A Property Manager’s Guide to Payments, Billing and Utility Management

2016 Market Survey Findings
Introduction

Billing residents and homeowners, collecting their payments, and managing utility expenses are efforts that have traditionally consumed a lot of time and resources for property management companies. There are a growing number of solutions on the market designed to eliminate the drudgery of these day-to-day tasks, making them more efficient and profitable for property management firms. But is the property management industry—one that is typically slow adopters of technology—embracing these advances?

PayLease’s 5th Annual Market Survey examines how online payments, billing, and utility expense management solutions are being used (or not used) in the HOA and property management industry. Based on interviews with over 1,300 HOA, multifamily and single family firms, this report identifies the trends related to rent and HOA dues collection, utility billing and utility invoice processing. By comparing our latest survey with previous years’ data we are able to understand what has changed, and get clues to what may lie ahead.
Survey Methodology

To collect the data for this study, PayLease enlisted Martec, a third-party research firm, to interview HOAs and property management companies. Here are some details about how that information was collected:

- A telephone survey was conducted with over 1,300 property managers or their equivalents
- Average survey length was 5-15 minutes
- Survey participants confirmed information about their company such as portfolio type and units/homes under management
- PayLease was NOT identified as the survey sponsor

Another important thing to note about this research is how we have categorized the survey respondents. To help readers compare their company’s business practices to their peers, we’ve broken down the results by portfolio, and by company size. To the right, we have defined each of the segments that participated in this survey. We think it’s helpful to showcase our results by the number of homes or units participating companies manage to identify any trends by company size.
Most property management companies and HOAs offer online payment options to residents, and that is expected to keep growing.
Online Payments

The survey started by asking participants if they offered their residents or homeowners online payment options. A majority (67%) offer this amenity for paying rent/HOA dues online.

Online payment acceptance rose 12% among all survey participants, but the largest increase was seen among single family firms. Single family firms have always been far behind other segments in their adoption of online payment offerings as we have seen in our previous market surveys. Now that online payments are considered “the norm” and are easy and inexpensive to implement, single family firms are more comfortable with implementing these solutions. HOAs, who already had a healthy online payment presence, saw only a 2% increase.

Not surprisingly, the more resources a company has, the more likely it is to have online payment options already in place. Online payments are most frequently offered at Large companies, and least likely at Small companies.

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While ACH remains the most popular online payment offering for rent and HOA dues, there was a surge in card acceptance.
Card Acceptance

Respondents were asked to name the types of online payments they accept. Among all segments, ACH, which stands for Automated Clearing House, is the most popular offering. And from a resident perspective, ACH is an easy and affordable way to have funds debited from the bank account of their choice.

Not far behind in popularity are cards (ie: Visa, MasterCard, American Express, Discover, etc.). Card payments appeal to property managers because of the faster processing time they afford, along with an automatic guarantee of funds. In the entire history of the PayLease Market Survey, cards have always been the second-most accepted payment type within the property management industry. While that hasn’t changed, this year there was a substantial spike in card acceptance among survey participants, narrowing the popularity gap between the two payment types.

Card use has increased among consumers, which most likely explains why this payment choice has become more popular for rent or HOA dues. The 2016 Consumer Payment Survey, conducted by TSYS, found cards to be the top choice for consumers making online transactions.¹ They cite consumers growing concerns about online security, combined with the appeal of earning points or cash rebates for drivers in card popularity.

Another payment type that grew in popularity, both in the property management world and among consumers in general, is PayPal. Our survey also found a 20% increase of PayPal usage as an option for rent or HOA payments. Eleven percent of property managers and HOAs now offer PayPal as an online payment choice. In 2016, PayLease became the first online payment provider catering to the property management industry to offer integration with PayPal, which may explain the increased usage.

Outside the property management sphere, TSYS’ Consumer Payment Survey found that PayPal is now the second most favored method of paying for online transactions behind cards. Given this statistic, we expect to see property managers and HOAs increase their acceptance of PayPal by 30-50% over the next few years.

