STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Financing Pressures Drive Innovation in Data Center Financing

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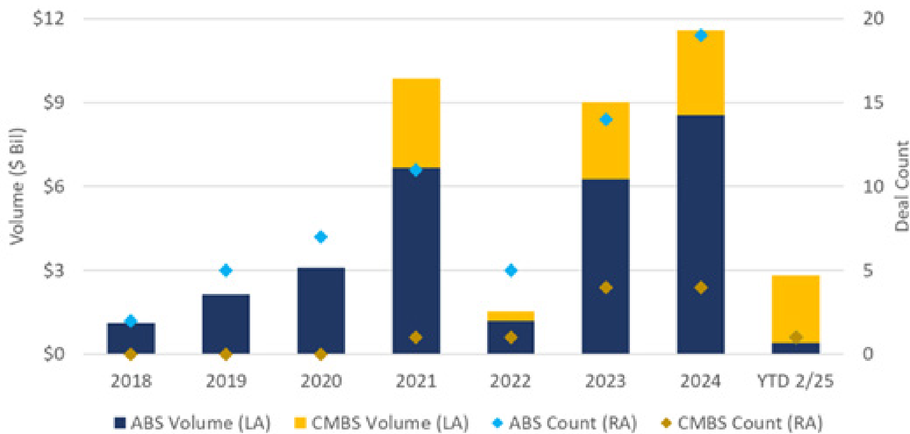
The U.S. data center industry is navigating a challenging landscape in 2025, shaped in large part by renewed tariff policies on Chinese, South Korean and Taiwanese imports. These tariffs have pushed construction costs up by an estimated 8–12%, according to VBeyond Digital. Operational costs are rising too, tightening margins and straining cash flows. As a result, major cloud providers such as Microsoft and AWS have paused or slowed select projects partly in response to elevated cost pressures, even as demand for computing power remains strong.

In this environment, reliable and scalable financing is more important than ever. Data center capital stacks today are increasingly diverse, drawing from real estate, corporate, leveraged, project, and structured finance. According to Clifford Chance, the specific approach often depends on the facility type, customer base, and lender mix.

A typical stack might include sponsor equity, private credit, term or revolving loans, and long-term takeout financing through securitization. Two structured finance channels—Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS)—have become especially important as data centers seek both stability and flexibility in capital markets.

