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An overview of data center financing and asset-backed securities

Interest in artificial intelligence's transformative influence on society is at a fever pitch. Further advancements in artificial intelligence (AI) and expansion of the digital economy will require development of more data centers to increase available computing capacity.¹ Data centers are specialized properties built to house and manage IT infrastructure (including servers, storage devices, and network equipment) that processes, stores, and distributes the massive data that underlies AI and the digital economy.

Types of data centers

Data centers are constructed to meet the needs of their intended owners or occupants and can vary on several dimensions, including square footage, power capacity requirements, and location in the network. Enterprise data centers are one type of data center. These private facilities are owned and operated by individual organizations to meet their own IT infrastructure requirements.² They can be constructed on-premises at a company's existing location or off-premises at a stand-alone site. Enterprise data centers appeal to companies concerned with regulatory compliance, privacy protection, superior performance, or enhanced security.³

Colocation, or multi-tenant, data centers are third-party facilities in which one or more tenant organizations share infrastructure and IT resources. Multiple tenants share space in a colocation data center, whereas a single tenant can lease an entire data center through a wholesale arrangement. Advantages of colocation data centers to organizations include flexibility to scale capacity up or down as needed, lower up-front capital outlays, and high service reliability. Colocation data centers have

¹ What is a data center? | *McKinsey & Company*.

² Zang, Mary, "Types of Data Centers: Enterprise, Colocation, Hyperscale," *Dgtl Infra*, <https://dgtlinfra.com/types-of-data-centers/>, November 26, 2023.

³ Zang, Mary, "Types of Data Centers: Enterprise, Colocation, Hyperscale," *Dgtl Infra*, <https://dgtlinfra.com/types-of-data-centers/>, November 26, 2023.

varying levels of resource support, with some facilities providing managed IT services and others delegating responsibility for equipment maintenance to the tenants.

Hyperscale data centers are massive, in footprint and compute power, custom-built facilities operated and occupied by a single company.⁴ They can cost upward of \$1 billion to construct and, when leased, typically command long lease terms ranging from ten to 15 years.⁵ Hyperscale data centers may be owned and operated by a single company (e.g., Amazon, Microsoft, Meta) or leased from companies such as Digital Realty or STACK Infrastructure.

Data centers' capital needs and sources

The scale and technological sophistication of data centers, regardless of type, render their construction and operation capital intensive. In January 2023, it was estimated that global spending on data center construction would reach \$49 billion in 2030.⁶ By January 2025, estimates of capital deployment to data centers from 2024 to 2030 were increased to \$1.8 trillion.⁷ And, just four months later, projections of global AI-driven data center capital expenditures for 2025 through 2030 ranged between \$3.7 trillion and \$7.9 trillion.⁸ Construction spending on US data centers reached a seasonally adjusted annual rate of \$40 billion in June 2025—an all-time high.⁹ As of the first quarter of 2025, more than 2,500 data centers were in operation in the US, with another 1,000 planned or under construction.¹⁰ Given the magnitude of these financial projections and this future construction, developers of data centers and related infrastructure are seeking capital from various sources.

While conventional funding sources like bank loans, private debt, equity issuances, and cash reserves remain viable options (particularly for enterprise data centers), developers are increasingly exploring other sources of financing by establishing joint ventures, pursuing public-private partnerships, and executing securitization transactions. The latter refers to asset-backed securities (ABS)—the same class of security that played a role in the 2008 financial crisis. At their pre-financial crisis peak in 2006,

⁴ Zang, Mary, "Types of Data Centers: Enterprise, Colocation, Hyperscale," *Dgtl Infra*, <https://dgtlinfra.com/types-of-data-centers/>, November 26, 2023.

⁵ Zang, Mary, "Types of Data Centers: Enterprise, Colocation, Hyperscale," *Dgtl Infra*, <https://dgtlinfra.com/types-of-data-centers/>, November 26, 2023.

⁶ *McKinsey & Company*, "Investing in the rising data center economy," https://www.mckinsey.com/~media/mckinsey/industries/technology%20media%20and%20telecommunications/high%20tech/our%20insights/investing%20in%20the%20rising%20data%20center%20economy/investing-in-the-rising-data-center-economy_final.pdf, January 2023.

⁷ BCG, "Breaking Barriers to Data Center Growth," <https://web-assets.bcg.com/pdf-src/prod-live/breaking-barriers-data-center-growth.pdf>, January 20, 2025.

