

The Nation's biggest fire sale



Area Development Site and Facility Planning

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Assuming a former military base has been deemed a suitable site through due diligence, excellent real estate bargains await the private sector.

FOLLOWING THE DEMISE of Communism in eastern Europe, the United States government began significantly decreasing its troops and deactivating many of its military facilities. Leaner, meaner armed forces didn't need all that "excess" to protect America and its allies, reasoned military and political pundits.

One positive result of this ongoing massive downsizing effort should be of great interest to expanding companies: the firsttime availability to the private sector of buildings, personal property, and thousands of acres of real estate nationwide, typically offered at bargain prices. "It's a big fire sale that the U.S. military is putting on," explains Mark Rodriguez, a partner in The Elden Co., an Irvine, Calif., commercial real estate firm with extensive experience finding manufacturing deals at closed military facilities. "A company has to have staying power to complete one of these deals, but they're all workable. You can save a lot of money going this route."

Real estate attorney Curtis Toll agrees, adding that some military bases "are located in the best areas for commercial and industrial activity in the country. You can't ignore them, especially when you consider that not many sites are left in urban, in-fill areas to build out new real estate ..We're taking good real estate and putting it back into productive use."

BRAC Creates a Windfall for Business Exactly why and how did this land became available? The basic premise is that a reduction in military personnel (about 35 percent since the mid-1980s) drove the decision to close down military bases no longer needed to support certain branches of the military. Add to that the fact that some facilities were deemed simply too expensive to maintain or too outdated to be of much use. (Many were built during World War II, and more than a few date back to

the turn of the century.)

Although the federal government wanted to shut down a number of these bases in the 1970s and early 1980s, public concern about the economic effects closures would have on their communities stopped the majority of those efforts from going forward. However, special BRAC (Base Realignment and Closure) legislation enacted by the U.S. Congress in the late 1980s overcame much of the legal, administrative, and public perception problems, and paved the way for the present-day land bonanza.

Specifically, BRAC legislation authorized four rounds of base realignment and closings, in 1988, 1991, 1993, and 1995. During those years BRAC was responsible for scheduling the shutdown of 311 military bases and "realignment" (partial closing) of 112 other military installations. BRAC systematically transferred title to the bases as well as the real and personal property on them to Local Reuse Authorities (LRAs). In the early years of BRAC a small percentage of the base's true worth was required as payment, but later the LRAs were given the facilities at no cost. "LRAs are pseudogovernmental entities whose primary objectives are to replace lost jobs and restimulate the local economy," says Rodriquez. "The opportunity for businesses emerges from the desire of these LRAs to secure long-term benefits of tax revenue and economic activity versus maximizing the return on the sale of assets. In our experience, we've found many of these LRAs will literally give away turn-key manufacturing facilities to gain the benefit of new-job creation."

Base closure itself gave birth to a new economic development group called NAID, the National Association of Installation Developers located in Washington, D.C. NAID was started as a temporary, volunteer association in the 1970s, but is now celebrating its twenty-fifth anniversary. It's an excellent resource for companies seeking both "big picture" and site-specific information about repackaged military property.

Self-described as a "leading public service organization dedicated to the successful conversion and redevelopment of military bases," NAID comprises LRAs, site selectors, public officials, developers, and others in the private sector interested in helping LRAs to reuse their military bases. Of its 350 members, about 60 are LRAs, according to NAID spokesman Paul Kalomiris. Most of them are now viable economic development agencies seeking tenants for their new commerce parks and/or buyers for their land.

Before BRAC, the federal government would just unilaterally close a base, notes Kalomiris. "Now it has to be a formal process. Each BRAC round is an 'all or nothing' proposition. Congress has to agree to all the base closings identified; it can't pick and choose which ones to keep open." Since the latest round brought the number

of closures and realignments to 538 bases, NAID's role as an LRA support organization should continue well into the future.

Advantages of Reusing a Military Facility The Elden Co.'s Rodriguez believes BRAC sites present "tremendous commercial opportunities" to companies interested in expansion or relocation. "Many of these former military facilities are compatible with the demands of the commercial market, as most include production machinery, equipment, and work force; some even include government workload. And nearly all are accompanied by a wide array of financial incentives."

For example, consider the new Philadelphia Naval Business Center (PNBC), a master-planned, 1,200-acre development that formerly served as a naval yard until the 1993 and 1995 BRAC rounds. Now it's home to 40 private companies occupying 2.2 million square feet of land or buildings and employing nearly 2,000 people.

PNBC has four major activity centers: * The Commerce Center is dedicated to office, research and development, light manufacturing, and supportive amenities.

* The Shipyard, where the worldfamous Kvaerner Co. is constructing its new commercial shipbuilding facility, will support shipbuilding, ship repair, and other maritime-related, heavy industrial uses.

* The Girard Point Industrial Park will be developed for manufacturing and industrial uses.

* The East End Distribution Center is proposed to include the development of an intermodal rail yard that will service a new build-to-suit warehouse and distribution park. In addition to these new commercial activities, the U.S. Navy has retained approximately 1.8 million square feet of space and approximately 3,000 employees at PNBC. The majority of these employees are engineers and white-collar support staff located in the Commerce Center.

