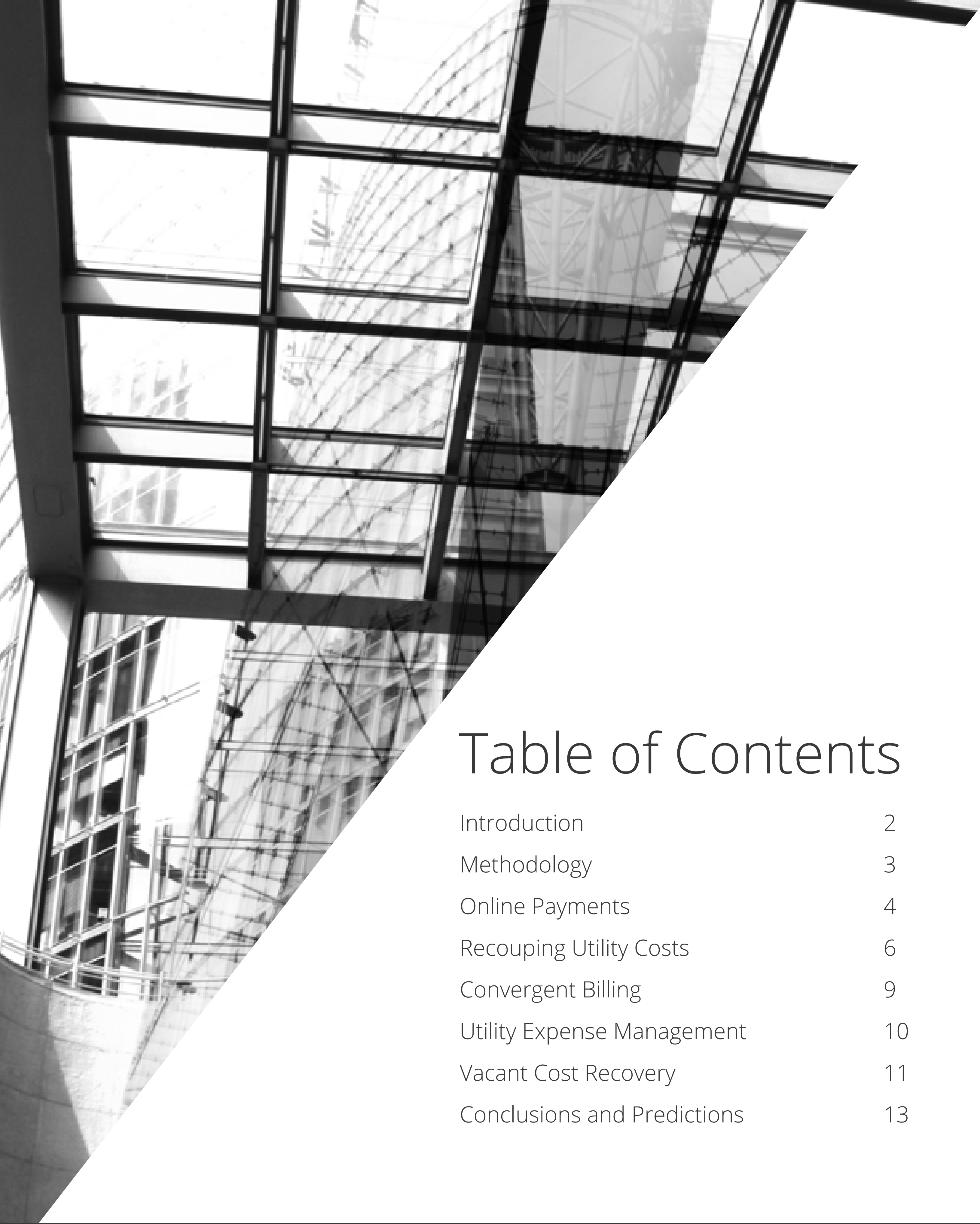
Market Survey 2015

A Property Manager's Guide to Resident Payments, Billing and Utility Management



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Introduction

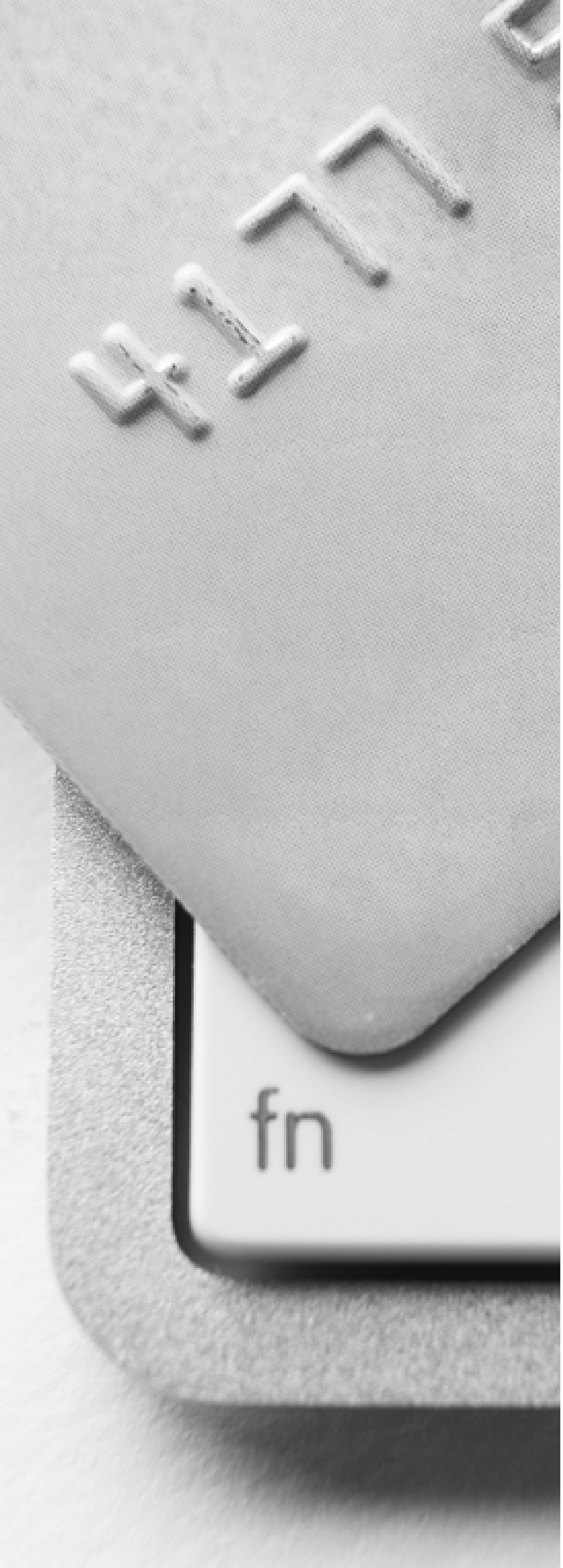
Rent and Home Owner Association (HOA) fees are unequivocally the biggest source of revenue for property management companies and HOAs. For the past three years, PayLease's annual market survey has identified trends regarding the collection of these funds. With the help of a third-party research firm, we interviewed hundreds of HOAs and property management firms about how resident payments are collected, and specifically if any online options are offered.

This research has increasingly generated an overwhelming interest from the industry. As a result, in 2015, PayLease decided to broaden the scope of this study. Since we look at trends related to the biggest revenue source for property management firms – rent and HOA fees – we thought it would be appropriate to identify trends related to one of the biggest recurring expenses for these same firms: utilities. Through interviews with single family, multifamily and HOA firms, our Market Survey provides the most comprehensive research to-date on how property management companies manage resident payments, and recoup utility costs from their residents.

Methodology

For our 4th Annual Market Survey, we enlisted Martec Research to conduct interviews with multifamily, single family, and HOA firms across the nation. Here is an overview of how this data was collected.

