



## RE-Development Academy Real Estate Webinars

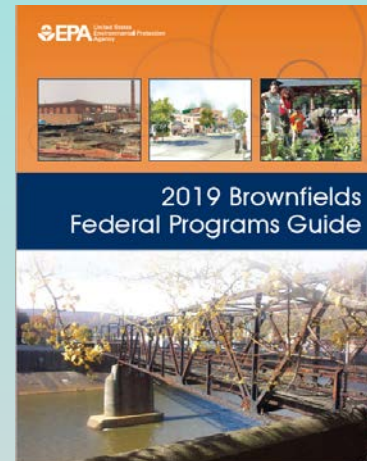
# Part 1: Intersection of Real Estate and Brownfields

Hosted by EPA's Office of Brownfields & Land Revitalization  
September 13, 2019



# Land Revitalization at EPA

Guides, tools and technical assistance that helps communities put previously contaminated properties back into productive use



# Welcome to EPA's RE-Development Academy Series

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## Webinars:



Sep 13

Part 1: Intersection of Real Estate and Brownfields

• Oct 18

Part 2: Peering into the Crystal Ball: How the Market Decides Future Use

• Nov 8

Part 3: Pulling Back the Curtain: How Developers Make Money

## Training Workshop:

• Dec 10

Part 4: RE-Development Academy - Let's Make a Deal!

Certificate will be available for completion of all four parts of the series.





# Join us at the 2019 National Brownfields Training Conference



**REGISTRATION  
OPEN!**

**December 11-13, 2019**  
with pre-conference  
programming December 10

Join us at the  
**LOS ANGELES  
CONVENTION CENTER**

**Brownfields2019**  
SUSTAINABLE COMMUNITIES START HERE

Visit **[brownfields2019.org](https://brownfields2019.org)** for  
more information!

 EPA  ICMA



# Webinar Instructors

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**Michael B. Taylor, AICP**, President of Vita Nuova LLC, a national consultancy, works in many of the toughest areas of the country, ranging from small rural areas, to inner city environmental justice neighborhoods. Focusing on some of the most contaminated sites in the country, he has special expertise in bringing diverse parties to consensus in order to facilitate redevelopment.



**Abbie Emison, AICP**, has managed brownfield real estate transactions and developed numerous strategic economic development and reuse plans for various municipalities. She serves as an economic analyst, deploying a variety of quantitative tools to guide redevelopment of former manufacturing and industrial sites across the country.



# Agenda

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- I. Setting the Stage
- II. Redevelopment Process
- III. Pre-Development Phase
- IV. Development Phase
- V. Management and Operations Phase
- VI. Key Players
- VII. Case Studies: Small, Large, Tough, Isolated, and Ugly



# Setting the Stage: Real Estate Terms and Jargon

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Due Diligence	Feasibility Analysis	Back of the Envelope
Environmental Risk	Physical Site Risks	Market Risk
Build to Suit	Hold vs. Flip	Opportunities and Constraints Analysis
Proforma	Fatal Flaws	Deal Killers





# Setting the Stage: Understanding Redevelopment is Crucial

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*“Integration of cleanup and redevelopment is the key to sustainability.”*

- Understanding developers helps all parties craft better agreements
- Remedies must be compatible with current and future use to ensure users are safe
- Integration of cleanup and redevelopment can provide a funding source for contaminated properties



# Setting the Stage: Redevelopment Risk and Opportunities

- Opportunities:
  - Prime Locations
  - Reduced Purchase Price
  - Existing Infrastructure
- Risks:
  - Liability
  - Cleanup and Timing
  - Financing
  - Weak Demand



# Redevelopment Process Overview



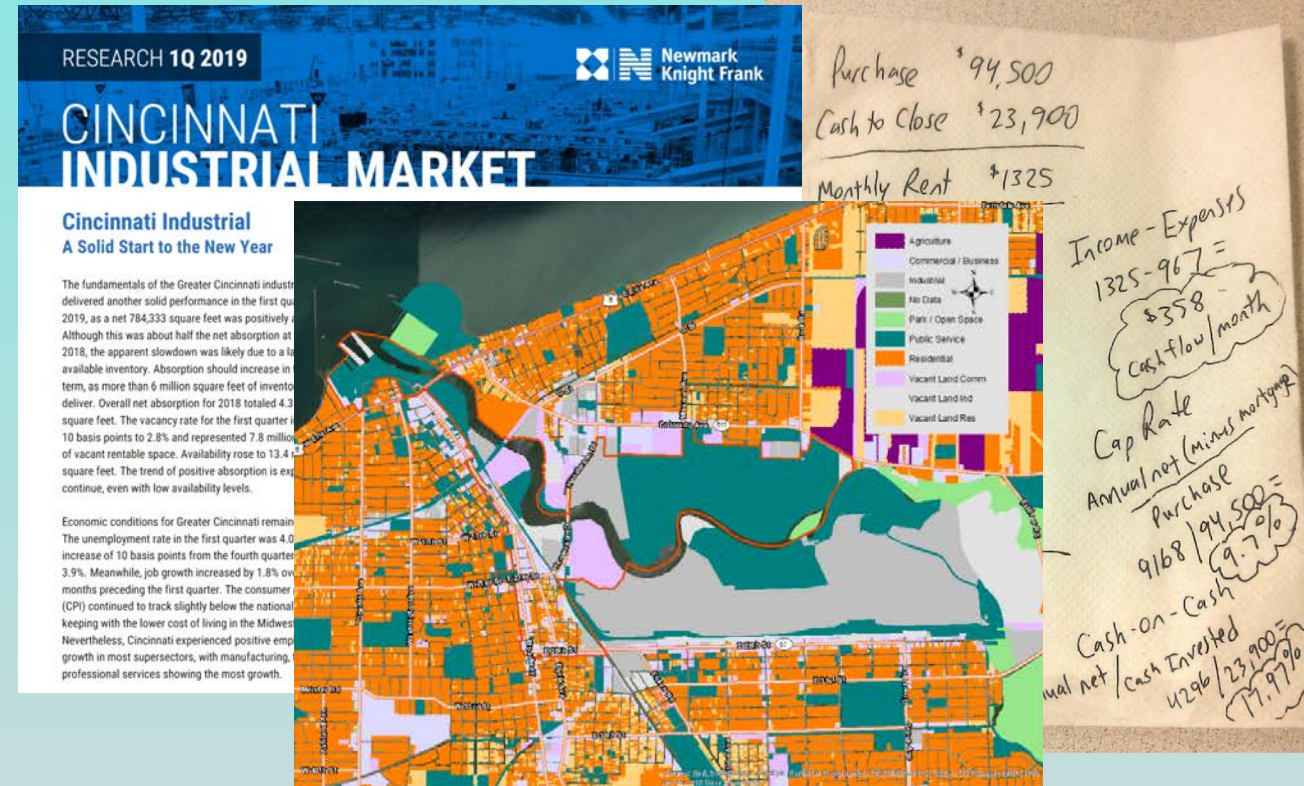




# Pre-Development Phase

## Pre-Development Activities:

- Analyses
- Fatal Flaws
- Proforma/Purchase Agreement
- Redevelopment Planning
- Due Diligence
- Identify Funding/Financing
- Acquire Environmental Insurance





# Pre-Development: Opportunity Analysis vs. Due Diligence

- Property assets and constraints
  - How much can you build and for how much
- Environmental assessments
  - Must understand the full picture
- Land and building titles
  - Are there any restrictions?
- Key stakeholders

