the members of the research project in order to get familiarized with the land market issues, basic terms and modalities of the market functioning.

In-depth interviews were conducted in the time slot and at the place most favourable to the respondent. At the outset of the interview, the moderator briefly introduced himself/herself and explained the topic and objective of the research process. During the interview, the moderator had a manual for discussions in front of him/her as guidelines while the entire conversation was taped. In-depth interviews lasted between 30 and 60 minutes.

After the in-depth interviews conducted in the field, all conversations were transcribed. The transcripts served as the basis for the quantitative analysis of the collected data.

The main principles of the statement analysis and conclusion making are as follows:

- The statements given by several respondents are especially important and represented the basic conclusions for the respondents from a given group/location and for the entire market.
• The interviews of the respondents having given a large quantity of information, better elaborated their statements and shown a higher degree of familiarity with the situation and ability to view a situation from several perspectives were singled out in the process of the answer analysis and their statements received greater importance.

• A separate aspect of the analysis was the checking of inconsistent statements. The checking involved how many such statements related to a certain aspect had been said in one sense and how many in the opposing sense, the degree of familiarity of the respondents, the existence of some kind of contextual variable (e.g. location, group of respondents, market segment et al.) that might explain the difference in various opinions. After such an analysis, the conclusions were made as what to do with the conflicting statements or assessments of the respondents, and the final viewpoint was inserted into the report. Mainly, the contextual variables (location and segment of respondents as well as specific experiences) were important in order to understand the answers that appeared inconsistent.

1.3.3. Evaluation of the activities performed

Desk research

The Central Bureau of Statistics turned out to be the most important source of information. A large portion of the information of interest was accessible on the Internet pages while the data on the building sector at some locations was, as requested, put at the disposal in a relatively short span of time. For this reason, we were able to gather very detailed indicators for the building activities in some towns, such as the total value of constructions, number of issued construction permits, size of the developments et al.

The Croatian Chamber of Economy publishes very few information on its Internet page so it was necessary to contact it directly for the indicators related to the economic development of specific counties and the real estate market. The information was provided very quickly and in the adequate format so, despite the fact that it is not available on the Internet, it can be considered as easily accessible.

The Ministry of Environmental Protection, Physical Planning and Construction offers numerous data on its Internet page concerning the adoption of physical plans that are very detailed and clearly elaborated at the level of Croatia and of counties. For this reason, it was not necessary to contact the institution directly.

The Internet page of the Croatian National Bank contains much information on the banking sector in various forms such as: clear data, publications published periodically and detailed analysis of certain segments of the banking system that are published from time to time. Each of the information sources was significant and the Croatian National Bank employees assisted by sending swift replies to clear certain doubts related to the available data.

Budget revenues of the local government units were the data that was relatively difficult to obtain. A part of the budget was published on the Internet pages of some towns but rarely for the past several years. Official gazettes of the towns were valuable sources. Their archives are available and contain the information for the past several years as well as the budget information. Official queries were sent for parts of the data but were often ignored by the staff. Local government units were contacted by phone and they then submitted the information but some sent only partial information. It took one whole month to collect all the budget information represented in the report.

When talking about the data that was difficult to access, it should be mentioned that the high-quality data of the real estate market is rare and almost never easily available to the public. One of the exceptions is CentarNekretnina that publishes its real estate pricing index once a month on its web site and whose employees kindly put this data at our disposal.
In-depth interviews

The recruitment of respondents for in-depth interviews lasted between 7 October and 3 November 2009.

In total, 50 working hours or 65 minutes per interview on the average (45 interviews were recruited by phone) were spent on calling and arranging the interviews. This refers to the time spent on telephone calls which includes calling, presenting the request, finding the target respondent, agreeing on the interview time slot, repeated calling when the agreed time for the interview had been cancelled and attempts at renewing the arrangements.

The research client confirmed the list of respondents who, according to the research client's estimate, were relevant to give answers to the questions on a specific topic.

Table 2 Overview of the number of persons contacted during the recruitment of respondents by group

<table>
<thead>
<tr>
<th>Group</th>
<th>Total number of contacted persons</th>
<th>Refusals</th>
<th>Other reasons for not participating – inability to contact the right person, to agree on the time slot, cancellation of the agreed interviews et al.</th>
<th>Interviews performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government unit representatives</td>
<td>14</td>
<td>6</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Bank representatives</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>State Geodetic Administration representatives</td>
<td>33</td>
<td>8</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Licensed surveyors</td>
<td>29</td>
<td>6</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>Developers</td>
<td>21</td>
<td>10</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Real estate agents</td>
<td>18</td>
<td>10</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Lawyers</td>
<td>10</td>
<td>6</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

The general impression of the recruiting staff was that the recruitment was extremely demanding. Some interview time slots were postponed and quite a few calls had to be made before an interview was agreed upon and carried out. The background for such a protracted and demanding recruitment process was as follows:

- **Interview duration.** The planned duration of the interview was between 30 and 45 minutes. All potential respondents had quite a few obligations and were busy for the interview time slot to be agreed upon in a simple way.

- **The respondent was not sure as to whether it was allowed to provide such information.** Consents were asked as well as the text of the questions to be asked. Clarifications and sending letters facilitated the recruitment.

- **Participants doubting their own relevance.** Quite a few questions were asked about different aspects of the Real Property Registration and Cadastre Project (impact of the Project on the number of transactions at the real estate market, economic influence as a whole, impact on the budget balance etc.) and the respondents often and objectively thought that they were unable to offer a relevant opinion and/or information on some parts.

- **Saturation with polls.** The attitude towards the polls in general is negative due to the sense of pressure that is constantly present in some polls, researches, etc.
Two facts positively affected the recruitment process and the respondents' readiness to participate in the research. They were: invoking the research client's name and the letter on implementing the research compiled by the research client as well as the sense of being socially useful by participating in the research.

In-depth interviews were conducted between 15 October and 5 November 2009. All transcripts were made by 9 November 2009, containing in total over 300 textual pages (A4 format, font size: 10, single line spacing).

The recruitment staff had various experiences with various types of respondents, depending on their readiness to participate in the research. Most difficulties were encountered with the local government unit representatives and there were respondents who wanted to shift the invitation to participate in the poll over to „higher“ or „lower“ levels. The beneficial point was that they could recommend the participants who might participate in the poll and that we had a relatively wide database of contacts that we were able to contact. In this segment, it was extremely difficult to find a potential respondent from the list at all; secretaries and other colleagues were giving instructions as to when and whom to call along with their own estimates on the relevance of the targeted respondent for the research topic. The calling procedure (difficult access to the respondents, inability to strike an agreement, sending the letters about the research, further recommendations on the relevant respondents) was always repeated as a rule even with the colleagues giving recommendations.

Developers, lawyers, licensed surveyors and real estate agents represent the groups that were not easily persuaded to participate in the interview. The main reason for that was the interview duration because for the majority of respondents belonging to these groups even 5 minutes taken to participate in the interview was too much.

Representatives of the banks were quick to offer the times available for the interviews. As soon as they were reached, it was easy to arrange an interview.

The State Geodetic Administration representatives were somewhat reserved with regards to whether they were competent or not to reply to the questions and whether they were fully authorized to provide the data.
2. GENERAL INFORMATION

The data collected in this part concerns the relevant, general, demographic information on the real estate market. It refers to the information that, first and foremost, suggests the extent of the real estate market and its potential i.e. the framework under which the real estate market actually functions.

2.1. DEMOGRAPHIC, EMPLOYMENT, HOUSEHOLD AND SIMILAR DATA

The Republic of Croatia is a European country, geographically located at the crossroads between the central and the south-eastern part of Europe. According to the 2001 population census, Croatia has 4,437,460 inhabitants. The continental area spreads over 56,542 km² while the territorial seas cover 31,067 km² which aligns Croatia among the mid-sized European countries. Zagreb is the economic, cultural and political capital of Croatia.

2.1.1. Basic demographic information

Table 3 Population trends in the Republic of Croatia and the selected counties in the 2003-2007 period

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>4,440,290</td>
<td>4,439,353</td>
<td>4,441,989</td>
<td>4,440,022</td>
<td>4,435,982</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>305,089</td>
<td>305,125</td>
<td>305,109</td>
<td>305,083</td>
<td>304,738</td>
</tr>
<tr>
<td>Zadar County</td>
<td>165,774</td>
<td>167,045</td>
<td>169,151</td>
<td>171,201</td>
<td>172,982</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>328,857</td>
<td>327,631</td>
<td>326,275</td>
<td>324,466</td>
<td>322,327</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>471,049</td>
<td>473,993</td>
<td>477,382</td>
<td>479,474</td>
<td>480,696</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>779,945</td>
<td>781,632</td>
<td>783,455</td>
<td>784,211</td>
<td>785,866</td>
</tr>
</tbody>
</table>


Index calculation: Puls d.o.o.
The graph shown previously clearly indicates the population trends. It is clear at the first glance that the Zadar County had the biggest population increase in the 2003-2007 period, followed by the Split-Dalmatia County and the City of Zagreb. In the same period, the Primorje-Gorski Kotar County and the Osijek-Baranja County are faced with a drop in the number of inhabitants.

The vital population index is an indicator of the natural increase trends among the population and is calculated by dividing the number of the newly-born persons by 100 deceased persons. The index is interpreted by taking the amount exceeding 100 to mean a positive natural growth while the index below 100 is negative. In this case, only the Split-Dalmatia County has had a positive natural growth in all periods. The Zadar County, showing the greatest increase in the number of inhabitants, has a lower natural increase but also experiences a more pronounced influence of migrations.

Table 4 Vital population index of selected counties and the Republic of Croatia (2002 - 2007)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>79</td>
<td>75</td>
<td>81</td>
<td>82</td>
<td>82</td>
<td>80</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>66</td>
<td>66</td>
<td>73</td>
<td>69</td>
<td>71</td>
<td>68</td>
</tr>
<tr>
<td>Zadar County</td>
<td>96</td>
<td>89</td>
<td>97</td>
<td>105</td>
<td>102</td>
<td>93</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>79</td>
<td>69</td>
<td>75</td>
<td>77</td>
<td>75</td>
<td>69</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>113</td>
<td>101</td>
<td>118</td>
<td>110</td>
<td>114</td>
<td>109</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>86</td>
<td>85</td>
<td>91</td>
<td>90</td>
<td>92</td>
<td>92</td>
</tr>
</tbody>
</table>


Graph 2 Vital population index of selected counties and the Republic of Croatia

Table 5  Migration balance in observed towns (2004 - 2008)

<table>
<thead>
<tr>
<th>Year</th>
<th>Zagreb</th>
<th>Split</th>
<th>Osijek</th>
<th>Rijeka</th>
<th>Zadar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3.078</td>
<td>-1.142</td>
<td>-62</td>
<td>-1.142</td>
<td>240</td>
</tr>
<tr>
<td>2005</td>
<td>1.102</td>
<td>-1.235</td>
<td>-267</td>
<td>-1.067</td>
<td>225</td>
</tr>
<tr>
<td>2006</td>
<td>2.160</td>
<td>-1.583</td>
<td>-467</td>
<td>-944</td>
<td>236</td>
</tr>
<tr>
<td>2007</td>
<td>2.461</td>
<td>-1.400</td>
<td>-640</td>
<td>-1.501</td>
<td>150</td>
</tr>
<tr>
<td>2008</td>
<td>2.385</td>
<td>-1.467</td>
<td>-86</td>
<td>-1.116</td>
<td>105</td>
</tr>
</tbody>
</table>

Source: Information provided at the request of the Central Bureau for Statistics’ Migration Department

The information on the migrations is also available for individual towns. The structure of the population trends provided in the previous graphs is hereby confirmed. Zagreb and Zadar are the only towns where the overall number of migrants is positive (i.e. more people moved in than moved out of them).

Graph 3  Comparison of age groups for all selected counties and the Republic of Croatia

The source of information for all graphs describing the age structures: http://www.dzs.hr/Hrv/Publication/2009/7-1-1h2009.htm
Graph 4. Overview of the age structures and their share in the population for the Republic of Croatia, City of Zagreb and the Split-Dalmatia County.
Graph 5  Overview of the age groups and their share in the population of the Osijek-Baranja, Zadar and Primorje-Gorski Kotar counties

Osijek - Baranja county

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Share in Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td></td>
</tr>
<tr>
<td>5-9</td>
<td></td>
</tr>
<tr>
<td>10-14</td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
</tr>
<tr>
<td>20-24</td>
<td></td>
</tr>
<tr>
<td>25-29</td>
<td></td>
</tr>
<tr>
<td>30-34</td>
<td></td>
</tr>
<tr>
<td>35-39</td>
<td></td>
</tr>
<tr>
<td>40-44</td>
<td></td>
</tr>
<tr>
<td>45-49</td>
<td></td>
</tr>
<tr>
<td>50-54</td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td></td>
</tr>
<tr>
<td>60-64</td>
<td></td>
</tr>
<tr>
<td>65-69</td>
<td></td>
</tr>
<tr>
<td>70-74</td>
<td></td>
</tr>
<tr>
<td>75-79</td>
<td></td>
</tr>
<tr>
<td>80-84</td>
<td></td>
</tr>
<tr>
<td>85 and older</td>
<td></td>
</tr>
<tr>
<td>Unknown</td>
<td></td>
</tr>
</tbody>
</table>

Zadar county

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Share in Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td></td>
</tr>
<tr>
<td>5-9</td>
<td></td>
</tr>
<tr>
<td>10-14</td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
</tr>
<tr>
<td>20-24</td>
<td></td>
</tr>
<tr>
<td>25-29</td>
<td></td>
</tr>
<tr>
<td>30-34</td>
<td></td>
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<tr>
<td>35-39</td>
<td></td>
</tr>
<tr>
<td>40-44</td>
<td></td>
</tr>
<tr>
<td>45-49</td>
<td></td>
</tr>
<tr>
<td>50-54</td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td></td>
</tr>
<tr>
<td>60-64</td>
<td></td>
</tr>
<tr>
<td>65-69</td>
<td></td>
</tr>
<tr>
<td>70-74</td>
<td></td>
</tr>
<tr>
<td>75-79</td>
<td></td>
</tr>
<tr>
<td>80-84</td>
<td></td>
</tr>
<tr>
<td>85 and older</td>
<td></td>
</tr>
<tr>
<td>Unknown</td>
<td></td>
</tr>
</tbody>
</table>

Primorje - Gorski Kotar county

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Share in Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td></td>
</tr>
<tr>
<td>5-9</td>
<td></td>
</tr>
<tr>
<td>10-14</td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
</tr>
<tr>
<td>20-24</td>
<td></td>
</tr>
<tr>
<td>25-29</td>
<td></td>
</tr>
<tr>
<td>30-34</td>
<td></td>
</tr>
<tr>
<td>35-39</td>
<td></td>
</tr>
<tr>
<td>40-44</td>
<td></td>
</tr>
<tr>
<td>45-49</td>
<td></td>
</tr>
<tr>
<td>50-54</td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td></td>
</tr>
<tr>
<td>60-64</td>
<td></td>
</tr>
<tr>
<td>65-69</td>
<td></td>
</tr>
<tr>
<td>70-74</td>
<td></td>
</tr>
<tr>
<td>75-79</td>
<td></td>
</tr>
<tr>
<td>80-84</td>
<td></td>
</tr>
<tr>
<td>85 and older</td>
<td></td>
</tr>
<tr>
<td>Unknown</td>
<td></td>
</tr>
</tbody>
</table>
A clear overview of the age structure by county was obtained by comparing the age structures of individual counties with the entire territory of Croatia. There is a clear discrepancy in the age structure of the Primorje-Gorski Kotar County, as compared to the entire territory of Croatia as well as to the majority of other counties. The difference concerns the lower share of younger age groups (up to 20 years of age) and the higher share of the age group between 50 and 60 years. The other visible difference is in the age structure of the City of Zagreb: as compared to other counties and Croatia, the City of Zagreb has a higher share of population aged between 30 and 40 years.

2.1.2. Basic indicators of economic activity

One of the basic indicators of the economic activity is the trend in the number of employed persons. The trend in the number of employed persons is similar to the trend in all of the observed counties with the exception of the City of Zagreb. The growth in the number of employed persons until 2007 was stable, followed by a clear drop of about 5 percentage points in 2008. Greater fluctuations in the same direction were recorded in the Zadar County while in the City of Zagreb the number of employed persons did not drop but the growth was only slowed down.

Table 6 Number of employed persons in the Republic of Croatia and selected counties (2004-2008)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>810,630</td>
<td>834,992</td>
<td>868,711</td>
<td>920,173</td>
<td>876,055</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>325,311</td>
<td>337,551</td>
<td>351,173</td>
<td>359,080</td>
<td>360,278</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>56,791</td>
<td>58,814</td>
<td>61,196</td>
<td>64,759</td>
<td>62,089</td>
</tr>
<tr>
<td>Zadar County</td>
<td>16,218</td>
<td>16,649</td>
<td>17,531</td>
<td>19,533</td>
<td>16,808</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>66,760</td>
<td>68,833</td>
<td>71,025</td>
<td>77,235</td>
<td>73,720</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>42,905</td>
<td>43,362</td>
<td>45,542</td>
<td>49,205</td>
<td>46,196</td>
</tr>
</tbody>
</table>

Source: information provided at the request from the Croatian Chamber of Economy

Graph 6 Trend in the number of employed persons in selected counties – fixed base index (base = 2004)

Source: information provided at the request from the Croatian Chamber of Economy
Index calculation: Puls d.o.o.
The number of companies in both the counties and Croatia vaguely follows the trend of the number of employed persons, thus indicating the accelerated and slowed-down economic activities in individual counties and the entire territory of Croatia. It is visible that the dynamics are somewhat different and that the growth in the number of companies was slowed down in 2008 but the trend was not negative (except in the Osijek-Baranja County) as was the case in the majority of the counties observed when it came to the number of employed persons.

Table 7 Number of companies in the Republic of Croatia and selected counties (2004-2008)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>68.731</td>
<td>73.271</td>
<td>78.034</td>
<td>83.532</td>
<td>83.187</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>23.916</td>
<td>25.503</td>
<td>26.864</td>
<td>27.469</td>
<td>28.198</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>6.346</td>
<td>6.845</td>
<td>7.272</td>
<td>7.891</td>
<td>7.924</td>
</tr>
<tr>
<td>Zadar County</td>
<td>1.726</td>
<td>1.909</td>
<td>2.080</td>
<td>2.355</td>
<td>2.393</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>3.146</td>
<td>3.249</td>
<td>3.315</td>
<td>3.535</td>
<td>3.326</td>
</tr>
</tbody>
</table>

Source: information provided at the request from the Croatian Chamber of Economy

Graph 7 Number of companies in the Republic of Croatia and selected counties, fixed base index (base=2004)

Source: information provided at the request from the Croatian Chamber of Economy
Index calculation: Puls d.o.o.

At the level of the Republic of Croatia, most people are employed in small-size companies (45%), followed by large companies (36%) and mid-sized companies (19%). The greatest discrepancy from this structure is found with the City of Zagreb where a little over half of the employed persons work for large companies. The opposite example is Zadar where as little as 15% of the employed persons work for large companies while one-fourth of the employed persons work for mid-sized companies and the remaining 60% work for small-sized companies.
Graph 8  Employment structure by company size in the Republic of Croatia and the selected companies in 2008

<table>
<thead>
<tr>
<th></th>
<th>SMALL SIZED</th>
<th>MID SIZED</th>
<th>LARGE SIZED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>45%</td>
<td>19%</td>
<td>36%</td>
</tr>
<tr>
<td>Osijek - Baranja county</td>
<td>49%</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td>Split - Dalmatia county</td>
<td>53%</td>
<td>18%</td>
<td>28%</td>
</tr>
<tr>
<td>Zadar county</td>
<td>60%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Primorje - Gorski Kotar county</td>
<td>54%</td>
<td>18%</td>
<td>29%</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>35%</td>
<td>14%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: information provided at the request from the Croatian Chamber of Economy
Share calculation: Puls d.o.o.

A stable increase in the number of employed persons and of companies in the 2002-2007 period was accompanied by a stable growth of the average net paid salary. The City of Zagreb recorded the biggest increase in the level of the average salary as compared to other observed counties and the entire territory of Croatia. The Osijek-Baranja County is the county with the lowest average salary in the observed period.

Table 8  Average net salary paid in the Republic of Croatia and selected counties (2002-2007)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>3.725</td>
<td>3.993</td>
<td>4.182</td>
<td>4.414</td>
<td>4.591</td>
<td>4.823</td>
</tr>
<tr>
<td>Zadar County</td>
<td>3.628</td>
<td>3.960</td>
<td>4.133</td>
<td>4.327</td>
<td>4.423</td>
<td>4.659</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>3.549</td>
<td>3.830</td>
<td>3.997</td>
<td>4.197</td>
<td>4.394</td>
<td>4.656</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>4.198</td>
<td>4.539</td>
<td>4.801</td>
<td>5.059</td>
<td>5.358</td>
<td>5.691</td>
</tr>
</tbody>
</table>

Source: Information provided at the request from the Central Bureau for Statistics
Graph 9  Average net salary paid in the Republic of Croatia and selected counties (2002-2007)

Source: Information provided at the request from the Central Bureau for Statistics

The share of the building sector in the gross added value in Croatia demonstrates a mild increase between 2002 and 2006, amounting to between approx. 6% and approx. 8%. This trend of a mild increase is followed by other observed counties with the exception of the Zadar County where the average share of the building sector in the added value is higher than in other counties and demonstrates greater discrepancies (in 2003, it increased to as much as 14%). The City of Zagreb consistently demonstrates a lower share of the building sector in the gross added value than other counties and Croatia but the form of growth is the same.

Graph 10  Overview of the building sector’s share in the gross added value for the Republic of Croatia and selected counties (2002-2006)

Source: Central Bureau of Statistics
The indicators of how the agricultural land is used in certain counties were taken over from the List of Agriculture of the Central Bureau of Statistics. The size of the agricultural land observed in comparison with the number of agricultural households varies significantly between the counties. The biggest available size of the agricultural land by agricultural household can be found in the Osijek-Baranja County, followed by the Zadar County and the Primorje-Gorski Kotar County with twice as little available land. The City of Zagreb and the Split-Dalmatia County have less than 1 hectare available per agricultural household.

Table 9 Number of agricultural households and used agricultural land in the Republic of Croatia and selected counties (2003)

<table>
<thead>
<tr>
<th>County</th>
<th>Number of households</th>
<th>Total of used agricultural land (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>448,532</td>
<td>860,195,20</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>41,103</td>
<td>95,986,72</td>
</tr>
<tr>
<td>Zadar County</td>
<td>14,392</td>
<td>18,987,44</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>10,111</td>
<td>12,571,73</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>14,121</td>
<td>13,230,58</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>31,953</td>
<td>20,054,39</td>
</tr>
</tbody>
</table>


Graph 11 Total of available size of agricultural land (ha) per agricultural household for the Republic of Croatia and selected counties in 2003

2.2. STATISTICS OF THE CADASTRE AND LAND REGISTRIES

The Croatian system of registering real property and the appertaining rights is based on two registers: cadastre and land registers.

The cadastre records technical characteristics of the real properties (location, shape, size, land use) and the possessor. The cadastre records in the RoC territory date back to mid-19th century and the time of the Austro-Hungarian monarchy when the first cadastral surveys were performed as the basis for the agricultural taxes levy. Since the afore-mentioned period, various parts of the Republic of Croatia were encompassed by different States so subsequent cadastral surveys have been performed in some areas at different times and by using different methods.

Figure 1 Cadastral map of Stari Grad (Hvar) from 1831 (Stari Grad Museum)

![Cadastral map of Stari Grad (Hvar) from 1831](image)

Source: Original scientific paper “Cartography of Stari Grad on Hvar”, B. Stančić, M. Lapaine, Cartography and geoinformation, 2009/11

The land registers are public registers recording the real properties, titles and other real rights and some mandatory rights over the real properties as well as other relationships of relevance to the real property transactions. In the beginning, the cadastre and land registers were under a joint authority but in the last quarter of the 19th century these institutions were separated. Since then, each institution has kept the data on cadastral parcels in an uncoordinated way.

In the communal ownership system enforced during half of the last century, the role of private ownership and indirectly of land registries was systematically neglected while, at the same time, registration was promoted only with regards to the cadastre. Besides, the legislation of the past stipulated the prohibition of registering and transferring real rights before paying the real property taxes so the people acquiring real properties avoided registering their rights in the land registers for the purpose of avoiding to pay taxes.

The foregoing is one of the main reasons that led to mismatching data in the cadastre and the land registries as well as mismatching data between the records and the actual situation.
The change of political and social circumstances in the last decade of the 20th century led to the annulment of communal ownership, return of nationalized properties and development of the real estate market and, thus, to a more pronounced need for harmonizing the data recorded in the cadastre and land registries with the actual situation.

The Real Property Registration and Cadastre Project also known as “Organized Land” attempts at achieving certain benefits that *inter alia* involve: A faster real property registration in the cadastral and land registration systems, streamlining both systems and simplifying business processes, harmonizing the data from both systems and improving the customer relationships and the speed and quality of service provision.

As part of streamlining the land registries, the land registers were completely digitized: data from the manually kept land registers was transcribed into the e-land registry (EDP) while the process of verification e.g. double-checking the files in digital format against the active state in the manually kept register, has been completed at some courts while still ongoing at other courts. After the completed verification, the land registration file in the manually kept land register is closed and is thereon kept only by the electronic data processing.

The data become public at the official web page of the Ministry of Justice which has significantly alleviated the access to information as compared to the times in which the land registers were manually kept. Besides, in order to accelerate the registration process and reduce the number of backlogs, the system of licensed land registry clerks has been introduced and additional clerks have been hired on fixed-term contracts.

