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TOWER OF THE MONTH

Selling Older Towers Slowed the Brokerage Market in 2017

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Engel

Tower structure issues and problems with documentation and titles slowed the brokerage market in 2017, according to Thomas Engel, principal, Strategic Tower Advisors. Smaller transactions by relatively inexperienced sellers have also created a drag. However, the pipeline should open up in 2018 and land lease brokerage should be hot.

Strategic Tower Advisors closed only 10 deals in 2017, as opposed to 2015 when it closed 22. It finished the year with 24 transactions in the pipeline, either under contract or with a letter of intent.

"2017 was slow. Most of the tower companies we deal with are processing fewer transactions than a year ago," Engel said. "The problem is the increased time it is taking to close a transaction, because of the ages of the towers being sold."

To get older towers ready for sale, the cost of repair and deferred maintenance can be extensive and time consuming. The ground leases, some that date back to 1980s and as far back as the 1950s, may be expired or about to expire. Additionally, Engel is finding paperwork mistakes that have occurred when towers were assigned or transferred.

"As the tenants have merged over the years, the tenant leases, land leases and third-party agreements have become incomplete," he said. "Much of the documentation is missing. Signature pages, exhibits, assignments and memorandums of lease are missing. Because banks are stricter now in terms of documentation, it is taking much longer to correct these errors."

The titles for the towers can also be in disarray. "Checking the titles, we are finding bank loans that were paid off but were not taken off the title, and the bank is out of business. Some of the property owners may have died and no one ever cleaned up the title accordingly. Sometimes no one really knows who owns the property. It is in probate," Engel said.

Publicity surrounding how much money carriers and the tower companies make has impacted the prices demanded to extend the leases for land under the towers. The expectations for more compensation are extending the brokerage process.

"Some of the land owners are very, very greedy," Engel said. "Recently, we had one that wanted an increase from \$200 a month up to \$1,500 a month. We had another in Hawaii who wanted a percentage of the purchase price as a bonus to extend the lease."

Most of the tower transactions, from 2010 to 2015, took about four to five months. Now it is taking, on the average, seven to eight months to complete a transaction. Engel expects the pipeline to open up in the first quarter of 2018 with around 15 closings.

"People are still buying towers," he said. "In the last year, we saw a wrinkle in the pipeline."

Strategic Tower Advisors gets the most responses when it sends out a request for proposal to potential buyers for broadband-only towers (80 percent), followed by broadband/broadcast or mixed-use towers (50 percent), broadcast/non-broadband towers (20 percent).

"Everybody wants broadband towers," Engel said. "We are seeing multiples in the 18 to 24 range on mature sites and higher in new single-carrier sites. Broadcast multiples, on the other hand, have dropped 15 to 20 percent in the last year."

Along with towers, the brokerage business has been busy with deals for the land under the towers. In the last six months to a year, an increased number of tower farms has come onto the market. Sometimes it is the family of a deceased owner selling the land under to three to five towers. Additionally, the public tower companies are moving to secure the land under all of their towers.

"The issue of land is going to explode in the next two to three years," Engel said, "because all of these leases, some of which were signed in the 1980s, are about to expire."

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