



RE-Development Academy Real Estate Webinars

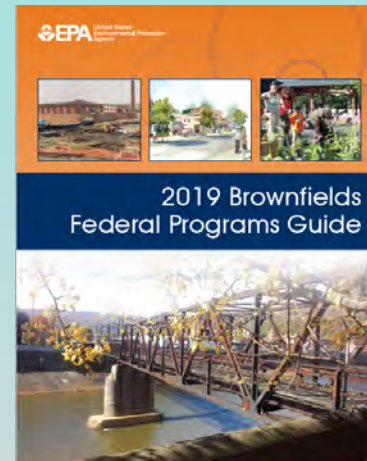
Part 2: Peering into the Crystal Ball — How the Market Decides Future Use

Hosted by EPA's Office of Brownfields & Land Revitalization
October 18, 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

Webinars:

- Sep 13 Part 1: Intersection of Real Estate and Brownfields
<https://clu-in.org/conf/tio/RE-DA1/>
- ★ 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** for
more information!

 EPA  ICMA

Webinar Instructors



Elaine Richardson has nearly 30 years of experience in senior positions in firms servicing the real estate and environmental industries. She has significant experience as a researcher and strategist, and has worked with nationally recognized developers on site selection, repositioning and community relations related to the redevelopment of underutilized properties and preservation of green space.



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.



Course Objectives

- Develop a basic understanding of real estate market analysis and how developers look at the market;
- Understand what influences market demand and what communities can do to attract development interest;
- Enhance decision-making skills by learning how to talk with developers and ask the right questions; and
- Understand current trends.



Agenda

- I. Setting the Stage
- II. Real Estate Market Overview
- III. Evaluating Redevelopment Potential
- IV. Market Analysis Process
- V. (Re)Positioning Properties in the Market
- VI. Case Study: Edgemoor on the Delaware



Setting the Stage: Real Estate Terms and Jargon

Access	Site Selection	Impact of Time
Location	Shovel Ready	Financial Feasibility
Visibility		



Setting the Stage: The Importance of Market-Based Redevelopment

- Market knowledge helps all parties understand realistic future land use options for brownfields
- Market-driven developments have a higher likelihood of success and continued sustainability
- Successful brownfields redevelopment can provide funding to maintain the site's engineering controls (if any)



Setting the Stage: Redevelopment Process Overview

Pre-Development



- Analyses
- Proforma & Agreement to Purchase
- Due Diligence
- Refine Site Design
- Redevelopment Plan
- Identify Funding Sources
- Acquire Environmental Insurance

Development



- Entitlements
- Conduct Cleanup & Site Preparation
- Conduct Marketing & Pre-leasing Activities
- Construction
- Open the Project

Management/Operations



- Hold the Property (Developer/owner assumes O&M responsibilities)
OR
- Sell the Property (Buyer assumes O&M responsibilities)

Real Estate Market Overview: Where does Development Come From?

- Local Investments
 - Local investment drives local demand
 - Most sites are developed by local businesses or developers
 - Successful local economies based on balance of job creators, industry, academia, non-profit....
- Corporate Investments
 - Mergers, acquisitions, consolidations drive new facilities
- Infrastructure-Driven Investments
 - Energy
 - Technology
- Foreign Direct Investments



Real Estate Market Overview

What Drives Demand?

Housing

- # of households, age, income, interest rates, affordability, apartment rents, housing prices

Office

- Employment in industries with a high percentage of office workers (attorneys, accountants, engineers, insurance, etc.)

Warehouse

- Proximity to ports and transportation hubs
- Employment in industries that use warehouses (wholesaling, trucking, distribution, assembly, etc.)

Retail

- Household income, age, gender, population, size and tastes/preferences



Energy



Office



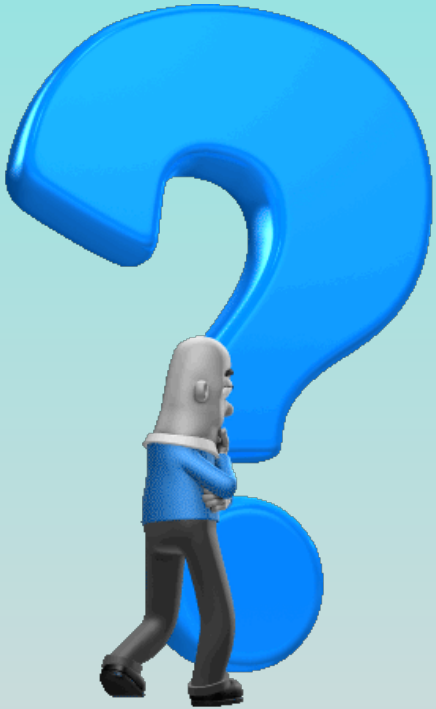
ers/Developments

Residential



Evaluating Redevelopment Potential: Key Considerations

- What are the characteristics that make the site attractive?
 - Who are the users that would be interested?
 - Are there constraints on development?
 - Is there a stigma with the site?
 - What price would the users pay?
 - How can a deal be done?