Table 10 Percentage of digitized and verified land registration files in the Republic of Croatia and Zagreb in the 2004-2009 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of LR files digitized in Croatia</td>
<td>22%</td>
<td>56%</td>
<td>93%</td>
<td>98%</td>
<td>99%</td>
<td>100%</td>
</tr>
<tr>
<td>% of LR files digitized in Zagreb</td>
<td>70%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>% of LR files digitized and verified in Croatia</td>
<td>1%</td>
<td>9%</td>
<td>27%</td>
<td>40%</td>
<td>52%</td>
<td>80%</td>
</tr>
<tr>
<td>% of LR files digitized and verified in Zagreb</td>
<td>17%</td>
<td>58%</td>
<td>95%</td>
<td>98%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Organized Land,

* data processed by November 2009
The achievements can be seen in Tables 11 and 12. Table 11 clearly shows that the number of days required for registering the mortgage at the level of Croatia is almost 4 times lower in comparison to 2004 while it takes twice as much time to register a mortgage in the jurisdiction of the Land Registry Office in Zagreb as compared to the national average. The number of days required to register a title at the State level has been reduced from 88 (in 2004) to 67 (in 2009) while Zagreb shows visible significant discrepancies as compared to the State average: the number of days required to register a title has been reduced from 255 (in 2004) to 155 days (in 2009).

**Table 11 Number of days required to register a mortgage and a title in the land registry offices in Zagreb and Croatia**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of days required to register a mortgage in the LRO in Croatia</td>
<td>23</td>
<td>4</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Number of days required to register a mortgage in the LRO in Zagreb</td>
<td>30</td>
<td>8</td>
<td>15</td>
<td>10</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Number of days necessary for registration of ownership titles in LRO in Croatia</td>
<td>88</td>
<td>25</td>
<td>63</td>
<td>72</td>
<td>78</td>
<td>67</td>
</tr>
<tr>
<td>Number of days necessary for registration of ownership titles in LRO in Zagreb</td>
<td>255</td>
<td>65</td>
<td>141</td>
<td>181</td>
<td>194</td>
<td>155</td>
</tr>
</tbody>
</table>

Source: Organized Land, * data processed by June 2009

**Table 12 Performance indicators of land registry offices for the 2004-2009 period**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of received (new) LR cases in Croatia</td>
<td>416.228</td>
<td>457.075</td>
<td>528.348</td>
<td>550.415</td>
<td>540.901</td>
<td>260.064</td>
</tr>
<tr>
<td>Number of received (new) LR cases in Zagreb</td>
<td>53.462</td>
<td>69.669</td>
<td>85.724</td>
<td>81.721</td>
<td>75.194</td>
<td>34.514</td>
</tr>
<tr>
<td>Number of resolved LR cases in Croatia</td>
<td>450.637</td>
<td>571.040</td>
<td>593.523</td>
<td>576.296</td>
<td>561.182</td>
<td>268.913</td>
</tr>
<tr>
<td>Number of resolved LR cases in Zagreb</td>
<td>57.540</td>
<td>114.579</td>
<td>111.876</td>
<td>89.383</td>
<td>90.870</td>
<td>38.794</td>
</tr>
<tr>
<td>Number of LR cases being processed (ongoing processing) in Croatia</td>
<td>318.650</td>
<td>214.528</td>
<td>149.214</td>
<td>122.501</td>
<td>105.123</td>
<td>99.025</td>
</tr>
<tr>
<td>Number of LR cases being processed (ongoing processing) in Zagreb</td>
<td>125.640</td>
<td>80.718</td>
<td>54.566</td>
<td>46.904</td>
<td>31.228</td>
<td>26.948</td>
</tr>
<tr>
<td>% of resolved LR cases in Croatia</td>
<td>108%</td>
<td>125%</td>
<td>112%</td>
<td>105%</td>
<td>104%</td>
<td>103%</td>
</tr>
<tr>
<td>% of resolved LR cases in Zagreb</td>
<td>108%</td>
<td>164%</td>
<td>131%</td>
<td>109%</td>
<td>121%</td>
<td>112%</td>
</tr>
<tr>
<td>Number of LR judges</td>
<td>112</td>
<td>112</td>
<td>173</td>
<td>198</td>
<td>225</td>
<td>253</td>
</tr>
<tr>
<td>Number of full-time clerks</td>
<td>647</td>
<td>712</td>
<td>695</td>
<td>659</td>
<td>675</td>
<td></td>
</tr>
</tbody>
</table>

Source: Organized Land, * data processed by June 2009

**Table 13 Number of received (new) land registration cases in the Republic of Croatia and selected towns for the 2003-2008 period**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>357.914</td>
<td>416.228</td>
<td>457.075</td>
<td>528.348</td>
<td>550.415</td>
<td>540.901</td>
</tr>
<tr>
<td>Croatia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zagreb</td>
<td>48.882</td>
<td>53.462</td>
<td>69.669</td>
<td>85.724</td>
<td>81.721</td>
<td>75.194</td>
</tr>
</tbody>
</table>

Source: Organized Land
Graph 12  Fluctuation in the number of received (new) land registration cases in the Republic of Croatia and selected towns – fixed base index (base = 2003)

Table 14  Number of the resolved land registration cases in the Republic of Croatia and selected towns for the 2003-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>351,293</td>
<td>450,637</td>
<td>571,040</td>
<td>593,523</td>
<td>576,296</td>
<td>561,182</td>
</tr>
<tr>
<td>Zagreb</td>
<td>42,541</td>
<td>57,540</td>
<td>114,579</td>
<td>111,876</td>
<td>89,383</td>
<td>90,870</td>
</tr>
<tr>
<td>Zadar</td>
<td>10,715</td>
<td>14,995</td>
<td>21,427</td>
<td>17,170</td>
<td>16,767</td>
<td>16,798</td>
</tr>
<tr>
<td>Rijeka</td>
<td>22,857</td>
<td>25,247</td>
<td>35,960</td>
<td>24,455</td>
<td>21,484</td>
<td>20,104</td>
</tr>
<tr>
<td>Split</td>
<td>10,971</td>
<td>24,688</td>
<td>36,594</td>
<td>36,172</td>
<td>23,112</td>
<td>22,791</td>
</tr>
<tr>
<td>Osijek</td>
<td>13,097</td>
<td>14,181</td>
<td>14,362</td>
<td>16,617</td>
<td>17,744</td>
<td>15,045</td>
</tr>
</tbody>
</table>

Graph 13  Fluctuation in the number of resolved land registration cases in the Republic of Croatia and selected towns – fixed base index (base = 2003)
Table 15  Percentage of the resolved land registration cases in the Republic of Croatia and selected towns for the 2003-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>98%</td>
<td>108%</td>
<td>125%</td>
<td>112%</td>
<td>105%</td>
<td>104%</td>
</tr>
<tr>
<td>Zagreb</td>
<td>87%</td>
<td>108%</td>
<td>164%</td>
<td>131%</td>
<td>109%</td>
<td>121%</td>
</tr>
<tr>
<td>Zadar</td>
<td>105%</td>
<td>119%</td>
<td>143%</td>
<td>103%</td>
<td>99%</td>
<td>105%</td>
</tr>
<tr>
<td>Rijeka</td>
<td>156%</td>
<td>145%</td>
<td>194%</td>
<td>122%</td>
<td>101%</td>
<td>98%</td>
</tr>
<tr>
<td>Split</td>
<td>100%</td>
<td>159%</td>
<td>185%</td>
<td>171%</td>
<td>117%</td>
<td>110%</td>
</tr>
<tr>
<td>Osijek</td>
<td>100%</td>
<td>103%</td>
<td>99%</td>
<td>101%</td>
<td>101%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Organized Land

Graph 14  Fluctuations in the percentage of the resolved land registration cases in the Republic of Croatia and selected towns

Source: Organized Land

Table 16  Percentage of digitized and verified land registration files in the Republic of Croatia and selected towns for the 2003-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>0%</td>
<td>1%</td>
<td>9%</td>
<td>27%</td>
<td>40%</td>
<td>52%</td>
</tr>
<tr>
<td>Zagreb</td>
<td>0%</td>
<td>17%</td>
<td>58%</td>
<td>95%</td>
<td>98%</td>
<td>100%</td>
</tr>
<tr>
<td>Zadar</td>
<td>0%</td>
<td>0%</td>
<td>24%</td>
<td>65%</td>
<td>89%</td>
<td>94%</td>
</tr>
<tr>
<td>Rijeka</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>27%</td>
<td>93%</td>
<td>100%</td>
</tr>
<tr>
<td>Split</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>26%</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>Osijek</td>
<td>0%</td>
<td>0%</td>
<td>9%</td>
<td>70%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Organized Land
As part of cadastre modernization, new cadastral surveys were performed in some municipalities and an internet browser of cadastral data was formed, offering the data on cadastral parcels and possessory sheets to the public. For the purpose of renewing, controlling and streamlining the existing cadastral records, cadastral maps are being digitally processed (vectorization). Digital cadastral maps of all municipalities will form the joint central database. By the end of September 2009, 78% of cadastral maps were in official use while it is estimated that the procedure of the cadastral map vectorization for all cadastral municipalities might be completed in 2010.

The achievements in the area of cadastre modernization can be seen in Table 17: Performance indicators for the cadastre system development.

Table 17 Performance indicators of the cadastre system development for the 2004-2009 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of data issued by cadastral offices in Croatia</td>
<td>1,423,409</td>
<td>1,506,668</td>
<td>950,135</td>
<td>978,963</td>
<td>1,251,697</td>
<td>557,663</td>
</tr>
<tr>
<td>Number of data issued by cadastral offices in Zagreb</td>
<td>173,269</td>
<td>82,505</td>
<td>76,438</td>
<td>71,011</td>
<td>99,562</td>
<td>39,930</td>
</tr>
<tr>
<td>Number of data issued daily by cadastral offices in Croatia</td>
<td>5,694</td>
<td>6,027</td>
<td>3,801</td>
<td>3,885</td>
<td>4,967</td>
<td>4,426</td>
</tr>
<tr>
<td>Number of data issued daily by cadastral offices in Zagreb</td>
<td>693</td>
<td>330</td>
<td>306</td>
<td>282</td>
<td>395</td>
<td>317</td>
</tr>
<tr>
<td>Number of cadastral municipalities currently vectorizing cadastral maps</td>
<td>214</td>
<td>775</td>
<td>436</td>
<td>1,122</td>
<td>1,076</td>
<td>1,132</td>
</tr>
<tr>
<td>% of cadastral municipalities with vectorized cadastral maps and vectorization in process (% of the total number of 3,315 municipalities)</td>
<td>11,80%</td>
<td>35,18%</td>
<td>48,33%</td>
<td>82%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Organized Land
* data processed by June 2009
Figure 3 Scanning device with 1.6m x 1.05m scanning area

Source: www.procaptura.com
3. LEGISLATIVE FRAMEWORK

This chapter deals with the most important part of a very wide legislative framework regulating the real estate market. For the purpose of analyzing the legislative framework, the laws are divided into the laws regulating the enforcement of titles, other real property rights and the registration of these rights, and the laws regulating the construction activities and other laws. The division is only formal and made in order to make the understanding of the topic easier.

3.1. LAWS REGULATING THE ENFORCEMENT OF TITLES AND OTHER REAL PROPERTY RIGHTS AND THE REGISTRATION OF THESE RIGHTS

3.1.1. Law on Ownership and Other Real Rights

Law on Ownership and Other Real Rights (Official Gazette nos. 91/96, 73/00, 114/01, 79/06, 141/06, 146/08 and 38/09) (hereon: LO) is the fundamental legislation that inter alia regulates the issues of titles and all other real rights.

The afore-mentioned law defines the very concept of titles and stipulates the manner of acquiring ownership rights and other real rights.

When speaking about the real properties, it is important to mention that our legal system is based on the principle of indivisibility of real property (superficies solo cedit), according to which the real property consists of the land parcel and all that is proportionally permanently attached to its surface or underneath. The afore-mentioned principle was introduced with the adoption of the LO (Official Gazette no. 91/96) that entered into force on 1 January 1997, and the same is expressed in Article 9 of the LO.

Among the more important novelties introduced by the LO as compared to the previous legislation (Law on Basic Ownership Legal Relations) is the definition of the ownership over condominium units (condominium ownership) which is in line with the indivisibility of real property, indelibly linked to the corresponding co-ownership share of the entire real property consisting of the land with a building. The LO provisions stipulate the manner and procedure that establish the condominium unit ownership and allow the registration in the land registers.

Since the goal of the real property transactions is for the buyer i.e. real property acquirer to become the owner of the real property that is the subject of acquisition, the provisions regulating the manner of acquiring titles over real properties are extremely important for the real property transactions.

It is necessary to stress that the Croatian legislation has adopted the legal principle serving as the basis to, in case of the acquisition based on a legal transaction, acquire a title over the real properties by registering it in the land registers (unless specifically determined otherwise for certain cases by the law). In other words, it means that the real property buyer will not become the owner of the same real property at the moment of the contract execution or of paying the purchase price but at the moment of registering the title on his/her behalf in the land registers.

Due to the afore-mentioned reason, it is extremely important for the land registries to function well and for the applications to be handled in a fast and professional manner in order to establish legal security and ensure more efficient real property transactions.

In the past few years, this law has been somewhat amended and the most important amendments are as follows:

a) Law on the Amendments to the Law on Ownership and Other Real Property Rights of July 2006 (Official Gazette no79/06) inter alia amended the provision of Article 73 of the Law and stipulated that the confirmation of the corresponding authority (serving as a precondition for the establishment of the condominium unit ownership – condominium ownership) must contain the signature and description of the real property condominium units, and that they were built according to a permit issued by a
corresponding authority. In other words, this means that it is not possible to conduct condominium splitting i.e. split certain condominium units of the real property that were constructed without a building permit or in contravention to the building permit, which is, in any case, a big step in terms of security of legal transactions, given that it often occurred in practice that the building having no building permit was split into condominium units or that the condominium splitting was performed in contravention to the project documentation stated in the building permit.

b) Law on the Amendments to the Law on Ownership and Other Real Property Rights of December 2006 (Official Gazette no. 141/06) delays the application of the principle of trust in the land registers (protection of trust in the truthfulness and completeness of the land registers) for the real properties having been registered as socially owned before 1 January 2010, with the exception of the real properties for which the EDP land registry had been opened as well as for the real properties that had been inserted in the land registration database according to the special provisions of the Land Registration Act (LRA).

c) Law on the Amendments to the Law on Ownership and Other Real Property Rights of December 2008 (Official Gazette no. 146/08) inter alia makes the real property acquisition more liberal for the physical and legal persons from the European Union member states who, as of 1 February 2009, may acquire real properties in the Republic of Croatia under the same conditions as the Croatian citizens. The only limitation relates to the agricultural land determined by a separate law and the protected areas of nature according to a separate law, over which foreign nationals cannot acquire a title.

3.1.2. Civil Obligations Act

The Civil Obligations Act (Official Gazette nos. 35/05 and 41/08) (herein: COA) regulates the foundations of the civil obligations as well as contractual and non-contractual civil obligations and as such does not regulate directly the real rights nor their acquisition. However, the COA is also the key legislation from the aspect of the real property transactions since it defines and regulates the legal affairs representing the legal basis for acquiring titles (and other real rights). The COA defines various contracts aimed at acquiring titles such as: Purchase and Sale Contract, Exchange Contract, Gift Contract, Contract on providing life-long support and Contract on providing support until death.

3.1.3. Land Registration Act

The Land Registration Act (Official Gazette nos. 91/96, 114/01, 100/04, 107/07 and 152/08) (hereon: LRA) is a regulation that inter alia stipulates the role and content of the land registers and regulates their functioning. Thus, the LRA is a regulation stipulating the manner in which the land registries at municipal courts act and defines the type of registration in the land registers as well as the conditions under which certain entries in the land registers are allowed.

For the real property transactions, especially pertinent are the preconditions for registering titles in the land registers, as also defined by the Land Registration Act. Apart from the LRA, there are also some second-rank regulations of relevance for the land registration procedures and the work of land registry offices such as: Rules and Regulations on the Internal Structure, Keeping of Land Registers and Performance of Other Works at Land Registry Offices of the Courts (Land Registration Rules of Procedure) (OG nos. 81/97, 109/02, 123/03, 153/02 and 14/05), Rules and Regulations on the Performance Measures of Land Registry Employees (OG no. 97/05), Rules and Regulations on Taking the Expert Exam and on Appointing Licensed Land Registry Clerks (OG no. 136/05) and the Rules and Regulations on the Forms in Land Registration Procedure (OG no. 123/04). The Rules and Regulations on the Structure and Operation of the Land Database (OG no. 90/04) should also be mentioned here. They regulate the structure of the land database although this database has not yet received its practical application.
The Land Registration Act of 2003 has been amended thrice. With regards to the LRA amendments, a large number of bylaws has also been amended or passed.

a) Law on the Amendments to the Land Registration Act of July 2004 (Official Gazette no. 100/04) brought about a number of amendments whose purpose was to improve the efficiency of the land registry offices operations. Among the adopted amendments, the following should be underlined:
   - envisaging the forms for submitting the land registration proposals (Rules and Regulations on the Forms used in the Land Registration Procedure was published in OG no. 123/04),
   - stipulating that the disorderly and lacking applications will be rejected (resulting in solving a large number of cases by simply rejecting the applications),
   - introducing "licensed land registry clerks" that were enabled to pass decisions in the land registration procedure, thus accelerating the processing of cases by increasing the number of persons allowed to pass decisions.

b) Law on Amendments to the Land Registration Act of October 2007 (Official Gazette no. 107/07) introduces the following significant modifications:
   - It allows the possibility for the land registry court to summon the person who has submitted an incomplete application to substantiate the application and submit the documents not representing the clausula intabulandi,
   - it simplifies the procedure of discharging the mortgages recorded by 25 December 1958,
   - it envisages the establishment of the Joint Information System (JIS) comprised of the Land Database (LDB) and the digital cadastral map database,
   - it stipulates the option of sporadically transforming the land registers into the EDP land registry.

c) Law on the Amendments to Land Registration Act of December 2008 (Official Gazette no.152/08) stipulates that the documents serving as the basis for acquiring the registration rights must contain the personal identification number (Croatian= osobni identifikacijski broj (OIB)) for each of the parties in the procedure.

3.1.4. Law on State Survey and Real Property Cadastre

The Law on State Survey and Real Property Cadastre (OG no. 16/07) is the regulation that inter alia regulates the State survey, real property cadastre, authority over the state survey and real property cadastre operations and the performance of these operations. The role of the cadastre in the real property transactions is very important since the cadastre keeps records on the land parcels and these records represent a database also for the land registries. Apart from the Law on State Survey and Real Property Cadastre, there are numerous regulations of lower importance i.e. implementation regulations related to the cadastre such as: Rules and Regulations on Topographic Survey and Production of State Maps (Official Gazette no. 109/08), Rules and Regulations on the Content and Modalities of Keeping Records on the State Borders (Official Gazette no. 109/08) et al.

The Law on State Survey and Real Property Cadastre (OG no. 16/07) is certainly the regulation whose adoption is directly linked to the implementation of the „Organized Land“ Project. The same regulation has defined the new areas of activities and responsibilities for the State Geodetic Administration and, what is also very important, it has introduced the term „real property cadastre“ that should replace the existing „land cadastre“.

Pursuant to the provisions of this law, a great number of bylaws have been passed such as:
   - Rules and Regulations on Topographic Survey and Production of State Maps (Official Gazette no. 109/08)
   - Rules and Regulations on the Content and Modalities of Keeping Records on the State Borders (Official Gazette no. 109/08)
Rules and Regulations on the Content and Form of the Cadastral Documentation of the Real Property Cadastre (Official Gazette no. 142/08)

Rules and Regulations on Cadastral Survey and Technical Reambulation (Official Gazette no. 147/08)

Rules of Procedure on Determining the Amount of Real Costs for using the documentation data of the State Survey and Real Property Cadastre (OG no. 148/08)

Rules and Regulations on Utilities Cadastre (Official Gazette no. 71/08)

Rules and Regulations on Spatial Units Register (OG no. 37/08)

Furthermore, the Rules and Regulations on the Land Cadastre were adopted (OG no. 84/07) in order to regulate the transitional situation in which the land cadastre is being transferred into the real property cadastre.

Closely related to the cadastre, the Law on Performing Geodetic Activities (Official Gazette no. 152/08) has also been passed. It regulates the performance of activities, the Chamber of Surveyors, licensing and performance of works conducted by foreign nationals.

### 3.2. LAWS REGULATING THE FIELD OF CONSTRUCTION

Until 2007, the issues of physical planning and construction were regulated by the following specific laws: Physical Planning Act (OG nos. 30/94, 68/98, 61/00, 32/02, 100/04) and Construction Act (OG no. 52/99, 75/99, 117/01, 47/03, 175/03, 100/04), both of which were annulled with the entry into force of the Physical Planning and Construction Act (OG nos. 76/07, 38/09), apart from a smaller number of provisions retained for the transitional period.

#### 3.2.1. Physical Planning and Construction Act

The Physical Planning and Construction Act (OG nos. 76/07 and 38/09) introduced important changes in the physical planning and construction sphere. Its purpose [inter alia](#) was to accelerate the procedures required for obtaining the necessary approvals for construction.

For this purpose, for the buildings whose construction (gross) surface does not exceed 400 m² and for the buildings intended exclusively for agricultural activities whose construction (gross) surface does not exceed 600 m², the law stipulates that only one administrative document (decision on building conditions) be obtained instead of two administrative documents that were necessary thus far (location and building permits). For the buildings not belonging to the above category, it is still necessary to obtain a location permit and then the confirmation of the main project, except for the buildings of national importance for which a building permit is issued after the location permit. Also the new conditions were stipulated with regards to the construction parcels for which the permit for building is being issued. This is described in more detail in the “System of Contributions and Utility Services” chapter.

From the aspect of the real property transactions, the introduction of certain restrictions when registering the building in the cadastre and land registers is very important. Its intention is to allow the registration in the cadastre and land registers only for the buildings that were legally constructed and only after the usage permit or the final report by the inspecting engineer have been obtained. However, a transitional regime has been envisaged for the buildings having received a building permit before the enforcement of this law. Their registration is somewhat more liberal, depending on the date on which the building permit was issued.

The research analyzed the respondents’ standpoints on adhering to the legally binding deadlines for obtaining the building documents. The prevailing impression is that the legally binding deadlines for obtaining the building documents are not respected in practice, although the stipulated deadlines are acceptable.

People had the experience of having waited to obtain the building documents between six months and as much as four years. The situation is the worst in the Zadar area, while in Rijeka and the Zagreb...
environ (Zaprešić), the relevant authorities manage to complete their job within the planned period or with minimal delays. The consequence of such a situation is, first and foremost, the financial loss for the developers since the speed of the process is the basic aspect for evaluating the quality of the processes carried out on the real estate market by the so-called practitioners. If the building projects are not quickly executed, their cost-effectiveness is impaired together with the satisfaction itself of the investors and other participants on the real estate market (real estate agents, end buyers) as well as the intention of the investors to invest further. This aspect is also very important for foreign investors who are, by no means, satisfied with the protracted procedures necessary to obtain the building permits. In such a situation, the question arises as to the reasons for delays in obtaining the permits or of not meeting the legally defined deadline. The answers to this question may be divided into two groups. The practitioners believe that the reason behind this is bureaucracy and the people who simply do not have enough interest or legal insight into the needs and difficulties faced by those living off the real estate market while, on the other hand, the experts offer less general and more specific answers such as:

- Issues related to legal and property relations present the biggest problem. If the necessary documentation were concrete and if the legal and property issues were solved, the permits would be issued by no later than the legally prescribed deadline, with slight, possible deviations to its adherence.
- There is also a lack of staff – not enough well-educated people for such an extent of work;
- Involvement of a great number of people and institutions in the process: In the process of obtaining a permit, various consents are needed (i.e. utility companies) and that can take a long time. The clerks issuing permits are not the only ones involved in the process and cannot control by themselves the implementation of the process.
- Unrealistic deadlines – it is possible that this is only the consequence of the afore-mentioned reasons and not an absolute statement.

The developers find the long process of obtaining permits especially difficult. They deem that it is necessary to speed this procedure if at all possible and that to wait for obtaining a permit otherwise becomes too great a burden for investments. The additional problem is that the long process of obtaining permits represents an ideal field for nepotism and corruption. With regards to the procedure of obtaining permits, they state two concrete things that represent a problem:

- Complexity of the procedure: The opinion is that the procedure is very complicated, that there is room for simplifying it and for not requesting too many documents. Other opinions are also voiced, stating that the special geodetic dataset (an integral part of the location permit) has become only a superfluous document not serving any specific purpose.
- Lack of uniformity: There are opinions that the scope and content of the documentation required for obtaining permits are not defined clearly enough, that there is a lack of standardization so the entire process is actually exposed to improvisations of architect-engineers.

Apart from respecting the deadlines, the attitude on the complexity of procedures has also been questioned. The key issue when evaluating the complexity of the procedure of obtaining permits is the issue of the legal and real property affairs. If these affairs are regulated, the procedure of obtaining permits is not complex and the permits may be obtained within the legally binding deadlines. The problem arises when the legal and real property situation is unclear because the procedure of obtaining permits then requires the documentation that is impossible to collect (e.g. proof of ownership) within that time. Amendments related to obtaining the permits for constructions whose surface does not exceed 400 m² are quoted as a positive step forward because they do not require the execution of the procedures for obtaining permits that are necessary for larger constructions. In such situations, the procedure of obtaining necessary permits has been simplified and is carried out much faster.

One of the regulations taken over from the Construction Act is the regulation enabling the owners and other title holders over the real property that directly borders the real property for which the permit is
being issued to be able to influence the issuing of the permit by launching a complaint procedure. Since the negative attitudes expressed during the research were, first and foremost, incited by the experiences whereby the neighbours have, unjustifiably and for completely subjective reasons, protracted the process of obtaining the permits as long as possible, we have here omitted such categorical statements against the option of influencing the process and have provided the replies in which the basic premises for a successful functioning of this regulation are expressed:

- The neighbours are entitled to be informed about the events affecting the neighbouring parcel. Since the neighbours are an interested party, they must be involved in the procedure.
- Physical plans must define extremely clearly what may be built on specific parcels so that the permits may be issued only for the buildings that can be located on the land in question according to the valid regulations and decisions by the local government authorities while for all other constructions a building permit cannot be obtained without the intervention from the neighbours. In this case, very little room is left for the neighbours to obstruct the process of issuing permits out of objective reason.
- The neighbours should be liable for halting the process for the reasons that prove to be unjustifiable. In this way, the process of obtaining permits will not be obstructed without stating the reasons that can prove to be objectively important for them. The respondents state that such subjective motivation may appear and that such actions by the neighbours may even be labelled as blackmail or racketeering. If the neighbours could be held accountable for the increased expenses created due to the delays in investments, the portion of subjectively incited interventions would drop.
- The neighbours are only informed about the project, as stipulated by the valid law. They have the right to launch a complaint procedure against issuing the building permits. Therefore, it is not consent or signatures of the neighbours that is requested. The neighbour is simply informed and it is up to him/her to actively launch the procedure if he/she deems that his/her interests have been unreasonably endangered.

