



Brownfields: Raising the Comfort Level with Traditional Lenders

Seizing the Economic Opportunity:
Brownfield Redevelopment in New Brunswick

James R. Evans,
Senior Manager Environmental Risk
Corporate Environmental Affairs
RBC Financial Group
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Environment



Overview

- Common Myths
- The Reality
- The Issues for the Lender
- What the Lender Looks For
- How to Make your Banker Happy
- How To Ensure that You will Not Get Financing for Your Brownfield
- Properties Banks will not Finance
- Comments on Buying and Selling Contaminated Property
- Ongoing Challenges





Common Myths

- Canadian banks do not do Brownfield lending
- Canadian banks do not do Brownfields primarily because of concerns over liability.
- Canadian banks do not know what a Brownfield is
- Canadian banks do not fund any up front clean-up work
- A Risk Assessment is the “kiss of death” for financing a Brownfield property





The Reality

- Some Canadian banks are prepared to do Brownfield lending.
- Liability concerns are vastly overblown.
- While it may be true that some banks do not know what a Brownfield is, all Canadian banks know what a contaminated property is and have financed contaminated properties at one time or another.





The Reality

- Depending on the total cost and the financing opportunity, banks are prepared in some instances to fund a portion or all of the remediation.
- While it used to be true that a risk assessment was the “Kiss of Death”, that is no longer the case.
- As long as we can be convinced that site is safe and the MOE for that province is or will be satisfied with the risk assessment, we are willing to consider it.





The Issues for the Lender

Liquidity

- If a borrower were to go bankrupt, and the bank could not sell the property to someone else to recover its loss, then the bank doesn't want that property as collateral security.

Valuation

- Very difficult to determine a true value for contaminated land





The Issues for the Lender

Liability

- This is not that big a concern to us anymore, since most provinces have amended their brownfield legislation to better protect creditors.

Cash Flow

- Are you going to be able to manage the contamination issue and run your business at the same time?





The Issues for the Lender

- Demand
 - What demand?





What the Lender Looks For

On the Credit Side

- Financial strength of the borrower and details of the loan.
- Management Team and Experience
- Cash Flow
- Rent Roll
- Balance Sheet





What the Lender Looks For

On the Environment Side

- The Consultant
- Extent of Contamination
- Ease of Remediation
- Type of contamination
- Remediation Plans
- Mitigation Techniques





How to Make it Easy for your Banker to Make you Happy – Part 1

- Make sure that you are building something for which there is a strong market demand.
- Make sure that your clean-up numbers are realistic and make sense.
- Attract a quality anchor tenant with good consistent cash flow.
- Use top notch environmental and legal help.
- Obtain cost cap and other insurance products to deal with any surprises.





How to Make it Easy for your Banker to Make you Happy – Part 2

- Make sure that city hall and the community support your development.
- Review your take out options after construction.
- Explain how you will be able to handle delays and cost overruns.
- Make it easy for the account manager to say yes.





How To Make it Really Hard for a Bank to Finance Your Brownfield Redevelopment

- Use the cheapest environmental consultants with little or no track record in brownfield assessment and remediation
- Use lawyers with little or no experience with brownfield redevelopment issues
- Present an unrealistic business plan
- Demand an answer immediately
- Tell us how many senior executives you know at our bank





Properties Most Banks Will Not Finance

- Developments on former landfills
- Properties with outstanding legal issues
- Properties with liens
- Properties with unresolved off site contamination issues
- Properties where the environmental issues are not well explained or mitigated
- Developments where the developer, consultant or the lawyer is too difficult to work with





Considerations when Buying Contaminated Property

- Are you sure you want it?
- Do you know exactly what you are getting into?
- How much management time can you afford to put toward managing the contamination issue?
- If you are planning on remediating a site, can you afford significant cost over runs?
- Can you get financing for the site?
- Could you sell it for what you paid for it?





Considerations When Selling Contaminated Property

- Disclose, Disclose, Disclose
- Retain qualified environmental consultants.
- Allow and encourage prospective buyers to conduct their own environmental assessments.
- Retain qualified legal assistance.





Ongoing Challenges

- Lack of demand
- Lack of consensus among banks on what the risks are and best approaches to financing brownfields
- Lack of coordination among multiple levels of government
- Continuous re-invention of the wheel



Thank you
Questions? Comments?

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