

Matt Slepín (00:01.942)

One of the things I love about this business is that our success, as measured by our shareholders, is basically inextricably linked from our success as measured by impact. We're not a B corporation and we don't need to be a B corporation insofar as we don't need to sort of artificially bind some type of positive social impact to what we're doing. There's just no way for us to be a big valuable company and not have a huge impact and there's no way for us to have a huge impact and not be a big, valuable company. And so that's one of the things that's been really motivating to me.

Hi, this is Matt Slepín and welcome to Leading Voices in Real Estate. Today's episode, concluding our annual August series on real estate and climate change, yes, there is climate change, is a conversation with Dave Reiss, the CEO and founder of Wonder Power, a company that brings solar power and battery storage to commercial real estate properties. For those of you immediately Googling it's Wonder W-U-N-D-R with a U. Dave and I first spoke about six months ago and as our podcast day was approaching and I of course was reading the news about the current administration's change of direction on renewables. I checked in with Dave to make sure that he still had a business and that we still have something meaningful to talk about. Spoiler alert! Although Dave is an advocate for renewables and the importance of a clean energy future in fighting climate change, he's still quite bullish on the future of solar and his company and he makes the case for the free market as compared to the complexity of government subsidy programs.

Matt Slepín (01:36.61)

A much more positive review than I'd expected and a compelling case that solar in the commercial realm has indeed reached liftoff velocity. So it's less threatened than I'd fear from Trump's actions on renewables and climate change. Please enjoy the show. We have a great series of conversations planned for the fall. As always, if you have a few minutes, please rate our show on your podcast app and please follow and subscribe to the show and share your favorite episodes with colleagues and friends.

I encourage you to visit the archive on your podcast app or on the ZRG website and you can go back I think now four years to each August episodes focused on real estate climate and sustainability. If you have comments on the show or you'd like to talk about how ZRG can help your business on the talent side, including search consulting or advisory in the real

estate space, please contact me at mslepin@ ZRGpartners.com. I hope that you enjoy this conversation with Dave Reiss from Wonder Power.

Thank you for being on Leading Voices. This is our August. Every August we have done both episodes on climate change and real estate. And we're going to talk about that broadly today. But what a moment to discuss this topic. We just had two episodes about disasters, one about the LA fires and then another with Pete Gaynor, used to be the FEMA administrator.

Wonderful conversation. I learned so much about both what our system is and then what we do in the real estate business. But climate's been a headline in the newspaper now with Trump too. This is not a political conversation, but I want to know what that means for your business. Are we not going to do so again? Is it over? Climate change over? How's your business doing? What is your business and what's it mean for the real estate space? So lots to talk about and welcome to the show.

Yeah. Thanks for having me. I've been looking forward to talking to you about this.

Matt Slepín (03:30.702)

Cool. And maybe start with introduction of yourself, overview, quick overview of your company. We're going to drill down into stuff, but what's the kind of elevator speech and headlines?

Yeah, absolutely. So my background is in engineering. I'm an electrical engineer by training. It's been a large part of my early career in software. And ultimately we started Wonder sort of as I shifted my focus in my career away from general software technology to try to target problems that have significant impact on society. the problem that I was targeting very specifically was our energy future. in the midst of a massive energy transition in the United States and there's a lot of work

be done in that space. And there's a lot of ways in which sort of that software technology mindset can really accelerate the proliferation of new energy technologies that are creative

for society and a creative for the stakeholders involved in those transactions. so I can give you kind of the founding story if it's helpful in terms of where wonder came from and why we started this business. But fundamentally, if you look at what's happening within the energy transition that's happening in United States, solar is pretty objectively the most exciting thing happening and the move specifically to decentralized generation.

historically most of our electricity has been produced in these large centralized facilities and that for the first time is no longer true as decentralized generation proliferates. And then if you look at what's happening within solar, over the last number of decades we've seen pretty robust growth within the commercial or the residential landscape.

We've seen pretty robust growth within the utility scale landscape and then we've seen very limited growth within the commercial landscape and so that's really why our company exists. Wunder exists really to unlock the untapped potential that exists within the commercial segment of the solar market.

Matt Slepín (05:14.19)

And when you say commercial, what does that refer to?

So strictly speaking, our industry and DOE and the various Department of Energy and the various sort of bodies that research our market generally characterize commercial as not residential and not utility scale. So it's a pretty broad cut of the market. It's everything that's not a gigantic \$200 million investment in energy equipment that's out in the middle of the desert, and it's not stuff that's on your home. Everything else is fair game. For us, we focus a lot on logistics, warehousing, multi-tenant retail, and we do a bunch of senior living, medical office, class A office. The list goes on. Self-storage is a big vertical for us. And so we are very diverse within the commercial setting. But what we think about, what we tend to focus on is really the built environment. So it is commercial real estate in a similar sense to how it's used in the real estate market.

Okay. And when you describe those sectors, multifamily, you said seniors housing, but multifamily broadly, it fits in that not rooftops of houses.

Yeah, multifamily is one of these fringe places. do a little bit of work in multifamily. It's little trickier to operate in that segment just by virtue of kind of the architecture of those properties. They tend to not have the large flat addressable rooftops that a warehouse has. And so they tend to be a little bit more expensive to build. The environment in which you're selling power is a little bit more nuanced. so, multifamily is not a primary focus, but it does fall into that category of what we consider to be commercial.

Dave Reiss (06:45.742)

When we think of office, we're generally thinking about low to mid-rise, generally a high-rise, something north of, I don't know, six, seven, eight floors. You tend to have a lot of that rooftop space occupied by HVAC and just the energy intensity of those buildings as you start to add floors makes the amount of energy that you can produce on the roof inconsequential in the context of the broader building. That's why you don't really generally see a whole lot of solar in Manhattan's built up kind of downtown environment or whatever. We do have a couple of systems that are in downtown San Francisco, which we're very proud of. They're very cool systems, but it's not sort of the lion's share of what we do. It's not the lion's share of the addressable market. Objectively, the offset in that context is pretty modest. A lot of the properties that we address, we're offsetting something like 90 % of the energy demand of that property. That's not the case in this context. This might be more like we're offsetting one of the floors or something like that.

Fair deal. Although a 40,000 square foot, five story building describes most of the office buildings in the country. So there's a lot of use cases for that and a lot of opportunity in that building type all over the country. We don't need to talk about office versus industrial, but a lot of rooftops in the commercial real estate business and you're describing that and that's your market.

That's exactly right. And when I talked about sort of the founding thesis of the business is really to try to accelerate penetration of renewable energy into the commercial market. One of our essential observations was this discontinuity that exists between where commercial solar development tends to happen historically and where the total addressable market is. And so I'll make some broad generalizations here, but in general, historically, commercial solar has targeted multimillion dollar energy systems.

Dave Reiss (08:40.27)

multi-million dollar energy systems, broad strokes, just to give you kind of like a rough idea, a system that costs about two million dollars to build requires roughly 100,000 square foot of addressable, buildable roof space. And as people in this market are well aware,

98, maybe 98 and a half percent of all property, all commercial properties in the United States have a floor plate that is well inside of 100,000 square feet. And it's sort mid-90s, 94, 95 % have a floor plate less than 50,000 square feet. And so...