If it is possible to adhere to these premises, the abuse of the possibility to influence the issuing of permits by the neighbours would be minimized.

### 3.2.2. Law on Procedures and Conditions for Building in order to Boost Investments

The Law on Procedures and Conditions for Building in order to Boost Investments (OG no. 69/09) passed in June this year as a temporary measure to boost investments will remain in force until 31 December 2010. It regulates the manner in which the documents are being issued for building, usage and removal of the constructions requiring a location permit and confirmation of the main project according to the Physical Planning and Construction Act. This Act strived at accelerating the process of obtaining the building documents in such a way as to have only one document (decision for proceeding with construction) replace the issuing of the location permit and the confirmation of the main project. Also the 45-day deadline has been stipulated for obtaining the afore-mentioned document as well as the deadlines for all the sub-processes and penalties for the institutions and clerks breaching the set deadlines. It should be mentioned that this law is not binding for the investors who can choose whether to obtain the permits according to this law or the Physical Planning and Construction Act.

The time that elapsed between the adoption of the above-mentioned law and the production of this study is too short for passing any relevant conclusions about the law. However, according to the initial information, the law is very poorly applied in practice. One of the reasons for its poor application may lie in the fact that the ownership and legal affairs concerning the parcel must be clean in order for the building decision to be issued while the location permit requires only one document confirming the investor's legal interest. Besides, a blueprint design is enclosed to the location permit while the main project, whose production is much more complex and expensive, is enclosed to the application for the building decision. With insufficiently detailed urban plans, various interpretations by clerks charged with issuing the permits may occur as to the urban conditions which may engender the need to change the project. In case of the building decision, this is a much more complex and expensive option than is the case with the location permit.
The respondents interviewed in the process of research are mostly of the opinion that the deadlines for obtaining the building decisions according to the Law on Procedures and Conditions for Building in order to encourage investments are not realistic, as has been substantiated in practice, and state the following reasons for missing the deadlines:

- The lack of familiarity with the laws: those that should act according to the law are not familiar with the law; this is the opinion of the contacted licensed surveyors.
- The law stipulates complex preconditions to be met. All preconditions for the permit to be issued within 30 days must be satisfied, which is very difficult to arrange; this is the opinion of the building contractors.
- The proof of ownership is important. The law might be adequately applied only in places where the land registers and cadastre are regulated and where there are no disputes regarding the real property and corresponding titles. There must be a sequenced documentation of ownership and, if that must be collected, then the deadlines are not realistic.

The respondents are mostly of the opinion that the deadlines stated in this Law should be extended. The respondents believe that the extension of the validity of the Law could positively affect the housing construction.

3.2.3. Law on Architectural and Engineering Works and Activities related to Physical Planning and Construction (OG no. 152/08)

This law regulates the performance of expert works related to physical planning, architectural planning and/or professional supervision of construction, conducting the construction as well as the activities related to managing the building project for the purpose of ensuring the quality, professional and responsible performance of these works and activities as well as achieving other goals set by special regulations defining the area of physical planning, construction and construction products.

Based on this law, the Rules and Regulations on the Consent for the Start of the Building Activities (OG no. 43/2009) was adopted. They determine certain works and less complex works for which consent is given to start with the building activities without which the building contractors should not start performing some types of works defined by these Rules and Regulations. Previously, the conditions and criteria for giving or denying consent to the contractors to perform the building activities or to carry out certain works on a building were regulated by the Rules and Regulations on the Conditions and Criteria for Giving Consent for the Start of Building Activities (OG nos. 89/06, 139/06)

3.2.4. Opinion about the frequency of amending the laws regulating the building sector

In the process of market research, the attitude on the frequency of amending the laws regulating the building sector was questioned and, from the viewpoints obtained, it is possible to extract the criteria important for the evaluation of legal amendments:

- The laws should be amended when the practice indicates that this should be done. A very clear and pragmatic attitude; each amendment to the legal framework should be evaluated against this criterion. If the practice has shown that the existing laws are not good, they should be elaborated, amended, completely changed, regardless of whether some outsider considers this is being conducted too frequently or not.
- The laws should be changed when the existing ones are poorly implemented, regardless of the quality and structure of the existing laws. This is a specific case of the afore-mentioned criterion of the evaluation of laws conducted by the practitioners.
- The laws should be changed if they are contradictory or bad. It is wise to apply this criterion in the phase of discussing the bill and if such a bill becomes a law, it will demonstrably not function in practice in the parts containing contradictions. It is also important that the laws are in compliance with the bylaws.
- The law should be supported in terms of preparing the implementation. All those who are involved in the enforcement of the law should be professionally trained in order for the law to
be applied. Otherwise, the law will not be applied. The surveyors state that there were great problems in the enforcement of the PPCA of 2007 because many did not know how to enforce that law. Furthermore, the real property owners state that the banks today still require from them to provide the building permits for the constructions not exceeding 400 m² because they do not know that these permits are no longer required. Such situations can be the consequence of frequent amendments but can also be the exclusive expression of an inadequate preparation of the entities involved.

- Simplicity of laws: The practitioners on the real estate market believe that the laws should be as simple as possible in order to facilitate their implementation and in order for everyone to get familiarized with them. This criterion for evaluating the laws is based on the premise that the speed and simplicity of the flow of procedure that accompany the investments is the key aspect that maintains the interest in investments. The investors believe that each addition of new regulations and complication is not as good as the simplification and rationalization.

- The amendments to laws that favour certain projects. It may involve favouring various interest groups (investors, real property owners, local government representatives, et al.). The lawyers state that the laws are being amended due to these, less desirable motives.

- The problem of unresolved ownership status is a delicate legal issue. It is very difficult to solve it, as stated by the local government representatives. There is a need that the laws attempting to regulate the ownership issue are constantly improved and amended because they tackle a very sensitive and complex field of non-regulated ownership relations concerning the real properties which is a field that has been neglected for years. Therefore, it is very probable that some legal solutions will sooner or later prove to be lacking.

- The nature of the legal amendment itself. The local government units believe that the important question is whether the amendments concern the improvements to the existing model or the change of the model itself. It is suggested to adopt the approach whereby it is necessary to improve the model in such a way as to remove the noted irregularities of a model once established and to perfect the models instead of immediately adopting new models. To change details of a model if necessary does not mean that something is done too often, to change the models without exhausting the quality of previous models means to introduce changes prematurely.

- The drafting of specific laws for specific locations. Certain local government unit representatives point out that there is a need to have different laws for certain regions. There is a difference in the specificities of the coastal area, predominantly agricultural areas, large towns etc. These differences should be approached in various ways. The question is how to practically approach various laws for the same activities but it is certainly important to find the way to review and consider the specific needs of different locations when drafting and amending the laws.

- The EU legal regulations as a point of comparison. Each change should much more lead closer to the legal solutions practiced in the EU and not vice versa.

Even this ad hoc list of criteria for evaluating the legal amendments suggests why there is a difference of opinion about the frequency of amending the existing laws regulating the building sector and this is in line with the expectations: opinions are various when the perspectives, experiences, interest and detailed insights differ among the interest groups on the real estate market.

### 3.3. OTHER LAWS

#### 3.3.1. Law on Agricultural Land

The Law on Agricultural Land (OG nos. 152/08 and 25/09) is especially important from the aspect of transactions involving the agricultural land.

The basic objectives of adopting the Law on Agricultural Land were as follows: a greater protection of the agricultural land, the need to accelerate the disposition of the State agricultural land and to complete the privatisation, a more efficient management of the agricultural land, prevention of the
agricultural land reduction and fragmentation of the agricultural estates as well as harmonization with the EU legislation.

Among the more important novelties in the Law affecting the real estate market, it is important to point out the regulation of disposing with the agricultural land owned by the Republic of Croatia, the establishment of the Agricultural Land Agency and the regulation of the agricultural land transactions. The particularly important novelty in the law is that the Agricultural Land Agency has the right of pre-emption in the sale of the privately owned agricultural land. Furthermore, it is not possible to subdivide the agricultural land parcels without the Agency’s prior consent. The law also stipulates who has the priority in the purchase or lease of agricultural land. Due to the above-mentioned limitations in the agricultural land transactions, this law has provoked many discussions in the public.

As part of the real estate market research, the attitude of the respondents towards this law was researched. Very indicatively, almost all of the contacted respondents have the affirmative attitude to the law on the consolidation of agricultural parcels. They believe that the State should make an additional effort and approve tax relief or set up funds for the purpose of the agricultural parcel consolidation because this is necessary if we want to have our farmers competitive on the market and to subsist from agriculture.

There were also critical comments on the law. Critique was expressed saying that the law encroached on the solution of the property-rights relations and prevented the regulation of the real ownership while ownership prevails and must prevail over the agricultural and urban development planning. Some of the questioned licensed surveyors believe that if the parties divide their property in court or amicably for the purpose of dissolving the co-ownership community, this should constitute a sufficient element for performing the subdivision. Furthermore, some respondents believe that the fact that the responsibility for this issue lies on the local government units may constitute an invitation for various abuses. The regulation of the agricultural land sale through the established Agricultural Land Agency i.e. its mediation is the idea that can easily be abused and this limits the possibilities of selling the agricultural land.

3.3.2. Law on Golf Terrains

The Law on Golf Terrains (OG no. 152/08) defines the term „golf terrains“ and regulates the manner of solving the legal affairs related to the real properties as well as other issues of interest to golf terrains, as significant elements for the development of tourism.

The stated law has provoked numerous discussions in the public, primarily because a perception was created that the law particularly favoured potential investors in the golf terrains. A particular issue is that the option of expropriating the land owned by physical or legal persons has been granted for the purpose of developing golf terrains.

The respondents interviewed during the research mostly criticize this law. As controversial facts, the respondents state the following:

- Expropriating option: the respondents believe that it is not right to expropriate anyone because of a golf terrain being more important than e.g. agricultural production. This is not favourable to the original inhabitants but is unjustifiably favourable to foreigners and those planning to invest in the golf terrains. There were proposals according to which the State and local government units would only sell their land for the purpose of developing golf terrains.

- Option of legalizing the real properties intended for other purposes: the respondents deem that this will enable the legalization of the villas, houses, holiday apartments and similar constructions in the best preserved areas.

- Inappropriate protection of the interest of the golf terrain private owners: the respondents state that the golf terrains should not have been declared areas of special interest to the State because it is the private investors that primarily benefit from it, golf terrains could have been declared areas of special interest to the State only under the condition that the golf terrain remains property of the State and to give a concession over it while this situation is legally inadmissible.
In essence, nobody is against golf terrains and the investments in this segment because the widespread opinion is that Croatia needs investments and that it needs golf terrains. What is controversial is the law itself and its publicity that provokes negative attitudes or, at best, reticence towards the Law.

3.3.3. Law on Real Estate Agencies

The Law on Real Estate Agencies (OG no. 107/07) is important for the real estate market because it finally introduces order in this field and stipulates who and under which conditions has the right to perform the real estate agency activities.

All participants on the real estate market questioned as part of this research agree that the Law on Real Estate Agencies is needed. So far, chaos prevailed in this segment; there were very many agencies, many of which were neither expert nor professional. The real estate agents awaited impatiently the law and some even believe that the need for this law was so great that it is better to have this law than to have none. They express regret for having to wait so long for this law to enter into force: those who have more information mention that the text was written as early as 1995 but was kept in the files and was adopted very recently. They expect the licensed real estate agents to be protected. The expectations regarding the law are great and they think that the control over its application is crucial. Some of the questioned agents believe that the Law is too general and incomplete and one of the complaints was that it should have defined that the real estate agents appear in land registries as official persons such as is the case with lawyers and surveyors i.e. that they have the right to double-check the land registers as official persons and not as ordinary citizens, which is the case at the moment.

4. REAL ESTATE MARKET

4.1. STATISTICAL DATA – THE FIELD OF CONSTRUCTION

4.1.1. The issued building consents, value of the construction works performed, number of constructed buildings and construction size of the constructed buildings (residential buildings, non-residential and other buildings)

The main reason behind the trends illustrated by the information stated below is actually the basic market mechanisms of supply and demand as well as the fact that, after a longer period of stagnation that lasted until 2001, the market gained a strong momentum in the following 5 years followed by a quieter cycle between 2006 and mid-2008 when it began to drop due to the global economic crisis. However, within this research the attitude of the respondents is unambiguous in the sense that the activities implemented as part of the Project positively impacted the passing of the decisions on initiating new projects in the building sector, at the outset it was less due to the actual effects of the implemented activities and more due to a positive climate that was created in the sense that "something is finally being done" but later also due to the concrete effects of the implemented activities.

At the level of Croatia, in the past five years there has been an increase in the number of consents issued for constructing buildings in the 2005-2006 period, followed by a decrease in 2007 and 2008 when it fell to a somewhat lower level than the one recorded in 2004. The number of consents issued in certain towns varied to a much greater extent. In Split, Zadar and Zagreb, more building consents were issued in 2008 than in 2004 while Split has recorded the greatest increase as compared to 2004, due to the growth recorded in the last two periods (as opposed to the trend at the level of entire Croatia). Osijek records the greatest drop of the consents issued for building as compared to 2004.
The other indicator of the construction activity that we used is the value of construction works on the buildings, also shown by town in the 2004-2008 period. This indicator illustrates a stable growth of construction activities throughout the entire observed period at the level of Croatia. All towns except for Zadar show an increase of 50% to 100% in the value of the construction activities performed on buildings.

Table 18 Number of consents issued to construct buildings in the Republic of Croatia and in selected towns for the 2004-2008 period

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<td>294</td>
<td>293</td>
<td>375</td>
<td>231</td>
<td>171</td>
</tr>
<tr>
<td>Split</td>
<td>111</td>
<td>114</td>
<td>99</td>
<td>133</td>
<td>148</td>
</tr>
<tr>
<td>Zagreb</td>
<td>1.098</td>
<td>1.480</td>
<td>1.844</td>
<td>1.781</td>
<td>1.342</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Graph 16 Trends in the consents issued to construct buildings in the Republic of Croatia and in selected towns – fixed base index (base = 2004)

Table 19 Value of construction works performed on the buildings in the Republic of Croatia and in selected towns in the 2004-2008 period in thousands HRK

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>14.985.066</td>
<td>15.999.039</td>
<td>19.272.373</td>
<td>22.830.530</td>
<td>23.479.531</td>
</tr>
<tr>
<td>Rijeka</td>
<td>243.981</td>
<td>494.169</td>
<td>261.793</td>
<td>564.415</td>
<td>420.903</td>
</tr>
<tr>
<td>Zadar</td>
<td>123.548</td>
<td>195.200</td>
<td>88.332</td>
<td>249.858</td>
<td>108.707</td>
</tr>
<tr>
<td>Osijek</td>
<td>427.582</td>
<td>326.753</td>
<td>1.272.846</td>
<td>657.454</td>
<td>727.311</td>
</tr>
<tr>
<td>Split</td>
<td>432.089</td>
<td>447.463</td>
<td>438.076</td>
<td>910.821</td>
<td>838.529</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
Graph 17  Trends in the value of construction works performed on the buildings in the Republic of Croatia and in selected towns in the 2004-2008 period – fixed base index (base=2004)

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

The trends of construction activities performed on residential buildings were analyzed in the same way as the trends of all buildings in total. The number of issued building consents is slightly decreasing as compared to 2004 at the level of the entire Croatia, with the exception of Zadar and Zagreb where the number of issued permits has increased as compared to 2004.

The value of construction works performed on residential buildings has recorded a steady growth at the level of Croatia and at the level of certain towns but to a varying extent. Thus, in Zagreb, the increase in the value of construction works performed on residential buildings is unusually high and steady. Unlike Zagreb, Osijek records a great increase in 2006 and 2007 but also a dramatic decrease in 2008.

Table 20  Number of consents issued to construct residential buildings in the Republic of Croatia and in selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rijeka</td>
<td>102</td>
<td>113</td>
<td>88</td>
<td>104</td>
<td>76</td>
</tr>
<tr>
<td>Zadar</td>
<td>51</td>
<td>82</td>
<td>40</td>
<td>26</td>
<td>64</td>
</tr>
<tr>
<td>Osijek</td>
<td>216</td>
<td>208</td>
<td>292</td>
<td>167</td>
<td>133</td>
</tr>
<tr>
<td>Split</td>
<td>83</td>
<td>77</td>
<td>73</td>
<td>96</td>
<td>81</td>
</tr>
<tr>
<td>Zagreb</td>
<td>916</td>
<td>1.242</td>
<td>1.642</td>
<td>1.615</td>
<td>1.179</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
Graph 18  Trends in the number of consents issued to construct residential buildings in the Republic of Croatia and in selected towns – fixed base index (base = 2004)

![Graph showing trends in consents issued for residential buildings]

Source: Data provided at the request of the Central Bureau for Statistics' Building Department

Table 21  Value of construction works performed to construct residential buildings in the Republic of Croatia and selected towns in the 2004-2008 period in thousands HRK

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>7,633,801</td>
<td>9,184,080</td>
<td>11,077,316</td>
<td>11,511,925</td>
<td>12,441,901</td>
</tr>
<tr>
<td>Rijeka</td>
<td>117,423</td>
<td>185,053</td>
<td>178,932</td>
<td>162,206</td>
<td>160,909</td>
</tr>
<tr>
<td>Zadar</td>
<td>67,197</td>
<td>133,169</td>
<td>50,525</td>
<td>90,187</td>
<td>94,790</td>
</tr>
<tr>
<td>Osijek</td>
<td>135,315</td>
<td>191,451</td>
<td>409,263</td>
<td>425,106</td>
<td>270,369</td>
</tr>
<tr>
<td>Split</td>
<td>261,179</td>
<td>121,439</td>
<td>121,085</td>
<td>459,308</td>
<td>358,211</td>
</tr>
<tr>
<td>Zagreb</td>
<td>1,556,360</td>
<td>2,616,127</td>
<td>4,148,598</td>
<td>3,986,880</td>
<td>4,139,771</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics' Building Department

Graph 19  Trends in the value of construction works performed to construct residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

![Graph showing trends in value of construction works]

Source: Data provided at the request of the Central Bureau for Statistics' Building Department

The number of consents issued for constructing non-residential buildings did not fluctuate much in the past 5 years at the level of Croatia. A great increase in the number of consents issued for building
The value of construction works performed on non-residential buildings is growing at the level of entire Croatia, which is in line with the increase noted with residential buildings. When observing at the level of towns, the values vary greatly. It is obvious that some large projects strongly influence this indicator; therefore it is not advisable to point out the trends at the level of towns.

Table 22  Number of consents issued to construct non-residential buildings in the Republic of Croatia and selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>2.645</td>
<td>3.010</td>
<td>2.793</td>
<td>2.648</td>
<td>2.490</td>
</tr>
<tr>
<td>Rijeka</td>
<td>20</td>
<td>25</td>
<td>28</td>
<td>38</td>
<td>30</td>
</tr>
<tr>
<td>Zadar</td>
<td>14</td>
<td>19</td>
<td>17</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Osijek</td>
<td>78</td>
<td>85</td>
<td>83</td>
<td>64</td>
<td>38</td>
</tr>
<tr>
<td>Split</td>
<td>28</td>
<td>37</td>
<td>26</td>
<td>37</td>
<td>67</td>
</tr>
<tr>
<td>Zagreb</td>
<td>182</td>
<td>238</td>
<td>202</td>
<td>166</td>
<td>163</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Graph 20  Trends in the number of consents issued to construct non-residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Table 23  Value of construction works performed to construct non-residential buildings in the Republic of Croatia and selected towns in the 2004-2008 period in thousands HRK

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rijeka</td>
<td>126.558</td>
<td>309.116</td>
<td>82.861</td>
<td>402.209</td>
<td>259.994</td>
</tr>
<tr>
<td>Zadar</td>
<td>56.351</td>
<td>62.031</td>
<td>37.807</td>
<td>159.671</td>
<td>13.917</td>
</tr>
<tr>
<td>Osijek</td>
<td>292.267</td>
<td>135.302</td>
<td>863.583</td>
<td>232.348</td>
<td>456.942</td>
</tr>
<tr>
<td>Split</td>
<td>170.910</td>
<td>326.024</td>
<td>316.991</td>
<td>451.513</td>
<td>480.318</td>
</tr>
<tr>
<td>Zagreb</td>
<td>2.798.565</td>
<td>1.613.106</td>
<td>1.855.838</td>
<td>2.147.429</td>
<td>3.761.998</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
Along with the issued building consents and the value of construction works, the other set of indicators is based on the number of size of the completed buildings. These indicators are also divided according to the type of real property into residential and non-residential buildings and apartments.

At the level of Croatia, the number of constructed buildings between 2004 and 2008 has slightly decreased. At the observed locations, an increase in the number of the buildings constructed in 2008 as compared to 2004 is noted in Zagreb and Zadar.
A somewhat different picture is given by the construction areas of the completed buildings, as expressed in m². At the level of Croatia, there has been a slight increase in the total constructed area of the completed buildings while at the level of all of the observed towns a slight decrease is visible but with big fluctuations.

Table 26 Number of completed buildings in the Republic of Croatia and selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rijeka</td>
<td>101</td>
<td>101</td>
<td>141</td>
<td>111</td>
<td>78</td>
</tr>
<tr>
<td>Zadar</td>
<td>71</td>
<td>110</td>
<td>127</td>
<td>111</td>
<td>87</td>
</tr>
<tr>
<td>Osijek</td>
<td>226</td>
<td>180</td>
<td>235</td>
<td>230</td>
<td>154</td>
</tr>
<tr>
<td>Split</td>
<td>91</td>
<td>78</td>
<td>60</td>
<td>78</td>
<td>74</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>1.057</td>
<td>1.069</td>
<td>1.225</td>
<td>1.533</td>
<td>1.286</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Graph 22 Trends in the number of completed buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Table 27 Constructed areas (m²) of the completed buildings in the Republic of Croatia and selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>3.415.405</td>
<td>4.046.630</td>
<td>4.489.874</td>
<td>5.164.904</td>
<td>4.843.808</td>
</tr>
<tr>
<td>Rijeka</td>
<td>79.701</td>
<td>103.685</td>
<td>182.794</td>
<td>53.968</td>
<td>49.021</td>
</tr>
<tr>
<td>Zadar</td>
<td>116.980</td>
<td>75.549</td>
<td>54.008</td>
<td>114.419</td>
<td>38.506</td>
</tr>
<tr>
<td>Osijek</td>
<td>156.061</td>
<td>165.936</td>
<td>106.661</td>
<td>110.192</td>
<td>117.401</td>
</tr>
<tr>
<td>Split</td>
<td>107.394</td>
<td>185.771</td>
<td>42.002</td>
<td>75.756</td>
<td>99.249</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>1.454.747</td>
<td>1.596.219</td>
<td>1.235.037</td>
<td>893.151</td>
<td>721.462</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
The number of completed residential buildings and apartments has slightly decreased as compared to 2004 at the level of entire Croatia. However, all of the observed locations except for Zagreb record a mild growth in the number of completed residential buildings and apartments in that period, so the drop at the level of Croatia has to be interpreted as partly influenced by the drop of construction activities in Zagreb measured in such a way, and partly by the drop in the rest of Croatia. The construction areas of the completed residential buildings and apartments demonstrate a steady growth at the level of entire Croatia (as opposed to the trend determined by the number of completed residential buildings). Among the cities, Split and Rijeka record a growth in the number of constructed square meters in 2008 as compared to 2004, while other towns record a drop in the constructed square meters.
Graph 24  Trends in the number of completed residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Table 29  Constructed areas (m2) of the completed residential buildings in the Republic of Croatia and selected towns in the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>2,135,520</td>
<td>2,427,110</td>
<td>2,596,954</td>
<td>2,972,988</td>
<td>3,071,783</td>
</tr>
<tr>
<td>Rijeka</td>
<td>41,974</td>
<td>47,196</td>
<td>51,606</td>
<td>43,361</td>
<td>45,786</td>
</tr>
<tr>
<td>Zadar</td>
<td>64,680</td>
<td>40,949</td>
<td>44,342</td>
<td>52,820</td>
<td>30,783</td>
</tr>
<tr>
<td>Osijek</td>
<td>90,359</td>
<td>101,274</td>
<td>74,340</td>
<td>44,561</td>
<td>56,017</td>
</tr>
<tr>
<td>Split</td>
<td>49,205</td>
<td>89,862</td>
<td>28,576</td>
<td>40,744</td>
<td>74,258</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>1,074,594</td>
<td>964,610</td>
<td>721,760</td>
<td>608,253</td>
<td>429,042</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Graph 25  Trends in the constructed areas (m2) of the completed residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
The number of constructed apartments demonstrates a steady growth in the observed period. As a starting point, we illustrate the data at the level of Croatia where a growth of about 40% of newly constructed apartments was recorded in 2007 as compared with 2004. In 2008 at the level of Croatia, zero growth was recorded in the number of constructed apartments, therefore the year 2007 remains as the year with the biggest number of constructed apartments. A bigger growth, as compared to the one recorded at the level of Croatia, occurred in the Primorje-Gorski Kotar County and the Osijek-Baranja County as well as the City of Zagreb which is by far the location with the biggest growth in the number of newly constructed apartments. The Zadar and Split-Dalmatia Counties are below the Croatian average but even they record a slight growth in the number of constructed apartments throughout the observed period.

