

Brownfield Redevelopment: Cash Cow or Money Pit?

DEVELOPMENT UPDATE

Brownfield Redevelopment: Cash Cow Or Money Pit?

WRITTEN BY DOUGLAS K. BROWN, ASTI ENVIRONMENTAL, BRIGHTON, MICHIGAN



Downtowns have acquired a new cachet in recent years. 79 million baby boomers and empty nesters who grew up in the suburbs are having children later or not at all (source: Brookings Institute). Boomers are choosing downtowns because they prefer urban funk to suburban blandness, refuse to commit to hour-long commutes and want to be near restaurants, entertainment and cultural amenities.

Downtown Detroit has added over 33,000 new residents and with an additional 20,000 will reach critical mass, according to Kurt Metzger, Director of Research at the United Way of Southeast Michigan. This data is meaningful because most industry began in downtowns and first-ring cities and ultimately left Brownfields in their wake as they sprawled to the suburbs.

In the past 18 months the market has been screaming Brownfields and downtowns. "More Brownfield deals are coming out of Michigan than any other state in the country" reports *The*

Brownfield News. It stated that Michigan is a leader in this area. What is the market saying to you?

When developers approach Local Units of Government (LUGs) to recycle an environmentally impacted site or a functionally obsolete/blighted building there is very little that community leaders won't do to push a brownfield project forward particularly if it provides a domino-effect for other infill projects as is so often the case. In the words of Oakland County's Environmental Program Coordinator, Brad Hansen, "Brownfield redevelopment in downtown areas should be seen as a win-win situation for both LUGs and developers. Brownfield Redevelopment benefits LUGs via environmental clean-up, enhancing of the tax base and job creation. The goals of the developer are also expedited by the presence of the existing infrastructure as well as utilization of desirable locations of Brownfield parcels in a downtown setting."

Michigan was the first and still really the only State that has successfully used

Baseline Environmental Assessments (BEA), as defined under Part 201 of Michigan Act 451, and utilized engineering controls in lieu of costly remediation that merely transports liability (i.e. hazardous waste, contaminated soil, petroleum substances etc.) from project sites to landfills thus turning pro-formas upside down and curtailing economic development benefits—job creation, recycling land, elevation of taxable value, removal of eyesores and enhancing community image. Generally other States award incentives to Brownfield Redevelopers but they are still responsible for cleanup. Due in large part to our causation-based liability scheme crafted during Governor Engler's watch, in Michigan the polluter pays.

Although a gap financing strategy must be designed by a seasoned professional, tailored to augment the development objectives and, then, mutually agreed upon by the public and private sector; Brownfield Redevelopers in Michigan are fortunate to have a "bottomless" toolbox to remedy extraordinary environmental and infrastructure expenses that Brownfield sites can pose through Brownfield Bonds, Brownfield Single Business Tax Credits, Commercial Rehabilitation Districts, DEQ Brownfield Grants & Loans, EPA Brownfield Assessment Grants, Historic Tax Credits, Low Income Housing Tax Credits, New Market Tax Credits, Renaissance Zones, Underground Storage Tank Reimbursement, and Tax Increment Financing.

As Brownfield Redevelopment just celebrated its' 10-year anniversary in Michigan, developers appear to have a greater understanding of risk associated with environmentally impacted sites and functionally obsolete/blighted buildings than ever before. Coupled with a "bottomless" toolbox to close financial gaps, an undervalued Real Estate market and willing LUGs many developers have decided that Brownfield Redevelopment can be a cash cow. What have you decided? ■

For more information or to schedule a meeting to discuss Brownfield Redevelopment in greater detail, please contact Mr. Brown at ofcs: 810/225-2800, 616/957-5601, cell: 810/599-8131 or drop him an email at dbrown@asti-env.com

Sign and Graphic Solutions Made Easy for YOUR Project!

35300

POPLETON PLACE

7 Locations To Serve You:

Farmington Hills 248.488.9010	Northville 248.449.6500
Auburn Hills 248.758.1572	Sterling Heights 586.446.0600
Birmingham 248.642.9911	Dearborn 313.561.0200
	Ann Arbor 734.677.1500

FASTSIGNS
www.fastsigns.com

PRESS & GUIDE

Development lurches forward

Despite delays, there is optimism over several commercial projects

By Cristen Kis
, Press & Guide Newspapers

DEARBORN

New buildings are rising in Dearborn, older structures are getting facelifts and still others are being demolished.