You really can't get to high levels of penetration focusing on multimillion dollar systems. The opportunity is really at the smaller end of the continuum. have to be able to cost effectively service properties that are in the 10, 20, 40,000 square foot zip code. That's where not most of the market, that's basically where the entire market is for all intents and purposes. so the reason that this market, the commercial solar market has targeted those multimillion dollar systems has everything

to do with the cost structure that has historically been prevalent in deploying assets in this market. And that is to say there is a fairly consequential amount of fixed costs. so what you'll hear within the commercial solar market is why would I develop a thousand dollar system when I can develop a two million dollar system and generate much thicker gross margin? The answer is scale. That's our answer anyways. The reason you want to be able to address these smaller systems is because you can do thousands upon thousands of those systems.

And there really just is not that much TAM at the larger end of that continuum. so Wunder focuses on everything across the board. You know, we have systems that are way at the small end of that continuum. We measure system sizes in kilowatts. So we've got systems, you know, well below 50 kilowatts that we've built all the way up to systems that are tens of megawatts. So very, very large systems on, you know, million square foot logistics facilities. And the cost structure that we have and that we run internally is

Dave Reiss (10:44.426)

is fundamentally what enables us to profitably and cost effectively service the small end of that continuum. And of course, that makes us all the more competitive at the large end of the continuum as well.

Got it. So let me ask different questions around this. One of the things you said at the beginning of the conversation is you said bring a software technology mindset.

And then we ran right by that. And I don't know what you meant about that and how that's relevant to this conversation. I'll mash up two questions. And then the second thing is you do solar, not other forms of energy. And I'm assuming you're not a solar panel manufacturer. So put together those two questions and help us understand the place you're coming from with the business model.

Yeah, yeah. So you know, maybe.

Maybe I'll start kind of roughly with the latter and expound on the role that we play in this landscape. And you can cut me off if I'm too long-winded because the company is 11 years old, so we've evolved a fair bit. when we started the business, the thesis was what I just described. The bulk of the opportunities exist at essentially what our market currently views as the small end of the continuum. What I view is the bulk of the addressable market. And most of what was getting done was at the large end of the continuum.

Dave Reiss (12:01.68)

was fundamentally, back in 2014 when we started the company, there was an access to capital problem where there weren't a lot of financiers in the market who had an underwriting methodology that worked in the sub-million dollar capex system size range. And there were a couple issues with that. Number one was the transaction cost of financing of underwriting was prohibitive. so just the fees that you would have to pay to get financing on a half million dollar asset were problematic for solar developers at that time.

more of a credit issue, which is that most of the capital that was flowing into assets in this space was flowing on the basis of investment grade offtake credit. so, you know, from a traditional sort of credit underwriting standpoint, one of the primary risks that tends to be evaluated is sort of the payment capacity of whoever is purchasing the energy from one of these energy assets. so anyway, back in 2014, most of what was getting financed was systems that had power

purchase agreements with the likes of Target, Walmart, those sorts of actors who had investment grade ratings. so there's two things that we did initially, which was we brought software to bear on the underwriting problem to reduce our transaction costs, to enable us to invest and deploy capital into these sub-million dollar asset sizes. And we also brought to market a novel underwriting methodology that essentially enables us to underwrite the bulk of the market. Most of the US economy is comprised of what I would characterize as credit worthy businesses, but

that nevertheless don't have a credit rating from one of the major agencies. And so we ultimately scaled that financing business. We did about a half billion in lending. became a pretty big actor in the financing space in this market. And we started to realize that in order for us to really get to very high levels of scale, we were originating at the peak of that financing business, something like \$200 million a year in financings. We realized that we were going to have to get closer to the transaction. That was because our financing team was having to do a lot of work to improve the structuring, fix contract.

basically fix the work that a lot of our developer customers at that time were doing to ensure that our downside was protected and we could effectively allocate capital into these assets.

Matt Slep (14:10.83)

financing may be not the most optimal solution to this. You're financing a dumb solution and you could bring a better solution and the financing could work better as well.

Yeah, there was like, think I would bucket it as two fundamental issues. One was sort of a sophistication issue. There were a lot of corners being cut in how contracts were getting set

up. And as a lender, you we only have downside exposure. And so it was just a bad scenario because we were going to our customer at the time, which was a solar developer and saying, basically, you you're doing it wrong. You need to do it this way in order for us to able to finance that. And that's just a bad customer experience. mean, anyway, you cut it even from our standpoint, we were improving the quality of their projects, but from their standpoint, we were just being a pain.

So the other thing we realized, which was probably much, more profound was that most of the solar developers that we were financing were not consistently getting repeat business. So one of the go-to-market sort of premises of the financing business was that we would provide access to capital and then sort of help our customers achieve higher levels of scale, basically bring them the capital that they needed to do higher and higher volumes of transactions. And what we saw really consistently was that our customers, these solar developers were selling a transaction to commercial real estate owner.

And then they're putting that commercial real estate owner through the wringer. then surprise, once that thing was done, or if it ever even got done, those commercial real estate owners were not all that excited to do follow on transactions. if you know anything about commercial real estate, you know that it's overwhelmingly owned by institutions. And so if you want to achieve scale, you got to deliver a product to the market that commercial real estate owners want and shock.

Also you have a little customer. Your customer is a developer. Your customer could be the end user and then you have a business.

Dave Reiss (15:50.478)

That's exactly right. so, mean, the wrinkle there is, of course, it's a lot more complicated to do everything. But ultimately, that was the answer in order for us to get to scale. so about kind of four five years ago, we really started to evolve the business and we essentially vertically integrated. And what that means to us is that we, our customers now are commercial real estate owners. So we are still a financier in this market, but we exclusively finance our own transactions. We no longer finance any type of third party transactions. And we are highly committed to

a very high quality experience to our commercial real estate owners. First of all, because that's a intelligent way to run any business. But second of all, because we know that in order for us to get to scale, we need to be delivering a product into the commercial real estate market that commercial real estate owners are excited to say yes to, right? You know, we're delivering incremental value to these properties, but we can't, you know, we can't impose a whole lot of pain along that pathway. We need to limit the risk that we expose our commercial real estate owners to, and we need to deliver something that is an easy yes when we say, okay, we did the first

five, let's now do the next 50. And so that's proven to work really well. Obviously, like I said, the challenge of course, is that we've got a lot of work to do under this roof. From first touch with customers, property evaluation, portfolio assessments, developing strategies for deploying these things across their portfolios, all the way through to permitting, development, construction management, and then operations. that's again, one of the things that's really been important to us is to maintain incentive alignment front to back. And what that means is that

We don't sell our projects, right? We stay in our projects because we know that our customers, our commercial real estate owners have long-term exposure to the performance of the asset and therefore we need to maintain that exposure as well so that we're sitting alongside them for the long haul. And so that's, anyway, that's where we exist in the value chain to address your manufacturing question directly. No, we don't manufacture any of our own equipment. We source equipment from a number of OEMs and we don't do any of the labor associated with the actual build. That's all subcontracted, but we do.

do a lot of the development work, permitting, engineering, design, that sort of stuff in-house, either that or we closely manage it. And front to back, we're very, very involved in the details on these projects because ultimately, it's managing the details that enable you to extract cost, which of course is what enables you to deliver higher value to your customer.

