



## DATA CENTER REAL ESTATE

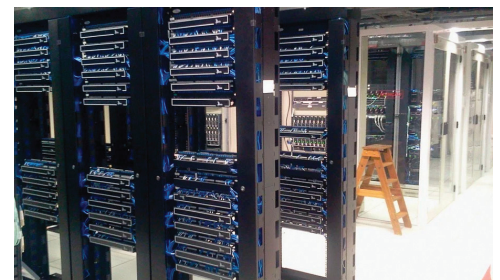
### *A Bright Spot For Real Assets*

While today's markets are negatively impacting a number of sectors in our economy, data center real estate has performed admirably, illustrating the essential nature of these assets. Data centers have certainly been put to the test during this pandemic, successfully delivering the capacity and uptime that has allowed us to work from home, attend online school, exercise, shop for groceries, play the latest online games, stay in touch with friends and family, conduct doctor's appointments, attend religious services, and stream all kinds of entertainment. With more people at home, the demands on technology and its infrastructure have been tremendous. As a result, data centers have been thrust into the spotlight as a dynamic and critical sector of commercial real estate.

According to OpenVault's Broadband Insights Report for the first quarter of 2020, average data consumption has increased 47% from Q1 2019.<sup>1</sup> Streaming services are exploding with Americans downloading approximately 50,000 years of content in a single day (April 4th). The first quarter also saw Peloton's workout memberships increase 60%, a 41% surge in Nintendo's annual profits, a 2,900% increase in Zoom participants (since Dec 2019), and 70% year-over-year Q1 growth for Amazon Web Services. Throughout it all, data centers have displayed their resiliency and reliability as we've demanded more from them.

Ten years ago, the data center real estate industry was dominated by a small handful of operators due to the complex nature of these facilities and high barriers to entry into the market. As such, the rest of the real estate world watched from the sidelines as data centers went about their business. After iPhones hit the market in 2007, data experienced incredible growth fueled by apps, music, video, a world of connected devices and more. Smartphones put a world of data and information at our fingertips and that growth continues to expand. Technology has become ubiquitous in our daily lives and data centers are involved in almost everything we do on a computer or smart phone. What was once a small niche sector of commercial real estate has transformed into a mainstream asset class.

The digital transformation that was thought to be a multi-year evolution has been dramatically compressed. The secular tailwinds for data centers are powerful and the thirst for data consumption seems unrelenting, according to New Street Research. Green Street Advisors analysts also commented in April that the coronavirus crisis is serving to fast-track trends that were already evident in the data center space.<sup>2</sup>



There are some obvious demand drivers behind the growth of data centers including the explosion in mobile data, the proliferation of online video content and continued migration to cloud computing.<sup>3</sup> But there are also new technologies on the rise that are driving and consuming more and more data. Artificial intelligence, autonomous vehicles, and virtual and augmented reality are newer technologies that rely on sophisticated data.

These sectors are expected to grow at compound annual growth rates of 45%<sup>4</sup>, 37%<sup>5</sup> and 78%<sup>6</sup> respectively between 2016 and 2025.<sup>7</sup> 5G is also likely to have a profound impact on the data center market as well. With 5G, you can expect exponentially faster download and upload speeds. Latency, or the time it takes devices to communicate with wireless networks, is also expected to drastically decrease. With faster speeds, lower-latency and the ability to connect more devices, 5G network infrastructures will be a huge boost to the Internet of Things ("IoT"), artificial intelligence, online gaming, virtual/augmented reality, autonomous cars and smart cities.



Overall, 5G is expected to bring faster and denser streams of data, a trend that is likely to drive demand for more data center capacity.<sup>8</sup> 5G is also expected to be a catalyst for edge data centers. Edge data centers are smaller facilities, located close to the populations they serve, that deliver cloud computing resources and cached content to end users. By processing data and services as close to the end user as possible, edge computing allows organizations to further reduce latency and improve the overall customer experience. According to PWC, the market for edge data centers is expected to nearly triple by 2024.<sup>9</sup>

As other real estate sectors determine how best to deal with today's uncharted market, data centers have taken center stage due to their essential designation and mission critical status.<sup>10</sup> Entire industries are effectively being reset, and this transition has made digital infrastructure assets like data centers more important than ever. Looking forward, our continued reliance on digital platforms and new emerging technologies paint a pleasant backdrop for the data center real estate sector. Data centers have certainly illustrated their essential nature in the first half of 2020 and there appears to be a long growth runway for the sector.

### **About Strategic Capital Fund Management**

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1) Source: Medium.com/PCMag, "Data Usage Has Increased 47 Percent During COVID-19 Quarantine", June 5, 2020. 2) Source: REIT.com, "Data Center REITs Poised to Benefit from Increased Reliance on Technology", April 14, 2020. 3) Sources: Cisco Visual Networking Index: Forecast and Methodology, 2017-2022 and Cisco Global Cloud Index 2016-2021. 4) Source: Statista – June 2018. 5) Source: BI Intelligence Estimates, 2017. 6) Source: IDC; Statista estimates, December 2018. 7) There is no guarantee that these trends and forecasts will occur or that the Fund will be able to take advantage of them. 8) Source: Data Center Frontier, "What 5G Will Mean to The Data Center Industry", February 19, 2020. 9) Source: PWC.com, "Edge data centers: how to participate in the coming boom", July 2019. 10) Source: Law360.com, "Coronavirus Pandemic Highlights Value of Data Centers", April 7, 2020.

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