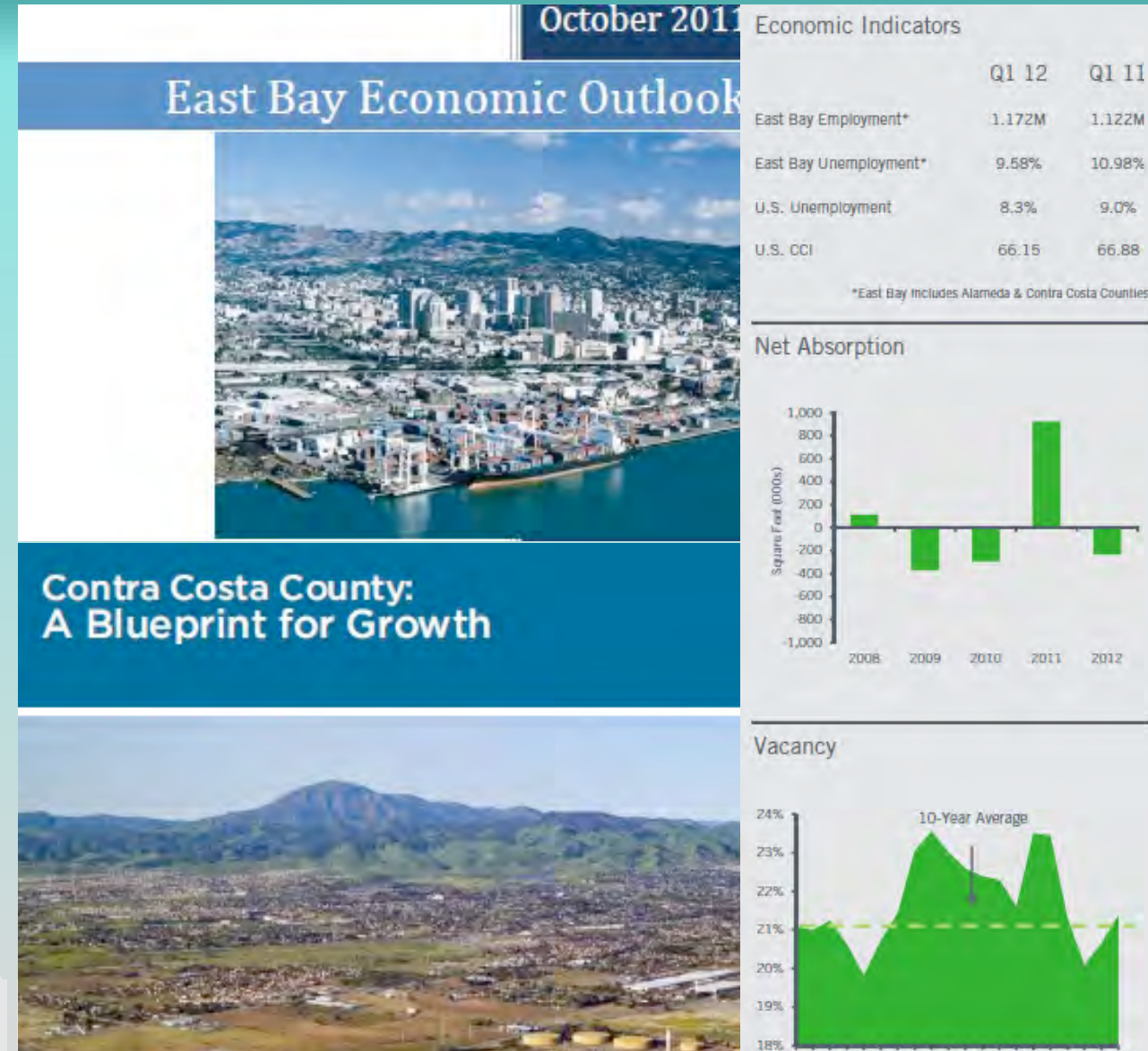
Evaluating Redevelopment Potential: Opportunities/Constraints Analysis

- Broad analysis to assess pros and cons of a redevelopment project
- Conducted early, potentially before community is aware of interest
- Typically evaluates:
 - Site characteristics and needs
 - Area economy and demographics
 - Physical and environmental conditions
 - Regulations
 - Real estate market conditions



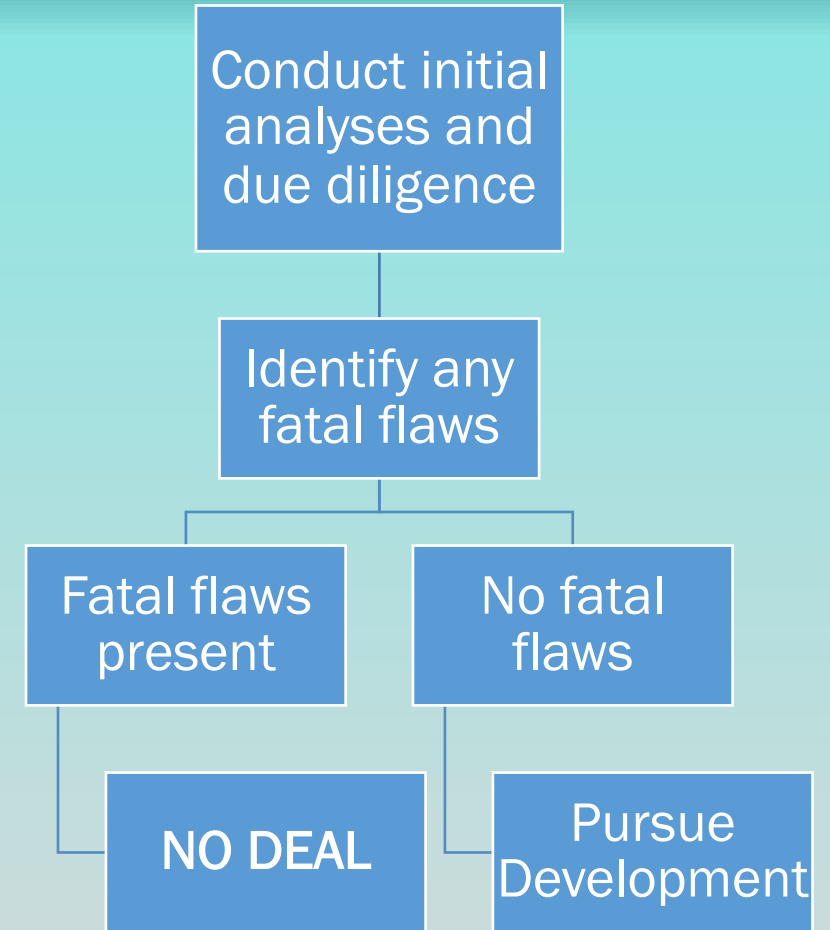
Evaluating Redevelopment Potential: Market Analysis