**Due diligence is a formal time restricted step in the Purchase & Sale Agreement**

*Thorough upfront analysis will ease the Due Diligence process*

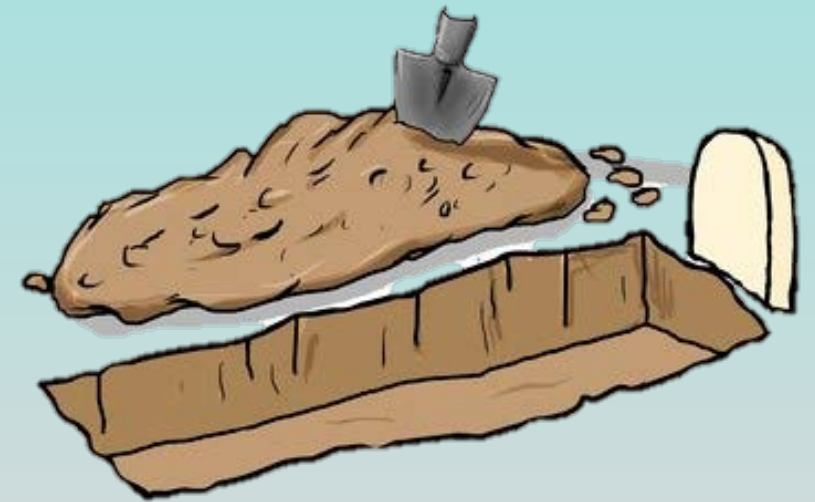




# Pre-Development: Fatal Flaw Determination or “Deal Killers”

1. Site is not fully characterized
  - Cleanup is not or cannot be quantified
2. Unclear regulatory process
  - Cleanup approach and process unclear
  - Timing unclear or too slow for real estate market
3. Extraordinary deal costs
  - Acquisition
  - Entitlements
  - Construction
4. Risky market
  - Unstable economy
  - Strong community opposition

Clarity &  
Quantification are Key

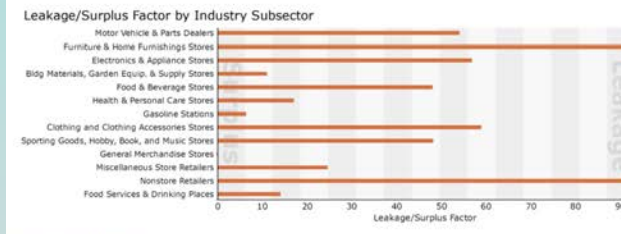
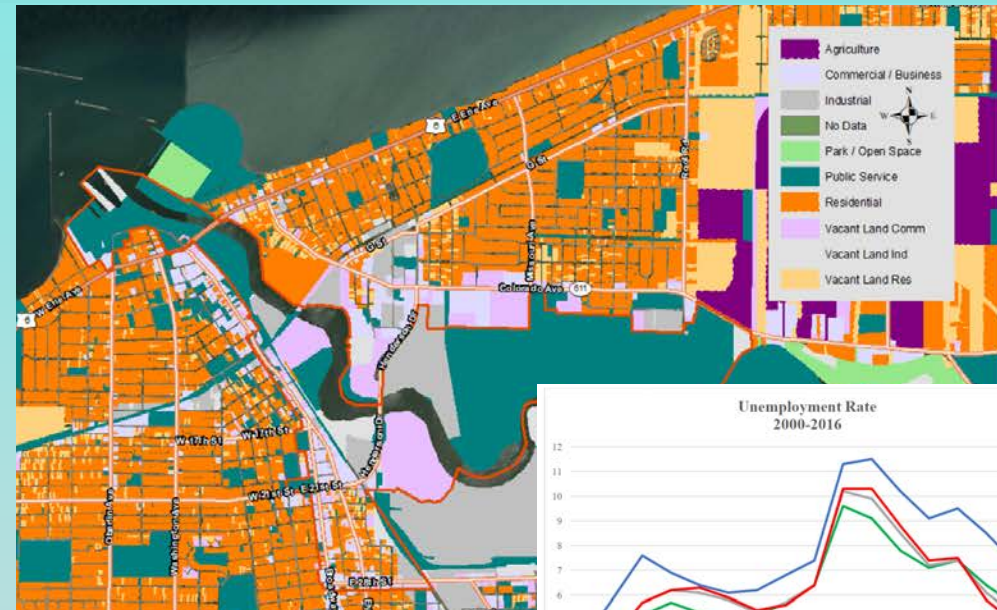






# Pre-Development: Analyses

- Physical/Regulatory Evaluation: development potential
- Feasibility Analysis: financial and environmental risk; community appetite
- Market Assessment: potential reuse options based on market





# Pre-Development: Evaluating Financial Risks

- Property costs
  - Taxes and tax policies
  - Acquisition costs
- Environmental costs
  - Potential short and long-term costs
  - Liability risks
- Redevelopment costs
  - Site preparation and approvals
  - Infrastructure
  - Buildings
- Availability and cost of funding





# Pre-Development: Proforma and Financing

- Back of the Envelope
  - Quick financial analysis
- Proforma
  - Statement that represents the probable future net operating income of an investment property.
- Financing
  - Whose money is it anyway
  - Is there money to finish the project

Value of the Land Clean	\$100
Acquisition Costs	\$40
Remediation (short and long-term)	\$20
Soft Costs (Engineering, legal, etc.)	\$20
Potential Profit	\$20







# Pre-Development: Agreement to Purchase

- From Contract Negotiation to Closing
  - Purchase and Sale Agreements / Letters of Intent
  - Not final yet
  - Managing risks
  - Most developers seek contingencies
- When is the deal actually done?
  - Milestone based agreements
  - Regulatory approvals
  - Site control





# Pre-Development: Agreement to Purchase



**TIME KILLS ALL DEALS**





# Pre-Development: Redevelopment Plan

- Planning includes:
  - Community Engagement Plan
  - Site Reuse Vision
  - Redevelopment Implementation Strategy
- More information: <https://www.epa.gov/brownfields/information-eligible-planning-activities>

Redevelopment Steps  
and Purchase & Sale  
Agreement terms may  
be linked

*Level of upfront planning depends on the complexity, value,  
and necessary approvals for development.*





# Development: Types of Redevelopment Opportunities

- Redevelopment potential based on market demands
- Different developers may have widely different ideas / objectives for the same site

Energy



Office



Retail



Warehousing/Distribution



Residential







# Development Phase

## Development Activities:

- Entitlements
- Construction Permits
- Cleanup and Site Preparation
- Marketing and Pre-leasing Activities
- Construction
- Open the Project





# Development: Redevelopment Scenarios

- Privately-Led
- Publicly-Led
- Public-Private Partnership

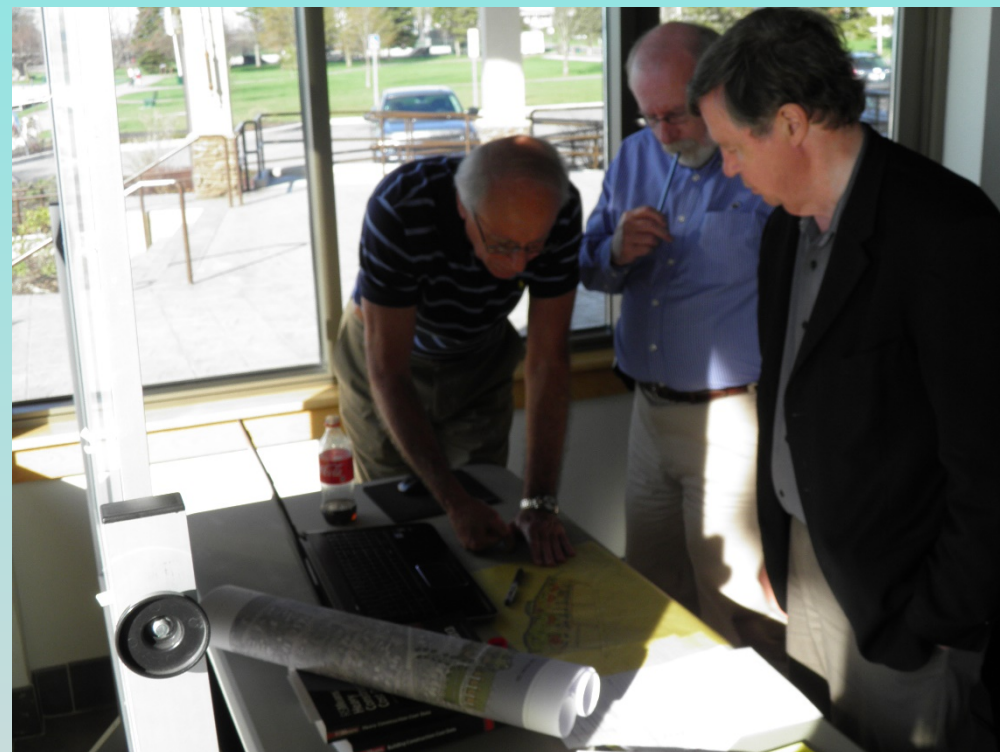
In publicly-led and public-private partnerships the public sector may attract interest using an EOI or RFP process.





