Fresh Coast Urban Forest Fund

About Fresh Coast Capital

Fresh Coast Capital is an impact investment firm committed to revitalizing post-industrial communities around the “fresh coast” of the Great Lakes through innovative investment solutions. The Fresh Coast Urban Forest Fund is the latest offering in Fresh Coast's portfolio of funds.

The Brownfields Problem

According to the EPA definition, brownfields are abandoned, idled or underused properties whose redevelopment is encumbered by real or perceived contamination. Brownfields sites range from single parcel properties that housed former gas stations and dry cleaners to large-scale decommissioned factories and other industrial facilities. Brownfields have a significant negative impact on their surrounding communities, including:

- Health and environmental risks of contaminated soil and groundwater
- Lost tax revenues for local government
- Police, fire and other public services needed to respond to vandalism, dumping and other safety issues
- Negative psychological effects on the local community related to living around blighted/vacant properties

The GAO estimates that there are as many as 425,000 brownfields throughout the U.S, while other estimates reach as high as 1,000,000. Some estimates show that there are 5 million acres of abandoned industrial sites in our nation's cities - roughly the same amount of land occupied by 60 of our largest cities.

Though brownfields are found across the country, they are heavily concentrated in the post-industrial “rust belt” of the United States, stretching from Northern Wisconsin to Western New York in states along the Great Lakes. Once the industrial heartland of America due to easy shipping access, the rust belt has seen economic decline as a result of automation, globalization, the decline of the steel and coal industries, and subsequent population migration to the south and west.

Impediments to Redevelopment of Brownfields

- Lack of necessary funding for cleanup
- Concerns over liability
- The need for environmental assessments of the properties
- Uncertainty over cleanup standards
- Unfavorable neighborhood and market conditions
- Reluctance to invest in distressed communities due to concerns with urban socio-economic conditions

Brownfields in the most desirable locations (i.e., downtown urban centers in stable real estate markets) with profitable development potential are more likely to overcome the environmental risks, find funding, and see the project through to completion. However, pieces of land with no clear development potential, particularly in highly economically depressed cities such as Gary, IN and Flint, MI, have much more limited opportunities to clean up their most challenging brownfield sites.

Phytoremediation - a Primer

In a natural environment, vegetative and woody biomass like grasses and trees provide ecosystem services. These services range from reducing runoff of chemicals into fragile aquatic ecosystems, maintaining a healthy hydrological system through roots' capacity to break up soil clods, returning nutrients to the soil, sequestering carbon, providing habitat for fauna, and preventing erosion and nutrient-rich topsoil displacement from wind or water. Additionally, in the case of brownfields, the natural systems of a specially optimized biomass crop can be used by environmental engineers or foresters to remediate aspects of the ecosystem and help restore it to its pre-contaminant state. Certain types of biomass, including grasses, shrubs, and trees, tend to be the first to repopulate an ecosystem following a drastic event such as fire in the natural world or the release of a major contaminant or effluent. Similarly, other types of biomass are well suited to remove contaminants from the soil. Environmental remediation companies, foresters, and environmental engineers have studied phytoremediation with grasses and trees for land and wetland remediation projects and many federal programs are supportive of this, particularly when sensitive water supplies or fisheries are of concern. The Great Lakes Region can and has applied many of these principles to protect its watersheds and environmentally sensitive lands.

THE FRESH COAST SOLUTION

Brownfields with no expected opportunity for cleanup and redevelopment are the ideal candidates for the Fresh Coast Urban Forest Fund, a fund that will lease low-cost contaminated land from municipalities to plant hybrid poplar tree farms. Hybrid poplars are notable for their abilities to simultaneously remediate land through phytoremediation while also producing a harvestable product. Hybrid poplars can be processed into biomass for renewable energy purposes in as soon as five years or as a sustainable and local source of wood for local businesses and manufacturers in as quickly as 10 years. Poplars can clean soil and groundwater from contaminants such as petroleum hydrocarbons, chlorinated solvents, metals, pesticides, explosives and excessive nutrients. They also prevent soil erosion and sequester carbon on the site.
Target Market and Investment Criteria

