

NJIT Seminar:

Funding and Financing
the Redevelopment of
Brownfields: Finding
Resources in These
Challenging Economic
Times

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What is a "Risk Free" Investment?

- An investment where the interest rate reflects zero risk, including default risk.

Treasury's Yield Curve

- Treasury's Yield Curve shows the gap between their short and long-term rates.
- When the curve is steep, bank lending picks up—banks can borrow cheaply and lend at higher rates—and credit demand rises, which prompts the economy to recover.
- Strongly inverted yield curves have historically preceded economic depressions.

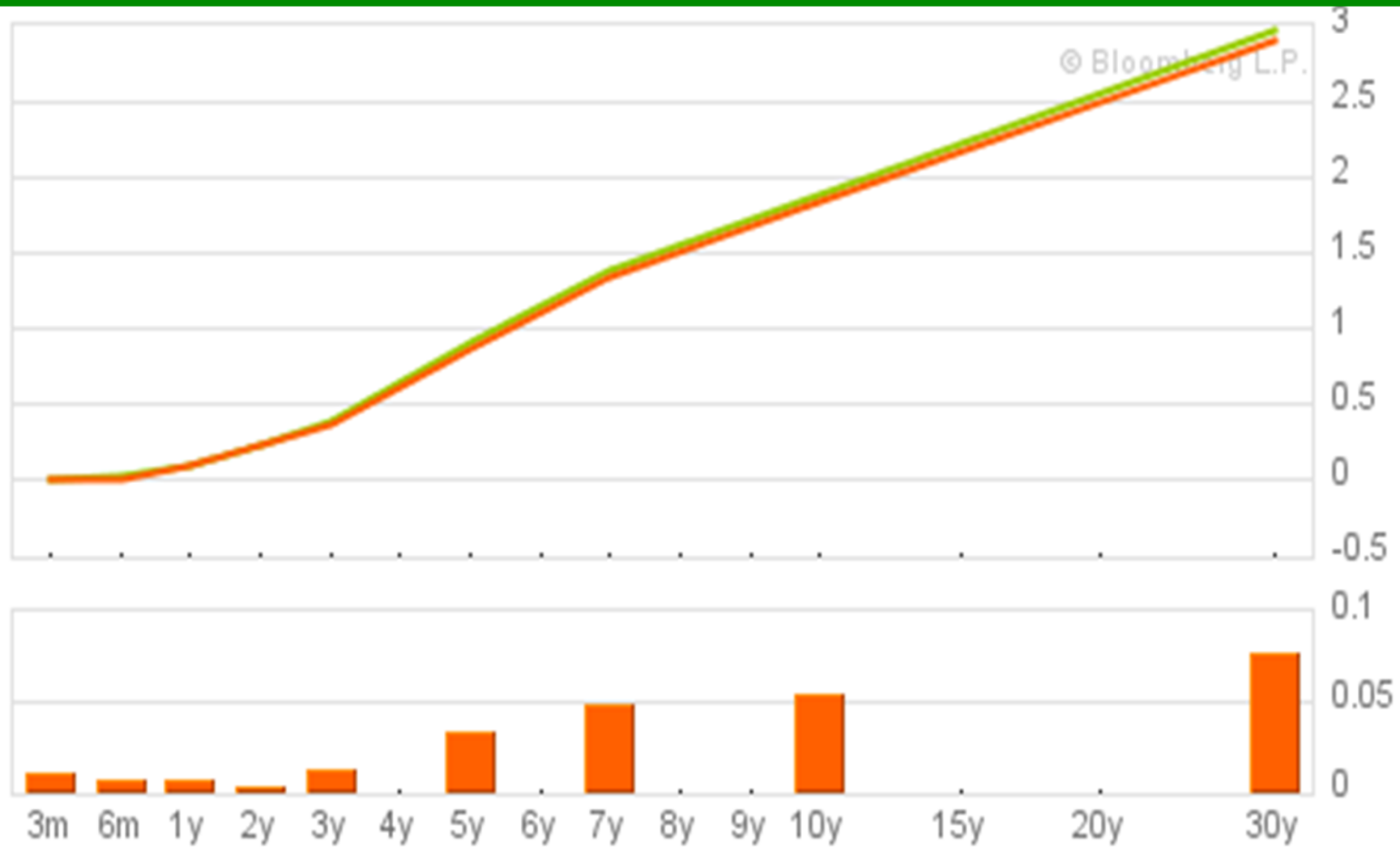
U.S. Treasury Bills – Bloomberg News 9-26-2011

