

Underwriting a Gulf Data Centre: Offtake, Tenants and Covenants

The diligence and underwriting model for a Gulf data centre, built around the offtake, the tenant covenant and the terms that protect the lender

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ABSTRACT

A data centre is, to a lender, only as good as the contract that pays for it. This paper sets out the diligence and underwriting model for a Gulf data centre from a lender's perspective, built around the three things that determine whether the asset is financeable: the quality of the offtake, the creditworthiness of the tenant, and the lease terms and covenants that protect the lender. Drawing on the literature on project finance and contracted cash flows, on credit risk and covenants, and on real-asset and infrastructure underwriting, it advances five propositions concerning data-centre underwriting. Using a stylised, clearly-labelled framework, it weights the pillars of financeability, shows how tenant-covenant quality drives leverage and the cost of debt, identifies the lease terms that protect the lender, models debt-service coverage under stress, and sets out how power and completion risk are underwritten. The analysis finds that the tenant covenant and the offtake are the dominant determinants of financeability, ahead of the asset itself; that lease length, terms and covenants convert a building into a financeable, bond-like cash flow; that debt-service coverage must be tested under combined stress rather than a base case; and that power security and completion risk are gating diligence items that no coupon compensates for if unaddressed. The paper provides an underwriting model, a diligence checklist and a glossary, and discusses the limitations and avenues for further research.

JEL Classification: G23, G32, G33, L94, G24

Keywords: project finance, data centre, underwriting, offtake, tenant covenant, debt-service coverage, infrastructure debt, GCC

1. INTRODUCTION

To an equity investor, a data centre is a building and a business; to a lender, it is a contract. The lender does not share in the upside of rising demand or the asset's appreciation; it is repaid from the cash flow the data centre generates, and that cash flow comes from the contract under which a tenant pays to use the capacity. The lender's task in underwriting a data centre is therefore, above all, to assess that contract, the offtake, the creditworthiness of the tenant who signs it, and the lease terms and covenants that determine how secure and durable the payments are. The physical asset matters, but chiefly as the thing that supports and could substitute for the contracted cash flow; the contract is what the lender is actually lending against, and the quality of that contract determines whether, how much, and at what cost the asset can be financed.

This paper sets out the diligence and underwriting model for a Gulf data centre from a lender's perspective. It is written for the credit and project-finance teams of a lender, a bank or a private-

credit fund, considering debt against a Gulf data centre, and for the equity sponsors who must understand what lenders will require. Its purpose is to organise the underwriting around the factors that actually determine financeability: the offtake and tenant covenant first, then the lease terms and covenants, then the debt-service coverage under stress, and then the power and completion risks that can derail an otherwise sound deal. The central message is that data-centre underwriting is contract underwriting, that the tenant covenant and the offtake dominate the analysis, and that the asset, the power and the construction are assessed in service of the question whether the contracted cash flow will be paid and will service the debt.

The companion paper in this cluster makes the strategic case for deploying capital into the Gulf data-centre boom and identifies power and offtake as the dominant value drivers; this paper turns to the lender's underwriting of a specific asset and develops the offtake and covenant analysis in depth. Where the strategic paper asks where to deploy, this paper asks how to underwrite the debt against a particular data centre, which is the discipline that protects the lender and, in turn, determines the leverage and cost available to the sponsor. The two are complementary views of the same asset, from the strategic and the credit perspectives.

The paper makes three contributions. First, it weights the pillars of financeability and shows that the tenant covenant and offtake dominate. Second, it shows how covenant quality drives the leverage and cost of debt, and identifies the lease terms and covenants that protect the lender. Third, it models debt-service coverage under combined stress and sets out how power and completion risk are underwritten as gating items. Throughout, the figures are modelled and clearly labelled; they illustrate the underwriting mechanics rather than forecasting outcomes, and they are not forecasts.

It is worth stating at the outset why the lender's perspective differs so sharply from the equity investor's, because that difference organises the whole paper. The equity investor owns the upside: if demand rises, rents grow and the asset appreciates, the equity captures it. The lender owns none of that upside; its best outcome is to be repaid in full with interest, and its concern is entirely with the downside, with what happens if the cash flow falters. This asymmetry makes the lender's underwriting fundamentally a study of the downside, of how secure the contracted cash flow is, how it behaves under stress, and what the lender recovers if it fails. The framework reflects this: it concentrates on the security and resilience of the cash flow rather than on the growth that excites the equity, because the lender is paid the same coupon whether the asset doubles in value or merely services its debt. Understanding lending as downside underwriting explains why the covenant, the lease, the coverage and the gating risks dominate the analysis, while the growth story that drives the equity case barely features.

The remainder of the paper is structured as follows. Section 2 reviews the literature on project finance and contracted cash flows, on credit risk and covenants, and on real-asset underwriting, and develops five propositions. Section 3 describes the data and the stylised methodology. Section 4 presents and discusses the results, covering the pillars of financeability, the covenant-leverage relationship, the protective lease terms, the debt-service coverage under stress, and the underwriting of power and completion risk. Section 5 reports robustness. Section 6 sets out implementation considerations. Section 7 offers concluding comments, including limitations and directions for further research. A statement of disclosures, the references and appendices follow.

2. LITERATURE REVIEW AND PROPOSITIONS

The analysis draws on three strands: the literature on project finance and contracted cash flows; credit risk and covenants; and real-asset and infrastructure underwriting. This section reviews each and develops the propositions the analysis examines.

The project-finance literature also distinguishes between recourse and non-recourse lending, a distinction central to how data-centre debt is structured. In non-recourse or limited-recourse project finance, the lender looks only to the project and its contracts, not to the sponsor's broader balance sheet, so the security and durability of the project's own cash flow is everything. Data-centre lending often takes this form, with the loan secured on the asset and its lease and limited recourse to the sponsor, which intensifies the importance of the offtake and covenant analysis: if the lender cannot pursue the sponsor's other assets, it must be confident that the project's own contracted cash flow will repay the loan. The degree of recourse is therefore a key structuring variable, and a lender lending with limited recourse must underwrite the contract all the more rigorously, because the contract is genuinely all it has. This reinforces the framework's contract-first emphasis: the less recourse the lender has to the sponsor, the more the loan depends on the offtake the framework places at its centre.

2.1 Project Finance and Contracted Cash Flows

A substantial literature treats project finance as lending against the contracted cash flows of a discrete asset, where the lender looks principally to the project's revenues, secured by contract, rather than to a corporate balance sheet (Yescombe, 2014; Esty, 2004). The consistent finding is that the financeability of a project turns on the quality and durability of its revenue contracts, the offtake, and that a project with a strong, long offtake from a creditworthy counterparty can support substantial, low-cost debt, while one without cannot. For a data centre, the offtake is the tenant lease, and the literature establishes that its quality is the foundation of financeability. This underpins the first and second propositions, on the dominance of the offtake and tenant covenant.

The project-finance literature also clarifies a structural feature of data-centre lending that bears on the covenant analysis: the concentration of the cash flow in one or few tenants. Unlike a multi-let office or a diversified operating business, a data centre is often leased to a single hyperscale tenant or a small number of large tenants, so the cash flow is concentrated and the failure of one tenant can imperil the whole. This concentration raises the importance of the tenant covenant, because there is little diversification to cushion a single tenant's default, and it argues for the strongest covenants, the longest leases, and the most protective terms precisely because the lender cannot rely on a spread of tenants to absorb a loss. The single-tenant concentration is one reason the analysis weights the covenant so heavily: in a concentrated cash flow, the credit of the one tenant is, to a first approximation, the credit of the whole loan, and the lender must underwrite it accordingly.

2.2 Credit Risk and Covenants

A second literature examines how covenants and contract terms protect a lender by controlling the borrower's behaviour and giving early warning and remedies (Smith and Warner, 1979). The findings are that well-designed covenants, on coverage, leverage, distributions and information, materially reduce the lender's loss by allowing intervention before a default and by constraining value-destroying actions, and that the terms of the underlying revenue contract, here the lease, determine how secure the cash flow is. The literature establishes that the lease terms and the loan

covenants together convert a building into a financeable, protected cash flow. This underpins the third proposition, on protective lease terms and covenants.

The infrastructure-underwriting literature also offers a useful distinction between the asset's value as a going concern and its value in an alternative use, which matters for the lender's downside. A data centre leased to a strong tenant is worth a great deal as a going concern, but if the tenant departs and the asset must be re-let or repurposed, its value can fall sharply, because a specialised data-centre building has fewer alternative uses than a generic property. This gap between going-concern and alternative-use value is a key feature of the lender's downside: the recovery on a defaulted data-centre loan depends heavily on whether the asset can be re-let to another data-centre tenant, which in turn depends on the asset's quality, location and power, and on the depth of the tenant market. The lender should therefore underwrite not only the current tenant but the re-letability of the asset if that tenant leaves, favouring high-quality, well-located, well-powered assets that other tenants would want, because those are the assets whose downside value holds up. This re-letability analysis connects the covenant pillar to the asset pillar: the asset matters most precisely in the downside the covenant analysis is designed to avoid.

2.3 Real-Asset and Infrastructure Underwriting

A third strand concerns the underwriting of real assets and infrastructure, the testing of debt-service coverage under stress, and the assessment of construction, completion and operating risks (Gatti, 2013). The consistent guidance is that coverage must be tested under combined adverse scenarios rather than a base case, because it is the combination of stresses that causes a default, and that construction, completion and, for power-intensive assets, energy supply are gating risks that must be mitigated through structure and contract rather than priced away. This underpins the fourth and fifth propositions, on stress-testing coverage and on power and completion as gating items.

