

# 7 Strategies to Control Operating Expenses, Now



The days are over when commercial real estate owners and operators could underwrite a 3% annual increase in operating expenses.

Many are now expecting expense growth in the 5-8% range.

Fortunately, a good portion of this is from controllable expenses; maintenance & repairs and utilities have increased 9% and 10% respectively year over year.

Even so, averages can be misleading. According to Enertiv's data, the poorest performing assets have 71% higher operating expenses than the average.

Addressing the causes of operational inefficiencies represent an immediate opportunity to increase NOI and asset value, especially as models have shifted from maximizing growth to maximizing efficiency.

For that reason, demand for asset management has risen. Owners believe they need more eyes on the problem, that adding asset management depth will produce the desired results.

While this is likely true, the upfront cost is high and the long term effects are largely dependent on the quality of the individuals hired. It's impossible to expect rock stars in every seat.

Instead, this guide focuses on what leading portfolios are doing right now to cut OpEx without deploying significant capital expenditures.

#1

# Shift to Multi-Site Staffing

Three years after COVID hit, owners and operators are still struggling to hire and retain top talent, even while payroll costs skyrocket. Industry leaders are working to control expenses through digitization, empowering on-site teams to do what they do best, while maintaining “next person up” capabilities.



## Action

Start small. Take a segment of properties that are geographically close to each other and regionalize the teams, rather than having them building-dependent.

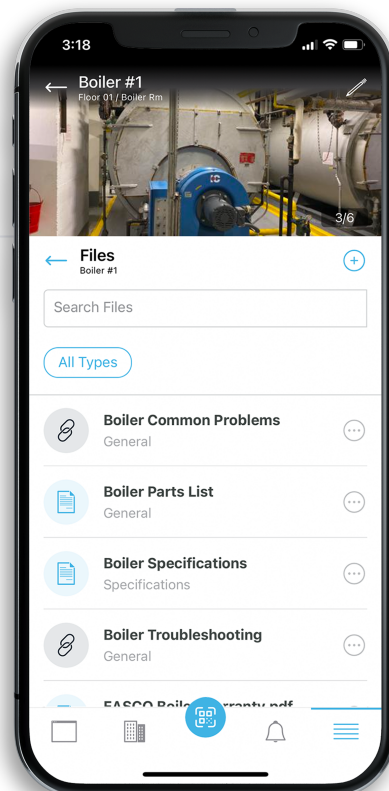


## Here's How

Create a central repository of information so any personnel can arrive on site and immediately know where everything is and how the building operates. Next, ensure that workflows are standardized, meaning performed on the same platform from one site to the next.

## Fact

Building operators spend 18% of their time just looking for information<sup>1</sup>



## #2

# Enforce Preventative Maintenance

Most owners and operators know that preventative maintenance should be performed on a regular basis. Still, almost all of an operator's time is spent reacting to issues. Industry leaders are breaking the cycle of deferred maintenance that leads to consistently higher operating expenses.



### Action

Gamify preventative maintenance. Use data to develop a score for each property and at the portfolio level, and hold teams accountable to their maintenance score.

