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PRESENTATION

Operator

Good day, and welcome to the Crown Castle Q4 2021 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Senior Vice President of Corporate Finance, Ben Lowe. Please go ahead, sir.

Benjamin Raymond Lowe ***Crown Castle International Corp. - Senior VP of Corporate Finance & Treasurer***

Great. Thank you, Paula, and Good morning, everyone. Thank you for joining us today as we discuss our fourth quarter 2021 results.

With me on the call this morning are Jay Brown, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that will be referenced throughout the call this morning.

This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions and the actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors sections of the company's SEC filings. Our statements are made as of today, January 27, 2022, and we assume no obligation to update any forward-looking statements.

In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crowncastle.com.

So with that, let me turn the call over to Jay.

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Thanks, Ben, and thank you, everyone, for joining us on the call this morning. As you saw from our results last night, 2021 was a tremendous year for Crown Castle. We delivered 14% AFFO per share growth. We grew our common stock dividend by 11%. We benefited from the highest level of tower application volume in our history, resulting in a 35% increase in core tower leasing activity and a 6% -- and 6% organic growth, leading the industry by a wide margin.

We saw an inflection in the demand for small cells, securing commitments for more than 50,000 new small cells during the last 12 months, which is equal to 70% of the total small cells booked in our history prior to 2021. We entered into a new 12-year agreement with T-Mobile that provides committed long-term tower revenue growth, and we made significant progress towards our goal to achieve carbon neutrality for Scope 1 and 2 emissions by 2025 as we successfully sourced 60% of the total electricity we expect to consume this year from renewable sources. These results reflect the positive fundamentals underpinning our U.S.-centric business, as our customers are busy upgrading and deploying their nationwide 5G network, resulting in robust activity across our towers and small cells from new installations and amendments.

As we start 2022, we expect elevated levels of tower leasing to continue this year and anticipate leading the industry once again with the highest U.S. tower revenue growth, supporting our announced 11% dividend increase, which is well above our 7% to 8% target.

Our customers are also committing to the next phase of their 5G build-out that will require the deployment of small cells at scale to increase the capacity and density of their networks as more spectrum deployed across existing macro towers is not sufficient to keep up with the growth in mobile data demand.

With that in mind, I believe 2022 will be an important transition year for our small cells and fiber business as we prepare to accelerate our deployment of small cells from the approximately 5,000 nodes this year, to what we expect will be more than 10,000 beginning in 2023. Dan will cover the financial results for 2021 and our updated expectations for '22 in a bit more detail. So I'm going to focus my comments on our strategy to create significant shareholder value by providing profitable solutions to connect communities and people to each other.

We are focused on delivering the highest risk-adjusted returns for our shareholders by investing in shared infrastructure assets that lower implementation and operating costs for our customers, while generating solid returns for our shareholders. As a result, we continue to solely invest in the U.S. market because we believe it represents the best market for wireless infrastructure ownership with the most attractive growth profile and the lowest risk.

Over the last 25 years, the performance of our tower assets has proven the value of this strategy. We began investing at approximately 3% yield. And today, those assets now yield more than 11%. We are building value from this strategy again with our small cell and fiber business. Since the beginning of our small cells and fiber strategy, investors have had 2 primary questions. would small cells be required at scale and would customers co-locate on the same assets to drive attractive returns? Today, I believe these questions have been answered.

At a time when our customers have been upgrading a record number of our tower sites for 5G, we secured commitments for more than 50,000 new small cell nodes. This is in addition to the 55,000 small cell nodes we have on air today. Importantly, a significant portion of the 50,000 new nodes will be co-located on existing fiber assets at attractive returns.

So clearly, we have very positive answers to these key questions. Small cells are required at scale and will be co-located on existing assets. As these small cells are deployed, they will contribute to improved network performance, which history has taught us, will attract additional small cells as carriers compete on network quality. This dynamic is similar to our tower experience, where a significant driver of the value created has been from carriers deploying more spectrum on existing towers to keep pace with mobile data demand growth. As a result, I believe this is just the starting point for total small cells needed by wireless networks.

This view is further supported by recent work completed for us by third-party experts that predict a long-term environment where small cells accelerate. As the clear leader in small cells, we are uniquely positioned to benefit from this growth.

The advancement of our small cells strategy continues to remind me of our journey as the U.S. tower industry developed, ultimately creating significant value for shareholders. Although it's easy to forget, there was significant investor skepticism during the early years when we were proving out the tower business.

During that time, we faced questions about the long-term return potential of the business, the negative free cash flow profile and when or if ever, it would inflect and whether we would ever see customers co-locate on the same assets since each carrier had different spectrum portfolios and unique network requirements. Those questions were eventually all answered for U.S. towers.

But oftentimes, the turning points in the business that address those questions only became widely accepted after the fact. I see a similar pattern with our small cell business. I'm convinced that this period is one of the most important proof points for the small cell business model. We have more than $15 billion invested in more than 80,000 route miles of high-capacity fiber connecting 55,000 small cells that are on air and concentrated in the top U.S. markets. The weighted average life of this capital is less than 5 years and already yields nearly 8%.