⁸ *McKinsey & Company*, "The cost of compute: A \$7 trillion race to scale data centers," <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers>, April 28, 2025.

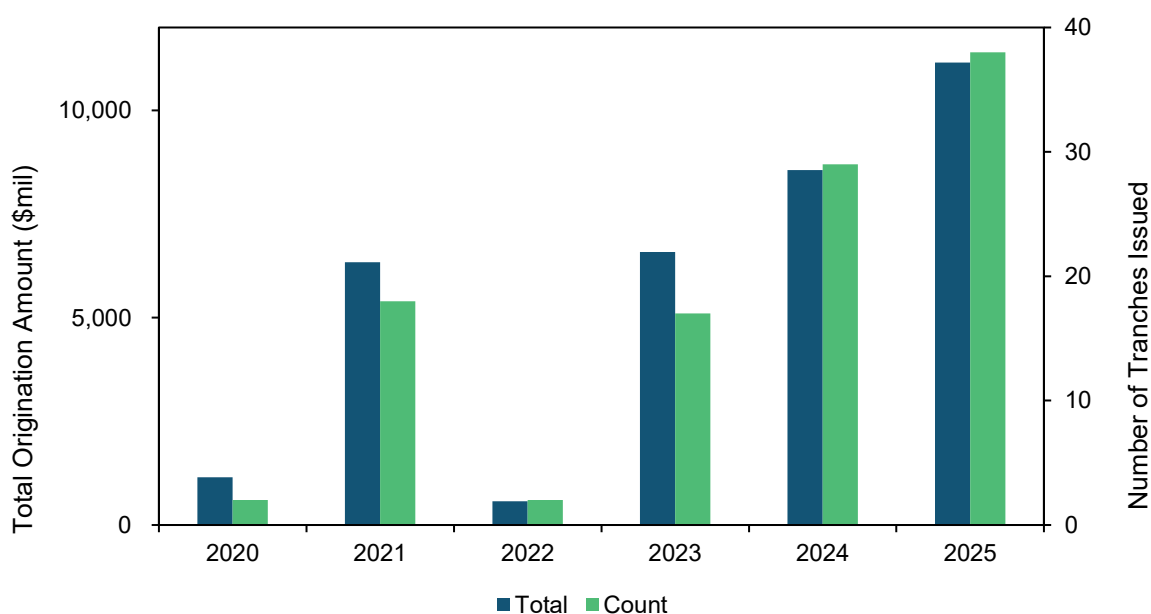
⁹ *Reuters*, "US data center build hits record as AI demand surges, Bank of America Institute says," <https://www.reuters.com/business/us-data-center-build-hits-record-ai-demand-surges-bank-america-institute-says-2025-09-10/>, September 10, 2025.

¹⁰ *S&P Global*, "The Four Main Approaches for Rating Data Center Financing," <https://www.spglobal.com/ratings/en/regulatory/article/240613-the-four-main-approaches-for-rating-data-center-financings-s13135603>, June 13, 2024.

ABS issuances totaled \$893 billion.¹¹ In 2024, there were 2,031 ABS issuances, totaling \$946.8 billion.¹² Such issuances were more than triple the \$311.3 billion in ABS issued across 607 deals in 2016. Data center ABS were introduced in 2018 as a new type of ABS linked to cash flows generated by data center financing and tenant leases.

To gauge data center ABS issuance activity in recent years, we collected information from Bloomberg on data center ABS issuances from 2020 through September 2025. Figure 1 below shows the volume of data center ABS over this period, measured in total dollars of origination value and number of issuances. We observe elevated issuance activity in 2021 and in 2023 through 2025, relative to 2020 and 2022.¹³ Sabey Data Centers was the most active issuer over the period with seven ABS transactions, followed by Centersquare, Compass Datacenters, CyrusOne, and STACK Infrastructure with six each.

Figure 1: Data center ABS by year



¹¹ Agarwal, Sumit, et al., "The asset-backed securities markets, the crisis, and TALF." *Federal Reserve Bank of Chicago*, <https://www.chicagofed.org/publications/economic-perspectives/2010/4q-agarwal-barrett-cun-denardi>, 2010.

¹² Knyazeva, Diana, "Asset-Backed Securities Markets: Issuance and Structure," <https://www.sec.gov/files/dera-abs-mkt-2504.pdf>, April 2025.

