



THE ULTIMATE GUIDE TO HIRING AN

**ENVIRONMENTAL
CONSULTING FIRM**

INTRODUCTION

Closing a commercial real estate transaction, whether a new development, rehabilitation of an existing property, or the purchase an AHA multi-tenant building, can be a complex process.

One of the complexities involved is the environmental due diligence investigation and reporting required by lenders and/or regulatory agencies. In most metropolitan areas, there are dozens of environmental consulting firms available to assist in this process.

Selecting the right one can reduce the time, cost and stress involved in closing a real estate deal.

Here are some things to look for...

DIRTY

LITTLE SECRET . . .

THE BEST KEPT SECRET IN THE INDUSTRY...

A well-kept secret in the environmental consulting world is that ***most of the big firms outsource nearly 100 percent of their investigations*** and reporting. That's right. The account manager you talk to *will put your test request out to bid*, take the lowest bidders, then mark up the product based on their target margins.

What's wrong with this?

First, this means that the person doing the investigation is not working for you, the property buyer, but for the consulting firm that hires them. They're not looking out for you. ***They don't even know who you are or what you are planning to do with the property.*** They will do the bare minimum because that's how they were able to bid low and that's the only way they can make a profit.

They are unlikely to take any time to look for possible issues that might impact how you plan to use the property, or consider any closing requirements issued by your lenders, investors, or regulators.

Also, if the quality of the report is sub-par, you may be at risk for undetected issues after the close--i.e., not protected under CERCLA. When you ask who will be doing the actual investigation and they can't tell you (because they haven't put the job out to bid yet), take note.

PROACTIVE VS

REACTIVE

BEWARE OF ORDER TAKERS

A good consultant will ask a lot of questions before giving you a proposal for a due diligence report. You may ask for a Hazardous Materials Survey for a 12 unit facility, for example, a consultant should ask some questions. How many buildings comprise the facility over how much real estate?

If it is twelve different structures with different geological conditions throughout the property, you might need more than the standard investigation of 10 percent of the facility. If you ask for an ESA Phase 1 report for a unit in a multi-family property that you are renovating one unit at a time, a good consultant will ask you about the renovation completion timeline for the all of the units.

If you're planning on renovating more units at a later date, the consultant help you save money by inspecting multiple units at once rather than coming back several times to repeat the same investigations.

A consultant ***should also ask about your intended use of the property***, as that will influence what they need to look for during the inspection, and may also require additional inspections that you are unaware of. They can help you save time and money and avoid delays by getting all required inspections done in advance.

LOOK BELOW

THE HOOD . . .

LOOK BEYOND THE ODOMETER

Just about every consulting firm will claim to have years, decades, or maybe even *centuries* of experience performing environmental assessments. Most will produce a laundry list of reports they can deliver--ESA Phase 1, Property Condition Assessments, Hazardous Materials Surveys, etc.

For some firms, these reports are highly commoditized products, which can lead them to rush through the inspection and reporting process in order to protect profits. It is important to know that the consultant you choose is looking out for your best interests--to help you close quickly, but also to make sure you get a thorough, reliable assessment of the condition of the property you are purchasing.

Meaningful questions to ask about a firm's experience include:

- Has the firm completed the kinds of investigations you need? Recently?
- Have they inspected the kind of properties you are purchasing?
- What are the qualifications of the firm's technical staff
- Which of the staff will be working on the project? Know the qualifications of the people who will be doing the work.
- Does the firm subcontract any or all of its services? If so how does it qualify subcontractors?
- If a Phase 1 investigation finds issues, what do they do? Automatic Phase 2? Or more research?

LOCAL EXPERIENCE?

NO BRAINER.

ASK ABOUT LOCAL EXPERIENCE

This is really important. Different states and cities have different environmental requirements, agencies, and departments. In Oakland, for example, a lot of commercial buildings are being converted to residential use. If you are demolishing an existing structure in order to build a residential complex, you will need an ESA Phase 1, demolition survey, and subsurface investigation.

If you order an ESA Phase 1, and your consultant isn't aware of the additional requirements, you likely won't find out for a few months, when the lenders and regulators start to review documents, that you need additional studies. Additional inspections take time and can put your closing date at risk. Also, most planning departments are extremely process-oriented, meaning experience with the local department's people and the processes can go a long way toward expediting environmental reviews.

In San Francisco, as another example, environmental review is administered by the Environmental Planning (formerly MEA) division of the Planning Department. The environmental review process begins with the submission of a completed Environmental Evaluation (EE) Application to the Planning Department. Only a current EE Application form will be accepted. The EE Application will not be processed unless it is completely filled out and all fees are paid in full. These may seem like small details, but the more trips your consultant has to make to the planning department to comply with its processes, the more time your project will take.

YOUR TIMEFRAME?

OR THEIRS?

CAN THEY DELIVER MULTIPLE SERVICES AT ONE TIME?

Many properties require more than one environmental due diligence investigation. For real estate investors, developers and managers, a single consulting firm that can handle a full suite of reports can save *precious time and money*, especially on the project management side.

Using a single firm for multiple reports also means having a **single point of contact and accountability**. That said, putting all the reporting responsibilities in the hands of a single consultant makes it even more important that you choose a partner you can trust and that they can validate that their team has the right qualifications and experience for each study.

WHAT MATTERS

MOST...

REMEMBER WHAT MATTERS MOST ...

At the end of the day, environmental due diligence is about removing as much risk as possible from a commercial real estate transaction, and getting the deal closed.

Environmental due diligence is more than just checking off some boxes. Choosing an environmental consultant based on promises of low-cost and fast delivery times is only worthwhile if the work delivered is thorough, timely and professional.

Asking the right questions about experience, references, the ability to handle multiple assignments, and local knowledge can help ensure that the product you receive is both economically and environmentally sound.

OUR EXPERTS ARE HERE TO HELP YOU ...

Essel Environmental offers environmental services for the full real estate cycle, from Acquisition, Development/Construction, Property Management and Disposition.

We offer complimentary deal analysis and review of existing reports to our present/ future clients.

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