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Data Centre Barometer - September 2009

The Jones Lang LaSalle Data Centre Barometer

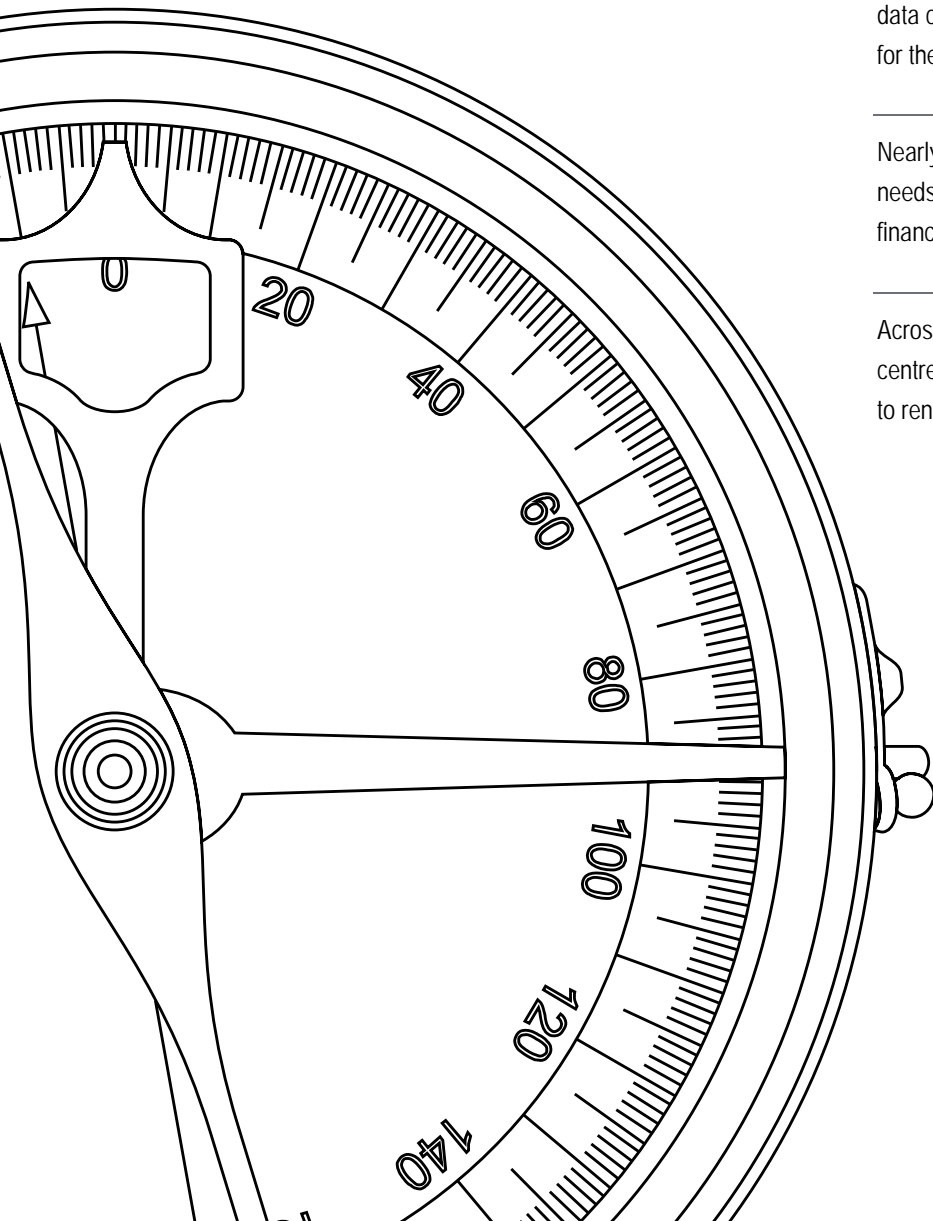
September 2009 – Issue 2

Despite the continued difficulties felt across European real estate markets, investors and developers of data centre stock show a continued confidence in the market

Occupiers appear to have reduced their appetite for expanding data centre portfolios over the end of 2009, although predictions for the first half of 2010 appear considerably more optimistic

Nearly half of all respondents believe that their Government needs to further support the data centre industry through financial measures

Across all respondents, nearly three fifths would look at data centre locations in more peripheral areas if this provided access to renewable and potentially cheaper energy sources

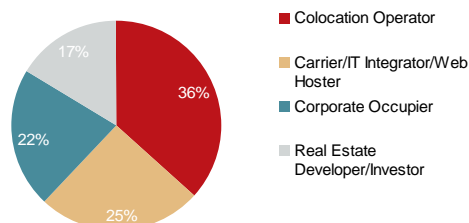


The Jones Lang LaSalle Data Centre Barometer

Welcome to the second Jones Lang LaSalle Data Centre Barometer (DCB), our tri-annual publication focussed on the views and expectations of the European data centre and mission critical real estate market.

The principal element of our Barometer is the independent market survey of the industry's key stakeholders. Through iXConsulting, a leading independent data centre consultancy, we are able to survey investors, developers, occupiers and integrators from across Europe, and we are pleased to report that respondents who control data centre portfolios in excess of 10.2 million sq ft of technical space responded this time. All responses are coordinated and analysed by iXConsulting, ensuring a truly independent market survey covering our industry.

Respondent profile



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

Responses were received from a broad range of influential data centre floor space developers, owners and occupiers across Europe. The first part of the survey looks at occupational issues with results taken from four main groups of owner or occupier; Colocation Operators, Carrier/IT Integrator/Web Hosters, Corporate Occupiers and Real Estate Developer/Investors. Our Opinion section covers all respondents.

