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**Empty Spaces
to Homes**

Social housing and empty spaces landscape in Croatia

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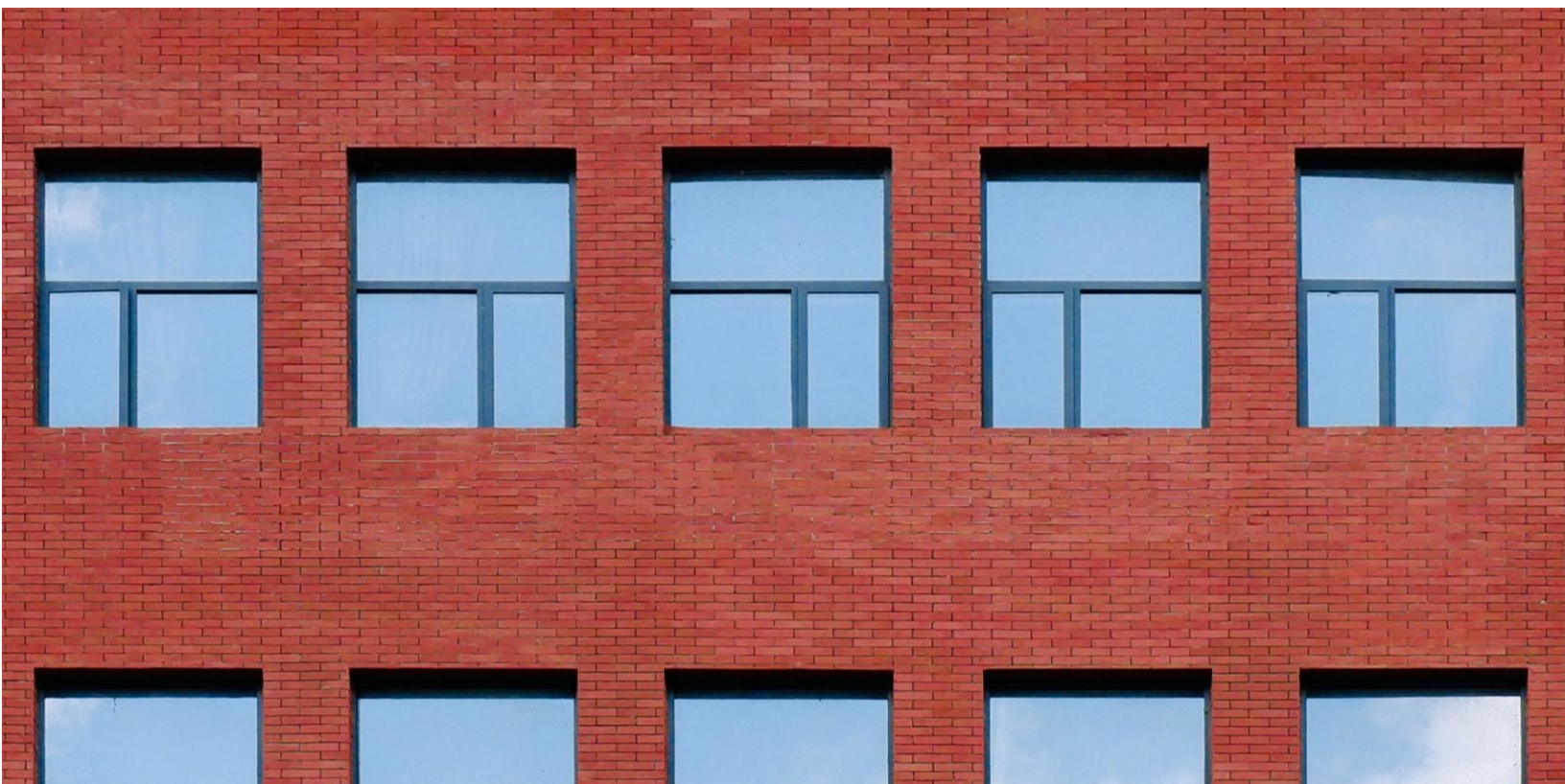


Table of contents

1.	Urbanization in Croatia	12
1.1.1	Official Classification of Cities and Municipalities	12
1.1.2	Cities in Croatia Based on the Degree of Urbanization	12
1.1.3	Functional Urban Areas	14
2	Demographic Trends	18
3	Principal Challenges for Housing in Croatia	24
4	Housing Landscape	32
	Oversupply of Housing Units in the City of Zagreb	34
	41
	Suburbanization in Zagreb	41
	Suburbanization in Split	42
5	Housing Policy and Institutional Framework	48
	Existing Experiences with Utilization of Empty Spaces	53
	The New National Housing Policy Plan	54
6	Sources of Finance	57
7	Findings and Recommendations	62
8	References	69

List of figures

Figure 1. Croatia in the GHSL Degree of Urbanization, with five cities (urban centers) as per the Degree of Urbanization methodology.	14
Figure 2. Cities and their Functional Urban Areas in Croatia based on the DEGURBA method, in 2021.	15
Figure 3. Urbanization level in Croatia and comparable EU countries from Central and East Europe, measured by the official statistical definitions of urban settlements.	16
Figure 4. Urbanization level in Croatia and comparable EU countries from Central and Eastern Europe, measured by the Degree of Urbanization.	17
Figure 5. The total population of Croatia on Census from 1953 to 2021.	18
Figure 6. Population growth/decline from 2011 to 2021, per counties (županija), in %.	19
Figure 7. Population growth/decline from 2001 to 2021, per counties (županija), in %.	20
Figure 8. Population changes in Croatia from 2011 to 2021 based on the 1 km ² population grids.	22
Figure 9: Number of apartment purchases per County in 2023, with locations of the five largest cities.	27
Figure 10: Median purchase price for m ² of apartment in 2023, per County, with locations of five largest cities.	29
Figure 11: Share of housing units that are not used for residence (in %) per County: empty apartments, apartments that are used for tourist accommodation, and apartments that are used for business.	34
Figure 12: Counties in Zagreb, changes in population numbers from 2011 to 2021 (map – green: population growth, red: population decline), and numbers of apartments and households (table below).	36
Figure 13: Housing cost overburden rates in Croatia and the EU, by degree of urbanization, for 2023.	37
Figure 14: Housing cost overburden rates for tenants renting at market price for EU countries and Croatia, for 2023.	38
Figure 15: Share of the total population living in overcrowded units, in EU countries and Croatia, in 2023.	39
Figure 16: Average household size in EU countries and Croatia in 2023.	39
Figure 17: Suburbanization in the five largest cities in Croatia - Zagreb, Split, Zadar, Rijeka and Osijek, population changes from 2011 to 2021 based on the 1 km ² population grid cells.	41
Figure 18: Evolution of built-up area in Zagreb from 1985 to 2015 (upper picture), and population changes from 2011 to 2021 (lower picture).	42

Figure 19: Evolution of built-up area in Split from 1985 to 2015 (upper picture), and population changes from 2011 to 2021 (lower picture).	43
Figure 20: Severe housing deprivation rates in Croatia and the EU by degree of urbanization, in 2020.	45
Figure 21: Severe housing deprivation rates in Croatia and the EU, by tenure status, in 2020.	45
Figure 22: Institutional housing policy framework in Croatia.	50
Figure 23: Instruments for enforcing the social function of property in Sao Paulo.	66

Executive Summary

This report provides an in-depth analysis of the housing landscape in Croatia, with a primary focus on affordable housing, vacant spaces, and existing programs that support these housing types.

The objective of the analytical work presented here is to determine the scale of opportunities in terms of existing empty spaces as well as contextual factors that exist within Croatia, around the conversion and repurposing of vacant spaces into viable and affordable social housing, designed to support vulnerable communities. The research also aims to identify markets where there is considerable potential to reutilize empty spaces as a possible housing solution.

The report presents analysis and findings on the following topics: cities and urbanization; demographic trends; main challenges for the housing policy in Croatia; existing housing landscape; institutional and policy framework; and sources of finance for housing programmes.

Cities and Urbanization

Based on the internationally harmonized categorization of urban areas (DEGURBA), Croatia has only five cities. These are however larger than the official national statistics show. According to the DEGURBA methodology, there are only five urban centers (cities) in Croatia: Zagreb, Split, Rijeka, Osijek, and Zadar. This is in contrast with the official categorization in Croatia which identifies 128 cities in total. Although much fewer in number, cities are larger than it could be concluded by observing only their administrative boundaries. These five cities have a total population of 1.26 million, or 32 percent of the total population of the country. Together with functional urban areas (FUA) around them, they house a total of 2.05 million people, or around 53 percent of the total population of Croatia.

Contrary to the usual notion of Croatia as a very low-urbanized country, measuring urbanization by using the DEGURBA methodology shows that it does not lag behind its regional counterparts. According to official statistics, the urbanization level in Croatia in 2021 was 58 percent, placing it among the least urbanized countries in the EU, where the average urbanization level was 75 percent. The application of the DEGURBA methodology however shows that, although the urbanization level of Croatia is approximately the same (57.3 percent), other comparable countries have lower urbanization levels than their respective official statistics are showing. As a result, the DEGURBA methodology shows much less variation in urbanization levels between Croatia and other comparable EU countries. When compared to its regional counterparts, Croatia ranks higher than Bulgaria, Slovenia, and Slovakia, and approximately the same as the Czech Republic or Austria, in terms of urbanization level.

Demographic Trends

Croatia is rapidly depopulating, with population shrinkage being amongst the highest in the EU. The population decrease began in the 1990s, and since 2011, the population has shrunk by 9.64 percent, and below 4 million people for the first time since 1953.

Population shrinkage is occurring across the country, but it is unevenly distributed. Observed at the level of counties, the northeast region has experienced the most rapid decline, with a reduction of over 15 percent since 2011. Coastal counties have seen a lower population decline, while Zagreb, the capital, has experienced the smallest population shrinkage at 2.83 percent. Observed in the longer run, since 2001, only Zagreb and Zadar Counties saw population growth.

The five largest cities and their FUAs are also losing population. At the level of cities, the most significant decline since 2015 occurred in coastal cities, with Rijeka experiencing a decrease of over 8 percent and Split of over 4 percent. The only city that had a population increase in this period was Zagreb. At the level of Functional Urban Areas, the largest population decline has been in the Osijek FUA, which experienced a decrease of 6.5 percent since 2015.

The ongoing suburbanization trend is noticeable throughout the country. Based on population grid cells data, which provides population change at a fine resolution without administrative boundaries, all five largest cities in Croatia experienced suburbanization trends between 2011 and 2021.

Principal Challenges for the Housing Sector in Croatia

The Croatian housing sector is dominated by a heavy reliance on market mechanisms and a strong promotion of homeownership as a favorable option for solving housing issues. In Croatia, as in other Eastern European countries, the housing sector underwent a significant transformation in the 1990s. The transition from a state-controlled system—where over 25 percent of the total housing stock was publicly owned—to mass privatization resulted in the current situation, where 97.28 percent of housing is privately owned, and only 2.72 percent remains in other forms of ownership than private.

Croatia has one of the highest homeownership rates in the EU. Over 90 percent of Croatians own their homes, and 85 percent own their homes outright, meaning they don't have any loans or mortgages. In 2022, the homeownership rate in Croatia was 91.1 percent compared to the EU average of 69.1 percent. There is statistical evidence of a significant oversupply of housing units, with more housing units than registered households in all regions of the country, and a very high share of empty apartments. According to the 2021 Census, there are 2.31 million housing units, but only 1.43 million registered households. Of these units, 2.02 million are for permanent residence, while the rest are used occasionally or for business. About 29 percent of permanent residence units (595,280) are unoccupied. Despite a declining population, the number of housing units continues to grow, rising by 6.45 percent since 2011.

There are indications that the majority of purchases on the housing market are done as investments and that a small share of buyers are solving their housing needs by purchasing an apartment. Despite the large share of empty apartments, market prices of apartments in Croatia have been steadily increasing. In the last five years (2019–2024), prices went up by 60 percent, and over the past 20 years, they've risen by an average of 5 percent per year. This data combined with active housing construction and increase in prices indicates that the housing market is influenced by investments in tourism and speculative purchases. In 2021, foreign buyers accounted for 20 percent of the total value of purchases, especially in the high-end residential market segment.

Rental housing as an option was neglected for a long time. As a result, private long-term rental markets are unregulated, with contracts often not fully validated, so neither tenants nor landlords have legal protection. An overview of the property market in 2023 reveals that only 15.8 percent of rental contracts are registered at the county level, and just 15.4 percent are registered at the city level. Tenants face insufficient protection of their rights, making renting an unstable and often unaffordable choice for many. Since the rental market in Croatia is small in size, competition is extremely high, particularly in larger cities. In Zagreb and the coastal cities, the long-term rental market is under additional pressure from short-term tourist rentals.

Housing Landscape Overview

The oversupply of housing units is evident both in rural and urban areas. In the five largest cities, on average 24 percent of apartments for permanent residence are vacant. According to the National Plan for Housing Policy 2023, around 40 percent of Croatia's total housing stock is not used for residential purposes but instead for tourism, business, or left unoccupied. Coastal areas are the most affected, with approximately 45 percent of housing units not used for housing, while Zagreb has the smallest share of such properties. The number of existing apartments per 1,000 inhabitants is among the highest in the OECD countries and the EU.

Although there is a significant surplus of housing units, those housing units that are inhabited are overcrowded. According to Eurostat, Croatia has one of the highest overcrowding rates in the EU, and

among the smallest available housing space per person. A key factor driving this trend is that young people tend to stay in their parents' homes longer than in other EU countries, as renting or purchasing a home is often unaffordable. Data shows that 62.4 percent of individuals aged 25-34 still live with their parents, although the majority of them are employed on a full-time basis.

Although the housing overburden rate in Croatia is generally among the lowest in the EU, for those who do not outright own the apartments, housing cost overburden rates are significantly higher than the EU average. The housing cost overburden rate in Croatia is relatively low, standing at 4.0 percent in 2023, one of the smallest rates in the EU. However, for those who do not own their homes outright, housing costs are significantly higher. When focusing on the population renting in the market, Croatia's housing cost overburden rate is notably high compared to the EU average—38.3 percent versus 20.3 percent. For those who have housing mortgages or loans, the financial burden of the mortgage is among the highest in the EU.

Certain categories of the population face issues with the quality of housing units. Although only 5.6 percent of Croatia's population experiences housing deprivation, as compared to the EU average of 15.5 percent, a closer look at disaggregated data reveals that housing quality issues are particularly prevalent among those living in suburban areas (5.6 percent, while the EU average is 3.4 percent) and those renting on the market (9.8 percent, EU average is 5.8), highlighting disparities within the population. The severe housing deprivation is also high in the owners with mortgage or loan category, 3.4 percent compared to the EU average of 1.6 percent.

A result of unaffordable housing in cities is suburbanization. Pressured by high purchase or rental prices on the market, families are moving to peri-urban and suburban areas which are more affordable. Suburbs of cities are the only areas in the country that have seen a (limited) population growth since 2011. According to statistics, shares of people living in severe housing deprivation are highest in these areas. Additionally, there are indications that informal construction is intensive in these areas too.

Housing Policy and Institutional Framework

Housing policy in Croatia operates across national, regional, and local levels. Nationally, key ministries guide the agenda and oversee major programs. Regionally, counties act as independent self-governing units coordinating governance. Locally, municipalities and cities (LSGs) handle housing issues directly, managing day-to-day governance and addressing population needs. There are no specialized housing institutions, such as housing agencies, neither at the national nor local levels.

The key challenges for housing in Croatia, identified through this research, were until recently addressed by the official housing policy with limited success. Very often, the key challenges are not recognized by the policies, and thus not addressed at all, or existing policies have adverse effects and further increase the problem instead of solving it.

Croatia's housing support programmes primarily focus on promoting homeownership through subsidized construction and bank loans. These programmes are skewed towards promoting homeownership as the most favorable option for solving the housing issue, thus further increasing already very high homeownership rates. Additionally, they focus on the construction of new housing units, so they increase the total number of apartments although there is statistical evidence of a significant surplus of housing units in Croatia. The Programme of State-Subsidized Housing Construction (POS), active since 2001, involves the public construction of housing units that are sold at non-profit prices to various beneficiary groups, supported by subsidized loans. The Housing Loan Subsidies for Young People, launched in 2011, provides young families and individuals with favorable credit terms to address their housing needs.

The new draft National Housing Policy Plan until 2030 attempts to address key housing challenges in Croatia more effectively. It identifies critical issues in the housing sector, such as the large number of empty apartments and the underdeveloped rental market, and proposes long-term measures to tackle

them. A key focus is on treating the rental sector as a legitimate long-term housing option, aiming to create a more balanced and sustainable housing system.

Sources of Finance

Currently, housing finance in Croatia is dominated by commercial banks that provide loans either for individuals purchasing homes on the market or for developers constructing new housing. The emphasis remains largely on homeownership, with limited attention given to affordable or social housing. However, there are potential funding sources that could support the development of affordable housing, including domestic institutions whose resources could be mobilized through appropriate policies and guidelines, as well as international organizations offering financial assistance.

The draft National Housing Policy Plan 2030 represents an important initiative towards the establishment of more sustainable housing finance mechanisms, aiming to establish a revolving housing fund to support affordable rental housing and facilitate the utilization of vacant housing units.

Policy Recommendations

In line with the findings above, policy recommendations are focused on the utilization of existing, unused apartments in private ownership through a series of possible mechanisms that were already implemented in other countries, such as taxation of vacant properties, limiting short-term tourist rentals, limiting the new construction in cities, etc.

Recommendations are developed to address the key challenges for housing in Croatia and to target the main categories of the population, for which the housing affordability programmes would be the most beneficial.

Those who currently rent on the market, those who are paying mortgages or loans, and the young employed people still living with their parents should be the primary beneficiary groups for affordable housing programmes through the utilization of vacant housing units.

The suburbs of big cities are the areas where the potential beneficiaries are the most probable to be found, and the programmes should focus on the utilization of vacant apartments in the central areas of large cities, to enable the revival of historic city centers currently prevalingly used for tourism, increase the compactness of cities and tackle suburbanization and sprawling.

List of abbreviations

APN	Agency for Transactions and Mediation in Immovable Properties of Croatia
CEB	Council of Europe Development Bank
CSEE	Central and South Eastern Europe
DEGUR BA	Degree of Urbanization
EaSI	Employment and Social Innovation
EBRD	European Bank for Reconstruction and Development
EU	European Union
FUA	Functional Urban Area
GHSL	Global Human Settlement Layer
GIS	Geographic Information System
HBOR	Hrvatska banka za obnovu i razvoj (Croatian Bank for Reconstruction and Development)
HPB	Hrvatska poštanska banka (Croatian Postal Bank)
IMF	International Monetary Fund
IPTUP	Progressive Property Taxation on Urban Land in Brazil
LSG	Local Self-Government Unit
OECD	Organization for Economic Co-operation and Development
O-HB	Barcelona Metropolitan Housing Observatory
OTP	Otthoni Takarékpénztár (Home Savings Bank)
PEUC	Compulsory Parceling, Building, or Use of Land
POS	Program društveno poticane stanogradnje (Publicly Subsidized Housing Program)
RHP	Regional Housing Program
SCE	Societas Cooperativa Europaea (European Cooperative Society)
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprises
ZEF	Zadruga za etično financiranje (Cooperative for Ethical Financing)

Introduction and methodology

This report is the output of the research done as part of the “Empty Spaces to Homes (ESTHer)” project implemented by Habitat for Humanity International (HFHI). ESTHer is a Europe-wide project that aims to contribute to SDG 11, by addressing affordable housing challenges through reutilizing vacant buildings and spaces for social housing purposes and reducing carbon emissions.

The objective of the analytical work presented here is to determine the scale of opportunities in terms of existing empty spaces as well as contextual factors that exist within Croatia, around the conversion and repurposing of vacant spaces into viable and affordable social housing, designed to support vulnerable communities. The research also aims to identify markets where there is considerable potential to reutilize empty spaces as a possible housing solution.

Research Methodology and Limitations

The analysis was done by utilizing publicly available national and global sources of data, combining them with the review of national and international reports and academic literature.

Limitations faced in the availability of statistical data limited the more detailed analysis at the level of cities. Namely, the unavailability of sub-national administrative boundaries (counties, local self-governments, settlements, or urban districts), and the unavailability of statistical data disaggregated at the level lower than city or municipality, have prevented the more detailed spatial analysis of inner-city trends: suburbanization, distribution of vacant apartments in different parts of cities, inner-city population trends and other.

The shortage of information on the exact locations of informally constructed buildings within the cities limited the more detailed research on informality and confirmation of the assumption that the spatial development of cities is largely unplanned and informal.

Structure of the Report

In its first part, the report investigates cities and urbanization trends in Croatia. The conception of cities in Croatian administrative, legal, and policy framework, as well as the resulting level of urbanization, are contrasted with definitions of cities and the level of urbanization derived from the internationally harmonized Degree of Urbanization (DEURBA) methodology. By comparing these data sources, a more nuanced picture of Croatian urbanization and the system of cities is developed.

The second chapter provides an overview of demographic trends at the national, regional (county), and city levels. Demographic trends in the five largest cities, as they are defined by the DEURBA methodology, are explored where reliable data exists. The analysis of demographics at the level of population grid cells provides evidence of suburbanization in almost all cities and towns.

The third chapter describes the key challenges for housing in Croatia, that resulted from a heavy reliance on market mechanisms in housing and a strong promotion of homeownership over the past decades. Very high homeownership rates, insignificantly small public housing stock, and a large surplus of housing units both nationally and at the level of cities are standing in contrast with the vibrant and unaffordable housing markets, and neglected and largely unregulated rental housing sector.

The fourth chapter explores the housing landscape in Croatia, with a focus on housing surplus and vacant housing units on one hand, and housing needs on the other. The overcrowding, quality of housing, and inequalities in housing affordability for certain groups of the population are explained. Suburbanization trends, that partly result from inefficient housing policies, are explored in cities as they are identified by the DEGURBA methodology, and where the data was available.

The fifth chapter provides an overview of the institutional framework relevant to housing policy. Roles of relevant ministries at the national level, as well as regional and local governments in the area of housing policy, are explained, as well as some of the relevant non-public actors. The chapter provides an overview of the most relevant ongoing housing programmes, including the existing experiences of the utilization of vacant or underused housing units. The new draft National Housing Policy Plan, which perceives activities and measures to utilize vacant apartments, is described at the end of the chapter.

The sixth chapter explores the existing and potential sources of finance for housing programmes, including the commercial banking sector, national and international sources of finance, and some recent non-public, civil sector initiatives.

The seventh chapter summarizes key findings and conclusions of the preceding analysis and suggests policy recommendations to address them. An overview of international experiences and instruments to efficiently utilize vacant and underused housing units for affordable housing, that could be applicable to Croatian cities, is provided.

1. Urbanization in Croatia

This chapter explains the context for housing policy in Croatia, by providing an overview of cities and urbanization trends. A comparison of urbanization in Croatia based on the data resulting from the official national classification of cities and urban settlements, and those resulting from the internationally harmonized DEGURBA methodology, provides a more nuanced picture of Croatia's urbanization and the system of cities than it is usually presented.

1.1 Cities in Croatia

Definitions of cities and their total number and population significantly differ between the national categorization and the one resulting from DEGURBA. Based on the official categorization, Croatia has 128 cities. As opposed to this, DEGURBA defines only five cities in Croatia: *Zagreb*, *Split*, *Rijeka*, *Osijek*, and *Zadar*, which are however larger than the official data shows (based on the administrative boundaries), and have functional urban areas around them which accommodate over half of the total population of Croatia.

1.1.1 Official Classification of Cities and Municipalities

Based on the *Law on the Local and Regional Government*, the Republic of Croatia is administratively divided into 20 counties (Županija), and the capital city of Zagreb as a special administrative unit (city-county). Counties are mid-level, regional administrative governments.