2.4 Synthesis and Propositions

Taken together, these literatures imply that financeability turns on the offtake and tenant covenant, that lease terms and covenants protect the lender, that coverage must be stress-tested, and that power and completion are gating risks. From this the paper develops five propositions:

Proposition 1. The tenant covenant and the offtake are the dominant determinants of a data centre's financeability, weighing more heavily than the physical asset itself.

Proposition 2. Tenant-covenant quality drives the leverage and cost of debt: a strong, investment-grade tenant supports high advance rates at low cost, a weak one little debt at high cost.

Proposition 3. Lease length, terms and loan covenants convert a building into a financeable, bond-like cash flow; their strength determines how secure the lender's position is.

Proposition 4. Debt-service coverage must be tested under combined stress, not a base case, because it is the combination of adverse moves that causes a default.

Proposition 5. Power security and completion risk are gating diligence items that no coupon compensates for if unaddressed; they must be mitigated through contract and structure.

3. DATA AND METHODOLOGY

This study is analytical, using a transparent, stylised framework whose assumptions are stated explicitly rather than estimated from a proprietary dataset, which suits a question about how to underwrite rather than what a particular deal will yield. The figures are modelled and clearly labelled; they illustrate the underwriting mechanics a lender can apply, and they are not forecasts.

3.1 The Underwriting Framework

The framework has three components: a financeability analysis weighting the underwriting pillars and showing how tenant-covenant quality drives leverage and cost; a protection analysis identifying the lease terms and covenants that protect the lender; and a resilience analysis testing debt-service coverage under stress and setting out the underwriting of power and completion risk. Together these constitute the lender’s underwriting model for a Gulf data centre.

3.1a What the Framework Does and Does Not Do

It is important to be clear about the framework’s scope. It is a model for reasoning about how to underwrite debt against a data centre, the pillars of financeability, the covenant-leverage relationship, the protective terms, the stress-testing of coverage, and the gating risks; it is not a substitute for the detailed technical, legal and financial diligence a specific transaction requires. The figures should be read as illustrations of the underwriting mechanics, the way covenant quality drives leverage, the way coverage behaves under stress, the way power security shifts risk, rather than as numerical predictions or transaction terms. The value of the framework is that it organises the underwriting around the factors that actually determine financeability, so that the detailed diligence is directed where it matters most, on the contract and the gating risks, rather than dispersed evenly across factors of unequal importance.

The framework is deliberately organised by priority rather than by checklist completeness because the common failure in asset-backed lending is not omitting a diligence item but mis-weighting them, lavishing attention on the impressive physical asset while under-scrutinising the contract that actually repays the loan. By weighting the pillars explicitly, the framework keeps the lender’s effort proportionate to each factor’s contribution to financeability, which is the discipline that prevents a strong asset or a charismatic sponsor from obscuring a weak offtake. A complete checklist applied without this weighting can still produce a poor credit decision if the lender treats every item as equally important; the framework’s contribution is the weighting, not merely the list.

3.2 Assumptions and Their Justification

The stylised inputs, the pillar weights, the advance rates and debt costs by covenant tier, and the coverage ratios under stress, are calibrations informed by the project-finance and infrastructure-underwriting literature (Yescombe, 2014; Gatti, 2013); they are indicative rather than precise estimates and are recorded in Appendix A. The covenant-quality and coverage assumptions are treated as the central uncertain inputs and are tested in Section 5. The base-case assumptions are set out in Table 1.

Table 1. Base-Case Assumptions for the Underwriting Framework

Parameter	Assumption
Tenant covenant (base case)	Strong, long-lease, investment-grade or near

Advance rate (investment-grade tenant)	~75% of value
Cost of debt (investment-grade tenant)	~6.5%
Base-case DSCR	~1.65x
Minimum DSCR covenant	~1.25x
Power	Contracted, firm, affordable
Construction	Fixed-price EPC with completion support
Lease length	Long, with escalation and limited breaks

Indicative, forward-looking assumptions used to illustrate underwriting mechanics; not forecasts. See Appendix A.

4. RESULTS AND DISCUSSION

This section presents the framework in the order of the propositions: the pillars of financeability (Proposition 1); the covenant-leverage relationship (Proposition 2); the protective lease terms (Proposition 3); the debt-service coverage under stress (Proposition 4); and the underwriting of power and completion risk (Proposition 5).

This contract-centric framing also has a reassuring corollary for the lender new to data centres: much of the underwriting is familiar. A lender that has financed other contracted-cash-flow assets, let real estate, infrastructure with offtake agreements, leased equipment, already possesses the core skills the framework requires, assessing a counterparty's credit, scrutinising a long-term contract, testing coverage, structuring covenants and reserves. The data-centre-specific elements, the power intensity, the technology obsolescence, the specialised re-letting market, are additions to this familiar core rather than a wholly new discipline. This means a capable contracted-cash-flow lender can extend into data centres by adding the sector-specific diligence to its existing underwriting skills, rather than building an entirely new capability, provided it engages the technical and power expertise the asset requires. Recognising the familiar core within the novel asset helps a lender approach data centres with appropriate confidence, neither overawed by the technology nor blind to the genuinely new risks, which is the balanced posture the framework supports.

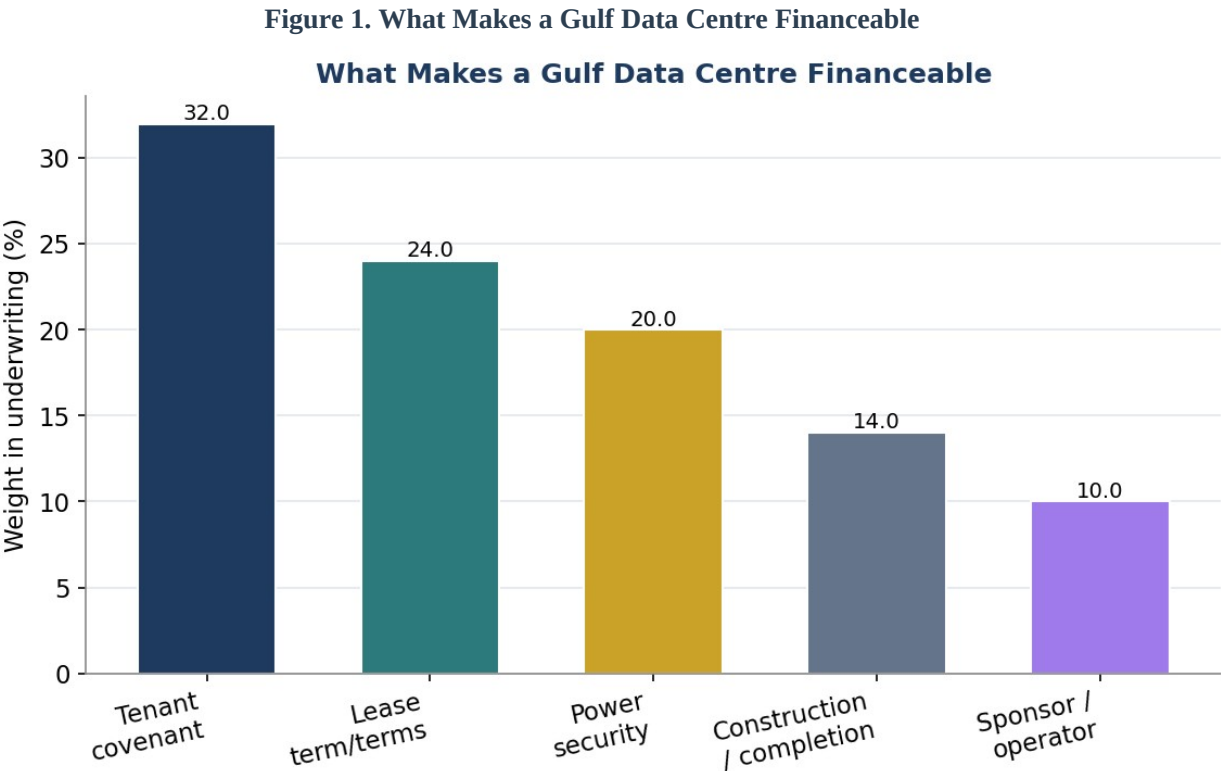
4.0a Why a Data Centre Is, to a Lender, a Contract

Before weighting the pillars, it is worth establishing the proposition that organises them: that a data centre, to a lender, is fundamentally a contract rather than a building. The building has value, but its value to the lender derives almost entirely from the contracted cash flow it houses, because the lender is repaid from that cash flow and only secondarily from the asset if the cash flow fails. A data centre with no tenant is, to a lender, a large, specialised, power-hungry structure of uncertain value and limited alternative use; the same building leased to a strong tenant on a long lease is a secure, bond-like cash flow worth lending against substantially. The transformation from the first to the second is effected entirely by the contract, which is why the contract, not the building, is the object of the lender's underwriting. This is the sense in which data-centre lending is contract underwriting, and it is the proposition from which the pillar weighting and the whole framework follow.

This contract-centric view also explains why the lender’s diligence differs from the equity investor’s in emphasis. The equity investor must form a view on the asset’s long-term value, its growth, its competitive position, its eventual sale, because it owns those outcomes; the lender must form a view chiefly on the security and durability of the contracted payments over the life of its loan, because that is what repays it. Both examine the asset, the tenant, the power and the market, but they weight them differently: the equity toward value and growth, the lender toward the security of the contracted cash flow. Recognising this difference in emphasis is the first step in adopting the lender’s perspective, and it is why a lender cannot simply borrow the equity sponsor’s analysis but must conduct its own, weighted toward the downside the sponsor is less focused on.

