

# ENVIRONMENTAL DUE DILIGENCE UPDATE: **STRATEGIC RESPONSES TO COVID-19**

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*COVID-19 has changed the way the environmental due diligence industry does business—in some cases temporarily, but in others, perhaps permanently. This article outlines some of the important changes, with an outlook for the future.*

In response to the pandemic, many companies quickly transitioned employees to working from home and took safety precautions like wearing masks and physical distancing. Some companies also laid off staff.

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“Current activity levels and market forecasts justify **CAUTIOUS OPTIMISM**”

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However, the resilience and tenacity of environmental consultants should not be overlooked. There are multiple indications the industry has fared better than others, and current activity levels and market forecasts justify cautious optimism.

## **Industry Survey Results**

To assess the state of the market, ERIS and EDR/LightBox conducted a survey between Jan. 11 and Jan. 19 that examined the industry's continued response to pandemic as well as what trends to expect as vaccine distribution ramps up.

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“There are multiple indications the industry has **FARED BETTER THAN OTHERS**”

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## **REAL ESTATE MARKET FORECAST**

*Despite continued market uncertainty, some asset classes remain strong. There are emerging trends that consultants should have on their radar.*

Dianne Crocker, Principal Analyst for EDR/LightBox, presented her market forecast at the [Environmental Bankers Association Virtual Winter Conference](#) on Jan. 25.

While commercial real estate transactional volume took a hit due to COVID-19-related shutdowns, she noted that historic low interest rates and refinance activity helped lessen the impact on the market and industry.

### **Some Important CRE Activity Highlights:**

- **ADAPTIVE REUSE.** There has been a sharp rise in adaptive reuse projects, especially to repurpose old obsolete retail property for data storage, warehouses, etc. This trend is expected to accelerate.
- **BROWNFIELDS REDEVELOPMENT.** Low interest rates have provided opportunities for investment in brownfields and other redevelopment projects.
- **DISTRESSED ASSETS.** Distressed assets activity is likely to hit in Q2 (April, May, June timeframe) and will work its way into 2022. There is a lot of investment capital waiting in the wings.
- **INDUSTRIAL.** COVID-19 cemented industrial as the “most favored asset class.” The pandemic intensified our reliance on E-commerce. Demand is up, especially for infill warehouse space around urban centers (like in Denver, Dallas, Houston, Las Vegas, and Phoenix). There also is increased demand for cold storage, including grocery storage and COVID-19 vaccine storage.
- **MULTIFAMILY.** Lending volume increased in Q3 of 2020 as the industry adjusted to new market conditions. The nationwide housing shortage and a strong demand for space contributed to an increased appetite for multifamily lending, especially in Phoenix and growing metropolitan areas in the South and Southeast.

Survey respondents include 240 customers of national environmental data providers, representing 43 states and a variety of firm types and sizes. This survey updated several aspects of an [industry survey](#) the parties conducted in May/June 2020. These recent results were presented at the [Environmental Bankers Association's Virtual Winter Conference](#) on January 25 by Alan Agadoni (General Manager, LightBox), Scott Davis (Senior Vice President, Operations, ERIS) and Carol Le Noury (President, ERIS).

### Encouraging Signs: Fewer Layoffs, More Hiring

While a full market recovery will not happen until the public health crisis is under control, there are some encouraging signs. In the May 2020 survey, nearly one-quarter of respondents reported temporarily laying off full-time employees because of COVID-19. Another 17% permanently laid off full-time employees and 12% laid off part-time or contract employees. Now in January 2021, 42% of survey respondents said that they are currently hiring for new positions and 57% reported no changes in staffing.

“ 42% of survey respondents said that they are **CURRENTLY HIRING FOR NEW POSITIONS** ”

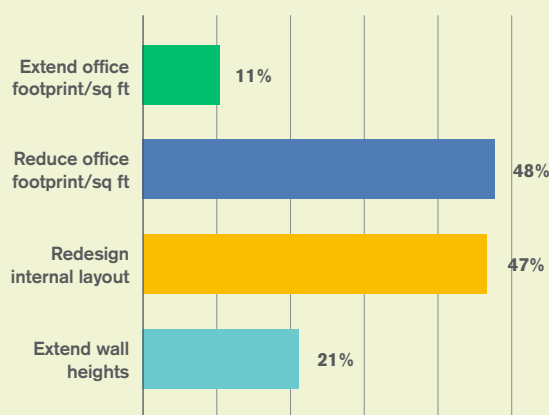
### Changes in Office Usage

As to physical office space, almost one-third of respondents reported their in-office capacity at less than 25%, with 14% fully remote, and 13% at full capacity. Half (51%) of firms considering a return to the office will take a hybrid approach, with some time spent on-site and the rest spent working from home. Another 34% said they will not mandate a return to the office.

