



Houlihan
Lokey

Data Center Update

Power, Politics, and Capital

October 2026

The Paradigm Shift

From Square Feet to Megawatts

The AI Catalyst

Extreme Power Densities

AI clusters run at extreme densities. GPU racks now draw ~100 kW versus 3–10 kW for legacy CPU racks, so a data center’s physical footprint has shrunk in importance while its power draw has skyrocketed.

The Infrastructure Bottleneck

“Speed to Power”

Grid connections now take four to eight+ years in primary markets, so value has accrued to powered land, and it accrues in steps: committed utility load, substation proximity, entitlement, and pre-leasing each progressing the site. Solutions like behind-the-meter power, serving as a bridge or supplement to grid connection, are closing the gap where they can, resulting in new capital partners, deal structures, and financing solutions.

The Capital Convergence

Platform Scale

Data centers are no longer only financed as real estate. Infrastructure funds (a record \$221 billion raised in 2025) and private credit now sit alongside bank debt, stepping in as traditional lenders approach their data center exposure limits. Bank balance sheets hitting lending capacity, not investor appetite, is increasingly the constraint for project funding.

Sources: Rack densities (3–10 kW CPU vs. 100 kW GPU), available capacity (< 1,500 MW, ~six months of demand), pre-leasing (80.4%), vacancy (1.4%), and footprint trend: CBRE Research, North America Data Center Trends 1H 2026 (Aug. 2026), pages 2–3, 14. AI rack densities (40–100+ kW): JLL, 2026 Global Data Center Outlook, page 11. Grid connection wait (>four years average; up to eight+ in constrained markets) and de facto bring-your-own-power mandates: JLL, page 18. Large-load rules: PJM Interconnection filing (Aug. 13, 2026). Powered land stages: Altus Group, Where Value Is Created in Data Center Land (Aug. 2026). Infrastructure fundraising (\$221 billion): Goldman Sachs Research, Private Markets Are Expected to Have a Growing Role in Data Center Financing (June 12, 2026). Bank exposure limits: S&P Global Ratings, How We Rate Data Centers Across Public and Private Markets (Apr. 2025); American Banker, AI Might Be in Its Bubble Phase (2026).

Value Paradigm

Operational & Financial Metric	The Legacy Real Estate Era	The Infrastructure Power Era
Primary Development Constraint	Cheap land and fiber proximity	Grid interconnection: value tied to secured utility capacity
Typical Power Density	Low-density, air-cooled racks (e.g., 3–10 kW)	High-density racks (40 kW to 100+ kW), liquid-cooled and purpose-built for AI clusters
Physical Footprint (sf per MW)	Value scaled with square footage; low-density halls spread power across large floor plates	Power concentrated in fewer, denser racks, but smaller acreage needs have yet to materialize (CBRE, 1H 2026)
Grid Connection Wait Time	Power secured concurrently with construction	Four to eight+ years in primary and saturated markets
Grid Access and Regulation	Standard utility tariffs; states competed for load with tax exemptions	Bring your own power: large-load tariffs, proof of new generation, and curtail-first service for loads without it
Core Valuation Framework	DCF using NOI based on leased space, often a PSF metric; risk adjusted real estate cap rates	DCF based on contracted power (\$/kW of secured/leased capacity); risk adjusted data center multiples/development yields
Dominant Capital Source	Bank debt and real estate equity	Infrastructure funds, private credit, structured debt and hyperscalers themselves



Strategic Takeaway

The data center sector has transitioned from a real estate asset class into a core infrastructure asset class, and the capital stack has followed: infrastructure funds, private credit, and structured vehicles now sit where bank mortgages and real estate equity once did. The competitive advantage is no longer location but the certainty of deliverable power. Savvy developers are securing it first: locking in interconnection, layering in behind-the-meter generation, which is increasingly a regulatory requirement, and pre-leasing to hyperscalers well before breaking ground.



