

SILVER LININGS OF COVID-19

FOR THE ENVIRONMENTAL CONSULTING INDUSTRY:

Resiliency, Efficiency, and Innovation

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The world continues to navigate the uncertainty surrounding COVID-19 and what the “new normal” means for our personal and professional lives. The devastating financial impacts of the pandemic are widespread and one of the hardest hit sectors of the economy has been the commercial real estate market.

In response to the pandemic, states quickly issued Executive Orders limiting activities back in March. The nationwide shutdowns and stay at home orders across the United States were unprecedented in scope and left many businesses either unable to operate or figuring out how to operate differently. In a shut-down domino effect, many real estate transactions were halted. The CRE market and environmental due diligence activity saw steep declines throughout April, May, and even into June in many regions.

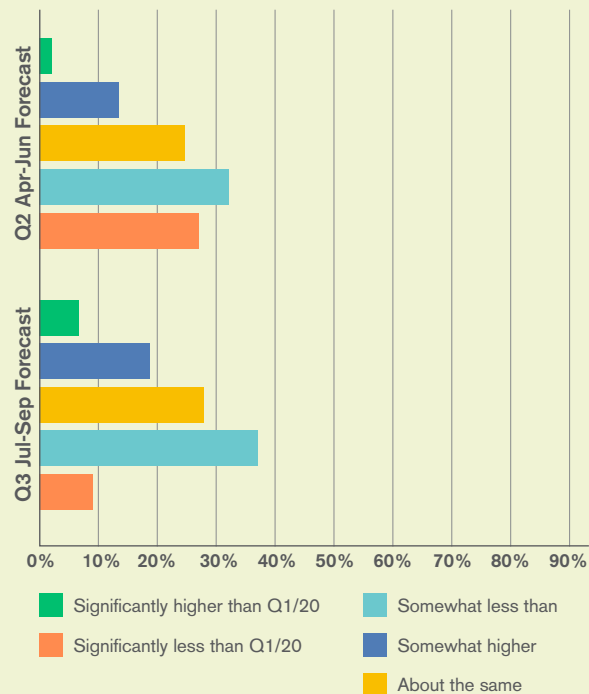
Environmental Consultants Seeing Major Impacts: Survey

At the Environmental Bankers Association’s virtual summer meeting last month, results of an [industry survey](#) conducted by ERIS, GeoSearch and LightBox confirmed COVID-19 had a significant impact on environmental due diligence and transaction activity.

With so many unknowns about the virus itself, the timing of a vaccine, and uncertainty about additional federal stimulus support for businesses and individuals, there is continued trepidation in the CRE market. The forecasts for economic recovery run the gamut, with differing outlooks contingent on various factors including property asset types, geographic locations, and local virus activity. In states where cases have suddenly risen again, there have been rollbacks of the reopening of businesses.



Compared to the first quarter of 2020 (January - March), what are your revenue expectations for the next two quarters: Q2 April-June and Q3 July-September?



	Q2 Apr-Jun	Q3 Jul-Sep
	%	%
Significantly HIGHER	_2	_7
Somewhat HIGHER	14	19
About the Same	25	28
Somewhat LESS	32	37
Significantly LESS	27	_9
AVERAGE SCORE	2.32	2.77

Despite the uncertainty, there are signs that the economy is slowly beginning to recover. In fact, conversations with industry consultants throughout the country indicate that transactions are resuming. Many deals that had stalled due to COVID-19 are starting to move forward, which is in line with what the EBA survey results predicted.

In response to a question about what kinds of projects would recover first, the group predicted the resumption of the following CRE activities:

- Re-initiation of deals that were stalled by the pandemic.
- Refinancing of existing deals.
- Distressed assets by opportunistic investors.
- Investment by capitalized buyers.
- Bank foreclosures.

Many deals that had stalled due to COVID-19 are **STARTING TO MOVE FORWARD**.

SILVER LINING 1:

Resiliency of the Environmental Consulting Industry

Facing crises, the CRE industry has proven time and time again it can rebound. In particular, environmental consultants have shown tremendous resiliency and tenacity during the pandemic, which bodes well for the industry's long-term forecast despite the setbacks of COVID-19.

In the face of the pandemic, the environmental consulting industry had to quickly pivot to a new working environment. With many commercial buildings and workspaces closed, the industry shifted to working remotely. This required new day-to-day work routines from an office/operations perspective, as well as for practices in the field that required beefed up or new safety protocols and creative workarounds for properties that could not be physically accessed. The environmental due diligence process itself, from data collection to onsite visits, had components that proved to be challenging, and savvy environmental consultants had to get creative. Some examples of the industry's resiliency are described below.

