

# HOW TO GO GREEN AND STAY IN THE BLACK

BY SHYAM KANNAN

**In 2007,** RCLCO (Robert Charles Lesser & Co., LLC) conducted a national survey of homeowners to gain an understanding of their attitudes toward green residential products. The survey yielded 1,011 complete responses geographically stratified to mirror the distribution of households across the contiguous United States. The survey targeted existing homeowners looking to buy a new home, with incomes of over \$50,000 or, in the case of retirees, those with an estimated net worth of at least \$250,000. The results of this research are now available to the general public in a report entitled "Measuring the Market for Green Residential Development," which contains over 50 pages of analysis and over 100 pages of cross-tabulated response results.

Based on this endeavor and further analysis—including deeply diving into case studies of green residential projects to determine why some succeed and others struggle—I've formulated five strategies for creating a green residential development strategy. Executing such strategies will ensure that a firm is using the current slowdown as a strategic opportunity to get ahead of the curve instead of being forced to play catch up once the market returns to normal.

## 1. Recognize that the Market is no Longer Changing—It Already Has

Home buying is quite complex, and for most, green is just one of a multitude of factors that influence the home-purchasing decision. In a crowded field of factors, such as schools, proximity to employment, and buyer-specific product and landscape desires, "green" can get lost. In fact, data suggests that only three percent of the market is looking to purchase a home solely because of their desire to purchase a green home.

But there are many attractive facets of green homes that may be effective in bringing a proportion of all buyers to these homes and influence their purchasing decision, especially when these facets help distinguish two homes or communities that are otherwise evenly matched in the buyer's mind. These factors are important to buyers today, and if

developers and builders capitalize on these motivations, they can make it possible to build green and "make green" at the same time.

Homebuyers increasingly want to manifest green sentiments in their home purchases: 17.3 percent of respondents strongly agree and 46.2 percent somewhat agree that it is very important that their homes are compatible with the environment. Approximately 28 percent of homebuyers wanted more environmental features in their existing homes and/or communities, but these features were not available when they purchased, and another one-quarter wanted environmental features in their homes and/or communities but were uncomfortable with the additional cost at the time they purchased.

## 2. Know Your Customer

The data reveal three primary buyer profiles that may drive demand for green homes:

### FOREST GREENS—6.1 PERCENT OF BUYERS

Buyers who consider some sense of environmental responsibility/stewardship to be their primary decision-making criterion in their next home purchases.

### GREENBACK GREENS—21.8 PERCENT OF BUYERS

Buyers who consider energy savings—or, more importantly, the imputed cost savings due to lower energy bills—to be their primary decision-making criterion in their next home purchases.

### HEALTHY GREENS—8.5 PERCENT OF BUYERS

Buyers who consider potential health benefits of green homes to be their primary decision-making criterion in their next home purchases.

Overall, 36.4 percent of potential homebuyers can be classified as falling into one of the above buyer profiles, with significant variations in the depth of each profile evident on a market-by-market basis. Hence, approximately one-third of the market today may be swayed in the direction of purchasing a green home, even when purchasing a green home involves giving up other home characteristics, such as granite countertops or a large lot. While this may be surprising to some, this analysis is based upon a surveying strategy that asked respondents about the trade-offs inherent in purchasing a green home when they next buy, including but not limited to how "green" compares in value to: type of residential product and neighborhood, quality of school system, lot characteristics, specific features and finishes (such as ceiling fans and granite countertops), proximity to work/employment, and other factors.

## 3. Target the Sweet Spot

Positioning projects toward Healthy Greens, on average, presents the strongest market opportunity with the greatest potential to capture potential demand and extract potential premiums in the near term. Those who make the most of this sweet spot in the market can build their practices today.

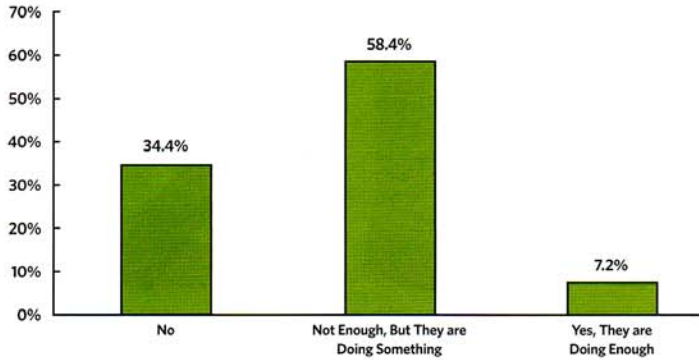
Much of the marketing of green residential has focused on the energy-saving benefits. For a variety of reasons, these marketing efforts may have reached their maximum impact potential, and those who are on the fence today may not have the incomes or desire to pay premiums that can drive the industry—after all, they're in the market to save money. Greenback Greens trend older and have lower incomes in general. They require a return on their investment within four years, whereas industry estimates on the payback period from lower utility bills typically range between six and eight years.

