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Brass Mills Mall

by Robert A. Simons, Michael Leccese

An innovative public/private partnership has resulted in a regional shopping center that is bringing new life to a brownfield site in Waterbury, Connecticut

From the early 1800s through World War II, Waterbury, Connecticut, earned the moniker "Brass City." This gritty city of 106,000 bordering the Naugatuck River hosted numerous red-brick mills that churned out buttons, locks, fixtures, and other brass items, as well as famous watches and clocks. Waterbury's first manufacturer made buttons from scrap copper kettles and later became a local giant called the Scovill Company.

By the 1960s, the manufacturers of brasswares started moving elsewhere, and many of Waterbury's mills closed or were razed for freeway construction. In 1986, Scovill's successor finally shut down, leaving behind 87 acres contaminated by industrial pollutants and 2.2 million square feet of space in obsolete historic buildings.

Last September, the brownfield site of the Scovill Brass Works emerged anew as the 1.2 million-square-foot Brass Mills Mall. Located within seconds of an interstate, the $209 million regional shopping center includes five anchor stores, 150 shops, a 12-screen cinema, and a two-level, 5,800-space parking deck. Because of its close-in location, Brass Mills is expected to breathe new life into Waterbury's traditional downtown.

With its combination of shopping, services, and entertainment, Brass Mills in many ways typifies a contemporary regional mall, yet the story of its redevelopment is anything but conventional. The demolition of nearly 2 million square feet of industrial buildings and the cleanup of 118,000 tons of contaminated soil required special incentives and financing, which were brokered through an innovative partnership of the developer, Chicago-based General Growth Properties, Inc. (GGP), with the nonprofit sector, the state of Connecticut, and the city of Waterbury. Public funding and subsidies exceeded $40 million. All environmental remediation work was performed under the management of Brass Center Limited (BCL), a nonprofit corporation created for that purpose and also to protect the developer from environmental liability.

The project demonstrates that brownfields can offer substantial economic and social potential. At the same time, there is considerable sentiment that brownfield redevelopment must be nursed along by a combination of strong market demand, superior location, a friendly regulatory environment, public monies for incentives and remediation, and bold but sensitive developers. When these circumstances are present, advocates say, the benefits of brownfield redevelopment can include the rehabilitation of derelict properties to produce services, taxes, and jobs. Rehabilitated properties also can help reclaim the environment. Further, brownfields can capitalize on existing sites and infrastructure. Unlike a typical suburban regional mall—and almost all of GGP's 114 regional malls are in the suburbs—

Brass Mills is an infill project designed to complement rather than drain a traditional city center.

Attracting Developers to Brownfields

Despite their frequently excellent locations and the recent cheerleading by President Clinton and the U.S. Environmental Protection Agency (EPA), many of the nation's estimated 500,000 brownfield sites have not attracted development interest. Developers have avoided brownfield projects for a number of reasons.

Since it initiated voluntary cleanup programs several years ago, the state of Connecticut has been at the forefront in encouraging the development of contaminated property. State officials chose this course because of increased economic competition with neighboring states. A recent legislative change instituting a state income tax dampened residential growth. Faced with the national recession of the early 1990s, the state actively encouraged development through close coordination of its environmental and economic development branches. Projects that create new jobs are targeted for subsidies, and the state can and does take title to selected properties to create new markets.

Connecticut's Urban Sites Remedial Action Program (USRAP), the strongest and most popular of the state's remediation programs, began in the early 1990s to encourage voluntary remediation efforts. For the right projects, the state can step in to help remediate the site, absorb liability, and finance remediation through bonds issued by the Connecticut Development Authority, which has a $30 million environmental cleanup fund. Other USRAP projects that are privately funded receive expedited approval and technical assistance from the state's department of environmental protection (DEP). Connecticut's department of economic and community development (DECD) gives priority to industrial projects that create employment and to some large retail developments. In addition to financing cleanups, DECD also has offered property tax abatements to selected projects.

Site History

The Scovill Brass Works site was used as a factory as far back as the early 1800s. When Scovill's successor, Century Brass, declared bankruptcy in 1986, no other responsible party with deep pockets entered the picture to pay for cleanup and remediation. The site was an enormous white elephant encumbered with at least $5 million in back taxes. Few buildings were suitable for reuse; many were structurally unsound; and all were filled with lead paint residue and asbestos. More than half the building space was used for one enormous rolling mill. Century Brass partially remediated the site and contained sludge that was contaminated with metal hydroxide off site in a hazardous waste landfill referred to as a PIRNO (property in receivership nobody owns, or "property I'd rather not own," depending on the source). Other types of contamination included oily soils, volatile organic compounds, and PCBs. All told, 15 to 20 percent of the site contained soils contaminated with hazardous materials.

In the late 1980s, a developer called New Waterbury, Inc., bought the site to develop an industrial park. Progress was stalled and eventually halted because of poor economic conditions and the extent of the contamination.

