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The ultimate guide to utility management for property managers

Proven tactics that curb utility spending, minimize usage, and recover costs

Contents

Cutting operating costs takes center stage

2020 was poised to be another strong year for the multifamily industry. But with the COVID-19 pandemic being the ultimate plot twist, multifamily companies have been trying to reconfigure their business plans for the remainder of the year. With new constructions stalled, rent freezes enacted in some markets, not to mention unemployment affecting millions of renters, it’s safe to say that 2020 revenue will not be as solid as once thought.

With cash flow being impacted at least for the short-term, you can still salvage Net Operating Income (NOI) by scrutinizing operating expenses and eliminating needless expenditures.

This guide will provide a singular focus on one of the biggest property operating expenses - utilities- and offer step-by-step guidance for taming those costs.

Does your organization currently have an energy/utility strategy?

Source: NAA’s 2019 Apartmentalize, Get Smart: Top Tech Trends for Better NOI

- 39% — We do not currently have a strategy
- 18% — We do not currently have a strategy but are actively developing one
- 8% — We do have a strategy but have not started execution
- 36% — We have a strategy and are executing on that strategy

Why utilities?

You're well aware how many expenses are involved in managing a community. But when you analyze each major expense bucket, most have little or no room for improvement.

Market rent properties operating income & expense data

	% of GPR	Managers ability to impact over medium term
Revenue		
Gross Potential Rent (GPR)	100%	
Operating expenses		
Taxes	8.2%	Low
Salaries & Personnel	8.1%	Low
Utilities	**5.5%**	**Medium**
Contract Services	4.1%	Medium
Management Fees	3.3%	Low
Repairs & Maintenance	3.3%	Medium
Administrative	1.6%	Medium
Insurance	1.4%	Low
Marketing	1.0%	Low
Net Operating Income	**63.5%**	

2019 NAA Survey of Operating Income and Expenses in Rental Apartment Communities

Utilities, which according to the National Apartment Association (NAA), are the 3rd largest expense, are an exception. There are numerous ways to minimize what's being used in your building and what your out-of-pocket expenses are, ultimately leading to better margins. With the help of modernized utility management strategies, IoT technologies, and new software platforms, you can improve visibility and curtail costs like never before.

What's surprising is that while there's so much room to control utility costs, the majority of multifamily companies have yet to get a plan into place. During the National Apartment Association's Apartmentalize 2019, the majority of attendees admitted that their firm did not have any sort of utility strategy, or were trying to come up with one.

Between rising costs and current economic conditions, there's never been a more pressing time to develop your strategy for minimizing utility expenses. Utility costs have been steadily rising, and without a proper optimization strategy, your NOI can suffer a major blow. Water and sewer costs alone have risen for the eighth consecutive year, according to a study by Blue Research, and in some regions, customers have seen bills rise by as much as 33%.

On top of rising utility rates, residents who are following social distancing measures are spending more time in their unit, leading to higher-than-average bills. Here at Zego (Powered by PayLease), we've heard stories about how our own employees' boredom and efforts to recreate hobbies lead to excessive energy consumption. From bored kids playing with the hose, to cranking the thermostat to recreate a hot yoga studio, it's likely that your residents are also increasing utility usage in ways you wouldn't expect. And if a second COVID-19 wave hits as predicted, you'll want to have an existing strategy in place to manage excessive usage and recoup your costs.

So let's dive in and explore the key components of an optimal utility strategy. We'll walk you through these four key areas that will make the biggest impact on utilities, as well as the pieces you need to know for effectively managing them.

- **Benchmark utility efficiency:** learn what insights you can gain by utility benchmarking, how you can get started on it at your properties, and what best practices you should apply
- **Optimize utility usage & consumption:** how can you minimize property utility consumption and incentivize residents to conserve
- **Maximize utility expense recovery:** what are the best tactics for recovering your utility expenses and how do those workflows impact your business
- **Streamline utility accounts payable:** what processes associated with utility AP lead to wasteful spending and how can you streamline this burdensome process

Multifamily utility management best practices

Each of the following four areas play a pivotal role in the success of your organization's utility management strategy. Learn how to apply these tactics portfolio-wide to drive optimal results for your business. We'll dive deeper into each of these points throughout this eBook.

Benchmark utility efficiency	▪ Utilize benchmarks as a foundation to prioritize efficiency upgrades and retrofits ▪ Use benchmarking data to validate the effectiveness of your investments ▪ Leverage benchmarks to apply for green loans to make buildings more efficient ▪ Become ENERGY STAR certified to save the environment and attract renters
Optimize utility usage and consumption	▪ Motivate residents and staff to conserve utilites ▪ Communicate conservation tips to residents ▪ Charge residents for utility consumption ▪ Combine rent and utilities in one statement
Maximize utility Expense recovery	▪ Ensure you are recouping the maximum allowable utility cost from your residents each month within your local and state regulations ▪ Determine each unit's share of the property utility bill utilizing RUBS or Submeters ▪ Optimize the billing process internally or work with a provider to outsource the effort and free up your staff to focus on high-value tasks ▪ For new billing programs, communicate billing changes to residents through lease updates and your other preferred resident communication channels ▪ Monitor and abide by state and local utility billing regulations to avoid fines and legal troubles
Streamline utility accounts payable	▪ Pay utility providers on-time to avoid late fees. Implement a system to manage short payment windows (less than 30 days) and track missing invoices ▪ Audit invoices for errors and to identify potential property issues like leaks or equipment malfunctions ▪ Compare utility invoices to resident ledgers to identify residents who haven't moved utility accounts into their name. **Pro Tip:** Assess a fee to residents that are tardy to transfer utilities into their name to compensate for the extra administrative work ▪ Centralize your utility AP within your organization or by outsourcing it to a Utility Expense partner to gain visibility and identify where errors and discrepancies arise

Benchmark utility efficiency

What is utility benchmarking?

You've heard the saying. "You can't manage what you can't measure." And for utilities, routinely measuring your buildings' usage is the first exercise that will allow you to keep your costs in check. Regularly measuring, tracking, and analyzing your buildings' utility usage - a practice known as benchmarking- is a fundamental asset management practice that provides enormous value to apartment operators.

Some studies show that apartment communities waste 33% of the energy they consume. So understanding where the inefficiencies lie within your buildings is the first step to reducing wasteful spending on utility bills. With benchmarking, multifamily operators can gain the following insights about their buildings' energy usage:

- How energy and water usage changes over time at the property level and portfolio level
- Which properties are most and least efficient
- How property performance compares against others within and outside of your portfolio
- Where to prioritize investments for energy efficiency upgrades

What are the use cases of utility benchmarking?

Measuring and analyzing your buildings' efficiency can identify areas for improvement, which ultimately results in huge savings. According to Fannie Mae Multifamily Energy and Water Market Research Survey, buildings that are the same size and have similar characteristics can have vastly different energy costs depending on how efficient they are. The least efficient property may end up spending $165,000 more in annual energy costs than the comparable property that operates the most efficiently. Once you establish which buildings in your portfolio are the most and least efficient, what do you do with that data? Here's how companies use their benchmarking data.

- **Prioritize retrofits:** Benchmarking provides a foundation for all of your efficiency efforts and helps you set priorities.
- **Quantify retrofit effectiveness:** Once you've implemented your chosen retrofits, benchmarking data validate the effectiveness of your investments.
- **Qualify for green financing:** Green loans such as Fannie Mae's Green Rewards and Freddie Mac's Green Advantage give financing to multifamily firms who want to make their buildings more efficient. But to qualify, you need to produce benchmarking results.
- **Become ENERGY STAR certified:** Not only is this good for the environment, it attracts renters. According to studies, buildings with an ENERGY STAR certification garner slightly higher rental rates. But to gain that certification, first you need to present your benchmarking data.

How do I capture utility data?

While it may sound daunting, what benchmarking really comes down to is organizing data and entering it into a software tool. No special skills are needed beyond understanding the process and familiarizing yourself with your chosen platform. The effort associated with data entry can vary with the size and complexity of your portfolio. There are options for automating the process of transferring your utility data into a benchmarking tool in a few ways:

- **Direct from your utility provider:** some utility providers will populate aggregated, whole building data.
- **Working with a third-party utility provider:** if you use a third party to process your utility AP, they may provide you with benchmarking platform which will automatically populate your specific data.
- **Spreadsheet upload tools:** You may have data already compiled within a spreadsheet for your properties. You can simply upload this to the Portfolio Manager dashboard.

Earning ENERGY STAR certifications and amassing savings

“We participated in our first National Building Competition and 14 Bozzuto-managed communities achieved the ENERGY STAR — the most by any third party management company. By benchmarking every community we manage in ENERGY STAR’s Portfolio Manager, we are able to show how teamwork, targeted communications and energy conservation measures add up to massive savings.” Peter Zadoretzky, Director of Sustainability, Bozzuto Management.