Demand Drivers

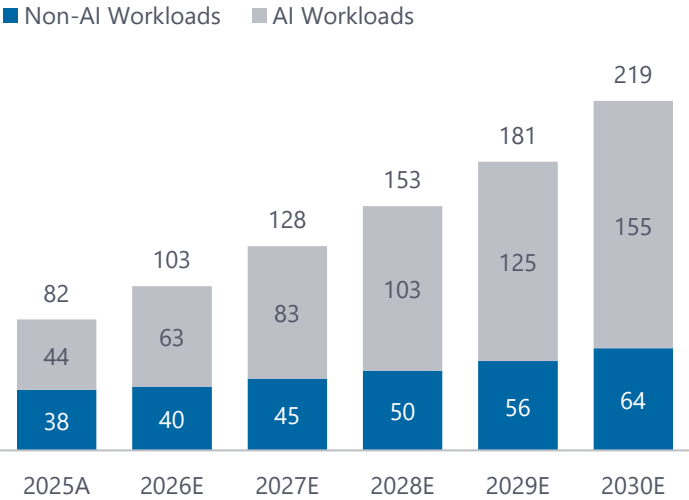
AI Mix, Power Need, and the Regulatory Response

Demand implies more power than the grid can deliver, and, as a result, regulators are now shifting the cost of new power supply creation to the data center developers. The binding constraint has moved from rental rates to power need, grid capacity, and proof of new generation.

Capacity Must Nearly Triple

Global data center demand is projected to grow from 82 GW in 2025 to 219 GW by 2030 (~2.7x), led by AI workloads, which grow 3.5x from 44 GW to 155 GW.

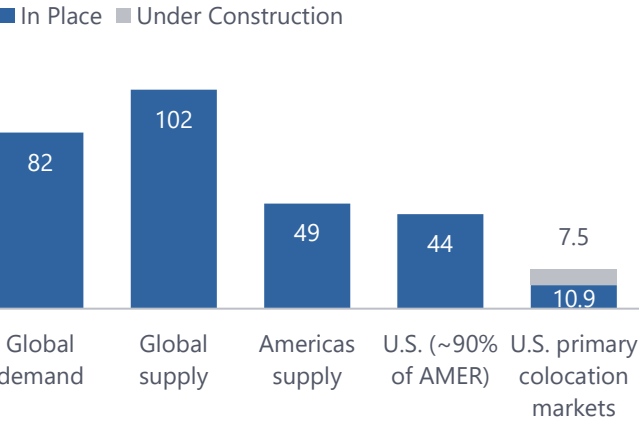
Global Data Center Capacity Demand (GW)



The U.S. Is Where the Build Lands

The U.S. holds ~44 GW (over 40% of the ~102 GW built globally), and its eight primary colocation ("colo") markets are adding 7.5 GW of construction on a 10.9 GW base.

Bridging Global Capacity to the U.S. (GW, 2025)



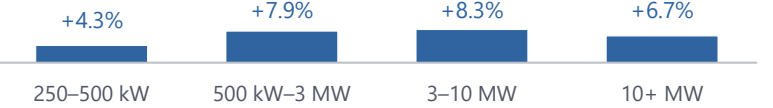
Scopes differ: global demand (McKinsey), Americas supply (JLL), U.S. primary-market colocation inventory and construction (CBRE); the bridge is directional, not additive.

Implied Power Need Outpaces the Grid

- Meeting the 2030 demand curve implies ~137 GW of new capacity, more than the ~102 GW in place worldwide today, before grid and equipment constraints.
- #### Regulators Are Shifting the Burden Onto the Load

 - PJM (Proposed):** New 50 MW+ loads must bring new generation by March 2027 or take "interim service": curtailed first in a shortfall, at half the standard demand-response pay. Filed August 2026 under a FERC order to all six U.S. grid operators.
 - Texas:** ERCOT data center interconnections paused (August 2026) pending an audit of ~474 GW of requests.
 - White House:** Seven hyperscalers and AI companies signed the Ratepayer Protection Pledge (March 2026) to build, bring, or buy their own power and fund grid upgrades.
- Developers are building their own: 59 U.S. data centers (~90 GW) plan on-site power, mostly gas: Stargate Abilene (361 MW), Meta New Albany (400 MW), xAI Colossus (~1.5 GW operating).
 - Primary markets hold under 1.5 GW of available future capacity (about six months of demand) and asking rates rose at every requirement size (below).

