

# European Data Centre Investment Outlook

OPPORTUNITIES AND RISKS IN THE MONTHS AHEAD

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DLA PIPER



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## Methodology

In the third quarter of 2019, Acuris Studios, on behalf of DLA Piper, surveyed 50 senior executives based across Europe, including in France, Italy, Germany, Austria, Switzerland, the Nordics, CEE, Iberia, the UK and Ireland, on the topic of Europe’s data centre infrastructure. Of the 50 respondents, 25 were from banks and financial institutions that had provided debt into at least one European data centre project in the previous 24 months, and 25 were from private equity (PE), funds, telecommunications corporates, data centre operators and data centre developers that had invested equity into at least one European data centre in the previous 24 months.

The survey included a combination of qualitative and quantitative questions and interviews were conducted with participants. Results were analysed and collated by Acuris Studios, and discussed with DLA Piper. All responses are anonymised and presented in aggregate.

We would like to thank all of our respondents for their participation in this survey, as well as John Wilson (SMBC) for his insights.



# Introduction

European data centres had a milestone year in 2018 for investment, with the value of transactions reaching a new high. Figures for the first half of 2019 suggest that another record year could be in sight.

What makes data centres so alluring to investors? Strong fundamentals help. While data centre investment involves some risks not present in other types of infrastructure assets (contracts are shorter than other types of infrastructure and the relative speed at which they can be constructed means there is lower barrier to entry for competitors), demand for big data, cloud computing, artificial intelligence and the Internet of Things is rising. These technologies drive demand for services and, by extension, the buildings and equipment that make them possible.

While the broad attractions are clear, this study reveals significant divergence between debt providers and equity investors in terms of investment behaviour. For example, the study highlights big differences in appetite for greenfield versus brownfield assets. It also

shows that debt providers expect to be more active than equity investors over the next two years – though that is to be expected, as debt providers have the opportunity to work on refinancings. Additionally, the findings reveal a marked difference in outlook between the two groups over the stability of long-term revenue.

In the following pages, we examine these and other questions and consider what underlying dynamics might be at work.



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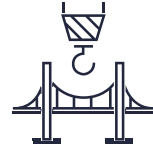


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# Key findings

1

92% of respondents expect the overall value of investment going into Europe's data centre infrastructure to increase over the next 24 months compared with the previous 24 months.



2

Debt provider respondents state a combined increase of 33% in the total value of debt investment they expect to allocate to European data centres over the next 24 months compared to what they allocated over the previous 24 months.



3

100% of respondents agree that Brexit uncertainty has negatively impacted the data centre infrastructure market in the UK and Europe since June 2016, with 56% of equity investors going as far as to say that the negative impact has been significant.



4

Even for data centres with overall inferior technology (i.e. assets with low energy efficiency and poor environmental performance), two-thirds of all respondents expect average rent charges will either only decrease by up to 4% or remain unchanged by the end of 2019.



5

100% of respondents are expecting rent charges to increase for data centres with overall superior technology, with over a third expecting the increase to be 10% or more.



# Market activity

## Investment in data centres is set to scale new heights.

Figures from the Inframation Group show that European data centre transactions have risen dramatically since 2015, both in volume and value. Momentum is building: deals in 2018 exceeded EUR1.2 billion and 2019 could break previous records (Chart 1 – European data centre transactions).

### Drivers: Cloud and colocation

Two factors are driving growth. First is the shift to cloud computing, where data storage and software are hosted remotely in data centres and paid for as-a-service. From the Internet of Things to analytics, businesses racing to build new digital capabilities are tapping into the cloud to achieve their goals.

The second factor is colocation, or colo. This is about providing businesses with high-tech buildings to house

their IT infrastructure. This matters because companies' existing real estate is not always suitable. A colocation facility typically offers power, cooling, connectivity and physical security. Customers provide their own hardware and software.

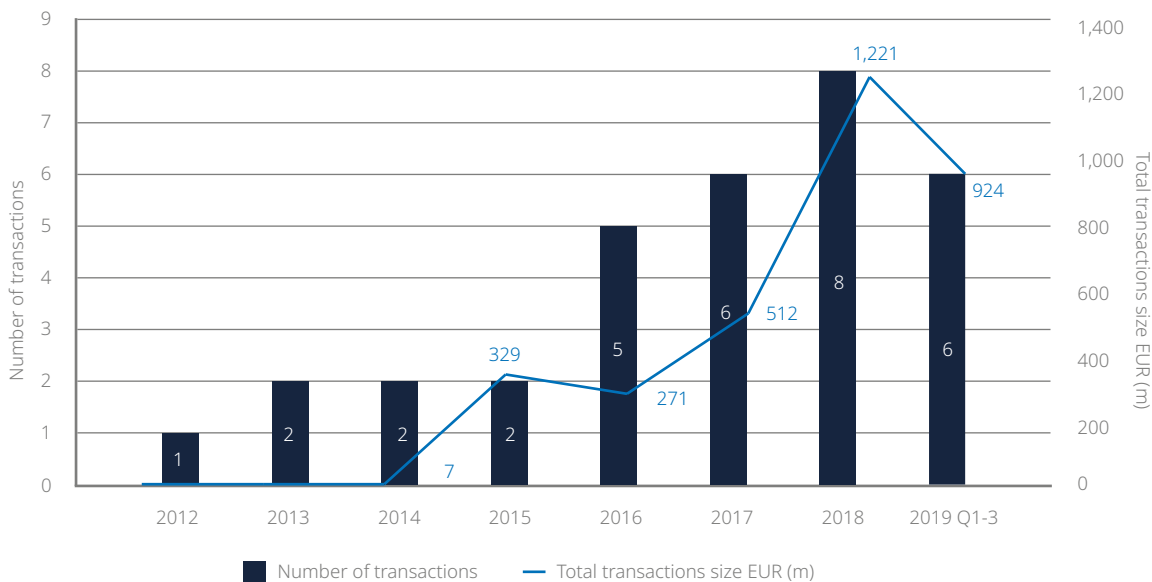
Cloud and colocation are transforming the way businesses consume IT. "Companies are looking to close onsite data centres to opt for outsourced units so they can better manage their resources," says the MD of a Netherlands-based financial institution. "This indicates that the number of data centres in Europe will increase, along with upgrades to infrastructure at current sites," the MD adds.

*“The value of data centres in Europe will increase as the value of data itself increases.”*

— Managing Director, UK-based private equity investor/ infrastructure fund

Chart 1

Financially closed European data centre project transactions



Source: Inframation Group (correct as of 09/10/2019)

## Fundamental attractions

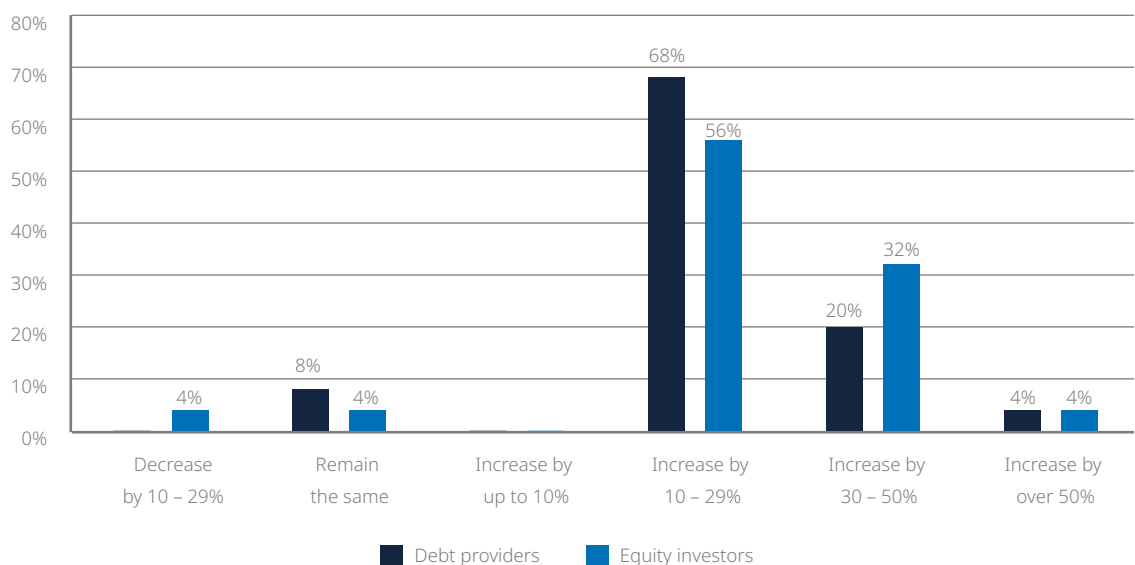
High-value assets are part of the appeal. “You have buildings and equipment, so you can secure against the asset,” says Anthony Day, partner, DLA Piper. “You also have a sticky revenue stream, because data centre migration is a headache,” he adds.

All of this is helping to attract new investors – infrastructure funds among them. “People are looking for more creative infrastructure to invest in. Data centres fit that quite well,” says Mike Conradi, partner, DLA Piper.

Nearly all respondents (92%) expect the overall value of investment (including debt investment) that will go into European data centre projects to increase over the next 24 months compared with the previous 24 months. A majority expect the increase to be between 10% and 29% (Chart 2).

## Chart 2

How do you expect the overall value of investment (including debt investment) for data centre projects in Europe over the next 24 months will compare to that of the previous 24 months?



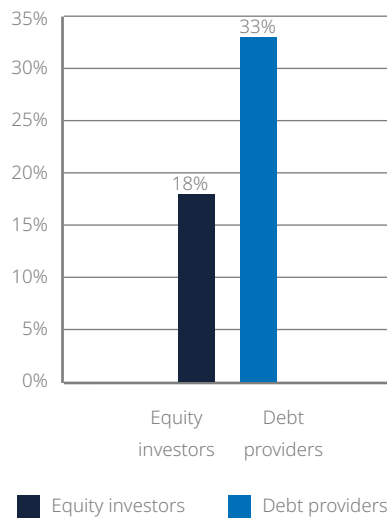
### Debt providers lead the charge

The survey reveals big differences between debt providers and equity investors in outlook. Debt providers are signalling an increasingly active role in the market and they predict big increases in the overall value of their investments, while equity investors' expectations are rather more muted.

Looking first at the outlook for value, debt providers expect to see a combined increase of 33% in the total value of debt investment they will allocate to data centres over the next 24 months compared to the previous 24 months (Chart 3). Equity investors, on the other hand, expect a more modest increase of 18%.

