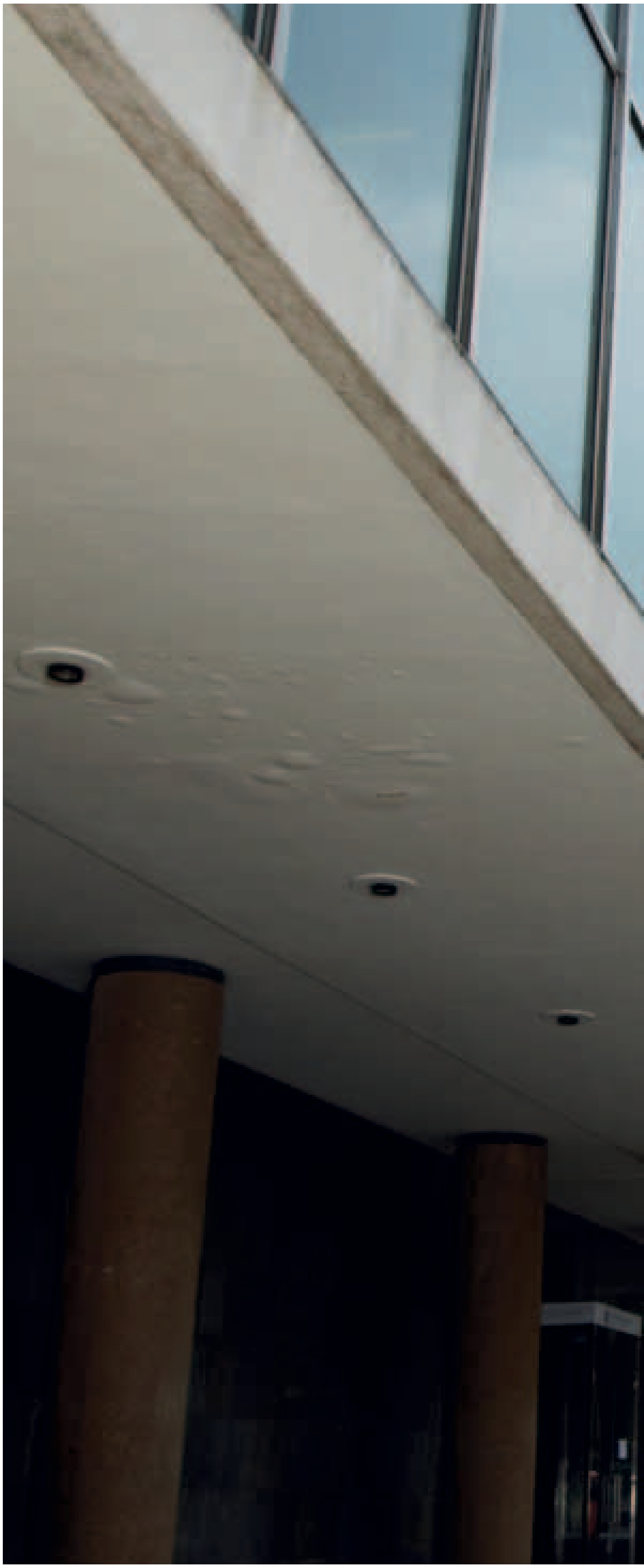
ESTATES GAZETTE



AT FULL POWER

Global Switch's executive chairman John Corcoran tells Lucy Barnard about the data centre group's full-voltage plans for expansion. Portrait by Tom Campbell

When you come to London 2 you'll see row upon row and rack after rack of computers, all just humming," says John Corcoran, executive chairman of data centre specialist Global Switch. "There are very few people around." Yet despite the lack of human activity, London 2 in East India Dock, E14, is some of the most expensive commercial real estate in the world.

Space at buildings like the 680,000 sq ft, state-of-the-art centre, where arrays of computer servers stand in chilled rooms buzzing with the noise of air-conditioning units, typically costs £200 per sq ft.

Together with London 1, the former *Financial Times* printing depot, London 2 draws as much electricity as the entire domestic requirement of the city of Glasgow, and the building's roof space carries complicated electrical systems and vast generators capable of providing a back-up service if the mains supply ever fails.

For Simon and David Reuben, the multi-millionaire backers of Global Switch, this facility, already replicated in Madrid, Paris, Singapore, Sydney, Frankfurt and Amsterdam, is a calculated property gamble.

The Reuben brothers bought into the 3m sq ft, eight-strong data centre business – established 12 years ago by Birmingham-based businessman Andy Ruhan – in November 2004 as part of their joint acquisition of Chelsfield with Westfield and Multiplex. They have spent the subsequent five-and-a-half years gradually buying out their partners, paying down inherited debt and upgrading the portfolio. They are now keen to roll out ambitious plans for Global Switch, says Corcoran.

