

Ready, Set, Rent!

Flashback: The First Race for Market Share in the Wireless Industry



Tom Leddo

When the A/B Block PCS Auction ended in 1995 an unusual real estate phenomenon occurred. Cellular operators paid way too much to lease it. No, this wasn't driven by low interest rates, the refi boom, Option ARMs or teaser rate mortgages. It was driven by a race for market share.

And, boy, was it a doozy. An analog-based industry had just gone digital. Wall Street was throwing money at this new enterprise as they were starting to inflate the dot-com bubble, and the FCC found a new revenue source for something they had previously given away for free.

Before there was an auction for spectrum, the government had employed an inefficient lottery system to allocate spectrum. When the government realized that they could be the ones making money out of thin air (as economist Peter Cramton quipped after the first auction 15 years ago), the wheels were set in motion for a new industry dynamic that would profoundly affect future operating costs and the way carriers do business.

I know because I was there. I watched as players like WirelessCo, AT&T, PCS PrimeCo, Pacific Tele- sis, GTE, American Portable Telecommunications, Ameritech Wireless, Western PCS, Powertel PCS Partners and others together paid in excess of \$7 billion for spectrum and then turned around and spent billions more to build their network — all before even selling their first PCS phone. They needed the frequency to build the network. They needed the network to sell the phones. They needed to sell the phones to appease the investors. The race was on.

Back then, I was a struggling Oil & Gas Landman in Houston. We were the guys who negotiated mineral leases for drilling oil and gas wells. Given our unique real estate experience in a busted industry, we were looking for new opportunities. While I personally found it negotiating micro-

wave relocation contracts to clear the 1.9GHz frequency for these new phone companies, many Landmen found it in site acquisition. They were contracting more work than they could manage, as cellular operators were desperately seeking to find sites for their new networks. While there were pre-existing cellular phone companies, the number of carriers had suddenly multiplied and competition to get to the new digital market first was fierce — and it all pivoted on real estate. No one had ever seen anything like what was about to happen in

the cellular real estate market. While I may be good-humoredly embellishing this historical period, some of you old timers know there is truth in this story, which goes something like this:

- RF engineers used coke bottles to draw circles on maps and tell newly created site acquisition companies (SAC) to find a site to lease as close to the middle of



that circle as possible.

- The SACs were told not to worry about how much the rent was because “we just spent billions and are losing millions of dollars a day in interest. The Execs promised Wall Street we’d launch this year and the new VP of marketing is rolling out an ad campaign in time for Christmas. We need to get the network built fast. Just go lease a spot in the middle of that circle and get it yesterday!”
- With directives like that, SACs began popping up everywhere. Waylon, WFI and SBA — these were good guys. I was friends with many of them and they were smart enough to see a killer wave so they all grabbed their surf boards and hopped on it.
- Living in Houston, I saw long-time unemployed Landmen euphoric, thinking they were seeing another oil boom. Companies they never heard of founded by entrepreneurs much younger than them paid the Landmen more than they ever made to (as Md7 CEO Michael Gianni describes it) parachute into town, rent a car and drive around all day eating burritos while they hunched over the steering wheel looking up in the newly purchased air-space for rooftops to rent.
- Imagine the scenario when they found a suitable site and needed to negotiate with the

would-be landlord. The conversation might have gone

something like what you see below.

Conversation Between a Landman and Would-Be Landlord

TEX: Hello Mr./Mrs. Landlord, my name is Tex and I was just driving by and saw your rooftop. It looks like a dandy one and I’d like rent it for my client – you know one of them-there PCS telephone companies that just spent billions in Washington, D.C.

LL: What...?

TEX: I want to rent your rooftop.

LL: My rooftop is not for rent!

TEX: But a guy in a suit just yelled at me and said he is losing millions of dollars in interest everyday and his buddy with a pocket-liner told me to get a lease in the middle of this-here circle and your property is smack-dab in the center. How much you want for it?

LL: What are you going to do with it?

TEX: They gonna build a cellular phone station on it!

LL: Oh no you don’t! I’ve heard of those, they’ll damage my property, stick out like a sore thumb and cause me to die in five years from cancer! And if I don’t die, I’ll get sued by all the people in town who go sterile!

TEX: I don’t think that is true, but they authorized me to spend up to \$1,200 for a rooftop and I have fifteen more circles to drive before sunset. What-do-ya-say?

LL: \$1,200??? Are you out-of-your mind? It is a rooftop without TI’s. Are you smoking something?

TEX: Just Marlboros. Okay, they told me if you held out I could go to 1,300?

LL: Will it cause my roof to leak?

TEX: \$1,400!

LL: How ‘bout \$1,500?

TEX: Deal! But tell ‘em you held out for my final offer, cause I’ve got more pay points to go hit.

Thus, the “average rooftop rent” was born. And the rest is history.

I remember meeting two guys in Tyson's Corner, Virginia from The Staubach Company (at the time, the premier tenant rep agency in the country for office space) who were frustrated because they couldn't figure out how to get a contract to represent these new carriers. In their real estates negotiations it seems the carriers weren't interested in a former Super Bowl MVP quarterback who methodically and aggressively represented tenants in negotiating long-term leases and had a reputation for getting great deals. These two guys had never seen so many companies in the process of amassing so large a corporate real estate portfolio so quickly. And they certainly couldn't understand why speed was more important than smart rents and solid lease terms. They told me we would regret it in the longrun.

I remember laughing at those

guys who were smarter and better dressed than me. I told them, "You just don't get it! The PCS operators are in a race for market share and the first one to build their network will be the first one to sell phones. They'll use long-term contracts that won't let their customers keep their unlisted phone numbers if they leave so they can lock them in forever. In other words, the first to market gets the clients forever!"

Back then, that really was smart thinking. We ignored Roger Staubach and conventional wisdom, we overpaid for rents and enabled carriers to secure market share. And it worked very well for the last twelve to fourteen years — until subscriber saturation, low flat-rate calling plans and rapidly increasing OPEX hit the industry. But now, we've got a marketplace with a new set of rules.

Now it's time to change our thinking. "Pay what it takes to get it fast and do whatever it takes to keep it" is no longer viable. Carriers are beginning to once again go against conventional wisdom and reverse the trend of escalating rents. Real estate asset management through tenant representation is a business strategy that enables carriers to evaluate cell site and tower leases in a competitive environment. With sprawling nationwide networks, it's a complex business that requires substantial attention. And carriers are positioning themselves to give it just that.

Tom Leddo is the Vice President of Operations for Md7, LLC and is committed to regularly sharing information among industry players to encourage mutually beneficial outcomes.