
The Barn in Michigan: A Canary for AI Infrastructure Debt?

Depreciation, Concentration Risk, and the Coming Reckoning in AI Project Finance

EXECUTIVE SUMMARY

In April 2026, Oracle closed a \$16.3 billion project finance deal for a single data centre campus in Saline Township, Michigan — the largest such transaction ever recorded. We argue that this building, known internally as ‘The Barn,’ is not merely a milestone in AI infrastructure investment, but a useful instrument through which to examine the structural tensions now accumulating across the entire asset class. Our conclusion is unambiguous: investors considering fixed income exposure to AI infrastructure should proceed with extreme caution.

1. Market Context

The global technology industry is in the midst of an infrastructure investment cycle of a scale and speed with no modern precedent. Driven by the race to build and deploy artificial intelligence systems, the world’s largest technology companies have committed trillions of dollars to physical computing infrastructure — data centres, power systems, and the specialist GPU hardware that runs inside them. JPMorgan estimates total AI infrastructure spending could reach \$5 trillion by 2030. These are sums that no reasonable cost-benefit framework has previously been asked to evaluate.

The financing of this buildout has migrated rapidly from corporate balance sheets into the debt capital markets. In 2025 alone, AI-related companies and projects raised at least \$200 billion from debt markets — a figure that is widely considered an undercount, as many transactions are privately placed. Banks, unable or unwilling to retain such concentrated exposures on their own books, are syndicating, securitising and redistributing these loans at an accelerating pace. The scale of the redistribution, and the speed at which it is occurring, warrants careful attention from fixed income investors across the credit spectrum.

2. Analysis

The Michigan data centre transaction provides an unusually clear lens through which to examine the financial logic of the AI infrastructure buildout. We examine four dimensions: the raw scale of the numbers; the accounting treatment of depreciation; Oracle's specific financial position as the canary in the coal mine; and what the debt markets themselves are signalling.

2.1 The Scale Problem

The numbers involved in AI infrastructure have begun to lose intuitive meaning. The Michigan campus alone will cost \$16.3 billion to build and finance — before a single GPU is purchased or a kilowatt-hour of electricity consumed. When the cost of the AI computing hardware is added, total investment at this single site will approach \$20 billion. At a conservative depreciation schedule of ten years, the asset base requires roughly \$2 billion per annum merely to remain whole on paper, before debt service, operating costs, or any return on capital.

This is not a criticism of Oracle specifically. The same arithmetic applies at every major hyperscale build in progress today. Across the United States alone, JLL estimates that nearly 6,000 megawatts of new data centre capacity was under construction at the end of 2025, representing between \$600 billion and \$1 trillion in committed capital. The global figure is larger still.

2.2 Depreciation: The Hidden Time Bomb

The accounting treatment of AI infrastructure deserves particular scrutiny because it is where financial reality and corporate optimism diverge most sharply. A data centre is not a single asset but a layered one: the building shell may have a useful life of thirty to forty years; the mechanical and electrical systems perhaps fifteen to twenty; the servers and GPU compute infrastructure are being depreciated over five to six years by the major hyperscalers, having been quietly extended from three to four years as recently as 2023.

That extension matters enormously. Spreading depreciation from three years to six years on a \$300 billion annual capex programme reduces reported depreciation expense by approximately 46% — flattering earnings by tens of billions of dollars annually across the sector. One prominent analyst has estimated this creates roughly \$176 billion in understated depreciation across the industry between 2026 and 2028. Whether or not one accepts that precise figure, the directional argument is sound: the sector is carrying assets on its books at values that assume stable, revenue-generating deployment of GPU hardware in a field where Nvidia releases a new architecture every twelve to eighteen months.

