

2008

THE 2008 SLOVENIAN REAL ESTATE MARKET REPORT



SURVEYING AND MAPPING AUTHORITY OF
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THE 2008 SLOVENIAN REAL ESTATE MARKET REPORT

2008 was marked by the imminent world financial and economic crisis. The bursting of the real estate bubble in the United States of America, which led to the crumbling of the mortgage financial instruments, hurt the confidence into the banking system and consequently resulted in the collapse of some of the largest banks. Simultaneously, the New York stock exchange declined sharply and the USA was consumed by a financial crisis, which was quickly followed by the first signs of the economic crisis.

In the second half of 2008, the financial crisis spread into Europe and began taking on global dimensions. Virtually all world stock exchanges ended 2008 in the red. The confidence into the banking systems was shattered, the interbank interest rates shot up, while the extent of the loans to companies and the public declined.

The first victim of the crisis in Europe was Iceland, which was the first to suffer a collapse of the financial system. In spite of the measures taken by the central banks and governments, it became evident that the financial crisis will sooner or later impact the real sector of individual countries. That is exactly what occurred towards the end of the year when certain economic powerhouses (Germany, Great Britain, France, Italy) officially found themselves in an economic recession.

The financial crisis and the recession impacted the real estate markets across Europe. In certain countries (the Baltic States, Great Britain, Ireland, Spain) one could even talk about the bursting of the real estate bubble, as the prices declined by as much as 30 per cent. In other countries (Portugal, Malta, Norway, Luxembourg, Austria, Finland, Sweden, the Netherlands) the prices declined considerably last year, but the drop was not as sharp. In some countries there was a significant drop primarily in the commercial real estate market (Germany, Italy). Virtually all European countries experienced a decline in the volume of real estate transactions and at the very least price stagnation.

Slovenia belongs in the group of countries which had a positive GDP growth last year and officially were not in a recession. Year-on-year, the real estate market in Slovenia, both the commercial and residential properties market, returned a growth of around zero per cent.



Developments in the Slovenian real estate market

The 2008 Slovenian real estate market was marked by a drastic decline in the number of real estate transactions. This decline was so sharp that market activity dropped to the 2003 levels, i.e. to the levels before the period of the continuous sharp annual growth of the average real estate prices. However, it was only in the second half of the year that the average realized prices of residential properties also began to decline in all the important urban areas.

Supply and demand

As early as the first half of 2008, it was already evident that there had occurred a significant change in the supply-demand ratio in the Slovenian real estate market. There had also been a change in the market expectations of the market subjects, primarily on the demand side.

The demand for residential properties suddenly began to decline considerably. The impact of the financial crisis was also evident in the lesser availability of housing loans at our banks. A relatively high inflation and the increase of the interest rates in the first half of the year began eroding the purchasing power of the public. Towards the end of the year, in spite of the statistical increase in the real salaries due to the declining inflation and the nominal decline in the interest rates, the purchasing power remained low as a consequence of the worsening economic crisis (growth in unemployment, shrinking of the economic growth). An important source of financing real estate purchases, the investments into the until-recently fast-growing equities, had dried up due to the bursting of the stock market bubble. As a consequence of the ever shrinking market activity, it became ever more difficult to sell old properties and thus finance the acquisition of the new ones at least in part. In light of the high price levels attained, this resulted in the shrinking of the purchase-capable demand in the market. Additionally, the expectations of the potential buyers about the future price movement had changed as a consequence of the expectations of the deepening of the economic crisis and the speculations about the inflated real estate prices. An immediate consequence was the significant lengthening of the time required to sell properties and a sharp decline in the volume of property transactions.

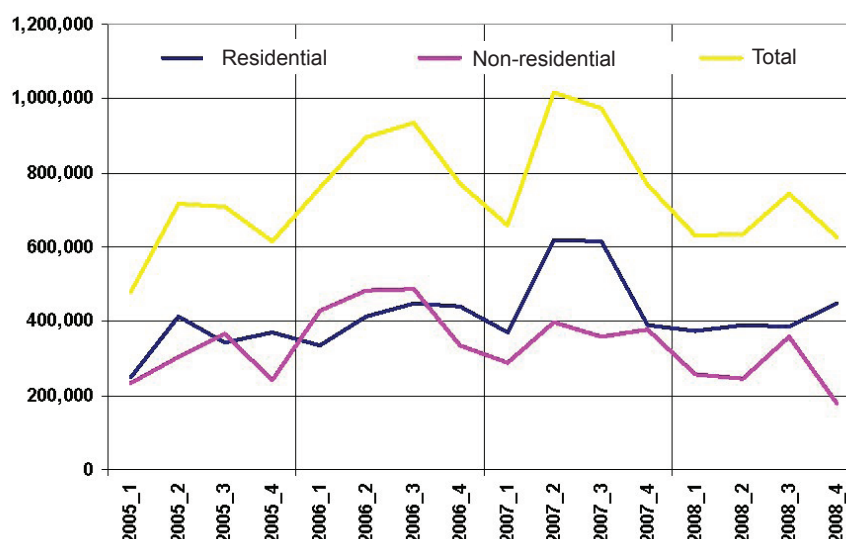
On the other hand, the supply of the newly-constructed properties increased because the peak of the construction cycle, which had been brought on by the period of the sharp price growth, was reached last year and this year. According to the data of the Institute of the Macroeconomic Analysis and Development, the November value of the completed construction works on apartment buildings exceeded the previous year's value by a quarter. As a consequence of that, the developers and sellers faced the problem of over-supply for the first time since the establishment of the real estate market. Of



course, it was not the case of the supply of residential units in Ljubljana and its surroundings, or in other regional centers, actually exceeding the residential needs of the population, but rather a large portion of the supply at the advertised prices could not find purchase-capable buyers, or buyers who would be willing to invest into property purchases in light of the speculative forecasts about the decline of the prices.

Big developers tried to adapt to the decreased demand by slowing down or reducing the extent of the new projects. The decrease in new investments was also somewhat already a consequence of the inaccessibility of the suitable loans for developers.

Graph 1: Surface areas of residential and commercial properties in the issued building permits by quarters for the period of 2005 - 2008



Source: Statistical Office of the Republic of Slovenia

The quarterly movement of the planned surface areas of the newly-constructed residential and commercial units in the issued building permits clearly indicates a decrease in the developer activity in 2008 in comparison to 2007, when the peak of the investment cycle was reached.

The increasingly worsening economic conditions affected the real estate market for commercial properties as well. Commercial properties vary widely and consequently the supply and demand for them are shaped differently. Last year new offices, catering and retail facilities experienced a similar decrease in the demand and increase in the supply as residential properties. Due to the worsening economic conditions in larger commercial centers (Ljubljana, Maribor), there was an increase in the rental market activity towards the end of the year.

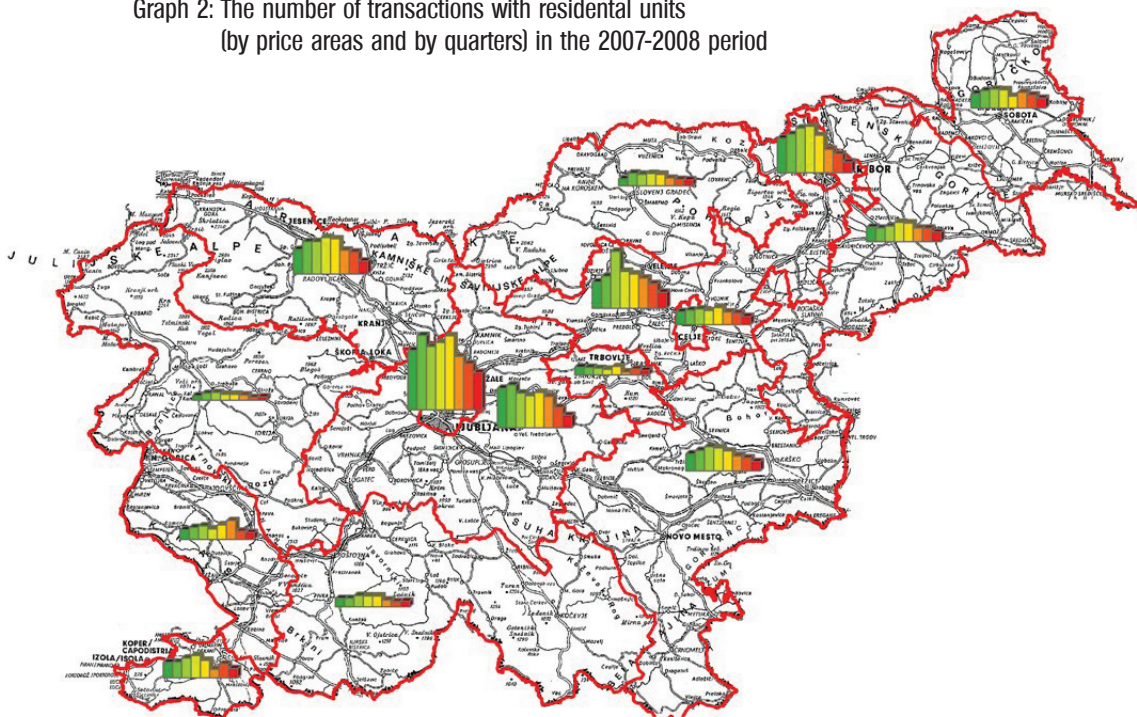
The market for undeveloped building land has its own logic, which is barely affected by the cyclic movements in the relatively small Slovenian market. Available building land in the most desirable locations is extremely rare. Therefore, there is always high demand for such land and the prices are dictated by the sellers. The availability of the other building land mainly depends on the sales of the municipal land and the dynamics of the adoption of the municipal spatial plans. Usually the demand exceeds the supply, while the prices in the developed urban areas experience a decrease only rarely and only for short periods. Successful speculative purchase of non-building land at the perimeter of the urban centers yield tremendous profits in case of the change of land use regardless of the stage of the market cycle.

Number of transactions

The extreme drop in the number of the realized transaction with residential and commercial properties last year was the most obvious sign of recession in the Slovenian real estate market. Relying on the latest data on the real estate transaction taxes for 2008, we estimated that in comparison with 2007 the actual number of apartment transactions decreased by more than a third, while the number of family house transactions decreased by more than a half.

In our estimate, the number of commercial property transactions decreased by approximately one fifth. It is a very rough estimate as the Real Estate Record captures only a small portion of the transactions between legal persons and transactions with newly-constructed commercial properties.

