

# ENVIRONMENTAL BUSINESS JOURNAL®

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Executive Review & EBJ Awards

Environmental Business International Inc.

## THE 2011 EBJ BUSINESS ACHIEVEMENT AWARDS

Environmental Business Journal is proud to announce its 14th annual business achievement awards. Our 2011 winners succeeded in a still uncertain business climate, so we salute the dedication and commitment of the companies awarded. Congratulations to the winners, thanks to all the companies that submitted nominations, and we hope to see you in San Diego for the official awards ceremony at the Environmental Industry Summit on March 14-16, 2012.

### Business Achievement

#### BUSINESS ACHIEVEMENT: SMALL FIRMS (less than \$20 million)

**GOLD MEDAL: Environmental Operating Solutions, Inc.** (EOSi; Bourne, MA), for revenue growth of approximately 130% to about \$10 million during 2011. EOSi is a developer of nutrient removal products for municipal and industrial wastewater treatment facilities. The products are derived from non-hazardous agricultural chemicals that supply energy for denitrifying bacteria in wastewater, thereby saving costs compared with traditional nutrient removal technologies. EOSi attributes its stunning growth in 2011 in part to regulatory requirements—rules requiring controls on nutrient discharges in National Pollution Discharge Elimination System (NPDES) permits are beginning to take effect—as well as to the value proposition of the technology and the high productivity of EOSi's staff of 13 professionals, which has remained constant throughout this high-growth period. A recent investment by **Cultivian Ventures LP** (Carmel, IN), a food and agriculture venture capital fund, is expected to enable a broadening and deepening of strategic raw material

supplier and logistic relationships with the agricultural sector, thereby stabilizing the supply chain for its products. EOSi will also explore the addition of other nutrient removal technologies and will be looking to buy, license, or form partnerships in the nutrient removal business.

**SILVER MEDAL: Mabbett & Associates, Inc.** (Bedford, MA), for achieving 62% growth in gross revenue during 2011 to nearly \$8.5 million, 315% revenue growth over the past five years, and, through that five-year period, growth in the number of veterans employed by the firm from less than 7.5% to almost 40% of its professional technical staff. Mabbett & Associates is a U.S. Department of Veterans Affairs, verified Service-Disabled Veteran-Owned Small Business, that has provided integrated multi-disciplinary environmental, health, and safety, and sustainable energy consulting and engineering services for over 30 years. According to Mabbett, the growth over the past five years is sustainable based in part on several factors: the continued implementation of a multi-faceted marketing and business development program; the award of multi-year major contracts from the U.S. Environmental Protection Agency (EPA), the General Services Administration (GSA), the Army Corps of Engineers, and other federal clients; extension of its service

reach through continued geographic expansion; enhanced proven relationships; and the initial development and continued strengthening of an excellent performance record with federal agencies, private clients, and project partners. Some existing clients have worked with Mabbett since the firm's inception in 1980.

**BRONZE MEDAL: EcoAnalysts, Inc.** (Moscow, ID), for increasing revenue from \$3.8 million in 2010 to \$5.5 million in 2011, an increase of 45% for the second year in a row. EcoAnalysts is an aquatic monitoring and ecological consulting company that claims to operate North America's largest taxonomy laboratory. The company was ranked at number 36 on *Inc.* magazine's 2011 list of the fastest growing environmental firms, and at number 2,402 overall. Since 2009, EcoAnalysts has seen its revenue increase by 121%. 2011 net profit margin increased to 18% from 16% in 2010. The revenue increase in 2011 was driven largely by an increase in taxonomy laboratory output and the addition of project management services for the U.S. Environmental Protection Agency and the National Oceanic and Atmospheric Administration. With the addition of a director of Canadian business development in Vancouver, British Columbia, revenue from Canadian operations has expanded by 15% over the past year.

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ergy supply, we will see an erosion of environmental controls under the pretext that preserving our environment costs jobs. The United States has great potential to reduce its dependence on foreign energy, and we should be moving forward with developing our internal resources.

I am a big advocate of renewable energy, but I'm realistic on the limitations associated with that source. We need an energy policy focused on developing new petroleum-based energy here at home while being cognizant that every source of energy comes with a price. There will be environmental and social impacts associated with developing our resources, but we can and must do much to mitigate and manage the risk.

