

New Areas for Opportunity

Developers want choices for their residents. To compete, PCOs must offer more choices and coexist with other providers.

By Bryan Rader ■ *Bandwidth Consulting LLC*

Over the past three years, as jobs disappeared and the demand for rental apartments fell, rental rates and occupancy rates dropped. Concessions grew – one free month for a six-month lease, two months free for a 14-month lease. Free ceiling fans and washer/dryers no longer cut it. Residents wanted more.

Developers stopped building and put prospective deals on hold. Financing dried up. Investors were nowhere to be found – the last thing the market needed was more new construction.

We are just beginning to see signs of a turnaround for the MDU industry. Although new supply dropped below 100,000 units per year in the last couple of years, some previously stalled projects are now moving forward based on hopes that an upturn will materialize in the near future. “We may not get back to pre-2007 levels of activity anytime soon,” a real estate leader said recently, “but we are once again seeing developers unwrap their chains and begin working again.”

New construction projects used to be great opportunities for private cable operators (PCOs). A prospective client had to make a decision. A PCO could design the infrastructure the way it wanted and control the quality of the install. It could even predesign an equipment room in the optimal part of the community (always better than having to beg the maintenance supervisor for half of the warehouse shed).

TIMES HAVE CHANGED

However, as PCOs approach today’s new opportunities, we should recognize that things have changed. During the last development boom, property owners

looked for service providers that could turn up service for the very first move-in. They looked for providers that could fund the infrastructure, for designs that worked with their schedules and for strong economics – that is, revenue share and door money. In return, they would sign 10-year exclusive deals.

Today, developers have different requirements. A developer working on a new project in Texas recently told me, “We are more focused on a multiprovider solution today. Ideally, we would like to offer a telephone TV solution, a cable TV solution and a satellite solution. I want my residents to have three options when they move in, and we encourage each provider to offer all three services.” His company is willing to work with each provider to design and install the correct wiring.

That means a new move-in could choose from nine different services. A resident could have DISH Network video, U-verse phone and Comcast Internet service. “We don’t really care,” said the developer. “In fact, we don’t even want any marketing responsibility.” In his view, the development risk and lease-up risk caused by having a single provider far outweighs the door fee.

In less competitive regions, such as Qwest markets or Tier 2 and 3 cities, developers may not have as many viable

providers to select from. “When there aren’t good choices, owners will consider the independents,” Andrew Smith of ASM Management recently told me.

Developers that don’t have multiprovider solutions may require a PCO to provide multiple products and pricing plans. One PCO recently created a “survival kit” for \$59 per month that included basic cable, basic Internet and a domestic calling plan. In the same community, it also offered a \$125 plan with expanded speeds and options. It’s still “choice”; the choices just come from the same provider. And this is a great spot for PCOs to play in.

A lot of new construction is occurring in Tier 2 and 3 markets, where a PCO can offer something from the “dollar menu” as well as the prime rib, just as the same car manufacturer offers Honda and Acura product lines.

As new development begins to return, we should also look at how to fit into a multiprovider scenario. What will it take to get the returns we need? What level of construction do we need to maintain success? What gap can we fill for the developer?

New building will present great options for us. Let’s figure out how to capture some of them, even in this new environment, whether they are multiprovider or multiproduct. **BBP**

About the Author

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