Power Is the New Location: How a $50 Billion Securitization Market Is Reshaping CRE Finance

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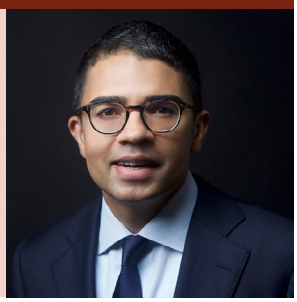

One company's trillion-dollar bet is reshaping commercial real estate. OpenAI, the creator of ChatGPT, is reportedly pursuing up to $1 trillion in data center investment through recently announced agreements with NVIDIA, AMD, and Broadcom. For those in CRE finance, that number should command attention—not because it's likely to materialize in full, but because it signals where capital is flowing and why.

Consider the context: across Big Tech, capital expenditure in 2025 has reached $364 billion for the top four U.S. hyperscalers alone, and CreditSights projects 2026 spend exceeding $600 billion as artificial intelligence drives infrastructure demand. These aren't speculative projections from consultants angling for engagement fees—they're disclosed capex figures from companies with the balance sheets to back them up.

For CREFC members, this matters for a straightforward reason: data centers have evolved from a niche property type to a mature securitized market, with over $50 billion in issuance since 2021. Annual issuance is projected to reach $30–40 billion by 2026–27, per Morgan Stanley, with potential spread widening as supply tests investor appetite.

This isn't a primer on data center engineering or a pitch for the asset class. It's an attempt to answer the question we've heard from members over the past year: what do I actually need to understand to evaluate these transactions? The answer starts with a fundamental shift in how we think about real estate value.

The Fundamental Shift: Megawatts Over Square Feet

Traditional real estate trades on location and square footage. Data centers trade on power measured in megawatts. A single hyperscale facility can draw over 100 MW—roughly the consumption of 80,000 homes. With AI increasing load requirements, grid interconnection and availability are often the primary constraints on development timelines. This reality is reshaping CRE decision-making, forcing market participants to understand utility interconnection and power contracts as deeply as they once understood location demographics.

Think of it this way: for a traditional office building, you'd never close a loan without confirming the property had reliable utility service. But "reliable utility service" meant little more than checking that the lights turn on. For a data center, power isn't a commodity input—it's the product. The building serves as a delivery mechanism for electricity to servers. If power fails for even a few minutes, entire operations can be disrupted, triggering penalties, tenant departures, and collateral impairment.

The geographic implications are significant. Markets are increasingly differentiated by their electrical infrastructure rather than traditional real estate fundamentals. Northern Virginia, with 2,500 MW of current capacity, faces severely constrained grid interconnections—utilities in the region have pushed back delivery dates for high-capacity power connections, with many 50+ MW requests effectively deferred beyond 2026. Phoenix has available power but faces water constraints for cooling. Silicon Valley? Constrained on essentially everything, with queue times exceeding five years.

Equipment bottlenecks compound these challenges. Electrical switchgear now has lead times of 52–70 weeks. Transformers? 70–100 weeks. Generators run 40–52 weeks. The development sequence that worked for decades in CRE—find land, design building, seek tenants, arrange power—no longer applies. Today's requirement begins with securing power through utility agreements or on-site generation commitments. Only with power secured can developers credibly approach anchor tenants, whose commitments then enable land acquisition at prices justified by the revenue certainty.

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Why Securitization Scaled So Fast

In 2021, technology companies self-funded 80% of data center development, viewing these facilities as strategic assets too essential to entrust to third parties. By 2025, that equation has reversed, with 60% of development involving institutional capital as even the deepest-pocketed tech giants recognize they cannot fund infrastructure expansion alone.

Why did securitization scale so quickly to fill the gap? Three reasons stand out. First, the demand signal left the theoretical and became contractual. Long-dated, high-credit leases with known power profiles are securitization-friendly—exactly what investment-grade hyperscalers provide. Second, program design met issuer needs. The master-trust model in ABS allows modular issuance (public series, private sidecars, variable funding notes), while SASB (single-asset, single-borrower) transactions remain the workhorse for large, discrete portfolios. Third, investor education moved fast. Once investors learned to read "MW-based occupancy" and anticipated repayment date (ARD) math, they stopped mapping every number back to offices and warehouses. They started pricing the asset class on its own terms.

The numbers reflect this transformation. Total issuance through mid-November 2025 reached $23.8 billion—with $11.2 billion in ABS and $12.6 billion in CMBS—more than double full-year 2024 volume. Average deal size has grown to approximately $1.1 billion, up from $630 million in 2024 and $320 million during the 2022 trough.

