From data centres to the dawn of 5G

Will Marder, Wilmington Trust's head of project finance, discusses how tech advancements are transforming infrastructure opportunities

Q What changes have you observed in the way that infrastructure assets are being funded?

Will Marder: There was a real shift coming out of the financial crisis. We started to see less capital coming from the commercial banks and more capital coming from institutional investors. That led to a new style of hybrid transaction where the two groups began playing more closely together. The banks looked after the shorter term construction and mini-perm financings, which corresponded with where they wanted to be in terms of tenor post-crisis. And the institutional investors focused on the longer dated, fixed-rate capital, providing the overall tenor that the borrowers wanted to see. The two pieces really came together in a meaningful way and I think that still continues to this day.

But now we have seen another shift – the huge influx of capital from infrastructure debt funds. These are specialised funds working across a whole range of sectors, but especially visible in the energy industry, encompassing everything from renewables, to conventional power and midstream oil and gas assets. These funds are also evident in emerging sectors such as data centres and telecoms, nascent industries that are increasingly popping up on our radar.

Q As a third-party agent, how are you working with these various sources of capital?

WM: As a number of the emerging providers of capital are not banks, they may not have the requisite internal capabilities or licences to handle collateral or to open bank accounts. Wilmington Trust can come into transactions as a neutral third-party service provider. Since we're not a lender in the sector, we are not a competitive threat – we are more of an outsourcing solution. Similarly, lenders may find it too time consuming to serve as an administrative agent, and they would prefer to outsource that function to someone else. From our perspective, it frees their teams up to focus on the origination, structuring and closing of new deals, while at the same time providing risk mitigation.

> "There was a considerable slowdown following the credit crunch driven by a lack of liquidity in the market. Now we are seeing the very opposite of that"

Q What impact are data centres having on the industry?

WM: Data centres represent an interesting new asset class that only really emerged in the past 18 months. I am sure they were being financed prior to that, but not through the project finance market.

This is an industry that is being driven by the tremendous advancements in the infrastructure that underpins the internet, namely all of these streaming services that people are using – Netflix, Amazon, online gaming. Data, such as emails, photos, music and video, are also increasingly moving into the cloud. We are no longer storing things locally on our computers and phones.

All this means there is a fast-growing need for more and more processing, and more and more storage. These data centres are being built around the world to provide that. Interestingly, it is really important that this storage is in the right place to serve different markets.

Companies like Netflix are getting really smart about the demand for data and when they roll out a popular new show – like *The Queen*, for example – they know that on a

Friday night people in Asia are going to start downloading first and then demand for the show will literally roll west across the globe. They forecast demand and use data centres in the appropriate locations. Internet service providers are becoming more sophisticated in their modelling, which is driving demand for location-specific data centres to ensure seamless service.

Q And presumably, the demand for data centres is also creating additional demand for energy?

WM: From a project finance perspective, I think that is one of the most interesting implications of the growth in data centres. These data centres use a tremendous amount of power. There is a keen interest in the sector to try and pair up data centres with sources of renewable energy in order to be more environmentally responsible.

If some of that increased demand can be moved away from conventional fossil-fired power, that can have a really positive effect on carbon emissions. I definitely think a knock-on effect of the demand for data centres around the world will be that we will also see some additional renewable development.

Q In what other ways is technology impacting infrastructure?

WM: What we see now is that the telecoms industry is moving from 4G to 5G. As that technology rolls out globally, we will see a tremendous uptick in demand for new telecoms equipment to support that. That shift in cellular telecoms and the growth of data centres represent the two biggest areas where technology is really making itself felt.

Q What are your views on the level of leverage in the infrastructure ecosystem? Is it concerning?

WM: There clearly is an abundance of capital in the market right now. From a lender's perspective, pricing has definitely been compressed and there is a high level of competition to finance assets, especially those that are fully contracted with good sponsors.

Conversely, it is a very good time to be a borrower because there is a lot of capital available from many different providers. It is relatively easy to find someone willing to lend – at the right tenor and right terms – to match the needs of your project.

From our perspective as a third-party provider of trust and agency services, strong availability of capital is a good thing because there are so many sources of capital that we can potentially partner with as an independent third party, providing many different services and potentially playing multiple roles on the same deal.

> "Internet service providers are becoming more sophisticated in their modelling, which is driving demand for location-specific data centres

We can be an administrative agent, or facility agent, on a commercial bank tranche. We can be a bond trustee, or a note holder's representative, on a bond tranche. We can hold collateral and reserve accounts and we can serve as an intercreditor agent. We can do all this on the same transaction without having any conflicts of interest. From our perspective, an abundance of capital from a multitude of different players creates a favourable environment.

Q How has the growing complexity of the lender universe, and the other trends you have talked about, changed your role as a corporate trust provider?

WM: I would say the rise of banks and institutional investors working together, and the advent of additional capital from infrastructure funds, have both proved positive for us. Those models really require a third-party agent to come in and play a co-ordinating role, providing back- and middle-office support on these transactions.

Q What key macro events or trends do you think are going to have the biggest impact on infrastructure going forward?

WM: I think demand for energy and infrastructure around the world is pretty stable. There are movements up and down, sometimes driven by regulatory issues, tax regimes or other incentive programmes, coupled with the availability of capital. There was a considerable slowdown following the credit crunch driven by a lack of liquidity in the market. Now we are seeing the very opposite of that.

We also see infrastructure shifts emerge driven by specific events – the move away from nuclear power following the Fukushima disaster in Japan, for example. But overall it is clear that infrastructure everywhere continues to require upgrades and improvements; power plants continue to need to be developed and economies around the world continue to move away from coal-fired generation and towards renewable sources. These are long-term trends that are here to stay. ■