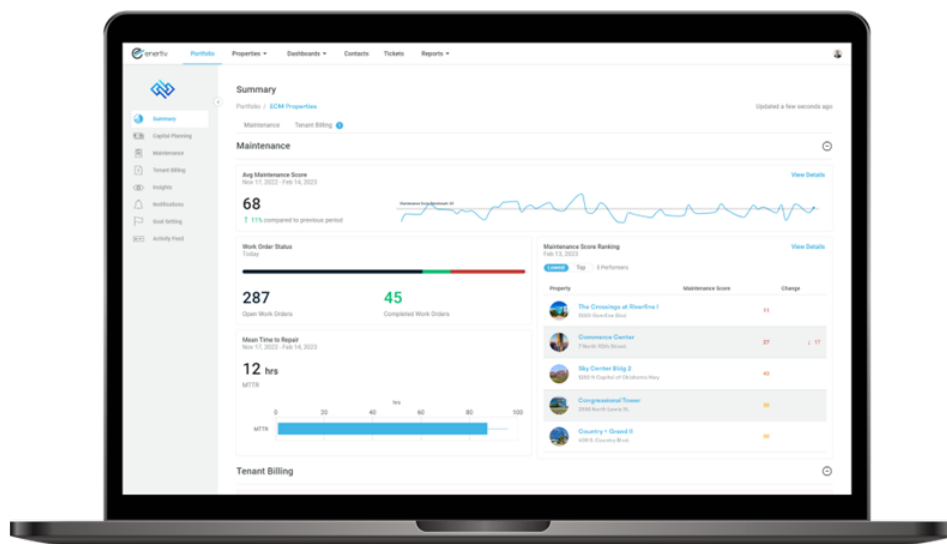


### Here's How

Most teams use their property management system for work orders and maintenance. This ends up putting a greater emphasis on tenant service requests than on preventative maintenance. First, ensure that preventative maintenance schedules are created and follow best practices. Next, use algorithms to translate on-site activity into a transparent scoring system.

### Fact

87% of maintenance tickets are reactive<sup>2</sup>



#3

## Hold Vendors Accountable

Most owners and operators know that the third party maintenance vendors that work in their properties are always looking for opportunities to get away with doing the least amount of effort required. The problem is that they don't have the data to hold vendors accountable.



### Action

Inform third party vendors that new policy requires “checking in” to each piece of equipment they are working on.

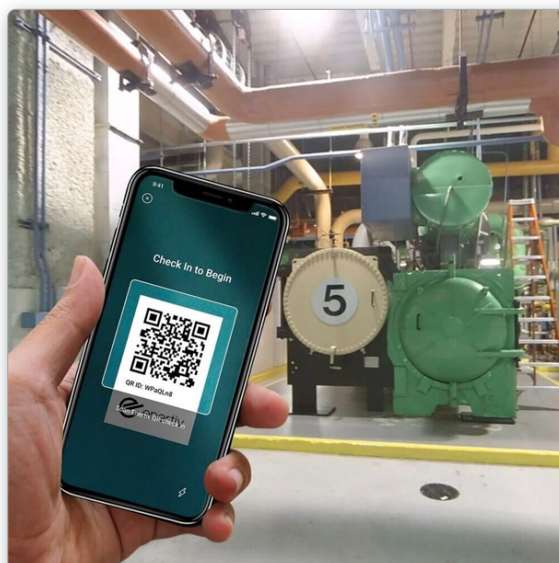


### Here's How

Leverage asset tags (QR code stickers) placed on individual pieces of equipment. Vendors simply have to scan this asset tag when they start and when they finish their work. Enertiv has seen a 75% decrease in breakdowns due to this simple change, resulting in fewer expensive emergency repairs.

### Fact

Repairs cost 10X what preventative maintenance would have<sup>3</sup>



## #4

# Fix Unseen Issues

Preventative maintenance is critical to operating a building cost effectively, but there are issues that are routinely missed, even when a technician is standing right in front of equipment. This includes problems such as short cycling and snapped fan belts that lead to expensive repairs.



### Action

Correct issues as soon as they are identified.

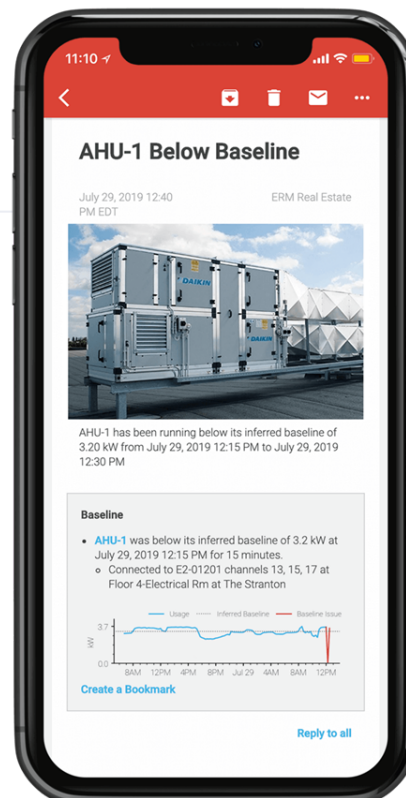


### Here's How

Real-time monitoring not only collects data from each piece of equipment, it analyzes that data and transforms it into notifications. These are granular and prescriptive recommendations on exactly what the issue is and the severity. Ideally, notifications are purpose built to avoid “nuisance alarms” that end up creating noise that inhibits operators’ ability to respond to real issues.

