



Christos Karmis
Senior Vice President, Acquisitions and Leasing

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Christos Karmis is a senior vice president in charge of tower acquisitions and leasing at Mobilitie. Christos has led the development and implementation of Mobilitie's customized Lease-to-Suit™ (LTS) tower program, which is generally recognized as the industry leading model for carriers to build new communication towers. The LTS structure provides carriers with the lowest cost solution to new tower builds without any equipment or operating restrictions. Before coming to Mobilitie, Christos specialized in real estate advisory services and the wireless communications industry with Deloitte Consulting. While at Deloitte, Christos provided operational and network optimization strategies to several of the national wireless carriers. He holds an MBA from the Warrington School of Business at the University of Florida, a Management Certificate from Harvard University, and a Bachelor of Science degree in Mechanical Engineering from Clemson University.

Wireless carriers have seen their infrastructure costs escalating out of control for more than a decade. The major carriers have individually spent billions of dollars to build out their national networks, and will continue to need more towers and broadcast locations as they expand their coverage and upgrade to future generation wireless technologies. Their need to free up precious capital to fund network expansions and upgrades, coupled with being convinced by tower companies that their towers and backhaul are non-core assets, have led to their decisions to sell many of their towers and lease them back. However, rapidly escalating lease rates and incremental fees are revealing that the restrictive lease conditions imposed by tower companies are more costly than the carriers estimated.

So what should carriers do? Rather than making these important network decisions based on a short sighted approach of only looking at initial monthly rents, carriers should evaluate their decision using a more comprehensive analysis, such as the time tested real estate model of valuing the Total Cost of Occupancy ("TCO").

Huge Investment In Cellular Infrastructure

Since the launch of the industry, wireless carriers have committed most of their investment dollars to build out local and nationwide wireless systems, including huge and expensive infrastructure networks of (1) mobile switching centers (MSCs); (2) backhaul networks consisting of copper, fiber or microwave solutions; (3) communication towers; and (4) base station electronics and antennas. With increasing competition, the evolution of new technologies, and the relentless demand from subscribers for more reliable service and enhanced functionality, carriers continuously build more infrastructure in order to expand and enhance the network.

The result is billions of dollars spent on network capital investments, and ongoing occupancy costs that can easily approach half of the carrier's total corporate operating expenses. In an attempt to mitigate these huge balance sheet and monthly expense items, the carriers leased capacity on their infrastructure to their competitors. This allowed other carriers to utilize tower locations owned by another carrier in exchange for monthly rent or some other type of reciprocal benefit. This only mildly helped to reduce ongoing costs, and did little to free up valuable capital for continued expansion and growth.

Mobilitie \mō·bil·i·tee\ *verb*

1: the quality of being mobile **2:** the fastest growing tower company in the United States **3:** 50% revenue share and no equipment limits **4:** \$500 million on hand to invest in towers, DAS, and broadband backhaul networks

For more information, visit www.mobilitie.com

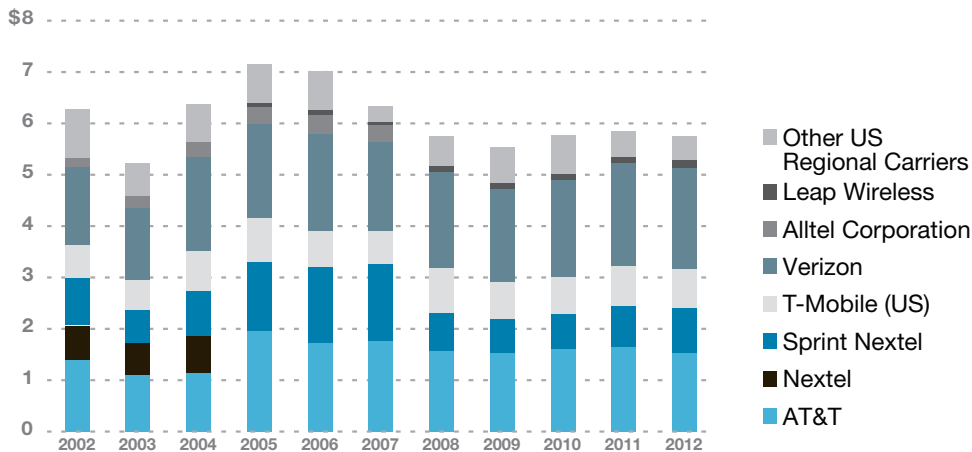
Carriers Need Even More Capital Investments

Today, 'all you can eat' family plans, bundled plans, unlimited data plans, free intra-carrier calls, roll-over minutes, etc., have put this once main stream revenue generator into the commodity class, at best limiting growth in Average Revenue Per User (ARPU). This downward pressure in ARPU, combined with growing operating expenses, is resulting in margin compression for the carriers.