The average number of the apartments constructed within one year throughout the observed period is 22,267 for the Republic of Croatia. Almost 30% of the apartments constructed in entire Croatia in the observed period relate to the City of Zagreb while the Primorje-Gorski Kotar and Osijek-Baranja Counties account for a little over one-tenth of the constructed apartments.

Similar trends can be observed also when taking the apartments' total useful floor area as the apartment construction indicator. The difference exists with the Osijek-Baranja County that is, according to the growth in the constructed total area, below the Croatian average, which indicates that small-size apartments were built in Osijek than was the case, for example, in Zadar or Split. The general growth in the number of apartments constructed by 2007 and the slow-down or stagnation of the same growth in 2008 is also visible in this case.

Table 30 Number of constructed apartments in the Republic of Croatia and selected counties in the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>18.240</td>
<td>19.995</td>
<td>22.121</td>
<td>25.609</td>
<td>25.368</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>1.546</td>
<td>2.257</td>
<td>2.474</td>
<td>2.828</td>
<td>2.617</td>
</tr>
<tr>
<td>Zadar County</td>
<td>1.017</td>
<td>1.237</td>
<td>1.119</td>
<td>1.035</td>
<td>1.345</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>842</td>
<td>718</td>
<td>1.274</td>
<td>1.404</td>
<td>1.440</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>2.266</td>
<td>2.458</td>
<td>2.277</td>
<td>2.737</td>
<td>2.706</td>
</tr>
<tr>
<td>City of Zagreb County</td>
<td>4.015</td>
<td>4.771</td>
<td>6.139</td>
<td>8.895</td>
<td>8.744</td>
</tr>
</tbody>
</table>

Source: Central Bureau of Statistics

Graph 26 Review of trends in the number of constructed apartments in the Republic of Croatia and selected counties – fixed base index (base = 2004)

Source: Central Bureau of Statistics
Graph 27  Number of constructed apartments in certain counties - average in the 2004-2008 period

Table 31  Useful floor area (m²) of the constructed apartments in the Republic of Croatia and selected counties in the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>1,533,940</td>
<td>1,700,878</td>
<td>1,848,602</td>
<td>2,075,193</td>
<td>2,037,319</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar County</td>
<td>137,638</td>
<td>184,099</td>
<td>198,268</td>
<td>221,121</td>
<td>205,995</td>
</tr>
<tr>
<td>Zadar County</td>
<td>71,384</td>
<td>87,161</td>
<td>73,019</td>
<td>72,730</td>
<td>90,243</td>
</tr>
<tr>
<td>Osijek-Baranja County</td>
<td>84,140</td>
<td>70,736</td>
<td>107,074</td>
<td>117,432</td>
<td>108,280</td>
</tr>
<tr>
<td>Split-Dalmatia County</td>
<td>156,874</td>
<td>151,628</td>
<td>158,911</td>
<td>192,066</td>
<td>191,795</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>320,422</td>
<td>378,137</td>
<td>496,705</td>
<td>639,274</td>
<td>656,919</td>
</tr>
</tbody>
</table>

Graph 28  Review of the trends in the useful floor area of the constructed apartments in the Republic of Croatia and selected counties – fixed base index (base = 2004)
The monitoring of the number of completed non-residential buildings at the level of Croatia indicates a slight drop in building such constructions while the overview of the trends in the constructed square meters in the selected period denotes a slight growth in the construction of such buildings. The overview by town indicates a great variety of results from one year to another, so it is difficult to make valid conclusions about the trends.

Table 32  Number of completed non-residential buildings in the Republic of Croatia and selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>2.279</td>
<td>2.351</td>
<td>2.240</td>
<td>2.081</td>
<td>1.775</td>
</tr>
<tr>
<td>Rijeka</td>
<td>11</td>
<td>23</td>
<td>21</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Zadar</td>
<td>26</td>
<td>28</td>
<td>10</td>
<td>38</td>
<td>16</td>
</tr>
<tr>
<td>Osijek</td>
<td>26</td>
<td>34</td>
<td>57</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>Split</td>
<td>13</td>
<td>13</td>
<td>15</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Zagreb</td>
<td>105</td>
<td>122</td>
<td>161</td>
<td>151</td>
<td>156</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
Graph 30  Trends in the number of completed non-residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Table 33 Constructed areas (m2) of the completed non-residential buildings in the Republic of Croatia and selected towns for the 2004-2008 period

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>1,279,885</td>
<td>1,619,520</td>
<td>1,892,920</td>
<td>2,191,916</td>
<td>1,772,025</td>
</tr>
<tr>
<td>Rijeka</td>
<td>37,727</td>
<td>56,489</td>
<td>131,188</td>
<td>10,607</td>
<td>3,235</td>
</tr>
<tr>
<td>Zadar</td>
<td>52,300</td>
<td>34,600</td>
<td>9,666</td>
<td>61,599</td>
<td>7,723</td>
</tr>
<tr>
<td>Osijek</td>
<td>65,702</td>
<td>64,662</td>
<td>32,321</td>
<td>65,631</td>
<td>61,384</td>
</tr>
<tr>
<td>Split</td>
<td>58,189</td>
<td>95,909</td>
<td>13,426</td>
<td>35,012</td>
<td>24,991</td>
</tr>
<tr>
<td>Zagreb</td>
<td>380,153</td>
<td>631,609</td>
<td>513,277</td>
<td>284,898</td>
<td>292,420</td>
</tr>
</tbody>
</table>

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department

Graph 31  Trends in the constructed areas of the completed non-residential buildings in the Republic of Croatia and selected towns – fixed base index (base = 2004)

Source: Data provided at the request of the Central Bureau for Statistics’ Building Department
4.1.2. Real property transactions

The number of real property sale transactions is divided according to the type of the real property and their annual trends are shown at the level of Croatia. There are three dominant categories of the real properties according to the number of transactions: residential premises, construction land and agricultural land. The number of transactions related to the residential real property reached its peak in 2006, followed by a decrease in the number of completed sales of these real properties in 2007 and 2008. Unlike them, the number of transactions related to agricultural land recorded a steady growth between 2003 and 2008 whereby more such transactions were recorded in the latter period (2008) than the transactions related to residential premises. The number of sale transactions related to construction land has been relatively stable throughout the years and varies between 22,000 and 27,000.

Table 34 Number of executed real property sales by the type of the real property in the Republic of Croatia in the 2003-2008 period

<table>
<thead>
<tr>
<th>Type of Real Property</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Land</td>
<td>28.645</td>
<td>30.811</td>
<td>32.845</td>
<td>34.930</td>
<td>36.699</td>
<td>41.962</td>
</tr>
<tr>
<td>Residential Premises</td>
<td>55.814</td>
<td>57.787</td>
<td>54.938</td>
<td>59.283</td>
<td>45.077</td>
<td>40.073</td>
</tr>
<tr>
<td>Business Premises</td>
<td>4.521</td>
<td>4.716</td>
<td>3.911</td>
<td>3.579</td>
<td>2.826</td>
<td>2.504</td>
</tr>
<tr>
<td>Mixed</td>
<td>56</td>
<td>1.155</td>
<td>1.520</td>
<td>1.727</td>
<td>1.716</td>
<td>1.664</td>
</tr>
</tbody>
</table>

Source: CCE, according to the data of the Ministry of Finance and the Tax Authorities

Graph 32 Number of executed real property sales by the type of the real property in the Republic of Croatia in the 2003-2008 period

The number of sold new apartments has shown a relatively stable growth since 2003 (with the exception of 2005 when a slight drop was recorded in Zagreb and a somewhat greater drop in other towns). The last year for which comprehensive statistics are available is 2008 when Zagreb still recorded a growth while other towns recorded a slight drop as compared to 2007. The prices of
apartments according to the Central Bureau of Statistics record a stable growth until this year when there are indications that the trend is swaying towards a drop in the prices.

Table 35  Number of sold new apartments in the Republic of Croatia and Zagreb in the period between 2003 and the first half of 2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entire Croatia</td>
<td>1.436</td>
<td>2.166</td>
<td>1.482</td>
<td>2.109</td>
<td>2.580</td>
<td>2.543</td>
<td>1.500</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>680</td>
<td>978</td>
<td>765</td>
<td>956</td>
<td>1.414</td>
<td>1.535</td>
<td>808</td>
</tr>
<tr>
<td>Other towns</td>
<td>756</td>
<td>1.188</td>
<td>717</td>
<td>1153</td>
<td>1.166</td>
<td>1.008</td>
<td>692</td>
</tr>
</tbody>
</table>

Source: Data provided by the Croatian Chamber of Economy, source: Central Bureau of Statistics
*Remark: Companies and other legal entities and the Agency for the Legal Real Property Transactions and Mitigation
*From 2004 onwards, the data of the Agency for the Legal Real Property Transactions and Mitigation is also included

Graph 33  Number of sold new apartments in the Republic of Croatia and Zagreb in the period between 2003 and the first half of 2009

Source: Data provided by the Croatian Chamber of Economy, source: Central Bureau of Statistics

Table 36  Average price (HRK/m2) of the sold new apartments in the Republic of Croatia and Zagreb in the period between 2003 and the first half of 2009

|----------------|------|------|------|------|------|------|-------------|

Source: Data provided by the Croatian Chamber of Economy, source: Central Bureau of Statistics
*Remark: Companies and other legal entities and APN (Agency for the Legal Real Property Transactions and Mitigation in Croatia)
*From 2004 onwards, the APN data is also included
Along with the data of the Central Bureau of Statistics and for the purpose of providing a more complete picture about the prices of residential real properties, we also present the price index provided by CentarNekretnina.

“The index is based on the prices demanded for the real properties. The advantage of this type of calculation is the availability of a much larger sample than is the case with alternative methods. Although it would be wrong to make conclusions on the real price of a square meter on the basis of the demanded prices, the fact is that the demanded prices and the prices obtained follow the same trend and that the most popular world-wide indices are calculated in this way.”
(http://www.centarnekretnina.net/HR/wiki-cn/indeks.htm)

The index demonstrates that the expected selling prices for apartments in Croatia from May 2006 were growing at a much faster pace than is the case with Zagreb. After September 2008, the index illustrates that the demanded prices for apartments started to drop, equally in Zagreb and entire Croatia.
The graphs 36 and 37 below illustrate the structure of average apartment price in Croatia and in Zagreb for the period between 2003 and the first half of 2009.

At the level of the Republic of Croatia, the share of land in the apartment price varies between 12% and 21%, the share of construction and developers' profit varies between 59% and 66%, and other costs between 16% and 25%.

As compared to the Republic of Croatia, the spectrum of the structure components is much wider in Zagreb: the share of land in the apartment price varies between 13% and 24%, the share of construction and developers' profit varies between 54% and 65%, and other costs between 15% and 27%.

Graph 36 Structure of the average apartment price in Croatia in the period between 2003 and the first half of 2009

Source: Data provided by the Croatian Chamber of Economy, source: Central Bureau of Statistics

*Remark: Seller since 2005: Companies and other legal entities without the APN
4.1.3. Brief overview of the trends in various segments of the real estate market

Residential real estate

According to the projections, the next time period on the residential real estate market will be characterized by the supply structure and the quality of investors that have already activated certain tracts of land which, along with the set roles such as the land price and the building conditions, determine their expectations. Therefore, we talk about the supply of apartments to be built by prominent construction companies, smaller investors, local governments, towns, following the model of Zagreb, and a possible entry of the Council of Europe Development Bank financing the social housing with 50% of the costs. Currently, and in a short period of time, the stagnation and a slight drop in prices are present, especially with regards to the real properties that are of lesser quality and whose location is unattractive.

In the mid-term as well as in the long run, these criteria will be the main key of differentiation of prices on the market.

The following is to be expected on the residential real estate market:

- A more significant drop of the apartment prices with the investors who have built the apartments of average quality at average locations and who will have to, pressed by the banks and the repayment of loans obtained to finance the construction, correct the prices,
- Due to the Physical Planning and Construction Act as well as shifting the costs for building new residential blocks from the local government units onto investors, the investors will continue to be faced with the growing project costs and, in the new conditions created by the global crisis, a growing supply and „blown-up“ prices, an even deeper recession may occur in the building sector, as confirmed by the drop in the number of issued building consents,
- The trend of buying apartments will continue as a way of solving the housing problems because the apartment lease market is still underdeveloped,
• Reduction of land prices due to the reduced interest of investors
• Further diversification of the apartment prices by quality and location,
• With the EU accession and elimination of administrative constraints to the citizens of other EU countries, or rather with increasing the income to reach the level of EU average and with better living standards, the interest for high-quality real properties in entire RoC is also to be expected,
• A significant contribution to the further market development is expected from the new regulations and adoption of all the necessary physical plans for the area of the Adriatic and its immediate hinterland.

An important role in forming the real estate market will also be played by foreign investors entering the Croatian market interested in building the condominium complexes in the suburban areas primarily intended for the upper middle-class younger age groups.

Figure 4 Residential – business buildings in Zagreb

Source: Zane Ltd's in-house database
Office premises

The companies having their business premises in the old buildings in the centre tend to move into the new buildings on the outskirts of towns which might lead to a growth in the prices of AA class business premises while the office premises in apartments, due to the European Union regulations, will have to be closed down and moved, so it is expected that the old offices at good locations will be renovated or pulled down and rebuilt.

Unlike the years 2007 and 2008 that were marked with a great supply of business premises, this trend in 2009 has slowed down and these developments will, at the right moment, significantly affect the stabilization of lease prices.

A new wave of growing demand is expected that will result in the renewed growth of supply or rather a new construction cycle. Given this fact, an almost immediate commercialization of all newly built premises is expected in the next two to three years. Although the growth of this segment has almost doubled in the past few years, it is still relatively small in comparison with other centres in South-Eastern Europe (Budapest, Prague, Warsaw).

Given the above-mentioned, further demand is to be expected in 2009/2010 while the current supply of premises is rather limited which might lead to an even greater occupancy of premises.

Similar trends are expected in Rijeka and Split, so the growing investments in the office premises can be expected in other towns in Croatia until the equalization of supply and demand is achieved, as conditioned by the economic and market trends.

The chances for the Croatian office premises market, with regards to the prices and their occupancy, remain positive in the next year.

Figure 5 Old business building in Zagreb city centre and office premises

Source: www.cromaris.com, http://vijesti.gorila.hr
Graph 38  Supply of office premises in m² in Zagreb in the period between the first quarter 2005 and last quarter 2008

Source: in-house database of Zane d.o.o.

Graph 39  Supply of completed and newly leased office premises in m² in Zagreb in the period between the first quarter 2006 and last quarter 2008

Source: in-house database of Zane d.o.o.
Graph 40  Supply and degree of vacancy of office premises in Zagreb in the period between the first quarter 2006 and last quarter 2008

![Graph 40 Image](image)

Source: in-house database of Zane d.o.o.

Graph 41  Trends in AA class office premises lease prices in Zagreb in EUR/m² in the period between the third quarter 2005 and last quarter 2008

![Graph 41 Image](image)

Source: in-house database of Zane d.o.o.

Agricultural land

The agricultural land is significantly cheaper than the land intended for other purposes, mostly because of the incomplete strategy of the agriculture development in general as well as poor interest in agricultural activities. Due to the above-mentioned, the prices of agricultural land are dropping and the agricultural land transactions are almost non-existent in Zadar, Rijeka and Split while the market is the most developed in Slavonia where the land intended for vineyards reaches the highest prices (up to 10,000 € per hectare); followed by the land intended for fruit-growing and then all other land.
Table 37 Overview of the cultivated agricultural land in the Republic of Croatia and the average price of agricultural land in EUR/m² in the period between 2005 and 2008

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area of cultivated</td>
<td>848.620</td>
<td>856.227</td>
<td>812.095</td>
<td>848.038</td>
</tr>
<tr>
<td>agricultural land</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in hectares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average price of</td>
<td>1 - 12</td>
<td>1 - 15</td>
<td>1 - 20</td>
<td>1 - 25</td>
</tr>
<tr>
<td>agricultural land</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(EUR/m²)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Area of cultivated land - Central Bureau of Statistics, average price – in-house database of Zane d.o.o.

Prices of agricultural land significantly vary depending on the region, whereby the highest price is achieved for the agricultural land in Istria and the lowest price for the agricultural land in Lika and Gorski Kotar.

**Commercial real estate**

The trend on the market of retail business premises is towards building modern types of „shopping“ centres such as “lifestyle” centres and „neighbourhood“ centres (supply of local/residential block markets that combine entertainment and shopping facilities) whose development is expected in the near future.

The development of mega centres is expected on the areas of land of about one million square meters and the West Gate centre is the first such project completed in Zagreb.

The prices of commercial premises lease, in the situation of reduced commercial transactions, have dropped (lease prices have dropped as much as 15-20%) however the long-term expectations predict a price stabilization.

The market should be formed according to the European standards of the square meters required for commercial properties per inhabitant so the stabilization is expected in about three years when the capacity of commercial premises in Zagreb should reach the surface size of approx. 1,000,000 m² (see Graph 53 on page 103 of the Study).

Similar trends and market developments are expected in all larger towns.

**Figure 6 Shopping centre in Zagreb**

Izvor: www.centarkaptol.hr
Industrial/entrepreneurial real estate

The trend in this segment is towards building the storage and logistics spaces intended for lease to the wider market and not for the exclusive use of the premises owners.

In the next 5 years, the Zagreb area will face the construction of logistical industrial centres of about 260,000 m², owned by specialized logistics companies, out of which about 100,000 m² are planned to be developed as early as this year.

This market segment is still rather unregulated; the demand mostly refers to the storage premises while the demand for industrial plants and the land for industrial use or production is non-existent (especially in this year of crisis when the investments in production capacities are very risky). A good signal is the fact that the local government units have recognized the potential of the entrepreneurial zones in the sense of creating new jobs. The entrepreneurial zones existing in Croatia experience a big problem with the infrastructure. Where the infrastructure does not exist, the interest of the investors is also absent and where the infrastructure is present, the prices are too high which is again unattractive for investors. In this part, the local government units will have to take further steps and invest further efforts in order for the potential of entrepreneurial zones to be fully used.

It can be seen in the diagram below that the revenue in the sense of investors’ profit for all three segments of business real estate is growing, whereby the biggest growth in the future mid-term period is expected for the office and storage real estate (under the assumption that the warehouses are modern, high-shelf warehouses).

Graph 42  Revenue from office, commercial and industrial premises in the period between the first quarter 2006 and last quarter 2008

Source: In-house database of Zane d.o.o.
4.2. CADASTRE AND REAL PROPERTY REGISTRATION SYSTEM

This chapter deals with the efficiency of various types of records in the cadastre and land registries: subdivision of construction land, registration of newly built constructions in the cadastre and land registers, registration of the buildings constructed without the valid building permits and other registrations in land registers.

4.2.1. Subdivision of construction land

Subdivision is a procedure whereby the changes of cadastral parcels with regards to the number, location, shape, land use and area are recorded in the cadastral documentation (operat). Subdivision is conducted on the basis of the subdivision geodetic report (elaborat).

According to the Physical Planning and Construction Act (OG nos. 76/07, 38/09), subdivision may be implemented only according to the decision on building conditions, location permit, decision on the formation of a construction parcel or detailed physical plan.

Since the decision on the formation of a construction parcel is a document issued for the existing facilities that, for some reason, have no defined construction parcel or the land required for the regular use of the facility, it is necessary to develop a schematic design for the implementation of subdivision of construction land which is not a part of the area covered by the detailed physical plan, and to obtain a decision on building conditions or a location permit, depending on the size of the planned facility. This is a provision that causes certain problems in practice, given that the regulations do not allow the subdivision to be conducted for the purpose of settling legal and property related issues, and the process of developing a schematic design and obtaining a location permit and decision on building conditions is long and represents a significant cost for the land owner.

Figure 7 Reduced display of the subdivision survey

Source: www.geodetskiured.com
As part of the research, it has been noted that all relevant groups involved in the real estate market consider that the legislative framework for the subdivision implementation is good but that the enforcement of this legislation is problematic and is not carried out in practice as has been planned or expected by the real estate market participants. The subdivision procedure itself has been assessed by the real property owners and market practitioners (banks, investors and real estate agents) as long-lasting, difficult and exhausting, which significantly impacts the land market and interest to proceed with obtaining the permits and decisions that would be the basis for the subdivision process. It has been stated that this process may last as much as half a year.

The concrete objections to the legislative framework mostly refer to:
- complexity of laws and the need for a large quantity of documentation,
- frequent amendments to the legislative framework;
- the fact that the legislative framework prevents any subdivision of land for the purpose of settling the legal and property related issues (a schematic design is required)

The attitudes about the reasons why the legislative framework is not implemented in practice are interesting and there are two different standpoints about this issue. The first and more represented one by the market practitioners and by those having no direct insight and familiarity with details but judging on the basis of results (extensive time period until the end of the subdivision process is crucial) is that the problem lies with the bureaucracy and those involved in the process who should make the service more efficient but they have neither the habit nor the wish to achieve that. The second standpoint, more frequently advocated by the surveyors, local government unit representatives and cadastral office employees is based to a larger extent on the in-depth knowledge of the issues and deeper insight into the details. This opinion states complexity of the laws, often amendments to the legislative framework and the inability of providing adequate training to the persons involved in the subdivision process through professional seminars et al. that would familiarize them with all the details of the legislative framework and its application. Therefore, the other group of respondents sees the reasons for the poor application of the legislative framework in the legislative, technical, organizational and educational aspects of the law application.

4.2.2. Recording the newly built objects in the cadastre

As already mentioned in the Legislative Framework chapter, the Physical Planning and Construction Act (OG nos. 76/07 and 38/09) has introduced certain restrictions to the registration of buildings in the cadastre from the land registers: according to this law, the newly built objects may be recorded in the cadastre and land registers only on the basis of a usage permit or final report of the supervisory engineer, along with a special transitional regime for the constructions having their building permits issued before this law entered into force, as explained in the following item.

This regulation has, in comparison with the annulled Construction Act, conditioned the recording of objects in somewhat later phase of investments and with the completely orderly documentation. Namely, according to the Construction Act, a building could be registered in the land registers even without a building or a usage permit, along with the corresponding note on the absence of such a permit.
The developers interviewed as part of this research are generally dissatisfied with the registration speed of the newly built real properties in the cadastre.

A discouraging fact is that at some locations (Rijeka, Krk), the developers now need even more time to register the newly built real properties in the cadastre than was the case earlier. At some other locations (e.g. Zadar), the situation is at present better than 7-8 years ago.

The other negative fact is that the long process of registration strongly affects corruption and nepotism during the registration: in order to speed up the process, some investors believe that they are forced to solve the halting in the investment cycle of construction in this way.

All groups involved in different real estate market aspects state that the existing manner of registering the new buildings in the cadastre and land registries where the usage permit is required, negatively affects the loans for investors and real property buyers.

Namely, since the registration process occurs later, the end buyers may realize the purchase of an apartment and the mortgage loans for the apartment as a security element in the later phase than is the case with the annulled regulations, which means that the investor obtains also the return on investments in the later phase. Since the speed is the key in the investment process and since the developers mostly enter into an investment project with loans, it is in their best interest to obtain the return on investments as soon as possible because then they pay less interest on the loans and this interest, so they believe, is too high anyway. The investors state that the problem in practice is that the process for obtaining a usage permit, the registrations in the cadastre and land registers and the condominium process can be relatively long and last for months, which is for them too long a period during which they wait for the apartment buyers to obtain their loans and make the payments for their purchase. Such a situation leads the investors into a vicious circle of financing from the beginning to the end and they cannot, as a rule, carry out the investment project using only their own funds, so this dissuades them from making any further investments.
4.2.3. Records of real properties constructed without a valid building permit and the real properties constructed according to the building permits issued before the Physical Planning and Construction Act entered into force

For the real properties constructed without a valid building consent, the registration in the cadastre and land registries is envisaged on the basis of the decision on the situation established or the confirmation on the situation established while for the buildings constructed on the basis of a building permit issued between 20 June 1991 and the date when the Physical Planning and Construction Act entered into force, the registration is envisaged on the basis of the confirmation of use which is issued instead of the usage permit.

There are split opinions among the respondents regarding the impact of the new law on the registration of the real properties built without a valid building or usage permit. The majority of the State Geodetic Administration employees express affirmative opinion about the influence of the new law while more pronounced criticism of this law are voiced among the ranks of licensed surveyors.

The State Geodetic Administration employees emphasize that it is good that the law prevents the recording of the real properties without the valid permits. Therefore, the recording is allowed but the legalisation itself is not. On the other hand, the licensed surveys believe that it is necessary to allow the registration of the real properties in the cadastre and land registers since it is a legal obligation to start the complex process of obtaining the permits that will eventually enable the registration of non-registered real properties.

It has been proposed that only a remark could be recorded for such and other objects constructed without the valid permits and thus enable the registration, and then subsequently, when the need for
further registration issues arises, such as mortgage, the bank will enable the registration of a mortgage only after all the necessary documentation is obtained and after the bank evaluates that the real property is ready for such a risk.

Furthermore, the problem is also that in the procedure of monitoring the entire situation, it is also determined whether the previously registered objects have the valid documentation or not, which greatly aggravates the matter, so believe the licensed surveyors.

The only point of agreement for the geodetic profession is that the registration of the real properties, constructed before 15 February 1968 and considered constructed on the basis of a valid building permit or other adequate document by a corresponding administrative body according to the Physical Planning and Construction Act, is very complicated, too expensive and too slow, and that the parties are required to produce all sorts of geodetic reports which prolongs the registration process.

It might be concluded that, when speaking about the evaluation of these legislative solutions, there is a conflict between two different standpoints. The first asks for order and a legally regulated situation, underlining this as the objective and not allowing the objective to be endangered while the second allows the situation in practice, complexity of procedures, scope of works etc. to affect the manner and speed of regulating the situation, thus wanting to avoid any further frustrations. To illustrate this point, it can be said that an efficient remedy is being sought without great side-effects, and the present solution is evaluated by experts either according to its efficiency or its unwanted side-effects.

