

A STUDY BY THE MPW INSTITUTE LLC:
**ENERGY CONTRACTING IN THE
HOUSING SECTOR IN GERMANY**

2013



The MPW Study

A management survey of the housing sector in Germany:
a study by MPW Institute LLC on energy service concepts.

Residential properties are an attractive customer segment for energy services in general and for energy contracting in particular given the continued significant modernisation backlog, and many energy service providers have recognised this. But even though almost 70% of all energy contracting projects are happening in residential property, this market still offers plenty of business potential. The MPW study offers answers to the questions of which obstacles property owners perceive as existing, and how energy service concepts can be successfully designed as a solution for the housing sector.

The study by the MPW Institute LLC is based on a survey of around 1300 managers on the first and second tiers of management in the housing industry in Germany. At the heart of the study are the views of respondents on energy contracting as an energy service in the following areas: levels of awareness and prevalence of energy contracting, completed projects, barriers and drivers, and respondents' expectations of energy service providers.

As an operation with interdisciplinary activities, MPW Legal & Tax and MPW Consulting GmbH provide committed consultancy services for players in the energy services market. Our joint consultancy



spectrum enables us to provide comprehensive business, tax, legal, technical and sales-related consultancy - all from a single source.

MPW Institute LLC represents those activities of MPW which revolve around the scientific reviewing of global or national issues in the energy services sector and which take place outside the scope of actual consulting projects. Within this unit we conduct research projects and surveys of a scientific nature, devise publications and organise and mount events. MPW Institute LLC is based in New York City.

The background to the study

The 'energy turnaround' – the move away from fossil fuels and towards renewables – is imposing huge challenges on the entire housing sector, and the need to upgrade energy systems in the existing building stock is stretching the resources of property owners. The steady rise in the level of overheads is forcing landlords to deploy efficient ways and means of managing their properties, and the use of energy services such as energy contracting can help achieve their objectives. Energy contracting can usually deliver sustainable efficiency growth in the production of heat through the use of efficient technologies and their on-going optimisation in operation.

MPW Institute LLC has used the survey to analyse the property sector's experience of 'energy contracting' as an energy service. Most of the respondents are regionally established medium-size housing companies in Germany each managing between 1,000 and 5,000 residential units. District heating, natural gas and heating oil are used primarily to generate heating and hot water in central heating systems, which the companies mostly operate themselves. Single-floor gas heating systems and - to a lesser degree - combined heat and power (CHP) units are also used to supply heating for the properties.

These factors reflected expectations at the time when the study was designed and can be taken as a representative cross-section of the housing sector in Germany.

Key findings of the study

1. Contracting is well-known, awareness campaigns are unnecessary.

83 % of respondents are aware of energy contracting as an energy service product. Of these 83 %, 32 % have already used energy contracting to supply their properties. 21 % of companies who have not so far used this energy service would like to use energy contracting.

The market penetration of energy contracting solutions in the housing sector in Germany continues to be somewhat modest in nature. Although the need to explain energy contracting has diminished, the housing sector still does not see it as an attractive concept for modernising heating systems. The reasons for this, and what providers need to change in order to work this market more successfully, can be derived from the survey's other main findings.

2. Barriers: The existing problems with landlords being able to pass on the cost of heating supplies to tenants are no major barrier to the use of energy contracting!

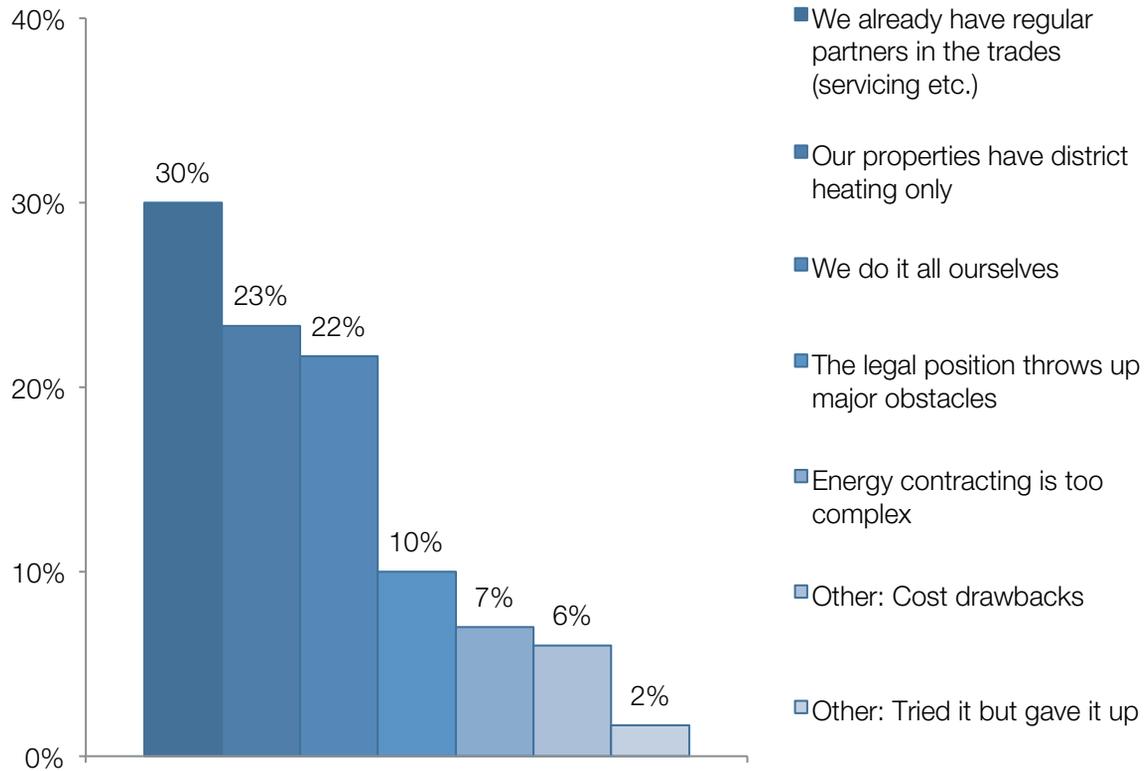
In many cases contracting projects are not implemented because the housing sector does not believe that the integration of existing partnerships is given sufficient consideration.

