

Journal of

# Utility

m a n a g e m e n t

THE LATEST RESEARCH AND MODELS ON  
OPTIMIZING UTILITY USAGE IN MULTIFAMILY  
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MULTI  
FAMILY

**New methods  
control utility spend  
with precision**

**PAGE 14**



SUPPLEMENT TO  
**MULTIHOUSING**  
**PRO**  
magazine

# Utility Management *Advisory*

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Whether it's saving on your community's utility costs, or an alliance of like-minded multifamily professionals, there is power in numbers.

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A person wearing an orange sweater is shown from the side, moving a large cardboard box. The background is blurred, showing more boxes and what appears to be a moving truck or storage area.

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Optimizing the value of a today's multifamily community begins and ends with data management; utility management is no exception. As the world of energy becomes more complex, how does one maintain a healthy NOI?

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Residents with real-time access to their utility usage? Is it possible? One CTO says, yes. A daunting logistics challenge at best, but one he says today's brightest minds can meet.

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How much money are you leaving on the table with inefficiencies that are no- or low-cost to remedy? It may be as simple as a Community Energy Assessment to find out.

*Journal of*  
**Utility**  
management







# For every action

Welcome to the first issue of our Journal, and not a second too soon.

Energy, through its delivery system, utilities, is the really big thing facing our country, now and into the foreseeable future. It's on the hearts and minds of property owners, political leaders, government regulators, and residents, alike. No one is untouched, and there are many voices in the room as to our next move as a country, as a society, and as citizens.

The Utility Management Advisory is a collective of individuals who do nothing but think about utility management as related to the multifamily industry. After all, there is no other group that the dispersement of energy affects more, up and down the supply chain of operation, and into its very cogs of revenue potential. Multifamily communities are one of the largest dispensers of all manner of utilities, water, electric and gas, across the nation. And as the renter segment continues to grow, so shall we.

So how do we do it better, faster, more efficiently? How do we make ourselves future-ready for our residents, to the betterment of the communities they call home, leading as good stewards of our resources, while remaining solvent, even profitable?

Within the course of nearly two decades of research and development, we have always maintained a steady gaze toward the profitability of multifamily communities.

Optimizing performance takes a true real estate professional, an operations-driven team that understands how to garner the highest return through the smartest processes and efficiencies.

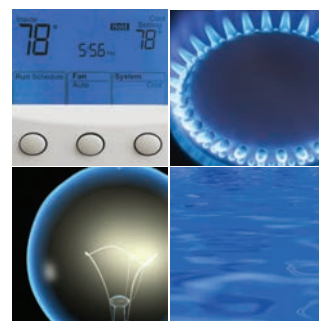
Knowledge is fundamental for any successful operation, and data, metrics, analytics, and its ready access, lies at the core of

the most efficient utility management. I invite you to participate, if you haven't already, by joining the Utility Management Advisory. It's a great brain trust of the finest minds in industry, and helps keeps us all on our A-game in this fast-moving field. Sign up at [www.UMAdvisory.com](http://www.UMAdvisory.com).

Welcome to the first issue of our Journal. It is with great pride, and enthusiasm that I welcome you to these pages. It is where we will share the latest R&D, newest products and processes, and cutting-edge technology for optimizing the performance of, and delivering fiscal value to, your multifamily operation. It's about working smarter. ⚙️



Michael Radice  
mike@UMAdvisory.org



## Journal of Utility management

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# Utility management means information management



To effectively manage risk, you must manage information.

This begs the question, what are the inherent risks? In today's environment, macro risk, at the economic and regulatory level, breed micro-level challenges for multifamily owners and operators who are particularly sensitive to changes in utility costs.

Micro-level risks, when understood, are far more controllable. They encompass specific behaviors, actions and expertise that, when combined and controlled properly, allow you to minimize exposure and cost.

Primarily, these are broken into two risk categories—price and consumption.

Understanding the drivers of these categories, and the tools available to manage them, is essential to controlling both top and bottom line effects from ever-changing utility expenses.

## Price Risk

Although the pace of deregulation has slowed, many markets are still open for natural gas and electricity procurement. Prices

in these markets are determined, in large part, by larger national and even international, events. However, these utility markets are still local and require specialized knowledge to properly navigate.

For example, electricity is the most volatile commodity on the planet. A quick look at the hourly NYMEX pricing charts can quickly induce nausea for those trying to make buying decisions. Unfortunately, many of the mainline commodities trade this way. And even commodities (think water) that are not traded, have experienced general upward pricing trends.