Graph 2: The number of transactions with residential units
(by price areas and by quarters) in the 2007-2008 period



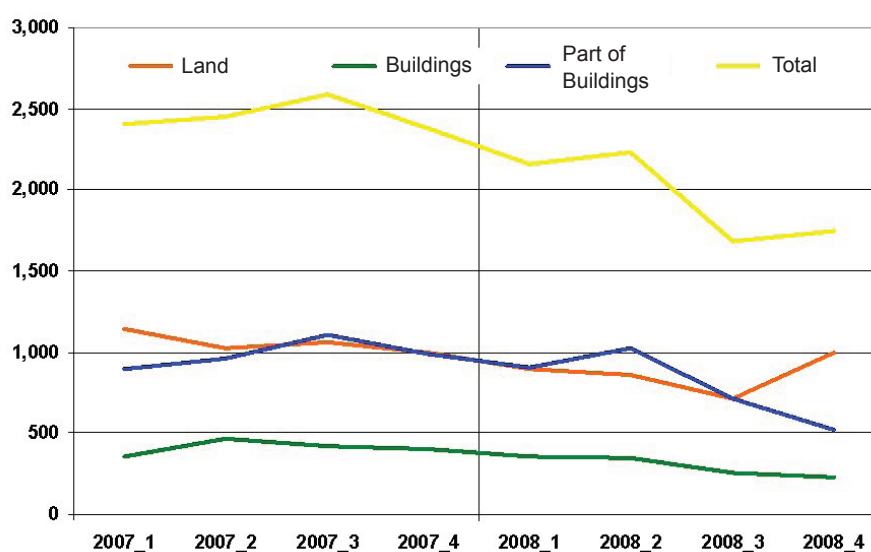


The number of completed transactions with building land decreased only slightly (3 per cent). The number of transactions with agricultural and forest land decreased by approximately 5 per cent.

The relative decrease in the number of property transactions seems to have reached the bottom in the 3rd quarter. Towards the end of the year there was a noticeable deceleration in the decrease of the number of transactions. Nevertheless, in the 4th quarter the absolute number of the recorded real estate transactions nationally reached its lowest level since the Surveying and Mapping Authority of the Republic of Slovenia has been systematically monitoring real estate transactions.

In comparison to the previous year, it was Ljubljana that experienced the lowest relative decrease in the number of apartment and house transactions. The greatest decrease occurred in Maribor, followed by the Gorenjska region, the broader surroundings of Ljubljana and the Coast with the hinterland.

Graph 3: The number of recorded transactions through real estate agencies, by quarters in the 2007-2008 period



The data on the completed real estate transactions which were transmitted to the Real Estate Market Record by the real estate agencies (which act as intermediaries in real estate transactions) show that statistically in 2008, in comparison with the transactions recorded via the levied real estate transaction taxes, the relative number of transactions decreased considerably less. On one hand, this is evidence of how enterprising the competing real estate agencies are.

It should, however, be noted that this also a consequence of a more complete acquisition of data from the real estate agencies and that consequently the decrease in the number of real estate transactions where the agencies acted as intermediaries is greater than the statistical data indicate.



In the last quarter, the absolute number of transactions in which real estate agencies acted as intermediaries reached critically low levels for buildings (mostly family houses with appurtenant land) and parts of buildings (mostly apartments). The recorded number of land transactions (mostly building land) in the same quarter receded back to the levels of the final quarter of 2007.

Table 1: Comparison of the numbers of recorded transactions submitted by the real estate agencies in 2007 and 2008

| Quarte | Land | | | Buildings | | | Parts of buildings | | | TOTAL | | |
|--------------|--------------|--------------|-------------|--------------|--------------|-------------|--------------------|--------------|-------------|--------------|--------------|-------------|
| | 2007 | 2008 | Δ 08/07 | 2007 | 2008 | Δ 08/07 | 2007 | 2008 | Δ 08/07 | 2007 | 2008 | Δ 08/07 |
| 1 | 1.146 | 892 | -22% | 358 | 360 | 1% | 897 | 906 | 1% | 2.401 | 2.158 | -10% |
| 2 | 1.025 | 858 | -16% | 468 | 346 | -26% | 962 | 1.025 | 7% | 2.455 | 2.229 | -9% |
| 3 | 1.060 | 714 | -33% | 425 | 260 | -39% | 1.106 | 711 | -36% | 2.591 | 1.685 | -35% |
| 4 | 993 | 993 | 0% | 403 | 233 | -42% | 984 | 519 | -47% | 2.380 | 1.745 | -27% |
| TOTAL | 4.224 | 3.457 | -18% | 1.654 | 1.199 | -28% | 3.949 | 3.161 | -20% | 9.827 | 7.817 | -20% |

It is clear that real estate companies were faced with a significantly reduced volume of transactions. In the first half of the year the real estate agencies responded relatively well to the lower number of potential buyers. The recorded volume of the apartment transactions implemented through real estate agencies even grew a little in comparison with the first half of 2007 (4 per cent) even though house transactions (-15 per cent) and primarily building land transactions (-19 per cent) fell significantly. In the second half of the year, the real estate agencies' activities declined significantly in the field of residential properties. It appears that in the time of the crisis an increasing number of buyers and sellers is concluding transactions without the agencies. One avenue to achieve that is online advertisements. Since there is barely any hope in the rapid revival and significant increase in the volume of activities in the real estate market, it is to be expected that some real estate agencies will find themselves at the edge of survival. It is clear that only the best will survive, i.e. those capable of providing the rare potential buyers a higher level of services at competitive prices.

Price movement

The prices of residential properties began stagnating as early as 2007 while the prices of commercial properties had already begun to fall at that time, while as late as 2006 the prices of apartments grew on average by no less than 16 per cent. In 2006 the average prices of commercial properties grew by 6 per cent.

In the first half of last year the developers mostly stuck to the advertised prices for newly-constructed properties for which they had already received advance payment or those properties whose construction was co-financed

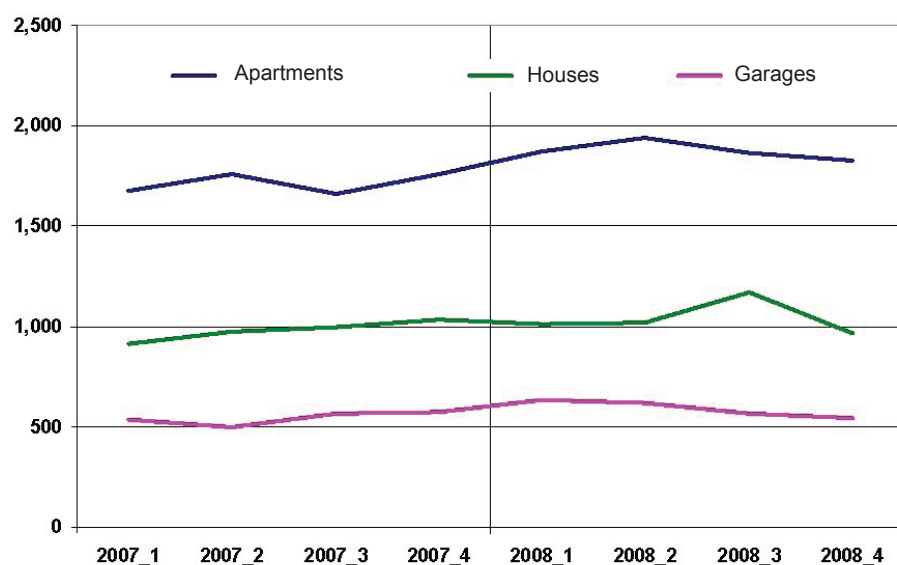


by the buyers. At the same time, in the used properties market only the well-maintained properties in better locations found buyers, while buyers were found for the other properties only rarely in spite of lower prices. The few transactions that were concluded were concluded at relatively high prices and, as a consequence, statistically speaking the prices of residential properties still grew. In the second half of the year, due to the bank credit crunch and the inability to refinance loans to finance the completed real estate projects, developers began lowering prices. Sales of certain used properties, which had remained unsold for a long time, were realized at significantly lowered prices and statistically prices began to decrease.

The average prices of apartments in the second half of 2008 dropped by 7 per cent. It must be noted that a similar upward trend in the first half of the year and a downward trend in the second half could have been observed in 2007, therefore we must not completely exclude the possibility of the seasonal component of the price movement. The Real Estate Market Record, which has been administered since 2007, is still too new to provide a suitably long history of data to analyze seasonal influences on price movement.

After the stagnation in the first half of the year, the prices of family houses actually grew in the third quarter and then fell in the final quarter by more than 15 per cent. Given the relatively small number of the recorded transactions, when discussing houses with appurtenant land we are merely estimating the price movement on the basis of the comparisons of the average quarterly prices per unit of the surface area of buildings. It must be noted that the average size of the buildings sold and their appurtenant land can vary significantly between quarters.

Graph 4: Price movement (€/m²) of residential properties in 2007 and 2008





In Slovenia the prices of apartments grew by an average of 4 per cent last year, while the prices of family houses dropped by 6 per cent. The decline in the house prices in comparison with the apartment prices was to be expected due to the market adjustment of the price movement of the residential properties, since in 2007 the prices of family houses with appurtenant land grew on average more (10 per cent) than the apartment prices (6 per cent).

The prices of garages also fell last year, incurring a drop of 5 per cent.

The movement of the prices of commercial properties is difficult to estimate due to the small number of transactions and the incomparable structure of the recorded data.

A more detailed analysis indicates that the prices of office premises, retail, service and catering facilities grew on average by about 2 per cent.

Statistically, the average price of the undeveloped building land fell by 11 per cent when comparing the prices in the 4th quarter of 2007 and the 1st quarter of 2008. It must be noted, however, that building land is rather heterogeneous and there is a possibility of significant changes in the structure of the land sold in different periods. The average prices include the prices of all land properties intended for residential or commercial development, regardless of whether the land is serviced and what its legal and administrative status is.

The average price of agricultural land at the end of last year remained at the same level as in the fourth quarter of 2007, while in our estimate the annual growth of the prices of forest land at the national level was slightly positive.

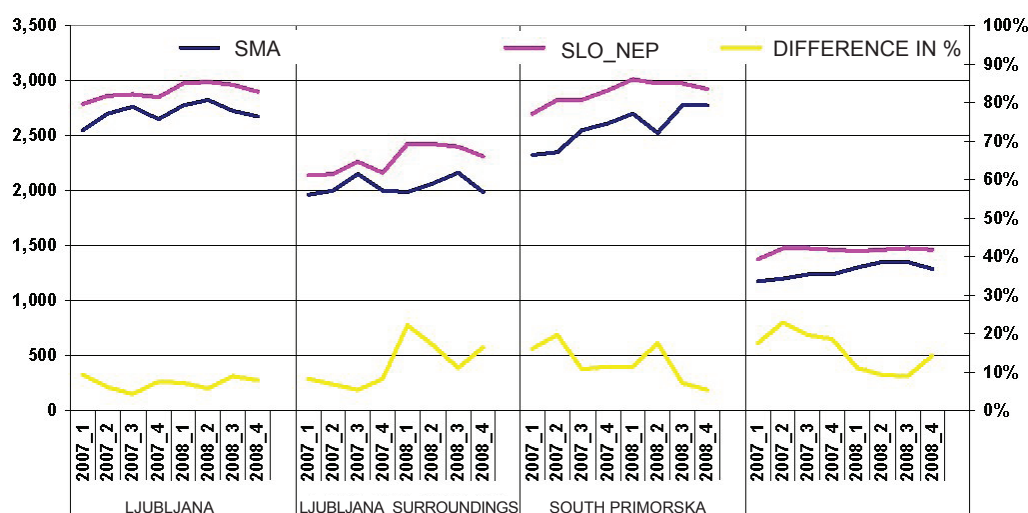
All the relative price changes in this report are provided nominally. It must be noted that the infra-annual inflation reached a high 7 per cent in June and then fell to 2.1 per cent by the end of the year.