	COUPON	MATURITY	PRICE/YIELD	PRICE/YIELD CHANGE	TIME
3-Month	0.000	12/22/2011	0.01/ 0.01	0.010/ 0.010	09/26
6-Month	0.000	03/22/2012	0.02 / 0.02	0.005 / 0.005	09/26
12-Month	0.000	09/20/2012	0.10/ 0.10	0.005 / 0.005	09/26
2-Year	0.125	08/31/2013	99-26+ / 0.22	-0-00+ / 0.002	09/26
3-Year	0.250	09/15/2014	99-19+ / 0.38	-0-01 / 0.011	09/26
5-Year	1.000	08/31/2016	100-15/ 0.90	-0-05/ 0.032	09/26
7-Year	1.500	08/31/2018	100-23+/ 1.39	-0-10+ / 0.050	09/26
10-Year	2.125	08/15/2021	102-03+/ 1.89	-0-16 / 0.056	09/26
30-Year	3.750	08/15/2041	115-06+ / 2.98	-1-22+ / 0.078	09/26

YIELD CURVE

■ CURRENT

■ PREVIOUS CLOSE



Treasury Inflation Indexed Securities – 9/26/2011

	COUPON	MATURITY	PRICE/YIELD	CHANGE
5-Year	0.125	04/15/2016	103-14¾ / -0.62	-0-00¾ / 0.005
10-Year	0.625	07/15/2021	105-10+ / 0.08	-0-05½ / 0.017
20-Year	2.500	01/15/2029	129-05½ / 0.71	-1-04 / 0.059
30-Year	2.125	02/15/2041	127-23 / 1.03	-1-31½ / 0.067

I. Three Main Approaches to Making Money in Real-Estate:

1. Negotiation: (Especially With Land Seller)

2. Appreciation: (Improving Property)

3. Tax Planning: (Structuring Deals to Reduce or Defer Taxes)

II. Enhancing value by managing risk

A. Financial Risk

B. Zoning Risk

C. Environmental Risk

D. Construction Risk

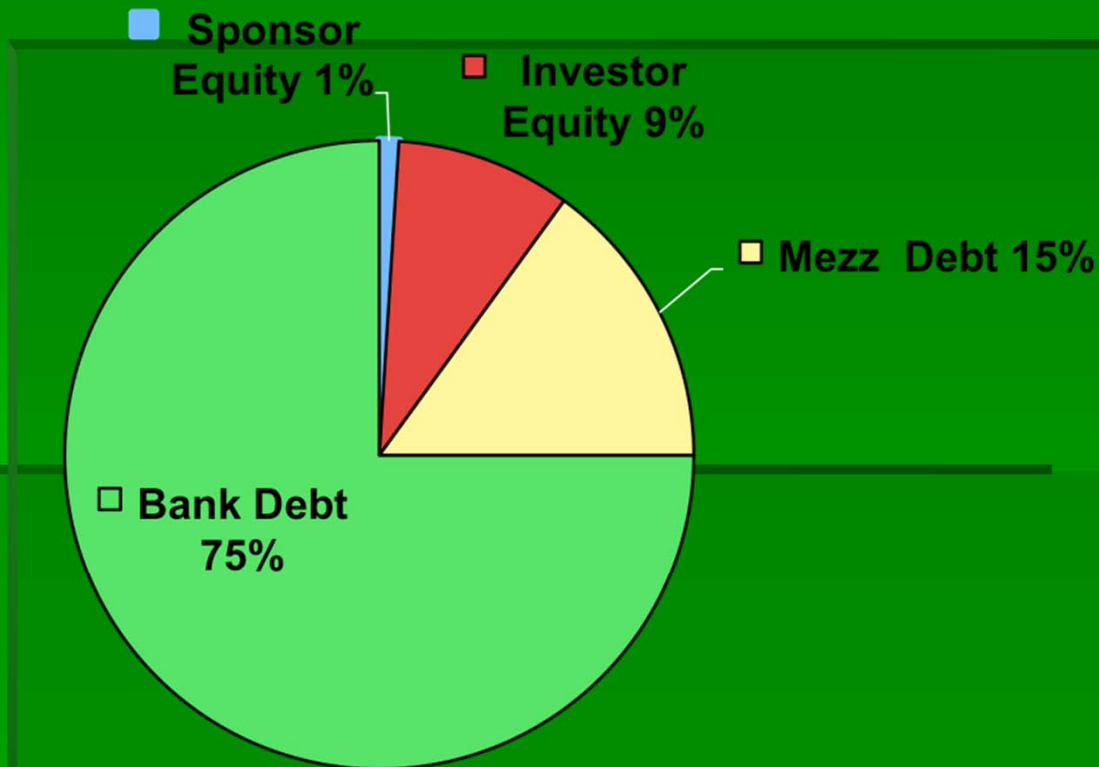
E. Market Risk

III. Five Ways Developers Manage Financial Risk

1. “Leverage” Equity with Debt

 - a. Capital Stack = 100% Project Cost
 - b. Sponsor Equity = 1%
 - c. Investor Equity = 9%
 - d. Mezzanine Debt = 15%
 - e. Bank Debt = 75%
2. Pick Experienced Developer Partners
3. Invest in Prime Locations
4. Preferred Returns = Developer’s ‘profit deductible’
5. Waterfall Distributions = ‘Hurdle Rates’ & ‘Promotes’

