Wellspring wireless utility services

wellspringwireless.com

west coast office
6333 greenwich drive
suite 140
san diego, ca 92122
tel: 858.824.0900
fax: 858.824.0901

east coast office
one pearl buck court
bristol, pa 19007
tel: 215.781.1280
fax: 215.781.1281

In The News

Units
October 2003

GO TO PAGE 3 FOR WELLSPRING'S CASE STUDY "PRYZANT MANAGEMENT CO."

SUBMETERING CASE STUDIES

Multifamily Property Owners Explain Cost, Potential Savings and Conservation Qualities of Submetering Systems

Rising utility bills and droughts or shortages of natural resources have spurred multifamily property owners across the United States to implement submetering or utility allocation programs in order to recover revenue and promote resource conservation. Of the estimated 10 million investment grade multifamily properties across the country, between 2.5 million and 3 million are currently allocating water and sewer costs to their residents, according to the Highland, Ill.-based National Submetering and Utility Allocation Association (NSUAA).

Owners can separately bill utility costs to residents by having submeters installed in each apartment home and charge residents for the exact amount of water they use. Or, they can implement a RUBS (ratio utility billing system) program, which bills for water and sewer based on allocation methods of square footage, occupancy or number of fixtures in an apartment.

"Even in normal times it is very difficult for apartment owners to absorb the total cost for utilities," said Charles Stolberg, Executive Director of NSUAA. "In a time when they are facing dramatically increasing costs for water and energy, utility submetering and allocation is a very effective way for owners to recover significant revenue and improve property value."

JVM REALTY

John McCloud, Senior Vice President of Oak Brook, Ill.-based JVM Realty, has been submetering the company's multifamily properties since 1998. The company's portfolio comprises 20 apartment communities totaling 4,500 apartment homes in Indiana, Michigan, Missouri, Ohio and Wisconsin. JVM Realty was one of the first property owners in many of their markets to install gas and water submeters and bill residents for utility usage.

"With many utility bills increasing by 15 percent or more each year, it was critical that we find a way to recover revenue," said McCloud. "Last year alone, our gas bills, which in this region are more of an issue than water bills, increased by more than 75 percent and it is obviously not possible to raise rents by the amount necessary to meet that expense, so we had to find another way to generate income or reduce expense.

"We decided early on to take a proactive approach in order to implement the most effective submetering program possible," said McCloud. "The first step was to make sure that I was completely educated on submetering issues and then to ensure that my management staff was on board by providing them with adequate training and implementing regular meetings to keep the process running smoothly and effectively."

McCloud said he also stays current on submetering issues through his membership in the National Apartment Association, its local af-

filiates and NSUAA.

"I [seek information] prior to the purchase to determine what the regulatory climate is in the state as well as the local region, which helps me decide whether to install meters or to opt for a RUBS (ratio utility billing system) program," McCloud said.

According to McCloud, it is ideal to have submeters installed at the time of construction or retrofitting an older property if the plumbing configuration will permit it.

"Many other property owners have told me that they do not have the money to make the initial investment to install meters. But I recommend that they find a way to fund it because the payback period is rapid—usually about one year to 18 months, and the revenue recovery is ongoing," said McCloud.

"For example, when we purchased a 169-apartment home community in Indianapolis, I asked our bank to add the cost of meter installation onto our loan, which they readily did after I demonstrated how the program significantly increases property value. It cost about $225 per apartment home to install the gas submeters at that property, for a total of $38,025, and our mortgage increased by only $500 per month," said McCloud.

"The gas bill for that property alone is $85,000 per year and we recover about 70 percent of those costs, after factoring out common area and vacant apartment home costs, a savings of $59,500 per year, which far surpasses the initial installation cost.

"Another huge benefit is that our property value has increased exponentially, which I calculated by taking the $59,500 at a 9.5 percent cap rate (rates can vary), which raised the property value by more than $500,000," McLoud explained.

