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Real Estate Market on Slovenian Coast

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ABSTRACT

In the last decade and a half Slovenia and its economy has overcome big structural changes. These changes played a big role on the real estate market respectively. From the privatization of dwelling stock that occurred in the beginning of ninetieth century Slovenia has overcome a transformation to a completely open market.

In year 2004 real estate market has gained a whole new look, where new laws that made transactions more transparent were introduced, one of them was the law that secures buyers rights. The second important law was the law of reciprocity among EU residents that Slovenia has adopted after its accession to EU on 1st of May 2004. That law gave full rights to EU resident to buy real estate in Slovenia.

These changes resulted in increase of demand for real estate among foreigners. The first wave of potential buyers already came but did not satisfy the potential among buyers nor the owners of real estate whose expectations were irrational. The investors on one side as well as officials and property owners learned quite a lot. From the foreign investors' side, Slovenia was considered as to be just another "Eastern" European country where real estate market is still not well-formed. Their irrational expectations were based on information that the market was obsolete and did not represent all the information available. On the other hand this new demand gave a reason to property owners' to increase their expectations of property value, which resulted in prices to sky rocket.

The purpose of this thesis is to analyze Slovenian real estate market with concentration on Slovenian coast as one of the most potential areas in Slovenia. One recent representative development on Slovenian coast is as well taken in perception to argue the situation.

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1. INTRODUCTION

Slovenia is a new country on the map of Europe, being an independent state since 1991, but with a rich history and diversified countryside between the Alps, Mediterranean Sea and Pannonia flat, situated right in the center of Europe. There are two million people living in Slovenia on a surface of roughly more than 20.000 square kilometers.

The Slovenian coastal line is short, only 45 kilometers long, but rich in its nature, historic heritage and present economic potentials in infrastructure, industry and tourism.

In the last decade the privatization process has been concluded, the high growth rate in the last years and a stabile social welfare system, has given the citizens opportunity for stronger demand for private property in the most attractive areas.

The demand for housing in Slovenia is by the far greater than the supply. Real estate demand had another impact when new legislation, allowing EU residents to purchase real estate in Slovenia was introduced. This resulted in even further accelerating the real estate price level, which was already sky rocketing.

Among already mentioned factors that influenced increase in prices was also the fact that in year 2004 the remaining part of the highway, that connects coast with the capital Ljubljana, has been finished.

By joining EU and NATO in the year 2004, Slovenia is expecting bright future economic development, with increased international activities, which are reflecting also on the real estate market. In the future it will be influenced both by wealthier Slovenian population and by the interested foreign investors and private persons.

Although the biggest increase in price levels were recorded in less developed, remote regions I've decided to research the most representative, prime areas. The research is concentrated on the coastal region, with emphasis on community of Piran, where demand and hence prices of real estate are highest in Slovenia.

1.1 Problem Formulation and Purpose

The purpose of this master thesis is an overview of Slovenian real estate market and it's potential. Research is especially concentrated on the housing market on Slovenian coast. The further objective of this thesis is to find out whether the financing structure of the housing developments on Slovenian coast is adequate. The study includes research of the availability of capital sources on Slovenian market and how these sources are used in practice. In order to make a greater perspective of the Slovenian market, Ljubljana as a capital is included in the research. Furthermore, given results of the analysis could explain the current situation on the market and could than predict future trends on supply and demand side in the area.

1.2 Method and Scope of Study

The method used in this thesis is a research among the different suggested theoretical models on supply and demand on the real estate market, and other models that determine expected criterion when selecting appropriate sources for financing real estate developments.

The main sources of information were secondary data, gathered from various magazine articles, journals, census data and research made by recognized institutions. For the purpose of ascertainment of the current situation on the real estate market and its optimal financing structure, theoretical information was compared with the actual situation on real-life developments with researched theoretical scope. The theoretical and practical part about financing of developments in my research came from various books, newspapers and magazines. After the collection of all the theoretical information I have conducted an interview with an important real estate developer on the Slovenian coast.

1.3 Objectives

The objectives of this thesis are as follows:

- First objective is to describe the Slovenian real estate market
- Secondly, the Slovenian coast, as one of the most representative real estate region in Slovenia will be presented through the developer's point of view
- Finally, conclusions and future expectations will be predicted

1.4 Limitations

It was not the intention of this study to include information of all Slovenian regions, nor was the intention to make an overview of all developments on the Slovenian coast. Instead, only the most important developer and its development were taken in consideration. The developer chosen by the author was seen as a key player on the observed market where uniqueness of his motives and methods triggered the interest.

1.5 Disposition

This thesis work is divided into seven parts.

Chapter 1: Introduction – defines the purpose of research, its background and presents the method and scope of research, literature review, method, objectives and limitations.

Chapter 2: Definition of real estate – provides the basic definitions of real estate and financial terms.

Chapter 3: Market description - presents Slovenia, its history and briefly presents

its economy.

Chapter 4: Slovenian real estate market – presents history of Slovenian real estate market, concentrated in the era after Slovenian's independence from Yugoslavia. This chapter also describes the situation on the supply side of the market and the instrument, State Dwelling Fund, which was introduced by the government to satisfy supply for real estate in Slovenia.

Chapter 5: Fazes of Development Process in Slovenia – the guide of all important processes and legislation that developer has to consider before, during and after the development process takes place.

Chapter 6: Real estate on Slovenian coast – first presents demand for real estate on Slovenian coast. In the second part developer, his company, Gasspar Nepremičnine, and his recent development, Rezidenca Park Lucija, is presented.

Chapter 7: Analysis of Results - presents analyzed results from the study about the situation on the real estate market on the Slovenian coast, and stresses financial effectiveness of the observed development.

Chapter 8: Summary and conclusions - foresees some suggestions to further work.

2. DEFINITION OF REAL ESTATE

Literature describes real estate as the physical land and appurtenances affixed to the land – e.g., structures. Real estate is immobile and tangible. The legal definition of real estate includes the following tangible components:

- Land
- All things that are a natural part of land, such as trees and minerals
- All things that are attached to land by people, such as buildings and site improvements

Real estate includes all attachments, both above and below the ground. (Appraisal institute, 2001, pg. 7)

Land uses can be divided into any number of types, depending on market norms and personal preferences. Traditionally, most appraisers have divided land uses into six major groups:

- Residential
- Commercial
- Industrial
- Agricultural
- Special-purpose
- Public

Each of these groups can be broken down into increasingly specific subgroups (Appraisal institute, 2001, pg. 225)

Cirman (1999 pg. 4) has made a further division among residential real estate (single-family detached houses, duplexes, triplexes, quadruplexes, apartment buildings, condominiums,...), commercial real estate (retail, offices, theatres,...), industrial real estate (factories, warehouses,...), agricultural real estate (farms, ranches,...), special-purpose real estate (schools, hospitals, graveyards,...) and public real estate (roads, parks,...).

To narrow my research, I concentrated only on residential real estate on the Slovenian coast.

