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BROWNFIELDS MARKET WORKS ITS WAY BACK TO HEALTH

Coming off a few rough years for the brownfields redevelopment market, the mood was ebullient at the Brownfields 2011 conference in Philadelphia in April of that year (the last time EBJ covered the market). Mayors and governors who spoke at the event declared their determination to get their cities working again, and professionals involved in various roles in brownfields redevelopment expressed their sense that the market was beginning to turn the corner. Hope was in the air.

The view wasn't bright in all directions. Government brownfields funding and incentive programs were in danger of cutbacks or even expiration due to lack of reauthorization. "The programs you care about are under siege," said a panelist during one session. "Tell your stories."

Those threats haven't gone away, and one federal brownfields tax incentive has even been lost, as of the "fiscal cliff" legislation enacted on January 1, 2013. The people who watch Congress on behalf of the brownfields redevelopment industry are still very busy preventing any further rollback of federal support for the brownfields programs and are even seeking ways to strengthen them. It's an uphill battle.

Yet even if the market for returning brownfields to productive use isn't today close to the level of activity in the go-go years prior to 2008, the hope conveyed at Brownfields 2011 does not appear to have been misplaced. The uncertainty about the direction that property values could go is largely a thing of the past, as a certain measure of stability has returned to the real estate market. Private capital is arriving back on the scene, even if government funding for brownfields redevelopment remains thin. Some major, marquis projects are working through the pipeline.

Mary Hashem, executive vice president at **EnviroFinance Group LLC** (Denver, CO) was one professional who told EBJ in 2011 that the brownfields redevelopment market had turned, and the worst appeared to be over. Now in 2013, she feels she was right, at least from her company's perspective.

"We have seen a great deal of activity. There have been a tremendous number of opportunities for us, perhaps because we had capital in a market that was still somewhat capital constrained."

In April 2011, EnviroFinance Group had just merged with Hashem's company **Brownfield Partners, LLC**, combining the latter's expertise in moving projects through the pipeline with the former's investment capital capacity. All of the hopes and expectations from that merger have been met, Hashem says.

She notes by way of example EnviroFinance Group's recent acquisition of the former St. Anthony's Central Hospital campus, a 19-acre property in west Denver, a site the company sees as offering excellent potential for reuse due to its ease of access to downtown, its scenic mountain views, and its proximity to established neighborhoods. Up to the closure of the deal, EnviroFinance Group had been working with city planners, elected officials, and neighborhood groups over the prior year to develop viable designs for the property.

SOME CAPITAL TO DEPLOY

"We are anticipating a capital infusion and ramping up deal flow," Hashem tells EBJ. "We have a goal of closing another three projects this year, and that will take a great deal of effort and scrambling of all of our parts. We're aggressively looking for new projects and have capital to deploy."

The news on capital deployment isn't uniformly positive, she remarks. The market is seeing more private capital, as opposed to government investment, and the equity markets in particular are getting excited about real estate again. By comparison, the debt market "remains more constrained than it may have been a couple of years ago, and I think especially for brownfields," she says. Property impairment can still make the traditional lending community somewhat uncomfortable.

Bruce Rasher, a member of the board at the **National Brownfield Association** (NBA), agrees that the brownfields market has shown improvement over the past couple of years. "I think that there are users with requirements today that were just non-existent two years ago," he tells EBJ. "I also believe that, based on the experience we're seeing and the conversations we're having, there is a lot more upstream activity by developers in acquiring property." In addition, he notes, a lot more site location searches are taking place.

Looking at the industrial market, Rasher, who also heads up the **Revitalizing Auto Communities Environmental Response (RACER) Trust**, the two-year old organization formed to facilitate the cleanup and redevelopment of former General Motors (GM) facilities, notes that vacancy rates have come down. "There is some new construction going on, but I think we're another couple of years before we get back to the normal vacancy rates in the industrial market. Maybe by next year or 2015 if we stay on the current course."