Product selection is also critical. As you would assess your risk tolerance and outlook when purchasing a multifamily asset, purchasing deregulated commodities presents an array of choices often unique to certain vendors and certain markets.

For example, would the buyer be more comfortable with a fixed price product with a fixed term? Or a floating rate product? Or a combination?

Even when markets do not offer a choice,

regulated utility rates must be evaluated. Each property within a portfolio has different usage patterns, and these patterns must be matched to the prevailing utility rates in order to select the best fit.

To get optimal pricing, it is important to have accurate consumption profiles for each property. Armed with solid data, an expert advisor can guide buyers through the universe of vendors, products, contract terms and delivery performance toward the most suitable fit. Proper ongoing bill and information management is also key to accurately evaluating a supplier's performance.

And all markets must be evaluated on an ongoing basis in order to properly prepare for unanticipated events or opportunities which will dictate your risk and expense. This is particularly important as well, considering that a buyer's portfolio may change over time in terms of location and overall usage profile.

This cross-section of purchasing complexity typically requires a buyer to seek levels of information and expertise that do not normally reside within their companies. Decisions on product, timing and term of agreement, can have significant impact on expense and, ultimately, savings.

## Consumption Risk

Consumption is often the more controllable side of the risk equation. The most certain way to pay less is simply to use less.

Many factors drive usage—behavior, weather, business activity, equipment profiles, etc. The challenge is to understand which factors impact the usage in a way that is controllable, but does not negatively impact customer satisfaction.

Having both a top-down and bottom-up view of your properties' usage is inherent to understanding where changes can be made. Are there outliers? Are there employee or resident behavior patterns that could be changed? Should you invest in newer, more efficient equipment, and what is the ROI?

Plotting outliers, comparing similar prop-

erties, and then dissecting the details is the only way to develop a comprehensive strategy with specific, actionable tasks. Again, changes in the individual property and/or overall portfolio, can have a major effect on contractual pricing in terms of committed volumes or selected regulated rates.

Many companies don't, nor should, house the full-caliber resources needed to develop or execute complicated utility plans. Having detailed, and easily-accessible data, organized in a usable fashion, is key and the first step to leveraging this expertise toward a discernible return on your bottom line.

### Going forward

The best way to employ the appropriate expertise and make good decisions, is to engage the best information management.

Staggering variation in utility billings across vendors creates a need for information and normalization processing, and reporting on a world class scale. And, given the nature of utilities, this information processing must be done at a rapid pace to avoid unpleasant financial or operational occurrences.

What does that mean? Multifamily owners and operators must secure their utility management needs with a solution that is capable of staying in front of the complex, ever-changing, utility environment.

A buyer must have confidence that utility information will be received and processed quickly and accurately. They must know that the information will be properly organized, stored and secured. Information must be presented in ways that create answers to the problems of price and consumption risks and changes.

The value of your utility information is enormous, but its proper management will help you mitigate risk, and achieve the desired financial result. As such, it's critical to select a utility management provider that offers utility invoice processing capabilities, proven financial stewardship and the scale, speed and certainty to deliver a utility management program that will create fundamental, positive changes for your bottom line, and deliver the credibility and service to your residents. ⚙️

**Author:** Jason Woodward is a utility expert with nearly 20 years experience in regulated and deregulated markets. He has built and led rate analysis, information management/reporting, billing/operations, customer service, sales and marketing, and product development functions for some of the leading energy-related companies in the nation. Woodward is VP of sales and marketing for Cass Information Systems (Nasdaq: CASS) in Columbus, Ohio.

# Residents want to know

## U.S. CTO challenges utilities: come up with a way for consumers to have instant online access to their energy usage

CTO Aneesh Chopra says he wants energy industry to create green button to provide access to online information

The idea sounds simple enough: residents can go to their utility's Website, click a green button and get information about their household energy use.

Develop the technology that makes such a green button possible, is what Chopra told attendees of September's GridWeek conference and then posted on the White House Science and Technology blog.

"How can we safely and securely provide customers electronic access to their energy information, thereby supporting the continuing development of innovative new products and services in the energy sector?" Chopra asked.

"With this information at their fingertips, consumers would be enabled to make more informed decisions about their energy use and, when coupled with opportunities to take action, empowered to actively manage their energy use," Chopra blogged. "Furthermore, making this information available—in simple standard formats—will help spur innovative new consumer applications and devices from entrepreneurs, big companies, and even students. Imagine being able to check your air condi-

tioner from your smartphone or having a clothes dryer that saves money for you automatically during critically hot days or simply getting some helpful customized hints on how best to save energy and money in your house or apartment."

