ZEGO

A **Global Payments** Company

Common Multifamily Utility Management Mistakes & How to Fix Them

Contents

Why staggering utility costs & consumption are a financial liability

Inflation is at a 40-year high. And utilities, one of the biggest expenses for your apartment communities, has been hit the hardest by rising prices.

Ironically, despite record-high costs, utilities come with huge opportunities to bring apartment operators big savings and (believe it or not) added revenue. Not only is there ample opportunity to minimize utility costs, the stakes to do so have never been higher.

Skyrocketing costs are colliding with increased residential utility demand. Thanks to the growing acceptance of remote work, there's been a shift in where most water and energy is consumed.

Utility prices & usage are on the rise

Natural gas prices have increased 525% in 2 years

Residential utility usage has increased by 10%

Electricity has seen the biggest surge in 41 years and is predicted to continue rising

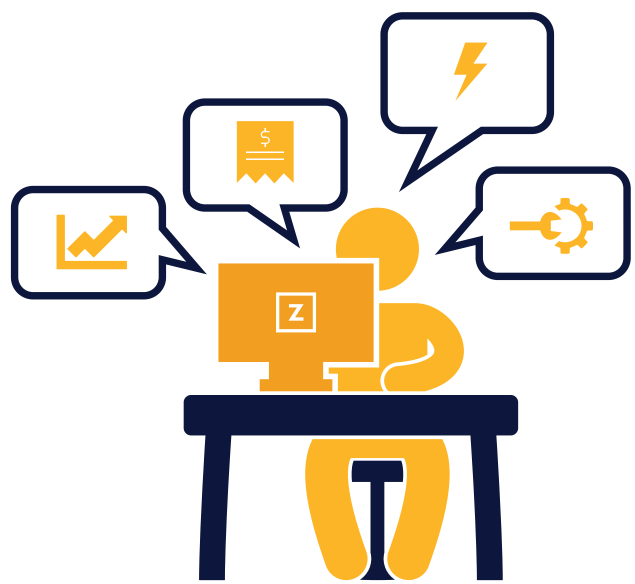
The National Bureau of Economic Research found that **industrial and commercial energy use has dropped by about 15%, while residential energy consumption has risen by 10%.** In other words, your communities are seeing much higher utility usage than they were pre-pandemic.

Between increased demand and sky-high rates, utility expenses are increasingly becoming a liability for property managers. So, it's imperative to close any loopholes that are draining your bottom line. The problem is that few companies know how to implement a comprehensive solution that achieves this goal.

That's because utilities are multifaceted. And all too often, property management companies focus on just a few pieces of the puzzle when trying to control these costs. Despite their best intentions, companies routinely lose money on utilities because of siloed efforts.

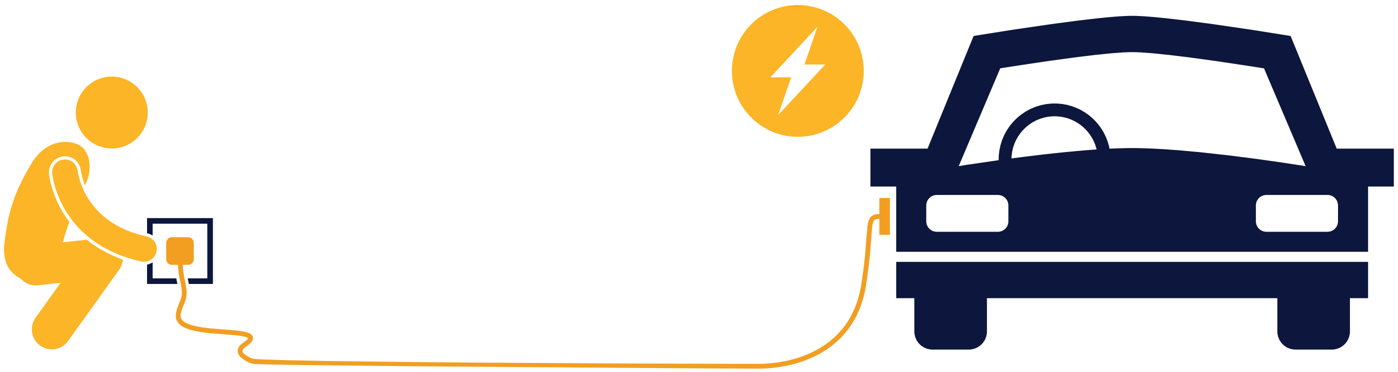
That's why we created this guide.

We'll cover every aspect of utilities and show you the common mistakes that impact revenue and operating expenses. From recovery to sustainability measures, accounts payable, and the resident experience, we go deep on 9 mistakes that have financial consequences for asset operators. If your company is making any of these mistakes, don't worry. We've included solutions to help you overcome them.



The 9 most common utility management mistakes:

1. Including utilities in the price of rent
2. Charging a flat fee for utilities
3. Neglecting inefficient features that waste energy and impact NOI
4. Overlooking important utility metrics
5. Paying utility bills without auditing them
6. Accumulating and paying late fees every month
7. Paying for renters' utilities after they move in
8. Failing to monitor utility regulations for your states
9. Overlooking the utility payment experience

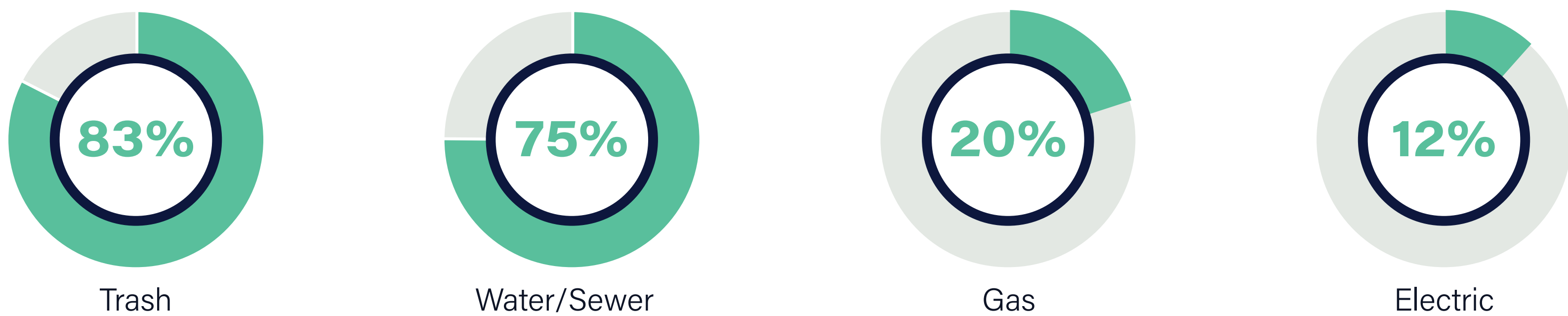


Mistake #1:

Including utilities in the price of rent

The worst mistake you can make when it comes to utilities at your apartment community is including utilities in the price of rent. According to the 2022 NMHC Resident Preference Report, most renters say they have at least one utility included in their rent, and that means this is also one of the most commonly made mistakes by property managers.

