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REAL ESTATE DEVELOPMENT GUIDE

Case Study:
Office Space

Belgrade 2023.

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Introduction

Congratulations! You have decided to invest in developing an office space construction project.

You have carefully considered various investment opportunities, countries, locations, and property types and have chosen an exciting project in a market full of investment opportunities.

This guide is for you. And it is also dedicated to those who are not yet ready to make a decision to fear the unknown. It is also helpful for those simply interested in a successful project's key features.

The guide aims to clarify the process ahead and to explain every phase, from the investment decision and the construction opening ceremony to the moment the building comes to life. This guide will show you the way and the signs along the road that require your attention. It hopes to convince you that the route is shorter and more straightforward than it may seem and that the task is reasonably achievable.

Our experts, who provide relevant project services, have developed this guide, with their experience and knowledge to shorten and demystify the path into real estate investments. We offer no guarantee that the path is easy, but those among you that are most determined will see it as a worth while challenge.



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Novaston is a unique real estate, asset, and property platform, founded in 2013 as a company with seven employees. We continued our journey, we developed, we grew, and today Novaston covers the following: asset and property management, project and facility management, marketing, PR and digital management, with more than 80 employees overall. Our core business focuses on four pillars: office, retail, logistics, and hospitality. We specialize in all these fields not only in Serbia but also in the region.

With nearly 100 employees, we have built a name in the retail, business, and logistics sectors, as well as hotel management in Serbia and the region. In the past 10 years, we have built a portfolio that includes more than 40 strategic projects, with a total area of 500,000 square meters, which we manage for more than 15 international and domestic clients, including BIG CEE and NEPI Rockcastle, CPI, GTC, Ikea Serbia, Schneider Electric... Our commitment to innovation in the real estate industry is reflected in the standards we set and our strategic and realistic thinking.

As experienced professionals, our team members provide a distinctive blend of international best practices, know-how, and an in-depth understanding of the local market specifics in all these fields.

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Gecić Law is the foremost innovative full-service law firm in South-Eastern Europe which redefines the role that a law firm plays in a dynamic emerging regional market of 150 million people. We build long-term relationships with clients and support their business success by delivering a fresh perspective and meaningful solutions. Through our exclusive membership in two elite global alliances, TerraLex and TAGLaw, our services extend across the globe to serve our clients' needs wherever they may be. In a constantly changing environment, we apply a bespoke approach to resolving the most complex legal challenges across practices, industries, and jurisdictions, creating opportunities and truly exceptional results for our clients.

Our firm has continuously been recognized by the leading global directories. We were rated a "Top Tier" firm by The Legal 500, ranked among the leaders by Chambers and Partners, and declared a "Recommended Firm" by Benchmark Litigation, and we are the proud winner of The Lawyer European Awards for the Law firm of the year: South Eastern Europe 2021 and law firm of the year: Eastern Europe and the Balkans 2020. In 2019, Gecić Law was "Highly Commended" as the second-best antitrust / competition team in all of Continental Europe and was also shortlisted as one of the six best firms in Eastern Europe and the Balkans.

Our team members, with diverse backgrounds and international experiences are extraordinarily well-trained and experienced individuals and their in-depth knowledge of the regional market and political environment builds our unique position to best address our client's most pressing needs.

A grayscale image of a hand pointing towards a staircase of wooden blocks. The blocks are arranged in four steps, with the first block on the left labeled '1', the second block labeled '2', the third block labeled '3', and the fourth block on the right labeled '4'. The hand is positioned as if about to step onto the first block.

DEFINING THE NECESSARY STEPS IN THE PLAN⁴



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The development of an office building construction project is a complex undertaking. In all phases of the project, starting from the moment of contracting and negotiating technical conditions until moving into the office space, it is necessary to provide adequate technical support/coordination. When considering the project development model (shell and core or open-space and ready-to-use), it is essential to keep in mind and align future clients' needs with the possibilities, keeping in mind deadlines and budgets. Throughout the entire design and construction process, it is necessary to set up an appropriate synchronization model to prepare the leased space for its intended purpose, enable its use by the tenant, and obtain all the required permits. The interval from the investor's joining the project to the moment the buyers and tenants are utilizing the space is subject to market pressures. Therefore, the step plan is based on an analysis of future market trends.

Given the complexity of the process, a solid plan and preparation are required. Planning begins with segmenting the project, which is divided into phases to facilitate the oversight and organization of a range of tasks on the project. The following project phases are typical:

- I** **The PRE-INVESTMENT PHASE** includes all activities that precede the decision to start the project implementation, such as: defining the project objective, location analysis, case studies, designing the framework concept of the future facility, and conducting pre-investment studies. It ends with creating the legal basis for constructing a building in a specific location.
- II** **The PRE-DESIGN PHASE** includes obtaining urban permits, elaborating on the future building's concept, and developing terms of reference.
- III** **THE DESIGN PHASE** includes the implementation of a tender procedure to select designers and to develop the project documentation, develop plans for a construction permit with technical control, obtain approval for construction, develop of contractor projects, and secure approval for project documentation.
- IV** **THE CONSTRUCTION PHASE** includes implementing tender procedures for selecting contractors, contracting of works and construction planning, production and procurement of materials and equipment, execution of works, installation of equipment, and testing. All work on the building should be complete by the end of this phase.
- V** **THE POST-CONSTRUCTION PHASE** includes the facility handover to the investor, technical acceptance, obtaining a use permit, using the facility, and other activities during and after the warranty period, property maintenance, and management.



I THE PRE-INVESTMENT PHASE



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Project description

The basis of a successful future model is primarily the precise identification of the intention of the prospective investor and the initial analysis of whether it is following the current and future trends of the local market.

Suppose the future project is “outside the current and potential market trends.” In that case, it is necessary to consider whether it is the initiator of something new (Business Park, Leed, or Breem in Use certified project) and whether this will be a comparative advantage. The approach based on the consultant’s experience in the domestic market and the new idea of the investor, who has already worked on innovative projects in the surrounding markets, certainly gives a comparative advantage and a sound basis for successful implementation.

For example, we will take a foreign investor who plans to invest in real estate with the intention of renting out modern office space and sell part of the units at an attractive location in Belgrade. Accordingly, we provide an example of the project setting and the complete greenfield construction of a new modern office building.

The global health crisis due to the pandemic in 2020 and 2021 affected the global and domestic economies in 2022. In addition, this period saw geopolitical tension, a severe energy crisis, and ramping cost pressures. All of above have

influenced new market requirements that increase the likelihood of the success of a commercial real estate business. Flexibility, the ability to adapt to changes, and the variety of content the development can offer are the primary criteria for deciding on the specifics of the investment property.

Whether a classic or open-space office space, it is necessary to find the perfect balance in the setup and arrangement of the office space to satisfy the employees' needs while effectively controlling the costs of the interior design and the costs of future office space exploitation. Therefore, the first recommendation to the investor is to construct a new business real estate concept with comfortable, informal office spaces where privacy, relaxation, and availability of various amenities can satisfy the tenants' needs. Instead of typical offices, it is currently more profitable to invest in a system of interconnected, diverse zones that allow enough flexibility for the tenants to decide how they want to use the space.

For example, the investor wishes to develop a modern hybrid model in which one segment is intended for rental while the other is for sale.

This model is unique as the segment intended for renting can be registered as a separate structure, while the segment designed for sale (depending on the sales method) can be further segmented, especially if the focus is on selling to several customers as smaller independent units.

