



FOCUS ON ENVIRONMENT A New York City redeveloper and a Los Angeles-based engineering firm team to extract enviable profit margins from contaminated properties that their competitors won't touch. BY ANDREW G. WRIGHT

Payback From Pollution

Everyone knows the Three L's in real estate that are the prime precursor to development: "location, location, location." But the other Three L's, "liability, liability, liability," can be guaranteed deal-killers. Even so, the Dames & Moore/Brookhill Group is mining profitability from derelict brownfield sites by purchasing polluted properties, cleaning them, redeveloping them and exiting as quickly as possible.

Ronald P. Bruder, a 50-year-old real estate developer from New York City, learned to squeeze value from distressed property by necessity. During the late 1970s and 1980s, Bruder watched property values soar in New York and Florida. His redevelopment firm, the Brookhill Group, was often forced out of the bidding for prime properties by larger competitors.

Bruder began looking at brownfields, polluted industrial sites where others feared to tread. He learned to look for properties close to a railroad, major highway or airport. He avoided sites polluted enough to land on the federal Superfund National Priority List. But he also found plenty of lightly contaminated, orphaned parcels that competitors avoided in favor of clean sites, leaving cleanup work to others.

Companies often close factories or business centers for strategic reasons but don't want to spend money cleaning up the site until they have a buyer, says Bruder. Potential buyers often don't want to take the risk of buying a tainted property when there are plenty of clean sites available elsewhere, usually with attendant tax breaks built in to boot. The orphaned parcel sits in limbo, a nonperforming asset for the owner and the community. Not surprisingly, these "fixer uppers" are usually available at a bargain.

"We became valuation specialists," says Bruder. "We worked on several projects with Dame & Moore as the cleanup specialists. They were good and they were fast. A quick turnaround is the key here. Keeping the money tied up too long is the difference between a profit and a loss."

In 1996, Brookhill and Los Angeles-based Dames & Moore

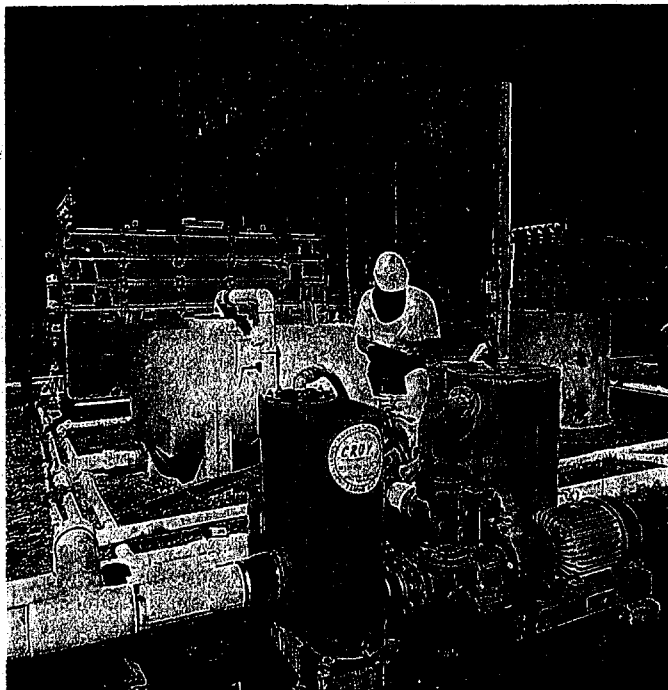
became equal partners in a limited liability corporation to buy, remediate and sell brownfield sites. With Bruder as chairman, each side kicked in \$5 million in seed money. Credit Suisse First Boston provided a \$200-million line of credit.

QUICK START The new venture hit the ground running, paying Confederation Life Insurance Co. liquidators \$72 million in cash for a portfolio of 24 problem properties and mortgages in April 1997. A cryogenics firm's Denver factory site, polluted with cadmium, and a solvent-contaminated warehouse and distribution complex in Indianapolis soon followed. Almost all of the portfolio problems have been remedied and disposed of, as have the Denver and Indianapolis sites, says Barry F. Hersh, a Dames & Moore/Brookhill vice president from the real estate side of the aisle. He is reticent about revealing too much detailed information but says those deals fit "our goal of returning a profit above 15% of our investment."

