

Cable Opportunities in A Changing MDU Environment

Though the recession created a challenging environment for cable operators of all kinds, some have found a winning combination of technology and customer service.

By Bryan Rader ■ *Bandwidth Consulting LLC*

With vacancies high and rent levels lower than they were two or three years ago, technology is emerging as a vehicle to differentiate MDU properties, satisfy customers and drive incremental profit. Both property owners and cable companies – including franchised operators, private cable operators (PCOs) and telcos – must navigate this new environment to be successful.

Choice appears to be the new mantra for many property owners. As they compete for residents in a soft rental market, they want to provide whatever services their residents (and prospective residents) want. This means offering numerous telecom options from multiple service providers.

This trend began several years ago when Verizon's FiOS and AT&T's U-verse entered the MDU market on a large scale, but it has accelerated in recent years. "We feel it, too," says Ed Zamarripa, executive vice president of sales for LCR Enterprises, a company that represents franchised cable companies in their renewal negotiations with property owners across the U.S. "Owners are asking for shorter-term agreements. They are more interested in having dual providers and in keeping the door open for other providers."

Rich Baxter, a longtime executive with Consolidated Smart Systems, a leading PCO based in Los Angeles, adds, "It is becoming more apparent to owners that they need to provide real choice for their residents."

pany that assists property owners with cable TV negotiations. He says, "Owners are starting to understand choice, and technology is making it easier and cheaper to get another option for your community."

Choice of technology providers puts power in the hands of the customer and, to some extent, the leasing agent. Was the agent trained to answer questions about Internet speeds, the number of HD channels or installation time?

"We now want to bring choice to our residents," says Terry Fulbright, director of ancillary services for UDR, a multifamily real estate investment trust with more than 150 communities across the country. "Ideally, I'd like to see a triple-play, nonexclusive marketing deal with all providers."

To compete in a world of choice, providers must find ways to differentiate themselves, according to Andrew Smith, president of Ancillary Services Management, a Washington, D.C.-area com-

POWER TO THE PEOPLE

Choice of technology providers puts power in the hands of the customer and, to some extent, the leasing agent. Does the new move-in know about all his or her options? Does the leasing agent promote one company more than another? Was the agent trained to answer questions regarding Internet speeds, number of HD channels or amount of time needed to complete the install? How cable operators handle these issues in properties with dual providers will determine their success in this new world.

In an environment in which provider choice is widespread, residents see many different options when they move into new apartments. Leasing agents' knowledge of these options – their pricing, features and reputation – may have an impact on customers' purchase deci-

About the Author

Bryan Rader is CEO of Bandwidth Consulting LLC, which assists providers with their performance in the multifamily market. You can reach Bryan at bryanjrader@yahoo.com or at 636-536-0011. Learn more at www.bandwidthconsultingllc.com.

sions. Similarly, not having choices may discourage prospective residents from renting apartments. "We are acutely aware of that," Fulbright says, smiling. "We might see less revenue share, but we make it up in new leases."

Because property owners are in the business of leasing apartments and not of selling telecom services on behalf of other companies, increased occupancy rates ought, in theory, to be more important than ancillary revenues. However, the effects of provider choice on occupancy rates are not always easy to demonstrate. "There's an unknown value to having choice," Fulbright says, echoing the thoughts of many property owners. "More leases, more renewals – this is hard to put a dollar value on."

Even property owners who believe that provider choice is valuable in the long term may not have the luxury of considering the long term. According to Fulbright, "Some owners are concerned about year-over-year financial performance, and lower revenue share might impact their technology decisions."

THE IMPORTANCE OF ECONOMICS

In addition to choice, other new dynamics affect owners and operators in their negotiations of service agreements. Rob Neumann, general counsel of Access Media 3, a private cable provider based in Chicago, points out, "Owners are becoming savvy. They're also negotiating shorter terms, stronger service-level agreements and more competitive rates. They're also asking for more free services – complimentary services to common areas such as gyms and offices."

"It's really dependent on the market," counters Zamarripa. "Owners are very aggressive about asking for upfront fees and revenue sharing in some markets. But in others, such as Qwest markets, owners are not asking for high economics because Qwest is not offering an option to franchise cable."

Smith agrees, saying, "There is a shift in revenue share. We are seeing it go down in some areas. If the telco stops providing it, the local cable company stops offering it." The loss of revenue sharing hurts property owners that depend on miscellaneous income from telecom services as an important revenue

source for their MDU communities, especially in a depressed economy.

Christian Diener, national accounts manager of Pavlov Media, a PCO that primarily serves the student housing market, agrees that economics are still critical for many of his clients, particularly in their bulk business. Diener says, "We've seen our negotiations for bulk business almost overly fixated on price without regard to features and benefits of our products. On new-construction deals we've bid, there may be six or seven providers trying to win, and price becomes key."

Whether they are negotiating savings in a bulk deal or trying to capture complimentary Internet services in the leasing office, real estate developers and owners are also closely looking at issues that impact the economics of their business. "It's not 2006 anymore," one owner says. "I don't have a 98 percent occupancy level with a waiting list and the luxury of raising rents on every renewal."

UPGRADING TECHNOLOGY

"I still believe that new technology plays a role in today's environment," says Terry Koosed, president of Bel Air Internet in California. "There are opportunities today in upgrading the existing MDU wiring to improve the delivery of advanced services. Upgrading older wiring infrastructure is giving us an opportunity to bring our triple-play services." Bel Air has grown quickly with a focus on technology over economics.

Diener comments, "Most of our clients are looking at wireless service throughout the property as an absolute must-have. Not just the pool and clubhouse, but a full-fledged wireless network. ... We think this may be the year of wireless, for real this time."

Owner interest in infrastructure upgrades may provide opportunities for PCOs to compete on something other than economics and offer residents other choices. Many PCOs have shown willingness to upgrade infrastructure or to offer specialized services tailored to unique resident profiles.

Smith points out that technology advances benefit property owners that seek to add more options or unique features. In addition, he says, "In many cases it is

cheaper than it used to be. My clients can get DIRECTV added as an option at little or no cost to them."

All these special features can help property owners in a competitive and still-soft MDU market. Owners are using technologies from multiple providers to win over new customers, who are demanding more from every service provider – more channels, more speed, more features and lower prices. "We're seeing the beginnings of Internet TV, too," Koosed says.

SERVICE STILL COUNTS

Technology can help a provider endear itself to an owner, but it doesn't obviate the need to remain focused on service, especially in a world filled with choice. As Access Media 3's Neumann says, "Owners ask for high-quality service with short hold times."

Many owners feel that traditional cable companies still fall short in customer satisfaction, even though their ratings have increased in recent years. Bel Air's Koosed says, "The cable guys do a poor job of talking to their customers. They are not consumer-centric. They are consumer-phobic. They have cut costs by talking to the customer less."

Some PCOs and other alternative providers are leveraging this gap in key MDU markets by building relationships with owners and on-site managers and by exceeding the performance standards set by clients. Zamarripa says, "We just started working in Florida, and it's very competitive here, with a lot of successful PCOs in this region."

Smith says, "I clearly see opportunities for PCOs in this environment, especially in Tier 3 or Tier 4 markets, because they can offer better service than the incumbents, who are too often fat and happy."

Although the current recession increases the pressure on providers, with MDU owners demanding more choices, better technology, higher-quality service and revenue shares, nimble competitors are still succeeding. "It is certainly a new world that is highly competitive for operators," Baxter concludes, "but one that holds real promise for providers of all stripes if they listen to their customers."

BBP