Power Center: Primestor's Arturo Sneider at the Plaza Pacoima retail complex.

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Cleaning Up

Developers make sometimes toxic brownfield sites bloom with help from public money and with patience.

By JACQUELYN RYAN *Staff Reporter*

On a property where faucets and other plumbing fixtures were once manufactured, there stands a Lowe's home improvement store open for shoppers to buy those very same supplies.

The location is Plaza Pacoima, a nearly 30-acre power center in the working-class San Fernando Valley community.

Consider it an icon for future development in Los Angeles.

The project was only completed after contamination on the site was cleaned up, the local councilman successfully lobbied for redevelopment subsidies and developer Arturo Sneider spent millions more on construction than estimated.

But ask the developer was it worth it and he has no doubts.

"In a way, it really is almost the only form of responsible development," said Sneider, chief of Beverly Hills' **Primestor Development Inc.** and an opponent of suburban sprawl. "In the inner city and urban core, the reuse of a property and creating more efficient use of land and space is the way of the future."

Please see page 22

Continued from page 21

Sneider developed his shopping center on what is termed a "brownfield" site, usually old abandoned industrial property or closed landfills that have been contaminated, perhaps with hazardous materials, but could be cleaned up for redevelopment.

It's the kind of location only an intrepid and patient developer would even want to tackle. But it's also the kind of property more and more L.A. developers will have to deal with if they want to get anything built at all.

There's a limited supply of virgin, so-called "greenfield" development land – and it's often in neighborhoods where residents fear more congestion. But there's a bounty of brownfields.

No single public agency maintains a list of brownfield properties in Los Angeles, but a 2004 report by USC researchers put it at more than 4,000 acres. As local manufacturers continue to close, or move operations offshore and to other states, that figure is bound to grow.

"They are not only on the outskirts of town," said Sara Russell, brownfield project manager for the federal Environmental Protection Agency. "It's a corner lot that's vacant and no one knows why it's been sitting there for years."

Scores of such sites have been developed in Los Angeles County over the past 20 years. Among the most notable have been offices and shops built in Burbank on land contaminated by aerospace company **Lockheed Martin Corp.**, which moved from the city in the early 1990s.

In Los Angeles, brownfields range from tiny lots with capped oil wells to vast tracts such as the former Howard Hughes Aircraft headquarters in Playa Vista. There, the **Ratkovich Co.** is developing a campus of creative offices.

But the development challenges aren't getting easier, and are probably getting worse.

Not only do developers have to work closely with government agencies to clean up sites, but many of the projects require some public funding to pencil out. Budget cuts are drying up federal funding, while local redevelopment agencies, another key source of money, are losing money to local school districts and the cash-strapped state.

Private-sector lenders, meanwhile, remain leery of funding the projects, even though their role is critical.

"The government may have some bridge money, but until the private sector releases the purse string, no brownfield (site) is going to get developed," said Steve Andrews, a senior economic development adviser to Mayor Antonio Villaraigosa, who has pushed hard for redevelopment of contaminated industrial land around downtown.

Deep contamination

The Plaza Pacoima project showcases the challenges a developer faces in building a brownfield project.

The site, at 13500 Paxton Ave., was formerly the location of a foundry operated by **Price Pfister Inc**. that employed hundreds of local residents for decades. But in 1997, parent company **Black & Decker Corp.** closed operations and moved the facility to Mexico.

The site then sat vacant for several years upsetting residents, who pushed Richard Alarcon, their councilman at the time, to do something about it. Then, about six years ago, the Los Angeles Community Redevelopment Agency entered into negotiations to find a development project for the site from Black & Decker.

Those negotiations prompted an environmental review that confirmed that the top soil was contaminated with metals such as lead, heavy-duty cancer-causing industrial solvents, and an assortment of other chemicals found in oil and grease. Some of the contamination had even reached the groundwater.

However, unlike some other brownfield sites, where there can be extended litigation over who will pay for cleanup, Black & Decker agreed to pay the roughly $30 million costs.