The altruism of the Forest Greens is encouraging, but their depth is questionable, as is their potential to pay premiums. Much of this segment is concentrated in late-stage Gen X and emerging Gen Y buyers—but these buyers do not represent the bulk of today's market and certainly have not yet reached their peak earning years, making targeting them a difficult proposition. As for the rest of the demographic—a huge information gap persists, limiting the power of "the environment" as a marketing position for green homes. To wit, when asked, more than 70 percent of respondents indicate that their homes have no impact or an acceptable level of impact on the environment.

However, the data suggests what countless case studies in the market have confirmed—Healthy Greens have the highest incomes and the most proclivity to pay premiums in order to reap the perceived benefits of green buildings. Healthy Green buyers trend toward the well educated: 37 percent have college diplomas and

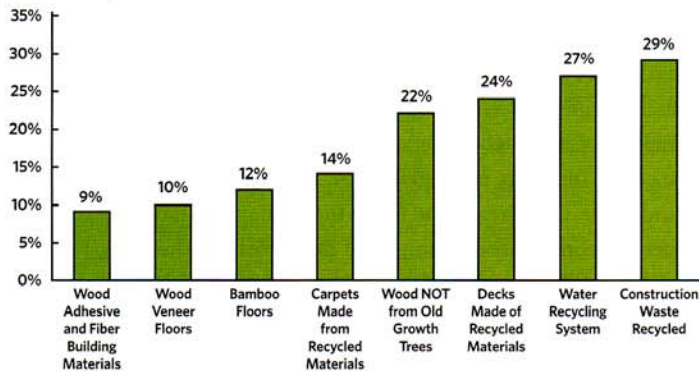
## Growing Green Expectations

Are developers paying enough attention to the environment?



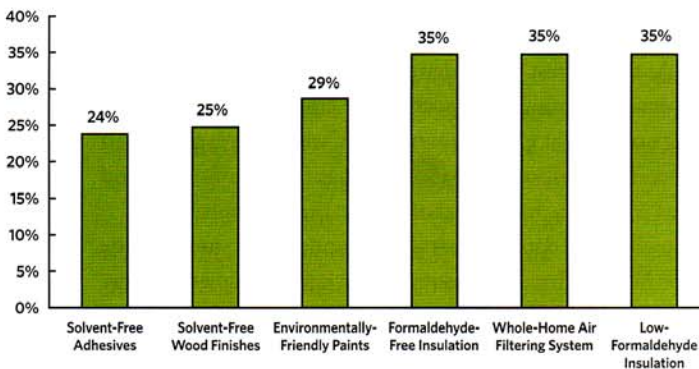
## Critical Roles for Developers/Builders

Which of the following resource-conserving features are "very important" in your next home?



## Demand for Health-Improving Features

Which of the following indoor air quality improving amenities, features, and benefits are "very important" in your next home?



40 percent have graduate degrees. Moreover, they are wealthy. Approximately 37 percent have incomes over \$100,000, and over 60 percent of those with incomes over \$250,000 indicated they would pay more for the health benefits of green without recouping the cost. There also is uniform distribution across age groups, indicating that the appeal of "health" crosses generational boundaries.

Appealing to the health sensibilities of the homebuyer may be a very effective strategy because it allows builders and developers to appeal to a segment of the market that is the most interested in paying more for a green home in today's market. This, in turn, allows builders and developers to make money and learn the skills and processes that will be absolutely necessary in tomorrow's market.

## 4. Put on Your Walking Shoes

Green homes can be built in a variety of environments, and many have argued that compact development and reduced overall automobile usage are critical components of developing green. Some recent analyses have suggested that the transportation energy (the energy used to get to and from structures) actually exceeds the site energy (the energy used at the building site, but excluding source energy), simply because of the impact of automobile usage. So, an emerging green development prototype is one that reduces VMTs (vehicle miles travelled) or gas consumption and provides the options of walking, bicycling, and public transit.

Coincidentally, the data and analysis suggest an enormous pent-up demand for these higher-density and walkable environments nationwide. For example, while only 7.6 percent of respondents classify their current neighborhoods as Traditional Neighborhood Design (TND), over 12.6 percent of respondents indicate they would prefer a TND neighborhood in their next home purchases. Only 4.4 percent of respondents classify their current neighborhoods as traditional downtowns, but 6 percent of respondents—and 10.4 percent in Maine, New Hampshire, Vermont, Maryland, Rhode Island and Connecticut—indicate they would prefer to purchase in a traditional downtown for their next home purchases. Meanwhile, while 68.1 percent of respondents classify their current neighborhoods as a standard suburban neighborhood, only 49.6 percent of respondents indicate that they would prefer a standard suburban neighborhood for their next home purchases.

