

Two Simple Clauses Property Owners Should Add to Their Lease Agreements and Loan Documents for Commercial Solar

Build the project and figure out solar later...does that sound like you? In my days in real estate development, solar was an afterthought. In practice, this was an inefficient approach, as we had to go back and negotiate lease amendments and spend over \$5,000 amending our loan documents to accommodate solar financing. It was lost time and money that could have been prevented with proper planning on the front end.

If you are considering solar for your building, commercial property owners should be proactively adding language to their lease agreements and their loan documents to accommodate future solar installations. It will save you time down the road, allow for a smooth transaction, and most importantly, allow you to have the most financing options when you are ready to install solar on your commercial property. Of course, please work with your legal counsel to craft what works best for your specific deal.

Let's look at these two clauses separately and the benefits they provide when drafting a commercial property contract.

Streamlining the Solar Process in Your Lease Agreements

Your current lease most likely states that the landlord is obligated to provide power to the building but is silent on where the electricity is coming from. The simple addition to your lease agreements of specifying from where the power comes will make it easier for you when you are ready to move forward with your project. Here's how to approach addressing solar in your lease agreements:

- Add language that states that if Lessor adds solar at a future date, tenant agrees to enter into an agreement to purchase electricity generated by the solar system via a Power Purchase Agreement or similar contract.
- Consider adding language that states the tenant's electricity price will not be higher than they currently pay, or it will be provided at a discount. In my experience, tenants are excited to have solar in their building as long as it doesn't cost them any more than they are paying now.

Solar Considerations in your Loan Documents

Communicate with your lender during the term sheet phase that that you intend to install solar so that you can maximize your solar financing options and also avoid a costly loan amendment in the future.

- Ask your lender to consent to allow solar equipment owned by a third-party solar investor installed on the roof and consent to an easement or site lease on your roof, if required.
- Ask for consent to allow for future third-party C-PACE financing to pay for qualified energy upgrades, including solar. The lender will need to allow for a future property tax lien which will be recorded to secure the solar equipment financing if you choose C-PACE financing.
- Your lender will probably want to place limits around the amount of financing, but this should be enough information to have a conversation about the subject. These points will need to be documented within the Deed of Trust as well.

Thinking ahead and proactively adding a solar clause for your lease agreements and a solar clause for commercial loan documents will definitely save you time and money in the long run.

Need more help?

Solar CFO works with real estate owners to evaluate the pros and cons of each solar structure and provide a [solar feasibility analysis](#). We educate owners how to generate a new revenue stream with their rooftops and surface parking areas for solar. We have an asset manager's mentality and will make a recommendation on the best course of action for your building / portfolio.