

FREI CONFERENCE

November 8 -9

Milocer, Montenegro

Good Morning, Ladies and Gentlemen

Distinguished Guests and future Development Partners,

Allow me to start with a brief report on the economic status of the tourism industry in Montenegro, the expected results for 2010 and our outlook for the next five years –

The Montenegrin tourism Industry produces over 20% of the national GDP with an forecasted growth, to 28% in 2020 by Oxford Economic on the basis of increased capacity of world class resorts and the overall restructuring of the tourism sector towards an up-market destination.

I am pleased to report that we will register an increase of 5% arrivals and 6 % overnights in 2010, which exceeds pre-crisis results. For 2011, we forecast 3% growth in arrivals and 5% growth in overall tourism revenues.

Given that increased demand for four and five star Hotel accommodation from Europe, Russia and global tourists is still limited by the current undersupply of up market hotel accommodations. We expect that with the market entry of Global Hotel Brands, tourist arrivals and overnights will rapidly move upwards consummate with increased capacity and facilities for year round holiday seekers.

Tourism is an “experienced” based industry. The economic growth forecast in the tourism sector of the economy in Montenegro is based on our strategy to create a competitive difference, which provides visitors a sense of a unique destination experience with a

range of up-market accommodations, entertainment opportunities, and a variety of recreational experiences, while protecting our heritage and preserving our spectacular natural landscapes.

Today, I will focus my remarks on the strategic importance the government has placed on mixed-use resort developments as we now enter the second phase of sustainable hotel and resort developments after the near completion of the hotel industry privatization.

My remarks will address five key points-

1. Our understanding of “mixed use” developments
2. What are the success factors for mixed use developments
3. How these developments fit into the government development strategy
4. Why are mixed use resort developments important for tourism
5. Most Important- What is Montenegro’s offer to qualified strategic investors

The **definition of mixed use developments** may have different meanings in different industries. For resort mixed-use developments we understood that the development comprises of at least a **traditional** hotel, “for sale” residences or whole-ownership condominium units, villas, fractional ownership units such as timeshare, clubs, spa, conference, golf, ski, entertainment, retail shops, ski and other winter sports, among others.

The consensus of a recent ULI (Urban League Institute) conference appeared to be that the “resort development model of the past is dead” - the old method of stamping out traditional style resorts is giving way to resorts that emphasize social and environmental responsibility.

Our research also indicates that the development trend of moving from “single purpose” resort hotels to mixed use resorts that

provide a diversity of consumer experiences continuous worldwide, and **Montenegro is set on “riding that wave”**.

We envision that future resorts in Montenegro will be responsive to some of the Mega trends that are shaping the tourism industry such as – the merge of lodging , recreation and entertainment concepts, - adventure sports going mainstream-outdoor sports with indoor version (snow dome in Dubai), , new high tech structures- multi-generation vacations, just to name a view --

We understand that “mixed-use” developments are long-term investments and not get rich quick schemes, and that the **success factor is** centered on the appropriate mix, image, harmony and synergy of **all** project components - the hotel brand, the residential real estate component, the shopping and the overall recreational experience

Our government places a high importance on the inclusion of an international Brand Luxury Hotel within future a mixed-use resort or urban development’s as sustainable demand generators for high yielding market segments, and as generators of higher tax dollars and quality jobs than pure residential units.

The importance and prestige that “premier” global hotel brands have for developing an up-market destination is certainly not underestimated. “High net worth individuals” known as affluent travelers have an affinity for owning a property in a prestigious location with hotel style service and luxury amenities such as golf, innovative spa centers and multiple dining options.

As the “new model” for resort development is gaining popularity in our government, we stand ready to support qualified investors and resort developers, who share our vision for create synergy and positive future economic impact with the various component of the integrated resort development project.

Emerging projects such as Porto Montenegro - a Marina centered Mixed Use Resort Development with a top standard ecological marina for Mega Yachts and a retail town center, a luxury hotel with villas and apartments, within the town center of the development serve as examples.

Other mixed use development products under way include the Lustica Development, Sveti Marko, Bjelasica Ski Village, Velika Plaza and Ada Bojana, Valdanos and Kumbor among others.

The definition can also be applied to an urban development such as the Atlas Center in Podgorica – where the synergies of the various components will have a positive impact on each other, contributing to the future economic stability of the project.

