



Market Overview

ZAGREB

RETAIL | SECOND HALF | 2008

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Economic Environment H1 2008

- In the first quarter of 2008, GDP in Croatia reached 69 Billion Kuna (EUR 9.5 Billion), which was 11% higher than in the first quarter of 2007.
- By April of 2008 the average net wage in was HRK 5,023 (EUR 688). From 2002 to the end of 2007, the net wages in Croatia grew by around 30%.
- From December 2007 till May 2008 the inflation rate grew by 3%; however when comparing May of 2007 with May of 2008, the inflation rate stated as 6.4% higher.
- The unemployment in May 2008 came to 13.2%. For the whole of 2007, the unemployment rate was 14.8%. This rate of unemployment has been decreasing in the last three years.
- FDI in Croatia increased by 86.5% from 2005 to 2006. By 2007, the FDI reached EUR 3,626 Million.

Retail Real estate highlights

- The capital of Zagreb is Croatia's strongest and fastest developing retail market, although the larger Croatian cities such as Varaždin, Rijeka, Zadar, Šibenik, Dubrovnik and Osijek have also seen increased retail and investment activity in the recent years
- 10 new shopping centers, which will bring around 600,000 m² of additional GLA to Zagreb's retail scene, are in the pipeline
- Current shopping centre rents in Zagreb range from EUR 15 – 80/m²/month; with the average range being EUR 30 – 50/m²/month, while rental levels for prime locations are considerably higher ranging from EUR 80 – 120/m²/month

SUPPLY

The retail market segment of Croatia's overall real estate sector is one of the most dynamic sectors in the country. With the strengthening of the economy, citizens' growing purchasing power and the prospects of Croatia joining the EU by 2010, make the Croatian market increasingly interesting to both local and foreign investors. The urban centers have naturally seen the fastest pace of the investment in and the development of this sector. The capital of Zagreb is Croatia's strongest and fastest developing retail market. Other larger Croatian cities such as Varaždin, Rijeka, Zadar, Šibenik, Dubrovnik and Osijek have also seen increased retail and investment activity take place in the recent years. In the next one to two years time each of these, and certain other urban centers around the country, will have at least one new shopping centre present.

Shopping Centers

Four new shopping centers opened up in Zagreb the 2000-2003 period, additional three in the 2006/2007 period, with around 10 more due for completion by 2010. This means that in two to three years time the capital city's retail market scene will be close to complete saturation with around 800 m² of GLA per 1,000 people and limited room for only certain specialized niche retail projects to succeed.

Current shopping center stock in Zagreb stands at around 230,000 m² of GLA and is made up of nine existing shopping centers. Around 110,000 m² GLA of this is contained in three shopping malls of City Centre One, Mandi and Avenue Mall, which arrived on the market in the 2006/2007 period.

In addition to these, thirteen new shopping centers, which will bring around 600,000 additional square meters of GLA to Zagreb's retail scene, are in the pipeline. Some of these new projects include Shopping City Zagreb 'Westgate' in Zaprešić, M2 Buzin 'Supernova' project, Bluehouse's 'Vrbani' neighborhood

shopping centre and LS Property's 'Zagreb Mall' shopping centre in the eastern part of town. An exact completion date for some of them is unknown, however it can be predicted that around 75% of them will get completed by 2010. It is estimated that Zagreb including the wider city area will have over 800 m² of GLA per 1000 residents, which is a considerable figure for a city of only around 1 million residents.

Outlet Centers

The Outlet Centre sector, as new strengthening segment of the retail market in Croatia, appears as relative competition to certain shopping centers present in Zagreb. The two upcoming outlet centers, Roses in Sveti Križ Začretje, located northwest of Zagreb towards Maribor, Slovenia and Prigan Holdings' outlet centre in Sveta Helena, northeast of Zagreb are due for completion by the end of autumn 2008. These centers target a slightly different customer profile commanding different buyer behavior and will, to a degree, take away a portion of the customer profit from the existing malls in the area.

Neighborhood Centers

Neighborhood Centers focus on a smaller catchment area consisting of predominantly local residents and offer a standard shopping centre service with additional entertainment – leisure based experience. A first example of this in Croatia will be the Vrbani centre in Zagreb currently under construction, being developed by the Greek investor Bluehouse Capital Group.