I have little tolerance for those who refuse to look at the whole picture and point to only the potential environmental impact or, conversely, only the economic benefits of domestic energy development. There must be a comprehensive policy and a compromising approach among the competing factions, if we are to have a sustainable future. The debate must be multifaceted, and policy decisions must consider the environment, the economics of affordable energy, and the national security achieved by energy independence.

**EBJ: What motivates you most in your work and how does that translate down to your employees and colleagues?**

E.V.W.: I enjoy the competitive business environment and the privilege of working with an extremely talented staff. I do challenge the team to be problem solvers and encourage innovative and entrepreneurial thinking. I've got an open-door policy, and every day I hear from employees across the company with their ideas. This translates both up and down: they push me to do more, too. When I look at our five, ten and twenty year service plaques, I feel good that we have provided many people with successful careers stewarding the environment. ■

## EDR'S CROCKER SEES DRAMATIC CHANGES IN RISK AWARENESS FOR PROPERTY DUE DILIGENCE

*Founded in 1990 by a team of environmental professionals, Environmental Data Resources, Inc. (EDR; Milford, CT) is a provider of data and services related to environmental risk and property due diligence to environmental consulting firms, commercial real estate lenders, corporations, law firms, insurance companies, government agencies, and real estate professionals. A past EBJ Business Achievement Award winner, EDR claims to maintain the world's largest and most accurate database of environmental and historical land use records. The firm delivers reports, maps, directories, and other value-added services to all entities engaged in the transfer of property with potential environmental liability. Recently, the firm established a new group, called EDR Insight, and designated EDR veteran Dianne Crocker to serve as the new group's principal analyst.*

**EBJ: Tell us about the new EDR Insight group. What is the primary focus of its research?**

**Dianne Crocker:** EDR Insight is the analytical research arm within EDR, responsible for conducting objective research on the forces driving environmental assessments and analyzing how best practices for environmental risk management are evolving. We keep close watch not just on where property assessment activity is happening geographically, but also on how the market's risk tolerance is changing.

Our research agenda in 2012 will focus on three key areas: modeling the commercial property assessment market, creating intelligence to help environmental due diligence professionals meet their top technical and business challenges, and conducting research to advance environmental risk management by commercial real estate lenders.

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*Investors and lenders are more averse to buying into properties with some degree of environmental risk.*

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**EBJ: What trends have you seen in property due diligence during the economic downturn?**

**D.C.:** There are several trends to point out. First, the downturn really pushed risk managers to center stage. Individuals re-

sponsible for managing any kind of risk play a much more important role within their organizations than they did back in the market heyday of 2005-2006. In terms of environmental due diligence, there was kind of a "check the box" mentality back when deals were happening very quickly. Now, there is much less of an appetite for risk, and due diligence is generally more robust.

It is also important to note the precipitous drop in property values since 2008, which has had a fundamental impact on how property due diligence is conducted. If you are considering investing in a commercial property today, you can no longer assume that your property will be worth more down the road. You can no longer go into a deal on the assumption that you'll be able to sell it down the road for a profit. Consequently, anything, including property contamination, which has the potential to adversely impact property value, is that much more important today than it was five years ago when underwriting was more lax.

Investors, lenders, and other stakeholders are paying more attention to environmental issues that might have been overlooked before. They are having more in-depth environmental investigations conducted upfront and are generally more averse to buying into properties with some degree of environmental risk.

Third, and most important, there's been a pronounced shift in drivers for environmental site assessments. When the com-

mercial real estate market was healthy in 2005 and 2006, environmental consultants were helping to support lenders lending on properties and buyers buying them. Now, as a result of the real estate downturn, the drivers have shifted away from loan originations and property investment toward work to support foreclosures, loan workouts, forced sales of distressed assets, and refinancing. New market opportunities have also emerged as the result of stimulus funding.

This shift in demand drivers has been the most significant change that environmental due diligence consultants have seen. Many consultants are serving a much different client base today than they were just a few years ago.

