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

# Leveraging logistics to tap the data center boom

*Logistics specialist GLP is using its land acquisition skills to develop a data center business in Japan, where Yoshiyuki Chosa sees the market is substantially undersupplied*

Many of the trends that have driven demand for warehousing space – working from home and online shopping – are also driving global demand for data centers and Japan is no exception. Despite being relatively slow to adopt cloud computing and online shopping, Japan is catching up and in desperate need of more supply.

GLP, which is already one of the largest vertically integrated data center operators in China, launched its Japan data center arm in February and will capitalize on its strong in-house land sourcing team to grow the business, says Yoshiyuki Chosa, president of GLP Japan.

**Q What is the demand for data centers in Japan and which factors are driving it?**

Current hyperscale data center demand in Japan is around 500MW and that is expected to grow by four times between now and 2030 to 2GW. So, there is a tremendous opportunity and a significant shortage of supply today.

The pandemic is helping drive the business, just like it has with logistics. People working remotely are using a lot more data and shopping online has never been stronger. This demand from "lifestyle digitalization" is a worldwide phenomenon, but the Japanese data center market is five to 10 years behind that of the US or China. There is a lot of room to catch up, which means a bigger growth opportunity than the developed markets.

Although Japan is a wealthy developed nation, it has tended to be behind the curve with technological adoption, such as internet usage and WiFi provision, for example.

Furthermore, the adoption of cloud services has been slower than in other countries but is starting to catch up and create demand.

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**Q: What's the demand from the investor side?**

There's a lot of appetite. We have been talking to investors about the potential to move into data centers, but as soon as we announced the launch of the Japanese data center business we had a lot of attention from our investors. That is good because this is a capital-intensive business.

We currently own land and assets with approximately 600MW worth of data center capacity and we are looking to increase that to about 900MW within the next five years or so. That equates to approximately $12 billion-$13 billion of capital expenditure, so it is great to have such interest from our investors.

**Q: What are the main challenges for finding sites to develop data centers in Japan?**

The same challenges apply here as elsewhere: finding the right location and access to power. To acquire real estate in Japan requires local expertise and a strong network with local brokers, land aggregators and developers.

Sites don't come to you; you must move proactively and look for land. The sites that do come to you are the ones that you don't want to buy.

We grew our logistics business in Japan by having the strongest land sourcing team in-house and a lot of that expertise is applicable in buying data center land. Also, we're a developer, so we have a lot of intel on the construction side. Data center buildings, not including the specialist fit-out, have a lot of similarities with logistics buildings, yet the construction cost in Japan is relatively high.

We took a deep dive and scrutinized why the cost is so high. It turned out that construction companies are just making way too much money compared to the margins they get in logistics. And that's only because the data center construction market is still immature, construction companies make wider profit margins than they can from logistics, where it is more competitive.

I believe we can easily knock down maybe 15-20 percent off what is the so-called market construction cost today. So, leveraging on the expertise we accumulated in logistics development, we felt we are well-positioned to create value and build a scalable data center business.

**Q: Are there strong similarities between the site requirements for warehousing and data centers?**

Sites for data centers are more restricted: you need to avoid areas with soft soil, or which are prone to flooding or earthquakes. Logistics is somewhat more relaxed in that regard, but you have to be close to transportation links, which is not so important for data centers. The cost and scarcity of land in Japan means that you will see multi-story data centers, just as multi-story warehouses are common today.

## GLP targets renewables

**GLP is creating a new renewable energy business line in Japan, to capitalize on its existing roof space and the growing demand for sustainable power.**

The manager is already one of the largest generators of power from rooftop solar, with more than 70MW of capacity across Japan. The renewables plan is in its early stages, but GLP seeks to maximize power generation from its millions of square meters of rooftop as well as other potential sources of on-site power.

With this in mind, GLP has made an investment in Japanese power producer and supplier F-Power that will serve as its springboard into the renewable energy business in Japan.

GLP Japan president Yoshiyuki Chosa says: "There will be a huge demand for renewable energy from our buildings themselves, to move towards self-sufficiency, so it's logical and strategic for us to move into the renewable energy business. And on a broader spectrum renewable energy is something the whole world is shifting towards."

Since it started adding solar in 2013, GLP has been selling its solar power into the Japanese grid via the FIT program, under which renewable energy producers agree long-term contracts at agreed pricing. However, in future, GLP will sell more electricity directly to tenants, which is more practical and generates more revenue, Chosa says.

Breaking ground: one of GLP's upcoming data center projects in Greater Tokyo

The power needs of data centers are substantial and the process for gaining access to power is quite complex in Japan. For each project we have to directly engage with the power company in each region to source adequate power and this can be a particularly onerous process for foreign companies to negotiate as public information is very limited.

At present, virtually all the assets in our portfolio are designated as logistics and warehousing but we will look into opportunities where we can change the use to data centers in time, which will increase the value of these sites tremendously.

### Q There are obviously transferable skills in land sourcing and development from logistics, but how different is the business of managing data centers and the tenant relationships?

It is totally different: you need a different set of professionals to take care of the operational side of the data centers, so we have a dedicated team, with 15-20 years of industry experience on average and we are growing the local team further.

We also have a successful data center business in China with more than 300 professionals and global leasing relationships including cloud computing service providers such as Amazon Web Services, Google Cloud and Microsoft Azure – which we are targeting to lease to in Japan.

### Q Which areas will you target for the Japan data center business?

The focus investment regions are Greater Tokyo and Greater Osaka, the main economic clusters in the country, where there is a substantial population and the greatest demand for the digital and online services which are driving the demand for data centers. We

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expect to break ground on our Japan data center campus in Greater Tokyo in 2023, with the first building expected to be ready for service from 2024.

### Q Sustainability is of growing importance for the data center business, how can you address this?

Sustainability is a key issue for data center investors, managers and clients. That is one of the biggest reasons why we are also moving into the renewable energy business, because we're going to be using a lot of power.

On a per square meter basis, the average data center will consume approximately 40 times as much power as a logistics center. Data centers with high power density hosting can use up to 100 to 150 times as much.

We have our own ESG framework within which all our business lines operate. Similarly, our prospective customers have their own ambitious ESG targets. We will adopt efficiency measures throughout design, build and operations, to reduce costs for customers and help them reach their sustainability goals. For example, we will design most energy-efficient configuration to optimize airflow throughout the centers, promote the use of clean energy and use data and building management systems to optimize energy use. ∎