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The Rooftop Solar Industry Is at a Crossroads

By Travis Hoiium Published August 31, 2016 | [Markets](#) | [Fool.com](#)

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Coming into 2016, it seemed the residential solar industry was on an unencumbered path to long-term growth. GTM Research reports that residential solar installations in the U.S. grew 66% in 2015, to 2.1 GW, and the segment is expected to grow each year through 2021. Falling costs are making the energy source more competitive in more and more states, national companies are expanding customer awareness, and financing options are **opening up new opportunities across the country**. This is all helping residential solar.

But the year hasn't been as good as planned, and just over halfway through 2016, residential solar seems to be at a critical crossroad. **Vivint Solar** (NYSE: VSLR) barely survived its buyout fiasco with **SunEdison**, **Sunrun** (NASDAQ: RUN) is **barely breaking even on its installations**, and **SolarCity** (NASDAQ: SCTY) has **resorted to loans from its founders to stay afloat**. Is residential solar hitting hard times, or just going through some growing pains?

The changes in residential solar are real

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What we've learned in the past year is that the residential solar strategy that won from 2010 to 2015 isn't going to be the strategy that wins in 2016 and beyond. Over the past five years, solar leasing has been the dominant sales strategy that companies had been using to sell solar because it allowed them to sell solar to customers with \$0 down and created value for solar companies as they chopped up and sold different value streams, like tax benefits and cash flows.

Image source: SunPower.

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Long term, it doesn't make sense that solar leases would be a dominant financing method because homeowners can save more money by buying their solar systems. And owning solar takes away the uncertainty of what to do when a home is sold. If the solar system is owned, it's an asset, but if it's leased, it's a liability, so the asset strategy makes more sense for a homeowner long term. But major solar installers didn't even offer competitive loans until this year.

What's changed in 2016 is a growing availability of solar loans through companies like **Mosaic** and even traditional banks. That's allowed greater customer choice in picking components and demanding more transparent pricing.

Another major trend we've seen hitting the industry is rising costs to sell each residential solar system. SolarCity, Sunrun, and Vivint Solar have all reported rising sales costs per watt as customers become harder to sign up. Maybe the low-hanging fruit is gone, and maybe customers are demanding different offerings that the dominant companies of a few years ago just don't offer.

Maybe customer preference is changing

One change that could be happening, but has yet to be confirmed in a big way, is that efficiency and choice may be becoming more important to solar customers. As competitors have floundered, **SunPower** (NASDAQ: SPWR) has been one of the few companies talking positively about residential solar, and plans to take market share with its high-efficiency solar panels. Not coincidentally, it sells through small, regional installers that offer more component and financing options than national players. Maybe customers are choosing higher-efficiency solar components and are moving to more local installers that theoretically will have lower costs.

We know that regional solar installers are gaining market share from the large national installers, and that could be a long-term trend worth watching. If they take share at the expense of larger competitors, it won't be bad for residential solar as a whole, even if it's bad for large solar installers. And it could lead to more power for high-quality component suppliers like SunPower.

Energy storage could be another customer preference that will drive purchasing decisions. **Tesla Motors** (NASDAQ: TSLA) is selling the Powerwall through multiple installers and could be a brand name that will be demanded by customers. It's too early to tell if customers will

demand energy storage or be able to finance it, but given the trends I've pointed out in solar energy, it's worth keeping an eye on energy storage, as well.

Rooftop solar is getting stronger, despite shakeup

What we're seeing in 2016 is a shakeup in how the rooftop solar industry works, not an indication of an unhealthy industry. Customers are simply demanding more choice, better products, and may prefer working with more local installers. That may hurt national installers short term, but it doesn't mean the industry is dying.

What investors will want to watch is who can adapt best to the new market trends. Will SunPower take share with high-efficiency panels? Will SolarCity's loan be enough to turn the company profitable? Will energy storage become a standard offering for solar companies, and who will install and run the storage systems?

How these questions are answered will determine where the industry heads and who wins for investors long term. But it's becoming clear that the winners of the last five years are losing ground in 2016 and will have to adapt to catch up. That may make for some upheaval even if industry fundamentals are getting stronger every year.