



MARKET LICENSE FEE RESEARCH

for the

NSW Independent Pricing And Regulatory Tribunal



(An example of 5G/Small Cell Equipment mounted on a Light Pole)

5G Small Cell Equipment Hosting in the Sydney Metropolitan Area

Ref: 2217 of October 2024



18 October 2024

Ref: **2217**

Mr Matthew Tsikrikas
Principal Analyst
Independent Pricing And
Regulatory Tribunal
PO Box K35,
Haymarket Post Shop, NSW, 1240

Dear Mr Tsikrikas,

MARKET LICENSE FEE RESEARCH

5G/Small Cell Equipment Hosting in the Sydney Metropolitan Area

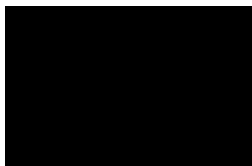
As instructed, we provide herewith the results of research into market license fees for hosting of 5G/Small Cell equipment on infrastructure in Eastern Australian urban locations. This research was carried out in late 2022 and early 2023. It builds upon our prior research from 2018 and 2021.

Our market research has included approaches to Local Councils in Sydney, Wollongong and Newcastle, NSW Public Authorities and City Administrations elsewhere in Australia. Our research covers existing and proposed 5G/Small Cell equipment hosting sites. Information is scarce, but we have found examples of annual fees ranging from \$1,000 up to \$4,258 +GST per site under multi-site agreements. The higher site hosting fees are mostly associated with the larger site owner entities, like State Government Authorities. The fees relate to off-ground equipment installations and do not allow for any nearby in-ground or on-surface presence of equipment cabinetry.

Tenure arrangements from the larger owner entities are mostly by over-arching agreements to which individual sites are included as necessary. Local Councils continue to use individual site licenses with 5 year terms or indefinite access deeds. Annual fee increase mechanisms vary and include CPI, CPI+, highest of CPI or Fixed, and straight Fixed (ranging from 3% to 5%). Within the Sydney and Melbourne Metropolitan Areas, fee variations due to locational differences are also evident.

The above summary is supported by the market evidence described in the attached report.

Yours sincerely,



ROBERT J MEGGS F.A.P.I.
Certified Practising Valuer, API Member. 68120

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MARKET LICENSE FEE RESEARCH

5G/Small Cell Equipment Hosting in the Sydney Metropolitan Area

Introduction

We are instructed by the NSW Independent Pricing And Regulatory Tribunal (IPART) to provide the results of our research into market license fees for the hosting of 5G/Small Cell communication equipment on infrastructure. This research was carried out in late 2022 and early 2023. It builds upon our prior research from 2018 and 2021. In the course of our research, we have considered any variance in fees across the Sydney Metro Area due to locational difference. We have also gathered market information as to annual rent review mechanisms that apply throughout occupancy terms and at the commencement of each option period.

For the purposes of this matter and the advice herein, the following definitions may be relied upon:-

“Market License Fee” is the estimated amount which would reasonably be expected to be paid for access to, and use of, infrastructure for the purpose of mounting 5G/Small Cell communications equipment, under an occupancy arrangement, subject to terms and conditions, and between a willing licensee and a willing owner in an arms-length transaction where the parties had each acted knowledgeably, prudently and without compulsion.

“5G/Small Cell equipment” is low-powered cellular radio access nodes that operate in licensed and un-licensed spectrum, with a range of up to a few hundred metres in urban areas. They are typically used by Telecommunication Carriers to extend their service coverage and/or increase network capacity. They generally do not include any nearby on-ground or in-ground associated equipment. It is noted that an on-ground presence of equipment cabinetry is more frequently associated with Microcell and Macrocell sites. Based on our investigations we offer the following information and advice.

Market Research

We are instructed by NSW IPART to provide the results of our prior research into market license fees for the hosting of 5G/Small Cell tele-communications equipment on infrastructure sites across Sydney and other eastern state metropolitan areas. We are of the opinion that the best evidence of the market rents for Small Cell equipment sites is those licence fees which are already in place for such sites in various metropolitan located public spaces. When comparing these equipment hosting sites consideration has been given to factors including location, physical features, commercial opportunity, power supply access, backhaul cable capacity, and the terms and conditions of the respective license agreements (where available).

