

Prepare Now for MDU And MTU Opportunities

Home builders and realtors forecast a doubling of MDU residential and commercial construction in 2013. Are you ready to take advantage?

By Steven S. Ross ■ *Broadband Communities*

As I detailed in the May 2012 Bandwidth Hawk column, bandwidth providers have a new imperative to target multifamily housing along with new technology for doing so – technology flexible enough to offer fiber-to-the-home backhaul for cellphones and tablets, traditional Internet service and satellite video.

There's also renewed focus among all major telcos and cablecos on bringing bandwidth to malls, office parks and multitenant-unit commercial buildings, often called MTUs.

Smaller operators have a big opportunity to get into the game. Multiple-dwelling-unit (MDU) and MTU builds are cheaper and easier to finance than franchise builds. As I wrote in May, they are also more amenable to mortgage and leaseback financing at interest rates in the 3 to 4 percent range. They can even be financed as part of greenfield builds or major renovations.

Does the volume of new construction and demand for residential and commercial space justify the excitement? Based on 2012 performance and 2013 forecasts, the answer is an emphatic yes.

DOUBLE ACTIVITY IN 2013

Multifamily housing is hot. Housing starts inched up throughout 2012, ending the year at an annualized, seasonally adjusted rate of 954,000. Of those, 338,000, or 35 percent, were in multifamily buildings, nearly all in buildings with five or more living units, according to HousingEconomics.com, a service of the National Association of Home Builders.

The proportion of multifamily build-

ings in the mix is close to double the U.S. historical norm – bringing multifamily growth back to prerecession levels even though single-family construction is only half what it was in 2007.

Not all permitted or started construction will add to housing stock in the next 12 months, of course. NAHB (which derives data in part from Standard & Poor's Dodge Index) records a housing start when digging commences on a foundation. National Association of Realtors surveys consistently show lower numbers, but the predicted growth rates in greenfield MDUs and MTUs in the latest NAR data are bullish.

NAR predicts 143,000 new MDU housing units completed and marketed in 2013 and 188,000 in 2014, up from 89,000 in 2012. In addition, it sees 235,000 vacant units rented this year and 282,000 in 2014. Vacancy rates will hover around 4 percent as new units balance improved demand.

Office and retail space also show opportunities. Some 13 million square feet of office space were put onto the market in 2012, but 31 million are expected this year and 39 million in 2014. These numbers are low by historical measures, and enterprises are hiring fewer employees or arranging to have more work from home. Thus vacancy rates, though dropping, are still expected to remain north of 15 percent through 2014.

That's bad for the construction industry but great for bandwidth providers,

which make telecommuting possible. More buildings need more bandwidth. Often, bandwidth is revamped during the tenant fit-up process, so greenfield builds are hardly the only opportunity. For office space, only 21 million square feet were absorbed in 2012. That's less than half the 49 million expected in 2013 and 53 million in 2014.

Growth rates are even higher for retail space, although the absolute numbers are smaller: 4.3 million square feet built new in 2012 but almost four times that, 16 million, expected in 2013 and 23 million in 2014.

The broadband industry also benefits from new rentals of old space, of course, and that amounted to 9 million square feet in 2012, with 20 million expected this year and 28 million in 2014. The need for secure checkout is pushing retailers to abandon Wi-Fi in favor of fixed networks. Fiber is not necessary for the typical bandwidth requirements in this category, but it is far more reliable and secure than Wi-Fi or copper. What's more, the growing use of RFID tags has added to bandwidth needs, and fiber LANs are getting cheaper to build.

We've been paying attention. This year's **BROADBAND COMMUNITIES** Summit in Dallas includes dozens of panels on MDUs and MTUs, along with the latest market research from the industry's most informed source, Michael Render. ♦

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