

Analysis of Existing Housing Fund and Current Housing Construction With Focus on Real Estate Market in Montenegro

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Although in Montenegro the right to having a flat is not defined by the Constitution, Montenegro, as a signatory of certain international agreements and conventions, is committed to approach this issue in accordance with undertaken obligations, with appreciation of all specificities caused by the historical legacy in this area and relatively limited opportunities which are consequences of the social system size. Housing policy is a complex problem, which imposes the need for a multidisciplinary approach to define priorities and measures to consolidate the instruments for achieving positive results in this area. National housing strategy should define the vision and the directions of activities in Montenegro in this area.

1. Introduction

Housing construction in Montenegro can certainly count on certain internal resources, such as all kinds of favorable conditions for intensification and improvement of housing construction in the following period, which were used in previous period to a greater or lower extent. The significant housing construction potential includes: indisputable housing need, especially of young population and certain target groups; undisputed relevant spatial resources; development of partnership between public and private sector; existence of certain interest of strategic partners from the country and abroad for housing construction; the need to adjust to the European standards, especially in view of the energy efficiency of the buildings, the effect of construction production on employment and consumption of certain material goods.

Among the main problems, limits and obstacles to housing construction in Montenegro, we recommend the following: deficiency of spatial planning documents; high costs of building land development; sensible deficiency of investment capital; long procedures and difficulties for resolving property issues; insufficient and low quality infrastructure; decrease of real estate market for living; low purchasing power of population; large number of unfinished flats and long period of construction.

This document gives an overview of the existing housing fund in Montenegro and its basic characteristics based on the published results of the census of flats and households, which was published in 2003, considering the fact that data of the recently finished census, which was published in April 2011, are not available yet. Below is shown the current housing construction,

as well as major participants in this process. In addition, movement of the real estate market in Montenegro is analyzed.

2. Status of existing housing fund in Montenegro

The housing fund in Montenegro contains flats for permanent living, but also other housing units such as flats used for vacation and leisure, for performers of part time jobs in agriculture during the season, for exclusively commercial activities, as well as other occupied premises.

According to the 2003 census, the housing fund of Montenegro is valued in amount of 253,135 of house units of which 55.3 % is in urban zone and 44.7% in other settlements. In ownership of private individuals were around 98% of flats for permanent living.

According to the preliminary results of the 2011 census, the number of flats was increased to 316,083, i.e. for around 63,000 house units or for 25% compared to the 2003 census. Based on same results, there are more than 505 flats per 1000 inhabitants (including vacation houses and other flats, which are not used for permanent living). In comparison to the census from 2003, there is a slightly increasing of flat share in urban zones, 56,36%.

According to data of 2003, Montenegro disposed with 206,153 flats for permanent living (total area of 13,606,734 m²). In the structure of flats for permanent living by census from 2003 the largest part were two bedroom and three bedroom flats (Table 1), and average number of rooms by flat is 2.65.

According to same source, about 20% of flats are older than 50 years, and around 39% was built after 1980. Of

the total number of flats for permanent living, around 93% are flats in buildings from solid materials. By percentage the most frequent are flats with sq. of 51-60 m², 15.62%, while there are equally presented flats with 31-40 m², 41-50 m², 61-70 m², 81-100 m², i.e. 12 up to 13%. The average area of a flat is around 66 m², and the average area of a flat for one person is about 22 m², which is slightly lower compared to the average for the EU members from the Eastern bloc, while for other EU countries this ratio is 30- 40 m² [1].

In relation to equipment installation, about 88% of flats have plumbing installations, about 99% have electrical installations, bathroom is part of around 82% residential flats, and toilet is in more than 76%. Connected to public water supply are around 67% flats, while public sewerage is available to around 39% flats for permanent living; central-floor heating is present in around 3.7% flats, and no installations are characteristic of around 1% flats.