Since first researching the market for the 5G/Small Cell site hosting of communication networks in 2018, we have found that it continues to be immature and imperfect. It is characterized by a lack of uniformity and a restricted flow of information. Notably absent from the market is a clear “yardstick”, evidenced by multiple transactions, and with which to apply traditional methods of rent assessment to these particular sites. Another inhibiting factor to the assessment of market license fees for Small Cell sites can be their tenure agreements. Often, agreements are originated by a Carrier, are drafted in the Carrier’s favour, require confidentiality of terms, and occasionally will have no provision for a market rent review during the entire tenure.

A further distorting influence in the market continues to be the Commonwealth legislation that governs the industry. The Telecommunications Act 1997 (Commonwealth) permits special powers of site access and use to the Telecommunication Carriers for the purposes of operating telecommunication networks. In particular, these special powers have been used by the Carrier companies to avoid delays in site establishment by circumventing the need to negotiate and create formal tenure agreements with site owners until long after the site is operational.

Though there is growing demand from users for access to 5G communication services, and a reported eagerness by the Carriers to continue expanding their networks, the enthusiasm of Public Authorities for the hosting of 5G/Small Cell equipment sites on their infrastructure is variable. Within some Government bodies there exists a strong desire to facilitate public access to the latest communications technology, regardless of site hosting income. However, many Local Councils appear to place dealing with the Carriers into the “too hard basket”. Several Councils have indicated that fee levels proposed by the Telco Carriers are unattractively low and do not reflect a fair return for the effort required by the Local Council to host 5G equipment.

State Government entities (e.g. ██████████, Vic Roads, VicTrack), Public Private Partnerships (e.g. operators of electrical distribution networks) have been more successful in concluding hosting agreements at substantially higher fee levels than that offered to Local Councils by the Carriers. This is possibly due to a Carrier preference for dealing with a fewer number of larger infrastructure owners.

In the course of our research we have reviewed the current “Fees and Charges” schedules for many Sydney Metropolitan Councils, specifically looking for fees relating to telecommunication access and occupation licenses. We have followed this research up with both verbal and email inquiries about any existing license arrangements for Small Cell networks to many Councils. We have also approached several NSW public authorities. However, meaningful responses were only received from three such authorities. Outside of Sydney we have contacted Newcastle and Wollongong Councils, Canberra City Administration, Brisbane City and Gold Coast City Councils, Vic Roads and VicTrack. Market information has also been exchanged with a Melbourne based Valuer who is experienced in the assessment of market rents for Communications Infrastructure sites.

Many of the Sydney Councils spoken with have advised that they have no fee earning agreements for the hosting of 5G/Small Cell equipment. Several of the Councils say they reject approaches from the Telco Carriers outright because of the low hosting fees which are proposed (sub \$1,000/site).

Some Municipal and City Government Authorities have their own Smart Pole networks. A few of these networks are owned outright and have existing agreements with Carriers for the hosting of 5G/Small Cell equipment. Elsewhere, there are local Authorities that have Design, Construct, Operation & Maintenance agreements for Smart Pole networks with private firms (e.g. ENE-HUB) under revenue share arrangements. In these situations, the private firm operator is understood to deal directly with the Carriers, and our inquiries have not yielded results.

Generally, most Public Authorities were reluctant to release specific information about any access/license fee structures that they have, or may be considering. In a few cases we have been able to obtain information about fees and agreement terms.

Briefly, the most relevant information from these inquiries and any pertinent comments are as follow:-

City of Sydney Council

CSC has its own Smart Pole network of over 2,000 Smart Poles across its Local Government Area. Specific poles are licensed to individual Small Cell Network operators and generally the licensee has exclusive use of a Smart Pole for mounting its Small Cell equipment. CSC continues declining to provide details, including pricing, claiming that the contract is classified as “Commercial in Confidence”. However, from an independent source it is understood that in late 2021 the annual license fee for hosting of Small Cell equipment on a CSC Smart Pole was around \$2,500 +GST. It is assumed that with annual increases, this rate is now at least \$2,650 (but this has not been verified).

