Data center performance varies across Texas

BY MATT BAKER

Stream Data Centers' DFW VII facility in Garland, Texas

As they are no longer merely the domain of enterprise users, demand for data centers has skyrocketed in recent years with more information moving to the cloud. The pandemic has created issues, nevertheless the events of 2020 have largely accelerated this trend.

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By just about every metric, the asset class saw incredible gains during the first half of the year, according to a report by JLL. Data center REITs outperformed other sectors, absorption rose in most markets and operators have thus far weathered the pandemic with steady—if not booming—business activity.

As strong as the overall industrial sector has been this year, data centers have been even stronger. For example, the stay-at-home orders brought on by COVID-19 led to an increase in online shopping, and thus renewed demand for warehouse and logistics space. This, in turn, has resulted in a year-over-year increase in returns of 2.3 percent among industrial REITs, according to information gleaned from Nareit. Contrast that with data center REITs, which saw an incredible 19.2 percent climb over that same period. Residential, office, healthcare, retail

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and hospitality REITs all regressed during the 12-month period ending on June 30, 2020.

What's behind this surge? First is the increase in online shopping; in addition to furthering demand of the storage of goods, extra server space is required to accommodate all the ones and zeroes supporting this activity. Additionally, remote working and learning have led to an uptick in videoconferencing and home-based internet use. Finally, with most movie theaters and other venues shuttered for the foreseeable future, virtually the only option available for most people to unwind is content streaming, which drives even more demand for data centers.

Houston

With demand "tepid at best," according to JLL, providers have been slow to bring new supply to the Houston metro. The inventory currently stands at 140 MW within 1.1 million square feet. Of that, 19.8 MW are vacant.

While there are no new projects under construction, JLL identified 582,000 square feet, encompassing 87.2 MW, of planned data center space. Right now, a handful of providers are able to build out new supply on their existing campuses but have thus far spurned the idea of bringing new spec space to market in 2020.

The energy industry has historically driven Houston's data center demand—currently occupying half of market share—thus the simultaneous hits of COVID-19 and the oil bust are depressing activity in the region. The forecast for Houston's data center market is wholly dependent on if and when the energy industry comes out of its current slump.

Dallas-Fort Worth

With more than 580 MW of inventory in nearly 4 million square feet of space, Dallas-Fort Worth is the clear data center leader in Texas. Though the pace has slowed relative to recent years, supply continues to increase here.

Among the new product to come to market this year was Stream Data Centers' DFW VII facility. The expandable 138,132-square-foot data center in Garland, Texas is part of a planned 400,000-square-foot campus. In June, Equinix opened DA11 IBX, the firm's ninth data center in the DFW area. The $142 million first phase provides a capacity of 1,975 cabinets and colocation space of approximately 72,000 square feet

Data Center demand in DFW has long been dominated by enterprise users. Despite the closing of several deals this year, however, the market hasn't benefitted from large, hyperscale transactions that dominate other markets.

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Austin and San Antonio

According to JLL, supply is tight in both the Austin and San Antonio markets, which combine for 775,000 square feet and 142.2 MW of space—only 5.1 MW of which is vacant. There are 8,000 square feet of space under construction between the two markets with another 117,000 in the pipeline.

A number of large requirements over the past year and a half have absorbed most of the available supply, though some providers in the Austin market have power concerns, suppressing their ability to add inventory. Tech firms—which hold a two-thirds market share—as well as enterprise users drove demand during the first half of 2020.

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Data Centers

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Outlook

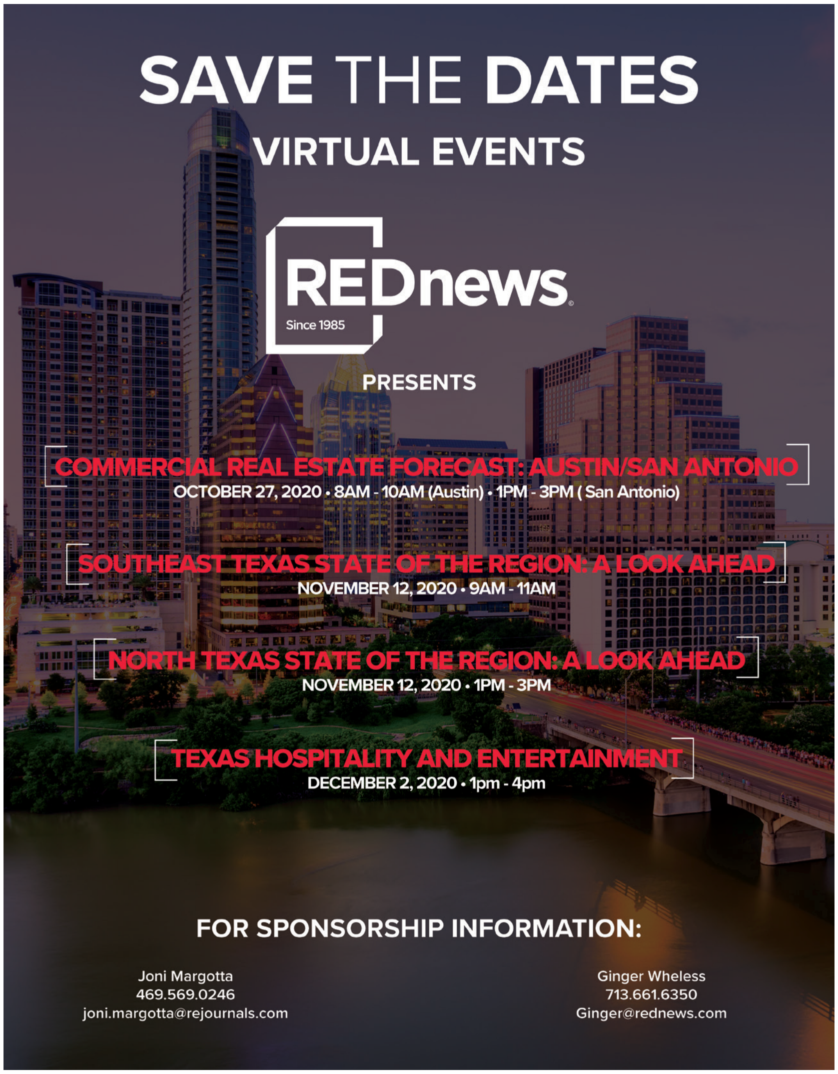
One major change in the data center landscape is a shift from enterprise users occupying the majority of space to mounting demand from cloud companies. JLL anticipates more activity, especially with certain providers bumping up against their maximum capacity as major leases close throughout the ensuing 12 months.

In fact, investors should expect that trend to drive the narrative nationally through the end of the year and into early 2021. Even as the pandemic spurred unprecedented demand during the first half of 2020, financial uncertainty put the brakes on many deals. As a result, there is a sizable backlog at the moment.

And as much of a gut-check as COVID-19 has been, it likely will further incentivize companies to migrate their data from private servers to public cloud providers. This movement has been gaining in momentum the last few years and the uncertainty of our current situation should push more companies in this direction.

Hosting and managing one's own data provides businesses with unrivaled control and security. The tradeoffs, however, are relevancy and cost. IT infrastructure evolves at a nearly exponential rate; if corporations want to keep pace with this change, they have to heavily invest not only in new hardware, but training for employees. Cloud providers, however, can diffuse these costs across all the users of their services, allowing them to offer the latest and fastest technology at cheaper rates.

Whether or not the economy continues to lag for the next several quarters as a result of the pandemic, data centers appear to be one of the few truly recession-resistant real estate sectors. Bull market or bear—this asset class is in excellent shape regardless of what the near future holds.



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