### Chart 3

**Overall increase in respondent investment in European data centres expected over the next 24 months compared with the previous 24 months (%)**



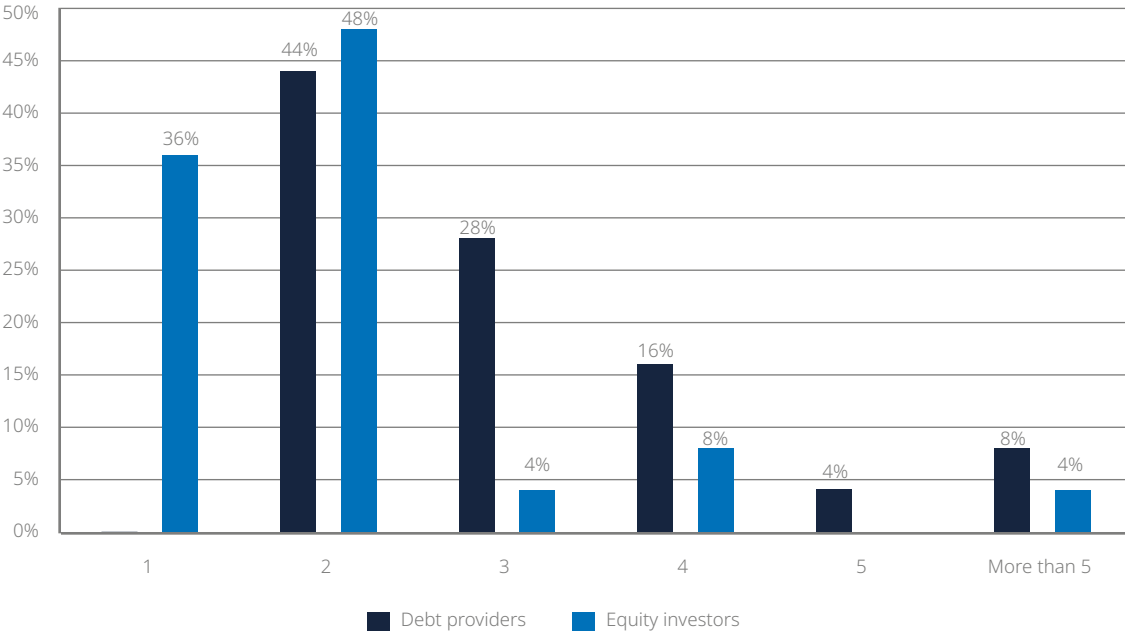
Volume expectations are similarly divergent. A larger proportion of debt provider respondents (36%) say they expect to finance four or more European data projects over the next 24 months than those who say they financed this number of projects in the previous 24 months (28%) (Charts 4 and 5).

Equity investors, on the other hand, expect to ease back on the number of European data centres they invest in overall. Nearly two-thirds (64%) say they had invested in more than one data centre in the past 24 months, but only 52% expect to do the same over the next 24 months. Furthermore, one in five equity investors say they do not expect to invest in another Europe-based data centre over the next 24 months at all.



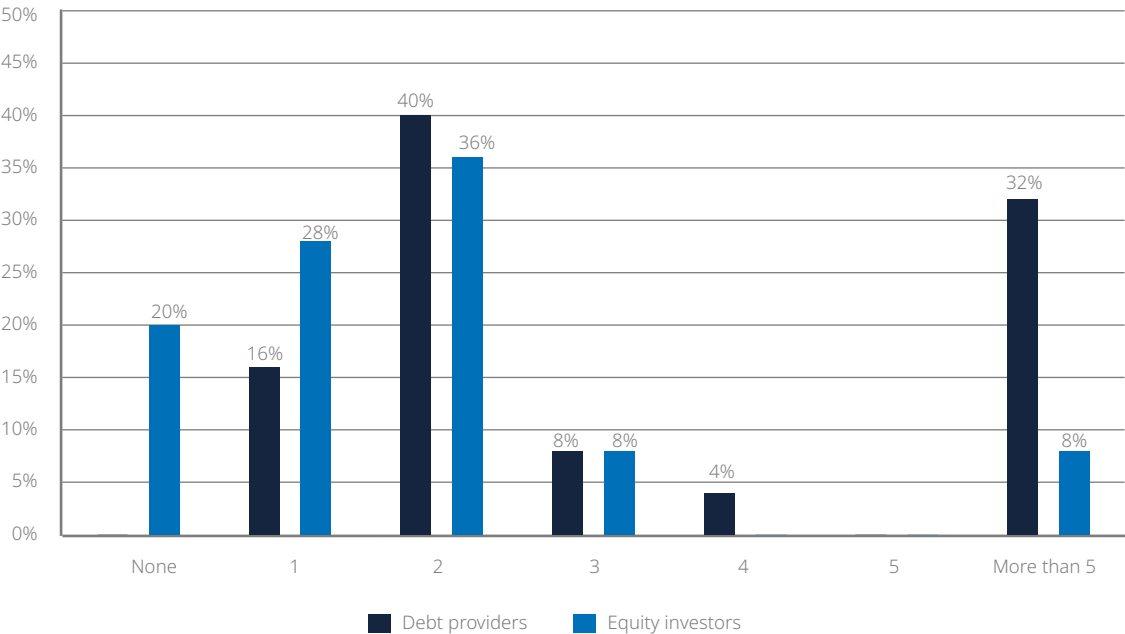
### Chart 4

How many data centre projects based in Europe has your organisation invested in/financed over the past 24 months?



### Chart 5

And how many data centre projects based in Europe do you expect your organisation to invest in/finance over the next 24 months?



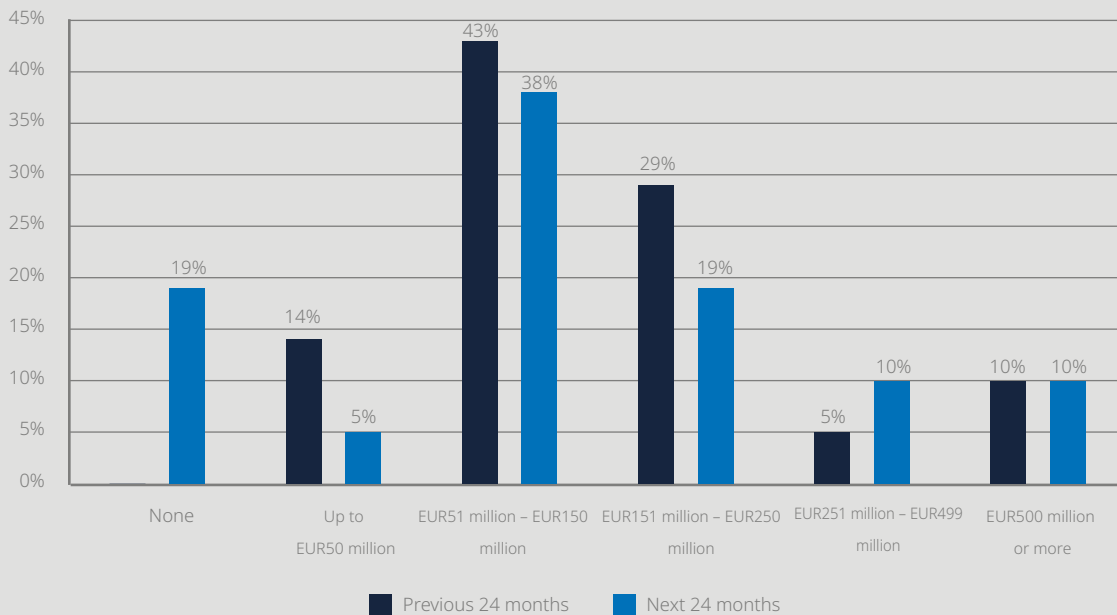
At the level of individual organisations, the proportion of debt players planning to invest EUR500 million or more is expected to more than double to 37% over the next two years compared with the past 24 months. By contrast, only 10% of equity investor respondents expect to invest EUR500 million or more over the next two years – the same as for the last 24 months.

There are a number of possible reasons why debt providers expect to be more active than equity investors. Most projects are refinanced after a few years, giving debt providers more opportunities for deal activity. Moreover, the dearth of investment options elsewhere in the market is another factor. “Debt providers in particular have been suffering for a long time with very low returns,” Conradi points out. “The figures suggest that they are starting to look at alternatives to a greater extent than equity investors,” he adds.

**Chart 6**

**Equity investors**

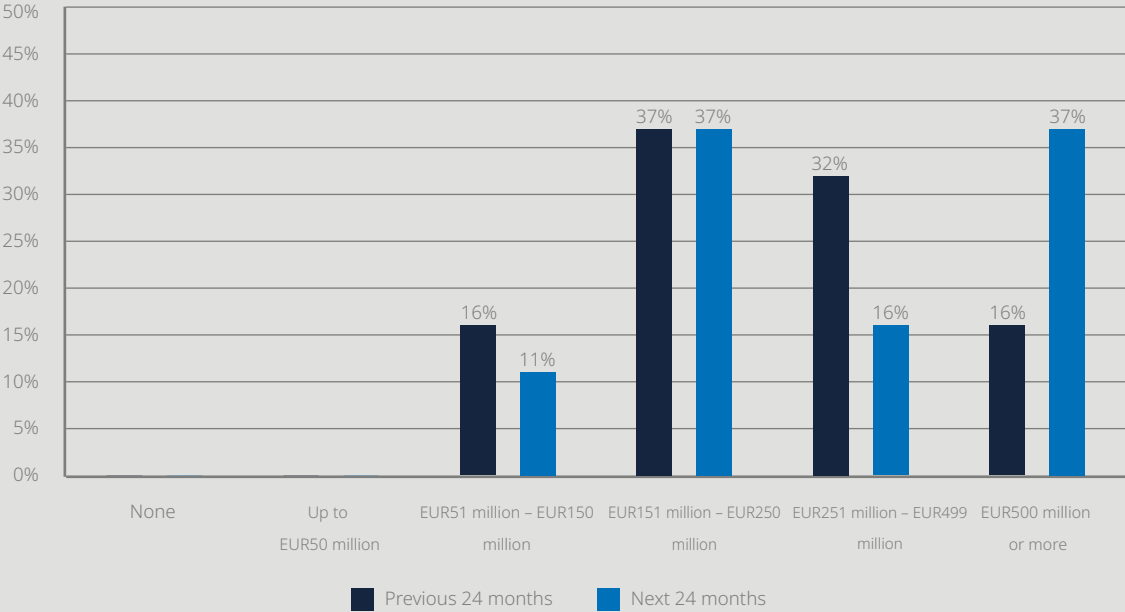
- 1) What approximate value of investment (including debt investment) did your organisation allocate to data centres based in Europe over the past 24 months?
- 2) And what do you expect it will allocate over the next 24 months?  
(Give approximate in EUR million)



### Chart 7

#### Debt providers

- 1) What approximate value of investment (including debt investment) did your organisation allocate to data centres based in Europe over the past 24 months?
- 2) And what do you expect it will allocate over the next 24 months?  
(Give approximate in EUR million)



# Choosing an investment

## What are the make-or-break considerations when weighing up a new investment?

Data centre investments are influenced by a number of different factors. Technology aside, investors need to assess everything from the relative attractions of competing geographies to energy efficiency and environmental performance.

## Investor appetites

Debt financing is the foundation of new-build infrastructure projects. Data centres are no exception: the survey shows that a majority of debt providers (88%) say their most recent transaction involved a greenfield project (Chart 8).

