

PARTNER ENGINEERING AND SCIENCE EVOLVES ALONG WITH EQUITY MARKETS

Partner Engineering and Science Inc. (Partner) is a full-service environmental, engineering and energy consulting and design firm, completing projects nationwide. Drawing on 90 years of experience and with a staff of close to 600, Partner provides a multi-disciplinary approach to helping clients manage risk and optimize profits at all stages of real estate transactions, development or management. Elizabeth Krol is a Professional Geologist (P.G.) and serves as a National Client Manager with Partner specializing in environmental and engineering due diligence of commercial real estate (CRE).

EBJ: How has business been in general the past couple of years?

Elizabeth Krol: The past few years have been a period of tremendous expansion and growth for Partner. Through a number of strategic acquisitions we have expanded our already significant consulting resources around the country to include land surveying, energy consulting, land development, facilities engineering (MEP design) and health & safety consulting. We've continued to strengthen our specialized equity team, and are growing our international footprint with new locations in Canada and the United Kingdom.

EBJ: Now that the 'Great Recession' is technically over in the U.S., how did the early crisis points and the subsequent economic slowdown affect your business?

Krol: The early crisis points and the subsequent economic slowdown had an immediate impact on our business, as I provide comprehensive due diligence services to those who own, operate or invest in commercial real estate around the country. The challenges posed to my clients, such as difficulty finding appropriately priced quality assets for acquisition, and viable buyers for their divestitures, resulted in fewer due diligence assignments. Conversely, the downturn – and the resulting regulatory tightening – really emphasized the need for better risk management practices. We saw an uptick in demand for our services as smart commercial real estate

owners, investors and lenders paid closer attention to physical risks associated with an asset. In addition to this, the growing focus on both energy efficiency and overall increased asset management to maximize profits kept my team very busy providing energy auditing and compliance support services to our clients. We successfully navigated those uncertain early years together.

EBJ: What sectors did you see demand for environmental services change most in during the recession and then the past couple years?

Krol: The transition to value-oriented investments was reflected in an increased need for energy efficiency and compliance services, and most importantly, in the increased focus on providing any and all services to clients as cost-effectively as possible. During the earliest years of the recovery, we also saw an increased need for desktop reviews and updated Phase I Environmental Site Assessments (Phase I ESAs) to aid with refinancing.

EBJ: What signs of recovery, have you observed in 2014-2015?

Krol: Certainly, signs of recovery in the past two years have included both increased opportunities, as well as a general improvement in the overall outlook our clients have about CRE markets. An example would be the return of manufacturing in Massachusetts, and the incredible transformation of the Seaport District in

Boston. The number of cranes that have returned to the skyline during the past few years has been awe-inspiring.

EBJ: Has the lingering malaise in the global economy had any impact on you or your client base?

Krol: Boston and New England have been quite resilient during the Great Recession and the long recovery; however, many local firms have investments throughout the US and the world, which necessitated caution in those markets. I'm seeing mergers and acquisitions driven by impacts of the lingering malaise. In the due diligence industry too, we're seeing a trend of consolidation. This is driven by a massive shift among our clients towards bigger, more established due diligence firms that have the resources, financial stability and national footprint to withstand increased regulatory scrutiny, and can deliver more comprehensive expertise and solutions. Thankfully, Partner is well-placed to deliver on this and we have seen the demand for our services continue to climb throughout 2015. Growth in important sectors such as biotech, tech and transit-oriented mixed use development has also ensured stability in our market.

EBJ: How about the lowered prices of commodities and oil & gas: What impact has that had on your business and has it changed your approach at all?

Krol: Similar to our investor and lender clients, it is important to have a diversified portfolio of clients and projects, as well as to offer a broad array of service offerings. We know that the lowered prices of commodities and oil and gas, as well as the slow-down in the natural gas sector, have had a significant impact to several of our competitors who were highly dependent upon these sectors for their project revenue. However, because very little oil is used for power generation, dropping oil prices aren't making much of a dent in utility costs. For owners and investors, some of the biggest facility expenses will still be

energy related. Because of that, we are continuing to see a growing demand for our energy efficiency consulting services to reduce these costs and maximize ROI.

EBJ: What has been the main thrust of your strategy over the past couple years: (Growth, diversification, focus on core competency, focus on new customers, globalization, focus on earnings, retention, M&A, etc.)

Krol: The main thrust of our strategy has been to seek growth opportunities in the equity markets. We have a well established, efficient and cost effective platform to support debt-level clients nationwide, and have diversified our service offerings to meet the needs of the equity market.

EBJ: Where do you see your best growth opportunities: in the short term; and in the long term; by customer, service, by media like air or water or geographic region?

Krol: We see our best growth opportunities in the short term in the equity markets, and in the long term, in supporting our clients through the next down-cycle with workout and other due diligence support. We are also expanding our operations internationally to support client needs in Canada and the UK.

Much of our success comes from repeat business, and our commitment to quality and service will naturally see our business continue to grow as transaction rates increase. In addition to that, we see technological advancements as a particularly powerful driver of new risks and opportunities in this industry. Technology is rapidly changing the demand for and placed on real estate assets, and in order to prevent an asset becoming obsolete it is critical for property owners and developers to accommodate such emerging needs. Adaptive reuse projects that address changing highest-and-best use of assets are an effective way of staying ahead of technological advancements and remaining competitive in today's fast-moving market.

EBJ: What service areas are you looking at diversifying or for developing new business practices?

Krol: We have been diversifying our service offerings for equity-level clients, and are focusing on expanding our very successful design practice in the North East to the West Coast in the coming year.

