

# Investing In REAL ESTATE

WITH JEFF KOLITCH



## American Tower

American Tower Corp. (AMT) is a worldwide leader in cellular towers with a U.S. leading 21,000 towers and 14,000 more internationally. Classified as a Telecommunication Services company, AMT is, nevertheless, an interesting real-estate related opportunity consistent with the Baron Real Estate Fund's approach to real estate investing. Unlike most real estate funds that limit investments to Real Estate Investment Trusts (REITs), Baron Real Estate Fund invests in a broad range of real estate and real estate related companies.

Providing space on its towers to cellular service providers, AMT has tenants, long-term leases with contracted cash flows and annual rent increases. That makes it similar to other real estate businesses such as office buildings or shopping malls. In fact, AMT is planning to convert to REIT status in January, 2012. As of 6/30/2011, AMT was 2.8% of Baron Real Estate Fund.

We think tower companies generally have attractive business models that benefit from the growth in demand for wireless data services for smart phones, tablets and other mobile devices. Wireless data traffic is expected to double each year over the next five years, which will lead to increased carrier leasing activity on cell sites.

Tower companies, including AMT, have attractive financial characteristics with incremental revenues carrying incremental margins in excess of 90%. Additionally, local zoning issues create high barriers to entry for would-be competitors.

Despite our positive view of AMT's growth prospects, the company is trading at a valuation lower than many REITs. We think that makes AMT a particularly attractive investment right now. In addition to the growth we anticipate from current operations, REIT status will enable those real estate funds currently limited to purchasing REITS to buy AMT as well, which we think will push AMT's valuation even higher.

*Baron Real Estate Fund invests primarily in real estate and real-estate related companies that we believe have significant growth potential over the next five years. In this column, Portfolio Manager Jeff Kolitch presents his views on the companies and developments that he believes will be important in the months to come. Current and future portfolio holdings are subject to risk. 🏠*