Comparison of the advertised and contract prices

At the Surveying and Mapping Authority of the Republic of Slovenia we implemented an analysis of the advertised real estate prices published by the SLONEP web portal and the analysis of the recorded contract prices for the period between the first quarter of 2007 and the fourth quarter of 2008. Given the different structure of the compared data we discovered that the only reasonable comparison was the comparison of the apartment prices and even then, only in those areas where a relatively sufficient number of transactions was recorded. These include the city of Ljubljana, the Ljubljana surroundings, and the statistical regions of the South Primorska region (the coast with the hinterland) and the Podravje region (the city of Maribor and its broader surroundings).



Graph 5: The ratio between the advertised and contract prices of apartments, by quarter in the 2007-2008 period



Source: SLONEP, recalculated by SMA

Surprisingly, the comparison showed only relatively small differences, especially for Ljubljana. In Ljubljana, the greatest relative difference between the average advertised and the contract price per apartment square meter was 9 per cent, while the smallest difference was 4 per cent. For Ljubljana surroundings, the differences are somewhat bigger. In different quarters the average advertised prices exceeded the contract prices by no less than 5 per cent and by as much as 22 per cent. Similar can be said for the South Primorska region (between 5 and 20 per cent), while the differences for the Podravje region were between 9 and 23 per cent.

It is also interesting that the difference between the advertised and contract prices of apartments in the second half of 2008 in Ljubljana surroundings and the South Primorska region shrank, while it grew in Ljubljana and in the Podravje (Maribor) region. This means that the actual realized prices in the latter two areas dropped faster than the advertised prices.

The data on the advertised and contract prices are not entirely comparable. For example, the advertised surface areas of apartments are closer to the net floor-plan surface areas (the total surface area of all the spaces in the apartment) than to the useable surface areas (total surface area of the accommodation space of the apartment), which the Surveying and Mapping Authority uses to calculate the average prices per square meter. Consequently, the average prices per square meter of the advertised surface area are lower than they would be if they were calculated with regard to the useable area.

As illustration we can say that the contract prices calculated using the net floor-plan surface area are on average 10 to 15 per cent lower than those calculated using the useable surface area. On the other hand, the recorded contract prices are also somewhat lower than the actually re-



alized prices. The cause naturally lies in reducing the tax base for the real estate transaction tax. It is impossible to estimate by how much the declared contract prices are lower than the actual realized prices, but in practice the difference is increasingly shrinking. One must also take into account that the structure of the advertised properties in a particular period can be quite different from the structure of the actually sold apartments in the same period. Also, the movement of the actual realized prices usually follows the advertised prices with a certain delay.

According to the SLONEP data, the trend of the advertised prices of apartments in Ljubljana in 2008 was similar to the trend of the realized contract prices, but the quarterly fluctuations were more pronounced in the realized contract prices. For the Ljubljana surroundings, the divergence was significantly larger as the advertised prices posted a 10 per cent growth, whereas the realized contract prices registered a barely positive (2 per cent) growth of the average apartment price.

Rental market

When discussing the renting of apartments in Slovenia the first problem one encounters is the lack of systemic records and the lack of transparency in the market, which makes the systematic monitoring of the market rental prices impossible. It is a public secret that the majority of the apartments between physical persons is rented out illegally. Given the lack of appropriate supervision, this is logical, since renting out apartments would otherwise be unprofitable. As a consequence of the high growth of the prices of residential properties in the previous years, such a ratio between the market prices of apartments and rental prices was established which did not allow property owners to realize a reasonable yield from renting out their properties.

On the other hand, an apartment was a good investment that could have been improved upon by renting it out, preferably illegally. Even if someone did not rent out their apartment, there was no tax burden associated with apartment ownership and the expenses incurred were negligible in comparison with the growth of the market value. Consequently, a large number of apartments remained empty.

According to the only reasonably credible source of data on market rental prices - the advertised rental prices - the decline in real estate prices in the second half of 2008 spurred some changes in the rental market as well. The demand for apartments was to a considerable extent directed towards renting and for the first time in a long time market rental prices started growing. However, a long-term growth is not to be expected. It is likely that there is going to be an increased supply of rental apartments as a consequence of the falling market prices since a number of unsold apartments will be offered for rent in expectation of more favorable apartment prices for sellers and empty apartments will be offered for rent as well.



The grey market for renting commercial properties is not so expansive as renting here is mostly carried out between legal persons or legal persons appear as renters and include the rental expenses in their accounting ledgers. Nevertheless, there are no real records of the realized rents here either. There is, however, no doubt that market renting represents greater competition in the commercial properties market than in the residential properties market. In times of economic crises, when economic subjects try to streamline their operations and maintain liquidity, it is to be expected that both the supply of and the demand for the renting of commercial properties will increase and that the number of rental transactions will increase while the number of purchase transactions will decrease.

Market analysis by types of real estate

A real estate market is characterized by its heterogeneity both in terms of the functionality and the characteristics of individual types of real estate as well as the spatial distribution of the existing real estate fund. Consequently, each group and subgroup of cognate properties represents its own market, which is further subdivided by price areas and by regional and local characteristics of supply and demand.

According to the data recorded in the Real Estate Register, administered by the Surveying and Mapping Authority, there are approximately 850 thousand residential units in Slovenia – 320 thousand in multi-apartment buildings and around 530 thousand in one- or two-apartment buildings. The total number of garage units is approximately 130 thousand. There are approximately 70 thousand commercial properties, 55 per cent of which are office premises and 45 per cent are retail, service and catering facilities.

Naturally, the concentration of residential and commercial properties is the greatest in Ljubljana, which is by far the largest real estate market in Slovenia. In terms of numbers of properties, it is followed by Maribor. These two largest cities together comprise more than 40 per cent of all the apartments and almost a quarter of all commercial properties.

Table 2: Shares of cities in the Slovenian real estate fund (by types of real estate)

| Analytical area | Apartments | Houses | Offices | Retail, service and catering facilities |
|-----------------|------------|--------|---------|---|
| LJUBLJANA | 29,8% | 6,1% | 16,2% | 15,1% |
| MARIBOR | 11,6% | 2,1% | 6,1% | 7,8% |
| CELJE | 3,8% | 0,9% | 2,9% | 3,2% |
| KRANJ | 3,0% | 0,9% | 1,2% | 1,3% |
| KOPER | 2,5% | 0,6% | 2,0% | 2,0% |
| NOVO MESTO | 1,5% | 0,8% | 0,9% | 1,4% |
| MURSKA SOBOTA | 1,2% | 0,5% | 0,8% | 1,4% |
| TOTAL | 53% | 12% | 30% | 32% |

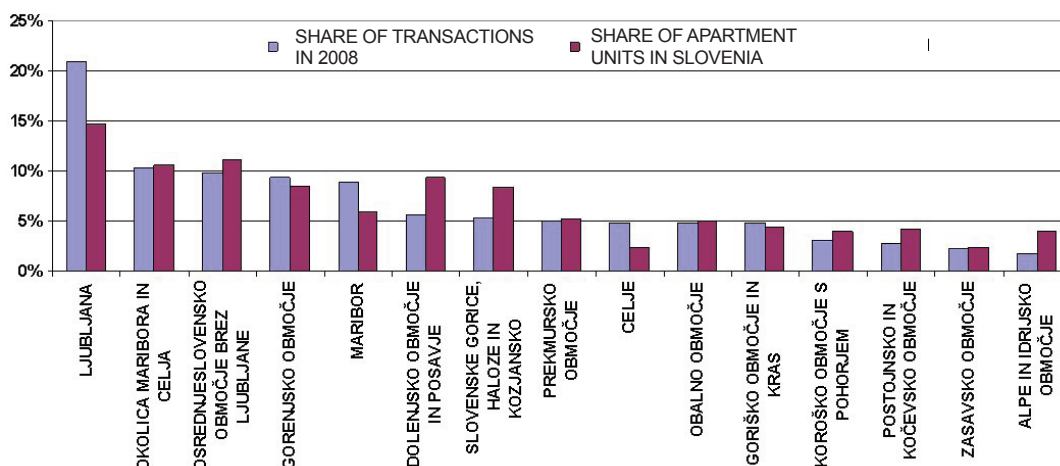


It is characteristic of houses (one- and two-apartment buildings) in the territory of Slovenia that they are spatially widely distributed, while the exact opposite is true of the remaining building fund (multi-apartment and commercial buildings).

As much as a third of all the transactions in the Slovenian residential market are concluded in Ljubljana and its surroundings. At the same time, this is also the most active market in terms of the relative extent of the apartment fund. This is perfectly understandable since cities represent the largest concentrations of apartments, which appear in the market three times as frequently as the houses. In addition, after many years of stagnation the capital city is experiencing a net inflow of population and the consequent greater demand for apartments.

Maribor and Celje also experienced a relatively greater share of the transactions with respect to the existing number of apartment units. In the price areas where there are no larger urban centers, the level of market activity is so small that it is difficult to talk about a true residential market and even less about the commercial properties market.

Graph 6: Share in terms of the number of transactions and the market share of the real estate fund of the apartment units for 2008 (by price areas)



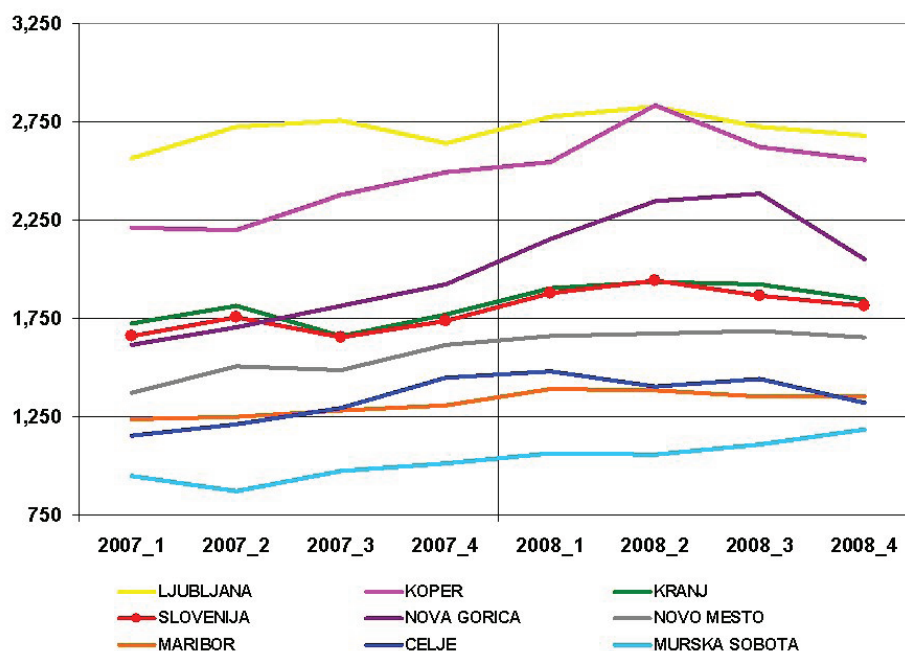
Apartments

In terms of size (the average size was 53m²) and age (average year of construction was 1974), the structure of apartments which were sold in Slovenia in 2008 remained virtually unchanged in comparison to the previous year.