- A telephone survey was conducted among 1,000 property managers or their equivalents
- Participating respondents had to be able to answer questions regarding their residents' payment process
- Average survey length was 7 minutes
- PayLease was NOT identified as the sponsor of the survey
- Respondents' answers were transcribed into CATI, a telephone interview software

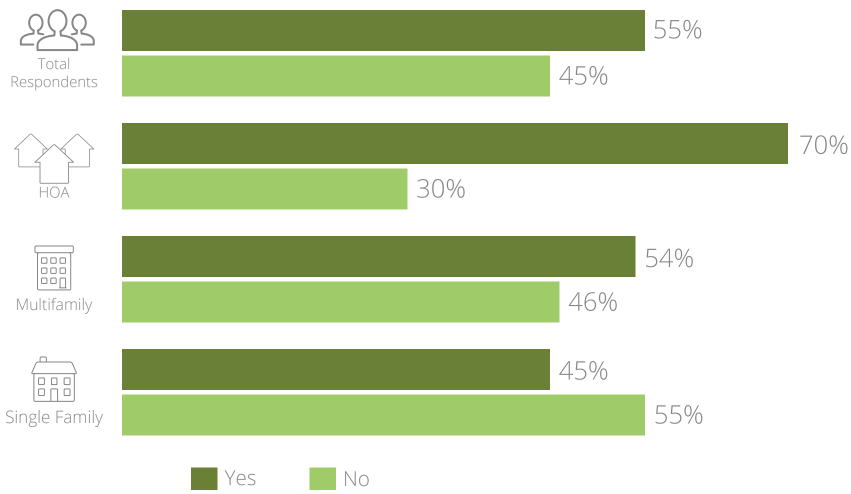


Online Payment Acceptance

The survey started off by asking firms if they accept payments for rent, HOA dues, or assessments online. Fifty-five percent of the respondents offer online payment options for their residents.

Among the segments, online payments are most frequently offered by HOA firms. Seventy percent (70%) of HOAs offer online payments, followed by multifamily at 54%. Single family firms have the fewest instances of online payments, with only 45% confirming that they offer these options to residents.

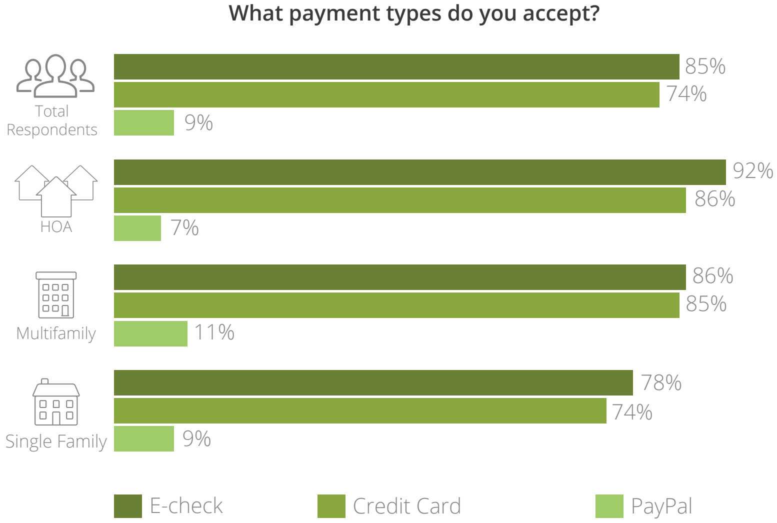
Do you accept payments for rent, HOA dues, or assessments online?



As seen from the results, there are still a significant amount of property management firms who do not accept online payments. The most common explanations from firms who do not accept online payments include:

- Perceived cost/fees associated with online payments
- In the process of researching it, or setting it up now
- The company felt its size was too small

Next, the firms who confirmed offering online payment options were asked to identify the payment types that they accept.



