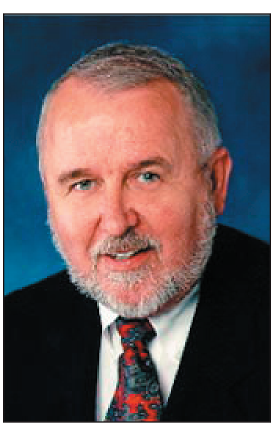
7 Ways to Maximize Value When Selling Tower Assets

Want to sell your towers in the near future? Get them ready and market them before the fourth-quarter rush. Even if selling is a long-term objective, use these seven ways to prepare for that eventual sale.

By Thomas Engel

With relatively high valuations for towers expected to continue into the first quarter of 2011, it could be a good time to consider selling tower assets. Buyers may have a lot to choose from, though, so preparing your tower assets to look more attractive to a buyer than the next seller's tower assets could make the difference in obtaining the offer you want.

Follow these seven ways to maximize tower value, and you will be ready for a sale whether the time is soon or is yet to be determined.



1. Sell when you don't have to sell and the market is good. Most potential sellers wait too long to consider selling their assets. When the sale of any asset becomes a necessity because of unforeseen circumstances, such as an illness, death, unwinding a business relationship, divorce or economic demand, it is too late. Most buyers can sense the urgency. Even if the seller does receive an acceptable offer, many buyers have been known to take advantage of the fire sale opportunity and negotiate the price down during the sales process. The seller must always be sure to have the option to walk away from a transaction if the terms and conditions become unacceptable.

The majority of sellers typically gauge their decision to sell based on factors that have little relationship to value, but remember, tower assets are no different than stocks or commodities. The value of these assets can fluctuate significantly based on tax rates, interest rates, the regulatory environment, changes in technology and many other economic factors. It is important to recognize trends and peaks in tower asset values, which are usually valued as a multiple of tower cash flow (TCF). Most businesses sell for multiples of cash flow or revenue. Usually, those multiples are in the single digits, although the tower industry has experienced several peaks during which towers have sold for high double-digit multiples. These peaks are not sustainable. To maximize value, it is important for the seller to begin to market tower assets when double-digit multiples are just beginning to peak. The three public tower companies' stocks are a good indicator of value trends.

2. Groom the bride. Obtain due-diligence files and contracts in order, maximize revenue, and minimize OPEX.

Contracts — There are several important items to include in the tower tenant contract (license) and items that must be avoided to maximize TCF value. Contracts should have a term of at least three to five years with an annual escalator of 3 to 5 percent. The tower owner should also determine the type and amount of equipment that the prospective tenant plans to place on the tower. This allows the tower owner to negotiate a higher rate if the tenant requires additional space. The license agreement should also include a clause pertaining to interference with other tenants and the ability to freely assign the agreement. The most important provision to avoid is any language within the contract that would permit the tenant to terminate the agreement before the end of the initial or subsequent terms. A number of well-written contracts are available that can be used to maximize tenant value.

OPEX — If the tower is on leased property, land cost is usually the most significant operating expense. The reality is that tower buyers are buying the current and potential future cash flow. So, land leases with high escalators or leases that provide the landlord with a portion of the revenue or cash flow as part of the land rent will have a significant negative effect on the value of the tower assets. Sellers with leased property who are contemplating a sale should do everything in their power to put a long-term land lease in place with a reasonable escalator and without a share of the revenue or cash flow.

Taxes also diminish the sale price.

All tower owners should work with their tax assessors to minimize property tax. Another option that the tower owner has to maximize the asset value is to include a common-area maintenance provision within the tenant lease agreement. By doing this, a prorated portion of the tax is passed along to the tenant, thus minimizing tax impact on cash flow.

Utilities should be paid directly by the tenant when possible and practical. Tenant leases can be written to include a pass-through charge for utilities, but it is easier to manage if each tenant has its own meter.

Due diligence — The economic effect of due-diligence issues is not as significant as land costs, utilities and taxes, but due-diligence issues can delay a simple sale for several months. Tower site owners should create a soft copy file in addition to their hard copy files of due-diligence documents for each site. The file should include (if available): land lease, tower drawings, driving instructions, tenant leases, foundation drawings, deed, FAA/ FCC registration documents, zoning documentation, land survey, NEPA, SHPO, environmental regulation compliance documentation, tower structural analysis, easements, previous title work and access codes.

Other due-diligence records necessary for closing include: an accounts receivable aging analysis, recent utility bills, recent tax bills and cash proof for revenue.

3. Maximize the value of your tower space. Think of your tower assets as a hotel. As with the available rooms in a hotel, a tower owner has only so much space available. Use the available space for high-quality tenants, and remember that capacity for future growth is valuable to any potential purchaser, so don't waste it.

Leasing space to a low-rent tenant or to a tenant that has a relatively short life (e.g., paging) diminishes the tower's inventory, which should be reserved for a higher-paying long-term client. In the event that the tower owner considers leasing his available space to a low-rent short-term tenant, he should be sure to include a termination privilege within the agreement.

