



Q4 2013 National Data Center Market Update

DATA CENTER SOLUTIONS GROUP

GLOSSARY OF TERMS

DC

Abbreviation for data center

RFSF

Abbreviation for raised floor square footage

MW / kW

Abbreviation for megawatt and kilowatt

Powered Shells

Purpose built or hardened shell; Power and Fiber to site; No equipment included

Carrier Hotels

Single buildings with multiple fiber providers and generally support retail colocation providers

Wholesale Colocation

Building shell & infrastructure to PDU providing space, power & cooling; Generally in demised suites above 250 kW

Retail Colocation

Building shell and infrastructure in shared environment, space generally divided by racks or cages; May include IT hardware as well as a menu of services

Enterprise Centers

Hardened data center; Houses "mission critical" operations of individual companies

Growing demand throughout 2013 supported significant construction activity among wholesale, colocation and enterprise data centers while strengthening market fundamentals in the second half of the year. The downward pricing trend for wholesale leases, in particular, stabilized in Q4 2013 and overall vacancy rates trended downward in most key markets.

Healthcare, financial services and social media companies drove demand in 2013 and will continue to do so in 2014. Other demand drivers include the federal government and online retailers. Businesses across all sectors are increasingly considering their IT infrastructure as a core component of everyday operations and are seeking to mitigate security and financial risks through robust and reliable network capabilities. Another trend evident throughout 2013 is increasingly shorter cost model timelines as companies acknowledge and accept the uncertainty of the IT industry's future advancement.

Centered around broad-based and ever-increasing demand for IT capabilities, the data center industry continues to evolve into one of the most resilient and promising real estate sectors.

According to 451 Research, the global multi-tenant data center market will grow at a compound annual growth rate of 16.1% over the next three years to a total market size of over \$33.0 billion by 2016. The Multi-Tenant Datacenter team at 451 Research also expects multi-tenant data center providers to make significant fiber investments, both lit and dark, this year. Enterprises are showing increasing interest in establishing private office-to-the-data center connectivity in order for end users to have a seamless cloud experience that is indecipherable from bare metal service delivery.

www.451research.com

Q4 2013 PRIMARY WHOLESALE COLOCATION MARKET SNAPSHOT

Region	Inventory	Vacancy	Quoted Rental Rates (kW/mo)	Under Construction
Northern Virginia	300 MW	14.9 MW / 4.9%	\$130 - 135	14 MW
Phoenix	178 MW	4.7 MW / 2.6%	\$135 - 145	6.65 MW
Atlanta	121 MW	24.6 MW / 20.3%	\$130 - 150	5.9 MW
Silicon Valley	116 MW	16.1 MW / 13.9%	\$142 - 152	9 MW
Chicago	105 MW	4.8 MW / 2.3%	\$145 - 158	9.5 MW
New York Tri-State	91 MW	30 MW / 32.9%	\$150 - 160*	8.8 MW
Dallas / Ft. Worth	83 MW	9.8 MW / 11.1%	\$140 - 150	8 MW

*Quoted rates are outside of New York City proper. NYC (Manhattan) wholesale rates average \$280 - 300/kW/mo
Source: CBRE Data Center Solutions Group, Q4 2013



Data Center Capital Market Trends

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The data center investment sales market remained strong in 2013 due to returning market confidence and overall economic improvement. In 2013 alone, 27 transactions totaling approximately \$786.0 million occurred in the U.S. and Canada last year, with nearly two-thirds of the sales volume recorded in the second half of the year.

2013 MAJOR DATA CENTER TRANSACTIONS

- Carter Validus Mission Critical REIT acquired three AT&T data centers (Milwaukee, Nashville and San Diego) in separate sale leaseback deals in Q4 2013. The three transactions totaled approximately \$300.0 million and added 990,000 sq. ft. to Carter Validus' portfolio.
- Carter Validus Mission Critical REIT acquired two data centers for approximately \$31.5 million in Andover, Massachusetts and Morrisville, North Carolina.
- DBT Data re-acquired a 140,000 sq. ft. data center they had originally sold to Harris Corp in 2010 in Harrisonburg, Virginia for approximately \$35M.
- Digital Realty acquired 12 buildings in 2013 for approximately \$141.0 million through seven separate transactions.

