

Why Savills?

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now employs over 19,000 staff in 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. The Savills name is synonymous with a high quality service offering and a premium brand, takes a long term view on real estate and invests in strategic relationships.

SAVILLS MONTENEGRO

The Savills Montenegro associate office was established in 2002 and is the largest international real estate agency the country, with offices in Kotor and Budva and representation in Podgorica. The agency provides traditional real estate services as well as development consultancy services for a wide range of clients including the Middle East, Russian and European developers.

The agency is run by Irish-born Kieran Kelleher, who completed his MBA in Sydney before holding senior management roles in the Far East and Europe, prior to establishing the agency in Montenegro.

Services

Based in Berkeley Square in London's West End, the International Residential Department provides an extensive range of property services for international property owners and developers:

CONSULTANCY

Market research, concept development, urban and resort master planning, financial investment and structuring, programme management coordination, branding, sales and marketing services.

AGENCY

Development sales and market services for international developments and resorts. This includes both on-site and off-site sales operations and global sales road-shows. Our Alpine Homes Division a leading specialist in the sales of ski property for pleasure and profit.

NETWORK

Individual and multi-unit property sales services through an international network of Savills and associate offices around the world. We also offer a bespoke off-market property sales service.

RESEARCH

Knowledge of both local and international market dynamics, through Savills' global presence and research capabilities. Includes regular reporting on local market conditions and research reports tailored to clients' specific requirements.

For further information please contact:



Charles Weston Baker
Director
+44 (0) 207 016 3741
cwbaker@savills.com



Kieran Kelleher
Savills Montenegro
+382 (0)32 304 788
kieran@sav-montenegro.com



Rebecca Gill
Associate
+44 (0) 207 016 3740
rgill@savills.com



Daniel von Barloewen
Associate
+44 (0) 207 016 3744
dvonbarloewen@savills.com



Jelena Cvjetkovic
Development consultant
+44 (0) 207 016 3754
jcvjetkovic@savills.com



Riyan Itani
Associate
+44 (0) 207 016 3797
ritani@savills.com

Savills (L&P) Ltd

Lansdowne House
57 Berkeley Square
London W1J 6ER
Tel: +44 (0) 207 016 3812
Fax: +44 (0) 207 016 3749
Web: www.savills.com/abroad

DISCLAIMER

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

Market snapshot Montenegro



Savills International Research

savills.com/abroad



Montenegro overview

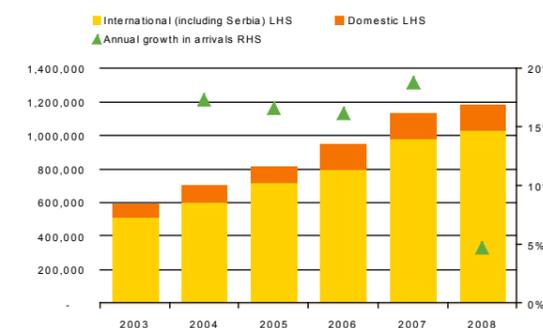
The Republic of Montenegro is a Mediterranean country located in south eastern Europe. It shares borders with Croatia, Bosnia & Herzegovina, Serbia and Albania, and lies across the Adriatic Sea from Italy. It has a small population (620,000 from the 2003 census), 27% of who live in the capital, Podgorica. Montenegro has been a sovereign state since independence from its union with Serbia in 2006. It has since joined Nato's Partnership for Peace (PfP) programme (2006) and is currently a potential candidate for European Union (EU) membership.

The Montenegrin government's objective is to create an environment that is business-friendly, with minimal state interference and an open economy with low taxes. Montenegro is a services-based economy, with approximately 60% of GDP generated in the services sector. Montenegro has, and continues to undertake a wide ranging programme of structural and institutional reforms, which have enabled it to benefit from robust economic performance. As such, the World Bank noted "In 2007, Montenegro was one of the world's fastest growing non-oil economies" (source: World Bank, Report No. 46660-ME, November 2008).

Indeed, the country has seen strong levels of GDP growth at 10.7% and 7.5% in 2007 and 2008 respectively. Further, while Montenegro is not part of the Eurozone, it has adopted the Euro as its sole legal tender which has helped to control inflation in recent years. Robust economic performance has also led to improved social indicators with substantially increased wages and unemployment dropping from 19.7% in 2005 to 10.7% in 2008.

