



Brownfields **Offer** **Hope** as **Housing Options** **Dissipate**

By **Daniel Johnson** and **Joseph Kesling**

Is it possible for developers to provide affordable housing while cleaning up the environment, and still make money? With an open mind, some risk and a lot of cooperation between the public and private sectors, brownfield redevelopment might just be the missing link to solving these seemingly disparate endeavors.

Brownfields are abandoned or under-utilized commercial or industrial properties that usually have some environmental contamination. The redevelopment of these neglected sites is becoming one of the most feasible ways to provide more housing, create a better environment and still generate decent profits for those who make it happen.

In some extreme cases, the cost of remediation is too expensive for the property to be redeveloped by the private sector. In others, the properties may be caught up in receivership or bankruptcy, with no responsible party able or prepared to bear the cost of environmental remediation.

Some brownfields are actively in use, such as gas stations with leaking storage tanks, shopping centers afflicted



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with solvents from dry cleaners or industrial areas still suffering chemical spills from long ago. A surprisingly large number of brownfield properties are owned by federal, state and local governments, particularly the military.

The shortage of developable land is a problem shared by both the private and public sectors. Adaptive reuse of our nation's inner-city brownfields offers incredible opportunities to reverse this trend. They can serve as a sorely needed source of under-utilized urban land for housing, and as a practical way to clean up our environment, while providing robust risk-adjusted returns on real estate.

The lack of affordably priced housing in San Diego has forced the city into a state of emergency. According to the San Diego Regional Chamber of Commerce, the city's Housing Affordability Index, a measure of the share of households that can afford a home at the median price, has fallen from 27 percent to 12 percent. Thus, the National Association of Home Builders has ranked the city's housing affordability the third worst in the nation.

Public-private partnerships are the key to successful transformations. The private sector brings development expertise and equity capital to the table, and expects an above-average, risk-adjusted rate of return for undertaking these projects. The public sector brings zoning and density variances or other concessions, and is often able to waive certain regulatory and compliance costs. Also, because the public sector has a mandate to facilitate affordable housing in redevelopment areas, states and municipalities often can bring tax-free financing, tax credits, credit guarantees or other incentives to bear.

Successful development of a brownfield sometimes requires the use of a municipality's eminent domain powers to clean up title problems or provide unity for dismembered tracts.

In San Diego, the private and public sectors have teamed up for the remediation of a full city block of brownfields in the University Heights area. The property, formerly occupied by a McDonald's restaurant, a gasoline station, a car dealership, and most recently, a California Department of Transportation right-of-way, was transformed into an office building and affordable housing. The redevelopment could not have been possible without the partnership between the city of San Diego's Redevelopment Agency, and a number of community stakeholders, including the San Diego Revitalization Corporation, private environmental consulting companies and the County Department of Environmental Health.

The city of El Cajon Redevelopment Agency and the El Cajon Community Development Corporation are also interested in developing brownfield land for its efforts in redeveloping El Cajon's Central Business District. While the redevelopment agency awaits word from the Environmental Protection Agency on whether or not they will be awarded a brownfields grant, long-term plans are being made for the redevelopment of the city's urban center. Several projects have successfully transformed once-contaminated sites into commercial and residential uses.

Another example of successful brownfield redevelopment is the remediation of the East Village, including Petco Park and the associated development. The Centre City Development Corporation was responsible for acquisition of the properties being redeveloped, made possible in large part to the application of California's Polanco Redevelopment Act, which allows a redevelopment agency to order parties responsible for contaminated property to perform the necessary cleanup, and confers powerful immunities on developers, lenders and subsequent buyers. This redevelopment project earned both the prestigious Downtown San Diego Partnership "Alonzo" award, and the California Redevelopment Association's Award of Excellence for the brownfield project of the year in 2002.

The challenge in these projects is that they require highly specialized expertise to determine what a piece of property is worth both before and after the remediation process so the owners are aware how much they need to invest in the project to make money. At the same time, it must be determined how environmental concerns and risk can be mitigated, and calculate the costs to the project. Many times, addressing environmental concern as part of the construction, versus a stand-alone project, can accomplish this.

Municipal governments need to work with these risk-adapted developers while the demand for housing continues to grow; otherwise, they must face the continued loss of developable land due to brownfield abandonment. Many developers find that the rewards outweigh the additional efforts of dealing with the environmental concerns in these projects. The cultivation of public-private partnerships is the key to the successful reuse of the abandoned brownfields that exist today. ■

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