In addition to the environmental challenges, the site also faced troubling economic and demographic times in Waterbury—Connecticut's fourth-largest city. In 1992, the crime rate was double the state average. The median household income was $37,900, or only 77 percent of the state average, and nearly 10 percent of families, double the state average, lived below the poverty line. The city had lost many jobs. While 1963 saw some 20,300 employees working in 261 manufacturing firms, by 1987 the number of employees had plunged to 11,400. Retail growth also had dropped 13 percent, from 820 retail companies with a payroll in 1963 to 713 companies in 1987.

On the other hand, powerful factors argued in favor of redevelopment. The site offered convenient highway access and good visibility suitable for a regional shopping mall. There also was not much other land available. Land prices in central Waterbury for assembled parcels exceeding ten acres with negligible contamination were $7 to $10 a square foot. In reality, however, few parcels were clean, and many had "negative value" because of liens or other encumbrances or because cleanup expenses were perceived to exceed market value.

In 1992, the nonprofit Naugatuck Valley Development Corporation (NVDC) began planning for development of downtown Waterbury and, in particular, the Scovill site. For starters, NVDC spearheaded the site's entry into USRAP, then a pilot program, and this action established NVDC as a conduit for state remediation funding. NVDC Executive Director Jeffrey Cugno kept all parties at the table and was a steadying influence when new faces came and went. Along with legal counsel and city representatives, NVDC also helped solidify the city's support through tax increment financing (TIF) and indemnification for the developer.

The Remediation Process: Charting the Costs

Encouraged by this activity, Homart Development Corporation obtained the Brass Mill site for a shopping mall in 1993. Homart had invested about $10 million in the project when GGP acquired the firm and its portfolio in 1995. GGP's strategy was to build the project and hold it for the long term for its own portfolio or for that of its associated real estate investment trust (REIT).

From the beginning, GGP's guiding principle was to avoid liability for prior contamination. In addition, prospective tenants wanted no deed restrictions on the property. GGP's project director therefore insisted on a full cleanup that would meet tough "residential" standards. The requirement for cleanup to residential standards substantially increased the cost, which prompted the state to take an aggressive role in financing the project. When the DEP approved the remediation plan in April 1994, the expected remediation cost was about $20 million. Additional funds were needed to improve surface infrastructure and clean up the Mad River, which runs through most of the site along its northern boundary. The river had been draining other properties upstream for years and its sediment had accumulated contaminated materials.

GGP's concerns about liability required the creation of BCL to conduct the actual on-site remediation. The bulk of remediation remaining took about two years. DEP signed off on completion of remediation in June 1996, and a covenant not to sue (CNTS) was issued the same week. EPA then issued a "comfort letter," a nonbinding statement suggesting, but not guaranteeing, that the agency would not require further remediation.

Remediation expenses from the point Homart/GGP got involved, including the partial remediation conducted by Century Brass, totaled $22 million, excluding soft costs; that total included $10 million to remove substantial amounts of asbestos and lead paint from the buildings before demolition. In addition to the $22 million, another $7 million was required to demolish the rolling mill and related outbuildings and to haul away debris. Ninety-five percent of the waste material, or 86,500 cubic yards, was deposited in a city landfill, which saved money by reducing transportation costs; only 675 cubic yards containing PCBs had to be shipped out of state. GGP put $350,000 in escrow to help cover the expense of closing the landfill. Another $3 million was needed to remediate subsurface soil and about $800,000 to handle the PCBs. The balance was alloted to deal with the river sediment. The $22 million total cost of remediation worked out to $5.81 per square foot, or about 10.5 percent of total project costs. When weighed against the project's benefits, this additional cost more than justified the role of government subsidies.

Financing

GGP put substantial money at risk to finance the retail center internally. By the time the remediation plan was approved in 1994, the developer already had spent $10 million, including consultants' fees and testing. By the time the construction loan was in place, GGP's costs had ballooned to more than $50 million, including part of the construction costs and site improvements. Remediation and infrastructure, however, were largely paid for with public money. Brass Mills received funds from the federal government, four state agencies, and the city of Waterbury. Subsidies exceeded $40 million, or 22 percent of total project costs.

The federal contribution included $4.8 million for asbestos abatement. The state's DEP helped the developers acquire the funds, which were funneled through NVDC. (This federal program has been phased out.) In addition, the U.S. Department of Defense (DoD) provided nearly $5 million to remediate two munition plants that Scovill operated during World Wars I and II.

The state financed a total of $31 million for environmental remediation and related site improvements with Connecticut Development Authority bonds. The state's DECD provided $22.9 million, DEP kicked in $7.6 million, and another state agency $500,000. Thus, a total of $35.8 million was channeled through NVDC. The state department of transportation also provided GGP with up to $2 million in an allowance for major state highway and local road improvements. The city of Waterbury provided $7.2 million financed through TIF from future property tax revenues from the project. Adding to its high-wire risk, GGP had to deliver a shopping center by the agreed-upon date or reimburse the state for $31 million.