Quick Implementation of Safety Protocols. Once COVID-19 hit, companies had to quickly implement new safety protocols, with rules for masks, gloves, and social distancing both onsite and in the field. These new protocols were not only a huge change for the workplace, but overall, for us as humans and a culture.

Limitations to on-site visits became the norm during COVID-19, in some instances because the buildings were closed, in others, facility managers did not want the risk of having people on site. There have been continued

limitations on inspections for certain kinds of buildings, such as hospitals and medical offices, not only to protect employees but also out of caution for not wanting to spread the virus to sensitive populations and environments.

Shifting to Virtual Inspections. Because of these on-site limitations, and continued company restrictions on travel, some consultants have started conducting "virtual" inspections of properties. Using FaceTime or Zoom capabilities, consultants have been able to conduct internal inspections of buildings virtually, with the assistance of a facilities manager walking them through and recording the video. In some cases, drones have been used to examine the outside conditions of buildings. The trend of using remote technologies is likely to continue.

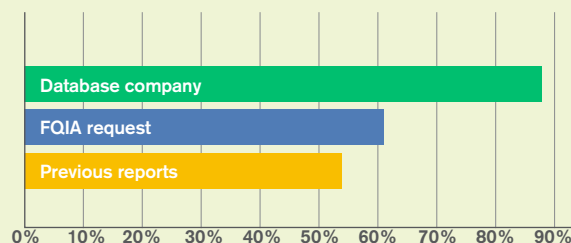
Creative Ways to Access Data. The "atypical" work environment created by COVID-19 also meant consultants needed to be creative with accessing data that is routinely gathered during due diligence. With many municipalities and records offices closed, and file reviews suspended, consultants had to rely more heavily on database companies, using FOIA requests, conducting additional research using google searches to find old records, and even asking landlords and property owners to fill in missing information. The EBA survey indicated that in some instances, regulators were willing to discuss information about properties.

CONSULTANTS NEEDED TO BE CREATIVE

with accessing data that is routinely gathered during due diligence.

Since the closure of libraries and government agencies as the result of COVID-19, how are you obtaining property records?

Answered: 552 Skipped: 10



ANSWER CHOICES	RESPONSES	
Database company	87.68%	484
FOIA request	60.87%	336
Previous reports	54.17%	299

TOTAL RESPONDENTS: 552

SILVER LINING 2:

Efficiencies, Innovations and Long-Term Business Shifts

Digital is Key, and King. In speaking with environmental consultants throughout the country, not surprisingly, a common theme emerged – the trend of going digital. Ranging from the digitization of data, to data and information management, to process management, everyone agreed that using and taking advantage of various digital tools became essential during the pandemic. Universally, the shift to digital was applauded as a tremendous work efficiency benefitting individual workers, companies, and the industry as a whole.

In speaking with environmental consultants throughout the country... **A COMMON THEME EMERGED – THE TREND OF GOING DIGITAL.**

Overall, technology is being utilized more effectively in many aspects of consulting work. With new workflow models, tech acceleration is at an all-time high, with environmental consultants moving to new platforms and using mobile apps, including the late adopters of new technology who were forced to evolve during the pandemic. It is predicted that vendors in this space will continue to find success.

Working from Home. New technology capabilities also have created new efficiencies for people working from home. For many, working remotely has been more efficient than coming into the office. Off-site access to servers, full connectivity, and video conferencing have made this possible, even for HR, accounting, and marketing departments that traditionally have not been able to operate remotely. Although many of these technological capabilities existed prior to the pandemic, they were not being optimized until COVID-19. Working remotely is now firmly embedded as part of our culture.

Strengthening the Business, Teams. For some consultants, a slowdown in the market provided an opportunity to review internal processes and build stronger businesses for when a more normal pace of activity returns. Some companies focused on developing new methods for remote collaboration to help fill the void of in-person meetings and discussions. Zoom meetings and happy hours are part of the new norm for many.

It has also been a great time for learning and training. Some companies have used this period to cross train their staff. Workers have volunteered for virtual/video

For some consultants, a slowdown in the market provided

AN OPPORTUNITY TO REVIEW INTERNAL PROCESSES AND BUILD STRONGER BUSINESSES.

training to enable them to take on new tasks if their specific areas were slow. This has allowed companies to effectively redirect resources where needed.