Fresh Coast Farms will target brownfield properties in some of the most economically challenged, post-industrial regions of the Midwest and Great Lakes region. Specifically we will initially target properties that meet the following criteria:

- Vacant properties with limited site preparation requirements (i.e., basic debris removal)
- Preferably city-owned to leverage municipal support and government grants
- Phase 1 environmental assessment has been conducted identifying potential or existing contamination- these are typically low cost (<$2,000) and often subsidized by the city

Gary, IN will be the initial area of focus. Gary is an ideal candidate for a number of reasons; the City of Gary owns 6,800 parcels of vacant land, which are scattered across the city. Scattered plots make it difficult to attract large-scale development, but are ideal for a tree farm, which does not require contiguous tracts of land. The City has expressed strong interest in the project.

Opportunities for scale over time will come from:

- Expanding to municipalities across the Great Lakes
- Leveraging government grants and investment dollars to move into sites requiring more significant site preparation (e.g., building demolition)
- Contracting with industry to establish Fresh Coast tree farms to naturally remediate privately owned brownfields, expanding revenue opportunities beyond tree harvest (i.e., charging the company a remediation fee whereas municipalities effectively receive the remediation for free)

Case Study: Elkhart Poplar Farm

A brownfield site in Elkhart, IN is being transformed from vacant property into a profitable tree farm and nursery. The 3.5 acre lot was previously a railroad roundhouse and has been vacant for 50 years; the soil is not suitable for residential use or food agriculture. 6,531 trees were planted in May 2011, with a potential for 69,000 trees from new nursery cuttings- enough to create a scalable industry and seed 95 acres of additional property. Elkhart County alone currently imports 20 million panels of wood annually, many from as far as Europe.

Social and economic impact: Besides eliminating a public eyesore, the tree farm provides a local and sustainable source of wood for local manufacturers. This reduces transportation costs and related carbon emissions.

Environmental Impact: The phytoremediation capabilities of the trees can clean the soil such that the property could one day be eligible for residential development opportunities. (source: Delta Institute)

Investment Opportunity

The benefits of investing in timber are well established in the marketplace. While a long-term and relatively illiquid investment, as part of a diversified portfolio timber can provide an attractive hedge against inflation and low correlation with other asset classes. The returns generated from the Fresh Coast Urban Forest Fund would be in line with other planted forestry returns in the northern United States generating an expected IRR of 6% - 8%.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Closed-end private equity structure with 10-year life and 5-year option to extend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>1% management fee and 10% performance fee</td>
</tr>
<tr>
<td>Size</td>
<td>$5 million</td>
</tr>
<tr>
<td>Exposed acreage</td>
<td>5,000 acres</td>
</tr>
<tr>
<td>Target IRR</td>
<td>6%-8%</td>
</tr>
</tbody>
</table>

Target Investors

Given the small size of the initial fund, target investors will be high net worth individuals. Future funds that leverage the scale of contracts with private industry will reach a size that will be amenable to institutional investors that have minimum investment requirements.

Additional Social Impact Opportunities

In addition to the social impacts detailed above, urban tree farms offer the opportunity to work with local non-profits to provide at-risk youth and underemployed or hard-to-employ adults with the opportunity to gain forestry and farming skills. In the initial community of Gary, IN, potential partner organizations include Gary Youth Services Bureau and the Boys & Girls Club of Northwest Indiana. Such partners would need to provide existing infrastructure for employment programs and could seek grant funding to enhance their capacity to deliver these services.

Risk Management

Fresh Coast differs from many existing Timberland Investment Management Organizations (TIMOs) in that the fund does not intend to purchase the land, but rather will engage in long-term lease agreements with landowners. In this way, along with other legal precautionary measures, the fund is able to mitigate the potential for substantial environmental liabilities that would accompany the ownership of the brownfield sites on which Fresh Coast operates. Other risks of the investment are similar to those for typical timber investments, namely geography, weather, and timber price uncertainty.

Fund Structure