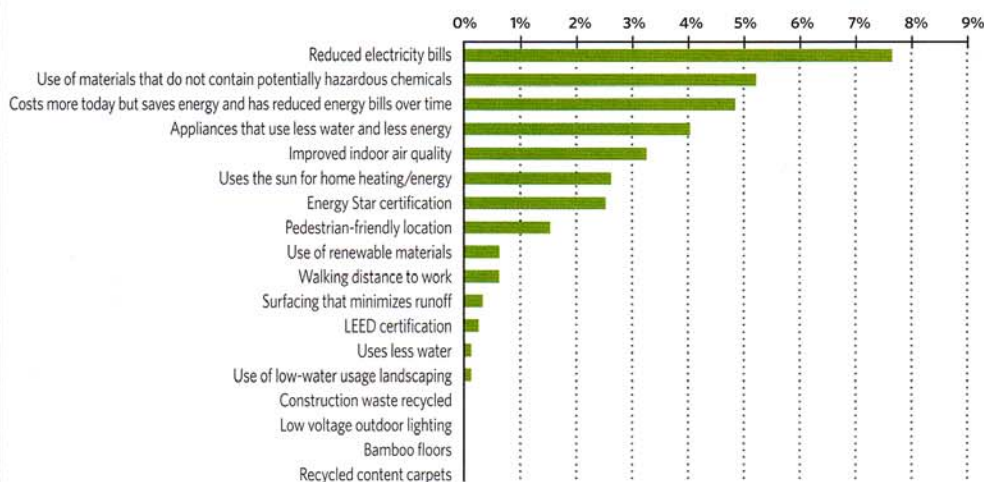
Across the nation, demographic shifts (85 percent of the household growth until 2025 is anticipated to be comprised of one- and two-person households) and changing consumer preferences (significant increases in preferences for density across age, income, and household sizes) are driving the growth in demand for these more compact, higher-density environments. Future demand for higher-density residential products—more than five units per structure—could potentially be 140 percent above the current levels of occupied stock. Most of this demand will be for homes in denser, walkable neighborhoods.

Not every region is built to accommodate this demand, largely due to under-investments in the necessary supporting infrastructure, large infrastructure subsidies for lower density development and the lack of available fixed-rail transit. But pent-up demand can chase supply, partially explaining the exodus of young people from the heartland and into amenity- and culture-rich coastal metropolitan areas, which offer a walkable quality of life that is exciting, diverse, healthy, and generating

extraordinary real estate values. The Brookings Institution has suggested that walkable real estate can generate premiums of 20 percent to 40 percent over drivable real estate in the same market. Companies not taking advantage of this tremendous pent-up demand for walkable environs—which can occur in downtowns, suburban town centers, master-planned communities, TND communities, or older Main Streets—may be missing out on an opportunity to build green, as well as make green.

## Demand for Green

"Most Important" Factors in Next Home Purchase



## 5. Check the Weather

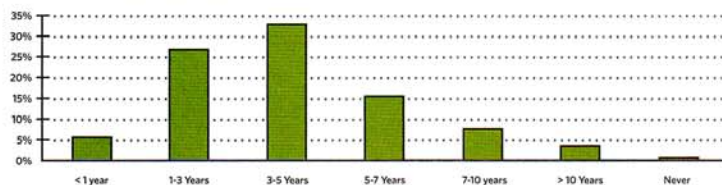
Green buildings are sensitive to local climates and soil/water conditions. The same green building prototype is unlikely to be simultaneously effective in Tallahassee, Toledo, and Tucson. That can spell headaches for builders and developers looking to get into the market today. Instead, it makes sense to develop a green building prototype that is replicable in markets that have significant depths of the green buyer profiles mentioned above.

Fortunately, every county in the United States is classified into one of 19 climate zones in the International Energy Conservation Code (the Department of Energy has a proposal to simplify this into eight climactic zones), and ample information is

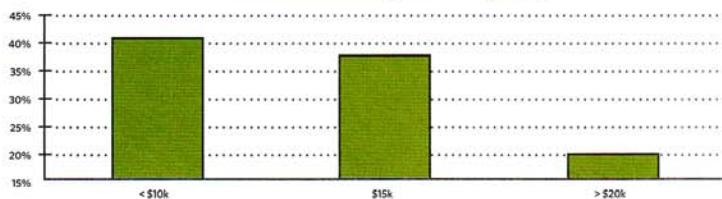
## Energy Savings Challenging Proposition

Over what time period would you need to recoup your investment?  
How much more would you be willing to pay?

Over what time period would you need to recoup your investment?



How much more would you be willing to pay?



available from the Federal, state, and local authorities on soil and water conditions in each zone. Developers/builders can conduct county-by-county analyses of active markets to determine where the deepest pockets of green buyer profiles are. They can then see what type of climate, soil, and water conditions prevail in these environs. From this, they can construct a green home prototype that addresses their target buyer profiles and wants/needs as well as what fits within the environments present in those target markets – using similar building techniques, site planning considerations, marketing messages, suppliers and contractors. They may find themselves looking at new product types and investigating different building techniques (such as using light-gauge steel construction), and engaging with new types of building industry professionals. But with in-depth knowledge of consumer behavior, builders and developers should have the advantage of targeting deep pockets of green home demand, and being able to leverage this learning curve to carry their firms through until “green” is simply the new “normal.”

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SHYAM KANNAN is Vice President, Director of Research and Development, RCLCO (formerly Robert Charles Lesser & Co.), a real estate advisory firm.

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