The Decision-Making Process in Foreign Real Estate Investments
Example from the Swedish and Montenegro Residential Market

Author: Marija Balsic
Supervisor: Tina Karrbom Gustavsson
Stockholm 2013
Master of Science thesis

Title
The Decision-Making Process in Foreign Real Estate Investments Example from the Swedish and Montenegro Residential Market

Author
Marija Balsic

Department
Department of Real Estate and Construction Management

Master Thesis number
No. 267

Supervisor
Tina Karrbom Gustavsson

Keywords
Decision-making, foreign investors, motives, factors, residential, Sweden, Montenegro

Abstract
The current research provides an insight into foreign investors’ decision making process to invest in cross-border residential real estate markets, their motive and factors that influenced decisions. As the example, the subject of the research is two mutually different markets, Kingdom of Sweden and Republic of Montenegro. The approach that is used in the research is deductive method studying existing theory and research. Secondary scientific and statistic data were a source for the qualitative data analysis. Qualitative empirical data were obtained from the interviews made with representatives of the foreign companies involved in decision making process to real estate investments in markets of research. The purpose of research is to generate understanding about the decision making process and aspects that affect foreign investors to enter the market in the changed circumstances after the global financial crisis in 2008.

The results of the research show that the process of decision making has some characteristic patterns independently of type of foreign investor and motives are mainly related to the attractiveness of the product (investment), but specific market factors that affect it differ. Further, it infers how some relatively new aspects became important in the decision making such as sustainability, ICT improvement and opportunities caused by changes after the financial crisis.

The prior research in the field from KTH scholars contributed to generate this research - Axelsson and Victrorin (1999), O’Connor (2003), Roll (2007), Falk and Olsén (2009), Chernysheva (2011). It adds to the knowledge about foreign investments focusing on qualitative analysis of the decision making process and identifying investors’ motives and factors that influenced their decisions. The diversity of two markets of research could contribute to create a model of analysis that may be applicable to other residential real estate markets within Europe as well.

The purpose of the thesis is to provide information and contribute to understanding foreign investor’s logic behind decisions to invest abroad. This could be useful to promotion agencies, consultancy companies or entrepreneurs, that intend to attract foreign investment to domestic markets.
ACKNOWLEDGEMENT

I would like to express my gratitude to all the people at the Royal Institute of Technology, who contributed to my education during the two years. I would particularly like to thank to my supervisor Tina Karrbom Gustavsson for guidance, interesting discussions and comments.

I am very thankful to the contact persons in the companies that participated in this research, especially to Johan Callin (Stockholm Business Region) and to my group mate Fitore Maliqi for proof-reading the thesis.

Finally, special thank to my family for support and encouragement during this Master Program.

Stockholm, 22\textsuperscript{th} May 2013

Marija Balsic
# TABLE OF CONTENT

1. INTRODUCTION ................................................................................................................................. 6  
   1.1 Background ...................................................................................................................................... 6  
   1.2 Problem statement .......................................................................................................................... 6  
   1.3 Research Question .......................................................................................................................... 6  
   1.4 Purpose of the thesis ....................................................................................................................... 7  
   1.5 Limitations ...................................................................................................................................... 7  

2. METHOD .................................................................................................................................................. 8  
   2.1 Theoretical basis ............................................................................................................................ 8  
   2.2 Choice of method ............................................................................................................................. 8  
   2.3 Quantitative/qualitative data .......................................................................................................... 8  
   2.4 Data Sources .................................................................................................................................... 9  
   2.5 Analysis of data collected .............................................................................................................. 10  

3. THE DECISION THEORIES .................................................................................................................. 11  
   3.1 Decision processes ......................................................................................................................... 11  
   3.2 Deciding and valuing ....................................................................................................................... 12  
   3.3 Individual decisions ......................................................................................................................... 14  

4. INVESTMENT THEORIES .................................................................................................................... 16  
   4.1 Portfolio theory and efficient market hypothesis ........................................................................... 16  
   4.2 Foreign direct investment .............................................................................................................. 17  
      4.2.1 The theory of comparative advantage ...................................................................................... 17  
      4.2.2 The Product cycle model ....................................................................................................... 18  
      4.2.3 Internalization theory ............................................................................................................. 18  
      4.2.4 OLI Paradigm and Internalization ......................................................................................... 18  
      4.2.5 Market Power ........................................................................................................................... 19  
      4.2.6 The oligopolistic reaction theory (follow-the-leader theory) ............................................. 19  
      4.2.7 Behavioral theories of FDI ................................................................................................... 19  
   4.3 Summary ......................................................................................................................................... 20  

5. SWEDISH REAL ESTATE MARKET ...................................................................................................... 21  
   5.1 Swedish economy ............................................................................................................................ 21
5.2. Real estate market in Sweden ................................................................. 22
5.3. FDI into real estate .................................................................................. 23
5.4. Legal features of property investment system for foreign investments .......... 24
5.5. Foreign investments in residential property sector ........................................ 24
5.6. Risks ........................................................................................................ 25

6. MONTENEGRO REAL ESTATE MARKET ................................................. 26
   6.1. Economy of Montenegro ....................................................................... 26
   6.2. Real estate market in Montenegro .......................................................... 27
   6.3. Foreign investments into real estate ....................................................... 28
   6.4. Legal features of property investment system for foreign investments .......... 29
   6.5. Foreign investments in residential property sector ....................................... 30
   6.6. Risks ........................................................................................................ 31

7. EMPIRICAL DATA AND ANALYSIS ......................................................... 32
   7.1. Background information ........................................................................ 32
   7.2. Characteristics of decision making process in general ................................ 34
   7.3. Market specific factors that affect decision .............................................. 36
   7.4. Investment conditions – Advantages/ Disadvantages ................................. 39
   7.5. Summary ................................................................................................ 40

8. CONCLUSIONS AND DISCUSSION ......................................................... 42

9. REFERENCES ............................................................................................. 45
1. INTRODUCTION

1.1. Background
Today real estate markets are centralized on certain overcrowded spots where investors are in the race to catch the circumstance for the highest rate of return (Woolsey, 2008). They are not only in the race with the thousands of other competitors, but with the timing in the business cycle (Pyhrr, Roulac and Born, 1999). These demanding conditions in certain markets are inspiring the investors to search for and explore new ones. Driving forces that lead the investments could vary from political and economic background to demographic tendencies and labor costs in the country or region. In some cases financials would rather place the assets to the safe developments in countries with high transparency and stability, but in other they choose high-risk markets that could provide impressive return of investment.

Factors motivating investors for placing their assets abroad lie in their wish to balance risk and review relations in their portfolios and add value to existing funds (Worzala 1994). The growth of communication channels and finance transaction tools provide basis to feel more secure about investing in foreign countries. Raised insight into currency fluctuations, transaction risks and transparency of operations are providing even more amenity to international real estate investors. International operations in the field of real estate investments result in cooperation among professionals with different education, experience, and expertise. That contributes to knowledge sharing and knowledge growth that will be implemented in real estate investment projects. Still after the global financial crisis the question is if the investors became more careful investing in foreign countries or if they are exploring with more passion opportunities to generate profit abroad (UNCTAD 2012).

Sweden is a market that provides safe and innovative investment opportunities, considering that is a country with one of the lowest investment risk (Geurts, Jaffe 1996). It has modern and advanced technologies for capital flow, clear and simple standards for building and design, experienced professionals to lead and support investment projects.

Montenegro is growing real estate market that faced dynamical changes in the last decade in real estate investments (European Commission 2012). Natural potential and still untouched land provide a lot of potential to international investors. With the help of international institution it is successfully passing the transition period and working on the integration of the country to other EU members. Low prices of properties and land provide great opportunities for high investment returns.

1.2. Problem statement
The decision making process constantly changes with the dynamic and turbulent shifts on the global market. Studies that have been made a decade ago would probably show different results today. The reason lies in the increase of some new aspects of importance, technology improvement, fast and easy exchange of information, instability on the financial markets and the increasing need for the rapid return on investment. The global financial crisis in 2008 particularly left traces on the decision making process.
Therefore, studies and researches made in the last decades may be obsolete and out-dated in today’s circumstances. However, some procedures remained traditional and are not affected by global changes. This study will analyze recent decision making processes that foreign investors went through while they have been assessing investment opportunities in two mutually different markets in Europe. It will exhibit the assessing techniques and parameters that investors took into consideration and facts that affected their final decision. Those results will be analyzed and compared with previous studies and scientific theory.

1.3. Research Question
This thesis will explore the answer to the following question:

What is the decision making process of foreign investors when investing in the Swedish and Montenegro residential market after the global financial crisis 2008?

The analysis will cover few sub questions as well: What motives affect their decisions? What market specific factors are influencing their decisions?

1.4. Purpose of the thesis
The purpose of the thesis is to provide insight into investors’ decision making process and to simplify attracting international investors to the domestic real estate market. Hereby entrepreneurs, initiators of projects and institutions responsible for motivating foreign investments will be able to develop more focused and targeted strategies. The governmental institutions could also benefit from this research as certain parameters that influence the decision making process have effect not only on real estate market, but on the other fields of investments. This research will provide better insight into investors’ priorities in the changed investment climate after the global financial crisis and will contribute to create more efficient strategies to attract international investors.

1.5. Limitations
The thesis is limited to residential property investment in Swedish and Montenegro market. However some statistics and opinions were more in general including all real estate sectors. This research also includes all investor types even though their motives and point of views could differ significantly. Beyond that, the subjective perspective has an influence on the thesis as result of one correspondent giving his/her personal view about the field of research.
2. METHOD

2.1 Theoretical background

The decision making process consists of different stages. It could be linear or circular, depending on the sequence and could have a different logic behind choice of alternatives. Different decision theories present various number of stages, some older models suggest three (personal opinion, choice narrowing, and presentation of solution) according to Condorcet (1847), while more recent theorists inferred that this process is more complex and have about six stages including routines (sub-stages). Modern decision theory also suggest that decision making is non sequential and that certain stages occur simultaneously (Mintzberg, Raisinghani, and Théorêt, 1976). Beside this decision theory also defines matrices that contribute to better understanding and prediction of possible outcomes (Hansson, 2005).

There are diverse categorizations of investors such as by the ownership rights, volume of transactions, or type of properties that they invest to. The following classification distinguishes them by the risk acceptance and expected rate of return. Core investors choose low risk properties located in the primary markets and tenants that are signed to long term leases. Value-added investors are picking properties suitable for renovations, but less predictable cash-flow. The third category is opportunistic investors that decide to invest in developments and achieve high return in long term (Haskel, 2009).

In the context of foreign investment, understanding of decision making has to include investment theories that demonstrate motives and aspects that influence it. Prior researches in the field (Axelsson, Victorin, 1999) suggest that excess of return had the greater impact on foreign investors decision which was in line with maximizing returns- minimizing risks Markowitz’s theory. However, some more recent study (Falk, Olsén, 2009) inferred that foreign investors have as a major motive the diversification of portfolios. However despite the fact that Sweden has one of the lowest risk rates in Europe (UNCAD, 2012), statistics are showing lower rate of foreign investment in this country. Further, despite the general opinion that foreign investors became more cautious about cross-border investments, Montenegro market show predictions to grow mainly owing to inflow of foreign capital in real estate development (MIPA, 2011).

