Wiring Wordplay: Make Sure to Read the Contract

BY HENRY PYE AND MARK BERSHENYI

When evaluating a new marketing agreement for telecom services, consider costs and liabilities as well as revenues.

Owners who enter into marketing agreements for voice, video or high-speed Internet tend to focus on the upfront payments and ongoing revenue shares or commissions that providers offer. Until recently, the costs related to owner responsibilities were minor.

Today, however, failing to consider these costs is a serious oversight. Owners must not overlook the costs associated with contractual obligations, particularly wiring responsibilities and the value of complimentary and discounted services in the office and amenity areas.

Rewiring coax costs from $225 per unit (when all units are rewired at once) to more than $350 for an individual unit, according to a November quote from Connexion Technologies. Rewiring costs for twisted copper is similar. Historically, service providers didn't expect twisted copper infrastructure to do much more than carry voice traffic. However, AT&T's U-verse and other DSL-based services, as well as FIOS and certain direct broadcast satellite systems, demand more than most multifamily housing twisted copper wiring can support without significant effort.

To cap their expenses, many providers now place owner wiring specifications in new marketing agreements. In most cases, they specify Category 5e twisted copper and Series 6 coaxial cables, which existing communities are unlikely to have. The cost of meeting these wiring specifications may exceed revenues from any new marketing agreement.

Providers may shift wiring responsibility to owners by inserting language into agreements that limits or relieves the provider's ongoing responsibility. More often, agreements require owners to provide wiring suitable not only for current services but also for undefined future products and services. Unless owners catch and challenge these provisions, they may be contractually obliged to rewire entire communities.

Given these potential liabilities, an owner negotiating a new marketing agreement must determine how the community is wired, who will be responsible for maintaining and upgrading the wiring and how much maintenance and upgrades will cost.

The Cost of 'Free' Service

The number, scale and cost of complimentary and discounted amenity area and office services also has steadily risen. Many new communities have more than a dozen high-definition televisions in their amenity areas, along with complimentary wired and wireless high-speed Internet access. Good broadband connections are standard for any leasing office and the average community uses more than a dozen phone lines. As these services increase, so does cost.

Although expanded-basic or other analog tiers were once sufficient for most amenity areas, cable companies' transition from analog to digital—as well as new digital-only telecommunications and satellite services—are making set-top boxes essential for amenity-area TV. The monthly cost of these services easily can exceed $100.

Providing wired and wireless high-speed Internet access in a community's amenity areas can cost more than $300 a month. Office broadband connections may cost from $150 a month for a commercial cable modem with static IP to nearly $1,000 a month for a T1 circuit. Additionally, the average community spends $700 or more per month on office and other phone lines.

Thus, total monthly costs for voice, video and high-speed Internet access in amenity areas and offices typically exceed $1,000 per month—which owners should take into consideration when they negotiate marketing agreements.

In summary, to ascertain the value of any new marketing and services agreement, owners must comprehensively evaluate all revenues, costs and liabilities.

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