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Data Centre Barometer - January 2010

The Jones Lang LaSalle Data Centre Barometer

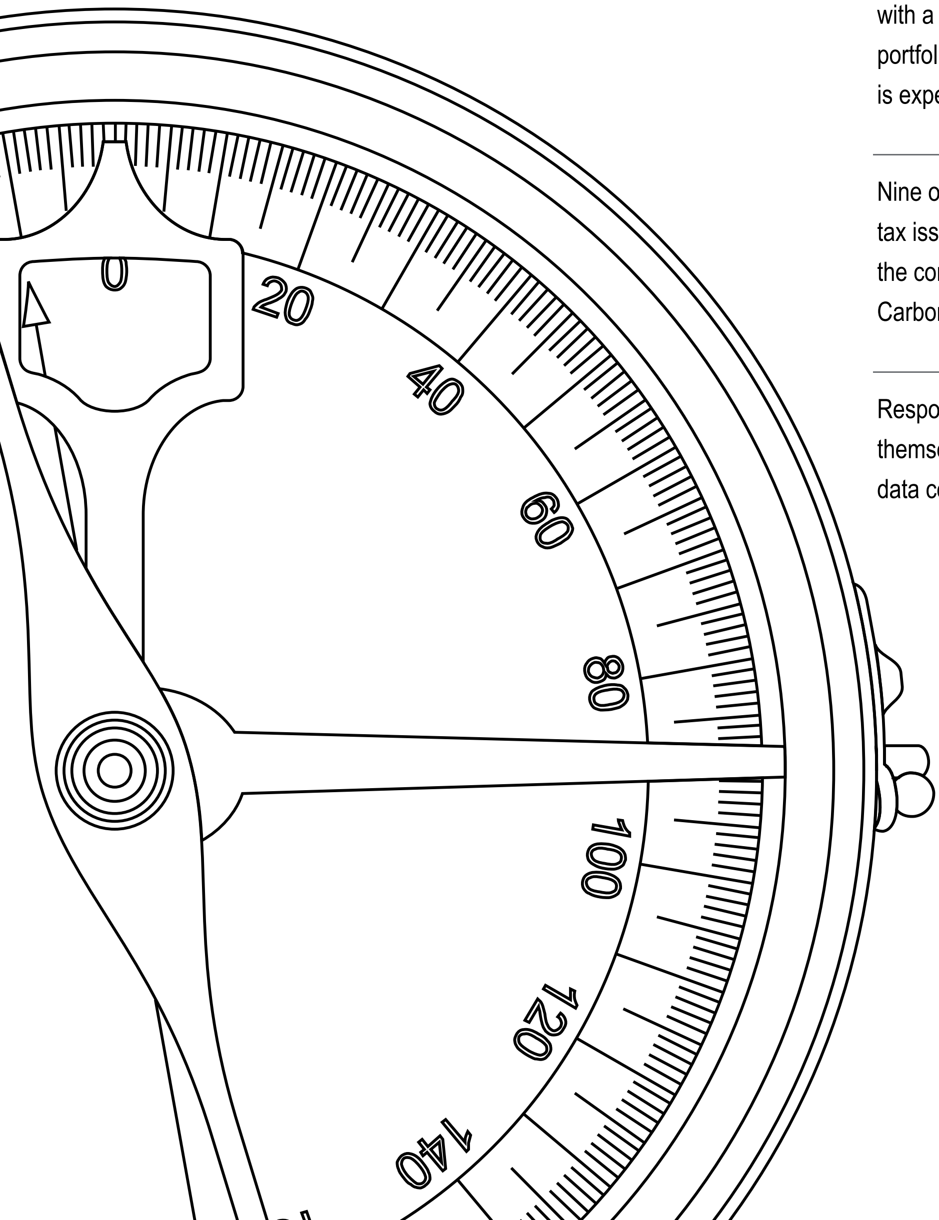
January 2010 – Issue 3

Clear signs of a growing confidence amongst stakeholders – occupiers, landlords and service providers across the European data centre industry.

Occupiers intend to add to their data centre portfolio during 2010 with a majority expecting to see an increase in their 'in house' portfolio, whilst access to finance to fund data centre expansion is expected to become easier.

Nine out of ten respondents believe that energy cost and carbon tax issues will impact significantly on data centre occupation over the coming year in anticipation of the imminent introduction of Carbon Reduction Commitment legislation in the UK.

Respondents indicated that significant financial savings by themselves would not be sufficient to encourage them to acquire data centre accommodation in another country.



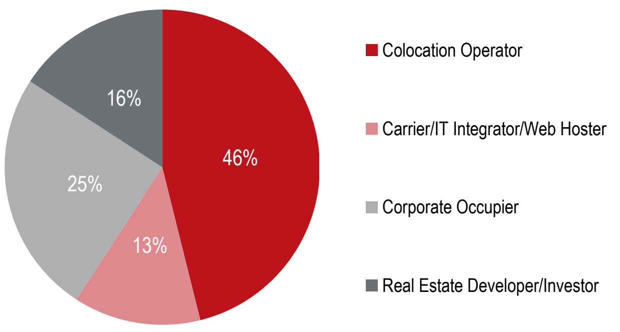
The Jones Lang LaSalle Data Centre Barometer

Welcome to the third Jones Lang LaSalle Data Centre Barometer (DCB), marking the end of 2009. As with previous editions, DCB3 comprises an independent market survey of the industry's key stakeholders from across Europe, by iXConsulting together with market comment, and guest features from other service areas of Jones Lang LaSalle.

Our survey for DCB3 was undertaken in mid-late November 2009, and thus reflects the views and opinions of stakeholders at the end of 2009, as they begin to strategise and budget for 2010, respondents who control in excess of 11.1 million sq ft of technical space gave their professional opinions. As with previous editions, everything to do with the survey and responses is coordinated and analysed by iXConsulting, ensuring a truly independent market survey across our industry.

Interestingly, the increase in responses was largely because of a rise in the number of Colocation Operators who replied to the survey. Does this mark a turning point for our sector, and could 2010 be the year of the Third Party Provider?