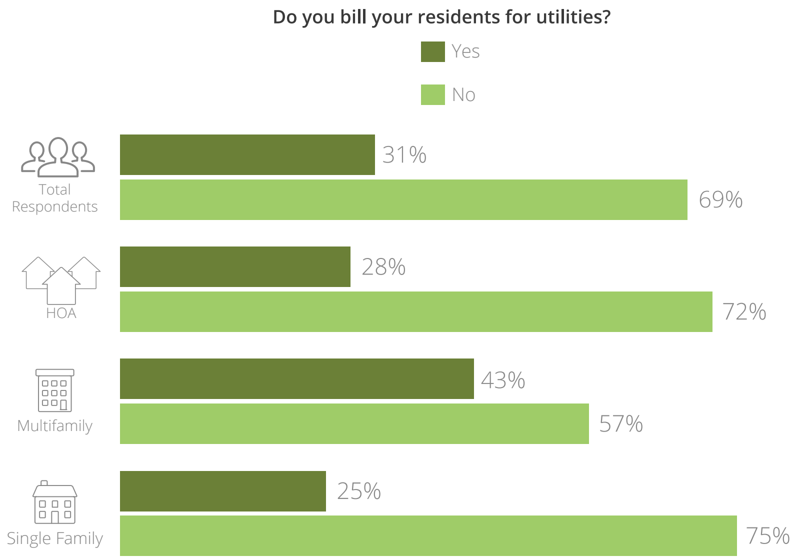
E-check, also known as ACH, is the most commonly accepted payment type among firms who offer online payments. Slightly fewer respondents accept credit cards, marking the first time that ACH and credit cards are offered at an equal pace. While credit card payments have a different appeal for residents than ACH payments (such as earning reward points and managing cash flow), higher processing costs historically limited the frequency with which they were offered. Online payment vendors have helped credit cards become a more practical option for property managers, and many choose to pass along the processing fees to residents who utilize this payment method.

Another online payment option, though not as common as ACH or credit card, is PayPal. Nine percent (9%) of firms accept PayPal, which serves as a convenient alternative for residents who may not have their bank account information handy or do not use credit cards.

Recouping Utility Costs through Resident Billing

Utilities, such as gas, water and electricity, are one of the largest recurring expenses for property management owners. Yet, the methods used by property management companies to manage and recoup these expenses can greatly vary. In the past, property managers recouped their utility costs by bundling them into the price of rent. Now, with increased competition on rental rates, rising utility rates, and pressure to improve net operating income (NOI), more and more property managers are finding that a "utilities included" model is not practical.

We asked survey participants if they billed back their properties' utility expenses to residents. An overwhelming majority – 69%- of survey participants do NOT bill their residents for utilities, while 31% do. Firms that bill residents for utilities typically do so through an allocation methodology (commonly known as RUBS), or by way of installing submeters. For the ones who do not bill residents for utilities, we will discuss how they recoup those costs in a moment.