Matt Slepín (18:07.742)

So let's take two themes from that. One is products and I'm assuming the product that you're putting in winds up being a combination of like solar panels and batteries and then the things that connect that to the building. And then the other side of it is a financial structure. So talk about both ends of that so we get a sense of what the components of the hardware is.

Maybe there's a software thing in the middle and then what the structure is because that's the most maybe the most important part because that's where start.

That's right. That's exactly right. So yeah, so just to put some meat on the bone in terms of what we're doing, in most contexts, what we're doing is we're deploying a bunch of flat glass panels on a rooftop that have this curious property that enables them to turn photons from the sun into electrons, right? And so that we generate power. That power is then sold.

you know, there's a number of ways that we do that. Sometimes we're selling power to the tenant. you know, for example, I mentioned senior living as a vertical that, that, you we have, we've had some success in, in some of those cases and other types of owner operated scenarios, we're selling power to the property owner who also occupies the property. Yeah. In other cases, we're selling power to the grid. There's a couple of regulatory constructs that in certain markets enable us to sell power offsite to people who are power consumers in the utilities jurisdiction. So, suffice it to say that.

that we are responsible for selling the power. And then the revenue from that power, and this gets to sort of your question about what is the product from the commercial real estate owner's standpoint, the product is NOI, right? And so the form that the NOI takes typically is roof lease income. We are structure agnostic, so we work with some of our customers who want to directly own these assets, but most often we find that it is most appropriate for customers to

Dave Reiss (20:02.384)

benefit from the deployment of these energy assets on their properties through NOI uplift that's delivered in the form of lease rent. It's from a REIT standpoint, it's conforming revenue. It's a natural fit in terms of how they think about their business. And I think most

operatively, while over the long arc, if you look at this on a 10, 20 year time horizon, I think an increasing proportion of commercial real estate owners will start to own these energy assets. Right now, it's the case that most institutional

commercial real estate owners form capital that's predicated on investing in capital and commercial real estate. And so it's not altogether obvious that deploying that capital into something different like an energy asset is an appropriate use of proceeds. And so there's a few ways to slice that, but in general, that's why we tend to end up in most contexts with a roof lease rather than a direct sale of the asset to our commercial real estate owner.

Let me think about this. So put put some numbers around this. I have a roof a and b I have an energy spend for my property. You're renting my roof.

and then you're selling the energy cheaper. So what's the net benefit to that structure? I understand that you're taking the capital off the hands of the real estate investors so they could do real estate, because we like a capital stack, so you're now part of the capital stack. But what's the net in terms of what those numbers mean? And there also might be a tax or structure implication to it being structured this way as well.

Yeah, I mean, I think let's keep it simple. There's a few inflections of this structure, but for the sake of simplicity, most often we are not selling power to the property owner. Most often we're selling power to somebody else. And so the benefit, to answer your question, the benefit to the commercial real estate owner is lease income.

Matt Slepín (21:55.512)

Cut.

So releasing the roof for deploying equipment on that rooftop and the way that we service that roof lease, the way that we generate revenue to pay that roof lease is through the sale of energy to some entity. In most cases, that entity is a third party, somebody who's offsite or-

or is a tenant.

So if I think of ESG, I think of a property and in the property I'm trying to be carbon neutral, if that's the right way to look at it, I'm still buying my energy from the grid, although I'm getting income from selling, having solar on my roof. How do I tie that together for my bragging rights about all of my properties being revenue neutral, which is not the right word, carbon neutral?

Yeah. Well, so most of the commercial universe, there's obviously exceptions, but most of the commercial universe is triple net, right? And so the energy demand obligation falls to the tenant, right? And so in a lot of ways, that's a question for the tenant. And so from the landlord standpoint, there's a few ways to answer that question in terms of how do you reconcile the carbon accounting, which I think is a little bit kind of one of these like fluffy things in my personal view. But in general, from the property owners,

Dave Reiss (23:15.004)

standpoint, I think the ultimate question is what is kind of the net, you want to talk about carbon intensity, it's what's the net carbon impact of that building on the grid, of regardless of where the sources and uses of power go. If you take a greenfield piece of land and you build a structure on that land and that structure consumes 10 units of energy and then you build an energy system on that structure that then produces 10 units of clean energy, I think you can say that your net impact on society is neutral, regardless of

who exactly is paying for what and where these energy flows are going.

Okay, and a couple of last questions here. It's a commodity that you're putting on the roof. The solar panels are totally commodified at this point. They're being produced. I have a bunch of them upstairs here, and I have a battery. But you don't need the battery if you're selling it into the grid. So that might be one of the benefits of a cost structure.

Sort of. Batteries are an emerging theme, certainly within commercial, which is to say that there are a relatively limited number of markets in which deploying batteries today is cost effective. I anticipate that will change over the next kind of five-ish years. think we're going to start to see an increasing number of commercial properties with store energy storage equipment on premise. You know, in terms of the role that batteries play, what they really do is essentially they enable you to

Among other things shift kind of where you're

Dave Reiss (24:44.374)

peaks exist in terms of your energy demand. And then they also enable you to sort of time shift essentially when the power that you generate on site is consumed. it's a bit of a wonky kind of like nuanced topic, but simplistically we tend to think about electricity in terms of just call it units of energy consumption kilowatt hours. But that's really not sort of a super faithful kind of approximation for how electricity costs

accrue. to be sort of blunt about it, the rate that you pay for electricity is proportional to kind of how spiky that load is. And so if you have a significant load that jumps materially throughout the day and has a bunch of sort of high points throughout the day and a bunch of low points throughout the day, in principle, that's a more expensive customer for the utility to service than a customer who consistently demands

100 units of energy 24 hours a day. so, again, the battery enables you to do a number of different things, but it enables you to essentially move your energy demand and production in the time domain. It allows you to place where you're consuming and where you're generating in a more strategic way.

Okay, interesting. Okay, let's quickly talk about a couple different things about your company so that we understand what the business is. And then they have some really big picture questions about what's going on in the world and in this marketplace. But a little bit more about your company. First of all, how many people do you have? How many installations do you have? And how are you structured?

Yeah, yeah. So, so we are based in Boulder, Colorado. We have a core team of about 40 people. The, we operate on a national basis. We have, you know, we're by end of this year, we'll be under construction on about a hundred assets in parallel. So, you know, that's something that's grown materially over the last few years.

Matt Slepín (26:47.896)

That's under construction. Do you have a base of what's already been put together?

Yeah, we have a large base of pre-existing operating assets across both the development book as well as of course, we've been a financier in this space for 11 years and so there's a huge operating portfolio that sits behind the loan book as well. And so a lot of performance data in terms of our information that we use to sort of validate the way that we're assessing risk in this market and the way that we're sort of setting standards for how these assets should be developed.

and a very rapidly growing book of under construction assets as well.

Any set, could you articulate what the existing portfolio is? It's a hundred assets being developed at a given time maybe. And you might have a thousand of these installations. I don't know how many or what dollar value or what kilowatt you would describe it in. Some sense of size scale that way.

Yes.