The average contract price at the annual level was almost 1,900 €/m², while in the last quarter it was 1,800 €/m². In comparison to the final quarter of 2007, the price grew by 4 per cent, with the average surface area of the properties sold was 4 per cent smaller.



Graph 7: Price movement of apartments (in €/m²) in larger Slovenian cities, by quarters in 2007-2008



The most expensive city was, naturally, the national capital. In **Ljubljana**, the average apartment price at the end of the year was 2,700 €/m². In comparison to 2007 it grew by 2 per cent, but it should be noted that in the second half of the year it fell by 5 per cent. Last year was characterized by an increased supply of newly constructed apartments and apartments being built, which was a consequence of the expanded construction activities in 2007. In contrast with the past practice, a significant number of these apartments remained unsold. A noticeable drop in the market prices of new apartments still did not occur. On the other hand, the gap between the average prices per square meter of new and used apartments grew significantly. According to the latest estimates, the average price of new apartments is one fifth higher than the average price of used apartments, whereas as late as 2006 the difference did not exceed 10 per cent. As a matter of fact, an even greater differentiation in the prices of used apartments occurred, primarily with respect to the age and part of city/neighborhood where apartments are situated.

The highest price levels are achieved by apartments providing a view of the sea. These are holiday residences, mostly in the municipality of **Piran**. The average realized price in this area was around 3,300 €/m², while the average advertised prices of newly constructed apartments exceeded 5,000 €/m². The supply and demand are small and the largest number of transactions was realized in **Lucija**. The influence of the Coast is also evident in the apartment prices in **Koper**, which marginally trail Ljubljana prices. In the second quarter of 2008, the average price was even slightly above the Ljubljana levels, which is, together with the small number of recorded transactions (only 19), a consequence of the captured structure of transactions (mostly new construction). At the end of the year, the average price of apartments was 2,550 €/m². It was true both of Koper and



its broader surroundings that there was still a lack of low-cost housing available for rent for young families. The current plan of the Koper municipality includes the construction of such apartments for young families and these should be available in 2010 (48 apartments for young families and 250 non-profit making apartments), but this will not be sufficient to meet the demand. The developers who offered residential properties at the coastal market in 2008 counted primarily on the buyers from inland Slovenia when setting prices. Consequently, a large number of properties remained unsold since the crisis and a sharp drop in transactions could be felt in the field of properties for holiday and tourism purposes.

It will also be interesting to see whether the residential market at the Coast will respond to the Croatia's lifting its restrictions on real estate purchases by foreigners. Given the current relations between the countries, it is rather unlikely that in the mid-term Croatian real estate properties will represent a serious competition to our coastal properties.

In terms of price levels, the coastal tourist areas are closely followed by the Gorenjska tourist centers of **Kranjska Gora** and **Bled** (the average price was approximately 3,000 €/m²). The phenomenon of the Kranjska Gora municipality is particularly interesting as the expected decline in the average price of apartments did not occur despite the fact that the supply of holiday residences had significantly exceeded the demand for three years and that there were few transactions and most of the holiday units had remained unsold for as long as one or two years. Furthermore, the construction of smaller and larger apartment complexes continued in 2008 as well and similar investment projects are being implemented this year. It will be interesting to see whether developers will be able to persevere in the times of crises or whether this is where the market crash will occur and we will witness the bursting of the kind of a "local" real estate bubble.

The prices of apartments in **Kranj** have been representative of the Slovenian averages since the beginning of 2007. The price movements here have been identical to the movement of the average price in Slovenia, with the price level here being just slightly above the national average. The average price per m² in the last quarter of 2008 was 1,850 €/m². Among the Gorenjska settlements, the prices were significantly higher in Radovljica (2,180 €/m²), which is an increasingly desirable residential settlement due to its proximity to the tourist areas, its natural environment and the vicinity of the motorway.

In terms of the realized apartment prices per square meter, **Nova Gorica** with the surrounding settlements (Kromberk, Solkan, Šempeter and Vrtojba) was firmly in the third place among the Slovenian urban centers. The average price in the last quarter of the last year reached 2,050 €/m². This area was one of the rare ones where the number of the completed transactions did not fall significantly in comparison to 2007. The reason for that lies in the fact that there is a chronic shortage of apartments in Nova Gorica. In spite of the high prices of the new construction, all of the new apartment get sold, albeit not as quickly as the developers would like. Those who cannot realize purchases at these prices try alternate avenues. It is well-known that primarily young families from Nova Gorica buy properties across the border in the neighboring Gorizia. The prices of older apartments there are in the 1000 to 1400 €/m² range, while the new ones can be obtained for 1500 to



1800 €/m². At 4 per cent, the tax burden for purchasing new apartments is also lower. In addition, a young family also receives a non-refundable grants of 15,000 to 25,000 € in exchange for registering a permanent residence at the newly purchased apartment's address. In all likelihood, it is only one side of the coin as maintenance costs in Italy are considerably higher in the long-term. According to some estimates, approximately 100 families seek homes in Italy each year. The shortage of apartments is also evident in the difficulties in providing accommodation to approximately 700 students who enrolled into higher education and university programs and who come from other parts of the country. Nova Gorica does not have student residence halls and large numbers of students are forced to look for accommodation. The University of Nova Gorica provides only a few dozen rooms and some students were provided accommodation in the residence halls for secondary school students. A total of 150 students have been provided accommodation in such a way, which falls quite short of meeting the existing needs. Nova Gorica is planning the construction of a 180-bed student residence hall located by the secondary school students' residence hall.

In **Maribor**, the average apartment price in the final quarter of 2008 was approximately 1,350 €/m², which represents a 4 per cent increase over the final quarter of 2007. A lively construction activity is still evident in the municipality of Maribor. A large number of apartment complexes were completed last year, therefore the supply of newly constructed apartments keeps growing. The number of transactions fell significantly and a large number of new apartments remained unsold. According to some data, the number of unsold new apartments in the Maribor area could be as high as one thousand. It is also difficult to sell older renovated apartments as their prices are nearly identical to the newly constructed apartments. Older and poorly maintained apartments were virtually left without buyers. Maribor is the only larger city in Slovenia where the price growth in the last quarter of the year was zero. In all the other towns/cities, with the exception of Murska Sobota, the price growth was negative.

At the end of the year, the average quarterly price in **Celje** (averaging just above 1,300 €/m²) fell under the price of comparable apartments in Maribor for the first time in a long time. Celje was the only one of the larger towns/cities in Slovenia which experienced an annual fall in the average apartment price per square meter and the drop was a sharp 9 per cent. The city of Celje experienced accelerated development in 2006 and 2007 and the growth of its apartment prices was by far the highest in Slovenia. The construction cycle reached its peak last year. Given the increased supply of the new construction and the deteriorating economic conditions, a larger correction of the apartment prices was to some extent expected. New construction which does not meet the needs and desires of the buyers remains unsold. Similar is true of the used lesser quality apartments and apartments in less desirable locations. According to real estate agents, the time in which apartments sell increased dramatically, while the volume of transactions had been dropping since the second quarter of 2008.

In **Novo mesto**, the apartment price per square meter grew by 2 per cent last year, just like in Ljubljana, which was the lowest price growth among the Slovenian urban centers. The average price in the fourth quarter of last year was 1,650 €/m², but only 19 transactions were taken into account.

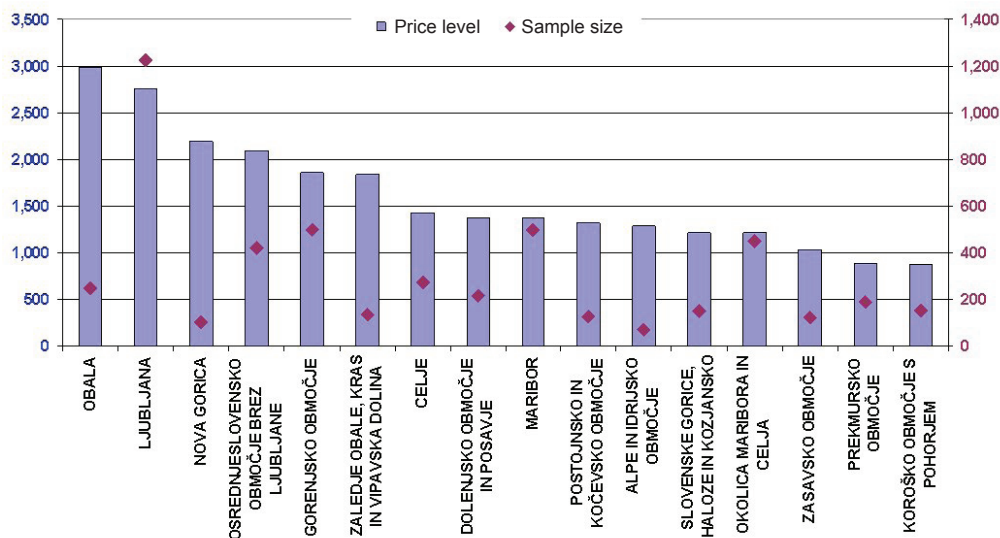
In the entire 2008, relatively few (92) quality data were recorded about the realized apartment transactions in Novo mesto, which is why on the basis of a detailed analysis of the structure of the statistical sample we estimate that the average apartment price in 2008 was closer to the Dolenjska region average (1,400 €/m²). It is true both of Novo mesto and the Dolenjska region that the real signs of an economic crisis became evident only towards the very end of the year. As a consequence of the region's dependence on the three major employers (Krka, Revoz and Adria mobil), the full extent of the crisis will be evident this year, with the consequences visible in the residential market as well.

As far as the past developments in the market, Novo mesto shared the fate of most of the other towns/cities. The supply of both the new and used apartments exceeded demand and the volume of transactions steadily decreased. It is the fund of the used apartments that grew sharply in particular, while the average prices declined for the first time only in the final quarter of the year and only by a modest 2 per cent.

