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Is Submetering the Wave of the Future?

By Patricia L. Kirk

With population growth putting pressure on water supplies, residential water costs are rising 8% to 10% annually – possibly even more in areas subject to droughts. Feeling the bite of higher water bills at a time when rents are flat, many apartment landlords are adopting water-billing programs to shore up sinking revenues.

"With water rates going up so quickly, there is nothing owners can do that adds more value to a property than shifting the utility exposure to tenants," says Brian Brittsan, president of San Diego-based Wellspring International, a firm that manufactures submetering systems and provides billing management services.

Most owners choose a water billing method known as the Ratio Utility Billing System (RUBS), which allocates a portion of the overall water bill to tenants based on an estimate of water usage per unit.

Over the long haul, however, submetering – which measures tenants' actual water usage – might prove to be a better choice, even though it requires an initial capital investment. That's the conclusion of a new study from Oakland, Calif.-based East Bay Municipal Utility District and Aquacraft Inc., an engineering and management firm.

The report, released in July 2004, suggests that submetering is the only apartment water-billing method that results in water conservation. The study found that water usage in submetered properties decreased by 15.3% on average, or 21.8 gallons per day per unit, compared with properties that include the cost of water in rent. And that finding could well be the catalyst that prompts states – especially those with dwindling water supplies – to follow the lead of Texas in requiring water submetering systems in all new multifamily construction projects.

The study, which was funded by the Environmental Protection Agency (EPA), National Apartment Association (NAA), National Multi Housing Council and a number of municipal utility districts, also recommends that water utilities offer incentives to encourage owners to install submeters on tenant water systems.

There are about 32 million apartment units nationally, according to the U.S. Census Bureau. An estimated 85% of apartment owners include the cost of water in rent, and of those that do bill tenants separately for water, the vast majority use RUBS or a combination of RUBS and metering. Only about of 4% properties have implemented submetering systems.

PIONEERING EFFORTS IN TEXAS

While many states are considering legislation to require submeters and regulate the apartment water-billing industry, Texas is the only state thus far to act. The Lone Star State also took the lead in regulating how owners of existing buildings implement water-billing systems.

Before adopting a water billing program, Texas landlords are required to perform a leak audit and upgrade any plumbing fixtures that are deemed inefficient, notes Brittsan of Wellspring.

Recognizing the conservation benefits of submetering, the EPA also recently modified its policy to encourage submetering over RUBS. Specifically, the EPA amended the Safe Drinking Water Act of 2003 to exempt multifamily properties using submetering from the monitoring and record-keeping tasks required of public water utilities. The EPA did not ex-

tend this policy change to properties that use RUBS or programs that combine RUBS with metering.

THE RUB ON THE STUDY

Charles Stolberg, executive director of the National Submetering and Utility Allocation Association, acknowledges the conservation benefits of submetering, but takes issue with the study's conclusion that RUBS has no significant conservation benefits. He says he has concerns about the statistical sample used in the new study.

"This was not a national study," he contends, suggesting that geographically the study sample was not broad enough to be an accurate reflection of tenant behavior. "Research shows significant savings with RUBS," says Stolberg, citing a study released in 1999 by the NAA, which showed a 6% to 27% decrease in water usage with RUBS.

The NAA study, however, only involved 32 apartment properties in three states — California, Texas and Florida — while the new study included 13 water districts, 11 of which are located in western or southwestern states and the other two are in Florida and Indiana.

RUBS is more widely used than submetering because it's easier to implement in older buildings and high-rise structures with common plumbing systems, explains Dan Witte, vice president for sales and marketing at Hillside, Ill.-based American Utility Management, which provides water management and billing services.

In addition, there is no capital investment associated with RUBS beyond the cost of establishing a billing allocation program, which most owners farm out to utility vendors. "When building a property, it's easier to factor in the cost for submeters as opposed to retrofitting older buildings," he adds.

UNDERSTANDING THE TECHNOLOGY

How does submetering work? Wireless devices are installed to measure water flow at the water's point of entry into an apartment unit. The submeter transmits the information to a main receiver, which is connected to a computer network that collects and records the information. Most apartments built during the last decade have single-entry plumbing, in which one water line delivers water to all usage points within a unit. Many older projects, however, have shared plumbing lines with multiple points of entry into a unit, which makes submetering more complex and expensive.

Newly developed technology, however, now makes it possible to submeter plumbing systems with multiple points of entry. Witte says that submetering systems range from $115 per unit for a single entry point up to $900 per unit in a high-rise building with multiple water entry points. Brittsan acknowledges that the cost of submetering increases with each point of entry, but notes that some owners are applying the 80/20 rule, submetering the 20% of pipes that involve 80% of water usage.

COMPANY STRATEGIES

Kirby Davis, president of Nashville-based First Management Services Inc., which owns 2,800 apartment units, says that with the advent of multi-point technology he is considering submetering just the pipes that are "water hogs" in some buildings currently employing the RUBS method. Davis prefers submetering over RUBS, and uses it when it is economically feasible. "It seems fairer and encourages more conservation because a person has control over usage," says Davis.

Jim Thomas, president of Property Management for Irvine-based Sares-Regis Group, which owns 13,000 units in California, Arizona and Colorado, says submetering systems are used in new projects his firm develops, but RUBS is the billing method used in older complexes.

However, "collection on RUBS is always an issue," he says, noting that 10% to 20% of monthly water billings routinely go unpaid when due, which presents a continuous collection headache for staff.

While submetering has the greatest impact on a property's net operating income (NOI), returning up to 95% of total water costs to owners, according to Wellspring estimates, RUBS too has a significant impact on the bottom line, recapturing about 75% of water costs.

Although landlords who include water costs in rent might be reluctant to raise rents to offset rising water bills on profits, Thomas emphasizes that a water-billing program offers an equitable alternative for both tenants and owners.

Regardless of which billing system is used, he says with water rates rising about 20% over the last two years, passing water costs through to tenants "is something well worth doing."

Patricia Kirk is a Dallas-based writer.