# Development: Types of Developers

- The three key types of developers who buy brownfields generally are:
  - Land developers
  - Vertical developers
  - Redevelopment developers
- Developer Considerations
  - Hold vs. Flip
  - Spec vs. Build to Suit





# Development: How Developers Make Money

- Site repositioning
- Decommissioning and scrap materials
- Site development
- Construction services
- Remediation activities, including long-term O&M
- Property management
- Property sale

**Profit is not always  
in the end product**







# Management/Operations Phase

## Long-Term Approach:

- Hold the property and assume responsibility for O&M

OR

- Sell the property and transfer O&M





# Management and Operations: Environmental Considerations

- Engineering and institutional controls must be addressed as part of any redevelopment transaction
- Buyer typically takes responsibility
- Institutional and engineering controls include:
  - Groundwater use restrictions
  - Land use restrictions
  - Soil and groundwater management
  - Vapor mitigation and management
  - Management of capped areas



# Players: Developer/Development Team

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- People or entities that contribute value to a project:
  - Investors who provide equity (cash)
  - Those who control the site
  - Financers
- Key Team Members Include:
  - *Opportunity*: Public Agencies, Brokers, Owners, Buyers
  - *Analyses*: Appraisers, Market Analysts, Planners, Engineers, Environmental Consultants,
  - *Entitlements and Securing the Deal*: Attorneys, Lenders, Insurers, Architects, Engineers, Land Use Consultants
  - *Development*: Contractors

## Key Interest

- Maximize return on investment
- Value is in the eye of the beholder



# Players: Buyers

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- Liability Transfer Companies
- Private Equity Purchasers
- Environmental Contracting Partnerships
- Specialty Development Companies
- Local Industrial Developers
- Conversion Specialists

## **Key Interest**

- Maximize profits
- Manage Risk





# Players: Public Sector

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- Federal and State Environmental Regulators
- Local, Regional, and State Land Use Regulators, Municipal Committees or Task Forces
- Economic Development Organizations
- Elected Officials

## Key Interest

- Ensure property is cleaned up and safe
- Alleviate future environmental concern and mitigate risk



# Players: Private Sector

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- Real Estate Professionals
- Investors
- Lenders
- Insurers
- Analysts
- Attorneys

## Key Interest

- Return on investment
- Revitalize blighted property
- Economic growth
- Risk management



# Players: Community

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- Community Development Organizations
- Local Institutions (hospitals, universities)
- Foundations
- Neighborhood and Community Groups
- Business Owners
- Other Non-Profits

## Key Interest

- Revitalize blighted properties
- Economic/community growth



QUESTIONS?



# Small, Large, Tough, Isolated, and Ugly

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How to attract developers to tough sites  
and distressed communities



# Attracting Buyers

- **1<sup>st</sup> tier real estate market**

- Areas with active market – all classes (ind., res., com.)
- Requires little if any public involvement unless sites are heavily contaminated or other encumbrances. Gateway cities, around ports, major metro areas.

- **2<sup>nd</sup> tier real estate market**

- Areas with active real estate market mostly focused on residential and downtown.
- Public/Private partnerships required for redevelopment. Many times, build to suit.

- **3<sup>rd</sup> tier real estate market**

- No significant development
- Some public investments/almost always build-to-suit.

- **4<sup>th</sup> tier real estate market**

- Rural



Emerging Trends in  
Real Estate 2018



# Weak vs. Strong Markets

- **Weak Markets**

- Sellers far outnumber buyers
- Prices are in a general state of decline
- Little demand for a property
- Brownfield sites are often, but not always, in weak markets
- No “tried and true” method to kick-start demand
- Alternative analysis, or **Asset Mapping**, can help in weak markets

## Asset Mapping

Identify potential users, partners, and institutions.



Focus on key strengths to develop demand.



Target existing assets (e.g., transit, waterfront, etc.)

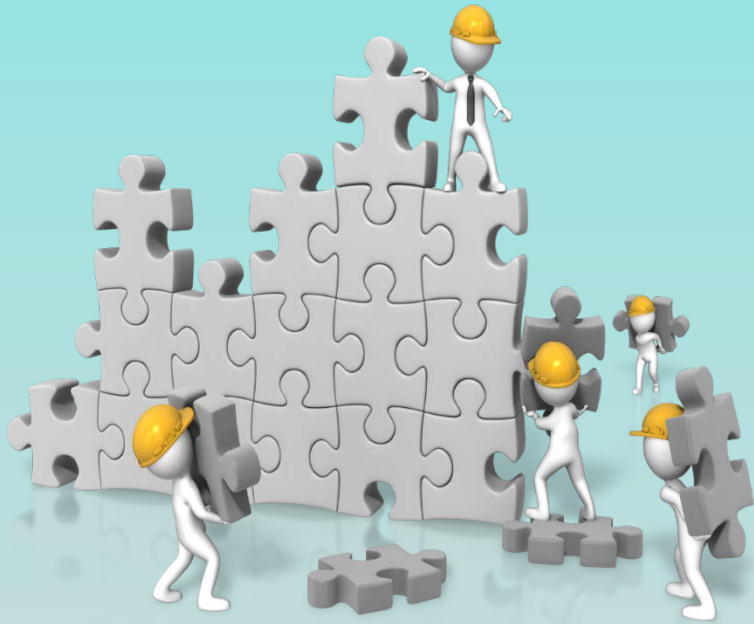


Identify available public incentives.



# Strategies for Rebuilding

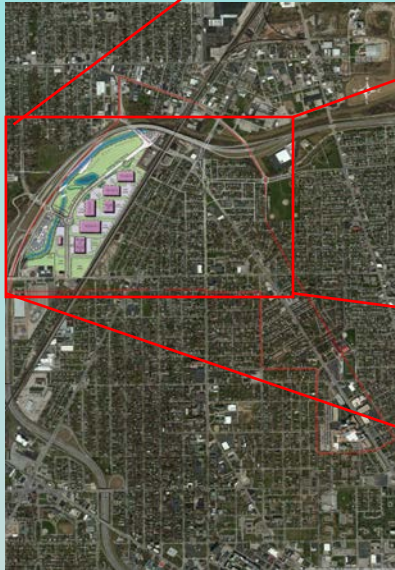
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- **Toledo, OH** - When “Speculative Development” is the Right Thing to Do!
- **Cottonwood, ID** - Community-Driven Infill Success
- **Gary, IN** - Starting from Scratch: What to do when there is no market?
- **Montrose, CO** - Aligning the Stars: A rural community approach