This model may also work as two completely independent segments regarding underground garages, separate/shared reception, security/maintenance services, and external appearance. The segment intended for sale requires prior maintenance and usage planning considerations – a property management system that will benefit the future owners of separate units. When purchasing individual units, prospective buyers must agree with the initial project setup and property management system and method of covering the costs of the model.

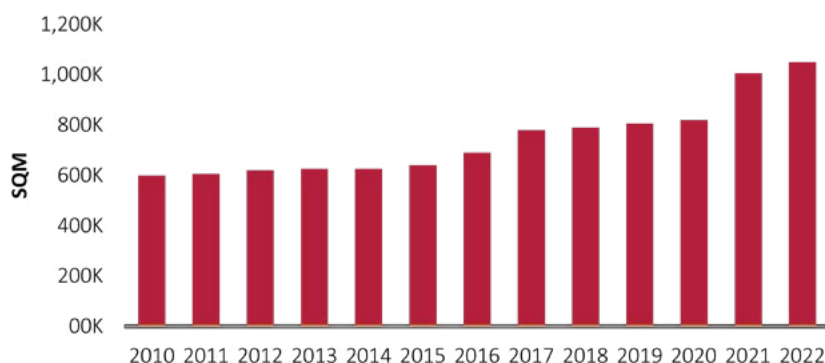
State of the market of commercial property in Belgrade

A detailed market analysis contributes to the success of every project and serves as a basis for the investor's decision-making process and for securing future financing. It must rely on actual market parameters and the expertise of a local consultant well acquainted with future developments and market studies.

The consequences of various crises in recent years have affected the market in Belgrade in different ways. Still, the commercial real estate segment experienced a surprisingly fast recovery, maintaining a positive development trend. The number of newly built and renovated office spaces that opened their doors to new tenants during 2022 is surprising. The supply has increased by 236,000 square meters in the last two years. The total stock of office space in Belgrade during the third quarter of 2022 was approximately 1,054,000 m², with a current prime yield rate of 8%.

On the other hand, the growth in supply follows an increase in demand, especially from international and IT companies. As a result, the vacancy rate at the end of the third quarter of 2022 was only 4.20%. Stronger competition, especially in new buildings, significantly impacts older office space that must catch up with modern development trends, bearing in mind the still-present hybrid work model with many companies and the need to adhere to the principles of environmental protection and the social aspect. More than ever, tenants' needs come first, and new investors' strategic decisions must align with the principles of such a modern market.

Yearly evaluation of A and B class of office STOCK in Belgrade



Location selection

Belgrade has many attractive locations for the construction of office space. The type and purpose of the building dictate the choice of location in line with market requirements, the investor, and future tenants.

The central business district of New Belgrade is the most desirable part of the city when it comes to renting office space. However, the trend of developing a similar concept in the city center and forming business districts in its various municipalities is also noticeable. The type of business and the future purpose of the office space are significant factors in choosing a location because selecting the right environment can significantly contribute to opportunities for recruitment, making business connections with other companies, and gaining access to investors.

Considering the future project and market trends, choosing the right location represents the first major step in fulfilling the “intention” of the investor. The choice of the right location depends on many factors, and the most important criteria include the following:

1. **Accessibility and available infrastructure** – the office building must be accessible to both tenants and their clients, and it must have all the infrastructure necessary for daily operations
2. **Image** – the choice of location is crucial for tenants’ business and should reflect the company’s strategic aspirations
3. **Surroundings** – proximity to other business organizations, residential areas, retail and services
4. **“Readiness” and “capacity” of the location**

If it is an office building, the first decision must be about the location - whether it is within the Central Business District (CBD) or an alternative area supported by all the necessary infrastructure and comparative advantages. The location represents a “real component” of the future intention, and it cannot be replaced and adjusted to the market until the moment of construction, as is the case with other planned components:

1. **Intent to sell the whole building or individual units vs. renting**
2. **Construction in phases vs. full project construction**
3. **Energy certificates**
4. **Class A vs. Class B office buildings (cost/benefit analysis based on the market and availability of sources of financing)**

5. Completion to shell and core level vs. completion to the level of “open-space and ready-to-use”
6. The possibility of future “upgrading” based on an increase in buildability and occupancy coefficients of the plot

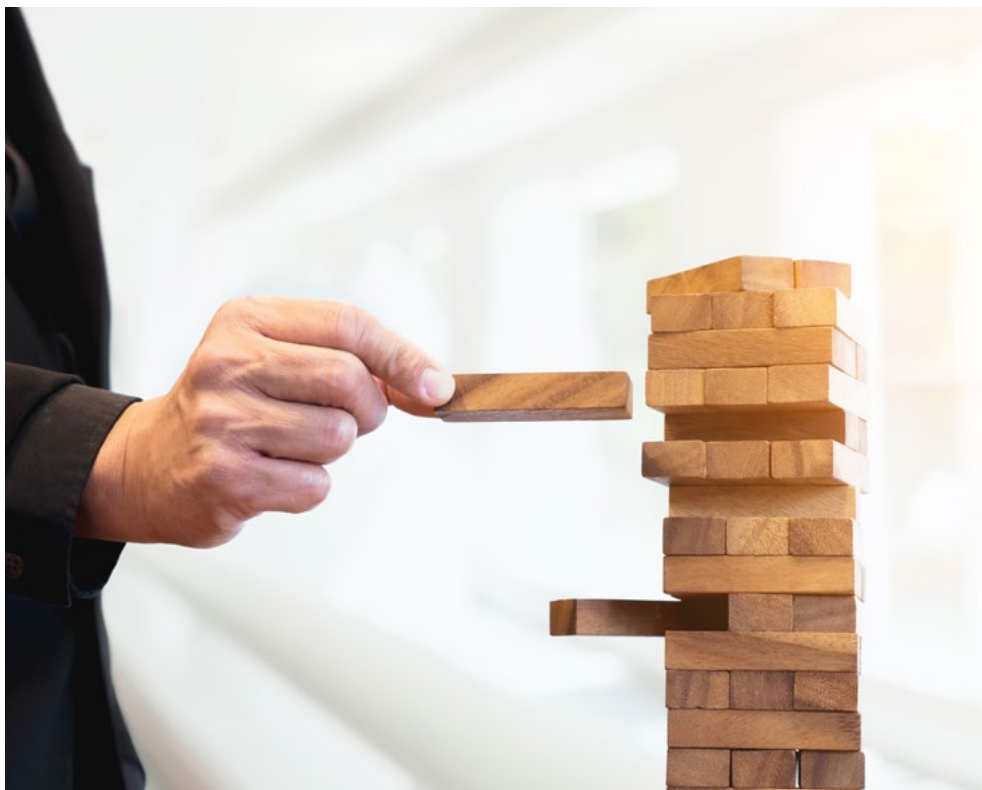
After defining the basis of the project, the first prerequisite for its implementation is the provision of adequate land at the selected location. An analysis of a project’s profitability depends on urbanistic factors, such as the site’s potential for construction.

After securing the land, further project planning involves a detailed evaluation of potential tenants and the nature of their activities. In this regard, the real estate management firm, an expert in commercial real estate development, takes the following steps to assist the investor as a consultant:

1. Prepares a feasibility study and analyzes the development potential of the location for the construction of modern office space
2. Conducts market research and gauges the potential interest of international and local tenants

After conducting the feasibility study and assessing the market research results, the consultant examines the investment opportunities and presents the results to the investor. Upon obtaining the consent of the investor to proceed with the project, the consultant:

- Sets up a long-term financial model that includes the analysis of all financial parameters of the investment and its profitability
- Defines the “tenant mix” and negotiates lease terms to achieve the most favorable outcomes for the investor
- Develops a detailed project business model, the construction, opening, and a preliminary operational and financial management plan for the property





II
**CONCEPT
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Site preparation

Preparing the site for the construction process includes obtaining information about the location and potentially removing existing structures on the future construction plot.

| Location information

This is the initial document to start construction planning. The initial document includes data on the possibilities and limitations of building on one or more cadastral plots, based on the planning document.