Dearborn's transformation stretches from developer Hakim Fakhoury's projects in the west end to the Montgomery Ward site in the east. Despite bumps in the road and unforeseen delays, some major developments in the city are well on their way to completion while others are hitting obstacles.

"We're ironing things out and hoping to get things going on multiple fronts," said Economic and Community Development Director Barry Murray.

As eastbound drivers travel Michigan Avenue into the heart of West Dearborn, one of the first signs of change is at the corner of Michigan and Military.

Gateway Plaza, as the development is known, is fully leased, both commercially and residentially. The 12,000 square-foot strip mall includes four different shops and eight one-bedroom lofts.

The shops are comprised of a Quizno's Sub Shop, an Armani suit store, Bora Bora Coffee Shop and Caliente Grille, which made its Dearborn debut at Homecoming in 2003.

Originally set to be complete early this year, construction was halted in January, Fakhoury said. The 46-year-old owner of Fakhoury Ventures, LLC, stopped construction for six-weeks after city inspectors raised questions.

Rob Creamer of the Building & Safety Department said although inspectors inquired about steel used in the project, city officials never ordered a work stoppage.

Fakhoury said no problems were found and work has since resumed and should be complete by the end of May. Following that, tenants will be able to build and design the interior of their shops.

Just across Military, the former Mercury Motel and Coffee Shop is still sitting vacant as part of a study on how obsolete buildings capture taxes. The site, now owned by Dearborn Federal Savings bank, is likely the future headquarters of the bank and could be a mixed-used facility designed to be

incorporated with West Village Commons further up Michigan Avenue.

Murray said the city is currently working with the owners on a timetable for the property. The building will be demolished after the tax capture study is complete.

Nearby, on Michigan and Howard, is Dearborn Village North, the lower level of which is open for business. While Buffalo Wild Wings and Panera Bread have been open for months, a neighboring retail space is still vacant. Fakhoury said he is talking to a possible tenant out of Ann Arbor, but a lease has not yet been signed.

The lofts on top of the stores are still under construction, but even without a model apartment Fakhoury has received reservations for 15 of the 24 lofts.

Reception to the lofts, which range from \$1,400 to \$2,400 per month, has been positive, Fakhoury said. So far, reservations have been made by people outside of Dearborn, including individuals from New York, Chicago, Royal Oak and Birmingham.

"It just goes to show that when you offer the right product, you can attract different people," he said, adding a model should be complete within 45 days.

Across the street and part of the West Village Commons project, the housing development has not been as successful. Burton-Katzman, the project developer, was originally contracted to construct two condo towers between the parking decks. The proposal now calls for one 10-story tower but the proposal has not been approved.

Murray said current economic conditions have played a role in progress.

"Housing sales are dropping across the region," he said. "Other (Burton-Katzman) projects have also been put on hold."

While the revised plans have not yet been accepted by city administrators, the developer is currently putting a "strategy" together, Murray said. Since the current contract has been violated, the city has the option of looking at other options for the property.

Across the street from West Village Commons is another Fakhoury-owned building. The one-time home of Giuliano's Italian Restaurant is directly adjacent to the vacant retail space next to Buffalo Wild Wings. Fakhoury hopes to eventually knock the building down, incorporate the elevation into Dearborn Village North and build lofts on top of what could house a retail shop or restaurant.

However, those plans could die before they've even begun. Fakhoury said he's encountered city officials who are reluctant to grant zoning variances — one-time modifications of existing zoning laws — unless it can be proved that a building is obsolete.

"It's kind of a catch 22," Fakhoury said.

One of his projects that would require such a variance is the Dearborn Jeweler's building on Michigan near Mason. The building is currently leased to Luigi Cutraro, the owner of Royal Oak's Sangria, a popular Spanish restaurant and bar.

Fakhoury said the lease is now in default and the owner is having difficulty securing financing. He believes it could be a sign of the economic times.

"Is Dearborn still desirable for banks to finance restaurants?" he asked.

Without zoning variances, another of Fakhoury's projects might be out of the question. A local musician is apparently interested in developing the former Wagner Hotel — which currently houses Avant Garde — into an entertainment bar and restaurant.

The site, on Michigan and Monroe, would remain a historic site with the same elevation, but would be renovated inside to accommodate new tenants. Fakhoury said the undisclosed "big name" musician apparently tried to obtain a zoning variance and was denied.

Zoning Board members could not be reached to confirm this.

Although some projects are hitting more bumps than others, The Grand on the Avenue isn't one of them.