2.2 Choice of method

The method used in this thesis is deductive which means review and analysis of previous theory and research. This approach collects and resumes secondary data obtained from scientific and media sources and compares it with primary data based on the interviews. Primary data contribute to testing and answering the research question through empirical research. Considering the topic of the research this method is reasonable, though it doesn’t provide and overall picture of the markets and the answers obtained during the interviews threaten to be subjective.

The scientific sources used for the theory review are scientific articles analytical reviews and academic studies related to the field of the research, written and published until today. The media sources such as newspapers, magazines, association newsletters, brochures and market reviews provide data relevant for the empirical part of the study. Primary data for the empirical study are gained through interviews.
conducted with the representatives of the companies that have invested in the Swedish and Montenegro markets.

2.3 Quantitative and qualitative data
Quantitative research method employs systematic, orderly collection of data in order to gather information from them. The advantage is that systematic data are measurable which contributes to understanding and complements the qualitative data.

Qualitative method is used to understand and uncover a person’s experience and behavior (Ghauri, Gronhaug 2010). The process and reasons for decision making are described through qualitative approach. Considering nature of the research question it was more suitable to conduct a qualitative method as the decision making process and motivating factors should be described and evaluated a part from quantitative data code. The qualitative approach is also suggested whenever the study covers international and cross-cultural research. Also, the study is strongly supported and strengthens by some qualitative secondary data such as statistic reports and, recent and historical market reviews.

2.4 Data Sources
Secondary data

Selection of secondary data provides better understanding and explains certain aspects of the research, but is not the base for the research answer. Secondary data review starts with the theoretical part where selected books, journal articles and academic publications were collected and evaluated for the research purpose. In order to get a clear understanding of the decision making process in investments both decision and investment theories are taken into consideration. Decision theory is roughly divided on normative and descriptive, where the first one attempt to identify the best decision to take and the second is concerned with describing what people will actually do (Hansson 2005). Diversification, portfolio, and different foreign direct investments theories together with efficient market hypothesis hold the explanations why and how certain decisions have been made. Finally behavioral approach to foreign direct investments emphasizes the difference between ‘economically rational’ and ‘behavioral’ decision making.

Secondary data were further gathered data from local government studies and reports, policies on foreign direct investments, journals on statistics from local agencies for development and investments, international websites, United Nations, European Union, Eurostat, the World Bank, World Investment report by UNCTAD (United Nations Conference on Trade and Development), annual reports and statistics from the investment companies, and previous academic studies conducted in this area. Considering that focus was on two real estate markets, Swedish and Montenegro’s, referent projects from each market were selected and analyzed. In this case internal companies’ data, such as statistics, reports and other types of secondary data were studied as well.

Primary data

Primary data provided more specific answer to research questions through interviews conducted with heads of the investments companies who are responsible for decision making and approving investment
strategies in the Swedish and Montenegro market. Those interviews were conducted with representatives of companies running referent projects and investment advisory services in those markets in the last five years. The interviews were nonstructural and designed to cover particular problems of defined research area. Drawback of this method is that investors did not described precisely their decision making process. Also, the question is how subjective their opinion about project and market could be. However, the decision making is a subjective process and it is not expected that this or any other study could cover every aspect.

2.5 Analysis of data collected

To gain insight into investment decision making process the interview study was made with both major actors on the market and governmental advisory agencies. Only nine interviews have been conducted considering the very limited number of foreign companies investing in the residential real estate sector. Using interviews to obtained data was more suitable considering the qualitative nature of the research. The interview questions are found in Appendix 1.

The research is designed to meet ethical requirements, among others to minimize the risk to harm and providing the anonymity and confidentiality. This is a cross-cultural study and includes respondents of four different nationalities. It also attempt to achieve variance in age and gender: age varies from 28 to 55 and 44% of interviewees are female.

The process of selecting representative companies involved the choice of the largest real estate investments in the Swedish and Montenegro market in the last five years, then limiting it to those who made their investment in residential properties. Finally, categorizing by type of capital invested those companies that engaged private capital, were kept for the study.
3. DECISION THEORIES
International investments precede long and thorough decision making processes. This especially applies to investors who never before experienced a certain foreign market. Still there are no particular patterns or rules on how decisions about foreign investment should be made. Investment decision making theory is rather picking aspects that influence the process or defines the rough motives that affect it. Each particular case is different and results achieved through assessing opportunities and risks are various (Chernysheva 2011). Nevertheless, both decision and investment theories have certain explanatory power and indicate the stages, processes, causes and motives to make the decision on a particular way.

Modern decision theory has emerged from several academic disciplines such as economy, statistic, political and social science, and psychology and it was mainly developed from the middle of 20th century. Decision theories divide in normative and descriptive, where the first one is about how decisions should be made and the second one about they are actually made (Hansson 2005). Normative decision theory refers to rational decision making processes as a prerequisite though it is not defined what ‘rational’ implies to. Applied to foreign investments one could assume that ‘rational’ implies to dispersion of risks or maximizing the profit. In the case when the investors have defined the rational goal, there is a question about how to deal with uncertainty and lack of information.

Descriptive theory analyzes and describes the method used for decision making. It probably includes more beliefs and behaviors, but it proves that the process hasn’t always been ‘rational’. Though, in theories, the distinction between normative and descriptive is not sharply defined, it could be concluded that normative theory is developed from descriptive. Failures from investment decisions could be analyzed and improved in order to avoid similar mistakes in the future. Still considering the rapid changes in the global economy, speed and means of information flow, or currency fluctuations, it is clear that uncertainties and ambiguities could always be found.

3.1. Decision processes
The decision making is a process meaning that it includes a period of time and therefore theory of the stages of decision process divides it into sequences. The French philosopher Condorcet (1743 - 1794) defined three main stages of decision process: the first one ‘discusses the principles that will serve as the basis for decision in a general issue; one examines the various aspects of this issue and the consequences of different ways to make the decision.’ In the second stage: ‘the question is clarified, opinions approach and combine with each other to a small number of more general opinions.’ (Condorcet, [1793] 1847, pp. 342-343) This means that the first stage consists of personal opinion, the second narrow choice to the few alternatives, and the third stage presents the one solution among those alternatives. This theory doesn’t suggest if the chosen alternative is the best one, though ‘the best alternative’ is also questionable as it is subjective.

In modern theory, after John Dewey (1910, pp. 234-241) defined five consecutive stages of problem-solving, Herbert Simon (1947) developed this model and adjusted it to decisions in organization. His model includes three sequential stages: intelligence, design and choice. He describes those stages as:
finding occasions for making a decision...borrowing the military meaning of intelligence; finding possible courses of action; and choosing among courses of action;’(p. 1-2). Those models have been the subject of critics considering that they presume consecutive stages. Instead Witte (1972) considers that stages are occurring simultaneously rather that in sequence.

As result the decision process theory has been developed by Mintzberg, Raisinghani, and Théorêt (1976) who developed non sequential models. They moderated Simon’s three phases, making them independent of the sequence. Two routines, decision recognition and diagnosis have been identified for the identification or ‘intelligence’ phase. Here ‘problems and opportunities’ are recognized and ‘in the streams of ambiguous, largely verbal data that decision makers receive’ and ‘the tapping of existing information channels and the opening of new ones to clarify and define the issues’ (ibid, p. 253-254). It is very likely that decision process returns to this phase even more frequently today, considering that the channels of information are much broader and the speed of exchanging them has incomparably increased.

The development phase consists of search and design routines. They include search for options where one refers to ready-made solutions and the other of creating new alternatives or adapting the existing ones (Hansson 2005). Finally, selection phase serves to screen, evaluation-choice and authorization routines. For the first one is suggested that is employed ‘when search is expected to generate more ready-made alternatives than can be intensively evaluated’ (Mintzberg, Raisinghani, and Théorêt p. 257). The evaluation-choice routine has been elaborated later as separated phase and would be discussed later. The authorization routine refers to selection of solution as final decision.

Design phase takes the largest portion of executers’ time and this is followed by the intelligence activities. The choice activity takes the smallest fraction (Simon 1960 p.2, Mintzberg 1976). Still the theory literature emphasizes the evaluation-choice routine. This is considered to be the nucleus of decision process. But even if the other routines are predominantly determined by evaluation-choice routine, their importance is not irrelevant (Hansson 2005). It is very likely that the time consumption of routines is not the same for different disciplines. Decision recognition and diagnosis could have large importance in decision making where identification of the issue is primary. The investment decision process usually starts with identifying e.g. the size of fund, expected return, or readiness to overtake the risk.

3.2. Deciding and valuing
The decision making process has the goal to choose the ‘best’ alternative. What is the best alternative depends on individuals’ standards. The value-standard choice is examined in the moral-philosophy theory. The value of the alternatives could be expressed through: relations and numbers, comparative value terms, completeness, transitivity, preferences, numerical representation, and utilities (Hansson, 2005).

If there is a choice among different alternatives A, B and C, the value standard could be related to low risk or high rate of return. For example if investment A is better than B, and investment B is better than C, it is reasonably to decide for investment A. In this case the relation ‘better than’ among tree
alternatives expresses the value standard (Hansson 2005). This representation is very basic and serves as the foundation for some more developed models. The value pattern usually is more complex and consists of more than one standard. The same is with numerical value standard. Especially when it comes to investments, the set of figures and statistics could serve to infer about certain investment. However the question is which of those standards has more importance for the investment.

Mathematical notation of the binary relation would be ‘A>B’ which represents ‘better than’ i.e. value term in common language. Betterness and worseness are asymmetrical meaning that the first one is related with positive associations while the second one represent that both alternatives are undesirable (Halldén 1957, p. 13. von Wright 1963, p. 10. Chisholm and Sosa 1966, p. 244). However in decision theory this distinction hasn’t significant importance and it is often ignored (Hansson 2005). In the investment theory it would probably depend on the form in which the alternatives are represented. Numerical representation is more precise and clear which implies that is easier to make conclusion. Another comparative value terms are ‘equal in value to’ (=) and ‘at least as good as’ (≥) and the present indifference and weak preference.

The set of preferences is defined over its domain. That means that alternatives have to belong to the same class to be meaningfully comparable. Also the relation among all alternatives should be defined in order to have completeness. When A is better that B and C, it is not defined the relation between B and C. In a case when A is available the relation between other two is less important (Hansson 2005). However investors usually do not have that broad choice of alternatives. Their alternatives are determined by the business orientation and defined procedures of companies. Preferences are in a good part acquired through the experience and knowledge from the industry.

The property of transitivity could be the best described with an example. If we have alternative A, B and C and one consider that A>B, B>C, but C>A this means that preference relation doesn’t holds for all alternatives (elements) i.e. it is intransitive (Hansson 2005). The decision maker would probably have an issue to choose the best alternative and the question of satisfaction is raised as well. Preferences are not clearly presented and they do not serve to make a decision. In a case when the best alternative is known it is quite easy to make a decision. But when two alternatives are in the highest positions and are equally good (A=B, A>C, B>C), it doesn’t pose a big difference which one to pick.