By inspecting the real estate cadaster and the information about the location, the investor begins planning the necessary steps for the completion of the project, including:

- Plot purpose and planning basis;
- Construction rules at the location;
- The need to create an urban plan and a parcellation plan;
- Existing infrastructure at the location and conditions for future development of the site;
- Traffic conditions and parking availability;
- Geological conditions;
- Environmental protection conditions;
- Considerations of the Institute for the Protection of Cultural Monuments and other special requirements.

| Removal of structures

If there are structures on the site to be removed, it is necessary to plan and carry out preparatory works that include the demolition of existing structures on the plot, relocation of the existing infrastructure, clearing the terrain, works to ensure the safety of adjacent structures, the security and stability of the terrain, and ensuring the smooth flow of traffic and use of the surrounding space, a permit is required for any demolition or removal of structures at the site. The following documents must be submitted to obtain a permit for the removal of a structure:

- 1) Demolition plan, including technical control;
- 2) Proof of property ownership;
- 3) Specific conditions, especially if the public interest is endangered (protection of existing utility and other infrastructure, protection of cultural property, protection of the environment, and greenery).

After removing the structure or part of it, the site must undergo landscaping and construction waste removal according to specific regulations.

The background of the entire image is a detailed architectural drawing or blueprint, showing various rooms, corridors, and structural elements. Overlaid on this are several drafting tools: a large ruler, a set square, a compass, and a pair of dividers. The overall color palette is a warm, monochromatic beige or light brown, giving it a professional and classic feel.

III DESIGN DEVELOPMENT PHASE



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Project development

The basis for the project execution plan is the TERMS OF REFERENCE. This document specifies the goals and purpose of the project and contains general data about the building (location, purpose, method of use, architectural design, capacities), details the required level of equipment (fit out / shell & core), installations and technological processes, and other specific requirements and standards.

The terms of reference are defined by the investor and represent input information for the project's development.

Project development stages

PROGRAM SOLUTION responds to the submitted guidelines and directives defined by the terms of reference. In this step, the concept of the building is defined and aligned with the investor's requirements.

The approved concept is further elaborated to obtain the necessary permits and approvals within the unified procedure¹, and to develop a project for contracting and executing works².

1 Rulebook on the procedure for implementing the unified procedure electronically ("Official Gazette of RS", No. 68/2019).

2 Planning and Construction Act ("Official Gazette of RS", no. 72/2009, 81/2009 – corrected, 64/2010 – CC decision, 24/2011, 121/2012, 42/2013 – CC decision, 50/2013 – CC decision, 98/2013 – CC decision, 132/2014, 145/2014, 83/2018, 31/2019, 37/2019 – other laws, 9/2020 and 52/2021).



The CONCEPTUAL SOLUTION is a presentation of the planned concept of the facility, with a presentation and listing of all the data necessary to determine the location requirements. It is created to obtain a location permit or as part of an urban planning project to meet needs of urban and architectural development at the location.

The CONCEPTUAL DESIGN is a set of agreed plans to determine the purpose, position, shape, capacity, technical and functional characteristics, and appearance, and tentatively prove the fulfillment of the basic requirements for the building. It is prepared for the feasibility study and to obtain a decision on the approval of construction work.

The DESIGN FOR A BUILDING PERMIT is a set of agreed-upon plans that define the position and capacity of the facility, its technical functionality, spatial design, structural system, dimensions of the main elements of the structure, selection of building materials, installations, and equipment to fulfill location and basic requirements for the facility. It is devised for the purpose of obtaining a building permit.

The PROJECT EXECUTION PLAN is a set of agreed steps to implement construction, installation, and other works. The execution plan elaborates on the details and technical solutions outlined in the design for a building permit and the conceptual design. The execution plan is prepared for implementing construction works and obtaining approval for the project in compliance with fire protection regulations.

Obtaining a building permit

You are one step away from the start of the construction. What you need now is an essential document – the building permit.

To encourage construction and speed up the procedure, starting in 2016, building permits, like all other necessary documents related to construction works, are obtained electronically as part of a unified procedure. **The unified process** represents a set of procedures carried out by the competent body to obtain the necessary documentation for the execution of construction works. The exchange of all documents and submissions in the **unified process is conducted online**. Therefore, the digitization of documents is necessary. In addition to persons specified by the governing act, licensed designers or registered attorneys may digitize the documents. The same person must sign the document submission for the unified procedure using a qualified electronic signature.

| Submitting an application

The application for issuing a building permit is submitted through the [Central Registry of Unified Procedures](#) (CRUP).³ The application is forwarded to the competent local government body.

Along with the application for a building permit, one must submit the following documents:

³ The central record of unified procedures is a unique, central, and public electronic database where data on the course of each individual case, documentation that was attached and obtained in procedures carried out by competent authorities according to requests related to the construction, extension, and reconstruction of buildings, including the adoption of acts, is unified.

- i) the design for building permit,
- ii) extract from the design for building permit,
- iii) proof of ownership of the land,
- iv) proof of payment of the administrative fee for processing the application.

A licensed designer must participate in the preparation of technical documents. All documents must be electronically signed by: (i) the applicant (all printed documents except technical documentation) and (ii) by the licensed designer (all technical documentation).

After submitting the application and accompanying documentation, it is possible to track the processing and determine when to expect the permit to be issued through the CRUP.

| Issuing a building permit

The building permit is issued based on valid location requirements. Based on its decision, the competent authority issues the building permit within five days of the application's submission.

The decision on the building permit is delivered to the applicant and other public bodies that take part in the procedure⁴. As the competent authority is obliged to publish the decision on the building permit online, transparency is one of the essential features of the procedure. The competent authority sends an email informing the applicant of the issuance of the building permit. The applicant may appeal the decision within eight days from the date of delivery. After this deadline, the decision becomes legally binding.

⁴ The competent authority submits the decision on the building permit to the inspection that supervises the building construction, and if the decision was issued by the Ministry, or an autonomous province, the decision is submitted to the local government unit on whose territory the building is being built, for the purpose of information. Also, the decision on the building permit is submitted to the authority responsible for determining the conditions for designing and connecting the buildings to the infrastructure network, for the purpose of information.

The building permit is issued on behalf of: (i) the investor, (ii) the investor and the financier if there is an agreement in place between them. The investor and the authority that issued the construction permit are obliged to permanently keep one original completed copy of the technical documentation based on which the building permit was issued. Based on the building permit, the investor may proceed with the execution of preparatory works. The investor can start construction based on the final decision on the building permit and the notification of works, but at their own risk and responsibility. The investor initiates construction based on the building permit and completed notification of works. The notification of work is submitted to the authority that issued the building permit.

The building permit contains information about: (i) the investor (and the financier), (ii) the building the construction of which was permitted, (iii) the cadastral plot, (iv) any existing building that is being removed or reconstructed, (v) the validity period of the permit itself, and (vi) the documentation based on which the permit was issued.

| Modification of the building permit

If the planning conditions should change during construction which require changes in the design, it is necessary to stop construction and submit a request for a construction permit change. The competent authority must issue a new permit if the changes are not in accordance with the previously issued location requirements.


| The validity period of the building permit

The building permit ceases to be valid if (i) works have not been notified within three years from the date of the decision by which the building permit was issued or (ii) the occupancy permit has not been issued within five years from

the date of the decision by which the building permit was issued, with certain exceptions.

