

Brownfields offer optimism as options dissipate

We wanted to call this column "How to make money by providing more housing while cleaning up our environment."

How's that for a big promise? Sounds like wishful thinking doesn't it? Believe it or not, there is a way to accomplish all three goals — more housing, a better environment and good profits for those who make it happen.

Taking advantage of this unique opportunity will require an open mind, some risk and a lot of cooperation between the public and private sectors.

The common thread to all of these seemingly disparate endeavors is the word brownfields — abandoned or underutilized commercial or industrial properties that usually have some environmental contamination.

In some extreme cases the cost of remediation is too expensive for the property to be feasibly redeveloped by the private sector. In others, the properties may be caught up in receivership or bankruptcy, with no responsible party able or ready to bear the cost of environmental remediation.

Some brownfields are actively used properties, such as gas stations with leaking storage tanks, shopping centers afflicted with solvents from dry cleaners or industrial areas still suffering chemical spills from long ago. A surprisingly large number of properties are owned by federal, state and local governments — particularly the military.

The shortage of developable land and continuing urban sprawl is an increasingly critical problem shared by both the private and public sectors. Adaptive reuse of our nation's inner-city brownfields of

fers incredible opportunities to reverse this trend. They can serve as a sorely needed source of underutilized, close-in land for housing — and as a practical way to clean up our environment — while providing robust risk-adjusted returns on real estate.

For developers, land must be accessible, conveniently located, properly zoned and supplied with necessary public services, such as utilities and transportation. In this environment, infill areas become perfect candidates for redevelopment projects.

For the public sector, a new development should generate public revenue in excess of public costs, improve the surrounding environment, and provide an appropriate mix of both commercial real estate and housing for all income levels.

Public-private partnerships are the key to these sorts of transformations. The private sector brings development expertise and equity capital to the table. Given their other investment options it is only reasonable that they expect an above-average, risk-adjusted rate of return for undertaking these projects.

The public sector brings certification expertise, zoning and density variances

or other concessions, and is often able to waive certain regulatory and compliance costs. Also, because the public sector has a mandate to facilitate affordable housing in urban areas, states and municipalities often can bring tax-free financing, tax credits, credit guarantees or other incentives to bear.

Successful development of a brownfield sometimes requires the use of a municipality's eminent domain powers to clean up title problems or provide unity for dismembered tracts.

In Seattle, a brownfield site in the Rainier Valley is presently being converted to affordable housing for the elderly. To succeed, the project required multiple layers of financing, public sector incentives and the involvement of nongovernmental, not-for-profit agencies. These latter groups, with their special expertise in dealing with target populations for affordable housing, bring invaluable resources to the process.

Another example is the city of Coupeville where it obtained a grant to assess better uses of three brownfield properties.

Another example of current brownfield redevelopment is in Minneapolis-St. Paul. The Twin Cities Army Ammunition Depot is a 500-plus acre tract contaminated with nearly every known pollutant, from asbestos to uranium. Remediation is ongoing, but at the same time, valuation experts are making plans for better uses of the site because what once was a remote outpost is now surrounded by suburban housing and neighborhood shopping.

The challenge in these higher-risk, higher-reward projects is that they require highly specialized expertise to determine

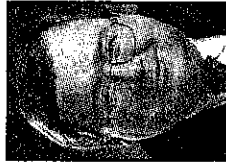
what a piece of property is worth both before and after the remediation process so that the owners know how much they can invest in the project and still get their money back. At the same time, it must be determined what can mitigate any environmental concerns and calculate the costs to the project. Many times addressing environmental concern as part of the construction versus a stand-alone project can accomplish this.

Today, few real estate development transactions are consummated without at least a Phase I Environmental Assessment. A property, which in the past might have simply been covered and developed, must now be environmentally addressed in order to deliver a safe site for redevelopment. But, many developers find that the rewards outweigh the additional efforts of dealing with the environmental concerns in these projects.

Municipal governments need to find, cultivate and work with these risk-adapted developers, or face the continued loss of developable land due to brownfields abandonment, while the demand for urban places to live continues to grow. The better solution is for more public-private partnerships of developers and municipalities actively working to reuse the abandoned brownfields that exist today.

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