In DCB1, our view was that the market was quietly optimistic, with a good amount of qualified demand and still a lack of immediate supply to satisfy it; this theme continues. Whilst we are not seeing demands for single large self contained footprints of space that were prevalent from 2005 to 2008 driven by the investment banking sector, what we are seeing is banks - alongside other corporates - taking smaller data centre holdings on an OPEX basis, thereby maintaining flexibility, keeping the expenditure off balance sheet and

benefiting from shorter lead-in times. In the last survey, our respondents indicated that they did not anticipate taking on new holdings during the first six months of 2009, and they have stuck to their word. Our monitored take up of wholesale technical accommodation in the UK during the first half of 2009, accounted for approximately 117,000 sq ft, (Q1 22,000 sq ft, Q2 95,000 sq ft) with the largest single letting being 22,000 sq ft taken by Tata Communications at Digital Realty Trust's Cressex Data Centre which exchanged in January.

However, in DCB 1, over 45% of our respondents also indicated that they anticipated expanding their data centre technical area during the second half of 2009. We are currently monitoring approximately 110,000 sq ft of wholesale technical space which is actively being acquired in and around London (i.e. these deals are advanced and some 'in solicitors hands') in addition to healthy interest across other tier 1 cities. For London, 110,000 sq ft may not seem a large amount, but when you consider a further 400,000-500,000 sq ft of potential wholesale and retail requirements likely to come to market in the final quarter of the year or the first part of 2010, and latent stock in the order of 150,000 sq ft of wholesale space capable of being fitted out within 6 months, then there appears to be a shortfall of space and a pipeline squeeze. Rents are already rising, and any new development which started construction immediately, would only be able to deliver technical space ready for tenant in a minimum of 10-12 months.

Our respondents indicate that market confidence remains high, and when you consider just how far the world economy has travelled between January and July (when the surveys were undertaken), then you can begin to understand why capital expenditure to acquire data centre space or start to speculatively develop new stock might have taken longer to achieve than initially anticipated. For developers with stock capable of being readied quickly, or who can demonstrate definite intention and timeline for delivery, the market appears positive.

Mark Larard
Director
Data Centre Advisory Group



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Respondent Analysis

1. What best describes your view of the European market at present?

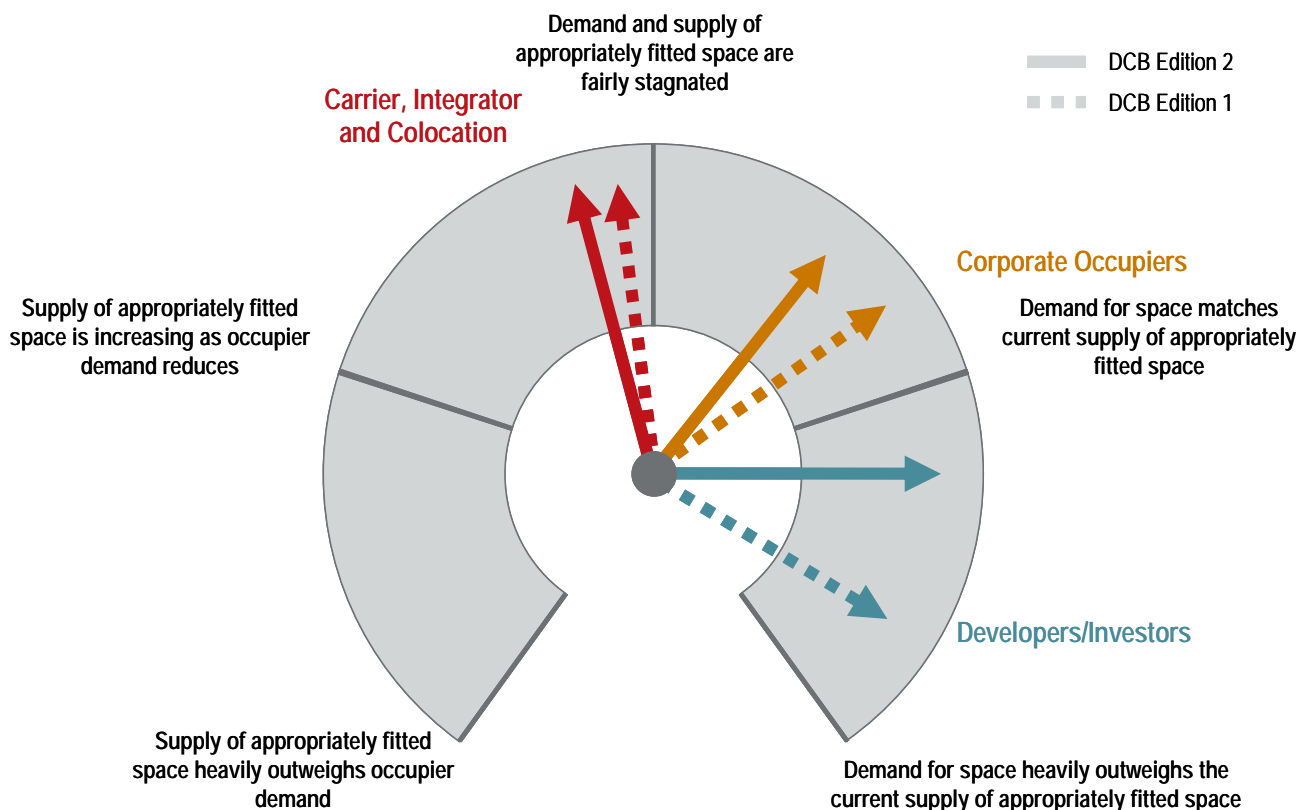
We use this question as the principal gauge of changes in sentiment felt amongst the stakeholders in terms of data centre floorspace take-up and development across the European landscape. It provides a useful insight into future anticipated activity and is designed to measure market sentiment looking forwards from the survey date in July.

Given current economic uncertainty perceived sentiment may have been expected to be more downbeat; however evidence from the survey would suggest that this far from the case amongst those with an active participation in the data centre industry. Although respondents to the survey may be marginally more guarded about current prospects since the last survey, they do seem to be more positive about their own prospects than other sectors of the economy.

As was the case in our first survey, there are differences of opinion between the various stakeholders. Developers and investors remain positive that the balance of supply and demand of data centre stock remains favourable to them, with just over 60% reporting that they believed demand for space still heavily outweighed the current supply of appropriately fitted space. Notably, this is down from the 70% recorded in our previous report, with a further 25% reporting that they believed the supply of space was increasing beyond demand levels.

