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FEATURE: Green building

Not just for tree huggers anymore

Record energy prices have primed a business opportunity that you can take mainstream.

It's a reality we all have to come to terms with: Neither oil nor natural gas prices are likely to come down any time soon. World demand for oil isn't abating (read China and India). Hurricane Katrina fallout is plaguing the pumps. And with monthly energy bills and relentlessly thirsty cars reminding us of our escalating cost of living, there's one message consumers are ripe for today: saving money on their home utility costs.

The energy squeeze of 2005 is bringing new enthusiasm for green homes, says Doris Iklé (pronounced eek-LAY), president of Bethesda, Md.-based Home Energy Tune-up Co., which recommends energy-efficiency improvements to homeowners. "I've seen an increase in business in recent years as gasoline prices have gone up. People are very aware of what they pay for gas."

That means green homes aren't just for the Birkenstock cohort. They'll appeal to anyone who wants to see more green in their wallet. "When people can save money on energy bills, that's huge, and it applies to everyone, not just the fringe," says Kirk Fox, a practitioner with Prudential Preferred Properties in Chicago, who's a certified EcoBroker. "People thought hybrid cars were weird, but now they're popular." The EcoBroker training program, from EcoBroker International in Evergreen, Colo. (www.ecobroker.com), promotes environmentally responsible and sustainable real estate business practices and is available for continuing education in some states.

The momentum behind green

Green building is a broad term that encompasses a number of movements, including the drive for better-than-average energy performance, the push for better indoor air quality, and the use of environmentally friendly building design and materials.

Those willing to educate consumers about these movements could find a lucrative niche, especially as energy-efficiency standards become more strict. "Green has moved past the early adopter stage and into the mainstream. We're close to a tipping point," says Helen English, executive director of the Washington, D.C.-based Sustainable Buildings Industry Council.

Almost 9 out of 10 consumers surveyed in 2004 by the National Association of Home Builders said they have some degree of concern about the environmental impact of building their home. Seventeen percent said they'd pay more for an environmentally friendly home, and 46 percent—up from 35 percent in 2003—want an environmentally friendly home but aren't willing to pay more. The random national sample of 5,700 consumers had a response rate approaching 50 percent.

According to SBIC's English, there's considerable momentum in the green movement. Already, more than 30 green homebuilding programs are in place around the country, operated by local nonprofits, utilities, and homebuilding associations.

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In addition, three sets of national residential guidelines exist, two of which debuted this year: the National Association of Home Builders' Model Green Home Building Guidelines and the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) for Homes initiative, which is in pilot testing. The national programs are intended to encourage the mainstream homebuilding industry to adopt sustainable practices. The third national program is Energy Star, whose guidelines are set by the Environmental Protection Agency and the U.S. Department of Energy. A green-building manual, Green Building Guidelines, is available through SBIC.

Even Congress has gotten motivated. The Energy Policy Act of 2005, which President George W. Bush signed in early August, encourages energy efficiency with tax credits to those who make green improvements to their homes in 2006 and 2007.

Local communities are hungry for green information, adds Richard Morgan, manager of the Austin (Texas) Energy Green Building Program, the oldest residential program in the country. "We get calls almost every week from other communities asking how they can set up a green-building program." He estimates 23 percent of new-construction starts last year in the area his program serves were green. Three years ago, it was 18 percent.

Moreover, the use of green design in commercial real estate, already profitable for many developers, is likely to influence the residential market. Nearly 30 U.S. cities, including Chicago, Salt Lake City, San Francisco, and Scottsdale, Ariz., require public commercial development projects to adopt LEED standards, according to USGBC.

How green is your marketing?

The hurdle for residential green builders is a lack of knowledge among consumers and brokers, say those who serve the niche. "Few salespeople know how to close a green sale," says Pattie Glenn, of Green\$mart Realty LLC in Newberry, Fla. "If you don't know how to talk about it, you end up talking about the kitchen."

"Consumers need people to guide them and tell them what the options are and refer them to vendors who provide the materials," says DeeJaye Lockwood, a salesperson with Windermere Sonoran Properties in Scottsdale, Ariz. "Otherwise they choose the path of least resistance. But once people learn how home systems can work together to create a great place to live, most will opt for green."