Dave Reiss (27:51.936)

It's not, we haven't hit quite a thousand, but across the operating book that we oversee, it's many hundreds of assets across many different jurisdictions within the country.

Okay, and I'm guessing that you, because you own them, they sit there, you have asset management, but asset management's probably pretty light because these things work themselves. They don't require a lot of maintenance, there's no moving parts.

That is exactly right. It's at least the way that it should be. So this is a point of contention. A lot of my peers in market complain about asset management being a real thorn in their side. We don't have those problems. Our assets have proved to be very, very high performance. And that comes, I don't know exactly what to attribute that to other than the fact that we are wildly detail oriented with respect to commissioning these things and ensuring that they're built properly and that we're not cutting corners at build time. I mentioned earlier, one of the things that we are deeply committed to

is incentive alignment. I just fundamentally believe that incentives ultimately really are the best predictor of the type of result that you're going to get over kind of a long arc. And one of the things that's very prevalent in our market is that there's a lot of transacting on these assets. And so a lot of actors in our space view these distributed energy assets, these commercial solar assets as kind of securities, if you will, as trading cards, right? Where, you know, they think of you can approximate these things as a stream of cash

flows that you can securitize and refinance and do all this financial engineering with. While that's true from a financial standpoint, the fact of matter is that the underwrite only works well if you can make certain solid assumptions about how that asset is going to perform over a long period of time, how that asset is going to produce energy over a long period of time. And so when you have a dynamic where the person who signs the contract with the commercial real estate owner is different from the person who builds the asset, who's different from the person who then owns and operates the

Dave Reiss (29:48.144)

asset, you have this dynamic where nobody has that sort long-term view from the beginning and you end up just structurally with corners getting cut and so on. So I've been, you know, there've been a number of my peers who have asked me to consult with them on how we get portfolio performance to the level that we've achieved here at Wonder. And, you know, there's not an easy answer to that question other than, you know, this model of transacting on these assets, you know, acquiring assets from developers for

for these sort of acid aggregator models, it's just fundamentally broken because the incentives aren't aligned properly.

You're saying one thing I'm thinking of a whole different subject relating to the same words you're using. So the one thing I'm thinking of is the asset, the asset, meaning the building gets traded by an institutional owner. They do a value add. Maybe there's no reason in a five year hold to do this with you. Or maybe in a five year hold, you're increasing their value and ability to sell it or it's a bigger hassle to sell it. But real estate, I think you're talking about the rooftops trading.

That's right.

Yeah, I'm talking about the rooftops trading, you know, the, terms of, if you want to shift gears and talk about sort of the trading of the underlying real estate, you know, that, that's something that, you know, we work very hard to make sure we are, you know, accommodating to say the least, right? One of our premises is that the value proposition that we offer to commercial real estate owners is accretive, but it's not the primary business. The primary business is and will always be commercial real estate. And there's a whole bunch of different models. Some commercial real estate owners have a long hold strategy,

Dave Reiss (31:24.92)

have a short-hold strategy, there's opportunity funds that are buying properties and investing in them and then flipping them. There's no right answer. There's a whole bunch of ways to run a commercial real estate business. From our standpoint, we want to stay out of the way of that primary business and allow our customers to do exactly what they want to do when they want to do it.

you found that you're more friendly to a long-term holder, let's call it a REIT, or are you more friendly to a trader, let's call it an opportunity funder or value add player?

I would say both.

We're agnostic. support both. To this point, it depends on who your audience is, but increasingly, I think the commercial real estate market is coming to realize that there is real value from having an on-premise energy strategy. so there is a debate that has been happening for the last few years around how should you value a roof lease that's backed up by an energy asset? And the conservative folks will say you value it at a DCF.

And the folks who have a slightly more holistic view of the role that energy plays in the context of commercial real estate will say that you value it at cap rate. I obviously am of the latter view fundamentally because energy is an attribute that is going to be endemic to that property for as long as that property is going to exist. so having an energy asset on that rooftop, I think is as valuable as any other feature that serves to attract tenants. Whether that's location or whether that's logistic setting,

Dave Reiss (32:58.704)

the clear height or the loading dock configuration or whatever it might be. And so it's a fundamental character of that property. And that's maybe a segue into talking a little bit about where this goes over the long term from a commercial real estate strategy standpoint. But I think we're at the very early days of that.

Okay, let's go backwards for a minute. Two things, one, if I'm putting you on my rooftop, is it harder for me to do every 15 year roof maintenance or are you trying to pay for that? how does that affect my normal maintenance turnover structure in terms of roof leaks, roof maintenance?

Yeah, so, so, you know, uh, we pay a lot of attention to what we call Roof EUL, estimated useful life when we deploy an asset. Um, you know, a lot of times we're deploying on a new roof. Um, not always, generally speaking.

If the roof has more than seven years of useful life remaining, we can deploy on top of it. And then basically what happens when that roof needs to be replaced is we decommission

the system, pull it off the roof, we re-roof and then we reinstall the system. And the cost associated with doing that removal of the system and the reinstallation of the system is contemplated in our financial model.

It means that does the owner then pay you something extra during that time period? Because it's their decision when to do it versus its end of lease structure.

Dave Reiss (34:19.822)

Yeah. short answer is no. Basically the way that it works is that there is a cost associated with the removal of a solar asset and the reinstallation of a solar asset to facilitate the roof replacement. At the time that we establish a transaction, we can structure it either way. So either we can bear that cost, which is fine. We do that a lot of times. We're happy to do it. Or our commercial real estate owner can bear that cost on basically a cost basis, the reimbursement of that cost. And the implication of course is that if

if our commercial real estate owner bears that cost, we can pay a higher lease. So we can offer higher lease rate if that cost is borne by the commercial real estate owner, or we can reduce the lease rate slightly, it's not super material, and we can insulate them from that risk.

Different question, if you're on my roof, you might sell and trade these assets or you might go out of business because a lot of companies like yours, when I think about it, go out of business, I think actually the company that sold me my solar on my roof has gone out of business 10 times. They're like Turkish rug salesmen. I don't know about that. Sorry, Turkish people. But any comment to that? This is a tradable asset, right?

It is a tradeable asset, that's correct.

I mean, the first thing I'll say, which is not what I would underwrite to, is that wonder is architected as a business to take a long view. We make decisions to ensure the longevity of the business. are not here to be a flash in the pan. We are here to be a catalyst for the energy transition within the United States and hopefully globally. I would love to undertake

a global expansion in another five years. We've got a lot of wood to chop in the United States, so we'll save that for another day. That's first thing I would

Dave Reiss (36:01.236)

Beyond that though, obviously when you underwrite these, have to contemplate that risk. And so the way that we set this up is when we operate these assets, we are essentially paying ourselves what we view as a market.

operations and maintenance fee. And so in the event that Wunder were to no longer exist, the revenue stream or I should say the payment stream necessary to pay a third party to step in is sort of already contemplated in the way that we've structured the financing for our assets. think the other thing that I would notice that our capital, the capital that we use to finance our assets comes from Blackstone. so

You know, while it's important to us to have those structures in place, you can bet that it's important to Blackstone as the capital that sits behind these things to have those structures in place as well. And so that's ultimately sort of how that risk is addressed, but we intend to be around for a long time and we're making decisions with the long view in mind.

and talk about your ownership structure. And then if you're a non-bank lender, that is then in your case being handled largely by Blackstone. So talk about those two components and then they want to go real big picture and get out of your company into what the market is right now.