Each county consists of *local self-government units (LSG)*, the lowest-level administrative governments. There are in total 556 local self-governments, that are classified as ***cities or municipalities***. Different from many other countries, an LSG in the Croatian official administrative categorization represents not only a settlement itself but often a much larger area that typically includes an urbanized core often surrounded by extensive rural areas. Typically, each local self-government has one central urban settlement (the administrative seat of a city or municipality) and a network of peripheral and rural settlements surrounding it.

According to the *Law on Local and Regional Government*, a city in Croatia is defined as the local self-government unit which is the seat of a county, as well as any settlement with over 10,000 inhabitants which represents a distinctively urban, historical, economic, and social unit. Based on this, there is a total of 128 cities in Croatia including the capital Zagreb.

Cities and municipalities are further divided into settlements, the lowest-level administrative subdivisions. Settlements do not have their governments.

1.1.2 Cities in Croatia Based on the Degree of Urbanization

The Degree of Urbanization (DEGURBA) is an internationally harmonized methodology for the delineation of cities and urban and rural areas for international and regional statistical comparisons. It uses population densities to classify all built-up areas of a country into three categories: (i) cities, (ii) towns and semi-dense urban areas, and (iii) rural areas. This is done by ignoring the official administrative boundaries, but solely observing the situation on the field (see the Box below).

The Croatian Bureau of Statistics has implemented the Degree of Urbanization approach based on the 2021 Census data.¹

Global Human Settlements Layer (GHSL) uses global datasets such as satellite imagery and combines them with local census data, to implement the Degree of Urbanization methodology globally and enable comparisons of urbanization in all countries and regions using the same methodology and data sets.

Based on the DEGURBA methodology, a city is defined as an **urban center** that consists of contiguous urban cells of 1 km² with a density of a minimum of 1,500 inhabitants per km² and a minimum total population of 50,000.

Both the Croatian Bureau of Statistics and the GHSL identified *five urban centers (cities) in Croatia: Zagreb, Split, Rijeka, Osijek, and Zadar*, as opposed to the official categorization of 128 cities.

The GHSL Degree of Urbanization

The Degree of Urbanization methodology is now utilized globally by the European Commission's Global Human Settlement Layer (GHSL). It classifies the entire territory of a country along the *urban-rural continuum*. Based on population size and density thresholds, a full settlement hierarchy is established.

GHSL Degree of Urbanization Settlement Types

Cluster	Degree of Urbanization	GHSL Settlement Types
	Urban Center (High-Density Cluster)	City
	Dense Urban Cluster	Town
	Semi-dense Urban Cluster	
	Suburban or Peri-urban Cluster	Suburb
	Rural Cluster	Village
	Low Density Rural	Dispersed Rural Area
	Very Low Density	

Source: European Commission, GHSL Degree of Urbanization - settlement types: <https://ghsl.jrc.ec.europa.eu/degurbaDefinitions.php>

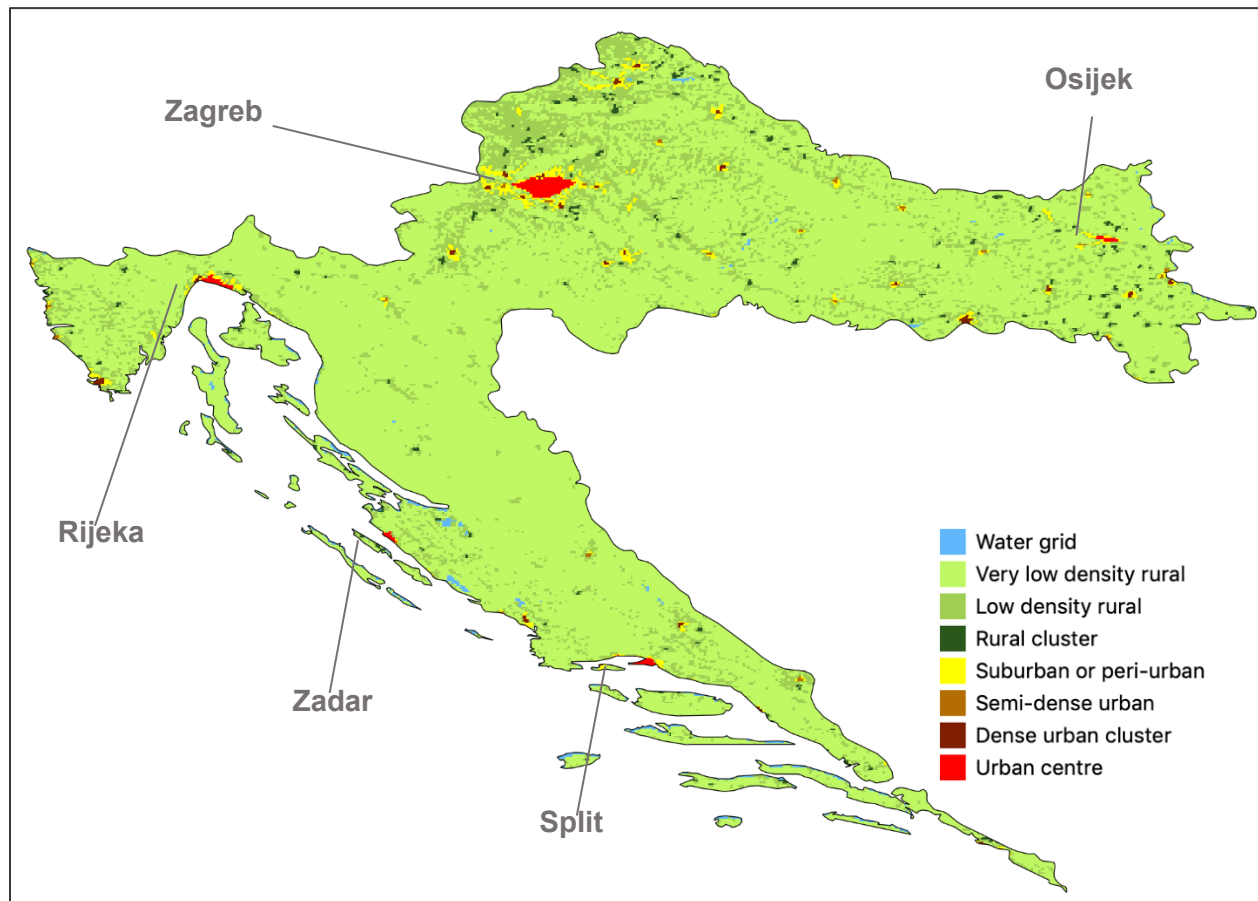
The GHSL Settlement Types have been assigned to create the Degree of Urbanization classes: *Urban Center*, *Urban Cluster*, and *Rural Cluster*. These classes in summary are described as:

- The (high-density) *Urban Center* - consists of contiguous grid cells with a high density of at least 1,500 inhabitants per km² and a population of at least 50,000.
- The (dense and semi-dense) *Urban Cluster* - consists of contiguous grid cells with a density of at least 300 inhabitants per km² and a population of at least 5,000 in the cluster. An urban cluster can be a town (dense or semi-dense) or a suburban or per-urban area.
- The *Rural Cluster* - villages that do not belong to an urban center or urban cluster; most of these will have a density below 300 inhabitants per km².

Using these categories, the urbanization level of a country can be calculated based on the population living in urban areas – urban centers (cities), urban clusters (towns), and suburbs and peri-urban areas.

¹ Croatian Bureau of Statistics, 2021. Degree of Urbanization (DEGURBA). <https://dzs.gov.hr/istaknute-teme-162/prostorne-klasifikacije-i-subnacionalne-statistike-2/stupanj-urbanizacije-degurba/453>

Figure 1. Croatia in the GHSL Degree of Urbanization, with five cities (urban centers) as per the Degree of Urbanization methodology.



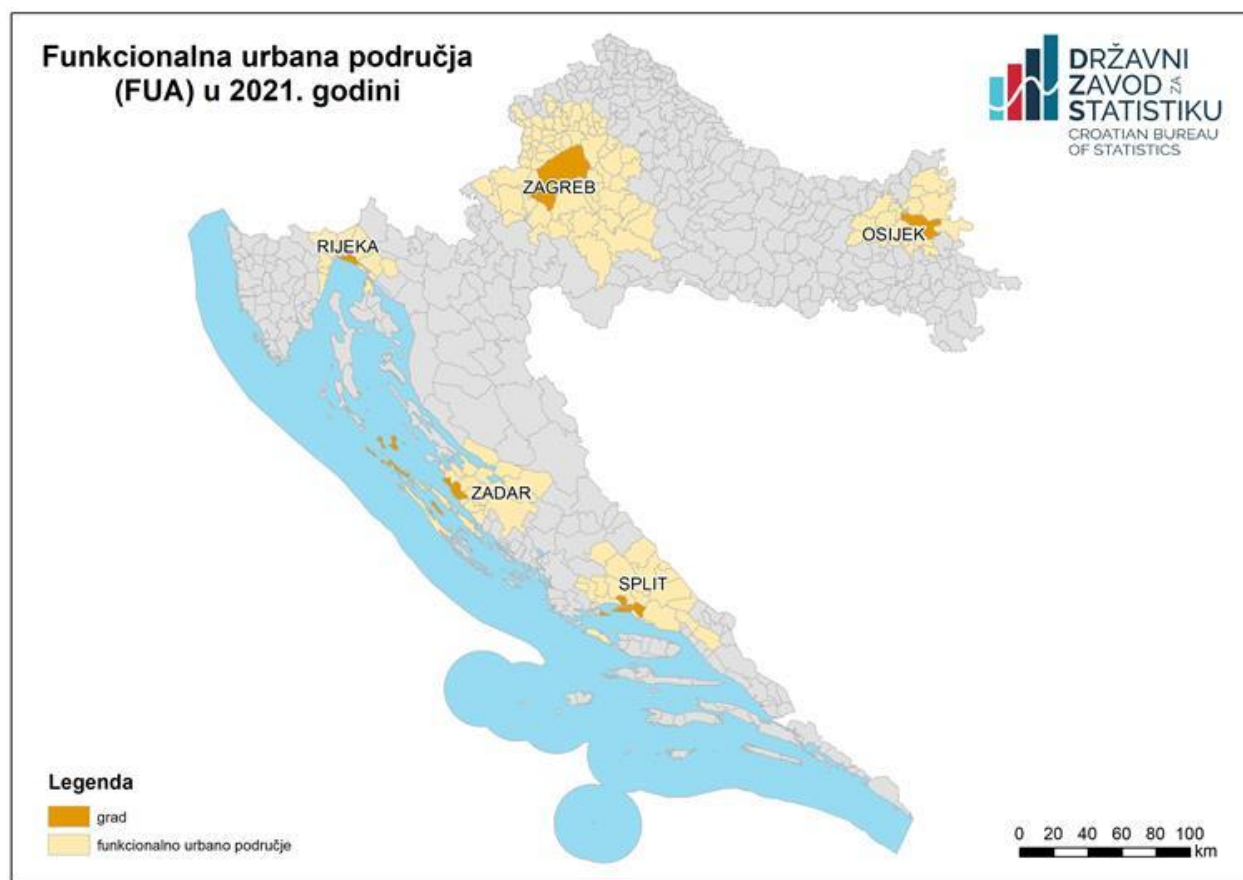
Source: GHS_SMOD Degree of Urbanization

1.1.3 Functional Urban Areas

Based on the 2021 Census data and the DEGURBA methodology, the Croatian Bureau of Statistics has identified Functional Urban Areas around the five cities. Functional Urban Areas (FUA) comprise cities (densely populated urban areas – urban centers) and their daily migration zones, that together function as one labor market. If a local self-government unit has over 15 percent of its population daily commuting to a city, then it is considered a part of that city's FUA.

In 2021, the FUAs around the five largest cities had a total population of 2.05 million people, or around **53 percent of the total population of Croatia**. In the five cities only, the total population was 1.26 million, or **32 percent of the total population of the country**.

Figure 2. Cities and their Functional Urban Areas in Croatia based on the DEGURBA method, in 2021.



Source: Croatian Bureau of Statistics - <https://dzs.gov.hr/istaknute-teme-162/prostorne-klasifikacije-i-subnacionalne-statistike-2/funkcionalna-urbana-podrucja-fua-ovi/454>

1.2 Urbanization Level in Croatia

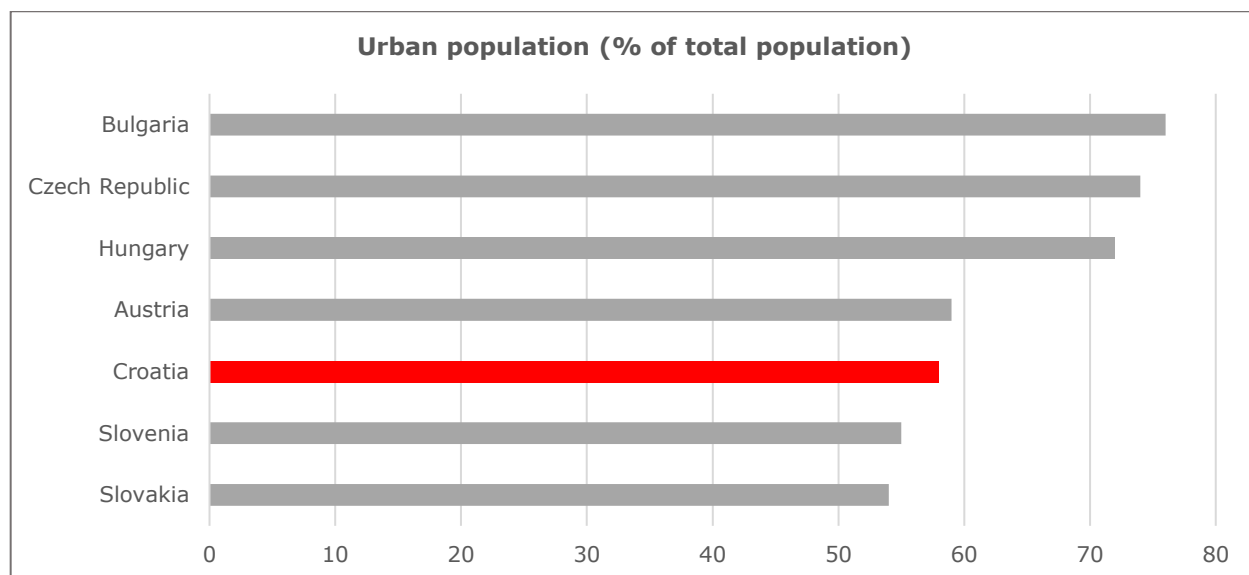
An urbanization level is usually measured as the share of the total population of a country that lives in urban settlements, as they are officially defined in the national statistics. However, official definitions and criteria to delineate urban areas significantly vary across countries, often making resulting data on urban populations difficult to compare – e.g., what is defined as an urban settlement in one country would not fall within urban areas according to the criteria applied by other countries.²

Based on the official statistics and the official classification of settlements as urban and rural, the urbanization level of Croatia in 2021 was 58 percent. This places Croatia among the least urbanized countries in the EU, far below the urbanization level of the entire EU of 75 percent in 2021.

² For example, in Denmark every locality with 200 or more inhabitants is considered urban, resulting in very high official urbanization rates (among the highest in the EU), while in Croatia, the threshold is 2,000 inhabitants. For definitions of cities and towns across countries see: United Nations 2019. *World Urbanization Prospects 2018*. (pp 81-99)

Compared to EU countries of similar size in the Central and East Europe region, Croatia is slightly more urbanized than Slovenia (56 percent) and the Slovak Republic (54 percent), but significantly less urbanized than Czechia (75 percent), Bulgaria (77 percent) or Hungary (73 percent)³.

Figure 3. Urbanization level in Croatia and comparable EU countries from Central and East Europe, measured by the official statistical definitions of urban settlements.



Source: Author's production based on the World Bank Open Data.

The urbanization level is slightly different when the Degree of Urbanization method is used. Based on the GHSL Degree of Urbanization Country Fact Sheets,⁴ 28.1 percent of Croatia's population lives in cities, and another 26.7 percent lives in towns and semi-dense urban areas (suburbs or peri-urban areas). This makes the total urbanization level of Croatia 57.3 percent.

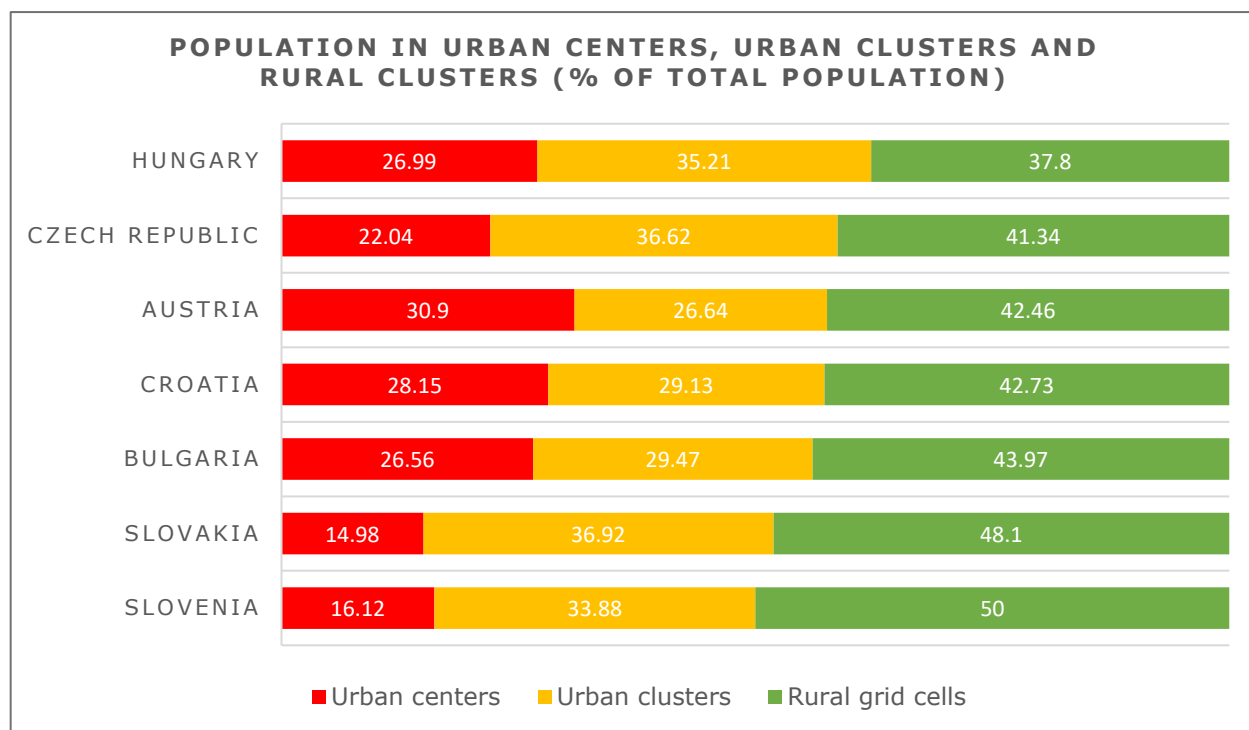
Measuring the urbanization level using the DEGURBA methodology shows approximately the same urbanization level for Croatia as using the official method (based on national classification of urban areas), but also reveals less variation in urbanization levels between Croatia and other comparable countries from the East Europe region. In some countries, official urbanization levels show significantly higher figures than the GHSL DEGURBA method – e.g., Bulgaria officially has 77 percent, and in GHSL only 56 percent, the Czech Republic has 75 percent officially compared to 59 percent in GHSL, Hungary 73 percent officially and 62.2 in GHSL, etc.

Based on this data, among the EU countries in the East and Central Europe of comparable size, Croatia is more urbanized than Bulgaria, Slovenia, and Slovakia, and at the approximately same urbanization levels as the Czech Republic and Austria.

³ All according to the World Bank Open Data – European Union, Urban Population (% of total population): <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?end=2023&locations=EU&start=1960&view=chart>

⁴ GHSL Degree of Urbanization Country Fact Sheets: Croatia. Available at: <https://human-settlement.emergency.copernicus.eu/CFS.php>

Figure 4. Urbanization level in Croatia and comparable EU countries from Central and Eastern Europe, measured by the Degree of Urbanization.



Source: Author's production based on the GHSL Degree of Urbanization, Country fact sheets.

1.3 Conclusions

The usual picture of Croatia is that it is a low-urbanized country, with small and sparsely populated cities. Based on the data resulting from the official Croatian statistical classification of urban and rural settlements, Croatia is among the least urbanized countries in the EU. These data are often used in official policy documents, reports from international organizations, research papers, and academic literature, and serve as a basis for national spatial, urban, and housing policies.

However, contrary to this picture, the Degree of Urbanization (DEGURBA) – an internationally harmonized methodology of classifying settlements as urban and rural - reveals that there are much fewer variations in the level of urbanization between Croatia and comparable EU countries from the Central and Eastern Europe region.

The number of cities in Croatia also differs in the official national classification and DEGURBA. Based on the official classification of local self-governments in Croatia, there are 128 cities including the capital Zagreb, which has a special city-county status. On the other hand, DEGURBA identifies only five cities in Croatia: Zagreb, Split, Rijeka, Osijek, and Zadar. These five cities have Functional Urban Areas around them – zones of daily migrations that together with core cities function as a single urban system and labor market.

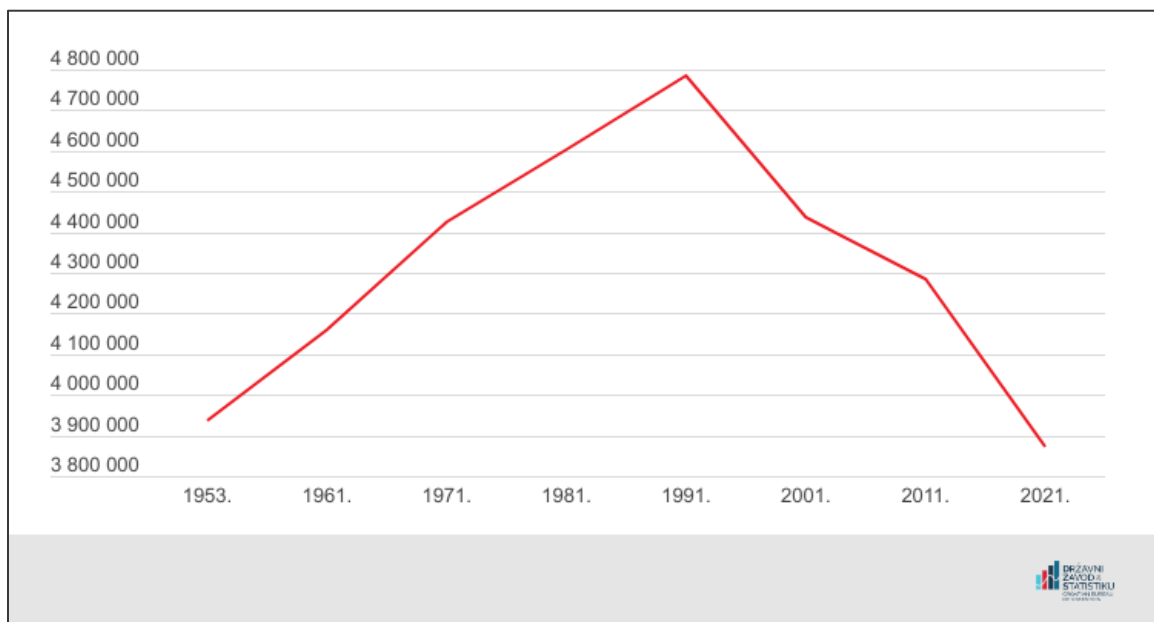
2 Demographic Trends

This chapter explores demographic trends in Croatia, at the national, county, and city levels. Demographic trends in the five largest cities, as they are defined by the DEGURBA methodology, are explored where reliable data exist.