2.1 Financial Terms

Equity and debt investors reveal their different aspirations through their market actions. The debt investor participates in bonds or mortgages, usually pursuing conservative paths in search of certain income and the repayment of principal. This type of investor expects a priority claim on investment earnings and often looks for security in the form of lien in assets involved. While a debt investor is relatively passive, an equity investor is active. An equity investor is more willing to assume risk, and the funds used for equity investment are known as venture capital.

Home owners and other owner-occupants of single-family residential property are also equity investors and are major sources of capital. The investment criteria of home

owners differ from those of investors in income-producing property. An owner-occupant trades the potential of receiving rental income for the enjoyment of the amenities provided by the property during the ownership period and the future financial benefit of the equity reversion when the house is eventually sold.

Debt

Because mortgage money is so important in real estate, investors, appraisers, and analysts must be familiar with the sources and cost of debt capital. Increased regulation in the wake of the savings and loan crisis has prompted many traditional providers of debt capital to restrict their lending activity in non-residential lending.

Commercial banks

Commercial banks are privately owned institutions that offer a variety of financial services to business and individuals. In keeping with their role as short-term lenders, commercial banks have traditionally supplied construction and development loans. For short-term, interim financing, developers are usually required to obtain commitments from long-term, permanent lenders, whereby the lenders agree to “take out” the “end loan” with the developer once the project has been completed. Large commercial banks have also become a principal source of takeout financing, i.e. long-term permanent mortgage loans and end loans, usually for commercial and industrial properties. In small communities, commercial banks are also expected to supply their customers with home loans.

Mortgage interests

The purchase and ownership of real property often involves debt capital secured with the real estate as collateral. Mortgage investments have a great impact on real property value and equity yield rates. Because yield is significant consideration in the lender’s decision to invest in a mortgage interest in real estate, the lender’s yield must be understood and often calculated. In the absence of points and any participation of accrual feature, the lender’s yield is equivalent to the interest rate.

The monetary benefits that accrue to the lender are similar to the benefits received by the equity owner i.e. periodic income from debt service and the reversion represented by the outstanding principal paid off prior to or at maturity. In some depressed markets, lenders may find that property securing the loan has declined in value to the point that the loan balance exceeds the property’s value. In this case there is no longer any equity interest in the property and the value of the loan may often be calculated based on the actual cash flows to the property rather than the cash flows projected when the loan contract was obtained. To do otherwise would be to estimate the value of the mortgage interest as greater than the value of the property.

As explained previously, the lender’s interest in a property is more secure than the equity interest because debt service is paid before any other claims on net operating income and the lender can foreclose if the borrower defaults on the loan. As an

interest in real property becomes less senior – for example, the mortgage interest corresponding to a junior lien – the rate of return requirements to attract a purchaser rises. The combination of mortgage and equity interests divides real property into tiers of risk:

- The first mortgage interest in the property is a low risk investment.
- The second mortgage interest would require a higher rate of return to compensate for the increased risk.
- The equity interest would require an even higher rate of return because of its higher risk – and potentially higher profits

These tiers of risk are often called trenches when referring to bonds or other securities.

Leverage

The term leverage refers to how borrowed funds increase or decrease the equity return. The leverage an investor obtains by using borrowed funds to finance an investment is accompanied by risk. The investor seeks compensation for this risk by requiring a higher equity yield rate. In analyzing cash flows positive leverage is indicated when the overall capitalization rate is greater than the mortgage capitalization rate. The difference between the two rates directly benefits the equity owner, so the equity capitalization rate is higher than it would be if there were no mortgage. The same relationships hold for overall, equity, and mortgage yield rates.

The analysis of leverage is important because positive or negative leverage can affect the level of risk associated with a real property investment and the yield required to satisfy an investor willing to assume the risk. The use of leverage tends to magnify fluctuations in cash flow and enhanced variability translates into risk. If property performance falls below expectations and periods of insufficient cash flow is continuous, the investor may become strapped for cash to service the debt of the property. If market conditions become illiquid, the investors may be unable to command a price for the property that allows for repayment of the debt.

3. MARKET DESCRIPTION

Slovenia, one of ten newcomers to the European Union, lies at the cross-road of traditional trade and transport corridor between Barcelona and Kiev, half way between Vienna and Venice.

In spite of its geographical small size, it is a convergence point of a range of different landscapes: Alpine and Mediterranean, Pannonia and Dinaric, each of which has its own characteristics and unique feature. With its unique landscape and small size of the country, visitors could ski on the slopes of the Alps and swim in the Adriatic Sea, all in one day.

People have mainly settled in the river valleys and transport routes, where long ago Slovenian towns began to emerge, whilst the mountainous and forested areas remain unpopulated. Approximately 30% of the population lives in towns with more than 10.000 inhabitants, whilst the rest live in nearly six thousand smaller towns and villages.

The capital Ljubljana is the largest city. The place was inhabited already in Bronze Age; it was walled during the Roman times, the castle on the hill originated from the 12th century. The old city center has a rich medieval heritage, as well as heritage of numerous Renaissance, Baroque and Secessionist buildings. The famous Slovenian architect Jože Plečnik, who designed many palaces in central Europe, gave the city a new image in the modernist, neo-classical and Secessionist style.

If we look through the numbers, Slovenia has 2 million inhabitants living on just over 20,000 square km, with a population density of 96 per one square km, which is much lower than in the majority of other European states. Slovenia's population is slowly declining. The growth rate of population in the period 1991 – 2003 was negative: -0.8% per year. Sadly, Slovenia is the country with one of the lowest birth rates in Europe. The average number of people per household is decreasing: 2.8 and the number of marriages is also falling. The infant mortality rate is among the lowest in Europe and the life expectancy is high. People are well educated; the general quality of life is very high.

Slovenia is a democratic state, with a legal system based on the respect of human rights and fundamental freedom, the social and welfare principle are very highly respected. In line with the Constitution, local self-government is carried out in 193 municipalities, 11 of them have the status of urban municipalities.¹

¹ CIA – The World Fact Book, <http://www.cia.gov/cia/publications/factbook/>

Figure 1: Map of Slovenia



Source: wuarhive.wustl.edu/aminet/pix/map/

3.1 Slovenian History

Slovenia holds a strategic position in central European region. Slovenia was inhabited in prehistoric time in Stone, Bronze and later Iron Age. After Celtic tribes settled the region, Roman cities started to appear, among them Emona (later called Ljubljana). Slavic tribes settle the valleys in 6th century and formed the first independent duchy of Carinthia. The Habsburg monarchy was the first to include all the Slovenian regions and retained control of the area right up to the beginning of the first world war in 20th century.

In 1918, the Slovenes joined the Serbs and Croats to form a new multinational kingdom of Serbs Croats and Slovenes, which was renamed to Yugoslavia in 1929. After World War II, Slovenia became a republic of the renewed Yugoslavia in which

Communists distanced from Moscow's rule and built a very unique socialist system. Dissatisfied with the exercise of power of the majority Serbs, the Slovenes succeeded in establishing their independence in 1991 after a short 10-day war. Historical ties to Western Europe, a strong economy, and a stable democracy have assisted in Slovenia's transformation to a modern state. Slovenia has joined both NATO and the EU in the spring of 2004.

