

The Real Estate Agent's Guide to Escape Solar Leases

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Solar Leases

What Is a Solar Lease?

A *solar lease* is a long-term agreement to pay a monthly payment for the solar panels that the lease company installs on your roof. This is, in its most simple form, a swap from one utility company to another. A solar lease simply *replaces* the local utility company that generates electricity far away and brings it to your home with one that generates the electricity right on your roof.

Solar leases or Power Purchase Agreements (PPA's) are referred to as third-party owned solar systems. We will refer to all third-party owned solar systems as solar leases to simplify the term— however, this document is applicable to both PPA's and solar leases.

The Best Analogy for Solar Leases Is the Cell Phone Industry

Getting into a solar lease is like switching your cell phone plan from Verizon to AT&T. Many people decide to switch from one carrier to another for reasons including price, customer service, service plans or better coverage. The reason *to switch from the local utility company to a solar lease* boils down to two reasons: the primary reason being to save money (it's cheaper per month than paying the local utility company) and the second is to reduce your carbon footprint (it's a cleaner, better way to generate electricity for your home).

Pros and Cons of a Solar Lease

Pros

- Cheaper than local utility company
- No debt associated with leases
- No money out-of-pocket
- No tax liability required
- Easy for homeowner to adopt since it's similar to how homeowners are billed with local utility company
- Transferable to qualified home buyer
- Carbon-free energy generation
- Monitoring and repairs are paid for by lease company

Cons

- The most expensive way to go solar over time
- Most leases have a yearly increase built into lease
- Most home buyers don't want to assume long-term contracts that increase with time
- Lease company claims all tax credits
- Lease company does not perform maintenance to clean panels
- Homeowner now has two utility companies instead of one

Four Reasons Homeowners Choose Solar *Leasing* Over *Ownership*

1. Ease of Transition From Local Utility

- The simple idea of paying a dime for something rather than a nickel *and* a dime is how solar leases have been sold over the last decade. Electricity is typically billed by the kilowatt hour (kWh) by local utility companies. Solar leases simply modeled this idea and said, 'get your electricity for a few cents *cheaper* per kWh.' The simplicity of that message has led nearly one million homeowners to obtain solar leases. On the surface, it sounds simple and easy. The trouble with this message is that there are about 30 pages of fine print revealing how solar leases can be *far more complicated* in the future when the homeowner may want to sell their solar home. Unfortunately, most people don't read the fine print.

2. No Tax Liability

- Since the homeowner does not *own* the solar system, the solar lease company collects the tax credits on the leased solar system. If a homeowner does not have any tax liability then they may be a good candidate for leased solar. The tax credits available for homeowners from the federal government are based on taxable income. If you do not pay enough taxes to have a tax liability, a solar lease may be attractive to you.

3. Debt Aversion

- A solar lease is a vehicle to go solar without taking on any debt or out-of-pocket expenses to install solar panels on your home. However, paying cash out-of-pocket is the least expensive way to go solar, followed by financing an owned solar system. *The most expensive way is leasing solar.* Taking on debt or paying out-of-pocket may feel like too big of a risk just to reduce or eliminate your local utility bill.

The trouble is that the two ownership methods require a *large sum of money* upfront, or financed over a period of time the homeowner commits to. A solar lease is a much larger financial commitment over time than either ownership method due to the fact it often has annual escalating payments, or flat line annual payments. These payments yield zero equity since the homeowner is making payments on the leasing company's solar system rather than their own. When only looking at today's monthly payments rather than the *lifespan* of the entire cost of going solar, the lease may look more attractive.

4. No Choice Is Presented To Own

- This is the most common reason why homeowners go solar with a solar *lease*. Most homeowners go solar after a sit-down sales presentation in their home. A salesperson will present what they believe to be the best product. The best way to ensure no decision is made is to present *two options* to a homeowner. This may sound counterintuitive but this often creates a paralysis or inability to make a decision.

The salesperson instead goes with what they think is the *best* option– which will also be the best option for *themselves*. It is easier to get someone to make the decision to go solar based on switching to a cheaper cost per kWh than they have with the local utility company, than it is to have them agree to take on a loan to pay for a solar system. If the cons of going solar with a solar lease are glossed over and minimized then it's fairly easy to get someone on board with leasing.

These are reasons why so many homeowners go with solar leasing over solar ownership. And it's why so many solar companies have pushed solar leases over solar ownership in the beginning.

Now, we're seeing a major switch *away* from solar leasing. The residential solar industry as we know it today is about 11 years old. In 2012, 60% of new residential solar installs were solar leases. In 2021, the numbers are showing a dramatic shift away from solar leasing.