4.2.4. The speed and complexity of title registration, mortgage registration and other types of registration in land registers

The attitude of the real estate market participants, concerning the speed and simplicity of various registrations in the land registers, was questioned as part of the research. The general impression is that the registration of titles, mortgages and other types of registration in the land registers are now conducted very quickly. At best, it takes two days to register a mortgage and the registration of titles in Zadar, Osijek and Rijeka are carried out within a week. In Zagreb and Split, the registration of titles can take longer, possibly even months, while the mortgages are processed rather quickly, within one week or less.

What all research participants did not fail to mention is that the present situation is significantly better than the situation only a few years ago. Previously, the registration procedures were much longer which frustrated the real property owners, and the situation itself provided fertile grounds for the development of nepotism and corruption.

The perception of the speed of a procedure is basically connected to the simplicity of completing this procedure. This was also the case here. The real property owners in Osijek mention only that the registration procedures are not simple, that the parties coming to the land registries are sent from one counter to another and that the created impression is that of a bureaucratized institution.

The reasons that led to visibly positive changes are mostly linked to the application of modern technologies – land registry digitization and the publication of the data on the Internet.
Mortgage registration:

1. Loan and mortgage agreement between bank and property buyer
2. Registering loan agreement verified by the public notary at Land Registry office
3. Land Registry Office issues new land registration file with mortgage entry
4. Based on new land registration file, bank places amount defined by the loan agreement on the real property seller's account

The attitude towards the nepotism and corruption in land registries has also been researched. There is a widespread opinion among all participants on the real estate market that the nepotism and corruption are consequences of inefficient, bureaucratized systems which are not seen as services that need to be provided to the citizens. Once the system starts to function with the satisfying speed, the need for corruption and nepotism as the way of meeting individual needs will decrease. This actually happened with the registration procedures. Fast registration procedures means that there is no need for corruption and nepotism. The situation was worse before so the corruption and nepotism were more widespread.

The opinions about the impact of various affairs resulting from corruption charges in the land registries are split. They range from the opinion that the affairs solved nothing, that they were not analyzed in detail, that they yielded no concrete results and that they were a PR tool for the purpose of proving the fight against the corruption and a tool for the EU accession purposes, to the opinion that the affairs did have positive effects, that they reduced the corruption and nepotism and introduced severity in the land registries and influenced the speed of all procedures.

Those who are sceptical about the impact of the affairs state that the progress is the result of: a) introduction of IT systems; b) recruitment of new employees in land registries and work organized in two shifts (e.g. in Split); and c) working overtime in order to clear the backlog (e.g. in Rijeka). It may be deduced that the majority of respondents encompassed by the research has no information or direct experience that would help them evaluate the real effects of such affairs but they agree that it is better to deal with the cause than the consequence, and that the lower level of corruption and nepotism is the result of improved system functioning.
4.2.5. Problems in practice due to non-harmonized data in cadastre and land registries

Generally speaking, the data in the cadastre and land registries is non-harmonized with regards to the size, shape, location and ownership of the parcels and this greatly limits the option of disposing with the real properties (land, houses, buildings).

This impact on the possibility of disposing with a real property is reflected in three ways:

a) Disabled or aggravated real property sale transactions: the lack of harmonization aggravates the option of obtaining loans because it prolongs the processing of loan requests and the buyers often give up the purchase. The problems are also linked to the registration of the real property encumbrances in case of security deposits. More often than is usual in such cases, surveys are being requested from licensed surveyors and court procedures are initiated in order to enforce the ownership rights. The purchase and sale process is either prevented or is conducted extremely slowly, which dissuades the buyers.

b) The owners are not enabled to manage: apart from the fact that the lack of harmonization impacts the possibility to sell and buy, it prevents the real owners (or real property users) to manage such real properties, invest in them, etc. There is also the inability to obtain building and other permits for construction, and also the subdivision and condominium processes are rendered difficult and cannot improve until data harmonization is achieved and the legal and property-related issues are solved.
c) Problems of the local government in the physical planning process: The owners whose real property data is not harmonized are not the only parties whose interests are endangered. Physical plans are made on cadastral data sets - the experts working on the demarcation of the roads, parcels, constructions, parks, public areas etc. are faced with great problems because the land register data differs from the situation in the field. It is impossible then to execute physical plans.

4.2.6. Impact of the disorderly data recorded in the land registers on the price of the real property and the decision on buying a real property in general

The impact of the disorderly data in a land registration unit is primarily reflected in the inability to conduct the sale transactions with such real property. A “disorderly” real property could not appear on the market, and a sale transaction cannot be conducted if the seller is unable to prove ownership. Therefore, such a real property has more formal than market obstacles to appear on the real estate market.

If a real property with a disorderly land registration unit appears on the market, the sellers face the problems due to the following reasons: a) the procedure of proving ownership is long, b) buyers as a rule give up such real property from fear of being double-crossed by the sellers, c) even if they wish to buy it, the buyers are usually reserved because they cannot obtain a loan until the ownership situation is clear. Therefore, the probability of selling such a real property on the market is extremely small.

The secondary question is how an orderly state of a land registration unit affects the price. There are two reasons for this. Firstly and as stated before, such real properties are not sold at all and, if attempts are made at selling them, the buyers do not wish to buy them. Therefore, lately there have been very few sale transactions with such real properties. Secondly, the prices demanded by the sellers are often irrationally formed, led primarily by the real property location criterion and less by other factors (age, maintenance, etc.) so the impact of non-regulated ownership relations is difficult to ascertain when it comes to the prices quoted by the seller. The seller can attract the buyers to even start thinking about buying such a real property and entering a complex and long purchasing process only if he/she wants to sell quickly and offers a lower price.

4.3. IMPACT OF THE IMPLEMENTATION OF THE CONDOMINIUM SPLITTING PROCEDURE AND KEEPING THE BOOK OF DEPOSITED CONTRACTS ON THE OWNERSHIP ISSUES

The procedure of condominium splitting or establishment of ownership over real property condominium units (to use the terminology of the Law on Ownership and Other Real Rights) is a legal, technical procedure whereby certain co-ownership shares of a real property (consisting of the land with a building or the construction rights with a building) are linked to the ownership of a specific real property condominium unit.

The real property condominium unit ownership can be established on the co-ownership share of a real property which represents an independent usable unit, such as an apartment or some other independent room. The real property condominium unit ownership is indivisibly linked to the corresponding co-ownership share of a real property on which it has been established, thus every owners of a determined real property condominium unit is accordingly also a co-owner of the entire real property (land with the building).

The condominium splitting procedure is necessary for the owners of apartments and other independent rooms to be able to register their title on the same independent units and to be able to dispose with them without limitations.

Several years before passing the laws which regulate the condominium ownership issues (Law on Ownership and Other Real Rights and the Land Registration Act), the Law on the Sale of Apartments
Subject to Tenancy Rights was adopted in 1991 which served as the legal basis for buying off the apartments subject to tenancy rights.

An increase in the scope of legal works in the land registries could also have been expected after the adoption of the Law on Restitution of the Property Deprived during the Yugoslav Communist Rule in 1996, given that the owners or their heirs were given the possibility to have their property returned and the alienated property often included the land intended for the construction of residential buildings.

The application of the above-mentioned laws caused complex legal and property-related problems whose solution requires a long period of time.

In order to enable the persons having purchased their apartments pursuant to the Law on the Sale of Apartments Subject to Tenancy Rights to register their titles, the Rules and Regulations on the Organization and Management of the Book of Deposited Contracts were passed (OG no. 42/91) that served as the basis for the establishment of the Book of Deposited Contracts. Namely, the situation in the land registers was at that time extremely disorderly; a great number of buildings was not at all recorded in the land registers, nor were the apartments subject to the buy-offs for the most part recorded in the land registers.

The apartments were registered in the Book of Deposited Contracts regardless of whether the building had been registered in the land registers so the titles were naturally registered along with the encumbrances and limitations to the ownership rights. The amendments to the Rules and Regulations on the Organization and Management of the Book of Deposited Contracts (OG no. 16/94) have enabled the registration in the Book of Deposited Contracts even in the case when the apartment had been acquired on some other legal basis (except on the basis of buying off the apartment subject to tenancy rights) and in the case when the apartment had been alienated from a third party.

It is important to emphasize that the Book of Deposited Contracts still exists and plays a very important role in the real property transactions. The majority of land registry offices still allow “new” registrations in the Book of Deposited Contracts and establishments of new sub-units in cases when the apartment ownership had been acquired prior to the enforcement of the Law on Ownership and Other Real Rights.

The respondents involved in the research agree that the introduction of the Book of Deposited Contracts was an extremely good move. In this way, the tenants with the tenancy rights were enabled to enforce their titles, the recording of titles was facilitated, the ownership of real properties was regulated, a more efficient system of the real property transactions was enabled and the owners of such real properties experienced it positively because they felt that the real properties were really their property. The respondents consider that it was a necessary and only possible solution that prevented manipulations and possible abuses in the cases when the tenants were temporarily absent (e.g. in Osijek).

They believe that what needs to be done at this moment is the integration of the Book of Deposited Contracts into the land registers i.e. the Books of Deposited Contracts must be transformed from the auxiliary units into the main units.

The above-mentioned problems are exclusively related to the so-called old constructions while for the majority of newly built constructions, the real property registration in the cadastre and land registries as well as the condominium splitting procedure have been carried out as soon as it was possible due to specific requirements on the real estate market. Namely, the banks have conditioned the financing of building projects with the regulated legal and property-related situation on a construction parcel while the condition for the buyers to obtain a loan is that the condominium splitting procedure has been conducted since the condominium splitting enables the bank to register a lien on the real property which is the subject of purchase, and this has significantly influenced the number of potential buyers.

Since the situation related to condominium splitting in old buildings is completely different from the condominium splitting in new buildings, the problems related to condominium splitting can be divided
into the problems of condominium splitting in the newly built constructions and the problems of condominium splitting in the old buildings.

The main problem when splitting the newly built constructions is the absence of implementation regulations that would uniformly define the content and form of the condominium report which is not required by the Land Registration Act but is often demanded by the clerks; the criteria for calculating the co-ownership shares and the documentation that needs to be submitted to the administrative body in order to obtain a confirmation on the condominium units representing an independent usable unit. Undefined regulations are the cause of the non-standardized procedures conducted by the administrative bodies and land registration courts in the condominium splitting procedures.

When conducting a condominium splitting procedure in an old building, the main problem is the non-registered ownership in the land registers, the lack of harmonization between cadastral records and the actual situation, claiming ownership of the land belonging to other parties who are not condominium owners, and other illogical issues related to the cadastral parcel on which a building has been constructed which is described below in the example of the Zapruđe neighbourhood in Zagreb. In the process of splitting such buildings, a big problem is the fact that all co-owners of a building must give their consent to proceed with the condominium splitting procedure.

The stated problems have also been confirmed by the research, conducted among real estate market participants, related to the speed and simplicity of implementing the condominium splitting procedure. The standpoint of the majority of respondents involved in the research is that the condominium splitting procedure can be conducted fast if the legal and property-related issues have been solved. Of course, since this is not often the case, the condominium splitting procedure and the solving of the legal and property-related issues are a long-lasting process.

Regardless of the procedure implementation speed that, in an ideal case of a regulated legal and property-related situation, can be satisfactory, the simplicity of condominium splitting procedure implementation is very questionable. There is a widespread opinion that this is a complicated procedure that needs to be simplified and that numerous initial actions should be performed well in order for the procedure to be successfully conducted.

It is believed that the condominium splitting of newly built constructions is not problematic while the splitting of older buildings, in which the apartment owners have already acquired titles on the basis of tenancy rights, is problematic. Consent from all tenants is required to implement the condominium splitting procedure, and this is extremely difficult to achieve in practice.

In order to obtain a more precise picture on the implemented condominium splitting procedures, the research has covered a data analysis of the number of split multi-residential and residential-business objects in two Zagreb neighbourhoods that we consider as representative samples:

1. Vrbani III: one of the recently constructed Zagreb neighbourhoods – all buildings inside the analyzed block were built in the past 6 years. The analyzed block is located in the area bounded by Horvaćanska Road in the north, Hrvatskog Sokola Road in the east, Aleja Matije Ljubeka in the south and the extended Mlaka and Lopatinečka roads in the west. According to the land registers, the observed parcels belong to the Vrapče Novo cadastral municipality.

2. Zapruđe: a residential neighbourhood in Novi Zagreb was entirely built in the 1960s and 1970s on the socially owned land. The analyzed block is located in the area bounded by Trumbićeva Street in the west, Damir Tomljanović Gavran Street (Bundek) in the north, Adamićevo Street in the east and Balokovića Street in the south, but the business complex in Meštrović Square has been omitted from the analysis. According to the land registers, the observed parcels belong to the Zaprudska Otok cadastral municipality.

The data was analyzed on the basis of cadastral map copies for the observed blocks as well as on the basis of data available on the following web sites: http://e-izvadak.pravosudje.hr/mpweb/main.jsp, http://www.katastar.hr/dgu/ind.php i https://e-uprava.apis-it.hr/katweb/servlet/Logon.
Figures 10 and 11 show the blocks of buildings that the data analysis was conducted for.

Figure 10 Analyzed block of buildings – Vrbani III

![Figure 10](source)

Source: www.euroave.com

Figure 11 Analyzed block of buildings – Zapruđe

![Figure 11](source)

Source: www.euroave.com
The data analysis determined that the existing situation in the above-mentioned neighbourhoods completely reflects the situation described above. In Vrbani III, the procedure of condominium splitting was carried out for each of the 29 buildings located inside the observed block while in Zapruđe, out of the total of 28 buildings located inside the observed block, the procedure of condominium splitting was carried out for 13 objects but their co-ownership shares are undetermined. Such a procedure was common before the introduction of the legal principle of the indivisibility of the real property because at that time an apartment owner was not the owner of the co-ownership share of the building and land on which it was built so the condominium splitting was also carried out without stating the co-ownership shares.

Having consulted the land registration units for Zapruđe, the following inconsistencies were noted:

1. Out of the total of 28 observed parcels, 14 parcels were registered in several land registration units – all 14 parcels are part of one joint land registration unit containing 228 registered parcels of the total area of over 650,000 m² while each parcel has been additionally registered in its own unit, although from the legal point of view, one land registration parcel should not be recorded in several land registration units. It is assumed here that this is because certain parcels were signed off from one common unit while not being automatically deleted from the same unit or because the performed deletion is not visible on the Internet. Namely, the aforementioned common unit has not been verified and is damaged so it is possible that the changes cannot be seen on the Internet.

2. Only one apartment is registered in one of the units in which the condominium ownership has been registered with undetermined shares in the Main Register while the possessory sheet contains the enumerated the sub-units registered in the Book of Deposited Contracts. This is an exception because it is usual for the buildings registered at that location to be either completely split or have certain apartments registered in the Book of Deposited Contracts. The reasons for such registrations could be determined by inspecting the register itself (historic extract) and the Collection of Deeds which we were unable to do within this research. The list of apartments registered in the Book of Deposited Contracts mentioned in the possessory sheet of the main register is a positive and desirable occurrence since the main land registration unit immediately shows for which apartments the sub-units have been formed in the Book of Deposited Contracts, which contributes to raising legal security of the real property transactions.

3. In one of the units in which the condominium ownership was recorded with undetermined shares, one apartment (co-ownership share) was registered in two sub-units – in one sub-unit as social ownership with the right of use and as property of a physical person in the other sub-unit. In this case too, it is assumed that it must have been a mistake since the registration of a physical person as the apartment owner should have been accompanied by the simultaneous deletion of the social ownership and the right of use for that particular apartment. It is important to mention that this registration was noted by random selection from a very small sample so it is possible that similar erroneous entries also exist elsewhere.

4. For one land registration parcel on the Internet, no data was available.

By inspecting the official copies of cadastral maps that were the basis for data analysis, a relevant fact related to the land subdivision was noted. Namely, for all buildings in the observed block in Vrbani III, parcels were formed to show in both the cadastre and land registers, the registered constructed buildings that had been split while no subdivision had been performed for any of the roads around or between the observed buildings i.e. the roads existing in nature are not registered neither in the cadastre nor in the land registers. The conclusion is that the building investors have fully met their obligation of recording the actual state in the cadastre and land registers while the local government unit, having the authority over the roads, has completely neglected its obligation.
The situation in Zapruđe is somewhat different: For all buildings in the observed block, parcels have also been formed showing buildings both in the cadastre and land registers along with certain irregularities in the land registers as described above, but in this case the roads are properly recorded in cadastre, while in the land registers, the cadastral parcels of roads, as well as some other facilities, are recorded in several units.

4.4. TAXES RELATED TO THE REAL PROPERTY DOMAIN (COMPARISON WITH EU; TAX AUTHORITY DATA)

The taxes related to the real property domain can be generally divided into the taxes burdening the ownership or the use of real properties, and the taxes burdening the real property transactions. The current system of taxes related to the real property domain in the Republic of Croatia includes the following taxes:

- a. Real Property Transaction Tax
- b. Vacation Houses Tax

Apart from the afore-mentioned taxes, the taxes are levied also on the basis of the income generated from renting or leasing the real properties that, according to the tax system, do not fall under the category of the real property taxes but is another kind of tax.

4.4.1. Real Property Transaction Tax

According to the tax system of the Republic of Croatia, the levying of the real property transaction tax is performed as part of the following types of taxes:

- a. Real Property Transaction Tax – levied on the real property transactions or each acquisition of a real property ownership in the Republic of Croatia,
- b. Value-Added Tax (VAT) - levied when the person alienating a newly built real property is an entrepreneur subject to the VAT regime, who used the deduction of the advance tax payment when acquiring the real property,
- c. Tax on the income generated from assets on the basis of the real property alienation - levied if the real property is alienated within three years of the day of its purchase,
- d. Tax on the income from trades and crafts or equal activities based on the real property alienation – levied on the sale, exchange and other transfer of more than three properties of the same type in the period of 5 years,
- e. Surtax on the income tax – paid by the taxpayers if the surtax has been determined by a decision of the town or municipal authorities in the place of his/her residence or domicile.

The taxpayer of the real property transaction tax is the person acquiring the real property; the tax base is the market value of the real property at the moment it was acquired, the tax rate is 5% and the tax is paid only once. The acquisition of the newly built real properties is not considered as a real property transaction since they are taxed according to the Law on the Value Added Tax. More accurately, when reporting taxes, the buyer of the newly built real property (only in the case when the real property appears on the market for the first time) is obliged to submit a structure of the real property price on the basis of which the Tax Authorities charge the buyer with the real property tax only for a part of the amount for which the VAT was not paid during the building process (cost of the land and contributions).

As for the market value of the real property, the Tax Authorities sometimes accept as relevant the real property value stated in the contract defining the transaction (purchase/sale, exchange, etc.), while sometimes the clerks perform a calculation of the market value by using tables. There are certain relieves and exemptions, depending on the type of transaction such as an exemption from paying the taxes or part of the taxes for the buyers buying their first real property intended to solve their housing issue.

The real property transaction tax in case when the buyer is a physical person is relatively difficult to avoid since a sale/purchase contract is required for the title registration, bearing the seller’s signature.
authenticated by a public notary and the public notary is obliged to report all performed real property transactions to the Tax Authorities. If attempting to avoid the signature authentication by a public notary and to report the taxes, the buyer may avoid paying the real property tax but then the buyer cannot register the title in the land registers.

On the other hand, when the real property transactions involve legal entities, there is a “legal loophole” that can be used to avoid paying the real property taxes and is most often used when selling or buying a construction site. Namely, the real property seller may set up a company and add the real property that he/she intends to sell to the stock capital. Then, the buyer buys off the company from the seller and acquires in this way also the stock capital of the bought company: in this case, the building site. This type of transaction in Croatia is still not subject to taxes.

The table below shows the table of the income generated from the real property transaction tax for the Republic of Croatia, Zagreb, Split, Rijeka, Osijek and Zadar along with a graph of the fixed base index monitoring the trends in the levied real property transaction taxes and the graph showing the share of each town in the real property transaction tax levied at the State level.

Table 38 Real Property Transaction Tax levied in HRK in the Republic of Croatia and selected towns in the 2004-2008 period

<table>
<thead>
<tr>
<th>Town</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Croatia</td>
<td>875,113,000</td>
<td>925,692,000</td>
<td>1,189,242,000</td>
<td>1,422,653,000</td>
<td>1,567,910,000</td>
</tr>
<tr>
<td>Zagreb</td>
<td>264,709,000</td>
<td>263,696,000</td>
<td>294,527,000</td>
<td>392,388,000</td>
<td>436,822,000</td>
</tr>
<tr>
<td>Rijeka</td>
<td>24,994,000</td>
<td>24,676,000</td>
<td>45,405,000</td>
<td>49,034,000</td>
<td>39,345,000</td>
</tr>
<tr>
<td>Zadar</td>
<td>35,213,000</td>
<td>29,996,000</td>
<td>47,759,000</td>
<td>53,666,000</td>
<td>34,627,000</td>
</tr>
<tr>
<td>Split</td>
<td>40,567,000</td>
<td>37,236,000</td>
<td>53,692,000</td>
<td>40,732,000</td>
<td>68,170,000</td>
</tr>
<tr>
<td>Osijek</td>
<td>22,263,000</td>
<td>26,665,000</td>
<td>24,135,000</td>
<td>18,894,000</td>
<td>34,540,000</td>
</tr>
</tbody>
</table>

Remark: 60% of the amounts stated above is the amount representing the budget revenue of the local government units while 40% represents the State budget revenue

Source: Ministry of Finance (2009)

Graph 43 Trends in the real property transaction tax levied in the Republic of Croatia and selected towns – fixed base index (base =2004)

Source: Ministry of Finance (2009),
Index calculation: Puls d.o.o. (2009)
The levied real property transaction tax is a reliable indicator of the real estate market activity in certain towns. In the 2004-2008 period, a stable growth of the levied real property transaction taxes was noted at the level of the Republic of Croatia. A somewhat milder but also stable growth with minor fluctuations was recorded in the City of Zagreb. The other observed towns show greater fluctuations so it is more difficult to determine clear trends. Rijeka, Split and Osijek recorded a growth of about 50% in 2008 as compared to 2004 but Rijeka has in the meantime experienced a sharp growth and then a decline while Split and Osijek recorded a growth in the last period observed. At the end of 2008, Zadar showed a lower degree of levied real property transaction taxes than in 2004.

Graph 44 illustrates the contribution of each town to the total real property transaction tax paid in the Republic of Croatia. Almost 30% of the overall paid taxes in Croatia has been levied in the City of Zagreb while the other observed towns account for 4% to 2%.

Graph 44  Share of each town in the real property transaction taxes levied at the level of the Republic of Croatia in 2008

The research conducted as part of the real estate market analysis demonstrated different attitudes of the respondents about the degree to which this tax burdens the real estate market players. The practitioners (banks, investors and owners), more than the other groups in the research, believe that the tax presents a significant burden. They state that this is not stimulating for the buyers, that it reduces the investments and hinders the housing construction and that this tax only presents an additional burden to the real property prices which are too high anyway. Other groups do not believe that the real property transaction tax rate of 5% is an excessive burden. This tax serves to fill the budget and the local government unit representatives think that the experiences suggest that this is still not an excessive charge. According to some opinions the buyers have already adjusted themselves to this tax and its amount, they have taken it into account and it, therefore, does not present such a burden. It is obvious that some interest groups take as their starting point the opinion that every tax is a burden and burdens the transactions and development, and many practitioners have a direct interest in advocating something like this. Only a targeted research and deeper quantitative analyses could indicate whether and to what extent this is an unrealistic burden.
The opinions are split as to whether it is good for the buyers buying their first apartment to be exempt from paying the tax. There are opinions that this is stimulating, but also there are opinions that a uniform tax rate of 2% to 3% could be introduced for all buyers. Objections have also been expressed as to the procedure of the tax estimate calculation, and that the contracts with a discrepancy of 10% from the prices stated in the tables used, should be double-checked by the tax authority experts because it can happen that the price is justifiably lower or higher than the market average. It has also been proposed to enable the payment of this tax amount in instalments so that the buyers can better bear this cost.

If stronger attempts were made to exploit the potential of the real property transaction tax by raising the current rate, the respondents warned that this could lead to hiding the ownership, as it happened before, and that there would be sales but that they would not be registered in the land registers, just to avoid higher taxes.

4.4.2. Taxes burdening the real property ownership

As stated earlier, the only tax burdening the real property ownership in the Republic of Croatia at the moment is the vacation houses tax. The persons obliged to pay the vacation houses tax are the owners of such houses. A vacation house is every building or its part, or an apartment used from time to time or seasonally. According to the tax system of the Republic of Croatia, the vacation houses tax falls under the town or municipal taxes. The basis for calculating the tax is the area of the real property expressed in square meters and the town or municipality in which the house is located determines the tax rate, depending on the place, age, infrastructure conditions and other circumstances of importance for the use of a vacation house. The law defines the minimal and maximal tax rate in the amount of 5 HRK/m² or up to 15 HRK/m². The vacation houses tax is paid annually and the income goes into the budget of the corresponding town or municipality.

The common practice among the European countries is the real property tax levied for using or owning some form of a real property. In Croatia, this type of tax exists only in the case of vacation houses but in the 2001-2007 period the Croatian tax system collected additional types of taxes that can be categorized as taxes for using or owning real properties:

a) Tax on Uncultivated Arable Agricultural Land
b) Tax on Unused Entrepreneurial Real Properties
c) Tax on Undeveloped Construction Land

The above-mentioned taxes were introduced against the opinion of fiscal experts and the Constitutional Court declared in 2007 that the introduction of those taxes was unconstitutional. The regulations stipulated that the local authorities could pass independent decisions on whether to introduce those taxes or not, given that the income from these taxes was considered as the income of the local governments.

The Croatian budget statistics related to the real property taxes, apart from the afore-mentioned taxes burdening the ownership or use of the real properties, also state the tax for using public areas that theoretically falls outside the taxes on the real property possession. This tax is paid by the physical and legal persons using public areas. A municipality or a town defines a public area as well as the rate of this tax whose revenue goes to the local budget.

