



Expect More Uncertainty Over Data Center Lease Schedules

We expect early termination options in data centers to become more tenant-friendly, especially for hyperscalers. If tenants choose to exercise these options, lease rollover schedules can move up, potentially stressing deal cashflows. Large hyperscale tenants, such as Microsoft and Amazon, are reportedly scaling back or reassessing their data center leasing demand. We will not be surprised to see tenants now negotiating leasing contracts that provide them with more property-specific flexibility. Anecdotally, data center landlords have disclosed that the hyperscaler contract process is now “extremely thorough.”

Stav Gaon

+1 (646) 768-9173

sgaon@academysecurities.com

Headquarters Address:

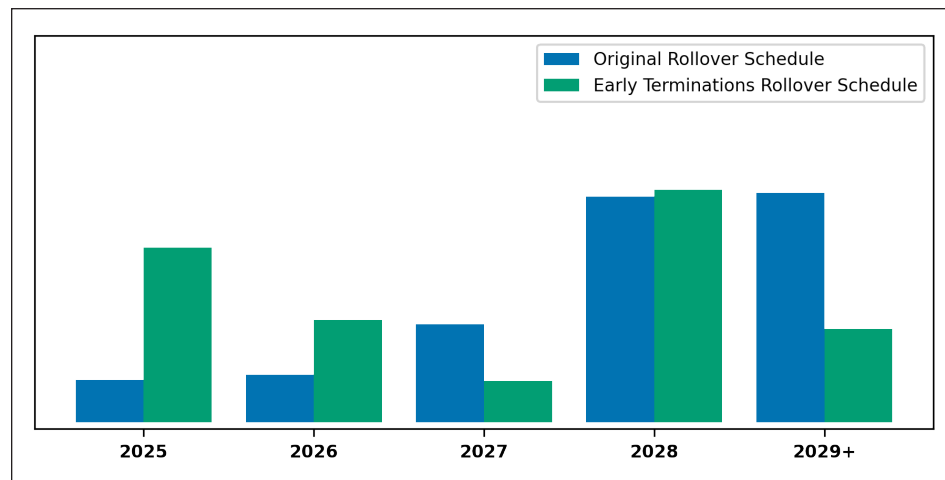
Academy Securities, Inc.

622 Third Avenue, 12th Fl

New York, NY 10017

Outstanding data center securitization deals feature only a handful of early termination options. Some of the termination provisions we do see across deal documents are landlord friendly. For example, in the \$319 million JPMCC 2022-DATA, Google, the single-tenant on the underlying Nexus Data Center in Sterling, VA, can terminate its lease at any time beginning in March 2024. The lease expires in April 2029. However, early termination in Nexus could involve Google having to pay up to \$166.9 million in termination fees. Google may also be responsible for paying the operating overhead on the facility for up to two years. Still, if Google decides to exercise its early termination option in JPMCC 2022-DATA, or tenants make a similar decision in other deals, data center rollover schedules could look quite different than what the standard lease expiration schedules currently suggest (Figure 1).

Figure 1. Data Center Lease Rollover Schedule



Source: Deal Documents, Morningstar Credit and Academy Securities

Early Terminations: Tenant-friendly Provisions to Move Up Data Center Rollovers

Complex Performance-Driven Termination Provisions

Other termination options we see on outstanding deals are closely tied to operator/facility technical non-performance. The \$687.1 million CONE 2024-DFW1 deal illustrates the complexity of these options. Most of the top tenants in the underlying property in Carrollton, TX, can terminate their leases following various disruptions in the data center. Some of those disruptions may be power outages that last only two hours or more, or improper temperature or humidity stability, that continue for 72 hours, according to deal documents (Figure 2).

