Getting the Project off the Ground:

Creative Funding for Initial Brownfield Development including the Bankers Perspective

Panelists

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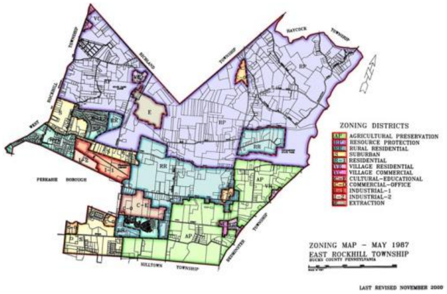
- George Vallone — HOBOKEN BROWNSTONE CO
- Marc Guerin, Esq. — RBS Citizens
- Susan Peck, Esq. — Sovereign | Santander
- Moderated by:
  Brad Maurer, Esq. — SOVEREIGN CONSULTING INC.

A New Era in Project Finance

- Since the debt crisis of 2008, lenders have tightened their underwriting standards.
- Projects now meet financial underwriting standards much later in the project timeline.
- Today's Brownfield projects rely more heavily on private equity and government financing in the early stages.
- Projects still need to meet collateral underwriting standards – in Brownfields, a heavy focus falls on site remediation.

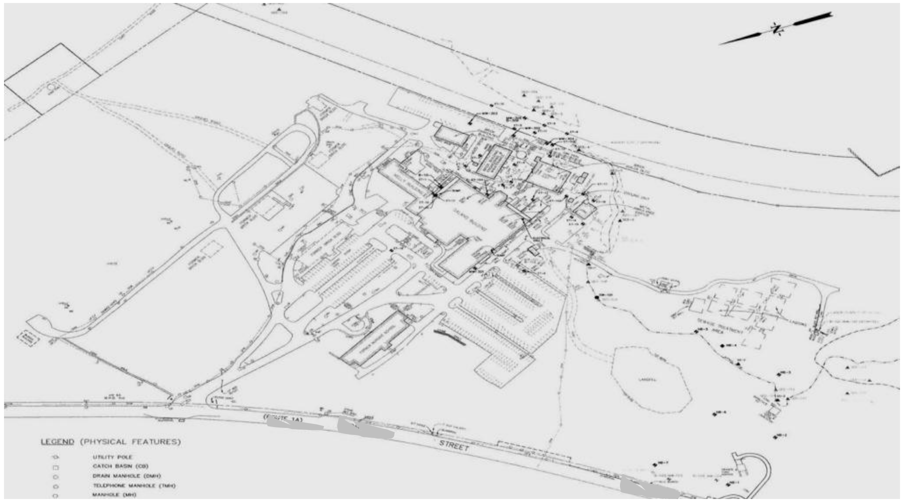
Project Development Stages

1. The Vision and Community Acceptance
2. Site Control
3. Due Diligence
4. Zoning, Entitlements
5. Acquisition
6. Marketing
7. Construction Finance
8. Construction/Remediation
9. Sales and Occupancy



A Case Study – Healthcare Campus

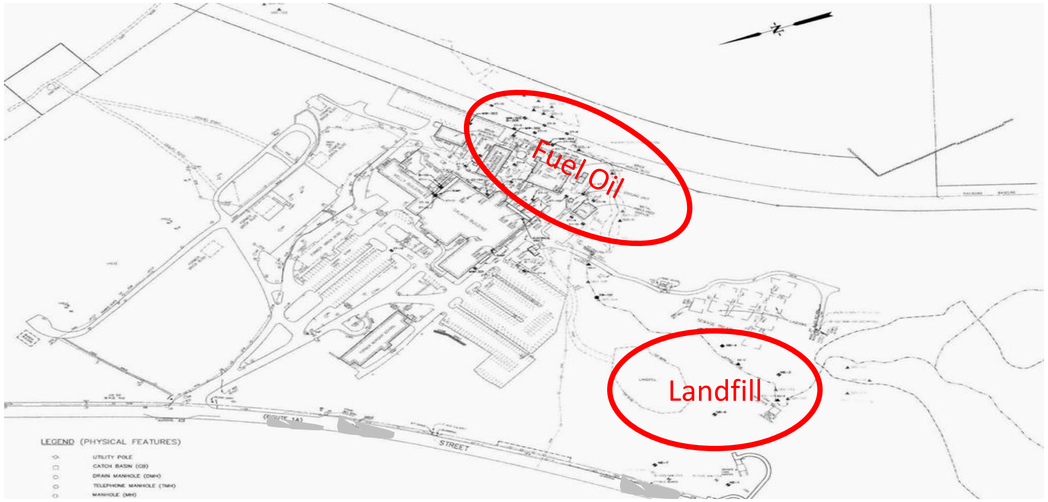
- 100 acre abandoned healthcare campus is Massachusetts
- Physical Setting: Rural - mixed industrial and low density residential area.
- Buildings and Improvements:
  - 210,000 sq. ft. of vacant buildings; 3-primary buildings, numerous ancillary buildings and structures.
  - On-site sewage treatment facility;
  - On-site potable water supply well
  - Asphalt parking surrounding the buildings.