2.1 Demographic Trends at the National Level

According to the 2021 Census, the total population of Croatia is 3,871,833 people. The population of Croatia is shrinking, faster than in the majority of EU countries. The population shrinkage started in 1991 and is steadily ongoing in each Census afterward, with the latest 2021 Census showing the total population of the country of less than 4 million for the first time after 1953. In total, since 2011 the population of Croatia shrunk by 413,056 people, or 9.64 percent.⁵

Figure 5. The total population of Croatia on Census from 1953 to 2021.



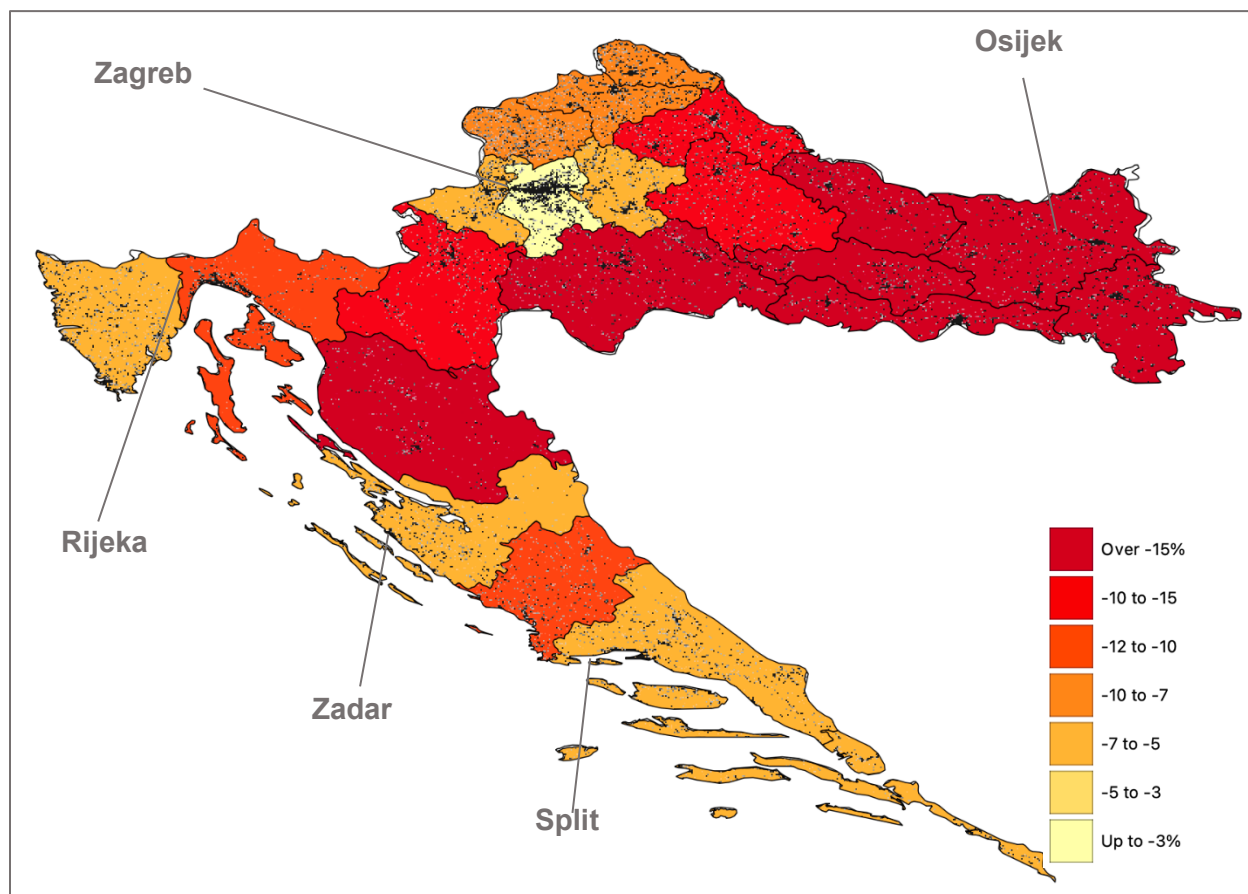
Source: Croatian Bureau of Statistics

2.2 Demographic Trends at the Regional (County) Level

Observed by counties, the population shrinkage is not evenly distributed, although it is happening in all counties. North-East of the country is facing the most rapid depopulation - a decline of over 15 percent since 2011 in all counties. Counties at the coast generally saw a lower population decline. The capital Zagreb has the smallest decline in population, 2.83 percent.

⁵ Croatian Bureau of Statistics, Census 2021. <https://dzs.gov.hr/vijesti/objavljeni-konacni-rezultati-popisa-2021/1270>

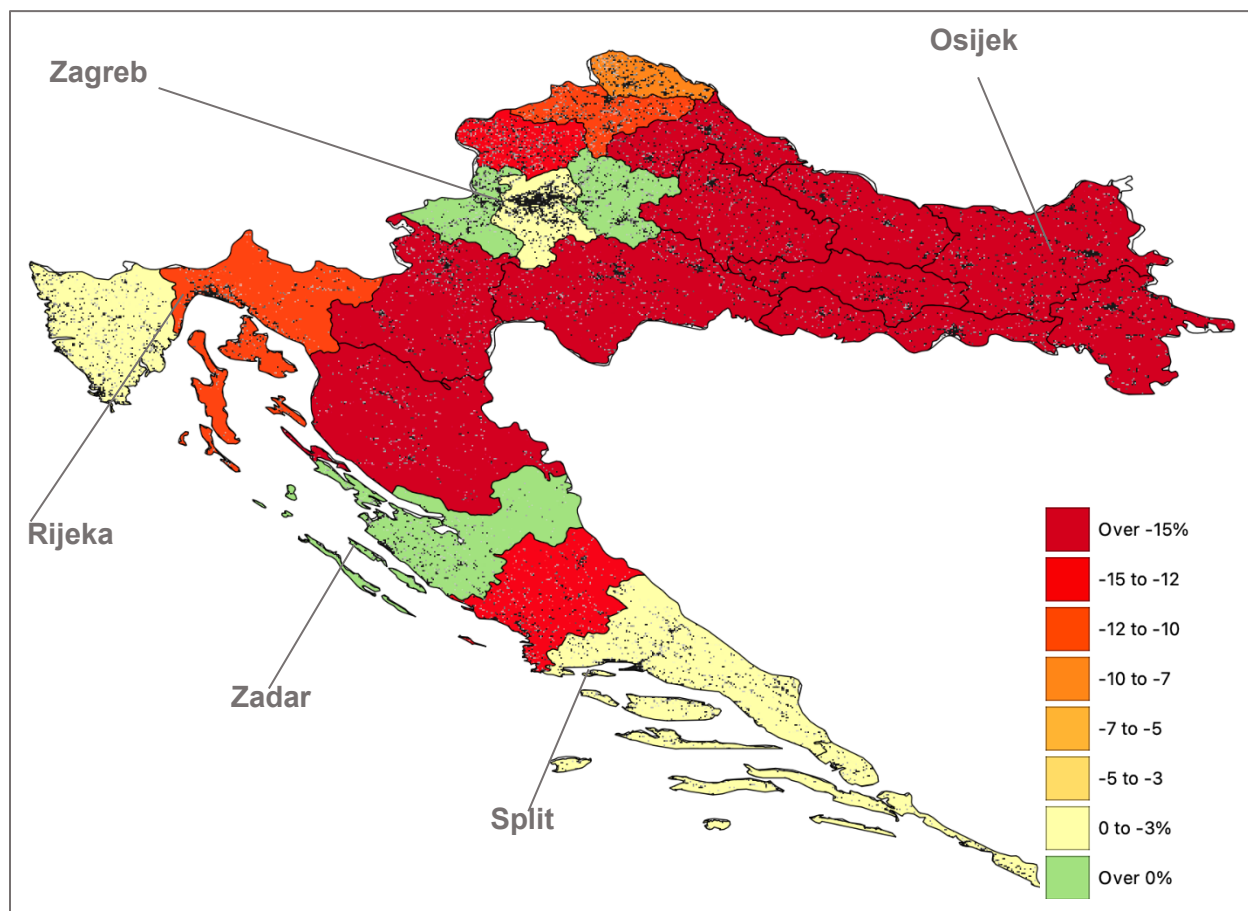
Figure 6. Population growth/decline from 2011 to 2021, per counties (županija), in %.



Source: Author's production based on the data from the Croatian Bureau of Statistics, Census 2021 and 2011, and county boundaries available at Stanford Digital Repository: <https://purl.stanford.edu/mj788hg8036>

Looking in the longer run, over the 20 years between the Census 2001 and Census 2021, there are only two counties that saw a population increase: Zagreb County and Zadar County. In the city of Zagreb itself, the population decreased, and it grew in the surrounding Zagreb County, which can indicate a suburbanization trend.

Figure 7. Population growth/decline from 2001 to 2021, per counties (županija), in %.



Source: Author's production based on the data from Croatian Bureau of Statistics, Census 2021 and 2001, and county boundaries available at Stanford Digital Repository: <https://purl.stanford.edu/mj788hg8036>

2.3 Demographic Trends in FUAs and Cities

At the level of cities and functional urban areas, the Croatian Bureau of Statistics has systematized the population and other statistical data according to the DEGURBA methodology from 2015. Data for 2021 is based on the Census and data for previous years on the annual population estimates.⁶

Similar to the rest of the country, the population is shrinking in cities and FUAs. All cities except Zagreb have seen a population shrinkage since 2015. Interestingly, the largest population decline happened in cities on the coast, Rijeka (over 8 percent), and Split (over 4 percent). Regarding FUAs, the largest population decline was in Osijek FUA, over 6.5 percent since 2015.

Here, the difference should be made between cities in DEGURBA methodology and cities as defined by the Croatian administrative division – DEGURBA cities do not follow the administrative boundaries of cities but are defined solely based on contiguous urban areas. Thus, in the table below, city populations differ from those in the Census, and demographic trends are slightly different (e.g. city of Zagreb in

⁶ Croatian Bureau of Statistics, 2021. Functional Urban Areas (FUA). <https://dzs.gov.hr/istaknute-teme-162/prostorne-klasifikacije-i-subnacionalne-statistike-2/funkcionalna-urbana-područja-fua-ovi/454>

administrative boundaries shrunk, but the city of Zagreb as defined by DEGURBA had a population growth).

Table 1. Total population and population growth trends in the five cities and their FUAs as defined by DEGURBA, from 2015 to 2021.

CITY/FUA	Population 2015	Population 2021	Difference 2021 - 2015 (%)
ZAGREB	799,999	808,134	1.02
FUA ZAGREB	1,225,789	1,214,647	-0.91
RIJEKA	123,725	113,589	-8.19
FUA RIJEKA	214,800	204,189	-4.94
OSIJEK	106,610	102,542	-3.82
FUA OSIJEK	178,487	166,785	-6.56
SPLIT	174,333	167,117	-4.14
FUA SPLIT	347,912	339,437	-2.44
ZADAR	75,537	74,399	-1.51
FUA ZADAR	131,175	127,381	-2.89
Total Cities	1,280,204	1,265,781	-1.13
Total FUAs	2,098,163	2,052,439	-2.18

Source: Author's production based on the data from the Croatian Bureau of Statistics: subnational database - [https://web.dzs.hr/PXWeb/Menu.aspx?px_tableid=FUA_Tablica01.px&px_path=Subnacionalne%20statistike_2015%20i%20dalje_Funkcionalno%20urbano%20podru%c4%8dje%20\(FUA\)&px_language=hr&px_db=Subnacionalne%20statistike&rxid=8e367b2b-7208-4620-8227-12725fd07011](https://web.dzs.hr/PXWeb/Menu.aspx?px_tableid=FUA_Tablica01.px&px_path=Subnacionalne%20statistike_2015%20i%20dalje_Funkcionalno%20urbano%20podru%c4%8dje%20(FUA)&px_language=hr&px_db=Subnacionalne%20statistike&rxid=8e367b2b-7208-4620-8227-12725fd07011)

2.4 Population Grid Cells

At a level lower than the city/municipality, areas with a (limited) population growth can be identified. The data from the latest Censuses in Croatia and elsewhere in the European Union were disaggregated at the level of 1 km² cells (population grid cells ⁷), so it is possible to see the population changes at a very fine resolution, not bounded by administrative boundaries.

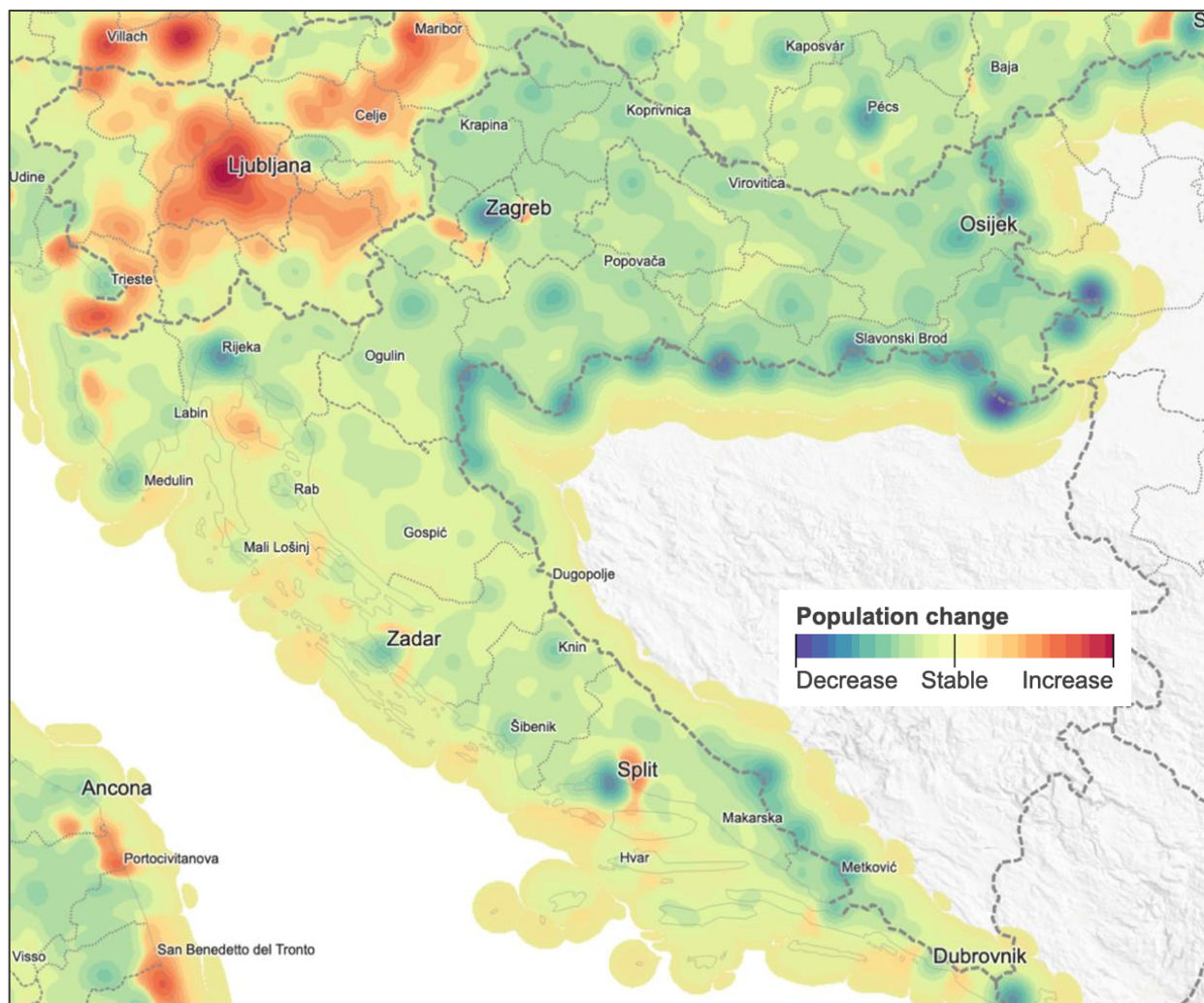
The map generated with the population grid cells data from 2011 and 2021 reveals that there are several areas where population growth occurred in Croatia. The growth happened in the areas around the city of Zagreb and in the coastal zone. The largest population decline is in border areas in the North and East of the country.

Population grid cells reveal the suburbanization trend in almost all cities in Croatia and all of the five largest cities. Suburbanization is a process of expansion of urban areas in previously rural or undeveloped areas on the periphery and movement of the population from central parts of cities to suburbs. As a result, population numbers are growing in suburban and peri-urban areas, and decline in central parts of cities. In many developed countries, including countries in Western Europe, suburbanization has been a significant demographic trend since the mid-twentieth century. Over the last

⁷ Eurostat, Statistics explained – Population grid cell. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Population_grid_cell

decades, it has been a process that is ongoing in almost all cities in Eastern Europe (e.g. Poland, Hungary, Chechia, Romania) which is visible on the Eurostat's population grid cells maps.⁸

Figure 8. Population changes in Croatia from 2011 to 2021 based on the 1 km² population grids.



Source: Eurostat, Population and housing census 2021 – population grids interactive map.

2.5 Conclusions

The population of Croatia has been constantly shrinking since 1991, and shrinkage increased since 2011. The population shrinkage is happening in all Counties of the country, but not at the same pace – Counties in the North-East of the country are losing population the most rapidly.

Out of five cities, as defined by DEGURBA methodology, only the capital Zagreb had a slight population increase between two censuses, in the period from 2015 to 2021.

⁸ Eurostat, Population and housing census 2021 – interactive map: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_and_housing_census_2021_-_population_grids

Looking closer, at the level of cities, the ongoing suburbanization trend is noticeable in almost all cities, and in all five largest cities, with the population shrinking in central districts, and growing in peri-urban and suburban areas.

3 Principal Challenges for Housing in Croatia

This section explores the main issues and challenges for the housing sector in Croatia: the predominant private ownership of housing units and a very limited number of housing units in public ownership, the neglected and unregulated rental housing sector, and housing markets that are predominantly focused on investments and speculative purchases.

3.1 Existing Housing Stock and Homeownership

During the 1990s, similarly to other countries in East Europe, Croatia's housing sector went through a transformation from an almost completely state-controlled public system of housing provision and distribution to a full reliance on market mechanisms. Before the start of the transition, in 1989, Croatia had 442,199 housing units in public ownership (in which households enjoyed so-called tenant rights), which at a time made over 25 percent of the total housing stock.⁹ The share of publicly-owned apartments was much higher in cities, so in Zagreb for example, 45 percent of all apartments were in the public ownership.¹⁰ During the 1990s, a mass privatization of public housing stock was implemented, and as a result, today 97.28 percent of all housing units are in private ownership, and only 2.72 percent in forms of ownership other than private.¹¹

Public housing stock in Croatia is small in volume and, as such, not being able to significantly affect the affordability of housing for the wider population. With only 2.72 percent of the total housing stock in forms of ownership other than private (which includes public ownership, social housing, various forms of cooperatives, etc.) it is hard to make a significant impact on market prices and increase the affordability of housing for an average household. For comparison, in EU countries with developed housing policies, public housing, social housing, and cooperatives make up a significant portion of the total housing stock, therefore being able to influence the affordability and quality of apartments on the market: Austria (social/public housing makes 24 percent of the total housing stock), Denmark (20 percent public, 7 percent cooperative housing) or the Netherlands (29 percent of public/social housing).¹²

Over 90 percent of all people in Croatia are homeowners, and 85 percent are outright homeowners. Croatia has a very high homeownership rate, among the highest in the European Union. The homeownership rate (share of households that own the apartment in which they live) for Croatia in 2022 was 91.1 percent, compared to the EU average of 69.1 percent. In the EU, only Romania and Slovakia have higher homeownership rates than Croatia. Other East-European countries that went through a similar transition in the housing sector since 1990 are all at the top of the list.¹³ Additionally,

⁹ Marčetić, I. 2020. *Housing Policies in the Service of Social and Spatial (In)Equalities*. (p. 23)

¹⁰ IIBW 2019. *UfM Thematic Working Group on Affordable and Sustainable Housing in Croatia*.

¹¹ The Ministry of Physical Planning, Construction and State Assets 2020. *Dugoročna strategija obnove nacionalnog fonda zgrada do 2050. godine (Long-term Strategy for the Refurbishment of the National Building Stock until 2050)*. Available at:

https://mpgi.gov.hr/UserDocsImages/dokumenti/EnergetskaUcinkovitost/DSO_14.12.2020.pdf

¹² *The State of Housing in Europe 2023*. Available at: <http://www.stateofhousing.eu/#p=1>

¹³ Eurostat - Share of people living in households owning or renting their home, 2022. Available at: <https://ec.europa.eu/eurostat/web/interactive-publications/housing-2023#house-of-flat-owning-or-renting>

only 6 percent of people in Croatia live in their homes with mortgages or housing loans, and 85 percent are outright homeowners (compared to 44 percent in the EU).¹⁴

There are indications of a significant housing oversupply in Croatia, manifested in the difference between the total number of registered households and the total number of housing units. Based on data from the 2021 Census, the number of housing units greatly exceeds the number of households. There is a total of 2.31 million housing units in Croatia, out of which 2.02 million are housing units for permanent residence, the rest being dwellings that are used occasionally, for vacation, or only for business. As opposed to this, there are only 1.43 million registered households, and 595,280 unoccupied housing units, or around 29 percent of the units for permanent residence.

Despite the shrinking population, the number of housing units is still increasing, as well as the market prices of housing. In the Census 2011, there were 2,246,910 housing units in Croatia in total, out of which 1,912,901 housing units were for permanent residence.¹⁵ In the 2021 Census, the total number of housing units increased by 6.45 percent and the total number of housing units for permanent residence increased by 6.05 percent.

3.2 Housing Market and Affordability

In the absence of affordable, subsidized housing, virtually the only option for an average household in Croatia is to purchase an apartment on the market. However, there are strong indications that the housing markets have very limited impact on actual housing needs and affordability for many households but are instead focused on speculative purchases and investments.

Despite the population shrinkage and a surplus of housing units, housing markets in Croatia are vibrant. In 2023, the total value of sales of apartments in Croatia was EUR 3.56 billion, and a total of 25,932 sales were made. This shows a stagnation in the total value of apartments sold (-1 percent from 2022 and 2023) and a decrease in the total number of apartment purchases (-13.4 percent from 2022 to 2023). Despite this, the median price of apartments increased by 18.7 percent in the same period.¹⁶

In the long run, the prices of apartments are increasing. Over the past five years (from 2019 to 2024) prices of purchasing apartments on the market have increased by 60 percent, and in the last 20 years, an average increase in the price of apartments was 5 percent annually.¹⁷

This data combined with the very active housing construction and constant increase in prices for the purchase of apartments can indicate that the housing market is influenced by investments in tourism and speculative purchases. A property market report found that households that seek to buy an apartment for a primary residence are facing competition from investors in rental properties, second-home buyers, and entrepreneurs seeking housing for the growing foreign workforce.¹⁸ According to this report, an increasing number of housing units are being converted to short-term rental units for tourists.

¹⁴ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*.

¹⁵ Croatian Bureau of Statistics 2017. *Census of Population, Households and Dwellings 2011, Dwelling by Occupancy Status*. Statistical Report. Available at: https://web.dzs.hr/Hrv_Eng/publication/2016/SI-1586.pdf

¹⁶ Ekonomski Institut Zagreb 2023. *Pregled tržišta nekretnina Republike Hrvatske 2023*. Available at: <https://www.eizg.hr/userdocsimages/publikacije/serijske-publikacije/pregled%20tr%C5%BEi%C5%A1ta%20nekretnina/Pregled%20tr%C5%BEi%C5%A1ta%20nekretnina%20Republike%20Hrvatske%202023..pdf>

¹⁷ Avison Young 2024. *Market Report: Croatia Real Estate*.