The idea of consumer access to energy data is shared by the National Association of Regulatory Utility Commissioners which recently passed a resolution endorsing smart grid principles that include the importance of providing consumers with affordable and timely access to their own energy use data.

The notion of a button as enabling a one-stop shop for personal information comes from a successful program implemented by the U.S. Department of Veterans Affairs which developed the Blue Button program that lets veterans go to the VA Website, click a blue button and download their health records, Chopra said.

Since its release, Blue Button has been adopted by Medicare, the Department of Defense, and private sector healthcare organizations. Software developer challenges have spurred applications that expand on the Blue Button's promise by helping consumers use their data to manage care, Chopra stated. ⚙️

**Source:** Michael Cooney, *Network World*





## ENERGY PERFORMANCE GUIDE

### Apartment Energy Rating System



↑  
60  
This House scores  
- 40% better than code.

YOUR ESTIMATED MONTHLY  
ELECTRIC AND GAS BILL

**\$ 77**

ACTUAL ENERGY CONSUMPTION MAY VARY

This house features:

High energy efficiency

High water efficiency

LEED Gold, Indoor Air Plus, Energy Star certifications



WELCOME



**EPA Fuel Economy and Environmental Comparison**

**All Electric**  
When battery is fully charged, first 35 miles only.  
**93 MPGe equivalent**  
Charge Time: 4 hours (220V)  
Range: 35 miles  
Annual Fuel Cost: \$601

**Gas Only**  
When electricity is used up, runs on gas for another 344 miles.  
**37 MPG**  
Range: 379 miles  
Annual Fuel Cost: \$1,302

**Blended Electric+Gas**  
(when fully charged)  
**65 MPGe equivalent**  
Charge takes 4 hours  
Range: 50 miles before switching to Gas Mode  
Electric only: first 11 miles  
Annual Fuel Cost: \$85

**Fuel Economy & Greenhouse Gas Emissions**  
Worst 9 10 Best  
Fuel economy for all midsize station wagons ranges from 18 to 75 MPGe equivalent. This vehicle gets 53 MPGe equivalent.

**Your Home Energy Report**  
Account number: 1056729716  
Report period: 07/1/13 - 08/31/13  
We are pleased to provide this personalized report to help you save energy.  
The purpose of this report is to:  
• Provide information  
• Help you track your progress  
• Share energy efficiency tips  
More information is available at [www.pgandereports.com](http://www.pgandereports.com)

**California Energy Performance Disclosure**  
In compliance with California Code of Regulations, Title 20, Article 9 (2010)

**Portfolio Manager Building Energy Rating**  
**83 ENERGY STAR**  
U.S. Environmental Protection Agency

**Building Information**  
Building Name: Grass Valley Office Center  
Building Owner: Joe B. Owner  
Address: 1234 Rolling Hills Rd.  
City: Grass Valley  
Zip Code: 95945  
Building ID Code: 001234  
Building Type: OFFICE  
Gross Floor Space: 83,900 sq. ft.

**Energy Use Index**  
Actual: 125 kWh/sq-ft-yr  
Weather Normalized: 130 kWh/sq-ft-yr  
**Energy Use Information**  
Annual Electricity Usage: 591,750 kWh  
Annual Natural Gas Usage: 13,288 therms  
Other Annual Energy Usage: None  
Total Site Energy Usage: 3,347,302 kWh  
Renewable Energy Production: None  
Percent of Electricity from Renewables: 0%

**Last 12 Months Household Comparison**  
You used 20% MORE energy than similar homes. This costs you about \$7.65 more.

**What Homes Are Compared?**  
• Similar Homes: Approximately 100 occupied nearby homes that are similar in size to yours (3,270 sq. ft.) and have gas heat.

**Turn over for savings**

# The big reveal

Why haven't we developed and adopted a rating system for measuring utility performance within the multifamily industry?

After all, we already evaluate our communities comparing metrics such as occupancy rates and rents.

ENERGY STAR has done an excellent job of creating rating systems for building types including the obvious commercial and data centers, hospitals and supermarkets, as well as those not so obvious as dormitories and houses of worship.

Is it the complexity of multifamily product and market? If rating systems can be created for dorms and hotels, what is the delay?

Last month, the Environmental Protection Agency (EPA) announced a new program that affects high rise multifamily properties that are either new or substantially rehabilitated. The designation, however, appears to be tied to building standards versus actual energy performance. This approach is different from the traditional rating system which is based on relative efficiency versus similar properties.

