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From Growth To Growing Risk: Rapid Development Of Data Centers Is Creating Vulnerabilities - S&P

Key Takeaways

- Massive AI-focused data centers' scale, complexity, and aggressive construction timelines increasingly strain development capacity, encourage developers to take on projects beyond their experience, create specialized labor shortages, and lead to equipment procurement issues.
- Rapid sector growth is underpinned by mid-sized contractors' reliance on debt across the value chain. This has led to elevated leverage that creates vulnerabilities to cost overruns and rising interest rates, which could ripple through supply chains, causing project delays that further amplify risks.
- Some stakeholders' significant negotiating power could shift risk to less solid contractors and subcontractors, while contractual opacity (particularly regarding opt-out rights and guarantees) obscures these risks and can result in misaligned expectations across the value chain.
- Increasing use of private capital and complex contractual and financing structures makes it difficult to assess leverage and risk concentrations within the data center sector, potentially masking sectoral vulnerabilities that could become apparent if AI's promise wanes.

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