Amongst our corporate respondents, opinion remains that the supply of appropriately fitted data centre space (and here perhaps the word 'appropriately' is important) falls short of the current demand in the market, although there has been a shift in balance from those who believe demand 'heavily' outweighs supply (around a third of all respondents) and demand 'matches' supply (just over half of all respondents).

The Data Centre Barometer



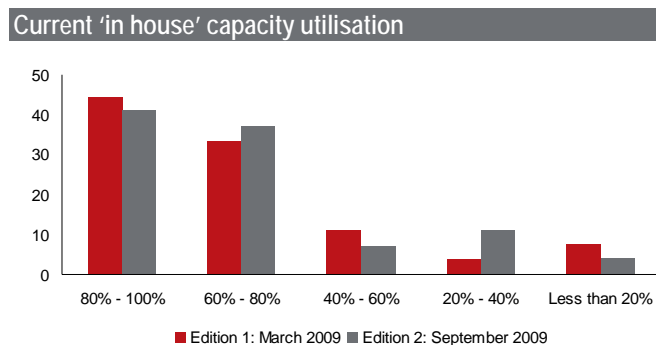
Amongst our carrier, integrator and colocation operator respondents, opinion was fairly polarised: Whilst just over half of this type of respondent believed demand either still heavily outweighed or at least matched the current supply of appropriately fitted data centre space, just under half felt the market had either stagnated, or that occupier demand was starting to fall away as supply was increasing. The 'average' view reflects little change on the attitude expressed by this group of respondents in March; however, there does seem to be a larger proportion of respondents sitting at either end of the sentiment spectrum, reflecting a clear polarisation between optimistic and pessimistic views.

2. What proportion of your total European data centre capacity is based 'in house' or with a '3rd party'?

According to our respondents, colocation operators and IT integrators/web hosters prefer to manage their own facilities, with around two thirds indicating that 80% or more of their data centre portfolio was managed 'in house'. In addition, a higher proportion of our corporate occupiers this time reported that they manage the majority of their data centre footprint themselves, with over three quarters of them managing at least 70% or more, and nearly two fifths of these managing their entire data centre footprint.

We have again seen that there appears to be two clear occupational profiles for a corporate: either majority run by themselves with a small amount outsourced, or majority outsourced and only a small amount in their own premises. There appears to be few corporate strategies that sit in between these. Monitoring this question will be interesting as it provides an insight into whether outsourcing is a trend which is becoming increasingly prevalent amongst corporate occupiers, something that is widely reported in the media.

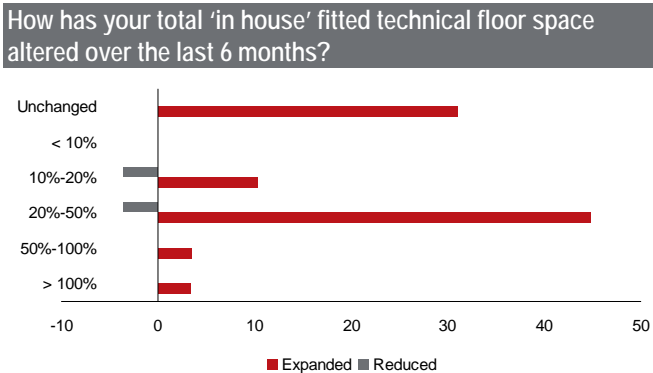
3. How much of your current 'in house' data centre space are you actively using?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

Since our first survey published in March 2009, there has been little change in the amount of 'in house' managed data centre space that is being actively used; around two fifths of respondents indicated that they were using over 80% of their technical footprint. A higher proportion of respondents now indicate that they are utilising 40% or less of their 'in house' capacity which may well reflect a continuing characteristic identified in the last survey; namely that operators and managed service providers are retaining approximately 20-40% vacancy rates, in order to maintain a degree of fluidity. This anticipates that they are expecting an uplift in enquiries, and a number of requirements with swift deployment timelines. Alternatively it could be as simple as technical space held under option for existing occupiers, it is vacant, but not appropriate to market.

4. How has your total 'in house' fitted technical floor space altered over the last six months?

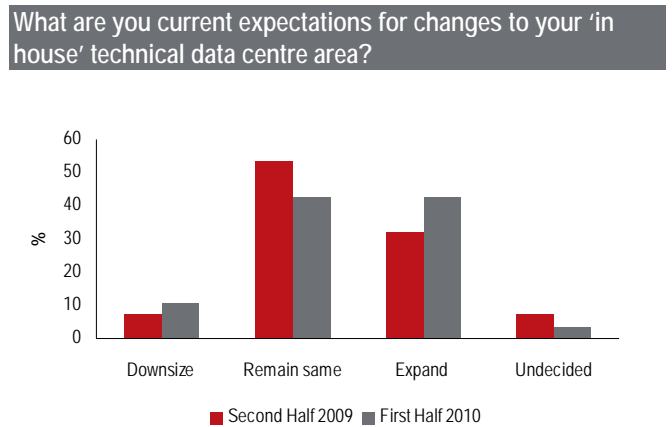


Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

Over the six months preceding the survey, just under 60% of our occupier respondents reported an increase in their 'in house' managed data centre capacity. One third of respondents saw no increase, and just 7% reported a reduction in their capacity. Whilst the proportion of those citing an uplift in their data centre footprint has fallen slightly compared to our last survey, there has also been a drop in the proportion that have reported a reduction in space. It should also be noted that the latest survey covers a 6 month period up to July, whilst our first edition reported activity over the 12 months of 2008 - a period that has seen buoyant European data centre development and expansion. Encouragingly, of those occupier and operator respondents who indicated that they had increased floor space during the past six months, over 80% reported an increase by 20% or more, a significant rise from the 50% who reported this rate of increase in DCB 1.