As noted in the previous chapter, refinancing opportunities mean debt providers are more prolific than equity investors in terms of deal volume.

For project owners (particularly established operators looking to expand), one of the attractions of debt financing is that it provides access to funding without the need to release equity ownership. For debt providers, the high value of data centre assets makes them a good lending risk.

Equity investors are typically more active in terms of deal volume once assets are up and running. As the survey shows, a majority of equity investors (88%) say their most recent investment was in a brownfield project. This points to a buoyant secondary market and underlines the growing maturity of the data centre sector as early-stage investors look to exit to financial or strategic investors.

Chart 8

### Was the European data centre that you most recently invested in/financed a greenfield or a brownfield project?

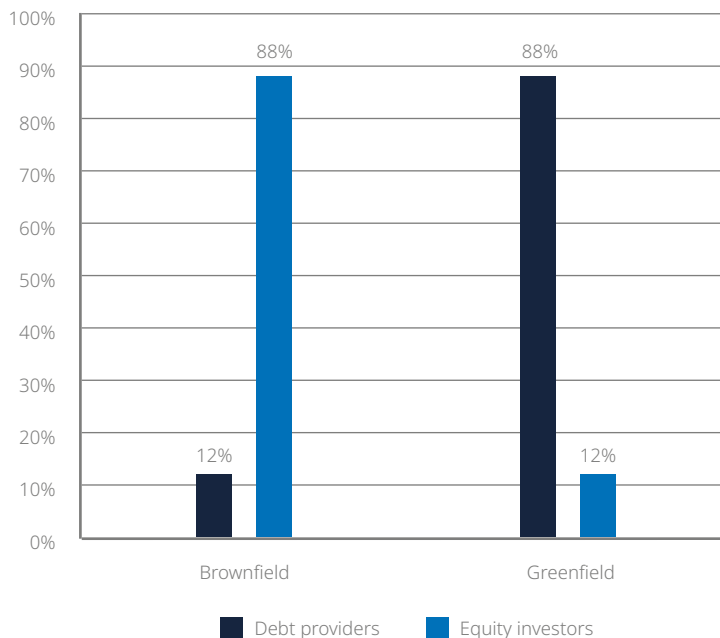


Chart 9

Over the next 24 months, which data centre project type based in Europe do you think will be favoured for investment by financial investors?

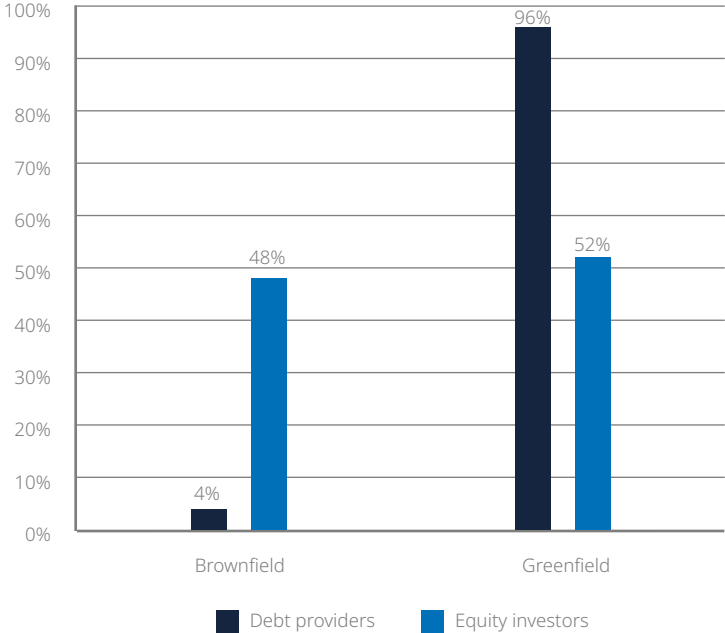
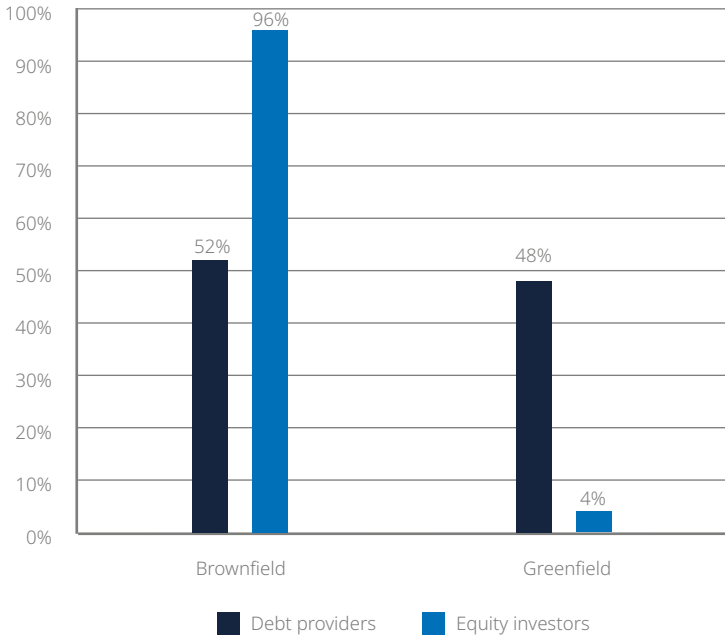


Chart 10

Over the next 24 months, which data centre project type based in Europe do you think will be favoured for investment by strategic investors?





### Location, location, location

Turning to geographies, the survey shows that European data centre growth is aligned with the biggest economies. Our survey respondents, who are based all across Europe (see Methodology) point to Germany as the country likely to offer the most bankable opportunities over the next two years (Chart 11). Both debt providers (92%) and equity investors (72%) see Germany as the top choice.

Germany takes the top spot in terms of countries likely to see the biggest investment growth over the next 24 months (Chart 12). Notably, 48% of equity investors also expect the UK to see some of the biggest investment growth. Meanwhile, 48% of debt providers think Ireland will see the greatest growth, despite few describing it as offering the most bankable opportunities.

New factors coming into play are likely to have an increasing impact on the choice of geography. One is the need for energy efficiency. Some geographies perform better than others in this regard: “The Nordics

is potentially a good growth area. There’s a lot of renewable energy and the climate is colder, so you can rely more on ambient cooling which pushes energy costs down,” says Day. Deployment of new submarine fibre cables is adding to the region’s attractiveness.

This helps to explain why Sweden is ranked relatively highly (in fifth place) by our respondents when asked which country they expect to see the biggest growth, in spite of the fact that it is outside of the FLAP (Frankfurt, London, Amsterdam, Paris) markets – the four cities in Europe with the highest data centre rents in Europe.

Another factor is the shift to decentralised edge computing and the trend towards moving data processing closer to end users. This is driven by demand for low latency (rapid response). Edge computing (using micro data centres) complements rather than replaces existing data centre infrastructure. This is likely to lead to a far wider – and denser – distribution of data centre-like infrastructure than has been seen to date.

Chart 11

Which European countries do you think will offer the most bankable investment opportunities for data centre projects over the next two years? (Name three European countries) – Top eight answers shown

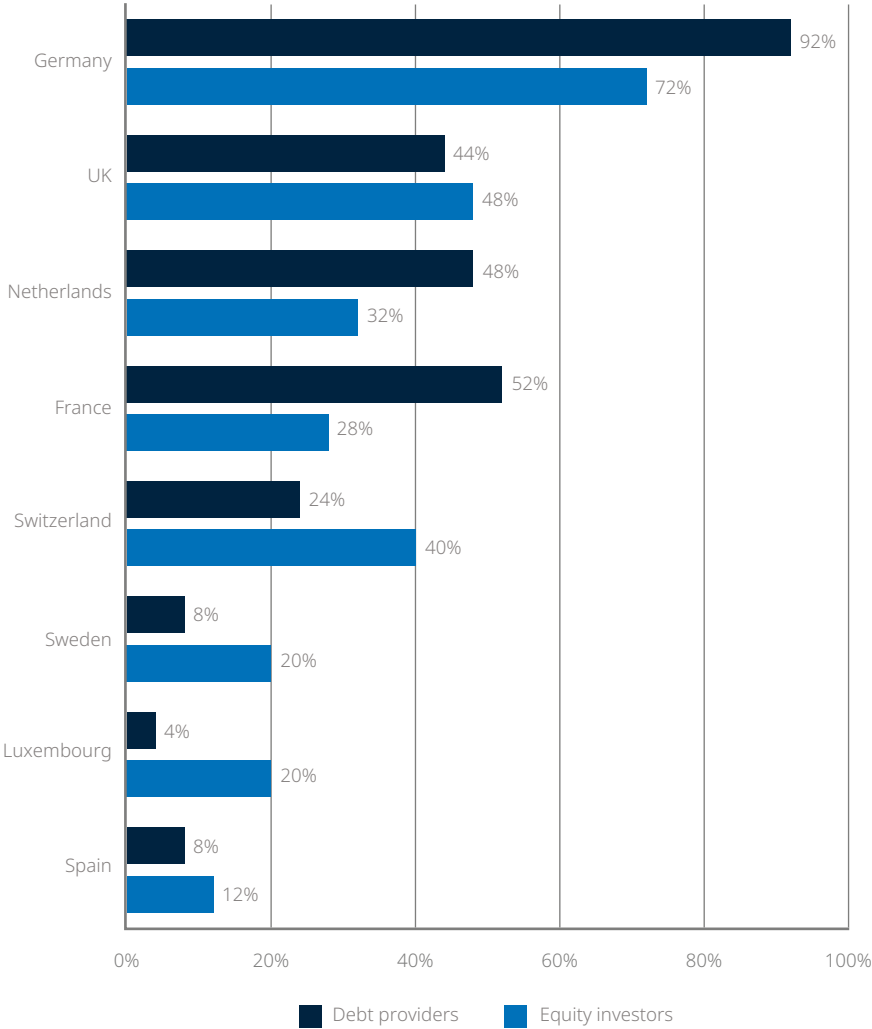
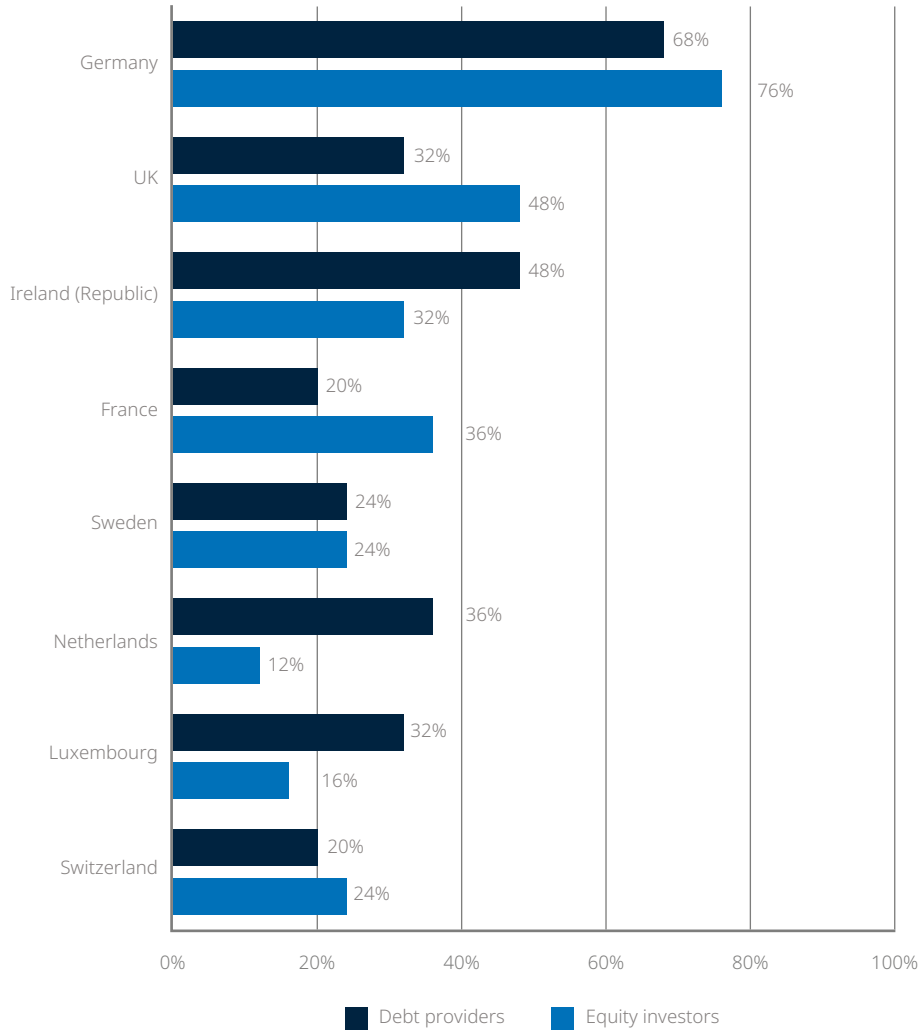


