The Croatian economy is finally showing signs of recovery from the recent economic downturn. After entering the European Union in July 2013 as the 28th member state, the government has been striving to raise Croatia’s competitiveness to compete in the large EU market and maximize the opportunities that a membership brings, especially the interest of a large amount of EU Structural Funds.

The structure of the Croatian economy is dominated by the service sector, primarily due to the well-developed tourism, with tourism revenues representing around 16% of the country’s GDP. The ex-socialist government failed to implement the necessary reforms and the impact of policies on the entire social flows remains a concern above all stasis. Croatia has been unable to take advantage of its unique geographic location; at the sea side and yet close to the central European markets. The Croatian companies are primarily connected by business to Bosnia, Serbia, Macedonia and Montenegro and will in the short term lose trades with traditional partners in CEFTA. The industry is expected to fare slightly better over the forecast period (2015–2019), however, with new investment in transport infrastructure, energy, industrial and commercial projects, and improving investor confidence as regional and global economic conditions improve.

Croatia occupies an important geographical position and is one of the countries best positioned on the Mediterranean Sea. The Mediterranean Corridor links the biggest parts of Europe, with one of the main ports being in Rijeka. It covers rail, road, airports and ports. The Corridor’s integral part is the Rijeka-Zagreb-Budapest rail and road corridor. The main feature of the Rijeka traffic route is a possibility of intermodal approach, which can link the port of Rijeka with the rail and Danube navigable channel.

Croatia ended according to the index of logistics efficiency (LPI), made by the World Bank, in year 2014 on the 55th place among 160 countries in the world. It is particularly significant in this global analysis, where factors such as the efficiency of customs, quality infrastructure and delivery times were looked into and are all prerequisites for the successful operation of the logistics industry.

Additionally, Croatia has for years invested exclusively in road infrastructure, while the railway has been neglected, resulting in decline of rail transport. The transit time, reliability of service and the price, are the main criteria with the preferences of a particular transport route. Due to focus having been exclusively on road transport, the inflexibility of Rijeka, the rigidity of the custom system and the lack of serious rail connections between major cities, are the main reasons to the decline of the Croatian logistics industry.
SEAPORTS

In the port of Rijeka is Europe’s North Adriatic gate for overseas transport and shortest land and sea connection to overseas destinations located. It is located on the EU transport route TEN-T and the Mediterranean corridor, which is linked to the “Baltic-Adriatic”. It has recently been recapitalized with 40 million euros and the new owners are the Polish OT Logistic Group. 7.5 km. from Rijeka is a container and RO-RO terminal concessionaire by AGTC (owned by the Philippine operator ICTSI) taking place, which is a key strategic project of the port of Rijeka – it consists of a warehouse in Škriljevo, which has the status of free zones. The total area is: 417,413 m², the open warehouse space covers a surface of: 130,000 m², with a closed warehouse: 7x7154 m². 245,000 m² are usable for development. There is a direct connection with train and highways and the total investment in the project adds up in 43 million euros.

In a global perspective, factors such as the efficiency of customs, quality infrastructure and delivery times are all fundamentals for a successful operation in the logistics industry. When looking into some basic indicators of the Port of Koper and the Port of Rijeka, this may seem evident. Even though it does not differ significantly in maritime conditions, the Slovenian port achieves five times more traffic compared to their Croatian competitor - with all the above factors contributing to this large difference.

Another significant Port is the port of Ploče in the Southern part of Croatia, which is a crucial and geopolitical direction to Croatia. The geopolitical perspective of the Port Ploče is one of the main Croatian strategies in Southeast Europe, being the geopolitical vertical Baltic-Adriatic. Furthermore the port Ploče is a key point of entering the Adriatic for Bosnia & Hercegovina, especially Danube-Adriatic. Through the port of Vukovar, where the Danube runs through, the Adriatic Sea is linked to Regensburg, which is known as the "European Suez". By the beginning of next summer, the Port Ploče will receive a terminal for storage and transshipment of liquid cargoes and containers for petroleum products, worth an investment of 16.7 million euros. It will have a capacity of 50,000 cubic meters. A big investment cycle has started in the port. In the next two years, in addition to the Terminal for storage and transshipment of liquid cargoes, capacities for oil products, liquefied gas and a plant for the production of biodiesel will be built.