The building permit can be extended at the investor's request for an additional two years if the building's construction is complete, as confirmed by the minutes of the building inspector.





IV CONSTRUCTION PHASE



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The building contract

Having in mind the importance of the contractor's role in the construction of the facility, the building contract is probably the most important at this stage of the project. A building contract's essential elements are usually the work description, price, and deadline. However, the complexity of the construction works and various other issues within the project may affect the scope and the applicable regulations. Thus, the building contract is subject to regulation not only by the **Contract and Tort Act** ("ZOO") but the construction practice in the country has also given rise to **the Special Construction Usances** ("usances"). Usances will always apply unless their application is expressly excluded.

| Negotiations with the contractor

The negotiations usually start with the investor submitting the project documentation to the contractor to prepare the offer. Based on a documentation review, the contractor develops a proposal and submits it to the investor. The proposal for the execution of construction works is usually detailed and comprises a specification of all works (construction works, construction of hydro-technical, electric power, mechanical and telecommunication installations), the fees (per unit or in a lump sum), and the total pricing.

After accepting the offer, the contract is concluded.

| **Signing the contract**

The building contract is concluded in writing, while the offers and technical documents are part of the annex and deemed to be an integral part. Mandatory elements of the building contract are (i) the purpose – of construction work (ii) the pricing, and (iii) the timing of the execution of works. An overview of these and other characteristics and essential provisions are presented below.

i) Construction works

It is important that the contract specifies the type and scope of construction works and the location. The agreement may specify the works by referring to the offer and project documents attached to the contract.

ii) Construction fees

Another critical element of the construction contract is the pricing. The fees are based on the contractor's offer and split by the type of work.

During construction, the design may require changes, and the need for additional work may arise. If applied, the "turnkey" clause means that the agreed fees will include all construction, including unforeseen and additional works. Work performed after the completion of the building does not fall under the "turnkey" clause and is subject to a separate offer.

iii) Changes in pricing

Pricing of works during the term of the contract due to:

Differing circumstances according to predetermined thresholds

Use of materials of greater quality than specified in the contract, provided the investor agreed to the change

Additional works outside the scope of the contract.

The contract may define the immutability of the price regardless of the changed circumstances. Even then, both parties may ask for a pricing change if the costs increase or decrease by more than 10% due to the changed circumstances.

iv) Warranties

An essential aspect of construction contracts are performance bonds, a necessary form of protection for every investor. Bank guarantees are the most frequent instrument of protection that the contractor will perform all works for the agreed price in the manner determined by the contract. It is vital to consider the term of validity of the bank guarantee. To cover risks thoroughly, the investor should insist that it is longer than the agreed timeframe for completing the works. Promissory notes are also often a means of security. These are usually unprotested blank promissory notes, which are simple to execute. It is also possible to include other assurances in the contract, such as liquidated damages for non-performance or delay and collaterals.

v) Obligations of the contractor

The contractor is obliged to inform the investor immediately after completing construction works. The investor and the contractor subsequently execute the handover and the final settlement of fees. A handover record is drawn up.

Suppose the contractor refuses to participate or does not respond to the investor's call to prepare a record of the handover. In that case, the record may be drawn up by the investor alone and delivered to the contractor. The handover conducted in this manner will be considered valid. If it was agreed that the contractor must complete, repair, or revisit specific works at their own expense, they must start those works immediately. If the contractor does not perform these works within a reasonable period, the investor may hire another contractor to complete them at the contractor's expense.

The handover is critical, from then on, the contractor is responsible for deficiencies in the stability and safety of the building. The contractor is liable for all defects appearing within ten years from the date of handover. This period may be extended in the contract but never reduced. For defects in the stability and safety of the facility, the contractor is responsible to the investor and any other facility user (e.g., a tenant). If the investor determines the existence of defects in the building, they are obliged to inform the contractor about it without delay.

The above liability of the contractor also applies to the designer if it is determined that the deficiencies originate from errors in construction designs and plans. Therefore, the investor and buyers are doubly protected. Notably, this liability of the contractor and designer cannot be excluded or limited by the contract. If the parties include such a provision in the agreement, it will be deemed null and void.

vi) Appointment of a professional supervisor

To be fully informed of the works and respond promptly to any potential deficiencies in the performance of works, the contract may stipulate the appointment of a professional supervisor. Their role is to supervise the type, quality, and scope of works, materials, and equipment and compliance with deadlines.

The professional supervision has the right to unhindered access to the construction site and to log entries in the site diary. The instructions and orders of this person are binding for the contractor.

vii) Subcontractors

The contractor may hire third parties to perform construction works. Hiring a subcontractor does not reduce his obligations to the investor and they will be responsible for selecting subcontractors and the quality of their work.

FIDIC contracts

Apart from standard contracts, the construction industry widely applies FIDIC contracts (Fédération Internationale des Ingénieurs-Conseils) created by the International Federation of Consulting Engineers. The Association of Consulting Engineers of Serbia is a member of this organization. These are standard forms of international building contracts.

Due to the wide application of FIDIC contracts, they are accepted by most major international financial institutions. Consequently, these contracts are frequently used on international projects and are very important for international investors. Due to their standard provisions, their advantages come to light if there is a dispute between investors and contractors. Their interpretation is uniform and leaves no room for a divergent approach. Thus, they provide the investor with certainty regarding rights and obligations. This is one of the key reasons for their widespread application.

Monitoring the construction

Successful project management practices are based on integrating the design and construction processes, which includes an improved information flow between the various project participants through the several phases of project implementation.

Tender procedures and their implementation are a broad and complex topic as the process differs depending on the type of project and the investor's requirements.

When implementing tender procedures, one should evaluate designers and contractors based on an assessment of the quality of work they may bring to the project. Decisions should not be solely based on the lowest price and information about potential bidders' past performance.

The development of the project management methodology depends on the needs of the investor, the choice of model between S&C and fit-out development of the building or its parts, the number of tenants and their coordination, and the strategic objective of property management of the future building.

During the construction of the facility, it is necessary to hire a team that will monitor the key segments of the entire process.

1. Professional Supervision

Professional supervision⁵ is provided from the initial phase of construction, which includes the execution of all processes in accordance with the law and lasts until the end of construction, which includes the execution of all processes and the issuance of a permit.

The supervisory body monitors and controls the performance of work on the construction site, as well as in places where other work is performed for the purpose of constructing the building.

The professional supervisory authority records, signs, and certifies all observations in the site diary, in accordance with the regulation governing the content and manner of keeping the site diary.

2. Health and Safety Coordinator

The investor or the investor's representative is obliged to appoint one or more health and safety coordinators along with one or more coordinators for monitoring the execution of the process when two or more contractors are planned or present at the construction site at the same time. Any legal entity carrying out its processes is part of the project.

3. Design Supervision

At each stage of the construction of the property, the investor may require design assistance. The supervisor must meet the requirements for the design of the specific type of structure. Adopting this practice is recommendable, given the frequent requests for changes at the wish of the investor or various users/tenants in the S&C and/or Fit-out investment models.

⁵ ("Official Gazette of RS", no. 22/2015 and 24/2017); Rulebook on the content and manner of conducting professional supervision. To carry out professional supervision, the investor appoints a person who meets the requirements prescribed by law for the responsible designer or responsible contractor, depending on the type of work that is subject to professional supervision (hereinafter: supervisory authority).