Following the recent commitments for small cells, we have more than 60,000 contracted small cell nodes in our backlog, including a record number of colocation nodes that we expect will increase the overall yield on our invested capital. This sets us on a course to accelerate growth in our small cell business beginning in 2023 as we expect to deploy more than 10,000 small cell nodes next year, with the potential to scale from there.

We also continue to see opportunities to add to the returns we are generating from small cells by leveraging the same shared fiber assets to pursue profitable fiber solutions growth. We remain disciplined as we allocate capital to these opportunities with decisions driven by return targets, consistent with how we've executed our fiber strategy from the start, by focusing on small cells as the key driver of long-term value creation.

So to wrap up, we had a terrific 2021. We expect to once again lead the industry with the highest U.S. tower revenue growth in 2022. And we see the recent large-scale small cell commitments as the beginning of a thematic move in the deployment of future wireless networks, for which we are well positioned as the clear leader.

I believe our strategy, capabilities and unmatched portfolio of more than 40,000 towers and more than 80,000 route miles of fiber concentrated in the top U.S. markets, put Crown Castle in the best position to capitalize on the current environment and to grow our cash flows and our dividends per share, both in the near term and for years to come.

Because of our position, Crown Castle provides an excellent opportunity for shareholders to invest in the development of 5G in the U.S., which we believe is the best market for communications infrastructure ownership, with this attractive growth and low-risk profile.

Importantly, we provide this access to such attractive industry dynamics while delivering a compelling total return opportunity, comprised of a high-quality dividend that's currently yielding over 3%, with expected growth in that dividend of 7% to 8% annually.

And with that, I'll turn the call over to Dan.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Thanks, Jay, and Good morning, everyone. As Jay discussed, 2021 was a great year for Crown Castle, and we expect the momentum to continue in 2022 as 5G deployments continue at scale. With our comprehensive offering of towers, small cells and fiber solutions, we're able to support our customers' expanding infrastructure needs as network architecture evolves.

Turning to Slide 4 of the presentation. Full year 2021 results exceeded our prior expectations, with site rental revenues increasing 8%, adjusted EBITDA increasing 12% and AFFO per share increasing 14% when compared to full year 2020 results, excluding nontypical items. Some of the outperformance in 2021 was due to approximately $10 million of additional site rental revenues, $10 million of additional expense reductions and lower-than-expected sustaining capital expenditures, the majority of which we do not believe will recur in 2022.

The 8% year-over-year growth in site rental revenues included approximately 6% growth in organic contribution to site rental revenues, consisting of approximately 6% growth from towers, 10% growth from small cells and 3.5% growth from fiber solutions.

Turning to Page 5. We have increased our full year 2022 outlook to reflect the additional $250 million of straight-line revenues associated with the long-term agreement with T-Mobile that we announced earlier this month. Other than these additional straight-line revenues, our 2022 outlook is unchanged. These additional straight-line revenues reflect the significant additional contracted tower revenue growth that comes with the new agreement, but they do not contribute to 2022 AFFO.

In addition to the contracted tower revenue growth, the agreement with T-Mobile includes a contractual commitment for 35,000 new small cell nodes over the next 5 years. The agreement with T-Mobile also results in several events related to the decommissioning of the Sprint network, including tower nonrenewals that are expected to reduce site rental revenues by approximately $200 million in 2025, small cell nonrenewals that we expect to reduce site rental revenues by approximately $45 million, with the majority occurring in 2023 and approximately $10 million of additional fiber solutions nonrenewals in 2022. Importantly, except for these discrete events, we expect consolidated annual tower and small cell nonrenewals to remain within our historical range of 1% to 2%.

Turning to Page 6. We now expect growth in the organic contribution to site rental revenues in 2022 of $235 million to $275 million. The reduction in the expected growth in organic contribution to site rental revenues, compared to our prior 2022 outlook announced in October, reflects the impact from the $10 million of nonrecurring revenue that contributed to fourth quarter 2021 results, while our 2022 outlook remains unchanged. We expect we will generate 4.5% consolidated growth in 2022, consisting of approximately 5.5% from towers, which we believe will be the highest U.S. tower growth rate in the industry again this year, 4.5% from small cells and 3% from Fiber Solutions.

As many of you may be aware, in our third quarter 2021 earnings release, we broke down our organic growth to show total new leasing, growth in prepaid rent amortization and a new concept we call core new leasing, which excludes the impact of prepaid rent amortization.

Based on feedback we've received since adding core leasing activity to our disclosures, starting with our first quarter earnings release, we will speak to organic growth, exclusive of the impact of prepaid rent amortization or what we'll call core organic growth. This presentation provides information investors can use to analyze our performance that we believe and we've been told is more consistent with other companies in our industry.

As I have mentioned, and you can see on Page 7, the majority of the outperformance in our 2021 AFFO is not expected to recur in 2022 and, therefore, impacts year-over-year growth despite no changes to our 2022 AFFO expectations.

Turning now to our balance sheet. We finished the year with approximately 5x debt to EBITDA on a last quarter annualized basis, in line with our leverage target. During 2021, we improved our balance sheet by extending the weighted average maturity to 9 years and reducing the average borrowing cost to approximately 3.1%.

Part of why we've extended our debt maturities and emphasized fixed as opposed to floating rate debt was to protect our ability to grow our dividends even during periods of increasing interest rates, and we believe we have done exactly that, which is another example of our focus on driving the highest risk-adjusted return to our shareholders.

