Is the MTU Dead?

By Amy Cravens ■ *In-Stat/MDR*

The Multi-Tenant Unit (MTU) market had its heyday in 1999 and 2000—Building Local Exchange Carriers (BLECs) were getting funded left and right, based on "contracted buildings" and the market seemed positioned for strong growth. Until the crash of late 2000, when the model that these BLECs were espousing was exposed as unsustainable, and funding for these high-burn providers dried up. After that time, despite struggles for re-emergence, many pronounced the MTU market as dead.

The MTU market, however, is not dead. Its form is now just more obscure. The amount of lifeblood in the MTU is largely determined by how the market is viewed. Certainly the market for in-building connectivity in Multi-Dwelling Units (MDUs) and Multi-Commercial Units (MCUs), has slowed dramatically. While there are still a few BLEC-type providers in this space, as well as some regional telcos incorporating this model, activity has diminished greatly. Yet, if the MTU is viewed through a different lens, the picture alters considerably.

There are four principle means in which the MTU continues to manifests itself:

• Same potential audience: The potential market size of individuals and companies housed in MTUs has not changed—there are still MTU subscribers, they just may not be in-building subscribers. Many providers continue to focus on the nearly 6 million small and medium businesses in the US, many of which are housed in MTUs. Regional Bell Operatin Companies (RBOCs), such as Bell South, SBC, and Verizon, have identified the MDU market as a priority and have launched special programs, but not necessarily special in-building deployments, to target this market, which represents nearly 23 million households in the US. The audience is still there and is being served, but not necessarily by in-building solutions.

• Under the radar deployments: There does continue to be some in-building deployments, largely in high-profile buildings in central business districts (CBDs). Alternatively, regional telcos, which are largely under the radar in their deployments, are using in-building solutions to target the MTU market. These deployments may be elusive to track, but they are still there and are active.

• New applications: MTU equipment vendors are branching away from a strict MTU focus, realizing that these solutions don't just fit into the MTU market, but can be used in a variety of other settings, such as enterprise, transportation, *"There are four principle means in which the MTU continues to manifests itself"*

and industrial.

• Hospitality: The area of strong growth for in-building deployment appears to be the hotel market. Four and five star hotels are implementing guestroom broadband due to pressure from rating groups, such as AAA, that require in-room broadband for the 4+ star rating. Even 3 star properties are implementing broadband in order to remain competitive, and business models have shifted to give more flexibility and stability for these hotels.

The MDU market is an interesting example of the potential market for broadband services housed in the MTU space. According to a 2002 In-Stat/MDR survey of 961 US residents, individuals living in apartments are relatively strong adopters of broadband services. According to the study, fewer residents in apartments were accessing the Internet via a dial-up modem than those in single-family residences. Cable did not have as high of a penetration among this audience as in the single-family market, but DSL penetration was actually higher for apartment residences than for the single-family respondents.

Additionally, the survey also found that more residents in non-single-family dwellings (apartments, condos, and mobile homes) were either extremely or very happy with their broadband service. In the original days of the BLECs it was thought that one of the benefits of the MTU market was to be able to offer a more "high-touch" service and thus, improve customer satisfaction. Perhaps even in situations where an "on-site" provider is not delivering the broadband services, residents feel that they are receiving a higher quality service. This may be due to the fact that multiple subscribers live in the building, making the provider more present to address issues, or perhaps the building manager is able to act as a liaison between the residents and the providers, improving the quality of the service.

While residents living in non-single family structures show considerable enthusiasm and demand for broadband services, when questioned about why these services had not yet been purchased, the most common answer among these residents was cost, they view broadband services as too costly. Compared to the 30.2 percent of single-family respondents that indicated that cost was an issue, 40.9 percent of other respondents indicated that cost was an issue.

While the MDU market often has a lower average household income than single-family residents, according to US Census information, a greater percentage of higher income residents are living in apartments. The $50,000+ market is the fastest growing economic segment of the MTU market. It is often this growing percentage of the MDU market that is targeted for broadband solutions.

Statistics such as these of adoption trends in the MDU have placed this market as a priority for many broadband providers. Several of the large telcos and MSOs have also established a focus or special program to address the MDU. SBC, for instance, has targeted several Greenfield MDU properties, and has even deployed a Fiber-To-The-User (FTTU) solution to one large MDU property. Cox has also established a program that is specifically targeted to the MDU. The Multilink program was launched in 1997 and is a program to develop exclusive marketing programs with MDU property management groups. Cox will also engage the leasing staff to promote the service, then give the community a financial incentive to foster this partnership. Sprint and Bell South have special programs that provide unique MDU strategies that differ from regular residential communities.

Verizon has been the most aggressive in publicly pursuing the MDU and is the only RBOC to use in-building connectivity heavily. While Bell South's and Sprint's MDU properties are served by CO-based deployments (at least at the current time), a percentage of Verizon Avenue's properties employ in-building networks. Verizon Avenue has really adopted a strategy of flexibility by using CO-based connectivity in areas that the network already touches, and using in-building connectivity to extend the network to additional properties.

There is a large, and growing, addressable market of potential subscribers residing in MDUs. Service providers of all varieties are anxious to tap into these springs of potential subscribers and are using a variety of techniques to do so. Many of the providers that do have programs in this space have achieved substantially higher penetration rates, compared to standard residential markets, up to, on average, 15 percent higher in some instances. Thus, while many of the programs or strategies in the MDU are largely under the radar, not receiving the high media attention that the former BLECs received, these programs do exist and are bringing broadband services to many MDU properties and residents. ■

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