Why is contracting not used? Contrary to expectation, this question was not answered with a reference to existing legal hurdles, in particular the issue of whether heating costs can be passed on to tenants.

Instead, respondents mentioned their existing use of local tradespeople, the use of district heating or that they do

Why would you not use energy contracting in your properties for supplying?

(Multiple answers possible)



the work themselves. Existing relations with local tradespeople in this context are not an obstacle but can instead serve as a 'door opener' for getting into energy contracting projects with the housing sector. Existing customer relations can also be used to get into a project.

Many businesses still cite the fact that they carry out their modernising projects on their own as a reason for refusal, while many others regard modernising and operating technical installations in their properties as part of their core business. From a commercial standpoint however, outsourcing here would make excellent sense, especially if a gain in quality were to be accompanied by a transfer of

tasks and risks to a service provider. The opinions of the housing sector are divided on this point, and while some organisations see modernisation as their core business, others are looking to liberate themselves from these tasks.

3. Drivers: Technically ambitious and commercially attractive solutions - including supplying electricity to tenants - are essential drivers for energy contracting.

One major motive for using energy contracting is the desire for technically ambitious solutions.

The use of innovative technologies and the limited willingness on the part of landlords to deploy them directly is in

sharp contrast with their own demands for an increase in tenant satisfaction.

In the past, CHP concepts offered by energy service providers have reconciled these objectives. In future too, service providers will gain a competitive edge by setting themselves the task of developing innovative energy service products. These products must deliver customer benefit and come with other services such as electricity supplies, e-mobility and smart home solutions to supplement the tried-and-tested “heat supply” product.

4. Expectations: Energy services should provide efficient solutions which reduce both cost and complexity.

A reduction in overall energy costs so as to cut tenants' bills, plus transparent billing systems, are at the heart of the interest of the housing sector.

Individual properties or property portfolios will become more attractive through an increase in overall energy effici-

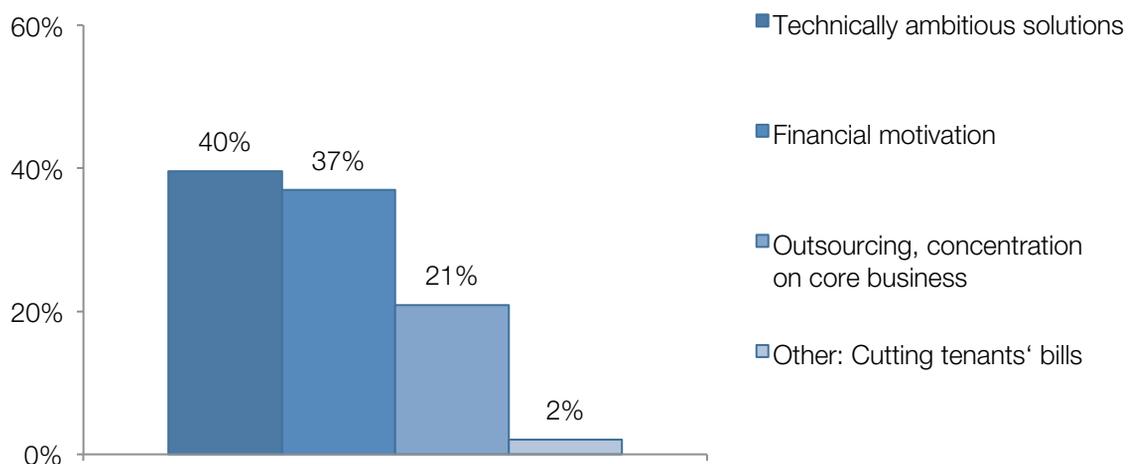
ency. One essential motivation of a landlord for involving a contractor is his relationship with his tenants, as tenants expect a reduction in the level of their bills above all else.

A mass of statutory requirements now govern the energy-related retrofit of residential properties in Germany. Regulations such as the EnEV (Energy Saving Ordinance) as well as rules specific to certain areas result in ever greater complexity. In this area therefore, companies expect the involvement of a specialist service provider to deliver certain savings.

Concepts which go beyond ‘just’ upgrading the boiler are needed if the housing sector’s expectations of energy services are to be met. This coincides with the results of the responses about drivers in which the deployment of technically ambitious solutions plays a major role.