Yeah. So, um, so wonder, wonder is a privately held business. Um, you know, we are, we are financed in sort of a venture style way. Um, we have some equity investors that have basically provided us with, um, you know, the capital that we need to build, you know, the, team and the technology necessary to operate cost effectively in the segment of the market that, that we focus on, which is the entirety of commercial, um, in terms of the asset capital, that's a different story. Um, so the asset capital is structured is basically kind

Dave Reiss (37:46.938)

of forward flow arrangement where we have what is effectively the full stack of capital being provided through this Blackstone credit facility. so, you when we go out and engage with commercial real estate owner, we are on balance sheet doing a lot of the at risk evaluation of that asset until the point at which we essentially have de-risked that asset. And I'm referring to asset here, this is the solar asset sufficiently to essentially schedule the commencement of construction. And at that point in time, the solar asset gets transferred

into a joint venture where we are the managing partner and our limited partner is essentially this Blackstone stakeholder that provides equity capital for that asset.

Okay, I want to talk about the economic versus the social decision being made by the owner in this. It all sounds economic to me, but I want to punt that question till after we talk about how maybe the market has changed. So, let me, so we're going to totally change subjects and I want to put a couple of thoughts out there and we could approach them from any perspective.

Sounds good.

Matt Slepín (38:53.952)

So one is US government. had Biden who put a lot of money and lot of incentives into

decarbonization and that drove the market in certain ways, I think. And now we have Trump too coming in and taking all of those incentives away and disappearing climate change, which is really interesting. I would like to disappear it. That'd be a pretty cool thing. so I wonder what all that means is your market, does this go away? Is it not there anymore? Does it still exist? What's the future? So that's question number one. Question number two.

is what are the overall drivers of the market? And one thing I've seen as a total shift in the last year and a half has been before AI, it looked like we were going in a good direction of less energy usage per capita or something. But now post AI or in the AI era, now it's, my

God, we're gonna have so much energy need. So think about the two questions about government that be...

pre-Trump and then Trump and what that means for your business. And then what's the demand cycle around this because they read nothing else. It's a big deal.

Yeah. there's a lot to unpack there. Where should we start? Should we start with sort of the federal government impact?

Matt Slepín (40:14.72)

I think the federal government impacts that. Well, no, let's not. So the first of all, what was the overall energy market and need for energy and where did solar fit into that in the real world? Because the real world is different than the government world. And AI is going to blow that up. So just talk a little bit about that as the backdrop for this.

Yeah, great. yeah, let's talk about that. So we can go fairly broad here and let's talk about kind of the human civilization as a whole. So historically, right, if you look at kind of the entirety of human history, economic growth and energy intensity have generically been coupled. As we are more productive as a society, we consume more energy and this becomes a trend in sort of the post-industrial era. That's pretty

clear if you look at post of call it 20th century, we see a really tight coupling between GDP growth and energy intensity broadly inclusive of electricity intensity, which is of course a subset of our energy landscape.

That coupling broke in the 90s, essentially. In the 90s, the United States started to shift, at least in the United States it broke. In the 90s, the United States started to shift towards a service-based economy where we started to divest of manufacturing. And through the aughts, a lot of that manufacturing was pushed offshore, obviously specifically to China. And that really changed, in a lot of ways, the composition of where energy demand was coming from.

came as a society more energy efficient. So whether you're talking about LED light bulbs or you're talking about building standards, just that it was a period of time where we were doing more with one unit of energy. And so we had a period really for the last two, two and a half decades where electricity demand, energy demand broadly in this country, but electricity demand specifically was incredibly flat, very, very, very low levels of growth. We're talking about a tenths of a point.

Dave Reiss (42:22.136)

multi-year CAGR basis, very, very low levels of growth. And that's changed as of the last couple of years. So we started to see FERC does the federal energy regulatory commission does forecast of electricity demand in the United States. And we started to see kind of aberrations showing up around three or so years ago, where we started to see uplift on electricity demand for the first time in a long time. And I think it's important to kind of temper the AI thing. It is absolutely a factor.

mean, these hyperscalers consume astonishing amounts of power. But I think it is important to recognize that as a country, we also consume astonishing amounts of electricity and astonishing amounts of energy more broadly. And so the primary factors that are driving an increase in electricity demand in the here and now

are reshoring of manufacturing. So I wouldn't say that we're necessarily moving away from a services-based economy, but we certainly are bringing a lot of manufacturing back. We're seeing a lot of building systems electrify, so move away from hydrocarbon-based heating sources towards electric heating sources.

One of your comments here, this overall trend of energy uses is electricity usage, not overall energy usage. So therefore, electricity is being more used because I now drive an electric car and that's sucking the grid versus my gas.

Yeah, energy demand, so there is energy demand growth and the energy demand growth is disproportionately centralized in electricity. So we're seeing that's really the profound trend

is that electricity demand is growing. mean, broadly, energy use is growing, but electricity demand is growing much more quickly. so there's a few other things, like I said, building systems, climate is a factor. just rising temperatures, plummeting temperatures in the winter, the sort of more extreme weather is

Dave Reiss (44:11.664)

causing increases in electricity demand.

and then also fleet electrification. We are seeing for the first time transportation moving towards electrification and of course that's putting upward pressure. And I don't know if I've already mentioned data centers, but that is a big factor, but it's one of a number of factors. So it's not like the third driving electricity demand. is a piece of this puzzle. And so you have this confluence of events which gives rise to electricity demand increases in an era where the incumbents, whether you're talking about Department of Energy,

talking about the independent system operators that operate the grid, whether you're talking about the utilities or the independent power producers. Just as a society, we're not set up to build large amounts of new centralized generation. We don't have the supply chains for it. We don't have the permitting processes for it. The rate at which we're building new centralized generators in the 1950s is just not something that you can kind of flip a switch and turn back on. And so that's not to say that in 10 years we won't.

be at a different place where we're rapidly bringing on new generation. But what I can tell you is that right now we're seeing very rapid electricity demand growth and we're not seeing a consummate or corresponding increase in supply growth. so obviously if you have

Supply growth meaning centralized generation. I think of a new power plant and the question is also to a different question, how do they get to be somewhat green? The generation of electricity could be somewhat green. It's hard to have an internal combustion engine that goes green.

Dave Reiss (45:43.886)

That's right. so anyway, not to belabor the point, we end up in a place where we've got a supply and demand imbalance. if you took Econ 101, you know that we're going to see price go up. And on top of that, electricity is not something that has a shelf life. so there's technical implications to this as well from a physical limitation of the grid infrastructure. And I think we're going to see increasing levels of grid volatility in addition

to higher electricity prices. And so that's kind of the backdrop that all of this is happening on. And this is sort of in a lot of ways what sits behind at least the contemporary sort of themes that are emerging within the energy transition is this really rapidly elevating, escalating electricity demand growth. I think it's sort of just starting to hit people's wallets, but there's going to be, consistently I'm seeing a higher frequency of articles about very meaningful double digit percentage rate increases.

and jurisdictions that are causing a lot of political problems for a lot of people. And I think we're going to start to see, basically, higher and higher levels of sensitivity to that OPEX line, whether you're a family or whether you're business that consumes any consequential amount of electricity whatsoever.

