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It's a good time to buy dirty real estate sites in Twin Cities

Clean-up grants are going unclaimed because contaminated commercial properties can't get funding.

By **DON JACOBSON**, Special to the Star Tribune

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One of the many ironies of the U.S. financial crisis and its aftermath for commercial real estate is that contaminated industrial properties -- long targeted for renewal by local government officials -- have never been more attractive as investment opportunities for redevelopers who possess the right environmental and legal expertise.

Under more normal conditions, it should be a golden era for city, county and state leaders who have worked for years to find private sector partners to buy and clean up blighted industrial sites and replace them with jobs-producing developments. With record-low construction costs, reduced land valuations and the ready availability of government clean-up assistance funds, all the pieces seem to be in place to make such projects work financially.

Well, almost all the pieces. Local players in the redevelopment scene say much more would be happening if it weren't for the continuing unavailability of bank financing for construction loans. Not even the most gold-plated of developers are able to swing such deals in the current climate, they say, making for a very large fly in the urban renewal ointment.

Several veteran Twin Cities redevelopers say that despite market conditions that should be spurring many investments into reclaimable contaminated lands, it's not happening thanks to such countervailing factors as the lack of financing and psychological barriers.

"There are more motivated sellers now of sites that have environmental issues, and they're looking to sell because they're less interested in spending a bunch of time and money on dealing with these issues," said Paul Hyde of Minneapolis-based Real Estate Recycling, a small developer whose reclamation projects include redeveloping the former National Lead Superfund site in St. Louis Park into the Highway 7 Corporate Center.

"For example, we were able to get a very good price on the site of the former United Agri

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Products plant in Brooklyn Center, where we're seeking clean-up grants to help us do a new office building," he said. "They handled a lot of pesticides and fertilizers on this parcel and we have the expertise to assess and deal with it. But even with lower prices, I haven't seen anything like a rush to buy up contaminated sites."

Hyde said that when such sales do happen they tend to involve industrial sellers who are downsizing to cut costs, while buyers in these cases oftentimes are looking to make a quick dollar through selling scrap rather than cleaning up and rebuilding on the polluted land.

Scott Tankenoff, managing partner of a prominent Twin Cities player in the field, Hillcrest Development, said he's actively seeking potential redevelopment sites to add to his firm's list of such successes, such as Crown Center on Tyler Street in northeast Minneapolis.

He said that while his firm doesn't have to seek bank financing for construction loans like many would-be redevelopers do and so doesn't have to deal with that particular roadblock, the "extremely dysfunctional" market has set up another kind of barrier: landowners who refuse to accept that their

contaminated properties are now worth less, and probably always will be.

"People aren't being realistic about prices," Tankenoff said. "A lot of people are holding on, wishing and praying things are going to get better, and then they can sell for what they think their properties are worth."

"But the reality is the market will not snap back, it will continue to go down. Some people think values have dropped by 50 percent. It means you need a long lens as an investor and a very good idea about exactly what a property will need in terms of clean-up to go forward."

Environmental consultant Dan Holte of Braun Intertec, who has worked with Hillcrest on the rehabilitation of the Frost Building on Tyler Street, agreed there has been little evidence of investor interest in polluted sites despite the incentives.

"As a consultant who works with clients to do due diligence on contaminated sites, I can say that I haven't heard that that's the case," he said. "One of the problems is that it's unknown exactly what's involved in a lot of these sites. The sellers typically want more and they haven't done a lot of investigation. If the contamination is quantified, it makes it

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easier to find a buyer."

All the while, clean-up grants available from state and local governments are going unclaimed due to lack of available construction financing, added Dave Jaeger, supervisor of Hennepin County's contaminated lands unit.

"I'm sure people are getting better deals on contaminated sites than they were three or four years ago, and the clean-up funders are still here," he said. "But no one can build without construction loans. For the first time in 15 years in the county's Environmental Response Fund, we are undersubscribed in applications for grants."

Don Jacobson is a freelance writer in St. Paul.