



Making the Business Case for Fiber

By Steven S. Ross ■ *Editor-in-Chief*

Our annual focus on Builder/Developer technology comes at an unusual time – unusual even for this fast-paced industry. Along with advances in technology (you know the drill: faster, better, cheaper, more reliable, more standardized) we face three new disruptive forces:

- The economy
- Federal regulation
- Distribution

THE ECONOMY

In a slow market, fiber is a good differentiator. A home with FTTH sells faster than one without, says market researcher Michael Render and many developers. So the economy is not hurting fiber as much as one would expect. Almost all greenfield startups in 2007 have FTTH, if the eventual buildout is at least 100 homes. Overall, about half of greenfield homes and MDUs on the market have FTTH.

But of course, greenfield housing starts are withering – the annual rate was down to not much more than 1 million by the end of 2007. And the overall slowdown does have a secondary effect. One microeconomic example: I'm treasurer of a large condo – 242 units. My annual budget is \$1.4 million. We'd be putting in FTTH this year (overbuilding a flaky coax system serviced by an MSO) to compete with new builds in the area and with Verizon FiOS franchise overbuilds one town away. But the pace of greenfield builds slowed down. So we can wait the year for Verizon to get to our town in early 2009. Raising fees to pay for the build would hurt property values more than would the delay. That's bad for my broadband needs, but good for my condo's budget.

FEDERAL REGULATION

That brings us to video-service exclusivity. The FCC has issued regulations to

ban it (see James Moskowitz's article in this issue), and has signaled that it wants to overturn old agreements as well. All of this runs against the immediate interests of cable companies and in favor of the new kids on the block, telcos installing fiber.

But what is in the best interests of the public, builders, developers, and the folks who build fiber-related equipment? We're nervous. The technology and content providers' economic underpinnings are changing too fast for government to regulate. Thus, we believe that government should concern itself more with consumer protection and antimonopolistic practices; there is case law and legislation going back more than a century.

Government moves too slowly in our business and often lacks basic information to figure out what models work best. It should be involved, but again its focus should be on removing barriers, and, where necessary (rural areas, etc.), to provide incentives.

Exclusives by incumbents can pose problems for new entrants. In contrast, exclusives by new entrants may help create greater competition. To take my condo association as an example again: The association would have to invest in the build itself or sign a "take or pay" agreement because Massachusetts bans exclusivity! A third party would be hard-pressed to justify the build without the condo assuming some of the risk. Result: we're stuck until a second MSO – Verizon, in our area – is ready to build. Isn't the FCC more or less seeking to extend the bad situation here to the rest of the country?

And what about the changes in business model? Verizon and other incumbents were once aghast at municipal builds, seeing competition, not partners. Today? Asked whether Verizon would rent space on open access networks,

Anthony DiMaso, VP for Strategy and Development at Verizon said: "Sure, of course....Everything is an economic proposition, and a development proposition and a social proposition. You have to look at it holistically. ...Each party, public or private, defines where it can add value to the total mix and make money while doing it. ...We would look, at this point, at any opportunity." Read the complete exchange in *Using Your Fiber: The Synergy of Public-Private Partnerships*, in this issue.

The lesson for builders and developers: Once you have a fiber network installed, the competition will always find it easier/faster/cheaper to rent bandwidth from you rather than overbuild, and the FCC should encourage (not insist on) it.

DISTRIBUTION

As we noted last month, FTTH is so mainstream that distributors now stock components and offer technical advice on adding fiber to any real estate. The trend was obvious even before the big technical advance of 2007 – a new class of bend-insensitive fiber that's more forgiving and easier to install, and that allows components such as ONTs, pedestals and hubs to be made smaller. Faster, better, cheaper, more reliable, more standardized.

We're bandwidth hawks. We take it on faith that there will be so much content coming up and down the pipe that fiber network owners and real estate interests will do darn well unless the FCC and state regulators make a hash of it.

Want to make sense of it all? Come to our Broadband Summit, April 28-30 in Dallas. The theme this year: Making the business case for fiber.

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