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PUBLISHED: 2 February, 2026

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BGO strikes cautious note as AI advances

The investment manager approved data center loans last year, but its activity was largely focused on logistics and living rather than financing data center technology.

Demand for data centers continues to significantly outpace supply, but commercial real estate private credit providers are still cautious on allocating capital to the sector.

According to a Q1 2026 report from Dallas-based brokerage CBRE, the weighted global average vacancy rate for data centers is 6.6 percent, a 2.1 percent year-on-year decline. Over the same period, global data center pricing rose 3.3 percent on a weighted inventory basis year-on-year, reaching $217.3 per kW per month.

Jim Blakemore, managing partner and global head of debt at New York-based diversified investment manager BGO, sees how growth in AI is affecting demand for data centers. But he remains cautious about deploying debt capital.

"I think one of the important components of long-term successful lenders is maintaining discipline when there's great enthusiasm amongst equity investors," Blakemore adds.

BGO originated some data center loans last year, but the bulk of its activity was in sectors like logistics and living. While sponsors may be interested in chasing sectors getting substantial attention, BGO will not back generalist real estate sponsors who may be attracted by the sector solely for its promising fundamentals, Blakemore says.

"We are supporting people that have been doing this for 10-20 years and who have relationships with hyperscalers," he adds. "We prefer to participate in the data center investment that dovetails with our expertise in real estate. We're not involved in financing the technology side of data centers."

Managing risks

As expectations of AI-driven growth pushed tech company valuations higher in 2025, lenders are worried about the potential for a correction.

"What we learned during the global financial crisis is that correlations can increase significantly during periods of stress," Blakemore says. "Lenders are always mindful of the next downturn."

A mitigant to concerns around a market bubble is that the supply of high-quality properties in the sector is low on a relative value basis, which will help safeguard against volatility. While equity investors in data centers have raised concerns about eventually selling assets, Blakemore sees a vibrant market for takeout financing for lenders to exit into.

"Once you have a lease with a hyperscaler, there's a lot of capital to finance those assets. Focusing on the real estate element is useful, and we do know what real estate works very well for data centers, both on the debt side and the equity side," he adds.

Beyond the risks

Commercial real estate lenders are also looking beyond the potential risks of lending on data centers.

The growth of AI means incorporating AI into deal selection and underwriting, something that was unthinkable a few years ago.

"The pace of change has accelerated, and things that have been seemingly solid and untouchable are changing more rapidly," Blakemore says.

David Steinbach, global chief investment officer at Houston-headquartered Hines, believes the adoption of AI will help increase productivity. The firm has used AI to analyze the potential impact of more efficient work as it evaluates lending and investment opportunities.

"With AI, companies may be able to skip the hard labor we've been doing in terms of data stitching and go straight to the analytics," Steinbach adds.

The next frontier

The commercial mortgage-backed securities market will be the next frontier for data centers, says Mark Silverman, a partner at law firm Troutman Pepper Locke.

The securitized debt markets will eventually become more comfortable with the asset class. And that is where traditional real estate underwriting plays a critical role.

"You'll be able to get way out ahead of any potential issues by watching that trend line in leasing, profit and loss statements, rent collection and everything related to the actual operation of the asset," Silverman says.