

# CORONAVIRUS IMPACT ON CROATIAN PROPERTY MARKET

March 31st 2020

The first case of the coronavirus, formally named COVID-19 by the World Health Organization, was reported on December 31st, 2019, and there have since been multiple developments with the virus globally and considerable speculation on the impacts. Over the last several weeks, governments, companies and people worldwide have taken extraordinary actions which include restricted business activities, travel restrictions and social distancing.

## GDP forecasts being revised downwards

Even though it is too early to estimate precisely, the pandemic of COVID-19 will certainly have an impact on global economy and, the probability of global recession in 2020 is considered high. It appears that we will witness consecutive declines in global and regional GDP in the current and next quarter of 2020. After strong Q1 in Eurozone, preliminary data expect Q2 to be negative. When it comes to Eurozone, forecasted GDP growth in January was 1.1%, while the latest GDP forecasts estimate -2.2%. However, it appears that the governments and central banks all over the world have learned from earlier crisis, since they have endorsed extremely aggressive stimulus measures at national and international levels to respond to the disruption caused by the coronavirus. When it comes to the real estate, the market is clearly exposed to the current situation, still certain property types are more exposed than others. The sectors which depend on social contact and human interaction, such as hotels and retail segment are the most vulnerable due to the immediate drop off in travel and consumer behavior, while the other property types such as office, industrial and residential are more resilient but not immune.

## Impact on Croatian property market

When it comes to Croatian property market, it enters 2020 on solid basis, having in mind the continuation of the activity growth which started back in 2015 and continued onwards. Occupancy demand in Zagreb office market remains with a stable growth for few years, amounting to around 60,000 sq m in 2019, positive trend in the effective rental levels was evident, vacancy rate was constantly dropping, development activity was strong in office and hospitality segments and overall market fundamentals were solid. Given that real estate market is moving at a slower pace, and does not shift promptly to the new conditions, the effects are yet to be anticipated.

## Office market

As for Zagreb office market, if we exclude the strong demand forced by the 2020 Zagreb earthquake, which forced the companies with offices situated in the center of the city, which were mostly affected by the damage, to relocate, the near-term demand will be rather limited until the situation with COVID - 19 is resolved. It is expected that large companies and tenants will be careful in relocation of their premises or expansion activities, while small and medium-sized companies are likely to experience higher financial liquidity risks. Currently, CBS team is processing the requests of the office tenants for more relaxing payment terms, whereas the solutions for the tenants are tailored-made based on the numerous factors, which in combination can bring a greater comfort to the landlord as well.

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## Retail market

Shopping center landlords across Croatia are also analyzing and evaluating the current situation as per the newly implemented governmental measure to close all retail stores except the ones selling food products, pharmaceuticals, drugstores etc. The sentiment of the landlords varies from being rather understanding with regard to the new more relaxing terms due to current situation, to those who are more adherent to the contractual terms. Most landlords are trying to meet tailor-made solutions as per the industry the retailer comes from, which will be favorable for both retailers and landlords. Online sales share is expected to grow additionally, especially in the food sector, pharmaceuticals, baby clothing and necessities. Although retail is affected the most, it is expected to be the first segment to lead the recovery of the market.

## Industrial market

Limited market conditions in which the retailers operate at the moment may result in the reduced demand for warehouse space at least in the short-term, although this is the sector to be the most resilient to the current situation. Rental levels may also come under the increased pressure in all commercial segments as leasing activity compresses. The construction activity will continue on both commercial and infrastructural projects in Croatia as the construction sites will remain operational despite the current situation, however some scheduled completions could be delayed or postponed.

## Residential market

Although Zagreb residential market was booming in the previous period, we expect some impact to the market in the near-term, having in mind that some buyers may choose to delay purchase decisions. Therefore, buyer sentiment is expected to be more cautious, especially for housing-loan dependent buyers, until the situation improves, which can be expected from mid-2020. Bearing in mind the uncertainty of the situation, we are yet to monitor any changes in the pricing levels, as most large-scale residential projects are already under construction and well-positioned in the market, and are thereto not under pressure to respond with decrease in pricing. The construction sites are continuing to operate normally, with preventative measures being taken, therefore we do not expect considerable delays in completion dates of the projects that are under-construction.

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