



# 7 Trends In Rooftop Cell Site Leasing

By Nick G. Foster

Office buildings across the country serve as the base for tens-of-thousands of rooftop cell sites. Institutional investors who own a large amount of buildings can have hundreds of cell sites in their real estate portfolio. However, cell site leases are often misunderstood as they relate to understanding the building's current and future value. The leases provide additional rent to the landlord, sometimes contributing as much as 20 percent to the property's NOI.

To help you better understand the value of your rooftop tenants, here are seven trends in rooftop cell site leasing to help you maximize the NOI related to your rooftop cell site.

## 1. CELL SITE UPGRADES PRESENT YOU AN OPPORTUNITY TO INCREASE RENT

Technology is always changing, and with that change comes the request for more antennas or space. Typically this request is an opportunity for you to increase rent—but how do you seize this opportunity?

In your original lease, the landlord and the tenant agreed upon a specific leased premises. With cell site upgrades, we often find cell site tenants breaching this agreed upon leased premises in their proposed plans. Occasionally, tenants will present their project to the landlord, requesting only landlord consent (to do their project at no additional increase in rent), when they really should be discussing an amendment to the lease with a rent increase for the additional items.

Your rooftop space or building façade has just as much value—if not more—than the square footage of your office space.

Make sure you aren't leaving money on the table by agreeing to rooftop cell site projects without compensation.

## 2. NEW CELL SITE LEASES SHOULD BE NEGOTIATED WITH CAUTION

Unlike an office tenant who agrees to a lease term of one, three, or maybe even ten years, a cell site lease is typically 25 to 35 years in length. As a result, you need to understand how this long term can affect the future plans of the property. Will this property be redeveloped in the future and if so, what language, if any, is in place to move the tenant? In the "boiler plate" lease template language proposed by major carriers (AT&T, Verizon, Sprint, etc.), the answer is none.

Proceed with caution. There are many common pitfalls with new cell site leases that can best be identified by an expert. Most leases are drafted by the cell phone

carrier, with the rights heavily slanted in favor of the tenant. Although you will be receiving rent long-term from a credit worthy tenant, the language that you agree to in the lease agreement is just as—if not more important—than the increase in NOI.

### 3. CONSIDER SELLING THE CELL SITE LEASE SEPARATELY THAN THE PROPERTY

When exiting a property, depending on the cap-rate of the investment property, it may make more sense to sell the cell site lease separately than with the fee simple interest. For example, if the property is positioned as a value-add investment office building selling at an 8 percent cap-rate, and the cell site, if sold separately from the property, can sell at a 6.5 percent cap-rate, then it makes sense to sell the cell site lease prior to putting the building on the market—thereby maximizing your sales proceeds when exiting the property.

Another example of when it would make sense to sell the cell site lease separately is if the property is vacant and being marketed as an owner-user opportunity. A buyer is likely purchasing the property for its utility value to meet the needs of their business, not for the rooftop cell site income.

The bottom line is that it all comes down to simple math. Determine what the total sales proceeds will be from either packaging the lease in with the property, or selling the lease.

### 4. CELL TOWER EASEMENT PURCHASES QUALIFY FOR 1031 EXCHANGES

When selling a cell site lease in a transaction that includes an easement for 99 years, many sellers roll the cell site sales proceeds into a new property using a 1031 exchange. Always consult with a qualified tax expert prior to pursuing a 1031 exchange for your cell site lease in order to ensure your specific transaction qualifies.

### 5. ALWAYS PURSUE REDEVELOPMENT LANGUAGE IN LEASES

As I stated earlier, cell site leases typically range in term from 25 to 35 years. During the term, if you need to relocate the tenant temporarily, or permanently, you will have an extremely difficult time if redevelopment language is not already agreed to in the lease agreement.

Relocating a tenant can often cost up to \$30,000 for a temporary relocation and up to \$250,000 for a permanent relocation. The redevelopment language should state who is going to cover this cost. Always negotiate relocation language up front and don't get stuck paying for your cell site tenant to relocate.

### 6. TERMS TYPICALLY AUTO RENEW; CAN YOU STILL TERMINATE THE LEASE?

In most cell site leases, unless there is a monetary default (non-payment of rent), the landlord will unlikely be able to

terminate the lease during the term. Typically, the lease terms renew automatically, without the need for the tenant to provide a formal request. So don't be fooled if a representative for the carrier says the lease is an initial term of five years, with five, five-year renewals. The bottom line is the lease is 30 years and the landlord will unlikely have the ability to terminate the lease during that time.

The tenant, however, can typically terminate within 30 days for any reason. The landlord is locked into the agreement for 30 years and the tenant is only locked into the agreement for 30 days. Although it sounds crazy, that is the "norm" in cell site leasing.

### 7. CARRIERS HIRE CELL SITE EXPERTS TO SECURE THEM THE BEST DEAL

Top U.S. carriers, such as the one you probably pay monthly for your cell phone plan, don't negotiate their own cell site deals. They hire experts, called Site Acquisition Agents, to negotiate the best deal for them. The agent's goal is to get the property owner to agree to the lowest rent, with the most minimal changes to their lease agreement possible. Knowledge is power and your cell site tenant is well-equipped when negotiating rooftop leases. If you feel you could benefit from having an expert on your side, seek out assistance to tip the scales of negotiation in your favor. ■



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Nick G. Foster  
 Founder & President  
 858.216.2649  
[nfoster@airwaveadvisors.com](mailto:nfoster@airwaveadvisors.com)

**(888) 443-5101**

[www.AirwaveAdvisors.com](http://www.AirwaveAdvisors.com)