Expenses are Down. Many companies are saving money. Due to COVID-19 restrictions, expenses are down as consultants are spending less on travel related to site visits, seeing clients, and attending conferences. It is also possible that some companies soon will be saving money on office space, as many are looking to reduce their office footprint as they realized the efficiencies of a remote working environment.

In person conferences have been replaced with virtual seminars, webinars, and lunch and learns. In addition to cost savings for organizers and attendees, virtual events have proven to be effective and efficient. By eliminating travel expenses and making these free events available remotely or on demand, companies can reach more people than ever before while simultaneously making the programs feel personal for clients.

In person conferences have been replaced with **VIRTUAL SEMINARS, WEBINARS, AND LUNCH AND LEARNS.**

Better Quality of Life for People and Planet. Not to be overlooked, is the silver lining of COVID-19 that ironically has resulted in a better quality of life for many people and the planet. On a micro level, the elimination of a commute has given people more personal time. Although the workday may be getting longer for some, many workers now have more flexibility and are afforded an easier opportunity to take a break or a walk. The new remote work environment is also forcing people to become more self-organized.

On a macro level, we have seen the economic slowing and elimination of mass commuting benefit the environment. The decrease in pollution is well documented across the world, with a renewed awakening of the natural environment around us.



SILVER LINING 3: CRE Market Trends and Opportunities

As noted previously, consultants are beginning to see an uptick in activity. Although no asset classes were immune from the impacts of COVID-19, it is anticipated that industrial properties, less impacted by COVID-19, will bounce back and enjoy a strong recovery, whereas retail and hospitality will continue to struggle. Some consultants have seen continued demand for converting industrial to multifamily in urban areas, driven by young professionals who want to live in city centers. In fact, with construction deemed essential in many areas, due diligence work for urban multifamily and apartments never really slowed down.

With people staying at home, and online and traditional retailers broadening their networks to more internal markets, consultants are seeing increasing opportunities in the demand for warehouse distribution and logistics centers. Even prior to COVID-19, this was a hot market and will remain a huge growth area for CRE going forward.

It is anticipated that industrial properties... will **BOUNCE BACK AND ENJOY A STRONG RECOVERY**, whereas retail and hospitality will continue to struggle.

Private Equity, Commercial Development. An uptick in foreclosures has provided a lane for private equity investments. In fact, private equity and commercial development have not slowed down during the pandemic the same way other markets have. And although foreclosures are happening, an increase in private equity deals has probably staved additional bankruptcies and foreclosures and evened out the impact of the foreclosures we are seeing. Opportunistic investors also are buying up undeveloped land that is construction ready.

An uptick in foreclosures has provided a lane for **PRIVATE EQUITY INVESTMENTS**.

The stronger commercial development companies also are taking advantage of diminished market value and realizing these opportunities that they otherwise would have probably walked away from.

Office Space Retrofitting, CRE Repositioning. Major shifts in office space needs will also provide opportunities. Companies that continue remote working might decrease their office space footprint or give up space all together.

As most companies are in long-term leases, the impact from this might not be seen immediately. However, when it hits, there is the potential for an increase in vacancy rates or foreclosures on these properties, and at the same time, a push to convert office to commercial/warehouse space.

Companies with returning workforces, on the other hand, will be looking to retrofit buildings (i.e., tech for elevators, new HVAC systems) to accommodate people coming back to work. The spaces themselves also will look different, with more places to plug in, fewer conferences rooms, but with more space to keep workers distanced from one another.

Some of the better capitalized CRE owners are being proactive and looking at how assets might be repositioned. For example, for retail space, owners looking at how they can help tenants add drive through and pickup lanes or make modifications to grocery stores to better position tenants for success going forward.

Other property owners are looking to reposition. For example, some consultants are working with owners of malls (pension fund type clients) where store anchors are closing, to determine whether the large structures should be knocked down and converted to mixed use residential and high end retail, with bar restaurant type amenities to make it more of a small community within that area. This conversion trend in the retail space existed prior to COVID-19 and is likely to accelerate.

SILVER LINING 4: Return to Work Opportunities and Innovations

For those consultants involved with the industrial hygiene aspects of the business and as tenants/workers prep for rec occupancy of their spaces, there will be a need for return to work safety plans and continued demand for the deep cleaning of buildings.