This didn't happen in one year but as the industry matures there's a more dramatic shift away from solar leasing. Below is a breakdown of new solar homeowners installed in 2021:

New Residential Solar Installs in 2021:

Owned without financing	9%
Owned with financing	67%
Leased	24%

What Happens When You Sign a Solar Lease?



Let's say you sign up for a 20-25 year commitment to buy electricity from the solar system sitting on your roof. Most homeowners are OK with that commitment because they no longer wish to *rent* electricity from the local utility company that keeps raising the costs. Solar leasing becomes a problem in one or both of these situations.

Major Problems With Solar Leases

1. Most Solar Lease Payments Escalate Each Year. And what was a low payment is slowly getting higher. If it increases at a rate of 2.99% a year, like many do, the monthly payment will double over the course of a 25-year solar lease, thus transforming a \$150 monthly payment into an eventual \$300 monthly payment at year 25. This is a perfect example of *death by a million cuts*. The increase may feel small at first but over time it becomes very expensive. There will come a time that a homeowner will grow tired of increases, seeking a better way to go solar.
2. No Equity Earned for Monthly Payments. The other reason solar leases don't add value is that making monthly payments *does not impact* the payoff amount or purchase amount of the solar panels.
3. Solar Leases Don't Add Value When Selling the Home. Solar leases are not an asset owned by the homeowner, and therefore the home seller has no right or ability to pass on an increase in price due to the home having leased solar panels. A property appraiser will not or should not increase the value of the home that includes leased

solar.

4. The Incoming Buyer Will Be Committed To Remaining Lease. If and when you want to sell your solar home, no matter how many years you have remaining on your lease, the incoming buyer will now be committed to the lease agreement. The list of challenges associated with buying and selling leased solar homes is long, and for this reason many real estate agents do not like leased solar. Generally, it complicates the sales of homes and results in buyers being unwilling or unable to buy. Nonetheless, agents do deal with it in a variety of ways including dropping the price of the home or hiding the fact it has a solar lease until a purchase agreement is signed. The best agents, however, are transparent about the lease and work hard to make the transfer possible.

The big question remains... *Can I get out of this lease?*

The simple answer is yes. It requires some work and the ability to do what savvy homeowners have done in the first place: buy the solar system.

Escaping Solar Leases

Timing Is Everything

When you want to escape the solar lease, timing is critical. A solar leased system sits on the homeowner's roof but, because of the lease contract, it can only be purchased at certain times. Each contract includes milestones or purchase points, allowing the homeowner to purchase the system. Selling the home is usually included in these milestones. The only other way to escape a lease is to pass it onto an incoming home buyer.

A person purchasing a home with a leased solar system on it has one of two options. They can either *assume the solar lease* or *purchase the solar system* from the leasing company.

Assuming a Solar Lease

When an incoming home buyer assumes a solar lease, this is one way to escape a solar lease; but this is just kicking the can down the road for what should happen eventually. The homeowner should buy the solar system from the solar lease company. Assumption is the simpler of the two options but still requires quite a few steps. It's simpler because you don't have to worry about the *value* of the solar system in the sale of the home; it adds none.

Below is a step-by-step process of how a home seller or their agent can pass the solar lease from one homeowner to the next.

Steps To Assume a Solar Lease:

1. Home Seller Contacts Spark
 - a. Contact Spark to find a local Solar Certified Spark Pro Real Estate Agent
 - b. Get a Green Home Report
 - i. This is a comprehensive report for solar homeowners, providing all the details needed to easily and effectively convey all the necessary information to transfer your solar system to the incoming buyer. This simplifies the transaction for all parties involved, including the home buyer, real estate agents, mortgage broker, appraiser and solar company.
2. Home Seller Contacts Solar Lease Company
 - a. Notify them you're selling the home. Request a copy of the lease agreement and any related documentation they can provide you in selling the home.
 - b. Request that they provide a system purchase price in case the buyer wants to buy the system.
3. Gather Any Necessary Documentation
 - a. Solar Lease Contract - Solar Lease Company
 - b. Net Metering Agreement - Local Utility Company
 - c. Solar Monitoring Access Transfer - Solar Lease Company