- Physical Issues
  - Original construction in 1920's
  - Abandoned for 10 years
  - New Zoning required
  - Obsolete Build Structures

A Case Study – Healthcare Campus

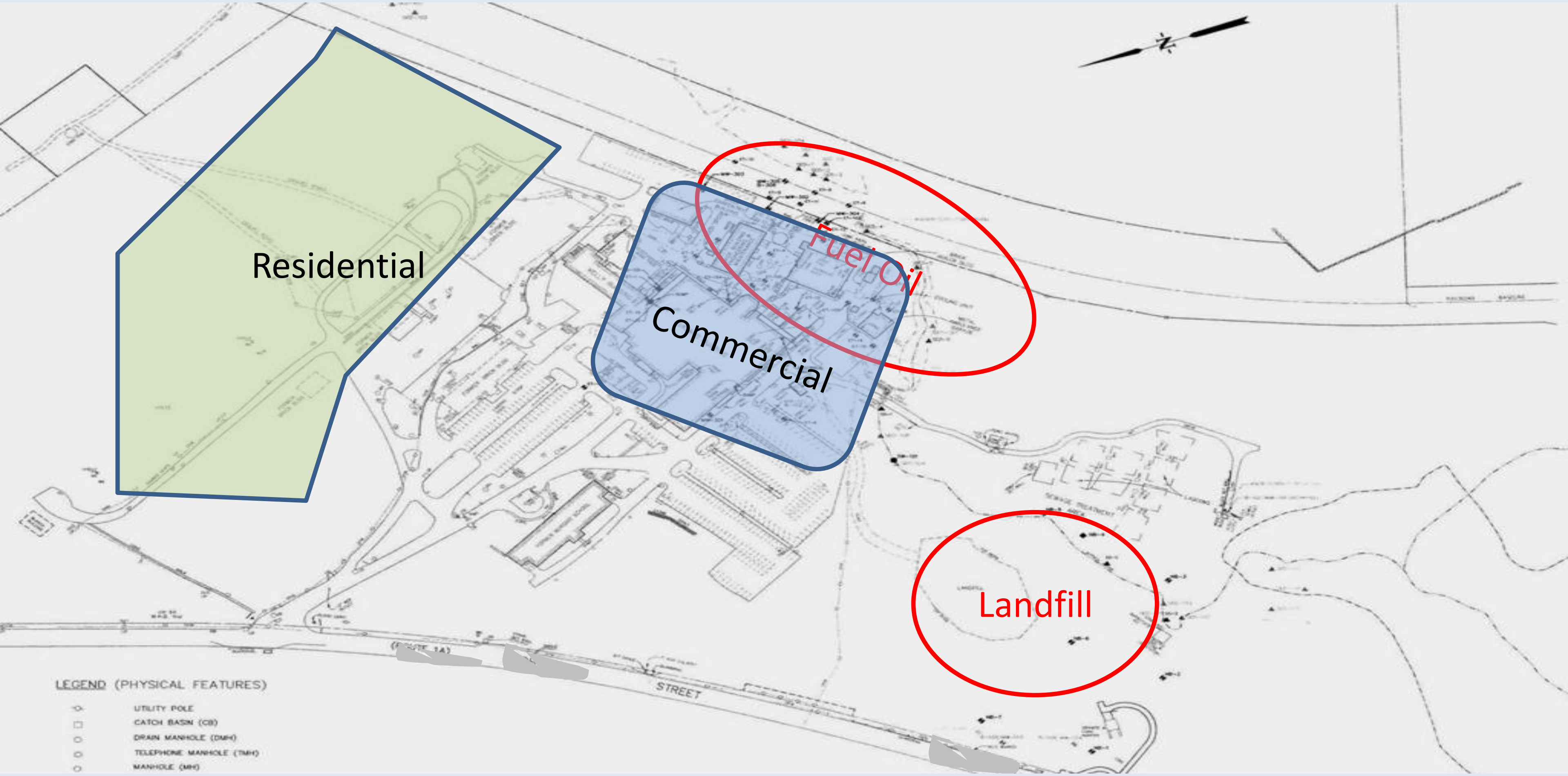
- **Environmental Issues**
  - Asbestos in Buildings
  - No. 6 Fuel Oil
    - Soil
    - Groundwater
  - Metals Contamination
    Intermittent Stream Sediment
  - Abandoned solid waste landfill