4.1 The Pillars of Financeability

Underwriting begins by identifying what makes a data centre financeable. Figure 1 weights the pillars.



Indicative; the tenant covenant and lease dominate, ahead of power, construction and sponsor quality.

The figure supports Proposition 1. The largest weight in underwriting a data centre falls on the tenant covenant, the creditworthiness of the entity that has contracted to pay for the capacity, followed by the lease term and terms, then power security, then construction and completion, then the sponsor and operator. The ordering reflects the lender’s fundamental position: it is repaid from the contracted cash flow, so the security and durability of that cash flow, set by the tenant’s creditworthiness and the lease, weigh most heavily. The physical asset, the power and the construction matter, but they matter as the things that enable and could substitute for the contracted payments, not as the primary object of the lending. The practical lesson is that a lender should concentrate its underwriting effort first and most heavily on the tenant and the lease, because that is where the financeability is principally determined, and should not let an

impressive asset or a strong sponsor distract from a weak or short offtake. The asset cannot rescue a poor contract, but a strong contract can finance even a modest asset.

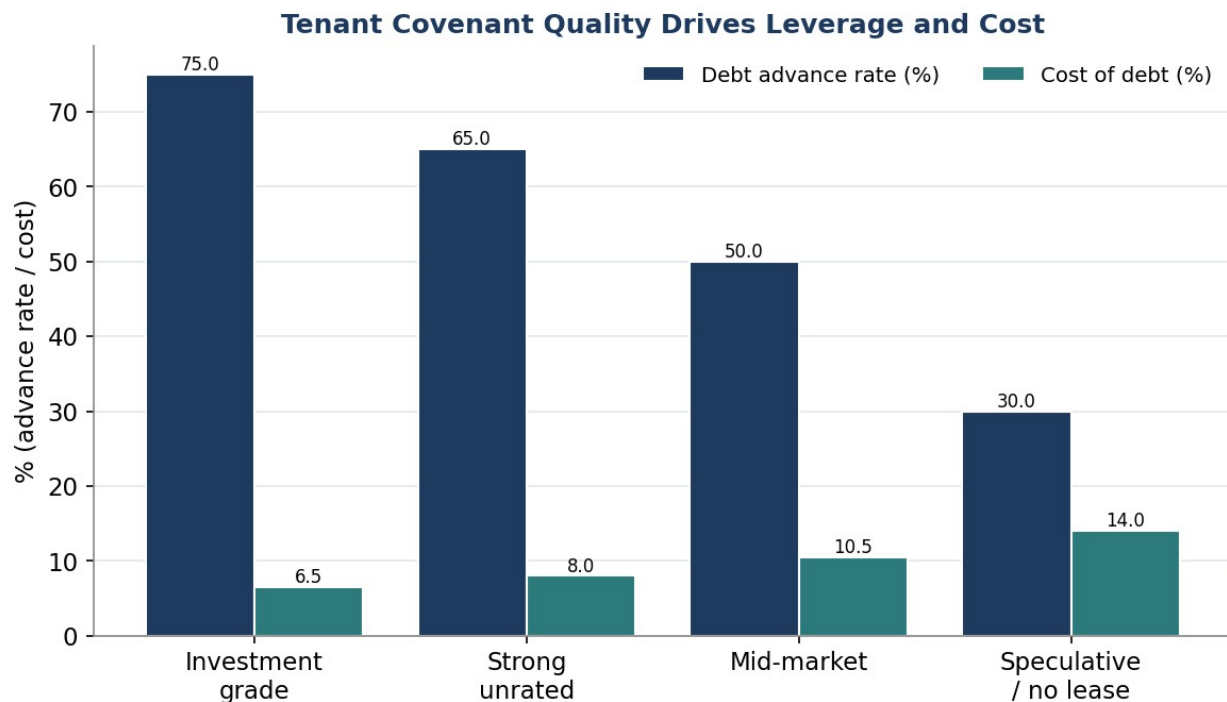
A practical implication of the covenant-leverage relationship is that the sponsor and the lender share a strong interest in securing the best possible tenant, which aligns them at the outset. The sponsor wants high leverage at low cost to maximise its equity return; the lender wants a secure cash flow; and a strong, investment-grade tenant on a long lease delivers both, high leverage and low cost for the sponsor, secure cash flow for the lender. This alignment means the lender can reasonably expect a well-advised sponsor to have pursued the strongest available tenant, and a sponsor presenting a weak or short offtake should prompt the lender to ask why a stronger one was not secured, whether because of the asset, the location, the power, or the market. The covenant on offer is thus not only the foundation of the credit but a signal about the asset and the deal, and the lender should read a weak offtake as a question to be answered rather than merely a term to be priced.

A nuance worth adding is the treatment of the unrated but strong tenant, which is common in the Gulf where many substantial entities, including government-linked ones, lack a formal credit rating yet are highly creditworthy. The lender should not equate the absence of a rating with weakness; it should assess such a tenant on its fundamentals, its financial strength, its strategic importance, the support of its owners or government, and form its own credit view, which may place the tenant near investment grade despite the lack of a label. This is a particular skill in Gulf underwriting, because much of the strongest demand comes from sovereign-linked and large private entities whose creditworthiness must be assessed directly rather than read from a rating agency. A lender that can underwrite these unrated-but-strong covenants accurately has an edge, because it can lend confidently against good tenants that a rating-dependent lender would shy from, while a lender that mechanically downgrades all unrated tenants will miss sound business. The covenant assessment in the Gulf therefore requires genuine credit judgement, not reliance on external ratings, which is part of the local underwriting capability the cluster emphasises throughout.

4.2 Covenant Quality Drives Leverage and Cost

The tenant covenant determines the terms of the debt. Figure 2 shows the relationship.

Figure 2. Tenant Covenant Quality Drives Leverage and Cost



Indicative; a stronger tenant covenant supports a higher advance rate at a lower cost of debt.

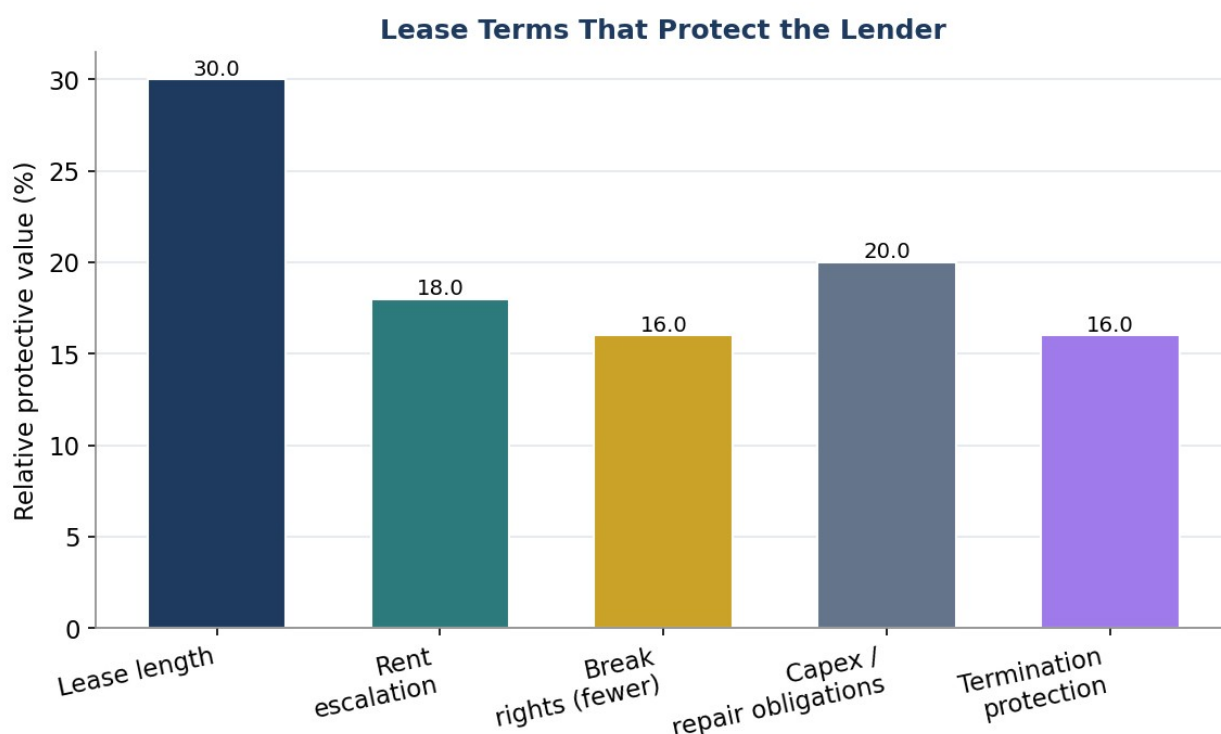
The figure supports Proposition 2. As the tenant covenant strengthens, from speculative or unlet, through mid-market and strong unrated, to investment-grade, the lender will advance a higher proportion of value at a lower cost of debt, because the contracted cash flow is more secure. An investment-grade tenant on a long lease can support a high advance rate at a low cost, approaching the financing terms of a corporate bond; a speculative asset supports little debt at a high cost, if it can be financed at all. The relationship is the practical mechanism by which offtake quality, established in the companion paper as the driver of value, also drives financeability and the cost of capital: the same strong offtake that raises the asset's value also lowers its cost of debt and raises its leverage, compounding the benefit to the equity. For the sponsor, this means securing a strong tenant is the single most powerful lever on the financing terms it can obtain; for the lender, it means the covenant assessment is the foundation of the credit decision and the pricing.

