



Brownfield Entrepreneurs

Niche Players Emerge as Market Matures

In the real estate market of the mid-1990s, industrial properties that were known or believed to be contaminated ("Brownfields") seemed ripe for development by a new breed of entrepreneurs, ones who could navigate the regulatory process, address market and environmental risks, take advantage of depressed prices, reposition the property as "clean" and create exceptional financial returns in the process.

Real Estate and Environmental Firms Join Hands

Instead of avoiding contaminated properties, brownfield entrepreneurs would actively seek out and purchase contaminated sites, indemnify sellers and buyers, and then clean up the properties in partnership with environmental engineering firms, often capping financial exposures through environmental insurance.

These entrepreneurs were spurred on by a series of developments that promised to bring new luster to long-shunned properties:

- New state programs based on risk of exposure allowed for flexible and cost-effective cleanups.
- Superfund liability concerns were tempered by state issued "No Further Remediation" letters and the USEPA's commitment to honor them.
- Reasonably priced insurance was becoming available to cap future liability.
- Public tax incentives and grant programs were helping to promote central city redevelopment.

Market Slow to Develop

Entrepreneurial teams, which were skilled in both real estate development and environmental cleanup, sensed a rare opportunity to profit from the market's aversion to contaminated property. However, many joint ventures that entered the

brownfield market early have now retreated. Deals failed to materialize in sufficient volume to sustain many ventures, and some companies found that the challenge of succeeding at development often paled in comparison to the demands of completing a cleanup.

Many partnerships between major national real estate and engineering firms failed to last beyond an initial flurry of activity. Dames & Moore/Brookhill, for example, started off with \$380 million in financing from Credit Suisse First Boston. The two firms are no longer working together. The story was much the same for the CB Richard Ellis/ENSR alliance, as well as other well-publicized efforts.

Lessons Learned

Successful entrepreneurs viewed Brownfields first and foremost as a real estate problem, not an environmental issue. One of the big lessons learned is that just removing environmental contamination will rarely make "bad" real estate "good." Ultimately, brownfield properties must support themselves like any other real estate investment.

"Too many sites are simply so polluted or poorly located that they make no sense from a real estate perspective," according to John Gates, President of CenterPoint Properties. "You have to identify demand just like you do in any real estate transaction."

Furthermore, dealing with the combination of real estate and environmental risk requires a special kind of entrepreneur. "Midway through these projects, you may say to yourself that it's not worth the headache," says David Kahnweiler of Colliers, Bennett & Kahnweiler, "There are so many moving pieces to integrate and you need a strong stomach."

"With all the extra pieces," adds Gates, "time becomes the enemy."

In the end, the same factors that helped promote early expectations of better than average returns probably helped limit the market for specialty firms. Sophisticated mainstream

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developers have simply hired competent environmental consultants to address environmental problems as another quantifiable, albeit complicated, element in a deal. Environmental consultants are adept at navigating the way through risk-based cleanup programs, NFR letters and insurance underwriting requirements.

A Niche National Market

Now that the dust has settled from the initial flurry of startup ventures, there remains a small cadre of firms that specialize in acquiring and developing contaminated properties. Many work nationwide. Shown below is a list of such firms that will consider deals in the Midwest; have access to capital; and have a track record of completing deals. Also included is a brief description of each firm and how they operate. This list is not exhaustive but includes who we believe are the major national players.

We have not included local mainstream developers who are frequently involved in local projects that have significant environmental challenges. Such firms include CenterPoint Properties, which is currently developing an intermodal rail facility and industrial park on the site of the former Joliet Army Arsenal Superfund Site; Colliers, Bennett & Kahnweiler, whose development arm has worked on a number of brownfield sites in Chicago; and Northern Builders.

The National Brownfield Association

A bright spot for brownfields is the national attention that has been focused on the development of environmentally distressed properties through conferences, seminars and publications. The National Brownfield Association has led this charge by reaching out to property owners, developers, the public sector and companies that provide transaction support. Their annual Deal Flow conferences bring people together and the *Brownfield News* keeps people informed. (For details contact Bob Colangelo, Executive Director, (773) 714-0407, 5440 N. Cumberland Ave, Chicago, IL 60656.)

Major Brownfield Developers

AMB AIG Greenfield Investment Alliance, LLC

Lisa Feifer, VP
1 Chase Manhattan Plaza, 57th Floor
New York, NY 10005
(212) 504-5200; lisa.feifer@aig.com

A 50/50 strategic alliance between AMB and AIG, the insurance giant, with the goal to acquire, develop, reposition, and manage Brownfield properties. Deal size: \$2-\$50 million.

Brookhill Redevelopment, LLC

Charles Kramer
501 Madison Avenue
New York, NY 10022
(212) 753-3123; ckramer@brookhill.com
www.brookhill.com

Owned by the Brookhill Group, a real estate firm founded in 1977. Portfolio includes over 40 properties. Typical deal size is \$3-\$25 million; no practical limitation for pools of assets.

Brownfields Recovery Corp.

Eli Levine
137 Newbury Street, 7th Floor
Boston, MA 02116
(617) 267-8585; elevine@brownrecov.com
www.brownrecov.com

Formed as a partnership between Environmental Reclamation, Inc. of Cape Cod and Mugar Enterprises, Inc. of Boston, combining remediation and commercial real estate expertise. Founded in Massachusetts and is expanding to other states.

Cherokee Investment Partners

Randall Clark, Managing Director
5445 DTC Parkway, Suite 900
Greenwood Village, CO 80111
(800) 265-1488; rclark@cherokeefund.com
www.cherokeefund.com

Devoted to the acquisition, remediation, management and disposition of environmentally impaired assets. Investors in its \$250 million equity fund include public and private pension funds, corporations and foundations. Will purchase single properties or portfolios. Provides broad indemnity. Minimum deal size is \$3 million.

GreenPark Group, LLC

Larry Faigin, CEO
3030 Old Ranch Parkway, Suite 450
Seal Beach, CA 90740
(562) 430-4354; lbfa@aol.com

Property acquisition and joint ventures. Funding from Warburg Pincus and private investors.

LandBank National Developers

Eric Swanson, Real Estate Director
141 Union Boulevard, Suite 330
Lakewood Colorado 80228
(303) 763-8500; www.landbank.net

Offers expertise in three areas: (1) acquisition, repositioning and redevelopment; (2) risk management and insurance underwriting; and (3) environmental assessment and remediation.

Portfolio: 23 properties acquired; 11 restored and sold. Funding comes from IT Corporation, an international engineering and consulting firm.

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