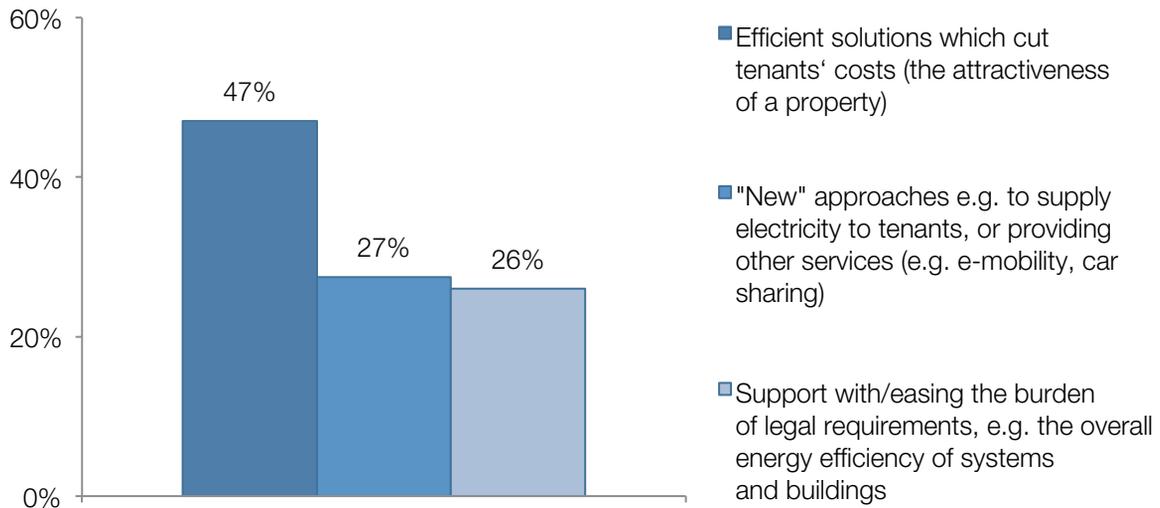
What are the primary reasons for you to use energy contracting in your business?

(Percentage distribution of response frequencies)



What do you expect energy services to do for your business?

(Percentage distribution of response frequencies)



5. Local energy service providers find more favour with the housing sector!

The survey shows that energy contracting projects are primarily implemented with firms who have a presence in the particular region.

Local energy supply companies come first when it comes to energy contracting services and project implementation in the property sector, followed by property companies' own energy service firms. We can conclude that the spatial proximity of the energy service provider to the supplied properties is an important factor for landlords.

6. Most energy contracting customers are satisfied.

There is broad satisfaction with services provided by the energy service provider. Over 90 % of companies declared themselves to be satisfied or even very satisfied with the

energy service provider's services.

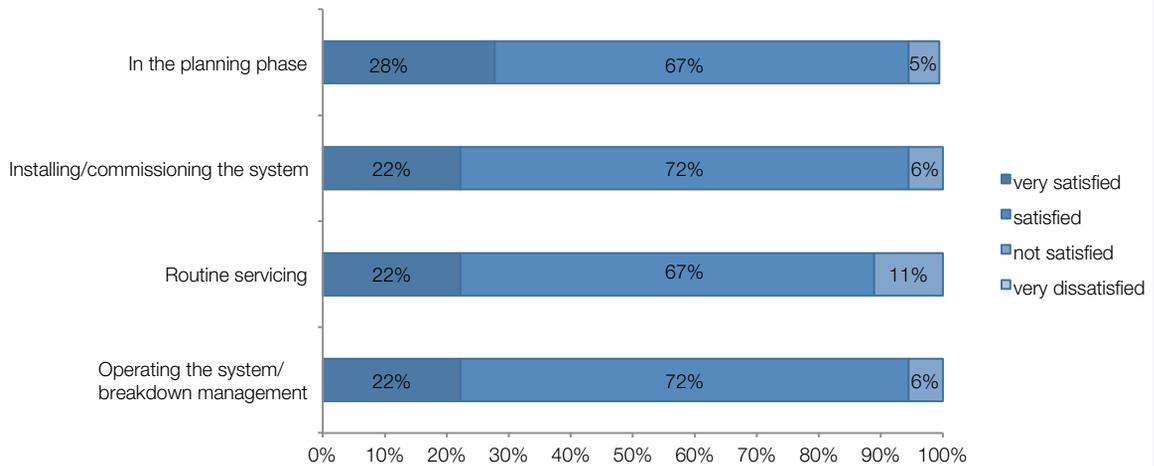
The survey asked about satisfaction with services in the different phases of a project, from planning to operating the installation and breakdown management. There is basically a high level of customer satisfaction. However a number of respondents (11 %) expressed dissatisfaction with the quality of services, especially routine maintenance.

7. Energy contracting works irrespective of the energy source.

The potential uses of energy contracting are limited only by an existing district heating supply or by heat being produced with the use of single-floor gas heating systems.

There are no limitations imposed by different sources of energy. The study showed that the question of the energy

How satisfied are you with the provider's service?



source had no significant influence on decisions for or against energy contracting.

Conclusion

An analysis of barriers, drivers and expectations shows how the acceptability and success of energy contracting concepts in the housing sector can be increased. It is possible to identify three areas of action which have a significant impact on success:

- Tenant satisfaction
- Market partner concepts
- Innovative solutions

Tenant satisfaction is often defined by aspects of price. Current political debate on reforms to the tenancy laws revolves around the need to establish so-called 'rent neutrality' (i.e. the landlord passes on the cost of an energy upgrade to the tenant but by no more than the resulting

saving to the tenant). In terms of pricing therefore, future heating supply concepts will be based on an upper limit (historical heating costs). Even though political committees are still discussing how Germany's Civil Code Section 556a (Accounting criterion for operating costs) will actually be implemented, it will be for the energy service provider to develop pricing concepts which ensure tenant satisfaction.

Involving local tradespeople, especially existing partners of individual housing companies, will play a key role. With this in mind, it will be essential to develop co-operative concepts and to communicate and deliver energy services together with HVAC contractors and other tradespeople. A decisive success factor for market partner concepts will be the provision of intensive support and assistance for the market partner by the energy service provider.

