

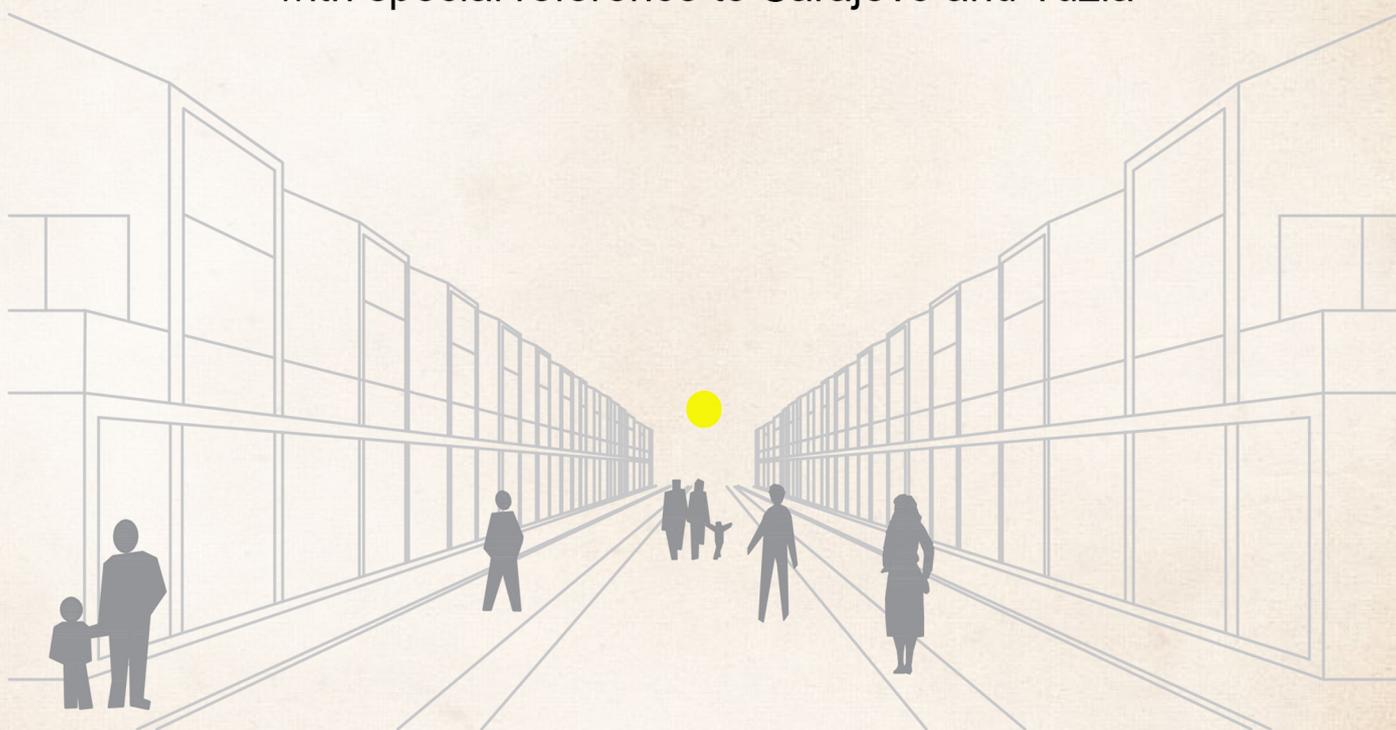
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# HOUSING MARKET IN BOSNIA AND HERZEGOVINA with special reference to Sarajevo and Tuzla



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*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

**FOREWORD**

Center for Support Organizations (CENSOR) is non-governmental, non-party and non-profit organization which promotes improvement of housing and living quality in Bosnia and Herzegovina (B&H), directing its actions specifically to young people, initiating participatory approach of all relevant actors in direction of achieving acceptable solutions for all.

Housing and Living Conditions in Bosnia and Herzegovina (HOLICOB) project addresses housing and living conditions in B&H with focus on the housing and living conditions in collective housing units in two urban cities (Tuzla and Sarajevo), involving different population groups: students, unemployed persons, tenants and tenant's boards.

The project partner, Swedish Union of Tenants from the Aros Gävle region initiated foundation of CENSOR organisation in 2014, after long year cooperation. The overall objectives of the HOLICOB projects are as follows:

- ✚ to contribute to the long-term strategic work for housing and living conditions for people in Tuzla and Sarajevo;
- ✚ to provide new perspectives on the subjects by using the competence of civil society organisations (CSO);
- ✚ to give strong input to the debate on housing and living conditions;
- ✚ to involve young people to be active in the process of providing better housing and living conditions.

This document, as many others produced earlier by CENSOR, is result of pioneering research and work of experts and consultants in the housing sector in B&H. Aim of the document is to give insight of the housing market in B&H, which will be reliable and applicable. That is to identify the key legal and institutional shortcoming in the housing market in B&H and mapping of the relevant stakeholders through the comprehensive researches. The analyses also contains the draft measures which are specific to different groups and which will, as such, be proposed to decision-makers in their support programming processes.

Hereby, CENSOR would like to express gratitude to the Olof Palme International Center, main donor of the HOLICOB project; Swedish Union of Tenants (Aros Gävle region), the HOLICOB project partner and interviewed persons in Tuzla and Sarajevo.

Tuzla, December 2020.

Jasminka Tadić – Husanović

## **1. LEGAL FRAMEWORK: JURISDICTIONS AND STAKEHOLDERS**

### **1. 1. Introduction**

Defining the legal framework for housing is a complex issue that needs to be approached very broadly in order to offer adequate answers. Only a multidisciplinary analysis can make it possible to define priorities and measures in order to build instruments through which positive results can be achieved.

In the traditional division of rights into public and private, the issue of housing is at a crossroads. Regarding some issues, state intervention is important and their standardization is one of the fundamental tasks of the welfare state. On the other hand, certain issues, such as the issue of the form of housing (regulation of lease or acquisition of property) are largely regulated by applying dispositive norms from the private law sphere. The complexity of the analysis of these issues in Bosnia and Herzegovina (B&H) is highlighted especially if we take into account that the application of norms is determined by certain sociological and economic factors as well as complex state organization of B&H. Socio-economic determinants in B&H are directly related to the post-war transition from which B&H has not yet fully emerged. Accordingly, certain legal norms are not fully respected. Regarding the state legal system, a special challenge is the distribution of jurisdictions in B&H, where different levels do not have fully delineated areas of their activity.

B&H is a complex state, with very weak jurisdictions, divided into two entities and the Brčko District of B&H. The Federation of B&H is an entity consisting of ten cantons. In B&H, there is no legal nor institutional framework, neither at the state nor at the entity level, that would define issues in the field of housing policy in the broadest sense of the word. On the other hand, each of the levels has certain points of contact and a legal framework in which it can act to contribute to the improvement of housing and living in B&H. Most issues in this area are regulated by various laws and bylaws, the adoption of which is mostly in the Republika Srpska under the jurisdiction of the entity, while in the Federation of B&H it is in the joint jurisdiction between the entity and the cantons.<sup>1</sup>

### **1. 2. Jurisdiction and stakeholders at the B&H level**

In the preamble of its Constitution, B&H has committed itself to the goals and principles of the United Nations Charter and to be inspired by the 1948 Universal Declaration of Human Rights, which, among other things, proclaims the right to a standard of living that includes housing.<sup>2</sup> Article 25, paragraph 1 of the Declaration states:

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<sup>1</sup> More details on the distribution of jurisdictions: H. Išerić, *Raspodjela nadležnosti prema Ustavu BiH, Sveske za javno pravo*, Sarajevo 28/2017, p. 14 et seq.

<sup>2</sup> Constitution of B&H, Preamble: Inspired by the Universal Declaration of Human Rights, the International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights, and the Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities, as well as other human rights instruments.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

„Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.“

It is clear that housing is proclaimed as a human right, but despite such an approach, it is necessary to be aware that it is a „right“ that not everyone can afford, which is especially evident in economically less developed countries where such a norm can only be a direction of movement and the aspiration for full-scale implementations.

A close look at the provision of the B&H Constitution that regulates jurisdictions of the B&H level shows that they are set quite narrowly.<sup>3</sup> On the other hand, systematically looking at its norms, especially the part in which the functions of B&H are stated, it seems to us that there is, of course, room for state bodies' actions in the field of housing. Thus, the preamble states, among other things, that one of the functions is „desiring to promote general welfare and economic growth through the protection of private property and the promotion of a market economy“, which can directly include some of the fundamental issues in this area.

Within the executive power of B&H, i.e. the Council of Ministers, which performs governmental functions, the Ministry of Human Rights and Refugees and the Ministry of Civil Affairs have been recognized as key actors in the field of housing activities.

The Ministry of Human Rights and Refugees has a special department engaging with housing policy and projects in the field of refugees, displaced persons and returnees. Also, B&H has committed itself to implementing the European Social Charter, monitors its implementation and regularly reports to the Council of Europe.<sup>4</sup> Regarding the content of the right, Article 16 of this international document regulates the right of the family to social, legal and economic protection<sup>5</sup>, while Article 31 directly promotes housing, emphasizing the importance of promoting adequate housing standards, preventing and reducing homelessness and efforts to make housing affordable for those who do not have adequate resources.<sup>6</sup> In this regard, it is evident that B&H has committed itself to promoting the provision of adequate housing solutions for families, taking into account the needs of families for housing in housing policies and ensuring

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<sup>3</sup> Constitution of B&H, Article III, 1: Responsibilities of the Institutions of B&H. The following matters are the responsibility of the institutions of B&H: a) Foreign policy; b) Foreign trade policy; c) Customs policy; d) Monetary policy as provided in Article VII; e) Finances of the institutions and for the international obligations of B&H; f) Immigration, refugee, and asylum policy and regulation; g) International and inter-Entity criminal law enforcement, including relations with Interpol; h) Establishment and operation of common and international communications facilities; i) Regulation of inter-Entity transportation; j) Air traffic control.

<sup>4</sup> All reports are available on the website of the Ministry of Human Rights and Refugees: [http://www.mhrr.gov.ba/ljudska\\_prava/default.aspx?id=8&langTag=bs-BA](http://www.mhrr.gov.ba/ljudska_prava/default.aspx?id=8&langTag=bs-BA), accessed: 09.11.2020.

<sup>5</sup> European Social Charter (Revised), 1996, Article 16: With a view to ensuring the necessary conditions for the full development of the family, which is a fundamental unit of society, the Parties undertake to promote the economic, legal and social protection of family life by such means as social and family benefits, fiscal arrangements, provision of family housing, benefits for the newly married and other appropriate means.

<sup>6</sup> European Social Charter (Revised), 1996, Article 31: With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed: 1) to promote access to housing of an adequate standard; 2) to prevent and reduce homelessness with a view to its gradual elimination; 3) to make the price of housing accessible to those without adequate resources

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

that existing housing units are appropriate in size and standards in terms of family composition and include basic services such as heating or electricity. Furthermore, the obligation to provide housing and its promotion and insurance extends to ensuring the enjoyment of this right, which is necessary in order to secure normal enjoyable family life and a stable environment.

The report on the implementation of the European Social Charter shows that the Ministry of Human Rights and Refugees, in addition to refugees, displaced persons and returnees, also dealt with housing policy when it comes to Roma population and other persons who are social protection beneficiaries. However, the focus of their activities was mostly displaced persons. Since 1992, about 2.2 million people have been displaced from their pre-war homes in B&H, which is more than 50% of the pre-war population in B&H. Of this number, about 1.2 million people sought refugee protection in more than 100 countries around the world, while, at the same time, about a million people were displaced within B&H. A large part of the population was displaced due to the physical destruction of the housing units in which they lived before the war. They most often moved into „safer facilities“ or temporarily occupied abandoned real estate. That is why displaced persons within B&H temporarily occupied large number of habitable, abandoned, housing units. Such solutions were most often legally grounded as the entities (Federation of B&H and Republika Srpska) could dispose of abandoned property. Housing support in resolving the consequences of the conflict, in accordance with the provisions of Annex VII of the Dayton Peace Agreement, served the primary purpose of reducing the consequences of the war on the population. In terms of housing, this assistance focused on two key operational areas - repossession of property/tenancy rights and renovation of buildings. The return of property and tenancy rights to refugees and displaced persons took place in accordance with the entity property regulations, and the process was essentially completed in late 2006. The housing fund privatization process, after the break-up of socialist Yugoslavia, involved social-ownership housing units throughout B&H, although the entities applied different privatization models. In the Federation of B&H, apartments were sold for certificates, while in the Republika Srpska vouchers were used. Ultimately, the transition from social to private ownership has greatly affected the ownership structure of the housing fund within B&H, which will be discussed below.<sup>7</sup>

Within the Council of Ministers, the Ministry of Civil Affairs also has a significant role, whose Sector for Employment, Social Protection and Retirement to some extent touches on very important issues in the field of housing. In addition, the Ministry has a Youth Issues Coordination Commission in B&H, whose work should contribute to improving the living conditions of young people in B&H, representing them within the borders of the state of B&H, as well as internationally. Certainly one of the fundamental issues related to the lives of young people in B&H is the issue of resolving the housing issue, which falls within the scope of the Commission.

If we observe the contributions of the Ministry of Human Rights and Refugees in this area in time, it is noticeable that they are in constant decline, bearing in mind that the

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<sup>7</sup> The first BiH Report on the implementation of the European Social Charter /revised/, available at: [http://www.mhrr.gov.ba/ljudska\\_prava/default.aspx?id=8&langTag=bs-BA](http://www.mhrr.gov.ba/ljudska_prava/default.aspx?id=8&langTag=bs-BA), accessed: 15.11.2020.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

focus of their work was primarily displaced persons, of which there are fewer and fewer in B&H. The Ministry of Civil Affairs does not deal with general issues that should contribute to better housing and living in B&H to a greater extent. In this regard, as we have pointed out before, in order to improve the living conditions in B&H, the adoption of the Law on Socially Incentive Housing at the state level could be of particular importance.<sup>8</sup> Such a law would regulate the area of organized housing encouraged by public funds, in order to meet housing needs and improve the quality of housing for the widest possible circle of citizens, as well as to improve construction. In this way, the purposeful use of public and other funds to cover costs is achieved, the return of these funds is ensured, and the apartments are paid in installments under more affordable conditions than the market in terms of interest and installments. It is possible to lease built apartments with the possibility of buying them. Public funds also encourage the construction and reconstruction (upgrading) of buildings and family houses of natural persons in order to meet their housing needs. Citizens of B&H or local self-government units or other interested legal entities based in B&H would have the opportunity to purchase an apartment for the purpose of renting. Such a law, in the form of the Framework Law on Socially Incentive Housing, should be adopted at the B&H level. The framework law would regulate the purpose, objectives, principles, levels of implementation, standards and standard-setting bodies. The proposal of the Framework Law should be made within the jurisdiction of the Ministry of Civil Affairs of B&H (Article 15, paragraph 2, indent 1 of the Law on Ministries and Other Administrative Bodies of B&H<sup>9</sup>) which regulates the jurisdictions of the Ministry to perform tasks within the jurisdiction of B&H related to the establishment of basic principles for coordinating activities, harmonization of plans of entity authorities and defining a strategy at the international level in the areas of social protection. In accordance with the objectives, principles, levels of implementation, standards and bodies for establishing standards prescribed by the Framework Law, the entities and cantons would adopt their own laws on socially stimulating housing, in accordance with the jurisdictions discussed below.

Finally, when it comes to the state level, it is important to point out that the Constitutional Court of B&H has an important role in the field of housing. In deciding citizens' appeals the Court has confirmed its role in terms of a special institutional guarantor of protection of rights and freedoms established by the Constitution primarily through the protection of property rights, which in practice includes issues related to the conversion of social ownership into private, the purchase of apartments and exercising of rights related to tenancy rights and potentially other issues related to property or obligatory rights in connection with housing.<sup>10</sup>

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<sup>8</sup> M. Kokorović-Jukan, J. Okičić, M. Hebib, Stanogradnja za mlade - Program za društveno poticanje stanogradnje u BiH, Forum of the Left Initiative, Sarajevo, 2018, p. 36-38.

<sup>9</sup> Law on Ministries and Other Administrative Bodies of B&H (unofficial consolidated text), available at: [https://advokat-prnjavorac.com/zakoni/Zakon\\_o\\_ministarstvima\\_i\\_drugim\\_organima\\_uprave\\_BiH.pdf](https://advokat-prnjavorac.com/zakoni/Zakon_o_ministarstvima_i_drugim_organima_uprave_BiH.pdf), accessed: 14.11.2020.

<sup>10</sup> For example, compare: on the issue of repossession of abandoned apartments Decision of the Constitutional Court of B&H no. AP 5883/10; for Tenancy Rights Decision of the Constitutional Court of B&H no. AP 1616/06 and AP 4493/12; transfer of ownership Decision of the Constitutional Court of B&H no. AP 994/17; issues of property rights over real estate Decision of the Constitutional Court of B&H no. AP-4861/17 or AP 230/03; issue of lease Decision of the Constitutional Court of B&H no. AP 450/15.

