



Green Mortgages

Portugal and Spain

November 2018



Project background



Quantitative research objectives

1

Quantify and validate reaction to all propositions tested



As well as the Green Mortgage we'll cover...

- **Installation options A & B**
- **Tiered Green Mortgage**

2

Provide recommendations on how to move forward with the propositions



How should the propositions be communicated to maximise impact?

And which additional benefits and government assurances are most attractive?

3

Understand which consumers find the propositions most appealing



Establish which segments could be targeted or leveraged when launching the proposition

Initial qualitative research helped us understand the different levels of energy efficiency in the UK, Italy, Sweden and Germany



Energy Classification	EPC well established and widely used	Refer to A- or B-rated homes, but not 'EPC'	None known/used	Consumers refer to KfW ratings, but understanding is imperfect
Energy improvements	Unfamiliar beyond insulation & double glazing	Growing knowledge of more advanced options e.g. renewables	Insulation, triple glazing and more advanced options widespread	Advanced knowledge of measures and level of efficiency they give
Support & subsidies	Some recall of 'Green Deal', but little currently available	Little / no knowledge of funds available	None known	KfW fairly established provider
Energy engagement	Younger homeowners engaged from a bill-management POV	A lower priority than lifestyle	Taken seriously, and closely linked to warmth/comfort	High social responsibility – thinking of the next generation

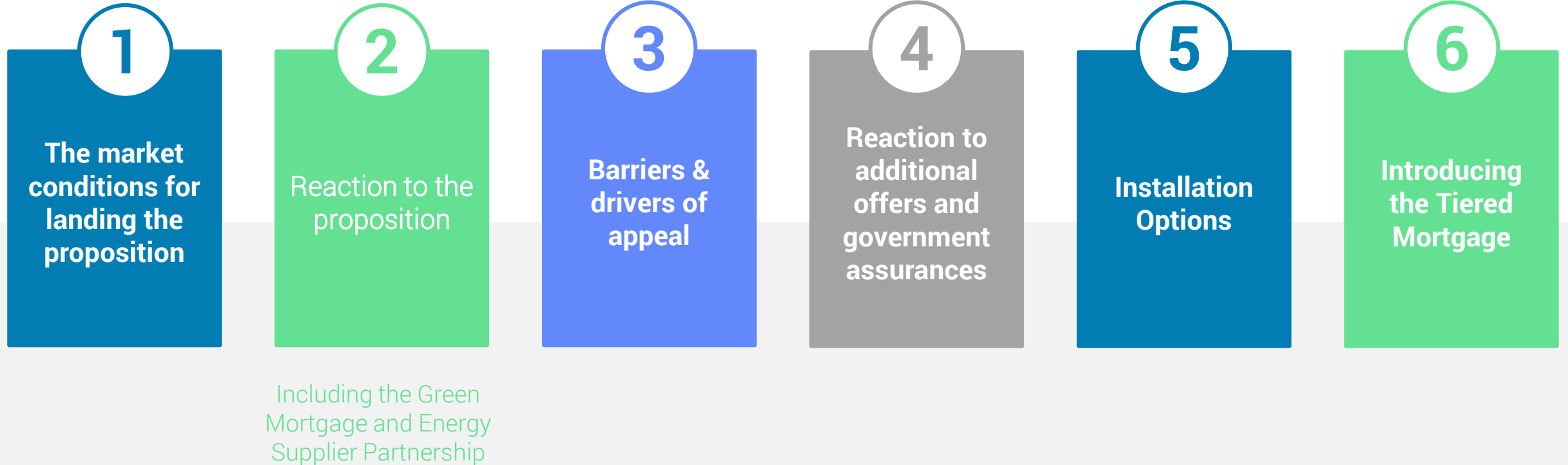
We conducted 500 interviews in Portugal and Spain during October 2018 with consumers who had recently taken out a mortgage, or were actively considering a mortgage

We will highlight any differences in reaction across these 3 groups, and across the markets from the initial research where relevant



First time buyer 1 st mortgage or considering first mortgage	25%	16%	19%	24%	17%
Experienced mortgagee onto their 2 nd or more mortgage	54%	53%	54%	54%	48%
Multiple mortgage holder 2 or more mortgages	22%	31%	27%	22%	34%

Contents



We'll round off with a series of recommendations for launching the Green Mortgage

Is there appetite for the Green Mortgage in Portugal and Spain?



There is a **sizeable level of appeal** for the Green Mortgage proposition in both markets, with the greater potential being in Spain



When faced with a choice between this and a conventional mortgage, there is still **scope for a Green Mortgage proposition**, and there is a large proportion who are undecided in Portugal



Although generally clearly understood, **clarity could be improved in Portugal** – the key here is communicating the benefits, which should also improve relevancy



The appeal of the Green Mortgage is **reinforced by the prospect of an energy partnership** which may also add further credibility

How should the Green Mortgage be communicated to maximise impact?



The most compelling reason for taking out a Green Mortgage are the **long-term savings**, which will be crucial to communicate to prospective buyers



Other areas that will also be important to communicate are the **lower interest rates**...



...and **saving on energy bills** is another factor that is driving appeal for the Green Mortgage



Not wanting / cannot afford an additional loan is the biggest barrier for those who find the proposition unappealing (esp. in Portugal) - highlight long-term savings to address this

What benefits and assurances are most attractive to prospective consumers?

Most attractive benefits



No product application fees



€500 cashback
(especially in Portugal)



Preferred installation partners
(Option A – esp. for first time buyers)

Government Assurances



**Rebate on the taxes / fees you paid
when you bought your property**
(especially for first time buyers)



0% interest on loan
(especially in Portugal)

1.

Market conditions for landing the proposition



We'll begin by looking at some existing attitudes in the market which provide important context for the Green Mortgages proposition

**Is energy efficiency
a consideration
when choosing a
property to
purchase?**

**Does an appetite
exist to make
further household
energy efficiency
improvements?**

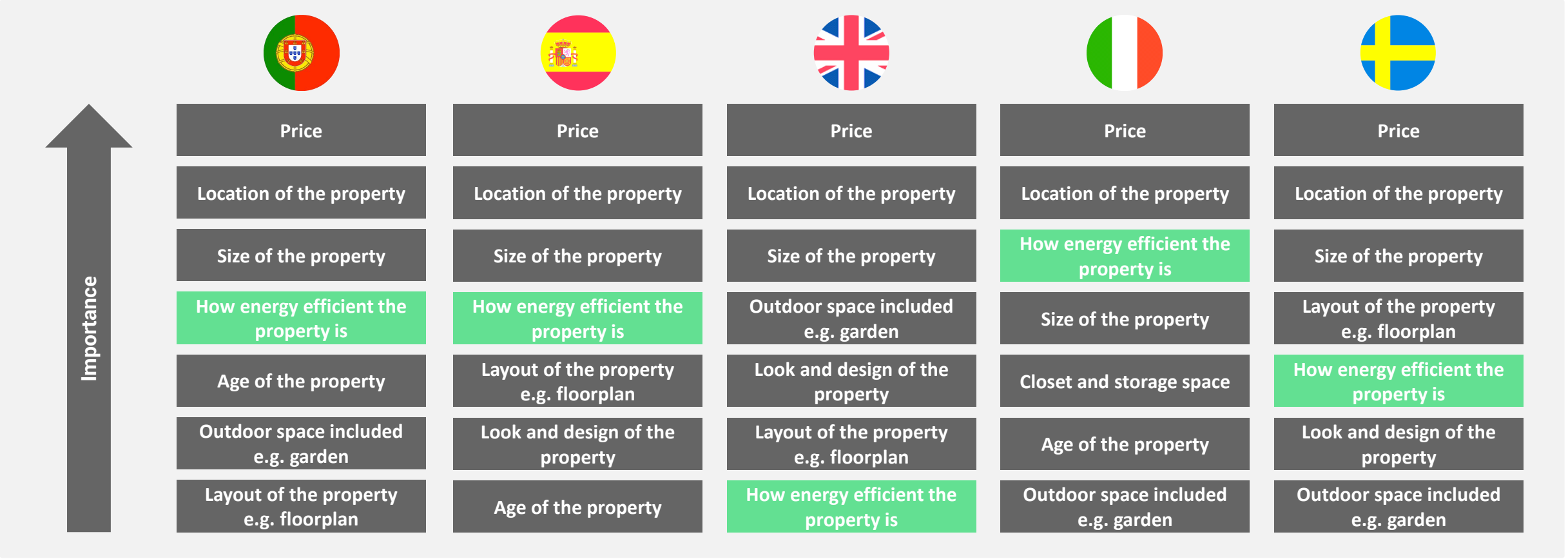
Consideration factors for buying a property are very similar across Spain and Portugal, with price and location being the most important...

Important factors when buying a property – from top 3 most important factors
All respondents



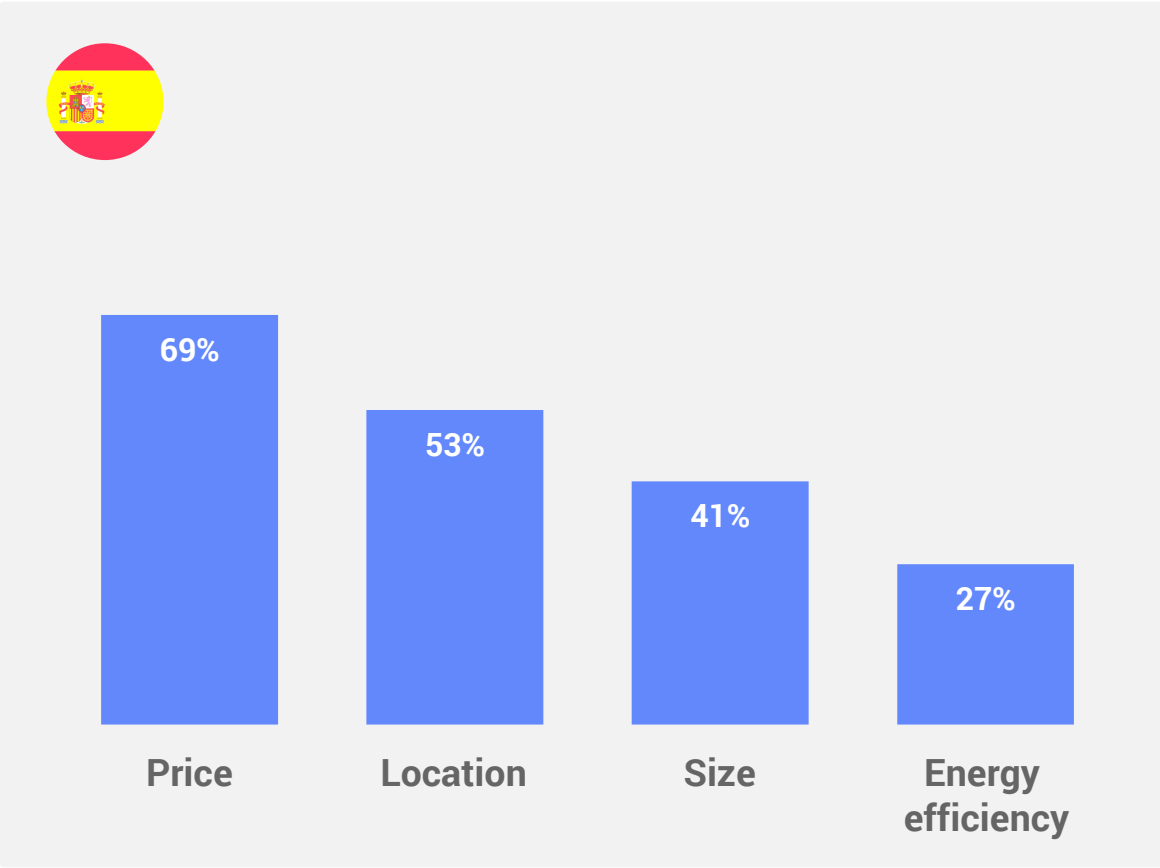
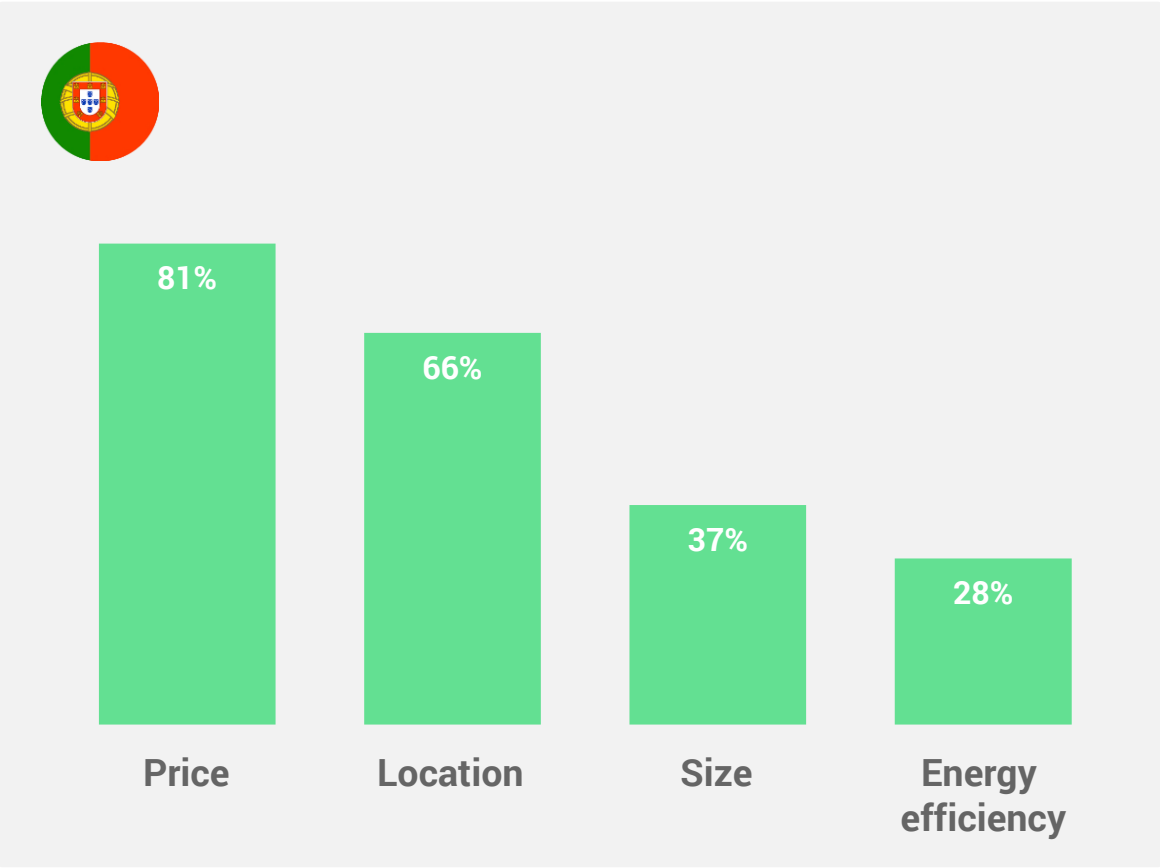
...and the energy efficiency of the property is relatively important in these markets compared to the UK and Sweden...

Important factors when buying a property – from top 3 most important factors
All respondents



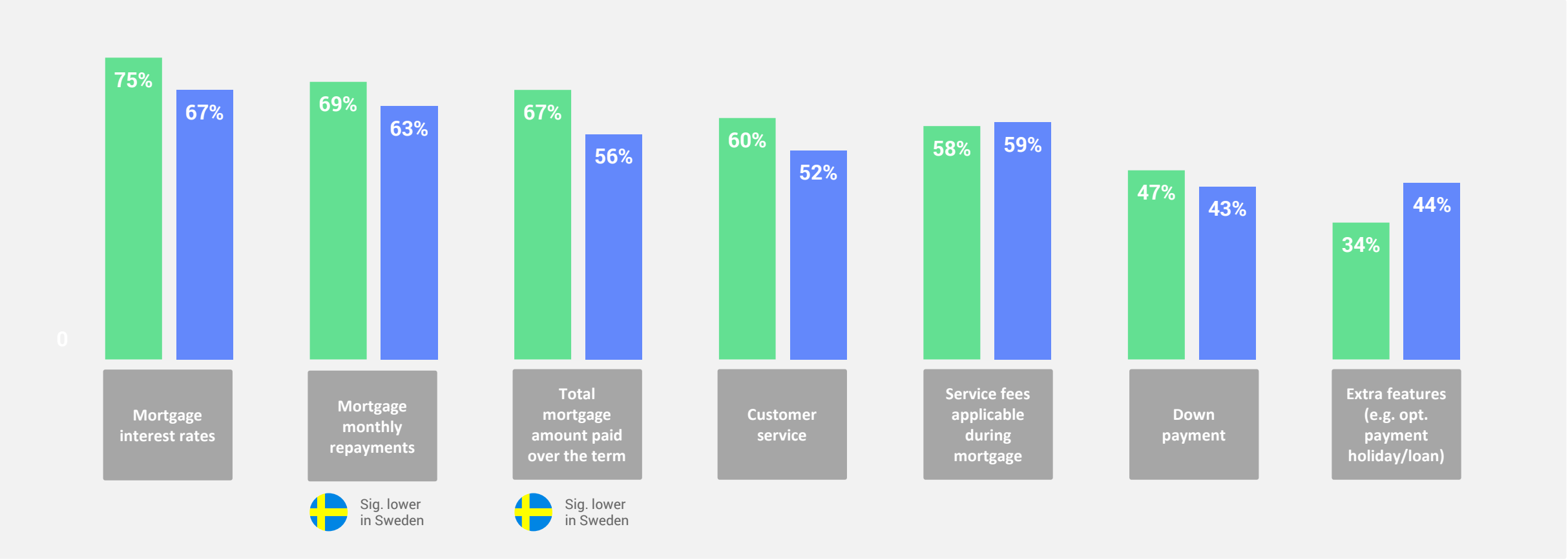
...amounting to around a quarter of consumers in Spain and Portugal considering energy efficiency among their most important aspects when considering which property to buy

Important factors when buying a property – from top 3 most important factors
All respondents



With price being the number one consideration, naturally interest rates, monthly repayments and the total term payments are crucial to the decision-making process

Important factors when choosing a mortgage
All respondents

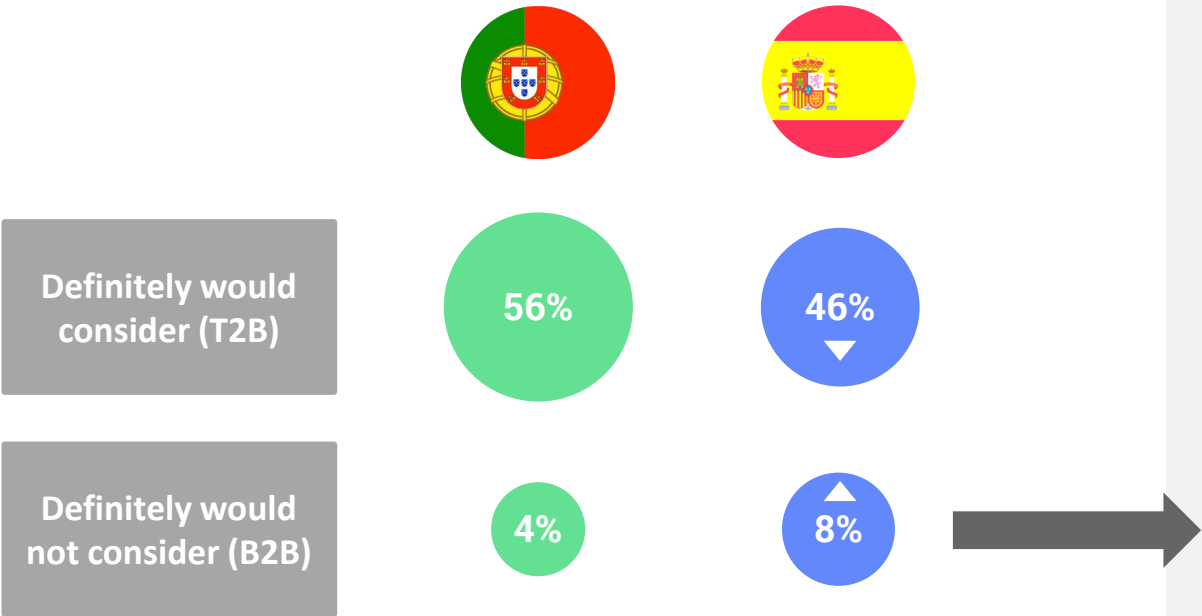


A greater proportion of Portuguese consumers are open to making their home more energy efficient than their Spanish counterparts, though there is still a sizeable opportunity in Spain



Attitudes towards enhancing home's energy efficiency

All respondents

Consideration for making home more energy efficient...



Those who would not consider do so...