### Fact

Predictive maintenance reduces breakdowns by 70%<sup>4</sup>



## #5

# Maximize Tenant Utility Recovery

Landlords that bill back tenants for their share of utilities often do so as an afterthought. It's assumed that the process is done correctly when, in fact, there are almost always errors and missed revenue.



### Action

Ensure accurate meter readings. Then vet the billing methodologies used, as well as how rates are calculated from utility bills.

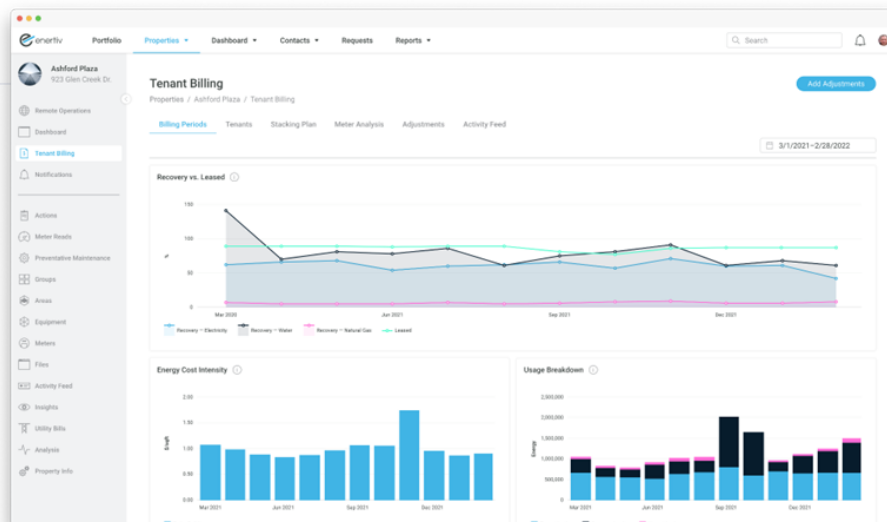


### Here's How

Technology is very helpful for the first and second step here. Meter readings can be performed on a mobile app instead of clipboards. Potential typos are flagged in real time and every reading is stored digitally. Utility bills can be automatically scraped by software, as well as analyzed for variances that need to be verified by humans. Vetting billing methodologies is primarily a human endeavor, and should be done by trained professionals.

## Fact

In Enertiv's experience, audits almost always identify errors in billing methodologies. In one example, an 11 building campus was under billing tenants by over one million dollars annually.



#6

## Charge Correctly for Overtime HVAC

Landlords are happy to grant approval for HVAC to be kept on for tenants who need it outside of normal schedules. However, while many charge for this convenience, they are often significantly underestimating their costs.



### Action

Calculate the true cost of running HVAC, so that tenants can be billed the appropriate amount.



### Here's How

This can be a painstaking analysis using spot checks of amperage readings and complicated calculations in spreadsheets. On the other hand, it's remarkably straightforward with real-time energy monitoring at the equipment level. Simply select the times and equipment you want to analyze and the software does the rest.

### Fact

In Enertiv's experience, overtime HVAC rates are usually calculated correctly at first and not adjusted over time. In a recent example, a property was under charging by 45%, equalling over \$80,000 a year.

## #7

# Correct Performance Drift

Operating buildings is complicated. Overtime HVAC is requested one night and never changed back. Third party vendors mess with configurations. Fire alarms go off and reset equipment schedules. Tenant comfort is over compensated for. There are many reasons for the phenomena of “performance drift,” where a building’s efficiency degrades over time. Leading portfolios leverage real-time monitoring to correct for this issues the moment they occur.



### Action

Correct issues as soon as they are identified.



### Here's How

Real-time monitoring not only collects data from each piece of equipment, it analyzes that data and transforms it into insights. These are granular and prescriptive recommendations on exactly how to optimize schedules and set points, as well as balancing tenant comfort with more advanced strategies like airside economization.

### Fact

Performance drift causes a 10-30% degradation of system efficiency over a one to two year period<sup>5</sup>

