

2Q12 State of Property Assessment Market Survey Results

Survey Results Summary & Statistics

Author: Ashley Gowen, Research Analyst
Email: agowen@edrnnet.com

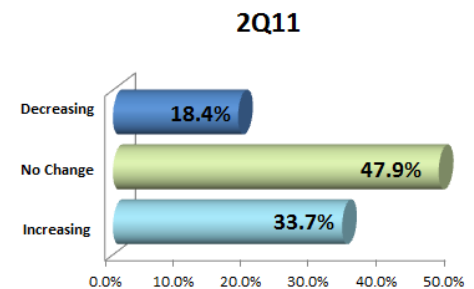
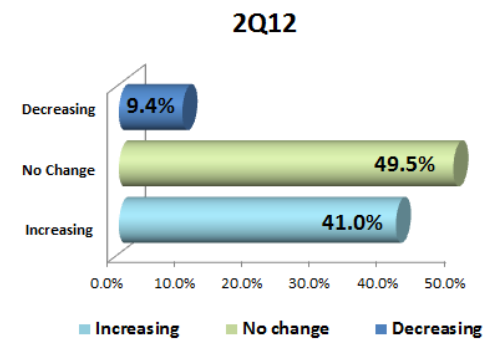
EPs Left A Little Parched From Dry, Tepid Summer

The market trudged through the summer months, leaving some environmental consultants remaining almost as thirsty for work as the Midwest crops during the recent drought. Market uncertainty, as well as the summer lull, made for a slow start to the 3rd quarter. One bright spot was that there was a 7 percentage point increase in the number of respondents who witnessed an increasing commercial real estate investment in their area compared to this time last year. Concerns about the presidential election and European financial crisis frequently appeared throughout the results of the 2Q12 State of the Market Survey as consultants mentioned that these two factors could stall opportunities through the rest of the year. However, though most consultants reported experiencing a lull throughout the summer, there were some EPs that saw steady, or even increased, work.

Regarding portfolio work, the majority of respondents noted that clients are more risk averse and continue to demand a quick turnaround time. Portfolio work was a mixed bag, weak for some with others experiencing increased work. Commercial real estate news supported that portfolios helped carry the market with strong efforts by lenders to dump distressed assets, and with many loans and assets changing hands. Sectors seeing more portfolio work this past quarter include the medical and healthcare related industries, as well as retail and transportation. One respondent mentioned increased opportunities in the energy sector, with work on sustainable projects including solar and wind farms.

Risk aversion remains high, consistent with trends for the first quarter. Approximately 60% of respondents in 2Q continued to report agreement that clients are demanding more thorough environmental due diligence on deals today than in the past. Many of the consultant comments regarding risk tolerance revolve around high variability from one lender to another. A few consultants noted that some lenders are more comfortable with risk if they have a working relationship with a trusted, expert consultant.

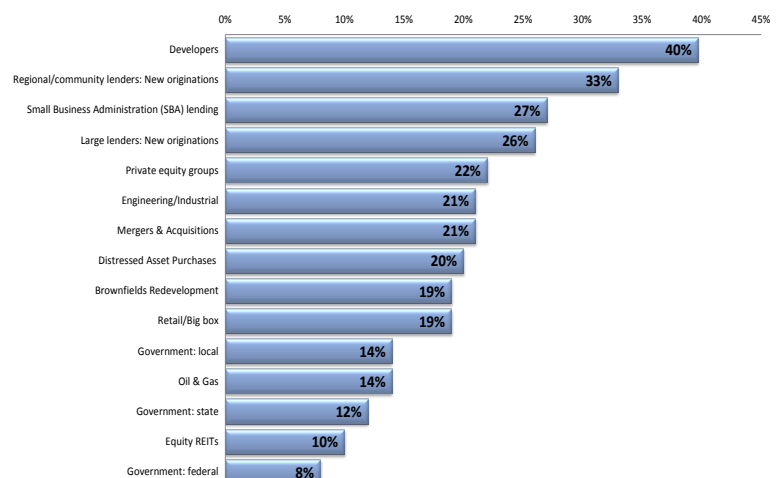
How would you characterize the level of traditional commercial real estate investment in your area?