**EBJ:** How has the market downturn changed environmental due diligence firms?

**D.C.:** It's changed them both internally and externally. Internally, the downturn forced firms to focus on efficiency and streamlining the way that they conduct environmental due diligence. Unfortunately, early in the downturn, this meant layoffs for many of our client firms.

At this point, our survey data of environmental firms suggests that the worst is behind us. The results of our third-quarter 2011 survey shows that 18% of environmental consultants work at firms that are hiring staff again. This is significant considering that, just a few years ago, no one was hiring, so that's been a positive development.

Second, there is now a great deal of pressure on due diligence firms to perform site assessments quickly and efficiently, which has forced many consulting firms to turn a critical eye toward their internal processes to make sure they are cost- and time-efficient.

Externally, in any market that's growing at a healthy rate with plenty of work to go around, firms aren't as focused on business development as they are in a tight market. The downturn has challenged firms to be more strategic in targeting specific opportunities and marketing their services, whereas in the past, this was much less critical. Identifying new drivers has been

especially important in this market as new opportunities emerge and others lose strength. It becomes that much more important for firms to position themselves in the right place at the right time now—and to have an eye on the horizon for what the next big thing might be.

I should mention here that there's a new opportunity coming out of hydraulic fracturing. We're hearing from our clients that the technological advances that make it possible for energy firms to have access to new gas resources have set off a rash of activity to grab leases on wells and to secure permits to drill. This is starting to drive strong demand for environmental assessments as assets like wells change hands, and to establish a baseline of environmental conditions up front in the event there's a challenge down the road.

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*“Real estate lenders and investors ... are much more aware of environmental risk than ever before—and because of market factors, less tolerant of risk than they possibly ever have been.”*

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**EBJ:** How have commercial real estate lenders and investors been reacting to the recent changes in the market climate?

**D.C.:** EDR serves the property risk information needs of thousands of commercial real estate lenders and investors who are much more aware of environmental risk than ever before—and because of market factors, less tolerant of risk than they possibly ever have been. Lenders are under a great deal of pressure from regulators to be proactive about managing their risks. Also noteworthy is that, in a downturn like this one where foreclosures are a given going forward, the likelihood of a bank becoming an unwilling owner of a property is that much greater. As a result, the due diligence banks are conducting prior to extending a loan tends to be more extensive because of that likelihood.

We routinely survey environmental due

diligence consultants, and one question we ask is, have your commercial real estate lender clients tightened their environmental due diligence standards? The results of the 3Q survey we conducted in October showed a significant up tick in banks' aversion to risk. This is due to the setbacks the market saw last summer, including disappointing job growth data, Standard & Poor's downgrading of the U.S. debt rating, the debt battle in Congress, and the financial crisis in Europe. There's a much different mentality in the market now than there was back at the beginning of 2011. Banks and investors are much more wary, and our survey data reflects that.

**EBJ:** What technological changes have shaped how property due diligence is conducted?

**D.C.:** For one thing, there's been an enormous proliferation of data on property environmental risk. The number of records that government agencies maintain on properties across the U.S. is so much greater than just a few years ago.

This, combined with technological developments, allow scrutiny of a property's environmental risk to happen quickly in ways not possible 5, 10, or 20 years ago. This scrutiny allows more types of environmental due diligence to be conducted before properties transact than ever before. For consultants, advances like the emergence of hand-held devices in the field, digital photography, and report writing platforms allow them to collect, interpret, analyze, and share assessment data in a form that clients can quickly review and act on. Consultants today can populate reports with field data and government environmental records at the push of a button. Turnaround times have decreased dramatically at a time when many clients want their environmental site assessments in very short order.

**EBJ:** What are the most challenging business issues that environmental due diligence consultants face today?

**D.C.:** Obviously, they need to keep up with these advances in technology and be as efficient as possible. A second challenge is finding new markets for their services. One thing we've all learned with the

downturn is just how quickly things can take a turn for the worse. Some markets that came into being as a result of the stimulus funding, for example, are now starting to wind down. That creates a challenge for consultants who benefited from federal dollars to identify other markets for their services to fill that gap.

And then there are pricing pressures. The Phase I environmental site assessment market was always price competitive, but the downturn has really brought this to a head. Clients want more environmental risk information, and they want it faster and at a discount. This kind of haggling mentality can be seen in virtually every sector of the economy right now. I really feel for consultants, because it makes for some pretty stiff competition and is forcing firms to make tough choices about how low they're willing to go.