McCloud said there are also conservation benefits to submetering, which are particularly important at a time when large regions of the country recently have suffered droughts and energy crises.

"An obvious trend has emerged now that residents are responsible for their own utility bills. Before the days of submetering, it was not uncommon to see windows open or hear air conditioners running in the middle of winter with heaters going full blast. It was a way to cool down the apartment, but now that residents are responsible for their own bills, they tend to just turn down the heat. In addition, I have seen a marked difference in how much faster residents report water leaks now and I know they are much more conscientious about waste.

"If I were to give recommendations to owners considering submetering, I would advise them to make sure their management team fully understands the value of the program and receives the appropriate training. I would also implement a monitoring system with regular meetings to ensure that the program continues to run efficiently, especially ensuring that collection of delinquent bills is being diligently pursued.

"It is also critical to hire a good metering/billing company, which can be found through recommendations from other multifamily companies."

NORTHLAND INVESTMENT CORP.

In Texas, where drought conditions have plagued many areas of the state for nearly 10 years, water submetering is a hot issue. In fact, in 2001 the Texas legislature adopted a new law requiring new properties to either be plumbed for submeters, or, in cases in which the water utility offers individual meters, the property must have submeters installed or have individual meters installed during construction of new apartment properties built after Jan. 1, 2003. The law also requires leak audits and installation of water-conserving plumbing fixtures as a condition to adopting billing systems.

Properties built prior to 2003 can continue to implement a RUBS (ratio utility billing system), also know as an "Allocation Billing Method," where each resident is billed a pro-rata portion of the total water/sewer consumption based on square footage and number of occupants. This is the predominant method used by Massachusetts-based Northland Investment Corp., which owns 32 multifamily properties totaling 10,185 apartment homes in Arizona, Connecticut, Florida, Massachusetts, North Carolina, Tennessee and Texas.

Of those apartment homes, 7,614 are billed via a RUBS method and 932 are submetered.

"Depending on the property, water submeters can be installed for $125 to $175 per [apartment home]," said Kirby A. Vogler, Assistant Vice President of Northland Investment Corp., who is based in the company's Houston offices.

"On average, we are recovering approximately 80 percent of our utility costs and at some communities that figure climbs to 90 percent.

"We carefully track cost savings through in-house reporting to present a model comparing net income to net expense. We do this by using our income statement to compare historical costs we incurred while providing water/sewer service within rents to the income we are now recovering by separating utilities from rent.

"We have also calculated the increase in property value that comes along with submetering or RUBS.

For instance, on a property with 285 apartment homes with an average water bill of $7,000 per month, we can add up to $6,000 or more per month to the bottom line. At a 9 percent capitalization rate, that equates to a property value increase of $800,000.

"We also track the conservation benefits inherent in a utility billing program, which are very important to us in Texas. It is widely documented that residents conserve more when they are responsible for their own water bills and our reporting bears that out. Before implementing our utility billing program, the average water/sewer expenses at our communities was $18. After we started submetering and allocating for water expenses, those averages dropped to $16.75, signaling a drop in consumption.

"The billing process is quite simple and manageable as long as you have developed adequate policies and procedures within your organization. I can't emphasize enough that good communication and a well-trained staff can ensure that your submetering or allocation program substantially lowers operating expenses, increases property value, and endorses conservation through resident responsibility.

"It is important that we as an industry share our experiences and knowledge so that we can learn all available methods to recover revenue in the face of increasing utility costs and promote conservation in a time of decreasing resources."

BRE PROPERTIES INC.

West Coast-based BRE Properties Inc. has been submetering and using RUBS at some of its multifamily properties for the past 10 years. Experience has taught BRE that a well trained onsite management team makes all the difference when it comes to the successful launch of a new billing program, resident acceptance and optimal collections.

BRE owns 21,943 apartment homes throughout the Western United States and has submeters at 14,577 of those apartment homes. The balance of BRE's apartment homes use a RUBS program, unless it is illegal in the respective municipality.

