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FINANCING DIGITAL INFRASTRUCTURE – DATA CENTRE ABS AND FUNDING TRENDS FOR DATA CENTRES AND DIGITAL INFRASTRUCTURE

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MATT DUNN
Partner
Global Financial Markets
London

CLAIRE FAWCETT
Partner
Global Financial Markets
London

EMMA MATEBALAVU
Partner
Global Financial Markets
London

MIKE NIEKOOP
Counsel
Global Financial Markets
Amsterdam

WILL SUTTON
Partner
Global Financial Markets
London

LENDING STRUCTURES COMPARISON TABLE

VARIOUS TYPES OF DEBT MECHANISMS AVAILABLE

Real Estate Finance

- Based on the real estate asset portfolio: cashflows + value of property
- Investment or development
- SPV borrower
- Secured.

Specialist asset based funding

- Funders who understand the sector
- Based on the existing balance sheet/assets of the borrower
- Commercial tenant risks
- Provide maximum leverage against long dated contracts to fund the total Data Centre project costs
- Covenant light
- Will take construction risk
- Secured or unsecured.

Project Finance

- No recourse to a real balance sheet
- No current cashflow (based solely on strengths on the project's projected cashflows)
- Due Diligence – Financial, Technical, Legal & Insurance
- Covenant heavy
- Construction risk
- SPV borrower
- Secured (but query value of physical asset security).

High Yield Bonds

- Available to larger corporates
- Costs & Fees v debt
- Flexible, not asset specific
- No amortisation
- No early repayment allowed
- Longer terms than conventional bank debt.

KEY CHARACTERISTICS OF DATA CENTRES AND THEIR IMPACT ON FINANCING

Power Supply:	• Critical due to massive energy consumption • Requires dual power grids and backup generators for reliability • Energy efficiency is crucial, enabling **green financing** (sustainability-linked loans, green bonds)
Hardware Infrastructure:	• Includes high-performance servers, storage systems, and networking equipment • Major capital expenditure, necessitating long-term financing • Hyperscale data centres: high hardware costs
Cooling Systems:	• Essential for maintaining hardware performance • Energy-efficient solutions can qualify for **green financing** • Reduced energy consumption improves financing terms linked to sustainability
Security:	• Physical security protects infrastructure; cybersecurity safeguards data • Impacts insurance, regulatory compliance, and SLAs
Types of Data Centres:	• **Hyperscale:** Predictable revenue, lower risk, long-term contracts • **Colocation:** Multiple tenants introduce varied risk profiles • **Edge:** Earlier-stage development, speculative financing due to tenant uncertainty

COMMERCIAL TERMS IN DATA CENTRE PROJECTS

Data centre tenant contracts...

Indicative terms – data centre tenant/service recipient	
Type	Lease/services agreement (depends on area – pod/whole facility)
Term	Usually 5-12 years, other lengths not unusual
Pricing	• Rental charges – set by market environment (power not sqft, can have minimum commitments) • Power supply charges – usually pass-through • Indexed to/slightly above inflation • Renewal discounts • Rent-free periods (to land new tenants)
Service levels	• If service levels breach – usually penalties/ service charges • Key performance criteria monitoring, including: – Power (notably PUE – power usage efficiency) – temperature/cooling – humidity – response times (security, incidents)
Termination	• Termination– most notably for (i) persistent breach of service levels (ii) change of control (iii) cross default • Termination for convenience (exit fees)
Other	Step-in rights

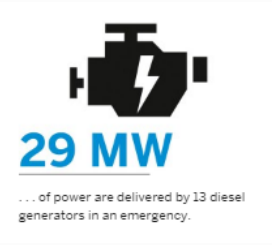
...usually determine the key debt financing terms