1H 2026 Asking-Rate Growth by Requirement Size (YoY, Primary Markets)



Sources: Demand (82.3 to 219.0 GW; AI 44 to 156 GW); McKinsey & Company, *Scaling Bigger, Faster, Cheaper Data Centers with Smarter Designs* (Aug. 1, 2025). Global data center demand data as of May 20, 2025. Global supply (~102 GW = 21 EMEA + 32 APAC + 49 AMER) and U.S. ~90% of Americas: JLL, *2026 Global Data Center Outlook*, page 6. U.S. primary markets (10,903 MW supply; 7,481 MW under construction; < 1,500 MW available; 1,456 MW absorption; asking rates): CBRE Research, *North America Data Center Trends 1H 2026*, pages 2-3, 6. On-site power: Cleanview, *Bypassing the Grid* (2026); Stargate Abilene per FT (Dec. 2025), cited by Cleanview; Meta New Albany: Ohio Power Siting Board via Data Center Dynamics (June 2025). PJM proposal: PJM CIPF large-load filing (Aug. 13, 2026), per Forbes (Aug. 21, 2026), pending FERC review; FERC large-load order (June 18, 2026); Office of the Texas Governor (Aug. 3, 2026); The White House, Ratepayer Protection Pledge (Mar. 4, 2026).

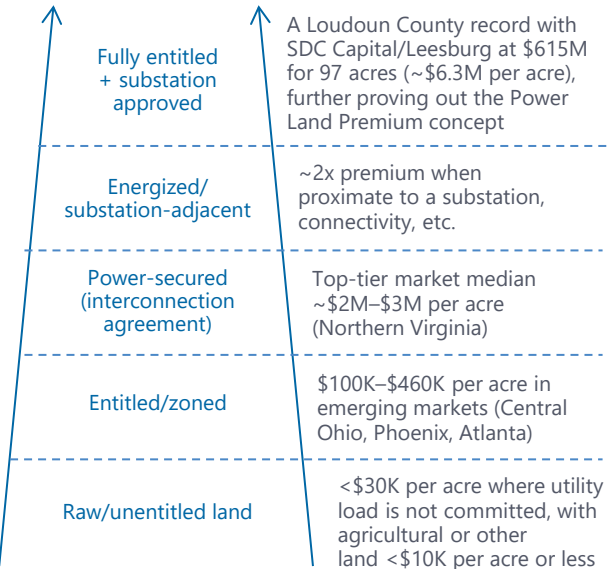
Powered Land and the Cost to Build

Value Is Created Before Ground Breaks

Power commitment, more than location or size, now sets land value: Northern Virginia (NOVA) trades at \$2 million+ per acre, whereas tertiary markets command a fraction of that value. On a total development budget of ~\$10 million–\$13 million per MW development budget, building shells now comprise a mere 9%–14% of the total budget, with MEP comprising 70%+.

Climbing the Pyramid: Where Land Value Is Created

Indicative value uplift by de-risking stage (Houlihan Lokey framing; Altus Group transaction data).



Why the Climb Takes Years

Each step up the pyramid is gated by a queue or a lead time.

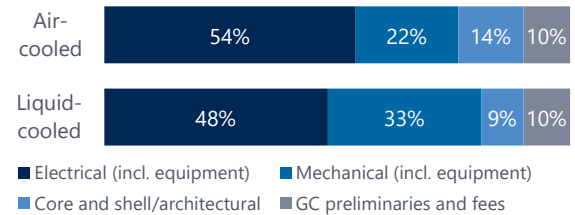


Cost to Build: \$10M–\$13M per MW, Driven by Equipment

Base build cost per MW, hyperscale build-to-suit, 2026 (excluding tenant IT fit-out).

