

Data Centre Financing 2027

First Edition

Contributing Editor:

Jeremiah Wagner

Latham & Watkins LLP

glg Global Legal Group

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Malaysia has established itself as one of Southeast Asia's most attractive destinations for data centre investment and financing, underpinned by a maturing regulatory environment, deep Islamic and conventional capital markets, and strong hyperscaler demand. This chapter provides an overview of the principal legal, regulatory, and financing considerations for data centre projects in Malaysia, covering the applicable legislative framework, key financing structures and instruments, principal risk categories, and forward-looking market dynamics relevant to lenders, sponsors, and in-house counsel operating in this space.

The Malaysian data centre opportunity

Malaysia has rapidly transformed into a premier digital infrastructure hub within Southeast Asia, driven by strategic geographic advantages, robust regional connectivity, and pro-business investment policies. The Malaysian data centre market was valued at USD 6.14 billion in 2025 and is projected to reach USD 11.40 billion by 2031. Between 2021 and mid-2025, Malaysia secured approximately RM 144.4 billion in approved data centre and cloud computing investments, underscoring the depth of institutional and strategic capital already committed. Major hyperscalers such as Microsoft, Google, AWS and NVIDIA have all made multi-billion-dollar commitments, validating the market's bankability.

Regulatory and structuring landscape

Land acquisition and the National Land Code

Data centres are highly capital-intensive real estate developments requiring substantial power and water connectivity. Under the National Land Code 1965 (Act 56) (2020 Reprint), land administration falls under state jurisdiction, meaning developers must navigate specific state-level zoning approvals, converting agricultural or industrial titles, and securing state consent for foreign ownership if international consortia are involved. Primary hubs include Iskandar Puteri (Johor) and Cyberjaya (Selangor). In Malaysia, some land parcels are subject to a 60- or 99-year leasehold condition and in consideration of the same, financiers place heavy emphasis on the remaining lease duration, ensuring it outlasts the debt amortisation period by a substantial buffer.

The new Data Centre Framework

In July 2025, the Malaysian Government introduced a new Data Centre Framework, which was set to take effect in October 2025. The Malaysian Investment Development Authority (MIDA) will serve as the single approval authority for all new data centre projects and investments, as well as the expansion of existing projects, ensuring a transparent and streamlined process. A Sustainable Data Centre Framework will provide clear guidance on project development, expansion, and certification, embedding sustainability benchmarks – including Power Usage Effectiveness (PUE) and Water Usage Effectiveness (WUE) – as assessment conditions for Digital Ecosystem Acceleration Scheme (DESAC) incentive applications.

Foreign equity and competition

Data centre operations in Malaysia are generally open to foreign investment, with foreign investors permitted to hold up to 100% equity in data centre development entities where no Communications and Multimedia Act 1998 (CMA) individual licence is required.

However, where a data centre operator holds a CMA individual licence (such as an individual Network Facilities Provider (NFP) or Network Services Provider (NSP) licence), the licence may only be held by a locally incorporated entity, with foreign equity participation typically capped at 49% and subject to a minimum 30% *Bumiputera* equity condition. Conversely, class licences, such as the Applications Service Provider Class (ASP(C)) licence required for cloud service, generally carry no foreign equity caps.

The primary mechanism for foreign investors to obtain an exemption from these individual licence equity restrictions is through Malaysia Digital (MD) Status (formerly MSC Malaysia Status). Upon approval by the Malaysia Digital Economy Corporation (MDEC), MD Status provides an exemption from local and *Bumiputera* equity requirements, enabling up to 100% foreign ownership.

Malaysia does not presently have a general cross-sector merger control regime; the Competition Act 2010 does not have merger provisions. Nonetheless, parties to financing arrangements, joint ventures, and data centre acquisitions must ensure that their post-transaction conduct does not infringe the Chapter 1 prohibition on anti-competitive agreements or the Chapter 2 prohibition on abuse of a dominant position under the Competition Act 2010.

CMA licensees, however, are subject to merger control requirements under the CMA.

Financing mechanisms

Debt financing structures

Syndicated commercial loans (conventional and Islamic)

Large-scale data centres require capital expenditures often exceeding RM 1 billion, necessitating the formation of banking syndicates. Given Malaysia's position as a global Islamic finance hub, structures frequently leverage Commodity *Murabahah* (*Tawarruq*) or *Ijarah* (Leasing) facilities, which offer access to a deeper pool of liquidity. In addition, large projects in Malaysia are often financed by issuances of bonds and *sukuk*, which can be structured on longer tenures and usually more competitive pricings and often carry favourable tax treatments. This is a possible avenue for financing construction of data centres although it remains in a development stage, as investors of bonds and *sukuk* will require disclosure of information on the project fundamentals and cash flows before decisions to invest are made and there may be reluctance from the project sponsors to make such information publicly available at this stage.

