

- CREN - Croatian Real Estate Newsletter

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CREN PATRONS



TABLE OF CONTENTS

1. INTERVIEW Ronald B. Given, Wolf Theiss – Zagreb Branch.....	2
2. THE SEVENTH ANNUAL INTERNATIONAL CONFERENCE ON THE REAL ESTATE MARKET IN CROATIA	7
3. A PUBLIC INVITATION from the Podi Šibenik Ltd. company owned by the city of Šibenik	8
4. STATISTICS	10
4.1. Average Asking Prices of Real Estate Offered for Sale – January 2011	10
4.2. Statistical Reports of the Central Bureau of Statistics from the	10
Area of Construction	10
4.2.1. Construction work indices, November 2010	10
4.2.2. Construction work indices, November 2010	11

TOPIC OF THIS ISSUE - INTERVIEW:



Ronald B. Given, Wolf Theiss – Zagreb Branch

An International Law Firm's View of the Croatian Real Estate Market

1. INTERVIEW

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An International Law Firm's View of the Croatian Real Estate Market

Would you please introduce yourself to CREM readers?

I am the Managing Partner of Wolf Theiss – Zagreb Branch. Wolf Theiss is a 300 lawyer firm with offices throughout the CEE/SEE.

I am an American and have been with Wolf Theiss since 2008. Prior to that, I spent 30 years in Chicago with the international firm of Mayer Brown, one of the largest and most prominent law practices in the world, and several years as the General Counsel of a 1,400 employee, Bermuda-based international property and casualty insurance carrier with over \$5 billion in assets.

Although my wife and I have kept our Chicago home, I have been living in and working for Wolf Theiss from Zagreb on a full time basis. My wife, Joan, is usually with me when she is not spending time in Japan with her family.

How did you end up in Croatia, and why?

I consider myself both lucky and fortunate in this regard.

Although my Mayer Brown practice was always very international, I had primarily focused on assisting clients from (x) Western Europe and Asia with their direct investments into the Americas, and (y) the Americas with transactions into Western Europe and Asia. I also managed Mayer Brown's former Tokyo office for several years and was part of the team that opened up its business in China and elsewhere in Asia. My work as General Counsel also had me focusing on essentially the same markets.

Croatia as a venue was new to me, but the mission is similar to what I have done in Japan and elsewhere. As Croatia transitions to the European Union, Wolf Theiss wanted a seasoned international practitioner to put the finishing touches on its very fine team of Croatian lawyers, build a sustainable business that will be locally led and managed, and fully integrate the Branch into the firm as a whole. My

team of Croatian lawyers are as fine as any I have worked with anywhere in the world. They are the ones driving Wolf Theiss' growing success.

Is real estate an important part of Wolf Theiss' Croatian business?

Absolutely. Real estate and real estate finance remain core and critical firm competencies. The firm has played a leading role in just about every major foreign-financed real estate transaction in recent years, including every significant shopping center project in every part of the country. You just cannot beat that kind of experience.

I am particularly proud of two recent real estate matters that are not necessarily our largest or our most complex but say a lot about our special place in the Croatian legal community:

(1) International financiers requested our legal opinion on the merits of the Serbian Orthodox Church's adverse claim affecting the Hoto Grupa project in central Zagreb. Wolf Theiss' opinion mattered and allowed that very important project to go forward.

(2) We advised a German entrepreneur on the acquisition of a sizeable property (approximately 2,000 ha), part of which is forested with the world famous Slavonian oak, from a member of the Croatian nobility. The assignment included title due diligence, advice on sustainable forest utilization, tax structuring, and drafting the transaction documents. We are also helping the client develop a private hunting business on the property. Both the forestry and hunting businesses have the promise of adding much needed jobs and revenue to the local economy, and we are pleased to have been part of making it happen.

While in most cases we act for developers or financiers in real estate transactions, the other side is not uncharted territory for us. We often advise our corporate clients on long-term lease agreements and their overall relationship with developers and real estate owners. For example, over the past two years we have been handling a roll-out of cinema operations for an international cinema operator, Cineplexx, covering three different locations in Croatia, as well as several locations throughout Slovenia, Serbia, Montenegro and Belarus. Understanding the particular issues of tenants and developers certainly helps us to provide a balanced starting point in all negotiations and considerably shortens the time required to close, a definite plus for our clients.

How do you see prospects for real estate and other Croatian legal work in 2011?