Power centers

A Power Center has a focus different to that of a neighborhood center. It functions as a cluster of retail, entertainment and leisure contents, together with big box

stores and more specialized shopping centers grouped in close vicinity of one another. The first center of this kind in Croatia is currently being developed by an Austrian developer Redserve, near the city of Zaprešić northwest of Zagreb.

High Street

High street retail locations in Zagreb and other larger Croatian cities are still the most desirable retail spaces in town. In most cases and as is especially true for Zagreb, the stores in the older, central parts of town are most sought after, least available and command the highest rental rates in town.

Historically and today, high street locations were and still are considered to be the prime retail locations of any town. The occupancy rates on these locations are almost 100% and vacant spaces get filled out almost instantly. These locations, and especially those on the ground/street levels, are extremely hard to come by. This is the reason for the refurbishment of some of the upper floor spaces of buildings located on high streets; extra retail or service space is thus obtained, which satisfies a portion of the retailer's demand for prime space and gives the customers extra in terms of a more varied retail offering.

Big Box / Retail Warehouse

In addition to the shopping centre market, the big box market in Zagreb is also the strongest in Croatia and will continue to be so in the foreseeable future. With over forty big box stores in Zagreb and in the city's wider area, this segment of the market is also expected to continue growing. All types of big box stores, ranging from food, home décor, garden, building material, furniture, etc, are already on the city's retail scene.

Some of the strongest players in Zagreb's big box market include Konzum with seven supermarket stores, Billa, Getro, Mercator, Lidl, Pevec and Bauhaus.



The big box market is also strong in other larger urban centers such as Osijek, Rijeka and Zadar, which each have 10-15 big box stores, in addition to one or two actual shopping centers, present. Smaller towns in Croatia in most cases have local stores and up to 5 big boxes, which then leaves the residents to gravitate towards larger cities for the remainder of the supply unmet in their local markets.

DEMAND

Generally speaking there is still a discrepancy between the supply and the demand for all kinds of retail space. The country started the strengthening of its economy in the past decade more seriously which has then stimulated the entrepreneurial spirit of local and foreign investors and developers. As is already known, the demand for retail spaces on high street locations is ever present and will not decrease; the demand for 'second – best' rental space in shopping centers has appeared as a response to the lack of rental space on high street locations.

The demand from the side of retailers reflects the current and future (to a certain extent) demand coming from the customers. As long as there is recognizable demand for goods and services offered by various retailers and as long as there is willingness and financial ability from buyers to spend,

new centers will get built and retailers will keep on filling those spaces.

RENTAL RATES

Current market conditions have not changed much since mid 2007 and the opening of Avenue Mall, which was the first third generation shopping centre in Zagreb. The rental rates for spaces in shopping malls are not expected to change much in the near future; once the retail projects in the pipeline get completed and start operating around 2010/2011, the rents will most likely decrease as the supply of spaces increases and the market becomes more tenant rather than landlord dominated. The rents on high street retail locations are not expected to change much; this is due to limited supply and limited potential for growth of rentable space in downtown prime locations.

Current shopping centre rents in Zagreb range from EUR 15-80/m²/month; with the average range being EUR 30-50/m²/month. Rental levels for prime locations are considerably higher ranging from EUR 80-120/m²/month. Rental levels in other Croatian cities are 15% to 20% lower than in the capital, but are expected to increase correspondingly to the development of their respective retail markets.

FORECAST

- The future of retail market in Croatia looks bright. Zagreb is the only market which will in a few years time reach a relative saturation level. The focus already is, and will strengthen in the near future, on Croatia's other urban centers.
- By 2010 Zagreb will have around additional 600,000 m² of new GLA, bringing the city's total shopping centre retail GLA to over 800,000 m².
- Demand for high street locations is predicted to remain high and growing in cities throughout Croatia.
- Notable projects which will get developed in the next one to two years in cities other than Zagreb include: Interspar and Grobnik retail projects in Rijeka, Dalmare shopping center in Šibenik and Verdispar's in Varaždin.
- The big box market still has considerable room for growth, as in Zagreb and even more so in other cities. Large chains such as Interspar, Mercator and Konzum plan on opening a few larger projects which will contain the respective hypermarket as anchor together with a few smaller retailers in union.
- New retail forms of neighborhood centers will appear as niche projects in established retail markets; power and outlet centers will continue to get developed around larger urban centers such as Rijeka and Zagreb, on locations well serviced by local and international transportation links.

293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

Americas 136

Asia Pacific 62

EMEA 95

80.6 million m² under management

11,000 Professionals

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