By Marshall H. Dean J.D., MBA, Tuesday, February, 14th, 2012

The Vertical Real Estate of Cell Towers

On average, it takes roughly four hours for a person to notice that his or her wallet is missing; however, people notice their cell phone is service is gone within 15 minutes.

The reality is that our lives are intertwined with these wireless devices, and that trend is not going away. In fact, as people become accustomed to owning multiple wireless devices (ex: an iPhone and an iPad), we are finding that the infrastructure is not in place to handle the explosion of data transfer that is occurring every day.


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We've all seen cell phone towers on the side of the road. What you might not know is how profitable a well-placed cell tower can be. In the past the major wireless carriers, like AT&T and Verizon, owned and operated their own cell towers, but that has since changed. Wireless carriers have shifted their strategy to focus on developing their networks, and instead chosen to rent space on new and existing tower locations.

This change has allowed for interesting investment opportunities for those looking for more than traditional stock and bond investments. Very simply, cell towers are vertical real estate with space typically available for up to five wireless tenants.

To give you a quick sense of the economics involved, an average cell tower costs $300,000 to build. Lease terms may vary depending upon the area of the country, but we routinely see carriers paying $30,000 per year for the right to put their equipment on that tower. For towers that are fully leased that means five tenants paying $30,000 each for gross revenue of $150,000 per year on a tower you paid $300,000 to build. It comes as no surprise when people in the industry call cell towers "cash cows."

While investing in one cell tower may turn out to be a home run, the more diversification savvy investors choose to invest in multiple towers. One way of having an ownership piece of a group of towers is to buy the stock of one of the publicly traded tower companies. Companies like Crown Castle, American Tower and SBA are traded daily on the stock market.

However, if the reason you are looking at cell towers is for an alternative investment, then owning the stock of one of these companies still brings with it stock market risk and correlation. Instead, you might look for opportunities with smaller cell tower developers who are not traded publicly and build in a specific geographic area. Often times these developers will create investment partnerships to build and own a group of towers.

As a potential investor, a high single-digit annual return is reasonable while you own the towers. You would also like to see an exit strategy of selling the towers in a five- to seven-year time horizon. A sale of the tower portfolio could bring your overall annualized return in the mid to high teens.

The secret to getting towers constructed is in the zoning and approval process. A cell tower developer must have the local zoning expertise necessary to fight the battles that sometimes come when you propose building a tower. Everyone wants the coverage, but no one wants a tower in their backyard. Neighborhoods are concerned with the visual impact of having a 100- to 140-foot pole in the air.

An experienced developer is proactive in addressing these concerns by providing visual impact studies that show the proposed tower from all angles, as well as what it might look like as the seasons change. In your due diligence, you would also want to see a track record from the developer of previous towers they've built in the area.

Creative tower developers understand that local government gets pushback from its constituents whenever a proposal for a tower is submitted and discussed. Knowing that towers are unwanted, but necessary in communities, we have seen some tower developers partner with local government to build towers on government owned land. Local government benefits because it receives a site fee as well as an ongoing share of the revenue generated from the tower.

For instance, let's say that a developer comes to an agreement with a particular county and is allowed to build on all public properties within that county. This may include the high schools, middle schools, grade schools, parks, fire stations, etc. The tower developer then markets the government sites to the major wireless carriers as potential locations for new towers.

It's a win-win situation. Local government gets a reoccurring revenue stream and therefore can articulate a meaningful benefit to their local constituents. The tower developer gets exclusive access to schools and parks that are laid out systematically through the county as well as a faster, more consistent zoning and approval process.

Start taking a closer look at cell towers as you drive down the road. Space is generally divided in 10-foot increments, so you can usually count how many tenants are on a tower. If the top 40 to 50 feet of the tower is filled with panels, you can bet that there is an owner receiving very nice checks each month.

After watching the stock market go up and down over the past 10 years, realize that there are unique opportunities to make money in the cell tower business. Carriers are in the process of building out their 4G networks, so the timing couldn't be better to invest in the infrastructure behind the wireless web.

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