

# An emerging destination for leisure property

*As the government aims to establish Montenegro as an elite tourism destination, attractive prices and high yields lure investors to this Mediterranean country.*

Set in the heart of Eastern Europe, bordered by Croatia and Bosnia Herzegovina to the North, Serbia to the East and Albania to the South, the small country of Montenegro has a population of just over 620,000 inhabitants.

Despite its small size however, in recent years, the country has increasingly moved into investors' radars. According to data from the Ministry of Sustainable Development and Tourism of Montenegro, total FDI inflow has risen from just EUR 10 million in 2000 to a total of 4.8 billion for the period between 2007-2014, with 2009 showing the highest volume of FDI inflow to date with EUR 1.22 billion.

Until 2014, Russians have been the biggest investors in Montenegro. However, with the devaluation of the ruble and changing national politics in Montenegro, this has changed. Kieran Kelleher, MD of Savills associate Dream Estates Montenegro says that whereas in 2013, Russians made up 95% of their buyers, today the number is less than 50% with the balance being made up by returning Western European buyers and interest from the Middle East.

## **ATTRACTION POINTS**

Whilst still an emerging destination for leisure property, "Montenegro is slowly becoming a very desirable destination for high-end buyers," says Savills, adding that the country fits with the firm's longer term view on the "growing appeal for the authentic."

Market attraction points include an open market, political stability, EU candidacy status and ambitions to join NATO as



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Sveti Stefan

well as its currency, the euro.

In addition to this, Montenegro possesses beautiful nature and lots of history. Kotor Old Town, for example, is a UNESCO World Heritage Site and "offers prospective investors historic property with income potential," says Savills.

There are also several fiscal and other incentives for foreign investors such as a VAT of 0% for all products and services for the construction and equipment of 5 star hotels, reduction of real estate tax by 30-70% for 4+ star hospitality facilities which operate year-round, and a temporary residence permit in association with the purchase of real estate which will help raise more interest in buying property in Montenegro.

### **TOURISM**

Montenegro boasts a stunning Mediterranean coast which attracts wealthy clientele many of whom make this country their summer yachting destination.

In fact, attracting investment in high-end tourism is one of the Montenegro government's biggest aims. As mentioned above, there are significant tax reliefs for investors looking at the delivery of 4 and 5 star properties to be operated as hotels or as leaseback property, says Kelleher.

In 2013, Montenegro has been ranked the first among 184 countries by the World Travel & Tourism Council with regards to its forecasted speed of growth in 2014 as well as according to its long term growth forecast. Direct contribution of travel and tourism to GDP stood at 9.8% of



total GDP in 2013, and is growing at an annual rate of 8.6%, with an estimated share of 17.7% in 2024. In 2013, 28% of total investments were in the travel and tourism industry and are estimated to constitute a share of 52.3% in 2024.

### THE REAL ESTATE MARKET

Analysts say that Montenegro is poised to become one of the most popular destinations in Europe.

"Without a doubt, Montenegro will find its position on the European and world stage as a prime second home destination for discerning buyers in the mid to long-term," says Kelleher.

"Judging by the billions of euros currently being invested in resort product, the ongoing dramatic improvements in infrastructure, increasing air links and the low starting prices for property compared to other traditional markets and finally the commitment of the government to attract high-end tourism, all will ensure that Montenegro is very well poised to become the fashionable place to own a second home and upmarket holiday destination," he adds.