ABS and CMBS Securitization Volume



As of February 7, 2025. Source: KBRA for an SFAcademy Presentation

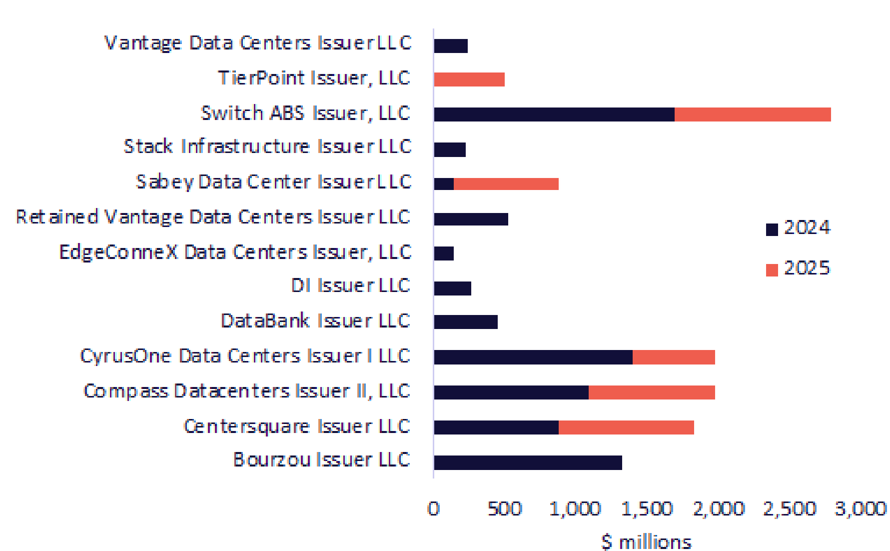
KBRA-Rated Data Centers: CMBS vs. ABS

	ABS	CMBS
Number of Shelves / Deals	5	3
Total Trust Issuance ($000s)	7,042,200	2,605,000
Number of Assets	17 - 35	2 - 5
Number of Contracts	1,850 - 12,155	15 - 717
WA Remaining Term (Months)	14 - 27	32 - 94
Number of Tenants	1,064 - 2,903	2 - 120
Largest Tenant (% Base Rent)	4.0% - 11.5%	47.9% - 77.6%
Top Five Tenants	11.2% - 21.9%	56.8% - 100.0%
Number of Markets	7 - 19	1 - 4
Senior Class Rating	A-	AAA
Senior Class LTV	41.6% - 66.0%	28.4% - 33.0%
Total LTV[7]	45.7% - 81.0%	49.7% - 65.2%

Source: KBRA for an SFAcademy Presentation

Data center ABS have become a favored tool for unlocking liquidity for platform operators with steady lease revenues. These securities pool long-term leases—typically with hyperscale or multi-tenant colocation clients—into tranches backed by predictable cash flows. Strong credit profiles, low tenant turnover, structural protections like excess spread and repayment features, and a sizable yield premium over investment-grade corporates and other ABS make these deals attractive to investors.

Data center ABS issuers: 2024/2025



Source: JPM ABS Research

ABS focus on operational performance and the durability of lease income. Their structural flexibility and scalability—particularly using master trust frameworks—make them well suited for operators pursuing multi-asset growth strategies and repeat securitizations over time, according to Deutsche Bank's *Securitization Primer: Introduction to Data Center ABS*. In these structures, sponsors pledge the data center assets and tenant leases to a master trust, which allows them to add collateral and issue new debt as funding needs evolve, subject to the terms of the deal documents. This scalability has made the ABS market especially attractive for owner-operators, who value the ability to finance growth in phases without restructuring prior deals.

Morgan Stanley Research's new report, *Data Center ABS: Upward Revision to Our Supply Forecast & Capex Estimate*, forecasts data center ABS issuance to grow from $8 billion in 2025 to nearly $25 billion by 2028, driven by both a surge in AI-related power demand and the first wave of ABS refinancings—with up to $6.5 billion annually tied to deals with upcoming anticipated repayment dates (ARDs). These ARDs serve as soft maturity triggers, prompting sponsors to refinance or repay existing notes, which in turn creates a steady pipeline of repeat issuance as operators manage capital structure and funding timelines.

While ABS target lease streams, CMBS remain a vital option for operators leveraging real estate assets directly. These structures pool mortgage loans secured by data center properties and sell them as bonds. Data centers are particularly well-suited for CMBS due to their essential function, high tenant credit quality, and renewal stability—factors that can reduce default risk compared to other commercial real estate sectors.

CMBS Issuance

Vintage	Deal Name	Size, $mm
2021	BX 2021-VOLT	$3,200
2022	JPMCC 2022-DATA	319
2023	DATA 2023-CNTR	450
2023	DC 2023-DC	990
2023	BX 2023-VLT2	800
2023	BX 2023-VLT3	500
2024	DATA 2024-CTR2	185
2024	BX 2024-VLT4	1,400
2024	CONE 2024-DFW1	687
2024	BX 2024-VLT5	755
2025	SWCH 2025-DATA	2,400
2025	BX 2025-VLT6	2,050

Source: Deutsche Bank CMBS Research

The recent growth in SASB CMBS transactions—such as Switch's $2.4 billion deal (SWCH 2025-DATA), backed by fee-simple interests in three Nevada data centers, and QTS's $2.05 billion transaction (BX 2025-VLT6), secured by four properties in Virginia and Atlanta—underscores rising investor confidence in data center real estate. These deals reflect continued favorable supply-demand dynamics and growing recognition of the sector's long-term stability and strategic importance.