Given that only vacation houses are taxed in Croatia, it is clear that the great majority of residential real properties have been left out of the tax system along with all business premises and land. At the same time, all European Union countries (EU-27), with the exception of Belgium and Malta, use the tax on using and owning a real property and some countries allow exemptions and relieves for the basic housing i.e. the residential premises occupied by their owners. The basis for calculating taxes varies but it is most often the real property value assessed by the local tax authority. The tax rates range from 0.1 % to 3% and are determined by the local authorities.

The real property tax in the European Union countries (EU-19) accounts for between 0.2% of the total revenue from taxes and contributions (Luxemburg) to 8.9% of the total revenue from taxes and
contributions (Great Britain) while the EU-19 average is 2%. The average in all the countries observed can be seen in graph 45.

**Graph 45** Share of the real property taxes in the overall revenue from taxes and contributions in EU-19 for 2006 (%)

In Croatia, the average share of the real property taxes in the overall taxes and contributions in the 2003-2007 period amounted to 0.12% and it is to be expected that, from 2008 onwards, it will be even lower because of the abolishment of the tax on uncultivated arable agricultural land, tax on unused entrepreneurial real properties and tax on undeveloped construction land. The share of the real property tax in the overall revenue from taxes and contributions in Croatia for the 2003-2007 period is shown in the table below.

**Table 39** Share of the real property tax in the overall revenue from taxes and contributions in the Republic of Croatia for the 2003-2007 period (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall taxes and contributions (in millions HRK)</th>
<th>Real property taxes (in millions HRK)</th>
<th>Share of the real property tax in overall taxes and contributions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>81.259</td>
<td>102</td>
<td>0.13</td>
</tr>
<tr>
<td>2004</td>
<td>85.900</td>
<td>109</td>
<td>0.13</td>
</tr>
<tr>
<td>2005</td>
<td>91.819</td>
<td>115</td>
<td>0.13</td>
</tr>
<tr>
<td>2006</td>
<td>100.644</td>
<td>126</td>
<td>0.13</td>
</tr>
<tr>
<td>2007</td>
<td>110.591</td>
<td>121</td>
<td>0.11</td>
</tr>
<tr>
<td>Average</td>
<td>94.043</td>
<td>115</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance (2008)

The introduction of the real property tax burdening the owners of all real properties in the Republic of Croatia and not only the vacation house owners, is a question requiring complex economic and social analyses. The necessary precondition for imposing the real property tax is a regulated real property database, which includes accurate data on the size, location and real property owner.

The issue of taxes is an extremely complex field and the respondents included in the research share an *a priori* tendency towards not imposing new taxes and not raising the current tax rates, and this research has confirmed these starting positions of the real estate market stakeholders. Namely, the research conducted as part of the real estate market analysis noted the prevailing opinion that the current system not taxing the ownership of the real properties used by their owners for residential purposes but incorporating only the tax on special real properties (vacation houses) is the right one. It is believed that the introduction of the taxes on all real properties would certainly dissuade...
the potential buyers from buying real properties. Many respondents have an insight into the situation in the western countries where there are real property taxes applying to all real properties and where the tax rates significantly burden the owners. This is seen as an unused potential for the State, especially once the real property ownership relations are regulated. However, the respondents are aware that over 90% of the families owns their own real property and that the introduction of such a tax would provoke great opposition in the public.

4.5. SYSTEM OF CONTRIBUTIONS AND UTILITY SERVICES

The system of contributions and utility services in the Republic of Croatia is closely linked to the local government functioning and to local budgets with the exception of the water contribution introduced in 2006 which is the revenue of the Croatian Waters. During the process of decentralization of the Republic of Croatia based on the Law on Local and Regional Government that entered into force in June 2001, several activities from the local jurisdiction were transferred onto the local government units (towns and municipalities) which, among other things, also relates to the physical and urban development planning, economic development, environmental protection, transport infrastructure and similar activities that significantly influence the real estate market. At the moment, there are 556 local government units in Croatia (127 towns and 429 municipalities).

The sources of revenues for local and regional government units, the types of common taxes divided between different levels of government and their allocation between the central State, counties, towns and municipalities are defined by the Law on Financing the Local and Regional Government Units. The revenues of towns and municipalities that can be linked to the real properties are as follows:

- Revenue from the real properties and real property ownership rights
- Vacation Houses Tax
- Tax on Using Public Areas
- Utility fees, contributions and other charges determined by a specific law
- Fees for using public areas
- Real Property Transaction Tax (60% of the amount represents the local government unit budget revenue while 40% represents the State budget revenue)

In order to implement the projects of special interest (e.g. development of the infrastructure and economic development), the local government units can request financial support from the line ministries.

Apart from the taxes described in the previous chapter, the real estate market is significantly affected by utility contributions: a monetary public contribution paid into the local government unit budget for the construction and use of utility infrastructure facilities (public areas, non-classified roads, cemeteries and crematoria, public lighting).

The person obliged to pay the utility contribution is the investor or owner of the parcel on which a building is being constructed and the payment of the utility contribution is a necessary precondition for obtaining a building consent.

The utility contribution is calculated per m$^3$ of the building that is being constructed. The local government units determine the unit value of the utility contribution in HRK/ m$^3$ for certain zones in a town or municipality while the prices in some towns and municipalities differ also depending on the intended use of the construction that is being built (residential, business, production, etc.). The highest value is for the first zone and cannot exceed 10% of the average costs for constructing m$^3$ of model construction in the Republic of Croatia. The data on the average construction costs according to m$^3$ of the model construction in the Republic of Croatia was last published in 2000 and amounted to 1,800 HRK/m$^3$. 


Table 40  Overview of the utility contribution amount in HRK/m$^3$ for the buildings which are being constructed on 30 June 2009 for selected towns

<table>
<thead>
<tr>
<th>zone</th>
<th>ZAGREB</th>
<th>SPLIT</th>
<th>OSIJEK</th>
<th>RIJEKA</th>
<th>ZADAR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>160</td>
<td>160</td>
<td>180</td>
<td>180</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>135</td>
<td>135</td>
<td>171</td>
<td>171</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>135</td>
<td>135</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>63</td>
<td>63</td>
<td>72</td>
<td>72</td>
<td>69.3</td>
</tr>
<tr>
<td>II</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>49</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

* Res. – residential buildings, Bus. – business buildings
Source: Ministry of Environmental Protection, Physical Planning and Construction (2009)

Figure 12 Utility contribution zones in Rijeka

Source: www.rijeka.hr,
* Note: the unit values of the utility contribution in attractive zone and in zone I are equal
As stated previously, the funds obtained by charging the utility fees are intended for building and using the utility infrastructure facilities (public areas, non-classified roads, cemeteries and crematoria, public lighting). Every year, the local government unit representative body, pursuant to the Law on Utility Management, is obliged to pass the Program for the construction of facilities and utility infrastructure devices. The Program must contain the description of works and the cost estimate for the construction of facilities and devices, and for the equipment procurement. It is also required to state the financial resources necessary for the Program implementation along with the financial sources.

The obligation of the local government units to build the utility infrastructure facilities and devices is not bound to building and equipping the very construction parcel of the utility taxpayer with facilities and devices. This obligation is performed on the territory of the local government unit according to the afore-mentioned Program.

This procedure creates certain practical problems which especially relate to the period after the enforcement of the Physical Planning and Construction Act. Namely, this Act stipulates that a building consent can be issued only for conducting construction activities on a regulated construction parcel which

\textit{inter alia} presupposes that the parcel has access to the roads regulated according to the valid physical plan. When monitoring the implementation of the afore-mentioned Act, it has been noted that in the past the local government units, after having built and reconstructed roads and other public areas under their jurisdiction, failed to record the changes in the cadastre and land registers so it is impossible to prove, in the process of obtaining a permit, that the construction parcel has road access, although such access exists in reality. It has also been noted that the road widths in some physical plans had been determined without taking into account the actual situation and possibilities in space i.e. some of the planned widths are neither required nor feasible. Due to the afore-mentioned reasons, the Ministry of Environmental Protection, Physical Planning and Construction has instructed the local government units to consider as a road the stretch used as such in reality and registered in the
cadastre in one of the ways described in the Instruction\(^1\) as well as to conduct an analysis of the physical plans in order to rationalize the issue of road widths.

These Instructions have only partly alleviated the situation. However, the problems remain for the investors whose parcel has access to a road which requires reconstruction but this is not covered by the Program of Building Utility Infrastructure Facilities and Devices. In order to complete their projects, these investors are forced to finance on their own the road reconstruction with the local government unit paying the return on the investments but with no interest after 3 or 5 years. Such manner of financing does not exempt the investor from paying the utility fee which eventually greatly burdens the investment.

The respondents who participated in this research expressed great dissatisfaction with such practices. The construction investors believe that this is an additional charge for them, representing a very demotivating expense and that such practice dissuades the potential investors because many investors do not want to invest due to such practices. The investors doubt in the return of their invested resources. Some respondents consider that when the investors agree to such arrangements, it is their choice and they have interest in it. However, according to some other opinions the investors do not have much choice because the local government units hold everything in their hands, and the investors are forced to work following the orders of a local government.

An important source of revenue for the local government units are funds collected by charging utility fees. The utility fees are intended to finance the following utility services: atmospheric water discharge system, public area maintenance and cleaning, maintenance of non-classified roads, cemeteries and crematoria, and public lighting.

The utility taxpayers are owners or users of the residential or business premises, garages, construction sites used for business activities and undeveloped construction land.

The utility fees are calculated per m\(^2\) as follows: for the residential, business and garage premises according to the useful floor area unit and for construction land according to actual surface unit. The amount of the utility fee per m\(^2\) of the area to be calculated is determined by multiplying the point value (B), zone coefficient (Kz) and use intention coefficient (HRK). The coefficient values are determined by the Decision on Utility Fees passed by the local government unit representative body while the taxpayers are obliged to pay the amount of utility fee on monthly basis.

Table 41 presents an overview of the minimal and maximal unit value of the utility fee in HRK/m\(^2\) and the number of zones for Zagreb, Split, Osijek, Rijeka and Zadar.

Table 41 Overview of the minimal and maximal amount of the utility fee in HRK/m\(^2\) and the number of zones to be calculated as of 30 June 2009 for Zagreb, Split, Osijek, Rijeka and Zadar

<table>
<thead>
<tr>
<th></th>
<th>ZAGREB</th>
<th>SPLIT</th>
<th>OSIJEK</th>
<th>RIJEKA</th>
<th>ZADAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimal amount</td>
<td>0,17</td>
<td>1,74</td>
<td>0,16</td>
<td>1,45</td>
<td>0,29</td>
</tr>
<tr>
<td>Max amount</td>
<td>0,87</td>
<td>8,70</td>
<td>0,70</td>
<td>6,30</td>
<td>0,59</td>
</tr>
<tr>
<td>No. of zones</td>
<td>9</td>
<td>9</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Ministry of Environmental Protection, Physical Planning and Construction (2009)

The tables below show the budget revenues of Zagreb, Rijeka, Zadar, Osijek and Split generated from the charged utility contributions and utility fees.

\(^1\) Ministry of Environmental Protection, Physical Planning and Construction: Planning and recording of the roads in official registers and the establishment of their existence in the procedure of issuing the documents serving to implement physical plans, allow the construction and “legalize” illegal buildings – information on the status, proposed measures and rationale, Class: 350-01/08-01/129, Ref.no.: 531-01-08-1, 22.09.2008;
By comparing the tables above, it is visible that only the utility contributions in Zagreb are higher than the revenue generated from the utility fees between 2004 and 2008 while the ratio in Zadar and Osijek varies from one year to another. In Rijeka, the revenue generated from the utility fees exceeds by several times the revenue generated from the utility contributions.

The respondents in all the groups involved in this research, with the exception of the local government unit representatives, are not aware how the utility contribution funds are used and there is a widespread conviction that the use of funds is not transparent, that the local government units live from it and use the funds for their own salaries and not for building the infrastructure. The local government unit representatives believe that the funds collected from the utility contributions are spent for defined purposes and very rationally i.e. that they are used to build, prepare and develop the land. When the budgets are inspected, it can be determined exactly which positions are financed from the utility contributions. They emphasize that the problem is that the funds need to be collected...
first and then the infrastructure can be built, but this is a slow procedure. In any case, the speed does not motivate the investors.

The conclusion is that it is necessary to present more transparently how the local government units spend the funds collected from utility contributions, by publishing the data on the Internet or providing more detailed analyses at request. This transparent practice is obviously not conducted or various stakeholders on the real estate market are not informed about it, which gives rise to speculations, dissatisfaction and interpretations which are not always correct. The local government units have the opportunity to correct this and clarify the actual situation to other interested groups.

Table 47 illustrates the main irregularities detected in local budgets for 2006 according to the State Auditing Office for the City of Zagreb, Split – Dalmatia County, Osijek – Baranja County, Primorje – Gorski Kotar County and Zadar County

Table 47  Main irregularities in local budgets in 2006

<table>
<thead>
<tr>
<th>Public procurement</th>
<th>Utilities management</th>
<th>Assets and Liabilities Records</th>
<th>Certain expenditures higher than planned</th>
<th>Revenue collection</th>
<th>Expenditure not in line with the intended</th>
<th>Total number of „YES“ per county / per all units</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Zagreb</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>6</td>
</tr>
<tr>
<td>Split-Dalmatia</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>3</td>
</tr>
<tr>
<td>Osijek-Baranja</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>4</td>
</tr>
<tr>
<td>Primorje-Gorski Kotar</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>5</td>
</tr>
<tr>
<td>Zadar County</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>3</td>
</tr>
<tr>
<td>Republic of Croatia*</td>
<td>20</td>
<td>16</td>
<td>12</td>
<td>12</td>
<td>19</td>
<td>11</td>
</tr>
</tbody>
</table>

* data for the Republic of Croatia in some categories indicates in how many local government units out of the observed 21 have the irregularities been detected


Table 47 clearly shows that the irregularities in the budget related to utilities management were detected in 76% of the counties while in 52% of the counties the detected irregularities were related to the spending of funds opposite than was intended.

Apart from the obligation to pay the utility contribution, the investors have been obliged since 2006 also to pay the water contribution when obtaining a building permit. It is a public contribution paid into the account of the Croatian Waters. The amount of the water contribution is expressed in HRK/m³ of the construction that is being built for 3 different zones, and is determined by a decree of the Croatian Government. The funds collected from charging the contributions are used for the regular technical and economic maintenance of waterways, the regulation and protective water constructions etc. Almost with no exception, the respondents of the research have stated that the introduction of the water contribution is not justifiable. The stated reasons are the following:

- there are too many taxes imposed anyway and this is just another additional tax burden,
- the funds for such purposes should be provided from the contributions charged for connecting to the water pipeline and for the development of water infrastructure and not provided by imposing new contributions,
- it overburdens the investments,
- many places have no sewage so it is not clear why this contribution exists at all,
- no transparency in using these funds,
- Croatia is rich in water so there is no need to invest so much in the water resources.

Table 48 illustrates the unit price of water contribution expressed in HRK/m³ for certain zones. Zone A includes the City of Zagreb and the protected coastal seashore, zone B consists of the remaining territory of the Republic of Croatia except for zones A and C, while zone C includes the areas of special State concern.
Table 48  Unit price of water contribution expressed in HRK/m³ per zone

<table>
<thead>
<tr>
<th>Category</th>
<th>ZONE A</th>
<th>ZONE B</th>
<th>ZONE C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business premises apart from the production facilities</td>
<td>70</td>
<td>42</td>
<td>21</td>
</tr>
<tr>
<td>Residential buildings for permanent domicile</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) family houses of up to 400 m²</td>
<td>30</td>
<td>20</td>
<td>7.5</td>
</tr>
<tr>
<td>b) other buildings intended for permanent domicile</td>
<td>42</td>
<td>28</td>
<td>10.5</td>
</tr>
<tr>
<td>Residential buildings for temporary residence</td>
<td>56</td>
<td>35</td>
<td>17.5</td>
</tr>
<tr>
<td>Social standard constructions and religious facilities</td>
<td>17.5</td>
<td>10.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Production plants</td>
<td>12.5</td>
<td>7.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Roads</td>
<td>4.9</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Production pipelines</td>
<td>10.5</td>
<td>7</td>
<td>3.5</td>
</tr>
<tr>
<td>Telecommunication lines</td>
<td>21</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Open business constructions</td>
<td>35</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>Other business constructions</td>
<td>18</td>
<td>10.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Decree on the amount of water contribution (OG nos. 14/06 and 35/06)

During the research, none of the relevant institutions responded to the query on the revenues generated from charging the water contribution.

The opinion prevailing among the respondents covered by this research is that the utility and water contributions are high and significantly burden the investments. The market practitioners are especially sensitive to the amount of utility contributions and always compare it with what they actually get. The perception is that they do not get much, therefore the level of dissatisfaction with the contributions is very high. It is proposed that the contributions be paid in instalments and over a longer time period, to reduce the level of contributions for some types of the real properties (commercial, industrial, entrepreneurial and office) and that the contribution thus becomes a certain incentive for investing in the production and new jobs.

The local government unit representatives have adopted a more reserved attitude and many agree that the burden is high but think that the level of the contributions for new buildings in e.g. Zagreb is actually the real cost of developing the utility infrastructure. They believe that it is necessary to conduct more detailed analyses and see what is realistic in each specific situation. They think that it is not justified to charge utility contribution as a form of penalty for the older buildings constructed without a permit because the utility infrastructure already exists.

The dominant opinion is that the authorities are very efficient in passing the decisions on the amount of utility contributions and the decision on the amount of the water contribution. Many cynically add that the corresponding authorities have no problem in taking necessary steps to collect the money and that such decisions are not delayed since it is in their direct interest. However, there were statements that the delivery of such decisions is more efficient in the Zagreb environs than in Zagreb itself.

When passing a decision, accuracy presents a bigger problem, or so the respondents believe. The problems arise because it is necessary to determine precisely the total size of a construction when determining the amount of utility contribution and this can lead to dealing with inaccurate information.

As part of the research, the respondents were asked about the impact of establishing the Zagreb Holding company on the utilities management system in Zagreb and the potential of implementing such a model in other towns in Croatia. While the local government representatives from Zagreb claim that the impact is positive and that this has rationalized the business operations, other respondents believe that the impact of establishing Holding is negative and they see no great potential in applying this model elsewhere. The respondents cite the following problems related to Holding:

- By establishing Holding, the decision-making process has been concentrated in one place: A zone of extreme influence has been created in one place which represents a great threat of abuse and corruption (great threat of rigging the tenders). It is possible for Holding to start dictating the pace of things in the City of Zagreb and to assume informal influence instead of becoming an efficient service to the citizens and investors.
• By establishing Holding, the utility service prices have not decreased. The respondents have not noticed that the utility services in Zagreb are now cheaper. This entails doubt about the rationalization of the utility companies’ business operations.
• Zagreb is specific and cannot be compared to other towns in Croatia. It has been pointed out that the budget of Zagreb is greater than the budget aggregate of all other towns in Croatia. It cannot be compared with other towns because of its size and importance as the only hub of all developments and activities in the country. Therefore, the solutions that might even make sense in Zagreb could not be applied at all in other towns.

4.6. PHYSICAL PLAN ADOPTION PROCEDURE

The physical plans of importance from the point of view of the real estate market are the physical plans of counties and the City of Zagreb, the physical plans of a city, town or municipality, the urban development plans and detailed urban plans as defined by the Physical Planning and Construction Act (OG nos. 76/07, 38/09).

Figure 14 shows the degree of production and adoption of physical plans for towns and municipalities as of 22 October 2003, the year when the Organized Land project was launched.

Figure 14 Extent of development and adoption of physical plans of towns and municipalities on 22 October 2003

* on 22 October 2003, there were 549 local government units in Croatia: 124 towns (with the City of Zagreb) and 425 municipalities
The figure clearly indicates that in as many as 290 out of the total number of 549 local government units, the process of developing a physical plan is still in one of the initial 3 stages: not in the production, preparatory works or draft proposal of the plan are underway while the procedure has been fully implemented in 110 or the total of 20% of the local government units.

The following pages illustrate the dynamics of adopting physical plans at the level of Croatia. At the end of 2008, the number of incomplete physical plans was reduced by about 90%. The category of towns and municipalities that did not even start with the preparatory works for adopting physical plans does not exist after the end of 2005 when the last 4 municipalities were recorded which had not started with the adoption of physical plans.

At the level of Croatia, 124 out of 127 towns in 2008 had adopted physical plans. The same goes for 413 out of 429 municipalities. The fixed base index shows that the majority of works related to the adoption of physical plans was conducted between 2005 and 2007.

The overview by county shows that the Primorje-Gorski Kotar, Split-Dalmatia, Koprivnica-Križevci and Osijek-Baranja counties were in a worse position in 2005 (below the Croatian average). All of these counties have managed to catch up within three years and joined the rest of Croatia with the exception of the Split-Dalmatia County which is somewhat worse.

Table 49  Adopted physical plans of towns and municipalities

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Towns</td>
<td>81</td>
<td>110</td>
<td>122</td>
<td>124</td>
</tr>
<tr>
<td>Municipalities</td>
<td>198</td>
<td>295</td>
<td>385</td>
<td>413</td>
</tr>
</tbody>
</table>

Source: Ministry of Environmental Protection, Physical Planning and Construction

Table 50  Ongoing development of physical plans of towns and municipalities

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Towns</td>
<td>43</td>
<td>17</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Municipalities</td>
<td>224</td>
<td>128</td>
<td>44</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Ministry of Environmental Protection, Physical Planning and Construction

Graph 46  Trends in the number of adopted physical plans of towns and municipalities and physical plans in production – fixed base index (base = 2005)
Graph 47  Trends in the share of adopted physical plans of towns and municipalities in selected counties

Source: Ministry of Environmental Protection, Physical Planning and Construction

Figure 15 Extent of development and adoption of physical plans of towns and municipalities on 22 November 2009

Source: Ministry of Environmental Protection, Physical Planning and Construction

*Data procession is based on official data reported by towns and municipalities to MEPPPC, Inspection office, till 9 November 2009.
Figure 15 shows the extent of development and adoption of physical plans of towns and municipalities on 22 November 2009, clearly demonstrating that 549 towns and municipalities have entirely fulfilled their obligation of passing a physical plan while 7 more towns and municipalities located in the Central and South Dalmatia are in the process of holding a public discussion and developing the final draft plan, which is a significant progress as compared to 2003.

The procedure of adopting physical plans in towns and municipalities is a complex and long process, resulting in a document that, among other things, defines the basic indicators of the land use, conditions for building in the construction zones and the zone requiring the production of physical plans for more restricted areas (urban zoning plans and detailed zoning plans). In the procedure of adopting physical plans and after developing the draft physical plan, the law stipulates the obligation of holding a public discussion during which the interested parties can submit their statements, opinions, proposals and comments to the developed proposal of the physical plan. On the basis of the accepted or rejected proposals of interested parties, the physical plan final draft is developed that enters into force by the decision of the local and regional government unit representative body.

It is important to mention that the local and regional government unit representative body can prohibit the issuing of a building permit during the process of adopting the physical plan which poses additional problems for the potential investors since this process lasts for at least a year. The afore-mentioned deadline is additionally prolonged for the investors whose parcel is located in the zone requiring the adoption of the urban development plan or detailed development plan by the zoning plans of the town or municipality.

As part of the research, the market participants’ attitude was examined as to the opinion on the speed of adopting new physical plans or amending the existing ones as well as on the RoC areas covered by updated physical plans.

The prevailing impression is that the physical plans are adopted slowly, that large areas are not covered by updated physical plans and that the amendments and adoption of new plans are dictated by various interest groups, therefore people suspect that corruption and nepotism are present when speaking about the amendments.

The stated reasons which are at the root of the slow adoption of physical plans and the inexistence of physical plans are as follows:

- It is a very complex and demanding process that should not be underestimated. Numerous consents need to be obtained before a physical plan can be adopted; also a large number of capable and qualified people able to draft good physical plans are needed.
- There are a great number of counties and local government units who must adopt the plans. We have county plans, town and municipality plans and this means a lot of local government units for such complex and expert tasks. If some items of the county physical plans are not in accordance with the legislation, the lower physical plans automatically face problems. It is necessary to reduce the number of counties and local government units which would also reduce the number of plans.
- Great influence of various interest groups. Interest groups jeopardize social interests and present a threat to the profession and a danger for good and comprehensive solutions which are therefore difficult and even impossible to integrate in high-quality plans. Sometimes the process can be accelerated but then the solutions are of poor quality.

The opinion of the local government unit representatives has also been pointed out; according to them the urban plans for large cities are often set aside whereas these plans often regulate the areas of large cities better and more precise than the physical plans. The construction investors and other market practitioners point out that the lack of physical plans is bad for both local and foreign investors because no one knows what is permitted and where.

Only the physical plans for Osijek and the Slavonia region are commended because these tasks are conducted well there. The reason for this can also be found in the fact that this area is not so
interesting to the investors and various interest groups so it is much less restricted, and better controlled and managed by professionals. The worst impressions are related to Split.

The prevailing opinion is that the adoption of physical plans is a very slow process starting from the decision of the authority in charge of adopting physical plans to the publication of the physical plan in practice. Along with the statements on the presence of interest groups, corruption, bribe and bureaucracy, there is also an explanation that this is objectively a complex procedure. The plan is first publicly reviewed and all possible complaints and amendments are expressed. This is a comprehensive task and there are always problems occurring which requires additional amendments to the decision. The utility companies, public companies and various professional services are involved so this task simply cannot be completed in a short period of time.

According to the respondents, the fact that the adoption of some plans can last up to 10 years is extremely demotivating for the investors. The situation is best in Osijek and Slavonia and the worst in Split.

