



GREEN IS RED HOT



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As we went to print, the first quarter financial results for the construction industry were just starting to be reported. While those numbers have shown a tilt upwards, the building economy will more than likely remain flat or show modest gains over comparative periods for 2006. McGraw-Hill Construction, a national builder, noted a 7% increase in February over January but a lagging of 15% in comparison to the same period last year. So the challenge for the entrepreneur is to build a business plan in a stagnant market. Distinguishing yourself from your competitors should be a key element.

You can spend more on advertising budgets, cut costs or offer incentives to attract new customers. All are real solutions that could increase revenue, but your competition could implement the same strategy. However, there is an alternative that could provide a sustained advantage and that is technology. We are not talking about more computers or cell phones. We are talking about the hottest words in a smart contractor's vocabulary.

“Green Technology” or “Building Green” are the buzz words describing the use of a new construction trend that emphasizes energy conservation – the use of materials that are environmentally friendly and products that will reduce pollution and improve living spaces and conditions. These include building materials that are mold resistant or recycled, as well as the installation of solar panels that will reduce the demand for the consumption of fossil fuels.

Since the beginning of the industrial revolution, technology has always been the catalyst for growth. Whether it was Eli Whitney's cotton gin or Bill Gate's computer software, the use of innovation has spurred our economy to sometimes unprecedented growth. With a tighter market, an increased supply of home inventory and uncertainty about interest rates, builders and other construction professionals will need to think in terms of smart choices for homes being offered to consumers.

At the National Green Building Conference in St. Louis, Missouri in March, the National Association of Home Builders (NAHB) provided insight obtained through their most recent survey of members. NAHB's survey showed that one quarter of all respondents saw a demand for green remodeling. This demand was seen not just as an increase in the selection of energy efficient home appliances; but in use of engineered woods, recycled materials and low flow-water fixtures to name a few. The remodelers noted a strong preference by their clients to use materials or resources that would increase the energy efficiency of their homes by reducing utility costs. Consumers are also becoming increasingly savvy and creating home environments that enhance the quality of life.

This summer a new program will be launched by the United States Green Building Council, a not-for-profit organization in Washington, D.C., to increase the awareness of home certifications under its Leadership in Energy and Environmental Design (LEED) designation. This program, according to the organization's fact sheet, will provide homeowners with the knowledge that they have a high-performance green home that will cost less to operate. LEED homes will offer:

- Economic benefits such as lower energy and water bills
- Environmental benefits like reduced greenhouse gas emissions
- Quality of life benefits like improved comfort and less maintenance
- Health benefits such as reduced exposure to mold, mildew and other indoor toxins
- Third party verification that their home has been inspected, performance-tested and certified to meet LEED green building criteria

The first wave of the campaign will focus on builders applying for certification and the benefits attributable to it. Certifications range in cost from \$500 to \$3,000 depending on the square footage of the dwelling and can often be reimbursed to the builder through rebates or grants offered by local utilities, state energy organizations, national building suppliers and other corporate sponsors.

How big of an impact does the “Building Green” industry have? Nationally, green technology has attributed to a \$7 billion dollar growth rate by providing one billion square feet of building space. In New Jersey alone, we have 78 commercial projects that are LEED certified and that number will only grow. Much of this growth has been fueled by the collective consciousness of an industry that recognizes that the building sector accounts for a major portion of CO2 emissions and that global warming is a real threat.

All of this emphasis and growth demonstrates the ability for builders to begin distinguishing themselves from their competitors. By showing consumers the benefits of choosing the right building materials or providing alternatives that will lower the cost of operating their homes the builder will win the consumer’s confidence and secure the sale. This type of differentiation will allow the proactive builder to grow their company even in today’s market.

“Green Technology” is not just good for the homeowner, but the taxpayer as well. The Toms River Regional Schools in New Jersey has just completed the installation of solar panels on 20 of its facility’s roofs. Implementing a plan created by the New Jersey Clean Energy Program and the SmartStart Schools Initiative the School District will reduce its energy costs by 20% a year for the next 25 years. A combination of Renewable Energy Credits (REC) totaling \$400,000 a year and \$7.2 million received over three years from the New Jersey Board of Public Utilities (NJBPU) will offset the installation costs. The School District will also save money by developing its own reusable energy source. In January of this year, the district received its first rebate from NJBPU for \$2.5 million. This is just one example of a win-win project for both the builder/contractor and consumer that illustrate the need and benefits of thinking “Green”.

As one of the leading accounting and profitability consulting firms for the construction industry, Cowan, Guteski & Co., P.A., knows the issues that contractors face on a daily basis. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or bmcnamara@cowanguteski.com to discuss your particular situation.

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