

Action plan and implementation priorities

Šibenik brownfield urban regeneration

April 2020



Report prepared in collaboration with:



This document includes the opinions of Arup and the team, for the sole purpose of making development proposal for Batizele site in Šibenik. Therefore, the use of this documentation is limited exclusively to this purpose and to none other. The use of these works outside this described scope, will not be responsibility neither total nor partial on the part of EBRD nor of Arup. None of the contents of this report confers or pretends to confer any benefit or the right to claim to third parties.

The work developed is informed by the data collected during the Analysis and diagnosis which was based on available information. The sources used include public sources, regulations and current legislation, Arup previous projects, documents provided by the City of Šibenik and BDO and information obtained from meetings with the City council. We understand that the degree of detail and knowledge acquired is sufficient for the development of the tasks commissioned "Šibenik brownfield urban regeneration". When it has been possible, the information provided has been validated and if it has not been possible, it has been contrasted with alternative sources and/or previous experiences.

Action plan and implementation priorities

Šibenik brownfield urban regeneration

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Introduction

INTRODUCTION

Introduction

The EBRD recognizes that strategic and integrated re-use of under-utilized land holdings and infrastructure systems in or close to urban centers, whether publicly or privately owned, can be instrumental in driving improved quality of life and other social outcomes, in parallel with delivering enhanced economic opportunities and activity.

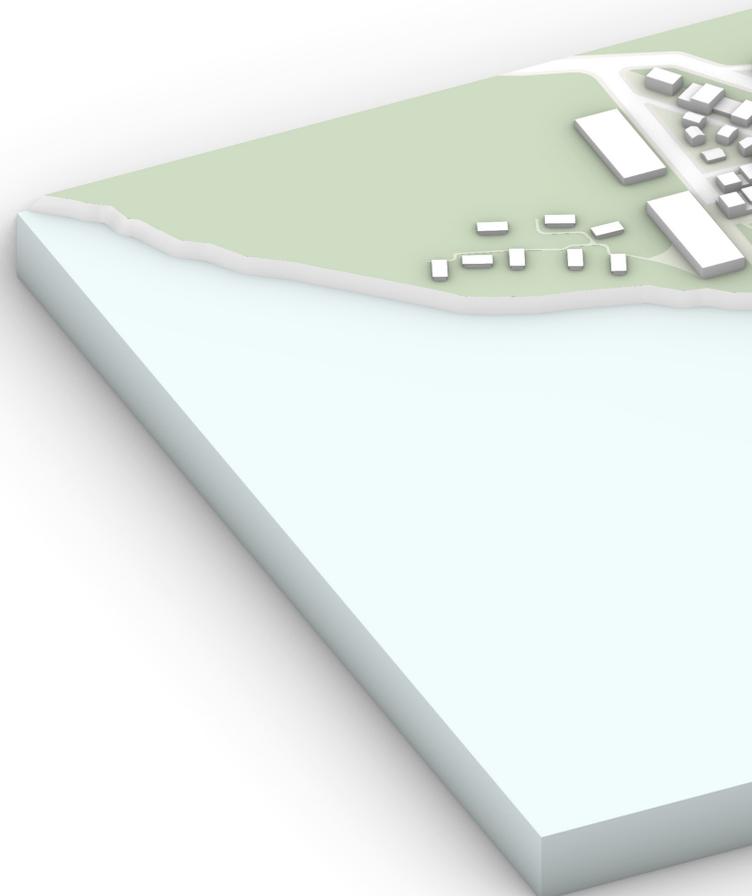
This report has been developed by Arup, Colliers and M&S for the European Bank of Reconstruction and Development (EBRD) as part of the assignment “Šibenik Brownfield Urban Regeneration, Strategic Support Services Phase 1”.

The purpose of the consultancy assignment is to provide strategic advice to the City of Šibenik (CoŠ) to secure its vision for the sustainable development of Batižele – a disused industrial site located close to the center of the city with an area of 224.632 sqm.

This deliverable, “Action plan and implementation priorities”, is one of the deliverables of Stage C, the last stage of this assignment. The previous deliverables of this assignment are:

- Site status and market conditions
- Development strategy proposition
- File Note of the Soft Market Testing

The purpose of the current report is to define the action plan to implement the project proposed for the Batižele area.



This action plan includes multiple considerations and recommendations which have been grouped in these seven areas:

- Capability CoŠ
- Stakeholder management
- Ownership structure
- Planning process
- Land development
- Building development
- Social engagement

These recommendations have been thought to mitigate or eliminate potential project implementation risks. For the associated actions with the first steps of the project implementation, early investments have been identified.

These recommendations are based on the best current knowledge of the project proposal and project context of the consultant team. Should these conditions change, the action plan would need to be reviewed and updated accordingly.

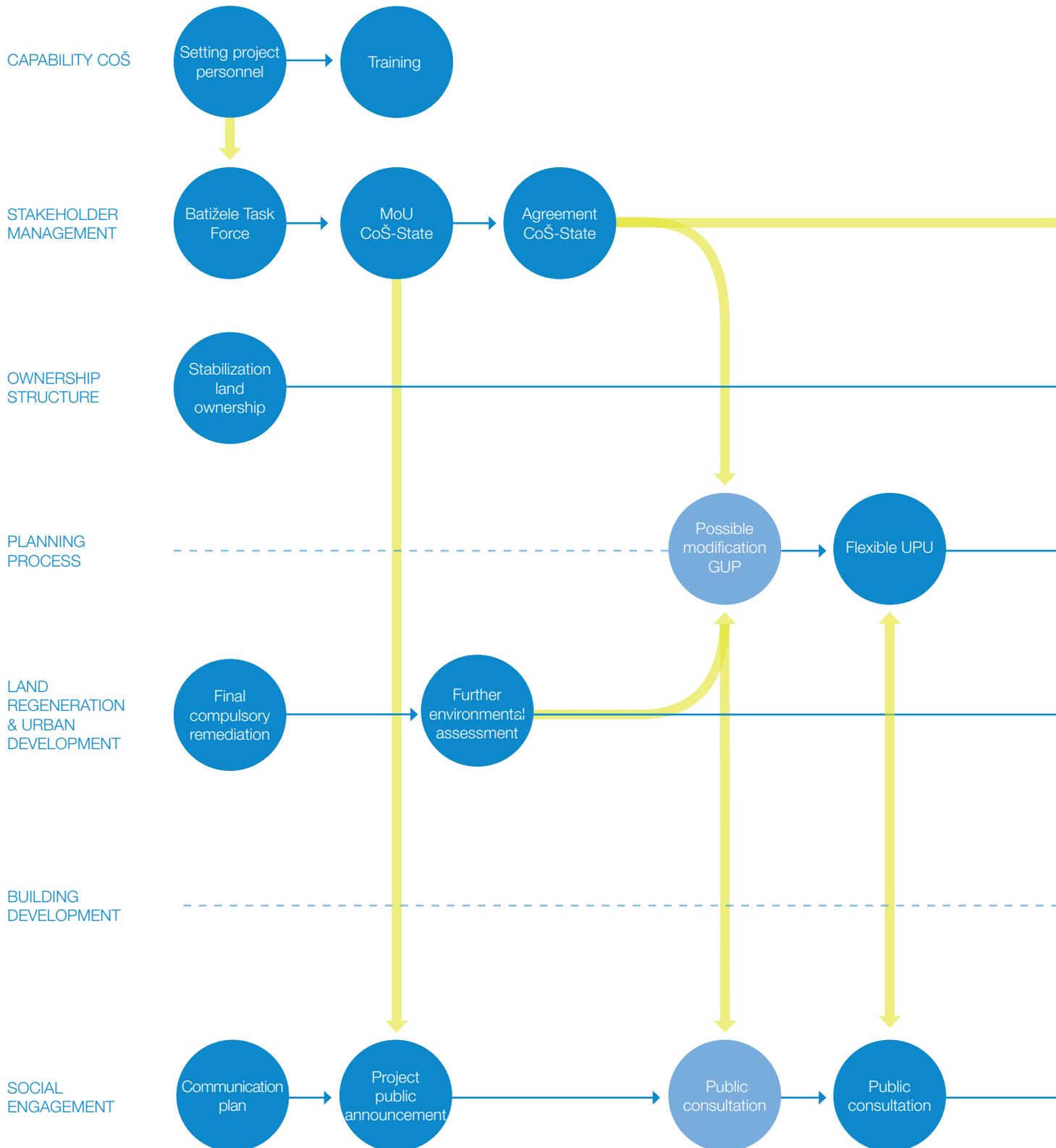


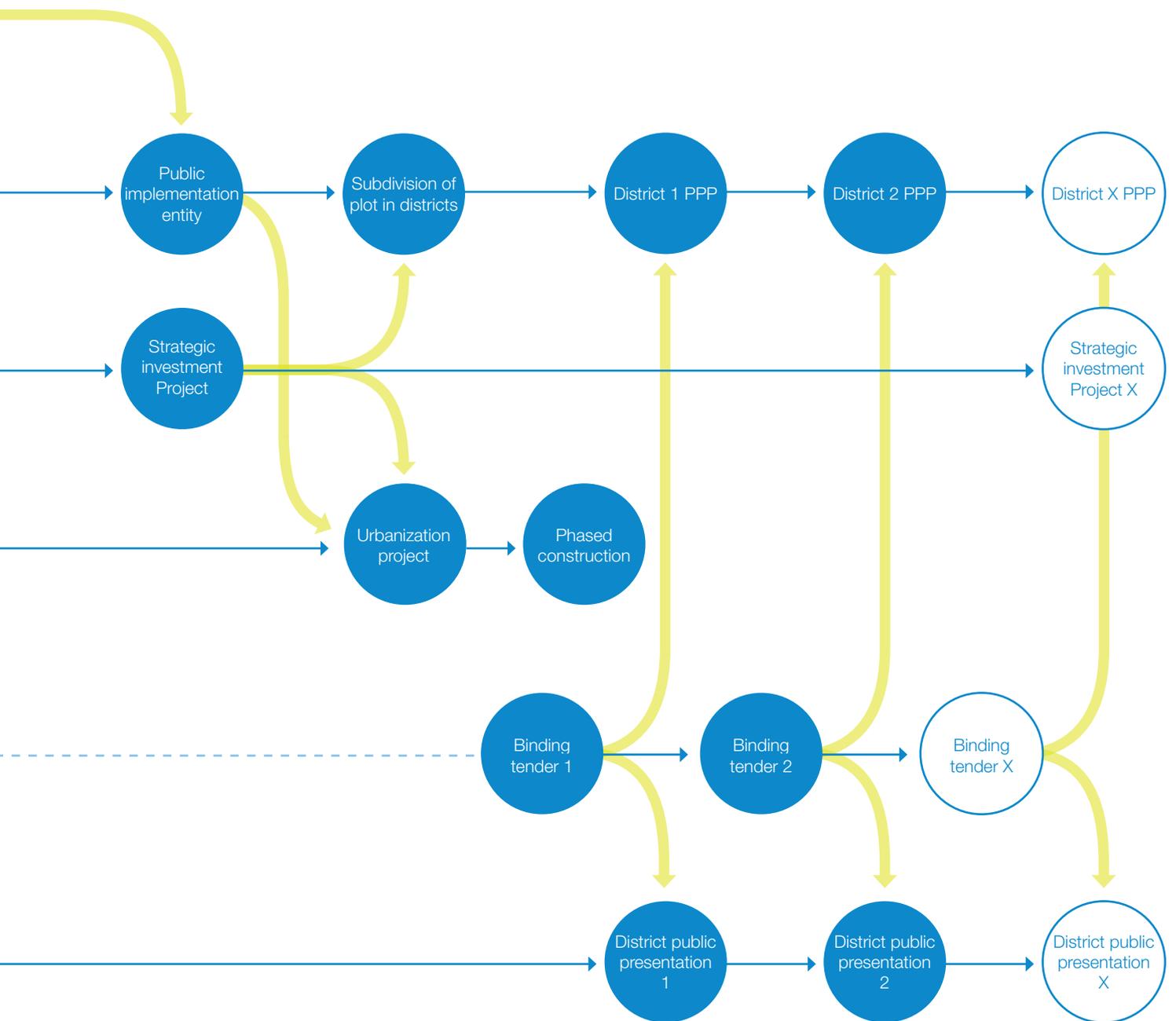


Implementation

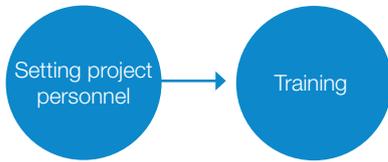
strategy action plan

Road map





Capability CoŠ



SETTING PROJECT PERSONNEL

The successful implementation of Batižele project will require the participation of certain key personnel, in principle from CoŠ or any subsidiary company, like company Batižele ltd.:

- CEO / Managing Director: person with delegated powers from the CoŠ to make decisions in regards to the development of the Batižele site and who will be responsible of all external engagement.
- Real Estate Director: expert in real estate development (including site development and urban regeneration) with business-oriented and finance skills, responsible of the development and/or commercialization of the different plots and the financial health of the project.
- Technical Director: expert in technical matters related to urban and land development with managerial and technical skills, responsible for the development of the planning documents, and technical projects, as well as construction and site supervision activities.
- Communication & stakeholder management expert: as part of the key personnel team, the contribution of a communication expert will be required in order to manage all external communications, engage with different communities and responsible for the media relationship.

These personnel would lead the development of the project and would represent CoŠ interests in front of other stakeholders such as the State and Šibenik-Knin County.

In case a Task Force, Steering Group or any other possible form will be created with these entities, these personnel would act as members of the coordination entity on behalf of the CoŠ. These personnel must be complemented with other CoŠ or company Batižele ltd. administrative and/or supportive staff, secondments and/or external consultants.

The key professional expertise required for the successful implementation of the project is: project management, real estate, financial, legal, engineering, communication and social engagement.

TRAINING

It is recommended that the key personnel leading the implementation of the project has previous experience in the development of singular or large strategic development projects. Regardless of these key personnel being part of the CoŠ staff or company Batižele ltd., it is recommended that CoŠ staff that will take part on the development will receive some Real Estate capacity building training in which they can develop certain awareness about the key success factors of a project of these type and key challenges to be faced, and a common understanding of the way forward.

The required training may not be achieved through this capacity building, but it may help identify the key areas in which more structured training, external experts support or hirings will be required.

It is suggested that the CoŠ organizes a four-day capacity building workshop around these topics:

- Lessons learnt from international strategic land development projects.
- Legal considerations for the implementation of strategic land development projects in Croatia. Key legal aspects and awareness for transactional and planning activities.
- Commercial and financial considerations for the implementation of strategic land development projects.
- Technical techniques for management of major and singular developments.
- Communication and social engagement for the implementation in strategic land development projects.

This training should be a combination of lectures and team exercises. It should be designed and facilitated by academic and professional experts in each of these areas with experience in organizing workshops.

Stakeholder management



BATIŽELE TASK FORCE

It is recognized the impact that Batižele project will have in the City and the County due to its scale and central location since it will be one of the largest transformations in the whole area. The State has expressed its interest in influencing the future of the project regardless of the ownership structure.

For this reason, we recommend the creation of a coordinating body, called Batižele Task Force, in which at least the representatives of the City of Šibenik and the State would be included. Additionally, the Task Force would benefit from including the representative of the Šibenik-Knin County. Batižele Task Force will be responsible for the decision-making in certain matters that relate to the implementation of the project.

The decisions of Batižele Task Force would be formalized in series of formal agreements to achieve a progressive consensus. The first of which would be a Memorandum of Understanding, that would be followed by a Development Agreement. Later, Batižele Task Force may get formalized by the creation of an Special Purpose Vehicle (SPV, as commented in the section Ownership structure of this report).

Batižele Task Force (or the SPV) would be specifically responsible for:

- Batižele Project vision guardians.
- Administrative coordination of the planning process, including possible modification of the GUP and development of the UPU.
- Development of the land, coordinating investments in infrastructure, urbanization works and public facilities.
- Facilitating access to funding and financing.
- Communication of the project to the general public.

MOU COŠ - STATE

As previously commented, the Memorandum of Understanding (MoU) will ensure the initial support from all relevant public entities to the vision of the Batižele project. It will become the framework that will guide future project decision-making and it will define the collaborative process, formalizing the operation of the Task Force.

This agreement will include the project objectives and general development strategies and it will also display the rules by which further agreements will be made including instructions for the negotiation process and the decision-making.

Ideally, the preparation and agreement of the MoU will be facilitated by a set of legal and technical experts that can prepare the documentation to be discussed and agreed and who can arrange and organize the meetings for negotiations.

DEVELOPMENT AGREEMENT COŠ - STATE

This Agreement will develop in more detail the MoU and will create the necessary legal support for the successful implementation of the project through a public-private collaboration. The content of the Agreement will include aspects like:

- Need for modifying or develop planning documents. It will clearly define the responsibilities of all parties and the activities that must be performed to promote statutory planning approval process.
- Detailed content of the development proposal.
- The commitment of the different public entities to respect and support the agreed development proposal.
- The commitment of the different public entities to facilitate access to public funding and financing for the planning or construction of the project.
- Contact with different investors, including possible Expression of Interest (EoI) or Non-bidding Offers (NBO)
- The commitment to follow the agreed project calendar.
- The creation of a public entity, such as an SPV, for the implementation of the project.

Ownership structure



STABILIZATION LAND OWNERSHIP

The Batižele site consists of 57 cadastral plots and includes a total surface of 224.632 m² (according to real estate excerpts). This land is owned by the company Batižele ltd., company for real estate management, Prilaz tvornici 39, Šibenik, OIB (PIN): 73841169007. The majority of the shares are owned by the City of Šibenik (69%) and a minority is owned by the Republic of Croatia (31%). The latter has expressed their interest of transferring its shares to the City.

There are some third-party rights that must be cleared for the implementation of the project. From the land registry excerpts it is visible that the real estate in the Area have inscriptions/encumbrances that provide information of the situation of those third-party rights. More information about those inscriptions can be found in Section 4 Legal considerations of this document. All of them are typical of a land development project and it is not expected that their resolution will affect negatively to the development of the Batižele site.

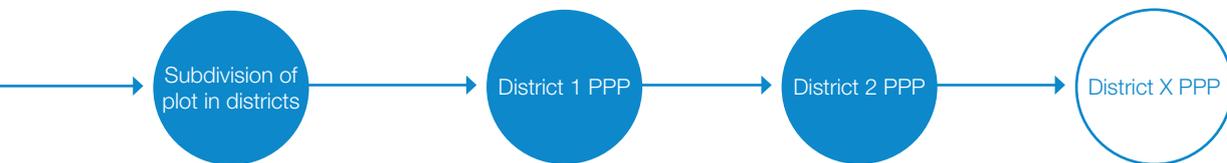
PUBLIC IMPLEMENTATION ENTITY

We recognize the impact that this project will have in the City and the County due to its scale and central location. For this reason, regardless of the ownership of the Batižele site it is recommended that the land development is led by an entity that should ideally include the City of Šibenik, the State and Šibenik-Knin County and other administrative bodies, if found beneficial.

The recommendation is to create an Implementation Entity (Batižele ltd. could be an option), Special Purpose Vehicle or a similar arrangement with the participation of the relevant public entities, for the development of the Batižele site. Before the creation of this SPV we recommend to discuss and agree the key aspects of the implementation process through the Batižele Task Force as described in the section Stakeholder Management of this report.

This entity would be in charge among other things of undertaking the necessary investments in the construction of main urbanization, including roads, parks, promenades and utilities necessary to create groups of plots to be tendered, and it could be responsible for the construction and management of the public facilities.

As analyzed in the Deliverable A1, benchmark, the creation of this type of entity allows for faster development and management control, and it promotes higher implication from all parties involved. The ownership of the land could be transferred to this Implementation Entity although this is not absolutely required, as it could have delegated powers from all the members to make decisions about the future development.



Once the different plots are tendered, some of them will be sold and some will be developed in alliance with the private investor. For this, it is recommended that an SPV is created having as shareholders the private investors together with the Public Implementation Entity or the CoŠ or Batizele ltd.

SUBDIVISION OF PLOT IN DISTRICTS

Based on the Soft Market Testing, it is expected that potential investors will be interested in pieces of the Batizele Development or specific real estate products. Due to the scale and timeframe of this project, it is considered that it will be difficult to find a masterdeveloper for the whole site.

We recommend subdividing the plot in Districts for its development to attract specialist investors. Each of these Districts can be developed separately through a tender process. This subdivision will have benefits like:

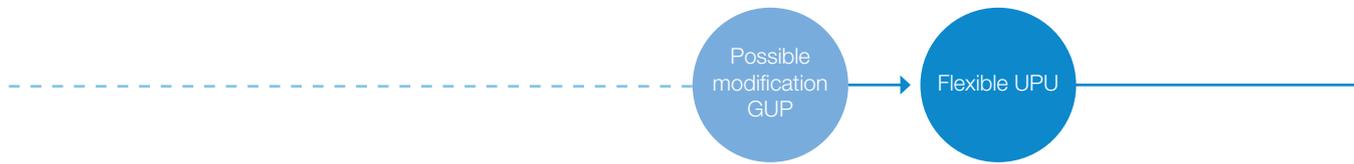
- The possibility of finding specialized developers for different products with the subsequent increase in the likelihood of having a successful implementation.
- The possibility of organizing a series of tenders in which the sale price is progressively increased as the project is successfully developed.

DISTRICT 1-2-...-X PPP

Depending on the tender conditions, after the tender for each district or product, the plots will be sold to the private investor or the investor will engage in a formal relationship with the relevant public entity - Public Implementation Entity, Batizele ltd. or CoS.

This relationship for a concession or right of construction may be structured through a Public Private Partnership with the creation of an SPV if necessary. More information about the selected business models and their implications in the commercialization of each product can be found in Section 5 of this document.

Planning process



POSSIBLE MODIFICATION OF GUP

The development proposal is thought to create a new centrality for Šibenik. This type of development requires a type of density, plot occupation and relationship between public space and private plots that cannot be fully achieved with the current General Urbanistic Plan (GUP) parameters.

In order to maximize the vision, the proposed development proposal will require the partial modification of the GUP to change locally, for the Batizele site, some parameters including:

- Reduce the compulsory 20 meters building setback from the border of the road which in some cases is as high as 20 meters.
- Introduce flexibility in the % of plot that can be occupied by the building footprint (below ground and above ground), which is now generally limited to 40% above ground and 60% below ground.
- Introduce flexibility in the % of plot that need to be covered by greenery (which is now 40%), in some plots like the ones in the waterfront and medium-high density residential.