Through the numerical representation the relations are quite clear. When numbers are assigned to alternatives it is uncomplicated to derive preferences and indifferences. Relational representation could be easily related to weak and strict preferences, and indifference. But it could be unclear to understand what the numbers represent. However in economic theory the use of numerical representations are more common. Values are translated in monetary value and willingness to pay is a criterion (Hansson 2005). Still investors may wonder how that specific set of alternatives of the same domain could affect the entire decision making process e.g. size of the fund to be invested in a particular country is only one segment that decides about investments.

Utility is represented as one single entity of value. The utilitarian moral theory deems that all moral decision should consist of attempt to maximize the level of utility. The principal rule is simple and it
advices to choose the alternative with the highest value. If more than one alternative have the highest value it doesn’t make any difference which one will be chosen. This is the rule of maximization and serves as a foundation for a number of economic theories that advocates that individual’s maximize their holdings measured in money (Hansson 2005). This approach had been criticized as different theories argue that individuals tend to keep balance and certain level instead of seeking the highest utility. For instance long term investments don’t expect the highest utility, but have more strategic purpose.

3.3. Individual decisions
The concept of decision theory consists in its base of alternatives, outcome, and state of nature. The standard presentation of individual decisions is through decision matrices. Courses of action or alternatives (options) could be open or closed. Open set of alternatives means that the decision maker could invent or add new ones. Closed set is previously defined in a limited number of alternatives and new ones shouldn’t be considered. Furthermore, the scope of choice could be restricted voluntarily or involuntarily by the decision maker. Independently of the number of alternatives they are assumed to be mutually exclusive i.e. that two or more actions couldn’t be realized simultaneously (Hansson 2005). Considering practical limitations, usually in the form of the size of fund, investors narrow the number of alternatives and they are simultaneously achievable.

Not all decisions are determined by decision maker, but also from outside factors that can be known (background information) and unknown. In decision theory extraneous factors are called states of nature or scenario. Effects of state of nature and chosen alternative represent the possible outcomes (Hansson 2005). They are demonstrated in the form of a decision matrix:

<table>
<thead>
<tr>
<th></th>
<th>Political stability</th>
<th>Political instability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment</strong></td>
<td>No risk, profitability</td>
<td>High risk, profitability</td>
</tr>
<tr>
<td><strong>No investment</strong></td>
<td>No risk, no profitability</td>
<td>No risk, no profitability</td>
</tr>
</tbody>
</table>

*Table 1: Decision matrix includes alternatives, states of nature and outcomes, Source: Hansson 2005, moderated by the author*

This example assigns an outcome for each alternative and state of nature. Normally the relation between those elements is more complex, especially between the political stability and profitability, but this is not the subject of this demonstration. Verbal description of outcomes could be replaced by utility values.

If state of nature is predictable or certain, the decision making is quite simple. Making decision under non-certain conditions includes taking in consideration tree possible categories: risk, uncertainty and ignorance. The term ‘risk’ is more related to the quantifiable cases and term ‘uncertainty’ for the non-measurable cases (Knight 1935). In everyday terminology the term ‘risk’ is related to both measurable and non-measurable impacts on investments.

Expected utility (EU) is one of the principal approaches of decision making under risk. Also known as ‘probability-weighted utility theory’, it has its roots in 17th century when it was realized that outcome
depends not only on the choice of the decision maker but also of the probability to happen in the ‘geometrical proportion that all those things have together’ (Arnauld and Nicole [1662] 1965, p. 353 [IV:16]). In this theory each alternative has assigned a weighted average of its utility value for the states of nature to the disposal, and probabilities of states are used as weights.

<table>
<thead>
<tr>
<th></th>
<th>Political stability</th>
<th>Political instability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>No investment</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 2: Matrix that represents the values of outcomes with assigned utilities to them, Source: Hansson 2005, moderated by the author

If probability of political stability is .9 then the expected utility of investing in one country is .9×15 + .1×5 = 14, and that of not investing is .9×10 + .1×10 = 10. According to theory of maximizing expected utility (MEU) the investment should be done. However, it raises the question if the assigned utilities are correct and unbiased. Utilities could also be subjective and objective. Subjective utilizes are explained from the example that 1 000 $ does not have the same value for a poor man and a millionaire (Bernoulli 1738). In risk analysis, the probability of risk is multiplied with it severity to obtain the expectation value and compare it with others (Bondi, 1985) and it is recognized as an objective approach.

Also, probability estimates could be based on empirical results and frequencies, but this is not the rule. Subjective probabilities are defined in Bayesian decision theory which is not very popular among practically oriented decision theorists. Subjective probabilities are also considered to be unreliable (Hansson 2005).

Decision making under uncertainty could use several decision criteria and the most dominant are: maximum expected utility, reliability-weighted expected utility, Ellsberg’s index, Gärdenfors’s and Sahlin’s modified MMEU (maximum criterion for expected utility), and Levy’s lexicographical test. It is a subject of debate which of these decision rules should be applied for the specific case. Furthermore, methodological pluralism has its reasonable grounds in studies.

Ignorance during the process of decision making could be when possible states of affair are known and when they are not defined. In first case the problem lies in lacking of information about their probabilities. Here the outcomes will be put in a preference relation as it is impossible to calculate utilities. From that reason, one should apply maximin rule that defines security level for each alternative and pick one with maximal security level (Wald 1950). Extreme prudence or pessimism is also stated in leximin rule which suggest choosing alternative with the second worst outcome (Sen 1970 ch.9). Unknown possibilities do not even indicate if probability is zero or non zero, so all consequences couldn’t be taken into account. However, the nature of investments in real estate is such that it could not cause catastrophic consequences and it is within the frames of economic laws.

Another issue with decision making could be the demarcation of decisions which means defining what the decision is about, what options should be evaluated and chosen among. When there is an unfinished list of alternatives, the options are not fully identified. Even more vaguer is when the scope is not
determined i.e. decision making with an indeterminate decision horizon (Hansson, 2005). The problem of the demarcation of decisions is very common in real estate investors.

4. INVESTMENT THEORIES
The decision-making process has been seen through different investment theories. Investors’ motivating factors and reasons to have a cross-border investment could lead from need to achieve diversification of assets to the strategic, long term objectives related to the presence in a certain market. Previously diversification in investment was interpreted through investments in various classes of properties or by spreading assets in several locations within one region. The globalization of the investment market, accelerated flow of information, and synchronization of regulations and laws contributed to simplicity of international investment activities (Chernysheva 2011). Some of the major investment theories address the question of cross-border investments and therefore indicate the differences in the decision making process. Foreign direct investment (FDI) theories consider mostly the advantages and disadvantages of international investments and take in consideration aspects that influence the decision process. However, portfolio theory, and efficient market hypothesis explain the logic and motives behind the decisions as well.

4.1. Portfolio theory and efficient market hypothesis
In order to avoid excessive exposure to a single source of risk the assets are spread through different types and locations. Diversification of properties involves three major aspects such as the timing-horizon dimension, the level of the expected return and extends of the risk tolerance toward the investment (Axelsson, Victorin 1999). Portfolio theory is used to determine possibilities of combining property types and locations. The relation between diversification by investing in various locations and by property type has been compared through several researches (Vit, 2009, Eishholtz, 1996). Prior researches engage the mean-variance analysis in inclusion of overseas properties into portfolios, considering that the classic portfolio theory is not the most convenient to apply at the direct properties investments (Chernysheva, 2011).

Markowitz (1952) portfolio theory is founded on the premise that investors’ behavior is determined by the level of risk. According to his theory investors’ have the objective to obtain highest possible expected return given a certain maximum covariance. This optimal portfolio (Efficient Frontier) relies on mathematical calculations where the majority is based on average of historical data. Greater degree of covariance (low diversification) means higher expected yield while lower degree of covariance should result in lower expected return. However, according to this theory, investors are putting more emphasize on the overall portfolio weighted yield and covariance than on expectation to achieve maximum expected yield. They analyze how individual class asset affect the portfolio instead of measuring the expected return and variance of a single class asset (Chernysheva, 2011).

Diversification of portfolios does not show how investors seek to maximize the expected return; instead it leads more to minimizing possible risks. This is inferred through Roy’s (1952) research showing that investors should consider all possible outcomes taking certain action and that through diversification
they are preventing reaching maximum expected return. However it is inferred that investors through diversified portfolio are avoiding consequences of an eventual disaster. The latest global financial crisis had not spared the diversified portfolios considering that it affected assets of all types and in almost all location. This theory also does not specify which approach of diversified assets is more efficient, the ones of different property types or locations.

Efficient market implies that the transaction costs of selling/buying a product don’t exist and all information that reflects the current price is free and available to all market actors (Fama, 1970). But even if those conditions are not met, the market is not considered to be inefficient (Charnysheva, 2011). In practice many markets have high transaction costs but the availability of information and transparency is not an issue. Markets with lower availability of information pose a dilemma to investors if the price of acquiring it is reasonably compensated through the transaction. However the informational efficient market means that one could not achieve constantly the excess on average market return under the assumption that the market is risk-adjusted and information is publicly available.

4.2. Foreign direct investment

A number of foreign direct investment (FDI) theories are developed to explain reasons and logic of international investors when making decisions about cross-border investments. Undertaking FDIs concept should be consider with some limitation when they are used as base for the empiric. The reason is that each separate investment is characterized and determined by the specific property type, market condition of the country to invest or the company’s background and motivating factors (Blonigen, 2005). Some of the most significance for this context are theory of competitive advantage, Internationalization and OLI Paradigm theory, market power theory, the oligopolistic reaction theory, product cycle theory and Behavioral approach. FDI is defined as the foreign investor purchase of at least a 10 percent of voting stocks of bank, a factory a port, or some other asset in foreign country (O’Connor, 2003). Establishing partnerships or joint ventures with a foreign firms could also result in FDI. The undertaking of FDI includes – mergers and acquisitions, expansion investments and green-field investments (Axelsson, Victorin, 1999). Certain authors consider that physical existence of assets is an advantage for FDI (O’Connor, 2003), but it couldn’t be said for the investors with objectives to develop and add value through foreign investment.

4.2.1. The theory of comparative advantage

This theory assumes that one company has competitive advantage when producing goods comparing with the other country. This model includes free trade, no uncertainty, perfect competition, accessible information and no governmental interference. The advantage of specialization is achieved through international trade. It assumes that a company achieves an advantage through match between internal resources and skills with the opportunities and risks that exist in its external environment (Grant, 1991). The advantage could be expressed through scale and scope of business, differentiated products, better managerial and marketing expertise or competitiveness of the home market (O’Connor, 2003). A comparative advantage in terms of real estate FDI can mean that owning a property in a foreign market possesses some advantages comparing to local investors e.g. managerial skills or ability to get faster
return on investment (Chernysheva, 2011). Competitiveness could be implied through adding a value by knowledge of how to develop or modify specific property assets or possessing the high position on the market to offer the finished product.