As for the public review, the respondents believe that although the citizens are entitled by law to participate and are formally allowed to do so, they often have no relevant nor desired effect in this segment. During the public review, the citizens are invited to offer their proposals, opinions and complaints and this is formally announced in the places provided for this purpose. In practice, the response of the citizens is rather poor. The reasons why it can be claimed that the citizens have no relevant or desired effect on the public review are as follows:

- Interest groups have the dominant influence. The voice of the citizens, regardless of the constructive and justifiable reasons, is often disregarded.
- The citizens mostly have predictable attitudes and interests. Primarily they wish to have their land parcel inside the construction zone which would enable them to achieve the biggest possible financial effect. Surely, it is not always possible to fulfil all the wishes, nor would it be objectively good to aim at maximizing the construction area. The other thing to which they aspire is that nothing that they are not used to (industrial zone, warehouses, etc.) is located in their immediate environs and, as a rule, they oppose it.
- The citizens have modest knowledge; they are not familiar with the issues and can easily be manipulated. The fear of changes and new solutions can be manipulated because of someone's partial interests.

It may be concluded that the contribution from citizens is not great and, if it exists at all, it is neither very high-quality nor constructive. It is necessary to find a participation model which would involve the citizens to a greater extent and would raise the quality of their contribution. The good thing, according to the contacted respondents, is that the profession makes the final decision on what to do.

The participants' attitude was examined regarding corruption and satisfying private interests during the adoption of physical plans, as well as regarding using privileged information to acquire real property whose value would obviously grow with the adoption of the physical plan. The perception of the real estate market stakeholders is that the corruption and satisfying private interests, as well as the use of confidential information, exist.

There are examples when the details on the number of floors were changed after the investor bought off the land, then the transformation of agricultural land into construction land, and the case of land purchase that received great media coverage on the Pelješac peninsula where the future road and bridge have been planned, et al.

There was also an opinion stating that the confidential information can exist probably only in the first stage of the plan development when nobody really knows the plan details or rather when a very closed circle of people knows the details such as the position of the road. Therefore in that first stage there can be confidential information and the possibilities to manipulate with the land. The respondents believe that it is necessary to achieve the transparency by making the work and plans public.
The local government unit representatives believe, as opposed to the general opinion and the opinion stated by other interest groups involved in the real estate market, that it is difficult to talk about the corruption and that something like that is difficult to carry out. On the other hand, they voice an interesting opinion according to which the physical plans are available to the public; they are published so if somebody uses such information, they can hardly be called confidential. They point out that the spatial planning is administered as much as 50 years in the future so if somebody estimates that he/she has the money, time and that it is cost-effective, he/she can always buy the land where the future road is planned with the objective of gaining profit. Since that, generally speaking, the awareness in Croatia about the importance of business information is very underdeveloped, it is possible that the individuals of a refined business spirit skilfully use the fact that something has been published and that the others are not at all familiar with it and are unaware of how much profit they lose due to their own lack of information.

The greatest irregularities, related to the corruption and nepotism, and to disposing with confidential information when drafting physical plans, are found in Split.

With regards to the speed of implementing the provisions of the adopted plans, the prevailing opinion especially among the market practitioners (investors, agents, banks) is that the adopted plans are implemented slowly which negatively affects the interest of foreign investors. It is especially bad for the investment that the utilities and transport infrastructures lag behind instead of being financed by previously mentioned utility contributions. The speed of implementing plans depends on several factors such as:

- Plan quality: the implementation speed depends on the plan quality and the plan of a better quality is easier to implement. Opinions were voiced that it is actually the quality of implementation that matters and not the speed of implementation.

- Interest groups: the corruption dictates the pace of plan implementation; the plans are quickly implemented if it is in someone's interest. If it regards apartment construction then it goes faster and if it concerns agricultural land then it goes slowly.

- The funds available to a town: it was mentioned earlier that the infrastructure lags behind as a rule; if a local government unit has no financial resources, it is impossible implement physical plans in a short period of time.

- Regulation of the legal and property related issues: if the relations are regulated, it is easier to implement the plan, conduct the necessary sale transactions, exchange the land, etc.

- The level of readiness of the relevant planning participants to adhere to the solutions adopted from the physical plan: it was stated that public and utility companies participate in the development of plans It often happens that the same participants are in practice not ready to participate and opt for the solutions offered in the process of drafting a plan and then, once the physical plan is adopted, they fail to apply the solutions provided by the plan and later seek some new solutions deviating from the plan. This creates problems during the implementation.
4.7. HOUSING LOANS AND HOUSING SAVINGS BANKS

To provide a home represents one of the main issues and needs in the life of an individual or a family. Given that the Croatian citizens are traditionally oriented more towards the purchase of their own residential space as compared to renting it, the market for housing loans in Croatia is very developed.

4.7.1. Housing loans

The data of the Croatian National Bank on the trends in housing loans shows that the total amount of housing loans increased from approx. HRK 17 billion in 2003 to about HRK 55 billion in 2008.

Table 51 Total amount of housing loans granted in the Republic of Croatia at the end of the 2003-2008 period in millions HRK

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing loans – housing savings banks</td>
<td>188</td>
<td>373</td>
<td>576</td>
<td>1.296</td>
<td>2.220</td>
<td>2.858</td>
</tr>
<tr>
<td>Housing loans – banks</td>
<td>16.896</td>
<td>21.398</td>
<td>27.571</td>
<td>36.927</td>
<td>45.219</td>
<td>52.306</td>
</tr>
<tr>
<td>Housing loans – total</td>
<td>17.084</td>
<td>21.771</td>
<td>28.147</td>
<td>38.223</td>
<td>47.439</td>
<td>55.163</td>
</tr>
<tr>
<td>Share of loans in housing savings banks in the housing loans</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Croatian National Bank
Calculation: Puls d.o.o.

Table 52 Total amount of housing loans in the Republic of Croatia at the end of the 2003-2008 period in millions HRK

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing loans – housing savings banks</td>
<td>24,6</td>
<td>48,6</td>
<td>78,1</td>
<td>176,4</td>
<td>303,1</td>
<td>390,2</td>
</tr>
<tr>
<td>Housing loans – banks</td>
<td>2.209,5</td>
<td>2.789,4</td>
<td>3.738,1</td>
<td>5.027,4</td>
<td>6.173,1</td>
<td>7.141,3</td>
</tr>
<tr>
<td>Housing loans – total</td>
<td>2.234,1</td>
<td>2.838,0</td>
<td>3.816,2</td>
<td>5.203,9</td>
<td>6.476,2</td>
<td>7.531,4</td>
</tr>
</tbody>
</table>

Source: Croatian National Bank
Remark: Amounts in HRK have been calculated in EUR according to the Croatian National Bank exchange rate statistics (medium foreign currency exchange rate of CNB at the end of the period - http://www.hnb.hr/publikac/bilten/statisticki_pregled/h10.xls)

Graph 48 Amount of housing loans in million HRK granted by banks in the period between January 2002 and July 2009

Source: Croatian National Bank (CNB)
The table above shows that the most significant growth of housing loans granted by banks was recorded between late 2005 and early 2008 which is also the period when the biggest growth of charged real property transaction taxes was noted. In that period, the growth of 144% was achieved in the amount of granted loans. We see the reason for this in the extremely increased pace of residential construction and in the increased citizens’ demand for new apartments who, influenced by other positive market factors (e.g. growth in net salaries, employment growth, migration towards larger cities, etc), were able to buy bigger residential premises of higher quality. The beginning of 2008 was marked by the outset of the economic crisis and the growth of the granted loans started to stagnate. The amount of granted loans began to oscillate visibly between mid-2008 and July 2009.

During the research, the respondents emphasized the impression that the current market situation impacts the decline in the number of the loans granted for buying real properties, a trend that can be discerned from the tables and graphs shown above. Among the bankers polled, there is an opinion that the rate of bad debts and foreclosures of mortgage will increase due to the growing problems in the commercialization of the existing projects and the decreasing possibilities for the citizens to pay off the housing loans so the banks will become the owners of a great number of real properties. In relation to the above-mentioned, a very interesting opinion was stated saying that the banks should grant loans on the basis of estimating the clients' potential and not only on the basis of the real property value. This will be the only way to grant loans which will be paid off. If the only loan security is the mortgage approved on the ceiling amount, the number of mortgage loans is expected to grow as well as the number of those unable to pay off the loans. The banks will become owners of real properties which will not be enough for the banks to adequately repay the loans since the real estate market has collapsed and the prices are lower.

In this segment, the current economic situation has overshadowed the positive influence of the Organized Land Project. Namely, by strengthening the security of ownership rights ensured through the Project, further development of private sector, as well as domestic and foreign investors was encouraged, especially in decreasing administrative obstacles. The improved efficiency of land registers, and a faster and safer real property registration have helped the market to start functioning in a more efficient way and to be based on strong guarantees, so the banks have recognized the opportunities that became available to them in terms of using the real properties to secure a loan. Under this positive influence, most commercial banks have renounced the traditionally adopted approach of securing the housing loans through the system of guarantors and joint debtors so today the real property lien is acceptable to most banks as the only instrument for securing the loans.

4.7.2. Housing savings

Although the tradition of the housing savings banks in Europe is over a century long, the first housing savings bank in Croatia, out of the five currently operating, was established as late as 1998. The increase in the total volume of housing loans has been accompanied by the growing relative importance of the housing savings banks granting the loans, so in 2008 about 5% of the housing loans were granted by the housing savings banks. The growth in the home savings banks' importance can also be illustrated by the fact that the money the citizens deposited in them doubled between 2003 and 2008.

Even though the parameters indicate the growth in the housing loans obtained from the housing savings banks, Croatia is in this respect still far from the practice of the EU countries because in some of these countries half of all housing loans are the loans obtained from the housing savings banks.
Graph 49 Comparison of housing loan trends in the Republic of Croatia - situation at the end of each year

Source: Croatian National Bank (CNB)

Table 53 Citizens’ housing savings in the housing savings banks in millions HRK in the Republic of Croatia between 2003 and 2008

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens’ savings in housing savings banks</td>
<td>3,265,2</td>
<td>4,728,2</td>
<td>5,514,7</td>
<td>5,803,6</td>
<td>6,037,9</td>
<td>6,297,6</td>
</tr>
</tbody>
</table>

Source: Croatian National Bank (CNB)

Graph 50 Citizens’ housing savings in housing savings banks in the Republic of Croatia between 2003 and 2008

Source: Croatian National Bank (CNB)
Graph 50 clearly shows a sharp increase of housing savings up to 2005 when the growth still continues but to a somewhat milder extent. This fact has most probably been affected by the decision on the reduction of the State incentives for housing savings. Namely, until 2005, the State incentives for the housing savings were 25% annually or HRK 1,250 maximum. Then, due to the State savings policy, it was reduced to 15% annually or HRK 750 maximum even though the economic experts warned that in the long run the incentives to the housing savings would yield more significant benefits for the State than the ad hoc savings caused by the reduction of incentives.

4.7.3. Interest rates on loans and deposits in Croatia

The loan interest rates have been in a steady decline until the end of 2007 when we recorded their lowest point. 2008. The increase of interest rates on loans in foreign currency and in Croatian kuna (HRK) was recorded in 2008 and has been growing; however a mild decline is again expected in the next few years.

Graph 51 Average interest rates on loans in the Republic of Croatia between 2003 and 2008

Graph 52 shows the trends of interest rates on deposits in the Republic of Croatia Between 2003 and 2005, the trend of interest rates on long-term deposits of the citizens is visibly different from the trend of fixed-term foreign currency deposits in euros while both types of deposits have increased at a similar pace since 2005.
Due to the problems encountered by the banks when granting the housing loans, twenty Croatian banks signed a social agreement in 2004 to establish the Croatian Registry of Credit Obligations (HROK). After obtaining consent from the Croatian National Bank, the Agreement on using HROK was signed in the summer of 2006 and the data started to be sent to the Registry database. Since May 2007, the HROK credit reports have been used for the purpose of granting new loans, which represents a big change in the process of double-checking the creditworthiness of the loan beneficiary and the assessment of the loan risk in granting the loans.
4.8. RENT AND LEASE REAL ESTATE MARKET

The rent and lease market is divided into the residential rent market and the business lease market. When preparing this document, it was not possible to obtain the relevant data on the size of the above-mentioned markets so the findings on this topic are based mostly on the respondents' opinions collected during the research.

4.8.1. Residential rent market

During this research, the majority of respondents expressed the opinion that the market of apartment rent is very underdeveloped; concrete comments are that the real estate rent market is in an extremely bad and chaotic state, that there is no order on that market and no legal renting but the transactions are mostly carried out in the "grey zone" in order to avoid paying taxes. The general impression is that the rent market is not regulated or rather that nobody controls it. An additional problem is that the entire real property rent market is focused practically only on Zagreb while the involvement of other larger towns is poorer and the rent market in smaller towns has not taken root at all.

The respondents believe that the legislation is not adequate: there is no simple solution in case of breaching the rent agreement or the process of terminating the agreement; there is no legislation concerning the renting in terms of terminating the agreement, no real protection of either the lessor or the lessee so, without more significant interventions into the legislation and better control of the law implementation, the market situation will remain unregulated.

The enormous and unused potential of the real property rent market has been recognized both in terms of the benefits for the investors and real property owners and in terms of the tax revenues for the State. It is believed that this market will see better times only in the future so it has to be better regulated and systematically researched.

The Croatian citizens' attitude that "one simply feels best in one's own home" has been identified as one of the main problems for the real property rent market development. The possession of a real property thus has a certain psychological value and, according to the present experience, circumstances and dominant system of values, it gives a certain sense of security and represents a value that will be passed from generation to generation because only one's own real property can be called "home". The long-term lease does not offer a similar degree of security (especially in the circumstances of minimal legal protection) but is perceived as incertitude and a situation where people have to pay and leave "nothing behind".

Some owners recognize that the fact that there is no great mobility of the work force in Croatia has favoured such situation (apart from the tendency that Zagreb is chosen as the final destination) so the ownership of a real property is not a burden since the changes of residency do not occur often; that in Croatia there is no tax on real properties serving as permanent domicile and neither is there a tax on vertical inheritance (therefore, it is relatively cost-effective to have a real property); that a long-term lease in the current conditions can in practice always be terminated so it really is a very unstable solution. There is a perception that it is not more expensive to invest in the real property ownership than to pay the long term rent for a real property.

In these reflections the real property owners very often neglect the fact that their own real property requires further investments, so they do not include these costs in the calculations of the cost-effectiveness of investing in the own real property. This often results in the fact that many owners of the residential real properties, burdened by loan charges, have no means for a regular maintenance of the real property so the existing housing facilities in Croatia are relatively poorly maintained and are of poorer quality.
Furthermore, the construction investors do not even think of investing in constructing real properties for rent (so far, only two such relevant projects have been completed in Zagreb). They believe that, based from the experiences of the western countries, this is the future and will become interesting one day. At present, it can happen that some investors rent out apartments in constructed buildings but only because they cannot find any buyers for these apartments. The main reason for not thinking about investing in the real properties for rent is that the return on investments is too slow a process in the current conditions of the rental prices, construction prices, investment loan prices, taxes and contributions and the poor interest of the lessees that traditionally prefer the ownership and consider the rent as unstable, etc.

The contacted bank representatives agree that the banks should definitely show interest to grant loans for such projects. The banks find it acceptable when all relevant conditions are met (regulated real property rent market, interest of the investors, lessees and lessors) or, in other words, all the conditions that would guarantee to the banks the repayment of the loans from the funds collected through the real property rents.

4.8.2. Business lease market

The business lease market has experienced a strong development in the past ten years, mostly under the influence of the new projects of building the office and commercial premises undertaken mostly by foreign investors. The demand for the new premises has been created mostly by the companies located in apartments and the companies with their business premises in old buildings in the town centres, on locations that they will soon be of specific value through the new urban development, international companies that appeared in Croatia, local companies wanting a more representative business premises than the existing ones, banks and insurance companies, etc. At the same time, a number of shopping centres has been built, mostly in Zagreb and the neighboring area, that have introduced modern principles of leasing the business premises with all relevant elements for this market (the real property owners have a share in the lessee’s profit, strict rules for using the business premises, protection of lessors and lessees, etc.).

A strong development of the business premises lease market continued until mid-2008 when, under the influence of the global crisis, it began to stagnate in terms of halting the planned projects and of more difficult commercialization of the existing business premises on the market. The completion of the planned projects has additionally been slowed down by stricter loan policy of the banks, primarily by introducing the conditions of the high degree of contracting the pre-lease.

Regardless of the situation on the market, the rate of business premises vacancy is very low, although, as a consequence of the slow-down of the economy, the interest for retail shop lease was visible reduced in 2009.

| Table 54 Prices of rents, investment return rate and vacancy of office premises |
|---------------------------------|----------------|----------------|-----------------|-----------------|
|                                 | 2008 | 2009 | 2010 (P*) | 2011 (P*) |
| Average rent (EUR/ m² per month) | 15   | 14   | 12          | 12             |
| Investor’s profit (%)           | 10   | 7    | 6           | 6              |
| Vacancy (%)                     | 10   | 14   | 16          | 20             |

P* - projection
Source: in-house database of Zane Ltd.

Remark: The overview is based on the database for office spaces of A class in Zagreb while the trend in other larger towns in Croatia might significantly differ, depending on the dynamics of constructing new business premises and on the interest expressed on the market.
Table 55  Prices of rents, investment return rate and vacancy of commercial premises

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010 (P*)</th>
<th>2011 (P*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rent (EUR/m² per month)</td>
<td>40</td>
<td>35</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Investor’s return (%)</td>
<td>7,5</td>
<td>7</td>
<td>6,5</td>
<td>7,5</td>
</tr>
<tr>
<td>Vacancy (%)</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

P* - projection
Source: in-house database of Zane Ltd.

Remark: The overview is based on the database for shops in Zagreb but a similar trend can be expected, in aliquot amounts, also in other larger towns in Croatia.

Given the incredible growth achieved in the commercial premises segment and its general impact on the real estate market, the overview of the growth dynamics of this market and the expectations for the next year is illustrated separately.

Graph 53  Overview of the growth dynamics of the commercial premises market for the Republic of Croatia in 1,000 m²

P* - projection
Source: in-house database of Zane Ltd.

The business premises lease market in all segments is mostly concentrated in Zagreb although a significant growth of the lease market has been recorded in other large Croatian towns in the past few years.
4.9. **AVAILABILITY OF DATA RELATED TO THE REAL ESTATE MARKET**

With the development and use of modern technologies and, first and foremost the Internet, the possibilities of publishing all sorts of data have thus augmented and the data has become easily accessible for the public. This trend is also reflected in the availability of data related to the real estate market.

In the past few years, the number of various market-related information has grown along with the real estate market development, the media has started to pay attention and publish the real estate market specific data in their printed editions and on the Internet, and a multitude of web portals, agencies and ads focusing exclusively on the topic of the real properties has appeared on the internet. However, the great number of the published data does not guarantee its quality, as confirmed by the responses of the participants of this research. The respondents mainly believe that the information on the real estate market is generally inaccessible in a systematic and organized form; they believe that the public opinion about the real estate market trends is created on the basis of subjective information placed in the media and gathered from questionable and irrelevant sources.

From the generally negative perception of the available real estate market data, the extremely positive perception on the publicly available official data stands out. Namely, as part of the Organized Land project, the www.katastar.hr and www.e-izvadak.pravosudje.hr official web pages have been launched, while some local government units started publishing their physical plans on their official web sites during the project.

The www.katastar.hr Internet browser under the authority of the State Geodetic Administration was launched in November 2005. The browser allows access to 2,792,751 possessory sheets recording the total of 14,420,663 cadastral parcels and 2,379,619 persons. The procedure of digitizing all cadastral municipalities is also underway for the purpose of publishing the digital cadastral map database and, according to the estimates of the State Geodetic Administration, the digitization process might be completed by the end of 2010. Since the launch of the browser, the number of queries sent to the browser exceeded 25,000,000 which confirms the need for such availability of data and the benefit of the overall digitization efforts.

The www.e-izvadak.pravosudje.hr web site was launched in May 2005 and is under the authority of the Ministry of Justice. The web site allows access to the land registration unit, sub-units of the Book of Deposited Contracts and the status of “z” case.

The print-outs of the published data from both browsers are still for informative purposes only and cannot be used as official documents. The official documents are still issued by the corresponding cadastral offices and land registry offices of municipal courts.

It is also important to mention that https://e-uprava.apis-it.hr – e-service portal providing access to the data of the public registers of the City of Zagreb that, among other things, include the interactive map with the data integrated from the Physical Plan of the City of Zagreb and the General Urban Plan as well as additional data on the detailed plans that can be downloaded in PDF format. Besides, it is possible to access the status of utility bills and services, and the data on cadastral parcels. The information on identification serving to link the cadastral parcels from the cadastral documentation with the cadastral parcels in the land registers can be found among the data on cadastral parcels. This refers to the cadastral municipalities where resurveys have been conducted but they were not used to renew the land registers.
During the research, the respondents were asked to give their opinion on the access to information in general and the access to digital information (physical plans and cadastral maps, possessory sheets, title sheets, building permits, usage permits, and “z” cases).

With regards to the digitization and the IT introduction in the land registry system, the respondents share a uniform opinion that this was an excellent move of great benefit for obtaining timely information, a move that saves time to the interested parties. It was pointed out that this should have been done before because it is extremely important and a positive change is felt as compared to the situation a few years ago. The respondents believe that it is necessary to continue raising the awareness about the fact that this information is on the Internet, since many potential users are still unaware of it. The fact that data is updated on daily basis has also been commended.

The respondents share the opinion that in the period between the first publications and the present, a great progress has been made due to the fact that the manually kept land registers were transformed...
into the e-land registry (EDP) and the data has become public via the Internet so the entire system is now functioning in practice.

Excellent progress has been made but it does not suffice. Apart from the availability of the information on what belongs to whom, a much greater problem is to solve the actual legal and property related issues, and regulate the real ownership which is still a big problem in the current situation when court procedures are extremely slow.

Figure 18 Manually kept Land Registry Books from which official Land Registry Extracts were obtained by manual transcription

![Figure 18](image1.png)

Source: Organized Land

Figure 19 Display of the e-Land Registry extract

![Figure 19](image2.png)

Source: Organized Land

Apart from a fast provision of information on the status, the following is seen as additional benefits of accessing the digitized information:

- Relief for institutions – now the institutions like the land registries can be relieved of the pressure of queries because the interested parties need not go to the institutions and wait in line to obtain the information on ownership, etc.;
- Creating the preconditions for transparent functioning – there is a speed of access to information and the availability for all so the possibilities for manipulation have been reduced and there is no need for corruption and nepotism.
It is interesting that the availability of ownership and possessory sheets on the internet at the outset did not reduce the number of visitors to the cadastre and land registries. When the data started to be published on the internet, the cadastre and land registries were additionally burdened with telephone calls from the users who browsed the data on the internet but did not understand it so they asked for clarifications. Many even came and asked additional clarifications related to what appeared to them as illogical. Having accessed the data on the Internet, the users realized that something was wrong with their property so they came to double-check the matter. The impression is that there is enough information but little knowledge as to how to interpret the data so it is interpreted incorrectly and people come to the institutions to obtain the correct interpretation.

This finding underlines the importance of the user training and points to the fact that the land registration and cadastral data is very profession-specific, so careful handling is required when publishing this data.

The queries on the need to identify the cadastral and land registration parcels in an easier way demonstrate the attitude that there is a great need for easier identifications of cadastral and land registration parcels. Here a problem has been identified in practice with regards to the double numbering for certain cadastral municipalities. It is believed that additional efforts should be invested in the final correction of double numberings because this is very confusing for the parties.

With the queries on the inability to access “z” cases, except for the parties in procedure, the opinions are split as to whether it is necessary to allow everyone to access “z” cases or not, i.e. to allow it only to the concerning parties. The respondents believing that this is necessary substantiate their attitude with the fact that these are public registers and that it might be necessary for a wider audience (e.g. agents, first-door neighbors) to see the status of a certain case. At the same time it is necessary to provide security and protect the case from any abuse. Some point out that there might be people, especially public personae, not wanting the others to know what they own or the kind of legal and property related issues they have. On the other hand, the attitude emphasizing that it is not possible to allow access to everyone is based on the premise that it is critical to respect privacy. The impression is that this is primarily a legal issue of protecting the right to information and the right to privacy. Only the legal experts can decide what would be the correct solution while the others, as was the case in this research, can only be consulted.

Regarding the need for the availability of cadastral maps and physical plans in digital format, the general attitude of the respondents is that there is a great need to access such data and that the public is very interested in such graphical illustrations. The general assessment is that positive progress is visible in this segment and there is a clear optimism among the respondents about further developments in this part.

The problems emphasized by the respondents regarding the digital layout of cadastral maps are as follows:

- discrepancy between the data in the cadastre and in the land registries
- complexity of cadastral layouts that can be understood only by experts while the non-professionals can only be confused and interpret the map incorrectly which can entail a number of problems
- due to a significant quantity of data, it would be difficult to update these maps.

The physical plans would not cause such problems while the cadastral maps, due to these restrictions, could be used more intensively only by the professionals.
4.10. ASSESSMENT OF THE REAL ESTATE MARKET EFFICIENCY FROM THE FOREIGN INVESTORS’ POINT OF VIEW

Based on the market information and the discussions with foreign investors (both physical and legal persons), the general attitude is that in the past few years Croatia has made certain steps in terms of improving the efficiency of the real estate market elements required to encourage foreign investments in this segment but still not sufficiently enough. This primarily relates to the adoption of the valid regulations related to the real estate market as well as to the creation of the preconditions for “clearing up” the legal status related to the real property.

This is also confirmed by the analysis of the World Bank and its International Financial Corporation and the “Doing Business” project that, on the basis of 10 different parameters, the conditions for doing business are analyzed in 183 countries worldwide (the parameters for setting up a company, obtaining consents for construction, employing workers, registering real property ownership, obtaining loans, protecting the investors, paying taxes, international trade, enforcement of the contracts after commercial disputes and company’s closure) and the duration, number and cost of the procedure is analyzed for each parameter.

According to the last “Doing Business 2010” report, Croatia is ranked as 103rd out of 183 countries while, in the region of Eastern Europe and Central Asia, it is ranked as 21st out of the total of 26. The parameters of importance to the real estate market indicate certain progress but Croatia, as compared to the countries observed, is still near the bottom of the ladder.