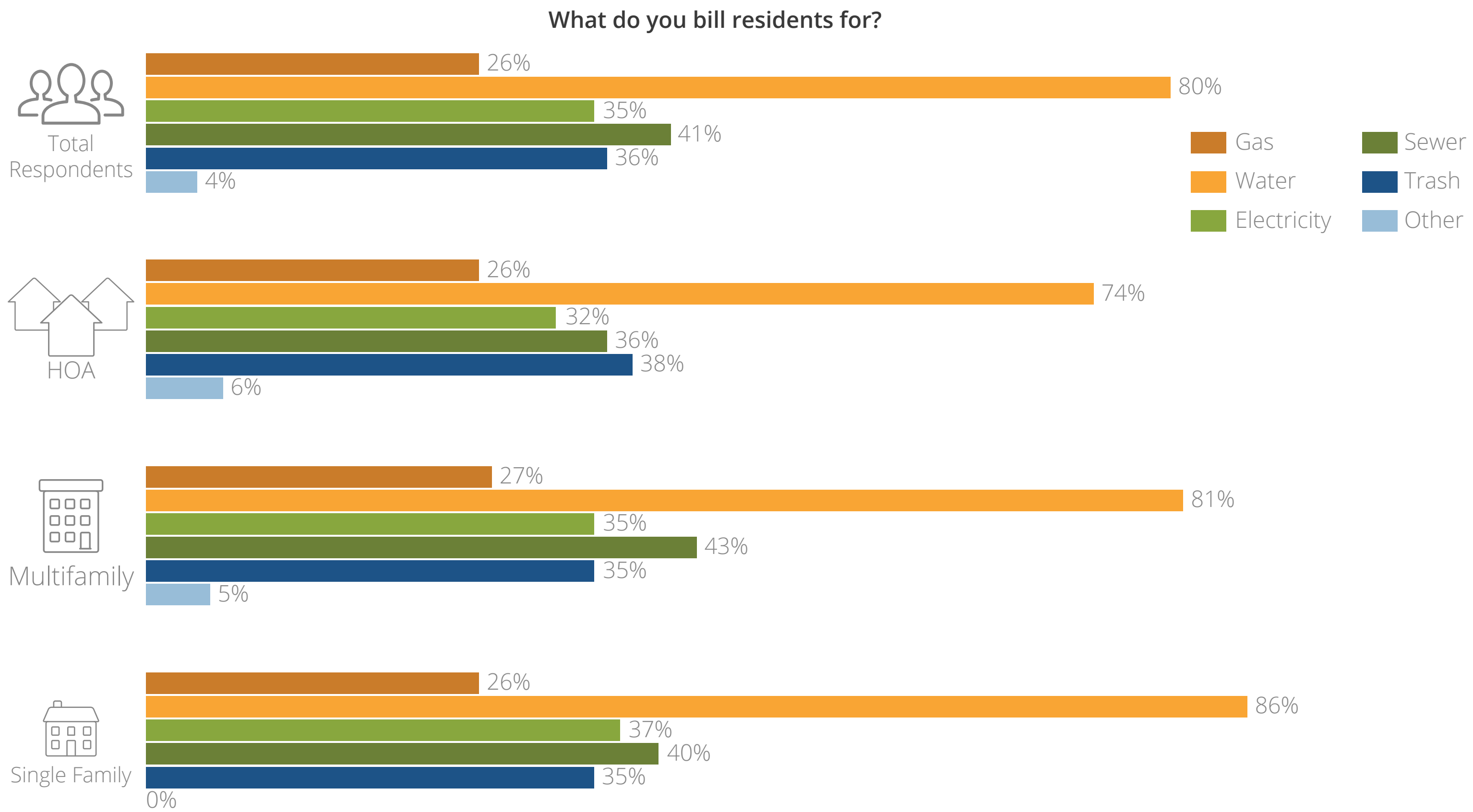


Multifamily firms report billing residents for utilities most often (43%) among the segments, and single family least often (25%). Residents who live in single family homes are the most likely to pay the utility companies directly. Single family structures permit utility companies to easily meter the resident's usage.

Only 28% of HOAs reported billing residents for utilities, however given the nature of a HOA, most utilities are the responsibility of the home owner already, making billing less necessary.

For the property management companies who do NOT bill for utilities, the majority have their residents pay the utility providers directly. Others choose to build utilities into the rent or dues, though this practice is becoming less common, and does not allow property managers to accurately recoup these expenses.

When we asked firms to specify which utilities they bill residents for, water was the most common response across all portfolio types. Most water municipalities are only able to master meter rental properties, forcing property managers to handle the billing of this expense. Billing residents for water is most prevalent among single family firms (86%), followed by multifamily firms (81%), and then HOA firms (74%).



After water, the types of utilities that are billed to residents vary across portfolios, as seen in the graph. However, a consistent finding across the three segments is that electricity is the least commonly billed utility, with only 26% of firms reporting that they bill residents directly. Electricity providers have more resources that allow them to individually meter and bill residents directly. Also, there are strict regulations surrounding electricity and how those costs are allowed to be recouped, making it more efficient for the resident to bear those costs in their own name.