3.2 Overview of Economy

For a millennium, Slovenia has been at the crossroads of trade and cultural routes leading from north to south and from east to west. A favorable geographical position is one of the elements facilitating economic growth. A diverse industrial history, a tradition of openness to the world and well managed state economic policy all contribute to the fact that Slovenia is among the most successful countries in transition from a socialist to a market economy. Slovenia's level of development is quickly catching up with that of the EU. GDP per capita with respect to the purchasing power is substantially higher than that of the other transitional economies of Central Europe and has already overtaken Portugal and Greece.

Slovenia has according to Standard & Poor's risk analysis the lowest level of risk among the countries in transition. The risk assessment has improved even further from A to A+. Slovenia became the first transition country to graduate from borrower status to donor partner at the World Bank.

Privatization of the economy proceeded at an accelerated pace in 2002-03, and the budget deficit dropped from 3.0% of GDP in 2002 to 1.8% in 2004. Despite the economic slowdown in Europe in 2001-03, Slovenia maintained 4.6% growth of GDP in 2004. Structural reforms during last years have improved the business environment and have allowed greater foreign participation in Slovenia's economy, which has resulted in lower unemployment. Further measures to curb the inflation rate to the Maastricht criteria to enter EMU in 2007, which was 6.3% in 2004, are also needed. The high degree of coordination between government, business, and central bank policy are the biggest issues of concern.

4. SLOVENIAN REAL ESTATE MARKET

4.1 History of Slovenian Real Estate Market

The Slovenian real estate market started to organize in beginning of 1990s. At that time many people decided to establish a real estate brokerage companies. After a few years of anarchy on the market the most serious actors on the market realized that a non-organized market brings huge risk on the long run, and that the market needs to be stabilized. Together with governmental institutions they introduced laws and rules about behavior on the market and with it they increased the transparency that helped to reduce the number of frauds. With this incentive, real estate brokers started to specialize on different types of real estate and areas of operation. The next stage occurred when brokers found out that an unorganized market leads to lack of information about market values, making certain real estate undervalued. They took advantage of the situation, reformed their business operations, and with superior knowledge on the market prices started investing in undervalued properties.

One decade afterwards property valuation and transactions on the market became more transparent and organized. Investments in real estate have become more and more popular. Risk of investing in real estate is quite low compared to returns. At the formation of the market all the investments were equity financed now the major role on capital market for real estate investments belongs to local and regional banks that finance extensive leverage.

In general, the real estate business in Slovenia is organized as elsewhere in Europe and the rest of the developed world. On the other hand, there are some specific features of this small country on the sunny side of the Alps.²

4.2 Privatization of dwelling stock from October 1991- October 1993

Before Slovenia's independence in the 1991, around one third of the dwellings had been in the privately owned. At the time most of the 400.000 individual houses were in private hands whereas apartments were rarely in private hands. The privatization of dwellings started in October 1991. The stock of apartments was around 250,000 and 90% of them was under the privatization process.

Most of the dwelling stock was privatized in the period of less than two years. The legal basis is still valid. There are some cases where the privatization has been still going on – due to several reasons (privatization process, people involved in the process went on court etc).

After the privatization of the dwelling stock in 1991-93, the structure of ownership changed rapidly. Around 88% of all dwellings were in private ownership. That means that 88% were owner occupied and 12% were rental dwellings. The 12% rental

² Finance, "Nepremičninski trg: Od posredovanja k naložbam", Sabrina Povšič, 1999-03-25

dwellings were in the central government, local government and even in the corporate ownership. At the end of year 2004 around 84,000 apartments or around 11% of the total dwelling stock in Slovenia was state-owned. These apartments are used for social policy purposes (e.g. household pays non-profit rent).

Today the percentage of private owned dwellings in Slovenia is very high (89% in 2004) in comparison with other countries. The corresponding percentage is 58% in Portugal, in Spain and Greece 77% and those are countries that have comparable level of living standard and GDP per capita as Slovenia. In Germany, for example, only 38% of flats are in private ownership while in the Netherlands only 48%. The UK and Italy have 67% of the private owned dwellings.

4.3 Real Estate Supply

According to the 2002 Population Census in Slovenia, there have been 688,000 households and 777.772 dwellings; the number of dwellings has increased for 14%, since the year 1991. The average growth of dwellings in that period was thereby 1.14% annually. During the same period, the average growth of number of households was 0.7%. From this data we can conclude that in the last 11 years construction of dwellings has increased with 0.4 percentage point more than the number of newly formed households. Nearly one half of all the units were built in the period between 1971 and 2002. The most intensive building period was between 1971 and 1981, when 27% of all units had been built.

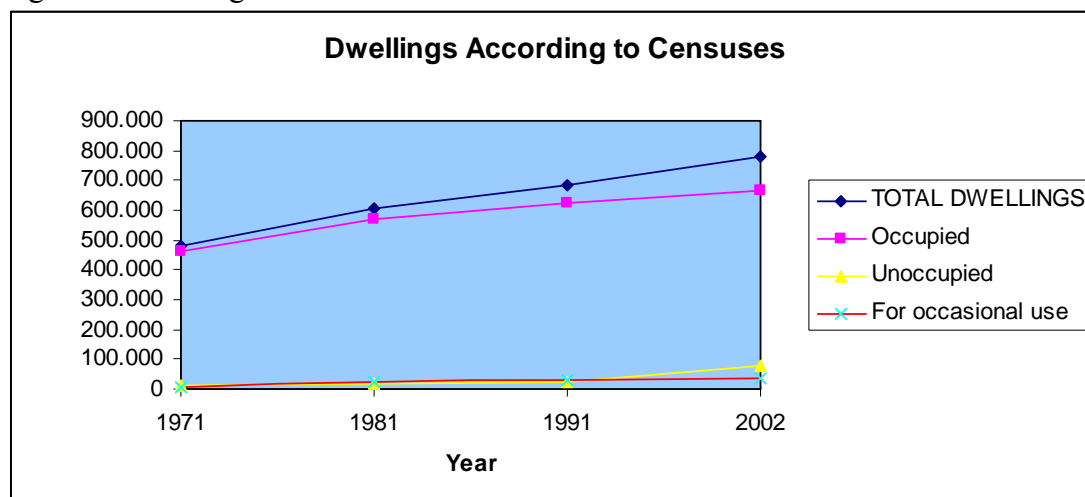
Table 1: Dwelling stock in Slovenia

	1971	1981	1991	2002
TOTAL DWELLINGS	477.273	607.682	683.137	777.772
Occupied	461.225	567.304	625.697	665.111
Unoccupied	9.851	18.476	26.725	78.300
For occasional use	6.197	21.902	30.715	34.361
Urban Areas	-	-	355.265	401.635
Other Areas	-	-	327.872	376.137
Average useful floor space (m ²)	56,5	63,2	67,3	74,6
Average useful floor space per person (m ²)	15,5	19,3	22,0	26,3
Average number of persons in dwelling (m ²)	3,7	3,3	3,1	2,9