5. What are your current expectations for changes to your 'in house' technical data centre area?

The relatively cautious approach reported by our responding companies in our first survey of the year still seems prevalent. The 'wait and see' period that was reported for the first half of 2009 now appears to have slipped to the second half of the year, with over half (compared to 40% previously) expecting little change in the size of their data centre footprint during the last six months of 2009. In addition, whilst over two fifths last time predicted that this period would see them expanding their data centre footprints, expectations for the same period are now held by just a third of respondents.



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

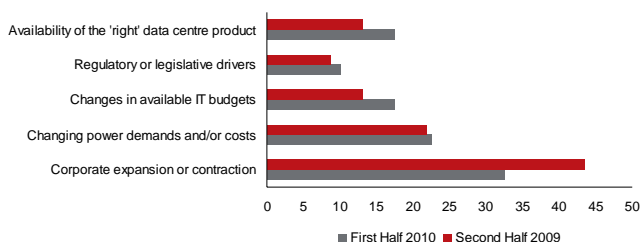
Predictions for the first half of 2010 become more optimistic, with over two fifths expecting to expand their 'in house' technical data area during this period, although there remains a significant proportion (a further two fifths) who expect stock levels to remain the same and approximately 10% who report that they could see a decrease of their 'in house' managed data centre capacity. Interestingly this profile is strikingly similar to that given by respondents to this question in our first survey, possibly reflecting a permanent, underlying optimistic characteristic of those involved in the development and operation of data centre space across the European landscape.

Amongst our developer respondents, nearly 60% were looking to expand their stock levels during the second half of 2009, whilst around a third were looking to keep their data centre portfolios constant. A small minority - less than 10% - were looking to off-load part of their portfolio. Notably, during the first half of 2010, a greater degree of optimism prevails amongst developers with 85% of respondents looking to expand their data centre presence; just over half of these will only build out a scheme which is at least 50% pre-leased.

As has been the case over the last 12 months, access to sufficient funding will be a main driver underpinning the ability of developers to build out data centre footprints, and colocation operators and integrators to commit to taking new space. In the current financial environment it is not surprising that an element of caution has grown amongst all types of respondents, although as capital markets become more liquid and the current difficult corporate lending environment becomes more benign, we would expect more optimism to prevail amongst our survey responses.

6. What factors are driving these changes to 'in house' technical data centre area?

What factors are driving these changes to 'in house' technical data centre area?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

Survey respondents were asked what factors were underpinning these changes in their data centre floorspace occupation. Corporate expansion or contraction was identified by nearly 45% of respondents as the significant driver to their changes in floorspace during the second half of this year. Respondents ranked the availability of the right data centre product as an increasingly important factor especially in the first half of 2010. Potentially the right timescale may be as pertinent as an appropriate quality or design.

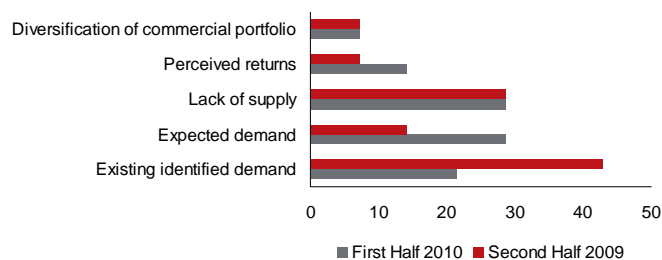
Interestingly, there is a relative lack of importance given to changing power demands or costs as drivers. This would seem to contradict the ranking of power as an important driver of data centre decision making as measured later in this report in response to question 10.

7. What factors are influencing the decision making process for developers and investors with regard to expansion over the next 12 months?

The positive market outlook amongst developers and investors illustrated earlier in the Barometer is underlined by their choice of factors driving their decision making process.

As was the case in our previous survey, there appears to be fairly broad support for a number of drivers of data centre development and investment strategies. The responses suggest that the basic tenets of supply and demand are fundamental to the decision making process; half of our respondents supported the view that existing and expected demand was a significant driver for their expansion plans during the second half of the year, allied to a further 30% who identified lack of supply as important. Although not specifically addressed here the availability of finance undoubtedly will also influence the decision making process moving forward as expectations of the easing of current funding restrictions take hold, and potentially speculative developments start, to address anticipated requirements.

Factors influencing decision making for developers/investors re expansion over next 12 months



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

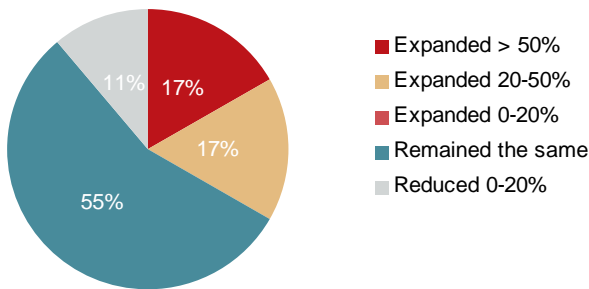
8. How much of your current '3rd party' managed data centre space are you actively using?

With regard to '3rd party' managed space, whilst nearly two thirds of all respondents indicated that they were actively using over 80% of their technical data centre space. Amongst colocation and IT integrator/ occupiers, this proportion increases to around three quarters. We would expect this group of occupiers to work with a small degree of expansion space in order to service potential demand with short lead-in times. However, most are likely to use option agreements on space to ensure efficient build-out of contiguous space while avoiding paying full rent on unused accommodation.

9. Has your total '3rd party' fitted technical floorspace altered over the last 6 months?

Over half of all respondents saw no change in their '3rd party' managed data centre space over the past 6 months whilst around a third reported an expansion, although this latter figure reflects a fall on the three quarters of respondents who previously reported a rise, albeit during a longer time period – 12 months compared to 6 months.

