

Case study

Industrial property, which stood idle for more than 20 years, near New Jersey's Newark Airport has new life as the site of a hotel. The project, which began July 1998, should be operational December 2001.

Contact information

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Project information

Name of project: **Holiday Inn**
Location: Elizabeth, N. J., near Newark Airport
Completion time: projected: 3.5 years

Background

A company that manufactured roofing tiles and asphalt-roofing materials closed its doors more than 20 years ago. The property remained idle and nonproductive. "The owner did not abandon the property," Whitman says. "He paid the taxes but just let the property sit."

The owner conducted some environmental studies. "He knew there were environmental issues and he knew about some of the contaminants, but he didn't know the extent of the contamination."

Because the owner either was afraid to tackle the environmental issues or just didn't want to, he boarded up the building. "The site was a terrible eyesore," Whitman says.

Recognizing the potential

Because of its location, the land was appealing to developers in spite of the brownfield issues. "The site is located at a major intersection in an area that is being developed because of its proximity to Newark Airport," Whitman says. And it's the perfect location for a Holiday Inn.

Whitman, who became involved in the project on behalf of the buyer/developer, says his client is not a big, corporate developer. "He is a retail business man who, with partners and financing, built a few stores then bought a small hotel. He is gradually getting into bigger properties." The proposed Holiday Inn would be the buyer/developer's second hotel. "My client agreed to buy the site as is and tackle the cleanup issues himself."

The first key to success

Whitman says that was the first key to the success of this project. “Before the buyer acquired the site, we conducted quick but thorough environmental testing. We got a good estimate of the cleanup costs and we learned the extent of the environmental liability. That was a major piece of the puzzle. That information allowed this project, which began July 1998, to go forward.”

Armed with the findings of the environmental testing, the buyer presented a contract to the owner. “The offer, which was less than the asking price, reflected the cleanup costs, [which were] about 30 percent of the asking price,” Whitman says. “It wasn’t a trivial amount, but the costs weren’t double the value of the property either.”

The second key to success

The second key to the success of this project was that the buyer had a clear picture of the end use. “Negotiations were in place with Holiday Inn. They were lined up and nailed down. That was an important component in going forward,” Whitman says.

The third key to success

The third key component, which occurred simultaneously with the environmental testing, was negotiating financial incentives with the city of Elizabeth. “The city proactively supports brownfield redevelopment,” Whitman says. “The developer negotiated property tax rebates and the forgiveness of some city taxes.”

The fourth key to success

The fourth key to success was entering into an agreement with the state of New Jersey that put the project into New Jersey’s Voluntary Cleanup Program. “The state is particularly good in working with owners,” Whitman says. “It passed key brownfield legislation in December 1997 that the governor signed into law in January 1998.”

Transforming the brownfield

New Jersey law reinforces the belief that brownfield redevelopment saves cities and revitalizes rural areas. “The rules are spelled out very well with regard to soil sampling, cleanup, etc.,” Whitman says. “The state doesn’t ease up on brownfield rules, but it does have an open door policy.”

The open door policy means the New Jersey Department of Environmental Protection wears two hats, a regulator hat and a helper/facilitator hat. “It never takes off its regulator hat. A developer will never get a break in cleanup procedures.” But, Whitman adds, the department will help developers work through various procedures necessary to comply with regulations as well as help them take advantage of cost reimbursements.

NJ offers special tax incentives

New Jersey also has special tax incentives for brownfield developers. “Once a site is operating and collecting taxes, such as sales tax, those tax revenues can be earmarked to reimburse the developer for up to 75 percent of the environmental costs.”

Whitman says the state defines “environmental costs” liberally and reimburses developers for costs associated with demolishing buildings, removing underground storage tanks, cleaning soil and capping soil. “In this case, capping the soil and paving the parking lot serves an environmental protection function and is reimbursable.”

Lessons learned

Although the buyer/developer had no knowledge of the state’s brownfield programs, he took advantage of all of them. The professional team, environmental consultants, real estate professionals and attorneys, held the buyer’s hand and walked him through the steps. “We helped him negotiate financing and agreements with the city. We helped him establish his status in the Voluntary Cleanup Program and guided him through the state’s tax reimbursement procedures, all of which had to be set up before any environmental remediation and demolition could be done,” Whitman says.

The pitfalls

As is typical with old, industrial sites, when the demolition began, workers unearthed surprises. “We knew there’d be old-factory types of problems, [including] asbestos in the building and contaminated soil and ground water, but the demolition uncovered underground storage tanks and contaminants that earlier testing hadn’t found. Although we didn’t know about them, we had anticipated them,” Whitman says.

He stands by the adage that the older the building and the more complex the site, the more surprises. “We have to condition clients that what we tell them one month is subject to change the next month. That’s a fact of life. The exception is to not find significant surprises.”

Unearthing the unexpected

Whitman says the demolition unearthed one surprise that caught even the experts off guard. “A homeless person was living in the building. Our office rose to the occasion and collected food and sleeping bags for him. We were very kind to this person who, once again, lost his home.”

Whitman says the project also unearthed another surprise; this one caused unexpected delays. “Because the buyer is a small developer, financing issues caused delays. That was beyond our control and unrelated to environmental issues. While financing brownfields shouldn’t be a problem with large developers, it could be a factor with other smaller developers.”

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