Does multifamily want a formal rating system? It depends on who you ask. In researching this topic I received scores of conflicting opinions.

On one extreme, an ancillary income manager from a REIT was certain that the adoption of such a system for multifamily would be a waste of time, providing "zero

value." The argument is that owners should make "green choices" for their own benefit; to lower operating expense and attract green-minded residents ultimately increasing operating income.

But I also heard the other side of this argument. Multifamily owners and operators need a formal rating system, but maybe not for the reasons you think.

Over the past years, utility cost and consumption benchmarking and disclosure requirements have gained traction in Seattle, New York, and Austin, to name a few cities. Regulations and mandates that used to only affect commercial properties are rapidly moving into multifamily. Many of said regulations simply require tracking and subsequent disclosure of utility performance to the government and public. But what is the benefit of disclosing performance if your resident, or prospective resident, can't discern how the property compares to surrounding communities?

The Seattle ordinance (CB 116731) calls for a 20 percent reduction in electricity by 2020. But what if the owner or property management team already "squeezed the juice from that fruit" so to speak, and the property is already extremely energy efficient? Or is 20 percent enough for another

property that has done nothing to lower consumption?

The intent behind this ordinance is to be commended; we all benefit from increased efficiency and conservation, but requiring a multifamily community to simply reduce its existing consumption, without a frame of reference, is not the answer.

This armchair quarterback is the first to acknowledge that a perfect rating system is not easy to construct—and perhaps that is what is driving the grid-lock. There are a numerous variables making the equation complicated: unit size, heating and cooling systems/fuels, common area square footage, amenities, etc. However, the multifamily industry is full of bright individuals who have proven that we can collectively engage to agree on standards that will ultimately benefit us, as well as the residents we serve.

What is your perspective on a formalized rating system for multifamily? Send comments to [mgentile@nwpssc.com](mailto:mgentile@nwpssc.com).

**Author** Mark Gentile is a utility management expert focused on the multifamily market. The projects he's led are focused on reducing utility consumption via the analysis of trend and benchmarking data. Gentile is the director of product management for NWP Services Corporation.





# Budget blitz

## Simple strategies to simplify your budgeting process and generate ROI

Right now, busy multifamily executives and property management teams across the nation are in the throes of developing, forecasting and finalizing their 2012 operating budgets. Given that utilities are among the top three operating expenses at a multifamily community, it is critical that utility budgets are accurately prepared and variances are tracked and analyzed.

When building a utility budget, or any budget for that matter, consider why you're dedicating your valuable time to the effort. Whether it's just part of your job, or you're really in it to win it, here are a few strategies that can simplify your utility budgeting process and create wins for your operation:



### Consider consumption

Historically, multifamily owners and operators have limited budgets to total expense. By budgeting for consumption, you'll have better insight as to whether your variances are due to changes in consumption or rates. This insight will help you take steps to minimize negative variances and publicize the favorable variances.



### Condemned to repeat

Review your previous year's history and consider the anomalies. By remembering that a pool had to be filled twice, or fixing a large leak, you can limit large variances.



### Assign accountability

Often, one person within the organization is

tasked with developing the utility budgets and reporting on variances. By involving and collaborating with the site-level teams, the entire operation gains improved insight and ownership to changes that will affect actual costs and consumption.



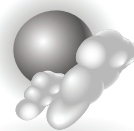
### Track variances

Build better budgets going forward to tracking variances today. It's simple, if you don't understand what caused the variance; you are likely to have a similar issue next year. Define an acceptable variance threshold and begin tracking variances. See point two: track at the site level, as well.



### Strive for reductions

Often we fall into the habit of thinking that remaining flat is okay. This can no longer be the case. Many markets have experienced reductions in expense due to either increased competition or other market conditions. Reductions in utility expense will directly, and often, significantly improve your net operating income (NOI).



### Normalize your date

If you are not doing so, improve your budgets by including weather normalization. This will help y identify variances caused by dramatic changes in weather patterns. ☀

# The next big thing: Community Energy Assessments

What does going “green” mean anyway?” Is it only about conserving natural resources? Or is it about reducing our carbon footprint—whatever that is? It usually encompasses those and more, but from a business perspective the question is: What green concepts do I need to embrace that will benefit my residents, my bottom line, and our environment?

Energy and utility conservation is the most tangible green concept, and the most likely to contribute financially to the organization. When a business conserves energy they are reducing a significant cost, (which usually rises every year) along with reducing demand for our finite, natural resources.