The PNBC center's success is attributable to four major advantages, observes John Grady, senior vice president of the Philadelphia Industrial Development Corp. (PIDC), the entity managing the center. For the most part, the site selection benefits at PNBC are typically found at most former military facilities as well:

1. **Location:** For 100 years the naval yard has operated in the heart of the city, offering excellent access to airports, ports, highways, and regional labor force. (A good number of BRAC sites also have railroads running through them.)
2. **Workers:** There's an excellent pool of well-trained labor, most of whom worked at the navy yard in engineering, R&D, and industrial functions. Not surprisingly, the area is rich

in jobtraining programs supporting these types of positions.

3. Incentives: Financial incentives abound, including those targeting brownfields.

4. Unique features: The Navy has developed some unique facilities on the site, including structures designed for full-service import/export port activities. "You can't find those buildings everywhere," Grady points out. Relatedly, at the former Charleston Navy Yard in South Carolina, the military left behind machinery at the dry docks, desks, chairs, and computers as well as medical and recreation equipment. Other sites have sophisticated, one-of-a-kind R&D equipment ready for use by incoming businesses.

Due to the fact that the Navy has some retained functions on site some very high-security - he says the center is "almost a gated business community," another plus for tenants. Other than the gate, "there really are no restrictions on us associated with national security issues."

Here's another example of a rosy forecast for a former military facility: Just last August, the U.S. Army transferred ownership of a portion of the 25,000-acre Joliet Arsenal (Oak Brook, Ill.) for redevelopment by CenterPoint Properties, an industrial property developer. The 2,242-acre project, Deer Run Industrial Park, is expected to become one of the largest brownfield redevelopment ventures in the United States and one of the world's premier multimodal distribution complexes.

In 1976 when the arsenal closed, 8,000 jobs were lost. However, the new project is expected to easily replace them by creating an estimated 8,000 to 12,000 permanent jobs and more than 20,000 union construction jobs. Moreover, as much as \$27 million in annual property tax revenue is anticipated upon completion in 12 years. CenterPoint's CFO, Paul Fisher, says nearly 45 percent of the developable land was precommitted prior to the land transfer, certainly an excellent sign of interest by companies.

NAID president Jeffrey Simon is also president/CEO of the Military Base Redevelopment Group of Boston, a developer looking at how best to take advantage of base opportunities. One advantage these sites have, he says, is the "huge amount of political and community momentum developing behind them," which is not always found in other communities. "I don't know of any base or LRA where you'd get anything but a warm reception."

In addition, Simon says virtually every state has a whole series of relocation incentives relating to bases. Most have special stipulations streamlining the permitting process, include access to low-interest financing, and/or give some sort of

short- or long-term tax relief not available at other sites.

Moreover, companies don't have to worry about their five- or 15-year growth plans requiring more land to be leased or acquired, as typically these bases offer plenty of land for future expansion. Additionally, not having to locate another facility down the road keeps employees adjusted to their commuting patterns, a benefit for those who may not be eager to drive the extra miles. This "excess" land situation is another reason why BRAC sites are ideal for call centers, which require large parking lots for their employees.

Redevelopment Perceptions and Challenges Despite well-deserved pats on the military's back for BRAC cleanup efforts, there is widespread concern about the spiraling costs of environmental cleanup - costs which some experts say were not anticipated and are potentially out of control. In 1996 the U.S. government's General Accounting Office released a report detailing how the severity of contamination at a large number of BRAC bases "has turned environmental cleanup into a major challenge for the DOD [Department of Defense]." The document went on to explain that by March of that year the DOD had allocated about \$3.4 billion for cleanup. It expected those costs to exceed \$11 billion by the program's end, originally set for 2001. The cleanup will continue past that date, however, as restoration work has not yet been completed.

The report also revealed that the DOD had identified more than 5,300 potentially contaminated sites. Types of hazardous waste found at some military installations included solvents and corrosives; paint strippers and thinners; metals (e.g., lead, cadmium, and chromium); and unique military substances (e.g., nerve agents and unexploded ordnance). Contamination usually resulted from storage and disposal practices that were accepted at the time but later proved to be damaging to the environment.

"When I talk to businesses about locating to former military bases, probably the first thing I hear about is environmental issues," Simon reports. "I hear all kinds of stories about radioactive waste, unexploded bullets on ranges, etc. The truth is, there are very, very few sites that do have some nasty things underground. But they're not available for development."

In other words, he says, facilities open to development are "generally the most heavily studied, thoroughly documented and thoroughly researched" sites a business will look at during its site selection process. There's a whole level of environmental regulations placed on the DOD and LRAs that don't affect private individuals selling property. "For example, when the DOD closes a base it has to do an environmental

impact study on the closure. And when the LRA reopens it, an environmental impact statement on its redevelopment is performed."

In many cases LRAs spend at least five years planning for the redevelopment of these sites, and perform all the investigative and remediation environmental work required (e.g., fixing lead paint and asbestos problems) to bring it up to competitive commercial quality. Military building regulations are much more lax than public building regulations, so at time of closure base infrastructure typically does not meet present-day building codes.