Respondent profile



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

The message we receive from the Survey, and underlined from our conversations in the market is that all sectors of the Data Centre market have greater confidence than before; whether this is unique to Data Centres or a sentiment shared with the wider economy, only time will tell. The fact that 60% of Developers have identified demand during the first half of 2010 an important factor in their decision making process, clearly shows one side of the argument, but likewise, here in London none of the long talked about major new DC developments have yet to commence construction, and this is reflected across the region. Let's hope that the very positive response to the survey's question on the ability of Corporates to raise finance over the next 12 months holds true, and that this benefits the development funding market too, and that new, good quality stock can be introduced, before lack of product begins to impinge upon the market.

The theme for the later period of 2009 was one of steady progress. 2009 Q2 saw over 50% of the years total Data Centre take up, and indeed June – August saw almost 75% of transactions. What is noticeable about the later part of the year is the return of the Banking sector to the Data Centre market, in a small, but nevertheless significant way, accounting for almost 60% of new take up during the later half of 2009, together with several new Banking requirements which are currently being progressed.

However, the size of the average transaction remains at under 10,000 sq ft, and the largest at 22,000 sq ft: this we believe will continue for 2010. Occupiers will take small amounts of technical space, to supplement their existing core holdings. Budget restrictions will mean that there will be limited forward planning, and operational reasons will dictate that space will be taken at relatively short timescales, wherever Data Centre accommodation can be secured. This is not the age of the stand-alone Enterprise Data Centre, but of the Colocation Operator or Developer who can raise sufficient finance to get one step ahead of its' competitors.

Lack of new Data Centre product is continuing to push rents up, and this combined with the uncertainties of the UK Government's Carbon Reduction Commitment is already pushing occupiers to consider locating their data outside of the UK. The UK Data Centre market must remain competitive in the international marketplace, and the UK Government must recognise the knock-on implications of losing the dominance it currently holds.

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Respondent Analysis

1. What best describes your view of the European market at present?

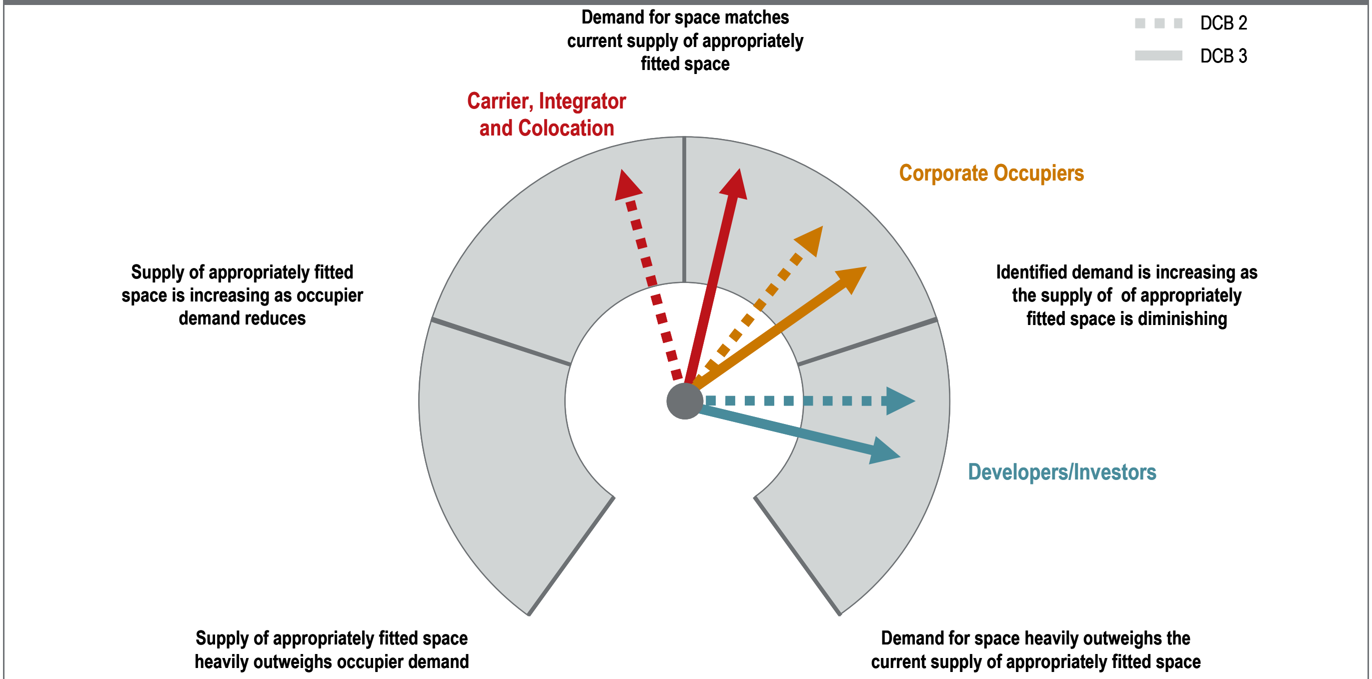
This is the principal gauge of changes in sentiment felt amongst the stakeholders in terms of data centre floorspace take-up and development across Europe. It provides an insight into possible future activity and is designed to measure market sentiment looking forward from the survey date (November 2009). The evidence suggests that those with an active participation in the data centre industry continue to hold a more positive attitude regarding the prospects for the industry in 2010. Well over half of all respondents share the view that demand is on the rise while supply is becoming more constricted, and less than one in five of our developers, investors, operators and occupiers indicated that they thought supply outstrips demand to any degree.

Whilst earlier editions of the survey highlighted some differences of opinion amongst the different stakeholders in the data centre industry, our latest results suggest a narrowing of this gap. Developers and investors, perhaps unsurprisingly, remain our most positive group of respondents, indicating that they perceived the balance between supply and demand of data centre stock remains favourable to them. With just over 60% reporting that they believed demand heavily outweighed the current supply of appropriately fitted space, the results were broadly in line with the findings from our last survey taken in July 2009. Notably, no respondents from this sector now believed that the supply/demand balance had moved in favour of the occupier, contrasting to the one in five recorded previously.

The majority of our corporate respondents appear to share their view that the market is leaning in favour of the landlord or developer. Two thirds of corporates questioned thought that demand 'heavily' outweighs supply or that demand is on the increase as available stock diminishes.

Sentiment appears to have changed the most amongst the colocation/IT providers and carriers, who show a more positive interpretation of the market across Europe than they had in our previous survey. Now one in two reported that they perceived demand to 'heavily' outweigh stock supply or that they saw demand increasing as supply of appropriately finished supply diminishes. There are still a fifth however, who report a note of caution that they see supply of space on the increase and demand tailing off, albeit at a reduced scale than recorded in DCB2.