The Capital Stack at Van Leer Place



■ Sponsor Equity 1%

■ Investor Equity 9%

■ Mezz Debt 15%

■ Bank Debt 75%

Capital Stack & Pricing Model

A. Cost of Bank Loans

1. Commitment Fees 1-3%
2. Broker Fees 1-3%
3. Interest Rates –
 - a. Prime Rate + 1-3%
 - b. Libor Rate + 1-3%
 - c. T-Bill Rate + 1-3%

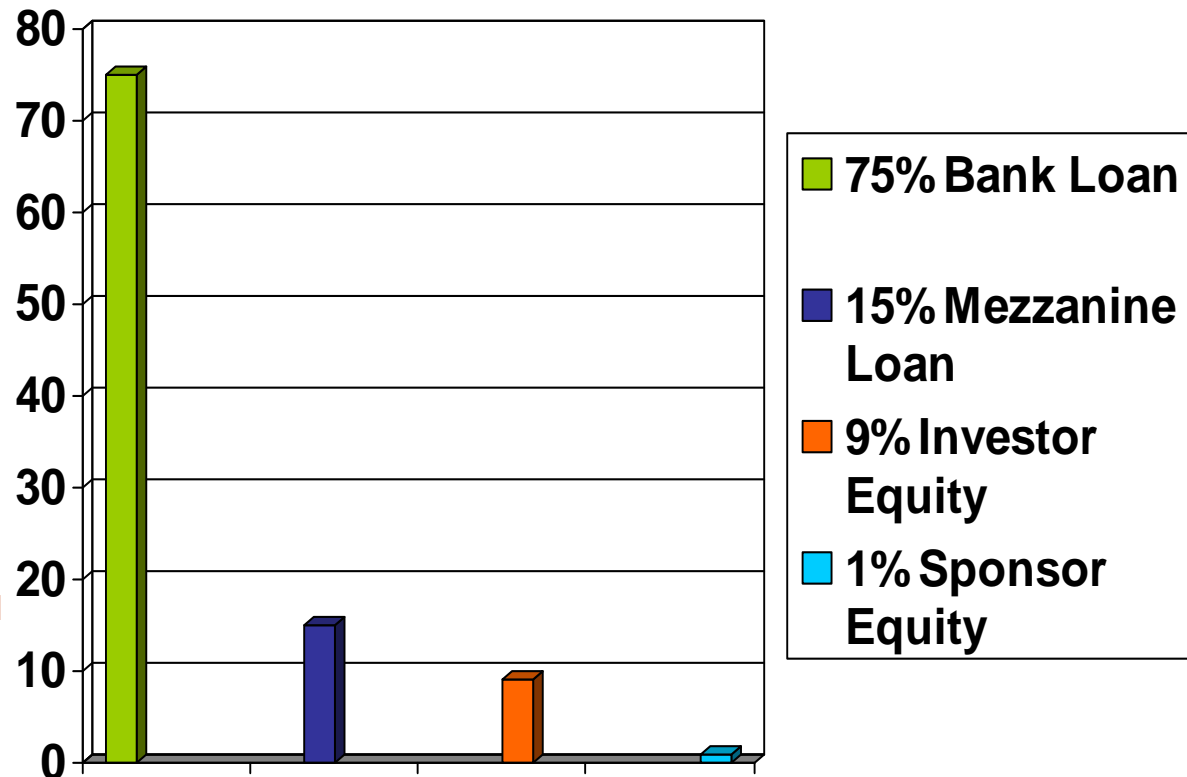
B. Mezzanine loans

1. Commitment fees 1-3%
2. Broker Fees 1-3%
3. Interest Rates 10-20%

C. Investor Equity– Preferred ROI

1. 8-20% -
2. % of Profit 10-90%

Sponsor Equity – All Profits
after **A+B+C** Paid in Full



IV. How Experienced Developers Manage Four other Major Development Risks

A. Zoning Risk

1. Local Knowledge
2. Political Connections
3. Subject to “Land Acquisitions”
4. Community Consensus Building
“Give the people what they want.”