Source: census 2002³

³ Statistical Office of the Republic of Slovenia, <http://www.stat.si/>

Figure 2: Dwelling stock in Slovenia



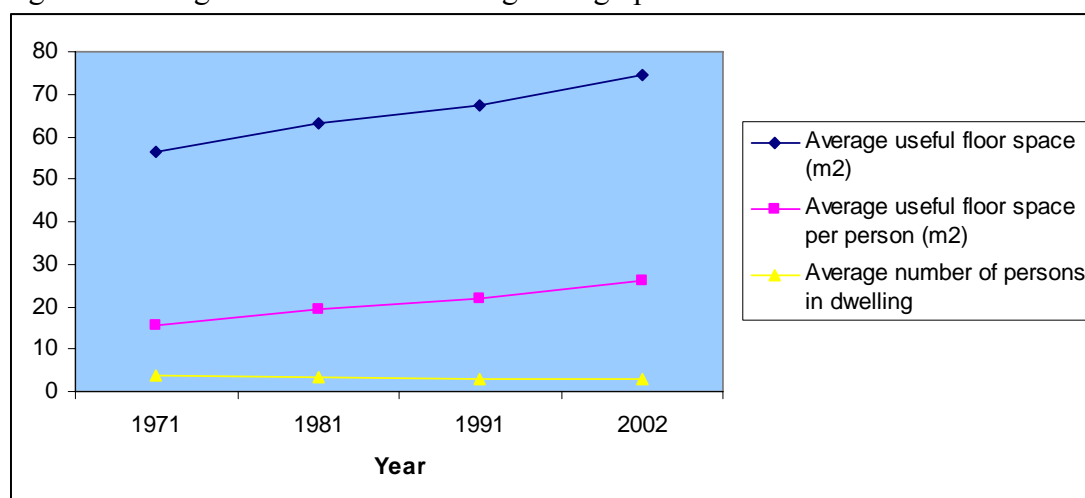
Source: Census 2002

Table 2: Change in number of dwellings through periods 1971-2002

	1971/81	1981/91	1991/02	1971/02
TOTAL DWELLINGS	27 %	12 %	14 %	63 %
Occupied	23 %	10 %	6 %	44 %
Unoccupied	88 %	45 %	193 %	695 %
For occasional use	253 %	40 %	12 %	454 %
Average useful floor space (m ²)	12 %	6 %	11 %	32 %
Average useful floor space per person (m ²)	25 %	14 %	20 %	70 %
Average number of persons in dwelling (m ²)	-11 %	- 6 %	- 6 %	-22 %

Source: Census 2002

Figure 3: Change in number of dwelling through periods



Source: Census 2002

An average area of one unit in 2002 was 75 m², which is 8% more than in 1991. 52% of all units are in cities, with average area of 70.1 m². Units in rural areas were larger, with average area of 80.1 m². In the last two years the average area of housing units has increased to 116 m², which is the result of increased building of family houses and the surfaces of the housing units.

The average housing unit in Slovenia has 3.3 rooms, in one unit live on average 2.9 persons, each person lives on the average of 29,5 m².

The quality of housing units is evaluated also by installations and auxiliary spaces. 21% of all units have no central heating and in 8% do not have a bathroom.

4.4 Housing construction in Slovenia

In the year 2002 there were 19.007 housing units under construction. By the end of the year 2002, 38% were completed. High percentage of the units were built in self arrangements, 70% of all units had three or more rooms.

60% of all units were completed in three years, 12% were constructed in less than one year. Companies were investing in 26% of all units, which is the highest share in last five years.

At the end of year 2002 there were still 11.742 units under construction, which was the lowest figure in the last five years.

7.265 housing units were built in the year 2002, the legal persons as investors built 1.915 units by total surface of 143.715 m², and private persons built 5.350 units, by total surface of 680.893 m². Most of the units were 75 to 99 m² by size.

4.5 The prices of new built housing units

Average price of a housing unit in first halve of 2003 was 1.500 Euros per m², which is an increase of 24.8% comparing with the same period of 2002. Average costs of building represented 54.1% of total average price, and were 9% higher than in previous period. The evaluation was done on the basis of report for 590 units.

Average price of housing unit, still under construction, which started between January 1 and June 30, 2003, was 1.550 Euros, and was 57% higher than in the same period 2002. Average costs of construction represented 62,6% of average price, and were 41,9% higher than in the previous period. The evaluation was done on the basis of a report of 897 units.

4.6 Real estate market in year 2004

Turnover on the real estate market in the year 2004 has been more stable and widely

spread through the whole period in comparison with the previous years, except in the last quarter when a slight increase in turnover was reported. This increase in turnover contributed to a 9% real increase in real estate transaction. The real estate deals made by the legal entities have diminished by 4% in 2004, while the deals made by households have increased by 18%. The foreigners have made more purchases of real estate, especially after 1st of May when new legislation that allowed foreigners to buy real estate in Slovenia became valid. This development represents the normalization of Slovene real estate market. Households are starting to invest more money into real estate, looking for a safer investment element in comparison with other capital investments. On the other hand the business sector is investing less into real estate, because leased business premises are giving more flexibility in regional business operations.

Slovenian Chamber of Commerce and Industry (CCI)⁴ has conducted research on yearly conjunction movements on the real estate market. Their research resulted with interesting findings that the turnover on the Slovenian real estate market, according to data gathered by real estate agencies, suffered a slight stagnation in comparison with the year before. From the other set of data provided from the tax authorities, which are collecting a 2% tax on transactions from real estate deals neglected their findings and stated a great increase in overall number of real estate transactions.

The leverage of an increase in number of real estate transactions has to be searched in adoption of legislation. Government introduced change in article 37 of the Law on income taxation and proposed a Law on mass valuation of real estate. Law on revenue is more severe regarding the transfers between the company and household, as the transfer of real estate from the household to the company. Therefore it is treated as an income for the company counted in its revenue. The only exception is start-ups. If the real estate is transferred from private person to an existing company, where owner is the same, real estate becomes treated as an owner's income, which is taxed by 50% tax rate.

The next leverage that explains transactions before 31st of December 2004 was in article 87 of the Law on income taxation. By new law⁵ the capital profits are also taxable when the owner of the company, revenue tax payer, is decreasing company's capital, with the payment in nature, for example real estate. Under the previous Law such a transfer was not subject of taxation. At the same time the owners of the companies, whose value exceeded € 250.000, were diminishing the value of the capital below this margin by selling the real estate back to themselves, or to their linked persons.

It can be stated that shortly after the adoption of the new legislation there was an increase in number of transactions. Transactions have increased between so called "linked persons", on one side among the members of the same household, especially among relatives on the basis of gift contracts, and on the other side between the owners of the companies and their linked companies. It's estimated that the volume of these transactions in last quarter of 2004 represented between € 80 – 100 million for private persons and € 40 million for companies. The basic volume of transactions in

⁴ GZS, <http://www.gzs.si/>

⁵ Finance, "Nepremičninski investitorji ne bi smeli svojih gradenj financirati z avanski kupcev", 2003-05-27

2004 was equal to the one in 2003.⁶

The typical developer on the real estate market is faced with high “entrance threshold” on construction market, measured by high prices of building land. The administrative procedures of all permissions for the construction are complicated as well.

