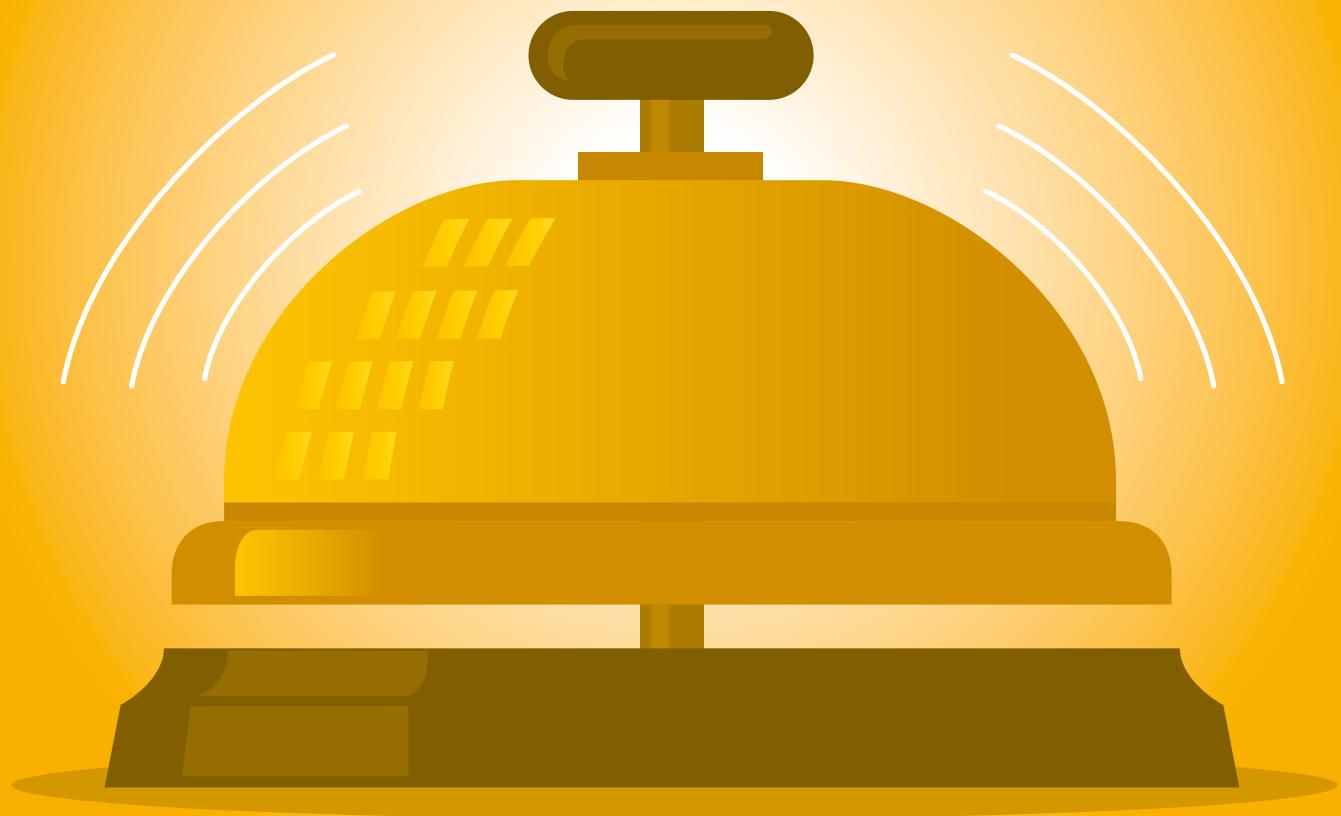


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K E Y N O T E I N T E R V I E W

China's data center appeal



*GLP China's **Teresa Zhuge** discusses prospects for this growing asset class and how GLP is positioned to build and scale a high-quality business in the new economy*

GLP has been deeply involved in China's real estate sector for close to two decades and through its knowledge and expertise in the market was able to anticipate the explosive growth potential of the country's data center market. In 2018, the firm made its first investment in this fast-emerging asset class, well before the Chinese government began actively stressing the importance of developing data infrastructure and promoting data center investment. In 2020, China's State Development and Reform Commission started to champion "new infrastructure" development, which includes data centers as computing power infrastructure.

Since that first investment, GLP has grown its internet data center (IDC) team to over 200 people in China alone with significant hires from leading internet companies, including Alibaba, Tencent and Baidu. GLP China's

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executive vice-chairwoman Teresa Zhuge takes a deep dive into this space with PERE's Michelle Phillips and explains how GLP is well-positioned to capitalize on opportunities in the sector.

Q Why did GLP decide to go into data centers in China?

As expert investors, operators and developers of logistics real estate, data infrastructure is a logical next step for us. A few years ago, we were looking at this market and business, looking at the potential of data centers to develop. At GLP, we've always been an entrepreneurially minded firm, and we consider pushing the boundaries of innovation an integral part of our investment process.

Given our expertise and customer access, we've been able to apply the same investment and operating principles we did in the logistics real estate sector to build a competitive data infrastructure business and create the most value for our investors and customers. Data centers, after all, are the infrastructure of the digital age. The intersection had a lot of specific requirements we thought we could meet as an experienced industrial logistics- and real estate-focused firm.

Q And what makes the China data centers space attractive to international capital?

IDCs play an important role in the digital transformation of China's economy and have evolved from a niche asset class to a specialized segment within the real estate and infrastructure

Getting ahead of the demand

Suzhou Changshu Big Data Industrial Park



Image courtesy
of GLP

GLP's Suzhou Changshu Big Data Industrial Park is currently under construction in the Changshu High-Tech Industrial Development Zone – one of China's top development zones – in Jiangsu Province, with a total construction area of 15,000 square meters (161,460 square feet). Once the entire park is completed

and operational, it is expected to have a service capacity of over 30,000 data center racks. The park is expected to be completed in phases over the next two years. The first phase will be leased to a leading internet company. Other target users include cloud computing companies, financial firms, large corporations and government.

universe. Today, it ranks alongside logistics as one of the most sought-after real estate asset classes.

