



BOOST YOUR BOTTOM LINE

Increase your multifamily cash flow in
thirty days.

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Boost your Bottom Line: Increase your Multifamily Cash Flow in 30 Days

Over the past few years, apartment investors and property managers have had a plethora of issues. Downward pressures on rents, increased vacancies, persistent competition and decreased property values have impacted the multifamily market. Multifamily owners and managers are looking towards ancillary income to help increase their net cash flows.

There is an untapped revenue stream many multifamily investors are turning to. That is, by allocating the costs of water, sewer, gas, electric and even trash back to their tenants.

Opportunity to Increase Cash Flow

Increasing your cash flows is as simple as increasing your net operating income (NOI). Let's assume you have a multifamily asset of 150 units with an asset value of \$5 million.

Let's also assume that the estimated monthly water/sewer bill of \$5000 an estimated monthly electric/gas bill of another \$7000 and a monthly trash collection bill of \$1000.



Set the common area deduction (CAD) at approximately 15% for costs such as a leasing office restroom, laundry facilities, landscape irrigation or a pool.*

The rest of the costs can be reallocated to the tenants by utilizing a Ratio Utility Billing System (RUBS) which will increase your net operating income (NOI) by approximately \$132,600 per year and \$663,000 or 5 years!

*Some states require you to subtract a reasonable CAD from the amount you bill tenants. In other states, however, it's allowable to charge back the entire utility bill including the portion allotted to common areas.

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Monthly Utility Bills ---	\$13,000
Common Area Deduction (CAD) ---	$\$13,000 \times .15 = \$1,950$
Positive Monthly Cash Flow Impact ---	$\$13,000 - \$1,950 =$ \$11,050

The ancillary income from utility reimbursement can be added to your gross scheduled income (GSI); therefore increasing your net operating income (NOI), which in turn will increase your overall cash flows!

Increasing your NOI will also increase your overall Capitalization Rate (Cap rate).

Let's look at the difference before and after initiating Ratio Utility Billing Service (RUBS).

Before

Cap Rate = Yearly NOI / Asset Value

Asset Value = \$5,000,000

(old) Yearly NOI = \$300,000

Cap Rate = $\$300,000 / \$5,000,000$

= .06 or 6%

After

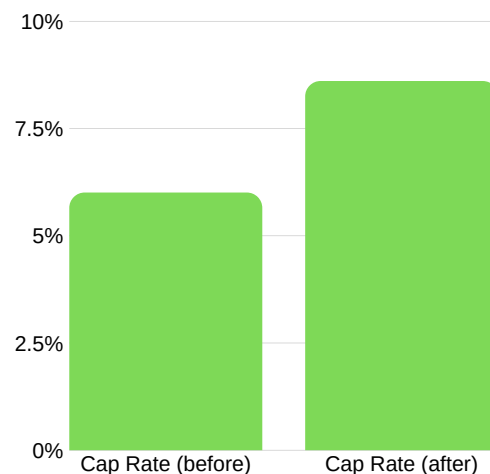
Asset Value = \$5,000,000

(new) Yearly NOI = $\$300,000 + (\$132,600) = \$432,600$

Cap Rate = $\$432,600 / \$5,000,000$

= .086 or 8.6%

That's a 43% increase!



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This report will help answer any questions you may have regarding Ratio Utility Billing Services and see if it is a viable option for your multifamily asset to help maximize profitability.

Why Should my Multifamily Property Participate?

Property owners are always looking to reduce expenses, and utilities are one of the largest and fastest growing expense categories. Your participation in a RUBS program gives you the opportunity to control utility expenses. In addition, you are also doing your part to encourage water conservation.

The goal of RUBS is to help control the growth of utility expenses. The way to reach that goal is by maximizing your property's penetration, that is, the number of residents who participate in the program. It's important to sign up every resident at your very first opportunity. Once we begin to contain soaring utility expenses, we can operate our communities even more efficiently, and when we begin to see a reduction in water consumption, we also know that our goal of conservation is being realized.



Human nature mandates we use less of something when we know we are responsible for the costs.

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What will Utility Billing and Allocation Accomplish?

Making the residents responsible for their own level of consumption, they will conserve. Studies indicate that utility allocation alone will reduce consumption by 20%. Human nature mandates we use less of something when we know we are responsible for the costs.

Utility billing and allocation is an effective way to recover the majority of one major expense. As a property owner, your utility expenses can be the second or third largest expense in operating your property. To be able to reduce your expenses so significantly does dramatic things for your bottom line. Since the Net Operating Income will determine the value of your property at time of sale,

What are the Different Types of Utility Billing?

Some of the methods to calculate tenant utility bills include:

- Submetering
- Ratio Utility Billing System (RUBS)
- Flat rate

Submetering

Submetering involves the installation of a meter on every tenant's water, electric, gas, or heat line that helps allocate each tenant's utility consumption. Meter readings and the monthly utility rates are used to calculate tenant bills.