Types of Online Payments Accepted

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<td>88%</td>
<td>11%</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>PayPal</td>
<td>8%</td>
<td>9%</td>
<td>9%</td>
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</table>

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Billing Residents for Utilities is Trending in Multifamily
Billing Residents for Utilities

With utilities being a significant operating expense, recouping those charges from residents is a must for any property manager. Without an effective strategy to ensure that residents pay their fair share of utilities, a property’s net operating income (NOI) will certainly take a hit. Let’s look at the options property managers have to recoup utility costs:

Residents Pay the Provider Directly

This option is only available in buildings with a direct metered configuration (which we’ll discuss in more detail later). Multifamily dwellings that allow residents to pay utility providers directly are typically under a Continuous Service Agreement (CSA) with the utility provider. CSAs allow for the automatic transfer of the gas, water, or electric service into the property owner’s or management company’s name after a resident has moved out. This permits property managers to keep their utilities running in between leases for showings, etc.

Utilities Included in Rent

Decades ago, this was a universal practice for property management companies. However, it has several flaws that have led some management companies to abandon this practice, particularly among utilities that fluctuate in usage and price (electric, gas, water).

For one, it puts property managers at the mercy of residents and their usage tendencies. When residents have the mindset that utilities are included, it is easy for them to overindulge. According to the National Multifamily Housing Council, residents who are billed back for utilities consume approximately 39% less than those who are not charged.² Another variable for property managers is seasonality. Winter and summer months bring fluctuations of utility consumption and, in some cases, rates. Because of these reasons, many property managers are not able to accurately budget their property’s utility expenses and end up taking a financial hit. For property managers who do choose to include utilities in the rent, 70% of the time, it is for trash—a service that is usually billed at a fixed rate every month.

The Most Common Utilities to Include in Rent:

1. Trash
2. Water
3. Gas
4. Electricity
The Modern Approach: Residents are Billed by Their Property Management Company

With this practice, residents receive a monthly bill from their property management company for their utility consumption. This ensures that property management companies can recoup most, if not all, of the utility expenses. It also usually leads to lower overall utility bills since residents tend to consume less when they are liable for their consumption. Even better, property managers who bill residents directly can lower the price of rent, which, in the current competitive market, makes their property more appealing to prospective residents.

Given all the advantages of billing residents for their utilities, we wanted to see how many firms in the multifamily industry were doing so. Thirty-two percent of multifamily firms reported that they bill their residents for at least one utility.

Multifamily Firms who Bill Residents for Utilities

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Billing residents for utilities is a developing trend in the multifamily industry, particularly among larger firms who are more likely to engage in this practice versus smaller firms. Larger multifamily firms are more apt at turning a profit, and may simply have more resources at hand to determine the charges and bill them accordingly. As many as 73% of Large firms (24,001+ units) are billing residents for their charges, compared with approximately 21% of Small firms (400 – 6,000 units). Using a bill-back approach to recoup utilities will undoubtedly grow in the coming years, with the larger firms leading the way and medium and small firms experiencing the most growth.

Multifamily Firms that Bill Residents for Utilities Based on Size

- **Large** (24,001+ units): 73%
- **Medium** (6,001-24,000 units): 48%
- **Small** (400-6,000 units): 21%

It makes sense that water is the utility that is most frequently billed back to residents. Most water municipalities are only able to master meter multifamily properties, forcing property managers to handle the billing of this expense. Gas often works the same way. Trash is another expense that makes sense to bill back for. In multifamily communities, trash providers usually only collect garbage from a shared dumpster versus picking up from each door. And, since trash is typically billed at a fixed rate each month, it makes it easier for property managers to divide that expense among residents.
When calculating utility charges, submetering is the most efficient way to recoup costs.
Submetering & RUBS

It’s clear that billing residents for their utilities is a growing trend. How are multifamily firms determining what each resident owes? When multifamily firms bill their residents for utilities, there are a couple of different methods for determining what is owed. The first step is acquiring a meter read. To obtain utility readings, a property is either configured one of two ways:

Direct Metered
This means that there is one meter per utility type, per residential unit. Each meter is read by the utility provider. The utility provider is responsible for calculating those usage charges and billing them directly to the resident.

Master Metered
In master metered communities, there is one meter per utility type, per building. The utility charges for that community are billed directly to the property owner by the utility provider. From there, it is up to the property owner to determine how they wish to recoup those costs. That can be done with Submeters or a calculation method called RUBS.