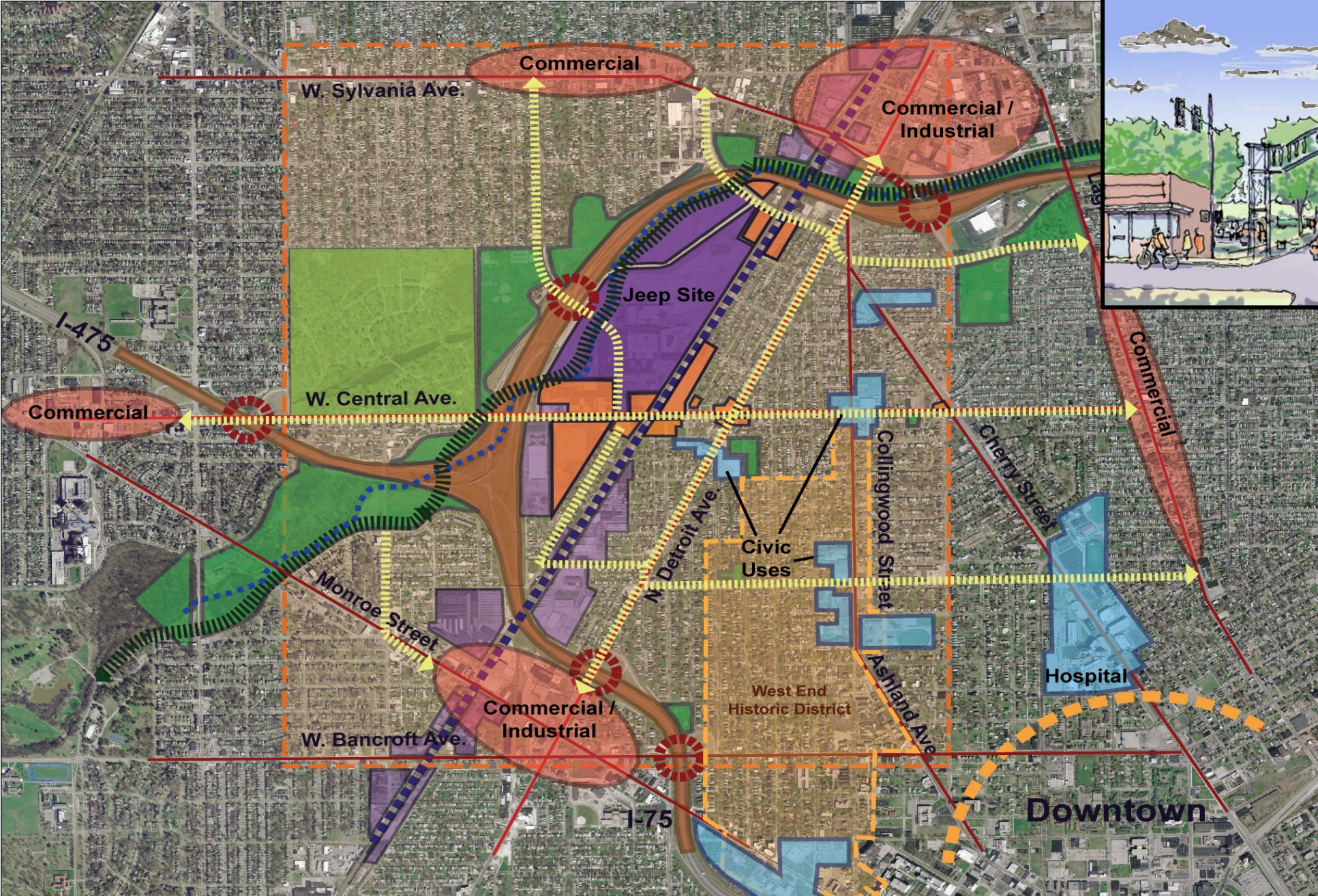






**When “speculative” development is the right thing to do!**









**OVERLAND**  
INDUSTRIAL PARK



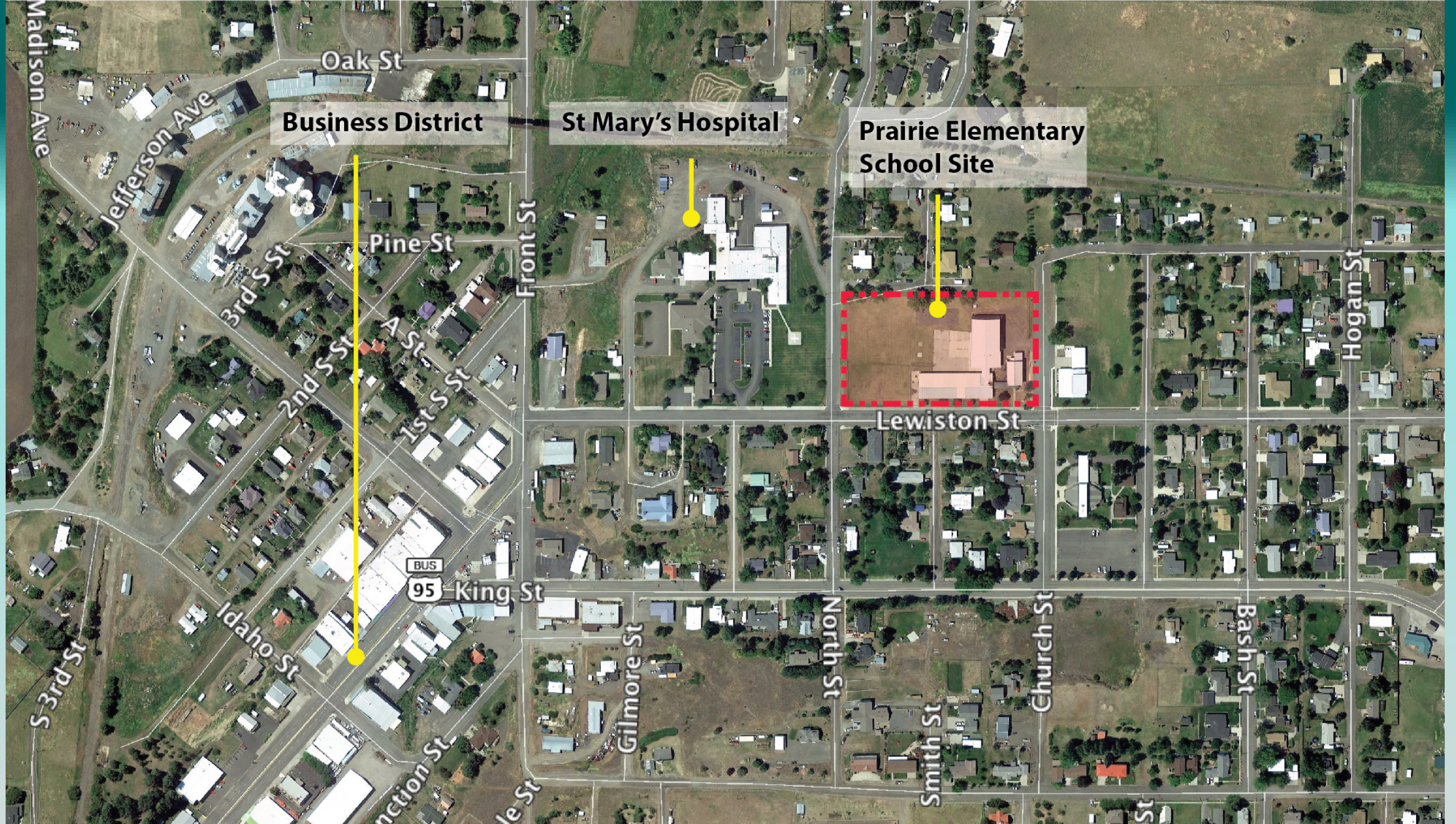
# Former Prairie Elementary School

Cottonwood, Idaho

Community-Driven Infill Success

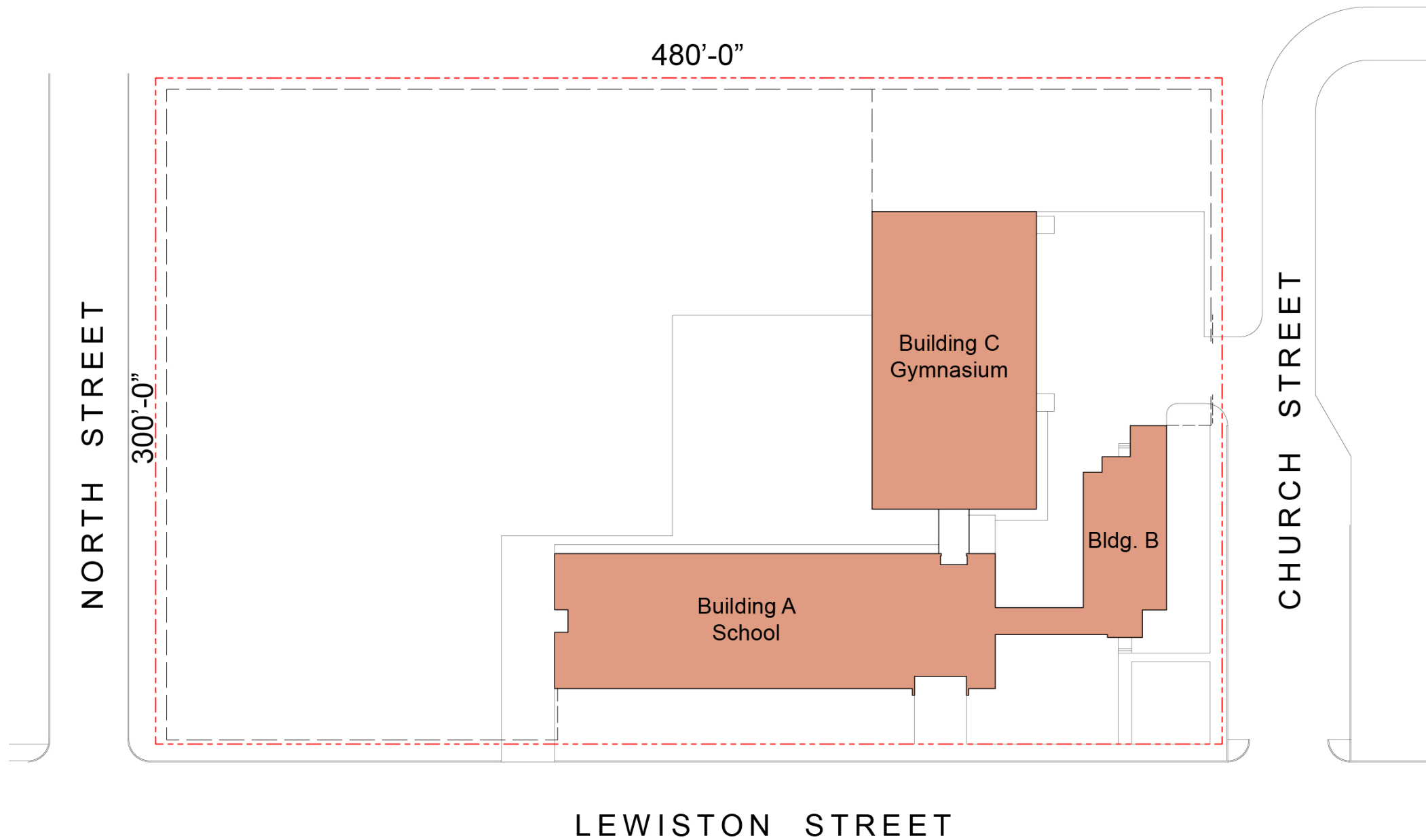






Cottonwood School Context





Existing Site Plan



# Best Value

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- A Best Value