



Failure to adjust business plans will hurt as falling MDU occupancy rates and economic stress on renters' incomes hit home. But you can survive and even prosper.

By Bryan Rader ■ *Bandwidth Consulting LLC*

Ouch! The market has changed rapidly and the economy is going in the wrong direction for the first time in years. This downturn has real implications for cable operators focusing on apartments and condominiums.

Here's what the Wall Street Journal reported recently about the condo market: The US finished 2007 with a supply of condos large enough to require 10 months to absorb demand, the highest level in 10 years. Atlanta and Phoenix will each see 4,000 new units in 2008, and Fort Lauderdale/Miami will have 10,000 new units hit the market. And these are key private cable operator territories.

Ouch! And unsold condos are only a part of the problem. Many unsold single-family homes are being converted to "rental homes" all over the country. Single-family rentals are taking potential renters out of the apartment market, impacting current occupancy levels, as reported by several REITs in recent quarters. Fewer occupied apartment units means fewer condo sales, and slower lease-ups. None of this is good news for suppliers of services to the MDU market – especially PCOs that are locked into a set number of homes passed on each property.

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How do property owners deal with a drop in renter demand and an increasing supply of apartments to rent? They start by lowering their rates and reducing their credit criteria. We're watching the economic levels of our resident profile drop a notch or two.

It makes sense to revisit what happened the last time we saw rental supply outstrip demand. This occurred in many Sunbelt markets in 2000 (after the Y2K run-up in job growth) and worsened after 9/11. Developers made decisions in

1998 and 1999 to build new properties, and then delivered the new units at the worst possible time, when the market was headed down. Property owners responded by drastically lowering rents, but occupancy levels kept falling.

I remember experiencing properties with 80 percent occupancy levels throughout Atlanta at that time. For a two-year period, we saw subscriber levels affected because there simply were fewer people living in our properties. As occupancy levels dipped and rental rates were reduced, our A-quality properties looked more like B properties, and our Bs became Cs. And the moderate-quality or marginal deals? Ouch!

BE PROACTIVE

We learned a few things from the last cycle that can help PCOs weather the current dip. Most importantly, if you are growing your business right now, be careful about any marginal properties. It's the C-level properties that are first to be affected by the downturn. They can convert to Ds, bad debt can shoot up, theft can be an issue, and you are nowhere near the 50 to 60 percent penetration level you projected.

Do more due diligence on your property owner clients. What is their reputation for leasing and management? The strong, qualified owners do well in both good times and bad. We always experienced a lesser impact with our more professional owners during the "soft" cycle, and they were the first properties to recover when good times returned.

Look at your incentive packages for property owners. Are you still offering heavy door fees for new properties? When you convert the door fee to a per-subscriber cost, that cost will be much higher today than it was when occupancy

levels and economic levels were higher. Also, be cautious about your revenue-share program. Do you calculate commission levels on total units, or on total "occupied" units? The latter, I hope.

Look at your internal procedures. How well are you monitoring your "save the sub" activities? You must be relentless in your pursuit of every current subscriber, even if that means managing different payment plans or offering credits for outages or service mistakes. This is not a good time to casually let a subscriber go. But you also must recognize that bad debt can jump quickly during weaker cycles if you're not careful.

Monitor your clients. Are they becoming more lenient about individual dish installations? This is common during soft occupancy times, and can drag down your sub count. "I don't care where they put a dish, as long as they lease from me," owners commonly say when fighting for new move-ins. Do everything you can to limit rampant growth of dishes.

Yes, this can be an "Ouch!" period. But experience proves that the industry will balance supply and demand soon enough, and occupancy will return to normal. In the meantime, plan to use some of these strategies to limit the effects and try to heal the "ouch" in your business. **BBP**

About the Author

Bryan J. Rader, former CEO of MediaWorks before selling the company in 2006, has recently founded a new firm, Bandwidth Consulting LLC, to advise operators and providers in the MDU market segment. Contact Bryan at bryanjrader@yahoo.com or at 636-536-0011. Learn more at www.bandwidthconsultingllc.com.