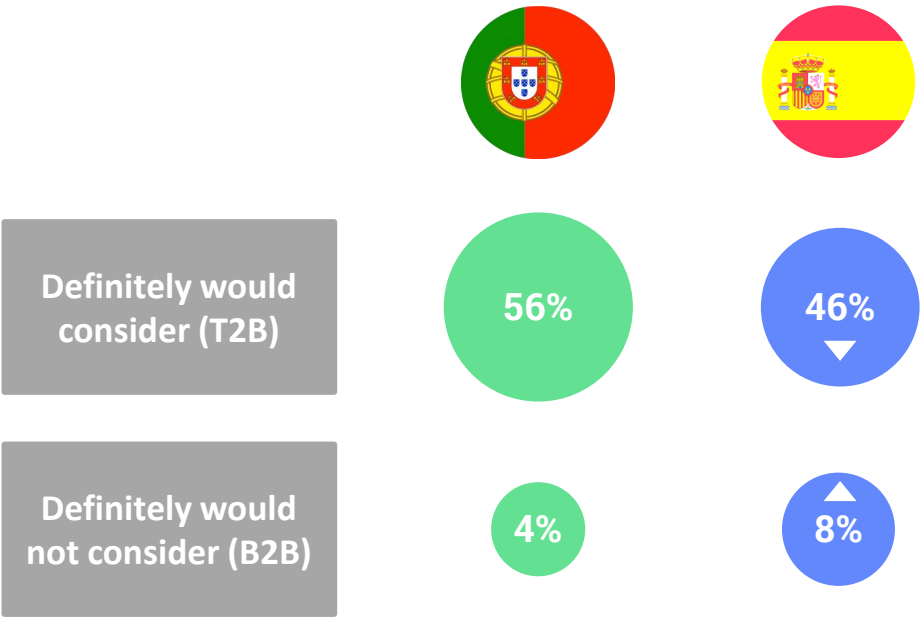
-  **Main barriers** are perceptions that it would be **too expensive** and that their homes are **already energy efficient**
-  **Main barrier** is **lack of knowledge** around energy efficiency

▲▼ Significantly higher or lower vs. other market

There is lower awareness and understanding of the energy awareness certificate in Spain, suggesting less engagement with home energy efficiency in this market...

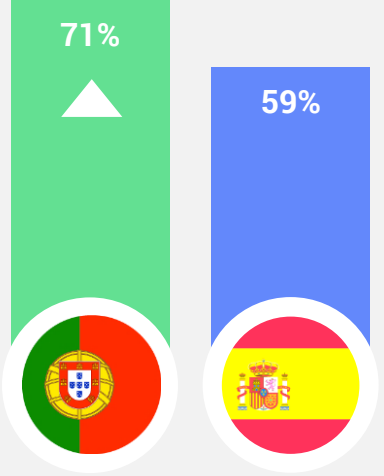
Attitudes towards enhancing home's energy efficiency All respondents

Consideration for making home more energy efficient...

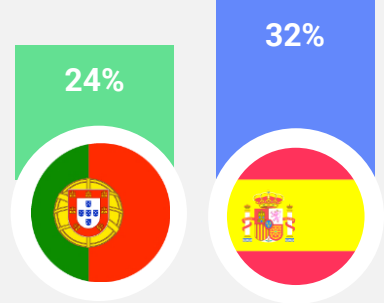


▲ ▼ Significantly higher or lower vs. other market

The Portuguese are more likely to have heard of the Energy Certificate...

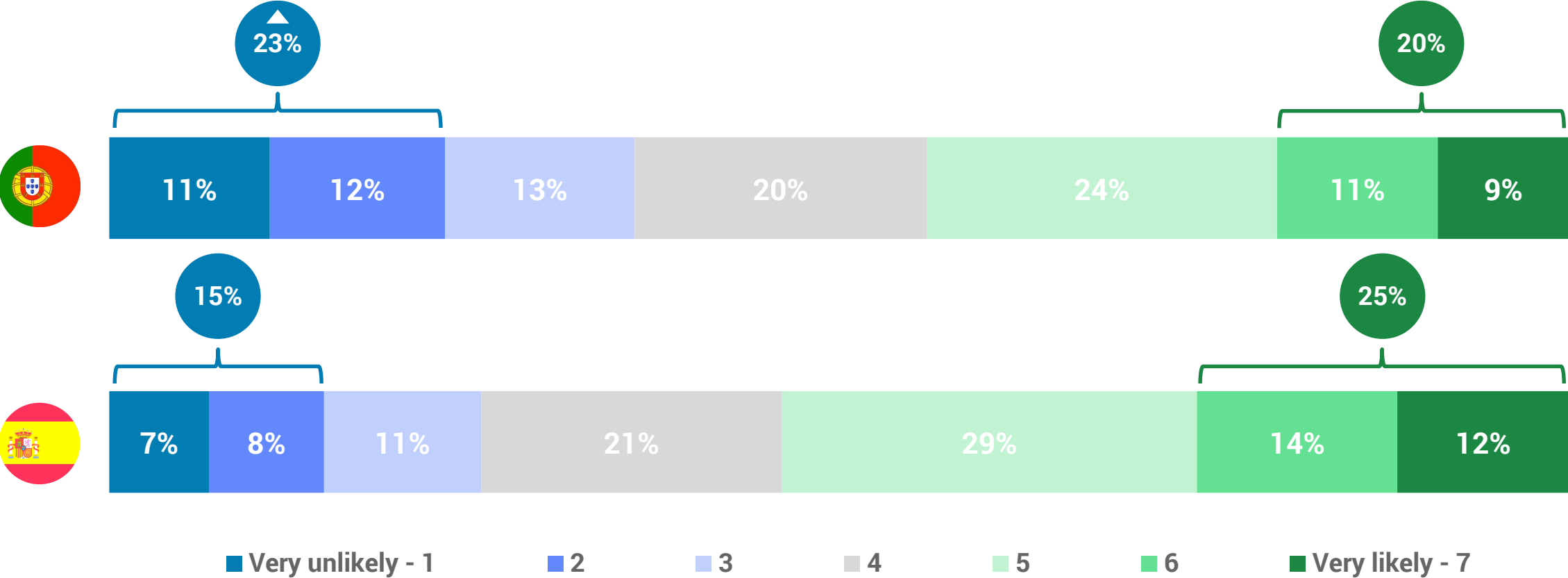


...and of those who've heard of it, the Spanish are more likely to be unsure about what it's for



...however despite less engagement with energy efficiency at home, Spanish consumers are more likely to consider a loan to make home improvements

Likelihood to consider personal loan to make home improvements
All respondents



2.

Reaction to the proposition



We showed respondents the following description of the Green Mortgage proposition split over 3 screens

The Green Mortgage

A new mortgage product, available to help consumers make their homes more energy efficient.

The Green Mortgage works by giving you a discounted interest rate (-0.1%) on your mortgage, when you take out an Energy Efficiency Improvement Loan. This Energy Efficiency Improvement loan is used to make improvements to your home, to make it more energy efficient.

Please note we tested the general concept as opposed to providing specific information about interest rates or bank / energy provider

We showed respondents the following description of the Green Mortgage proposition split over 3 screens

Key aspects

- The Green Mortgage is available across the full range of mortgage types e.g. fixed, tracker, variable, at a competitive interest rate i.e. in line with existing mortgage products on today's market
- It includes an Energy Efficiency Improvement Loan, which is used to make your house more energy efficient...
 - The interest rate on the Energy Efficiency Improvement loan would be comparable to or lower than the mortgage rate (i.e. much lower than a consumer loan)
 - It is lent over the same term as the mortgage
 - You would make a single monthly payment each month which includes both the mortgage and the loan (which is paid to one lender)
 - The value of the loan would vary depending on the property and improvement works, but would be around 15-20% of the market value of the property
- The Green Mortgage offers a discounted mortgage interest rate (-0.1% on your mortgage), which is applied when you take out an Energy Efficiency Improvement Loan
- If you do not take out the Energy Efficiency Improvement Loan, your mortgage works as normal (but your interest rate is not discounted)

please click next to learn more about The Green Mortgage

We showed respondents the following description of the Green Mortgage proposition split over 3 screens

How does the Energy Efficiency Improvement Loan work?

Once you have chosen to take out the Energy Efficiency Improvement Loan an energy assessor would then carry out an energy improvement survey on your property, to establish...

- What improvements could be made to make your home more energy efficient e.g. double/triple glazing, improved insulation solid wall insulation, new efficient heating system, smart heating controls or larger, smarter additions such as solar panels and home battery solutions
- How much the improvements would cost
- What difference the improvements would make to your monthly energy bills
- The energy assessor would take into account your individual needs and preferences. They would prepare a report recommending the energy efficiency improvement measures most relevant to your needs
- You then decide if you'd like to make the improvements, and which improvements you'd like to make

Across each market, we asked a series of questions to unpick reaction to the proposition

Is it understood?

Is it relevant?

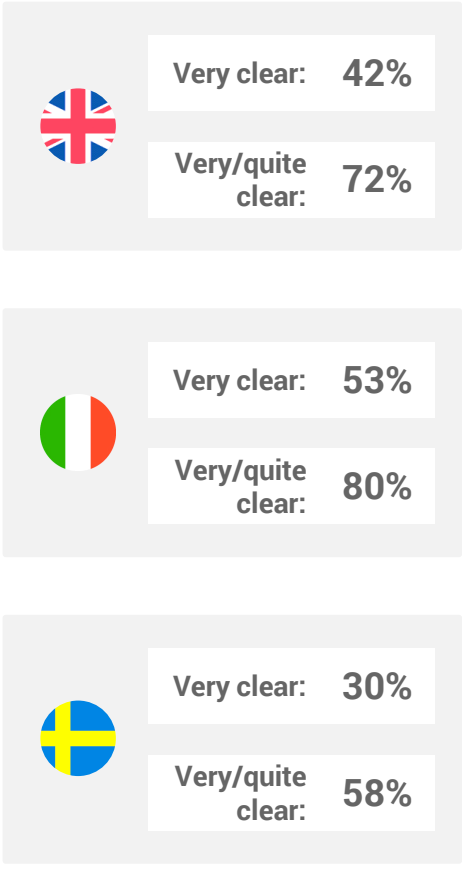
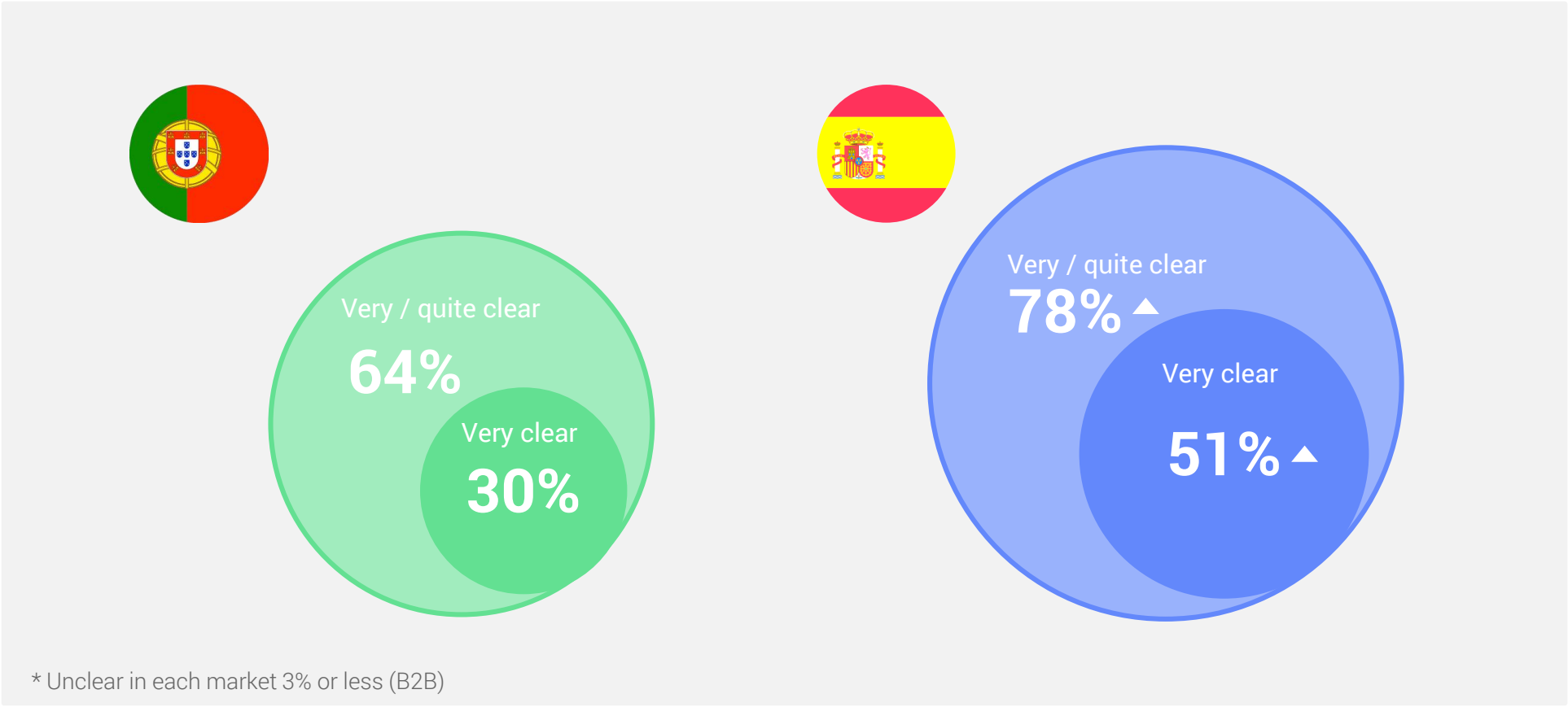
How appealing is
it?

Is there an
appetite to take
out a Green
Mortgage?

We're able to isolate key consumer groups across each metric, to understand who may be the initial target market for the Green Mortgage

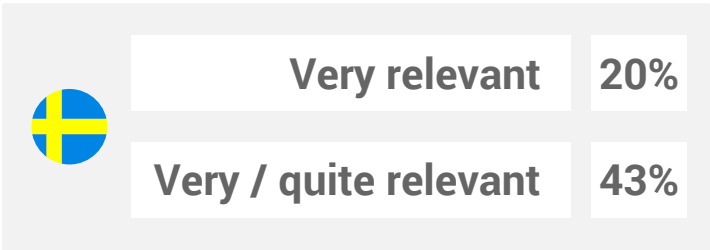
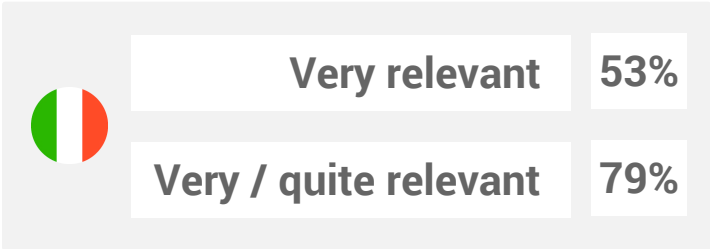
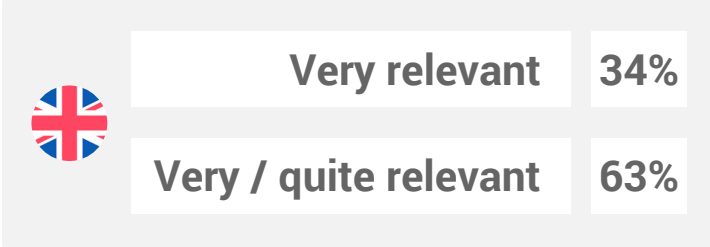
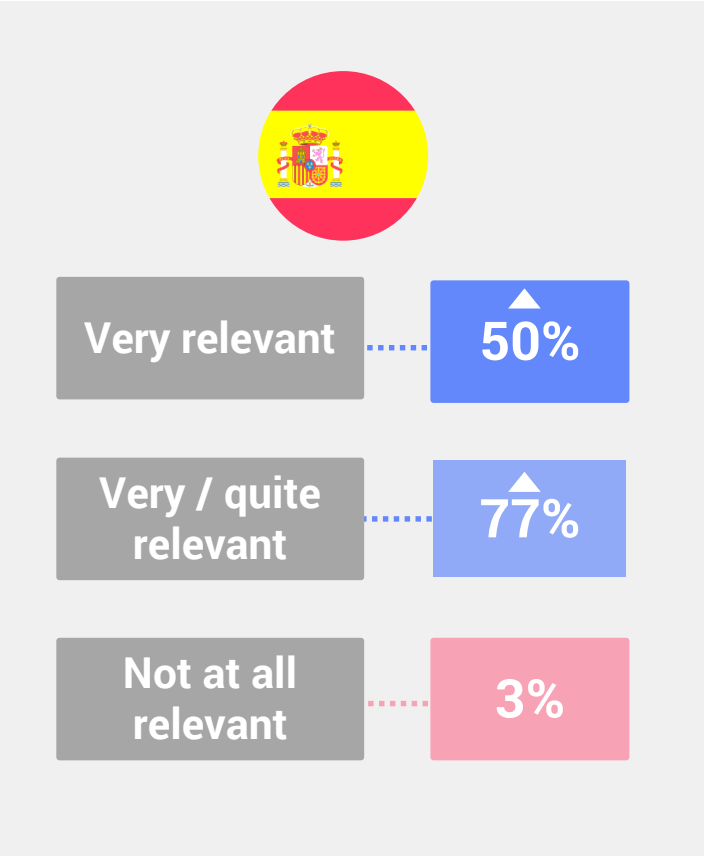
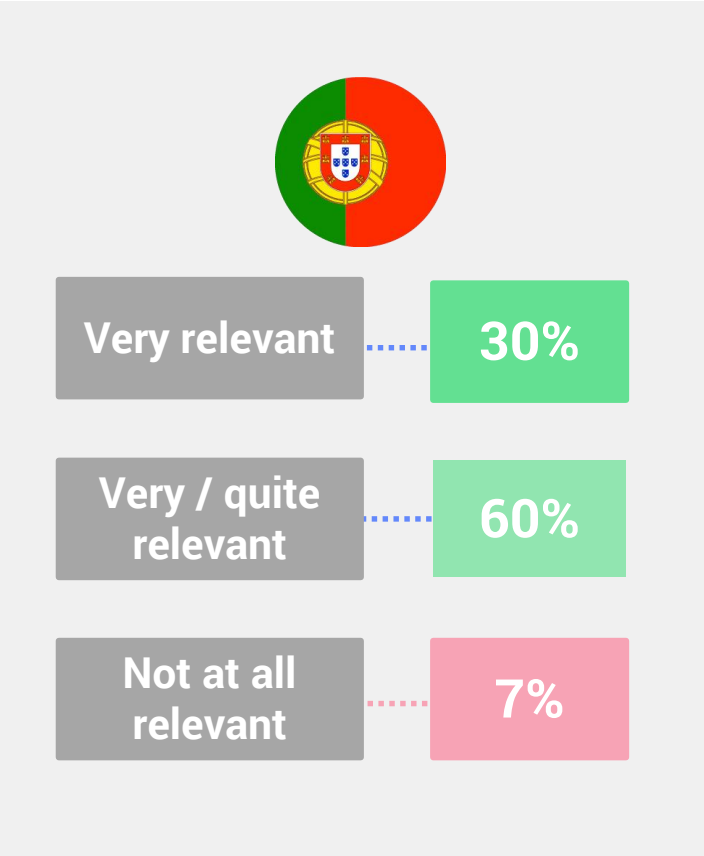
Consumers in all markets are generally clear how the Green Mortgage works and this seems to be a product they can understand...