Analysis balances monetary value and stakeholder values to help decipher the “true” value of a property to the community.

*This is a working definition developed by the consultant team to help identify a concept that would account for the needs and values of all stakeholders involved.*

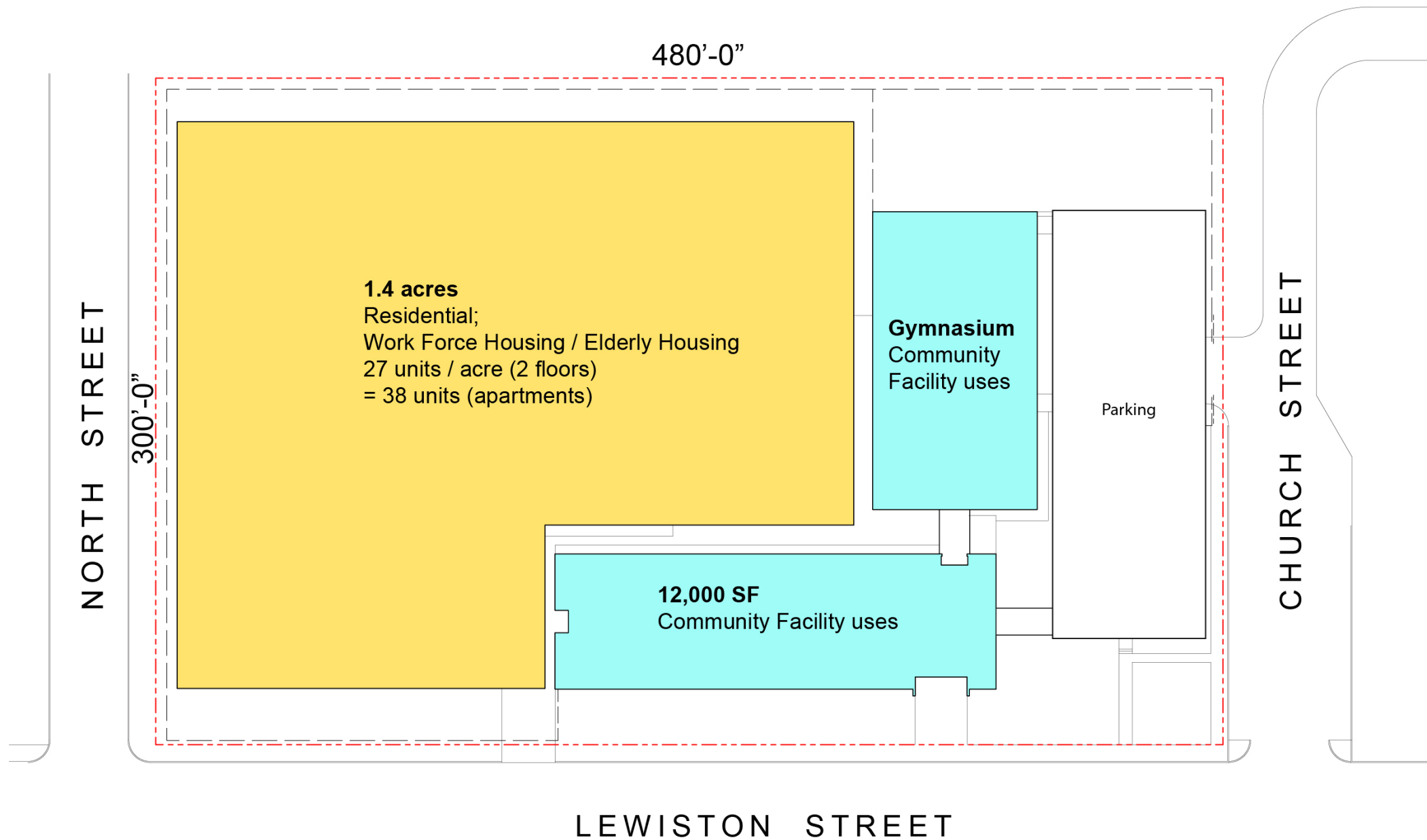
*Ultimately the positioning of the property will be up to the Cottonwood School Board as the current owner of the property.*