The Data Centre Barometer



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

2. What proportion of your total European data centre capacity is based 'in house' or with a '3rd party'?

As has been tracked previously, our colocation operators and IT integrators/web hoster respondents prefer to manage their own facilities, with nearly three quarters recording that 80% or more of their data centre portfolio was internally managed, a slight uplift on the two thirds in our last survey.

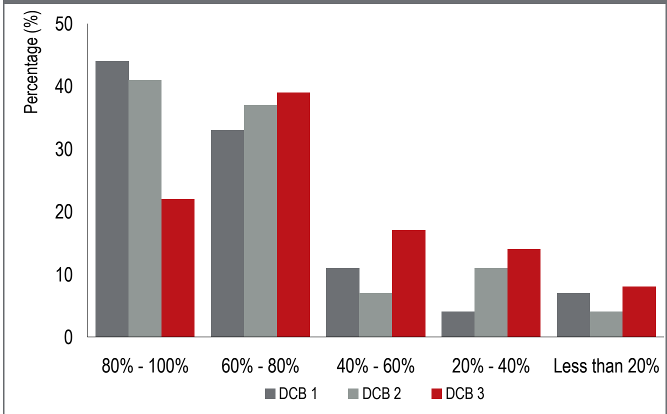
Amongst our corporate occupiers, a polarisation of data centre occupation strategies continues, and whilst there may be a number of further drivers to this, size of total data centre space used appears to be an influencing factor. On average, corporate respondents indicated that they run three quarters of their capacity 'in house' although at least two fifths of respondents manage their data centre estate entirely with no data centre outsourcing to third party providers. Results showed that amongst the larger corporate occupiers (those in the top quartile by occupied data centre floor space) just two out of ten relied on an outsourced data centre solution, whilst seven out of ten of smaller corporates (those in the bottom quartile by total data centre floor space monitored) used third party data centre providers. This may well reflect the differences large and small enterprises have with regard to access to capital and also the perceived efficiencies that owners of larger data centres can realise through development of their own space.

3. How much of your current 'in house' data centre space are you actively using?

Since our last survey, we have seen a reported change in the average amount of 'in house' data centre space that is being actively used across all our surveyed companies; just one in five respondents indicated that they were using over 80% of their technical footprint now, down from the two in five recorded last time.

Indeed, adding the results from our first edition of the survey shows an ongoing trend over the course of the year that has seen our respondents have proportionately more internal data centre available – an indication of new facilities coming on-line through development, with expansion space programmed into the delivered solution. Alternatively occupiers have rationalised their existing technology thereby freeing up space which might not be readily capable of being released. This is particularly important for the colocation and managed service providers who need to retain suitable levels of availability in order to respond swiftly to requests from customers to commission technical space.

How much of your current 'in house' data centre space are you actively using?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Analysis of the responses does not provide evidence to suggest that the total amount of data centre space that a corporate occupies has any notable impact on their vacancy rate, but the fact remains that corporate respondents reported average utilisation rates of around 70% and notably no corporate respondents indicated they were actively using less than half of their space – understandable against a background of tough economic environment and corporate efficiency drives.

4. How has your total 'in house' fitted technical floor space altered over the last six months?

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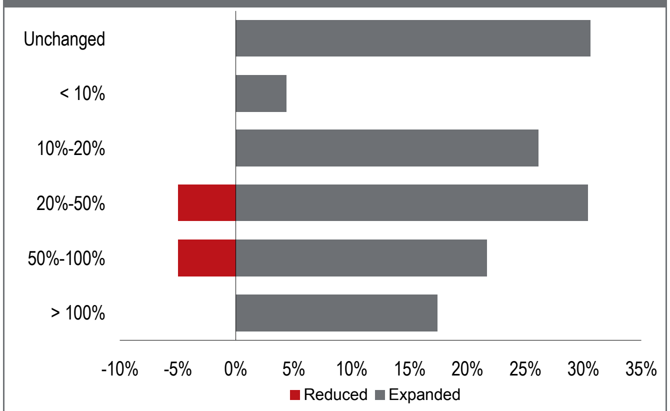


Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Over the six months to November, around two thirds of our occupier respondents reported an increase in their 'in house' managed data centre capacity, a marginal increase on the 60% recorded in the preceding survey. A further 30% saw no increase and less than 10% indicated that they had reduced their internally managed space.

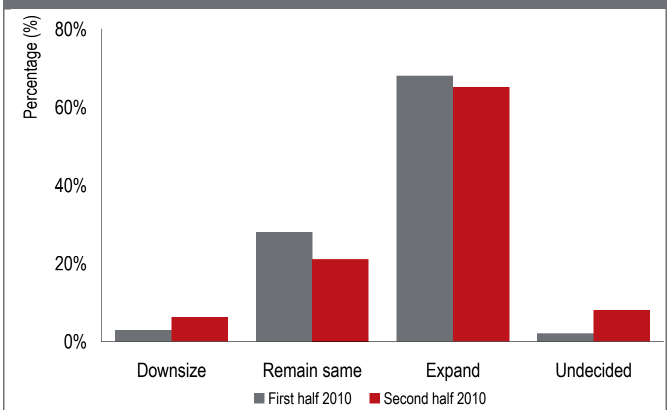
Of those occupier and operator respondents who indicated they had increased their ‘in house’ technical floorspace over the past six months, around 70% reported an increase of at least 20%, a decline on the 80% reported in our preceding survey. However, nearly a fifth of respondents have now reported that they have more than doubled their ‘in house’ capacity, a rise on the 5% recorded in July.

5. What are your current expectations for changes to your ‘in house’ technical data centre area?

Encouragingly, whilst past surveys indicated that occupier and operator respondents appeared to have adopted a ‘wait and see’ attitude before making a decision with regard to their internal data centre expansion requirements, latest evidence suggests that overall there is a greater degree of optimism for the coming year. Three out of five respondents now expect to expand their internal technical floorspace sometime during the course of 2010, a proportion that remains encouragingly constant over both halves of the year suggesting a more balanced forecast.

Whilst conclusions drawn from the comparison of concurrent surveys must always be taken with an underlying caveat, the reported uplift from two in five respondents expecting to expand in the first half of 2010, as reported in July, compared to two in three now should be encouraging.

