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## Home Builders Go 'Green' To Seek New Selling Point

By **JIM CARLTON**  
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More builders are adding "green" features to their new homes. It is a strategy born out of necessity.

In October, the Trilogy division of Shea Homes rolled out a program dubbed Shea Superiology for its 1,500 to 2,000 new homes this year. The homes will have environmentally friendly features such as increased insulation and energy-efficient electronic appliances. **KB Home** this year also began including appliances awarded the federal Energy Star rating for high energy efficiency as standard in homes, even though they cost more than those without the designation. And **Pulte Homes Inc.** is adding more insulation and energy-saving appliances at some of its subdivisions in the southwestern U.S.

Interest in green homes was high at the International Builders Show in Orlando, Fla., where the National Association of Home Builders declared Feb. 14 "Green Day" and announced a national green building program that enables builders to achieve certifications they can advertise to the public. The numerous environmental sessions included: "Ride the Green Wave or Be Swept Away."



Dan Fowler


OCR Solar and Roofing contractors install solar panels in Danville, Calif.

The push for environmentally friendly construction comes as the housing industry remains mired in a deep and protracted slump, with single-family housing starts off more than a third from 2005 and widely expected to keep sliding this year. To stand out from the crowd, big home builders are going green for the first time or are expanding their existing programs -- a departure from previous practice, when environmentally friendly building was mainly limited to a niche of smaller builders. But results so far are mixed: some developments report increased traffic but no pickup in sales. Other builders say sales are on the upswing but it is too early to tell whether it is at a faster pace than their comparable, nongreen developments. And the higher cost of green construction is proving a hurdle for some companies.

Overall, as much as 10% of all housing starts, at a market value of \$38 billion, are expected to include environmentally friendly construction by 2010 -- up from 2% of starts, or \$7.4 billion, last year, according to the National Association of Home Builders. The trend is also getting a boost from the federal government: The Department of Housing and Urban Development has in the last year sponsored "concept homes" in Omaha, Neb., and Charleston, S.C., that include various green features.

"We definitely think [green building is] a selling point, and we think it's here to stay," says Jeffrey Mezger, president and chief executive officer of Los Angeles-based KB Home, which built about 23,000

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homes last year.

There is some evidence that the green push is working. In KB's Orlando division, for instance, officials say 35% more buyers have opted for upgrades like better-insulated rooftops and higher-efficiency washing machines since the program started.

Consumers have also responded favorably to Shea Homes' new green program. Although sales prices of the homes with environmentally friendly features run 3% to 4% higher than those of comparable properties, buyers told the Scottsdale, Ariz., builder in surveys that they would be willing to pay more for a green home in return for energy savings. In one Phoenix-area subdivision, Encanterra, Trilogy officials say they have sold 83 homes since opening it in November, or twice as fast as the local market.

And in California, OCR Solar and Roofing Inc., a contractor that installs solar panels, says that at least two of its builder customers switched to making solar power a standard feature rather than an upgrade when they were each midway into building tracts in Northern California late last year.

But home builders face substantial financial hurdles. KB Home, for instance, posted a 32% drop in revenue to \$6.4 billion in 2007, and analysts are expecting revenue to decline 41% this year. A spokeswoman for Shea's Trilogy, a unit of J.F. Shea Co., Walnut Creek, Calif., says it is too early to compare sales against nongreen Shea homes.

Among other obstacles, green building can be costly. Industry experts figure that features such as energy-efficient appliances and better insulation can add 3% to 5% to the cost of a home. Ed Nardi, president of Cresset Group, is constructing three condominium projects in the Boston area with features including thicker windows and less power-consuming heating and air-conditioning systems. But he says the Boston market is so soft that his company is unable to pass on its added 2% to 3% costs for going green.

Such costs have taken a toll. Pardee Homes, a Seattle-based builder that is owned by forest-products giant **Weyerhaeuser** Co., is backing off a green program it started last year to include Energy Star appliances as a standard feature in its homes. It costs about \$50 more for an Energy Star dishwasher than a conventional model. Dan Fulton, Weyerhaeuser's president, cites falling home prices for the move, although he stressed the company remains committed to an overall green strategy.



A show home for green construction features a rainwater-capture system and solar shingles.

Environmentally friendly building doesn't always result in immediate new sales. At its 78-home Timber Creek development in Las Vegas, which opened in April, Pulte Homes had retrofitted in January the models to be certified as green under local green building standards. Features include ultraefficient air conditioners, dual-pane windows with a metallic coating that blocks out the sun's heat and low-flow toilets.

The Bloomfield Hills, Mich., builder says visitor traffic to the development has since increased, with customers drawn in part by estimated monthly savings of \$60 to \$80 on their power bills because of increased insulation in the Nevada heat. Still, Pulte officials say it is too early to tell what impact the move will have on sales; to date, 50 of the homes in the Las Vegas development have sold.

Overall, Pulte remains on a downward track, with analysts expecting another 27% drop in revenue this year after a 35% decline in 2007 to \$9.3 billion.

Meanwhile, some environmentalists accuse builders of hypocrisy in labeling homes as environmentally friendly. Authorities suspect ecoterrorism in fires Monday that gutted three homes and damaged two others under construction in a Seattle suburb where the builder was promoting the green practices used in constructing them. The development in Woodinville, Wash., had been opposed by some residents and environmentalists for being too close to sensitive areas like a pristine stream.

Nonetheless, a whole cottage industry has sprung up to help builders design green. Hilltribe Homes, an Ontario, Canada, green designer, said that after starting business in December, it has signed a contract of approximately \$500 million to provide services for a development of 6,500 green homes in Victoria, British Columbia.

Meanwhile, Cherokee Investment Partners, a private-equity fund in Raleigh, N.C., in December opened a show home that has been certified by the builders' association as the first green home built in an existing development. Officials of the equity fund, which specializes in socially-responsible investments, say they built the five-bedroom, \$500,000 home with traditional-looking designs to show other builders it could be done.

Among its features: a wheat kitchen cabinet coated with a cherry veneer, and solar shingles that match the look of shingles of older homes in the neighborhood. Jonathan Philips, senior director for the firm, has moved into the home and says builders from all over the country have come to tour it.

"This green revolution is coming, whether the builder likes it or not," says Ed Sullivan, chief economist for the Portland Cement Association, an industry trade group based in Skokie, Ill. "The consumer wants it."

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