"Setting up a new utility billing program takes diligent management and sales skills," said Tyler Lenz Kemmer, Vice President, Ancillary Services for BRE Properties. "Each step of the way, from installing submeters to beginning the billing process to collections, onsite management must keep communication open with residents to ensure an efficient and productive program.

"If we choose to submeter a community instead of implementing a RUBS program, the first step of installing meters can involve entering each apartment home. This process takes coordination to minimize disruption of our residents' schedules and to avoid unnecessary time constraints on our staff and the installers. An installation at a 250-apartment home community would typically take about one to two weeks. In the meantime, we are vigilantly educating our onsite management and sales staff about the program and its benefits. I cannot emphasize enough that the open communication between management and residents is the key to a successful billing program.

"We also teach onsite management how to communicate the program in a positive way to residents. For instance, in areas of the country where drought conditions are common or environmental concerns are an issue, we emphasize the conservation aspects of submetering. We enlist the help of our service provider in this effort, working with them to send a letter describing the benefits to residents prior to the first billing period. We also work with our vendor after the installation by giving our residents their toll-free customer service number.

"When evaluating how a community should roll out this type of program, management must look at market conditions, what the competitors in the submarket are doing, and the community's budget constraints. The management can then decide whether to bring all the residents on to the billing program or maybe just the new move-ins.

"For the program to reach its optimum level, onsite management must be diligent in the collection of delinquent bills. Our service provider is responsible for collection during the first 30 days after a bill has been sent out, but after that time period, onsite management must contact residents to ensure payment. We have found that if this is done efficiently, the savings are significant. In 2002, BRE recovered approximately $3.6 million in water, sewer and, in some cases, trash costs in our California portfolio alone."

PRYZANT MANAGEMENT CO.

For years, Joe Pryzant, President, Pryzant Management Co., Houston, said he had a problem with high water consumption at his property, Alexander House, in Houston. The apartment homes are large with many occupants. Most have two bathrooms and 25 percent of the apartments have three toilets.

Pryzant said the high consumption seemed to be due to a combination of lots of people and toilets that wasted water due to old flappers, sticking flush levers or broken flow valves. Even when the maintenance technician went door to door to search for leaks (a time-

consuming job for a community with 234 apartment homes) he often did not locate the leaks due to their intermittent nature. In 2001, his community's consumption averaged $462 per day, or about $60 per resident per month.

"I immediately grasped the possibility of the wireless submetering technology," Pryzant said. "Not only could I locate leaks without searching each apartment, the occupants could be monitored to determine who was wasting water and which apartments had more occupants than registered on the lease. I decided in the fall of 2001 to commit approximately $60,000 for the system.

"The results did not disappoint me. The system was operational by May 2002. Average consumption was $456 per day for the first four months of the year but decreased to $356 per day the remaining eight months. As the bugs got worked out of the system and as those hard-to-locate toilet leaks were identified and repaired, consumption fell even more. In addition, we used the system to identify those apartments with too many residents or whose consumption patterns were wasteful.

"In December, the bills declined further after we began billing residents for their water consumption. March 2003 and April 2003 bills were approximately $270 per day; May fell to $254 (though occupancy also declined that month). The difference between $462 in April 2001 and $270 in April 2003 is $192 per day—a payback of less than one year. The payback actually is even faster because we are collecting about $2,000 each month from the billing program, an amount that should double by year-end as new leases are signed and the billing program becomes better established."

With the success at Alexander House, Pryzant said he decided to invest in a second system for his Sharpstown Apartments, a 395-residence commuity in Houston. Though per-residence consumption was less than Alexander House, he concluded that sub-metering has inherent, long-term advantages over an allocation method that may attract prospective residents.

Consumption prior to installing a wireless submetering system at Sharpstown in summer 2002 he said was approximately $564 per day; consumption this year has averaged $436 per day, a savings of $138 per day. Payback on the decreased consumption alone is approximately 20 months. Including revenues from billing and decreased maintenance time, the payback can be calculated at approximately one year, he said.

