

## Sunny and Sure: The Growing Opportunity of Solar CRE



In a recent report, the International Energy Agency (IEA) released an incredible figure. By 2027, the global power capacity of solar energy installations (i.e., the amount of power that can be produced) will outstrip the output produced by coal.

IEA adds that renewable energy sources overall are set to make up the largest share of global electricity production as soon as 2025. This will shift the needle away from carbon-intensive energy sources to the more sustainable ones needed to meet environmental, social, and governance (ESG) imperatives.

For global industries, including commercial real estate (CRE), these shifts present a clear message: staying competitive means considering renewable energy.

### ESG and CRE

While the adoption of renewable energy sources in the US is accelerating, in part due to new incentives from the Inflation Reduction Act, the latest data shows that real estate is still responsible for a large chunk of global greenhouse gas emissions – whether from new construction, ongoing operations, or inefficient renovations.

A 2023 report from the World Benchmarking Alliance notes that: “Emissions from the buildings sector, including building operations, materials manufacturing and building construction, was responsible for 37% of all global CO2 emissions in 2021, making it, alongside transportation, globally one of the highest emitting sectors.”

Direct emissions from buildings dropped somewhat in 2022, but IEA notes that the sector is still behind on targets to reach Net Zero Emissions by 2050, stating: “This decade is crucial for implementing the measures required to achieve the targets of all new buildings and 20% of the existing building stock being zero-carbon-ready by 2030.”

### Solar Adoption in CRE

The reason solar is a safe bet is simple: solar photovoltaic systems are easy to install and they’re becoming more cost-effective every year. That makes retrofitting older buildings with rooftop solar panels easier and gives owners a more straightforward option for tapping into the renewables market.

In addition, adding solar comes with financial incentives for property owners and managers, such as lowering the cost of utility bills. Solar-fitted properties are also increasingly attractive to potential tenants and buyers, especially companies interested in improving their own ESG credentials.

Unsurprisingly, these advantages are making solar installations especially attractive to big CRE players.

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## Making the Right Moves

In 2022, Blackstone announced a large-scale partnership with Esdec Solar – a provider of rooftop solar solutions. Recently, the investment giant upped their total investment in Energy Renewables to \$4 billion, a move aimed at bolstering sustainability and the company’s reputation with ESG-conscious investors.

According to Morgan Stanley, those kinds of figures are still just the tip of the iceberg. The investment bankers report that there is: “very significant potential for the real estate industry to enjoy material revenue accretion and ESG benefits from onsite solar power generation” adding that there is a \$500 billion total addressable market (TAM) between rooftops and commercial trucking properties alone.

## European Mandate

For CRE professionals operating in Europe, the solar imperative is even more pressing. In 2022, the European Commission unveiled its REPowerEU Plan, which aims to reduce reliance on fossil fuels and includes special proposals for solar adoption.

Specifically, the plan proposes: “A Solar Rooftop Initiative with a phased-in legal obligation to install solar panels on new public and commercial buildings and new residential buildings.”

In other words, EU operators that have failed to embrace solar now face the possibility of needing to do so to stay legally compliant in the future.

## Key Considerations for Solar Installations

To gain the most benefit from the technology, there are still key considerations that property managers and other CRE professionals should keep in mind when making the switch.

Top points from 2022’s “Renewable Energy Strategies for Real Estate” report by the Urban Land Institute include that:

- Operators should pay careful attention to the full balance of costs when installing solar or other renewable tech. Beyond just installation, that means looking at maintenance contracts, current electricity prices, and any permits, incentives, or subsidies, as well as opportunities like selling energy back to the grid.
- The state of roofs (and the likelihood that they’ll need to be replaced within the next five years) should be considered, with an eye to avoiding costly reinstallation of the solar array. It may be more cost-effective to replace the roof concurrently with adding solar.
- The current power consumption of the building, the orientation and sun exposure of the roof, and potential aesthetic impacts should be carefully considered to maximize value and minimize potentially negative visual impacts.

Naturally, some of these concerns can be addressed with the solar provider directly, but keeping these factors in mind should also be seen as a core part of a CRE professional’s due diligence when evaluating a deal that includes pre-existing solar installation or when contemplating a property that will be retrofitted at a later stage.