In 2010, the credit markets were frozen, new construction had plummeted, and the vacancy rates were up, he recalls. "Now, the better buildings have been picked over. There has been enough activity in the acquisition and leasing of the better buildings that we're starting to see parties interested in new construction on brownfield sites."

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"SOMEBODY FLIPPED A SWITCH"

The signs are definitely encouraging. Noting that he talks to brokers, developers, and consultants all the time, Rasher reports that activity in 2011 improved over that in 2010, and "at the beginning of 2012, it was like somebody flipped a switch. Activity and the quality of activity really turned on. Users are getting back into the market, developers are investigating acquisitions. I've seen no abatement in that trend."

Rasher adds a caveat, to the effect that the level of activity is nowhere near that of the "golden age" of 1995 to 1998, or during the years just prior to the financial meltdown of 2008. "While credit seems to be more accessible, deals are a little more difficult to do now, and there are fewer."

Deals are more challenging to execute because "investors and creditors are being more cautious or critical of business plans they're seeing," he suggests. "It takes longer and it takes more to prove out a business plan. Assumptions are being punished to insert more conservatism. You need to over-state your costs and under-state your revenue more than was the case when pro forma's were used five, six, or seven years ago."

80-20 STILL APPLIES

In 2011, NBA Executive Director Robert Colangelo told EBJ that a kind of "80-20" rule applied to the brownfield market, and Rasher affirms that that's still largely true—80% of all brownfield sites are still too burdened with liabilities to be redeveloped, three-quarters of the remaining 20% have favorable attributes but will need some kind of help in the form of government funding or incentives, and the remaining 5% can move through the pipeline without that kind of support.

Here again, however, he offers caveats. "There are some markets where public policy has shifted towards making it more difficult to develop greenfields, so people have to focus on brownfields." In addition, over the past two years, governments have increased their use of incentives for redevelopment.

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"Incentives for brownfields really hit their stride in 1995 and 1996, when state legislatures started enacting financial incentives, and EPA started issuing grants," says Rasher. The use of such instruments "has become more streamlined and sophisticated, and states are better at using the tools that are available to them," he notes, adding, however, that "some states have scaled back because of financial constraints."

By and large, however, "what Robert said holds true today," says Rasher. "For some properties, there's just no way to find the private and public capital necessary to implement a remedy that would make the property suitable for use. It's really on the margin where these tools can be effective. And of course, you can have all the tools you want; if there's no demand for the property, it doesn't matter."

Evans Paull, executive director of the **National Brownfields Coalition** (NBC) and a consultant through his firm **Redevelopment Economics** (Baltimore, MD), sees a combination of demographic and cultural factors helping to increase that demand. Noting that the state of the market is probably somewhere "roughly midway" between the 2006-08 period and the trough of the recession, Paull says "there are a couple of strengths in the brownfields part of the market that may mean that brownfield-type redevelopment projects are moving a little faster than some of the more traditional suburban greenfields."

The demographic factor involves a reduction in the number of families with children, which fueled suburban growth, and an increase in the number of single people, families without children, and empty-nesters. Opinion and marketing surveys are finding that these populations, and in particular the Generation X and Generation Y cohorts, have a stronger bias towards living in cities and walking to work or using public transportation, and generally valuing "livable neighborhoods" with numerous local amenities, says Paull.

"Many downtowns are seeing fairly considerable population increases. Cities that had lost populations in past decades are now on the positive side," says Paull, citing his home town of Baltimore as an example. "The brownfields marketplace is generally regarded as a subset of the urban redevelopment market place. They're not one and the same—there are non-urban brownfields—but the trends favor urban brownfields."

Echoing Bruce Rasher's observations, Paull adds "we're seeing a pickup in the industrial marketplace. There's a little bit of movement towards 're-shoring,' with industries moving back to the U.S. If we can

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provide them with land that has been used for manufacturing before without putting them through a five-year regulatory process related to cleanup, that should be the first place that those kinds of businesses are looking."

