Brownfield Development
A Developer Perspective

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Developer Concerns with Brownfields

Concern	How we address
Cost of Unknown	Phase I, II Insurance for Unknowns Expert legal/consulting team
Cost of Clean-Up	Quantify known costs Manage risk of unknowns Limit liability Use available funds (loans, grants)
Price this into land value	

Managing Risk of Unknown:

- Secure Phase I all deals, often Phase II
- Secure Environmental Insurance
- Expert Team of consultants and lawyers

Cost of Clean-Up

- Quantify expected cleanup costs:
  - cost for soil management – during construction or cleanup
  - cost for groundwater management – const. or cleanup
  - cost of chemical vapor intrusion mitigation (e.g.: barrier/vent)
  - cost for environmental team (consultation, engineering)
- Manage unknowns risk – pollution legal liability insurance
- Limit liability - Polanco Act or equivalent
- Use available funds - grants, loans where they make sense

PRICE THIS INTO LAND VALUE
SAMPLE PROJECT LAND RESIDUAL, 100 UNIT PROJECT

	VALUE OF UNIT UPON SALE: $775,000/UNIT	$77,500,000
	HARD CONSTRUCTION COST VERTICAL DEVELOPMENT: $475,000/UNIT	($47,500000)
	PARKING PODIUM $50,000/STALL, 1 STALL/UNIT	($5,000,000)
	FEES, EXACTIONS, OFF-SITE COSTS 4%	($3,100,000)
	FINANCE AND CARRY COSTS (INCREASE AS TIME EXTENDED) 5%	($3,875,000)
	ARCHITECTURE, ENGINEERING 3%	($2,325,000)
	DEVELOPER/EQUITY RETURN 12% ON COST	($9,300,000)
	REMAINING FOR LAND PAYMENT $64,000/DOOR	$6,400,000
ADD:	INSURANCE	($100,000)
	ENVIRONMENTAL REPORTS, CONSTRUCTION MANAGEMENT	($100,000)
	ENVIRONMENTAL LEGAL	($40,000)
	CLEAN-UP	($1,000,000)
		($1,240,000)

REDUCE PURCHASE PRICE BY $1,240,000 MILLION TO $5,200,000 OR $50,000/DOOR, OR SECURE OTHER FUNDS (CITY ASSISTANCE), POSSIBLY DENSITY BONUS (CONSTRUCTION COST BY TYPE ISSUES)

-ASSUMES ALL COSTS CORRECT, NO CONSTRUCTION COST ESCALATION (HAS BEEN 20%)
-ASSUMES LAND PURCHASE CAN BE REDUCED TO COVER ENVIRONMENTAL COSTS
-ASSUMES THAT REGULATORS PROVIDE ENTITLEMENTS, CLEAN-UP REQUIREMENTS PROJECTED
-ASSUMES THAT MARKET VALUE OF UNIT IS $775,000 AND MARKET DOES NOT FALL

CONCLUSIONS

1. Environmental risk just another risk factor; at some point risks outweigh rewards
2. If other value and cost factors (cost of construction, parking, fees, off-sites, mitigation measures) make deal highly risky for possible value, environmental risk may be tipping point that ends the deal
3. If other cost/value factors (units worth much more than cost to construct) make deal potentially highly profitable, limited environmental risk can worth taking. Some sites so contaminated, clean up costs exceed land value (or create negative value).

Conclusions (contd)

4. Location and zoning/land use material – costs being relatively constant, high rent locations and products with lower costs to build are worth more (central cities, mid rise not high rise, right now housing not office)
5. Many developers have underestimated cost of clean-up, added regulatory requirements --as a result, some simply do not want to touch these sites.
6. Cities can help: complete CEQA to eliminate this risk, characterize sites so materials known, zoning flexibility to allow market to determine product, invite developers to review their plans and ask what they might do to. If the market not there, though, or costs exceed value, nothing short of money to rebalance cost and income will do the trick.