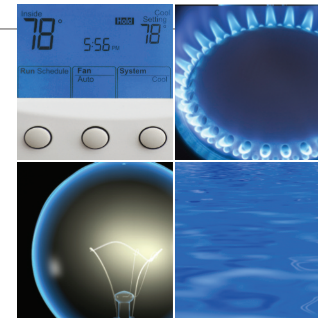
MULTI FAMILY

Journal of Utility management

THE LATEST RESEARCH AND MODELS ON OPTIMIZING UTILITY USAGE IN MULTIFAMILY
VOL. 6, ISSUE 2 • FALL 2016

What does the future hold?

TABLE OF CONTENTS



Journal of Utility management

535 Anton Boulevard, Suite 1100
Costa Mesa, Calif. 92626
Ph: 949.253.3207

UMA DIRECTORS

Mary Nitschke, UMA president
Director of Ancillary Services
Prometheus RE Group

Tim Haddon
National Director, Ancillary Services
Fairfield Residential

Lori Hanson
Operations Manager
Greystar

Rae Schnabel
Director of Sustainability
Maxus Properties, Inc.

Wes Winterstein
VP, Utilities Management
Bell Partners, Inc.

MANAGING EDITOR Amanda Feld
amanda.feld@realpage.com

PUBLISHER Ron Reed
rreed@realpage.com

ASSOCIATE EDITOR Kevin Reid
kevin.reid@realpage.com

SUBSCRIPTIONS
Subscribe at www.nwp.com/joum

REPRINTS
To request content licensing, email:
reprints@UMAdvisory.org

CHANGE OF ADDRESS
Write: Circulation Desk
4115 Blackhawk Plaza Circle, Suite 100
Danville, CA 94506

The future is bright

The future of utility management remains optimistic. While slowing from its original pace, the rental housing market continues to grow steadily nationwide with growth coast-to-coast. A little more than a third of the U.S. population now lives in rental housing making conservation efforts and regulatory issues more prevalent to owners and operators. Leveraging an ever-changing world with the complexities of the shifting landscape of technology is changing the apartment rental experience. The market has begun to alter nearly every aspect of the rental process, from leasing applications to communications with property managers to payment processing. Understanding what technologies are available, researched and reviewed is extremely important to the portfolio manager looking to broaden their reach to potential renters.

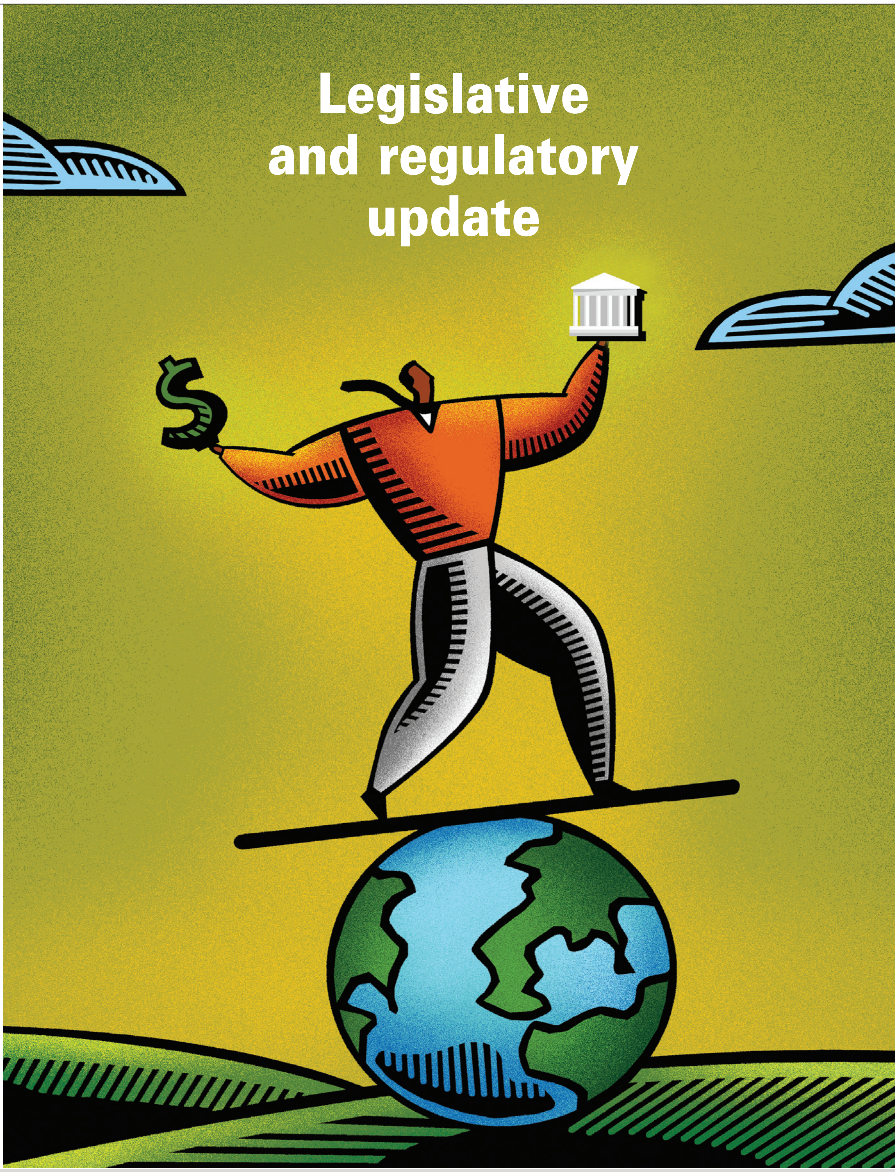
Knowing the road map is crucial to an effective utility management plan. Trusted partnerships with vendors that can help achieve your goals and deliver effective outcomes remains important. There is a steady stream of new information delivered to the marketplace and we strive to educate you with our experience and expertise. For example, one of NWP's latest innovations, (the first launched under our new parent RealPage), makes budgeting and forecasting utility usage more precise with historic data, trends and forecasts. We have a good read in this issue about how to better your budget practices all year-round. Historically, there has been no set of standards of benchmarking and budgeting in utility management which can make an already complicated task, even more daunting, and that's rapidly changing.