Looking forward, we expect our discretionary capital expenditures to begin to trend higher as we accelerate the pace of small cell deployments. With a record level of colocation nodes in our backlog, which require less capital relative to anchor builds, we expect to be able to fund this higher level of investment with free cash flow and incremental debt capacity while maintaining our investment grade credit profile.

So to wrap up, 2021 was a great year for us with record tower activity driving significant financial outperformance. After leading the industry in 2021, we expect to again generate the highest U.S. tower growth in the industry in 2022 with core tower leasing activity approximately 50% higher than our trailing 5-year average.

Over the past 12 months, we have booked over 50,000 small cell nodes, equal to almost 70% of the nodes we had booked in our history prior to 2021. We see this as an inflection in the demand for small cells and expect to accelerate growth in our fiber segment in 2022 and beyond.

Longer term, we believe we are in -- we are strategically positioned to benefit from all phases of the 5G build-out with our comprehensive infrastructure offering that provides us the best opportunity to consistently deliver dividend growth as wireless network architecture evolves and our customers' priorities shift over time.

And with that, Paula, I'd like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Michael Rollins with Citi.

Michael Ian Rollins ***Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst***

A couple of questions, if I could. First, on the tower side. I'm curious, given the comments you made about leasing activity, if you could frame the backlog on the tower side that Crown is carrying into 2022, and maybe give us a sense as you look at what the carriers are doing, how much of their footprints are covered by the bookings and the billings that you've recognized to date? And what might be on the come?

And then just separately on small cells, if I could just ask one other question. Given the comments about the ramping small cell demand that you've highlighted over the last few months, does it make you want to take a more expansive strategy to add fiber outside of maybe that top 25, 30 markets that you've been historically focused on and be prepared for a more expansive small cell deployment cycle from your customers?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

You bet. On your first question around the backlog in towers, obviously, as we spoke to, we had the highest level of activity in the company's history during 2021, and we're expecting that level of activity to continue into '22.

And if you frame it in terms of historical context, what's really unique about this cycle is that we've got 4 carriers deploying -- you've got AT&T, Verizon, T-Mobile and DISH, all deploying network. They've got significant amount of spectrum to be deployed, and they have the capital to be able to deploy that.

I can't think of another time in history of our business where we've had 4 well-capitalized carriers with spectrum and the desire to deploy network. So we're certainly riding the wave of that.

In terms of what they're touching similar to past upgrade cycles, the focus for the 3 legacy carriers is to touch the sites where they are already existing on the assets, on the macro assets. And we would expect the next phase of 5G build-out will be to densify their network. And we expect that some portion of that densification is going to happen through new installations on towers that they're not located on. But a big part of that, we see that happening in terms of small cells and the 50,000 nodes that we booked over the last 12 months.

The commitments from them, I think really just speak to that as that second phase of network deployment as they start to try to densify the network and the need there is going to be both macro sites as well as significantly needing a lot of small cells in order to do it.

So in terms of the footprint being touched, they're going to touch virtually all of their existing sites as they upgrade through 5G. And that will take a few years to happen. So feel good about the activity that we're going to see again in '22. And then as we get to periods beyond that, we'll update you as we get later into the year and give our guidance in October later this year.

On your second question around the activity for fiber, we're -- we've been focused on building and owning high-capacity fiber in dense urban areas in the top U.S. markets. And our strategy has been based on our view that as data demand grows, it will grow most significantly in the densely populated areas of the U.S. And those are the areas where macro sites, in particular, won't be able to handle all of the network capacity that's going to be created.

So I think as a general rule, you're going to continue to see our investments focused in those top markets. There are going to be some markets outside of the top 25, top 30 markets where we will go and build nodes for our carrier customer, but we wouldn't do that on a speculative basis.

So to the extent that one of our customers has a market, we assess that market as having good, attractive economics at an entry point similar to what we've talked about our return thresholds have been and we see lease-up from other carriers who are going to need those same areas, then we would be open to expanding that. But I think you're going to see the concentration of the capital as well as, frankly, the activity from the carriers to be really focused on those top U.S. markets.

Operator

Moving on, we'll go to Simon Flannery with Morgan Stanley.

Simon William Flannery ***Morgan Stanley, Research Division - MD***

I want to talk about M&A, if I could, for a little while. You've been fairly quiet in terms of your activity over the last couple of years here. I know you've talked in the past about interest in developed markets. There's a lot of activity in Europe. So perhaps you could just update us on that.

And then the other would be on ground leases. It looked like it was a fairly quiet year in terms of extending and purchasing ground leases. So any color there on perhaps being able to continue to own more and push the maturities out?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Simon, on your first question around M&A and how we think about this, core to the business around towers and small cells is certainly our focus and really don't see anything outside of our core business of towers and small cells that would be of any interest to us.

Around what markets to be in, I mentioned this a couple of times in my comments, we look at the U.S. market as the most attractive market in the world for investment in the kind of infrastructure that we want to own. We think the growth profile is most attractive here. And we also think the risk is the lowest.

And so as we've assessed both developing markets as well as developed countries, we just -- we don't see those 2 characteristics exist in the markets. And so we've stayed solely focused on the U.S. We continue to watch what's developing in the world and to see if maybe our calculus in our view would change over time with some characteristics.

