

Repositioning Real Estate

2006 Colorado Brownfields
Redevelopment Conference

Repositioning Real Estate

- What is repositioning?
 - Improving property value by
 - Increasing cash flow
 - Improving marketability
- How is it done?
 - Identify target condition
 - Identify variances to current condition
 - Evaluate Risks
 - Take actions to make the property match target conditions

The Value Proposition

- Value considerations in Repositioning
 - Brief overview of non-environmental repositioning by appraiser
 - Value Impaired = Value Clean – (Cost to Cure + Stigma)
 - Risk Factors
 - Marketing
 - Financing and Leverage
 - Highest and Best Use
 - Legally Permissible Uses
 - Physically Possible Uses
 - Financially Feasible Uses
 - Maximally Productive Use

Funding

- Equity
- Cash flow
- Financing
 - Credit
 - Relationships
 - Risks
 - Value
 - Experienced Team
 - Uncertainties

Insurance Considerations

- Applicable coverages
- Broker Knowledge
- Costs
- Insurance Companies

Environmental Repositioning

- Obstacles unique to environmentally challenged properties
 - Audience Participation
 - Challenges you've encountered
 - Challenges you can foresee
 - Risk
 - Value
 - Funding

Appraisal Challenges

- The Cost Approach
- The Sales Comparison Approach
 - Appropriate Comparisons
 - Case Study Comparative Analysis
- The Income Approach
 - Capitalization Rate Adjustment Method
 - Deferred Marketability
- Entrepreneurial Profit & Risk
- Stigma

Insurance Challenges

- Insurability
- What is covered
- Indemnifications
- Lender/3rd Party Requirements
- What information is needed to get insurance?

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Risks

- **Collateral Value**
 - Cleanup costs
 - Construction Delays
 - AUL and EC
 - Marketing time
 - Stigma
 - Disruption of Use
- **Ability/willingness to foreclose**
- **Property Management**
- **Ability to Repay Debt**
 - Make payments
 - Resale
 - Refinance
 - Enterprise value
- **Business Interruption**
 - Demolition
 - Installation of Remedial Systems
 - Health Risks

Brownfield Redevelopment Risks

- **Collateral Value**
 - Cleanup costs
 - Construction Delays
 - AUL and EC
 - Marketing time
 - Stigma
 - Disruption of Use
- **Remedies**
- **Property Management**
- **Performance**
- **Ability to Repay Debt**
 - Make payments
 - Resale
 - Refinance
 - Enterprise value
- **Business Interruption**
 - Demolition
 - Installation of Remedial Systems
 - Health Risks
- **Uncertainties**

Risk Control

- Acceptance
- Transfer
 - Insurance
 - Indemnity
 - Guaranty
- Mitigation
 - Reserve Funds
 - Reduce value
 - Reduce Loan-to-Value
 - Consider as cash flow risk
- Avoidance
 - Additional investigation
 - Pre-loan cleanup
- Considerations
 - Magnitude
 - Probability
 - Financial resources
 - Timing
 - Deal Structure
 - Insurance
 - Indemnities

Risk Mitigation

Risk Transfer – Insurance

- Policy Terms & Limits
- Strength of Insurance Companies
- Claims Handling

Repositioning Real Estate

- How is it done?
 - Identify target condition
 - Identify variances to current condition
 - Evaluate Risks
 - Take actions to make the property match target conditions
- Tools
 - Highest and Best Use
 - Investigation
 - Approvals
 - Cleanup
 - Insurance
 - Indemnities
 - Disclosure Package