'3rd party' fitted technical floor space change by proportion in past 12 months



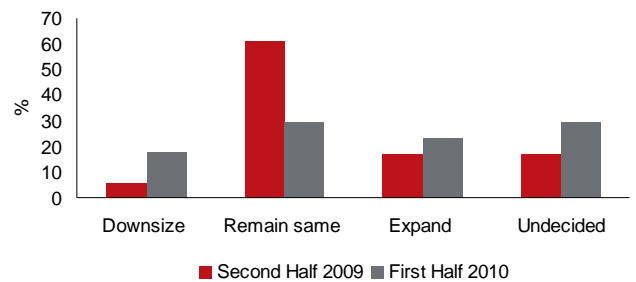
Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

These broad figures disguise the fact that of those who have expanded their '3rd party' fitted technical floor space in the past 6 months, over four-fifths expanded by more than 20%. This contrasts with the fact that in the preceding 12 months, three-fifths of all expansion had been by a proportion of 10% or less.

In addition there is a good correlation between responses given in our last survey on expectations for changes to '3rd party' technical data centre floor space and actual changes reported this time. In DCB1, 70% respondents said they would keep their footprints the same with respect to '3rd party' managed space and around a fifth expected to extend. What we have seen this time is a higher proportion having actually expanded (a third) whilst the proportion of those that have done nothing has reduced.

10. What are your current expectations for changes to your '3rd party' technical data centre floorspace?

What are your current expectations for changes to your '3rd party' technical data centre area?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

The second half of this year is likely to see data centre occupiers of '3rd party' managed space take stock, with around two thirds of respondents to the survey indicating that they would keep their occupational profile at the same level. 17% of respondents are expecting to expand their third party technical data centre floorspace whilst a further 18% remain undecided.

The first half of 2010 indicates that around a third of our respondents are expecting to keep their outsourced data centre footprints at the same level, whilst nearly a quarter would be looking to take on more space. Notably, compared to DCB 1, there are a much greater proportion of respondents that are undecided as to how their '3rd party' data centre occupation will change over the next 12 month period, perhaps reflecting a level of uncertainty as to future requirements through this route of occupation, when avenues of ownership and 'in house' management may become more attractive.

Popular factors driving strategies included corporate contraction or expansion (particularly in the first half of 2010) and the availability of the right data centre product. This reflects similar views to that seen at the start of the year. One notable change from the last survey is that "changing power demands and/or costs" is now cited by one in ten of our respondents as a driver compared with one-in-twenty in the last survey; a finding which not surprising given the attention that the subject of power production, costs and availability has been given over the course of the year.

Although not covered in the survey, anecdotal evidence suggest that concerns with regard to the recently introduced carbon taxation in the UK may be beginning to impact on the decision making process and one which will be worth keeping an eye on in future surveys.

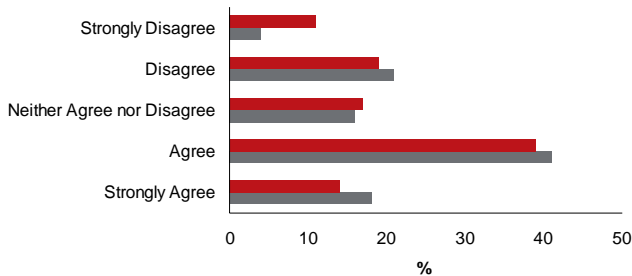
Data Centre Opinions

Our opinion section addresses a number of topical issues on power, technology adoption and related themes.

11. "Lack of power to run IT systems is currently the most important driver in underpinning our data centre decisions"

The issue of power, notably with regard to its cost and availability, remains an important factor in the decision making process with regard to data centres.

Lack of power to run our IT systems is currently the most important driver underpinning our data decisions



■ Edition 2: September 2009 ■ Edition 1: March 2009

Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

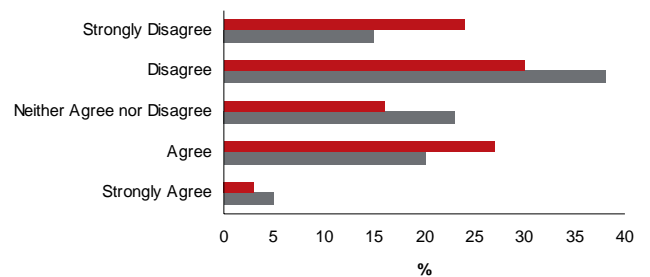
Responses to the latest survey mirror those given in the preceding survey; whilst nearly 60% of all our respondents agreed to the statement, nearly a third of them disagreed to some extent that power was the most important driver of their data centre decisions. Notably the proportion of those who strongly disagreed with the statement has halved.

12. "We find it difficult to quantify the current energy efficiency of our data centre holdings"

Results from the survey seem to suggest that those operating and utilising the services provided by the European data centre industry are still comfortable with the raft of metrics - for example Power Usage Effectiveness (PUE), Data Center Infrastructure Efficiency (DCiE) - that have been introduced to help them identify energy efficiencies.

Around half of all respondents indicate that they disagree to some extent that they are finding it difficult to quantify the current energy efficiency of their data centres, with just a quarter who have admitted to this difficulty. The issue of energy efficiency is now engrained in the industry ensuring that the subject of which measures to use in order to quantify these efficiencies will also be well covered. The polarised view points of different professional skill sets working within the industry means that a clear methodology for translating performance of data centres to occupiers and investors is still not universally agreed upon. However, the fact that the proportion of those agreeing with the statement has fallen from around a third last time to around a quarter this time, would seem to provide some evidence that these measurement metrics designed to help companies' quantify energy efficiency within data centres may well be starting to work.

We find it difficult to quantify current energy efficiency



■ Edition 2: September 2009 ■ Edition 1: March 2009

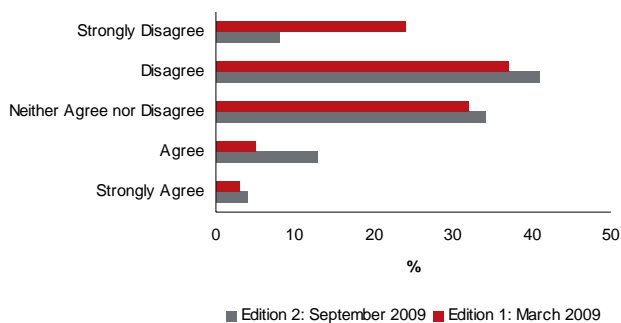
Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

13. "Cloud computing will reduce the need for more data centre space over the next 12 months"

Since our first edition of the barometer, we have seen a significant shift amongst survey participants in their attitude towards cloud computing. The last survey suggested that around two thirds disagree or strongly disagree with our statement that the implementation of cloud computing would lead to a reduction in the need for data centre space. This proportion has fallen to just less than half with the latest survey. In contrast those who agreed or strongly agreed that cloud computing will reduce the need for more data centre space has doubled - albeit from a relatively low base of 8% to 15%.