Are any of the following utilities included in your rent?



Percentages show the percent of respondents that selected each answer option.
The sum of the percentages total more than 100% because respondents could select more than one option.

The 3 main reasons including utilities in the rent is a mistake

You don't recoup money to match your expenses

Including utilities in rent puts you in a precarious financial position because you don't recoup money to match your actual expenses. As we've seen in the past year, utility rates can increase at any given time. Utility usage also fluctuates depending on the season. **So, if you've inflated the rent to**

account for utilities and the rate or usage in your building spikes, you have no ability to recoup those additional expenses. If you do decide to start billing for utilities, you would have to wait until renewal time so you can update the terms of each renter's lease.

Wasteful habits are encouraged in utilities-included models

The second reason to steer away from a utilities-included model is that renters have no incentive to practice conservation. Because they don't get a bill, your residents have no visibility into how much they are using or how that translates into dollars and cents. All residents know is that they aren't responsible for paying. So why not leave the house all day without turning off the lights or lowering the thermostat? Those wasteful habits are paid for by the owner of their apartment community.

Rent increases become less tolerable

Finally, if you are including utilities in the price of rent, it's difficult to raise rent and remain competitive with other apartment communities. With rents rising so steeply over the past year, apartment residents are more sensitive than ever to rent prices. In fact, according to NMHC's 2022 Renter Preferences Report, the top reason **renters move to a new building is because they want lower rent. Ideally, you want to raise rent on the basis of increasing market demand, not because your utility bills keep going up.**

Solution:

Decouple utilities from rent & charge residents

If you are including utilities in your rent, you can adjust your utility strategy so it's financially beneficial for your company. The best strategy is to charge based on consumption. By doing so, you increase revenue and property value.

Decoupling utilities from rent allows you to create an additional line item on your resident ledger, which creates a new revenue stream for your property. **This added revenue increases NOI, and after factoring in cap rates, companies see a spike in property value.**

To get started with consumption-based billing, you'll want to consult a resident utility billing provider, like Zego, to determine the best methodology to recoup your expenses, submeters or RUBS. We'll get into the logistics of those in the next section, but for now, let's discuss timing and communications about the transition.

There are a lot of legalities involved in how and when you can begin billing renters for utilities. Laws fluctuate between states, so it's necessary to know the amount of time and relevant notice you need to give to residents before shifting the responsibility for utility bill expenses to them. This is also why we suggest consulting a resident utility billing provider. These providers have legal experts on staff who will advise you on how to stay in compliance.

Generally speaking, any existing residents within their lease terms must agree to the new utility terms. If not, you will have to wait until the expiration of each lease to change the utility provision.

If the lease has converted to a month-to-month tenancy, then you may provide a 30-day notice that you are shifting the responsibility of paying for the utilities to your renter. This notice must be in writing and properly served on the renter.

Of course, renters who are used to a utilities-included model will wonder why they are now responsible for paying for utilities. **Most utility billing partners offer talk tracks and resident-facing materials to help them understand the change.**

You may also want to inform renters about how their charges will be calculated. You can use submeters or RUBS methodologies (if allowed in your state) to determine utilities usage and assess appropriate charges. Read on to the solution for Mistake #2 to find out which method is right for your business.

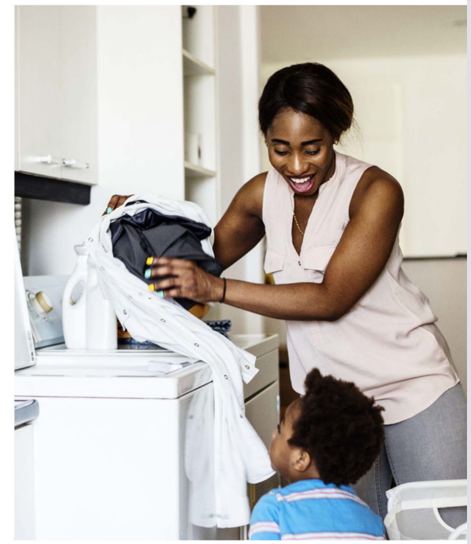
This is a sample of how Zego helps residents understand the changes and benefits of consumption-based billing.

ZE GO A Global Payments Company

Contribute to a healthier planet with Zego™ Utility

Welcome to your community!

Conserving our natural resources and contributing to a healthier planet for all of us is something we take seriously. Your community has taken a number of steps to conserve, including working with Zego Utility.



What is Zego Utility and how does it help with conservation

Zego is a property technology company that reviews your community's utility expenses to highlight outliers that could signal issues, such as leaks that waste water. Plus, Zego measures each resident's fair share of utility expenses and provides you with clear and transparent itemized statements. Utility charges are calculated using an industry-wide method called RUBS - ratio utility billing system. Criteria such as a combination of a unit's total occupants, square footage, or bedroom count are used to calculate your monthly share of utility expenses. RUBS is a popular utility billing method because it encourages every resident to be aware of and responsible for their utility usage. If your property uses submeters to individually measure usage for any utilities, Zego will also track, bill and provide detailed metrics for those as part of your comprehensive statement. Your lease outlines the specific methodology used at our community.

What does this mean for you

Your monthly statement from Zego will show itemized charges by utility. Any other potential charges, such as trash or account fees, will also be reflected on your bill.

