California CRE Ramps Up Alternatives To State's Unreliable Grid

September 13, 2020 | Dean Boerner, Bisnow San Francisco Bay Area

As power blackouts become an increasingly apparent normal to Californians, the state's commercial real estate industry is hastening its adoption of alternative energy sources.

For the second straight year, Pacific Gas & Electric Co. is shutting off power to wide swaths of California to help prevent wildfires, and once again, Stem, a Bay Area-based energy storage company, is seeing increased demand, according to Stem Chief Revenue Officer Alan Russo.

“We grew 51% year-over-year last year,” Russo said. “And year to date, we did more business in Q2 than we did all of last year. The growth trajectory that we’re on is really quite exciting.”

Stem is one of a number of alternative energy companies seeing an increase in demand from commercial real estate businesses, according to California Solar & Storage Association Executive Director Bernadette Del Chiaro. Stem offers AI-powered batteries to cities, businesses and commercial real estate companies like LBA Realty, Macerich and Granite Construction. Such storage capacity, which is often paired with on-site solar, is affording users resiliency during power outages and the ability to avoid high-demand rates, Del Chiaro said.

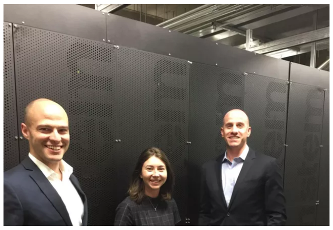
“We see a lot of commercial properties interested in solar and energy storage not just for backup power reasons but also to avoid demand charges,” she said. “[Energy storage] can provide that backup power when you need it and shave off peak demand when you need it, avoiding peak electricity prices and time-of-use rates.”

The state is seeing about 3,000 nonresidential solar projects installed each year, Del Chiaro said. CALSSA's expectation is that at least a flat growth rate continues, meaning another 30,000 commercial properties go solar in the next decade, doubling the existing stock, she said.

But she and others in the field say they see signs future growth will be more than flat in California and elsewhere, thanks in large part to a growing emphasis on sustainability.

Drew Torbin, CEO of Black Bear Energy, which advises large, institutional property owners on energy decisions for their portfolios, pointed to BlackRock CEO Larry Fink's open letter to CEOs last year linking a fundamental reshaping of the finance industry to the growing threat of climate change. Torbin said that is consistent with environmental, social and governance, or ESG, reporting becoming a bigger part of large commercial real estate companies' decision-making processes.

“To hear somebody like that, who controls so much real estate, talk about this in such a high level of importance, you really have to take note,” Torbin said. “There’s a bigger opportunity there than most operators realize.”



Black Bear is based in Boulder, Colorado, and represents property owners around the country like industrial REIT Duke Realty, which in June announced it would cover 1M SF of roof space with solar energy systems at four New Jersey properties. Torbin said California is its second-largest state market by volume and attractive as a result of strong policy, high utility rates and “high irradiance,” or sunshine, among other factors.

In its Self-Generation Incentive Program, California gives rebates for distributed energy resource systems like Stem's. Energy storage systems are alongside other behind-the-meter technologies like wind turbines and fuel cells that qualify.

General contractor and construction materials provider Granite Construction is looking to expand its reliance on alternative energy. Vice President of Construction Materials Bradly Estes said the company has five operating demand management systems from Stem at various sites, and it expects to add three additional sites to that list by year's end.

At asphalt-producing sites like French Camp, California, for instance, on-site storage enables Granite to meet customers' project schedules without being impacted by peak demand rate issues California is experiencing, Estes said.

“The most significant savings that we’ve seen is really with our ability to buy power during nonpeak times,” he said. “We’re able to store it on-site and use that power on-site when the demand is a lot higher, so we can take advantage of those rate savings.”

Russo said a step that would unlock even more alternative energy adoption throughout the state's commercial sector would be to broaden the definition of customers who quality under the state's lucrative SGIP Equity Resiliency program, where he said relatively few customers (for example, those in very low-income communities) qualify for a large percentage of funds.

“It's an awful lot of dollars which are trapped behind a very, very, very specific use case,” he said.

At any rate, the market rate for resiliency has come at the right price for more and more customers concerned about California's energy grid, Russo said.

“Resiliency offerings are front and center on everyone’s mind at the moment with the rolling blackouts and the wildfires and being prepared for that new normal.”

Contact Dean Boerner at dean.boerner@bisnow.com

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