COLO-X

Trusted Colocation Advice

November 2015

The Colocation Exchange Newsletter

Contact Tim Anker

Greetings!

I trust you are in good health and that business has gone well so far in 2015. Hard to believe we are in the final quarter for the year.

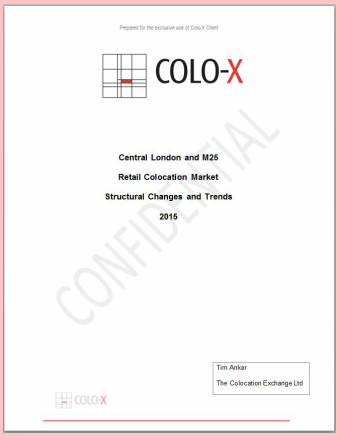
Market Cycles - are we at a turning point for the European Colocation Industry?

This question is pertinent, as the last big industry merger led to a massive rise in colocation prices (see below)

We've had to devote a fair portion of our 60 page report on the state of the London and M25 Colocation Report to a discussion on the potential impact the Equinix bid for Telecity will have on the London retail colocation market.

Both Equinix and Telecity are big players in London; Equinix the larger of the two has around 400,000 sq ft of net technical capacity, mostly located on the Slough Trading Estate and Telecity is slightly smaller at around 300,000 sq ft. Both companies also have significant potential capacity available - Equinix has the second phase of LD6 to come (and no doubt once that is announced LD7 will be looming over the horizon) and Telecity still has ample capacity at Powergate, with scope for further development at Harbour Exchange, their Docklands based network hub (and certainly the jewel in Telecity's London crown as one of the leading

Colo-X Industry Research: London Retail Colocation Market 2015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Central London and M25
Retail Colocation Market
Structural Changes and Trends
2015

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Tim Anker
The Colocation Exchange Ltd

Our 60 page report on the retail colocation market both within Central London and the M25 now includes a detailed analysis of the impending "Equcity" merger as

London colocation ecosystems).

Working out the effective market share of the combined entity, "Equicity" is something of an art form as it depends entirely on your definition of what to include in "the market". If you include all the colocation options available in London, ie both retail and the large amount of "wholesale" capacity, then Equicity's market share is in the mid 20%'s. On the other hand, if you just look at strictly retail only capacity, then you are into the 40%s, if not the high 40%s. The bid is currently under review by the European Commission and a decision on whether or not to refer the bid for further investigation is due by November 13th. The extended review can take up to 90 days. We understand Equinix have already offered to dispose of seven Telecity sites in Amsterdam, London and Frankfurt to help push the deal through. If this happens it will certainly make for some further interesting activity in the market (eg which sites, who will buy them etc), but the significant narrowing in discount between the Telecity share price and the value of the Equinix bid over the past few days suggests the City thinks enough has been offered to push the deal through.

In the meantime, whether or not the deal is allowed or allowed with concessions, the significant consolidation has prompted much thinking at Colo-X: as with the last big industry merger (Telecity/Redbus back in Q4 2005) will this deal also mark a significant market turning point? The answer: it depends!

Telecity/Redbus 2005/6 - might be worth a quick reminder what happened post this merger - essentially former Redbus customers who were enjoying monthly rolling contracts costing GBP£350 "per rack" per month found their charges doubled over night in March 2006 and indeed thereafter costs continued to rise over the next few years to around £1000 per month "per rack", a staggering 285% increase!

well as overview on supply, demand, pricing trends and identification of key London ecosystems. Full details including contents from this link. Please contact me for pricing.

In this Issue:

Telecom Exchange London
November 19th Excel

Data Centres Converged
18th & 19th November
London Excel

Dedicated and secure quarter and half racks available in the following key London data centres:

Telehouse North
Telehouse East
Telehouse West

Today we have two big operators combining their capacity and instead of building new capacity competing with each other, the likelihood is that they will build less overall and obviously not compete, hence the market impact should be fairly positive (from a vendor perspective). On the other hand, one of the biggest factors which may help this deal go through, in spite of the problematic market share, is the huge growth in alternative sources of supply that we have seen over the past few years.

