



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

The Regent Esplanade Hotel
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Details about the the Conference, the Conference program and applications are available on
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3. INTERVIEW

**Don Markušić, President Board
of Governors of American
Chamber of Commerce in
Croatia (AmCham), Barrister &
Solicitor**



Enhancing the Business Environment in Croatia

Economic green shoots or weeds

For Charles Darwin, those who survive are not the strongest nor the smartest but those who can adapt to change. We must adapt to the changes taking place in the financial, real estate and other markets in order to survive the global economic downturn. As the largest economies emerge from recession, most people say that 2009 is a year to forget. I say that we must never forget 2009 and the lessons learned and the factors which lead us to the events of 2009. Moreover, Croatia still needs to get through 2010 before we will see any green shoots in the economy and perhaps even beyond before we can determine that they are not weeds.

The upside is that much uncertainty has recently been removed. There is talk in both Brussels and Zagreb about the potential completion of EU accession negotiations this year. Prime Minister Kosor has taken decisive action in relation to the economy and in combating corruption. The Presidential elections are behind us without any surprises. Foreign investment is the key to economic recovery and AmCham has been active in removing

obstacles to foreign investment to Croatia.

Role of AmCham

AmCham assists and provides a forum for its members to assist each other in dealing with difficulties such as those resulting from the economic crisis by combining members' strengths and resources to deal with specific situations and to adapt to the prevailing economic circumstances. Moreover, the current Board of Governors comprises high powered business people representing prominent companies and who are very active in dealing with matters of concern for our members. We are extremely fortunate to have an American Ambassador, James Foley whose priority is to enhance business and work closely with AmCham to this end.

Membership in AmCham enables businesses to raise issues which are often of mutual concern to other members as well as the US Embassy. As the voice of the business community, AmCham provides a strong platform to engage the Croatian Government on such issues. The Law on Foreigners Task Force which I

chaired is a case in point. Our successful efforts to amend the Law on Foreigners have not only benefited our members, but just as importantly, set a powerful precedent for the kind of work that AmCham can do on behalf of the business community in Croatia. Representatives of the US Embassy's consular and commercial sections were active on the Task Force and we included other Chambers and foreign embassies' points of view in our arguments. This provided a very strong platform to engage the Croatian government on this issue. By improving the Law on Foreigners we removed an obstacle to Foreign Direct Investment. The Task Force was a catalyst and model for two new committees which were immediately set up: Intellectual Property Rights and Trade and Investment Committees.

Corruption

Corruption is a major concern for our members. I also sit on the Board of Transparency International and thereby maintain close cooperation between AmCham and Transparency International. Concrete steps to curb corruption include working with Transparency International in implementing their anti-corruption tool for public procurement, namely, the Integrity Pact.

There is a direct correlation between corruption and Foreign Direct Investment. In last year's Transparency International Corruption Perception Index, Croatia scored 4.1 out of 10. Every one point increase in this score results in an increase in FDI of 0.5% of GDP and a rise in average incomes of up to 4%. By fighting corruption we are increasing Foreign Direct Investment.

Croatian Property Market

As far as the property market in Croatia is concerned, it's a buyers market but no one's buying. Behind the downturn are some of the usual reasons but also some peculiarly Croatian phenomena. It is apparent that irrespective of the recession and indeed in spite of it, the laws of demand and supply in relation to price equilibrium apparently do not apply to the Croatian property market. Property Owners would rather keep their properties empty longer than to rent them out for less sooner. There are also misrepresentations regarding the property market. A property will be promoted as being on the market for EUR 4,000 per m² but it is never sold for that price but nevertheless giving the impression of exorbitant prices.

Legislative Developments in Real Estate

As an expert member of the Parliamentary Legislative Committee I have had the opportunity to analyse draft Bills and propose amendments before they are enacted into law by Parliament.

A year has passed since the long anticipated liberalisation of property ownership for foreigners which did not open the floodgates to foreign buyers as anticipated due to the global recession. This was a result of Croatia's obligation under Article 60 of the Stabilisation and Association Agreement to adjust its legislation concerning the acquisition of real estate by nationals of the Member States of the European Union to ensure the same treatment as compared to Croatia nationals. The conditions of reciprocity and approval

by the Ministry of Justice remain for non-EU citizens purchasing property in Croatia.

The Amendments added two new provisions to the Law on Ownership and other Rights in Rem, namely, Articles 358 (a) and (b) which enable physical persons and legal entities from the EU to acquire ownership of property under the exact same conditions as Croatian citizens or legal entities which have their seat in Croatia. However, agricultural land, forests and land located in natural areas which are protected by specific laws remain out of reach of foreigners.

More recent amendments to the Law on Ownership and other Rights in Rem should enhance the property market by overcoming Croatian banks' policy of not securing mortgages on 'parts' of jointly owned property even though it is legally possible. Namely, joint owners who hold a title deed for a part of a building are now bound to commence all necessary procedures before the competent state authorities and courts to subdivide the building into strata lots each of which receives its own certificate of title as they would be separately registered in the land register. This will enable the transfer of these titles to the purchasers. Owners

would finally receive a title deed for their part of the building and at the same time, obtain a certain degree of freedom and protection that simply wasn't available to them as joint owners which would also apply to the bank when securing a mortgage. Whilst there is a three year deadline within which joint owners must commence the subdivision, there are no sanctions for non-compliance nor do the amendments set out who will bear the cost. It is to be inferred that the owners bear the cost equally but there is no provision for the situation if one refuses to do so. One solution is to dip into the pool of funds set aside by owners for building repairs etc (pričuva).

Conferences are one of the best ways to keep up with latest developments and to meet potential business partners which is why AmCham is pleased to be associated with the Sixth Annual International Conference on the Real Estate Market in Croatia organised by Filipovic Business Advisory which we have supported from the outset. We shall again be producing a special feature on property in our News and Views Magazine to coincide with the event.