Due to the lower number of the recorded transactions, for **Murska Sobota** we received even fewer quality data to calculate the statistical indicators (a mere 74 transactions for the entire 2008). The only estimate we can make is that it was the only urban center which did not post a negative price growth in any of the last year's quarters. With the completion of the motorway to Maribor, Murska Sobota and its surroundings received an important logistical connection and it is to be expected that the prices will rise somewhat in 2009 in spite of the recession. By the end of the year, newly constructed apartments sold at 1,500 €/m² while a parking spot fetched approximately 8,000 €. The prices of the older apartments varied widely and moved in the 900 to 1,200 €/m² range at better locations, while the average price was approximately 1,000 €/m².

In addition to the other characteristics of the residential markets last year, we should probably mention the specific developments in the Koroška region, where the demand for apartments still exceeds the supply. However, the market activity is still low as there is little supply because of the relatively low price level.

Graph 8: Average apartment prices (in €/m²) and the number of transactions taken into account in 2008 (by price areas)





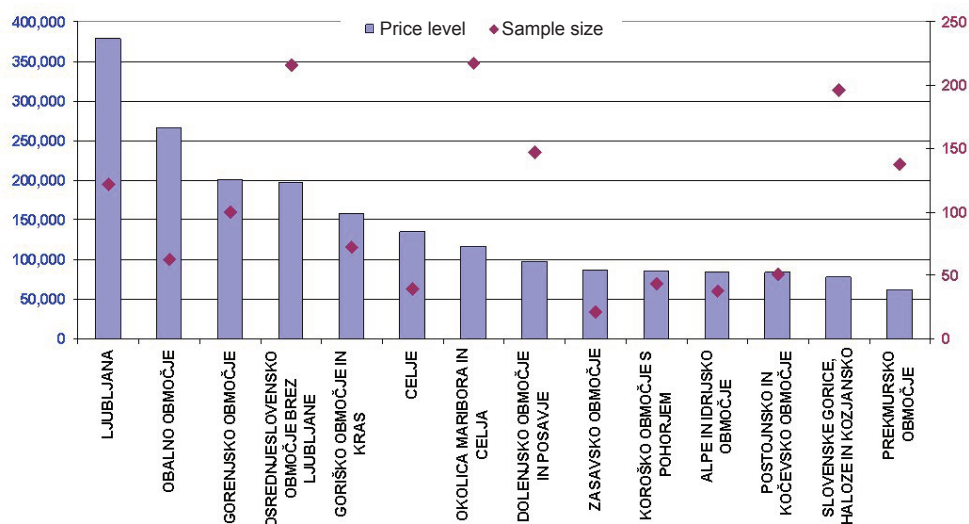
Family houses

The average house with the appurtenant land sold in the Slovenian market last year had the floor-plan surface area of 146 m², the appurtenant land measured 890 m² and the average contract price was approximately 150,000 €. The statistics only took into account used houses as newly constructed houses are as a rule sold unfinished. It must also be noted that as a consequence of the sharply reduced volume of house transactions the number of transactions taken into account at the national level decreased by 40 per cent in comparison to the previous year. By comparing prices per unit of the net floor-plan surface area of a building, we estimated that the average price for a family house in Slovenia fell by 6 per cent in 2008.

Last year, mostly detached single-apartment houses were sold among used houses (81 per cent), while the shares of terraced houses and semi-detached houses were 11 and 8 per cent, respectively. In terms of the size of the appurtenant land, we can say that in the urban areas and the areas of considerably developed local markets houses with small surface areas of land were sold, while in the rural and less interesting areas houses with large surface areas of land were sold. Thus, in Ljubljana, Maribor and on the Coast houses were sold with approximately 300 to 500 m² of land; in central Slovenia houses were sold with up to 700 m² and the houses with the most land were sold in the rural areas of the Prekmurje region, Slovenske gorice and Notranjska, where the average sizes of the appurtenant land ranged between 1,600 and 1,900 m².

As a curiosity, it should be mentioned that in 2008 we recorded 52 sales of detached houses, where only a portion/single floor of the house was sold. These transactions involved large houses which older people could not continue to maintain by themselves and had therefore decided to sell a part of (most frequently the upper floor). Given the ageing of the population and the current deepening of the crisis, it is certainly to be expected that in the short term an even greater number of such sales will be carried out.

Graph 9: Average prices of one- and two-apartment houses with appurtenant land (in €) and the number of transactions taken into account for 2008 (by price areas)





In **Ljubljana** the sales of used houses had been falling since the beginning of 2008. The time to sell a house grew to such an extent that by the end of the year the sales had completely stalled.

In the first half of the year, some individual houses in the upper price range were sold, while the rest remained unsold in spite of the steady decrease in the advertised prices. In the second half of the year, there was a low volume of transactions and a sharp downward trend was noticeable in the prices of older houses. In our estimate, the year-on-year prices of houses in Ljubljana dropped by 3 per cent. In the Ljubljana surroundings the prices continued to rise statistically and a considerable drop in the volume of transactions was evident only in the second half of the year. In spite of that, a number of new objects at the third or fourth construction stage were available at discounted prices at the end of the year. It should be noted that the average house price in the central part of Slovenia (excluding Ljubljana) is approximately 40 per cent lower than in urban areas and this difference grew in comparison with 2007, when the difference was 36 per cent.

The level of relative prices of one- and two-apartment houses with appurtenant land is traditionally the highest at the Coast, especially in the areas of **Portorož** and **Piran**. Houses in these areas are sold rarely and the average prices are extremely high regardless of the age of the house or the “smallness” of the appurtenant land. As a rule, the realized prices exceed one million euros. Last year, we recorded a sale of an individual house at a price of two million dollars. The sale was realized in the municipality of **Koper**. Among the cities, Koper closely trails Ljubljana in terms of the level of the relative prices, however, the structure of the houses sold is completely different. Last year, predominantly terraced houses were sold in Koper and consequently the average surface area of the houses was almost a half smaller than in Ljubljana, while the average size of the appurtenant land was three quarters smaller than in the capital. It was in the municipality of Koper that at the end of the year there was a considerable number of unsold terraced and semi-detached houses, despite being on the market for a long time.

In our estimate, the price houses in **Bled** are also higher than in Ljubljana. In Bled, however, there were too few recorded transactions for any detailed analysis. Nonetheless, without a doubt similar applies to the lakeside houses in Bled as to the houses by the coast. Transactions are rare, while the prices are extremely high.

The prices of family houses in larger Slovenian cities, with the exception of Koper, significantly lag Ljubljana. The relative prices in **Kranj**, **Maribor**, **Celje** and **Novo mesto** are on average between 40 and 60 per cent lower. In **Murska Sobota**, which remains the least expensive Slovenian town, the prices lag by as much as 70 per cent. All Slovenian cities with their surroundings shared a common downward trend of the prices of family houses, which was, accompanied by a modest volume of transactions in the second half of the year and especially in the final months of 2008. The only exception is Murska Sobota, where the prices at the end of the year ended up at a higher level than the previous year and the average contract price was 100,000 €.



Dolenjska region and Bela Krajina were still characterized by a relatively high volume of vineyard house transactions both for use as holiday residences and as dwellings. The average prices were still lower than the prices of the “real” houses, even though some of them border on luxury objects.

In the Posočje, Kras, Idrija, Cerklje and Pomurje areas there was a decline in the volume of house transactions. The reasons for that can be found in the sharply declining foreigners’ demand for older houses to serve as countryside homes, the demand which existed in the previous years. It was the purchases by the British citizens which particularly declined, mostly due to the consequences of the financial and economic crisis. For the same reason, there were fewer purchases by Italians, otherwise traditional real estate buyers. Another reason lies in the fact that in the Alpine world the prices of properties are lower in Italy and Austria than in Slovenia.

Undeveloped building land

Last year in Slovenia the undeveloped buildings land that was sold measured between 300 and 3,500 m², with the average size of 1,200 m² at the average price of 72 €/m². The size of the sample of the transactions taken into account remained nearly identical to 2007. The largest share of the land (80 per cent) was purchased for constructing individual houses, while purchases for multi-apartment construction accounted for 3 per cent, for industrial construction 4 per cent, for commercial construction 4 per cent and for other purposes (roads, other infrastructure, etc.) 9 per cent of all the land sold. In terms of utilities the land is serviced with, it can be said that 80 per cent of the land was without utilities, which was reflected in the sales prices. The average price per square meter between the fourth quarters of 2007 and 2008 fell by 11 per cent, or by 4 per cent if we compare the average annual prices recorded in 2007 and 2008. In our estimate, the statistical drop in the prices is primarily a consequence of the changed structure of the land sold in the periods compared and not a consequence of the actual decline of the prices of building land. For instance, the average size of the land sold in 2008 dropped by 19 per cent.

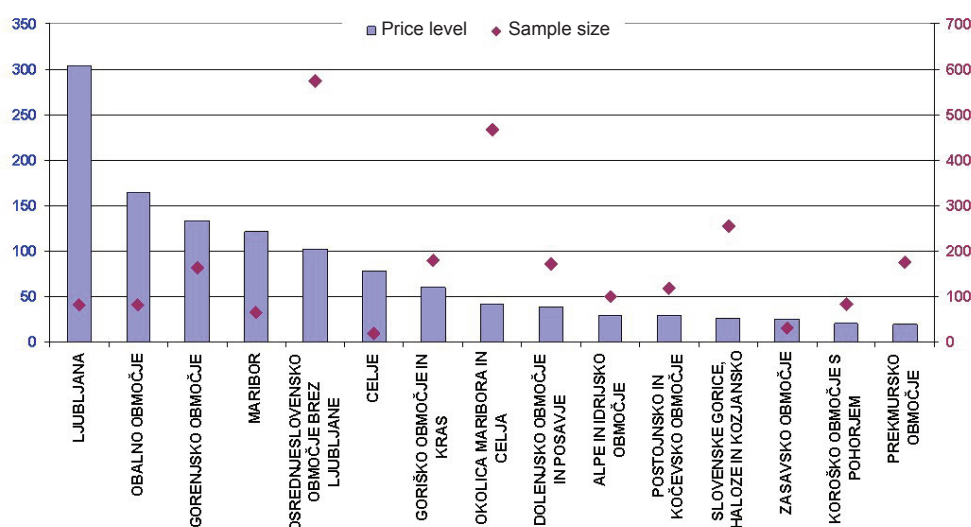
It is typical of the undeveloped building land that its prices in urban environments increase in the long term. Short-term price drops of undeveloped building land in certain areas are possible when the land becomes relatively overpriced, when the supply increases sharply and when there is an inappropriate supply-side structure. Statistical indicators for the prices of undeveloped building land at the national level have no real explanatory value as land structure varies widely. Land properties can vary in size, utilities, status, possibility for development, etc. Characteristics of the land properties sold differ between individual price areas, within those areas and through different periods in the same areas. Therefore, we rely heavily on our familiarity with the local markets when analyzing the developments in the building land markets by different price areas.

