

# BIG DATA'S BIG FUTURE FOR PROPERTY INVESTORS



*“WE HAVE ADVISED ON MORE THAN \$18BN OF DEALS OVER THE PAST 12 MONTHS”*

More data has been created in the past two years than in the previous 5,000 years of human civilization. We are all producing digital data at such a rapid rate that by 2020 it is predicted there will be 10 times the amount of data that there is today. But all that information must live somewhere. After all, when we store our personal photos or company accounts in the Cloud, those files aren't being sent to a mythical virtual realm, they are going to remote computer servers housed in buildings known as data centers.

## **DATA BOOM**

As data creation rockets, it is likely that the demand for data centers will increase too. Advances in server storage may help absorb some of the shock from Big Data, as everything from washing machines to roads and railways become connected to the Internet of Things. However, these are

unlikely to be enough to store all the data we are generating in existing data centers.

If you believe that smart technology's role in our lives will continue to grow, it is easy to see there will need to be a corresponding proliferation of data centers, too. This belief is supported by evidence from the

market: \$18.2 billion was invested in U.S. data centers in the first half of 2017 – more than double the total investment in 2016.

For property investors, data centers represent a golden opportunity to break from the traditional confines of offices, retail space and logistics into a new and growing market.



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### **CROWDED MARKET**

Right now, there is more capital chasing investments in traditional real estate around the globe, such as office and retail space, than there are physical assets to meet the demand. This drives up property prices, and is forcing investors to look beyond shopping malls and warehouses for alternative assets. Data centers fulfill this role perfectly.

Previous fears over their perceived complexity are receding as investors better understand their potential. While there are a few companies that own data centers and actively manage servers within them, most data center property investors are responsible for only providing the building, power supply and air conditioning. Tenants are responsible for the technology inside them.

In this respect, there is little to distinguish data centers from more traditional sectoral investments.

### **TRACK RECORD**

Concerns about the risks of investing in data centers are also easing as more and more of them show a strong performance sustained over several years.

Analysis by RBC Capital Markets shows data center investments in 2017 outperformed both the Standard & Poors 500 Index of the U.S. most valuable listed companies and an index tracking real estate investments in

general. And it is the same story looking back, with data centers outperforming both indexes since 2011. This sustained record is important as it opens data centers to a wider pool of investors.

While private equity funds with a greater risk appetite may be still be expected to take on the riskier construction and start-up phases of building a data center, facilities with established revenues can expect to attract the attention of funds with more conservative investors, such as pension providers and insurers.

Such positive performances will also make data centers an attractive proposition to Arcadis' real estate clients, whom we have advised on more than \$18bn of deals over the past 12 months. Many of our clients are looking for solid, stable investments, but also pride themselves on being ahead of the curve. Data centers could tick both these boxes.

### **VALUE ADDED**

Data centers could also meet another need for fund managers and investors seeking to maximize on returns while providing value for clients in a highly competitive market. Here they present an opportunity for investors to lease computer server space in data centers to their office or retail tenants, thus providing more of a one-stop shop for all their clients' real estate needs.

As organizations become increasingly digital, it makes sense for investors to back not only the spaces that are home to companies' physical operations, but also the buildings that house their valuable data too.

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