Structure of flats	Number of flats
special rooms	2,570
studio and 1 - room	37,421
2 – rooms	62,077
3 – rooms	60,753
4 – rooms	29,079
5 and more rooms	14,228
flats of unknown structure	25
TOTAL	206,153

Table 1. *Structure of flats for permanent living based on the census 2003*

According to the 2003 census, the number of 37,160 of flats are registered for vacation and leisure, of the total area of 1,977,028 m², of which the largest number are flats in vacation houses (Table 2).

Structure of flats for vacation and relax	Number of flats
Flats in weekend houses	25,811
Flats in family houses	5,724
Flats in other buildings	5,625
TOTAL	37,160

Table 2. *Structure of flats for vacation and leisure*

Comparing the population with the number of house units in the previous period, we conclude that in 1991 the ratio of population and house units was 3.6 resident/house unit, and in 2003 this ratio was 2.4 resident/house unit, which indicates the improvement of

the housing situation and an increase in the number of house units in that period.

According to the data from Monstat, Montenegro disposed, closing with 2009 of the house fund of around 228,000 flats, which means that the number of flats was significantly higher than the number of households in the same year (around 183,000), i.e. on 1,000 of population there were around 350 flats (average of EU is 430 flats). This figure does not include vacation houses and presents the sum of flats for permanent living by the 2003 census and the number of flats for permanent living obtained from Monstat yearly research (for 2004, 2005, 2006, 2007, 2008 and 2009).

However, despite the data that Montenegro has more housing units than the total number of households, all the population structure has a need to solve the housing problem. The demand for flats for lease is high in the entire area of Montenegro, and especially in the developed areas of Montenegro (Podgorica and coast). It is also significant in underdeveloped areas, because of a deficient or insufficient offer.

According to public data from the Montenegrin agency for real estate for 2010, 1,964 of citizens of Montenegro had in their ownership more than five flats per citizen. The number of citizens who have two flats is 44,744, three flats 13,120, 4,976 have four flats, and 1,795 have five flats. Also, based on the same source in Montenegro the number of total housing units is 243,397 – the area of 14.55 mil m². The data mentioned above refer to floor units of buildings, which are in cadastre of real estate registered as housing space, but it is estimated that their number is higher than specified by 10 to 20% because there are no real estate cadastres on the whole territory of Montenegro.

From the taxes on property income and property rights, € 2,156,489 was charged in 2010. Of these, legal entities paid €2.08 mil and individuals paid €70,438. The government has recently announced a plan to increase the collection of taxes based on the income from property and property rights, i.e. rental of flats and business premises, regarding a relatively small amount of charged taxes in 2010 (compared to the number of flats and business premises).

According to the data on the number and area of constructed flats in the period from 1999 to 2009 (Table 3) the total number of constructed flats is 32,604, with a total area of 2,245,000 m². In the total structure of flats, dominant are two bedroom and three bedroom flats. It is obvious that an intensive growth in the previous period has significantly intensified the housing

construction, so the number of less than 2,000 newly built flats in 2003 increased to 3,400 units in 2007, i.e. to over 5,800 units in 2009.

From previous presented table it is obvious that intensive growth in previous period has significantly intensified housing construction. The number of less then 2.000 new built flats in 2003 is increased on around 3.400 units in 2007, i.e. on over 5.800 units in 2009 (which is by 3,800 units more than in 2003). By comparing the number of built flats with the estimated number of inhabitants [2], we conclude that in 2007 there were was 5.5 built flats per 1,000 inhabitants, i.e. 9.2 built flats in 2009.

We would like to emphasize that Monstat still does not have data on the number of flats for permanent living for 2010 so this year is not included in the total data.

3. Managing and maintainance of housing fund

By selling the social housing fund, in the nineties of the last century, Montenegro started its privatization and reduced the public housing fund to a minimum. The expected financial effects of privatization of housing fund, due to low formed purchase prices, are almost completely absent, which prevent the rapid consolidation of the state and the transition to a new housing policy.