And in this conversation, so it's interesting, one comment you've said is grid volatility, and that's different than price. And the volatility, we've seen incidents of volatility that matters and hurts here. So that will continue. And we could geek out on this stuff and distribution grid and all that, but that's not for our conversation. But if you think of centralized power options versus decentralized power options, you come into the decentralized component.

this.

Dave Reiss (47:33.838)

That's right. That's right.

Okay, so with that backdrop, and then we'll come back to AI and data centers a little bit at end of the conversation, but with that as backdrop, what did Biden try to do or do and how did that affect your industry and commercial real estate as users? And then what does

Trump's, have to say, just shutting that down, what does that disruption mean to your business and our business as commercial real estate owners?

Yeah, totally. I mean, obviously, you know, I think it goes to that saying that the Biden administration was endeavored to be very supportive of the development of renewable energy and domestic energy. And, you know, we're seeing a sort of a different posture from the Trump administration. You know, that's kind of stating the obvious. think what's much more important is to understand the impact. And obviously, these are big systems and, you know, it can be a little tricky to make broad generalizations about, you know, net-net what the impact of X versus Y versus Z is. But I think there's a

couple of things that I would highlight. So maybe I'll start by talking about the beginning of 2025, every year we do.

a retreat with the company and I, you know, talked to the team about some of the macro themes that, we're seeing in the world. And obviously going into, you know, January of 2025, I was getting a lot of questions around, okay, what is, you know, the, incoming Trump administration mean for us and so on. And so what I did is I put together a chart for the team that maps the growth of distributed generation, which is dominated by solar. And, and, and I mapped that against presidential administrations.

Dave Reiss (49:11.354)

You see the various different administrations come and go and what you see, you know, in distributed generation growth is pretty consistent. You can't pick out where the administrations begin and end. then, you know, I also mapped that against Taylor Swift's discography and you got kind of a similar relationship. you know, whether you want to use Taylor Swift or you want to use like, you know, the president, like there's not a huge correlation there. And so, you know, whatever, it's not like a totally fair comparison because sure, policies that, you know, Biden may have enacted or Obama may have enacted.

you know, take some years to propagate and it's hard to, you know, sort of kind of filter out, you know, the various different compounding variables that might influence growth or what have you. But I think what I, my point was really that what we're doing fundamentally is

really driven by the energy transition that's happening within the United States and the energy transition that's happening.

within the United States is driven by economics, not by what happens in Washington, D.C. And in a lot of ways, what happens in Washington, D.C., I think, represents more noise than signal. You know, the fact that, you know, distributed generation is cost effective today is not something that Washington, D.C. has any jurisdiction over. It is driven by the value of the electrons that we produce and the free market's willingness to purchase those electrons from us. so I've all from the time that we started this business,

one of the things that I've always loved about it is that we are a mission-driven company. We do exist to accelerate the rate at which renewables are deployed domestically, but we are also an emphatically capitalist business. One of the things I love about this business is that our success, as measured by our shareholders, is basically inextricably linked from our success as measured by impact. We're not a B corporation, and we don't need to be a B corporation insofar as we don't need

to sort of artificially bind some type of positive social impact to what we're doing. There's just no way for us to be a big valuable company and not have a huge impact. And there's no way for us to have a huge impact and not be a big valuable company. And so that's one of the things that's been really motivating to me. And that's one of the things that I love about energy is that these policies come and go. But what remains is sort of the energy reality of the landscape. And I think the only pathway to greening, if you will, our electricity globally is by delivering

Dave Reiss (51:31.952)

that are economically superior. And I can say economically superior because

There basically are no other dimensions of this commodity, right? There's, could quibble with me about intermittency and so on, but like in general, you know, electricity is a featureless commodity. The only feature that matters in any way, shape or form is price. And so if we can deliver an electron at lower cost, we'll win. And like that's, it's as simple as

that. And that was part of, you know, I take a lot of inspiration from a company like Tesla where the goal was not to build just

a vehicle that was worse on every other dimension but electric, was to build just the best vehicle. And so that's really what we're focused on is building the best electron. And in many settings, the best electron is generated very close to where it's consumed. And it's generated in a way that has no input fuel costs. We don't have to pay the sun for its photons, which is really nice. I'm glad we don't have to do that. so anyway, all it is to say that maybe getting back to this kind of

exiting the Biden era, moving into the Trump era.

Our market has been in a bit of a tizzy about one big, beautiful bill. and you know, the, I'll kind of ignore for a second, the politics that sit behind it and the politics of, you know, bashing renewable energy and so forth, which of course I strongly disagree with. But what I don't disagree with actually, maybe a little bit surprisingly for some perhaps is, I don't disagree with pulling back on the federal incentives. I mean, the fact of the matter is that 90%.

Dave Reiss (53:05.002)

of all new generation in the United States in 2024 was wind and solar. It was renewable energy. so try to defend to me why we need ongoing federal subsidies for an energy source that is as dominant as that. I think it is absolutely the case that we needed these incentives.

20 years ago, 30 years ago, we needed to spur innovation and investment to really bring these things down the demand or the cost curve to make them, you know, to sort of accelerate the time when they could be competitive. But the only way for us to actually make a dent in, you know, decarbonizing our economy is to harness economic solutions that really benefit everyone. And on top of that, I would say that while, you know,

the binary sort of

know, administration that, you know, enacted, you know, the inflation reduction bill and so forth, you know, had absolutely, I think the best of intentions as a, as a potential decarbonizing the economy. really don't think that those incentives were very effective. They're, they come at massive costs, right? I mean, they're in the form of a tax credit. They require, you know, pay, I can't tell you how much of that value flows through to lawyers, to auditors, to appraisers, to independent engineers, to like all of these additional

disciplines that only are required because of the existence of this incentive. so there's, as reclined book, Abundance that talks a lot about this dynamic and the inefficiency of these federal and state and the contemporary government programs. And a lot of that inefficiency is embroiled in the fact that these

Dave Reiss (54:46.282)

policies try to do really a lot in terms of, you know, exactly what behaviors they incentivize and it comes at a massive cost. And so my personal view, in my rant here in a second, but my personal view is that if you just truncate all of that incentive and just the extraordinary amount of brain cycles that go into monetizing tax credits and dealing with tax investors and dealing with tax indemnities and auditing these things, and you just zero that entirely.

and allow this market to focus exclusively on cost, just reduce cost, ruthlessly reduce cost, strip out all this extraneous stuff that we don't need in order to get these things built and built effectively, I think you get to a much, much better result. And so, you know, there's definitely a few, I could steel man a few sort of counter arguments to this view.

at least in a few different segments of the energy landscape. But in commercial solar, I don't really have any equivocation about this perspective. think net-net, it will have a short-term impact, but over the long term, it's going lead to a much more resilient market that's going to be better for everybody.

