Energy Management - Can FM capture a share of the GCC prize?
Governments across the region have woken up to the importance of energy efficiency in developing a sustainable growth path. The Dubai Government has outlined an ambitious strategy to secure a sustainable approach to energy and water usage. The Dubai Integrated Energy Strategy (DIES), launched in 2011, aims to transform the Emirate’s energy landscape. In addition to diversifying the supply side away from a reliance on imported natural gas, the strategy also targets a 30% reduction in energy demand per capita by 2030.

"The greatest potential in the next 10 years comes from retrofitting the existing building stock"

With building codes tightening up across the region, new buildings are now substantially more energy efficient than those built 5 – 10 years ago. The commercial building stock in the region is expected to increase by around 27% over the next 10 years. The impact of new buildings on the average energy efficiency of the commercial building stock will be an improvement of around 10%. The potential impact of retrofitting existing buildings is 3 – 4 times as great.

"Responsible for 70% of energy usage, the buildings sector is a key target for energy efficiency actions"

The government has established green building codes to ensure additions to Dubai’s building stock are designed with sustainability in mind. However, the existing building stock will be responsible for the majority of consumption for some time into future.
Capturing a share of the energy management market represents a significant strategic opportunity for FM providers

The emergence of an energy management market represents both an opportunity and a threat to existing FM providers.

**Opportunity for revenue growth through a differentiated offer**

Energy and FM are the two major components of building costs, typically representing 50% and 40% of costs respectively. Delivering energy saving solutions will allow FM suppliers to access the larger combined market. Specific energy management capabilities will allow firms to differentiate their offer.

**Opportunity for margin enhancement through value addition**

The competitive UAE FM market has seen some margin declines in the past 5 years. Energy management represents an opportunity to provide demonstrably higher value services to customers, protecting margins and creating opportunities for longer contract relationships.

**Protection of FM revenues from new market entrants**

Experience from other markets suggests that FM players are late to recognise the opportunity. ESCOs and technology suppliers are typically the winners as the energy management market opens up. These players then broaden their offer to include FM services, becoming significant competitors.

The Government of Dubai is following international practice by establishing Etihad Energy Services as a “Super ESCO” to jump-start the creation of a viable performance contracting market for energy services companies. Given their high level of building expertise, FM firms should be in a good position to take advantage of this new opportunity. However, international evidence suggests that FM is typically slow to react to the opportunity and finds itself sidelined as new players enter the market.

We would expect the evolution of the market in Dubai to follow the pattern below:

> **International experience does not bode well for the FM industry which has tended to hand the initiative to new market entrants**
Much of the energy saving potential in typical commercial and residential towers is available with little or no capital expenditure. Some savings are obtainable just from changing operational practices and client behaviours. FM, with feet on the ground in buildings, is well placed to offer these to clients.

Considerable savings are obtainable from relatively low capital expenditures, offering paybacks of less than one year. FM suppliers can offer these benefits even within the short contracts that are currently the norm in the region.

Longer term investments, where significant capex is required, need longer term relationships and are likely to appeal only to more sophisticated clients. FM is also well placed to manage these, integrate them into building operations, and ensure they do not disrupt facilities when they are installed.

"Much of the saving is available from capital expenditures with less than one year payback"

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<th>Low Capex</th>
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**No Capex Operations & Behaviours**
- Change behaviours - switch off lights/increase A/C temp etc.
- Prioritise energy usage in PPM and reactive maintenance scheduling

**Low Capex**
- Improve & integrate current systems
- BMS & CAFM
- Small scale capex improvements
- LLDs, IIVAC optimisation etc.

**High Capex**
- Larger capex improvements
- Reflective window screens, smart metering etc.
- Renewable energy initiatives
- Solar panels, turbines etc.

"We got a 20% ROI by improving our BMS, based purely on the communal areas of the block" - Major Landlord
Energy savings of up to 65% are possible in typical towers, representing over 30% of building operating costs

Potential energy savings in typical 40-storey commercial tower (AED)

The building stock in the region at present is energy inefficient. Huge savings can be delivered through relatively simple changes. In many buildings, energy savings could be enough to pay for the costs of FM provision.

