Vinson&Elkins

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Power Series

Power: Financing & Bankability of Data Center Projects

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Today's Speakers



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Data Center Financing: Where We Are

01	**Scale and pace** The capital required would have been hard to imagine five years ago. Suppliers, contractors and capital providers are all asked to move at speed.
02	**Capital Raising and Recycling** Bank construction debt, private credit, project bonds, securitizations and hybrid structures that did not exist five years ago.
03	**Power decides where and when** Scarce grid connections push developers to bring their own power, which in turn creates scarcity across the supply chain.
04	**Credit Constraints** Borrowing costs are up. Lenders are more selective, especially with tenants that are not investment grade or backed by someone who is.
05	**NIMBY Overlay** The stable permitting and regulatory environment that projects of this size depend on can no longer be taken for granted.

Takeaway: *Bankability now turns on power, permits and credit, not only on the lease.*

What Decides Whether a Project Gets Financed

01
Permitting

02
Creditworthiness

03
Bankable Revenue Terms

04
Borrowed Credit

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Project-on-Project Risk

Power drives these deals, and ties together projects that each need their own financing. The capital markets push to untether those projects.



SCHEDULE

A late plant or pipeline delays energization, and, absent appropriate protections, rent commencement under the lease.

LENDER REACH

Each project has its own lenders. None can reach the others.

STAND-ALONE FINANCE

The ring-fenced, single-project model comes under pressure. Lenders want certainty around rent commencement and power COD.

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The Squeeze on Developers

OEMs and EPC Contractors push risk down. Customers push remedies up. Lenders test the gap.

OEMS AND EPC COONTRACTORS

A Seller's Market

- OEMs and EPC Contractors take less risk

DEVELOPER / GENERATOR

Squeezed

between OEM/Contractor terms on one side and customer expectations on the other

DATA CENTER CUSTOMER

Expects Outsized Remedies

- For delay
- For underperformance
- For downtime

HOW LENDERS RESPOND

- A poorly capped exposure in the revenue contract is a claim on the same cash flow that services the debt
- Lenders test the gap between upstream OEM/Contractor remedies and downstream customer exposure
- Where a gap remains, expect sponsor support, reserves, or an effect on sizing and pricing

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How the Market Is Reacting to Texas Regulatory Uncertainty

Two views of the same set of developments.

DEVELOPERS

No meaningful slowdown yet

1. A lot of development capital is flooding the system
2. For many key players, the risk of slowing down is greater than the risk of pushing on into the election
3. A widely held view that things will work out

LENDERS AND INVESTORS

More diligence, more protection

1. Diligence on permit status, queue position and exposure to the new rules
2. Express allocation of regulatory and permitting delay in the contracts
3. Texas concentration weighed in sizing and pricing, alongside tenant credit and sponsor strength

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From Bridge to Permanent Capital

Many of the largest projects start with bridge facilities to finance long-lead items ahead of a longer-term take-out.

BRIDGE FACILITY

Funds development and early construction

→

TAKE-OUT ROUTES

- **Bank Project Finance**
- **Bonds / TLB**
- **Private Credit**
- **Securitization**

THE PATH TODAY

- Four key routes: bank project finance, bonds (IG / HY) or a TLB (less common), private credit and securitization
- The route depends on the asset, the tenant's credit and how far construction has come
- Bridge lenders underwrite the take-out as much as the project, but have some tools to mitigate the take-out risk

WHAT THE BRIDGE-STAGE CONTRACTS MUST DO

- Meet the needs of the rating agencies and banks providing the bridge
- Assign cleanly to the take-out lenders and investors
- Draft cancellation curves clearly and align them with the caps
- Carry lender cure, step-in and consent rights through to the take-out

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Schedule Risk and Bridge Extensions

Aggressive development and financing schedules, and what happens when they slip.

MANAGING THE RISK

- Build cushion into milestone dates
- Document extension options, and their price, at closing
- Align dates across the lease, EPC, power and bridge documents

IF THE BRIDGE IS EXTENDED OR UPSIZED

01 Bridge Lenders

- Expect extension fees, tighter conditions and more credit support
- Appetite depends on take-out visibility and sponsor strength

02 Debt Markets

- Take-out sizing and pricing tested against a later delivery date
- A longer bridge raises refinancing and rate-exposure questions

03 End Customers

- Delay credits and rent commencement dates keep moving
- Consents or lease amendments may be needed
- Customers whose credit underwrites the loans have a say

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Are the Capital Markets Deep Enough?

Tight pricing for some borrowers, more caution for others.

PRICING Where spreads are	• Data center construction bonds have priced at spreads that would have been hard to imagine a few years ago • Spreads are widening for hyperscalers • Investors are more selective toward construction risk
DEPTH Can the market absorb the take-outs?	• Is there enough demand for the take-outs that are coming? • Bank, bond, private credit and ABS investors each have limits • Depth may differ for hyperscaler-backed and neocloud-backed paper
POSITIONING What clients can do	• Keep more than one take-out route open • Document for the take-out from day one: assignability, lender protections, clean credit support • Talk to rating agencies and investors early

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POWER SERIES

Questions?

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