4. List Home for Sale as a Solar Home
 - a. Include the Green Home Report as part of the listing to show Buyer's Value to incoming buyers.
 - i. Buyer's Value is the amount saved from going solar and is only available from Spark in the Green Home Report.
 - b. Sign Solar Real Estate Disclosure Forms, where applicable.
 - i. If your state has MLS paperwork disclosing a solar system then include that in the home listing.
 - c. Use the information obtained in the Green Home Report to market the home as a solar home.
5. Notify Solar Lease Company of Impending Home Sale
 - a. Notify them of the desired closing date.
 - b. Buyers Intention to assume the solar lease.
 - c. Request an assumption application form for the buyer to apply for solar lease.
 - d. Request the removal of the UCC fixture filing.
 - i. This typically has a fee and is paid by the home *seller*.
 - e. Convey the contact information to the lease company of the escrow company.
 - i. This can be done by sending the lease company a copy of the Green Home report.
6. Home Buyer Contact Lease Company to Qualify for Lease Assumption
 - a. Homebuyer calls or emails the solar lease company to apply to assume the solar lease.
7. Buyer Receives Approval from Lease Company to Assume Lease
 - a. This happens almost immediately after applying and will determine next steps. There are three possible outcomes for applying:
 - i. Approved and all moves forward as is with an assumption.
 - ii. Not approved based on credit and income but approved to assume the solar lease with a cash deposit similar to other utility companies.
 - iii. Not approved to assume lease and buyer either backs out of home sale or decides to buy solar system as part of home purchase.
8. Coordinate Removal of UCC fixture filing for close of Escrow
 - a. The home buyer will need to contact the solar lease company to pay for and have the UCC filing lifted so the home may pass from buyer to seller unencumbered. The fee is usually under \$500 and paid for by the home seller.
9. Close of Escrow and Sale/Purchase of Solar Home
 - a. When the home sale is finalized, the UCC will need to be refiled by the escrow company or the leasing company. In the close of escrow, the responsibility of the solar lease passes from the seller to the buyer.
10. Home Buyer Turn on Electricity and Transfer Net Metering with Utility Company
 - a. Home buyers will need to contact the local utility company to turn on the electricity and transfer the net meter agreement.
 - i. The home buyer will most likely want the net metering agreement that the home seller had with the utility company to be transferred into their name

since it will grandfather a buy-back price rate or price for the electricity that is most likely higher than what is currently available.

- ii. The home buyer should ask the utility what the current buy-back is versus the grandfathered amount. If there is any doubt, contact Spark at SparkGreenHome.com.

11. Home Seller Verifies Lease is No Longer in Their Name

- a. It is recommended that a home seller verifies with the solar lease company that they have been *removed* from the lease and free of any obligation to the lease company. Some lease companies may provide this release of responsibility in writing.

12. Home Buyer Transfer Monitoring Into Your Name and Email Access

- a. Most solar lease companies will monitor the solar system on your home on your behalf. Since you are being billed for that electricity, it's recommended and generally a best practice to obtain the login information and download the monitoring app. This allows you to see how well your system is producing and let you know if there are any issues with it.

13. Perform REQUIRED Maintenance - Clean Solar Panels Annually

- a. Solar lease companies *do not clean* your solar panels for you and, depending on where your solar home is located, it's recommended to clean them annually.
- b. Solar panels can be cleaned professionally, or most homeowners can clean the panels themselves safely from the ground with a Solar Panel Cleaning System at SolarCleaningSystem.com.



Buying a Solar System From a Solar Lease Company

For an incoming home buyer, rather than just taking over a solar lease and assuming it, they can *remove* the solar lease company from the equation and move from renting their power from the local utility company or lease company to *owning* their own power plant.

Buying the solar system is a little more complicated but certainly worth it since you will Green Home in the money spent on your solar system rather than send those dollars off to a lease company for the next 20 years.

Solar leases add zero value to the sale of a home. Buying out a solar leased system doesn't add value to the purchase price of the home but it will allow the home buyer to capture the full *buyer's offset value* that solar ownership offers.

The Buyer's Solar Offset Value is the difference in what the home buyer would have paid in electricity to the local utility company over the lifetime of the homeownership. Most calculations are done based on owning the home for ten years as this is the average length of homeownership. Solar systems should be assessed based on the *seller asset value* of the solar system.

The Seller Solar Asset Value is the value of the equipment itself as it sits on the roof taking into account: the size of the system, the electricity output of the system, the age of the panels and inverters and length of time remaining on their warranties. All this is accounted for, along with the depreciation of the output of the system as measured by historical degradation. All that to say, the system gets older and eventually decreases in value— though probably not at the rate you might guess. To find out exactly how much the solar system on your roof, or that of your client's is worth, contact Spark at SparkGreenHome.com.

The reason to find out the *asset value* of the system is to determine how much to pay the lease company for the system. They will give you a price but it's good to have an unbiased third party you can compare that number against to know if you are paying a fair price for the solar system.

