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Commercial Real Estate Grapples With Going Green in Recession

California developers and manufacturers await details of Obama's stimulus plan

By KEELEY WEBSTER

CREJ Staff Writer

Even as U.S. President Barack Obama has been making headlines for his "green team" and a proposal to invest \$150 billion over the next 10 years in green energy, Hayward-based Optisolar was forced to lay off 130 employees, or 50 percent of its workforce.

Optisolar Inc., a vertically integrated manufacturer of solar panels, is down, but not out.

"We are hopeful that the new attitude in Washington will enable us to come out of this holding pattern," said Alan Bernheimer, the company's vice president of corporate communications.

The employees who were laid off were hired to deal with the exponential growth the company was expecting after the interest in all-things-green took off and a series of federal, state and local policies and legislative initiatives took form to promote green business and development. But when Optisolar was not able to access the equity investment it needed for its planned manufacturing expansion, it was forced to trim staffing to what the current state of the business could support, Bernheimer said.

That state includes a solar farm under construction in Canada. Optisolar is constructing the first phase of its project for the Ontario Power Authority, Bernheimer said.

The company also is working on a two-year project to create a solar farm for the city of San Luis Obispo that will generate 550 megawatts. OptiSolar still is manufacturing solar panels out of its original facility in Hayward, Bernheimer said.

"We still have a large development pipeline," Bernheimer said. "We just had to defer plans for our second manufacturing facility we had planned."

Bernheimer called OptiSolar the poster-child for everything that Obama has been mentioning in terms of what industries he wants to support, which include renewable energy, green jobs, along with employment and manufacturing in the United States.

OptiSolar is working on an application for loan guarantees from the U.S. Department of Energy.

"We aren't sure exactly what form the economic stimulus package will take," Bernheimer said. "We hope our application at the DOE will be looked upon favorably."

Builders that began trammeling to build to the **U.S. Green Building Council's** Leadership in Energy and Environmental Design standards in 2008 likely are to benefit from the Obama administration's focus on green building.

"I think there will be a lot of opportunity for green building with the new incoming administration," said Jason Hartke, director of advocacy and public policy for the Washington, D.C.-based USGBC. "Green building is at the nexus of creating jobs, saving energy and saving money."

There will be an emphasis on greening federal facilities and a significant and sizeable commitment to green school construction and modernization, Hartke said.

He also expects there will be more tax rebates available for building energy-efficient buildings.

"There has also been a lot of talk about directing money to states and municipalities through an energy block grant to allow states to expand their programs and get creative," Hartke said. "The money could go to support a green building ordinance or support adding staff or the enforcement of a green building ordinance or create a program where there is a gap."

Los Angeles City Council President Eric Garcetti said that Los Angeles is poised to capitalize on this funding since its green regulations program requiring LEED certification of buildings greater than 50,000 square feet already is up and running.

"This green team closely matches what Obama has outlined for his environmental priorities," Garcetti said. "I am working on greening the recovery and investment package [for the city of Los Angeles]."

In addition, Obama's commitment to urban policy - rebuilding our infrastructure, with a focus on the densely populated areas - is right in line with the mission of the Los Angeles green team to advocate for greener building in the urban area, Garcetti said.

"Several projects have taken advantage of our incentive program," Garcetti said. "These are tough times and projects have slowed, but the development community has really embraced green building as our future."

John Allen, a partner in the Los Angeles office of **Allen Matkins Leck Gamble Mallory & Natsis LLP**, thinks the state itself has an advantage.

"The reality is that California is ahead of the rest of the U.S.," Allen said. "What we have done with Assembly Bill 32, the efforts toward smart growth and green growth are ahead of the nation."

It's the Economy, Stupid

Proving there still is validity to the catchphrase made famous during President Bill Clinton's first presidential campaign, current economic issues likely are to exert pressure on Obama's plans to green America.

"I think we are going to need to wait and see," said Peter Barsuk, chair of the board of the Los Angeles chapter of the USGBC and a project architect, manager and LEED expert at **Gensler**. "I'm optimistic, but the economy is the biggest concern right now. People are going to do things that make sense for the environment that also make sense for their pocketbook."

Developers already have started looking at LEED because all of the competition was doing it, Barsuk said.

"One of my clients said that he didn't want to be the last uncertified building in competition with all the other LEED buildings," Barsuk said.

Obama hasn't fleshed out the specifics of his plans to encourage more sustainable business practices and his "team of rivals" concept could place his Green Team in opposition to his economic advisors.

"Obama's economic team is likely to inject a dose of reality into the green team," Allen said. "I don't think it will be 'let's run rampant with every green idea you can imagine.'"

Obama has appointed Steven Chu, director of the Lawrence Berkeley National Laboratory, as Energy Secretary and Lisa Jackson, a 16-year Environmental Protection Agency enforcement officer, to head the EPA. He's considering Carol Browner, President Clinton's EPA chief, for an as-yet-undefined position coordinating climate-change policies, and Nancy Sutley, a former Los Angeles deputy mayor who oversaw energy and environmental issues, to head the White House Council on Environmental Quality.