Getting the Project off the Ground

Redevelopment Plan

- Theme: “Lifecycle meets Lifestyle”
- Intergenerational Housing on the Grounds
  - energy efficient design is incorporated into approximately 250 newly constructed two-family homes to serve the needs of aging parents living with their children or adult children who are living with their parents.
- Community Association
  - A homeowners association will fund and manage common use facilities such as pool, gym, walking trails, park and meeting house for health and fitness programs for senior community engagement.
- Adaptive Reuse of Buildings
  - The former hospital facilities will provide conveniently located space for retail outlets, professional health services office, a theater, grocery market, personal services such as salon & spa, and financial banking services to serve the community.


Residential
Commercial
Fuel Oil
Landfill
STREET
LEGEND (PHYSICAL FEATURES)
UTILITY POLE
CATCH BASIN (CB)
DRAIN MANHOLE (DMH)
TELEPHONE MANHOLE (TMH)
MANHOLE (MH)

Redevelopment Plan

Commercial (Medical Office / Services)	100,000 sq. ft.
Commercial (Retail)	100,000 sq. ft.
Two Family Homes	
# Two Family Homes	250
Ave Size (sq. ft.)	2250 sq. ft.
Totals	562,500 sq. ft.

Allocation By Use Type

Total Sq. Ft.	762,500 sq. ft.
Commercial (Medical Office / Services)	13%
Commercial (Retail)	13%
Two Family Homes	74%