4. Coordinator for ESG measures and LEED / BREEAM certification

To enable the adequate implementation of ESG measures, primarily energy efficiency and sustainability in construction, it is necessary to appoint an expert to control the fulfillment of these measures.

The coordinator should be appointed in the design phase to define the elements for certification and monitoring during the project's construction. Adequate monitoring of the application of measures is a prerequisite for further LEED / BREEAM certification, which is one of the elements of sound and responsible practice and adds value to the investment.

5. The Project Manager

Depending on the contract model, the project manager, construction manager, or FIDIC engineer may have the leading role. The project manager has a demanding role and undertakes managerial processes, including coordinating and solving numerous concerns during construction.

The legal aspect of a property under construction

The project aims to complete construction efficiently and transfer the property through sale and lease. The question is, what is the legal treatment of the property before it is completed?

The legal aspect of real estate that is still under development is unique as the investor may not register his right of ownership in the real estate cadaster.

So, what does the investor have? While the investor only holds a building permit, they have a set of rights arising from the building permit. In this case, the following options are available:

| **Transfer of building permit rights**

First, the investor can transfer all rights from the building permit to a third party that will be the new investor.

However, in order for this transfer to take place, one must sign a contract for the transfer of property on the land that includes the building plot and emphasize that the rights from the building permit are also being transferred. This contract must be certified by a notary public in the form of a publicly certified (solemnized) document or notarial deed.

In this case, the new investor is obliged to submit a request to the authority that issued the building permit to change the decision on the building permit, along with a copy of the contract. The new investor is obliged to submit the request within 30 days from the date of the conclusion of the contract. After the competent authority issues a decision approving the request, it will be considered that the new investor now has rights over the building that is under construction.

| **The transfer of ownership of a property under construction**

Although the transfer of ownership during the construction of the property may not be fulfilled as property rights registered in the real estate cadaster, the building under construction can be the subject of a contract of sale.

According to the contract on the sale of the property and all units while under construction, the investor must complete the building within a certain period and allow the buyer to take ownership without delay. This contract may contain an intabulandi clause by which the investor gives unconditional consent to the buyer to register as the property owner in the real estate cadaster. The contract may also stipulate the obligation of the investor to issue it to the buyer after construction is completed and the purchase price paid. One can ensure the public character of a sales and purchase agreement on a property under construction

by entering into a pre-notification on the land where the building is under construction, achieving priority registration on that real estate. It is necessary to submit the following to register a preliminary note:

(i) a valid building permit; **(ii)** technical documentation on the basis of which the building permit was issued; **(iii)** a certificate of notification of the necessary work; **(iv)** the sale and purchase agreement.

The registration of property rights based on a pre-notification must be justified by submitting a permit, where instead of the investor, the buyer, in whose favor the pre-notification was also registered, will automatically be entered in the real estate cadaster as the owner of the property right. In addition to the permit, it is necessary to submit the *clausula intabulandi*.

| A property under construction as a means of collateral

The investor may use the property under construction as collateral. The building can be the subject of a mortgage that secures a loan agreement or other commercial obligations of the investor. A mortgage on a building under construction, or its parts, is established based on a pledge statement or a mortgage agreement certified by a notary public through a notarial deed. A mortgage is registered in the cadaster on the plot where the building is being built based on a pledge statement or mortgage agreement and a valid building permit. The automatic mortgage transfer on the property will occur on the day the property is registered in the real estate cadaster, provided that the additional utilities are specified in the pledge statement in the mortgage contract.

Upon maturity, the debt is collected in one of the following ways: (i) through an enforcement procedure (ii) an out-of-court sale procedure, or (iii) by concluding a subsequent contract - which, instead of settling the claim, transfers the rights

over the subject of the mortgage. The buyer who acquires the rights transferred through the activation of the mortgage, acquires the construction right that the investor has and the possessions included in the property under construction. Based on the acquisition of the right to further construction as described, the new owner can request an amendment to the building permit so that the holder can complete the construction of the building.



V

POST-CONSTRUCTION PHASE



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Issuance of the occupancy permit

It is now time to crown your efforts by obtaining the necessary occupancy permit. Below is a brief overview of the procedures and required documentation:

| What is an occupancy permit and why is it important?

In addition to the building permit, all buildings must get an occupancy permit.

The occupancy permit confirms that the building was completed according to the building permit, plans and technical documentation, and relevant regulations that it is adequately equipped, has all authorizations from competent authorities and that the utility infrastructure was constructed in a lawful and functional manner.

Through this process, the occupancy permit guarantees that all mandatory construction rules have been complied with.

Without the occupancy permit, it is not possible to register the property in the real estate cadaster.

In extraordinary circumstances, the property can be used without an occupancy permit if the competent authority did not issue an occupancy permit within five working days from the application's submission date. Provided it was accompa-

nied by a finding of the commission for technical inspection, which has determined that the building is fit for use and a proposal that it can be used to issue an occupancy permit, nor did it decide to refuse to issue an occupancy permit by decision.

| Who is authorized to submit a request?

The occupancy permit may be issued at the request of the investor, financier, or entity pre-recorded in the real estate cadaster to acquire a building under construction or its part.

| What documents do I need to get an occupancy permit?

The request and all the necessary documentation are submitted through the Central Information System for electronic processing within the unified process of issuing building permits ("CIS"), which can be accessed via <https://ceop.apr.gov.rs/eregistrationportal/>.

The following documents are submitted along with the request:

- The construction plan with confirmation, signed and certified by the investor, the supervising body, and the responsible contractor, that the construction corresponds to the design if there was no deviation from the project execution plan, or the as-built design of the constructed facility under regulations governing the content of technical documentation⁶;
- Conceptual design with a statement from the investor, professional supervisor, and responsible contractor that there are no deviations from the conceptual design for facilities for which the governing law does not prescribe the creation of a project execution plan;

⁶ Rulebook on the content and method of technical inspection of the building, the composition of the committee, the content of the committee's proposal on determining the suitability of the building for use, monitoring the soil and the building during construction and use, and minimum warranty periods for certain types of buildings.

- Report of the commission for technical inspection, which determines that the property is suitable for use, with a proposal for issuing an occupancy permit;
- Specification of units;
- Decision on determining the building number;
- Elaboration of geodetic works for the constructed building and the units of the property (submitted for review to the land surveying authority and cadaster before issuing an occupancy permit. The time needed to review the elaboration is in addition to the prescribed timelines for issuing the occupancy permit).⁷ Elaboration of geodetic works for underground installations (submitted for review to the land surveying authority and cadaster before issuing an occupancy permit. The time needed to review the elaboration is in addition to the prescribed timelines for issuing the occupancy permit);
- Certificate on the energy properties of the building, if required for the type of building
- Proof of payment of the administrative and CIS fees.

The applicant must independently obtain all the documentation mentioned above and submit it to the competent authority because it does not have it, nor is it intended to be obtained ex officio.

| Technical inspection of the building

The technical inspection of the building is central to the procedure for issuing an occupancy permit. Whether the building will receive the occupancy permit depends on it passing the technical inspection, which every investor must conduct at their own expense. It is important to emphasize that a technical inspection of the building or part of it may not be carried out, nor can usage be approved if the building, or part of it, was built without a building permit. The technical inspection includes control of compliance of the performed works with

the building permit and technical documentation and with technical regulations and standards related to certain types of works and construction products, such as the quality of materials, equipment, and installations used during construction.

