Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Heavy Hitters Betting on Data Centers

Institutional buyers are looking to upload more data centers into their portfolios as they pursue asset classes with predictable streams of demand and rent growth.

The niche, long dominated by specialty buyers, has started drawing more diverse investors in recent years. That trend accelerated during the pandemic-induced downturn, as more investors took note of the sector's continued user demand while projections for other asset groups were unclear.

"Interest is at an all-time high and growing. Investors have started to realize the resiliency of the asset class and strong underlying demand for fundamentals," said **Kristina Metzger,** leader of **CBRE's** data-center capital markets group in North America. In the firm's first global investor sentiment survey of the sector, 95% of respondents said they plan to increase capital deployment into data centers globally this year, with the heaviest focus on North America. Of that number, 46% already have allocated $300 million or more of equity for data-center space.

The pool of buyers has grown to include more large investors such as pension-fund advisors, insurance companies and international buyers, Metzger said. Of the approximately 100 respondents to CBRE's survey, more than half are institutional buyers, private-equity firms and fund operators. Some 60% of responding firms have $5 billion or more of assets under management.

"Not only is it diverse, but we are seeing it across the risk spectrum," Metzger said.

She noted that more investors are signing confidentiality agreements for opportunities ranging from stabilized assets to development opportunities. In the fourth quarter last year, the number of institutional investors signing non-disclosure agreements for data-center listings climbed 85% from the same period two years earlier.

Last year, some $3.5 billion of data centers traded in North America, according to CBRE, dominated by several large-scale transactions. In the U.S., that included **Blackstone's** $293 million purchase of a 90% stake in eight data centers totaling 1.3 million sf, and a **Harrison Street** joint venture's $326 million purchase of the **Pittock Block** data-center building in Portland, Ore.

This created a highly competitive marketplace. Traditionally, data centers traded at capitalization rates as much as 200 bp higher than those for warehouses. But that gap is shrinking, Metzger said. Last year, capitalization rates on data-center trades averaged 5.76%, down from 5.97% in 2019 and 6.5% in 2018, according to CBRE.

Investors are motivated by the strength of the sector's performance amid the recent downturn, when social distancing and quarantine measures to curb the spread of the virus forced workers and students online. "The pandemic allowed the data-center space to prove its resiliency in a way it never had before," Metzger said. For investors, "that lightbulb went off. No matter what was happening in the macro economy, it didn't impact our need to access email or **Netflix.**"

The only potential roadblock for buyers is a lack of supply. In the survey, 67% of respondents cited the lack of available product as one of the greatest challenges. Three-quarters of the respondents also listed the high valuations and intense competition when properties become available. The opportunities to acquire them on a large scale remain scarce, Metzger said. That could change as owners look to take advantage of growing investor exuberance.

CBRE's Global Data Center Investor Sentiment Survey will be released later this week. ❖