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Data center development on the rise

Silicon Valley / San Jose Business Journal - Sharon Simonson

One of the largest data centers ever proposed for Silicon Valley is breaking ground in Santa Clara.

Washington, D.C., real estate development company Dupont Fabros Technology Inc., a newcomer to the region, has begun construction on the first phase of a proposed 600,000 square-foot complex at 555 Reed St.

The project, with an estimated \$1 billion building value at completion, is a striking example of the global construction boom in data centers — fortress-like structures that house thousands of servers. That boom is helping drive good times for valley contractors who specialize in these projects.

Construction values for the complicated facilities can reach \$1,000 a square foot, excluding the cost of the building shell. In comparison, a high-quality Silicon Valley office costs less than half that sum, including the cost of the land.

Silicon Valley is considered the country's strongest data-center market, driven by its high concentration of Internet-based companies. According to Tier 1 Research, a data-center industry group that tracks supply and demand, Bay Area data centers are roughly 70 percent full and filling quickly.

“The biotech stuff has really cooled off. No one is building offices right now, and semiconductor space development is pretty much dead. So you have health care and hospitals doing very well and data centers,” said Glenn Brandon, an executive with mechanical contractor Southland Industries. Southland is doing the cooling and ventilation system for the first \$270 million, 150,000-square-foot phase of the Dupont Fabros development.

Demand for data-center space comes from multiple sources. Internet companies such as Facebook Inc. and Yahoo Inc. need to own or lease data centers to house the thousands of servers necessary to direct the cyber traffic generated by their well-visited Web sites. Businesses such as banks need data centers to handle internal demand for data storage and complicated financial analysis, including redundant capacity to fill the gap should a data center go down. Beyond that is the growth of cloud computing whereby Internet surfers access data and software stored remotely online, rather than having it on their home or office computers. For example, Google Apps provides common business



Dennis G. Hendricks

Construction has begun on a huge new data center in Santa Clara being built by Dupont Fabros Technology Inc. of Washington, D.C.

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applications that users can access via Web browser.

Santa Clara is the favored city for Silicon Valley data centers because electricity is city-supplied and cheaper than other competing suppliers. Data centers use so much electricity that the cost of that utility affects where a data center locates more than any other factor.

Michael Foust, chief executive officer of San Francisco's Digital Realty Trust Inc., told analysts in an Aug. 6 quarterly conference call that Silicon Valley is one of his company's strongest markets, with demand for more data-center space outstripping current supply. Other markets worldwide are seeing the same supply-demand imbalance, he said, including Northern Virginia and New Jersey as well as Chicago, Dallas, Paris and London.

Digital Realty develops, manages and owns more than 70 data centers and other technology-related real estate worldwide.

Digital is among those participating in the Silicon Valley data-center building boom. The company has partnered with local data-center development guru Les Pelio of Pelio & Associates at 1500 Space Park Drive in Santa Clara. Together they plan to start construction on 300,000 square feet of data center space "any day now," said Sutton Roley, a senior vice president and principal with the valley's CPS Corfac International and a leasing broker for the site. Another 74,000 square feet in the project already has been leased.

Fifteen percent of Digital Realty's annual revenue comes from Silicon Valley facilities, according to public record.

A third Santa Clara data center complex with 350,000 square feet, including some offices, is also being planned by CRG West, a division of The Carlyle Group. The first phase of its Santa Clara complex begins construction this month.

The list of new Bay Area projects goes on. San Francisco-based 365 Main Inc., which owns five data centers in Northern California, Arizona and Virginia, plans to start a 136,000-square-foot data center in Newark "imminently," said Miles Kelly, vice president of marketing and strategy. The project has been "designed and permitted," he said, but he declined to say how much it would cost or whether it is purely speculative or partially leased.

General contractor Turner Construction Co. has six data-center projects under way, five in Santa Clara County and one in San Mateo, said John Assunto, a division manager who oversees projects for the company with a construction value of \$15 million or less per project. Two are new; the remaining four are upgrades and renovations. Together, the work has a construction value of \$28 million, he said. The business is growing and Turner is adding staff to meet the surge.

"When the dot-com bust occurred, there was a big drop-off in demand for new data-center development," he said. "But now the excess has been absorbed, and people are out spending money. Starting about a year ago, we saw a significant uptick in the volume of the work."

Despite the enthusiasm, the developers agree that caution is in order. Dupont Fabros, for instance, plans to build its massive Santa Clara complex in four phases over the next five or six years. Chief Financial Officer Mark Wetzal said demand will dictate the timeline.

“In the old days, you might pre-lease 25 percent or 50 percent of a data center, and it would be full in a year,” he said. “People now are taking longer to make decisions, and we don’t have people lining up out the door.”

Still, he said, “There is long-term demand for data centers. The Internet is not going away.”

In the past 10 years, Silicon Valley tenant demand for the highly improved real estate has varied greatly. Strong in the late 1990s, it peaked in 2000 when tenants leased more than 2 million square feet, according to a report prepared by commercial brokers CB Richard Ellis and CPS Corfac International. But in 2001 demand dropped to almost nothing, and new leasing activity has never reached more than 25 percent of those 2000 levels.

But Matt Englert, director of mission-critical operations for Rosendin Electric, a San Jose subcontractor with data-center expertise, said he sees data-center construction remaining strong for the foreseeable future.

“Global Internet traffic has increased dramatically, and the data centers built eight years ago cannot support the demands of today’s information technology,” he said. “What’s forecasted and projected by all of the builders and owners that I talk to is that we will see this pace of construction for the next 18 months to two years.”

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