Chart 12

Which European countries do you think will see the biggest growth in data centre project investment over the next two years?  
(Name three European countries) – Top eight answers shown





### All things considered

Looking at the different types of data centre investments that our respondents are considering in the coming 24 months, partnerships with industry specialists (such as data centre operators) appear particularly attractive. This is cited by 100% of debt providers and 96% of equity investors (Chart 13).

Data centre financing or securitisation is also popular among both debt providers (96%) and equity investors (72%), closely followed by the opportunity offered by

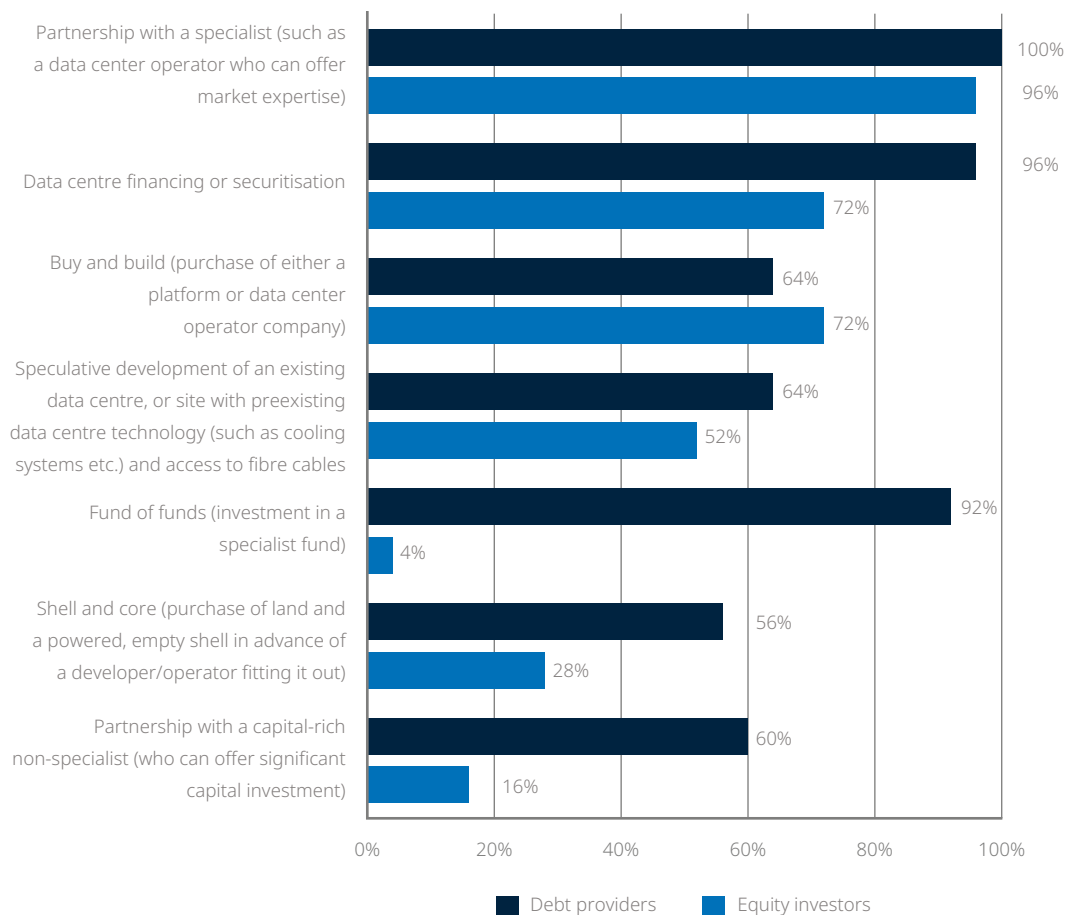
a speculative development of an existing data centre or site that is already equipped with technology and/or fibre cable connections.

Surprisingly, 92% of debt providers say they would consider investing in a fund of funds (by contrast, only 4% of equity investors think the same).

This suggests that while debt providers are highly attracted to data centre investments, they are also content to maintain an arm's length relationship.

### Chart 13

#### Which of the following types of data centre investments would you consider investing in/financing over the next 24 months? (Select all that apply)



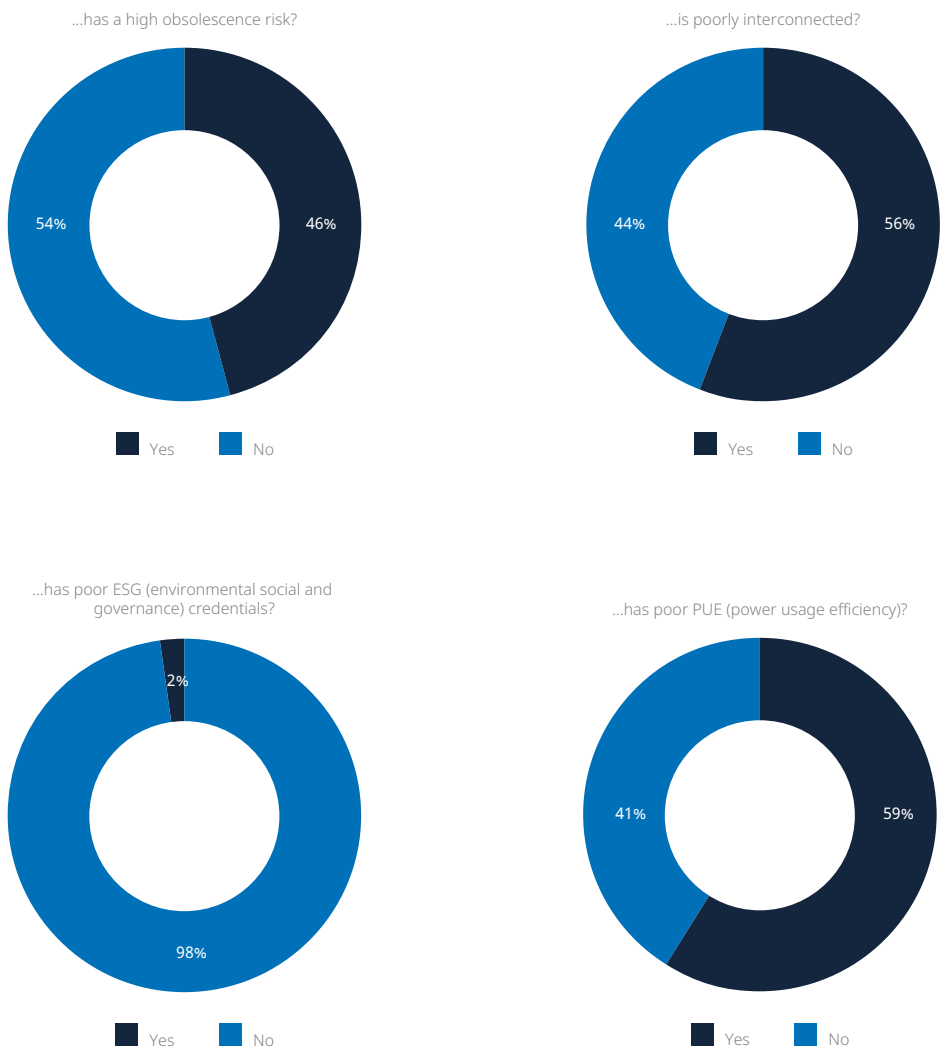
### Doing the right thing?

Investors would consider taking risks with technology and energy efficiency to secure a discount. However, the findings show that they draw the line at transgressing environmental, social and governance (ESG) criteria. This suggests that trends such as impact investing and purposeful business are making their mark.

Looking at the data, 46% would consider investing in a data centre with high obsolescence risk, while 56% would think about backing one which was poorly connected. Surprisingly, 59% say they would invest in a data centre with poor PUE (power usage efficiency) if offered at a discount – even though this could run counter to ESG goals (Chart 14).

Chart 14

### If offered at a discount would you potentially consider investing in/ financing in a data centre which...



Investing in a data centre with low energy efficiency is fraught with risks, warns Day: “The most expensive run cost for a data centre is the energy cost. Customers wouldn’t want to take services from an inefficient data centre because it’s going to push up their costs. It also hits investors’ green or ESG credentials.”

Data centres use huge amounts of energy. Recent estimates suggest that total power consumption by data centres globally is nearly 200 TWh per year – enough to power the Netherlands and Belgium combined. Energy is such an important factor that data centre leases are benchmarked on power consumption (in megawatts) as much as on traditional yardsticks such as square feet or metres. Improving energy efficiency is crucial to the future of the industry. As Lars Reubekeul, partner at DLA Piper’s Munich office, puts it: “Sustainability, energy saving and power efficiency are key in the future data centre investment market.”

This paradoxical finding strongly suggests investors are not always making a connection between energy efficiency and ESG goals.

