

Announcer: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment Jewels of Wisdom.

Dan Breslin: Kelly Koontz, welcome to the REI Diamonds Show. How are you doing today?

Kelly Koontz: I'm doing great. Dan. It's nice to be here.

Dan: Yeah for sure. So here for me is Chicago and here for you is?

Kelly: Seattle Washington.

Dan: Nice. Home of Amazon and Microsoft too, I believe, right?

Kelly: Amazon, Microsoft, Costco. We used to say Boeing, but that's a little more influx and we're not so sure we want to own them. Picked a credit for them these days.

Dan: Fair enough, fair enough. So Submeter Solutions Inc. Would you mind starting us off here with what your company does and what you're focused on.

Kelly: Happy to do that, Submeter Solutions, we've been in business since about the year 2000 and our whole business niche is all about servicing multifamily or multi-unit properties that are getting a single utility charge at their building but the owners, managers want to figure out how to allocate those charges down to the tenant-resident level. So our business will be in the first part selling you the proper equipment and metering equipment to be able to meter each individual unit. Then our second part of our businesses we can offer monthly utility billing services for those residents on an ongoing basis. So excited to be here today Dan and talk through all the details about how we do that for multifamily owners.

Dan: Nice, so let's start with why we care about that. So I'm an ambassador. I have buildings which we can probably use as examples throughout Today's Show. I have a 10-unit building in Chicago. I have a 14-unit building in Chicago. These are older vintage but my water bill there I want to say is probably \$800 a month. It might be five, 600, it might be 1,000 or might be 1,000 every two months. At the end of the year, I'm spending five or 6,000 hours in utilities. One of the things for me is some of my tenants interesting side fact to for why we care. In Philadelphia water is lienable. So if the tenant doesn't pay your single-family water bill, they can put a lien on your property. You have to pay it. On those ones Kelly, I noticed when there's a running toilet going for a month because it jumps from like \$60 a month to \$200 a month. Sometimes you don't notice to the fourth month and our 800 hours in. Well, these tenants don't really have the extra cushion to cover that thing. But if they're getting that bill and covering it, guess who's calling about the toilet that's suddenly leaking or the faucet that strip.

Kelly: Absolutely. What a great introduction Dan. You are singing the song of why we can help those situations. So let's just use one of your 10-unit apartments as that example. Let's just call it \$600 a month for water, maybe water sewer. You have essentially three options that we could see to deal with capturing that cost and I'll bet to that if you do a P&L on that property every year, the cost for utilities is probably number one or two in but maybe behind only taxes on your

expenses. So this is not an insignificant expense for you and of course wanting to recapture that from your residents. There's really about three ways to do that. Many people still...

Dan: Before you give us the three ways, I just wanted to put some numbers to the calculation. So we're running with \$600 a month example, that's 7,200 bucks a month that would be back in my pocket minus the billing fees. But at an eight and a half cap rate, which is how apartment buildings are valued, I'm looking at \$84705 that year in additional value. So instead of being or sell that property for, I don't know 1.1 million dollars, I can probably get 1.15 to 1.7, right? 60, 70, \$50000 extra. Nothing to sneeze at.

Kelly: Nothing to sneeze at at all. You can try to recapture those costs by adding 50, 60 bucks to your monthly rental, but that's fixed. That's not really tied to whether the rates went up last year, you didn't catch it. It certainly has nothing to do with the actual usage and we're not even going to talk about that leaky toilet. We will in a minute. But that's very haphazard at best. The key thing there is your residents have zero incentive to care about how much water they use or conserve or let you know about that toilet leak. So that's been the most common historically way for property owners to recapture that. Your audience is probably familiar with the acronym RUBS where you can take that utility bill and allocated out, prorate it to everybody at the property based on occupancy or square footage or whatever. Most jurisdictions in the country allow that mathematical allocation. But again, you've really disconnected usage with the resident and they are not going to change their usage behavior and there's a real disconnect on how much they use versus how much they charge.

Dan: What does RUBS stand for?

Kelly: Yeah, R-U-B-S, ratio utility billing systems. That's what that stands for. It's a fancy way of describing an allocation-based method to split up the bill. We believe the third option is the best and that's add meters to all 10 units at that 10-unit apartment. Then based on those reads, charge the residents based on their actual usage. What happens when you do that, you're still recovering those costs like you would with RUBS, but you're recovering all of them and you're changing behavior. What is so fun for us when we put a new system in an existing older property is give it two or three months and we're going to see that utility bill literally dropped 20 to 30%. Yes. As habits and human nature kicks in. When you're paying for something, you take better care of it.

