Do Cell site Lease terms affect value?

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December 7, 2013

How do you analyze a cell site lease that has 2 years remaining on the original term?

a. Check with tower company and find out if they are going to exercise the option to renew and if their location will be needed in the future.
b. Find out if there are other users on the tower or if there are co-locators on the tower.
c. Check lease for protective covenants

Cell towers require FCC license

May require FAA approval if over 200 feet in height or near airport

Cost $250,000 to relocate

Strong history of renewing leases and exercising options

Requires zoning or planning board approval to construct tower.

Tower located in specific location to fill gap in service provider’s coverage area. Not easy to change cell pattern once it is established.

Co-location is encouraged by the local governments to limit the number of towers in the sky.

Similar to retirement facility that requires a Certificate of Need (CON) from state government. Over the life of the facility, it may be leased to several operators but state has conducted study to determine if the facility can remain 95% occupied and profitable enough to stay in business and not go bankrupt and have the residence thrown out on street. Highly regulated by government. No lease required to give facility full value.

Similar to commercial radio station that requires FCC license and FAA permit. The value of a radio station may be worth several times that of the physical assets. Coverage and listening audience may determine its value. Highly regulated by government. No lease required to give facility full value.

Similar to swine facility where state regulates to construction of waste disposal facilities. Permit to construct disposal facility adds value greater than physical assets. No leases required to give full value because of the government regulations.

Some USPO leases have a cancellation clause that can be applied if Congress does not fund the post office. Unless the facility is over 50 years old or a location is slated to be closed, it is not likely it will be closed and the lease cancelled. It is a constructed on a build to suit and locations are highly regulated by the US government.

Billboard sign ground leases are similar and once a sign company secures a site, they are not likely to give it up due to the spacing limitation of 500 to 750 feet between signs required and the permits from the US Department of Transportation required. There is a strong market for these sign sites and carry a low cap rate. I have had several sites for 40 years and have never had one cancelled. Most sign site leases I have are for 5 years but the investor may consider them to remain in place into perpetuity and use direct capitalization to value them. These locations are highly regulated. One might argue that a cell site is not going to go away very easily because of the difficulty in reestablishing it in another location. Therefore you may reason that there is a 90 to 95% probability of renewal.

Some lenders may not understand these facts and limit the value to the present worth of the remaining years on the lease. They may say the lease is with a credit tenant but the short term of the lease makes it a non-credit lease. It is up to you to educate the lenders.

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