"Residents who are single who complain they are paying for the water usage of families of three or four have a legitimate concern. Persons living alone are penalized for their conservation while families who don't conserve are rewarded."

RPT MANAGEMENT

Kensington Place Apartments, a 200-apartment home, high-profile, eight-story community located in Cleveland Heights, Ohio, recently installed a radio frequency gas submetering system. The submetering system uses run-time transmitters, a technology that can significantly reduce installation costs for gas submetering systems.

Deborah Bostnar, Property Manager at Kensington, said the run-time transmitters have helped save gas, time and money and has been more convenient to administer.

"Our old system was dying," she said. "We were having trouble reading meters and estimating bills in some of our residences. And, we had been having the meters read just once per month. Now, they are read and reported each night, so we can pinpoint if and where there might be any inconsistencies in usage.

"We used to have to take the meters each month and box them up and send them via overnight mail [out of state]. Right there, I'm saving money on postage. Now, the reading is taken electronically. I can call locally each day if I like to find out the readings."

She said the installation was done smoothly. "Our residents did not even realize it had been done," she said. "The only thing different for them is that their gas bill comes with a different letterhead on it."

PLATINUM PROPERTY MANAGEMENT

With the purchase of 84-apartment home Western View Apartments, Chris Creagan, Vice President of Operations for Platinum Property Management, Dublin, Ohio, said he discovered a valuable, and increasingly common, solution that also benefits the resident—namely, shifting responsibility for paying the electric bill from owner to resident through submetering.

When energy costs are on the rise, property managers everywhere seek ways to minimize expenses while keeping their residents happy.

Platinum owns and operates seven properties in Indiana and Ohio, totaling 1,700 apartment homes. Located in Chillicothe, Ohio, Western View is the first of its properties to be submetered. When Platinum purchased the property last year, an electric submetering system had just been installed in 84 single- and two-bedroom apartment homes in three buildings.

Typically, electric bills are computed by factoring monthly usage

estimates into the rent. However, the submetered apartment homes are direct-billed for their own electrical, eliminating the need to "guesstimate" consumption.

This is one way electrical submetering can be used to keep rents competitive in tough times. When energy costs recently spiked in California, for example, property owners saw profits shrink as rising utility costs outpaced rent rates. Electrical submetering, on the other hand, can provide a low-cost, accurate and fair means for property owners to put the electrical bill squarely with the consumer.

"Even if you're recovering all the electric utility charges at the end of the year through rent, you may have to raise the rent continuously to do so," said Creagan. "It makes sense for both the landlord and resident to have submeters and direct resident billing."

Moreover, accurately monitoring each apartment home's electrical usage gives greater incentive for residents to conserve energy, since they are paying for exactly what they use. During a one-year period, an average of 17 percent less energy was consumed in the submetered residences at Western View, where residents will continue saving on their energy bill and, ultimately, their rent, which won't be increased to cover rising electric costs due to market fluctuations.

And, with data collected from the submeters, property managers are alerted to potential energy inefficiencies that can be corrected to keep energy costs down in apartment homes, as well as the parking lots, recreation rooms, and other common usage areas.

Submetering Legislation Varies by State

Legislation across the states varies widely with regard to submetering and RUBS. Some states require that permission must be sought from the Public Utility Commission or the Public Service Commission before installing submeters. Massachusetts altogether prohibits submetering and RUBS.

In Maryland, a state delegate tried to make the use of RUBS illegal statewide, but the bill failed in the 2003 session. The delegate, however, is planning to reintroduce the bill in the 2004 session.

On the other hand, in 2001 the Texas legislature adopted a new law requiring new properties to either be plumbed for submeters, or, in cases in which the water utility offers individual meters, the property must have submeters installed or have individual meters installed during construction of new apartment properties built after Jan. 1, 2003. The law also requires leak audits and installation of water-conserving plumbing fixtures as a condition to adopting billing systems.