Dan: Yeah, and I think that the number three, the meters too. I'm just thinking through like the marketing in position of rent. So if I'm running my unit for \$1400, 1200 if it's not renovated. If I'm putting in there, there's this water charge and it's \$60 a month or we're dividing the whole water bill, there's just essence of unfairness that shows up and immediately this is just like cloudy feeling in the mind of the tenant who's thinking of purchasing service. Whereas if I'm like, hey, this apartment, you're going to have to set up your water bill account first thing when you move in, so you're going to have to pay the water bill. They may still have a little sting and having to pay the water and might still want to comparison shop me to other units, but there's some sense of it being more official when I'm them they have to set up their water bill account versus RUBS or some blanket utility charge. You blank utility charges. Oh, so the rents 1450, got it. Keep shopping.

Kelly: You're spot on Dan. I can't stress enough how you tell them you are going to pay for your utility and you're in charge. It's going to be based on what you use. That really creates some empowerment for the resident versus feeling that they're just having a fee imposed on them whether it's RUBS or a fixed fee or something like that. If we were in the year 2004 and you had your ten-unit apartment, the market may not be used to not including, say water and sewer. But in 2024, this is more common than not now. A resident shopping for a new apartment is going to expect that they're probably going to be paying their utilities in addition to the outside of the rent.

Dan: Do you have any insight on data across the country as far as like percentage of maybe new construction that has utility submeter and build or even when a retrofit the older existing product. How much of the market now is sub-metered in the apartment space?

Kelly: Great question. I don't have one single answer for you. I can tell you that almost everywhere in the US, new construction is either encouraging it or certainly where we are on the West Coast absolutely requiring it. You can't build an apartment in California, Oregon or Washington without including meters. That's been that way for six or eight years. Sub-metering has been around a long time and the 100, 200-unit large apartment complexes have been doing this a long time. I think one of the messages we want to share with your listeners today Dan is that sub-metering is not just for large apartments. Your 10-unit example or even a triplex really can take great advantage of sub-metering. The concept is the exact same, the hardware has gotten so good and it's not that expensive that you can have a return on investment within a year of installing a metering equipment even on a very small property.

Dan: Do you need a Wi-Fi system on the premises to communicate with the metering system?

Kelly: Yeah. Let's let's spend a minute and talk about how all this works. So we've used water as the example because that's probably the most common one but I don't want to miss out on the fact with your listeners that this applies to gas, it applies to electricity. If the utilities haven't individually metered any of those utilities, then sub-metering is really a great option. Starts with a meter, the type of water meters that we can offer. Our brand new utility grade, super accurate meters that are designed for our industry. So they're a little more compact in size than say the large bronze meter that the utility has in the pit box outside your single family home. But they're nonetheless doing the exact same job. All of our meters are equipped with electronics that offer an electronic output that can be connected up to a reading system. Most of the time that's a wireless space one and that data then is collected at each individual meter. Most of the time those are located inside the units and then that data is pushed up to the internet on a cloud server and that can be done through an ethernet connection, through Wi-Fi or even cellular. So again if you have that triplex, then you don't even have internet service there. That's no problem. We can get all that data collected from the meters and up to the cloud via cellular connection.

Dan: So the cellular connection would be a part of the package installed and then we could pay that bill through the billing system in a sense.

Kelly: Yep. If you've got an existing internet service there, then we're going to connect the hardware up to that and there is no ongoing monthly fee. If you need cellular, it's an easy switch

to flip to turn that on and then we're going to bill you 35 to \$40 a month for that cellular service. So it's inexpensive and we have a lot of clients take advantage of that.

Dan: Okay, so 35 bucks a month. Since we're touching on the costs of the billing, we have 35 for cellular. On my 10-unit, what my solution probably looks like personally just to stay on that topic. I would probably put the Wi-Fi in because I've been kicking around the installation of a couple of cameras on Wi-Fi at the same time and I haven't pulled the trigger on it because it's like something that's not pressing and it's not urgent so I haven't done it. But if I were going to package cameras and a utility and now might make sense to throw the Wi-Fi in there and upgrade building to technology level. So 35 bucks a month for the cellular and what does it run for the rest of my 10-unit building, let's say?