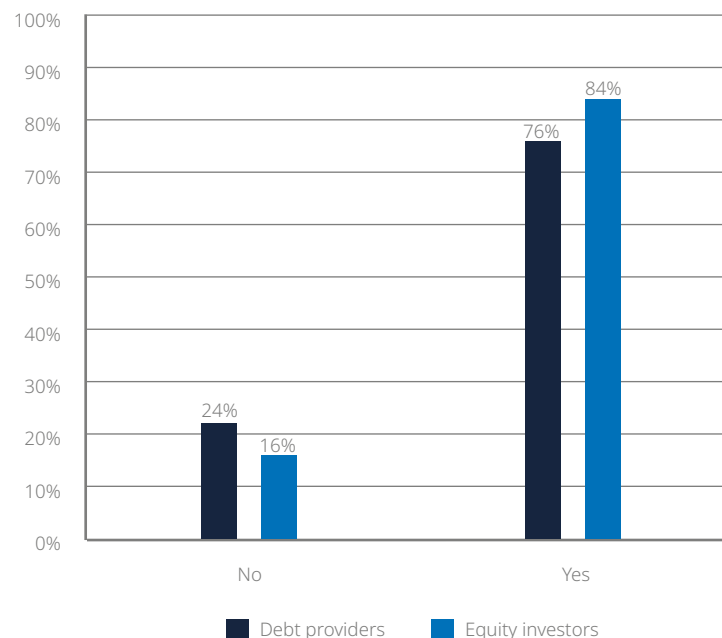
Despite this, the evidence shows that most investors are determined to do the right thing. Only a minority (2%) would consider a data centre with poor ESG credentials – even with a discount (Chart 14). Indeed, most investors have already made socially responsible investments. More than three-quarters (76%) of debt providers and 84% of equity investors say that the data centre project they most recently financed/invested in had a recognised sustainability/clean technology accreditation (Chart 15).

*“ESG credentials have good value in the market and are more likely to add to profits.”*

— Head of M&A, Germany-based telco

## Chart 15

**Did the European data centre you most recently invested in/financed have a recognised sustainability/clean technology accreditation?**



### Premium attractions

Investors are willing to pay over the odds for high-quality connectivity and excellent ESG credentials. But they are less willing to stump up for a site with cost-effective power, the study shows. Given the huge amount of energy required by data centres, this suggests that investors could be missing a trick.

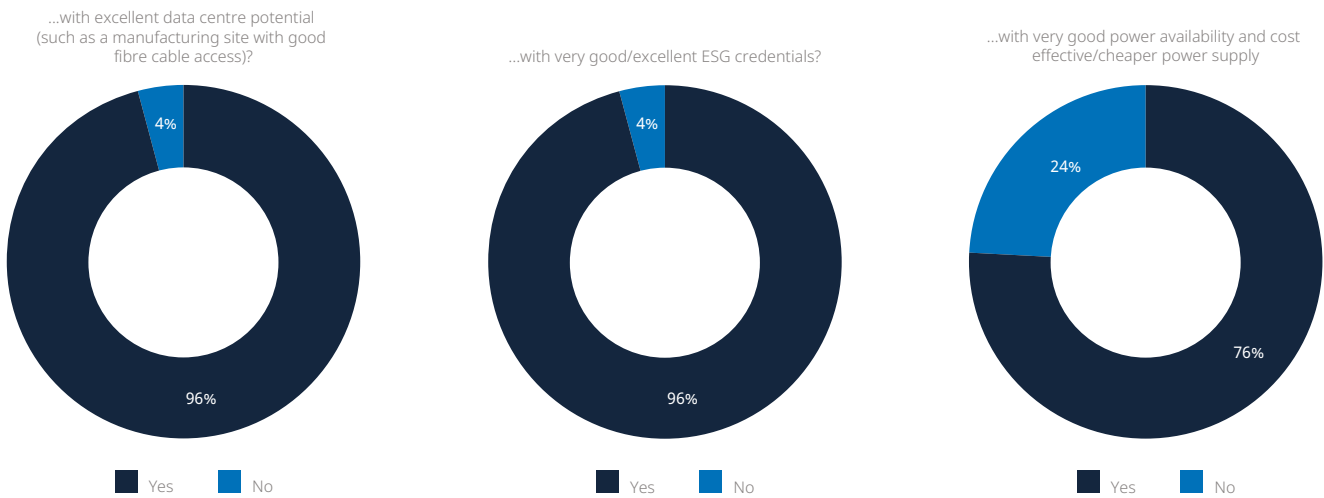
Looking at the data, a large majority say they would consider an investment in a site with very good or excellent ESG credentials (96%). Equally attractive is the prospect of a site with great development potential (such as a manufacturing site with good fibre cable access), also chosen by 96%.

By contrast, fewer respondents would consider paying a premium for a site with very good power availability and a cost-effective or cheaper power supply (76%). One reason for this could be that fibre cable access and ESG credentials are seen as being both harder to acquire and more of a priority than power. Another possible reason is that low-cost power either does not warrant a premium, or that it might be obtainable outside the deal, perhaps through negotiation with an energy supplier or via a PPA.

“Power availability and cheaper power supply is a good prospect,” notes the MD of a UK-based PE investor/infrastructure fund. “But there are chances that this can be sought without having to invest an additional amount,” the MD adds.

### Chart 16

#### If offered at a premium, would you potentially consider investing/financing in a site...



# Industry expectations and views

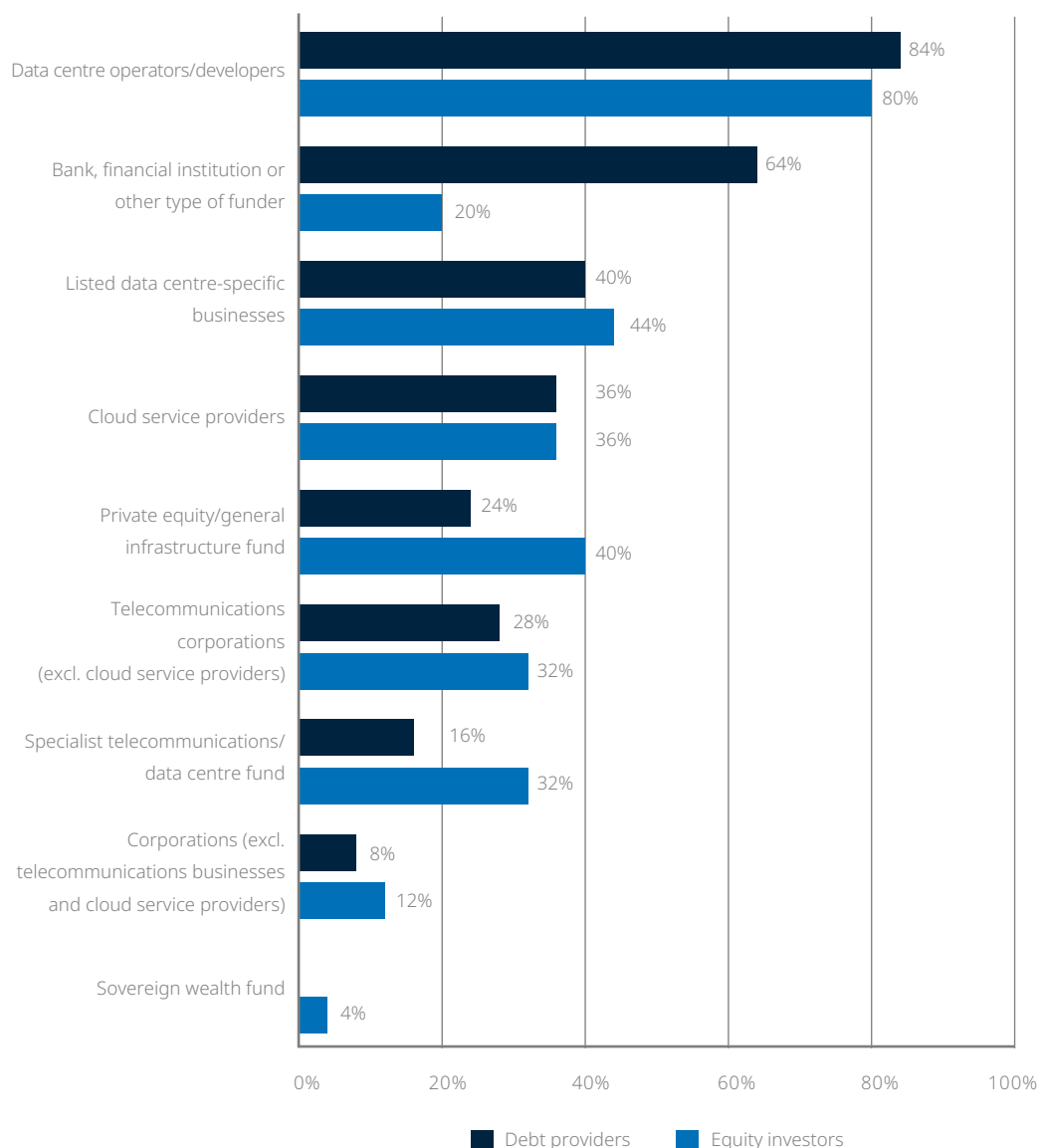
Investors are bullish about the outlook for European data centres. They are also realistic about where the risks lie.

Both debt providers and equity investors agree that data centre operators and developers will be among the top three investor groups driving growth over the next two years.

Meanwhile, 64% of debt providers expect their own (financial) sector to be a top provider of investment growth in European data centres. Equity investors are more mixed in their opinions, although 44% (and 40% of debt providers) see listed data centre-specific businesses as a likely candidate for providing investment growth (Chart 17).

**Chart 17**

**Which type of investor do you think will provide the biggest growth in investment (including debt investment) in European data centres over the next two years? (Select top three)**



## Challenges and obstacles

The survey shows that debt providers and equity investors hold diverging views as far as risk is concerned.

Speaking on behalf of their organisations, debt providers say the biggest obstacles to investing in data centres in Europe are the concern and uncertainties around the stability of their long-term revenue and return on investment (76%), as well as political and regulatory uncertainties (64%).

Regulatory worries are clearly uppermost in the minds of many respondents – notably around GDPR, which came into force last year. Uncertainty about the new rules is getting in the way of investment plans, says the MD of a Netherlands-based debt provider, who adds that: “Awareness of GDPR has increased, but the scale of operations that needs to be adapted remains confusing for many.”

One area of concern is potential dual liability under GDPR: data centre operators are not only data controllers of their own data (i.e. housekeeping data such as payroll and access logs), but are also (in some cases) data processors of data controlled by third parties. Determining if a data centre operator falls into the latter category is not always easy.

Equity investors say their organisations’ main challenges and concerns lie more with technology and obsolescence risk (52%), as well as the complexity and restrictiveness posed by current policies and regulations (Chart 18).

To a great extent, this divergence simply reflects the fundamental differences in goals between debt and equity investors. Debt providers are interested in ROI. Equity investors, meanwhile, want an investment they can sell on or improve. Brownfield/greenfield factors could also be in play. Equity tends to be more involved in brownfield, hence equity respondents’ greater awareness of tech/obsolescence risk.