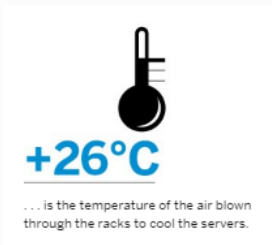
Indicative terms – debt financing terms	
Tenor	• Linked to Weighted Average Lease Life (WALL) of portfolio of tenant contracts • To avoid refinancing risks, tenor usually shorter than WALL
Facility size	• Key risk consideration for lenders are strength of tenant contracts • Facility size is therefore linked to: 1) Total contract values; and 2) Creditworthiness of tenants
Information requirements	• Data centre operators usually required to disclose major incidents related to key customer agreements • Continued breach of service levels would indicate potential operational issues, litigation threats and loss of clients
Events of Default	• Termination of major client agreements

KEY FINANCING ISSUES AND CONSIDERATIONS

There are a number of issues, pitfalls and considerations:

- **Power to site**:
  - Uninterrupted Power
  - Backup systems: diesel or gas generators, fuel and block batteries
  - Supply agreements – ensuring necessary licenses are in place and change of control issues in relation to provision of power (if any)
- **Security**: both physical and virtual security (and the right to grant security over the data centre/customer contract)
- **Confidentiality**: as data centres contain sensitive information, tenants usually require strict confidentiality regarding their contractual agreements
- **Availability**: tenants need to access their data whenever needed
- **Operating conditions**: to protect their vital (and expensive) equipment, strict service levels are agreed to
- **Legal due diligence**: relating to the title and ownership of a site
- **Key Contracts**
- **Transferability of the loan**





KEY ISSUES AND CONSIDERATIONS
(CONTINUED)

SNDAs (see below)

- Difficult to negotiate
- “Suitable operator” type tests

Green/Sustainably linked loans

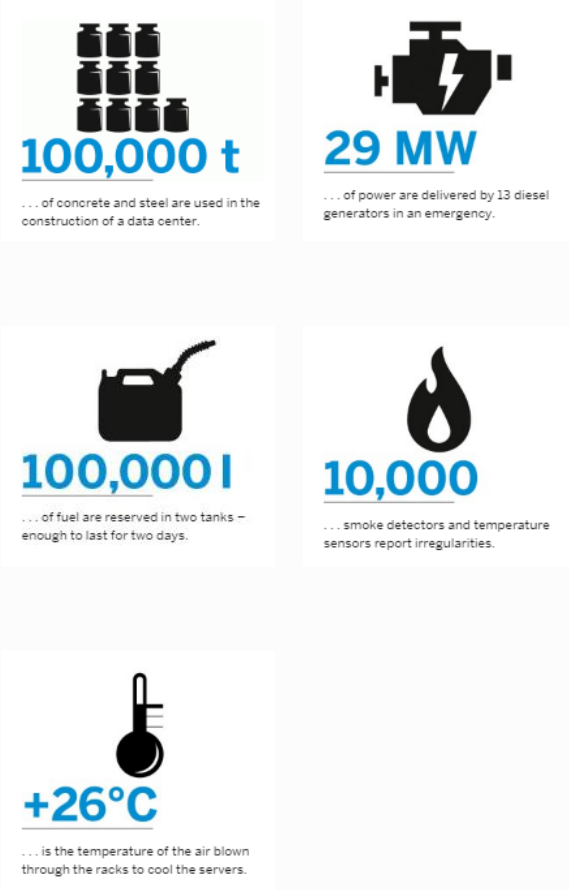
Environment Agency has agreed voluntary climate change agreements

KPIs

- Power Usage Efficiency
- Water Usage Effectiveness
- Renewables
- Power to stand-by generators

NSIA (National Security and Investment Act)

- Consider if mandatory filing is required on a change of control
- 30 working days to clear (and sometimes 30-75 working days)
- Intra-group restructurings
- Voting rights in the share pledge



