

## Overview

Healthcare Realty established its [Sustainability Principles and Policies](#) to drive meaningful portfolio-level improvements as part of its environmental, social and governance (ESG) program. The Company established a goal to reduce energy use and greenhouse gas (GHG) emissions by 10% by 2026 against a 2016 baseline. Renewable energy is one of its strategies.



Healthcare Realty partnered with a renewable energy advisor to establish its solar energy program. The program began with evaluating renewable energy opportunities in its portfolio and identifying ideal properties for solar panel installation. The review included six medical office properties in California that could support carport and parktop solar power installations.

## PROJECT HIGHLIGHTS

- ▶ **Properties:** 6 medical office properties
- ▶ **Goal:** Strategic, cost-effective ways to incorporate renewable energy into a portfolio
- ▶ **Barrier:** Difficulties of solar installation and distribution in a highly regulated energy market, including navigating the purchasing, installation, and integration of new energy technologies
- ▶ **Solution:** Develop a solar energy program by evaluating renewable energy opportunities across the portfolio and identifying the best properties for solar installation
- ▶ **Outcome:** Executing low risk project plans while adding value to properties and benefits for tenants and hospital system partners
- ▶ **Financing:** Third-party ownership, including power purchase agreements (PPAs) and feed-in-tariff (FiT) programs

## Process

The team utilized the following process:

- ▶ **Solar Feasibility Analysis:** Reviewed Healthcare Realty's portfolio for potential renewable energy opportunities, identifying and prioritizing the best properties for solar installation based on a number of components including:
  - Market demand/incentives/regulations
  - Roof (age, type, planned replacement)
  - Ability to utilize parking areas (surface/garage)
  - Potential solar capacity
  - On-site energy usage
  - Lease structure (multi-tenant vs. triple net leased, ground lease vs. fee simple)
  - Project structure (power purchase agreement vs. roof lease)
- ▶ **RFP and Bidding Procedures:** Issued RFPs to pre-qualified project developers, reviewed bids, and negotiated contracts. The team selected a solar developer based on economics, familiarity with the various solar programs, and ability to work collaboratively with Healthcare Realty's leadership team and health system partners. Next, Healthcare Realty negotiated and finalized contracts, gathering input from its leasing, property management, and legal teams.
- ▶ **Implementation of Carport and Parktop Solar:** Carport and parktop solar locations were

selected, offering an efficient way to expand solar capacity beyond the rooftop (which can have limitations due to the age and/or replacement schedule of the roof). Installation is scheduled to begin once the projects have gone through design, interconnection application, and permitting stages, with projects expected to be finished in 2022. The projects will generate up to 3.3 megawatts of energy per year - enough to power a 300,000-square-foot medical office campus.

## Financing

Solar energy projects provide a hedge against rising electricity prices, as well as an additional income stream for Healthcare Realty. These properties will either use the generated electricity on-site or sell it back to the utility:

*Third-Party Ownership – a third party owns, installs, and operates the arrays.*

- ▶ **Power Purchasing Agreements (PPAs):** Healthcare Realty has three projects underway where the electricity will be used on-site through net energy metering PPA agreements. RECs are retained by the solar system owner.
- ▶ **Feed-in-Tariff (FiT) Program:** Two on-site projects are structured as leases under a Los Angeles Department of Water and Power (LADWP) FiT solar program, selling the electricity generated on-site directly to LADWP. The utility will take ownership of the RECs as part of the tariff rate they pay to the system owner, who then pays Healthcare Realty.

## Keys to Success

- ▶ **Supporting Tenants' Goals:** Creation of new sources of on-site renewable energy helps strengthen Healthcare Realty's hospital system partnerships by supporting the sustainability objectives of their tenants.
- ▶ **Partnership with External Experts:** Real estate owners increasingly seek on-site renewable energy opportunities but lack the expertise to implement them alone. Healthcare Realty's collaboration with external experts was critical in understanding and navigating the procurement, negotiation, and forthcoming construction of solar energy at their properties.
- ▶ **Communication with Stakeholders:** Communication between stakeholders is the most important factor in overcoming the challenges of executing a large-scale solar project. Stakeholders can include leasing and property management teams, legal team, lenders (for properties with mortgage notes), tenants, ESG team, renewable energy and ESG consultants.
- ▶ **Market Demand and Eligibility:** Prioritize projects in markets with strong demand and favorable incentive programs.
- ▶ **Alignment with ESG Goals:** Adding on-site solar to its properties supports Healthcare Realty's environmental goals by reducing greenhouse gas emissions; provides additional benefits to tenants and hospital system partners by supporting their individual ESG goals; and supports decarbonization of the local electric grid through the addition of distributed renewable power generation sources.
- ▶ **Adding Value to Properties:** The energy generated through these projects will be used both on-site and off-site, benefiting the properties through decreased utility expenses, creating additional sources of revenue, and adding green energy to the local grid.
- ▶ **Cost-effectiveness:** The solar projects require no capital investment by Healthcare Realty.

