



# Green Business Plans For Home Builders

By Michael Fickes

## As the demand for green homes grows, it may be time for homebuilders to develop a green business model.

Two years ago, Peter Guida was a small niche homebuilder with two employees. Based in Montgomery County, the niche was relatively stable: his customers wanted to tear down their existing homes and build new ones. They owned their existing homes and could finance the projects with equity.

But the economy was dying, and Guida's business was doing a fast fade.

He was holding two \$2.5 million spec homes plus an \$850,000 lot with no prospects. Two clients had just bailed out of the market, taking \$150,000 with them.

"That's when I came up with the idea of the incredible green home," Guida says.

The idea became a business plan. Today, despite the continuing recession, Guida is president of Bethesda and Chevy Chase-based Bethesda Bungalows, LLC. The company employs 18 people and has \$8.5 million worth of homes under contract. Another \$10 million in prospective new business is sitting in the company pipeline awaiting contract signatures.

The green homebuilding market is exploding across the country. McGraw Hill Construction estimates that green homes will hold 12 to 20 percent of the value of new construction starts by 2013. The dollar value of the market segment would be \$40 to \$70 billion.

And that's not all. McGraw Hill says that the overall market for green homes could reach \$9- to \$140 billion within five years.

Have you added a green component to your business plan? Have you thought about how to do that?

"There are three very different value propositions that homebuilders can use to develop green business," says Sam Rashkin, national director for Energy Star homes with the U.S. Environmental Protection Agency (EPA).

### Three Value Propositions

In brief, Rashkin's value propositions are: offer a better home for less money thanks to energy efficiency; offer a more comfortable home for 25 to 30 cents

"Green homes are durable, efficient and most of all comfortable. They are warm in the winter and cool in the summer."

per day; and offer a more environmentally friendly home, again for 2- to 30 cents per day.

"You can mix and match, but it's probably better to pick one, learn it and build a business around it," says Rashkin, whose new book will be out soon: "Retooling The Housing Industry: How it got there. Why it's broke. How to fix it."

**Better home for less money:** According to Rashkin, a builder marketing green with this approach would emphasize the monthly energy savings produced by a tighter structure and energy efficient heating, ventilating and air conditioning systems. Tightly sealed homes can also sell comfort, because they will shield against pollen, bugs, dust and moisture, adds Rashkin.

**More comfortable home:** According to Rashkin's calculations, a comfortable green house with reduced risks related to indoor air quality (IAQ) costs just 25 to 30 cents per day more than a conventional house. Thirty cents per day for 30 years comes to \$3,285 or about \$9 per month. Marketing would focus on improved ventilation, better filters and moisture protection and the use of low-VOC building materials and coatings.

**An environmentally friendly home:** Rashkin's third value proposition targets customers willing to spend an extra \$9 per month to protect the planet. Marketing would play up the use of sustainable forest products, recycled products, water conserving faucets, sustainable landscaping, improved waste management and so on.

## Selling Energy Efficiency

Efficient Home, LLC has adapted Rashkin's first value proposition, saving money with an energy-efficient home, to the remodeling market. "Our primary business is conducting energy audits of existing homes and making energy efficient improvements," says Tony Crane, a partner with the Burtonsville-based homebuilder.

Efficient Home improvements include sealing homes with new insulation for walls and attics, new doors and replacement windows. Efficient, modern heating, ventilating and air conditioning (HVAC) equipment helps pay off the improvements by delivering lower monthly utility bills.

The remodeling angle has made customers out of the region's utility companies. "We do a ton of projects for utilities," he says. "We're under contract with PEPCO, SMECO, Delmarva Power and BG&E. We work with their limited income customers. The utilities hire us to make their homes more efficient."

The utilities also help the Efficient Home market energy audits and related improvements. Most have programs that subsidize the cost of energy audits and provide rebates to customers for making energy efficient improvements.