Claimed understanding of Green Mortgage proposition
All respondents



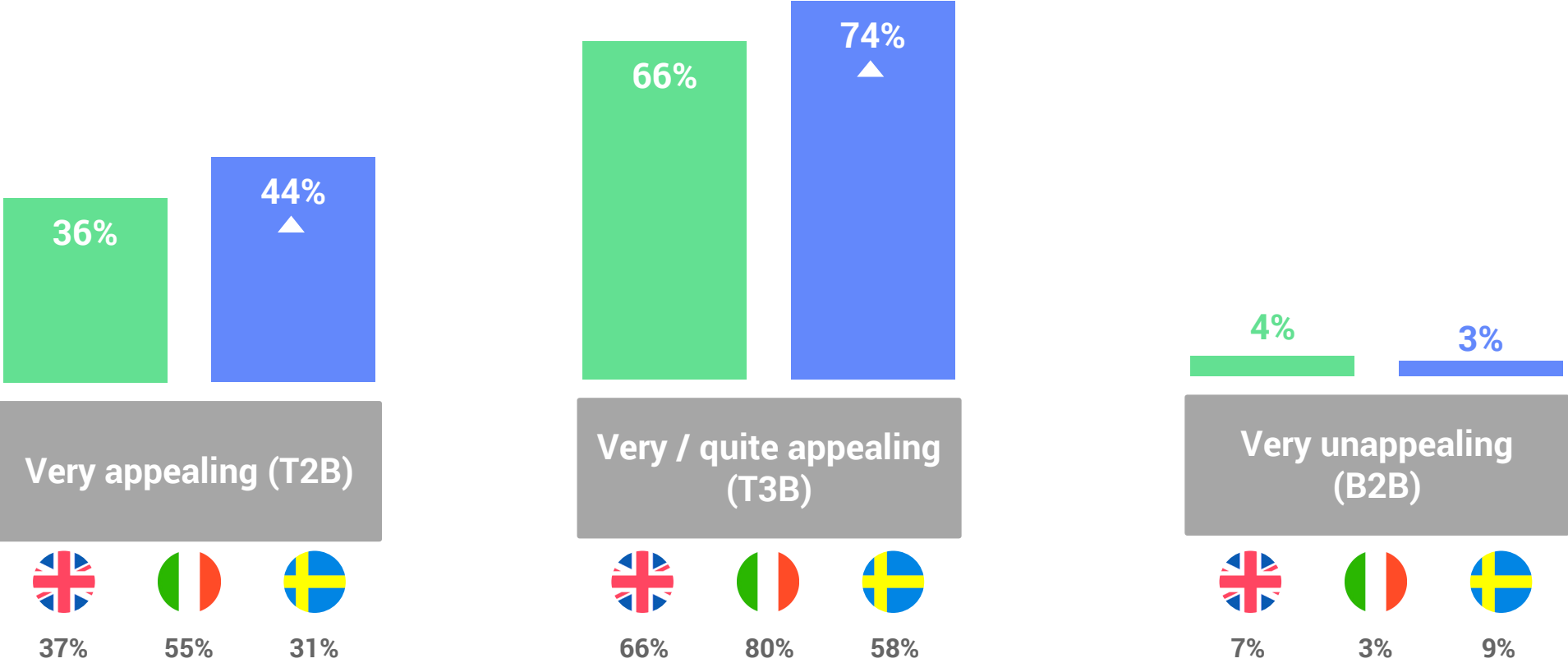
...and given the desire to make their homes energy efficient, the Green Mortgage is seen as relevant, especially so in Spain

Claimed relevance of Green Mortgage proposition
All respondents



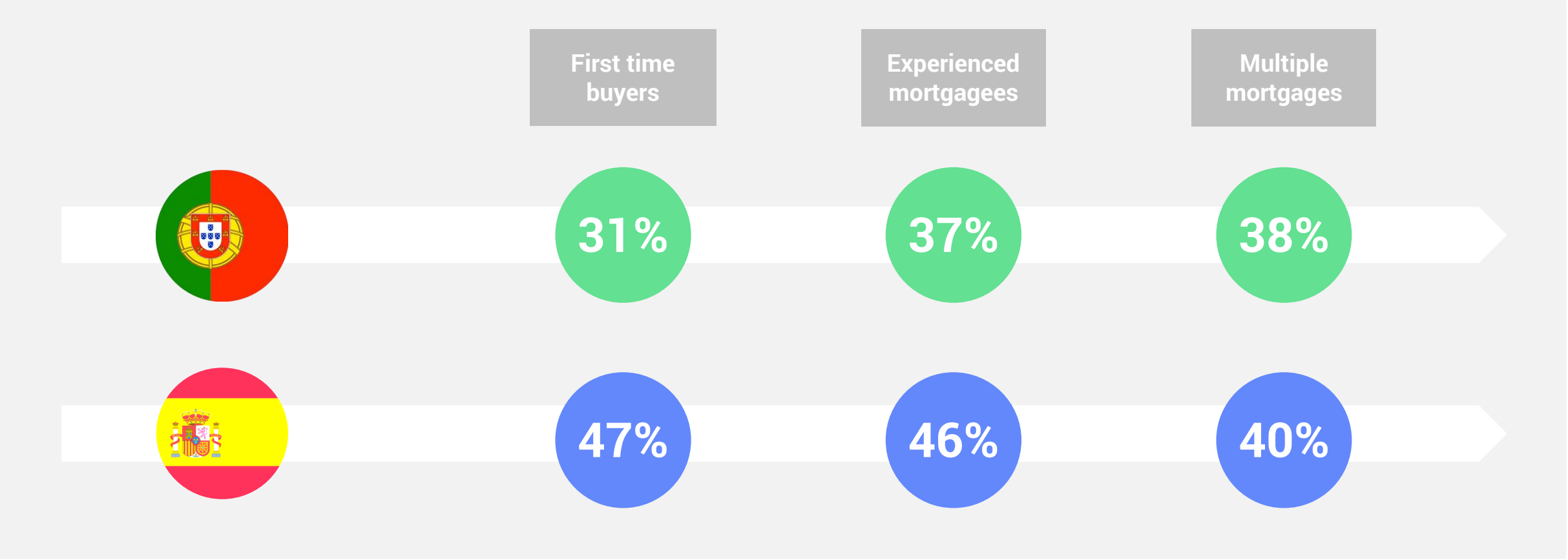
The Green Mortgage holds substantial appeal in both markets, with little outright rejection of the proposition in either country

Appeal of Green Mortgage proposition
All respondents



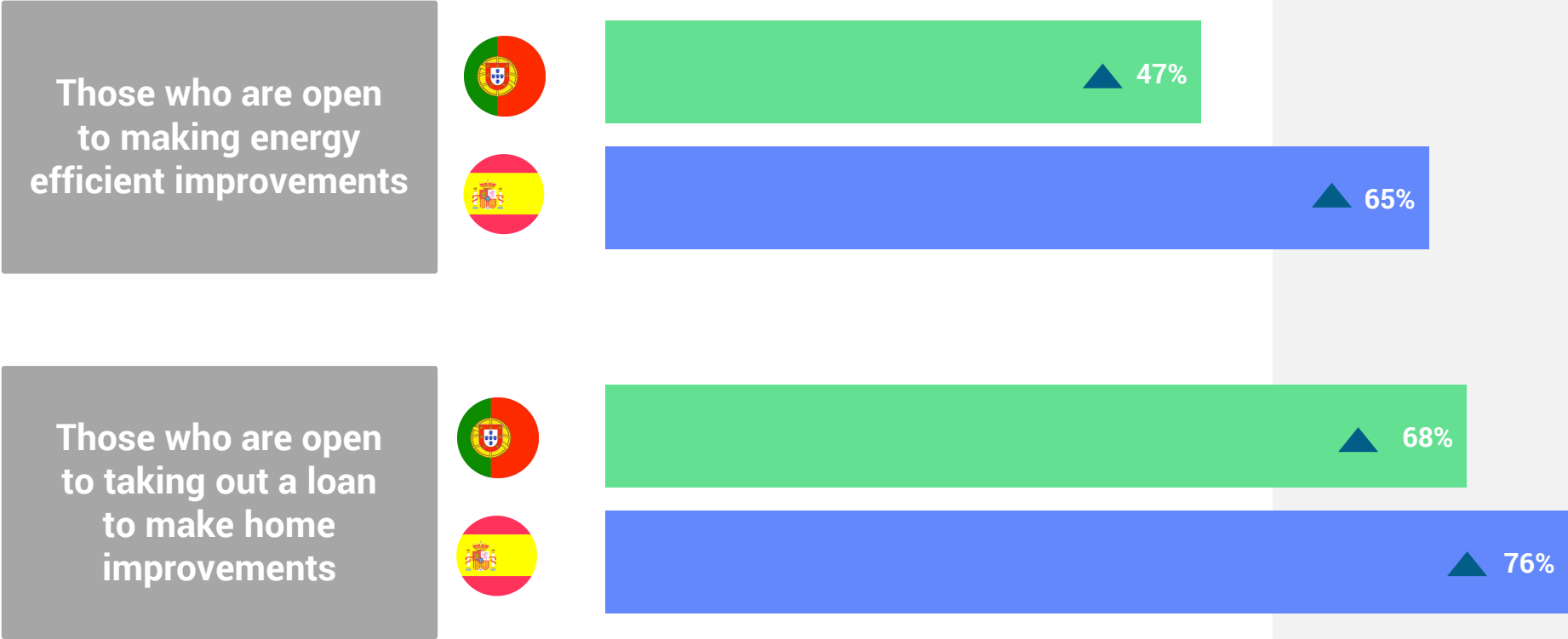
Appeal of the Green Mortgage is broad, regardless of experience with mortgages in either market...

Sub-groups who find Green Mortgage very appealing (T2B)
Among sub-groups (as labelled)



...and appeal is even greater among consumers who are open to making energy efficiency improvements, and those who are open to taking out a loan for home improvements

Sub-groups who find Green Mortgage very appealing (T2B)
Among sub-groups (as labelled)



In order to understand preference for the Green Mortgage, we asked respondents to compare it to the mortgage they currently have / are considering taking out

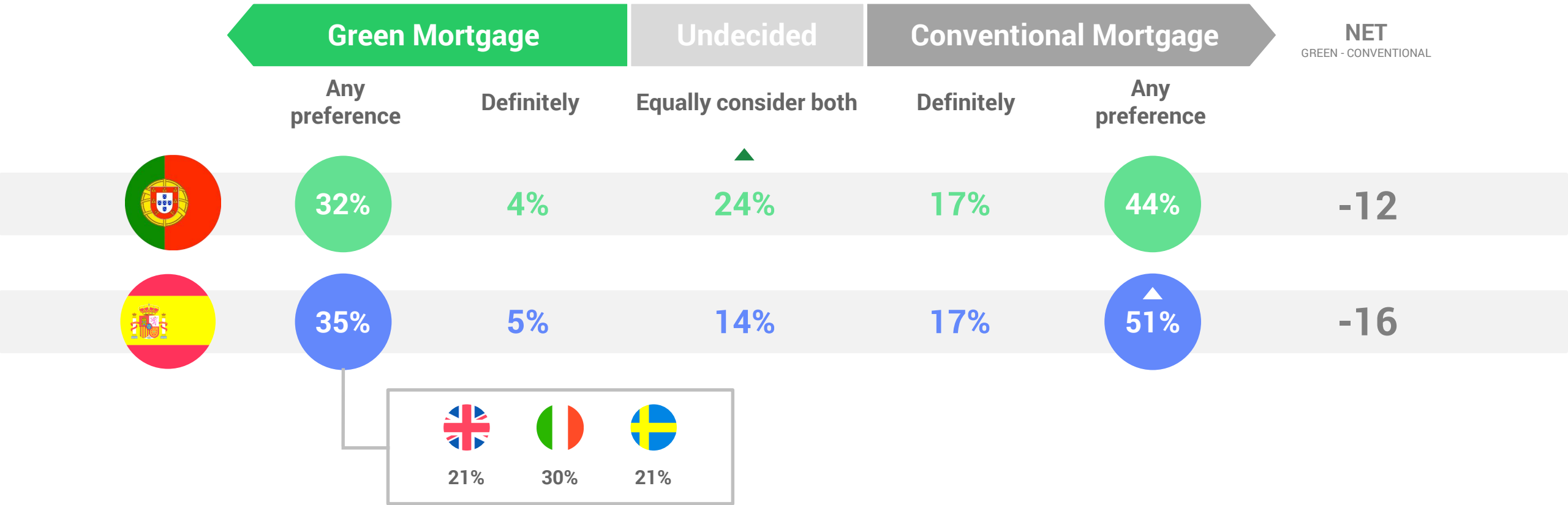
We'd now like you to compare this new mortgage product to the **[CONVENTIONAL MORTGAGE]** you took out in the last two years / are considering taking out in the next two years.

How likely would you have been / would you be to take out the Green Mortgage, along with the Energy Efficiency Improvement Loan instead?

Please assume the Green Mortgage would be offered by a lender you know and trust. Remember the Green Mortgage would be available across the full range of mortgage types e.g. fixed, tracker, variable, at a competitive interest rate i.e. in line with existing mortgage products on today's market

Having compared mortgages, there is still scope for a Green Mortgage proposition for consumers in both markets

Preference Green Mortgage vs. conventional mortgage
All respondents



Finally we explained a Lender would be partnering with an Energy Supplier to offer the Green Mortgage

Introducing the Energy Supplier

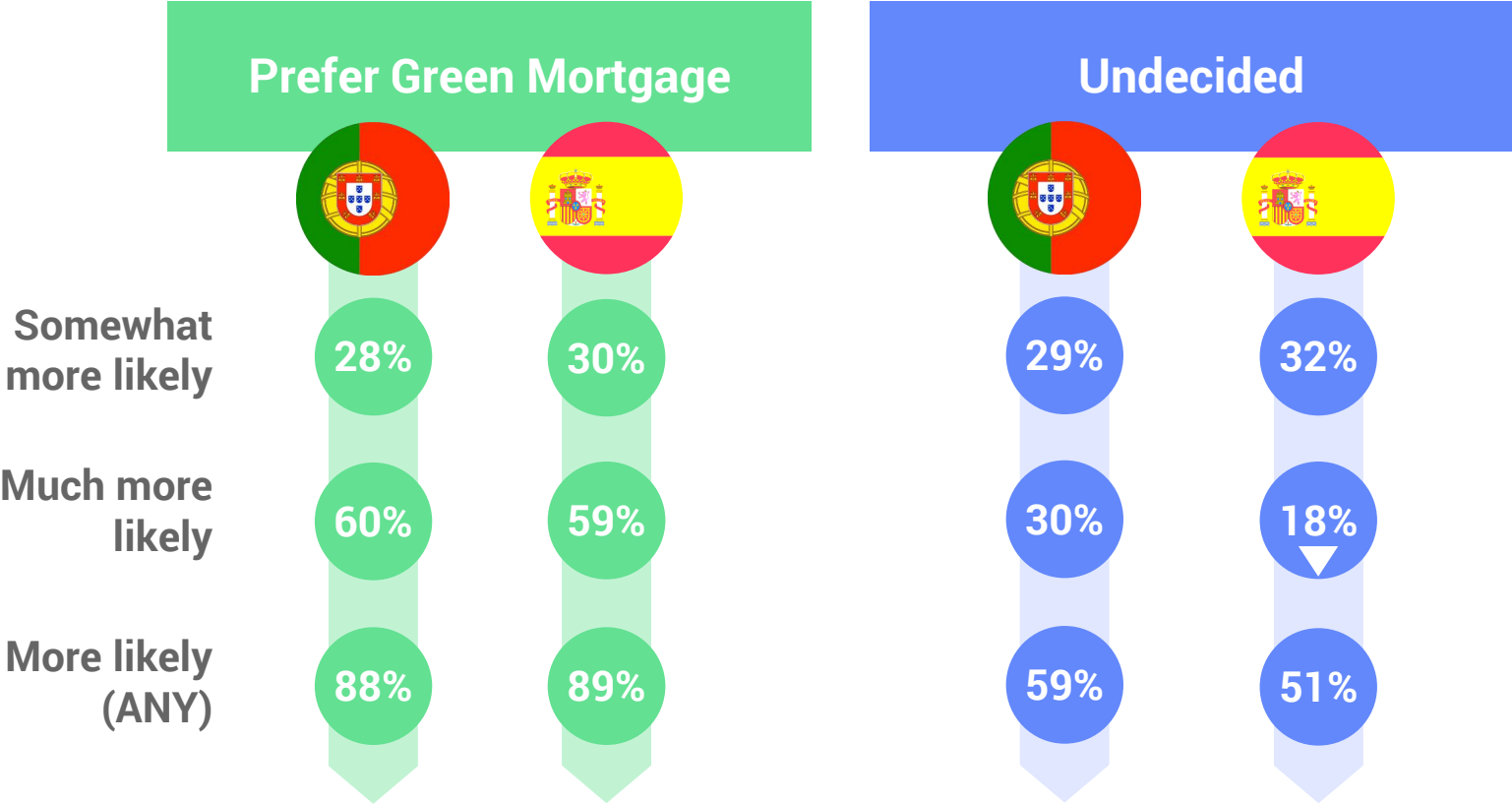
We'd now like you to consider the same new Green Mortgage product again.
This mortgage product would be provided by the lender of your choice, together with an Energy Supplier.

NB. The Energy Supplier would support in the assessment of energy improvement measures, installation of improvement works to help make your property more energy efficient and the after-care of maintaining the energy performance of your improved property

Introducing an energy supplier / lender partnership strengthens claimed take up of the Green Mortgage in both markets among those who favoured it or were undecided

Impact of Energy Supplier on the Green Mortgage
All who said they preferred the Green Mortgage / or were undecided

Does it make you more likely to take out the Green Mortgage?



3.

Drivers of appeal



Before moving into the drivers of appeal, we'll first explore why some consumers said the Green Mortgage did not appeal to them

There are a range of different reasons why some consumers did not find the Green Mortgage appealing

Therefore we asked consumers to tell us the most important reason why they found the Green Mortgage unappealing...

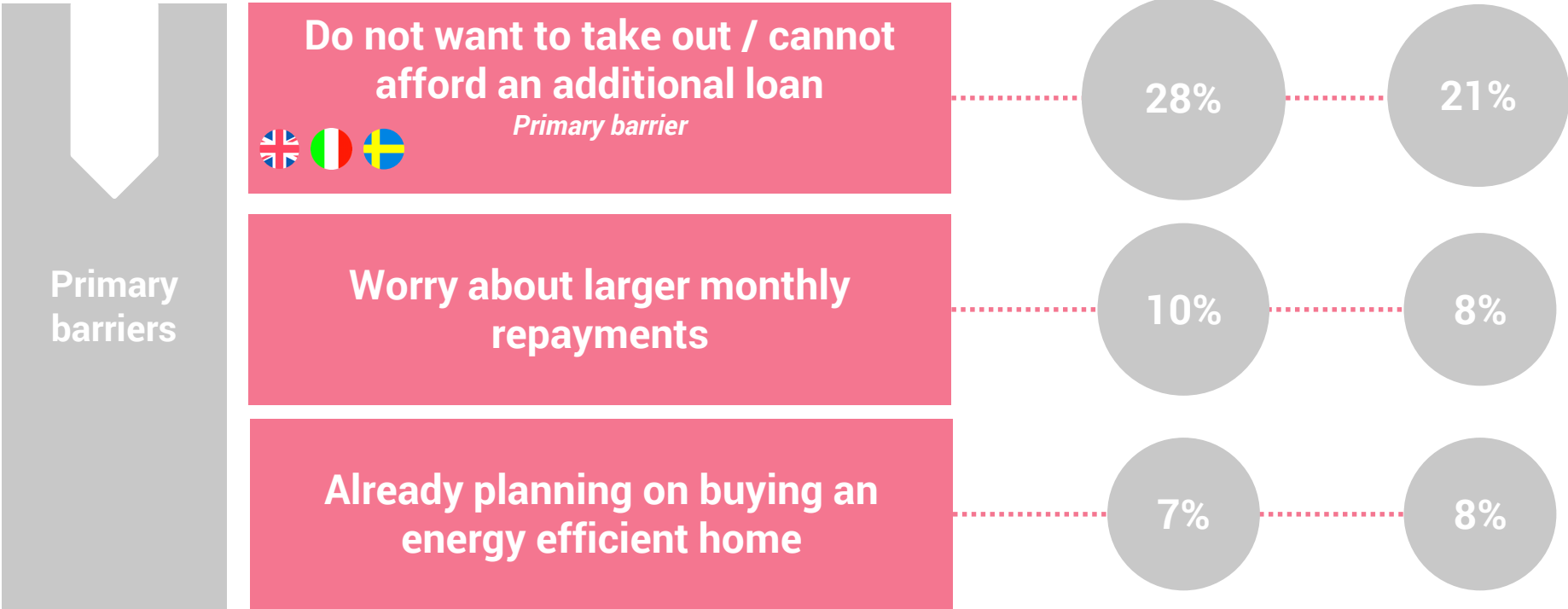
This will allow us to identify the strongest barriers to take up

Those who do not find the Green Mortgage appealing don't want to take out an additional loan and have financial concerns regarding larger monthly payments

Barriers

All who do not find the Green Mortgage appealing

Most important reason
(select 1 only)



However few select the idea they are not interested in making their home more energy efficient as the key barrier

Barriers
All who do not find the Green Mortgage appealing

Most important reason
(select 1 only)

Secondary barriers

- It seems too complicated
- Would be too much hassle to renovate my home
- Worry about not being able to pay back the loan
- Not interested in making my home more energy efficient



