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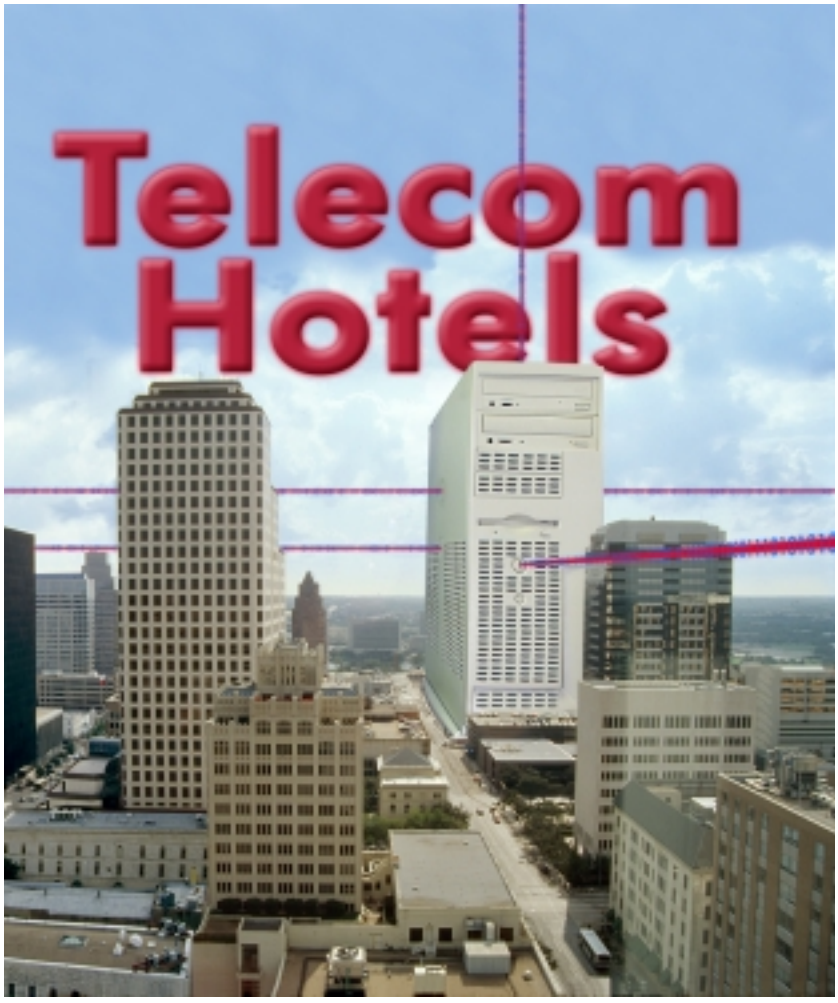
Telecom Hotels

The Waldorf-Astoria they ain't, but telecom hotels serve their telecommunications industry clientele in much the same way as the famed New York City establishment does — by offering an environment that caters to the client's every need. While the Waldorf serves demanding, upper-crusty humans, though, telecom hotels bend over backward to please . . . um, well . . . equipment.



By Jennifer S. Cowley and Joe C. Biles

What types of companies rent space in telecom hotels? Broadly, private or public companies that require storage and management of and access to telecommunication lines, switches, servers, software and other hardware components that make up a data or voice communication system are prospective tenants. This includes the local phone service provider, the long-distance provider and Internet service providers.

Backbones and Bandwidth

Telecom hotels provide access to regional, national and global telecommunication backbones, which are the primary means of carrying voices or data from one destination to another, usually using fiber optic networks. Bandwidth capacity is the amount of voice and data traffic that can be transported along a fiber optic network. Because telecom carriers often have more bandwidth capacity than they need, they buy and sell excess bandwidth amongst themselves.

Think of a telecom carrier as the owner of a train and bandwidth as the seats on the train. The more seats that are occupied, the more profitable it is to run the train. Trading bandwidth is like buying and selling seats on the carrier's train, and the process is easier when the carriers are located in the same building.

Telecom Hotel Amenities

So what features do telecommunications companies look for in a telecom hotel? As might be expected, they need infrastructure customized for powerful electrical equipment including:

- ceiling heights of 14 feet or higher to accommodate tall racks to hold equipment;
- large metal floor plates that enable floors to support tons of equipment;
- industrial-grade air conditioning systems to cool equipment areas to optimal operating levels;
- high-grade electrical capacity (telecom hotels use 25–30 watts per square foot compared with 5–6 watts per square foot for the average commercial tenant);
- extra power sources, including areas devoted to backup generators (power outages are not acceptable);
- fiber optic lines in or near the building; and
- security to prevent unauthorized access to equipment.

Unlike most commercial buildings, telecom hotels need little parking space because a relatively small number of people work on site. Lobbies also are unnecessary.

Telecom Hotel Development Boom

One of the newest trends in the commercial market is converting existing buildings into telecom hotels. Class B and C buildings, including older office buildings, warehouses and vacant strip malls are likely candidates for conversion.

