



European Construction Sector Observatory

Policy fact sheet

Croatia

Housing Incentive Programme

Thematic objective 1

January 2020



In a nutshell

Implementing body	Agency for Transactions and Mediation in Immovable Properties (Agencija za pravni promet i posredovanje nekretninama - APN).
Key features & objectives	Incentive programme enabling beneficiaries to obtain a mortgage for the purchase of POS-funded apartments at preferential rates.
Implementation date	2001-present
Targeted beneficiaries	Croatian citizens
Targeted sub-sectors	Residential
Budget (EUR)	2001-2018: State Funding: EUR 575 million (HR 4.27 billion)
Good practice	★★★★☆
Transferability	★★★☆☆

Housing affordability has become a growing concern in Europe in recent years. The growth of urbanisation is driving up house prices in urban areas. Other factors also play an important role, such as the sharing economy (e.g. Airbnb) or demographic changes (e.g. population growth and ageing), or the globalisation of labour, among others. From a market perspective, the lack of financing in housing affordability, together with increasing construction costs, the lack of houses supply (in comparison to the demand), and the lack of land, are also among the factors preventing the development of affordable housing. Finally, housing affordability cannot be seen in isolation from energy and transport costs¹.

A recent survey revealed that of 200 cities polled, 90% were considered to be unaffordable when

applying the widely-used standard of average house prices – the latter being more than three-times the median income². The Croatian housing market is characterised by fragmentation with large differences between the coastal areas, which are popular with tourists and feature higher prices, and continental Croatia, where prices stagnate due to limited EU support and low foreign direct investment³.

Croatia has the fourth highest overcrowding rate in cities in the EU (43.6%)⁴. The urbanisation rate has increased by 2.5% over the last decade, reaching 59% in 2015, according to the World Bank⁵. Moreover, the share of the population in arrears with their housing costs/payments, including mortgage, rent and utility bills, is the fourth highest in Europe (26.4%)⁶.

According to the Croatian National Guidelines for Quality and Culture of Building 2013-2020⁷, housing is ‘the most important component of the social development of society and a prevailing content of settlements and cities, and the biggest user of space’. Based on this assumption, the Croatian Parliament adopted the Law on State-subsidised Housing Construction with the purpose of meeting Croatian housing needs and improving the quality of life of citizens.

In line with this law, the Ministry of Construction and Physical Planning (MGIPU) launched the Housing Incentive Programme (Program poticane stanogradnje – POS).

The POS programme provides state funding for the construction of residential properties, whereby local governments provide plots and cover the costs of connection to municipal infrastructure. To date, 243 buildings with 8,250 apartments have been built with the POS support. Additional buildings and apartments are under development or under construction. Around EUR 575 million has been invested thus far, including EUR 150 million sourced from public funds.

1.

General description

The POS aims to solve citizens' access to housing by providing more favourable terms compared to market conditions.

The POS is being implemented by the Agency for Transactions and Mediation in Immovable Properties (Agencija za pravni promet i posredovanje nekretninama - APN). Additionally, there are local and regional organisations implementing the programme: City Flats of Varaždin, and the Agencies of the cities of Rijeka, Dubrovnik and Koprivnica.