Kelly: Yeah. So let's start with the individual units, you're going to need 10-water meters that have a wireless transceiver and the cost of that is only a \$120 per unit. So 10 times 120, and then one gateway for the property that's pre-configured by us. Everything's programmed and pull out of the box easy to install. That's going to be an additional two to \$3000 depending on the specifics for your property. So your 10 units is going to be say \$4500 in total for the hardware cost. Then Dan we need to get those meters installed? So we're going to work with your local plumber or a handyman or anybody who's familiar with working on some plumbing lines. That can typically be as easy and or inexpensive as 75 to \$100 a unit or if it's a more complex application, it maybe to \$300 per unit. So you don't want to forget the installation piece, but it is not a bank breaker.

Dan: Okay. Are there buildings that don't work? Let's say my 10-unit doesn't really have the kind of supply lines that cut the unit's usage individually.

Kelly: Super good question. So certainly today with the cost of water and sewer building, architects, developers are designing them so that they have a single water supply line going in there that can be isolated. If you've got a 40 or 50-year old building that has stacked riser plumbing that have back-to-back bathrooms and kitchens, it's not so easy to separate the individual water for every unit. But if those properties have an individual hot water heater in every unit, what that means is though the hot water is separated. So what we can do is a hybrid system called a hot water allocation method will put a water meter on the hot water heater, the supply for that. You're monitoring hot water usage and we found through our own data and national data, a typical apartment dweller, about half of their water, 50% of it is hot water. If they've got a laundry inside their units and whatnot. So you're still getting all the power of sub-metering, but you're basing the bill based on their hot water usage. Long story short, there's very few buildings out there that we can't put a metering system in. We'd love to talk to you about your specifics but most of the time, we can get you a metering system.

Dan: Do you guys have some method of, I don't know, pulling the old permits and taking a look at that so you can answer that question from afar and without much burden to the owner up front?

Kelly: We're going to want to talk to the owner and get as much information as they have about the plumbing system. Not everybody is an expert on that. So we're really good at asking some

very straightforward questions to get to a place where we have a high degree of confidence on what you need.

Dan: Okay, great. So what about the monthly billing expense? We've got it all set up, we installed it, I'm 35 bucks a month for the cellular. What else is my monthly dues?

Kelly: Right. So we've got it all set up now and it's time to start billing residents. We're going to, I'll describe that process really quick and then we'll talk about the costs. We're going to get a utility bill from you as the owner or manager so that we can get those rates down to literally the 10th of a penny. I think it's important to really emphasize here Dan that, are industry one of the important tenets of our business is this is not an opportunity to make a profit or markup utilities. That's a big No no and I love your laugh about that. Unfortunately, there's some bad actors out there that have gotten our industry some some black eyes, but this is all about recovering the cost. So we are obsessive about making sure that we're pulling the actual rates from the utility. We get that either from the bill or posted rates and we put that into our billing software. We read those meters online every month and calculate the actual rates and then we have our utility software, our billing software creates a bill and we're going to send that to the resident via mail or email and then they're going to be directed to pay.

That payment can be remitted directly to you, the owner, or you can set it up where they send us the payment and we will reimburse you once a month with what we've collected. So lots of options throughout that and here's the fun part. You asked how much it costs? Well, what we do is as we put one last line item on that utility bill for our billing fee, your 10-unit's probably going to be a \$5 fee on there and so...

Dan: Three[?] per unit?

Kelly: FP per unit per month. So it's a small fee. If they were very careful to make sure that that fee is kosher with any local laws or code, and that's what pays us. So you very likely could have a situation where we're going to do all of that billing service for you. Send those bills, even collect the money and it's really going to be free or at minimum greatly subsidized based on the fees from the residents. The residents end up paying for it. We do have a monthly minimum. So essentially if you have a 20-unit or more sized apartment, it's completely free. Your 10-unit, you're going to end up collecting about half of our costs from the residence and you're going to pay another 50, \$60 out of pocket.

Dan: Each month you mean?

Kelly: Each month?

Dan: Okay, so it's probably \$10 a unit?

Kelly: So the actual cost for a 10-unit is \$120, our minimum fee. You're going to collect 60 of that back from the residence, 50 of it back. So it's going to be 70 out of your pocket.

Dan: Okay. So we're looking at 1,200, 1,300, \$40 a month something like that per year.

Kelly: Yeah. Per year, correct.

Dan: Okay. How about collections? The tenant doesn't pay. Can you flip a switch and turn the meter off or what?

