



## UK Wholesale data centre sector update – January 2012

### Summary

Last week's 4.3MW deal by CWW with Infinity was a rare large scale leasehold deal for the only part of the UK data centre market that has been struggling over the past few years. Yet despite the widely acknowledged challenges facing the wholesale data centre sector the appetite to invest and build would appear to remain undiminished with a fairly impressive list of new entrants and indeed over 100MVA of schemes can be easily identified (with more surely to be announced).

This has a bearing on the colocation sector, the part of the market where Colo-X operates, as we are seeing some seepage of wholesale capacity when it is repackaged as colocation via various resellers, as shown for example by one of the outstanding deals we had available in 2011, a 5kW cabinet for £1000 per month. 2012 would appear therefore to offer great opportunities for the reseller community and indeed this sector should represent an extremely competitive source of colocation for customers with general (rather than specific) colocation needs.

### What do we mean by the wholesale sector?

Wholesale data centre operators include Global Switch, Digital Realty Trust and Sentrum or newer players like Virtus and InfinitySDC. Their model was originally founded on securing long term funding to develop data centres on the back of selling long term leases to large scale users such as banks (eg Deutsche Bank, Royal Bank of Scotland), large corporate customers (eg BP), IT service companies (eg HP or Sungard) or government departments (eg Transport for London). A typical deal would be a ten to fifteen year lease for a minimum of 10,000 sq ft, or perhaps 1.5MW.

### CWW deal breathes some life into the wholesale data centre sector

The announcement last week of a 4.3MW 15 year leasehold deal by Cable and Wireless Worldwide at Infinity's new Stockley Park (West London) facility is a welcome relief for the large scale wholesale data centre market, the part of the data centre market that has been especially hard hit since the collapse of Lehman Brothers at the end of 2008. In fact you have to say Infinity would appear to have been doing quite well of late in landing both this deal and the only other really large wholesale deal in London over the past year or so, the RBS deal of around 30,000 sq ft that ended up at Infinity's Romford site, closed almost a year ago.

### Carriers no longer self-building

I think the CWW deal highlights a couple of long term trends worth mentioning. The first of these is how interesting to see a carrier, CWW deciding to lease rather than self build. In the past CWW will have built their own data centre but our understanding is that one of the key drivers for this deal for

CWW was that it was a means to secure new data centre capacity without any capital spend (in fact the biggest capex for them on this scheme is the dig required to connect this site onto their network). Its worth remembering that back in the “dot-com” boom carriers built out millions of square feet of data centre capacity right across Europe (think of all the Level3 or Global Crossing facilities for example – now the same company of course)). To be fair, so did everyone else and it was this deluge of capacity that resulted in the massive oversupply that plagued the market for so long after the dot-com collapse. So in terms of implications for the market today, we can see that the carriers in general have gone from being net suppliers to net buyers and thus a positive.

### **But wholesale sector remains pretty subdued and continues to offer smaller and smaller deals**

With respect to the wholesale data centre market though as mentioned the CWW/Infinity deal is a welcome large scale leasehold transaction but essentially fits the pattern of only one such large scale deal per year at the moment in the UK market, a sharp downturn since the heady days leading up to November 2008.

In terms of other wholesale transactions reported of late its interesting to note they are all pretty small, for instance the two Digital Realty deals down at Redhill in 2011 were Visa for 5000 sq ft or the 720kW Kelway deal, which will also be around the same size in terms of floor space, though to be fair Sentrum did secure an reported 10,000 sq ft commitment from CyrusOne at their Woking site. However, as a result of these conditions pretty much every wholesale operator is now being a lot more “flexible” in their offering. In other words no longer is the 10,000 sq ft, 15 year lease deal the minimum requirement that will attract their attention. These days they are all offering much smaller chunks of capacity. For example Sentrum launched their Scalable Data Suite product last year, a “packaged modular power solution of 720kW” – in other words around 5000 sq ft or 500 sq m. We also wrote some time ago about Digital Realty’s PoD product (<http://www.colox.com/colox/digital-realty-now-listed-on-colo-x/>) whereby they will offer capacity from as little as 250kW, ie around 60 odd 4kW cabinets. In fact we expect this trend to continue and certainly both Infinity and Virtus, who are also building new wholesale facilities in Hayes, are talking of even smaller units being made available. As already mentioned, this offers significant opportunities for resellers, in other words companies who can take a wholesale contract and retail the capacity, ie sell it one rack at a time.

### **Yet no shortage of appetite from investors for wholesale schemes!**

I’ve done a quick overview of some of the major wholesale players in and around the London market below. What surprises me most is despite the universally acknowledged slow down in the wholesale data centre sector the appetite for new schemes and new investors (eg Brockton Capital into Virtus, Rothschild’s backing Infinity etc) seems to remain unabated!

If you want a regular overview of the wholesale sector then I would recommend subscribing to CBRE’s quarterly review – but be warned – its a very technical read: <http://bit.ly/AEcXGm>.

### **Infinity – up to 40MVA under development**

The CWW deal is about 25% of their new Stockley Park development, which will total some 15MVA or 70-80,000 sq ft of net tech overall. The site is expected to be live in October this year. Infinity is also pressing ahead with their new build in Slough on Buckingham Avenue (same road as the two

Equinix facilities, LD4 and LD5) which will be opening nearer the end of 2012. The Slough site will be some 34MVA and 125,000 sq ft. We expect the Slough site to have a much more retail orientated sales focus, ie smaller amounts of capacity on flexible terms.