North Sydney Council

NSC have a Smart Pole network numbering about 220 poles in the North Sydney CBD. All are sited on Council controlled lands. NSC recently advise that it is yet to conclude an agreement with any Carriers for 5G/Small Cell equipment hosting. Following the advent of COVID in 2020, the Councils negotiations with Carriers ceased, and as at April 2023 are yet to restart. NSC’s original position for an initial license of 9 sites to TPG was \$6,000 +GST per site. NSC anticipate that the per pole rate will be lower for access to a larger number of poles.

Northern Beaches Council

The listed fee for Small Cell installation on the Council’s land, light pole or building is \$9,850 +GST pa. NBC advises no new equipment hosting agreements with Carriers, except a temporary arrangement with Optus who needed to relocate a rooftop site into an adjacent beachfront reserve at short notice and are paying the Council’s listed fee.

Ku-Ring-Gai Municipal Council

KMC have 60-70 Small Cell sites, each up to 500m apart, primarily along Pacific Highway and other main roads. Of these, 25 belong to Telstra but with no agreed rents. Optus have 6 sites and negotiations have advanced, but still no agreement. In an effort to get an agreement “over the line” and as a basis for future negotiations with Carriers, KMC has revised its target annual fee per site down to \$1,000 +GST. Carriers need to source their own power supplies. For sites with no defined land title (e.g. road reserve) KMC use "indefinite deed" agreements. KMC’s continuing strategy is to get Carriers “on board first” and then use fixed annual increases of 5% to grow income from the sites.

Wollongong City Council

Enquiries yet to be returned. WCC Fees & Charges 2022-23 lists annual rent for an equipment shelter at \$16,900 incl GST and for an equipment shelter & light pole \$21,265 incl. GST. Difference is \$4,365 incl. GST (\$3,968 +GST) and is assumed to equate with a pole only equipment hosting situation.

Endeavour Energy

EE now hosts 5G/Small Cell equipment at about 300 sites in its electricity distribution infrastructure. Their infrastructure carries an existing low voltage supply. EE will allow the Small Cell to “hook in” for power supply, but otherwise the Carrier needs to arrange own supply. EE has "Umbrella type” agreements with all main Carriers (Telstra, Optus, Vodafone). Underneath the “Umbrella” agreements are "Site Nomination” Agreements for each site. EE anticipates the number of sites to grow about tenfold (to about 3,000 sites in EE's operating area). While precise site rental details could not be obtained due to commercial-in-confidence restrictions, it is understood that the agreed rents per site with all 3 Carriers are between \$2,000 and \$2,500 +GST (assuming an average of \$2,250 +GST per site). Annual rent increases are at highest of CPI or 3%.

Ausgrid

AUSGRID has commercial agreements with all communications Carriers, but will not reveal rents due to commercial-in-confidence reasons. The rent rates are variable for different types of equipment, but are for all equipment mounted on AUSGRID infrastructure. Any ground rentals are a separate and additional arrangement. In 2021 Ausgrid indicated that the fee range for hosting 5G/Small Cell equipment on infrastructure was \$2,000 - \$4,000 +GST pa, with an estimated average of \$3,000 +GST pa. Annual increases are a mix of CPI +0.4 % or a straight fixed 3%. In 2023, Ausgrid indicated that current rates reflect 2021 rates plus annual increases (assume average site rate is now \$3,183 +GST pa)

██████████ avoid using Master Agreements and preferred to use "Precinct Licenses" (pro-forma occupancy agreements) for "bundles of sites" ██████████. Currently, ██████████ is working on a "pilot agreement" with Optus ██████████ with 6 Small Cell/5G sites. ██████████ has a "rate card" for these sites as follows:-

- Category "0" Premium sites (CBD, North Syd, Petersham, 24 sites) \$3,500 per site plus GST.
- Category "1" Premium sites (Artarmon, Chatswood, Ashfield) \$3,000 per site plus GST.
- Category "2" Premium sites (Hornsby, Canterbury) \$2,500 per site plus GST.
- Category "3" Premium sites (Outer) \$2,000 per site plus GST.

