

Small Is Beautiful

It is suddenly cost-effective to borrow money for small deployments, or to arrange a self-amortizing lease. Here's why – and how.

By Steven S. Ross / *Broadband Communities*

Although it is too early to call it a trend, I'm seeing an unexpected uptick in tentative planning for small deployments in many settings. They are overwhelmingly fiber. Driving this are the availability of money at low interest rates and the expectation that larger deployers will buy and bail out any new, smaller systems that get into trouble later.

These are systems that need funding in the \$200,000 to \$2 million range. At the low end, that's enough money to add fiber to a large condo or an apartment building. At the high end, it can fund a network for an urban or suburban district, or provide the matching funds for a deployment costing as much as \$10 million. In the May-June 2020 issue of **BROADBAND COMMUNITIES**, I looked at the high end of the range. Here's what's happening at the low end.

An unsecured five- or 10-year, \$200,000 loan by a condominium from a local bank would be a good bet. So would a five- or seven-year lease for up to about \$1.5 million, usually through a local equity fund. At the end of the lease, the deployer owns the system.

If a deployer is a nonprofit entity or municipality borrowing with tax-free interest, no depreciation is possible. But the federal and most state governments allow a lessor to take depreciation on a lease if the interest is fully taxed. For deployments in a multiple-dwelling-unit (MDU) building, much of the cost is for the electronics, which can usually be depreciated for tax purposes in just five years. That can cover the interest income and more – making it better than tax-free.

COVID-19 BENEFITS AND BARRIERS

But the uptick is coming in troubled times, especially for rental properties. Owners of rental properties – and homeowners associations in condos – certainly see the issue firsthand. Thanks to COVID-19 lockdowns and job losses, many renters and condo owners are having trouble paying monthly fees and rent bills. But residents also need more bandwidth, especially symmetrical bandwidth, for home

schooling, working remotely, and telehealth appointments. And some communities are pushing for more broadband in specific school districts rather than municipalitywide, to reduce digital divide issues for home schooling.

Lenders, however, see fairly low risk in this. Several told me in the past few weeks that they are not greatly concerned because they see deployment budgets in MDUs at around \$1,000 to \$1,500 per unit passed – and in garden apartment MDUs, budgets are even less. Even in broadband-starved school districts, there is often fiber nearby, but there has not been enough interest from national carriers to bring the broadband into public housing; small MDU buildings; and low-income, small-lot, single-family residences. There, deployment costs are greater but often can be managed at less than \$2,000 per dwelling unit passed. That is not always fiber to the dwelling unit, however. Some are wireless (5G or mmWave) hybrids.

Against that is the willingness of major carriers and smaller (but still large) Tier-2 local exchange carriers and cable companies to pay \$3,000 to \$5,000 per existing broadband customer in normal times. Several Tier-2 LECs are in bankruptcy after paying \$4,000 per subscriber for copper systems that then were overbuilt by competitive fiber deployers that could build for not much more than \$4,000. But in small deployments being discussed now, the initial cost is low enough to compete nicely.

There are other conditions now aside from the availability of funds to borrow. There is, for instance, a hunger for work by many inside-plant contractors who until recently were unable to build anywhere, especially inside occupied buildings. And of course, there is that increased demand for reliable, symmetrical broadband. ❖

Contact the Hawk at steve@bbcmag.com. Bandwidth Hawk was named the third-best staff-written column in the United States for 2019 by the American Society of Business Publication Editors. [aiming for being the second-best staff-written column next year!]