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Confluence of forces leads to a new era for the built environment

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We are at a crossroads, and depending on your perspective, it could either look like we are on the precipice of a new era or that we have gone over the cliff. The incredible run of all aspects of real estate sure felt good while it lasted.

Unfortunately, the subprime-induced credit tightening has turned into a downturn possibly more painful than we saw in the early 1990s. It appears that no property sector has made it though unscathed. Residential woes are old news even though they seem to be getting worse by the day.

Retail spending is down, fuel costs have forced consumers to rethink vacation plans, hiring has slowed, and the story goes on. As bad as it is, and it is really bad, any real estate industry veteran can tell you that the market will inevitably bounce back with a vengeance -- we just wish we knew when. But there is a bright spot on the horizon.

This could be a time for all of us to retool and find ways to become more competitive. The interesting thing about real estate recoveries is they always seem to start small, and as the cycle becomes overheated, our irrational exuberance leads to building types and styles that prove excessive. Remember the average San Diego tract builder home produced in the late 1980s? Large homes on large lots with large price tags. As that product market collapsed and we started rethinking housing, we began planning on those very same vacant lots, houses that were scaled back in size and finish. The homes became smaller and more efficient.

It's interesting to observe how this has converged with the boom in sustainable building practices. In literally every past cycle, including the oil embargo of the late 1970s, we did not face the issues of global energy crisis and environmental concern.

Now we face direct costs from oil and concerns over climate change that make still low-cost energy sources, like coal, a dubious alternative because of the long term costs associated with its use.

This pause in the market may allow a paradigm shift to take place. In the United States half -- fully 50 percent -- of all greenhouse gases are emitted from the construction and operation of buildings. Cars, industry and everything else pales in comparison. Carbon emission is a proxy for another problem, energy usage.

While some in the real estate industry may have genuine concerns of the long-term effects of carbon emission, everyone in the industry is concerned about costs. Energy inefficiency means higher operating costs. Construction waste means you purchase expensive raw materials only to discard them -- at rising dump fees.

All of these issues lead to lower yields and higher risk. As an example, a friend just moved into a new LEED certified condo with solar power. Her power bill in June was $16 -- a month she used her air conditioner. The bill was a fraction of her former 1970s era single family home.

In the past few years LEED has gone from a little know design concept to the forefront of every type of new development. Soon LEED will simply become part of our local building codes and the expectation of every major tenant, investor and asset manager.

No one is well served by the current economic climate, but there could be a silver lining that will serve our economy and our environment as the confluence of rising energy prices, market demand and climate change elevate the dialogue on sustainability.

Will a McMansion that does not use the latest technologies to ensure energy efficiency in a bedroom suburb be competitive when the market rebounds? Will a low-rise, non-LEED, certified office park command Class A rents, status and investors? Clearly not. The most savvy and well-positioned developers and real estate professionals have begun to focus on what is not only sustainable for environmental reasons, but the new awareness of cost. Sustainability is not more expensive, but in fact yields a better bottom line today and in the future of any real estate asset.

The sad truth is that this retooling is not universal. China, India, Dubai and many other emerging and surging economies are looking to American expertise to help guide their land use and development activities. What is the

model? Frequently it is a suburban American dream -- Orange County. Wide roads, large single-family homes, sprawl -- our post World War II development model that many in the United States are trying to get away from. As we look to recreate compact urban designs and transit systems that emerged in this country between 1890-1930, these emerging economies look to our 1950s era Federal Highway Act-induced development patterns.

Even more concerning is that their more equatorial and arid environments may be ill suited to such resource intense development. While it is true that there are some sustainable plans -- such as Dubai's attempts to develop a zero-carbon new town for 50,000 -- many are not.

We have some of the greatest intellectual capital on the planet. It is my hope that our real estate and design expertise can be harnessed during this pause in the U.S. market to evaluate more sustainable models of land use and development.

This should not only be in anticipation of a turn in our market, but it should also create opportunities to export these models to the emerging economies that need them as well.

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