The commission must keep a record of the technical inspection, determining whether the building, the construction phase, or part of the building is fit for use. The technical inspection report is delivered to the investor. If defects and irregularities are found regarding the property, or if there is doubt about the quality of works, and if the conditions for issuing an occupancy permit are not met during the inspection, the commission can issue the following:

- An opinion that the use of the facility can be approved after the defects and irregularities found are rectified or before that, depending on their nature and the necessary security measures to be taken when performing subsequent works to remove the observed defects and irregularities.
- A proposal to demolish or remove the building if it is determined that the defects and irregularities in the building cannot be rectified or that there is an irreparable danger for the stability of the building and the health and safety of people, traffic, or neighboring buildings;
- A proposal to test the quality of materials, installations, and equipment if the technical inspection raises doubt about their quality.

The commission proposes whether an occupancy permit should be issued based on the determined suitability for use. The technical inspection report and proposal on usage suitability are signed off by the head of the committee and all its members. The report must be positive to obtain an occupancy permit.

| What does the supervising authority check when deciding on a request?

The authority will check the fulfillment of the formal conditions for issuing an occupancy permit, determining its competence to act in a specific case, whether the applicant is a person authorized to submit a request, whether the request was submitted in the prescribed form and whether all the necessary documentation and proof of payment of the administrative and CIS services fees have been included.

If the competent authority determines that the formal conditions have been met, it issues a decision on the use of the facility, the occupancy permit. It delivers the decision on the use of the facility to the applicant within three days from the date of its adoption. For information purposes, the decision is delivered to: the financier (if the building permit also applies to them), the construction inspection or other holders of public authority.

| Registration of property rights after obtaining an occupancy permit

The competent authority that issued the occupancy permit, submits ex officio the following documents to the Land Survey Authority and the Cadaster within 24 hours from the validity of the occupancy permit, via the CIS:

1. Occupancy permit;
2. Elaboration of geodetic works for the completed building and all units;
3. Elaboration of geodetic works for underground installations.

The occupancy permit for the Land Survey Authority and the Cadaster serves the following:

1. Confirms the building number, if the occupancy permit refers to a new building, and a decision on registering ownership rights on the building, referring to specific aspects of the building, within five working days from the delivery of the occupancy permit;
2. Makes available to the investor the decisions on the building number and the registered right of ownership without delay, and to the competent administrative body for information purposes;
3. Within five working days from the delivery of the occupancy permit, **it shall be entered into the utility lines cadaster.**

If, after issuing the decision on the occupancy permit, the Land Survey and Cadaster Authority determine that there is a discrepancy between the data of the issued decision on the occupancy permit and the data in the geodetic work report, it will order the reconciliation of the data before registering ownership rights to the building and its units. The Land Survey and Cadaster Authority informs the authority responsible for issuing the decision on the occupancy permit immediately after identifying the inconsistency of the data, which officially initiates the procedure and reconciles the data based on the geodetic report submitted by the investor and issues a new decision on the occupancy permit.

Sale of property units

The sale of separate units is carried out by concluding a sale and purchase agreement of the property and by changing the holder of ownership rights. With the agreement, the investor undertakes to transfer the right of ownership to a third party, which shall pay the agreed purchase price.

This agreement produces two types of actions: (i) the agreement has a private character as the rights and obligations stipulated in the agreement relate only to the contracting parties, (ii) based on this agreement, property rights are acquired which is of public importance.

This agreement is formal, and for its validity, a mandatory written form and certification in the form of a notarial deed is required.

The essential elements of the agreement, without which the agreement cannot exist, include the purchase price and *clausula intabulandi*. We will further elaborate on these key aspects and other essential provisions in the sale and purchase agreement.

| Subject-matter of the sale and purchase agreement

The agreement must clearly indicate the subject matter of the sale which is a separate unit of the property. It is necessary to indicate the registration number in the real estate cadaster, the address where it is located, the area and designation of the cadastral plot and the municipality where the property is located within which the separate unit is located.

Data on the subject of sale and purchase must correspond to data from the real estate cadaster. The basic condition for the sale itself is that the seller is

registered in the real estate cadaster as the owner because only the owner may transfer these rights. Also, it is vital that the data from the cadaster does not indicate that the unit on sale is encumbered so that it may not be sold. For example, the existence of a court case or a temporary measure prohibiting disposal. The existence of a mortgage on the property is not an obstacle to the transfer of ownership, but the mortgage will remain valid even after the change of ownership.

| Price

The sales and purchase agreement usually specifies the purchase price and the timeline for payment. A price provision will be valid if the price is determinable, but this may cause difficulties in its payment. The price may be agreed in dinars or foreign currency. Payments for the purchase of real estate are among the rare exceptions where payment may be made in foreign currency. The price can also be paid in cash, but only up to the amount of 10,000 euros.

A down payment can also be stipulated in the contract. The purpose of the down payment is to safeguard both contracting parties that neither will withdraw from concluding the agreement. If it is agreed, the deposit will mean that if the seller (investor) withdraws from the contract, he is obliged to pay the buyer double the amount of the received deposit, while in case the buyer withdraws from signing the contract, the seller can keep the received amount of the deposit (deposit as a cost of withdrawing from the agreement).

| Clausula intabulandi

Clausula intabulandi is a provision in the agreement by which the seller gives consent for the buyer to be registered in the real estate cadaster as the owner

of the property right, without his further consent or presence during the registration. It can be part of the agreement itself, which is more common in practice, but it can also be annexed in a separate document. Clausula intabulandi is a formal document, which means that it must be formalized by a notary public.

The effect of clausula intabulandi may be conditioned by the payment of the purchase price, in which case the clausula intabulandi will be eligible as a means of registration in the real estate cadastre only if it is accompanied by a certified confirmation from the seller that the price has been paid.

| Liability for defects

Property that is the subject matter of purchase and sale may have legal and material defects.

Legal defects concern claims of third parties on the property which prevents the buyer from its unhindered usage or further sale. In such a case, the seller is obliged to remedy these defects and provide the buyer with legal support in the event of a dispute that the buyer may have with a third party.

Material defects are present if the unit is not fit for regular use, or does not contain the features that have been explicitly or tacitly agreed upon. In case of the existence of material defects, the buyer is entitled to demand from the seller to remedy them, to a reduction in price, and to terminate the agreement with a claim for damages. The agreement may limit or exclude the right to point out the defects, but this will not have an effect in relation to those defects that the seller knew about at the time of sale and did not communicate to the buyer. The agreement may also exclude the right to terminate the agreement due to the existence of defects, but the buyer may demand that they are remedied or a price reduction.

Preliminary agreement

In practice, it is often the case that a preliminary agreement is concluded, especially in situations where the purchase of real estate is financed with funds from a loan.

The purpose of the preliminary agreement is to oblige the parties to conclude the master agreement within the agreed period. To produce the legal effect and have judicial protection, the preliminary agreement must have the same form and essential elements of the master agreement. A down payment is usually agreed with the preliminary agreement.

Leasing separate units

The lease begins with the conclusion of the lease agreement, which must be concluded in written form. With a lease agreement, you give a specific person the right to use office space (the subject matter of the lease), during a definite or indefinite period (the term of the lease) and for that you ask for compensation in the form of rent (the amount of the rent).

This determines the essential elements of the lease agreement that must be included in the agreement. We will guide you here through these and other important provisions of the agreement:

| **Subject matter of lease**

The subject of the lease contains information about the commercial space that is being leased, including the registration, area, floor, position but also the location of the building itself, including the address and cadastral data. Specifying the subject may also include instructions on how the common space within the facility and the parking lot are used.