Innovative solutions exist for example in the supply of

tenants with heating and power. CHP concepts – which many energy service providers do not yet systematically offer on the market because of their complexity in terms of product development and implementation – are ideal for this. The task for energy service providers will be to devise marketable concepts for residential properties. Such concepts boost the value of the properties and are image-enhancing. As a result the housing company will strengthen its public perception as an innovative and environmentally-minded enterprise. Tenant satisfaction can also be improved. As well as the supply of heating (at comparable heating costs), commercial concepts in the housing sector usually include the possibility of supplying electricity to the tenant on attractive terms. The tenant is able to source electricity at current market prices. Such concepts also work irrespective of whether or not the boiler that is installed in the property is in need of upgrading. Using the existing boiler as a peak load boiler can also often be presented as commercially viable. Additional potential for energy contracting can be opened up in this way.

These existing concepts must be got across to the housing sector. However, the industry must not stand still with these developments. The developments already hinted at in the study are moving towards additional integration: e-mobility, smart home solutions and other supplementary services will shape the future of energy services.

The study makes clear that energy contracting has only partly made its mark on the housing sector so far. Housing companies are not opposed to energy contracting in principle. This area is an important growth market for energy contracting given the enormous potential represented by residential properties. The consistent further development

of concepts that are tailored to the needs of the customer can ultimately result in energy contracting being seen as an accepted instrument in upgrading the energy performance of properties and in the regular management of energy systems.

Norheim / New York, May 2013

I

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II

Barriers: The existing problems with landlords being able to pass on the cost of heating supplies to tenants are no major barrier to the use of energy contracting!

III

Drivers: Technically ambitious and commercially attractive solutions - including supplying electricity to tenants - are essential drivers for energy contracting.

IV

Expectations: Energy services should provide efficient solutions which reduce both cost and complexity.

V

Local energy service providers find more favour with the housing sector!

VI

Most energy contracting customers are satisfied.

VII

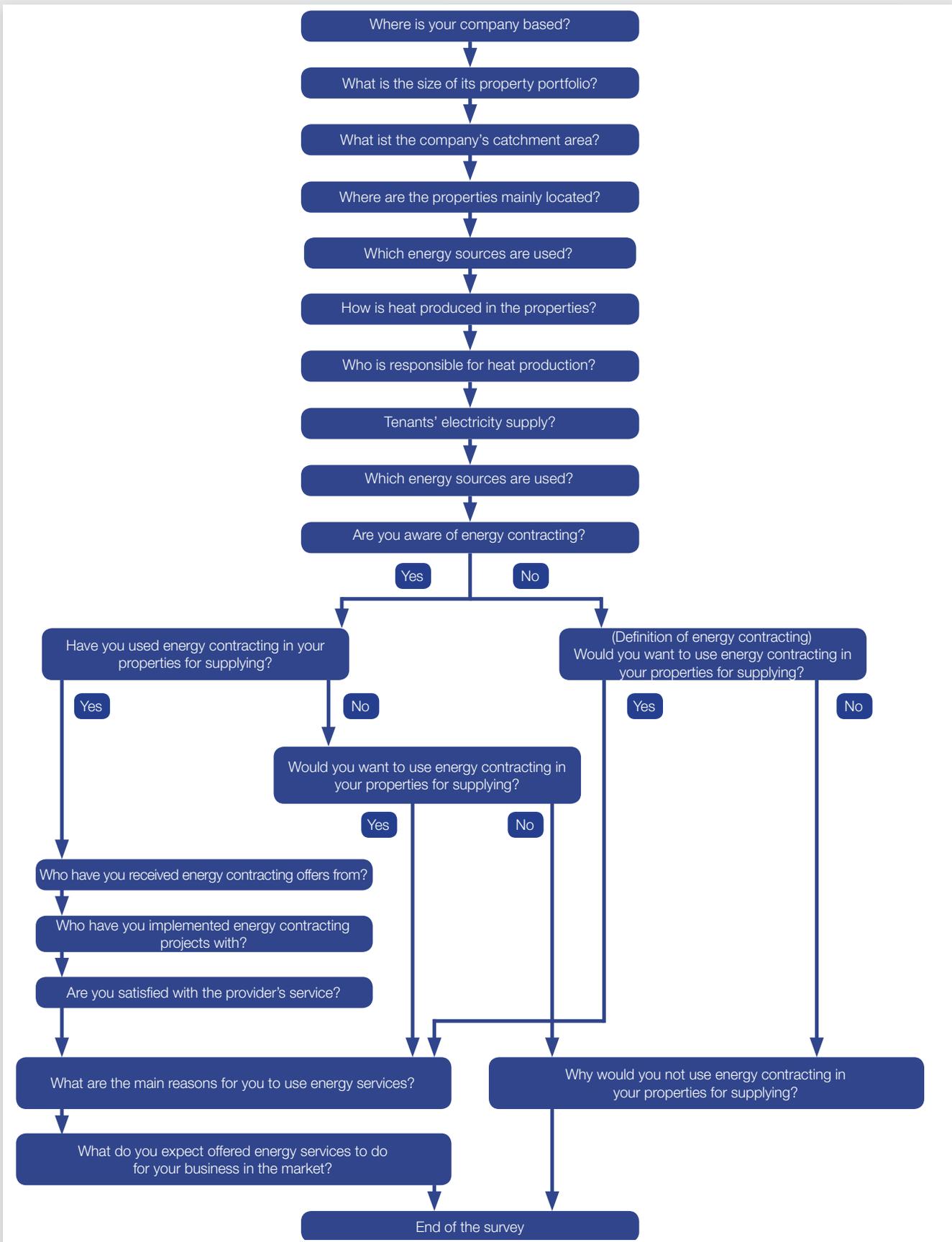
Energy contracting works irrespective of the energy source.