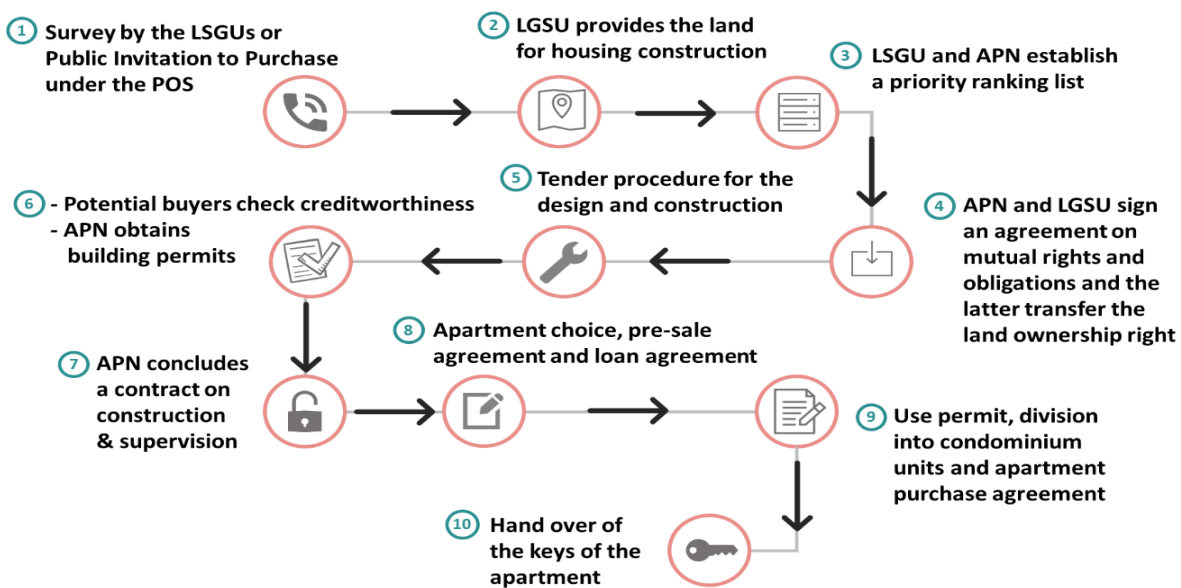
The programme's main objective is to enable beneficiaries to obtain a mortgage for the purchase of POS-funded apartments at preferential rates. A loan can be secured without a guarantor, with an average interest rate of around 3-4% and a repayment period of 30 years (plus a 1-year grace period)⁸. During the first 15 to 20 years, the loan is repaid to the commercial bank at variable interest

rates (average 4.4 %), with a foreign currency clause linked to the Euro (depending on the bank). For the remaining 10 to 15 years, the funds provided by the APN are repaid once the loan to the bank has been fully repaid⁹.

The POS is open to applications from all Croatian citizens. Priority is given to those looking to purchase their first property (first time buyers) and those deemed to be in need (with unsolved housing issues). Examples of the latter include those with a current living space that is not adequately connected to communal infrastructure, and those living in unsuitable housing (unhygienic, poor technical conditions or too small - usable floor area for one person below 35 square meters and about ten square meters for each further person).

The procedure for the purchase of a POS apartment consists of 10 main steps¹⁰, as illustrated in Figure 1.

Figure 1: POS procedure



Source: Based on information published by APN¹¹

The guarantee for construction, craft and installation work is provided by the contractor for a two-year period.

The maximum apartment price is EUR 1,319.64 per square meter. This price consists of¹²:

- The standard construction price, including VAT. It is determined every year by MGIPU based on market average prices. For 2019, it amounted up to a maximum of EUR 879.76 per square meter of Net Useful Floor Area (NUFA) of the apartment¹³;
- Price of the land, utility infrastructure and connections. These can amount up to a maximum of EUR 439.89 per square meter of net useful floor area.

This anticipated price is calculated after the conclusion of both the agreement between the APN and the Local Self-Government Units (LSGU) and the agreement on construction, design and supervision. The final price per square meter is determined upon completion of construction and calculation of all construction costs. However, it cannot be more than 7% higher than the anticipated price stipulated in the pre-contract.

In terms of size and characteristics of the apartments, they are aligned with the Ordinance on the Minimum Technical Requirements for Designing and Building Apartments under the POS¹⁴, and tailored to the requirements of the local authority or APN Priority List of Candidates.

Table 1: Family members and size of the apartment

Family members	Size of the apartment
1 person	Up to 44 m ² NUFA
2 people	Up to 49 m ² NUFA
3 people	Up to 67 m ² NUFA
4 people	Up to 76 m ² NUFA
5 people	Up to 80 m ² NUFA
6 people	Up to 92 m ² NUFA

Source: APN¹⁵

There are **three special programmes** under the POS:

- POS plus programme¹⁶.
- Construction and reconstruction programme¹⁷.
- Purchase of building materials programme¹⁸.

2.

