



10 Reasons Why Your Utility Expense Recovery Program is Costing You Money

Utilities account for more than 13% of a property's overall operating expenses. We all know there are three ways to recover some or all of it: Submetering, RUBS, Rent Inclusion.

What we haven't known until recently is how the decay of our nation's water infrastructure is directly impacting a portfolio's bottom line. A USA TODAY survey of 100 municipalities found residential water bills in at least 25% of cities surveyed have doubled in the past 12 years. Water rate increases that haven't gone into effect are in the proposal state and will likely pass.

What does this mean for you? It means that unless you have thoroughly evaluated your utility billing program, you are likely only recovering a percentage of what you should be recovering from your residents' usage.

Resident conservation programs should always be implemented regardless of water rates, but they aren't enforceable. If properties are in a low water rate location or not metered, there is no financial incentive for the resident to conserve so guess who gets to pay the difference? You.

You may already have a utility program in place but can you say with confidence that it's making you money? Or, is it possible your utility billing provider is seeing more of the benefit?

Below are the ten most common reasons Utility Expense Recovery Programs fail to make you money. Grab a pen and ask yourself and your team honestly – Are we part of the problem or the solution? If even one check mark is missing, it's time to start asking questions.

- Strategic goals for the asset were never considered or discussed
- Billable items are overlooked or not even considered
- Non-compliant fees are passed back to residents
- Vague resident communication during start-up and for new move-ins
- Poorly executed program implementation
- Rubber stamping bills that leads to billing errors and on-going quality control
- Inattention to program collection results
- Resident data errors
- Limited visibility to recovery details
- Lack of regular program review

Getting your Utility Expense Recovery Program on the right track really is as easy as ABC...and another C.

FACTS ABOUT THE U.S. WATER SYSTEM

The system has become so old that, on average, every mile of water pipe suffers a break every six years.

U.S. water pipes leak one full day's water for every seven days.

Major cities Los Angeles and Philadelphia both have a 300 year water pipe replacement cycle.

D.C. has a 200 year cycle.

Additional Utility Revenue

When reviewing utility expenses, don't forget about your utility providers. If you are currently working with a billing partner, request a detailed review of your billing program. If you manage your utility payments internally, request the same review. They should quickly be able to provide you with reports that show you exactly what your recovery percentage is and has been. You should be able to review provider errors that were identified and more importantly, how and when they were resolved.

IT'S ALL ABOUT THE MONEY

It costs a property's accounts payable department more than \$13 to pay one invoice.

What Happens When Utility Provider Bills are Rubber Stamped and Paid?

- Inattention to provider rate changes
- Failure to benchmark provider usage and resident recovery annually
- Billing errors aren't identified or proactively corrected
- Erroneous charges – *surcharges not previously agreed upon*
- Inaccuracies of estimated billing
- Missed Vacant Unit Cost Recovery (VUCR)

Billable Items to Consider

Providing your residents with a single statement can help expedite your collections and positively impact your bottom line. Before including additional billable items, always consult with a qualified, regulatory specialist to insure you are within compliance of what is allowed at the State, County and City level.

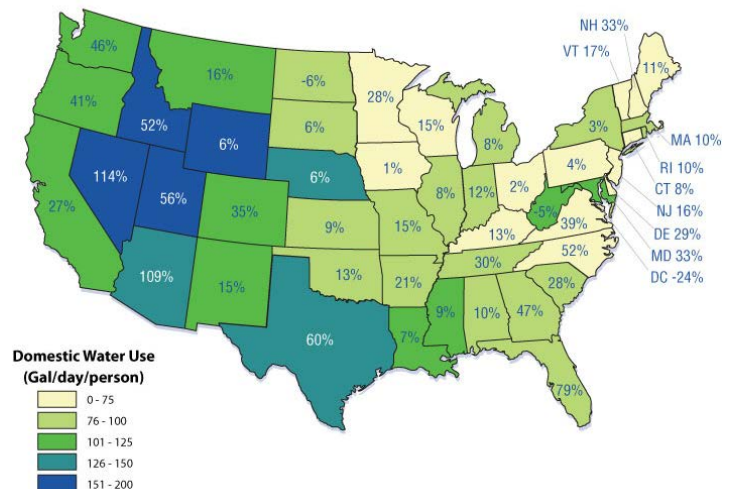
- Rent
- Trash
- Pest Control
- HOA Dues
- Cable
- Parking Spaces
- Storm drainage
- Pet Fees
- Regulated service charges

Choosing the Right Recovery Method

Once you've decided to recover utilities, you must ask yourself:

- Do I want to measure individual usage or allocate expenses across the community?
- What is my expense recovery goal?
- What is allowed within city and state regulatory guidelines?

Domestic Water Use in Gallons per Day per Person and Projected Percent population Change by 2030



Submetering

A study from the National Science and Technology Council Committee on Technology shows submetering energy usage may result in a 10-26% percent reduction in that utility's consumption.

- Measures individual consumption
- Controls utility expenses
- Increases property value
- Improves NOI
- Identifies potential leaks
- Promotes conservation

RUBS

On average, utility consumption decreases by a minimum of 5% once a RUBS program is implemented.

- Rapid implementation
- No capital required
- Recover water, gas, electricity, trash and other applicable costs
- Generally, a property can recover up to 85% of their utility expense
- Pre-calculated formula based on various methods fairly allocates usage across the community: Occupancy, Sq. Footage, Per unit, Proportionate %
- Promotes conservation

Financial Impact of Recovery Programs

All Market-Rent Properties OPERATING INCOME & EXPENSE DATA									
INDIVIDUAL METERED AND RECOVERY SYSTEM PROPERTIES*									
	Total			Garden			Mid- & HI-Rise		
	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	12,026	13.00	100.0%	11,280	12.19	100.0%	17,208	18.58	100.0%
Operating Expenses									
Utilities	346	0.37	2.9%	316	0.34	2.8%	555	0.60	3.2%
Net Operating Income	7,180	7.76	59.7%	6,676	7.22	59.2%	10,679	11.53	62.1%
MASTER METERED PROPERTIES**									
	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR
	Revenues								
Gross Potential Rent	13,806	15.48	100.0%	12,749	13.89	100.0%	16,303	19.62	100.0%
Operating Expenses									
Utilities	995	1.12	7.2%	831	0.91	6.5%	1,384	1.67	8.5%
Net Operating Income	7,474	8.38	54.1%	6,913	7.53	54.2%	8,798	10.59	54.0%

- Individually metered and recovery system properties have lower operating expenses
- Specifically, utility expense as a % of GPR is reduced by an average of 5 points
- Net Operating Income as a % of GPR is boosted by 5-8 points

Compliance

Always consult with your attorney before implementing and/or changing anything to your billing program.

Utility expense pass back issues:

- Over-recovering
- Passing through prohibited fees
- Bundling rates/fees or flat fees instead of itemizing
- Lack of transparency in lease provisions related to recovery

There is no better time than now to thoroughly review your Utility Expense Recovery Program to protect your assets and maximize your portfolio's growth.



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