4. Timing is important. Most tower asset buyers have limited resources (time and money) for reviewing transactions and working through the necessary documentation of a sale. Therefore, it is important that the seller has knowledge of all activity pertaining to the current market. For instance, if the majority of buyers are preoccupied with larger transactions when a smaller deal comes to market, many of them will often overlook the smaller transaction in favor of the bigger piece of pie, resulting in less competition and potentially a lower price.

Many sellers make the critical mistake of waiting too long before they take their tower assets to the market. Most tower transactions can be sold and closed within 60 to 90 days. Most sellers who hope to close their tower transaction by the end of the year typically wait until the last quarter to begin marketing their sites, which is too late. The fourth quarter is always hectic. By then, the service providers (i.e., site inspection companies, surveyors, title companies and attorneys) have a backlog of work to do. An overload of year-end sales activity combined with the numerous holidays and winter weather result in reduced productivity in November and December. This reduced productivity in the last few months of the year inevitably causes many transaction closings to be pushed into the next year. This can have a major effect on the bottom line because of potential tax impact. If a current-year closing is important, the seller should take the tower assets to market early in the year, when deal activity is less, and there is adequate time to work through closing issues.

5. Consider the tax impact. Selling tower assets is a taxable event. The tax impact or lack thereof can have a major effect on how much money the seller keeps. For many sellers, selling tower assets is a once-in-a-lifetime event, and they should seek highly capable tax advisers well before making the decision to take their assets to market.

A few things to consider:

Ownership entity — Tax impact can vary significantly among different types of ownership, such as corporate, Sub S, limited liability corporations and individuals. The IRS has restrictions and waiting periods, including some as long as five years, to change ownership structure, so check with your tax adviser early.

Tax allocation of assets — How the purchase price is allocated has an effect on how much tax the seller owes. Allocation to a noncompete provision differs from allocation to hard assets, goodwill or other assets. The IRS requires that the buyer and seller agree on asset allocation.

Section 1031 exchange — Some tower sellers have used a Section 1031 like-kind exchange to defer a tax liability.

Shifting compensation — Shifting compensation received from the sale of a tower asset can change the tax impact. For example, leasing the underlying ground to a buyer lowers the sale price but provides an ongoing revenue stream that is taxed differently. If a portion of the compensation is paid as a consulting fee or long-term management agreement, different tax rates will apply.

Changing tax rates — Time the sale of assets to minimize taxes based on current or pending tax rate changes.

6. The parts may be more valuable than the whole. Spectrum license holders often achieve greater returns by selling their license assets separately from a supporting tower infrastructure. For example, in a recent sale of a small independent cellular company, the towers were sold separately from the remaining cellular assets. The combined sale of the towers and the other assets, which were sold as separate entities, yielded a sale price that was 40 percent higher than the highest bid received for the assets as a whole

When selling, maximize asset value by segregating and separating assets. Most tower buyers are not interested in real estate value, only the sustainable cash flow and a long-term use and access easement for the underlying property. A long-term easement can be provided for sufficient land for tower operations. The remaining land can be held for appreciation, used or sold separately.

If the seller is using a portion of the tower facility for his or her other business activities, most buyers will provide a lease-back arrangement for long-term usage at no charge or pay some multiple based on an agreed-upon lease-back rate.

7. Use experienced professionals. To get the deal done, and maximize net value, use experienced professionals.

Tax advier and accountant — Before deciding to sell, consult your tax adviser or CPA to structure the ownership, plan the allocation of the assets and establish the timing and structure of the sale to maximize the net gain based on your individual financial situation.

Attorney — It is important to use a deal-oriented attorney to complete the sale of the assets in order to minimize legal expense and to move the transaction along quickly. The attorney should be experienced in contact law and real estate issues. A good broker can usually offer referrals in most areas. An experienced broker can assist the seller's legal counsel with tower-specific issues.

Broker — The broker should do much more than find the buyer. An experienced broker will help the seller groom the bride and prepare due-diligence files. An experienced broker will understand the current activity level in the market and will be familiar with which companies are paying the most for tower assets similar in nature to the ones being sold. The broker will create a presentation that maximizes the positive aspects of the tower assets and at the same time minimizes negative characteristics. Once the presentation is complete, the broker will target a select group of buyers that will have the most interest in this asset configuration. By marketing to this select group, the broker creates a competitive situation that maximizes price and creates a sense of urgency to complete the transaction within a narrow time frame.

Upon receipt of the letters of intent (LOIs), the broker will analyze the offers, which can vary significantly in terms and conditions, and provide recommendations to the seller. Once the selected LOI is executed, the broker will assist the seller in assembling, categorizing and distributing the due-diligence material. A broker will review and analyze the asset purchase agreement and send comments and suggestions to the seller and the seller's attorney. Comments based on previous transactions with that particular buyer can help to minimize the seller's risk, closing adjustments, the cost of curing due diligence defects, and post-closing adjustments. Finally, the broker will assist the seller and seller's counsel in meeting all of the closing conditions and will review the closing statement. agl

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