

## Small Telcos, Municipal Systems Dominate New FTTH Builds

There is indeed life after FiOS, according to the latest numbers from Michael Render of research firm RVA. Although Verizon is still building FTTH, the momentum has passed to smaller providers.

By Steven S. Ross ■ *Broadband Communities*

The pace of fiber-to-the-home deployments in North America picked up during a mild winter, and deployers passed 1 million additional homes with fiber from September 2011 to March 2012, according to the latest report from market researcher Michael Render of RVA. He presented his findings at this year's Broadband Communities Summit in April.

A total of 22.6 million homes are now passed by fiber – meaning that fiber comes close enough for the homes to be connected to a network. Of that 22.6 million, 19.3 million homes are actively marketed – which means households have the option of buying fiber broadband services. There are 8 million homes connected to FTTH in North America, mainly in the United States. One American home in every five is now passed by fiber.

The 1 million homes passed last fall and winter compares well to the 800,000 additional homes passed in the period from March to September 2011. However, the total for the full year – 1.8 million – is still well below the 2.5 million added from March 2010 to March 2011 and below the 3 million added from September 2009 to September 2010.

### NO SLOWDOWN FOR SMALLER DEPLOYERS

Still, the pace of non-RBOC FTTH deployments in the United States (essen-

*The pace of fiber-to-the-home deployments by smaller providers has remained remarkably constant over the past two years.*

tially all deployers except Verizon and AT&T) has remained remarkably constant over the past two years. In other words, most of the decline in fiber network builds is attributable to the slowdown in the Verizon FiOS project.

What's more, deployments in Mexico (1.6 percent of the total) and Canada (3 percent) have begun to show up in the numbers. There is even a small contribution from the Caribbean – about 0.3 percent of the total.

In the United States, broadband stimulus funding has helped keep the fires lit – and the party is not over. On average, Render says, although all stimulus funds have been allocated, “end-user FTTH projects are only just over one-third complete.”

This contrasts to the middle-mile fiber trunk projects funded by the Commerce Department's part of stimulus funds. Funding for the Commerce NTIA proj-

ects was in the form of outright grants and tended to be handed out faster than were loans and grants for FTTH from the Agriculture Department's Rural Utilities Service. The NTIA projects appear to be further ahead, on average.

Render also estimates that 855 FTTH providers have fewer than 10,000 subscribers each. Some are municipal projects, but more than 700 are small telephone companies, usually operating as Tier 3 incumbent local exchange carriers (ILECs). Another 13 carriers have between 10,000 and 20,000 subscribers, seven have between 20,000 and 50,000 and only five are larger than 50,000.

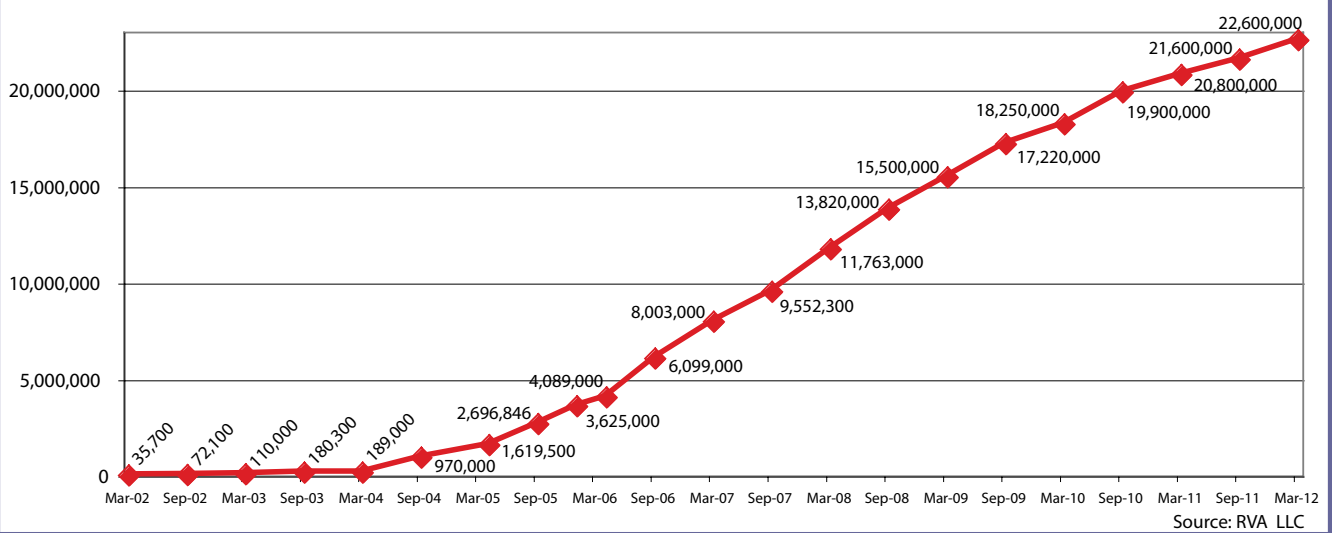
Because the biggest of all is Verizon, with more than 6 million FTTH customers, the market share is also wildly skewed. Render says Tier 1 ILECs (which are no longer limited to the former Regional Bell Operating Companies now that Qwest has merged into