The above ██████████ categories 1,2 and 3 equate with the category locations for Small Cell/5G Equipment Hosting which were provided in a 2021 report by our firm. Regarding Annual Review factors, ██████████ avoid CPI, preferring fixed rate reviews at 4% (but won't go below 3%). At present ██████████ are "harmonising" agreements, and this sometimes results in a loss of existing advantageous conditions (like premium rents, high annual increase factors, extra charges).

Brisbane City Council

There are two (2) aspects to the BCC's hosting of 5G/Small Cell equipment. Firstly, BCC has an agreement with ENE-HUB for design, construct, operation & maintenance for 20 years of a Smart Pole System in inner city areas. ENE-HUB enter into agreements directly with the Carriers. There is a revenue share arrangement between BCC and ENE-HUB for income from the Smart Poles. Secondly, BCC also directly host Carrier equipment on Council infrastructure using a "Small Cell Access Deed". This is an over-arching deed with each Carrier that covers a multitude of sites, but individual sites are approved under a site license. Information on the rates that BCC charge directly to the Carriers for site hosting was unavailable for commercial-in-confidence reasons. However, it was indicated that the Rates are subject to annual increases of greater of CPI or Fixed 3.0% - 3.5% (depending on Carrier).

City of Gold Coast

CGC has developed its own Multi-function pole system utilising existing pole and associated infrastructure. CGC has a Facilities Access Deed that is used when hosting Telco Carrier Small Cell equipment installations on their poles. CGC advises that it has current agreements with Optus and Vodafone/TPG. CGC use a "Pricing Scale" that has various steps for the level of facility. In late 2021, a 5G Cell hosting without electricity was \$2,700 +GST per annum. A 5G Cell hosting on a pole site with electricity was \$4,000 +GST per annum. Annual fee increases are either fixed at 3% or CPI +0.5%. Due to the application of annual increases. It is assumed average site 5G/Small Cell Hosting rates in CGC are now minimum \$2,864 +GST pa (no electricity) and \$4,244 +GST pa (with electricity). In April 2023, CGC advise that its 5G Equipment Hosting "Price Scale" is under review.

Melbourne Metropolitan Area

VicRoads - VR divides its Telco Carrier Site portfolio into two parts. First is "Low Impact" which includes Small Cell and Micro Cell installations. Second part is "High Impact" for Macro Cell installations (Carrier infrastructure on Vic Roads land). For High Impact sites VR rely on Victorian Government Valuations to determine site rents. Low Impact sites have three fee levels that were set in 2017/18 and are subject to 4% annual increases. The base level rate for equipment mounted on infrastructure, with no ground presence, is \$3,500pa +GST (\$4,258 +GST escalated to 2023). For the low impact sites, Vic Roads use a Master Agreement with a Schedule of identified sites. In late 2022 VR had about 300 low impact sites with occupancies by carriers, Telstra, Optus and Vodafone.

VicTrack - VT has 15,000 tram poles throughout Melbourne and it is responsible for all rail and tram lines in the state. Operation of the trams in Melbourne is by Yarra Trams (TransDev) and they also have an interest in use of the tram poles that needs to be managed alongside any equipment hosting for the Telco Carriers. VT uses a Master Agreement with each Carrier and within this sits a schedule of sites. Site rents derive from a "rate card" that is based on the volume size (litres) of the equipment as it is the volume that ultimately affects loading on poles. Locational fee differences also apply.

VicTrack Small Cell hosting fees 2023	Less than 50 litres	Between 50 & 200 litres
CBD and Docklands	\$2,500 + GST	\$3,500 + GST
Melbourne Suburbs	\$2,200 + GST	\$3,000 + GST

The VicTrack agreements provide for fixed annual increases of between 3% and 3.5%.

