

SECTOR IN-DEPTH

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Accounting – US

Hyperscalers' reported AI-related lease commitments may understate economic risk

Summary

Hyperscalers have hundreds of billions of dollars of future lease commitments related to the expansion of data centers for artificial intelligence (AI) and cloud computing. When commenced, these leases will be part of our adjusted debt metrics for the companies — Amazon.com Inc. ([A1 positive](#)), Meta Platforms Inc. ([Aa3 stable](#)), Alphabet Inc. ([Aa2 stable](#)), Oracle Corp. ([Baa2 negative](#)) and Microsoft Corp. ([Aaa stable](#)). In the US, data center leases historically had 10-15 year terms. However, AI is prompting shorter lease terms that align with the useful life of the compute infrastructure — though with renewal options. To make the investment case for landlords, these structures are often backstopped by a significant off-balance-sheet guarantee from the lessee.

- » **Credit analysis involves understanding borrowers' full leasing commitments.** In addition to considering cash flow relating to existing leases, we also look at the timing of when new leases will commence, renewal periods and any possible Residual Value Guarantees¹ (RVG) for the lease. Investors should look at both the standard leasing footnote and the footnote providing SEC-mandated disclosure of future contractual commitments. They should also be aware of some limitations as to what amounts are provided in disclosure of future lease-related cash outflows.
- » **Uncertainty surrounding AI data centers affects accounting liabilities, disclosures may not show the full picture.** A lease renewal period is not included in the lease liability unless the company is at least “reasonably certain” to renew the lease. Given the length of time until the leases commence and material capital allocation decisions related to updates of the underlying compute infrastructure, companies can justifiably argue they are less than reasonably certain of renewal.
- » **Accounting for guarantees included in a lease can be opaque.** When the financial commitment made by the hyperscalers is in the form of an RVG that is part of a lease, the accounting can defer the reporting of the expected obligations. With most liabilities, accounting requires there to be a “probable future outflow” to record the liability. Application of the word “probable” to RVGs may allow companies to avoid reporting an expected payout until the guarantee is exercised.
- » **RVGs, coupled with shorter accounting lease terms, may prompt a debt adjustment.** A quantitative debt adjustment would likely be made where we believe the reported lease liability understates the likely cash outflow — taking into consideration the likely renewal period or the likely exercise of the RVG, or both.

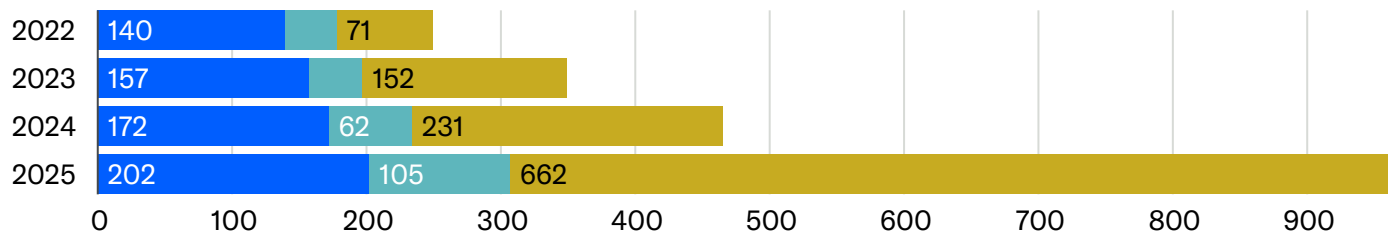
Hyperscaler AI investments drive unprecedented data center lease commitments

[Hyperscalers are driving most of the construction of data centers](#) in an effort to capitalize on the future of AI. A significant portion of this build-out is through leases. Lease commitments as of the most recent reporting period for the Top 5 US hyperscalers (Amazon, Meta, Alphabet, Microsoft and Oracle) showed total commitments (undiscounted) of \$969 billion (see Exhibit 1).

Exhibit 1

Hyperscalers' data center commitments soar, with most for leases that have yet to start Undiscounted future lease payments

■ Operating ■ Finance ■ Yet to be commenced



Source: Moody's Ratings

Of the \$969 billion in committed future leases, including data centers, more than two-thirds (\$662 billion) is for leases yet to be commenced as of the most recent reporting period. To put that into perspective, the amounts related to leases not yet on the balance sheet is 113%² of the hyperscalers' most recent adjusted debt.

We include leases in our calculation of debt and the rent payments in our calculation of interest expense, per our [standard adjustments methodology](#). Consequently, we foresee a material increase in adjusted debt and lease-related cash outflows for these companies in the coming years. While we expect this will be mitigated by an increase in earnings, we recognize there is significant uncertainty with respect to the growth and profitability of the AI market. While leasing the assets reduces the companies' upfront capital investments, having a significant amount of leases will also reduce the companies' financial and operating flexibility, particularly if there is a [rapid change in industry conditions](#). Because the data centers are not owned, they cannot be sold or pledged to support additional borrowing.