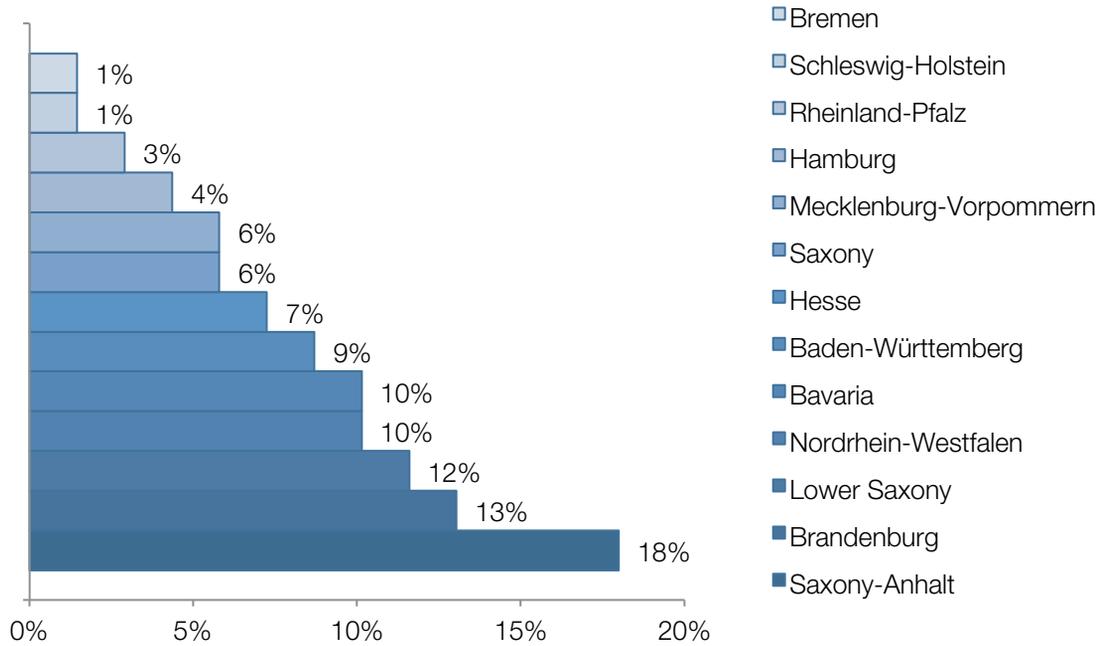


Annex

An overview of all of the questions and responses to the study is given below. The core statements made on previous pages are based on these findings of the survey.



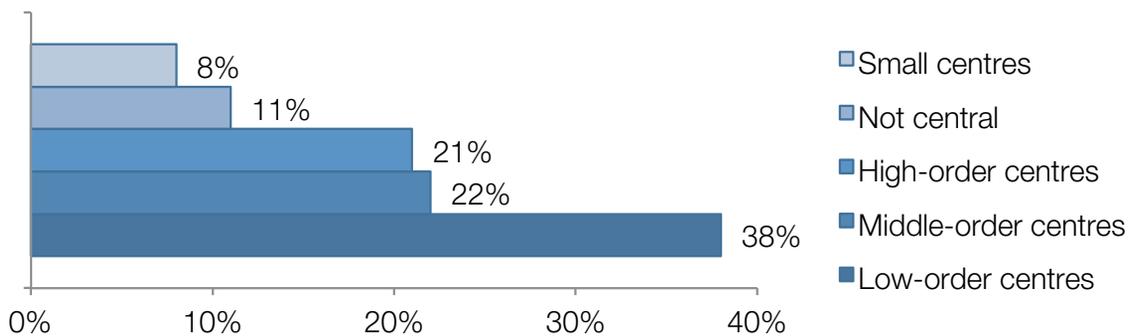
Where is your company based?



Size of the property portfolio?

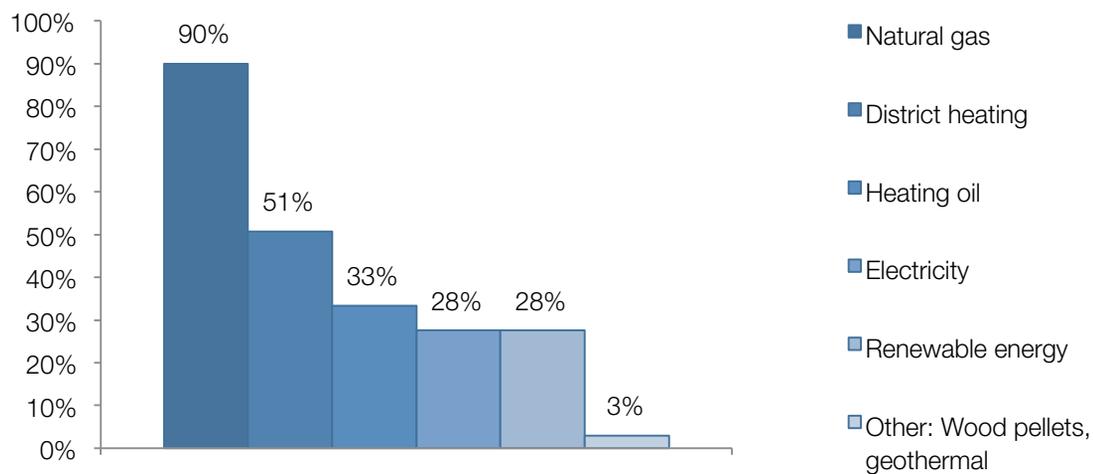


Where are the properties mainly located?