The general statement is that the state of the housing fund is not satisfactory. The purchase of flats and changes in the legislation, the obligation to maintain the housing fund is within the exclusive jurisdiction of the condominium ownership, which are quite inert in this issue.

year	Unit of measure	Type of flat					
		Studio and one bed room flat	Two bad rooms flat	Three bad rooms flats	Four bad rooms flats	Five bad rooms flats	total
1999	No	340	789	653	230	75	2087
	m²	14	50	56	23	10	153
2000	No	331	832	862	281	54	2360
	m²	13	54	73	28	7	175
2001	No	339	703	606	204	64	1916
	m²	14	44	52	20	8	138
2002	No	594	1061	560	175	36	2426
	m²	25	70	48	18	5	166
2003	No	509	676	566	180	18	1949
	m²	21	43	50	19	2	135
2004	No	668	934	1070	371	107	3150
	m²	27	58	89	37	12	223
2005	No	558	821	570	134	31	2114
	m²	21	51	49	14	4	139
2006	No	932	799	720	189	39	2679
	m²	35	49	59	20	5	168
2007	No	841	1092	1105	338	72	3448
	m²	33	67	95	38	11	244
2008	No	1395	1491	1238	432	94	4650
	m²	56	88	101	44	13	302
2009	No	1558	1622	2001	595	49	5825
	m²	64	101	166	65	6	402
TOTAL	No	8065	10820	9951	3129	639	32604
	m²	323	675	838	326	83	2245
	%	25%	33%	31%	10%	2%	100%

Table 3. Number and area (in 000 m²) of built flats in Montenegro (1999 -2009.)

According to information collected from municipalities for the needs of this Strategy, in the register of owners of residential buildings and managers of buildings in 2010 there are (in 10 municipalities which provide data from the registers) 1,461 residential buildings and 1,295 registered managers, among whom there is a certain number of temporary (compulsory) managers. For a large number of buildings there are no named manage-

ment bodies in accordance with the law, because this number of registered managers includes the managers of entrance.

Examples of the municipalities are diverse. In order to improve the quality of the housing fund, the Minicipality of Podgorica has founded the Agency for housing d.o.o. Podgorica, which deals with mainte-

nance of residential buildings. The main objective of the foundation of the Agency was the realization of a project for improving the living conditions in residential buildings. The project is designed to improve housing conditions so that 50% of the estimated value on works on maintenance of common areas of buildings is provided by capital budget, while the flat owners provide the remaining 50%.

All the previous year the problem was the lack of interest of flat owners, so every year significantly less work was realized than possible with the financial assets provided by budget of Municipality of Podgorica and the technical capacity of the Agency for living. Thus in 2006, €233,180 was allocated for these purposes, only €30,339 € was realized, while in 2010, €350,000 was planned and €196.400 was realised, which is only 56% of the planned assets.

4. Current housing construction in Montenegro and major participants in it

According to the data from Monstat (Table 4), the share of the value of construction of residential buildings in relation to total value of construction work, in the period from 2005 to 2009 ranged from 33% to 50%. In the period of record value of construction works (2008), the share of residential construction was about 45%. After that year there is a decrease in the total value of construction works, but also the increase in the share of work values on residential buildings. Regarding this, the construction activity and therefore the housing construction, significant recovery is ahead.

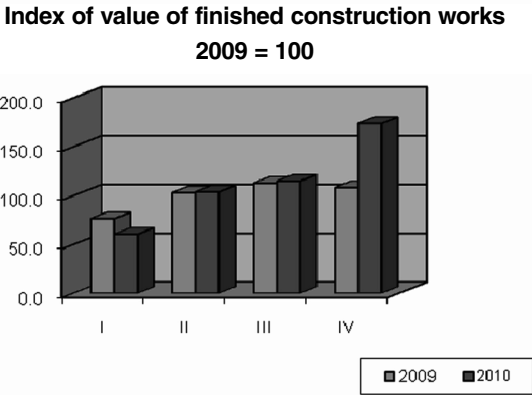
The value of finished construction works in the IV quarter of 2010 is higher by 60,7% in relation to the same quarter in the last year, while it is higher by 51,3% in relation to the III quarter for same year (Graph 1).