"The Government of Montenegro, which was re-elected for another four-year term in March 2009, is actively pursuing a low tax economy with sustainable growth in a safe and stable environment and is working towards full EU and NATO membership in the near future. Since independence in 2006 an ambitious program of wide-ranging economic and bureaucratic reforms, along with investment in infrastructure, is making Montenegro an investor friendly country attracting the highest FDI per capita in the region."
Mr Branimir Gvozdenovic, Minister for Spatial Planning and the Environment

Figure 1. Volume and growth in tourism arrivals in Montenegro 2003 to 2008



Source: MONSTAT and Savills International Research

Investors responded positively to Montenegro's economic reform programme and Foreign Direct Investment (FDI) inflows have increased from US\$63 million in 2004 to US\$876 million in 2007 (source: UNCTAD). Approximately half of 2007 FDI originated from the EU 27 countries, which comprise Montenegro's principal trading partners. This has mostly been channelled into tourism and the associated real estate and banking sectors.

Real estate sales and tourism have subsequently become key components of the Montenegrin economy. Indeed, the World Travel and Tourism Council (WTTC) estimate that in 2009, Montenegro's travel and tourism sector will contribute directly and indirectly to almost 21% of the country's GDP, making it the world's fastest growing country. The WTTC also forecast capital investment into the travel and tourism sector to total €288 million, equating to almost 34% of all capital investment and demonstrating 14.4% growth in 2009.

According to the WTTC, between 2010 and 2019, Montenegro's travel and tourism economy is estimated to grow 6.2% per annum in real terms. The WTTC also ranks Montenegro among the world's top ten countries for tourism demand over the next decade. WTTC/Oxford Economics predict that Montenegro's annual growth will be second only to that of China but will outpace that of India.

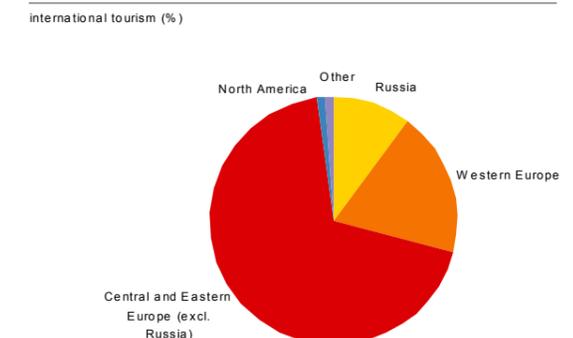
Despite significant economic progress, with its large leisure and real estate sectors, Montenegro is exposed to global recessionary pressures. Worldwide FDI started to shrink in early 2008, however, by the end of 2010 positive economic performance is expected to return, with stronger levels of growth anticipated in Montenegro than in the Euro area.

Tourism

World travel and tourism has seen strong growth in recent years supported by rising affluence, the advent of budget airlines, and the emergence of both new destinations and outbound markets. In 2008, European countries hosted more than half (53%) of the world's 924 million tourists.

In line with this trend, tourism in Montenegro has grown substantially, at a compound average annual growth rate of 15% between 2003 and 2008. As set out in Figure 1 visitors totalled 1.18 million in 2008, including 13% domestic (Montenegrin) tourists.

Figure 2. International visitors by origin, Montenegro, 2007



Source: MONSTAT and Savills International Research

Cover image: The idyllic town of Perast

Opposite: Risan is the oldest of the famous Montenegrin settlements on the Bay of Kotor





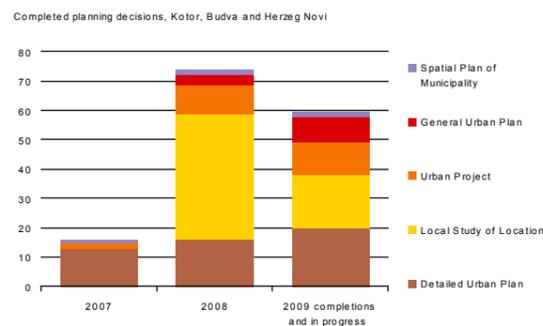
The beauty of its surroundings is fast establishing Montenegro on the tourist map

► The Serbian market dominates the international visitor market at 40% of all foreign visitors, followed by those from Russia (10%) which is the fastest growing tourism source market. In total, visitors from central and eastern Europe (including Russia) comprised 79% of foreign visitors in 2007. In comparison, Figure 2 shows that those from western European markets accounted for 19% of foreign tourists, led by the Italians, French, German, Austrian and British, respectively.