Benchmark	Cost per MW	Source
Global shell-and-core average (2026E)	\$11.3M (+6% YoY)	JLL
Traditional prime U.S. markets	\$10M–\$12M	T&T, via CBRE IM
Applied digital, five campuses	\$11M–\$13M	APLD (June 2026)
AI/liquid-cooled premium	+7–10%	Turner & Townsend

Where the Dollars Go: Cost Allocation by Component (Turner & Townsend, U.S.)



Sources: Altus Group, “Where Value Is Created in Data Center Land” (Aug. 2026), based on 80 verified transactions (MSCI RCA); pyramid tiers are a Houlihan Lokey framing of Altus pricing variables and are indicative, not stage-level medians. SDC Capital/JK Land Holdings, Leesburg transaction, per Loudoun Now (July 2026). Lawrence Berkeley National Laboratory, Queued Up: 2026 Edition (June 2026); Wood Mackenzie transformer lead-time series, via Reuters (July 2026); International Energy Agency, Electricity 2026; Turner & Townsend, Data Centre Construction Cost Index (2026); JLL, 2026 Global Data Center Outlook; CBRE Investment Management (2026); CBRE Research, North America Data Center Trends 1H 2026 (Aug. 2026); Applied Digital Investor Presentation (June 2026), citing World Wide Technology. Cost per MW figures reflect base build and exclude tenant IT fit-out unless noted.



Strategic Takeaway

Land basis at ~\$2 million+ in NOVA, plus \$10 million+ to build the shell and MEP against shell rents rising 4%–8% a year, is what pins new-build yield on cost in that 6%–10% range. With stabilized hyperscale cap rates at 5.0%–7.5%, the development spread has roughly halved. Despite this, with ever-growing demand and tailwinds unlike we have ever seen, capital continues to pursue the sector. To do so, private capital is increasingly taking creative structures, adding risk spreads where appropriate, and shifting heavily toward debt/preferred-heavy structures.

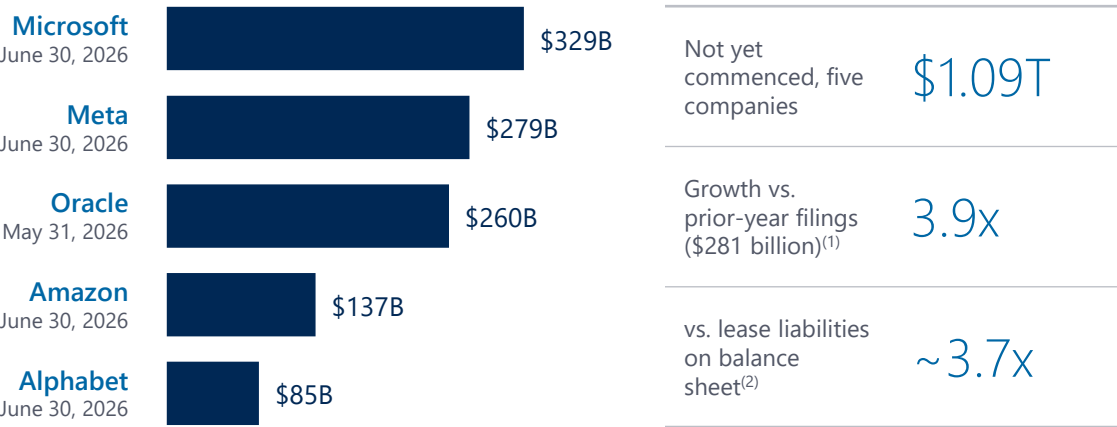


Private Capital Is Filling the Gap That Public Markets and Banks Will Not

Hyperscalers have signed ~\$1.1 trillion of leases on data centers not yet delivered; none of it yet on a balance sheet. Private credit and SPVs, not public markets or banks, are financing the build.