Year	TOTAL	Residential buildings	Non residential buildings	Other buidlings *
2005	130,104	64,222	20,996	44,886
	100%	49,36%	16,14%	34,50%
2006	259,880	85,175	110,732	63,973
	100%	32,77%	42,61%	24,62%
2007	285,345	119,553	97,351	68,441
	100%	41,90%	34,12%	23,99%
2008	412,352	183,242	85,186	143,924
	100%	44,44%	20,66%	34,90%
2009	362,430	184,028	58,418	119,984
	100%	50,78%	16,12%	33,11%

* transport infrastructure, pipelines, communication and electric lines, complex industrial constructions and other

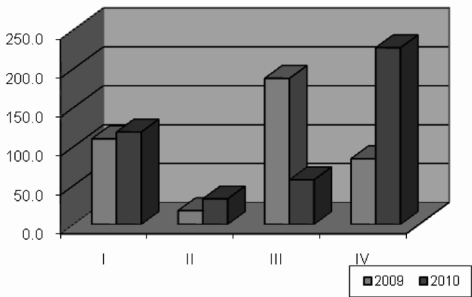
Table 4. Value of construction works in thousand € [3]

The value of the new contracts on buildings in the IV quarter of 2010 is higher by 168,4% in relation to the same quarter last year, while it is higher by 295,6% in relation to the III quarter of the same year.



Graph 1. Index of value of finished construction works in IV quarter in 2010 (2009 = 100) [4]

Index of new contracts on buildings 2009 = 100



Graph 2. Index of new contracts on buildings in IV quarter in 2010. (2009 = 100) [5]

According to the data from Monstat on the housing construction (Table 5), it can be concluded that there is a constant growth trend of finished flats from 2114 flats in 2005 to 5,825 flats in 2009, which represents a total increase by around 175%. This trend is reflected in the

growth of total built area of flats with an almost proportional growth and average area of flats. Based on the data, it should be emphasized that 30% flats were in residential buildings, while 70% flats were in private houses (except in years of intensive construction activities in 2008 when the share of flats in residential buildings was slightly smaller, about 20%). These can be the consequences of large inflows of foreign direct investments in the real estate market, when the foreign citizens have directed the priority of investment on flats in private houses. The ratio of the number of flats in residential buildings to private houses in EU ranges from 35% in Denmark to 75% in Lithuania, while for the most countries of EU this ratio is around 50% [1].

From Monstat data for 2009 it can be concluded that from the newly built 1,637 flats in residential buildings, only 962 flats are sold, i.e. around 60%. In the same period the number of unfinished flats grew from 11,570 flats in 2005 to 15,135 unfinished flats in 2009 (Table 5).

From the ratio of number of unfinished to finished flats, it can be seen that there is a trend of decrease in this ratio from 5,47 in 2005 to 2,6 in 2010. From the mentioned table we can also notice that the dominant numbers of unfinished flats are in private buildings (12,688, i.e. around 84%). It is most likely that the predominant number of this flats, though unfinished, is occupied, because the owners did not have the resources to finish them. Unfinished flats in residential buildings (2,447, i.e. around 16%), probably are not finished, because the contractors did not have sufficient funds to finish them,

regarding the fact that the sales of flats in 2009 were reduced because of economic crisis.

The major participants in the process of housing construction are: investors, architect and construction companies – contractors. Besides these participants in the process of housing construction there are also: banks, financial institutions, authorities which in the process provide legal procedure, consultants, etc.

