Data centres – led by the wrinkled nose

Angus Leslie Melville

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When it comes to *IJGlobal's* project finance database, we exercise the right to impose our definition of infrastructure on the market, blithely ignoring chancer league table submissions and wheedling phone calls justifying the inclusion of deals.

To be fair, we have not been entirely consistent with this methodology over the years. We have given ground in certain areas that would have many an infra purist wrinkle his/her nose with distaste.

The first to rear its head at *IJ* was reserve-based lending where we eventually dined on a generous slice of humble pie, granting it PF credentials. There were quite a few oil and gas bankers (rightly) bending our ears until we gave in.

However, when it came to building the infra funds database – *IJInvestor* – we went through a curious evolution, letting investors define the sector… if the fund invests in it, we have to follow their lead, whatever it may be. Hey presto, the buyer defines the category the asset now sits in.

It would be nice to report on a swathe of utterly bizarre investments, but mostly it's just the odd strange asset that managers fast talk their LPs into agreeing that – indeed – it does fit the definition of core plus.

Pressure on managers to shift money out the door has changed little since the summer of 2016 when Global Infrastructure Hub and EDHECinfra published research showing 92% of investors surveyed were worried about build-up of dry powder due to lack of investment opportunities.

That said, demand for core-plus, value-add assets also comes from investors chasing higher yields as their fixed-income allocation keeps returning very low. As returns are compressed and prices stay high on traditional brownfield assets, investors find themselves having to go higher up the risk-return curve to obtain higher – sometimes even similar – returns.

But the one investment that everyone seems to be talking about these days is data centres.

Data centres project finance

The earliest reference *IJGlobal's* database has to data centres is the project finance of Pacnet Hong Kong Gravity Data Centre which made it to financial close in September 2010. The MLAs on this $30 million deal were Standard Chartered and DBS.

However, there are four recent project financings of data centres:

- Zenium Frankfurt Data Center 2 – German deal with a €100 million slug of senior debt over a 6-year tenor, priced at 350bp. MLAs were ING, HSH Nordbank, Santander and NIBC Bank – it reached financial close in August 2017
- Derrimut, Illawarra and Silverwater Data Centres – Australia, with A$180 million of senior debt over 3 years from ANZ, EDC, ING and Siemens – FC April 2017
- AirTrunk Data Centres – Australia, A$150 million over 6 years provided by Natixis and ING – FC February 2017

- Edgeconnex Grange Castle Data Center – Ireland, with senior debt of €127 million over 9 years provided by Santander, HSH Nordbank, ABN Amro, ING – FC January 2017

Looks like ING's taking an early lead in this space, but it's really equity where the interesting developments lie.

Data centre acquisitions

Here follows a line-up of interesting data centre acquisitions taken from the *IJInvestor* database:

- Acquisition of IO's US Data Centres – US, equity of $1.34 billion by Iron Mountain – January 2018
- Acquisition of Zenium Technology's Turkey Data Center Business – Turkey, $93 million equity from Equinix – October 2017
- Acquisition of CenturyLink's Data Centres and Colocation Business – US, with $150 million equity from BC Partners, Longview Asset Management and Medina Capital. Debt of $2.15 billion from Citigroup, JP Morgan, Barclays, Credit Suisse, HSBC, Macquarie, Citizens Bank – May 2017
- Acquisition of Vantage Data Centers – US, with $100 million in equity from Digital Bridge, TIAA-CREF and PSP Investments. Debt of $650 million from 14 banks (look at the database, I'm getting cramp) – March 2017
- Acquisition of IO UK's Data Center Business – UK, £37 million equity from Equinix – February 2017
- Acquisition of Citibank Frankfurt Data Centre – Germany, €22.8 million of equity from Keppel Telecommunications & Transportation and a debt package of €53.2 million – December 2016
- Acquisition of Verizon Data Centre Portfolio – US, equity from Equinix, $2 billion bridge loan from JP Morgan, BAML, Merril Lynch, Pierce, Fenner & Smith, RBC. Term B-2 loan of $1.1 billion from RBC – December 2016
- Acquisition of Canberra Data Centres – Australia, A$392 in equity from Infratil and Commonwealth Superannuation Corporation. Two slugs of debt (3 and 5 years) from NAB, CBA, ANZ, ING, BNP, MUFG, Natixis – September 2016
- Acquisition of Majority Stake in Next Generation Data – UK, £100 million in equity from InfraVia Capital Partners to take a majority stake – July 2016

Most of the buyers named above are either data centre developers, private equity funds or institutional investors. What does stand out is that InfraVia Capital Partners – an infrastructure fund manager – was early to the game and growing its presence.

We reported this week that Antin IP, another infra fund manager, was stepping out of the European market for a $2.65 billion deal to acquire US-based FirstLight Fiber – a company that is hugely active in fibre networks and data centres.

Antin is not alone in focusing on North America as Mount Elbert Capital Partners, GIC and OPTrust last month launched EdgeCore Internet Real Estate – a vehicle to develop, acquire, and operate data centres across the region. The partners have invested $800 million of equity in EdgeCore to target around $2 billion in data centre development and investment.

In October last year, *IJInvestor* reported that CPPIB had partnered with Alpha Investment Partners and Keppel Data Centres for an initial allocation of up to $350 million alongside the Alpha Data Centre Fund for data centres in Asia Pacific and Europe. The partnership set aside a further $150 million for investment in the fund.

In a similar vein, late last year (December) Amsterdam-listed telco Altice agreed to sell its Swiss data centres and telecoms solutions business to InfraVia Capital Partners for an enterprise valuation of around $217 million. That's equivalent to 9.9x the long-term adjusted EBITDA and is due to close shortly.

Meanwhile in July last year, F2i and Marguerite acquired an 89.81% stake in Italy-based MC-link for €50.5 million. The target is a fibre-optic and data centre operator with offices in Trento and Rome. It owns a 2,200km fibre-optic network; seven metropolitan area networks and four data centres – two in Rome, one in Milan and one in Trento.

Core-plus all the way

Data centres are just part of the industry-wide push to identify new opportunities to help them get rid of some dry powder. As always is the case in such situations, people see what they want – and strong businesses in a growing sector is never a bad place to be playing.

Those first few tentative steps up the risk curve as in the ever-present search for yield is driven not only by the fund managers' desperation, but also by the investors who are seeking solid yield.

Data centres are just the latest step along the road… a road where it is impossible to know which direction it will head.

While there have been many historic examples of infra funds pushing the boundaries, for some reason the €400 million acquisition of TCR by Deutsche AM and 3i in the spring of 2016 sticks in the mind.

TCR is the largest independent owner of airport ground support equipment in Europe and was – without question – a good acquisition. Many were quick to point out that it didn't exactly fit the bill for infrastructure, but this was overshadowed by their envy at each of the funds shifting €200 million out the door.

Later that year, a bit of dark humour surrounded Antin's flogging off its UK crematorium business – Westerleigh – to USS and OTPP (November 2016). Again, good business… but not exactly infra. But people are always dropping dead, so it's unlikely to go out of business. As to performance, it is greatly enhanced by that stat that in the UK 75% of corpses prefer cremation.

Sticking with a final infra outlier, in May 2017 InfraVia Capital Partners sold Frasie to Quaero Capital's Quaero European Infrastructure Fund. This company constructs and operates on-site water and waste-water treatment plants for industrial clients in France. Close, but no cigar.

That's a rum bunch of assets:

- baggage handling
- corpse handling
- water handling

Truth is, everyone just wants to know what the next big non-infra thing is going to be. All it takes is for one fund to dip a toe in the water and everyone's swimming.