¹³ The dip from 2021 to 2022 stems from investors seeking higher yields and re-assessing risk across their portfolios in response to rising interest rates. "Data-center companies this year as of Oct. 14 issued \$550 million in securitized debt, down from \$2.66 billion during the prior-year period and \$6.17 billion for all of 2021, according to JPMorgan Chase & Co., whose data includes rated transactions and excludes unrated and private deals. The decline in issuance of data-center debt comes as chief financial officers across industries evaluate their funding options amid the Fed's rate-hike campaign. Within the data-center sector in particular, that calculus for some companies involves assessing whether the timing is right to tap the securitization market despite the higher costs." *The Wall Street Journal*, "Data Centers Face Higher Costs, Weaker Demand for Debt That Fueled Sector's Rise; Issuance of asset-backed securities in the market has plunged as investors seek higher yields" https://www.wsj.com/articles/data-centers-face-higher-costs-weaker-demand-for-debt-that-fueled-sectors-rise-11666288943?gaa_at=eafs&gaa_n=AWetsqe5H4esENBmxe7nxwwErH6eO-EGrK3z3ZWkxZYJdT8zoA-cmSFTeEv0&gaa_ts=691f2cb6&gaa_sig=jddi4ru0Mo3oGek0SjbenQEdkHX2yH24XlizCWg1ThoF2v2AFf3a-SIDMEQDagOZ_08db9UQZ_CgQeayuvqbTQ%3D%3D, October 20, 2022.

ABS: An overview

Special purpose vehicles (SPVs) originate ABS as debt securities that are issued simultaneously with the purchase of a pool of assets.¹⁴ The ABS are backed by the cash flows associated with the underlying assets. The underlying assets are typically the receivables from a pool of consumer or business loans that may be collateralized by the physical assets purchased with the funds from the loans, such as automobiles or, in the case of residential or commercial mortgage-backed securities, single family homes or commercial real estate buildings, respectively. ABS can also be issued to securitize the future cash flows from unsecured borrowings, such as student loans, credit card debt, or lease obligations. In the case of data centers, ABS are collateralized by tenants' future lease payments and by the owner's equity interest in the data center.

The ABS originator pools assets to create different classes of securities, known as "tranches." These tranches vary the prioritization of claims against the asset pool, such that some investors end up holding more senior claims than others, leaving losses to first be absorbed by investors in the lowest priority tranches. Thus, the pooling of assets and creation of tranches allow the originator to offer some securities that are safer than the average asset in the collateral pool and some that are much riskier.

ABS, as a source of financing, are appealing to borrowers (issuers) for several reasons. One, the terms of repayments to ABS investors can be structured to match those of the underlying assets, reducing refinancing risk and the potential for forced asset sales.¹⁵ Two, because the creditworthiness of ABS is based on the securities' future cash flows and underlying collateral, ABS of higher credit quality than that of the issuing entity can lower the issuer's borrowing costs, especially when compared with the costs of alternatives such as unsecured bonds.¹⁶ Three, ABS issued without recourse, in which case the issuer is not responsible for covering shortfalls if the underlying assets fail to generate sufficient cash flows to pay investors, may qualify for off-balance sheet treatment. Moving liabilities off the balance sheet improves liquidity and solvency ratios that can make future capital more attainable at better terms. Four, ABS helps issuers diversify their capital structure and expand their sources of financing, which could be viewed favorably by investors, credit rating agencies, and other capital market constituents.

Data center ABS: An overview and example

Data center ABS can be structured around the anticipated future cash flows to be received in the form of lease payments from tenants of colocation or hyperscale data centers. These cash flows can be further collateralized by the equity interests of wholly owned subsidiaries established to own the data centers.¹⁷ Leases are typically structured as triple-net (tenant pays rent plus most operational costs, including taxes and insurance) or modified gross (tenant only pays electricity on top of base rent). Of

¹⁴ *Guggenheim Investments*, "The ABCs of Asset-Backed Finance," <https://www.guggenheiminvestments.com/perspectives/portfolio-strategy/asset-backed-finance>, September 2025.

¹⁵ *Guggenheim Investments*, "The ABCs of Asset-Backed Finance," <https://www.guggenheiminvestments.com/perspectives/portfolio-strategy/asset-backed-finance>, September 2025.

¹⁶ *Guggenheim Investments*, "The ABCs of Asset-Backed Finance," <https://www.guggenheiminvestments.com/perspectives/portfolio-strategy/asset-backed-finance>, September 2025.