Crane notes that he doesn't use the terms green or sustainable in his sales pitch because green has the connotation of being expensive. "Our marketing angle focuses on saving money by using energy more efficiently," he says.

Finally, Crane believes that his new business plan offers an effective barricade against the recession. "This is a good niche to be in right now," he says. "It can tap into a lot of the subsidy funds in the market."

## Comfort Homes

BOWA in McLean, VA, uses Rashkin's second value proposition — selling comfort — to market its green renovations to high-end homeowners.

"We specialize in renovations, but we also do a few custom homes every year," says Doug Horgan, a vice president with BOWA.

Horgan says that the green part begins with BOWA's culture of quality. "Green building is the same as building well," he says. "Green homes are durable, efficient and most of all comfortable. They are warm in the winter and cool in the summer."

"Comfort is crucial to green homebuilding. If you build a home that is warm in the summer and cool in the winter, it will waste energy on air-conditioning and heating."

While BOWA markets the comfort value of green, Horgan observes that environmental concerns often motivate the company's high-end customers.

## The Incredibly Green Home of Chevy Chase

Back in March, the U.S. Green Building Council awarded Peter Guida's brainchild — The Incredibly Green Home — a LEED Platinum certification, the highest certification offered by the Leadership in Energy and Environmental Design (LEED) program.

The Chevy Chase home also received an Emerald rating under the National Green Building Standard (NGBS) developed by the National Association of Home Builders (NAHB), making it the first home in the nation to receive both LEED Platinum and NGBS Emerald ratings. The EPA has also certified the home under its Indoor airPLUS and EnergyStar programs.

The Incredibly Green Home's design focuses on energy efficiency with a ground loop geothermal HVAC system, low-e argon windows, a 1.75Kw grid-tied photovoltaic solar system, LED recessed lighting and spray foam insulation. Other energy efficiency upgrades include an insulated foundation, an energy recovery ventilator and an outlet for an electric vehicle. The energy saving design earned the home a 41 Home Energy Rating System (HERS) score. (The lower a home's HERS Index, the more energy efficient it is.)



Bethesda Bungalow's "Incredibly Green Home"

Low VOC (volatile organic compounds) paint, recycled fiber carpet, bamboo and recycled glass countertops, cork flooring and Forest Stewardship Council-certified hardwood flooring ensure the indoor air quality (IAQ) and environmentally healthy character of the structure.

Guida's Bethesda Bungalows started out with a business plan that features all three of Rashkin's value propositions: energy efficiency, comfort and environmentally friendly.

In January, Guida plans to introduce a more targeted marketing angle focused more on the environmentally friendly proposition. "We're launching the 'just right-sized home,'" he says. "That's our franchise in the teardown and infill market."

"That is the resource-friendly third proposition," says Rashkin. "It is smaller and uses fewer resources. The resources it does use are local and recycled or renewable. In short, it is a home an owner can feel good about."

## Learning Green

Green-wash is a term coined by the green building industry to describe marketing or business plans that claim to be green but aren't.

Advertising people have a saying: The best way to ruin a bad product is good advertising.

That's an important concept for builders thinking about getting into the green building business. Green is a good advertising angle today. Advertising yourself as green when you aren't won't work. In fact, it will work against you. Word will get around.

The point is that the first step in entering the world of green homebuilding is to get a green education.

"If you are interested in learning to build green, the EPA's EnergyStar program is a good first step," says BOWA's Horgan. "EnergyStar is the first step toward understanding LEED and the NAHB's NGBS program."

Horgan also recommends a new master green certification program from NAHB along with a course offered by the Building Performance Institute (BPI). For remodelers, Horgan points to green training provided by the National Association of the Remodeling Industry (NARI). (MNCBIA has recently launched a Remodeling Council, who will soon offer courses of its own.)

"It is important to learn the green world and then to apply what you have learned to what you do," advises Horgan. "Figuring out how to change the way you build houses is a lot of work."

But that's what you have to do to turn your business green. ■