

The Darlings of Data: 2026 Redux

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I penned an article in November 2024 on data centers and can't believe how fast this asset class has progressed since then. At Trimont, our servicing portfolio in ABS data center financing more than doubled in size from year end 2024 to year end 2025, from approximately \$5B in assets under management (AUM) to almost \$13B in AUM.

The pipeline for 2026 has become a little disjointed due to "international relations," but if and when the markets settle, the industry could see a repeat of 2025 at a minimum, with some experts predicting a doubling in volume between 2025 and 2026. Anecdotally, we are hearing that ABS executions will continue to dominate permanent capital preference, with CMBS coming in around 30% of total volume.

Given this year-over-year progression and the anticipated acceleration into 2026, it felt timely to share some observations and thoughts about 2026 and beyond. In 2025, the conversation was less about "if/when" and more about "how much/how fast." Below is a breakdown of some critical considerations driving the sector: power, construction costs, hyperscaler competition, capital and monetization.

Power: The Primary Constraint

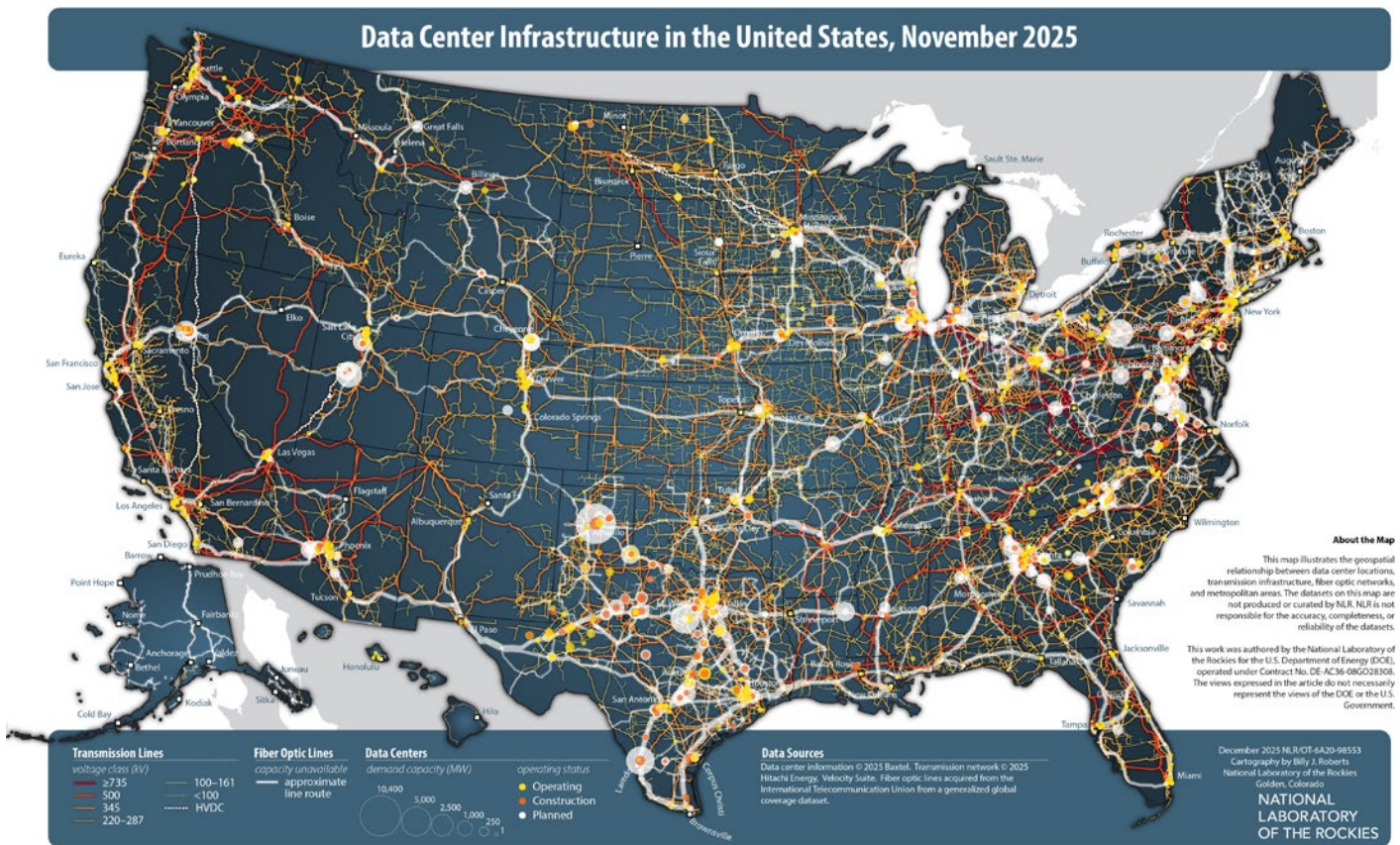
From every player in the data center space the mantra has been clear: power is the lifeblood of this industry. The capital is there, whether deployed as direct investment in ownership interests, development financing, longer-term debt capital, or all the above. But that powder remains dry without a viable asset, and without access to reliable power, our data center clients are unable to deliver. As we've seen, however, and as is noted below, these operators are finding a way.

