

Digital Drives a Brick-and-mortar Boom in Data Centres

MAKING SPACE Developers and investors see more opportunities in commercial real estate as businesses and consumers gobble up more data

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The shift to digital work and play from home, hastened by the pandemic, has wreaked havoc on commercial real estate. But experts say it has also generated one surprising bright spot for the industry: data centers.

The growing reliance on cloud-based technology — and the big, blocky buildings that house its hardware — has created greater opportunities for developers and investors as businesses and consumers gobble up more data in a world that has become increasingly connected. “Our houses are connected, our cars are connected, our streetlights and parking meters are connected, and every single one of those connections is passing data back and forth,” said Sean O’Hara, president of the exchange-traded funds division at Pacer Financial, an investment advisory firm.

And companies that provide data storage are preparing for even

greater demand as new technologies like 5G and artificial intelligence become more widely used. “Our business has continued to grow through the pandemic,” said Nelson Fonseca, CEO of Cytera, a company that owns 62 data centers across the US and in five markets in Europe and Asia. “It actually accelerated all the drivers that were growing the industry in the first place.”

“We’re seeing demand across the board,” he said. “Our pipeline going into 2021 is even larger.” The acceleration of

existing consumer behaviours and work force trends has driven companies to demand more space for their data, said Patrick Lynch, senior MD of the data center solutions group at the real estate services and investment firm CBRE. “Things like working from home and online shopping and distributed work forces all just

layered into the momentum the industry had,” he said.

And investors have taken note. “Over the past 90 days, we’re seeing a massive shift in capital toward this industry by big investment funds,” said Andy Cvengros, senior vice president and a member of the technology solutions practice at JLL, a real estate services and investing company.

Goldman Sachs announced in October an investment of up to \$500 million in data center infrastructure, and private equity firms Blackstone and KKR have recently announced data center investments.

Real estate investment trusts focused on data centres delivered

returns of 19% in the first half of 2020 — one of only two REIT sectors that showed growth, according to a recent report by JLL. (The other sector, Industrials, yielded a modest 2% return.) By comparison, returns for hotel and resort REITs plunged 49%, those for retail fell 37% and office space dropped 25%.

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Data centres have emerged as a critical part of the digital infrastructure that connects people and businesses to one another and the rest of the world, said Jon Lin, president for the Americas region at Equinix, one of the largest global data centre companies. “We’re the foundation, in a lot of ways, for that digital infrastructure,” he said. That

infrastructure is no longer just the purview of technology companies.

The September 11, 2001, terrorist attacks and Hurricane Sandy in 2012 prompted many companies across a variety of sectors in New York to rethink their IT as a hedge against future disasters or damage. Now, pandemic-induced office closures and remote work arrangements are spurring corporations to re-evaluate where and how they house their central nervous systems.

The coming rollout of 5G networks is expected to stimulate the need for more computing and data storage on an enormous scale as well.

Silicon Valley might have the reputation as the shiny place where the future happens, but real estate professionals say data centers are being built all around the country.

A key criterion in site selection is proximity to the clusters of undersea cables that send and receive data from all over the world. Other considerations include the costs of land and local taxes.



JON LIN President for Americas region, Equinix

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