2021: It's a Seller's Market for Wireless Infrastructure

By Michael DeMita, CEO, Tower Capital Advisors

When I first discussed acquiring wireless lease assets and infrastructure in 2000, my partners at the time and I adopted a saying to convince ourselves of the security of the business: "The last bill that will be paid when the world ends will likely be a cell phone bill."

Today, that concept seems to have been adopted by a growing number of institutional investors, big and small, seeking safe harbor and returns in an environment where few alternatives present themselves.

After 21 years in the business of acquiring, divesting and/or advising on the sale of the various forms of wireless infrastructure tenanted by the top telecom facilities-based mobile network operators, I can suggest that 2021 represents a high-water mark for both valuations and mergers and acquisitions activity.

From a buyer's perspective, cash flows of many types of alternate commercial real estate investments are under serious pressure (think retail, hospitality, office, and apartments). MNO rooftop installations as well as carrier and non-carrier owned stand-alone towers are almost exclusively installed on property subject to a long-term lease with a third-party property owner. The sale of a wireless lease, when structured as a fee-simple purchase or as a long-term easement, may allow the seller to enjoy capital gains tax treatment and provide a buyer with a REIT-qualified asset. Check with your tax advisor.

Capital has been flooding into wireless infrastructure M&A and for individual lease and tower acquisitions. Between the security provided by investment-grade tenant-credit counterparties paying the rent and the essential nature of their broadband equipment, it is not at all uncommon to see these revenue streams, whether via tower acquisitions or structured as perpetual easements for single leases, trade at capitalization rates well below those of the very properties on which they reside.

From a seller's perspective, combined with the above-described capital influx and the cold-calling tsunami that typically comes with it, other events are coinciding to drive prices and selling activity to unprecedented levels.

Since the pandemic, many property owners that lease space to the tower companies or MNOs are experiencing reduced revenue from their underlying assets just when they need cash. At the same time, they are fearful of the current administration's tax proposals. If adopted, these proposals raise the capital gain tax rates for the highest earners, call for ending the ability to "step up" the cost basis for real-estate when it is inherited, and eliminate Section 1031 exchanges.

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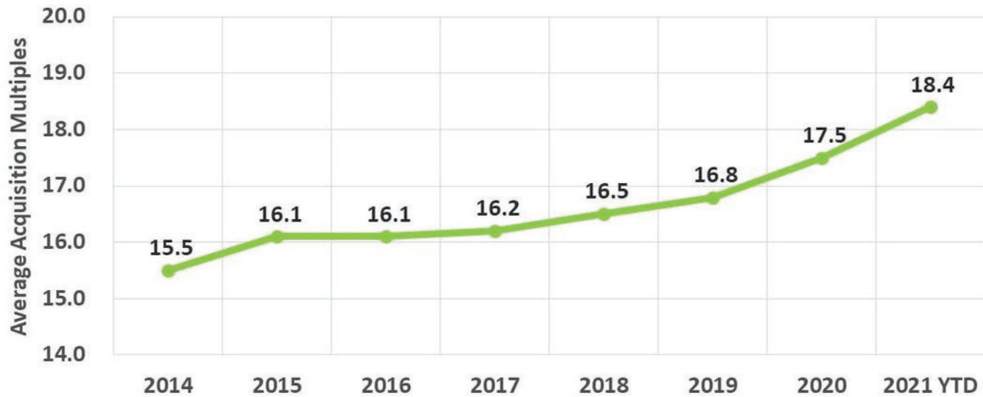
Moreover, property owners face the prospect of more inflation that can lead to higher costs of capital for buyers and potentially lower prices down the road. These circumstances together have driven sellers to market and made what seems to be the perfect recipe to feed a growing investor appetite for the asset class.

By way of example, our firm has seen sizable increases in (and closed on) higher than normal sales of individual leases with mixed-use office building owners, hotel owners and individual estates.

Rooftop and Ground Lease Average Acquisition Multiples

Perpetual Easements, Closed Transations, Investment=Grade Carriers, Normalized Escalators (3%/yr, 15%/Term)

Source: Tower Capital Advisors



Furthermore, publicly available information on M&A activity and the prices paid for middle-market tower company portfolios (comprising towers and easements) have increased expectations across the board.

TCA's privately tracked multiples for our (and others) individual or small pools of cell towers have seen prices of 20-25 times ANOI (annual net operating income) depending on the tenant, expiration date, consent requirements (e.g., ROFR clause) and escalation provisions inherent in the lease. Concurrently, lease/easement purchases are being made at 17-20 times annual rent, roughly equivalent to cap rates as low as 5 percent. (see Chart)

On the downside, over most of my tenure in the industry, and because of the diverse nature of property owners who are landlords to MNOs and tower companies, information asymmetry has been an issue with private, smaller sellers that have few places to turn to assess value.

Whether a mom-and-pop tower owner, a farmer leasing land to a tower company or a building owner with MNO antenna leases on their roof, it is difficult for valuation data to be relayed to them as a group.

When a wireless landlord seeks information on their own, I still find it unfortunate, even after two decades in the business, that there are few places to turn to determine a value that does not lean (heavily and intentionally) in favor of the buyer by downplaying value or overplaying decommissioning risks. This means many individual property owners often leave money on the table when selling wireless assets to aggregation firms looking to acquire the attendant revenue streams as cheaply as possible.

The good news: using the internet, a younger and more computer savvy landlord population (helped perhaps by TCA regularly publishing prices for these assets) and a very competitive current environment among buyers, have combined to consistently reduce this asymmetry.

In the end, having the right information and a recognition that these are nuanced assets with cash flows that do not trade quite as simply as other forms of real property, it is a very good time to be a wireless landlord.

Tower Capital Advisors, led by CEO, Michael DeMita has been acquiring and advising on wireless infrastructure since 2001.

TCA principals have purchased, sold and/or advised on thousands of wireless leases and towers, either for their own portfolios or as part of their role as a national partner of AT&T managing both certain pre-emptive target acquisitions of their leases and/or towers as well as their purchases of leases that are the subject of inbound Right of First Refusal waiver requests.

As an originator of the lease monetization concept more than two decades ago, TCA publishes quarterly market data detailing the prices being paid for wireless infrastructure assets with the objective of educating would-be investors and landlords and eliminating informational asymmetry in the industry.

For more information on valuing wireless infrastructure revenue streams and assets: www.towercapadvisors.com.