BENEFITS & RISKS OF BROWNFIELD REDEVELOPMENT

2011 HAWAII BUILD & BUY GREEN + BROWNFIELD REDEVELOPMENT CONFERENCE & EXPO
MAY 24, 2011
IF YOU CLEAN THEM, WILL THEY COME?
Brownfield sites are impacted by factors that drive all real estate development … so let’s first review the current state of the real estate market
MACRO-ECONOMIC VARIABLES INFLUENCING THE REAL ESTATE MARKET

- Global Economic Growth
- Capital Flows
- Federal/State/Local Budget
- Energy Prices
- Supply/Demand Equilibrium
TRENDS CREATING SURPLUS PRODUCT

• Industrial buildings/land - Mfg. declines results in oversupply
• Retail/warehouse space - Internet shopping creates less need
• Office space - Outsourcing of jobs overseas and home based freelancers lowers demand
• Oversupply of product in most asset classes has created high vacancy rates
FACTORS IMPACTING NEW DEVELOPMENT

- Financial Markets
- Land Valuations/Appraisals
- Exit Strategy/User Commitments
- Sellers waiting for market recovery (unless forced to sell due to mortgage obligations or other drivers)
- Pricing of existing assets well below replacement costs (forced sale of troubled assets will establish corrected new pricing levels)
BENEFITS OF BROWNFIELDS – AN INVESTOR/DEVELOPER PERSPECTIVE
BENEFITS TO BROWNFIELD REDEVELOPMENT

- Location
- Existing infrastructure
- Environmental restoration
- Financial incentives
- Govt. policies
BENEFITS TO BROWNFIELD REDEVELOPMENT (contd.)

- Job creation
- Increase tax base
- Promotes adaptive reuse
- Community revitalization
- Reduce suburban sprawl
RISKS OF BROWNFIELDS – AN INVESTOR/DEVELOPER PERSPECTIVE
RISKS TO BROWNFIELD REDEVELOPMENT

- Financial risk
- Regulatory risk
- Technical risk
- Development risk
- Business interruption risk
- Reputation risk
SUMMARY OF SPECIFIC RISKS

- Pre-closure cleanup costs
- Post-closure O&M costs/re-openers
- Third party liability/NRD claims
- Changes in regulatory standards/requirements
- Changes in reuse impacting cleanup costs
SUMMARY OF RISKS AFFECTING ALL REAL ESTATE

- Land valuations
- Permitting uncertainties
- Construction costs
- End user/leasing commitments
- Public sector commitments
HOW DEVELOPERS & COMMUNITIES CAN MITIGATE THE RISKS

- Development Plan should be sustainable – focus on market-based long-term uses
- Align developer, govt., and community incentives/benefits
- Seamlessly allocate environmental liabilities
- Realistically incorporate public sector commitments
AN ALTERNATE APPROACH TO RISK MITIGATION
Reverse Site Selection

Understand the link between site attributes and business needs

- Property Characterization
- Focused Market Analysis
- Industry Selection & Profiling
- Re-Use Alternatives & Evaluation
- Disposition/Redevelopment Strategy
- Deal Structuring
- Property Redeployment
Location Planning for Business

• What is the existing ownership structure? What does the land owner (and community) want to achieve? What are the development goals?
• Are there existing buildings that can be adapted and re-used? What is the status of existing infrastructure/utilities?
• What are the known (or suspected) environmental liabilities?
• What is the existing zoning and allowable uses?
• What public and private resources can be brought to bear on the process?
An honest, objective and complete assessment of the community’s strengths, weaknesses, and goals

This then gives a basic definition of the ingredients that may be combined to develop the strategy to qualify and attract end-users

This also identifies areas where competitive improvement is required

### Sample Ranking/Weighting Model

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Ranking/Weighting %</th>
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</thead>
<tbody>
<tr>
<td>1. Labor Force Availability</td>
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<tr>
<td>2. Existing Business, Industry, and Functional Base</td>
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<tr>
<td>3. Total Operating Costs</td>
<td>20</td>
</tr>
<tr>
<td>4. Regulatory and Tax Environment</td>
<td>5</td>
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<tr>
<td>5. Cost and Complexity of Environmental Remediation</td>
<td>15</td>
</tr>
<tr>
<td>6. Zoning/Permitting Process and Timeline</td>
<td>10</td>
</tr>
<tr>
<td>7. Infrastructure and Utilities</td>
<td>10</td>
</tr>
<tr>
<td>8. Availability and Applicability of Incentive Programs</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Identifying the Likely Suspects

What is the match between the Site and Target Users?

*Internal/Site Factors*
- What is the existing regional base for the industry, and what are the dynamics
- What are the greatest pressures and opportunities facing the industry
- What typically forces changes in any of these companies’ real estate and asset strategies

*External Market/Industry Factors*
- Which industry target are facing or will be facing a key decision in the near future
- What are the roadblocks keeping these companies from changing to meet new business demands
- What is the market risk associated with each opportunity
Moving from Plan to Reality

Alternatives Evaluation

- What is degree of match between site/community and target user?
- Is the plan financially (and politically, organizationally, etc) feasible
- Do we have the resources (and partners) to implement the plan?

Disposition/Redevelopment Strategy

- Identify key target opportunities (users/industries)
- Financing plan (both public and private)
- Remediation and Infrastructure plan
- Conceptual (schematic) development plan
- Site and community marketing plan

<table>
<thead>
<tr>
<th>Type</th>
<th>Internal Score</th>
<th>External Score</th>
<th>Combined Score</th>
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<tbody>
<tr>
<td>Med Device Light Mfg/Assembly</td>
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<td>100</td>
<td>80</td>
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<tr>
<td>Life Sciences Lab/R&amp;D</td>
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<td>90</td>
<td>76.5</td>
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<tr>
<td>Life Sciences Back Office</td>
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<td>90</td>
<td>63</td>
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<tr>
<td>Financial Serv Back Office</td>
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<td>60</td>
<td>60</td>
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<tr>
<td>Multi-Family Rental Residential</td>
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<td>90</td>
<td>58.5</td>
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</table>
THANK YOU

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