Hyperscalers Now Carry ~\$1.1 Trillion of Leases on Data Centers Not Yet Delivered

Undiscounted future payments on leases not yet commenced for hyperscalers in primary data center markets.



(1) Houlihan Lokey calculation vs. the same five companies' prior-year filings (\$281 billion; Microsoft and Oracle FY2025 10-Ks, others Q2 2025 10-Qs).
(2) Houlihan Lokey calculation: \$1.1 trillion ÷ ~\$295 billion of operating and finance lease liabilities at the same filing dates. Meta finance lease liabilities not separately disclosed; estimated from finance lease ROU assets (\$9.5 billion).

Sources: Company filings (Forms 10-K/10-Q, Q2 2026 and prior year); S&P Global Market Intelligence, via Data Center Dynamics (Feb. 2026); Moody's Ratings (Feb. 2026), via Fortune; CoreWeave Inc. press release (Mar. 2026); Meta Platforms Inc. press release and Wall Street Journal (Oct. 2025); Goldman Sachs Research (Jun. 2026), citing Preqin; Infrastructure Investor.

Why Private Capital Fills the Gap

Bank capacity is finite and duration mismatched.

- Banks committed ~\$121 billion to U.S. data centers in 2025 (S&P Global), but typically as two- to five-year construction loans that must be refinanced at stabilization. Against \$1.1 trillion of hyperscaler leases not yet commenced, bank debt is the bridge, not the take-out.
- Banks originate long-dated mortgages but distribute them through agency and securitized channels. No equivalent take-out exists at scale for 15- to 25-year data center lease exposure; private credit and insurance capital match long-dated liabilities to long-dated assets.

Hyperscalers are pushing capex off balance sheet.

- Initial lease terms are shortening: On new AI build-to-suits, hyperscalers increasingly sign initial terms aligned with a four- to six-year hardware life rather than the historical 10–15 years, with renewal options, shifting renewal risk to the landlord and its lenders (Moody's Ratings, Feb. 2026).
- The SPV/lease structure is the demand driver for third-party structured capital: The JV funds and owns the asset, while the hyperscaler develops it, retains a minority stake, and leases it back; the debt stays with the vehicle. At this scale, hyperscalers structurally require outside capital partners.

Capital deploys in stages, not at close.

- Funding needs begin at land acquisition and grow through construction and power milestones, favoring delayed-draw and expandable facilities over a single funded term loan.
- CoreWeave's DDTL 4.0 illustrates the model: The \$8.5 billion facility scaled from \$7.5 billion initially up to full capacity as underlying assets reach stabilization. It closed at SOFR+225 with an A3/A– rating, the first investment-grade-rated financing secured by HPC infrastructure, down from SOFR+962 on CoreWeave's first DDTL in 2022.

The private capital is already raised.

- Private infrastructure funds closed a record \$221 billion in 2025, with average fund size up to \$1.8 billion. The category returned 12.8%, outperforming every private-market strategy except PE and VC.
- Digital infrastructure is taking a growing share of it: U.S. digital infrastructure funds raised a record \$80.9 billion across 59 funds in 2025, nearly triple 2024.



Highlight: Meta/Blue Owl Hyperion

- \$27 billion of SPV debt and \$2.5 billion of equity.
- Venture between Blue Owl (80%) and Meta (20%).
- Rated A+ by S&P against Meta's AA– corporate credit.
- Fully amortizing to 2049 at +225 bps.
- Financed by PIMCO and BlackRock (\$18 billion and \$3 billion).
- This is one creative way to build what is needed for the \$1.09 trillion of leases not yet commenced—Meta develops and operates the asset, while a private capital vehicle owns it and carries the debt.



