

**BRIXMOR**<sup>®</sup>



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## Overcoming “Split Incentives” in Retail Real Estate to Execute On-Site Renewable Development



# Challenge Overview

While the large surface area of shopping center roofs make them ideal for solar panels, multi-tenant commercial shopping centers are actually difficult environments to complete renewable energy developments. Property owners sometimes have little direct financial incentive to install solar, especially in triple net environments where most utility costs are paid by tenants. Plus, most tenants lack sufficient roof space and lease duration to support self-generation

development.

Referred to as the “split-incentive” problem, this conundrum has delayed solar adoption in the broader market, despite property owners’ preference to provide locally sourced renewable energy options for tenants. Blue Sky Utility partnered with Brixmor Property Group to develop a business model that successfully deploys solar en masse and helps minimize the “split-incentive” problem.

## Partner’s Profile

### Brixmor Property Group

Brixmor is a publicly traded real estate investment trust (REIT), owning and operating a high-quality, national portfolio of approximately 400 open air shopping centers. Brixmor has set measurable long-term goals targeted at minimizing their impact on the environment through both a reduction of greenhouse gas emissions as well as electric and water usage. Additional goals include the company’s intention to facilitate 20MW of on-site renewable energy, to convert all properties to energy-efficient LED lighting and to install electric vehicle charging stations at 25% of their properties by 2025.

Brixmor’s initiatives have been recognized with high rankings from a variety of ESG ratings agencies and the company was named a Green Lease Leader at the highest gold level by the Institute for Market Transformation and the United States Department of Energy Better Buildings Alliance



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### Blue Sky Utility

Blue Sky Utility is a unique renewable energy developer providing solutions for retail real estate landlords and tenants. The company combines extensive engineering knowledge with financial structuring expertise to create custom solutions, which provide tenants and landlords with programs that are both environmentally sustainable and value accretive. Blue Sky Utility has honed its focus on retail real estate since 2012, developing tailored solutions to meet the demands of this dynamic asset class.



# Results Overview

Blue Sky Utility’s unique business model enables Brixmor to 1) support on-site, lower cost renewable energy, 2) generate revenue, 3) increase property values, and 3) reduce tenant and common area electricity expenses.

Currently, Brixmor and Blue Sky Utility have executed agreements for 15 sites, which together represent more than 12 MW of capacity covering more than 2.5M square feet of roof space. *“Together, these sites are expected to generate annual solar electricity production of over 20GWhs, which is equivalent to the annual removal of over 3,000 cars, the electric power used by 1,600 homes and the generation of annual carbon sequestration for more than 250,000 trees,”* said Ran Bujanover, President of Blue Sky Utility.

Brixmor is able to replicate the model for additional properties in California and plans to expand beyond the west coast.

*“Our partnership with Brixmor has been invaluable in developing this business model and generating value for all stakeholders. The future is exciting and promising, and we are on track to expand rapidly, which will allow us to deliver even more value to landlords, tenants and to the communities in which they operate,”* describes Barend Venter, CEO of Blue Sky Utility. Among the hundreds of participating tenants, are nationally recognized brands such as Panera Bread, Party City, T.J. Maxx, Nordstrom and many more.

# Solution Overview

The solar facility supplies locally sourced renewable energy to tenants and to Brixmor for common area electrical use. such as parking areas. Blue Sky Utility’s electricity production displaces “carbon heavy” energy otherwise obtained from the utility grid. All of Brixmor’s on-site tenants have the ability to opt into the program, which runs coterminous with their lease.

*“Blue Sky’s innovative solution is helping us achieve our goal of supporting 20 MW of new renewable energy developments by 2025, while enhancing the value of our assets. At the same time, our tenants can reduce their utility expenses using locally derived renewable energy,”* said Daren Moss, Senior Vice President of Operations and Sustainability for Brixmor.



Given the longevity of solar assets of up to 30 years, to ensure the durability of the site, Blue Sky Utility will often make significant capital improvements to the roofs on which the solar system is installed, at the start of the construction. Brixmor benefits from the increased value derived from these improvements without contributing additional capital, further reducing operating expenses and pass-through costs to their tenants.

Brixmor's participating tenants receive an allocation of kWh solar production credits, which are administered by their utility solely for the term of their tenancies. Therefore, there is no commitment after the tenant's lease term. Any additional energy that tenants require that is not supplied by Blue Sky Utility's solar system is still sourced from the local utility. The utility also tracks each tenant's energy allocation by source, making billing simple and transparent.

## Tenant Expense Reduction

Blue Sky Utility's electricity is priced to generate savings to participating tenants. This savings can be especially important for smaller locally owned shops and restaurants, who often pay the highest average unit power price to their utility. For these tenants, electricity costs can be a significant component of their operating costs.

*"In these difficult times we realize that many of our customers are hurting. It's our mission to support them, and we're fortunate to have the opportunity to help them through our program. We are able to demonstrate that being environmentally responsible can also generate bottom line benefits for the entire community,"* said Ran Bujanover, President of Blue Sky Utility.

## Conclusion

By overcoming the "split incentive" challenge of retail real estate, both Blue Sky Utility and Brixmor have developed a workable solution to deliver on-site renewable energy that benefits all stakeholders. Brixmor and their tenants receive economic and environmental benefits while reducing their environmental footprint in the communities they serve.