You might think this is contrary to the lease company's business model but, on the contrary, most leasing companies are always trying to raise funding and appreciate cash infusions so they can onboard more new lease customers. Most lease companies do not realize a profit for the first few years since their upfront cost is so high compared to monthly lease payments.

Below is a step-by-step process of how a home buyer can escape a solar lease by converting it to an *owned* solar system. If the seller or buyer's agent or homeowner or home buyer would like help going through this process without having to worry about all the leg-work involved, they can contact Spark at SparkGreenHome.com for assistance in *escaping solar leases*.

Steps to Buy a Solar System from a Lease Company

1. Home Seller Contacts Spark
 - a. Contact Spark to find a Solar Certified Spark Pro Real Estate Agent
 - b. Get a Green Home Report
 - i. Comprehensive report for solar homeowners that provides all the details needed to be able to easily and effectively convey all the necessary information to transfer your solar system to the incoming buyer. This simplifies the transaction for all parties involved including the home buyer, real estate agents, mortgage broker, appraiser and solar company.
 - ii. Green Home Report will outline the **Seller Asset Value** and **Buyer Offset Value** of the solar.
 - iii. Do not increase the home price since the solar system is not being conveyed to the home buyer as an owned and paid for system.
2. Home Seller Contact Solar Lease Company
 - a. Notify them you're selling the home. Request a copy of the lease agreement and any related documentation they can provide you in selling the home.
 - b. Request a system purchase price, in case the buyer wants to buy the system.
3. Gather Necessary Documentation
 - a. Solar Lease Contract - Solar Lease Company
 - b. Solar Warranties - Solar Lease Company
 - i. Equipment Warranties
 - ii. Workmanship Warranties
 - c. Solar Equipment Specifications - Solar Lease Company
 - d. Net Metering Agreement - Local Utility Company
 - e. Solar Monitoring Access Transfer - Solar Lease Company
4. List Home as a Solar Home
 - a. Include the Green Home Report as part of the listing to show the buyers value to incoming buyers.
 - i. The buyer's value is the amount saved from going solar. This is only available from Spark in the Green Home Report.
 - b. Sign Solar Real Estate Disclosure Forms, where applicable.
 - i. If your state has MLS paperwork disclosing a solar system then include that in the home listing.
5. Give the Green Home Report to the Home Buyer to give to the Home Appraiser
 - a. Since the system will be purchased with the home it will add the value to the home and a solar savvy appraiser can add it to the value in order for the home to be purchased for a higher price than *without* the solar.
6. Give the Green Home Report to the Mortgage Broker
 - a. The seller's asset value is the amount that the home will increase in value in the transaction.
 - b. The *asset valuation method* is the correct way to determine the asset value of a

solar system as outlined in the case study by the Lawrence Berkeley National Laboratory study.

- i. It was conducted in conjunction with leadership from the National Appraisal Institute.
 - c. This study outlines how much solar adds to the value of a home when selling the home.
7. Notify Solar Lease Company of Impending Home Sale and Solar System Purchase
 - a. Notify them of the desired closing date.
 - b. Buyers intention to purchase the solar system.
 - c. Request an system purchase amount.
 - d. Request the removal of the UCC fixture filing as part of solar system purchase.
 - i. This typically has a fee and is paid by the home seller.
 - e. Convey contact info of Solar Lease Company of the Escrow Company
 - i. This can be done by sending the lease company a copy of the Green Home Report.
8. Accept Solar Purchase Amount or Place Counter Offer
 - a. Notify the solar lease company of acceptance of purchase price.
 - b. Place counter offer if the solar lease company purchase price differs from that of the *asset value* on the Green Home Report by more than 10-15%.
9. Coordinate Removal of UCC fixture filing for close of escrow.
 - a. The home buyer will need to contact the solar lease company to pay for and have the UCC filing lifted so the home may pass from buyer to seller unencumbered. The fee is usually under \$500 and paid for by the home seller.
10. Close of Escrow and Sale/Purchase of Solar Home
 - a. When the home sale is finalized, no UCC will need to be refiled since the solar system is owned by the homeowner.
11. Home Buyer Turn on Electricity and Transfer Net Metering with Utility Company
 - a. Home buyers will need to contact the local utility company to turn on the electricity and transfer the net meter agreement.
 - i. The home buyer will most likely want the net metering agreement that the home seller had with the utility company to be transferred into their name since it will grandfather a buy-back price rate or price for the electricity that is most likely higher than what is currently available.
 - ii. The home buyer should ask the utility what the current buy-back is versus the grandfathered amount. If there is any doubt in this contact Spark at SparkGreenHome.com.
12. Home Seller Verify Lease is No Longer in Their Name
 - a. It is recommended that a home seller verify with the solar lease company that they have been removed from the lease and free of any obligation to the lease company. Some lease companies may provide this release of responsibility in writing.
13. Home Buyer Transfer Monitoring Into Your Name and Email Access
 - a. Most solar lease companies will monitor the solar system on your home on your

behalf. Since you are being billed for that electricity it's recommended and generally a best practice to obtain the login information and download the monitoring app. This allows you to see how well your system is producing and let you know if there are any issues with it.

