BY ANIRBAN BASU

# The Staying Power Of Green

In the course of history, both short-lived fads and more lasting innovations emerge. Green building is beginning to look a lot like the latter, which implies commercial and industrial builders that embrace sustainability are likely to enjoy more rapid growth in market share than their traditional building counterparts for years to come. Despite the fact that near-term prospects for commercial construction may become hazy, green building levels may remain surprisingly resilient as a growing number of policymakers insist on green construction for schools, public buildings and even homes.

For new or smaller contractors, a focus on green building may be precisely what is needed to become larger, more established contractors. Though larger contractors may have an advantage in total resources, they also may be less adaptable to changing economic circumstances due to the substantial costs associated with retraining a sizeable workforce and staff among a sea of subcontractors. This is often an advantage for small businesses in any industry, but particularly so in construction with the proliferation of green building.

Of course, nothing is risk-free. Entry into the green building segment involves learning about a new bidding and pricing environment, adapting to new processes and marketing to a new set of customers—none of which can be accomplished without incurring costs. However, contractors that enter the green building segment will become more diversified in their revenue base than their traditional counterparts—an appealing outcome in an industry as cyclical as construction.

## A TIDAL WAVE OF INTEREST

A fair amount of skepticism remains regarding the impact the green building movement can have, particularly given the ever-present concerns regarding construction costs and market viability. Soaring energy costs likely have changed that, and the data indicate a tidal wave of interest in green building.

The value of green building construction starts is anticipated to exceed $12 billion this year and to increase to $60 billion by 2010, according to McGraw-Hill. By next year, 80 percent of corporate America will be engaged in green building at least 16 percent of the time, and 20 percent will be engaged in green building 60 percent of the time, McGraw-Hill reports.

Certain construction segments, such as those with government or nonprofit owners, are particularly well positioned to experience rapid growth in green building. Green building growth also is expected to be most rapid in education and institutional sectors, and slowest in hospitality and retail, according to the U.S. Green Building Council (USGBC).

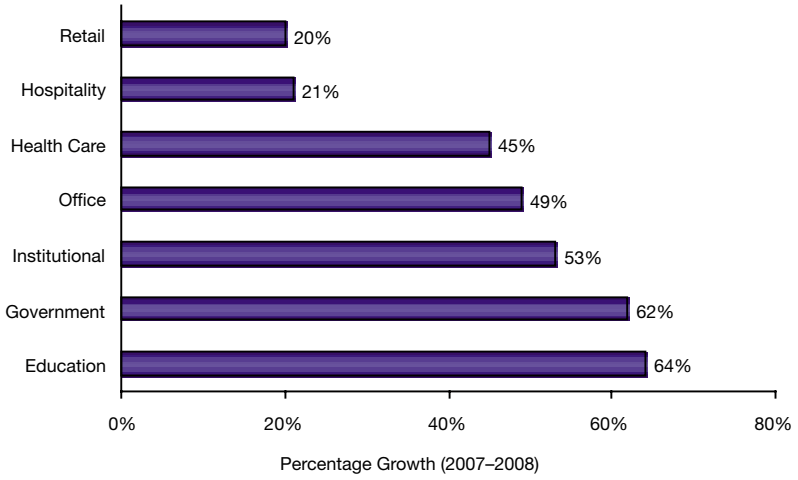
Green building terminology is utilized so routinely that it's easy to forget the USGBC's Leadership in Energy and Environmental Design (LEED) rating system has been around for only eight years, and some of the more specific LEED certifications (e.g., retail and health care) are still being pilot tested.

Despite this, nearly 3.2 billion square feet of commercial building space already is part of the LEED rating system. Every business day, $464 million of construction is registered with the LEED rating system, and by 2010, approximately 10 percent of commercial construction starts are expected to be green—more if energy prices continue to skyrocket.

## CONSTRUCTION COSTS REMAIN A FACTOR

Even with the acceleration in green building, many project teams continue to favor conventional designs, materials and techniques. Much of this has to do with the reality and perception of costs associated with green building. Debates regarding the true extent of added costs continue throughout the industry and within academic circles.

**Projected Green Building Growth by Sector, 2007 vs. 2008**




*Source: U.S. Green Building Council*

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A 2007 survey released by the World Business Council on Sustainable Development (WBCSD) found that key players in real estate and construction overstate the extra costs of green buildings by approximately 300 percent, "creating a major barrier to more energy efficiency in the building sector." Specifically, respondents to the 1,400-person global survey estimated the additional cost of building green at 17 percent above conventional construction, more than triple the true cost difference of about 5 percent, according to the WBCSD.

Other studies frequently quoted by green building advocates estimate cost premiums of up to 6 percent to achieve a moderate level of sustainable design (e.g., LEED Silver), though green skeptics report premiums in excess of 30 percent.

Overall, higher levels of sustainability predictably generate higher premiums. At the end of the day, the level of added costs is project specific and depends heavily on the definition of "conventional construction."

## COUNTERVAILING CONSIDERATIONS

While green projects may sustain cost premiums, associated savings can more than offset construction costs. Studies based on LEED buildings in California indicate that an upfront investment of 2 percent in green building design results in life cycle savings of 20 percent of total construction costs—more than 10 times the initial investment.

Moreover, according to Environmental Protection Agency research, tenants can save roughly 50 cents per square foot each year through strategies that slash energy use by 30 percent. This can represent a savings of $50,000 or more in a five-year lease on 20,000 square feet.

Many government incentives are available for green building, including federal tax reductions and state and local grants targeted toward energy efficiency. For instance, Oregon's Energy Trust provides New Building Efficiency Incentives of up to $250,000 that can be applied to commercial, industrial and institutional buildings. Dozens of similarly structured programs exist nationwide.

Several local and state incentive programs also focus on streamlining the approval process or permitting greater densities. As an example, San Diego County offers waived or reduced building permit fees and plan review fees, as well as expedites the plan review process for eligible projects. Arlington County, Va., allows increased density to projects that achieve LEED points—a particularly desirable incentive for condominium and office developers.

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