- Evaluates local, regional, and national trends and markets
- Key data include:
 - Vacancy rates
 - Rental rates
 - Market activity, absorption
 - Construction activity
 - Market trends and outlooks
- Identifies economically feasible reuse options



Evaluating Redevelopment Potential: Feasibility Analysis

- Site characteristics and engineering analysis
- Environmental assessments and remediation estimates
- Marketing and financial feasibility analyses
- Regulatory climate and entitlement process
- Property research land and building titles for the property
- Community acceptance



Opportunities and Constraints Analysis: Evaluating Redevelopment Potential

Is it really location, location, location?



- ➡ Access
- ➡ Location
- ➡ Visibility

Evaluating Redevelopment Potential: Access



Types of access:

- Local roads and intersections
- Highways and interstates
- Passenger rail
- Freight rail

Characteristics:

- Proximity
- Quality/condition
- Capacity
- Feasibility of improvements

Evaluating Redevelopment Potential: Location

Neighborhood Setting

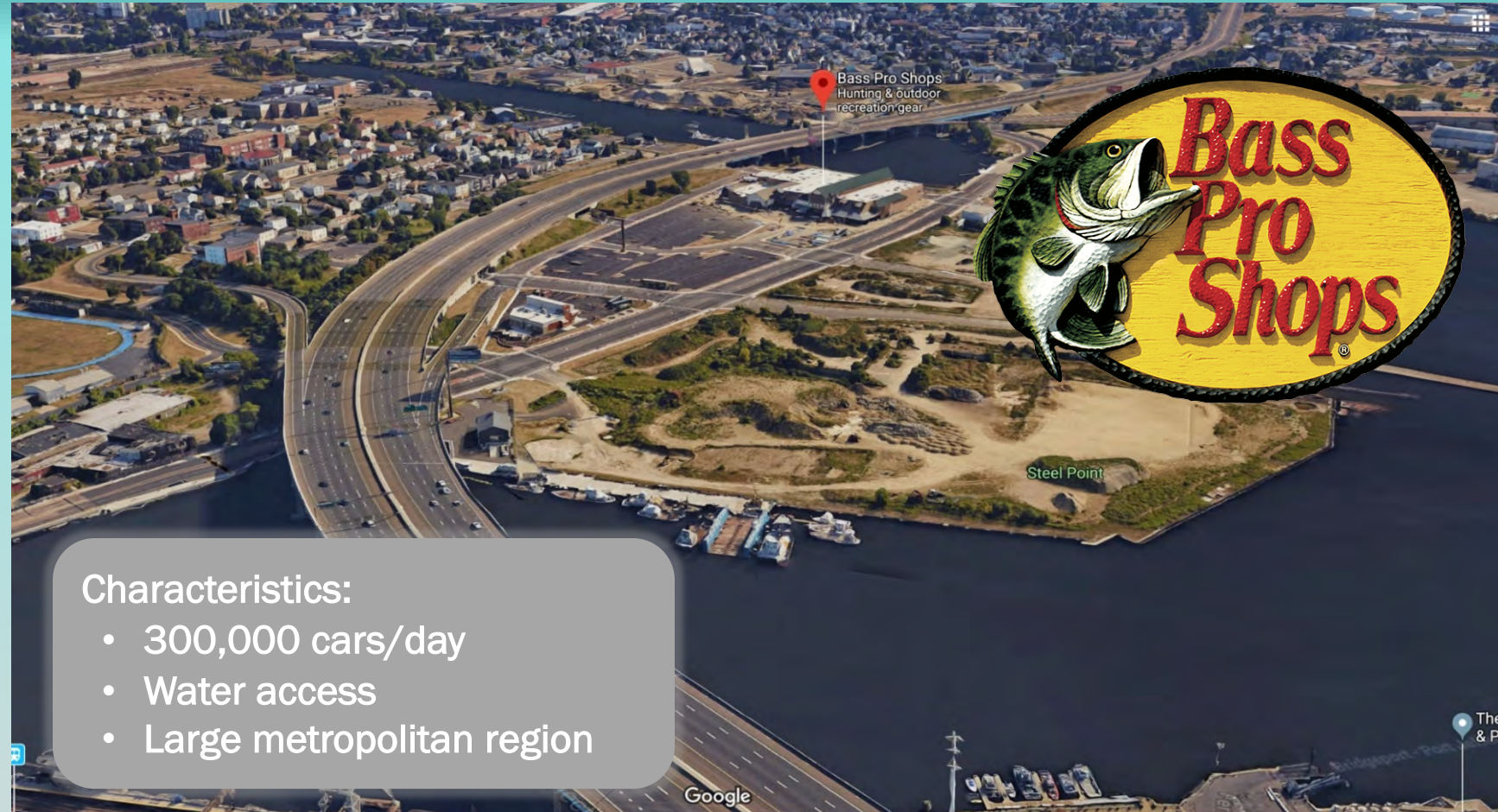
- Adjacent land uses
- Sensitive receptors