Figure 2. Data Center Select Early Termination Options

Deal	Current Loan Balance (\$MM)	Tenant	Capacity	Lease Expiration	Early Termination Options
DATA 2024-CTR2	185.0	Confidential Tenant 1	41.7%	2031	• Termination option effective July 1, 2026
		Confidential Tenant 3	24.7%	2025-2026	• Ongoing lease termination options across different pods
DC 2023-DC	990.0	Confidential Tenant 3	11.2%	2028	• One-time right to terminate lease related to 7.3 Leased MW at ACC7, effective October 1, 2026 • \$15 million termination fee
		Confidential Tenant 7	8.7%	2029	• Right to terminate if a governmental authority make it illegal for the tenant to operate in the US. • The tenant's parent is under criminal investigation by the U.S. Government
		Confidential Tenant 8	4.0%	2026	• Ongoing termination option related to its 4.2 Leased MW at ACC7 • Termination fee equal to the lesser of (i) \$4,900,000 and (ii) 50% of any and all remaining power service charges under the lease
JPMCC 2022-DATA	319.1	Google	100%	2029	• Right to terminate any time beginning in March 2024 • Termination fee up to \$166.9 million • Potential tenant responsibility to pay facility overhead for up to two years
CONE 2024-DFW1	687.1	Customer 1	20.7%	2027	• Terminate within 30 days if four or more "core deficiencies" occur within any 12-month period; Core deficiencies include power, cooling, and humidity deficiencies
		Customer 2	9.2%	2026	• Terminate lease if there are two or more major power disruptions during any nine consecutive month period
		Customer 3	9.5%	2027	• Terminate if tenant's data center operations become prohibited by law
		Customer 4	7.9%	2031	• One-time right to terminate the lease effective on January 1, 2029 • Termination fee includes 50% of six months base rent on all contracted power plus unamortized brokerage commissions paid or payable by landlord in connection with the lease

Source: Deal Documents and Academy Securities

To be sure, data center operators boast facility resilience. Properties feature robust safeguards to prevent the kind of deficiencies that the early termination provisions allude to. But recent headline-grabbing massive power outages underscore the concern. The growing reliance of data centers on robust power grids, also suggests tenants could see more opportunities to terminate their leases early if [needed](#).¹ The highly nuanced and technical nature of the early termination provisions we see in deal documents make it harder for investors to assess the likelihood of the triggering events.

¹ "Power Costs: Data Centers and Recovery Bonds Poised for More Predictability," Securitized Products Special Topics, Academy Securities, March 10, 2025

Tenant Identities Impact Projecting Early Termination Likelihoods

The shifting leasing demand of some data center tenants spotlights the ongoing challenge of investors facing “mystery” tenants. Data center ABS and CMBS deals typically do not disclose [tenant identities](#).² Deal documents and presales provide tenant and lease summaries laden with “confidential” entries. Comparable lease or sales activity information that deal disclosures provide will also be cloaked in secrecy. Anecdotally, the word “confidential” appeared 92 times in CONE 2024-DFW1 presale.

Not surprisingly, we cannot identify the specific tenants that have elaborate early termination options in the CONE 2024-DFW1 deal. Investors perhaps can make educated guesses based on clues in the documents. For example, DFW1’s “Customer 3” can terminate its service agreement at the data center if its operations become “prohibited by law”. We do not see similar language in the disclosed termination provisions of the other tenants in the property. But the early termination option of “Confidential Tenant 7” in the \$990 million DC 2023-DC deal also features government action-driven provisions. All told, investors may assume that DFW1’s “Customer 3” or DC’s “Confidential Tenant 7” fall into a category of firms such as Tiktok. Investors may fill out and sign deal-specific investor certifications (confidentially agreements) to access additional tenant information.

Data center tenant identification becomes increasingly important to assess upcoming leasing decisions of specific data center tenants. Hyperscalers and other tenants may vary in how they manage and re-assess their data center leasing demand. Developments such as Microsoft’s pullback from some data center lease negotiations could have direct implications on data center deals where Microsoft is a tenant with flexible early termination options.

2 “Data Centers: Tenant Rosters Poised to Change,” Securitized Products Special Topics, Academy Securities, August 12, 2024

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