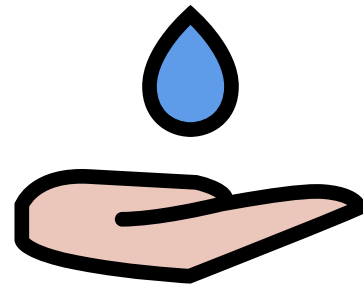


"...water rates have gone up 50% in recent years and are set to rise further due to the region's water crisis..."

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Submetering systems provides several benefits, whether promoting conservation, operationally or a combination thereof. Some of the major benefits are:

- Promoting conservation
- Reducing your administrative burden
- Stabilizing rents
- Reducing operating costs thereby increasing property value
- Improving cash flow



If you choose a submetering program, you should consider utilizing a RUBS program in the interim. This allows you to start realizing the benefits of utility reallocation immediately while you transition to a submetered solution.

Ratio Utility Billing System (RUBS)

Ratio Utility Billing Systems (RUBS) is for situations where the constraints of space and/or construction do not allow a property to be submetered. RUBS can be utilized for almost all utilities including water, wastewater, electric, gas and trash.

RUBS requires no initial capital investment and is based on a pre-calculated formula. The formula is determined based on several variables including the number of occupants and square footage of the unit. Different variables may be used for different utilities and are typically determined by state and local regulations.

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A customized Ratio Utility Billing System can help increase your utility cost recovery and savings when you cannot use submeters. Since RUBS is calculated based on your monthly utility bill, you will be able to recover a greater percentage of your utility expenses.

While submetering encourages individual consumers to conserve, RUBS promotes the community as a whole to decrease utility usage. Utility consumption, on average, decreases from 15% to 40% once a RUBS program is announced and implemented.

RUBS vs. Flat Fee

Charging a flat amount for utility consumption does not make the resident feel responsible for their utility usage. It's often viewed as 'just another charge', and residents will not change their habits. They will continue to run showers and faucets needlessly. As a result, property's utility bills will continue to increase because residents will not feel responsible for their consumption.

What are the Regulations Regarding Utility Billing?

The rules and regulations change depending on the city, county or state where your apartment community is located and should be re-examined prior to initiating a new program. The rules and regulations covering utility billing and submetering vary.

Texas is one of the most heavily regulated states for utilities and, as such, has served as a model for other states to follow. This type of groundbreaking legislation is the solution to maximizing cost recovery for property owners and it positively impacts conservation efforts.



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percent in recent years and are set to rise further due to the region's water crisis, the legislation could be good for the apartment industry if it is worded properly.

Every case would need to have an amended lease agreement and would need verification regarding city policies on utility billing and submetering.

How will it Influence my Vacancy Rates?

While tenants may leave as a result of the change, move outs tend to be minimal with proper notice of impending change. In the best of cases, nobody leaves and your net operating income surges.

But, assuming the worst case scenario the impact can be summarized as follows:

Assume your apartment community has 150 units, as in the above example, and average rent is \$850. As a result of your new utility billing program, assume 3% of your renters (a very high number) move and it takes six months to fill those vacancies.

The lost rent revenue is:

Tenants vacating = $150 \times 3\% = 4.5$

Lost rent revenue = $4.5 \times \$850 \times 6 \text{ mos.} = \$22,950$

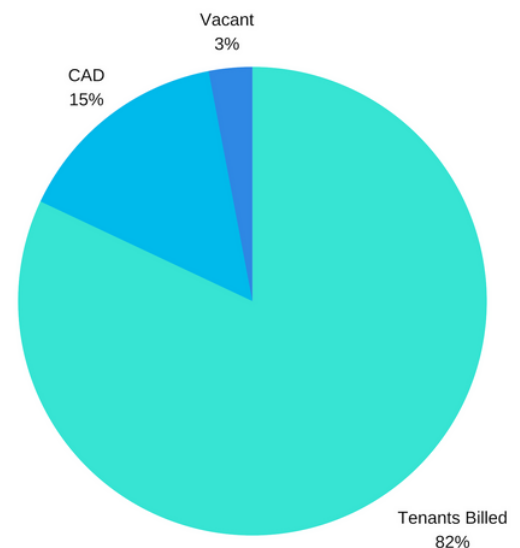
Now compare the lost rent revenue to the gain from case scenario):

Monthly utility cost recovery = \$11,050 Revenue increase = $\$11,050 \times 6 \text{ mos.} = \$66,300$

Lost rent revenue = \$22,950

Net effect on revenue (with 3% vacancy for six months)

$\$66,300 - \$22,950 = \$43,350$ gain



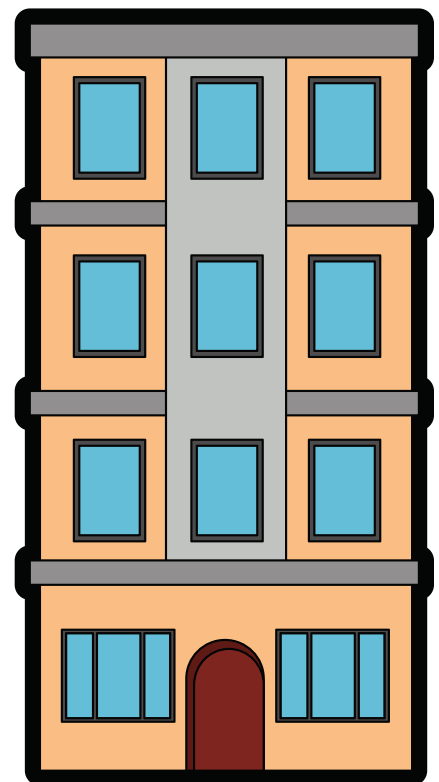
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For this analysis, the percentage of tenants who leave is considered "high" compared to the industry standard. Moreover, new tenants who move in will do so with the understanding that they are responsible for their own utilities.