But based on the work that we've seen to date, we just don't -- we don't -- we haven't seen anything that's attractive to us -- and frankly, we're really excited about the opportunity to put capital to work and continue to invest in the U.S. market because it does have that low-risk and high growth and we see that growth continuing unabated for a long period of time. So really excited about the opportunity in the U.S. and think we have plenty of places to put capital to work here in the U.S.

On the second question around ground leases. Now this has been an initiative we've been at for about 15 years. Our average ground leases are well over 30 years remaining on them on average. And so as we look at the ground underneath our assets, we're focused on both extending the leases to the extent that they start to get inside of the kind of a 10- to 20-year period of time.

And then where it makes sense to bring those leases on balance sheet in the form of an acquisition, we're certainly open to doing that. And at different points in time, as the markets move around, we get opportunities that arise. And we'll continue to do that. But given the maturity of the portfolio, there's not really any pressure on us to feel like we need to put capital to work to buy ground leases. So we'll do it. It's opportunistic when the financial returns make sense.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. And just to add to the maturity of the portfolio point there, Simon. Over 80% of our leases are either owned or greater than 20 years and the average life of the leases that are not owned are over 35 years. So as Jay mentioned, there's just no pressure for us to do anything unless the financial returns make sense at this point.

Operator

And next, we'll go to David Barden with Bank of America.

David William Barden ***BofA Securities, Research Division - MD***

I guess just 2. The first would be, just over the last couple of days, we've heard new news to a degree from Verizon pulling forward, accelerating their C-band build with extra capital getting in the hands of Kyle Malady. And then T, at the same time, kind of pushing back their build-out with respect to waiting for 110 to do a 1 tower climb.

I just wanted to kind of see how that lined up with what you were expecting for the year and how you set your guidance, et cetera? And then I guess the second question for the T-Mobile deal, in terms of the nonrenewals, how do those nonrenewals manifest themselves? Does -- is it a hot cut on January 1? Does it happen ratably over the course of the year? And specifically with respect to the $10 million we're losing in fiber in '22?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

On your first question, I would just -- without being really specific about individual carriers, I think the activity, as I spoke to a minute ago, that we saw in '21 and expect to carry into '22, we haven't seen anything that would cause us to look at our guidance and have to shift our expected growth in revenues.

The -- we have pretty good visibility, as you know with some -- pretty good visibility into what their deployment plans are. And so to the extent that they start to adjust those plans, we're probably 6 to 9 months away from seeing any impact in what we do. So it starts to -- if there is a movement upward, it would push it pretty late into this year and wouldn't have a real meaningful result -- impact on our results in calendar year '22.

It probably more portends what's going to impact as we start to think about site rental revenue growth going into 2023. So we'll continue to watch it and be responsive as they work on their 5G networks.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. And David, to speak to the nonrenewal point, as we talked about when we announced the agreement, on the tower side, we think it's going to be a $200 million impact to 2025, which you can assume happens the first of the year and it is $200 million through the course of the year. So it's all of that.

On the small cell side, it's a similar portion. It's about $45 million, the majority of which is in 2023. Again, you can just assume that happens at the beginning of the year and impacts the entire year. And the $10 million is a fiber solutions churn in 2022 is an impact of, again, $10 million to the total revenue in 2022. So I think you can -- for modeling purposes and how you think about it, just assume that happens on January 1. And it just -- it impacts revenues negatively by $10 million.

Operator

Next, we'll go to Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo ***MoffettNathanson LLC - Senior Analyst***

First one for Dan. It looks like your cash tower cost of service is up about 9% year-over-year in the quarter. It was up about 7% last quarter. In the past, it's been pretty muted.

And looking at unallocated G&A in the quarter, it was kind of higher than it's been before, too. So maybe talk a little bit about what's behind that cost growth and how we should think about the trajectory from here? And then I have a follow-up.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. If you look year-over-year, it's relatively stable. So it's just when costs come in and what happens on a quarter-to-quarter basis. I would think that when you think about the cost structure, especially in our tower business, it's pretty stable over a long period of time.

So I would just ask that when you look into it, Nick, look at the year-over-year growth as opposed to any quarter-over-quarter moves, and that probably is more indicative of what's going to happen through the course of long periods of time, including in our 2022 guidance.

Nicholas Ralph Del Deo ***MoffettNathanson LLC - Senior Analyst***

Okay. Okay. So nothing unusual going on there to call out. I guess the second one on small cells. Kind of thinking about the T-Mobile and Verizon deals, do they presumably structure those deals to cover their anticipated needs for the foreseeable future?

Kind of thinking about the cadence of signings going forward from customers with long-term deals like those, is it appropriate to think that it might be several years before they come back to do more with you, kind of a feast or famine outlook? Or are there reasons to think that they might come back to the well more -- on a more regular basis before those deals conclude?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Yes, Nick. I would say framing that, I would think about 2 things. The first thing I would think about is the 50,000 node commitment that we received is a hard contractual commitment. So there's a balance whenever the carrier -- we're working with the carriers around contracted future leasing activity, whether it's on towers, for amendments or new installations or in the case of small cells, we're not going to get 100% of what they think they're going to build contracted and committed that early. So I wouldn't -- we don't view this and don't think this is 100% of everything they're going to need or contract for because they're just not going to make that level of commitment.

