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European Data Centres – A Market in Transition

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In common with other real estate asset classes, the data centre market has also suffered due to the global credit crunch, in particularly on two fronts affecting both the specialist developers of technical real estate and the end users. The challenges facing developers ability to raise debt finance has resulted in a significant slow down in speculative development and at the same time, end users are experiencing severe restrictions on securing internal finance for capital projects. As a consequence the first quarter of 2009 witnessed a reduced take up of stock, echoing the periods prior to 2006, whilst occupiers reassessed their IT solutions and developers reserved their liquidity.

In March 2009 we published *The JLL Data Centre Barometer*, containing independent market research into the views and expectations of key industry stakeholders from both the developers/investors and occupier communities, representing approximately 9m sq ft of data centre accommodation from across Europe. This research was carried in late January and early February and the majority of responses indicated that demand would increase in the latter part of the year and with the trend to acquire technical space within Third Party managed facilities or outsourcing their data centre needs. Presumably the focus on Outsourcing or Third Party facilities is a reflection on the need for flexibility, potential short lead-in times, and also the ability to keep these occupational contracts off balance sheet.

- 60% of respondents expect little change in the size of their data centre **footprint** in the first six months of 2009 and a further 10% remaining undecided. The balance swings in favor of increasing **data centre stock** in the second half of the year, with nearly 50% of respondents indicating they expect some expansion.
- Nearly 75% of respondents report an **expansion** of their **floor space** within a third-party managed facility, although around 60% of these expansions had only been by 10% or less.
- Over 50% of respondents agree that **outsourcing** will become more prevalent as a data centre solution over the next 12 months

Now that we are in early May, is there any indication that the above statements are beginning to be reflected in what is actually happening on the ground? It maybe over ambitious at this stage, to state that we are witnessing significant increase in demand and transactions compared to the last 2 quarters, but there are some encouraging trends.

London, historically, has been the most active data centre market in Europe, accounting for 80% of the UK market, which itself comprises 40% of the European market for Technical Accommodation. Within a 50 mile radius of the City, we are currently tracking approximately 200,000 sq ft of raised floor demand with an average requirement size of 10,000 sq ft. across diverse sectors (retail, investment banking, Government, Public Bodies, Universities) It is estimated that a least half of these will be completed by the summer. This does not include the "...will do something in due course" groups or the Third Party hosting companies, who most are keeping a watching brief on potential new sites.

In terms of other Tier 1 European Cities, London remains the catalyst. Over the last 12 months, Frankfurt (25%), Paris (15%) and Amsterdam (10%) all show marginal increases in levels of stock as new developments are completed, but overall vacancy rates continue to fall, but take up is at a much slower rate than previously. Infrastructure continues to constrain widespread development, but also developers and operators are seeking much higher levels of commitment from occupiers, prior to commencing construction. Recent announcements of letterings by DRT in Paris, and IBM in Netherlands all indicate positive market sentiment, but the picture highly variable. Outside of the Tier 1 Cities, the markets are extremely weak.

Across the Region, the Third Party systems integrators are the most active sector. Whilst there have been some Corporates who have acquired sites or shell data centres, the indication is that the Third Party operators are preparing for large growth in their sector, and they are focusing upon large powered sites in the Tier 1 Cities, which they can bring to the market on a 12-18 month timescale

It is too early to predict whether this indication of growth is sustainable as for each success story there are other IT Directors that have been unable to persuade their finance teams to release funds, even though their existing facilities are struggling to cope. A common response is --will review next quarter but any significant Capex expenditure will not be sanctioned.

The initial market evidence appears to confirm the results of our research. Given the continued corporate restraint on capital projects coupled with increasing reliance on IT from all sectors, those Third Party hosting and specialist technical real estate developers who have established track records and finance already in place will benefit from occupiers seeking Opex solutions, often with relatively short lead-in times.

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