What are your current expectations for changes to your ‘in house’ technical data centre area?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

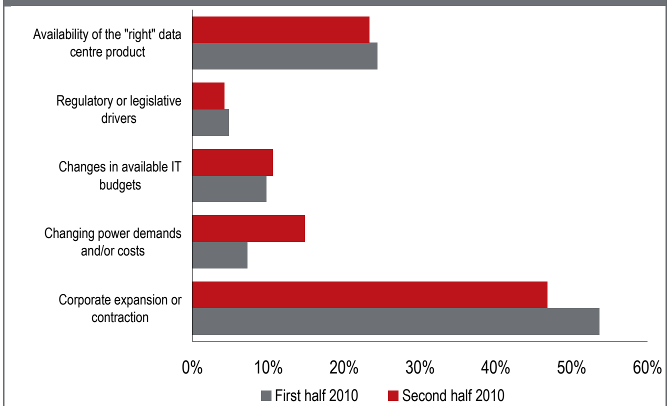
Notably, our corporate respondents were the most circumspect amongst our respondents with only half expecting to expand their ‘in house’ portfolio over both halves of the coming year.

6. What factors are driving these changes to ‘in house’ technical data centre area?

Corporate expansion or contraction was identified as being the single most important factor for driving 2010 changes to ‘in house’ floorspace - nearly 55% of respondents said it was the significant driver during the first half of 2010 and 45% said that was the case during the second half of the year. Just over a fifth of respondents ranked the availability of the right data centre product as an increasingly important factor during both halves of 2010, suggesting that some respondents may have requirements ahead that could be frustrated by a perceived or real lack of appropriately specified space, in terms of both timing and specification.

Another notable trend is that one quarter of respondents in DCB2 expected changing power demands and/or costs as an important driver during the first half of 2010; a proportion that has now fallen to less than 10%. However, during the second half of the year this rises to 15%. Why nearly twice as many respondents should be concerned about this in the last half of the year compared to the first is not immediately apparent. This overall finding is perhaps surprising given that intuitively power is thought to be ranked as an important driver of data centre decision making. It may reflect a lag between drivers that are perceived to be influential and the reality of having to operate within the constraints of IT budgets and, particularly, making use of existing facilities.

What factors are driving these changes to ‘in house’ technical data centre area?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

7. What factors are influencing the decision making process for developers and investors with regard to expansion over the next 12 months?

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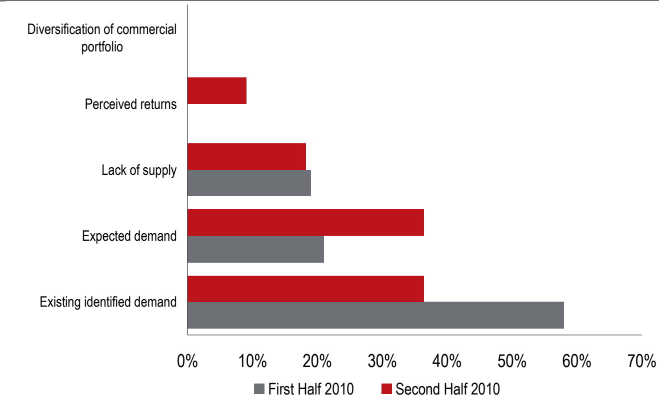


Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Over the past 12 months three quarters of or developer and investor respondents have expanded their portfolios. A notable response in our latest survey with regard to the decision making process of developers and investors is the fact that almost 60% identified existing demand as an important factor during the first half of 2010 whilst a further fifth identified expected demand. This reverses the pattern suggested for this period in the last survey and provides clues that respondents now see what had been expected demand turn into active demand leading to real requirements.

In addition, with the relative lack of importance attached to the diversification of portfolio and perceived returns, and the lessening influence of "lack of supply" amongst this group it would seem that developers are underpinning their decision making process with the belief that demand is real and tangible.

8. How much of your current '3rd party' managed data centre space are you actively using?

With regard to '3rd party' managed space, around half of all respondents indicated that they were actively using over 80% of their technical data centre space, a slight drop since the last survey but still an encouraging indication that '3rd party' space is being effectively managed.

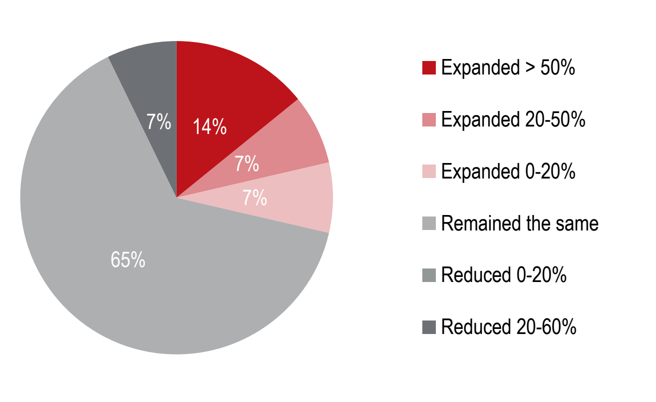
Amongst colocation providers and IT integrator/carriers, this proportion increases to around two thirds, and whilst a slight decline from around three quarters recorded in the last survey, reflects their need to use externally managed space as efficiently as possible, whilst retaining some expansion opportunity for clients with immediate requirements. It is likely that these tenants utilise option agreements on this accommodation to allow themselves the ability to build-out space quickly when required while avoiding the full rental liability on unused space.

9. Has your total '3rd party' fitted technical floorspace altered over the last six months?

According to the survey, the majority of respondents (66%) have seen no alteration in the volume of outsourced technical floorspace over the past 6 months, whilst just over a quarter have expanded their reliability on a third party. In addition, less than 10% have reported that they had reduced their 'holding. Significantly, around half of those who expanded during the period did so by 50% or more, whilst those who reported a reduction did so by 20% or more.

There are differences on a sectoral basis. Given that only one quarter of corporate capacity is run by third parties, it is perhaps not surprising that four fifths of corporate respondents were unchanged in their occupation of '3rd party facilities'. In contrast just over half of colocation and IT integrator/ occupiers respondents remained unchanged, whilst just over a third expanded their portfolio.

