POSITION PAPER

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Bridging the affordability gap: Social leasing for heat pumps

This paper looks at how social leasing could help overcome the upfront cost of heat pumps, particularly for low-income households. It outlines the concept of social leasing, explores how it could be applied to heat pumps, and identifies potential barriers and solutions.

Barriers to heat pump adoption

Heat pumps, recognised in EU legislation for their potential to decarbonise the heating and cooling sector and for being highly efficient, can drastically **reduce greenhouse gas emissions and help lower dependence on energy imports.**

However, a major barrier to their widespread adoption remains: **affordability**. Both the upfront costs and operational expenses can deter households from making the switch to this clean heating technology. A range of solutions can help address this challenge, including direct grants, reduced VAT rates and improvements to the electricity-to-gas price ratio.

Yet **affordability is not the only obstacle**. Complex decisions, lack of trusted options, and the disruption related to replacing a heating system often deter households from switching, even when financial aid exists.

Choosing a new heating system involves a high cognitive load. Households are asked to compare unfamiliar technologies, assess long-term energy and cost savings, find and analyse available subsidies, and coordinate with contractors. There can be also fear of disruption. Heating systems are essential, and concerns about reliability, installation delays, or the inconvenience of home works can create resistance to change. Together, these factors contribute to decision fatigue. Faced with too many complex choices and high perceived risks, many households default to inaction.

Among the emerging policy responses to overcome those challenges, the European Commission has announced, under the Clean Industrial Deal, that it will develop a **guidance for Member States on social leasing for heat pumps** and other clean technologies[1].

Aiming to feed into this initiative and inform policy-makers, this paper explores the potential of social leasing as an innovative financial mechanism to support the deployment of heat pumps across Europe. By addressing not only the upfront cost but also the complexities of decision-making, coordination, and risk assessment, social leasing can offer a comprehensive solution to the barriers households face when making the switch to clean technologies.

What is social leasing?

Social leasing can be defined as a **publicly supported scheme** that allows low-income households to access clean technologies through affordable **monthly rental payments**, without the need for upfront ownership.

[1] European Commission, *Communication on the Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation*, available at: https://commission.europa.eu/document/download/9db1c5c8-9e82-467b-ab6a-905feeb4b6b0_en

European Heat Pump Association (EHPA)
Avenue de Cortenbergh 120, 1000 Brussels – Belgium
+32 2 400 10 17
info@ehpa.org
www.ehpa.org

A well-known example of this approach exists in the electric vehicle (EV) sector**,** particularly in France, where a national social leasing programme enables citizens to lease EVs at low monthly rates[2].

In the case of heat pumps, this model hasn't been deployed at national level yet. Additionally, there are important differences between EVs and heat pumps that affect how leasing models can be designed. Unlike EVs, which are movable assets, heat pumps are fixed installations. This makes leasing schemes for vehicles easier to manage, as they can be terminated by giving back the vehicle. In contrast, ending a leasing scheme for a heat pump presents more challenges, such as the cost of removing the heat pumps and the transition period to a new heating system, which is an essential service. Because of these factors, the business case for leasing schemes for heat pumps is higher when the equipment is used for its full expected lifetime, typically 15 to 20 years.

Although no national government currently runs a social leasing scheme for heat pumps, some companies are already offering subscription services where homeowners pay a monthly fee covering the cost of the equipment, installation, maintenance and sometimes even the energy use of the heat pump.

The main difference between these offers and a social leasing model is the active involvement of governments, particularly as guarantors of the scheme. However, these innovative business models provide a valuable starting point for exploring how social leasing for heat pumps could be designed and implemented.

How could social leasing for heat pumps work?

The heat pump sector has been exploring ways to address the affordability challenge, particularly the upfront costs that remain a key barrier to adoption. A growing number of market actors, from energy companies and heating and cooling equipment manufacturers to start-ups and specialised service providers, are studying and developing innovative business models aimed at boosting demand.

These **for-profit innovative financing models** often involve **partnerships between technology providers, utilities, energy distributors, and service companies.** Depending on how the scheme is structured, particularly who finances the heat pump and how costs are passed on to the end user, these models, if well designed, can **reduce capital costs, operational costs, or both** for the end user.

In this context, social leasing for heat pumps could follow the structure of the **heat pump subscriptions models,** where homeowners pay a monthly fee covering the cost of the heat pump, as well as the installation and ongoing maintenance. In some cases, this model also includes the energy use of the heat pump.

The key difference between the heat pump subscription model and social leasing schemes for heat pumps is that the latter are government-guaranteed and target lower-income households. This approach could effectively reduce the barriers to entry for households, ensuring that the benefits of clean technology are accessible to all.