This is likely to indicate the fact that there is better understanding with regard to cloud computing and that fewer see it potentially as threat to their core data centre business and more as an opportunity.

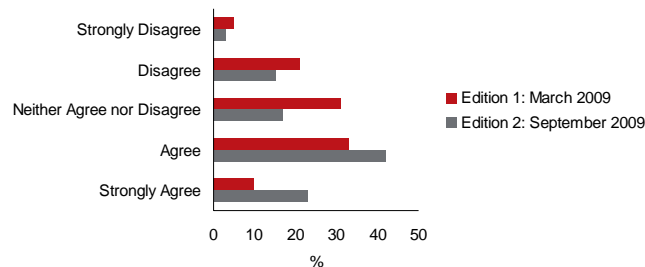
Cloud computing will reduce occupiers need for more data centre space



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

14. "Green issues will be the major driver with regard to our data centre strategy over the next 12 months"

Green issues will be the major driver with regard to our data centre strategy



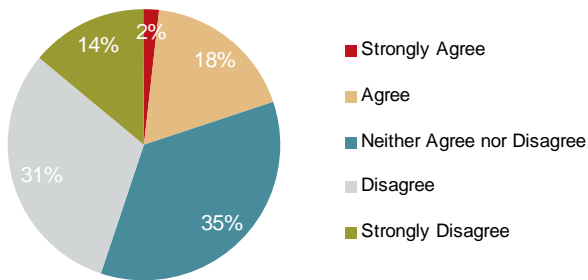
Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

The importance of the 'green agenda' to the data centre industry is likely to continue to rise over the next few years. Its' importance is recognised by those active in the industry and this is reflected in the results of our second survey. Since the start of the year, we have seen a rise in the number of respondents who consider these issues to be an important driver with regard to their data centre strategy; rising from around 45% to around 60%.

Interestingly whilst only a third of developers and investors respondents also shared this view in the last survey this proportion has more than doubled this time suggesting that the 'green agenda' is moving significantly up their hierarchy of priorities. Two thirds of corporate occupiers also share this viewpoint, a figure broadly in line with that seen last time around.

15. "I believe that our Government recognises the benefits that data centres bring to the economy and it is showing support through the use of capital allowances or other financial instruments"

Government recognises the benefit that data centres bring to the economy and it is showing support through the use of capital allowances or other financial instruments



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

The issue of government support for industry has become topical across Europe over the past 18 months, driven by the economic downturn. The survey attempts to address the issue with specific regard to the data centre industry.

A significant number of respondents - around 45% - do not believe that the government recognises the benefits the industry brings to the economy and is not supporting the industry through the use of financial measures. A further two fifths neither agree nor disagree with the statement, whilst around one in seven agree that the government provides this financial support.

On a sector basis, real estate developers and investors almost exactly mirror the overall proportions with regard to the statement whilst corporate respondents are the most neutral with around 60% neither agreeing nor disagreeing with the statement. Over half of all IT Integrators, carriers and colocation operators supported the statement.

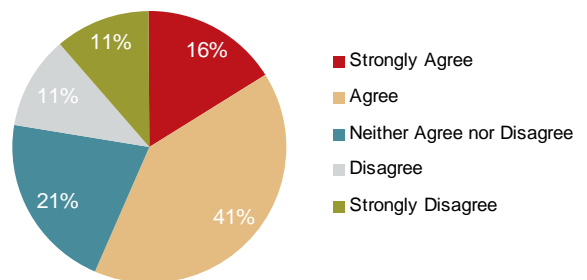
16. "We would seriously look at locating a new data centre in more peripheral geographic locations with access to renewable and potentially cheaper energy"

Another new question introduced for the first time in this edition sought the views of those operating within and buying services from the data centre industry on the importance of the relationship between location and energy provision.

Fifty seven percent of respondents agreed or strongly agreed that they would consider locating a new data centre to an area which may be considered peripheral, if that location could provide a renewable and potentially cheaper energy source. Interesting whilst 60% of developers and investors said they would consider this option, just over half of all IT integrators, carriers and colocation operators agreed to some extent but only 20% of corporate occupiers agreed or strongly agreed with the statement,

This suggests that corporate occupiers still need to be convinced that the advantages of potentially cheaper power and ready availability outweigh other issues of their data centre occupation that a more peripheral location affect.

We would seriously look at locating a new data centre in more peripheral geographic locations with access to renewable and potentially cheaper energy



Source: The Jones Lang LaSalle Data Centre Barometer Survey – September 09

Guest Feature

Capital Allowances: Opportunities for Data Centres

Generally, data centre owners and operators are aware that much of their capital expenditure is eligible for tax relief in the form of "capital allowances". However, the rules are constantly changing and this can lead to missed opportunities. Additionally, most people are aware of the much-publicised Enhanced Capital Allowances (ECAs) – the 100% first year allowance that is available on certain types of energy and water saving plant - but are less sure of the practicalities.

This article aims to provide a brief update on the latest on capital allowances which, if maximised, can result in significant tax savings. It also takes a practical look at ECAs, where it is important that you check before buying to make sure that your planned expenditure does qualify.

Basic rules

Capital allowances are a tax-allowable form of depreciation, which the government has the ability to change as required. Accordingly the rules are tweaked, and sometimes changed radically, in most Finance Acts including FA 2009 enacted on 21 July 2009.