The remediation involved carting away tons of topsoil, treating contaminated groundwater and installing a system that extracts solvents from the soil by sucking up evaporating fumes.

The redevelopment agency, meanwhile, sought out a developer and settled on Sneider, whose Primestor had developed other shopping centers on brownfield sites. He was intrigued by the site but needed it to pencil out. He only decided to move forward after purchasing the property for $14 million – at what he called a significant discount – and after the City Council approved $18.7 million in redevelopment subsidies in August 2008.

The power center finally opened in May 2010 at a cost of $70 million.

How did it work out for Sneider?

The developer had calculated that the project, even with discounted land costs and Black & Decker picking up remediation costs, would run him an extra $7 per square foot to build. That's because the Plaza Pacoima project needed, for example, a cap on the land to prevent any toxic fumes from filtering up to the stores.

However, the extra expenses amounted to even more than he expected – about $10 per square foot. Still, Sneider said the project penciled out for him.

He said the experience was typical of building on brownfields.

"Every single site is like its own world," he said. "It really is a case-by-case basis of getting in there and being creative in the way that you try to resolve the situation."

Downtown struggles

As difficult as the Pacoima site was to build, it was finally completed in no small measure because of community pressure. Alarcon championed Plaza Pacoima in City Hall.

But around the east side of downtown Los Angeles there are multiple abandoned properties in industrial neighborhoods where there is no constituency to push things along.

Consider a 208-acre tract at East Slauson Avenue and Avalon Boulevard. Part of the site was occupied by a now-closed Goodyear Tire & Rubber Co. plant. There also were scores of small industrial businesses and depot for freight trains. It is owned by multiple parties.

The property has been contaminated with metals, chemicals and industrial solvents, some of which have been cleaned up.

"This is a piece of good productive land (and) it's just mothballed," said Andrews, who also sits on a state board that promotes development of brownfields.

The site serves as an example of why the city developed the Los Angeles Brownfields Program six years ago. Today, it comprises the local redevelopment agency, the Department

Please see page 25

Building Brownfields

There are hundreds of contaminated plots of land in Los Angeles County. Here is a selection of some of the more prominent sites with planned or completed redevelopments.

CAPPED OIL WELL
1571 Rockwood St., Los Angeles
A half-acre that was contaminated with oil, chemicals and other materials.
Developer: Department of Parks and Recreation.
Project: Rockwood Park, a corner-lot park with playground in Echo Park.
Status: Site cleaned. Opened in May.

OLD PLATING SHOP
1500 S. Grand Ave., Los Angeles
The site of a closed chrome plating shop that was contaminated with heavy metals.
Developer: Mercy Housing Inc., Denver.
Project: 1500 Grand, a 52-unit low-income housing complex with office space next to the California Hospital Medical Center.
Status: Site cleaned. Housing opened several years ago.

PRICE FISTER INC. FACILITY
13500 Paxton St., Pacoima
The plumbing supplies manufacturer operated a foundry that closed in 1997. Contamination includes heavy metals.
Developer: Primestor Development Inc., Beverly Hills.
Project: Plaza Pacoima, a $59 million, 343,000-square-foot retail power center that includes a Best Buy, Costco and Lowe's.
Status: Site cleaned. Opened last year.

CROWN COACH MANUFACTURING SITE
2425 E. Washington Blvd.
A 21-acre plot that was the location of a school bus maker and is contaminated with various hazardous materials.
Developer: Ctiy in talks with Trammell Crow Co., Dallas.
Project: Entitled for a 1 million square feet of industrial space. Being marketed to clean-tech companies and arts-related organizations.
Status: Top soil cleaned; deeper soil and groundwater remain contaminated.

HOWARD HUGHES AIRCRAFT HEADQUARTERS
5600 Campus Center Drive, Playa Vista
The former 28-acre headquarters of the defunct aerospace company has been vacated for well over a decade. Contamination by various hazardous materials.
Developer: Ratkovich Co., Los Angeles.
Project: Hercules Campus, 530,000-square-feet of creative offices developed by renovating existing buildings.
Status: Clean up under way. Project expected to open next year.

