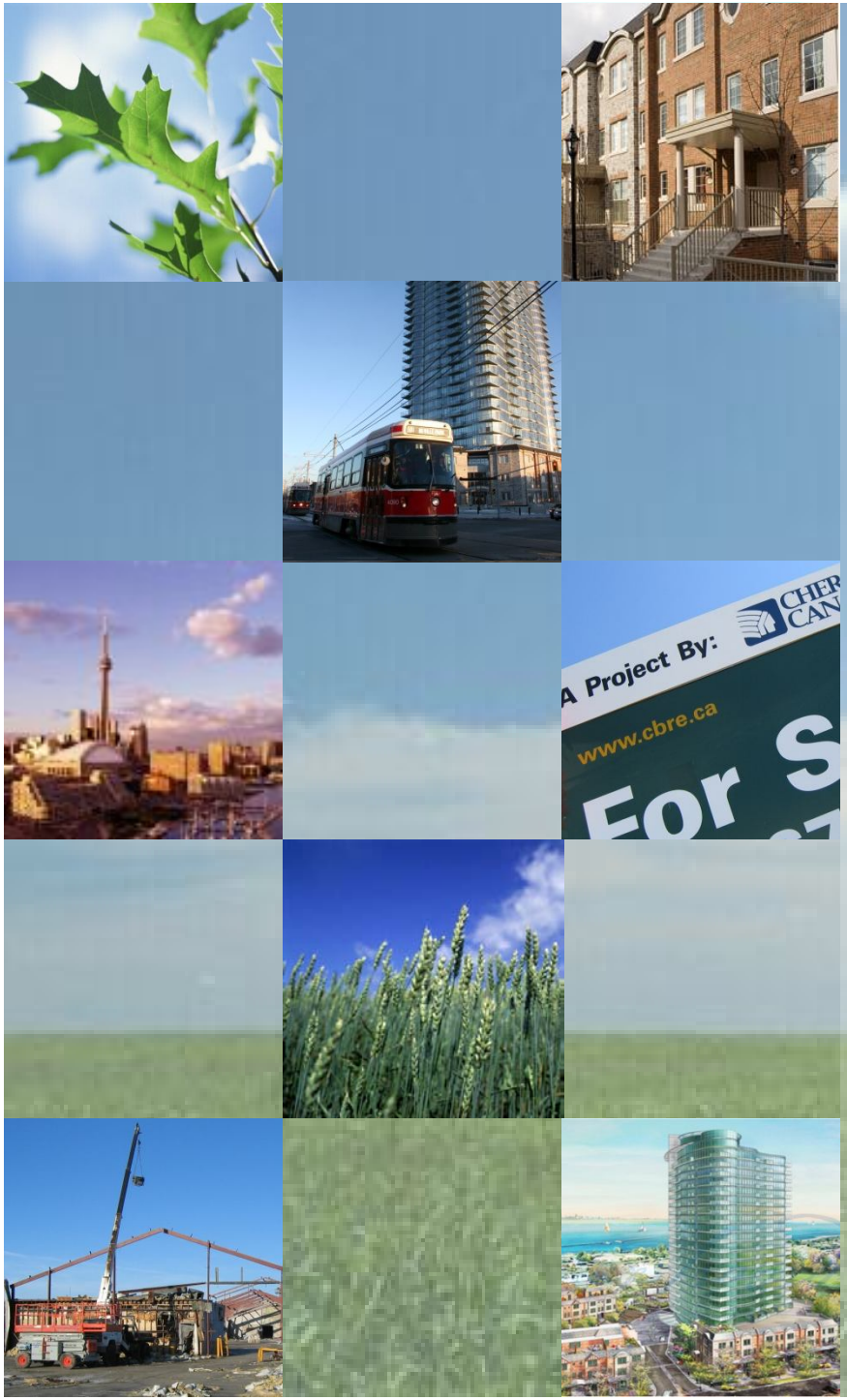

CCI Development Group of Companies

Making Great Places: Canadian Brownfields 2010

Investing in Great Places:

The Opportunity and Challenge of Infill Development

November 2, 2010

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Making Great Places: Canadian Brownfields 2010

- Introduction to CCI Development Group of Companies
- Summary of Edmonton Lands
- Brownfield Complexities and Challenges
  - The Acquisition Challenges
  - The Environmental Challenges
  - The Planning/Development Challenges
  - The Investment Risk Challenges
- Meaningful Policies/Incentives that Work
- Regulatory Policies that Hurt
- Conclusion

CCI Development Group of Companies

CCI Development Group of Companies

- CCI Development Group of Companies specializes in real estate development and investment activities in Canada.

