

# Data centers are a generational growth opportunity

## Introduction

When considering the explosive growth in digital infrastructure and the strong demand from technology companies, we see data centers as a generational growth opportunity. These companies, primarily hyperscalers, have cloud capabilities that require continuous capacity. The rise of artificial intelligence has further intensified this demand, increasing the urgency and scale sensitivity for hyperscale companies to support their growth. Along with these opportunities come challenges Blue Owl aims to address on behalf of some of the world's leading technology firms.

One of the key tenets of Blue Owl's strategy is to be a provider of capital solutions. Our industry-leading net-lease business is actively engaged in supplying strategic capital to data center users. In January 2025, Blue Owl completed the acquisition of IPI Partners, a digital infrastructure manager and one of the largest private U.S.-based data center investors. IPI has an exceptional team, top-notch development capabilities, and a global pipeline to help meet the needs of data center partners. Similar to our approach in net lease, IPI focuses on finding solutions for its clients and addressing the global needs of large, high-quality hyperscale and enterprise data center end users. We believe the combination of our net-lease business, IPI's global capabilities, real estate credit division, and our capabilities in technology and asset-based lending positions Blue Owl as one of the few firms capable of offering a diverse solution to users of digital infrastructure that includes access to capital, expertise and scale.

## Net lease

As an investor with a 16-year track record alongside high-quality investment-grade firms, we have been intrigued by data centers during the past several years due to their impressive credit quality and unparalleled mission criticality. As an investment manager committed to a rigid and disciplined investment strategy, however, there were several early challenges for us to invest in data centers, including our cost of capital, our inability to engage in traditional development activities and an aversion to gross leases. As a credit- and cash-flow-oriented investor, we require a specific set of investment criteria to be met before we execute a transaction, such as having pre-leased agreements, guaranteed rent-commencement dates and corporate, as well as construction, guarantees. Today, we are structuring deals in this manner so we can enter transactions after the more speculative phases, allowing us to mitigate the potential for downside risk but also provide a mutually beneficial outcome for our development partners and tenants.

Moreover, given the high-quality credit and low cap rates in years past, these firms were typically able to access a lower cost of capital to finance their businesses, which made our cost of capital less attractive at the time. Fast-forward to today, we are facing elevated interest rates and an investment landscape marked by supply and demand issues. Perhaps the most pressing need

is for off-balance-sheet capital, due to the scale and financial requirements to build capacity. Hyperscalers typically invest a multiple of our capital into the asset, which we believe supports mission criticality and creates strong alignment. This has led hyperscalers to partner with trusted third parties to help them build, finance and scale their digital infrastructure.

We believe these dynamics have created a favorable environment where our off-market, solutions-oriented approach positions Blue Owl as one of the leading capital providers capable of executing with speed and scale. Our net-lease team has successfully partnered with high-quality data center users to help them achieve their digital infrastructure objectives, and this remains a significant area of focus for our team and our investors.

## Pure play

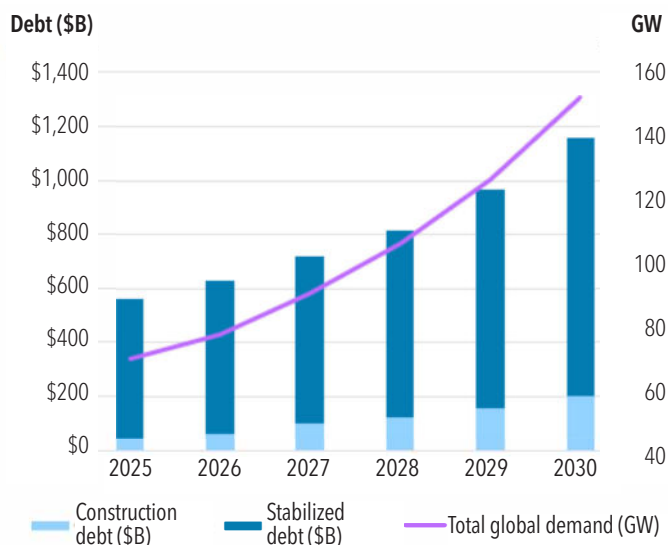
Blue Owl Digital Infrastructure (fka IPI Partners) was established to execute a differentiated, "pure play" investment strategy focused on partnership and alignment to address the global needs of large, high-quality hyperscale and enterprise data center end users. At the time of acquisition, IPI had more than \$14 billion assets under management and a team of more than 70 employees, and another 900 from our captive, vertically integrated operating platform.

