Atlanta Gas Light 2015 SGA Marketing Excellence Award Submission

High-Rise Multifamily Program

Program Summary

Atlanta Gas Light (AGL) and other southern U.S. natural gas utilities have historically struggled to capture market share in high-rise multifamily buildings. Several factors dissuade developers from using natural gas equipment in multifamily units. Gas piping and venting add significant first cost to the project. Also, when tenants pay the energy bills, lower operating costs for gas equipment are not realized by the developer. To add to the decision complexity, there are many parties involved in the design and construction of high-rise projects and all have different agendas. Architects, engineers, renters, property managers and developers all must be sold on the concept of natural gas to overcome the “business as usual” total electric mantra that has dominated this market segment.

To capitalize on this opportunity for new margin growth, AGL revamped its multifamily program in 2014, and in its second year, built upon initial success to “move the market” towards making natural gas equipment standard in high-rise developments. AGL put in place a multifaceted approach which addresses all decision makers. A “lunch n’ learn” program was created to educate architects and engineers about the advantages of natural gas while developers received statistics around consumer preferences for natural gas equipment and financial incentives to offset the first cost disadvantages.

Consumer preference was addressed by creating a four-episode “High-Rise Living” television series showcasing multifamily developments with gas equipment. Also, AGL created an apartment/condo page on its website to include an interactive map with new multifamily developments utilizing natural gas. Through past experience, we learned that we must also address the local building code officials and the mechanical, plumbing and general contractors that work on these projects. Since the contractors are accustomed to total electric construction, they initially overbid projects that included gas out of fear or ignorance. By organizing contractor-only meetings and partnering with gas equipment manufacturers, we were able to address the contractor concerns and began receiving competitive bids for projects that included natural gas equipment. Additionally, we educated City of Atlanta building inspectors on how modern natural gas equipment operates and made sure that we understood their interpretation of codes so that no last-minute emergencies would show up late in the construction phase. Through these combined efforts, AGL secured contracts to serve 33 new developments totaling 4,730 individual units since the program was launched in 2014. Of the total, 2,674 units were committed in 2015-2016.

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<tr>
<th>Key Results</th>
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<td>4,370 customers added</td>
<td>More than $500,000 in annual revenue</td>
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<td>Four 30 minute “High Rise Living” TV segments shot and aired</td>
<td>Multifamily contractor alliance formed and bid estimate produced</td>
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<tr>
<td>Multifamily web page created</td>
<td>Architect and engineer lunch-n’-learn Program created</td>
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Situation Overview

Multifamily/mixed-use continues to be the fastest growing new construction market segment in metro Atlanta. The multifamily market explosion is driven by the millennial generation’s desire to live and work in walkable communities close to public transportation. The slowly growing single family home market, tighter lending restrictions and an uncertain job market has provided an additional spark to the apartment boom. Millennials are getting married and buying homes later in life, often spending 5-10 years renting. Traditionally, apartments have been total electric, making long-time renters less likely to be familiar with natural gas appliances when they purchase their first home. To realize the immediate revenue opportunities in new multifamily developments and to secure our future by familiarizing the millennial generation with the advantages of natural gas appliances, AGL analyzed the market and put together a successful marketing strategy. The most obvious challenge for natural gas in a high-rise project is first cost. Natural gas equipment, risers, and venting add substantial cost to a building. In commercial buildings and single family residential, owners are willing to take on this additional cost because they will receive quick payback in the form of energy savings. In multifamily, units are rented out and utility bills are typically paid by the tenant. Since bills in modern high-rise buildings are low due to a number of factors, and most tenants aren’t educated on the advantages of gas, there was little tenant demand for natural gas HVAC and plumbing equipment. By conducting our own focus groups and acquiring third party market surveys, AGL learned that natural gas cooking is a recognizable high-end product that consumers prefer. By showcasing these findings, we found that developers were more willing to listen to offers centered on making the installation of natural gas cooking more reasonable. We initially found that when developers requested gas, designers and contractors would overbid those projects to force them back to total electric.