Local Setting

- Population and trends
- Political climate
- Land use decision process

Regional and State Economy

- Regulatory climate
- Economic strategy and clusters
- Incentives and priorities



Evaluating Redevelopment Potential: Visibility



Key Characteristics:

- Road frontage
- Traffic counts
- Buffer areas
- Other vantage points

Developments Needing Visibility

- Retail
- Hospitality
- Commercial

Developments Needing Seclusion

- Mission critical
- Power generation
- Heavy industrial

Retail Center Development							
	Convenience store	Discount (dollar) variety store	Fast food	Urgent care	Fitness center	Discount grocery store	Retail gasoline and convenience
Land size	3,000	1.5-2.5 Acres	1 – 1.5 Acres	Preferred Retail Plaza	Preferred Shopping Plaza	18,000 – 22,000	56,000+ sf combined building, service & parking
Building square feet		10,000	3,500 – 4,000	5,000	7,000		
Parking requirement		4-5 spaces per 1,000 sf	15 spaces per 1,000 sf	4 spaces per 1,000 sf			
Population required		20,000+ within 3 miles	30,000+ within 2 miles	75,000+ within 3 miles	25,000+ within 5 miles skewed female		
Traffic count		4,500+ vehicles / day	20,000+ vehicles / day	40,000+ vehicles / day	20,000+ vehicles / day		
Typical initial lease	5 years	10 years	10 years			10 years	

Corporate Site Selection

20 Metro Area Contenders for Amazon's HQ2

B | Metropolitan Policy Program
at BROOKINGS

Time

- All site selection is under limited time schedules

Budgets

- Companies have a specific budget

Business Objectives

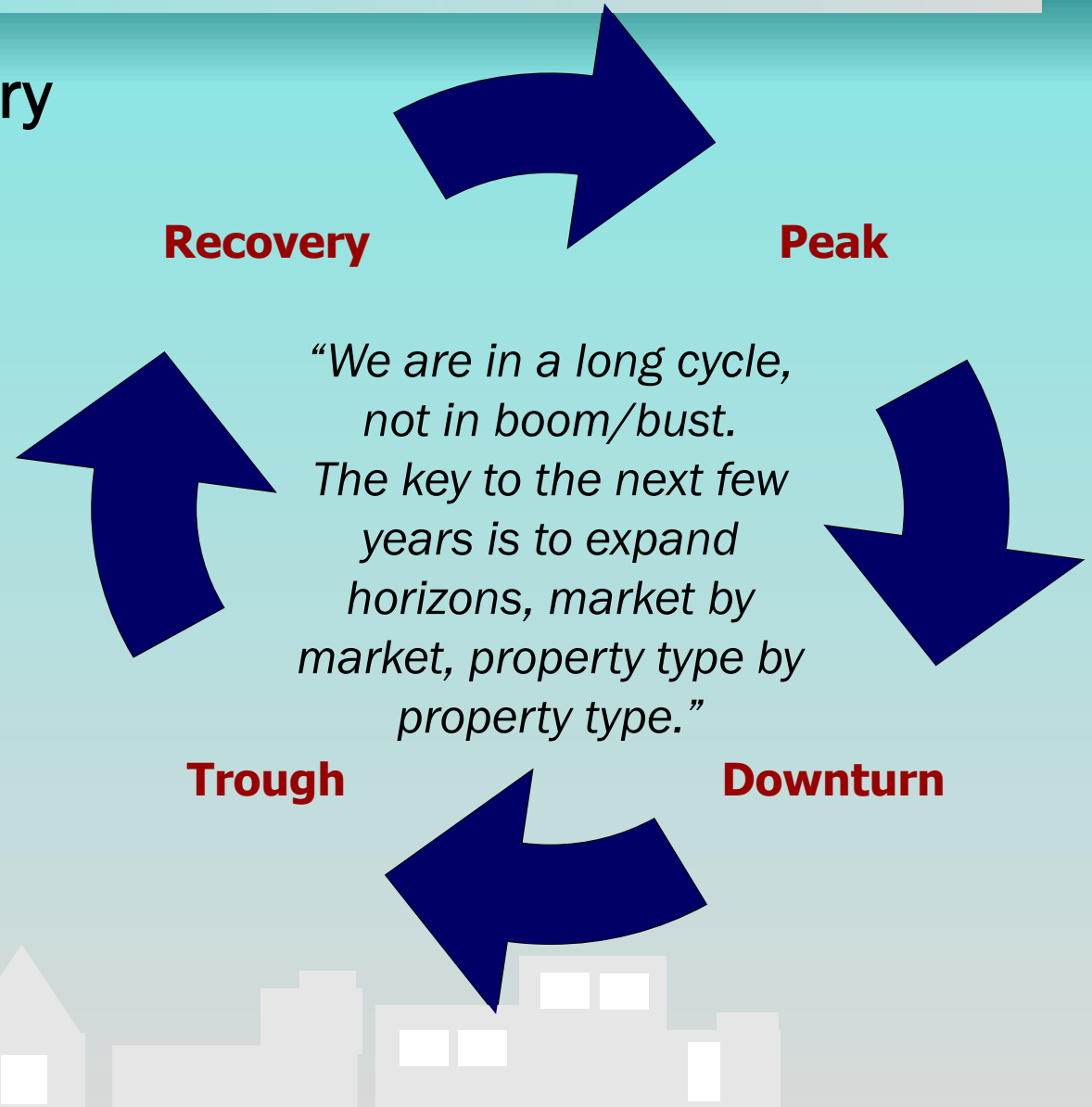
- Regulatory climate
- Tax structure
- Operating environment
- Access to markets
- Workforce needs



