

FOCUS FORUMS

Data Center Exchange Recap

Hosted on May 12, 2020

Summary

CBRE Data Center Solutions experts convened for a panel discussion, as we continue to navigate COVID-19 and the changes our data center teams and clients are experiencing. Global insights were shared on impacts to data center operations, the state of the data market today and predictions for the longer-term, and the adoption of advanced technology in the data center.

Unlike other sectors, data centers have not shut down. They continue to support critical businesses, healthcare systems and social platforms, allowing us to thrive and survive in today's environment.

The session, "Showing Resiliency & Refining Strategies" demonstrates how the data center industry has been pressure-tested. More demand for data and digital infrastructure has kept activity humming along. The market, along with operations, for the most part has been showing signs of resiliency. But changes are happening and strategies to get ahead or to stay viable are shifting.

Panel Hosts

The panel was hosted by CBRE Data Center Solutions Global President, Jim Harding, and Pat Lynch, Americas Leader, Advisory and Transaction Services.

Intended Takeaways

- COVID-19 impacts to data center operations and maintaining continuity of service
- Impacts to the global data center market and client decision criteria
- The future of data center operations and the role of automation
- Views on strategy calibrated for today and the longer-term

Key Points from the Call

The State of Data Center Operations

Jeff Ginn, Americas Lead, Global Workplace Solutions, CBRE Data Center Solutions

“As a data center operations business, preparedness is in our DNA.”

Data Center Operations Continue To Run With Updated Continuity Plans In Place

As a data center operations business, preparedness is in our DNA. Data centers have not closed like other businesses and our teams are equipped to respond effectively.

We benefited from connecting with our teams in Asia and Europe and sharing best practices, allowing us to tailor our response to our Americas clients.

Hands down, our technicians and support teams, have responded in a truly remarkable way. It would be a huge miss not to acknowledge them first and foremost for their dedication-all while dealing with their own challenges.

Employee Network And Supply Chain Relationships Are Key

Some clients have paused maintenance while others reduced on-site shift team members appropriately. Where necessary, contactless shift handovers and alternative transportation options were recommended to keep employees safe.

Emergency and business continuity plans were updated immediately and completed in partnership with our clients. New procedures that have been implemented include:

- Limiting people on-site to essential workers and visitors only
- Social distancing and adjusting shift patterns
- Maintaining coverage with less interactions between teams. Some sites have experienced significant growth while others maintained the status quo.
- Housekeeping has been critical to operations. Our supply chain partners have been instrumental in providing support supplies at the site level.

Be Flexible - One Size Doesn't Fit All

Communication has been, and will remain, critical. Varying country, region and state restrictions have required our teams to adapt quickly.

The converged operations team, including technicians that are cross-trained to service facility infrastructure and IT hardware, provide more agility and require less physical presence on-site - further increasing reliability and reducing risk for our clients.

Impact on the EMEA Data Center Market

Gabriel Harris, Sr. Director, United Kingdom, Advisory & Transaction Services
CBRE Data Center Solutions

“Given the dominance of demand from the hyperscale cloud providers, we expect strong demand to continue in Europe over the next two years.”

European Occupier Market Landscape

Pre-pandemic, the European data sector saw unprecedented rate of growth – the four main European markets grew by 24% in 2019 alone. Demand was fueled by the hyperscale cloud providers accounting for approximately 80% of all capacity.

Currently, demand, especially from the hyperscale cloud occupiers remains strong. For enterprises, we expect new requirements to emerge over the next two quarters (i.e., remote working with new focus on cloud services and on-prem versus off-prem assessment).

Impact on Leasing and Contract Negotiations

- Given the dominance of demand from the hyperscale cloud providers, we expect strong demand to continue in Europe over the next two years
- Most negotiations for new capacity that started prior to the pandemic will complete, and in some cases, will be accelerated
- Transactions will take longer with more thorough approval processes in place, and contracts will be more flexible

Supply and Pricing Impact

- Overall, vacancy rates across the Tier 1 European markets is 21% and market equilibrium for these markets tends to be a vacancy rate of 17-20%
- There are specific pinch points in vacancy within Frankfurt (14%) and Paris (12.5%); vacancy rates are low and availability of wholesale capacity within individual facilities is limited
- A 6 month construction delay in Frankfurt (5.2%) and Paris (3.2%) will significantly could reduce vacancy rates further and will likely restrict and delay hyperscale cloud and general wholesale data center requirements
- Currently we are not expecting a hardening of pricing in the short-term as the full impact of any construction delays is yet to occur

M&A

Recent transaction activities include:

- Vantage acquisition of European Operator ETIX and NGD (Announced)
- Digital Realty acquisition of InterXion (Completed)
- In Asia Macquarie acquisition of AirTrunk (Announced)

Ongoing transactions are experiencing delays on due diligence, building surveys and site assessments. Investors are using this time to focus on negotiation of Sale and Purchase Agreements.