TABLE OF RECENT MARKET RENTAL EVIDENCE

OWNER	CARRIER	SITE NO's	\$RENT +GST pa	ANNUAL INCREASE	TENURE ARRANGEMENT
City Sydney C	All carriers	>2000	Est \$2,650	?	Individual site license
North Sydney C	TPG,Optus	220	Ask \$6,000	Ask 5%	Multiple site license
Ku-ring-gai MC	Optus	60-70	~ \$1,000	5%	Indefinite access deed
Nrth'n Beach C	All carriers	1	\$9,850	CPI	Individual site license
Wollongong CC	All carriers	?	\$3,968	CPI	Individual site license
Endeavour Eng.	All carriers	~ 300	~ \$2,250	CPI or 3%	"Umbrella" Agrmt
Ausgrid	All carriers	1,000's	~ \$3,200	3% or CPI+	Bulk site Agrmt
██████████	All carriers	<100	\$2.0-\$3.5k	4%	Precinct license Agrmt
C of Gold Coast	All carriers	few 100	\$2.9-\$4.2k	3% or CPI+	Facilities access deed
VicRoads	All carriers	100's	\$4,258	4%	Master License Agrmt
VicTrack	All carriers	100's	\$2.2-\$3.5k	3% - 3.5%	Master License Agrmt

Review of Market Research

Despite making inquiries of many Local Councils and Public Authorities, we have identified only limited publically available information about the pricing and terms for 5G/Small Cell equipment hosting sites. Reasons of commercial confidentiality were often given for this information not being publicly available.

Examples of license fee rates now being received for hosting 5G/Small Cell installations on infrastructure at multiple sites have been found to range from \$1,000 + GST per annum per site (Ku-ring-gai Municipal Council) up to \$4,258 +GST per annum per site (VicRoads). Within this range, the level of license fee appears now to correlate most closely with the level of facility at the site, as well as the substantiveness of the site owner. The lower license fee rates generally reflect a site with no direct connection to electricity supply and ownership by a Local Council. Those license fee rates that are towards the upper end of the identified market range mostly reflect 5G/Small Cell sites on modern purpose built infrastructure, with direct access to power supply and ownership by larger entities, typically associated with State Governments.

The hosting site location also has some bearing on the license fee rate. Perceived high use, inner urban areas indicate higher than average asking rates (e.g. North Sydney), with fringe metropolitan areas (e.g. Ku-ring-gai MC) having lower than average asking rates. From this, we infer that sites in middle distance suburbs would anticipate average market rates between the inner and outer areas. Site fee variance due to locational difference also occurs in the "rate cards" used by three of the larger site owner entities from which information was obtained ([REDACTED] VicRoads and VicTrack).

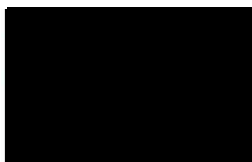
A few Sydney Councils have published Small Cell hosting rates in their listed "Fees and Charges", but these are generally higher (and sometimes much higher) than the site rates that are evident in the multi-site agreements noted above. A single example in Northern Beaches Council of an equipment hosting site where a Carrier pays a published fee of \$9,850 +GST per annum is a temporary arrangement only.

Volume fee discounts for large numbers of sites under a single agreement (greater than, say 100 sites) appear to be implicit in the above researched hosting site rates.

Please contact us if we can be of further assistance in this matter or any other.

Yours sincerely,

K&T PROPERTY CONSULTANTS PTY LTD



ROBERT J MEGGS F.A.P.I.

