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MONTENEGRO CONSTRUCTION

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INDUSTRY CONSTRUCTION

Overview

Montenegro's GDP growth exceeded 8.0% in 2006 and 2007, compared to an average annual increase of 3.7% between 2003 and 2005. The International Monetary Fund (IMF) expects the annual rise of the GDP to slow down to 5.4% and 5.0% in 2009 and 2010, respectively.

In 2006 the services sector accounted for the bulk of the Montenegrin GDP. The country's inflation rate continued to rise, reaching 9.5% in the first five months of 2008. The high inflation in Montenegro and the other countries in the region is attributed to the global hike in fuel and food prices.

Unemployment, which has been on the decrease since 2004, is still a major problem in Montenegro. The number of unemployed people continued to decline in the first quarter of 2008 and made up 18% of the active population. The average gross monthly salary in the country grew by over 50% in 2007, compared to 2005. The average gross monthly salary stood at EUR 597 in the first eight months of 2008, up 24.4% year-on-year.

After Montenegro declared independence in 2006, the country became member of several international financial institutions, including the European Bank for Reconstruction and Development, the World Bank and International Monetary Fund (IMF). Montenegro is pursuing its own membership in the World Trade Organization as well as negotiating a Stabilization and Association agreement with the European Union.

Following a sharp year-on-year increase in 2006, the value of construction works in Montenegro fell by 3.24% on the year to EUR 197.639 mln in 2007. The construction sector accounted for 7.78% of the country's GDP in 2007.

MAIN ECONOMIC INDICATORS

	2008*	2007*	2006	2005	2004
GDP (EUR bln)	2.900	2.540	2.149	1.815	1.670
Real GDP, y/y (%)	7.00	10.30	8.60	4.20	4.40
Unemployment rate (%)	-	21.9	28.64	37.72	45.34
Inflation (CPI), y/y, average, (%)	17	7.7	2.0	1.8	-
Net FDI (EUR mln)	-	524.88	466.701	380.921	50.567
FDI/GDP (%)	-	20.66	21.72	20.99	3.03

*Preliminary data

Source: Central Bank of Montenegro

SHARE OF CONSTRUCTION WORKS IN GDP

	Q1 2008	2007	2006	2005	2004
Value of construction works (mln EUR)	47.445	197.639	204.248	73.252	54.501
% of GDP	3.55	7.78	9.50	4.04	3.26

Source: Central Bank of Montenegro

Montenegro's capital Podgorica and the coastal area account for the largest part of construction works in the country.

Regulation

In Montenegro building permits are issued by the municipality authorities, according to Article 32 of the Construction Act, adopted in 2000. For infrastructure projects such as roads and airports, the permit is issued by the country's Ministry of Transport, Maritime Affairs and Telecommunications.

According to the Agricultural Land Act, adopted in 1992, agricultural land can be rezoned for construction to the extent it has been planned in the relevant local plan.

The land zoning and the issuing of building permits must comply with the municipal urban plans, which have to be in line with the Master Plan Act, adopted in 2005.

Companies

In September 2008 Russian media reported that an international consortium including Hungarian real estate developer TriGranit, Russian tycoon Oleg Deripaska and Canadian businessman Peter Munk will invest EUR 8.3 bln in the construction of a tourist complex in Montenegro. The 200 ha complex in the Adriatic resort of Ulcinj will feature apartments, restaurants and yacht berths. Construction works will begin in 2010 and are to be completed by 2020.

In November 2007 Russian construction and real estate development corporation Mirax Group announced it would invest more than EUR 200 mln in the construction of a resort near coastal Budva, southwestern Montenegro. The resort will include a hotel, residential and recreation facilities with a total built-up area of 94,000 sq m on an 8.7 ha plot. It will have luxury villas, spreading on 26,000 sq m and residential and hotel complexes, covering 30,000 sq m each. The construction of the resort is expected to be completed by 2010.

