

Impacted Sites Transactions - Hurdles and Issues

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Behind the Scenes



Outline

- ▶ **Background**
- ▶ **Hurdles**
- ▶ **Transaction Examples**
- ▶ **Conclusions**

Assumptions

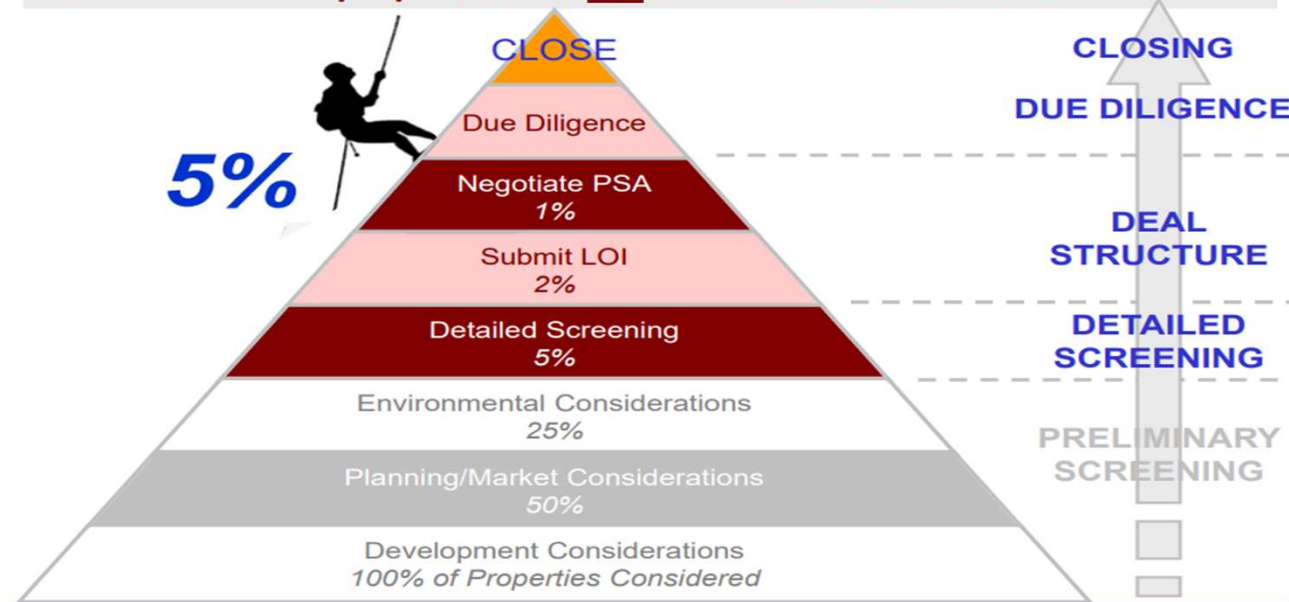
- ▶ Legal hurdles/issues can be significant for an impacted site(s) transaction
- ▶ Consider Regulatory environment as Boundaries/Guardrails
- ▶ Simplified financial/environmental considerations for discussion

Background

KILMER BROWNFIELD EQUITY FUND L.P.

Deal Sourcing Pyramid

About 95% of the properties will not even meet basic criteria



October 2015

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Background: $TC = FMV - EC$

Pricing Methodology – Base Model

■ $ELTC = (FMV) - (IC + EL + I + CC + R + K)$

- ELTC Environmental Liability Transfer Costs
- FMV Fair Market Value
- IC Investigative Costs
- EL Environmental Liabilities
- I Insurance
- CC Carry Costs
- R Repositioning Costs
- K Return on Projected Risk



Hurdle 1 - Land Value/Liabilities

- ▶ In many cases environmental considerations exceed FMV.
 - ▶ Excavate, remove, replace - standard
 - ▶ Especially where land values are low
 - ▶ Low FMV example
 - ▶ $TC = FMV - EC$
 - ▶ $-250k = 50k - 300k$
 - ▶ 250k to buyer at closing

Hurdle 2 - Buyer Considerations

- ▶ Complex deals, lengthy negotiations, up-front costs
 - ▶ FMV if clean? Appropriate number for EC?
 - ▶ Any tax or other incentives available?
 - ▶ Assessing realistic closure/approval timelines, costs
 - ▶ Is desired return on investment realistic/likely?
 - ▶ Desirable urban site, High FMV example
 - ▶ $TC = FMV - EC$
 - ▶ $250k = 750k - 500k$
 - ▶ 250k to vendor at closing

Hurdle 3 - Vendor Considerations

- ▶ Market Demand? Serious/qualified/screened potential buyers only?
- ▶ Discount needed vs. holding cost and/or property income
- ▶ 1 - Costs of holding are often minimal - taxes, landscaping, other???
 - ▶ -250k = 50k- 300k
 - ▶ Carrying costs 2.5k annually. Carry for 100 years vs. large hit?
- ▶ 2 - Annual parking net income of 50k, supporting the FMV.
 - ▶ 250k = 750k - 500k.
 - ▶ Give up 10 years of rental income to close the deal?
- ▶ 3 - Accounting considerations - Publicly traded?
 - ▶ balance sheets, ongoing reporting

Hurdle 4 - Financing

- ▶ If available at all prior to environmental closure, lots of extra hoops and a fraction of what is needed
- ▶ Perceived risk/stigma vs. actual risk and reality
 - ▶ Site with full closure at Tier 2/3
- ▶ What can we as an industry do better to help with financing?



