Securitized Products Special Topics

BBnB: Check Your Booked-But-not-Billed Data Center Exposure

Fluctuating Data Center Tenant Demand Spotlights Buildouts and Rent Gaps

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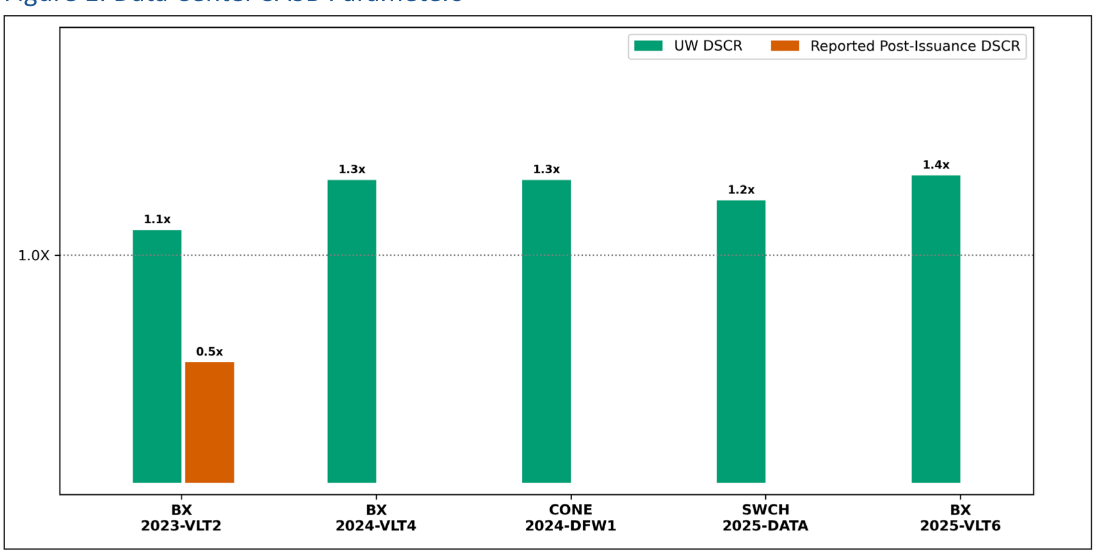
As a few data center tenants reassess their leasing needs, the unique booked-but-not-billed (BBnB) lease arrangement in the space will be more impactful. In a BBnB lease, the data center operator "books" the lease but the tenant has not taken occupancy and is not yet paying rent. The operator is building out capacity or working on interior infrastructure to onboard the tenant. The leases could be for a new space or power ramps on an existing lease. Rent/income will start later on, once the work is completed.

BBnB leases are akin to a typical fully executed commercial lease with some buildout-driven gap in occupancy/rent payments. Generally, they should not raise much concern. But data centers exposures with an elevated BBnB component can create a significant mismatch between underwritten cashflows and post-issuance deal parameters. Notably, BBnB leases drove sharp occupancy and DSCR drops in BX 2023-VLT2.[1] The four-property data center deal saw its reported occupancy plummeting to 53% from 99.5% underwritten level. The deal's reported DSCR dropped to 0.53x, from 1.11x at issuance (Figure 1). The VLT2 underwritten levels took the BBnB leases into account while calculating occupancy. However, deal servicers report actual income, and excluded the BBnB leases from the reported occupancy levels.

Figure 1. Data Center SASB Parameters



Source: Morningstar Credit and Academy Securities

1 "Data Centers: Performance Wrinkles to Test Operators' Role," Securitized Products Special Topics, Academy Securities, February 21, 2024

Monitor OSARs on Deals with Elevated BBnB Exposures

Deal reporting in BX 2023-VLT2 subsequently reversed the head-scratching occupancy and DSCR drops we see in Figure 1. VLT2 occupancy climbed up to 100%, and the DSCR stabilized around 1.1x. But the situation clearly reflected a reporting nuance within the Operating Statement Analysis Report (OSAR). Servicer commentary explicitly noted that "underwritten occupancy/revenue [includes both] actual and BBnB income, while servicers only report actual income."

We will be closely tracking how servicers report income in deals such as BX 2024-VLT4 and BX 2025-VLT6. In VLT4 BBnB leases comprise 19.6% of underwritten base rent on the underlying five-property QTS Data Center Portfolio, according to deal documents. In VLT6 BBnB leases account for 11.3% of underwritten rent. Other data center deals have lower BBnB exposures. Examples include CONE 2024-DFW1 with 2.2% BBnB capacity, and SWCH 2025-DATA, with 1.0%.