B-1: Environmental Risk

1. Due Diligence Period – Three Levels of Increasing Certainty
 - a. Phase I – History of Uses & Records Search
 - b. Phase II – Buildings, Soil, & Water Testing
 - c. Phase III – Remedial Action Work Plan Approval From DEP or LSRP
2. NJ- DEP Approval Process Under The Voluntary Cleanup Program or LSRP
 - a. MOA – with DEP
 - b. PA – Preliminary Assessment
 - c. SI-Site Investigation
 - d. RI Remedial Investigation
 - e. RASR – Remedial Action Selection Report
 - f. RAWP – Remedial Action Work Plan (Approval)
 - g. NFA ‘No Further Action’ Letter = Liability Protections or RAO from LSRP
3. Subject to “Land Acquisitions”
4. Reimbursement Programs
5. Insurance
 - a. PLL – Pollution Legal Liability
 - b. Cost Cap
 - c. Finite

B-2: NJ-DEP – Voluntary Cleanup Program (May 2012 – LSRP)

- Assemble The “A” Team
- Pre-app. meeting – What you got? & What you gonna do about it?
- Telescope Your Application (PA To RAWP)
- PA – Preliminary Assessment
- SI – Site Investigation
- RI – Remedial Investigation
- RASR – Remedial Action Selection Report
- RAWP – R.A. Work Plan Proposal
- RAWP – R.A. Work Plan Approval
- NFA – No Further Action (or RAO)

C. Construction Risk

1. Design Team (A, E, MEP, etc.) must include Construction Manager
2. Design Development + Value Engineering = Budget Certainty
3. GMP Contracts with Completion Guarantee (Bonded = Guaranteed)

D. Marketing Risk

1. Research, Shop the Market Yourself or Commission a Market Study & Appraisal
2. Know The Competitive Environment
3. Supply Forecast = Identify Demand Niches
4. Pre-Sales = Certainty
5. Phase Projects (Zoning Implications)

"The Van Leer Chocolate Factory" Jersey City, NJ

IV Case Study in Financing of a Brownfield Redevelopment Site:

A. History of site

- 1800's – Standard Oil Storage facility
- Early 1900's Pesticide Factory (created arsenic contamination)
- 1938 – 1992 – Van Leer chocolate factory
- 1993 – 2005 – Vacant
- 2006 – 2008 -- Purchase & Entitlements 1st As Condo, Then As Rental
- 2009 – 2011 – Redesign to Max Energy Efficiency