When it comes to IDCs, it's not just about pricing, but what customers need. One key consideration is the journey the data takes to get to the end-user. Data centers located too far from important hubs won't be efficient in providing the high-speed access that customers need. From a business user point of view, the mantra 'location, location, location' applies to IDC investment, too.

In China, for example, GLP's data center business is focused on the core, backbone nodes of Beijing-Tianjin-Hebei, the Yangtze River Delta and the Greater Bay Area. As the main economic clusters in the country, they are the most active and demanding areas for online consumption and digital applications, which

"The digitalization trend has highlighted the importance of and increased the reliance on data centers"

spurs the demand for IDCs. The scale of China's IDC market reached 150 billion yuan (\$23 billion; €19 billion) in 2019, an increase of approximately 30 percent year-on-year. More data centers are needed to fulfil the growing appetite for all things digital and the impending transition to 5G technology, and massive growth in the internet of things will further intensify this trend.

Q Where is the value-add opportunity for investors?

We see opportunities to value-add and innovate in several areas. First, IDC is a high-energy-consuming industry; energy costs make up a significant portion of a data center's operational expenses. GLP's integrated approach emphasizes sustainable development and power usage effectiveness (PUE). Our focus is to create the most efficient IDC business in the industry using technology and

Analysis

smart design to reduce power consumption, which is key in the IDC market.

GLP's full-service data center platform is led by an experienced team of professionals skilled in the entire data center lifecycle – from site selection and land sourcing to power supply, design and operations. By using innovative green and renewable strategies, our data centers are designed to be some of the most environmentally friendly and carbon-efficient in the industry.

We've deployed photovoltaic power generators in the data centers themselves and we also have a venture dedicated to building China's largest platform for distributed solar energy on logistics and commercial rooftops. The partnership is on its way to reaching total installed capacity of one gigawatt, which is the equivalent to the annual consumption of approximately 750,000 households and reduces CO₂ emissions by 1.2 million tons a year.

Investors need to think of IDC as not just real estate, but as an operating business. That's where you add value with customers. By establishing proactive sustainability and efficiency measures at inception, GLP is able to significantly reduce operational costs for our customers while helping them reach their sustainability goals. Additionally, GLP's global reach, ecosystem service offerings and international expertise has been a major advantage to our partners.

Q Has the pandemic impacted the development of IDC assets?

The demand for digital work, life and entertainment has exploded in the past year and so too has need for increasingly fast and efficient data centers to meet that demand. The pandemic did not cause the growth by itself, but certainly accelerated what was happening. We believe these are long-term changes. The digitalization trend has highlighted the importance of and increased the reliance on data centers.

Backed by China's 'new infrastructure' investment plan to promote and

better carry the digital economic transformation and industrial development, future IDC market demand in China is expected to grow.

Q What are some of the biggest demands that data center customers have in China?

IDCs mainly serve five types of customers: internet companies, cloud service companies, governments, financial institutions and corporate customers. For these customers, the primary concern is security and stability. Therefore, the professionalism of operations and the team's experience and capabilities are highly valued – they have to know we can adapt and deliver, for local and international businesses. Using our global scale and network, we have been able to add value through operational excellence, ecosystem development, technology and innovation.

IDC customers also attach great importance to efficiency, sustainable development and environmental protection. Their requirements in this field are very high. And our track record, scale and capability in industrial logistics infrastructure has been extremely valuable in this regard.

Q What is the biggest challenge GLP has faced in this market?

While the market opportunity for China IDCs is very large, competition is also expected to intensify. Operators need to differentiate themselves by innovating their solutions, building relationships with enterprise and hyperscale customers and building a strategy to help them optimize operating costs.

GLP is well-positioned to tap into this market by leveraging our asset and fund management expertise, experience in the construction of high-quality, modern warehouses and ability to acquire land for development to build a competitive data infrastructure business.

We've also run into a lack of talent reserves. Finding people that are

"Investors need to think of IDC as not just real estate, but as an operating business. That's where you add value with customers"

knowledgeable enough about this industry and have the ability to keep up with the industry's development speed is a challenge. But that is a challenge for the IDC industry on a global scale. We have been successful because of our dedicated team of approximately 200 professionals who can provide turnkey solutions including location selection, land sourcing, power supply, connectivity, design, and operation and maintenance for large and medium-sized internet companies, technology companies and financial institutions.

Q Where do you see the IDC market in China going in the next five to 10 years?

The world is only becoming more interconnected and digitalized. A year of the pandemic has shown just how much we rely on connectivity. We believe the rapidly growing demand for data storage and the exchange of digital assets, and growing interconnection, necessitates an increased attention to data infrastructure, like data centers.

The IDC market in China is underserved by existing supply yet facing strong occupier demand.

Looking ahead, the role of renewable energy and market dynamics will continue to be key occupier and investor themes beyond 2021. ■

A photograph showing a row of server racks in a data center. The racks are dark-colored with numerous blue and white indicator lights glowing on the front panels. The perspective is looking down the length of the rack row.

SAME VISION. SAME PRECISION. NEW ECONOMY.

You know us as logistics real estate experts.
Now we extend our experience to data centers.

GLP is deeply invested in businesses that make the modern world run more efficiently. Using innovative green and renewable strategies, GLP's data centers are designed to be some of the most environmentally-friendly and carbon-efficient in the industry and can help our customers reach their sustainability goals across the entire data centre lifecycle.



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