Marketing messages resonate most effectively when they're framed in terms of consumers' wallets, practitioners and experts say. Consumers want to hear "they'll save money on utilities and have a house that's better quality and will sell for more," says Lockwood.

It also helps to understand buyers with propensity for green, say builders and practitioners. Green buyers tend to be well-educated, middle-income professionals who roughly range in age from 30 to 60. They believe gasoline prices are outrageous, and they're concerned about the environment, their family's health, and U.S. dependence on foreign oil. Many have embraced greenness in other ways—by owning a hybrid car, eating organic foods, and not smoking. "They understand that we're borrowing this planet for the time we're living on it and that whatever damage we do, the next generation will pay for it," says Lockwood.

Green builder McStain Neighborhoods, based in Louisville, Colo., markets to "cultural creatives," a term coined by sociologist Paul Ray and psychologist Sherry Anderson. Cultural creatives tend to embrace ecological sustainability and globalism, have their personal finances under control, and see their home as a nest. "In markets where our core buyers aren't as numerous, we focus on the energy- and pocketbook-savings message, and, 'Oh, by the way, it's a good thing for Colorado,'" says Karla Martin, McStain's director of marketing.

The nice thing about health, quality-of-life, and energy-efficiency messages, says Ben Kaufman, cofounder of Greenworks Realty in Seattle, is that they speak to everyone: the mother, the bachelor, and the downsizing empty-nester couple. He says about half his company's sales are in green homes, and the company has doubled its business every year since it opened three years ago.

The greening of America

Practitioners who work the green niche do it with a passion. Take Lockwood, who has volunteered her house to be part of a pilot project for the city of Scottsdale. "I'm remodeling my historic 1953 home to fit as many green guidelines as possible." She's adding an energy-efficient air conditioning system, Energy Star appliances, and a radiant barrier against heat in the attic, among other features. The total home remodel will cost her about \$85,000, and although she can't yet predict her energy savings, that hasn't dampened her enthusiasm. She plans to hold the house open about six times a year so that people can see the home and meet vendors there who can talk about building materials and techniques.

As a member of Scottsdale's Green Building Advisory Committee, Lockwood also puts on workshops, expos, and lectures. "I get on my soapbox any chance I get," she says.

Though green homes still constitute a small share of their business, green enthusiasts are not daunted. Fox, in Chicago, trades leads with allied professionals who share his enthusiasm. "Most of my sales are traditional, but I mention my passion to clients and show green properties any chance I get," he says.

Last year about 20 percent of Lockwood's business was green-related. "There aren't a lot of these listings, so I strive to connect people with people. If people want to build a house, I can refer them to green builders. I also work with buyers who want to remodel a home to be green. And I help sellers sell traditional homes and then buy green. Ultimately, people will remember me as queen of green."

Carol Maver, ABR®, GRI, of RE/MAX Choices in Chardon, Ohio, 35 miles outside of Cleveland, not only sells real estate, she also sells and promotes insulating concrete forms to builders and do-it-yourself homeowners. ICF homes are built using concrete that features two built-in layers of foam insulation, which Maver says saves 75 percent to 80 percent in energy over a stick-built house. Like Lockwood, she's putting her money where her mouth is: She plans to build her own ICF home this year and invite people in for tours and lectures.

Associates at Greenworks Realty in Seattle offer buyers a green assessment of the home they're purchasing. "Our partner, a local indoor air quality company, will assess, based on national built-green guidelines, the home's indoor air quality and energy efficiency and identify ways to tune up the house," Kaufman says. "It's an excellent educational tool for consumers." The service, paid for from associates' commissions, is free to buyers. "Seventy percent of our buyers opt for it," Kaufman adds. However, he doesn't know how many actually implement the suggestions. Kaufman's company also sells the service to the public for \$350.

Resale value still a question mark

Most green homes on the market are new construction. "Once people have taken the trouble to build green, they don't move the next year. So resales aren't coming onto the market very often," Lockwood says. But as more green homes are built, more green resales will be available. "Twenty percent of new-home permits in Scottsdale last year were for green-built construction. A few years before that, the percentage was in the single digits," she says.