The second thing that I think is -- when I think about your question is the amount of and scale of the commitment relative to historical activity is really, frankly, astonishing. We've said this a couple of different times, but we've been at this for 10 years. We've got 50,000 nodes on air. And in the last 12 months, we've gotten 50,000 node commitment. So it feels to us like this is a very significant turning point.

And I think that turning point and the commitment from the carriers while we think about it in terms of -- and in my comments, I talked about the return elements, the revenue growth elements and why it's important there. But the other aspect of this is how difficult these are to build, I think, is very well understood by our carrier customers.

And so there's an element to this of the carriers know they're going to need the sites. And unlike towers where we can get them on air in 6 months, there has to be significant planning that goes into this. And they recognized the difficulty of it, which I think is really the value proposition that we bring to the table of an ability to deliver these nodes and implement.

And so it's really a statement of confidence also in our operating ability in addition to the macro elements of what's needed in order to make their networks work. And I think the combination of those 2 things is just really compelling.

Operator

And moving on, we'll go to Jon Atkin with RBC Capital Markets.

Jonathan Atkin ***RBC Capital Markets, Research Division - MD & Senior Analyst***

So I noticed that the cash yield on invested capital showed a nice sequential increase during 4Q for fiber. And can you speak a little bit as to what drove that?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes, John. A couple of things drove it. One is just performance in the business as we continue to add more revenue to existing fiber, either through -- both through fiber solutions and colocating small cells on the assets we already own. So I think part of that is just the continuation of proof that this business does generate incremental returns that add to the overall yields.

But I think there was a little bit of it that there was -- we called out some expense reductions in the fourth quarter that we didn't expect. Those hit on the fiber side and therefore, increased the gross margin and ultimately, the yield because we -- that calculation is in last quarter annualized. So we got the benefit of that kind of onetime $10 million reduction in expenses.

So some of it is from that too, but the majority of the increase in the yield is because the business is just performing well and we're increasing the revenue and returns on the assets that we already own.

Jonathan Atkin ***RBC Capital Markets, Research Division - MD & Senior Analyst***

So on the tower side, it was in the kind of the low 11% range. And do you expect fiber to -- at what pace does fiber kind of converge towards that 11%? How do we think about that?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. So first of all, on the tower side, there is substantial growth there, and that's all just in the performance of the towers. We are continuing because this business is a great business to add revenue on existing towers, which increases the yield, which we would anticipate to happen in 2022 as well.

The timing of when we're going to get the fiber business to an 11% yield, we've always had a hard time answering that question specifically because it really matters not only the amount of small cells we get, but how many are co-located.

As Jay pointed out, though, we're going to make significant progress towards that, given the 50,000 that we just booked. Because not only do we get a lot, a significant portion of them are going to be co-located on the existing assets, which will drive that yield up. And what's so important to understand about that is at the same type of maturity timeframe of towers, we were much below the 8% that we're on at the fiber business right now.

So we think that the proving out of the small cell business is happening faster than what happened with towers and that we will get to those 11%. And as we've talked about, as we get to 3 tenants for an overall small cell deployment, we'll get into the -- that drives the returns up to the mid- to high teens.

So we feel like there's a lot of upside that is going to be realized in our fiber business, and those yields will creep up and approach in where we are with towers and towers will continue to increase also. So hopefully, you'll continue to ask the question of when are you going to get to the 12% on towers or the 13% on towers. And we'll keep saying we're going to chase it with small cell.

Jonathan Atkin ***RBC Capital Markets, Research Division - MD & Senior Analyst***

On the 50,000 small cells, you talked a lot of that is co-location. Any kind of rough numbers you can share on the capital intensity of that? And then more broadly for the business, given all the MLAs you now have in place, how do we think about the 2022 growth outlook? And how much of that is now contractually locked in under MLA terms?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

The capital intensity on the colocations is substantially lower than capital intensity on anchor builds. And as we start getting clarity around what the timing is of building those nodes, both anchor builds and co-locations within the 50,000, we'll continue to update you on the capital. But right now, what we believe is that the capital in 2022 will remain relatively consistent with what we saw in 2021.

But it's clear that, over time, we would anticipate that to go up because we're going to increase the number of nodes being put on air from what we expect this year to be 5,000 to what we expect next year to be over 10,000. So we would expect an increase in capital but not commensurate with the increase in number of nodes because the capital intensity is coming down.

On the long-term MLAs and the percentage under those, we think of our MLAs as the way we structure the growth. So whether we put it in an MLA or take it a la carte, that growth is going to occur because our assets are so important to the functioning of the network. And we've signed a lot of MLAs, but we always think about what is the best present value we can get within them. And whether we go a la carte or more holistic pricing is really dictated by the NPV we get plus the benefits that both we and our customers get from having holistic pricing, just making it easier to operationalize.

But we also always leave room for upside through that. So we're not pricing all of our tower capacity and saying that's what we get paid within our MLAs. We're pricing it with respect to how much activity we think is going to happen. So we believe that the contracts provide all of that, both the underlying contractual obligations plus the upside and the operational ease that comes with having more pre-described pricing, which is really all it is because, like I said, however we want to monetize the growth, we think there's going to be growth and we are monetizing it.

