




MAXIMIZING VALUE FOR CLIENTS
IN THE COVID-19 CRISIS THROUGH

DATA CENTER **STRATEGIES**

APRIL 2020



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While the full impact of the COVID-19 crisis on commercial real estate is not fully known, what is known is that data centers are among the few property types primed for growth both during and after the crisis.

The abrupt shift from working in the office to working from home has had a profound impact across the internet, placing unprecedented strain on the entire system of cloud platforms and networks that support vital business, entertainment, and government operations in the United States and globally. Exploring data center strategy represents an immediate value-added opportunity for a broad range of Newmark's clients.

What follows is an outline of how organizations are currently responding to the crisis, challenges related to cloud platform reliance, the outsized demand for prebuilt colocation space and how data centers are primed to grow in importance in the present and post COVID-19 world.

KEY TAKEAWAYS



Virtually all businesses are reassessing their IT/Data systems and requirements as a result of unprecedented strain on existing systems, particularly “cloud” platforms.



Cracks in the cloud are forcing companies to deploy critical IT functions into “hardened” facilities, such as “colocation” data centers.



Colocation data centers are essentially the IT version of office sharing services, with the following characteristics:

There are differences between providers.

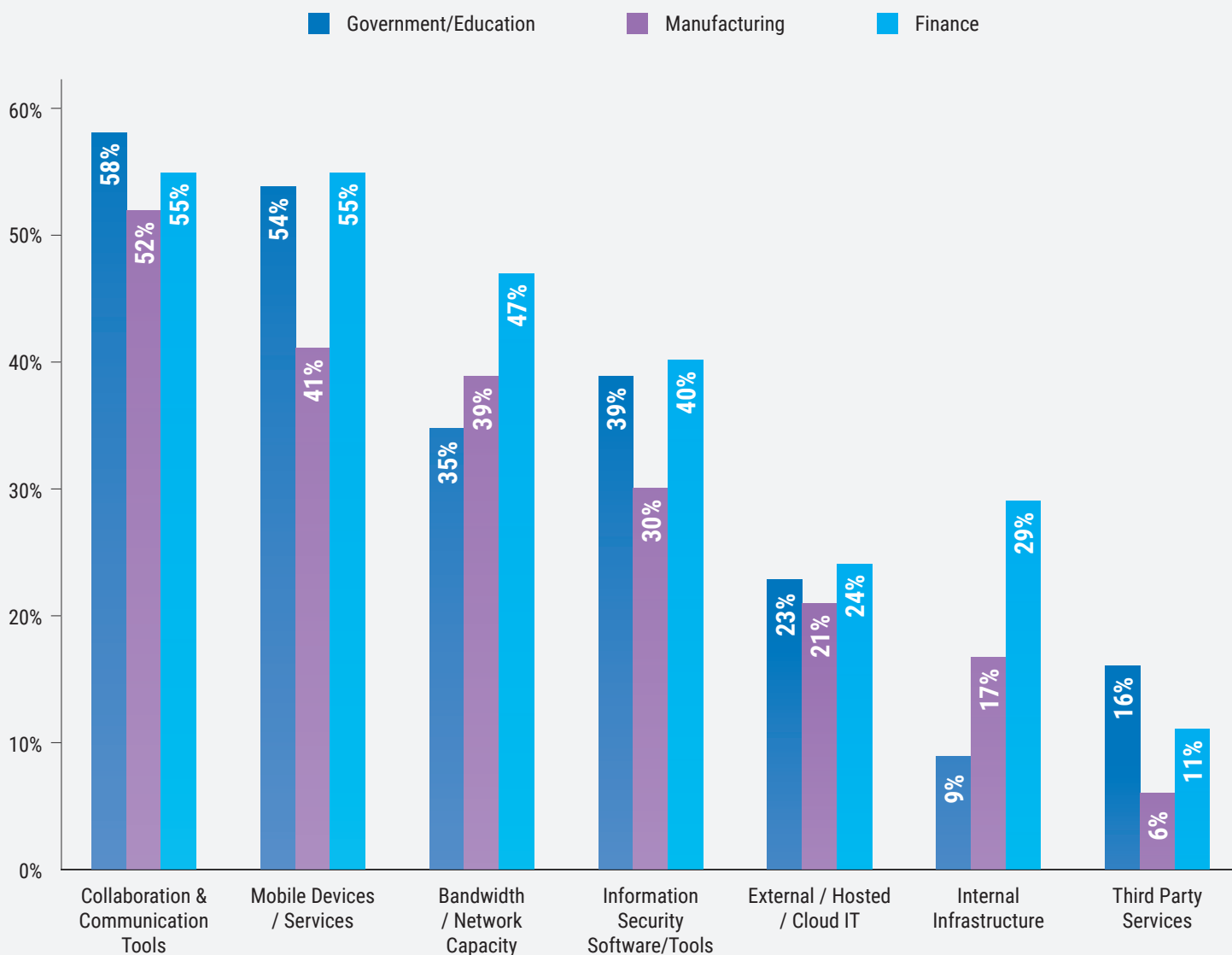
Many data center leases are procured by IT departments directly, without the benefit of advisors/advocates.