GOODYEAR TIRE MANUFACTURING SITE
East Slauson Avenue and Avalon Boulevard, Los Angeles
A 208-acre site where tires were manufactured. Contaminated with chemicals and heavy metals; owned by multiple private parties.
Developer: None selected.
Project: Some of it has been cleaned up and are used by several industrial businesses. The CRA would like to see the rest cleaned up and developed.
Status: Partially cleaned up.

CAL COMPACT LANDFILL
20400 Main St., Carson
A closed 168-acre landfill contaminated with heavy metals, chemicals and other hazardous materials.
Developer: LNR Property Corp., Miami Beach, Fla., and Hopkins Real Estate Group, Newport Beach.
Project: The Boulevards at South Bay, a 1.23-million-square-foot complex with shops, a hotel, restaurants, a multiplex and 1,550 apartments and condos.
Status: Clean up under way. Construction expected next year.

PORT OF LOS ANGELES INDUSTRIAL LAND
West Harry Bridges Boulevard and Figueroa Street, Wilmington
A 30-acre site that was contaminated with solvents and other chemicals. Past uses included storage and parking.
Developer: Port of Los Angeles.
Project: Wilmington Waterfront Park stretches nine blocks with a picnic area, playground, walking and biking trails, and a plaza.
Status: Site cleaned. Opened in June.

Compiled by Jacquelyn Ryan

Continued from page 22

of Public Works, the Community Development Department and the Mayor's Office of Energy and Environment.

Since its inception, the program has pulled in a total of $60 million in federal community block grant funds, U.S. Environmental Protection Agency grants, and redevelopment agency and other funds. The program has helped fund cleanups at an apartment complex site in Venice, an affordable-housing project in South Los Angeles and other locations.

The program has $12 million set aside to clean up the Goodyear property, but that is not enough to complete even testing, much less remediation. And with the site's splintered ownership, it has been difficult to work out if the cleanup will be funded by public or private money. Today, more than half of the property remains vacant and presumably contaminated.

Public funding for brownfield development always has been hard to come by. One key source has been the EPA, which has three grants to developers to cover testing, cleanup and some construction.

"There are economic benefits when you clean up a property," said Sara Russell, the EPA's brownfield project manager for the L.A. region. "Values increase especially if good development follows."

However, the EPA estimates that, at best, 30 percent of grant applicants receive any money. And in Los Angeles, where abandoned manufacturing sites dot the city, it's even worse.

"With L.A. being so big and really the EPA grants being a drop in the bucket there, it's hard to spread that money around," said Evan Reeves, of Center for Land Use Recycling, a San Francisco non-profit that helps developers find money for brownfield sites.

One solution would be, of course, to have private lenders make up for the lack of critical public funding, something that has occurred at the Ratkovich's Hercules project, which involves renovating 11 old Howard Hughes Aircraft buildings into 530,000 square feet of creative offices.

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Anchor Tenant: Arturo Sneider, Primestor founding partner, at Plaza Pacoima, which is located on a former brownfield site.

Penwood Real Estate Investment Management of Hartford, Conn., has partnered with Ratkovich and put $40 million into the project. It's the first brownfield site that the lender has backed. Managing Director Rick Chase said that the unknowns in brownfield sites typically make them too risky.

"Anytime you have contamination on a site you have a can of worms," he said. "There's no hard and fast threshold. It's really a question of the amount of contamination and kinds of contamination."

The Howard Hughes site was different. Ratkovich and Penwood were able to buy the property for a bargain price of $32.4 million last year. That compares with $200 million spent in 2007 by the prior developers, who later defaulted on a $155 million loan.

Also, remediation had started on the site, so the contamination was well defined.

"The real trick on that is to make sure there are no unknowns, that the site has been fully characterized," Chase said.

What's more, the new developers were able to secure an insurance policy that would cap any extra expenses they may incur.

"It gives comfort frankly to buyers of an asset so they know insurance is in place," said Alex Glickman, an attorney at downtown L.A.'s **Arthur J. Gallagher & Co.**, who brokered the insurance. "Let's assume its $1 million (estimated cleanup costs), the insurer will look at all the plans and dig into engineering and then they might say, 'Fine we will insure you for all expenses over $1.25 million.'"