Impact of benchmarking

Benchmarking ultimately leads to utility savings for multifamily firms who regularly analyze their data. According to a WegoWise study, properties that used a benchmarking platform saw a 4.3% reduction in all utility expenses after a year, and over 10% after benchmarking for 36 months. ENERGY STAR reports that its Portfolio Manager users see slightly higher cost savings - 11 % over one year and a five-year decrease of 28%.

From the frontlines, companies using benchmarking have a wide range of successes and use cases.

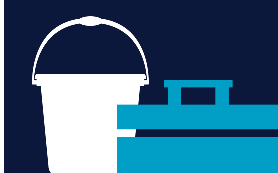
Stopping disasters before they happen

“Today we get a report every single day about water use in every apartment. I can check it against past records to see if it’s not consistent with the history. If it is, we go and check it out. It might be that the resident is doing extra laundry or taking more or longer showers, but it also could be that a toilet, showerhead or faucet is leaking.” Dion Smith, Chief Maintenance Supervisor, Bozzuto Management

Strategic retrofits pay off

Homeowners Rehab Inc., a multifamily housing developer in Cambridge, MA, reports that after identifying the least efficient buildings in their portfolio, they worked with energy auditors to implement targeted heating, lighting and water retrofits, and installed solar and cogeneration systems across 68 properties. As a result, HRI is now saving a total of approximately $218,000 a year in utility costs, representing a 15% reduction in total costs. And thanks to their benchmarking efforts, they qualified for $850,000 in utility-sponsored retrofit programs that culminated in $350,000 in annual savings.

Identifying wasteful equipment



Celtic Property Management, based in Scottsdale, AZ spoke to NAA about the cost savings they’ve seen since benchmarking. Audrey McEntee, director of operations and compliance pays particular attention to the utilities data, which can provide a heads-up when something at a community is off. Recently, the data proved useful when an apartment community had a major water leak. Maintenance staff eventually figured out that faulty water-saving, dual-flush toilet valves were causing the leak. Benchmarking data is helping the company to recoup at least some of the $200,000 in losses from the valve manufacturer.

Optimize utility usage and consumption

Motivate residents and community staff to conserve

Making sure your buildings aren't using unnecessary energy is a great first step for improving your utility spend. Next, you'll want to focus on minimizing usage from a resident and community staff standpoint. Ultimately, residents and community staff are the ones flipping the light switches, running the faucets, and adjusting the thermostat. So it's critical to have tools and policies in place that create mindfulness about their consumption patterns and incentivize residents to use less.

Smart apartments bring visibility, savings

One technology that delivers visibility into utility consumption and optimizes usage is smart apartment technology. If you don't have them installed in your units already, you might think that smart devices are a way to add modern touches to your community while garnering higher rent premiums. But part of the real value they bring apartment operators is the ability to minimize utility expenses. Smart apartment systems can provide real-time energy consumption data to help apartment operators identify savings opportunities and preemptively handle any budding catastrophes like leaks, or malfunctioning HVAC systems.

In this economy, you may be hesitant about investing in a new technology. But the utility savings, along with the potential of increased rent premiums, is powerful and quickly leads to ROI on your devices. One study conducted by the American Council for an Energy-Efficient Economy estimates that buildings with smart devices save between 8-18% on energy costs. If implemented portfolio-wide the savings that smart devices bring can be substantial.

Another benefit? Property values see a boost since smart apartment technology increases building valuations. Your smart buildings will arguably have a much higher valuation than a non-smart building in the same location.

In-unit savings

We've all been guilty of leaving our home with the lights on or the thermostat cranked. Smart home devices minimize wasted energy that stems from forgetfulness by letting residents control lights, thermostats, outlets, and switches from their smartphone. By having remote access, they can turn off devices they may have left on. Or

they can program each device with an on/off schedule so they don't even have to remember. Smart devices help residents save money on monthly expenses, which ultimately drive down your costs too. At the same time they create a unique living experience for your residents, adding to the value of their apartment community which strengthens retention rates.

More preventative maintenance, less emergency maintenance

Smart apartment technology alerts staff to potential problems in your communities, helping you avoid costly disasters linked to utilities. IoT technology and sensors can detect things like leaks, mold, or malfunctioning HVAC systems, which usually result in excessive utility usage.

For instance, let's say a faucet springs a leak in one of your units. It could possibly take weeks for your resident to notice, causing water usage to spike, or worse, cause water damage. The average cost of restoring water damages can range from $2,000-$5,000 with some repairs reaching as high as $8,000 for more severe damage repair. If you had water sensors installed on the building's plumbing system, the leak would be identified in a matter of hours, not weeks, and the problem could be fixed before it became a bigger and more expensive repair.

Fault detection and diagnostic software systems make this maintenance easier and more efficient. These tools quickly identify the most important issues so that maintenance staff can prioritize their work and fix issues before complex problems or large energy losses arise.

Being alerted to these urgent situations saves you thousands of dollars per year, not to mention the logistical headaches your property staff must endure when trying to resolve these catastrophes. It lets building engineers monitor, control and constantly analyze all aspects of the building from anywhere, resulting in faster identification and response to systems issues as well as better problem prevention and property performance.

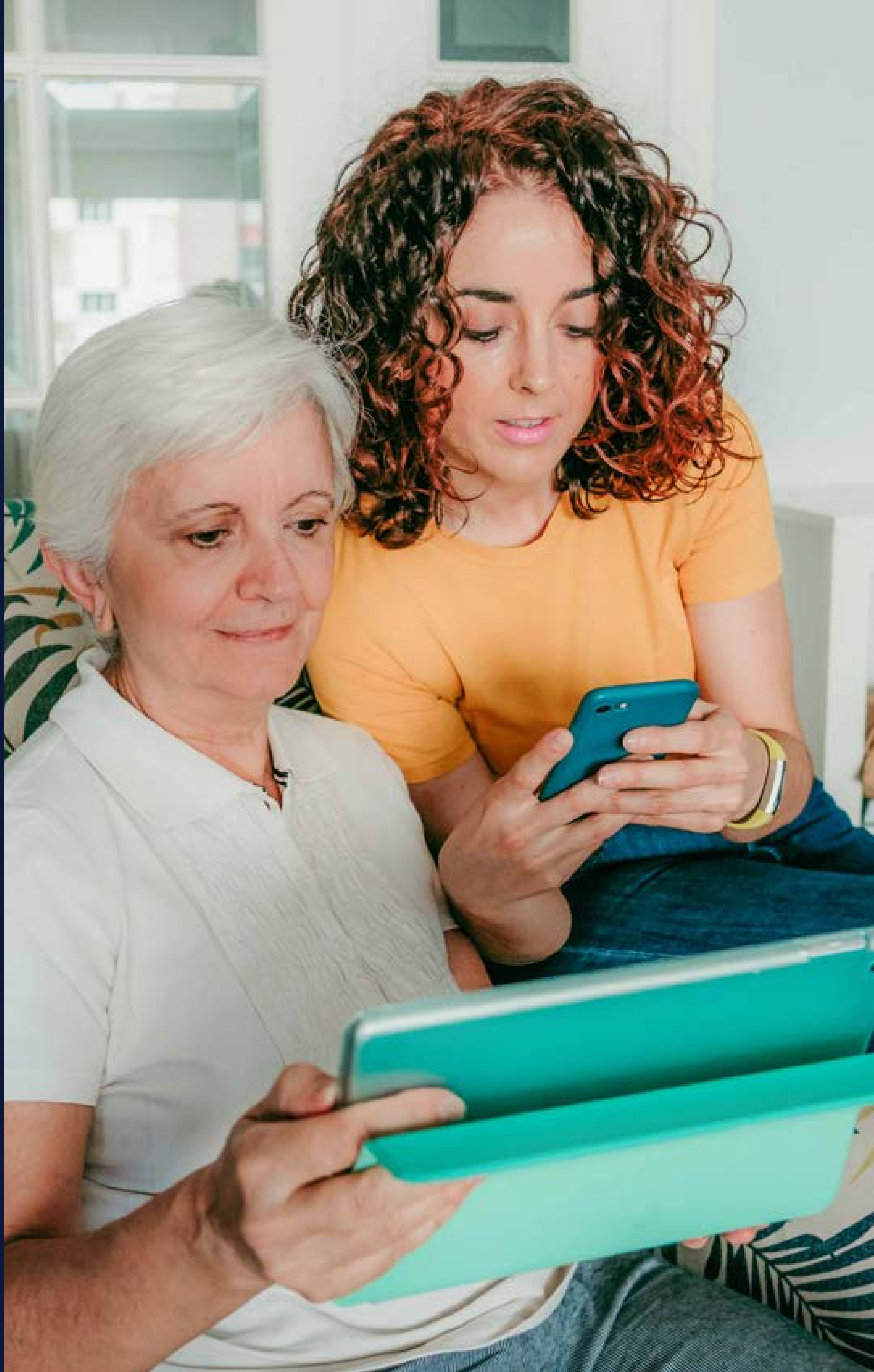
More efficiency with vacant unit management

Having smart technology in your units automates several tasks that cause wasted energy costs in vacant units. They allow easier, more cost-effective turnovers when a lease is up and while the unit is empty. Automated thermostats will keep vacant units at a proper temperature. Should a prospect wish to tour the unit, community managers can remotely program the system so that it's at a comfortable temperature at the scheduled time.