11%

3%

6%

3%

4%

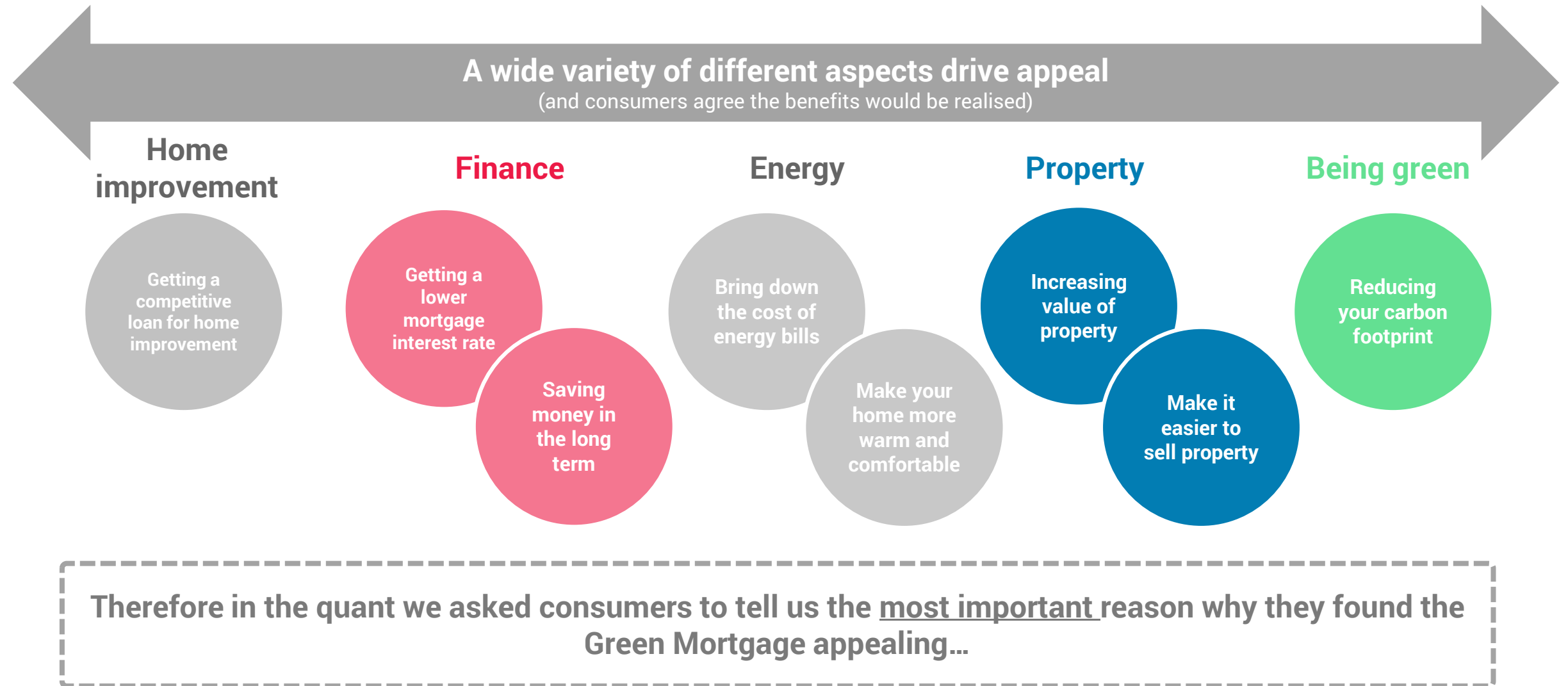
8%

3%

5%

All other barriers
under 6%

Next we'll look at which aspects of the Green Mortgage are driving its appeal



The Green Mortgage’s financial advantages drive its appeal, with aspects related to energy and property also important drivers

What is driving appeal?
All who find Green Mortgage appealing

Most attractive aspect
(select 1 only)

Consistent across
markets



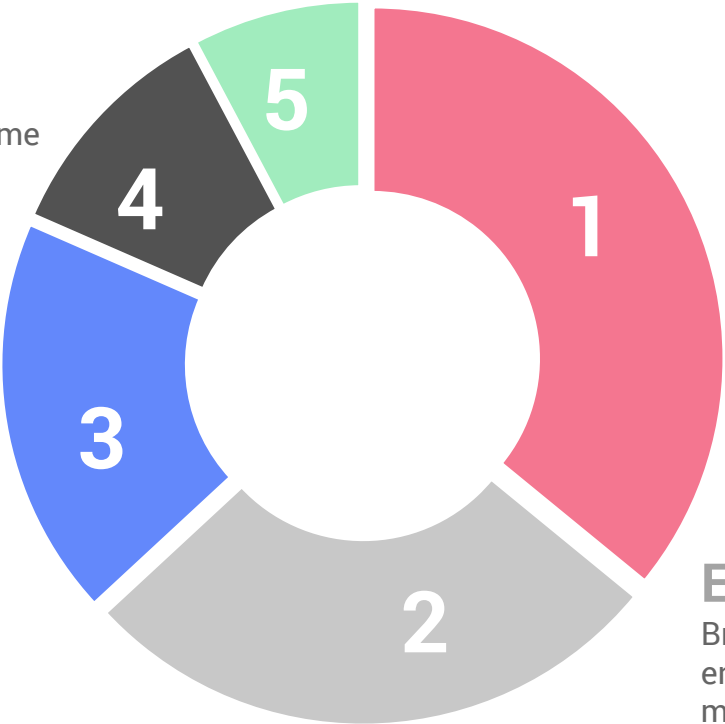
Home improvement
Getting a competitive loan for home improvement purposes

Green
Reducing your carbon footprint

Finance
Getting a lower interest rate on your mortgage, and saving money in the long term

Property
Increasing the value of your property, and making it easier to sell

Energy
Bringing down the cost of your energy bills, and making your home more warm and comfortable



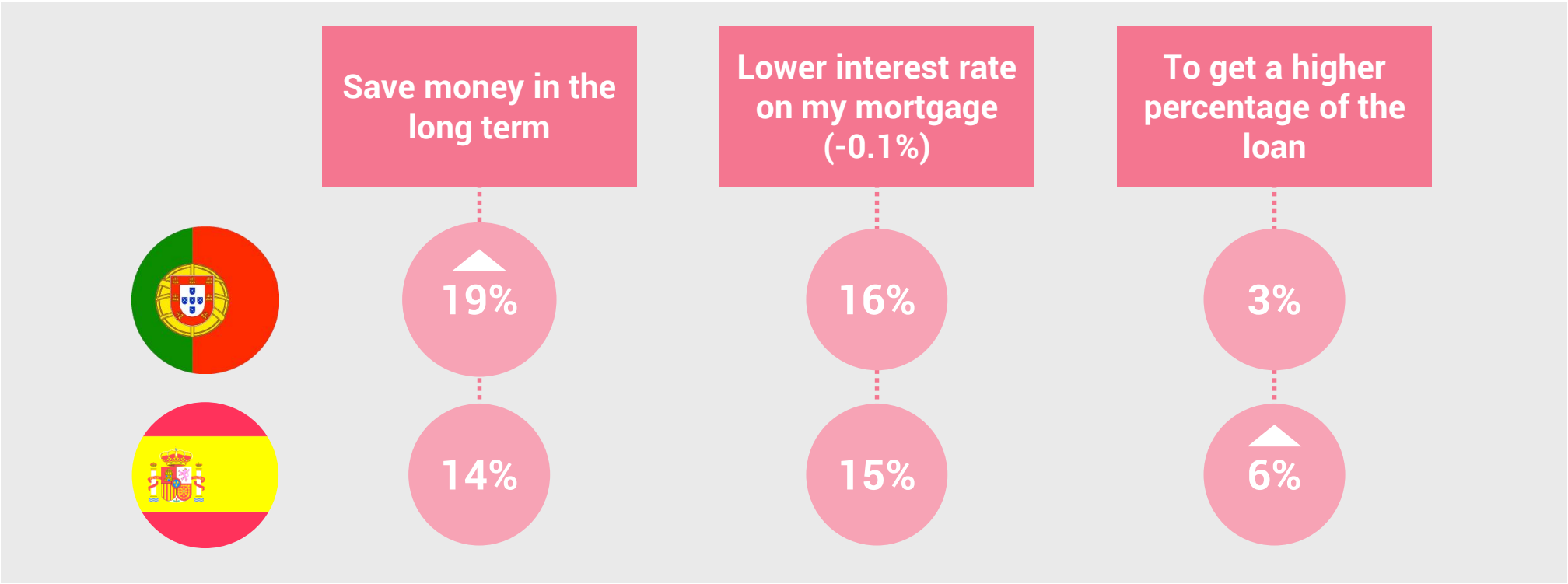
Consumers in Portugal find the ‘money saving’ element of the Green Mortgage attractive, whilst a ‘lower interest rate’ is appealing in both markets...

What is driving appeal?
All, but excluding those who found the Green Mortgage unappealing

Most attractive aspect
(select 1 only)

1 Finance

Significantly higher or lower vs. other market

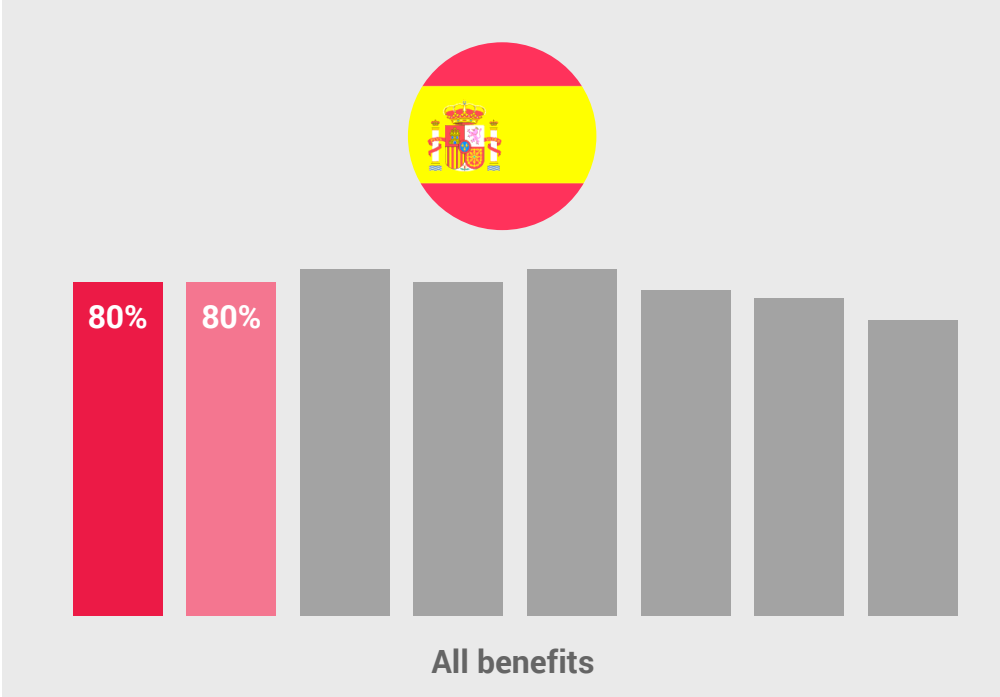
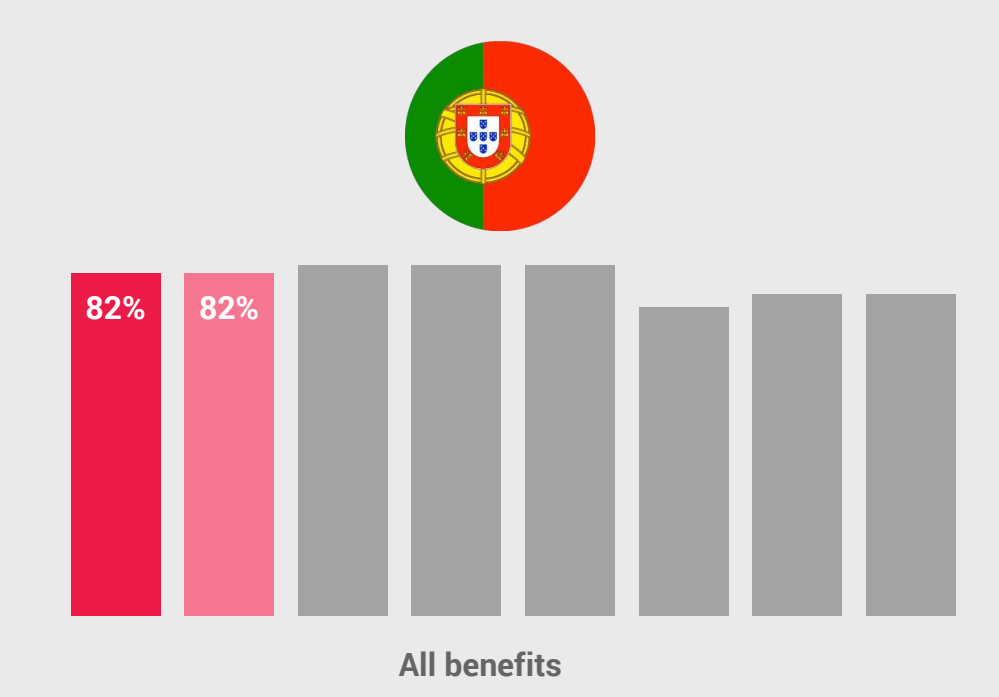


...and this is important to most consumers in both markets, along with several other benefits that the Green Mortgage offers

Do you agree the Green Mortgage would give you these benefits?
All, but excluding those who found the Green Mortgage unappealing

- = Lower interest rate on my mortgage
- = Save money in the long term

Total who agree the Green Mortgage would provide this benefit



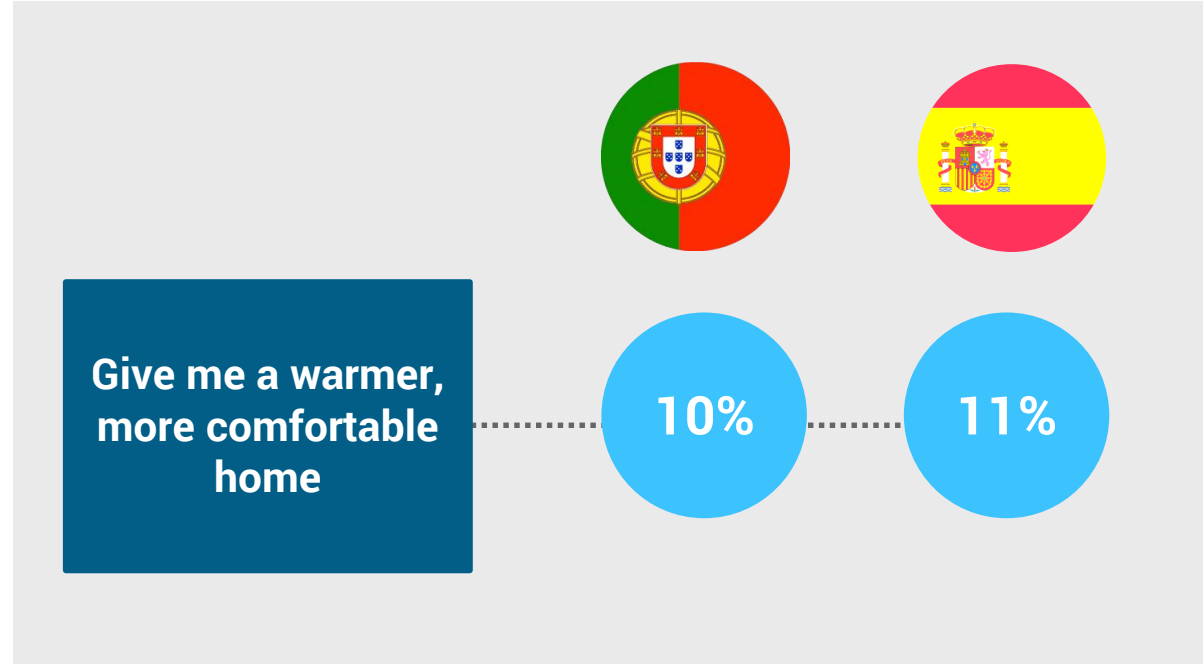
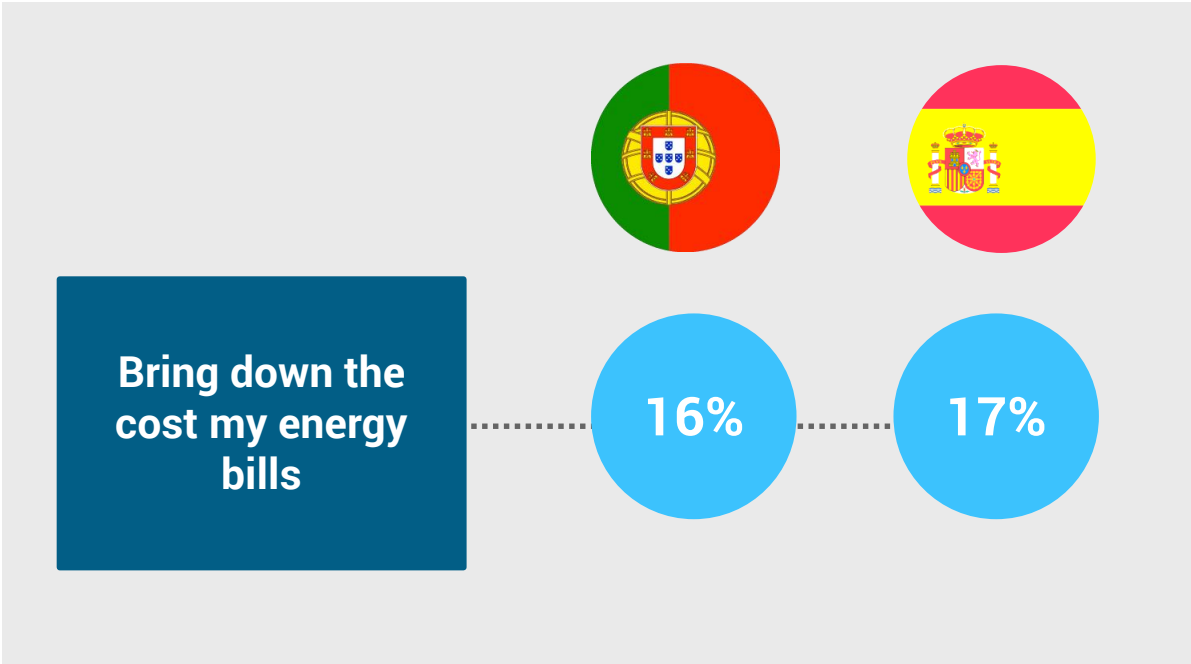
Consumers feel the Green Mortgage could ‘bring down the cost of energy bills’ and help them have ‘a warmer, more comfortable home’...

What is driving appeal?
All, but excluding those who found the Green Mortgage unappealing

Most attractive aspect
(select 1 only)

2 Energy

NB. No significant difference vs. other market



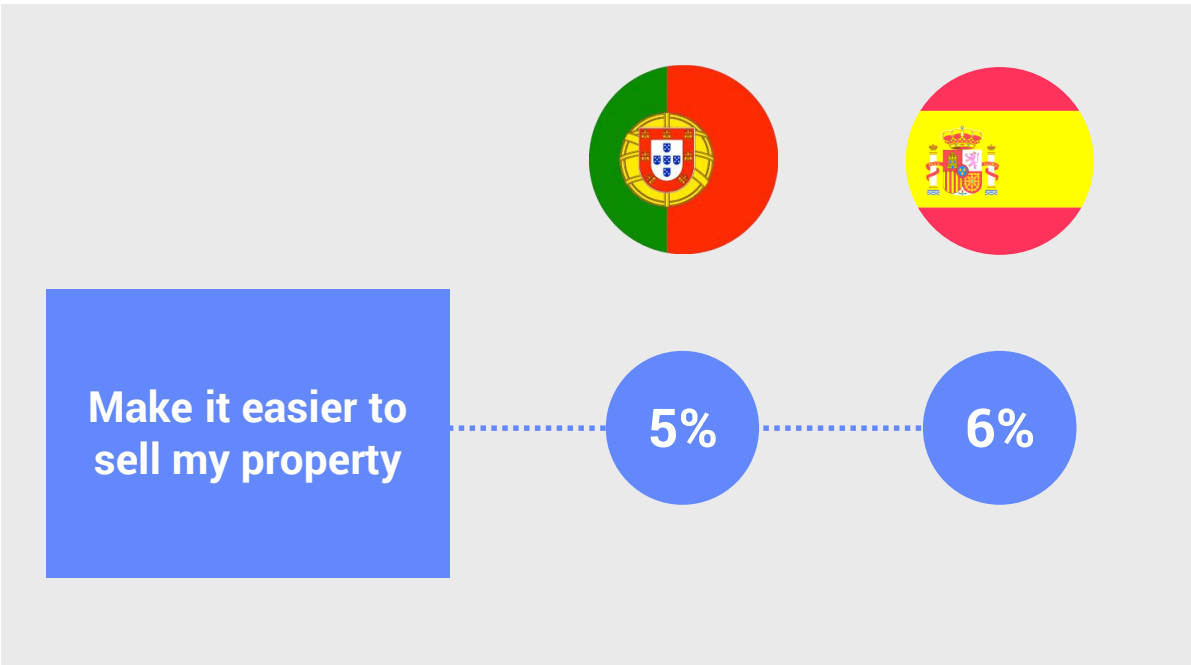
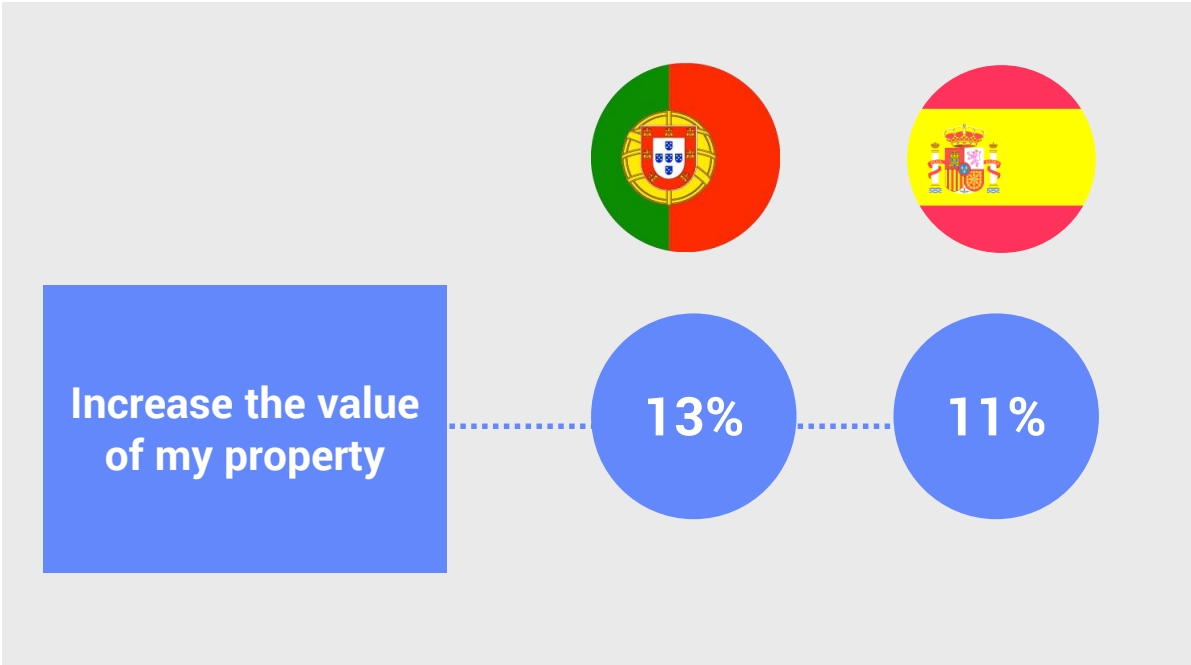
... and they also believe the Green Mortgage will help to ‘increase property value’ and ultimately make it ‘easier to sell’ when the time comes

