

Analysis

R O U N D T A B L E

SPONSORS

ARJUN INFRASTRUCTURE PARTNERS • DIGITALBRIDGE GROUP • FENGATE ASSET MANAGEMENT
I SQUARED CAPITAL

The growth story of a lifetime

Demand for digital infrastructure is soaring across all verticals as AI continues to accelerate. But the looming prospect of a bubble means prudent underwriting is paramount, four industry insiders tell Amy Carroll and Justin McGown

The growing prevalence of stabilised data centres has brought the asset class firmly within the realm of core infrastructure. “We have been actively monitoring this space and only recently invested in a pan-European data centre platform. This is partly because until recently there have been few opportunities that meet our core/core-plus profile, particularly in Europe,” says Rohini Pahwa, partner at Arjun Infrastructure, which recently acquired a stake in the Data4 stabilised data centre portfolio.

“Stabilised data centres, however, do fit neatly into that core/core-plus category given their predictable cash-flows, underpinned by long-term contracts with credit-worthy counterparties,” Pahwa adds. “There are also high barriers to entry given land and power shortages. Unlike yieldcos, there is still

a bit of development upside to be had. But it is the downside protection that brings these investments within our risk parameters.”

Meanwhile, for Geneviève Maltais-Boisvert, managing director, investment management, at DigitalBridge Group, what is most interesting right now is the ability to create a scaled independent platform that can acquire stabilised data centre assets from other third-party operators and even hyperscalers.

“Tens of billions of dollars in equity have been invested into data centres out of closed-end funds. Hundreds of billions of AI capex needs to be spent, and so sellers are keen to enter into transactions with programmatic buyers, creating the opportunity to curate a portfolio of diversified assets that can provide long-term stable and predictable cash flows to investors,” she says.

Despite the inherent advantages of a stabilised data centre play, there is an argument that re-contracting risk is materially lower if you build rather than buy.

Maltais-Boisvert is unconvinced: “Re-contracting risk is always present whether you are the original developer or if you acquire stabilised assets, because when you underwrite returns on the initial lease, you are making exit cap rate assumptions based on someone else taking a view on the renewal risk, so that risk never completely goes away.

“It can be managed, however, by making sure you develop assets with long-term fundamental value beyond the zip code, focusing on the network ecosystem and alternative use cases, for example.”

Andrew Crouch, managing director at I Squared Capital, emphasises that not all data centres are created



Rohini Pahwa

Partner, Arjun Infrastructure Partners

Rohini Pahwa joined Arjun Infrastructure in 2021. She was previously head of distribution for power and infrastructure finance at Investec and senior originator in NatWest's infrastructure and project finance team.



Andrew Crouch

Managing director, I Squared Capital

Andrew Crouch focuses on digital infrastructure investments in the Americas. Prior to joining I Squared Capital, he was the CEO of UniTek Global Services. Crouch was previously COO of Zayo Group.



Warren Roll

Managing director, head of digital infrastructure, Fengate Asset Management

Warren Roll oversees all investments in fibre, small cells, towers and data centres at Fengate, where he also sits on the investment committee. Prior to joining Fengate, he was a senior executive at DigitalBridge and PSP Investments, one of Canada's largest pension managers.



Geneviève Maltais-Boisvert

Managing director, DigitalBridge Group

Geneviève Maltais-Boisvert has almost two decades of expertise in global infrastructure investing and corporate finance across the digital and renewable energy sectors. Prior to joining DigitalBridge, she served as director of infrastructure investments at PSP Investments.

Analysis

equal: “The renewal risk at a big AI training facility is very different to an edge data centre serving multiple pools of demand from content to private edge to cloud on-ramps to AI inference. Edge data centres have a well-understood, mature customer base, providing growth and a good income stream. Re-contracting risk still exists, but it is better understood.

“I was based in San Francisco during the dotcom, dotbomb period and I saw the chase for all these large demand curves, which took over a decade of oversupply before things levelled out. Therefore, I think the level of re-contracting risk for some of these scaled AI training data centres, particularly in Tier 2 and Tier 3 markets, could be material.”

Power and water constraints

One of the biggest challenges facing the scaled data centre space, is power constraint. On the flip side, access to power is driving longer-term contracts. Warren Roll, managing director and head of digital infrastructure at Fengate Asset Management, says: “We operate 16 co-location edge facilities in Canada. We continue to see vacancy rates going down, and customers are prepared to sign longer contracts, including price increases, to get access to power.”