From an operational standpoint, smart devices are a powerful ally to tame vacant unit expenses. In the session, Get Smart: Top Tech Trends for Better NOI, at NAA's 2019 Apartmentalize conference, an executive at BH Management approximated that using smart devices saved the company an average of $38 per month, per unit.

Communicate conservation tips to residents

With everything going on in the world, it's easy to go through the motions without considering if our patterns are using unnecessary energy. Regularly reminding residents about behaviors that save energy (as well as waste it) can help optimize usage across your communities.



Keeping conservation top-of-mind

Here are some energy-saving tips you can post on social media channels, communicate in newsletters, utility bill statements, or include in move-in packets.

1. **Turn off the lights:** Shut off lights when you leave a room
2. **Save energy with LEDs:** Swap bulbs with LED to save energy
3. **Wash when it's full:** Only run the dishwasher or washing machine when it's fully loaded
4. **Unblock air vents:** Allow air to flow freely throughout apartment
5. **Take time to unplug:** Unplug unused electronics from outlets
6. **Tilt your blinds:** Tilt blinds upward to block the sun and heat
7. **Turn off the tap:** Make sure faucets are completely off and not dripping
8. **Activate computer power saving settings:** sleep or hibernate modes save your laptop battery and use less energy
9. **Try daylighting:** Work by daylight instead of lamps
10. **Report temperature imbalance:** Contact maintenance if a room gets too hot or cold
11. **Reach for task lighting:** Use desk lamps instead of ceiling lights

A friendly competition: who can conserve the most energy?

Contests are also a helpful way to motivate residents to reduce their energy consumption. Bozzuto Management, whose community, The Fenestra, won the Environmental Protection Agency's (EPA) National Building Competition, saw reduced energy consumption after holding a voluntary competition among residents.

Here, residents were encouraged to provide their monthly electric invoices to site staff to determine which were achieving the largest electric savings each month by unit type. The residents with the most substantial savings at the end of the campaign were awarded a Philips Hue starter kit, which enables remote control via smartphone of lighting and appliances within their apartment.

Charge for utilities to alter consumption patterns

The most impactful way to optimize utility usage is to charge residents for their consumption. A survey conducted by Fannie Mae backs this up. They found that when owners paid for all energy costs, median annual energy use was 26% higher than when residents were responsible for paying the energy costs. A 26% decrease in utility consumption will make a dramatic difference on NOI.

We all use more on someone else's dime

Think about your own habits when you're not on the hook for utility bills – for instance when you stay at a hotel. Have you ever left your hotel room without bothering to turn off all of the lights? Enjoyed a hot shower for longer than you normally would? Or had the AC running at a low temperature while you're out? These same wasteful behaviors are repeatedly occurring in your buildings if you don't have financial motivators for conservation.

If you are not charging residents for utility consumption in some shape or form, doing so is a huge opportunity to recover a significant portion of these expenses. Some property managers don't want to be the first in their neighborhood to make the switch fearing backlash from their residents. But a study by The Martec Group found that 37% of multifamily firms are billing back for at least one utility. That number was up 5% from the previous year, showing that it's a growing trend. And with the looming threat of a second wave of COVID-19 cases projected for the fall and early months of 2021, getting going on this sooner rather than later will offset higher-than-average utility bills as a result of residents spending more time at home.

It's safe to say that holding residents financially accountable for their utility consumption is a must. The key for maximizing recovery of these expenses is with a consumption-based program, meaning you bill residents based on what's used in their unit and, in some cases, a share of common area expenses. We'll outline the steps of a consumption-based model later in this guide, but first you'll want to understand why this is the most advantageous for your business as opposed to two commonly used strategies: charging a flat fee and including utilities in rent.

Increase revenue and NOI through utility billing

Juan Leyva, Acquisition Specialist at Wehner Multifamily, has seen the ramifications of not billing residents for utility consumption, as well as the positive effects of recouping those charges. "Not billing residents for utility consumption results in a loss for our owners. Our goals for our properties are to increase revenue per month and NOI, and one way to make that happen is to bill residents for utilities across the portfolio."

There are 3 strategies to manage utility expenses

1. Charging a flat fee each month for utilities
2. Bundling utilities in the rent to account for utility costs
3. Charging residents based on their utility consumption

Flat fee models leave money on the table

A strategy many apartment operators gravitate towards is charging residents a monthly flat fee for utilities. When each resident pays the same fee every month, it removes the guesswork of figuring out who owes what while still bringing in revenue from residents. But there are several shortcomings of using this strategy that overshadow the time savings. Remember, your goal is to reduce consumption and lower utility spend, which is not the result you get from using this model. Here's how you can get burned with the flat fee model.

The pros and cons of a flat fee utility model

Pros	Cons
It's easy for property owners & residents Charging the same fee month-after-month removes a significant amount of work involved with recovering utility expenses. And, residents know exactly what to budget for each month.	**Unpredictable cash flow** Utility rates are fluid. Charging residents a flat fee leaves your cash flow volatile as rates fluctuate, and leaves money on the table as rates rise. And unfortunately, if your organization is under-charging residents, you'll be stuck in a cycle of losing money, because due to regulatory restrictions, you may be prohibited from revising your flat fee depending on your property's location.
You aren't footing the entire utility bill Even though you're likely leaving money on the table by potentially undercharging, this model still provides some cost recovery.	**No incentive for residents to conserve** Charging a flat fee means residents are essentially getting an "all you can eat" model. And what does one do in this model? Yes, you end up eating more. In other words, there is no incentive for conservation when they pay the same amount every month.
	Regulatory and legal risk We hinted at this above, but flat fee models put you at legal risk. Some states prohibit residents paying more money than their actual utility charges, so if your bill amounts to less than what you charge residents, you're potentially breaking the law.

Bundling utilities with rent over-inflates rent

Charging a higher rent to account for the price of utilities used to be a universal practice for property management companies. Like the appeal of charging a flat fee, bundling utilities in rent doesn't require any extra work from community staff. But the financial drawbacks steer many away from utilizing this model.

The pros and cons of bundling utilities into the rent

Pros	Cons
It's easy Inflating the rent prices means community staff doesn't spend time calculating what's owed or billing it to residents.	**You're vulnerable to competitive pressure** In a competitive rental market it puts the property at a competitive disadvantage by artificially inflating rent prices. Conversely, if a property is charging competitive rent prices that include a flat fee for utilities they are effectively charging too little by bundling those items.
	Unpredictable cash flow Your utility charges will never be the same each month, so at some point, you're either short-changing yourself or over-inflating your rent which doesn't bode well for resident retention.
	Higher utility bills There is no incentive for residents to conserve utilities in this scenario. Since utility bills are out of sight, out of mind for residents, they tend to consume more, leaving property owners on the hook.

Consumption-based billing maximizes recovery and encourages conservation

Consumption-based billing means residents pay their property management company for what they use in utilities, in addition to their rent. This ensures that property management companies can recoup most, if not all, of the utility expenses, which is why we are in favor of this model.

The pros and cons of consumption-based billing

Pros	Cons
You're recouping the maximum allowable costs each month Because residents pay you for what they owe, you aren't losing money.	**It requires more steps than the other two models** Determining what each resident owes is more time consuming than a flat fee or inflated rent.
Residents are motivated to conserve Because residents pay more when they use more, they are more inclined to practice conservation.	**There are regulatory guidelines to follow** Each state and municipality has certain regulations about billing for utility charges and staying on top of those guidelines can be tricky.
Increased NOI Because you are recovering more money and simultaneously lowering your bill, it increases property NOI.	
More accurate budgets Knowing you will recover a certain percentage of utility costs each month helps minimize budget variances.	

Quick glance: how consumption-based billing is superior to other utility recovery models

Utility recovery method	Bundled in the rent	Flat fee	Consumption-based
Impact to NOI	Harmful. By inflating rent to account for utilities, you potentially under-charge. Plus, it makes rent increases difficult since rent is higher at your property than properties that charge separately for utilities.	Harmful. It's inevitable that there will be months that your fee only partially covers each unit's utility consumption.	Positive. You recover what each unit consumes. This drives down consumption, and overall costs. And when operating costs are reduced, NOI is stronger.
Are there legality issues?	If a resident doesn't make a complete rent payment and you need to start the eviction process, this model can impact how you apply the deficiency and the ability to assess late fees.	Yes. A flat fee has the potential to be more than what a resident would pay if based on consumption. Overcharging for utilities puts your property out of regulatory compliance.	Companies have to be in compliance with all state and local billing regulations.
How is consumption impacted?	Consumption is high because residents don't have motivation to curb usage.	Consumption is high because residents don't have motivation to curb usage and want to get their money's worth.	Consumption is minimal because residents pay more for using more.