Submeter Reads
In this instance, individual meters for each residential unit are installed behind the master meter. Those meters are monitored by the owners or the submeter vendor rather than the utility provider. The readings obtained from submeters show precisely the utility consumption for each unit. Once the charges are assessed for each unit, it is then the property management company’s responsibility to pay the applicable utility provider. To recoup the charges, either the property management company or a third-party billing provider invoices residents for what they owe.

Where structurally practical and economically feasible, submeters are typically the preferred method of utility cost allocation. Both the resident and the property owner benefit from utility submetering. Residents benefit because submetering provides them with a precise picture of their utility usage, enabling them to have more control over their future consumption. And, if they wish, they can curb their utility consumption, which also equates to saving money. Submetering also protects property owners from unbudgeted utility expenses, giving them higher net operating margins.

RUBS
RUBS stands for Ratio Utility Billing System. It is a method of calculating a resident’s utility charges that is proportionately based on the number of occupants per unit, square footage or other factors. Either the property management company or a third-party billing company performs the RUBS calculations and bills the corresponding charges to residents.

When submetering is not a practical option, RUBS is a great and fair alternative for calculating utility consumption. In fact, judging by our survey results, RUBS is a common allocation method for all utility types. The drawback of RUBS is performing the calculations if done in-house. This can be complex and time consuming for a property management company, which is why some prefer to outsource their resident utility billing.

When do Multifamily Firms Use Submeters Versus RUBS?

Submeters are typically the preferred method of utility cost allocation.
Most multifamily companies outsource the billing of resident utilities.
If a multifamily firm has elected to bill residents for utilities, chances are they have chosen to outsource this task to a third party. Fifty-three percent of multifamily firms say they leave this time-consuming task to a third-party, rather than using in-house resources.

More and more companies are offering resident billing services and it’s proving to be a valuable tool for property management companies. Most resident billing providers will do more than simply send a bill to residents—they also calculate what residents owe, which is particularly helpful for companies using a RUBS method. Plus, utility and payment data integrates into the user’s property management software, ending manual data entry and improving data visibility.

Whether a property management company does the billing in-house, or outsources the task, a best practice is to include the utility charges and rent in one convergent bill, and if possible, enable residents to pay all of their charges in one transaction. This practice can boost on-time payments for property managers and is more convenient for residents, who don’t have to make two separate payments.
In the single family sector, the practice of billing residents directly for their utility consumption is still in its infancy. Overall, single family companies typically require their residents to directly pay the utility provider. While it sounds hassle-free for the property owner, it comes with risks that are unique to single family firms. Property owners are sometimes startled to find that a lien has been placed on their property, thanks to residents who didn’t keep their utility accounts in good standing. Single family homes also don’t have continuous service agreements that are common in multifamily structures. This means that if there are gaps between leases, the property is without utilities until a new resident moves in, or unless the management company places those accounts in their name until a new resident assumes responsibility.

Single family management companies are also finding that including utilities in the rent lowers property appeal and is no longer a feasible strategy. Asking rent for single family homes is approaching a ceiling in most metro areas of the country. Further inflating those prices to account for utility expenses is a turnoff for renters who are already feeling their wallet stretched thin.

These challenges are leading single family firms to shift the way utility expenses are recouped. Approximately 10% of single family firms are now keeping all utilities in their name, and choosing to directly bill their residents for the charges. This is most common with for water and trash collection.

Generally, single family firms who directly bill their residents use in-house resources to perform this task. Only 17% of single family firms outsource utility billing. While it may not be the most effective way to recoup charges, most single family firms who bill their residents assess residents a fixed amount every month rather than calculating based on consumption. Roughly half of our single family survey participants who bill for utilities reported that their residents are charged a flat fee every month.

It should be noted that the differing adoption rates of utility bill-back among multifamily and single family firms is not surprising. Multifamily firms are always the first to embrace technology that is designed for the property management industry. Online rent payments, leasing software and resident portals are all examples of technology that was only used by multifamily firms a decade ago. These have now become popular in the single family industry after multifamily firms proved their value. As multifamily firms continue to adopt utility bill back programs, single family firms will slowly follow their lead.
Property management companies are losing thousands of dollars each year by not conducting Vacant Cost Recovery.
Across single family and multifamily firms, only about half perform vacant cost recovery. This means a substantial amount of companies are wasting money on utilities that they should not be accountable for.

