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Web Exclusive: Opportunities with Brownfields

by Craig Carbrey

At a time when well-located developable land is in short supply, credit markets are years from thawing out, and the demand for “green” real estate is at an all-time high, brownfield development provides a unique opportunity to deliver strategically located projects that are economically and environmentally sound.

These contaminated sites, such as former industrial properties, gas stations or dry cleaners, often provide for infill development in prime locations. Additionally, remediation technologies are more affordable (and environmentally sound) than ever, government support of these projects is increasing, and the price benefit for brownfields when compared with a uncontaminated, or “greenfield,” properties in today’s market provides a strong return on investment after cleanup.

While these factors make brownfield development an enticing opportunity, it still is a dirty job. Only specialized developers and lenders with a strong grasp of the scientific, legal, regulatory and financial intricacies associated with brownfield development will realize the vast potential of the project.

Opportunities & Risks

The risks and rewards involved with investing in and redeveloping brownfield projects often go hand in hand.

Like any project with a high level of inherent risk, brownfield projects are often overlooked by traditional lending institutions. Even in a strong market, brownfield development is a lengthy and time-consuming process that requires extensive due diligence—from insurance issues and liability transfer to environmental engineering and sound remediation strategies. Oftentimes, the complex environmental risk analysis alone is reason enough for conventional lenders to shy away from lending money to developers wishing to revitalize a contaminated property.

Timing and flexibility of the project are also an issue. As brownfield project timelines fall at the mercy of the regulatory approval process, flexibility in the development strategy is the key to a successful outcome.

Most importantly, the developer must demonstrate the ability to turn the remediated property into both a profitable and sustainable development. Based upon the uncertainty surrounding the real estate market, finding the right exit strategy represents the single greatest challenge to obtaining financing. As a result, many developers are approaching 2009 as a time for preparation and positioning in lieu of an eventual recovery.

Finding Gems in the Rough

The emphasis on “smart growth” development in recent years has resulted in a number of thriving urban



A rendering of EFG's Liberty Harbor project in New Jersey.

The brownfield waterfront parcel was the former home of a shingle manufacturing plant. Slated for completion in 2012, the new luxury hotel will serve as a cornerstone of the city's extensive redevelopment plan for the downtown area.

infill brownfield projects. Smart growth, which places an emphasis on urban projects located near housing and transportation, is taking flight in heavily populated areas.

Consider the 15-acre residential/mixed-use project taking shape in Vallejo, Calif., on the site of the former Vallejo Unified School District corporation yard. Years of underground contamination resulting from storage tanks once containing petroleum plagued two of the four brownfield land parcels that have since been acquired and are currently undergoing cleanup/remediation in preparation for development. The \$7.25 million in senior and subordinated secured financing funded a portion of the acquisition price, the remediation/cleanup, the land planning, as well as the entitlement costs to rezone the parcels from public use to residential/mixed-use.

In New Jersey, a \$27.5 million loan paved the way for the remediation of a prime Jersey City brownfield waterfront parcel that was once home to a shingle manufacturing plant. The site, which was contaminated from plant's production of an asbestos-laden product, proposes a 564,000-square-foot hotel/residential property featuring a 313-room luxury hotel and 470 for-sale and for-rent condominium units for the site. Slated for completion in 2012, the hotel will be Jersey City's first luxury hotel and will serve as a cornerstone of the city's extensive redevelopment plan for the downtown area.

While California and New Jersey are prime examples of how funding the redevelopment of unprofitable properties into thriving business locations can spur urban growth, brownfield development opportunities exist in urban areas across the entire United States.

Green Remediation

As brownfield remediation technologies continue to advance, so do the industry's best management practices (BMPs).

"Green Remediation" practices—defined by the Environmental Protection Agency as the practice of considering all environmental effects of remedy implementation and incorporating options to maximize the net environmental benefit of cleanup actions—are at the core of the EPA's call for the reduction on the "footprint" of remediation. While still in its infancy, the practice of green remediation is quickly gaining steam in the development world as new ROI data comes to light.

The industry has outlined four stages of the remediation process where green remediation could play a significant role:

- **Deconstruction, demolition and removal**
 - Using fuel-efficient, cleaner fuel-burning vehicles and equipment.
- **Cleanup, remediation and waste management**
 - Incorporate ways to recycle or re-use wastes to minimize disposal in landfills or other waste-disposal facilities.
- **Design and construction for re-use**
 - Consider engineered or landscaped features to capture water runoff for re-use.
- **Sustainable use and long-term stewardship**
 - Exercising energy efficient and eco-friendly building materials and products within the redevelopment structure.

The Bottom Line

The positive economic and social impact on local communities is what validates the continued growth and interest in developing well-located urban infill properties across the United States. While the current economic climate has ushered in an era of uncertainty among developers of all product types, the fundamentals for brownfield development remain strong and the opportunities vast. As with any real estate project, the health of the economy will directly impact the volume and depth of brownfield

developments in the immediate future, but the long-term opportunity remains firmly in place.

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