### **1. 3. Normative framework at the entity level - Republika Srpska and the Federation of B&H**

As we pointed out earlier, some issues in the field of social policy are closely related to jurisdictions of state bodies, although their entire implementation in the Republika Srpska is within the jurisdiction of the entity and in the Federation of B&H under the joint jurisdiction of entity and cantons.<sup>11</sup> On the other hand, in addition to social policy, and its segment - social housing, entity regulations regulate the most common forms of housing that we encounter in B&H - primarily ownership and lease. In order to make a clearer overview of the situation related to jurisdictions and stakeholders of entity and cantonal level, we will focus on these three segments - ownership, lease and social housing.

#### **1. 3. 1. Ownership**

Center for Support Organisations (CENSOR) Association, within the Housing and Living Conditions in B&H (HOLICOB) project, has been researching various issues in the field of housing in B&H for many years. CENSOR's latest research, conducted for the purpose of drafting this document, confirmed once again the findings that in B&H the majority of the population lives in real estate they own or real estate owned by their closest relatives.<sup>12</sup> In addition, the vast majority of respondents believe that owning a real estate means resolved housing issue.

Ownership of real estate as a basic institute of law in rem, together with the full range of powers it gives to the holder, is regulated, in the Federation of B&H, by the Law on Property Rights of FB&H „Official Gazette of FB&H“, No. 66/2013, 100/2013 and 32/2019 - decision of the CC), in Republika Srpska, by the Law on Property Rights of the RS „Official Gazette of the RS“, No. 124/2008, 3/2009 - corrigendum, 58/2009, 95/2011, 60/2015 , 18/2016 - decision CC and 107/2019), in Brčko District B&H, Law on Property and Other Property Rights of Brčko District B&H, „Official Gazette of Brčko District B&H“, No. 11/2001, 8/2003, 40 / 2004 and 19/2007).

Regarding the issue of real estate ownership, the key actors are notaries and municipal courts where land registry records are kept. Contracts that have transfer or acquisition of ownership as their subject, but also other rights in rem over real estate (mortgages, easements and other rights) must be concluded in the form of a notarized document. Accordingly, the key role in this process is given to the notary, whose role is to advise and protect the interests of both parties, designing contractual provisions to ensure that the seller will receive the purchase price and the buyer will be registered in the land register as the owner.<sup>13</sup> Furthermore, the mere purchase of real estate and the signing of a sales contract in the B&H legal system does not automatically provide the right of ownership over real estate. It is necessary first to register your right in the land register.

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<sup>11</sup> M. Kokorović-Jukan, J. Okičić, M. Hadžić, M. Hebib, *Strateški pristup poticanju stambenog zbrinjavanja mladih za Kanton Sarajevo i Tuzlanski kanton*, CENSOR, Tuzla, 2020, p. 7.

<sup>12</sup> Author's comment: A detailed analysis of the research will be presented below.

<sup>13</sup> M. Povelakić, *Nadležnost notara u Bosni i Hercegovini*, *Proceedings of the Faculty of Law in Zagreb* 63, no. 2 (2013), p. 245-310.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

Enrollment has a constitutive effect. Therefore, it is necessary to submit a proposal for entry in the land register after each purchase of real estate. The proposal is submitted to the Land Registry Office (LR office) of the Municipal Court in whose territory the real estate that is the subject of the sale is located. Upon registration has been completed, the buyer becomes the registered owner. Until the establishment of notaries in this area, there were traditionally problems closely related to the disorder of land registry records, differences between the actual situation and what was registered and often, real estate thefts occurred. With the introduction of the institute of notaries in the legal order, the level of legal security in this area has greatly increased.

However, what can be detected as a problem in this area is the presence of traditional stand according to which men, as marital partners, are, as a rule, the answers to solving the housing issue. In that connection, men are in most cases registered in the land register as owners of real estate, although the property was acquired in marriage. According to the data from the 2013, the share of women in the B&H population is 51.08% and men 48.92%, while in the land register, of the total number of owners, 37.8% are women and 62.2% man. Ultimately, the improvement in the process of resolving this issue lies in more proactive intervention of notaries or in regulating the obligation of notifying in the land register that the property in question is matrimonial property.<sup>14</sup>

An important issue in addition to the acquisition of property rights is the payment of real estate transfer tax. Bearing in mind that the largest number of people in B&H solve their housing issue through the acquisition of real estate ownership, the public authority should provide support to citizens who acquire ownership of the first real estate and thus solving their housing issue.<sup>15</sup> After the adoption of certain reliefs in the legal texts, the implementation of measures would be in the jurisdiction of the cantonal tax administrations, which will be mentioned below.<sup>16</sup>

### **1. 3. 2. Lease**

In the Federation of B&H, the lease of an apartment/real estate is regulated by the Law on Obligations („Official Gazette of the SFRY”, No. 29/78, 39/85, 45/89 and 57/89; „Official Gazette of RB&H”, No. 2/92, 13/93 and 13/94) and accompanying bylaws that regulate other relations linked to the lease of the apartment. The same legal text applies in the Republika Srpska („Official Gazette of the SFRY“, no. 29/1978, 39/1985, 45/1989 - decision of the USJ and 57/1989 and „Official Gazette of the RS“, no. 17/93, 3/96, 37/01, 39/03 and 74/04) and the Brčko District of B&H.

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<sup>14</sup> D. Softić-Kadenić, *Vlasničkopravni položaj žena na nekretninama koje čine (van)bračnu stečevinu i uloga notara u jačanju njihovog položaja*, CENZOR, Tuzla, 2019.

<sup>15</sup> Compare: Young people in ZDK will be exempt from taxes when buying real estate from May, available at: <https://www.klix.ba/vijesti/bih/mladi-u-zdk-ce-od-maja-biti-oslobodjeni-poreza-prilikom-kupovine-nekretnina/180425128> or Youth in KS will not pay tax when buying an apartment for 20 square meters per family member, available at: <https://www.klix.ba/vijesti/bih/mladi-u-ks-nece-placati-porez-pri-kupovini-stana-za-20-kvadrata-po-clanu-porodice/180629015>, accessed: 19.11.2020

<sup>16</sup> Author's comment: The newly built facilities fall under the jurisdiction of the Indirect Taxation Authority of B&H in terms of Art. 8 of the Rulebook on the Application of the Law on Value Added Tax („Official Gazette of B&H“ No. 93/05, 21/06, 60/06, 6/07, 100/07 and 35/08).

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

According to the Law on Obligations, a lease is a contract in which the lessor is obliged to hand over a certain thing to the lessee for use, and the lessee is obliged to pay a certain rent. The law has accepted the concept of an informal lease agreement (the conclusion of a formal/written contract is not necessary for its validity) and the rights and obligations of the contracting parties are regulated by law (unless otherwise specified by the parties). Subjects living in leased real estate generally do not enter into a formal/written lease agreement. Such contracts are legally valid (Law of obligations does not regulate a formal contract), but provide tenants with a lesser degree of legal certainty. In the event of any damage to the property (furniture damage, burglary/robbery, fire, explosion, flood, etc.), the general provisions of the Law of obligations apply. In such situations, the contracting parties are exposed to great economic risks, and in some cases there may be a loss of livelihood. Furthermore, the non-existence of a contract is reflected in the occurrence of an unannounced increase in rent, premature loss of possession, problems in case of regular and emergency repairs and the process of maintaining the apartment, etc. All these situations potentially lead to disputes. Unfortunately, due to the fact that they do not have concluded contract, proving is difficult for both parties, which often causes great uncertainty in practice, and often material losses for both parties.<sup>17</sup>

An important aspect of regulating the issue of the lease agreement is the payment of appropriate taxes. Namely, the concluded lease agreements are submitted to the competent tax administrations, in order to pay income tax in the amount of 10%, all in accordance with Article 4, paragraph 3 and Article 20, paragraph 1, indent 1 of the Law on Income Tax of FB&H („Official Gazette“ No. 10/08, 9/10, 44/11, 7/13 and 65/13). Payment of taxes at the same interest rate is regulated in Article 4 and Article 32 of the Law on Income Tax of Republika Srpska („Official Gazette of the RS“ No. 60/15, 5/2016 - amended and 66/2018).<sup>18</sup> Since very few subjects enter into lease agreements, the payment of taxes on these basis is almost symbolic.<sup>19</sup>

This practice is a result of certain socio-economic and legal particularities related to B&H. One of the main causes is the legacy of Socialism - in the period of transition (post-war period) a large part of the population „redeemed“ the apartments that were state-owned (socially owned) at very low prices. Thus, the holders of so-called „tenancy rights“ became apartment owners, which means that the need for renting apartments remained relatively small, but adjusted to the needs of the market. Among other factors, one can surely distinguish the consciousness and mentality of the population: as a „home for the formation of a family“, only the apartment that is owned is accepted; real estate is considered as a financial insurance, etc. In addition, a large part of the rented apartments is not duly recorded, nor are formal lease agreements concluded which would give the parties greater security and legal protection. There is also inadequate and

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<sup>17</sup> A. Pejdah, S. Džanić, E. Osmanbegović, E. Nazibegović, J. Tadić-Husanović, N. Aščerić, Home for All 2017, CENSOR, Tuzla, 2017; M. Bečić, M. Hebib, Research on solving the housing issue of students through apartment lease, CENSOR, Sarajevo-Tuzla, 2018.

<sup>18</sup> Compare: RS Tax Administration: Taxpayers will control property owners who do not report income from renting space, and are advertised online or through advertisements, available at: <https://www.paragraf.ba/dnevne-vijesti/22022017/22022017-vijest3.html>, accessed: 19.11.2020.

<sup>19</sup> More about tax payment in Tuzla Canton, available at: [https://www.youtube.com/watch?v=rZX\\_dJ8GcPc](https://www.youtube.com/watch?v=rZX_dJ8GcPc), accessed: 20.11.2020.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

unfavorable legal regulation and/or work of the inspection bodies. Laws and by-laws regulating this area (tax regulations, tax incentives, temporary residence and residence, etc.) do not encourage leasing of apartments and/or their proper contractual regulation, as well as registration with the competent authorities. Owners and tenants suffer the consequences of this, which has direct negative social, economic, legal and financial implications.

### **1. 3. 3. Social housing**

The broadest area, when it comes to housing, is the area of social housing, i.e. all segments of housing through which the public government intervenes through social policy. It is in this area that the biggest differences between developed and less developed countries occur. There is no comprehensive housing policy in B&H and all that is being done is individual and uncoordinated interventions. In the territory of Republika Srpska, social policy is within the jurisdiction of the entity, while in the Federation of B&H these issues are joint jurisdiction of the entity and cantons in such a way that social policy and social legislation as its integral part can be realized together or separately, by cantons or coordinated by the federal government.

A step forward in this area occurred in 2019, when Republika Srpska adopted a single Law on Social Housing of Republika Srpska („Official Gazette of the RS“ No. 54/19) which regulates the social housing system, users, principles and conditions for exercising rights related to social housing in Republika Srpska. It was stated that the beneficiaries of this right are primarily natural persons who, for various, primarily economic, social and health reasons, are not able to independently resolve their housing issue on the market. Systematic analysis of the provisions of the law shows that the law aims to provide support to the following categories of the population in the process of resolving their housing issue: young and young married couples up to 35 years of age, people with deficient occupations, vulnerable categories such as displaced persons and refugees, demobilized fighters, war invalids, returnees, victims of war torture, single parents, families with three or more children, young people without parental care, financially insecure persons, persons unable to work, persons with disabilities, elderly people without family care, victims of domestic violence.

In this regard, it is envisaged that housing units intended for social housing are situated in urban areas through:

- a) construction of new residential or residential-commercial buildings,
- b) refurbishment of existing facilities that do not justify the previous use,
- c) adaptation of existing poorly equipped housing units or spaces,
- d) increasing the number of housing units by upgrading existing facilities,
- e) other ways, which the local self-government unit considers purposeful of social housing.

The bearers of social housing realization in accordance with this law are the Government of Republika Srpska, the Republic Secretariat for Refugees and Migrations and local self-government units.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

This type of law does not exist in the Federation of B&H. In the Federation, only the Bosnian-Podrinje Canton regulated this area by enacting the Law on Non-Profit and Social Housing of the Bosnian-Podrinje Canton Goražde („Official Gazette of the BPC Goražde” No. 9/13). This law regulates models of support in housing care with the fulfillment of conditions related to housing status, income level, health status, number of household members, property status. Since the end of 2018, the Ministry of Labor, Social Policy, Displaced Persons and Refugees of Sarajevo Canton, in cooperation with UNHCR, CRS and „Vaša prava“, has initiated the drafting of a law on social housing in Sarajevo Canton, which would legally edit this area. The law appeared before the Canton Sarajevo assembly in the form of a draft in October 2017, but was never adopted.

For the purpose of operationalization, in some cantons there are also cantonal housing funds. For example, in Sarajevo Canton there are two funds with very similar jurisdictions - the Housing Construction Fund and the Cantonal Housing Fund. In the future, it is necessary to merge them and constitute special departments that will deal with issues in the field of housing of all vulnerable social categories. Apart from Sarajevo, similar funds exist in the Bosnian-Podrinje and Una-Sana Cantons.<sup>20</sup>

Despite the fact that in the Federation we do not have a single law that would regulate these issues in several legal texts there is an obligation to act in order to provide support in resolving the housing issue to certain categories. Thus, for example, the Law on the Rights of Veterans and Members of Their Families („Official Gazette of the Federation of B&H“, No. 33/04, 56 / 05,70 / 07, 9/10 and 90/17) regulates the obligation for cantons to address housing issues for these categories, also by the Law on Fundamentals of Social Protection, Protection of Civilian Victims of War and Protection of Families with Children of the FB&H („Official Gazette of the FB&H“ No. 36/1999, 54/2004, 39/2006, 14/2009, 7 / 2014 - decision of the CC B&H, 45/2016, 19/2017 - second law and 40/2018) for categories whose rights are regulated by the legal text. The Law on Youth of the FB&H („Official Gazette of the FB&H“ No. 36/10) regulates one of the areas of activity of the youth sector - housing for young people. Unfortunately, this provision is of a declaratory nature, and without a more proactive role of the competent governments in this area, there is no progress.<sup>21</sup>

The Federal Ministry of Labor and Social Policy, with a coordinating role, and the cantonal ministries in charge of social policies in cooperation with local self-government units should be responsible for implementing changes in the field of social housing in the Federation of B&H.<sup>22</sup> The task of stakeholders in this area should be to design and implement campaigns and new funding models in order to further develop the field of social housing. They are the ones who must act proactively, communicate with international organizations and experts in order to enable the implementation of good practices in B&H.

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<sup>20</sup> Sarajevo comp. [www.ksfs.ba](http://www.ksfs.ba) and [www.fondstan.ba](http://www.fondstan.ba); Goražde comp. [www.mu.bpkg.gov.ba](http://www.mu.bpkg.gov.ba); Bihac comp. [www.kantonalnifondusk.ba/o-nama](http://www.kantonalnifondusk.ba/o-nama), accessed: 24.11.2020.

<sup>21</sup> Compare: Kokorović-Jukan, Okičić, Hebib, Stanogradnja za mlade, p. 8 - 11.

<sup>22</sup> M. Hebib, Municipal apartments in the city of Sarajevo and the possibilities of use in the context of solving the housing issue of young people, CENSOR, Tuzla, 2019.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
with special reference to Sarajevo and Tuzla

**Annex 1. Scheme - Housing in Bosnia and Herzegovina (subjects)**

<b>BOSNIA AND HERZEGOVINA</b>				
<b>Council of Ministers of B&amp;H</b>		Indirect Taxation Authority	Constitutional Court of B&H	
1. Ministry of Human Rights and Refugees				
2. Ministry of Civil Affairs 2.1 Sector for Employment, Social Protection and Retirement 2.2 Youth Issues Coordination Commission				
<b>REPUBLIC OF SRPSKA</b>	<b>FEDERATION OF BOSNIA AND HERZEGOVINA</b>			<b>BRČKO DISTRICT OF B&amp;H</b>
	<b>FEDERAL LEVEL</b>	<b>CANTONAL LEVEL</b>		
Government of Republic of Srpska	Government of the Federation B&H	<b>Una-Sana Canton</b>	Ministry of Construction, Spatial Planning and Environmental Protection Ministry of Health and Social Policy Canton's housing stock	Government of the District of B&H –  Department for Displaced Persons, Refugees and Housing  Department of Spatial Planning and Property-Legal Affairs
1. Ministry of Spatial Planning, Construction and Ecology 2. Ministry of Labour, War Veterans and Disabled People's Protection	1. Ministry of Spatial Planning – Sector for Land Utilization at the Federal Level 2. Ministry for War Veterans and Disabled Veterans of the Defence-Liberation War	<b>Posavina Canton</b>	Ministry of Economy and Spatial Planning Ministry of Health, Employment and Social Welfare	
3. Ministry of Family, Youth and Sports 4. Ministry of Health and Social Welfare	3. Ministry of Culture and Sports – Sector for Youth 4. Ministry of Displaced Persons and Refugees	<b>Tuzla Canton</b>	Ministry of Spatial Planning and Environmental Protection Ministry of Culture, Sports and Youth Ministry of Employment, Social Protection and Retirement	
5. Ministry of Finance - Tax Administration of Republic of Srpska 6. Secretariat for Refugees and Migrations	5. Ministry of Labour and Social Policy 6. Ministry of Finance – Tax Administration of Federation of B&H	<b>Zenica-Doboj Canton</b>	Ministry of Spatial Planning, Transport and Communications and Environmental Protection Ministry of Labor, Social Welfare and Refugees	
		<b>Central Bosnia Canton</b>	Ministry of Spatial Planning, Construction, Environmental Protection, Retirement and Housing Ministry of Health and Social Welfare	
		<b>Bosnian-Podrinje Canton Goražde</b>	Ministry of Urbanism, Spatial Planning and Environmental Protection	

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

			Ministry of Education, Youth, Science, Culture and Sports Ministry of Social Welfare, Health, Displaced Persons and Refugees Canton's housing stock	
		<b>Herzegovina-Neretva Canton</b>	Ministry of Construction and Spatial Planning Ministry of Health, Labor and Social Welfare	
		<b>West Herzegovina Canton</b>	Ministry of Spatial Planning, Construction and Environmental Protection Ministry of Health, Labor and Social Welfare	
		<b>Kanton Sarajevo</b>	Ministry of Spatial Planning, Construction and Environmental Protection Ministry of Education, Science and Youth Ministry of Labor, Social Welfare, Displaced Persons and Refugees Canton's housing stocks	
		<b>Canton 10</b>	Ministry of Construction, Reconstruction, Spatial Planning and Environmental Protection Ministry of Labor, Health, Social Welfare and Displaced Persons	
Notaries				
<b>Local self-government units - cities and municipalities</b>				

## **2. ECONOMIC ANALYSIS OF THE HOUSING MARKET**

Real estate market<sup>23</sup> plays an important role in economy<sup>24</sup>. The functioning and development of the real estate market is constrained by the same features which constrain the functioning of the market in general and by specific characteristics pertaining to an immovable property as an object of market trade<sup>25</sup>. Real estate market refers to the supply and demand for property objects usually in a particular country or region. Key elements are average prices and trends in real estate market. The real estate market has some of the physical and economic characteristics.