A critical structural feature is the PropCo/OpCo split:

Entity	Function	Security Package
PropCo (Property Company)	Holds real estate and physical infrastructure	Debt secured against land rights and long-term lease agreements
OpCo (Operating Company)	Manages technology, networking, and active cooling systems	Debt secured by service-level agreements (SLAs) and cash flows from hyperscale tenants

This structural isolation insulates real estate-related credit risk from technology and operational risk, enabling each entity to attract lenders with different risk appetites and pricing.

Project finance vs balance sheet financing

Non-recourse project finance is reserved for projects with creditworthy, locked-in international anchors (e.g., global hyperscalers like Microsoft, Google or AWS), where debt is underwritten primarily based on the predictability of cash flows generated from long-term Master Service Agreements (MSAs) or Take-or-Pay off-take contracts.

Corporate/balance sheet financing is utilised by established domestic telcos or conglomerates, where lenders rely on the parent company's balance sheet and corporate credit rating rather than the individual project's standalone cash flows.

There is no one-size-fits-all approach for data centre financing solutions, which cover the spectrum from greenfield development financing to corporate balance sheet financing, buy-out/leveraged financing to portfolio financings, and financing solutions have continued to evolve as investments trend towards hyperscale models.

Capital markets and alternative capital

Green Sukuk and SRI Sukuk

Data centres are highly energy- and water-intensive assets. In alignment with Bank Negara Malaysia's Value-Based Intermediation (VBI) and the Securities Commission's Sustainable and Responsible Investment (SRI) *Sukuk* Framework, issuers can access Green *Sukuk*. Capital raised via Green *Sukuk* must be explicitly earmarked for sustainable infrastructure, such as achieving a low PUE ratio, utilising renewable energy sources (e.g., solar integration), or implementing advanced water-recycling cooling mechanisms. Green instruments frequently attract premium pricing and access dedicated ESG-mandated funds, diversifying the lender base.

Malaysia has shown global leadership in this space: since the world's first Green *Sukuk* issuance in 2017, the SRI *Sukuk* Framework has enabled Malaysian entities to issue SRI *Sukuk* in the form of green, sustainable, and social *sukuk*. In 2023, a total of RM 27.61 billion of SRI *Sukuk* was issued in Malaysia. The SRI *Sukuk* and Bond Grant Scheme covers up to 90% of the costs incurred by issuers on independent expert reviews of sustainable *sukuk* issuances.

Income tax exemptions are also available to recipients of the SRI *Sukuk* and Bond Grant Scheme. Most recently, in October 2025, Malaysia issued the world's first RMB 200 million Climate *Sukuk*, combining *Shariah* principles with green finance, digital tokenisation, and carbon credit monetisation.

REITs and capital recycling

Industrial and data centre real estate investment trusts (REITs) are increasingly utilised on the Bursa Malaysia capital markets as secondary or tertiary funding mechanisms. Once a data centre is constructed,

fully tenanted, and generating stable yield, the developer can inject the asset into a REIT structure, allowing the sponsor to monetise the asset, unlock equity, and recycle that capital into pipeline developments while retaining management rights via an unlisted or listed vehicle.

Private equity and mezzanine financing

For early-stage, brownfield expansions or co-location start-ups, venture capital and private equity infrastructure funds provide essential mezzanine financing or structured equity, bridging the gap before the project achieves the risk profile required to secure non-recourse senior bank debt.

Proposed financing structures

Based on the regulatory and market landscape, there are three principal structuring approaches suited to the Malaysian data centre sector:

Structure 1: greenfield hyperscale — non-recourse Islamic project finance

This structure is optimal where an international hyperscaler (e.g., Microsoft or AWS) has committed to a long-term MSA or Take-or-Pay contract.