EnviroFinance Group's Hashem sees the same demographics and cultural factors at work in the markets her company is active, including Denver, northern and southern California, and the Northeast from Baltimore to Boston. "The kinds of projects we're seeing moving forward continue to be urban infills, mixed use, high-density residential. The apartment market has been on fire; it's very strong in many areas."

RENTING, NOT BUYING

Underwriting constraints for mortgages are leading people who, a generation ago, might have been looking to buy a home, to now be more inclined to rent. Yet even with these market constraints pushing renting versus buying, there is still a cultural preference in play. "The generations in their 20s and 30s are by far moving away from car and home ownership towards a more mobile, flexible lifestyle," says Hashem, "and this trend is playing right into the need for urban infill development on brownfield sites."

That and the push to reuse old industrial sites can lead to projects of significant scale, and innovative developers can bring some imagination to the process. For example, **Hull & Associates, Inc.** (Dublin, OH), a 180-person environmental consulting firm that creates special-purpose limited liability corporations (LLCs) to buy impaired properties and take them through to redevelopment, is currently working at a closed Delphi plant in Dayton, demolishing most of the structures there but preserving some historic structures where the Wright Brothers conducted some airplane manufacturing. Hull has attracted the interest of the National Park Service in adding the restored facility to its Aviation Heritage National Historical Park system.

"I do think that there is a lot of opportunity for this type of property," says Craig Kasper, Hull & Associates' CEO. "A lot of the low-hanging fruit has been picked over, and by low-hanging, I mean location, location, location," he acknowledges. Still, "there's thousands of sites like the Delphi facility; it's just a matter of figuring out the development risk and exit strategy."

The Delphi plant is one of two sites Hull closed on 2012, the other being a former cardboard manufacturing facility in Rittman, Ohio, west of Acton. There, the presence of wetlands and lagoons could present an opportunity to attract the participation of conservation groups.

Operating at this scale and with this level of imagination is not easy, and Kasper confides he is not seeing a dramatic increases in the kind of commercial and industrial real estate activity the company saw in the mid-2000s in its region (Ohio and surrounding states). Projects are still out there, but Ohio has cut some subsidies, and other states are not providing large-scale funding, he notes. The funding that does exist is tied more to economic development than to cleanup specifically, "which is understandable," he adds.

A SHALE GAS PLAY

Combining distinct but interrelated operations in remediation consulting, waste management facility design and permitting, urban revitalization, and renewable energy development, Hull is now eyeing opportunity arising from the boom in oil and shale gas exploration in Pennsylvania and Ohio. The firm acquired a Pittsburgh-based consultancy serving the oil and gas market in 2009, and is now enjoying some success in serving the logistics and facility needs of the shale oil and gas development supply chain, from the upstream side through the mid-stream processing and