There aren't statistics on resale values for green homes or on whether green homes, in general, command a premium. But there are anecdotal indications that these homes do well compared with their traditional counterparts. McStain's Martin says her company conducted a study in 2000 showing that similar-sized green homes sold at a \$20,000 premium over nongreen homes and that the green homes cost less per month after utility bills were included. Kaufman tells of a 1,227-square-foot Seattle house on a half-lot that sold for \$450,000 in 30 days. "It wouldn't have gotten that price if it wasn't green. It would have been seen as ticky tacky."

Green architect Peter L. Pfeiffer, of Barley & Pfeiffer Architects in Austin, Texas, says homes designed and built by today's green standards are likely to capture greater value at resale. If a house relies on traditional insulating, sealing, and other energy-efficient methods, the house could become less energy-efficient over time, Pfeiffer says. But in a well-built home using newer building sciences, such as spray

foam insulation and radiant barriers, that's less likely to happen.

The cost of eco-friendly living

Green often costs a little more upfront—roughly 2 percent to 5 percent more to build. The more green a home—Morgan uses a scale of one to five, five being the most green, with features such as solar panels—the more expensive it is.

But the energy savings appear immediately, the moment buyers move in, say green proponents. And because a green house involves a holistic design, buyers of new construction can sometimes realize a wash in their costs. For instance, stepped-up insulation or a home designed to respond to its site orientation means you can install smaller, more efficient, and less expensive furnace and AC units. Buyers and builders can also save by opting for recycled or local materials, according to GBI. “Green-built homes don't have to cost so much more,” says Pfeiffer. “They just have to be better thought out.”

Add a green mortgage to the mix, and buyers may end up paying less per month, factoring in utilities, than they would with a traditional mortgage. Fannie Mae's energy-efficient mortgage program, available for loans under \$359,650, lets borrowers qualify for a bigger loan than they might otherwise and allows energy improvements to be financed—up to 15 percent of the appraised value of an existing home and up to a 5 percent equity credit on new construction. Under the program, an independent energy rater recommends energy-efficient improvements and itemizes what those changes will save the buyer.

A similar program from FHA allows buyers to borrow up to 5 percent of the appraised value of the home for improvements ranging from \$4,000 to \$8,000. Borrowers' housing payments can be 33 percent of their income instead of the typical 31 percent, and the total debt ratio is 45 percent, up from 43 percent.

Joel Wiese, a manager with mortgage lender Indigo Financial Group in Lansing, Mich., says 70 percent of his business nationwide involves energy-efficient mortgages. “With these mortgages, a person who likes a home but can't afford the repairs can roll the costs for a new furnace, water heater, and windows, for instance, into the mortgage. “I handled a mortgage for a fixer-upper that included \$9,000 worth of work. That raised the monthly nut by \$53. But the utility savings, which we can document through the energy rating, saved the borrower \$125 a month.”

In some areas, there are state and local incentive programs—such as partial reimbursements or tax breaks—for owners who improve their home's energy efficiency or build renewable energy features, such as solar panels, into their home. Then there are the new federal tax credits: a 10 percent credit up to \$500 for energy-efficient features, such as windows and insulation, and a 30 percent credit up to \$2,000 for the installation of photovoltaic, solar, and fuel-cell technology. However, the provisions are quite narrowly drawn and are available only in 2006 and 2007. For more information on the federal tax credit, talk with a qualified tax professional. To learn what other incentives are available in your area, contact your local utility, your state energy office, and your local government.

“If you really want to corner the market, create value for consumers by understanding green products and mortgages,” Wiese says. “Those practitioners who do will win.”

It's easier than you think to be green

Home improvements don't have to be epic to relieve utility costs. Here are ideas to start your clients and customers thinking green:

- Turn up the air conditioner thermostat.
- Change air filters often.
- Plant trees on the south and west sides of the home to provide shade and reduce interior temperatures.
- Landscape with drought-resistant or indigenous plants, which retain more water.
- Add motion sensor lights, to save electricity.
- Install a gas fireplace in an addition, such as a den or sunroom, which will extend

heat to that room.