The Market Analysis: Real Estate Cycle

The Numbers Don't Always Tell the Story

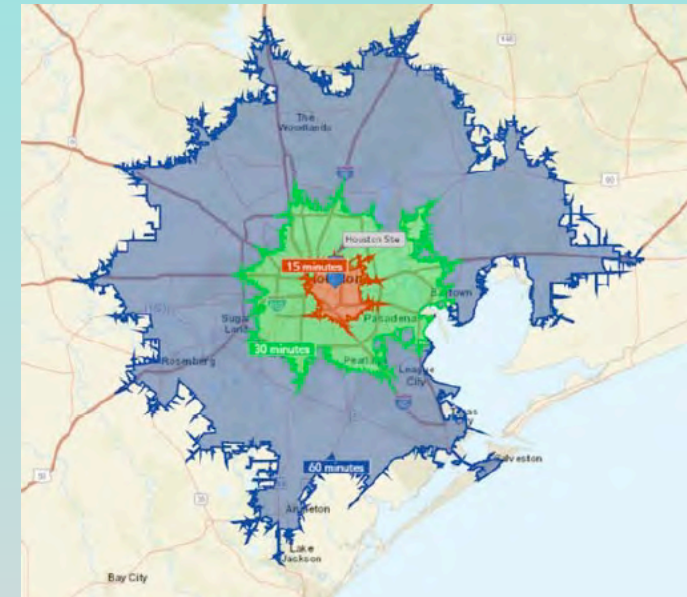
- Different developers; different cycle preferences
- In hot markets, contaminated sites are more attractive, but developers don't always have time to focus on the details of contaminated sites
- During the downturn, developers have more time, but money is tough to come by



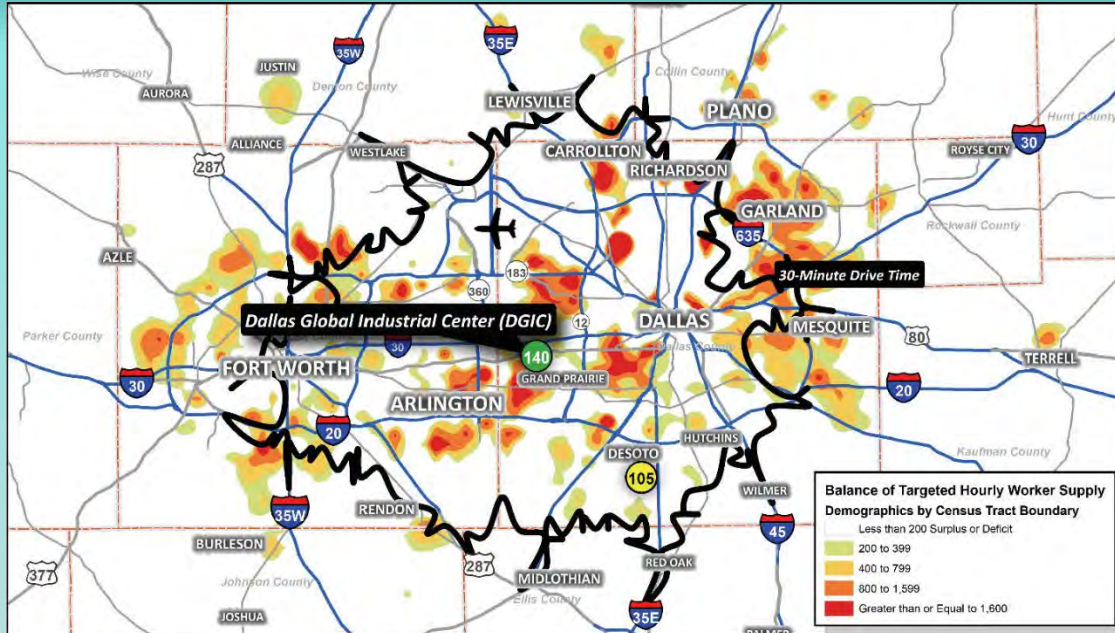
Types of Market Data

- **Census Data:** Demographics and psychographic Groups
- **Property Sale and Leasing Trends:** Occupancy and vacancy rates
- **Submarket Specific Analyses:** Retail leakage analysis