Without doubt, challenges will continue, but we have reason to be more optimistic about prospects in 2011. The Zagreb Airport project, for example, could be very positive for all of us. There are many other examples. I am very optimistic about the 2011 prospects of Wolf Theiss – Zagreb branch.

Money remains in short supply. As a consequence, we are seeing more developers enter into various types of joint venture arrangements to bring in the final funds to complete projects. Sale and lease deals, which have become very common in Hungary, have also begun to be seen in Croatia. We should see significant, mid-market investments in the bio-energy sector. Croatia has great potential for the production of electricity from renewable sources and bio-fuels and we have been actively advising many interested

foreign investors. Although it does not fall within the traditional real estate niche, bio-energy could employ real estate developers and construction companies and may help them survive the present real estate environment.

In the past, Austrians and Germans have had very dominant investing roles in Croatia. I now see greater diversity in investor interest here, and this is a very good thing. We should particularly look forward to the investment conference that the American Embassy will sponsor in Dubrovnik this April. The Croatian business community appreciates investors who think like partners. America could be a good place to find that type of investor.

We will see increased transactional activity of all sorts. At Wolf Theiss – Zagreb Branch we will work hard to get a share of that work by continuing to offer our clients proactive, prompt, effective and competitively priced legal services. Our unique tax law expertise and bench strength in practice areas such as IP, labor, and competition law are compelling considerations when clients make counsel selections for significant assignments.

We often hear that foreign investors find Croatia to be a particularly difficult place to do business. In your capacity as counsel to many international clients, do you agree with that?

Certainly, it is not a walk in the park but I have a slightly different take on the often heard litany of complaints, e.g., too much bureaucracy, uncertainty, wasted time, etc. I have helped clients do business in Argentina, Thailand, Canada, Switzerland, Louisiana state, and various other places. I can assure you every place has quirks. I also

have extensive experience with Japanese, British, German, Swiss, and Austrian clients who invested in the United States, and they all had their own set of gripes about Americans and many suggestions on better ways to run my own country.

What is important is to find the right balance. Bottom line, you have to be competitive in the world market or you will be left in the dust. I continue to believe that Croatia can be competitive in the world marketplace for capital and jobs, be a good member of the EU, and still remain the Croatia that it wants to be in the future.

As lawyers our job is to be good team players who help our international clients understand Croatian law and practice and who make certain the legal process proceeds as smoothly as possible. We take that job very seriously at Wolf Theiss.

My own particular experience and background has also been useful to Croatian clients engaged in international matters. No one can write me off as just another "local" guy. My credentials qualify me as a real peer of any foreign lawyer from any law firm in the world, and that only helps advance the client's interests.

Let's be a little more specific on that last question and focus on your own business. Is it difficult for a foreign law firm to operate in Croatia?

For all practical purposes, just like any other law firm in Croatia, we operate on a level playing field.

I understand there were differences in the past among the Croatian Bar Association, many individual Croatian lawyers, and some foreign lawyers. I trust all of that is in the past. I have

taken great care to be sure Wolf Theiss and its cooperating Croatian lawyers follow both the letter and spirit of Croatian law and the regulations of the Croatian Bar Association. Rules that protect the public in its dealings with the legal community are very important and should be observed by everyone. I have great respect for the Croatian Bar Association and the local legal community, and my relations with them have always been cordial and professional.

As markets mature there are usually some tensions between local and international lawyers. There is nothing unusual about what may have happened in Croatia in the past. I personally saw it in Japan, China and even in Austria not so long ago. However, the best lawyers everywhere always come to the same conclusion: If the legal community does not play by fair rules and accept the change and competition of the global market place, no one else will either. I see Croatian lawyers as leaders and not as impediments to Croatia's future and its progress.

As our final question, do you believe being an American has an effect on the job you do in Croatia? Does it make a difference?

The best attributes of American law firms are admired by lawyers everywhere. Having matured in that culture obviously affects what I do for Wolf Theiss. We are as professional, client-focused, proactive and user-friendly as firms in London, Tokyo, and other comparable commercial centers.

Eventually, more Croatian lawyers will enhance their practice with similar attributes. Croatian clients will demand such a change. With the pervasiveness of global business

today, clients are inevitably exposed to the way foreign lawyers practice, can begin to appreciate the value that effective lawyers bring to the table, and will understand more must be paid for the required level of service.

