

“State of the Brownfield Market”  
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As the brownfield market completes its first decade of activity, it is clear that the “cottage industry” that cleaned up and developed sites in the mid-1990’s has matured.

What is a brownfield?

Real estate that is often idle, vacant, abandoned or underutilized where there is the existence of contamination or the perception of contamination. These sites are often times encumbered with a lien on the title for judgments, mortgages, or unpaid real estate taxes.

How big is the Market?

As the market matures, it now shadows the traditional commercial real estate market.

- It is estimated that \$2 Trillion of real estate is devalued due to the presence of hazardous materials and/or substances.
- USEPA estimates that up to 1 million properties around the country are considered a “brownfield site” as defined by the federal brownfield law.
- Brownfield News estimates that between 5,000 – 10,000 individuals make their livelihood in the U.S. Brownfield Market

These individuals make up the four major market sectors in the brownfield marketplace.

These market sectors include:

- Transaction Support – this is the largest market sector and includes providers of professional services such as legal, financial, environmental and insurance
- Public Sector – this contains federal, state, county, local government assistance. For example, liability relief and financial incentives
- Property Owners – this sector contains public and private sector organizations that own, manage and divest of properties.
- Buyers – this sector contains developers, investments and private sector organizations that take title or invest in properties.
- It is difficult to accurately quantify the number of brownfield properties that exist or transfer hands. This is because most brownfields activities are handled by governmental agencies as a remedial action. In turn, most of these remedial actions are handled by the federal and/or state environmental programs where the primary interest of the agency is the cleanup or remedial action being undertaken and not the subsequent redevelopment effort. It was not until recently that the state and federal governments realized the need to track the economic benefits of the redevelopment of these impaired properties.

### Evolution of the market

- From 1990 – 1995 the brownfield market emerged. Specialty development and environmental companies account for most of the activity. These were individuals who had vision and were willing to take on the risk for financial gain.
- 1998 – 2001 “end of the beginning” – Capital and insurance providers gain some comfort as the market develops and are now willing to take a position in the marketplace
- 2004 – 2007 “Market Maturing” – Fueled with interest rates at a 45 year low, a number of companies are taking advantage of the low cost of capital and the many incentives offered by federal, state, local governmental agencies including grants, municipal tax abatement programs, opportunity zones and liability protection provisions. This is allowing for strategic partnerships among service providers. However, it is far from a mature market.

### Stratification of the Brownfield Marketplace

A brownfield site can represent a “buy” opportunity for those with specialized knowledge of the market. Those individuals have the ability to quantify the liabilities associated with a brownfield property. Brownfields have always been divided into three main categories:

- Negative value properties – it is estimated that there are approximately 1,000 – 5,000 properties that exist in this category. These properties are considered economically “upside down” with liabilities much greater than the property value.
- Positive value properties are estimated from 10,000 – 100,000 sites that have a positive value and possess an income producing capacity and usually have the benefit of the traditional real estate mantra “location, location, location”.
- Neutral value properties – it is estimated that 100,000 – 900,000 properties fit this category and are usually developed through the use of governmental incentives.

You are probably wondering why the discrepancies in the estimates when discussing these site categories. The answer is simple, there does not currently exist an adequate means of identifying and tracking brownfield properties.

### Who owns commercial real estate?

Through its research the National Brownfield Association estimates that commercial real estate in the United States is valued at approximately \$4 trillion. 43% of this is corporately owned.

Environmental insurance providers have stated that approximately \$1.3 billion of environmental insurance premiums have been paid. Brownfield News estimates that \$300 - \$400 million were placed on brownfield sites.

Commonly used insurance policies issued for brownfields include:

- Cleanup cost cap that provides remediation cost overrun coverage, and;
- Pollution legal liability that provides monies for the cleanup of unknowns, tort liabilities, and economic losses.

## Brownfield Buyers

Many of the specialty development companies that initially participated in the brownfield marketplace have faded away or are focused on local markets. The new market brownfield buyers that are emerging are industrial real estate investment trusts who recognize brownfields as a buy opportunity to increase shareholder returns using lower capital costs, and more traditional development companies that buy brownfields on a “one-off” basis.

There are currently 20 federal agencies that participate in the federal brownfield partnership. A review of President Bush’s brownfield funding requests indicates that USEPA’s total budget of \$210 million is a \$39 million increase over last years budget. To the contrary, U.S. Housing and Urban Development brownfield funding is targeted for elimination in the form of the economic development initiative (EDI) and brownfield economic development initiative (BEDI) grant programs. Perhaps an indication of the slight shift in focus regarding redevelopment of brownfield sites, US Economic Development Authority has had an increase of \$1.7 million for public works development grants and economic adjustment assistance.

The “state of the state” and local governments indicates that state brownfield departments have budgets that are stabilizing. State economic development programs are playing a larger role with a shift in priorities to promote redevelopment making more incentives available. Local units of government are experiencing uneven market demand due to loss of jobs and plant closings depending on the location in the country.

## Capital

Most brownfields are acquired in non-leveraged transactions using equity. Opportunity funds, private equity and high net worth individuals are the primary source of capital. Debt financing is entering with the environmental risk is eliminated or greatly reduced.

## In conclusion:

- The liability relief and financial incentives provided by the states continues to improve market conditions
- BN estimates that 10 -15% of the brownfield sites have been addressed, with more then 80% of the market untapped.
- Corporations have tremendous amounts of real estate that is mothballed. Creating conditions that allow these companies to divest that supply would benefit developers and communities in which these properties reside.
- Environmental insurance is becoming better understood and more widely accepted allowing more transactions to occur
- Partnerships between legal, environmental and insurance companies are forming to provide one stop solutions to brownfield redevelopment

The brownfield market is maturing, but it is far from mature. Change appears to be the only constant in this market, where transactions are often unique to the site in question

and the governmental laws and regulations written to implement brownfield reforms are ever-changing