VLP, Hoboken Avenue, Jersey City Jersey Avenue Redevelopment Area

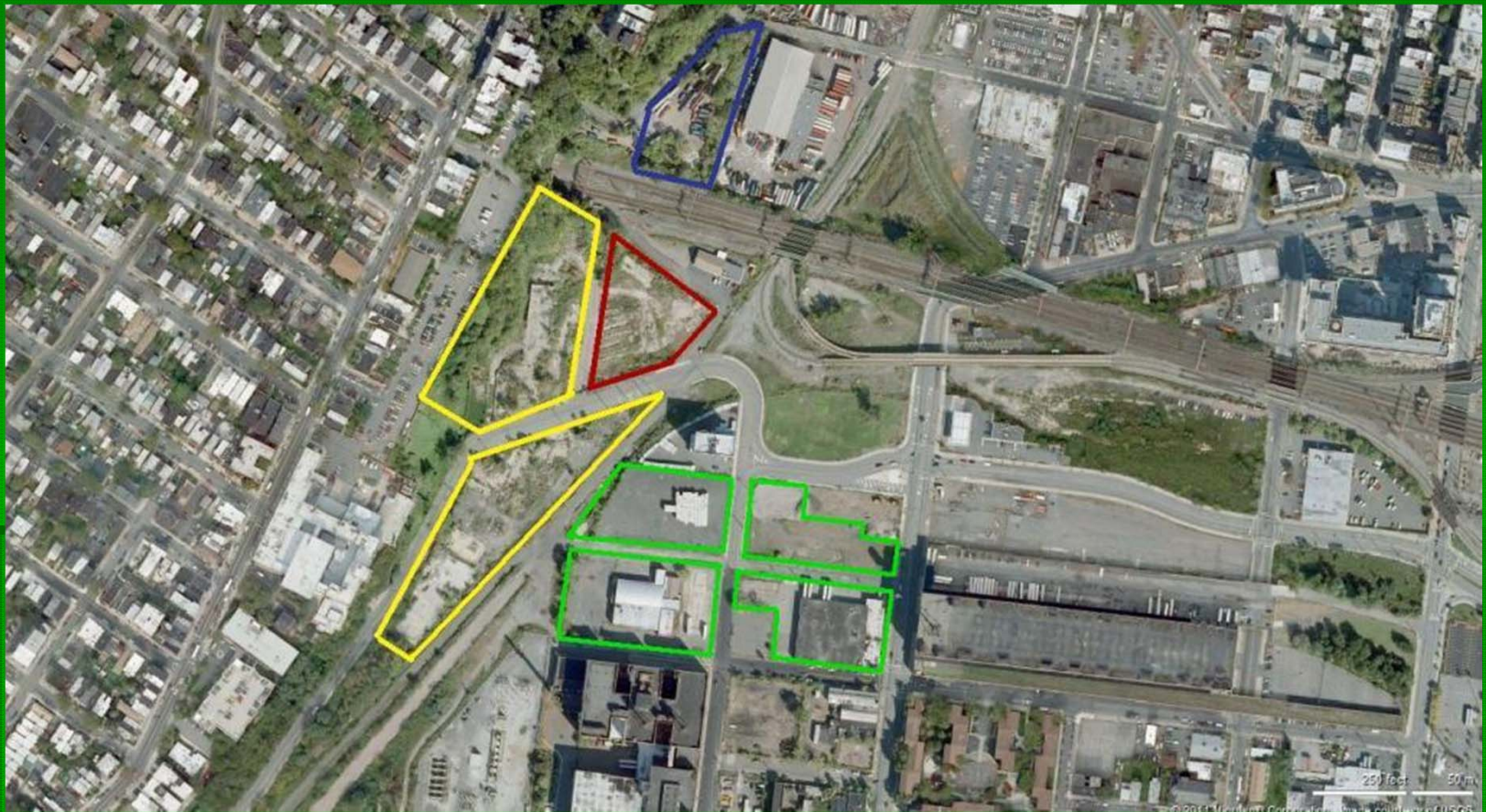


Major Development Sites In The Jersey Avenue Redevelopment Area



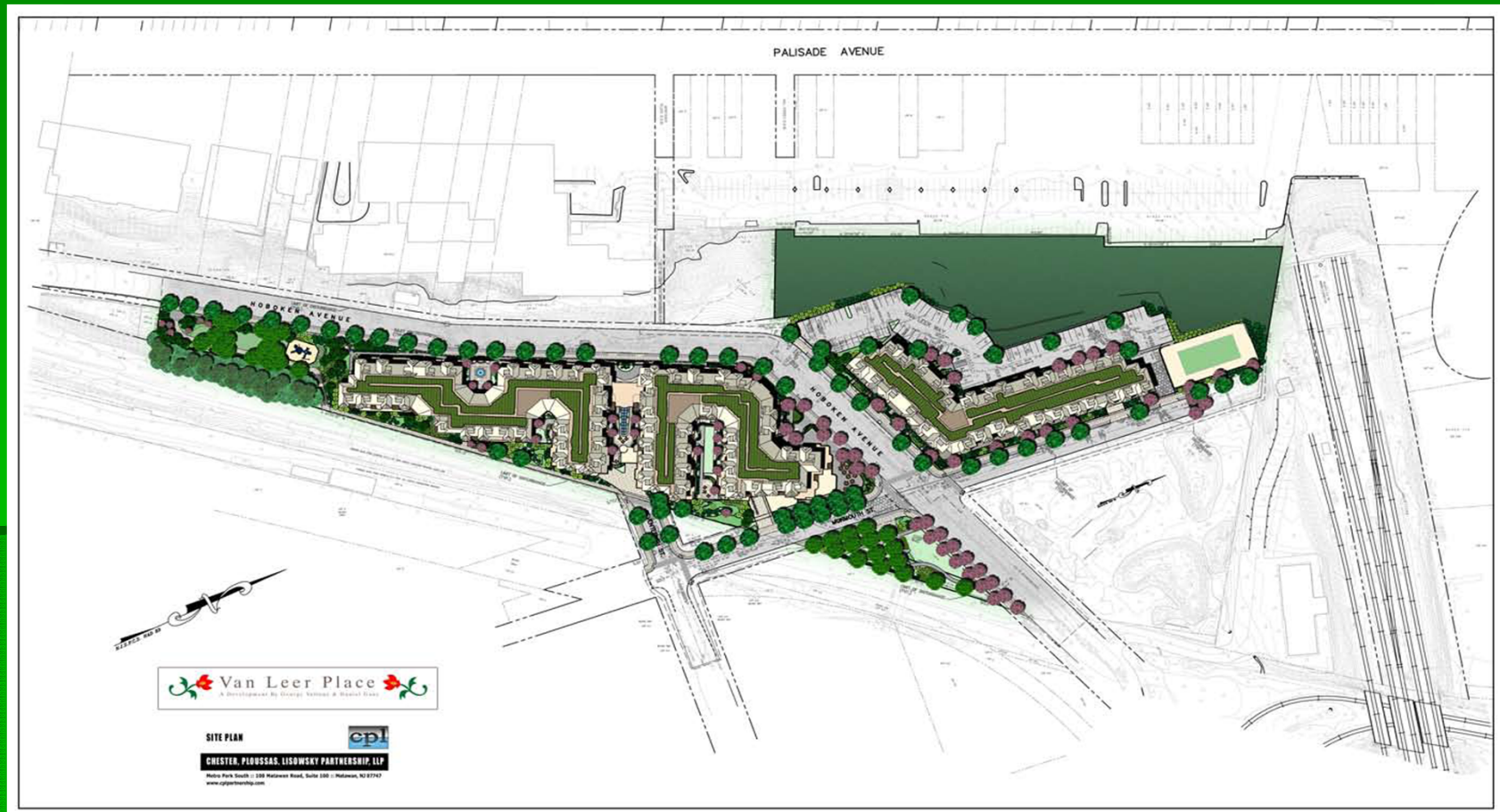
1) Van Leer Place – Yellow 2) 100 Hoboken Ave – Red