¹⁸ Ibid. p. 13

The draft National Plan for Housing Policy stresses that the demand by foreign citizens for properties in Croatia is growing. In 2021, foreign buyers accounted for 20 percent of the total value of purchases, especially in the high-end residential market segment.¹⁹

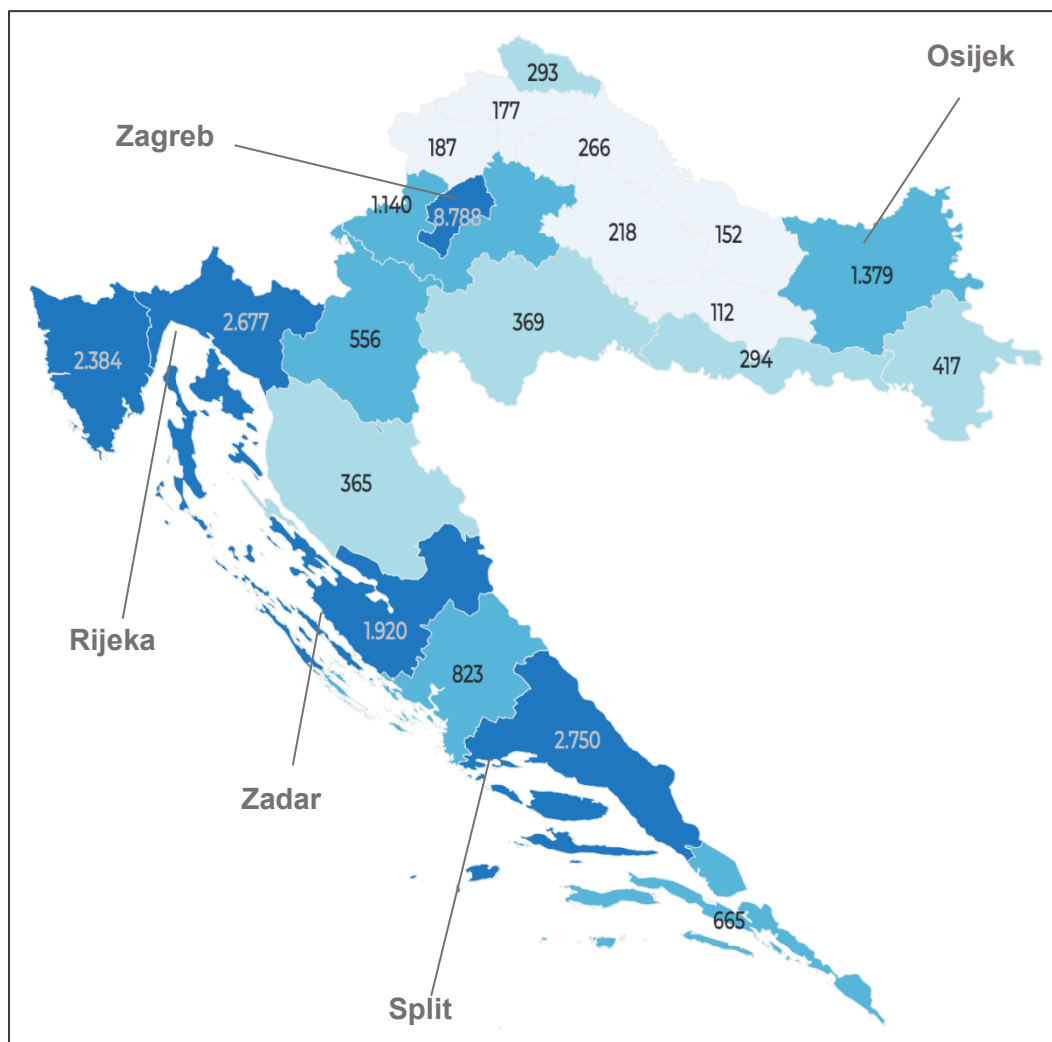
Observed regionally, housing markets are the most vibrant in the coastal areas and the capital, Zagreb, which also contributes to the assumption that the majority of buyers of apartments on the market are motivated by investments and business purposes.

The Review of Property Market of the Republic of Croatia²⁰ shows that during 2023, seven Counties contributed to 81.1 percent of all apartment transactions in Croatia. Out of these seven, six are related to the five largest cities. The City of Zagreb tops the list of the number of transactions – 8,788 or 33.9 percent of all transactions in Croatia. Three Counties with over 2,000 transactions are all coastal: Split-Dalmatia, Primorje-Gorski Kotar (the city of Rijeka), and Istria. The additional three Counties with over 1,000 transactions are Zadar, Osijek-Baranja, and Zagreb County.

¹⁹ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*. (p. 40)

²⁰ Ekonomski Institut Zagreb 2023. *Pregled tržišta nekretnina Republike Hrvatske 2023*.

Figure 9: Number of apartment purchases per County in 2023, with locations of the five largest cities.



Source: *The Review of Property Market of the Republic of Croatia in 2023*

The number of transactions is however decreasing year-to-year in 17 out of 21 Counties. The City of Zagreb had a decrease in the number of apartment purchases for two years in a row, -4.2 percent in 2022 and -13.5 percent in 2023. Even Counties on the coast have seen a drop in the number of transactions from 2022 to 2023, Primorje-Gorski Kotar -20.5 percent and Split-Dalmatia -18.9 percent.²¹

Despite the decrease in the number of transactions, the median prices of apartments are increasing in all Counties. The highest median prices of apartments were in Split-Dalmatia County, the City of Zagreb, and Dubrovnik-Neretva County. Aside from these, Primorje-Gorski Kotar and Zadar Counties had median prices of over 2,000 EUR/m². The highest increase in prices occurred in continental Counties but still remained under the national median price.²²

As a result of growing property prices, housing affordability in Croatia is low. Based on the analysis by the IMF, with the Housing Affordability Index value of around 70 in 2023 (which indicates that the median-

²¹ Ibid.

²² Ibid.

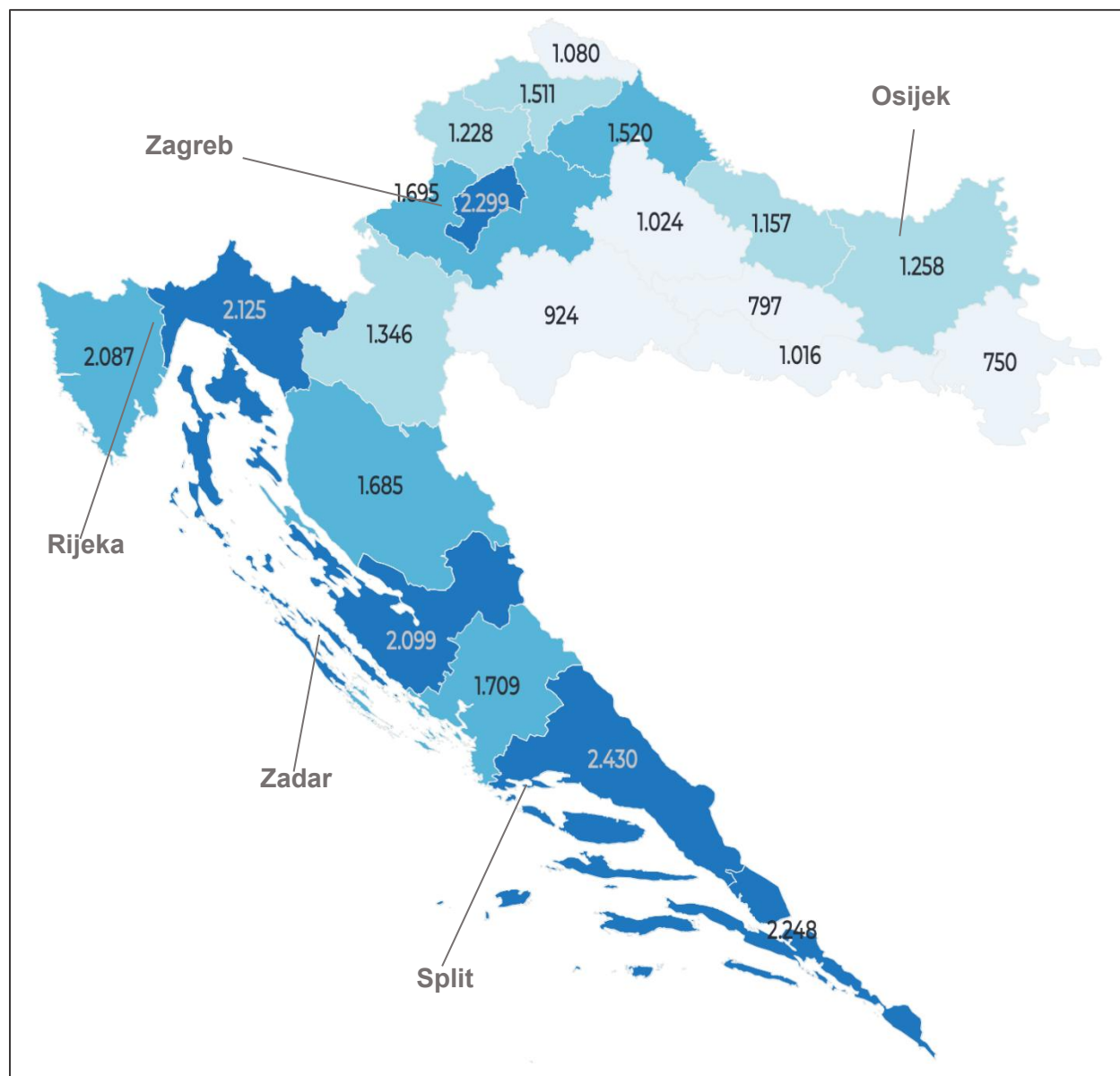
income household had difficulties obtaining a mortgage for an average-priced apartment), Croatia is among the least affordable countries in the EU.²³

Research on regional affordability showed that the lowest affordability levels are in the city of Zagreb and the coastal regions, as a result of demand created by tourism.²⁴ The draft National Plan for Housing Policy also shows that purchasing apartments is unaffordable for the average household, with the Affordability Index (ratio between the median price of an apartment and the average net income) being the highest in coastal areas – e.g. the average annual income can afford to buy only 3.2 m² in Dubrovnik, and 3.8 m² in Split. The City of Zagreb is slightly more affordable, where an average annual income can afford to buy 6.7 m².

²³ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*. (pp 37-39)

²⁴ Mikulić, J. et al. (2021). *The effect of tourism activity on housing affordability*. Elsevier: Annals of Tourism Research, Vol. 90. Available at: <https://www.sciencedirect.com/science/article/pii/S0160738321001420#f0005>

Figure 10: Median purchase price for m² of apartment in 2023, per County, with locations of five largest cities.



Source: The Review of Property Market of the Republic of Croatia in 2023

3.3 Rental Market

In Croatia, similarly to elsewhere in East Europe, over the past decades, the housing policy focused on the promotion of homeownership and neglected the long-term rental sector as a legitimate housing option for the general population.

In international reports and studies, an equal treatment of the rental housing sector and homeownership by the housing policy is seen as one of the key instruments for improving housing affordability, not only for the urban poor but for the general population as well. A drive for home ownership and simultaneous neglect of the rental sector have tended to dominate many countries' housing policies over the past several decades, especially the ex-socialist countries in Eastern Europe. The statistical data however shows that the countries with higher national per capita income generally have higher shares of tenants, and this is especially true for the countries with the most developed public housing policies, such as Austria, Germany, Sweden, or Switzerland, where the public rental housing is providing the security of tenure as well as a quality of housing that is often higher than the private sector.²⁵

Today, the Croatian longer-term rental market is very small and largely unregulated.²⁶ The legislative framework provides little protection for tenants in the rental market, and a lack of focus on tenants' rights makes renting less stable or fair for those who cannot afford homes.²⁷

The Overview of Property Market of the Republic of Croatia for 2023 states that only 15.8 percent of rental contracts were registered in the Collection of purchase prices (Zbirka kupoprodajnih cijena)²⁸ at the level of Counties, and 15.4 percent at the level of Cities,²⁹ which indicates that the majority of rental contracts are not properly registered and validated. With long-term rental contracts often not being (fully) validated, neither tenants nor landlords have legal security.

As a consequence, the share of people who live as tenants in Croatia is smaller than in other EU countries. According to Eurostat, the percentage of tenants in Croatia in 2022 was 8.9 percent of the total population. This includes both the private rental sector and different public rental housing schemes. Among the EU countries, the share of tenants is lower only in Romania (5.2 percent) and Slovakia (7.0 percent). At the level of the whole EU, the share of tenants is 30.9 percent. In general, among the EU countries, the shares of tenants are highest in those countries that have developed public housing policies, such as Germany (53.5 percent), Austria (48.6), Denmark (40.4), France (30.6) or Sweden (35.8 percent).³⁰

There is no precise data on the share of people in the public or private rental sector. The Bureau of Statistics estimates that the majority of those who on Census declared that they live with relatives are

²⁵ All according to: UN HABITAT, 2003. *Rental Housing: An Essential Option for the Urban Poor in Developing Countries*.

²⁶ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*.

²⁷ Marčetić, I. 2020. *Housing Policies in the Service of Social and Spatial (In)Equalities*.

²⁸ The *Collection of purchase prices (Zbirka kupoprodajnih cijena)* is a record on the realized turnover on the real estate market that is managed at the level of Counties and 24 large Cities. Cities and Counties have a legal obligation to evidence prices of property purchase and rent in the *Collection*, which is used for the calculation of estimated market values of properties for the purpose of property taxation.

²⁹ Ekonomski Institut Zagreb and the Ministry of Physical Planning, Construction and State Assets, 2023. *Pregled tržišta nekretnina Republike Hrvatske 2023 (Overview of Property Market of the Republic of Croatia for 2023)*.

³⁰ Eurostat - Share of people living in households owning or renting their home, 2022. Available at: <https://ec.europa.eu/eurostat/web/interactive-publications/housing-2023#house-of-flat-owning-or-renting>

actually on the private rental market, but are unregistered.³¹ Data from the 2021 Census show that 4.41 percent of households in Croatia rent on the market, and an additional 7.83 percent live with relatives.³²

As a result of being very limited in size, the rental sector in Croatia is very competitive, especially in large cities, and with very limited regulation. The affordability of the rental market is additionally affected by short-term rentals. According to Marčetić (2021), there is an increase in rent for tourists in Zagreb, which removes a large number of apartments from long-term rentals, reducing supply and increasing the price of remaining available apartments. “The annual growth of Airbnb in Zagreb in the last few years has been an incredible 30 percent”,³³ while affordability in rental housing in Zagreb and coastal cities has fallen proportionally. Rental prices are increasing in all major cities, and by 11 percent annually in Zagreb.

3.4 Conclusions

Over the last decades, the Croatian housing sector was dominated by a heavy reliance on market mechanisms in housing and a strong promotion of homeownership as a favorable option for solving housing issues, which resulted in very high homeownership rates and very small public housing stock.

There is statistical evidence of a significant oversupply of housing units, with more housing units than registered households in all regions of the country, and a very high share of empty apartments. Despite the population shrinkage and oversupply of housing units, housing and real estate markets remain vibrant and apartment purchase prices continue to grow, especially in central parts of large cities.

Rental housing as an option was neglected for a long time. As a result, private long-term rental markets are unregulated, with contracts often not fully validated, so neither tenants nor landlords have legal protection. This makes rental housing unattractive and seen only as a short-term option by tenants. As a result, the purchase of an apartment on the market represents virtually the only option for an average household to solve their housing need in the long run.

However, there are indications that the majority of purchases on the housing market are done as investments and that a small share of buyers are solving their housing needs by purchasing an apartment, as growing market prices are unaffordable for the majority of the population. As such, although vibrant, the housing market has a very limited impact on the housing needs of the population and housing affordability.

³¹ Jakopič, A. and Žnidarec, M., 2015. *Tenancy Law and Housing Policy in Multi-level Europe: National Report for Croatia*. Available at: <https://arquivo.pt/wayback/20160421110915/http://www.tenlaw.uni-bremen.de/reports.html>

³² Census 2021, Private households by number of members and basis for housing unit usage. Available at: <https://podaci.dzs.hr/media/h0bb3mg5/popis-2021-kucanstva-i-obitelji-po-gradovima-i-opcinama.xlsx>

³³ Marčetić, 2021. (p. 170)

4 Housing Landscape

This chapter explores the housing landscape in Croatia, with a focus on housing surplus and vacant housing units on one hand, and housing needs on the other. The quality of housing and inequalities in housing affordability for different groups of the population is explained. Due to the shortage of data disaggregated at the level lower than cities (e.g. at the level of settlements, or urban districts), the inner-city trends in housing surplus were possible to explore only in Zagreb.

Suburbanization trends, that partly result from inefficient housing policies, are explored in all five cities as they are defined by DEGURBA. Closer insights were possible to make in the city of Zagreb (at the level of urban districts) and in Split, where research on informal construction showed that suburban areas are growing mostly in an unplanned way.

4.1 Unoccupied Housing Units

At the national level, there is 29 percent of unoccupied housing units among the units for permanent residence. As the high shares of unoccupied units in rural areas can be explained by rapid depopulation over the last decades, the share is just slightly lower at the level of cities. The five largest cities have on average 24 percent of empty apartments for permanent residence. The largest share of empty apartments is in Zadar, over 30 percent. These numbers can be explained by inefficient housing policies and the commodification of housing.

Table 2. Numbers of housing units and households nationally and in the five largest cities.

	Total No of dwellings	Dwellings for permanent residence			Number of households	Share of unoccupied units for permanent residence (%)
		All	Occupied	Unoccupied (empty)		
Croatia	2,391,944	2,028,725	1,433,445	595,280	1,436,862	29
Zagreb	395,334	384,811	300,194	84,617	300,540	22
Split	83,694	77,504	59,971	17,533	60,044	23
Rijeka	63,360	61,636	47,826	13,810	47,917	22
Zadar	45,217	38,872	26,744	12,128	26,780	31
Osijek	51,710	51,087	39,192	11,895	39,238	23

Source: Author's production based on the data from Census 2021

The numbers are greater when the total number of apartments is observed. The National Plan for Housing Policy of the Republic of Croatia until 2030 found that around 40 percent of the total housing stock of Croatia is not used for housing but for other purposes – unoccupied housing units, tourism, business, etc. (958,000 housing units in total).³⁴

To get a better picture of the volume of unused/vacant housing units in Croatia, the numbers provided above can be compared to OECD countries. The OECD Affordable Housing Database³⁵ shows that the largest shares of vacant homes (when seasonal and holiday/vacation housing units are excluded) are in Spain, Japan, and Portugal, ranging from 12 to 15 percent of the total housing stock. When seasonal and holiday apartments are included, the highest shares are in Portugal, Malta, and Spain, in the range of around 23 percent (which compares to Croatia's 40 percent).

With over 600 dwellings per 1,000 inhabitants, Croatia is second only to Bulgaria among all countries considered in the analysis. The EU average is 517 dwellings per 1,000 inhabitants, and the OECD average is 468 dwellings. In the EU, the numbers are generally highest in countries with strong tourism sectors such as Italy, Greece, France, Portugal or Spain. Some of the Eastern European, former socialist countries are also at the top of the list – Poland, Latvia, and Estonia. All of these however have a lower number of dwellings per 1,000 inhabitants than Croatia.³⁶

The shares of units that are not used for housing significantly differ in different regions of the country. The National Plan for Housing Policy provides an overview of the share of housing units that are not used for housing, on the level of Counties. The largest shares are in the coastal areas, where close to or well above 45 percent of all housing units are not used for housing. The smallest shares are in the City of Zagreb.

³⁴ Ministry of Physical Planning, Construction and State Assets 2024. *Draft National Plan for Housing Policy of the Republic of Croatia until 2030*, presentation. Available at: <https://mpgi.gov.hr/o-ministarstvu/djelokrug-50/programi-stambenog-zbrinjavanja/nacionalni-plan-stambene-politike/17852>

³⁵ OECD Affordable Housing Database, HM 1.1. Housing Stock and Construction. https://webfs.oecd.org/Els-com/Affordable_Housing_Database/HM1-1-Housing-stock-and-construction.pdf

³⁶ Ibid. HM 1.1.1 Dwellings per thousand inhabitants.

Map of Croatia showing the percentage of the population in the 15-64 age group by county. The map uses a blue color scale where darker shades represent higher percentages. The highest percentage is in Dubrovnik-Neretva County (66.4%), followed by Dalmatian Region counties (51.5%, 47.3%, 61.9%, 63.9%). The lowest percentage is in Istria County (25.0%).

County	Percentage (%)
Istria	25.0
Primorsko-Gorski Kotar	39.1
Lika	24.1
Međimurje	31.5
Baranja	30.3
Vukovar-Srijem	28.7
Osijek-Baranja	29.7
Šibenik-Knin	38.6
Zadar	40.9
Varaždin	33.9
Krapina-Zagorje	33.1
Karlovac	40.3
Primorje-Gorski Kotar	28.1
Dalmatian Region	51.5, 47.3, 61.9, 63.9
Dubrovnik-Neretva	66.4
Split-Dalmatian	46.4
Macar	44.8

<https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=29450>

Data on households and housing units at the level of urban districts of Zagreb are available only in the preliminary results of Census 2021, therefore there are slight differences in the total numbers of apartments and households from the numbers presented previously in the report. There is no data on empty housing units at the level of urban districts available, so in this analysis, the housing surplus in different urban districts is determined as the difference in the total number of housing units for permanent residence and the total number of households.

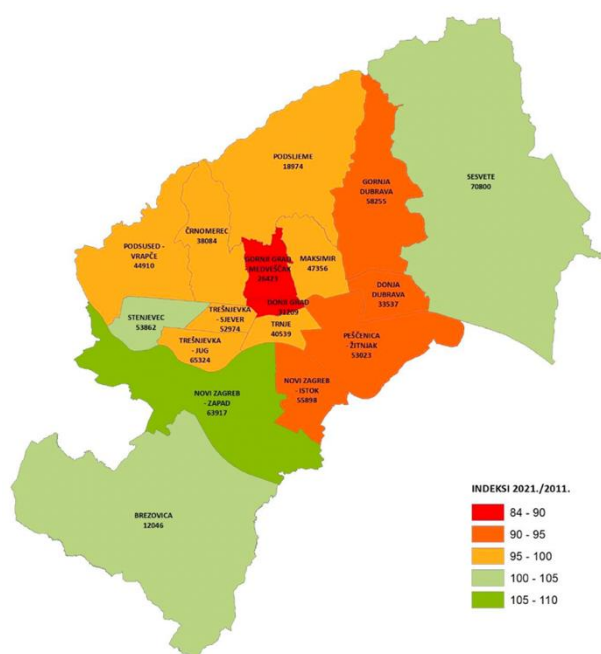

Habitat for Humanity® | Empty Spaces to Homes

Overall, there are 21.5 percent more housing units for permanent residence than households in Zagreb. The total number of housing units for permanent residence, according to the census methodology, excludes those units that are used occasionally, for vacation, or only for business.

The largest decline in the population happened in the two most central districts, Donji Grad (-15.7 percent) and Gornji Grad – Medveščak (-14.7 percent). In these two districts, the surplus of housing units is the largest, 29.34 and 26.90 respectively.

The largest population growth happened in Novi Zagreb – Zapad district, a 10 percent increase. Despite the population growth, the district still has over 20 percent more housing units than households. Since it is among the largest districts of Zagreb, the total surplus of apartments is also large, with over 6,000 housing units.

Figure 12: Counties in Zagreb, changes in population numbers from 2011 to 2021 (map – green: population growth, red: population decline), and numbers of apartments and households (table below).



