

Solar energy leases and residential home sales.

The number one question on real estate agents minds regarding a solar energy system on a residential home is, 'how will this affect the sale of the home.'

I'll try to answer that question here.

There are several ways a homeowner can finance a solar energy system.

- PAY IN CASH
- FINANCE and MAKE PAYMENTS
- LEASE

- PAY IN CASH

Paying in cash yields the highest return on investment, and is the most attractive to have when buying or selling a home. The system is paid for, and is basically treated as a mechanical system of the home. Its current value is based on how old the system is, and what condition it is currently in. There is NO LIEN on the home, or other restrictions that could hinder a transaction. A purchased and paid full solar energy system is valued at \$3.11 per watt,¹ less depreciation amortized over 25 years (the length of the warranty). Ex: An 8kW system x \$3.11 is valued at \$24,880 when new. If the system is ten years old, its current value is roughly \$15,000. Let's go a step further. This same 10-year-old solar energy system will save approximately \$2,200 per year, and the system has 15 years left on the warranty. So it's residual potential energy savings is \$33,750. That is not the value that the home price is increased by, though. The value of the solar energy system added to the home sale price is \$15,000, with the **selling point** of it's saving potential of \$33,000.

- FINANCE

Financing a solar energy system via a HELOC or other conventional non-secured financing is the second best option. For a homeowner looking to list the property for sale, the best approach here is to pay off the loan before listing the home. Then, add the current value of the system (see above) to the asking price. What the payoff amount was is irrelevant. The value of the system is what it is worth now, not what the owner paid for the system.

- LEASE

A solar lease has the potential to be problematic in many home selling transactions. Lets explore the solar lease in greater detail.

What is a solar lease?

A solar lease is a financing option for residential solar panels where the homeowner leases panels from a company that retains ownership of the system. Some companies also offer Power Purchase Agreements, or PPAs. Power Purchase Agreements (PPAs) work much like solar leases, but instead of renting the system, you agree to pay a set price for the electricity the system produces. In regards to buying or selling a home, a solar lease or PPA create similar issues.

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National Renewable Energy Study - <https://www.yellowlite.com/blog/post/how-to-measure-the-home-equity-of-a-solar-energy-system/>



The lease contract or PPA is generally 20-30 years, in order to get the monthly lease payment at an attractive level, less than the homeowners' current monthly energy bill. There is often no down payment and maintenance is the responsibility of the solar company.

At the end of the lease agreement, the lessee can renew, buy the panels outright, or have the panels removed. Solar leasing and PPAs allow homeowners to go solar without the upfront costs of installing a system, which can range upwards of \$30,000.

The benefits of a solar lease.

A solar lease:

- is good for a homeowner who does not plan on moving in the next 20+ years
- is good for a homeowner who does not have a tax appetite to take advantage of the tax credit
- the monthly lease payment should be lower than the current utility payment, saving money
- a lease fixes the monthly utility cost, and is predictable

The solar company usually handles all the paperwork, too, so it's hassle-free as far as the homeowner is concerned. Or so they thought.

Problems with solar leasing.

Generally, prospective homebuyers consider rooftop solar panel systems an attractive feature, especially when it will save them money on their new utility bills. However, some prospective buyers may not want to inherit a lease they didn't sign up for.

For one, **a lease may come with a lien on the title of the home**. Lease agreements are also vague, and are written to protect the lessor, not the lessee, making transferring the lease very difficult and expensive. Leased systems are also smaller than the home needed (a tactic to install a smaller system to keep the monthly lease payment as low as possible) which means the savings are limited. A leased system also makes it very hard, if not impossible, to upgrade.

So, what happens if you need out of a solar lease?

Most solar lease contracts are difficult to cancel without legal action. Lease agreements tend to last anywhere from 20 to 30 years and are ironclad in structure. In fact, Bloomberg published a story about a prospective homebuyer who experienced difficulties buying a home that had a leased a Sun Run solar panel system on it – the lease remained in effect even after the death of the person who owned the home and signed the leasing agreement, as the lease was tied to the title of the home. Trying to cancel a lease should not be an option that you choose to pursue.

When you're selling a home with a leased solar panel system on the roof, there are three options.

- TRANSFER the lease to the new homeowner
- BUY OUT THE LEASE out the remainder of the lease and have the system removed
- PURCHASE the solar panel system at market value and leave it on your roof.



TRANSFER

For a leaseholder to transfer a lease, if this option is available on their contract, the new leaseholder must qualify for the additional debt. Fannie Mae says that solar lease payments must be included in a borrower's debt-to-income ratio, and that's true for any lender. If a buyer has qualified for a \$500,000 loan for a home but then has to take on the solar lease payments, too, the new debt-to-income ratio may push the home out of their range of reach.

BUY OUT THE LEASE

The second option, buy out the remainder of the lease agreement, and have the panels removed from the roof. This may sound ridiculous at first, but this is an option to consider if; 1. the system is older, 2. the contract specifies a buy out and removal after a set number of years, and 3. the buyout cost is reasonable.

Some lease agreements offer a "low cost" buyout and removal option after the ten-year mark. Why? The lessor has made most of their profit in the first 10 years of a lease. Plus, the inverter often needs replacing after 10 years, and the lessor would prefer not to have to replace this item at their expense, unless absolutely necessary. It has been our experience that the "low cost" buyout is typically significantly above market value, in the neighborhood of 20% to 40% higher than actual market value. Remember, the system is removed from your roof in this option, so you have no future savings. Thus this is not really a "low cost", or a buyout.

PURCHASE

You can simply purchase the system outright from the leasing company and keep the system on the roof. Again, typically the purchase price is defined as "market value" and not advantageous to the buyer. In this option, the cost of the purchase may be less than the buy out, since the lessor does not have to incur the expense of removing the solar energy system. And since the system stays in operation, there is some additional energy (savings) to produce.

We feel that a homeowner has really two options.

One, buy out the system and have it removed from the home. The homeowner will absorb this loss and cannot add it to the list price, as there is no solar energy system to justify the increased list price. The second option is to purchase the system outright, and add the costs to the list price based on the current market value of the solar energy system before listing the property. This creates the cleanest home transaction.

MARKET VALUE

Home inspectors are getting better at being able to identify and report on a solar energy system, but many inspectors still have no idea of what to look for. Plus, they are unable to place a market value on the system.

We recommend that homeowners looking to list their home for sale get the solar energy system inspected and valued for condition and current market value. You should be able to contact any reputable solar energy company to inspect the system and give you a written report and market valuation. The cost for this service will run about \$300 for a typical, single story, 2,500 sq. ft. home with a 10kW solar energy system installed on the roof.