**EBJ: What technical issues are impacting property due diligence?**

**D.C.:** One of the biggest technical issues consultants face today is that of vapor intrusion. Traditionally, the focus of their work was on assessing soil and groundwater contamination, and now they are also being asked to address vapor intrusion, involving the migration of contamination through the subsurface into overlying buildings and other structures. An underground plume of contamination from a nearby gas station or dry cleaner can migrate onto a property, create a vapor intrusion issue, and have adverse health impact on a building's occupants.

Assessing a property's risk of vapor intrusion relies on much of the same data yet requires more professional expertise. For instance, consultants have to think more about whether conduits exist that would allow contamination to migrate into a building on the target property. There have been a growing number of lawsuits, usually filed by tenants, alleging health impacts from vapor intrusion. Because of this, Phase I assessments on properties that might have been determined to be clean a few years ago are starting to raise red flags. Vapor intrusion is particularly challenging because it requires consultants to do more in terms of delivering technical expertise at a time when they're running up against the

pricing pressures I mentioned previously.

**EBJ: How has the approach that commercial real estate lenders use to measure a property's environmental risk changed over time?**

**D.C.:** To add to the point I made about the likelihood that lenders will become unwilling owners given the higher likelihood of foreclosure today, the sophistication that banks have in terms of managing environmental risk has increased. For example, in the past, when a bank was deciding how much due diligence was appropriate, the loan size was generally the determining factor. The larger the loan, the more scrutiny. If the property involved a small loan, a bank would typically be more likely to take its chances on a property and have little to no due diligence conducted.

Today, lenders are much more likely to make environmental due diligence decisions based on a property's past use than the size of the loan. Was it a gas station, a dry cleaner, or an industrial facility? This speaks to an awareness on the part of banks that something like a leaking underground storage tank on a property that is being used as collateral can create problems the same way it would at a larger, more expensive property. This evolution is one of the most significant changes I've seen in how lenders look at property risk.

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*"Lenders, buyers, and other stakeholders will be turning over a lot of rocks, and it's not always going to be pretty."*

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**EBJ: Do energy efficiency audits have a role in property assessments today?**

**D.C.:** Certainly. And it's a growing role. Odd as it may sound, the recession may be the best thing that could've happened to push green building issues to the forefront. It's really driven operating-cost issues to the surface, and energy is a significant line item for a building owner.

Regulatory drivers for energy efficiency audits at commercial properties are emerging as governments get energy disclosure

laws on the books. Many of these require owners to have energy audits conducted and then report the results to the local government. New York City, for example, has a very aggressive program.

The Institute for Market Transformation in Washington, D.C. looked at metropolitan areas that have these types of energy disclosure rules, and they estimated that 60,000 buildings across the country are being affected. Assuming these rules are enforced, that will be a very strong driver for property assessments. Owners are also having energy audits conducted for the economic benefits of making energy efficiency improvements to a property in terms of lower operating costs, higher tenant retention and higher resale value. This trend is taking root slowly, but it is happening.

**EBJ: What do the growing number of defaults on property loans mean through the lens of environmental risk?**

**D.C.:** Loan maturities will be a major driver for environmental due diligence over the next few years. There is an estimated \$1.7 trillion in commercial real estate debt that's coming due before 2015, and 16% of those properties are already underwater. The volume of capital for refinancing these properties is expected to fall far short of what this volume of debt requires, which will trigger possibly the biggest transfer of assets that any of us have seen in our lifetimes.

So as the market moves into the peak period for loan maturities, it's going to add up to a great deal of scrutiny as these properties change hands.

A follow-on point: Bear in mind that many of these maturing loans were originated in 2005 and 2006, when underwriting was much less stringent. This means lenders, buyers, and other stakeholders will be turning over a lot of rocks, and it's not always going to be pretty. There are already cases where banks were burned by environmental issues on defaults that they weren't even aware of at the point of origination.

One positive outcome of this transfer of real estate assets is that as properties change hands, it will bring capital into "zombie" properties that may not have seen much

investment lately and fell into disrepair. There may have been poor waste management practices, leading to incidents like spills on some of these sites. As investors shop around to purchase distressed assets at a discount, they're looking to make improvements in these types of properties and holding off on selling them until the market improves.