How Can I Improve my Vacancy Cost Recovery?

Utility management providers also can offer programs to examine vacant unit utility bills, identify residents who do not have utility accounts in their name, and bill those residents. Such programs also increase focus on hibernating vacant units at all times, reducing energy consumption.

One supplier reported rolling out a program over a 43-community profile with 14,000 apartments. The program reduced the average monthly vacant utility bill from \$57 to \$36, saving \$3,780 annually for every 300 units (at 95% occupancy). The program also identified 3,646 vacant unit resident violations, generating annual revenue of \$29,800 for every 300 units.



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Are my Competitors using Utility Billing?

Research nearby apartment communities in your area and you will probably find many more are billing for utilities than you may have realized. If they don't, you may ask yourself whether or not you should be the "maverick" on the block?

The answer is almost always "yes." Prospective tenants tend to rate the rental costs and amenities more of a driving factor when choosing where to live. Utilities are often an afterthought when renters are comparing properties. Even in the worst case scenario as in the example above, it makes sense to be the first on the block to implement utility billing.

The competitive multifamily industry is always looking for new ways to generate revenue and if the competing apartment communities are utilizing utility billing, they are already realizing the benefits.

How Do I Get my Residents Onboard?

Remember long ago when rent covered the electricity used within the apartments? As primary utilities became more expensive, owners moved the payment responsibility over to the resident to decrease over-head and promote conservation. This model has been used in apartment communities, mobile home parks, shopping centers, and commercial establishments for years. The concept is simple: Those who utilize the services pay for them.

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Rent Reduction

Some owners offer a small rent reduction to tenants with a current lease to encourage them to sign the new lease addendum. Owners will have an idea of what the tenant's utility bill will be and could offer a discount of half of the utility bill and still recover a portion of their utility expense. Assume the utility expense will be \$40 per month, a rent reduction of \$20 per month would entice the resident to sign the new addendum. In effect, the unit would be increasing its income by an additional \$20 per month. Or by waiting till the end of the current lease, a new addendum can be added to the lease renewal and a rent reduction may not be needed.

Typical Tenant Concerns

Tenants may notice ways to decrease usages i.e. leaky faucets, low-flow shower heads and toilets. Encouraging tenants to notify you when there is a potential leak will help save on everyone's consumption.

What are Some Important Things I Should Look at When Choosing a Utility Billing Provider?

It's more cost effective to use a third party billing service and saves time by reducing the owner/manager workload.



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- Web-based utility billing, management, and reporting
- Online bill payment
- Convergent billing
- Vacant cost recovery
- Utility analysis



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Some common problems regarding utility billing providers are:

- Late and inaccurate bills
- Poor resident support
- Inconsistent reimbursement checks
- Unresponsive management
- High fees

It's important to choose a billing provider that has a good list of references and has a wide variety of services offered.

About Multifamily Utility Company



Multifamily Utility Company, Inc. is a leading utility submetering and billing company that specializes in submetering and allocation of water, gas and electric utilities for apartments, condominiums, commercial buildings, new construction, mobile homes and military housing throughout the United States.

By providing a wide range of products and services in utility submetering, utility management and utility conservation, Multifamily Utility is committed to delivering results that endure.

Timely and Accurate Billing

Multifamily Utility Company is committed to timely and accurate billing every month, regardless of the type of billing: submetered or RUBS. Detailed utility charges are all on a single, professional statement which is mailed and/or delivered electronically. Each statement also includes contact information for questions or for making a payment over the phone.

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Submetering is a complicated business. Continual regulatory changes in an already dynamic utility market have increased confusion for managers, owners and consumers.

Multifamily Utility Company utilizes a state-of-the-art web-based utility billing solution that simplifies the process of submetering for our customers. This highly configurable system allows property owners, managers, billing staff, customer service personnel and residents unparalleled access to their data, online, in real-time, 24/7/365.



Customer Service

We offer bilingual live support over extended business hours. This allows us to respond to and follow up with residents, property staff, management companies and owners without delay. Service requests and questions are handled in a routine and detailed manner, allowing us to track, respond, and promptly address concerns as they arise.

Multifamily Utility's philosophy is based upon providing the highest quality of service in our industry. Many companies make service statements, but few live up to them. At Multifamily Utility we are serious about consistently meeting and exceeding your expectations. Our commitment is to provide solutions for your needs as quickly and efficiently as possible. But most of all, we are there when you need us.

Our team is staffed with trainers, product specialists, conversion specialists and hardware specialists to provide all the services you need by making one call.