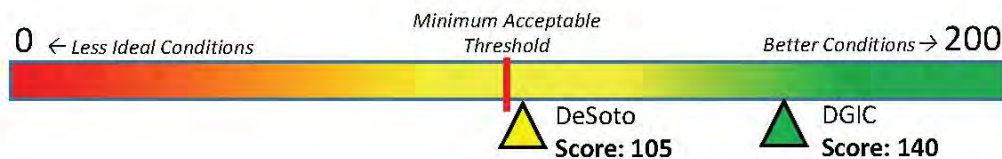
RETAIL CATEGORY	GAP	Leakage**		Capture (30-40%)**	
		Low	High	Low	High
Furniture & Home Furnishings Stores	\$4,357,515	14,525	17,430	4,358	6,972
Electronics & Appliance Stores	\$5,720,745	16,345	19,069	4,903	7,628
Bldg. Materials, Garden Equip. & Supply Stores	\$4,871,954	13,920	16,240	4,176	6,496
Food & Beverage Stores	\$3,068,517	7,671	8,767	2,301	3,507
Health & Personal Care Stores	-\$3,530,242				
Clothing & Clothing Accessories Stores	\$5,556,843	18,523	6,421	5,557	8,891
Sporting Goods, Hobby, Book & Music Stores	\$1,284,131	5,137	6,421	1,541	2,568
General Merchandise Stores	\$13,596,443	38,874	45,321	11,654	18,129
Miscellaneous Store Retailers	\$1,607,656	4,593	5,359	1,378	2,144
Food Services & Drinking Places	\$6,053,285	17,295	20,178	5,189	8,071
	\$46,117,089	136,856	161,012	41,057	64,405



Demographics Drive Distribution Warehouse Market



Qualitative Labor Market Index Score¹ (Higher=Better)



Ideal Warehouse Labor:

Low income

High school graduate

Between 18-46

Access to public transportation

Source: Northpoint Development

- DGIC is central to a large (145,000 people), concentrated (20% more than the national average) targeted warehouse worker labor pool and receives a top labor market index score¹ (140).
- The targeted demographic labor pool for warehouse workers² exceeds local demand by over 9,400 individuals.
- By comparison, the DeSoto region is experiencing a supply/demand deficit of approximately 2,900 warehouse workers.

Demographics and Psychographic Groups



Young Influentials

- Under 35, \$47,000 Income
- Balancing work and leisure
- Buy high end computers, go to health clubs, eat at nice restaurants, professional jobs



Suburban Sprawl

- 25 to 44, \$50,000 Income
- Own homes, pursue the American Dream
- Jog on treadmill at home, order home delivery, blue collar jobs



Home Sweet Home

- 25 - 44, \$65,000 Income
- Upscale income, small families, comfortable life
- Buy TV sets, have pets, go to movies, eat fast food, have white collar jobs



New Beginnings

- Under 35, \$29,000 Income
- Just starting out on career path, singles or young families
- Rent movies, play games on internet, live in apartments, white collar or service jobs

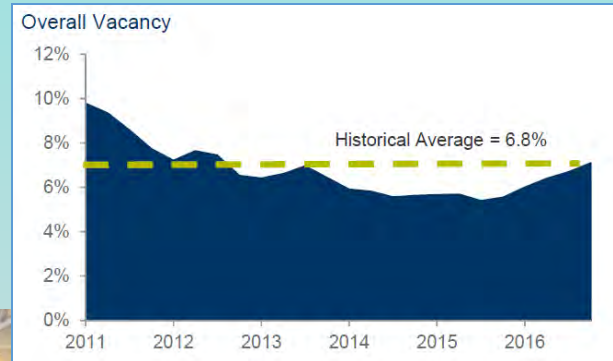


Grey Power

- Over 65, \$49,000 Income
- Home owning suburbanites who are aging in place, not moving to retirement communities
- Go to museums, own vacation homes, watch television

Real Estate Supply & Demand

- Vacancy rates
- Interest rates/availability of financing
- Age and quality of existing stock
- Construction costs
- Land costs



Summary Statistics

Houston Industrial Market	Q1 2016	Q4 2016	Q1 2017
Vacancy Rate	5.2%	5.3%	5.6%
Net Absorption (SF) (Million Square Feet)	0.3M	1.9M	1.7M
New Construction (SF) (Million Square Feet)	2.1M	2.2M	3.4M
Under Construction (SF) (Million Square Feet)	14.5M	7.6M	4.9M

Asking Rents

Per Square Foot Per Year

Average	\$6.96	\$7.03	\$7.09
Warehouse/Distribution	\$6.42	\$6.78	\$6.70
Flex/Service	\$12.22	\$11.19	\$10.98
Tech/R&D	\$12.84	\$12.47	\$12.67

Research &
Forecast Report

HOUSTON | INDUSTRIAL
Q1 2017

Colliers
INTERNATIONAL

Accelerating success.

CBRE

MARKETVIEW

Houston Office, Q1 2017

**Dwindling construction pipeline
finally below a million sq. ft.**

Feasibility Analysis: Predicting Financial Feasibility

Costs

- Land \$250,000 acre
- Operating \$4.5 per sf

Income

- Commercial lease rates \$6 – 12 per sf
- Residential lease rates \$1 – 1.25 per sf



Questions

(Re)Positioning Properties to Attract Development: What Can Communities Do?



Promote Your Community

- Public and institutional investments
- Unique infrastructure and improvements
- Demographic niches
- Shovel ready projects



Minimize Impediments

- Compile information (deed, title, survey, environmental data is critical)
- Align regulatory agencies and clear pathways
- Ease the entitlement process