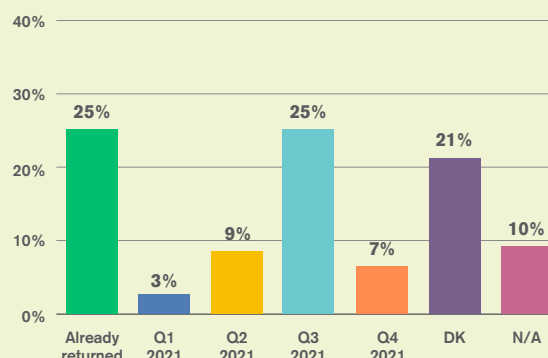
While 25% of respondents indicated that employees have already returned to the office, most don't expect a full-time return until at least the second half of the year, or they aren't sure when employees can safely return. There are a lot of variables to consider, including vaccine distribution and whether and when more federal aid is coming. In the meantime, companies are prepping for a safe return, continuing many of the practices adopted during COVID-19 and reconfiguring spaces.

“ Companies are prepping for a **SAFE RETURN**, continuing many of the practices adopted during COVID-19 ”

### Changes to office space firms are implementing or planning to implement

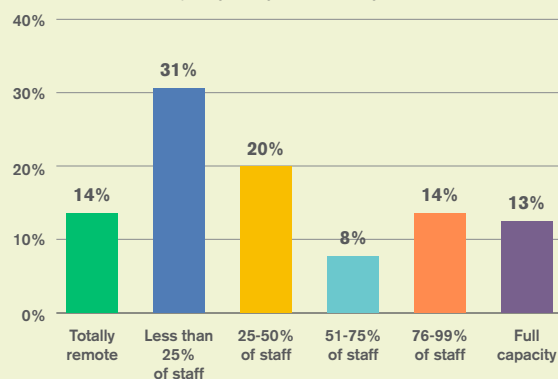


### What is your best guess on when the majority of your company's employees will return to the office?



### What % of your company employee base is in the office on an average day this week?

*In-office capacity today (versus early March 2020)*



## Safer Work Practices

Many of the safer work practices adopted in response to COVID-19 will remain in place indefinitely. For example, almost all (97%) respondents plan to continue mask use and physical distancing. Nearly three-quarters (71%) said they will maintain virtual technology options that allow employees to work remotely. Almost half of the respondents (43%) continue to use on-site contacts to lead site visits rather than sending their staff members and one-quarter (23%) are using drones to assist with physical inspections.

Some companies are reevaluating how they use their office space and how much space they even need:

- 48% of firms surveyed plan to reduce their office space footprint,
- 47% said they will redesign their internal layout,
- 21% will install barriers to allow for physical distancing, and
- 11% will expand their office footprint.

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“ 71% said they will **MAINTAIN VIRTUAL TECHNOLOGY OPTIONS** that allow employees to work remotely ”

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## Changing Urban Centers

These numbers are indicative of what is happening countrywide, with continued speculation that the footprint of our cities and urban centers will transform as workspaces are reconfigured and “right sized” to meet current and future needs.

As for work-related travel and site visits, survey responses indicate that most companies are leaving this to the employees' discretion, although some companies have said that they will follow CDC guidance related to travel. About a third of respondents are allowing work travel subject to approval, with client and site visits taking priority over attending live events, as 24% percent still have company-wide bans in place for conference-related travel.

## Vaccine and Testing Requirements

Whether companies should require their employees to be vaccinated is a controversial question. The survey

responses indicated that many companies will follow CDC and local health guidelines and strongly encourage vaccinations rather than require them.

Testing might be something else that comes into the office environment, as well. To keep people safe, before holding large events, companies will consider how to ensure that attendees are COVID-free, perhaps with a vaccination or testing requirement.

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“ Companies will have to **TREAD CAREFULLY** on these (COVID-related) issues ”

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## Evolving Legal Issues

Companies will have to tread carefully on these issues because of the uncertainty surrounding potential company liability if employees contract COVID-19 at the workplace. This is a novel and evolving legal area and employers need to measure the risks and benefits of returning to the office, protocols for testing, and how to navigate the creation of any corporate policies that would mandate vaccines before allowing return to work. Keeping employees safe is paramount, and while company approaches may vary, worker safety will remain a top priority.

## Conclusions

The turbulence of 2020 forced numerous social and economic changes, but throughout the chaos the environmental due diligence industry has demonstrated resilience.

Although trends indicate that companies are resuming a more normal pace of business – with many in hiring mode and preparing for a safe return to work – much uncertainty remains as the pandemic and economic conditions evolve. In the end, full market and industry recovery depend on vaccine distribution, specifically on how quickly the vaccines are rolled out and their efficacy.

Even with herd immunity and resuming “normal” business activities, it seems likely that the industry will not see a complete return to pre-pandemic work policies. As such, environmental professionals will continue to develop innovative approaches to meet ever-changing customer needs and market demands.

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