In urban centers there are virtually no transactions with undeveloped building land as no such land is available. The only way of acquiring building land in the urban centers is in when building replacement objects or when eligible land use is changed into use for secondary-home development, for example in cases of brownfield development, where the municipality greenlights residential and commercial development.

In Ljubljana such development can be instanced by the former cigarette factory, where a modern residential and commercial complex will be built in the coming years. A few other similar areas in elite location, for example the defunct Rog factory, are awaiting concrete spatial planning solutions. In cities/towns there is a constant demand for undeveloped building land for residential and commercial development and developers are willing to purchase any piece of land that can be developed. As the supply is usually small or its structure does not meet the demand, even land which is not intended for the desired use, which is unserviced, which is not large enough, etc. reaches relatively high prices.

In the broader surroundings of cities/towns or within their sphere of influence, the supply of the undeveloped building land is considerably greater, while the prices are several times lower than in the cities/towns. While most of the development in larger urban centers involves mostly only multi-apartment buildings, the land in the their surroundings is used predominantly for constructing family houses. In most cases, the developers construct market-bound terraced and semi-detached houses in order to best utilize the available space.

Graph 10: Average undeveloped building land prices (in €/m²) and the number of transactions taken into account in 2008 (by price areas)



Ljubljana area stands out from other price areas in terms of price levels. The average price of the undeveloped building land (300 €/m²) in Ljubljana is approximately three times higher than in the area of Central



Slovenia without Ljubljana. A similar ratio between the average prices is true of the other regional centers and their broader surroundings. The only exception is Kranj, where the prices of the undeveloped building land in its surroundings lags by only a fifth. The average prices of undeveloped building land are the lowest in the Prekmurje region, where the average price is approximately 20 €/m².

In Ljubljana and its immediate vicinity, the prices of undeveloped building land for individual development range between 150 and 400 €/m², while in certain locations they can be as high as 700 €/m². The prices of land for industrial development range between 60 and 200 €/m², whereas the prices for commercial and multi-apartment development reach between 300 and 800 €/m² and in some locations they can reach as high as 1,000 €/m². Last year there was a decrease in the number of transactions and a leveling off of the prices of undeveloped building land occurred.

In the coastal tourist locations, primarily in the municipality of Piran, there is virtually no supply of land at the most attractive locations (those providing a view of the sea). In Izola, the building land by the seaside was sold in the past to large construction companies for developing tourism and residential settlements (the areas around Ladjedelnica (the shipyard), Delamaris and the Izola Yachting Center). Further inland, land is mostly bought and sold for individual development and there is no shortage of land. In the coastal area in 2008, the greatest number of undeveloped building land properties for individual development was sold in the municipality of Koper. The reason for that lies in the size of the municipality and the available building land as the average price itself is not significantly different from the average price of the entire coastal area. The highest prices of building land in the municipality of Koper were realized in Bertoki, Škofije and the Ankaran hinterland.

In the Gorenjska region, 2008 saw the continuation of the tradition of transactions with undeveloped building land for family houses. There was a large number of land purchases by the state and municipalities for building and widening roads and building pavements as well as other ancillary objects. Some land was purchased for expanding the airport. The average size of the undeveloped building land sold was approximately 900 m², with the average price of 133 €/m². Naturally, the prices of undeveloped building land in the Bled and Kranjska Gora areas remained high, with the land for individual development fetching between 300 and 400 €/m².

In Maribor, last year the prices of undeveloped building land rose and the average price was approximately 120 €/m². In the city proper there is no available suitable building land and a few land properties were sold at the periphery of the city. As a consequence of the shortage of undeveloped building land the transactions with such land and the construction of the market-bound houses migrated almost completely to the municipalities bordering on the Maribor municipality, which led to the rise of the prices in the neighboring municipalities.



In the Celje region, unlike the prices of apartments and houses, the prices of undeveloped building land are still rising, especially in better locations. Once again, this is a consequence of the shortage of suitable land. The prices in the surroundings of Celje, Vojnik and Savinjska dolina valley range between 60 and 100 €/m². The prices in smaller settlements in the countryside reach between 30 and 90 €/m². The drop in the prices of the undeveloped building land occurred only in Zasavje.

In Nova Gorica and the surrounding settlements there is a poor supply of the suitably large undeveloped building land. Usually it is the smaller land properties that are sold as land is mostly transacted between natural persons because the municipalities do not have enough available land to stimulate multi-apartment or commercial development.

The poor supply of undeveloped building land is reflected in the issues between the University of Nova Gorica and the municipality of Nova Gorica. The issue of student accommodation should have been resolved with the construction of a student campus, which requires suitable land. Nevertheless, the future outlook is positive for developers and for increased house construction. A number of spatial plans are being prepared (with the municipalities of Šempeter-Vrtojba and Nova Gorica showing the most initiative).

In 2008 in the Notranjska and Kras regions, undeveloped building land was mostly sold for individual development and only a few sales were concluded for the purpose of commercial and industrial development (Sežana, logistic center construction). The average realized price was 66 €/m².

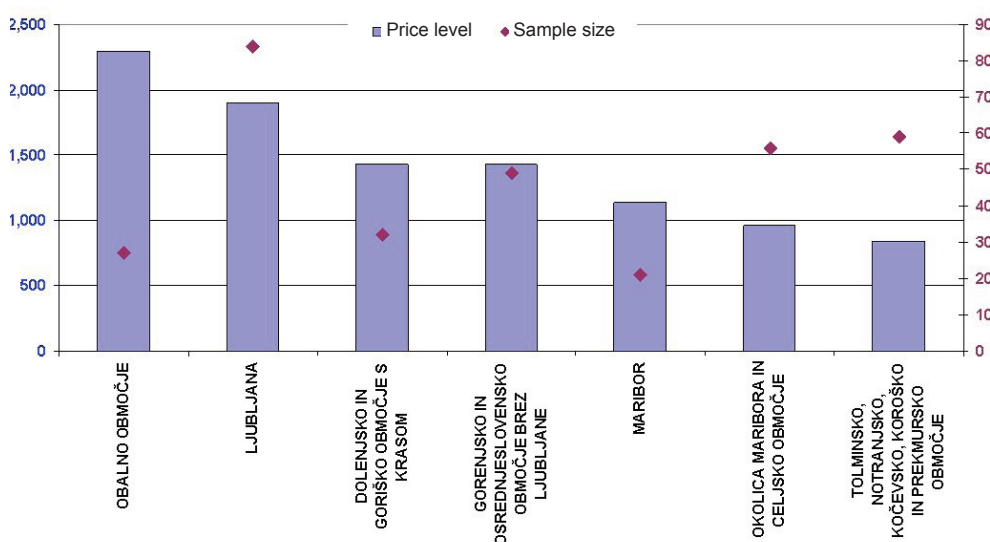
The realized prices of undeveloped building land in Novo mesto were still relatively high. The reasons for that lie foremost in the small supply and a small number of realized transactions. The surroundings of Novo mesto also registered an increased demand and the consequent price growth. The reasons lie in the increasing development of the smaller municipalities, their infrastructure development, lower utilities charges and the desire for larger-sized land.

In 2008, the prices of undeveloped building land in the Koroška region grew sharply. The reason lies primarily in the relatively low land prices in the past and the small supply of suitable land. There is considerable demand primarily for land for developing commercial objects for craft industries. Consequently, towards the end of the year several unserviced land properties were sold in Mežica in order to develop a shopping center; in Gortina in the Muta municipality 10,000 m² of land was sold for the construction of a commercial zone for craft industries; in Radlje the municipality purchased 10,000 m² to build a stadium. Towards the end of 2008, in Slovenj Gradec itself land was sold primarily to expand the areas with individual houses.

Commercial properties

After the general price stagnation in the year before last, the same trend continued last year in most price areas. In our estimate, the number of commercial properties transactions decreased by approximately 40 per cent. This is true both of office sales as well as the sales of retail, service and catering facilities. As a consequence of the sharp drop in the sales, the statistical analysis by individual price areas is somewhat unreliable. At the end of the year, the average price of an office property in Slovenia was approximately 1,400 €/m², while the average price of retail, service and catering facilities exceeded 1,500 €/m².

Graph 11: Average office prices (in €/m²) and the number of transactions taken into account in 2008 (by price areas)



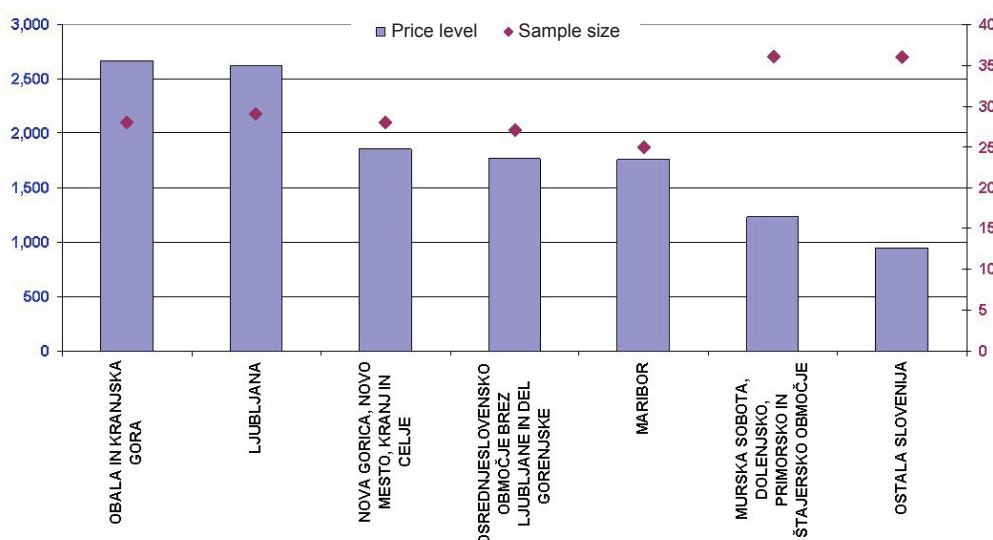
The volume of office transactions in Maribor and the coastal area fell by more than 50 per cent. The prices grew by 2 per cent in Ljubljana, 5 per cent on the Coast and 3 per cent in Maribor. The highest average office price was recorded at the Coast (2,300 €/m²), followed by Ljubljana (1,900 €/m²). The prices of retail, service and catering facilities grew by 13 per cent in Ljubljana and on the Coast, however, it should be noted that the number of recorded transactions was very low, thus the data are not statistically reliable. The average price of retail, service and catering facilities on the Coast was 2,700 €/m², which is just over one per cent higher than in Ljubljana. It should be emphasized that the record comprises only a small portion of the sales of new construction and transactions of commercial properties between legal persons. It is estimated that the average actual realized prices of commercial properties are higher by one fifth. The average advertised rental price for office properties in Ljubljana is around 12 €/m², while in Maribor it is approximately 8 €/m².