Physical characteristics:

1. Indestructibility: Meaning land cannot be destroyed or worn out. Its appearance may be altered but it always continues to exist. 2. Immobility: Meaning geographical location of the property remains the same & can never be changed, it is fixed. 3. Uniqueness or Non-Homogeneity: Meaning no parcels of real estate are exactly alike.<sup>26</sup>

Economic characteristics:

1. Scarcity: Meaning the total supply is fixed. Land is not limitless. 2. Improvements (also known as modification): Meaning improvements to a piece of land can have either a positive or negative impact on its value. 3. Permanence of Investment: Meaning investments in real estate are long-term. Since real estate transactions are complex and lots of money is involved, transactions are not made very frequently. 4. Location or Area Preference: Meaning people's preference for a specific area. Things such as history, convenience, and reputation an area may have.<sup>27</sup>

Having regard to the aim of the analysis, the focus is on the elements of demand side and some current trends in the real estate market.

The movement of prices on the real estate market, and especially the movement of prices of residential real estate, is one of the important indicators of the overall economic activity in the country.<sup>28</sup> The main characteristic of the real estate market in the Federation of Bosnia and Herzegovina according to official data are:

**Growth in the number of sales contracts** - The total number of sales contracts on the real estate market registered in the period from 01.01.2018 to 31.12.2018 in the territory of the Federation of BiH was 12 759, while the realized value from sales

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<sup>23</sup> Real estate economics is the application of economic techniques to real estate markets. It tries to describe, explain, and predict patterns of prices, supply, and demand. The closely related field of housing economics is narrower in scope, concentrating on residential real estate markets, while the research on real estate trends focuses on the business and structural changes affecting the industry, available at: [31 questions with answers in REAL ESTATE ECONOMICS | Science topic \(researchgate.net\)](#), accessed: 14.12.2020.

<sup>24</sup> Bryx, Systemic Approach to Real Estate Market, Poltex, Warsaw, 2006, p. 40-42.

<sup>25</sup> Ibid.

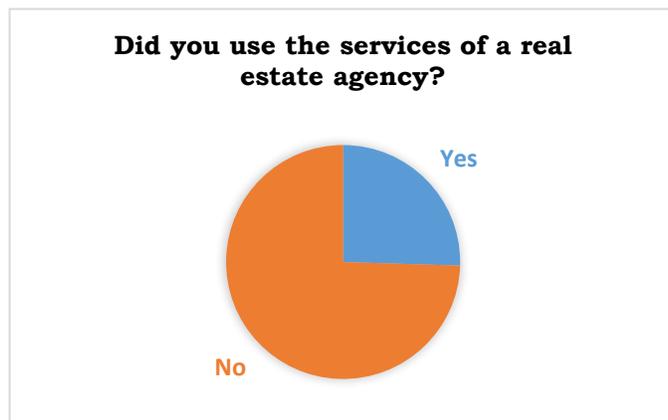
<sup>26</sup> For more details: Real Estate Licence Wizard, available at: [Real Estate Economics - Real Estate License Wizard](#), accessed: 11.12.2020.

<sup>27</sup> Ibid. p. 74.

<sup>28</sup> Central bank of Bosnia and Herzegovina, Financial stability report for 2019, p. 23, available at: [Financial Stability Reports \(cbbh.ba\)](#), accessed: 14.12.2020.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

contracts was 762 240 614 BAM<sup>29</sup>. In the same period in 2019, the total number of sales contracts was 16 228, while the realized value from was 992 246 415 BAM<sup>30</sup>. For these



*Figure 1: Results of the survey*

two years, three dominant categories of real estate according to the number of transactions are: agricultural land, apartments and construction land. The largest turnover of apartments in 2018 and 2019 was registered in Sarajevo (municipalities Novo Sarajevo and Centar Sarajevo), Tuzla, Zenica and Mostar.<sup>31</sup> The volume of real estate sales is still the largest in the capital of Bosnia and Herzegovina.<sup>32</sup> According to the data of the Notary Chamber of the Federation of Bosnia and Herzegovina, in 2016, compared to 2015, the number

of notarial contracts related to real estate transactions increased and that for 807 contracts<sup>33</sup>. According to the data from the official records of the Tax Administration of the Federation of Bosnia and Herzegovina, Revenue from real estate transfer tax in 2016 amounted to 114,871,781 BAM, compared to 2015 there was an increase in tax collection in the amount of approx. 20 million BAM or expressed as a percentage 20%.<sup>34</sup>

**Speaking of moral hazards**, the introduction of the institute of notaries has contributed to greater legal certainty and the absence of frequent moral hazards at real estate market.<sup>35</sup> Also, proper land registry management has contributed to the reduction of moral hazards and market failures, as indefinite property rights lead to market failures. On the other hand, the role of professional real estate agents in the Federation of Bosnia and Herzegovina is unregulated area. No laws or bylaws have been enacted.

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<sup>29</sup> Federal administration for geodetic and property affairs. Real estate market report of the Federation of BiH for 2018. Available at: <http://www.fgu.com.ba/en/newse-reader/real-estate-market-report-of-the-federation-of-bih-for-2018.html>

<sup>30</sup> Federal administration for geodetic and property affairs. Real estate market report of the Federation of BiH for 2019. Available at: <http://www.fgu.com.ba/en/newse-reader/real-estate-market-report-of-the-federation-of-bih-for-2019.html>

<sup>31</sup> See footnotes 28 and 29.

<sup>32</sup> Ibid.

<sup>33</sup> In 2016, 35,754 legal transactions were concluded, the subject of which is transfer or acquisition ownership and establishment of easements on real estate, and in 2017 36.561, available at: [Nacrt Zakona posredovanju prometu nekretninabos.pdf \(parlamentfbih.gov.ba\)](#), accessed: 14.12.2020.

<sup>34</sup> Ibid.

<sup>35</sup> Further, buyers, through notary advice, have become more cautious when buying real estate that is not registered in land register or are not registered in the name of the current seller. The same thing happened with creditors (primarily banks) in terms of collateral for collateral right to unregistered real estate. Povlakić M., Jurisdiction of notaries in Bosnia and Herzegovina, Proceedings of the Faculty of Law in Zagreb 63, no. 2 (2013), p. 268.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

Currently, there are very few agencies/intermediaries that do this work legally, i.e., pay taxes to the state.<sup>36</sup> In 2018, the Government of the Federation of Bosnia and Herzegovina, approved the draft Law on Real Estate Brokerage<sup>37</sup> which was part of the Reform agenda for the period 2015-2018, but until the writing of this analysis, the law was not adopted. According to the information of the members of the Association of Real Estate Participants of the Chamber of Commerce of the Federation of Bosnia and Herzegovina, the average price of real estate in the Federation of Bosnia and Herzegovina is 110,000 BAM and commission for mediation services is 3% of that price.<sup>38</sup> Deficiencies in the regulation of intermediaries are also evident on the revenue side of value added tax and profit tax in the Federation of Bosnia and Herzegovina.<sup>39</sup> The lack of regulations in this area results in an increasing number of those who do business without respecting the rules of the profession and who, through illegal actions, cause direct damage to clients, and indirectly to the entire profession.<sup>40</sup> According to the conducted research for the purposes of writing the analysis, a small number of respondents found apartments using professional real estate agencies. But still their unregulated status threatens market security. In order to avoid side effects, it is necessary to adopt appropriate regulations as soon as possible.

During 2006 and 2007, the real estate prices recorded strong growth, reaching their historical maximum in mid-2008.<sup>41</sup> At the end of 2008, the effects of the global economic crisis began to be reflected in the BH markets as well.<sup>42</sup> Reduced demand and tighter financing conditions in banks, along with a significant amount of previously initiated investments in new construction, led to a significant imbalance between supply and demand, and consequently to a sharp decline in real estate prices.<sup>43</sup> **The growth of prices** on the real estate market in the Federation of Bosnia and Herzegovina<sup>44</sup> observed in a period of 10 years, specifically from 01.12.2009-01.12.2010, using method YOY (year over year), indicates oscillations in growth. The largest increase in market prices was recorded in 2016, by 12.245% compared to the previous year 2015, which also recorded an increase, but in the value of 2,094%, and the largest decrease was recorded in 2011 -4.7%. After a record increase in prices (2016), in the observed decade, prices decreased in 2017 (-0.809%) as well as in 2018 (-0.574%).

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<sup>36</sup> Secretary of the Association of Real Estate Participants at the Chamber of Commerce of the Federation of BiH, I. Barbarić, for Cicko portal, available at: <https://www.cicko.ba/stanje-na-trzistu-nekretnina-u-bih-je-neuredjeno/>, accessed: 03.12.2020.

<sup>37</sup> Government of the Federation of Bosnia and Herzegovina, available at: [http://www.fbihvlada.gov.ba/bosanski/sjednica\\_v2.php?sjed\\_id=737&col=sjed\\_saopcenje](http://www.fbihvlada.gov.ba/bosanski/sjednica_v2.php?sjed_id=737&col=sjed_saopcenje)

<sup>38</sup> Available at: [Nacrt Zakona posredovanju prometu nekretninabos.pdf \(parlamentfbih.gov.ba\)](#), accessed: 14.12.2020.

<sup>39</sup> Ibid. According to the assessment of the Economic Chamber of the Federation of BiH, the current VAT revenue from agency fees per year is approx. 300,000 BAM, which is only 3% of the potential.

<sup>40</sup> Government of the Federation of Bosnia and Herzegovina, available at: [http://www.fbihvlada.gov.ba/bosanski/sjednica\\_v2.php?sjed\\_id=737&col=sjed\\_saopcenje](http://www.fbihvlada.gov.ba/bosanski/sjednica_v2.php?sjed_id=737&col=sjed_saopcenje)

<sup>41</sup> Central bank of Bosnia and Herzegovina, Financial stability report for 2019, p. 23, available at: [Financial Stability Reports \(cbbh.ba\)](#), accessed: 14.12.2020. Also, CBBH made an index of the real estate prices. Construction of the index of the real estate prices available at: [fsr 2007 en.pdf](#), p. 32.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid. pp. 23-24.

<sup>44</sup> Author's comment: House Prices Growth covers the Federation of Bosnia and Herzegovina only.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

The latest available data from December 2019 show a price increase of 2.956% compared to the previously recorded decline. The average growth rate is 0.0%.

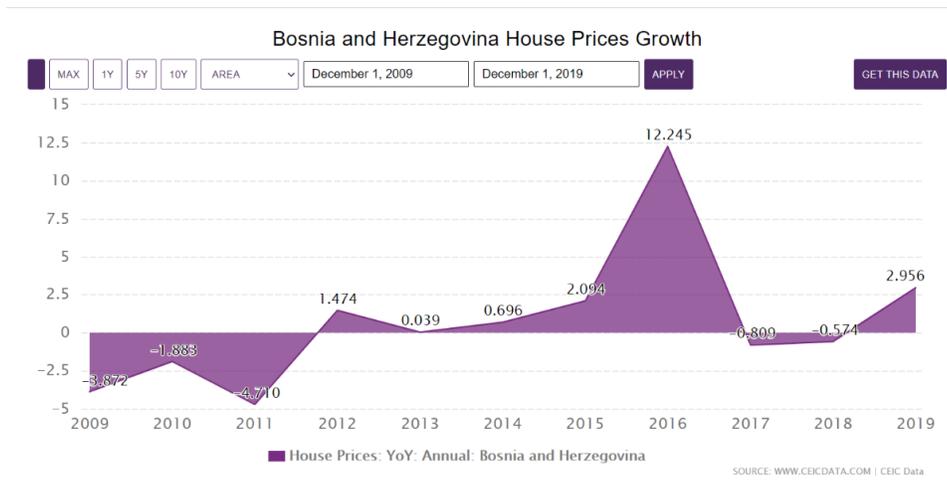


Figure 2: House Prices Growth in the Federation of Bosnia and Herzegovina. Available at: CEIDATA.COM <https://www.ceicdata.com/en/indicator/bosnia-and-herzegovina/house-prices-growth>

According to the conducted research by Center for Support Organizations (CENSOR) for the purposes of writing the analysis, **the speed of merging supply and demand in the real estate market** is at a satisfactory level, ie. does not jeopardize the functioning of the market. Independent buyers, who do not know well the offer and/or occasions on the real estate market, need a longer time to find a property without the participation of professional intermediaries. Surely, the lack of the legal regulation of professional real estate agencies can contribute to the lower speed of merging supply and demand in the real estate market. On the other hand, the survey results suggest that most respondents found an apartment in less than six months<sup>45</sup>, noting that the difference between buyers who found an apartment in less than six months and those who did not is not statistically significant. The data from the analysis would be more complete with the



Figure 3: Results of the survey

data on the number of successfully concluded and failed contracts between sellers and buyers. Also, the conclusion about the satisfactory degree of merging of supply and demand derives from key characteristics of the real estate market<sup>46</sup>.

In general, it is very difficult to assess at which level of prices the supply and demand in the real estate market in BH are in equilibrium, taking into account that processes of privatisation and restitution,

<sup>45</sup> Author's comment: Referring to Figure 1, most respondents did not use real estate agencies.

<sup>46</sup> Author's comment: among other things increasing the number of concluded contracts.

migration of the population, strengthening of the banking sector capacities and the entry of foreign banking groups into the market were taking place in our country until the early 2000s.<sup>47</sup>

Referring **to the elasticity of demand**, the impact of rising market prices, guided by the number of concluded contracts, indicates elements of inelastic demand. Despite the rate of price growth in 2019, the number of concluded contracts is higher compared to 2018 (Figure 2 and statistics in the section on contract growth). Following the above, demand still agrees with the prices offered. In this context, it is important to consider the necessity of resolving the housing issue, an adequate substitute and time to react to changes, which contributes to demand inelasticity.

Trends in the real estate market were accompanied **by the loan growth** in the sectors focused on the real estate market. Interest rates continued to have a slight downward trend, which enabled favourable borrowing from banks. In 2019, housing loans recorded an increase of 11.7%, and their share in total retail loans amounted to 19.8%. The average weighted interest rate for housing loans in 2019 amounted to 3.65%, and thus recorded a decrease of 26 bp compared to 2018. In addition to the growth of housing loans, there was also an increase in general consumption loans, which are still used to some extent to finance the purchase of residential real estate.<sup>48</sup>

Based on macroeconomic indicators and indicators from the real estate market, it can be assessed that the residential real estate market in Bosnia and Herzegovina is in a phase of expansion. Real estate prices are rising, construction is rising, and rent prices are rising, with a simultaneous drop in the unemployment rate and moderate GDP growth.<sup>49</sup>

## **2. 1. Interest rates on the real estate market in Bosnia and Herzegovina**

### **2. 1. 1. What determines interest rates?**

In economic theory, interest is the price paid for inducing those with money to save it rather than spend it, and to invest in long-term assets rather than hold cash. Rates reflect the interaction between the supply of savings and the demand for capital; or between the demand for and the supply of money.<sup>50</sup>

Determining interest rates can be observed in the short and long term. In the short term, the Central Bank has an important role in the money market, as its activity may affect the level of interest rates. The type of activity that the Central Bank will perform depends on the current situation in the state economy. Central Banks with the primary remit of price will set short-term rates so as to prevent future inflation. Higher current rates should encourage people to save rather than spend, and businesses to defer capital

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<sup>47</sup> Central bank of Bosnia and Herzegovina, Financial stability report for 2019, p. 23, available at: [Financial Stability Reports \(cbbh.ba\)](https://www.cbbh.ba/Financial-Stability-Reports), accessed: 14.12.2020.

