INSIDERS OUTLOOK

Sub-metering electric costs well worth the effort

BY LEWIS M. KWIT, J. REYES MONTBLANC AND GREGORY J. CARLSON

Most of New York City's cooperatives and condominiums are individually metered, which means that each resident receives a bill directly from the utility. Many others are master metered, distributing electric costs based on shares, not on actual usage. Although boards of directors of these buildings recognize the benefits of electric sub-metering, they find sub-metering procedures, from approval to initial cost outlays to administration, to be daunting.

Sub-metering is well worth the effort. It offers immediate savings to cooperative corporations, condominium associations and their residents. There are further advantages. Sub-metering is a prerequisite to the benefits of time-sensitive pricing and load curtailment incentives.

Sub-metered buildings can also help address the very real threat of blackouts now and in the future. To help avoid a power emergency, the New York Independent System Operator (ISO) realizes that small users including apartment buildings, representing countless individual actions, would be a good secondary target for curtailment (large electric users and facilities with on-site generators are the primary focus.) And, of special import for cooperatives and condominiums, the ISO will fund a curtailment program, not only at the time of savings but in advance. In return, the building agrees to reduce electric use when the ISO foresees the threat of a blackout and calls a curtailment event.

When New York State deregulated the electric industry to create a competitive market, it required utilities to sell off the

market price, what the industry terms "real time pricing," we could stretch supply and minimize blackouts.

Only a sub-metered building can purchase its own power, install meters that measure usage in time increments and bill accordingly. The sub-metering configuration authorizes the building to act as a mini-utility, with ratemaking authority to charge residents different prices at different times.

A cooperative can enhance opportunities for residents to save by billing based on time of use. Much of this usage is discretionary and could take place at other times. If electric charges corresponded to actual prices in the wholesale market, residents could consider the cost when scheduling activities, such as dishwashing, ironing clothes and automatic oven cleaning.

New metering and billing technologies have emerged to arm cooperatives with the knowledge they need to begin smoothing out the peaks. Sub-metered consumers are provided with sophisticated information about how much and when they use electricity. Sub-metered cooperatives are then able to bill shareholders at slightly higher rates during the building peak, to encourage a shift in electric-powered activities and lower demand costs for the entire building. People who continue to concentrate usage during peaks could be charged more, while wise energy users are rewarded.

Given that the city narrowly averted rolling blackouts last summer, the ISO knows that residential consumers must be part of a comprehensive solution. It is not feasible for the Albany-based agency to administer a hands-on curtailment effort for individual apartments, however most master metered buildings are large enough to qualify for ISO incentive programs aimed at large users. The ISO understands that a kilowatt-hour saved in one location can be used in another and is willing to pay consumers to reduce usage when supplies are scarce.

The term curtailment is ubiquitous in today's state and city energy communities. Yet despite the proliferation of curtailment programs, meetings and conferences, it has not entered the everyday vocabulary or experience of city residents. Few of us in the communications and technology capital consider blackouts a remote possibility. Equally far-fetched is the notion that we, as individuals, can do anything about it.

We believe that the cooperative community can fuse public spirit and ingenuity to harness discretion and avert blackouts. A number of cooperative and condominium leaders have formed the Cooperative Coalition to Prevent Blackouts. The organization's aim is to educate consumers about the need for load curtailment. It proposes to demonstrate the benefits of variable pricing and load controls in cooperatives and condominiums and document and disseminate the findings throughout the multifamily building community. In addition, the group will promote government actions and incentives that support a user-friendly environment to promote advanced sub-metering applications and the initiatives they make possible.

This article is excerpted from a report prepared as part of a project sponsored by the New York State Energy Research and Development Authority entitled "Sub-metering and Billing for Multifamily Buildings." Kwit is president, Energy Investment Systems, Inc.; Montblanc is president, The HDFC Council and Carlson is executive director, Federation of New York Housing Cooperatives.

RE investment funds provide opportunity

BY NORMAN A. FEINSTEIN
PRESIDENT
THE HAMPSHIRE FUNDS

The stock market goes up; the stock market goes down. And over the past several years, it seems to have gone down quite a bit more than it's gone up. The vagaries of Wall Street have caused smart investors and

are often structured as a cash flow vehicle with capital appreciation, making them a reliable hedge against inflation, and a more sound alternative to bonds or bond funds.

For years, The Hampshire Companies have developed and managed closed-end private real estate investment funds that have consistently delivered steady, above market returns for our investors. Our

ing closed by the fourth quarter of 2002.

The Hampshire Self Storage Fund, a more aggressive fund with a correspondingly higher risk/return, invests in and develops self storage facilities primarily in New Jersey and Puerto Rico. The fund's objective is to provide capital appreciation and cash flow with certain tax benefits. In order to provide our investors with an be a good secondary target for curtailment (large electric users and facilities with on-site generators are the primary focus.) And, of special import for cooperatives and condominiums, the ISO will fund a curtailment program, not only at the time of savings but in advance. In return, the building agrees to reduce electric use when the ISO foresees the threat of a blackout and calls a curtailment event.

When New York State deregulated the electric industry to create a competitive market, it required utilities to sell off the majority of their power plants. Con Edison now purchases electricity on the wholesale market alongside new electric service company providers (ESCOs), all of whom purchase large amounts of power for resale. The ISO administers the wholesale market, which operates through a daily electric auction. Sellers feed available supplies into the system and buyers bid in hour-by-hour needs for the next day. Hourly prices fluctuate widely based on supply and demand.