Example 1 - Active Businesses

- ▶ Simplest Transaction
 - ▶ Business/land/buildings value often sufficient to dwarf liabilities
 - ▶ Environmental impacts a cost of doing business
- ▶ Multiple Active Ag Retail facilities
- ▶ Multiple Active Gas Stations
- ▶ Multiple Active Industrial Sites
 - ▶ $TC = FMV - EC$
 - ▶ 47 million = 50 million - 3 million

Example 2

- ▶ Shell Global / Environmental Liability Transfer Inc.(ELT) in 2016
- ▶ > 100 impacted Sites across Canada - many in Western Canada
- ▶ Cash to ELT.
- ▶ Shell improved corporate balance sheet and received full indemnification from liabilities
- ▶ As of today, 90% have been remediated, many have been sold to third parties and/or been redeveloped
- ▶ Has made a huge positive difference in communities/neighbourhoods

Example 3 - High FMV

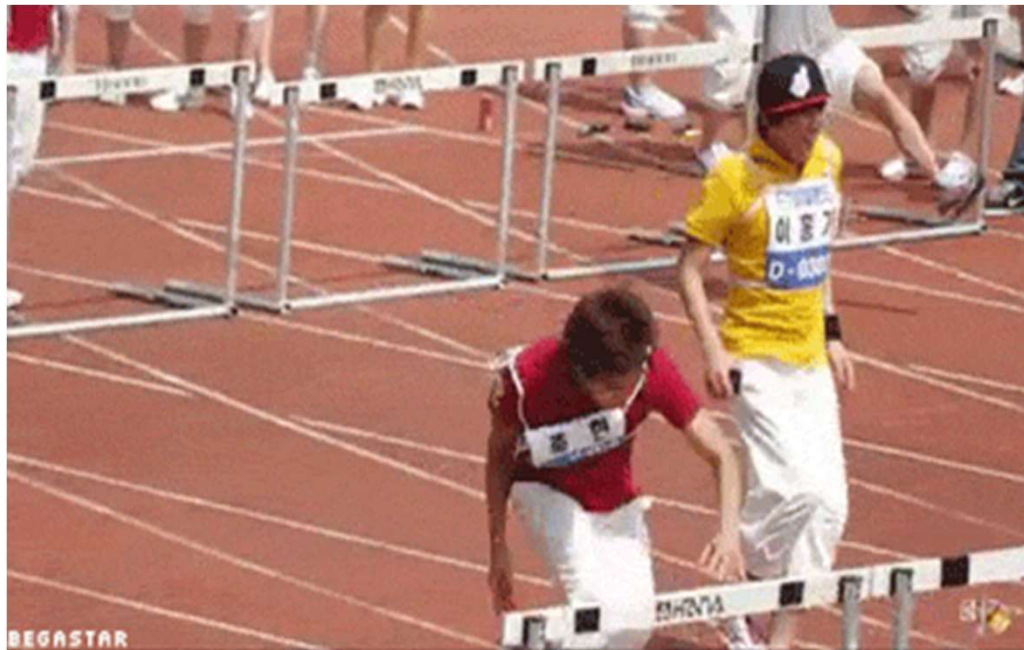
- ▶ Deemed excess real estate by publicly traded company. Building vacant.
 - ▶ Phase I found historical gas station use on Site
- ▶ Limited Phase II found PHC impacts in both boreholes/wells - discovery report
- ▶ Vendor initially unwilling to consider further assessment or a discount on price
- ▶ In the end, the deal was done with terms that made sense for both parties
- ▶ 3.4 million = 4 million - 0.6 million

Example 4 - Vendor Financed

- ▶ Fully occupied Strip mall with multiple tenants
- ▶ Largest tenant had negotiated conditional purchase terms for the building
- ▶ PHC Impacts discovered during environmental assessment for bank financing
- ▶ Both parties assumed deal was dead
- ▶ Was able to suggest a range of options that might work
- ▶ Vendor ended up financing the sale at original purchase price, terms
 - ▶ Retained the liability/cost of clearing the environmental issues over several years

Conclusions

- ▶ Don't underestimate the complexities/time needed
- ▶ Make sure you understand/consider the other side of the transaction
 - ▶ Consider creative ways to bridge gaps
- ▶ Get as much good advice as you can early in the process



QUESTIONS?

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