Remember to transfer utilities

If you are new to your unit, be sure you work with your property management team to understand if any utilities are not billed through Zego and need to be transferred directly into your name. Not putting direct-billed utilities in your name in a timely manner may result in additional incurred fees, which will be reflected on your Zego statement, as outlined in your lease agreement.

Mistake #2:

Charging residents a flat fee for utilities

Charging a flat fee for utilities might sound like a good strategy. After all, you're still bringing in money to offset your utility costs, right? Well, it doesn't always work out that way.

Charging residents a flat fee leaves your cash flow vulnerable as rates fluctuate. And let's face it, these days costs only seem to be heading up. Unfortunately, if your organization is under-charging residents, you'll be stuck in a cycle of losing money. Increasing your flat fee to catch up with rising costs isn't always an option. Due to regulatory restrictions, you may be prohibited from revising the fee depending on your property's location.

What's also tricky about flat fees is that you don't want to overcharge either. **If the flat fee is greater than what residents actually owe, this can be a liability.** Many states have made it illegal to overcharge for utilities.

Solution:

Utilize Submeters or RUBS to charge residents

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

Submeter reads

The ideal way to bill back resident utility charges is to use submeters. Submeters show the exact utility consumption for each unit in your community. **Because you get a precise reading, you are able to calculate an accurate charge for each apartment unit. Ultimately, this is the easiest way to maximize utility recoupment.**

Plus, submeters tend to drive down overall utility consumption. This is because renters get a clear understanding of their usage and how it correlates to dollars and cents. The Alliance for Water Efficiency found that **water consumption typically drops 15-30% after meters are installed.**

Greystar Real Estate Partners saw substantial savings by implementing submeters at three properties. They saw water and sewer costs drop by 75%, saving them $70,000 per property!

Once you have your submeter read, either your management company or a third-party billing provider invoices residents for what they owe. Using submeter reads allows a third-party billing provider to calculate the precise utility expense in a given period to be billed back to residents.

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 the RUBS billing method.

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 submeters. **RUBS divides the utility expense among your residents based on criteria such as number of occupants per unit, square footage, or other factors.** Either the management company or a third-party billing company performs the RUBS calculations and bills the corresponding charges to residents.

But it's important to note that using RUBS isn't for everyone. A handful of states prohibit RUBS. If your communities are in one of these states, you'll have to defer to submetering.

Another drawback of RUBS is performing the calculations. This can be complex and time consuming for a property management company. Many teams do not have the resources to do this in-house. Luckily, resident utility billing companies like Zego have the knowledge and expertise to perform these calculations and bill your residents for their share of the expense.

CLIENT SUCCESS STORY

City Gate recovers $5M in utility costs with Zego Utility

The Goals

1. Maximize resident utility

2. Streamline accounts

3. Improve utility regulatory compliance

The Solution

City Gate implemented Zego Utility with RUBS billing methodology to recoup utility costs from residents. They also outsourced Accounts Payable with Zego Utility Expense Management to remove the burden of auditing and paying invoices from their on-site staff.

The Results

$5 million

Over $5M recovered in utility expenses

10,000

Over 10,000 invoices audited and paid, with exceptions that generated savings uncovered on 4.5% of invoices

1,000

1,000 vacant unit cost recovery incidents identified with nearly 70% recovery

> “Utilities can be frustrating, especially when you have multiple properties - it’s hard to keep track of invoices. Making sure we didn’t have a cut-off or shut off was important…Zego Utility has made our lives easier at the corporate office and behind the scenes.”
>
> *Jenny Rosario, Director of Implementation and Software, City Gate Property Group*

Mistake #3:

Neglecting inefficient features that waste energy & impact NOI

While an effective recoupment strategy is a must, it's equally important that you take measures to keep your utility bills from being too high to begin with. If you don't improve energy efficiency and water conservation at your apartment communities, it will hurt your business in two main ways.

Wasted energy and water

The most glaring impact is that inefficient buildings use more energy and water. That, of course, leads to higher utility expenses, ultimately lowering NOI and the asset value.

Even if you are recouping utility costs from residents, you still have to pay for common area utility usage and, if applicable, irrigation. Minimizing those costs lowers out of pocket expenses for your business and enhances the long term viability of your assets.

Making the most basic upgrades brings substantial savings. For instance, swapping regular light bulbs with LED ones will save the average household about $225 a year in energy costs according to the US Department of Energy.

Replacing one inefficient toilet can save about $130 per year. Let's say you make those upgrades for a 100 unit community and we'll assume there is one toilet per unit. Here's how that savings adds up:

100 units x $130 water savings		100 units x $225 energy savings		Total utility savings per year
$13,000	**+**	**$22,500**	**=**	**$35,500**

It's evident that making basic upgrades to improve efficiency can deliver a quick ROI. Add in the economic benefits that GSE's (government-sponsored enterprises) offer to those enacting green initiatives, including rebates, special financing, and lowered interest rates, and it's definitely a good business decision to continuously improve energy efficiency.

High utility costs are a competitive disadvantage

Lowering your operating expenses is just one of the reasons to improve sustainability. It's also an appealing feature for renters. NMHC Renter Preferences Report found that buildings with a sustainability certificate can positively influence 62% of renters to sign a lease there.

The ACEEE also conducted a study that confirmed that energy efficient communities attract renters. They studied behavior and interest levels of renters searching for new apartments online. **When communities advertised the energy efficiency of their units, they were selected 21% more than when energy efficiency information was hidden.**

Renters were also willing to pay slightly higher rents for energy efficiency. On average, the renters in the ACEEE study were willing to increase their rent by 1.8% for a one-unit increase in energy score (on a scale from 1 to 10). That generates $400 per unit in additional annual revenue for an average-priced rental unit.

Energy efficient communities attract renters

62%

Buildings with a sustainability certificate can positively influence 62% of renters to sign a lease.

21%

Communities that advertise energy efficiency are selected 21% more than when that information is hidden.

$400

Renters are willing to pay a rent increase of 1.8% per unit increase ($400 for average-priced rental) in energy score.

Solution:

Make cost-effective strategic upgrades

When you are strategic about making sustainability upgrades, the return on investment can be well worth the effort. Many companies partner with a sustainability consultant to take the guesswork out of where to start. This is helpful because they can not only perform an audit of your buildings, but they'll also establish a roadmap to help you plan for energy improvements. This lets companies start with small improvements. You can take the savings you are seeing from utility bills and reinvest that into features that will continue to drive even more efficiency.