Bridging the Capital Structure with Private Credit

Private credit is playing an increasingly important role in real estate finance, particularly in the middle of the capital stack where traditional lenders have grown more cautious. Projects with loan-to-value (LTV) ratios around 65–70% often face funding gaps between senior debt and the sponsor's equity contribution. This is where mezzanine debt, a core tool within private credit, has gained traction. Positioned between senior loans and common equity, mezzanine capital offers flexible, higher-yielding financing that helps sponsors close these gaps without significant dilution. These structures are typically provided by private credit firms—non-bank institutions like asset managers, insurance companies, and alternative lenders—seeking enhanced returns through subordinated risk.

Many of these firms are now focusing on digital infrastructure. Major players such as Blackstone, KKR, PGIM Real Estate, and Principal Financial Group have raised billions to support hyperscale and colocation development. At the same time, middle-market lenders are raising dedicated funds to finance the essential infrastructure and service layers that underpin large-scale data center projects. Rather than funding the core real estate itself, these lenders target the ecosystem that enables it—specialized construction, systems integration, and ongoing operations.

Investor interest in this segment is growing, particularly in electrical and mechanical contracting, power and cooling solutions, connectivity hardware, and operations and maintenance services. These middle-market businesses are increasingly recognized as critical enablers of digital infrastructure, and private credit is stepping in to finance their expansion—supporting not just data centers, but the supply chain around them.

Real-World Examples

Recent transactions underscore how data center operators are strategically combining private credit and securitization to meet rising capital demands. In 2021, Aligned Data Centers—now one of the sector's most active ABS issuers—raised $1.725 billion through a hybrid structure that paired sponsor equity from Macquarie Infrastructure Partners with a $375 million sustainability-linked loan from private credit and a $1.35 billion green ABS issuance, then the largest inaugural deal of its kind. This layered approach provided both near-term flexibility and long-term, fixed-rate funding.

Aligned has since scaled this strategy significantly. In early 2025, the company closed a $12 billion capital raise—comprising over $5 billion in new equity and $7 billion in debt commitments—led by Macquarie and other global infrastructure investors, aimed at delivering over 5 gigawatts of AI-ready capacity across the Americas. In parallel, Aligned secured a $600 million senior credit facility from Blackstone Credit & Insurance to finance its SLC-03 facility in Utah, further highlighting private credit's growing role in digital infrastructure.

Switch has followed a similar playbook. In 2024–2025, the company completed two securitizations totaling $3.5 billion: a $2.4 billion SASB CMBS transaction and a $1.1 billion ABS offering. Both were designated green bonds under Switch's Green Financing Framework. Finalized within a month of each other, the transactions not only refinanced Switch's take-private acquisition by DigitalBridge and IFM in 2022 but also positioned the firm as the largest issuer of securitized data center paper over the past year—demonstrating robust investor appetite for long-duration exposure to mission-critical infrastructure.

Conclusion

Historically, data center financing relied heavily on bank loans and syndicated facilities. However, as development costs climb and refinancing needs intensify, the traditional model is proving insufficient. In response, structured finance—through ABS and CMBS—and the rapid growth of private credit are reshaping the capital stack to meet the sector's evolving demands. Together, these tools enable operators to monetize lease revenue (via ABS), leverage real estate assets (via CMBS), and bridge funding gaps with flexible capital (via private credit), creating a more adaptive and resilient financing framework.

This evolution comes at a pivotal moment. Morgan Stanley Research projects that building new U.S. data centers between 2025 and 2028 will cost approximately $700 billion, excluding chips and hardware. At the same time, overbuild concerns have emerged, fueled by recent headlines of delayed or canceled lease negotiations. Yet, underlying demand remains robust. According to Morgan Stanley, strong GPU demand and growing insurance-sector allocations to digital infrastructure are expected to sustain market momentum.

Looking ahead, the continued diversification of funding sources—across traditional bank lending, securitization, and private credit—will be essential to supporting long-term growth. As digital infrastructure becomes ever more central to the global economy, a flexible, multi-layered capital stack will be key to ensuring the sector keeps pace with accelerating demand.