The boom is being driven in part by major investment. Morgan Stanley Real Estate Funds plans to spend more than $1 billion to buy and develop telecom hotels. Morgan Stanley Dean Whitter created a company, MetroNexus, to acquire, develop, lease and manage telecom hotels. DPR Construction and Trammell Crow also are developing telecom hotels across the country.

Downtown Dallas has one of the highest office vacancy rates in the country — 28.2 percent at the end of 1999. Most of this vacant space is in class C and D buildings, which could potentially be converted into telecom hotels. A number of downtown buildings have been acquired for this purpose, including the Federal Reserve Building on Akard Street, 2020 Live Oak, the Southwestern Life building on Ross Avenue and the 26-story Univision Center on Bryan Street. The owners of the 34-story One Main Place, at Main and Griffin Streets, hope to increase telecommunications-related occupancy from 12 percent to one-third of available space.

Level 3 Communications, which opened a Dallas facility in 1998, plans to add three million square feet of telecom space nationwide. MCI WorldCom is investing in 15 sites worldwide, two of which are in the Metroplex. DPR Construction has created a Data/Com Facility Group to work on $75 million worth of telecom projects in the Dallas area.

McCaslin Commercial has begun the $1.2 million renovation of the Williamson-Dickie clothing manufacturing center in downtown Fort Worth into a telecom hotel. The 72,000-square-foot building will be renamed the Fort Worth Telco Center. The building was originally constructed in 1924. MCI Worldwide has leased the first floor and will spend more than $6 million to build a switching facility.

In Houston, the former Fleming grocery distribution warehouse near Loop 610 and Highway 290 will be converted into Houston's largest telecom hotel. The 600,000-square-foot building had been vacant for a year before Metro Nexus acquired it. Additional power and fiber capabilities and increased cooling capacity will be added, bringing total costs for the project to $42 million. Houston is the site of two other major telecom hotels, the Greenspoint Technology Center and another at 1301 Fannin.

TELECOM HOTEL SPACE *leased by Level 3 Communications in Dallas. The company is expanding its facilities nationwide.*

The Austin market has been slower to develop telecom hotels, in part because the inventory of old buildings and warehouses is limited compared with larger, older cities. In addition, the Austin office market has an extremely low vacancy rate. Consequently, companies interested in telecom hotel space have had to rely on new construction or settle for space away from the city center.

Level 3 Communications converted a 72,000-square-foot warehouse and office building near Robert Mueller Municipal Airport. The Met Center, located at U.S. Highway 183 and East Ben White Boulevard near Austin-Bergstrom International Airport, has developed into a telecom hub. The 193-acre, mixed-use park is home to eight telecommunications companies that have leased or purchased space. The buildings in the center were custom built for telecom clients.

Development Opposition

While most communities support development of telecom hotels, others express a variety of concerns. The back-up generators, large air-conditioning units and additional power-related equipment required often lower the visual appeal of buildings. In some cases, building owners are required to screen equipment from public view.

While historic buildings are being preserved by converting them into telecom hotels, the resulting relatively "people-free" buildings do not always please community planners. For cities trying to promote downtown pedestrian traffic, such buildings are counterproductive.

Sacramento, California, passed an ordinance that limits telecom hotel development downtown. The ordinance requires commercial landlords and developers to get special permits to build space for switching stations in existing or new office buildings. The office community in Sacramento opposed the ordinance, which will likely discourage telecom hotel development, because telecom tenants pay 20 percent more in rent than typical tenants.

As the telecommunications industry flourishes, telecom hotels are expected to become more numerous and widespread. Commercial real estate owners may find that catering to this niche pays off in a big way. While demand for conversion is currently strong, as more buildings are converted, the demand for these types of properties is expected to taper.

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Translating Telecom-speak

Regional Bell Operating Companies (RBOCs). One of the seven companies created through the federally mandated breakup of AT&T and the Bell companies in 1984.

Incumbent Local Exchange Carriers (ILECs). The seven RBOCs plus thousands of independent telephone companies nationwide that provide local telephone and data transfer services in specific geographic areas. The Telecommunications Act of 1996 dictated that competing carriers (CLECs and IXCs) be allowed to pay an access fee to use the network infrastructure (telephone lines and switching equipment) of existing ILECs.

Competitive Local Exchange Carriers (CLECs). Local telephone and data transfer companies that compete with national ILECs to provide local telephone services in specific geographic areas.

Interexchange Carriers (IXCs). Long-distance telephone companies such as AT&T, MCI and Sprint that compete with ILECs to provide telephone services.

Collocation. Placement of a CLEC's or IXC's network equipment in the central office of an incumbent carrier.

Internet Service Providers (ISPs). Also known as Internet access providers, these companies connect users to the Internet. There are hundreds of ISPs throughout Texas. When users log into their Internet accounts, the software directs the computer's modem to dial the company's access phone number, which connects it to the ISP's location within a telecom hotel. There, the connection is made to the exchange carrier (see CLECs and IXCs, above) and the user is able to access the Internet.

In addition to Internet access, ISPs provide person-to-person and business-to-business products ranging from e-mail services and web hosting to interactive web casting and streaming.

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