In the capital, there is a great demand for new office premises. Currently, there is a shortage of office premises in the 100 to 200 m² range and consequently the rent is very high for the premises of such size.

It should be noted that the Ljubljana commercial properties market is expected to experience a construction boom in the near future if the financial and economic crisis does not thwart the developers' plans. Approximately 200,000 m² of commercial properties of all types are expected to be built, a great number of those in the immediate vicinity of the city center (Rotonda, Tobačna mesto, Novi Kolizej, Severna vrata (the North Gate), the Vilharjeva street skyscraper, the BTC skyscraper, the Celovška street skyscraper, the new shopping center at Stožice and the new shopping center on Celovška street). The numerous new objects planned are already lowering the prices of the older commercial properties and in the future it is expected that there will be an even greater price differentiation in line with the age and the quality of properties.

The price gap between older and newer commercial properties will increasingly widen. In addition to the location, which is the most important factor in the purchase or rental prices, the quality of the construction, the availability of parking spaces and the available equipment and facilities will increasingly gain in importance. As a consequence of that, the supply of the older properties will increase even more and those properties located outside the currently interesting commercial and shopping centers will only be able to compete through significantly lower prices.

Graph 12: Average prices of retail, service and catering facilities (in €/m²) and the number of transactions taken into account in 2008 (by price areas)



In larger shopping centers there was a noticeable trend of investing into retail facilities with the intention of renting them out. At the beginning retailers built large centers to meet their own needs but now there is an increasing number of developers and buyers who rent out facilities to retail companies. It is especially true of the times of crises that a decrease-



ing number of retail companies purchase their own properties as renting properties results in lower debt, higher liquidity, greater mobility and greater flexibility of operations. The rental price at the best locations, i.e. in the Ljubljana shopping centers, can be as high as 100 €/m² per month for smaller sized facilities. In general, the height of the rental price is strongly affected by the amount of “traffic” at the microlocation.

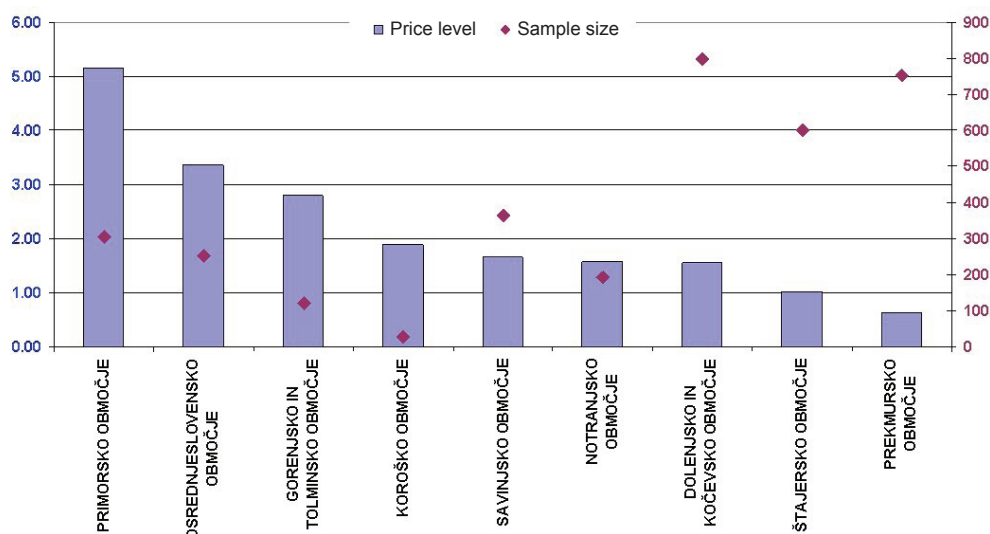
In the center of Maribor there are still numerous unoccupied commercial premises, therefore it is expected that the prices are not going to rise. The same applies to Celje, where the supply significantly exceeds the demand, which is why the time between the placement of the property on the market and its eventual sale is increasing and has grown to a year or even longer.

Currently, it is the commercial properties in Sežana, Divača, Kozina and Hrpelje that are interesting and in those locations a lot of new commercial properties are being developed. The main reason behind this is the arrival of Italian companies, which are attracted by Slovenia’s favorable tax policies.

Agricultural land

The average prices of agricultural land at the national level were the same at the end of last year as in the final quarter of 2007. The number of completed transactions with agricultural land decreased by 5 per cent in comparison with 2007.

Graph 13: Average agricultural land prices (in €/m²) and the number of transactions taken into account in 2008 (by price areas)





The prices of agricultural land decreased primarily in the areas of intense agricultural activity, i.e. in the Prekmurje, Štajerska, Dolenjska and Kočevje regions. These areas accounted for almost two thirds of all the transactions in the country. In the other areas of the country, the prices of agricultural land grew on average and in our estimate they grew by more than 20 per cent in comparison with 2007.

The prices of agricultural land are considerably lower in the areas of intense agricultural activity than in the areas where agriculture is not the prime industry. This is perfectly understandable in light of the greater supply and primarily, land in these areas is purchased for agricultural production and only rarely due to speculations about the change of the land use. If we compare the values of agricultural land as estimated by the income method(*) and the market prices, we can conclude that agricultural land is heavily underpriced in the areas where agriculture is a prime industry. For example, in Prekmurje, which is regarded as the most rural area, the average market price is the lowest (0.64 €/m²) and represents only a quarter of the value calculated using the income method.

The average market price of agricultural land is higher than its value according to the income method only in Primorska. Excessively high market prices of agricultural land in the Primorska region, especially by the coast, are a consequence of speculations about the land's potential transformation into building land in the future

Forest land

At the national level, the comparison of the average prices in the final quarter of 2008 with the final quarter of 2007 showed a statistical growth of the average price of forest land by 26 per cent. The reason for lies in the fact that in the final quarter of 2008 a significant number of larger purchases of forest land were recorded in the Štajerska, Savinjska and Koroška price areas. These purchases were concluded at prices exceeding market levels (between 2.50 and 3.00 €/m²) and the buyers were municipalities.

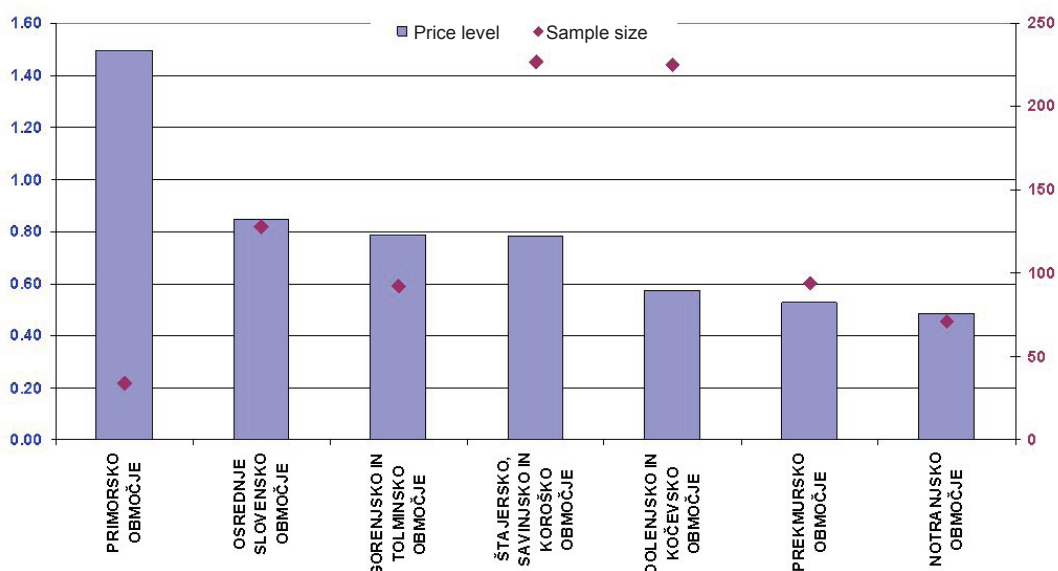
It is clear that the land was acquired in order to realize the municipalities' developmental spatial plans and the planned changes of eligible land use. Disregarding these transactions, we estimate that the average growth of the market prices of forest land was only slightly positive. In spite of the lower volume of transactions, the number of the recorded transactions with forest land grew by approximately 6 per cent.

(*) When calculating the value of agricultural land the income method takes into account the soil productivity (soil fertility), the value of production in a particular area and the influence of economic factors (farm marketability, the possibility of the use of mechanization, traffic infrastructure of the land and the degree of spatial scattering of the parcels within the land complex).



The average prices of forest land in 2008 dropped in the areas where the price levels were the highest (Primorska and Central Slovenia). In other areas average prices grew at different rates.

Graph 14: Average forest land prices (in €/m²) and the number of transactions taken into account in 2008 (by price areas)



It is typical of forest land in Slovenia that the quality and the wood potential of the forests varies widely between different price areas. It is often the case that these do not have the expected impact on market price ratios. In Primorska, for example, it is typical of both agricultural and forest land that their prices are unrealistically high with respect to the quality of the forest due to speculative purchases.



Final comments

At the time of the creation of this report the global financial and economic crises has become a cruel reality. Slovenia could not avoid the crisis, either, and the only issue is how intensely the crisis will affect us in the future and what the consequences for the real estate market will be. The experts' forecasts about the length and depth of the crisis are increasingly pessimistic and the forecast world and domestic economic trends are increasingly worsening. Even though the course of the crisis in Slovenia is predominantly dependent on the international situation and the course of the crisis in the countries which are our most important economic partners, the developments in the real estate market will to a large extent depend on the types and the successfulness of the government measures to alleviate the effects of the financial and economic crisis in Slovenia.

In light of the large drop in the volume of transactions last year it is evident that the Slovenian real estate market is in a recession. In order to revive the real estate market it is primarily the demand-side that will have to be stimulated. This entails creating available loans for real estate purchases, perhaps even subsidizing purchases and providing tax relief.

The public's demand for housing loans has been dropping as a consequence of the uncertainty brought on by the crisis. If the government measures aimed at increasing liquidity and stimulating bank lending are not successful, loan granting to the general public might completely dwindle. Together with the continued rising unemployment and the decrease in the real income of the general public, this could cause a permanent drop in demand, i.e. the cessation of the real estate market activities for the duration of the crisis. In such a case a further decrease in the real estate prices would be unavoidable but the middle class would not be able to afford to purchase real estate. Naturally, this would provide an opportunity for the rich to further increase their wealth.

