



A READER ASKED

Who Really Carries the Debt?

Inside the SPVs financing the AI data-center buildout

The legal debt can sit in a project vehicle. **The economic obligation often does not.**

THE READER'S QUESTION

If outside investors borrow to build an AI data center and lease it to a hyperscaler, who really carries the debt and the downside?

01 FOLLOW THE CONTRACT

Firm rent, guarantees and termination payments reveal more than the debt label.

02 MATCH THE DURATIONS

Debt is strongest when it amortizes within the non-cancelable lease term.

03 VALUE THE POWERED SITE

Residual protection depends on power, adaptability and real re-leasing demand.

OTTO'S OPENING VIEW

Neutral-to-constructive on the tool. Skeptical of the risk-transfer narrative.

EXECUTIVE VIEW

The debt can move. The obligation often does not.

SPVs can move legal borrowing outside a hyperscaler's consolidated debt line. They do not erase the lease, guarantees or customer economics that support repayment.

Otto's bottom line

SPVs are legitimate infrastructure-finance tools, not free risk transfer. The strongest structures match firm contracted rent to debt repayment. The weakest depend on optional renewals, refinancing or untested residual values.



Rent funds operating costs, reserves and debt service before equity distributions.

The servers may sit with the tenant. The long-lived powered shell generally sits with the SPV.

MECHANICS

Four structures that can look similar

Build-to-suit	New campus for a committed tenant; rent begins as buildings are delivered.
Sale-leaseback	Operator transfers an asset, receives cash and leases the property back.
Joint venture	Hyperscaler retains a minority interest while outside capital owns most of the vehicle.
Layered capacity	SPV leases to a hyperscaler, which sells compute to an AI lab or enterprise customer.

ACCOUNTING BOUNDARY

What off balance sheet actually means

A project can remain unconsolidated when the hyperscaler is not its primary beneficiary under accounting rules. That conclusion does not mean the tenant has no economic exposure.

LEASE	The tenant may still supply nearly all project cash flow through non-cancelable rent.
SUPPORT	Residual-value guarantees and termination payments can behave like contingent debt.
TIMING	Uncommenced leases can remain commitments for years before recognition as lease liabilities.

Underwriting question

Who must keep paying if utilization disappoints, and what is the asset worth if that party stops?

ANALYTICAL DISCIPLINE

Three measures, one exposure

LEGAL DEBT Which entity issued the bonds or signed the loan?	ACCOUNTING LIABILITY Which lease assets, liabilities and commitments are recognized or disclosed?	ECONOMIC SUPPORT Whose rent, guarantee or customer cash flow ultimately protects repayment?
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PUBLIC CASE STUDY

Hyperion shows where the risk goes

Meta's Louisiana campus exposes the difference between minority ownership, legal debt and economic support.

~\$27B DEVELOPMENT COST Buildings plus power, cooling and connectivity.	80% / 20% BLUE OWL / META Outside capital owns most of the venture.	4 years INITIAL LEASE TERM Options can extend occupancy to 20 years.
\$12.31B INITIAL COMMITMENT Aggregate initial lease commitment.	~\$28B RVG THRESHOLD Declines under specified exit conditions.	\$45.95B MAXIMUM EXPOSURE Accounting maximum, not expected loss.

The venture issued project debt. Meta agreed to lease the entire campus and supplied a residual-value guarantee for the first 16 years of operations. Meta concluded that it was not the venture's primary beneficiary and therefore did not consolidate the vehicle.

What it proves	A 20 percent equity stake does not imply 20 percent economic exposure. Meta's rent and residual-value support help make the project financeable even though the bonds sit in the venture.
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THE DEBATE

Bull case, bear case and Otto's view

BULL CASE Outside capital matches long-lived assets; specialist developers accelerate delivery; firm investment-grade rent can create infrastructure-like credit.	OTTO BASE CASE Neutral-to-constructive on the financing tool. Skeptical that moving debt changes who bears utilization risk when the tenant supplies rent and guarantees.	BEAR CASE Visible capex becomes fixed rent; short firm terms support longer debt; one tenant, one lab or one workload can remain the true demand factor.
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QUESTION	STRONGER STRUCTURE	WEAKER STRUCTURE
Debt service	Firm rent and scheduled amortization cover repayment.	Optional renewals or refinancing protect principal.
Residual risk	Adaptable powered site with broad re-leasing demand.	Specialized campus with one plausible replacement tenant.
Transparency	Lease, guarantee and exposure are clearly disclosed.	Investors focus only on debt and current capex.

Source: Meta transaction announcement and 2025 Form 10-K; S&P; Global Ratings. Figures are rounded.

OTTO FRAMEWORK

The underwriting order

1. TENANT Parent credit and binding rent	2. TERM Lease coverage of debt repayment	3. POWERED SITE Delivery certainty and re-leasing value	4. ACCOUNTING Presentation after economics
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RISK AND MONITORING

What breaks first, and where to look

The first loss rarely appears as an impairment. Contract terms, capacity gates and financing conditions usually deteriorate first.