<sup>48</sup> Ibid. p. 25.

<sup>49</sup> Ibid.

<sup>50</sup> European parliament. The determination of the interest rates, available at: [https://www.europarl.europa.eu/workingpapers/econ/pdf/116\\_en.pdf](https://www.europarl.europa.eu/workingpapers/econ/pdf/116_en.pdf)

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

spending. Neutral rates will be just high enough to fend off future inflation, but not so high as to choke off economic growth and raise unemployment.<sup>51</sup>

Where budget deficits and/or the total level of government debt have been high, the need to borrow for current spending and to re-finance maturing debt has forced up long-term rates.<sup>52</sup>

## **2. 1. 2. Interest rates in Bosnia and Herzegovina**

The Central Bank of Bosnia and Herzegovina functions as a currency board. The currency board arrangement implies a limited role of the Central Bank and the pegging of the national currency to the euro. Unlike free central banks, the Central Bank of Bosnia and Herzegovina has one monetary measure that can be used to regulate the amount of money in the economy, and that is the reserve requirement rate. According to Article 37<sup>53</sup>, the Central Bank of Bosnia and Herzegovina is not allowed to make any kind of transactions on the money market. Also, it is forbidden to give loan under any circumstances.

Commercial banks can set whatever interest rates they want, but they try to reduce them if the borrower's financial position is good, if the collateral is good and when the value of the loan is significantly below the nominal value of the mortgaged property.<sup>54</sup> Banks view clients individually by assessing their loan worthiness which means that two different clients can have different offers.

Having in mind economic crisis caused by corona virus, the Banking Agency of the Federation of Bosnia and Herzegovina reports that the situation with interest rates in EU remains generally favorable and it continues to spill over the banks in B&H.<sup>55</sup>

According to the official report of the Banking Agency of the Federation of Bosnia and Herzegovina, in terms of retail loans, the largest share is with general consumption loans (BAM 5.9 billion or 80.5% of retail loans, i.e. 38.7% of the total loan portfolio) and housing loans (BAM 1.3 billion or 18.2% of retail loans, i.e. 8.8% of the total loan portfolio).<sup>56</sup> In the currency structure of loans, loans approved in domestic currency have the highest share of 49.3% or BAM 7.5 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 46.5% or BAM 7.1 billion (EUR: BAM 7.1 billion or 99.8%, CHF: BAM 16 million or 0.2%), while

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<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Official Gazette B&H no. 1/1997, 29/2002, 8/2003, 13/2003, 14/2003 - ispr., 9/2005, 76/2006 i 32/2007.

<sup>54</sup> Central bank of Bosnia and Herzegovina, available at: <https://www.cbbh.ba/press/edukacija/765>.

<sup>55</sup> Banking agency of the Federation of Bosnia and Herzegovina. Information on entities of the banking system of the Federation of Bosnia and Herzegovina as of 30.06.2020., available at: [https://www.fba.ba/upload/docs/informacija\\_o\\_subjektima\\_bankarskog\\_sistema\\_fbih\\_sa\\_stanjem\\_na\\_dan\\_30062020\\_godine\\_2\\_3G1.pdf](https://www.fba.ba/upload/docs/informacija_o_subjektima_bankarskog_sistema_fbih_sa_stanjem_na_dan_30062020_godine_2_3G1.pdf) „It is thanks to the Currency Board and integration with banking groups seated in the euroarea that banks in the local market have managed to keep high liquidity during this crisis. This reduced or eliminates major pressures regarding interest rate increase“

<sup>56</sup> Banking agency of the Federation of Bosnia and Herzegovina. Information on entities of the banking system of the Federation of Bosnia and Herzegovina as of 30.06.2020, available at: [https://www.fba.ba/upload/docs/informacija\\_o\\_subjektima\\_bankarskog\\_sistema\\_fbih\\_sa\\_stanjem\\_na\\_dan\\_30062020\\_godine\\_2\\_3G1.pdf](https://www.fba.ba/upload/docs/informacija_o_subjektima_bankarskog_sistema_fbih_sa_stanjem_na_dan_30062020_godine_2_3G1.pdf) p. 38.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

loans approved in foreign currency have the lowest share of 4.2% or BAM 640.3 million (of which BAM 639.6 million or 99.9% relates to EUR).<sup>57</sup>

Statistics of the Central Bank of Bosnia and Herzegovina in the last three years show that interest rates on housing loans with a repayment period of more than ten years are decreasing. The level of the interest rate is influenced by market circumstances, existing risks in the economy, developments in financial markets and other macroeconomic indicators. However, the average interest rate in last year is higher in Bosnia and Herzegovina compared to Croatia, where the average interest rate on housing loans in Croatian Kuna was 3.60%.<sup>58</sup> Statistics on interest rate movements for housing loans to households include interest rates on loans in BAM and loans in BAM with a currency clause. The movement of interest rates on housing loans in those two types of loans in last three years is presented in the Table 1, Table 2 and Table 3 according to official statistics of the Central bank of Bosnia and Herzegovina.<sup>59</sup>

Date	Housing loans				
	Variable interest rate and up to one year IRF <sup>60</sup>		Over 1 and up to 5 years IRF	Over 5 years IRF	Over 10 years IRF
		Of which with original maturity over 1 year			
<b>12/2017</b>	3,844	3,844	3,319	NA	NA
<b>12/2018</b>	3,454	3,454	NA	NA	NA
<b>12/2019</b>	3,877	3,600	4,168	3,395	5,279
<b>06/2020</b>	3,857	3,857	3,523	3,809	4,100
<b>09/2020</b>	3,808	3,844	NA	3,387	3,945

*Table 1: Housing loans for period 2017-2020*

The amount of indebtedness of the population in thousands of BAM due to housing loans for the same period is shown in the Table 2.

Date	Loan amount to households in BAM				
	Variable interest rate and up to one year IRF		Over 1 and up to 5 years IRF	Over 5 years IRF	Over 10 years IRF
		Of which with original maturity over 1 year			
<b>12/2017</b>	1,416	1,416	445	NA	NA
<b>12/2018</b>	2,597	2,597	NA	NA	NA
<b>12/2019</b>	1,242	1,124	386	1,042	463
<b>06/2020</b>	2,386	2,386	266	359	937
<b>09/2020</b>	1,737	1,559	NA	651	1,257

*Table 2: Loan amount to households in thousands of BAM*

<sup>57</sup> Ibid. p. 36-37.

<sup>58</sup> Croatia National Bank. Information on interest rates for the period 1.11.2019-30.04.2020, available at: [Informacija o kamatnim stopama \(hnb.hr\)](http://informacija.o.kamatnim.stopama.hnb.hr)

<sup>59</sup> Available at: [CBBH](http://cbbh.ba)

<sup>60</sup> The initial period of the fixed interest rate.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

Interest rates on housing loans in BAM with a currency clause are not high as previously present interest rates on housing loans in BAM<sup>61</sup>. Loans with a foreign exchange clause can look very attractive due to low interest rates at the time of contracting. But these types of housing loans are more risky given that the financial position of the contracting parties depends on the movement of the exchange rate of the currency in which the currency clause is agreed. Due to the above, there may be pronounced and unpredictable exchange rate variations.<sup>62</sup>

The previous statement in the context of Bosnia and Herzegovina refers to currencies other than the euro to which the BAM is pegged as an anchor currency. Therefore, in terms of housing loans, the overview of the amount of household indebtedness in thousands of BAM indexed to EUR is higher compared to loans in BAM.

Date	Loan amount to households indexed to EUR				
	Variable interest rate and up to one year IRF		Over 1 and up to 5 years IRF	Over 5 years IRF	Over 10 years IRF
		Of which with original maturity over 1 year			
<b>12/2017</b>	17,187	17,187	395	3,826	8,180
<b>12/2018</b>	17,610	17,610	155	3,340	9,211
<b>12/2019</b>	21,834	21,790	288	4,641	13,531
<b>06/2020</b>	15,255	15,003	513	4,175	9,701
<b>09/2020</b>	14,533	14,460	403	2,194	7,772

Table 3: The amount of indebtedness of the population is thousands of BAM indexed to EUR

In addition to the interest rate, it is important to consider the effective interest rate. When it comes to calculation of the effective interest rate<sup>63</sup>, it usually includes a fee for: loan processing, loan account management fee, the cost of a property insurance policy, costs of other security instruments (bills of exchange, costs related to the realization of the mortgage, costs of notary service).<sup>64</sup> In the calculation of the effective interest rate (EIR), the following amounts of costs of collateral were taken, which are not defined by the bank: cost of bills of exchange 10 BAM, the cost of verifying the consent to the seizure of 9.36 BAM, cost of necessary documentation 85 BAM, cost of notary services 526.50 BAM, the cost of real estate valuation 365 BAM, cost of registering a mortgage 600 BAM, the cost of real estate insurance premium of 50 BAM per year.<sup>65</sup>

### 2. 2. 3. Conclusion

The functioning of the Central bank of Bosnia and Herzegovina as a currency board leaves it a narrow space for action in relation to free central banks. As previously mentioned, Central bank of Bosnia and Herzegovina has one monetary measure that

<sup>61</sup> For more details: [CBBH](#).

<sup>62</sup> Ibid.

<sup>63</sup> EIR is an interest rate that shows the total cost of loan to consumers and is expressed as an annual percentage of the total loan amount, and equalizes on an annual basis the present value of all future or existing liabilities. Available at: [Središnji portal za potrošače - Krediti \(szp.hr\)](#).

<sup>64</sup> Capitalia. Available at: [Kupovina prve nekretnine u KS: Sve što trebate znati - Capitalia](#)

<sup>65</sup> Ibid.

can be used to regulate the amount of money in the economy, and that is the reserve requirement rate. Using this measure, it is possible to pursue a restrictive and expansive monetary policy. The use of the reserve requirement rate is not exclusively left to the assessments of monetary experts but is also a political issue. Having in mind access to one monetary measure, impact on interest rates is also different comparing to other Central banks and their possibilities to determinate interest rates through the money market, but on the other hand the functioning of the Central bank as currency board brings the security and stability of the currency needed in the Bosnian context.<sup>66</sup>

## **2. 3. Role of banking sector on the real estate market**

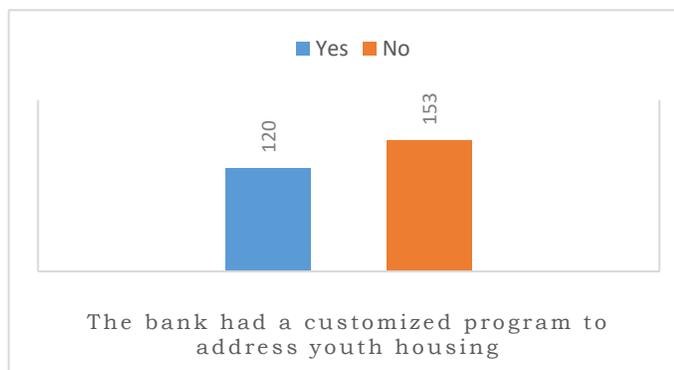
### **2. 3. 1. General determinants**

Banking sector is considered as one of the most stable sector in Bosnia and Herzegovina. The number of commercial banks in Bosnia and Herzegovina is 23 with approximately 10,000 employees.<sup>67</sup> Only one bank is majority state-owned, while foreign banks own over 80% of bank capital in BiH.<sup>68</sup> On April 30, 2020, the international rating agency Standard and Poor's published an extraordinary assessment of the loan rating (due to the crisis caused by the COVID-19 virus pandemic). In comparison with the regular assessment from the beginning of March, the rating „B“ has remained unchanged, while the outlook has been revised from positive to stable.<sup>69</sup> Supervision and control over the banking sector has been established at the entity level. Hence, there are two banking agencies at the entity levels that perform control and supervision tasks.

### **2. 3. 2. Housing loans for young people in the Federation of Bosnia and Herzegovina**

In the Federation of Bosnia and Herzegovina, 15 commercial banks have a banking license. Number of banks is the same as 31.12.2019. and all banks are members of Deposit Insurance Agency of Bosnia and Herzegovina.<sup>70</sup> A special legal regulation regulates the

establishment and operation of the Federation of Bosnia and Herzegovina Development Bank, and its supervision is performed in accordance with the Decree on the criteria and manner of conducting supervision over the operations of the FB&H Development



*Figure 4: Results of the survey*

<sup>66</sup> More details available at: [Naša je valuta stabilna i ostaje vezana za euro \(cbbh.ba\)](http://Naša je valuta stabilna i ostaje vezana za euro (cbbh.ba)), accessed: 14.12.2020.

<sup>67</sup> Foreign Investment Promotion Agency of Bosnia and Herzegovina. Banking and Financial Services. Available at: [Banking and Financial Services \(fipa.gov.ba\)](http://Banking and Financial Services (fipa.gov.ba))

<sup>68</sup> Ibid.

<sup>69</sup> Ibid.

<sup>70</sup> Banking agency of the Federation of Bosnia and Herzegovina. Information on entities of the banking system of the Federation of Bosnia and Herzegovina as of 30.06.2020, available at: [https://www.fba.ba/upload/docs/informacija\\_o\\_subjektima\\_bankarskog\\_sistema\\_fbih\\_sa\\_stanjem\\_na\\_dan\\_30062020\\_godine\\_2\\_3G1.pdf](https://www.fba.ba/upload/docs/informacija_o_subjektima_bankarskog_sistema_fbih_sa_stanjem_na_dan_30062020_godine_2_3G1.pdf), p. 18.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

Bank.<sup>71</sup> Banks in the Federation of Bosnia and Herzegovina do not have a special lending program for young people, with the exception of the Union Bank, which is mostly state-owned<sup>72</sup> and Bosna Bank International for residents of the municipality of Novi grad<sup>73</sup>.

<b>Conditions on the part of the borrower</b>	<b>Loan terms</b>	<b>Other conditions</b>
Citizens of Bosnia and Herzegovina up to the age of 40	Maximum loan amount 150,000 BAM	Purchase of an apartment on the territory of the Federation of Bosnia and Herzegovina
Employed for an indefinite period of time for a minimum of six months	The maximum repayment period is 20 years	Loan funds from this line cannot refinance (replace/repay) the existing loan indebtedness of the applicant
The real estate that is the subject of the purchase cannot be owned by a member of the applicant's immediate family	The nominal interest rate for housing loans for young people is 2.99 percent per annum	Applicants must also meet other loan requirements set by Union Bank Sarajevo, in accordance with laws, bylaws and internal acts of the bank

*Table 4: Basic lending conditions in the Union Bank program*

The Government of the Federation of Bosnia and Herzegovina and Union Bank are implementing a program of favorable lending to young people in such a way that the Federal Government has allocated 15 million BAM for lending in 2020, and Union Bank 10 million BAM. This way of giving housing loans has been implemented since 2018. The basic conditions for obtaining a loan in the Union bank are presented in the table 4.

In addition to the lack of specialized housing programs, banks fees for youth housing loans are also not regulated by the maximum amount. Therefore, the amount of bank fees varies from bank to bank. Lending terms are negotiated with the bank and sometimes better terms result in premium service packages whose prices are not limited. Also, official statistics on the average amount of bank fees are not available.<sup>74</sup>

### **2. 3. 3. Cantons and municipal subsidies for the purchase of the first real estate in cooperation with banks**

Municipality of Novi Grad Sarajevo with partner bank BBI offers the opportunity to young people who have not resolved the housing issue to do so under favorable financing conditions with an interest rate subsidy of 3 % to be financed by the municipality annually for the first 5 years of loan repayment. Individuals and married couples up to 35 years of age, with a place of residence in the municipality of Novi Grad for the last 3 years, can apply. To those who receive this type of subsidy, the municipality will pay an

<sup>71</sup> Ibid.

<sup>72</sup> Federal Ministry of Finances (93.38%) and other smaller shareholders with 5% and more shares with voting rights., available at: [About us \(unionbank.ba\)](http://About us (unionbank.ba))

<sup>73</sup> Available at: [Općina Novi Grad Sarajevo](http://Općina Novi Grad Sarajevo).

<sup>74</sup> For example the Croatian National Bank: Compare bank fees available at: [Usporedite bankovne naknade - HNB](http://Usporedite bankovne naknade - HNB).

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

interest rate of 3 % over the next 5 years. In 2020, BBI bank provided 6.3 million KM for these needs, while the municipality of Novi Grad in its budget for this year set aside 100,000 KM to subsidize the profit margin for the first five years of repayment of financing.

<b>Conditions on the part of the borrower</b>	<b>Loan terms</b>	<b>Other conditions</b>
Residents of the municipality of Novi grad for at least 3 years	Maximum loan amount 120,000 BAM	Purchase of an apartment on the territory of the municipality of Novi Grad
age up to 35 and resolving the housing issue for the first time	The maximum repayment period is 20 years	Applicants must also meet other loan requirements set by BBI Sarajevo, in accordance with laws, bylaws and internal acts of the bank

*Table 5: Basic lending conditions in the BBI bank*

Also, in the Tuzla Canton, the Ministry of Culture, Sports and Youth publishes a public call subsidizing interest on housing loans for young people. Within this program, precise scoring criteria have been established related to age, education, property census, successful results in the field of science, arts, sports and culture, and the number of family household members.