This modification will be only necessary if the CoŠ intends to develop the land with the design depicted in the plans included in Deliverable B.2.2. Based on previous experiences the partial modification of the GUP is estimated to take one year, although this estimation is tied to some uncertainties.

However, the mix of uses and buildability per use can also be accommodated in the Batizele site with an alternative subdivision of plots that can be found also in Deliverable B2.2. in section: Legal Feasibility -> Alternative design solutions.

This subdivision is compliant with the GUP, a compliance that is mainly achieved by incorporating some of the public space into the private plots, specially in the denser areas like the waterfront or areas of medium residential density around the Central Park.



FLEXIBLE UPU

As reflected in the conclusions of the Soft Market Testing, it is an important matter for the successful implementation of the project the decision about when should the tender take place, prior to the UPU adoption or after UPU adoption.

A tender prior to the UPU would allow this planning document to fully respond to investors requirements.

However, the need to involve multiple investors and the rather long period required for UPU adoption suggest that potential investors may not be interested in this formula.

The recommendation is that the CoŠ announces the development of the UPU and finances it. Since the announcement is public, it can be expected that interested investors will approach the CoŠ declaring interest for several parts, but UPU doesn't have to be necessarily amended to their intentions:

- The UPU is prepared at a very flexible level, with basic constraints regarding the footprint, height, green area and utilization, but with multiple possibilities regarding zoning and flexible program of uses.
- The CoŠ decides which zones should be saved for public domain while the rest can be tendered and is in full control of the UPU preparation process.
- After the adoption of the UPU, the CoŠ announces a binding tender for part/s of the plot targeting the interested investors.

More information about this matter can be found in Section 4 Legal considerations in this document.

STRATEGIC INVESTMENT PROJECT STATUS

Parts of the project can apply for Strategic Investment Project Status. This status is regulated in Croatian Strategic Investments Act (official gazette no. 29/18, 114/18), and is approved by the Ministry of Economy. The application must be presented by the investor.

The investor is provided an appointed person authorized by the government whose task is to be of assistance and speed up any procedure of the administrative public bodies.

All projects that are declared strategic receive priority and have priority right to obtain all approvals and permits.

To be eligible of this status the project needs to be aligned with one or more economic priorities as listed in the Act. In the case of this project, there are two possible scenarios.

In the first scenario the whole Batižele area is given to one investor for development – in that case, that one private investor can apply the whole zone for the strategic project status. In the second scenario the Batižele area is split between multiple investors, where:

- Public investor (CoŠ) can apply for the Development of water and utility infrastructure, or some public facilities.
- Private investors can apply for their specific projects (hotel development, hospital development etc.).
- Some form of public-private partnership can also be applied for (eg. multi-purpose hall).

More information about this matter can be found in Section 4 Legal considerations in this document.

Land regeneration & Urban development



FINAL COMPULSORY REMEDIATION

The remediation of the contaminated soil was carried out on the basis of the Environmental Remediation Program of the former TEF Factory in Šibenik, dated January 2007 and the Supplementation of the Environmental Remediation Program of the former TEF Factory in Šibenik, dated December 2009.

After remediation process, in May 2018, further analyzes were carried out by OIKON d.o.o. – Institute for applied ecology - to report on the current environmental situation on the site.

In order to complete the remediation process, the Analysis determines that following must be done:

- Excavation of PAH-contaminated soil in 2 locations
- Removal of the ‘tar pit’
- Test and dispose of the waste produced
- Validation testing of remaining soil at the site

The analysis finally concludes that the additional would have a cost range between 579.260,00 HRK and 912.660,00 HRK. A representative of the CoS has indicated that a sum of 1M kuna has been allowed for completion of these tasks, based on the Oikon 2018 estimate.

Once these additional actions are carried out, a final control analysis / confirmation will need to be presented in order to finalize the Environmental Remediation program from 2007.

Once this is done, based on the study on the environmental impact from December 2003, no further monitoring will be required on the site.

Regarding future construction on the site, the proposed development is not listed as constructions for which a separate Environmental Assessment is needed. Therefore if our proposition are accepted, a new study (after the control analysis) will not be needed. If the CoS and/or the future developer decide that they will develop something different, a check with the Croatian legislation will need to be performed to understand if such developments require the Environmental Assessment study or a similar document.

More detailed information about the status of the environmental remediation on site and the need of further actions can be found in section 4 of this document.

FURTHER ENVIRONMENTAL ASSESSMENT

Previous development of the site has resulted in constraints for future development relating to both potential contamination and geotechnical aspects. Remediation works have been undertaken by the City of Šibenik and have resulted in major improvements of the site.

However, as is typical on brownfield sites, some level of uncertainty in ground conditions remains. It is considered that these uncertainties may negatively affect the price offered for the land by investors and developers in public



tenders since potential remaining constraints may need to be addressed during construction. The range of cost for the environmental remediation is estimated between 530,000€ and 3,470,000€, with a likely need of investment of 1,330,000€.

The recommended course of action to reduce environmental constraints uncertainties are:

- Further assessment of soil contamination with ground investigation across site. Approximate cost is approximately 100 to 150k euro (including boreholes and soil testing) and would inform geotechnical design as well as reducing contamination risk.
- Further assessment of the contamination of coastal water and beach area is recommended and should include soil and water sampling and testing for metals, hydrocarbons and phenols. Approximate cost of further assessment is around 30 to 60k €. If contamination was identified that required remediation this could include: excavation of contaminated soil and removal offsite; placing clean soils in soft landscape areas; covering contaminated soil with hard surfacing; groundwater interception trench and water treatment.

URBANIZATION PROJECT

It is recommended that the urbanization project is developed as one project for the whole site to ensure design consistency.

Since the new development is envisioned to become a new centrality for Šibenik, able to attract residents and visitors, the recommendations are to plan the public space to generate the right identity, promoting the relationship between public and private space, ensure continuity of main corridors in the waterfront and along the Central Park, and selecting high-quality designed urbanization materials.

Recommendations regarding urban design of the Batizele Site can be found in Deliverable B2.2 in the Design Principles, Technical Feasibility and Green Case sections.

PHASED CONSTRUCTION

The construction of the urbanization project can be done in phases. Those phases should be coordinated with the expected development of the buildings based on market demand and City needs. The areas that can be developed with less investment are the ones closer to surrounding consolidated areas.

Some elements of the public space are thought to structure the new development such as the main internal road, the waterfront and the central park. The recommendation is to build each of those elements in one phase to ensure consistency and future flexibility.

Building development

As mentioned before, we recommend subdividing the plot in Districts for its development in order to attract investors.

Each of this Districts can be developed separately through a tender process. This subdivision will have benefits like the possibility of finding specialized developers for different products and the possibility of progressively increasing the price as the project is successfully developed.

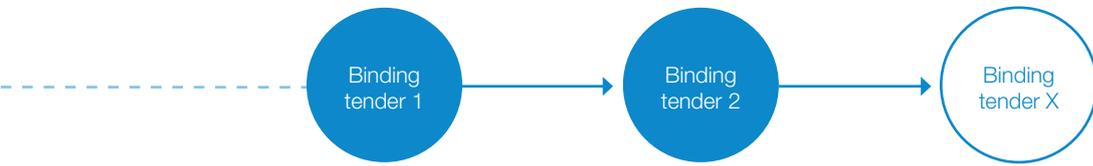
BINDING TENDER 1-2-...-X

For each of the districts to be developed, the CoŠ may launch a binding tender. This tender will need to include some key information depending on the arrangement desired by the CoŠ:

- Information about the site and the development conditions:
 - Main facts about the site.
 - Information about existing infrastructure and environmental conditions.
 - Information about current ownership.
 - Description of the zoning for the site (UPU) and main implications for development.

- Description of the business model for the development. The Business model for each district or product should be decided taking into consideration the key findings of the Soft Market Testing:
 - Residential scheme. Based on the interested expressed by the investors involved in the SMT it is recommended that the residential part of the project should be sold on a public tender by pacing the sale after the development of each small part.
 - Retail, hotel and facilities. Other options such as JV, Public private partnership, concession or right to build are acceptable.
- Required information for submitting the offers including terms of evaluation of the proposal. Terms of evaluation should be clear, transparent and objective to maximize the interest of national and international investors.

The implications of the business models selected for each product can be found in Section 5 of this document.



Social engagement



DEVELOPMENT OF COMMUNICATION & SOCIAL ENGAGEMENT PLAN

The main objective of the social engagement and public communication of the project is to disseminate the characteristics of the project and to generate social support from citizens and residents and from economic agents in the area of influence of the project.

Aspects that the Communication Plan will need to consider are the following:

- It is typical from large impact projects like this one that the area affected by the intervention exceeds the boundaries of the site. The area of influence can be the neighborhood, the city or even the whole region and may vary for different elements of the project.
- It will be necessary to prepare a relevant, representative, inclusive and balanced list of stakeholders who will be the targets of the Communication Plan. The stakeholders should include local administrations, public and private organizations, NGOs and civil society groups, professional associations, academia, children, women, youth, elderly, vulnerable and underrepresented communities.
- The Communication and Social Engagement Plan should consider different levels of engagement depending on the type of stakeholders. The levels of engagement to consider are: inform, consult, involve, collaborate, empower.

- Content for the communication of the project can be found in the Regeneration case, Financial case and Green case which can be found in Deliverable B.2.2 in the Sustainability Strategy section.

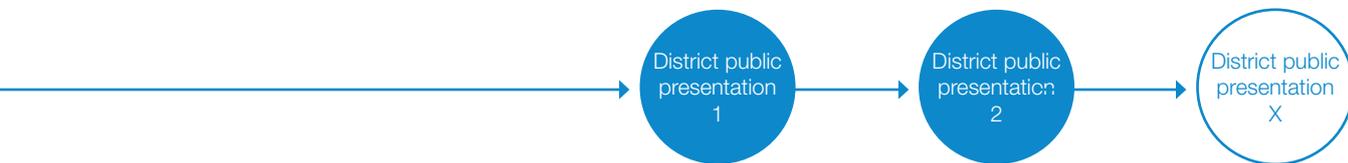
Although the Communication Plan will need to be more detailed, we will highlight below the key milestones and suggested communication actions.

PROJECT PUBLIC ANNOUNCEMENT

The kick-off of the communication of the project should happen once the relevant public administrations have reached an agreement (MoU) about their intent to collaborate and the specific implementation road map for the project. This communication should be lead by all involved public entities.

This communication could take the form of a joint public press conference.

The benefits are twofold. On one hand it will create the right social atmosphere as the public will have the perception that they are well informed since the beginning. On the other hand, it will achieve a stronger commitment from the public entities involved.



GUP AND UPU PUBLIC CONSULTATION

As part of the regular UPU development process, according to Croatian Law, the document will be subject to public consultation, a process in which anyone can participate. This public consultation lasts for thirty days.

Participants participate in a public debate in such a way that:

- They have the right of access (insight) to the spatial plan proposal.
- Right to ask questions during the public presentation of the proposed solutions, and have the answers verbally responded by the persons who run the public presentation.
- Make suggestions and remarks in the minutes during the public presentation.
- Send written proposals and remarks within the time limit set out in the public hearing to the creator of the spatial plan.

The public debate on the proposal of the local level spatial plan is published in the daily press and on the web pages of the competent Ministry and the local self-government unit.