[1]Deregulated Energy:
Multiple retail suppliers buy and resell electricity off of a grid.

For markets where deregulated energy[1] exists for electricity and gas (such as Texas, New York, Pennsylvania, etc.) third party bill back is not nearly as common for these utilities unless the presence of submeters exists. The term 'deregulated' means that energy prices are not regulated by the government. In deregulated markets, consumers can choose their supplier, similar to other common household service providers.

For firms who specified that they bill residents for "other" utilities, those responses included services like pest control and cable.

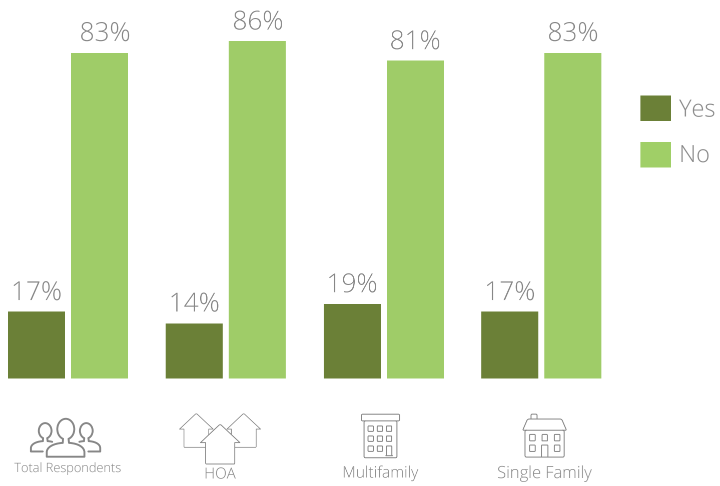
Convergent Billing

Companies who bill residents for utility charges have the option to use convergent billing. Convergent billing is the practice of consolidating all of a resident's monthly or quarterly charges into a single bill, with each charge showing as its own line item. The most common convergent billing scenario is for rent, utilities, and other ancillary charges (for example, parking, cable, workout room fees, etc.) to be compiled into one bill. Property managers use convergent billing to streamline the collection process, and to increase the timeliness of payments from residents. In addition, offering residents a simplified bill that can be paid online in a single transaction is beneficial for both parties.

Survey participants were asked if they utilize convergent billing to recoup expenses from their residents. An overwhelming majority (83%) do not use this method to bill their residents. The numbers hardly vary across portfolio types. Multifamily property managers use convergent billing the most (19%,) where HOAs use it the least (14%).

Convergent billing is a relatively new service offered to property management companies. A low percentage of companies utilizing convergent billing is not surprising given that the industry is still sluggish in its adoption of online payments. Another explanation surrounding low utilization of convergent billing involves the lack of competitive offerings for this service. Few online payment providers who cater to the property management industry offer convergent billing, preventing their clients from utilizing this service. As a result, the majority of property managers must bill and collect rent and utilities separately.

Do you utilize convergent billing to recoup expenses from residents?