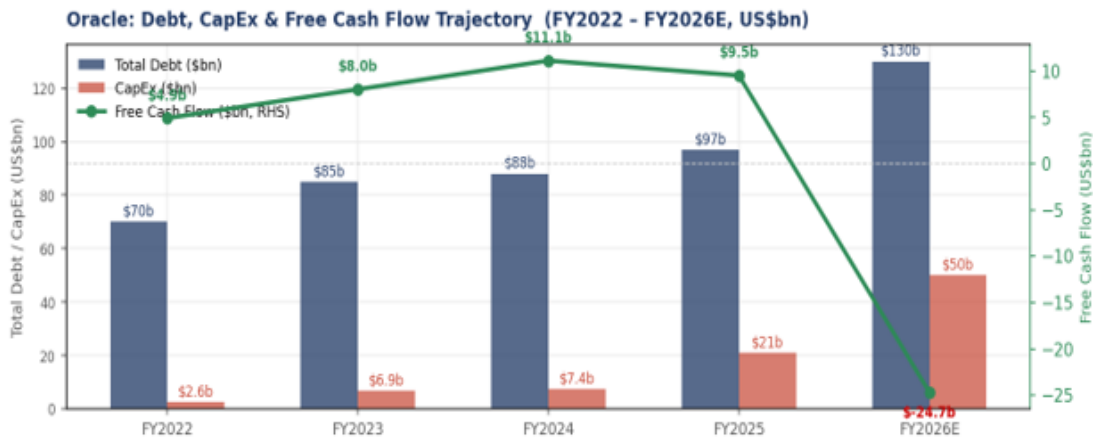
The forward question is not whether these assets will depreciate — they will — but whether the revenue they generate will remain sufficient to service the debt incurred before the next generation of hardware renders the current generation economically sub-optimal. The telecoms infrastructure

buildout of the late 1990s was also predicated on demand that was real but arrived more slowly and at lower prices than the capital structures assumed.

2.3 Oracle as Case Study: Contracted Demand and Concentrated Risk

Oracle’s specific situation illustrates the broader tension with particular clarity. The company’s remaining performance obligations — essentially its signed but unrecognised order book — stood at \$553 billion at the end of the third fiscal quarter of 2026, having grown 325% year-over-year. On its face, this is an extraordinary demand signal, and management has used it as the primary justification for \$50 billion of capital expenditure in fiscal 2026 alone, more than seven times the level of just two years prior.

Oracle: Debt, CapEx & Free Cash Flow (FY2022 – FY2026E)



Source: Oracle SEC filings, company guidance, analyst estimates. FY ends May. For illustrative purposes.

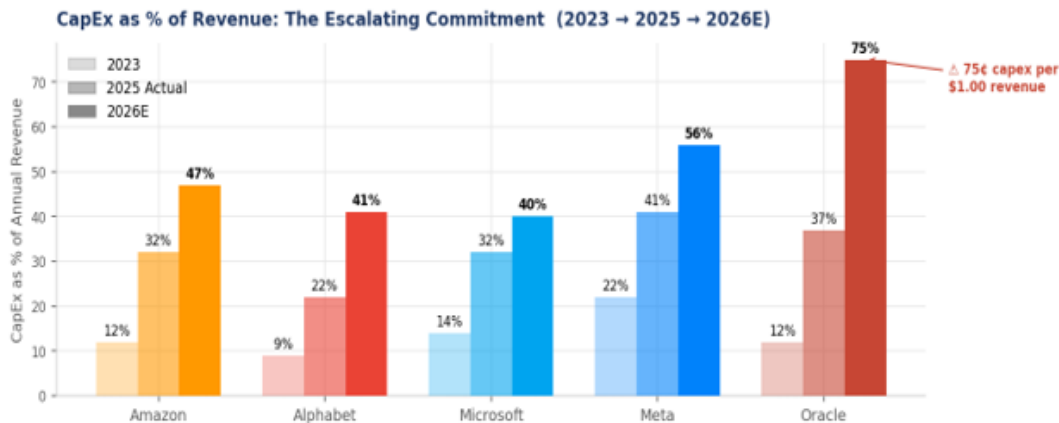
Oracle’s financial transformation is stark. CapEx has risen from \$6.9bn (FY2024) to a guided \$50bn (FY2026) — a 7-fold increase in two years. Free cash flow, consistently positive for decades, turned deeply negative in FY2026 (approx. -\$24.7bn TTM). Total debt has exceeded \$100bn. This is the financial context behind the \$16.3bn Michigan project finance deal — and why the banks involved were motivated to redistribute the exposure rather than hold it.

The structural concern, however, lies within that backlog. Approximately \$300 billion — some 54% of the entire figure — traces to a single counterparty: OpenAI, through the Stargate joint venture. OpenAI is itself a company with significant ongoing funding requirements, which has reportedly missed internal revenue targets for 2025. A committed order book is only as durable as the entity that signed it. Oracle’s credit profile reflects this exposure: both S&P and Moody’s have assigned negative outlooks to Oracle’s investment-grade ratings, and free cash flow turned deeply negative in 2025 — an unusual condition for an enterprise software business with Oracle’s operating history.