The Responsible person, in co-operation with the creator of the spatial plan, handles opinions, suggestions and objections raised in a public hearing and prepares a public debate report.

A public debate report shall be published on the bulletin board and web pages of the spatial plan creator, and the report shall be removed 60 days after the plan's entry into force.

A public re-hearing is conducted if the proposed spatial plan changes, because of the accepted opinions, suggestions and objections in the public hearing or for other reasons, so that the new solutions are not in line with program bases from the decision of the development of the spatial plan, if the boundaries of the construction area change, or if the changes affect ownership relationships.

DISTRICT 1-2-...-X PUBLIC PRESENTATION

The specific design of each of the districts will be defined once each of the public tenders is awarded to the investors.

This will be the moment to share the details of the future development with a wider-community engagement event.

This communication could have several forms, one of which being a Meeting Hall with the investor to explain the project and receive questions and even feedback if appropriate.

The presentation may be supported by visually powerful material like physical models or render images to facilitate the understanding of the project.



Risk schedule

RISK SCHEDULE

Risk mapping

The implementation strategy and action plan proposed looks to anticipate and mitigate the key risks identified for the implementation of the project.

These risks are listed in the table provided and have been categorized according to the main areas of work for the implementation.

Each of the risks has been evaluated according to the likelihood of occurrence and the level of impact in order to clearly state the most pressing risks. This is a qualitative evaluation based on the teams understanding of the project and the information collected during the Soft Market Testing.

For each of the risks one or more actions have been identified to reduce the risk.

Risk	Description	Likelihood of occurrence	Level of impact	Possible actions to reduce the risk
CAPABILITY CoŠ				
	1. Limited capability of CoŠ internal resources devoted to the project			Map the skill gaps for the development of this project: project management, real estate, financial, legal, engineering, communication and social engagement Organize capacity building workshop / Identify specialist training for the key internal members of the project. Reliance on external consultants / secondments / external hirings.
	2. Limited availability of CoŠ internal resources devoted to the project			Reliance on external consultants/ secondments / external hirings
STAKEHOLDER ENGAGEMENT				
	3. Lack of alignment between CoŠ and other relevant public entities			Engagement in a negotiation process driven by a Batizele Task Force composed by representatives from all relevant public entities.
	4. Lack of progress in negotiations with relevant public entities			Negotiation rules clearly stated and agreed at the beginning of the process. Aspects that need to be considered are to have a process that is representative, structured with a clear procedure for the decision-making, limited in time, documented and transparent. Negotiation results formalized in consecutive agreements with increasing level of detail.

Risk	Description	Likelihood of occurrence	Level of impact	Possible actions to reduce the risk
OWNERSHIP STRUCTURE				
5.	Issues with unresolved third-party rights over the site ownership			Resolution of third-party right conflicts.
6.	Lack of professional, agile decision-making and proactive pursue of the development goals of the project			Creation of a dedicated Public Implementation Entity responsible for the development of the Batižele Site to which the land ownership will be transferred, with autonomy to make decisions.
7.	Difficulties to find one investor / partner to develop the whole site			Subdivide the Batižele site in several plots to be developed separately
8.	Lack of control over the development of some products such as hotel, retail or facilities			Retain public ownership and create SPV for the development of each product or district with participation of private investor
PLANNING PROCESS				
9.	Delay in the project due to the need to partially modify the GUP			Adopt a subdivision of plots that can accommodate the recommended mix of uses and buildability per use complying at the same time with the GUP. This possible subdivision of plots has been provided in Deliverable B.2.2
10.	Adoption of an UPU that is not aligned with investors interest			Adoption of a flexible UPU with basic constraints regarding the footprint, height, green area and utilization, but with multiple possibilities regarding zoning.
LAND LAND REGENERATION & URBAN DEVELOPMENT				
11.	Price offered for the plots penalized due to perceived uncertainties regarding environmental conditions of the site and the potential need to address them during construction			Further assessment of soil contamination with ground investigation across site and further assessment of the contamination of coastal water
12.	Unconsistency or low quality of design and construction of public space			Public space design and construction led by CoŠ or the Public Implementation Entity
13.	Unbearable investing requirements to develop the public space of the project			Phasing of the construction of the public space, coordinated with the expected development of the buildings based on market demand and City needs
BUILDING DEVELOPMENT				
14.	Low commercial price due to excessive volume of offer in the market			Sequenced commercialization and sequenced tenders to control the offer-demand balance
15.	Low interest of investors in residential scheme under formulas such as JV, Public private partnership, concession or right to build			Sale of the residential product
SOCIAL ENGAGEMENT				
16.	Lack of social support			Development and implementation of a Communication and Social Engagement Plan that takes into consideration the engagement with a relevant, representative, inclusive and balanced list of stakeholders
17.	Lack of social participation			Consider in the Communication and Social Engagement Plan of the project different levels of engagement depending on the type of stakeholders. The levels of engagement to consider are: inform, consult, involve, collaborate, empower.

Low likelihood of occurrence | Low level of impact     High likelihood of occurrence | High level of impact

RISK SCHEDULE

Early investments

The actions to mitigate the risks that are considered more urgent are the ones associated with the first steps of the implementation.

They cover areas related with Capacity of CoS, Stakeholder Management, Ownership structure, Planning process, Land development and Social Engagement.

Early investments required	Estimated range of costs
Capacity building workshop	40k - 60K EUR
Expert support for Task Force negotiation	80K - 100K EUR
Expert support for resolution of third-party rights	20K - 30K EUR
External support for modifying the GUP	250K - 320K EUR
Further Environmental Assessment	130K - 210K EUR
Communication and social engagement plan	20K - 30K EUR







Legal considerations

LEGAL CONSIDERATIONS

Land ownership

CADASTRAL PLOTS

All of the real estate in the former TEF area are owned by the company Batižele ltd., company for real estate management, Prilaz tvornici 39, Šibenik, OIB (PIN): 73841169007, and, according to the Commercial court register in Šibenik the owner of all the business shares (100%) in that company is the City of Šibenik.

However, we have been informed by the City of Šibenik, that there will be an increase of share capital of the company through debt to equity swap, where Republic of Croatia will become the owner of 22,64% of the shares, Environment protection fund 8,72% and Croatian water company 0,70% of the company shares, therefore the total percent of shares owned by the Republic of Croatia directly or indirectly (through companies in its ownership) will be 32,06%, and the City of Šibenik will remain the owner of 67,94% of the shares.

CADASTRAL EXCERPT NO. 8900

CADASTRAL MUNICIPALITY OF ŠIBENIK

No.	Plot Number	Designation Of The Plot	Size (M ²)
1.	685/29	Factory	1015
2.	685/30	Factory	901
3.	685/31	Factory	934
4.	685/33	Factory	24
5.	685/42	Factory	669
6.	685/43	Factory	4388
7.	685/44	Factory	7044
8.	685/45	Factory	106
9.	685/46	Factory	48
10.	685/47	Factory	216
11.	685/48	Factory	2617
Total:			17962 m²

Batižele ltd. is the owner of most of the plots which belonged to the former “Tvornica elektroda i feroligura company”, and they are divided in five real estate excerpts, all being in the cadastral municipality of Šibenik, and inscribed in the land registry of the Municipal court in Šibenik.

The land registry is the competent body for determining the ownership of real estate in Croatia, while the cadastral is the body that determines the location, position and possession of the real estate, therefore in our work we have focused on the land registry as being the relevant institution for ownership, while the actual cadastral and land registry plots are visible from the pictures shown below.

As visible from the real estate excerpts the Area consists of 57 cadastral plots and includes a total surface of 224.632 m².

CADASTRAL EXCERPT NO. 8901**CADASTRAL MUNICIPALITY OF ŠIBENIK**

No.	Plot Number	Designation of the Plot	Size (M²)
1.	685/49	Factory	22
2.	685/50	Factory	154
Total:			176 m²

CADASTRAL EXCERPT NO. 3492,**CADASTRAL MUNICIPALITY OF ŠIBENIK**

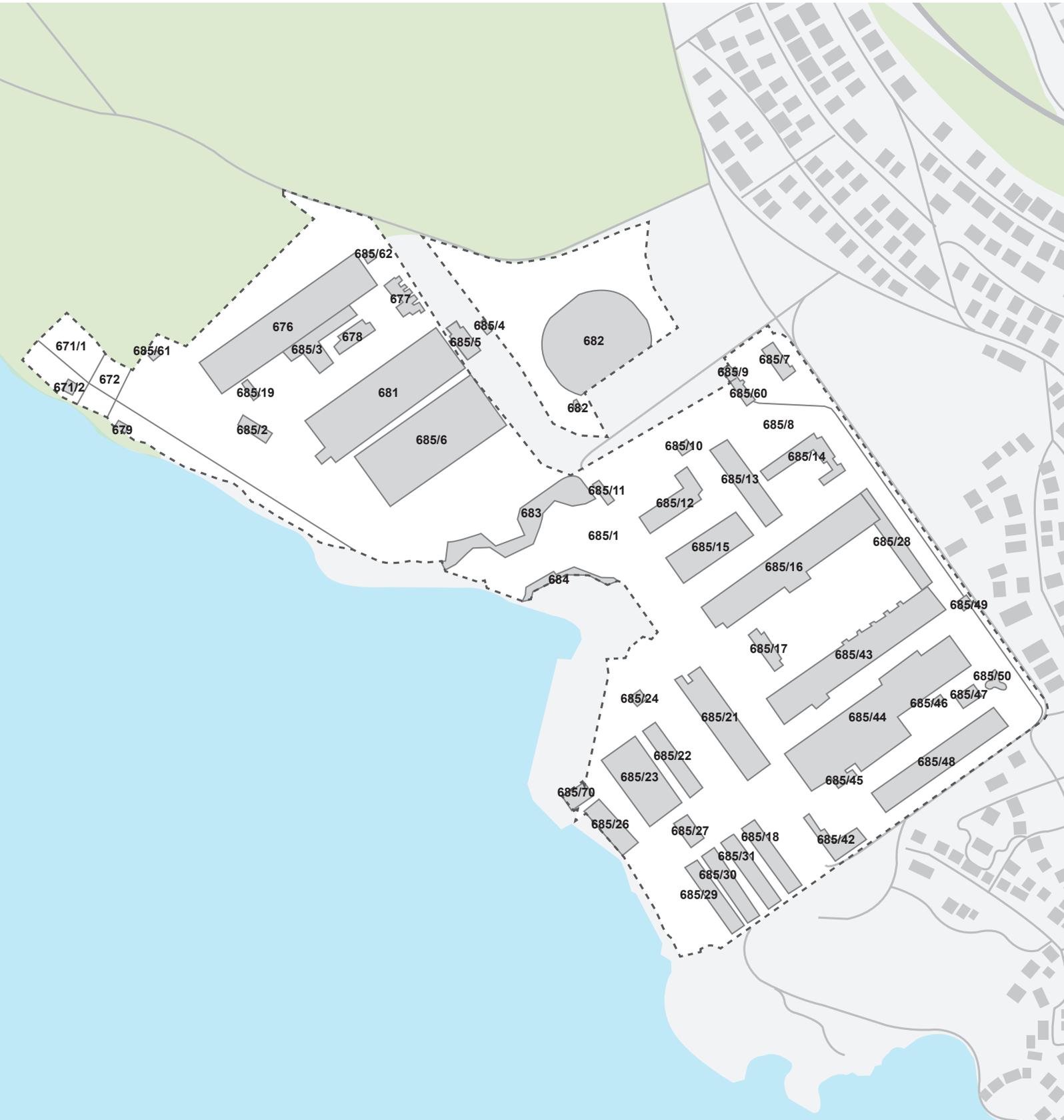
No.	Plot Number	Designation of the Plot	Size (M²)
1.	685/9	Factory	201
2.	685/10	Factory	108
3.	685/11	Factory	144
4.	685/12	Factory	1057
5.	685/13	Factory Crinica	1340
6.	685/14	Factory	1002
7.	685/15	Factory	1913
8.	685/16	Factory	4636
9.	685/17	Factory	388
10.	685/18	Factory	934
11.	685/19	Factory	94
12.	685/20	Factory	14
13.	685/21	Factory	2464
14.	685/22	Factory	925
15.	685/23	Factory	1820
16.	685/24	Factory	114
17.	685/25	Factory	83
18.	685/26	Factory	865
19.	685/27	Factory	357
20.	685/28	Factory	1013
21.	685/70	Coast	256
Total:			19728 m²