Developers will sooner or later try to adapt to the crisis conditions also by cutting down on the supply. This can be accomplished by withdrawing the existing surplus supply from the market and reducing the volume of the market-bound new construction. Some larger developers have already sought assistance from the state or municipalities in placing surplus apartments on the market, which certainly represents an opportunity to acquire relatively inexpensive apartments for social purposes. On the other hand, one of the planned possible measures for reviving economic activity is the establishment of public-private partnerships and the stimulation of the development of low-cost apartments for non-profit rental. Such state assistance to the developers probably would not have a direct effect on the revival of the real estate market but the construction sector can be a powerful generator of economic growth and the crisis might be an opportunity to increase the number of social apartments.



What course of events can we then expect in the Slovenian real estate market in these crisis conditions?

Even though the downward trend of the volume of transactions began leveling off in the last months of the previous year, the preliminary data for the current year offer no basis for optimism as to the near-term increase in market activity.

We estimate that there will not be any significant increase in the real estate transactions this year. It is highly likely that there will be an increased rental activity with residential and commercial properties.

In general, the prices of residential and commercial properties should fall, while the prices of land should remain at approximately the same levels. The dynamics and the intensity of the price decline will depend on the depth and the duration of the liquidity and economic crisis. Currently, we are not expecting any rapid or drastic price decreases. It is true, however, that the longer the sellers insist on high prices, the greater the drop will be once they are forced to sell. Prices will first fall in areas with the highest supply surplus.

A crisis always has upsides, too. It is to be expected that the recession in our real estate market will wash away a number of small developers and agents, who often provide low-quality services and who entered the market en masse in the times of prosperity. In this way the market will be cleansed and buyers, who have long been overshadowed by sellers, will finally receive higher quality real estate and better services for their money.





Appendix 1:

2008 REAL ESTATE MARKET DATA

No. of transactions – the number of transactions taken into account for calculations;
sample size

Surface area (m²) – the average surface area of premises, building or land

Year of construction – average year of construction of a building

Price (€/m²) – average transaction price per unit of surface area of a property

Price (€) – average transaction price

- highest indicator value

- lowest indicator value

Apartments

| Price area | No. of transactions | Surface area (m ²) | Year of construction | Price (€/m ²) |
|--|---------------------|--------------------------------|----------------------|---------------------------|
| SLOVENIA | 4.888 | 53 | 1974 | 1.882 |
| LJUBLJANA | 1.224 | 53 | 1972 | 2.755 |
| CENTRAL SLOVENIA WITHOUT LJUBLJANA | 420 | 54 | 1980 | 2.091 |
| GORENJSKA REGION | 500 | 52 | 1971 | 1.860 |
| ALPS AND IDRIJA AREA | 71 | 51 | 1971 | 1.291 |
| NOVA GORICA | 104 | 57 | 1983 | 2.195 |
| COASTAL HINTERLAND, KRAS AND VIPAVA VALLEY | 136 | 52 | 1990 | 1.840 |
| COAST | 250 | 54 | 1975 | 2.983 |
| POSTOJNA AND KOČEVJE AREAS | 127 | 52 | 1968 | 1.316 |
| DOLENJSKA AND POSAVJE REGIONS | 218 | 54 | 1975 | 1.382 |
| ZASAVJE REGION | 121 | 50 | 1972 | 1.031 |
| CELJE | 275 | 51 | 1970 | 1.424 |
| MARIBOR AND CELJE SURROUNDINGS | 451 | 54 | 1978 | 1.212 |
| MARIBOR | 499 | 52 | 1972 | 1.380 |
| KOROŠKA REGION WITH POHORJE | 153 | 56 | 1974 | 878 |
| SLOVENSKE GORICE, HALOZE AND KOZJANSKO | 152 | 52 | 1981 | 1.217 |
| PREKMURJE REGION | 187 | 51 | 1975 | 883 |



One- and two-apartment houses with appurtenant land

| Price area | No. of transac. | Building surface area (m ²) | Year of construc. | Land surface area (m ²) | Price (€/m ²) |
|--|-----------------|---|-------------------|-------------------------------------|---------------------------|
| SLOVENIA | 1.455 | 146 | 1966 | 890 | 149.335 |
| LJUBLJANA | 115 | 169 | 1960 | 466 | 382.183 |
| CENTRAL SLOVENIA WITHOUT LJUBLJANA | 172 | 159 | 1974 | 687 | 204.309 |
| GORENJSKA REGION | 96 | 158 | 1966 | 622 | 201.796 |
| GORICA AREA AND KRAS | 66 | 157 | 1956 | 529 | 156.638 |
| ALPS AND IDRIJA AREA | 38 | 146 | 1938 | 695 | 83.697 |
| COASTAL AREA | 60 | 122 | 1948 | 323 | 268.457 |
| POSTOJNA AND KOČEVJE AREAS | 46 | 138 | 1955 | 1.189 | 77.481 |
| DOLENJSKA AND POSAVJE REGIONS | 140 | 151 | 1966 | 1.052 | 97.055 |
| ZASAVJE REGION | 21 | 152 | 1956 | 898 | 86.021 |
| CELJE | 39 | 151 | 1962 | 894 | 135.212 |
| MARIBOR AND CELJE SURROUNDINGS | 213 | 155 | 1974 | 1.018 | 116.313 |
| MARIBOR | 75 | 144 | 1963 | 459 | 172.575 |
| KOROŠKA REGION WITH POHORJE | 43 | 157 | 1973 | 936 | 84.900 |
| SLOVENSKE GORICE, HALOZE AND KOZJANSKO | 193 | 123 | 1972 | 1.322 | 78.226 |
| PREKMURJE REGION | 138 | 116 | 1967 | 1.304 | 61.550 |

Undeveloped building land

| Price area | No. of transac. | Surface area (m ²) | Price (€/m ²) |
|--|-----------------|--------------------------------|---------------------------|
| SLOVENIA | 2.567 | 1.202 | 72 |
| LJUBLJANA | 81 | 1.141 | 304 |
| CENTRAL SLOVENIAN WITHOUT LJUBLJANA | 574 | 1.066 | 102 |
| GORENJSKA REGION | 164 | 917 | 133 |
| ALPS AND IDRIJA AREA | 100 | 1.031 | 30 |
| GORICA AREA AND KRAS | 179 | 1.264 | 61 |
| COASTAL AREA | 81 | 837 | 165 |
| POSTOJNA AND KOČEVJE AREAS | 119 | 991 | 30 |
| DOLENJSKA AND POSAVJE REGIONS | 171 | 1.466 | 39 |
| ZASAVJE REGION | 31 | 489 | 25 |
| CELJE | 18 | 1.128 | 78 |
| MARIBOR AND CELJE SURROUNDINGS | 467 | 1.318 | 42 |
| MARIBOR | 66 | 1.493 | 122 |
| KOROŠKA REGION WITH POHORJE | 84 | 958 | 20 |
| SLOVENSKE GORICE, HALOZE AND KOZJANSKO | 256 | 1.365 | 27 |
| PREKMURJE REGION | 176 | 1.627 | 19 |



Offices

| Price area | No. of trans. | Surface area (m ²) | Year of construc. | Price (€/m ²) |
|---|---------------|--------------------------------|-------------------|---------------------------|
| SLOVENIA | 328 | 150 | 1968 | 1.416 |
| LJUBLJANA | 84 | 200 | 1967 | 1.900 |
| GORENJSKA REGION AND CENTRAL SLOVENIA WITHOUT LJUBLJANA | 49 | 179 | 1972 | 1.427 |
| COASTAL AREA | 27 | 49 | 1962 | 2.297 |
| MARIBOR | 21 | 260 | 1958 | 1.135 |
| MARIBOR SURROUNDINGS AND CELJE AREA | 56 | 109 | 1969 | 959 |
| DOLENJSKA REGION AND GORICA AREA WITH KRAS | 32 | 148 | 1954 | 1.429 |
| TOLMIN AND KOČEVJE AREAS, NOTRANJSKA, KOROŠKA AND PREKMURJE REGIONS | 59 | 100 | 1977 | 840 |

Retail, service and catering facilities

| Price area | No. of trans. | Surface area (m ²) | Year of construc. | Price (€/m ²) |
|---|---------------|--------------------------------|-------------------|---------------------------|
| SLOVENIA | 209 | 120 | 1966 | 1.785 |
| LJUBLJANA | 29 | 88 | 1959 | 2.628 |
| CENTRAL SLOVENIA WITHOUT LJUBLJANA AND A PART OF GORENJSKA REGION | 27 | 90 | 1984 | 1.767 |
| COAST AND KRANJSKA GORA | 28 | 122 | 1974 | 2.671 |
| MARIBOR | 25 | 80 | 1934 | 1.759 |
| NOVA GORICA, NOVO MESTO, KRANJ AND CELJE | 28 | 123 | 1970 | 1.851 |
| MURSKA SOBOTA, DOLENJSKA, PRIMORSKA AND ŠTAJERSKA REGIONS | 36 | 202 | 1975 | 1.237 |
| REST OF SLOVENIA | 36 | 111 | 1964 | 942 |



Agricultural land

| Price area | No. of trans. | Surface area (m ²) | Price (€/m ²) |
|-----------------------------------|---------------|--------------------------------|---------------------------|
| SLOVENIA | 3.412 | 5.694 | 1,77 |
| CENTRAL SLOVENIA | 251 | 8.242 | 3,36 |
| GORENJSKA REGION AND TOLMIN AREA | 121 | 5.960 | 2,80 |
| PRIMORSKA REGION | 305 | 3.876 | 5,16 |
| NOTRANJSKA REGION | 192 | 6.583 | 1,58 |
| DOLENJSKA REGION AND KOČEVJE AREA | 797 | 5.572 | 1,55 |
| SAVINJSKA AREA | 365 | 6.524 | 1,66 |
| ŠTAJERSKA AREA | 601 | 6.475 | 1,01 |
| KOROŠKA AREA | 26 | 9.417 | 1,89 |
| PREKMURJE REGION | 754 | 4.290 | 0,64 |

Forest land

| Price area | No. of trans. | Surface area (m ²) | Price (€/m ²) |
|---|---------------|--------------------------------|---------------------------|
| SLOVENIA | 871 | 19.624 | 0,71 |
| CENTRAL SLOVENIA | 128 | 14.529 | 0,85 |
| GORENJSKA REGION AND TOLMIN AREA | 92 | 20.945 | 0,79 |
| PRIMORSKA REGION | 34 | 6.877 | 1,49 |
| NOTRANJSKA REGION | 71 | 19.710 | 0,48 |
| DOLENJSKA REGION AND KOČEVJE AREA | 225 | 17.896 | 0,57 |
| ŠTAJERSKA AND KOROŠKA REGIONS, SAVINJSKA AREA | 227 | 31.311 | 0,78 |
| PREKMURJE REGION | 94 | 5.723 | 0,53 |



2008

SURVEYING AND MAPPING AUTHORITY OF
THE REPUBLIC OF SLOVENIA
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