Consumption-based billing best practice: combining rent and utilities in one statement

If you want to forge ahead on consumption-based billing, a best practice is to include the utility charges and rent in one combined statement, and if possible, enable residents to pay all of their monthly charges in one transaction. This practice is referred to as convergent resident billing.

Apartment operators often choose convergent resident billing because it increases the number of complete and on-time payments. Plus, it's more convenient for residents who don't have to make two separate payments. And since these bills often contain a link for residents to pay online, it tends to boost digital payment adoption.

The benefits of convergent resident billing

- Your residents receive one comprehensive, itemized bill that includes rent, utilities and all other property-related charges
- Cash flow improves when residents make one payment (usually online) for all charges. Your dollars flow straight to you, no intermediaries
- If a resident fails to pay, you have several recourse options available, including eviction

Impact of usage optimization strategies

Giving residents insights into their utility usage and financial motivators to practice conservation is one of the most impactful ways to minimize water and energy costs across your communities. Now we're going to share some real-life examples from multifamily organizations who have put the wheels in motion on the optimization strategies we just outlined.

The payoff from reducing utility usage

For companies who actively work towards optimizing resident utility consumption, the financial impacts can be substantial. A research study of multifamily companies found that those who began a consumption-based billing program saw a 30% increase in recoupment rates. But don't take our word from it, read examples and testimonials from management companies that have experienced these savings first-hand.

Implementing resident billing lowers overall utility costs and increases recoupment rates

"The savings has been remarkable since we started using Zego Utility Resident Billing. For example, a typical water and sewer bill at our 197 unit property is somewhere between $4,000 and $5,000 per month. Recouping those costs from residents at multiple properties makes a huge difference financially." Michelle Kimble, Regional Manager, AC Lewis

Recouping utility expenses leads to increased cash flow and net operating income. Here is a simple example that operators can use to estimate recoupment at their properties:

150 units

Estimated monthly bills
$13,000

Water/sewer
$5,000

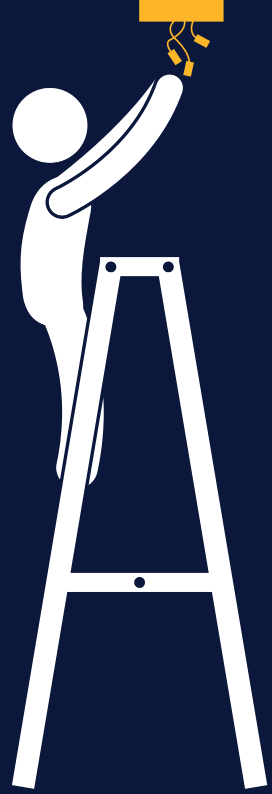
Electric/gas
$7,000

Trash
$1,000

Common area deductions
15% of $13,000=
$1,950

Positive cash flow impact

Monthly	$13,000 - $1,950	**$11,050**
Annual	$11,050 x 12	**$132,600**
5-Year	$132,600 x 5	**$663,000**



Smart apartment technology promotes conservation, efficiency

"Smart apartment technology is a huge driver of operational efficiencies for us. It helps us positively impact the environment and empowers residents like never before. We've also calculated that we are saving $38/per month per vacant unit thanks to smart technology." - Taylor Wiederkehr, BH Management, Director, Innovation Services, BH Management (Get Smart: Top Tech Trends for Better NOI)

Resident engagement campaigns lower energy usage

Bozzuto Management spoke to NAA about their resident communication efforts to drive consumption. The staff and resident engagement campaigns are credited with contributing to a 3.5% reduction in whole building energy use intensity and 283kGal reduction in whole building water usage.

Maximize utility expense recovery

How to recoup as much as possible without burdening staff

Now you know the importance of charging residents based on their utility consumption and the positive effects it has on NOI. But the process of billing them for their charges and collecting the money is complex. This section will walk you through the best practices that maximize your recoupment rate and ensure there's no strain on your staff.

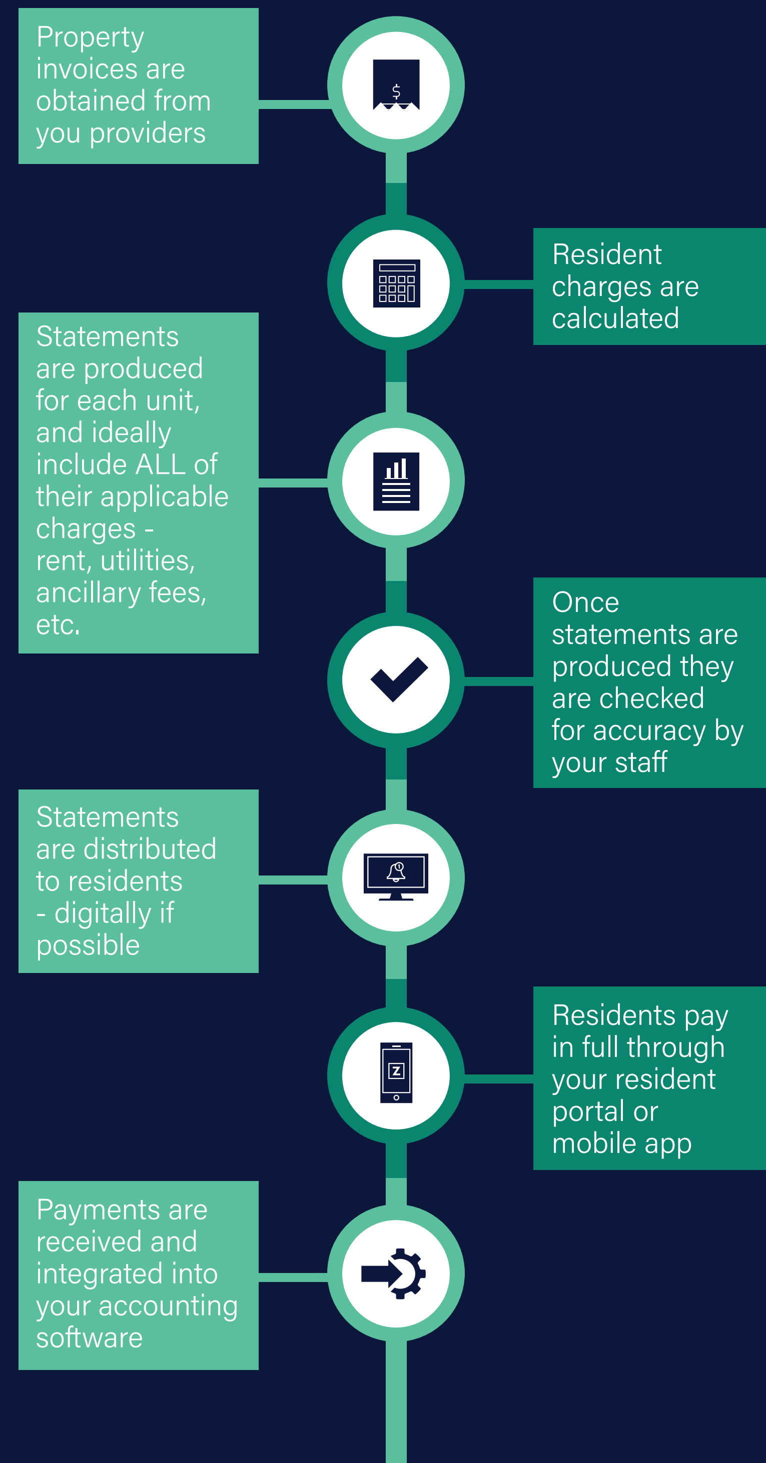
There are three areas in regards to the recovery process that you'll need to consider:

1. What method will be used to calculate resident charges?
2. Will this be done in-house or will it be outsourced?
3. How to communicate changes with residents

Utility recovery step-by-step

Before we dive into what the best practices are for each aspect of resident utility recovery, it'll be helpful to know what the ideal process looks like. The flow chart shown to the right is the most streamlined process that will allow you to maximize recoupment and efficiency. Additionally, by incorporating digital delivery and payments, you'll streamline the timeline as well as your cash flow. Whether you choose to do this in-house or outsource it, here is the general task flow you should aim for.

Streamlined utility recovery process



How to determine what residents owe

Recovering utility costs from your residents starts with determining what they've used and what they owe. You'll need to have the charges from your utility provider, and from there, there are two ways to determine what each unit's share of the bill is.

Submeter reads

The most efficient and precise way to bill back resident utility charges is with the use of submeters. The readings obtained from submeters show precisely the utility consumption for each unit, making it effortless to assess an accurate charge. Once you have your submeter read, either your management company or a third-party billing provider invoices residents for what they owe.

Both the resident and the property owner benefit from utility submetering. Residents benefit because submetering provides them with a precise picture of their utility usage, enabling them to have more control over their future consumption. Like wearing a Fitbit, when residents have data about their own habits, they can shape their activity accordingly.