Kelly: Yeah, we get asked that all the time. No, you don't want to turn the water off. You get put on the front page of the newspaper if you do that. But you have a whole lot of tools to make sure that that is getting paid. We like to work with you upfront when you're setting everything up to make sure your leases are designed so that you're telling your residents about this. Keeping everything legal. We see a lot of our clients actually put a lease note that says any monies collected each month are first going to be applied to any outstanding utility bill and then they'll be applied to rent. So if they pay their rent and don't pay their utility, they've essentially not paid a portion of their rent and now you have all of the tools in your lease to go after them for non-payment. What we find is, sometimes on a transition for an existing older building that has been getting free water and sewer and now they have to start paying for it, can have a month or two of a little bit of questions and whatnot.

But we have found that people just get used to this. They realize that when they find out that they're in charge and it's based on what they use, they will start making payments and we're going to work with you to make sure that that's really not an issue.

Dan: Okay. Do you have any numbers from your own data? Do you know how many accounts are you currently billing for right now?

Kelly: We do. Our particular office is billing nationwide about 27,000 accounts every month.

Dan: Out of the 27,000 per month, what is the default rate where they're not paying at any given moment?

Kelly: I'd have to look it up. It's not any different probably than your rents defaults. It's a single digit number each month. Of course different properties are different. We have some clients that never see past due accounts and we have others that have a higher rate on that but I'm being a little vague on the answer but it's really not become an issue or a problem.

Dan: What do you think the reason is for that disparity?

Kelly: I think a lot of it is that methods of payments and making is easy as possible for residents to be able to pay in the manner they want. Let me give you some examples about that. We've seen some of our apartment clients with newer properties that want to do everything electronically with ACH payments. They typically have a higher success rate of collecting. We can have say mobile home park clients. I don't want to despair that. It is true. We do a lot of mobile home parks, but they can have an older clientele of residents who want to pay with a credit card or they struggle to even mail a check and those are the ones I think that end up with some higher delinquencies on payments.

Dan: Yeah. I'm wondering. Just not to speak unfairly. But yeah, I guess the lower-income people with just less tools at their disposal in the first place. Is it a money thing? Is it they've been so conditioned thing where this new utility bills so far and they simply just never pay the thing? They're like so condition for 40 years not paying it and now you want them to pay it where that doesn't happen. So you guys have the ability to set up and accept checks, money orders, credit cards?

Kelly: Yes, all of the above. We are constantly working with property managers to incentivize moving them towards automated ACH payments or setting things up online. We would love to encourage all of our clients to get their bills via email. You can save the cost of the stamp, let alone the time that it takes to get that paper bill to them. We see trends. We do track that on a monthly basis. How many of our accounts are switching towards email and that has picked up the last two or three years. It's still the minority, but we're seeing some good trends with that. But if you've got a wide variety of residents, older, younger, higher-end, lower-income. We've got a method that they can pay. Send us the check in the mail. If that works for you, we can work with that.

Dan: So in doing the math, 1,440 a year minimum billing. I don't know that that actually works if I get down to my three flat unit. At 10, it's probably making sense. At 14 units, it's making a little more sense. Obviously at 20 or more, it starts to make sense. But I guess that's a lead-in to say those water bills where that might not work might be a Philadelphia triplex. The water is not expensive. Are there areas of the country that are more expensive than others and maybe as a second part of that question, are there areas of the country your company has done a large number of installs for that or another reason?

Kelly: We do see trends in different parts of the country. I think you're really perceptive Dan about that. Just the calculation on a smaller property that's less than 10 units. I would agree. 10 is a real right at about the threshold there. I think anything bigger than 10, you should be looking for somebody like our business to do that monthly utility billing. But if you've got a four-plex or a triplex, that still doesn't mean you shouldn't be sub-metering. So again, we talked about our business being part one, getting the metering system in place. Part two is we can do the billing services. We have a lot of small properties that are three, four, five units that get the meters in place. We're happy to set them up. They have free access to that meter read. Those daily reads. So if you go that triplex, you can still take all the advantage of the power of metering your residents. If you want to sit at your computer once a month and pull out a quick spreadsheet and do the calculation yourself and send your residents a bill, we're great to set you up with that.

Dan: Yeah, and I'm sure there's a lot of listeners who are self managing their property. That sounds perfect to them. I am very busy with our high volume of like fix-and-flip deals. We're doing hundreds of deals a year. My rental portfolio is more like an IRA to me. I feel like I'm just making contributions to this thing and then when I retire, the rents have gone up, I'll pay the debt down and I'll be a be in a nice place with that little nest egg of rental property. So I'm not necessarily the best rental manager person in the world hosting the podcast here from being honest, but the self managing people, I know some of my friends, some of the guests on a podcast show. It's in those tiny little details Kelly that they have been extremely successful and he's our guy. I'm thinking of Mitch. He was in his 60s, I guess. When he came on the show, God,

it must have been 10 years, eight years ago or something when he came on the show.