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

And Jon, one other the thing maybe just to think about that, that I would add to Dan's comments around the MLAs is the more near term period that you think about, the more certainty we have of that revenue stream. And as we get towards outer years, the more optionality we have towards the upside.

And we would think about it that way. And obviously, our counter-parties think about it that way as well because the nearer the term, the more certainty they have as to what exactly what they're going to need. And as we get into outer periods, then we end up with more optionality towards future growth. So this is just the nature of the way those contracts end up coming together usually.

Operator

And next, we'll go to Rick Prentiss with Raymond James.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

A couple of questions, if I could. One, definitely appreciate the focus on core, we call it cash leasing, also like you guys reporting by segment, the core leasing activity. Hopefully, we get that by quarters as we go forward.

A couple of questions on the Sprint T-Mobile items that you discussed earlier this year and touched on this call. Are we right that -- I think you said maybe 5,000 nodes would get decommissioned by -- small cell nodes would get decommissioned by T-Mobile in the '23 time frame. Should we assume that the 10,000 is a gross add of nodes, not a net add of nodes?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes.

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Yes, the net add of nodes.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

No. No, the 10,000 are gross add of nodes. The 5,000 will be decommissioned in 2023. So yes, the 10,000 is the gross or more than 10,000, and then the 5,000 will be decommissioned.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

Makes sense. Because the gross would obviously lead to new lease activity and the decom will go to churn?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes.

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Correct.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

Okay. Second question on the T-Mobile small cell. I think you also mentioned there was a 5-year specific member commitment, but is the 35,000 node commitment split over the 5 years? Is it spread over a longer period of time? I'm getting several questions on that one.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes, the 35,000 node commitment is spread over 5 years.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

Great. And then it looks like you guys simplified the Sprint churn, the $200 million hitting in 2025 and then churn kind of hangs in the 1% to 2% range other years. Should we assume that it goes more towards the 2% range than the 1% range though as we think about it?

Just trying to understand -- because I think you previously acknowledged that you had $679 million ballpark of Sprint leases. So just trying to think of how we should think about the $200 million versus that $679 million over what period of time might they be coming off?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Yes, Rick, as we get into those outer periods, obviously, there's probably a little bit of movement as you would expect from year-to-year. So we're trying to give you a range that in each of the years we would be within. So we would expect it to kind of be 1% to 2%. And I don't think, at this point, we're ready to be more precise than that range.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

Okay. Can you give us an idea of how much total Sprint churn you expect to occur if it was $679 million was the most exposure and $200 million is kind of lump sum? Can you give us an idea of how much Sprint churn you expect to occur over a multiyear period then?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Yes. I think when we get out into these outer periods of time, and history has been such great place to go back and look at how these networks get deployed and what ends up happening when there's consolidation churn. Today, putting a precise answer on that question, I don't think we have -- we don't have great visibility towards that.

We can range-bound it. We know kind of the outer limit of it around the 2%, the lower end of kind of 1%. And as they deploy the network and upgrade it to 5G as T-Mobile goes through that process, there were going to be some sites for sure that they're going to not need. There will probably also be some sites that today they look at and may be on the list of potentially losing, that ultimately will have need as data growth occurs.

So I think as we get into those outer years, we'll be able to give you a better estimation. But in terms of modeling, when we look at the total business, we think as we look at the contractual committed revenues on our assets today, we're pretty confident we'll be inside that -- in between that 1% and 2% churn in any years other than the specific years we were calling out.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

Makes sense. One other quick housekeeping one. In the supplement, I guess, the settlement has not been updated for the new straight line adjustment for T-Mobile. But should we assume, again, ballpark ZIP code, that the straight-line adjustment that went up by $250 million in the '22 guidance, should that straight-line adjustment kind of drop by 50 year change by $50 million a year, just kind of theoretically?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. I won't speak specifically to the $50 million a year, but you're right that, that $250 million will drop over time. And it will ultimately, obviously reverse towards the back half of the 12-year agreement. So yes, it's going to be somewhere generally in that range.

Richard Hamilton Prentiss ***Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst***

That's good. Yes. I expect in 1Q, you'll give us kind of the more detailed schedule as you have time to kind of finish it up?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. Yes. Well, it's just -- it didn't happen in the period that we are reporting on in the supplement. So we wanted to put it in the period that it actually occurs. So we'll have that all laid out really well in our supplement after the first quarter earnings.

Operator

And next, we'll go to Phil Cusick with JPMorgan.

Amir Reza Razban ***JPMorgan Chase & Co, Research Division - Research Analyst***

This is Amir for Phil. Two, if I may. You guys have talked over the years about a second and third tenant on small cells being accretive to returns. How should we think about these co-locations and pricing that first tenant and later driving up the return?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Sure. So the pricing environment that we've talked about for years is unchanged. We've seen the economics, whether it's the 2 large deals that we spent a lot of time talking about this morning or as we do one-off markets with the carriers, we've seen that pricing stay in line.

In terms of our underwriting, we typically see a 6% to 7% initial yield on invested capital. As we add a second tenant to those same assets or on that same network, we get into the double digits return, so above 10% yield. And then as Dan mentioned earlier, by the time we get to the third, then we're into the mid- to high teens in terms of our yields on invested capital as we add that third tenant.