It is worth noting that the protective value of a lease term depends on its enforceability as much as its drafting, which links this analysis to the companion paper on security and enforcement. A lease provision that is strong on paper but difficult to enforce in the relevant jurisdiction offers less real protection than its wording suggests, and the lender must satisfy itself that the lease and the loan covenants are genuinely enforceable where the asset sits and the tenant operates. This is particularly relevant for the termination and remedy provisions, which the lender relies on precisely when the relationship has broken down and enforcement is contested. A lender should therefore assess the lease terms not only for their drafting but for their enforceability, taking local legal advice, so that the protections it is relying on will actually be available when tested. The strongest lease terms are worth only what can be enforced, and the lender's underwriting of the lease must include this enforceability dimension rather than assuming it.

4.3 Lease Terms That Protect the Lender

Beyond the tenant's identity, the lease terms protect the lender. Figure 3 weights them.

Figure 3. Lease Terms That Protect the Lender



Indicative; lease length, capex obligations, escalation, break and termination protections all secure the cash flow.

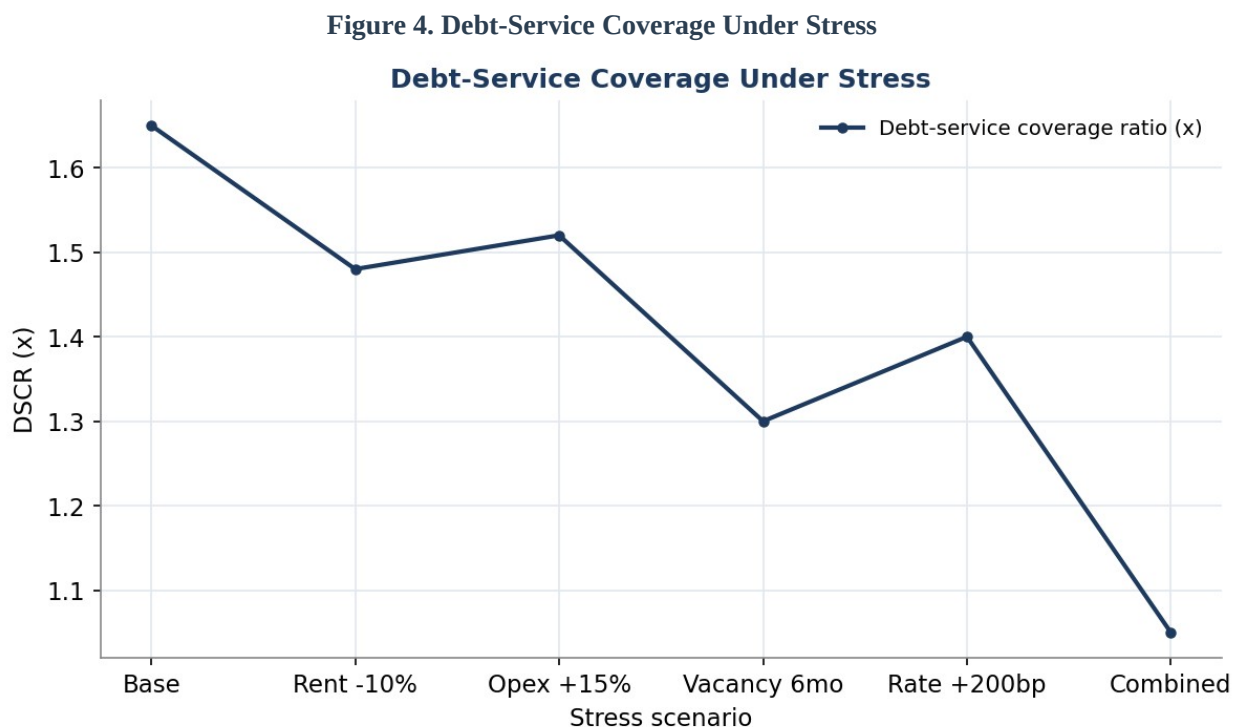
The figure supports Proposition 3. Lease length is the most protective single term, because a long lease secures the cash flow over the life of the debt and reduces the refinancing and re-letting risk; the tenant's capex and repair obligations protect the asset's condition and shift maintenance cost to the tenant; rent escalation protects the real value of the cash flow over time; limited break rights prevent the tenant from exiting early; and termination protections, the conditions and consequences of any termination, protect the lender if the tenant seeks to leave. Together these terms convert a building into a secure, durable, bond-like cash flow, and the lender should scrutinise them as carefully as the tenant's creditworthiness, because a strong tenant on a weak lease, short, breakable, with light obligations, offers far less protection than the covenant alone suggests. The lease terms and the loan covenants together, on coverage, distributions, reserves and information, are what give the lender both security and control, and the analysis treats them as the second pillar after the covenant itself.

A practical point about the protective lease terms is that they should be read together with the loan structure, because the two must align. A long lease supports a long loan; a lease with breaks supports a loan that amortises or matures before the break; strong tenant capex obligations reduce the need for the lender to reserve for the asset's maintenance. The lender should therefore structure the loan to fit the lease rather than imposing a standard structure regardless: matching the loan tenor to the lease, sizing reserves to the gaps the lease leaves, and setting covenants that track the lease's protections. A mismatch, a long loan against a short lease, or light reserves against weak tenant obligations, leaves the lender exposed precisely where the lease fails to protect it. Aligning the loan structure to the specific lease is the discipline that turns the lease's protections into the loan's protections, and it is why the lender must underwrite the lease in detail before structuring the debt.

It is worth being explicit about the difference between the lease-level cash flow and the coverage the lender actually relies on, because operating costs sit between them. The rent the tenant pays is the gross cash flow, but the asset incurs operating costs, energy where not passed through, maintenance, management, insurance, that reduce the net cash flow available to service the debt. The lender must underwrite the net cash flow after these costs, not the gross rent, and must understand which costs the lease passes through to the tenant and which the owner bears, because a lease that passes most operating costs to the tenant produces a more stable, more predictable net cash flow than one that leaves the owner exposed to variable costs such as energy. For a power-intensive data centre, the treatment of energy cost is especially consequential: a lease under which the tenant bears or reimburses the energy cost insulates the owner's coverage from energy-price volatility, while one that leaves the owner exposed introduces a significant variable into the coverage. The lender must therefore model coverage on the net cash flow with a clear understanding of the cost pass-throughs, which is part of reading the lease in the detail the framework requires.

4.4 Debt-Service Coverage Under Stress

The lender must test whether the cash flow services the debt under adverse conditions. Figure 4 shows coverage under stress.



Indicative; coverage holds under single stresses but compresses sharply under a combined scenario.

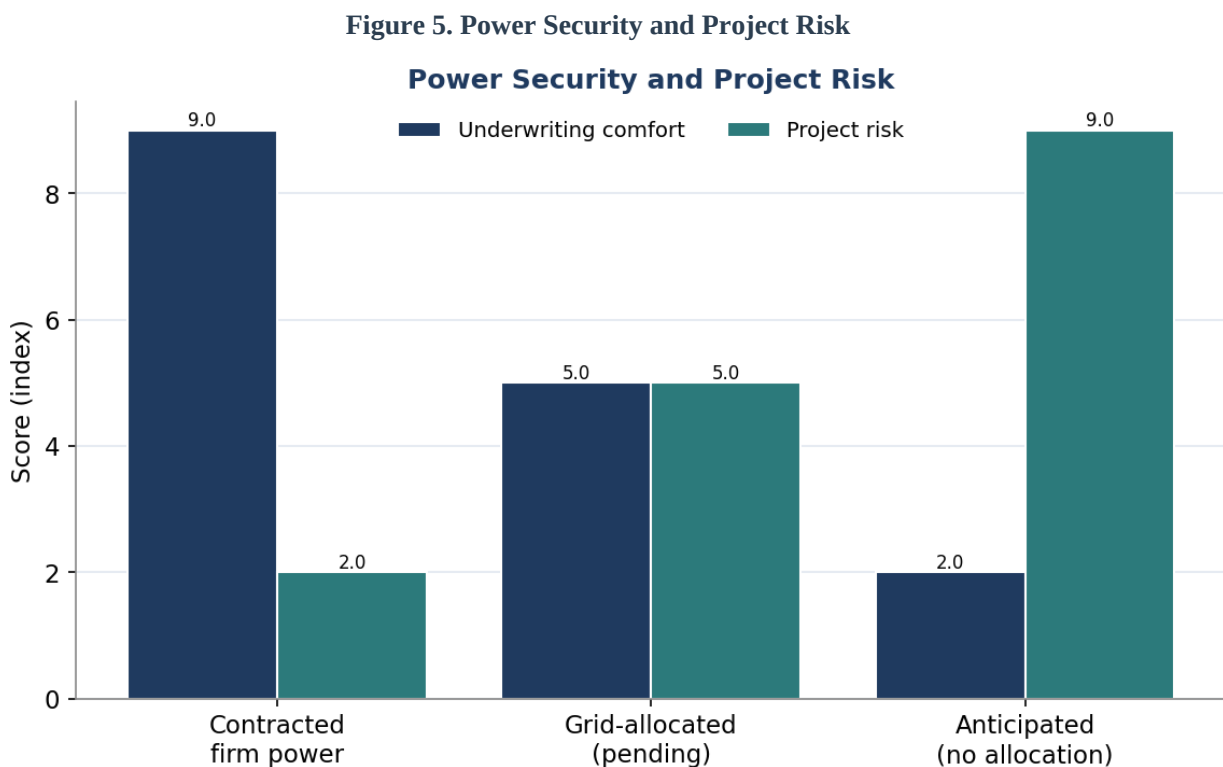
The figure supports Proposition 4. The debt-service coverage ratio, the cash flow available relative to the debt service, is comfortable in the base case and remains adequate under most single stresses, a rent reduction, an operating-cost increase, a temporary vacancy, or a rate rise taken one at a time. But under a combined stress, several adverse moves at once, the coverage compresses toward or below the level at which the borrower can service the debt. The lesson is that the lender must test coverage under combined stress, not a base case or single sensitivities, because it is the combination that causes a default, and a deal that looks comfortable on its base-case coverage may be fragile under a realistic combination of stresses. The minimum-coverage covenant should be set with this combined stress in mind, providing a buffer that a combination

of adverse moves does not immediately breach. Stress-testing coverage rigorously is the discipline that distinguishes a soundly-underwritten loan from one that merely looks safe in benign conditions, and it is where the lender's realism is most tested against the sponsor's optimism.

