

Insights

THE RISE OF STRATEGIC JOINT VENTURES AND ALTERNATIVE STRUCTURES IN DATA CENTRE INVESTMENT

Mar 03, 2026

SUMMARY

The UK data centre sector has evolved into one of the most competitive and capital-intensive asset classes across global real estate and infrastructure. Delivering a single hyperscale facility, often requiring more than half a billion pounds of investment—alongside intense competition for powered land and lengthy grid connection timelines, has made the traditional single-developer financing model unsustainable. In response, a new era of, strategic partnerships have emerged. The market is dominated by complex joint ventures and alternative investment structures, designed to pool capital, allocate risks, and align the interests of specialist developers, institutional investors, and hyperscale tenants.

THE COMMERCIAL IMPERATIVE FOR STRATEGIC PARTNERSHIPS

A set of powerful commercial and financial imperatives has caused joint ventures in the data centre sector to skyrocket. These changes, along with modern developments, necessitate a collaborative approach to funding and risk management.

ACCESSING INSTITUTIONAL CAPITAL AT SCALE

Developers primarily enter into joint ventures to access capital managed by institutional investors, including pension funds, sovereign wealth funds, and specialist infrastructure funds. These investors are drawn to the long-term, stable returns of data centres but often lack the specialized expertise required to deliver them. A joint venture pairs the developer's execution and operational capabilities with the investor's long-term capital, creating a practical funding model for large-scale projects.

STRATEGIC ALLOCATION OF DEVELOPMENT AND OPERATIONAL RISK

Data centre developments carry a broad range of risks including initial planning and permitting, substantial construction, acute risk of grid connection delays, and long-term leasing and operations. A joint venture may provide a clear framework for distributing these risks. Developers often take on more early-stage development risk in return for a higher share of performance based profits (the "promote"), while institutional investors assume the long-term market risk that align with their investment horizons.

COMBINING COMPLEMENTARY EXPERTISE

Successful joint ventures bring together capabilities that neither party could deploy effectively alone. Developers bring invaluable on-the-ground knowledge, technical expertise, and relationships with the supply chain and potential tenants while the institutional partner brings financial acumen, asset management expertise, and strong governance and reporting. Together, these strengths create a more resilient and effective project delivery and asset management platform.

THE ANATOMY OF THE MODERN DATA CENTRE JOINT VENTURE

While the term "joint venture" is used broadly, the data centre market has seen the emergence of several distinct models, each tailored to specific commercial objectives.

THE DEVELOPER / INSTITUTIONAL CAPITAL JOINT VENTURE

The most common structure appears when a developer and a financial investor form a new special purpose vehicle (SPV) (which may take on a number of forms eg company, limited partnership and may comprise a number of SPV subsidiaries below the JV holding vehicle), to acquire and develop a specific site, governed by a detailed JV Agreement. The developer typically contributes the initial site control (e.g., via an option agreement) and development expertise, while the investor provides most of the required equity. Negotiating the JV Agreement is a highly detailed process focused on governance, profit distribution, and exit rights.

THE PROGRAMMATIC JOINT VENTURE

As institutional investors seek to deploy capital at scale, single-asset joint ventures are being superseded by "programmatic" joint ventures. In this model, the investor and developer form a long-term strategic platform for a pipeline of future developments. The JV Agreement sets out defined investment criteria (e.g., target locations, minimum power capacity, pre-leasing requirements) and a governance framework for approving new developments. This structure provides the developer with stable, long-term access to capital within specific parameters and enables investors to build a diversified, scalable portfolio.

THE HYPERSCALE TENANT AS EQUITY PARTNER (OPCO/PROPCO)

A more complex and increasingly common structure involves the hyperscale tenant becoming an equity partner in the real estate. In a typical "OpCo/PropCo" structure, the property-owning entity (the "PropCo") – owned jointly by the developer, financial investor, and tenant – leases the facility to the tenant's operating company (the "OpCo") under a long-term agreement. This provides developers and investors with exceptional leasing security, as the tenant is contractually and economically committed to the asset from day one. However, it introduces significant legal complexity, particularly in managing conflicts between the tenant's interests as an equity holder in the PropCo and its obligations as a lessee to the PropCo. As a result, the lease becomes a heavily negotiated instrument to balance these competing interests.