The typical Investor is the bank, housing funds, semi-state funds, co-operatives, leasing companies, big companies etc. The banks offer mortgage-backed loans. The repayment period is long term (5 year, 10 year and sometimes 15 and even 20 years). The 20 years long term loan still puts too high financial burden in young families. There are no (mortgage) loans on the period of more than 20 years. The Government has put forward the proposal of Law on mortgage bonds in September 2002. In general, the mortgage market is underdeveloped in Slovenia. There are no Real Estate Investment Funds at the moment.

The typical real estate agency has 1 to 3 employees. Real estate agencies intermediate 20-30% of all transactions on real estate market. The intermediation is higher in the cities and lower in the undeveloped regions.⁷

4.7 State Dwelling Fund

The State Dwelling Fund of the Republic of Slovenia, established after the independence of the Republic of Slovenia in 1991, is a public trust serving as a central governmental institution for financing National Housing Program and stimulates construction, renovation, maintenance of houses and apartments. The trust is seeking its financial sources with issuing securities.⁸

National Housing Saving Scheme

In 1999 the State Dwelling Fund formed cooperation with government, implementing new instruments for financing of housing as addition to State Dwelling Fund. This enactment was made to satisfy exceeding demand for capital sources needed for housing construction. The instruments are stimulating long-term savings through attractive premiums and interest rates of long-term bank deposits.

From the year 2001 onward, the State Dwelling Fund is functioning as a public financial and real estate fund. With this transformation it made itself possible to extend its field of operation as a market regulator and a financial source for constructing and buying of real estate to supply side, where its role is to stimulate intensive construction at lower prices.

⁶ SKEP GZS, Konjunktorna gibanja, 2005

⁷ FIABCI European Studay Days “The Euro and the Real Estate Market”, Porto, 2002

⁸ State Dwelling Fund, <http://www.stanovanjskisklad-rs.si/>

Sphere of trust's activities:

- Grants long term credits for buying, constructing or renovating housing with favorable interest rate to private persons and companies for acquisition of non-profitable, rental, social and private apartments and houses.
- Invests in apartments and building sites
- Trades real estate
- Maintains premiums for National Housing Scheme according to legislation that concerns National Housing Saving Scheme
- Performs other legal tasks and manages National Housing Program

Table 3: Paid in sources 1.7.1999 – 28.02.2005

TENDER	Number of active contracts	AMOUNT (EUR)
	Total	60.339
	5 years	53.425
	10 years	6.914
1	Total	2.458
	5 years	568
	10 years	1.890
2	Total	13.175
	5 years	11.825
	10 years	1.350
3	Total	13.792
	5 years	12.665
	10 years	1.127
4	Total	14.764
	5 years	13.641
	10 years	1.123
5	Total	16.150
	5 years	14.726
	10 years	1.424

Source: www.stanovanjskisklad-rs.si

In 1999 the State Dwelling Fund presented a tender on which banks that want to cooperate in State Dwelling Fund could apply for. From the tender, 12 commercial banks were selected and granted permission to sign 60.750 agreements with its potential customers.

According to National Saving Scheme data from year 2005, banks have already signed contracts with 60.339 customers. The amount saved up to date sums up to almost 230.000.000 euros.

5. DEVELOPMENT PROCESS

The step-by-step procedure from land acquisition to construction

1. Finding land (site) that suits developer's purposes. Developer has to make sure that the land picked is duly recorded in the land register. It has to be classified as land available for construction purposes i.e. for development. It is advised that a lawyer is engaged to verify the legal status of the land;
2. Designating the plot (parcel) for construction or parcellation (drawing up a plot plan for property);
3. Obtaining construction documentation for the project;
4. Obtaining the construction (building) permit.
5. Passing the final inspection – obtaining the operating permit.

5.1 Land (site)

Location (site) information

The municipality provides the investor contemplating construction criteria and terms for planning of the intended investment as they are specified in valid spatial planning (zoning) documents, to obtain information on any conservation/protection, constraints and prohibitions arising from the adopted spatial planning measures and information with regard to any modifications and amendments to effective legislation i.e. the preparation of any new spatial acts.

The administrative body responsible for spatial planning and zoning in the municipality where the site is located is releasing location-related information to all applicants that file a request. The request is filed by the municipal administration in whose jurisdiction the land is situated.

Land available for construction purposes

Land available for construction purposes is the site designated in the municipality zoning plan as land for residential and/or commercial property development - housing and office buildings other than the structures being part of economic public infrastructure and are not intended for the needs of health care, social and children protection, education system, culture, science, harbour, and public administration, is allowed.

Land register

The records on land plots (parcels) and their owners located in the territory of the Republic of Slovenia are entered in the land register. The land register is kept by the court/tribunal of land records established at a local court – circuit court. There are 42 circuit courts in Slovenia.

5.2 Parcellation – plot planning

Land may be divided into plots (parcels and parcelling).

The plots are recorded in the cadastre records. The land cadastre and the cadastre of buildings are kept by the Surveying and Mapping Authority of the Republic of Slovenia (*Geodetska uprava RS*). There are 12 local units of the Surveying and Mapping Authority in Slovenia.

5.3 Construction documentation

For a simple building it is mandatory to obtain the so-called location information from which it is derived that the intended construction of such a simple building is in conformity with the effective execution spatial/zoning documents adopted for a particular district. The request for location information contains the purpose of the construction of the buildings, i.e. execution of works on land plots or on buildings (improvements and conversions).

- **Simple buildings/structures are:** ancillary buildings/structures, (e.g. fences, woodsheds, garages up to 30 m²...), temporary structures, (e.g. seasonal restaurant decks, covered exhibition areas...), sports and other training facilities, memorials, and urban equipment/micro architecture (e.g. shelters at bus stops, structures for advertising/box offices, kiosks, prefabricated sanitary units, etc.).

For less complex buildings and for complex buildings investors must obtain a construction (building) permit.

- **Less complex buildings** are all buildings not classified either as complex or simple buildings.
- **Complex buildings** are all buildings having the floor space of all areas to be constructed of more than 5,000 m³ and being higher than 10 m when measured from grade to the eave, and all civil engineering structures having load-bearing spans in excess of 8 m or being higher than 18 m, measured from grade to the top of the bearing structure. Furthermore, legislation specifies a long list of buildings considered to be complex buildings by their nature, e.g. : Facilities designed for handling radioactive and other hazardous substances, Subterranean/underground buildings having the ceiling/roof structure more than 10 m below the grade, buildings with deep foundations, partition walls higher than 10 m, water reservoirs, energy structures, and other.

5.4 Construction permit

A construction (building) permit is a decision issued by a competent administrative body after establishing that the intended construction is in accordance with the execution spatial planning document, allows such construction and in which it prescribes concrete terms and conditions to be complied with during construction.