What is driving appeal?
All, but excluding those who found the Green Mortgage unappealing

Most attractive aspect
(select 1 only)

3 Property

Significantly higher or lower vs. other markets

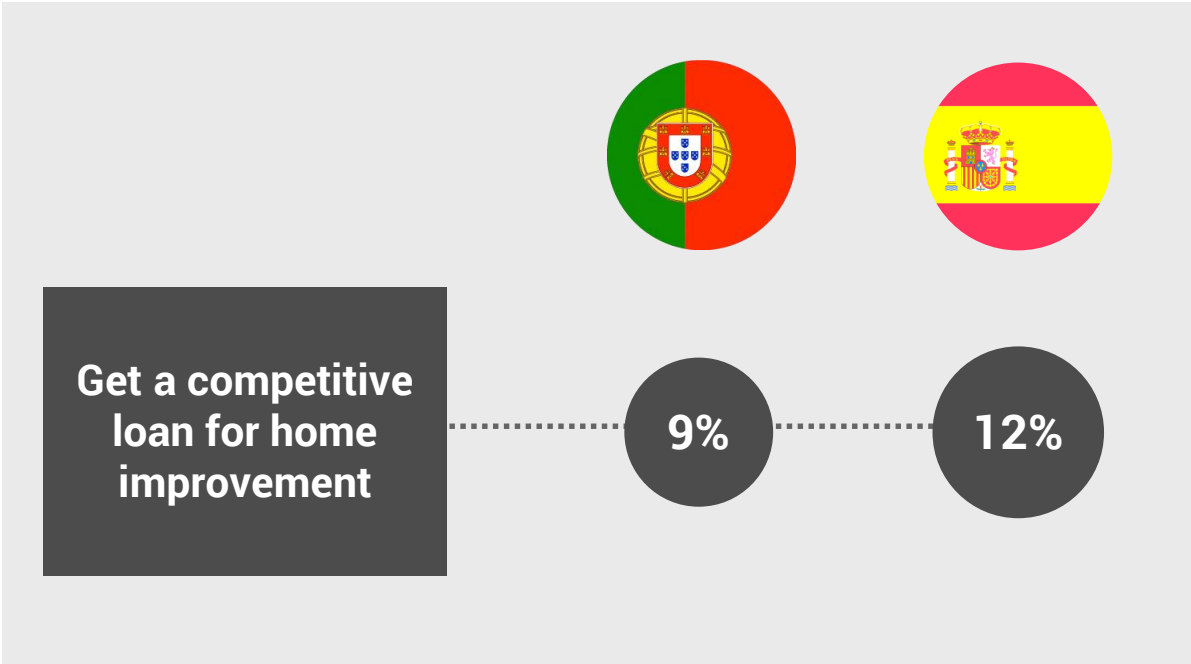


‘A competitive loan for home improvement’ is also a popular reason for some, as less say ‘reducing their carbon footprint’ drives appeal

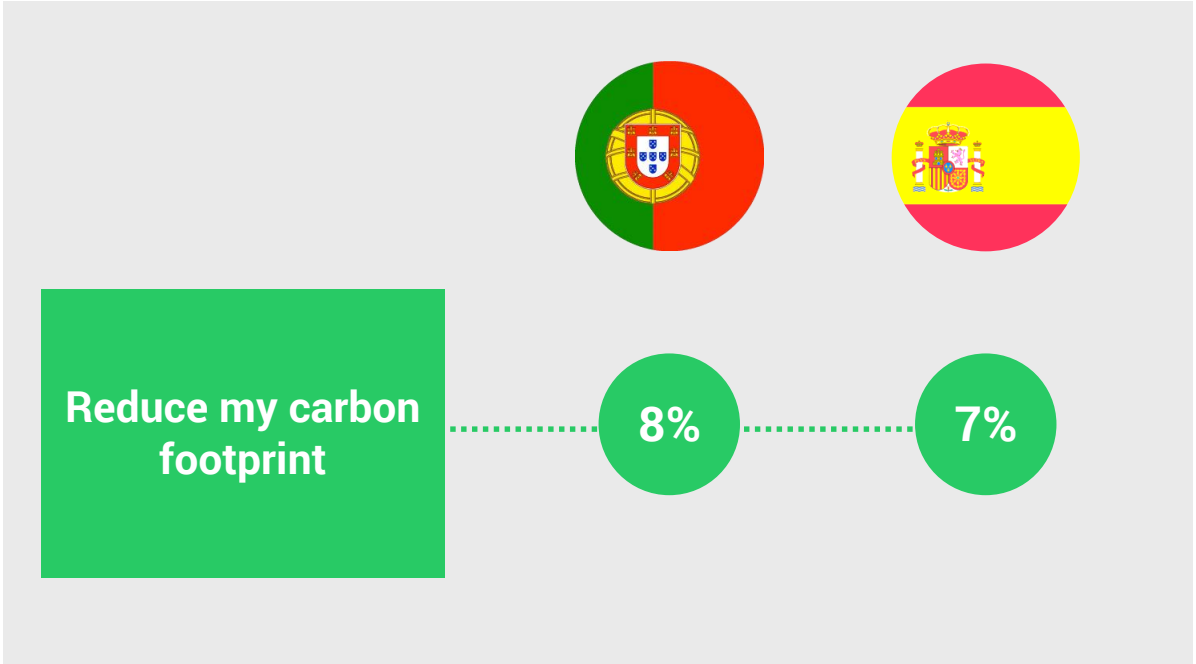
What is driving appeal?
All, but excluding those who found the Green Mortgage unappealing

Most attractive aspect
(select 1 only)

4 Home improvement



5 Being green



4.

Reaction to additional offers and government assurances



We'll now look at reaction to the additional offers and government assurances which could be used to encourage take up of the Green Mortgage

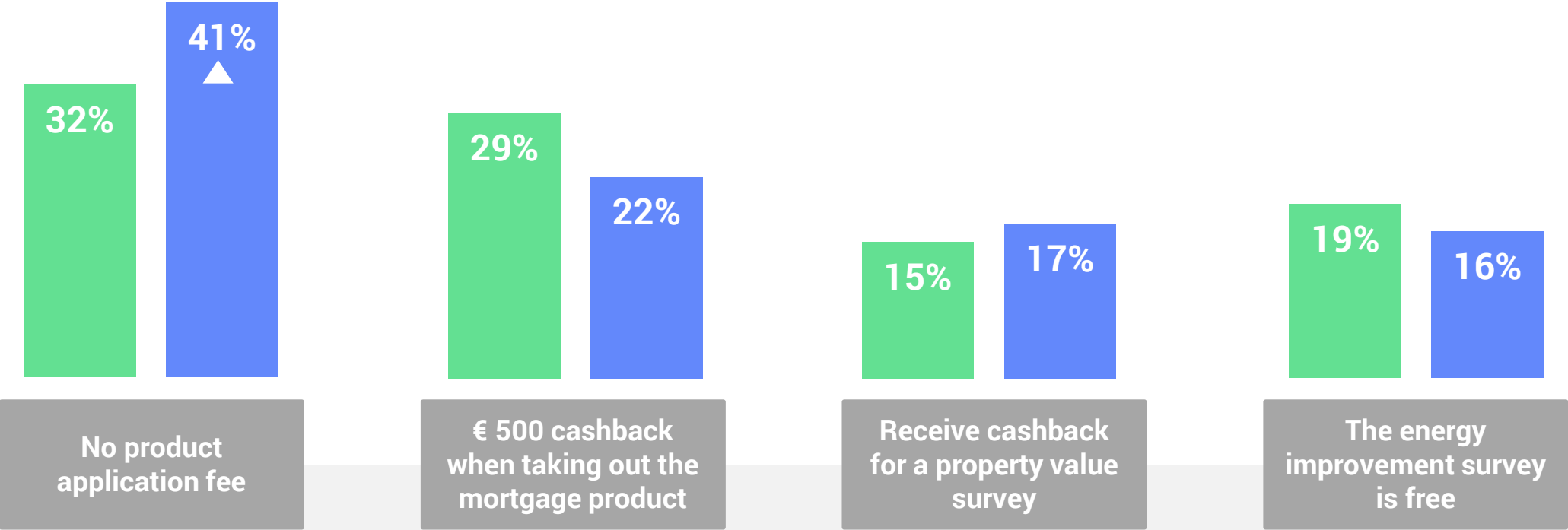


Again we've looked at first choice here, which allows us to clearly identify which benefits are the most attractive

The no product application fee is the most attractive benefit in Spain, while this and the €500 cashback hold similar appeal in Portugal

Most attractive benefits
All, but excluding those who found the Green Mortgage unappealing

Most attractive benefit
(select 1 only)



Getting a tax rebate on the property you buy is the most appealing government assurance for both Spain and Portugal

Government Assurances

All, but excluding those who found the Green Mortgage unappealing

Most appealing Government Assurance

If you receive(d) a tax rebate on the taxes / fees you paid when you bought your property



Those who found the tax rebate most appealing were...

First time buyers

- vs. experienced mortgagees and multiple mortgage holders
- vs. multiple mortgage holders

In Portugal, the '0% borrowing rate' is also deemed important, driven by those with previous experience with mortgages

Government Assurances
All, but excluding those who found the Green Mortgage unappealing

Most attractive
(select 1 only)

Other Government Assurances

Experienced mortgagees

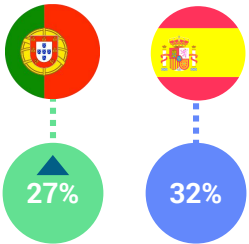
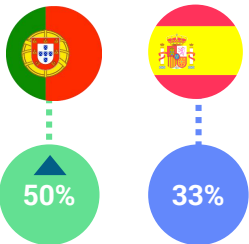
Multiple Mortgage holders
(have more than 1 mortgage on different properties)



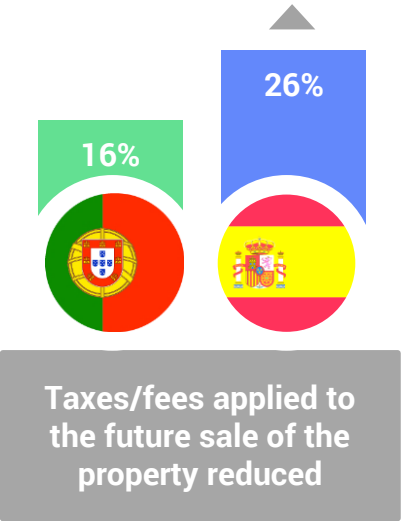
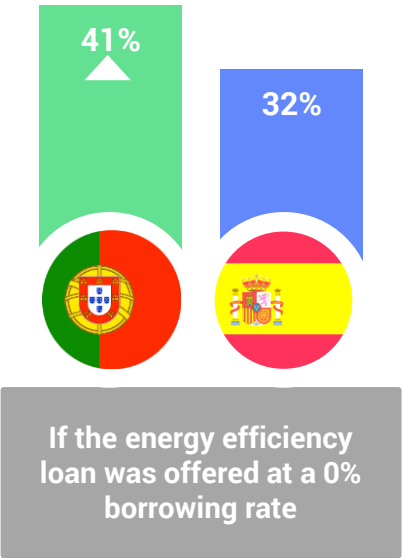
If the energy efficiency loan was offered at a 0% borrowing rate



Taxes/fees applied to the future sale of the property reduced



Significantly higher or lower vs. other market
Significantly higher or lower vs. total



5.

Installation



Finally we'll explore which of the Installation options were most preferred among consumers

**Which installation
option did
consumers prefer?**

**What was the
impact of the
Performance
Guarantee?**

We tested two different installation options in the survey

A

The improvement works would be conducted by one of our accredited, preferred installation partners

Your Energy Efficiency Improvement Loan would be held on your behalf, and paid directly to the installers at key milestones in the project

We would recommend one of our Accredited Installers to conduct the improvement works on your property, and we would manage the improvements on your behalf / The preferred installer would provide you with a clear price for the works which would be guaranteed

Upon completion of improvement works, the preferred installer would provide you with a revised Energy Performance Certificate. This would indicate the improved energy rating for the property

B

You would manage the installation of the improvement works yourself

The Energy Efficiency Improvement Loan would be paid directly to you, and at the end of the work you'd provide evidence of completion i.e. final invoices, and a new Energy Performance Certificate indicating the improved energy rating for the property

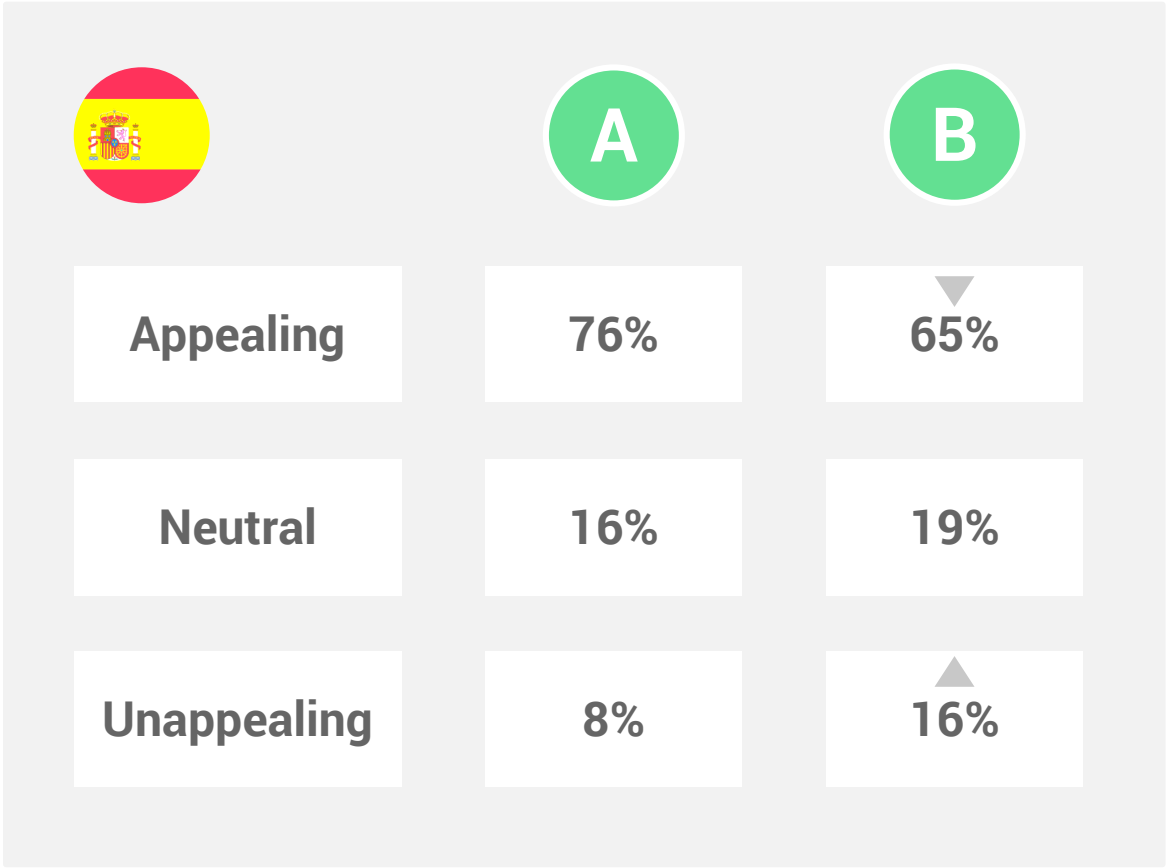
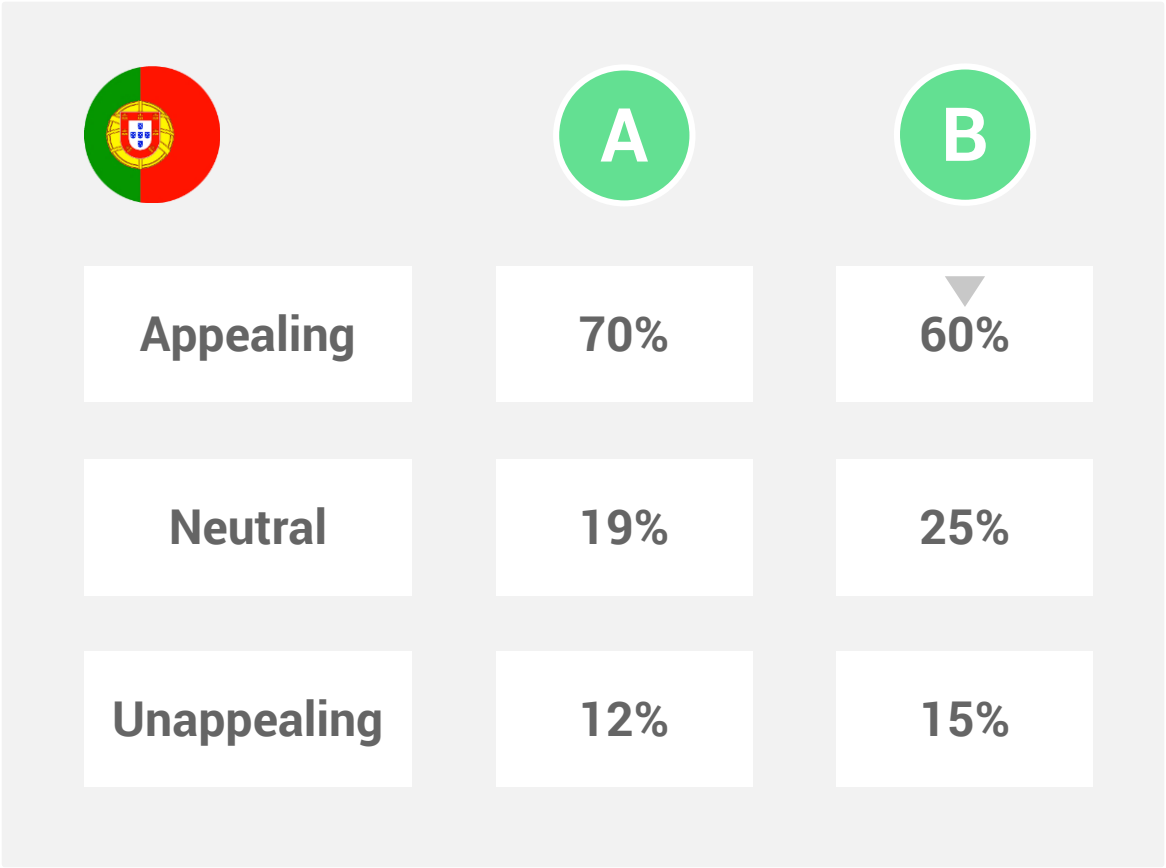
You would choose installer(s) and would be responsible for managing the improvement works yourself

NB. the installers you choose must be certified to carry out the agreed energy improvement measures e.g. if installing a new energy efficient boiler, the installer must have the relevant Gas Safe certification

NB. We tested the Performance guarantee separately

Both installations have appeal to those not opposed to the Green Mortgage proposition, with the installation partner the stronger of the two

Appeal of Installation options A & B
All who find Green Mortgage appealing / neutral



Across all markets, keeping costs in check and ensuring the quality of the works are key factors when considering both installation options

Why do you find it appealing?
All who find installation option appealing

Top 3 reasons

A

Consistent across both markets
Reasons are mirrored across the two options

B

The quality of the installation is guaranteed
(because the installer is recommended)



Having more control and flexibility because I can manage the installation myself

The cost of the installation is guaranteed
(and I wouldn't need to worry about additional costs building up)



I would have more control over the cost of the installation

Not having to worry about which installer to use
(because the installer is recommended)



The quality of the installation is guaranteed
(because I can pick myself from an accredited list of installers)

Next we introduced the performance guarantee

If Option A chosen

We would guarantee the improvement works would make your property more energy efficient

As the installation works would be managed by one of our Accredited Partners, the quality of the installation would be guaranteed. This means we'd *guarantee* the improvement works would make your property more energy efficient. If the works did not improve energy efficiency, you would be eligible for financial reimbursement.