Some consultants are working with owners of malls... **TO DETERMINE WHETHER THE LARGE STRUCTURES SHOULD BE KNOCKED DOWN AND CONVERTED.**

Return to work scenarios are also fostering innovation in this area. Companies are beginning to use calendar functions for contact tracing. By putting everyone's work shifts into the calendar, if an employee tests positive, they can see who else was working and contact them. Mapping and GPS is also being used in new ways including for checking cleaning efficacy as commercial properties reopen. GPS-based mobile apps are being used to collect data from field audits, allowing companies to track which sites have been cleaned, collect swabs,

and correlate field audit data with data for workers testing positive. This is being done quickly and remotely, allowing companies to respond effectively.

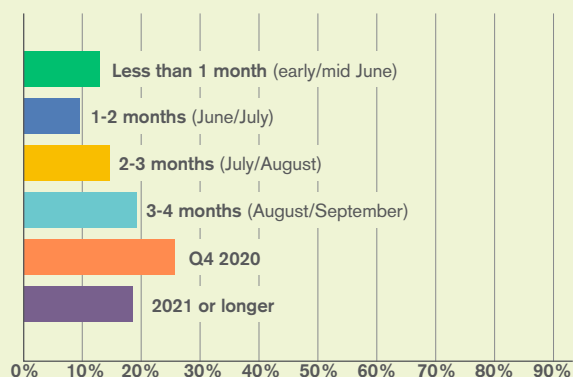
THE ULTIMATE SILVER LINING:

Overall Real Estate Forecast

The EBA survey indicated that most respondents surveyed in late May/early June anticipate a full recovery will take between 6-12 months.

How long do you think it will take until your firm's Phase I ESA activity returns to its pre-pandemic levels?

Answered: 537 Skipped: 25



ANSWER CHOICES	RESPONSES	
Less than 1 month (early/mid June)	13.04%	70
1-2 months (June/July)	9.50%	51
2-3 months (July/August)	14.34%	77
3-4 months (August/September)	18.99%	102
Q4 2020	25.51%	137
2021 or longer	18.62%	100
TOTAL RESPONDENTS: 537		

Speaking at the EBA conference, Dianne Crocker, a principal analyst at LightBox (a co-sponsor of the EBA survey), highlighted reasons for optimism. In comparing the current economic crisis to the Great Financial Crisis, she noted key changes resulting from the GFC have put the industry in a much stronger position for recovery this time around. For example, lenders have been more conservative, learning lessons from the past and making them less vulnerable; there was a quick implementation of a robust federal stimulus package; and there is a lot of capital on the sidelines that should help shorten the cycle.

"Property fundamentals were good going in, and they will be good going out." There is also a lot of "pent up energy and demand" to get transactions going again, she added.

In fact, the [Urban Land Institute's](#) recent *Real Estate Economic Forecast*, predicts the "current economic recession will be short-lived, with above-average gross domestic product (GDP) growth in 2021 and 2022." The report also indicated that although real estate transaction volume will fall to \$275 billion in 2020 (more than 50 percent lower than the 2019 level of \$588 billion), it said "forecast transaction volumes over the next three years (\$1.175 trillion) show a much healthier capital market environment than that seen during the constrained GFC era (\$408 billion in transaction volume from 2008 to 2010)." This is great news for both the CRE market and the environmental consulting industry. A silver lining, indeed.

ULI's *Real Estate Economic Forecast*, predicts the **"CURRENT ECONOMIC RECESSION WILL BE SHORT-LIVED"**.

Conclusion

COVID-19 is an inflection point in history for our industry and our society. It has already changed the way people are working, interacting, and conducting their day-to-day lives. The pandemic has forced industry efficiencies, innovations, and highlighted resiliencies. So, although COVID-19 has been and continues to be a time of great hardship and challenge in many ways, it also has promoted positive change. These positive outcomes are the silver linings that have made the industry stronger and better positioned for the future. 🌈

Source Notes:

Between June 25 and July 9, Tina Cressia-Thomas, a content developer for ERIS, conducted in-depth interviews with 7 key environmental due diligence professionals across the United States. Professionals interviewed include: Craig Durand, TTI Environmental; Derek Ezovski, ORMS; Rylan Farr, Apex Companies, LLC; Kristin Heimburger, TTI Environmental; Mark A. Johnson, Geosyntec Consultants; Bob Lambdin, AKT Peerless; Matthew Otto, Apex Companies, LLC. We sincerely appreciate their time and significant contribution of experience and knowledge to this article. The findings, along with insights gleaned from the joint survey of over 550 environmental due diligence consultants conducted in late May/early June for the EBA Virtual Summer Conference, produced the themes and conclusions drawn in this article.

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