Visitor average length of stay is approximately six nights, for both domestic and international tourism. This demonstrates the volume of holiday (as opposed to business) visitors to the country, a positive indicator for leisure hotel operators.

Montenegro's climate is comparable to established Mediterranean destinations, with warm summer temperatures conducive to beach holidays. Indeed, 90% or just over one million of all tourists in Montenegro stay

Figure 3. Planning completions, Kotor, Budva and Herzeg Novi



Source: Black Mountain Resorts and Montenegro Official Gazette

in coastal locations. Currently, tourism is very seasonal. Coastal towns see almost 60% of annual tourists visiting in July and August alone. In the longer term it is anticipated that growth in the hospitality sector, with increased leisure amenities and second homes, as well as the development of Montenegro's ski industry will even out this seasonal pattern.

Infrastructure

In order that Montenegro can remain a player in an increasingly competitive tourism industry, it is essential that investment is channelled into improving infrastructure; in particular to support the Montenegrin government's priority goals outlined in its tourism strategy, ie. to generate high end tourism, targeting northern and western European visitor markets.

Indeed, robust economic growth has put increased pressure on Montenegro's public and physical infrastructure: Rising tourism numbers have put a strain on resources in peak periods, leading to shortages in water and electricity, in addition to traffic blockages.

In order to address this situation, the government has successfully sought overseas investment into its energy and infrastructure sectors and has adopted a number of plans to improve Montenegro's road and rail transport. A new coastal water supply is being installed at present and the first phase from Skadar Lake to Becici has almost been completed. It is proposed that this will continue down the coast to Tivat. Italian investors are purportedly in serious discussions to invest €billions into hydro-electric generation, the electricity grid and the railway system.

In addition, work has commenced to eliminate 16 traffic bottlenecks in the core road network. Priority road projects include the Bar-Boljare highway (170km) linking the Serbian border to the coast and the Montenegrin section



Figure 4. Proposed pipeline resort developments, Montenegro

- 1 Sveti Marko Island Resort, Tivat**
Status: Planning
Banyan Tree hotel and spa, marina, 61,000sqm residential, supporting sports, leisure, retail, F&B
 - 2 Porto Montenegro, Tivat**
Status: Dock construction
Private residential sales, marina, hotel, casino, supporting sports, leisure, retail, F&B
 - 3 Astra Montenegro, Budva**
Status: Under construction
Sales launched May 2008 96,000sqm of hotel and residential, marina
 - 4 Royal Montenegro Grand Resort, Skocidjevojka**
Status: Project
Residential, marina, supporting sports, leisure, retail, F&B
 - 5 Aman Resort**
Status: Part open
 - 6 Atlas Capital Center, Podgorica**
Status: Under construction
Mixed use: retail, office, residential, F&B
 - 7 Velika Plaza, Ulcinj**
Status: Under development tender
Government managed project, 1,450ha
- Note: F&B = food and beverage facilities



Source: Individual developments and Savills Montenegro

of the Adriatic-Ionian Highway (100km), which will run from Zagreb in Croatia from the north, to Albania's southern coast.

Investment has also been channelled into Montenegro's growing aviation sector and strengthening international flight connectivity at its two international airports located in the capital Podgorica and Tivat on the coast. Flight connections now include not only capital cities within the Balkans and central and eastern Europe, but also connections to key European financial centres, including London, and targeted western and Nordic tourist markets.

Montenegro's central European location makes it highly accessible to Europe's 732 million-strong population. For example, it lies under three and a half hours flying distance of Moscow and comfortably within the key three hour flight time of the UK, in which more than two thirds of second home buyers typically invest.