If Option B chosen

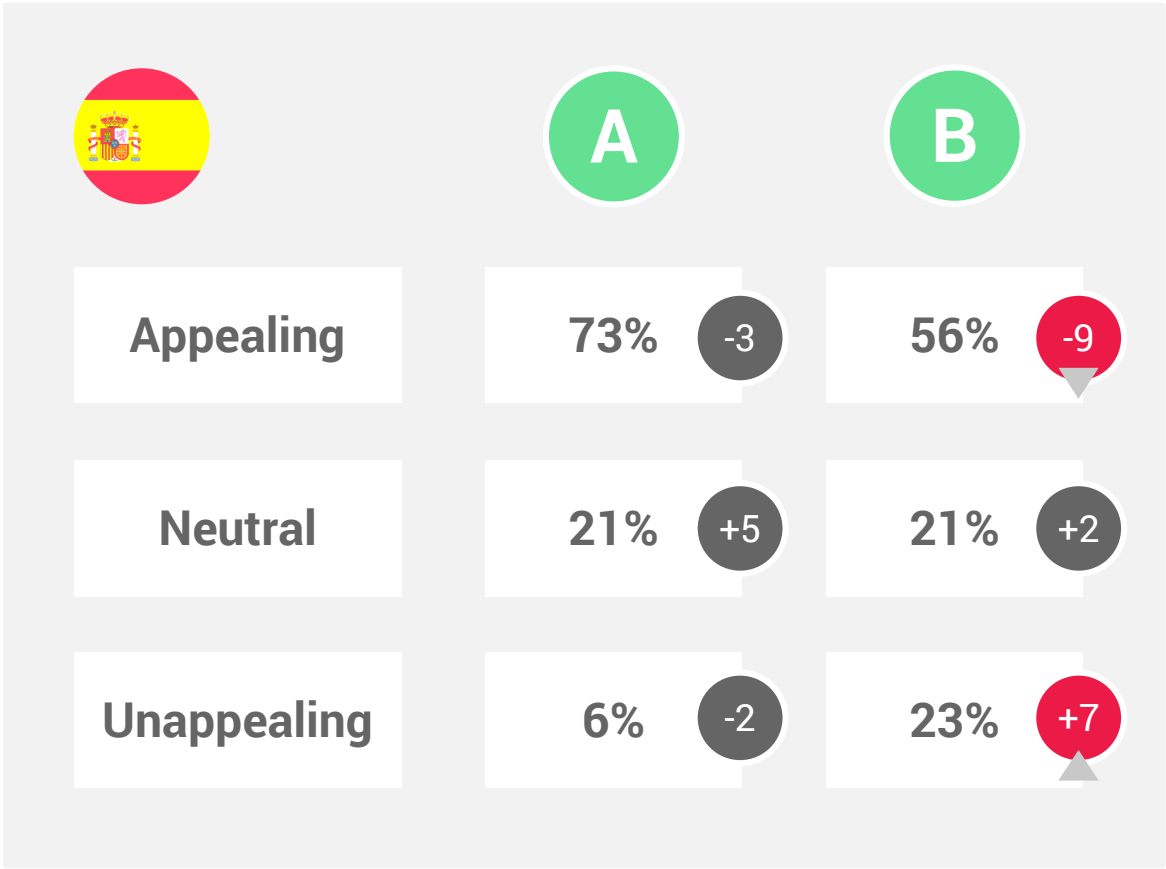
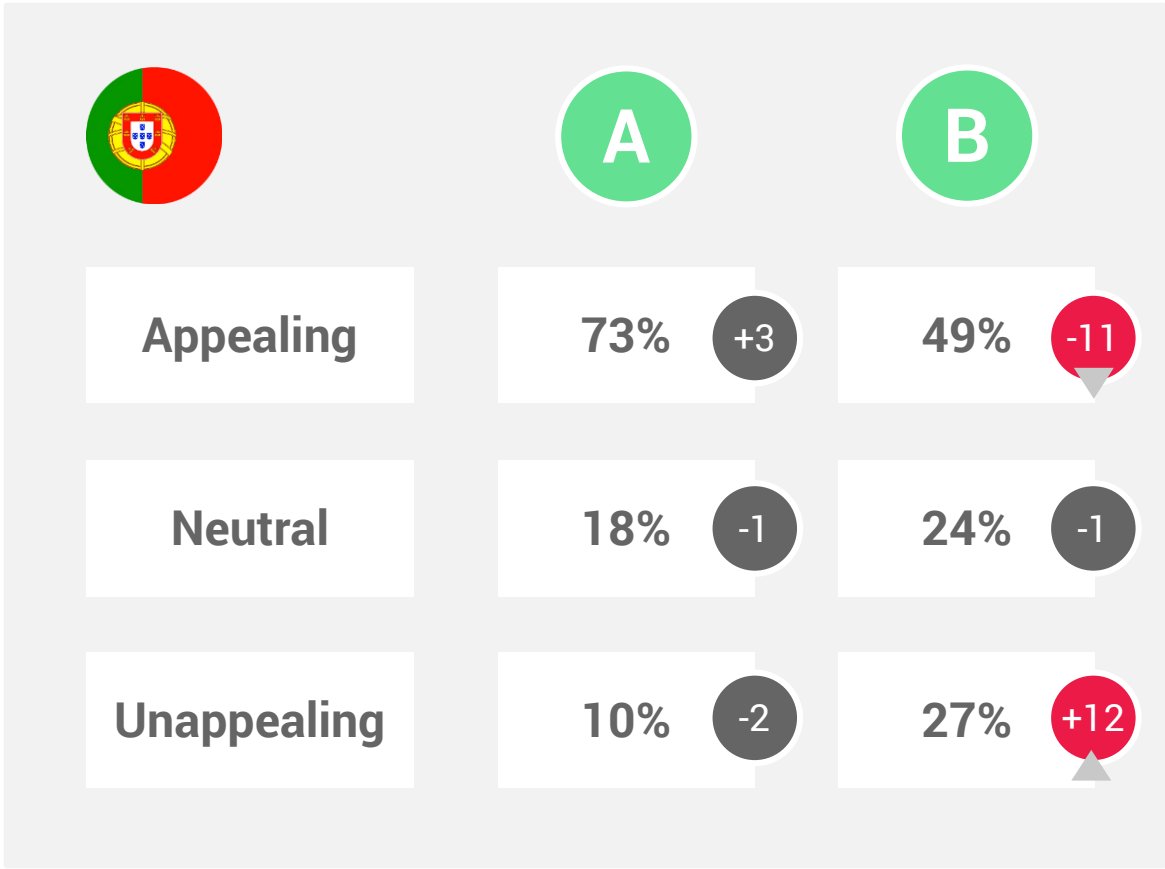
You would take out insurance yourself to guarantee the works make your property more energy efficient

As you would be managing the installation works, you would also be responsible for the quality of the installation. As part of this, your lender may require you to take out insurance (small monthly payment), to guarantee the improvements works would make your property more energy efficient. This is to protect against the event in which your improvement works did not improve the energy efficiency of your property.

We then asked if people still found the installation option appealing...

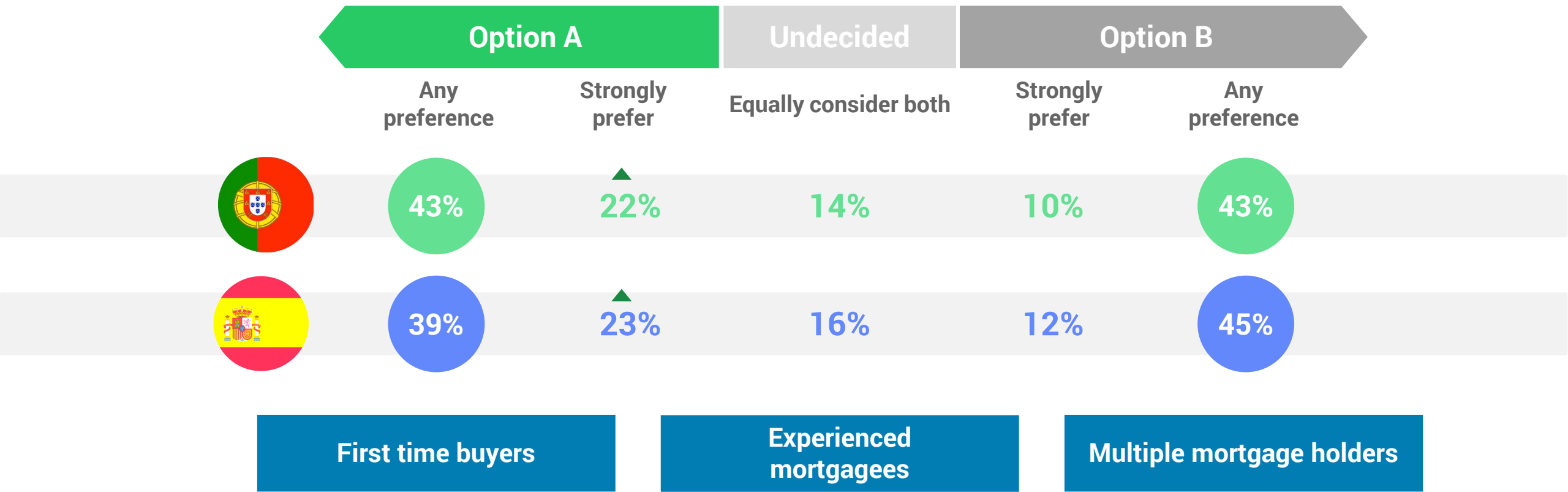
The Performance Guarantee serves to significantly decrease the appeal of the self-managed option, which can exist without the insurance

Appeal of performance guarantee
All who find Green Mortgage appealing / neutral



When faced with a choice, there is stronger preference for Option A in both markets, driven by first time buyers, among those who are open to the Green Mortgage

Preference – Option A vs. Option B
All who find Green Mortgage appealing / neutral



First time buyers

Experienced mortgagees

Multiple mortgage holders

6.

The Tiered Green Mortgage



In additional to the Green Mortgage we also tested reaction to a tiered mortgage product...

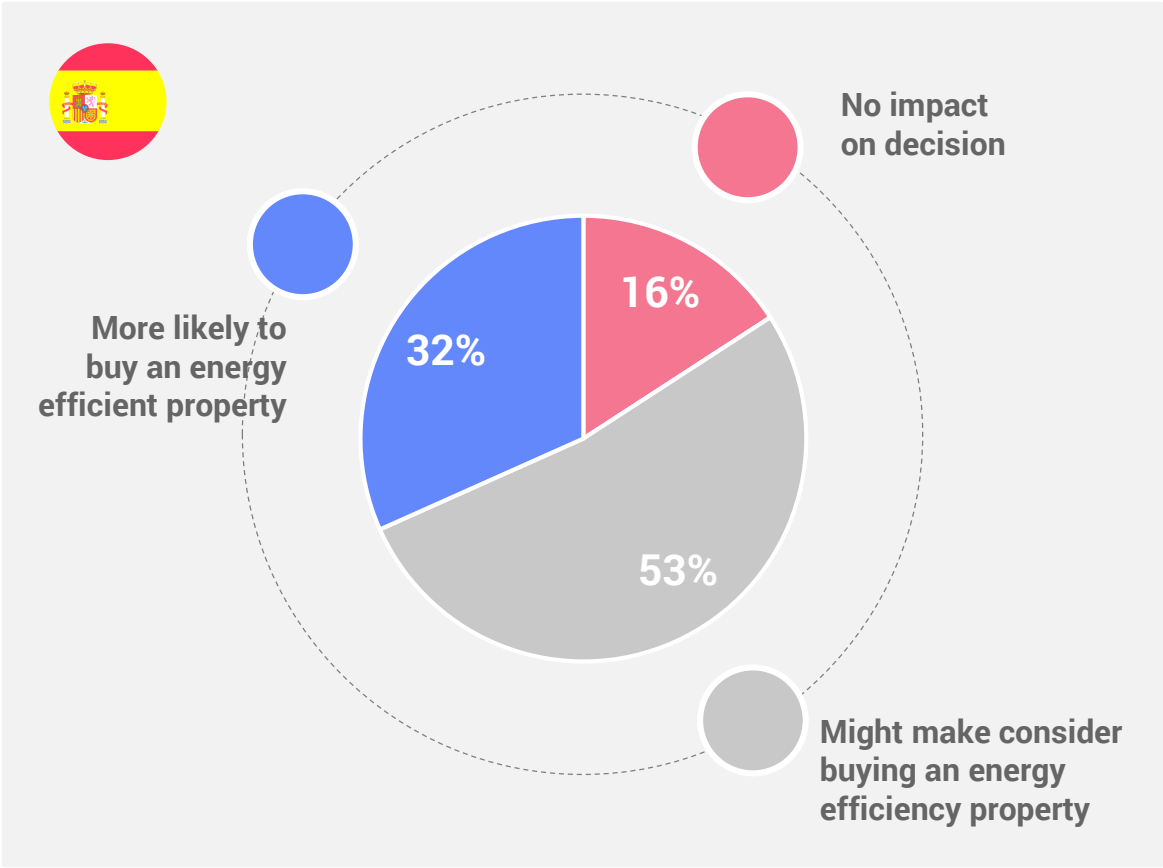
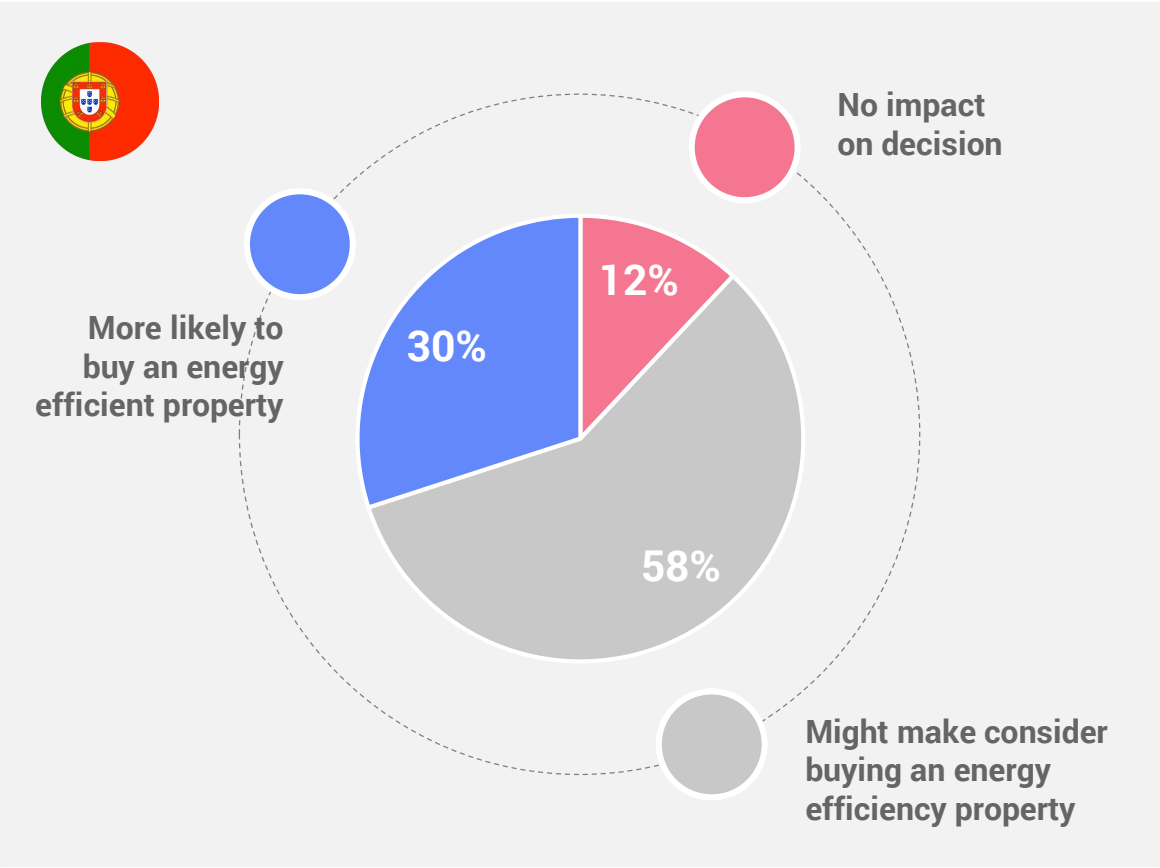
Introducing the Tiered Mortgage

In the future, the Green Mortgage may be available on properties which are already energy efficient e.g. new build, or an older property with Energy Performance rating of A, B or C rating. The Green Mortgage would be offered with a mortgage discount of up to -0.1%

If this Green Mortgage was available as above, to what extent would it impact your decision on which property to buy?

The Tiered Green Mortgage has the potential to impact the choice of property for around a third, and only has a limited proportion of consumers rejecting its influence in both markets

Impact of Tiered Green Mortgage on decision to buy an energy efficient property
All respondents



Final summary and recommendations



Is there appetite for the Green Mortgage in Portugal and Spain?



There is a **sizeable level of appeal** for the Green Mortgage proposition in both markets, with the greater potential being in Spain



When faced with a choice between this and a conventional mortgage, there is still **scope for a Green Mortgage proposition**, and there is a large proportion who are undecided in Portugal



Although generally clearly understood, **clarity could be improved in Portugal** – the key here is communicating the benefits, which should also improve relevancy



The appeal of the Green Mortgage is **reinforced by the prospect of an energy partnership** which may also add further credibility

How should the Green Mortgage be communicated to maximise impact?



The most compelling reason for taking out a Green Mortgage are the **long-term savings**, which will be crucial to communicate to prospective buyers



Other areas that will also be important to communicate are the **lower interest rates**...



...and **saving on energy bills** is another factor that is driving appeal for the Green Mortgage



Not wanting / cannot afford an additional loan is the biggest barrier for those who find the proposition unappealing (esp. in Portugal) - highlight long-term savings to address this

What benefits and assurances are most attractive to prospective consumers?

