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Mainstreet
Equity Corp.
Taming the Wild, Wild West



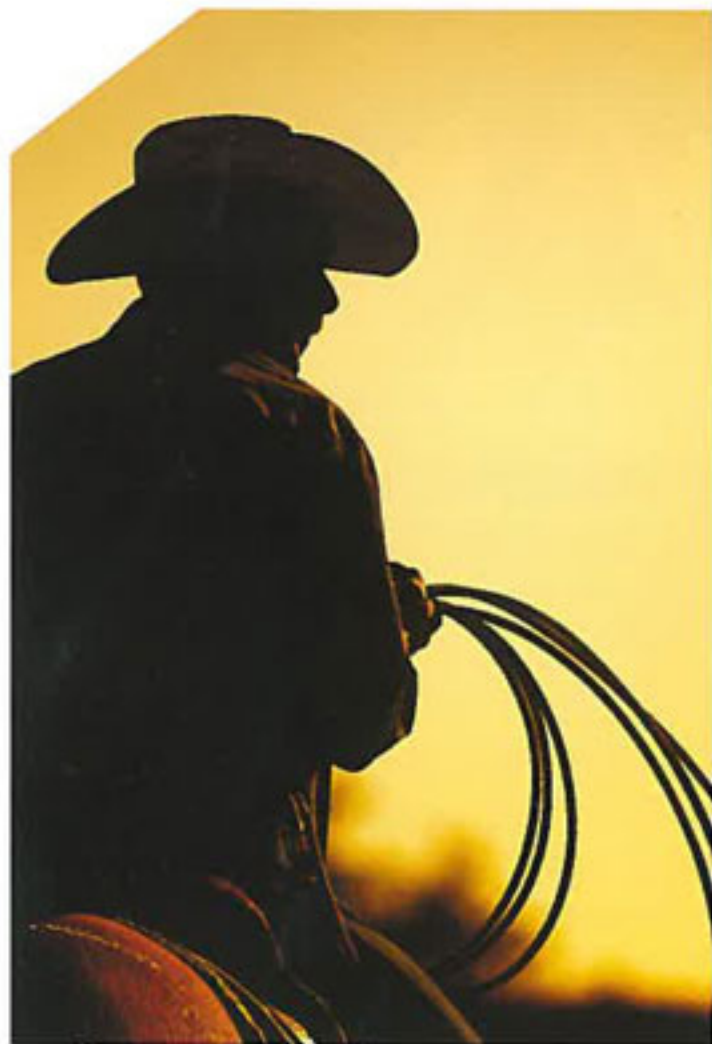
Annual
Green
Issue

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COLUMNISTS



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Are electricity suite meters worth the investment?

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Suite metering, sometimes called sub-metering, is where the energy consumption, rated in kilowatt-hours (kWh), of each tenant is monitored by a separate meter. In most cases, a sub-metered tenant is responsible for paying their own utility costs, and is empowered with energy use feedback so that they can manage their energy consumption.

How many property owners have driven past their investment property in the mind-numbing cold days of February and seen tenants with their windows and/or a balcony door wide open and the heat in their apartment cranked up to the max?

Energy costs continue to increase, sometimes exponentially, and especially electricity. Time-of-use pricing has added to the energy consumption costs of the building. The 13 per cent HST levied on energy services, which cannot be passed on to the tenant, had a huge impact on landlords, often causing landlords to compromise on the quality of service that was previously provided to the tenants as well as to the general maintenance of the property. The coup de grace was delivered in 2011 with the government's 0.7 per cent maximum rent increase. Landlords have been reeling from the devastating impact of these green movement and economic/social policies and reforms.

Before the scares of energy shortages in the early 1980s, many apartment buildings were designed with a single meter, generally called a bulk meter. The landlord either factored the utility costs into the rent, or prorated the single bill among all the tenants.

In the former case, landlords wound up absorbing rising energy costs since rent controls and the Residential Tenancies Act (RTA) in Ontario prevented, and still prevents, landlord/owners from passing on increased utility expenses to tenants, except in an extreme situation. In the latter case, a single retiree could be paying the same utility as a five-member family. In all cases, there was inequity.

However, the escalating costs of utilities, especially electricity, combined with the rapid growth in energy conservation awareness, have fueled all kinds of incentive programs and cost-cutting measures. Unfortunately, like many new initiatives from government

authorities, there are some implementation challenges and pains that have arisen between government agencies like the Ontario Energy Board and conservation authorities, who are driven by certain mandates and ideologies that do not always take into consideration the practical business costs of implementing such programs, versus the utility companies that manage the end-user relationships, provide the actual service of energy delivering, and carry the mandate of finding practical business approaches to implementing a government's mandates and policies.

