

# Shining the Light on Solar Panels

3 hours/ 3 Elective NJ CE Credits

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## Note:

This presentation is intended as a review of the key concepts associated with solar panels, and discuss how the different installation scenarios impact the real estate transaction, both from the perspective of the residential buyer and seller .

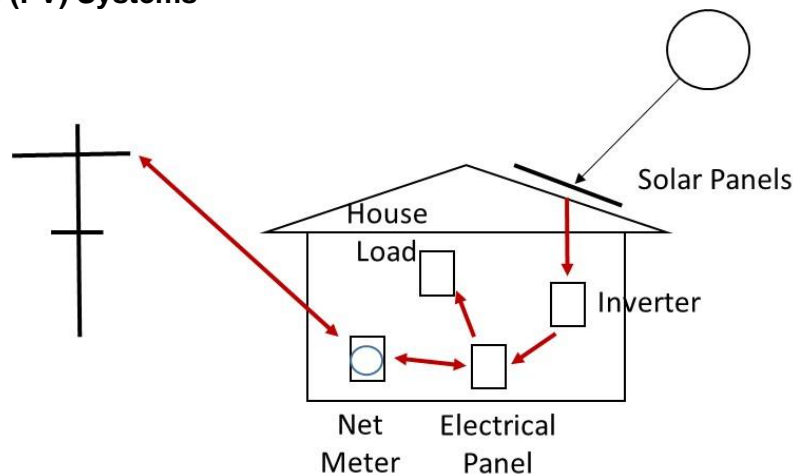
*This presentation does not constitute expert representation, legal or financial advice and his subject to change.*

*Remember to always defer to the experts!*

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## Section 1: Solar Systems

### Solar Photovoltaic (PV) Systems

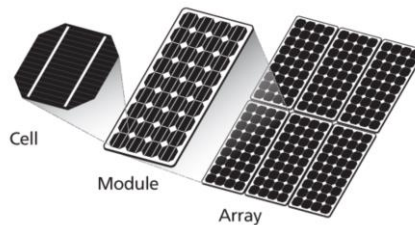


*Note: this is only intended as a concept representation*

### Terminology to be familiar with:

Installation components:

- Solar Panels, PV panels: capture the sun's energy and converts it to DC current. Typically mounted on a south facing roof, with full sun
- Panels, cells, modules and arrays



- Inverter: the DC current needs to be converted to AC current, to be used
- Net Meter: special electrical meter, spins forward and backward

Installation options –

- Direct purchase
- Third party ownership
  - Solar lease: the system is owned by a third party, the homeowner has a rental agreement for the use of the system
  - Power Purchase Agreement (PPA): the system is owned by a third party, the homeowner has an agreement for the power purchase

Financial incentives in NJ:

- SRECs – Solar Renewable Energy Certificates  
One SREC = 1000 kWh (kilowatt-hour) = 1MWh (Megawatt-hour)  
Currently available in NJ, but subject to legislative changes  
*Value of a SREC in NJ:* <http://www.njcleanenergy.com/srecpricing>
- Net metering: electric meter spins forward and backwards.
- Property tax exemption: the potential added value of the solar installation does not get added into the assessed value of the property
- Sales tax exemption: no sales tax on the system
- Interconnection costs: small system (less than 10 kW) – no connection application fee, simplified procedure, no additional disconnect, no additional liability insurance
- Federal tax credit  
As part of the 2018 Tax Act, the tax credit is being phased out, refer to IRS web site for details.  
*IRS instructions on Energy tax Credits:*  
<https://www.irs.gov/instructions/i5695#idm140296600794896>

Other form of solar:

- **Hot water loop:** Panels where water is directly heated by the sun, used for hot water consumption or to heat a pool for example
- **Passive Solar:** design elements in the planning and construction of a house to optimize the solar gain (increase in winter, decrease in summer, climate dependent)

## Section 2 - Solar PV installation and the real estate transaction

*Please note that from a real estate transaction's perspective, similar questions arise from the solar lease or the PPA, so they will be discussed together.*

### Real estate agent's role:

As a seller's agent:

- Be competent in the area of real estate you are involved in
  - Understand the basic functioning of a solar system
  - Know what information to gather
  - Know what to pay attention to when an offer is received
- Disclose all material facts about the property – note that a minimum amount of information regarding solar system has been included in the "Seller Property Disclosure Form"
- Be loyal to your client –
  - Represent the property accurately
  - Understand the value proposition of the solar system
- Protect your client –
  - Clearly convey all aspects of the solar installation
  - Look for potential liens on the property (Secured loans, UCC 1 filings)
  - Verify the buyer's ability to purchase, including potential impact of solar system