Well, first thing is I'm thrilled to hear you say that because I was I was going to like cancel the podcast. I swear to God, was to call you up and say, hey, do we really have anything to

talk about? So I'm really happy to hear that perspective, but still let me argue with it and drill down on a couple of questions about that. So one thing is I want you to restate the comments that you made that 90 percent of all new generation has been renewable over the past period of time.

it would just go into that a little bit because that I had no idea that that's the case.

Dave Reiss (56:25.518)

Yeah. So this is a metric that renewables have been performing very well on for quite some time now. I don't have the exact stats, you know, over kind of like the last five year period, but just in general, you know, as a country, it's been a difficult time from a regulatory standpoint, from a permitting standpoint, and then also just from a capital standpoint to Marshall capital to build new hydrocarbon based generation. Um, you know, there's a lot of talk about sunset, you know, there's, there's as much buffeting as we have on the renewable side of the ledger.

There's an equal amount of risk that exists on the carbon intensive side of the ledger. And so I think that's had a cooling effect on the amount of capital that is interested, if you compare that to maybe 1980 or 1970 or something like that, the amount of capital that's sort of available for investment in new centralized gas and certainly coal generation. doesn't really exist to, at least new forms of that doesn't really exist in the country to speak of today. And so that's kind of one factor there.

But then I think the other is just sort of you look at some of the other options that we have and we're for all intents and purposes more or less tapped out on hydro. It's not a whole lot of new hydro to be built today. Nuclear, just regardless of what you think of nuclear as a technology, the reality today is that- Not happening yet. It's just not happening. Could change, but certainly that's the snapshot of today.

And so what you're left with is renewables and renewables, especially distributed renewables are massively advantaged here because you know, the amount of cost and the amount of pain that you have to go through to get these things permitted, built, online, interconnected to the grid and generating power, generating value for society is just on a

relative basis, much, much lower. That's one of the things I think people don't really appreciate. And this is maybe specific to solar relative to other technologies.

is perhaps the defining characteristic that makes solar special is that it scales down. So when you're talking about natural gas, you're talking about coal, you're talking about any type of thermal process where you're burning something to generate basically steam, to run a turbine, those thermal processes benefit from scale, right? To be, know, the internal combustion engine in a motor vehicle is about 30 % efficient.

Dave Reiss (58:42.99)

know, natural, centralized natural gas generator can be something in the zone of like 80 plus percent efficient. And that comes from the scale of that generator. And so all that is to say that these things are very, very large. They're very, very expensive. They're very slow to build. very slow to interconnect. And so the, the, you know, they, they don't really scale down effectively versus solar.

For all intents and purposes, the same rectangular glass panel that you would use on a solar farm in the desert, you one these gigantic many, many acre type installations is exactly what we'll put on the rooftop of, you know,

of a warehouse or a self storage facility. And so by virtue, we get to ride the coattails of those utilities scale developers in terms of the cost curve, right? The more panels that are produced globally, the lower our costs are from an equipment standpoint. And that enables us to address new, new interesting markets as the capex associated with deploying these assets comes down. Right.

So what you're saying is that this is a sector that doesn't really need subsidies anymore because it is well established, it's proven, and economies of scale have been reached in manufacturing, even though the manufacturing of your product is mostly abroad.

That is basically correct. What I would say is that I think if we're going to be subsidizing this market, we should be subsidizing something like manufacturing. So that was my one sort

of gripe with one big beautiful bill. Well, two gripes, but both relatively controversial. One gripe was the abruptness, which is to say that I would have liked it to be more abrupt, which that's my hot take.

Dave Reiss (01:00:23.606)

I think that there's a lot of damage that's done with these sort of like, think it's, I'm a rip the bandaid off kind of guy where it's like, let's get on with it. Let's like understand the new regime. Let's deal with the pain. Let's deal with the implications of these things and let's move forward in a way that enables us to build for scale. And so, I don't know that I've, I know literally anybody who would agree with me on that point, but I feel pretty strongly that, you know, the, the implementation of somebody's changes should have been more abrupt than it was, whatever. The other, my other gripe was that,

you know, pulling back the subsidies from the deployment of these energy assets, am generally supportive of them, supportive of that over a long term. think it's a long term, the right thing for this market. The thing that I think we could use from an incentive standpoint is, is some, some, some additional incentive for manufacturing. would like to see a lot more of our supply chain exist, at least in North America, if not stateside. We do have, you know, pretty, pretty robust installation from, from China. A lot of, least the sort of

later stage of manufacturing of this equipment is happening in Southeast Asia, India, those sorts of places, which is good. I think it is objectively, I think an important part of our country's energy security to have control over the supply chain. I think we should absolutely be a powerhouse when it comes to manufacturing in this country. So that's a disappointment, but maybe that's my next company. don't know.

Well, me, it's your next business. different subject. How do we deal with the data center requirement and spike of energy here? So how do we do that? And solar, I don't think gets to solve much of that because you're not as energy intensive a solution as their use requirements are.

Yeah, so on a point solution basis, i.e. on the basis of addressing a specific data center and a specific location, that's basically generically true. But the broader entire conversation

that we had around this mismatch between energy supply and demand, obviously that's unchanged, right? And so the role that data centers have in this whole thing is really, it's a constituent component of the upward pressure

Dave Reiss (01:02:37.568)

that we're seeing on electricity demand broadly and the way that you solve, stating the obvious, way that you solve electricity scarcity is you generate more electricity. And so that's where solar plays into this is that as a society broadly, we need to be generating more electricity. Solar is doing that. If you were to point to, know, Meta's data center over here in this specific location, I would agree with you that deploying a solar asset on that rooftop is going to have an inconsequential impact on that data center specifically.

But if you look at this sort of ecosystem as a whole, deploying solar on top of, I talk about, a of people ask me like, okay, what does success look like for Wonder? And what I tell them is I want to fly into LAX and look out the window and see a lot more solar. And you can sub LAX for like whatever other major metro airport you want. But you know, those flight approaches tend to go over a lot of, you know, industrial and commercial properties. And you see in most jurisdictions, a penetration rate of solar that is approximately anyway, is a reflection.

of sort of the TAM, right? You see very low levels of penetration. And I like LA specifically because I can tell you without really thinking very hard about it that from an economic standpoint, an energy asset makes sense on almost every single one of those rooftops, yet they don't exist. Why don't they exist? And it has to do with lot of reasons that we started by talking about in terms of building this into a product that commercial real estate is eager to say yes to. So I digress a little bit, but the point is that, you know, if if we're addressing all of those opportunities to generate more power, what we're going to do is ultimately

ultimately sort of start to chip away at that supply demand imbalance and bring ourselves back to kind of a more sustainable environment. know, net-net I don't, I do think it's important to recognize that electricity demand is going up, not exclusively driven by data centers, but, you know, maybe I think I don't know the exact percentage, but I think it's inside of 40 % of new load is data centers. Now, does that go up higher? I don't really know.

It's a little tough to say. But we do know for the here and now that there's a lot of increased demand.

point I'll make on this is that we do have a couple of customers that we are deploying, where we're deploying solar on top of data centers. And, you know, is the case that in that context, you know, we're taking a pretty small bite out of their energy demand. So we're deploying a very large system on a data center in Houston. And I think our offset is something like 7%.