After demolishing the former Brother's Tuxedo building on Michigan and Howard, a new upscale piano bar will rise from its ashes. Denise Brown, the sister of the late Nicole Brown-Simpson, is involved in the project. Fakhoury said an architect has been chosen and blueprints are being laid out.

Demolition won't begin until a Brownfield grant application is processed in Lansing, Fakhoury said.

A Brownfield site is defined as a real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

Fakhoury has also been granted an extension on his preferred developer's agreement for more of his extensive developments. The new agreement expires June 7 and covers additional plans for a parking structure behind the Oakwood-Muirhead building, near Buffalo Wild Wings and Panera Bread.

Another parking deck has been proposed to be built behind La Shish, with a 120-room boutique hotel on top of it.

Just west of Panera and Buffalo Wild Wings, there are plans for a six-screen, two-story movie theater in addition to residential towers and 22,000 square feet of retail space.

One of the last "landmarks" motorists see as they leave West Dearborn is the Quality Inn on Michigan and Brady, which has sat empty for more than a year.

While the city owns the property, the current owner has 24 years left on a lease. Murray said the owner has hired an architect and city officials are planning to meet with him this month.

"He's putting ideas together and we're very interested to see that," Murray said.

The existing lease is for a hotel but there has been discussion about putting a commercial complex on Michigan Avenue with housing units in the back, Murray added.

To stray from the current hotel lease, however, the owner would have to renegotiate and obtain approval from the administration. Because the Dearborn Historical Museum is also on the property, the Historical Commission is also involved in the project.

In the far west end, what was once Les Stanford Cadillac will soon be a Holiday Inn Express along with another structure that could house five stores.

Murray said the developers are wrapping up a project in Rochester before turning their full attention to the Dearborn site.

In the east end, Redico, Real Estate Development and Investment Company, is in the midst of their preferred developer's agreement for the Montgomery Ward's site. The agreement, which expires in mid June, should provide more details about the planned project, which is planned as a mixed-use facility. Redico also has an unnamed tenant willing to sign a 15-year lease to relocate their corporate headquarters.

In addition to the office space, the 125,000-square-foot development would also have space for four retailers and would be four-stories high — about the same size as the existing building. It also calls for row housing as opposed to lofts over the commercial space and a 624-space parking deck.

Contact News Editor Cristen Kis at (313) 359-7820 or ckis@heritage.com.

Click here to return to story:

http://www.pressandguide.com/stories/041107/loc_20070411004.shtml



Buried tanks a leaky danger

Fuels contaminate state's soil; 9,100 sites need cleanup

April 24, 2007

BY JOHN WISELY

FREE PRESS STAFF WRITER

The water that flows from the well at the Dimitrov family home in Oakland County is hard with iron and tastes lousy.

So the site of the former Bi-Rite gas station a few yards away, where underground gasoline tanks once leaked, is just one more reason to avoid it.

"We never drank the water," said Anton Dimitrov, 25, whose father has lived in the Commerce Township home since 2002. "We didn't even wash our dishes in it. You always worry."

The site is not unique. Across Michigan, there are nearly 9,100 sites where underground tanks leaked gasoline, diesel fuel or chemicals -- potentially into the groundwater supply -- and have yet to be cleaned up, according to a federal report.

Wayne County leads the state with the most tank sites at 1,553, including 805 in Detroit. Oakland County is second with 821, and Macomb County is fourth with 437.

The tanks are either leaking gas or the sites remain contaminated because they have not been cleaned up, according to the Michigan Department of Environmental Quality.

Gasoline tanks make up most of the leaking vessels and pose serious public health risks by potentially polluting local wells with cancer-causing chemicals like benzene and toluene. Escaping gas vapors also can build up under nearby buildings, causing explosion risks, experts say.

Despite the threat such leaks pose, Michigan has the third-highest backlog of open cleanup cases in the nation, behind Florida and California, according to the General Accounting Office report.

Contamination dangers

"They can do a fairly significant amount of damage," said Robert Hayes, a forensic geologist and consultant based in Williamston. "A gallon of gasoline has the potential to contaminate thousands of gallons of groundwater."

In addition to the environmental damage, experts say the pollution discourages redevelopment by scaring off investors fearful of big cleanup bills.

The federal Environmental Protection Agency estimates the average cost of a cleanup at \$125,000, but several Michigan experts say the true average is closer to \$400,000. As a result, many former gas stations sit vacant, creating neighborhood blight and pushing development farther away.

"It creates a ton of uncertainty," said Neil Silver, a Bloomfield Hills lawyer who specializes in brownfield properties. "How much are you willing to pay for that?"