Investors in housing construction may be both legal entities and private individuals. Legal entities are very often both investors and contractors, i.e. construction company that builds flats for market. The financing of their activity in the field of housing construction is based on equity investments (company and/or buyers), credit and/or mortgage debt and partly on public-private partnership (when the municipalities or the state participate in the project with the land and exemption from payment of fees for utility equipment). Despite the initial development of credit markets in the period since 2005, the economic crisis has significantly slowed the development and imposed numerous obligations and insurance to borrowers, which resulted in the increase of problems for investors in the closure of the financial constructions and their turning to advance payment from flat buyers. In terms of the effects of financial crises, investors-contractors are faced with the liquidity problem in the absence of bank support for the realization of the launched projects and regarding this, with the problem of blocked assets in unfinished buildings, which ultimately resulted in decreasing of prices of newly built flats.

NUMBER OF FINISHED FLATS					
YEAR	2005	2006	2007	2008	2009
TOTAL	2.114	2.679	3.448	4.650	5.825
Flats in residential buildings	614	749	995	877	1.637
Flats in private houses	1.500	1.930	2.453	3.773	4.188
AREA OF FINISHED FLATS, in thous. m ²					
TOTAL	139	168	244	302	402
Flats in residential buildings	34	40	73	58	106
Flats in private houses	105	128	171	244	296
NUMBER OF UNFINISHED FLATS					
TOTAL	11.570	11.932	13.344	15.688	15.135
Flats in residential buildings	2.063	1.515	1.673	2.409	2.447
Flats in private houses	9.507	10.417	11.671	13.279	12.688
AREA OF UNFINISHED FLATS, in thous. m ²					
TOTAL	856	898	1.006	1.196	1.191
Flats in residential buildings	135	95	111	158	176
Flats in private houses	721	803	895	1.038	1.015

Table 5. Housing construction [3]

According to the Law on Spatial Planning and Constructions (Official paper CG 51/08), specially treated are family residential buildings (buildings intended for residential areas to 500 m² and a maximum of four separate residential units) whose construction was exempted from review of technical documentation and supervision obligations, and the conditions which have to be obliged by the responsible architect in this case are lower (bachelors degree instead of specialist degree), which all contribute to lower costs of construction. Investors in these buildings are usually individuals who financed the construction from their own savings and/or mortgage loans.

Information about holders of construction activities contains the number of subjects, number of employees, income as well as amount of gains or losses. In the research which was conducted for the needs of preparation of the Strategy of construction development in Montenegro until 2020, based on available data from the Central Registry of the Commercial Court, the Fund for Pension and Disability insurance and Tax Administration, a database was created on commercial entities working in operatives-contractors, in production and/or trading of building materials and planning.

According to these data, at the end of 2008 there were registered 2,632 subjects in construction activities, which deal with the building, their concentration was highest in the southern region, then in the middle, and the lowest was in the northern region of Montenegro. However, this number does not represent a real view of the situation in the areas, because only about 50% of the subjects were considered as active subjects in the conducted research. The data on the number of companies can give a wrong image of the real situation, because there is a large number of parts of foreign companies or companies whose founders or cofounders are foreign legal entities and private individuals founded in order of achieving the right on properties or achieving the easier payment operations between Montenegro and surrounding countries.

According to the available data from 2010 [6] the total number of registered legal entities that have construction activity as a predominant activity is 3,134 (under the code of activity 45).

It can be said that the identified characteristics of construction in Montenegro are also valid for the part regarding participants, contractors in housing construction [7]:

- there are no large companies which are holders of development, only a small number of medium enterprises, and the rest are small enterprises,
- a small number of employees in companies with greater participation of non-resident labor,

- large short-term obligations which are on the level of constant property which is probably a guarantor for these loans,
- presence of large stocks in company business,
- lack of resources in companies,
- lack of available financial assets,
- no satisfactory level of mechanic equipment in most companies - outdated equipment and machinery,
- bad and inefficient organization, reduced productivity
- lack of quality staff – insufficient number of qualified and highly professional staff,
- Difficulty in obtaining bank guarantees.

