

# Getting Soaked



# With tightening water quality standards and aging infrastructure driving up water rates around the country, some apartment owners are turning to submetering to protect their bottom line.

BY SEAN DICKS

**A**n annual water rate increases are more than just an inconvenience—they're a huge financial burden for multifamily property owners and managers. Municipal water rates are increasing by up to 55 percent in some districts, with an average nationwide increase of 12.9 percent going into 2011. Property owners in Kentucky, for instance, recently experienced a 37 percent rate increase, translating to approximately \$10 per household per month.

Among the factors causing the increase are the tightening of Environmental Protection Agency (EPA) requirements on water quality and waste distribution in the United States, a growing need to improve crumbling municipal water infrastructures (such as pipes, pumps and treatment plants), and significant declines in water consumption because of the poor economy.

The EPA is requiring water authorities to clean up their act. "There are a range of chemicals that have become more prevalent in our products, our water and our bodies in the last 50 years," said the EPA administrator, Lisa P. Jackson, in a speech to the Association of Metropolitan Water Agencies. The agency is working toward a new—and stricter—vision for providing clean, safe drinking water.

According to a study released last year by the American Society of Civil Engineers, leaks in the nation's water distribution system result in 7 billion gallons of lost clean drinking water every day. Crumbling sewer systems spill billions of gallons of untreated wastewater into the nation's rivers, streams and lakes. Funding for infrastructure repairs and maintenance is derived in large part from increases in water and sewer rates paid by utility customers.

Another factor fueling the increase in water and sewer rates is the economic downturn that began in fall 2007. Since then, many municipal water utilities have experienced a decline in water consumption in their districts. The decline is due to overall business contraction, plant closings and increased rates of home foreclosures. The cumulative impact has led many utilities to raise rates in order to cover fixed operating costs.

## Defraying the Costs

Water rate increases are not going away and, in fact, are expected to grow at near double-digit rates in the foreseeable future, according to some. The question: How do multifamily owners protect themselves from these increases?

Submetering, which traces its roots to Europe in the early part of the 20th century, is a method that can insulate multifamily

operating income from utility rate increases. Converting multifamily housing from owner-paid to resident-paid water expenses protects owners' bottom lines, promotes conservation and helps stabilize rental rates. Industry studies have documented that water usage drops up to 39 percent when individual submeters are installed in multifamily housing.

Ashton Brooke, a 380-unit community operated by Colonial American Development Corp., mitigates high water rates in its Greene County, Ohio, location with submetering, according to the company's Vice President, Jon Kostival.

"It used to be that water was a free item that people took for granted, but not anymore," Kostival says. "It's a hefty charge. Submetering helps in two ways. It helps to defray costs of rate increases that can be passed to residents, but it also helps on the conservation side. When residents are paying their own water bill,

**"When residents are paying their own water bill, they're more aware and . . . less excessive with water."**

— Jon Kostival  
Vice President  
Colonial American Development Corp.  
Columbus, Ohio

they're more aware and apt to take shorter showers and be less excessive with water in general."

Roger C. Perry & Company, a Midwest property management firm, has used submetering systems in some properties for more than 25 years, according to Fred Damsen, Chief Operating Officer. "During that period, we've seen a 400 percent increase in water and sewer rates," he says. "In those properties with submetering systems, our budgeting process focuses more on what we can control and lets uncontrollable water expense increases be passed through by our utility billing service. This helps protect our bottom line."

As water rates continue to rise, submetering fights increases by cutting operating expenses, conserving resources and protecting bottom lines. ■■

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