**EBJ: Where are you projecting growth in the environmental due diligence market in 2012?**

**D.C.:** I think most of the growth over the near term will come from the loan maturities I mentioned, whether it's banks unloading huge portfolios of troubled loans, foreclosure-related due diligence, or owners that are being forced to sell. In terms of traditional property investment, due diligence activity will be concentrated in the larger metropolitan areas where investors see more potential. Here, I'm talking about areas like New York City, Boston, Washington, D.C., and Los Angeles, where EDR is already seeing above-average growth in demand for Phase I environmental site assessments (ESAs).

The opportunities will also be in the distressed-asset hot spots, such as Phoenix, Las Vegas, and Miami, with the highest volumes of outstanding debt in the country. In terms of property type, there will be more due diligence on multi-family properties, mainly because home ownership is on the decline. Investors and lenders are showing more willingness to do deals on multi-family properties simply because they're perceived as a less risky investment than, say, a retail property or an office building.

When I talk about the forecast for the Phase I ESA market, I often tell consultants to forget about 2006, which was an anomaly market in terms of the high volume of transactions and lending. The market is crawling its way back to 2003 or 2004.

Given the \$1.7 trillion in loan maturities that I mentioned, and the shortage of capital available for refinancing it, we could well see a major re-evaluation of property values. As a result, anyone, particularly environmental due diligence professionals,

who can inform the process of estimating a property's value will have an extremely important role to play, just as appraisers do.

**EBJ: What do you see environmental due diligence firms doing to maintain their edge in today's competitive market?**

**D.C.:** I've seen some very impressive and innovative strategic moves by some of our environmental consultant clients. The firms that I would characterize as "best-in-class" are strategically focused in four key areas: 1) doing everything they can to improve efficiency and deliver reports quickly; 2) investing in the latest technology, which goes hand in hand with efficiency; 3) doing everything they can, including the use of new social media channels, to get their names in front of prospective clients; and 4) giving clients a reason to use them over the competition.

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The best firms out there don't take anything for granted. They could lose a project or a client or even a whole market overnight, so it forces them to stay on top of their game. Many of the strategies being employed by the fastest-growing firms speak to educating clients about the value of environmental due diligence and improving customer service. This means getting in really deep with their clients, making sure the emphasis is on the quality of their technical expertise rather than price, and being available to clients 24/7. Some firms are even doing client surveys to proactively determine if they are meeting clients' needs as well as they can.

I guess there's a fifth one: The smart firms are also diversifying so they're not caught off-guard if a once-robust market dries up.

**EBJ: Anything else to add in terms of changes you have seen on the property**

**due diligence front?**

**D.C.:** I think the most prevalent change that is starting to surface is on the residential side. Everything we've been talking about so far has been about due diligence on commercial properties, but the residential sector is starting to come up the learning curve about environmental risk. This is partly due to the growing number of lawsuits in which homebuyers sued residential brokerage firms for not telling them about contamination on a property prior to purchase. The internet and the media are also powerful forces driving awareness. Movies like *A Civil Action* and *Erin Brockovich* play a role in making people sensitive to the impact that soil or groundwater contamination can have on neighborhoods.

Just as it's commonplace to have appraisals and home inspections done, I expect we'll see more attention paid to hidden environmental issues like an underground oil tank or contamination on an adjoining property that could impact a home's occupants.

In closing, there's more attention being paid to property environmental risk in both the commercial and residential real estate sectors today, driven both by market forces and by technological improvements that allow data to be disseminated more efficiently than in the past. This is good for protecting public health, for shielding lenders from collateral devaluation, and for protecting property purchasers in terms of their return on investment. The hope is, as the market improves, that awareness about the importance of due diligence remains strong, and risk management doesn't get shoved to the back burner. ■

## Environmental Industry Summit X

March 14-16, 2012 at the Hotel Del Coronado near San Diego

The 2011 EBJ Business Achievement Awards will be presented at an awards banquet at Environmental Industry Summit X in Coronado, near San Diego, California, on the evening of March 14, 2012