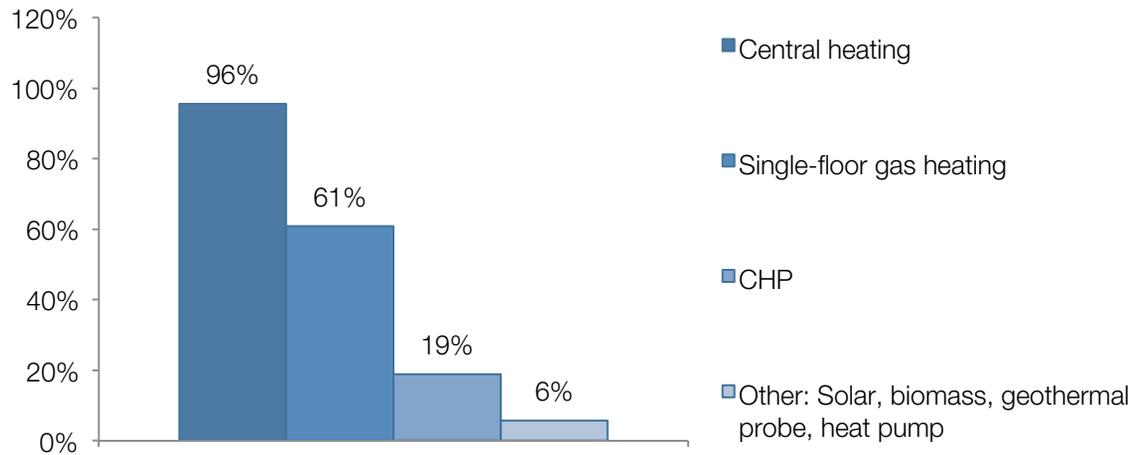
Which energy sources are used?

(Multiple answers possible)



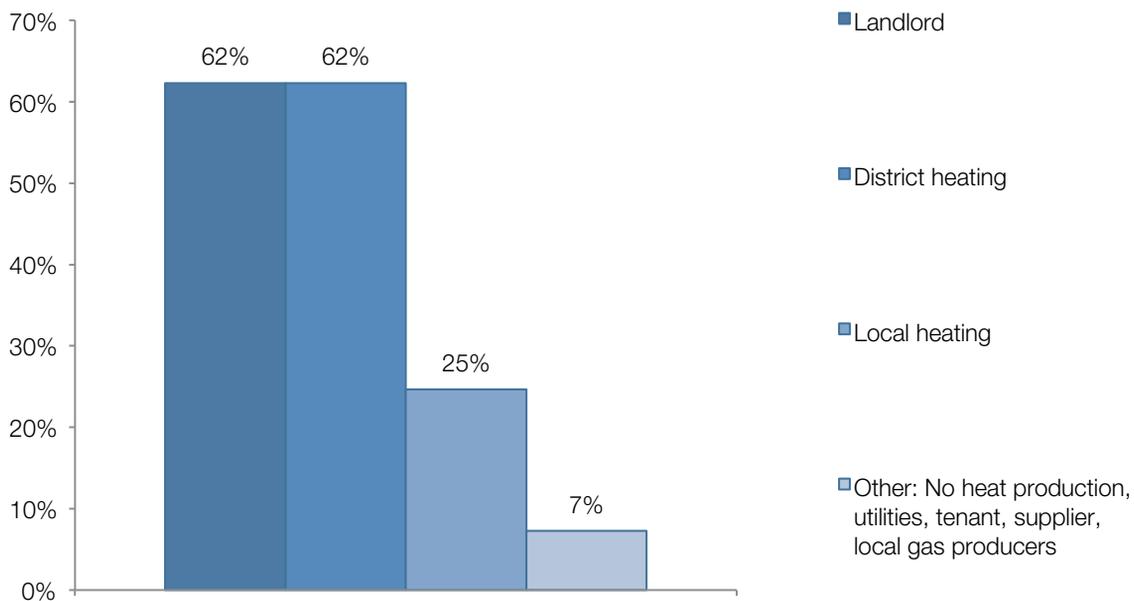
How is heat produced in the properties?

(Multiple answers possible)



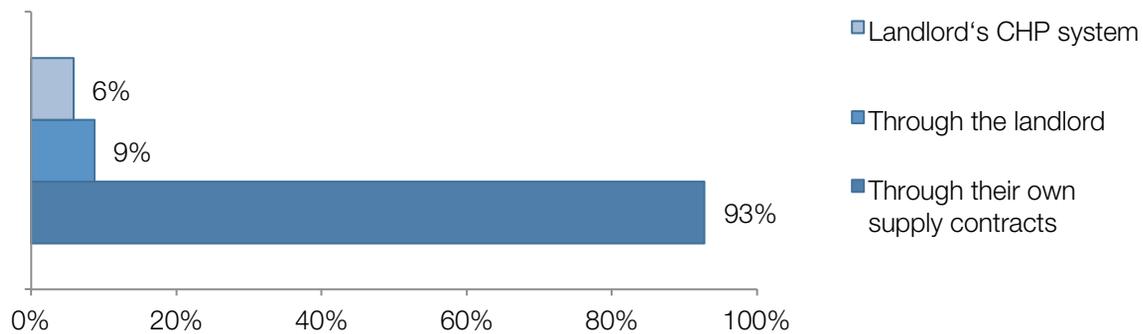
Who is responsible for the heat production?