Where structurally practical and economically feasible, submeters are typically the preferred method of utility cost allocation. If your communities are not equipped with them, there are several financial programs and incentives that are available to multifamily operators. But if submeters are not in the cards for your community, you can still recoup utility costs using RUBS.

RUBS

If you don't have submeters, no problem. You'll use what's called a RUBS method to determine charges. RUBS stands for Ratio Utility Billing System and is a fair and cost-effective alternative to having sumbeters. RUBS essentially divides a utility bill among your residents based on certain criteria such as number of occupants per unit, square footage, or other factors. Either the property management company or a third-party billing company performs the RUBS calculations and bills the corresponding charges to residents.

The drawback of RUBS is performing the calculations if done in-house. This can be complex and time consuming for a property management company, which is why some prefer to outsource this task.

In-house billing considerations

The biggest consideration about handling resident billing in house is if you have the personnel to manage some of the complex tasks associated with the process. You'll need your associates to assume responsibility for each of the following tasks:

- Understand and stay on top of utility billing regulations
- Manage meter installations (if necessary)
- Perform readings of the meters
- Calculate monthly charges
- Prepare and deliver resident statements

Out of all of these, the most important is that you abide by state and local utility billing regulations so you can avoid fines and legal trouble. These regulations change frequently, so you'll have to continually monitor the latest updates. Your best bet is to hire a legal expert (either to be on staff, or through a law firm) to keep you in the loop on the applicable rules.

Another option would be to become a member of an organization like the Utility Management and Conservation Association (UMCA). Staying involved in this organization can be tremendously beneficial when trying to understand regulations in your state. Members of the UMCA have access to an up-to-date database of rules and regulations for each individual state that you can utilize.

If you feel confident you have the resources to handle these tasks, here are some pros and cons of running this operation internally.

The Pros and Cons of handling Resident Billing in-house

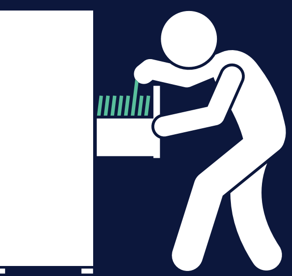
Pros	Cons
You retain control over the process If you have long-term, trusted employees to take this on, you may feel comfortable keeping the process in-house. This will ensure the bills are processed correctly, sent out on time, integrated the way you want into your property management software, etc.	**You have to monitor utility billing regulations** If you're recovering resident utility costs in-house, then it's on you to follow, understand, and comply with utility billing regulations. These change frequently, so you have to continually check in to make sure you are in compliance.
You are not managing (& paying) another vendor Finding a vendor you trust to manage a resident-facing task can seem daunting, not to mention making sure they are doing a good job.	**Lack of staff support** If your billing department consists of only two or three staffers, your operations – and cash flow – can be majorly stalled when even just one employee gets sick, goes on vacation, or quits altogether.
	Labor-intensive While it's financially worth it to recoup utility costs, the process can be tedious and put a strain on your staff.
	You don't benefit from economics of scale Third party billing vendors have the benefits of scale and specialization. They are able to do this with less errors and a lower overall cost per bill.
	Residents turn to you with questions If you are the one generating the invoices, you'll need to be able to answer questions from residents should they have questions about their bill.

Is working with a resident billing partner right for my company?

Because the resident utility cost recovery process and the regulations surrounding it can be time consuming and complex, you might feel more comfortable working with a partner like so many multifamily companies do.

Over half of multifamily companies outsource billing

A survey done by Zego (Powered by PayLease) in 2017 found that of multifamily companies who bill residents for utilities, 53% choose to outsource the process. Minimizing risk and increasing efficiency should be as important as maximizing recovery, and vendors will make sure all of those goals align.



"We have 200 properties so all of the tasks related to managing our utility expenses is too much – frankly, it's next to impossible – for a small team to handle in-house. We tried a lot of different things in an attempt to keep up with it, but when you have the sheer volume of utility expenses like we do, using Zego made more sense."

- Jennifer Howard, CFO, Boutique Apartments

Done right, the entire resident utility cost recovery process involves several components that ensure a seamless experience for both residents and apartment operators. If you are considering outsourcing the process, here are the tasks you should expect your vendor to do on your behalf:

- Provide guidance around local and state billing regulations
- Retrieve resident data from property management software
- Calculate resident utility charges based on submeter reads or RUBS
- Generate resident statements that includes rent, utility charges, and any other applicable monthly charges (trash, parking, pet rent, etc)
- Deliver an online payment portal for residents to directly pay their property manager
- Integrate payment data into your property management software
- Provide business intelligence tools about utility usage, recoupment rates, trends, and potential leaks
- Answer resident questions about their charges

The pros and cons of outsourcing utility resident billing

Pros	Cons
Relying on regulatory expertise Vendors have a dedicated team of regulatory experts who monitor all laws surrounding utility billing. They can make sure you are always in compliance.	**Less control over the process** If you have long-term, trusted employees to take this on, you may feel comfortable keeping the process in-house. This will ensure the bills are processed correctly, sent out on time, integrated the way you want into your property management software, etc.
Time savings From start to finish, billing residents for utilities is a cumbersome process that you won't have to burden your staff with.	**You are managing (and paying) another vendor** If you have a long list of vendors you currently work with, you may not want to add one more into the mix.
Maximized recovery rates They'll guide you on how to recoup the maximum allowable amount of utility expenses.	
Resident and staff support They field resident questions to free up your staff to focus on high-value activities.	
Better visibility into data A vendor will automatically provide valuable information like portfolio analytics and reporting that will give you actionable insights to your finances.	
Scale and specialization Resident billing vendors have the benefits of scale and specialization. No matter the size of your organization, you can expect fewer errors and a lower overall cost per bill.	
You can bill service fees to residents In some states, you are able to bill the vendor cost back to the resident as a service fee, making the program pay for itself.	

Vendor screening checklist

The demand for resident utility billing solutions is growing and more and more companies are jumping on the scene. But some offer limited services and functionalities so it's useful to know what to look for when selecting a partner. Here are some areas you'll want to vet when interviewing vendors.

- [ ] **Streamlined billing process:** Do they have a proven process for billing and communicating with residents?
- [ ] **Invoice presentation:** Ask for a sample statement. Is it a clear, comprehensive, itemized invoice? What parts are static and what can you customize?
- [ ] **Accuracy track record and QC protocols:** What are the measures they take to ensure you and your residents always see accurate data?
- [ ] **Reliable support:** What kind of support do they offer, not just for staff, but also residents? A support center for residents where they can have questions answered and make a payment with a support representative is ideal.
- [ ] **Seamless integration:** What level of integration do they offer? It's wise to vet what the process is like with other companies who use them so you can confirm if they truly offer a seamless experience or if it's riddled with inefficiencies.
- [ ] **Quick access to resident data:** How easily can you find information about resident payments and key property metrics? Ability to analyze resident data from management software, identifying new residents and those moving out for the calculation of prorated charges .
- [ ] **Business intelligence tools:** What reports will you be able to generate month-after-month?
- [ ] **Move out calculators:** Most vendors offer tools that calculate the final utility charges for departing residents so you can settle balances before they move. Ask about the timing and automation of these tools so community managers can quickly figure out final utility balances and generate resident bills, simplifying what can be an otherwise time-intensive and hectic process.
- [ ] **Mobile utility bill presentment:** Can residents view and pay bills from their mobile device?

Communicate billing changes to residents

If you haven't been billing residents for utilities, you'll not only need to update your lease language (which we advise consulting a legal expert and/or your resident billing partner on), but you'll also need to communicate the change to residents. If residents have never been billed before or you were using a flat fee model, you'll want to verbalize why it'll be a positive change for them. Here are some talk tracks you can use.

“It’s going to stabilize your rent”

No one enjoys being given a rent increase under any circumstance. Ever. Since fluctuating utility costs are usually a driver behind rent increases, having residents take on the responsibility of these expenses will help keep their rent in check.

“You’ll have better visibility into your monthly charges”

It frustrates residents (or anyone) when they don’t have a clear understanding of what their hard-earned money needs to pay for. Monthly statements are an avenue for you to be completely honest and transparent with them, and also allow residents to see item-by-item what they are accountable for. When everything is clearly laid out within a monthly statement, it saves them the hassle of having to get clarification from your on-site staff about their charges.