Powering the Build-Out

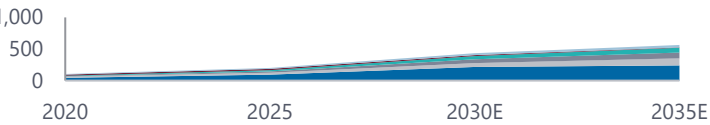
Power Scarcity Persists, Returns on Cost Compress

The economics have tightened in the past two years, impacted by higher development and borrowing costs; however, unceasing demand for compute continues to push capital to the sector.

Natural Gas Dominates the Near-Term Supply

Electricity generation for U.S. data centers by fuel, IEA Base Case (TWh)⁽¹⁾

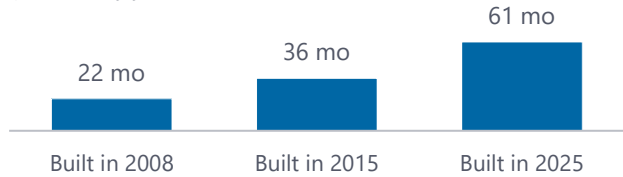
■ Natural Gas ■ Nuclear ■ Solar PV ■ Wind ■ Coal ■ Other



Gas supplies over 40% of U.S. data center electricity today and is the largest source of new supply, adding more than 130 TWh a year by 2030 in the IEA Base Case. Gas turbine orders jumped 70% in 2025, and manufacturer backlogs now stretch through 2030; power remains the gating input to every pro forma.

The Power Queue Crisis

Median months from interconnection request to commercial operation, by year built⁽²⁾



Plants built in 2025 took a median of over five years from request to operation. The queue shrank 10% as >750 GW withdrew amid FERC Order 2023 reforms, yet gas in queues rose 86% to 253 GW, and only 13% of capacity requested in 2000–2020 was ever built.

The Valuation Payoff Has Narrowed

	Summer 2024 ⁽³⁾	1H 2026
Build cost per MW	\$7M–12M	\$10M–13M
YoC – turnkey	9.5%–10.5%	~9.0%–10.0%
YoC – powered shell	n/a	~6.5%–7.25%
Exit/stabilized cap rates	5.5%–7.5%	5.0%–7.25%
Spread – turnkey (shell)	~300–400 bps	~175–300 bps (125–155 bps)

Higher land costs (\$2 million+ per acre in Nova), power/equipment wait times, scarcity in skilled labor, and increased NIMBYism, continue to drive development costs up. However, capital continues to flow to the sector, as stabilized yields are still attractive, with financings/trades often penciling based on the customer’s underlying credit.

Then vs. Now (Since Our Summer 2024 Update): How Power and Build Cost Fed Through to Return on Cost

Metric	Summer 2024	1H 2026	What Changed, and What It Did to Development Return on Cost
Under construction (primary)	3,077 MW (+46% YoY)	7,481 MW (+24.8% YoY); 80.4% pre-leased	Pipeline more than doubled, yet every MW is still gated by power; scarcity has not eased
Interconnection wait (median)	~5 years (2023 vintage)	> 5 yrs (2025 vintage); queue: 10% in 2025	No faster: carry on land and equipment lands in the cost basis before rent starts
Construction cost per MW	\$7M–12M (mid ~\$9.M)	\$10M–13M base build, 2026 (see page 5)	Up ~21% since Q4 2024; even low-cost U.S. hubs (~\$9.5M–\$9.9M) clear \$10M once liquid-cooled
Powered land (primary)	n/a	\$584K/MW (2026 YTD; +51% YoY)	Re-rates at lease signing, exhibiting significant value uplifts of 2x–10x+
Rate growth (250–500 kW)	+20% YoY	+4.3% YoY (3–10 MW: +8.3%)	Numerator decelerated: rents still rising, but no longer outrunning cost inflation
Stabilized/exit cap rates	5.5%–7.5%	5.0%–7.5% market and customer dependent	Little offset: tier-one hyperscale -50–75 bps in a year, but powered shell up ~30 bps since 2024
Development yield on cost	9.5%–10.5%	Turnkey ~9.0%–10.0%; shell ~6.5–7.25%	Turnkey down ~50–100 bps; shell yields lower as the tenant funds fit-out
Development spread	~300–400 bps	Turnkey ~175–300 bps; shell ~125–155 bps	Turnkey cover down ~a third; shell spreads thin for build and lease-up risk
Hyperscaler capex	\$213B (top four, 2025E)	\$725B (top four, 2026E); 2025 actual ~\$410B	2025 spend nearly doubled the mid-2024 estimate, and draws in capital that bids yields down

