

What Owners Need From Telecom Contracts

Telecom services are changing rapidly – and so are the contracts between property owners and telecom providers. Negotiating a contract that protects residents and property values takes time and understanding.

By Mike Coco / *Choice Property Resources*

No one likes homework, but to negotiate advantageous contracts, owners of multifamily properties need to put in the time to ensure that they bring full value to their properties. To do this, owners need to understand the newest telecom technologies, determine when it makes sense to upgrade infrastructure and know how to construct provider deals to meet current and future business goals.

Are opportunities available for existing and new construction properties? Absolutely, but you need to recognize the complexity of each situation and do your homework to identify and integrate these opportunities.

Negotiating contracts in 2018 is not what it was 10 years ago. Within the last five years, revolutionary changes have altered the entire industry. More multifamily providers are surfacing, and large telecom providers are restructuring. Technology is on the move and is faster and more reliable than ever before. There are also more services and more methods for delivering services.

At the crux of this paradigm shift are owners who want to provide competitive telecom options and amenities that best suit their residents' preferences. Resident demand for ever-faster internet speeds, provider variety and high reliability often varies by type of MDU. For example, student properties may require

different technologies and infrastructure than senior properties. To stay competitive, you must know what types of services your residents need and what they are purchasing with an eye to the future.

"This is a complicated and time-consuming process," says Pat Belden, president and CEO of POAH Communities. "Gathering bids from all the telecom providers is a huge challenge. We've found that it is helpful to have the leverage of a third party when properties experience service problems."

MORE PROVIDERS

Today, more providers are available than ever before, and the landscape is constantly changing as technology leaders merge and standardize their services. In the United States, leaders such as Comcast, Charter Spectrum, AT&T and Cox Communications continue to outspend many peers in their capital budgets. Properties in secondary or tertiary markets are often serviced by one or more providers who are chasing the market leaders in technologies, capital budgets and internet speeds.

Managing property reputations via online resident reviews has become very important. To promote selection for residents, many owners now opt to negotiate nonexclusive marketing agreements with multiple providers on a single property. This practice must be evaluated by

assessing the impacts on ancillary revenue and rental income as well as additional hardware expenses such as neutral lockboxes and wiring panels in walls.

MORE SERVICES

It's no surprise that the internet is the leading telecom product and drives the need for technology updates.

Although Google Fiber spurred the marketing push for gigabit internet speeds, it has yet to be determined how many residents actually purchase these speeds from any provider. However, the market has shown that providers will continue to deploy faster internet speeds. This means owners must take the initiative and insist that each contract includes provider updates for the latest technologies and speeds.

Smart-home and smart-access technologies are quickly emerging and are increasingly desirable to property managers, staff and residents. Owners need to ensure that provider contracts do not include terms and conditions that prevent the deployment of these technologies and amenities.

MORE DELIVERY METHODS

Owners and providers alike share a growing interest in propertywide Wi-Fi. Many providers promote varying degrees of managed Wi-Fi, but only a minority of owners currently choose this service, and it is too early to tell how widely it will be deployed. To promote better customer service, some providers set up dedicated call centers and installation teams for these properties.

Managed Wi-Fi allows owners to use wireless networks to manage smart technologies, security cameras or staff communication. In addition, many owners choose to establish Wi-Fi hotspots in common areas, and they must also determine whether to establish separate networks for resident usage.

Typically found on many student properties and a growing number of senior properties, propertywide Wi-Fi can offer a marketing edge as it presents convenience and value to residents. In these setups, the cost for bulk internet is included in residents' amenity fees or as part of the rent.

Smart-home and smart-access technologies are desirable to property managers, staff and residents. Make sure that contracts don't prevent deployment of these technologies.

Propertywide Wi-Fi requires installations of wireless access points, enterprise-grade routers and controllers. Owners must evaluate the operational impact propertywide Wi-Fi will have and measure it against staff capabilities as the contract is negotiated.

CHANGES IN FINANCIAL STRUCTURE

As internet access becomes more important relative to traditional wireline telephone and cable TV, providers are offering different financial proposals. Some providers now propose monthly flat fees per subscriber rather than fees based on penetration percentages. Owners must carefully evaluate these options, comparing this new model to traditional revenue share models. Long-term, owners must continue to evaluate their real estate assets for methods to generate additional revenue.

PROPERTY UPGRADES

Ideally, upgrades to property infrastructure should be discussed with providers beforehand and written into contracts. Owners are learning the value of establishing scopes of work and adding checkpoints into contracts.

Currently, no industrywide standard exists for who is responsible for infrastructure costs. Although providers and an increasing number of owners want features such as structured wiring panels in each unit, the cost of the equipment, installation and power at the location are all subject to negotiation with providers. Even the same provider may measure ROI differently on similar projects in different markets.