Energy conservation can be achieved by reducing the amount of energy (measured in kilowatt hours, therms and BTUs) expended in heating, cooling, and ventilating the building; illuminating the building (interior and exterior lighting); heating domestic/potable water; powering appliances and equipment (including pool and spa pumps and heaters). The air-tightness of the building envelope (insulation, windows, doors, roof) contributes to the amount of energy usage. Another usage factor to incorporate is behavioral—how the on-site staff operates and maintains the community, and how residents utilize controllable energy drivers (including thermostat control, hot water usage, plug load, etc.)

The question becomes: Which of these areas are currently performing at optimal efficiency levels and in which of these areas can I achieve greater savings? An energy assessment can provide those answers.

## Energy assessment defined

Community energy assessments, commonly referred to as energy audits, are a comprehensive, diagnostic-based evaluations of the buildings, systems, equipment and energy consumption at a multifamily community. The primary objective of performing the community assessment is to identify specific modifications that will reduce cost by improving energy usage and efficiency.

Upon completion, an Energy Management Plan details recommended modifica-

tions called Energy Conservation Measures (ECMs), in an report that includes financial data such as cost, rebates, savings, pay back periods and return on investment.

The Energy Management Plan becomes the owner's or operator's community-specific, comprehensive, strategic energy conservation action plan to save energy and cost ensuring the foundation for achieving an increase in net operating income and asset value. Energy management plans also help identify ongoing ways to significantly reduce energy consumption from energy using systems and components, operations and controls, preventive maintenance, and resident behavior.

## A building's life cycle

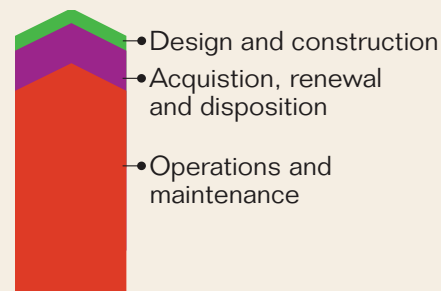
New construction of multifamily buildings provides ongoing energy saving opportunities from the beginning. Such buildings may be designed and built to earn the ENERGY STAR or other green building designations.

Energy efficiency elements are incorporated into the design and verified throughout construction to meet high-performance standards. Studies demonstrate that such buildings use fewer resources, have a smaller environmental footprint, and provide people with a better atmosphere. High-efficiency buildings tend to have higher occupancy rates, command higher rents, and retain value, or appreciate faster, than comparable structures in the same market.

An article from *Business Week*, Nov 12, 2009, entitled, “ENERGY STAR Rating adds \$5M per Building,” cites The Berkeley Program on Housing and Urban Policy. The document suggests that tenants and investors are willing to pay more for an energy efficient building, and that rental



**High rise multifamily** buildings may now earn the ENERGY STAR. Prerequisites, testing, verification, performance targets, and benchmarking are components of the ENERGY STAR Multifamily High Rise (MFHR) program. Previously the ENERGY STAR designation was only for Multifamily Low Rise (MFLR) buildings.



**Typical cost of ownership** Operating a building throughout its decades-long occupied life accounts for between 60 and 85 percent of total life cycle costs, according to estimates from the National Institute of Building Sciences (NIBS) and International Facilities

rates are 3.5 percent higher per square foot with an Energy Star building versus non (6 percent higher effective rents), and sales prices are 16 percent higher.

Another report by Ceres and Mercer in the same article, indicates that, “companies who fail to factor energy efficiency into their real estate investment decisions might be assuming significant risk in the future and could be overlooking substantial opportunities to enhance returns,” and that operations and maintenance practices are critical to realizing ongoing energy savings opportunities.

## The process

Energy Assessments are three tiered as identified by the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE): Level I Walk-Through Assessment, Level II Energy Survey and Analysis, and Level III Detailed Analysis of Capital Intensive Modifications.

The most common level for potential savings, while balancing initial capital expenditures, is Level II. This audit assesses the potential energy savings and initial cost of said strategies through the building survey, energy analysis, and selected system performance testing. It breaks down how energy is used in the building, as well as a broader range of savings options, including simple capital investments.

Energy audits include utility data analysis, on-site inspections, consumption monitoring, energy modeling and energy conservation improvement planning.

**Anatomy of an energy assessment; the focus of the audit:** The first step of the audit comprises data collection and information gathering interviews. The information typically requested includes: utility consumption data (electric, gas/fuel, water,



waste); building drawings (as-built); operation and maintenance manuals for large energy and water systems and equipment.