The competent administrative body for construction affairs vested with the authority for issuing construction permits for buildings of national significance is the Ministry of the Environment and Spatial Planning. A building of national significance is a building of significance for the development of the Republic of Slovenia, a building, which may affect safety or health of a large number of people or has significant influence on environment and building i.e. the surroundings of the building of particular significance for defence and protection against natural disasters and other catastrophes.

There are 58 administrative units in Slovenia.

Approvals, a prior opinion or a permit

For construction, change of purpose or refurbishment consent or approval, a prior opinion or a permit is needed. Before construction regulations governing the specific construction project have to be consulted. For example, an approval, a prior opinion or a permit is mandatory in the following cases: for an area or buildings with cultural heritage, for activities affecting the physical environment and for construction that might threaten biotic diversity, natural value or a protected area, for all buildings with the exception of single-tenant residential buildings and other individual/detached buildings used occasionally for rest or holiday, with regard to fire safety provisions, for construction within the boundaries of the mine production area, for a protection belt along transport and waterways: roads, railroads and waterways, for the area of the Triglav National Park, for the area of regional parks, natural reserves and protected areas.

The procedure for obtaining a construction permit

In order to obtain a construction (building) permit, the architectural drawings and technical documentation (specifications) must be submitted.

Project documentation is a systematically arranged set of plans, i.e. technical descriptions and reports, calculations, drawings and other appendices that specify the features i.e. characteristics of the intended construction with regard to location, function, design and technical and includes the conceptual design (IDZ), preliminary design (PID), the design /documentation for obtaining construction permit, the construction documents (drawings and specifications) for in the bidding phase and the detailed design for the execution of works.

Technical documentation is a systematically arranged set of documents, photo material, architectural drawings and descriptions. It comprises as-built drawings, the design for commissioning and maintenance of the building and the project for the entry into official records.

The investor (owner/developer) is obliged to invite in writing the bodies competent for granting approval prior to the commencement of the designing phase in order to determine the project (design) terms and conditions and after the project documentation has been drawn up, to invite the approval bodies in writing to give their approval to it.

The request for the determination of project terms and conditions must be accompanied by the conceptual design, whilst the request for the issuance of the approval has to be accompanied by the plans, i.e. the part of the project (design) for obtaining the construction permit pertinent to the subject-matter of the approval.

Once the construction permit becomes effective i. e. final, building works may start. Once the construction permit becomes effective i.e. final, it remains in force for two years. After that it may be extended twice by one year, but the reasons for such extension must be specified. As soon as the works, the validity of the construction permit does not lapse.

Environmental approval

Regarding the activities to affect the environment, it is mandatory to obtain an **environmental approval** from the Agency of the Republic of Slovenia for the Environment (ARSO), during the process of obtaining the construction permit.

An environmental assessment has to be made for a project that envisages the clearing of woods on the area of 5 ha or more, shopping mall project with the gross floor area of 10,000 m² or more, construction with accommodation capacity located beyond the boundaries of settlement zones with 100 beds or more, construction of a golf course with 18 holes or more, construction of a building for sports events with the capacity for 10,000 visitors and similar facilities.

The Agency decides on the environment approval within three months after receiving a complete application.

Illegal construction

There are several types of illegal construction such as non-compliant construction, hazardous construction and unauthorised digging. In addition to financial penalties levied on persons responsible acting on behalf of the investor/owner or the architect, a measure of demolition may also be passed against an illegal construction.

5.5 Operating permit

Before the building is put into use the operating permit from the administrative unit is needed. The operating permit is the decision by which the same administrative body that issued the construction permit to start building works, now allows the building to be commissioned and used having successfully passed a technical inspection.

No operating permit is mandatory for simple buildings, changing the use of the building or when works are carried out as part of maintenance. The construction of the new building, renovation of the building, the replacement construction and removal /demolition of the building may start after the construction permit becomes final.

6. REAL ESTATE ON SLOVENIAN COAST

The Slovenian coastline is only 46.6 km long.⁹ Through the centuries, however, the area has had an important role. From the time of the Venetians, many rich traders built their villas and enjoyed the scenic surroundings with great climate, and made this part of the world favorable tourist destination. This trend continued among other leaders that occupied the area.

Austro-Hungarian emperors' favorite summer resort was Portorož where they have built hotel Palace, for that time, one of the most luxurious hotels in the Mediterranean.

After the Second World War, the area fell under Yugoslavian jurisdiction. At the beginning of 1960, started a new development in tourism began, which resulted in many new hotels and Portorož once again became the most mundane holiday resort on the Yugoslavian side of northern Adriatic. Casinos and new congress centers played an important role. After Slovenian independence and during the war in Yugoslavia, the region which lived from the tourism suffered a lot. Foreigners that fueled the local economy were scared to return because of the uncertain situation in neighboring Croatia and other former Yugoslavian republics.

In the last decade tourism has increased again and many new developments are in progress.

The Slovenian coastline is divided into three different communities. The Main community is neighboring to Italy, with the biggest city on the Slovenian coast, Koper. The main activity is connected with Port of Koper which is the biggest sea port in northern part of Adriatic Sea, and the main port for Austria, Czech Republic, Slovakia and Hungary. Other important industries are automotive, metal and chemical industry.

The second community is Izola, located in the middle section with important food production companies, docks and of course tourism.

The third community is only tourist oriented. This community is divided into two cities Piran as a main municipality, established by Venetians in 14th century and Portorož as a tourist area with a hotel strip and mainly residential housing stretched on the hills.

Due to high environmental awareness, all three communities have succeeded to manage modest development in industry, combined with high growth of services that has made the area one of the highest growing, with big potential in the future.

All of these factors have made this region one of the most popular not only for Slovenians, but also for foreigners, who want to acquire property. Hence the prices for real estate are just sky rocketing.

⁹ CIA – The World Fact Book, <http://www.cia.gov/cia/publications/factbook/>

Figure 4: Panoramic view of Slovenian coast



Source: www.slo-istra.com

6.1 Demand for real estate on Slovenian coast

The prices of attractive locations in Piran are comparable to the ones in Portorož. Foreigners are interested first of all to rent the premises.¹⁰ The prices of apartments in the Community of Piran are already sky high, but the forecasts of local real estate brokers are that the prices will continue to grow.¹¹ Most of the demand comes from the weekend tourists. Foreigners, among them Englishmen, Irishmen and Italians, are mostly interested to rent the premises.

There is a very small supply of quality apartments, which have a terrace and a sea view, for which there are the most requirements. The prices for those that are available are sky high. The agents are expecting that the prices for the apartments in old city center should be higher as the prices that are offered by the buyers. The market is reviving in spring time; people are mostly demanding small apartments.

Many people are complaining about the high prices of real estate in Piran, but local brokers are certain that the prices will continue to grow. Prices for some houses which ownership was changed several times during past five years have even doubled. Since joining EU the prices have increased by 20%. New highway to the seaside area, modernization of the local airport, new golf course and further development of the university in coastal region, will increase the prices of real estate even more, though the prices of most luxurious apartments are still below the prices in capital city of Ljubljana.¹²

The demand for residential property is bigger than the demand for commercial property; so many owners are changing their premises to apartments.

