Renewable energies: winners and losers from the rise in interest rates

Düsseldorf, 23rd May 2022 – The current rapidly rising interest rates also affect the calculation of solar and wind parks. While new construction projects are calculated with the new interest rates but also higher yields, existing projects can benefit twice. "This normalization of the interest rate level goes hand in hand with a rising electricity price", says Markus W. Voigt, CEO of aream Group. "Only those who have not secured the low interest rates until the end of the financing term will have problems."

"Currently, the simplified equation applies: rising interest rates and rising electricity prices mean constant returns", says Voigt. This is true at least for all projects that are now being started. "And there will be a lot of them in the foreseeable future, since the energy turnaround is to be driven forward more quickly." In project development, calculations are adjusted accordingly. "The likewise rising prices for components are probably negligible here as a one-off effect", says Voigt.

So while new projects are expected to generate roughly the same returns as in previous years, two scenarios apply to existing projects: "Either investors profit twice, or the projects run into difficulties", says Voigt. Double profit can be made if the projects were calculated and implemented with low interest rates and are now taking advantage of rising electricity prices. "These are all projects that have an interest rate hedge over the entire term", says Voigt.

And therein lies the danger for others: "Some have carried forward the low interest rates into eternity and only hedged for part of the project term", Voigt says. "Here, there is the threat of a rude awakening when further financing is due at the end of the fixed interest rate period." Admittedly, these could also benefit from rising electricity prices. "But projects financed heavily with debt capital in particular can hardly make up for the rise in interest rates", says Voigt.

As is so often the case, investors need to take a close look at the projects. An excessively high debt financing ratio can have a very positive effect with appropriate interest rate hedging, but can also backfire with low interest rate hedging. "The decisive factor here is the mix in which investors invest", says Voigt. "The optimum is to have existing projects together with new construction projects in one portfolio." If project development is then added, investors are well positioned with their investments in renewable energies. And via rising electricity prices, an inflation hedge is also included.

"One thing is certain in any case: despite rising interest rates, investors will still put a lot of money into renewables", says Voigt. "Still the returns are attractive, there is global political will behind the projects." In addition, it is important, especially for institutional investors, that the investments will still be classified as sustainable in ten and twenty years. And that is definitely to be expected when building solar or wind parks.

More information: www.aream.de.

About aream

The aream Group is a fully integrated investment and asset manager for institutional investors with a focus on sustainable infrastructure in the renewable energy sector, which includes wind and solar power, grids and storage technology. In this context, aream is represented along the entire value chain from project development to plant operation. With a transaction volume of more than EUR 1.5 billion, the company has been covering the entire spectrum of asset management services for over 15 years and ensures the commercial and technical optimization of the assets. In addition to classic project investments in clean energy, aream also offers investment opportunities in climate-tech companies: directly or via private equity solutions. aream combines investment expertise with technical and commercial know-how and ensures sustainable performance with stable distributions, returns and value growth through a structured investment and risk management process.

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