- **SPV formation**: A ring-fenced project special purpose vehicle (SPV) holds all project assets, with structural isolation via the PropCo/OpCo split.
- **Senior debt**: Syndicated Islamic facilities (Commodity *Murabahah* or *Ijarah*) from a consortium of Malaysian and international banks, underwritten against contracted cash flows.
- **Conditions precedent**: Financial close is strictly conditioned upon executing binding power supply agreements (PSAs) with guaranteed load allocations from Tenaga Nasional Berhad (TNB).
- **Step-in rights**: Direct Agreements between lenders, the SPV, and the tenant allow financiers to step into the shoes of the operator or appoint a substitute manager to maintain the MSA without triggering an automatic lease termination.
- **EPC wrap**: Lump-Sum Turnkey (LSTK) Engineering, Procurement, and Construction (EPC) contracts backed by robust Liquidated Ascertained Damages (LAD) clauses and parent company guarantees.
- **DESAC incentives**: The SPV secures MD Status and DESAC approval, with financing covenants requiring maintenance of that status.

Structure 2: capital markets refinancing — Green *Sukuk* programme

This structure is suited to operational, yield-generating data centres seeking to refinance construction debt at a lower cost of capital and to diversify funding sources.

- **Framework**: Issuance under the Securities Commission's SRI *Sukuk* Framework, with use of proceeds earmarked for sustainable infrastructure – low PUE, renewable energy integration, advanced water-recycling cooling.
- **Grant support**: Issuers may avail of the SRI *Sukuk* and Bond Grant Scheme, covering up to 90% of external review costs.
- **Tax incentives**: Income tax exemptions for SRI *Sukuk* recipients and tax deductions on issuance expenditure.
- **Investor base diversification**: Green instruments attract premium pricing and access to dedicated ESG-mandated institutional funds, both domestic and international.
- **Alignment with ICMA Principles**: Issuance should align with the International Capital Market Association (ICMA) Principles for Sustainable Bonds, and the Islamic Development Bank (IsDB)/ICMA Guidance on Green, Social and Sustainability *Sukuk* provides a practical roadmap for structuring.

Structure 3: capital recycling via data centre REIT

This structure allows developers to monetise stabilised, income-producing data centre assets while retaining operational control.

- **Asset injection**: Completed, fully tenanted data centres with stable yields are injected into a listed or unlisted REIT on Bursa Malaysia.
- **Equity unlock**: The sponsor monetises the asset, unlocking equity for redeployment into pipeline greenfield developments.
- **Management retention**: The sponsor retains management rights via a management agreement with the REIT vehicle.
- **Lifecycle fit**: This sits as a tertiary capital event, following construction-phase project finance and potential Green *Sukuk* refinancing, creating a full-cycle capital strategy.

Key legal risks and mitigations

The following table summarises the principal risk categories that financing agreements for Malaysian data centres must address:

Risk Category	Specific Operational Risk	Legal Mitigation
Power & Utilities	Grid failures or delays in TNB provisioning high-voltage power	Condition precedent: Financial close conditioned upon executing binding PSAs with guaranteed load allocations from TNB
Tenant Performance	Default or early termination by a primary anchor tenant, undermining the debt service model	Step-in rights: Direct Agreements between lenders, the SPV, and the tenant allow financiers to step into the operator's position or appoint a substitute manager
Construction Risk	Supply chain bottlenecks for specialised IT/cooling equipment or construction delays	LSTK EPC contracts backed by LAD clauses and parent company guarantees
Completion/ Commissioning Risk	Failure to achieve practical completion or technical commissioning within agreed timelines, triggering delay or non-payment under the MSA/ off-take contract	Completion guarantee/sponsor support: EPC contractor completion guarantee backed by performance bonds; sponsor completion undertaking to lenders until issuance of the completion certificate; lender step-in rights under the Direct Agreement
Environmental & Regulatory Approvals	Delays or revocation of Environmental Impact Assessment (EIA) approvals under the Environmental Quality Act 1974, or failure to obtain Department of Environment (DOE) consents for high-energy and high-water consumption facilities	Regulatory covenant: Condition precedent to drawdown requiring all material environmental and planning approvals to be in place; ongoing obligation to maintain approvals as a drawstop/event of default trigger
Data Sovereignty & Compliance	Compliance with the Personal Data Protection Act 2010 (PDPA) and cross-border data transfer limitations	Compliance covenants: Absolute warranties requiring the OpCo to maintain stringent data governance protocols, shielding the physical asset from regulatory enforcement actions

The Johor factor

Johor has emerged as Southeast Asia's fastest-growing data centre hub, expected to account for 60% of Malaysia's capacity by 2030. Between 2019 and 2024, Johor's live supply expanded at an average of 145% annual growth, propelled by Singapore's moratorium on new data centre projects between 2019 and 2022. As of mid-2025, Johor had 42 approved projects worth RM 164.45 billion, contributing 78.6% of the country's operational IT capacity. The upcoming Johor–Singapore Special Economic Zone (SEZ) is expected to further bolster investment by streamlining cross-border trade and investment, strengthening power and connectivity integration, and extending preferential treatment for data centre operators. For financiers, Johor's proximity to Singapore enables operators to access the city-state's substantial enterprise and digital demand while sidestepping Singapore's land, power and cost constraints.

