

Industry Rebound Will Require Balanced Approach

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Crisis can bring clarity of purpose

The cascading effect of the financial crisis that is rocking the world provides us with a tremendous opportunity to hammer home the fact that true sustainability—balancing the needs of people with those of the environment and financial success—is the global solution to the problems we face.

The paragraphs below focus on each of those three areas—people, planet and profit—as they relate to the events that captivate our world today. Within each area, you will see the tendrils that bind them all together.

Profit: Land -Development -Economics

There is no need to get bogged down in technical jargon. The economy is officially in the tank. Land development professionals have been experiencing the downturn for two years now — and the whole world has followed suit. What started with the bursting of a housing bubble has become the most severe recession in 50 years, and the worst financial and banking crisis since the Great Depression.

Burst Consumer Wealth

The fundamental reason this financial crisis is so severe is that Americans have become buried under mountains of debt, while their assets have plunged. The housing bubble helped inflate consumption, as U.S. households took advantage of poorly regulated new financial instruments to purchase more expensive homes and tap rising home equity. According to Nouriel Roubini, former senior adviser to the White House Council of Economic Advisers and the U.S. Treasury Department, “millions of families are now insolvent, into negative equity territory, and on the verge of losing their homes.” As a temporary measure, Fannie Mae froze all home foreclosures late last year, but further action is needed to address the root cause of the problem.

More tax rebates to spur spending won’t solve it. Only debt relief will sustainably raise discretionary income to prevent the recession from becoming more severe. Ethical questions of how to “forgive” millions of Americans from what could be construed as irresponsible decision-making abound. Nevertheless, action must be taken or the problems will continue to escalate. There are a number of plans on the table, including allowing Fannie and Freddie to reduce the face value of mortgages, cut mortgage rates and insure inexpensive reworked loans through the FHA.

It is likely that a home value adjustment/loan program, new regulations and/or incentive plans will be put in place to help Americans adjust to more sustainable economic models of living. This will result in a trend toward smaller homes and simpler lifestyles for the vast majority of American homebuyers in the next couple years.

Credit Availability

The bursting of the housing bubble has caused the credit markets to seize-up like never before, as bad debts at banks have mounted. The freeze reached epic proportions in the fourth quarter of last year, as its impact resulted in a rapid meltdown of the stock market, and the loss of trillions of more dollars in net worth.

Retirees became panicked, and the entire financial system came into peril. Congress stepped in by approving a controversial (but unavoidable) \$700 billion bailout of our banking system — which specifics have yet to be completely determined or implemented. It remains to be seen whether it will ultimately be enough. The Troubled Assets Relief Program (TARP) has injected \$250 billion into banks as an equity investment to offset bad debts, free up cash to lend, and restore confidence in the markets. Credit availability must be provided to the corporate sector to help avert a short-term debt refinancing crisis for solid but now illiquid corporations and small businesses.

In 2009, financial regulations must be reformed to fuel sustainable economic growth and make credit available to worthy recipients. Regulations must focus on sustainable underwriting standards and fair banking practices, including such things as standardizing credit rates and fees.

More Will be Needed

The most important questions at this point are; how deep will this recession go and how long will it last? Historically, housing cycles take up to four years to go from peak to trough. This implies an upward headwind beginning in 2010, which would make Skip Preble’s Last Word article from April 2008, entitled, “Hang in ˜til 2010” rather prophetic.

Of course, the answers to those questions ultimately depend on what we do from here. All financial crises are resolved with some government intervention, which has a significant cost, but a disorderly market would end up being even more

costly, as thousands of people and otherwise solid companies and banks would go bankrupt, making the costs much larger and more painful. The issues that come into play are how to make it less costly while more effective and ethical.

The Obama administration must have a second dose of medicine that is stronger, more enduring, and different from the initial stimulus programs of consumer tax rebates, business tax cuts and bank investments. This is clearly not a normal recession. It is a post-bubble slowdown spurred by the de-leveraging of America's household and financial sectors. A new path is needed to ignite a short-term recovery, and then to sustain long-term growth, but what actions will be most likely to have the most significant and lasting impacts?

Sustainable Development is the Answer

To get us out of this mess, there is now widespread support for some initiatives that SLDI has been espousing for the last year. There needs to be a massive stimulus — at least twice the previous initiatives — that provides incentives for investment in the two most promising sources of sustainable growth — America's enormous infrastructure needs and the exploding global demand (created by the combination of the economic, environmental, and behavioral demands of our civilization) for innovative sustainable technologies.