The construction activity of companies that operate in Montenegro, can also be illustrated by the average number of employees in the construction activities and finished effective hours of employees (Table 6).

Year	Number of employees on construction place at the end of report quarter		Finished effective hours in 000	
	number of employees	Index	000 hours	Index
2005	2.343	63,9	5,345	66.2
2006	3.525	96,2	8,424	104.4
2007	3.522	96,1	8,280	102.6
2008	4.200	114,6	9,994	123.8
2009	3.665	100,0	8,071	100.0
2010	6.783	185,1	8,061	99.9

Table 6. Number of employees and finished effective hours [8]

The table shows that since 2005 to 2008 there is a trend of growth in the employees' number and in the growth of effective working hours with the concurrent growth of productivity, while in 2009 there is decrease in productivity, which intensively continues in 2010.

5. Analyses of movement on real estate market in Montenegro

The real estate market in Montenegro has always been very attractive. Even at the time of the SFRY, the real estate business on the Montenegrin coast was a very attractive source of income for many individuals and public companies at the time. The first buyers of real estate in Montenegro, at that time, were mostly from the former Yugoslavian republics (Serbia, Bosnia and Herzegovina, Macedonia).

Towards the end of the seventies and eighties, the mass purchase and construction of real estate in Montenegro was commenced by the citizens who have lived in Western Europe countries or in other republics of former Yugoslavia. In addition, this group includes buyers

who have worked and lived abroad (Germany, Switzerland, Austria and USA).

In the early nineties of the last century first foreign investors and buyers of real estate came to Montenegro. The market began to develop very quickly, but wartime events, which took place in the former Yugoslavian, influenced the slowdown of the process. However, despite this, the real estate market was nevertheless constantly developing, because the number of domestic buyers was not reduced, nor was the number of buyers who were citizens of or born in Montenegro and lived abroad. Towards the end of the nineties and at the beginning of the new century, the first interested buyers from abroad began arriving (Russians, British, Irish, Norwegians). At the end of 2001 began what we call the “explosion” of real estate market in Montenegro.

In the period from 2004 to 2005, many foreign agencies, mostly from England and Ireland, started to work on the territory of Montenegro. Foreign companies started a significant number of investments on the system “*ready to rent*”, especially in the cities on the coast. Along with the increase in the buyers’ interest, starts the increase in prices. During this period the average price of newly built flats in Montenegro amounted to 639 €/m² (2004), i.e. 813 €/m² (2005).

In the following period, the housing market in Montenegro was developing very dynamically, reaching its heyday in 2008. Movements on this market were particularly intense in Podgorica and the coastal region. The reasons for the increase in real estate prices in the period of 2005-2007 were a large foreign demand, household income growth with the growth of housing approved loans, the decrease in interest rates and the growth of capital markets [9]. According to official statistics, the average price of newly built flats in Montenegro in 2008 rose by more than 40% in just two years amounting to 1,530 €/m² (in 2006 it amounted to 1,087 €/m²) [5]. According to the analysis of the CBCG, the average square meter of living space in May 2008 in Podgorica was 1,738,3 €/m² [3]. According to the same analysis, the average price per square meter of living space in Budva amounted to 3,036 €.

The coefficient of availability of real estates, which measures the ratio of the average price per square meter and the average net wage in Montenegro was in 2008, for Podgorica, 4.09 and for Budva it was 7.61. the presented data point to the high cost of real estate in Montenegro at the time, and the relative unavailability of housing objects to employee population.