Certified Practising Valuer, API Member. 68120

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CLAUSES OF LIMITATION

1. **Documentary Information supplied to us** - We have been provided with copies of various documents as indicated in the report. It is assumed that these copies are a true reproduction of the original documents and that no subsequent dealings have occurred which would materially affect the intention or form of the documents.
2. **Verbal Information supplied to us** - It has been necessary in certain cases to rely upon verbal advice from various parties and statutory authorities as mentioned in the report. Where possible, We have endeavoured to verify this information from other sources, however, in the event of this information being found to be false, misleading or provided with the intention of being misleading, we reserve the right to revise our report and the advice contained herein.
3. **Land Identification Survey** - A full Identification Survey relating to the land has not been provided. It is assumed that no encroachments exist by or over the subject property apart from those mentioned in this report.
4. **Condition of Improvements** - It is assumed that unless otherwise stated in the report, the improvements described comply with the relevant provisions required by statutory and other authorities. A structural survey report on the improvements has not been provided to us. The obvious condition and repair of the improvements have been taken into account in providing our opinion of value.
5. **Site Specific Environmental Matters** - Although we are not aware of any soil structure or site contamination problems, neither a geo-technical survey or an environmental audit report have been examined for the subject property. The valuation therefore assumes that there does not exist a matter of such nature that may noticeably affect the property's value.
6. **Use of Valuation Document and Information Therein** - This valuation is provided for the use of the client named, and for the purpose stated, in the report. No responsibility is accepted to any third party for any reason for the whole or part of the contents of the report.
7. **Reproduction of Valuation Document and Information Therein** - It is agreed that neither the whole nor any part of the report is to be reproduced in any document, circular or statement without first obtaining the written consent of K&T Property Consultants Pty Ltd as to the form and context in which it is to appear.
8. **Goods & Services Tax** - Unless specifically stated all property prices/values within this report, including the final valuation amount, do not include a GST factor.
9. **The Currency of the Valuation/Advice and Reliance Thereon** - This provided valuation/advice is current as at the date of valuation only. The value assessed/advice given herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value/advice. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation/advice is relied upon after the expiration of 3 months from the date of the valuation/advice, or such earlier date if you become aware of any factors that have any affect on the valuation/advice.

APPENDICES

STATEMENT OF VALUER QUALIFICATIONS AND EXPERIENCE

STATEMENT OF VALUER QUALIFICATIONS AND EXPERIENCE

ROBERT JOHN MEGGS

Valuer profile

Robert J Meggs - FAPI Certified Practising Valuer. Robert has been involved in the valuation profession since 1980. He is a graduate of the Hawkesbury Agricultural College with a Diploma of Business (Valuation). Prior to the cessation of Valuers Registration in NSW, he held unlimited registration. He is a Fellow Member and Certified Practising Valuer of the Australian Property Institute. Robert has also held Chairperson, Secretary and Treasurer positions in the Central Coast Valuers Study Group. He regularly participates in the Institutes Continuing Professional Development program and assists with the API's VIVA program for the advancement of younger members in the Institute.

Robert has been the principal, sole Director and Valuer of K&T Property Consultants since August 1992. **K & T Property Consultants Pty Ltd** has valued extensively on the NSW Central Coast, in metropolitan Sydney and across the State of New South Wales. The Firm's experience extends to a wide variety of property types and interests including Freehold, Leasehold, Partial Interest, Mortgage, Stamp Duty, Capital Gains Tax, and Building Insurance situations.

Valuer Experience with Communication Infrastructure

The following are Telecommunication Site assignments from Councils and other large land owners:-

- Gosford City Council (2009-16) - Market research, site specific rent advice, Rental Determination submissions.
- Central Coast Council (merged Gosford & Wyong Councils, 2016 onwards) - Market research, site specific rent advice.
- Sydney Water - (2015) - Market research, site specific rent advice.
- North Sydney Council (2018) - Market research (5G Small Cells), site specific rent advice.
- A NSW Government Agency (2021) - Market research (5G Small Cells), locational rent advice.
- Cronulla (2022) - Market research, site specific rent advice for a premium building rooftop CMTS site.
- Sydney CBD (2022) - Market research, site specific rent advice for a rooftop CMTS site.
- A NSW Government Agency (2023) - Market research (5G Small Cells), Update of locational rent advice.
- A NSW Government Agency (2023) - Market research (Microcells), locational rent advice.
- A Sydney Metropolitan RSL Club (2023) - Market research, site specific rent advice for a building rooftop CMTS site.
- Cronulla (2024) - Market research, site specific rent advice for a premium building rooftop CMTS site.
- A Sydney metropolitan Local Council (2024) - Market research, site specific rent advice for a Monopole CMTS site.