"When you look at the 'green team,' the EPA nominee, the designee to the Department of Energy, and the former Los Angeles vice mayor named to head NEPA [National Environmental Policy Act] efforts, it does look very green and desirable," Allen said. "Then you look at Lawrence Summers [named to head the White House's National Economic Council] and those heading the economic side. It looks like Abraham Lincoln's team of rivals."

Summers was secretary of the Treasury for the final year and a half of the Clinton administration. Others on the economic team include Paul Volcker, who is currently chairman-designate of the newly formed Economic Recovery Advisory Board. Volcker, a Democrat, was appointed chairman of the Federal Reserve in August 1979 by President Jimmy Carter and reappointed in 1983 by President Ronald Reagan.

Volcker's Fed is widely credited with ending the United States' stagflation crisis of the 1970s. Inflation, which peaked at 13.5 percent in 1981, was successfully lowered to 3.2 percent by 1983. The federal funds rate, which had averaged 11.2 percent in 1979, was raised by Volcker to a peak of 20 percent in June 1981. The prime rate rose to 21.5 percent in 1981 as well.

Obama has announced an aggressive spending plan - the largest public spending initiative since World War II. In total the stimulus plan is expected to add \$1.3 trillion to \$1.5 trillion to the national debt.

"I think we are going to have inflation. I don't see how we can avoid it, but we need to do something," said Raphael Bostic, associate director of the University of Southern California's **Lusk Center for Real Estate** during an economic forecast hosted by the Southern California Development Forum on Jan. 13 at the Luxe Hotel in Los Angeles. "There was not a single month in 2008 that we saw job growth. We have seen a tremendous deterioration."

Bostic called the current economic state a "somewhat depression," adding that government needs to do something to get us out of it even at the risk of inflation.

The Fed has run out of tools it can use to tinker with the economy, Bostic said. The Fed funds rate is close to one fourth of 1 percent; that means there is not a lot the Fed can do in terms of policy.

"House prices and consumer confidence are the worst we have seen in decades," he said. "That is a significant problem because the consumer drives the marketplace."

Until the psychology of the consumer changes, it will be hard to predict when the economy will begin to move in a positive direction, Bostic said.

"This is quite troubling," he said.

Fed Chairman Ben Bernanke recommended in a speech on Jan. 9 that the second half of the \$350 billion approved by Congress in the bailout be spent on the mortgage-backed securities and commercial mortgage-backed securities the money was originally intended for. Obama also has plans for an economic stimulus bill, expected to exceed \$825 billion, to be earmarked for infrastructure spending and tax cuts.

"The first half of the money has been spent, but we haven't seen a measurable outcome," Bostic said. "It will be interesting to see how it plays out. The first installment didn't have a lot of strings. You can be certain the second half will."

Obama wanted the proposed \$825 billion stimulus package to be passed the third week of January, but it is expected to get passed in February or March.

"There is not a lot of information out yet about what he will spend the money on," Bostic said. "The benefit will depend on what industries he chooses to support."

Among the industries that have been mentioned are health care, physical infrastructure and education.

"All three have needs, but I suspect the decision will be made on where to put the money based on which one or ones will get us where we need to be," he said.

California's Conundrum

Even as Gov. Arnold Schwarzenegger expressed support for the recently adopted Assembly Bill 32, he recently wrote a letter to Obama asking that he slow down or streamline the National Environmental Policy Act process. In his letter, he said that the state has projects totalling \$44 billion that are going to get caught up in NEPA, Allen said.

"The governor is asking [to] relax the rules or it will halt the construction of airports, roads and schools," he said. "We need economic stimulus more than we need environmental benefits. So which will drive the train? The economy will."

Many developers find the California Environmental Quality Act much more cumbersome when it comes to developing projects, Allen said.

"We are talking about green for green's sake versus the economic sector, instead of guns and butter it's green or butter," he said. "Now the answer is we want economic stimulus first and in a way that won't impair the environment."

It's unlikely that either NEPA or CEQA will be streamlined even if it means getting more dollars on the street through infrastructure programs, Allen said.

"It becomes their third rail," he said of California leaders in a position to advocate for streamlining the process. "You don't want to mess with NEPA or CEQA if you want to maintain environmental street cred. Those programs always have to have full participation from all stakeholders."

While Allen said the economy will win, he doesn't see the current administration going on environmental clean-up efforts.

"They will clearly give more support to the EPA - to maintain the Clean Air Act, the Clean Water Act and the statutes such as the Superfund," Allen said. "But those efforts continued even under the Bush administration. I don't think they will cripple or hobble industries by not allowing things to get built."

- E-mail Keeley_Webster@DailyJournal.com

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