We've seen that pricing basically be unchanged for the last 5 or 6 years. And so those are the economics you should expect as we add additional tenants.

Typically, when we're underwriting these investments, we will be -- we don't do anything speculatively. So we'll start off with some sort of 6 to 7 -- in the neighborhood of 6% to 7% initial yield on that investment. We're building it for a carrier, purpose built. And in order for us to sign up for that, we're going to have a view on future tenancy and what will go there. And the things that we underwrite are going to have at least one additional tenant beyond that anchor tenant.

So we're underwriting things with yields that are into the double digits and then over time, getting and achieving that lease up to drive our returns above our -- well above our cost of capital.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

And one of the things that we've talked about historically and remains to be true is that when we talk about a second tenant, it doesn't have to be a second specific customer that the first tenant coming in and densifying on their own network can be their own second tenant.

And we will see the economics that look almost exactly the same, whether it's the same company or a different company as the second tenant. And that's true in these agreements as well is any time that we're seeing the densification on the existing network, that those will drive returns that are very consistent with everything Jay just talked about.

Amir Reza Razban ***JPMorgan Chase & Co, Research Division - Research Analyst***

That's helpful. And then my second question, in the materials, you guys note that the carriers are planning the next phase of the 5G build that requires small cell is at scale. Can you expand on what those conversations are looking like?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

I'm sorry, what was the last part of the question?

Amir Reza Razban ***JPMorgan Chase & Co, Research Division - Research Analyst***

Can you expand on what those conversations are looking like, talking to the carriers about like the next stage of the 5G build that requires the small cell?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes, Amir, I'll only speak to it at a really high level, and then I would let you inquire of each of the carriers as to how they're thinking about it. The conversations that we have, have brought to fruition the 50,000 nodes that they committed to.

And so we have an understanding of how they're thinking about their markets, where they're wanting to densify, how they're thinking about putting it in places where we have existing fiber or not. So we have a good view of that. But specifically how they're thinking about spectrum management and densification, that's really a question that I think they should speak to.

Operator

Moving on, we'll go to Colby Synesael with Cowen.

Gregory Bradford Williams ***Cowen and Company, LLC, Research Division - Director***

It's Greg Williams sitting in for Colby. I have 2 questions, if I may. One, I just wanted to revisit the idea of AT&T's messaging yesterday about 1-tower climb. I don't want to talk about that customer specifically, but what does the 1-tower climb or a 1-touch program mean in terms of impacts on your leasing expectations?

Specifically, if the radios aren't ready for late spring, early summer, if it's one piece of equipment or 2 pieces of equipment, how does that impact your lease-ups and the way your contracts are constructed? Do you price on space equipment? I know some of your peers can price on a frequency-specific level.

The second question is just on the services business. How are we going to see services volume on the tower side compared to 2022 versus 2021? And what are the gross margins looking like for 2022 on service margins?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Thanks, Greg, for the questions. On the first question, I think it's a thoughtful approach to try to limit the number of truck rolls that you have in the network. And so obviously, AT&T is being thoughtful about how they're thinking about truck rolls and number of times to touch a site because it just increases the cost of that activity.

It doesn't matter that much to us in terms of our ultimate financial results on site rental revenue, whether it's 1 or 2 touches in order to get to the steady state or the final state of the network. We're obviously happy to work with our customers as they do things like try to eliminate the number of truck rolls that they have in order to help them accomplish those lower cost of deployments.

In terms of the pricing in the second part of your question related to that, we price based on space used up on the top of the tower, space used at the base of the tower, the ground space that the equipment takes up as well as our agreements are oftentimes spectrum-specific as to what they're deploying or using on those sites. So all 3 of those elements can impact the ultimate price on the site.

On the services question, we expect services, as we talked about in terms of tower activity, to be similar in '22 as it is in '21. We have a similar expectation around the services business in '22, relatively similar to what we saw in 2021. The timing in the quarters may change a little bit. But as you think about it in the totality of the year, our outlook assumes that services is about the same in '22 as it was in '21.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Operator, may we have time for 2 more questions?

Operator

And next, we'll go to Sami Badri with Credit Suisse.

Ahmed Sami Badri ***Crédit Suisse AG, Research Division - Senior Analyst***

There were some references made earlier about the difficulty of the small cell business, and this is kind of the rationale for the competitive advantage that you guys have built over many, many years and you've entrenched yourselves and have been able to watch where the puck is going.

And another dynamic that really kind of entered in 2021 was the increases of costs and decreases of labor firepower for a lot of organizations involved in the telecommunications industry. Is this environment conducive of a dynamic where telcos will begin outsourcing more of their telecom infrastructure builds over time rather than in-sourcing?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Yes. Thanks for the question. We believe that to be the case. Certainly, the economic proposition that we have to the wireless operators on the tower side has proven out over 25 years that the shared infrastructure model reduces the cost of the network for the operators, and it has played out over a long period of time very successfully.

That exact same dynamic is at play with small cells, where we're willing to put up the capital and then deploy the capital initially and then share it across multiple operators such that each operator has a much lower cost of operating than what they would have if they owned their own and each of them built their own network. So we absolutely see those dynamics at play.