According to the “Doing Business 2006” report that for the first time included the analysis of Croatia in the research, the process of obtaining building permits (involving the process of connecting the building to utility infrastructure, obtaining the usage permit and registering the newly built building in the cadastre and land registries) included 27 different procedures requiring 394 days. According to the recent “Doing Business 2010” report, the number of procedures has been reduced to 14 but the duration of the process has been prolonged to 420 days, a process which ranks Croatia as 144th out of the total of 183.

According to the “Doing Business 2006” report, the process of registering the real property title, including the purchase procedure, involved 5 different procedures requiring 956 days while the most recent “Doing Business 2010” report stated that it took 104 days for the same number of procedures. In any case, this is a significant progress but it still ranks Croatia at the bottom of the list: 109th out of the total of 183 places.

Given that the foreign investments represent one of the most important economic indicators, especially when it comes to the countries with the limited internal capital resources, this segment is very important for the real estate market as well and, in this sense, it is important to invest further efforts in creating better conditions for further foreign investments in the real properties (both by physical and legal persons). The data on the foreign ownership investments in the real properties are shown in Table 56. It indicates that direct foreign investments into the real properties amount to about HRK 50 million which is about 1.5% of the total direct foreign investments and far below the level that would be considered satisfactory.

<table>
<thead>
<tr>
<th>Table 56</th>
<th>Direct foreign investments in real property – in million EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td><strong>Foreign ownership investments in the real property</strong></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>52,5</td>
</tr>
<tr>
<td>Total direct foreign investment</td>
<td>3.670,2</td>
</tr>
</tbody>
</table>

Source: Croatian National Bank (CNB)

* data before 2007 is not contained in the source
** preliminary data

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2 The region of Eastern Europe and Central Asia comprises the following countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Cyprus, Montenegro, Estonia, Georgia, Croatia, Kazakhstan, Kyrgyzstan, Kosovo, Latvia, Lithuania, Macedonia, Moldavia, Poland, Rumania, Russia, Slovenia, Serbia, Tajikistan, Turkey, Ukraine and Uzbekistan.
The dissatisfaction with the level of foreign investments in the real estate market is clearly visible in the talks conducted with the respondents as part of this research.

Without exception, the respondents believe that Croatia is not attractive for foreign investors and that Croatia simply does not exist on the investment map of the world. According to the opinion of the majority of respondents, the foreign investors who were brought to Croatia in the past few years simply fled. At this moment, foreign investors are neither present nor coming and they believe that no serious investor has come to Croatia in the past year and a half.

According to the respondents' opinions, the main reasons for such a situation are as follows:

- Overblown prices: The prices of real properties are not realistic given the global supply.
- Slow completion of investments in the building sector: Some local investors stated that it takes as much as ten years from the purchase of the land to the sale of the constructed real property. This is unthinkable for foreign investors and they experience it as a bureaucratic obstacle.
- The authorities offer no adequate incentives: The respondents believe that the State thinks it will gain more by not giving in to an investor while the situation is completely opposite: the State should invest in the infrastructure, provide the land at a favourable price and there will be investments. The attitude should not be how to take as much as possible from a potential investor. This approach can only damage.
- Croatia has not undertaken any marketing efforts to attract the investors: at the global level, there is no marketing that would present Croatia as an investment destination. We are known as a tourist country, a beautiful country but not as a country for investments.
- Unsafe investment frameworks: Inadequate laws, non-regulated situation, high degree of corruption, etc. are not the elements to attract foreign investors.
- Lack of infrastructure: The transportation infrastructure and the utility infrastructure are important aspects; the infrastructure must be developed and well-maintained.

However, regardless of the relatively negative attitudes of the respondents about the status of foreign investments in the real properties, it is undisputable that, since Croatia gained its independence, the foreign investments have played an important role in the real estate market development. This mostly concerns the investments in the infrastructure and tourism as well as the development of the business premises market, logistics and, to a smaller extent, the residential property market.

Since the foreign investors on the real estate market approach the decision on investing in a very complex way, by producing various studies, market checks, etc. and that the availability of the relevant data of various institutions is crucial in the production of such documents, the foreign investors, already present in Croatia or considering to invest in Croatia, think that this segment needs to be improved in terms of establishing systematic and organized data about the real estate market.

An additional indicator of the state of foreign investments in this segment is offered by the overview of consents for acquiring real properties issued to foreign physical or legal persons in Croatia. Namely, the foreign physical and legal persons can, under the condition of reciprocity regulated by the agreements between the Republic of Croatia and the country where the foreign buyers have registered their residence or seat of business, acquire titles of real properties in the Republic of Croatia only with the consent of the Minister of Justice. The only exception is the citizens and legal persons of the EU member States that, since 1 February 2009, have acquired the right to own real properties in RoC under the same conditions as stipulated for the Croatian nationals.

Table 57 and graph 54 clearly indicate that the number of received and accepted consents has been growing at a relatively stable pace in the past few years with the exception of 2006. It has also been demonstrated that the degree of consenting to the received requests has been rather stable and that it amounts to about 60%. However, its absolute aggregate indicates that the number of applications is still relatively small as compared to the total number of sales. This should be considered carefully since these numbers do not contain the sales completed through project development and the sale and purchase of ownership shares of the companies set up for the special purpose of trading with the real properties (real property stated as the company capital or assets).
Table 57  Overview of consents for acquiring real properties issued to foreign physical or legal persons

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>1.239</td>
<td>1.615</td>
<td>1.969</td>
<td>1.526</td>
<td>2.748</td>
<td>2.887</td>
</tr>
<tr>
<td>Approved</td>
<td>747</td>
<td>983</td>
<td>1.286</td>
<td>981</td>
<td>2.096</td>
<td>1.856</td>
</tr>
</tbody>
</table>

Source: Ministry of Justice, data provided by the CCE

Graph 54  Overview of the trend of giving consents for acquiring real properties to the foreign physical or legal persons

Source: Ministry of Justice, data provided by the CCE
4.11. OVERVIEW OF THE FORMAL AND INFORMAL RELATIONS AMONG THE REAL ESTATE MARKET PARTICIPANTS

4.11.1. Position of the institutions and process of registering the real properties

The responses of the respondents to all the questions posed during the interviews can serve as the basis to compile a brief overview of the informal position of each segment present at the real estate market:

- **Real property owners:** the real property owners are not very familiar with the market, laws, property relations concerning the real property and the physical plans so they are easily manipulated by the interest groups. In the process of buying a real property, they often depend on the banks without whose loans they are unable to proceed. They also need help from the real estate agents, lawyers, surveyors and public notaries in the process of buying and registering the real properties. Their influence on the local government units is limited with regards to the adoption of physical plans. Therefore, they are limited in terms of having power or instruments of power, except at the elections although even there they are unable to channel their interests regarding these issues. They feel alone and have the impression that the others are enforcing their interests while they are not and are under the impression that the institutions are bureaucratized and living off of them, not serving as an efficient service for them.

- **Banks:** banks have an extremely dominant and powerful position. The investors and real property owners need them because without their loan leverage they cannot undertake any investments i.e. purchase a real property. They offer credits and charge mortgages according to their own rules (conditions on the regulated ownership relations) which directed the interest of wider audiences to the ownership issues. The land registers and cadastre have thereby become the institutions in the centre of the public attention as have their problems. In other words, they have become the institutions able to dictate the trends and changes, and moderate the market processes. By increasing the interest rates, they have stopped the enormous growth of the residential market of the last decade. Without banks, the market does not develop, regardless of the market specificities and legal and other support mechanisms of the real estate market. The banks are simply the generator of this market.

- **Building contractors:** building contractors have business interests and great complaints against the work of the supporting institutions (banks, land registries, local government units, cadastre, and central legislative authorities) that they consider as lacking understanding for them and not serving their interests. They are very often also the main interest group exerting pressure on the local government units with regards to physical plans and on the central authorities with regards to various laws and legal amendments (e.g. Law on Golf Terrains). They have the motif and a situation that dictates them to try and solve the problems by lobbying, corruption and nepotism if all else fails. They are definitely the group with the strongest interaction, they try to act proactively towards the others but the others (local government units, banks) can also successfully shape their own position.

- **Cadastral offices:** cadastral offices are the institutions under the greatest pressure. Their service is not appreciated by the real property owners and investors while the legislators are trying to offer guidelines that concern them and the banks and lawyers monitor their work. The professionals are feeling the pressure and are not paid adequately, there is a great fluctuation of the employees, the lack of quality and trained staff is felt, the works are complex and comprehensive and although the cadastre and its staff are not the main source of the problems (systematic disregard for ownership and cadastral works in the past social system) they take the biggest blame for it together with the real property owners.
- **Land registries of municipal courts**: land registry offices are also an institution experiencing great pressure. The problems are big, they are expected to work fast and solve the ownership issues, and the central authorities have done a lot regarding the personnel assistance and the modernization processes (digitization).

- **Licensed surveyors** have an advisory function of assistants. Since their services are sought after, their market position is adequate and relatively independent; surveyors from the cadastral offices want to work as licensed surveyors. The legislative power is the one creating potential problems for them if it does not have a good insight into their work or offer adequate legal solutions for this sensitive field.

- **Lawyers**: lawyers also have an advisory function of assistants. They are also independent, can be dissatisfied with the bad laws and bad application of the laws or can share dissatisfaction with the parties regarding the legal aspects; the others cannot significantly influence them and neither can they significantly influence the other market groups.

- **Real estate agents**: along with the lawyers, public notaries and licensed surveyors’ offices, they also belong to the group of assistants. However, it is the group with the poorest reputation (unresolved situation at the real estate agency market, many unlicensed agencies); in the land registries they do not have the status of an official (as e.g. lawyers or surveyors) which puts them in an inferior position. They expect the legislators to solve their status and to assume a better market position. The investors and buyers need them and this is the source of their strength which they count to achieve in the future.

- **Local government units**: local government units adopt physical plans, charge utility fees and contributions, and issue building permits. They play a distinct role in the informal balance of power. The interest groups, real property owners and the wider public exert pressure on them when it comes to physical plans while the legislators provide a framework for their operations. Just like the central and county authorities, they can be a source of frustration for other groups present at the real estate market.

- **Central authorities**: central authorities determine the laws and rules and are often the source of dissatisfaction due to the illogical or complex legal solutions for all the market participants. They are not involved in the everyday market operations as are local government units due to the physical planning and issuing of permits. Dissatisfaction is felt among other participants because they cannot influence the central authorities which are very important.

### 4.11.2. Institutional mapping of a typical situation during a real property sale

**Introductory remarks**

This overview illustrates the institutional mapping of a typical situation representing a basic sales transaction: the seller and buyer, in this case typically natural persons, execute the agreement on selling the real property that they confirm with a deed of purchase as the central document in the process of transferring the title.

**Methodology of the overview production**

The overview of the institutional setting during the sale of a real property is of a general nature and illustrates various possible sub-processes and participants that may or may not occur in every particular case. For example, the real property seller may decide to undertake the preparatory actions related to the land (such as a subdivision or condominium splitting) but this step is not required every time the typical situation shown in the overview occurs. Of course, if they undertake a certain (non mandatory) action, their initiators will be faced with some mandatory institutions or participants envisaged under the current legislation. Parts of the processes that are not mandatory are illustrated by dotted lines while the mandatory parts are shown with solid lines.
The basic meaning of the symbols in the overview is explained by the legend. The processes are illustrated by the solid arrows above which the basic documents derived from their production are stated along with the supporting documents needed for submitting the application or passing an official decision. The symbols distinguish between the institutions and participants whose participation in the process or one of its special branches is mandatory from the ones whose participation is not mandatory but is commonly found in practice. The line arrows show the link between the institutions and basic documents, i.e. the authority in charge of their adoption.

Table 58  Overview elements

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="Symbol" /></td>
<td>Start of the basic process</td>
</tr>
<tr>
<td><img src="image2" alt="Symbol" /></td>
<td>Flow of processes or sub-processes</td>
</tr>
<tr>
<td><img src="image3" alt="Symbol" /></td>
<td>Mandatory participants</td>
</tr>
<tr>
<td><img src="image4" alt="Symbol" /></td>
<td>Non-mandatory participants</td>
</tr>
<tr>
<td><img src="image5" alt="Symbol" /></td>
<td>Basic document</td>
</tr>
<tr>
<td><img src="image6" alt="Symbol" /></td>
<td>Supplementary (conditional) document</td>
</tr>
<tr>
<td><img src="image7" alt="Symbol" /></td>
<td>Public notary authentication</td>
</tr>
<tr>
<td><img src="image8" alt="Symbol" /></td>
<td>Basic authorities</td>
</tr>
</tbody>
</table>

Description of a typical situation

Below are the textual and image descriptions of a typical situation during the sale of the real property whereby the seller and buyer execute an agreement on the purchase of the real property confirmed by the deed of purchase as the basic document in the process of transferring the title. The situation envisages the option of previously preparing the land for sale and preparing the financial framework for the sale. After the execution of the basic contract for transferring the title, the process is continued by recording the newly created situation in the land registers and cadastre, and by meeting the tax obligations towards the State.

- The real property seller and its buyer execute a purchase agreement confirmed by signing a deed of purchase in writing. The interested parties can but do not need to use the services of a lawyer or a real estate agent.
- The seller may, before or during the purchase agreement, carry out a procedure of preparing the real property involving the changes in the cadastral records such as the land subdivision.
Thereby, he/she is obliged to ask a licensed surveyor to produce a geodetic report that will serve as the basis for the cadastral office to issue a decision on changing or adding the data.

- In order to prepare a financial framework for buying the real property, the buyer may carry out a procedure of contracting a loan, typically by submitting a request to a financial institution such as the bank. The bank business policy normally requires, as a condition for obtaining a loan for purchasing the real property, a contract on providing security by temporarily mortgaging the ownership recorded in the land registers even before the purchase price is paid to the seller.

- After the execution of the deed, the purchase of the real property is reported to the tax authorities and if the buyer is entitled, he/she submits a request for the exemption from taxes with the application, substantiated by the documents determined by the tax authority.

- The transfer of ownership in the land registers is implemented based on the request of the real property buyer accompanied by certain supplementary (conditional) documents such as, first and foremost, the clausula intabulandi or a statement (independent document or part of the deed of purchase) whereby the seller gives a consent for the transfer of ownership. During the procedure of changing the status of the land registers, the so-called flag (plomba) is put on the application as long as the procedure lasts.

- The data on the possessor of the cadastral parcel is changed through an administrative procedure at the request submitted by the real property seller (or his/her authorized representative) which results in an administrative legal decision on the change of status and in the document on the new status.

The institutional map with costs is shown on the following page.
REAL PROPERTY SELLER

PREPARING THE REAL PROPERTY FOR SALE
- DECISION ON THE STATUS OF CADASTRAL RECORDS
- GEOGRAPHIC REPORT
- REQUEST FOR CHANGING CADASTRAL DATA

CADASTRE
- MATCH BETWEEN THE LAND REGISTRY AND CADASTRE
- SURVEY
  - 2000-2000 m²
- OBJECT RECORDING
  - 1800 HRK
- PARCEL IDENTIFICATION
  - 2000-2000 m²

SURVEYOR

REAL ESTATE AGENT

PURCHASE AGREEMENT

LAWYER

2.4% real property value

REAL PROPERTY BUYER

PREPARING THE PURCHASE FINANCIAL CONSTRUCTION
- LOAN REQUEST
- LOAN AGREEMENT
  - Public notary: 2% of contract value

BANK
- COSTS OF LOAN PROCESSING
  - 1% value, max. 7000 HRK
- REAL PROPERTY VALUE ASSESSMENT
  - Max 2500 HRK, Issue 1500-2000 HRK
- INTEREST RATE
  - Variable 7.5%
- COMPOUNDED INTEREST RATE
  - As per interest rate

LAND REGISTRY OFFICE
- LAND REGISTRATION (Up to 20 HRK)

DECISION ON OWNERSHIP TRANSFER

REGISTRATION OF OWNERSHIP TRANSFER
- APPLICATION FOR TITLE REGISTRATION
- CLAUSULA INTANGIBLE
- PROOF OF CITIZENSHIP
  - SELLER SIGNATURE AUTHENTICATION
  - 125 HRK

TAX RETURN

TAX DECISION

TAX AUTHORITIES
- Old buildings: 5% of real property value
- New buildings: 5% of the amount not subjected to VAT during the construction

DISCHARGING TAX LIABILITIES
5. OBSTACLES TO THE DEVELOPMENT OF EFFICIENT LAND MARKET AND TO THE IMPACT OF ORGANIZED LAND PROJECT IMPLEMENTATION, AS WELL AS PROPOSING DEVELOPMENT DIRECTIONS OF EFFICIENT LAND MARKET

The final topic of this study discusses the obstacles to the land market development in general and related to the Organized Land Project in particular, along with the proposed guidelines for developing a more efficient land market.

5.1. DETERMINING THE OBSTACLES TO THE DEVELOPMENT OF AN EFFICIENT LAND MARKET AND TO THE IMPACT OF ORGANIZED LAND PROJECT IMPLEMENTATION

Even though in the last few years the real estate market has improved rapidly, as conditioned by a large number of different political, economic and social factors, the market has stagnated in the past year and the main reason for it seems to be the economic crisis.

The negative aspects of economic crisis have been additionally worsened by unrealistically high prices of real property on the market and the unfavourable terms of investment and housing loans which are the main obstacles for potential buyers. Due to this, less and less citizens decide to buy a real property. Besides, at the time the real estate market was prospering, part of the investors started constructing without previously analyzing the market, so the newly constructed real properties fit neither the buyers’ profiles nor their desires and capabilities.

From the standpoint of potential investors the obstacles are numerous and mostly related to paperwork, the functioning of local government units and to some expenses that the investors consider unnecessary. The paperwork problem appears in all investment phases: obtaining permits, decisions made by competent bodies, not enforcing the laws, the real property registration process and similar factors that greatly slow down the return of invested funds for the investors. This is followed by an additional problem of corruption which is closely connected to bureaucracy and/or the non-functioning pillars of the real estate market. When the things are not functioning or not functioning fast enough, there is a great danger of solving such situations through corruption and nepotism.

The obstacles related to the local government functioning are mostly demonstrated by an inadequately developed infrastructure, so very often the investors have to finance the infrastructural development themselves. There are also contributions that the investors have to pay while obtaining the approvals to construct, and these contributions are, in the opinion of the majority of investors, too high. Furthermore, when talking about the utility contribution, the investors believe that, apart from its considerable cost, there is a problem of irrational and non-transparent spending of the funds collected through utility contributions.

The infrastructure problem is most often related to the inability to implement the infrastructure in places where the situation in the cadastre and land registers is not regulated and harmonized.

Despite the significant progress achieved in the last few years, the obstacle that concerns all the participants on the real estate market is the discrepancy between the land registers and cadastre which additionally slows down the purchase and sale transactions, the disposing with real properties and the physical planning.

Despite all the positive aspects achieved through the Organized Land Project, further efforts are required in the standardization of court practice in every land registry office as well as among land registry offices of various courts. The standardization of the court practice is necessary from the aspect of legal security and real estate market development and there should not be cases in which various land registries act differently in identical legal situations and pass different decisions. Besides, more attention should be paid to improving the quality of processing the land registration applications and only the applications that are, from the legal point of view, simple are processed fast while the complex applications are processed very slowly or not at all. The above-mentioned is the
consequence of an inadequate number of professional, experienced and highly educated persons who can and know how to resolve complex cases. In the complex cases, additional obstacle is the inability of a land registry clerk and/or judge processing the case to contact a party or its legal representative, which is the current situation in some land registry offices. Although such a solution certainly has its good sides in terms of reducing the ability to influence the persons processing the cases and providing the necessary peace for the persons processing the cases, there are also negative aspects to it reflected in the fact that it is impossible to exchange the legal opinions or previous experiences. Sometimes, the ability to communicate with them would certainly facilitate the solving of complex cases and the fact that there is a big number of really complex and complicated cases that are difficult to solve without good communication with the land registry should not be disregarded either.

5.2. OBSTACLES RELATED TO THE ORGANIZED LAND PROJECT IMPACT

Even though the respondents unanimously share the opinion that the Organized Land Project has definitely brought about many positive changes and has significantly influenced the real estate market development, there are certain segments and problems related to the functioning of the cadastre and land registries which are still unresolved and still do not contribute optimally to the further development of the real estate market.

The solution provided by the Amendments to the Land Registry Act of July 2004 (OG no. 100/04) stipulating that disorderly and incomplete applications will be rejected, is not the most fortunate one for solving the great number of land registration cases since the majority of applications rejected in this way have been returned i.e. resubmitted to the land registry offices which has not solved the problems but just achieved a “statistical” effect of formally clearing the backlog. Furthermore, it was assessed that the rejection of cases in certain instances might have or had very significant consequences for acquiring registration titles since it could happen that some applicants lost their title due to the loss of the order of priority. A particularly sensitive issue is also the fact that this provision of the Act had a retroactive effect and affected also the applications submitted before the amended Act entered into force. The existing solution provided by the Amendments to the Land Registry Act of October 2007 (OG no. 107/07) is also not the best one since it enables the courts to request the applicant of an incomplete application to submit subsequently the documents (not representing the clausula intabulandi) whereby the option has been introduced to give the person processing the case discretion as whether to summon the applicant to complete the application or not.

When transcribing the manually kept land registers into the digitally kept land registers, certain errors were made in a small number of land registry files during the transcription (partly due to the great number of the data that was transcribed and partly because of some persons undertaking the transcription were not professional enough) that might have significantly affected legal security and the rights of persons suffering from the erroneous transcription. The consequences of the erroneous transcription may be especially grave with regards to verified land registration files where the principle of utmost trust in the land registers is being applied. Apart from the stated error of transcription, it has also been noted that the computer applications applied in the land registry offices have defects, which has in some cases led to erroneous and/or illogical entries and inability to correct such entries.

5.3. PROPOSING THE DIRECTIONS OF THE DEVELOPMENT FOR THE PURPOSE OF CREATING AN EFFICIENT LAND MARKET

In order to create an efficient real estate market it is necessary to remove the previously mentioned obstacles, i.e. to complete the initiated improvements.

From the investors’ and buyers’ point of view, the availability of more favourable funds (loan) is important. The respondents believe that, in the current conditions of complete paralysis experienced at the moment at the land market, it is crucial to launch the new projects or enable a faster
commercialization of the existing ones which is impossible without the involvement of the State bodies and commercial banks. Various ideas have been expressed concerning the possibility of solving the issue of the currently unfavourable conditions and the investment and housing loans ranging from the State offering subsidies for part of the loan interest rates in order to allow the land market to start functioning normally up to the ideas on setting up a State fund aimed at evaluating the project quality and offering support to projects. The influence of the Organized Land Project activities is crucial here, since the activities that have already brought about significant changes, further organization of registers, establishment of a simpler system of real property ownership verification and the harmonization of the situation in the cadastre and land registries with the actual situation will help achieving one of the basic preconditions for further capital injection into the real estate market. The harmonization of cadastre and land registry data remains the key work that the institutions responsible for the real property registration must conduct in the future phases of the reform. Within the Organized Land Project, guidelines were given for the efficient implementation of harmonization activities, and more detailed information is stated in the Analysis of the impact of cadastral surveys and land registry renewals on local government units.

A significant progress in this segment will be seen with the achievement of the basic objective of the Organized Land Project: Establishment of Real Property Registration and Cadastre Joint Information System (JIS), the unique database of cadastre and land registers. The JIS is a unique system for keeping and maintaining the above-stated data which will make sure the harmonized data of cadastre and land registers does not differ any more, the procedures that were often doubled will be cancelled (reduction of bureaucracy), and the centralized database will enable a better quality reproduction of data on the Internet (in real time) which is another step forward in the legal security aspect on the land market and is one of the main project objectives. With the migration of data from all databases in the network of cadastral and land registry offices into the JIS, the preconditions will be ensured for a precise assessment of data harmonization, and also assumptions will be created to harmonize data quickly in cases where there are minor discrepancies which are a result of historical legacy and double record-keeping.

The JIS as a single real property database opens up the possibilities for the key land market stakeholders to communicate (public notaries, banks, geodetic companies, lawyers, real property agents, etc.).

In order to have a good-quality migration of data into JIS, it is necessary to complete the process of verification of land register digital transcriptions which will be completed sooner as the data is more available, as well as to complete the vectorization of cadastre maps which will set the preconditions for a simple and fast access to the spatial cadastre data and to have the future JIS complete, since it is currently in its final phase of development and testing.

It is also important to continue the reduction of backlogs and to reduce them to a satisfactory level which is a precondition for a faster processing of land registry cases. It is also necessary to increase the number of licensed land registry clerks in the entire state which would mean that there more persons authorized to process cases, and with additional education, this would improve the processing of complex cases.

The investors might contribute to the efficient real estate market by planning new construction and investment projects that meet the market needs. In order to bring the supply closer to the needs of buyers, the respondents believe it is necessary to know what the buyers want and what they require from real properties from various segments, and then adjust the spatial structure in projects to these desires. In order to achieve this objective it is necessary to establish and maintain systematic and organized information sources regarding the situation and trends on the land market.

It is necessary to increase the institutional efficiency and working speed as well as the staff training in the relevant institutions. The institutional inefficiency is the basic reason behind the corruption, therefore the main guideline of the fight against corruption are faster processes and better efficiency of the institutions, rather than the repression.
The local government units could give their contribution through the development of traffic and utility infrastructure, especially when the issue is an industrial and entrepreneurial zone, then by encouraging the construction through lower costs for obtaining permits, by introducing incentives for investors and by reducing the fees, as well as by covering their territories with spatial plans at all levels which should be functional and applicable in practice. Their contribution is required to attract foreign investors.

Also, it is necessary to additionally regulate the role of the real estate market agents. Even though certain progress has been made, further improvements are necessary in order to facilitate the purchase and sale transactions, as well as the procedure of obtaining the purchase and sale decisions, which would significantly impact the speed of implementing these processes.

All real estate market participants should respect the legal regulations, without being able to take „informal short-cuts“. The issue of legislative framework includes the adoption of better legislative solutions where necessary while, on the other hand, the existing regulations should not be amended too often. This element has been assessed as a precondition for bringing the real estate market in order.
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