Here's the typical process for companies that partner with a sustainability expert.

1. **Your properties undergo an efficiency audit:** A team conducts an on-site assessment of everything that consumes energy and uses water in your communities. Each piece of equipment is inspected to find leaks and inefficiencies. Once the assessment is complete, they should explain the benefits of implementing water saving and energy efficient solutions.

2. **You receive a savings analysis report:** Based on the findings from the audit, you will receive an analysis of the most cost-effective improvements. This should include suggested upgrades for the short and long-term. Additionally, you should receive the projected ROI of the installation based on utility savings and an increase in property value.

3. **Energy efficient features are implemented:** You have two choices here. You can rely on your own maintenance team to make any upgrades. But if they are stretched thin or if it's outside of their skillset, companies that perform energy audits can often bring in their own team to make the upgrades.

4. **Measure and verify results:** Once improvements have been implemented, you should ask for an analysis to be performed about 3 months after they were installed. Ask for comparisons on energy usage and utility bills, both pre and post-installation. That will show you the savings as a result of the install.

Improving energy efficiency through the Inflation Reduction Act

If you're concerned that upgrades will be too costly, there are some new incentives for multifamily companies to get greener. Congress recently passed the Inflation Reduction Act (IRA), a sweeping package that includes $369 billion to reduce U.S. greenhouse gas emissions by 40% by 2030. Here are some notable incentives for multifamily companies to shave off the expense of retrofits.

Energy-efficiency Rebates

Multifamily property owners who want to retrofit their existing properties can access $4.3 billion via rebates for energy-efficiency purchases. Individual states will implement programming to help multifamily property owners upgrade inefficient water heaters, HVAC systems, appliances, heat pumps, windows and insulation.

Been thinking about renewable energy? Owners can also receive an additional 30% credit for implementing solar power and geothermal heating over the next 10 years.

Inflation Reduction Act incentives

$4 billion

Properties can access $4.3 billion in rebates for energy efficiency purchases

30%

Owners can receive a 30% credit for implementing solar power & geothermal heating

$837 million

A designated $837.5 million in funding available for efficiency upgrades in affordable housing units

Extra Funding for Affordable Housing

The package aims to pursue environmental justice, designating $837.5 million for owners who invest in low-income communities. Funding is available for upgrades in affordable housing units, including energy storage, electrification, improved air quality, energy efficiency, and water conservation.

Monitoring equipment for malfunctions improves efficiency

Another way you can improve efficiency is to simply monitor the equipment you have. Even if you have efficient equipment, if something goes wrong (a leak for instance), then you waste resources and inadvertently increase your expenses. Smart sensors or submeter alerts can detect malfunctions, so you can rectify any issues before they get too costly. Take Zego's Submeter Alerts for example. Companies using this feature are alerted to high usage or non performing water, electric or gas meters. This allows them to proactively take action to rectify any issues before they become major problems that result in waste and added costs.

Mistake #4:

Overlooking important utility metrics

Monitoring data associated with utilities is one of the most effective ways to improve your overall utility program. But many multifamily companies don't do this at all or to its fullest potential. And frankly, that's understandable. Gathering the data is tedious, especially without a proper platform to store and view your metrics. It's also confusing to make heads or tails out of what the data shows.

However, **by not actively monitoring utility data, you are missing opportunities to reduce your expenses and improve revenue.** Plus, many cities and states are enacting laws requiring multifamily buildings to annually assess and report their energy performance. Like it or not, reviewing utility data is more important than ever.

If the previous section swayed you to increase sustainability at your communities, you'll need to track utility data to determine where to make improvements. Doing so will show you where inefficiencies lie and whether remedies are working properly.

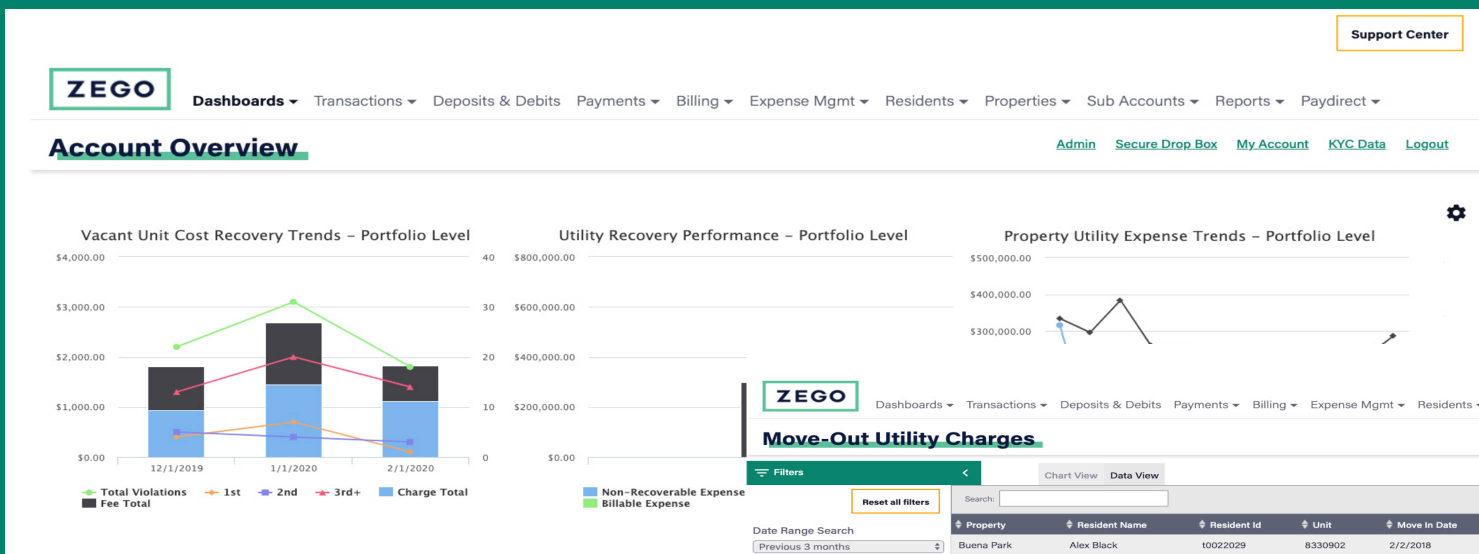
Utility data isn't just for sustainability purposes, either. If you are billing residents for utilities, you should regularly compare your recovery percentages to your overall expense to ensure you are recouping as much as you can. **You can also use utility data to track equipment reliability, troubleshoot outages, and provide operational intelligence for decision makers.**