We envision that the mixed-use development model can be equally successfully applied in Montenegro for the Revitalization of old Resorts and for a new set of nature integrated and adventure sport focused resorts

Yes, there are still some of the legal complexities related to land use and zoning, environmental issues related to the “Green Hotel, golf courses, marinas. We are interested to create an economic multiplier by with mixed use resort developments by creating high paying jobs for **local professionals** and institutions that provide legal advice, environmental and architectural design, sales and marketing services, for local Banks to participate in the various phases of project financing, and for experienced and proven Montenegrin construction companies.

As Minister of Tourism, I can unequivocally state that mixed-use resort developments are important to the overall tourism development strategy to 2020 focused on developing the right

balance of hotel accommodation with residential units to stimulate the economy and to generate quality jobs.

We envision the combination of “rustic charm” with modern luxury and carbon neutral hotels and residential real estate integrated with retail, sports and entertainment, supported by an efficient Banking and Telecommunication, Transport and Construction sector, to be our roadmap to economic prosperity.

To summarize, **Montenegro offer to qualified investors and resort developers is solid.** As Prime Minister Milo Djukanovic recently stated – we are successful in choosing the right partners – referring to Porto Montenegro, a future development show case in the Mediterranean and the start of the ORASCOM mixed use resort development on the Lustica Peninsula.

Montenegro can offer qualified investors a full range of mixed-use resort developments from small retail centric resorts, mixed use development as part of preservation of historic landmarks, sport centered resorts to larger scale resorts.

Montenegro has a significant resort development pipeline consisting of Greenfields for mixed use resort developments, private land or building acquisitions for developments without a tender, heritage buildings for conversion into boutique resorts, existing resort hotels with or without land for redevelopment into luxury resorts.

Vacant plots of land will become available for purchase or lease by government tenders in very desirable locations for the development of mixed use resort complexes according to set ecological guidelines and guidelines for the mix of hotel and residential units

Together with investors and operators, we want to create a diversified basket of resorts that provide exceptional year-round

experiences for the consumer in order to capture affluent tourism markets and to sustain tax income and quality job growth.

We are seeking qualified investors and developers who have the knowhow and ability to create innovative resort complexes with authentic experiences and who share our commitment to create economic opportunities for our citizens, preserve and enhance our natural resources, sustain environmental balance and biodiversity and moving towards a carbon neutral industry while generating an adequate return for the investor.

Simply speaking – we seek investors and development partners to create economic and environmentally sustainable resorts, typically mixed use developments with “premium” international hotel brands, luxury residential units, as well as retail, arts and craft and resort amenities that are appropriate to mountain or coastal locations. If a golf course is considered, it should be a designer golf course capable of hosting an international PGA Golf tournament in order to attract an affluent global clientele.

We recognize that a sensible debt to equity ratio and an integrated master development plan is a prerequisite for success and project sustainability. From our part, the government has amended the law to provide the legal basis for mixed-use resort development projects and its ownership models such as time shares and condo hotels are possible components of future mixed use resort developments.

The national and local governments continue (to work on aligning laws, policies and procedures aimed at minimizing the economic risks carried by investors /developers related to zoning, land ownership, planning and permits related to land acquisition or long term land leases, recognizing that Montenegro is not alone in meeting these challenges. Practically, every country and municipality around the world are faced with the same challenges to attract qualified investors.

We work with the developers on a case by case basis to create the appropriate balance of hotel accommodations and residential units that create economic life on a year round basis, generate quality jobs, all aimed at avoiding project failure with partly sold investments and half completed projects.

To sum it all up – Montenegro is “OPEN for Business” with a considerable pipeline of Greenfield /or conversion of existing buildings on desirable plots of land into innovative future resort complexes, for strategic investors and resort developers who share our commit to protecting the environment and natural resources. In Line with observations presented in the “Hotel Yearbook 2009”, we have the right place, the land, the scale, the authentic experience, and a business friendly environment that support mix-use resort developments model.

We depend on the investor and developer to:

- plan and phase projects in way to avoid undue disruption of the holiday experience for existing visitors
- implement a future oriented marketing strategy
- set up the proper legal structures for overlapping interests of all stakeholders on the site
- choose brand operators carefully
- and to provide adequate equity and debt financing in line with the business model needs and risk!

Thank you !