District of Zagreb	No. of Households 2021	No. of dwellings for permanent habitation 2021	Difference between no. of dwellings and no. of households (%) in 2021	Population change 2011 to 2021 (%)
Brezovica	3,467	4,094	15.32	0.1
Črnomerec	15,026	19,677	23.64	-1.2
Donja Dubrava	11,268	13,375	15.75	-7.8
Donji Grad	14,502	20,523	29.34	-15.7
Gornja Dubrava	20,351	26,475	23.13	-5.8
Gornji Grad - Medveščak	11,186	15,302	26.90	-14.7
Maksimir	18,575	23,648	21.45	-3.2
Novi Zagreb - istok	24,764	30,190	17.97	-5.3
Novi Zagreb - zapad	24,205	30,489	20.61	10.0
Peščenica - Žitnjak	21,075	27,695	23.90	-6.1
Podsljeme	6,356	8,307	23.49	-1.0
Podsused - Vrapče	16,513	20,025	17.54	-1.9
Sesvete	22,428	27,582	18.69	1.1
Stenjevec	21,026	25,758	18.37	4.8
Trešnjevka - jug	28,149	35,382	20.44	-2.0
Trešnjevka - sjever	23,474	30,645	23.40	-4.4
Trnje	18,285	23,759	23.04	-4

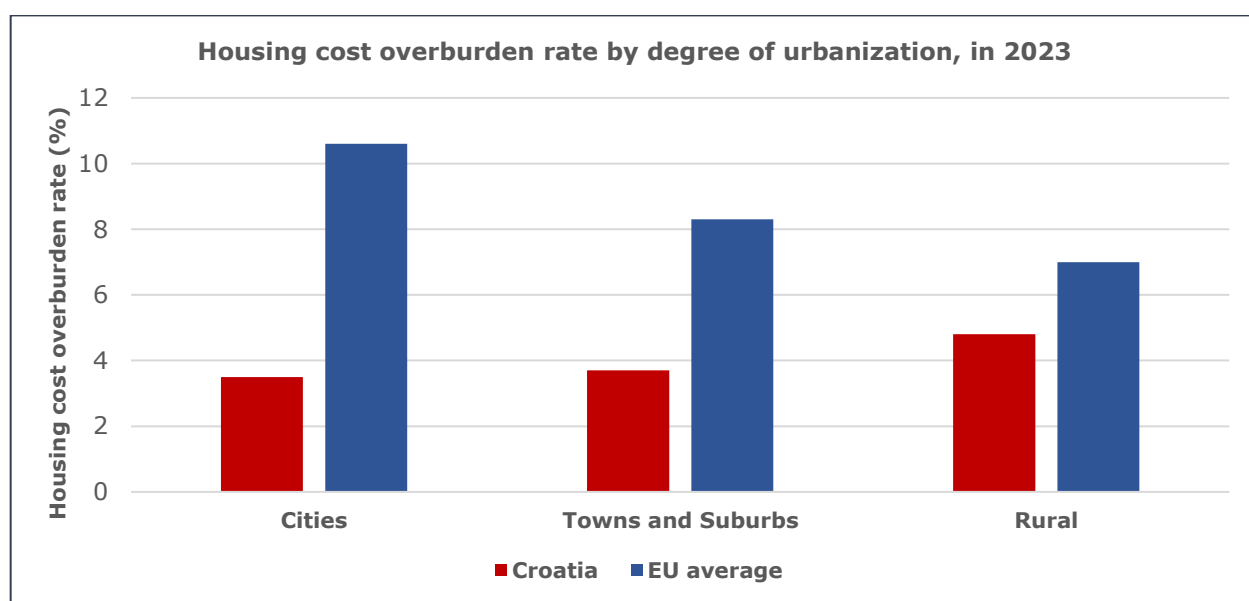
Source: Figure – City of Zagreb, Final results of Census 2021. Table – Croatian Bureau of Statistics, preliminary Census results.

4.2 Housing Affordability

The housing cost overburden rate (the share of the population living in a household where total housing costs represent more than 40 percent of disposable income) in Croatia is relatively small - at 4.0 percent in 2023, it was among the smallest in the EU, with only Slovenia (3.7 percent) and Cyprus (2.6 percent) having lower housing cost overburden rates.

Interestingly, housing overburden rates are smaller in cities than in rural areas, which is the trend opposite from the majority of EU countries. For 2023, the housing cost overburden rate by degree of urbanization in Croatia was: cities 3.5 percent, towns and suburbs 3.7 percent, and rural areas 4.8 percent. Among the EU states, the housing cost overburden rate in cities was lower only in Cyprus (3.4 percent), while at the level of the EU, it was 10.6 percent.³⁷

Figure 13: Housing cost overburden rates in Croatia and the EU, by degree of urbanization, for 2023



Source: EU-SILC survey

The main reason that the housing cost overburden rates are low in Croatia can be the high homeownership rate without outstanding mortgages or loans. This means that, for the great majority of the total population, housing costs do not include rent or mortgage installments.

For those who do not outright own an apartment, the housing costs are however much higher. When the population that is renting on the market is observed, the housing cost overburden rate in Croatia is high compared to other EU countries – 38.3 percent, compared to the EU average of 20.3 percent.³⁸

³⁷ Eurostat, 2023. EU-SILC survey.

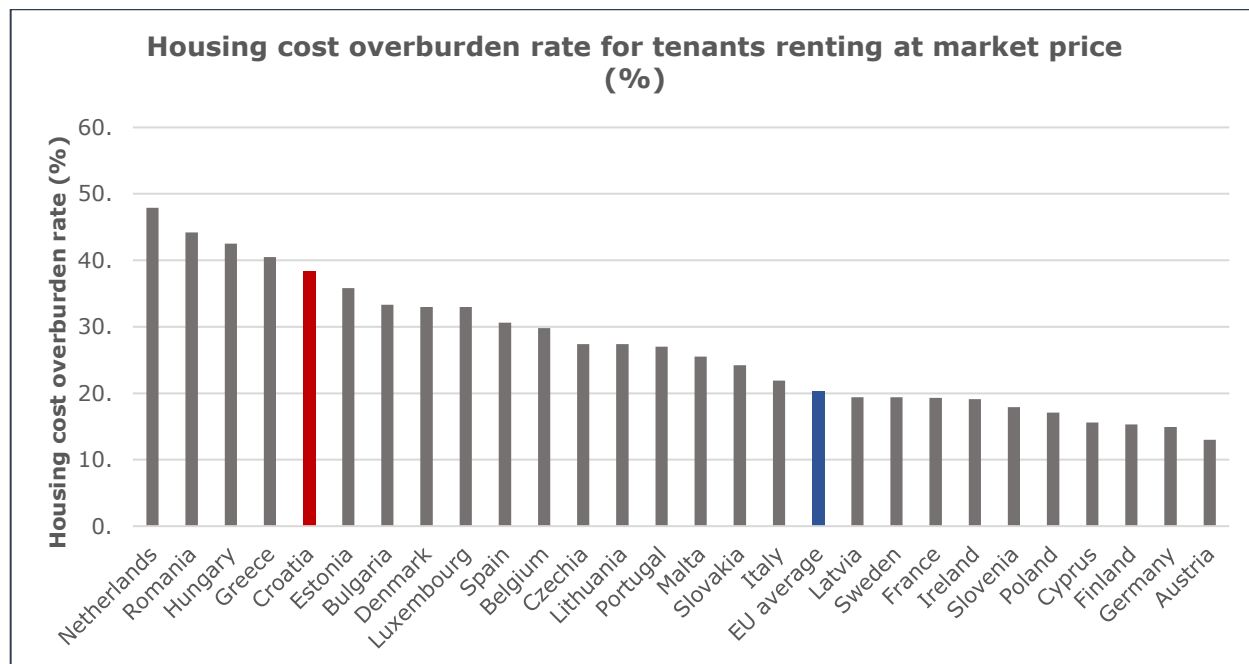
<https://ec.europa.eu/eurostat/databrowser/view/tessi165/default/table?lang=en>

³⁸ Eurostat - Housing cost overburden rate by tenure status.

https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho07c__custom_14798816/default/table?lang=en

For those families that have a mortgage, despite relatively low mortgage rates, the financial burden of the mortgage is among the highest in the EU.³⁹

Figure 14: Housing cost overburden rates for tenants renting at market price for EU countries and Croatia, for 2023.



Source: Author's production based on the Eurostat – housing cost overburden rates by tenure status

4.3 Overcrowding

According to the analysis done by the IMF,⁴⁰ an additional reason for low housing cost overburden rates in Croatia may be housing overcrowding. The overcrowding results in housing costs being divided among the higher number of persons in the household, thus making Croatia's housing overburden rates only apparently lower than the EU average.

According to Eurostat data, overcrowding rates in Croatia are among the highest in the EU⁴¹ and the available housing space per person (an average number of rooms per person) is among the smallest in the EU. In Croatia, the average is 1.2 rooms per person, while the EU average is 1.6, and only in Poland the average is smaller than in Croatia (1.1 rooms per person).⁴² The average household size in 2023 in Croatia was 2.7 persons. Among the EU countries, only Slovakia (3.1) and Poland (2.9) have larger average household sizes. The EU average household size is 2.3 persons.⁴³

³⁹ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*. (p. 36)

⁴⁰ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*. (pp 35-36)

⁴¹ Eurostat - Overcrowding by age, sex and property status:

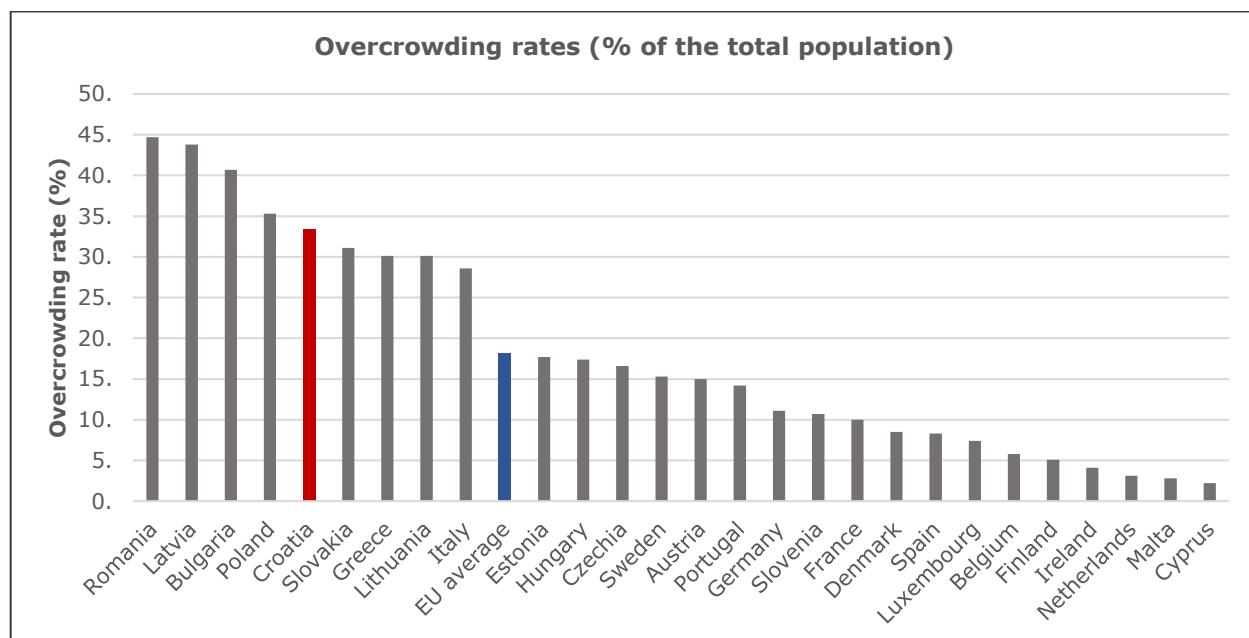
https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho06/default/table?lang=en&category=livcon.ilc.ilc_lv.ilc_lvho.ilc_lvho_or

⁴² Eurostat - Average number of rooms per person:

https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho03__custom_14798956/default/table?lang=en

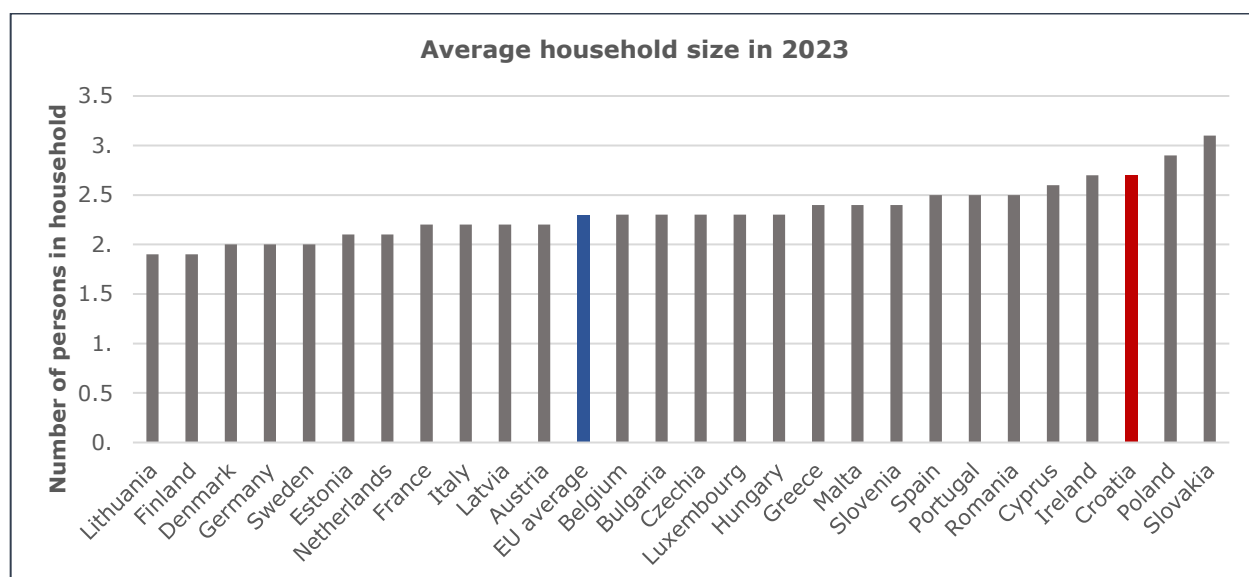
⁴³ Eurostat – Average household size:

Figure 15: Share of the total population living in overcrowded units, in EU countries and Croatia, in 2023



Source: Eurostat

Figure 16: Average household size in EU countries and Croatia in 2023



Source: Eurostat

The main reason for overcrowding of housing units is seen in the young population staying in the same home with their parents longer than in other EU countries, due to being unable to afford to rent or buy an apartment. Purchase is however unaffordable to the great majority of households, as low and middle-income households have great difficulties in saving for housing purchases. Young and those with low incomes and unstable employment are effectively excluded from ownership.

https://ec.europa.eu/eurostat/databrowser/view/ilc_lvph01/default/table?lang=en&category=livcon.ilc.ilc_lv.ilc_lvp

As a consequence, a growing number of young people, between 25 and 34 years of age, still live in their parents' homes. According to the official statistical data, 62.4 percent of people in this age group live in a parental home, while in the case of young men, this percentage is even higher and amounts to 74.6 percent. Most of these young people are employed on a full-time basis and still cannot afford to leave their parents' homes.⁴⁴

4.4 Suburbanization

As mentioned in Chapter 2, the data on population changes from 2011 to 2021 disaggregated on the level of 1 km² grid cells reveals that in the cities in Croatia, the population in central areas and historic urban cores is declining, and the growth occurs in peri-urban and suburban areas, often in the wider metropolitan areas of the city, outside of city administrative boundaries.⁴⁵ The majority of spatial expansion of cities, and the growth of built-up areas since 2000 also happened in these, peri-urban and suburban areas where the population numbers are increasing.

Suburbanization combined with population decline in cities results in low population densities, conversion of agricultural land and nature to urban land, and sprawling. The World Bank's report from 2019 found that population densities in the cities in Western Balkans and Croatia are among the lowest in the world, next only to the cities in North America, whose cities are known for sprawl.⁴⁶ This indicates very inefficient urban development policies and urban land management.

Aside from urban planning and land policies, housing policies are among the key drivers for suburbanization in Croatian cities. The lack of affordable housing in cities and absence of the government-subsidized housing, combined with growing market prices and competition from the short-term rental sector, push low and middle-income households out of central parts of cities into peri-urban and suburban areas.

There is evidence in the literature that a significant part of the spatial expansion of cities in Croatia consists of informal construction.⁴⁷ There is no precise mapping of locations of informally constructed buildings in Croatia. Based on the *Law on the treatment of illegally constructed buildings*, from 2011 to 2018 almost 900,000 legalization requests were submitted in total, out of which over 100,000 in the city of Zagreb itself. At the national level, about 21 percent of people and around 60 percent of households in Croatia have submitted a legalization request.⁴⁸

⁴⁴ All according to: Marčetić, 2021. (p. 171)

⁴⁵ Eurostat, Population and housing census 2021 –population grids. Interactive map available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_and_housing_census_2021_-_population_grids

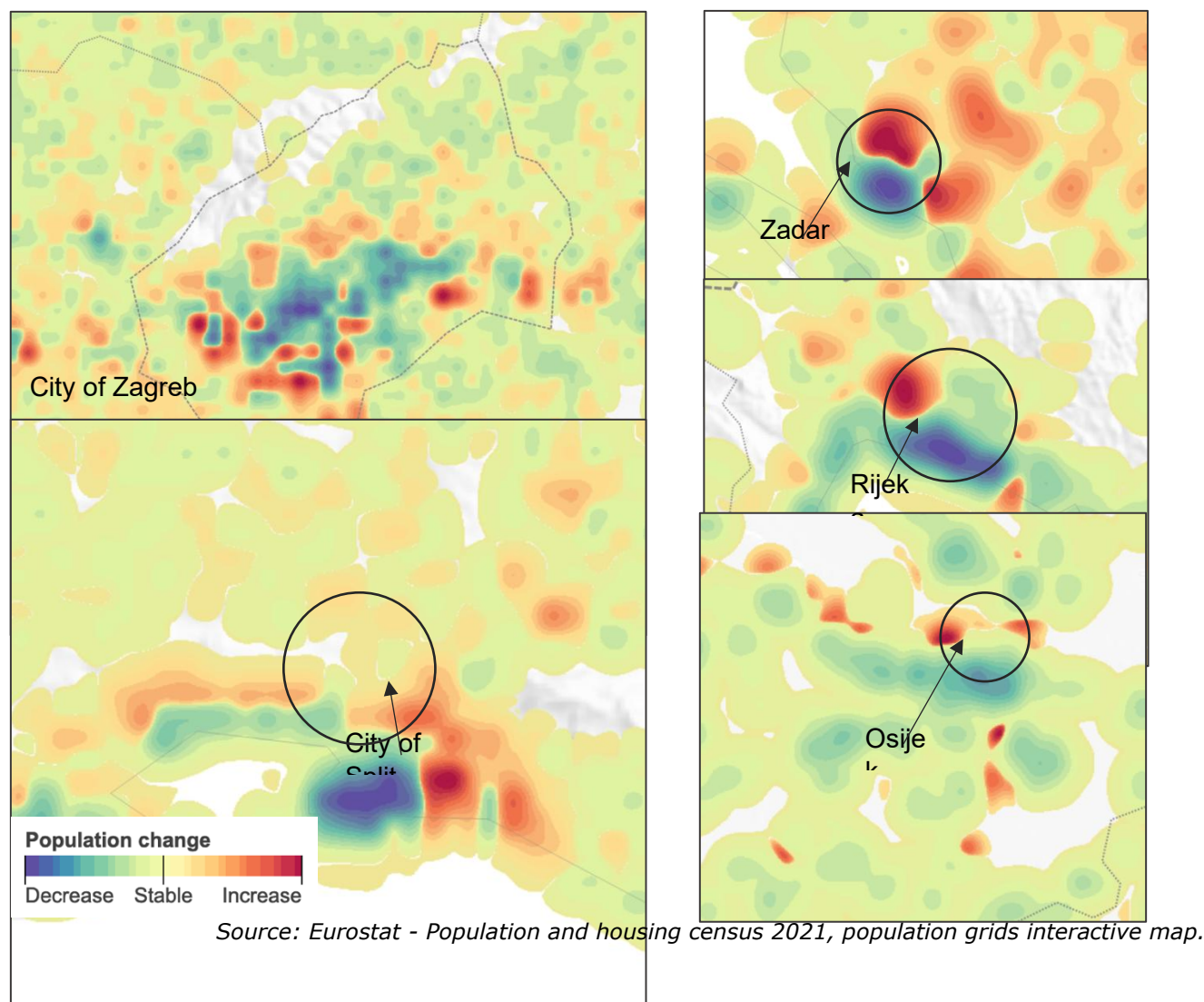
⁴⁶ The World Bank Group 2019. *Western Balkans and Croatia: Urbanization and territorial Review*.

⁴⁷ KaturiĆ, I. 2016. *Informal Housing in the Framework of Housing and Welfare Systems in Post-Communist Croatia*. PhD thesis, Università Degli Studi di Milano Bicocca.

⁴⁸ Šaban, S. and Haburn, S. 2019. *Urban renewal of areas of illegal construction in the Republic of Croatia*. Available at:

https://www.researchgate.net/publication/338914592_Urban_renewal_of_areas_of_illegal_construction_in_the_Republic_of_Croatia_Urbana_sanacija_podrucja_nezakonite_gradnje_u_Hrvatskoj

Figure 17: Suburbanization in the five largest cities in Croatia - Zagreb, Split, Zadar, Rijeka and Osijek, population changes from 2011 to 2021 based on the 1 km² population grid cells.



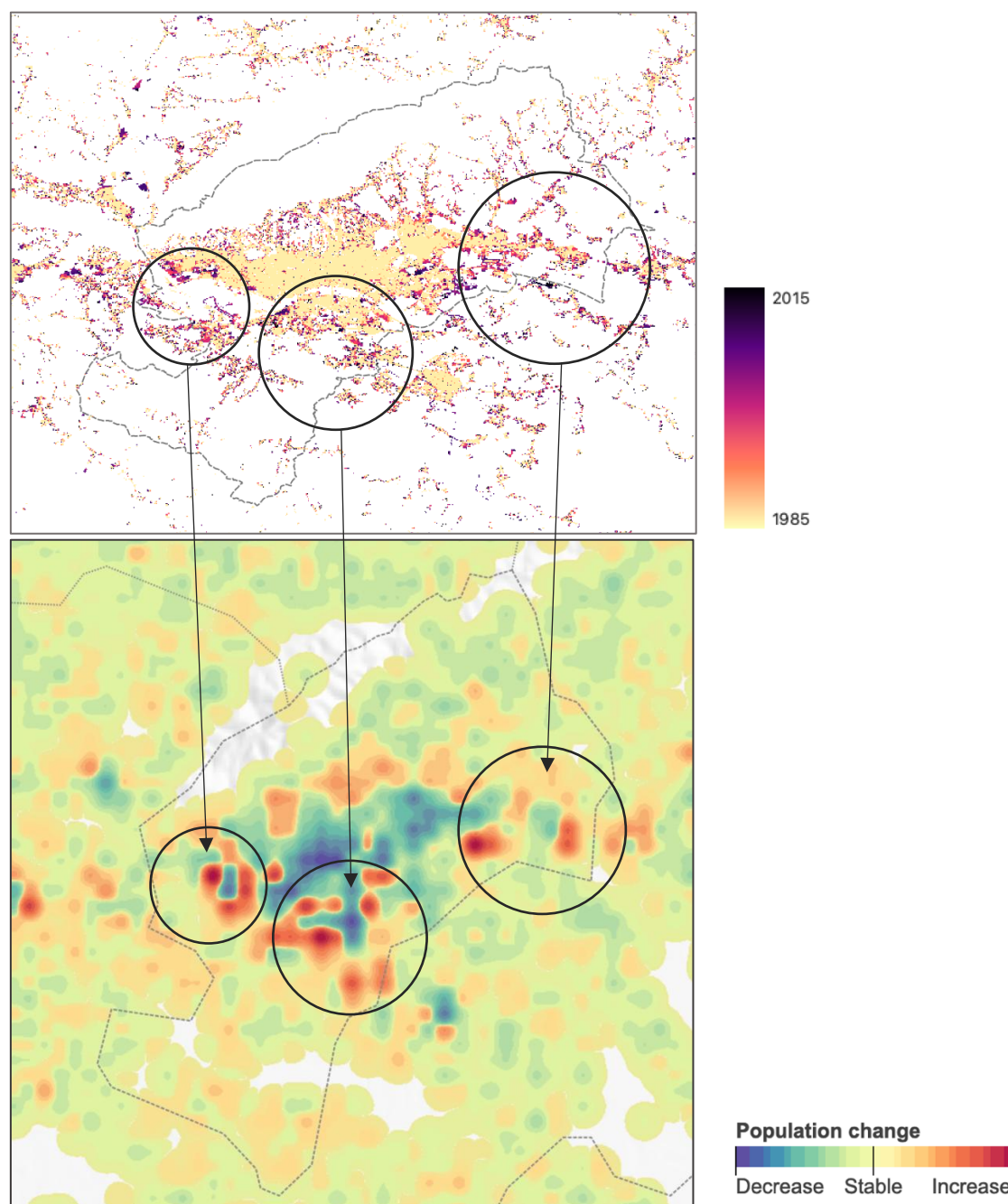
Suburbanization in Zagreb

The data disseminated at the 1km² population grid cells shows suburbanization in Zagreb more precisely than the data at the level of urban districts presented previously. The “ring” of peri-urban and suburban zones where the population numbers are growing, around the shrinking central areas is clearly noticeable. In these zones, the built-up area expansion has also been the most intensive in the last 20 years, especially in the East, South, and West of the city.

