



## Data Centre Investment: A no brainer or buyer beware?

Guest blog by Vijay Mistry, VIPA Digital

Until recently, data centres comprised an asset class that was the province of a very limited range of investor types: specialists in technical real estate or IT services businesses. Other funds steered well clear of this relatively new and poorly-understood option. Even property and infrastructure investors seeking predictable and stable returns from a physical asset base - for whom data centres might seem a good match - have historically shown little interest in the sector.

However, as return rates across the global economy have been dropping off, these, and other, investors have been exploring opportunities outside their traditional comfort zones. Data centres, demonstrating very strong growth over the last decade, resilient returns even during a recession, and plenty of future potential in terms of expansion of customer demand, are now attracting a much wider range of investors for equity and debt financing.



## **Investor Attraction**

In particular, infrastructure funds are now taking a keen interest in the industry – hitherto they would typically have restricted themselves to construction programmes like roads, bridges, railways and airports, but they are becoming more comfortable that data centres, now widely regarded as core digital infrastructure, have a long term future, and the capacity to stimulate economic growth. Some of those investors are starting to bundle data centres with asset classes around smart technology, Telcos, network operators and other tech infrastructure.

At the same time, property investors and pension funds are also exploring this new asset class: from the outside one warehouse looks much like another, but data centre developments are delivering relatively high returns compared to traditional light industrial units. Investors are curious to understand how the combination of property and digital infrastructure differentiates the sector in terms of the business proposition and long-term investment potential.

## **Technology Real Estate**

In effect, the property element provides a stable, physical asset and a solid investment but, under current market conditions, likely to deliver only modest returns. However, by using those physical buildings to host digital information exchanges and by stitching them together through a network the proposition is transformed. Data centres are not just warehouses filled with computers; they host internet exchanges, financial exchanges and the interconnects between customers and customers' customers that comprise a digital business ecosystem. In this capacity, they become magnets that attract service providers and customers alike. Consequently, it is the merger of property and digital infrastructure that presents the real opportunity.

This transformation is evident in Technology Real Estate Investment Trusts (REITs) that have specialised in technical real estate, initially as landlords but now as service providers of digital infrastructure. Share price growth is consistent and healthy. This reflects the condition of their customer base who are themselves experiencing rapid growth and have the appetite for large scale contracts with a commitment that is relatively long term. It is, therefore, no surprise that with 5 – 10 years of guaranteed revenue from well-funded global cloud service providers, investors are keen to be part of this, especially when other parts of the market are looking more challenging.

## **Navigating the pitfalls**

However, investors unfamiliar with data centre markets and the characteristics of digital infrastructure need to be wary. Location is critical and a poorly placed data centre investment can result in a costly stranded asset with a low likelihood of future returns, but there are other pitfalls. Investors need to understand the landscape from a technology perspective: they need to know what they are buying and there are serious risks if the technical aspects of the investment are misunderstood. An investment house can identify opportunities, merge, grow and optimise value, but they may be missing the technical know-how that makes the difference for these specialist acquisitions.