In addition to the above, the subject of the lease may also contain information about the purpose of the office space, so that you can condition the tenant to use the rented space exclusively in accordance with that purpose.

| **Term of lease**

The lease can be contracted for a definite or indefinite period. If the lease period is defined, it automatically terminates with the expiry of that period. If the lease period expires, and the tenant continues to use the space, and there is no opposition from the lessor, it will be considered that the agreement was concluded for an indefinite period.

| **Rent and other expenses**

The agreement specifies primarily the rent amount and the method of payment. The rent may be calculated, but also paid in foreign currency, and the agreement regulates how it will be invoiced and the deadlines for its payment.

In addition to the rent, other fees that the tenant pays for the use of the space can be agreed upon, including the use of parking facilities, maintenance of the office space and building, utility services, and other fees.

The right to rent is a right that you can use freely, including as a means of guarantee in other transactions.

If you are in the VAT system, you are obliged to declare VAT for rent and other expenses. If you are not in the VAT system, rental income will be taxed through corporate income tax.

| Handover to lessee

The handover of the premises is the moment from which the lease period begins. An important detail when handing over the space is to prepare a report, which confirms the current state and potential defects of the space. Proper documentation of defects can be extremely important when determining liability for defects that appear during the lease term.

| Liability for defects in the office space

The responsibility for visible and invisible defects in the business premises, as well as the obligation to repair them, is generally borne by you as the lessee, except for those caused by the lessor. This responsibility can be excluded by the agreement and transferred entirely onto the lessee. However, the lessee will have the right to claim compensation for the work he carried out to remove the defects, if they prove that the lessor had prior knowledge of them.

| Works on adaptation of the space

The lease agreement can specify the necessary work that must be conducted for the office space to serve its intended purpose. This includes partitioning or

furnishing the office. The parties must agree on who will perform the remaining work and at whose expense.

| **Means of security**

The contract can provide for various means of security for the performance of the tenants' obligations. These include promissory notes, depositing an agreed amount or a bank guarantee. The contract stipulates the conditions and method of their activation, and the obligation to give them back at the end of the lease.

| **Insurance**

The obligation to obtain insurance may be stipulated for both contracting parties. Risks that can be insured are fire, explosion, flood, lightning strike, storm, hail, spilling water from installations, floods and earthquakes, burglary, theft, and banditry, protests, and demonstrations. While having an insurance policy can be beneficial for you in terms of risk protection, a tenant's insurance policy provides compensation for potential damages that the tenant may not be able to cover on their own.

| **Sublease**

The lease agreement may stipulate the conditions for subleasing the office space or entirely exclude the possibility. This issue is important to address, bearing in mind that the tenant will have the right to sublease if it is not limited or excluded in the agreement.

In case there is a right of subleasing, you will not have a direct relationship with the subtenant, but you will have the right to directly demand from the subtenant

the amount that he owes to your tenant in case of non-payment of rent.

| Termination of lease

The lease ends with the expiration of the agreed lease period or by termination. It is important to agree in which cases each of the parties has the right to terminate the agreement and to specify the notice period. Mutual obligations that existed before the termination do not end with the termination of the agreement, and the lessee will be obliged to compensate, for example, all unpaid rent even if the agreement is terminated and the space is vacated.

| Return of leased space

As was the case at the beginning of the lease agreement, when returning the leased space, it is necessary to make a record of the handover. It is important to record, in the presence of the tenant, the condition of the business premises and state all damages and defects, and all the remaining belongings of the tenant that have remained.

Real estate management

It is easy to misconceive commercial asset management and the importance of the role it plays in asset performance. The importance of skills and knowledge when choosing the right person or company to manage the property is also often underestimated. The success of the concept and the sustainability of the entire business largely depends on the selection of a good manager in terms of “the right person at the right place”, especially considering the focus on maximizing the investor’s profit.

A detailed and complete commercial property management plan includes a precise and clear specification of tasks for all managers and their team members

who work on management tasks every day. Commercial real estate is like a living organism, and it continuously evolves. Tenants want information on a daily basis, the investor wants to know what is going on, and the daily events never cease. That is why it is necessary to set up systems, standards, and strategies that will be worked on daily and that adapt to every situation that arises.

The property management service is not just a “business” that is sold to the investor but includes the provision of the most important strategic service that the facility manager offers to the investor as his client along with his investments. Thus, the Asset Manager is the equivalent of a stockbroker, because only they know how to get the best out of the asset over time, choosing the best management practice that consists of integrating the large amount of data that the office building produces and processes enhanced by strong analytics.

Every investor wants a property that is under strict control from many different perspectives. The most important things to control in the provision of specialized property management services are:



Rent must be collected on time and in accordance with the lease agreements. Critical dates are crucial to the process. Collection control, escalation of rent, adjustment of contractual conditions in practice, completion and initiation of contractual obligations, and collection of arrears, are just some of the mandatory control points of the entire process. Balancing between the needs of the lessor for the contracted income and the possibilities, abilities, and performance of the tenants and ensuring the profitable business of both parties with timely alignment with the conditions dictated by the market at a given moment, is one of the most important tasks of every commercial property manager.

Investing in a strong, high-quality, sustainable, cost-effective, and accurate information system for property management and setting up a process system for administrative management is of crucial importance for the business in commercial real estate.

It implies investment in software, trained staff, and all other resources that this type of management requires. For an investor engaging in this type of business, it is incomparably more profitable to hire an external company, such as a property manager who has developed a management system for other facilities, and which can be easily applied to the new management by simply expanding and adapting to the specifics of the new investor's requirements. This leaves the investor with available funds, but also time for other types of investment while ensuring the certainty that he has dedicated management tasks to a company that employs a large team of experts who possess specific "know-how" and has developed a stable and flexible system, open to the creation of specific content for all individual investors.

All managed property leases must be interpreted and understood to achieve a balance between tenants and leasing strategy.

The leasing strategy is a key element of commercial property management, especially when the property has multiple rental units and it is necessary to achieve the best rental price for all tenants. All businesses that strive for success need a goal and a plan to achieve it because success is something that must be planned and measured. Each contract has its own specifics and clauses that change over time, therefore each obtained Tenancy Schedule is taken with a grain of salt and strictly controlled. The possibility of error is high, and every minuscule error can have a massive impact on the quality of the

management process. Standard leases and lease incentives appear in many different forms and relate to the property owner and the property itself. Also, choosing the right type of leasing strategy based on industry standards and market conditions affects the competitiveness of the property and increases the chances of renting it.



Service costs must be controlled at all times and on a daily basis when it comes to larger projects. This includes the necessity of keeping a budget for income and expenditure. Financial controls and strategies are needed when it comes to managing quality assets. Code compliance refers to basic services, operational issues, and approvals given to the property owner for day-to-day operations. One of the aspects that must be achieved is that the operating costs of the property are in balance with the costs of other properties of a similar type in the location. Excessive operating costs must not be allowed, as this will affect the occupancy of the property itself and increase vacancy factors.



Tenants will affect the exterior and interior design. Therefore, it is necessary to hire an expert to help the owner with the rules, regulations, and trends that apply to design and align building compliance.



Vacancy management is also an integral part of Property Management services. If there is a vacancy, it should be filled quickly as per the most realistic market conditions. Some properties stay vacant for a very long time due to the lack of a proper strategy. It is necessary to develop a free space leasing strategy with defined specific target markets, especially considering the changed concept of commercial real estate that has been imposed by the epidemiological crisis or current market trends.