But Mitch was very particular on his move-ins and move outs. There's not a detail that's getting by him at all, Mitch. He's the guy, self-managing. It's like you got to give him 90 days notice if you're moving out. He's showing that property from day 90 when you've given notice until he gets a lease and he's having to move in, move out on like literally the same afternoon. It's like you're out on the 31st, Mitch is moving them in on the 1st. If you add that up over, I don't know, 50, 60, 70. However many properties. He has over 30, 40 years worth of him running his business like how much money am I leaving on the table that a detailed high execution type of landlord like that is going to get off the table. I'm okay. I know I'm doing my business elsewhere, right? I guess the question as a wrap up to that point is, who are the ideal clients for you. We talked about the building size of like 10 units, but you'd also mention property managers. Does it make sense for a property manager who has a lot of these clients who come along and who else would be the ideal avatar to reach out to you Kelly?

Kelly: Super good question. Let me just stick with Mitch there for a minute. We love the Mitches out there and we have a lot of them that are faithful clients. They buy the hardware. They're watching every dime. They're happy to self-manage, and we get them set up. I will tell you it's almost fun for me that I will talk to the Mitches of the world and they'll say, "Oh, no. We can do the billing ourselves. Not a problem. Get me the metering system, will take care of that." I say, "Great, give us a call if you want to change your mind on that." I will tell you that it's not every time but maybe one out of five or six times, three or four months later, we get a call from that Mitch. It says, "That extra 90, \$100 may not be such a bad deal to have you calculate the bills, send them out, deal with all of this. So if you can do it on your own, more power to you. We want to work with you and help you out. Since we do it all day every day, we're really good at it. If you find that paying a little extra money to have us do it, we could step in and do that. If you've got a property that's larger than 20 units, it's a no-brainer because it's a free service because the residents are going to pay for it.

As far as as property managers go, you bet we love to talk to anybody with a portfolio of properties and maybe they're not unfamiliar with sub-metering. Maybe they're using one of the big national billing companies or somebody local who reads meters manually or something like that and maybe they've had a tough experience with that. Meters that weren't working or not reliable service, but we really encourage you to have them contact us because it works because we put the energy into it to make sure the equipment's always working well, and we're on top of things and we really take a lot of pride in our customer service with our clients.

Dan: Is there any warranty on the hardware? This stuff sounds, what problems do we have, that thing?

Kelly: Yeah water, meters. He's talked about wireless. Kelly, what's all that about? Well, absolutely there's warranties that it is a mature industry, the manufacturers of the equipment have warranties that span years. We do a full one-year bumper-to-bumper no-questions-asked warranty on anything we sell, any service we offer. So you're going to get covered that way. If we're doing the billing services Dan, part of our monthly touch with you is we're actually assessing the health of the equipment and the hardware. If a battery is getting low, our software

tells us that. We're going to say, "You need to go check out unit 12, the battery needs to be changed." A brief mention about that, these transmitters are battery-powered with a seven-year lithium battery. So it's not like it's something you have to do very often, but the system tells us when you need to do that and we'll get you that three-dollar battery or tell you what you need to go make that change every seven years.

Dan: Okay. What are the oldest meters you guys have run and if these are things you're going to have to change out every 10 years like the electric company seems to do or what?

Kelly: Yeah. Well, we very regularly are servicing equipment we've sold 15 years ago and it's still working. I would be not not honest to tell you if everything's going to work for 15 years. Occasionally whether it's hard, the resident leaned their snow skis up against the meter and pull the wire out of the transmitter, things like that or just real life that happen. But the equipment's very robust. The electronics are very much proven and we have a full service department that will answer your phones, will work with you remotely all for free on our service and then we can send a technician out if needed, which is quite frankly very rare that we need to actually go on site to work.

Dan: Okay. So I'm going to switch gears a little bit. I also do commercial real estate. We build a passive partner in quite a bit of industrial construction. As we speak right now, new construction ground up. Some of my friends and partners are building really large properties or taking them all 400, 300,000 square feet. Cutting it up, 100,000 is going to be retail, 100,000 is going to be industrial and 100,000 is elf storage or something like that. In the industrial, that 100,000, maybe let's say it's whacked up into like five to 30,000 square foot base for different sizes of companies as they come forward and that's how they're stabilizing these old mall properties around the country. He mentioned that he's using sub-metering for the electric there. One of the things I know is that these installs normally are probably 15, 20, \$25000. I don't know for his cost, but if you're getting the power company to come out and put the meter and it's really expensive to get a new service. Do you guys have solutions when we're bringing in a really high voltage line and now this thing's getting switched out to serve eight or 10 bays and then meter them or is it just better to go with the power company?