The recent Blackstone/QTS transaction illustrates the scale: BX 2025-VOLT, a floating-rate SASB backed by approximately 10 QTS data centers across multiple U.S. markets, priced at $3.46 billion—the year's largest data center CMBS. The D notes were reportedly nearly 23x oversubscribed, indicating strong investor appetite for exposure to the sector, even at subordinate levels.

But investor enthusiasm shouldn't obscure the concentration risk embedded in these markets. The top five tenants—Amazon, Microsoft, Google, Meta, and Oracle—account for 73% of 2025 leasing activity. These are among the world's strongest credits, with ratings from BBB+ to AAA, but the tenant base is narrow. If hyperscaler capex slows—and recent AI stock corrections suggest investors are growing more skeptical of the return on these investments—the ripple effects would be significant.

ABS vs. CMBS: Choosing the Right Structure

The choice between ABS and CMBS structures has become increasingly sophisticated, and understanding the distinction matters for anyone evaluating these transactions. Both structures finance the same underlying assets, but the collateral pledged, investor base, and analytical framework differ materially.

In CMBS transactions, what's pledged is a mortgage on real estate, along with associated cash flows and assignment of leases. Typical advance rates run 65–70% LTV. The collateral pool is fixed—tax rules governing CMBS trusts prevent the addition of new assets. Investors are the same CMBS SASB/large-loan buyers familiar to CREFC members. The documentation runs 200–300 pages and uses relatively standard terms. The structure works best for fixed assets with stable, predictable cash flows.

In ABS transactions, the pledge is broader: equity in the operating company, cash flows, mortgages on real property, and assignment of leases. Advance rates typically range from 75–80% of cash flow (note that this metric differs from LTV, and the two aren't directly comparable). The structure allows adding assets that meet defined criteria, making it better suited for diverse pools and changing asset bases. Variable funding notes enable revolving draws. The documentation runs to 500+ pages and features complex waterfall mechanics—the investor base skews toward structured-finance ABS buyers, including esoteric ABS specialists rather than traditional CRE-focused investors.

The February 2025 Switch transaction (SWCH 2025-DATA) exemplifies the CMBS approach: $2.4 billion backed by three Nevada data centers with fee-simple interests, issued as a green-labeled CMBS under Switch's Green Financing Framework. The September 2025 QTS Phoenix ABS—approximately $600 million, backed by a single 36 MW Phoenix data center with a single hyperscale tenant under a triple-net lease—illustrates the ABS approach, with a five-year anticipated repayment date and an S&P A-rating. The choice often depends on whether the sponsor needs flexibility for growth or prefers the simpler documentation of fixed-pool structures.

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How Rating Agencies Evaluate These Assets

Understanding how rating agencies approach data center securitizations requires recognizing a fundamental analytical divergence—between viewing these assets as real estate versus viewing them as operating platforms.

In CMBS, agencies view the collateral primarily as real estate—valuing it based on in-place leases, market rents, operating expenses, and data-center market fundamentals; "dark value" is typically used as a sensitivity/floor rather than a primary sizing input. The cap rate determines current property value for leverage and sizing purposes. S&P, Moody's, Fitch, KBRA, and Morningstar DBRS all apply their existing large-loan CMBS methodologies with data center-specific adjustments.

In ABS, agencies view the collateral more as a business platform—valuing the durability of contractual cash flows, the quality of the tenant base, and the enterprise's terminal value at the ARD. The cap rate here typically determines terminal or residual value, informing refinancing and take-out assumptions rather than current property value. S&P's "utility score" methodology and KBRA's AANOI (Annualized Adjusted Net Operating Income) approach reflect this operational lens.

Comparing CMBS and ABS cap rates without this context can be misleading. You're essentially comparing apples to oranges.

Despite methodological differences, the agencies converge on several key risk factors. Power security emerges as paramount: executed utility agreements with defined capacity and delivery timelines provide the foundation for any investment-grade rating. Backup power redundancy must meet minimum standards—commonly N+1 for hyperscale power systems (with 2N in select deployments/rooms), meaning every critical electrical component (generators, UPS systems, switchgear) has a fully redundant backup capable of carrying the entire load—with sufficient fuel storage for extended grid outages. The 2021 Texas freeze demonstrated that a 48-hour backup may not be enough when the grid goes down for days.

Tenant quality assessment goes beyond simple credit ratings. Agencies may assess "dark value" as one sensitivity (e.g., a large-tenant vacancy at lease expiry), but sizing is driven primarily by sustainable NCF, market depth/lease rollover, re-tenanting time and costs, and required capex. For hyperscale properties, agencies also consider the facility's role in the tenant's network architecture and the presence of proprietary equipment that would be costly to relocate. Colocation properties require detailed analysis of tenant diversification, with agencies stress-testing scenarios in which multiple tenants vacate simultaneously. Importantly, agencies do not apply a "look-through" credit enhancement in the manner sometimes assumed—tenant quality informs net cash flow (NCF) projections and renewal assumptions rather than providing direct rating uplift.