- Replace appliances with Energy Star–rated versions. Energy Star appliances exceed government energy-efficiency standards by 10 percent to 25 percent.
- Invest in new, more efficient heating and cooling systems.
- Paint your home’s exterior a light color. Darker colors retain more heat.
- Plug up air leaks, which are the equivalent of leaving a window open all year. Sealing leaks can save more than 10 percent on energy bills.
- Install double-glazed windows with low-emission glass, which allow maximum light while keeping out heat and cold.
- When replacing roofing, install light-colored shingles made of metal or tile to reflect heat.
- Add insulation in walls.
- If new-home buyers like a lot that faces the afternoon sun, encourage them to design the house with a shading porch and windows that are higher up on the wall than normal—near the overhangs—to minimize the sun’s heat. The windows will be shaded by the overhang and will allow more desirable reflected, rather than direct, light to penetrate.

Implement as many of these suggestions as possible. The biggest savings come from a holistic approach to green. Visit the Department of Energy’s Energy-saving Tips for Homes Web page (see Current Links at *REALTOR.org/realtormag*), which includes a do-it-yourself home energy audit.

Sources: Fred Evans, RE/MAX Gold Coast, REALTORS®, Ventura, Calif.; Doris Iklé, Home Energy Tune-up Corp., Bethesda, Md.; Peter L. Pfeiffer, Barley & Pfeiffer Architects, Austin, Texas.

Green in 10 years

In the next decade, green could become to buildings what seatbelts are to cars. “When I was a kid, seatbelts were optional,” says green architect Peter L. Pfeiffer, of Barley & Pfeiffer Architects in Austin, Texas. “Now they’re so pervasive, they’re not even an issue.”

In the future, he says, buyers will stop looking at price per square foot and consider the durability, quality, and integrity of the building, as well as how it fosters a healthier living environment, which Pfeiffer and other green proponents say are natural benefits of green building design and materials.

Builders will build more regionally specific homes, Pfeiffer adds. “For instance, building a home in Dallas with a roof that sheds snow isn’t right because it adds construction costs and makes for smaller overhangs. In Dallas you need overhangs to shade your windows.”

What’s more, homes will be more likely to support themselves using solar energy panels that enable owners to sell excess energy back to the power grid, says Karla Martin, director of marketing for McStain Neighborhoods, a green builder in Louisville, Colo.

The intersection of affordable and green

Thanks to shared values, the green movement is gathering momentum from the affordable housing industry, green experts say. In fact, says James B. Hackler, LEED for Homes program manager with the U.S. Green Building Council in Washington, D.C., “affordable housing will set the agenda for green.”

Why? It’s critical that affordable housing be economical to operate, not just to buy, says Richard Morgan, manager of the Austin (Texas) Energy Green Building Program. “Otherwise, you’re just creating more slums. If people’s bills are zapping all of their income, they’re not able to capitalize on their investment, and they lose their sense of equity in the community.”

Adds Doris Iklé, president of Home Energy Tune-up Corp. in Bethesda, Md., “Green homes are a better mortgage risk because you don’t have large fluctuations in utility bills. People who are struggling to stay afloat financially will first stop paying their utility bills and then the mortgage.”

Indeed there's national momentum to meld affordable and green housing. In July the National Association of State Energy Officials, based in Alexandria, Va., joined with several organizations in a national program to provide low-income Americans affordable homes that meet specific energy efficiency, healthy building, and sustainable development criteria. The goal of the \$555 million Green Communities initiative is to create 8,500 affordable and green homes nationwide and to spur better coordination between state energy officials and those who work in the affordable housing industry.

Almost all affordable homes in Austin are built green, Morgan says. His organization rated 1,490 homes over the last four years that sold to families who qualified under U.S. Department of Housing and Urban Development guidelines as earning less than 80 percent of market income.

In his market, builders are required to create affordable housing according to green standards. It's a quality control issue, he says. "We need to make sure these homes are more energy-efficient and will last longer; both goals play into affordable housing goals."

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