Various Data Center Types and Securitization Segments Feature BBnB

BBnB leases can pop up across different data center types. We see BBnB exposure in colocation properties, such as those in CONE 2024-DFW1, and in hyperscale locations in BX 2025-VLT6. Beyond CMBS deals, data center ABS deals also allude to BBnB capacity. Examples include the $940 million Centersquare 2025-2 and 2025-1, TierPoint 2025-2 and 2025-1 ($510 million), and SWTCH 2024-2 ($940.3 million). We generally find the BBnB disclosures less detailed in ABS deal documents, at least compared to the CMBS deals. We also see references to BBnB capacity on fiber securitization deals, such as the $200.7 million Fiber 2023-1. As such, BBnB underwriting considerations could be relevant for investors in the fiber space as well.

Strong Sponsors Can Mitigate BBnB Uncertainty

BBnB leases underscore the focus on operator's strength. While the lease is booked, tenants may still choose to walk away, especially before taking occupancy. Notably, hyperscale tenants, such as Microsoft, reportedly abandoned lease negotiations. So far, we are not aware of tenants actually exiting executed leases, rather than just lease negotiations. But we cannot rule it out. Stronger sponsors/operators should be better positioned to address BBnB risk. Interestingly, at least one rating agency gave credit for rental income from BBnB capacity because the sponsor in question had "expertise and [] history of BBnB delivery."

We would also be curious to see if BBnB leases have unique tenant exit/termination provisions. Generally, early termination options in data centers are becoming more tenant-friendly, especially for hyperscalers, as we discussed in a recent report.[2] We do not see much disclosure on any specific BBnB termination options. But Data center deal documents explicitly mention the risk that tenants in BBnB leases may not take occupancy or begin paying rent as expected.

2 "Early Terminations: Tenant-friendly Provisions to Move up Data Center Rollovers," Securitized Products Special Topics, Academy Securities, April 30, 2025

Track BBnB Reserves

Sponsors typically fund reserves at issuance when the pool has BBnB lease exposure. This provides another mitigant to the BBnB risk. For example, BX 2025-VLT6 and BX 2024-VLT4, which have elevated BBnB exposures, included at-issuance BBnB reserves of $57.1 million and $76.8 million, respectively (Figure 2). The reserves can include funds for both build-out costs and gap rent. The VLT6 reserve, for example, is comprised of $49.4 million build-out fund and $7.7 million gap rent amount.

Figure 2. Data Center Select Early Termination Options

Deal	Current Deal Balance (MM)	BBnB % of UW Base Rent	BBnB Reserve (MM)	Reserve Composition (MM)
BX 2024-VLT4	$1,400.0	19.6%	$76.8	• $60.8: Build-out costs • $16.0: Gap Rent
BX 2025-VLT6	$2,050.0	11.3%	$57.1	• $49.4: Build-out costs • $7.7: Gap Rent
CONE 2024-DFW1	$687.1	2.2%	NA	• NA
SWCH 2025-DATA	$2,400.0	1.0%	$1.2	• $0.1: Build-out costs • $1.1: Outstanding gap rent

Source: Deal Documents and Academy Securities

The BBnB gap rent reserves on data center loans echo “free rent” reserves we see on other property types, such as office. For example, the Moffett Place Google loan ($175.4 million, across three 2017-vintage conduit deals) included $17.1 million reserve to cover gap rent and rent concessions for a Google lease in the Sunnyvale, CA, office complex. Google took occupancy in the 2016-built property before deal issuance. But it was not required to pay rent for over a year, according to deal documents. The issuer designed the free rent reserve to simulate rent payments before Google starts paying.

Interestingly, Moffett Place, and a few other examples we found of gap rent/buildout periods on office properties, did not appear to create the underwritten vs. reported income inconsistency that BBnB leases drove in BX 2023-VLT2, as we described at the outset. BBnB capacity and the office lease anecdotes we saw are not exactly apples-to-apples comparison (for example, Google did take occupancy in Moffett Place, unlike in BBnB situations). But the free rent/buildout reporting experience on office loans and other property types could suggest a template for post-issuance reporting of data center-specific BBnB capacity.

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