Step two encompasses site visits for further data collection on the current energy consumption and characteristics of: lighting, HVAC systems, water heating, pool/spa, building envelope, large energy and water using systems and equipment; operations and maintenance behavior and usage patterns; meters and key consumption data collection points.

Infrared thermal imaging and selected performance testing may be used. Site assessment is critical to getting a complete picture of the property's true energy use due to the dynamic interaction of building components and systems, operations and maintenance procedures, and end user/occupant behavior.

The final step in creating an Energy Management Plan incorporates thermal energy modeling and simulation of the property for dynamic analysis and impact of

ECM and relative contribution to financial performance goals, Net Operating Income advantage of the property including amount of investment, rate of return and life cycle costs; rebate procurement for any investments or work completed.

The report will include specific recommendations for: lighting retrofits; HVAC audit and upgrades; controls and control systems; high-efficiency pumps, motors and variable drives, if applicable; water conservation measures; building envelope thermography; operational changes in processes, if applicable; compressed air systems; steam systems (periodic maintenance, steam trap maintenance and piping insulation), if applicable.

Energy Management Reports can be phased, and according to a continual improvement method. This typically includes implementing no- and low-cost energy efficiency immediately, and then using those savings to help pay for larger investments. The ideal is to fully optimize

vide estimated costs associated with achieving the performance target and projected savings. Financial details can include possible sources of funding, rebates, and tax credits/deductions.

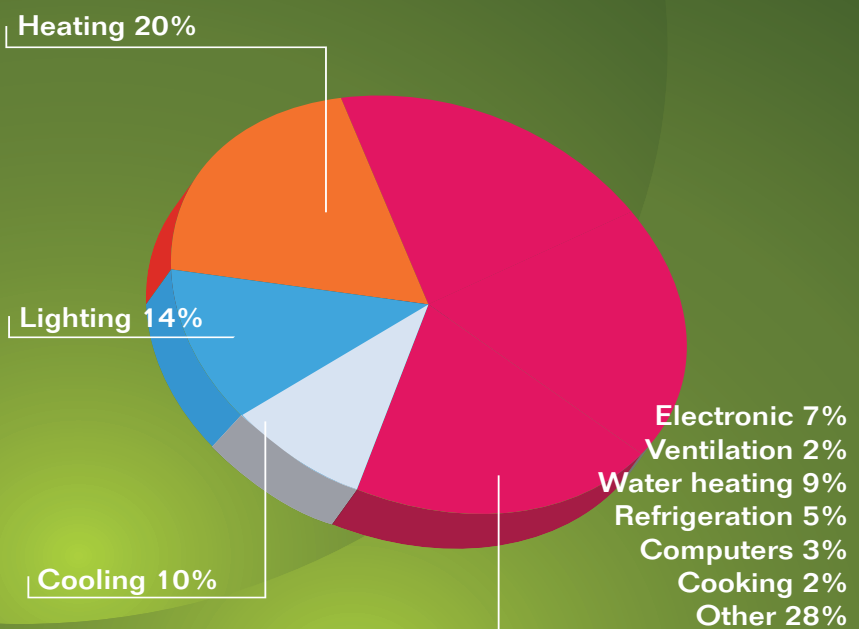
Studies support that an investment in energy efficiency on a property can be a solid investment, with a discernible return for your property. A 2008 Vanguard Group study determined that investing in energy efficiency in your multifamily operation has the highest return, and lowest risk, compared to most investment alternatives.

Other facts to consider: Energy efficient improvements save energy throughout the product's useful lifetime. The long life of modern energy efficient equipment typically results in savings that are many times the investment cost. It is not uncommon to see Savings to Investment Ratio's of 20+.

Many low cost energy efficiency improvements, like increased insulation or energy-saving occupant behavior, result in immediate energy savings and have almost infinite lifetimes.

The return on energy efficiency increases as the price of energy escalates.

## How is energy spent in a typical community?



specific energy and water use, including an energy end use analysis. A baseline scenario is then created, along with a model building, against selected energy conservation measures that can be applied in order to obtain the maximum energy performance.

The final report includes: energy conservation measures (ECM) with expected savings outcomes; financial savings of each

efficiencies and eventually incorporate renewable energy sources into the community portfolio of assets.