Edge data centres consume less energy, of course. “With our three edge data centre platforms in Latin America, EMEA and Asia, we don’t face issues with power constraints because the amount of power being consumed

is nowhere near the scale of these AI training environments. Customer contract lengths typically vary between three and five years across our edge data centres,” says Crouch.

He adds, however, that investment opportunities involving powered land scenarios have seen some level of contract extension to between 15 and 20 years, with escalators, for anchor tenants.

Meanwhile, data centre platforms are getting creative about how they secure power. Earlier this year, Digital-Bridge portfolio company Vantage Data Centers, for example, partnered with energy management and microgrid power generation company VoltaGrid, which will deploy 1GW of off-grid natural gas generation across its portfolio. “These behind-the-meter generation solutions will enable data centres to bridge the gap until a grid connection becomes available,” says Maltais-Boisvert.

Although I Squared Capital focuses on edge data centre assets that do not face the same power constraint issues, the firm acquired power management company Priority Power in 2024.

“Priority Power is involved in sourcing grid interconnects on behalf of its industrial and data centre customers,” says Crouch. “The business also offers substation solutions that feed electrons to the data centre directly. In addition, Priority Power can design, build and operate gas turbine and renewable platforms as an alternative source of power.”

Roll agrees that natural gas has a critical role to play in facilitating data centre roll-out in North America. “We are heading into uncharted territory in terms of exponential increases in power demand. Natural gas is the logical short-term solution,” he says. “The next step for the data centre developers, together with energy providers, is to build behind-the-meter gas generation assets, and excess power can be sold back to the grid.”

“There is still a massive wireless opportunity. Mobile data usage continues to rapidly increase. Diversifying outside of data centres into wireless is critical”

WARREN ROLL
Fengate Asset Management

“I think the level of re-contracting risk for some of these scaled AI training data centres, particularly in Tier 2 and Tier 3 markets, could be material”

ANDREW CROUCH
I Squared Capital

In Europe, meanwhile, the biggest challenge is not energy generation, but transmission. “There has been significant investment in European renewables over the past few years, but negligible investment in grid updates. Power transmission is a big problem,” says Pahwa.

The European market is heterogeneous, however. “It can take as long as seven years to connect to the grid in the Netherlands. But in other markets such as Italy it may take just a year,” she explains. “This just reinforces why location is so important.”

Power is not the only resource that is coming under strain. Data centres are also prodigious consumers of water. “Many of the hyperscalers have made

2030 commitments regarding their water usage and so, following our customers, we make sure our portfolio is as efficient as possible,” says Maltais-Boisvert.

“The solution varies from data centre to data centre. It could mean a new design that reuses rainwater, or systems that reduce consumption of water or participation in building wastewater treatment plants, for example. The constraints are not as significant as those for power, but this is definitely something that is on our radar.”

For Crouch, meanwhile, there is a strong social aspect to data centres’ water consumption. “If the drawing of potable water puts constraints on residential neighbourhoods, that is

inevitably going to be a hot topic. Water usage effectiveness, whether that involves reclaiming rainwater, closed loop liquid cooling or leveraging cold environments, has to be a priority.”

Pahwa adds: “It is not only customers that are focused on water usage efficiency; it is also our investors. Water conservation has to be central to our investment theses.”

Fibre

In addition to power and water, data centres also require connectivity. There is no doubt that some investors have been burnt in the fibre sector in recent years, but the demand for fibre roll-out to facilitate data centre expansion is undeniable.

“It is no secret that fibre has been a challenging sector in digital infrastructure for a number of years,” says Roll. “Valuations across both Europe and the US became unsustainable on the residential side, while on the enterprise side, legacy companies with mixed assets and mixed operations struggled to provide free cashflow to investors.

“What we are seeing now, however, is a paradigm shift that is creating incredible demand, particularly for enterprise fibre. This is a direct consequence of power constraints. Because there is not enough power near the main US hyperscale availability zones, and latency has been less of an issue for training generative AI models, hyperscalers have been building where they can find power. Consequently, this tends to be longer distances from where current infrastructure has been built. This has created opportunities for enterprise broadband connectivity.”

At the same time, valuations have generally declined quite significantly, from multiples in the mid-20s to single figures for recent M&A transactions, Roll explains. “Valuations have gone down and the growth curve has gone up. That makes for a very interesting

Analysis

“[Re-contracting risk] can be managed... by making sure you develop assets with long-term fundamental value beyond the zip code, focusing on the network ecosystem and alternative use cases, for example”

GENEVIÈVE MALTAIS-BOISVERT
DigitalBridge Group

investment case for enterprise fibre right now.”