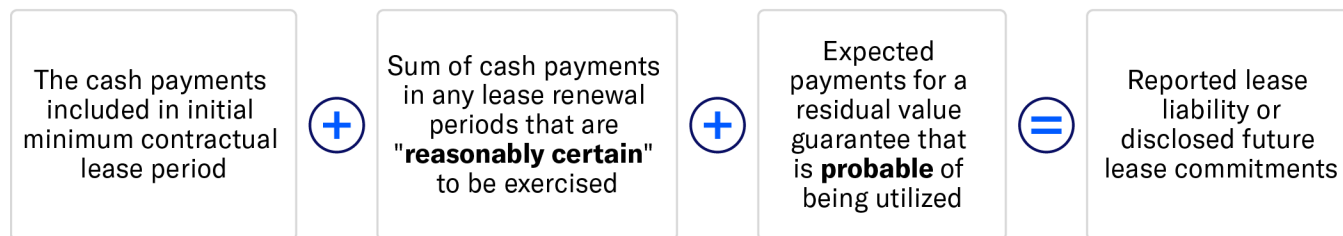
Even so, these numbers do not tell the entire story. Amounts recorded on balance sheets or disclosed as future obligations are quantified based on accounting rules that require significant judgment about the future. The hyperscalers' lease commitment figures mentioned above were quantified based on the US GAAP accounting definition, summarized in Exhibit 2, of a current or future obligation related to leases.

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Exhibit 2

Simplified lease liability calculation

Focusing on how lease renewals and RVGs are included in a lease liability



Source: Moody's Ratings

Uncertainty opens the door for minimal accounting lease terms

For data centers, material amounts of leases yet to be commenced typically relate to assets under construction or close to commencing construction. The hyperscalers will not take control of some of these assets for 2-3 years, and at that time will generally invest heavily in semiconductor and related technology equipment. The decision to extend a lease term will depend in part on the hyperscalers' willingness to make additional investments in hardware, since key technological components installed in data centers typically have a useful life of 4-6 years. This makes a renewal decision not just about the lease associated with the building, but a much more material capital investment decision many years in the future at a time when these technology companies' AI strategy may be different.

On top of the broader macroeconomic considerations, there is an accounting consequence. If a lease renewal is not "reasonably certain", then the cash outflows during the renewal period are not included in the calculation of the total lease obligation. The term "reasonably certain" is a high bar (greater than a 70% certainty). Typically, meeting this threshold has not posed significant issues in the US in the past, since the economic incentives associated with lease renewals led companies to record lease liabilities that align with their anticipated future revenue generation. But for the committed data centers, the inherent uncertainty of renewal means a strict application of the guidance may lead many lease renewals to fall below the "reasonably certain" standard.

RVG accounting in US GAAP differs from other financial guarantees

All this uncertainty around lease term renewals should justifiably cause investors to wonder how the lessor (and its creditors) are comfortable with the construction of such a large, specialized asset, when the related lease term is uncertain. Generally, there is some sort of direct or indirect guarantee in place in the overall data center financing structure that provides assurances for the landlords and their creditors. This can include a performance or financial guarantee, a take-or-pay contract or a RVG included in the lease. The RVG usually guarantees that if the lessee cancels the lease early or does not renew the lease, the RVG will make up any shortfall in value of the assets compared to a pre-agreed amount.

In general, guarantees under US GAAP are initially accounted for at fair value. If that liability is material to a company, we adjust this financial guarantee to debt via our standard adjustment. However, this approach (fair valuing of the initial liability) does not apply to a RVG that is included in the lease under US GAAP.

Instead, like other contingent liabilities, it must be "probable" that the lease will end in order for any future expected payout to be recorded as a liability on the balance sheet.

"Probable" may defer reporting of important RVG information under US GAAP

RVGs included within leases need two consecutive events to occur for the lessee to have a future cash outflow:

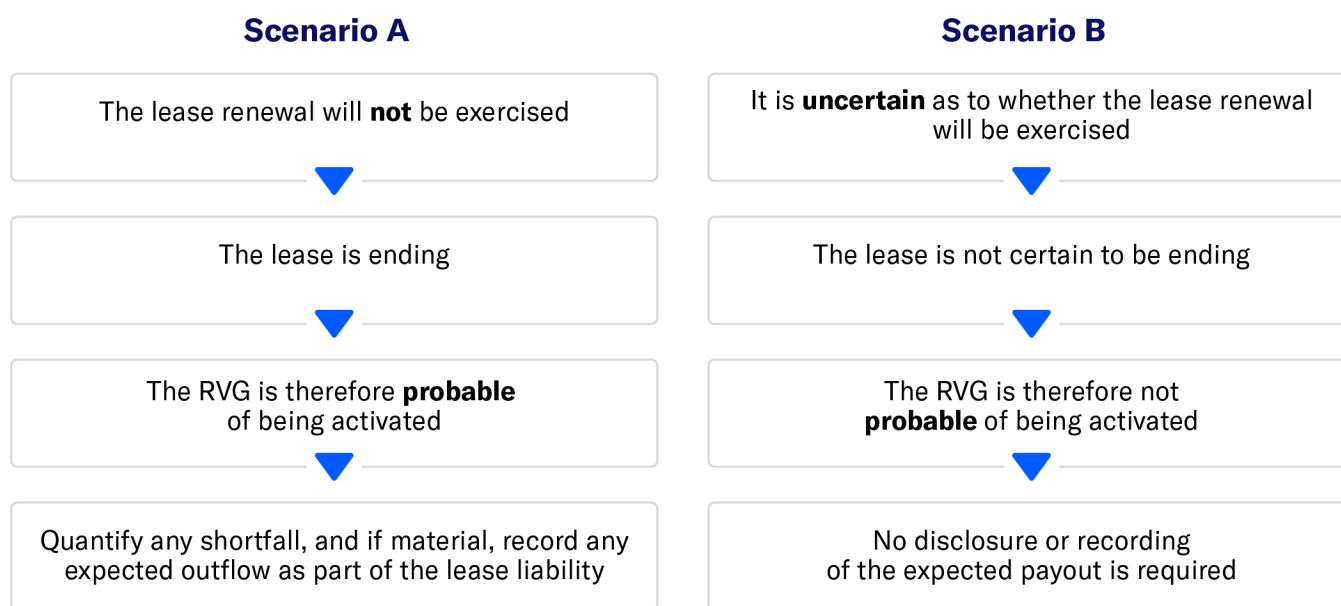
- » firstly, the lease needs to be terminated or expire without renewal,
- » secondly, the value of the leased asset needs to be below the contractually agreed amount.

Accounting related to this contingent outflow assesses the probability of these two events happening and only records liabilities that are probable. See Exhibit 3 for an illustration of how the uncertainty in the renewal of the lease pre-determines the probability of the RVG:

Exhibit 3

US GAAP accounting for an RVG

If the lease renewal is uncertain, expected RVG outflow information is not required



Source: Moody's Ratings

With so much uncertainty around AI it is reasonable for companies to align with Scenario B and not be required to present information that has been updated since the initial disclosure of the RVG. This is less of an issue for the RVG in the near term, since it is reasonable for the value of an RVG, before taking control of a leased property, to be at or near zero. It is also reasonable that companies may align with Scenario B for the foreseeable future and therefore not disclose or record an expected payout for many years to come. Even if it isn't probable that the lease will end, we believe it is important that investors have visibility about material changes (if any) in the valuation of the expected RVG payout over time. An increasing expected RVG payout is an important indicator of downside risk that would also help investors assess multiple scenarios (either future payments for the lease renewal or an estimated payout related to an RVG if not renewed).

Uncertain lease term + no probable RVG = no accounting liability

In summary, under US GAAP, if a company concludes a lease renewal is likely to be exercised, but not reasonably certain, it can avoid classifying both the lease renewal periods and the residual value guarantee as liabilities.

These conclusions align with the recent disclosures of Meta included below:

Sept. 30, 2025 Form 10-Q: We also entered into multiple operating lease agreements with the Venture for the use of properties on the data center campus, which will commence in 2029. **The initial lease commitment is approximately \$12.3 billion for a four-year lease term, with options to renew for a total lease period of up to 20 years.** In addition, we provided a residual value guarantee for the first 16 years of operations whereby we would make a capped cash payment to the Venture if certain conditions are met following a non-renewal or termination of a data center lease and the then-current value of the data center falls below an agreed-upon threshold, which effectively begins at \$28 billion and decreases over time. Our cash payment would be the difference between the then-current value and the threshold.

Dec. 31, 2025 Form 10-K: We also entered into lease agreements with the Venture for the use of properties on the data center campus, which will commence in 2029. The aggregate initial lease commitment is approximately \$12.31 billion, with each property having an initial four-year lease term and options to renew for a total lease period of up to 20 years. In addition, we have provided residual value guarantees (RVG) with an aggregate threshold of approximately \$28 billion that decreases over time. If we decide to terminate or not renew a lease, and if certain other conditions are met, our maximum RVG payment would equal any shortfall between the fair value at that time and the RVG threshold for that property. **As of December 31, 2025, RVG payments are not probable and therefore, no liability has been recorded.**

The accounting liability is unlikely to reflect certain plausible future scenarios where either (i) the lease is extended or (ii) it is not extended and the RVG is triggered and a material payment must be made. With this in mind, we will continue to assess cash exposures and debt-like adjustments as time progresses and the dates of new leases draw nearer. We may make a non-standard adjustment to Moody's adjusted debt based on our expectation of likely cash outflows.

Endnotes

- ¹ Residual value guarantees come in different forms, but generally these are where the lessee guarantees the market value of the asset that is leased at the end of the lease term. If the actual market value of the asset is below the guaranteed amount, the lessee must pay the difference to the lessor.
- ² Calculated based on the adjusted debt for the 12/31/25 LTM period for the top 5 hyperscalers. Lease amounts are undiscounted, therefore the future debt adjustment (that will be the discounted amount) is likely to be a lower percentage.

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