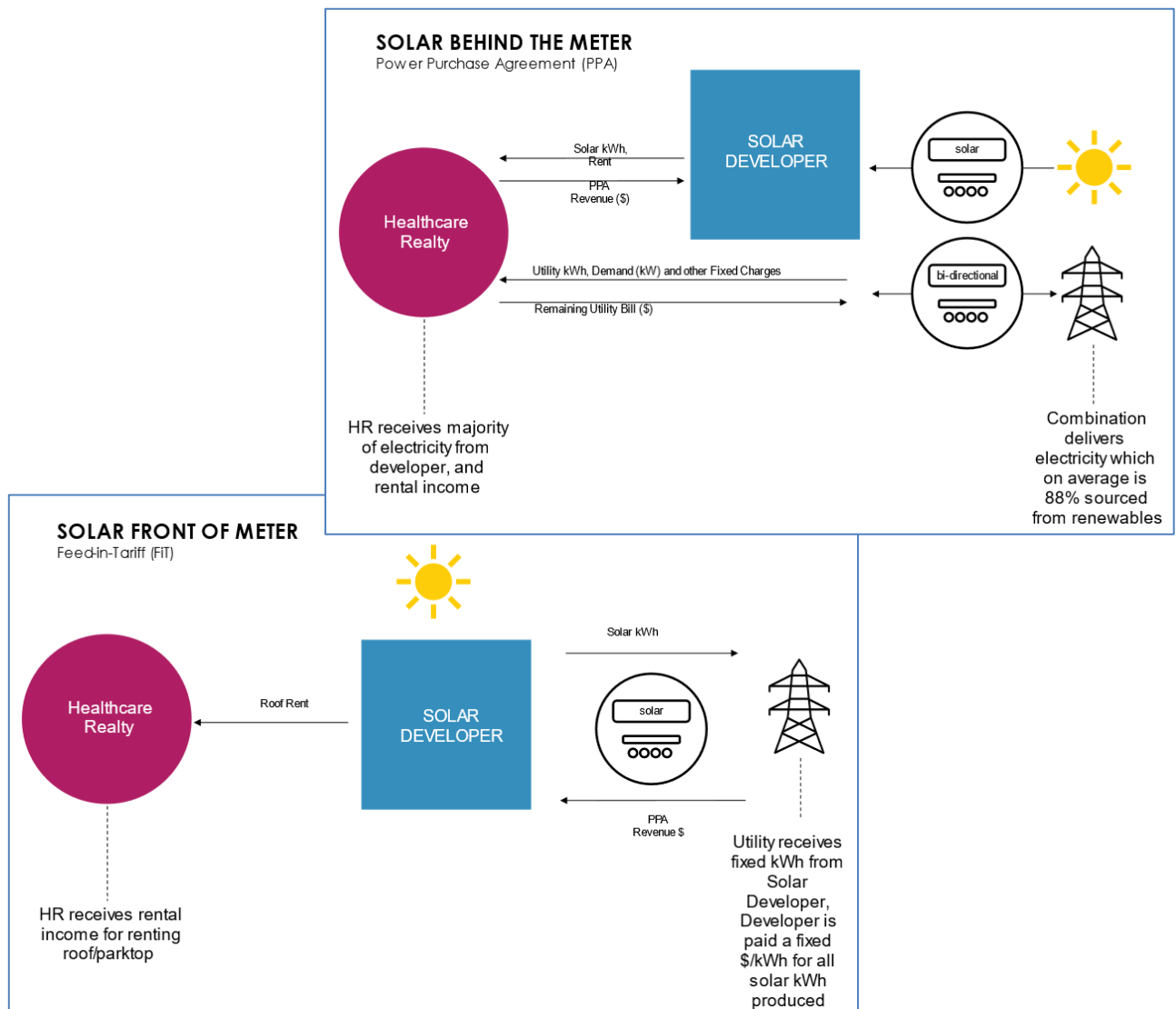
- ▶ **Additional Amenities and Reduced O&M Costs:** The construction of solar canopies above surface parking provides added amenities for tenants and building visitors, creating desirable shade, protection from the elements, and increasing vehicle fuel efficiency. Covered parking can also reduce the costs of parking lot maintenance and adds long-term value to properties.

### Next Steps

Healthcare Realty is looking forward to evaluating the construction process and verification of the projects once completed. The Company is expanding the program by evaluating newly acquired properties for renewable energy opportunities, prioritizing markets and campuses where they already have solar projects underway.



### Third-Party Ownership Structures



*This case study is part of a series from Better Buildings focused on PV Valuation. Published April 2022 | DOE/EE-2588*