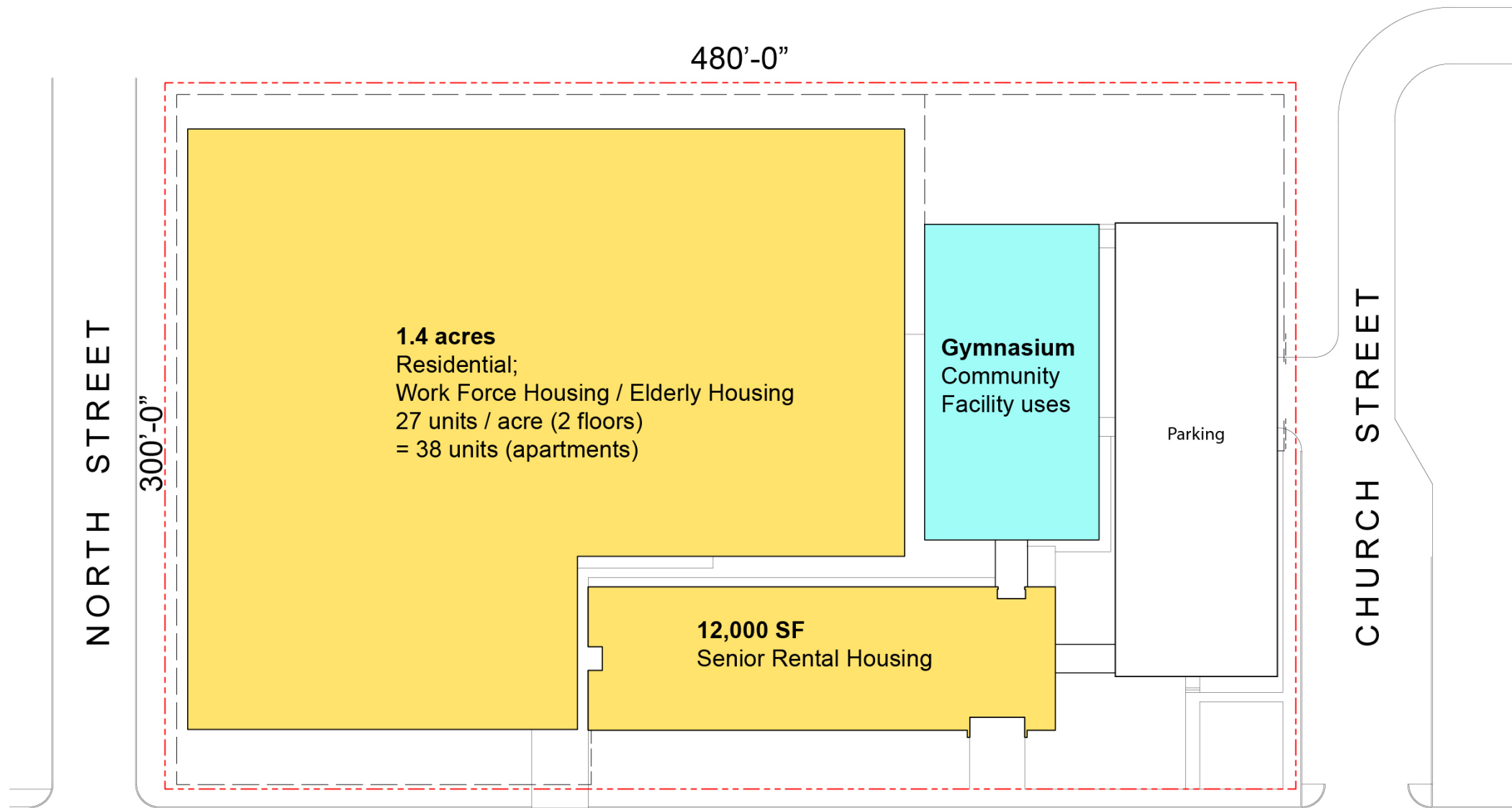
# Expressed Needs

*All expressed needs support the long-term viability of the community and the school system.*