“You’ll have the ability to control your monthly costs”

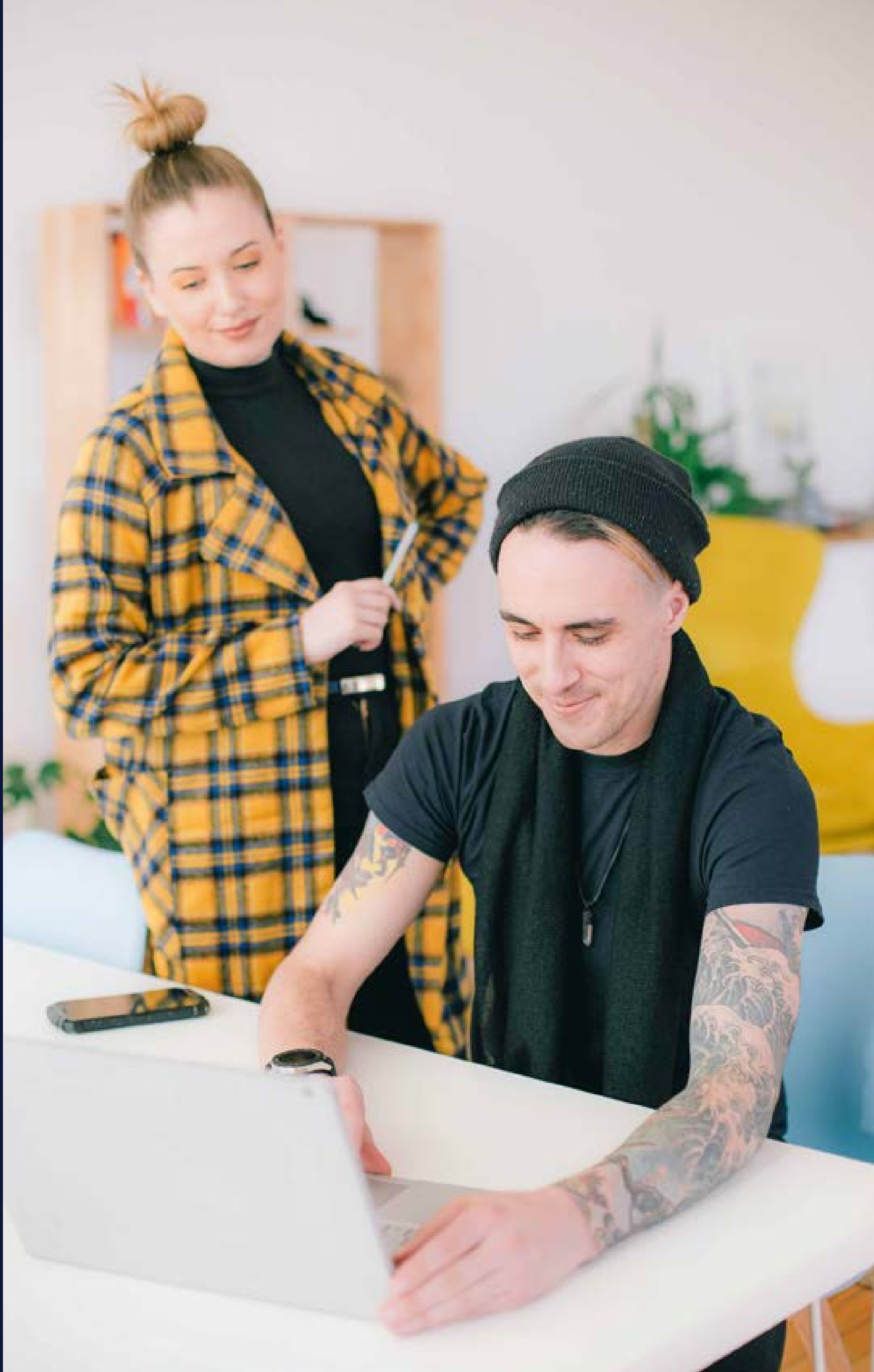
Because residents are paying for their own utility consumption, you are handing them the reigns when it comes to what their monthly costs will be. If they want a lower bill, they can take simple steps to curb their usage. They have the ability to control how high or low their monthly bill will be each month.

“It’s going to be easier to make a payment each month”

If you are sending residents a consolidated monthly statement, it will allow them to pay their entire balance in one convenient transaction. They won’t have to pay rent, then turn around and make a separate payment for utilities or any other charges they owe. Everything can be paid at once, preferably online. If they’d like, they can set up a variable autopay, which means their entire balance will automatically be paid each month without the resident having to log into the portal to update the payment amount.

Impact of Resident Billing

Companies who have implemented resident billing programs have an impressive set of results to show for it.



According to a study done by Hobson Research, firms that roll out a resident billing program can expect to see:

- **30%** increase in utility recoupment
- **100%** increase in the ability to recover resident billing fees
- **25%** increase in digital payments when resident billing and digital payments are used together

Peers in the multifamily community have also seen tremendous impacts when they implement a billing program that focuses on maximizing recoupment and adding efficiency.

More on-time, in-full payments from residents

"Recovering those costs from residents is more streamlined and has even led to more on-time payments because residents pay rent and utilities at the same time." -Jennifer Howard, CFO, Boutique Apartments

Digital payment utilization increases

"Residents now have all of their property and utility charges in one statement, they pay them all at once and it's made online payment adoption increase. It's definitely made business easier for us. I know just for myself, I save several hours per week thanks to the added automation." - Juan Leyva, Wehner Multifamily

Peace of mind about compliance

"A big differentiator between Zego and their competitors is the guidance Zego provides about utility billing regulations. Utility regulations are very confusing and vary by property location. Zego takes the time to explain it all to us and also provides guidance on how to maximize recoupment rates for each property." - Juan Leyva, Wehner Multifamily

Streamline utility accounts payable

Utility accounts payable costs can easily mount

Let's say your organization regularly performs benchmarking, has optimized energy usage across all communities, and has a solid resident utility expense recovery strategy in place. There's still one crucial component of a best-in-class utility program that can have a dramatic impact on your bottom line. That's how you manage the utility accounts payable (AP) process.

This is often the most overlooked area of a utility strategy, perhaps because it seems fairly straightforward. But there are numerous ways that the AP process is causing you to overspend (maybe without you even knowing), not to mention the drain on productivity. We're going to lay out several best practices associated with utility AP and the impacts to your bottom line.

AP Health Check: Signs utility AP is costing you money

To get the AP side of your utility program in ship-shape, you'll need to be aware of the three areas that can derail your efforts. If any of these scenarios are recurring themes within your organization, you'll want to read this entire section.

Late fees & hurried AP processing are draining your NOI: The largest source of monthly recurring bills to cross the desk of your AP department is utilities. Depending on the size of your portfolio, you have hundreds - maybe thousands- of utility bills to pay per month. To complicate it, most utility invoices have a fairly short payment window, giving your associates minimal time to process the payment. Another common scenario with utility invoices is that they sometimes don't arrive at all - leaving your associates accountable for tracking it down once they realize it's missing. If you have limited resources devoted to tracking down and paying each and every one of these bills, you're likely amassing a large volume of late charges every year.

For perspective, the late fees that many utility companies charge are usually equal to a 12-, 18-, 24-, or 36-percent annual interest rate. Although the process of paying these bills might be akin to a hamster running on a wheel, it's incredibly important to your NOI that they are always paid in a timely manner.

You skip detailed invoice audits on all or most utility bills: Because of the sheer volume of utility invoices, it's likely that paying your bills in a timely manner is more of a priority than taking the time to thoroughly audit each invoice for errors or comparing charges with contracted rates. That strategy can

result in a mountain of unnecessary charges. According to studies done by Engie, one of the nation's largest utility billing auditors, at least 17% of utility invoices contain an error. With all the invoices your firm receives, it's likely many have errors that go unnoticed.

Even if there are no human errors, performing invoice audits may clue you in on potential problems across your communities. If the invoice indicates usage was higher than normal, it could be the first sign of a malfunction or leak within the property. Having your bills regularly audited by someone who is knowledgeable about utility usage and billing rates can be surprisingly valuable. Energy experts recommend that organizations with multi-site locations with monthly energy costs greater than $5,000 per month leverage utility bill audits as a tool to uncover errors, recover lost money, and plan for future savings.

Utility theft goes unnoticed: New residents don't always transfer utility services into their name in a timely manner. And if you aren't regularly comparing occupancy to your property's utility bills, sometimes it can take months to realize your company is footing the bill for your residents. Depending on the size of your portfolio and how long it takes for offenders to be identified, utility theft can cost property management companies thousands of dollars per year.

For companies that DO monitor for utility theft and actively recoup those costs, the average recovery for one multifamily firm that manages 120 communities nationwide is about $6 million per year according to Buildings. So while it's a daunting task to monitor to compare move in/out dates for each resident with your utility bills, the savings of performing vacant cost recovery can be enormous.

Reconfigure AP workflows

If any of the situations we just described are applicable to your organization, then part of your overall strategy needs to encompass finding a more profitable way to handle utility AP. And the good news is that all of these recurring situations are completely fixable. Some companies have greatly improved their process and lowered costs by implementing some of these techniques.

Digitize invoice receipt and payments

First and foremost, if you have yet to move to a digital invoice and payment process, time to catch up to the times! Waiting for a paper invoice to arrive in the mail (not to mention sending back a paper check) wastes time in an already-short payment cycle. Make sure you enroll in paperless statements with each of your utility providers. It will give you extra processing time and also save the step of scanning invoices since they are already in a digital format.