In June 2007 Serbian-based holding company Atlas Group announced it will invest EUR 100 mln in a residential and office centre in the Montenegrin capital Podgorica. The project will be implemented jointly with Capital Investments, a UAE-based company which is part of First Gulf Bank. The construction of the complex is to be completed by mid-2009.

Other

In 2007 the Montenegrin Government invested a total of EUR 36.2 mln in road projects. Part of the funds were provided by the European Investment Bank and the European Bank for Reconstruction and Development.

In 2007 the Government of Montenegro approved a EUR 172 mln programme to remove 16 bottlenecks on its road infrastructure until 2009. The Government will secure EUR 145 mln of the funds, while municipal authorities will provide the remainder, according to the Ministry of Transport, Maritime Affairs and Telecommunications.

In 2007 Montenegrin coal mine Rudnik Uglja Pljevlja announced plans to build a cement plant worth EUR 100 mln.

The mine management planned to call a tender for selecting contractors and investors.

LEADING COMPANIES

Montenegrin leading construction companies include:

- Gradnja Promet DOO (Danilovgrad, Montenegro) – residential, office buildings;
- Novogradnja AD (Budva);
- Lovcen Invest AD (Podgorica);

- Kroling DOO (Podgorica) - residential, office buildings;;
- Gradnja AD (Bijelo Polje);
- Crnagoraput AD (Podgorica) – road construction;
- Tehno Put DOO (Podgorica) – road construction.

EMPLOYMENT

AVERAGE NUMBER OF EMPLOYEES UNDER LABOUR CONTRACT

	2007	2006	2005	2004
Construction	6,647	6,853	7,563	6,876
National total	156,408	150,800	144,340	143,485
% Share of national total	4,25%	4,54%	5,24%	4,79%

Source: Statistical Office of the Republic of Montenegro (Monstat)

AVERAGE MONTHLY SALARY OF EMPLOYEES UNDER LABOUR CONTRACT (EUR)

	H1 2008	2007	2006
Construction	505	430	234
National average	593	497	377
% of national average	85.16%	84.11%	62.07%

Source: Monstat

SUPPLY/MARKET

PRODUCTION/SALES

Year	Location	Number of Newly-Built Dwellings	Useful Floor Area of Dwellings (sq m)
2007	Montenegro	1,537	96 384
	Podgorica	1,312	80 908
2006	Montenegro	1,156	64 192
	Podgorica	816	43 015

The residential construction in Montenegro registered an average annual growth of 15% between 2000 and 2007. The capital Podgorica accounted for the largest part of residential development in the country. The bulk of the projects featured small-sized apartments for the middle-income group. Smaller local construction companies are the predominant investors in such projects.

RESIDENTIAL PROJECTS COMPLETED IN PODGORICA IN THE PERIOD 2007 - H1 2008

Location	Gross Building Area (sq m)	Number of Units	Year
Krusevac	6.000	94	2007
Krusevac	7.000	50	2007
Konik	8.000	80	2007

MAIN RETAIL PROJECTS UNDER CONSTRUCTION IN PODGORICA

Project	Area/Location	Developer	Total Built-Up Area (sq m)	Retail Space (sq m)	Office Space (sq m)	Other Space	Planned Opening
Delta City Montenegro	Radoja Dakica Blvd	Delta Montenegro	35.58	23	n/a	3,750 sq m hypermarket; Cineplex	2008
Green Bazaar	Save Kovacevica Str	Gintas Inc	58.5	12.4	3.88	3,100 sq m hypermarket; Cineplex	2008
Nikic	Kralja Nikole Str	Nikic	10.5	2.75	n/a	6,500 sq m apartments	2008
Atlas Business Center	Cetinjski Road	Atlas Group	85	13.9	28.55	13,750 sq m apartments; spa centre	2009