¹⁷ *ARC Ratings*, "Centre of Attention: A Closer Look into Data Centre Securitisation," https://arcratings.com/standard-download/?file=20241031_data-centre-research-report.pdf&download=1, October 2024.

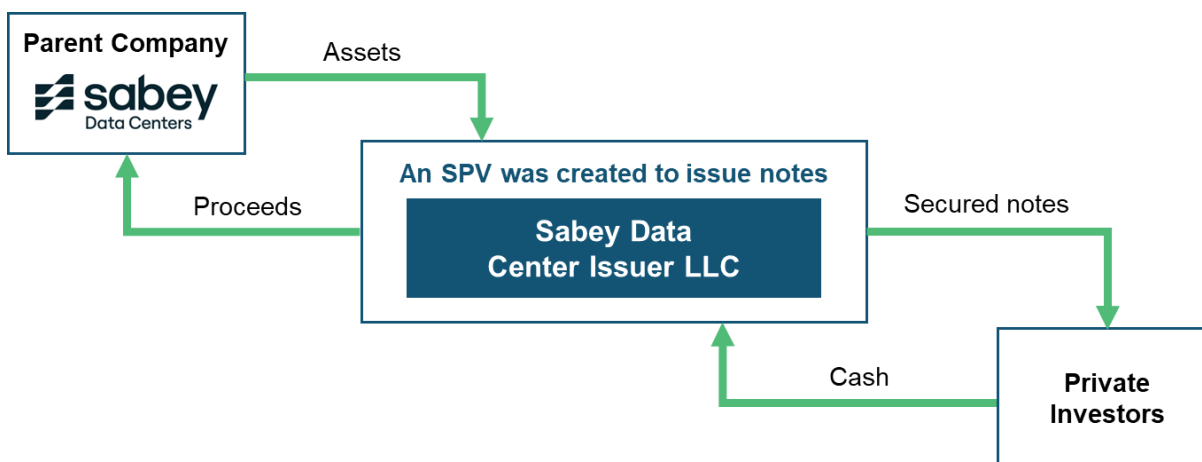
note, a large portion of leases in ABS pools are at turnkey data centers, where the developer provides operational infrastructure and the tenant provides its IT infrastructure.

We illustrate the data center ABS transaction process using an ABS issuance by Sabey Data Centers, a provider of multi-tenant data centers, in 2025. Sabey Data Centers created an SPV, Sabey Data Center Issuer LLC, that issued \$410 million in Sabey Data Center 2025-1 class A-2 revenue notes to investors and used the proceeds to acquire assets from its parent company that were pledged as collateral against the revenue notes. The assets acquired included real estate and tenant lease payments (receivables) for space and electrical capacity in data centers located in four US states (Washington, Virginia, New York, and Texas). The data centers are a mix of turnkey and powered shell facilities, with most being leased by hyperscale tenants to operate their computing equipment and networks. S&P assigned a rating of A to this asset-backed security at the time of issuance.¹⁸

The figure below depicts the transaction flow for the Sabey Data Center ABS issuance. At a high level, the steps to execute the transaction are as follows:

- Sabey Data Centers creates an SPV into which certain assets are sold.
- The SPV issues notes to finance the acquisition of assets, which are pledged as collateral to secure the repayment obligations to investors who purchased the notes.
- Sabey Data Centers manages the data centers, collecting and retaining cash flows in excess of the cash flows required to satisfy the commitments to ABS investors.

Figure 2: Illustrative example of data center ABS structure



Conclusions

In this *Insights*, we have discussed the growth of investments in data centers and the growth in data center securitizations. Significant data center construction and ensuing expansion of computing capacity are expected through at least 2030. The capital to fund data center development is likely to continue coming from conventional and less conventional sources that include securitization

¹⁸ Information on the Sabey Data Center ABS is from S&P Global Ratings, "Sabey Data Center Issuer LLC Series 2025-1 Class A-2 Notes Assigned Rating," February 7, 2025; *S&P Global Ratings*, "Presale: Sabey Data Center Issuer LLC (Series 2025-1)," January 28, 2025.

transactions. ABS are an appealing source of financing to issuers, offering benefits such as reduced refinancing risk, lower borrowing costs, and improved financial flexibility. The Sabey Data Centers example illustrates how ABS can be effectively deployed to support data center development. In the next installment in this series, we will examine how ABS creditworthiness is evaluated and explore risk-return considerations from an investor's perspective.

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