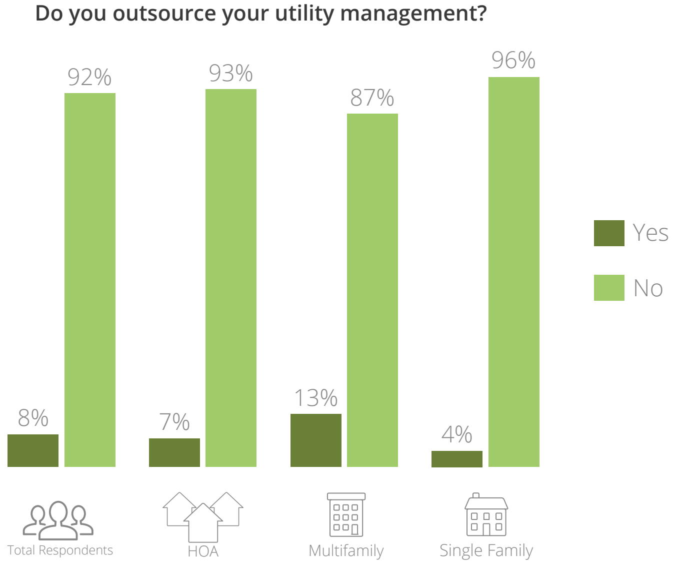
Utility Expense Management

Billing residents and recouping utilities expenses are an important driver for a Property Manager's bottom line. Another aspect of utility expense management is the actual accounts payable (A/P) activities, which can be a time-intensive task for property management firms. The typical process includes opening invoices, analyzing and recording the data, and submitting payments. Some property management companies choose to outsource this process to utility expense management providers in an effort to reduce administrative work, and to eliminate billing errors and late fees.

Nearly all of our respondents - 92% - do not outsource the management of their property's utility expenses, and instead handle the process in-house.

This represents a great opportunity for providers of utility expense management, and specifically, utility invoice processing. Lack of awareness surrounding these services is a major factor contributing to its low utilization.

Historically, property management companies have been wary about using a third party for utility expense management. As utility expense management vendors have expanded their offerings to include things like bill audits, resolution disputes, and vacant cost recovery, more and more property managers are implementing these services. Now, 1 in 10 property management companies are outsourcing this function, that in the past was predominantly handled 100% in-house.



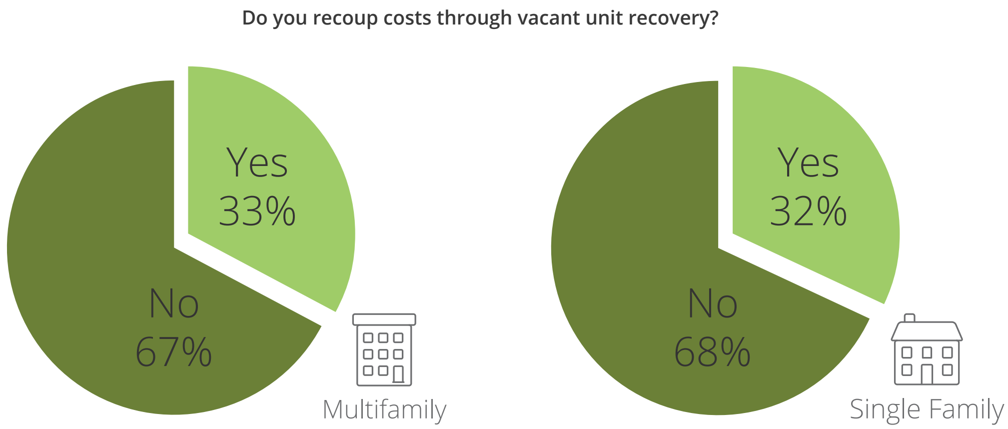
Vacant Cost Recovery

Utility invoice processing is only one part of the Utility Expense Management services that exist in the marketplace, though not widely known. Another opportunity to recoup costs and potentially generate additional revenue is vacant cost recovery.

Vacant cost recovery is needed when new residents fail to transfer utilities into their name in a timely manner upon move-in. With many properties across the nation operating under what is known as a continuous service agreement (CSA), it means that when a meter at a unit is not assigned to a resident, the charges automatically default to the property manager. The time between utilities being assigned from a former resident to a current resident can cost a property management company thousands of dollars annually. To eliminate these unnecessary expenses, some property management companies rely on vacant cost recovery services.

Through vacant cost recovery, a management company's utility bills are compared to their resident ledger. Overlaps between service dates on the bill and the lease dates are identified, and the corresponding costs are billed back to the resident.

While this can result in impressive savings for management companies, only 33% of multifamily firms, and 32% of single family firms conduct vacant cost recovery. The remaining 67-68% of firms likely do not have the time or resources needed to perform this task.



> "The time between utilities being assigned from a former resident to a current resident can cost a property management company thousands of dollars annually."