[2] French Ministry for the Ecological Transition, *Mon leasing électrique – Aide au leasing social d'un véhicule électrique*, available at: https://www.ecologie.gouv.fr/mon-leasing-electrique

Examples of existing heat pump business models with bundled services and monthly instalments

Thermondo – Germany

Thermondo offers customers to purchase a heat pump and repay the cost in flexible monthly instalments starting at €76/month after installation. Early repayment is allowed at any time, and customers can customise their package with add-ons. The offer includes the initial consultation and energy assessment, installation of the heat pump system, maintenance and servicing, warranty and performance guarantees, and application support for public subsidies.

AIRA – UK

Aira offers the option to install a heat pump with no upfront cost, instead paying through fixed monthly instalments starting from £88.55. This fee covers a home energy assessment, a locked-in quote, application to the relevant subsidy scheme on behalf of the customer, system design, installation, removal of the old system, and a 15-year guarantee. Financing is available over 5 to 10 years, with interest rates of 9.9%. Early payments options are available. To help reduce running costs, Aira partners with energy suppliers to provide smart energy tariffs.

Government support: De-risking the model

But for social leasing to succeed, public support is crucial to making this model affordable for both consumers and service providers. The role of national governments should include **both financial backing and policy frameworks that enable the model to scale.**

Governments can contribute to reducing the financial risks for private companies by offering **guarantees**, **low-interest loans**, or **subsidy-backed leasing rates**. This not only enables businesses to offer lower monthly payments to households but also ensures that the model remains financially stable over time for both consumers and providers. Governments can also help by introducing **favourable tax policies** (e.g., reduced VAT rates on heat pumps) to lower costs further.

A **public-private partnership approach**, where public funding reduces the cost of the heat pump and private actors provide the installation and maintenance services, could allow for a more **standardised and scalable model**.

Public funding for the heat pump leasing model could come from **EU funds** or specifically the **Social Climate Fund**, which was designed alongside the ETS2 and aims to mitigate the social and economic impacts arising from the green transition, particularly for vulnerable households and micro-enterprises.

To ensure the viability of these models, it is essential **that public support is predictable and stable over the long term,** as sudden changes in support schemes can create uncertainty and undermine confidence among both providers and consumers.

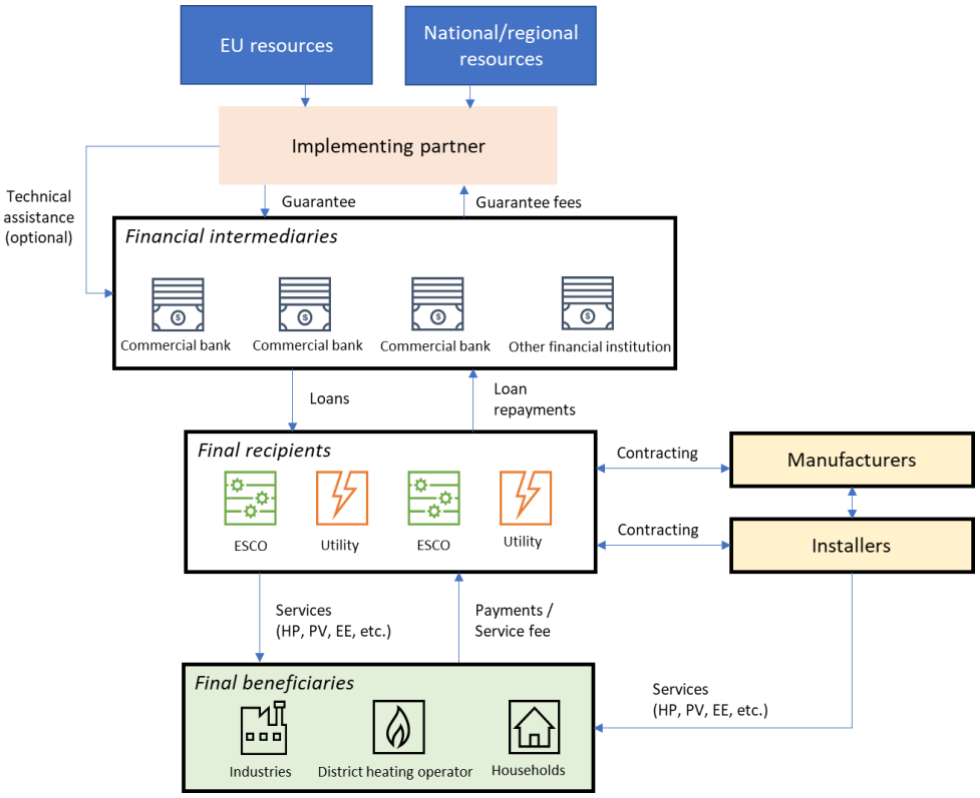
Importantly, social leasing should complement existing instruments such as grants, direct subsidies for equipment purchase, tax credits, or green loans. A diversified set of tools will ensure that households can choose the most suitable pathway based on their specific needs and circumstances.