**CADASTRAL EXCERPT NO. 8902,
CADASTRAL MUNICIPALITY OF ŠIBENIK**

No.	Plot Number	Designation of the Plot	Size (M²)
1.	671/1	House, pasture, Smričnjak	2833
2.	671/2	House	97
3.	672	Quarry, pasture	1330
4.	676	Factory Crnica	5327
5.	677	Factory	97
6.	678	Factory	451
7.	679	Factory	49
8.	681	Factory	6050
9.	682	Majdan	5575
10.	683	Factory Crnica-station	1974
11.	684	Sand manufacture	513
12.	685/1	Factory yard	152136
13.	685/2	Factory Crnica	248
14.	685/3	Factory	1134
15.	685/4	Factory	17
16.	685/5	Factory	381
17.	685/6	Factory	6460
18.	685/7	Factory	635
19.	685/8	Factory	1533
Total:			186550 m²

**CADASTRAL EXCERPT NO. 8903,
CADASTRAL MUNICIPALITY OF ŠIBENIK**

No.	Plot Number	Designation of the Plot	Size (M²)
1.	685/59	Factory building	30
2.	685/60	Factory building	69
3.	685/61	Factory building	40
4.	685/62	Factory building	77
Total:			216 m²



Cadastral plots

THIRD PARTY RIGHTS

From the land registry excerpts it is visible that the real estate in the Area have the following inscriptions/encumbrances:

- Inscribed on 06 November 2009. under the number Z-7804/09, it is visible that there is an administrative dispute before the Administration Office in Šibenik-Knin County, the Department of Physical Planning, Environmental Protection, Construction and Property-Legal Affairs, class:UP/I-942-01/97- 01/520 M.B. We have been provided with a certificate from the administrative office for economy and legal affairs dated May 14 2019, confirming that this procedure has been officially resolved and will be deleted from the land registry. This encumbrance is visible in excerpt no. 3492 and 8902.
- Mortgage in favor of Republic of Croatia amounting to 3,132,824.30 USD. We have no information about the remaining amount of debt regarding this mortgage. This encumbrance is visible in all of the excerpts.
- Mortgage in favor of Fund for Environmental Protection and Energy Efficiency, Zagreb, Ksaver 208, amounting to 19,933,848.45 Croatian kunas. We have no information about the remaining amount of debt regarding this mortgage. This encumbrance is visible in all of the excerpts.
- Mortgage in favor of Fund for Environmental Protection and Energy Efficiency, Zagreb, Ksaver 208, amounting to 9,344,559.25 Croatian kunas. We have no information about the remaining amount of debt regarding this mortgage. This encumbrance is visible in all of the excerpts.

- Mortgage in favor of Odlagalište Sirovina ltd, OIB (PIN): 71059964444, Ulica Ive Dulčića 6, Zadar, amounting to 27,968.64 Croatian kunas. We have no information about the remaining amount of debt regarding this mortgage. This encumbrance is visible in excerpts no. 3492, 8900, 8902 and 8903.
- Inscribed on 12 February 2007. under the number Z-1012/07, it is visible that there is an administrative dispute to the Administration Office in Šibenik-Knin County, the Department of Physical Planning, Environmental Protection, Construction and Property-Legal Affairs, Class: UPI-942- 01/97-01/214 A.F. No: 2182-04-04-05-01. We have not been provided with any documentation regarding this procedure so cannot comment further about its existence and status. This encumbrance is visible in excerpt no. 8900.

We have been provided with four lease agreements currently in force for the real estate in the Area, all concluded by the Batižele ltd. as the lessor:

- Lease agreement with the Community health center Šibenik for the building located on the plot no. 685/7. The agreement was signed on December 31 2018 for an indefinite period of time, and the lessor has the option to terminate the agreement with a three month termination period. The agreement was drafted as a public notary act, so the lessor has effective mechanisms to remove the lessee from the location should he fail to do so willfully, but seeing as the lessee is a public institution, we find that scenario unlikely.

- Lease agreement with the voluntary Fire Department Šibenik, for part of the building located on the plot no. 685/7. The agreement was signed on January 09 2018 for an indefinite period of time, and the lessor has the option to terminate the agreement with a three month termination period. The agreement was drafted as a public notary act, so the lessor has effective mechanisms to remove the lessee from the location should he fail to do so willfully.

- Lease agreement with the Fire Department of the Šibenik-Knin county, for an additional part of the building located on the plot no. 685/7. The agreement was signed on January 09 2019 for an indefinite period of time, and the lessor has the option to terminate the agreement with a three month termination period. The agreement was drafted as a public notary act, so the lessor has effective mechanisms to remove the lessee from the location should he fail to do so willfully.

- Lease agreement with the Zeleni val ltd., a driving school, for the plot no. 685/1 to be used as a polygon. The agreement was signed on January 09 2019 for an indefinite period of time, and the lessor has the option to terminate the agreement with a three month termination period. The agreement was drafted as a public notary act, so the lessor has effective mechanisms to remove the lessee from the location should he fail to do so willfully.

Spatial planning in general

According to the Croatian Spatial development Act (official gazette 153/13, 65/17, 114/18, 39/19), there are three general levels of spatial plans: the state level, the county level, and the municipal level plans. On the municipal level there are again possible three tiers of spatial plans:

- Spatial plan of development for the city, being the highest order plan.
- General urbanistic plan, being the medium tier plan.
- Urbanistic plan of development, being the lowest and most detailed plan for a specific area.

All of the lower and narrower tier plans have to be in accordance with the higher and wider level plans, although it is possible to have discrepancies between them, arising from the complexity of these documents. If such differences occur, then the higher and wider level plans have the advantage over the lower and narrower level plans.

The professional tasks related to making drafts of the spatial plan proposal, except for the immediate drafting of these plans, and administrative tasks related to the preparation and adoption of the spatial plan, are carried out by the Creator of the spatial plan, which on municipal level is the competent administrative office of the municipality.

The competent body will name an authorized architect as the Responsible person of drafting the proposal of the spatial plan. He is responsible that the final spatial plan is drafted in accordance with the Law, and that the parts of the plan were drawn up by authorized experts of the relevant profession.

The development of a local level spatial plan, as well as its amendments, can be initiated by anyone. The preparation of the spatial plan starts on the basis of the decision to make a spatial plan adopted by the local assembly (city council).

A public debate is carried out about the proposal of a spatial plan, in which anyone can participate. The procedure of public debate is not carried out in the case of reconciliation of a spatial plan with the Law, a spatial plan of a higher level or a wider area.

The proposal of the local level spatial plan is determined by the mayor of the municipality.

The public debate on the proposal of the local level spatial plan is published in the daily press and on the web pages of the competent Ministry and the local self-government unit. A public insight into the proposal of the local level spatial plans lasts for thirty days.

Participants participate in a public debate in such a way that:

- They have the right of access (insight) to the spatial plan proposal.
- Right to ask questions during the public presentation of the proposed solutions, and have the answers verbally responded by the persons who run the public presentation.
- Make suggestions and remarks in the minutes during the public presentation.
- Send written proposals and remarks within the time limit set out in the public hearing to the creator of the spatial plan.

The Responsible person, in co-operation with the creator of the spatial plan, handles opinions, suggestions and objections raised in a public hearing and prepares a public debate report.

A public debate report shall be published on the bulletin board and web pages of the spatial plan creator, and the report shall be removed 60 days after the plan's entry into force.

A public re-hearing is conducted if the proposed spatial plan changes, because of the accepted opinions, suggestions and objections in the public hearing or for other reasons, so that the new solutions are not in line with program bases from the decision of the development of the spatial plan, if the boundaries of the construction area change, or if the changes affect ownership relationships.

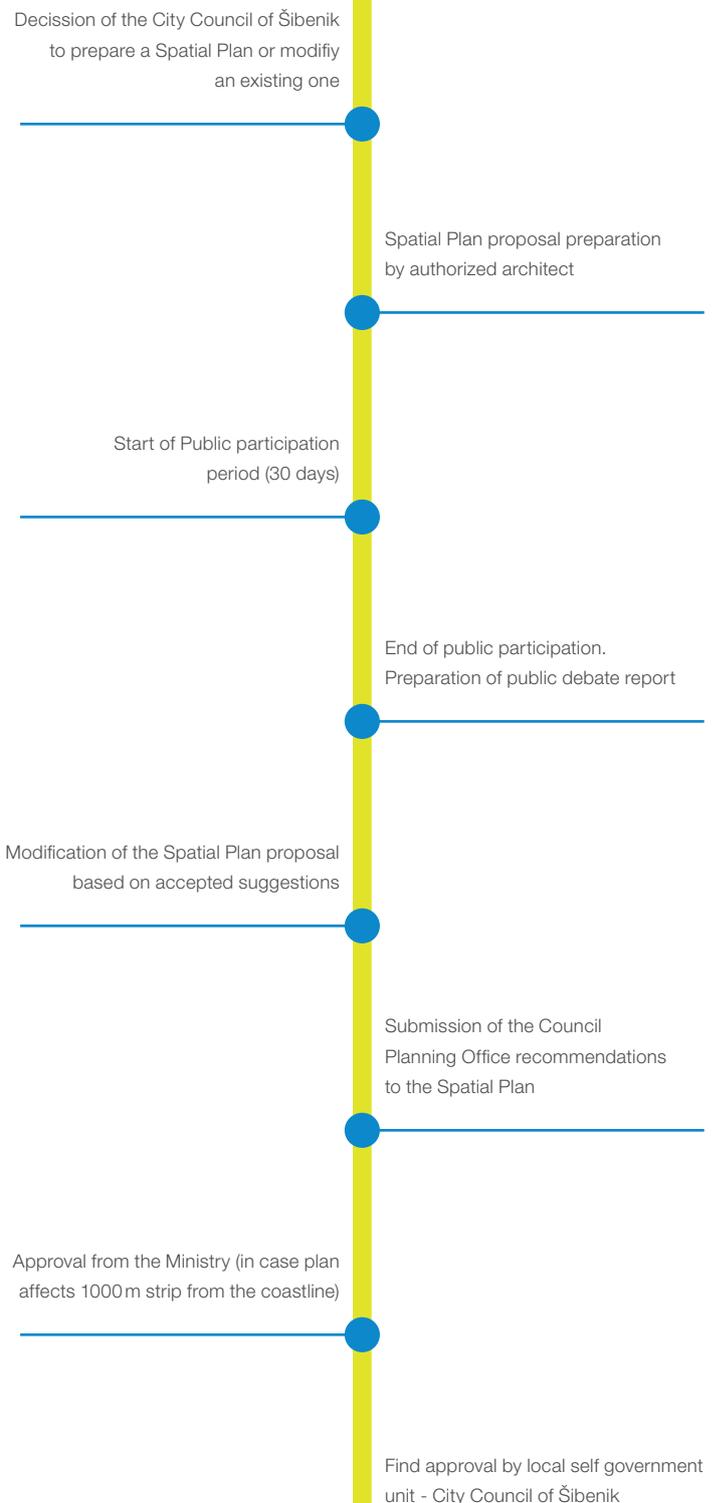
The public re-hearing can be repeated up to three times, after which a new decision has to be made on the development of a spatial plan and a new procedure is being carried out.