Many utility expense management providers offer vacant cost recovery services. It is not uncommon for the revenue generated from vacant cost recovery to offset the costs associated with hiring a utility expense management provider. As more firms utilize utility expense management providers (which we will cover in the next section), there will be growth in the number of firms using vacant cost recovery.

Among our survey participants who indicated that their residents must pay any utility to the provider directly, we asked if their firm conducted vacant cost recovery. Here’s how the results break down:

### Percentage of Multifamily and Single Family Firms who Conduct Vacant Cost Recovery

<table>
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<tr>
<th>Utility</th>
<th>Multifamily</th>
<th>Single Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>60%</td>
<td>57%</td>
</tr>
<tr>
<td>Water</td>
<td>52%</td>
<td>56%</td>
</tr>
<tr>
<td>Electricity</td>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>Trash</td>
<td>47%</td>
<td>46%</td>
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According to a recent article published in *Buildings*, the average fee per vacant cost recovery invoice is $30, or around 50 cents per unit per month for a multifamily building. This translates into huge savings when multiplied across large portfolios. *Buildings* also cites that the annual vacant unit cost recovery for one multifamily firm that manages 120 communities nationwide is about $6 million per year.\(^3\)

The annual vacant unit cost recovery for one multifamily firm that manages 120 communities nationwide is about $6 million per year.\(^3\)
Some savvy property management companies have eliminated in-house utility expense management, while the rest of the industry remains reluctant to outsource the task.
Utility Expense Management

According to the National Apartment Association’s 2016 Survey of Operating Income and Expenses, utilities are among the top operating expenses for property managers. To help tame these costs, and make the overall process of paying utility bills more efficient, some companies choose to outsource this function rather than doing it in-house. Referred to as Utility Expense Management, its advantages include freeing staff from an administrative-heavy process, reducing faulty charges within each utility invoice, and fewer late fees.

For the second year in a row, our survey asked respondents if their company outsources Utility Expense Management, or if they perform this function in-house. Ninety-one percent do NOT outsource utility billing, which is virtually unchanged (+1%) from the previous year. Multifamily firms saw a 4% gain, making it the biggest increase among the segments.

Do you outsource or work with any third-parties to handle the process and payment of your management company’s utility invoices?
With all the benefits that come from utility expense management solutions, the survey results beg the question—why are so few companies outsourcing utility invoice processing and payments? To begin with, utility expense management solutions are relatively new to the property management industry, and lack of awareness is a primary reason behind its low utilization. Adoption of utility expense management solutions is similar to the adoption of online payment programs back in the early 2000’s and will continue to gradually increase.

Another reason few companies are outsourcing utility invoice processing is reluctance to relinquish Accounts Payable responsibilities to a third party. Many believe that outsourcing any accounting function will lessen transparency and control over finances. Conversely, the opposite is true. Vendors offering these services typically offer integrated data and comprehensive reporting tools, and are staffed with experts in the utility industry. The combination gives management companies greater insight into their expenses and the ability to make more informed decisions about utilities.

While utility expense management solutions bring substantial cost-cutting opportunities, they may also present situations that are sensitive for property management companies. Outsourcing labor intensive processes like AP often means property management firms need to reallocate their internal resources to other departments within their company.

Our survey found that Medium (6,001 – 24,000 units) and Small (400 – 6,000 units) companies are less likely to outsource, and that may stem from the perception that their company is too small to benefit from outsourcing utility AP. In reality, outsourcing utility AP works well for medium to smaller companies because outsourcers can deliver features and benefits to those companies at a much lower cost.

With all the benefits that come from utility expense management solutions, the survey results beg the question—why are so few companies outsourcing utility invoice processing and payments? To begin with, utility expense management solutions are relatively new to the property management industry, and lack of awareness is a primary reason behind its low utilization. Adoption of utility expense management solutions is similar to the adoption of online payment programs back in the early 2000’s and will continue to gradually increase.