Client Sectors

As in 1Q, developers and regional/community lenders (new originations) remained the top two client sectors with the most consultants reporting stronger demand for Phase I ESA services with 40% and 33%, respectively. SBA lending was a close third with 27% reporting stronger demand in 2Q. Private equity and larger lenders (new originations) rounded out the top five clients sectors with 22% and 26%, respectively. Though strength of demand remained mostly consistent from 1Q in the majority of sectors, Mergers and Acquisitions showed a notable 21% of respondents reporting strong demand versus only 12% in the first quarter of the year. Emerging clients sectors gaining strength included chain restaurant, retail, and transportation.

Top 15 Client Sectors with Strongest Scores for Higher Demand in 2Q



* The graph shows the relative strength of demand for Phase I ESA services in 2Q12 versus 1Q12. The percentages shown reflect the combined data for "substantially stronger" and "somewhat stronger" demand.

Survey Statistics

(2Q12 Survey Results)

Education

One of a few positive developments coming out of the 2Q survey was that, while deal volume remained constrained, awareness of environmental due diligence was growing, more than in any prior survey. Many environmental professionals noted that more clients and lenders are aware of the importance of conducting environmental due diligence and stated that clients are beginning to see the value in it. This shift indicates that more consultants are using the downturn to get out in front of clients, are educating them, gaining trust, and, therefore, building and maintaining solid long-term relationships.

Pricing

Awareness of environmental risk and risk aversion could be related to a leveling off of pricing pressures, as pricing remains competitive, yet relatively flat. Though pricing pressures from 1Q remain, pressure began to ease slightly in 2Q as focus was placed on value. With a continued push for client education, environmental consultants can position themselves to increase their business, build a solid client base, and charge a more justifiable price for their services. Consistent with adding value, respondents raised concerns about competition from less-qualified firms undercutting price for well-qualified players. Roughly 10% of 2Q respondents reported decreases in pricing, with the average price for both a Basic Phase I and Phase I Plus remaining very close to 1Q levels. There is a great variance in pricing amount consultants, however with 6 respondents reporting Phase I Plus prices at \$10,000 or over, with project size a key determinant.

	Average	High	Low	Standard Deviation
Basic Phase I ESA price	\$ 2,574	\$ 8,000	\$ 1,200	\$ 1,197
Phase I Plus ESA price	\$ 3,356	\$ 12,000	\$ 1,200	\$ 1,971
% of Phase I's to Phase II's	19%	80%	1%	15.20%

Quoted & Noted

On pricing...

- "We are pricing towards the top of the market to weed out those only interested in price."
- "Increased turnaround time has turned into slightly higher pricing – not substantial though. Having sales staff communicate quality and expertise, not always price, has helped our team."
- "Based on workload, we increased our Phase I ESA prices between 5% and 10% and most of these were still awarded to us."

On portfolio work...

- "Super quick TAT, competitive pricing but [clients] still want a quality report with reasonable risk tolerance – everyone is fighting for these projects."
- "[Portfolio work] seemed to slow down substantially with institutional investors. They are still selling off non-performing assets or getting out of certain markets and refinancing their properties."
- "Retail, restaurants, and store chains have increased need for Phase I ESAs, by adding new locations or leasing empty spaces."

On demand expectations for 2012...

- "Market was very strong in first half of 2011, swooned in 2nd half then picked up in March 2012. If no triple dip [recession], then demand will be steady..."
- "We had done so many Phase Is when the market was great that now that sales and refinances are heating up again, we are getting repeat work."
- "Hopefully things are only slowing down due to summer vacations and will pick back up in the fall. With interest rates so low, I would expect more activity in Phase I work."
- "We actually saw an increase in the number of clients who were internally funded and didn't want a new or updated Phase I, but instead wanted a detailed assessment of potential risk and liability, along with specific recommendations for site mitigation programs."