One of the significant resources in the real estate market are apartments owned by municipalities. An earlier analysis showed that most housing units were used for the purpose of caring for people in a state of social need.<sup>75</sup> All socially vulnerable categories should have access to municipal apartments. However, it has been repeatedly pointed out that in Sarajevo, very valuable apartments in the city center are rented to public figures and municipal officials with completely unjustified market fees.<sup>76</sup> When it comes to young people as one of the vulnerable categories, Sarajevo municipalities have an almost insignificant program.<sup>77</sup> Therefore, the procedures for allocating municipal housing need to be reviewed.

### **2. 3. 5. The research results on the role of the banking sector**

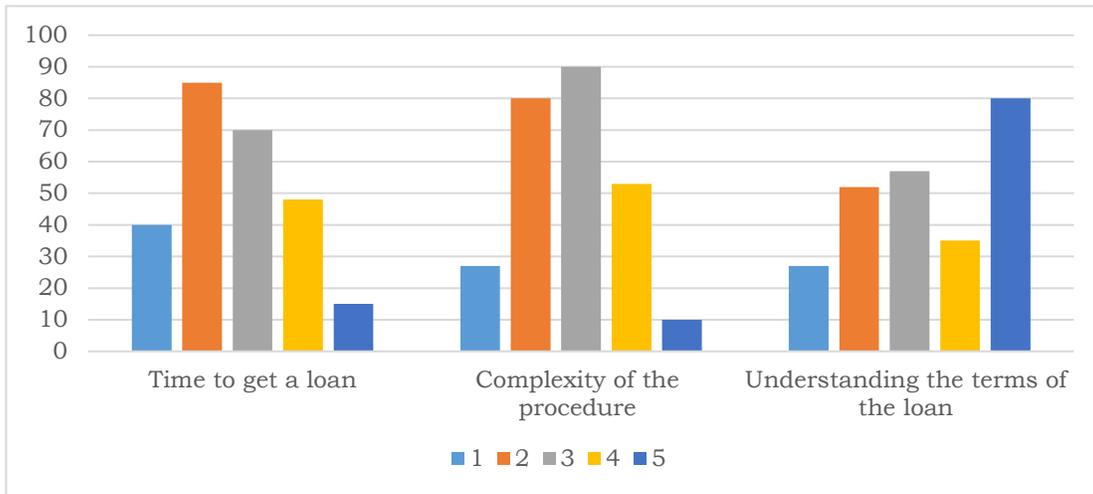
The results of the research on the role of the banking sector show that the majority of respondents believe that the time to obtain a loan is not fast enough, which corresponds to the answers on the complexity of the procedure. Relying on the previous, most respondents rated the complexity of the procedure with grades 2, 3 and 4. The statistical differences between grades 2-5 and 3-5 for the first two claims are significant given the scope of the survey and the total number of respondents. For the last question, most respondents claim to understand the terms of the loan.

<sup>75</sup> For more details: [istrzivanje.pdf \(censorba.org\)](#)

<sup>76</sup> Ibid.

<sup>77</sup> Ibid.

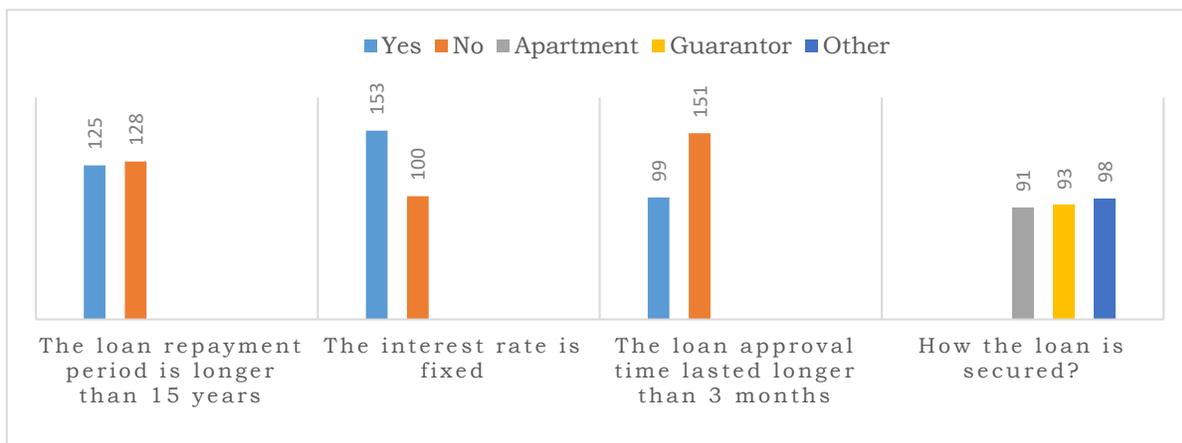
*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*



*Figure 5: Assessment of cooperation with banks*

**2. 3. 6. Research results on loan conditions – interest rate, loan repayment period and loan approval time**

Most respondents agreed to repay the loan at a fixed interest rate. A small percentage of respondents, with no significant statistical difference, will repay the loan for more than 15 years. The complexity of the procedure observed during the loan approval time is noticeable in a smaller number of respondents. The loan approval procedure for most respondents was shorter than three months. Statistics obtained in the survey that include the interest rate, loan repayment and loan approval time are shown in the Figure 6. As a way of securing a loan, 32.3% of participants mentioned an apartment, 33% guarantors, and 34.8% another way of securing.



*Figure 6: Research results on loan conditions*

### **2. 3. 7. Conclusion**

With the exception of two banks, the banking sector in the Federation of Bosnia and Herzegovina does not have special housing programs for youth. Supply and demand in this sector are formed in accordance with market conditions, banks' assessments of customers' loan worthiness and macroeconomic indicators without elaborated programs at the macro level. Therefore, amendments and corrections by the competent authorities are necessary in this sector.

Some of the ways of correction are:

- a) establishing a loan subsidy program as a form of macroeconomic complement to the real estate market<sup>78</sup>
- b) implementation of the delivery obligation of European Standardised Information Sheet (ESIS). When making a binding offer, the lender, according to EU regulation, is obligated to give client the ESIS. This standard document is designed to give client the best possible overview of the terms and conditions of the mortgage loan on offer.<sup>79</sup> A similar obligation in terms of content exists under the article 15 of the Law on protection of users of financial services in the Federation of Bosnia nad Herzegovina.<sup>80</sup> The application of the standardized ESIS form will increase the level of protection of financial service users with its formality and make them more informed about the terms and conditions of the loan.<sup>81</sup> This would also be important part of reducing information asymmetry B2C (business to consumer) transaction,
- c) keeping official records on the amount of bank fees by the Central bank or Banking agency of the Federation of Bosnia and Herzegovina for the purpose of transparent insight into the amount of fees. Also, the transparency of bank fees is important in the context of calculating the effective interest rate.

### **2. 4. The tax relief system**

#### **2. 4. 1. The taxation system in Bosnia and Herzegovina**

The taxation system in Bosnia and Herzegovina is a reflection of a complex state system. The competence in the field of indirect taxation in Bosnia and Herzegovina belongs to the state level and the competence in the field of direct taxes to the entities. There are two systems of distribution of tax revenues:

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<sup>78</sup> For example, in the Republic of Croatia, a law has been passed on subsidizing housing loans that citizens take from banks (Law on subsidizing housing loans, Official Gazette no 65/17, 61/18, 66/19). Subsidies take place through the Agency for Legal Transactions and Real Estate Brokerage.

<sup>79</sup> Europa.eu. Key information to assess and compare offers, available at: [Mortgage loans and credit in the EU: your rights - Your Europe \(europa.eu\)](https://ec.europa.eu/finance/mortgage-loans-and-credit-in-the-eu-your-rights-your-europe/europa.eu).

<sup>80</sup> Official Gazette FB&H no 31/14.

<sup>81</sup> The survey included the question of why the client chose the offer of a particular bank. The bank's offer was chosen by 30.4% because of their own knowledge and experience, 14.5% because of a friend's recommendation; 36% because they are a long-term client of that bank, 19% for other reasons.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

- a) vertical distribution of revenues from indirect taxes between different levels of government and
- b) system of free separation of revenues (from direct taxes) where each entity is self-financed.<sup>82</sup>

Generally, fiscal federalism in Bosnia and Herzegovina is an intriguing question, having in mind current political relations and constitutional order of the state. Position of central government is not strong enough to lead quality macroeconomic management and Fiscal council of Bosnia and Herzegovina has two main disadvantages:

- a) political influence
- b) insufficient coordination of all levels of government.

Due to lack of coordination, tax differences between the entities become more pronounced over time, leading to unfair tax competition. For example, the property tax system in Republika Srpska is regulated in a different and at the same time more complex way than in Federation of Bosnia and Herzegovina. It is paid annually, and repayment in two annual installments is possible. The value of immovable property is taken as the basis for taxation. According to Article 4 paragraph 3 Law on the real estate tax<sup>83</sup>, municipal and city assemblies are obliged to submit a written decision on the amount of real estate by zones on their territory to the Tax Administration in writing by January 31 of the current year at the latest. Real estate tax is paid at a rate of up to 0.20%. Municipal and city assemblies are obliged to make a decision on the amount of real estate tax rate in their area by December 31 of the current year.

## **2. 4. 2. Real estate tax breaks**

### **2. 4. 2. 1. The tax relief at the state level**

When it comes to real estate market, the Law on value added tax<sup>84</sup> (VAT) is relevant in the field of indirect taxation. Indirect Taxation Authority is the state level institution in Bosnia and Herzegovina in which competence is VAT. Chapter 9 of the Law on value added tax regulates exemption from VAT.

According to article 25, Financial and monetary service, exempt from VAT shall be the supply of immovable property, except for the first transfer of the ownership rights or the rights to dispose of newly-constructed immovable property. It follows that VAT is paid when buying a property only in the case of the first acquisition of ownership of the property, for example, when buying an apartment in a new building where you are the first owner and pay it to the company that built the apartment.

### **2. 4. 2. 2. The tax relief in the Federation of Bosnia and Herzegovina**

In the Federation of Bosnia and Herzegovina, the real estate transfer tax is under the jurisdiction of the canton. Although the tax is under the jurisdiction of the canton, the money from the real estate transfer tax is the revenue of the municipality or city in which the property is located. The real estate transfer tax is paid at the rate of 5%.

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<sup>82</sup> A. Stojanović, A. Helić, B. Stakić, Fiscal systems, Sarajevo, 2016, p. 125.

<sup>83</sup> Official Gazette RS no 91/15.

<sup>84</sup> Official Gazette B&H no 9/2005, 35/2005, 100/2008 i 33/2017.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

The definition of the tax base in cantonal regulations is not uniform so e.g., tax base in the Canton Sarajevo is the turnover value of real estate; tax base in Tuzla canton is the turnover value of real estate and rights at the time of the tax liability, or the agreed sale price if it is higher than the turnover value. According to some opinions, the real estate taxation system that will be presented below should be transformed into the system applied in the Republika Srpska.<sup>85</sup>

For the purposes of this study, the following laws containing housing benefits will be considered:

- a) The Law on real estate transfer tax and tax on gifts and inheritance in the Canton of Sarajevo<sup>86</sup>,
- b) The Law on real estate tax and rights of Tuzla canton<sup>87</sup>,
- c) The Law on real estate transfer tax in the Zenica-Doboj canton<sup>88</sup>,
- d) The Law on real estate transfer tax in the Central Bosnia canton<sup>89</sup>
- e) The Law on real estate tax in the Herzegovina-Neretva Canton<sup>90</sup>.

The law on real estate transfer tax and tax on gifts and inheritance in the Canton of Sarajevo contains two kinds of exemption from paying real estate transfer tax and they are:

- a) exemptions of certain categories
- b) exemptions for economic activities.

According to article 15 of the Law on Real Estate transfer Tax and Gift and Inheritance Tax in Sarajevo Canton, a citizen of BiH up to the age of 38, residing in the Sarajevo Canton, without real estate in his ownership, who is buying for the first time an apartment or a house that solves the housing issue, is exempt from real estate transfer tax for an area of up to 30 m<sup>2</sup> for the first member of the household and for each subsequent member of the household is increased by 15 m<sup>2</sup>, which are considered a spouse and their minor children. Also, Article 16 of the same law regulates that real estate transfer tax is not paid for a newly built facility when it is sold to the first buyer, for which value added tax has been paid.

According to Article 6 paragraph 15 of the Law on real estate tax and rights of Tuzla canton, real estate transfer tax is not paid by the buyer - a young married couple, who are solving their housing issue for the first time and who are not owners, ie possessors or were not owners, ie possessors of real estate that served or serves for housing. A young married couple will not pay real estate transfer tax on the transfer of ownership

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<sup>85</sup> Secretary of the Association of Real Estate Participants at the Chamber of Commerce of the Federation of BiH, I. Barbarić, for Cicko portal, available at: <https://www.cicko.ba/stanje-na-trzistu-nekretnina-u-bih-je-neuredjeno/>, accessed: 03.12.2020.

<sup>86</sup> Official Gazette KS no 28/18.

<sup>87</sup> Official Gazette TC no 11/2001, 13/2001, 13/2003, 3/2013, 12/2016, 11/2018 i 13/2019. Available at: [PUFBiH](#).

<sup>88</sup> Official Gazette ZDC no 6/09. Available at: [1af1b-zakon-o-porezu-na-promet-nekretnina-6-09.pdf \(pufbih.ba\)](#).

<sup>89</sup> Official Gazette CBC no 4/99, 1/00, 16/04, 10/06, 14/11. Available at: [SKM\\_405220021215260 \(pufbih.ba\)](#)

<sup>90</sup> Official Gazette HNC no 8/00, 5/04 i 11/08. Available at: [KM\\_224e-20171128101802 \(pufbih.ba\)](#).

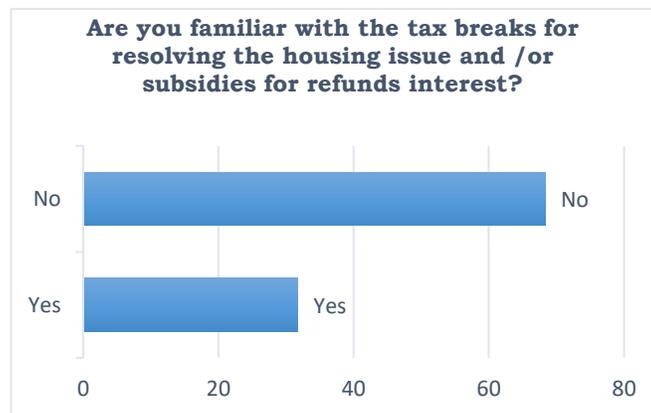
*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

of real estate up to 70 m<sup>2</sup> of living space. Same as in the Canton of Sarajevo, paragraph 13 of the same article regulates that real estate transfer tax is not paid when a newly built apartment is in circulation between a taxpayer registered to perform construction activities and a buyer.

Unlike the previous two cantons, the Zenica-Doboj canton and the Central-Bosnia canton have a different system of tax relief. According to Article 6 paragraph 1 item c of the Law on real estate transfer tax in the Zenica-Doboj canton, real estate transfer tax is not paid when the first sale of a still uninhabited newly built residential building or a newly built apartment is made as a separate part of the building, or a newly built business building or newly built office space as a special part of the building. Similiar tax relief system exist in the Central Bosnia canton. The real estate transfer tax in the Central Bosnia canton is not paid when the first transfer of ownership of a newly constructed residential building is made or apartment as a separate part of the building if the seller is a legal entity. The stated condition exists in the Herzegovina-Neretva Canton with the prescribing of a period of two years from the handover of the facility.

### **2. 4. 3. Research results on the tax relief system**

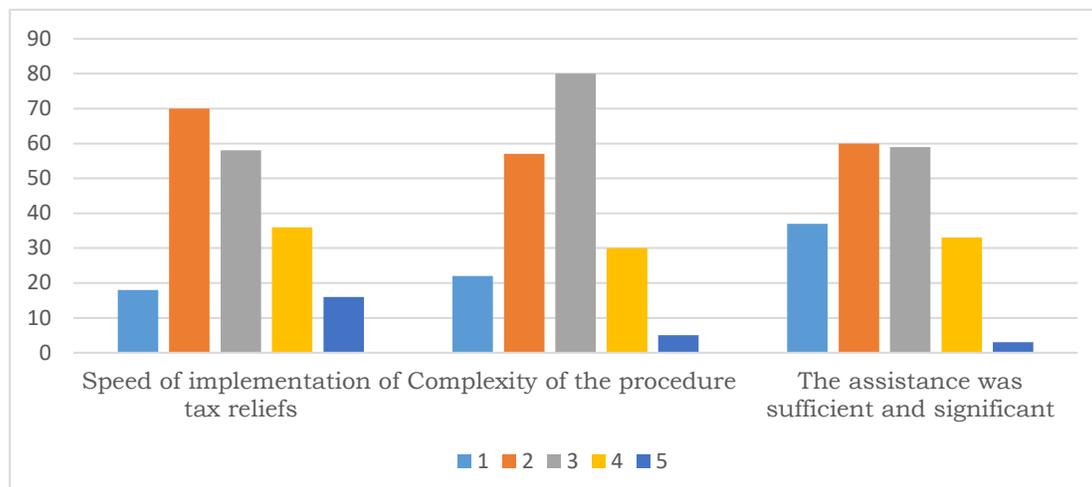
Most respondents are not familiar with the tax breaks for resolving the housing issue youth.