### Utility Expense Management solutions bring substantial cost-cutting opportunities.

#### Outsourcing utility AP works well for medium to smaller companies because outsourcers can deliver features and benefits to those companies at a much lower cost.
The property management industry is embracing technology for inbound payments, but NOT outbound payments.
Another area where property management companies and HOAs are not utilizing technology is in their Accounts Payable departments. Property management companies and HOAs have a lengthy list of expenses that require regular payment, such as: property taxes, utilities, landscaping, repairs, online leasing programs, etc. We were curious if electronic payments are as prevalent in Accounts Payable as they are in Accounts Receivable.

Survey results clearly show that paper payments still abound. Eighty-nine percent of our survey respondents reported that their AP transactions were made via check. Only 8% pay vendors via ACH, and 2% reporting they pay with a card.

Not surprisingly, the adoption of electronic AP transactions is lower in the property management industry than the national average of B2B payments. The 2016 Payment Survey conducted by AP Now, estimates that 75% of B2B payments are made by paper check rather than by ACH. ⁵

The biggest hurdle preventing companies from making electronic B2B payments is obtaining and managing suppliers’ bank account information. Luckily, there has been an emergence of companies who can help property managers digitally manage this process. These automated AP solutions enable companies to pay suppliers electronically while maintaining all of their banking relationships and their current approval workflows. Plus, they bear all the risk of data security standards and compliance regulations, making it an easy sell for property managers to modernize their AP.

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**Accounts Payable**

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**Percent of Outbound Vendor Payments Made Via:**

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<td>Payment Card</td>
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Conclusions

Online Payments

We have no doubt online payment acceptance will continue to grow in the property management industry, particularly among single family firms who were slower adopters of this service in the past. Be prepared to see increased usage of cards and PayPal for rent and HOA dues over the next few years. Renters and homeowners are, and will continue, to focus on security, ease of use and control, while also being influenced by features such as rewards and special offers.

Utility Billing

An alarming number of property management companies are still trying to recoup their utility expenses through inflated rent. With the gradual rise of utility costs, along with increased competition with rental rates, there is a slim chance this strategy will pay off for property managers in the future. To fully recoup costs, property managers using a “utilities included” model would be wise to seek guidance on implementing a RUBS or submeters for their properties.

Submeters are the wave of the future for multifamily properties. Almost all new-construction multifamily buildings are built with submeters. For existing companies to be competitive, they will need to start doing more retrofits to accommodate submeters.

Little by little, property management firms who bill residents for utilities are handing this responsibility to third-party billing firms. This trend is most prevalent among multifamily firms. These early adopters are seeing improved bandwidth among in-house resources, along with their NOI. We’ll see adoption of outsourced billing slowly increase, particularly as management companies become more cost-conscious and focused on improving efficiency within their organization.
Utility Expense Management

Property management companies are stuck in the 90’s when it comes to paying the utility bills. The manual process is done in-house by 91% of our survey participants, which is a significant time burden for property management professionals.

A handful of firms are outsourcing this process to a third party. Multifamily firms are leading the charge when it comes to using utility expense management providers. We expect to see this disproportionate adoption among the three segments for quite some time. While there are tremendous benefits of a utility expense management solution, there is a significant lack of awareness of this service that won’t be remedied in the short term.

Vacant Cost Recovery

Since we expect that more firms will gradually begin utilizing utility expense management solutions, there will be naturally be growth in the number of firms engaging in vacant cost recovery. More and more vendors who offer vacant cost recovery services are becoming more vocal about the savings they procured for their clients. The results are impressive, and more cost-conscious property management companies will rely on third parties to eliminate vacant unit costs.

Accounts Payable

The Accounts Payable process at a property management company or HOA is mostly a paper one. Instead of ACH or cards, paper checks are the predominant method used to pay vendors. This process is so outdated, that we can’t help but compare Accounts Payable to how Accounts Receivables was in the property management industry 15 years ago. Over the next ten years, we predict there will be a substantial increase in the number of property management firms who are using vendors to automate their Accounts Payable process.
Footnotes

PayLease provides online payments, resident billing, and utility expense management tools to HOAs and property management companies. Our solutions simplify the workflow for property managers, increase NOI and enhance the way they connect with residents. PayLease solutions are easy-to-use and are backed with the highest levels of security and customer support. Since our inception in 2003, PayLease has grown to serve thousands of property management companies and over 12 million units nationwide, and is among the fastest-growing technology companies in the United States.