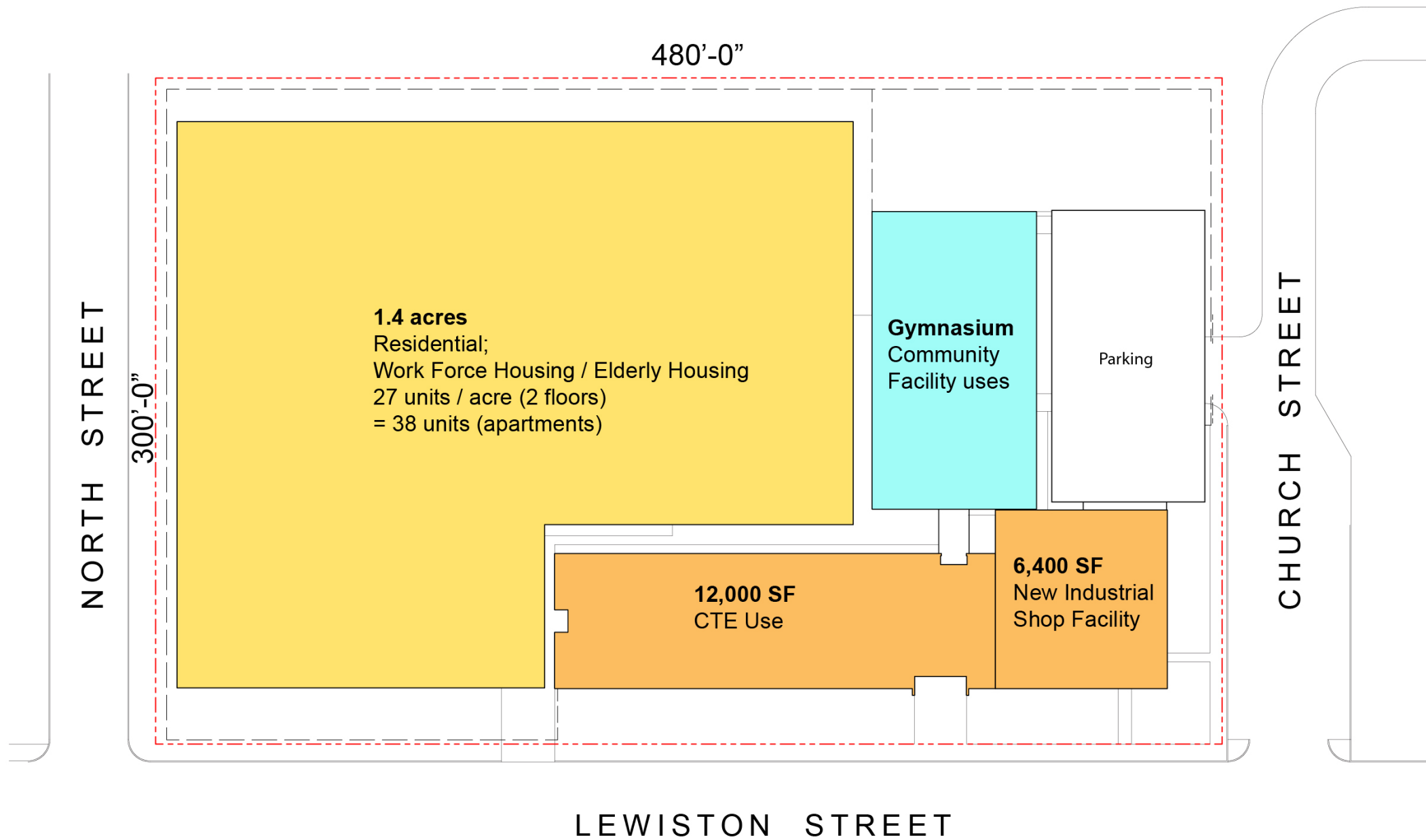


Reuse Alternate 1



LEWISTON STREET

Reuse Alternate 2



Reuse Alternate 3



# Determining Value

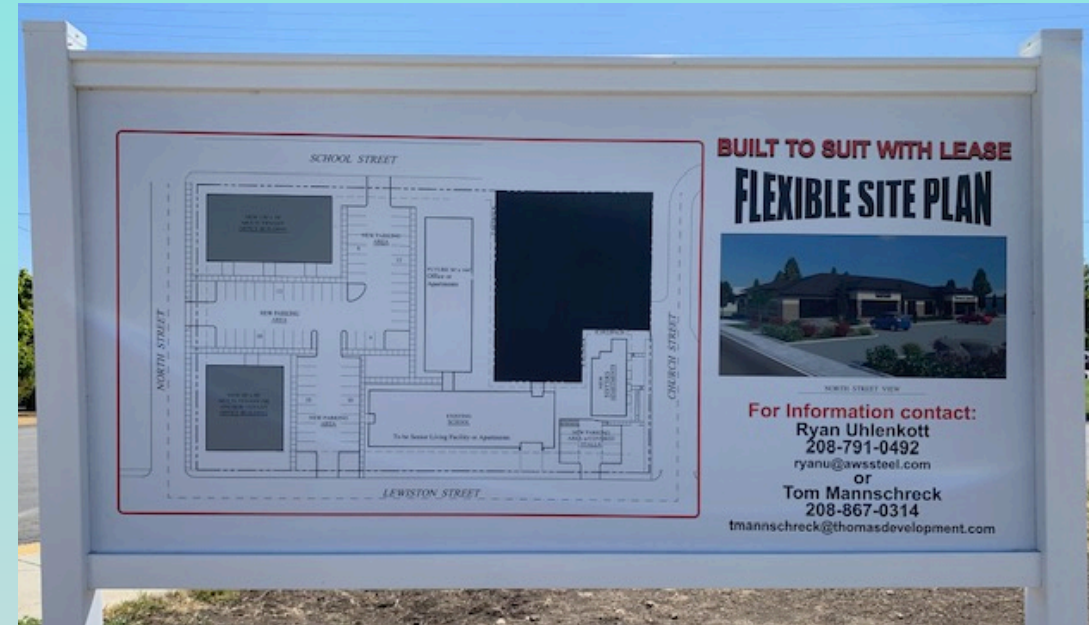
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- Replacement Value of Gym: \$1.4 million
- Land Value per acre (in downtown): \$65,000 (at the highest)
- 1 ½ acres greenspace available for development
  - Land Value: \$97,500
- Existing school building value: \$250,000 estimated at highest (excludes Gymnasium)
- Cafeteria building could be a liability



# Outcomes

1. Gymnasium was separated from remainder of site
2. Developers who attended the stakeholder interviews and site visit purchased the site for \$200,000
3. Site will be redeveloped for mixed use housing



# Starting from Scratch: What to do when there is no market?









*Greetings from*



THE

# LAKEFRONT

District

*Gateway to the Dunes*

Steel Mills

DUNES

"PLAYGROUND OF THE MIDDLE-WEST"

[www.LakefrontDistrict.com](http://www.LakefrontDistrict.com)





Connectivity to the train station:

# Rebuilding From Scratch: The Miller Station Story

Train operator wanted to close station/ consolidate	Proved train station viable for transit- oriented development
City development approval process was convoluted, not trusted	Created “as-of-right” development standards, Created vision for development
Richest and Poorest lived across tracks	Created new district that incorporated richest and poorest
No market activity	Invited Market



# Lakefront District Current Status

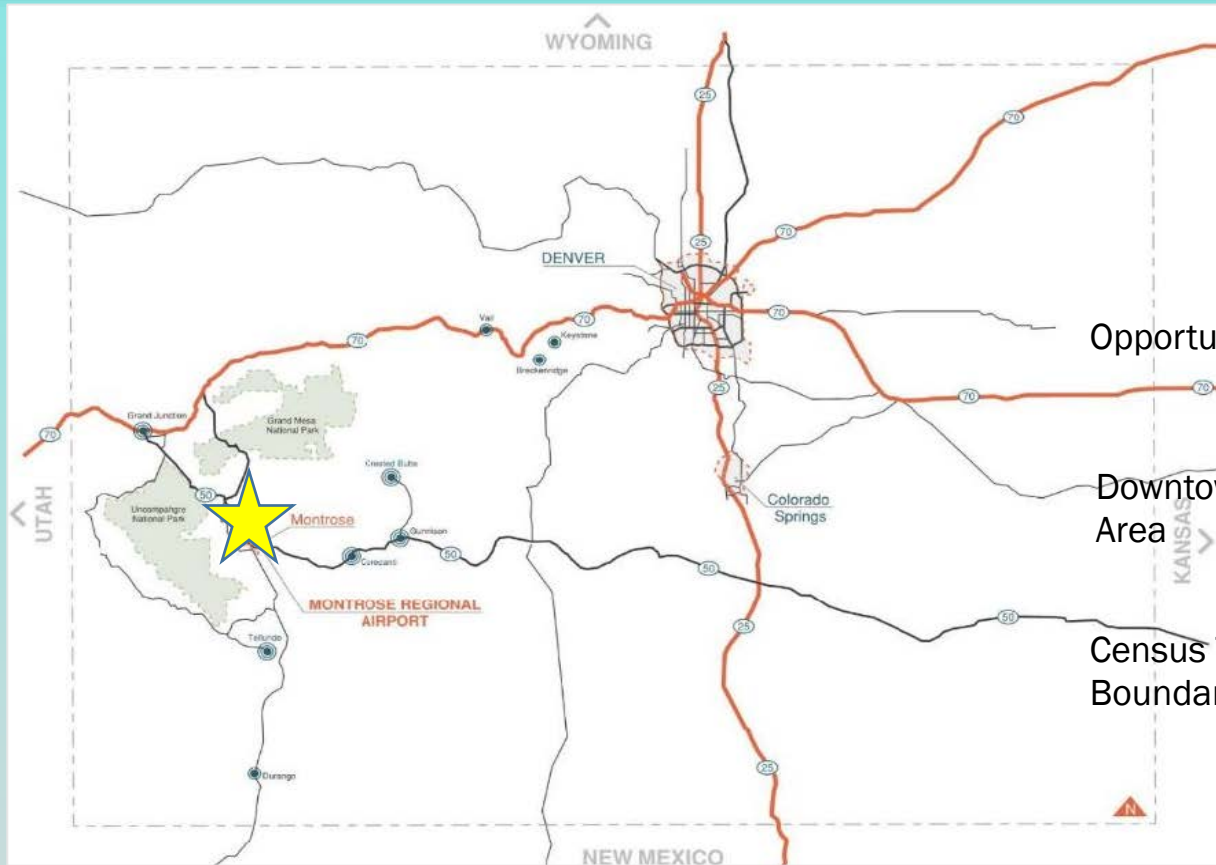
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- “As-of-right” zoning approved for district
- Funding for origination station and double-tracking in progress
- Funding for creating boulevard from Michigan highway obtained
- Funding obtained for new infrastructure to lake
- RFP for 860 North Lake Street released