Forward-looking considerations

Several evolving dynamics warrant attention for structuring future transactions. First, average construction costs in Malaysia range from USD 8–10 million per megawatt, significantly lower than Singapore, strengthening the project economics case. Second, Malaysia's commitment to net zero emissions by 2050 under the New Industrial Master Plan, coupled with frameworks such as the Green Lane Pathway (shortening electricity connection timelines from 36–48 months to 12 months) and the Corporate Renewable Energy Supply Scheme, is driving faster and more sustainable energy adoption. Third, there is a growing debate as to whether the data centre boom risks locking Malaysia into the role of a host economy rather than an active player, which may inform future regulatory tightening or local content requirements. Finally, sustainability is now part of the commercial case: PUE and WUE benchmarks form part of the assessment conditions for DESAC incentive applications, meaning sustainability planning directly affects project economics, incentive eligibility, and investor confidence.

Conclusion

Malaysia's data centre sector is at an inflection point. The convergence of hyperscaler demand, a deepening Islamic and conventional financing ecosystem, maturing capital markets instruments, and a proactive regulatory framework positions Malaysia as one of the most compelling data centre financing jurisdictions in Asia Pacific. For lenders and sponsors, the principal imperatives are securing reliable power supply from TNB at financial close, ensuring the robustness of the PropCo/OpCo structure and the security package, and maintaining compliance with the evolving DESAC, PDPA, and sustainability regulatory frameworks. For in-house counsel, structuring financing arrangements that manage regulatory considerations – while leveraging Malaysia's unique Islamic finance depth and green capital markets incentives – will be the defining added value in future transactions.



Jonathan Lim Hon Kiat

Tel: +603 2087 9999 / Email: jonathanhklim@ziclegal.com

Jonathan is a corporate and TMT partner at Zaid Ibrahim & Co with considerable experience in areas such as fintech, venture capital, blockchain technology, payment systems, digital remittance, and initial coin offerings. His involvement in the fintech sector also extends to advising clients on compliance matters relating to regulatory developments in the industry as set out by the Malaysian central bank (Bank Negara Malaysia) and the Malaysian Securities Commission.

Jonathan is also well versed in advising both local and foreign clients on corporate transactions, including mergers and acquisitions, corporate structuring, initial public offerings, takeovers and private funds, and has been involved in several landmark corporate transactions. Jonathan also has experience in advising start-ups and venture capital corporations on matters ranging from compliance to funding agreements.

As an active supporter of the financial technology fraternity, Jonathan also currently serves as Secretary of the Fintech Association of Malaysia wherein he assists in developing the burgeoning sector's growth in Malaysia and the region. In addition, Jonathan also acts as legal counsel and mentor of The Founder Institute (a pre-seed start-up accelerator with a presence in over 180 cities worldwide).



Nadarashnaraj Sargunaraj

Tel: +603 2087 9999 / Email: nadarashnaraj@ziclegal.com

Raj co-heads the technology and communications practice at Zaid Ibrahim & Co, and is a member of the firm's Executive Committee overseeing technology. He advises on a wide range of corporate and commercial matters, including communications and multimedia.

Raj has advised and assisted various clients across various industries on implementing personal data protection compliance and awareness programmes, including identifying data sets, advising on mandatory requirements for privacy notices, cross-border transfer of personal data, consent requirements and minimum data security requirements. He also regularly advises clients in relation to data breach incidents and responding to investigations by the regulator.

Raj was part of the law reform project team to review the Communications and Multimedia Act 1998 in 2016 to take into account industry developments in the last decade. Raj also advised on the review of subsidiary legislation under the Communications and Multimedia Act 1998, including the Communications and Multimedia (Licensing) Regulations 2000 and the Communications and Multimedia (Technical Standards) Regulations 2000.

He also gained in-house corporate and compliance experience at Proton Holdings, where he was responsible for the company's competition and personal data protection compliance programmes. Raj also regularly drafted and advised on all commercial and operational agreements entered into by the company in the course of its business.

Zaid Ibrahim & Co

Level 19, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
Tel: +603 2087 9999 / URL: www.ziclegal.com

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