Back in July of this year, NWP participated in our first RealWorld conference. RealPage's annual conference, provides the perfect balance of product training, industry trends and insights. The sessions focused on the key aspects fostering the advancement of our industry and how to do better business today. The conference was attended by over one thousand industry leaders. The networking amongst portfolio operators and vendors was priceless. In the keynote speech, RealPage CEO Steve Winn and I shared the vision for two of the biggest names in utility management coming together to become one powerful resource for property management companies. The best of both together, we're going to reduce utility billing costs, increase conservation and keep your business profitable. We will continue to be an integral part of the growth of our industry and will deliver best of breed practices in utility management.

This issue gives a mountain high view of what's already upon us and what's coming down the pipeline in utility management. We explore the complexity of the overall economic outlook and some of the data is astonishing! We also get down in the weeds a bit and explore the movement towards recycling and composting on-site at the property level. The anticipation is that at some point most everything at a property will be either compost or recyclable material. 2017 and beyond is also going to prove interesting from a legislature standpoint. From mandatory sub-metering in every multifamily unit in California beginning in 2018 to the state of New Jersey trying to expand their submetering systems that they had originally banned years ago. The future of utility management definitely won't be dull. As things progress on many fronts, we will keep you informed and up to date so you never miss a beat on the latest technology, regulations and happenings in the multifamily industry.

Ron Reed, Publisher
rreed@realpage.com

Legislative and regulatory update



California Senate Bill 7

California Legislative Session, Senate Bill 7 (“SB 7”) passed the Senate and Assembly and is in effect as of January 1, 2018. The Governor signed the bill into law prior to the end of September, 2016. The new law creates a mandate for the installation of meters (by the owner or the providing utility) in every multifamily unit. It also regulates amounts to allocate to residents, billing fee types and amounts payable by residents, bill content, and other consumer protection issues. The new law will include a safe harbor for properties using an allocated (“RUBS”) methodology prior to the effective date of the legislation (January 1, 2018).

Legislators, industry stakeholders, and environmental groups endeavored for more than a decade to secure the passage of legislation to require the installation of submeters. The defined conservation benefits achieved from submetering compared to “in-rent” billing for utilities was the primary driver in the state due to its well-documented drought and water supply issues.

The new law will provide certainty to multifamily owner/operators, utility billing service providers, and residents themselves. The effective date of 2018 allows properties that are in development to comply with the mandate. It also allows properties with existing water and sewer billing programs to modify practices to ensure compliance.

Fannie Mae updates make it easier to take advantage of green financing

In September, Fannie Mae published new changes to their Green Financing program that further entice borrowers to utilize their green lending products. Fannie Mae has committed to paying for the ASHRAE Level II study required as part of the energy and water efficiency analysis for loans made through their green initiative. As mentioned on the Fannie Mae Multifamily Green Financing webpage, Fannie Mae will reimburse borrowers 100 percent of the cost of the assessment used for the approved loan.

Other key revisions

Another significant enhancement made to the Green Rewards product offering now allows for 75 percent of owner-paid savings and 25 percent of tenant projected cost savings to be underwritten compared to the formulaic computation that allowed up to 50

Ohio

Legislative activities picked back up in the State of Ohio over the summer of 2016. However, it appears that nothing will come from these efforts in 2016.

As background, in September of 2013, the Columbus Post-Dispatch ran a series of articles highlighting multifamily owner/operators that were "marking up" rates that they charged their residents for electric service and allocating more than their expense to residents. Legislators introduced three separate bills in 2014 to regulate "submetering companies" in different forms. None of these bills made it out of committee.

This summer, the legislature introduced two new bills to regulate utility billing performed by landlords to residents. Senator Kevin Bacon(!) introduced Senate Bill 348 ("SB 348"). This bill would regulate multifamily owner/operators, home owners' associations, and manufactured housing operators that bill residents for water, sewer, gas, or electric service. SB 348 allows landlords to bill using metered or allocated methodologies and proscribes limits on how much a landlord can recover (including a method to recover more that the property's expense). The sponsor characterized this bill as a "starting point" and intends for other stakeholders, including the Ohio Consumers Counsel ("OCC") and the Public Utilities Commission of Ohio ("PUCO") to participate in crafting the law. SB 348 allows for landlords to pass through a "reasonable" administrative fee for billing but restricts other fee types such as account establishment and final bill fees.

Representative Mike Duffey introduced House Bill 589 ("HB 589"). This bill directs PUCO to promulgate a regulatory structure for the content of bills, billing fee types and amounts, penalties for noncompliance, and the content of bills sent to residents. HB 589 limits the amount that a landlord can recover to the "prevailing residential cost" and prohibit any "marking up" of rates used by residents. HB 589 prohibits landlords from charging residents for any common area utility usage separately from rent. Further, the bill would prohibit the use of allocated methodologies.

The majority of landlords in Ohio operate billing programs that only allocate utility expenses. SB 348 seeks to expand this practice and codify the ability to mark-up rates to residents. HB 589 seeks to end the marking-up practice and severely restrict landlords' recovery for utility expenses. The utility billing industry believes that there are fertile middle grounds between these two pieces of legislation and have been working with OCC to craft compromise language to introduce in 2017 or to modify one of the existing bills in 2017. The legislature is unlikely to act on either of the introduced bills in 2016.