3) NRS Terminal – Green 4) 39 NY Ave- Blue





Van Leer Place Approved Site Plan



Van Leer Place - North



HOBOKEN
BROWNSTONE CO

PERSPECTIVE
August 19, 2010



CHESTER, PLOUSSAS, LISOWSKY PARTNERSHIP, LLC

Metro Park South :: 100 Matawan Road, Suite 100 :: Matawan, NJ 07747
www.cplpartnership.com

Financing Techniques – Non Equity

- Seller Financing
- NJ Brownfield Reimbursement
- Green Technology Incentives
- NJ Transit LRT Pathway
- RAB - Redev. Area Bond Financing
- Tax Abatements (PILOT)
- Tax Credits (UHTC)

D. Project & Community Enhancements Paid For With Public Financing

Federal Highway Fund - NJ Transit “Rails To Trails”
Walkway

Board Of Public Utilities – Alternative Energy Technology
Pilot (NJ-EMP)

- Geo-Thermal Heating & Cooling
- Solar Hot Water
- Mass Wall Enclosure (AAC)
- Heat Recovery Ventilation (HRV)
- Alternative Metering Instruments (AMI)

Van Leer Park donation – Meets Zoning Code Open Space
Requirement & Get Park O & M Costs Paid by Jersey
City

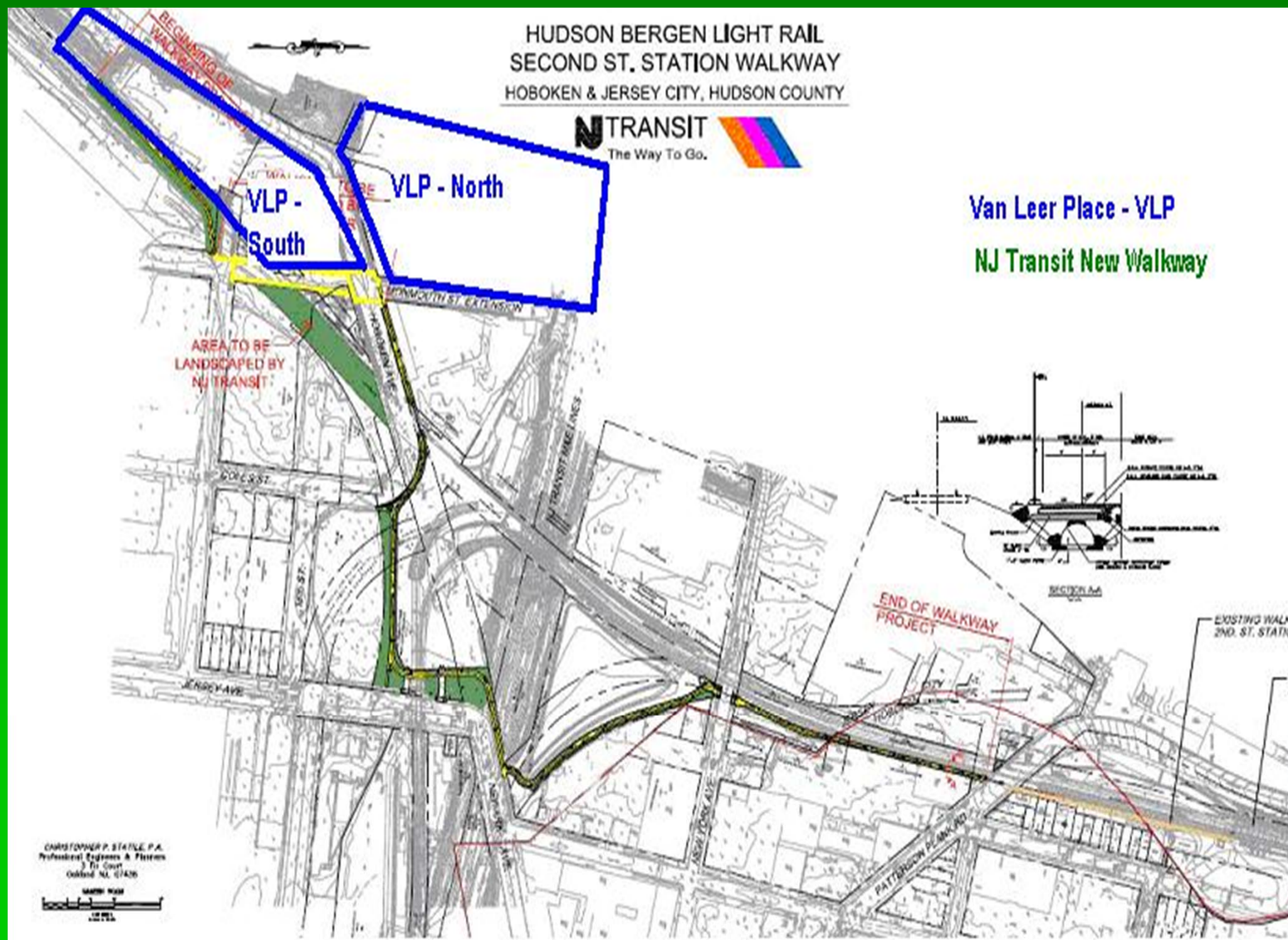
HUDSON BERGEN LIGHT RAIL
SECOND ST. STATION WALKWAY
HOBOKEN & JERSEY CITY, HUDSON COUNTY