I had the good fortune of practicing in a great American firm with terrific lawyers. The best lawyers focused not only on their own practices but considered it a duty to help other lawyers, regardless of seniority, and to give back to the community.

Bill Daley, who was recently named as President Obama's chief-of-staff, was a lawyer in Chicago at Mayer Brown for many years. His door was always open to others for all sorts of professional and personal advice. No matter where we might see each other, in the office, on the street, or at a coffee shop, he would always greet me by name and ask about my family and my work. My wife recently bumped into him at a New York airport luggage carousel, and he was still the same way. He respects and cares about others, and has instilled in many people the confidence to succeed.

Adlai Stevenson, a former U.S. senator and the son of an ambassador and presidential candidate of the same name, and Mickey Kantor, President Clinton's Commerce Secretary, were also colleagues at Mayer Brown. I remember once receiving an email asking for help from a young Chinese lady whose visa had been arbitrarily and unfairly denied two weeks before she was supposed to start an MBA program at the University of Chicago. I had dealt with her for a client in her prior capacity as a Chinese government official. Both Adlai and Mickey encouraged me to help her, on a pro bono basis, simply because we all knew it was the right thing to do.

You really cannot find lawyers of greater prominence in America, but both of them rolled up their sleeves and helped me put the young lady's papers in perfect order for the Beijing embassy. We did not curry favors. We simply did the work and did it right. She received her visa, excelled at the University of Chicago, and is now a prominent investment banker in Hong Kong doing deals all over China.

In addition to teaching American lawyering skills to compliment my teams' strong command of the Croatian practice, I do my best to pass on the community values that Bill, Adlai, Mickey and others passed on to me. That is why it is natural for us to support AmCham's Evening for Safe Steps and to help the Red Noses not-for-profit group get its start in Croatia. Keep an eye on us. There are many more good things to come from Wolf Theiss – Zagreb Branch.

2. THE SEVENTH ANNUAL INTERNATIONAL CONFERENCE ON THE REAL ESTATE MARKET IN CROATIA

The poster features a dark blue background with a stylized map of Croatia in the center, overlaid with a grid of white lines and a circular pattern of dots. At the top left, there is a white icon of five houses. The text is primarily in white and yellow, with 'RE' in yellow in several places.

The Seventh Annual International Conference on the Real Estate Market in Croatia

The Regent Esplanade Hotel
ZagREb, Croatia ● **April 14 & 15, 2011**

Joie de vivRE

Conference starts with the first panel:
Let's REDiscuss - WHERE ARE WE AND WHERE ARE WE GOING?

Speakers:

Prof. Ljubo Jurčić, Ph.D.
Faculty of Economics and Business at University of Zagreb

Borislav Škegro, M.A.
Partner, Quaestus Private Equity d.o.o.

Marko Škreb, Ph.D.
Chief Economist, Privredna banka Zagreb d.d.

Sandra Švaljek, Ph.D.
Director, The Institute of Economics, Zagreb

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Details about the the Conference, the Conference program and applications will be available on
www.filipovic-advisory.com

3. A PUBLIC INVITATION

The Podi Šibenik Ltd. company owned by the city of Šibenik announces,

a Public Invitation

for a private partner to present participation interest i.e. a private entrepreneur or associated private entrepreneurs who, in cooperation with the company Podi Šibenik, will realise the project „Šibenik Logistics and Goods Terminal“ (hereinafter: the Terminal).

The project will be implemented in accordance with the contract with the Podi Šibenik Ltd. company, with the application of the public-private partnership model, i.e. a Contract on PPP.

1. Project Description

The Podi Šibenik company plans, with the support of the city of Šibenik, to realise a logistics and goods terminal within the economic zone PODI in Šibenik.

Podi is a central zone in Dalmatia, situated along the A1 highway and 5km away from the city of Šibenik. Please have a look at all the detailed information on the PODI economic zone at www.podi-sibenik.com or at the Management of the company Podi Sibenik Ltd. whose contact data can be found below.