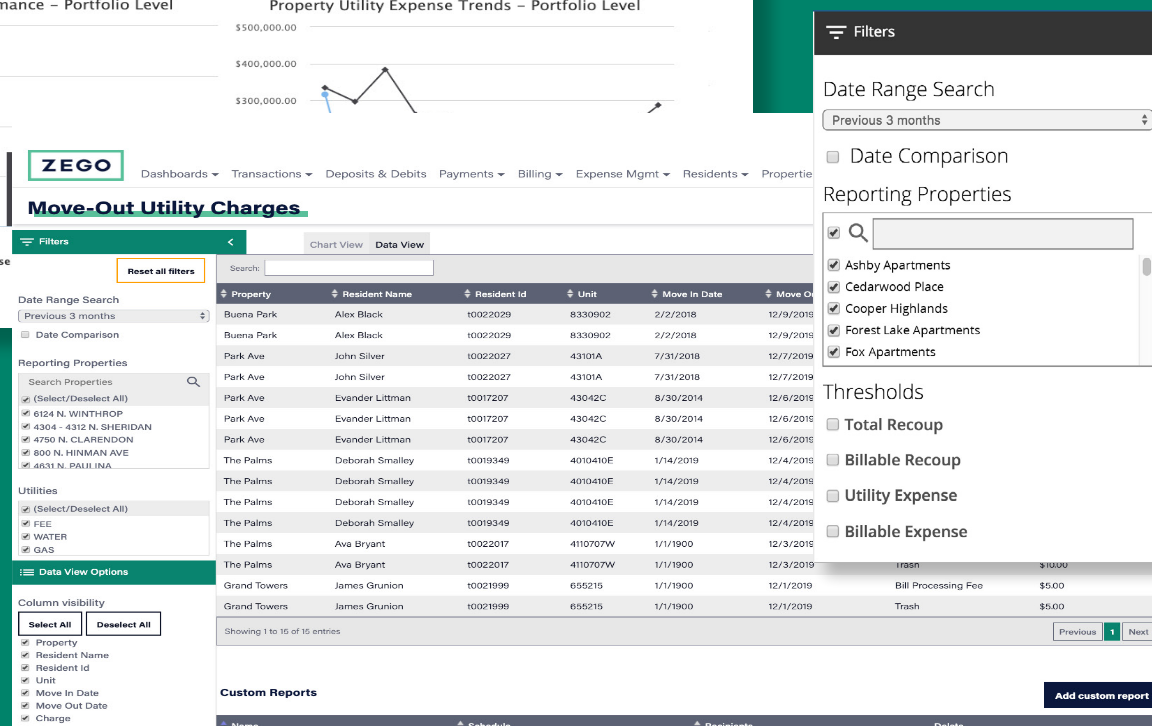
Solution:

Automate utility tracking & analysis

Gathering and analyzing your utility data is a must. However, the last thing you want to do is manually extract data from your bills and compile it into spreadsheets. This method is not only tedious but prone to errors. Plus, by the time the data is tracked, it's no longer current. You need current data to be able to minimize costs from any anomalies or wasteful equipment. Utility data automation is the most efficient way to collect this valuable information.

With the help of a utility management platform, utility invoice data is automatically captured from your utility vendors and imported into your system. That eliminates the need to manually extract and track data. From there, relevant metrics are displayed into a user-friendly interface, and dashboards can be configured to help you make data-driven decisions about your buildings.





Zego's Utility Insights BI feature produces in-depth reports and easy-to-understand visual charts to help you make data-driven decisions with ease.

Benchmarking detects inefficiencies & opportunities

Regardless of how you get your data, there are several ways you need to look at it to make sure you're keeping costs to a minimum. One of the most valuable ways you can use your utility data is by benchmarking. **Utility benchmarking gives you better insights into your monthly energy bills and helps you identify inefficiencies and areas for improvement.** When you look at a single building's utility data, it's difficult to draw any sort of conclusion about how it is performing. To fully understand its performance, you need to dig deeper and compare it to similar buildings.

For instance, let's say Building A pays $5,000 a month for electricity and recoups 96% of that from its renters. Building B pays $10,000 but is only recouping 94% of its utility costs from renters. Does that mean Building B is less efficient than A?

Not necessarily. It could have more common areas, lower occupancy, or be in a region with more extreme weather. Comparing Building B with other portfolio assets that are similar in size, class, region, and category will give a more accurate picture of which buildings are underperforming.

Benchmarking platforms

Again, comparing utility data across spreadsheets won't make it easy to draw conclusions about your building's performance. The easiest way to do this is by implementing a utility management platform designed for multifamily companies. For example, Zego's Utility Intelligence dashboard lets you benchmark utility expenses and recoupment rates across individual properties, your entire portfolio, or for certain timeframes. If you do not have a utility management platform, you can use ENERGY STAR Portfolio Manager. It's free but also comes with quite a bit of manual data entry.

Additional utility metrics to track

In addition to benchmarking, there are other valuable metrics to track so you have a comprehensive view of your utility program. Here's a list of the most critical reports and analyses you should keep an eye on to ensure your utility program truly works for you.

Property Utility Expense: A basic fundamental of utility data is knowing how much you are spending. A Property Utility Expense report will show the total amount of utility invoices processed per month for selected properties or for your portfolio overall.

Utility Recovery Performance: Get a snapshot view on your recoupment rate for the full portfolio or selected properties based on a set date range. You should be able to see the current recoup percent, compare two billing cycles, or follow recoup trends over time.

Utility PreBill Adjustments: If you are billing renters for their utility consumption, occasionally your property managers will need to adjust a charge for some units. It's important to track these adjustments so you can find out if there are any billing errors, leaks or incorrect meter reads. Utility PreBill Adjustment reports show all changes requested by your staff for a properties' resident utility charges during the prebill review process.