New Jersey

In 2011, the New Jersey Board of Public Utilities ("BPU") ended its ban on submetering in residential properties in BPU regulated areas for newly constructed properties. BPU and the water utilities it regulates found over the five year period since the ban was lifted that submetering benefits the utilities, the customers, and the State of New Jersey and now seek to expand the ability to submeter to properties constructed prior to 2011. BPU stated its preference for the ability of residents to monitor their consumption and directly modify consumption habits based on price signals.

BPU approached the New Jersey Apartment Association ("NJAA") and asked for information and data on existing properties that installed a submetering system and the conservation benefits that the system produced. BPU plans on performing a rulemaking to allow for the expansion of submetering after review of data and internal discussions. NJAA and utility billing service providers are assisting in the data-gathering and will participate in any rulemaking or legislative process.

Michael Foote is director of regulatory services for RealPage, Inc. Foote came to RealPage through the acquisition of NWP Services Corporation where he served on the legal team since 2008. Prior to NWP, he was the general counsel for ista North America, Inc. Foote has over 15 years' experience with utility billing law.

percent for owner- and tenant-paid savings that was available before this latest change.

Prior to the changes, benchmarking for the High Performance Building Module (HPB) required the collection of utility bills from 10 percent of the tenants if the property wasn't mastered metered. Now, tenant utility bill collection is only required if the borrower wants to underwrite tenant projected cost savings. This change makes it easier for acquisition deals that are typically under a tight due diligence period to qualify for the Green Rewards. No change has been made to the annual ENERGY STAR® Score reporting requirement using 10 percent tenant utility data after the energy and water efficiency work has been implemented.

Fannie Mae's full suite of Green Financing products now includes Green Rewards, Green Building Certification Pricing Break, Green Preservation Plus, and a new offering known as Commercial Property Assessed Clean Energy (C-PACE) consent. By re-evaluating and enhancing their product lines, Fannie Mae is tailoring its programs to meet the needs of, and further attract, owners of multifamily properties to invest in strategic green improvements.

The rise of multifamily green financing

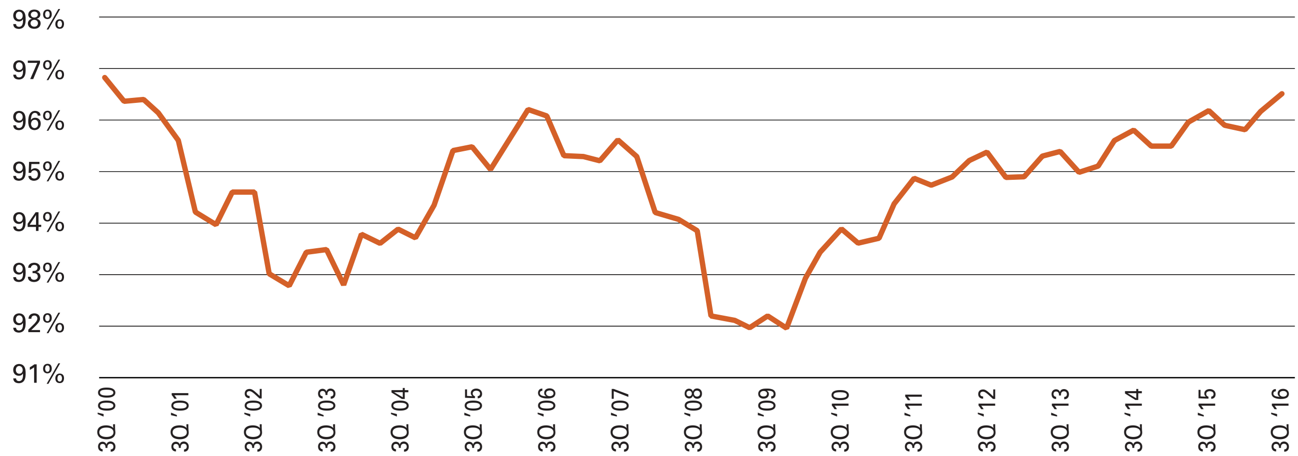
HUD and Freddie Mac are also offering green lending options making green lending competitive within the multifamily market. As agencies continue to update and enhance their offerings, borrowers now have more options to choose from that best meet their needs. Fannie Mae, HUD, and Freddie Mac provide lending to over 50 percent of the multifamily market, making green lending a significant game changer.

Indeed, Fannie Mae's latest announcement adds further momentum to the argument for improving a property's energy- and water-efficiency. By offering the reimbursement, borrowers of these properties can now take advantage of lower interest rates and additional loan proceeds at an even lower upfront cost. Beyond this, efficiently operated properties may yield financial benefits through lower operating and utility costs, improved tenant satisfaction, and increased property values.

As the momentum for green lending increases, it's important for borrowers, lenders, and anyone involved in the acquisition or re-financing of a multifamily property to stay up-to-date on available programs. These programs are dynamic, so understanding the specifics and being aware of any readjustments will allow borrowers to best benefit from the attractive financial advantages they offer.

Source: www.globest.com

US Apartment Occupancy



SOURCE: US DATA IS BASED ON THE 100 METROS THAT FORM THE CORE OF MPF RESEARCH'S COVERAGE

State of the (Multifamily) Nation

Always busy and focused on your operation, you may not have time to stay on top of updates in the apartment market when it comes to supply, demand, rents and occupancy. So how is the industry fairing overall? During a recent live webcast, MPF Research, the market intelligence division of rental housing technology firm RealPage, Inc. discussed numbers and analysis covering the third quarter of 2016, and there were some interesting observations.

