



Cell Tower Trends Somewhat Contrast with Data Centers, Highlighting Value

The recent \$3.3 billion cell tower leasing deal Verizon struck with tower operator Vertical Bridge underscores secular tailwinds we see for the tower ABS sector. Verizon sold Vertical the rights to lease a portfolio of 6,339 towers. Verizon is also leasing back capacity on the towers for ten years. The lease agreement includes options that could extend the lease term up to 50 years.

The development strengthens a trend where mobile carriers prefer to lease capacity on cell towers rather than own or operate them. This should bode well for future tower leasing demand. Interestingly, the revealed leasing preference of large tower tenants contrasts with what we see in the data center sector. Over there, large data center tenants or hyper-scalers such as Google, Meta, and Amazon increasingly have been inclined to develop and operate their own data centers, casting some uncertainty over future hyperscale leasing [demand](#).¹ Still, data centers should continue to benefit from supportive backdrop. New tenants may pick up available leasing capacity. In particular, Federal agencies are poised to become prevalent users of commercial data centers, as we recently [discussed](#).²

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Long Term Leases and Equipment Specificity

The Verizon/Vertical agreement also has implications for a couple aspects that typically are considered potential weaknesses of tower ABS deals:

- **Landlord/tenant tensions over the shared infrastructure tower business model are subsiding.** Tower ABS deal documents and presales have been alluding to carriers' previous public criticism of tower leasing arrangements. It now seems carriers are embracing the leasing approach. The leasing agreements also point to very close landlord/tenant collaboration, and low likelihood of sudden or unexpected terminations. Tower operators describe the leasing terms as exceptionally specific. Beyond just leasing space on a tower, tenants also enter agreements that specify model and serial numbers of every piece of equipment included. The agreements note equipment weight, size, and dimensions, including the cabling, the radios, the antennas, and any other components, according to operator commentary. This ties into other tower lease features that we see as landlord-friendly (or lender-friendly as the leases

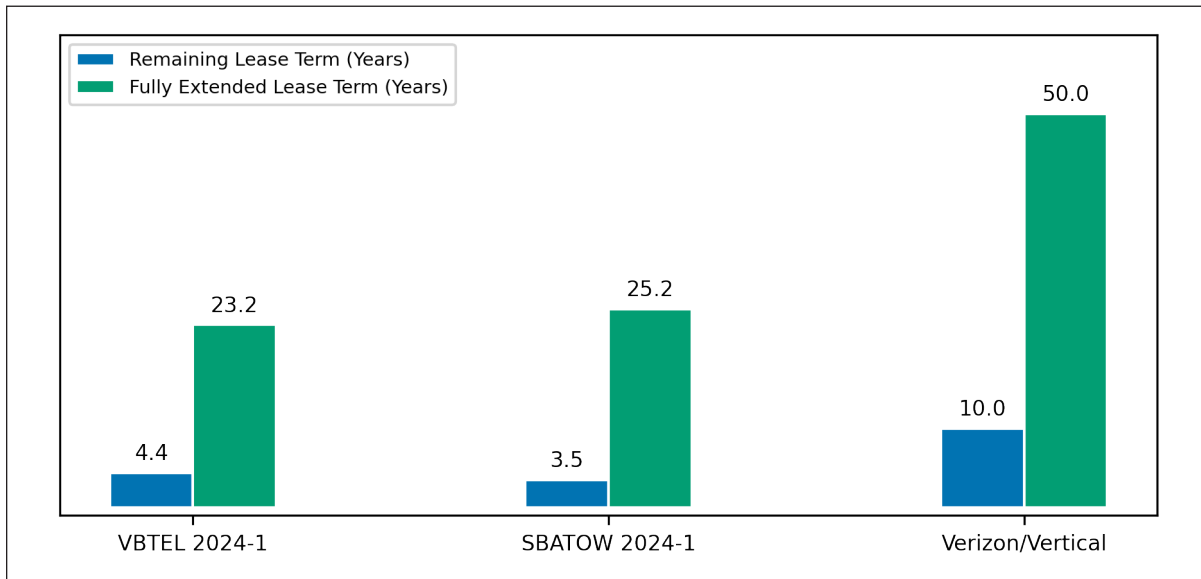
¹ "Data Centers: Performance Wrinkles to Test Operators' Role," Securitized Products Special Topics, Academy Securities, February 21, 2024

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

Tower ABS: Tenant Preferences Bode Well for Leasing Demand

roll into a tower ABS deal), such as the absence of termination options and rent escalators, as we discussed in a previous [report](#).³ To be sure, leases on recently issued deals have relatively short remaining periods, albeit with long extension options, based on deal documents (Figure 1). Carriers may still choose not to renew their leases as they reach exit points, especially amid carrier consolidation such as the T-Mobile/Spring merger. But overall, cell tower leasing agreements appear to be some of the most stable across the CRE spectrum.