- One of the key areas that CCI focuses on is the acquisition, remediation and sustainable redevelopment of brownfield properties – properties with real or perceived environmental contamination issues – in markets across Canada.

- CCI is 100% Canadian owned and controlled and has partnered with a number of investors, owners, developers, builders and brownfield firms including Cherokee Investment Partners LLC, Kimco Realty Corporation, North American Development Group and Sterling Centrecorp Inc.

CCI Development Group of Companies

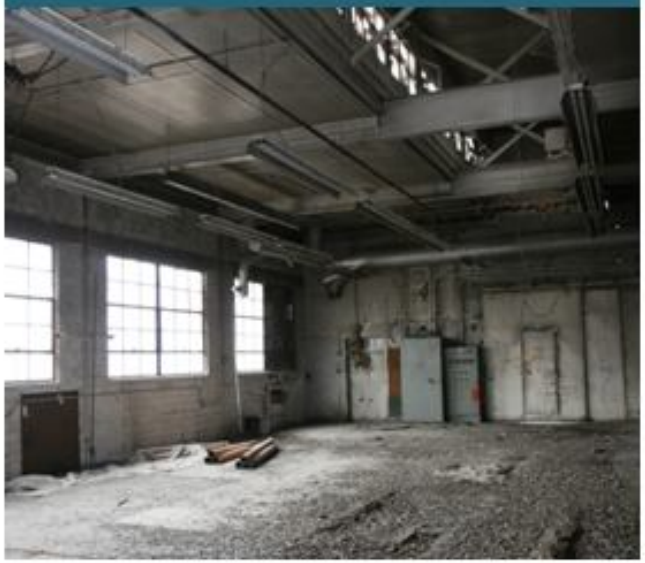
- CCI is currently involved in projects which have a total build-out value of in excess of $1.2Billion.

- Our projects range in size from 2 acres in south-east Calgary which involves the redevelopment of a legacy industrial site to 232 acres in Boisbriand Quebec where the redevelopment of a former GM Assembly Plant will result in the development of a 1.2 million square foot retail centre and an integrated mixed-use residential community of 1700 units

- The CCI Development Group of Companies includes CCI Acquisitions Ltd., Caltor Properties Limited, CCI Partners Inc. and all business and brownfield redevelopment activities that were carried out by Cherokee Canada Inc.

CCI DEVELOPMENT GROUP OF COMPANIES

Brownfield Acquisition and Redevelopment



- Acquisition and redevelopment of brownfield properties
- Directly and with joint venture partners

Brownfield Remediation

- Management of brownfield remediation projects
- For own properties as well as for third-party brownfield owners

Edmonton Redevelopment Project

EDMONTON REDEVELOPMENT PROJECT

- In order to best focus on today's discussion topic in the time available, I thought it appropriate to use, at a very high level, our latest project in the City of Edmonton as a real example.

- The properties which were acquired in March of this year total approximately 100 acres and are located within the City boundaries in NE Edmonton.

- The land was historically utilized by a Canadian public company in industrial use for preserving wood. The Plant was in operation from 1924-1987..... 23 years and counting with no productive use.