Original citizens of Piran are moving to suburbs and hinterland, because in the old city there are problems with transport and parking, removal of garbage is very expensive, but the prices in the hinterland are also on the rise.

¹⁰ Finance, "Hiše v Piranu za sto milijonov tolarjev in več", Sabina Petrov, 2002-05-17

¹¹ Finance, "Cene hiš in stanovanj so za domačine nesporno previsoke", Nataša Ručna, 2004-10-11

¹² Finance, "Avtoceste spodbujajo rast cen nepremičnin", Dragica Heric, 2005-02-28

Table 4: Monthly rents for real estate in Euros

Community of Piran	
• Studio apartment (20 – 25m ²)	200 – 250
• One room apartment	300
• Two rooms apartment	350 – 400
• Three rooms apartment	450 – 500

Source: Gasspar Nepremičnine s.p.

Prices of housing on the Slovenian coast depend on their location. In table 6 it's shown what the current market values for dwellings are. From the table we can see that the most expensive real estate is located in towns of Piran, Portorož and Lucija. These three towns are all part of Community of Piran.

Table 5: Prices of dwelling units in towns on Slovenian coast in Euros per m²

Studio apartments	
• Koper, Izola	2.150
• Portorož, Lucija	2.500 – 3.000
• Piran	2.500
One room	
• Koper, Izola	1.800 – 2.000
• Portorož, Lucija	2.300 – 2.700
• Piran	2.250
Two rooms	
• Koper, Izola	1.800 – 2.000
• Portorož, Lucija	2.000 – 2.500
• Piran	1.400 – 2.000
Three and more rooms	
• Koper, Izola	1.500 – 1.800
• Portorož, Lucija	2.300
• Piran	1.100 – 1.800
Houses	
• Koper, Izola	From 250.000
• Portorož, Lucija	From 300.000
• Piran	From 450.000
Vacant land	
• Koper, Izola	70 – 200
• Portorož, Lucija	500 – 700

Source: Gasspar Nepremičnine s.p.

Figure 5: Map of Slovenian coast



Source: www.burger.si/Obala/Obala_Skica.htm

Prices of real estate in the town of Piran are highly dependant on location. The pricing of different locations in town is divided in table number 7. The most expensive real estate is the one located on the southern side of the peninsula. The prices for that housing can be worth up to 6000 euros/m². The least expensive properties can be found in the inner city without a scenic view over the sea that can be priced as low as 600 euros/m² dependant on its situation. The coefficient of price difference between the most expensive and the cheapest property is 10.

Table 6: Purchasing prices of real estate in Piran in Euros per m²

Newly, renovated at the seaside	
• North side	3.500 – 4.500
• South side	4.000 - 6.000
Renovated inside the city	
• without sea view	2.500 – 2.500
• with a sea view	3.000 – 4.000
Old apartments	
• without sea view	1.200 – 1.700
• with a sea view	2.000 – 2.500
• derelict building	600 – 1.000

Source: Gasspar Nepremičnine s.p.

Though this research is not mentioning commercial, some figures for commercial property are presented in table 8 for comparison purposes. If we compare prices of commercial property with residential ones, we can see that in some cases i.e. inner city locations, residential properties are achieving higher value. This comes from the fact that Piran is a tourist town with only certain scenic points. The rest of the city is, because of its narrow streets, quite unattractive for commercial premises.¹³

Table 7: Prices of commercial property in Piran in Euros per m²

Seaside position	
• restaurant	5.000 – 7.000
• retail	2.500 – 3.500
Major city squares	
• restaurant	4.000 – 6.000
• retail	2.000 – 3.000
Inner city streets	
• restaurant	3.000 – 4.000
• retail	1.200 – 1.500

Source: Gasspar Nepremičnine s.p.

6.2 Developer – Gasspar Nepremičnine

Most of the developers on the Slovenian coast are small although the exceeded surplus on demand side of market would allow bigger developers to come and start their developments in the area.

The biggest developer on the Slovenian coast at the moment is a sole proprietorship company with unlimited liability, Gasspar Nepremičnine s.p. from Piran, owned by Gašpar Gašpar-Mišič. The company has operated in the field of real estate since its establishment in 1993.¹⁴ The company is registered to perform real estate brokerage and has its own development and construction sector where they are employing an architect and construction engineer. The geographical area of their brokerage business is not only limited to the Slovenian coast and its surroundings respectively; their operations are taking place in nearby Croatia as well.

Recently the company has put more efforts in real estate with cultural value and individual development, whereas their plans are to switch their core business to the development sector and organization of cultural events, leaving brokerage as a secondary business.

Because of their interest in the real estate market they had to strengthen their ties with state authorities, giving them an opportunity to take an active role in the planning

¹³ Finance, “Nepremičninski trg: Piranska stanovanja večinoma kupujejo vikendaši”, Nataša Ručna, Tina Milostnik, 2005-04-09

¹⁴ Finance, “Gašpar Gašpar-Mišič, Gasspar Nepremičnine”, 2005-01-17

process and introduction of regulative laws concerning real estate. Among other things they were among founders of Chamber of Real Estate of Slovenia and first holders of IBN – Real Estate Brokerage License on the Slovenian coast.

The company's recent development is a new residential neighborhood, built in the shapes of typical Mediterranean architecture, called Rezidenca Park Lucija.

6.3 Development – Rezidenca Park Lucija

The biggest residential development on the Slovenian coast at the moment is currently being built on the northern slope of the Seča peninsula landscape park, and is in close proximity of the new Lucija RBC (Retail Business Center), containing a management unit, notary public, tax administration branch, bank, main bus station and the Portorož Marina.

Figure 6: Projection of the development when finished



Source: Gasspar Nepremičnine

The whole complex of apartments, garages, common areas and service facilities is designed as a complete unit. The area will be closed partly by the buildings themselves and partly by an appropriately formed fence and hedge. The main entrance to the complex will be through the lobby and the reception in the building "Vila Elisia", from which internal paths to entrances of the buildings "Vila Aralia", "Vila Begonia", "Vila Calla" and "Vila Dalia" (right of the entrance) and "Vila Gardenia", "Vila Hortensia" and "Vila Felicia" (left of the entrance) are planned.¹⁵

The neighborhood consists of 8 apartment buildings divided into three different complexes (A, B and C). Buildings are planned as villa-blocks with a relatively small number of apartments per staircase. They were named by flowers and plants in alphabetical order: COMPLEX A: Vila Aralia, Vila Begonia, Vila Calla; COMPLEX B: Vila Dalia, Vila Elisia, Vila Felicia; COMPLEX C: Vila Gardenia in Vila Hortensia.