And what you're highlighting around an environment where labor costs increase, inflationary pressures may drive up interest rates, I think it just underpins our value proposition to our carriers that we're happy to provide the capital at a much lower cost than what the markets can provide them capital because of the opportunity that we have to see returns from multiple operators across that same asset. So that's the business model and we feel like we're really well positioned for that. And in a period of time where we're trying -- where everyone is trying to figure out ways to reduce overall costs, we're a very good alternative as they think about network deployment.

Ahmed Sami Badri ***Crédit Suisse AG, Research Division - Senior Analyst***

Got it. And then one comment or question actually on just some of the FAA and airline type things that we've been seeing. Has there been any change in payments or negotiations or on an account contract that you have with your major customers regarding some of the noise that non-telco constituents are making?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

There has not been any change in the behavior with our customers. And we don't expect there to be any impact to our 2022 outlook.

Operator, maybe we have time for one more.

Operator

And that final question will come from David Guarino with Green Street.

David Anthony Guarino ***Green Street Advisors, LLC, Research Division - Analyst of Data Centers and Towers***

Two questions I'll ask them up front for you. The first one is on valuations for fiber assets have moved significantly higher over the past year. Do you think it might make sense to recycle a portion of your fiber assets that maybe aren't as well suited for small cell co-location?

And then the second question is on data centers. You guys have made some small investments in data centers, but what are your thoughts on a larger scale data center acquisition? And do you see enough evidence today that data centers and towers under the same roof makes strategic sense?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

You bet. On your first question around valuations for fiber, I think the world is starting to see the real value of fiber and the necessity of it for small cells. And a desire for folks to try to figure out a way to invest in that space has certainly driven up the valuations.

We've talked for years around our strategic focus and what the interest in fiber is for us. We wanted to be in the top U.S. markets and we wanted to acquire fiber that was dense in those markets and had a lot of capacity.

And as we said, I think it was coming on now about 4 years ago, we really didn't see any more meaningful acquisitions in the U.S. or opportunities to acquire fiber that kind of met those criteria of dense urban markets, high-capacity fiber. And so the majority of what we have been investing in since then has been building fiber in markets for carriers to deploy small cells.

So when I look at our capital base and the assets, there's not a portion of those assets that are extraneous to the strategy of any meaningful amount. The assets that we acquired and built were really in the locations that we chose, and we didn't buy large nationwide portfolios of assets that we look at and say, okay, these are underperforming or unlikely to perform long term.

So like the asset base that we have, I think we're going to be able to drive really nice returns across them over a long period of time. And I think the actions of the last 12 months really speak to the opportunity that lies ahead. So feel good about where the assets are.

On your second question around data centers, large-scale data centers, we don't see that as core to our strategy. I don't see a need to own data centers. I don't see how it relates, frankly, to the edge data centers that will ultimately be needed as wireless networks ultimately expand. So I don't see owning or operating large data centers as a part of our business model, and it's frankly not something we're interested in doing.

We're focused on investing our capital in the towers and small cells. We think that's the highest growth opportunity in the U.S. and see a lot of opportunities to deploy capital there as well as drive great returns for our shareholders. And so we're going to stay focused there. And if ultimately, we get to our upside case for small cells then certainly, I think the edge data centers will come around, and we're well positioned given our fiber footprint to benefit from those edge data centers. If we get into the upside case outcomes for small cells we'll certainly take advantage of where our hub sites are and our assets are located to capture that edge data demand. But don't see large-scale data centers playing out in our strategy.

So appreciate the question. Did you have a follow-up?

David Anthony Guarino ***Green Street Advisors, LLC, Research Division - Analyst of Data Centers and Towers***

Yes, just to clarify. When I said large scale, I was referring more to a larger platform, not necessarily a hyperscale data center, but it sounds like based on your response, that same would hold true. The timing is not there yet from your view. But in the future, you could be more open-minded to a smaller edge data center strategy? Is that correctly a read on what you said?

Jay A. Brown ***Crown Castle International Corp. - President, CEO & Director***

Well, I think I'm trying to separate the difference between the large box data centers and the edge data centers, we see potential on the horizon for edge data centers to come to fruition in the wireless networks.

In the use cases, in order to get to a place where edge data centers are a meaningful opportunity for us, we're talking about cases that are upside cases. As we think about small cells, we'd have to get to that kind of level of data demand in the U.S. So if we get to kind of the upside cases on small cells and fiber and edge data centers are an opportunity, we feel like we're really well positioned with the assets that we have to capture that, and we would absolutely be willing to build out sites.

We've made some investments in Vapor IO. We have a good position there. It's an edge data center company. They've done well. We've built a number of their assets on our sites. And so we've got a good partnership there, and we're watching the development of that space. But for it to become meaningful in our operating results is a pretty big run from where we are today in terms of total data traffic that would be needed. And so that's where I would see our opportunity.

But don't see -- or frankly, I don't see an opportunity in the big box data centers today or in the future as being really a part of our core strategy.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Well, thank you, everyone, for joining this morning. And let me just conclude by thanking our employees for a job well done in 2021. The level of activity is remarkable. The way you delivered for our customers was outstanding. And so thank you for all of your work. I know you're already busy working on 2022, but thank you for what you accomplished in '21, and I look forward to talking to all our investors next quarter. Thanks for joining.

Operator

And this concludes today's call. Thank you for your participation. You may now disconnect.