

## **Sell the Cell Lease Separately (When Selling Real Estate)**

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When does selling a cell tower lease make sense? In financial terms, it usually doesn't (you can't invest the money and get the same income you're now getting).

But a common situation where a sale DOES make sense is when you are going to sell the property with the cell tower anyway. That's because you can usually sell the cell tower lease and future leasing rights by themselves for far more than if you included them in the sale of the rest of the land or building. The sale price of the rest of the property will typically be unaffected, so the proceeds from the cell lease sale are basically pure profit -- monies you would not have otherwise gotten.

Here is an example from a transaction we worked on earlier this year for a real estate client: Our client sold the rooftop antenna leases and leasing rights to a 10-story office building for around \$2 million, which is more than it will likely get for the entire rest of the building.

The background is that our client, a real estate company, owned a 1930's office building; it was fully leased and the client was about to sell it. Four cell phone companies had their antennas on the roof pursuant to leases.

We helped the client get multiple bids for the leases which (over several rounds) increased the initial offers by around 30%, to roughly twenty times the current yearly rents. This resulted in the client selling the leases and the leasing rights to the roof of the building for the next 50 years for nearly \$2 million – more than the client expects to get from the sale of the entire rest of the building! And the client doesn't believe the lease sale will much affect the building's sale price.

What causes this? It's because buyers usually undervalue cell tower leases. In part this is because they do not understand the cell phone business, meaning that they give far too much weight to clauses that allow a cell phone company to cancel a cell tower lease on short notice. This analysis makes sense in the context of ordinary commercial leases. But it doesn't make as much sense for cell tower leases, where the reality is that providers cannot cancel because it would leave a gaping hole in their coverage.

Relatedly, many lenders undervalue cell leases in their mortgage loan analyses (again in theory because such leases can be cancelled on short notice) so that they give them zero or little value. You can't pay a lot for cell leases if your lender won't lend against them!

For these reasons, cell tower leases can generally be sold to "tower management companies" which specialize in owning telecommunications towers without significantly affecting the value of the rest of the property on which the tower is located. A property owner who is going to sell anyway will come out well ahead financially by first selling off a cell tower or rooftop antenna lease/future leasing rights and only then selling off the land or building in question.

Actually, doing a lease sale takes some work. The process starts with a good bidding process leading to a sales price of 15 to 20 or more times annual revenues (and much of the seller's legal fees being covered). Then (especially on rooftop antenna leases) detailed legal work is needed to balance the rights of the lease purchaser against those of the building owner and tenants. This is analogous to structuring the rights and responsibilities of condominium documents where the purchaser's "condo" is the rooftop but has to be balanced against the rights and needs of the occupants of the other floors of the building. And all this is complicated because the documents offered by prospective purchasers (tower management companies) are very one-sided -- they need a great deal of work to strike an appropriate balance between the rights of the purchaser and the rights of the landowner.

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