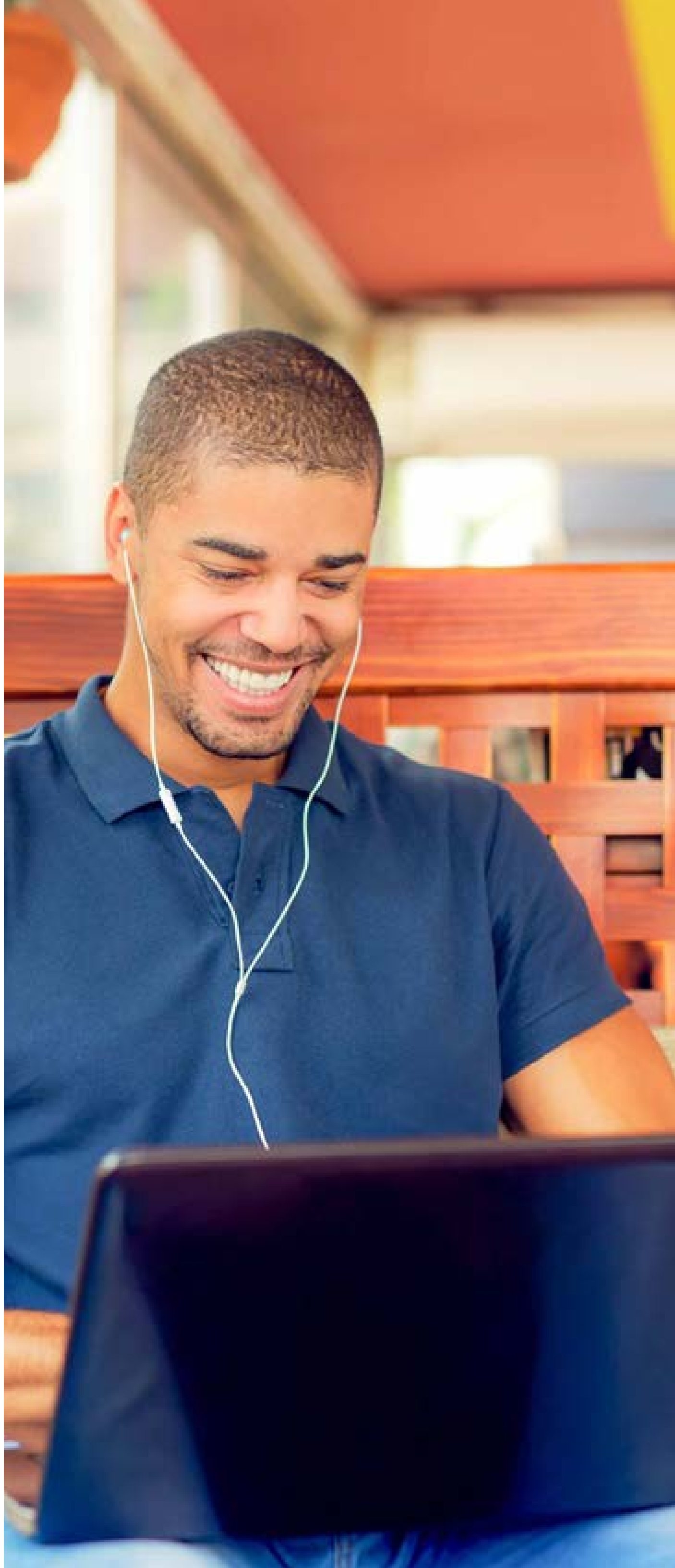
Devote resources to vacant cost recovery and charge back offenders

It's imperative that your utility strategy includes a way to minimize and recover instances of utility theft since it directly impacts your bottom line. You can assign someone the task internally, or use an outside firm to take this on (more on this in a moment). Either way you handle it, there are two important considerations about performing vacant cost recovery.

#1: Repeated audits are key. The sooner you know your resident has not moved utilities into their name, the sooner you can fix it and minimize the impacts. Assign someone the task of performing audits on either specified days of the month or a certain number of times per month. It's critical to make the process consistent and standardized so there aren't any opportunities for loss.

If you outsource utility AP, some vendors will send you notifications about delinquent utility account transfers within a day– versus weeks or months – of each utility's new billing cycle. With expedited notifications, apartment operators can minimize instances (and the financial impacts) of utility theft.

#2: Charge a penalty fee to any offenders. Residents are more likely to delay moving utilities into their name if they think no one will be monitoring it, and if they think there's no penalty. If you aren't currently levying a penalty fee when residents don't move utilities in their name, make it a policy. A standard utility theft fee is typically $50. This sufficiently reimburses your company for administrative and operational costs associated with issue resolution.



Centralize utility AP to reduce errors

What exacerbates the usual problems of utility AP is the fact multifamily organizations tend to perform this function using a de-centralized model – meaning invoices are sent to each property and paid by someone who works on-site, or perhaps a regional office. This structure leads to inconsistencies with audits, payment timelines, and reporting.

One option to consider to get a handle on the pitfalls of utility AP is to consider centralizing this process. By moving to a centralized AP process, all utility invoices for your entire portfolio would be received at one location, often the headquarters, and processed by a single team.

The advantage is that you have employees who are uniquely suited to manage this task and processes can be followed in a more consistent and coordinated manner. It also helps companies gain visibility into the workflow and identify where errors and discrepancies arise.

Outsource utility to AP to save money and resources

If your organization is already using a centralized model to manage utility invoices, but is still struggling to process and audit each invoice in a timely manner, then you should strongly consider outsourcing the process to a third party. To help tame AP costs and make the overall process of paying utility bills more efficient, some companies choose to outsource this function rather than doing it in-house. Companies who offer this service refer to it as Utility Expense Management (UEM).

With UEM, the mountain of utility invoices that are normally sent to your office are instead sent to your provider. Their team checks each invoice for accuracy (and if needed, disputes any errors on your behalf), and also pays them all in a timely manner. The details of each invoice are integrated into your property management software. This frees up considerable time for your staff, eliminates unnecessary costs like overcharges or late payments, and gives you more visibility into utility expenses at each of your properties. Plus, they usually conduct vacant cost recovery on your behalf and offer built-in business intelligence platforms so you can easily view key utility metrics without the hassle of digging through messy data.

Considerations for retaining AP in-house or outsourcing

Once you start examining your organization's utility AP workflows, it's natural to question if the process is one that can proficiently be handled in-house or if you're better off entrusting it to a third party. Many companies see significant improvements by standardizing processes or devoting more resources to their AP team. Others find that outsourcing the task will ultimately be a better business decision. Where does your organization fit in the spectrum? Here are some considerations to help you make that decision.

Separating fact from fiction about utility AP outsourcing

The idea of outsourcing can raise discomfort for some organizations, there is no disputing that. But for some organizations, the value of outsourcing this particular function often outweighs any potential fears. Here are some considerations if you're wondering if in-house or outsourced AP is a better fit.

The best place to start is thinking about the size of your business and the volume of invoices that you receive in a month. If you receive a relatively small number of invoices, it may make sense to keep the function in-house and look at ways to refine the internal process. However, some organizations choose to outsource because they have a high volume of data to analyze. When there's a high volume of bills to process or limited data entry resources, you may choose to make low-value tasks like paying bill hands-off.

The next consideration should be, "do we really have the time and resources to manage this effectively?" The utility AP process is comprised of many tasks that range

"We have 200 properties so all of the tasks related to managing our utility expenses is too much – frankly, it's next to impossible – for a small team to handle in-house. We tried a lot of different things in an attempt to keep up with it, but when you have the sheer volume of utility expenses like we do, using Zego made more sense."
- Jennifer Howard, CFO at Denver-based Boutique Apartments

in complexity. Do you have enough staff for their time to be devoted to low-value efforts like scanning and keying and entering data for benchmarking? On the complex side, do you have someone versed enough to perform audits of utility bills, validating accuracy and interpreting benchmarking metrics?

Outsourcing isn't about lowering head count or replacing the 'core competencies' of a business. It's about becoming more efficient at what your firm does best; whether that is leasing, resident retention, or the day-to- day operations of their communities. And a multifamily firm with a few thousand (or tens of thousands for that matter) units should not look at the way they pay their bills as a 'core competency.'

Here are a few more pros and cons of using a third-party to handle utility invoices.

Pros and cons of outsourcing utility AP

Pros	Cons
Dedicated vacant cost recovery efforts A core function of Utility Expense Management is keeping a constant eye on vacant cost recovery efforts, which many companies don't have the manpower to handle in-house.	**Less control over the process** Although there are many opportunities for you to approve invoices and payments, you may have more peace of mind if your internal staff members are handling this task. This will ensure you retain control over the entire process.
Reduces unnecessary costs from late fees They ensure each invoice is paid on time so you aren't wasting money on late fees.	**You are managing (and paying) another vendor** If you have a long list of vendors you currently work with, you may not want to add one more into the mix.
Reduces unnecessary costs from billing errors You'll have an expert comb through your invoices line by line, and if necessary dispute the incorrect charges on your behalf.	
Increased transparency Because you have better integration and reporting tools, outsourcing usually leads to a clearer picture of your utility spend.	
It pays for itself in a short period of time In a lot of cases, the money recouped by having a vendor focus on vacant cost recovery makes up for any service feesbudget variances.	
Removes low-value tasks away from staff Monotonous tasks are eliminated so they can focus on higher priorities.	

