
Profit and Loss

Brownfield Properties: The Ins and Outs of Due Diligence and Investment

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Brownfield development is a hot topic for developers and investors. These developments offer excellent opportunities for those who do their homework. A brownfield site is land that has abandoned or under utilized. Commonly, this occurs on land that may have been polluted from industrial or other uses.

Grant money for assessment and cleanup have made reuse of contaminated properties more viable. In 2020, the City of Reno was awarded a \$600,000 Brownfields Communitywide Assessment and Coalition Grant. The grant allows the city to conduct environmental investigations for properties of interest which may be potentially contaminated, and provides funds for remediation, if needed.

The former Wells Cargo Site in Reno is a great example of a brownfield project, It is scheduled for adaptive reuse with a homeless shelter and transitional housing. The site was formerly occupied by a trucking service from around 1945 to 2005, and utilized petroleum underground storage tanks for fueling vehicles. The company also conducted vehicle maintenance activities onsite – activities which have a history of contaminating soils and/or groundwater.

In reality, a brownfield is potentially useful for any structures – including residential. The feasibility and cost are dependent upon the environmental issues unique to each site. Cleanup standards will be stricter for residential uses, and in some cases, it may not be cost-effective to achieve those standards. Environmental evaluations determine what uses are feasible.

One should proactively address environmental issues to reduce the risk of cost and schedule overruns or future liability issues, while operating these properties as-is or during the due diligence or pre-development process. Identifying environmental risks before acquiring

properties is critical, as is assigning potential costs to these risks. Depending on the nature of the transaction, these items are often useful as leverage during negotiations.

Brownfields are normally evaluated by first performing a Phase I Environmental Site Assessment (ESA) to study historic site information and previous uses. A Phase II study may be performed if the Phase I ESA identifies potential issues (known as Recognized Environmental Conditions). A Phase II includes collecting and analyzing samples (i.e., soil and groundwater) to assess whether environmental impacts are present, and if enough sampling is completed, the extent of the impacts can be estimated. Because the Wells Cargo Site is scheduled to be redeveloped with a shelter/transitional housing, clean-up standards will be stricter than those for commercial or industrial sites.

The U.S. Environmental Protection Agency has grant programs that can pay for the assessment and cleanup of brownfields, but these programs are only available to governmental and nonprofit organizations. However, a private entity may be able to team with eligible parties. In addition, the Nevada Department of Environmental Protection offers a Brownfields Revolving Loan Fund for property owners of contaminated sites, who are not responsible for the contamination. Nevada local governments and nonprofit organizations may also receive subgrants through the Revolving Loan Fund. Federal, state and local tax incentives may also be available.

Obtaining a grant or loan with the help of a qualified environmental consultant or an environmental attorney can be the difference in acquiring, cleaning up, and redeveloping a property. The grants don't typically cover all the costs associated with the necessary cleanups, but they can cover most of these costs.

A new property owner can also obtain an environmental insurance policy to cover cleanup requirements, third-party claims for bodily injury and property damage and associated legal expenses resulting from pollution or contamination. These insurance policies are available with various term lengths and deductible amounts to satisfy the concerns of lenders or equity investors.

At the end of the day, brownfields can be excellent investment opportunities if you perform thorough due diligence and understand the risks of each site. Many potential sites exist in desirable locations or emerging areas. They should be available below market value and may have been on the market for a long time.

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