The draft plan final design is drawn up by the Creator of the spatial plan in co-operation with the developer after a public hearing has been conducted and a public debate report has been drawn up.

Prior to the adoption of the spatial plan of the municipality and the general urban plan, an opinion of the county planning office should be obtained regarding the consistency of the plan with the county's spatial plan.

Prior to the adoption of the spatial planning of the municipality within the protected coastline, and the general urban plan and urbanistic plan of development which is partly or completely within the 1000 m strip of coastline, the approval of the Ministry shall be obtained with respect to compliance to the Law.

According to article 109. of the Act on spatial development all of the municipal spatial plans are adopted and brought into power by the local self-government unit, in this case city council of Šibenik.



ADOPTING THE UPU

One of the main prerequisites in developing the Batižele area is the enactment of a new UPU for the zone which would regulate in more detail the construction possibilities in the area, specify zones for types of development (e.g. residential, public, mixed, tourist, green areas etc.), and other important provisions regulated on this level of zoning plans.

There are two possible alternatives as to the timeline of drafting the UPU:

- In the first scenario the UPU is drafted and financed by the City of Šibenik before releasing the Batižele area to the investors, therefore the scenario is set and the investors will have to adapt to the zoning as determined by the City of Šibenik. Since the announcement is public, it can be expected that interested investors will approach the City of Šibenik declaring interest for several parts, but UPU doesn't have to be necessarily amended to their intentions.
- In the second scenario the city of Šibenik would offer parts of the Batižele real estate to interested investors through a public tender (whether it was through a concession, right of construction or sale), and the investors (or possibly one investor) would then participate, even finance drafting of the UPU, in order to make it compatible with his ideas for development.

It is our opinion that the first scenario is the preferred one in this case, due to the fact that City of Šibenik wants to be engaged in planning and the final outcome of the project to achieve integration with the rest of the city, rather than letting third parties dictate on how the new neighborhood will be structured.

Should this option be accepted by the City, we believe that in planning it's worth paying attention to different aspects of the UPU, in order to make it attractive to developers and investors. The most important aspect is definitely the level of detail for the future UPU, as the UPU can prescribe the parameters for the future Batižele area in great detail or a bit more loosely.

By making the UPU more detailed and precise the City of Šibenik will be in a better position to achieve its goal for

development as it can accurately prescribe what kind of content it wants for a certain part of the area, in relation to the type of content, surface area, distance from other buildings, height etc. That approach is certainly more favorable for achieving the vision for city of Šibenik as the city government itself sees it, but it does not come without downsides. The first and foremost would definitely be that the future investors may not see the project the same as the city, and the provisions of the UPU could prove to be too strict to comply with their vision of development.

Therefore, it is our opinion that the UPU should be prepared at a flexible level, with basic constraints from the GUP regarding the footprint, height, green area and utilization, but with multiple possibilities regarding zoning.

In this way, a balance is struck between the wishes of the city and the (architectural) vision of the investors, with the UPU determining the contents/purposes, but at the same time giving investors a degree of freedom to determine the final details of such contents and fine tune it to their needs.

APPLYING FOR STRATEGIC PROJECTS STATUS

According to the Croatian Strategic Investments Act (Official gazette no. 29/18, 114/18, a strategic investment project is defined as any private investment project, public investment project or public-private investment project in the field of economy, mining, energy, tourism, transport, infrastructure, electronic communications, postal services, environmental protection, communal economy, agriculture, forestry, water management, fisheries, health, culture, audio-visual activities, science, defence, justice, technology and education, which includes the construction of buildings, proclaimed by the Government of the Republic of Croatia on the basis of this Act.

A private investment project is a project financed by investments of natural persons, domestic or foreign legal entities registered in the territory of the Republic of Croatia. A strategic project can also be a public one, but this is unlikely the case in this matter, as the CoŠ will not be a developer. The project has to be in accordance with the physical planning documents except for the physical planning documents if they have not been adopted.

Therefore, it is possible to apply for the strategic project before or after the UPU enactment.

If the application for the strategic project is accepted than the central body of state administration competent for the economy (Ministry of Economy), makes the Decision on the listing of the project on the List of strategic projects, which is kept and updated.

Following the execution of the Decision on the listing of the project on the List of Strategic Projects and the appointment of the Head of the Task Force, the Head shall identify the competent central state administration bodies for the preparation and implementation of the project and ask them to appoint persons to the Task Force. The Task Force:

1. Determines the prescribed procedures necessary for the preparation and implementation of each individual project and inform the interested investor thereof.
2. Within 60 days from the date of appointment, the members of the Task Force, prepare a complete overview of the administrative and other procedures and actions to be undertaken for the implementation of the project.
3. Draw up the lists necessary for its implementation and inform the interested investor and the central government body responsible for the economy about them.
4. Conducts inter-ministerial coordination and coordination of activities in the preparation and drafting of acts for project implementation and deadlines for their implementation.
5. Establishes elements of the proposal of the Decision of the Government of the Republic of Croatia on the proclamation of the strategic project to be submitted to the Commission.

The Government of the Republic of Croatia, on the proposal of the Commission, adopts a Decision announcing the strategic project of the Republic of Croatia, which is published in the Official Gazette.

The final step is when the agreement on preparation and implementation of the project with a private investor is concluded by the head of the central state administration body in charge of the economy with the prior opinion and approval of the central state administration body responsible

for foreign and European affairs, and the body authorized to represent the Republic of Croatia in the proceedings of judicial and administrative bodies, all within 60 days from the date of adoption of the Decision of the Government of the Republic of Croatia on the proclamation of the strategic project.

From the Strategic Investments Act we can determine that residential is not something that would be applicable for the strategic project status, but other possible developments are included (hotels, culinary center, cable car etc.).

While reviewing the possible applications, it is important to differentiate between two scenarios:

- In the first scenario the whole Batižele area is given to one investor for development – in that case, the private investor can apply the whole zone for the strategic project status.
- In the second scenario the Batižele area is split between multiple investors, where:
 - Certain private investors can apply for their specific projects (hotel development, hospital development etc.)
 - Public investor can also apply (e.g. CoŠ applies for the Development of water and utility infrastructure, or some public facility)
 - Some form of public-private partnership can also apply for strategic project status (multi-purpose hall)

From the information provided the most important aspect is that all projects that are declared strategic receive priority and have priority right to obtain all approvals and permits. The investor can always turn to the designated person authorized by the government whose task is to be of assistance and speed up any procedure before the administrative public bodies. Therefore, all licenses and approvals will be obtained sooner, and all steps will move at a significantly faster pace.

Environmental remediation

ENVIRONMENTAL REMEDIATION PROCESS

The City of Šibenik has provided the following documentation regarding the environmental remediation situation at the former TEF site:

- Research plan and report on the remediation of the site of the former TEF d.d., May 2018.
- Study on the environmental impact of TEF factory in Šibenik remaining after the decomposition of production plants, December 2003.
- Study of Ecological Remediation of Residual Ingredients from Ferroalloys and Coal Graphite Products, TEF d.d. Šibenik, with attachments, September 2002.
- Environmental Remediation program of the former Electrode and Ferroalloys Factory in Šibenik, APO d.o.o., January 2007.
- Supplement to the Environmental Remediation Program of the former Electrodes and Ferroalloys Factory in Šibenik, APO doo, December 2009.
- Opinion of the Ministry of the Environment and Energy, Directorate for Environmental Impact Assessment and Sustainable Waste Management (CLASS: 351-01 / 16-01 / 286 REGULATION: 517-06-2-2-18-13), 16 April 2018.

This matter is regulated by several important laws or bylaws:

- Environmental Law (Official Gazette 80/13, 153/13, 78/15).
- Sustainable Waste Management Act (Official Gazette 94/13, 73/17, 14/19, 98/19).
- Regulations on the methods and conditions of waste disposal, categories and conditions of work for landfills (Official Gazette 114/15, 103/18, 56/19).

As it is well documented, the site of former TEF factory was in the past exposed to different types of pollution, and underwent remediation procedures, therefore this part of the report was drafted according to information extrapolated from the documentation on remediation of the TEF soil.

After the closure of the TEF factory, the decommissioning of construction facilities at the TEF factory site was carried out. The shutdown of the electrode and ferroalloys plant (TEF d.d.) and the decommissioning and demolition of the facilities took place in the mid-1990s after almost a century of use and operation. However, after the decommissioning of the facilities, various types of waste were left behind at the site: ferromanganese slag, tar, phenolic residues, carburundum, covariate, recycled separated granulate, graphite waste electrodes, etc.

The remediation of the site of the former TEF Factory was carried out in three independent projects, namely:

- Demolition of buildings (started in the mid-1990s, completed in 2002).
- Ecological remediation of the terrain, which consisted of the removal of various types of waste left over from production and decommissioning (various types of hazardous and non-hazardous waste) and the rehabilitation of contaminated soil.
- Remediation of waste slag.

The remediation of the contaminated soil was carried out on the basis of the Environmental Remediation Program of the former TEF Factory in Šibenik, dated January 2007 and the Supplementation of the Environmental Remediation Program of the former TEF Factory in Šibenik, dated December 2009. These documents define the limit of 100 mg PAH / kg (Polycyclic aromatic hydrocarbons) and 5,000 mg/kg mineral hydrocarbons proposed by the regulations governing waste management at the time.

Contaminated soil remediation at TEF began in 2008 when work was carried out concerning the excavation of contaminated soil, the separation of hazardous and non-hazardous waste, and the partial disposal of non-hazardous waste. The remediation was carried out by the company Odlagalište Sirovina d.o.o. from Zadar. Subsequently, hazardous waste with more than 1000 mg of PAH/kg was



The locations where samples were taken (Picture from the Research plan and report on the remediation of the site of the former TEF d.d., made by Okion d.o.o., May 2018)

excavated and transported to the Girk-Kalun d.d. plant at the end of 2012. in Drniš for heat treatment, and was completed in September 2013. The works were financed under TEF contracts with the Environmental and Energy Efficiency Fund (Fund) to provide a non-interest-bearing loan, provided that the loan is repaid from the proceeds from the sale of the rehabilitated land.

For the purpose of drafting the Final Report, which upon completion of remediation, is submitted to the competent Ministry (Ministry of Environment and Energy), and confirming that environmental damage was repaired in accordance with the approved Remediation Program, in 2014, an analysis of the surface layer of soil was carried out in areas where contamination had been previously identified (Table 1-1). The analyzes were carried out by an approved Bioinstitut laboratory accredited according to the standard HRN ISO EN 17025. The results of the analyzes showed that there were three more point soil contaminations on the site, with PAHs exceeding the limit values from the Remediation Program.