As a global data center developer, IPI was originally founded to be a strategic capital partner and problem solver for hyperscalers. This began for us in the United States in 2016, as hyperscalers were looking to find a data center solutions provider for their cloud businesses. Since then, there has been immense, continued growth in data creation, accelerated first by the COVID-19 pandemic and now with the rapid rise in the cloud market and the growing adoption of AI technologies. With this backdrop, IPI needed to adapt and establish a scalable presence in markets that were strategically important to its clients on a global basis. In 2020, we entered key European regions where our hyperscale partners had capacity needs. In 2022, we expanded our portfolio to Asia Pacific, as we recognized the hyperscale cloud and AI needs in the respective region and believed it was strategically beneficial to offer global services to them to strengthen long-term partnerships. Today, IPI has grown to be one of the largest data center managers in the world, offering both powered shell and turnkey solutions to end users, and we will continue to grow and adapt with our hyperscale partners.

We believe we are experiencing a generational opportunity in the market today with continued cloud growth and now the step function demand associated with AI. Cloud fundamentals and their long-term outlook remain strong. Cloud market demand continues to grow, with an approximately 25 percent projected CAGR in cloud revenue from 2023 to 2029.<sup>1</sup> Specific to some of the growing trends we're seeing in AI development, data centers will be the support system for the momentum of AI's overall adoption. AI requires data centers to function and will look to provide not only the storage for the data AI workloads build

## Figure 1: Projected global capital required<sup>2</sup>

The global data center sector is projected to require more than double the balance sheet debt capacity in 2030 relative to today, with the United States accounting for approximately 72 percent of global demand.<sup>3</sup>



Source: McKinsey & Co.

upon but also the power to support the servers that perform the necessary computations. This will result in an increasing amount of data center capacity to support these workloads, and these data creation trends will create structural demand for data centers in the long term.

Given the challenges hyperscalers face in deploying with speed and at scale, especially as they continue to grow rapidly with AI advancements, we believe our development expertise and track record has enabled us to become one of a few partners trusted by top technology companies to help them execute their global expansion plans across markets. We believe we have a scalable and replicable platform for growth due to our development core competency and the strategic nature of our customer relationships. Our tenants benefit from our in-depth knowledge of their real estate programs, strategic goals, site location criteria, lease economics, construction standards and timing imperatives.

### Credit

Blue Owl's real estate credit team was formed in 2024; however, our real estate credit investment management experience dates back to the early 1990s, and includes investing more than \$20 billion across 900-plus transactions and lending on nearly every type of property. Since the Blue Owl Real Estate Credit team was formed, we have invested \$600 million in the data center credit space. While the equity side of the business often gets more attention, many overlook that debt capital typically accounts for 50 percent to 80 percent of the capital structure in most transactions. We believe there is a strong demand for data center debt, as well. Our primary focus, regardless of property type, is on the quality of sponsorship, collateral and credit. Ensuring these elements are solid is crucial.

As a debt investor, our perspective on risk and return is different. We carefully assess our basis and understand our downside risk,

as our upside is limited; our goal is to be repaid. The power demands of data centers make access to reliable electricity a key consideration in our underwriting process. We generally avoid loans where power is not readily available at reasonable prices. Like the net-lease side, we also pay close attention to the leases, particularly their duration, tenant quality, below-market rents, lease structure and strong cash-flow coverage ratios. Evaluating tenants and lease terms is fundamental to our analysis across our real estate business.

Currently, the data center lending environment is competitive. Our leadership's 30-plus years in the market has taught us our money is no greener than others'; however, we have consistently succeeded with borrowers because we execute with speed and certainty in both loans and securities. Blue Owl has a varied cost of capital, and our investments typically take the form of: (1) senior loans or mortgages, (2) mezzanine or subordinate loans, and (3) commercial mortgage-backed securities (CMBS) in the form of single-asset single-borrower (SASB) CMBS. From a risk-return perspective, we can finance construction, transitional and stabilized loan profiles. As a leader in the SASB market, we aim to generate excess returns by leveraging speed, certainty, scale, structural complexity, sourcing and navigating market volatility, rather than increasing risk and compromising on tenant, collateral, and credit quality.

Notes:

<sup>1</sup> Structure Research Market Share Series: Hyperscale Cloud (September 2024) - Cloud Revenue

<sup>2</sup> McKinsey & Co., "Impact of datacenters on US energy consumption March 2024"; CBRE Research North America Data Center Trends, June 2024 figures

<sup>3</sup> McKinsey & Co., "How data centers and the energy sector can sate AI's hunger for power," September 2024



### CONTRIBUTOR

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Co-President, Blue Owl

Marc Zahr is a co-president of Blue Owl Capital Inc. and a member of the firm's board of directors. Zahr is also the global head of the Real Assets Platform, where he manages and oversees the platform's investment activities, including sourcing, underwriting and negotiating all acquisitions.

### COMPANY OVERVIEW

**Blue Owl** (NYSE: OWL) is a leading asset manager that is redefining alternatives. With more than \$235 billion in assets under management, we focus on providing businesses with private capital solutions to drive long-term growth and can offer institutional investors, individual investors and insurance companies differentiated alternative investment opportunities that aim to deliver strong performance, risk-adjusted returns and capital preservation. Together with more than 1,050 experienced professionals globally as of Sept. 30, 2024, Blue Owl brings the vision and discipline to create the exceptional.

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