To cover expensive installations in bulk deals, providers usually charge a higher monthly fee and offer to carry the capital costs because they can usually

finance these costs at lower interest rates. Owners that have available capital may choose to invest up front and pay a lower recurring monthly provider rate. All this is up for negotiation.

HITTING THE SWEET SPOT WITH NEW CONSTRUCTION

Multifamily development is moving at a record pace in the United States. In a recent report, the National Apartment Association and National Multifamily Housing Council determined that 4.6 million additional multifamily units will be needed by 2030. This housing market demand, combined with an increase in tax credits for low-income housing over the next five years, suggests that this development trend will continue.

To avoid construction delays, developers now aim to have telecom contracts completed early in the development and construction process. This trend suits both developers and providers. In fact, most providers won't commit capital and engineering resources until the contract is signed. Some large providers have created onerous processes for committing resources to build out to new properties. This requires starting contract negotiations earlier, typically months before groundbreaking.

Most new construction sites request multiple providers on the premises to offer choices to residents. This trend promotes more nonexclusive marketing agreements and requires placing structured wiring panels in units. Such panels allow multiple providers to collocate equipment and wiring.

Syncing with site construction is imperative to avoid delays. Often, a joint trench is used for dry utilities (electricity, gas, communications), including telecom installations. Some

PROACTIVE MANAGEMENT FOR TELECOM CONTRACTS

The infographic shows the typical level of in-house resources needed for an owner/operator to proactively manage telecom contracts for a multistate, 50-property portfolio with no acquisitions/dispositions and no new development.



RESEARCH

Research establishes the data necessary to make solid contract decisions. Owners should investigate

- Existing telecom provider(s) and the technologies being supplied, including the deployment method used by each provider
- Terms of all current contracts, including expiration dates
- Properties for which no contracts exist or contracts auto-renew.

ANALYZE

Owners should identify providers that have a presence near each property, evaluate new services and technologies, and determine where technology or hardware upgrades are needed and where service problems exist. In addition, they should check with property managers to gauge resident satisfaction with current provider(s). This analysis will provide the criteria for the next step.

GATHER COMPETITIVE BIDS

For each property, contact existing and new providers and request a bid. Determine whether marketing rights will be offered to a provider and if the preference is to offer two or more providers on the property. Be sure to address any upgrades or service issues that need to be resolved.

NEGOTIATE

Familiarize yourself with the contract terms and language for each vendor. To meet business goals, consider upgrades, service requirements or changes needed from provider(s). If you don't understand a contract term, seek outside expertise.

Service level agreements (SLAs) should be incorporated in the contracts between each telecom provider and the owner. An SLA defines the service requirements from the providers. Negotiate SLA terms in each contract to provide protection for residents and the asset.

Wire usage has always been a point of contention between owners and providers. Ownership of the hardware, home-run wiring and wiring inside a unit must be identified. This should be properly documented in new contracts.

MANAGE

After selecting the most advantageous contract for each property, preserve the integrity of the contract over its term (usually three to 10 years). First, ensure that all upgrades and service issues are completed according to the predetermined timeline. Proactive contract management will help keep you on top of service issues, revenue collection and provider communication. Be sure to track end dates and notification requirements, as this will allow you to advantageously position new contracts.

developers have found that a dry-utility consultant is essential to better manage timelines and minimize the risk of delays. This is especially true in California because of its population density and site complexities.

“Our responsibility is to get the conduit from the utility point of connection to each of the buildings for phone, cable, gas and electric,” says John Voris, president of E4 Utility Design. “Telecom providers don’t want to incur the expense unless there is a negotiated contract in place, whether it is an exclusive or nonexclusive rights agreement. It is also common for owners to spend money up front so the infrastructure is in place for future use.”

New construction activity in this country will continue to be driven by population growth and the “silver tsunami.” Baby boomers have a growing interest in owning or renting multifamily units as they age and retire. This trend will continue to impact

bulk services and the continuation of traditional cable TV for some demographics.

CONTRACT ADVISERS

Owners are more aware than ever of the value telecom contracts offer to meet business goals and enhance resident experiences. When they align with property goals, telecom contracts become an asset.

Owners also want these contracts to be actively managed, either in-house or by an outside expert. Often, owners and operators do not have the staff or abilities to dedicate to this part of their business. “We knew there were challenges with our telecom contracts. Each of our 23 management companies used a different process, with no centralized system for evaluation, negotiation or management,” says Sara Goldstein, senior asset manager of The Pacific Companies. “With no time or resources to become experts in this

field, we turned to a partner to help us take a holistic look at our portfolio. We discovered what was and wasn’t in place and where we could maximize our opportunities.” This is an efficient and effective way to boost expertise and capacity without adding overhead.

Just as the landscape for telecom technologies is changing for MDU properties, so are the contracts for these services. Be aware of new technologies and their impacts on resident satisfaction. Uncover provider opportunities for each property, and structure your contracts to include valuable benefits. With these tips in mind, your telecom contracts will help meet property goals. ❖

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