The coverage analysis also illuminates the role of the debt-service reserve, which deserves specific comment because it is the lender's first line of defence against a temporary shortfall. A debt-service reserve, cash held back to cover a period of debt service, gives the borrower and lender time to address a problem, a temporary vacancy, a delayed payment, an operating disruption, without an immediate default, converting what might be a covenant breach into a managed situation. The reserve should be sized to the kind of temporary shortfall the stress analysis identifies as plausible, large enough to bridge a realistic disruption but not so large as to trap excessive cash. Combined with the coverage covenant, the reserve gives the lender both a warning, when coverage approaches the covenant, and a buffer, the reserve itself, before a shortfall becomes a default. The reserve is thus part of the resilience the framework builds into the loan, and the lender should size it deliberately from the stress analysis rather than adopting a standard figure, because the right reserve depends on the specific cash flow's vulnerability to temporary disruption.

4.5 Underwriting Power Security

Power is a gating item. Figure 5 shows how power security affects the underwriting.



Indicative; contracted firm power gives high underwriting comfort and low risk; anticipated power the reverse.

The figure supports Proposition 5 in the dimension of power. A data centre's defining input is electricity, in large and growing quantities, and the security of that power is a gating underwriting item: contracted, firm power gives the lender high comfort and low project risk; grid-allocated but pending power carries moderate risk; and merely-anticipated power without a firm allocation carries high risk that the project is delayed, costs more, or cannot operate at capacity. The lender

must therefore underwrite the power supply with the same rigour as the offtake, confirming that firm, affordable power is contracted on the timeline the project needs, including for any planned expansion, because a data centre that cannot be powered cannot generate the cash flow that repays the debt, however strong its tenant. In the Gulf, the structural abundance of power eases this but does not remove the project-level requirement to secure it contractually, and the lender should treat power security as a condition of lending rather than an assumption. No coupon compensates for a power failure that halts the asset.

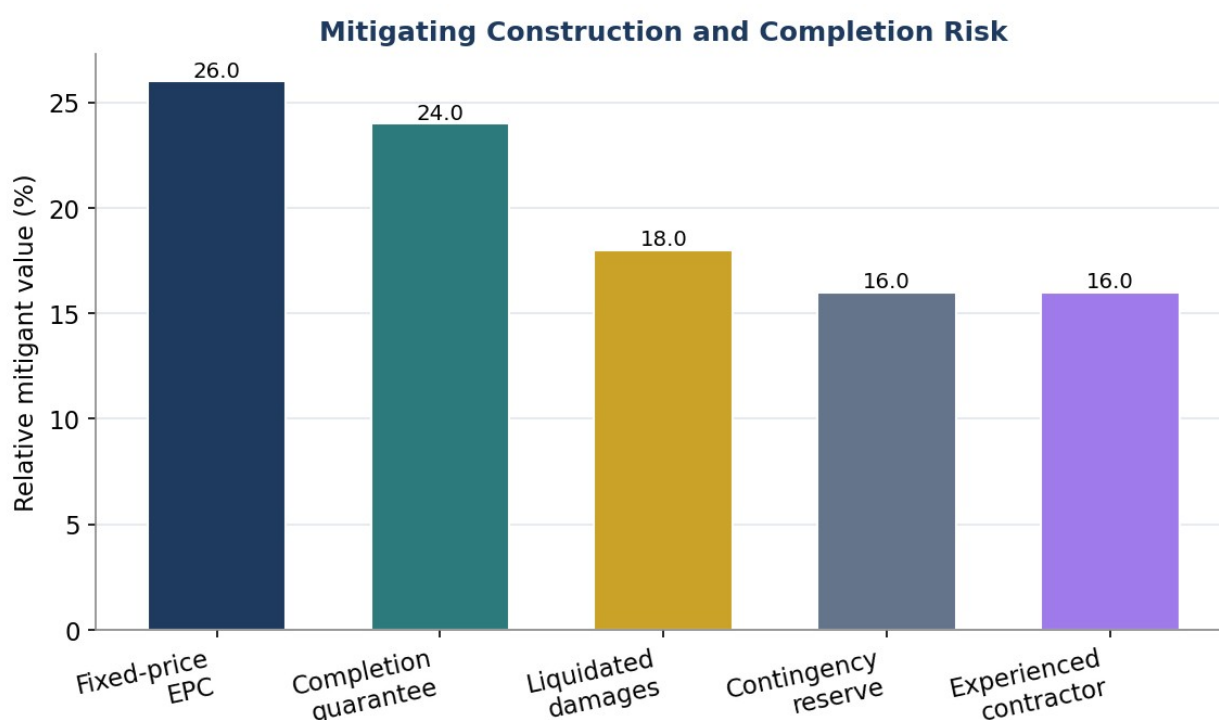
It is worth connecting the stress-testing of coverage to the setting of the covenant package, because the two are linked in practice. The combined stress that the coverage analysis applies should inform where the minimum-coverage covenant is set: the covenant should be high enough to give early warning before the borrower is in genuine difficulty, but not so high that ordinary fluctuations trip it and force needless interventions. The combined-stress analysis reveals how far coverage can fall under a realistic adverse scenario, and the covenant should sit at a level that such a scenario would approach but a normal year would not, so that a breach genuinely signals trouble. Setting the covenant from the stress analysis rather than from a market convention ensures it is calibrated to the specific deal's resilience, which is the purpose a coverage covenant serves: to give the lender control at the point where the cash flow is genuinely at risk, neither too early nor too late.

A point worth emphasising about the gating risks is that they interact: a power shortfall during construction is both a power problem and a completion problem, because an asset that cannot be powered cannot be completed in any meaningful sense, and a construction delay can in turn jeopardise a power allocation that was timed to the original schedule. The lender should therefore underwrite power and completion together rather than as separate items, understanding how a delay in one affects the other and structuring mitigants that address the linkage, for instance ensuring that power commitments have flexibility to accommodate reasonable construction delay, and that the construction package includes the power-related works within its fixed-price scope. Treating the gating risks as linked rather than independent is a refinement that matters in practice, because the failure of a data-centre project often involves both at once, a delay that misses a power window, or a power shortfall that stalls construction, and a lender that has underwritten them in isolation may have missed the way they compound.

4.6 Underwriting Completion and Construction Risk

For an asset under construction, completion risk is the other gating item. Figure 6 shows the mitigants.

Figure 6. Mitigating Construction and Completion Risk

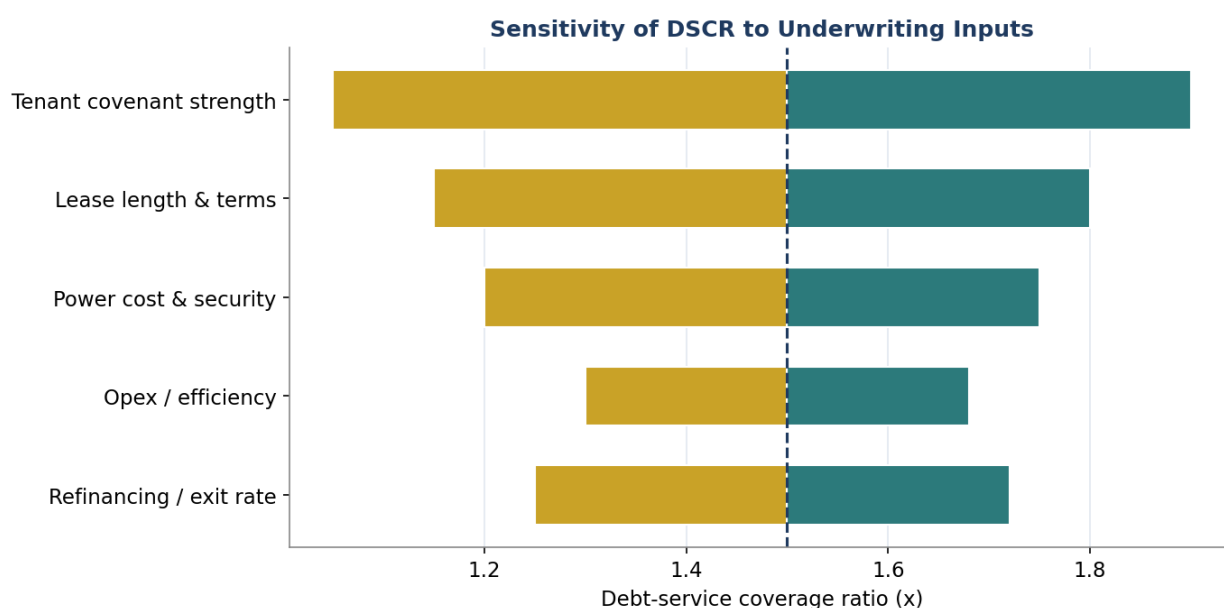


Indicative; fixed-price contracts, completion support, liquidated damages and reserves mitigate completion risk.