However, there is no direct connection between the wholesale and retail markets as Con Edison's rate structure does not easily accommodate fluctuating prices of the wholesale market. Rather than charge consumers more during peak hours, they distribute higher energy costs evenly throughout the monthly billing cycle. Although residential consumers are insulated from high prices during the day, they pay more at night when wholesale prices are lower. And, without actual price signals, consumers have little incentive to reduce usage when it counts most.

If power were more expensive when scarce, it would encourage consumers to shift their usage to off-peak periods. If city residents would make simple adjustments at home by turning off lights when they leave a room, turning off nonessential appliances and operating appliances at off-peak hours, this would help alleviate the strain on New York's power supply system and could put money in consumer's pockets. The ISO believes that if consumers can buy power at its immediate and fluctuating

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By Norman A. Feinstein
President
The Hampshire Funds

The stock market goes up; the stock market goes down. And over the past several years, it seems to have gone down quite a bit more than it's gone up. The vagaries of Wall Street have caused smart investors and investment professionals to look outside of the traditional capital markets and to diversify their holdings to ensure prosperity, despite these difficult economic times. One particular, yet little-known and sometimes misunderstood area that has consistently yielded positive performance is private real estate investment funds.

When most people think of investment in real estate, they think of Real Estate Investment Trusts (REITs). Like REITs, private real estate funds sell investment units and acquire real estate and related investment-grade assets, providing investors the opportunity to participate directly in the ownership or financing of real estate projects. Both REITs and private real estate investment funds offer diversification for investment portfolios, and can provide stability in otherwise tumultuous economic times.

However, unlike REITS, private real estate investment funds are not encumbered by set distribution rules, SEC requirements, the inability to shift investment focus, and the outside pressure to constantly acquire and grow – at almost any cost – in order to deliver FFO (funds from operations). In addition, the overhead costs to operate a private real estate investment fund are significantly lower and the bureaucratic red tape attached to decision making is non existent. These factors allow many private real estate funds to take a more strategic and long-range view of investment in real estate – a view that usually results in a steady, above average cash-on-cash return, regardless of underlying economic conditions. Moreover, private real estate investment funds are often structured as a cash flow vehicle with capital appreciation, making them a reliable hedge against inflation, and a more sound alternative to bonds or bond funds.

For years, The Hampshire Companies have developed and managed closed-end private real estate investment funds that have consistently delivered steady, above market returns for our investors. Our Hampshire 99 Fund, initiated in the fall of 1999, closed to investors after reaching its fund cap of $25 million in just 18 months. The fund currently delivers a preferred cash on cash return to investors of 8.4%, paid out on a quarterly basis. In fact, the fund has been delivering after-expense cash flow in excess of 11%, enabling us to acquire additional properties and increase the value of the fund.

We are currently capitalizing two additional private commercial real estate investment funds – the Hampshire 2001 Fund and the Hampshire Self Storage Fund. The 2001 Fund has targeted an internal rate of return over its term of 15% and the Self Storage Fund a targeted internal rate of return of 20%. The Hampshire 2001 Fund, a value-added fund with moderate risk for its investors, invests primarily in or acquires commercial real estate and related investments. The core of our strategy for the Hampshire 2001 Fund – to acquire quality income producing properties and to efficiently and effectively manage them to achieve maximum return – is a particularly sound approach in a time of uncertainty in the traditional capital markets. The Hampshire 2001 Fund will provide a preferred cash return of 8.4% per annum, payable quarterly, on capital contributions. Excess cash flow will be re-invested in the fund until the last five years of its scheduled term, in order to continue to add value for our investors. The fund is closed-end, in that it will only sell fund units to investors until it reaches its fund cap of $100 million. The primary term of the Hampshire 2001 Fund is ten years, and we anticipate the fund being closed by the fourth quarter of 2002.

The Hampshire Self Storage Fund, a more aggressive fund with a correspondingly higher risk/return, invests in and develops self storage facilities primarily in New Jersey and Puerto Rico. The fund's objective is to provide capital appreciation and cash flow with certain tax benefits. In order to provide our investors with an above-market return, we have selected and will continue to select premier sites located on major roadways with strong demographics. Investment returns in the Hampshire Self Storage Fund accrue at 10% per annum. Like The Hampshire 2001 Fund, The Hampshire Self Storage Fund is closed-end, in that it will sell fund units only until it reaches its fund cap, which in this case is set at $15 million. We anticipate The Hampshire Self Storage Fund will be fully capitalized by the end of 2002.

How are we able to deliver these returns? The cornerstone The Hampshire Companies' and The Hampshire Funds' success has been the integration of our vast real estate experience with our financial investment acumen. The Hampshire Companies, led by our Chairman, Jon F. Hanson, is a third-generation, full-service real estate organization with over 80 years of experience and a mission to create and enhance value from investments in real estate opportunities. Our philosophy is rooted in the belief that a steady, conservative investment outlook will allow our private real estate funds to succeed regardless of underlying economic conditions. Being cautiously opportunistic, we consistently realize returns higher than industry standards by creating and capitalizing on opportunities untapped by the market. At The Hampshire Companies, we realize that real estate investment is both part art and part science. Currently, The Hampshire Companies operate a diversified national portfolio of properties totaling over 11 million SF in 31 states, St. Croix and the Commonwealth of Puerto Rico.