4.2.2. The Product cycle model
The product life cycle theory suggests that the decision where to locate the product depends on the character of the company’s products and their stage in the life cycle (Vernon 1996). According to this theory product life cycle consists of three stages – new, mature and standardized product stage. It is assumed that the company is an innovative player from a developed country and it decides where to locate the product depending on the product stage. Once the product reaches the mature stage and competitive ones appear on the local market, the company seeks to overcome the risk by expanding the market (Chernysheva, 2011). This is a way to keep cost effectiveness and retain the competitive edge. FDI could be made in a country with higher demand for this product or with similar characteristics. As the product cycle is nearing to its declining stage, companies are trying to invest in developing countries achieving less costly labor (O’Connor, 2003). However, expanding on the foreign markets doesn’t have to be conditioned with competitiveness of the local market or cost efficiency directly, but with the strategic motives to capture the position and establish the product on the market abroad.

When implied in terms of real estate FDI, product life cycle theory could be related to the real estate cycle of purchase-operation-disposal and investors prefer to undertake FDI when the property product is on stable stage and new market are considered (Chernysheva, 2011). However this pattern could be more implied to old, traditional type of investors. Lately, the real estate investment map has shown players with a greater readiness to explore foreign markets considering home market less attractive.

4.2.3. Internalization theory
Internalization theory assumes that a multinational enterprise (MNE) creates their own international market in order to achieve transactions with lower costs within the company. It is an extension of market internalization theory which relies on the idea that companies are constantly searching for new markets opportunities with the intention to capitalize on advantages over local companies in a foreign country (Morgan, Katsikeas, 1997). Internalization theory considers that FDI are suitable when the benefits of internalization overweight costs. MNE posses the technological or managerial knowledge as a key for success and it is also protected in its internal market. Expanding on international market implies developing of new operations and activities, but managed and controlled by the holding company. Even though this theory is more applicable to production and licensing, in term of real estate it could be interpreted through investor’s intention to maintain the position and establish quality standards on the foreign market.

4.2.4. OLI Paradigm and Internalization
The OLI paradigm points at MNE’s choice of FDI compared with other possible forms of presences in foreign market such as licensing, management contracts, joint ventures, or strategic alliances (O’Connor 2003). The owner specific advantages (‘O’) is related to company’s interest in a foreign location i.e. its specific characteristics. ‘L’ indicates that ownership of properties in FDI includes managerial aspects that are transferable to foreign market conditions. Finally, ‘I’ for internalization refers to the company’s
capability to be competitive and control the entire life cycle of property to invest in (Dunning, 1993). Investor’s decision for FDI is related to their intention to have better control and apply managerial knowledge that has. However those decisions are related to regulations, laws or even general knowledge about the local market. In practice, joint ventures or strategic alliances are considered to be more efficient solutions.

4.2.5. Market Power
The market power approach states that motivating factor to explore foreign market lie in the need to enhance its market power using the ownership-specific advantage (Pitelis, Sudgden, 1991). This tendency is a result of the oligopolistic competition and reach of the growth phase in the domestic market. Once the local possibilities to enlarge and maintain operations are narrowed, expansion on the foreign markets is the logical sequence of events. In terms of real estate industry, beside the common reason for the lack of opportunities at the home market (Chernysheva, 2011), this could be explained by the company’s intention to occupy a strategic position on new markets. Prevalence on the different markets may signify the stability, power and innovativeness of a certain company.

4.2.6. The oligopolistic reaction theory (follow-the-leader theory)
As the extension of market power theory this approach considers the specific behavior of MNE’s. Competitor companies make similar decisions following the steps of the leading or majority of the actors in oligopolistic market. This model of behavior is recognized in FDI as well (Knickerbocker, 1973). Proponents of this theory, led by Knickerbocker suggest the pattern where it is recognized that the entry concentration is positively related to industry concentration. It is followed by the conclusion that industry leading companies serve as a model to competitors on the market. Finally it is inferred that companies with successful marketing activities contribute to the popularization of certain segment of the market or specific activities within the industry. Despite the incompleteness of this theory, it points to a defensive style of investing, omitting to explain why investors choose cross-border activities (Lizondo, 1991). However, this theory has the greater significance after the uncertainty regarding real estate investments that occurred after the global financial crisis.

4.2.7. Behavioral theories of FDI
The majority of FDI theories assume rational decision making led by investors and managers whose aim is to maximize profit and achieve benefits for their companies and clients. Rationalization of the decision making process is affected by the number of information and small decisions where of the major importance is to overcome the uncertainty and risks. The capital engaged in investment is usually employed during a longer period of time and it is immobile (Aharoni, 1999). The process of decision making involves a lot of actors, it is affected by many environmental variables that are permanently changing, and it takes a longer period of time. It consists of many stages and small decisions that could be circularly measured during all period before the final decision is made. Beside the ‘economically rational’ aspect, there is a ‘behavioral’ aspect which includes perceptions and other cognitive features of decision makers (Katona, 1975). In the context of the FDI into properties this could be observed through the frame of cultural, language, educational or business practices (Johanson, Vahlne, 1977). However, considering the accelerated flow of information and expansion of global standards in business
procedures, those limitations may have the less significant impact on the decision making process in the future.

4.3. Summary

Even though neither decision nor investment theories fully clarify the international investor’s decision making process, they have certain explanatory power which indicates the aspects investors are concerned about. Especially when it comes to FDI into real estate sector many factors steer and affect final outcome. The decision making process is dependent on characteristics, strategy and expectations of the company to invest abroad, afterwards on macro economic conditions and forecasts, and on the circumstances in the host market.

The decision theory is devoted to the ‘technical’ aspect of the decision process and explains the logic behind the activities that investors go through when assessing opportunities. It defined stages in decision making and primarily sequential then non-sequential models which includes sub-phases that investors experience. Decision theory elaborates the process of selection among different alternatives under certain known or unknown conditions. Although the majority of these theories are applicable to managerial and organizational disciplines it doesn’t take into account how these processes could be affected by cultural differences, language barriers, administrative or regulative obstacles in foreign investments.

Investment theories mainly process the motives behind the decisions to invest abroad. All previously listed theories consist of various expectations that MNE’s have when placing the capital in a foreign country. However they do not explains how the assessment process is like and what other factors affect decisions. These theories do not administer the factors that make one foreign market less attractive and draw out investors from the decision to invest. The reason probably lies in the fact that each investment carries its own specificity and incentives that it is impossible to integrate in a single theory.

Merging decision and investment theories, the process of the decision making for FDI in the real estate sector could be clearer. However, it is unavoidable to obtain general models that are doubtfully applicable in the practice. Therefore the empirical investigation that follows is dedicated to infer if listed patterns and motives could be recognized in residential real estate investments in reality.
5. SWEDISH REAL ESTATE MARKET
Neutrality and peaceful polit of Sweden in 20th century contributed to an enviable standard of living and stable economy with a modern distribution system, excellent internal and external communications, and high skilled labor force. Despite a sustained economic upswing, increased domestic demand and strong export, the Swedish economy slid into recession and was affected by the global financial crisis in 2008. Rebound was remarked in 2010 and 2011, but modest growth of 1.2% in 2012 induced the government to propose stimulus measures to restrain the effects of the global economic slowdown (CIA, 2013).

5.1. Swedish economy
Key facts

<table>
<thead>
<tr>
<th>Official name</th>
<th>The Kingdom of Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Constitutional Monarchy with parliamentary government</td>
</tr>
<tr>
<td>Population</td>
<td>9.5 million</td>
</tr>
<tr>
<td>Area</td>
<td>450,000 sq.km</td>
</tr>
<tr>
<td>Currency</td>
<td>1kr = 100 öre</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>1.2% (2012)</td>
</tr>
<tr>
<td>Memberships</td>
<td>EU since 1995, WTO, OECD</td>
</tr>
</tbody>
</table>

Table 3. Sweden key facts, Source: CIA, 2013

Located in Northern Europe, Sweden is the largest market in Nordic region. The most important export industries are mechanical engineering, automotive, IC technologies and power generation. Goods and services that Sweden imports are foodstuffs, raw materials and fuels, chemical products and machinery. Sweden, together with other Nordic countries belongs to 12 largest economies in the world. In United Nations Conference on Trade and Development, Sweden is listed among top 20 prospective host economies in the world (UNCAD 2012). Some of the reasons that international investors are attracted to Sweden are stable economy, technological innovations, openness to international ownership and simplified business procedures (Business Sweden 2013).

Still suffering from the recession, the global world economy will experience a recovery during 2013 according to most macroeconomic scenarios. Global recovery has a great impact on Northern European property market including Sweden. Even though the GDP growth by 1.2% in 2012 was quite low, the macroeconomic indicators are optimistic and begun to improve recently (Newsec, 2013).
Positive forecast for near future is expressed by GDP growth of 1.3% in 2013 and 2.6% in 2014. It is likely that the national bank of Sweden will keep the low interest rates considering the downturn in the economy and the low pressure of inflation. In order to support the economy the strong public finances can allow for increased public spending (Savills 2013). GDP per capita in 2012 was $41,000 and unemployment rate reached 7.5%. According to data from Statistic Sweden, the number of unemployed rose to 448,000 in March 2013, pushing the seasonally adjusted unemployment rate from previous year level of 8%.

5.2. The Real estate market in Sweden

The transaction volume at the end of 2012 ended up at 107 billion SEK which is a remarkable strength for the Swedish property market. The last quarter of 2012 showed the significant upturn and 30 billion SEK of real estate transactions took place in December alone. The transaction market is dominated by institutions and they accounted for 40% of direct investments. A significant part of indirect investment was made via property funds. Cash flows for core assets are strong and almost 60% of transaction volume is represented by residential and office properties in prime locations in the major Swedish cities (Newsec, 2012).

Real estate transactions increased with 9% compared to 2011, but the first quarter in 2013 was weak both in volume and number of transactions. It is remarked that transaction volume in Q1 2013 was enlarged by large scale residential transactions, but however the number of transactions decreased with 20% year-on-year in 2012. However, 2013 is expected to have the same level as 2012 (Savills, 2013).

Bank financing has become more readily available and alternative financing forms are increasing. Credit availability is expected to improve gradually through both bond emissions and bank lending. This will increase the liquidity of the property market especially the property market for prime assets as a result of strong economic fundamentals and weak risk-adjusted returns on alternative assets such as bonds and stocks. Increasing demand for secondary assets due to higher risk acceptance among investors is also expected despite the difficulties in securing financing (Newsec, 2012).
Stable yields for prime assets are a result of the remaining strong interest for prime market properties and intense competition for the few assets being put on the market. The secondary market is more fragmented remaining stable for the larger cities with probability to enhance caused by shortage of prime assets (Savills, 2013).

5.3. FDI into real estate
A study conducted by Ernst & Young in January 2013 concluded that in direct comparison with other European countries, 96% of the respondents consider Sweden to be an attractive or very attractive market for real estate investments. The share of foreign investments increased to about 20% of total investments in real estate, comparing with only 10-15% in recent years. The two largest transactions accounted for 8 billion SEK of the total 21 billion SEK of foreign investments (Newsec, 2012). However, domestic pension institutions and funds accounted more than 40% of all acquisitions.