Diligent, experienced data center developers are locking up land and transmission capacity years in advance, with the most successful landing the best sites - those with robust, scalable access to the grid¹. The National Renewable Energy Laboratory's latest maps show the usual suspects—Northern Virginia, Dallas, Phoenix—still leading the pack, but new hotspots are emerging where power procurement is less of a bureaucratic maze¹. We are seeing more interest in certain Midwest markets with superior connectivity and other markets in the Southwest with abundant power. In a recent article by Data Center Reviews posted on LinkedIn, South Dakota was mentioned as a viable market. Yes, that South Dakota – home to Mt. Rushmore and the Sanford Underground Research Facility!

To put the scale of the power market in perspective, North America reached an operational capacity of 18.5 GW in 2024, with 1.7 GW added in just the first half of the year. Power consumption is measured in kilowatt hours (kWh), with the typical four-person home consuming around 12,000 kWh per year. (One kilowatt (kW) is 1,000 watts, one megawatt (MW) is 1,000 kilowatts and one gigawatt (GW) is 1,000 megawatts.)

Converting 1GW to 1GWh translates to: 1GW x 24 hours/day x 365 days/year, or 8,760 GWh/year or 8,760,000,000 kWh/yr. That's roughly enough to power 730,000 single family homes for a year.

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Given that a single hyperscale data center can consume between 20 MW and 100 MW, the IPI Partners portfolio, at 2.2 GW of potential leased capacity is enough to power nearly 1.6 million homes.

Data centers are immense consumers of power operationally, where cooling alone can account for up to 50% of a data center’s total power draw. You’ve likely noticed this specific category receives a massive amount of attention in data center design and technological innovation. I was lucky enough to recently tour a large data center campus in the desert where the majority of facilities utilized closed-loop cooling and/or featured a modular design that could accommodate either air or water cooling, or both. Redundancy is also critical, with the best facilities boasting uptimes above 99.8% and multiple built-in power sources to keep the lights (and servers) on¹. But this redundancy requires sometimes multiple levels of backup power sources and increased development cost.

In response to these challenges, we are seeing our data center clients getting more creative with interim power solutions (both generation and storage), engineering for more efficient cooling, and even partnering with regional power suppliers to subsidize capacity for their projects while trying to minimize the effects on other power customers.

Development Economics and Construction Costs

In terms of ground up construction and development, the numbers are almost inconceivable in comparison to historical commercial real estate projects. Construction costs for data centers were already steep, and have ballooned further thanks to inflation, supply chain headaches, and the relentless march of technology². The cost to construct a standard/enterprise shell-and-core data center in 2026 runs between \$10-12 million per MW. This gets you to a finished outer structure and envelope with a basic power/cooling backbone. For a hyperscale-optimized build (think AI), some sources cite costs of \$20M+ per MW, which includes liquid cooling and high-density racks. Tenant/IT fit-out can easily double this cost.