Furthermore, companies appreciate the fact that former military bases are the only commercial, industrial, or residential properties in the United States that are indemnified against third-party environmental liability. "That means if you go to Boomtown Office Park and find an old landfill or other environmental problem while excavating your foundation, you're in trouble," Simon explains. "But if that same situation happens on military property you are indemnified from damages resulting from that discovery by an act of Congress, signed by the President. The federal government will have to come in and do cleanup, at no charge." That promise "runs with the land," i.e., holds true forever no matter who owns the property in the future.

Simon confirms that the U.S. government recognizes that it needs to deal with the reality and the fears of the unique environmental issues sometimes found at bases. However, he believes that after investigating the situation, "what many people first view as a negative will be seen as a huge positive." That holds particularly true for the financial community, he says, which insures and finances private-sector projects at these revamped facilities.

To Lease or Buy BRAC Property? Consultant Rodriguez advises companies to remember that BRAC deals "are not your typical landlord-tenant transactions... LRAs are still tied to the military to some degree." For example, consider the fact that the transfer of property can take as long as five years to complete, an excessive waiting period for most firms seeking land ownership. This explains why companies predominantly lease property on BRAC sites.

The maximum time bases have to close is six years, although many do so earlier. And while many businesses lease property after total closure has occurred, sometimes bases in the process of shutting down make available individual facilities for lease or license to the private sector. These interim leases and licenses can result in increased job opportunities and create needed revenue that is then generally used for the care and maintenance of base facilities, states a DOD report.

Some LRAs are choosing to sell off their land to companies and/or developers rather than lease it. But since BRAC sites are "brownfield properties by definition," attorney Curtis Toll advises potential buyers to hire their own counsel, do their own due diligence, and, above all, "don't treat a BRAC deal like a conventional real estate deal." Toll is an attorney with the national law firm of Greenberg Traurig and a member of its Complex Project Redevelopment practice group. This national team of real estate, environmental, and finance lawyers advises clients involved with BRAC sites and other challenging, environmentally contaminated real estate.

Toll says special attention should be paid to site selection negotiations where deeds are part of the deal. Until a few years ago, about 90 percent of BRAC deed transfers were FOST (Finding of Suitability to Transfer) ones, he explains. In this type of transaction, "the military is obligated to clean up the land to a specified standard before transferring it to a reuse authority. And when it does transfer the property, the military gives a Section 330 indemnification to anyone who ever uses the land. In other words, the deed's language says, 'If you find more contaminated land that's beneath the specified standard, we'll come back and fix it - forever.' That's the best thing you can get from the federal government because it relieves end users of environmental concerns."

A second type of transfer is the FOSET (Finding of Suitability for Early Transfer). "It allows an LRA to take title of the property 'dirty,' and literally take responsibility for the total cleanup in exchange for a negotiated, fixed sum of money from the military. When the property has been cleaned up by a private entity and closure is achieved, the government then puts into place the Section 330 indemnification," Toll continues.

FOSET is popular these days, he adds, as most communities and companies have discovered that "it takes the military forever to do a cleanup." Part of the problem is that federal funding for each site is doled out on a year-to-year basis, meaning cleanup activity ends when the money runs out and kicks in again when the project is refunded. A protracted cleanup schedule is especially bad news for sites with high real estate value fortunate enough to have groups eagerly lined up to redevelop the properties. Fortunately, private cleanup efforts tend to move much faster, a fact making FOSET deals very attractive.

Business Success Stories Abound

The DOD estimates that sometime this year, more than 107,000 defense civilian jobs will have been eliminated due to BRAC rounds implemented over a 12-year period. Fortunately, the negative economic impact on the local communities losing those positions has been offset by the more than 66,000 new civilian jobs created at

formerly closed installations.

"We project that there are now at least 1,520 new business users on BRAC sites," says the DOD's John Leigh, who adds that some of them are very large concerns such as Hughes Aircraft and Gillette. Leigh is one of two dozen project managers working within the DOD's Office of Economic Adjustment, which gives technical and financial assistance to communities going through BRAC rounds. "While everyone wants the big guys, overwhelmingly it's the smaller businesses with fewer than 50 employees that make up the majority of tenants."

Another sign of economic vitality is the 19 new civilian airports created as a result of the closures, he points out. "One is a new international airport serving Austin, Tex. Another is in Jackson-ville, Fla."

DOD statistics confirm that a sizable number of communities are bouncing back from base closures that turned out to be not as catastrophic or nearly as severe as forecasted. However, many are still not back on their economic feet. And yes, problems do sometimes arise in these types of unconventional deals.

So is it worth the added hassle to pursue the valuable government land, facilities, and equipment found at many BRAC sites? The answer is yes provided due diligence is performed with the help of professionals accustomed to working with the military and government regulations. However, even if you've identified old World War II-era barracks that would make a perfect corporate cafeteria, remember that a bargain is worthless unless it meets your ideal site selection requirements

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