The low cross-border activity is a result of international investors’ inability to compete for the most attractive assets. They have more success in acquiring prime retail, logistics and shopping centers (Savills, 2013). Residential property market has traditionally been unattractive for the international investors considering regulated level of rents.
5.4. Legal features of the property investment system for foreign investments

Swedish legal issues do not restrict foreign ownership and they are similar as for domestic property investors regulated through ‘Law of Foreign Acquisition of Real Property’. ‘Pre-emption Act’ and ‘Act on Acquisition of Rental Property’ were abolished in 2010 which simplified formalities in transfer of ownership for real properties (Bergh & Co Advokatbyrå AB, 2011). However, the ‘Property Acquisition Act’ granting cooperative building societies a pre-emption right to acquire rental building. The Swedish Land Code regulates real estate private law through property fixtures, mortgages, formal requirement, leases, easements, and registration of property right.

Direct investments are usually affected through Swedish special purpose companies. Investment could be made through a limited liability company (AB), a partnership or non-resident company. Due-diligence is often coordinated by the legal consultant or directly by the investor.

Swedish corporate tax income rate in 2013 is 22%, thought the effective tax rate is lower due to possibility to adjourn the profit taxation and tax refundable property-related expenses. Property tax is on rate of 0.5-1% on the tax assessment value that equals 75% of the fair market values assessed by the Tax Agency. The sale of real estate is exposed to corporate income tax on capital gains.

5.5. Foreign investments in residential property sector

The investments in residential properties attract the second largest portion of entire investments in the real estate sector. Population growth, constant demand for and low vacancy rates are the major indicators that this type of assets provides secure investments. A fairly large amount of office space is being redeveloped in residential use, considering increasing demand for housing in Stockholm. In total 170 000 m$^2$ will be turned into residential space or demolished until 2014 (DTZ, 2012).

![Image of a chart showing the breakdown of the volume per type of asset]

Table 8. Breakdown of the volume per type of asset, Source: Savills, 2013

Foreign investors in residential property prefer to have long-term ownership and manage the properties so that it generates a steadily growing cash flow. Long-term fixed interest rates and capital tied-up are prerequisites for low financial risks. The rental market remains strong and average rent for new leases in
2012 was SEK 1 170 per m$^2$ and year. The vacancy rate in Stockholm is very low being only 1.73% and 72% of vacant apartments were vacant due to upgrading (Akelius, 2012). However, residential property market is considered to be more attractive to domestic investors considering high regulated market.

5.6. Risks
Sweden has earned the reputation of being a progressive society with an environmental conductive to grow. The number of positive factors and investment opportunities make foreign investors to locate their investment in this country. Reliable legal and business environment, social and economic stability and transparency contributes to the label of being ‘risk free’ country (UNCAD, 2012).

Risk for the Swedish economy could be related to global world economy changes and only significant macroeconomic changes could threaten its stability. Being an export oriented nation, some industries are quite dependent on cross-board demand for their products. Even though the Swedish currency is stable and independent, euro fluctuations can affect the economy having the Euro zone as a major export market. In the property sector, the secondary market is considered to be more risky having in mind a growing migration of population to bigger cities.
6. MONTENEGRO REAL ESTATE MARKET

The attractiveness of the Montenegro real estate market increased significantly in the last decade. Foreign investors started to show the interest for this small country in the Southeastern Europe. The main factors that attract the investors are idyllic natural playground on the Mediterranean cost, unused potential for developments in real estate sector and constant growth of economy that is passing a transition period. In addition, the government is making efforts to contribute to political and legal stability and to improve business procedures (European Commission, 2012). The following pages will investigate the factors of the local market that may affect the decision making process that international investors have.

6.1. Economy of Montenegro

Key facts

<table>
<thead>
<tr>
<th>Official name</th>
<th>Montenegro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Parliamentary democracy</td>
</tr>
<tr>
<td>Population</td>
<td>620,029</td>
</tr>
<tr>
<td>Area</td>
<td>13,820sq.km</td>
</tr>
<tr>
<td>Currency</td>
<td>1euro = 100 cent</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>3.2% (2011)</td>
</tr>
<tr>
<td>Memberships</td>
<td>EU candidate state</td>
</tr>
</tbody>
</table>

During many decades the core strategic industry of Montenegro was bauxite-alumina-aluminum industry. Later on in the 1960’s largely attracted visitors from Europe contributed to the rapid growth of the tourist sector. In 2006 Montenegro proclaimed independence from the union with Serbia which led to separate membership in several international financial institutions. Despite the global financial crisis Montenegro attracted 1.07 billion euro in 2009, having quite low level of public dept (around 44% of GDP) and budget deficit (4%). Government’s position on the issue of international investments is that should reduce the restrictions for the remit profit, dividend and interest. The creation of favorable tax climate with low corporate and personal income tax, with a flat rate of 9% and VAT of 0%, 7% and 17%, contributes to pleasant business conditions (MIPA, 2011).

GDP growth has been estimated at 3.2% in 2011 and real output has almost reached the pre-crisis level in 2008 in Montenegro. However in 2012 significantly declined at 0.5% as result of the economical streams in whole region (CIA, 2013). GDP per capita in last year remained the same level from the 2011 ($11 700). Inflation rate increased 1% in comparing to 2011 and reaching 4% in 2012. Foreign direct investments remained above one tenth of GDP and confidence in the banking sector is recovering with...
deposits continuing to grow. However, liquidity is tight and dept overhang hampers credit growth. On its annual report International the Monetary Fund also suggest that public dept needs be urgently reversed bringing taxation and spending closer in line in order to redress the large persistent fiscal deficit (International Monetary Fund 2012).

Table 10 and 11. GDP growth (annual %), Country Data, Source: World Bank; Annual inflation, consumer price (%), Source: MONSTAT, EBRD, 2011

Annual inflation in the past years has showed the constant change. Based on the CPI, annual inflation for the 2009 was 3.6%, decreasing to 0.7% in 2010, while year after reached the previous level of 3.6% (MIPA 2012). During the last years the Government of Montenegro continued with restrictive fiscal policies, cutting the expenses and making saving in current budget. Emphasis in on development of a tax system based on low tax rates, a broad tax base and a minimum of tax-exempt entities.

6.2. The Real estate market in Montenegro

Since the independence in June 2006, the Montenegro real estate market became very attractive among both foreign and domestic investors. The foreign investors are traditionally from Italy, Germany and Russia, but then British, Canadians and Americans entered the market as well (Roll, 2007). A favorable tax system, continued improvement, stable macroeconomic situation, simplification of business procedures, and progress in processes of integration are some of the major motives to enter this market. Any foreigner can purchase and became an owner of the property which additionally strengthening the attractiveness.

The Montenegro real estate market experienced a property boom after 2006, when the property prices averaged an increase of 20% each year, and some locations have increase 100% each year (Roll 2007). However, the global financial crisis that affected all markets led to equality prices with the real value. Today prices of properties are stable, but still way above compared to a decade ago.

In 2011 a stagnation of investments in the real estate sector was remarked. Still development of properties is remarkable and the value of construction works completed in the first quarter of 2011 reached €843 million. The value of finalized works amounted to €65.1 million which is an 18.1% increase.
compared to previous year (MONSTAT, 2012). The Law on Land Construction, the Law on Spatial Planning and Planning Building Inspection are the new laws adopted on special planning and building. They provided stability of conditions for construction and a simplification of procedures that should motivate new developments in construction of buildings (MIPA 2012).

MFCI (Montenegro Foreign Investors Council) processes several factors that have been the subject of discussions and according to them affected negatively the investments in the property sector. This is related to construction permits, the cadastre, enforcing mortgage contracts, and real estate appraisal. The largest issue lies in the issuance of construction permits and it is the responsibility of municipality administrations. Central authorities should give more attention regardless of the fact that some improvements have been noted. Some objection have been addressed to ‘cadastre plans that are not harmonized with detail special plan’ and as the solution is proposed having all the urban planning and documentation online, accessible to anyone (White Book, MFCI, 2012 p.24). Further, adoption of internationally recognized standards for real estate valuation would contribute to more stable base for growth and development in real estate sector. This would enable to set a framework for internationally recognizable properties.

6.3. Foreign investments in real estate

Considerable interest from foreign investors has been remarked since 2005, though FDI dropped in 2011. According to preliminary data generated from the Montenegrin Investment Promoting Agency (MIPA, 2011), FDI reached €534 million, which is 23% lower than 2010. Foreign direct investment per capita is on the level of €830 and Montenegro is still the leader among the countries in the region. Investment (gross fixed) are at the 8.3% of GDP in 2012 (CIA, 2013).

![Figure 12. Foreign Direct Investment (million euros), Source: MIPA, 2011](image)

About 5,200 foreign-owned companies are registered and operating in Montenegro. Foreign investors come from 107 countries, with no single investment dominating investment. Geographically the largest portion of FDI (49%) has been concentrated in the central region with the 44% directed to the southern region and 7% on the north. Based on job-creating foreign investments i.e. not including individual real estate transactions, the breakdown of FDI for 2011 is as follow (U.S. Department of State, 2013):
Montenegro was ranked at 56th among 180 countries in the ‘Doing Business 2012’ report of the World Bank. This report measures the ease to operate and do business in one country. Montenegro climbed 10 spots primarily owing to following reforms: easier procedures to open a new business, tax reliefs, and adoption of new bankruptcy law (U.S. Department of States, 2012). However the issue pose Montenegro lowest ranking (173rd) in the category of ‘obtaining building permits’.

6.4. Legal features of the property investment system for foreign investments

Right to private ownership and establishment

The Foreign Investment Law permits foreign investors to purchase real estate through a contract. This right is explicitly reinforced by the Law of Property and Law on Relations. The Act states that foreign person or company can acquire rights to real estate, such as company facilities, places for business, apartments, living space and land for construction. Foreign investors can establish company, operate under the same conditions and invest under the same manner as domestic (MIPA, 2011).

Tax system

Montenegro launched a moderate tax system in order to encourage foreign investors in this country and to harmonize the tax system with EU directive and international standards. The tax system in comprised of the following tax laws:

- Corporate Profit Tax (9%)
- Personal Income Tax (9%)
- Property Tax (0.1%-1%)
- Rental Income (9%)
- Value Added Tax (VAT) (17%, 7%)

The corporate profit taxpayer is defined as a resident or non-resident legal person performing an activity that generates profit. A limited partnership is also subject to corporate income tax. Income generated expenses and operating expenses are deductible when computing to the taxable income (Global Property Guide, 2012). For a personal income taxpayer the tax level is the same and applies that when
two or more natural persons jointly generate income, a taxpayer is any of those persons in proportion with the sharing of such income.

The owner of the property or person with right to use it is liable to pay the property tax. The tax is levied on the market value of the property at rates ranging from 0.1 to 1 %. Rental income from leasing real estate property is included in aggregated taxable income and taxed at a flat rate of 9%. A lump-sum reduction of 40% in the gross rent in lieu of actual itemized cost is allowed. Gross earnings of property sale are taxed at a flat rate of 2% (Global Property Guide, 2012). Property transfer tax in Montenegro is 3% of the property value.

Amendments to the law have reduced the tax rate from 17 % to seven for the accommodation services in tourism to foster the growth of that sector. Otherwise the VAT is 17% that is slightly below the average for EU member states (U.S. Department of States, 2012).

6.5. Foreign investments in the residential property sector

The non-residents’ demand for homes in Montenegro is the major explanation for the inflow of the residential real estate foreign direct investments located mainly on the coast. The Montenegrin coast attracts the most of the investments due to its position, natural beauty and opportunities for development in the near future (MIPA 2012).