Source: Colliers International

Location	Gross Building Area (sq m)	Number of Units	Year
Momisici	9.000	32	2008
Blok V	10.000	80	2008
Krusevac	11.000	50	2008
Konik	12.000	55	2008
Drac	13.000	60	2008
Center	14.000	76	2008
Konik	15.000	100	2008
Blok VI	16.000	115	2008
Konik	17.000	150	2008
Zabjelo	18.000	300	2008
Zabjelo	19.000	200	2008
Total:	175.000	1,442	

Source: Colliers International

The office supply in Montenegro, especially in the capital Podgorica, is very limited due to the fact that Montenegro became an independent country in June 2006. The main new office buildings completed in 2007 in Podgorica were Sofranac, with a built-up area of 2,000 sq m, the eight-storey Business Center Celebic, with a built-up area of 4,750 sq m and the Stadium Centre, which is located below the grandstands of the stadium of football club Buducnost and has a built-up area of 3,000 sq m. Another building featuring office space is the TC Palada Centar.

Transport & Infrastructure

Montenegro has two international airports:

- Podgorica Airport (IATA Airport Code: TGD)
- Tivat Airport (IATA Airport Code: TIV)

The total length of the Montenegrin railway network is 250 km. The backbone of the Montenegrin railways system is the railway that connects the local coastal town of Bar with the Serbian capital Belgrade. Montenegro has direct rail links with Serbia and Albania, but not with Croatia and Bosnia and Herzegovina.

The total length of the roads in Montenegro is 5,277 km, of which 1,729 km paved. Future strategic road projects include:

- Bypass for the Moraca canyon, southern Montenegro, on the road from Podgorica to Serbia;
- Belgrade (Serbia) – Bar motorway. The Montenegrin part of the motorway will be 185.5 km long and the needed investment is seen at around EUR 2.0 bln;
- a motorway connecting Podgorica with Gusinje, Plav

DEMAND

In 2007 the demand for apartments in Podgorica was fueled by the increasing purchasing power of the population, favourable credit policies and lower interest rates, as well as citizens from the coast who sold their real estates to buy apartments in the capital. Similar to the other countries in the region, the demand for smaller apartments exceeds that for larger ones.

SELLING PRICES OF NEWLY-BUILT DWELLINGS IN MONTENEGRO

Year	Total Price (EUR per sq m)
2007	1,332
2006	868

Source: Monstat

SALES PRICES OF APARTMENTS IN PODGORICA IN 2007

District	Price (EUR per sq m)
City Centre and Other Exclusive Areas	2,600 – 3,500
Krusevac Momisici Blok V Blok VI Drac Zabjelo Konik	1,500 – 2,500

Source: Colliers International

municipality, northeastern Montenegro, which will go through northern Albania.

The European routes going through Montenegro are:

- E65/E80/Route 2 (Border with Croatia - Kotor - Budva - Petrovac - Golubovci - Podgorica - Kolasin - Mojkovac - Berane - Rozaje - border with Kosovo);
- E762/Route 18 (Border with Albania - Bozaj - Tuzi - Podgorica - Danilovgrad - Niksic - Pluzine - Scepan Polje - border with Bosnia and Herzegovina);
- E763: Belgrade (Serbia) – Cacak (Serbia) – Nova Varos (Serbia) – Bijelo Polje (Montenegro);
- E851: Petrovac (Montenegro) – Bar (Montenegro) – Ulcinj (Montenegro) – Shkoder (Albania) – Prizren (Kosovo) – Pristina (Kosovo).

The main ports of Montenegro are on the Adriatic coast:

- Port of Bar – the largest port in the country;
- Port of Kotor (Bay of Kotor);
- Port of Tivat (Bay of Kotor);
- Zelenika port (Bay of Kotor).