Carriers understand that future revenues will be generated through high-speed data services, providing new applications and content such as VOIP, mobile TV, on-the-move video calls, internet browsing and web-based applications. New technology implementations such as WiMAX and LTE will be the enablers for this new generation, but will require additional massive capital investment.

In the belief that their future depends on content, not on infrastructure, carriers have chosen to sell their tower portfolios and/or utilize third-party build-to-suit arrangements

US Cellular Infrastructure Costs (\$b)



Source: iSuppli Corporation – February 2009

for new tower builds to avoid investing more internal capital on infrastructure.

Growth of the Tower Industry

In the 1990's, tower companies like American Tower, Crown Castle, SBA Communications and a host of others, sprung up as a result of this infrastructure divestment. At the end of 2008, some 70,000 towers in North America were owned and operated by tower companies, and the number continues to increase. As recent as July 2008, Sprint Nextel sold 3,300 towers, virtually all of its remaining tower portfolio, to a tower company.

The tower company business model is relatively simple. They buy or build towers and lease space to the carriers to install and operate a limited amount of equipment (i.e., antennas, microwave dishes, amplifiers, etc.). The tower companies generate about 80% of their revenues from this type of site leasing activity. The remaining 20% of revenues are typically derived from design, planning, installation and other consulting services.

Rental payments vary considerably depending upon:

- Tower location
- Quantity, size and weight of the antennas and transmission lines
- Amount of ground space necessary for the base station equipment
- Amount of capacity available on the tower
- Elevation leased on the tower structure (higher elevations are typically more desirable)
- Financial standing and credit of the carrier

The key drivers behind the tower company business model are:

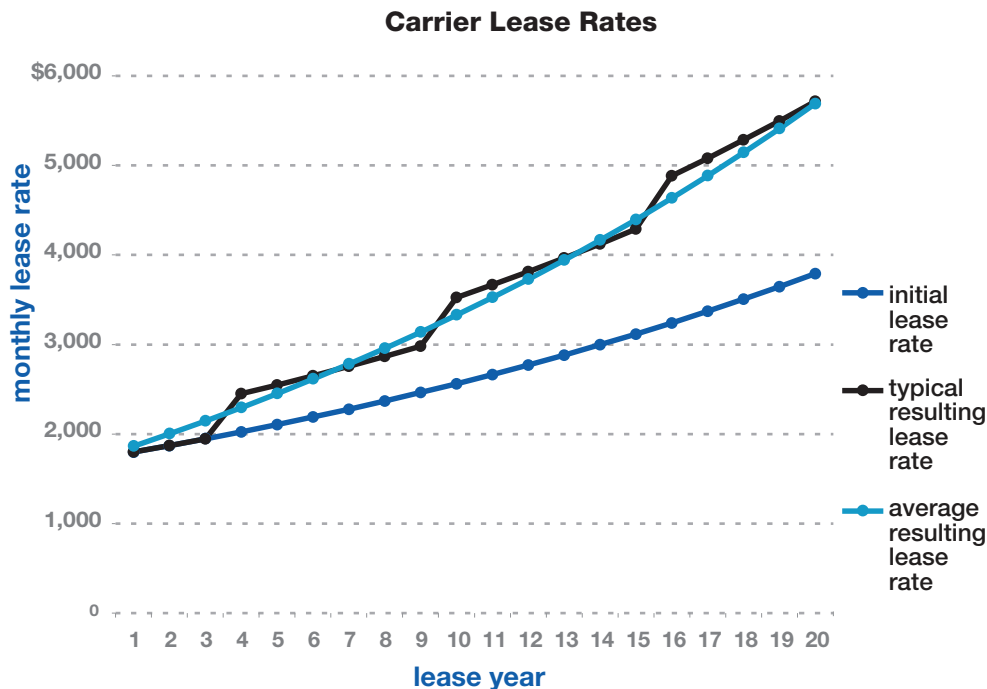
- Long-term tenant leases with contractual escalators. In general, a lease with a wireless carrier has an initial term of five to ten years with multiple five-year renewal terms thereafter, and an annual rent escalator of 3% to 5%.
- Operating expenses are largely fixed. Incremental operating costs associated with adding wireless tenants to a communications site are minimal. Therefore, as additional tenants are added to a site, the substantial majority of incremental revenue flows through to operating profit.
- Low maintenance capital expenditures. On average, a communications site requires relatively low annual capital investment to maintain.
- High lease renewal rates. Wireless carriers tend to renew leases because suitable alternative sites may not exist and repositioning a site in a network is expensive and may adversely affect network quality.

