



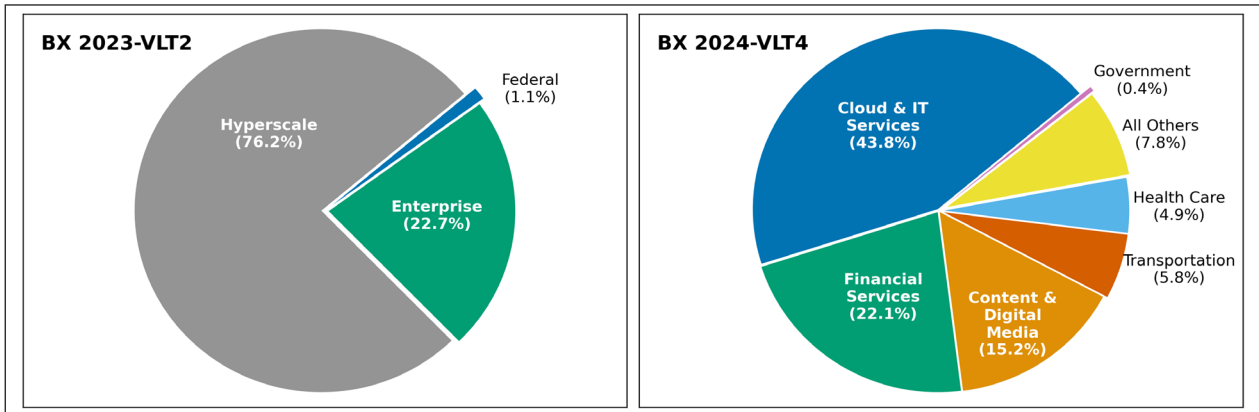
Government/GSA to Become More Dominant Tenant in Data Center Deals

The precise identity of data center tenants should increasingly drive collateral performance and relative value across data center ABS and CMBS deals. As the data center sector matures, several trends coalesce to accentuate differences across tenants. Notably, Federal agencies are poised to become prevalent users of commercial data centers. Congress has directed the Federal government to shift away from mostly using federally owned-and-operated data centers.¹ Federal and government agencies currently appear to account for a small portion of the tenant roster in data center deals. For example, federal tenants comprised 1.05% of the tenancy in BX 2023-VLT2, and a mere 0.4% in BX 2024-VLT4 (Figure 1). In turn, in many data center ABS deals we have not seen any references to government tenants in deal documents or tenant summaries.

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Figure 1. Data Center Deals Tenant Sector/Type Breakdowns



Source: Deal Documents, Presales, and Academy Securities

In contrast to the expected pickup of government leasing demand, large hyperscale tenants may reduce their demand. Current large tenants such as Meta/Facebook, Google, and Amazon are looking to own their properties, rather than lease [capacity](#).² All told, the makeups of data center tenant rosters stand to see changes.

¹ The direction appears in the Federal Data Center Enhancement Act of 2023, part of the National Defense Authorization Act (NDAA) for Fiscal Year 2024
² "Data Centers: Performance Wrinkles to Test Operators' Role," Securitized Products Special Topics, Academy Securities, February 21, 2024

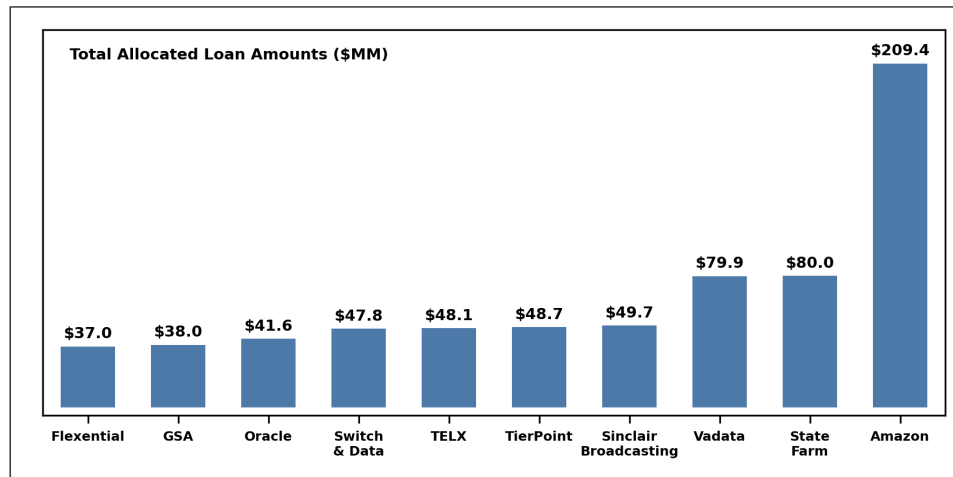
Data Centers: Tenant Rosters Poised to Change