The interest rate (nominal and effective active) on loans in the period in 2003 -2008 significantly declined, which contributed to the growth of approving of housing loans. Thus, from January 2005 until June of 2008, it declined by 42.9% (from 13.8% to 9.23%). With the decrease in effective interest rates at the same time increased the number of approved mortgage loans and their share in the total household loans to individuals. Namely, since the third quarter of 2005 until the second quarter of 2008, the housing loans increased by 36.7 times, while in the same period, the total loans to individuals increased by 10.62 times. Thus, the share of housing loans in the total loans approved to individuals increased from 7.25 % to 25.02% in the second quarter of 2008, i.e. from 13.36% to 41.46%, if under the item housing loans we refer also to the mortgage loans. [9]

Along with the development of the banking sector and the real estate market in this period there was a significant development of capital markets (as a significant factor of real estate development). The turnover on the capital market in 2007 compared to 2005 was 3.5 times higher. Money from the sale of the property was invested in the purchase of securities on the capital market, so that the achieved high yields can be used as a good finance basis for the purchase or resale of new properties. In the first half of 2008, there was a significant decrease in investment in the capital market, which had an impact on the real estate market and prices.

In the last two years, with the global financial crisis, the real estate market in Montenegro has experienced a “fall” in terms of the scope of realization and the level of selling prices. However, it is obvious that most expected decrease in real estate prices missed. Now, it is difficult to assess the level of the real estate market in Montenegro, because according to all sources of information, transactions are significantly reduced. This kind of information and orientation can be provided by CEB’s project “1.000+ flats” launched at the end of the 2010 with the offer of affordable flats by the average prices below 1,000 €/m².

According to recent data from Monstat, 2009 was characterised by buying and selling of 962 flats with a total useful area of 56,100 m², and an average price of 1250 €/m² [10]. According to the same source, in the first half of the 2010 , 529 flats were sold with a total useful area of around 31,000 m², at average prices of 1200 €/m². In both cases, the highest price of housing spaces was in Bar and Budva (1400-1500 €/m²). These data indicate a significant decline in prices of newly built flats compared to the previous period. (Table 7).

Year	2005	2006	2007	2008	2009
Montenegro	813	1,087	1,332	1,530	1,250
Podgorica	798	868	1,072	1,355	1,168
Bar	798	986	1,486	1,188	1,516
Budva	932	1,377	1,527	2,165	1,334
Nikšić	-	-	907	1,003	802
Other	659	2,082	2,769	2,806	1,537

Table 7. *Prices of newly built flats [3]*

The coefficient of availability of real estate, as the ratio of the average price per square meter and the average net wage in Montenegro (applied to newly constructed flats), and according to the latest data from 2010 amounts to 2.5 [10, 11]. In relation to data from 2008, the reduction of the ratio is about 56%, which is a result of decrease in flat prices and a slight increase in net wages.

A significant “fall” of the real estate market in Montenegro came, among the other things, because of the absence of mortgage financing from mother banks, which was almost stopped along with financial crisis. The banking sector was very impaired by withdrawing of deposits in the amount of 400 mil € by local clients in the period of severe crisis. In the meantime, the situation has improved in part. Commercial banks have started again with offers of long-term mortgage loans with a repayment period of 15 - 25 years, the interest rates of 10 to 13% and a required minimum of deposit of 20% of the loan amount.

According to current laws, there are no special restrictions on the purchase of real estate in Montenegro. Every foreign buyer may become the owner of the property (houses, flats, estates) in Montenegro, in the same way as its nationals. The only difference in the process of purchasing the property between foreign and domestic buyers is in the purchase of land without buildings. In the case of a foreign citizen, he is required to register the company, which becomes the owner of the land as long as a facility is not built on it. After that, the property can be transferred to the individual name, following simple instructions. According to unofficial estimates, foreigners own more than 1,5 mil m² of real estate in Montenegro (of which most of the coast), which is about 10% of residential property. In addition, more than 20 thousand hectares of land is also owned by foreigners, which is about 1.5% of the territory of Montenegro. The growth rate of real estate sales to non-residents during the period 2004-2008 amounted to 104.4% (2004), 547.16% (2005), 382.05% (2006) and 51.27% (2007). The heyday of real estate purchases by non-residents in Montenegro was recorded in 2007 when the turnover of real estate in Montenegro by non-residents amounted to

€514,357,000.98, after which starts a reduction in the net inflow of foreign direct investment in real estate.

