The Anomaly Between Utility-Scale and Commercial Solar Valuations

(March 2026 Market Perspective)

One of the most persistent and puzzling features of the U.S. solar market is the **valuation gap** between utility-scale solar projects (typically >5 MW, ground-mounted, grid-connected) and commercial & industrial (C&I) solar projects (typically 100 kW – 5 MW, often rooftop or small ground-mounted serving on-site load).

Despite commercial solar generally having **lower technical risk** (smaller size, shorter construction timelines, and on-site consumption that can hedge against grid outages), it frequently trades at **lower valuations per watt** and **higher cap rates** than utility-scale assets of comparable vintage and location. This valuation anomaly has widened in 2025–2026.

1. How the Valuation Gap Appears in the Market

Metric	Utility-Scale Solar	Commercial / C&I Solar	Typical Gap
Transaction Price ($/W)	$1.10 – $1.60	$0.85 – $1.25	15–30% lower for C&I
Cap Rate (NOI / Value)	5.5% – 7.5%	7.5% – 10.5%	200–400 bps higher for C&I
Implied Discount Rate	6.5% – 8.5%	8.5% – 11.5%	150–300 bps higher for C&I

Utility-scale projects often achieve **higher enterprise values per watt** even though they are larger, more complex, and more exposed to merchant price risk after the PPA term.

2. Primary Reasons for the Anomaly

A. Contract and Revenue Certainty Utility-scale projects almost always have long-term (15–25 year) PPAs with investment-grade utilities or corporates. This creates highly predictable cash flows that investors can model with confidence. Commercial solar often relies on:

- Shorter host leases or PPAs (10–15 years)
- Net metering or value-of-solar tariffs that can change
- Host credit risk (the building owner may default or move)
- Exposure to retail rate volatility

B. Economies of Scale & Operating Costs Utility-scale assets benefit from centralized O&M, lower per-kW insurance, and professional asset management. A 100 MW portfolio is far cheaper to operate per watt than 200 separate 500 kW rooftop systems spread across multiple sites.

C. Liquidity and Buyer Base Utility-scale assets attract a deep pool of institutional buyers (infrastructure funds, insurance companies, pension funds, and tax equity syndicators). Commercial solar has a narrower buyer universe, leading to higher required returns and lower sale prices.

D. Financing and Capital Stack Utility-scale projects can secure cheaper, larger non-recourse debt and more competitive tax equity. Commercial projects often require more sponsor equity or higher-cost debt, which compresses valuations.

E. Regulatory and Grid Factors Utility-scale projects face more transmission and interconnection risk, but once operational they benefit from capacity payments and ancillary service revenues in certain markets. Commercial solar benefits from behind-the-meter value but is more exposed to changes in net metering policies and retail rate design.

3. Current Market Dynamics (2026)

The valuation gap has become even more pronounced because:

- High interest rates have compressed multiples across the board, but utility-scale assets have held value better due to strong PPA coverage.
- Tax equity banks have pulled back, but infrastructure funds and insurers have stepped in aggressively for utility-scale projects with long-term contracts.
- Many commercial solar portfolios are now being valued on a “merchant tail” basis after shorter host contracts expire, increasing perceived risk.

4. Strategic Implications

- **For Developers**: Utility-scale projects are generally easier to finance and sell at attractive valuations, but they require larger balance sheets and longer development timelines.
- **For Investors**: Commercial solar can offer higher unlevered yields if structured correctly, but buyers must underwrite host credit and policy risk more carefully.
- **For Asset Owners**: Repowering or adding storage to commercial assets can help close the valuation gap by improving revenue certainty and capacity value.

Conclusion The valuation anomaly between utility-scale and commercial solar is driven more by **perceived risk, liquidity, and contract quality** than by fundamental differences in asset performance or technology. As the industry matures, we expect the gap to narrow modestly — especially for high-quality commercial portfolios with strong host credits, long-term contracts, and storage integration. However, utility-scale solar is likely to retain a valuation premium for the foreseeable future due to its superior scale, liquidity, and institutional buyer interest.

This dynamic creates both challenges and opportunities for sponsors like JJR Power: the ability to originate and optimize commercial solar assets at attractive entry valuations, while strategically positioning them for eventual sale to yield-hungry institutional buyers.