(1) IEA, Energy and AI (2025); IEA, Key Questions on Energy and AI (2026); Global Energy Monitor (2026). Graph data as of April 4, 2025. (2) LBNL, Queued Up: 2026 Edition; LBNL, Queued Up: 2024 Edition. (3) Houlihan Lokey Data Center Market Update (Summer 2024); Avison Young (Q2 2026); Houlihan Lokey CRE Debt Market Update (Aug. 2026); Applied Digital (June 2026); Turner & Townsend (2025–2026); Cushman & Wakefield (Sept. 2026); CBRE (1H 2026); Goldman Sachs via Yahoo Finance (June 2026).

Concentration Is the Constraint, Not Capital Availability

Record fundraising is pooling in a handful of mega-managers, reshaping who can transact, how assets are priced, and where the exit risk sits.

Infrastructure and Digital Infrastructure Fund Closes

Franchise closes above \$10B, 2024–2026

Fund	Manager	Size	Date
Global Infrastructure Partners V	GIP/BlackRock	\$25.2B	June 2025
Brookfield Global Transition Fund II	Brookfield	\$20.0B	Oct. 2025
KKR Global Infrastructure Investors V	KKR	\$19.2B	Aug. 2026
DigitalBridge Partners III	DigitalBridge	\$11.7B	Nov. 2025
Antin Flagship Fund V	Antin	\$10.7B	Dec. 2024

Where the Realizations Are: Selected 1H 2026 Transactions

How owners monetized in 1H 2026: only one outright sale

Owner	Transaction	Value
Blackstone → Digital Realty	Sale of 288 MW stakes: rare outright exit	\$7.8B GAV
Blackstone DIT	U.S. IPO: partial monetization	\$1.75B
Meridian Arc	High-yield bonds at 6.25%, 430 MW	\$5.7B
Related /Blackstone	Construction loan (Oracle, MI)	\$16B
Blackstone/QTS	SASB CMBS refinancing, three assets	\$2.1B

Sources: S&P Global Market Intelligence (2026); manager and company press releases (2024–2026); PitchBook, “Digital Infrastructure Funds Update” (Q2 2026); With Intelligence, “Infrastructure Fundraising Report 2025”; Infrastructure Investor; CBRE Research, “North America Data Center Trends 1H 2026”; Reuters (July 2026); Houlihan Lokey, “CRE Debt Market Update” (August 2026).

What Concentration Means for Deal Execution

Buyers are pricing on EBITDA multiples, not capitalization rates, and the resulting yields look too tight for the risk by traditional real estate metrics.

- At platform scale, data center assets now trade on EBITDA multiples and \$/MW rather than the exit capitalization rates that govern asset-level development economics. The yields that look tight are not what the buyer is underwriting, and the same handful of savvy investors (BlackRock/GIP, Blackstone, Brookfield, KKR, Blue Owl) are still able to get deals done.
- Implied yields look low despite (1) a thin record of tested exits, (2) a buyer pool narrowed by sheer check size, and (3) hazy underlying metrics: tenant credit runs from AA to unrated, and 20-year leases sit against equipment that may be obsolete much sooner.

Deals are plentiful; tested exits are not.

