DATA CENTER
SNAPSHOT

UNITED STATES

Cushman & Wakefield Data Center Advisory/Research

WINTER 2015

NATIONAL OVERVIEW

- **Dynamic markets, large & small.** The U.S. data center market exhibited a robust year of leasing in 2014, building from leasing momentum established late in 2013. The most vibrant markets were Dallas and Northern Virginia, with each geography tallying nearly 40 MW of new data center leases. Dallas, in particular, captured some of the largest wholesale deals in the country in 2014, including: LinkedIn (7 MW), T-Mobile (4.5 MW) and State Farm (6+ MW). Secondary markets also continued to see strong demand, with T5 Data Centers breaking ground on its Portland facility with a multi-megawatt anchor tenant and Switch announcing its $1 billion entry into the Reno market with eBay serving as the anchor for phase I.

- **Signs of market maturity.** At the start of the year, large blocks of sublease space were being placed on the market by the likes of Facebook, Yahoo! and Zynga in the Northern California and Northern Virginia markets and there was valid concern these availabilities would negatively impact market dynamics. Somewhat surprisingly, this second generation space has seen healthy interest and large portions of this space continued to be leased throughout the year – including a recent sublease transaction in Santa Clara.

- **Pricing starting to stabilize.** Despite strong leasing, pricing trends have been somewhat at odds with the healthy market dynamics. Wholesale rates remained relatively flat in 2014, averaging $125-$140 per kW per month. However, some of the most active and dynamic markets still continued to see very aggressive pricing for both large deals or those perceived to have significant growth potential. While pricing is unlikely to increase in the short-term, the largest providers are becoming more stringent in concessions and ramps and this will contribute to firmer pricing in 2015.

- **Supply constraints in 2015?** While new data center capacity is being delivered in nearly all U.S. markets by providers large and small, data center operators continue to become more disciplined and sophisticated in phasing in new supply. With a burgeoning pipeline of tenant requirements pointing to sustained demand, there are growing concerns that some markets may see temporary pockets of supply constraints – similar to conditions in Northern Virginia this time last year. Some providers have already struggled to stay ahead of an acceleration of requirements (see sidebar).

NEWS & NOTES

- Zayo Group continued its acquisition streak, announcing in early January it was paying $675 million for data center operator Latisys. Latisys' footprint totals just over 180,000 sf (operational), with facilities in Orange County (CA), Chicago, Denver, Northern Virginia as well as a colocation/cloud services offering in London.

MARKET SPOTLIGHTS

MINNEAPOLIS

In the last 24 months, several providers have made sizeable investments in the market, including ViaWest, Stream Data Centers, CenturyLink and IronGate. As providers have recognized the region's demand potential, the market has moved from dramatically undersupplied to now having a wholesale market capable of attracting sizeable deployments.

DALLAS

Pricing remains competitive despite strong demand. The number of multi-tenant providers with immediately available large wholesale options are dwindling. With Stream having sold its Richardson facility to TD Ameritrade, Cyrus One and QTS have quickly emerged as the only providers with immediately sell-able large blocks of space in the market. Digital Realty – the largest landlord in North Texas – will not have new capacity available until sometime later in 2015.

SANTA CLARA

Despite the increased number of sizeable requirements shopping the market, there are ultimately only a handful of large, first generation wholesale space options for tenants in the Bay Area. Among the 11 options that can accommodate a 2+ MW requirement, half are either sublease options or second generation space.

U.S. MARKET INDICATORS

WHOLESALE PRICING (1 MW-SIZED DEALS)

LOW ($US/kW/MO)	HIGH ($US/kW/MO)	QUARTER TREND	2015 FORECAST
$110	$180	→	→

SUPPLY & DEMAND

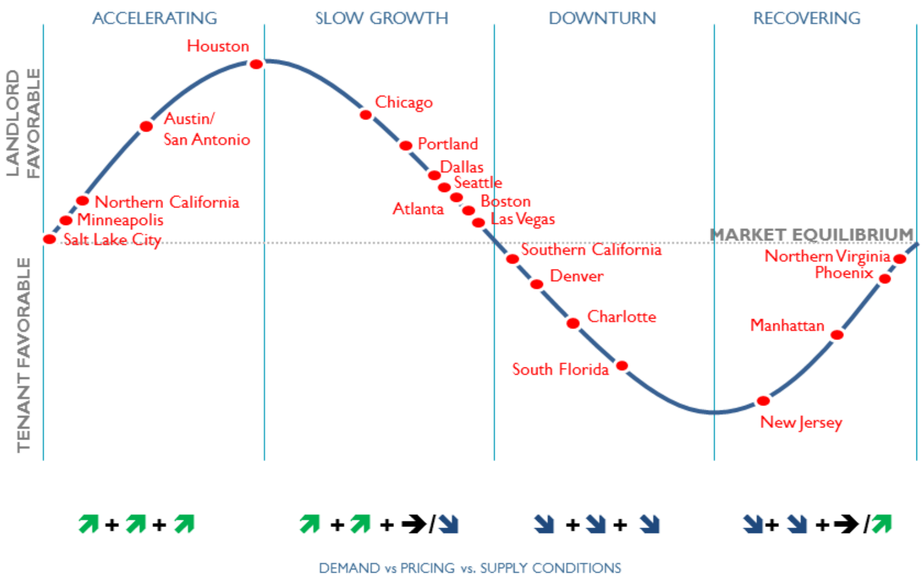
BALANCE			TENANT DEMAND	SUPPLY PIPELINE
OVER SUPPLY	EQUILIBRIUM	✔ UNDER SUPPLY	↗	↘

Wholesale pricing reflects initial monthly recurring rental charge without electricity per kW per month. An estimate for operating expenses is added where landlords quote only NNN rates.