- ▼ **Communication with tenants should always be maintained on a formal as well as an informal level.** Good communication with tenants reduces the risk of empty space in any property. The ability to negotiate with tenants requires experience and a special approach.
- ▼ **Technical and investment maintenance of the building in order to preserve the vitality, functionality, and competitiveness of the real estate.** In order to gain a broader view of the investment and raise awareness of all possible levels of costs both on an annual basis and at every 10-year level, the focus needs to be shifted from savings (an approach characterized by numerous failures) to detailed and analytical cost planning at the very beginning of construction. With this approach, any form of unexpected additional costs is minimized. Well-planned and designed maintenance procedures will keep the facility systems functioning and renovated. Additionally, if the facility manager has the required expertise surrounding their work methodology and he is able to monitor adequately the facilities, the property will have a long and quality life cycle.

Many people believe that property management is more important than the property itself. Especially for real estate investors who own multiple properties in different markets. A property manager actually means a passive investment in real estate – a good manager and his team are worth their weight in gold. An investor who has dealt with an irresponsible and unreliable property manager is familiar with all the problems and additional costs that this entails. A good property manager will do everything to carry out exceptional management to benefit the investor which makes it one of the most important aspects of owning a property.

VI ESG ASPECTS



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ESG aspects in real estate construction and management

Investors in the real estate market have been applying the concept of responsible business for quite some time, and one of the reasons refers to the early development of sustainability certificates in real estates along with the existence of comparable data sets. The long-term nature of real estate investments has increased the focus on ESG principles, which with the adoption of the EU's [Fit for 55 package](#) have become extremely important.

ESG factors are: E (environmental), which represents environmental protection; S (social) which represents social responsibility and; G (governance) which represents responsible corporate management.

Proposals for ESG activities for real estate construction and management are as follows:

I. E:

Studies show that construction and real estate management account for as much as 40% of global greenhouse gas emissions. Construction materials such as cement and steel contribute significantly. Hence, the proposal is to reach carbon neutrality on a global level, in accordance with the goals for the year 2050 prescribed by the EU's Green Deal.

Adoption of environmentally acceptable construction practices (E)

One suggestion is to use alternative building materials such as wood, which is much more environmentally friendly due to carbon sequestration. Compared to the average steel and concrete building, which emits 1,000 to 2,000 metric tons of carbon dioxide during construction, a wooden building will eliminate emissions by sequestering 2,000 to 4,000 tons of carbon dioxide. Chemically treated

wood has strong fire resistance characteristics and performs well in earthquake resistance tests.

In addition to construction methods, investors can contribute to environmental goals by reducing the use of energy from conventional sources in buildings in favor of energy from renewable energy sources, relying on the use of sustainable materials and green construction methods, as well as monitoring waste disposal and water use.

| Effective risk and cost management (E)

Due to climate change, floods, fires, and other sorts of extreme weather conditions are becoming more common. Hence, it is very important to effectively manage risks and costs as this can improve the resilience of your investment. Apart from extreme disasters, maintenance costs have also increased drastically. For example, energy consumption during hot summer months due to the use of air conditioning.

One of the ways to reduce risks and costs is the timely identification of the property portfolio's exposure to risks associated with climate change and adequate planning of solutions.

II. S:

The Covid-19 pandemic has further changed the way real estate investors consider social factors such as the health and well-being of tenants, given the fundamental changes many societies have experienced in terms of how we use residential, commercial, and retail space.

| Construction of real estate with regard to tenants' health (S)

An excellent solution for social responsibility would be the construction of adequate ventilation and air filtration solutions, which would contribute to the bet-

ter health of the occupants of the property. In addition, the construction of spaces with high ceilings contributes to better air circulation, and thus less pollution. Moreover, allocating at least 50 square feet of space per person and measuring airflow and pressure would greatly improve the quality of real estate use. Building gyms in business and residential complexes is another potential option for improving the well-being of tenants.

| Relations with the local community (S)

During the construction of the facility, investors can undertake several activities that help the community on the building site. One example is the employment and training of the local population involved in the construction of the project. Other options include the implementation of measures to reduce noise during construction. Some of the key measures is the development of parks, playgrounds for children or summer theatres which will be used by the community after the end of the construction phase.

III. G:

Conscientious corporate governance covers issues such as transparency, practices related to the prevention of corruption and money laundering, and payment of taxes. In addition, responsible management refers to the company's values and ethics.

| Transparency during construction (G)

A proposal for responsible management would be the company's transparency in decision-making and board selection procedures, especially to all other stakeholders involved in the construction and management of the property. Additionally, insight into the company's ownership structure, through reports, would be

a suitable example of conscientious corporate governance, which would instill greater confidence in future customers and investors.

Creation of responsible business policies (G)

In ESG, measures that contribute to responsible corporate governance, investors can create and implement policies that reduce the negative effects of financial, environmental, health, and safety risks. Additionally, the responsible supply chain policy is extremely critical, in order to stimulate responsible material suppliers who also apply responsible policies and complete the system of responsible business.

Benefits of applying ESG:

ESG in the real estate sector has become inevitable, especially when investors consider real estate investments, as well as potential buyers when buying/renting real estate. In addition, energy-saving buildings and the goal of zero carbon emissions will become the new norm everywhere in the world, and the sooner investors start implementing ESG standards, the easier and less costly it will be later.

ESG certification:

It should be emphasized that there is also the possibility of certification of efficient and environmentally friendly buildings. In the world of real estate, certification has been active for the past 30 years. There are numerous international certification systems and they all work on a similar principle. Each of these systems has clearly defined criteria on its web pages that a company must meet in order to become certified.

LEED “Leadership in Energy and Environmental Design” and BREEAM “Building Research Establishment Environmental Assessment Method” are the two most

recognized environmental assessment methodologies used worldwide in the construction industry today. Both methods have advantages and disadvantages, different philosophies and business models, and when choosing certificates such as LEED or BREEAM, consideration must be given to project type, location, as well as local regulations and additional LEED / BREEAM construction-related costs.

Many companies around the world, which deal with real estate, have special departments where employees deal exclusively with the preparation of facilities for obtaining these certificates.

For a simpler understanding, we will explain how the certification functions. In the certification process, certain criteria are evaluated such as: sustainable construction site, efficiency in water consumption, energy and air pollution, materials and raw materials, quality of living conditions during construction, and innovativeness of the project. In addition, each certification system is divided into different rating systems such as: certification for new constructions, certification for business facilities, certification for the core and shell of the building, certification for the existing building, certification for houses, and so forth.

ESG certification is essential in the world of real estate and it is used to attract investors as well as customers.



NOVASTON

Marija Urban

Director of Business Planning & Financial
Operations Management Department
marija.urban@novaston.com

Nikola Đogatović

Commercial Services Executive Manager
nikola.djogatovic@novaston.com

Aleksandra Apostolidis

Project Manager
aleksandra.apostolidis@novaston.com

Milica Đoković

Project Manager
milica.djokovic@novaston.com

GECIĆ | LAW

Miloš Petaković

Senior Associate
milos.petakovic@geciclaw.com

*“Whatever good things we build,
end up building us”*

Jim Rohn



NOVASTON

BELGRADE

Vuka Karadžića 7A

11000 Belgrade, SERBIA

+381 11 785 7076

office@novaston.com

www.novaston.com

GEČIĆ
| LAW

BELGRADE

Nikole Spasića 2

11000 Belgrade, SERBIA

+381 11 40 43 570

office@geciclaw.com

www.geciclaw.com