

Data centers: a rapidly growing infrastructure with evolving financing models

Data centers have become an essential infrastructure underpinning the digital economy. At the heart of cloud computing, artificial intelligence and data storage, they benefit from particularly strong growth dynamics, driven by long-term structural trends that continue to strengthen their role in the global economy. This sustained expansion is generating significant investment needs and creating compelling opportunities for infrastructure investors.

In this context, while these fundamentals appear highly attractive from an infrastructure investor's perspective, financing conditions in the sector have evolved rapidly in recent years. This development forms part of a broader credit cycle trend, characterized by growing lender appetite, which in most cases has resulted in a deterioration of the risk return profile.

A rapid transformation of the business model with increasing risk taking

Historically, data centers were financed through a real estate approach based on leasing physical capacity, with exposure to occupancy rates. The rise of hyperscalers throughout the 2010s gradually shifted the sector toward an infrastructure model focused on the provision of critical services such as power supply, cooling, connectivity and redundancy through long term contracts with high quality counterparties.

Since 2024, this model has been evolving towards more complex structures, notably through shorter contractual terms, more diversified tenant profiles and greater reliance on financing structures based on refinancing assumptions. In addition, some transactions now include assets at an earlier stage of their development cycle, with more limited protections during construction.

At the same time, financing conditions have become less demanding in terms of contractualization, asset life and financial protections, accompanied by tighter credit spreads. This evolution reflects a gradual acceptance of higher risk levels in the market and is evidenced by reduced revenue visibility, increased refinancing exposure and growing project complexity, particularly regarding power access, grid connection and energy supply security.

More recently, financing has also begun to extend directly to IT equipment, particularly AI dedicated servers equipped with high performance GPUs.

These assets represent significant capital expenditure requirements, often exceeding those of the infrastructure itself, further increasing the sector's investment needs.



They also introduce a distinct risk dimension linked to rapid technological change and the potential obsolescence of equipment.

Increasingly diversified financing structures

Data center financing now relies on a variety of approaches reflecting the diversity of project profiles and risk characteristics.

Some operators use platform level financing structures (corporate infrastructure), which allow multiple assets to be pooled and provide greater flexibility, albeit with increased dependence on the overall credit profile of the operator.

Others favor project finance structures, historically associated with the most mature assets and offering strong cash flow visibility, particularly when supported by long-term contracts.

Finally, the use of asset-backed securities (ABS) has been expanding, enabling portfolios of assets to be refinanced through capital markets. Well established in the United States, these structures have started to emerge in Europe in recent years, although they remain a relatively limited segment.

They attract a different investor base, primarily from public debt markets, and provide significant financing capacity while introducing greater sensitivity to market conditions.

This diversity of structures contributes both to the depth of the market and to its complexity, as each approach involves a different balance between flexibility, cash flow visibility and risk exposure.

Highly supportive market fundamentals

Despite this complexity, the sector's fundamentals remain particularly robust. Demand for storage and computing capacity continues to grow rapidly, driven by the combined effects of economic digitalization and the rapid development of artificial intelligence.

This trend is reflected in a significant increase in data center electricity consumption, which is becoming a structural issue for energy systems. It also highlights the central role this segment now plays in the economy, particularly in relation to digital sovereignty concerns, which are becoming increasingly important for both governments and corporations.

In this context, data centers continue to occupy a privileged position within infrastructure investors' allocation strategies due to their exposure to particularly compelling long term growth trends.

Our experience and positioning

We were particularly active between 2018 and 2024, a period during which the market offered highly attractive conditions, strong cash flow visibility and robust financing structures.

Although investment activity in data centers remains strong, we have deliberately passed on several recent opportunities that, in our view, involved higher levels of risk relative to the terms offered.

This approach reflects an investment discipline centered on a detailed assessment of the risk return profile. It does not indicate a withdrawal from the sector, but rather a positioning focused on assets offering strong cash flow visibility, particularly through long-term contracts with robust counterparties and financing structures that ensure a balanced allocation of risk.

We remain active in this segment, with significantly enhanced selectivity in the current market environment, where opportunities meeting our risk and return requirements have become increasingly scarce.

Finally, this selectivity is also embedded within an investment approach that fully incorporates ESG criteria through our non-financial analysis framework, as ESG factors continue to represent a key strategic and often sensitive consideration for this asset class. We place particular emphasis on the energy efficiency of infrastructures and their alignment with EU Taxonomy requirements, at a time when regulatory expectations and market standards relating to sustainability continue to evolve and become increasingly stringent.

Conclusion

The data center market presents a contrasting picture: exceptionally strong economic fundamentals coexist with a gradual deterioration in contractual structures and financing conditions across the majority of transactions.

In a market characterized by increasing lender appetite, competition is leading to spread compression and higher structural risks. This evolution does not undermine the attractiveness of the sector, but it does call for a more granular analysis, as it can no longer be viewed as a homogeneous market.

Market access, selectivity and credit expertise are essential to ensure value creation. Financing a data center project should only be considered once cash flow predictability, contractual quality, compliance with ESG requirements and disciplined financing structures have been firmly established. These factors are critical for navigating an increasingly demanding environment while avoiding long term exposure to the technological risks inherent in the most rapidly evolving equipment.



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