Move Out Utility Charges: If there is a discrepancy between utility charges processed and number of move-outs, it can be a good indicator of whether or not properties are processing move-outs efficiently and timely. With a move out utility charges report, you can see the total number of move outs and charges based on a set date range.

High/Low Average: This report shows an aggregate of the calculated resident charges by utility type and highlights the maximum, minimum, and average charge amount. This is useful because some states require leases to contain language that explains what a resident can expect their monthly utility charges will be. This report will help you give renters an accurate estimate.

Vacant Unit Cost Recovery: This report shows the vacant unit charges that were recouped from your residents and also the number of infractions. This lets you compare two billing cycles or follow VCR trends over time.

Submeter Health Details: Get a snapshot of the percentage of healthy and unhealthy meters throughout a single building or your entire portfolio. This is useful to know so that you can plan for meter repairs and their associated costs. Unhealthy meters are classified using certain error codes based on meter and/or transmitter issues.

Submeter Usage Details: View your total submetered usage per utility either from a portfolio view or drill all the way down to a specific meter.

Mistake #5:

Overpaying property utility bills

Because utility late fees can be significant, many companies simply check the balance due amount before issuing a payment. 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 an 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 and 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.

Solution:

Audit utility bills to identify & rectify errors

Many companies simply don't have enough resources to regularly perform utility bill audits, especially considering the sheer volume of invoices that are received. Also, property management professionals aren't always utility experts, so billing errors can be easy to miss.

This is why outsourcing utility billing audits is a growing trend. With the help of utility expense management companies all of your utility bills are audited for errors and savings opportunities. When errors are spotted, the provider disputes the charges on your behalf until a resolution is achieved.

Common utility bill errors

Whether you are using a utility expense management provider or if you have the bandwidth to perform audits in house, there are certain parts of your bills that should be double checked each time. Here's where most billing errors lie.

Energy use audits

Energy use audits expose incorrect meter reads, faulty meters, billing errors, and data entry errors. From a billing standpoint, here are some red flags to look for.

- **Big month-over-month changes:** Was there a substantial increase or decrease in usage month-over-month or year-over-year, outside of seasonal fluctuations? This could mean that you have a faulty meter or that it wasn't read properly.
- **Recurring estimated bills:** Does your account have several consecutive estimated bills? This can indicate that the utility vendor can't access the meter.
- **Identical use-per-day:** Is your use-per-day identical to the prior bill? It's extremely unlikely for commodity use to be the exact same for consecutive billing periods. When this happens, check to see if the bill is estimated.
- **Cost without use:** Do you have a cost without use? If you receive a bill with a cost attached to it but it shows no commodity use, it could mean that the meter is inactive and should not incur expenses.

Cost Audits

Like energy use audits, cost audits can also uncover faulty meters, billing errors, and data entry mistakes. The tricky part is that these types of errors are harder to detect. That's because utility rates can change significantly between billing periods. This is due to things like electric demand, seasonality, and use. However, there are a couple of things that signal you've been incorrectly billed.

- **Higher cost-per-day:** For meters that are relatively steady month to month, a higher cost per day could indicate that there's an issue. When performing this audit, also look at the monthly cost and unit cost data for additional insights.

- **Drastic year-over-year changes:** This audit is better for locations that experience seasonal changes. If the cost-per-day or unit cost is notably different from the same month of the previous year, it's worth a closer look. This jump could indicate that your rate is wrong or has changed. Or, there is increased usage which is sometimes indicative of a leak or malfunction.

Date audits

You might not think to double check the date of a bill, but this is a common utility bill error. Date related errors lead to incorrect amounts, not to mention inaccurate energy analytics. Make sure to check the following:

- **Start/end dates:** make sure they don't overlap by more than a day
- **Period end date:** make sure it isn't later than today
- **Due date & statement date:** make sure it is not before the provider period end date

Mistake #6:

Accumulating & paying late fees every month

Your accounts payable department receives more utility invoices than any other kind of bill. Depending on the size of your portfolio, you have hundreds – maybe thousands – of utility bills per month. To complicate things even further, most utility invoices have a fairly short payment window. That leaves your associates rushing to make each of those payments on time.

Sometimes your utility invoices don't arrive at all. Then it's up to your associates to track down what's missing. That wastes valuable time. **Between the short payment window and missing invoices, it's easy to get dinged with late fees.** That's unfortunate, because they can really add up.

Here's some perspective on utility late fees. Many utility companies assess fees that are equal to a 12-, 18-, 24-, or 36-percent annual interest rate. In other words, utility late fees are steep. And they add up in a major way. It's vital to your NOI that utility invoices are always paid on time.

If you are consistently accumulating late fees, your utility provider may also see you as a liability and impose financial restrictions on your account. For instance, your provider may demand a security deposit on your existing accounts or for any new properties that you add to your portfolio.

Solution:

Automate the AP process

One of the biggest reasons companies end up with late fees is because they haven't fully digitized the AP process. 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. So, make sure you enroll in paperless statements with each of your utility providers. Doing so will give you extra processing time and save the step of scanning invoices since they are already digital.

If your organization is already fully digitized when it comes to utility invoices and still struggling to process and audit each one in a timely manner, then you should strongly consider outsourcing the process to a third party.

Companies who offer outsourced bill payment refer to this service as Utility Expense Management. With Utility Expense Management, 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 with 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.

Mistake #7:

Paying for renters' utilities after they move in

Sometimes new residents don't transfer utility services into their name upon move-in. Or, when they are about to move out, they may take the utilities out of their name before they have vacated the unit. This is sometimes intentional, and other times it's simply a case of renters being overwhelmed by their move. Whatever the reason, this miss can lead your company to pay thousands of dollars per year in charges that aren't yours.

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.

The process of recovering utility charges that belong to your residents is referred to as vacant cost recovery. Neglecting this task not only lowers your recoupment rate and hurts NOI, but it also exposes you to a missed opportunity to increase revenue with penalty fees.

Solution:

Monitor for vacant utility theft & recoup the cost plus fees

Minimizing instances of vacant unit theft and recovering those charges should be a routine part of your utility management strategy. Here are some tips to make it as effective as possible.

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. That's why your team members should perform 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.