First, rumors of a slowdown seem to be somewhat groundless. While it's true that rents aren't rising quite as quickly, rent growth remains at 4.1 percent for the nation's core 100 metros. And even though this represents a two-year low, as RealPage Chief Economist Greg Willett puts it, "Are we really going to complain about 4.1 percent growth?" That's not as hot as it was, but it's plenty warm—particularly in an economy with an inflation rate well under 2 percent.

At least partially responsible for spurring slowdown fears has been the knowledge that lots of new apartments are either coming onto the market or will be soon, driving expectations that oversupply will push prices down. But MPF data points out that most of the new supply is top-of-market rather than class B or A-, leaving the bulk of the market with plenty of demand to soak up the available supply. Q3 occupancy came in at 96.5 percent nationally—a 15-year high.

Downtown vs. the 'burbs

An eye-opening MFP analysis of metros vs. suburbs turned up data that's surprising in light of the recent drift towards multifamily projects in central business districts (CBD).

Suburbs of high-growth metros, it turns out, are matching these fashionable urban projects in cap rate, while offering a lower cost of entry and less vulnerability to market volatility. This being said, developers of CBD projects have been driven as much by hopes of asset appreciation as by income, and they've been rewarded as the hunger for downtown properties has continued. But MPF questions how much longer this rise in values can continue.

Capital considerations

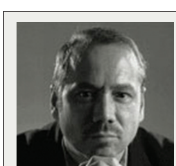
Apartments remain a favored asset class for investors struggling to find safe harbors with adequate returns for their cash. While as of August the average cap rate stood at an unimpressive 5.61 percent (a record low), that's not bad in an economy such as the one we're in. The spread over the 10-year treasury remains very attractive, and apartment buildings continue to be perceived as among the more solid investments out there.

NMHC head talks affordable

The MPF Q3 webcast also included special guest Doug Bibby, president of the National Multifamily Housing Council. Most of the talk focused on the lack of designated affordable housing and the failure of the federal government to address the problem – particularly over the past year or so as elections have taken center stage. Bibby said the NMHC is carefully watching the issues even during this hiatus, with particular attention to preventing debacles for multifamily as exemplified by the 1986 Tax Reform Act and as threatened by soon-to-be empty coffers at Fannie Mae and Freddie Mac.

Bibby is hopeful that the newly formed non-profit NMHC Research Foundation will be a strong force in protecting the interests of the multifamily industry and investors during what promises to be a volatile political environment over the next few years."

To watch an upcoming MPF Research live webcast go to:
http://www.realpage.com/yieldstar/mpf-apartment-market-updates-trends-webcasts/.



Guy Lyman, based in New Orleans, is a freelance writer with over 25 years' experience in writing about the multifamily industry. Lyman is a frequent contributor and writer for the Property Management Insider blog.

In the box with Bibby

In a recent webcast, Doug Bibby, president of the National Multifamily Housing Council (NMHC), headquartered in Washington, D.C., joined Jay Parsons and Greg Willett of MPF Research to talk about issues of interest to the multifamily industry.

In discussing the on-going shortage of income-restricted/designated-affordable housing, Bibby emphasized the importance of the Low Income Housing Tax Credit (LIHTC) program. He identified it as the only current government program that is encouraging the production of new and rehab housing for people making 60 percent or less of area median income.

The LIHTC program is presently funded at $7 billion annually but proposals have been made to increase this funding by 50 percent or more going forward. NMHC is strongly encouraging the continued funding and expansion of this program. Part of the challenge in achieving this goal is in educating policy makers on the difference between the market-rate and designated-affordable housing parts of the multifamily housing market. While affordability measures in the market-rate segment may still look good in spite of the recent rapid growth in rents, the designated-affordable part of the market may be restricted by the lack of supply.

Bibby stressed that the long term lack of growth in real incomes has exacerbated the problem of housing affordability.

While legislative activity in Washington is currently at a standstill due to the upcoming election, Bibby indicated that his priorities going forward are in the areas of tax reform and housing finance reform. He pointed out that the tax reform act of 1986 had a deleterious effect on the real estate industry and said that the NMHC is working to see that this is not repeated. He emphasized the critical importance of finance to the multifamily industry and pointed to the fact that both Fannie Mae (FNMA) and Freddie Mac (FHLMC) are projected to run out of capital in 2017 unless congressional action is taken.

While legislative action may be at a lull, Bibby highlighted the potential impact of regulatory action on the multifamily industry. While he was not specific about NMHC's areas of interest in this interview, areas in which NMHC is active are in insuring the cost effectiveness of energy conservation regulations and in representing the multifamily industry in the development of building codes and sustainability regulations.

In order to support these initiatives, NMHC hired Cindy Chetti as head of its Government Affairs department 5 ½ years ago and has worked to increase its presence on Capitol Hill. NMHC also runs its own PAC, which provides contributions to officials of either party who support the multifamily industry.

A new project of Bibby's is the NMHC Research Foundation. This is a 501(c)(3) non-profit whose mission is to produce research that will "support the apartment industry's business interests." The NMHC website further states that the foundation will study "issues related to development and redevelopment activity, affordable and workforce housing, demographics, tax policy, regulatory environment and zoning and land use." Bibby thanked RealPage for its recent $1 million contribution to the foundation at the RealWorld conference in July and said that we can expect to see work product from the foundation in late 2016.

In response to a question from the audience, Bibby said that developers looking to get into the designated-affordable housing segment should ask themselves what does their community really need and what role can they play in providing that need. The developer should talk to the local municipality about the tools that they have at their disposal and try to figure out the role he can best play.