Services and rates are highly negotiable.



Newmark’s Data Center Practice Group offers best-in-class advisory services to companies across the US and the globe

PERCENTAGE OF LARGE* COMPANIES THAT PLAN TO SPEND **MORE** ON IT-RELATED TOOLS/INFRASTRUCTURE



* 1,000+ employees

Source: 451 Research Group/March Survey

CURRENT FACTORS IMPACTING CORPORATIONS AND DATA CENTERS



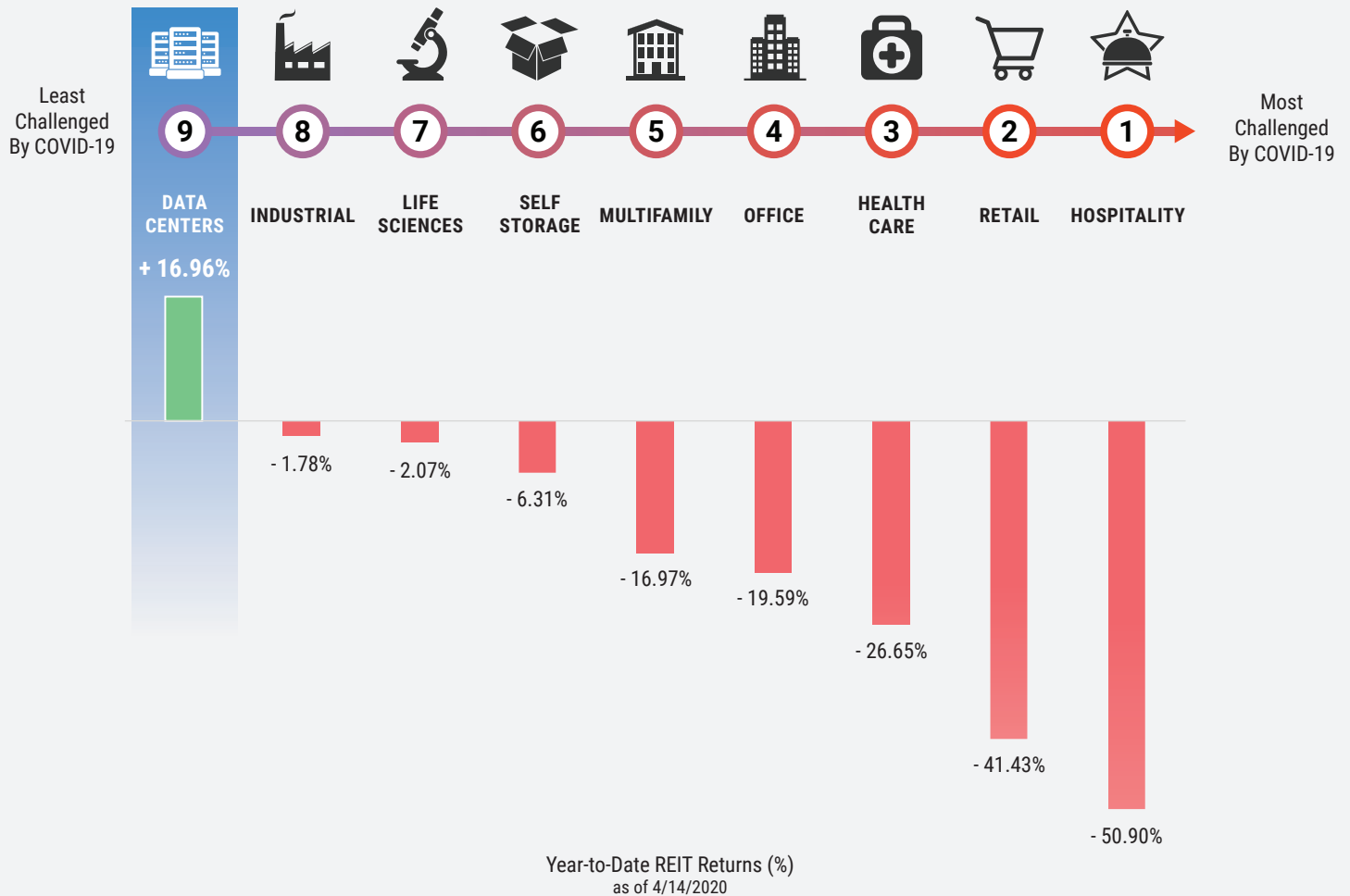
- The current pandemic has reinforced the need for mission-critical IT solutions for all corporations, from those in the healthcare and pharmaceutical industries who are on the front lines of the COVID crisis, to companies with global supply chains and industrial logistics capabilities, and companies in professional and financial services.
- According to a March survey conducted by 451 Research, a staggering 41% of responders have said that the COVID crisis has resulted in **increased strain** on their internal IT resources. Additionally, 32% of organizations surveyed plan to spend more on bandwidth and network capacity, with 18% saying they will **spend more on IT infrastructure**.
- At the same time, companies are indicating that they will need to cut costs and are facing sizable economic and demand-side headwinds. Consequently, firms will increasingly seek out cost savings opportunities in the data center space and departure from outsourced, cloud platforms.
- The current crisis has emphasized the need for business continuity planning (BCP). This includes built-in redundancy and data protection in the event of an emergency or disaster situation, impacting a specific region or, in the case of COVID-19, the entire country.
- Even the well-known “hyper-scalers” in the data center space such as IBM and Microsoft have experienced disruptions and slowing speeds in their data center and cloud service facilities worldwide as a result of COVID-19 activity; this has impacted everything from Xbox Live gaming to Microsoft Teams. Additionally, major streaming companies such as YouTube and Netflix have been pressured in recent weeks to decrease the quality of their videos across Europe, to ease the immense pressure on networks.
- **The demand for pre-built colocation space has never been higher, across nearly every major industry in the United States. Therefore, data centers represent a critical part of NKF's strategy to win and maintain business.**

FUTURE FACTORS IMPACTING DATA CENTERS

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- The COVID-19 crisis has categorically changed the way ALL organizations manage their infrastructure and digital capabilities, placing data centers at the forefront of “critical” infrastructure.
- Universal slowdowns in data speeds both in the United States and Europe resulting from network and cloud platform strains from the COVID 19 crisis represent not only an inconvenience but a threat to public health, national security, and business continuity – this sentiment will not diminish even after the current crisis has abated.
- Tele-medicine, tele-education and tele-business have all been adopted in the COVID crisis, adding to existing demand for financial transaction execution, online media, gaming, consumption and content. Behind all these activities are a network of datacenters, in all regions of the country. While some of these activities will return to in-person interaction, many are not expected to return to pre-crisis levels.
- According to 451 Research’s March survey on the long-term implications of COVID-19 on organizations, 38% expect expanded universal work from home policies, 22% anticipate limitations on travel, and over 10% expect a decline in external in-person meetings.

IMPACT OF COVID-19 ON DATA CENTERS COMPARED WITH OTHER PROPERTY TYPES



Source: NAREIT

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