Applying this saving out across the existing stock suggests that savings of $2.0b are possible in the UAE alone. Assuming similar stock conditions across the GCC, we estimate a total opportunity of $3.5b savings.

“Across the GCC, the total saving potential in commercial and residential towers alone is around $3.5b”
Customers remain unconvinced by the propositions currently in the market and fear they will get little return on investment

The market for energy savings is typically addressed through energy performance contracting (EPC). Under the performance contract model, the current energy performance is audited and savings potential quantified. The owner, service provider or third party financier then funds the energy saving investment and the benefits are divided among the three parties. ESCOs, FM providers, technology companies and finance companies are all present in the market, often in consortia with each bringing a different set of skills to the table.

To date EPC has proved a difficult sell. In common with all market participants, FM suppliers have found the market challenging - even where they have partnered with financing or technology firms. Only a small number of FM players have entered the market to date, and some have already withdrawn.

“Landlords’ belief that they will not be able to capture the benefits of energy saving investments, an unwillingness to invest in older buildings, and lack of trust in suppliers are the key challenges”

Although landlords are generally favourable towards the idea of energy efficiency and keen to support the Government’s policy in this area, they have concerns about investing:

- They believe that they would be unable to capture the benefits of any investment they make:
  - Much of the benefit of lower energy costs accrues to their tenants, giving them little direct return
  - They are skeptical that improving building energy efficiency will lead to any increase in their potential rental yield
- They are unwilling to make additional investments in existing buildings – particularly older stock – believing that new investments offer more attractive returns
- Whilst apparently attractive, customers are suspicious of suppliers offering ‘guaranteed savings’ models as they are concerned that they will not be able to claw back unrealized savings
- Many know that they are not using their current equipment effectively - e.g. BMS systems - but expect these improvements as part of their current FM contacts rather than paying “twice” for them
- They are particularly concerned that suppliers are determining the baseline performance and setting their own targets. They want the audit function to be independent of the solution provider; they do not trust a bundled package.
Landlords generally support a clearer regulatory framework for energy efficiency in buildings, enabling planning and ensuring returns on investments – avoiding any “first mover” disadvantage. They are open to a public energy rating system for buildings, but are also keen to see stronger regulations for suppliers, which would give them the confidence to invest. They recognise that FM providers would be well positioned to offer solutions in this area as they would have the resources to oversee the installation of new equipment and enforce changes in operating behaviours. However, some noted that they had not received any initiatives in this area from their FM suppliers.

“Customers recognize that FM providers are well placed to offer solutions and oversee equipment installation and changes in operating behaviours”

In conclusion

With 70% of energy usage coming from buildings, Governments in the region need to encourage an active market in retrofit if they are to achieve their sustainability goals.

While landlords are attracted to the idea of energy efficiency, the financial incentives to take action and propositions available in the market are insufficiently compelling to overcome their concern that investments will be wasted or that suppliers will take advantage of them.

A regulatory framework combining compulsion and incentives will be needed together with a mechanism to ensure that landlords can capture the benefits of their investments rather than have them leak away to tenants and suppliers.

FM is in a good position to capture a share of this market but will need to team with technology suppliers and finance providers to create a compelling proposition for the landlords. The industry will also need to accept the independent auditing of performance targets and baselines.

While international precedents in this area may not be encouraging, the FM industry in the region still has the opportunity to play a central role in the emerging energy management market in the GCC and capture a share of the prize it has to offer.
About Credo

Credo is the leading strategy consultancy to the FM sector, with international experience across a full range of hard and soft FM, energy services and broader business services.

We have worked for many of the leading companies in FM, supporting them in issues ranging from corporate strategy and M&A support, bid engine optimization and major bid support, through to target operating model implementation, restructuring and cost reduction.

We operate globally and have carried out assignments in over 40 countries. We now employ a team of over 50 world-class professionals. Our commitment to growth is further supported by the opening of our Dubai office, cementing our position in the middle East and Asia and strengthening our ability to serve our clients' global needs.

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