High cost of cleanups

Silver said a developer eyeing a former gas station site might need multiple environmental assessments as part of the due diligence that could cost as much \$25,000.

"On a \$250,000 property, you could be into it 10% before you even know if you're going to buy it," Silver said. "You don't get those costs back."

State law allows core cities, like Detroit and some older suburbs, to offer bigger tax breaks to people who clean up and develop such sites. But many times that is not enough to overcome the questions about what's underground.

"If you are buying a station in a developed area, you'd like to have that kind of information," said Ed Weglarz of the Associated Food and Petroleum Dealers, a trade group that represents more than 3,000 retailers in Michigan and Ohio.

Detroit Mayor Kwame Kilpatrick has extended a moratorium on building new gas stations because the city already has plenty, said spokesman Matt Allen. The idea, he said, is to get closed or abandoned stations redeveloped.

"It makes sense from an ecological standpoint and it makes sense from an economic standpoint," Allen said. "It's a quality-of-life issue for our residents." Nationwide, more than 117,000 leaking tank sites dot the landscape. The Government Accountability Office report, released in February, estimates the public portion of the cleanup bill at \$12 billion.

Major oil company names are common in the leaking site database kept by the DEQ. There are 363 current or former Shell stations with open sites, 310 Amoco stations and 302 Mobil stations.

Who is responsible?

But determining responsibility for the cleanup is often a difficult task. Michigan's law assigns cleanup responsibility to the person who owned the property at the time of the release.

Other states require whoever owns the property when the leak is discovered to clean it up, said Sharon Goble of the DEQ. In many cases, the release isn't discovered until years later, so determining when it happened and who was the owner at the time can be almost impossible.

Exxon-Mobil currently owns no stores in Michigan, said spokeswoman Paula Chen. The company is responsible for 95 sites it previously owned and those are being cleaned up, Chen said.

"If Exxon-Mobil is responsible for the environmental cleanup, we take that responsibility very seriously," Chen said.

BP, which owns the Amoco brand, also sold its Michigan stations several years ago, spokesman Scott Dean said. The company is working on about 200 Michigan sites for which it is still responsible for cleanup.

About 4,200 Michigan sites are considered orphan sites, meaning the last owner cannot be found or can't afford to pay for a cleanup, Goble said.

People who own gas stations now must buy insurance in advance to cover cleanup costs, Weglarz said, but some insurance carriers fight claims by blaming the contamination on previous owners or other nearby operators.

Cleanups typically involve removing the tanks and excavating the ground around it. If gas has traveled, more digging may be needed and monitoring wells may have to be installed to check for the presence of chemicals in the water table nearby.

Businesses aren't the only ones with the problem. School districts in Detroit and Clarkston and even the federal government's Wurtsmith Air Force Base in Oscoda all have sites that have yet to be cleaned up. The Michigan Department of Transportation has 31 sites that were found under roads it owns, said spokesman Bill Shreck. An additional 15 sites are active or former maintenance garages, which are being cleaned up, he said.

Michigan struggles

The state program designed to help clean up the problem has struggled over the past decade, Goble said. At different times in recent years, the program has been part of the Department of Management and Budget, the Department of Natural Resources, the state fire marshal and the DEQ.

"Michigan has kind of a checkered past on this," said James Clift of the Michigan Environmental Council, who serves on an advisory panel charged with recommending improvements to the program.

The program is funded through a 7/8 cent regulatory fee on each gallon of refined petroleum sold in Michigan, which includes gasoline and diesel fuel. The fee generates almost \$60 million a year, but the Legislature and the governor have used the money for other things, including paying off bonds for other environmental projects, Clift said.

As a result, actual spending on the program has averaged less than \$12 million in recent years, according to state figures.

Last year, the program got a boost with \$104 million, but much of that was a onetime payment from a previous fund that dealt with the issue and about \$42 million of that cannot be spent until an advisory council makes recommendations, Goble said.

The program lacks the money to evaluate all the known sites in Michigan, Goble said. About 3,000 sites cannot be classified by the risk they may pose because the state does not yet have enough information about them to draw a conclusion.

The number of completed cleanup cases has fallen dramatically, too.

In 1997, the state closed 1,547 sites. By 2006, Goble said that number had fallen to 277 -- less than the 307 sites that were discovered last year.

"We don't have enough money to do a good job, as good as we'd like," Goble said. "If we had more money we could do a lot better job."

Contact **JOHN WISELY** at 248-351-3696 or jwisely@freepress.com.

Copyright © 2007 Detroit Free Press Inc.