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For a 50MW hyperscale facility with advanced cooling and multiple redundancy you could conceivably exceed \$1B before the tenant even fills a rack with processors. This is why we are seeing construction and project finance facilities hitting \$10B, \$15B or \$35B to develop a hyperscale campus.

OpenAI and its partners - including SoftBank, Oracle, CoreWeave, Blue Owl Capital, Crusoe, and Vantage Data Centers, have collectively taken on \$96 billion in debt to fund the next wave of AI infrastructure. OpenAI alone is eyeing \$1.4 trillion in spend over eight years, with Oracle's \$300 billion contract and potential \$100 billion in borrowing as just one example⁴. These are not small bets—they're moonshots, and they're reshaping the capital stack for the entire sector.

Hyperscalers as Market Makers

The big names—Amazon, Google, Microsoft, Meta, Oracle, Apple—are not just tenants; they're market makers. Five or six firms are driving most of the leasing activity, and while they could build their own, many still prefer to partner with specialists who can deliver speed and reliability¹. The competitive landscape is heating up, especially as AI leaders like OpenAI and Google race to outdo each other. OpenAI's "code red" to catch up with Google's Gemini is just the latest salvo in the battle for AI supremacy⁵.

The pace of the hyperscale race is driving tremendous amounts of capital into the system. Equinix recently announced a \$15 billion joint venture with CPPIB and GIC to build hyperscale data centers for the likes of AWS, Microsoft, and Google. Blue Owl Capital's \$1 billion acquisition of IPI Partners brings 82 data centers and 2.2 GW of capacity under its umbrella. Blackstone is investing £10 billion in northern England for a massive new campus, and Vantage Data Centers raised \$11 billion in nine months to fuel \$30 billion in new developments. Add to those numbers the ongoing costs associated with changes in technology and hyperscalers are expected to spend \$432 billion on capex in 2025, with projections hitting \$539 billion by 2029³. Again, the pace and scale are unprecedented.

Capital Markets Catch Up

On the back end, data center operators are finding takeout financing sources plentiful. This is true for both fully-leased hyperscale projects as well as critical colocation assets. In 2025, we saw \$11.5 billion in data center ABS issuance and another \$7.14 billion in CMBS². Bank of America is calling for \$35 billion in new issues and refinancings next year².

Vacancy rates are at historic lows, and power for new facilities is being snapped up almost as soon as it's available¹. Hyperscale deals are locking in long-term leases with near-100% utilization, while co-location and carrier hotels offer additional diversification of their income streams¹. Although co-location leases are generally shorter (2–3 years), carrier hotels and interconnection hubs offer higher barriers to entry and greater tenant stickiness, supporting long-term occupancy and stable cash flows across hundreds of tenants including large S&P 500 enterprises, with no single name dominating the pool.

While we have recently seen examples of investors being more selective, the fundamentals remain strong - especially for deals with high-quality assets, experienced management and well-structured contracts¹. The ability to dispose of or re-lease assets at maturity is critical, with location and tenant mix influencing re-leasing potential. Operators like Switch and Vantage are seeing their investment grade customer percentages grow with every issuance, and the tail of smaller enterprise customers is driving organic growth in net operating income².

Leverage points for top-tier assets in ABS transactions now range from 10.2x to 11.3x, with DSCRs for new deals at or above 1.4x². Single-A rated data center ABS paper, which previously traded at 200 basis points over the I-curve, has seen some trades in the 130s. CMBS ratings obviously go deeper down the bond stack and potentially offer broader investor interest, but for the time seem limited to hyperscale deals and a SASB-like execution. Both ABS and CMBS executions will be required to keep pace with capital requirements going forward.

