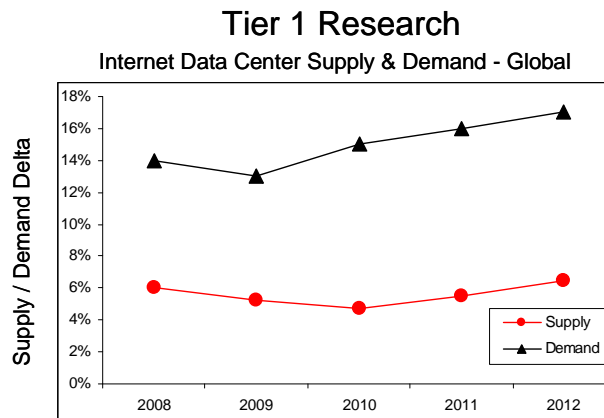


## RECENT EVOLUTION OF U.S. DATA CENTER SITE SELECTION

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The market for U.S. data centers has shown some very interesting behavior over the past few years. Most notably, the market has experienced a classic supply/demand imbalance which has perceptually defied all economic logic, creating a high and increasing demand situation with a concurrent state of constant or sometimes diminishing supply. Multiple sources of research statistics tracking the industry suggest that this gap will progressively continue to spread further apart. Take, for example, the Global Internet Datacenter Supply & Demand model created by Tier 1 Research.



Although this model is global in nature, the actions and market behaviors above are indicative to those in the U.S. as well. While Tier 1 provides great research and market specific data, lets evade a regurgitation of this data and ask the overlying important question, “Why does this gap exist and, more importantly, why will it continue to exist?” The answer is astonishing for the traditional real estate marketplace, where conventional wisdom dictates that if there’s an existing need, fill it. However, for anyone who has conducted a national search across the U.S. for data center space over the last couple of years, this imbalanced deficit is no surprise. The increasing demand for data center space and constrained supply is no doubt a reality.

Firms expecting a perfect, single tenant, fully operational data center facility from the marketplace are in for a revelation. The common initial thought from a data center user looking for space is, “Where can I find a ‘left over’ facility from the dot com bust or the current economic woes?” This train of thought initiates a steep educational and current events session for said user. The fact is that there is no real supply of single tenant data centers. The favorable to semi-favorable existing facilities were absorbed in and around late 2005. The few left on the market are either too expensive to retrofit or virtually obsolete by today’s technology standards.

This brings us to, what I like to call, “The State of Data Center Availability in the U.S.”. The short answer, as noted above, is easy: there is none (no real availability). Developers, due to the credit crunch, are developmentally constrained due to the high capital associated with these facilities and the lenders inability to establish credibility with this industry (hesitations resulting from the late 90’s tech boom). Firms that need space “yesterday” are being forced to implement a “band aid” strategy, turning to colocation and data center wholesale space to fill the void. What we have seen in the U.S. data center market, is firms paying a premium for a smaller space than initially desired (because of the current demand), then the internal real estate and technology folks design a long term strategy including plans for a build to suit.