Emily Murray, an environmental attorney at **Allen Matkins Leck Gamble & Mallory LLP**'s downtown office, said that for developers who are willing to be creative, good brownfield opportunities are there.

"There are many properties that can be had at a competitive rate," she said. "The existence of environmental contamination should not scare everyone away from doing anything."

Carson Developer Turning Trash into Retail Gold Mine

By JACQUELYN RYAN *Staff Reporter*

In the world of brownfields, one man's trash is another man's development site.

Or at least that's how it's working out for Newport Beach retail developer **Hopkins Real Estate Group** and its capital partner **LNR Property Corp**. of Miami.

The duo plans to build a 1.23 million-square-foot outdoor retail complex with 1,550 apartments and condos, and 300 hotel rooms, all on a 168-acre site in a densely populated area of Carson.

The proposed Boulevards at South Bay mall sounds like it has all the elements it needs to be a success – except that 157 acres of the property is a closed landfill.

For nine years, starting in 1959, tons of trash were disposed of at the property, called the Cal Compact Landfill. That included 250,000 cubic yards of hazardous sludge that has left the site contaminated with poisons ranging from arsenic and DDT to industrial-grade solvents.

It's been enough to scare off an assortment of developers, but that's left an opportunity for LNR and Hopkins, which has developed and redeveloped major malls such as the South Bay Pavilion right in Carson.

"Over the last 30 years, the site has been looked at for development by most regional development companies, but because of the environmental nature of the site, it adds a lot of complexity and costs," said Lang Cottrell, vice president of LNR. "That's why you have 157 acres in L.A. that have not been developed."

But it's not as though other developers didn't try. The site is centrally located at the corner of East Del Amo Boulevard and the San Diego (405) Freeway with easy freeway access.

Former Landfill: Rendering of proposed Boulevards at South Bay outdoor mall.

In the early 1990s, developer **Carson Realty Projects**, a joint venture that included a union pension fund and real estate investment trust, bought the site and got entitlements for a large enclosed regional mall. But before the venture could get moving on the plans, the pension fund went bankrupt and the property was repossessed by the lender.

Hopkins and LNR saw an opportunity and bought the property from the lender in 2006 for $30 million and shortly thereafter received modified entitlements to allow for an outdoor mall. However, cleanup costs are pegged at $140 million. That's a lot of money even for a financial partner as big as LNR, a commercial real estate financier backed by investors that include private-equity firms **Oaktree Capital Management** of downtown Los Angeles and **Cerberus Capital Management** of New York.

As a result, the project needed critical public financial assistance before the venture would move forward. That came in the form of $105 million from the Carson Community Redevelopment Agency, which itself had received money from the state Environmental Protection Agency to help pay for such cleanups. About $75 million will go toward cleanup and $20 million will finance a new freeway access ramp to the project.

Still, that means the venture will have to cough up some $65 million of its own money on remediation.

The cleanup plan, approved by the state Department of Toxic Substance Control, includes creating an impermeable landfill cap made of thick plastic and three to six feet of top soil. The cap will help to contain the materials and intercept any water or vapors from moving above or below. The plan also includes extraction wells for water, a venting system for vapors and a monitoring system that will screen for escaping contaminants for years.

Cleanup is expected to be completed late next year on the mall footprint, allowing construction to start immediately on the retail element. Meanwhile, cleanup on the hotel and residential sites will continue, with a 400-unit apartment complex slated next for construction.

Cottrell said the project has required lots of patience as it has slowly progressed over the years, and it still has years to go. The construction of the mall alone will take five or six years – two years longer than usual – since the foundations must be built on pilings driven through the compacted trash and deep into the Earth.

Then, the partners will proceed with the hotel and 1,150 condos only as the market permits. Cottrell said patience and some funding from public sources were critical for the project, which the partners are largely financing through equity.

"The very key to these types of project is a public-private partnership in the financing," he said. "It's a long-term commitment."