Development of residential objects in Montenegro could be divided depending on the target group to be sold to. Even though there are no official statistics or figures about, it is remarkable that a standard in quality, location, but also prices of residential developments differs. Foreign investors rarely invest in one single residential building, but instead in whole areas that have to offer much more to their residents. The village communities encompass hotels, retail and commercial objects combined with existent public elements such as markets with domestic groceries, schools and hospitals. Development of areas includes building of wide promenades, marinas, restaurants and cafes carefully blended with authentic local Mediterranean building style. Interior design of residential objects is composed of luxury materials and benefit from sea view. To resident is often offered use of gardens, roof terraces, pools and car park, concierge and other content (Adam Consultancy, 2010).

All those elements make the price of residential objects much higher in comparison with developments intended to domestic resident. Prices of apartments in area along the coast that usually include use of many other amenities range from 1 900 to 5 000 €/m², but could reach 7 000 €/m² for exclusive penthouses. The average price of per square meter is around 2 900 €/m² which varies from location and development project (Atlas Group, 2011).
However those prices are considered to be less affordable for domestic residents, so the target group is likely to be the customers from abroad that intend to possess a real estate for vacation purposes or higher income residents that prefer to benefit from the sea presence and eventually do not mind to travel daily to their work places that are in most cases located in major cities.

<table>
<thead>
<tr>
<th>Location</th>
<th>Price (€/m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Podgorica</td>
<td>1000-2200</td>
</tr>
<tr>
<td>Budva</td>
<td>1500-3500</td>
</tr>
<tr>
<td>Niksic</td>
<td>800-1500</td>
</tr>
<tr>
<td>Bar</td>
<td>800-1800</td>
</tr>
</tbody>
</table>

Here the prices could be from 800 to 3 500 €/m², where the average price is around 1600 €/m². Remarkable difference in prices means that properties on the coast developed with higher standards have about 81% higher prices than real estate in cities.

6.6. Risks

Some of the major weaknesses of this market are the insufficiently developed infrastructure, lack of special planning documents, inflexible labor market, and lengthy procedures at the local level for obtaining construction permits, as well as procedures for land –use change. Increase of new technologies in different sectors, level of transparency and efficiency of the administrative sector could largely contribute to attract international investors (MIPA 2012).

Land disputes and difficulties in determining whether the vendor is legally entitled to sell the property could be another defect despite a formal land registry. Also there is no a national guideline for the values of properties, real estate or land that means that vendors and real estate agencies can price a property at the rate they choose. Hence, in order to acquire property it is required support from independent conveyance lawyer and to have some due diligence performed of the property (Roll 2007).
7. EMPIRICAL DATA AND ANALYSIS

The empirical data for the research was obtained through the interviews conducted with foreign investors, public advisory agencies and consultancy companies providing services for investors. The majority of the investment companies have been on the market of Sweden or Montenegro less than a decade. Advisory agencies and consultancy companies on the contrary possess longer market experience. A total of 21 investment companies and consultancy organizations were selected and demanded to participate in the research. Responses to the interviews question were obtained from 9 participants, having a 42% response rate. Out of 9 interviews two have been unstructured and remarkably, the response rate for investors was very low. This is primarily reasoned by the fact that a very small number of investors in both markets operate in the residential sector. In the Swedish market foreign investors activities are more remarkable in retail, shopping malls or offices, while Montenegro’s market hosts developers interested in hotels and objects in the sector of tourism. This made the research horizon quite narrow and precisely oriented toward the residential market. However, certain investments were not able to be strictly separated from the whole development projects and interlocutors broader view on strategies and market.

Further, investors’ willingness to openly reveal their internal strategy is very low. The decision making process and circumstances under which they have been made are sensitive as they present the key of success for many companies. Another issue was the fact that decision making is made by a board of directors and their discussions of alternatives are kept behind the closed doors. It is often very challenging to get in contact with the right interlocutor and even then they are unavailable for interviews due to very busy schedules.

The interview question were divided into a few sections to capture background information of participants in research and company specific features, their view of the decision making process in general, how different factors affected their decisions, and opinion about investment conditions. All of the questions were open-ended and designed to provide freedom in the way to respond on them. This method was chosen to enable qualitative evaluations which will not be achievable with a questionnaire that limits the possibility to describe processes or specific issues.

7.1. Background information

The first section of the interviews was designed to collect and verify the background information of organizations interviewed. This includes classifying of organization type, positions and period of employment in the organization of the respondents, mission of the organization and their opinion about aspects such as importance of sustainability and information technology improvement for the business they are involved in. In total 9 organizations have been interviewed, 5 of them are investors (three from Swedish and two from Montenegro market), two consultancy company (Sweden), public promotion agency (Sweden), and a governmental organization (Montenegro). Interviews with two participants (IPD, Ministry of Finance) haven’t been structured so in certain questions their opinion will be omitted.

One of the participants in this research insisted on anonymity will therefore be renamed ‘Company A’. The company is owned by private Canadian investor that posses a well established reputation among
international investors, and previously have been involved in similar real estate developments and investments in the gold mining business.

<table>
<thead>
<tr>
<th>Sweden</th>
<th>Montenegro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the organization</td>
<td>Name of the organization</td>
</tr>
<tr>
<td>Type of organization</td>
<td>Type of organization</td>
</tr>
<tr>
<td>Position of interviewee</td>
<td>Position of interviewee</td>
</tr>
<tr>
<td>The Carlyle Group</td>
<td>Oracsom Development</td>
</tr>
<tr>
<td>Asset Management</td>
<td>Real Estate Developer</td>
</tr>
<tr>
<td>Managing Director</td>
<td>Head of Investment</td>
</tr>
<tr>
<td>Bouwfonds</td>
<td>Company A</td>
</tr>
<tr>
<td>Property Developer</td>
<td>Real Estate Developer</td>
</tr>
<tr>
<td>Senior Acquisition Manager</td>
<td>Senior Business Development Manager</td>
</tr>
<tr>
<td>Patrizialimmobilien AG</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Real estate fund</td>
<td>Governmental organization</td>
</tr>
<tr>
<td>Head of Acquisition</td>
<td>Deputy Minister</td>
</tr>
<tr>
<td>Stockholm Business Region</td>
<td>NaiSvefa</td>
</tr>
<tr>
<td>Investment Promotion</td>
<td>Consultancy/analyst</td>
</tr>
<tr>
<td>Business Development Manager</td>
<td>CEO Transactions</td>
</tr>
<tr>
<td>NaiSvefa</td>
<td>IPD</td>
</tr>
<tr>
<td>Consultancy/analyst</td>
<td>Consultancy/analyst</td>
</tr>
<tr>
<td>CEO Transactions</td>
<td>Managing Director</td>
</tr>
</tbody>
</table>

Table 36. Type of organizations and positions of interviewees

Three of the investment companies are value-added investors, while two others (Bouwfonds and Patrizialimmobilien AG) are core and rental investors which mean that their priority is safe investments. Stockholm Business Region and Sector of Finance Services and Improvement of Business Environment have a mission to ensure favorable conditions for investments, and provide assistance and advices. Those organizations have insight into foreign investor’s decision making process as they are often the first link in the chain when investors open a new market. Finally consultancy/advisory agencies provide support to foreign investors in all from market analysis and informing about market conditions, through the acquisition and later during the entire period holding the investment (NaiSvefa and, IPD).

The majority of participants in the research have about 5 years of work experience in the organization they represent through the interview, and only two are involved less than one year. This indicates that interviewees had opportunity to follow the decision making process from the very beginning.

The first section of the interview include two question that are not related directly to the core business of the investment companies but have increased significance for today’s society and probably affect many business aspects (Wijngaert, Hooff, 2005; Dent, Patrick, Xu, 2012). This refers to the choice of having sustainable developments and how information and communication technology (ICT) improvement affects the business.
Table 17. What is the importance of having sustainable projects and how does ICT affect your business?

While some interviewees (PatriziaImm AG) think that the level of return has the major significance for the successes of the investment, others (85%) see it as a standard set by clients, especially in last 5 to 6 years (The Carlyle Group). Investing in a sustainable project many investors recognized as a potential benefit having on mind its importance for their clients (Stockholm Business Region).

ICT improvement simplified the decision making process meaning that accessible information speeds assessment of alternatives and provides safety to invest in new market (PatriziaImm AG). Being able to communicate 24/7 and having documentation available online accelerate the decision making process (Company A). However the large number (71%) of participants in the research is sure that procedures remained the same and channels of information are traditional. The process of reflecting and assessing alternatives is hardly affected by technology.

7.2. Characteristics of decision making process in general

The second section of the interview tried to investigate the decision making process’ characteristics through number of stages, their sequence and time frame. The questions were with regards to respondents experience and firstly they are asked to define the stages that investors pass through when
taking a decision about investment. Advisory/ consultancy organizations have been weak to give precise answers as decisions features differ from investor to investor and the dynamic of decision making according to them is wide. However certain pattern is recognized.

Table 19. Number of stages, sequences and time frame for the decision making process

The majority of participants (56%) answered that the number varies around four stages while others thinks that it depends from case to case and it is demanding to define. It is remarkable that interviewees consider the decision process linear (71%), however opinion is that in practice investor many times reassess alternatives (Bouwfonds, Company A). In general, respondents agreed that the process doesn’t take longer that 3 month conditioned on all the necessary information is available and that there is no restriction from external factors (The Carlyle Group, Bouwfonds).

When asked to define if the market research precedes the investment decision and entering the new market, respondent’s opinions quite differ. For some investors macroeconomic environment in the country to invest is of high importance (Bouwfonds, Patrizialmm AG), while others parties decided the amount of funds and reassessed alternatives among different developments. Investors also are entering the new market as a strategic decision to position them on the market with potential growth (The Carlyle Group). It can be that the sequence of stages depends on internal company strategy and business orientation.

Further, the majority of interviewees conclude that figures and statistics are crucial when assessing an investment, leaving intuitive decision making behind them. However, to some extend experience and ‘good feeling’ for investment may outweigh in decision making. This also depends on the origins of the funds, noticing that private investors have more freedom to risk their capital, while funds with greater responsibility are using figures and statics to justify their decisions (NaiSvefa).
### Table 20. What is the first stage in decision making and to what extent do investors rely on figures compared to intuition?

<table>
<thead>
<tr>
<th>Sweden</th>
<th>Montenegro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the organization</td>
<td>First stage</td>
</tr>
<tr>
<td>The Carlyle Group</td>
<td>Strategic market position</td>
</tr>
<tr>
<td>Bouwfonds</td>
<td>Macroeconomic research</td>
</tr>
<tr>
<td>Stockholm Business Region</td>
<td>Decision to invest</td>
</tr>
<tr>
<td>NaiSvefa</td>
<td>Decision to invest</td>
</tr>
</tbody>
</table>

7.3. **Market specific factors that affect decision**

The next sector in the interviews investigated the analysis of investor’s motivating factors to enter the market and market specific conditions that affected their decisions. The questions were targeted to obtain specific reasons to locate the investment in the chosen market and their opinion about the most significant factors that characterize it. The results present great variety in motives despite the fact that market specific factors were assessed similarly.