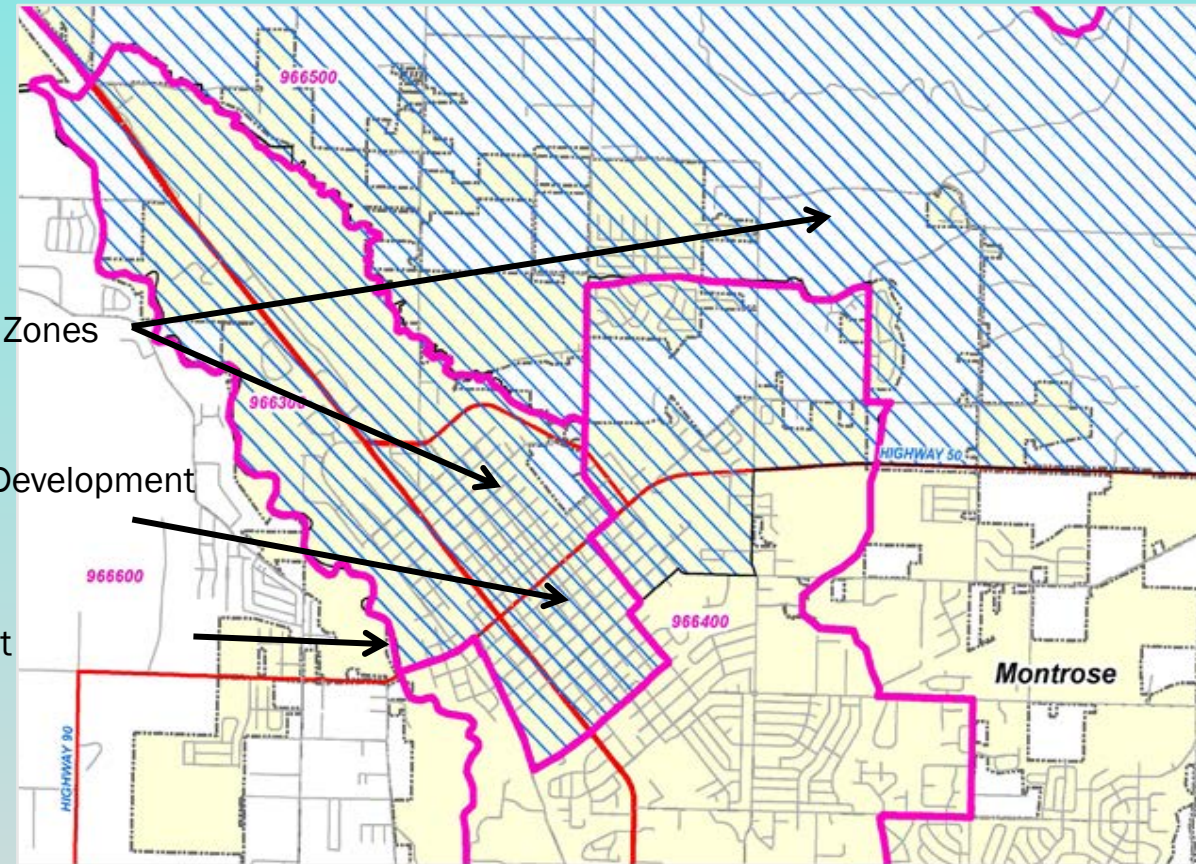
# Aligning the Stars: Using Opportunity Zones to Attract Investment



Opportunity Zones

Downtown Development  
Area

Census Tract  
Boundaries





# What is the Prospectus?

## This prospectus:

- Highlights the advantages of a growing rural environment for prospective developers through a graphic and data-rich document.
- Tells a story of a location and its amenities, drawing potential investors and developers to Montrose as an advantageous place for their projects, perhaps at a different scale than in cities.
- Includes key financial metrics from detailed modeling for development opportunities that are “ready to go”. Speaks to developers in their language and performs due diligence to fast-track decision-making



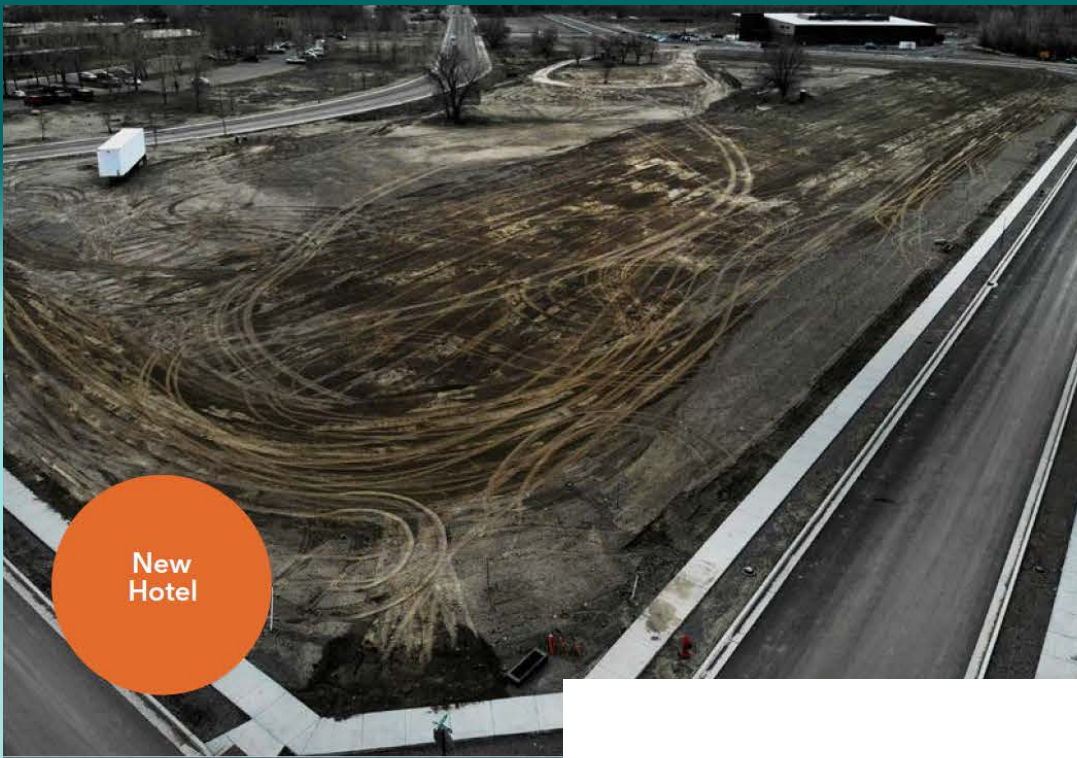
*The purpose is to sell the financial, social, and natural benefits of investing in Montrose as a solid community whose core values of innovation and stability create the foundation for long-term successful business involvement.*





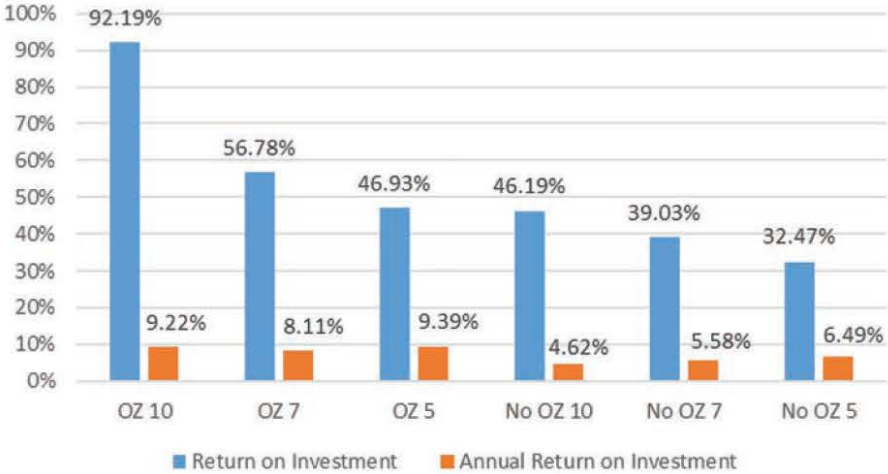






Hotel  
10-year  
OZ ROI 8-9%  
annual

Hotel Project ROI and Annual ROI



Use	Hotel Development					
	OZ			No Oz		
Investment Terms (Yrs)	10	7	5	10	7	5
Pre- / Post-tax Investment	\$12,800,000	\$12,800,000	\$12,800,000	\$16,758,659	\$16,758,659	\$16,758,659
Return on Investment	92.2%	56.8%	46.9%	46.2%	39%	32.5%
Annual Return on Investment	9.2%	8.1%	9.4%	4.6%	5.6%	6.5%
Project Equity Multiple	1.71	1.37	1.31	1.46	1.39	1.32
Profit	\$11,800,000	\$7,300,000	\$6,000,000	\$7,800,000	\$6,600,000	\$5,400,000
After Tax Proceeds	\$24,500,000	\$20,000,000	\$18,800,000	\$24,500,000	\$23,300,000	\$22,200,000

**QUESTIONS?**

# Upcoming Webinars & Workshop

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## Webinars:

- October 18<sup>th</sup> | Peering into the Crystal Ball: How the Market Decides Future Use
- November 8<sup>th</sup> | Pulling Back the Curtain: How Developers Make Money

## LA Brownfields Conference (December 10 - December 13):

- December 10<sup>th</sup> | Re-Development Academy - Let's Make a Deal! Training Workshop