Understanding of Customer/Market Need

The current multifamily boom in the Atlanta market is driven by “luxury” high rise apartments. The Atlanta Business Chronicle estimates that metro Atlanta will add more than 20,000 multifamily units between 2014 and 2018. This represents a potential revenue growth between $2-3 million per year for AGL. Since it is extremely difficult to retrofit gas into an existing high-rise, it is imperative that AGL secures this commitment during initial design and construction. To do this, AGL must promote natural gas use to developers, and those that developers contract to design and build their projects. Developers are looking for ways to distinguish their properties from that of their competition and maximize return on investment. Natural gas cooking is a high-end feature that can draw attention to their project and help them extract more rent per square foot. Though developers are aware of the appeal of natural gas cooking, it has rarely been included in apartments due to the high cost of running gas lines to each unit and the perception that they will not get a favorable return on their initial investment.

To understand our opportunity in this market, we first had to quantify the per unit premium that a developer should expect to pay when including natural gas in a 10-20 story high-rise. Since there are no published numbers specific to the Atlanta market, we had to uncover this information on our own. We soon found that simply bidding a total electric building with an alternative design that included natural gas gave the developer an inflated cost premium. The contractors were overbidding the plans which
included natural gas equipment in order to force the developer back to the plans with which they were familiar. To counter this issue, AGL educated general, mechanical, and plumbing contractors and organized a team of “pro-gas” contractors that would bid projects fairly. These contractors put together a “sample bid letter” (see “multifamily bid letter” attachment) which we used to show developers how much including gas “should” cost. This letter also spurred other contractors to bid more fairly with the knowledge they could lose the project to other bidders. From late 2013 to mid-year 2014, we experienced a drop of 50 percent in the per-unit premium for natural gas equipment in high-rise multifamily units. With this huge drop in cost, AGL could better compete in this space.

Innovation

For several years, AGL has offered incentives to promote the use of natural gas equipment in multifamily projects with little or no take rate. Even when a developer or MEP engineer expressed interest in designing gas into a project, other decision makers like the general contractor or architect quickly shot the proposal down in favor of traditional total electric design. For years, AGL only offered a one-size-fits-all “three burner tip” incentive package. For a project to receive an incentive, they would have to install natural gas cooking, heat and water heat in each unit. It became clear that multifamily developments could not simply be “bought” with a one-size-fits-all approach, and our multifamily strategy had to evolve. AGL found success by taking a hands-on comprehensive approach to the market. Each decision maker was engaged individually to make sure he or she fully understood the advantages of natural gas equipment, how to design a building to minimize cost, and how reduced electrical load offsets some of the cost incurred when natural gas is installed. The marketing campaigns AGL designed for each niche within the multifamily market are listed below.

Architects and Engineers: A lunch n’ learn program with AIA certified presentations was used to educate A&E’s on the economic, environmental and technological advantages of natural gas appliances. (See “AIA lunch n’ learn” attachment) The focus was on firms which specialized in multifamily design over firms with a more diversified portfolio. The lunch n’ learns highlighted methods to reduce first cost, like using hydronic air handlers with tankless water heaters for HVAC and placing equipment rooms on outside facing walls. The presentation also showed how consumers preferred the comfort and convenience of natural gas appliances. By holding these presentations in the offices of A&E firms, AGL not only educated the members of that company, we also created relationships that could later be leveraged.

Developers: AGL met directly with developers, educating them on consumer preference for natural gas cooking and the incentive packages that AGL offers. AGL evaluates each project individually, offering incentives based on the type and number of natural gas appliances in each unit. Most incentive packages were centered on natural gas cooking, the most desirable value add for developers. AGL only offered incentives that produced suitable payback thresholds. AGL also offered developers an opportunity to be featured on the “High-Rise Living” television series AGL sponsored. This program showcases multifamily developments in metro Atlanta and provides developers free advertising (see “high rise living” videos in supplemental materials).
Contractors: Contractors were made aware of our commitment to the market and were educated on proper installation techniques for modern natural gas equipment like tankless water heaters. Contractors who understood how to properly install natural gas equipment and how to correctly price projects were introduced to developers and encouraged to bid on projects that were designed to include natural gas. This brought down price premiums we had seen in the past by a large margin.

