

Can green building trend survive a recession?

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After decades at a slow boil, the green-building trend erupted into a mainstream global trend in recent years as companies sought to rein in energy costs and become environmentally responsible. Today more than 4.2 billion square feet of America's commercial space supports the LEED label for Leadership in Energy and Environmental Design.

Virginia alone claims 450 LEED certified buildings (only seven states boast more), and in 2008 experts predicted that the value of green building construction would top \$60 billion by 2010.

Predictions change. The nation is now hip-deep in a recession. The commercial real estate market has hit lows not seen since the early '90s, and the green side of the industry is not immune. "Our company has seen a change," says Tom Sims, production manager for Virginia Beach-based Building Logics Inc., which designs and builds green roofs. "Short term we had a couple jobs in our pipeline that were canceled due to budget cuts."

The belt-tightening has led some industry watchers to forecast an early end to the green building movement. Not so fast, says Annette Osso, president of the Virginia Sustainable Building Network. Osso is among those advocates and investors for whom green building represents a solution to "the current foundering of our economic ship."

As evidence they point to enticing tax incentives, market demand for high-efficiency buildings and recent reports showing quick paybacks. A 2008 study by the U.S. Green Building Council found that new green buildings use 30 percent less energy than their conventional counterparts, cost roughly 2 percent more to build and recoup the additional investment in as few as four years. In addition, commercial buildings certified by LEED or Energy Star have higher occupancy, draw higher rents and command greater resale values.

In fact, despite clogged credit markets, loans are still flowing to green construction. In October, Marriott broke ground on what will be the first green hotels in Arlington County, a Renaissance and a Residence Inn. Both are being funded by Wells Fargo. And that's only the beginning, says the bank, which pledged to double financing of LEED-certified construction to top \$2 billion.

By supporting the construction of resource-saving buildings, Larry Chapman, head of commercial real estate at Wells Fargo, said in a statement, "We can achieve long-term value for our businesses and our society."

Long-term business is already balancing out short-term losses at Building Logic. “We’re getting more and more calls, lining stuff up for a year or two in the future,” says Sims. “Everything’s going green.”

While the recession may cause a slowdown, Osso says green building is the future. “It’s going to keep growing.”

Towne Center West and West Broad Village — representing more than 500,000 square feet of new retail — are sprouting on West Broad Street in Henrico near Short Pump Town Center. In Chesterfield County, the new 1.1 million-square-foot Watkins Centre includes a retail component, Westchester Commons, with many stores scheduled to open in the spring. Ditto for Hancock Village, a 534,000-square-foot shopping center off U.S. 360 in the county. With some stores barely scraping by in response to reduced consumer spending, brokers wonder how soon the new retail space can be absorbed.

Roanoke region

As one of the smaller markets in commercial real estate, Roanoke typically doesn’t see big highs or lows. Yet it’s not immune to economic downturns. Three companies in western Virginia — a lighting manufacturer, a hospital chain and a logistics company — recently announced a total of 130 layoffs in response to the recession.

Still the city isn’t seeing high vacancy rates, says Ed Hall, president of Hall Associates Inc. By year end, office vacancy rates stood at about 10 percent.

“We still have reasonably good leasing activity,” notes Hall. Retail also has held steady, but Hall expects more bankruptcies in this sector. “If you’re not a strong player, you’re not going to make it.”

He’s not looking for any major new developments next year. Last fall, downtown Roanoke celebrated the opening of the ultra-modern Taubman Museum of Art, a project expected to boost tourism in this mountain city. Roanoke also is working on an ambitious plan to revamp its downtown Center in the Square, which houses Roanoke’s well-known farmer’s market.

Long term, Hall says the project that will have the biggest effect on Roanoke and its commercial real estate market is construction of a new \$59 million medical school and research center. Work began in October on the joint venture between Virginia Tech and Roanoke’s Carilion Clinic. The project, notes Hall, is bringing in high-paid doctors and other jobs related to the medical industries. “As a community, we’re hanging our hat on the future of the medical industry, the business surrounding that and our relationship with Virginia Tech.”

Hall expects the service-based part of his business to grow somewhat in 2009. However, “we think the sales business will be volatile. We’re projecting 20 percent less volume on sales of commercial real estate in the Roanoke area.”

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