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# FTTH INDUSTRY REPORT

## FTTH Homes Passed, March 2012



One North American home in every five is now passed by fiber. The six months between September 2011 and March 2012 saw an increase of 1 million homes passed as stimulus projects advanced in the mild winter.

CenturyLink and Verizon has spun off lines to Frontier and other carriers) account for 78.1 percent of FTTH connections in the United States. Tier 2 and 3 ILECs account for 11.3 percent, and more than 120 municipal FTTH carriers account for 4.2 percent.

Carriers that cherry-pick particular buildings, developments or neighborhoods are clearly on the uptick as well, after years of decline. About 3.7 percent of all FTTH deployments – 300,000 households – are served by competitive local exchange carriers (CLECs). More

than a third of those are ILECs with a CLEC division.

Another 120,000 households – 1.5 percent of the total – are served by real estate developers or “amenity providers” that are not registered as CLECs with the Federal Communications Commission.

Cable MSOs – franchise operators – also add 80,000 customers to the FTTH total, or about 1 percent.

### INCREASE IN FTTH HOMES MARKETED

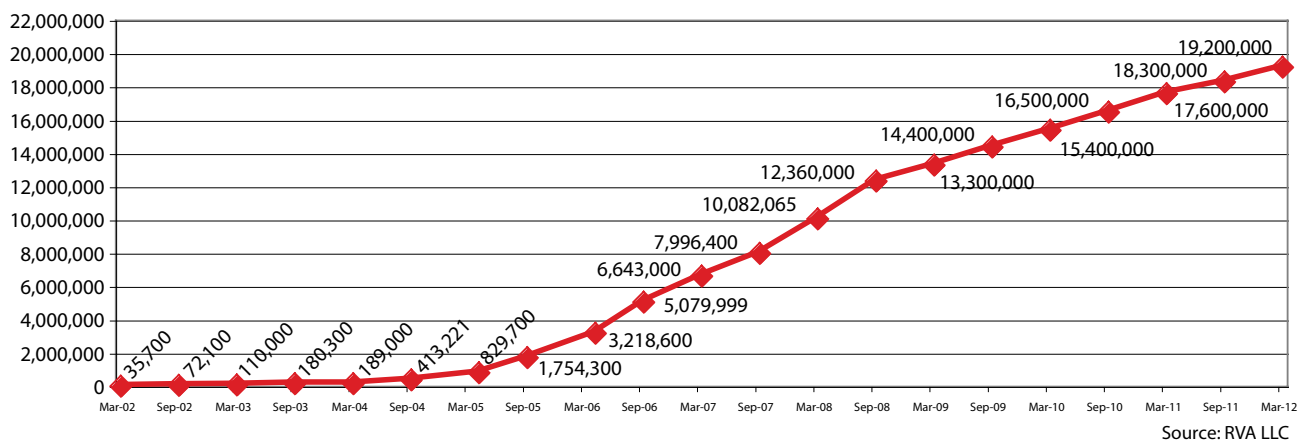
The number of homes marketed for FTTH rose by 900,000 from September

2011 to March 2012, also a gain above the previous six months (700,000). The pace was slightly below the comparable periods for the past two years, however.

Render’s estimates of homes marketed in previous years have been restated. Previous tallies included about 1.5 million units in multiple-dwelling-unit properties that are passed by fiber trunk lines in Verizon’s FiOS footprint. Despite Verizon Enhanced Communities’ activities, many of these buildings will not get FTTH any time soon. Thus, they have been removed from the numbers of homes marketed.

## FTTH Homes Marketed, March 2012

(Cumulative, North America)