Consumers: AGL has created demand for gas cooking, water heat and space heat in the consumer market. By showcasing new developments on the “High-Rise Living” television series and by creating a “multifamily” page on our website [https://atlantagaslight.com/residential/apts-condos](https://atlantagaslight.com/residential/apts-condos), AGL is educating consumers on the advantages of natural gas, and creating demand with a “keep up with the Joneses” competitive environment among developers. The multifamily web page includes an interactive map that allows consumers to view all of the new developments that have incorporated natural gas.

AGL Multifamily interactive map screen shot:

![Luxury Intown Living with Natural Gas](image)

**Execution**

There are several developers that specialize in multifamily projects within the Atlanta market. By focusing on these groups, AGL learned about projects before plans were finalized and design firms were hired, allowing for increased time to plan our sales effort. By getting involved early, AGL’s odds of winning the project increased exponentially, since it is difficult to displace electric equipment once it is...
specified. When AGL learns about a project, ROI is calculated for incentive packages ranging from cooking only, to four-burner tip packages (cooking, space heat, domestic hot water and drying). Depending on costs and developer preferences, negotiations center on one of the incentive packages, and then attention moves to the next group of decision makers. Like developers, design firms tend to specialize in certain types of work. There are 10 architecture firms in the Atlanta market that design 90 percent of the multifamily projects. These firms usually employ one of five different engineering firms for their mechanical, electrical and plumbing design. AGL targeted these groups for their lunch n’ learns starting in 2013 and used the relationships that they created from those visits to ensure that gas was retained in the multifamily designs once developers requested it. Additionally, by maintaining working relationships with these architects and engineers, we learned when developers from out of state were considering projects in Atlanta, since they tend to use local design firms when they work outside of their home market.

AGL then took time to ensure that the contractors understood the importance of properly bidding projects. The mechanical, plumbing, and electrical contractors were brought into the same room to ensure that proper deducts are given for reduced electrical load. Next, AGL worked with the contractors and city building officials to clarify national and local codes regarding natural gas equipment and ensure that there won’t be any added cost during the construction phase not accounted for. In doing this, AGL ensured that costs are accurate, and gas won’t be “value engineered” out of the project. Finally, AGL has consolidated gains in the market by showcasing successes and promoting developments which feature NG equipment. The “High-Rise Living” television series was well viewed, and generated a buzz among developers. Additionally, the inclusion of gas in many high-end projects is moving the rest of the market to gas. Since properties compete with one another for new customers, developers that never considered gas in the past are now utilizing it due to competition and the publicity that the gas-equipped developments are getting. Finally, we publicized these market gains by showcasing projects which include natural gas on our website. This website educated consumers on the value that natural gas equipment delivers and created additional market demand which makes the next sale easier.

**Business Results**

AGL was able to add 23 multifamily developments for a total of 2,674 units in 2015 and early 2016, generating more than $350,000 in annual revenue, plus additional revenue from commercial meters for amenities and makeup air units for common areas in the building. Of note, Georgia is deregulated and AGL does not realize the revenue component of the commodity in these transactions. AGL was able to accomplish this with an average simple payback period of less than five years for cash incentives while requiring a contract length of 10 years. (Building life expectancies of 30+ years). In 2016, AGL is trending to add another 2,000 multifamily units in the Midtown/Buckhead corridor. In addition to the revenue, AGL receives the intrinsic value of familiarizing renters with natural gas cooking, water heating and space heat. This will help the gas industry’s future prospects within the single family home market. Since multifamily is the fastest growing market segment in Georgia, these results represent a huge breakthrough for AGL. We have added dependable long term revenue, and have received a concrete return on our investment.
Closing Statement

AGL should be selected for the SGA Marketing Excellence Award because our strategic initiatives have produced outstanding results in one of the most difficult markets for a southern natural gas utility. AGL learned from past failed strategies, adapted to the marketplace and created a strategy which has produced immediate and significant results. Several natural gas utilities have contacted AGL asking for our multifamily strategy in an effort to emulate our success. This demonstrates that we are an innovator in this field and have achieved success where others have been less successful. In winning these projects, AGL has shaped the attitudes of developers around the advantages of natural gas equipment and has given them a clear picture of the costs and benefits of including these appliances in their projects. AGL has also educated consumers and created customer demand for our product. By doing this, AGL not only has made it easier to secure future projects in our territory, we have helped the natural gas industry’s competitiveness overall.