The socialist government sold 20% of the stake in the company to Prvo Plinarsko society L.L.C. (Gazprom). An investment of growth, worth an amount of 70 million euros is planned over the next two years. **PPD** will invest together with **VTI BV**, which owns and operates 11 terminals in the world. It is a joint venture between the company **Vital Group** - one of the world’s largest energy traders - and the company **MISC**, the major Malaysian shipping company. The terminal in Ploče will have a capacity 242,000 m³ storage of petroleum products and 31,000 m³ for storage of liquefied petroleum gas (LPG).

Another important port in Croatia is the Port of Split. It is linked to the highway and the 'hub' ports in the Mediterranean area and many world destinations. There are 2000 m² of refrigerated warehouse, which is a part of the capacity of 198,072 m³.

RAILWAYS

**HŽ Cargo** is the main railway shipping company in Zagreb and surroundings. They offer conventional transport, which includes transportation of wagon consignments in domestic and international markets. The transport wagon consignments is provided as a service that is intended to market larger quantities of cargo such as bulk goods, chemicals, products and semi-finished metallurgical and construction industries, and other palletized loads. Conventional transport is carried out in international trains (trains EU1), the fast freight trains regime B, direct freight trains, and in the collection, circular and industrial goods trains.

Another company within the industry of railway shipping is **Agit**. They are a Croatian company that organizes rail and road transport, customs brokerage and provision of shipping services to domestic and international markets. **AGIT** was founded in 1993 by partial separation of the activities of cargo traffic from the composition of the Croatian Railways with a view to improve transport and logistics services. They are 100% owned by HŽ Cargo.
ZAGREB AIRPORT:

In April 2012, consortium ZAIC received a 30-year concession of the airport from the Croatian Government. The contract included financing, designing and construction of a new passenger terminal. Bouygues Bâtiment International will carry out the construction works, lasting three years, in partnership with Viadukt. ZAIC will operate the entire airport for 30 years, including the runways, the current passenger terminal during the entire construction period, the new terminal, the cargo terminal, car parks and future property developments. The concession contract involves a total investment of 324 million euros: 236 million for the design and construction of the new terminal and 88 million for operation of all airport infrastructures for the entire period of the concession.

The construction on the new terminal officially started on 18 December 2013 and should be completed by the end of 2016. According to revised architectural plans, the main terminal building will be 144x133 m with the roof having a slightly larger footprint of 155x165 m, with piers extending to some 320 meters with 8 passenger boarding bridges as part of phase 1200 m extensions to the left and right piers will be added as part of phase 2, adding additionally 8 passenger boarding bridges for a total of 16. The construction of Phase 2 will commence once the terminal reaches 3.5-million passenger capacity, which is expected in 2017 or 2018. The new passenger terminal once completed will provide around 72,500 m² of enclosed space.

OVERVIEW

Croatia has more than 800,000 m² of modern warehousing property of which only approximately 360,000 m² can be classed by modern European standards, making the logistic and industrial market in Croatia the least developed sector of commercial real estate. One of the main reasons to this market being underdeveloped, is the big amount of property taxes in Croatia and Croatia not having an space industrial developer. Recent projects show increased activity with more than 200,000 m² industrial stocks having been added over the last years, with reputable contractors being aware of modern warehousing is a key part of the supply chain companies. Some logistic companies, such as Lagermax and Ralu Logistika and large retailers such as the Schwarz Group (Lidl/Kaufland) have already built their own logistic centers, while other retailers such as Konzum are renting their logistic space. Furthermore other businesses have a number of specialized logistics companies at their disposal for this part of the job. The package prices depend on the specific requirements and needs of the business owners. International logistic operators mainly direct the demand for high-quality logistic premises, due to the expansion of the retail sector.

Most of the storage spaces are placed in the Zagreb area. There are logistic centers situated in Jastrebarsko, where Lidl and Immopark are the occupiers – Sveta Nedjelja, having Interspar – Rugvica, where MSan and Ikea are the occupiers - and Dugopolje where the logistic centers almost have all larger companies as their occupiers, such as Podravka and Konzum.

The major logisticians in Croatia:

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RENTAL PRICE

Zagreb and Surroundings.
The rental price is 72 euros per square meter price of the annual rent for spaces less than 5,000 square meters, while the price for a larger storage area usually is 75/m²/year. 5 euros are the lowest price of the monthly storage per m² in modern storage facilities. The price for older storage areas with a height of maximum 6 meters is about 2-3 eur/m² depending on the location.

Yield.
The yield spreads are very attractive compared to all benchmarks, while the financial costs are decreasing. The yield for industry and logistics is 9%.