*Figure 7: Research results on the tax relief system*

Of those familiar with tax breaks, their implementation was assessed as follows in figure 8. The majority of respondents believe that the time to obtain a loan is not fast enough. Relying on the previous, most respondents rated the complexity of the procedure with grades 2 and 3. For the last question, most respondents rated sufficiency and significance of the assistance with grades 1, 2 and 3. *Argumentum a contratio*, the assistance was not sufficient and significant according to most respondents.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*



*Figure 8: Research results - assessment of tax relief*

#### **2. 4. 4. Refund of part of the interest**

Income taxation in the FBiH is the responsibility of the entity level. According to Article 24 paragraph 8 of the Income Tax Act in the Federation of Bosnia and Herzegovina<sup>91</sup> if the taxpayer resolves the housing issue for the first time and there is no registered real estate in his name, he has the possibility of refunding part of the interest by the Tax Administration on the basis of income tax refund. An overview of the interest paid for the previous year, the taxpayer receives in his bank. The full amount of interest paid in the year for which the annual income tax return form is submitted is recognized. What is important is that the position of the Federal Ministry of Finance is that the space should not exceed 120 m<sup>2</sup>.

#### **2. 4. 5. Conclusion**

Consequently, in the absence of quality macroeconomic management, there are differences in tax relief for youth housing. The differences between cantonal laws are reflected, among other things, in tax exemptions. The scope of tax exemptions provided in the Sarajevo canton and Tuzla canton contain two grounds. The first one follows the framework established by the state-level value added tax law and the second one allows tax relief for youth according to apartment area. In the other cantons analyzed, the established exemption follows only the framework established by the state-level value-added tax law. Therefore, the appearance of unfair tax competition is noticeable as a result of different treatment of youth housing. These differences can be corrected in adequate macroeconomic management and coordination. Also, the expediency of the transfer of competencies to the state level in the field of direct taxes is theoretically argued and proposed as a better solution compared to the existing ones.<sup>92</sup>

<sup>91</sup> Official Gazette FB&H no 10/08, 9/10, 44/11, 7/13, 65/13.

<sup>92</sup> See more: L. Ramić, Fiscal federalism between theory and practice in Bosnia and Herzegovina, Foundation Public Law Centre, 2019, available at: [Lejla\\_Ramic2-Fiskalni\\_federalizam\\_izmedju\\_teorije\\_i\\_prakse\\_u\\_BiH.pdf\(fcjp.ba\)](http://Lejla_Ramic2-Fiskalni_federalizam_izmedju_teorije_i_prakse_u_BiH.pdf(fcjp.ba)).

In addition to the above, another suggestion was the abolition of real estate transfer tax and the introduction of real estate ownership tax, which according to some estimates would be a better solution. The real estate ownership tax would be paid annually and would represent a greater convenience for the taxpayer. It would also include benefits for young people who have settled the housing issue. It would be a system similar to the property tax system in Republika Srpska. According to some opinions, for customers, a load of five percent of the estimated value is an extremely large burden. Paying a moderate tax on an annual basis is a much more affordable solution for the customer.<sup>93</sup> Previously requires a systematic approach to assessing both systems. Certainly the mentioned proposal would require entity coordination and harmonization in order to avoid negative phenomena such as unfair tax competition.

Having in mind the presented results of the research on the knowledge of tax reliefs, it would be expedient to prepare a guide about tax reliefs when buying the first real estate, which would contain information on the type of reliefs and how to obtain them.

## **2. 5. Lease as a way of solving the housing issue of young people**

Only 11% of respondents according to the survey solved the housing issue through rent. Resolving the housing issue through tenancy is unattractive for young people. The following circumstances are attached to the previous one:

- a) establishing control in the issuance policy when a natural person appears as a landlord is challenging which include concluding a written contract with the landlord and paying the taxes,
- b) lack of an established rental policy under favorable conditions,
- c) in general, young people do not consider a lease to be a permanent solution to the housing issue.

Comparing commercial housing market, the rental housing market is less developed. There are several deficiencies in this market: lack of macroeconomic intervention, relevant law in area of taxation or rental law is not perfect or does not exist, it is difficult to protect the interests of both parties; insecurity for rental housing etc.<sup>94</sup>

### **2. 5. 1. Establishing control in the issuance policy when a natural person appears as a landlord**

Property tax is the responsibility of the canton. The taxpayer, among other things, is a natural or legal person who rents out a residential building or apartment. The amount of tax liability for renting an apartment is paid in the following amounts:

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<sup>93</sup> Secretary of the Association of Real Estate Participants at the Chamber of Commerce of the Federation of BiH, I. Barbarić, for Cicko portal, available at: <https://www.cicko.ba/stanje-na-trzistu-nekretnina-u-bih-je-neuredjeno/>, accessed: 03.12.2020.

<sup>94</sup> Xi Li, Public Rental Housing Development in China, Master thesis, Stockholm 2011, available at: [Microsoft Word - Master Thesis Xi Li 870703-T137.docx \(diva-portal.org\)](#), accessed: 14.12.2020.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

<b>Canton</b>	<b>Rented residential building or rented apartment</b>
Sarajevo canton	4 BAM/m <sup>2</sup>
Una-Sana canton	2 BAM/m <sup>2</sup>
Tuzla canton	1 BAM/m <sup>2</sup>
Zenica-Doboj canton	0,75 BAM/m <sup>2</sup>
Posavina canton	1BAM/m <sup>2</sup>
Central Bosnia canton	0,50 BAM/m <sup>2</sup>
Herzegovina-Neretva canton	-
Canton 10	2,50 BAM/m <sup>2</sup>
West Herzegovina Canton	3 BAM/ m <sup>2</sup>
Bosnian-Podrinje Canton Goražde	3 BAM/ m <sup>2</sup>

*Table 6: The amount of property tax liability*

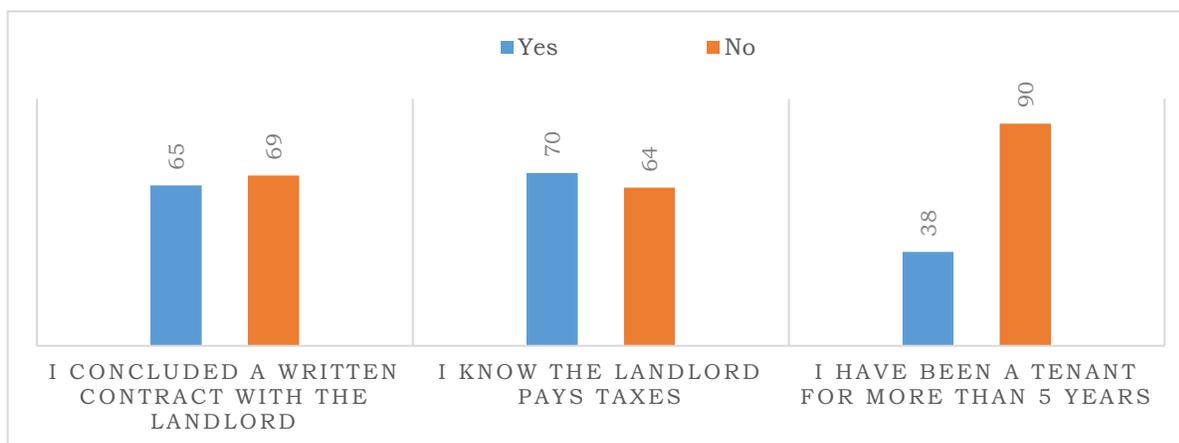
Revenues generated from property rights (rent, lease etc.) are regulated by the federal law on income tax and on an annual basis this tax is paid in the amount of 10% on realized income. Further, according to Article 38 of the Income Tax Act in the Federation of Bosnia and Herzegovina<sup>95</sup> taxpayer who begins to lease and rent movable and immovable property (other than those who rent houses, flats, rooms and beds for travelers and tourists who pay the sojourn tax), is obliged report to the competent unit of the Tax Administration commencement of leasing activities and renting, as well as earning income in within eight days from the date of commencement performing activities, ie from the day income generation. Advance of property income tax which is realized by collecting rent and rent is paid monthly in the amount of 1/12 of annual amount determined for the previous one tax period based on tax return taxpayer. Tax legislation does not provide relief and the age group of the tenant does not affect the amount of tax liability.

The first two questions from the survey concerned the existence of a written contract and the payment of fees. The existence of a written contract protects both parties, and the payment of rent is a legal obligation.

<sup>95</sup> Official Gazette FB&H no 10/08, 9/10, 44/11, 7/13, 65/13.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

Differences in the answers to these questions are not statistically significant, but indicate the occurrence of non-existence of a written contract and non-payment of tax liabilities.



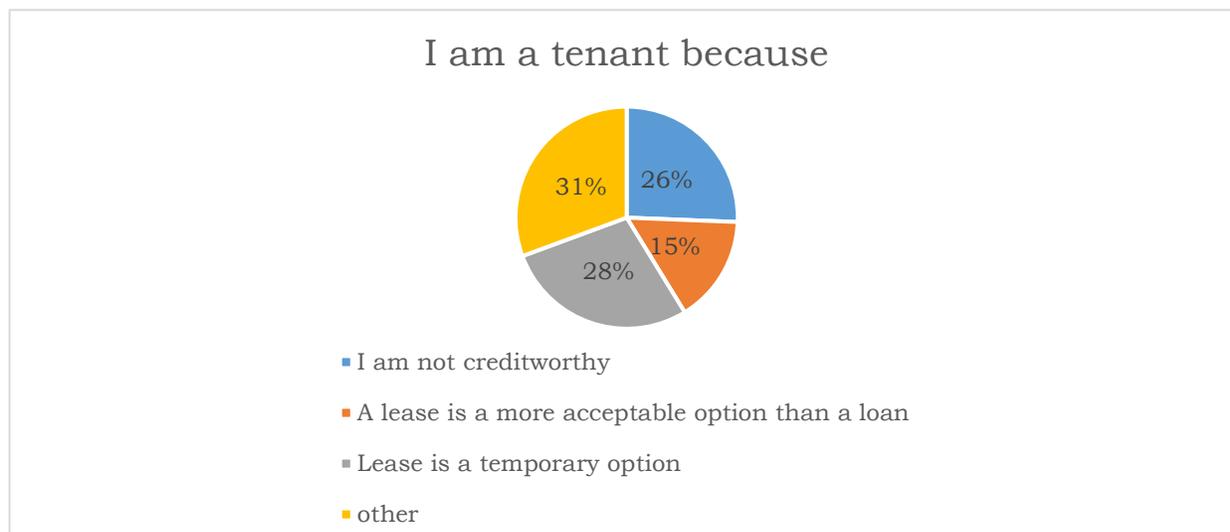
*Figure 9: Research results – lease terms*

**2. 5. 2. Lack of an established rental policy under favorable conditions**

In general, there is a noticeable lack of policies to address housing through tenancy. One of the policies that existed in this domain was in the Sarajevo canton. In April 2014, a public invitation was published by which investors, owners of newly constructed buildings, can lease a housing unit for a period of 10 years, after which investors would have to enter into a purchase agreement with the buyer. There are no data that the implementation of the project continued in the following years.

**2. 5. 3. A lease is not considered a permanent solution to the housing issue**

In general, young people do not consider a lease to be a permanent solution to the housing issue. This is confirmed by the results of a survey according to which only 15% of respondents believe that a lease is a better solution than a multi-year loan. Most respondents are tenants because they are not loanworthy or their lease is a temporary solution.



*Figure 10: Reasons for lease*

#### **2. 5. 4. Conclusion**

The key shortcomings in addressing youth housing issues through rent are reflected in the lack of control over this market segment. Tax legislation does not provide relief if the tenants are young people. Also, government programs are not permanently focused on this way of addressing the housing issue. Ultimately, as noted above, renting is not considered a permanent way to address the housing issue. One of the possible changes is the incorporation of tax relief through amendments to the legal framework if the tenants are young people with a proactive role of the government in the form of program solutions<sup>96</sup> and assistance for young people who solve the housing issue through rent. These are some of the possible ways to act in this area that will make the lease more attractive to young people

### **3. SUPPLY STRUCTURE FROM THE ASPECT OF ARCHITECTURE**

#### **3. 1. Introduction**

According to the United Nations Environment Programme from 2012, cities occupy 3% of the planet Earth and using 75% of the natural resources.<sup>97</sup> According to the continuous expansion of urban areas, especially in recent decades, it is projected that by 2050, 80% of the total population of the planet Earth will live in cities.

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<sup>96</sup> Author's comment: for example Rent regulation policy, available at: [Rent regulation - Local Housing Solutions](#), accessed: 14.12.2020.

<sup>97</sup> F. Čatović, A. El-Sayeed, I. Zejnilović, Realna primjenljivost ekološki prihvatljivih materijala i tehnologija u izgradnji energetske efikasne zgrade u BiH, Šibenik, 2017, taken from: [https://www.researchgate.net/publication/322888960\\_Realna\\_primjenljivost\\_ekoloski\\_prihvatljivih\\_materijala\\_i\\_tehnologija\\_u\\_izgradnji\\_energetske\\_efikasne\\_zgrade\\_u\\_BiH](https://www.researchgate.net/publication/322888960_Realna_primjenljivost_ekoloski_prihvatljivih_materijala_i_tehnologija_u_izgradnji_energetske_efikasne_zgrade_u_BiH), accessed: 09.11.2020.

### **3. 2. Current market situation and proposed solutions**

Real estate offer in the Canton Sarajevo is reduced to a choice of new, old or independent construction. Each of these options has its advantages and disadvantages.

The newly built facilities are mostly located outside the center and mostly built of poor quality materials with poorly disposition solutions. The new construction is characterized by residential units of minimal size with a large number of rooms. In such housing units, we find bedrooms of 6 m<sup>2</sup> each, which is beyond all the parameters that define a bedroom in relation to the square footage. If we look at the newly built housing units in the city center, they generally have a higher price per square meter.

There are two ways to build new facilities in the city center. The first solution is the reconstruction of old buildings, and the second solution is the interpolation of a new building into an already built series of buildings, or numbers of buildings with different stylistic characteristics. The quality of newly built facilities in the center does not differ too much from the quality of facilities located in periphery. The only advantage, which dictates the price, is the location.

The volume of turnover of newly built apartments continued to grow at a much faster pace than in the previous year, and the highest turnover was recorded in the last quarter of 2019. The surface area of sold residential space of new construction increased by 20.1%, while the number of sold apartments increased by 23.4%, compared to 2018. The growth in sales of newly built residential real estate was partly driven by a higher supply on the market of newly built apartment located in less attractive urban locations, thus being more affordable.<sup>98</sup>

The offer of housing units related to the old buildings, includes facilities that have been in use for a long time. These are mostly residential buildings built during the Austro-Hungarian governance, or facilities built in the early 60s of the last century. These are built of already dilapidated materials, which mostly, when purchased, requires intervention in the form of renovation and adjustment. The old building in the city center has its constant market value, it is highly valued and sought-after. The facilities are, in most cases, built using higher quality materials and have a greater possibility of adaptation. Collective housing units, older buildings, located on the outskirts of the city of Sarajevo could be adjusted by the market demand, for example by upgrading, while respecting the legal procedure of that municipality where the building is located. If the prices were adjustable, such facilities would become attractive in the market. Such an example of collective housing units can be found in settlements such as Grbavica and Dobrinja. The buildings are, usually, of lower floors with mostly gabled roofs.

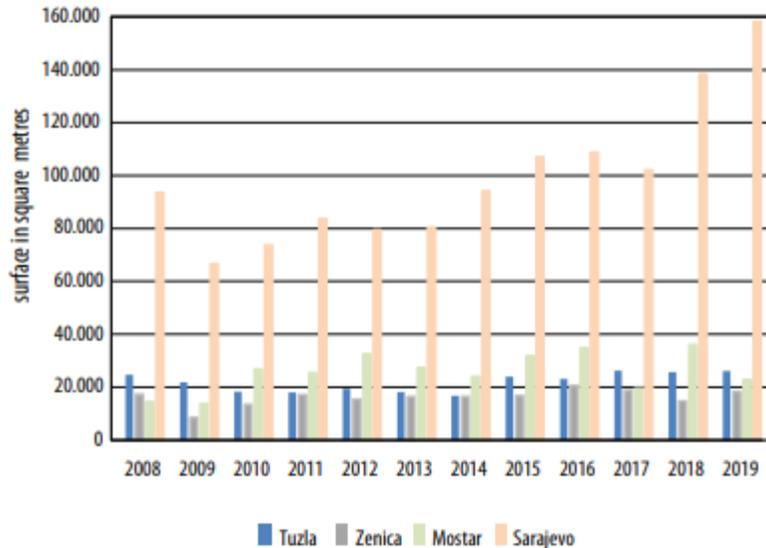
According to the Central Bank's financial stability report for 2019, there was a higher volume of turnover of the old construction real estate compared to previous years. Compared to 2018, the volume of real estate turnover in terms of the old construction, measured by the surface area of the sold residential space, was higher by 5%.<sup>99</sup>

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<sup>98</sup> Central bank of Bosnia and Herzegovina, Financial stability report for 2019, p. 23, available at: [Financial Stability Reports \(cbbh.ba\)](https://www.cbbh.ba/), accessed: 14.12.2020.