How Utility Expense Management works

If you are leaning toward outsourcing utility AP, here is how a monthly billing cycle typically works. Even if you want to retain utility AP in-house, you can use this workflow as a guideline for how to structure the process.

Step 1

All of your utility invoices are digitally routed to your partner

Invoice types include water, electricity, natural gas, waste. If any invoices haven't been received in a timely manner, the provider tracks them down. A copy of each invoice and the data associated with it is imported into your accounting software for approval and easy reference.

Step 2

Your partner audits invoices, identifies exceptions and resolves inaccuracies on your behalf

Someone will be monitoring for duplicate bills, inactive sites, dollar limits (high bills), overlapping bill dates, rates/contracts, meter accuracy, benchmarking. If there's a red flag, they contact the utility company for a resolution if it's warranted.

Step 3

Your partner schedules and pays invoices on your behalf

What you owe is paid, on-time, preventing late fees and shutoffs. Utility invoice payments are made digitally and can be tailored to your preference (for example, on or before the invoice due date, or on certain days of the month).

Step 4

Charge breakdowns and payment data integrates with your accounting software

An AP file is uploaded and seamlessly integrated with your accounting software. Bill images remain in your software for easy reference.

Step 5

Analytics and benchmarking data are visible

Detailed utility and property metrics are made available in a customizable dashboard that allow you to get visibility into vacant unit recovery, look at precise information by portfolio, property utility, timeframe, etc. Reports can be saved and shared with key stakeholders.

Impact of partnering with a Utility Expense Management partner

The data and real-life stories associated with Utility Expense Management programs make it clear there's significant savings to be had with this strategy.

Multifamily professionals have seen first-hand how it impacts operations and reduces unnecessary costs from utility AP.

A study conducted by Hobson Research about the effectiveness of Utility Expense Management programs uncovered the following results.

80% ⬇ 80% reduction in time spent tracking, managing and processing vacant unit expense

90% ⬇ 90% reduction in time spent in receiving, processing, and paying utility invoices

50% ⬇ 50% reduction in costs from utility late fees and errors/ anomalies

Vacant Cost Recovery is a game changer

"These were dollars we never would have seen, or have had the opportunity to collect. Right now, the vacant cost recovery pays for a significant portion of our AP service and we anticipate it to completely offset that cost within a year." Bill Chast, Hilton Realty

"Zego's Vacant Cost Recovery service identified quite a few residents who had not transferred utilities over to our name. Utility Expense Management is personally my favorite Zego solution because I'm not babysitting utilities for 200 properties." - Jennifer Howard, Boutique Apartments

Better visibility into utility data

"Having images of our bills centralized in AMSI was very appealing because of how easy it makes auditing our bills. If we ever have a question about the data in our system, or need to see more detail about the amount due, we can easily locate and view an image of the bill," said Chast.

"I think some companies fear that there will be more errors when outsourcing their utility billing, or that they'll end up paying invoices that don't belong to them. But Zego's integration with our management software is seamless. I can easily see copies of each bill, so I know it's ours and that what's being paid is properly allocated to the correct property and the correct general ledger account."

Reduced costs and late fees

“Almost immediately, Zego found some errors on our utility bills that they rectified with the utility company for us. Then they noticed that one of our water bills had doubled in one month and alerted us that our property probably had a leak.” -Jennifer Howard, Boutique Apartments

“We used to incur massive late fees across the portfolio, which have been reduced by approximately $25k/ year.”

Less headaches associated with accounts payable

“You just feel like everything is riding on your shoulders and you want to make sure it is all done perfectly. “Since I’ve outsourced some of the work, my life has become much more peaceful and the team feels like they are much more a part of it.” - John Boriack, President of Veritas Equity Management

The impact of a comprehensive utility program

In the past, a well-thought-out strategy for minimizing utility expenses was considered a “nice to have.” But now, it’s a must for any multifamily portfolio that wants to rebound and grow from the economic fallout caused by COVID-19. By following these best practices, management firms will be able to reduce operating expenses over the near term and increase overall portfolio value.

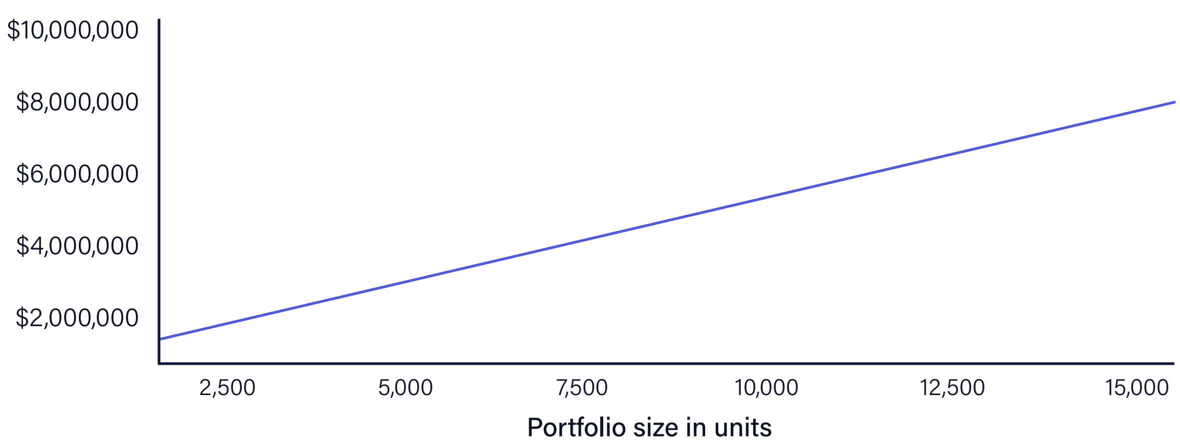
The chart below highlights the financial impact a comprehensive utility strategy can have on a 2,000-unit portfolio. By applying the combined reductions you can see the savings make a material impact on the value of the portfolio. Based on results achieved by Zego clients along with data provided by industry research authorities, a 2,000-unit portfolio can realize $1 million in annual expense reduction and $24 million in overall portfolio value impact by implementing a best-in-class utility management program.

Program Impact on a 2,000 unit portfolio

	Line item	Portfolio without best-in-class utility program	Best-in-class utility program impact	Portfolio with comprehensive utility strategy
Benchmark utility efficiency	Average utility expense / unit	$2,220	5% reduction	$2,109
Optimize utility usage and consumption	Average utility expense / unit	$2,220	25% reduction	$1,665
Maximize utility expense recovery	Average vacant unit utility recoupment	50%	Increases by 30%	65%
	Average occupied unit utility recoupment	70%	Full recoupment less Common area allocation	93%
Streamline utility accounts payable	Average annual staff time consumed in utility management	360	70% reduction	108
Annual utility program value (per unit)				$544
Annual utility program value (2.0k unit portfolio example)				$1,088,406
Portfolio value impact (@5% cap rate)				$21,768,126

The savings opportunity increases with the size of your portfolio. The graph to the right demonstrates how utility expense savings grow linearly based on the size of the portfolio. At a 5.0% cap rate a 4,000-unit portfolio would expect to see $2 million of expense reduction and so on.

Expected utility program savings by portfolio size



As the opportunity to raise rent comes to a halt, it's critical to focus on reducing expenses to grow revenue. Utilities may be the the 3rd largest expense bucket, but with the most room for improvement, it's an exciting opportunity for multifamily operators. Management companies that implement a utility program now will not only experience immediate savings but they'll set themselves up for greater success in the future. When the economy rebounds not only will they be able to take advantage of rent increases but they'll benefit from reduced expenses, increased recovery, and higher staff productivity – further increasing the value of their portfolio.

Let's talk about the impact on your portfolio

Want to learn more about improving your utility strategy? Request a demo of Zego Utility and a Specialist will review your current strategy to see how our comprehensive utility management solution will impact your operations. From outsourced utility accounts payable to conducting vacant cost recovery and recouping expenses from residents, Zego Utility addresses the unique challenges of managing utility expenses at multifamily properties. Schedule time with us and we'll show you how Zego Utility can eliminate hassle and improve your NOI.

Schedule a Demo

Powered by PayLease

Zego is a property technology company that frees management companies and community associations to go above and beyond for residents. We're evolving with the residential landscape, making a difference in how our customers work by building connections and easing friction. We offer technology that creates a sense of community and inclusion while also supporting and empowering on-site staff.

gozego.com | 1.866.729.5327 | @go_zego

Written by:
Jennifer Stahlman
Senior Manager, Writing & Editorial
Zego

Designed by:
Courteney Sigmon
Graphic Designer
Zego