#### **Virtus – 28MVA under development**

Following the announcement of the new investor, Brockton Capital, in October 2011, Virtus also released details of their new Hayes scheme of 20MVA across 50,000 sq ft to compliment their existing Enfield facility (8MVA, 27,000 sq ft). The Hayes site which is currently a vacant brownfield site should be operational in mid 2013.



**Virtus's 8MVA Enfield site**

#### **Sentrum – no new developments mentioned but....**

Still have plenty of capacity in Woking and Watford. New company Sentrum Colo selling the former Deutsche Bank facility in Hayes on a per rack basis as opposed to their more usual wholesale/lease model .

#### **Ark – 20MVA in Farnborough and up to 100MVA+ in Wiltshire**

Ark seem to be focussing on high security clients like government and defence; certainly both their campuses are x-MOD land. They have massive potential capacity at both Cody Park, Farnborough and their Spring Park campus in Corsham, Wiltshire:

- Cody Park will have 20MVA available in Q1 2012 – at present the site is brown field but potential to build up to 6 self contained data centre buildings.
- Spring Park in Corsham, Wiltshire has one building live, so called SQ17 which can offer 2.4MW of capacity but the whole campus, according to material on the Ark website, has planning permission for up to 600,000 sq ft gross and 114MVA.

#### **Digital Realty Trust – 8MVA in Chessington**

DLR announced their new site in Chessington, Surrey late last year which can offer 120,000 sq ft of space.

#### **Stop Press: PMB Holdings/MK DataVault – another 30MVA!!**

Property developer PMB have just announced a new 30MVA scheme on the former Maxwell Group site in Milton Keynes. “An energised shell scheme ready for tenants in 2013” according to the press release.

### **And growing appetite for speculative development too....**

Of course as always with the wholesale market much of what has been announced won't be built, or at least not until a customer signs an order form or lease. But I am confident that in fact there is quite a bit of appetite these days for so called speculative build, in other words the construction of capacity without a pre-signed tenant. Evidence of this can be seen with Digital Realty for example with their POD scheme or take Next Generation Data in Newport, South Wales, who had funds over and beyond what was required for customer orders to pre-build capacity last year. Clearly no one will construct an entire wholesale facility without an order, but launching a small initial proportion of it on a speculative basis can help sales of the rest of the site; surely better to have some activity when showing potential customers around than none? This trend is an important step change and whilst I suspect each operator may only build out say 5000 sq ft, clearly if a number of them go down this route this could easily add up to a decent amount of capacity overall.

### **Reinforces our relaxed view on the data centre supply picture**

It's worth making the point (again – with no apologies) that this potential source of supply reinforces our oft sated belief that a data centre capacity crisis is still not on the cards, despite what many industry commentators would suggest otherwise. Yes, there are some tight spots in the market, like Central London for example, but the sheer volume of wholesale, colocation and other sources of supply being developed or planned in the market AROUND London should in our view go a long way to calming any worries over any capacity issues.

### **So, finally, why is the wholesale market relevant to the colocation market?**

For quite a while the wholesale data centre sector was really quite independent of the retail focussed colocation market, bearing in mind a colocation deal might be for only a single cabinet on a one year term. Colocation providers include companies such as Telehouse, Telecity and Equinix for example. Previously, at the large end of the scale, a large colocation deal would just get onto the radar screen of the wholesale operators, for example a 1MW size deal, so a large data centre buyer might consider approaching one of the bigger colocation companies or could also consider a wholesale solution.

However, things are changing! Firstly as explained the wholesale sector has seen a significant downturn in order levels following the Lehman Brothers collapse in Q4 2008, so many wholesale operators are now offering much smaller amounts of capacity on much shorter terms, eg as little as 240kW on a 3 or 5 year term – so the wholesale product is now looking a lot like mid size (not just large size) colocation deals.

The other factor is that wholesale capacity can get re-packaged into a colocation product by resellers. And clearly the greater volume of wholesale offers around the greater the opportunities for some very attractive pricing for these resellers. At Colo-X its no surprise that one of the best deals we saw in the UK colocation market last year was from a reseller offering a 5kW cabinet in a large-scale and very good quality wholesale facility offered at a bargain £1000 per cabinet per

Sentrum's 200,000 sq ft Woking facility

month, a staggering £200 per kW per month. I'm pleased we were able to close a couple of deals there as unsurprisingly this offer has now sold out, but its a good example of how we can see "seepage" of wholesale capacity into the retail market.



**As a prediction for 2012 I think we can safely say it should be a great year for resellers** – they should have plenty of potential wholesale capacity suppliers asking them to effectively offer their product on a retail basis and I suspect they will be offered some pretty good terms, including low initial commitments, so reducing the upfront liability the reseller will be taking on. In turn this should translate into some pretty competitive offerings for retail colocation buyers – particularly given the new facilities are appearing in new locations such as Hayes or Woking for example, thus increasing the range of options available. Clearly these wholesale based solutions will not offer the same interconnection opportunities that other established carrier neutral colocation facilities can offer, for instance such as those in Docklands, but for general data centre use requiring decent Internet access they should prove a highly competitive and perfectly viable alternative.

To discuss pricing, availability or this article, be it as a reseller seeking a wholesale opportunity or a colocation customer looking for rack space, please contact Colo-X directly to discuss your needs.

Tim Anker

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