

Case Study // Round Table SDG 11: Financing the transition to sustainable cities and communities: challenges and opportunities

Fostering competition in small housing markets - innovative housing programme in Montenegro Council of Europe Development Bank *Level: national*

Summary

The primary objective of "1000+" affordable housing programme in Montenegro (MNE) was to provide access to permanent housing to low and medium income eligible households through a subsidised housing mortgage scheme; the households could not address their housing needs in the market. The programme also supported the effort by the MNE Government in the field of social housing and social integration of low-income persons in general.

The product of the Programme was affordable housing mortgages for the eligible beneficiaries who purchased newly constructed apartments from the selected construction companies. The CEB and MNE commercial banks co-financed the mortgages (50% and 45% respectively), the beneficiary participation was 5% down-payment, and the MNE government provided the interest rate subsidy. To date, the CEB participation in the programme is EUR 35 million.

The programme consists of three phases: 1st and 2nd phases were implemented between 2010-2012, and 2015-2017 periods respectively; the 3rd phase started at the beginning of 2018 and is foreseen to be implemented in the next two years.

Situation

MNE has relatively high housing needs for the low and middle-income population.

According to the latest 2011 census, MNE has 644,000 inhabitants and 316,000 housing units. Over 20% of the registered housing units are holiday homes for domestic and non-resident population, and the residential housing stock has 250,000 housing units. The effective housing stock per 1,000 inhabitants indicator is 388 (for comparison, EU average is 430, SEE 388, Turkey 250, Sweden 730). Projected housing needs are estimated in the "2011 to 2020 National Housing Strategy"; considering the demographic trends, the projected shortage of housing in 2020 will be in excess of 25 000 units.

On another hand, there was almost no supply of affordable and social housing stock in MNE over the last two decades. In 1991, 77% of MNE (then part of ex-Yugoslavia) housing stock was privately owned, and 23% was in possession of the Occupancy Right Holders. The latter was privatised through "give away" privatization model widely practiced in the region. This, combined with the post-socialism slow emergence of social and affordable housing systems, conflicts in ex-Yugoslavia in 90's, and economic crises in 2009, severely inhibited the supply of affordable and social housing stock.

As a response to the MHE housing needs, with the side objective to support the development of MNE affordable and social housing systems and thus social integration of low to medium income population, the CEB together with MNE stakeholders devised "1000 +" affordable housing programme.

Strategy

The programme's strategy consisted of its development and implementation; the key deliverables/activities are highlighted below:

1. Development of the programme:
 - Feasibility study and the programme's concept
 - National housing strategy and social housing law
 - Focus on low to medium income, young, and vulnerable population
 - Approval of the CEB loan
2. Programme implementation:
 - Programme's manual
 - Set-up of Programme Implementation Unit
 - Public calls and selection of ultimate beneficiaries, commercial banks, and apartments
 - Support to the eligible beneficiaries through the housing mortgage application process
 - Approval of the housing mortgages and beneficiary taking over of the purchased apartments

Results and impact

- Over 800 eligible low to medium income households purchased their flats through the project
- Competition among the commercial banks and construction companies; the mortgage interest rates and cost of real-estate reduced
- Re-mobilisation of construction industry post-2009 economic crisis and a positive knock-on effect on the banking sector
- Innovative IT platform and the programme's outreach and visibility
- Strengthened long-term social integration of low-income families, addressed through national housing strategy 2011-2020, and law on social housing

Challenges and lessons learned

Challenges:

- high mortgage insurance cost and 5% down-payment hindered the housing mortgage affordability
- still high interest rates for the housing mortgages comparing to the EU market
- real-estate transactions geographically concentrated on capital Podgorica
- the limited timing of beneficiary selection

Lessons learned and corrective measures taken into account in the 3rd phase of the programme:

- 5% down-payments is reduced to 3%, the maximum interest rate for the mortgages capped to 2.99%
- competition among insurance companies created
- off-capital available housing (second-hand apartments, individual houses) became eligible; this will geographically spread real-estate transactions and contribute to the housing mortgage affordability
- public calls for the selection of the beneficiaries will be time-opened until the full allocation of funds

Potential for replication

This model could be replicated in other location, providing careful consideration of the housing market, needs, and beneficiary categories.

Contact

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