Racer Trust Prime Industrial Sites for Redevelopment

Site	Details	Disposition
Indianapolis Stamping Plant (Indianpolis, IN)	Manufacturing from late 1800s to June 2011, chemical distributino from late 1980s. VOC contamination of soil and groundwater, potential TCE vapor intrusion	Not sold. Community partners: Develop Indy, Ind. Convention & Visitors Assn, Ind. Downtown Inc.
Shreveport Assembly Plant (Shreveport, LA)	Former paint shop, on-site powerhouse, wastewater treatment plant, and rail spur. LDEQ signed off on closure before trust took title in 2009	2013 agreement to sell property to Elio Motors committed to redevelopment that will create 1,500 jobs.
Flint North Facility (Flint, MI)	Auto parts production from 1903 to 1999, buildings demolished in 2000-02. Cleanup address soil and groundwater contamination and LNAPL infiltrating into storm sewers.	Not sold. Community partners: Flint Economic Dev. Corp., Genesee Regional Chamber of Commerce
Livonia Powertrain Plant (Livonia, MI)	Built in 1971, former machining operation, warehouse, wastewater treatment plant. Managed under EPA RCRA program.	Not sold. Community partner: Livonia Chamber of Commerce
Willow Run Powertrain Plant (Ypsilanti, MI)	B-24 bombers manufactured by Ford, GM purchased in 1953 to make transmissions. Contamination by chlorinated VOCs, LNAPLs. Limited LNAPL recovery continues.	Not sold. Community partners: Washtenaw Economic Development & Energy, Ann Arbor SPARK
Massena Powertrain Plant (Massena, NY)	Industrial and manufacturing site from late 1950s to 2009, added to NPL in 1984. Multiple areas of concern, primarily PCB and VOC contamination, threatening nearby Raquette and Mohawk rivers.	Actively being prepared for redevelopment. Community partner: St. Lawrence County IDA.
Salina Industrial PowerPark (Salina, NY)	Manufacturing operations 1952 to 1993. Contamination of soil and groundwater by PCBs, VOCs, and metals. Extensive cleanup and removal work completed, stormwater and groundwater treatment ongoing.	Redeveloped, with approximately a dozen tenants, including Blitzer Scroll, Carpenter Industries, and Klein Steel Service.

Source: RACER Trust

transmission link and onto the demand side, including the development of co-generation facilities.

"Brownfields has a pivotal role in all of those areas," says Kasper. "There's lots of heavy industry up and down the Ohio River with old facilities that could be good logistics facilities to support the growth."

Putting on his RACER Trust hat, Bruce Rasher notes that the organization has managed to make the best of the tough conditions it faced when starting out in early 2011 and sold 26 former GM automobile properties. One notable sale involved a 3 million square foot plant in Ontario, Ohio, to **Brownfield Communities Development Co.** (BCDC), a joint venture between property management specialist **Adler Group Inc.** (Miami, FL) and real estate strategic advisory firm **Hilco Real Estate LLC** (Northbrook, IL). BCDC's aim is to convert the 266-acre site into a "multi-tenant business generator."

Another notable sale involved the transfer of a site in Fairfax, Kansas, to a developer that has committed to construct 12 million square feet in new buildings. "Based on soft commitments received from the market, we anticipate over 2,000 jobs being created there," says Rasher. And a former GM assembly and stamper plant in Shreveport, Louisiana, has been sold to Elio Motors, which has made commitments to the parish and the state that will create 1,500 new jobs over the next 36 months, Rasher reports.

"These are the kinds of deals we're doing. I'm never satisfied with our progress, because we share the communities' urgency to getting these properties back to commercial use. But by any objective sense, we've made a lot of progress. We also expect a string of announcements of sales in the upcoming months."

Some of the demand for these sites is coming automobile and automotive parts manufacturers themselves, which are enjoying a resurgence of vehicle production. These entities won't be able to reuse the old GM plants, but will have to demolish and replace them, Rasher points out. Old auto plants may have had three or four truck docks; today's require 70 to 80, to keep up with just-in-time manufacturing modes.

STATES TRYING HARD

Commenting on the elevated interest in repurposing old industrial sites, Evans Paull says "the states are trying to be really responsive to that kind of business investment. There's a lot of effort going into making sure that the regulatory process for brownfields clearance is efficient."

There's still broad variance in the capabilities states have in facilitating brownfields development, he observes. Referring to the Licensed Site Professional (LSP) systems in Massachusetts, New Jersey, and Michigan, he notes "there is a modest movement towards privatizing the oversight of cleanup." The state of Washington is currently considering some recommendations in that direction, Paull adds.

Raising EPA cleanup grants from $200,000 to $500,000 "will enable the program to assist larger, more complex sites, and arguably sites that are more important to communities."

"Even in the states that have a more traditional regulatory structure, there's a lot emphasis on being timely on review," he goes on to say. "That helps the industrial marketplace, because it's more user-driven, whereas mixed-use and residential is more developer-driven."