Data Center Snapshot

UNITED STATES

WHOLESALE MARKET CYCLE



The Market Cycle measures the multi-tenant data center market across three different metrics: levels of tenant **DEMAND**, availability of existing and future **SUPPLY** and trends in **PRICING**.

The graph is separated vertically with a Market Equilibrium line - markets above the line are considered "landlord favorable", those below the line "tenant favorable". Relative proximity to the equilibrium line implies the strength and/or weakness of a market relative to each other.

Markets positioned in the four horizontal quadrants represent the following:

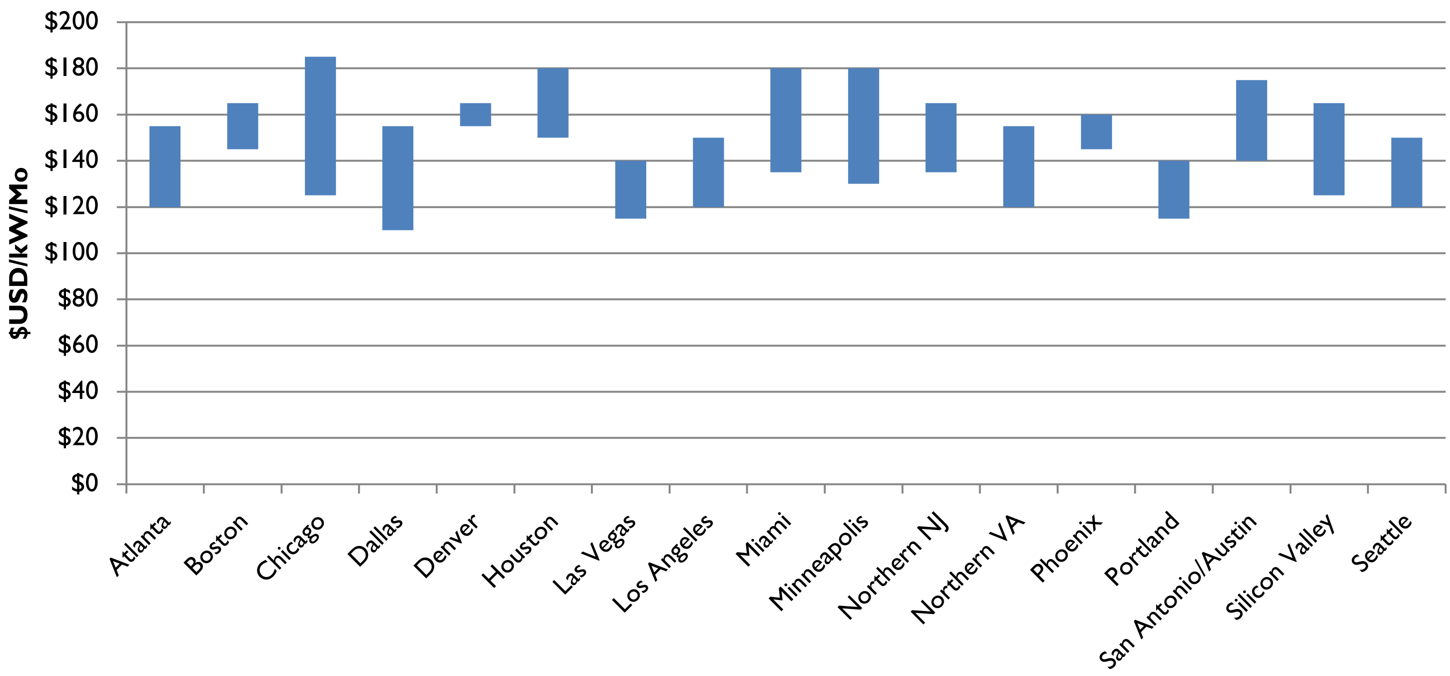
ACCELERATING: pricing trend is positive, demand trend is strong, and supply is shrinking/being absorbed *(under-supplied, landlord favorable)*

SLOW GROWTH: typically, one but not all metrics trend flat or negative compared to ACCELERATING quadrant criteria *(landlord favorable)*

DOWNTURN: pricing trend is negative, demand trend is weak, and supply is in abundance *(over-supplied, tenant favorable)*

RECOVERING: typically, one but not all metrics trend stable or positive compared to DOWNTURN quadrant criteria *(tenant favorable)*

CURRENT PRICING TRENDS



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