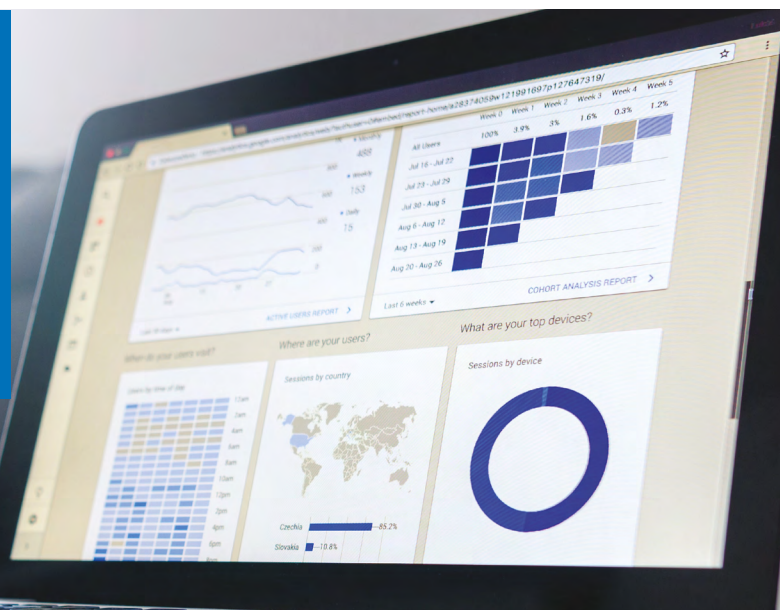
However, the high proportion of debt providers reporting concerns about long-term revenue (76%) suggests that new factors are in play. One of these could be the temptation to treat data centres like traditional infrastructure assets – despite the fact their performance characteristics are distinctly different.

“Data centres are unlike other types of infrastructure such as ports or power facilities,” notes Conradi. “You are unlikely to have an anchor customer that signs up to a 20-year term. There’s a greater degree of market risk involved from both sides, which is probably why debt providers are going to be particularly concerned about long-term revenues and return on investment.”

Matters are further complicated by the heterogeneity of the debt market. Debt investment is far from standardised, with project finance deals, asset finance deals and even receivables financing all part of the picture. “Depending on how you’re structuring the debt play, you will have a view on what your long-term profitability on the loan is going to be,” says Day.

*“Obsolescence risk is one of the prime concerns when investing in data centres in Europe – or any region for that matter.”*

— M&A Director, Spain-based telco



## Chart 18

What do you consider to be the biggest obstacles to investing in data centres in Europe for your organisation? (Select top three)

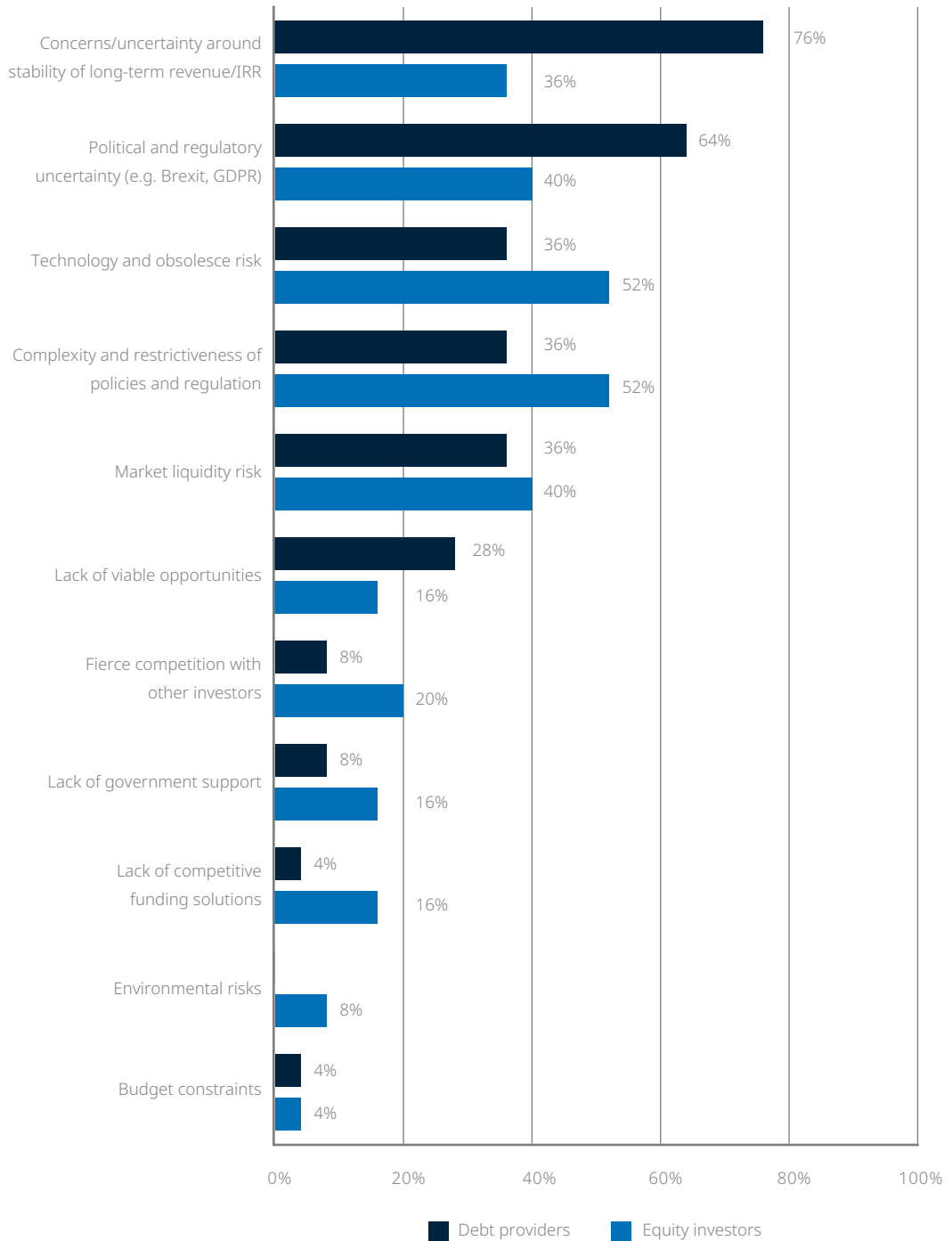
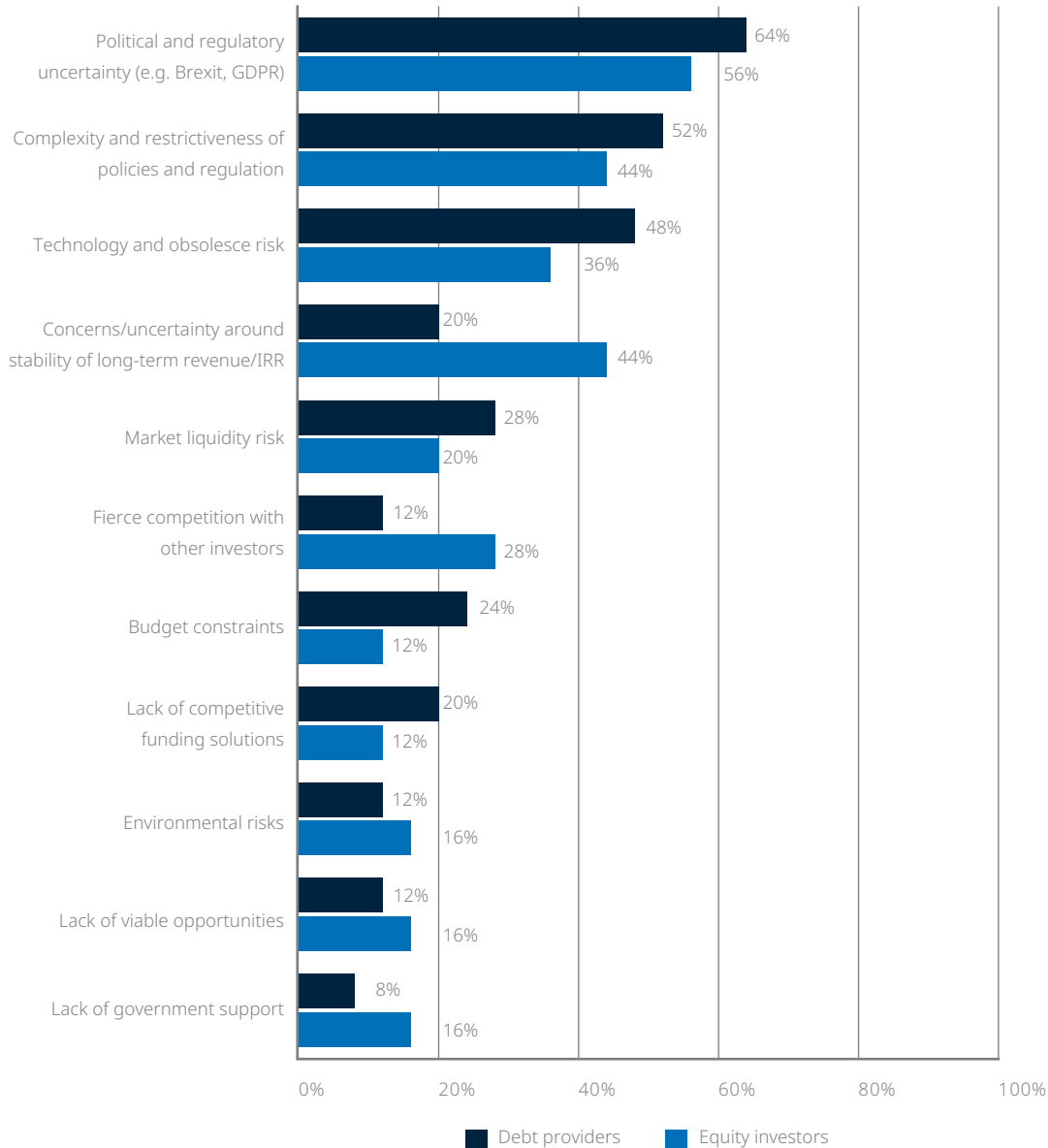


Chart 19

**What do you consider to be the biggest obstacles to investing in data centres in Europe for investors in general? (Select top three)**



**Rents and IRR on the rise**

While debt providers may be concerned about long-term revenues, both debt providers and equity investors are unanimously upbeat about the outlook for rents.

Respondents expect charges to remain strong in the near future. Even for data centres with overall inferior technology (i.e. assets with low energy efficiency and poor environmental performance), two-thirds of respondents expect that average rent charges will either only decrease by up to 4% or remain the same by the end of 2019.