¹⁵ Finance, "Rezidenca park Lucija – soseka presežkov", B.Ž., 2004-05-10

Figure 7: Recent photos of the development site



Source: Gasspar Nepremičnine

Parking is on the basement level. The garage roof, which is at the level of the atriums in the ground floor apartments and common areas, is landscaped. The number of parking spaces determined in the building plan was 144 for 109 apartments, which satisfied the provisions at the time. The developer decided to follow the amended provision stating that each apartment should have two parking spaces in the underground garage and demonstrated it in the final version of the conceptual scheme. The price of individual parking spaces will be determined on the basis of construction and installation costs and is not included in the apartment sale price. Parking spaces for businesses are planned along the road and below the building "Vila Elisia".

In addition to the parking garage, the basement floor is also planned to serve as basement storage space for apartments, service and technical facilities, and storage space for bicycles and strollers. There will also be a facility for a central vacuum system and a cleaning room with a sanitary drain in each building. On all ground floors, except in the front part of the central building of Complex B (Vila Elisia) apartments with atriums and terraces are planned. On other levels there will only be apartments. Next to each staircase there will be an elevator connecting all floors from the garage to the penthouse.

The project will also include amenities such as hair and cosmetic salon, sauna, gym, laundry and ironing facilities. The central reception area has a central monitoring system, bar (café), and a medical practice.

Figure 8: Projection of development when finished



Source: Gasspar Nepremičnine

Prices

The prices of apartments vary from 2.500,00 to 3.300,00 EUR/m² + 8,5% VAT in Slovenian Tolar equivalent, payable at the selling rate of Banka Koper d.d. effective on the date of payment.

Time plan

- The cornerstone for the new residential neighborhood "Rezidenca Park Lucija" was laid on October 30, 2003.
- Beginning of preparations at the construction site - December 2003
- Construction completed: Complex B - June 2004; Complex A - June 2005; Complex C - August 2005
- Apartments accepted: Complex B - August 2005; Complex A - August 2005; Complex C - October 2005.¹⁶

Financing of Development

If the idea and thereafter project is good there is no problem finding appropriate financial sources. In the case of interviewed developer and his latest development there were four banks that were interested in financing his project. The interesting part was that not only domestic banks led by a local bank Banka Koper, located in Koper, were prepared to invest money; Austrian banks were interested in this project as well. In the end national emotions, easier possibility for cooperation and scarce of foreign banks after recent business delicts that happened on some projects in Ljubljana and it's surroundings that made them charge higher risk compensation fees, favored the local bank.

The initial investment from the bank was worth more than 40 million euros. The bank credit was secured with a mortgage on the project and securities on other property owned by developer. Banks are normally offering credit to security, in this case mortgages, ratio 1:2. Bank credit represented around 80% of the total initial investments, the remaining part was financed by the buyers' down payments and developer's equity.

Interest rate on bank credit is set at 7,4%.

Looking from the perspective of the total value of the project once it's going to be built and sold, bank credits will represent less than 20% of the total value.

Cooperation with Construction Company and other subcontractors

To reduce a risk and achieve better cooperation with Construction Company that leads the construction works on the project, the developer decided to make a rewarding

¹⁶ Gasspar Nepremičnine, <http://www.gasspar-sp.si/>

mechanism that will improve efficiency and reduce risk by compensating them out of apartment sales and preset premium for their efficiency.

On the other hand subcontractors were offered a call option on buying apartments under the market value and some of them decided to do so.

Role of Community

The community had no role in this development. The purpose of the land was decided even before developer had acquired the site area so he had no problem in acquiring different permits. The only problem the developer came across were the neighbors that organized different petitions against construction of the neighborhood, which delayed construction for some time.

On the other hand politicians have much bigger effect on development processes due to the fact that they are managing conditions in environment. Certain environment will only attract investors if it is sound and healthy sphere and all conditions on the market are transparent.

7. ANALYSIS OF RESULTS

Slovenia is quickly adapting more and more to a capitalistic way of market organization. The prices of real estate have leveled and even over passed the ones that we can find in the other EU countries. On the other hand, there are still some elements of real estate that aren't developed sufficiently. The most important thing missing is still transparency on the capital market. The thing that Slovenia would need in the near future are real estate funds that would make a way for developers to find cheaper capital sources and stimulate the supply side of the market. With increased supply growth of prices could be smoothen and prices of real estate could finally match the development standard achieved.

The real estate market on Slovenian coast is booming, especially on the demand side, where the growth of demand is far exceeding the supply. As the experts in the field of real estate on the Slovenian coast are predicting, prices will double in the coming years. The reason for this to happen lies on the supply side. The biggest problem among potential developers is the lack of free land, where construction is planned. Even if all available capacities, meaning all available construction sites with allocated permits, were used, the supply could hardly satisfy the needs of demand. From this perspective, there is only moderate risk that the developer has to come across, due to the fact, that there is enough demand among property buyers. The only presumption they have to satisfy is that they find an interesting location.

From the financial perspective, extensive leverage can give positive effect on returns. The interest rate on bank credit from selected development is 7,4% while expected growth of property prices in the area is expected at 20%. The only rational move developer should do, is to increase the debts to the point, where financial distress doesn't represent a major threat to insolvency of the project.

What developer Gašpar Gašpar-Mišič has done in this project is that he transferred all the risks concerning financial distress of the project on his own shoulders. The selected development's organization of finances is done in a unique way. The developer's company is a sole proprietorship, meaning that the developer takes more risk than in normal cases, where developers have limited liability on his actions. This way of structuring has a positive effect on creditors where their risk of not getting their invested money back is lowered, and hence, their risk premiums should be lower. On the other hand individual risk of developer increases. Financing leverage of the project is at around 80%, meaning that the major part of initial investment and thereby construction costs of the development are financed from bank. The initial leverage is high although real estate developments are treated as fixed liquid assets that could be sold in case of the financial distress. From the perspective of the final situation when all the apartments will be sold, the bank's part will represent only one fifth of the development's value.

Another way the developer can reduce the risk of financial distress is to cooperate with all the participants in the project and decrease the general suspicion among them. That is what the developer has done; the most important thing was that he offered them rewards for their efficiency.

8. SUMMARY AND CONCLUSION

The research done has provided a brief overview of real estate market on the Slovenian coast, and gave some thoughts on how the market will develop in the near future. Among other things it has provided some solutions on how to divide risk in the development process between the investors and capital providers. The strategy used in the observed development could be a solution on how developers should structure their investment potential to increase competitiveness among them and reduce cost of capital which is an influential part in investment decisions.

The questions that came around while doing research were connected with near integration of Croatia to the EU. How will Croatian accession to European integrations move the Slovenian real estate market? Will this stimulate the growth because of the increased confidence in the greater areas' economy, or will the market collapse because of the big supply of unused development sites on the other side of Slovenian border? These are just some of the questions that I came across in connection with the political situation on the market. On the other hand, further research needs to be done to predict the movements on the local market. What are the possibilities of real estate market growth and where should we find solutions for new development areas? At this time, the Slovenian coast lacks free land. Because of the lack of space for future developments, upgrading of existing properties may be one of the options. Another option is to extend developments on surrounding areas of the prime locations. On one hand it won't reach maximum values but at least it would satisfy demand for housing in the area. Another possibility for future development lies in the exsiccation of water areas that will make new land available. These topics should be covered in future research.

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