IMPORTANCE OF SNDAS IN DATA CENTRE FINANCING

Overview:	• SNDAs (Subordination, Non-Disturbance, and Attornment Agreements) are critical in colocation leases with **hyperscalers** (e.g., Microsoft, Amazon, Google, Oracle) • Protect both **tenants** and **lenders** in the event of default or enforcement • Differ from traditional direct agreements in project financing • They ensure continuity and stability in data centre operations involving major hyperscalers
Non-Disturbance:	• Ensures **operational continuity** for the tenant, even if the data centre operator defaults • Important for hyperscalers to maintain uninterrupted operations • Protects **lenders** by preserving the asset's value with key tenants in place
Attornment:	• Requires tenants to continue the contract with a **Successor Operator** appointed by the lender • Successor Operator must meet requirements (operational expertise, financial stability, non-competitor) • Ensures a qualified party is in place, guaranteeing uninterrupted service
Remedy:	• Allows the hyperscaler or lender to **cure defaults** by the data centre operator • In some cases, only hyperscalers have the cure option

DATA CENTRE PORTFOLIO LOAN FINANCINGS: SOME KEY ISSUES

Hyperscaler customer contracts:	• Contract counterparties (approved lists and/or requirement for IG rating) • Weighted Average Unexpired Lease Term of portfolio • Adjustments for BBNB revenues and full run rate effect of revenues under new customer contracts • Consequences of customer contract termination
Drawdown mechanics:	• Third party or self-reporting in relation to due diligence issues • What is being funded: capex programme for contracted data centre or acquisition of new site? • Incurrence ratio testing and treatment of debt funded Capital Expenditure
Security:	• Infra-style security package (shares/accounts/i/c receivables) or mortgage security? • Hyperscalers' requirements for secured creditors to enter into SNDAs • Enforcement considerations in respect of customer contracts, shared infrastructure and local law requirements • Excluded Subsidiary/Unrestricted Subsidiary concepts
Refinancing routes:	• Use of Excluded Subsidiary/Unrestricted Subsidiary concepts • Establishing YieldCo / DevCo financings

DATA CENTRE ABS

RATIONALE FOR ABS:

- Enabling data centres to be financed through the asset-backed bond market will greatly increase the supply of capital for this asset class, will enable alternative providers of capital to participate in it, and alleviate concerns that there may be limited amounts of bank or project finance capital to finance these assets.
- The ABS take out should provide data centre operators and owners with a refinancing route freeing up capital for further expansion and provides exit opportunities for bank market following greenfield development stage.
- There is an active market for data centre ABS in the US. As this structure replicates many of the structural features of the US programmes, the structure will be familiar to US investors and so the pool of liquidity can be widened to US investors. This data centre ABS transaction was offered to US investors under Rule 144a.

DATA CENTRE ABS

(CONTINUED)

LEGAL AND STRUCTURAL CHALLENGES:

- Structuring the deal to comply with rating agency methodology including S&P's triple net lease securitisation methodology. Unlike for commercial mortgage loan securitisations, the underlying assets here are the tenant leases which need to sit within the financing SPV (or as here in a subsidiary of it). However, under the S&P criteria, these SPVs also needed to be structured as insolvency remote while at the same time being owners of the real estate.
- Operational nature of these assets, with related development/construction risk and shared infrastructure; data centres tend to be developed campus-style, with arrangements around shared infrastructure and power (among other shared liabilities). All of this put pressure on the insolvency remoteness analysis and needed to be structured around.
- Tax and the availability of securitisation tax regimes for assets/structures of this nature.
- Operational challenges in preserving the operational flexibility to run data centre business.
- Accommodating the requirements of the leases/customer contracts with hyperscalers and other customers, which have their own peculiarities.

CLIFFORD CHANCE SPEAKERS

MATT DUNN
PARTNER

T +44 207006 4890
E matt.dunn
@cliffordchance.com

CLAIRE FAWCETT
PARTNER

T +44 207006 8737
E claire.fawcett
@cliffordchance.com

EMMA MATEBALAVU
PARTNER

T +44 207006 4828
E emma.matebalavu
@cliffordchance.com

MIKE NIEKOOP
COUNSEL

T +31 20 711 9143
E mike.niekoop
@cliffordchance.com

WILL SUTTON
PARTNER

T +44 207006 3400
E william.sutton
@cliffordchance.com