Kelly: Don't go with the power company. A lot of places in the country, the power company requires you to do that. But if you have that option and we love to hear from customers that have that situation, go get the quote from the utility and then give us a call. We've got electric meters that can handle even that high voltage for 483-phase voltage up to thousands of amps on service-size. Our meters are traditionally current transformer or CT-rated meters. So they're easy to install by an electrician. If it's a standard, say a 12208 3-phase, the meter price is as low for a 200 Amp meter as say \$300. A high-end 480 volt, 1,200 Amp is only going to be about six, \$700. So we're talking order of magnitude on the equipment costs from what the utility may charge. Just to emphasize, they don't require panels and a lot of expensive installation. They're easy to install at the panel. So call us. They all can work with the same reading system so that same data is going to be pushed up to the internet and the property manager maintenance have access to those reads whenever they want them.

Dan: Interesting. Do you have any examples of something big that you guys caught up in the last

couple years of that nature?

Kelly: Oh, absolutely. We just got done doing a large two, 300-unit apartment that actually needed electric meters here locally in the greater Seattle area. We've done a couple large balls throughout California. We were at one in Texas just a few months ago. Malls are a great application for that and we talk about both electricity as well as water. We don't want to miss out on gas. I literally walked past our shipping department this morning and I saw an inch and a half size large industrial grade gas meter going out the door today.

Dan: Wow. How much does that thing run?

Kelly: We love selling those. That won the bet. \$1800 for that meter.

Dan: Well, it wasn't as high as I thought you were going to say, but I haven't shopped for such a product. The gas sub-meter. Can you give me some use cases on something like that because for me, my 14-unit already has separate gas meters because the ferns are in there. So doing that on, like in Chicago there's a ton of single boiler systems. There's not a whole hell of a lot that we can do with the single other than install 38 different furnaces and run gas lines everywhere. What are some use cases for the gas submetering that you have seen done?

Kelly: Well, one real common example is maybe an apartment building's got gas fireplaces and that's the only gas appliance in the unit and of course the smart tenants are heating their unit with the gas if it's just being covered by the property. So we have systems that can allow you to meter the usage on those gas fireplaces. We can do that with either a traditional gas meter or a lot of times, we can use a electronic device that is measuring just when the switch is on and then we can do some mathematical calculations to convert that to how many cubic feet of gas each unit is using and build them accordingly. So very common to do that. If you've got an application like that, those are the ones we love to talk to you about. Every property that we hear about is got some unique features to it and we really pride ourselves on being very technical and figuring out what the right solution is for your application.

Dan: Okay, interesting. Well, I think I got all of my questions answered. What else did not have the perception to ask that you think about work?

Kelly: I definitely want us to circle back around to that leaking toilet. I think we talked about that, touched on it earlier with your example. I think that this is one of the most exciting new things in our industry in the last few years, but with the technology as it is now and you've got a meter that's monitoring a residents usage. If you've got that proverbial toilet flapper hanging up in the waters running through the toilet, instead of like you said, waiting two, three months before you get any feedback on that, our systems now are designed that if they recognize water constantly running after 24 hours, we're going to send an automated email or text message to the property owner or to the maintenance person there that says, "You need to go check out unit 212. There's water running there that looks like a leak." It's very very reliable. We have now clients that are purchasing systems and justifying it just on that leak management only.

So that's a big trend. That's more of a passive leak when we talk about it running through a toilet

leak. If you've got, we're seeing some of our particularly low-income or emergency housing clients that aren't so much interested in recovering the utility costs, but they're very interested in knowing usage and particularly if there is a bathtub overflowing, we can also provide leak detection that's an active base that you can get an alert within a minute, within 60 seconds if water is flooding your bathroom.

Dan: When that flood, is that from the meter and the usage or is that a sensor that's installed in the back?

Kelly: That would be an extra sensor, but it relies on the same reading system that the meter's on so you're not adding a lot of extra costs. The infrastructure is already there. We're just going to add a sensor to the system.