In 2014, the categorization of contaminated soil was also carried out according to the then valid Ordinance on methods and conditions of waste disposal, categories and conditions of work for a landfill (Official Gazette 117/07, 111/11, 17/13, 62/13). Based on the results of the analyzes, most of the soil samples tested were classified as non-

hazardous waste and it was concluded that this waste could be disposed of at a non-hazardous waste landfill. Soil samples O/521/14 (south of the tar pit), O/515/14 and O/516/14 (space between the main paved road and the sea) due to elevated total organic carbon (TOC) content are classified as earth and stones containing dangerous substances.

Since about four years have passed since the conducted analyzes, in December 2017, the City of Šibenik ordered additional analyzes in order to estimate the amount of still contaminated land, after which it will be necessary to obtain the necessary documents confirming that environmental remediation was carried out in accordance with the approved Remediation Program.

Finally, in May 2018 these further analyzes were carried out by OIKON d.o.o. – Institute for applied ecology, and the Research plan and report on the remediation of the site of the former TEF was drafted, showing the current environment situation on the site.

In this research four locations were analyzed:

- Area within the new chamber furnace (2 locations).
- The Tar pit, and a location southeast of the Tar pit.
- The area between the old and new chamber furnaces.
- Area between the main road and the sea.

Test results showed that elevated concentrations of PAHs were still present at two of the four observed sites relative to the limit values prescribed by the Environmental Remediation program (APO, 2007) and the Supplementation of the Environmental Remediation program (APO, 2009). The location of the tar pit and the tar pit environment are significantly laden with PAHs.

The analysis of specific locations showed the following results:

- Area within the new chamber furnace (2 locations): According to the results of the analysis of the materials inside the chamber furnace at two locations, this area can be considered as cleared.
- The Tar pit, and a location southeast of the Tar pit: It is visible that this area is still contaminated with tar and contains high concentrations of PAHs. The hazardous waste should be disposed of through an authorized legal entity that has obtained a treatment permit. Excavation of soil southeast of the tar pit revealed the presence of waste containing almost 3,000 mg PAH / kg. According to the Supplement to the Remediation Program, soil contaminated with PAHs at a concentration above 1000 mg of PAHs must be disposed of by thermal treatment. It should be noted that in Croatia at the time of compiling the 2018 Oikon analysis, there was no recoverer holding a permit for thermal treatment of this type of waste.
- The area between the old and new chamber furnaces: According to the results of the analysis, it is evident that this area is contaminated with PAHs which is also present at a depth of 1 m. At a depth of 1.6 m the concentrations of PAHs were below 1 mg / kg.
- It is estimated that the surface of the contaminated soil is about 396 m² and that the pollution is present up to a depth of 1.2 m, that is, the estimated amount of contaminated soil is about 475 m³. This waste can be disposed of in a non-hazardous waste landfill as required.

- Area between the main road and the sea: According to the results of the analysis, it is evident that this area is not contaminated with PAHs, but given that various types of waste have been deposited in this area over many years of operation, it can also be determined by visual inspection the presence of different debris, e.g. old barrels filled with tar, slag. deposits of yellow, pieces of slag, and it is considered that the area should also be considered as potentially contaminated soil.

According to the results of the soil analyzes, it can be concluded that the remediation has not been fully implemented, and that there are two point defects left behind that do not satisfy the conditions prescribed in the above documentation.

In order to complete the remediation process, the Analysis determines that following must be done:

- Excavate contaminated soil.
- Remove the tar pit concrete structure that is visibly contaminated.
- Conduct analyzes of the excavated material at concentrated PAHs.
- In accordance with the results of the analyzes, hand over the waste to an authorized collector (or recoverer) for further treatment or to submit it to a non-hazardous waste landfill.
- Carry out control analyzes of the remaining soil at the site.

It is important to emphasize that the Opinion of the Ministry of the Environment and Energy, dated 16 April 2018, determines that all the documents issued by the Ministry of Environment and Energy so far are still valid to complete the remediation of the TEF area, and enactment of further remediation program is not required.

The analysis finally concludes in a diagram the projected costs of remediation for the TEF area, including soil excavation, removing the tar pit concrete structure, waste collection, shipping and disposal etc., which cost range between 579.260,00 HRK and 912.660,00 HRK.

This analysis therefore showed in detail the most important environmental aspects: locations where the critical points are located, which steps need to be taken in order to remediate the soil, and amount which the City of Šibenik or the future investors will have to set aside for payment of the costs.

ENVIRONMENTAL IMPACT ASSESSMENT

Regarding future construction on the site, the proposed development is not listed as constructions for which a separate Environmental Assessment is needed. Therefore, if our proposition are accepted, a new study (after the control analysis) will not be needed. If the CoŠ and/or the future developer decide that they will develop something different, a check with the Croatian legislation will need to be performed to understand if such developments require the Environmental Assessment study or a similar document.

RESPONSIBILITIES REGARDING FURTHER REMEDIATION

If further contamination appears in the future, the owner of the land at that point will have the responsibility to undergo and pay for any required additional environmental remediation. Should the land be sold then the land owner will be responsible for such action, unless otherwise stipulated in the Sale and purchase agreement.



Implications of
business models
per product

Implications of business models per product

As stated before, we have outlined several possible models of putting the real estate owned by the City of Šibenik into operation and development. Below is the table of these options listed according to the development proposal.

Please note that where the recommendation is “land sale” that also includes splitting the company into multiple smaller ones, and then selling those companies.

Development	Recommendation	Pros	Cons
ADRIATIC CULINARY CENTER			
	Public development	<ul style="list-style-type: none"> – Higher degree of control of the project 	<ul style="list-style-type: none"> – Additional finances from the CoŠ budget – Questions regarding the capacity of CoŠ to manage some aspects of such content
	Public-private partnership	<ul style="list-style-type: none"> – No initial investment on the part of CoŠ – Additional revenue during the years for CoŠ – The risks are divided between two parties, therefore reduced – Private leadership improves effectiveness of management and administration – Improving education sector management to ensure accountability and transparency 	<ul style="list-style-type: none"> – Risk of credit lines and financing of the project - the pricing mechanism of bank loans for projects on a defined time period will be so that the risk margin will go up exponentially over the lifetime of the loan
	Concession and/or right of construction	<ul style="list-style-type: none"> – No initial investment on the part of CoŠ – Additional revenue during the years for CoŠ – The risks are divided between two parties – Private leadership improves effectiveness of management and administration – Improving education sector management to ensure accountability and transparency 	<ul style="list-style-type: none"> – Risk of credit lines and financing of the project - the pricing mechanism of bank loans will be so that the risk margin will go up exponentially over the lifetime of the loan
HEALTH FACILITY + WELLNESS CENTER			
	Concession + right of construction	<ul style="list-style-type: none"> – Additional revenue during the years for CoŠ – Providing the elite health facilities that would be otherwise unaffordable 	<ul style="list-style-type: none"> – Risk of credit lines and financing of the project on the side of the investor – Questionable whether this model would be attractive for the investor, the decision would depend on the details of the agreement
	Land sale	<ul style="list-style-type: none"> – Short term increase of city budget – No need for any financing from the CoŠ 	<ul style="list-style-type: none"> – Private healthcare is sometimes recognized in the public as something elitist, and therefore could be some opposition, though probably not significant
CONGRESS CENTER + HOTEL - WATERFRONT HOTEL – BEACH HOTEL			
	Concession + right of construction	<ul style="list-style-type: none"> – Additional revenue during the years for CoŠ – Development of new contents which enrich the offer of the City of Šibenik 	<ul style="list-style-type: none"> – Risk of credit lines and financing of the project on the side of the investor – Questionable whether this model would be attractive for the investor, the decision would depend on the details of the agreement
	Land sale	<ul style="list-style-type: none"> – Short term increase of city budget – No need for any financing from the CoŠ 	<ul style="list-style-type: none"> – CoŠ loses the ability to control future development by ceding ownership

Development	Recommendation	Pros	Cons
MULTIGENERATIONAL FACILITY			
	Public development	<ul style="list-style-type: none"> – Availability of non-commercial content to the wider population – CoŠ retains control of facility 	<ul style="list-style-type: none"> – Additional finances from the CoŠ budget
	Public-private partnership	<ul style="list-style-type: none"> – Additional revenue during the years for CoŠ – Without the need for management by CoŠ, since this is taken over by a partner 	<ul style="list-style-type: none"> – Risk that only commercially viable contents will be developed, negating the basic function of such a facility
PARKING BUILDING + CABLE CAR STATION			
	Public development	<ul style="list-style-type: none"> – Control retained by CoŠ – Additional revenue stream, which could be significant – This would be a monopoly, which are suited for public management 	<ul style="list-style-type: none"> – Significant burden on the city budget for development of the project
	Public-private partnership	<ul style="list-style-type: none"> – Financing significantly reduced for CoŠ. – Additional income for CoŠ, – Reduced development and operational risks – Private leadership improves effectiveness of management and administration – The project would probably be finished sooner if a suitable private partner with expertise is chosen 	<ul style="list-style-type: none"> – We could not determine any significant risks for CoŠ
	Concession + right of construction	<ul style="list-style-type: none"> – Financing significantly reduced for CoŠ. – Additional income for CoŠ, – Reduced development and operational risks – Private leadership improves effectiveness of management and administration – The project would probably be finished sooner if a suitable private partner with expertise 	<ul style="list-style-type: none"> – We could not determine any significant risks for CoŠ – Risk of credit lines and financing of the project on the side of the investor
MULTIFUNCTIONAL FACILITY			
	Public-private partnership	<ul style="list-style-type: none"> – Financing significantly reduced for CoŠ. – Additional income for CoŠ, – Reduced development and operational risks – Private leadership improves effectiveness of management and administration – The project would probably be finished sooner if a suitable private partner with expertise is chosen 	<ul style="list-style-type: none"> – We could not determine any significant risks for CoŠ
	Concession + right of construction	<ul style="list-style-type: none"> – Financing significantly reduced for CoŠ. – Additional income for CoŠ, – Reduced development and operational risks – Private leadership improves effectiveness of management and administration – The project would probably be finished sooner if a suitable private partner with expertise is chosen 	<ul style="list-style-type: none"> – We could not determine any significant risks for CoŠ – Risk of credit lines and financing of the project on the side of the investor
RESIDENTIAL			
	Land sale	<ul style="list-style-type: none"> – Short term increase of city budget – No need for any financing from the CoŠ – This is the usual model for this type of building and is rooted in the population 	<ul style="list-style-type: none"> – CoŠ loses the ability to control future development by ceding ownership
STAND-ALONE RETAIL*			
	Land sale	<ul style="list-style-type: none"> – Short term increase of city budget – No need for any financing from the Co 	<ul style="list-style-type: none"> – CoŠ loses the ability to control future development by ceding ownership
	Public-private partnership**	<ul style="list-style-type: none"> – Financing significantly reduced for CoŠ. – Additional income for CoŠ, – Reduced operational risks – Private leadership improves effectiveness of management and administration 	<ul style="list-style-type: none"> – We could not determine any significant risks for CoŠ

*Retail in buildings with mixed uses is explained in other sections together with specific types of development (eg. multifunctional facility)

**this would be a form of Public-private partnership where the CoŠ hires a developer to construct a Standalone Retail for CoŠ (ownership), and the CoŠ later leases that Stand-alone Retail to the operating entity..