Redevelopment Costs

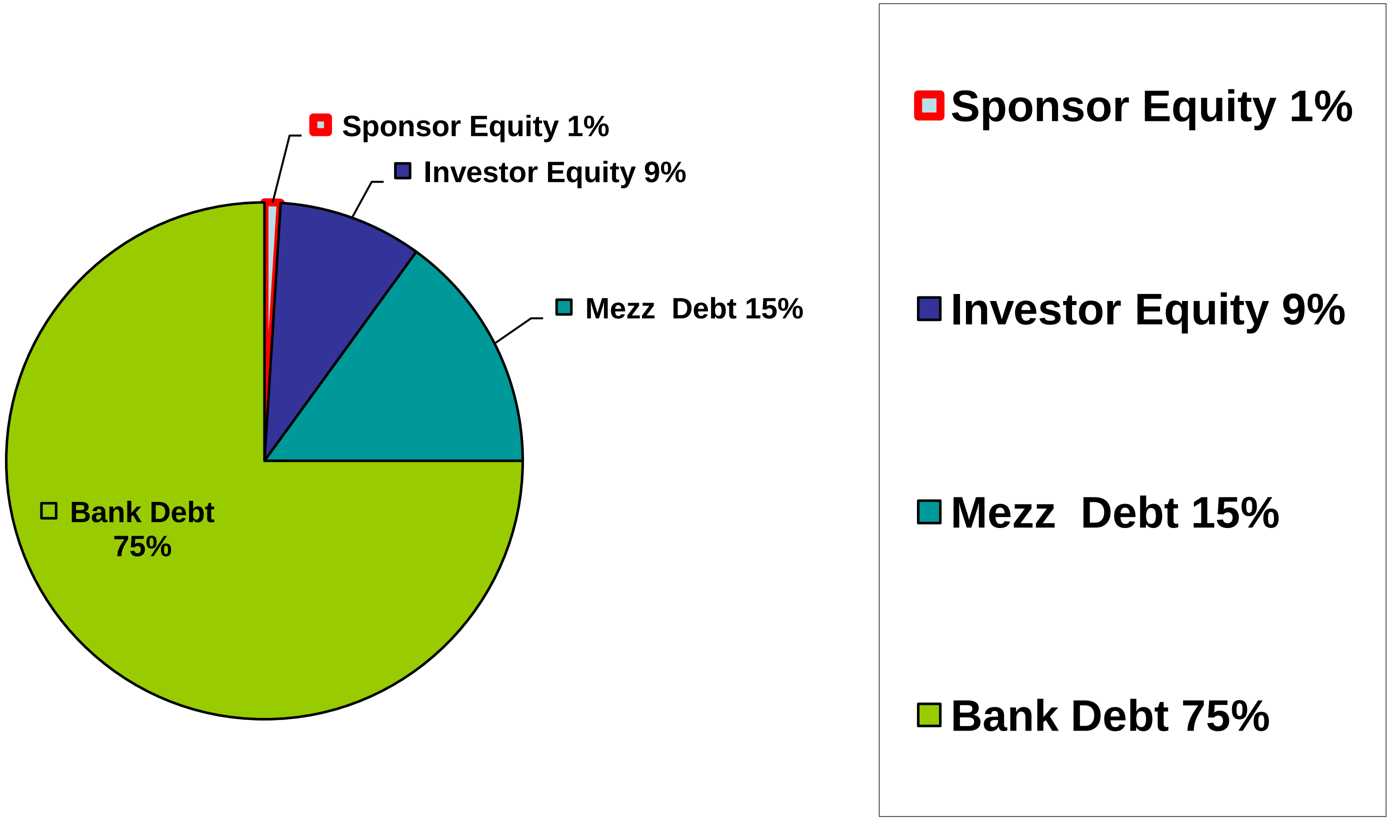
Land Purchase, Legal, Insurance, Architectural	$ 5,000,000
Demolition	$ 2,000,000
Remediation	$ 5,000,000
Total Acquisition Cost	$ 12,000,000

	Medical/Office	**Retail**	**Residential**
Total Development Costs:	$ 14,000,000	$ 14,000,000	$ 55,000,000
Pre-Dev Costs - Site Preparation	$ 1,500,000	$ 1,500,000	$ 7,500,000
Total Construction Cost	$ 15,500,000	$ 15,500,000	$ 62,500,000

Redevelopment Finance

- **Seller Finance**
  - Seller accepts a mortgage on the property at sale
- **Third Party Equity Investors**
- **Vendor Equity Investors**
  - Demolition Contractor Contributes Services for Equity
  - Remediation Firm Contributes Services for Equity
- **Construction Loan**
- **Permanent Mortgage**