EBJ: Are you seeking to evolve into a more integrated service provider? (i.e., getting into recurring revenue streams and away from event-based business: outsourcing, new contract mechanisms with shared risk, etc.)

Krol: In recent years we have expanded our very well-established due diligence consulting resources around the country to include land surveying, energy consulting, land development, facilities engineering (MEP design) and health & safety consulting. We aim to ultimately be a turn-key consultant delivering not only assessments, but also solutions to address any issues that our clients may come up against during the acquisition, development or throughout ownership of commercial real estate. Essentially, to be a "one-stop-shop" for the CRE industry to manage risk and to optimize ROI.

EBJ: What new large contracts of note has your company been involved in the past two years? What have been your most noteworthy projects or business accomplishments?

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Krol: After our successful expansion into Canada, 2015 saw Partner step into the European due diligence market. Growing our local customer base there, while navigating the nuances of the environmental regulations and procedures for transacting and developing real estate in Europe, has been an incredibly exciting venture. I would say those first projects coming through our London office were some of

the most fulfilling for our teams and Partner as a whole!

EBJ: What growth do you forecast, for your company, over the next 2-3 years?

Krol: Partner's CEO Joe Derhake's strategic approach to growing the business is to anticipate and respond to market trends by investing in our corresponding service offerings. For example, in 2015 we significantly expanded our energy consulting and structural engineering practices to meet the growing demand for these services driven by new energy efficiency regulations and seismic retrofit ordinances that are popping up around the country. Over the next 2-3 years, I expect transaction rates and development to continue to rise, and market forces to increasingly drive property owners and managers to recognize the ROI of implementing energy efficiency measures. We'll continue to expand our equity groups to support the demand for risk management and asset optimization services accordingly.

EBJ: What growth do you forecast, for your sector of the environmental industry over the next 2-3 years?

Krol: As I mentioned, I expect the CRE sector to keep performing well over the next few years, but I also expect regulatory pressures to continue to create a more conservative lending environment. Environmental issues that could create obstacles during real estate transactions, ownership or development will need to be more closely assessed and addressed. Another trend I see in the environmental industry is the increased focus on transit-oriented and brownfield development and adaptive reuse projects. Shortage of supply in urban areas is leading many developers to leverage opportunities offered by infill development and conversion projects, using underutilized land or historic buildings for (re) development. These projects can be very lucrative, but because many are on sites with long histories and a high potential for environmental impacts, they also bring unique environmental challenges. From a due diligence perspective, they require very careful assessment and consideration of environmental risks, as well as innovative remediation techniques to manage these risks. Because of this, I believe our

industry can expect an uptick in demand for environmental due diligence, as well as clean-up and design solutions.

EBJ: What policy initiatives, economic instruments and/or government activities would you advocate to stimulate more market growth in the environmental industry?

Krol: Partner is a strong advocate for establishing appropriate frameworks to adequately manage risk in an effort to prevent or better prepare against another downturn. For example, we are actively involved with the American Society of Testing and Materials (ASTM) for the development of industry standards for due diligence and vapor encroachment. We are active in trade associations such as the Risk Management Association (RMA) and the Environmental Bankers Association (EBA) to support the development of policies and procedures to improve the quality of services available to owners/operators/investors of commercial real estate.

EBJ: How do you see climate change issues or policy affecting your business?

Krol: Climate change is an important topic in New England, particularly focused on our coastal communities. The Urban Land Institute (ULI) recently conducted a resiliency study entitled Developing Resilience: Living with Water Strategies for Greater Boston. Planning for future development of our coastal cities is a keen focus for us.

EBJ: How do you choose whether or not to pursue work or make your “bid/no bid” decisions?

Krol: We strive to develop solid relationships with long term clients, rather than “one-off” assignments. We want to know and understand our clients and their business objectives. Most importantly, we seek to understand their unique sensitivities and risk tolerance in real estate financing and/or investment. In my area of focus it is more common to continue to support well known clients with long established relationships, rather than pursue quantified bid opportunities.

EBJ: How have bid/proposal win rates trended in recent months, or in 2014 vs. 2015?

Krol: Our proposal team have reported an uptick in bid opportunities for public clients in recent years, and Partner has also seen an increase in our success rates because of our experience and qualifications in this space. More than anything, we rely on maintaining a reputation of great quality and service to win bids. We have been expanding Partner brand awareness, especially in key growth areas in New York, New Jersey and New England. Our increased exposure in these important markets has increased our win rates there.

EBJ: Do you have full time business development department, or is the function interspersed with technical and/or billable people? Do you think small or large companies approach business development in fundamentally different ways?

Krol: We have a combination of technical or billable staff, as well as relationship managers focused on business development. It is important to our clients that we understand their business, so we stay actively engaged with our clients’ projects. Some in our industry term this hybrid technical/business development role as a “seller/doer”.

EBJ: What will be the keys to success the 20s?

Krol: We are a young company, yet our leadership team is comprised of industry veterans. We know that cost effective and responsive service is the key to success in the 20s. We strive to be entrepreneurial, nimble and technologically advanced,

keeping an eye on the “end point” of our clients’ deal or transaction.

EBJ: How do you feel about the progress (or lack thereof) we have made on environmental issues in the past 40 years or so and the role the environmental industry has played?

Krol: As a 20-year veteran of the environmental industry, I feel proud of the increased awareness of environmental issues, demand for energy efficiency, everyday ease of recycling and waste minimization, and the focus on climate change.

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

Krol: I am motivated most in my work by my clients. Working with talented, results-oriented professionals in the commercial real estate and financial services industries has ensured that my skills and capabilities continue to improve. This also translates into increased opportunities to develop staff to be client-oriented and solutions driven. We all do better work when we understand the team’s goals and project objectives. □

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