You may not have the resources to regularly perform this task. That's why many companies outsource their utility AP. Vacant cost recovery is a service often included in automated utility AP.

If so, ideally your team is alerted about utility theft 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 impact) of utility theft.**

Zego's VCR dashboard lets you see the number of violations by resident at each property, quickly identifying where adjustments need to be made, either in resident communication or by assessing penalty fees. The sooner you are alerted to a potential problem, the higher the likelihood it can be resolved while its effects are minimal.

Identifying instances of utility theft is important, but you also want to make sure you aren't paying the resident's charges. Zego's utility platform catches those occupied units that do not switch over the utilities and make sure the property does not cover the costs of utility consumption. Instead, we add those charges to the resident's statement and, if applicable, charge any penalty fees.

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, you are much more likely to experience vacant unit utility theft when there are no consequences. **At Zego, we find that companies who do not impose any kind of penalty fee have far more instances of utility theft than companies that do.**

Needless to say, if you aren't currently levying a penalty fee when residents fail to move utilities into their name, make it a policy. A standard utility theft fee is typically $25-$50. This sufficiently reimburses your company for administrative and operational costs associated with issue resolution. Some companies see so much revenue from vacant cost recovery that it offsets the costs of their their utility management program.

Communicate with new renters about vacant cost recovery

One reason utility theft happens is because companies fail to communicate their utility policies to new residents. Not only should these policies be verbally communicated, they also need to be easily accessible in writing. We even recommend adding information about moving utilities into residents' names on your move-in checklists.

CLIENT SUCCESS STORY

Boutique Apartments™ recovers $1.4M of utility costs with Zego Utility

The Goals

1. Simplify the process of recouping utility expenses
2. Automate the process of paying utility bills for property invoices
3. Reduce late fee payments for utility invoices & identify utility theft

The Solution

Boutique Apartments implemented Zego Utility with RUBS billing methodology to recoup utility costs from residents. They also outsourced Accounts Payable with Zego Utility Expense Management to remove the burden of auditing and paying invoices from their on-site staff. Vacant cost recovery audits are performed regularly to detect residents that have failed to transfer utilities into their name.

The Results

88%

88% of Boutique Apartments' billable utility expenses are recovered from residents

9,000

9,000 utility vendor invoices are audited and paid by Zego on annually behalf of Boutique

$36k

Over $36,000 in annual vacant cost recovery revenue

> "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. And to top it off, their Vacant Unit Cost Recovery service identified quite a few residents who had not transferred utilities over to their name."

Jennifer Howard, CFO at Boutique Apartments

Mistake #8:

Failing to monitor utility regulations for your state

Government agencies can be slow. But not when you are talking about utility regulations – they change all the time!

For multifamily companies, staying in compliance with rules surrounding utility billing, submeter maintenance, and utility analytics can be overwhelming. Especially because there are no universal laws. Each state and municipality has different rules around handling utilities. So if you operate in different regions, it's necessary to see what rules apply to each and every community in your portfolio.

It's hard to pinpoint what rules apply to what state, and Google can often lead you down a rabbit hole of outdated information. **Unfortunately, the consequences for violating utility regulations can be costly. Most states levy fines on a per instance basis.** So let's say you've made a minor error in billing your entire 300-unit community. That's 300 fines imposed - not 1!

Solution:

Rely on a utility expert to stay in compliance

With so many changing utility regulations, what's the best way to stay informed and in compliance? This is one area where relying on an expert is a must.

If you have a resident utility billing partner, then regulatory guidance is a service that is already included. They advise of local regulations before you begin billing and make sure you comply with every nuance. And, because they are utility experts, they know well in advance of any rules that are about to change. They convey that knowledge onto you so your billing practices can be adjusted.

If you are not using a resident utility billing partner, your best bet is to hire a legal expert, either on staff or through a law firm, to keep you in the loop on the applicable rules.

Another viable 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.

Mistake #9:

Overlooking the utility payment experience

How residents receive and pay for their utility charges is often an overlooked component of a utility management strategy. But if you aren't taking into consideration how the process goes from a resident's perspective, you could be damaging your bottom line.

In the short term, **a poor payment experience can lead to late payments and frustrated residents, particularly if they need more clarity about their charges.** In the long run, a poor utility payment process could impact resident retention. When the payment process is inconvenient, or when residents don't feel well-informed about what they owe, it impacts satisfaction since the situation is repeated month after month.

Every interaction renters have with your company should be seamless. That means going the extra mile to remove the friction from a generally unpleasant experience like paying a bill.

Solution:

Provide transparency into charges & make it easy to pay

Utilities may not seem like an obvious driver of resident experience, but it’s definitely an important component of your overall strategy. Here are some ways to minimize friction associated with utility payments and keep residents satisfied in the process.

Offer full transparency about utility charges

Being transparent about utility charges starts before your renters move in. Prior to move-in, you should fully explain how and when residents are expected to pay. Plus, give them information about your process for assessing the charges. If you have a good analytics dashboard in your utility management software, you can even offer rough estimates on a typical utility bill. These are important details that you can communicate in your FAQ section of your community app as well as within your move-in instructions.

When residents receive their utility charges you should provide them with an overview of their consumption patterns for the month. This gives them a clear picture into how their usage impacts their overall cost.

If they have questions about their bill, make sure they have somewhere to turn for answers. Designate someone in-house to be the point of contact for utility questions. Alternatively, most resident utility billing partners have a dedicated support team for renters who have questions about their utility bill. That saves your staff from fielding questions about bills.

Make it easy to understand & easy to pay

If you are billing back for utilities, it's a more seamless experience for residents to see everything laid out in one itemized digital statement. You want to include each utility they have to pay for in addition to a line item for rent.

You've given residents one bill that's clear cut and easy to understand. From there, it needs to be easy to pay. The rule of thumb here is that the less you ask residents to do when paying their balance, the happier they'll be.

So, instead of dictating different due dates and payment instructions for each charge, make sure residents can pay their entire balance at once. Consolidating the payment process into one transaction makes it easier on residents who won't have to remember what to pay and when.

Consolidated billing is also advantageous for your company, because you'll receive more on-time and complete payments when residents make a single transaction. It also leaves you with fewer awkward collection calls, which if not done tactfully, can lower a resident's satisfaction.