Has your total '3rd party' fitted technical floorspace altered over the last 6 months?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

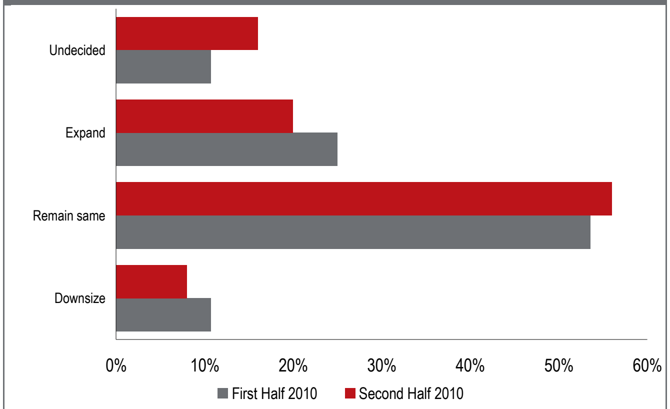
10. What are your current expectations for changes to your '3rd party' technical data centre floorspace?

According to our respondents, 2010 is likely to see companies review and assess their occupation of outsourced managed space. Over half of respondents to the survey indicated that they would keep their occupational profile at the same level, whilst one in five are expecting to expand their reliance on externally managed technical space. Encouragingly, just one in ten has noted that they will look to reduce their exposure to third party providers of data centres, and whether this is likely to reflect a reduction in overall data centre usage, or a move of IT equipment into owned facilities is yet to be concluded.

There are marginal differences in expectations between the first and second half of the year. In the first half, 55% of our respondents are expecting to keep their outsourced data centre footprints at the same level, whilst around one in four would be looking to take on more space. The second half of the year shows a little more caution with a decline in the level of expected expansion and an increase in those expecting the status quo to be maintained.

On a sectoral basis, during the second half of the year, two thirds of colocation providers, carriers and IT integrators expect to retain the same level of occupation of space managed externally, whilst amongst corporate respondents this falls to around a third with a further third undecided. For the third survey in a row, popular factors driving strategies included corporate contraction or expansion and the availability of the right data centre product.

What are your current expectations for changes to your '3rd party' technical data centre floorspace?



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Data Centre Opinions

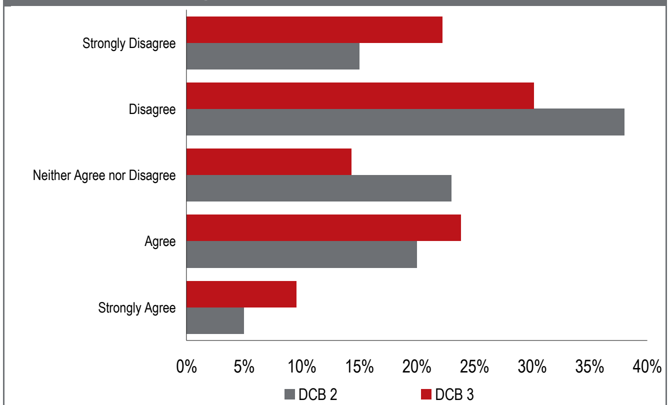
This section of the report focuses on the views that respondents hold on a number of broad themes of interest to the industry such as power, technology adoption, location and related issues.

11. "We find it difficult to quantify the current energy efficiency of our data centre holdings"

In DCB2, around half of respondents indicated that they disagreed to some extent that they were finding it difficult to measure the energy efficiency of their data centres, whilst a quarter admitted to some level of difficulty. In our latest survey, there has been a slight change in balance which has seen more respondents admit to finding it difficult to measure efficiencies of their data centre, which now stands at one in three.

The fact that the proportion of those agreeing with the statement has risen indicates that despite the coverage the subject has attracted over the last year, data centre owners and occupiers continue to require information and education on the metrics currently available to them. Indeed, the onus is on the industry to promote measurements such as Power Usage Effectiveness (PUE) and Data Center Infrastructure Efficiency (DCiE) to all occupiers and operators to ensure useful tools are used to drive efficiencies within all data centre space.

We find it difficult to quantify current energy efficiency of our data centre holdings



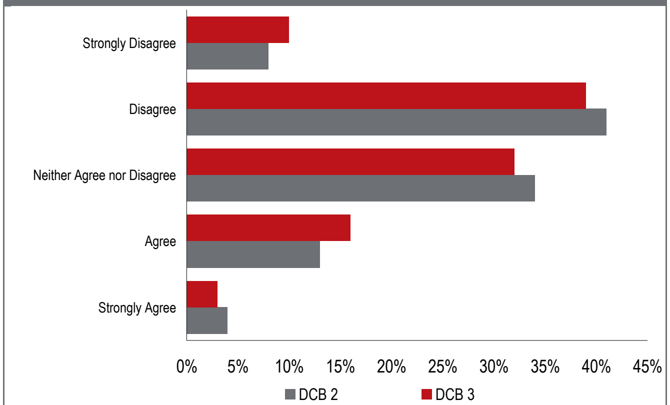
Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

12. "Cloud computing will reduce the need for more data centre space over the next 12 months"

The adoption of cloud computing is still not perceived by the majority of respondents as likely to have a major impact on reducing the need for more data centre space over the coming year, with less than 20% agreeing with the statement to some degree. These views have shown little change when contrasted with those expressed in the previous survey with around one in two still disagreeing that the adoption of this form of technological innovation will reduce the need for data centre space in the next 12 months.

Those who expressed a positive view on this issue were largely drawn from the service providers – IT Integrators, carriers and colocation operators. In contrast almost all corporate occupiers either expressed a neutral viewpoint or disagreed. This may suggest that the practitioners have identified the cloud as an opportunity for them, whilst corporate occupiers are more circumspect with respect to the potential of this form of innovation and its ramifications for data centre occupation, perhaps as a result of concerns over issues such as security.

