The Pitfalls of Uncontrolled Access

Multifamily real estate owners should control access to their buildings, their infrastructure and their residents. Here's why.

By Robert Grosz / *Multifamily Broadband Council*

Owners of apartments have a lot to lose. In most U.S. markets, new apartment housing stock is yielding stronger competition for residents. A long-term owner of quality apartments struggles with rising property taxes and insurance rates, the need to find and retain quality property staff, the requirement for capital investments to keep the property relevant and safe, and the looming potential of more expensive money from debt markets. Costs increase without regard to the number of vacant units. To survive and react to changing market forces, owners must control every aspect of their properties – especially critical services such as internet.

However, some local governments and technology companies believe apartment owners should have little or no control over how their residents access the internet. They want regulation that allows a service provider to forcibly take an apartment owner's wiring, negate any contracts in place with existing providers, and market directly to residents without limits. Contrary to that view, the Multifamily Broadband Council argues that removing an owner's incentive to invest in new technology will stifle innovation, create chaos and impact security and affordability.

Apartment owners are best positioned to engage in technology investments by incurring the capital risk of fiber optics and structured wiring and realizing the returns associated with internet services and the emerging connected-device economy. Recent regulation in the city of San Francisco reduces these owners' incentives in favor of uncertain motivations of service providers that have much less to lose.

> Uncontrolled access to building infrastructure may encourage service providers to cherry-pick the most desirable buildings.

The proponents of the regulation believe it's the best way to create a competitive broadband utopia, in which many service providers can compete for the finite number of residents/customers in a building. However, on closer examination, some problems with this theory emerge.

SERVICE INTERRUPTIONS/POOR SERVICE

Allowing multiple technicians competing for fiber or cabling to deliver internet service to subscribers living in close proximity to one another will result in mistakes. Technicians who make mistakes and disrupt their competitors are prone to ignore, hide or deny their mistakes. Who's responsible for fixing these issues? A building owner that has no control over this aspect of the property will have little ability or leverage to intervene and resolve these issues. Competitors will point fingers, and customers will be left with poorer service than if an owner can contractually hold operators accountable for their actions.

LIFE SAFETY, SECURITY AND HOUSING AFFORDABILITY

In the competitive utopia, owners will have to give many providers access to communication rooms, wiring, risers, rooftops, hallways and electrical systems. These apartment owners will either have little control over who accesses their properties and when or have to spend more on security systems and staff to further secure this aspect of their properties. This will either create less safe environments or push rents higher, reducing housing affordability.

REDLINING OR CHERRY-PICKING

Quality service providers will invest only in the apartment communities they deem worth their time and money. These targeted communities typically house wealthier or more

numerous households. What happens to buildings that may not have highly desirable (wealthy) subscribers or to small buildings that have a limited number of potential subscribers? Quality service providers may never get around to servicing these buildings – and frankly, they will be more than happy to focus on the upper end of the economic spectrum with no requirements to build out to the underserved. As a result, the digital divide will expand: Affordable housing will receive only very high-cost or unreliable services.

LESS INNOVATION

Investment in technology innovations at an apartment community is possible only if there is adequate return to the company making those investments. If an apartment owner has adequate leverage to justify these investments, innovation and investment can thrive. If the apartment owner is banned from or limited in realizing a return or exerting control over a service provider, only service providers will have an incentive to invest in innovating. However, few, if any, service providers can realize high enough returns from investing in building infrastructure to spur significant investment in advanced in-building technologies, such as fiber optics, especially if multiple service providers are competing for a finite number of subscribers.

Even deep-pocketed multinationals will likely seek investments in technologies and innovations that have much greater scale and global impact than in-building technology. Removing apartment owners from the gatekeeper position will smother in-building technology investments over the long term.

Independent operators that compete with large, franchised service providers have long struggled with accessing buildings because of obstacles such as exclusive marketing, anti-bulking provisions and physical lockbox barriers. However, the solution to encouraging innovation and great broadband service at apartment communities is not to strip owners of all control or ability to realize a return on investment from their own fiber optics or structured wiring systems. A better solution is to incentivize owners to invest in their in-building systems, educate them on the harms of tactics used by monopolistic-minded service providers and open the door to true in-building innovation. ❖

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