

The Role of the Developer in Remediation and Redevelopment of Brownfield Sites

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Urban Redevelopment Authority of Pittsburgh

■ Role:	Developer of properties which the private sector will not undertake due to economics and often inability to control the land.
■ Mission:	<ul style="list-style-type: none">■ Creation of Jobs■ Increase of City's Tax Base■ Business, Neighborhood, and Cultural Vitality
■ Special Power:	Eminent domain for redevelopment purposes in the public good
■ Favored Public Financing:	<ul style="list-style-type: none">■ Ability to secure public financing for remediation and infrastructure■ Ability to secure favored financing for real estate■ Ability to float bonds for development financing

Redevelopment Viability

- Location - Environs and Access
- Market Demand
- Competitive Return on Equity Invested
- Financial Return commensurate with Risk
- Property Economics relative to Fair Market Land Value
- Develop a Desirable Product

The Successful Development Team

- | | |
|--------------|--|
| ■ Primary: | ■ Land Owner and Developer
■ Real Estate Developer
■ Lending Institutions
■ Real Estate Brokers |
| ■ Secondary: | ■ Real Estate Market Consultants
■ Architects, Engineers, Contractors
■ Elected Officials
■ Government Regulators |

Consideration of the Real Estate Developer

- Market Demand for Proposed Use
- Surrounding Environment and Affect on Market Demand
- Master Plan and Amenities
- Minimum Infrastructure Needs
- Lenders Comfort with the Development
- Participation Level by Lenders
- Environmental Liabilities
- Minimum Equity Required
- Risk of Success

Economics of the Development

- 53,000 sq. ft. building
 - \$9.00 per sq. ft. market lease rate
 - \$7.50 per sq. ft. bank financing maximum
 - \$1.50 per sq. ft. developer return on equity
- \$7.50 will support \$68.46 mortgage
- \$1.50 will support \$12.50 developer equity
- Project Investment Total \$80.96/sq. ft.
- Project Construction Costs \$71.25/sq. ft.
- Design, Financing & Other Fees \$3.56/sq. ft.
- Maximum Affordable Land \$6.15/sq. ft.
- Resultant Land Value \$108,650 per acre

Townhouse Project Proforma

Uses of Funds

	<u>Per Unit</u>
Unit Construction Cost	\$97,500
Private Site Costs	\$5,000
Subtotal Construction Costs	\$102,500

Soft Costs

Construction Period Interest	\$3,000
Legal Fees	\$1,000
Taxes During Construction	\$400
Insurance During Construction	\$500
Lender Inspections	\$120
Holding Costs	\$350
Architect Fees	\$3,075
Engineering/Subdivision	\$1,025
Appraisal	\$200
Financing Fees (Construction)	\$233
Title Insurance Closing Fees (Construction)	\$367
Transfer Taxes (Construction)	\$137
Subtotal Soft Costs	\$10,407

Townhouse Project Proforma (cont'd.)

Deferred Costs

Sellers Closing Fees (Permanent)	\$350
Sellers Transfer Taxes (Permanent)	\$2,438
Developer's Overhead and Profit	\$12,300
Marketing/Sales	\$7,500
Total Deferred Cost	\$22,588

Subtotal \$135,445

Developer Return on Equity \$1,268

Land \$13,237

Total Uses of Funds \$150,000

Sources of Funds

Private Lender	\$105,000
Deferred Cost	\$22,588
Developer Equity and retain on equity	\$22,412

Determining Land Value

- Construction costs, soft costs, and deferred costs total \$135,495.
- Therefore, for a housing unit selling for \$150,000, there remains **\$14,505** for the developer to pay for the land and realize a return on his equity investment.
- The bank will lend 70% of the unit sales price, or \$105,000, for construction financing.
- The developer will need to bear the costs of construction, the soft costs, and the land costs. Sources for these costs are the bank loan and his equity addition to the financing.
- If $x =$ land price and $y =$ return on the equity investment then $x + y = \$14,505$.
- Equity = construction costs + soft costs + land cost - bank,loan
= \$102,500 + \$10,407 + x - \$105,000
= \$7,907 + x
- If the developer seeks a 12% annual return for a 6 month construction period then $y = .06$
(Equity) = .06 (\$7,907 + x)
- Solving the equations results in
Land Price = $x = \$13,237$
Return on Equity = $y = \$1,268$
Equity Investment = \$21,144

Considerations of the Land Developer (URA)

- Marketability with and without cleanup
- Level of investment required to attract developers
- Environmental liability issue
- Residual land value vs. market value
- Return to the City

Assessing the Economic Viability

- Land Developer Costs

Bridge	\$4 million
Utilities	\$2.35 million
Roads	\$3.40 million
Grading	\$2.0 million
Parks & Trails	\$3.0 million
Land Assembly and Demolition	\$8.35 million
Remediation	\$3.40 million

Total

\$26.5 million

▪ Net Area	30 acres
▪ Residual Land Value	\$883,000 per acre
▪ Developers Land Offer	\$3,540,160 or \$118,000 per acre
▪ Gap Financing:	<ul style="list-style-type: none"> ▪ Federal \$4,126 million ▪ State \$10,840 million ▪ County \$.800 million ▪ City \$5,994 million ▪ Water & Sewer Authority \$1,200 million
▪ Return to City:	<ul style="list-style-type: none"> \$340,000 one time \$744,400 annual

Remediation Economics

- \$3.4 million remediation cost small part of residual land value
- Land market value low in slow growth region
- High demand for land and building can support remediation costs within positive economics

The Herr's Island Development

■ The Plan

- Mix of uses
- Market
- Contaminated area - best views
- Residential offers best land return
- PCB's under park
- Marina atmosphere
- Quality of public spaces

■ Phasing Strategy

- Vehicular access
- Develop marina for ambiance
- Establish office users
- Market housing from inside to outside to build value

Brownfield Redevelopment Strategy

1. Aggressively acquire land
2. Assess & negotiate environmental
3. Analyze market and economics
4. Partner with developer
5. Jointly develop plan
6. Negotiate business terms
7. Pursue public financing
8. Develop phasing and financing plan