

CONDO BUSINESS



Raising the roof

The benefits
of solar panels

Avoiding condo fraud

Are iPads the future of leasing?



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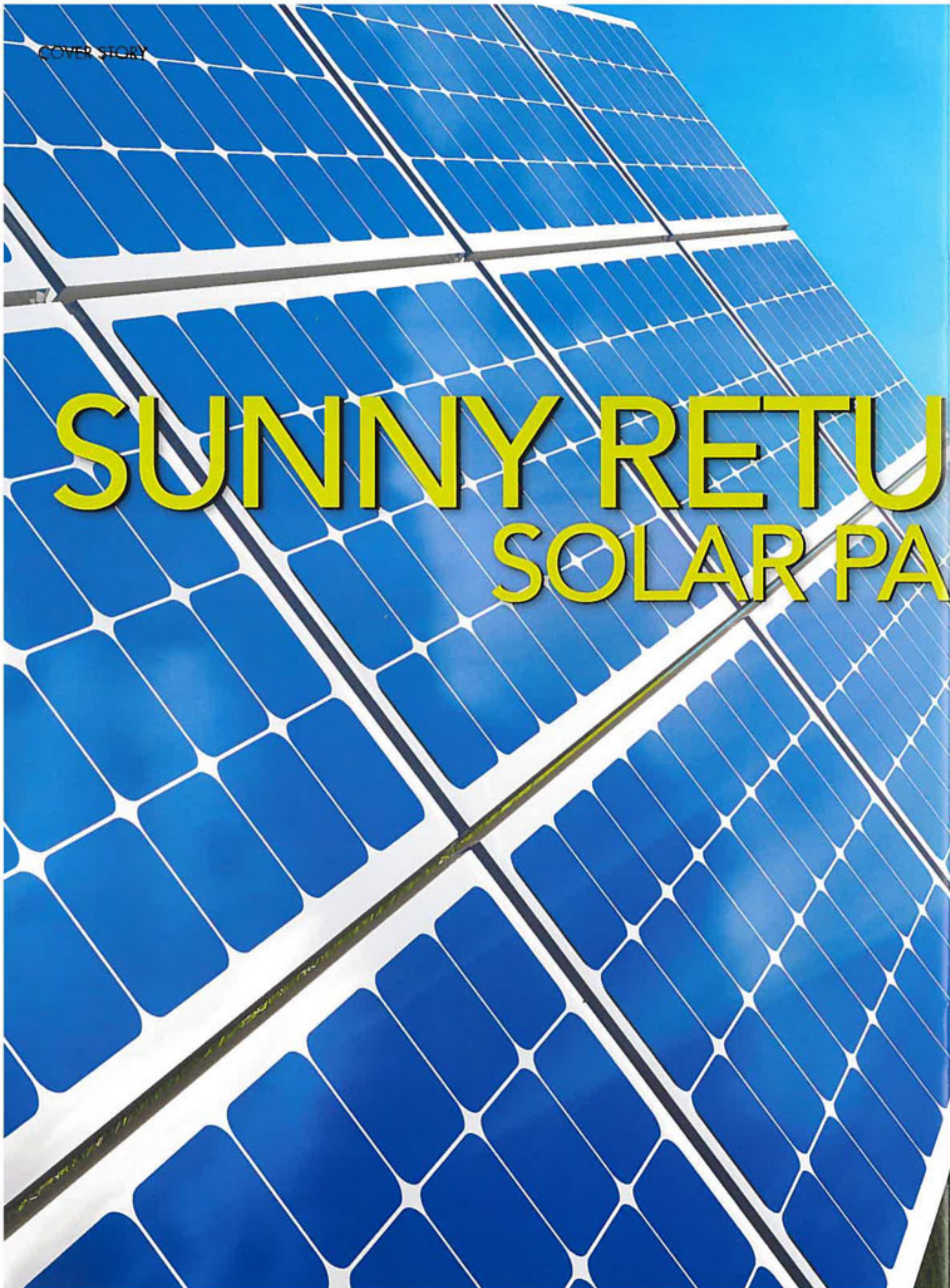
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COVER STORY

SUNNY RETU SOLAR PA



RNS FOR NEL INSTALLATIONS

BY CHRISTOPHER SEEPE

As a condo building ages and maintenance fees rise, condo boards will increasingly be faced with the challenge of keeping those costs down and finding innovative ways to create supplemental income to mitigate large increases in their condo fees.

“Green is often a euphemism for money and condo boards faced with major capital costs are likely going to give the highest priority to the use that makes the best overall business sense, with return on investment likely being a major factor”



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Some condos were fortunate enough to be in areas where installing a telecom/cell tower on the roof could generate some notable and much-needed annual revenue. However, the cell infrastructure is relatively mature now in many Canadian urban and suburban markets. So now what?

Well, the roof can offer other revenue generating opportunities, such as billboard signage perhaps, but one use that doesn't care about frontage, retail exposure, or high traffic areas is the generation of solar energy. Any rooftop (subject to engineering concerns) can apply.

Not directly related but certainly a point to bear in mind is that there is a battle brewing between green initiative protagonists, specifically the clan that wants trees and gardens on the rooftops versus renewable energy proponents. Each addresses important environmental concerns and each have distinctive and sometimes material, pros and cons.