When agencies reference "occupancy" in this sector, read it as percent of MW sold or metered—not suites filled. Equipment age and condition have become increasingly critical as technological change accelerates. Properties with aging MEP systems—the mechanical, electrical, and plumbing infrastructure that keeps a data center running—face heightened scrutiny. Facilities with average MEP ages exceeding seven years are subject to closer review, while those over 10 years may struggle to achieve investment-grade ratings without committed capital improvement programs. The shift toward liquid cooling for AI workloads has introduced new complexity, with agencies evaluating not just current specifications but the feasibility and cost of future upgrades. Reserve requirements vary widely—from $2/kW/month for long-term investment-grade hyperscale leases to $18/kW/month for older colocation facilities.

A Skeptic's Checklist

The sustainability of current growth rates deserves serious scrutiny. OpenAI's trillion-dollar ambitions would require roughly $800 billion in funding after partner contributions—a scale that dwarfs the entire dot-com IPO era. The precise numbers are debatable; the magnitude is not.

Three technological shifts could fundamentally alter market dynamics. The liquid cooling transition, already underway, enables ten times the power density of traditional air cooling but renders much existing infrastructure obsolete. Retrofit costs of $50–100 million per 10-MW facility create a challenging economic equation for older properties. Quantum computing, likely five to seven years from commercial deployment, requires entirely different cooling approaches and could reshape demand patterns, though most experts expect complementary rather than replacement dynamics. Edge computing continues to accelerate, potentially redistributing processing away from centralized facilities.

The power reality itself presents challenges. Under Bank of America's base-case scenario, U.S. data center demand grows from 220 terawatt-hours in 2025 to 322 terawatt-hours by 2030—manageable with significant grid investments. The high-case scenario reaching 500 terawatt-hours would require infrastructure buildout that may not be feasible given permitting, equipment, and labor constraints. Creative solutions are emerging—15+ small modular reactor projects are in development, though they're unlikely to be available before 2029–2030. On-site gas turbines with carbon capture offer nearer-term solutions at higher cost. But the gap between demand projections and supply reality remains substantial. Beware the "bragawatts"—projects touting capacity without dated utility commitments or credible delivery paths.

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What This Means for CREFC Members

For lenders entering this market, the underwriting shift is fundamental. Power must take precedence over traditional property considerations. Verified utility agreements with defined capacity and delivery schedules provide the foundation for any credible underwriting. Expansion rights secured through options or utility commitments can significantly enhance collateral value, particularly in power-constrained markets. Tenant and operator quality assessment extends beyond credit ratings to operational capabilities—track records of 99.99% or better uptime (less than 53 minutes of downtime annually) separate tier-one operators from aspirants.

Key structural protections gaining market acceptance include cash flow sweeps triggered when debt yields fall below specified thresholds (commonly in the 8–9% range, though deal-specific), replacement reserves commonly $3–$8/kW/month (deal-specific; observed range $2–$18), major lease approval rights to prevent adverse selection, and minimum rating requirements for tenant substitution. These protections reflect lessons learned from the rapid maturation of this market.

For investors, market entry considerations reflect the sector's complexity. Partnering with established operators for initial investments provides essential learning opportunities while reducing execution risk. Focusing on power-secured opportunities eliminates the primary development risk. Geographic diversification beyond the top five markets can unlock attractive opportunities with less competition, though it requires careful analysis of local power grids and fiber infrastructure. The value-add retrofit strategy—targeting properties with aging MEP systems for modernization—can potentially generate returns in the 12–15% range for those with the technical expertise to execute.

The Bottom Line

Data centers don't overturn CRE fundamentals so much as reorder them. Location still matters, but power is the new location. Credit still matters, but concentration and contract design redefine it. Value still hinges on cash flow and replacement cost, but MEP and cooling technology determine who earns tomorrow's rent.

The financing structures have matured rapidly—the market has evolved from experimental to institutional in just five years, with standardized documentation and established investor bases. But the technology risk is real. Today's state-of-the-art facility can become tomorrow's stranded asset if operators can't navigate the ongoing evolution from air to liquid cooling and beyond.

If you can read a utility interconnection study with the same fluency you once read a rent roll—and then translate that into structure (triggers, reserves, ARD paydown, and refinance math)—you're not just covering a new sector. You're underwriting the infrastructure that powers the digital economy.

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