NJ TRANSIT
The Way To Go.



Van Leer Place - VLP

NJ Transit New Walkway



Successful Land Development Strategies Using Structured Seller Financing & Joint Ventures

George Vallone - President The Hoboken Brownstone Company, 1520 Willow Ave, Hoboken, New Jersey 07030 (201) 792-3814

Project Budget:	Per Home:	Total Project
Land Sale Asking Price:	\$20,833	\$10,000,000
Environmental Cleanup:	\$25,000	\$12,000,000
Hard Costs:	\$281,250	\$135,000,000
Soft Costs:	\$50,000	\$24,000,000
Total Project Budget:	\$377,083	\$181,000,000
Profit Per Home:	\$100,000	\$48,000,000

Capital Stack:	%	Total \$	% Ownership
Sponsor Equity:	1%	\$1,810,000	50%
Investor Equity:	9%	\$16,290,000	50%
Mezz Loan:	15%	\$27,150,000	0%
Bank Loan:	75%	\$135,750,000	0%
Total Capital:	100%	\$181,000,000	100%

Structure	Land Sale	Joint Venture Participation		Seller Financing			Options	Total Return To Seller	At-Risk \$ To Seller
		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
1	\$10,000,000	\$14,732,965	\$4,000,000				\$1,400,000	\$30,132,965	\$30,132,965
2	\$10,000,000					\$12,645,000		\$22,645,000	\$12,645,000
3	\$10,000,000					\$8,000,000		\$18,000,000	\$18,000,000
4	\$10,000,000				\$6,400,000			\$16,400,000	\$16,400,000
5	\$10,000,000			\$1,600,000				\$11,600,000	\$0
6	\$10,000,000						\$1,250,000	\$11,250,000	\$0
7	\$10,000,000						\$525,000	\$10,525,000	\$0
8	\$10,000,000						\$500,000	\$10,500,000	\$0
9	\$10,000,000						\$500,000	\$10,500,000	\$0
10	\$10,000,000						\$350,000	\$10,350,000	\$0
11	\$10,000,000							\$10,000,000	\$0

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Tot. Equity (Not Incl. Sponsor)	\$16,290,000	50%

2 Offer Price "Subject To" approval for 200 Units + \$25,000 Per additional Units over 200.

# 6 Phased Options:	
Option Fee =	5%
\$10,000,000	\$500,000
\$7,500,000	\$375,000
\$5,000,000	\$250,000
\$2,500,000	\$125,000
\$0	\$1,250,000

Case Study Assumptions:

# Homes To Be Built:	480
# Homes Sold / Month:	10
# Years To Sellout:	4
# Yrs To Entitlements:	2

# 7 - Year	# Units / Yr	Purchase / Yr
1	120	\$2,500,000
2	120	\$2,587,500
3	120	\$2,675,000
4	120	\$2,762,500
	Total Land Pr	\$10,525,000