(Multiple answers possible)



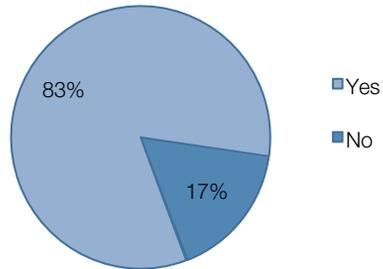
Tenants' electricity supply?

(Multiple answers possible)

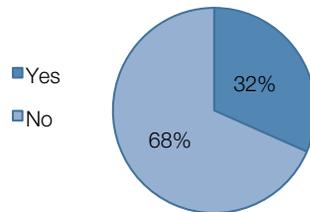


Awareness and use of energy contracting services

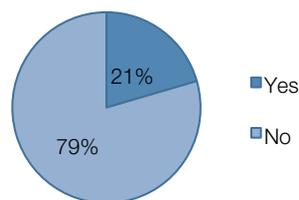
Are you aware of energy contracting?



Have you used energy contracting in your properties for supplying?

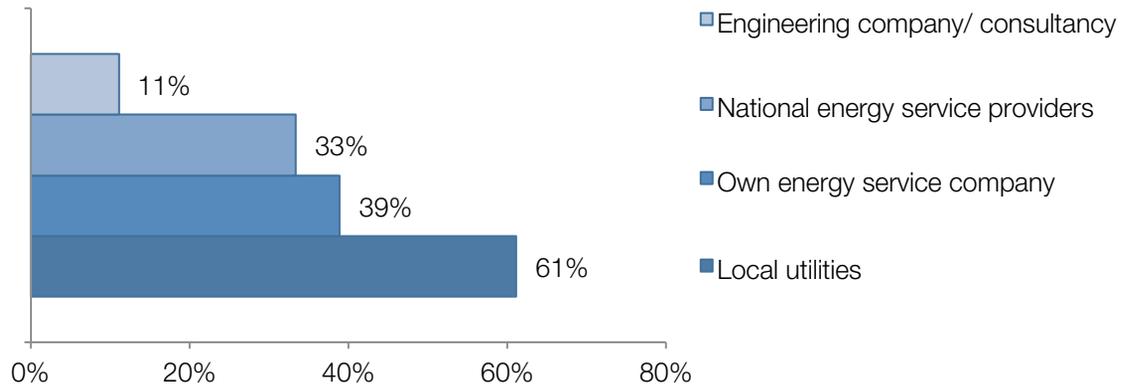


Would you want to use energy contracting in your properties for supplying?



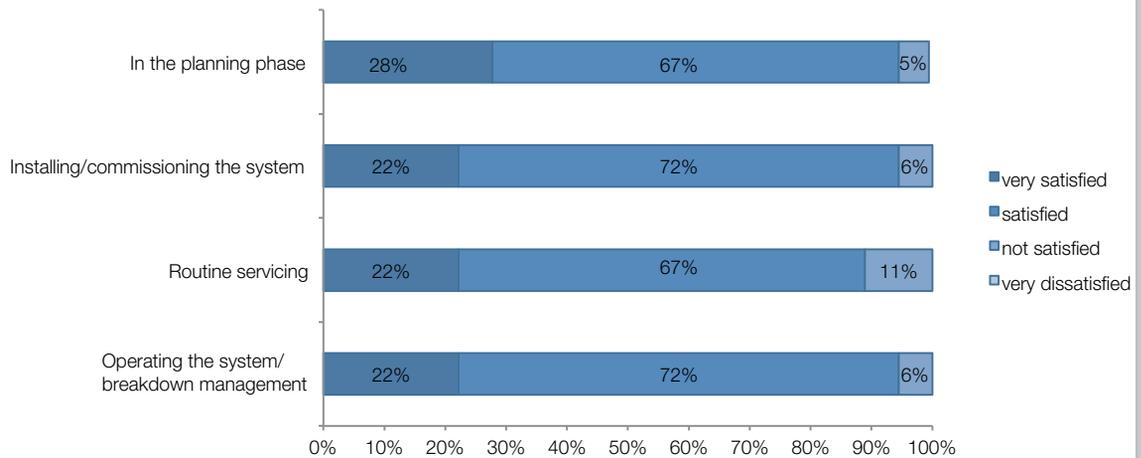
Who have you received energy contracting offers from?

(Multiple answers possible)



