Honey, I Shrunk The Market

By Bryan Rader ■ *MediaWorks*

Our market has shrunk and it's out of our control. While our total passings may be the same, the number of occupied units on each multi-family property served has dramatically (and quite rapidly) dropped over the past fifteen months. Every private broadband operator I speak with is saying the same thing: "where have all my subs gone?"

The multi-family industry is experiencing a tremendous vacancy loss on properties throughout the country. Some markets are in much worse shape than others, but the pattern is evident everywhere. Many of the public real estate companies are projecting 85% to 90% occupancy levels in key markets for the entire coming year. This is not a very good sign, especially since these levels were in the mid-90% range in the not too recent past.

Over the past several years, developers have been delivering a very healthy number of units to the market. For much of this period, there was sufficient renter household creation to justify an increase in supply. But when the economy got soft during the second half of 2001, and job growth became job loss, the development supply continued at the same pace.

What we are left with is too many unoccupied apartment units, and a dim outlook on near-term employment growth. And, as long as interest rates remain low, it is often cheaper to buy a home than live in a nice apartment community. This is creating a market out of whack – supply is much greater than demand.

And for private broadband providers, this trend actually hurts. Most of us have seen 10% to 15% of our occupied units literally evaporate in the past year. This means that on a 300-unit community, we may have 30 to 45 fewer units to market to, and sign up for service.

This trend creates an even greater challenge because another 5% to 8% of total apartment units may be signing up for DirecTV or Dish Network. Of course, we do have some control over this element – the better our product, the more likely we are to see a smaller satellite customer count. Yet, this consumer trend is further limiting our potential.

Another worry exists with the customers we do have. As the multi-family marketplace has softened, we are seeing property owners relax their criteria for qualifying prospective residents. This means that the "quality" of our shrinking subscriber base may also be less in this current environment. It seems like the "A" properties are bringing in "B" residents, and the "B" properties are bringing in "C" residents. We recently heard one of our property managers on an upscale Atlanta property say, "most of my new move-ins can't really afford to live here."

Ouch! This diminished opportunity on each cable system along with a slightly lower-quality resident, means that private broadband providers need to make every move-in count. We need to be sure that we maintain solid penetration rates on the occupancy base we have. And, we need to be sure that we monitor theft and security, as this too can have a negative impact. Managing revenue on your current subscriber count is one way to minimize the challenges of this down cycle.

Offering high-speed Internet, digital solutions, and other products, can strengthen your bond with your current customers, as well as your average revenue per sub. Even though our sub count has been affected by the vacancy issue, our average revenues per sub have jumped from $40 to over $50 per customer in the past eighteen months through product additions. This has helped minimize the effects of this situation.

The occupancy issue has raised another concern for real estate clients. As they have seen their resident base decline, as well as rental rates dropping to keep and attract customers, their overall property income has slipped significantly. It is once again becoming important for owners to look at every revenue-creating source, such as income from cable and Internet providers. This may spell opportunity or disaster for you, depending on how you handle this developing issue.

Finally, remember that as a service provider to a multi-family project, we are part of the owner's product. We can help make his property more attractive to prospective residents by rolling out a cheaper internet solution, a faster ramp to the internet, more targeted cable channels, or a bulk-service that gives customers free cable service in their home. And, we can expand the functionality of their business center and access gates too.

So, look at the occupancy problem with an eye toward solutions. Even though the market may have shrunk, we are still able to expand our potential. ■

About the Author

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