Engagement

with investors

Building development

The development can start (after obtaining building permits) once the UPU is adopted and in line with GUP. The process of UPU adoption is explained in the Non-binding / Binding tender chapter. This is a large scale project which would increase the population of Šibenik by 5-10%. As such, it should be phased according to the prevailing market conditions in order not to oversupply the market.

Below are recommendations regarding phasing of the project development:

We would recommend that the project be phased at minimum approx. 10 years' time and maximum up to approx. 20 years.

- It is important that the project is phased in order to avoid the risk of oversupply.
- The phased development could be achieved by stipulations in UPU.
 - Example 1: The entire site can be divided in “cassettes” with appertaining names (e.g. A, B, C, D) and the UPU stipulations can determine the order / schedule of development per each cassette.
 - Example 2: Each segment (residential, hotel etc.) can have separate logical stipulations regarding phasing of development either per GFA and / or number of apartments, beds etc.

- The phased development is expected should the tender result in a single developer for the entire project.
- In case there would be more investors the logical phasing is especially important given that different segments (hotel, residential, shopping etc.) will attract different developers and their respective development does not have to be mutually excluded.
- We would recommend a hotel and mixed-use mostly residential segment of around 5,000 m² to 10,000 m² as a starting point for phasing requirements in UPU.
- In any case, the phasing is most important for the residential segment since its envisioned GFA is the largest among all programme uses.



Identification of potential investors

The number of investors in large-scale greenfield tourism projects in Croatia is limited due to lack of quality products (lack of prepared projects in terms of clean ownership, access to infrastructure, planning etc.), but the interest exists and the country is on the map of international investors. The current investments in tourism projects in Croatia can be characterized by describing the following actors:

Croatian hotel groups / Pension funds

(Valamar Rivijera, Maistra, Plava Laguna, Ugo Group, etc.; PBZ CO, AZ, Erste, Raiffeisen pension funds)

- The most active players on the market
- Undergoing a strong investment cycle which is concentrated on upgrading the current 2* and 3* hotel stock into 4* and 5* hotels
- Mostly concentrated on brownfield opportunities with lower number of greenfield investments, mostly in land plots which were already owned with present infrastructure
- No investments in mixed-use resorts with strong residential component until today, but we record potential interest in the future.
- The pension funds invest in HTL segment either in JV with hotel companies (e.g. Valamar) or by acquiring hotel companies and then investing in projects through them (e.g. Jadran d.d.)
 - Very limited investment criteria determined by the local regulatory authority, HANFA
 - Can invest only in companies listed on stock exchange
 - Acceptable IRR between 9% and 12%
- These companies would be interested in developing segments of the project, however there are some constraints:
 - The hotel groups are overinvested with limited expertise in residential segment
 - The pension funds are very limited by regulation and have limited expertise in real estate business

Developers from Middle East

(e.g. Damac, Emaar / Eagle Hills / Symphony)

- Strong interest for mixed-use projects in Croatia, capable of undertaking the entire project by themselves
- They represent new market players with no previous projects in Croatia
- Potentially interested in the subject property

Regional investors

(MK Group, Strabag, J&T Banka, JTH, Morgan Stanley, Soravia etc.)

- Investors from nearby countries which are familiar with the market trends and fundamentals
- Already present on the market with a few projects with some of them looking to further expand
- Interested in greenfield opportunities if they could be acquired at a bargain and have good fundamentals with palpable timeframe which can offer quick returns
- We can separate the investors in two groups:
 - Core and core plus investors which look at as low as 5% returns
 - Opportunistic investors which find minimum 15% return as acceptable
- Potentially interested in the subject property

Local small and medium enterprises

(Sarađen, Lignum, Pionir, Mešić COM, Sigma, Ora Mont)

- Broad range of smaller investors which can, but don't have to be specialized in the hotel business. Usually smaller companies with 1 to 2 hotels in ownership which are looking to further expand; construction companies which are willing to take risks in the HTL segment; other non-related companies which believe good returns can be achieved in this segment

- The most active investors in greenfield opportunities due to smaller invested amount, up to €10m equity
 - The investment logic is somewhat different from the companies mentioned earlier and doesn't always have to be in line with the market
- Would be interested in the subject property if there would be a possibility of developing smaller segments such as only residential component.

International developers

(UAE, Singapore, China, USA, Israel based developers and other)

- Companies which are aware of Croatia as a country and its context, but are not fully familiar with the market and the opportunities which can be found
- They have been eying Croatia for the last few years, checking potential entry Greenfield opportunities and estimating the risks and returns.
- Besides internal reasons and the pricing of the potential opportunities, most of the reasons why these developers/funds/companies haven't entered the market yet is due to the reasons described at the start of the chapter
- Since these companies are coming from usually well established markets where the returns have shrunk in recent years of expansive monetary policy, they are looking for returns above the core markets and in line with emerging markets benchmark, but with minimized risks. The minimum required return is in the line of:
 - +10% returns for the hotel segment
 - +20% returns for the residential segment
- Potentially interested in the subject property

Food retailers

- Top 10 largest Croatian food retailers
- The envisioned cca 1,100 apartments along with close to 500 hotel rooms create demand for around 1-2 standalone food big-box stores or larger supermarkets located on the ground floor of residential buildings
- Would be interested in the subject property if there would be a possibility of developing smaller segments such as only retail component.

The Croatian market has a very high supply of competing development land projects, plus a number of brownfield opportunities which are waiting for redevelopment.

However, there is a very limited amount of quality large scale development land products which are market ready in terms of ownership, infrastructure connections and adopted spatial planning documentation. This is one of the main reasons why the number of large-scale developments is very low.

The demand is sporadic and limited to a handful of investors currently present on the market due to the red tape and lack of quality product issues. The interest on the other hand is significantly higher and can be attributed to developers/funds/companies from all around the world which are eying Croatia in pursuit of good returns.

It is very important that the project is not sold, given in concession, etc. to speculators and land banking funds.

That is why a background check should be performed on interested investors and the proof of funds should be a minimum requirement to enter the tender/s with provided reference projects in recent period.

Terms of engagement for each investor type

The tender will be publicly announced through official local (Službeni glasnik grada Šibenika) and national channels (Narodne novine). Additionally since this is a large scale project, the national and probably regional web portals will cover the news as well.

The tender should have a link on a web page where the Investment information package will be available for download. There should also be a Q&A section with prepared typical questions and answers interested parties might have regarding the tender. The investors should be given a minimum 30 days period to ask additional questions or comments on the tender after which the city will check all the questions and publicly present the answers. In this case, everyone will have the same information.

We would recommend that, besides public announcements, the CoŠ directly contacts a wider group of investors (30-50), which might be interested in developing the location with a link to the tender. The list should be prepared prior to the start of the public announcement. It should contain investors which were contacted in the soft market testing phase plus several other locally or regionally present investors/ developers from each segment.

NON-BINDING | BINDING TENDER

As mentioned before there is a chicken or the egg situation related to the public tender and the UPU adoption / infrastructure investment necessary for the kick-start of the development. Here we will highlight the implications of this decision from the investors point of view:

- In order to have a transparent process which will maximize the returns to the City of Šibenik, it is necessary to perform a public tender for the location. The main question is at which stage should the tender be performed, prior to the UPU adoption or after UPU adoption.
- The potential investors might have different opinions related to the typology, product segmentation and distribution of the development on the site and should be involved in the project prior to the UPU adoption.
- The adoption of the UPU is expected to take at least 18 months which is a very long period and it is questionable if the investor would be willing to oblige themselves to the project without clear notion on when the UPU will be adopted and what will be its final form.
- It is also a standard practice that the UPU is financed by the investor (the total cost is not very high (maximum around €200,000) but represents an important and large initial cost in the period of uncertain outcome). Since we believe there is a small chance that the whole project will be undertaken by a single investor, it is unprecedented in Croatia that several investors pay for the UPU and come to a compromise regarding the future development.

The chicken and the egg situation observed in the findings section could be handled in a few scenarios:

- The CoŠ announces a non-binding tender for the whole zone targeting a single investor or several smaller investors. The tender is used for full market testing and the creation of a program for the UPU. The investors decide on which part they are interested to develop and give recommendations for the UPU
 - The CoŠ finances the UPU based on the full market testing results. In case a single investor would take the entire zone than that investor would finance the UPU.
 - The UPU is zoned in detail according to investors' interest.
 - After UPU adoption the CoŠ announces a binding tender for part/s of the plot targeting the interested investors.
- The CoŠ announces the adoption of the UPU and finances it. Since the announcement is public, it can be expected that interested investors will approach the CoŠ declaring interest for several parts, but UPU doesn't have to be necessarily amended to their intentions.
 - The UPU is prepared at a very flexible level, with basic constraints regarding the footprint, height, green area and utilization, but with multiple possibilities regarding zoning.
 - The CoŠ decides which zones should be saved for public domain while the rest can be tendered.
 - After the adoption of the UPU, the CoŠ announces a binding tender for part/s of the plot targeting the interested investors.
- The CoŠ announces a binding tender for the whole zone providing the main development characteristics, targeting a single investor or several smaller investors. The investors decide on which part they are interested to develop and bid for them. The UPU is financed by the CoŠ and zoned in detail according to the winners investors interest. Any down-payments from investors for the land or the infrastructure happen only when the UPU is adopted.

There are numerous iterations possible related to the scenarios described above. We would recommend to go for the scenario in which CoŠ announces the adoption of the UPU and finances it, the prepared UPU is very flexible after which a binding tender is announced.

TENDER CONDITIONS

The below table presents the information required to be provided to the interested investors depending if the City of Šibenik decides to carry out a Non-binding tender or a Binding tender.

INVESTMENT INFORMATION PACKAGE

Non-binding tender	Binding tender(s)	
0.	Executive summary; about the process, who is organizing the tender, info about the type of tender (non-binding, binding), main facts about entire TEF site (e.g. location and total surface).	
1.	Main facts about the site; macro and micro location, plot surface, cadastral plots numbers. Map(s), photos of land and exact site(s) boundaries	
2.	Information about the existing infrastructure on the site. Information that the site is clean (not polluted anymore)	
3.	Information about current ownership situation.	
4.	Short description of current zoning regulation for the site(s); e.g. which plans exist and which will be adopted (e.g. UPU) and approx. when.	Short description of current zoning for the site(s); e.g. UPU and main implications for the site (allowed uses per plots, main implications e.g. footprint coefficient, max height, utilization coefficient etc.)
5.	Key contacts for Q&A and for submitting offers	
6.	Key dates for Q&A and for submitting offers	
7.	Short description of offered specific business model for subdivisions. E.g. process, basis of bids and details of SPVs	
8.	Required information for offers (description of the bidder, track record, interest in which plot(s) / uses, preferred business model, typical financing structure etc.)	Required information for offers (description of the bidder, track record, information for which plot(s) / uses the bidder is bidding, how the development will be financed, commercial terms etc.)
9.	Market commentary	Market commentary
10.	General participation conditions	General participation conditions; e.g. Costs ("Purchasers are reminded that all costs and expenses incurred in evaluating, submitting or negotiating an offer will be at their own expense and their own risk. The following points summarize the general terms of participation: The owner reserves the right not to accept any offers at its discretion. The price offered should be net of any transaction costs.")