The Terminal itself is envisaged as a combination of several segments:

- The management building – the core place accommodating all activities needed by the entrepreneurs within the enterprise zone (e.g. bank, store, restaurant, post office, lawyer, kindergarten etc.)
- Customs – the customs office, shipping agent and similar activities
- Warehouses – a customs warehouse and a distribution warehouse with a general purpose
- A parking lot for trucks – a parking lot which would ensure better working conditions both for the customs and for the transportation workers (truck scales, video supervision etc. available)

2. Terminal will be situated on the site designated as K.O. Dubrava K.Č. 4132/28, covering 33,174 m².

3. The site has the necessary infrastructure.

4. The entrepreneurs are free from paying:

- a) community contribution for production activities completely, and for other business activities 50%
- b) community contributions in the first year of business 75%, in the second year of business 50%, and in the third year of business 25%

5. The letters of intent must contain:

- a) Name and the headquarters of the interested legal or natural person
- b) Contact data
- c) Court register excerpt
- d) a brief description of the project (planned activities and framework schedule)

6. The interested investor may have a look at the documentation for the said project at the Podi Šibenik company and, if announced in advance, view the future location of the Terminal. A documentation preview and visit of the site can be arranged at the phone number 022 218-041 on work days from 9 to 2 or at the e-mail address info@podi-sibenik.hr.

7. Letters of intent should be addressed to the company Podi Šibenik, Velimira Škorpika 17b, 22000 Šibenik or to info@podi-sibenik.com, by 10th March 2011 at the latest.

8. By means of a public invitation to present interest, Podi Šibenik is trying to determine the interest of the potential private partners to participate in the implementation of the Project according to the PPP model on the market. If such exists, Podi Šibenik will continue with the procedure in accordance with the Law on Public-Private Partnership and implementation regulations.

Showing interest is not a precondition for participation, nor does it oblige the potential private partners to participate in the public bidding procedure and it does not put them in a more favourable position compared to the other potential offerors who have not showed interest upon this invitation. However, by showing interest, the potential private partners can influence the further development and implementation of this Project.

Podi Šibenik retains the right, based on this invitation, not to choose any of the received interest statements. Podi Šibenik also retains the right not to start the procedure of public bidding in order to choose a private partner.

In the procedure of showing public interest, Podi Šibenik is obliged to keep the data relating to the candidates and their documentation confidential.

Director
Vjeko Kaleb

4. STATISTICS

4.1. Average Asking Prices of Real Estate Offered for Sale – January 2011

	average price EUR/m ²	price range EUR/m ²
ZAGREB		
Housing		
Apartments	1.831	636 - 6666
Houses	1.729	404 - 9.167
Commercial space		
Offices	1.817	1.300 – 3.333
Business premises	2.351	722 - 8.663
Office blocks	1.309	618 – 4.867
COAST		
Housing		
Apartments	1.922	611 - 6.383
Houses	1.723	359 - 10.000
Commercial space	1.697	250 - 8.298
Tourist facilities	2.658	709 – 4.500

Average is calculated on the basis of the currently quoted prices on the Burza nekretnina d.o.o. (Real Estate Stock Market Ltd.), which is available online: www.burza-nekretnina.com.

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

4.2.1. Construction work indices, November 2010

In November 2010, construction works decreased by 12.1%, as compared to November 2009.

Construction works decreased in the period from January to November 2010 by 16.4%, as compared to the period from January to November 2009.

In November 2010:

- by type of constructions, 47.7% out of the total working hours were done on buildings and 52.3% on civil engineering works;

- by type of works, 59.4% out of the total working hours were done on new constructions and 40.6% on reconstructions, repairs and maintenance.

Advice: Construction work indices, November 2010, Central bureau of statistics, Zagreb, 2010.

4.2.2. Building permits issued, November 2010

In November 2010, there were 822 building permits issued, which was by 15.4% less than in November 2009.

The total number of building permits issued in the period from January to November 2010 was by 14.4% lower as compared to the same period of 2009.

In November 2010:

- by types of constructions, 86.4% out of the total number of permits were

issued on buildings and 13.6% on civil engineering works

- by types of construction works, 82.0% of permits were issued on new constructions and 18.0% on reconstructions.

According to permits issued in November 2010, it was expected for 977 dwellings with the average floor area of 101.5 m² to be built.

Advice: Building permits issued, November 2010, Central bureau of statistics, Zagreb, 2010.

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It is our wish that the Croatian Real Estate Newsletter / CREN be a source of speedy and quality information for all who are active in the real estate sector – developers, planners, contractors, mediation agencies etc. Please send your comments, proposals and opinions to cren@filipovic-advisory.com to help us improve CREN and make it the leading medium on the Croatian real estate market.

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