In Zagreb, suburbanization is fostered not only by high prices for the purchase of apartments but by the rental housing sector as well. Marčetić (2021) describes how Airbnb affected the geographic distribution of affordable rental housing, where apartments for long-term rent at prices that fit affordability criteria were possible to find only in the East, South, and West suburbs of the city, while in the central city districts prices were well above the affordability range. Additionally, in the central city districts, the offer of long-term rentals was vastly outnumbered by short-term rentals for tourists.⁴⁹

⁴⁹ Marčetić, 2021. pp. 107-171

Figure 18: Evolution of built-up area in Zagreb from 1985 to 2015 (upper picture), and population changes from 2011 to 2021 (lower picture).



Source: World Settlement Footprint (WSF) Evolution - Built-up area evolution; Eurostat, Population and housing census 2021 –population grids interactive map.

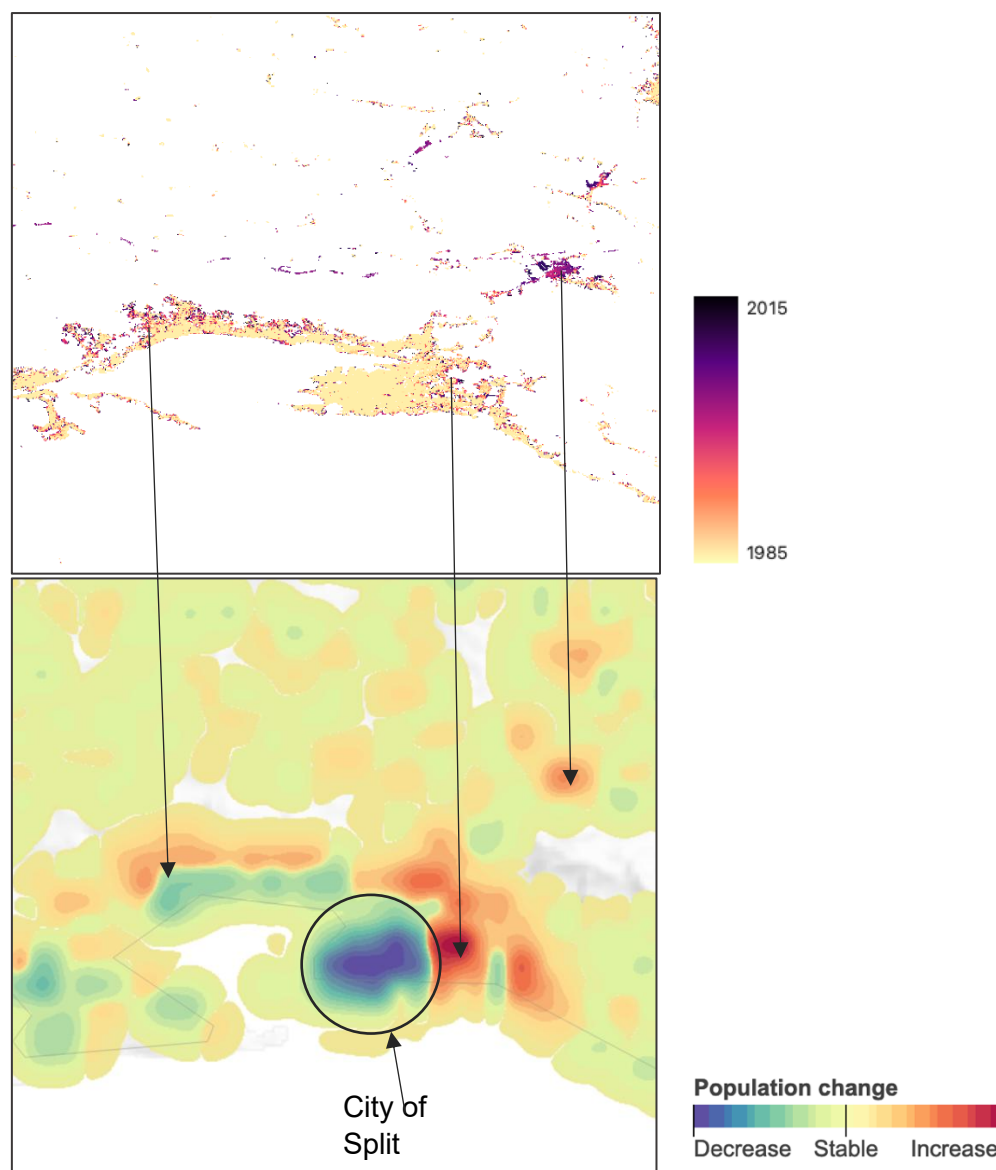
Suburbanization in Split

The example of Split urban agglomeration shows that, in the last two decades, the population in the city has decreased and settlements around the city, out of the city's administrative boundaries, saw a population increase. The majority of built-up area growth in the settlements surrounding Split is of newer

origin, since 2000, and according to the research by KaturiĆ (2016), a significant share of the new expansion happened through informal/illegal construction.⁵⁰

According to the same research, until July 2016 over 82,000 legalization requests were submitted in Split-Dalmatia County, which is the second largest number in Croatia, after the City of Zagreb. In the City of Split alone, over 13,000 legalization requests were submitted. The actual number of illegal buildings was much higher, as at the same time, building inspection issued around 31,000 requests for the demolition of illegal objects. About two-thirds of the buildings for which legalization requests were submitted were housing buildings. The majority of illegal buildings are located in settlements around the city of Split, as the built-up area is sprawling along the coast, and inland.

Figure 19: Evolution of built-up area in Split from 1985 to 2015 (upper picture), and population changes from 2011 to 2021 (lower picture).



Source: World Settlement Footprint (WSF) and Eurostat.

⁵⁰ KaturiĆ, I. 2016. *Informal Housing in the Framework of Housing and Welfare Systems in Post-Communist Croatia*. PhD thesis, Università Degli Studi di Milano Bicocca.

4.5 Quality of Housing Units

In general, the quality of housing units in Croatia is higher than in the EU and countries in the Central and Eastern Europe region. Eurostat collects data on housing deprivation in Europe, based on which in 2023, 5.6 percent of Croatia's population experienced housing deprivation,⁵¹ while in the EU the percentage was 15.5.

When a share of the population that lives in severe housing deprivation⁵² is observed, Croatia is slightly above the EU average. In 2023, 5.1 percent of the population in Croatia lived in severe housing deprivation, while the EU average was 4.3 percent.

However, when the data on severe housing deprivation is disaggregated by different categories, it is noticeable that certain categories of the population specifically experience housing quality issues, namely those living in suburbs and those that are not outright owners (those that rent on the market, and owners with mortgage or loan).

For example, when disaggregated by the degree of urbanization, it can be noticed that the highest share of the population living in severe housing deprivation is in towns and suburbs. While the share in cities is below the EU average, and in rural areas same as the EU average, in towns and suburbs the share in Croatia is 5.6 percent, while the EU average is 3.4 percent. It can be assumed that the lower quality of housing units in the suburbs and towns category is due to the great majority of informally constructed buildings in Croatia being located in the suburbs.

When the data on severe housing deprivation is disaggregated based on the tenure status of the population, it is noticeable that the highest percentage of people living in severe housing deprivation is among those that rent on the market – 9.8 percent, compared to the EU average of 5.8 percent. The severe housing deprivation is also high in the owners with mortgage or loan category, 3.4 percent compared to the EU average of 1.6 percent.

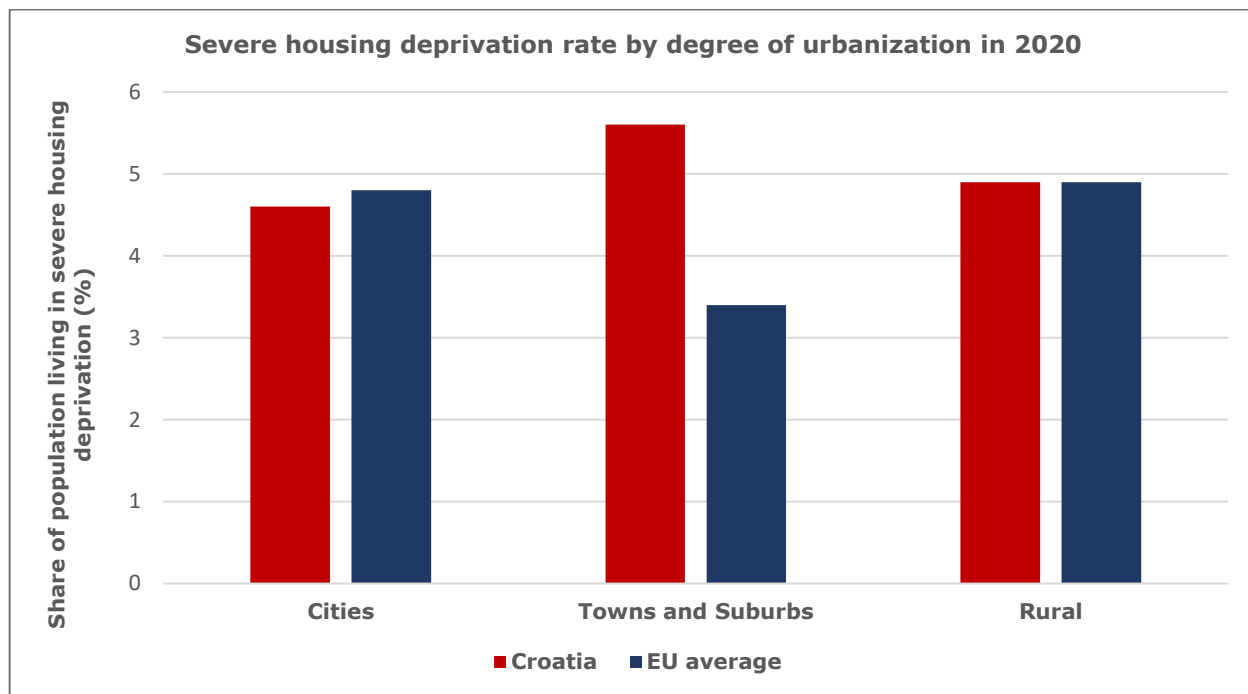
As seen in the previous chapter, suburbs of cities are locations in which population numbers are growing in Croatia. Due to the lack of affordable housing options, families are moving to (often informal) suburbs where the prices are more affordable but the quality of housing and services is lower than in central areas of cities.

⁵¹ Dwellings with a leaking roof, damp walls, floors or foundation, or rot in window frames or floor. Eurostat database:

https://ec.europa.eu/eurostat/databrowser/view/ilc_mdho01/default/table?lang=en&category=livcon.ilc.ilc_md.ilc_mdho

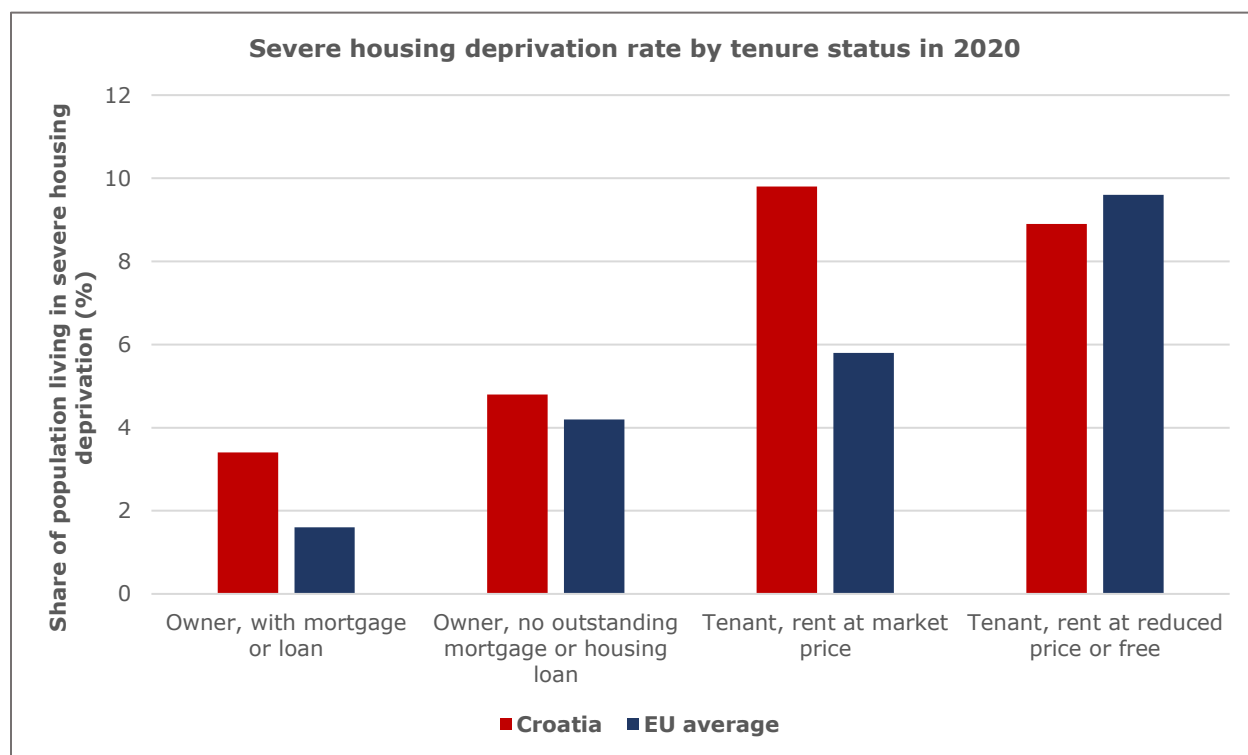
⁵² Eurostat defines severe housing deprivation rate as the percentage of population living in the dwelling which is considered as overcrowded, while also exhibiting at least one of the housing deprivation features: leaking roof, no bath/shower and no indoor toilet, or a dwelling considered too dark.

Figure 20: Severe housing deprivation rates in Croatia and the EU by degree of urbanization, in 2020.



Source: Eurostat

Figure 21: Severe housing deprivation rates in Croatia and the EU, by tenure status, in 2020.



Source: Eurostat

The energy efficiency of housing in Croatia compares less well with the EU peers, contributing to relatively high rates of energy poverty.⁵³ According to the Long-term Strategy of Renewal of the National Building Stock until 2050,⁵⁴ 30 percent of multistory housing buildings in coastal and 34 percent in continental areas of Croatia are classified as buildings with the poorest properties,⁵⁵ as well as 33 percent of family houses in coastal and 57 percent in continental regions. These buildings provide low-quality housing and high costs of non-energy-related maintenance and renewal. Aside low energy efficiency of such buildings, an additional problem is the danger of energy poverty⁵⁶ as low energy efficiency of buildings increases the costs of housing through high costs of maintenance and high energy prices for the owners.

Energy efficiency and engineering robustness of housing buildings vary considerably with the age of the building. Broken by the year of construction, the biggest number of occupied apartments were built in the period between 1971 and 1980, one-fifth of all apartments. These older buildings, and especially those built before the 1950s, do not meet mandatory energy efficiency standards. Earthquakes from 2020 additionally affected the old buildings. Compliance with the EU rules on energy efficiency may further increase construction costs and administrative burdens on the supply of residential structures, thus further reducing the affordability of housing. Price differentiation is already seen between new, energy-efficient dwellings and older ones.⁵⁷

4.6 Low Residential and Labor Mobility

Croatia has very low residential mobility, with only 5 percent of the population having relocated in the previous five years. IMF report concluded that the low residential and labor mobility is a result of housing prices. As house prices are very different across regions, and coastal regions seeing an increase in prices due to the tourist rentals, it became unaffordable to lower-income individuals from inland regions to move to coastal areas where jobs are available. Homeowners in inland regions with lower housing prices remain “locked” in their places of residence, as the value of their property is too low to enable purchasing a new home in regions with more jobs. Therefore, unaffordability of housing impedes labor mobility, sustainable economic development, and social cohesion.⁵⁸

4.7 Conclusions

Croatia has a large share of housing units that are not used for housing, and a significant share of vacant housing units. The number of existing apartments per 1,000 inhabitants is among the highest in the OECD countries and in the EU.

⁵³ International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*. (p. 37)

⁵⁴ The Ministry of Physical Planning, Construction and State Assets, 2020. *Dugoročna strategija obnove nacionalnog fonda zgrada do 2050*. Available at: https://mpgi.gov.hr/UserDocImages/dokumenti/EnergetskaUcinkovitost/DSO_14.12.2020.pdf

⁵⁵ According to the *Long-term Strategy of Renewal of National Building Stock until 2050*, buildings with the poorest properties (*zgrade sa najlošijim svojstvima*) are defined as those that do not comply to minimal requirements of mechanical resistance and stability, fire protection or protection of health.

⁵⁶ The Ministry of Physical Planning, Construction and State Assets, 2020. *Dugoročna strategija obnove nacionalnog fonda zgrada do 2050*. pp. 58-59.

⁵⁷ Whole paragraph according to: International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*.

⁵⁸ All according to: International Monetary Fund 2024. *Addressing Housing Affordability in Croatia*.

Although there is a significant surplus of housing units, there are signs that those housing units that are inhabited are overcrowded. The young and those with low incomes and unstable employment are effectively excluded from ownership. A large percentage of young people live with their parents.

The offer of long-term rental apartments is limited due to the competition from short-term tourist rentals, so prices of renting on the market are unaffordable.

There are indications of significant inequalities in housing affordability in Croatia. In general, the housing cost overburden rate in Croatia is among the lowest in the EU. However, for those who do not outright own an apartment- e.g., people who rent on the market and those with housing mortgages, housing overburden rates are among the highest in the EU. This is especially true for the young population.

In the largest cities, shares of empty housing units are similar to the national level. A result of unaffordable housing in cities is suburbanization. Pressured by high purchase or rental prices on the market, families are moving to peri-urban and suburban areas which are more affordable.

The quality of housing units is uneven for different groups of the population. The statistics on housing deprivation show that the highest shares of people living in severely deprived housing conditions are in towns and suburban areas (which are areas where informal construction is intensive), and among those who rent apartments.

As a result of housing unaffordability, residential and labor mobility in Croatia is very low, among the lowest in the EU, which impedes sustainable economic development and social cohesion.

5 Housing Policy and Institutional Framework

In its first part, this chapter provides an overview of the existing institutional framework relevant to housing policy. Roles of relevant ministries at the national level, as well as regional and local governments in the area of housing policy, are explained, as well as some of the relevant non-public actors.

In the second part, an overview of the most relevant housing programmes that are ongoing in Croatia is provided. In this part, an overview of the existing experiences in the utilization of vacant or underused housing units is provided, as well as the draft National Housing Policy Plan, that perceives activities and measures to utilize vacant apartments.

5.1 Institutional Framework

Housing policy in Croatia operates within a multi-level framework, with responsibilities distributed across national, regional, and local levels. At the national level, the housing agenda is guided by key ministries that provide direction and oversee major programs, including initiatives to improve housing affordability, support veterans, and assist citizens with housing loans.

Among these, the Ministry of Physical Planning, Construction, and State Assets plays a pivotal role, as defined by the Law on the Structure and Scope of State Administration Bodies. This ministry is tasked with administrative and operational responsibilities related to physical planning, construction, and housing.⁵⁹

One of the flagship initiatives of the Ministry is the Programme of State-Subsidized Housing Construction (POS Programme), designed to offer subsidized housing solutions tailored to individual needs based on financial situations, age, and family size. The implementation of this program is managed by the Agency for Transactions and Mediation in Immovable Properties (APN), which oversees the transactions and overall execution. Additionally, the Ministry addresses the needs of war veterans and administers government subsidies and guarantees for housing loans.

Complementing this is the Ministry of Social Welfare Policy and Youth, which focuses on housing solutions for vulnerable groups, including the elderly.⁶⁰ Through its framework, it provides both long-term and short-term housing options and other tailored services to meet the specific needs of these populations.⁶¹

Croatia's 20 counties and the City of Zagreb coordinate governance at the regional level. Counties are independent self-governing units responsible for regional tasks, operating autonomously from the state

⁵⁹ Jakopič, A. and Žnidarec, M. 2015. *Tenancy Law and Housing Policy in Multi-level Europe: National Report for Croatia*.

⁶⁰ Jakopič, A. and Žnidarec, M. 2015. *Tenancy Law and Housing Policy in Multi-level Europe: National Report for Croatia*

⁶¹ The Ministry of Labor, Pension System, Family and Social Policy, 2021. <https://mrosp.gov.hr/glavni-izbornik-6008/highlights-7158/your-europe/social-policy/rights-and-conditions-for-moving-to-a-residential-care-home/12151>

in terms of organization and staffing. This structure ensures that governance responsibilities are effectively decentralized while maintaining alignment with national goals.⁶²

At the local level, LSGs (municipalities and cities) address housing issues more directly, managing the day-to-day governance and responding to the needs of their populations. Municipality LSGs primarily serve rural areas, while City LSGs focus on urban areas, with Zagreb uniquely serving both local and regional functions. With 429 municipalities and 126 cities, 15 of which have populations exceeding 35,000, these governance units form the backbone of localized housing management. They operate under the Law on Local and Regional Self-Government, which sets out their general responsibilities, and under the sectoral laws which provide detailed descriptions of specific tasks. Additionally, some state-level functions are implemented locally or regionally to ensure proximity to citizens.⁶³

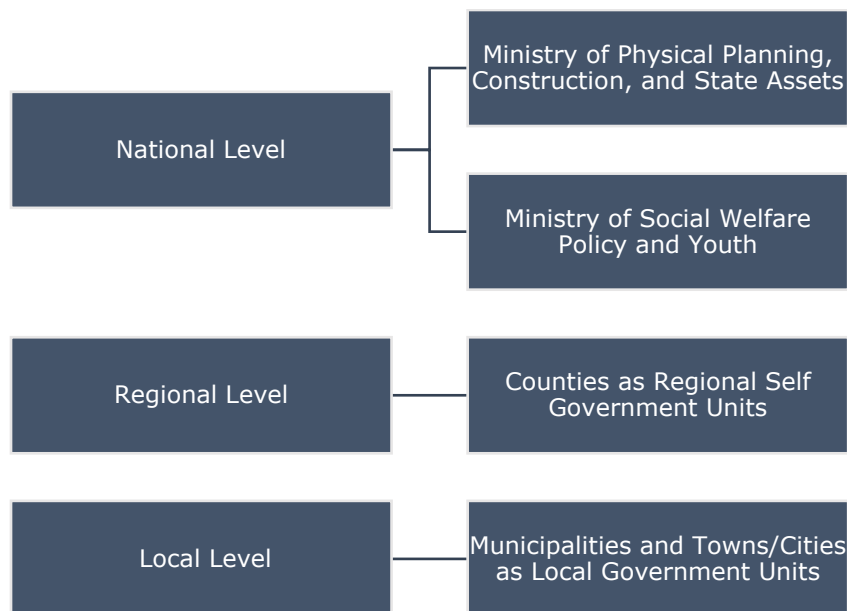
In the City of Zagreb, the Department of Housing and Housing Provision, staffed by 18 employees, handles a range of responsibilities. These include legal matters, housing allocation, collaboration with social welfare programs, and the reconstruction of buildings damaged by earthquakes. The department oversees all tasks related to housing provision through public programs, except those involving loan subsidies.⁶⁴

⁶² Jakopič, A. and Žnidarec, M. 2015. *Tenancy Law and Housing Policy in Multi-level Europe: National Report for Croatia*

⁶³ Ibid.