One of the most important factors on the real estate market is the amount of taxes on real estate sales and taxes on real estate ownership. In comparison with the environment, we can conclude that the tax rate on real estate in Montenegro is still liberal (3%), and that is not a limiting factor in the real estate market development. Tax on the real estate in Montenegro is determined by local government, to whom belongs the whole income tax (which is provided with a high degree of fiscal decentralization). The tax rate is proportional and the local government decides the cost of taxes based on the type of real estate, but shall not be less than 0.10%, or higher than 1.00% of the market value of real estate, while there are no special rates for non-residents.

Since the real estate market is by its nature very unpredictable, and time series on the movement of the market in Montenegro do not exist, except for statistical monitoring of prices of newly built flats (on semi-annual basis), more accurate projections of future trends in this market cannot be given. According to some unofficial estimates, in the next short-term period there can still be expected a stagnation on the real estate market. In addition, no significant price correction should be expected because of the famous impact of the so-called Histeryzis effects (rigidity in the downward price movement). This is all the more so because the expected price decrease did not occur even after the first and strongest effects of two decisive factors for the market in Montenegro: the decline in demand of residents for real estate and appearance of the global financial crisis.

6. Conclusion

The housing fund of Montenegro, by its structure and quality represents, on the one side, a significant economic factor, as immovable property of great value and durability, which through the creation of better conditions of life contributes to the increase in labor productivity and the overall economic development. On the other side, the developed real estate market encourages the construction of flats, improving of the housing fund and thus affects the production and employment.

The basic characteristics of the housing fund in Montenegro are mainly privately owned, relatively small average areas (around 66 m²), relatively uniform presence of all sizes of flats and the average age about 30 years. In addition, from the ratio between the number of households and the number of flats it can be seen that the total number of flats per household in-

creased from 1.4 according to the census from 2003, to 1.6 flats/households according to preliminary data from census from 2011, which to some extent indicates the inconsistent distribution by the certain categories of population.

The interest in the real estate market in Montenegro in the past has led to significant investments in the housing construction and stimulating effects on the development of this economic activity through the establishment of many businesses in the construction sector. In order to respond promptly to the increase in demand and achieve higher profit, thanks to high market prices of housing, particularly in attractive areas and locations, there has been an intensive development of construction companies. Unfortunately, this increase in quantity has not been matched to their adequate development, among other things, due to certain limiting environmental factors (lack of trained labor, unavailability of loans for business improvement and investments in fixed assets, a strong impact of grey market, etc.)

However, the contemporary housing market is characterized by a significant decrease in demand, which is a consequence of the global economic crisis, which caused the decline in housing prices and aggravated the business of a larger number of small construction companies.

Improvement and development of the housing market aims, other than settling the basic housing needs, at creating opportunities for stirring the development of specific forms of tourism. Satisfying both of these goals is impossible without analyzing and defining the strategic directions in the field of the social housing policy, on one side, and strategic directions to improve residential real estate market, on the other. Towards the end of 2010 Montenegro has made steps in this direction creating a comprehensive National housing strategy of Montenegro and Research studies for residential real estate market.

The National housing strategy established a vision of the *housing sector*, which includes a sustainable housing sector, which will, on the developed housing market, al-

low everyone to get a quality flat appropriate to their own economic power, and for the most endangered to provide an appropriate mechanism for assistance. Also, the Strategy determines the mission of the housing sector which is supposed to be a dynamic, organized, flexible and sustainable system, which will be supported by all participants (governments, local government financial and other institutions, companies) to develop the market and other mechanisms (different housing programs, subsidies, etc) and create opportunities so that households and individuals can satisfy their diverse housing needs [12].

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