As the fledgling partnership was building a track record, states were beginning to enact legislation to make brownfield work easier. One reason Superfund is viewed more as a financial support program for the legal profession than as a working cleanup formula is because there's no allowance for the site's end use, says Hersh. "Each site is treated as something to be returned to pristine condition, so often companies decide that it's cheaper to delay in court rather than to go ahead and clean it up. Obviously, we do not agree with that approach," he says.

Realizing that many distressed properties would never end up as daycare centers or residential tracts, more than 40 states have enacted measures to encourage cleanup by requiring a lower level of remediation based on the property's subsequent use.

New Jersey's overhaul in January is typical. Developers can lay off some of their brownfield cleanup costs to tax credits and earn additional credits by using innovative technologies. More importantly, the new law establishes a well-defined framework for clean site certification. Once regulators sign off, a developer cannot be sued for further cleanup costs.



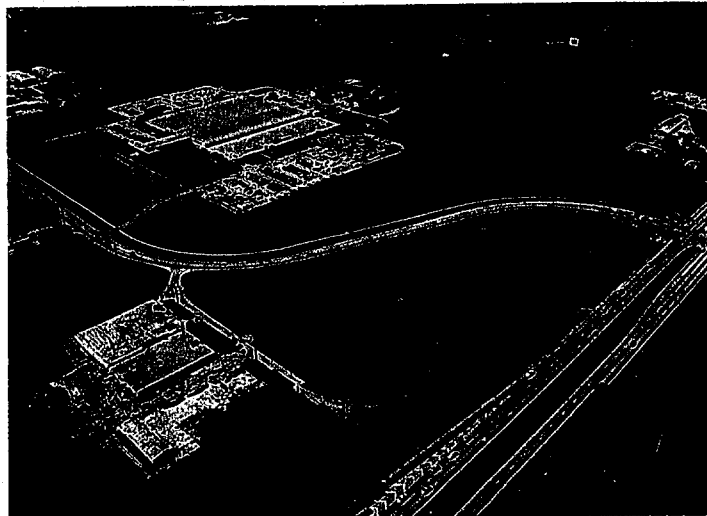
AIR STRIPPER Mobile unit removes volatile organic compounds recovered from groundwater well field.

The measure has prompted Dames & Moore/Brookhill to look at several deals in New Jersey, says Bruder, but the largest site to date is in Sarasota County, Fla. The firm closed last October on an 84-acre parcel. The centerpiece is a 284,000-sq-ft building where L3 Communications, partly owned by Lockheed Martin Corp., manufactures "black boxes," the flight data

face. A dual-phase vapor extractor pulls off VOCs through carbon adsorption while water is run through the treatment plant and reinjected into the spray field.

Geraghty & Miller, now part of Dutch-owned ARCADIS, "designed an excellent treatment system," says Ami Kaharoeddin, the Florida DEP's site project manager and a geologist. "Much of the spray field and wastewater treatment plant areas are already clean."

Dames & Moore/Brookhill, aiming for significant site development within the next two years and completion within three to five years, will forge ahead with a more aggressive treatment pace. The firm has seen VOCs drop from 2,400 parts per billion in the influent stream to less than 1 ppb in the effluent after treatment, says Vernese. The company plans to move the air stripper to work on the hot spots beneath the building, where trichloroethane and tetrachloroethane levels hit 6,000 and 1,600