The figure completes Proposition 5 in the dimension of construction. For a data centre financed during construction, the risk that it is not completed on time, on budget, and to specification is a gating item, because an incomplete asset generates no cash flow and may consume further capital. The lender mitigates this risk through structure and contract: a fixed-price engineering, procurement and construction (EPC) contract transfers cost overrun risk to the contractor; a completion guarantee from the sponsor backstops delivery; liquidated damages compensate for delay; a contingency reserve absorbs unforeseen costs; and an experienced contractor reduces the execution risk at source. Together these mitigants protect the lender against the completion risk that no coupon would compensate for if the asset were never finished. The lender should require an appropriate combination of these mitigants as a condition of construction lending, and should release funds in stages against verified construction progress, so that its exposure rises only as the asset is built. Underwriting completion is the discipline that makes lending to a data centre under construction acceptable rather than speculative.

Figure 7 places the sensitivity of the debt-service coverage to the underwriting inputs in a single view.

Figure 7. Sensitivity of DSCR to Underwriting Inputs

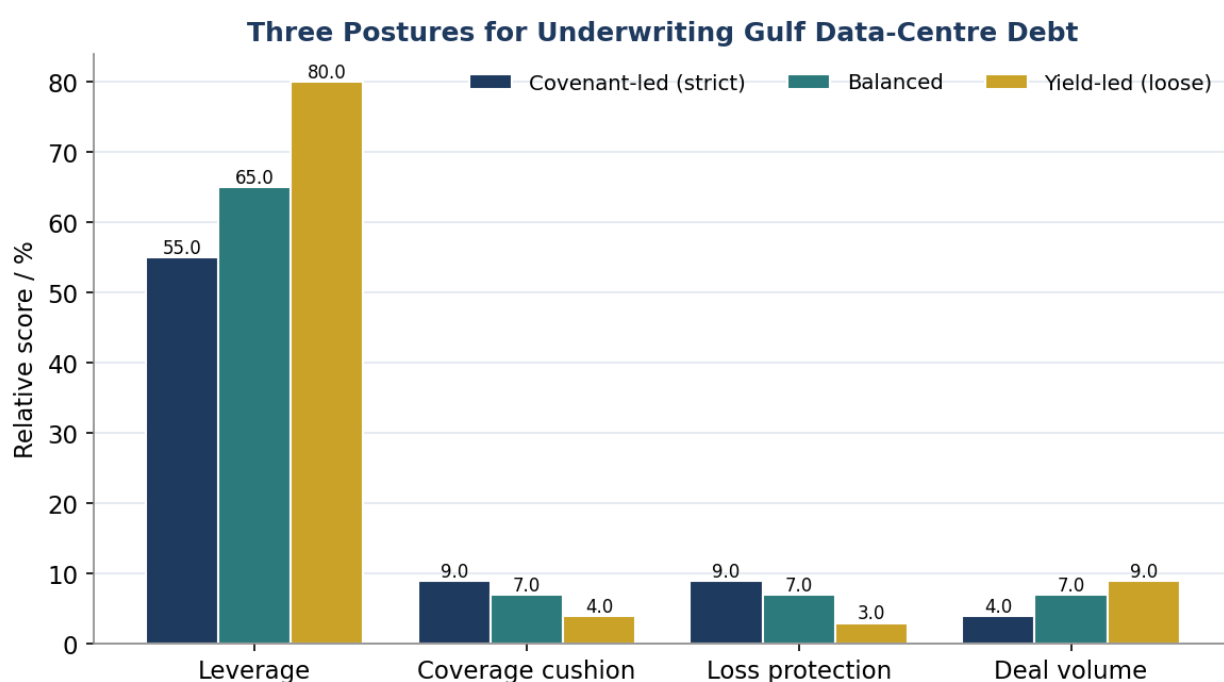


Indicative; tenant covenant and lease terms move coverage most, followed by power cost and efficiency.

The sensitivity analysis confirms the hierarchy. The tenant covenant strength and the lease length and terms move the coverage most, followed by the power cost and security, the operating efficiency, and the refinancing or exit rate. This ordering reinforces the underwriting priorities: the lender protects its coverage chiefly by securing a strong tenant on a long, well-termed lease, and secondarily by ensuring affordable, secure power and efficient operation. The financial-engineering levers, the rate and the exit, matter least, which is why the analysis concentrates the underwriting on the contract and the power rather than on the financing structure.

Figure 8 compares three underwriting postures on a common set of measures.

Figure 8. Three Postures for Underwriting Gulf Data-Centre Debt



Indicative; a balanced, covenant-led posture protects the lender while supporting reasonable leverage and volume.

The comparison supports the underwriting discipline. A strict, covenant-led posture lends only against strong covenants at conservative leverage, maximising protection but limiting volume and leverage. A loose, yield-led posture chases volume and leverage against weaker covenants, maximising deal flow but sacrificing protection, the path that produces losses in a downturn. A balanced posture, lending against sound covenants at moderate leverage with adequate coverage cushion and protection, captures reasonable volume and leverage while preserving the protection that the lender's position requires. For most lenders the balanced, covenant-led posture is the one the analysis recommends, because it neither forgoes sound business through excessive strictness nor courts loss through yield-led looseness, and it keeps the underwriting anchored where it belongs, in the quality of the contract.

4.7 A Worked Illustration of Underwriting a Deal

To make the framework concrete, consider a lender underwriting debt against a Gulf data centre let to a hyperscale tenant. It begins with the covenant: it assesses the tenant entity actually on the lease, confirms it is investment-grade or guaranteed by an investment-grade parent, and judges the cash flow secure. It then scrutinises the lease: a long term covering the debt, with escalation, limited breaks and strong capex and repair obligations on the tenant. Satisfied with the contract, it sizes the loan to an advance rate and cost appropriate to the strong covenant, sets a minimum coverage covenant with a buffer against combined stress, and structures a debt-service reserve, distribution limits and information rights. It confirms firm contracted power for the asset and its planned expansion, and, since the asset is operating, satisfies itself on the operator. It stress-tests coverage under a combined scenario and confirms it remains above the covenant. The result is a loan secured on a strong, long, contracted cash flow, protected by covenants and reserves, with the gating power risk addressed, at leverage and cost matched to the covenant.

The illustration shows the framework guiding the credit decision in priority order. The lender did not begin with the asset's impressive specification or the sponsor's reputation; it began with the contract that repays the loan, and only proceeded once that was sound. It set the terms to the covenant rather than to a market default, structured protection calibrated to the deal, and addressed the gating power risk as a condition. Had the covenant been weaker or the lease shorter, the lender would have reduced leverage, raised the cost, demanded more protection, or declined, rather than holding terms constant. This priority-ordered, contract-first underwriting is the discipline the framework embodies, and it produces a credit decision anchored where the analysis shows financeability is determined.

It is worth making explicit how the framework guards against the specific failure modes that have damaged real-asset lenders in other markets and cycles, because the discipline is best understood by what it prevents. Lenders have been hurt by lending against speculative assets without secured offtake, which the contract-first pillar prevents; by holding terms constant across covenant qualities, which the covenant-leverage relationship prevents; by relying on base-case coverage that a combined stress overwhelmed, which the stress-testing prevents; by accepting unsecured power or unmitigated construction for a higher coupon, which the gating-item discipline prevents; and by abbreviating diligence under competitive pressure, which the diligence-discipline implementation point addresses. Each element of the framework corresponds to a known way lenders lose money, and applying the framework as a connected whole is, in effect, a systematic avoidance of those failure modes. This is the practical value of a disciplined underwriting model: not that it guarantees no loss, which nothing can, but that it prevents the

avoidable, repeated errors that have damaged lenders who underwrote by intuition or by an unweighted checklist rather than by a priority-ordered, contract-first model.

4.8 Bringing the Underwriting Pillars Together

The pillars of the framework, the covenant, the lease, the coverage, and the gating power and completion risks, are a single connected underwriting rather than separate tests. The covenant and lease establish how secure the cash flow is; the coverage analysis tests whether that cash flow services the debt under stress; and the gating risks confirm that the cash flow can be generated at all. A lender that attends to one and neglects the others leaves a gap: a strong covenant with unsecured power can still fail if the asset cannot be powered; comfortable base-case coverage can still default under a combined stress it was not tested against; a long lease with a weak tenant offers less than its length suggests. The value of treating the pillars as one connected underwriting is that it ensures the cash flow is secure, resilient and generable together, which is what makes the loan sound. The recurring failure in asset-backed lending is to underwrite one pillar thoroughly and assume the others, and the framework's priority-weighted, connected structure is designed to prevent exactly that.

5. ROBUSTNESS AND SCENARIO ANALYSIS

Because the framework is stylised, its value lies in whether its conclusions hold under different assumptions. This section varies the central inputs.

It is also worth acknowledging the scenario the framework cannot fully structure against: a systemic shock that simultaneously impairs the tenant, depresses the re-letting market, and disrupts power or refinancing across the sector at once. No single loan structure fully insulates a lender against such a correlated event, just as no single loan can be immune to a sector-wide collapse. What the framework does is ensure the lender enters such an event from strength: lending against the strongest covenants and longest leases, at conservative leverage, with reserves and secured power, so that its loans are among the last to fail rather than the first. A lender so positioned will suffer in a systemic shock but is far more likely to recover than one that lent against weak covenants at high leverage. The honest claim is that the framework optimises the lender's position against the foreseeable, structurable risks and improves its resilience to the unforeseeable systemic ones, not that it eliminates risk, and a lender that believes any underwriting makes it immune to a systemic event has misunderstood the limits of structure.