⁶⁴ Marčetić, I. 2021. *Housing Policies in the Service of (In)Equality*.

Figure 22: Institutional housing policy framework in Croatia.



Source: Author's production based on Jakopič, A. and Žnidarec, M. 2015.

5.2 Non-Public Actors

Cooperative for Ethical Financing (ZEF) is a non-profit organization dedicated to pioneering innovative and sustainable business models. Its key initiatives include establishing Croatia's first ethical bank, launching a green electricity supply, and introducing fintech solutions. ZEF operates as a member-driven cooperative, where members are co-owners and actively participate in governance and decision-making. Members are organized into regions or sections based on location or specialization, allowing them to contribute to specific programs and policies. ZEF provides its members access to the internal market for trading goods and services, a knowledge and skills exchange platform, business and financial consulting, and support for applying for EU and other project funding opportunities.⁶⁵

The Ethical Bank will serve both individuals and organizations, offering funding for projects that meet criteria for financial sustainability, ecology, and social impact. Its investment focus includes organic agriculture, renewable energy, small and medium-sized enterprises in production, processing, and services, digitalization, new technologies, social entrepreneurship, and support for beginner entrepreneurs. For individuals, the bank will provide favorable credit programs for essential needs like purchasing and adapting real estate, buying household appliances or vehicles, and covering education and healthcare expenses. However, it will not offer non-purpose consumer loans or allow overdrafts on accounts.⁶⁶

MOBA Housing SCE (European Cooperative Society) is a network of pioneering housing cooperatives from Croatia (Cooperative Open Architecture), Czechia, Hungary, Serbia, and Slovenia,

⁶⁵ ZEF, 2024. <https://www.zef.hr/en/o-nama/o-zef-u>

⁶⁶ Ibid.

with long-term support from the *Cooperative for Ethical Financing (ZEF)*, urbaMonde, and World Habitat. The cooperatives address similar challenges related to housing access and affordability in their cities and have developed a shared approach based on the cooperative model. In 2017, they joined forces and began meeting regularly to build a pool of expertise, capacities, and financial instruments needed to launch pilot projects in the SCE region. Since 2020, under Croatian jurisdiction, the network has been incorporated as a European Cooperative Society (SCE).⁶⁷

MOBA aims to establish itself as a regional financial platform supporting the development of rental-based and limited-equity housing cooperatives. It was created to address significant obstacles, particularly the absence of tailored financial solutions for emerging cooperative housing initiatives. The central tool driving MOBA's financial strategy is the MOBA Housing Finance Accelerator, which functions as a quasi-fund. It gathers resources through contributions, investments in shares, and potentially through issuing bonds. This structure enables the Accelerator to operate across the spectrum of impact investment. It supports MOBA members by providing short-term bridge financing, medium-term subordinated loans, and potentially equity investments once this option is sufficiently capitalized.⁶⁸

The MOBA Accelerator provides essential financial support to help startup housing cooperatives overcome initial investment challenges. In many MOBA countries, access to short-term bank loans is limited, and these loans can only finance a small portion of a project. Simultaneously, cooperatives and their members often struggle to provide significant equity contributions, with potential members of rental-based cooperative models having limited savings.⁶⁹

To bridge this gap, the MOBA Accelerator steps in to complement the cooperative's capital and smaller bank loans, covering the remaining financial needs. This support is temporary, as projects can later refinance through conventional loans once they demonstrate stable revenue streams. In the early stages, however, the Accelerator can finance a substantial portion of the required capital, potentially serving as the sole external funding source before transitioning to longer-term financing options. By gathering catalytic capital investments, the MOBA Accelerator positions itself as a regional financial intermediary supporting affordable rental and cooperative housing in the CSEE region.⁷⁰

In a cooperative housing model, real estate is collectively owned by the cooperative, which either purchases or constructs the property. The cooperative assumes credit responsibilities, enabling a more robust approach to managing financial risks. Membership in the cooperative provides individuals with stable, long-term access to housing units. Members contribute both financially, through monthly payments, and actively, by participating in the cooperative's operations and decisions. This structure ensures that monthly costs remain affordable, making all units sustainably accessible to their inhabitants.⁷¹

5.3 Existing Housing Programmes

The existing models of housing support are mostly focused on further encouraging homeownership through subsidized construction and bank loans, which makes homeownership more accessible but not

⁶⁷ MOBA, 2024. <https://moba.coop/>

⁶⁸ Pósfai, Z. et al, 2022. *Catalytic capital investment as an enabler of affordable rental and cooperative housing*.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ MOBA, 2024. <https://moba.coop/>

necessarily cheaper.⁷² Additionally, although some of the programmes of housing support have been ongoing since the early 2000s, the number of housing units they have produced is small compared to the total number of apartments in Croatia and could not affect the general affordability of housing.

The Ministry of Physical Planning, Construction, and State Assets has implemented the **Programme of State-Subsidized Housing Construction (*Program društveno poticane stanogradnje - POS*)** since 2001, when the first Act to regulate the programme came into effect (*the Act on Publicly Subsidized Housing*).

The programme consists of the public construction of housing units for sale at non-profit prices, to different groups of beneficiaries, through subsidized housing loans. Its financing relies on commercial bank loans, with 25 percent of investments provided from the state budget, and 75 percent from capital market loans.

This programme is the first publicly funded housing construction program in Croatia since the late 1980s that does not target any specific social group (such as war veterans, refugees, etc.) but is designed for a wide range of beneficiaries.⁷³ Close to 9,000 apartments have been built through the program so far, primarily providing housing solutions for families and individuals who currently live as protected tenants, those who are buying their first property, and those who do not have proper housing (e.g. live in the housing without proper communal infrastructure). The beneficiaries have to be creditworthy, as the purchase of apartments is done through subsidized loans from commercial banks.⁷⁴

The main critique of the programme that can be found in the literature is that it further incentivizes homeownership as the only solution to the housing issue, by providing subsidies to the beneficiaries to purchase apartments. This results in the creation of new private property that is not part of the public housing stock. Another critique of the programme is that it invests public resources into assisting social groups that can afford housing loans (middle-income families), neglecting those that cannot access such loans (mostly low-income families), which furthers inequality.⁷⁵

As is the case with many housing programmes that provide subsidized/non-profit sale of apartments elsewhere⁷⁶, a large number of the apartments built through the POS programme became a speculative asset in the secondary market, as after some time beneficiaries were renting or selling them at market rates. To prevent the abuse of the programme, the *Act on Publicly Subsidized Housing* was amended in 2019 to prevent the rent or sale of apartments that are not yet fully repaid.⁷⁷ The amendments also closely regulate in which situations and under which conditions beneficiaries can sell the apartment, so that the full level of subsidy is repaid when an apartment is sold.

Aside from POS, the Ministry implements the **model of housing loan subsidies for young people**. The model started in 2011 based on the *Law on Subsidizing and State Guarantees for Housing Loans*, which was updated in 2017. The *Law* enabled young families and individuals to solve their housing needs under credit terms that are more favorable than on the market, with assistance in repaying part

⁷² Marčetić, I. 2024.

⁷³ Ibid.

⁷⁴ The Ministry of Physical Planning, Construction, and State Assets. *POS - Program poticane stanogradnje*. <https://gov.hr/hr/pos-program-poticane-stanogradnje/1294>

⁷⁵ Marčetić, I. 2024.

⁷⁶ Sales at market prices of homes that were previously bought under non-profit conditions, are very often an outcome of non-profit sale housing programmes, for example: in the UK with the Right to Buy Scheme, in Singapore's HDB programmes, or South Africa's RDP Housing Scheme.

⁷⁷ The Ministry of Physical Planning, Construction, and State Assets. *POS - Program poticane stanogradnje*.

of the housing loan for a minimum of five years. The model aims at encouraging demographic renewal, urban regeneration of settlements, and reduction of the number of young families that are leaving the country, so a two-year extension of subsidies is provided to families for each child, and subsidies are higher for buying or building a home in rural areas than in cities. The model so far enabled over 35,000 families to obtain homes.⁷⁸

Existing Experiences with Utilization of Empty Spaces

Although limited, there are several projects focused on the utilization of existing properties for housing purposes in Croatia, implemented by both state and non-state actors, and focusing on both existing housing units and the conversion of empty spaces into housing.

The first example is the **project of buying existing apartments for the purpose of social housing, implemented within the Regional Housing Programme (RHP)**. RHP is a multi-year programme aimed at permanently addressing the housing needs of the most vulnerable categories of refugees and internally displaced persons, and is the result of a joint initiative of Bosnia and Herzegovina, the Republic of Croatia, Montenegro, and the Republic of Serbia. The programme is financed by the EU, managed by the Council of Europe Development Bank (CEB), and implemented in cooperation with international organizations. In Croatia, the RHP is implemented by the Ministry of Physical Planning, Construction, and State Assets.⁷⁹

As part of the RHP, the Ministry implemented two **projects of buying apartments on the market and using them as social housing units**. In 2013, 101 apartments,⁸⁰ and in 2018 additional 38 apartments were bought,⁸¹ in cities where there was a need for additional housing units for the most vulnerable population. Apartments were meant to ensure permanent housing care for former tenancy right holders, and persons who live in organized accommodation facilities.

The novelty of this project was that, instead of constructing new housing units for the most vulnerable population, it was decided to buy already existing apartments and use them as social housing. In the context of a significant surplus of already existing housing units in Croatia, it was a pragmatic decision not to construct more and additionally increase the number of housing units. Unfortunately, there are no details on these two projects available, except the basic project data.

The second project is a **conversion of abandoned military barracks into housing through the model of housing cooperatives**. The model of housing cooperatives, where members share ownership and control over their building, prevent market speculations, and maintain the long-term affordability of housing, has been tested in Croatia over the last years. The abandoned military barracks in the town of Križevci were converted into cooperative housing, and the project was supported by the local government and various organizations.

The abandoned military barracks are now being developed as a new cultural and technological center. The housing will consist of 20 apartments for 66 residents in total, with a net area of 1,000 m², an

⁷⁸ The Ministry of Physical Planning, Construction, and State Assets. *Subvencionisanje stambenih kredita*.

⁷⁹ The Ministry of Physical Planning, Construction, and State Assets. *Regional Housing Programme (RHP)*. <https://mpgi.gov.hr/o-ministarstvu/djelokrug-50/stambeno-zbrinjavanje-16706/regionalni-program-stambenog-rhp/16705>

⁸⁰ Ibid. *RHP - HR4 Kupnja stanova za 101 potencijalnog korisnika*: <https://mpgi.gov.hr/djelokrug-50/stambeno-zbrinjavanje-16706/regionalni-program-stambenog-zbrinjavanja-rhp-16705/odobreni-projekti-1265/hr4-kupnja-stanova-za-101-potencijalnog-korisnika-16740/16740>

⁸¹ Ibid. *RHP - HR9 Kupnja 38 stanova*: <https://mpgi.gov.hr/djelokrug-50/stambeno-zbrinjavanje-16706/regionalni-program-stambenog-zbrinjavanja-rhp-16705/odobreni-projekti-1265/hr9-kupnja-38-stanova-1278/16745>

additional 50 m² of shared residential facilities (laundry room, common room), and 100 m² of commercial space on the ground floor, providing for additional revenue generation.⁸²

The New National Housing Policy Plan

Despite the measures implemented in since early 2000s, prices of apartments on the market are still extremely high, so the Government of Croatia decided to develop the *National Housing Policy Plan until 2030*.⁸³ The draft Plan is currently on the public insight, available on the e-Government website.⁸⁴ This is the first umbrella, national-level, mid-term housing policy document in Croatia. Until now, there was no strategic document that directed the housing sector policy, but different laws and measures related to housing were implemented by different Ministries.

The Plan has three strategic goals: *1. Affordable housing*, *2. Sustainable housing* and *3. Space in service of housing*. Goals should be reached by a combination of four groups of measures: *financial*, *taxation*, *land policy* and *environmental and energy efficiency*.

The Plan represents a significant shift away from policies that have been implemented so far, which is especially reflected in the intention to make existing underused housing units available for housing, and in the stronger focus on rental housing as a legitimate long-term housing option.

The issue of a large number of existing apartments that are not used for housing purposes and therefore are removed from the housing supply has been identified in the Plan. The analysis conducted for the development of the Plan determined that in 2021, there was a shortage of 236,731 housing units in Croatia, reflected in households that are in need of housing space. This equals 9.9 percent of the existing national housing stock which, according to the Plan, should be made available to families in need of housing either through measures of social affordable housing policy or through measures focused on making existing apartments that are currently used for non-residential purposes available for housing.⁸⁵

To achieve the latter, the measures related to the first strategic goal – *Affordable housing*, aim at the increase of supply of affordable housing units through the activation of existing empty housing units and their inclusion in the *Affordable rental housing programme*. This applies to both housing units in the public ownership that are currently not in use, and more importantly, to units in private ownership. Units in private ownership would be activated by the removal of two main obstacles identified in the analysis: an issue of legal security for renters/landlords, and financial subsidies to refurbish apartments.

The *Affordable Rental Housing Programme*⁸⁶ consists of six main elements:

- The owner of an apartment that was not in use for at least two years applies for the Programme and signs a contract by which the apartment is leased to the APN for management;

⁸² MOBA Housing SCE. *Pilot Projects: Križevci Housing Project*. <https://moba.coop/pilot-projects/>

⁸³ The Ministry of Physical Planning, Construction, and State Assets. *Overview of Existing Housing Programmes*. <https://mpgi.gov.hr/o-ministarstvu/djelokrug-50/programi-stambenog-zbrinjavanja/8130>

⁸⁴ Draft National Housing Policy Plan until 2030 – public insight: <https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=29450>

⁸⁵ Draft National Housing Policy Plan until 2030 (p. 18).

⁸⁶ Ibid. (p. 61)

- The contract is signed for a minimum of three and a maximum of ten years. The owner of the apartment receives an incentive in the amount of the median market rent in the area in which the apartment is located;
- Renter signs a contract with the APN, to which affordable rent will be paid;
- Target groups of beneficiaries are those with incomes in the range from minimal to average;
- The price of affordable rent will be harmonized with the local affordable rent, calculated at least once a year. If the tenant's income increases over time and exceeds the threshold for affordable rent, the tenant can stay in the apartment but the rent will be increased accordingly. APN will collect rent and transfer it to the revolving housing fund;
- APN will manage programme administration, score lists for landlords, and a list of available suitable apartments. Financing will be enabled through a newly established revolving housing fund.

The Plan also perceives improvements in the property taxation regulations, which should stimulate long-term rents of apartments and discourage short-term rents.⁸⁷

Aside from measures to utilize the existing empty housing units, the Plan also perceives measures for utilization of empty buildings for other purposes and their conversion to housing, such as abandoned schools, military barracks, industrial facilities, and others. The implementation of such programmes is planned by using instruments of building rights for non-profit housing cooperatives, and through public-private partnerships. Abandoned buildings can be repurposed for housing, student accommodation, or accommodation for the elderly. Repurposing will be planned in annual housing programmes developed by local governments.⁸⁸

Focus on long-term affordable rental housing is also reflected in the proposed amendments to the POS programme, which include that 50 percent of apartments in each POS project will be allocated through the affordable rental scheme, instead of the non-profit sale. The amendments will also introduce changes in the calculation of rents and purchase prices, in line with affordability criteria, and a different way of financing.⁸⁹

5.4 Conclusions

Over the past decades, the housing policy in Croatia was focused on the promotion of homeownership, and the public or private rental housing sector was neglected. Today, the effectiveness of public housing policy is limited by a very small housing stock in public ownership, therefore not able to significantly influence the affordability and widen the housing options for the general population.

The key challenges for housing in Croatia, identified in the previous parts of this Report, were until recently addressed by the official housing policy with limited success. Very often, the key challenges are not recognized by the policies, and thus not addressed at all, or existing policies have adverse effects and further increase the problem instead of solving it.

⁸⁷ Ibid. (p. 59)

⁸⁸ Ibid. (p. 61)

⁸⁹ Ibid. (pp. 62-63)

Primarily, housing policies are still skewed to promote homeownership as the most favorable option for solving the housing issue, thus further increasing already very high homeownership rates. Existing housing programmes are also focused on the construction of new housing units, so they increase the total number of apartments although there is statistical evidence of a significant surplus of housing units in Croatia.

The new draft National Housing Policy Plan until 2030 was developed as an attempt to respond to the key challenges. It more precisely identifies the key issues of the housing sector in Croatia, and offers measures to tackle them in the long run, focusing, among other things, on the issue of a large number of empty apartments and the treatment of the rental sector as a legitimate long-term housing option.

6 Sources of Finance

This chapter explores the existing and potential sources of finance for housing programmes, including the commercial banking sector, national and international sources of finance, and some recent non-public, civil sector initiatives.

In Croatia, various funding mechanisms—such as public subsidies, bank loans, international investments, and private sector initiatives—play, or could play, a key role in financing housing, addressing demand, and supporting urban development.

6.1 Private Banking Sector

In Croatia, as in many Central and Southeastern European countries, a period of low interest rates contributed to the expansion of housing loans. However, instead of making housing more accessible to regular citizens, this trend led to an increase in housing prices, exacerbating unaffordability.

For real estate developers, a common method of financing new construction is through project loans. These loans are specifically designed to fund the construction of new multi-apartment buildings intended for sale. The financing process combines funds from the project loan with revenue generated through the pre-sale of apartments. The loan is issued in installments as construction progresses, with disbursements tied to the completion of specific project milestones. By the end of the loan period, most or all of the housing units are sold, with the proceeds used to repay the loan.

Furthermore, the same bank that provides the project loan frequently offers special mortgage packages to individual households purchasing apartments. This integrated financing structure supports developers in completing their projects while facilitating access to housing for buyers. However, this model is exclusively suited to construction-for-sale projects and is not appropriate for other types of housing development. Since these apartments are newly built, they tend to attract higher-income households who can afford the associated costs.⁹⁰

Banks in Croatia generally offer short-term loans for business investments or project financing, with repayment periods typically capped at 10 years. There is no specific product available for financing affordable housing. According to an interview conducted by Pósfai, Z. et al. with several Croatian banks, none offer long-term project financing for housing initiatives, such as rental housing projects. The only bank providing a project financing scheme specifically for the construction of commercial or residential spaces is OTP Bank.

6.2 National Sources of Finance

Existing national sources of finance are very few and limited, and mostly focused on general business development. Housing programmes are rarely, and only marginally, in the scope of national financial institutions. These institutions however could be a source of finance for the non-profit housing

⁹⁰ Ibid. (p. 69)

programmes in the future, as they have public programmes, urban development and housing in their mandate and scope of work.

Croatian Bank for Reconstruction and Development (HBOR) is a development and export bank, and export credit agency of the Republic of Croatia whose main task is to stimulate the development of the Croatian economy by providing loans, investing in venture capital funds, insuring exports against political and commercial risks, issuing guarantees and providing business consulting.⁹¹

Among its products and services, HBOR has the *Urban Development Fund* which finances new long-term investments of the LSGs, as well as companies, institutions, agencies and other legal entities owned by them or owned by the Republic of Croatia. The Urban Development Fund is financed by the European Regional Development Fund (ERDF) and HBOR's own resources.⁹² HBOR's Urban Development Fund could play an important role in offering adequate preferential financial instruments for organizations developing affordable housing.

However, it seems that the Bank focuses more on general business development. At the end of the 90s, there were some attempts to establish credit lines for housing projects within HBOR, and some criteria were drafted for the implementation, but this project failed and there was a general distancing from housing programs afterward.⁹³

Croatian Postal Bank (Hrvatska poštanska banka) - HPB was established in October 1991 under the ownership of the Croatian Post. Over its 30 years of operation, the ownership structure has evolved but has consistently remained within state ownership. Currently, the Republic of Croatia directly or indirectly owns 77 percent of the Bank, making it the only Croatian-owned bank with a market share exceeding 1 percent.

HPB is market-oriented and offers financial services to citizens, state administration, and Croatian businesses, with a particular focus on small and medium-sized enterprises. The European Bank for Reconstruction and Development (EBRD) has also collaborated with HPB in the past. Until 2022, HPB provided businesses with credit lines for *financing energy efficiency improvements in apartment buildings*. Today, *the Bank offers loans for various works on shared parts of buildings* but does not provide financing for purchasing or constructing buildings.⁹⁴

Croatian Agency for SMEs, Innovation and Investments HAMAG-BICRO ⁹⁵, Innovation, and Investments, was established by the Government of the Republic of Croatia to support SME development and promote investment and innovation. Operating as an independent institution under the supervision of the Ministry of Economy, the Agency focuses on providing loans and guarantees for micro, small, and medium enterprises across various sectors. While housing loans are not part of its portfolio, HAMAG-BICRO offers financial support in areas such as rural development, transport and transport infrastructure, culture, and tourism.⁹⁶

⁹¹ Hrvatska banka za obnovu u razvitak. <https://www.hbor.hr/hr/tko-smo/16>

⁹² Hrvatska banka za obnovu u razvitak, Urbani razvojni fond. <https://www.hbor.hr/urbani-razvojni-fond/1431>

⁹³ Pósfai, Z. et al. 2022. (p. 71)

⁹⁴ Hrvatska poštanska banka. 2024. <https://www.hpb.hr/en/general-information-119/118>

⁹⁵ Small and medium sized enterprises

⁹⁶ HAMAG-BICRO. 2020. <https://en.hamagbicro.hr/>

6.3 International Financial Institutions

This section focuses on international actors. The European Union, despite having no formal role in housing finance, is becoming increasingly involved in housing programmes due to growing political attention to affordable housing. Initiatives like #Housing2030 and EU pre-accession financing mechanisms illustrate this involvement, alongside the development of finance frameworks that have historically supported postwar reconstruction, offering valuable lessons.

The European Investment Bank (EIB), the EU's development bank, supports social and affordable housing projects through its urban development division. It funds initiatives like renovating or constructing housing, focusing on publicly owned entities or nonprofit organizations committed to affordable housing provision (70 percent public, 30 percent third-sector). The EIB is conservative, favoring large-scale, low-risk projects and long-term financing, making it suitable for governments committed to institutional capacity-building in housing.

Generally, in Central and Southeastern Europe (CSEE), the EIB faces challenges due to a lack of organizations mandated to develop affordable housing and governments prioritizing homeownership subsidies, which worsen housing access issues. To address this, the EIB offers free technical assistance, advisory services, and skill transfers to local development banks and public entities.

EIB worked in Croatia since 1977, financing key infrastructure and transport links to neighboring countries. Based on an agreement, EIB will assist five major Croatian cities—Zagreb, Rijeka, Split, Osijek, and Varaždin—in expanding social and affordable housing to address rising demand. Through an advisory agreement, the EIB will provide expertise to help the cities overcome challenges, including the need to increase housing for socially vulnerable and low-income residents.⁹⁷

The Invest EU program, implemented by the European Investment Fund (EIF), facilitates significant investments for strategic purposes, including indirect support for housing projects. Through guarantee mechanisms provided to commercial banks or the European Investment Bank (EIB), the program enables banks to expand lending practices, incorporating riskier or more innovative projects. An example is Erste Social Banking, which utilizes the EU's Employment and Social Innovation (EaSI) guarantee scheme to improve lending to social enterprises.