Redevelopment that Spurs Market Demand

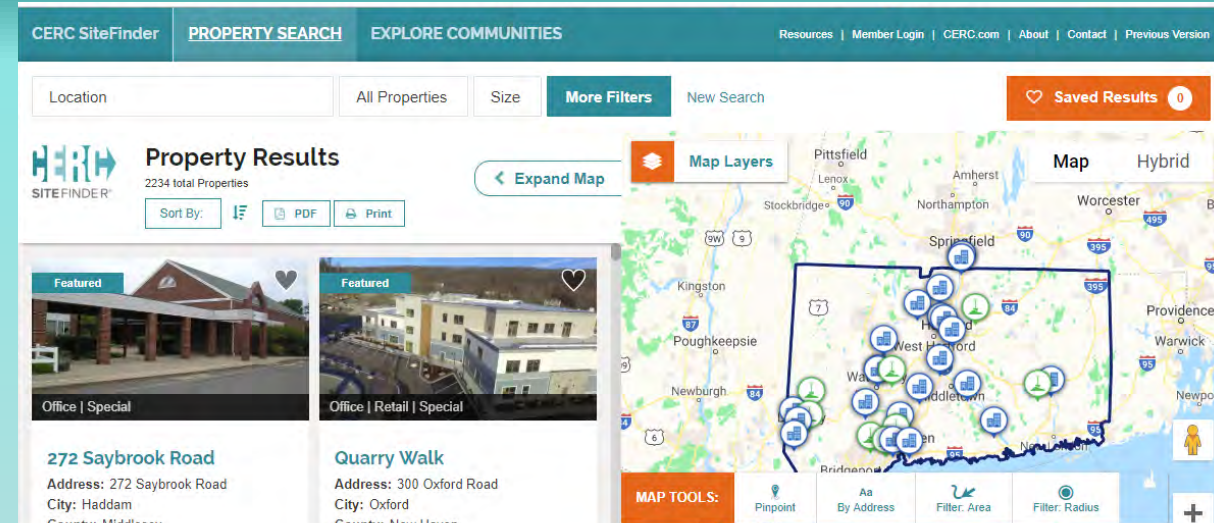


Promote Available Properties

Community Information:

- Easily available
- Clear and accurate
- Existing markets, industries, type of operations, economic clusters
- Labor pool, training programs, higher education
- Quality of life, housing, communities, schools

**Marketing, Advertising, Promotion Are
Not Four Letter Words!**



Sources:

- State and regional websites
- Available properties
- Regional property databases are extremely helpful

Attracting Corporations and Large Investments



Regional Cooperation is Key

- Companies look for multiple options within a region
- May cross city, county or even state boundaries
- Sites are not in competition until the final stage

Have To Be in the Game to Compete

Community Input

Community Planning Process

- Builds ownership in future redevelopment
- Generates support for future use
- Gives confidence in the approval process
- Market-based planning provides comfort that investment will be worth the effort

Setting Expectations

- Processes must be based on fact
- Unrealistic visions create unrealistic expectations
- Developers shy away from communities with set expectations

More Information:

<https://www.epa.gov/brownfields/information-on-eligible-planning-activities>



The Value of Stimulus Packages

- Infrastructure investments attract developer interest
- Redevelopment projects can't absorb significant infrastructure costs (roads, sewers, etc.)
- Stimulus programs expand the economic benefit of redevelopment
 - Construction
 - Improved services
 - Resiliency improvements
 - New technologies
- Stimulus packages provided by municipalities, regional economic development entities, and state economic development groups help spur development



Example Redevelopment Project

Edgemoor On the Delaware



Evaluating Opportunities and Constraints



Sources: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community

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Evaluating Opportunities and Constraints



Evaluating Opportunities and Constraints: Environmental Setting and Characteristics



Environmental Status

- Well-characterized site
- Regulatory agencies engaged
- Deed restricted areas identified
- Ongoing responsibilities understood



Competitive Advantages

- Large site; gentle slope
- Minimal wetlands and floodplain areas
- Excellent multi-modal access
- Existing public utilities
- Existing active rail line
- Attractive real estate market
- Significant industrial assets
- Water draw permit



Industrial Asset Matrix



= Important Asset



= Useful Asset

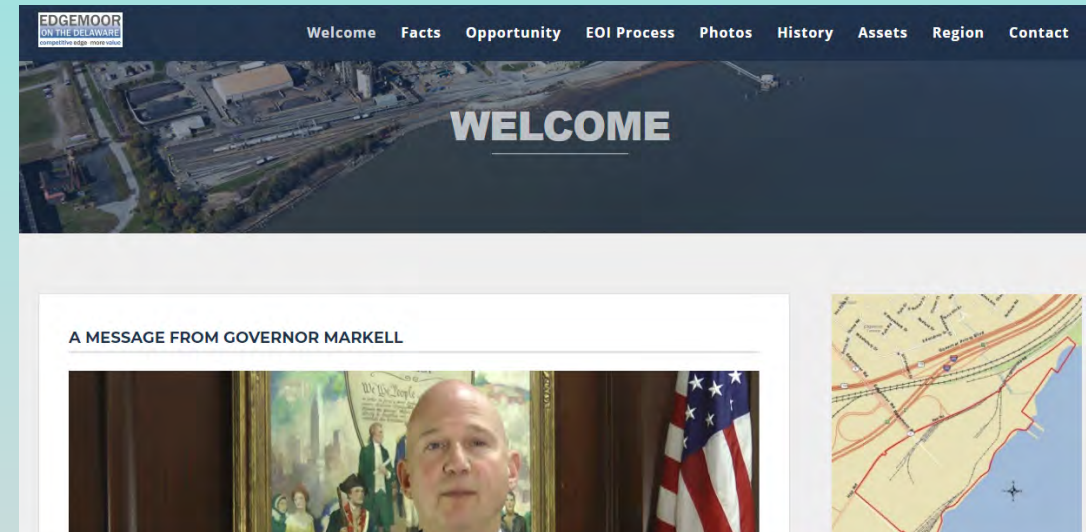
	Location	Buildings	Rail	Highway	Water Supply	Available Power	River
Land Use							
Industrial	★	★	★	★	★	★	
Power Generation	★	★	★		★	★	
Office / Light industrial	★	★		★		★	
Commercial Retail	★			★			
Recreational	★	★		★			★
Government / Public	★	★		★	★		★
Residential	★			★			★