Investors oriented toward core and rental investments suggest that the low risk investment market in the chosen country responds to their investment style. This is further strengthened with satisfactory return (yield level), high demand for residential properties (low vacancy rate), and potential to growth (Bouwfonds). Risk diversification all over Europe targets markets with stable and wealthy economy followed by the political situation that doesn’t indicate surprises (PatriziaImmo AG).

Another investment management company considers as a main factor the strategic vision related to the long-term goal for growth and generated profit. Expanding in Europe market, the chosen country was a logical sequence. Rated as the fourth most attractive market among foreign investors, it surely provides the good conditions for value-added investments (The Carlyle Group).

Consultancies and advisors in the Swedish market indicate that favorable economic and politic platform provide secure investments. Local government pays special attention to development of infrastructure which positively affects both domestic and international investors. Other successful investment serve as example to others and in last 10 to 15 years became a trend to invest in this country associated with stability (Stockholm Business Region). Simplicity in doing property transactions, efficient legislation system and transparency are also motives for foreign investors (NaiSvefa).

Investment development companies emphasize the location and product attractiveness as the major motive to invest. Large potential for growth and natural beauty of the country are providing the promising foundation for the successful development. Being relatively unknown among foreign
investors, the county to invest today is providing welcoming conditions which applies to legal treatment of foreign investors and moderate tax system in Montenegro (Orascom Development, Company A).

The answers of the opinion to what extent the following market aspects affect the decision process are as follows:

<table>
<thead>
<tr>
<th>Swedish Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the organization</td>
</tr>
<tr>
<td>The Carlyle Group</td>
</tr>
<tr>
<td>Bouwfonds</td>
</tr>
<tr>
<td>Patrizia Immobilien AG</td>
</tr>
<tr>
<td>Stockholm Business Region</td>
</tr>
<tr>
<td>Naisvefa</td>
</tr>
</tbody>
</table>

Table 21. Swedish market aspects that affect the decision making

All of the respondents agreed on the fact that stability of the local political system and economy provide solid base for investments. Even though the Swedish economy showed mild slowdown in last year as result of global macroeconomic streams, this country is far ahead of many others. This aspect was also recognized when investors have been asked to recognize major motivating factors to make an investment.

According to the answers interviewees have a very positive opinion about Swedish laws which are in line with European. However regulations regarding the rental market are pro-tenant which turn down the interest to invest (IPD). However, overall regulations are providing stability in the market and a satisfying demand making this aspect both negative and positive for foreign investors (The Carlyle Group).

The tax system was estimated as efficient and similar to other European countries’. Some respondents see the tax deduction as a significant benefit that contributes to profit generating (Bouwfonds, Patrizia Imm AG). The right structure could minimize or even eliminate the tax impact on return.

Almost all respondents agreed on that Swedish currency negatively influence the foreign investors. This may be due to their intentions to operate in the euro zone. More negative opinion of foreign investor was explained by fact that Swedish currency is not linked to Euro as e.g. a Danish krone is. This means that the exchange rate is volatile and fluctuations are based on the successes of the economy. If one invests in real estate and prefers to restrict the risk only on the class asset it is needed to hedge the
currency. The hedging of the currency does not have favorable conditions at the moment (weak euro-strong kroner) which reflects on decrease of yield (Patrizialmm AG).

Answers provided by interviewees indicated that the liquidity of the Swedish market has a very positive impact on foreign investments. However, slight decrease of liquidity in the last year can be interpreted as a bad indicator of the market (NaiSvefa). Further, modern technological equipment and efficient e-business channels (e-banking, e-commerce) do not affect foreign decisions significantly. Engineering, managerial and consultancy knowledge of the local partners simplify the business procedures and contributes to positive picture of the market (Bouwfonds).

The second category of respondents operating in the Montenegro market mostly agreed on market specific aspect and their answers are as follows:

<table>
<thead>
<tr>
<th>Montenegro Market</th>
<th>Name of the organization</th>
<th>Economy/ Politic</th>
<th>Laws/ Regulations</th>
<th>Tax system</th>
<th>Currency</th>
<th>Liquidity</th>
<th>Technologies</th>
<th>Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Orascom Development</td>
<td>Not affecting</td>
<td>Positively</td>
<td>Positively</td>
<td>Positively</td>
<td>Not affecting</td>
<td>Not affecting</td>
<td>Not affecting</td>
</tr>
<tr>
<td></td>
<td>Company A</td>
<td>Positively</td>
<td>Could be improved</td>
<td>Positively</td>
<td>Positively</td>
<td>Not affecting</td>
<td>Could be improved</td>
<td>Not affecting</td>
</tr>
</tbody>
</table>

Table 22. Montenegro market specific aspects that affect decision processes

Stable political economic circumstances are providing confidence to foreign investors. Political support is necessary for the timing and successful construction of developments. However, the economy does not affect in the great extend considering that development are independent from local economic support (Oracsom Development, Company A).

According to respondents, local laws and regulations are improving in line with European. This is significantly simplifying operating conditions in this country (Ministry of Finance). As an EU candidate member the Montenegro Government is heading laws in the right direction with the goal to coincide with EU regulations. However this aspect still has room for improvement (Company A).

The tax system has a very low rate compared to other markets which incentivize the foreign capital to enter the market. Respondents indicate that this aspect will positively affect the inflow of foreign investments in the future as well.

Adopting the euro as a national currency is considered to be a positive aspect for foreign investors. Respondents inferred that the euro provides the sense of security, as it is tied to a much larger and more developed set of economies. The drawback is that this made the economy more dependent on macroeconomic European circumstances (Company A).
Interviewees answered that liquidity of the local market does not have significant importance for foreign investors. Residential developments are not targeted in local market, therefore investors instead consider the ability to exit investments and adjust their return appropriately (Company A).

Local technological level as well as engineering, managerial and consultancy knowledge could be improved according to respondents. However, foreign investors cooperate closely with local companies in the while also importing outside expertise that contributes to further development of the local skill set and improve the knowledge of the region (Orascom Development, Company A).

7.4. Investment conditions – Advantages/ Disadvantages

The questions in this sector were designed to summarize and conclude the major market features that have an impact on the decision making process. Further it emphasizes the imperfections of the market and possible improvements that could be applied. Finally, respondents presented opinions on how some global macroeconomic changes from recent period influenced foreign investment decision making.

Indicating the motives to make cross-border investments in one of previous section, some investors stated that specific market factors affected their decision. Depending on the internal investment style of the company, characteristics of certain market may be the main factor to locate the investment there. Associated with advantages and disadvantages of the local market are also risks that could prevail in decision making, especially among investors oriented toward low-risk investments, therefore interviewees are asked to provide opinion about this aspect as well.

The major advantage of Swedish market is stated to be the local political and economic stability. Interviewees see this market as one of the most transparent in the world and therefore feel comfortable and confident to locate their capital there (the Carlyle Group). However, the responses on question related to disadvantages indicate that local currency and regulations reject the foreign investors in residential sector the most. Other aspects listed as negative sides are challenges to find the product (market volume) and climate (Stockholm Business Region). Risks of the market are minor and they are related to high individual debt (leverage on private property), high pricing and low yield. However, being very stable and safe the risks are mainly associated with global macroeconomic circumstances (NaiSvefa, Stockholm Business Region).

Development companies in Montenegro stated that the unused potential of the country; favorable investment incentives and competitive prices are the main advantages of investing in this country. Disadvantages are associated with insufficiently developed infrastructure, governmental overpromises and language barriers that complicate the communication with local people. Risks are mainly related to typical ones for the economy in transition: public depth, inability to utilize depth financing, lack of foreign financial institutions (Orascom Development, Company A).
Most of the organizations included in this research agree on the fact that global macroeconomic changes in 2008 significantly affected foreign investor’s decision making. It is remarkable that their opinion vary depending on investment style they have, but investor involved in low-risk investments took more seriously into account the real estate cycle in the country to invest in.

<table>
<thead>
<tr>
<th>Sweden</th>
<th>Montenegro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the organization</td>
<td>Effects of financial crisis 2008</td>
</tr>
<tr>
<td>The Carlyle Group</td>
<td>Investors more cautious, prices more realistic</td>
</tr>
<tr>
<td>Bouwfonds</td>
<td>Seeing opportunities in crisis</td>
</tr>
<tr>
<td>PatrizialImmobilen AG</td>
<td>Orientation toward stable markets</td>
</tr>
<tr>
<td>Stockholm Business Region</td>
<td>Positive turnover for residential, popularization of the secondary markets</td>
</tr>
<tr>
<td>NaiSvefa</td>
<td>Investors more cautious</td>
</tr>
</tbody>
</table>

Table 23. How has the global financial crisis affected investors/Investments?

Considering the constant increase in real estate prices during a period of about 15 years, the situation that occurred in 2008 was expected (The Carlyle Group). Besides price adjustments to a realistic level, the crisis brought some positives aspects for foreign investments as some new products occurred on the market (Bouwfonds). For stable economies this was a positive event that accounts even more foreign investors. Foreign investors realized that residential market is safer for investments and that the secondary residential market is good for investments (Stockholm Business Region). Investors already involved in their developments readapted strategies to new circumstances.

7.5. Summary
The most remarkable findings generated through this empirical study of the decision making process and factors that affects it, can be summarized as follows:

- Recognition of the growing importance of sustainability in the real estate investments among foreign investors. Sustainable residential developments are standard set by clients that contributes to attractiveness of investment thus this aspect is important in decision making.
- ICT improvement slightly affected the decision making process making availability of information and access to documentation easier. However, procedures and final decisions are carried out on traditional way (in person) therefore communication technologies do not have significant influence.
- Respondents agreed that decision making process consists of about four stages.
- The decision making process is rather defined as linear though while in practice reassessment of previous stages may occur.
• Period to make a decision is about 3 months, but in general vary from 2 weeks to 6 months providing that all external factors are under control.
• The initiation stage of the decision making process varies according to the type of investor. Low risk oriented investors primarily investigate market, while value-add investors assess the return potential of the particular product. The sequence of stages is not in correlations with market to invest but with the investment style.
• Respondents indicated that investors more rely on figures, calculations and statistics than to intuition. However, investors do not neglect the importance of experience, knowledge and intuition in decision making.
• Low-risk oriented investor considers as a major motive to invest specific market conditions.
• Value-add investors indicate that factors that influenced the decision the most are product attractiveness and long-term potential for growth.
• Interviewees from the Swedish market inferred that the political and economical situation significantly affected decision to invest in residential properties, while investors in the Montenegro market do not consider this of crucial importance, but contribute to the project success.
• Laws and particularly regulation negatively affect foreign investors’ decision making in the residential sector in Sweden in most cases, while this aspect of Montenegro market is rather positive.
• The tax system has positive impact on decision making for investors on both markets.
• Most of the respondents from Swedish market inferred that currency have a negative effect on residential investments, while the adoption of euro in Montenegro is recognized as a positive aspect.
• The liquidity of the Swedish market positively affects foreign investors, while this criterion does not affect developments in Montenegro.
• Respondents believe that technological equipment and efficient e-business channels (e-banking, e-commerce) same as engineering, managerial and consultancy knowledge of the local market do not have a significant importance for the decision making.
• Beside previously stated positive specific market aspects, the transparency of the Swedish market is of remarkable importance. Disadvantages are, along with the regulation and currency, modest volume of the market and climate. Risks are negligible.
• Interviewees inferred that the main advantage of Montenegro is the potential to grow and develop. Disadvantages are poor infrastructure platform and cultural barriers. Risks are associated with governmental effort to integrate country in EU streams.
• Respondents consider that the global financial crisis significantly affected foreign investors. While one became more cautious in assessing investment opportunities, others broadened the spectrum of alternatives in decision making. Third portion of investors included the refinancing as an important aspect. However, the recession contributed to see residential investments on a different way.
8. CONCLUSIONS AND DISCUSSION

This research was devoted to provide an insight about foreign investors’ decision making process to invest in residential properties in the Swedish and Montenegro markets, and motivating factors that affect their decisions in the period after the global financial crisis of 2008.