### The result

An Energy Management Plan will provide specific actions to achieve cost and energy savings. The financial analysis of the recommended energy conservation measures pro-

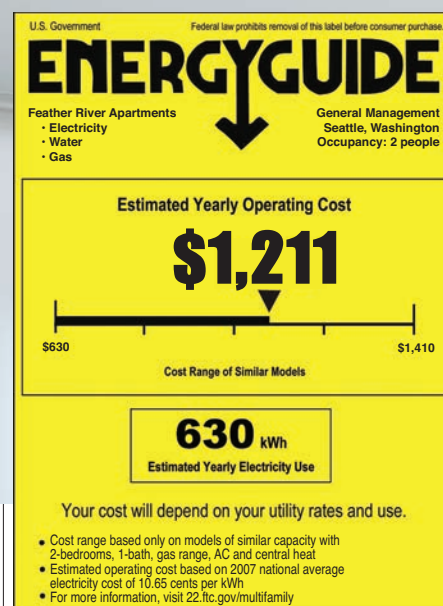
### Market differentiation

Not only can multifamily communities emphasize green in their marketing, they can tout low utility bills to the prospective renter, a real differentiator.

Another cutting-edge trend for builders of new construction is to publish an "MPG" (miles per gallon) label that provides (with all necessary disclaimers) an estimated monthly utility cost for each type of residence so consumers can have a realistic idea of the bill amount before they commit. This information can quantitatively show a score on how your apartments compare against various standards, and can be an effective sales tool.

On-site energy use assessment is only the first step in the correction of energy waste. Create long-term value with the creation of an energy team and energy policy. Consider including resident education and incentive programs, combined with a long-term program of costs and consumption monitoring and benchmarking, and a commitment to the implementation of the Energy Management Plan of energy conservation measures as the financial plan permits.

In light of growing energy use mandates and expanding regulation to achieve energy efficiency, consider the impact on your multifamily operation and the results of an energy assessment: consumption and cost savings, pass through value to your residents, and marketing and business recognition which promotes good-will. ⚙️



# Mandating energy benchmarks for multifamily housing

Energy is the single largest operating expense for commercial buildings, says the Environmental Protection Agency (EPA), but about 30 percent of building energy is used inefficiently or unnecessarily. For multifamily, it's the third largest expense after debt service and salaries.

Coming down the pike, on the federal, state and local levels in cities around the country, is legislation that will require multifamily owners to benchmark, rate and disclose their properties' utility usage. Some bills have been introduced and passed, others will languish and be reintroduced and still others will go nowhere. But the introduction of the legislation highlights the need to establish practical benchmarks that provide a frame of reference for apartment owners to compare their properties' utility consumption to similar properties in their own portfolios, or like properties across regions, states, cities and submarkets. Regardless of public policy, lenders and investors continue to increase pressure on owners to also disclose and address utility and conservation issues within their portfolio. The clear trend shows that all stakeholders (lenders, investors and consumers) are demanding a



deeper insight and action plan when it comes to utility usage and impacts.

Seattle, New York City and Austin have mandated such measures for multifamily that became effective in 2011. Seattle passed a first-of-its-kind ordinance that requires annual energy performance rating and disclosure in all multifamily buildings with five or more units. That law requires that apartment owners benchmark their properties' energy performance, using the EPA's Energy Star Portfolio Manager or a similar, yet-to-be-specified tool, and report performance to the city annually and disclose that information to current and prospective residents, potential buyers and lenders, upon request.

According to Michael Foote, regulatory and corporate counsel for NWP Services Corporation, Seattle's disclosure mandates for now are tied to points-of-sale, but eventually will extend to point-of-lease.

"Energy benchmarking provides another piece of information renters can use to choose where they want to live. The point-of-sale requirement allows a potential purchaser of a property, who wants to know how efficient it is, a single data point. Without benchmarking, potential purchasers must rely on inspection of the infrastructure, anecdotal evidence, and review of the master meter utility bills and properties' utility bills, to gauge efficiency on a per-square-foot basis, but that's not the best comparison. Taking all of the information and trying to get it into a number from 1 to 100 will be far more useful," said Foote.

Seattle's ordinance targeted commercial buildings first since the EPA's ten-year-old Portfolio Manager benchmarking tool was originally designed to work specifically with commercial properties.

Seattle's legislation followed the mandates of other cities, yet is unique both in its broad applicability to all multifamily buildings and the breadth of disclosure requirements compared to similar laws in New York City and Washington, D.C. To better understand the implementation needs of the multifamily sector, Seattle launched a pilot program, the results of which are yet to be disseminated. New York City's benchmarking program for commercial properties ties to point-of-sale and requires energy rating and disclosure, periodic energy audits and lighting upgrades.

