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Investing in clean green energy: The benefits of solar for commercial real estate owners - by Yaniv Kalish

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We might be past the point where solar can be labeled an “alternate energy source.” Even Chicago’s flagship McDonald’s has gone solar. These days, switching to solar in the commercial real estate (CRE) industry is less fringe and more mainstream, with even smaller developers hopping on the green bandwagon.

Big names in CRE have been getting a lot of press for their renewable energy initiatives, including companies like Prologis, General Growth Properties and Hartz Mountain. But there are still some misunderstandings about the pros and cons of converting to solar. Most developers understand that with the addition of solar panels to a building, less carbon is released into the environment. But if that’s not enough of a reason to switch, the economics make a strong argument for solar panel installation in commercial real estate.

The Streets are Paved with Green

Bloomberg’s New Energy Outlook predicts that “wind and solar are set to surge to 50% of world generation by 2050.” Solar energy offers commercial real estate developers the opportunity to lower operating expenses and boost revenue by reducing or even eliminating utility expenditures. Forbes recently featured an article by the president of the country’s tallest solar residence, located in Midtown Manhattan, where he shared that his company will “save about \$120,000 per year on energy costs thanks to the solar array.”

Commercial solar panel installation proves to tenants that they’re investing in the future of the property, and care about the environment. LEED-certified buildings with solar and efficiency attributes produce higher rents and/or lower vacancy, according to the Department of Energy. Tenants are immune from a fluctuating energy market or sporadic power outages. According to Billy Grayson, executive director of Urban Land Institute, an affiliation of 40,000 CRE owners, investors and other stakeholders, solar can provide tenants with a compelling reason to extend the terms of their lease. This in turn provides an opportunity for CRE owners to increase the NPV of their buildings.

Solar can generate hundreds of thousands (if not millions) of dollars and has a return on investment of just 3-5 years. Many states offer clean energy programs and financial incentives. In New Jersey, Solar Renewable Energy Credits allow businesses to sell excess energy to electric generators that can translate into significant sums of money for building owners. Other states, including New York, offer strong solar rebate programs. Companies are also eligible for Federal income tax credits (30% ITC), and the bonus of year depreciation of the entire system cost. When added up, these incentives can be used to cover 45%-80% of the overall cost.

Nothing to See Here

The installation of solar panels doesn’t mean there’s a disruption to your business. Many times, solar is installed using underutilized space, whether that’s on the roof of the property, or other open space such as a parking lot or field. It increases the life of the roof, and the value of the property.

To further minimize the day to day impact, many companies retain a solar energy advisor or broker to help get the best pricing and maximize the incentives. They take on the heavy lifting of getting through the transition to solar energy, from site visit to financing and installation.

Green Skies Ahead

Office buildings account for 22% of greenhouse gas emissions in New York State. But not for long. New Jersey consistently ranks in the top 5 in the country when it comes to solar projects. Governor Phil Murphy is going full steam ahead to fulfill his campaign promise to increase the state's reliance on renewable energy. His administration has set a goal of having 100% of the state's power coming from cleaner sources by 2050, with solar energy representing a vital component. Governor Cuomo has also set ambitious goals for New York with his Reforming the Energy Vision (REV) strategy to build a statewide energy system that is clean, resilient and affordable for all New Yorkers and work toward the goal for 50% of the state's electricity to come from renewable sources by 2030.

Solar panels immediately help a commercial building become more recognizable, if not by the general public, then at least by future tenants. It's one of the most visible ways for a building to pledge their allegiance to the green movement.

Brighten up the Bottom Line

More than half of the Fortune 500 have pledged to shrink their carbon and other greenhouse gas emissions, according to a recent report. Companies, municipalities, non-profits and others will be seeking real estate that is energy-efficient, self-sufficient, and powered by clean energy.

Investing in clean energy increases the value of your building and cuts down your operating costs. It can also increase tenant comfort levels and attract new tenants. The evidence is clear that for the CRE community, solar is an excellent investment opportunity.

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