According to Paul Volker, former chairman of the Federal Reserve Board, it would serve the nation's economy well for the U.S. to step up its investment in infrastructure. By emphasizing "financial engineering" over civil engineering for too long, the U.S. wound up with "lousy infrastructure and a lousy financial system." To dig out of the economic hole, Volker said a new fiscal stimulus is needed: one that will grow the economy in a sustainable manner, with less emphasis on consumer spending and more emphasis on long-term, wide-ranging, job-producing investments such as infrastructure programs.

Public infrastructure is in disrepair, and private infrastructure is predominantly unsustainable. The nation's schools, hospitals, roads/bridges/mass transit systems/air travel system and even our electric grid are inadequate to meet the nation's current requirements, let alone the requirements of an expanding, vibrant, dynamic, 21st century economy. It's very hard to grow at capacity if your infrastructure isn't up to standards.

Providing incentives to economic activity that enhances our basic quality of life and minimizes our environmental impact will reduce our long-term costs and increase our profits in a sustainable way. From the government's perspective, increased revenues associated with sustainable, long-term economic development will more than offset the temporary reduced revenues the incentives might bring.

The goal of the next recovery program must not be to recreate the pattern of more short-term consumer-oriented stimulus, but to steer the economy onto a more sustainable growth path. Future economic growth must be driven by investment in the infrastructure — public and private — that leads to the creation of good jobs and rising wages.

Planet: The "Land" in Land Development

There is world-wide consensus, as evident by the results of a recent United Nations' Environment Programme-sponsored meeting, that the fragmented international response to meet the continual decline for the world's natural resources is not resulting in a significant improvement.

At first glance, the current economic crisis may appear to be a setback for environmental responsibility, but many in and around the green movement contend the opposite, seeing in it a time of unprecedented opportunity.

Historically, willingness to protect the environment has been wedded to prosperity. When times get tough, people's eagerness to switch to renewable energy, buy a more fuel-efficient car or promote forest conservation melts quickly. In the 1980s, a fall in the price of crude oil ended the first dawn of green energy, as the big economies, led by the United States, returned to their dependence on oil.

But this time conventional wisdom is flawed in many ways, sometimes unexpectedly so. For instance, a worsening economy causes less greenhouse-gas emissions in the short term, as it lowers consumption of dirty coal, oil and gas by factories, homes, planes and cars.

Bail Out the Environment and Create Jobs

In the face of the twin challenges of stagnating economies and environmental degradation, stimulating green industry is more important than ever, according to a new assessment released by the Worldwatch Institute.¹ The conclusion — it's time for a bailout for the environment: one that creates jobs, is global in scope, and can help rebuild communities amidst the ashes of the current economic crisis.

Green jobs are not only about renewable energy employment. All kinds of land development including residential and commercial buildings, transportation systems, agriculture, forestry and basic industry have the potential to create jobs that help reduce humanity's footprint and protect the environment. This approach prioritizes the development of more environmentally benign technologies; greater efficiency of energy, water, and raw material use; altered lifestyle and

consumption choices; economic restructuring; and environmental restoration efforts. It also requires adaptation to those changes that now seem inevitable and perhaps irreversible.

Some of the issues that will need to be resolved include a current lack of rules and standards, and the fact that environmental costs are too often externalized, making it harder for green enterprises to compete.

Integrating social and environmental aspects into the cost of doing business and undertaking large-scale public and private sector investments will be key to realizing the massive potential that green jobs hold.

Government targets, mandates, business incentives, and reformed tax and subsidy policies must promote sustainable land development in order for the green labor market to take off.

There's a growing push in Washington D.C. for a green economic-stimulus package and leaders of major environmental and business groups have stressed the importance of connecting the dots between energy, the environment, and the economy. All stakeholders agree that the key to passing new U.S. energy and environmental legislation will be using it to spur economic growth — through building efficiency, mass transit, and infrastructure development.

Financial Solutions Must be Ecologically Sound

Europe's largest federation of environmental organizations urge the inclusion of ecological criteria in any package designed to help bail the world out of the current global financial crisis. The European Environmental Bureau (EEB) has prepared a letter addressed to heads of European governments urging a solution that is sustainable in all respects.

EEB contends that, while granting credit has not been based on real earning capacity, our consumption of natural resources in the last decades has also exceeded the earth's carrying capacity. This double-edged unsustainable behavior must be addressed from both sides.

EEB's Secretary General emphatically stated, "Requiring sustainability reporting and indexing for large companies in the stock exchange markets, using public money for application of currently available sustainable innovations in energy, transport, housing and agriculture, implementation of green public procurement, making capital for green innovative investments readily available and cheaper and encouraging tax shifts that reduce the costs of labor and increase the costs of resource use and pollution - these are just a few tools that should be on the table during any discussions for financial remedies to this crisis."

The International Organization for Standardization (ISO) membership comprises the national standards' bodies of 157 countries and is complemented by more than 600 international and regional partners and the participation of close to 100,000 experts.