Some investors are pausing to take a wait-and-see approach to the market. Less debt is available, and it has become more expensive. However, unlike the last financial downturn, lenders are much better funded and there is a far wider source of lenders in the sector.

Mid- to Long-term Impact on the Global Data Center Industry

Jennie Karnes, Sr. Vice President, Advisory & Transaction Services
CBRE Data Center Solutions

“The virtual environment is here to stay.”

Demand & Supply Update

While much remains uncertain, we anticipate continued demand for data center services. The pandemic may accelerate general growth of hybrid infrastructure and a move to the cloud. Due to budget constraints, modest supply chain delays and overall length of data center procurement cycle, the impact on enterprise demand may not be apparent until Q420 - Q121.

We anticipate a further widening of the supply gap in currently constrained markets such as the Bay Area, Northern Virginia, Frankfurt and Paris. Pricing dynamics will likely remain the same and will continue to be impacted by a competitive landscape.

Future challenges include:

- Enterprise IT budgets may be constrained due to uncertainty
- Projects will need to go back through the budget approval process
- Enterprises will require more agility and should plan ahead for new builds, supply chain delays and alternate service measures to address technical support

Capital Markets Perspective

- Data center REIT sector has far outperformed other asset classes
- There are evolving signs of market improvement as the debt markets start to open and we expect this to continue to improve over time with increased liquidity long-term
- We anticipate more enterprises open to sale/ lease back scenarios
- Travel and budget restrictions will impact vendor selection

Procurement Process Impacts

- We expect more stringent vetting of new data center providers and facilities with key attributes:
- Increased focus on credit, financial position, experience and operational track record
- Business continuity plan for pandemic environment
- Turn-key build support, access to JIT inventory (caging, cabinets, power whips, SMART PDUs, etc.)
- Contract: Scrutiny on mutual force majeure / SLA, termination and portability options, and legal and privacy implications

What to Consider for the 'New Normal'

- The virtual environment is here to stay (i.e., video tours, meetings and audits)
- Continued adoption of new protocols around data center security and site access
- Plan for access to on-site technical support services
- Enterprises may need to commit "Day 1" for new capacity
- Get ahead of new demand and lease renewals for predictability of cost and availability

Technology & The Future of Data Center Operations

Zahl Limbuwala, Strategy Lead, United Kingdom, Global Workplace Solutions
CBRE Data Center Solutions

"We see a strong acceleration towards converged FM & IT / Technology operations."

Pre-pandemic Landscape

Data center operations were on a steady path towards higher levels of automation. Examples include increased investment in IoT sensors and improved Building Management Automation Systems. Also, higher adoption of technology tools for driving energy efficiency within client's lifecycle asset refresh programs. But we are a risk-averse industry, so thus far, progress has been steady but relatively slow.

Agility, scale and innovation have become a larger part of conversations with clients and prospects. I believe COVID-19 is having an acceleration effect on the path the industry was already on.

Moving forward will also be about doing more with less because the biggest constraint in data center operations continues to be a human talent. Enabling and augmenting people to work smarter (not harder) and letting technology do the heavy lifting is the goal.

Considerations for Future Data Center Design and Operations

- Implement remote monitoring systems to reduce site access challenges
- Automation allows for advanced planning and optimization; using tools such as machine vision, Augmented Reality, Virtual Reality and drones will become more commonplace
- Automated provisioning of power, cooling and capacity management allows for a much higher level of capacity utilization
- BMS systems and the computers they reside on are often not secured to the level (if at all) that your corporate IT or security department would require for an internally or externally 'connected' system. These should be hardened now in preparation for remote access.

In Summary

We see a strong acceleration towards converged FM & IT / Technology operations. This includes cross-trained FM and IT data center teams. Consider connecting FM and IT technology roadmaps.

Ideally, for maximum performance, the data center should operate as a single system with oversight and control from a combination of experienced human operators armed with the right tools, systems and technology. All of which should results in:

- Improved cost management

- Improved yield from each MW of data center capacity
- Improved scalability and agility
- Improved resilience to disruptive events

Resources:

- [Reopening the World's Workplaces Whitepaper](#)
- [European Data Centres: The Impact of COVID-19 May 2020](#)
- [COVID-19 Data Centre Protocols for the New Normal](#)
- [North American Data Center Report H2 2019](#)
- [The Future of Data Center Operations](#)