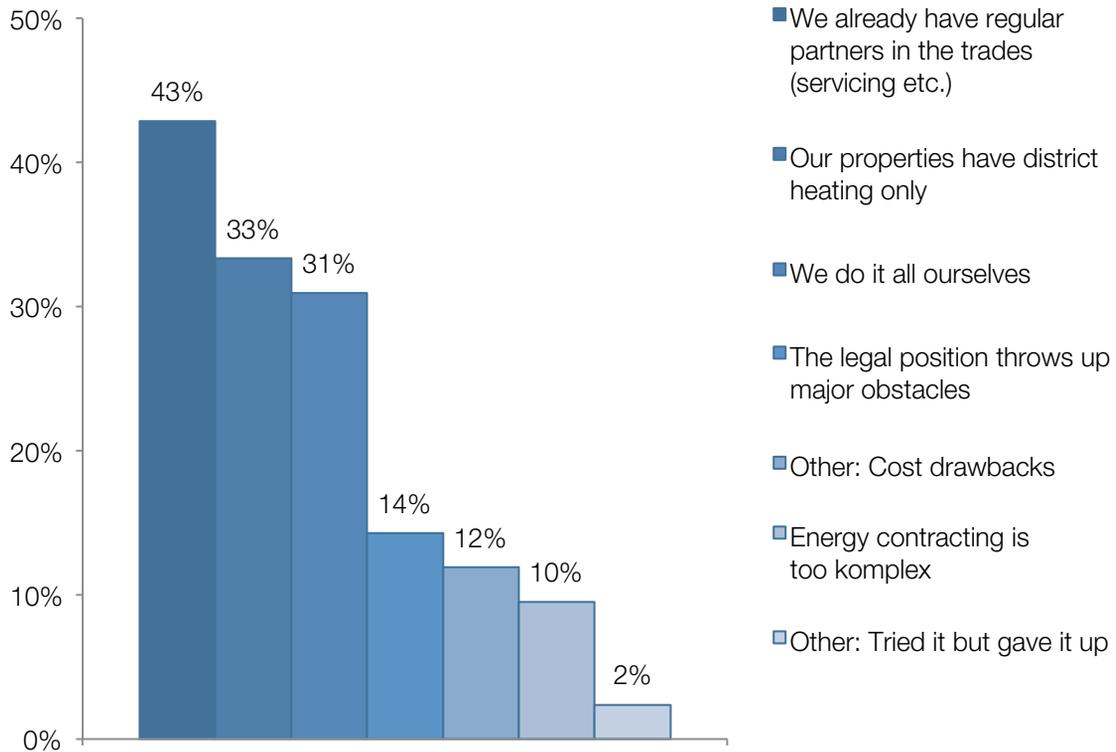
How satisfied are you with the provider's service?

(Multiple answers possible)



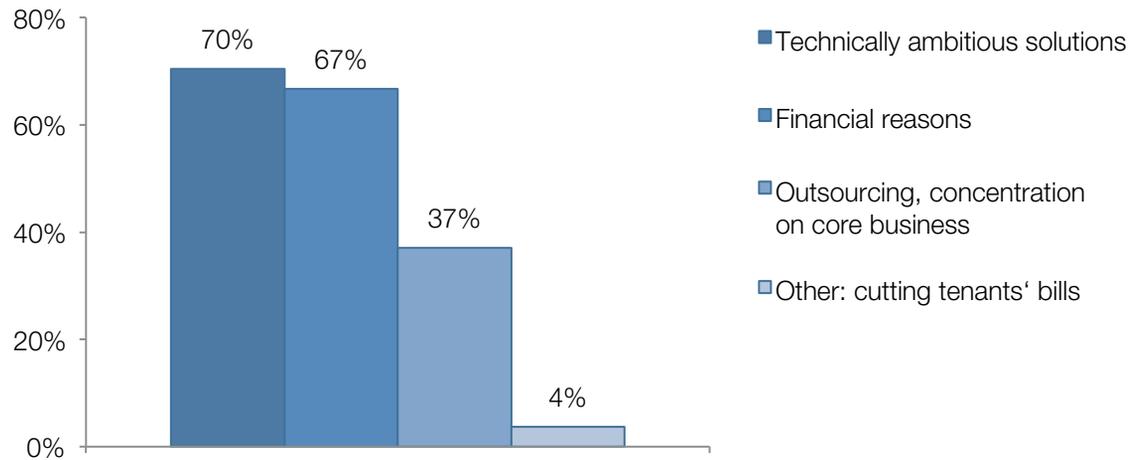
Why would you not use energy contracting in your properties for supplying?

(Multiple answers possible)



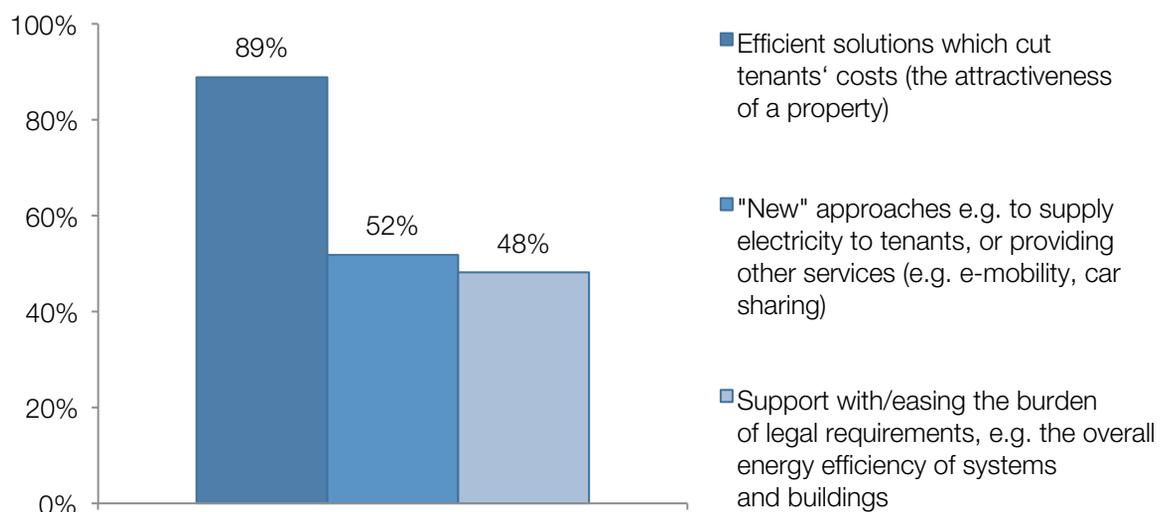
What are the main reasons for you to use energy services?

(Multiple answers possible)



What do you expect offered energy services to do for your business?

(Multiple answers possible)



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