Tenant Rosters Generally Shrouded in Secrecy

Data center ABS and SASB deals typically do not disclose tenant identities. Deal documents and presales provide tenant and lease summaries laden with “confidential” entries. Comparable lease or sales activity information that deal disclosures provide will also be cloaked in secrecy. Anecdotally, the word “confidential” appeared 92 times in a presale of the recently issued \$687.1 million CONE 2024-DFW1. The top-10 tenants of the 136-tenant roster of the underlying data center in Carrollton, TX, were labeled “customer 1” through “customer 10”. To be sure, DFW1’s disclosure is hardly an exception compared to other data center deal documents we reviewed. Still, the deals provide wealth of information aside from tenant identities, including detailed lease terms, rollover schedules and so on. Some SASB deals do disclose their tenants. One example is the \$319 million JPMCC 2022-DATA (Google is the single tenant in the Sterling, VA, data center backing the deal).

Interestingly, many conduit data center loans show the identity of their top tenants. This provides investors with some visibility into the tenant rosters of securitized data centers. Amazon dominates by far the data center tenant data we compiled across conduit loans (Figure 2). Still, some of the data may not reflect typical commercial data center tenants. For example, State Farm, the second largest tenant in Figure 2, shows up because it is a tenant in the \$80 million State Farm Data Center (CD 2017-CD3 and BBCMS 2017-C1). The loan is backed by State Farm’s enterprise data center in Olathe, KS, that the insurer constructed in 2016 and then sold to the borrower in a sale-leaseback transaction the following year. The borrower is ultimately owned by a collection of family trusts and multiple other investors. It is not a data center [operator](#).³ In contrast, some data center operators can show up as tenants in data center loans. One example is Flexential, the only tenant in the \$37 million Global Data Center (in UBSCM 2019-C17 and BANK 2019-BN21). Flexential is a data center provider in secondary markets. Aside from its tenancy in conduit loans, Flexential has also sponsored data center ABS issuance.

Figure 2. Data Center Conduit Loans Top Tenants



Source: Morningstar Credit and Academy Securities

³ “Data Centers: A Strong Segment Juggles ABS and CMBS,” CMBS Credit Focus, Academy Securities, October 4, 2022

Government Tenants Introduce Unique Performance Drivers

The increasing presence of government tenants in securitized data center properties we expect introduces a few unique underwriting and performance angles. For example, we see lower termination risk for leases in data centers that are considered “mission critical” for their government tenants. This echoes our view on government office leases in specialized locations. General Services Administration (GSA), the federal agency that leases space for the government, has been stressing the importance of securing long-term leases on specialized facilities. GSA is unlikely to terminate such leases even amid agencies’ focus on remote work and reduction of real estate [footprint](#).⁴

GSA commitment to critical data center facilities is reflected in deal commentary on loans that already have government tenants. For example, GSA is the largest tenant in Liberty Park at Tysons (\$45 million, BBCMS 2022-C18), a 190K sf mixed-use property in Vienna, VA, that includes 55K sf Tier III / IV data center. GSA has been in occupancy since 2006, making substantial investments exceeding \$85 million in infrastructure, security, and redundancy enhancements, especially in the data center component. GSA recently renewed their lease through January 2036, with no termination options.

In the same vein, investors may see federal-only data centers, as commercial operators look to accommodate new government leasing demand, that is dependent on addressing security risk. Federal agencies may not be interested in existing data centers that only meet basic security requirements. For example, commercial colocation data centers house multiple companies and may include foreign entities considered adversarial to U.S. interests. Interestingly, rating agencies alluded to the presence of TikTok in a data center portfolio as a potential weakness. President Biden signed the 21st Century Peace Through Strength Act, back in April 2024. The Act requires ByteDance (the Chinese parent of TikTok) to divest its U.S. operations by January 19, 2025, or face a nationwide ban after that date.

⁴ “Government Tenants: Short Termination Notices and Specialized Properties,” CMBS Credit Focus, Academy Securities, March 28, 2022

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