<sup>99</sup> Ibid.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*



*Figure 11 Real Estate Price Index, Annual Average Values, 2008 = 100  
Source: Central bank of Bosnia and Herzegovina, Financial stability report for 2019 p. 23.*

Housing for collective living, in Sarajevo and Tuzla, were built mostly during the socialist regime in the 1960s. At that time, the goal was to build as many housing units as possible in as little space as possible. As such, they have survived various natural and social devastation, especially during military conflicts 25 years ago. The buildings are, for the most part, patched, and in rare cases completely renovated. The consequences of social events are most obvious on the facades of these buildings.

In collective housing facilities, conflicts between the government and the owners do not find the solution of such and similar problems. Authorities, rarely, take action to rehabilitate buildings, tenants passively wait for better times, while buildings decay damaged by the ravages of time. Dilapidated facades and roofs, over time, cause material and physical damage to the point of total destruction. Large number of buildings in the area of Sarajevo, ex. settlements such as Grbavica and Dobrinja in Sarajevo, are still witnessing the consequences of the war destruction of the city. The facades of the buildings are quite damaged and require renovation (see Figure 11).

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*



*Figure 11: Zvornička Street, Sarajevo - War casualties visible on the building approximately 25 years after the end of the war*

In practice, we are facing a massive trend of upgrading collective housing units. Buildings with gabled roofs could be upgraded by adding attic-type floors or entire residential floors if the legal procedures of the regulatory plans allow by the maximum allowed construction in the area. In these cases, there would be a consequent renovation of the building facade, testing the load-bearing capacity of the structure and the demand for housing units. In Figures 12 and 13 we see examples of upgrades in the settlement Grbavica, which did not go through the legal procedure for the purpose of obtaining a building permit. The upgraded floor is not drowned according to regulations, as well as the entire building. These objects can serve as examples of poorly and improperly performed object upgrades.



*Figure 12: Zagrebačka Street, Grbavica settlement, Sarajevo - Example of a building with a dilapidated facade structure, improper upgrade and large energy losses*

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*



*Figure 13: Grbavička Street, Sarajevo - A building with a bad attic upgrade*

Upgrades should be environmentally friendly with materials that create a healthy environment. At the same time, it should be corresponding to the time in which they are created.

### **3. 3. Architectural and ecological issues of social housing**

Cities that originated and developed along the rivers, in valleys, tend to spread longitudinally. From the aspect of architecture and construction, the current image of Sarajevo Canton is in bad condition. We recognized unplanned, illegal construction and the heating season during the winter period as some of the biggest problems. One of the most important legal provisions should be an explicit ban on the construction of tall buildings and buildings which were built vertically on the direction of wind flow, ie. along the riverbed.

In addition to the problems of orientation, natural ventilation and natural lighting, a major problem in construction is the use of toxic materials, which cannot be recycled. With those materials the room is hermetically sealed.

In hermetically sealed facilities with artificial materials, the air is polluted and not ventilated, so it becomes toxic. Such spaces create a suitable environment for the development of fungi, mites and other pathogens. The fact is that, due to very poor knowledge of responsible persons from physics, the 90% of construction mistakes were made, and styrofoam is installed in the facade due to ignorance of the basic physics laws.

„Warming up“ the buildings with the thermal insulation, in Bosnia and Herzegovina uses the practice of hermetically sealing the building facade without installing ventilation systems or modern recuperation systems. Hermetically sealed spaces, with artificial materials, are another reason for the growing number of buildings with SBS (Sick Building Syndrome), because in these spaces the air is polluted and not ventilated and it becomes very life threatening. Buildings that have a large number of apartments and where the most apartments have only a northern orientation, represent this syndrome.

The fact is that fast, low-quality and economical construction is our reality, and such facilities are quite common in our market.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

The buildings are built so that they do not meet the basic urban regulations such as: the distance of the buildings, unfavorable orientation and exposure, and number of floors. Special care should be taken when choosing the material to use. A bad example is the construction of the basic structure of the building from prefabricated concrete elements and then as the biggest factor in the creation of unhealthy spaces PVC joinery that is improperly installed and prevents ventilation.

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Unfortunately, at the moment, individual residential buildings, modeled on collective housing, were built with the same shortcomings and against all regulations.

Inadequate materials are used in the construction, which do not meet the already established criteria for protection of the building from fire. One of the most important problems is the lack of ventilation in garages. All of the above is justified by the highest possible economic gain.

One of the major environmental problems of the city of Sarajevo is the heating system, which is not uniform for the entire city. According to official statistics and reports, out of about 210,000 households in Sarajevo Canton, almost 52,000 apartments are heated by natural gas, and about 51,000 by central heating supplied by „Heating Plant Sarajevo“.<sup>100</sup> The rest of the households are mostly heated by using solid fuels, wood, coal and in a small percentage, wood pellets. Combustion of solid fuels causes high air pollution, especially in winter.

There were ideas for the construction of a heating pipeline on the route Thermal Power Plant Kakanj-Sarajevo, which would supply the „Heating Plant Sarajevo“ with 90%. The study on the construction of the heating pipeline was presented in 2017. However, after analyzing the project, several conclusions were reached. After the construction of the Kakanj-Sarajevo heating pipeline, there would be a probability that the air quality would further deteriorate in the Sarajevo area, and the price of heating the heating plant would be minimally reduced. Another important shortcoming would be dependence on Russian gas imports and large transport losses.

### **3. 4. Energy efficient facilities**

In our area, since the time of the former Yugoslavia, the approach of building energy efficient facilities is known. Unfortunately, today such an approach is neglected, because the most important is economic profit. Therefore, investments are reduced to a minimum, built in the shortest possible time, and quick profits are made. Energy efficiency, as it is already known, can be achieved by improving the thermal protection

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<sup>100</sup> Compare: Studija opravdanosti snabdijevanja toplinskom energijom iz TE Kakanj područja do/i Sarajevo, konzorcij Mašinski fakultet Sarajevo, Bosna-S and ENOVA, 2016.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

of the building envelope, better coverage of the building, good ventilation, geothermal heating and cooling, the usage of solar energy, and many others.

Previous research has shown that for every euro invested in energy efficiency, over a short period of time, it is possible to restore the investment with a much higher profit.

In Bosnia and Herzegovina, there is a huge potential for the development of production from environmental - friendly building materials, as well as materials from renewable sources. However, the implementation of such materials is almost negligible. Building materials that use wood, stone, wool, straw, clay, as the basic raw material, have a low degree of industrial processing and as such are mainly used for decorative purposes only.<sup>101</sup>

The idea of landscaping residential buildings (green facades and roofs), which has a growing practice in European cities, is difficult to find its implementation in Bosnia and Herzegovina and is rarely implemented in the cities of our country. Greenery, as part of the buildings, reduces city noise and reduces the effect of heat islands.

When it comes to the utilization of natural energy sources, such as passive and active use of solar and wind energy, there is no progress in Bosnia and Herzegovina. The same is the case with heating and ventilation systems, and all of this is reflected in the design of facilities. Architects neglect aspects of energy efficiency, and pay much attention on the size of the building and the visual effect. For this situation, we can blame investors, they are not well informed and want to make as much profit as possible and to attract customers, but also, architects who do not respect their ethical obligation. The construction of facilities in Bosnia and Herzegovina, with the dominant use of natural materials is the future, not only of our country but of the whole world.

### **3. 5. Housing issue of the young people**

Strong family ties are very often in the traditional Bosnian families. In the absence of business opportunities and financial stability, young people in Bosnia and Herzegovina do not dare to take out loans. According to official estimates, there are 1,354,000 young people in BiH, of which 777,000 are between the ages of 15 and 29. Only 7% of young people are self-employed, 2% of those who live as tenants and 5% of those who live in an apartment or house owned by them.<sup>102</sup> Converted into absolute numbers, this means that at the moment about 15,000 young people in BiH live as tenants and pay rent under market conditions.

They often find their need for independence in the process of upgrading the floor of a parent or relative individual building, mostly without an adequate urban and architectural solution. There is a problem of „illegal construction“ which is especially pronounced in suburban settlements.

The most of the young people in Bosnia and Herzegovina plan to form a marital union and expand their family, which, in this situation, is very suitable for demographic expansion and rising birth rates. However, the main problem is the housing issue. The problem arises from limited or non-existent financial opportunities. It is necessary to

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<sup>101</sup> Čatović, El-Sayeed, Zejnilović, Realna primjenljivost ekološki prihvatljivih materijala i tehnologija u izgradnji energetske efikasne zgrade u BiH.

<sup>102</sup> „Youth needs youth policy“, Analysis of the position of youth and the youth sector in BiH, Sarajevo, 2008.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

provide an environment for young people, in which they will form families, create their own home and good living conditions, and thus stop the mass immigration of young people from our country.<sup>103</sup>

Young, freshly married couples will not be subsidized for the purchase of an apartment in Canton Tuzla, because, no residential buildings have been built for young people. The Sarajevo Canton Fund could be a good example for the other cantons where they could similarly assist young people in resolving the housing issue.

There are two funds in the Sarajevo Canton that have been building housing for veterans and martyr's families for the last 20 years. In the last few years, they have also included young people.

Candidate, who wants to be granted for the solution of young housing issue, has to meet the following conditions:

- a) that he is aged between 18 and 35 at the time of filing the application,
- b) that he is a citizen of Bosnia and Herzegovina,
- c) to have resided in the area of Sarajevo Canton during the last three years before submitting the application.

In addition, the conditions are that the candidate has not resolved the housing issue, that he was not the owner of the apartment or house that he alienated with a legal transaction, that the seller of the apartment or house is not the candidate's parent, brother or sister or the candidate's marital's brother or sister.

Regarding the facilities built for the purpose of social housing, the Sarajevo Canton Fund for the construction of apartments, in the period from 2008 to 2017, equipped the locations: Dobrinja V (Municipality of Novi Grad), Rosulje II (Municipality of Vogošća) and Banovac (Municipality od Ilijaš). So far, 208 housing units have been sold in the area of Dobrinja, 146 in Vogošća, while 23 buildings are used by the residents of the endangered part of Svraka. Following the example of the Sarajevo Canton Fund, the city of Goražde started with the implementation of projects for the care of the initially veteran population and displaced persons, and then several housing facilities for young people were built. The City of Bihać also provided a fund that provided 26 housing units for war invalids of the 1st and 2nd categories, in the period from 2015 to 2019.

In Sarajevo and Tuzla Canton, Center for Support Organisations conducted a survey in the beginning of 2020, and the respondents were young people. Most of the young people answered that they plan to solve their housing issue by buying an apartment in a newly built facility (63.7%) with a size between 70-80 m<sup>2</sup> (41.1%). The situation on the market is not the best, mostly respondents were not satisfied with the offer.

To buy an apartment in an older building, change the disposition and reconstruct the existing building is the much more rational option. By constructing of low quality buildings, we are disrupting the quality of life in the city on several levels.

If we follow the trend of demand for apartments, in relation to the size of the apartment, the analyzes conducted so far in the Sarajevo Canton showed the following values, shown in the Chart.

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<sup>103</sup> „Study about the young people Bosnia and Herzegovina”, available on: <https://library.fes.de/pdf-files/bueros/sarajevo/15288.pdf>, accessed: 23.11.2020.

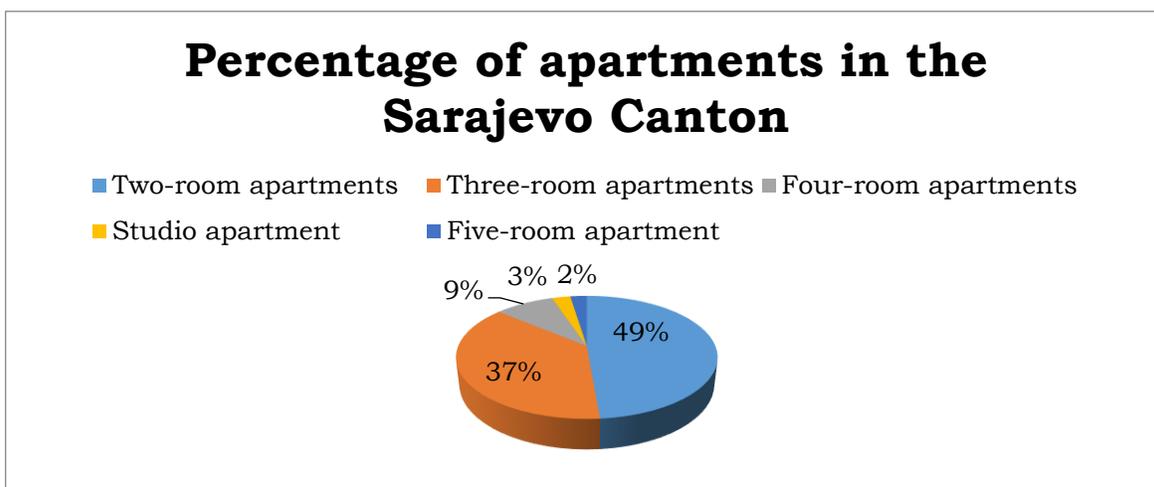


Figure 14: Percentage of apartments in the Sarajevo Canton

Statistically, from the presented diagram, we can conclude that, in the Sarajevo Canton, two-room apartments are the most sought after. It is followed by three-room apartments. Four-room apartments are less in demand, but still more compared to studios and five-room apartments. Five-room apartments are inaccessible, they occupy large areas, but families are much smaller nowadays than before.<sup>104</sup>

The situation is similar in Tuzla Canton, the most sought after on the market are two-room apartments, because of the more affordable price, and almost half of the citizens decide to buy a two-room apartment. Three-room apartments are also quite common. A small number of citizens decide to buy larger apartments, four-room and five-room. Studios, as in Sarajevo Canton, are the least sought after, due to the high price in relation to the square footage. The exact percentage of apartments is shown in Chart 2.

<sup>104</sup> Census in Bosnia and Herzegovina (2013). Available on: <https://www.popis.gov.ba/popis2013/knjige.php?id=5&fbclid=IwAR2SWHsSB63e67IhsOjhKThLVer3Y9HCJj185eIvW31SPTbsULqOKMGJLM>, accessed: 23.11.2020.

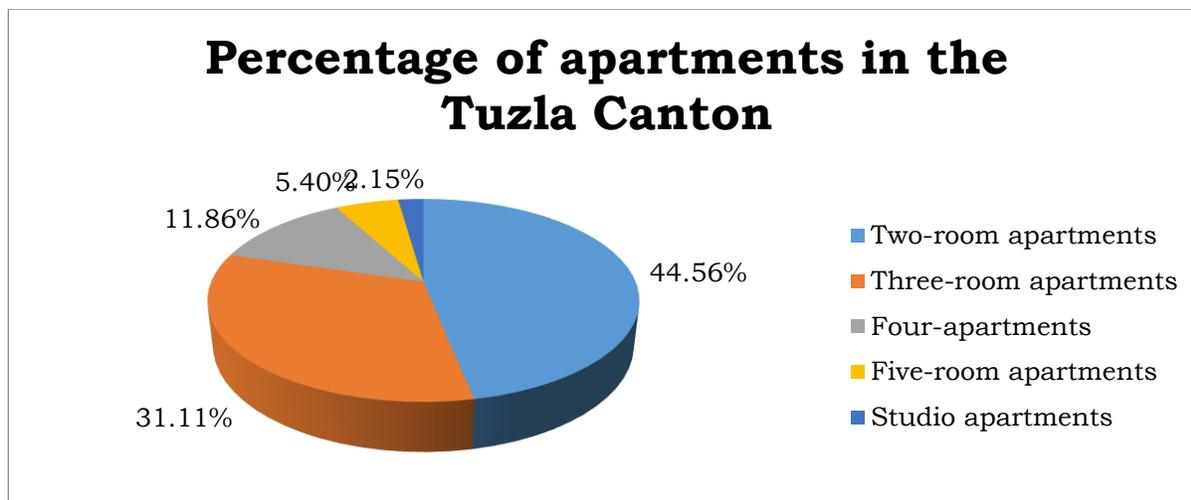


Figure 15: Percentage of apartments in the Tuzla Canton

In both cantons the situation is approximately the same, or very similar. In the Sarajevo Canton, as well as in the Tuzla Canton, the area of two-room apartments can vary from 30 m<sup>2</sup> to 60 m<sup>2</sup>. Three-room apartments are mostly from 61 m<sup>2</sup> to 80 m<sup>2</sup>, while apartments from 81 m<sup>2</sup> to 150 m<sup>2</sup> are usually four-room.