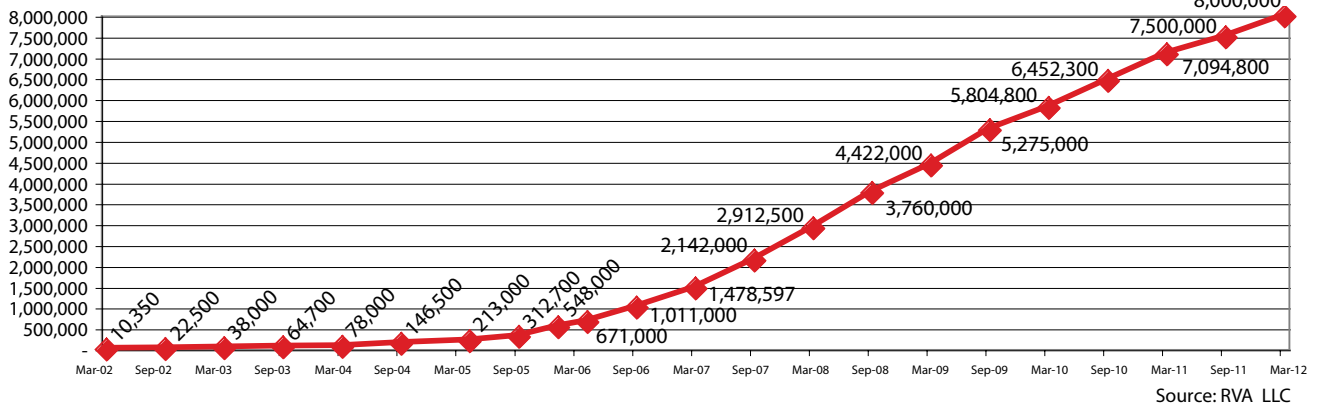


The increase in homes marketed for FTTH rose by 900,000 for the September–March period, a gain above the previous six months. The pace was slightly below the pace of the past two years, however.

# FTTH INDUSTRY REPORT

## FTTH Homes Connected, March 2012

(Cumulative, North America)



FTTH connections are rising, but not as fast as homes marketed and passed. The number of homes connected rose by 500,000 in the past six months. That's better than the previous six months but well below the trend of the previous five years.

### Verizon investors want to see higher FTTH take rates before financing more builds.

The new tally reflects this new economic reality: Wall Street wants to see more single-family homes currently passed by fiber sign up for FTTH before allocating money to open new territory.

The fact that Verizon's total of homes marketed fell slightly led to higher reported take rates. Last fall, the RBOC take rate would have been about 36 percent in North America, higher than the 34 percent calculated through September 2011 under the old rules. The blended take rate, RBOC and non-RBOC, is now recalculated as 40 percent through last September and 41.7 percent through March 2012. Broadband Communities no longer reports RBOC and non-RBOC take rates separately because, as noted previously, the historical definition was muddled.

Some 92 percent of North American homes marketed are in the United States, 3.6 percent are in Canada and 4.2 percent are in Mexico.

#### INCREASE IN HOMES CONNECTED

The number of North American homes connected to fiber rose by 500,000 in the past six months. That's better than the previous six months but well below the trend of the previous five years,

when the FiOS build was adding 3 million new homes passed every 12 months.

The number of FTTH customers added is still well below the long-term trend, despite last year's uptick in homes passed and marketed and despite the

fact that most new builds are in more-rural areas with historically higher take rates. Those builds are indeed enjoying the higher take rates predicted for rural areas and municipal systems, but in the aggregate, they are much smaller than the huge FiOS build. Another part of the reason is timing – the new ARRA-funded networks are not all ready for marketing, but Verizon is still marketing FTTH homes passed several years ago.

Take rates vary greatly among dif-

#### GROWTH OR DECLINE, HALF OVER HALF

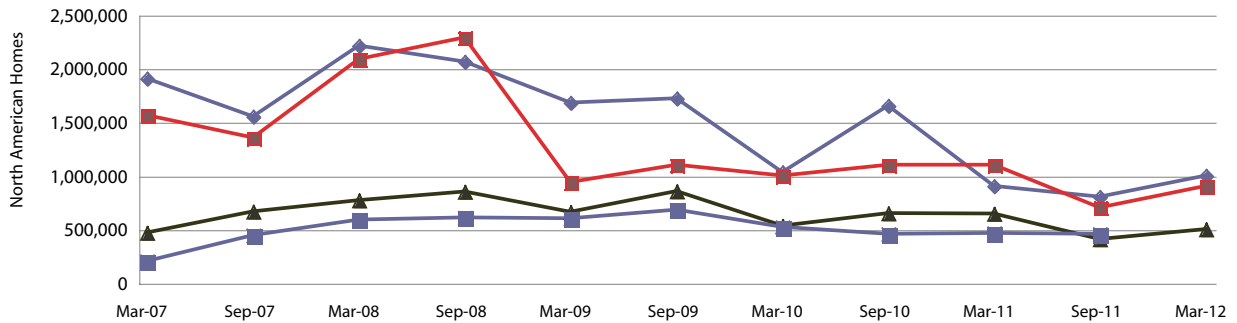
	Passed	Marketed	Connected	Video Connected
Apr-06	-57%	252%	23%	1620%
Sep-06	333%	27%	176%	0%
Mar-07	-5%	-16%	38%	37%
Sep-07	-19%	-13%	42%	118%
Mar-08	43%	54%	16%	33%
Sep-08	-7%	10%	10%	4%
Mar-09	-19%	-59%	-22%	-2%
Sep-09	2%	17%	29%	13%
Mar-10	-40%	-9%	-38%	-24%
Sep-10	60%	10%	22%	-12%
Mar-11	-45%	0%	-1%	2%
Sep-11	-11%	-36%	-37%	-2%
Mar-12	25%	29%	23%	NA

The seasonal pattern normally shows growth each summer and a lag in winter. So it is surprising that the September-to-March figures were up over the previous six months. The lag in homes connected also was predicted to reverse in 2012 as ARRA-funded networks in more-rural areas come to market, no matter what the economic climate. Video subscriber totals were not updated in March.