- Volume isn’t the constraint: 113 transactions and a record \$69 billion+ closed globally in 2025 (S&P), but nearly all of it is platform-level and priced on EBITDA. Real reference points are scarce: one \$40 billion private platform sale, one \$7.8 billion stake sale, and two IPOs: Blackstone Digital Infrastructure Trust (\$1.75 billion, May 2026) and Brookfield’s Csquare (\$1.05 billion, July 2026).
- With this few transactions, pricing is opaque; valuations rest on financing terms and a handful of comparables. But the exit paths are forming: platform sales to core/core+ and evergreen vehicles, hyperscaler JV recapitalizations, private credit take-outs, and now IPOs.

Concentration and thin distributions feed each other.

- Five specialist managers (DigitalBridge, Blue Owl, Principal Asset Management, Ares, PGIM) captured 85.5% of 2025 specialist digital infrastructure fundraising across ~10 funds (PitchBook Q2 2026).
- The same names raise the capital, buy the platforms, lend into each other’s deals, and set the marks. Pricing stays opaque yet market-oriented given those involved. This is not for lack of capital, but due to systemic constraints with historical lenders, the growth of private capital, and dispersion across expectations for the future in this nascent market.



Where the Valuation Question Lands

Most data center debt and platform equity has no observable market price: few comparable trades, tenant credit from AA to unrated, and a take-out market that does not yet exist at the size required. We expect valuation, not origination, to be the live question for lenders, sponsors, and auditors through 2027, and defensible ranges, not point estimates, to be the standard.



Risks and Looking Forward

The three constraints shaping the next phase of the build-out are securing power, structuring capital earlier, and proving an exit path.

01

Power is the gating factor.

Power availability is driving primary decisions, and the incentives that made power cheap to use are now in play. More than 10 states have paused or cancelled data center sales-tax exemptions after Ohio's grew to \$1.5 billion+ in 2025, roughly 10x its original estimate, while 35+ states still offer the exemption, offering capital a reroute rather than retreat. Still, power queues stretch four+ years across the country as demand, incentivized or not, continues to outrun supply.

Time and cost to power drive deal dynamics, and state policy is now a live variable in both.

02

Financing is arriving earlier and getting more creative.

Hyperscalers issued ~\$121 billion of bonds in 2025 (more than four times their five-year average) while private credit outstanding to AI-related companies has grown from near zero to over \$200 billion. GPU-backed SPVs now finance compute before facilities are energized.

Financing now arrives before the building is built, and is secured by the tenant's credit or the equipment inside, not the real estate.

03

Exit risk is increasingly on investors' minds.

Core capital is starting to set the marks: Digital Realty's ~\$7.8 billion purchase of Blackstone's stake in three leased Northern Virginia data centers implied a stabilized cap rate just above 5%. But the record is thin: Csquare priced below range, and many "exits" are fund-to-fund transfers or partial stakes, not outright sales.

The exit market is forming but unproven: early platform-scale realizations are setting the marks to which others may underwrite.



Houlihan Lokey Takeaway

The buildout's next phase will be decided by capital structure, not construction. Sponsors who secure power early, finance in stages, and anticipate their next-buyer scenarios will continue to build and transact. Those stuck in the traditional merchant-build or single-partner/financing source mindsets may struggle.

In this evolving market, sector, financial, and deal experience will differentiate the winners versus the losers in 10+ years.

Sources: Ropes & Gray LLP, "Data Center Investment in 2026: AI Demand, Power Constraints, and Private Equity Trends" (2026); NEPC, "Quarterly Private Markets Report: Q2 2026" (August 7, 2026), citing Blackstone press release and CBRE Investment Management; The Wall Street Journal, "States Curb Data Center Tax Breaks After AI Boom Raises Costs" (Sept. 9, 2026), citing Good Jobs First and EY; Bank for International Settlements, Bulletin No. 120 (January 2026); Quinn Emanuel Urquhart & Sullivan client alert (2026).



Houlihan Lokey's Real Estate Expertise

Houlihan Lokey has a successful track record of assisting its clients (comprising real estate investors, owners, and other stakeholders) with various transaction, special situation, and valuation needs.

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