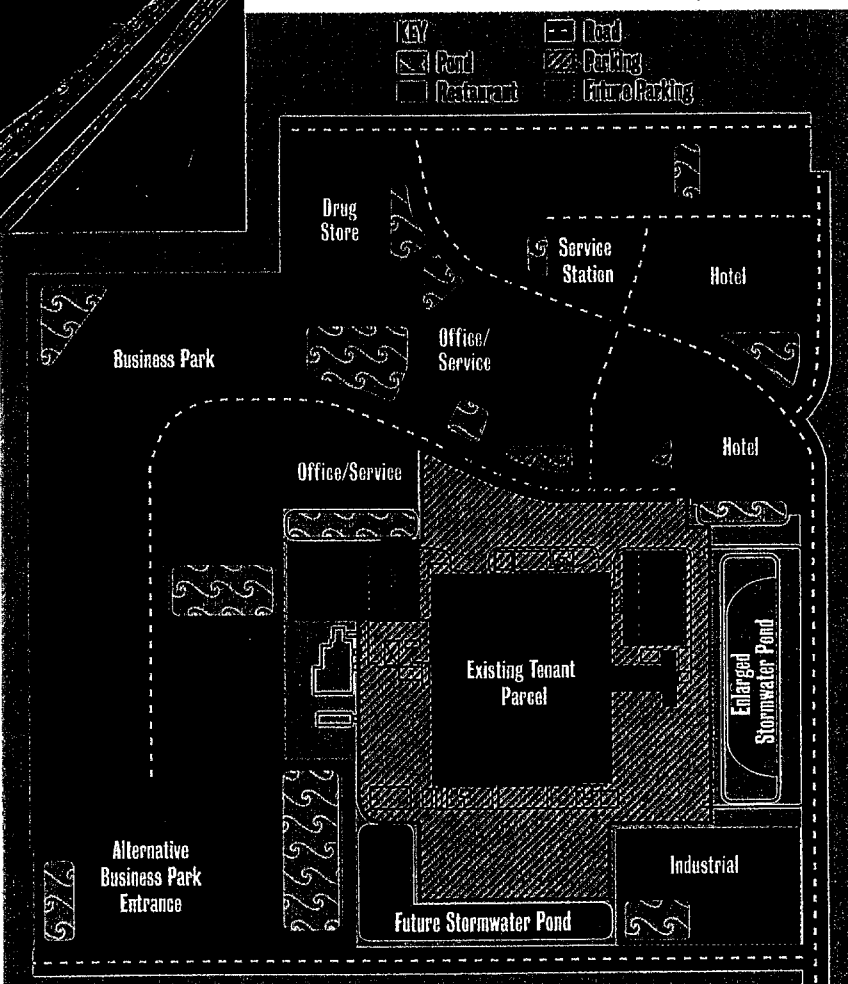


recorders aboard aircraft. The site's soil and groundwater are contaminated with volatile organic compounds—mainly trichloroethane and tetrachloroethane—from more than 30 years of production from Loral Corp., Lockheed-Martin and now L3.

The site, adjacent to Interstate 75, is subject to the Resource Conservation and Recovery Act guidelines and a consent order administered by the Florida Dept. of Environmental Protection. Dames & Moore/Brookhill paid L3 \$10.1 million for the property, will spend another \$3 million for remediation and \$2 million to redevelop the space into retail, light industrial and office space. L3, which received full indemnification from further environmental liabilities as part of the deal, plans to remain as an anchor tenant. The developer will add retail shops, restaurants and fast food outlets, service stations, hotels, motels and an adjacent light industrial complex as soon as regulators say the site passes muster.

SINS OF THE PAST The worst pollution occurred more than 20 years ago, says Dames & Moore/Brookhill Vice President Frank Vernese, who specializes in environmental engineering. The manufacturer, acting under acceptable practices of the day, disposed of the effluent stream on a spray field next to the plant, contaminating over time the soil and groundwater. Other pollution sources are leaks in the operation's industrial wastewater treatment plant. But the worst hot spot is beneath the building itself.

The previous owner hired Denver-based groundwater treatment specialist Geraghty & Miller to design a treatment scheme for the spray field and wastewater treatment plant. The environmental engineer laid a grid of recovery wells at 8-ft intervals that pumped 150-gal-per-minute of contaminated groundwater through a mobile air stripping unit on the sur-



SITE PLAN Airplane black box production site, top, will keep anchor tenant and emerge as mixed-use retail business park as remediation proceeds.

ppb, respectively, according to Kaharoeddin. "I disagree with their flow rate of 190 gpm. The present air stripper is not strong enough," he says. Ultimately, sampling will show.

Bruder did not carve out a niche in a tough territory by being pessimistic. Claiming 30 transactions on \$130 million worth of properties in less than two years, he's on to a 60-acre site in the center of Cleveland, another near Durham, N.C., and several others from New York to Salt Lake City. "We'll sign for another \$200 million in credit in September," he says. "Things are looking pretty good." □