5.0a Reading the Scenarios as a Set

The scenarios that follow, a weaker covenant, a shorter lease, and a power or completion shock, stress different pillars of the underwriting, but they share a common lesson worth stating before they are taken in turn. Each is answered not by a higher coupon but by a structural response: a weaker covenant by lower leverage and more protection, a shorter lease by a shorter or amortising loan, a power or completion risk by contractual mitigation. The unifying principle is that the lender protects itself against these risks by structuring rather than by pricing, because the risks that matter most in data-centre lending, a tenant default, a lease expiry, a power failure, a construction failure, are too large to be absorbed by a coupon and must instead be prevented or mitigated by the structure of the loan and its contracts. A lender that responds to every risk by raising the coupon, rather than by structuring against it, accumulates high-coupon exposures to

risks it has not actually mitigated, which is the path to a loss the coupon never compensated. The scenarios confirm that structure, not price, is the lender's defence in data-centre underwriting.

5.1 A Weaker Tenant Covenant

If the tenant covenant is weaker than the base case, the secure cash flow is less certain, the supportable leverage falls and the cost of debt rises, as Figure 2 showed. The conclusion is reinforced: the covenant is the foundation, and a weaker one must be met with lower leverage, a higher coupon, additional security or credit support, or a decision to decline. A lender that lends against a weak covenant at terms suited to a strong one has mispriced and over-leveraged the risk, which is the error the covenant-led posture guards against. The robustness point is that the covenant assessment must drive the terms, and the terms must adjust as the covenant weakens, rather than the lender holding terms constant across covenant qualities.

A related lease-structure risk is the rolling or renewal lease, common with some tenants, under which the lease continues but at terms reset periodically rather than fixed for a long initial term. Such an arrangement offers ongoing occupancy but less certainty than a long fixed lease, because the rent and terms can change at each reset and the tenant can more easily leave. The lender should treat a rolling or short-renewal lease as closer to a short lease for underwriting purposes, sizing the loan and its amortisation to the certain rather than the hoped-for occupancy, and pricing the additional renewal risk. The distinction between a long fixed lease and a rolling arrangement is exactly the kind of lease-term detail that the framework places alongside the tenant covenant, because two assets with the same strong tenant can offer very different security depending on whether that tenant is committed for a long fixed term or merely likely to renew, and the lender that does not draw this distinction will overvalue the security of the rolling arrangement.

5.2 A Shorter Lease

If the lease is shorter than the debt or carries break rights, the lender faces re-letting and refinancing risk within the loan's life, which weakens its position even with a strong tenant. The conclusion is that lease length and terms must be assessed alongside the covenant, and that a short or breakable lease should be met with a shorter loan, an amortisation profile that repays within the lease, or additional protection, rather than financed as if the cash flow were secure for the full term. The robustness analysis underscores Proposition 3: the lease terms, not only the tenant's identity, determine the security of the cash flow, and a strong tenant on a weak lease is a weaker credit than the covenant alone suggests.

A final scenario worth considering is a benign one, in which the asset performs strongly, demand for capacity rises, and the tenant prospers. For the lender this is a comfortable outcome but, importantly, not one that improves its return, because the lender earns the same contracted coupon whether the asset thrives or merely services its debt. This asymmetry, that the lender shares the downside but not the upside, is the reason the lender must underwrite conservatively even when the outlook is bright: it gains nothing from the asset exceeding expectations but loses if it falls short, so its prudent posture is to ensure the loan is sound under adverse conditions rather than to participate in the optimism that may justify the equity. The benign scenario therefore changes nothing in the lender's approach: it still underwrites the downside, structures for protection, and prices for the risk, because its position is defined by the downside it bears, not the upside it forgoes. A lender that relaxes its discipline because the outlook is good has forgotten the asymmetry that defines its role.

5.3 A Power or Completion Shock

The most damaging scenarios are a power shortfall or a completion failure, because each can stop the cash flow entirely rather than merely reducing it. These are the gating risks, and the robustness analysis confirms that they cannot be priced away, only mitigated through contract and structure: firm contracted power and an appropriate package of completion mitigants. A lender that has secured these enters the scenario protected; one that relied on anticipated power or unmitigated construction faces a loss no coupon compensates. The conclusion is that power and completion are conditions of lending, not risks to be accepted for a higher coupon, and the analysis treats them as gating items precisely because their failure is catastrophic rather than marginal.

6. IMPLEMENTATION CONSIDERATIONS

Translating the framework into practice involves underwriting the covenant and lease first, structuring covenants and reserves, securing power and completion protections, and governing the loan over its life.

A foundational implementation point is that the lender should resist the pressure, common in a competitive, fast-growing market, to compress its diligence on the contract in order to win the deal. In a boom, sponsors have options and may push lenders to move quickly and to accept terms with less scrutiny, and a lender anxious to deploy may be tempted to truncate exactly the covenant and lease analysis the framework places first. This is precisely the wrong economy: the contract is what the lender is lending against, and abbreviating its assessment to win the deal is abbreviating the only analysis that determines whether the loan is sound. The disciplined lender holds to its contract-first diligence even under competitive pressure, accepting that it will lose some deals to less careful lenders, on the view that the deals it loses by insisting on a proper covenant assessment are often the ones it is better not to have made. Maintaining diligence discipline under deal pressure is the cultural counterpart to the analytical framework, and without it the framework is easily set aside at the moment it matters most.

A useful organising principle for the diligence is to structure it as a sequence of gates mirroring the pillars, so that the lender does not proceed to later, costlier diligence until the foundational questions are answered. The first gate is the covenant: is the tenant creditworthy enough to support the loan? The second is the lease: are its length and terms strong enough to secure the cash flow over the debt? The third is coverage: does the cash flow service the debt under combined stress? The fourth is the gating risks: are power and, for construction, completion secured and mitigated? A deal that fails an early gate is declined or restructured before the lender invests in the later, more detailed diligence, which both protects the lender and uses its underwriting resources efficiently. Sequencing the diligence as gates in priority order is the operational expression of the framework's weighting, and it ensures that the most decisive questions are answered first, so that the lender's effort is concentrated where financeability is determined rather than dispersed across a flat checklist.

6.1 Underwriting the Covenant and Lease First

The lender should begin its underwriting with the tenant covenant and the lease, because they determine financeability. This means assessing the tenant's creditworthiness as rigorously as a corporate credit, the entity actually on the lease, not a parent or affiliate unless it guarantees, and scrutinising the lease for length, escalation, break rights, capex and repair obligations, and

termination provisions. Only once satisfied that the contracted cash flow is strong and durable should the lender proceed to the asset, power and construction. Beginning with the contract ensures the lender does not invest diligence in an asset whose offtake cannot support the loan, and it anchors the credit decision where the analysis shows it belongs.

A specific structuring consideration for data centres is the treatment of the equipment and technology within the shell, which depreciates and must eventually be replaced. The building and power infrastructure are long-lived, but the IT equipment has a shorter life, and the lender should understand who bears the cost of refreshing it, the tenant under its capex obligations, or the owner, and how that cost affects the cash flow available to service the debt over the loan's life. A lease that places the equipment-refresh obligation on the tenant protects the owner's cash flow and the lender's coverage; one that leaves it with the owner requires the lender to reserve for it. This is part of reading the lease terms in detail and aligning the loan structure to them, and it is a data-centre-specific refinement of the general principle that the lender must understand exactly which costs fall where, because every cost borne by the owner reduces the cash flow that repays the debt. Underwriting the capex and refresh obligations is therefore part of underwriting the coverage, not a separate technical matter.

6.2 Structuring Covenants, Reserves and Control

The loan should be structured with covenants and reserves that protect the lender and give early warning: a minimum debt-service coverage covenant set with combined stress in mind, limits on leverage and distributions, a debt-service reserve to cover temporary shortfalls, and information rights that let the lender monitor performance. These convert the lender's position from passive exposure to active, protected control, allowing intervention before a default. The covenants should be calibrated to the specific risks of the deal, tighter where the covenant or lease is weaker, and should be enforceable in the chosen jurisdiction, a point the companion paper on security and enforcement develops.

A practical sequencing discipline for construction lending is to align the staged release of funds not only with physical construction progress but with the de-risking of the gating items, so that the lender's exposure rises only as the project becomes more certain to succeed. Early drawdowns should be conditioned on the foundational certainties, secured power, permits, a signed offtake, a fixed-price contract, being in place, so that the lender is not heavily exposed before the project's viability is established; later drawdowns track construction milestones toward completion. This conditioning ensures that if a gating item fails to materialise, the lender's exposure is still limited, whereas a lender that disbursed against time or cost without conditioning on the gating items could find itself heavily committed to a project that cannot be powered or let. Structuring the drawdown schedule around the de-risking sequence is the construction-lending counterpart to the contract-first underwriting of an operating asset, and it applies the same principle, exposure should follow the resolution of the key risks, to the construction phase.

6.3 Securing Power and Completion Protections

Because power and completion are gating items, the lender should make their mitigation a condition of lending. For power, it should require evidence of firm, contracted, affordable supply on the project's timeline, including for planned expansion. For construction, it should require an appropriate package, a fixed-price EPC contract, completion support from a creditworthy sponsor, liquidated damages, a contingency reserve, and an experienced contractor, and should

release construction funds in stages against verified progress. These protections address the risks that no coupon compensates for, and the lender should not waive them for a higher return, because their failure is catastrophic rather than marginal.