The current study add to the knowledge about foreign investments in the Swedish and Montenegro real estate markets and originated from previous studies in the field started by KTH scholars – Axelsson and Victorin (1999), O’Connor (2003), Roll (2007), Falk and Olsén (2009), Chernysheva (2011). The main difference and contribution of this research is that it attempted to analyze the process of decision making in the period after the financial crash in 2008. The prior studies were more focused on indentifying situation on the market and changes during a longer period of time, and quantitative analysis of transactions made on the market. The majority of studies conducted analyses about investment in the Swedish market, while only one research was devoted to Montenegro market (Roll, 2007), but considering the potential of investments and not qualitatively analyzing decisions to invest from investors’ point of view. Furthermore, none of the studies is a comparative analysis of those two markets. Most of the authors of mentioned studies have been investigating the research field from the Portfolio theory perspective, and only one study considered Foreign Direct Investment concept (Chernysheva, 2011). Decision theory was previously investigated in depth (Hansson, 1994), but never in the context of investments.

This research differs from others in the field in the limitations – previous studies haven’t been taking strictly analyzed the residential market, but focused on other sectors or the property market in general. On the contrary, this study didn’t impose any restrictions regarding type of investors and investment style.

1. Process of decision making

The empirical analysis of data generated about the decision making process was based on several decision theories. Primarily, the decision theory (Condorcet, 1847) defined tree stages in decision making that included – personal opinion, choice narrowing, and presentation of solution. This model was later moderated (Simon, 1947) and adjusted to decisions in organization – intelligence, design and choice. Those models have been improved by Mintzberg, Raisinghani, and Théorêt (1976) becoming non-sequential. Here each of three stages included two routines - decision recognition and diagnosis, search and design, and evaluation-choice and authorization.

The empirical study inferred that the decision process of foreign investors have about four stages and is sequential meaning that sequence of stage is strictly defined, but depends from organization to organization. In attempt to define the initial stage it is remarked that it depend on type of investor: low-risk oriented initiate decision making with market research, while value-add investors focus on the features of the product. Further, decision making in these companies is defined as a linear process. However, they do not hesitate to return to any of previous stages.
if the circumstances require it. The priority is to ensure investment frame that will lead to success of the development.

Theory also defines decision matrices that include alternatives, states of nature and outcomes. No similar patterns are recognized in the empirical data analysis. However, foreign investors follow the indicators in order to infer possible outcomes. It is remarkable that figures, statistics and calculations lead in relation to intuition in decision making.

2. Investors’ motives

Investment theories provide the range of investors’ motives to locate their capital in cross-border locations and data analysis was based on following:

- Markowitz’s Portfolio theory – maximizing return and minimizing risk.
- Theory of competitive advantage – advantage though the economy of scale, market expertise, and information.
- The product cycle model – benefit from the life cycle pattern.
- Internalization theory – gaining due to market imperfection.
- OLI Paradigm - owner-specific and location advantages.
- Market power approach – advantages in comparison to domestic actors.
- The oligopolistic reaction theory - follow-the-leader approach.
- Behavioral theory – language, cultural and policy advantages.

While Markowitz’s theory indicate that major investor’s motive for foreign investments has the opportunistic roots, later research (Falk, Olsén, 2009) highlighted their tendency to achieve risk dispersion through cross-broader investments. This empirical study indicates that the main motive is the product that corresponds to their expectations.

Being a very safe market it is expected that Sweden would attract investors with intentions to diversify their portfolios through low-risk investments. Empirics indicate this is not the rule and that value-add and opportunistic investors also consider this market attractive. Other investors as a motive to enter this market see strategic positioning in long-term perspective, meaning that products are not identified, but have large potential to occur.

The empirical investigation also concluded that Montenegro market was not seen from the risk perspective. The attractive product and potential of development were the drive forces to locate the investment here.

3. Market specific factors

Except from the motives, the decision making process is affected by market specific factors that significantly influence it. Those factors are divided in three categories: macro economy, micro economy and behavior issues that could influence the decision in one way or another. The factors are following:
• Advantages of the Swedish market: political and economical stability, transparency, minimal risks, simple transaction procedures
• Disadvantages of the Swedish market: regulations, currency, market volume, climate
• Advantages of the Montenegro market: unused potential, investment incentives, competitive prices
• Disadvantages of the Montenegro market: infrastructure, cultural differences

This research includes some other observations regarding changes in decision making process. Foreign investors note the high importance of investing in sustainable project and developments. None of previous researches processes this issue and investors opinion about it. This is probably due to low awareness of the importance of this issue. Nevertheless, as it became very present topic, the level of knowledge is increasing. Investors have realized that sustainable model of the development will provide long term benefits for the company. Further, the ethical responsibility is becoming more important for citizens and they expect it as well from business organizations (Reham, Gavin, Larry, 2009). The empirical analysis results emphasize that this question is a standard set by clients, contributes to the branding of an investment company and indirectly helps in generating profit.

The empirical investigation indicates also that ICT improvement and modernization haven’t left significant trails on the decision making process. Procedures remained traditional considering the delicacy of the process. However, accessibility to information and procedures that precedes decision making is simplified.

Global financial crisis from 2008 was usually mentioned in negative connotation. In the thesis from 2011 (Chernysheva), it is stated that ‘...some investors indicate the lack of business opportunities as a consequence of financial crisis’. However, some respondents inferred that new circumstances in the global economy have some very positive effects. The prices of properties came to line with the real value, markets became better regulated, investments in residential became more attractive and contributed to popularization of secondary markets.

This research was conducted with intention to provide insight in the decision making process that foreign investors have when asses opportunities to invest abroad, to identify motivating factors, and market aspects that affect it. The research had the focus on the Swedish and Montenegro foreign residential investments. There is a number of ways to improve and continue this research.

Future research might include a broader geographical market and this way increase the response rate, but provide insights about the decision making to invest in some other markets in Europe. The current study consider investors with different investment styles being oriented on residential investments, but same could be done with investors having similar investment strategy but broader sector scope. Another issue to explore might be the behavioral aspects that affect decision making, highlighted in Behavioral theory, considering that cultural differences, local standards, and different business procedure are of greater importance with the globalization of the property market.
9. REFERENCES

Books


Articles

Hansson, Sven Ove, (1994, 2005), ‘Decision Theory, Department of Philosophy’, Uppsala University, Sweden


Degree Projects


Internet

Akelius 2012,Interim Report, Danderyd: Akelius Fastigheter AB
(http://www.akelius.se/websida/finans/rapporter/Interm%20Report%20January%20to%20March%202012.pdf)

(http://pdf.euro.savills.co.uk/sweden/investment-reports-en-market-report-sweden-investment.pdf)
Bureau of Economic and Business Affairs 2012, Investment Climate Statement – Montenegro, U.S. Department of State, (http://www.state.gov/e/eb/rls/othr/ics/2012/191202.htm#)


European Real Estate Assets Investment Trend Indicator 2013, London: Ernst&Young


Montenegro Staff Report for the 2012, Article IV Consultation (April 2012), International Monetary Fund (http://www.imf.org/external/pubs/ft/scr/2012/cr12122.pdf)


APPENDIX I

Interview questions

Company:

1. Could you describe your position in the company, activities and daily tasks that you are involved in?
2. Where did the initial idea about investment in Sweden/Montenegro arrive from?
3. What is the main motivating factor for your company to invest in Sweden/Montenegro?
4. What was the first subject of research when your company assessed opportunities to invest in this country?
5. Do you think that the accelerated flow of information and innovative technologies affects your company and decisions about investments? How?
6. To what extent does sustainability have importance for your company?

Decision making process:

1. Could you approximately define the stages in your investment decision making process?
2. Is it more linear or circular process?
3. Does market research precede the initial idea/first stage of the decision process or does it arrive afterwards during the assessment of the investment decision?
4. To what extent do you rely on market analysis (statistics, numbers)? And to what extent is the decision intuitive? If possible, present this relation in percentage.
5. How long does it take to make an investment decision?
6. How do you think that the global financial crisis in 2008 affected your decision making process?

Swedish/Montenegro market:

1. To what extent did these aspects of the Swedish/Montenegro market influence the decision making process?
   a. Local political and economic circumstances?
   b. Tax system?
   c. Laws and regulations?
   d. Currency fluctuations?
   e. Liquidity?
   f. Technologies for capital flow, e-banking?
   g. Local engineering and management skills?
   h. Prices of materials and labor?
2. What is your opinion about doing business with local people?
3. What are advantages/disadvantages of investing in Sweden/Montenegro?
4. What are the major risks of investing in Sweden/Montenegro?
5. Perspective:
   1. Do you think that Swedish/Montenegrin advisory agencies and governmental service should change/improve their procedures in relation to international investors? How?
   2. When you are analyzing your decision making process of the current project, is there anything that you would do differently (investment size, type of property etc.)?
APPENDIX II

Confidentiality Agreement

This interview is a part of the researcher’s master thesis at the Royal Institute of Technology (KTH) at the Department of Real Estate and Construction Management. The master thesis is conducted under the supervision of Tina Karlbom Gustavsson, Senior Lecturer and Associate Professor (Docent) at Dep. of Real Estate and Construction Management and Head of Project Communication Division.

The purpose of the interview is to observe and analyze the decision making process that international investors have when they are investing abroad. The focus is on the Swedish and Montenegrin real estate residential investments. The interviews are part of the empirical research and will be compared with the decision and investment theory literature, publications from the field and academicals articles. Further the responses will serve as a base to infer the conclusion about decision making process, how it has evolved in last decade, and evaluates the possibilities to improve the strategies and stages in the process.

All master theses from students should be published in the DIVA database. KTH Data base DIVA contains publications produced by the university’s researchers and students. This database is accessible for people outside KTH and can be found at the KTH Library home page (www.lib.kth.se/main/eng/).

The interview will not be recorded or published. Instead the written answers or notes taken during the meeting will serve to conclude the master thesis. For the sake of anonymity the interviewee will not be mentioned by the name in the Thesis. The interviewee’s current role within the temporary or the permanent organization will be presented instead.

The interview questions will be used as a guideline and form the foundation for the thesis. The researcher reserves the rights to address additional questions during or after the interview. The interviewee reserves the right not to answer the questions which he deems inappropriate or that violate company’s information privacy.

Thank you for your participation!

Sincerely,