By the analyses collected on the census which took place in Bosnia and Herzegovina in 2013, it is obvious that citizens in municipality of Canton Sarajevo, just like in Canton Tuzla, mostly, live in the housing units for individual living (house, apartment), exactly, 99,88% live individually. Less than 0,2% municipality live in the other types of units for collective living (ex. Student dorm, immigration centres, hotels, etc.).<sup>105</sup>

### 3. 6. Relation between condominium owners and manager

Unlike individual housing, collective housing is associated with living in buildings, more precisely in apartments where each user associates with the apartment as his/her living space, but not with the entire building, which is the case with living in a house.

An apartment is considered to be a set of rooms intended for housing with additional rooms which, as a rule, form one building unit and have a separate entrance.

The owner of the apartment is called the condominium owner and he/she obtains his/her rights by legal regulations when buying the condominium unit. Condominium ownership is the ownership right of a special part of the building that arises and remains tightly linked to the relevant co-ownership part (ideal part) of the property.

Real estate is a part of the land surface, together with everything that is permanently connected to the land, whether on the surface or below it, unless otherwise provided by the law. Owners of condominium units have their rights and obligations. Mutual rights and obligations regarding the use, management and maintenance of common building parts are regulated by condominium owners by an inter-ownership agreement. Depending on the size of the condominium unit, the owner legally acquires ownership

<sup>105</sup> Ibid.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

over the common parts of the building (common installations of the building, common devices in the building and other common parts of the building). He/she also becomes a co-owner of the part of the land on which the building in which he owns the property is located. Co-ownership and management of common parts of residential buildings is regulated in the Federation of BiH by the Law on Real Rights<sup>106</sup> and Laws on use, management and maintenance of common parts and devices of the building at the cantonal level.

The condominium owner is obliged to take care of and maintain apartment in good condition, and the installations intended for it, especially electrical, internal gas installations, water supply, sewerage, central heating installations, condominium heating installations and sanitary devices, so that no harm is done to the owners of other condominiums.

Collective housing requires the making of collective decisions by all or most of the members of the same collective in order to improve the quality of life of the community. In a building that has three or more apartment owners, the apartment owners must elect only one representative. A representative of apartment owners is a person elected by apartment owners at a meeting for a period of four years.

A building representative is a person who takes care of the building (reports breakdowns, emergency interventions, minor repairs, changes of owner, etc.) The representative of the apartment owners is the link between the building and the apartment owners with the public building manager. The representative of the apartment owners is important for the public building manager when it comes to carrying out and performing all the necessary works and obligations on the building. The manager is responsible for his/her work to the apartment owners through an authorized representative. A good relationship between the representative and the manager is a prerequisite for good cooperation.

The management of the common parts of the building is in the public interest and also in order to protect the lives and safety of people and property.

The manager's obligations are defined by the law. The following Articles present how the law defined public building manager's obligations.<sup>107</sup>

*Article 25.*

*(Signing a contract between apartment owners and lawyers)*

- (1) The contract between apartment owners and managers regulates their mutual rights and obligations on managing common parts of the building.
- (2) The contract shall be signed by the responsible person of the manager and the representative of the apartment owners, after previously obtaining consent of apartment owners on the contents of the contract.
- (3) Upon concluding the contract, the manager is obliged to submit one copy of the contract to the Ministry, no later than 30 days from the day of concluding the contract.

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<sup>106</sup> Official Gazette of FB&H, no. 66/2013, 100/2013.

<sup>107</sup> Official Gazette KS, no. 19/2017 and 17/2018.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

*Article 26.*

*(Contents of the contract between the apartment owners and the manager)*

- (1) The contract between the apartment owners and the manager must contain:
- a) the content and scope of regular maintenance of common parts of the building
  - b) the obligation to take on urgent and necessary repairs,
  - c) the obligation and procedure for the preparation of the annual or multi-annual maintenance program, revenue plan and expenditures, and the annual work report,
  - d) the means of establishing a joint reserve,
  - e) the means of payment of the minimum fee and joint reserves to a special sub-account of the building, or to the transaction account of the manager opened exclusively for the management and maintenance of the joint parts of the building,
  - f) the means of disposing of funds from the building's sub-account,
  - g) the means of disposing of the funds of the common reserve on the transaction account of the manager,
  - h) the amount of the monthly fee to the manager,
  - i) the amount of the monthly fee to the representative of the apartment owners,
  - j) representation of apartment owners before the court and other authorities,
  - k) responsibilities of the manager for performing tasks,
  - l) a 90 day notice.
- (2) The apartment owners and the manager are obliged to sync the existing contracts with this law within nine months from the date.

*Article 28.*

*(Regular management tasks)*

- (1) The tasks of regular management of common parts of the building are in particular:
- a) regular maintenance of common parts of the building, including construction changes necessary for maintenance,
  - b) the creation of an appropriate common reserve for foreseeable future costs,
  - c) taking loans to cover maintenance not covered by the reserve, which are required for performing regular maintenance work that is repeated at intervals longer than one year,
  - d) the scope of insurance of common parts of the building,
  - e) election and recall of the manager,
  - f) determination and change of house rules,
  - d) renting and leasing, as well as cancellation of lease of apartments, other independent premises
  - e) of the building on which the ownership has not been established and the rental of other common parts of the building.
- (2) For undertaking regular management activities, apartment owners shall make a decision in writing, which requires the consent of apartment owners whose co-ownership parts make up more than one half total area of the property.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

(3) If the necessary consent referred to in paragraph (2) of this Article is not reached, and the undertaking of the work is necessary for regular management, each apartment owner has the right to request that the court decide on this on out-of-court proceedings.

*Article 31.*

*(Manager's fee)*

(1) The manager has the right to compensation determined by the contract referred to in Article 25 of this Law, and a maximum of up to 17%, excluding VAT, the amount of the minimum fee determined in the manner prescribed in Article 30 of this of the law, and is charged in proportion to the payment of the minimum fee within one month by condominium owners, excluding advance payments of the minimum fee.

(2) The manager has the right to compensation determined by the Ministry by a decision on appointing a manager for forced management of the building.

*Article 41.*

*(Obligations of the manager)*

(1) The obligations of the manager are as follows:

- a) to open a separate sub - account for each building separately within its transaction account, in the name and for the account of the apartment owners of the building, exclusively for the management and maintenance of the common parts of the building, unless otherwise regulated by the contract referred to in Article 25 of this Law,
- b) to keep up-to-date records of buildings, which ensures the transmission of data and reports to the records,
- c) to keep up-to-date records of apartment owners for the building,
- d) to perform maintenance of common parts of the building, as well as urgent and necessary repairs,
- e) to keep records of all interventions on common parts of the building,
- f) to send a request to the competent authority for the provision of funds from the budget in accordance with Article 59 and 60 of this law,
- g) to form a Commission for determining the condition of common parts of the building,
- h) that for each newly acquired building the Commission for determining the condition of the common parts of the building makes a report on the condition of the common parts of the building,
- i) to issue a payment slip to the apartment owners for the collection of the minimum fee referred to in Article 30 of this Law,
- j) to keep records for each building (building management book, building account balances, book of incoming invoices and book of outgoing invoices),
- k) to prepare and submit to the representative of the apartment owners a proposal of the annual maintenance and improvement plan common parts of the building, as well as the foreseeable costs and financial burden in the next calendar year no later than December 31st of the current year, with the obligation that the work

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

plan consisting of testing and servicing equipment, devices and installations contains the exact names of regulations governing this,

- l) to prepare and submit to the representative of apartment owners an annual report on management and maintenance common parts of the building no later than March 30 of the following year,
- m) at the request of each apartment owner, submits an annual report on management and maintenance of the common parts of the building in the previous calendar year and show the documents on which it is based, no later than March 30 of each year, taking into account to protect personal data of other apartment owners,
- n) at the request of the representatives of the apartment owners and the Ministry, to submit all information related to managing the common parts of the building,
- o) to submit an invoice for all performed works and services to the representative of the apartment owners,
- p) to prepare a bill of quantities and request, in agreement with the representative of the apartment owners, at least three offers for all works and services requested by the representative of the apartment owners,
- q) to submit an annual report to the Ministry concerning the work of the manager, written on the form issued by the Minister,
- r) to make a record of balance fund with the representative of the apartment owners in case of termination of the contract no later than 15 days, counted on the day of termination of the contract,
- s) to sign the record on the handover of the building for management referred to in Article 24, paragraph (4) of this Law,
- t) that within 15 days from the day of termination of the contract or within 15 days from the day of cancellation of the decision for performing the duties of a manager, funds that are determined by item c) of paragraph (1) of this Article shall be transferred to the sub-account of the building or to the transaction account of newly elected or forced manager,
- u) with a previously submitted written warning, to sue the apartment owners for unpaid obligations originated from the management and maintenance of common parts of the building, taking due date into account for these claims, and initiates the enforcement procedure upon the final verdict in accordance with this Law,
- v) to keep records on the filed lawsuits referred to in item u) of this paragraph and to inform about it representatives of apartment owners, at his request, and at least once a year,
- w) financial funds that are collected according to final verdicts based on apartment owners lawsuits to record on the building's account basic debt, the amount collected on the basis of court fees and interest minus the percentage of the determined amount of compensation to the manager and the representative of the apartment owners, is to pay these funds to the sub-account of the building or to the transaction account opened with the newly elected manager within 15 days, and to pay the corresponding funds to the representative of the apartment owners who was in charge in the period for which the lawsuit was filed,

(2) To compile and submit the price list of works-services to the representative of the apartment owners.

(3) The obligation of the manager referred to in paragraph (1) of this Article shall be financed from the fee to the manager prescribed in Article 31 of this Law, except for

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA  
with special reference to Sarajevo and Tuzla*

the obligation of the manager referred to in paragraph (1) items a) and d) of this article, which is financed from the funds of the joint reserve.

(4) The obligation of the manager referred to in paragraph (1) item c) of this Article shall be financed from the fee to the manager determined Article 31 of this Law, except for the costs of court fees which are financed from the funds of the joint reserves.

(5) The manager is not allowed to discharge water from the central heating installations in the building, without prior written consent of the legal entity responsible for the production and distribution of thermal energy.

(6) If during the maintenance of common parts of the building, the manager, or the subcontractor hired by the manager, causes damage to the apartment or other independent room of the apartment owner, he is obliged to fix it. If he does not fix the damage, the apartment owner can file a lawsuit for damages before court.

(7) The Minister shall issue Instructions on the content of the form "Records of buildings, apartments, independent premises and apartment owners", which must be managed by the manager, and which contains:

- a) the street and number of the building, the municipality where the building is located, the number of storeys of the building, the number of special parts and their usable area, name and surname of the apartment owner's representative,
- b) name (father's name) and surname of the apartment owner, ID number of the apartment owner, mark and useful area of the special part, name and number of the document proving the ownership, date of ownership acquisition and date of termination of ownership.

## **CONCLUSIONS**

B&H is a complex state, with very weak jurisdictions, divided into two entities and the Brčko District of B&H. The Federation of B&H is an entity consisting of ten cantons. In B&H, there is no legal nor institutional framework, neither at the state nor at the entity level, that would define issues in the field of housing policy in the broadest sense of the word. On the other hand, each of the levels has certain points of contact and a legal framework in which it can act to contribute to the improvement of housing and living in B&H. Most issues in this area are regulated by various laws and bylaws, the adoption of which is mostly in the Republika Srpska under the jurisdiction of the entity, while in the Federation of B&H it is in the joint jurisdiction between the entity and the cantons.

One of the main causes is the legacy of Socialism - in the period of transition (post-war period) a large part of the population „redeemed“ the apartments that were state-owned (socially owned) at very low prices. Thus, the holders of so-called „tenancy rights“ became apartment owners, which means that the need for renting apartments remained relatively small, but adjusted to the needs of the market. Among other factors, one can surely distinguish the consciousness and mentality of the population: as a „home for the formation of a family“, only the apartment that is owned is accepted; real estate is considered as a financial insurance, etc. In addition, a large part of the rented apartments is not duly recorded, nor are formal lease agreements concluded which

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

would give the parties greater security and legal protection. There is also inadequate and unfavorable legal regulation and/or work of the inspection bodies. Laws and by-laws regulating this area (tax regulations, tax incentives, temporary residence and residence, etc.) do not encourage leasing of apartments and/or their proper contractual regulation, as well as registration with the competent authorities. Owners and tenants suffer the consequences of this, which has direct negative social, economic, legal and financial implications.

The broadest area, when it comes to housing, is the area of social housing, i.e. all segments of housing through which the public government intervenes through social policy. It is in this area that the biggest differences between developed and less developed countries occur. There is no comprehensive housing policy in B&H and all that is being done is individual and uncoordinated interventions. In the territory of Republika Srpska, social policy is within the jurisdiction of the entity, while in the Federation of B&H these issues are joint jurisdiction of the entity and cantons in such a way that social policy and social legislation as its integral part can be realized together or separately, by cantons or coordinated by the federal government.

When it comes to the economic aspect of the real estate market, based on macroeconomic indicators and indicators from the real estate market, it can be assessed that the residential real estate market in Bosnia and Herzegovina is in a phase of expansion.<sup>108</sup> The main characteristic of this market in the Federation of Bosnia and Herzegovina according to official data are: a) growth in the number of sales contracts, b) the growth of prices, c) the loan growth and d) the presence of elements of demand inelasticity. In general, changes in the real estate market, such as real estate price movements and especially residential real estate price movements, are important indicators of overall economic activity in the country.<sup>109</sup>

As for interest rates, they continued to have a slight downward trend, which enabled favorable borrowing from banks. In 2019, housing loans recorded an increase of 11.7%, and their share in total retail loans amounted to 19.8%. The average weighted interest rate for housing loans in 2019 amounted to 3.65%.<sup>110</sup> The functioning of the Central bank of Bosnia and Herzegovina as a currency board leaves it a narrow space for action in relation to free central banks. Having in mind access to one monetary measure, impact on interest rates is also different comparing to other Central banks and their possibilities to determinate interest rates through the money market, but on the other hand the functioning of the Central bank as currency board brings the security and stability of the currency needed in the Bosnian context. Also, decision on the use of reserve requirements is not exclusively left to the assessments of monetary experts but is also a political issue.

When it comes to the banking sector in the Federation of Bosnia and Herzegovina, it does not have special housing programs for youth with the exception of two banks. Supply and demand in this sector are formed in accordance with market conditions and

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<sup>108</sup> Central bank of Bosnia and Herzegovina, Financial stability report for 2019, p. 23, available at: [Financial Stability Reports \(cbbh.ba\)](http://cbbh.ba), accessed: 14.12.2020.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid.

*HOUSING MARKET IN BOSNIA AND HERZEGOVINA*  
*with special reference to Sarajevo and Tuzla*

macroeconomic indicators without elaborated programs at the macro level. Therefore, amendments and corrections by the competent authorities are necessary in this sector. Some of the ways of correction are: a) establishing a loan subsidy program as a form of macroeconomic complement to the real estate market; b) implementation of the delivery obligation of European Standardised Information Sheet (ESIS). When making a binding offer, the lender, according to EU regulation, is obligated to give client the ESIS. This standard document is designed to give client the best possible overview of the terms and conditions of the mortgage loan on offer. A similar obligation in terms of content exists under the article 15 of the Law on protection of users of financial services in the Federation of Bosnia and Herzegovina. The application of the standardized ESIS form will increase the level of protection of financial service users with its formality and make them more informed about the terms and conditions of the loan. This would also be important part of reducing information asymmetry B2C (business to consumer) transaction, c) keeping official records on the amount of bank fees by the Central bank or Banking agency of the Federation of Bosnia and Herzegovina.

Analysis of cantonal regulations indicated differences in the domain of direct tax - real estate transfer tax. In the absence of quality macroeconomic management in field of the tax policy, there are differences in tax relief for youth housing. Therefore, the appearance of unfair tax competition is noticeable as a result of different treatment of youth housing. These differences can be corrected in adequate macroeconomic management and coordination. Also, the expediency of the transfer of competencies to the state level in the field of direct taxes is theoretically argued and proposed as a better solution compared to the existing ones. Another suggestion was the abolition of real estate transfer tax and the introduction of real estate ownership tax, which according to some estimates would be a better solution. The real estate ownership tax would be paid annually and would represent a greater convenience for the taxpayer. Certainly, the mentioned proposal would require entity coordination and harmonization in order to avoid negative phenomena such as unfair tax competition.

Having in mind the presented results of the research on the knowledge of tax reliefs, it would be expedient to prepare a guide about tax reliefs when buying the first real estate, which would contain information on the type of reliefs and how to obtain them.

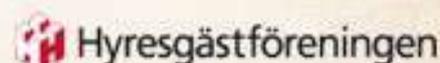
The key shortcomings in addressing youth housing issues through rent are reflected in the lack of control over this market segment. Tax legislation does not provide relief if the tenants are young people. Also, government programs are not permanently focused on this way of addressing the housing issue. One of the possible changes is the incorporation of tax relief through amendments to the legal framework if the tenants are young people with a proactive role of the government in the form of program solutions and assistance for young people who solve the housing issue through rent.

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"The study "Housing market in Bosnia and Herzegovina" is a very qualitative contribution to the specialist literature in the field of housing in Bosnia and Herzegovina. The authors have presented the very complex situation in this field from several different aspects, they highlighted existing problems and gave recommendations for their solution."

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