360 degree budgeting: Be prepared when it comes full circle

Budgeting is hard work

There have been many years in my apartment-industry career where budget season has dragged out for month after month, pushing all other duties to the side to satisfy an all-consuming need to continue to review and refine the budget. There are so many moving pieces that drive utility costs: unusual weather in the past (altering your baselines), unknown weather in the future (will this year bring another polar vortex or a late season hurricane to the Gulf?), pipeline throughput capacity causing potential supply shortages (especially in New England), negotiable rates in deregulated areas (but should they be locked or floating with the market?), tiered rates in regulated markets that now increasingly come with heavy financial impact for failure to conserve in drought stricken areas, other rate increases that are hard to keep up with, leaks, and capital improvement projects—just to name a few.

Stages of the process

Let's start with first things first. From my experience, I've learned there are at least three essential stages of the budgeting process: inputs, creation, and explaining. Lets consider what I believe are some best practices for budget inputs, an overview of budget creation, lament the challenges of

budget explaining, and dream together about how to overcome the challenges.

Inputs to your utility budget

When it comes to inputs for utilities, it makes sense to break things down into the categories that drive your cost:

- Baseline Dollars
- Rate Change
- Usage Adjustments

Baseline dollars are often your prior year actuals. One challenge to this is that normally when budget season is upon us, Q4 actuals aren't available for the current year (because Q4 hasn't happened yet!) Sometimes this causes a default back to the prior year actuals, but logically this implies a 2-year gap between the baseline and next year's Q4 budget. Some companies use a recent Q4 forecast, while others stick with the 2-year gap and the prior year actuals. Whatever you choose, best practices include being consistent and providing clear documentation/disclosure to all stakeholders.

Budget creation: some assembly required

Next, you need to gather your carefully curated inputs and mix them together to create a final product: the dollars that you believe each property will need to spend next year. This mash up involves carefully written calculations. Most of the time, this involves several lookup formulas and some multiplication in a spreadsheet. Then checking your projected amounts against a baseline (often current year actuals) and explaining any major differences. Once the numbers have been checked, re-checked, and triple checked, they are loaded into an enterprise financial planning tool. After much scrutiny across several departments in your organization that includes some questions and rework, the budget is eventually set in stone.

Variances: "Lucy, you got some explaining to do!"

Throughout the coming year, anytime there is a major variance between the actual expense and what you budgeted, somebody wants answers. And they want them fast! Depending on your position and size of your organization, it may be your boss or even CFO—asking you to explain the unexplainable. Truth be told, it isn't really unexplainable, but it is pretty complex. Remember all those moving pieces that can drive utility expenses that I mentioned earlier? You'll need to figure out which one of ten root causes is driving the variances of multiple properties—sometime in the next 20 minutes.

Challenges looking for a solution

I have been thinking about some of the challenges mentioned above for years. And it occurred to me at some point that most of this is just math. If you include a rate component in your budget, wouldn't it be nice if you had a report to show you when the actual rate on the bill has significantly changed? Not only would this explain the variance for the current month or quarter, but may also lead you to reforecasting the remaining year based on the new rate. Unusually hot or cold weather? It can be captured via what weather professionals call a "degree day" which is measured locally and can be linked with nearby a zip code (which most properties seem to have) and then correlated with each utility account's response to weather (for example, turns out cold weather doesn't significantly drive up lighting demand). Sure, some of it is fairly complicated math that involves multivariate linear regression and 3-dimensional geo-coding, but it is still math. Well-designed computer software can sift through the data, isolating the signal from all the noise. Variances that appear related to unexpected rates or weather can then be identified automagically, saving loads of research time. But what about a usage spike that doesn't appear correlated with weather? If your utility management company already has a database of previously researched utility alerts that had triggered based on usage spikes (as we do), then those could be linked and explained easily as well.

The gold standard

Wouldn't it be nice to have an easy button that tied together all these various components? Each month would go smoother with a suite of integrated tools and research services at your fingertips. My team has built this, and I suspect others providers will follow. But the heart of this suite of services rests on the diligence and detail provided by the utility alert research, what we call Alert Management. It is critical to ensure that your service provider has a disciplined, proactive, and detailed process to research anomalies and document the findings.

Kent McDonald is the program director for utility expense management at RealPage. He oversees a number of projects to promote product development, and helps property owners and operators get a handle on utility costs and energy management. Previously Kent worked at Aimco Apartment Homes for 14 years where he served on the Utility Management Advisory board of directors and the internal Corporate Social Responsibility team. Passionate about nature, Kent is a member of the Sierra Club and a former sustainability merit badge counselor for Boy Scouts. Kent lives with his family in So. Calif.

New law gives apartment owners much needed structure for better utility management

Over 80 percent of California apartment residents don't directly pay for the water they consume in their home. Without an idea of how much water they use, it's impossible for residents to have any real understanding of how to best scale back consumption. That, however, is about to change.

As legislators and supporters see it, solving for the state's water shortage begins with submetering. The majority of California apartments don't have individual water meters—or what's called submeters—meaning that 1.3 million residents have no measured idea of how much water they actually use in any given month. And the fact that residents' water use is wrapped up in their rent payment not only mentally disassociates their actual water consumption from its cost, but removed any financial incentive to conserve.

What begins as one easy and aggregated water bill from the utility company to the apartment owner, adds a layer of billing complexity for apartment operations across the Golden State now enduring its fifth straight year of drought. Lack of apartment submeters has long presented little upside, but big risk since multifamily owners are responsible for recovering the cost of its community's water bill (including related fines for exceeding state and local-mandated targets) while residents consume the water without any concept of how it affects the State's limited resources.