However, green is often a euphemism for money and condo boards faced with major capital costs are likely going to give the highest priority to the use that makes the best overall business sense, with return on investment likely being a major factor.

To this end, much has been said and written about the Ontario government's FIT (Feed-in Tariff) and microFIT incentive programs, North America's first comprehensive, guaranteed pricing structure for renewable electricity production. It offers stable prices under long-term contracts for energy generated from renewable sources, including solar photovoltaic (PV) systems.

A typical microFIT project can take up to a year from start to finish even though

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installation usually takes less than one week.

Having a profitable solar system in Ontario is directly tied to system performance, and the monthly and yearly averages for solar radiation in a given location. Accurate data on solar system performance is readily available from reliable sources.

Generally, costs associated with the purchase and installation of renewable energy property is considered capital costs of depreciable property, using capital cost allowance (CCA) in Class 43.1 (30%/year) or 43.2 (50%/year). These classes provide an accelerated CCA rate for specified clean energy generation equipment.

There are a number of variables involved. This article specifically addresses the installation of solar panels on the roof of a condominium building in southern Ontario.

The positives:

- Obviously, the major benefit of installing solar panels is the 20-year income stream and full payment of the investment.
- Energy/fuel costs are unlikely to ever decrease. When the utility contract expires in 20 years, the system can still be a supplemental energy source for the building, reducing operational costs.
- The solar panels act as a kind of partial second roof that can possibly lengthen the lifespan of the property's roof.
- The personal contribution to clean sustainable energy for the community and the world, and that much less reliance on controversial nuclear

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“There is a battle brewing between green initiative protagonists, specifically the clan that wants trees and gardens on the rooftops, versus renewable energy proponents”

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power or clearly undesirable fossil fuel power.

- No moving parts and low maintenance make solar PV systems very reliable and long lasting. Some PV systems are still operating after 40 years.
- As long as there is a sun, there is sustainable, renewable energy with very little impact to the environment.
- Today, solar panel-generated electricity can't be stored. However, well before 20 years from now, when one begins piping generated electricity back into a building, technology will have advanced to allow for on-site energy storage. This could have a dramatic, positive impact on condo fees.

The negatives:

- The effects on the life span of solar panels exposed to extreme weather elements in southern Ontario are not yet well understood.
- There's no point in obtaining a 20-year warranty from a company that may be gone in five years.
- Owners absolutely must determine whether the building infrastructure can carry the weight and spot loads (e.g. gusts of wind pulling on the panels, heavy snow accumulating on a much larger surface area of panels and rooftop, etc.).
- Repairing the roof after a solar panel system has been installed can be an expensive proposition. Consider installing a new roof at the same time as the solar panel installation.
- The building must have a dry, covered place, not exposed to the weather elements, to install the large inverter device, measuring

“While there are definite pros and some cons, or at least notable considerations, to the investment in solar photovoltaic systems, the overall and long-term benefits are very attractive”

perhaps 6' high x 6' long x 2' deep.

- Make certain the racking system that is affixed to the roof is properly installed and doesn't create water and stress-related (wind, storms, etc.) problems later on. Be certain, for example, that bolts that breach flat roof membranes are hermetically sealed. Proponents may say this is overkill, however, there is not enough statistical evidence to know the full truth of it. Better still, try to find a racking system that doesn't require it to be bolted down onto the roof; maybe it can be simply weighted down.
- Make certain insurance will cover all damages; for example, high-force winds tear panels off the roof and damage, not only the existing property, but someone else's (or they injure someone).
- Like all technologies, solar panels are constantly improving. It is possible that panels in five years will be much more efficient. It would be great to know that solar panels could be replaced by more efficient ones without replacing the racking system that holds them in place (this is a tall order but still worth asking).
- If the entire property was to be sold (unlikely with a residential condo building but perhaps more likely with a large commercial/office/industrial condo), a reasonable portion of the sale price must be allocated as proceeds of disposition of the renewable energy property and reported to Canada Revenue Agency (CRA), which may result in a recapture into income of any CCA claimed on the property.

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Summary

In southern Ontario, for a mid-size condo building with southern exposure, a solar PV system requires a \$75,000 to \$90,000 capital outlay (plus interest/leasing costs) and will generate about \$11,000 in income per year, assuming 80.2 cents per kilowatt hour of electricity generated from rooftop systems with a rated capacity of 10 kW AC or less with a 20-year contract. An \$80,000 capital investment will take 7.3 years to recover, after which the income is arguably 90 per cent or more bottom line profit.

Higher ROI claims have been realized such as a 10 kW roof-mounted PV system installed for \$65,000 with an average system production in southern Ontario of about 1,200 kWh/year, creating approximately \$9,624 annually for a 6.7 year return of investment.

While there are definite pros and some cons, or at least notable considerations, to the investment in solar photovoltaic systems, the overall and long-term benefits are very attractive. □

Christopher Seepe is a commercial realtor at The Behar Group Realty and maintains www.multiresidentialexpert.com, a website dedicated to providing expert advice and sharing his personal investment and ownership experiences to those investing, or looking to invest, in multi-unit residential properties in southern Ontario. You can contact him at cseepe@thebehargroup.com