The Monetization Question

Given the massive capital investments in equity, project finance and permanent debt, the logical questions become, "How do these investments ultimately get repaid? How are these investments ultimately monetized? And what headwinds may dampen or delay a return on this massive investment?"

Hyperscale cloud providers are reporting multi-billion-dollar contributions from AI, with AWS's AI revenue growing more than 100% year over year⁵. Drilling down further one needs to consider revenue generated beyond the direct-to-consumer model. Hybrid pricing models combining consumption-based fees and subscriptions are becoming more prevalent, allowing operators to capture value from AI features without overhauling existing revenue models⁶. Think Microsoft's Copilot integration into Office 365 which most US companies use as their productivity platform.

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To wit, most companies appear to be moving through a three-phase journey: internal optimization, opportunistic monetization, and full marketplace monetization, with data-rich organizations poised to translate their scale into structural revenue benefits⁷. For those working within the Microsoft 365 platform, you've likely already learned to use CoPilot to transcribe and summarize your conference calls and unread emails and to create resultant action items from the information. It's also quite helpful to be able to feed multiple articles into an AI agent and have it layer data points into an online article – such as the one you are currently reading.

Whether this translates to a direct subscription to ChatGPT, Grok or some other platform beyond what is available at work remains to be seen. But the fact that companies are adopting this technology at an increasing pace with an eye toward productivity and cost savings may dwarf any contribution from end-user subscriptions.

We are, however, seeing headwinds emerging in this space. There has been a marked rise in NIMBYism where grass roots efforts have resulted in failed or delayed high profile projects in several jurisdictions. In response, some municipalities are changing zoning regulations to protect residential areas from noise pollution, whether due to extended construction hours, backup generators or other factors. Some are requiring a larger commitment to procuring energy from renewable sources, while others are paring back or eliminating tax incentives. But the sheer amount of capital – along with a relentless drive to be first to market, is simply shifting opportunities to different markets like Mesa, AZ and Reno, NV.

Some Final Thoughts...

Our daily lives are overflowing with data. We all rely on cell phones, cable TV and streaming subscriptions, online maps with real-time traffic updates, and tools that let us track our children's movements wherever they may be. We're on a first-name basis with Siri, Alexa, Gemini, or Grok, happily storing millions of photos in the cloud. Even our refrigerators and thermostats are now Wi Fi enabled, reminding us when it's time to buy milk.

Taken together, this data saturation and the role of AI in understanding, organizing and interpreting the data, strengthens the case for viewing data centers as true infrastructure—critical to how we live and function every day. As technology continues to evolve, so too will the role of AI. Its ability to assist with embedded, repetitive tasks at work and at home is still in its early stages of mainstream adoption. And no judgment if your own AI journey has so far been limited to animating old photos—or turning your pet into a superhero.

Regardless of our individual use cases, AI is becoming an essential element across nearly every facet of modern life. Stakeholders throughout the digital infrastructure ecosystem – chip makers, cloud storage providers, computer manufacturers, fiber providers, cellphone manufacturers and ultimately consumers - are all reaping the benefits of this investment. As long as demand continues to outpace supply, the depth, breadth and velocity of capital appear virtually limitless. Until they aren't. The point where supply meets demand will be the ultimate arbiter - and determine where the final "chips" land.

¹ GlobalCapital, "Financing a Digital Future: Opportunity, Risk and Reward in the US," October 2025

² Fitch Ratings, "US Data Center ABS/CMBS: 2025 Outlook," October 2025

³ BofA, MUFG, KBRA, S&P, Data Center ABS/CMBS Issuance Data, October 2025

⁴ MetLife Investment Management, "SEC Registration Commentary," October 2025

⁵ Janus Henderson, "AI Monetization Takes Shape," October 2025

⁶ ServiceNow, "Hybrid Pricing Strategies for AI," October 2025

⁷ McKinsey, "AI Monetization Roadmap," October 2025