How the de-risking scheme works?

The model works by providing public guarantees on a pari passu basis, meaning the risk is shared equally between public guarantors and financial intermediaries like commercial or development banks. This risk protection allows financial institutions to offer better loan conditions, such as lower interest rates and longer repayment terms.

The scheme builds on and expands existing financial instruments. It focuses on intermediated financing, with implementing partners working through eligible financial institutions to reach the market. The recipients of this financing are Energy Service Companies (ESCOs), utilities and municipalities.

The de-risking model also allows bundling with other energy measures such as solar PV or building renovations. EU and national funds are envisioned as primary sources of capital.



Source: Recommendations for new and improved financial schemes and products for heating and cooling - Investors Dialogue on Energy, Working Group 4 –2024

Reducing bureaucratic barriers and streamlining the process between social leasing and other incentives

Another essential element of government support should be the **reduction of bureaucratic barriers**. The process of applying for subsidies, often reported as a significant challenge for consumers and also for companies working with innovative business models[3], needs to be simplified and expedited**.**

[3] Investors Dialogue on Energy – Working group on heating and cooling (2024). *Report N.9 – Discussion on new pilot schemes*. Available at: https://circabc.europa.eu/ui/group/b1f3a94c-e6e7-4bef-9732-4800f937c9d5/library/fd8db3c2-4d73-41e1-a108-51fe1cb47a15/details

It should be made clear and simple to households eligible for social leasing schemes with which other grants and incentives the scheme can be combined. As an example, from 2025 the French social leasing scheme for EVs is no longer compatible with the "*bonus écologique*"[4]. Households should be well-informed about their different options to receive support prior to applying for social leasing.

When households are eligible for social leasing and there are other incentive programmes that are compatible with the scheme, the application process should be **fast-tracked**, with reduced waiting times for financial support and **quicker reimbursement** to service providers and/or consumers. Allowing service providers to apply for the subsidies on behalf of the end-users can help reduce the administrative burden on consumers while also enabling companies to receive the funds directly.

In addition, low-interest loans or publicly backed financing should be designed in such a way that the application process is simple and quick, allowing for faster investment and immediate deployment of heat pump systems.

Streamlining the administrative procedures and ensuring that financial support is readily available can make the process more efficient and effective. This, in turn, would significantly improve the accessibility and attractiveness of the social leasing model, enabling a faster transition to clean solutions across Europe.

Overcoming the home ownership barrier

One important factor to consider when designing a social leasing scheme is the **question of home ownership**. Many existing subsidies and support schemes for heat pumps are aimed at homeowners, which could unintentionally exclude low-income tenants from benefiting from the model.

In the EU, 31% of the population lived in rented housing in 2023[5]. This share is significantly higher in some countries, such as Germany (52%), where renting is more common than owning. Other countries with high rental rates include Austria (46%), Denmark (40%), France (37%), and Sweden (35%)[6].

One potential solution to this barrier is to establish **tenant-landlord cooperation agreements**. In this model, the landlord would enter into the social leasing agreement with the service provider, covering the monthly leasing fees for the heat pump. The tenant, in turn, would only be responsible for paying the energy consumption costs associated with the use of the heat pump. For landlords, the benefit would be an increase in the property's value. To protect tenants, the agreement should include rules that prevent eviction or unfair rent increases.

[4] Véhicules propres -Le leasing social de voitures électriques bientôt de retour : quelles seront les modalités ? | Service-Public.fr
[5] Eurostat, *Housing in Europe – 2024 interactive publication*. Available at: https://ec.europa.eu/eurostat/web/interactive-publications/housing-2024
[6] Ibid.

EU-funded project: Up-scaling high-quality heat pump installations in leased buildings via a subscription model and cost-effective market incentives (HP-SUBSCRIBE)

HP-SUBSCRIBE is an EU-funded initiative aiming to scale up the deployment of high-quality heat pump installations in leased commercial and public buildings through a subscription model.

By implementing this service-based approach in leased buildings, the project seeks to address key barriers to heat pump adoption, particularly the landlord-tenant split incentive, high upfront costs, and the complexity of transitioning away from fossil fuel-based systems.

Starting in November 2025, the project will engage with public authorities, financial institutions, energy service companies, heat pump manufacturers and building owners to validate and promote the model across the EU.

The project will develop pilot projects in France, Austria and Greece, testing contractual agreements, financing mechanisms and policy recommendations adapted to different market conditions.

Making the social leasing agreements clear and fair for consumers

For social leasing models to gain widespread trust and adoption, the agreements offered to households must be transparent, flexible and fair. One concern is the **length and rigidity of contracts**[7]. Including the possibility to terminate the contract earlier or purchase the heat pump at any time not only adds flexibility but also ensures that consumers are protected under the Consumer Credit Directive, which applies only to leasing agreements that include an option or obligation to purchase the product[8].