Financial Assumptions:	ROI %
Preferred Return On Investment:	10%
Senior Secured 1st Mortgage:	8%
Junior Secured 2nd Mortgage:	16%
Mezz Loan Rate:	20%
Annual Appreciation On Land:	3.5%

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\$0	\$1,250,000

Case Study Assumptions:

# Homes To Be Built:	480
# Homes Sold / Month:	10
# Years To Sellout:	4
# Yrs To Entitlements:	2

# 7 - Year	# Units / Yr	Purchase / Yr
1	120	\$2,500,000
2	120	\$2,587,500
3	120	\$2,675,000
4	120	\$2,762,500
	Total Land Pr	\$10,525,000

Financial Assumptions:	ROI %
Preferred Return On Investment:	10%
Senior Secured 1st Mortgage:	8%
Junior Secured 2nd Mortgage:	16%
Mezz Loan Rate:	20%
Annual Appreciation On Land:	3.5%

Successful Land Development Strategies Using Structured Seller Financing & Joint Ventures

George Vallone - President The Hoboken Brownstone Company, 1520 Willow Ave, Hoboken, New Jersey 07030 (201) 792-3814

Project Budget:	Per Home:	Total Project
Land Sale Asking Price:	\$20,833	\$10,000,000
Environmental Cleanup:	\$25,000	\$12,000,000
Hard Costs:	\$281,250	\$135,000,000
Soft Costs:	\$50,000	\$24,000,000
Total Project Budget:	\$377,083	\$181,000,000
Profit Per Home:	\$100,000	\$48,000,000

Capital Stack:	%	Total \$	% Ownership
Sponsor Equity:	1%	\$1,810,000	50%
Investor Equity:	9%	\$16,290,000	50%
Mezz Loan:	15%	\$27,150,000	0%
Bank Loan:	75%	\$135,750,000	0%
Total Capital:	100%	\$181,000,000	100%

Structure	Land Sale	Joint Venture Participation		Seller Financing			Options	Total Return To Seller	At-Risk \$ To Seller
		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
7	\$10,000,000						\$525,000	\$10,525,000	\$0

Notes:

# 1 Seller's Equity as Investor:	\$10,000,000	31%
Investor Equity:	\$6,290,000	19%
Tot. Equity (Not Incl.Sponsor)	\$16,290,000	50%

2 Offer Price "Subject To" approval for 200 Units + \$25,000 Per additional Units over 200.

6 Phased Options:

Option Fee =	5%
\$10,000,000	\$500,000
\$7,500,000	\$375,000
\$5,000,000	\$250,000
\$2,500,000	\$125,000
\$0	\$1,250,000

Case Study Assumptions:

# Homes To Be Built:	480
# Homes Sold / Month:	10
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1	120	\$2,500,000
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		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
8	\$10,000,000						\$500,000	\$10,500,000	\$0

Notes:

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Tot. Equity (Not Incl. Sponsor)	\$16,290,000	50%

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\$7,500,000	\$375,000
\$5,000,000	\$250,000
\$2,500,000	\$125,000
\$0	\$1,250,000

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Financial Assumptions:	ROI %
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Structure	Land Sale	Joint Venture Participation		Seller Financing			Options	Total Return To Seller	At-Risk \$ To Seller
		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
9	\$10,000,000						\$500,000	\$10,500,000	\$0

Notes:

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Tot. Equity (Not Incl.Sponsor)	\$16,290,000	50%

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6 Phased Options:

Option Fee =	5%	(Deposit May be higher than 5%)
\$10,000,000	\$500,000	
\$7,500,000	\$375,000	
\$5,000,000	\$250,000	
\$2,500,000	\$125,000	
\$0	\$1,250,000	

Case Study Assumptions:

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		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
10	\$10,000,000						\$350,000	\$10,350,000	\$0

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		Profit Share	Preferred ROI	Senior Secured 1st Mortgage	Junior Secured 2nd Mortgage	Mezz Loan	Added Land Value		
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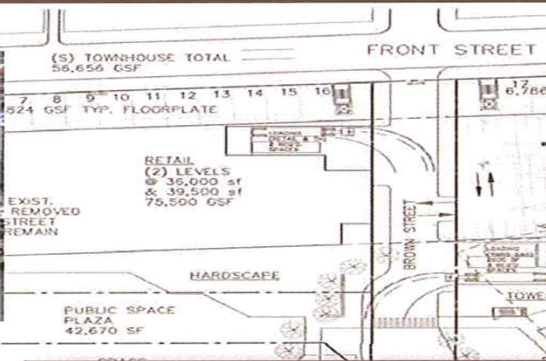
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Experienced Urban Developers