Most attractive benefits



No product application fees



€500 cashback
(especially in Portugal)



Preferred installation partners
(Option A – esp. for first time buyers)

Government Assurances



**Rebate on the taxes / fees you paid
when you bought your property**
(especially for first time buyers)



0% interest on loan
(especially in Portugal)

Appendices

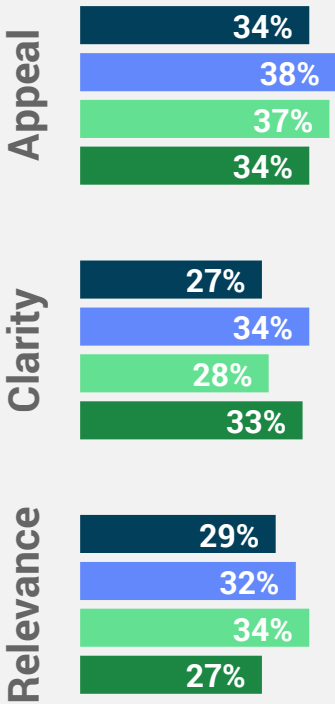


Gender and family life-stage

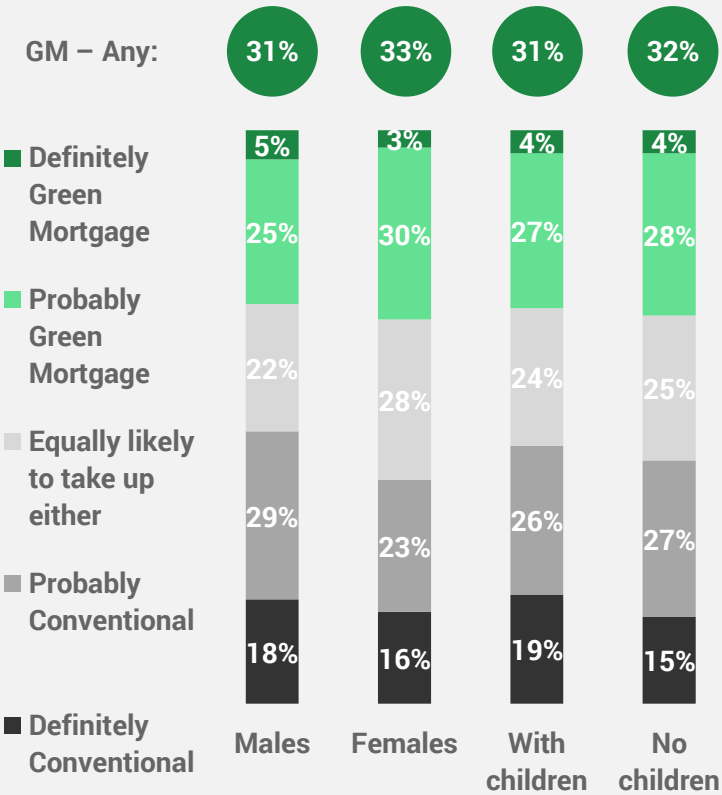


Agreement (6-7 on a 7 point scale)

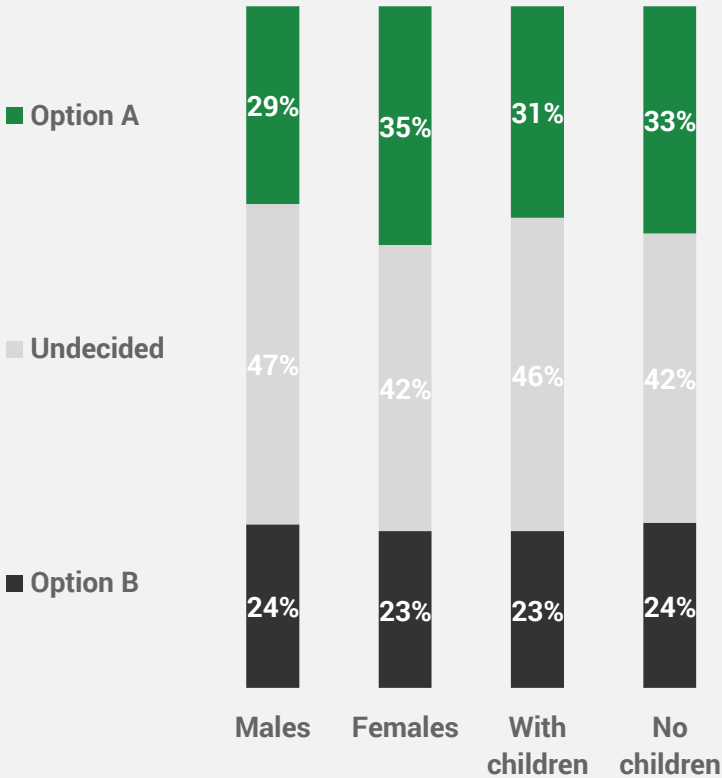
■ Males ■ Females ■ With children ■ No children



Preference: Green Mortgage vs. Conventional Mortgage



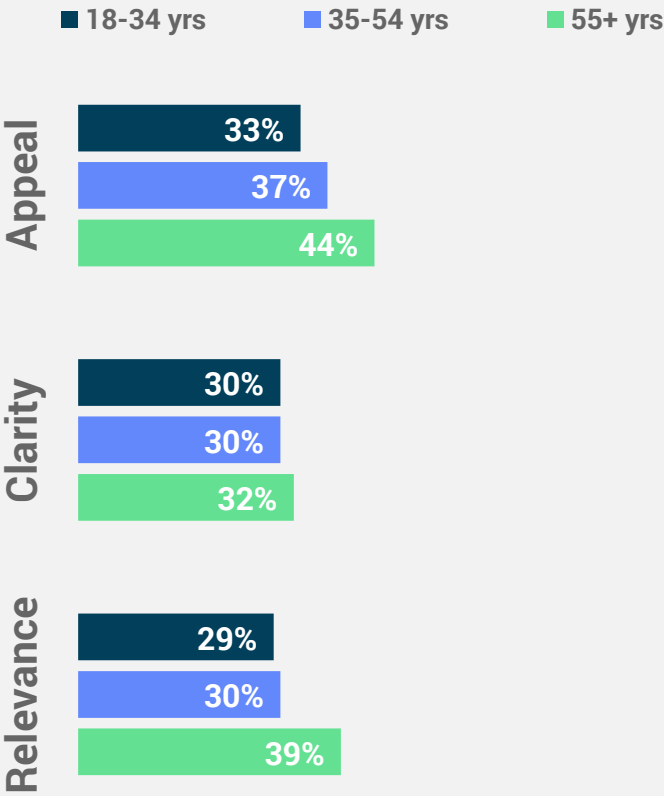
Preference: Installation Option



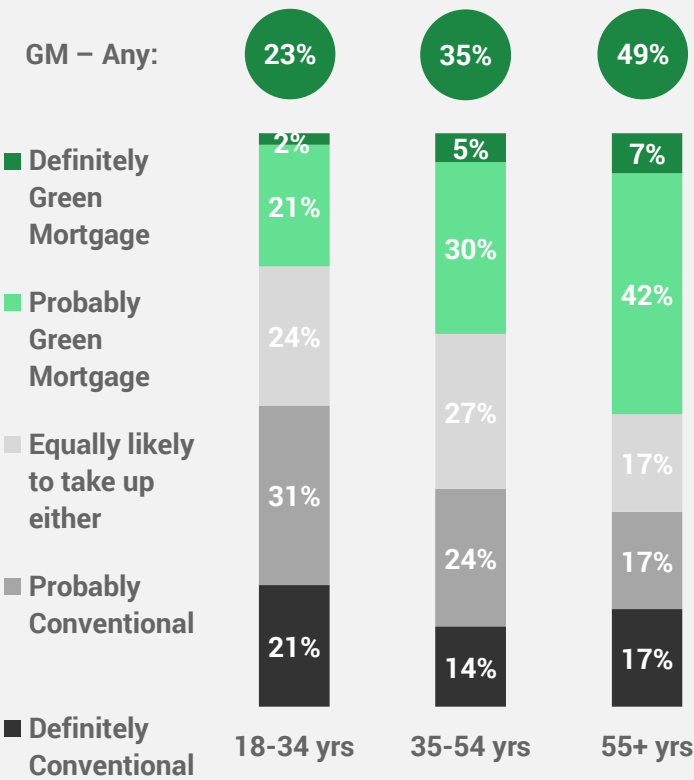
Age groups



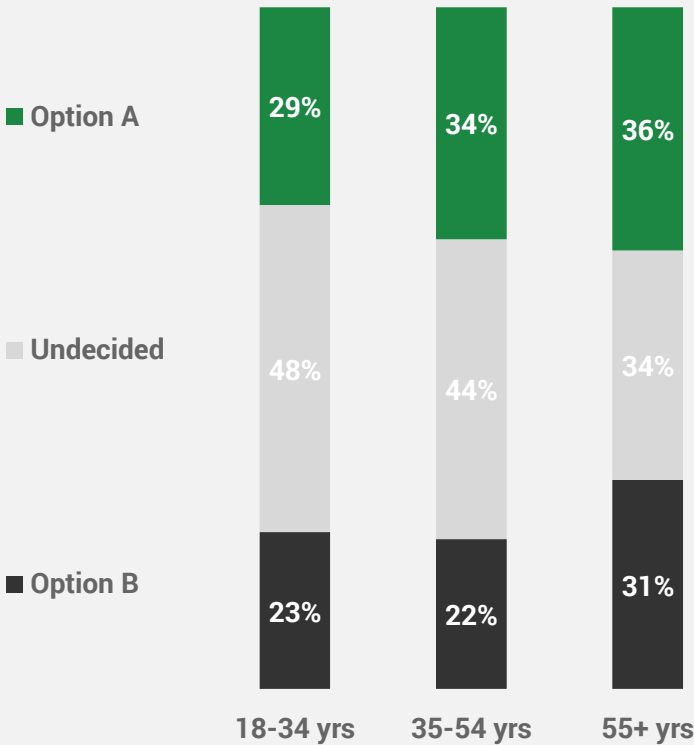
Agreement (6-7 on a 7 point scale)



Preference: Green Mortgage vs. Conventional Mortgage



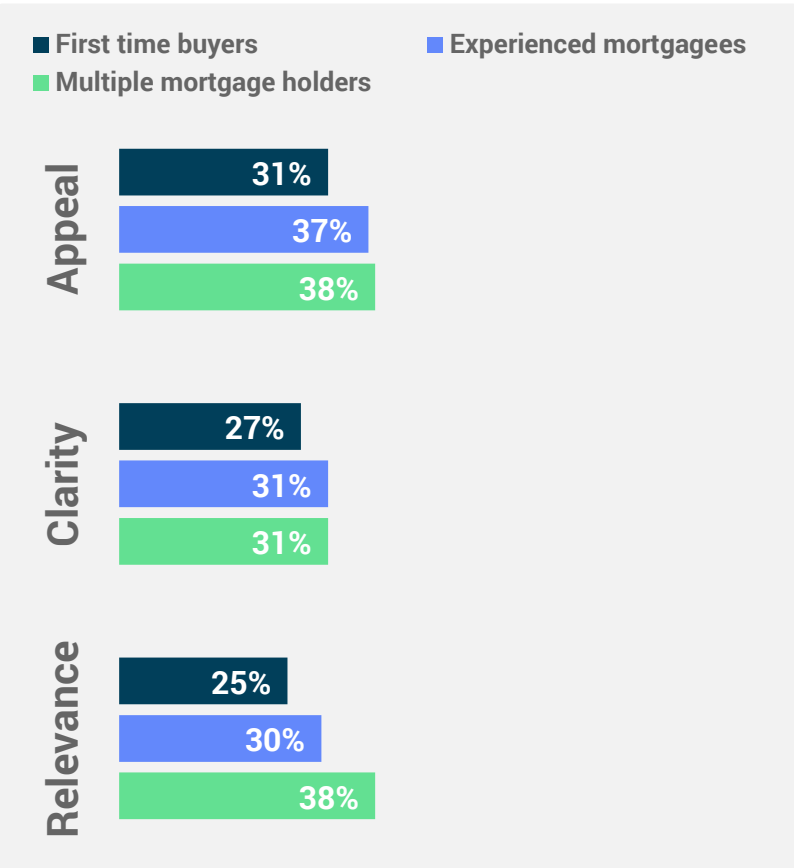
Preference: Installation Option



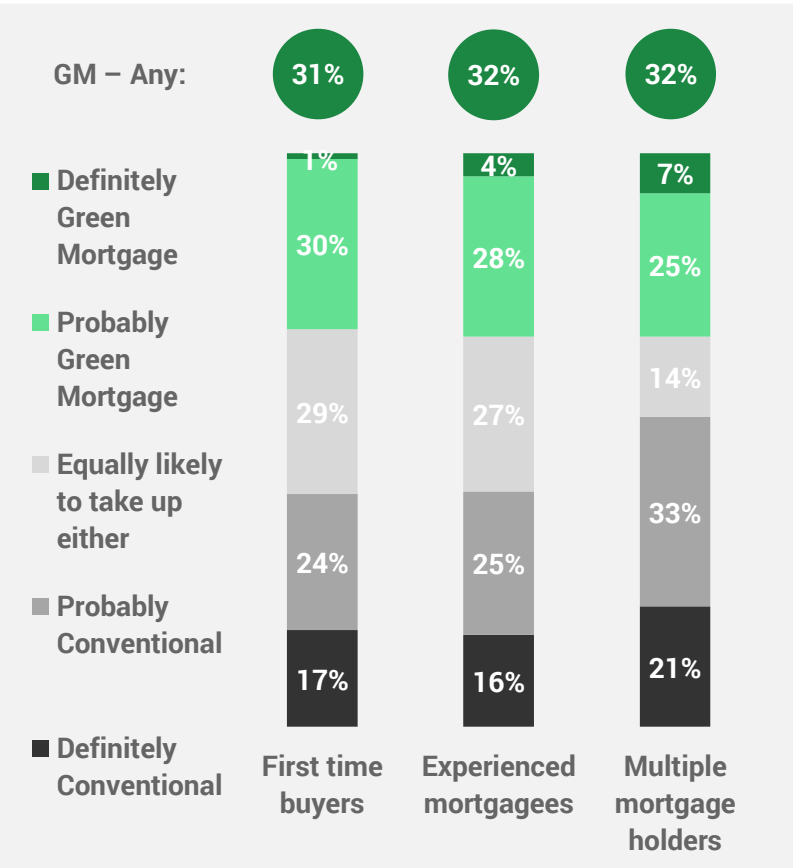
Mortgage experience



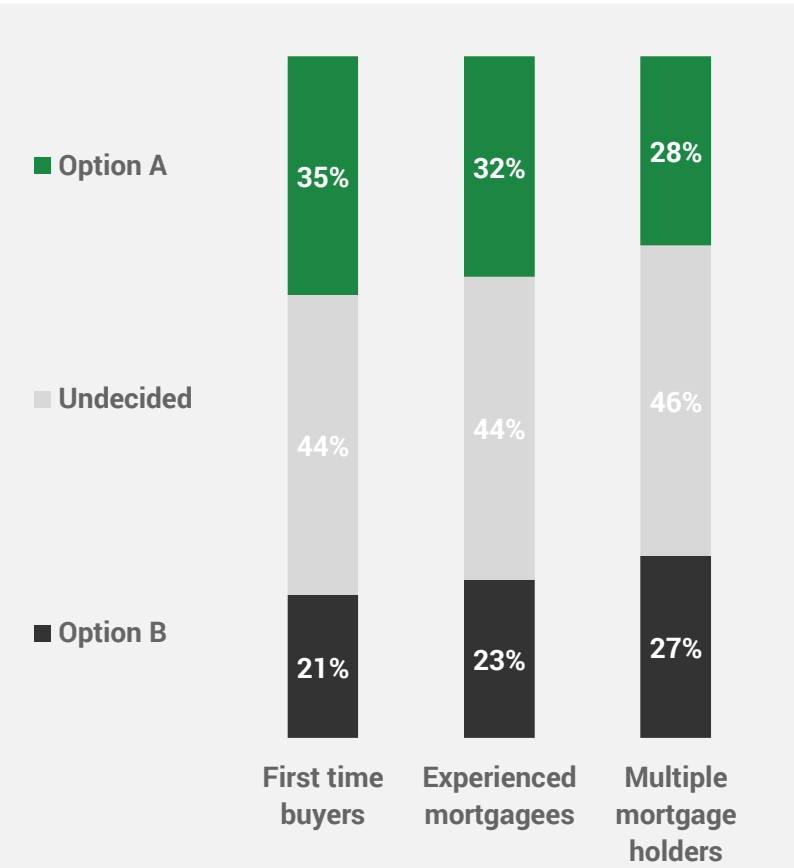
Agreement (6-7 on a 7 point scale)



Preference: Green Mortgage vs. Conventional Mortgage



Preference: Installation Option

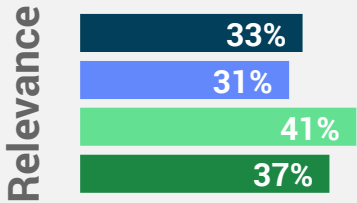
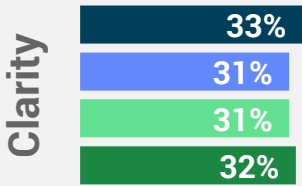
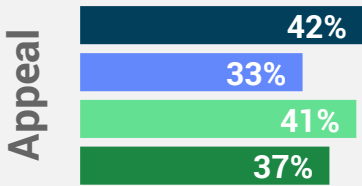


Property value and household income

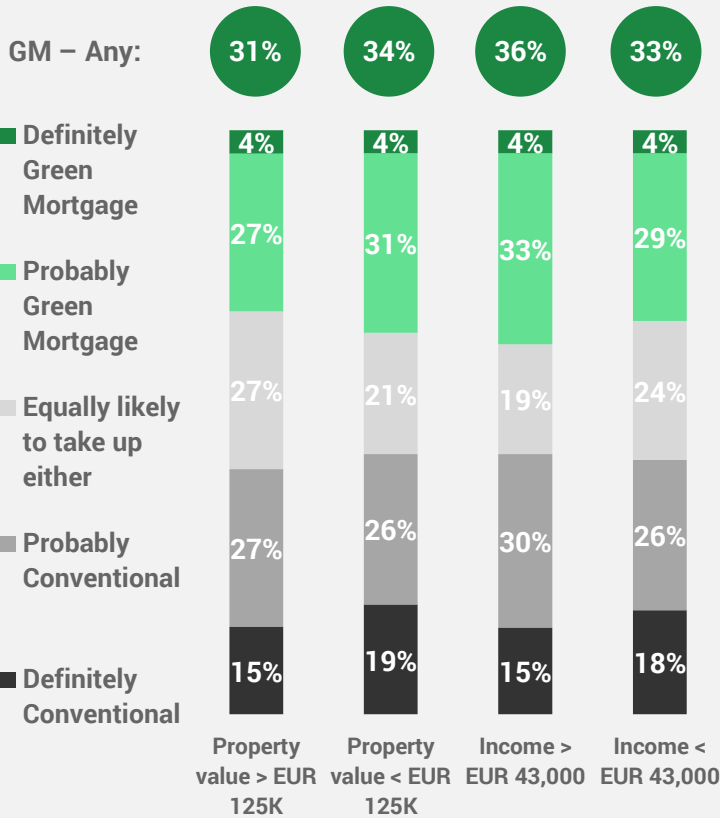


Agreement (6-7 on a 7 point scale)

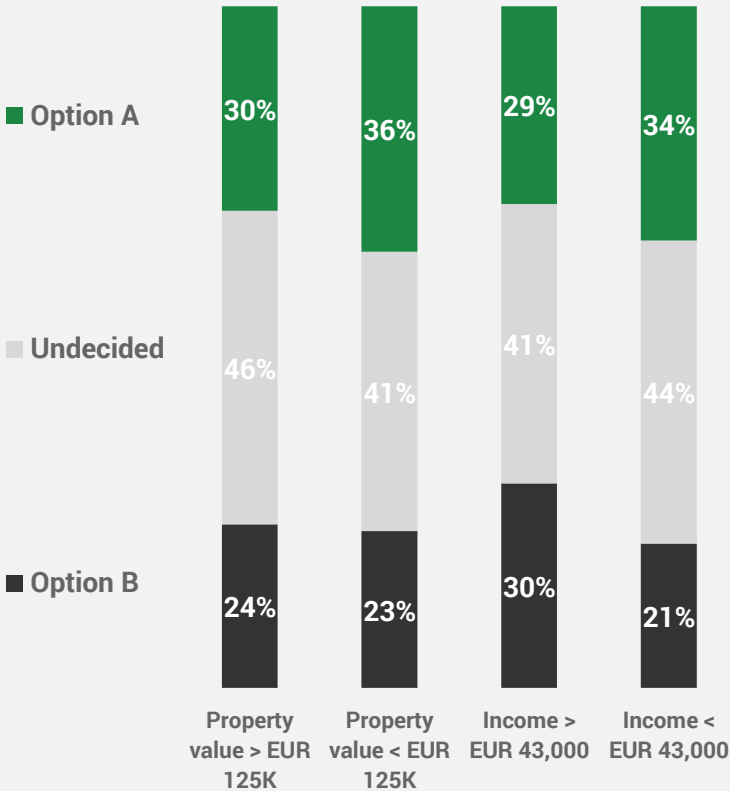
■ Property value > EUR 125K ■ Property value < EUR 125K
■ Income > EUR 43,000 ■ Income < EUR 43,000