"We've gone through a growth period since we bought the business, and we had to invest ahead of the wave of demand that we predicted at the time," he explains.

"We've invested hundreds of millions of pounds in the portfolio. Now we're reaping the benefit of that heavy

SWITCHED ON

30%
Proportion of Global Switch's portfolio occupied in 2005

80%
Proportion of Global Switch's portfolio occupied in 2010

investment programme because we've enjoyed three or four years of strong growth, which should carry into the future as that investment starts to generate income."

Global Switch, already the biggest data centre owner and operator in Europe and Asia, is building a 160,000 sq ft facility in Paris, around half of which it leased last year to IBM.

In addition to this, the company recently bought sites in Singapore and Sydney, where it hopes to start construction in the next 6-12 months. And, within the same timeframe, it hopes to develop a 215,000 sq ft centre in Hong Kong. To add further impetus, the company is launching a marketing campaign next month, starting with the launch of a new website on 1 July.

And Global Switch plans to go much further. Corcoran says that, within the next three years, Global Switch hopes to start work on the development of centres in Amsterdam, Singapore, Sydney, and Frankfurt, and to add another facility in London. Over the next five years, he adds, the company hopes to expand to Tokyo and Shanghai.

Chilled out: inside Global Switch's London II data centre in East India Dock, E14, where rooms are kept super-cool

With each centre costing up to £250m to build, this is no small investment. Global Switch expects to spend £400m-£500m on schemes over the next two years – and it intends to pay for this expansion out of its own earnings and debt.

Its ambitions are a far cry from five-and-a-half years ago, when the company was suffering from the effects of the dot.com crash and making heavy losses, while its portfolio remained 70% unlet. It was at this moment that Corcoran, then chief financial officer of Multiplex Group, was parachuted in to provide some answers.

"When we acquired the business, data centres were a casualty of the collapse of the tech markets, so people were running away from data centre space," says the Australian.

"But Simon Reuben saw demand factors moving in favour of the data centre industry and that supply was rapidly drying up. To his credit, he made this investment at a time when a lot of other people were reluctant to do so. That showed a lot of foresight."

Now, says Corcoran, with a recovery in demand and a strategy aimed at increasing lease lengths from an average of 3-5 years to around 10 years, combined with heavyweight investment in the portfolio, the company's fortunes have been completely turned around.

In 2008, banks valued the business at £1.5bn and by December 2009 this had risen to £2.75bn. The company generated earnings of £96m in 2009, and £136m in the year to 31 March 2010. The portfolio is now 80% let, giving the company solid reasons for believing its earnings will rise to £170m by 2011 and, soon after that, upwards of a quarter of a billion pounds.

"I can't think of one indicator that isn't pointing towards huge growth for data centres"

The company is also working on a long-term bond issue that would pay down most of the £1bn of loans it still owes the Reubens, who, up until now, have met all of the business's funding needs and taken no cash out.

With the business growing in value, the Reubens are moving ahead with longstanding plans for a float. Corcoran says this will probably take place next summer, and is likely to involve 25-35% of the business – meeting the minimum required by the Stock Exchange for a free float.

"The Reuben brothers have got a significant proportion of their wealth tied up in Global Switch so, from a simple investment diversification point of view they are seeking to diversify," says Corcoran. "But, equally, there's no pressing driver. It's under 50% of their wealth but it's an increasing proportion."

The reasons why the company's data centres are experiencing such an increase in take-up, says Corcoran, are the rapid growth in demand driven by improvements in technology and the internet, the trend towards outsourcing, and the increasing demands of regulators for financial services businesses to have their data backed up many times over.

The global financial downturn inevitably slowed down deals – these days, customers typically take six months to make a decision instead of three, says Corcoran.

But he adds: "Almost everywhere you turn there is demand for data centres. I can't think of one indicator that is not pointing towards huge growth. In the past 18 months, we have been surprised at how quickly demand has increased.

"We're moving towards full occupancy earlier than we had anticipated, so there might be a gap in some cities between full occupancy and the next data centre coming on line."

DATA CENTRES: HIGH-SPEC BUILDINGS SEEN AS AN EMERGING ASSET CLASS

Data centres are high-spec buildings designed to house IT equipment for their customers. They require massive amounts of power and connectivity and, consequently, generate large amounts of heat. They therefore need strong, load-bearing floors, elaborate cooling systems and high ceilings.

This means that a data centre costs around five times as much to build as the equivalent office space, hence there are few large data centre operators and owners. The main operators include Global Switch, Digital Realty and DuPont Fabros Technology. Smaller operations cater for the retail market.

The vast costs involved in installing equipment mean that tenants are keen to renew their leases rather than moving elsewhere. GS says that nearly 99% of its customers renew.

"This is an emerging asset class," says GS executive chairman John Corcoran. "We need to get our heads around the differences between this and other property types. There are tremendous benefits, but we were feeling our way when we bought the business."