ZE GO A Global Payments Company

Zego
9350 Waxie Way Suite 300
San Diego, CA 92123

Billing Date 10/21/2022
Account Number - 7588

Charge Summary For
705 Helmsdale Rd #510, Frisco, TX 75035
See reverse side of this page for bill details.

4 Utility Charges = $146.84 Total Amount Due on 3/01/2020

Get Paperless Statements
or go to resident.gozego.com/sdp and enter pin code XXXXX to sign up
Go Now!

Pay your statement online at www.gozego.com

Help conserve water
Here are a few ways that you can conserve water:
Shorten your shower by a minute a day and you'll save up to 150 gallons per month.
Run your clothes washer and dish washer only when they're full. You can save up to 1,000 gallons per month.

ZE GO
9350 Waxie Way Su
San Diego, CA 9212
Return Servi

John Smith
705 Helmsdal
Frisco, TX 750

Total Amount Due on 11/01/2022 $146.84

Billing Date 10/21/2022
Account Number - 7588

Utility Charges & Fees

Sewer 09/01/2022 - 10/01/2022		**$26.11**
Sewer Base Fee 04/01/2019-05/01/2019		$17.58
Sewer (1970 Gallons)	1970 (Gallons) x 0.00433	$8.53
Water 09/01/2022 - 10/01/2022		**$25.66**
Water Base Fee 04/01/2019-05/01/2019		$10.85
Water	72 (Gallons) x 0.01	$0.72
	168 (Gallons) x 0.00879	$1.48
	1730 (Gallons) x 0.00729	$12.61
Gas 09/01/2022 - 10/01/2022		**$73.19**
Gas		$73.19
Electric 09/01/2022 - 10/01/2022		**$21.88**
Electric Base Fee		$2.00
Electric		$19.88
Total Utility Charges and Fees		**$146.84**

Do You Have Questions About Your Bill?
For questions and support please contact:

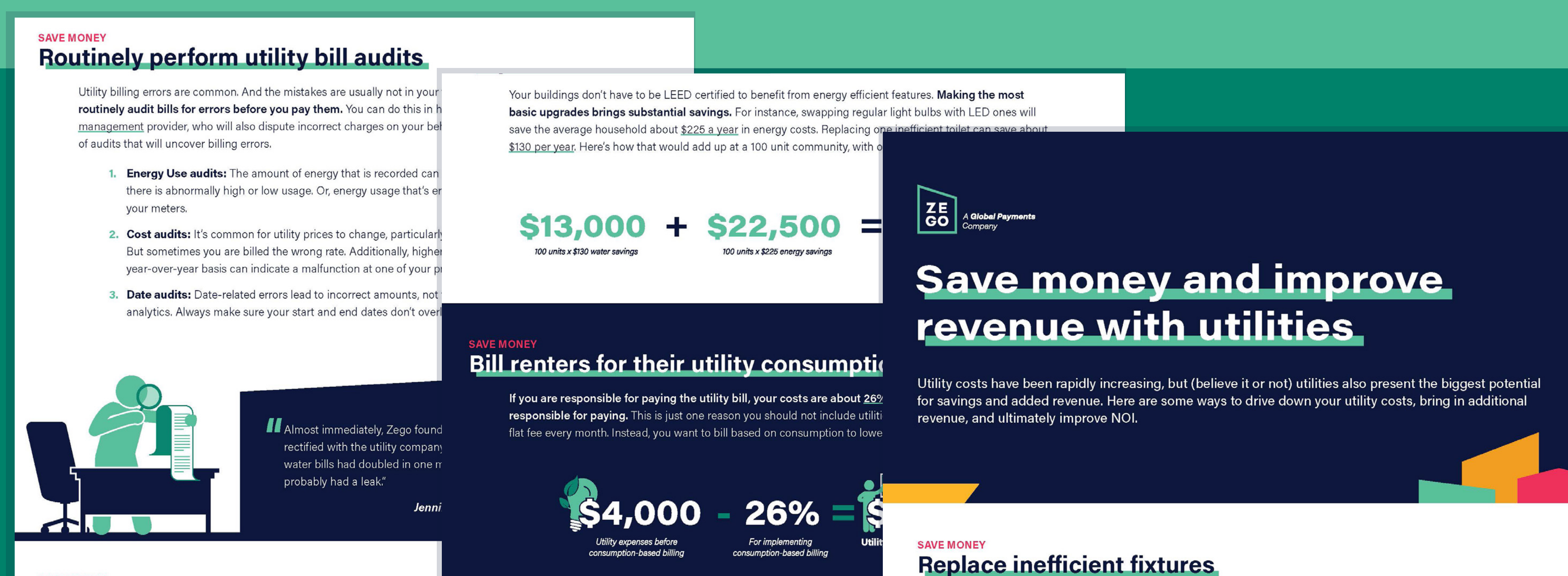
Zego
1-866-540-3246
1-880-512-8935
ResidentSupport@gozego.com

Save money and generate revenue from utilities

With external, uncontrollable market conditions in play, there's never been a better time to examine your current utility strategies. Download our cheat sheet on how to save money and generate revenue from utilities. We summarize the most effective ways multifamily companies leverage utility management to improve the bottom line.

Get the Cheat Sheet

Of course, if you feel any part of your utility management program could use some attention, Zego is happy to give you customized guidance. Click here to explore our Zego Utility offering further and set up time with an account executive.



A **Global Payments** Company

Zego (A Global Payments Company) is a property technology company that modernizes Resident Experience Management to boost retention, productivity, and NOI. Zego's mobile-first engagement platform for the residential real estate industry unifies the most critical resident touch points into one app. Everythign seamlessly integrates into your back-end system, from payments to utilities and communications.

Since its inception in 2003, Zego has grown from a payments provider to a comprehensive Resident Experience Management platform. With more than 400 employees, Zego serves 6,000 residential real estate companies and over 12 million units nationwide. Learn more about how Zego powers a better resident experience at gozego.com.

gozego.com | 1.866.729.5327 | @go_zego

Written by:
Jennifer Stahlman
Senior Manager, Writing & Editorial
Zego (A Global Payments Company)

Designed by:
Vik Pitones
Graphic Designer
Zego (A Global Payments Company)