"NYC is an interesting jurisdiction to look at because it has very active tenants' groups and savvy multifamily residents that have become attuned to being billed separately for utilities in lieu of direct utility billing through their rent," said Foote. He

notes that one piece of legislation in 2010-2011 relating to multifamily utilities was introduced by a tenants' group prohibiting multifamily owners from billing separately for heating and cooling costs, unless they upgraded all of their systems.

"That was an interesting way for the tenants to try and get owners to upgrade, and their thinking was, when a tenant is billed separately, the owner has no incentive to upgrade their systems, because they are externalizing those costs. But the legislature told the tenants their bill was the wrong way to go about mandating upgrades. They said, 'If you want to mandate these things, you should do it in a bill that says buildings must meet certain energy standards instead of prohibiting what is otherwise a fair practice for owners that do have good systems.' The legislature painted the tenant's bill as throwing the baby out with the bath water," said Foote.

California proposed a mandatory benchmarking bill that would require commercial building owners to disclose benchmarking data to prospective tenants, buyers and lenders. The mandate is not tied to a specific tool, nor does it specify how to perform the benchmarking. But, for now, most property owners are using the EPA's tool, because it is the only tool available to them, said Foote.

California did not pass the introduced legislation, but Foote believes that, when it is picked up again, it will be expanded to include multifamily properties in order to help meet state-wide reductions in energy consumption mandated by 2020.

Austin's ordinance, passed in 2008, requires energy rating and disclosure of commercial buildings and single-family homes, and mandatory energy audits for multifamily buildings. The law further mandates retrofitting buildings for electric, heating and cooling if they perform badly in the audit.

Foote points out that the onus to benchmark and disclose is on the seller, but as much as it seems like a burden and a challenge, it's also an opportunity. Armed with comparison information, owners who are pushing green initiatives or green buildings can differentiate themselves from the competition.

On the other hand, he says, those who will be hurt are owners with aging systems who want to sell their properties. "They no longer will be able to hide their performance behind fuzzy disclosures and square-footage comparisons that could be misleading depending on when the property was constructed and what sort of energy and heating and cooling systems they have," he said.

Also in 2008, Washington D.C. mandated annual energy performance rating and

disclosure for commercial buildings. Although its law isn't tied to a transaction, energy performance data is published in an online data base.

Meanwhile, the federal government proposed legislation of its own—the American Clean Energy & Security Act—in 2009. This legislation passed the House, but died in the Senate. The Senate refused to discuss any climate change legislation until 2010 and the bill never resurfaced. The proposed legislation would have mandated efficiency in both commercial and residential construction with ties to specific federal projects.

"The proposed act required that buildings that meet national building codes, and the energy efficiency targets, would be required to obtain a 30 percent reduction in energy use, relative to the baseline. The act had targeted 2014 for residential, and 2015 for commercial and, beyond that, would shoot for a 50 percent reduction against baseline. And, in each three-year period after those two time periods, an additional five percent reduction target would be added until 2029 and 2030, respectively, for residential and commercial buildings," said Foote.

"Legislatures on the local, state and federal level realize the value of compiling this information and giving a numeric value to efficiency at properties. And legislatures are copycats. Some are fast adopters and some like to let it play out for a year or two, or maybe longer. But they shouldn't take too long, because adoption is spreading across our land. The trend is that we foresee these bills being introduced in more states in the coming years," he said.

In addition to mandated reporting and disclosure from regulatory agencies, investors and lenders are increasingly requiring owners to address their energy footprint. As more money flows into the U.S. market from abroad, where such initiatives are already in place and the impact has been proven, so follow the demands and expectations of the investors. Owners and operators no longer get by with simple financial reports. Investors and lenders are asking "how does your performance compare to the market, and what are your plans going forward?" Unlike the simple reporting measures, investor demands are expanding to include action plans and established programs to ensure a constant focus on improvement and maintaining a competitive edge as consumers become more knowledgeable about evaluating the total cost to rent. ☀

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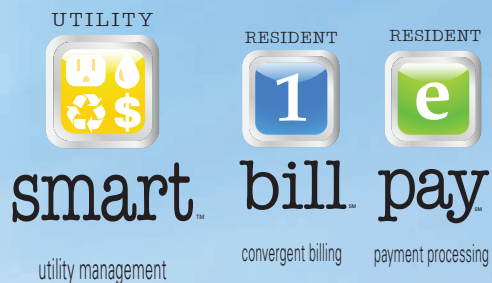
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