Cloud computing will reduce occupiers need for more data centre space over the next 12 months



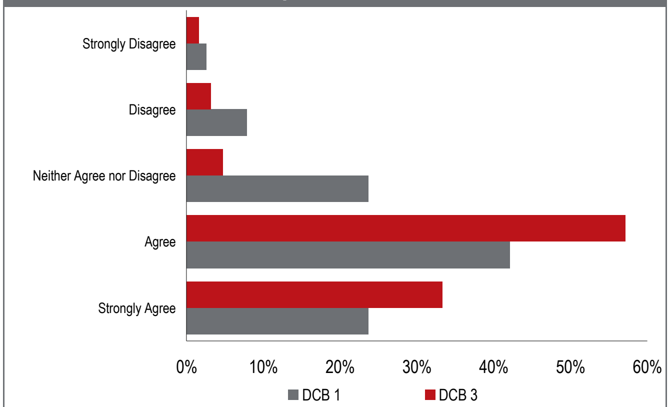
Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

13. "Energy cost and carbon tax issues will have an important effect on data centre occupation over the next 12 months"

After taking a break from this topic in the second survey, we revisited it in our latest edition to see if attitudes have changed over the course of the year. According to responses this time around, we have seen quite a shift in attitudes with respondents far more likely to agree with the statement than was the case in early 2009. Nine out of ten in our survey either agreed or strongly agreed that this issue will have an important effect on data centre occupation in the coming year, a rise from the two thirds seen previously. One factor that might help provide an explanation for this amongst our UK-based respondents is the imminent implementation of the Carbon Reduction Commitment legislation in April, a commitment that is going to have major implications for data centre users.

Noticeably, the small set of respondents who disagreed are within our developer, investor and colocation operators sectors, whilst all corporate respondents either agreed or strongly agreed there would be an important impact.

Energy cost and carbon tax issues will have an important effect on data centre occupation over the next 12 months



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

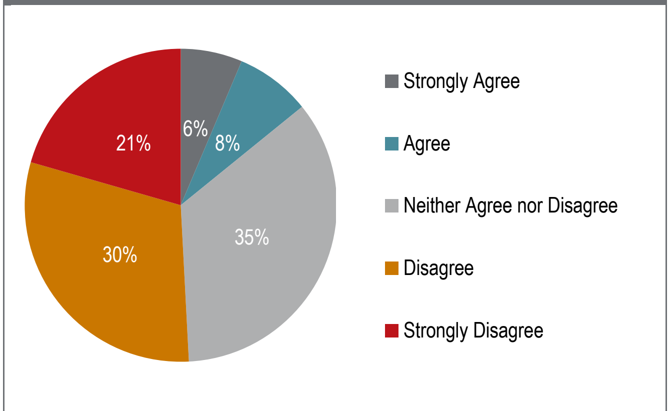
14. "For our next data centre build out we would consider a containerised data centre solution"

Over the past year or so a number of major Information Technology companies have introduced their own containerised data centre solutions. Sun, IBM, HP, Cisco, Microsoft and Google, amongst others have either brought their offerings to the market as vendors or introduced their own containerised versions for their own use.

The findings from the survey seem to suggest that this relatively young concept for data centre build-out has still some way to go before it is accepted by the wider market as a viable method of construction by anyone other than the largest of users. Overall one in two respondents indicated that they would not consider a containerised data centre solution whilst only 14% expressed a positive sentiment. A significant proportion of those who answered – around a third – expressed a neutral viewpoint. As the product advances, and a greater understanding is gained through reports of more widespread uses, this proportion may swing towards a more accepting viewpoint.

On a sectoral basis, amongst corporate occupiers there is an interesting mix of views with almost equal proportions of respondents – around one third - agreeing that they would consider a containerised data centre option as those who said they would not or who were undecided. In contrast over 90% of IT Integrators, carriers and colocation operators expressed a negative viewpoint.

For our next data centre we would consider a containerised data centre solution



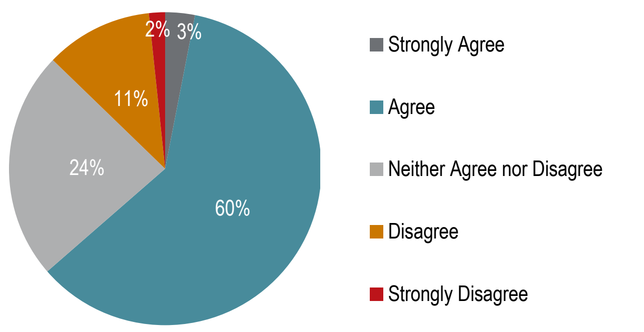
Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

15. "We believe that the availability of finance for corporates will increase over the next 12 months allowing them to carry out data centre expansion plans"

One of the most positive signs derived from this survey is that around two thirds of survey respondents agree that there is likely to be an increase in funds for data centre expansion over the coming year. Albeit the vast majority of these respondents express their affirmation using the more guarded option.

Although this level of positive agreement is reflected across the broad spectrum of respondents, there is one notable exception; around two fifths of developers and investors who replied, expressed their disagreement. This perhaps is surprising given the more positive attitude expressed by this sector in response to their overall views with regard to the European market. That said, it may reflect a hangover from what has been an extremely difficult few years where developers and investors have witnessed the most hostile new lending environments of a generation.

We believe that the availability of finance for corporates will increase over the next 12 months allowing them to carry out data centre expansion plans



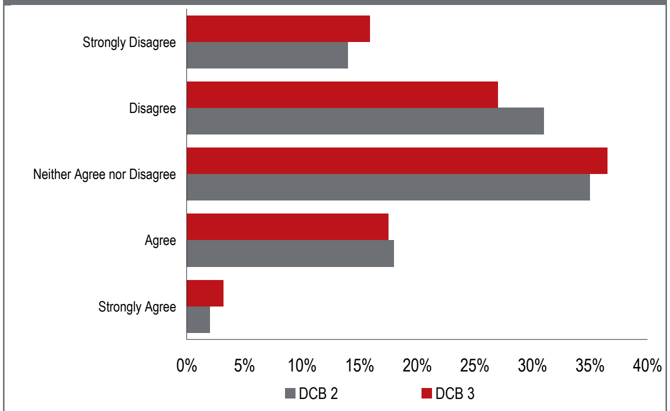
Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

16. "I believe that our Government recognises the benefits that data centres bring to the economy and it is showing support through the use of capital allowances or other financial instruments"

A significant number of respondents - around 43% - do not believe that the government recognises the benefits the industry brings to the economy and is not supporting the industry through the use of financial measures. Around two fifths expressed a neutral viewpoint, whilst only one in six agree that the government provides this financial support.

On a sector basis, over half of developers and investors adopted a neutral viewpoint with almost all the rest expressing the view that the Government is not supporting the industry financially, a profile also shared by the Corporate sector. IT Integrators, carriers and colocation operators almost exactly mirror the overall proportions with regard to the statement.