Consider an average 11-plex that is converted from one bulk meter to 12 individual meters (11 suites + 1 house meter). Instead of one bill to the landlord, who is a very low-risk client that always pays their bill, and most likely on time. Individual metering now requires the utility company to install 12 new meters (but not the infrastructure, to be discussed further below), create 12 separate business accounts, check credit references, sometimes collect and be accountable for deposits, bill each person separately every month or two, collect and process 12 separate payments, provide individual support and maintenance for each new account, and take on a notable relative increase in the risk of payment delays and defaults.

Until utility companies are legislated to take on this extra administrative and operational burden, there is little incentive for them to incur these additional costs for virtually no directly-correlated profit. Nevertheless, in Ontario, these issues are being worked out and progress is being made. It took me about six months to have the issues addressed with my utility provider, but once the challenges were resolved, the utility company was ready to do the conversion within a couple of days' notice and a small application form that was completed by the meter installer/electrician. Not all utility companies and certainly not all situations would have the same types of challenges. You may be pleasantly surprised by the quick response and painless process of suite meter conversion.

Now, having provided caveats regarding cooperation of the utility companies, there remains the issue of "converting" tenants. If a landlord installs a suite meter, a tenant does not have to start paying their own utility costs. An existing tenant must be empowered by the landlord to make an informed decision about how they are charged for electricity. The process is arduous - no surprise there - and, if the tenant consents, the landlord must lower the rent according to a prescribed formula.

Currently, my tenants do not enjoy the creature comfort of an air conditioner or freezer. I tried to entice them to add these amenities. None of my 11 tenants took the offer and frankly, if I was a tenant, I probably wouldn't either. There's little upside for the tenant. If they're already frugal energy users, the rent decrease is hardly compelling.

Also, make certain you notify tenants in writing of the conversion. Prepare them for a full day's power outage. Keep refrigerator/freezer doors closed and don't buy food on that day. Let them know that the landlord will not be responsible for food spoilage.

After installation, likely, the best time for you to make the billing conversion is when an existing tenant moves out. The Residential Tenancies Act (RTA) is structured such that you can negotiate any new terms you like in your new rental agreement, provided it does not "contract out" existing legislation, for example, no pets allowed.

This is one of those rare conflict-of-interest situations where you hope that your tenants will move out so that you can start billing electricity separately and recover some of the lost profit from the financial hammering the government has been doling out to landlords.

While I was waiting to sort out the municipal issues regarding the installation of suite meters, I changed my monthly (I never do one-year)

rental agreement to indicate that the unit would eventually have a separate utility meter, and that when the installation took place, the tenant agrees to immediately contact the utility company to pay their own utility bill. Between the time I made that contract change and the time the meters first became operational, I had three tenants move out, and were replaced by three tenants who now pay their own electricity bill.

So, despite the potential long tenant-turnover timeframe, here's why you should still do it. From a return on investment and return of investment perspective, it could possibly be the best investment you'll ever make in your property.

In my case, when I purchased the building, all 11 tenants had their electricity costs included in their rent.

The electricity bill was about \$14,000 per year.

Once I had the go ahead from the utility company, I obtained six quotes for installation. Prices ranged from \$10,000 to \$28,000. I learned from several independent sources that I should be looking at about \$1,000 to \$1,100 per meter installed. This cost does not include the actual meter; only the wiring, back plates, wall mounts and other assorted infrastructure requirements.

The utility company will install the actual meters. Every utility company has a different cost recovery policy. In my case, my utility company provided all the meters themselves for free (which it should) and charged me a one-time \$50 fee for each installed meter above the first four (three apartments + the house meter). They also charge a one-time fee of \$30 for each tenant that is transferred from your bill to the tenant's own bill. The tenant would pay this service fee.

The business case (roughly speaking):

- Total invoice, including HST = \$11,550 to install 11 suite meters plus a house meter (about \$960/meter installed)
- Average annual electricity bill = \$14,000
- Cost reduction strategic objective: convert eight of 11 units (73 per cent) within three years to having tenants pay their own electricity bills
- Cost reduction financial objective: = \$14,000 x 73 per cent = \$10,220
- Multi-residential investment properties are currently selling at between a five per cent and six per cent capitalization rate
- \$10,220 / five per cent (cap rate) = \$204,400 or \$10,220 / six per cent (cap rate) = \$170,330

I didn't factor in/out the common area costs, just to keep the premise of the business case simple. The financial result is substantial any way you slice it.

Business case summary

There's more to determining the total return on the value of the investment but, in the simple math above, adding between \$170,000 and \$204,000 to the value of your property for an investment of \$14,000 should be a pretty obvious inducement if you have the upfront \$14,000 to do it.

Energy management

I now also have a very useful record of the energy consumption of every unit. I created a meter record sheet to record all the individual kilowatt-hours, and created a spreadsheet that not only tracks usage on a per unit basis but also automatically colour-codes every unit to instantly identify the heavy users relative to total consumption of the building.