Broadcast Towers (Part One)

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A. SIX REASONS WHY LEASING TOWER SPACE IS A GOOD BUSINESS

For a tower owner, leasing space offers several attractive aspects. They include:

1. ***Long term recurring revenues:*** Tower leases typically have initial terms of five to ten years, with four or five renewals of five years each, with cost-of-living escalators of 3% to 4% per year, or 12% to 15% per renewal term. Revenue-sharing provisions enable landlords to receive a percentage of their tenants' sublease revenues.

2. ***Low churn rate:*** Wireless carriers tend to renew leases because alternate sites may be hard to find and zoning and planning approvals difficult to obtain. Repositioning a site in a carrier's network is expensive and can adversely affect coverage and network quality. Clark Madigan, Managing Director of Liberty Towers, estimates some wireless carriers need to spend upwards

of $100,000 (in some instances, $200,000) on an antenna site change, and much more if a tower has to be built from scratch. Broadcast tenants may be hesitant to move their facilities because the due process safeguards mandated by Congress for "personal wireless services"[1] don't apply to radio and television stations.

3. ***High cashflow, low capital costs:*** Broadcasters that can lease out space on their own towers already have made their front-end capital expenditures, including zoning. Where they have surplus land and can attract wireless tenants, they may have very modest incremental costs since carriers signing ground leases build and maintain their own towers, pay for security and, where required, fund additional zoning and permitting. Tower owners thus enjoy high operating leverage since recurring stay-in-business capital costs of towers (lighting, painting, fencing) are relatively fixed irrespective of the number of tenants. Once tenancies are in place the tower produces a steady and growing stream of cashflows, which increase annually as rents escalate. Variable costs are usually passed on to tenants and include real property taxes, maintenance of shelters, transmitters, and auxiliary power sources, weeding, grass cutting and road repairs. Since most towers are made of steel, with long useful lives, favorable depreciation is another factor favoring tower ownership. Macquarie Research

[1] Communications Act, as amended, Sec. 332(c)(7).

points out that the economic life of steel towers can be as long as 35-40 years and that tower companies can depreciate their structures over a considerably shorter timeframe (usually 15-20 years); while equipment is generally depreciated over 3-10 years.[2] Some AM towers more than 75 years old remain in active use, including several with co-location tenants.

4. ***Increase in rental income with each additional tenant at minimal incremental cost*:** As new tenants are added to a tower, virtually all of the incremental revenue flows through to operating profit. The difficulty of finding other tower sites drives some wireless carriers to fund improvements to existing towers, thus adding value for the tower owner at no expense. We know of a case where a wireless tenant locating on a broadcast tower reinforced the structure, thereby improving the radio station's signal quality. Also, largely driven by the difficulty in finding other tower sites, wireless carriers who are seeking to lease space on broadcast towers are willing to fund improvements which in turn add to value. We know of case where a wireless tenant locating on a broadcast tower reinforced the structure, thereby improving the radio station's signal quality. Such upgrades make towers more attractive to prospective tenants, including other broadcasters.

[2] "US Wireless Towers," Mar. 25, 2008, p. 15.

5. ***Continuing demand for towers:*** The tower industry is experiencing dynamic growth that is largely being driven by the rising demand for wireless communications and the increasing need to improve network quality. Factors contributing to demand include: (a) a scarcity of new sites due to restrictive zoning and environmental concerns and a welter of other Federal and local governmental regulations which make construction of new towers in residential areas practically impossible (new construction is confined to commercially or industrially zoned land and less often on farmland); (b) the growth of advanced wireless services in the 700 MHz band and the proliferation of communications devices (e.g., smart phones, wireless Internet access, mobile television, mobile commerce, wireless broadband service); (c) the build-out of wireless networks in rural areas; (d) increased demand for new infrastructure to deliver advanced technologies such as wireless business data transmission; (e) rising wireless backhaul requirements, and (f) the need for additional capacity and ubiquitous coverage to keep pace with subscriber growth, demand and desire for additional features on their phones. Demand for advanced wireless services and other infrastructure is expected to escalate in the next few years. Wireless carriers in particular will have to increase the scale and quality of their networks as industry consolidation shifts the form of competition increasingly towards

network quality rather than price.[3] Likewise, the conversion from analog to digital television may also provide additional leasing opportunities for towers that are well located since many towers now being used for analog broadcasting may not be able to accommodate DTV antennas and ancillary equipment unless they are reinforced or rebuilt.

6. ***The Use-It-or-Lose-It Risk***. The FCC issues most wireless licenses for ten-year terms. However, licensees must place their stations in operation within 12 months or their licenses will cancel automatically. Consequently, carriers often are under pressure to complete leasing arrangements within a relatively short timeframe.

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[3] For a discussion of the auctioning of new frequency bands by the FCC and the drive toward in-home and broadband data services, see Part One, The Expanding Market for Tower Space.