



In The News

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IN DEPTH: RESIDENTIAL REAL ESTATE

Submetering: Utilities don't need to be landlord hassle

Today's weak economy spares no one - multifamily property owners included. After three years of flat rents and soaring utility prices, owners are looking to recoup some of their costs and once again turn a profit by untying rents from utilities.

Remember when you were a renter? Sure, you had to deal with unresponsive landlords and the ever-creeping rent increases, but at least you didn't have to pay the water bill. That 30-minute hot shower was somebody else's problem. Well now you're all grown up and realize "that problem" is now your problem if you own rental property - and you're not alone. Nearly 32 million apartment units in North America have owner-paid utility bills.

Traditionally, owners have raised rents to cover utility expenses, but that line of thinking is becoming increasingly passé. Decoupling utility expenses from the rent is not just a trend, but a necessity for cash-strapped owners.



Guest
Commentary

BRIAN BRITTSAN

Utility rates have been rising between 8 percent and 10 percent per year, and as most good property owners know, your sustainable rent increases are 3-to-5 percent in a good market, and flat or declining in today's market.

How it's done

Passing along utility expenses to residents can take two forms: Allocation and submetering. Allocation, or ratio utility billing (RUBS) is currently the most widespread method of utility billing. With allocation, a resident's energy bill is based on a formula factoring in the number of tenants, number of fixtures and apartment size. In other words, it estimates usage, but doesn't actu-

ally measure it. And when Jim in 5B returns from his month-long vacation to find a water bill equal to Diane's in 5A, RUBS fuels resident hostility and thwarts consumption.

With submetering, a resident's utility bill is based on actual metered consumption. It comes from a third party service provider (not the landlord). Residents lower their bill by adjusting temperatures, turning off lights and taking shorter showers. They feel more in control and responsible for their own bills.

Submetering benefits include 18-to-36 percent less utility consumption, more accountability, fairness, an increase in resident goodwill and higher property values.

Accessing usage data alerts property owners to detect water leaks as they happen, not after the bill comes out. A leaking toilet found early will save thousands of gallons of water. Submetering also protects owners from rapidly ris-

ing water rates and abnormal consumption patterns. More than once, we have heard stories of residents running showers at night “in order to sleep better.”

Increasing property value in a down market

I’m often asked what actions can owners undertake to maximize property value in a flat market. Short of a complete (and expensive) remodel, they need to develop an ancillary income stream. And the simple truth is, there are only a few things owners can do to produce real ancillary income: Provide telephone services, cable TV, or high speed Internet.

My company is currently sending out bills between \$25 and \$50 per apartment per month. This explains why submetering is cur-

rently the hottest trend in multi-family housing.

A real-life example

Joe Pryzant is a Wellspring customer and Houston-area apartment owner who is submetering two of his apartment complexes. The two properties account for 627 units and together consume over 38 million gallons of water per year.

Assuming consumption drops 25 percent after submetering, Joe’s two properties will save 9.6 millions of water per year. Not to mention Joe will recoup nearly \$50,000 in utility expenses he would have otherwise paid himself.

In today’s market Joe’s properties are likely valued using a 7 percent capitalization rate. The capitalized impact of his utility

savings adds over \$714,000 of additional property value for his two apartment complexes.

Submetering is one of the few (and perhaps only) measure to bring together real estate developers, environmentalists, politicians, landlords and tenants-rights groups, because it benefits everybody. It promotes fairness, conservation—and saves property owners lots of cash. It is the ultimate win-win.

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