Such inconsistencies have hindered the state's ability to promote conservation.

Over 86 percent of Los Angeles apartment owners in 2015 revealed that total water use remained unchanged—and even increased—despite the governor's order to reduce urban water use by 25 percent. The survey was conducted by the Apartment Association of Greater Los Angeles, and experts say the results suggest that apartments need water meters that can break down usage by unit.

A 2004 study, funded by the U.S. Environmental Protection Agency (EPA), found that submetering cut water use by 15 percent on average—simply by giving residents information about their water consumption.

Nine states have had submetering for years, including Arizona and Texas, and now California will join them. On September 26, Gov. Jerry Brown signed Senate Bill 7 (SB-7), a law drafted by Sen. Lois Wolk, (D-Davis). The culmination of over a decade of legislative work, it requires new apartment buildings constructed after Jan. 1, 2018, to include submeters for every rental unit and to bill residents accordingly.

Although such laws have been proposed repeatedly over the years without results, this one saw no organized opposition and received broad support from the Sierra Club, Friends of the River, California Rural Legal Assistance Foundation and the California Apartment Association, a group that represents thousands of landlords.

"Back in the 1970s, we created a law saying that an owner could install a submeter and they would not be considered a utility," Debra Carlton, senior vice president of public affairs at the California Apartment Association said. "Then came all these questions about billing and disclosure. Legal questions were raised about making sure tenants had appropriate notice and weren't misled. That's really why we came to the table, to clear up those questions, and also to clarify inconsistencies in the law."

Carlton estimates the added cost to new construction for purchasing and installing new meters at approximately $150 per meter, per unit. In the past, some local municipalities would charge fees to allow the installation of the submeters, even though the municipality was not involved in the installation. SB-7 prohibits this practice.

"Tenants will pay their submetered water bill to the landlord. Then the landlord turns around and pays the master water bill for the total property to the municipality or the water agency," Carlton said. "The water agency has no direct role in billing the tenants. Everything has to be justified through the master bill. That's why there are disclosure requirements in the statute."

Submeters and more

In addition to installing submeters, SB-7 requires owners of multi-unit rental properties constructed after Jan. 1, 2018, to provide residents with accurate information about the volume and cost of their water use through their own individual submeters. Residents' water and sewer bills will be solely based on usage.

Above all, the law provides clarity for multifamily owners, operators and residents. Previously, the practice of billing residents for water and sewer charges was not comprehensively regulated on the state level but only on the local level and only in few jurisdictions. It is now guided solely by the state.

"Submeter and RUBs are the two big take aways of the bill," said Micheal Semko, vice president of legal for RealPage. "But it's also important to pay attention the smaller language requirements. The good news is that we now have clarity on what's required inside our utility billing language. Now we simply need to focus on compliance."

RealPage Utility Management was very involved in the effort to bring SB-7 into law, particularly regarding existing properties that utilize an allocated or RUBS billing methodology, and on submeter installation issues.

Certainly SB-7 clarifies many of the previous unknowns in utility billing and management. That can only provide relief to owners and operators who won't face unanticipated exposure for how their billing is implemented. Now it simply comes down to compliance.

What about existing properties?

While SB-7 primarily applies to new apartments built after Jan. 1, 2018, there remains the question of existing apartments and how they will be affected. Those properties planning to install submeters, or that already have, must also follow the requirements outlined in SB-7, mostly related to disclosures and the required wording of utility bills.

"If an owner was previously including water in the rent and residents weren't doing anything to conserve, they're certainly going to see a savings," said Carlton.

Many cities have devised fairly steep penalties for water consumption over and above certain set standards. Until now, there was little that could be done to encourage conservation, and adjusting rent to compensate for higher water costs only places the landlord in an undesireable place between the law and the resident.

"I think it's going to make things a little more fixed and understood," said Carlton.

The clock is ticking

One of the key provisions of SB-7 is its effect on properties that have not yet instituted a ratio-allocation (RUBS) utility billing system. RUBS is a utility billing method that allocates a property's utility bill to the residents based on an occupant factor, square footage or a combination of both, less a predetermined percentage (determined by the owner) of a common area allowance.

"The clock is ticking for properties in California to institute a RUBS program," said Semko. "Any owner or operator that implements a RUBS program for pre-existing utility connections after January 1, 2018 faces the potential risk of resident challenges that the practice is "unfair" under the wide-ranging and murky California consumer protection statutes."

Implementing a RUBS program is not an instant process. Semko's concern is that the window on this was fast approaching and many owners are still unaware how this will affect their operation.

"Owners should consider their options in light of this new legislation, certainly submeters and RUBS, said Semko. "But there's also smaller language requirement that also need attention. This is a lesser, but just as important for legal compliance."

"Given the extent of the drought and the need for greater water conservation in California," said Senator Wolk. "All of the state's residents should be armed with the knowledge of how much water they're using to help them reduce their water waste."

Contributors: Matt Weiser of Water Deeply; NAHB 2015 Residential Demographics report; California Apartment Assn. 2015 L.A. Utility Usage Survey.

Some important provisions of the law are:

- Allows a monthly billing fee up to $4.75 (with increases allowed over time) for water and sewer billing
- Specifies rates and methods to be used
- Requires specific lease disclosures
- Requires that owners provide residents with specific information to facilitate an understanding of how bills are calculated
- Requires specific bill content and formatting
- Requires repairs to inoperable submeters within a specific timeframe and limitations on charges if meters are not repaired in a timely manner

Will there be such a thing as “trash” in 2050?

I have a friend who is super passionate about trash. Actually, more correctly stated, I have a friend who is passionate about diversion.