Figure 1. Cell Tower Lease Terms



Source: Deal Documents, Ratings Agencies and Academy Securities

- Verizon’s long lease term may also assuage lingering concerns over tower obsolescence and technology changes.** Similar to data centers, the specialized nature of the tower collateral, and the potential for alternative technologies to rapidly make current technology obsolete, often comes up as credit negative on tower deals. However, new long-term leases suggest carriers’ belief in the sustainability of existing towers. In fact, tower operators mention that technology changes offer them additional monetization opportunities on their towers via equipment upgrades or replacements. Specifically, the typical master lease agreements (MLA) operators offer include equipment entitlements, and a la carte pricing for modifications, such as adding additional equipment for 5G upgrade.

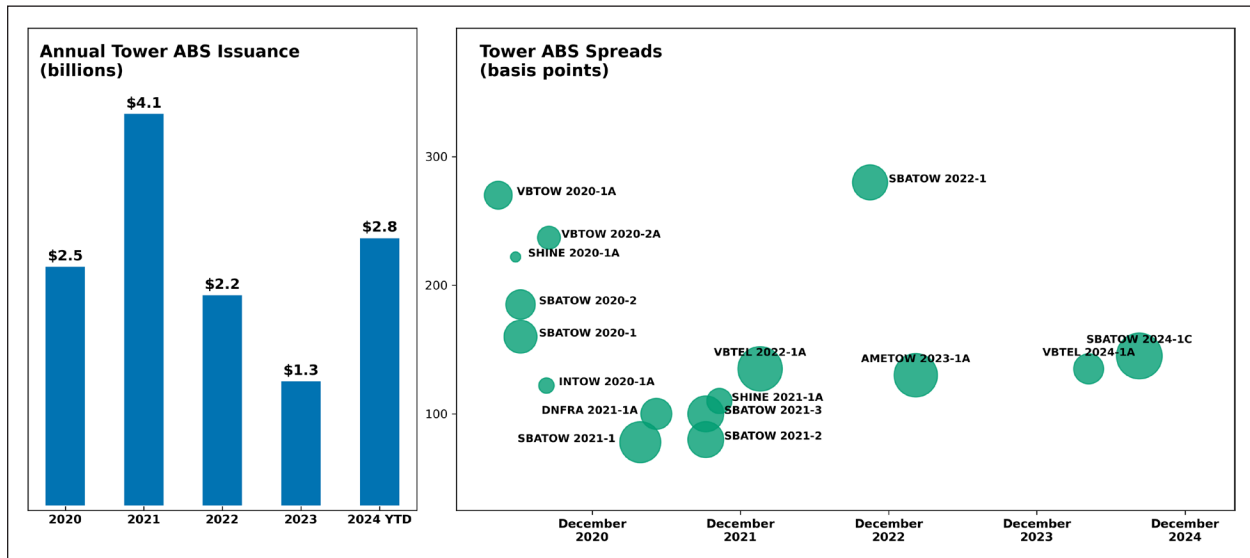
³ “Cell Towers: Lender-Friendly Features Dovetail with Secular Tailwinds,” Securitized Products Special Topics, Academy Securities, March 14, 2023

Tower ABS: Tenant Preferences Bode Well for Leasing Demand

Issuance Pickup

Tower ABS new issuance is poised for a pickup, following spotty cadence in recent years. The recent \$1.45 billion SBA Tower 2024-1 C transaction, upsized from \$1.2 billion, likely attests to investor appetite for tower deals. SBA’s five-year WAL single-tranche, single-A-rated class priced at 145bp over benchmark. Earlier this year, Vertical Bridge priced a \$625 million, three-class deal (Figure 2). VBTEL 2024-1 extended the trend of tower ABS deals offering subordinate classes. The triple-B-minus and double-B-minus classes priced at spreads of 225bp and 455bp, respectively. Beyond the two deals priced YTD, other issuers, including previous issuer Diamond Communications as well as new entrants, may also be looking to tap securitized markets this year, according to press reports.

Figure 2. Tower ABS Issuance and Spread Levels



Source: Bloomberg and Academy Securities

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