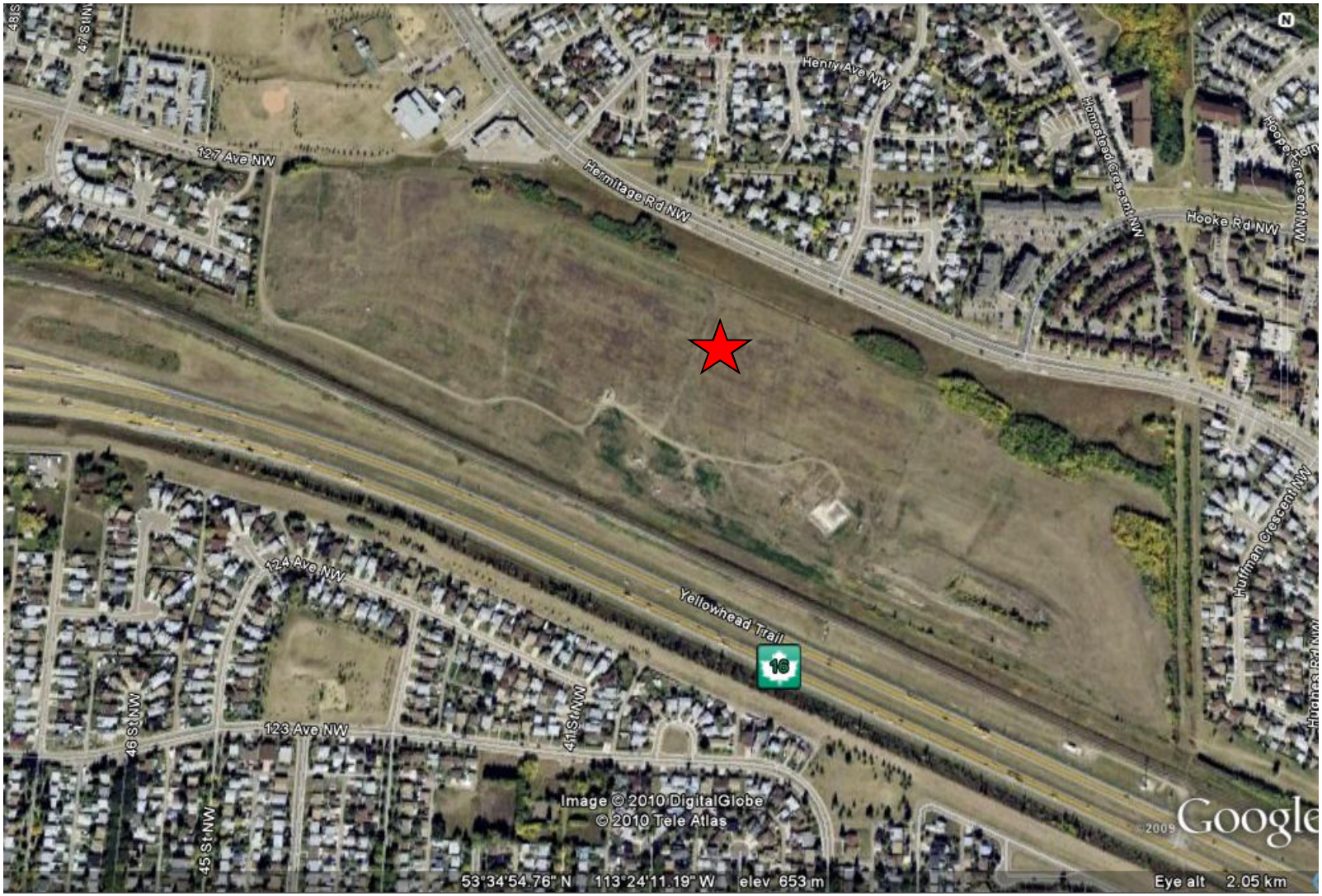
Edmonton Redevelopment Project

EDMONTON REDEVELOPMENT PROJECT

- The site is in an excellent location, in the middle of residential neighbourhoods which have grown up around it and in close proximity to existing schools, day-care facilities, shopping, public transit, parks and amenities. Services are to the lot line and with adequate capacity to allow many redevelopment uses. As a result it is a real infill site in much closer proximity (10 minutes) to downtown than many new greenfield sites.

- Our plan is to remediate and redevelop the property into a sustainable mixed-use residential community of up to 1800 units.

Edmonton Redevelopment Project



Edmonton Redevelopment Project

Edmonton Redevelopment Project

Brownfield Complexities and Challenges

In order to successfully execute a brownfield redevelopment, I have broken down the challenges into the following 4 categories:

- The Acquisition Challenges
- The Environmental Challenges
- The Planning/Redevelopment Challenges
- The Investment Risk Challenges

Brownfield Complexities and Challenges

ACQUISITION CHALLENGES

- In Edmonton our discussions with the vendor began in the summer of 2007. We entered into a purchase contract in June 2008. We closed the transaction in March, 2010!

- That time frame, which is unusually long even for us, should give you some idea as to the complexities and work involved in bringing vendor and purchaser together to agree on: a fair value for the property, the risks and costs associated with the investment, particularly on the environmental side; agreement as to risk transfer mechanisms, satisfactory land use planning, and redevelopment possibilities and acquisition financing. Added to these challenges in this case are two additional properties being acquired from two different owners.

- Suffice to say it takes time and money even with a motivated vendor involved. A tremendous amount of due diligence is required to get both parties to the transaction comfortable before a closing will occur. To the extent regulators at all levels can assist in creating this comfort level, particularly at the front end (i.e. prior to applications) they will become facilitators in causing Brownfield redevelopment to happen.

- From a financial perspective our biggest risk is at the front end of transactions. If public sector financial assistance could be provided at this stage, it would go a long way to increasing the velocity of Brownfield transactions.

