

## Sustainability

## Invest in solar to maximize available incentives

The opportunity to earn a compelling return on investment by installing clean solar power on your commercial property has never been greater than it is now. Recent changes in corporate tax structures allow 100 percent depreciation in the first year for solar photovoltaics installations. In conjunction with the 30 percent Federal Solar Investment Tax Credit, these tax benefits total more than 50 percent of the system cost in the first year. As the economics of solar have improved, solar energy is an investment that businesses can no longer afford to ignore.

The reasons for going solar are as varied as the commercial property owners who have already made the switch to on-site solar across Colorado's Front Range. Some choose renewable solar power to stabilize their electric bill and reduce exposure to rising utility costs by locking in fixed rates. Other investors have used solar to increase building value and attract and retain tenants who want to be seen as environmental stewards through the integration of solar across their portfolio. Finally, some have focused on strengthening their corporate brand and more closely aligning with the values of their customers by investing in solar.

What do these businesses have in common? Each has increased the business' cash flow, boosted net operating income and raised the value of its properties with solar. Solar doesn't just make good financial sense; it's a differentiator in the competitive commercial real estate sector.



**Eliot Abel**  
Commercial sales  
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Solar

• **Why solar?** The rapid adoption of corporate solar procurement is happening nationwide. The Wall Street Journal found a 13 percent increase in corporate investments in renewable energy in 2018, totaling \$16 billion. That number is estimated to double in 2019. This

growth is due to the value proposition of solar, which is earning the support of building owners, C-level decision makers and sustainability managers.

Locally, commercial solar owners can take advantage of generous production-based incentives paid out by Xcel Energy over a 20-year period. Xcel purchases renewable energy credits at 3.75 cents per kilowatt hour produced. For a 500 kW system, or roughly a 75,000-square-foot rooftop, this credit translates into more than \$27,000 in the first year of incentive payouts. Additionally, the realized utility expense reduction from this system amounts to approximately \$30,000 in year one alone, increasing net operating income by \$57,000.

These measures have moved solar energy from a "nice to have" improvement to an essential investment to consider.

• **Why now?** Now is the time to go solar, since many of these lucrative incentives will decline after this year. Commercial businesses and property owners who have been on the fence



As part of a value enhancement strategy, Ogilvie Properties selected Namasté Solar to install a 189-kilowatt rooftop solar array on its CubeSmart self-storage building. The solar array provides reduced energy costs, increased net-operating income and increased building value. The system is projected to produce 272,917 kilowatt hours per year.

about solar have until the end of 2019 to capture the full 30 percent tax credit, which drops to 26 percent in 2020, 22 percent in 2021 and a permanent 10 percent starting in 2022. Xcel Energy's renewable energy credit payout also drops each year.

In addition, Colorado's Commercial Property Assessed Clean Energy program now allows businesses to implement solar with no money out of pocket, enabling projects to be cash-flow positive from Day One. C-PACE allows building owners to bundle the cost of a new roof, solar PV systems, and even LED or heat-

ing, ventilation and air-conditioning upgrades into one fixed-interest loan with terms up to 25 years. The loan structure removes all risk for property owners, as the non-recourse financing is tied to the property via a special tax assessment facilitated by the county tax assessor. As a result, C-PACE financing can transfer to the next owner if the property is sold.

To capture these significant benefits, commercial businesses and building owners need an experienced solar project developer to

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## Becker

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geous to both parties.

The two major changes we are seeing are longer lease terms and reduced “soft terms.” As proof of this movement, in fiscal year 2018 the GSA AAAP offer portal provided three lease term options:

- 15 years, 10-years firm.
- 10 years, all firm.
- 10 years, five-years firm.

In fiscal year 2019, GSA introduced new lease terms in its AAAP portal:

- 17 years, 15-years firm.
- 15 years, 13-years firm.
- 10 years, eight-years firm.

In addition to changes to the AAAP procurement program, I am also seeing movement toward longer lease terms in other advertised GSA leases, though the shortening of the “soft term” seems to be evolving at a slower pace.

Bottom line, GSA has listened and continues to listen to feedback from the market. The results in this instance are:

- Better rental rates for the government;
- Greater stability for lessors;
- A reduced “soft term”; and
- More easily financeable deals, especially for owners with 100 percent GSA-occupied assets.

The world of GSA leasing continues to be complicated and can be a bit intimidating if you are not someone who “lives” in the world of GSA procurement. If you are well versed in the requirements, this article presents news of some changes that

you may have been waiting for. If you are not well versed in this sizable niche sector of commercial real estate, hopefully you see that there are great opportunities to be found. I do suggest seeking expert guidance should you decide to pursue this opportunity. There is a reason that one of the first things I tell my clients as we begin to prepare an offer is to forget everything they know about commercial real estate. Once that is done, then we can prepare a GSA offer.▲

## Winter

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tenants are savvier now than ever before. More digital resources are available to them, and their real estate representatives have state-of-the-art tools that make the search process faster and more efficient. And there are a number of attractive options in the market.

One of them is the spec suite. “Spec” – or speculation – suites are office spaces that the landlord has

built out, complete with carpet, lighting, ceilings and furniture. The goal for the landlord is to lease those spaces quickly. Spec suites have been a big hit, especially for companies ready to make a lease space commitment in a hurry.

Coworking offices are another option, attractive as much for their design as for the work concept. Here, coworkers in different industries share space and services – like reception, kitchen and break areas,

printing, mail and packaging, and others – under a single roof. Coworking spaces can include open bench-style spaces to larger private offices and everything in between. Lease rates typically are lower and of shorter duration than conventional offices.

The design of these spaces runs the gamut. Even if the coworking model isn’t the best cultural option for a company, the design might be the most attractive feature, which

the tenant points out when touring conventional suites in office buildings.

The idea for landlords is to spend as little as possible to bring any given vacant suite up to market-ready condition. But in this market, they do so at their own risk. Tenants want more. They expect to see more in order to create at least a preliminary vision of what any given suite might look like, even when it’s empty.▲

## Mercer

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an abstraction of the surrounding crags. There’s even a welcoming indoor campfire at the entrance. The goal was to make a contemporary workspace infused with the comforts of home: the kind of space that might welcome you from a day

of hiking or skiing.

Showers, lockers and bike racks accommodate the many cyclists and joggers of this outdoorsy city, who also have access to an outdoor patio.

At the same time, the space has the industrial chic features shared by all CommonGrounds spaces with

polished concrete floors, painted, exposed concrete columns, black metal frames and exposed ceiling infrastructure, which are an expression of our client’s branding. These details also happen to be particularly apt in this post-industrial neighborhood of former warehouses and factories.

While we can’t predict the next trends in workplace configuration, we can confidently say that when Slack leaves, it will be easy to tailor 1890 Wynkoop for the next tenants – the original configuration can be restored or a new one created, depending on the size of the teams.▲

## Abel

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design, engineer and install a solar system that will deliver a custom-

ized solution that maximizes the ROI. Working with a local installer who can handle every project detail and has C-PACE expertise and rela-

tionships with other energy-efficiency companies will simplify the experience and provide a turnkey energy solution. Going solar this year offers

the opportunity to increase cash flow, NOI and property value – all with \$0 out of pocket and over 50 percent in tax benefits.▲

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