On risk tolerance

- "I think [tightened standards] are more on the business end (loan to value, loan amount, etc.), than environmental due diligence. There is a stronger focus on property condition assessments than environmental."
- "Some banks appear to be looking for reasons not to make loans."
- "They want the thorough investigation but are not necessarily allowing more time for it. The lenders are very competitive with one another, so they don't have the luxury of higher due diligence fees or longer due diligence periods."
- "Overall, price still remains king as opposed to real risk concerns. Lenders that were always cautious remain so.... Emphasis among some lenders appears more focused on cost control and sales rather than risk avoidance."

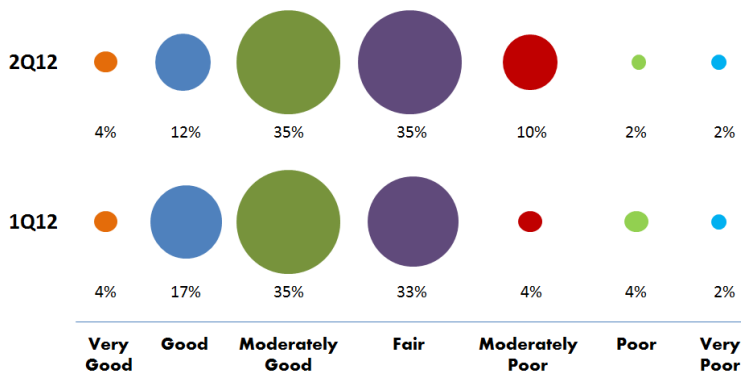
Expectations for Phase I Volume

Expectations for the remainder of year are "fair" to "very good" for a significant 86% of respondents, but as many lenders and investors are waiting to see the outcome of the election, opportunities for environmental consultants could be adversely affected. Once the election has passed, some expect to see deal volume pick up entering the end of the year.

Environmental consultants should also expect see opportunity in the [retail](#), [office](#), and [industrial](#) sectors as demand begins to reemerge, due to:

- increased deals on industrial warehouse properties;
- growth in the energy, technology and education sectors driving spotty, but noticeable demand;
- thousands of retail properties changing hands;
- many big box stores focusing in smaller stores in growing urban areas.

Expectations for Phase I Demand in 2012 vs. 2011



Quoted & Noted

On the overall Phase I ESA market...

- "Clients tend to "walk away" from a real estate transaction rather than invest in the Phase II ESA; environmental professionals have to sell the value of the Phase II much harder than previously needed."
- "Our clients trust our recommendations of additional sampling; however, we're noticing more of a reluctance to follow through with the sampling. Instead, clients are trying to push sampling off until a later time – likely due to limited funding for their redevelopment projects."
- "The primary difference in the market seems to be around market conditions. Investors are seeing ways to make money. Environmental risks are still frequently not treated seriously."
- "In the past, Phase II equaled dead transaction. Now there is more willingness to consider risking away issues through Phase IIs."
- "Lenders seem to have become more educated, overall, as to the importance of due diligence. Smaller local lenders sometimes do not grasp the need for due diligence unless one of their management team has been at a larger lender previously. The medium and large-sized lenders that have lost revenue in the past due to environmental liability on foreclosed properties certainly understand the need for Phase I's or Transaction Screens. They do not question pricing as much and are more interested in reputable firms doing the work and providing good advice."
- "Clients are looking at smaller, more competitive firms while realizing the importance of due diligence. They aren't willing to forgo it, but are looking for value more than ever."
- "[The Phase I market] is a roller coaster, as is consulting, and certain markets are booming while some are a bust!"
- "I see the market improving as we approach the 3rd and 4th quarters. Factors that are driving our increase in demand for Phase I ESAs include providing free education and/or consulting services to clients and potential clients to gain their trust and develop long lasting relationships."
- "It's an election year and everything has slowed down. In general, everyone has the money to invest but won't do it until after the election. Also, the local competitive market forces are driving our charge rates down, thus giving us lower profits."

Thank you for completing our survey

EDR Insight would like to thank everyone who participated in this quarterly survey effort. Your participation means that we are able to collect the most comprehensive data sample possible and to continue to provide you and the industry with benchmarks and insight. Congratulations to judy.marth, the winner of this quarter's iPad giveaway! Look for EDR Insight's 3Q12 State of the Market Survey to be released in early October.

Questions or comments?

Ashley Gowen | Research Analyst

Email: agowen@edrnet.com

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