Dan: Well, it happened in Atlanta too last year. May have had a little bit this year. Was bad last year in Atlanta. But in Chicago and Philadelphia, especially in Chicago, we get a lot of frozen pipes. It makes for quite an interesting picture when you have an abandoned house or a vacant house and the pipes break and then it starts flooding and then the ice builds up and it's just like beautiful ice sculpture that you've never seen in toilets. Are like full flooded of ice. It's like it's amazing to look at when you see it. But the damage is not amazing. It's a catastrophe. It's like you got to renovate that entire house. And unfortunately that's happened to people. Renovated house, it's just getting complete. It happened to actually to one of my partners and the home inspector turned off the light thinking it was for the basement and here it was for the furnace and all the sudden his brand-new rehabbed house needed all new hardwood floors. The meter, it still would have been 24 hours I guess worth of damage but, yeah.

Kelly: Unfortunately, I've heard others with those similar stories. Dan, you are multifamily investors property owners. If they haven't already they need to be talking to their insurance agents because quite often you can show them a active leak detection system. They will lower the cost of your premium. We're now starting to see in some markets, especially with low-income housing that that's becoming a driver. It pays for itself in months rather than years with the premium reduction.

Dan: Is that based on the water meter installation?

Kelly: That one would be the water meter installation with the addition for the sensors that would go in for the active leak.

Dan: Okay. So where would those sensors be installed if we had the 10-unit building we're using as the example is that two sensors per unit, one in the kitchen, one in the bathroom. What additional costs now?

Kelly: Yeah, we're talking about less than \$100 per sensor. We have clients that are just putting them in the bathrooms only. One bedroom bathrooms, but kitchen makes sense too. So you're adding one to \$200 of extra hardware costs. They're easy to install, don't need a plumber and it plugs into the rest of the infrastructure. So that's a good question. If you had asked me about this three years ago, I wouldn't be giving you answers. So this is a really exciting new part of it and

it's being driven by the need. There really is a insurance premium-based demand for this. So we've got some solutions that we're really having some fun selling.

Dan: Any examples you can share where this worked out for somebody including numbers, maybe the premium reduction?

Kelly: I don't have the specifics on the premium. I had one client who is a low-income housing that we just installed less than a year ago, and he clearly justified the cost that we had. Again it was not a lot. It was measured in, I think it was a 60-unit property and all in price on that was less than about \$12000 to get the rest of that equipment in and I believe he was sharing with me that he was looking at 20 to \$30000 annual premium reduction.

Dan: Oh, wow.

Kelly: Yeah. It was a no-brainer. Don't quote me on that but that's what I tend to remember from that conversation

Dan: He already had the water meters set over them?

Kelly: Yeah. We actually sold the water meters at the same time that we provided that part of the hardware.

Dan: Okay, I got you.

Kelly: So is an additional 12 to have the active leak detection?

Dan: Yeah. If you just think through, I have never even been in all 14 or all 10 of those units that I own. Again I'm not the poster child for managing like Mitch who's like better than I am, but even the the guy or gal who's managing 60 units, like are you able to get through there even one time throughout the entire year. I can see why the insurance company would view that as a lower risk profile if you have that in there because it's instantaneous awareness of major water damage issue that could be coming up.

Kelly: Yeah. We're also, Dan, beginning to hear from Airbnb building owners, even hotels now, especially for the leak detection. So that's a fun new advance coming on in our industry.

Dan: Interesting. Okay, cool. Before I get to my wrap up questions, any other final points here. I know we just touched on a few.

Kelly: Well, you probably could just tell that I love our business. We like to say that when we can just tell our story that it sells itself because it really is such a great solution to a really really important part of anyone who owns a multi-family. So I could go on and on but no, it's been great. You've been a great job of touching on the important specifics Dan.

Dan: Yeah. One thing actually pops to mind before we switch gears. You had mentioned that some of these states are new construction are requiring the submetering. I think I know the

answer but I'm going to ask you why.

Kelly: It's all about conservation. They understand what I mentioned to you on that 20 to 30% drop. So this has literally everything to do with as a society figuring out how we're going to take good care of our precious resources when it comes to electricity or water. That's just really important.

Dan: Yeah, that's what I was guessing, right? We're doing this for the planet and we're spoiled in Chicago. I live on Lake Michigan. It's out the window and there's tons and tons and tons of freshwater. You could pretty much drink almost right out if it although I wouldn't. That's where our water comes from. It comes from Lake Michigan. In the Philadelphia region we have, I guess it comes down. The Schuylkill River is probably the supply. We've never had any issues with water. It's never been this costly resource. No one's ever worried about it. Atlanta, Georgia. I don't know. They have latent linear, big lake, big reservoir. No one's ever really complained about the cost of water. But as we're getting into the development space, there's areas, I don't know about Texas if that's bad.