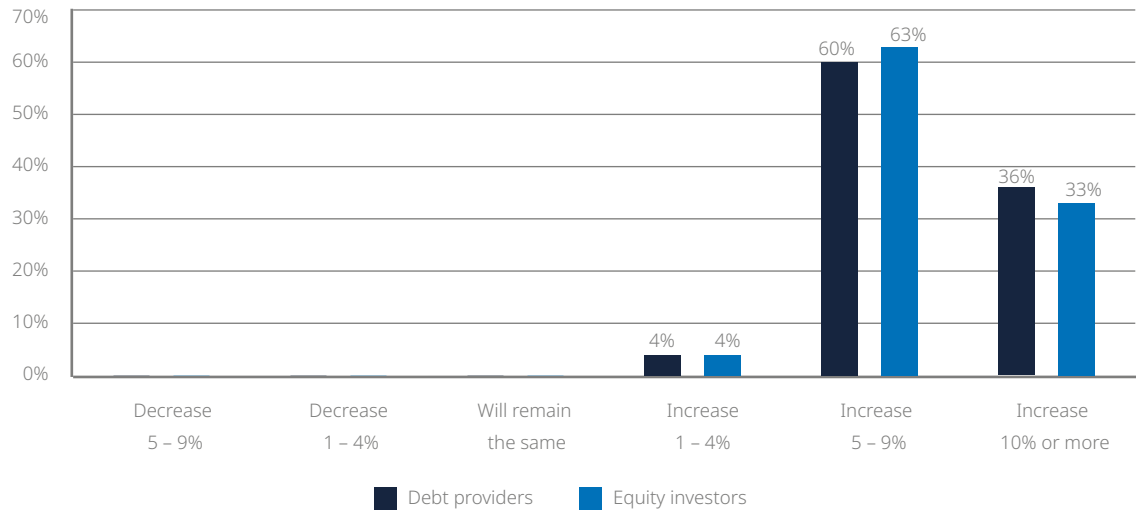
Data centres with overall superior technology (i.e. assets with lower obsolescence risk, better energy efficiency and high environmental performance) are expected to perform strongly: all respondents (100%) expect rent charges to increase, with more than a third expecting the increase to be 10% or more.

“The rent for data centres will go up 10 to 15% compared to the changes noted in 2019,” predicts the Executive VP of a UK-based data centre operator/developer, adding that “Superior technology with in-built status is being opted for by companies across multiple industries.”



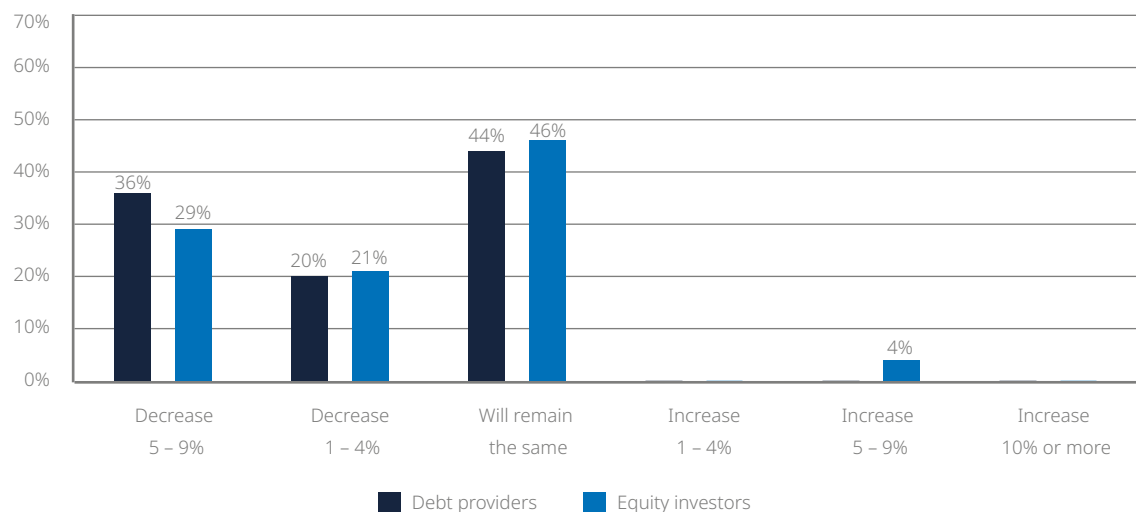
## Chart 20

How do you expect rent charges in 2020 in Europe to change compared with those in 2019 for data centres with overall superior built-in technology?



## Chart 21

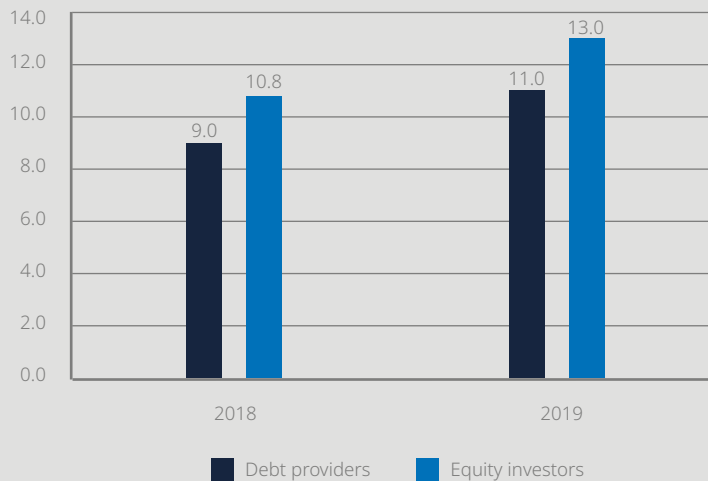
How do you expect rent charges in 2020 in Europe to change compared with those in 2019 for data centres with overall inferior built-in technology?



IRR is also on an upward trajectory. Debt providers expect IRR for equity investment to increase by two percentage points overall in 2019 compared with 2018. Equity investors, meanwhile, expect to see an increase of 2.2 percentage points, with an expected IRR in 2019 of 13% on average.

Chart 22

**On average, what do you think the IRR for equity investors of data centres based in Europe was in 2018? And what do you think it will be in 2019? (Mean of all responses shown)**



**Brexit impact**

All respondents, both in the UK and elsewhere in Europe, agree that Brexit uncertainty has negatively impacted the data centre infrastructure market in the UK and Europe since June 2016, with 56% of equity investors going as far as to say that the negative impact has been significant.

This is in spite of the fact that European data centre investment has in fact grown year on year since 2016 both in volume and value – a sign that exploding demand for data centre capacity is outstripping the industry’s profound worries around Brexit.

While Brexit uncertainty appears not to have stopped overall growth in investment in the sector, it may have slowed down some projects. As the executive vice president for finance of a UK-based data centre operator puts it to us: “The uncertainty of Brexit has negatively impacted the data infrastructure markets in the UK, slowing business and target timelines for developmental activities. However, even though a significant amount of time has passed since the vote, the impact on primary sectors is far from clear.”

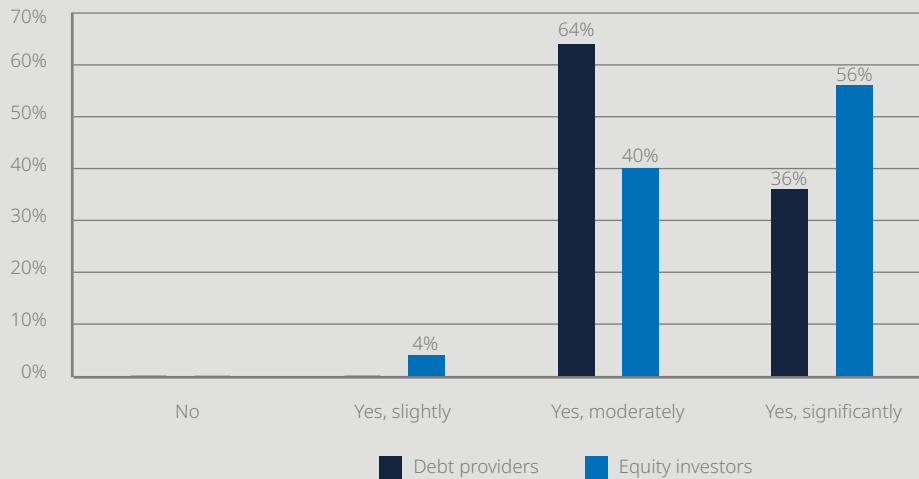
The head of M&A for a German telco surveyed echoes this sentiment, saying, “Given the uncertainty, it is very difficult to predict how the data centre markets would recover from the change or how soon the changes will take place. Brexit has affected a few projects in the pipeline across Europe and projects are being migrated from the UK, some with considerations to hold on the site temporarily until potential solutions can be verified.”

On the flip side, the continuing weakness of the sterling means UK assets look like a bargain for Eurozone investors. This could explain why investors are so keen on UK data centres. Regulatory divergence post-Brexit could also have an impact on deal making: “Data protection rules under GDPR could even create a need for increased data centre capacity in the UK,” suggests Day.

Moreover, Microsoft announced in April 2019 that it planned to double its Azure regions in the UK, bringing its capacity in the UK to 1,500% higher than when it launched in the country in 2016 – further demonstrating the continuing growth of demand for data centre services in the UK.

Chart 23

In your opinion, has Brexit uncertainty negatively impacted the data centre infrastructure market in the UK and Europe since June 2016?



*“It (Brexit) has had some effect on how data centre infrastructure deals in Europe are perceived since 2016. There is more caution to make sure that the challenges are minimal and that those that are present can be sorted over a period of time. Surely, this is not an ideal situation for many providers, but the constant increase in demand for centres is promising.”*

— Partner, Spain-based private equity investor/infrastructure fund

### Tech trends

Micro data centres are highlighted as a top technology trend over the next 24 months, cited by 60% of equity investors and 40% of debt providers. As noted earlier, edge computing and low-latency applications are key drivers in this segment.