There is also some movement towards even more protective liability provisions at the state level. Connecticut, for example, enacted some aggressive liability reforms in 2010 through Public Act 11-141, Section 17 of which unified an unclear and scattered regime of prospective-purchaser protections that developers found difficult to navigate.

This pace of advance in state liability relief programs "isn't breakneck," says Paull, "but it's in the right direction." As for other state-level incentives, there have been steps forward and steps backward, the latter mostly having to do with strained budgets. Tax increment financing (TIF) has made headway in some states, especially the "pay as you go" variety (as opposed to bond funding or borrowing against a government source).

Mississippi has expanded a brownfields tax rebate program to allow a developer to capture three times the cleanup costs from revenues generated at a site. In California, however, the use of TIF for brownfields and other types of redevelopment projects has been eliminated, while in Michigan, a popular tax credit program for brownfields was eliminated in a tax reform bill.

The trajectory in Washington, D.C. could be headed in the wrong direction as well. In terms of federal budget support for brownfields programs, "the outlook there is for minimizing losses," notes Paull. "The best-case scenario in the current timeframe and for the next couple of years is probably level funding. I think we'll be in the area of 10% cuts, and 20% is the worst case."

Paull points out that the Section 198 Remediation Tax Expensing Program is now gone, not renewed in the legislative package approved by Congress on January 1 to avoid taking the economy over the so-called "fiscal cliff" (or, to at least postpone that eventuality). The program had allowed an entity that conducts a cleanup at a brownfields site to fully deduct the costs incurred in any given year rather than capitalize those costs over time.

"Our group, the NBC, is very active in trying to get that program reinstated," says Paull. "It lowers the cost of remediation, and it helped move brownfields redevelopment forward," he adds, noting that the incentive was not taken advantage of to the extent that it could have been. "It was not well-publicized, it never got traction, and the blame goes all around for that."

NBC's number one objective, however, is the reauthorization of EPA's Brownfields Program. A "very good bill"—the Brownfields Utilization, Investment, and Local Development (BUILD) Act of 2013 (S. 491)—has been introduced by Senator Frank Lautenberg (D-NJ) and Senator James Inhofe (R-OK) that includes several provisions the NBC helped to develop.

One of the key provisions would raise the level of EPA cleanup grant funding from $200,000 to $500,000 per grant. "This will enable the program to assist larger, more complex sites, and arguably sites that are more important to communities," says Paull. "For any site with a higher cleanup cost, $200,000 was a drop in the bucket before. $500,000 will be significant. There are a lot of sites with those high cleanup costs, and many are sites with ambitious redevelopment plans that are stuck."

Other key provisions include the opening of all three "pots" of funding—cleanup grants, revolving loan funds, and site assessment grants—to non-profit organizations, and the authorization of multipurpose grants. "We like the non-profit provision because non-profit projects are very often the ones that are most aligned with disadvantaged communities, difficult inner-city properties, and tough rural properties, and non-profits usually have very good abilities to bring in other sources of funding," says Paull. The multipurpose grants would allow more flexible deployment of available funding, he adds.

Paull is optimistic about support for S. 491 in the Senate. In the House of Representatives, progress is slower. Representative Frank Pallone (D-NJ) is behind a companion bill, but a Republican counterpart to Sen. Inhofe has not yet come forward.

The challenge for Paul's organization is to keep plugging away at Congress. The challenge ahead for brownfield developers "is finding quality project opportunities and executing well on them," says Enviro-Finance Group's Hashem. "For us, quality is well-located real estate in target markets. There's always a danger when you're growing that you lose quality along the way, and we are taking steps to ensure that our management functions and processes are in place to support our growth.

"The pipeline of opportunities for infill improvement is still there. The old saying still applies: you need a ready, willing, and able seller," she says. "We want to do one or two signature projects that are large and transformative. We see St. Anthony as one of those projects, in a very vibrant community. We'd like to see more of those—projects that can have that transformative and revitalizing impact." ☐