“Unless you or someone you love is in diapers, you should not have trash.” He tells me. “Inconceivable!” I think to myself as I see my properties trash enclosures on Monday morning, heaped in waste.

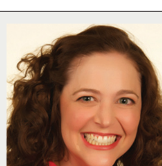
As property managers, we are lucky when the residents properly sort the trash into the recycling and trash dumpsters and we do not have contamination. When we are lucky, they actually bag their trash (it gets really nasty really fast when they don’t) and if we are extra fortunate, they put the trash in the trash containers and don’t just drop it near the trash enclosure or trash room.

Yet as I stare at the mountains of trash heaped in my dumpsters, like something out of the Pixar move “WALL-E” I know my friend is right. It’s just hard to think differently about trash on a residential property.

Trash is a management challenge. I often tell people that multifamily is the step child of commercial real estate and residential (AKA: houses). We use utilities very differently than either category. Trash is a prime example. In commercial, the recycling ratio is much higher as there is typically a ton less food waste and very rarely diapers and material wastes (like sofas and clothing). Additionally, separation of recycling v. waste occurs at the workspace with room for larger containers in a more remote location. In houses, there is space for the occupant to have multiple containers for wastes (trash, recycling, compost) outside of (but in close proximity to) the home. However most of our communities have loads of food waste, and lack space for sorting. Yet our large containers, designed for the mass amount of waste and materials are not conveniently located for all residents. Even if your community is designed for all three container types in the trash rooms and chutes, there is still a matter of space for sorting within the apartments themselves. Most multi-unit dwellings were not designed to have a sorting area. How do we ask people to make room for trash staging when most of these homes were not designed with any space for trash?

As our populations continue to increase the value of land for development will push most waste facilities further from urban locations. Costs of fuel will increase the cost of trash as our waste needs to be delivered further out. To combat these costs, I suspect that cities will increase trash fees further and implement programs that require residents to recycle, and compost. The future of trash is diversion, even for multifamily. States like California already require a diversion rate of 50 percent (that means that on your property only 50 percent of what is picked up is trash and 50 percent has to be uncontaminated recycling material or compost.) By 2020, California will require these diversion ratios to be 25 percent waste and 75 percent recyclable/compostable material. The legislation allows for penalties for property owners who do not comply with the law. Cities like Austin are pushing to a diversion rate of 95 percent by 2040 (that means only 5 percent of your waste is trash and the rest is recycling or compost.) Portland has a goal of 9 percent diversion by 2030 and offers tips and tools for getting property owners to these lofty goals. I could go on. If you do a quick internet search you will see that the majority of the States in the United States have some sort of recycling and/or recycling ordinance currently. If you think about it, the future is already here!

So my friend (who is passionate about waste diversion) is right, unless we or the ones we love are in diapers, there should not really be much trash. In know what you are thinking, “Inconceivable!” You are asking yourself, “How do we get to such a low volume of trash?” Most would imagine that the solution to the great trash caper is some sort of technology. A lovable robot that sorts material and compacts trash for us. Perhaps a magical trash can that sorts whatever you drop into it (like coin counters). Perhaps each site will be equipped with rockets designed to blast their trash into the sun. As much as I would love all those solutions, I believe that the future of trash management actually has nothing to do with technologies (which ultimately become really gross e-waste), but with human beings. The future of trash management involves customized programs that are community specific and lead by members of that community. I am pointing to the residents themselves. This type of grass roots trash experience is where there is real potential for not only diversion but a greater sense of community. Yes, what I am proposing may sound crazy, (crazier than trash robots) and a lot of work upfront. A localized, resident customized trash program will not happen without support and communication of the site team, who will ultimately have to be emotionally prepared for trash enthusiast; however once the community trash program is up and running, the benefits to the community can be significant. Lower trash costs, cleaner enclosures (less impact on maintenance), and fewer complaints about trash will be the reward for the upfront efforts. So, in a world where we will have doors that unlock themselves when their occupant approaches and groceries that are delivered by drones, we will spend more time collaborating, and working on concert with the residents who live near us to economize our waste, working together to make the world a better place. That is the future of trash.



Mary Nitschke is passionate about utilities and should, perhaps, switch to decaf. She is the first president of the Utility Management Advisory Board, holds an Energy Resource Management Certificate from UC Davis, two BAs from UC Berkeley and is Director of Ancillary Services for Prometheus Real Estate Group, Inc. Nitschke has the first law of thermodynamics posted by her office door, and a 1970 Lincoln Mark III with over 400 bhp, in her driveway in Northern California.