# FTTH INDUSTRY REPORT

## Homes Passed, Marketed, and Connected in Each Six-Month Period Since March 2007

(Calculated by BBC from RVA Data)



	Mar-07	Sep-07	Mar-08	Sep-08	Mar-09	Sep-09	Mar-10	Sep-10	Mar-11	Sep-11	Mar-12
Passed	1,904,000	1,549,300	2,210,700	2,062,000	1,680,000	1,720,000	1,030,000	1,650,000	900,000	800,000	1,000,000
Marketed	1,563,001	1,353,400	2,085,665	2,286,935	940,000	1,100,000	1,000,000	1,100,000	1,100,000	700,000	900,000
Connected	467,597	663,403	770,500	847,500	662,000	853,000	529,800	647,500	642,500	405,200	500,000
Video Connected	202,600	442,600	587,000	609,367	599,633	679,700	518,900	456,405	463,995	455,900	

The number of FTTH customers added rose slightly in the six months that ended in March 2012. It is still well below the long-term trend, despite last year's uptick in homes passed and marketed and despite the fact that most new builds are in more-rural areas with historically higher take rates.

ferent categories of providers. The few real estate developers and cable TV operators that serve FTTH customers have take rates of 80.7 and 66.4 percent respectively.

Non-RBOC ILECs average a take rate of 63 percent, and Verizon, the only RBOC doing competitive overbuilds in the United States, is at 40.1 percent for that part of its business. Doing much better are CLECs that are divisions of smaller ILECs (55.1 percent take rate) and traditional CLECs (48.7 percent).

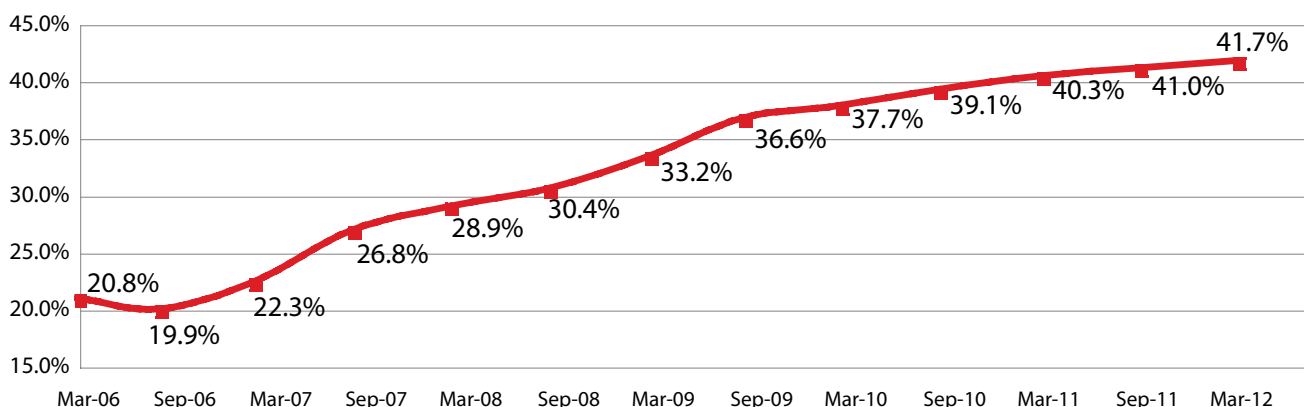
*Take rates vary among different types of FTTH providers. As stimulus-funded networks in rural areas come to market in 2012, overall take rates should grow.*

Retail municipal operators average a 45.8 percent take rate, Render estimates, and wholesale municipal services (mainly open-access builds) are at a weak 28.9

percent. No matter what the economic climate, take rates should continue to grow in 2012 as ARRA-funded networks in more-rural areas come to market. ❖

## Take Rate

(Customers Connected, Divided by Customers Marketed)



The overall cumulative take rate for FTTH has been increasing and now stands at 41.7 percent. Part of the reason is that as the pace of builds slows, the marketers have time to catch up. Also, more builds are now in rural areas or by small municipalities. These are situations in which take rates have always been above average.