Writing down allowances

This is the basic allowance for all plant and machinery (including cars) and is currently 20% (having been reduced from 25% by FA 2008). This is calculated on a reducing balance basis on a pool of all the assets, so at 20% it takes 11 years to achieve 90% tax relief on the expenditure. That is a long time and electronic equipment will generally be on the scrap heap before the full tax benefit is realised.

Annual investment allowance

Introduced by FA 2008, this is an annual allowance of 100% on the first £50,000 of expenditure on plant and machinery or integral features. For a group of companies, this is a 'one per group'

allowance only, so some thought may need to go into where this is allocated.

Short life assets (SLA) election

Data centres owning servers should particularly take advantage of this election. Each asset is listed out and tracked. When it is scrapped (assuming within 4 years of acquisition), the tax relief is immediately available in the form of a balancing allowance. Thus, the tax relief and the life of the asset match each other. Admittedly, it requires slightly more administrative effort in logging and keeping track of the items closely as they are scrapped, but it does provide an acceleration of tax relief.

Server acquired for £10,000 will be scrapped in 3 years:

Tax deductions with election:

Year 1	£4,000 (assuming first year allowance claimed)
Year 2	£1,200
Year 3	£960
Year 4	£3,840

Tax deductions no election:

Year 1	£4,000 (assuming first year allowance claimed)
Year 2	£1,200
Year 3	£960
Year 4	£768
Year 5	£615
Year 6	£492 and so on...

40% First year allowances (for one year only)

This currently applies to all companies/businesses, regardless of size. For a year from 1 April 2009 (6 April for unincorporated businesses) expenditure on plant and machinery will be eligible for an allowance of 40% in the first year, followed by 20% thereafter. If you were planning to incur expenditure in April or May 2010, it may be worth considering bringing this forward to before the 31 March 2010 deadline.

Integral features

A 10% writing down allowance was introduced (by FA 2008) for certain items that are integral to the building. There are only 5 items on the list:

- Electrical system;
- Cold water system;

- A space or water heating system, powered system of ventilation, air cooling or air purification or any floor or ceiling comprised in such a system;
- A lift, escalator or moving walkway;
- External solar shading.

Note that these will not be eligible for the 40% first year allowance.

ECAs

Apart from ECAs, there is no requirement for the piece of plant and machinery to be manufactured to a certain specification, other than be satisfied that it is plant and machinery.

Working out ECAs is therefore different as it is dependent on being on the list provided by the Government and manufactured by certain suppliers. With ECAs it is crucial to check **before** you spend the money that the piece of equipment is eligible and on the list, so do check with your advisers or look at the websites first.

All the information is on the government's website www.eca.gov.org, which is constantly being updated for new products.

For a data centre, the most likely relevant items on the list include such items:

- Heating, Ventilation and Air Conditioning Equipment;
- High energy efficient lighting units;
- Lighting controls, amongst others.

In August 2009, uninterruptible power supplies have also been added to the list.

Taking lighting as an example, a small amount of pre-planning could be the difference between purchasing something which is eligible for 100% allowances under the ECA scheme or something which only attracts capital allowances at 10% as an integral feature. It might be worth paying a slight premium to obtain an asset that you are certain qualifies for 100% ECAs and of course uses less electricity.

An ECA claim is made as part of the normal capital allowances process, but you should ensure that you have all the supporting documentation in place to support the claim.

In summary

- Ask your advisers about short life asset claims;
- Claim first year allowances at 40% from 1 April 2009 to 31 March 2010; and
- Claim ECAs - check the website before you buy.

Some forethought and planning could save a significant amount of tax and improve cash flow through acceleration of tax relief

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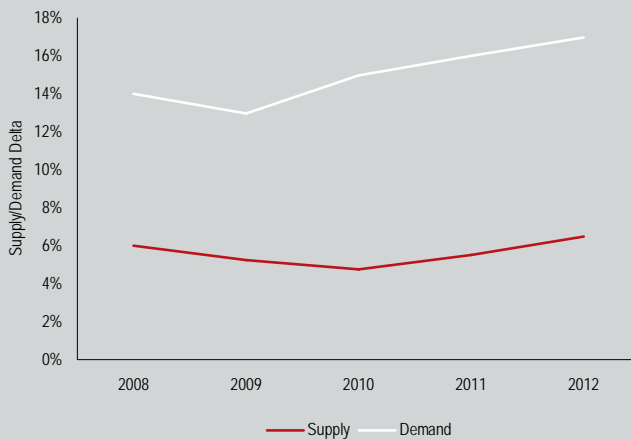
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Letter from America

The market in the US for data centres has shown evolutionary trends over the last 24 months, with a classic supply/demand imbalance which has defied economic logic. We are seeing an increasing demand for technical floorspace being countered by diminishing supply and limited new stock. Multiple sources of research statistics tracking the industry suggest that the gap between supply and demand will progressively expand for the immediate future.

Internet Data Centre Supply and Demand - Global



Source: Tier 1 Research

Although this model is reflected globally, the US market can certainly be seen to provide 'global leadership' in these trends. "Why does this gap exist and, more importantly, why do we anticipate it will persist?" The answer is astonishing for the traditional real estate market, where conventional wisdom dictates that if there's a market need, market forces will fill it. For anyone who has conducted a national search across the US for data centre space over the last couple of years, this imbalance is no surprise. The increasing demand for data centre space and constrained supply is a genuine reality.

Firms expecting a perfect, single tenant, fully operational data centre facility ready and waiting for them in the marketplace are in for a revelation. The common initial thought from a data centre occupier looking for space is, "Where can I find a 'left over' facility from the dot com bust or distressed stock from the current economic woes?" This train of thought initiates a steep educational and current events session for said occupier. The fact is that there is no ready supply of single tenant data centres, and certainly no new ones being built

without occupiers already lined up. The favourable to semi-favourable existing facilities were absorbed by late 2005. The few left on the market are either too expensive to retrofit or virtually obsolete by today's technology standards.

