

Newport Beach Startup Leases Towers to Cell Phone Carriers

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Publication: Orange County Business Journal

Monday, November 9 2009

HEADNOTE

Mobilitie Aims to Undercut Big Competitors; Sees \$100M in Yearly Sales on 2,500 Towers

Newport Beach's Mobilitie Partners LLC operates more like a landlord than a telecommunications startup.

Mobilitie was formed four years ago by Deloitte & Touche LLP veteran Gary Jabara.

The company buys and builds cell phone towers and then leases them to operators of wireless phone networks.

Mobilitie, pronounced "mobility," aims to beat out larger competitors by offering what it calls better lease deals and by eliminating fees and cutting restrictions on what's broadcast from its towers.

"We are undercutting everybody big time," Jabara said.

Mobilitie employs a model typically used by real estate owners looking to lure in big tenants.

Wireless carriers act as tenants and pay monthly rent to occupy a particular spot on a tower.

Mobilitie gives a break to the so-called "anchor" tenant - think the big four cell phone carriers. That helps draw in other carriers. The other carriers, in turn, helps subsidize the lower rent of the anchor tenant.

"Think about leasing a tower as a real estate transaction where it's like a multistory building," Jabara said. "Each floor of the 'building' houses one carrier."

As more carriers buy up space on the tower, rents go down.

"We end up being the lowest-priced occupancy in their portfolio," Jabara said.

Company Makeup

The company owns some 2,500 cell phone towers in the U.S. and sees about \$100 million in yearly sales, according to Jabara.

Its biggest customer is Deutsche Telekom AG's T-Mobile USA Inc., followed by Verizon Wireless, a unit of New York's Verizon Communications Inc., Sprint Nextel Corp., AT&T Inc. and Clearwire Corp.

Each carrier pays on average about \$2,000 per month per tower.

Mobilitie sees cell phone towers as "a very unique real estate asset class," Jabara said. "We don't have any vacancy - we only have absorption. Once a carrier occupies a tower, they never leave. It's that occupancy that becomes part of their network."

Mobilitie is a tiny upstart player in an industry that's dominated by a handful of publicly traded tower operators, including Houston's Crown Castle International Corp., Boston's American Tower Corp. and Boca Raton, Fla.-based SBA Communications Corp.

American Tower is the biggest among them, with a recent market value of around \$15 billion.

A more direct competitor is Cary, N.C.-based Tower Co., which has some 3,000 towers. Privately held Tower has an office in Irvine.

Roughly a quarter of the existing cell phone towers in the U.S. is owned by big tower companies. Another quarter is owned by the carriers themselves.

The other half is owned by small operators such as Mobilitie, according to Jabara.

In this industry, being privately held has a lot of advantages, he said.

The big tower companies are saddled with a lot of old towers that need maintenance and often need to be overhauled when new network technology is put in place, which requires big capital spending.

The big guys make up for it by dinging their tenants with lots of fees.

"They charge (wireless carriers) huge fees for new antennas, upgrades and for broadcasting new technology," Jabara said. "It becomes extremely expensive for the carriers to occupy the towers and it slows the rollout of new services and technology."

Mobilitie doesn't charge the carriers for maintenance or fees if they change their software or offerings through the tower.

The company also doesn't place restrictions on what types of technology carriers use or how they're deployed.

"We don't prohibit the carriers from doing anything on our towers," Jabara said. "We help them deploy their networks faster and more efficiently and improve service rapidly."

Construction

Mobilitie also helps fund the construction of towers in spots where carriers lack wireless coverage.

Wireless carriers spend billions each year building out the backbone of their wireless networks. Increasing consumer demand for data-heavy cell phone features, such as downloading video and surfing the Internet, continues to pit carriers against each other to ramp up their networks.

Jabara, 48, invested his own money to start Mobilitie. Los Angeles-based private equity firm Oaktree Capital Management LP backs Mobilitie and has a stake in it.

The company now has some 60 workers locally.

He was able to call upon contacts at the top wireless carriers after years in the industry and a stint as a partner at Deloitte's telecommunications infrastructure practice in Los Angeles.

Jabara lives in Shady Canyon, a development in Irvine that, ironically, "doesn't have really good cellular coverage," he said. "I have to walk up the street to get a signal."

SIDEBAR

Jabara with Mobilitie tower: company owns, leases out 2,500 towers to cell phone carriers