I believe that our Government recognises the benefits that data centres bring to the economy and it is showing support through the use of capital allowances or other financial instruments



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Data Centre Location

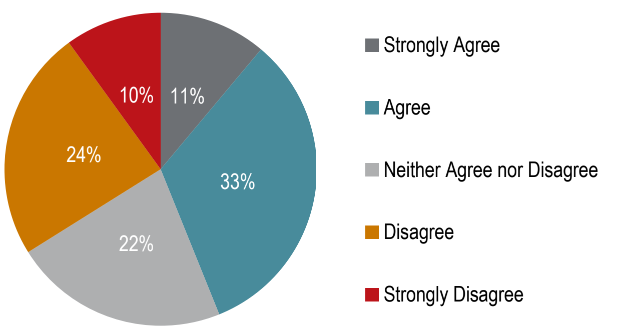
For this the third edition of the survey, we wanted to gauge the importance of location in the decision making process for identifying a new data centre. To that end we asked respondents to consider the extent to which costs savings would influence their thinking in choosing a new data centre located some distance away from their existing facilities.

17. "We would consider a data centre over 200 km away from our existing facilities if there were significant (20%+) cost advantages"

44% of responses agreed to some extent that they would be prepared to consider a data centre location over 200 km away from their existing facilities if they could be assured of cost savings of 20% or more. Conversely, one third of respondents disagreed to some extent suggesting that other factors such as peering, employment, security, (or a accumulation of these) are perceived to be important in the decision making process. A fifth of those who replied still need to formulate a view.

Breaking this down on a sector basis, amongst our corporate respondents, half would be prepared to consider such a move, whilst the rest were split evenly between neither agreeing nor disagreeing and those that would oppose such a move. Similarly half of all IT Integrators, carriers and colocation operators responded positively whilst a third took the opposing view.

We would consider a data centre over 200 km away from our existing facilities if there were significant (20%+) cost advantages



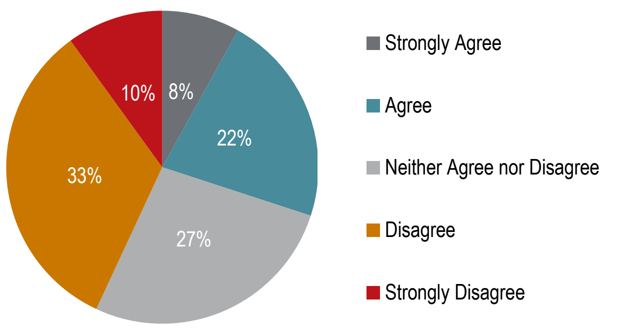
Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

18. "We would consider a data centre in another country in Europe if there were significant (20%+) costs advantages"

The prospect of choosing to locate a new data centre to a completely different country, even with the chance of gaining at least 20% costs savings, perhaps not unexpectedly poses more problems for our respondents than even moving 200 km or more in the same country. Just less than a third of respondents would consider locating their data centre to another country in Europe if they could be assured of cost savings of at least 20%.

There were differences of opinion between differing business categories, with 55% of corporate respondents indicating that they would consider another country whilst only 40% of IT Integrators, carriers and colocation operators said they would consider that option.

We would consider a data centre in another country if there were significant (20%+) cost advantages



Source: The Jones Lang LaSalle Data Centre Barometer Survey – January 2010

Guest Feature

Data Centres Can Exploit the Property Market

There has been some considerable uncertainty over whether data centres fall within a defined Use Class or whether they are an excluded use (sui generis). The traditional view was that the large amount of external Plant and Machinery meant that in most cases sui generis consent was usually required

The Town and Country Planning (Use Classes) Order 1987 categorises different uses of land, but this was introduced at a time when data centres were either not common or a recognised use. Subsequent amendments to the Use Classes Order have also failed to deliver, despite the growth of the data centre market, servicing the increasing reliance upon online banking and shopping, and the increasing demand by many types of organisations to store information electronically.

If data centres are classed as sui generis uses then this has many disadvantages because it could mean that planning permission is required for every new case. Falling within a defined Use Class means that operators can take advantage of existing planning permissions.

A recent decision by a Planning Inspector to allow a planning appeal by Fen Farm Developments against Milton Keynes Council's refusal of an application for a certificate of lawful proposed development (CLOPUD) for a data centre in Magna Park, Milton Keynes appears to provide some long-awaited certainty over this issue. The Inspector concluded that the proposed data centre constituted a storage and distribution use (Class B8) on the grounds that the term storage did not specifically refer to physical goods. Specifically, he held that data storage might be a departure from the traditional meaning of storage but was nevertheless storage.

This decision is of course useful in cases where data centre operators are seeking to occupy large warehouse buildings previously used for storage and distribution purposes. However, in cases where a data centre operator is looking to acquire a building previously used for offices or other business purposes (Class B1) this decision could mean that a new planning permission is required for the data centre use. Apart from planning uncertainty, further disadvantages are that planning conditions could be put in place to limit noise levels or to require the installation of costly energy efficiency measures.

However, there may be some light on this potential problem. We were recently able to demonstrate that a proposed data centre could fall within a Class B1 use, within an office building in Surrey. Indeed, after taking legal advice it became evident that, largely due to the lack of any clear guidance on the use class of data centres, there is an argument to suggest that data centres could constitute a Class B1 or Class B8 business use. This is on account of the fact that data centres could involve storage or a considerable degree of processing of data. Indeed, data processing centres are listed in the Land Use Gazetteer as a Class B1 business use.

The longstanding view that data centres constitute a sui generis use remains in certain quarters. This view can now be set aside on the basis of the above and operators can take advantage of a variety of buildings on the market whether in Class B1 or Class B8 use.

The Government receives much criticism for its failure to support the data centre industry, of which the lack of a clear use class for data centres is one example. However, as recent experience has demonstrated, the fact that a viable argument can be formulated for data centres as a Class B1 business, Class B8 storage and distribution, or sui generis use, means that they currently have the ability to exploit the property market, depending on what type of premises is available.

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2010 Rating Revaluation – what does this mean for data centres?

The draft 2010 rating list has now been published and can be viewed at http://www.2010.voa.gov.uk/rli/ The 2010 rating list will come in to force on 1st April 2010 and will run for the following five years.

