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Going green seems to be emerging as one of the ubiquitous catch phrases in the real estate industry. Our goal here is to examine the factors that may determine whether or not we really are going green. To what extent will energy efficient criteria and energy efficient devices become prevalent factors in the real estate industry?

A look backward may be instructive, as this is not the first "green revolution" that we have experienced. During the 1970s, OPEC-induced high energy costs and even fuel shortages (remember those gas lines?) produced an acute American consciousness about energy consumption. The crisis of the 1970s surely resulted in some changes, especially in the residential construction industry. The most visible result was the introduction of the Energy Star rating system for appliances. However, consumers have not made Energy Star appliances the dominant choice in the industry. Clearly, as with most energy efficient items, Energy Star rated appliances involve a cost premium. Apparently, many consumers do not believe that the funds saved in lower use costs over time justify the higher purchase prices. Perhaps less apparent to the observer, though more financially significant, has been the adoption of higher R-factor ratings for insulation materials and window treatments.

Interestingly, today, many building contractors report that energy conservation is becoming a useful sales tool in the marketing of new homes. How are builders able to supply costly energy saving amenities without increasing purchase prices? The truth is that they are not able to do so. Energy saving features substitute for other previously standard features no longer provided. There is no magic here. Energy saving materials incur higher up-front costs. Thus, a highly efficient instant-on hot water heater may replace high end kitchen cabinets and counter tops. High insulation window treatments may mean one gets a car port instead of a garage.

In the commercial real estate industry the incentives for building with more costly energy efficient products are even fewer. After all, in the residential field, the owner of the property later pays for the utility bills. In contrast, with the notable exception of the hospitality industry, commercial building tenants (not owners) typically pay the utility costs. Thus, it would seem that in order to pay higher construction costs, commercial building owners might need to be convinced that doing so will result in higher occupancy rates and rent rolls. Neither seem likely.

An even greater factor militating against a national conversion to energy efficient structures, is the present supply/demand status of both the commercial and residential real estate markets. At the present time, both the commercial and residential markets are thought to be highly over-built. As with automobiles, so with homes and commercial buildings. Both the population curve and the general economy simply do not allow forecasting the level of new sales that have been experienced is the recent past. From this vantage point, the emphasis on energy efficiency in new construction is misplaced. The focus should be upon retro-fitting existing properties, where the costs will be even greater! Yet, presently, the LEED for HOMES program of the United States Green Building Council, and others like it, focus more heavily on new construction.

Are we really going green? The answer to this question clearly hinges on what kinds of incentives are adopted. The most obvious incentives are financial, and the least onerous financial incentives are tax incentives. The United States government already has used sales tax forgiveness as a means of promoting hybrid auto sales (though not on all hybrids), and also has used tax rebates as a means of promoting first-time home purchases. Clearly if we are going to go green, a more comprehensive program of tax incentives will be needed. Even with such a program, it is clear that going green will take generations.

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