KEY LEGAL BATTLEFIELDS IN STRUCTURING THE JOINT VENTURE AGREEMENT

The Shareholder Agreement is the legal bedrock of the partnership, its negotiation requiring not only technical legal skill but also a deep understanding of the commercial drivers and potential friction points in a long-term data centre project.

GOVERNANCE, CONTROL, AND DEADLOCK

Control allocation is one of the most important elements of joint venture negotiation. Developers typically seek broad autonomy over day-to-day operations, while investors require oversight and control over major decisions. This is achieved through a "reserved matters" schedule, which lists key decisions (e.g., approving the annual budget, entering into major contracts, raising new finance, selling the asset) that require investor consent at board level. A crucial component is the "deadlock" provision, which dictates what happens if the board cannot agree on a reserved matter. Solutions range from formal mediation or expert determination to more forceful "buy/sell" rights (including those known as "Texas shoot-out" or "Russian roulette" clauses) that allow one party to compel the other to buy or sell its shares at a specified price.

FINANCIAL STRUCTURING AND THE DISTRIBUTION WATERFALL

The Shareholder Agreement must codify the precise mechanism for distributing profits. This is achieved through a "distribution waterfall", which sets out a sequence of payment tiers. Typically, cash flow first returns each partner's invested capital, then pays a pre-agreed preferred return (e.g., an 8-10% IRR) on that capital. Only after these hurdles are met is residual profit distributed. At this stage, the developer's "promote" or "carried interest" comes into effect, giving it an outsized share of the remaining profits (e.g., 20%) as compensation for a successful project. Increasingly complex waterfalls with multiple hurdles and catch-ups are being used and precision in drafting these provisions is essential to avoid any ambiguity in their calculation and application.

EXIT STRATEGIES AND LIQUIDITY RIGHTS

Financial investors require a clear path to liquidity, and the JV Agreement will contain a detailed framework governing the sale of the asset or the joint venture interests. Common provisions include:

Rights of First Refusal (ROFR) / Rights of First Offer (ROFO)

These govern a partner's ability to sell its stake, giving the other partner a right to match a third-party offer (ROFR) or a right to receive the first offer before the stake is marketed more widely (ROFO).

Drag-Along and Tag-Along rights

A "drag-along" right allows a majority shareholder to compel the minority shareholders to sell their stakes on the same terms, when a full company sale is agreed. "Tag-along" right protects the minority, allowing them to "tag on" to a sale by the majority and sell their stake on the same terms.

Forced sale provisions

The agreement may specify a date (e.g., 7-10 years after inception) by which, if the asset has not been sold, either party can trigger a formal sale process, ensuring the financial investor is not locked into the investment indefinitely or, commonly the majority financial investor will be permitted to sell at its discretion at any point in time following a lock-in date or satisfaction of certain conditions, with the Developer being compensated accordingly.

CONCLUSION: BUILDING PARTNERSHIPS FOR THE DIGITAL FUTURE

The era of the lone-wolf developer in the UK data centre market is drawing to a close. The scale, complexity, and risk inherent in delivering modern digital infrastructure demand a new level of collaboration and financial sophistication. Strategic joint ventures have become the most effective tool for marshalling the capital and expertise required to succeed in this highly competitive arena.

Structuring these partnerships is a complex, multi-disciplinary legal challenge. It requires a law firm that can seamlessly integrate world-class expertise in corporate M&A, real estate, construction, finance, and energy regulation. At BCLP, we provide this integrated counsel. We work with the world's leading developers and institutional investors to architect robust, commercially astute partnership structures that align interests, allocate risk intelligently, and create the resilient corporate foundations needed to build the future of digital infrastructure.

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MEET THE TEAM



Mark Richards

Partner and Regional Practice Group
Leader - Energy, Environment and
Infrastructure, London

mark.richards@bcplaw.com

+44 (0) 20 3400 4603



Kieran Saunders

Partner and Global Practice Group
Leader – Corporate Real Estate &
Funds, London

kieran.saunders@bcplaw.com

+44 (0) 20 3400 4749



Matthew Daffurn

Partner, London

matthew.daffurn@bclplaw.com

+44 (0) 20 3400 4692

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