In the long term, there is strong potential for Montenegro to benefit from its expanding tourism industry. The World Economic Forum (WEF) 2008 Travel and Tourism competitiveness index placed Montenegro's natural resources ahead of those of Greece and Turkey: Its array of attributes include its scenic Adriatic coastline

"Montenegro has just celebrated its third year of independence. Helped by its ambitions to join the EU and NATO, Montenegro has enjoyed impressive political and economic stability in recent times, and is undergoing important reforms which will help it confront the challenges of the future. Its outstanding natural beauty will continue to be a major asset."
Mr Kevin Lyne, Her Majesty's Ambassador to Montenegro

dotted with picturesque islands, beaches, historic ports and towns steeped in rich culture and heritage. This is complemented by a dramatic backdrop of wild forests, canyons and mountain ranges. UNESCO World Heritage natural sites in Montenegro include Skadar Lake, Tara Canyon and Durmitor National Park.

Montenegro: residential market

Supply

Montenegro's property market is characterised both by historic properties of charm and character, as well as pockets of local housing projects. In recent years, rising domestic wealth and overseas interest in Montenegrin property have sparked a boom in the sale of land for residential and hotel development. Developers have enjoyed the opportunity of tapping into a virgin market identifying long term potential in the leisure and real estate sectors.

However, owing to the volume of proposed new plans and that the country's administration is in a transitional stage, planning decisions have been slow in coming to fruition. Now, coastal areas are covered by a detailed structural plan and, as demonstrated in Figure 3, 2008 saw 74 completed decisions in coastal locations Budva, Kotor and Herzeg Novi alone, with as many as 60 completed or in progress by June 2009. This will lead to more a more planned development process to take advantage of the predicted rise in the level of tourism.

In order to prevent sprawling, piecemeal new residential development, and in line with targets to generate high end tourism, the government is supporting the development of a number of large scale resort developments along Montenegro's coast. As shown in Figure 4, the majority of these lie in the Tivat and Budva regions, benefiting from international airport access at Tivat.



► In addition to significant new residential development, many of these proposed schemes will be anchored by international branded hotel operations, with amenities including marinas, sports and leisure facilities and supporting food, beverage and retail offer. Such developments aim to address the current lack in supply of quality hospitality and leisure amenities in Montenegro that need to be in place in order to attract high-end tourism.

The last few years have seen a number of branded international hotel operators expand their European portfolio into Montenegro. In 2008, Porto Montenegro near Tivat announced the development of a Four Seasons Resort Hotel. In May 2009 Banyan Tree Hotels signed a cooperation agreement to manage the hotel and spa at Sveti Marko Island resort in Tivat Bay, and Aman resorts partially opened its property close to Sveti Stefan. In its 2009 report, the Montenegrin Investment Promotion Agency highlighted that these developments, along with other major hotel brands (including Kempinski and Hilton) together with expressions of interest from several strategic investors, should attract up to €4 billion to Montenegro by the end of 2011.

Such operators showing continued commitment to projects in Montenegro, despite times of global economic uncertainty, are a significant boost for both its luxury hotel sector and the long term prospects for its tourism and real estate industry as a whole. Interviews of development managers at a selection of these resort hotel brands showed they view Montenegro as an undiscovered part of the world with significant long term potential in its tourism sector development.

“The banking sector in Montenegro, being the strongest part of the economy, has been through a challenging time in 2008, early 2009, however, in mid-2009 we start to see some positive signs in the market. Lending is still rather restricted, especially in the real estate sector, since there is room for adjustments in the business plans by the project owners. We might see a slow return to lending, albeit on a more selective basis, in the next 8-12 months.”
Dr. George Bobvos, Chief Executive Officer,
Crnogorska komercijalna banka AD Podgorica



The ancient village of Perast is rich in Venice-like architecture, which includes Baroque palaces, and a series of nine defensive towers

Demand

Global second home ownership has risen sharply in recent years, supported by credit availability and rapidly rising property prices. In 2006, for example, the number of English overseas second home owners grew by 18% compared to 2005. Over this period, British and Irish buyers have dominated the Montenegrin market, purchasing property for both lifestyle and investment purposes. They are mostly drawn to the charm of traditional housing stock, dramatic vistas and the attractive price levels when compared to established holiday home destinations.