It is worth emphasising that Oracle’s predicament is not unique. The entire industry has organised itself around the assumption that AI demand will grow fast enough, and at sufficient price points, to service capital structures built for a different era of infrastructure finance. When a single building costs \$16 billion and the bonds funding it carry a 7.5% coupon over a 19.5-year maturity — with six years of interest-only payments before a single dollar of principal is repaid — the facility must

generate substantial, uninterrupted revenue from the moment it opens. That is a demanding underwriting assumption.

CapEx as % of Revenue: The Escalating Commitment (2023 → 2025 → 2026E)



Source: Company filings, guidance, analyst estimates. Revenue = most recently reported annual. For illustrative purposes.

For Amazon, Alphabet and Microsoft, CapEx intensity has risen sharply but cloud operating margins have expanded simultaneously, providing an internal funding logic. Meta's 56% is large but supported by strong advertising cash generation. Oracle at 75% — spending 75 cents of capex for every dollar of revenue — has no precedent in enterprise software history and is the figure that most clearly illustrates the scale of the bet being placed on contracted AI demand converting to realised revenue within the timeframe of the debt.

2.4 What the Debt Markets Are Saying

Equity markets, by their nature, carry optimism into the future. Debt markets do not have that luxury. They are paid back or they are not. Oracle's share price has declined approximately 51% from its September 2025 peak — a remarkable drawdown for a company reporting record order backlogs. The bond market has been more measured but no less revealing: the project finance bonds for the Michigan campus priced at 7.5%, a substantial premium to Oracle's own corporate debt, precisely because lenders understood they were exposed to a single facility's cash flows rather than a diversified enterprise balance sheet. When PIMCO was required to anchor \$10 billion of a \$16 billion deal after US banks withdrew from underwriting it, that is not a signal of easy credit conditions. It is a signal of a market working hard to clear paper at an acceptable price.

JPMorgan projects annual data centre securitisation issuance of \$30–40 billion in both 2026 and 2027. Banks are syndicating and securitising these loans as rapidly as possible — not because they have no appetite for the credit, but because the individual exposures have grown so large that no single institution wishes to hold them in concentration. When lenders are structurally motivated to distribute rather than hold, the price of risk is being obscured rather than discovered.

KEY RISKS

Counterparty concentration: approximately 54% of Oracle's \$553bn order backlog is attributable to a single customer (OpenAI) which has significant ongoing funding requirements of its own.

Credit deterioration: both S&P and Moody's have assigned negative credit outlooks to Oracle's BBB/Baa2 ratings. Further downgrades would affect refinancing costs across the entire \$72bn project finance programme.

Depreciation mismatch: GPU hardware may become economically obsolete faster than the 5–6 year depreciation schedules assumed, creating the potential for large write-downs across the sector simultaneously.

Liquidity and distribution risk: project finance bonds are long-dated (up to 19.5 years) and secured against single-site cash flows. Secondary market liquidity for this paper has not been tested in a stress scenario.

Technology displacement: competing compute architectures, more efficient models (e.g. inference efficiency gains), or custom silicon could compress the addressable market for GPU-heavy data centre capacity.

3. Conclusion

There is a reliable historical pattern in credit cycles: distress appears in the debt markets before it appears in equity prices. This is not coincidence — it reflects the different information sets and incentive structures of debt and equity investors. Bond covenants, credit ratings, loan syndication volumes and secondary market spreads all move before share prices do, because bond investors have less ability to benefit from the upside of being wrong.

The AI infrastructure build-out may yet vindicate every dollar committed to it. The demand for compute is real. The transition to AI-driven workflows is underway. It is entirely plausible that a facility like The Barn generates sufficient revenue over its life to service the \$16.3 billion raised to build it. But it is also entirely plausible that it does not — that hardware generations turn faster than depreciation schedules assume, that OpenAI's growth trajectory disappoints, or that competing compute supply eventually compresses the pricing power that makes the economics work.

The equity markets for the leading AI names continue to reflect the optimistic scenario. The debt market, as evidenced by Oracle's credit trajectory, the pricing of AI project finance bonds, and the

behaviour of the banks themselves, is already expressing a more cautious view. Extreme care is warranted before acquiring debt of this nature, whether in project finance, high-yield, or structured securitised form. The assets are long-lived, the cash flows are uncertain, and the depreciation arithmetic has not yet been fully reckoned with.

Sources & Data

Principal sources and references for this note:

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