SUPPLY

A new Lagermax logistic centre will be built covering a surface of 50,200 m² with a stocking capacity of 17,000 m² and possibility of storing 25,000 pallets, additionally there will be 13,000 m² of office space. The construction of this centre will be close to Zagreb in the Municipality of Luka, which additionally positions Lagermax as an unavoidable point and link between Northern and Eastern Europe. The group has so far invested more than 42 million euros in Croatia and the logistic center Luka, which is mainly going to operate with: storage, preparation, and shipment of new cars in Croatia and the surrounding countries.

Another important project on the Croatian logistic market was Poslovni Park (Business Park) located in Zagreb approximately 15 km. from the center. The park covers a surface of 96,770 m² and was developed over two phases, with the first phase completing in 2008. During the first stage of the project in Poslovni Park, 50,000 m² of modern warehouse space was constructed. In 2008 the British group Helios Properties bought the center and continued the second stage works completing them in 2011. The major occupiers are Kuhne & Nagel, HAVI Logistics, Miloped, Konzum, Spar and Harvey Norman.

The major user in the industrial zone in Sv. Helena on the area of 57,000 m² is the RAWE group. The major IT provider M-San relocated it logistics to the zone Rugvica on the area of 33,000 m².

ZAGREB HOLDING

Zagreb Holding is a city enterprise consisting of 18 branches. They hold main bus station of Zagreb, the streets and the markets throughout the city. One of the branches is Robni Terminali. They are a Zagreb-based company with three business units: Jankomir, Žitnjak and Free Zone. They offer rental of storage space, office space and external parking. Their biggest occupiers are: Enikon-Composite, Gebrüder Weiss, Metro Cash & Carry and AWT International.
SUPERMARKET LOGISTICS

The industrial and logistics market in Croatia is the least developed of the real estate sectors. The logistics within the retail sector has however developed over the years, due to the expansion of this market. With new shopping centres having been opened over the last years and a huge development on the hypermarket front, the logistics have been forced to keep up.

The big supermarkets operating on the Croatian market are: Konzum - the leading supermarket chain in Croatia with more than 700 stores, Kaufland - the German supermarket chain with 32 stores, Lidl – with a total of 86 stores throughout Croatia, Tommy - mostly operating on the sea side of the country with more than 180 stores, Plodine – with 72 stores throughout Croatia, Billa – with 60 stores and Spar with 51.

Agrokor opened the biggest logistic center in the region, called LDC Dalmatina in Dugopolje. The center will improve the logistics processes significantly and decrease costs of manipulating with goods, which will eventually lead to improvements in business operations and better business results in the future. Apart from the logistics-distribution center LDC II in Žitnjak with total surface area of 52,257 m², Agrokor and Konzum have opened another state of the art logistics-distribution center, which is also the largest in the region and called LDC Dalmatina with a total surface area of 80,000 m². In the retail segment it is important to state that the logistics of Konzum are divided into several organizational units that include operations, ordering, planning and support systems, responsible for the improvement of logistics processes.

The U.S. real estate investment trust W.P. Carey purchased 8 of Agrokor’s Konzum supermarkets in Croatia, worth a reported €34.6 million. The Konzums purchased, are located in Zagreb and its surrounding areas. W.P. Carey has leased back the stores to Agrokor, making Konzum the tenants of W.P. Carey. This is the fourth ‘sale-leaseback’ deal between the two in the last three years, reflecting a net initial yield of 10%, which places Konzum in a difficult position in relation to their competitors, due to the disturbing financing of the World Bank and the EBRD cheap capital to the Schwarz group. The Schwarz group received more than 46 million euros for further expansion and development in Croatia and its surrounding countries in 2013, and has yet again been approved 305 million euros by the International Finance Cooperation (IFC) and is by that making it harder for their competitors on the market. Konzum has a market share of 25% at the moment and 30% including their smaller partners. Due to a competition regulation in the country, they are not allowed to have a bigger market share.

A new central Kaufland Warehouse of 163,000 m² built in March 2015 in the business zone near Jastrebarsko. It was an investment of 75 million euros and the warehouse is a main logistic center for Croatia. In Jastrebarsko the German Schwarz group (Kaufland/Lidl) have their logistic/distributing center. The center covers a surface of 45,000 m². The logistics/distribution center in Jastrebarsko supplies 50 Lidl stores, and has a daily disposal of more than 20 trucks and 70 forklifts. In addition to LDC Jastrebarsko, Lidl in Croatia has a logistics and distribution center Perošić, in which 23.7 million euros has been invested. The construction and commissioning of the center in Perošić, which covers a surface of 33,000 m², greatly improved the supply in the stores for Lidl in Istria, Primorje, Lika and Dalmatia.