

Company specializing on the organisation of the renovation process – a Hungarian case

Lessons for SMEs:

- It is important to have good connections with municipalities and state representatives in order to have sufficiently detailed and early information on subsidy schemes. (As tenders for subsidies tend to have very strict deadlines it is important to start preparing the projects well in advance).
- You have to develop different skills (or contract different people), as preparing and implementing complex energy efficient projects by means of state subsidies need a wide range of expertise (organizational, legal, financial, technical).
- You need good communication skills in order to be convincing to a wide range of people (different owners).
- You may not be contracted for the whole renovation process, but if you are successful at the subsidy tender you will be the first to be invited for assisting the implementation.
- Your prices should be built into the eligible costs of the subsidy scheme as much as possible in order to reduce the financial burden of the home owners' association

The product (value proposition):

The activity of the company (SME consisting of 5 employees) is tied to the existence of the Hungarian national subsidy scheme that supports the energy efficient renovation of multi-family buildings. This subsidy scheme exists since 2001; and originally the state provided 1/3 of the renovation costs, while the local municipality paid the other 1/3 and the owners (practically the residents) paid the remaining 1/3. The interventions included typically either some or all of the energy efficient works like change of the windows, insulation of the facades, rooftops and basements and also the renovation of the engineering system. Between 2010 and 2015 no state calls were announced, but the subsidy was relaunched in spring 2015, when the technical obligations also became stricter: the improvement must have resulted in at least two labelling grades reaching at least label C, and at least 40% energy savings. Besides, the minimum energy parameters of the different structural parts were also prescribed based on the Directive of 2012/27/EU. The subsidy content was increased to 50% by the state while there was no obligation for the municipalities to contribute to the costs.

The company in our focus provides complex assistance throughout the whole tendering process, namely:

- Energy audit of the buildings (by walk through audit and/or by heat camera)
- Negotiations with the commercial banks to provide loan financing for the own share of the construction
- Developing different renovation packages and negotiating it with the owners (throughout their representatives and at the owners' general assembly)
- Preparation of the tendering documents

If the condominium/cooperative is awarded a subsidy in the tendering process, it has the right to request further assistance from the company in:

- Preparation of the subsidy contract
- Preparation of the contract with the commercial bank
- Preparing a call for tenders for construction companies (an open procurement is required if the subsidy exceeds EUR 67,000 – or HUF 21 million)
- Regularly controlling the quality of the construction.

The market segment:

The company is specializing on the pre-fabricated housing stock which was eligible for obtaining the state subsidy in the 2000s (currently multi-family buildings up to 60 units built by traditional technologies are also eligible). Practically all of the multi-unit buildings are owned by the private residents in Hungary – condominiums. There are very few municipally owned buildings, and the number of cooperatives - in which the flats are owned by the residents and the common areas are owned by the cooperative itself – is also low, a few thousand.

The home owners' community is somewhat differently structured depending on the legal form. In a condominium the majority of the owners that are present at the general assembly makes the decisions

on the renovation (the subsidy schemes and the banks may require a 2/3 majority decision). The decisions are however prepared by the professional common representative (who can be a subcontracted firm or one of the owners) supported by a group of owners. This smaller group is the one that is usually in contact with the company and makes a pre-selection between the possible intervention packages. This group may consist of people with different backgrounds who are knowledgeable in certain aspects of the renovation, but may not have proper knowledge on all aspects. The condominiums in general are not able to make all the works needed for preparing and implementing energy efficient interventions financed from subsidies. They really need assistance in all stages of decision making. Cooperatives, on the other hand, usually have a more professional management that contracts SMEs for organizing the EE works less frequently. They may contract specialists like energy consultants, but they rarely outsource the whole process.

The pre-fabricated housing stock has a socially mixed residential structure in Hungary from lower to middle class people – mainly depending on the exact location. The energy efficient renovation of the building means four major things for them (according to the experience of the company):

- Direct savings in heating bills (these buildings are mostly district heated)
- Better comfort level as the flat becomes less noisy, cleaner and the temperature is more stable (however in practice many of the inhabitants tend to sacrifice their comfort level to reach more financial savings, and turn down the temperature while also open the windows less frequently, thus blight can appear if ventilation is not adjusted to the insulation of the building)
- Improved appearance of the building, nicer living environment outside and inside the building
- Rise of the real estate value of their apartment

Some of these factors can be more important to certain families while the others may value different ones. The company's experience is however that in spite of the expected significance of the financial savings factor, it did not turn out to be the most important. People tend to pay more for the installments of a bank loan to finance their own share of the investments than they save thanks to the renovation, in order to get a nicer and more valuable building with a higher living standard. They may have net savings after the duration of the loan (after 8, 10, 15 years) but this time scale that is hardly taken into consideration in practice. The biggest incentive tends to be the nicer appearance of the building and the improved living environment. However there seems to be a limit for each community above which the owners are not willing to go. This seems to be about 30 euro/apartment, independently from the added value and the energy savings they can reach. If no subsidy can be involved in the financing scheme of the project, the company in our focus suggests implementing the complex energy efficient interventions in stages. The company prepares a 15-20 year plan based on a technical audit and elaborates suggestions on the sequence of the different project elements to be implemented.

Pricing:

The price of the work done by the company is set as a percentage of the investment costs to be paid if the tender wins. The company in general works hard to make most or all of its contractual costs eligible for subsidy in order to minimize the financial burden for the home owners' association.