

## ► DALLAS, TEXAS DATA CENTER MARKET



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*"If a Data Center shuts down in the middle of a forest and no one is around to see it, would anyone know?" The collective body of CIOs, CTOs, operations managers, floor managers and anyone else within beeper range have an answer to this version of Berkeley's 18th century dictum...HECK YES!!! Data Centers ("DC") don't "crash", they don't sleep and they don't take an afternoon power nap so they can get ready for the inevitable all nighter. A DC must, in the words of Winston Churchill, never, never, never give up. So what is a DC and why do they seem to be cropping up in Dallas, Texas?*

DCs are the most unique of all real estate models because the cost of what goes inside of the facility can be up to ten times more than the bricks and mortar that protects that internal infrastructure. DC real estate is extremely complex, but, when all of the moisture is reduced from the recipe, we are left with two raw materials, POWER and FIBER. In fact, at Rackhouse, we say that a typical office user is looking for a home at the corner of Main and Main while DC users are looking for the mythical corner of "Power and Fiber." A DC prospect will ask "where can I find abundant, reliable, cheap power? And once I get all that gorgeous power, can I get a big enough pipe (bandwidth) to get my data to and from my DC?" Dallas continues to be an affirmative answer to both questions. A typical office tenant needs only 5 watts per square foot and the cost of that power, and its reliability, will do little to move the needle in the overall business plan. In stark contrast, a DC needs 20 to 50 times that amount of power (100 - 250 watts per square foot), so the cost becomes one of the highest budget items and the entire C-Suite gets involved in scrutinizing the bills and controlling the cost.

So, why Dallas? Dallas' cost of power falls in the middle of the road on a national scale. According to the US Government's Energy Information Administration (EIA), the average industrial cost per kilowatt hour (kWh) in Dallas is \$0.0763 and is a bargain compared to New Hampshire at \$0.1399 but should blush when compared to Idaho's average cost of \$0.0432. Several pockets around the US offer cheaper power than Dallas and when hydro-electric power (generation of electricity by harnessing the power of flowing water) is offered, the numbers can provide a staggering delta from the norm. But Dallas does continue to attract the users. We can thank farmer/lawyer John Neely Bryan for falling off his horse in 1841 and declaring (what

would become) Dallas as good a place as any to build a home. Our central location makes it easy for DC operators from around the country to hop on a plane, caress and coddle their blinking servers and be home in time for an after dinner drink. Also, save the occasional tornadic activity, Dallas is devoid of natural disasters (earthquakes, hurricanes, forest fires, cyclones, hungry desert locusts, etc.) so the relative safety of the Metroplex is comforting to the most wary DC contingent. As such, demand for DC space in Dallas continues to impress and several companies have taken advantage of this need. Houston based CyrusOne (100,000 square foot expansion in Lewisville), Colo4Dallas (60,000 square foot expansion in Dallas), The Planet (106,000 square foot expansion in Plano), RIM (purchase of Stream Realty's 150,000 square foot facility in Plano) and Telex's (30,000 square feet on Stemmons Freeway) are just a few of the participants in this latest feeding frenzy. In addition, Dallas real estate company Capstar Commercial recently announced the purchase of a building in Mesquite, just southeast of Dallas. Capstar and its partners hope to convert the massive 960,000 square foot building into multiple powered "pods."

Questions abound and discussions become lively when we are asked "how much does a data center cost?" We might as well ask "how long is a piece of rope?" This is impossible to compartmentalize because the potential answers are so vast; so, we are forced to deal with certain parameters. Few companies have the resources to convert a "Hot Shell" (basically a beefed up warehouse building with an abundance of "available" power) to a full blown Data Center, which can exceed \$2,000 per square foot of raised floor (or in more common DC "speak", over \$12,000 per kW of electrical power to servers). This fact alone will keep several would-be Dallas participants off of the playing field. Dallas rental rates for a Hot Shell range from \$10.00 to \$25.00 per square foot, NNN, but even that wide range should be challenged with several important questions. Is the power "at" the building or does the infrastructure need to be acquired? How many megawatts of power are available? Is the power configured in a redundant format? Is the power from two separate feeds but from the same substation, two separate substations or two completely separate grids? Supply, demand and some basic principles of financial return will dictate the outcome, but after having worked on hundreds of DC facilities over the years, we can testify that no two transactions are the same.

The capital (debt financing and equity) necessary to complete a DC will continue to be scarce and Rackhouse predicts another twelve to eighteen months before lending pressure is relieved. Even when banks do start providing capital again, the long lead time needed to construct a DC (up to eighteen months) will keep supply at a minimum for the foreseeable future.

Pockets of ample, reliable power, check; an abundance of fiber, check; central geography, check; limited natural disaster risk, check; plenty of reasonably priced real estate, check; tons of money to put it all together, not so much. Hey, nothing is perfect and the money problem is systemic so Dallas should remain above the fray. ■