The short conclusion is easy: there is no real availability of stock. Developers, due to the credit crunch, are developmentally constrained due to the high capital costs associated with setting up these facilities, and lenders are unwilling to establish traction with this industry, which they perceive as being just another sector of the real estate market (memories from the late 90's tech boom flash back). The US market has now got to the stage where occupiers that need space "yesterday" are being forced to implement a "band aid" strategy, turning to co-location and data centre wholesale space to fill the pipeline void by default. What is now happening in the US is firms are paying a premium for a smaller (often colocation) space than initially desired, and then the internal real estate and technology folks design a long term strategy with plans for a build to suit. Thus data centre occupiers are looking to build their own data centres because they cannot find the product they want in the market. The market goes full circle!

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Data Centres and the Carbon Reduction Commitment

In the last edition of DCB, Chris Leeds of Barclays Capital gave an overview of the effect of Carbon Markets on the data centre industry, and the system set up for Trading Carbon Credits. In April 2010, the carbon market will start to have a very direct impact, as the Carbon Reduction Commitment becomes law.

The Carbon Reduction Commitment (CRC) is a mandatory emissions trading scheme specifically for medium- to low-energy intensive sectors such as the commercial, service and public sectors. Announced in the May 2007 Energy White Paper, the scheme is designed to achieve a 4 million tonne reduction in carbon dioxide emissions by 2020. Companies operating a data centre can be almost certain of falling within the bounds of the scheme, and should be aware of the implications.

Every year, each participating organisation will have to buy carbon allowances from the government to cover the following year's predicted carbon emissions. If the allowances purchased at the beginning of the year do not cover the actual emissions recorded at the end of the year, then the organisation will have to buy additional allowances from other participants on the open "Secondary Market". In addition, in October of each year the government will publicly publish a League Table of all participating organisations ranked according to their performance over 12 months: position in this League Table will determine how much of the cost of allowances is recycled back to the individual participants.

Both the direct cost of allowances and the impact of the League Table recycling payments are likely to have a significant impact on cash flow for participants, especially after the initial phase of the CRC is over, and the cost of allowances is uncapped.

What can be done to minimise the impacts of the CRC?

Participation in the CRC has now been finalised, but there are various actions that can be taken to attempt to minimise the financial impacts:

Ensure that energy data gathering is in place

Each participant will be required to complete an annual report of its emissions every year, by the end of July. This report covers all core emissions, namely:

- half-hourly electricity meters
- meters of profile classes 5-8
- daily-read gas meters
- non-daily metered gas consuming more than 73,200 KWh per annum

Failure to provide information, or provision of incorrect information, will have significant financial penalties; participants should ensure that systems are in place to collect and provide accurate data.

Aim to reduce energy use within the Data Centre

The critical nature of the data centre function has made it an area that is not usually targeted for energy efficiency. However, any CRC participant operating a data centre will have to address energy use as part of a strategy for minimising the financial impact of the legislation; those that do not will suffer an increasingly large cashflow impact, especially when the price of allowances increases after the initial three year phase.

As with the wider real estate sector, the challenge for data centres is to increase energy efficiency in existing stock; although there has been some move towards building low energy data centres, the impact to most operators will be from existing operations. To address this challenge, participants will need to establish a robust strategy for year-on-year improvement against the CRC League Table. The challenge for data centres will be to realise efficiency gains without compromising levels of business continuity or security.

Kit Gillibrand
Consultant



Upstream Sustainability Services, Jones Lang LaSalle

Rhiannon Lewis
Consultant



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Data Centre Opportunities To Let

		
<p>London Northwest Tring</p>	<p>Uxbridge Road Ealing</p>	<p>Unit 2, Harbour Quay London</p>
<ul style="list-style-type: none"> • 172,000 sq ft net technical area • 16 x 10,760 sq ft self contained data halls • Planning permission granted • Fitted space available from Q2 2010 • 24/7/365 operation and monitoring • 36 MVA of power • Multiple fibre connectivity 	<ul style="list-style-type: none"> • Part of larger hotel development • Planning permission for data centre use • 5 MVA of incoming power • 24/7 NOC with full monitoring capability • 36,964 sq ft of gross space • Carrier neutral facility • Available to lease as a whole 	<ul style="list-style-type: none"> • Self contained stand alone facility • Two dedicated data halls offering a total of 10,500 sq ft net technical area • Existing M&E infrastructure in place • 1.2 MVA dedicated power supply • Multiple fibre connectivity • Minimum 500 mm raised access floor
		
<p>Unit 20 Mastmaker Court London</p>	<p>Goldtone House Loughton</p>	<p>Communication House Rochester</p>
<ul style="list-style-type: none"> • Existing data hall offering a total of 2,150 sq ft of net technical space with potential to provide up to 3,650 sq ft • Existing M&E infrastructure in place • 500 Kva dedicated power supply • Multiple fibre connectivity • Raised access floor 	<ul style="list-style-type: none"> • Secure 1.2 Acre Site • 1.94 MVA power supply • Up to 10,000 sq ft of net tech space • Multiple Fibre Providers • Planning Consent Granted 	<ul style="list-style-type: none"> • Up to 37,675 sq ft (3,500 sq m) of net technical space • 4 data halls plus 25,000 sq ft of ancillary office space • Outside flood plain and local flight paths • 14.5 MVA of incoming power • Planning for data centre use
		
<p>Infinity TWO Romford</p>	<p>NGD Europe 1 Newport</p>	<p>Anchorage Point London</p>
<ul style="list-style-type: none"> • Secure 8.6 acre site • 130,000 sq ft (12,000 sq m) of technical space • 6 MVA available now, 38 MVA available by end of the year • Planning consent for data centre use • Multiple Fibre Providers 	<ul style="list-style-type: none"> • Up to 90 MVA of power • 375,000 sq ft of technical space capable of accommodating over 17,000 racks • Dedicated data halls from 5,000 sq ft • Multi fibre connectivity 	<ul style="list-style-type: none"> • Hosting/colocation facility • 2 self contained data halls • 11,200 sq ft of net technical space • 2 MVA dedicated power supply • Carrier neutral facility • 500 mm raised access floor



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Real value in a changing world

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