SHOPPING CENTER BUSINESS

How Smart Properties Are Generating Ancillary Income

The telecommunication industry can provide additional revenue for property owners.

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Always searching for new means to increase their funds from operation, real estate property owners have the opportunity to become the primary benefactors of the recent explosion in the telecommunication industry. These opportunities include the generation of new revenue and net income to the property owner through telecommunications equipment placement and telecommunication service access to tenants.

In 1997, the number of both analog and digital wireless telephone subscribers was estimated at more than 50 million, and it is expected to surpass 90 million by the year 2000 and 125 million by 2004. Prior to the Telecommunications Act of 1996, the Federal Communications Commission (FCC) had awarded licenses for duopolies in each cellular territory, limiting competition in each market to two service providers. It is estimated that these cellular companies invested more than $33 billion to create the infrastructure for ground-based wireless systems.

As a result of the FCC's recent decision to open up each cellular market to as many as eight competitors, the wireless companies have had to accelerate the pace at which they are developing their networks to beat their competition to market. Combined with the industry's transition from analog to digital technology, there will be a substantial ramp-up in infrastructure spending in the next five years.

Already, billions of dollars have been spent to acquire these additional licenses, and wireless companies are expected to spend billions more to create the infrastructure that will support large-scale digital networks.

What does all of this mean to the property owner? In particular, what does this mean for shopping centers and malls?

A large portion of the infrastructure spending will be for antenna deployment. In addition to the change in technology, supporting digital networks — now the industry standard — requires telecoms to deploy two to four times more antennas than were required with the original analog cellular systems. To provide this coverage, wireless PCS companies must deploy more than 150,000 new antennas between now and 2005. With the industry average for antenna placement and rental paid to property owners approaching $1,000 per month per installation, this amounts to $1.8 billion in potential antenna revenue.

Furthermore, new wireless technologies are constantly being developed and brought to market, recreating an ever-growing need to deploy new types of antennas. Such recent technological developments include ESMR (enhanced specialized mobile radio), LMDS (local multi-point distribution service), wireless local loop telephone and data, wireless cable TV and ricochet wireless computer data networks. Many of the telecoms developing and offering these services have newer antenna networks they are looking to quickly expand. All of this will translate into additional revenue for the property owners who seize these telecom opportunities.

In the mid 1990s, wireless telephone technology, with its ever-expanding menu of services and the demand for greater bandwidth (a relative range of frequencies that can carry a signal without distortion), created the environment for real competition to the regional Bell operating companies (RBOCs). Thus, the competitive local exchange companies (CLECs) were born.

The CLECs provide local telephone service with more bandwidth and greater transmission speed than the RBOCs' existing copper wire line systems by using wire-lined fiber optic ground-based and/or microwave antenna networks. As a result, there are wired (fiber optics cable) and wireless (microwave) CLECs. Both must obtain access rights into buildings in order to serve their customers. In addition, the microwave (wireless loop) providers must have antenna networks.

Because of the formative stage and competitive nature of the CLEC market segment, the CLECs are now aggressively seeking property access. Here we come to the answer to our question: What does all of this mean to the property owner, specifically the shopping center owner? You may have heard of CLECs targeting multi-tenant office buildings to deploy their networks and paying these property owners rent to install their systems. In addition to the initial rapid demand for office properties, we have seen apartment properties sought out by CLECs, Internet, wired and wireless cable TV providers.

The opportunities go beyond antenna placement and access rights, especially for shopping centers. Retailers are now benefiting from new technology called microcells.

PCS providers identified that they were losing air time as a result of a customer's inability to use their wireless phones inside enclosed malls, theaters, convention facilities and office buildings. These microcells, which are the size of a small cabinet, can be camouflaged easily inside a property. Microcells pick up a PCS signal within an enclosed structure and then relay the signal to a rooftop installation, which in turn sends the signal to the wireless networks.

Numerous retail REITs, such as The Taubman Company and The Rouse Company, and other mall owners are now taking advantage of these opportunities. In addition to rent paid by the wireless carriers, which can range from $1,000 to $3,000 per month per property, carriers in some instances will pay to gain access to these properties.

Some large real estate owners have created entire divisions to identify telecommunications revenue opportunities, market their properties, and negotiate individual deals with telecoms. More often, however, real estate owners such as Simon Property Group and Urban Retail Properties are turning to companies like U.S. RealTel, Inc. to market entire portfolios to telecoms. In either case, it is clear that the significant income-generating opportunity presented to the real estate community is one that should be considered carefully.

With the constant influx of new telecommunications companies that must acquire sites to build their systems and the ever-changing nature of the industry, new and lucrative opportunities are fast becoming available to property owners. While the income derived will never take the place of a real estate owner's core business, we must recognize the added revenue opportunities that are available and the added value to properties that the telecommunications boom has created for the owner. **SCB**

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