

DATA CENTER INVESTMENT TRENDS

A digital graphic featuring a perspective view of a data center aisle. The floor is dark with glowing lines, and the walls are composed of vertical panels of light, creating a sense of depth and technology. The overall color palette is dark blue and black with vibrant highlights in purple, green, and orange.

Our global infrastructure is struggling to cope with the pace with which our society is creating, consuming and sharing data. With the rapid growth in the number of connected devices and the increased demand for technologies and services such as the 'cloud', smart devices, 5G, blockchain and AI, there is a race to build more data centers and make existing infrastructure more efficient to cope with this global phenomenon.

This message featured heavily in the various panel discussions at both the Datacloud Global Congress in Monaco and the Private Equity Real Estate (PERE) conference in London — both of which Ropes & Gray attended recently. We set out below a brief summary of the key investment trends driving the development of this asset class and predictions for the remainder of 2019 and beyond.

WATCH OUT FOR HYPERSCALE

'Hyperscalers', or customers with substantial power requirements, such as Google, Microsoft, Facebook, Amazon and other large cloud providers, are driving the demand for greater data center capacity and committing to substantial investment in the infrastructure required to support and grow their service offerings. Hyperscale data centers already account for more than 50% of the wholesale colocation market, but that figure is projected to rise by at least another 20% in the next five years.

IT'S ALL ABOUT THE EDGE

The 'edge' is an emerging category of network infrastructure, defined by its physical proximity to the source of the data generation (i.e. the end users) and used to serve those applications that demand rapid response times, or are latency-sensitive, such as smart and IoT devices, augmented reality applications and other 'real time' applications.

With this growing demand for real-time data, the market is expecting to see a rise in the number of data centers being built closer to population centers — much in the same way as urban logistics hubs are continuing to grow to meet 'last mile' delivery requirements.

A FOCUS ON EMERGING MARKETS

While the data center market is already well established in the likes of Northern Virginia, London and Amsterdam, the Asia-Pacific region dominates emerging market discussions, with India projected to supersede the US as a global tech powerhouse in the next two decades. Activity in the region is expected to center around Singapore within the next five years, being an established financial center to serve nearby markets like Indonesia, Malaysia and India. Relationships between data center providers and operators with local suppliers will be crucial in establishing and growing a presence in these emerging markets.

UNPRECEDENTED LEVELS OF INVESTOR APPETITE

There is a new class of investors in the data center sector with deep pockets and long-term investment horizons. The data center sector is an attractive investment opportunity, particularly as the data center market continues to expand from North America into Europe, Asia and beyond. The market is seeing investment at record levels, both through M&A and by increasing interest from institutional, sovereign wealth funds, infrastructure and PERE funds and family office investors.

Two of the key drivers are the underlying creditworthiness of the tenants — particularly in the hyperscale market — and that data centers are being viewed as a critical service asset class able to weather macro-economic storms.

IMPACT OF DATA SOVEREIGNTY

As the push towards data sovereignty and the regulations designed to safeguard data privacy around the globe continues to grow in scope and complexity, the rules governing data movement and placement are expected to drive organizations to place more consideration on the location of data centers relative to the end user from a legal perspective.

One of the consequences of GDPR, for example, may be that we see an even more pronounced growth of data center activity in Europe, as customers look to comply with data protection regimes that seek to increase the value placed on the protection of data.

ROPES & GRAY'S MARKET-LEADING real estate investments and transactions team is an investor-led platform advising on significant global data center transactions around the world, in both traditional and emerging markets. We have advised on many of the world's largest and innovative data center transactions. Working

across the risk spectrum, we advise on the acquisition, development, leasing and funding of data centers. The team has a deep understanding of this asset class and all operating models including retail, wholesale, build-to-suit, hyperscale and the emerging class of 'edge' data centers.

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