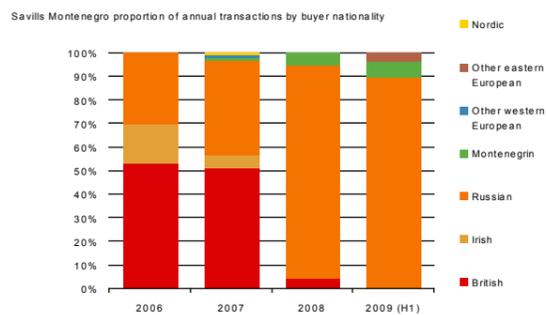
High levels of demand have led to significant upward pressure on residential prices: Between 2004 and 2007, average new build residential prices in Montenegro have more than doubled, with coastal towns Budva and Bar leading the boom in property values.

Asking prices at new build developments targeting foreign buyers are significantly above average Montenegrin residential values, typically between €1,500/sqm and €5,000/sqm. At some of the proposed larger, high-profile schemes with branded operators and strong amenity provision, multi-million euro properties are being launched, targeting the global high net worth individual market.

Credit crunch

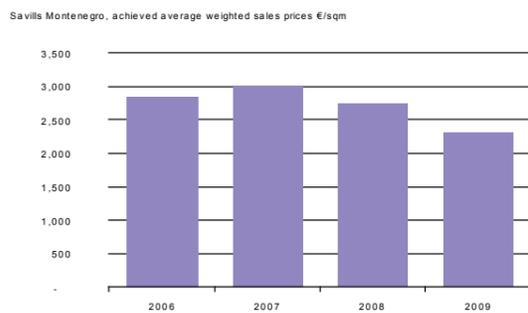
Triggered by the US subprime mortgage crisis starting in mid 2007, house prices have been falling in areas

Figure 5. Transactions by buyer nationality



Source: Savills Montenegro and Savills International Research

Figure 6. Savills Montenegro achieved average (weighted) sales prices



Source: Savills Montenegro and Savills International Research



Perast enjoys the distinction as an important protected UNESCO world heritage site

across the globe. The global economic climate, reduced confidence and worldwide liquidity shortages are therefore inevitably impacting on Montenegro's real estate sector.

In particular, principal buyer source markets, the UK and Ireland have seen house prices fall at home, leading to a drop in purchaser activity abroad. Indeed, Savills Montenegro data in Figure 5 shows that while Britons accounted for more than half of 2007 purchases, by the beginning of 2008 buying activity had significantly reduced owing to the credit crisis. At this point, residential prices were clearly over-inflated, with a distinct lack of available good quality product that reflected these high values.

The Russian market has subsequently emerged as the dominant buying force with middle class Russians seeking to invest abroad as domestic economic conditions worsen. Indeed, while the total volume of second home sales decreased in 2008, the number of sales to Russian buyers increased by 73% compared to the previous year. Factors such as the perception of stability, ease of visa-free, direct access, and an historical cultural bond have made Montenegro a popular destination for Russian second home buyers, resulting in a substantial Russian community here. Russian buyers typically favour new build residential product in locations benefiting from access to entertainment, restaurants and bars, and retail.

Over inflated property prices have led to lower demand levels, in addition, cautious buyers now prefer existing, rather than off-plan properties. Since the beginning of 2008, there has been an inevitable price correction in some areas of the market, as shown in Figure 6. Today, renewed foreign interest in the Montenegrin economy is being positively reflected in the residential market.

Summary

The high levels of overseas residential investment in Montenegro led to the explosive price increases up until 2007. Such price growth was evidently unsustainable in a market where low levels of quality new residential supply were being delivered, owing to the lack of a cohesive planning policy, and where infrastructure is under development. According to the World Bank, this price growth, which is typical to emerging holiday and second home destinations, was unsustainable moving forward and this situation has been aggravated by current global economic conditions following the sub prime crisis in the USA in 2007.

With the anticipated delivery of quality residential product at the proposed high-profile schemes, and as global economic growth and financing conditions return, Montenegro should be able to flourish as a high-end tourism destination. With branded hospitality, extensive leisure amenities and improved infrastructure, residential prices will begin to reflect real quality and value in the market place, and subsequently allow price growth to return.

Montenegro's unique geographical positioning enables it to attract visitors and second home buyers from both east and west; its Mediterranean climate and exceptional coastline, with an abundance of natural and historical features, are acknowledged by developers and hospitality operators alike, as fundamental, long term attributes which make Montenegro highly attractive as an investment location today. ■