Brownfield Complexities and Challenges

ENVIRONMENTAL CHALLENGES

- Most vendors are motivated to get out of the Environmental liability they own, with purchase price a secondary objective. So vendors focus on the purchaser's abilities to understand and execute an Environmental Remediation Program and how to protect themselves (through risk transfer mechanisms such as insurance products) from the transaction unwinding and the liability returning to them.

- In Edmonton this took a lot of give and take in order to mutually come to grips with the science, and involved many discussions with public agencies to confirm our collective thinking regarding the proposed Remedial Action Plan (RAP).

- If you cannot get consensus on the RAP, you cannot quantify cost and re-use and therefore proceed with the transaction.

- Since there are often remediation options, having regulators who are open-minded and flexible can be of great assistance in facilitating transactions.

CCI DEVELOPMENT GROUP OF COMPANIES

Brownfield Complexities and Challenges

Planning and Development Challenges

- These are really no different from Greenfield development issues except the Environmental Risk or perception of risk is layered on.

- The challenge is to develop a land use plan for re-use, which accounts for the environmental issues as well as the usual planning and development questions related to land use, density, traffic, etc.

- Infill Sites provide the best opportunities for intensification and sustainable redevelopment because existing infrastructure exists and is often underutilized.

- Just as important is the need to gauge political and community support, because environmentally impaired sites scare people as their perception of the facts is usually worse than reality.

- In Edmonton we have been fortunate to have acknowledged political and staff support for our thinking and we will be actively engaging the community early on in our land use planning program.

Brownfield Complexities and Challenges

Brownfield Complexities and Challenges

INVESTMENT RISK CHALLENGES

- All of the foregoing is very interesting but academic if you can't raise the capital.
- Investors have a checklist of needs before money is put on the table. They need to be satisfied with all of the above, i.e., the sale transaction makes sense, the environmental issues have been identified and the RAP makes sense and is priced; the land use plan can reasonably expect to be approved.
- All of this is viewed in the context of the prospects for the overall real estate market, the amount and time that their capital will be invested, and most important, the exit strategy …. How do they get their money back with a profit and what are the worst case scenarios? Uncertain answers to any of these questions kills deals.
- In Edmonton, in hindsight, we went to the investor market at the worst possible time (in the middle of the financial market meltdown in 2008). A bad coincidence, which again took a lot of understanding for all involved to allow our transaction to survive.
- The lesson here is patience. These projects take time and this needs to be understood by all involved.

Meaningful Policies/Incentives that Work

MEANINGFUL POLICIES/INCENTIVES

- Uncertainty KILLS! Whether it is time frames or lack of clarity regarding planning and environmental approvals. So anything public officials can do to provide certainty REALLY HELPS! For example, Edmonton identified a staff team to work with us exclusively so as to fast-track our efforts and to provide "one voice" for us to go to. In Ontario the use of CIP's is a positive attempt in this direction. Certain municipalities, e.g., Kitchener, take this a step further and have a dedicated Brownfield Co-ordinator.

- Financial Incentives also help but will rarely trump CERTAINTY in causing Brownfield redevelopment to happen. But TIFFS, Development Levy Credits, Property Tax abatement during the redevelopment period are all important, particularly the latter. In the case of Edmonton we will be creating in excess of one-half billion dollars of assessed property value, versus a non-productive field. Financially assisting us in the short term can be demonstrated to be a good investment for the City.

Meaningful Policies/Incentives that Work

Meaningful Policies/Incentives that Work

MEANINGFUL POLICIES/INCENTIVES

- Lastly, regulatory flexibility. That may sound like an oxymoron but it isn't. Environmental Science is not black or white. There are many ways to skin a cat and dealing with open minded regulators with a "get it done" attitude makes a tremendous difference. In my Edmonton example, Alberta Environment has been just that.

Regulatory Policies that Hurt

REGULATORY POLICIES THAT HURT

- Apart from the uncertainty point, any policy which will extend time frames or is entirely unpredictable with respect to time frames will kill a transaction. Time is Money. Money gets Brownfields Developed.

- Perception versus the Facts. Many legacy industrial sites have "bad raps" associated with them. Often the perception is fiction not fact. Everyone involved in the process needs to focus on the scientific facts and the options for meeting regulatory clean-up guidelines.

- In Edmonton, our vendor had spent significant monies remediating parts of the property since it closed and demolished the plant. This fact was not well known and surprised certain public agencies.

CONCLUSION

"*For every urban brownfield acre cleaned up 4.5 acres are preserved*" EPA, Sept 2001

Supporting Brownfield Redevelopment is good public policy.

We need public sector regulators to support us in ways that don't necessarily include money .....every step of the way.

Thank you.