ISO Secretary-General Alan Bryden commented: "While the content of the majority of ISO standards is technical, their implementation goes beyond solving technical problems to delivering positive results in economic, environmental and societal spheres."

Land developments are the largest physical things we build on the planet. Collectively they form the infrastructure of our civilization. Sustainable land development standards are essential to balancing the needs of people, planet and profit — for today and for future generations.

People: Meeting Market -Demands

Perception and reality are often different. In many instances, though, they are inescapably linked. In fact, it can be argued that some dominant perceptions become self-fulfilling prophecies of reality. While the current problems of the land development industry, as well as the American and global economies, are indisputable and certainly a reality, they have been influenced by perceptions.

While many spent last year hoping that the declines consistently being reported were fleeting and soon to end, the polling of consumer confidence throughout the year continually declined. Was the tumultuous collapse of our economy precipitated by the perception of the citizenry or was it a house of cards bound to fall on itself?

Likewise, there is still a widely held perception by professionals in the land development industry that incorporating sustainable principles is cost-prohibitive. This perception was enhanced by early adopters of environmental and "green" solutions that only were concerned with those issues. Reality, albeit now outdated, has fulfilled a perception.

Optimism to Pessimism

Well-regarded polling organizations have told us that the general public has become more wary of the economy throughout this past year. Measurements from virtually every poll show that consumer confidence in our economy has been on a steady and sometimes drastic decline since the summer of 2007.

Yet, when land development professionals who read Sustainable Land Development Today (SLDT) were polled last year, only a little over 11.5 percent thought that 2008 would be "slightly worse" or "much worse" in 2008 than 2007. In fact, 58 percent believed that this year would be slightly or much better!

While nobody could have predicted the circumstances that have led us to how bad this past 12 months have been, the reality has certainly changed the tone for next year. In a late November poll, SLDT readers illustrated their lack of confidence. Over 63 percent expect 2009 to be "bad," "very bad," or "one of the worst ever" for their respective business.

So is this relevant? Well, it does indicate that it will take a monumental change of circumstance and perception to turn the psyche of industry participants around. And, since our industry is comprised of many risk-averse professionals (i.e. financial experts, technical professionals) as well as those accustomed to taking on multiple financial risks (land developers), it will likely strain some relationships as skepticism and cautiousness increase.

But this also provides many opportunities.

Preaching and Practicing

The first opportunity in front of our industry is the broader communication of what "sustainability" truly means. While it is encouraging that 85 percent of Sustainable Land Development Today readers understand that sustainability requires a triple-bottom-line approach, it is somewhat distressing that some do not believe there are advantages and/or that it is not possible to succeed by incorporating sustainability into the land development process. Then, a closer review of the results and the comments provides understanding.

Many readers continue to have the same misunderstanding of sustainability that is held by the general public. Too many still equate the word "sustainable" with "environment." This misunderstanding is not a surprise based upon the overuse and bastardization of the word.

As defined by many, including Sustainable Land Development International, sustainability is achieved only when the triple-bottom-line approach is followed. This means that it is achieved by meeting social concerns and environmental concerns while meeting financial objectives.

This is a huge opportunity for our industry; not just because consumers are now demanding and expecting "green," environmentally-conscious, and energy-saving projects; not just because communities are wanting and legislating for the same; and, not just because it is the "right thing" to do. It is actually all three of these and more. Sustainability is in fact, the key to the financial treasure chest. If it is not financially viable, it isn't in fact sustainable at all.

With lenders and investors literally holding the keys to the safe where funds for land development projects are kept, they are going to scrutinize project plans and proformas even tighter than in the past. This will undoubtedly require a more in-depth financial plan, but it will also likely require a better handle on the typical and yet often unforeseen roadblocks that add time delays to projects that significantly change the profit margin of development projects.

Therefore, clearly researching, investigating, and understanding the entitlement hurdles as well as meeting and overcoming the community and environmental concerns that are likely to arise will need to be addressed before the project gains financing. This is a huge step towards achieving sustainability.

Overcoming the aforementioned hurdles will require almost every professional in the industry to change the way they do business. Developers will need to develop and share a vision for each project very early in the development process with an assembled team of planning, design, and regulatory professionals. Engineers and architects must learn and promote innovative solutions to development challenges and to take into consideration the financial constraints to make a project viable.

That is a start to achieve true sustainability. It is also one of the primary opportunities to unlock the door to access cash. And, finally, it will be a huge step in turning around our national economy. SLDT

1 The report is derived from a longer, in-depth study, Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World, commissioned for a joint initiative of the United Nations Environment Programme, the International Labour Organization, the International Trade Union Confederation, and the International Organisation of Employers. It is available for download at www.unep.org/labour_environment/features/greenjobs-report.asp