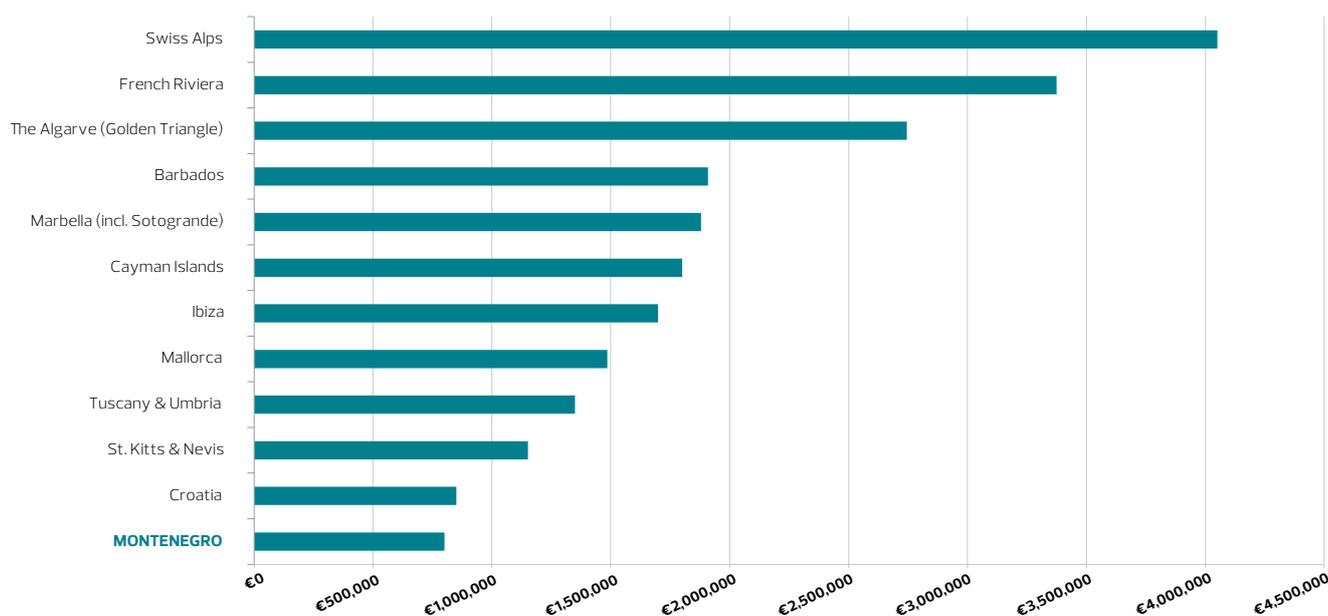
One advantage of the Montenegro market is that it com-

prises a "very diluted base of foreign buyers," as Kelleher says. "In developments such as Porto Montenegro, 30% of current property purchasers are from the Middle East. In Kotor Old Town, more than 70% of buyers are from the UK while the Budva Riviera is still favoured by Russian buyers."

According to Kelleher, the dilution in nationalities ensures that the market has several drivers. While western European buyers mainly look for a good investment return, Russians are primarily focused on lifestyle while for Middle Eastern clients, Montenegro is the perfect base for exploring Europe and a cost effective alternative for yacht mooring and management. "In turn, with increasing wealth in local and regional markets, we are continuing to see strong interest from the region whose traditional holiday playground has been Montenegro for decades," he says. Buyers of prime property are drawn to Montenegro on the back of its favourable prices when compared to more established markets (see graph on the top right hand page).

"There are still bargains to be had for clients wanting to roll up their sleeves and get involved in renovation projects. Brand spanking new resorts such as Lustica Bay among oth-

## PRICE FOR A TYPICAL FOUR BEDROOM VILLA IN A NEWLY BUILT PRIME DEVELOPMENT (ABSOLUTE PRICES INCLUDING VAT), 2015.



Source: Savills and Dream Estates Montenegro

ers are extremely good value for clients looking for new build property and are priced to deliver decent appreciation in the mid-term," Kelleher says.

In terms of best locations and rental income, he comments: "The Old Town of Kotor is the capital of yield! Here for instance, a 2-bedroom Old Town baroque apartment can be purchased for around EUR 120,000 and after renovation can yield more than 7% net annually. Visitors really enjoy staying in the Old Town and this drives the occupancy nights per annum. Budva would be next best option."