14. If No Warranties are Provided by Solar Lease Company

- a. Contact Spark at SparkGreenHome.com for a recommendation of a locally licensed and certified solar installer who can service the equipment warranties in the event of an inverter failure in the future.

15. Perform REQUIRED Maintenance - Clean Solar Panels Annually

- a. Solar lease companies do not clean your solar panels for you and, depending on where your solar home is located, it's recommended to clean them annually.
- b. Solar panels can be cleaned professionally, or most homeowners can clean the panels themselves safely from the ground with a Solar Panel Cleaning System at SolarCleaningSystem.com.

Escaping Solar Leases If You're Not Moving

Solar Lease Contract Milestones

Every solar lease agreement includes options to buy the solar system at certain milestones in the contract. We have discussed moving as the primary milestone but if you want out of your lease contract, you can escape it during another milestone.

Locate the milestones on your lease contract and mark your calendar to reach out to the lease company at one of these milestones. Typically, buyout milestones will fall around the 5th, 10th, 15th, 20th and 25th anniversaries of the initial contract signing. You will need to contact the lease company 3-6 months prior to the milestone you wish to buy it out at.

This is recommended since some leasing companies have deadlines for these milestones; don't let them pass you by. If you would like to exercise the system purchase outside of one of the eligible milestones, feel free to contact the solar lease company and let them know you would like to buy the solar system and ask for a system purchase price. The worst they can do is say *not at this time*.

Refinance Your Home and Include the Solar System for Maximum Savings

Assuming you are able to buy out the solar system, it's best to do it in conjunction with a new mortgage. This generates the best savings. If you roll a solar system into a 30-year mortgage at a 3% interest rate, the payment will be significantly lower than with the lease company. It will greatly increase the **buyer offset value** in the event of selling the home in the future as well since it's going to create a larger difference in the price they would be paying for the local utilities electricity and how much the cost is they are paying for the solar system. An example of might look like this:

You have a solar system that is offsetting a utility bill of \$240 a month with the local utility company and the solar lease payment set at \$190. In this example, we will use an average solar system size, offset and asset value and solar energy production numbers. The solar system that can produce enough energy to offset a \$240 bill is worth a few years after it was installed around \$32,000 and that's what the solar lease company sells it to the homeowner for. If the homeowner buys the solar system from the solar leasing company for \$32,000 and rolls the full amount into the mortgage payment, they will have an additional \$140 a month added onto the mortgage payment.

Mortgage Payments Create Equity for the Home and Solar System

As with equity in the home every time you make a payment on the mortgage, you're capturing equity in the home and now solar system. With each payment, you're closer to paying off your home but you're also shifting the money that you're giving to the lease company and putting it back into *your* pocket when you pay your mortgage payment. **STOP RENTING YOUR POWER!**

Simplifying Solar Home Transactions

The process of *escaping solar leases* is one that nearly every homeowner will want to do. This book gives you the tools and information you need to do so. We hope this tool will be helpful in supporting you in those efforts.

Spark Has the Information, Tools and Assistance

If you feel overwhelmed or if you would like assistance in this process, or if you would like our help in finding the right real estate professional who is a *Spark Solar Certified*, we would love to help you.

Spark is here to provide the information to educate homeowners and real estate agents on how to best handle solar home transactions. We would love to assist you with *owning* your solar system. Spark is led by Cory Vanderpool, a licensed and certified solar professional. Under his direction, the Spark team has developed the necessary tools to simplify solar home transitions and support you as you escape solar leases.

Regardless of whether you're a homeowner looking to sell your home with a solar lease, or if you're a home buyer wanting to purchase a home *with* a solar lease attached to it, or if you're a real estate agent representing buyers and sellers, Spark is here to simplify solar home transactions.

Contact us today at SparkGreenHome.com for homeowners or SparkPros.com for real estate professionals to get more information and to let us know how we can help you **escape solar leases!**