Mandatory Benchmarking: Multifamily energy disclosure requirements

For more information, go to www.nwp.com/benchmark

TOWN	LAW / ACTION	BLDG SIZE	DISCLOSE TO	PENALTIES FOR INCOMPLIANCE	ANNUAL DEADLINE
Austin	**Energy Conservation Audit & Disclosure (ECAD)** Unlike many other energy disclosure laws, Austin does not require multifamily owners to report annual building usage data for energy or water. (However, energy audit is required every 10 years and high use properties have mandatory usage reductions.)	All complexes (no minimum size)	Residents and buyers upon request or lease renewal; audit results also must be posted at property	Class C misdemeanor and subject to fine up to $500. If criminally negligent, a fine of up to $2,000 may be assessed.	N/A
Atlanta	**Commercial Buildings Energy Efficiency Ordinance** Multifamily owners must report their usage for energy. Energy audit required every 10 years.	≥ 50,000 sq. ft. (≥ 25,000 sq. ft. by 6/1/2017)	Government agency (who will disclose on public website) annually	Written notice of first violation; Fine of $1,000 if 20 days late, an additional $1,000 every year thereafter	June 1
Berkeley, Calif.	**Berkeley Energy Saving Ordinance (BESO)** Multifamily owners must report their usage for energy and water. All buildings > 4 units must complete energy assessment.	≥ 50,000 sq. ft. (eventually phasing in all buildings > 4 units by 2020)	Government agency annually	TBD	October 1
Boston	**Building Energy Reporting and Disclosure** Owner must report whole building data for energy and water. This includes aggregated resident data which can be obtained from the utility providers. (Also, every 5 years an energy assessment or energy action is generally required.)	> 35,000 sq. ft. or 35 units by 5/15/2017	Government agency (who will disclose on public website) annually	Non-residential tenants: $35 per violation for not supplying owner with energy data. Residents face no fines. Owners pay $75-$200 / day depending on size / use of building up to $3,000.	May 15
California (statewide)	**California's Assembly Bill 802 of 2015** Details TBD. California Energy Commission has been directed by legislature to adopt regulations providing for public transparency of benchmarking energy use data for commercial and multifamily buildings.	≥ 50,000 sq. ft. (by anticipated initial deadline of 4/1/2019 for multifamily)	Government agency (who will disclose on public website) annually	TBD	April 1 (anticipated)

TOWN	LAW / ACTION	BLDG SIZE	DISCLOSE TO	PENALTIES FOR INCOMPLIANCE	ANNUAL DEADLINE
Cambridge, Mass.	**Building Energy Use Disclosure Ordinance** Owner must report whole building data for electricity, natural gas, steam, fuel oil, and water. This includes aggregated resident data which can be obtained from the utility providers.	> 49 units	Government agency (who will disclose on public website) annually	City will issue written warning for first violation. Any subsequent violations can be up to $300 per day.	June 1
Chicago	**Chicago Energy Use Benchmarking** Owner must report whole building data for energy. This includes aggregated resident data which can be obtained from the utility providers. An engineer must examine data every 3 years and certify data to the City.	≥ 50,000 sq. ft.	Government agency (who will disclose on public website) annually	$100 to building owner for first violation, $25 per day after that if not fixed.	June 1
DC	**Clean and Affordable Energy Act** Owner must report whole building data for energy and water. This includes aggregated resident data which can be obtained from the utility providers.	> 50,000 sq. ft.	Government agency (who will disclose on public website) annually	DDOE will issue a written warning. If violation is not corrected after 30 days of written notice, DDOE can fine owners up to $100 per day.	April 1
Kansas City, Mo.	**Energy Empowerment Ordinance** Owner must report whole building data for energy and water.	≥ 100,000 sq. ft. by 5/1/2017 (≥ 50,000 sq. ft. by 5/1/2018)	Government agency (who will disclose on public website) annually	Written warning for first failure to comply; fine of up to $500 if compliance not met within 60 days of warning	May 1
NYC	**Local Law 84** Owner must report whole building data for energy and water. This includes aggregated resident data which can be obtained from the utility providers. Audit required every 10 years on buildings > 50,000 sq. ft.	≥ 50,000 sq. ft. (≥ 25,000 sq. ft. by 5/1/2018)	Government agency (who will disclose on public website) annually	$500; continued failure $500 per quarter with a maximum of $2,000.	May 15

TOWN	LAW / ACTION	BLDG SIZE	DISCLOSE TO	PENALTIES FOR INCOMPLIANCE	ANNUAL DEADLINE
Philadelphia	**Building Energy Benchmarking Ordinance** Owner must report whole building data for energy and water.	≥ 50,000 sq. ft.	Government agency (who will disclose on public website) annually	$300 fine for the 1st 30 days, and then $100 per day.	Nov. 1
Seattle	**Building Energy Benchmarking and Reporting Program** Owner must report whole building data for energy. This includes aggregated resident data which can be uploaded to a property's ENERGY STAR account by the utility providers. (Seattle's 2016 building energy law that requires "building tune ups" every 5 years does not appear to impact multifamily buildings, but only commercial buildings.)	5+ units	Government agency (who will disclose on public website) annually; residents and buyers upon request	Quarterly fines $500-$1,000 based on building size. Owner and residents first violation: $150.	April 1

Some jurisdictions have passed energy disclosure laws that currently do not apply to multifamily: Minneapolis, MN; Portland, OR; San Francisco, CA; Montgomery County, MD; Boulder, CO; and the state of Washington. Areas expected to add similar legislation include Columbus, OH; Denver, CO; Houston, TX; Orlando, FL; Salt Lake City, UT.

ENERGY STAR® Portfolio Manager integration
NWP can automatically upload data from your common area energy and water invoices into this popular tool. Learn more at: https://nwp.com/utility-management/utility-expense-management/

Whole Building Energy Data
For ENERGY STAR® scores, certification, and local energy disclosure regulations, whole-building energy data (including all in-unit energy usage even when paid directly from resident to utility provider) is generally required. Obtaining all the required energy data can be a challenge for multifamily communities, but more and more utility providers have started to make this data available. EPA maintains a list of utility providers that have agreed to provide this additional data at: https://www.energystar.gov/buildings/tools-and-resources/utilities_increase_access_energy_data_help_commercial_customers_benchmark

Reporting and Benchmarking
Beyond tracking your properties' utility usage merely where required, benchmarking is your essential pulse on the market, and indicates how your properties measure up. You can't manage what you don't measure. Know exactly how all your properties are performing and what your utilities are really costing.

NWP's advanced analytics are a powerful suite of reporting tools dissect your utility data at the portfolio level, the property level and even the account level. NWP's Benchmarking and Budgeting Tools turn complex data into actionable insights. Learn more at: https://nwp.com/advanced-analytics-and-reporting/