In late 1996, the project obtained a construction loan from a consortium of banks led by Wells Fargo. Terms included a loan-to-value ratio of 0.7 , a principal amount of $117 million, and an interest rate of 10 percent. The deal was structured to minimize GGP's liability. The closing occurred in June 1996, just after site remediation was completed. At the beginning of the project, when the remediation plan was approved, GGP had assigned its option on the property to the remediation entity BCL. Two years later, BCL exercised the option and bought the property from New Waterbury, Inc. After BCL stepped into the chain of title, it resold the property to GGP the same day, helping to maintain GGP's prime directive of avoiding liability.

The main protection for GGP was the city's indemnification of GGP—and other present or future owners—from environmental liability for 30 years through BCL, which will be kept alive solely for that purpose. The city's contingent liability is capped at 50 percent of its TIF revenues. Environmental insurance was never seriously considered to reduce liability. And although the CNTS from the state was an added bonus, it was not an important factor in deciding to proceed with the deal as it was not known to be available at the beginning of the development process.

The Rewards

The payoff for GGP appears to be substantial. The net operating income is expected to be $17.5 million annually, providing an estimated 11 percent rate of return on the developer's $164 million in equity. Permanent financing could increase the return through leverage, and the return also could be increased when the project is fully leased because it will be of institutional investment quality. Moreover, it has no deed restrictions, and a CNTS from the state accompanies the property. The project's long-term rate of return, excluding the developer's fee, is expected to be about 11 percent, above the required break-even point.

State and local shares of project funding totaled $40.2 million, or 19 percent of the project's overall costs. According to estimates from DECD and NVDC, the direct fiscal return also is considerable. By the year 2000, Brass Mills should pay more than $3 million annually in personal and real property taxes. During the two-year construction period, Brass Mills generated 1,700 construction jobs that pumped $46 million in salaries into the local economy. Since then, Brass Mills has created 2,600 full- and part-time permanent retail sales and management positions.

Adjacent parcels are expected to benefit soon. The NVDC's Cugno forecasts that the area between Brass Mills and the Green, a park anchoring downtown Waterbury's compact retail district, will fill in with new retail and other commercial activity and that downtown will be reborn as an entertainment center. Under study in the downtown area are the restoration of the city's Georgian city hall and its 1909 landmark railroad station. NVDC also has a grant to study the renovation and revival of the 3,200-seat Palace Theater, the state's largest movie theater.

"The parcels available around Brass Mills have become some of the prime land in the state," says Cugno. Brass Mills also has eliminated blight on a major urban property adjacent to downtown Waterbury. Tailored for its setting by architects Arrowstreet Inc. of Somerville, Massachusetts, the project salvaged 15,000 square feet of historic buildings, including the 1876 smokestack that was the symbol for Scovill Brass. The old Scovill power plant will become a museum dedicated to another former Waterbury manufacturer, Timex watchmakers. A one-mile public greenway has been created along the Mad River.

The economic prospects for Brass Mills Mall appear to be excellent. The mall features four anchors: Filene's, JC Penney, Sears, and another yet to be announced, plus a 12-screen theater complex and about 150 other shops covering 330,000 square feet. All mall anchors and a large amount of the mall's in-line retail space were preleased. In addition to the regional mall, the project includes a 200,000-square-foot community shopping center featuring a Barnes & Noble bookstore, Office Max, a grocery store, and restaurants. Smaller stores in the regional mall pay rents of about $35 a square foot, triple net. Rents in the community shopping center range from $14 to $16 per square foot, triple net, meeting or exceeding industry standards. In short, the project's brownfield past appears not to have impaired its ability to market space to tenants.

Lessons Learned

Brass Mills proceeded at a time when Connecticut's brownfield program was evolving, so all parties needed to remain flexible to ensure success. The site's good access and visibility from an interstate and the large size of the assembled parcel played a part in attracting the developer. The next most important feature, from the developer's perspective, was indemnification from the city of Waterbury and the creation of BCL to conduct the remediation and absorb potential future environmental liability.

The fact that no deed restrictions were in place was significant; however, this condition was contingent on cleanup to residential standards, which increased site remediation costs to the point that a substantial subsidy was required. Still important, but of lesser concern, to the developer was DEP's role in negotiating the remediation plan early in the process and the "comfort letter" from EPA.

GGP's return already is above the break-even point, and the deal is expected to be a financial and operational home run. The state's investment of about $33 million has been justified by its potential fiscal, economic, and political benefits. "The mall has established a tremendous traffic pattern for the entire area," says Cugno. "Thousands of people who never came here are now getting used to coming to Waterbury. Now that the Scovill plant has been redeveloped, we believe other opportunities will arise."

Robert A. Simons is an associate professor of real estate and urban planning at the Levin College of Urban Affairs at Cleveland State University and author of *Turning Brownfields into Greenbacks: Developing and Financing Environmentally Contaminated Real Estate,* which was published last month by ULI. **Michael Leccese** is an editor at large for *Landscape Architecture,* published by the American Society of Landscape Architects, and a principal in Fountainhead Communications, Inc., in Boulder, Colorado. This article, a revised version of a case study appearing in *Turning Brownfields into Greenbacks,* was adapted for use in *Urban Land.*

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