### As a buyer's agent

- Be competent in the area of real estate you are involved in
  - Understand the basic functioning of a solar system
  - Know what information to ask for regarding the system
- Be loyal to your client – Understand the value proposition of the solar system
- Protect your client –
  - Clearly convey all aspects of the solar installation
  - Recommend inspection/ evaluation of the system when appropriate
  - Understand the potential financing impact, recommend right mortgage broker
- Provide relevant information to the appraiser

### Scenario One: Direct purchase

In this case the system is owned by the property owner, and therefore is considered a fixture and part of the real estate transaction.

- Proper disclosures/ due diligence regarding the system:
  - System:
    - age of the system, date of installation, warranties, manufacturer, age of the roof when system installed
    - permit
    - all maintenance done
    - last efficiency measurement
  - Financials
    - Loans associated with the system: years left, payout options
    - Seller net sheet, including potential solar loan repayment
    - In case there is a solar loan, what are the options?
      - Pay off amount
      - Transfer to buyer?
      - Removal of the solar panels?
    - Electric bill comparison, would be nice to have before and after examples
    - SREC revenue
    - How will it possibly impact a buyer's loan application?
  - Warranties
    - What is still covered on the system and for how long? (note that warranty on the inverter is probably different than on the panels)
    - Roof warranty: still in place, void, or other
  - Recommendation to the buyer for a thorough inspection as part of their due diligence (have list of home inspectors competent for such a system)
- Value of the property
  - Sales paired analysis
  - Knowledge of the market, perception, visual impact
  - Working with the appraiser
    - Fannie Mae and FHA appraisal guidelines
    - Collecting the right information to assist the appraiser
- Title impact
  - Secured versus unsecured loans
  - PACE financing

## Scenario 2: Solar lease, or Third Party Ownership

The system is owned by a third party, it is therefore not automatically part of the real estate transaction, what to do?

*A copy of the agreement is necessary to answer most questions!*

- Can the agreement be transferred?
  - NO: what are the provisions to terminate the agreement?
  - YES: what are the conditions/ requirements for the assignment?
    - Buyer's qualification requirements
    - Remaining terms of the agreement: how long, how much, buyout options
- Proper disclosures/ due diligence regarding the system:
  - System:
    - Owner of the system
    - Was a UCC-1 filing done? Can it be removed?
    - Age of the system, date of installation, warranties, manufacturer, age of the roof when system installed
    - Maintenance/ production records
  - Warranties
    - What is still covered on the system and for how long? (note that warranty on the inverter is probably different than on the panels)
    - Roof warranty: still in place, void, or other
- Potential impact on the buyer's financing application (in or out of LTV ratios)
- What if the buyer does not want the solar installation?

## Section 3: Comparison, summary and checklist

Direct ownership	Third party ownership – terms of the agreement
<b>Installation/ maintenance</b>	
Paid for homeowner at installation, with the possible use of a loan	Installed by a third party
Homeowner gets the financial incentives	Financial incentives to third party
System maintenance the responsibility of the homeowner	System maintained by third party
<b>Sale of house</b>	
Value of system to be considered	System does not add value
System information: size, age, maintenance info	Copy of the third party agreement
Permit	UUC 1 Filing?
	Transfer conditions (yes/ no/ qualifications)
	Lease amount go to LTV ratios for buyer
Loan associated with installation	Costs associated with the agreement
	Buyout possibilities
Potential SREC income	
Warranties	Warranties
Utility bills	Utility bills

**Additional Resources:**

- Seller Property Disclosure Form
- NAR GREEN Resource Council – [www.greenresourcecouncil.org](http://www.greenresourcecouncil.org)
- Solar Energy Industry Association (SEIA) - <https://www.seia.org/initiatives/solar-customer-resource-portal>  
Note that they publish various consumer guides regarding solar installation
- Solar Panels Valuation Model - <https://www.pvvalue.com>
- Residential installation comparison: <http://zondits.com/article/13005/thinking-of-going-solar>
- Appraisal Institute Form: <https://www.appraisalinstitute.org/assets/1/7/ResidentialGreenandEnergyEfficientAddendum.pdf>