Why London?

Because Ours Goes Up to 11

Nobody who has seen “This Is Spinal Tap” could forget guitarist Nigel demonstrating the capabilities of his Marshall Amp. The output of this magnificent piece of apparatus was not limited, like other amps, to a maximum volume of 10. It went all the way to 11. While in truth this analogy does not withstand too much detailed scrutiny, nevertheless it is a jolly way to start a discussion on data centre location factors. Why is London the second largest data centre market in the world? Why indeed?

I was chatting to Derek Webster from Schneider-Electric about locations of choice for data centre operators and we ran through all the factors that inward investment agencies cite. These include access to cheap power, connectivity, ease of planning, taxation regimes, data protection regime, local and national incentives, available skills, stable policy environment...the list goes on.

Top of this list on most inward investment advertorial is cheap and green power, followed by connectivity, accommodating planning regimes and financial incentives. London’s power is not the cheapest, those responsible for implementing our planning regime are not always conversant with the unique characteristics of a data centre build and financial incentives are thin on the ground. So what’s special about London?

Let’s start with power. It may not be the cheapest but it certainly is nowhere near the most costly and prices have dropped further now that a couple of troublesome energy taxes have been mitigated for operators. But the good thing about power supply in the UK is that it is unlikely to fail: the UK power grid is among the most reliable in the world, ranked third at the moment. So that’s the power play. Not bad but not compelling either.

Where we do better is connectivity. When I asked Derek about connectivity, this is (roughly) what he said: “London has unparalleled global fibre connections both in terms of size and reach. London’s intercontinental fibre reach covers global to local requirements and its major internet exchanges provide unparalleled access between multiple continents and Europe. It is difficult to find a more fibre connected city with anything like its market reach in terms of commercial speed and bandwidth”. I tend to believe him – he’s seen them all. London’s ability to accommodate financial, enterprise and cloud market services is at a truly global scale.

So....fattest pipes, longest reach: London has connectivity to die for but others are catching up. Look at Ireland where the cables land, at Amsterdam with mainland connectivity, at Frankfurt with links eastward, rapidly building connectivity into the big growth area of Eastern Europe. Look at the money being invested in connectivity in places like Luxembourg. Eye-watering.
How about policy? London has a stable political and legal system and robust data privacy (I’ll come back to these later). The tax regime is less punitive than some but not compelling like Ireland. Although relevant government departments view the data centre sector as a key priority industry and have supported UK operators in certain areas, the UK lags behind almost every other nation in terms of proactive support for data centre inward investment. In this respect our leaders are better at talking the talk than walking the walk. So in terms of policy the situation is a bit of a Curate’s egg – good in parts.

Then there are things like geophysical stability, land costs and rents and planning. Earthquakes are very unlikely but that doesn’t differentiate London from many other markets. Land is expensive in London and the process for obtaining planning approval can be time consuming, especially as we have a habit of gold plating European legislation in the UK, so there is nothing to single us out here as a destination of choice. Let’s keep looking.

I personally think that London’s attractiveness boils down to three things: age, beauty and experience.

Let’s start with age. London is where the European market began. Our world leading financial sector generated the initial customer demand, which provided a platform around which a complex and dynamic ecosystem of customers, operators and suppliers gradually evolved. As pretty much the only show in town for a long time, London inevitably attracted all the key players. London hosts a huge mix of international corporations reaching westward to the US and east across Europe. Like celebrities they brought with them all their hangers-on, and they have all got comfortable and got to know other people and stuck around and created demand for a myriad of supporting services, and so it goes on. So London had the first mover advantage in terms of customer base and has had eighteen years to build on that. So age matters.

Beauty: Nobody can deny that London is a genuine global, European and domestic data centre hub, but why has it proved so irresistible? It’s because London is a beautiful place to invest. The UK is politically stable, with transparent regulation, robust compliance and regulatory controls and standards and a highly respected legal system. London attracts Foreign Direct Investors with its safe structured environment, ownership rights, ease-of-doing-business and ROI potentials. London has been described as the “ultimate place to de-risk”. UK H&S and asset procurement delivery is regarded as world leading. When you consider that data centres are among the most expensive real estate investment developments in the world, you can see why beauty counts.

Thirdly, experience: Nobody can deny that London has world class experts in sector investments, finance, funding, innovative data centre design, engineering and construction, technical brokerage, procurement and delivery and energy management, just to name a few. It is no coincidence that London hosts the world’s largest data centre advisory team or that London exports its engineering and advisory expertise all round the world.

Should we be resting on our laurels? No. As data centre markets grow in other locations they build up their own critical mass. Take a look at Ireland. The inward investment into Dublin over the last six months has been staggering. Yes, initially this was about taxes but now there is a critical mass of hyperscale cloud operators there and the ecosystem is up and running. So I don’t believe that this market will implode if for some reason those tax advantages are not maintained. Frankfurt and Amsterdam have mainland connectivity and very active inward investment programmes, and the Nordics, though some way behind, have the advantages of low cost green energy and unparalleled speed to market.
So London’s dominance is not invulnerable, there is plenty of competition, and I might be writing something different in five or ten years’ time. But for the moment, London is still the place to be. It’s a bit like going to a party. Why would I go to a party? Yes, the food, the drink, the music, the attractiveness of the building are all factors but I really go because of the people. What I really want to know is who I will see there. So it is back to the Marshall amp. The basics come with the territory - whether they are power and planning or food and drink - and you just come to expect them. In truth I don’t care that much what I am eating. What really matters is with whom. That’s what takes London up to 11.

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