Given that such a low rate of firms outsource utility expense management, it is not surprising to also see that few are practicing vacant cost recovery. Regrettably, this means many property management firms are absorbing excessive utility costs.

What many property management companies are unaware of, is that some utility expense management providers also conduct vacant cost recovery services on their client's behalf. And, it is not unusual for money recouped through vacant cost recovery to offset costs associated with the utility expense management service, making it a self-funding operation.

Conclusions & Predictions

The most obvious takeaway from our research is the lack of property managers who are utilizing resident payment, billing and utility management solutions. As awareness of these services grows, we believe the adoption of each of these solutions will climb over the next year for a variety of reasons.

Online Payments

The percentage of firms who offer ACH and credit cards will undoubtedly increase during 2016. In fact, property management companies who do not offer online payment options will experience a decrease in resident satisfaction if they only accept payments by check. In a research paper published by Fiserv, **Meeting the Unique Billing and Payment Needs of the Millennial Generation**, they report a direct correlation between billers that offer multiple payment options, and customer satisfaction, especially among millennials. Multifamily firms, who have a high percentage of millennial renters, and HOAs, whose audience is most likely to have debit/credit cards, will add online payment solutions at a high pace during 2016.

ACH payments will likely remain the most popular payment offering. Fiserv's research also finds that 68% of people think that e-check payment options are important for a biller's website to offer.

> "Property management companies who do not offer online payment options will experience a decrease in resident satisfaction if they only accept payments by check."

Resident Billing

Why will HOA's and property management companies take advantage of third parties to manage their resident billing programs?

The regulatory landscape of managing and billing residents for utilities is evolving more than ever. There are no uniform federal regulations for recovering utility expenses, and the rules vary widely at the state and local levels. Penalties for incorrectly managing utility billing can be stiff, and property managers are often left wondering what their best options are.

Most importantly, many property management firms lack in-house resources to manage resident billing efficiently. Resident Billing providers reduce the amount of working capital needed to manage this process. They also stay abreast of state and federal regulations, and can implement the correct billing procedures to keep property managers in compliance.

Convergent Billing

There will also be an uptick in firms implementing convergent billing solutions in 2016. Convergent billing has steadily been gaining popularity in the past few years among property management firms as it proves to be a useful way to increase on-time payment collections and optimize Net Operating Income (NOI). There are benefits for residents as well. Clear, concise bills reduce confusion about charges, and being able to pay all of their charges at once, especially online, are especially convenient.

Furthermore, the decline of a “utilities included” model will increase the number of convergent billing users. In many markets, rents are at the highest they have been in years; giving property managers little wiggle room to raise rents further. Therefore, more property managers will use convergent billing to recoup utility charges in a clear and efficient manner.

> “Rising utility costs will be a driving force behind firms implementing utility expense management solutions.”

Utility Expense Management

Rising utility costs will be a driving force behind firms implementing utility expense management solutions. For states that are not in a deregulated market, the Energy Information Administration, predicts that already high prices will continue to rise in 2016. Property management companies will steadily rely on utility expense management vendors - particularly, bill auditing, and dispute resolution services - to help keep these costs to a minimum.

Like resident billing, many property management companies lack the resources to efficiently handle utility expense management in-house. Vendors are quickly catering to this shortcoming. More vendors now provide utility expense management solutions, and will continue to raise awareness about these services among property managers. As awareness of these services grows (as well as the improved NOI it brings), more property management companies will rely on the outsourced help as a way to conserve their in-house resources.

“Professionals in the property management industry are recognizing the cost savings and efficiency gains from having adequate billing, payment, and utility expense management technologies. ”

In short, many professionals in the property management industry are recognizing the cost savings and efficiency gains from having adequate billing, payment and utility expense management technologies. More providers are offering these services, and making them easier for property management companies to implement. 2016 will see a rise in new services being implemented among HOA, multifamily, and single family firms, giving them improved NOI and time to focus on revenue-generating activities.

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