Another issue is **pricing stability**. Fixed monthly payments for energy usage offer predictability and certainty but may lead to perceptions of unfairness if market prices decline significantly. Flexible pricing, on the other hand, can better reflect real-time market conditions and potentially reduce costs during low-price periods, but it also exposes consumers to the risk of price increases. Social leasing schemes could include safeguards to adjust pricing in response to major market changes or adopt hybrid models that combine fixed and flexible elements. Importantly, leasing schemes that combine the cost of the equipment and the cost of electricity should always allow consumers to switch electricity supplier without having to terminate the leasing for the equipment. Any chosen pricing approach should come with **clear communication and transparency of the potential risks and benefits.**

The potential of social leasing for heat pumps in social housing

Social leasing for heat pumps could be a valuable option not only for individual homeowners but also for social housing, especially to support vulnerable households struggling with energy poverty. Unlike individual homeowners or private tenants, social housing is often owned or managed by municipalities, housing associations, or cooperatives. These housing providers can coordinate large scale retrofits, negotiate contracts, and access financing, making them well-suited to implement social leasing schemes. Most importantly, applying the social leasing model to social

[7] Côté, E., & Pons-Seres de Brauwer (2023). *Preferences of homeowners for heat-pump leasing: Evidence from a choice experiment in France, Germany, and Switzerland*. Available at: https://doi.org/10.1016/j.enpol.2023.113779

[8] BEUC (2023). *From boilers to heat pumps: what consumers need in the switch to renewable heating.* Available at: https://www.beuc.eu/sites/default/files/publications/BEUC-X-2023-102_From_Boilers_to_Heat_Pumps.pdf

housing can **reduce the risk of early termination of the contract and therefore lower interest rates associated with this risk.**

Recent insights from Housing Europe's report on the state of housing in Europe[9] shows that the energy crisis and price spikes have made those living in social housing more aware of the importance of energy efficiency. However, affordability remains a key concern, particularly for those on low incomes who cannot afford renovation costs. In countries such as Estonia, as indicated in the report, owners of apartments managed by cooperative associations are either unwilling or unable to take out bank loans for renovations during times of economic uncertainty. Similarly, social housing associations in Finland face difficulties securing resident approval for energy retrofits, as tenants fear rent increases.

These examples highlight why social leasing, backed by public support, could offer a much-needed alternative**: it could enable housing providers to upgrade heating and cooling systems without passing on the initial costs to tenants, while still providing energy savings and long-term comfort.**

Conclusion

As Europe steps up its efforts to decarbonise the heating and cooling sector, ensuring affordability and reducing the cognitive and logistical burden on households remains crucial for a fair and inclusive energy transition. Social leasing, complementing other existing support instruments such as grants, reduced VAT rates and green loans, is a promising model for overcoming the high upfront costs of heat pumps, especially for low-income households.

To unlock its potential, the following policy actions are recommended:

- **Provide dedicated funding for social leasing for heat pumps** enabling low-income households to access clean heating solutions without upfront costs. One way of doing so can be adopting a state aid scheme to incentivize the acquisition or the lease of heat pumps in the form of accelerated depreciation, as allowed under the Clean Industrial Deal State Aid Framework[10].
- **Support social leasing with public guarantees and low-interest financing** to reduce financial risk for service providers and unlock better financing terms.
- **Prioritise social leasing models targeting social housing providers** to effectively reach vulnerable households and reduce contract termination risks.
- **Simplify and fast-track subsidy and loan processes** to reduce delays and administrative burdens for households and companies involved in the social leasing scheme.
- **Introduce fair and transparent social leasing contracts** with clear terms, purchase options, and possibility for consumers to switch energy suppliers when costs for equipment and energy are combined.

[9] Housing Europe (2023). *The State of Housing in Europe.* Available at: https://www.stateofhousing.eu/#p=1
[10] Section 6.3, Framework for State Aid measures to support the Clean Industrial Deal (Clean Industrial Deal State Aid Framework). Available at http://data.europa.eu/eli/C/2025/3602/oj.

European Heat Pump Association (EHPA)
Avenue de Cortenbergh 120
1000 Brussels – Belgium

+32 2 400 10 17
info@ehpa.org
www.ehpa.org

The European Heat Pump Association (EHPA) represents the European heat pump sector. Our over 170 members include heat pump and component manufacturers, research institutes, universities, testing labs and energy agencies.

EHPA advocates, communicates and provides policy, technical and economic expertise to European, national and local authorities, and to our members.

We organise high level events and manage or partner in multiple projects.

We work to shape EU policy that allows the heat pump sector to flourish, and to become the number one heating and cooling choice by 2030. Heat pumps will be a central part of a renewable, sustainable and smart energy system in a future decarbonised Europe.