But I know for a fact that Colorado is very difficult to get a water service. So it's like sewer's normally the limiting issue when we're developing. You're going to put 60, 70 houses. There has to be sewer capacity. But in Colorado, more often it's, can I get 60-meter permits for the water here? That's because there's just actually not enough fresh water to go around and I'm sure that's how it is getting to be in like Las Vegas and Phoenix I think is another one where the water issues are. Do you have any insight on those water-scarce markets and have you guys done more business in those areas Kelly?

Kelly: I would probably just simply say yes, the Southwest, California, Arizona clearly are hot spots for our industry. You can imagine California leads the nation in this market just like they do in so many others where they are driving more legislation faster with making sure there're approved meters. They have to be installed by an approved technician. They have to be tested every 10 years. Those things are unique to California. But it's not only California. Here we are. I'm talking to you from Seattle. I can look out my window and see the Damp parking lot from our rain and we're known for our rain. We have water all around us. But water is something that we all have to be careful with and I think it's also worth mentioning Dan that when we pay our water, that amount is going to be what calculates our sewer cost. Sewer is all about the infrastructure those sewer utilities have to build to transport and clean that water. For instance in our area, it's a half a penny for the water but it's one and a half pennies for the sewer. That's common throughout the United States. So it's two and a half three times the cost for the sewer. It's all based on what that water meter is telling you you're bringing in. So again, yes, I'm glad you touched on it. This is good business sense, but it's also good for our planet too.

Dan: Yeah, 100%. It seems like it's the right thing to do. So as we close, I wanted to ask, I know you're not a real estate investor guy like a lot of our guests, but the topic was very relevant and pertinent for today, but book recommendations or maybe podcast, Kelly. Something maybe you have found profound or inspirational throughout your years.

Kelly: Oh, I love podcasts and a couple of my favorites, I'm a big fan of Freakonomics Radio.

I'm a Patrick Lencioni fan and his At The Table weekly podcast is also one of my favorites. Those are a couple right there. Big History Buff. Always like to listen in on history link and something like that. But no, I am the kind of person who's listening to a podcast when I'm in the car. So those are some great tips. Then I would also like to just close down with, we're happy to be on your podcast and if your listeners want to hear more about us, they can contact us at our website, submetersolutions.com. We've set up a page on there, a link that is at submetersolutions.com/podcast with a form they can fill out, easy-to-fill-out form and you give us a little information about your property. Our salespeople will get in contact with you and that will lead to a free proposal for the right to the penny hardware, give you all those billing services details and we really like to partner with you on making this available to your listeners.

Dan: All right, cool, cool. So the Crown Jewel of Wisdom, Kelly, if you could go back to your 18, 21 summer, you go back to your younger self and share the Crown Jewel of Wisdom though and everything you know now, what would that be?

Kelly: I would say to my 18-year old Kelly, I would say that it's all about relationships with people and working hard is important and experiencing the world is all important. But give that extra hug to your wife at night and kiss your kids at night and that's what's really going to be what we think about. I'm only a few years away from retirement and I believe they've done pretty good with that. But I think I could have even done better. So there's what I'm telling my 18-year old.

Dan: Beautiful. My final question, what is the kindest thing anyone has ever done for you?

Kelly: Oh, you didn't prep me for that one, Dan. Kindest thing anyone's ever done. I would say that I have had a couple mentors in my career that's really put their arm around me and given me some great advice that really has focused on relationships being myself and that has really proven to be very, very valuable for me and all areas of my life.

Dan: Nice. Love it. One more time want to give us the website and then we'll close.

Kelly: You bet yeah. Submetersolutions.com/podcast and we'd love to hear from you.

Dan: All right Kelly. I had a great time. Ton of great info here. I really appreciate you coming on the show.

Kelly: Great to meet you Dan. You had great questions and we're happy to be here.

Announcer: The REI Diamond Show is sponsored by Diamond Equity Investments. So private equity firm focused on buying and selling residential and commercial property throughout the United States. If you are an accredited investors seeking double-digit returns, you can sign up to review Diamond Equity's passive investment opportunities at www.fundrehabdeals.com. If you're an investor who is seeking deals that you can buy fix-and-flip, please go to www.dealswithroi.com. Thank you for listening to this episode of the REI diamonds show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com.

[END]