Increasing Total Cost of Occupancy

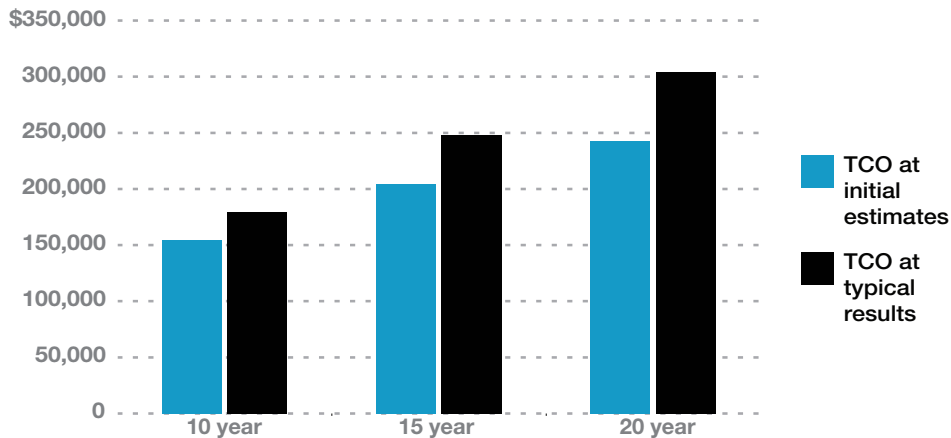
Tower companies have come to realize that carriers frequently enhance the network by modifying or adding additional equipment to the towers. These enhancement activities often result in the need to add equipment beyond what is permitted under the current lease agreement. In such cases the carrier is at the mercy of what the tower company wants to charge. The high relocation costs and criticality of the site as part of the network leave the carrier with virtually no negotiating leverage. The tower companies rely on these types of MAC charges (moves, adds, and changes) as a method to drive incremental revenue and reach quarterly financial metrics.

In order to continue growing their tower portfolios, tower companies offer attractive initial lease rates to carriers for new site builds. However, such offers typically carry with them very restrictive equipment entitlements. The tower companies know that they will be able to demand a significant rate increase in the near future from MAC charges. Recent trends show that these types of rent increases can easily run \$400 to \$500 per month, and can occur on about 15% of a carrier’s portfolio every year. In addition, carriers are often required to pay significant application, structural, inspection, and other fees.

The **Carrier Lease Rates** chart illustrates the difference between the expected lease rates a carrier anticipates to pay when it initially signs a lease, versus what it can actually end up paying. The actual results are typically much more than the expected 3% or 4% annual escalations due to MAC charges.



TCO Comparison (at 10% discount rate)



at 10% discount rate

A Better Business Model is Needed

What originally seemed to be a cost effective solution to the carrier, turns out to cost more than expected. Carriers need to take a fresh look at their contractual relationships with the tower companies and find a way forward that makes more business sense. In order to prevent a precarious situation from getting any worse it's imperative that carriers find this new way forward fast.

The foundation for making better business decisions is for carriers to evaluate the Total Cost of Occupancy. This type of thorough and comprehensive analysis should include the following considerations:

- Capital Savings: How much capital relief does the carrier realize or benefit from?
- Operating Expenses: Does the carrier remain in full control of operating expenses and cash flow, or will they be subject to unpredictable, additional fees and rent escalations?
- Operating Flexibility: Will the carrier be able to modify or add equipment quickly and efficiently, without submitting applications and amending agreements?
- Scalable Model: How will this business model be applied throughout the carrier's entire operation to maximize its benefits, and not be limited to a particular market or only to the most attractive tower sites?

These types of long-term analyses are not routinely performed by carriers. If they were, carriers would clearly see that additional fees and rent increases cause a significant difference between their expected costs and their actual costs. This situation is real – it is routinely happening and will continue to grow as carriers expand and enhance their networks to support new content and service offerings. It represents an opportunity for carriers to save significant cash by partnering with organizations who offer better lease contract terms. By doing so, carriers can put their additional cash to work doing what they do best – providing a better, more reliable product to their customers.

Using this approach, and conducting a thorough NPV based analysis of TCO, carriers will find they have a more accurate methodology to make decisions that are truly in their long-term best interests.