The Capital Stack



Capital Stack & Pricing Model

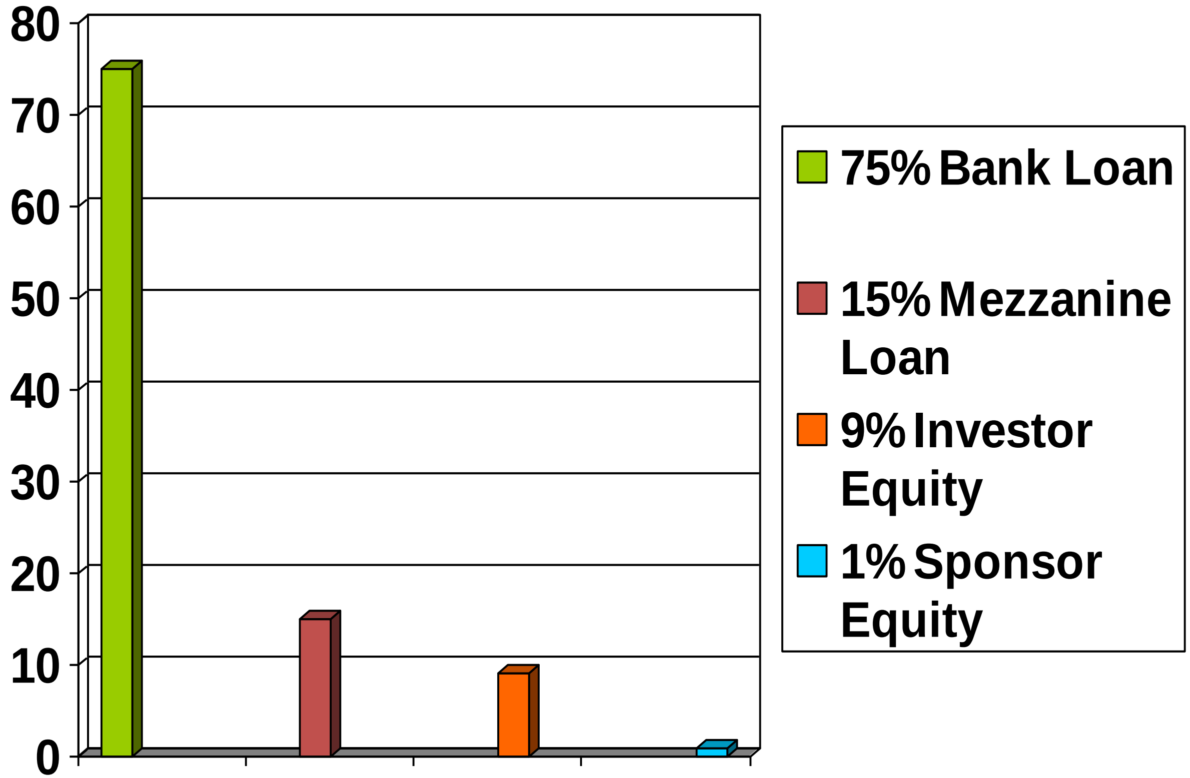
Brownfields2011
SUSTAINABLE COMMUNITIES START HERE

Cost of Bank Loans
- Commitment Fees 1-3%
- Broker Fees 1-3%
- Interest Rates + 1-3%
  a. Prime Rate
  b. Libor Rate
  c. T-Bill Rate

Mezzanine loans
- Commitment fees 1-3%
- Broker Fees 1-3%
- Interest Rates 10-20%

Investor Equity– Preferred ROI
- 8-20%
- % of Profit 10-90%

Sponsor Equity – All Profits after A+B+C Paid in Full



Lender's View: Construction

Developer seeks funds to rehabilitate existing buildings, perform land development and construct new commercial facilities. The remediation is underway, but just beginning.

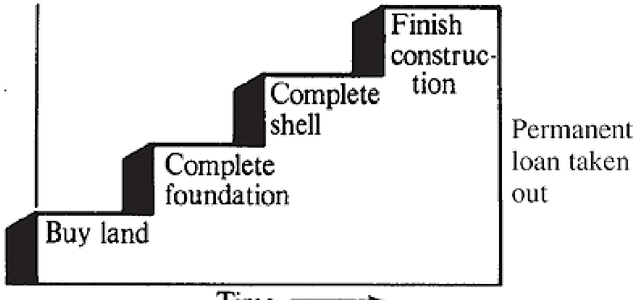


FIG. 41. CONSTRUCTION LOAN

Questions:

1. Who does the developer interact with to evaluate environmental issues?
2. What information does the lender want to see to understand remediation?
3. What parts of remediation can be financed?
4. How involved is the lender in monitoring remediation progress?

Lender's View – Permanent Mortgage

- Developer seeks permanent mortgage to consolidate construction debt for completed facilities.
- **Questions:**
  1. Who does the developer interact with to evaluate environmental issues? (consultant, regulatory agencies, environmental attorney, lender, lender's environmental unit)
  2. What information is required by the lending institution prior to closing to understand Site environmental liabilities and approach to remediation? What level of "closure" is required? Will lender accept collateral with institutional control?

Lender's View – Permanent Mortgage

- Developer seeks permanent mortgage to consolidate construction debt for completed facilities.
- **Questions:**

  If remediation is not complete at time of permanent mortgage financing …

3. What tools can be used to mitigate remaining risk for lender? (escrow account, environmental insurance)

4. What will lender require post-closing (monitoring reports, periodic updates)?

Summary

1. Current Lending Markets Require a Higher Percentage of Private Equity.

2. Capital Can Come from Vendors Who Require Buy-outs in the Short Term, in Essence Providing Mezzanine Finance.

3. Brownfields Necessarily Involve Environmental Issues Which Must be Addressed not only in Terms of Regulations, but also Lender Requirements for both Construction and Permanent Loans.