### NEW OPPORTUNITIES

One of the major challenges to Montenegrin tourism has always been inadequate infrastructure. However, as it aims to establish the country as an elite tourism destination, the Montenegro government has made investing in infrastructure a high priority. For example, construction of the new Bar-Boljare highway has just begun; the EUR 900 million Chinese backed project, which will connect Montenegro's developed South with the still very poorly developed northern region, is expected to open up new investment opportunities in the

North. According to the Ministry of Sustainable Development and Tourism, the Northern region bears great potential for tourism related development, especially for mountain ski resorts as it boasts National Parks, mountains, rivers and lakes.

### OUTLOOK

Experts certainly expect investor interest in Montenegrin property to increase. "We are still in the early part of the growth curve – still very much an emerging market at least for the near-term. Investors still see very good financial returns considering the price of land, the cost of building, the safety of investing and the ongoing interest from second home buyers in completed property – with this demand pushing up sales prices," Kelleher says.

He adds that for his company, the continual emergence of 5 star hotels is key to general market growth and continuing investor interest in Montenegro. He thinks that the development of prime hotels confirms the future direction of the market which is one that attracts sophisticated investors.

# A small country with big potential

*Cityscape magazine spoke to Branimir Gvozdenovic, Montenegrin Minister of Sustainable Development and Tourism, about the opportunities Montenegro offers for real estate investors.*

**How has the Montenegrin real estate market developed over recent years?**

Reforms in the field of building construction have been continuously implemented by the Government of Montenegro since 2006 and the situation in this sector in Montenegro has been monitored by the World Bank. In its Doing Business Report, the World Bank established that we moved up an incredible 85 places in comparison to 2013, in terms of procedures regarding issuance of construction permits, which are being issued at one counter. In the past eleven months, the Minis-

try of Sustainable Development and Tourism issued 36% more construction permits, than, for instance, in 2012. We paid particular attention to implementation of incentives when it comes to construction of hotels, and since 2013 we have been recording constant growth in the field of issuance of permits for high class hotels, as much as by 140%.

Generally, over the past couple of years, Montenegro has seen a large growth in foreign direct investments in the real estate sector, along with its parallel, continuous, normative improvement that resulted in an extremely high growth rate in the construction sector, while new investments are also expected. In the near term, investments worth several billions of euros are planned in tourism and other key strategic fields.

**What makes Montenegro an attractive market for real estate investment? What benefits can potential investors expect when investing in Montenegro?**

Montenegro is a small country of numerous opportunities, with proximity of the coastal to the northern area being one of the main advantages, in addition to its immense natural beauty.

Furthermore, the current policy and development strategy of Montenegro recognises tourism as the key economic sector, whose economic



capacities represent a prerequisite for dynamic development and GDP growth. In that regard, we would like to emphasise that planning documentation has been completed, enabling construction of great number of hotels, as well as a set of stimulating measures, prepared and planned to be implemented by the Government of Montenegro, with the aim of developing new tourism contents.

**In the long term, where do you see Montenegro with regards to its offer compared to its neighbour countries, as well as other European countries such as Spain and Italy?**

In comparison to the majority of countries that are recognised as tourism destinations, our comparative advantage lies in the diversity of content,



**Branimir Gvozdenovic, Minister of Sustainable Development and Tourism**

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natural resources and possibility of experiencing adventures on a small territory, in a short time period. As a special particularity I would like to mention that the two farthest points in Montenegro are only 190 km airline distance away from each other.

At the same time, key projects in tourism in Montenegro are developing at their own pace: Porto Montenegro with its luxurious Regent Hotel; Luštica Bay, developed by Swiss-Egyptian company Orascom; Portonovi of Azerbaijan company Socar; Beyond Horizon, by Qatari Diar as well as Aman Resort – Sveti Stefan.

All of the above mentioned points contribute to the fact that Montenegro ranks high on the list of preferred investment and tourism destinations.



Porto Montenegro