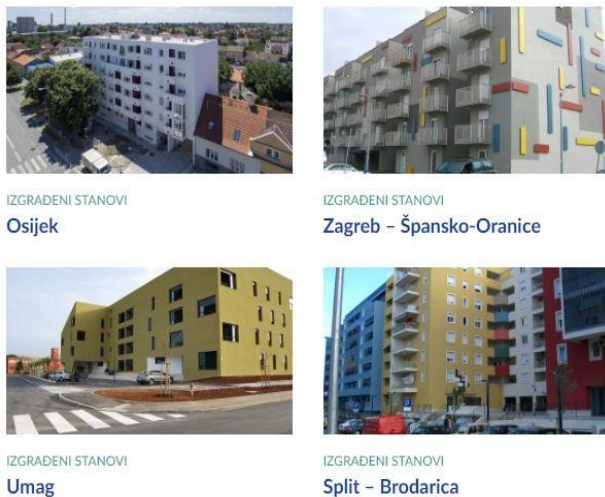
Achieved or expected results

The Croatian MGIPU monitors and controls the implementation of the programme. A number of different audits are carried out, including a state audit, a Ministry of Finance audit and an internal audit. MGIPU also publishes annual reports.

According to the APN, the expected results of the POS are higher Gross Domestic Product (GDP) for Croatia, a rise in employment, the growth of the construction sector, and the financial self-sufficiency of the programme¹⁹.

By the end of 2018, the POS had helped finance the construction of 243 buildings with 8,250 apartments (completed projects). Over EUR 575 million has been invested, of which EUR 150 million came from public funds. Figure 2 shows some examples of the projects that have been supported.

Figure 2: Examples of apartments built under the POS



Source: APN²⁰

Table 2 provides a breakdown of the buildings and apartments built since the launch of the programme. The most intense construction period took place between 2004 and 2007, where almost

half of the total apartments built under the programme was constructed.

Table 2: Buildings and apartments built (completed)

Period	Buildings	Apartments
2000-2003	31	906
2004-2007	113	3634
2008-2011	43	1013
2012-2015	42	1422
2016	5	828
2017	4	232
2018	5	215
Total	243	8,250

Source: APN²¹

As shown in Figure 3, the POS has supported the construction of buildings and apartments across the whole country.

Figure 3: Apartments built under the POS



Source: MGIPU²²

Currently, there are 19 buildings with 168 apartments under construction, as well as 35 buildings with 941 apartments in the preparation phase.

Table 3 provides a breakdown of the total investment provided by the POS in different periods since the launch of the programme, as well as the investment made by the Croatian public authorities. The period with the highest investment coincides with the period of greatest construction activity (2004-2007).

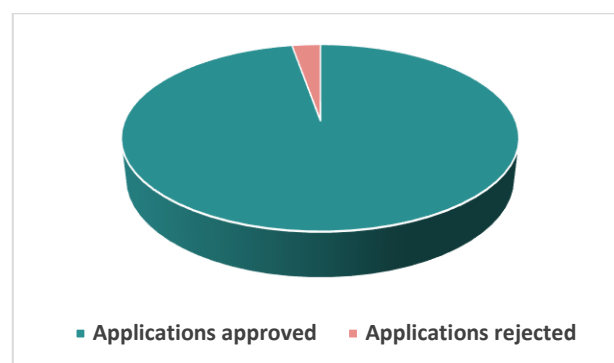
Table 3: Investment (EUR/HRK)

Period	Total investment (EUR / HRK)	Public investment (EUR / HRK)
2000-2003	EUR 43,442,893 (HRK 324,487,758)	EUR 10,224,954 (HRK 76,373,191)
2004-2007	EUR 247,547,410 (HRK 1,849,004,508)	EUR 55,049,361 (HRK 411,179,888)
2008-2011	EUR 75,234,430 (HRK 561,948,116)	EUR 23,746,919 (HRK 177,372,731)
2012-2015	EUR 106,929,070 (HRK 798,684,716)	EUR 28,877,944 (HRK 215,697,871)
2016-2018	EUR 97,908,792 (HRK 731,309,600)	EUR 30,910,889 (HRK 230,882,535)
Total	EUR 571,062,595 (HRK 4,265,434,698)	EUR 148,810,067 (HRK 1,111,506,216)

Source: APN Recapitulation²³

Figure 4 shows the applications received and approved from the reports on the implementation of the Law on State-subsidised Housing Construction for the last two years. 5,432 applications were submitted and almost all were approved (97%). In addition, 715 requests for further subsidies were received, with only 17 rejected.

Figure 4: Applications approved and rejected in 2017 and 2018



Source: APN 2017²⁴ and 2018²⁵

3.

