Managing Contaminated Sites in Property Portfolios

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A Portfolio of Contaminated Real Estate Creates a Unique Set of Issues

- Operating vs. Non-Operating
- Primary/Secondary/Tertiary Markets
- Cleanup Cost Uncertainty
- Cleanup Responsibility & Indemnification
- Audit/SEC Community
- Toxic Tort Liability
- Local Land Use Reqs
- Sustainability Measurement
- Disparate Remedial Obligations: Federal, State, Local
- Financial Assurance/Insurance
- Community Relations/Public Perception

Potential Impacts:
- Balance Sheet Liabilities
- Loss of Income
- Waking of “sleeping dogs”
- Regulatory Non-Compliance
- Enforcement
- Shareholder Suits

The “Problem”
Solution: Proactive Management/Disposition of Liabilities

Risk Mapping by Property

Environmental Risk Map – Owned Facilities
## Portfolio Screening/Estimating (continued)

### Risk Scoring by Property: Bundling Strategy: “Like Kind” Assets or “Good with Bad” vs. “1 Offs”

<table>
<thead>
<tr>
<th>Properties</th>
<th>Owned Real Estate</th>
<th>Chemical Use</th>
<th>Manufacturing and Assembly Ops</th>
<th>Operating Permits</th>
<th>Geographic Implications</th>
<th>Known Environmental Liability</th>
<th>Weighted Average Score</th>
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### Legend
- Hi Risk
- Medium Risk
- Low Risk

### Key Risk Driver
“What-if” scenarios can help evaluate risk beyond the current state
Using the “Portfolio Effect” to Reduce Uncertainty & Range of Environmental Risks

Statistical simulations (Monte Carlo) can be used to assist deal team to fine tune liability estimate boundaries to properly risk-price the deal.

Comparison of Total Remediation Costs: Point Estimates to Monte Carlo Analysis

- Point estimates for total remediation range from $62MM to $67MM.
- Applying the inputs for remediation in a Monte Carlo analysis indicates this range accounts for only 10.6% of the probability.

Expected Value: $70,458,490
Liabilities: Cash Flow Considerations Can Drive Deal

Project King - Approximate 30-Year Cash Flow

- EH&S Compliance Over Baseline
- Potential CAPEX and NOVs
- Potential Subsurface Investigation
- Known Subsurface Remediation
Risk Management Tools

• **Insurance Coverages**
  - Known Risks (???)
  - PLL (Unknowns, Reopeners, BI/PD, NODS, DIV, Business Interruption, etc.)
  - Portfolio Effect

• **Indemnities**
  - Buyer or Seller (Insurable?)
  - Capped Time or $$ Limit

• **GFPR/Aligned Interest Contracts**
Solution: Potential for Value Enhancement at each Phase of Asset Lifecycle

**Buyer's Due Diligence**
- Define/Quantify Environmental Risk
- Support Opportunity Spotting
- Assure Environmental Risk Avoidance

**Seller's Due Diligence**
- Optimize Exit Value - Prepare Assets/Portfolio for Exit
- Assure Environmental Risk Avoidance

**Pre & Post Acquisition Integration**
- Define Value Creation Opportunity
- Integrate Environmental Risk into Business Strategy 100-Days Plan

**Environmental Cleanup**
- Execute Cleanup and Prioritize Environmental Management
- Establish Remedial Schedules
- Materially Improve Remedial and Compliance Efficiency
Questions?

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Thank you