Areas Available for Redevelopment



Steps Taken to Reposition the Site

- Drone photography
- Engagement of local and state leaders
- Property fact sheet
- Property website
- Community education
- Direct outreach
- Expression of interest process



Market Interest

- 11 parties initially interested
- 3 parties submitted formal proposals
- 3 different perspectives
- 3 different concepts
 - Distribution and Logistics Center
 - Data Center and Power Generation
 - Port Expansion

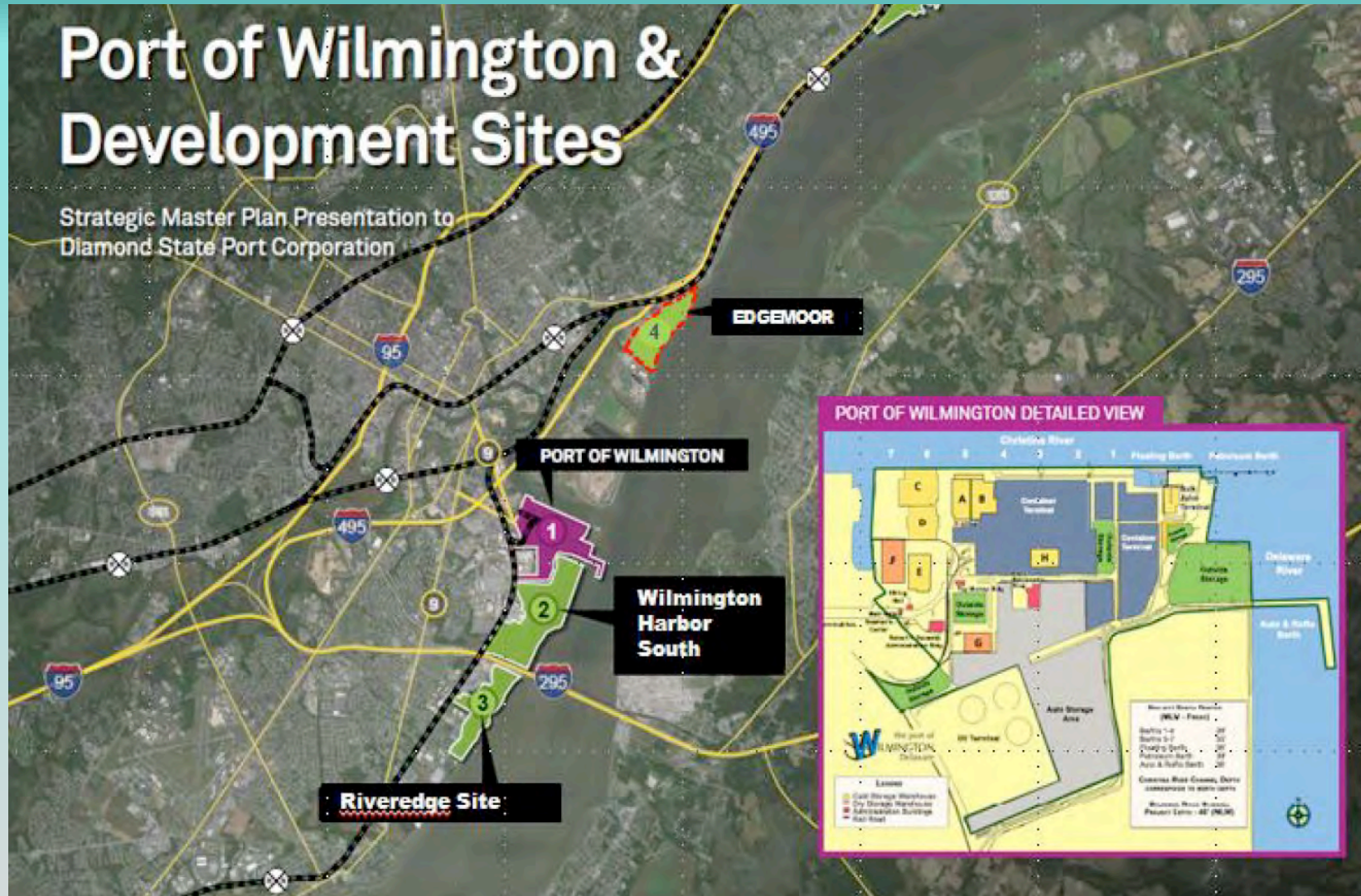


Three Perspectives

	Opportunities	Constraints
Party A	Rail Highway Uneven topography	Time sensitive Regulatory approvals
Party B	Existing zoning Demolition opportunity Rail Highway Waterfront	Time sensitive Regulatory challenges
Party C	Rail Highway Waterfront Size of property	



DSPC Site Selection Process



DSPC Site Redevelopment

Diamond State Port Corporation (Operator of the Port of Wilmington)

- 2,000-foot berth to be serviced by 8 of the largest cranes on the river
- 1.2 million TEU (twenty-foot equivalent units) container terminal
- Expected \$400 million investment

Assumed certain remaining environmental responsibilities

Accepted certain remaining industrial assets



Questions

Upcoming Webinar & Workshop

Webinar:

- November 8th | Pulling Back the Curtain: How Developers Make Money

National Brownfields Training Conference:

- December 10th 12-4pm | Re-Development Academy - Let's Make a Deal! Training Workshop