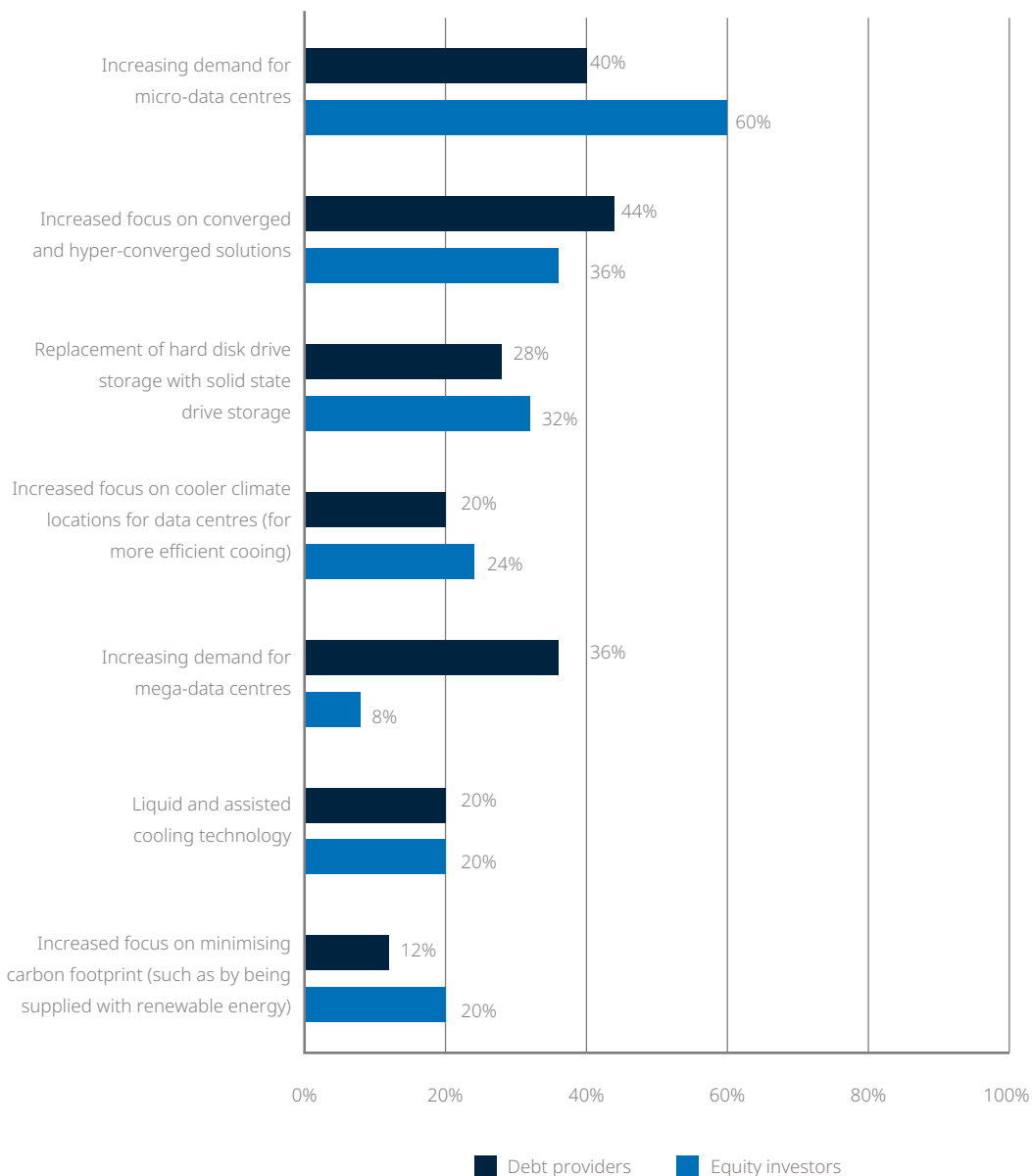
Converged and hyper-converged solutions are mentioned by 44% of debt providers and 36% of equity investors. Solid state storage is also flagged. Upgrades of this sort

fall decisively within brownfield activity, so it's not surprising to see that equity investors (who tend to be more active in brownfield) rank this higher than debt providers.

Trends related to cooling are ranked relatively low. However, the topic is clearly close to the hearts of many investors. The data shows that more than three-quarters of respondents who provided narrative answers here mentioned cooling technology unprompted.

### Chart 24

**What do you think will be the over-riding trend in Europe's data centre infrastructure market over the next 24 months? (Select top two)**



## Demand and debt investors drive data centre growth



**John Wilson**

Director of Data Centre and TMT Financing at SMBC Finance and Leasing, discusses key survey findings and trends in European data centre investment

### **Why has the data centre M&A market been so strong in 2019?**

We are seeing the effects of a combination of ever-increasing demand for data centre capacity, alongside the large wall of capital and debt now available to be deployed into the data centre space and a finite number of investment opportunities given the high barriers to entry (e.g. capex cost, available sites, etc).

### **Our survey found that significantly more debt investors than equity investors are expecting to invest in multiple projects in the coming 24 months. Why do you think that is?**

Generally speaking, there are more opportunities for debt investors to deploy funds to existing operators through, for example, re-financing or upsizing existing facilities due to M&A or expansion capex requirements. Also, debt investors, unlike equity investors, can take secondary positions in existing bank syndicates or clubs. The sheer scale of the capex required by many operators means that it is unlikely that one bank is prepared to cover all the capex, hence the need for a number of banks to provide the necessary levels of capital.

### **Our survey found that debt investors tend to be more concerned about the stability of**

### **their long-term revenue, while equity investors' prime concern was around technology and obsolescence risk. Why do you think these two investor types are split on their main challenges?**

Debt is typically sized and secured against contracted net operating income given the finer pricing available when compared to equity returns. There is therefore little margin for error in terms of financial performance. The stickiness and robustness of these cash flows, the accuracy of opex costs and any residual re-financing risk at the end of the funding term are therefore important areas of focus for debt providers.

### **In which region do you expect to see the biggest growth in the market?**

We see opportunity right across Europe currently. The established Frankfurt, London, Amsterdam and Paris (FLAP) markets – currently the most expensive – will continue to drive data centre activity and offer strong financing prospects. We anticipate continued strong performance: although the limited availability of land and power will constrain growth, it will also ensure pricing and contract terms remain strong and will keep vacancy rates at manageable levels for operators. We are also seeing demand in the Nordics, Southern and Eastern

Europe as hyper scalers expand their operations in these regions, use the logical and most economic location for their data and are willing to use operators or JVs to deliver scalable and highly connected facilities.

### **Only a small minority of respondents would consider investing in a data centre with poor ESG (environmental, social and governance) credentials, even if offered at a discount. Does this answer surprise you? Has the importance of ESG risen in this industry? If so, how and why?**

This is not surprising given the investment criteria of many investors. Typically, strong ESG credentials manifest themselves in healthy financial and operational performance of operators as well as attracting a wider pool of potential equity investors.

### **What trends do you expect for the data centre infrastructure market in the next 12-24 months?**

I'd expect continued strong industry trends influenced by a healthy supply and demand for quality data centre facilities. After all, all the data we generate every day has to end up in a data centre somewhere!

# Conclusion

The future looks bright for data centre investors. Rising demand for cloud services, the trend towards colocation and the growth of edge computing look set to fuel rapid expansion across the sector – both in terms of new greenfield assets and upgrades to existing brownfield sites.



## Power Usage Efficiency (PUE)

Energy-efficient data centres help to reduce costs, attract customers and boost ESG credentials – so it pays to focus on PUE metrics when weighing up investments. “Power costs are a massive factor in any data centre investment decision – and not just for commercial reasons,” says Conradi. “Unless it’s a green source of energy, the greater the power demand, the greater the environmental impact will be,” he adds.

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As with any high-growth sector, there are challenges to be overcome. So, what should investors be looking out for?



## Commercial relationships

Customer churn, stickiness and spare capacity are key considerations in a data centre deal. “If you’ve got a site with multiple customers and a low churn rate, you’ve got a pretty safe investment,” Day says. By contrast, a new data centre that is only half let with a single anchor tenant is going to be a more risky proposition: “If you lost the anchor tenant the revenue stream is going to be a bit more precarious. You need targeted due diligence to focus on these areas,” Day adds.

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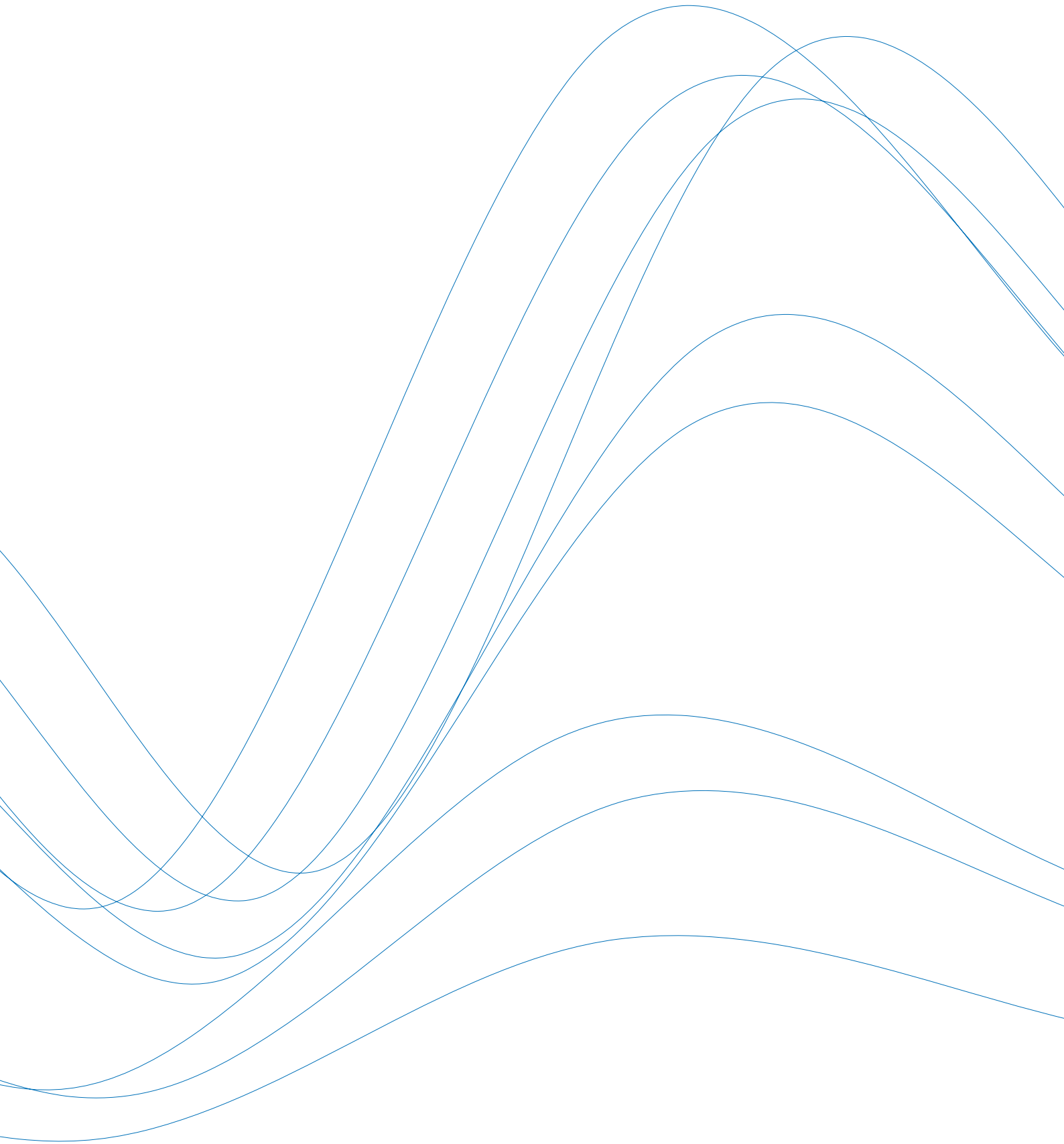
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