Analysis of the draft 2010 assessments shows that there are 173 assessments described as “computer centres” and a further 20 assessments that the Valuation Office (VO) identifies using the “Special category” code for computer centres (in these instances the assessment’s description is usually “office and premises”), these assessments are contained within 105 properties. The overall Rateable Value for these assessments has increased by 9%, but this hides wide differences with the greatest increase being 167% and the largest decrease -28%.

The department for Communities and Local Government (CLG) announced the provisional non-domestic rating multipliers for 2010/11 and the scheme of transitional caps (to both increases and decreases in liability) on 17th November. The provisional multiplier is 41.4p, a 15% reduction from the current 48.5p, and the transitional scheme limits increases in real terms to 12.5% in 2010/11 and it limits decreases to 4.6%. Based on the draft 2010 rating list this means that approximately 35% of “computer centre” assessments will experience a reduction in rate liability following the 2010 Rating Revaluation; 50% of assessments will not be subject to transitional caps; 35% will be subject to the downward transitional cap, with 15% having the increase in rate liability capped by the upward transitional limit.

General Rating Issues

As we identified in DCB 1, and as can be seen from the number of assessments described as “computer centres”, there remain a number of data centres where the rating assessment reflects a former use (and therefore value) and also does not reflect the existence of plant and machinery that has been installed during the conversion of the premises to a data centre. The end of the 2005 rating list does not absolutely remove the ability of the VO to amend assessments to reflect changes that have occurred during the five years since 1st April 2005 – the assessment may be capable of being changed at any time before 1st April 2011. That having been said, there are some instances where changes to the 2005 rating assessment would be wrong in law – accordingly any alteration to the 2005 rating list assessment will need to be carefully scrutinised.

As DCB2 found, there exist issues regarding both the levels of utilisation and also the availability of sufficient power at some locations. These issues need to be reflected in either the level of the rateable value or in the application of reliefs by the billing authority. The particular route to reflect such issues depends on each individual case, but they must be properly reflected to ensure that savings are maximised and liability to business rates is mitigated.

James Carson
Director
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Letter from America
Shift in Enterprise Data Centre Strategy

Introduction

Given the current state of the US economy, the "enterprise" data centre user has experienced a material evolution in their data centre growth strategy: Across all sectors of the Data Centre market there is a simultaneous decrease of interest in large, self-contained, build-to-suit-type opportunities with an increasing interest in smaller, short-term, faster delivery data centre suites in colocation facilities.

The Enterprise Users

To us in America the term "enterprise" is used to describe a large, usually bespoke data centre facility (or user). These users tend to occupy a larger footprint of data centre space; typically these facilities are self contained, and often owner occupied. When enterprise users encounter a situation where additional data centre space is required, they are very particular in their respective demands, evaluations, and requirements.

In previous times and economic climates, the enterprise user might request a list of possibilities from a Pan American pool of alternatives. These might include:

- Greenfields - raw or graded land with utilities to the site for a ground up, build-to-suit data centre development,
- Purpose Built Data Centres - which are extremely limited in supply in the US, only a small handful are currently available, and
- Data Centre Conversions/Retrofit Facilities - typically altering and improving an existing warehouse or distribution facility that has adequate utilities to the site and can favorably support modern data center use

The focus of this Letter from America, however, is to spotlight the apparent shift in data centre strategy of the enterprise user from acquiring their own data centre to looking at colocation to fill the short-term void.

Growth Projections and Site Evaluation

Historically, any attempt to provide future growth and/or power demand schedules (known as "the ramp-up schedule") for their data centre needs, enterprise users have either provided extremely volatile and inconsistent schedule of projected growth in space and power requirements, or deliver a schedule of complete uncertainty. From a site selection perspective, this future uncertainty placed heavy emphasis on identifying robust sites with unlimited flexibility to accommodate unpredictable future expansion needs and technological advancements following the generally accepted principle, "smaller infrastructure that will require more power".

In these searches, the drivers often possess the same general categories and subcategories, but with different relative weightings (and often weighting fluidity) placed on each criterion ultimately leading to a final site selection. With varying degrees of importance, the drivers ultimately pointed to a common denominator: to find a private, secure, single-tenant site with inexpensive power and good fiber connectivity.

The Rise of Colocation

The US enterprise user planning to expand its data centre footprint is currently experiencing great difficulty in securing favourable financing (internal or third party) for their next data centre project. The credit crunch has ending practically all data centre expansion and/or significant non essential upgrades, and most data centre aspirations (arguably all) are halted once the financial analysis reaches the CFO. Colocation has provided an incredibly strong impact on the factors and timing associated with data centre site selection. Colocation opportunities are now seen as a solution where enterprise users will pay a premium for the short-term flexible commitment (often ending up in a long-term commitment) of usable data centre space that is or could be delivered and operational in a fraction of the time of that it would take to put together a new enterprise built solution. In addition the advantages of an OPEX solution (as opposed to CAPEX) have obvious balance sheet advantages for most CFOs.

We have seen this time and time again over the previous couple of years, and, as enterprise users seem to consistently decrease capital expenditure budgets, fail to invest and programme comprehensive upgrades, or consider an adequate planning lead in time, the market has slowly drifted toward the convenience of colocation.

Does this mean that colocation space is immediately available? The colocation research company Telegeography reports that, globally, more than 1.66 million square feet, or 154,016 square meters, of colocation data center space has been added since the early part of 2008. Also noted, Telegeography cites that half of those colocation sites launched since the start of 2008 are now more than fifty percent (50%) full by mid-year 2009. To the mainstream real estate professional, this is almost unheard of; however, to the data centre site selection specialist, this is entirely credible.

Conclusions

As colocation continues to dominate the data centre market here in the US, the most important factor must be on the financial analysis of colocation alternatives; seamless communication between a firm's IT and real estate groups when considering growth projections and aspirations are essential. In practically every data center initiative, in the US over the last year and a half to two years, a side-by-side financial evaluation is undertaken to benchmark similar terms and conditions between enterprise and colocation opportunities.

The Data Centre Operator should not get caught up in a whirlwind of the various styles or rental rate structures delivered by colocation providers but must get all providers to respond in a uniform nature to any data centre requirement, for example the very basics such as price per sq m, or price per kilowatt. There is always a way to integrate an "apples to apples" comparison by using a little mathematics, common sense, and most importantly, a strong and credible projection of data centre utilization today and into the future.

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Real value in a changing world

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