SALES PRICES OF RETAIL PREMISES IN PODGORICA IN 2007

Location	Average Price (EUR per sq m)
Prime Retail Units on High Streets	4,000 – 5,000
Other Retail Units on High Streets	2,000 – 3,000
Other Areas	1,000 – 2,000
Niksic Business Centre	6,000 – 9,000

Source: Colliers International

The monthly rentals for modern office space in Podgorica range from EUR 25 per sq m to EUR 40 per sq m. Despite the limited supply of modern office space, tenants look for other options rather than pay the high rents in the modern office buildings.

The demand for office space in Podgorica is driven by foreign companies, international non-government organisations and diplomatic missions. Most of the foreign companies prefer to rent office space in the area of Krusevac district, especially close to Vektra Square. The shortage of available office space has forced some private local companies to relocate to premises outside the city centre. Such premises are available at favourable prices in the Stadium Centre.

INVESTMENTS

Company Investments

At end-September 2008 Croatian blue-chip power transmission equipment maker Dalekovod announced it has won a deal worth EUR 13.5 mln, in consortium with Siemens Austria, for the construction of transmission lines and for the construction and upgrade of substations in Montenegro. The contract was awarded by Montenegro's state-run power utility Elektroprivreda Crne Gore.

In September 2008 Montenegro awarded eight design, build, operate and transfer (DBOT) concession contracts for small hydropower plants aiming to cut import costs in the long term. The Government of Montenegro estimated that the total value of the contracts exceeds EUR 10 mln.

In July 2008 the International Finance Corporation (IFC), the

World Bank's private sector arm, announced it will invest EUR 10 mln in a mall project in Montenegro, developed by Turkish Gintas Group under a public-private partnership. IFC has signed an agreement with Gintasmont Investment Construction and Trade, the Montenegrin arm of the Turkish company, aiming to help the construction of a multi-functional business and shopping centre in the capital Podgorica. The total cost of the project is EUR 36 mln. Gintas will provide EUR 15 mln, IFC – EUR 10 mln, while the local municipality will finance the remainder. The official opening of the mall is scheduled for the end of 2008.

Serbian retailer Delta Maxi opened a shopping centre in the Montenegrin capital Podgorica on October 1, 2008. The company announced it had invested EUR 39 mln in the complex, which features retail space, restaurants and a cinema complex.

ASSOCIATED INDUSTRIES & FACTORS

FOREIGN TOURIST ARRIVALS AND OVERNIGHTS

Year	Number of Tourist Arrivals	Number of tourist overnight stays
H1 2008	519.067	3,262,601
2007	984.138	6,443,485
2006	377.798	2,196,091
2005	272.005	1,583,510
2004	188.060	1,223,847

Source: Central Bank of Montenegro

Montenegro's tourism revenue rose by an annual 7.4% to EUR 403 mln in the first eight months of 2008. Over 960,000 tourists visited the country between January and August 2008, up 4.0% on the year, while overnights rose 5.0% year-

on-year to 6.5 million in the same period. Montenegro is highly dependent on tourism revenue, which generated over 20% of its GDP in 2007. The Ministry of Tourism expects the sector revenue to rise to EUR 1.968 bln in 2017, generating 27.1% of the GDP. The Ministry plans a 15% increase to EUR 550 mln through diversification of services in 2008.

The Montenegrin real estate sector accounted for 38.5% of the FDI inflow in the country for the first seven months of 2008. The FDI in the real estate sector stood at EUR 202.7 mln, down 38% compared to the corresponding period of 2007. The reasons for the decline in investment in real estates are numerous, ranging from high prices to problems with obtaining construction permits and land registering.

FORECASTS

The International Monetary Fund expects the economic growth of Montenegro to reach 7.2% in 2008 and then to slow down to 5.44% in 2009. With the development of the economy in general, as well as the commercial real estate market and the financial market in particular, the Montenegrin construction market will witness increase in office, residential and retail projects. The capital Podgorica and the

coastal area will continue to be the main areas with intense construction activities. The Montenegrin construction sector will have to overcome a number of obstacles, including the global financial crisis, workforce shortage, growing prices of building materials and services and difficult access to external sources of financing.

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