

FiTs - generating additional income

Considering that Feed in Tariffs (FiTs) come into effect on the 1st April, little is still known of the value benefits it can offer property investors/ owners. The potential returns associated with the scheme were boosted by the tariff rates recently published in the Government's response to the consultation in February, which has provided support for the scheme.

For those unaware of FiTs, the scheme is aimed at encouraging on-site energy generation, capped at 5MW, by providing an incentive to invest in low carbon electricity generation via renewable sources. In the case of FiT's, the incentive is that those who participate in the scheme will be paid for the energy they generate with an additional tariff payable for any energy they feed into the national grid. Following the recent consultation document, participants have the option to receive a guaranteed payment of 3p/kWh for what they feed back into the grid or choose to sell it on the open market.

Tariff rates are dependent on the renewable technology employed and scale of the project, with solar PVs attracting the highest rates. The point at which participants join the scheme also has implications on the tariff rate as these reduce over time to take into account improvements in technologies.

The changes to the tariff rates has meant that the initial rates for solar PVs and wind generation, published in the 2009 consultation document, increased by an average of 14%. Other key amendments were the introduction of additional tariff bands for Anaerobic Digestion (AD), Hydro and Wind projects in order to provide more support to these technologies particularly at a larger 'community' level. It was also confirmed that tariff rates will be linked to inflation. FiTs have also been extended to support the first 30,000 micro Combined Heat and Power (mCHP) systems with an electricity capacity of 2kW or less as a pilot scheme. Details on the tariff rates available for particular technologies and scale of project can be found on the following page.

The Government's response also provided more detail on the workings of the scheme. Key points are that wind, PV and hydro projects of 50kW or less and mCHP projects, will have to use Microgeneration Certification Scheme (MCS) products installed by MCS accredited installers to be eligible.

The cost of the scheme will be borne by the supply companies with their exposure determined by their

share of the electricity supply market. While the large suppliers will be obliged to accept any eligible FiT generator/participant, smaller suppliers can reject prospective participants where their capacity is greater than 50kW.

So, what potential benefits do FiTs offer property owners/investors?

The key attraction of FiTs is that it can tick a number of 'green' boxes. For example, participating in FiT's can help meet CSR agendas, which can also extend to the tenants of the building. Participation can help reduce operational costs for tenants as it removes/reduces the need to purchase energy from off-site. It can also assist in enhancing energy supply security, which is becoming increasingly important. All these factors are likely to improve building attractiveness, improving occupancy rates and income returns over the long term for the landlord. Considering that Government legislation aimed at reducing carbon emissions from commercial buildings and the operations of its occupiers is set to increase, participating in the FiT scheme can help mitigate these as yet unknown requirements. The possible introduction of the Renewable Heat Incentive (RHI)* scheme in 2011, is also set to offer additional benefits linked to on-site heat generation, which is not included as part of FiT's.

Of particular interest to property landlords/investors is likely to be the income generating potential of FiTs. With tariff rates linked to inflation, the rate of return could be in the region of 7-10%. Even for those property owners who do not want to take responsibility of the scheme they can assign their rights to another party via a contractual agreement. A number of landlords are already considering this, which effectively involves them renting out their roof to a third party who will install the technology and participate in the scheme. FiT's are also likely to have a significant impact on levels 4-6 of the Code for Sustainable Homes, as developers can explore integrated technologies, particularly at the medium and larger scale, in order to generate an income stream via the scheme.

The real benefits are going to be realised by the early adopters as the tariff rates will be at their highest over the next two years. However, the income producing potential of FiTs aren't its only attraction to landlords/ investors. As already highlighted its wider benefits in terms of attracting and maintaining tenants will also be a key attraction of participation in the scheme, whether directly or via a third party.

*Note: RHI set to come into effect in April 2011. Savills will be producing a note on RHI's in July. Please find all our notes, including the 2008 note of FiT's, at www.savills.co.uk

Sustainability Briefing

Feed-in tariffs (FiT) - summary

Scheme overview	FiT's will apply to renewable technologies with a maximum capacity of 5 megawatts (MW) guaranteeing an above market, fixed, price for any electricity generated on site, plus an additional 'export' rate for any energy fed back into the grid. Over the tariff period there will be annual cuts in the tariff rate reflecting technology advancements. The technology employed also dictates tariff rates with photovoltaics (PVs) achieving the highest rates.		
Introduction date	1st April 2010		
Technologies included as part of FiT's	Photovoltaics (PVs); Wind turbines; Hydropower; Anaerobic Digestion (AD) and MicroCHP systems under 2kW (pilot)		
Sample generator tariff rates	Scale	Initial tariff rate (£kWh)	Tariff lifetime (years)
Photovoltaics (PVs)	under 4kW (new build)	£0.361	25
	under 4kW (retrofit)	£0.413	25
	4-10kW	£0.361	25
	10-100kW	£0.314	25
	100kW-5MW	£0.293	25
	Stand alone system	£0.293	25
Wind turbines	under 1.5kW	£0.345	20
	1.5-15kW	£0.267	20
	15-100kW	£0.241	20
	100-500kW	£0.188	20
	500kW-1.5MW	£0.094	20
	1.5-5MW	£0.045	20

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