Perspectives and lessons learned

Experience is essential for the successful implementation of this type of policy measure. The 11 years of experience with the POS have been the key factor in the success and continuation of the programme.

From a municipality perspective, the Deputy Mayor of the City of Osijek says that they “want to continue this form of encouraging housing construction and enable the people of Osijek to access housing under favourable conditions”²⁶. The Association of Construction Employers welcomes any measures that will encourage the sale of unsold apartments and allow for new investment in housing²⁷.

Understanding the housing needs of citizens is fundamental to the success of the POS programme. To acquire this knowledge, the POS ran surveys at local level to determine local housing needs and interests.

The Minister of Construction and Physical Planning expressed his satisfaction with the implementation of the POS, which contributes to solving family housing issues²⁸. From a citizen’s perspective, a new owner of an apartment of the POS said she was grateful to have been given this opportunity to call herself homeowner²⁹. Without the POS, her apartment would have been twice as expensive.

The POS programme is greatly benefiting young Croatians, enabling them to access affordable housing. It is also viewed by the government as a strategic investment in the future of the country. Housing opportunities for young people may encourage them to stay in the country.

In addition to addressing housing needs, the MGIPU also views a successful housing policy as an important demographic measure³⁰. If young citizens are provided with an apartment, the government is creating opportunities for them to build a family and stay in Croatia, reducing the departure of young Croatians from the country and investing in its future.

Strong cooperation between the local authorities and the national agency is key to properly respond to citizens’ needs and implement the programme effectively.

The APN takes the view that this type of programme can only be successful with co-investment from both local and regional authorities³¹.

Despite its successful implementation, two key barriers were identified during the POS implementation³²:

- Considering the success of the POS, lots of cities offer similar programmes which do not fit within the current regulatory framework;
- Before the launch of the programme, existing legislation needed to be revised and new legislation was created.

4.

Conclusion and recommendations

A growing population, urbanisation trends and an ageing building stock have created a need for additional housing. In Croatia, the housing policy is designed to increase the availability of (quality) affordable housing. With this purpose in mind, Croatia has implemented several housing policy measures.

One of these policy measures, the POS programme, has been revised several times to tackle housing challenges (e.g. affordable housing for people under 45, renovation of the building stock). The programme is continuing to provide affordable housing to Croatian citizens, with results that are tangible and visible to those citizens. In fact, due to the success of the POS, other similar sub-programmes have been launched, namely the POS plus, the Construction and reconstruction, and the Purchase of building materials.

Overall, the POS programme is considered to be a '4-star good practice measure' on a scale of 1 (low) to 5 (high) stars.

This score is based on the successful implementation of the programme over the last 11 years, the considerable number of newly constructed buildings and affordable apartments supported, and the positive views of stakeholders.

The POS is rated as a '3-star transferable measure' on a scale of 1 (low) to 5 (high).

This score is given based on the existing differences among EU countries (e.g. political, economic and cultural differences). In addition, the numerous amendments to the legislative framework act as a barrier to transfer the programme to other countries.

In general terms, to address the housing affordability challenge, systematic changes are needed. Policy makers should adopt an integrated approach that takes into consideration housing affordability issues, as well as climate change issues

(e.g. energy poverty, renewable), as both are interlinked. Some policy recommendations are provided in Table 4.

Table 4: Examples of policy recommendations

Public sector
More transparent regulations for land acquisition and transfer.
Rental regulatory framework that protects both tenants and landlords.
Promote mixed-income and mixed-use housing developments.
Create more innovative financing models for house acquisition, construction and upgrading.
Encourage skills development in the construction sector.
Private sector
Develop innovative mechanisms to finance development and help establish the creditworthiness of citizens.
Help employees to find affordable housing through loans, subsidies or mortgage deals.
Promote sustainable design concepts to create energy-efficient housing.
Use new technologies (e.g. 3D printing, AI, big data), as well as alternative materials and advanced automated equipment.
Non-profit sector
Collaborate with housing providers to implement alternative tenure models.
Provide technical support, information and know-how to developers and homeowners.

Source: Own elaboration based on WEF³³

Endnotes

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- 14 Ordinance on minimal technical requirements for the design and construction of apartments under the state-subsidised housing construction programme (Official Gazette 106/04, 25/06, 121/11)
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- 18 APN website, Purchase of building materials programme (in Croatian):
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