The Council of Europe Development Bank (CEB) plays a significant role in financing social projects, including housing, particularly in Central, Eastern, and South-Eastern Europe. CEB focuses on promoting social cohesion and integration, targeting 22 countries in the region, including Croatia. It primarily provides loans to member state governments, but also offers grants in its target countries.

Historically, the CEB has played a significant role in financing housing projects, with particularly notable activity in the early 2000s. In 2011, housing accounted for 27 percent of all CEB loans in its target countries. Additionally, the CEB manages the Regional Housing Program (RHP), launched in April 2012, which operates in Serbia, Croatia, Bosnia and Herzegovina, and Montenegro. The RHP aims to provide lasting housing solutions for approximately 74,000 vulnerable refugees and displaced persons affected by the conflicts in the former Yugoslavia.⁹⁸

⁹⁷ European Investment Bank, 2024. <https://www.eib.org/en/press/all/2024-459-croatia-s-biggest-cities-to-get-eib-guidance-on-developing-affordable-housing>

⁹⁸ Council of Europe Development Bank, 2014. <https://coebank.org/en/news-and-publications/news/first-homes-croatia-rhp/>

The European Bank for Reconstruction and Development (EBRD), established in 1991, focuses on fostering market-oriented economies and promoting private entrepreneurship, particularly in Central and South-Eastern Europe (CSEE). While the EBRD primarily supports business development with preferential loans, it has limited involvement in housing projects, mostly in post-Soviet countries.

In Croatia, the EBRD primarily focuses on supporting economic growth. Its main priorities for 2025 include improving the performance of state-owned enterprises (SOEs) by enhancing governance, with the adoption of a new SOE law expected by the end of 2024 to drive productivity gains. Addressing labor market tightness and skills mismatches is another key focus, as the private sector increasingly depends on foreign workers despite efforts to improve vocational education. Also, the EBRD aims to resolve barriers to renewable energy investments, such as delays in grid connection fee approvals and lengthy permitting processes, to accelerate the transition to renewables and meet growing investor demand.⁹⁹

6.4 Financial Framework of National Housing Policy Plan 2030

The indicative financial framework for the implementation of the National Housing Policy Plan until 2030 includes financial resources from the state budget, bank loans, and other financial sources.

The preliminary estimate, for the needs of the implementation of the specific objectives of the National Housing Policy Plan until 2030, includes the activation of 9,000 existing empty housing units that are currently not in use and the construction of 11,200 apartments for affordable purchase and rental, through the implementation of all three specific objectives and related implementation measures, and amounts to 1.2 billion euros.

The important novelty of the National Housing Policy Plan is the creation of the housing revolving fund. However, the creation of the fund is only mentioned in the activity related to the utilization of empty housing units, in the scope of the *Affordable rental programme*, but is not further elaborated in the Plan.

6.5 Conclusions

Currently, housing finance in Croatia is dominated by commercial banks that provide loans either for individuals purchasing homes on the market or for developers constructing new housing. The emphasis remains largely on homeownership, with limited attention given to affordable or social housing.

However, there are potential funding sources that could support the development of affordable housing, including domestic institutions whose resources could be mobilized through appropriate policies and guidelines, as well as international organizations offering financial assistance.

The new, draft National Housing Policy Plan 2030 represents an important initiative, aiming to establish a fund to support affordable rental housing and facilitate the utilization of vacant housing units.

⁹⁹ European Bank for Reconstruction and Development, 2024. <https://2024.tr-ebd.com/countries/#>

Croatia's commitment to fostering a more inclusive and functional housing system could create opportunities for greater collaboration with these financial institutions. The table below summarizes the key sources of finance discussed in this chapter.

Table 3: Overview of existing and potential sources of finance for housing programmes.

Sources of Finance	Description	Key Features	Challenges
Private/ Foreign Sources of Finance			
Private Banking Sector	Banks provide project loans for developers and mortgages for homebuyers.	Short-term loans (≤10 years), installment-based payment, limited affordable housing financing.	No long-term financing for rental housing, favoring higher-income groups.
National Sources of Finance			
Croatian Bank for Reconstruction and Development (HBOR)	Development bank supporting economic growth, including urban development.	Urban Development Fund finances public urban projects, backed by ERDF funds.	Focus on general business development, past failure of housing credit programs.
Croatian Postal Bank (HPB)	State-owned bank offering loans for building renovations.	Market-oriented, past collaboration with EBRD, supports SMEs.	No financing for new housing purchases or construction.
Croatian Agency for SMEs, Innovation, and Investments (HAMAG-BICRO)	Government agency supporting small and medium enterprises (SMEs).	Provides loans and guarantees for various sectors.	No direct involvement in housing finance.
National Housing Policy Plan 2030	Croatian government's strategy for affordable housing.	Plans activation of 9,000 empty units and construction of 11,200 new homes, €1.2 billion budget.	Housing revolving fund concept lacks elaboration.
International Sources of Finance			
European Investment Bank (EIB)	EU's development bank, funding social and affordable housing.	Long-term financing, supports nonprofit and public housing.	Prefers large-scale, low-risk projects, faces regional implementation challenges.
InvestEU & EIF	EU program facilitating investments via guarantees to banks.	Expands lending for innovative or riskier projects.	Indirect housing support, depends on local bank participation.
Council of Europe Development Bank (CEB)	Finances social projects, including housing.	Targets 22 Central & Eastern European countries, manages Regional Housing Program (RHP).	Limited recent involvement in Croatia, past focus on refugee housing.
European Bank for Reconstruction and Development (EBRD)	Supports market economies and entrepreneurship.	Provides loans mainly for business development.	Minimal housing finance, focus on economic reforms.

7 Findings and Recommendations

In the context of a large number of underused or vacant housing units, housing stock being predominantly in private ownership, and housing markets dominated by investments and speculative purchases, future Croatian housing policy should shift away from efforts to increase the affordability of housing by the construction of new public housing units, and focus instead on utilization of already existing apartments in private property and better regulation of housing markets.

7.1 Key Challenges for Housing Policy in Croatia

The housing sector in Croatia is heavily dominated by private ownership and reliance on market mechanisms, with public housing stock being insignificantly small. With over 97 percent of housing units in private ownership, the public housing sector is too small to effectively influence the unaffordability of housing for the wider population.

There is statistical evidence of a significant oversupply of housing units in Croatia. Based on the data from the 2021 Census, out of all units for permanent residence, around 29 percent were vacant (in total, 595,280 housing units). Out of all housing units, around 40 percent were not used for housing but for other purposes (958,000 housing units in total). While in rural areas, especially in the North East of the country, the main reason for large numbers of vacant properties could be depopulation, the numbers of empty apartments are high in urban areas as well. The five largest cities have on average 24 percent of empty apartments for permanent residence.

There are indications that the housing market in Croatian cities is focused on speculative purchases and investments, with limited impact on actual housing needs and affordability for many households. Housing markets are vibrant and property prices are constantly increasing, by 5 percent annually over the last 20 years. However, statistical data shows that purchasing an apartment on the market is unaffordable for the great majority of the population and that purchases are done as investments, for the purpose of tourism, and increasingly by foreign buyers, especially in coastal cities.

The private rental housing market is largely unregulated, so neither tenants nor landlords have legal protection. The long-term rental sector has been neglected over the past decades. As a consequence of the promotion of private ownership, rental housing markets are largely unregulated, thus limited in size and very competitive, especially in large cities. In Zagreb and the coastal cities, long-term rentals are under additional pressure from short-term tourist rentals.

As a result of unaffordable purchase or rental market prices, those housing units that are inhabited are overcrowded. Overcrowding rates in Croatia are among the highest in the EU, both in terms of the average sizes of households and in terms of available space per person. The main reason for overcrowding of housing units is seen in the young population staying in the same home with their parents longer than in other EU countries, due to being unable to afford to rent or buy an apartment, although the majority of these young people are employed on a full-time basis.

7.2 Policy Recommendations

The utilization of privately owned apartments would be a logical focus for the housing policy, with the potential to bring tangible results in the medium term. With over 97 percent of the total housing stock in private ownership, “traditional” housing programmes, consisting of the construction of social or public housing units, would need decades to exercise any effect on the affordability of housing. Instead, the housing policy should orient towards the utilization of the large number of already existing, vacant housing units in private ownership.

Existing experiences with the unitarization of vacant property should be scaled up. Although the idea of utilization of existing vacant or underused property is relatively new in Croatia, certain institutional capacities and experiences already exist, which makes a relatively good starting point for future programmes. The project of buying existing apartments and using them for social housing through the RHP programme, and the conversion of military barracks in Križevci into cooperative housing, although limited, bring important experience and knowledge that could be scaled up through future projects and programmes.

A necessary policy framework for the utilization of vacant properties is already in place. The draft National Housing Policy Plan represents a favorable basis for the development of programmes that would utilize existing underused housing units and vacant spaces. The Plan defines goals, measures and activities directed to the utilization of vacant apartments, utilization of vacant spaces for other purposes (abandoned schools, military barracks, commercial spaces, etc.), promotion of long-term rental as a legitimate housing option, and discouraging short-term tourist rentals. It defines a mix of financial, taxation, land policy, and environmental/energy efficiency measures to achieve these goals.

Affordable housing policies should especially focus on certain groups of potential beneficiaries, primarily those that currently rent on the market, and young populations that still live with parents. These groups can pay for the affordable housing programmes, but are struggling to pay the current market prices. The analysis of statistical data conducted in this Report shows that these categories of the population stand out as potential groups of beneficiaries for future affordable housing programmes:

- Although the housing overburden rate in Croatia is generally among the lowest in the EU, with only 4.0 percent of the population, this is mostly due to the high shares of outright owners. Statistics show that among those who do not outright own the apartments (those who rent or are paying the mortgage), housing cost overburden rates are significantly higher than the EU average.
- The housing costs overburden rate is the highest for those who rent on the market – 38.3 percent of those who rent on the market in Croatia spend 40 percent or more of their disposable household income on housing. This is much higher than the EU average of 20.3 percent, and the fifth highest in the EU.
- For those who have housing mortgages or loans, the financial burden of the mortgage is among the highest in the EU.
- Additionally, a high share of those who rent on the market live in a state of severe housing deprivation – 9.8 percent, compared to the EU average of 5.8 percent.
- Overcrowding rates in Croatia are among the highest in the EU, the main reason being a very high percentage of the young population staying in the same home with their parents longer than in other EU countries. In the age group between 25 and 34 years, 62.4 percent of people in this age group live in a parental home. Most of them are employed on a full-time basis but cannot afford to buy or rent the apartment.

The highest shares of potential beneficiaries for affordable housing programmes are located in the suburbs of cities. Spatial analysis done in this Report, although not precise enough due to the data availability limitations, clearly indicates suburbs of cities as locations where there is the highest probability that potential beneficiaries are located. Since 2011 suburbs of cities are the only areas in the country that saw a (limited) population growth since families are moving to (more affordable) suburbs and peri-urban areas from unaffordable central districts of cities. According to statistics, shares of people living in severe housing deprivation are highest in these areas. Additionally, there are indications that informal construction is intensive in these areas too.

The largest number of empty apartments that could be utilized are in central districts of large cities. In these zones are the largest shares of apartments that are currently not used for housing, and their utilization, through property taxation instruments and other measures, would be the most appropriate, since they are well located and equipped with infrastructure and services. The provision of more affordable housing in central urban areas would counter suburbanization and sprawling trends in Croatian cities, foster the creation of more compact cities, and revive urban cores in many cities that are currently prevalently used for tourism.

7.3 Applicable Examples of Good Practice

Housing policy should primarily focus on big cities, to be the most effective. As per the DEGURBA classification, Croatia has five cities: Zagreb, Split, Zadar, Rijeka and Osijek. Each of these cities is a center of its functional urban area (FUA). In total, over 2 million people, or 53 percent of the total population of the country, live in these cities and their FUAs. Therefore, these five cities should be the focus of policies to utilize the unused apartments, although the policies and instruments proposed here could also be applied to other cities in Croatia.

The five cities have diverse characteristics, primarily in terms of their geographic locations – coastal and inland, with different demographic trends, which results in diverse challenges related to housing. While in the coastal cities, housing faces the biggest pressure from tourism, for the inland city, Osijek, the major issue that causes a large number of empty apartments is rapid depopulation. The capital Zagreb is facing pressures from both speculative purchases of apartments, and investments in short-term rentals for tourism.

Therefore, in order to be effective, policies and measures should be tailored to each category of cities. The overview of international experiences of some policies and instruments applicable to Croatian cities is provided below.

The Social Function of Property Concept

There are numerous examples of cities and countries trying to tackle the issues of shortage of affordable housing on one and a significant number of vacant apartments on the other hand.

Brazil has been facing this challenge since the 1980s, and having high private homeownership rates, had to gradually come up with tools to utilize private property. To respond to the issue, the government developed the concept of the Social Function of Property – the obligation for the owners to use their property to further the common good. In other words, owners of housing units are obliged to use their property for housing, and not to keep it empty or use it for some other purposes. This concept highlights the social function as a dimension of the property right and enables municipalities to take punitive action against owners of vacant property and prevent speculation.¹⁰⁰

In its previous housing strategy, The Right to Housing Plan 2016–2025,¹⁰¹ Barcelona adopted a similar concept, the social function of property and citizen's right to housing, that for the first time, enabled the implementation of measures to regulate the use of private property. Barcelona's housing stock is 98 percent in private ownership, and the city is trying to ensure that private owners put the property to use for housing and to discourage the use of apartments to extract greater yields from flats with uses linked to tourism, luxury housing, offices, or gentrification.

Property taxation instruments to utilize underused properties

The city of Sao Paulo has been facing the issue of vacant property since 1985 when the idea of curbing vacant property first emerged, and different policies have been gradually developed since then. Owners of vacant property in Sao Paulo are not only individuals but also banks, large property management companies, churches, and charitable institutions, owning one or many buildings, which results in a passive form of speculation.¹⁰²

In the Strategic Master Plan from 2014,¹⁰³ the City of Sao Paulo developed a triad of taxation tools to enforce the social function of property: PEUC - compulsory parceling, building or use of land, IPTUP - progressive property taxation, and expropriation.

For the cities in Croatia, Progressive property taxation (IPTUP) can be an interesting mechanism for utilizing private housing. Owners of properties that are vacant for at least one year are given a one-year deadline to put their property in use. If the owner does not comply with the deadline, progressive property taxation is applied, increasing the property tax by 5 percent each year, until the owner does not put the property to use for housing.

It should be stressed here that the progressive property taxation in Croatia would make sense only in cities, where the market demand for renting or purchasing exists. In rapidly depopulating areas, especially rural and smaller towns, where demand does not exist, putting high property taxes on owners would not be beneficial.

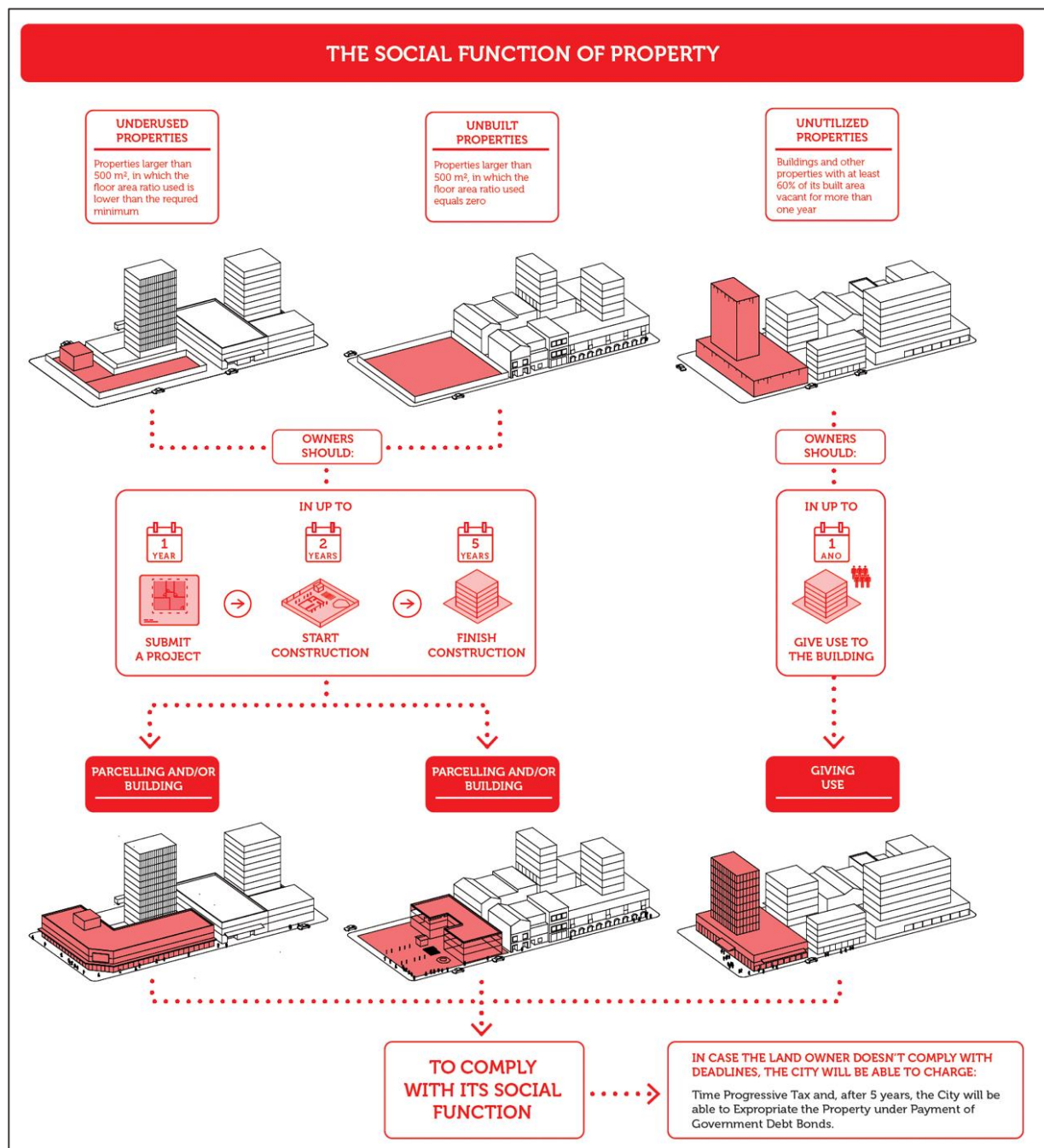
¹⁰⁰ Friendly, A. (2024). *Common property in the city: Curbing urban vacancy in Sao Paolo*. Urban Studies 1-21.

¹⁰¹ Barcelona Right to Housing Plan 2016–2025.

¹⁰² Friendly, A. (2024). *Common property in the city: Curbing urban vacancy in Sao Paolo*. Urban Studies 1-21.

¹⁰³ City of Sao Paulo. *Strategic Master Plan 2014*. Available at: https://gestaourbana.prefeitura.sp.gov.br/wp-content/uploads/2015/02/Master_plan_english_version.pdf

Figure 23: Instruments for enforcing the social function of property in Sao Paulo



Source: City of Sao Paulo Strategic Master Plan 2014.

Tackling the pressure from short-term tourist rentals

A good example of policies to tackle the issue of the use of housing units for tourism is Barcelona, which has been facing the issue for decades. Aside from this, there is a large influx of foreign and domestic buyers of luxury property in the city, and the conversion of apartments to office space, which is increasing market prices to the point that housing has become unaffordable for the general population.

Among the measures in the Right to Housing Plan 2016–2025, the city is trying to regulate and limit the use of apartments for short-term tourist rentals and mobilize them for housing purposes. In that respect, in parallel with the Right to Housing Plan, the city developed a Touristic Apartments Special Urban Plan, which defined three phases of regulation of tourist apartments: (i) decrease in number, (ii) stabilization, and (iii) potential growth.¹⁰⁴

In the first phase, the city stopped renewing licenses for short-term tourist rentals, which resulted in a decrease in the number of apartments offered. Over 3,000 owners who were not complying were sanctioned, and thousands of apartments were removed from advertisements on web platforms.

In the second phase, a cap was set on the total number of licenses that can be issued for short-term tourist rentals.

The third phase is directed towards the potential growth of tourist rentals, but under controlled conditions, keeping in mind the city's housing needs.

After limiting the number of short-term tourist rentals, the city developed a program for the mobilization of vacant tourist apartments, by signing temporary rental contracts with the owners (lasting one to three years) and renting them to families in need of housing under the non-profit conditions. Around 150 units were mobilized in this way until 2021.¹⁰⁵

Identification of empty properties

In the programmes for the mobilization of vacant apartments, the basic challenge is how to identify empty properties. Most often, the combination of field surveys, utility bills, and data from public registers are used to map empty apartments.

As a first step in the implementation of housing policy, Barcelona focused on improving the knowledge of the housing sector in the city. The city council established the Barcelona Metropolitan Housing Observatory (O-HB), whose purpose is to collect, analyze, and disseminate data on housing in the metropolitan area, to support the design and evaluation of public policies.¹⁰⁶

Among other research and surveys, the Observatory undertook a vacant housing census and made a list of empty flats in the city. The indicator that was used was water consumption, in combination with the register of city residents and field surveys. It was determined that 1.22 percent of apartments in the city were empty.¹⁰⁷ These apartments were the focus of measures to utilize them for housing, using property taxation instruments.

¹⁰⁴ Barcelona Right to Housing Plan 2016–2025.

¹⁰⁵ Ajuntament de Barcelona 2021. Barcelona's social and affordable housing policy – presentation.

¹⁰⁶ Barcelona Metropolitan Housing Observatory (O-HB) <https://www.ohb.cat/en/>

¹⁰⁷ Molina, E.G. 2021. *The role of rent control in Barcelona's housing policy*. Presentation from Rethinking Rent Control in Europe.

Similarly, the city of Brussels is using a combination of methods to make a register of abandoned or unoccupied properties and buildings: (i) field surveys, estimating vacancy through a visual assessment from the public space, (ii) insights into water and electricity consumption data, and (iii) checking the population registers to find out if the building or apartment is populated. The data on abandoned and unoccupied buildings and sites are centralized and mapped in a web-based GIS database. This database contains all available information about abandoned buildings and sites within the city, as a support for decision-making.¹⁰⁸

Limiting new construction to manage the population shrinkage

Statistical data shows that the population in most Croatian cities, and all of the five largest, is shrinking and aging, especially in the North-East regions of the country. The process seems irreversible in the medium term. Urban and housing policies should face the fact of the shrinking population and prioritize the issue to manage decline, minimizing negative side effects.

The World Bank's report on shrinking cities¹⁰⁹ offers an overview of cities in East Europe that developed city-level policies for facing shrinkage. Approaches are classified based on the way shrinkage is understood in terms of countering shrinkage, accepting shrinkage, and making use of shrinkage. These examples can be especially useful for inland cities in Croatia, without large tourist sector, such as Osijek.

Cities are facing shrinkage with a combination of tools, but an interesting example relevant to housing policy in Croatia's context is Dresden, which faced a serious population shrinkage during the 1990s, which led to an oversupply of housing units of over 20 percent.

The city adjusted its urban and housing policies to a stable population number, focusing on increasing the quality of housing and services to the existing population instead of planning for growth. Measures used were pragmatically focused on the reconstruction and rehabilitation of existing areas of the city, instead of the construction of new residential areas.

The city focused on the stabilization of the housing market. A decision that may be transferable to Croatian cities was to limit the number of newly built housing units to a maximum of 1,000 per year (previous plans perceived over 5,000 annually), by limiting the number of building permits that can be issued annually.

As a result of the policy shift in Dresden, demographic trends gradually changed, and the city's population increased by 25,000 people, although the region is still losing population.

¹⁰⁸ URBACT. *A web-based GIS database to map abandoned buildings, Brussels.*

<http://remakingthecity.urbact.eu/web-based-gis-database-brussels-belgium--48.case>

¹⁰⁹ World Bank Group 2020. *Cities in Transition: A literature review of urban shrinkage and its implications for Romania.* Inputs for the Urban Policy 2020-2035.

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