Dave Reiss (01:04:58.862)

And so you might say, well, why bother? But the reality is that when you're spending literally millions of dollars a month on energy, that 7 % is consequential and that ROI is pretty attractive. so at the end of the day, this kind of backs up our whole premise, which is that the bedrock of what we do and why we're doing it is ultimately driven by generating economic value for our commercial real estate owners.

It's funny, I want to think of solutions as one-to-one and all-encompassing. I want to see one solution out there. So I want to see solar answering every situation 100 % all the time. And the answer is there may not be a one-to-one relationship between a data center and you are deploying a whole lot of solar. But if you're deploying a whole lot of solar, move solar from 10 % of the grid to 15 % of the grid, that gives more of

grid available for that data center so it's just a number because they're all fungible. And I don't think that way, right? We want the solution to be give me your answer not hey it's part of the solution.

Right, exactly.

So what does this mean now that we've gone through the Biden and the Trump dynamics and now you're selling your solution to a commercial real estate owner? Is that owner opening the door to the discussion for you purely from an economic standpoint or are there also bad word ESG components or mission components to why they think about it?

Matt Slepín (01:06:33.812)

or does that no longer matter because it's pure economics and the economics make obvious sense?

Yeah, the short answer is that it's economic. There's obviously more nuance to it than that. Maybe to kind of expound on that, we have some customers, I would say a pretty small number of customers in our book that do very explicitly have sustainability really driving the boat. They'll oftentimes look at transactions that are kind of like, think of them as like around breakeven, where the economic value proposition is pretty modest, but they are

motivated by ancillary factors, European capital, putting pressure on them to deliver on higher levels of sustainability, that sort of thing. But in general, mean, more than in general, the overwhelming majority of the opportunities that we pursue, our customers are motivated by generating additional NOI for their properties. And to me, that's a feature, not a bug. I mean, I think as I noted, being sort of a fan of free markets, I think that ultimately harnessing that

You know, that, economic motivation is how we get to scale as a business. And, you know, in terms of how we ultimately successfully decarbonize the economy, I don't think we get there out of the, you know, the, goodness of people's hearts, as much as I have a favorable view of humanity and the goodness of people's hearts just isn't going to get us far enough fast enough. We need to be able to deliver returns to shareholders. And, and that's why, you know, a lot of this buffeting that we've seen from the new administration, just in terms of the politics.

of ESG, the politics of sustainability, it doesn't really faze me too much because I fundamentally believe that the economics speak for themselves, right? And that's ultimately where the proof in the pudding is. You can deny climate all you want, but that's not going to change the cost of power. That's not going to change the severity of these weather patterns that impact the grid in ways that are expensive. The reality

Dave Reiss (01:08:39.76)

is the reality and whatever dressing you want to put on it. The fact of the matter is electricity costs are going up and people are going to need to figure out ways to contend with that. In a lot of contexts, in a commercial real estate setting anyways, deploying a physical hedge against some of that risk is a really sensible thing to do.

Fair deal. I have a ton more questions, but we've run out of time. So we'll have another conversation to drill down on some of the things that I'd hope to get to here, but we've gotten to a lot in the conversation. And your final comment is the one that makes me smile because this business is not going away. It's continuing. It makes more and more economic sense. And it is undeniably a part of our energy future. And frankly, that's what I wanted to hear.

Last question on leading voices is always advice for a young person getting into the real estate business. And one of the thesis I've had for years has been for young people who want to protect their planet.

and also get into real estate, there's a place in the real estate world for people who are dealing with energy in real estate. And I've been expecting for this to be a massively growing component of the real estate business, which it feels like it has not yet. And now it feels like that part might pause, irrespective of what we just talked about. So all of that said, for someone getting into real estate or getting into energy, kind of talk about advice for young people in those places.

do it, I guess is my advice. mean, I think the real estate market is a really fun market. You know, as far as energy goes, I mean, I think it's.

Dave Reiss (01:10:21.358)

We're at an incredibly exciting time. I mean, I've been working on this business for a decade. I've been following the energy space for two decades. the, okay, so I'll take a big step back. One of, before we started the business, I was briefly at Lawrence Berkeley National Lab. And one of the reasons that I went there, I kind of forced them to hire me. I've

talked about this on other podcasts before, but I was a software engineer basically. And so, why do I have any business working at a DOE energy lab? And so I convinced them that I could do some valuable things for them.

I threatened to work for free and they gave me some roles as a researcher. Anyway, the reason I wanted to go there was to interact with the people and try to get some inside view into why is energy the way that it is. Because as an outsider, up until that point in time, that was circa 2013 or something like that, you follow the energy space and you really, least for me anyways, I came away from that with this sense that...

You know, energy moves slowly. It's a big market. There's a lot of stakeholders, a of regulatory interactions. You know, there's large capital movements at play. You know, there's these, these big themes and it just takes so long for anything to happen with an energy. And it just didn't really like ring true. didn't make sense to me. And so I wanted to go in there and sort of understand that perspective. That just really general perspective on how change happens within energy.

What I came across, I, know, conclusion that I came to is not earth shaking, but was a lot of what we talked about here today, which is that, it's economic. Like that's really the motivator, you know, and there is no fun, you know, wonder, we talk a lot about first principles. talk about, you know, IE reasoning about the world from the ground up, from a fundamental understanding of how the world operates rather than the alternative, which is reasoning by analog, which is to say, well, this is how it's happened in the past. Therefore, this is how it's going to happen in the future or something along those lines. And in, you

in energy there's this sense that things move slowly. I don't think that there's any fundamental truth to that. I think that things in energy move as quickly as the economics incentivize them to move. And so the reason specifically that it's a very exciting time to get into energy is because the economics are changing very rapidly. We've got massive tectonic shifts happening and that's ultimately going to catalyze massive change, which is just, I think, of fundamentally exciting, but also a huge opportunity

Dave Reiss (01:12:45.658)

to push and deploy technologies that will really make the world a much better place for future generations and future of humanity. so that's ultimately my advice is that pursuing a career in energy, it's just an incredibly well-timed moment to do it.

And I think that specifically within commercial real estate, I think we're at the very early innings. What I would say here is the number of commercial real estate firms that sort of have a fundamental energy view are rather limited. Maybe the cold storage providers, certainly the data center folks, know, there's exceptions. There's a few others here and there. But I think as you fast forward the clock, you know, a couple of decades, I think it's going to become much more common. think it's going to be much more important part of the calculus of commercial real estate.

And those muscles are being developed today, which means that you can come in with a fresh mind, a beginner's mind, asking the simple questions and really get a lot of mileage out of that, i.e. it's not as though you need to have tens of years of experience in this market to really create a lot of value developing the contemporary viewpoint on how do you underwrite with this factor in mind.

World of change in energy both in the US and definitely globally and then real estate has a big component of its capital cost and its operating cost in the energy world So in the real estate world we have a lot to do and as we've said on the podcast For those who do understand something about climate change stuff as 40 % of global emissions has come from the real from the built environment So there's a real chance to move the needle in that regard. That's right

Cool. Dave, thank you so much for being on the show. This has been a wonderful conversation. really appreciate it. Thank you. I hope that you enjoyed today's episode.

Dave Reiss (01:14:31.854)

Thanks, Matt. was a great chat.

Matt Slepín (01:14:37.646)

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