A further governance discipline specific to data centres is to monitor the tenant's own strategic commitment to the asset, not only its credit, because a hyperscale tenant's decision to consolidate or relocate its capacity can affect the asset even if its credit is unimpaired. A tenant in good financial health may nonetheless choose, at lease expiry or break, to move its workload to another facility for reasons of its own network strategy, leaving the lender exposed to re-letting risk despite the strong covenant. The lender should therefore monitor not only the tenant's creditworthiness but its operational reliance on and commitment to the specific asset, and should value long leases with limited breaks all the more highly because they constrain this strategic risk. This is a subtle but important refinement: in single-tenant data-centre lending, the lender must watch both whether the tenant can pay and whether it will stay, and the lease terms that lock the tenant in are the protection against the latter.

Finally, the lender should plan, at origination, for the loan's maturity or refinancing, because a data-centre loan is typically repaid not from amortisation alone but from a refinancing or sale at maturity, which carries its own risk. The lender should consider whether, at the loan's maturity, the asset and its lease will support a refinancing on reasonable terms, which depends on the remaining lease term, the tenant's standing, the asset's quality and the market conditions then prevailing. A loan that matures with a long remaining lease and a strong tenant will refinance easily; one that matures with a short remaining lease or a weakened tenant may not, leaving the lender exposed to refinancing risk it should have anticipated. The discipline is to structure the loan's maturity so that the asset will be refinancable at that point, for instance by ensuring the lease extends well beyond the loan, and to monitor the approaching maturity in good time to manage the refinancing or exit. Planning the exit at origination is the final element of underwriting a loan whose repayment depends on conditions years ahead.

6.4 Governance and Monitoring Over the Loan Life

The lender should monitor the loan actively over its life, tracking the tenant's creditworthiness, the coverage, the asset's operation and the lease's progress toward expiry, so that it can act early if any deteriorates. Approaching lease expiry, for instance, warrants attention to re-letting well before the term ends; a decline in the tenant's credit warrants closer monitoring and, if covenants permit, protective action. Active monitoring, enabled by the information rights built into the loan, is what allows the lender to protect its position before a problem becomes a default, and it is the discipline that realises the protection the structuring put in place.

7. CONCLUDING COMMENTS

A data centre is, to a lender, only as good as the contract that pays for it. This paper has set out the underwriting model for a Gulf data centre, built around the offtake, the tenant covenant and the lease terms that determine financeability, the debt-service coverage that must be stress-tested, and the power and completion risks that must be mitigated as gating items.

The evidence and analysis support five conclusions. First, the tenant covenant and offtake dominate financeability, ahead of the asset. Second, covenant quality drives the leverage and cost of debt. Third, lease length, terms and covenants convert a building into a financeable, bond-like

cash flow. Fourth, debt-service coverage must be tested under combined stress. Fifth, power security and completion risk are gating items that no coupon compensates for if unaddressed.

Before turning to the limitations, it is worth situating this paper within its cluster. The strategic companion paper establishes that the Gulf data-centre opportunity is large and that offtake and power are its dominant value drivers; this paper turns those drivers into a lender's underwriting model, showing how the offtake and tenant covenant are assessed, how the lease and loan covenants protect the lender, and how coverage and the gating risks are tested. The further companion papers address the power and land bottlenecks the lender must diligence and the capital stack within which the debt sits. Read together, they take a lender from the strategic case through the underwriting of a specific asset to the structuring of its place in the capital stack. This paper's contribution is the underwriting model, the disciplined, priority-ordered assessment of the contract that, to a lender, is what a data centre fundamentally is.

These conclusions are subject to limitations that also mark out the avenues for further work. The framework is stylised and illustrative, and a lender's actual covenants, advance rates and coverage will differ; the value is in the structure, not the specific numbers. The analysis treats data-centre underwriting in general terms, whereas tenants, leases and power arrangements vary widely, and the technical assessment of a specific asset requires specialist diligence beyond this framework. The enforceability of the security and covenants depends on the legal regime, addressed in the companion paper on security and enforcement, and the financing structure on the capital stack, addressed in another companion paper. And the framework underwrites a single asset, whereas a lender building a data-centre book would also manage concentration and correlation across its loans. These are extensions rather than corrections: the central message, that data-centre underwriting is contract underwriting, dominated by the tenant covenant and the lease, disciplined by stress-tested coverage, and gated by power and completion, is robust. A lender that underwrites the covenant and lease first, structures protective covenants and reserves, secures power and completion, and monitors actively can lend against a Gulf data centre with confidence that its position rests on a secure, contracted cash flow, which is the foundation on which sound data-centre debt is built.

DISCLOSURES

This paper is provided for general information and educational purposes only. It does not constitute investment, financial, legal, tax or other professional advice, nor an offer or solicitation to extend or arrange credit. The figures and scenarios are stylised, forward-looking illustrations used to convey underwriting mechanics; they are not forecasts, do not represent the past or expected performance of any actual loan or asset, and should not be relied upon as such. Lending against a data centre involves credit, construction, power, leasing and market risks that can result in loss. The author is an independent researcher; the views are his own and do not represent those of any institution. Readers should obtain professional advice tailored to their circumstances before making any decision.

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APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the stylised assumptions used in the framework. They are indicative, forward-looking calibrations chosen to illustrate underwriting mechanics, informed by the project-finance and infrastructure literature; they are not forecasts and not estimates from a proprietary dataset.

Table A1. Full Base-Case Assumptions

Parameter	Base case	Rationale
Tenant covenant	Strong / investment-grade	Secure contracted cash flow
Advance rate (IG tenant)	~75%	Supported by covenant strength
Cost of debt (IG tenant)	~6.5%	Low, reflecting secure cash flow
Base-case DSCR	~1.65x	Comfortable coverage
Minimum DSCR covenant	~1.25x	Buffer against combined stress
Lease	Long, escalating, limited breaks	Durable, protected cash flow
Power	Contracted, firm	Gating item secured
Construction	Fixed-price EPC + support	Completion risk mitigated

Indicative assumptions; see Section 3.

APPENDIX B. DATA-CENTRE UNDERWRITING CHECKLIST

The following checklist distils the framework into the questions a lender should answer when underwriting debt against a Gulf data centre.

1. Have we assessed the tenant's creditworthiness, the entity actually on the lease, as rigorously as a corporate credit? Is the lease long enough to cover the debt, with escalation, limited breaks and strong tenant obligations? Have we set the advance rate and cost of debt to the covenant quality rather than holding terms constant? Have we identified the lease and loan covenants, on coverage, leverage, distributions, reserves and information, that protect us? Have we tested debt-service coverage under combined stress, not just a base case or single sensitivities? Is the minimum-coverage covenant set with a buffer against a realistic combined stress? Have we required evidence of firm, contracted, affordable power on the project's timeline, including expansion? For construction, have we required fixed-price EPC, completion support, liquidated damages, contingency and an experienced contractor? Do we release construction funds in stages against verified progress? Are the security and covenants enforceable in the relevant jurisdiction? Do we monitor the tenant, coverage, operation and lease expiry actively over the loan's life? Have we declined or repriced where the covenant, lease, power or completion protection is inadequate?

APPENDIX C. GLOSSARY OF KEY TERMS

The following glossary defines the principal technical terms used in this paper for readers who may be less familiar with data-centre and project-finance underwriting.

Offtake. The contract under which a customer commits to pay for capacity; for a data centre, the tenant lease or service agreement.

Tenant covenant. The creditworthiness of the tenant under the lease, which determines how secure the contracted cash flow is.

Investment grade. A credit rating indicating low default risk; an investment-grade tenant supports the strongest financing terms.

Lease term. The length and conditions of the tenant's contract, including escalation, break rights and obligations.

Project finance. Lending against the contracted cash flows of a discrete asset, looking to the project's revenues rather than a corporate balance sheet.

Debt-service coverage ratio (DSCR). The ratio of cash flow available to the debt service due; a higher ratio gives more comfort and buffer.

Covenant. A contractual condition the borrower must meet, giving the lender early warning and control if breached.

Advance rate. The proportion of an asset's value a lender will lend; higher for stronger covenants.

Debt-service reserve. Cash set aside to cover debt service during a temporary shortfall, protecting the lender.

EPC contract. An engineering, procurement and construction contract, typically fixed-price, that transfers cost-overflow risk to the contractor.

Completion guarantee. A sponsor's promise to ensure the project is completed, backstopping construction risk.

Liquidated damages. Pre-agreed compensation payable for delay or non-performance under a construction contract.

Contingency reserve. Funds set aside to absorb unforeseen construction costs.

Firm power. A contracted, committed supply of electricity, as opposed to anticipated or merely-allocated power.

Rent escalation. A lease provision increasing rent over time, protecting the real value of the cash flow.

Break right. A tenant's contractual right to terminate a lease early, which weakens the security of the cash flow.

Combined stress. A scenario applying several adverse moves at once, used to test coverage realistically.

Re-letting risk. The risk that an asset must be leased to a new tenant, at uncertain terms, when a lease expires or breaks.

Financeability. The extent to which an asset can support debt, determined chiefly by the quality of its offtake.

Capex obligation. A lease provision shifting capital and repair costs to the tenant, protecting the asset and the lender.

Staged drawdown. Releasing loan funds in stages against verified construction progress, so exposure rises as the asset is built.