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## New Tax Incentive Expected to Generate Jolt for Data Center Investment in Georgia

Tech Newcomers Flocking to Peach State, In Part to Take Advantage of Tax Exemption for Hyperscale Data Center Projects



Greater Atlanta, already drawing interest from data center operators as the ninth-largest (and fast-growing) U.S. metropolitan area, is seeking to increase its bandwidth for data center investment thanks to a new state law extending tax exemptions for firms that build large-scale colocation facilities and other internet and cloud-computing infrastructure projects.

The tax incentives from House Bill 696, signed by Gov. Nathan Deal in early May, combined with the Peach State's business-friendly climate and low power costs, are expected to boost the Atlanta region to become the second-largest data center market on the East Coast, according to Miles Loo, Jr., global lead of valuation and advisory for Newmark Knight Frank's Data Center Consulting Group.

Only Northern Virginia, which has data facilities providing mission-critical connectivity for federal government agencies in the greater Washington, D.C. market, has a larger data center inventory based on square footage and megawatts deployed. Northern Virginia surpassed the New York City metropolitan area in 2015, according to 451 Research.

"As a result of the new bill, Atlanta could very well be the next market to overtake New York metro for the number 2 spot," Loo told CoStar News in a recent interview.

Georgia now joins other states, including Virginia, Texas, North Carolina and Oregon that offer financial incentives for data center investment.

In North Carolina, lawmakers and economic development officials are courting Apple and its plans to build a new customer support campus as part of a push to invest in the U.S. North Carolina legislative leaders have drafted changes to state laws to provide further incentives for companies that locate or expand major projects in the state.

Apple, which operates a data center in Catawba County, reportedly has looked at Research Triangle Park near Raleigh, NC, as a site for a new research and development facility that would employ 5,000 workers in a \$2 billion investment over 10 years. Although it isn't clear if data centers would qualify for the lucrative new North Carolina incentives given the limited number of new jobs they produce.

QTS Realty Trust is currently the largest operator in the Atlanta area with a combined 662,600 square feet of raised floor space and 108 megawatts of power capacity. CyrusOne, Facebook and Switch, Inc. - all new entrants in the region - are breaking ground on three large data campuses. Other recent market entrants include Ascent, DataBank, Green House Data, Lincoln Rackhouse, Mapletree and ServerFarm.

Cloud users, gaming, Internet of Things (IoT), technology, health care, media and content providers are the main demand drivers in the Southeast, Loo tells CoStar.

The new incentives in Georgia will allow full sales and use tax exemptions for 10 years on equipment and software for hyper scale data centers that create at least 20 new jobs and come with an investment of between \$100 million and \$250 million, depending on county population in which the center is located, over a seven-year period.

NKF's Loo reports an increase in developer and investor interest in the area's data center market since the Georgia law was approved. Switch and several other players made their land purchases contingent on passage of the new law, which goes into effect in January 2019, with project expenditures since July of this year eligible for incentives.

"There's a lot of investment and development activity and a lot of interest in the market right now, and the HB 696 legislation's huge tax incentives has piqued a lot of people's interest," said Loo.

H5 Data Centers recently began a 22,000-square-foot expansion to its 110,000-square-foot carrier hotel at 345 Courtland St. N.E., in downtown Atlanta. H5 Data Centers chief executive Josh Simms called Atlanta an attractive market as "one of the country's top points of interconnection," he said in a statement.

When Loo started his career in the late 1990s, data centers were years from becoming a standalone commercial property category, let alone one of the most active real estate investment niches.

As a commercial appraiser, Loo began focusing on data center projects after working on the valuation of One Wilshire, the 664,000-square-foot downtown Los Angeles office building converted to a data center in the 1990s when its law firm and other traditional office tenants began moving out and were replaced by telecommunications companies looking to locate near AT&T's switching center two blocks away.

At the time, some downtown L.A. property professionals and elected officials sneered at the repositioning.

"These are buildings stuffed with wires, not people," muttered one Los Angeles legislator to a reporter in 1998, ruing the conversion of increasing numbers of older downtown office buildings into what were known at the time as "telecom hotels."

Loo said he has conducted 1,000 data center valuations in North America over the last five years alone and appeared all over the world industry conferences, where many of the same global data center investors gather.

"The space has become increasingly interesting to investors and there are a lot more sitting on the sidelines, including sovereign wealth funds and new funds formed specifically to invest in data centers," Loo told CoStar News. "They're trying to find ways to get into the space, which has become very competitive. A lot of the other [commercial] property types talk about being global, but I see data centers taking the lead. All the same investors show up anywhere in the world," Loo added.

Three new campuses are in Atlanta's data center pipeline, including Facebook's \$750 million, 970,000-square-foot center at Stanton Springs; a 440,000-square-foot center by CyrusOne in Douglasville, and Switch's \$2.5 billion renovated "cloud campus" in Douglas County.

While the new supply is expected to weigh on asking lease rates throughout the metro area, Loo said the sheer scale of the demand will continue to create opportunities for operators. He noted that the Douglas County Economic Development Authority has set aside 859 acres for future development near established data centers operated by T5, Digital Realty, Google, AT&T, and the much-anticipated CyrusOne and Switch campuses.

Other U.S. markets are also seeing new data center development activity. Facebook will begin construction on a 970,000-square-foot data center at the Sweetwater Industrial Park in Eagle Mountain City, Utah. Facebook's investment includes more than \$100 million in infrastructure, including a new electrical substation that will bring 1000 megawatts of new power delivery capacity to the region to support additional economic development.

New York City based Next Tier HD, with offices in Washington, D.C. and West Palm Beach, last month announced a partnership with AGC Equity Partners to acquire existing data centers and related properties across the U.S via the investment fund managed by AGC. Next Tier Managing Principal David Spiewak said the companies are seeking "to curate a diversified national portfolio of select data center properties," in a statement announcing the partnership.

U.S. data center markets and abroad closed out another strong year with 583.5 MW of absorption across top U.S., Canadian, European (EMEA) and Asia Pacific regions (APAC) through 2017.

While U.S. and Canada was down 8.6% in 2017 over record-shattering 2017 totals, the countries still ended the year with 363.5 MW of net absorption, according to JLL's 2018 Data Center Outlook. Absorption stayed steady amid industry shakeups and consolidation, including 48 merger and

acquisition deals totaling nearly \$20 billion, exceeding 2015 and 2016 M&A totals combined.

Atlanta's 12.5 MW of net absorption last year was the second-largest level on the East Coast, exceeded only by Northern Virginia's 115 MW, and well above the combined 5.6 MW logged by New York City and New Jersey.