Preference: Green Mortgage vs. Conventional Mortgage



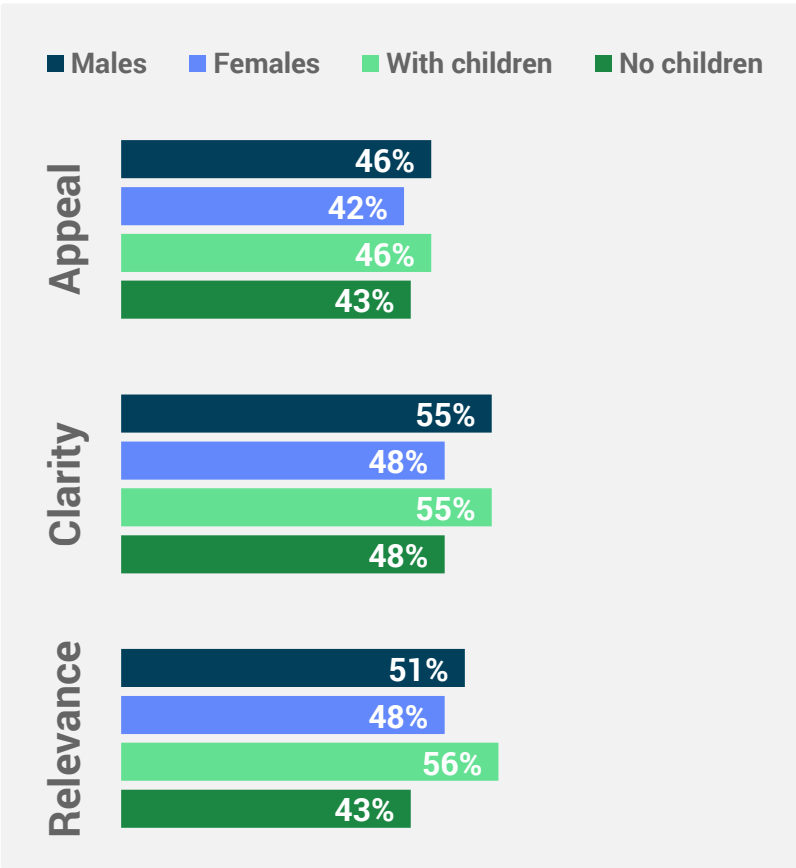
Preference: Installation Option



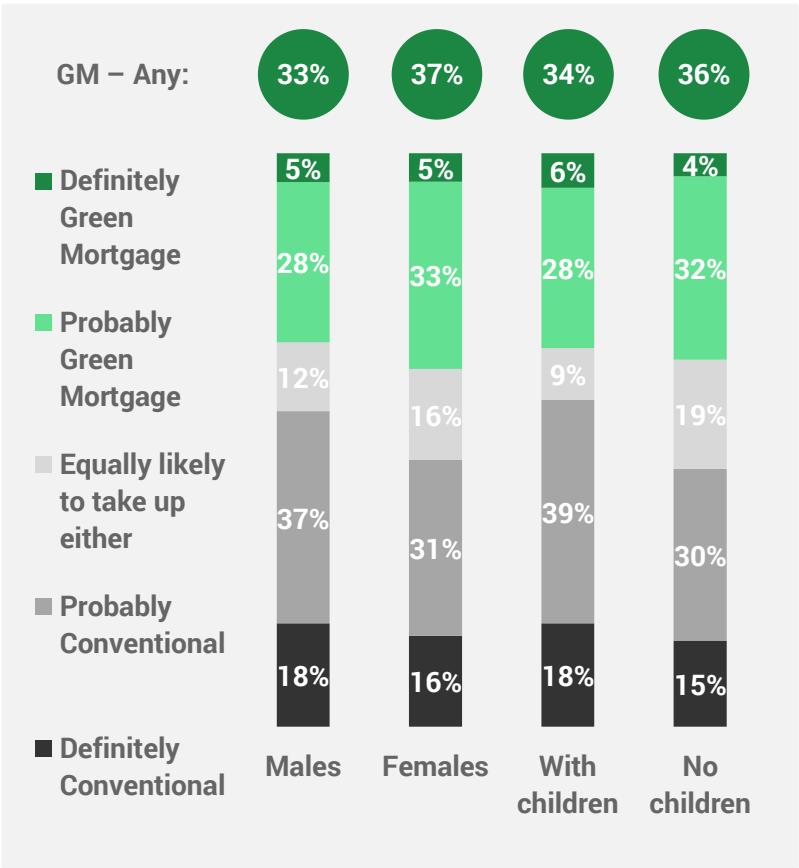
Gender and family life-stage



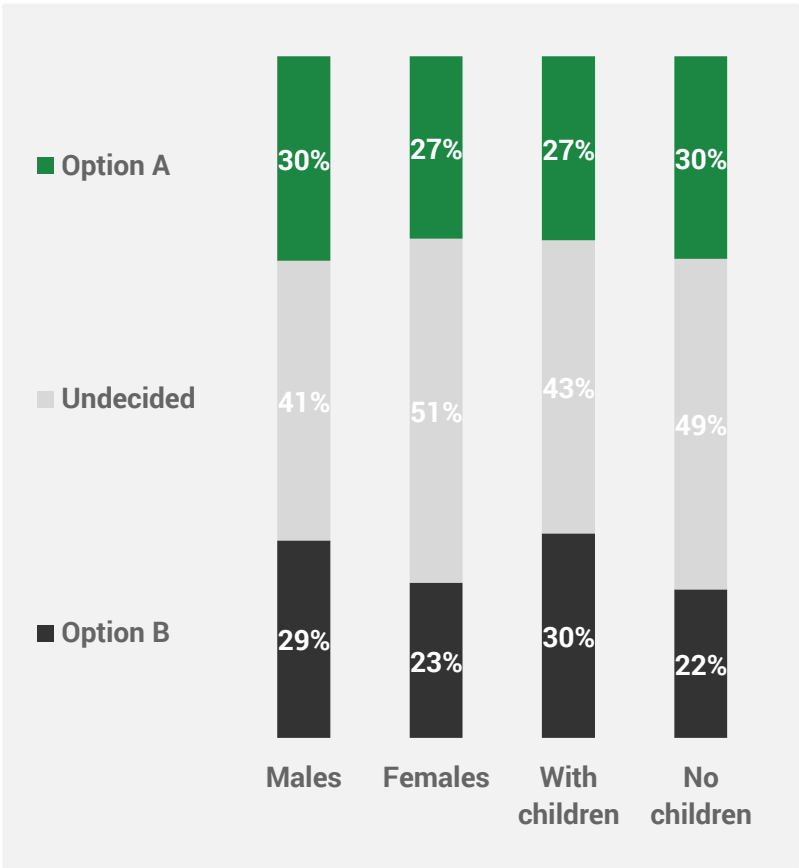
Agreement
(6-7 on a 7 point scale)



Preference: Green Mortgage
vs. Conventional Mortgage



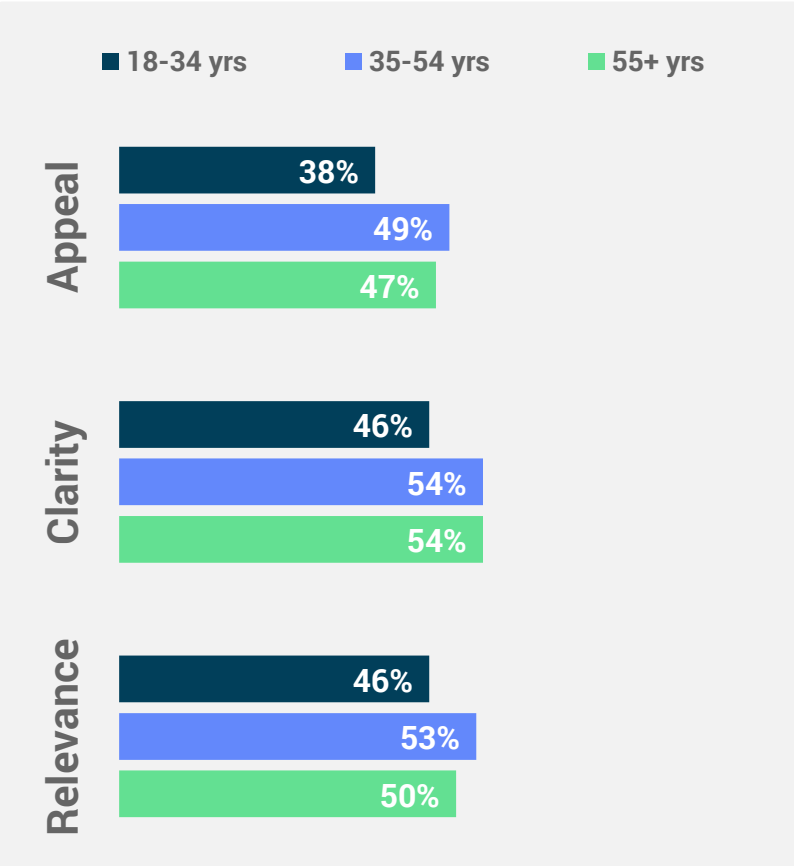
Preference: Installation Option



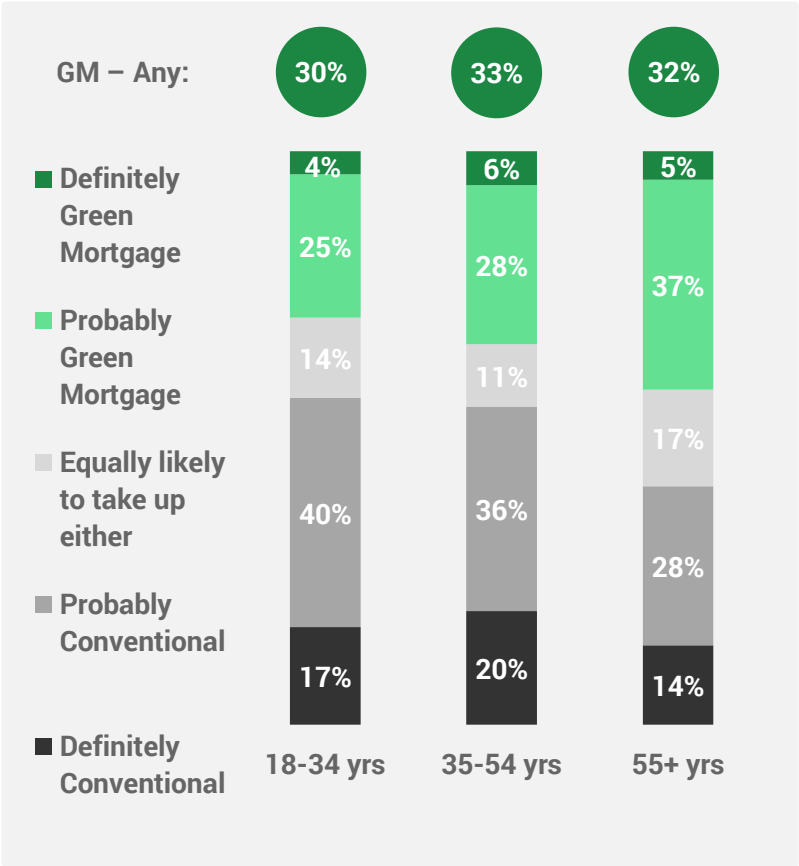
Age groups



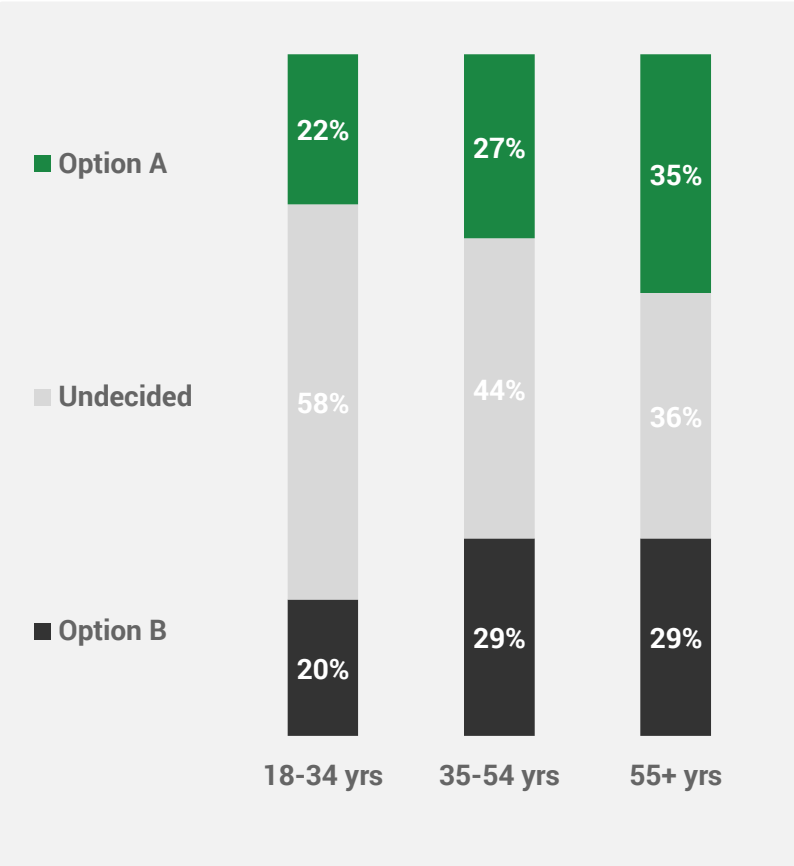
Agreement (6-7 on a 7 point scale)



Preference: Green Mortgage vs. Conventional Mortgage



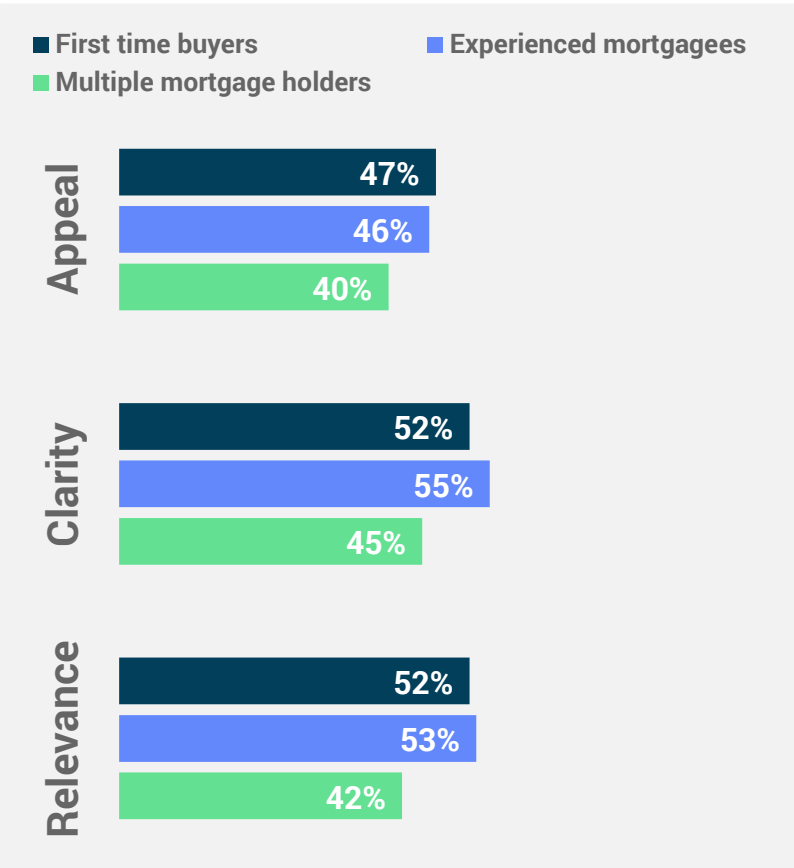
Preference: Installation Option



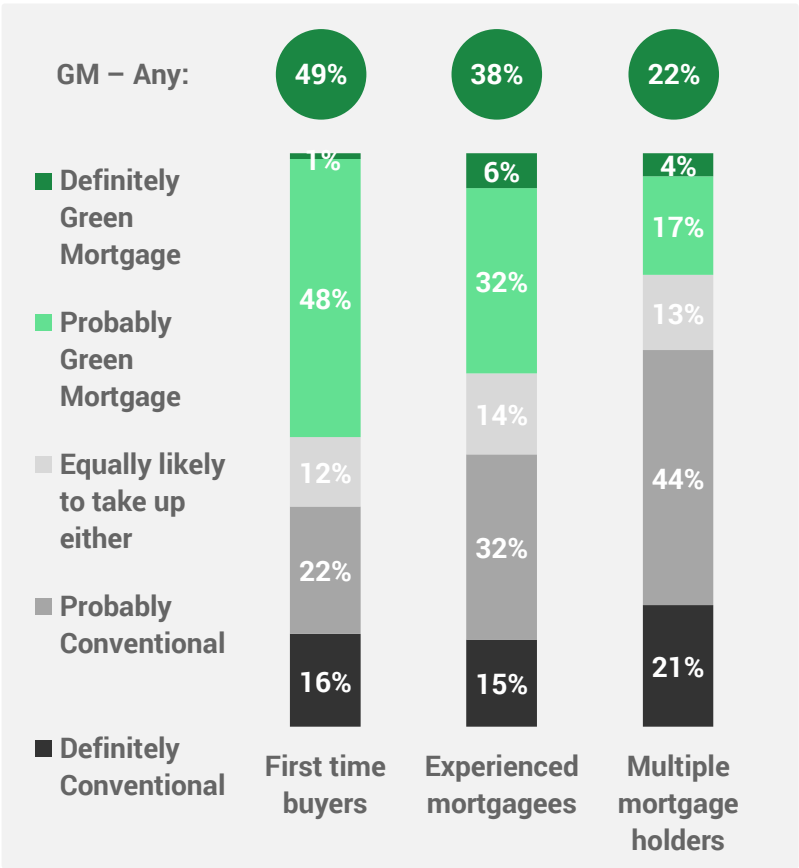
Mortgage experience



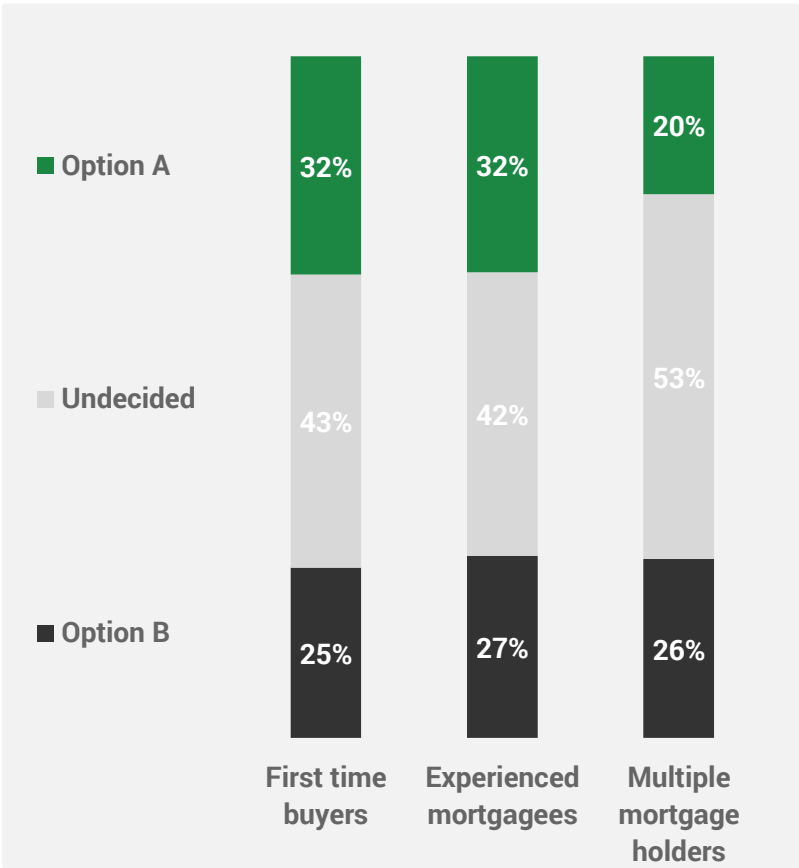
Agreement (6-7 on a 7 point scale)



Preference: Green Mortgage vs. Conventional Mortgage



Preference: Installation Option

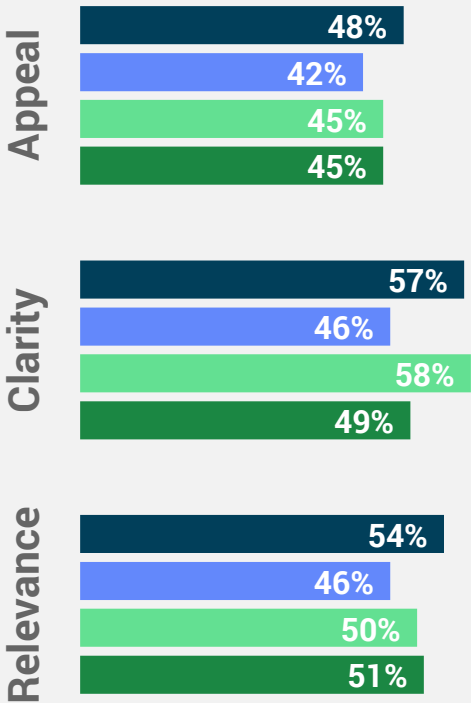


Property value and household income

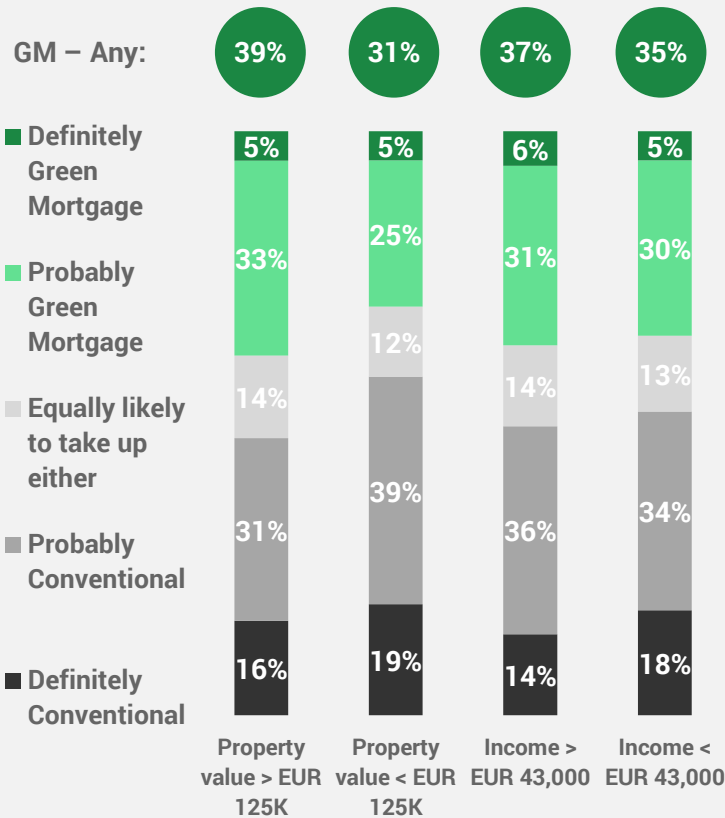


Agreement (6-7 on a 7 point scale)

■ Property value > EUR 43,000 ■ Property value < EUR 43,000
■ Income > EUR 125K ■ Income < EUR 125K



Preference: Green Mortgage vs. Conventional Mortgage



Preference: Installation Option