If you look at the Colo-X data set for London included in our 2015 report, we are now tracking 59 carrier neutral colocation facilities in and around London. 19 of these are "new entrants" ie a new operator in the market (eg Datum, LDex or Everest) and 9 are"wholesale" facilities (eg DRT, Virtus, Infinity) who now offer small scale retail colocation. The range of options is therefore much increased - nearly half of our list of London sites wasn't available to retail buyers five years ago.

In terms of the overall market impact of the "Equicity" deal, the issue is not only the fact that there a broad range of options available in the market, its also that all markets participants have a decent supply pipeline and this is the really big difference compared to 2006 (the time of the Redbus/Telecity merger) when the industry was essentially "supply constrained". Even with Equicity perhaps building less sites post the deal, the industry supply pipeline remains robust.

Its not hard to add the supply pipeline up. For example, even in the Central London market, where its allegedly meant to be hard, if not impossible, to expand Telehouse North 2 is opening early next year, we have further capacity to come at Telecity HEX, three further floors of Volta still to come and then perhaps Infinity's Here East site at Stratford. Even without Here East, our report shows there are many years' worth of supply available in this part of the market at our estimated demand levels. The picture is the same when we

examine the whole London market, ie including the M25, where for example we have of NTT/Gyron's new 30MW Hemel campus to come. So the supply picture is likely to remain pretty good, certainly in the short term and this will keep the balance of the market still in favour of buyers, for now.

According to our figures, London colocation buyers have seen average prices fall some 25% over the past three years and in some respects I think buyers have enjoyed a "golden scenario" of increasing choice, competition and contract flexibility, especially from some of the newer operators keen to establish themselves. Given the continued strong investor interest into the data centre industry (eg NTT's recent acquisition of Germany's e-shelter or ST Telemedia's investment into Virtus) it would appear likely that buyers will continue to be well catered for.

What might question this "rosy" outlook though (from the buyers perspective) would be further industry consolidation, perhaps for example amongst the various wholesale operators, some of whom have been quite aggressive new participants in the retail colocation market. There is also continued speculation in industry circles of further deals to come (eg Interxion and DRT is one oft mentioned transaction, following on from DRT's recent acquisition of US based Telx) and indeed some of the UK based consolidators might still be looking at some of the smaller less well established sites - Pulsant for example has through numerous acquisitions become one of the biggest UK colocation operators over the past few years.

If corporate activity were to continue, it is not impossible to see that the enthusiasm for new clients from some operators may curtail a bit under new ownership, so perhaps beginning to tilt the balance of power back towards the vendors. Its not going to be an overnight change - but if we were to look back in year or two's time we may indeed see that a turning point may has

been reached, provided industry consolidation continues. On the other hand its also not impossible that a consolidator might provide a stronger financial platform for growth if a weaker competitor is acquired, thus turning capacity that might not be delivered into some that definitely will!

To summarise: colocation buyers have benefited from the increasing range of colocation options in the market over the past few years (a "golden scenario"). The Equicity deal does represent significant industry consolidation but on the other hand there remains a long list of enthusiastic and high quality competitors, thus on its own we don't expect to see much short term impact on the market overall from the "Equicity" deal; ironically its Telecity customers that might see the biggest changes once the deal goes through. Should industry consolidation continue though, its not impossible the balance of power does begin to shift back towards vendors, though our concerns on this are balanced by the continued interest from new investors.

Looking forward, colocation buyers really need to start thinking smarter about their deployments. The London colocation market is the most varied and competitive in Europe - nowhere else offers the range of sites that we do and whilst we have some of the most expensive colocation facilities in Europe we also have some of the most competitively priced options available. Pricing in the London market for retail customers is a high as £450/kW month (including power) to under £200, quite a range then. Smart buying allows users to access high priced/high value ecosystems where required yet also take advantage of the terrific rates available elsewhere. Interesting times indeed.

Upcoming events in 2015/16:

I'm really pleased the "no frills wholesale networking event" is coming to London for the first time, a format that will be very familiar to carriers and colo operators who used to attend CNX in Frankfurt. By "colocating" with DCD Converged in London Excel on Thursday November 19th the event will gain strong momentum in its first year. If you are a carrier, colo operator and service provider and interested in meeting other wholesale operators please **contact me** for further information and background or visit the event **website**.

Data Centre Dynamics - London at London Excel on 18th and 19th of November.

Colo-X friends and registered members can apply for a VIP place today at
https://www.eiseverywhere.co/124201?categoryid=1205346
using Voucher code - COLOX

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