Crouch adds that with the proliferation of data centres in new locations, there are investment opportunities for incremental long-haul fibre and metro fibre routes. “We are seeing accelerated demand for fibre, either because the number of pairs of cables in those existing conduit systems is not sufficient to support the world we now live in, or new fibre routes are needed to provide diversity and improved latency performance.”

While fibre might, on the surface at least, appear out of favour, for Roll, now is the time to act: “Whenever there is a sector that no one wants to touch, that is usually the best time to get in. There are a lot of great enterprise fibre businesses that know how to build efficiently, provide great service, and can create cash today. Entry valuations are

“It is not only customers that are focused on water usage efficiency; it is also our investors. Water conservation has to be central to our investment theses”

ROHINI PAHWA
Arjun Infrastructure Partners

The data sovereignty opportunity

Data sovereignty is a growing political priority, but will this translate into investable opportunities?

Warren Roll of Fengate Asset Management says data sovereignty opportunities will vary from country to country. “We feel we are well positioned in Canada, because our data centre assets are 100 percent Canadian-owned. One way to invest in the data sovereignty trend is through localised co-location data centre providers that won’t face any restrictions.”

He adds that the theme could also be played through regional cloud providers or through software and cybersecurity companies focused on how to maintain data in certain jurisdictions: “I would say that the co-location approach is probably the safest.”

Andrew Crouch of I Squared Capital agrees. “We have three edge platforms around the world that provide localised in-country capacity that is ideally situated to deal with data sovereignty issues,” he says, pointing to I Squared Capital portfolio company KIO Networks, based in Mexico. “We have seen significant demand, not just from hyperscalers, to bring data back within the perimeter of Mexico, which has created tailwinds for KIO’s business.”

“Data sovereignty is certainly a catalyst for incremental infrastructure build-out, rather than a hindrance,” adds Geneviève Maltais-Boisvert of DigitalBridge. “We will, however, have to look out for increased regulation, particularly as it relates to AI and data centres.”

very compelling, and I think there is a great deal of money to be made.”

An AI bubble

A lot of current demand for both data centres and fibre is being driven by the unrelenting growth of AI. Simmering beneath the surface, however, is the niggling feeling that this could all result in a bubble.

The answer, according to Maltais-Boisvert, is to be meticulously disciplined in your underwriting and to avoid speculative building at all costs: “Due to current supply-demand dynamics, it is possible for a data centre operator to pre-lease having spent only 5 or at most 10 percent of total capex. It is therefore critical to be laser focused on providing what customers really need.”

She adds that data centres and fibre represent the passive infrastructure of

the AI arms race. “There are a handful of companies all competing to be the first to achieve artificial general intelligence, but we are simply providing the picks and shovels in that gold rush. If we continue to be disciplined and to focus on the long-term value of assets, we should remain well protected.”

Pahwa agrees that discipline is essential: “This is why it has taken us so long to get into the data centre space. I also agree that we are providing the backbone infrastructure that should be able to survive any technology volatility, as long as we underwrite in a disciplined way.”

For Roll, meanwhile, the solution is diversification. “Not every one of these leases is going to prove to be investment grade. Tens of billions have been invested into Neoclouds, which is now flushed with cash but is just

beginning to find customers and build its business.

“There will be winners and losers. If you want to insulate yourself from any bubble you need to follow the rules. That means long-term leases with strong credit worthy counterparties; location – great real estate to limit renewal risk – and high-performing management teams with experience with both building and with customers. We will probably see a few cycles over the course of the next decade and so you have to make sure you are buying quality.”

Roll adds that it is important to remember that AI is not the only game in town. “There is still a massive wireless opportunity. Mobile data usage continues to rapidly increase. Diversifying outside of data centres into wireless is critical.”

Towers investments remain a compelling vertical. “I see towers as one of the easiest asset classes to underwrite, at least in North America, with strong investment-grade cashflows. Zoning and permitting are so stringent that overbuilding or even near build is very unlikely, creating very low churn,” Roll says. “Returns may be lower than in data centres, but they are very stable with much lower renewal risk, even with shorter customer contracts. Furthermore, as we move towards 6G, carriers will need to change out their equipment, which can yield higher rents.”

Maltais-Boisvert agrees: “A lot of AI is going to be consumed on our devices and so while towers may feel like a mature sector, they are a critical component of a diversified digital infrastructure portfolio. There are a lot of attractive growth opportunities around network densification. They may not grab the headlines in the way that some of the large data centre deals do, but they are a very important piece of the puzzle.” ■