1

Utilization

Rent can remain due when customers do not consume capacity. Risk moves to the tenant; it does not leave the system.

2

Lease and debt mismatch

Compare firm rent with debt maturity and amortization. Optional renewals are not committed cash flow.

3

Residual value

Power access, cooling flexibility, fiber, location and retrofit cost determine whether another user can occupy the site.

4

Power and completion

Interconnection, transformers, permits and overruns can delay rent while interest continues to accrue.

5

Concentration

An investment-grade tenant may still depend on one frontier lab, accelerator platform or workload family.

6

Economic obsolescence

A functional shell can become uneconomic against newer campuses with cheaper power or higher rack density.

7

Refinancing and opacity

Balloon debt and uncommenced leases can delay recognition of leverage until financing conditions tighten.

First test

Where does utilization risk land? Every other risk determines how painful a shortfall becomes.

MONITORING DASHBOARD

Leading indicators before the impairment

INDICATOR	WHAT TO TRACK	WHY IT MATTERS
Contract quality	Firm term, guarantee, take-or-pay, termination rights and RVG.	Defines who pays and which exits remain.
Debt structure	Rates, DSCR, LTV, amortization, balloons and covenants.	Reveals dependence on refinancing.
Capacity gates	Announced, financed, permitted, interconnected, commissioned and utilized MW.	Separates headlines from operating supply.
Tenant economics	Cloud and AI revenue, backlog conversion, FCF after capex and leases.	Tests monetization against fixed claims.
Market clearing	GPU pricing, utilization, subleases, vacancy, rents and credit spreads.	Shows weakness at the margin.
Asset flexibility	Rack density, liquid cooling, PUE, network redundancy and retrofit capex.	Tests survival through another cycle.

Capacity funnel

Announced MW -> financed MW -> permitted MW -> interconnected MW -> equipped MW -> commissioned MW -> utilized MW. Never treat these as one number.

Fitch's data-center criteria favor investment-grade tenancy and lease terms that substantially amortize debt. Concentration, lease expiration, weak re-leasing demand and obsolescence receive more punitive treatment.

HOW TO MONITOR

The order of operations

1 CONTRACT	2 DELIVERY	3 ECONOMICS	4 CLEARING
Who is bound?	What power is real?	Is revenue covering claims?	Where is marginal stress?

SCALE, THESIS AND VERDICT

Future leases are becoming a second capex ledger

The figures below are undiscounted, contain different asset mixes and should not be added together as if they were comparable corporate debt.

\$196.6B MICROSOFT Primarily data-center leases not commenced at March 31, 2026.	\$182.88B META Data-center, colocation and certain network commitments.	\$75.6B ALPHABET Primarily data-center leases not commenced or recorded.
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These commitments are future claims on cash flow that a capex-only analysis misses. They are not all SPV debt, and undiscounted lease payments are not equivalent to present-value corporate borrowings. The signal is the speed at which committed capacity accumulates before operations begin.

EVIDENCE MAP

What changes the thesis

QUESTION	STRONGER STRUCTURE	WEAKER STRUCTURE
Contract	Firm lease covers repayment; parent support is explicit.	Debt extends beyond firm rent; support is ambiguous.
Capital	Debt amortizes; equity absorbs construction and residual risk.	Large balloon; thin equity; refinancing protects principal.
Delivery	Power is secured before major construction spending.	Financing precedes binding power or demand.
Economics	Commissioned capacity converts into revenue and FCF coverage.	Commitments outgrow AI gross profit and cash flow.
Flexibility	Site supports multiple tenants and technology generations.	Material retrofit is required for re-leasing.

What breaks the thesis	SPV-funded capacity repeatedly enters service without corresponding workload growth, forcing repayment to depend on optional renewals, refinancing or residual guarantees rather than operating cash flow.
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OTTO'S FINAL VERDICT

Follow the obligation, not the label

SPVs extend the financing runway for AI infrastructure. They do not make the buildout capital-light. If contracted rent amortizes the debt and the site retains real re-leasing value, the structure can efficiently connect institutional capital with durable infrastructure. If repayment depends on one tenant renewing, one customer filling the machines and lenders refinancing a large balloon, the AI demand bet has been concentrated and repackaged, not eliminated.

Final view	Underwrite the tenant and contract first, the powered site second and the accounting treatment last.
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Sources and reader policy

1. Meta, Hyperion JV announcement, Oct. 21, 2025
2. Meta, 2025 Form 10-K
3. Meta, Q1 2026 Form 10-Q
4. Microsoft, Q3 fiscal 2026 Form 10-Q
5. Alphabet, Q1 2026 Form 10-Q
6. S&P, Meta data-center JV rating update
7. Fitch, Data Center Securitizations Rating Criteria
8. Crusoe, Blue Owl and Primary Digital, Abilene JV

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