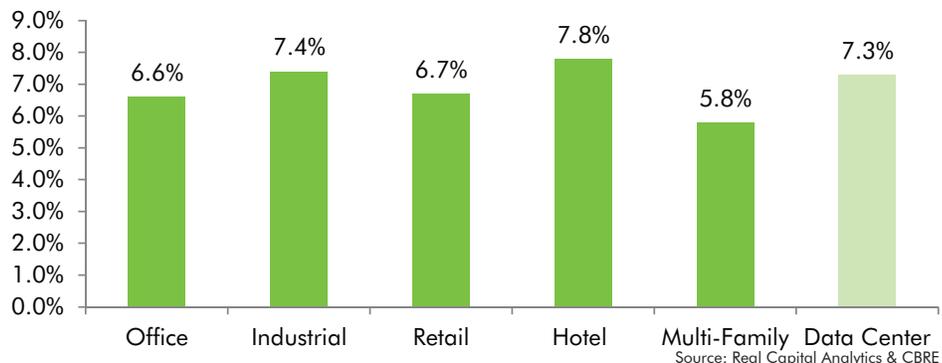
DATA CENTER CAP RATE TRENDS

2013 saw capitalization rate compression as capital flooded the market and interest rates reached historic lows. Q4 2013 saw a slight uptick in cap rates as LIBOR rates have begun to stabilize, however overall returns have remained relatively constant.

Primary Markets / High Credit	Secondary Markets
7.0% - 8.5%	10.0%+

Source: CBRE Data Center Solutions Group

Q4 2013 U.S. CAP RATE AVERAGES





State of the Market - Primary Market Silicon Valley

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The Silicon Valley data center market is in a strong position going into 2014 based on overall improved national and local economic conditions and increasing demand from data center users. Leasing activity was elevated in 2013 compared to historic averages and additional supply coming online will allow Silicon Valley to meet the next generation's technology needs.

Positive absorption in recent years has led to decreasing supply so that quality available stock is minimal and at its lowest level in three years. Developers have taken note of the market's tight conditions and are underway on nine MW of speculative wholesale projects with 50.0% pre-commitment requirements. In addition, the first container shell solution that was completed in 2011 is now being re-tooled as high density colocation. Also, a one MW speculative project was commissioned in Q4 2013, which pushed power density higher to a 20 kW/rack offering.

2013 proved to be the fourth most active year on record since 1996 in terms of leasing activity, with the majority of transactions, or 92.0%, recorded in the second half of the year. Lease renewal transactions represented over half of 2013 market absorption while new transactions increased 40.0% over the previous seven-year average. Despite an increase in overall leasing activity, square footage requirements were smaller than average in late 2013. Demand was bolstered by established high credit tenants while 15.0% of transactions were done by higher risk startups.

Looking ahead, there is the potential for more than 20 MW of sublease space to be added to the market in the coming quarters, consisting of seven sites from Facebook and Zynga combined. If these sublets come to market, this flood of below market priced supply will negatively impact market fundamentals. Also, tenants have enjoyed the upper hand in lease negotiations in recent quarters but the dynamic may shift to favor landlords based on several key transactions in various stages of completion.

NOTABLE MARKET ACTIVITY

- DuPont Fabros expanded major tenant into 6.5 MWs triggering Phase II expansion which included nine MWs of the 18 MW Phase II capacity. Phase I's 18 MW project is fully leased after coming online in late 2010.
- Colovore has commissioned Silicon Valley's next generation colocation offering with "Wall to Wall" 20 kW/rack density over one MW in Phase I of a multiphase project.
- AT&T renewed and extended their term 12 years on an existing 2.25 MW facility.
- Verizon renewed and extended their term 10 years on an existing 2.25 MW facility.



State of the Market - Emerging Market North Carolina

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The North Carolina data center market continues to be viewed as one of the premier data center locations in the country. Many factors have helped build this reputation including low operating costs, low natural disaster risk profile, accessibility via the Charlotte airport, central east coast location, aggressive incentives and the presence of Duke Energy, one of the country's largest power companies with their low carbon power generation sources.

In 2013, the region saw significant build-to-suit activity as well as colocation construction activity. In fact, North Carolina's first speculative wholesale colocation project was recently completed in the Raleigh/Durham market by Sentinel Data Centers. The project included 50,000 sq. ft. of raised floor capacity and eight MWs.

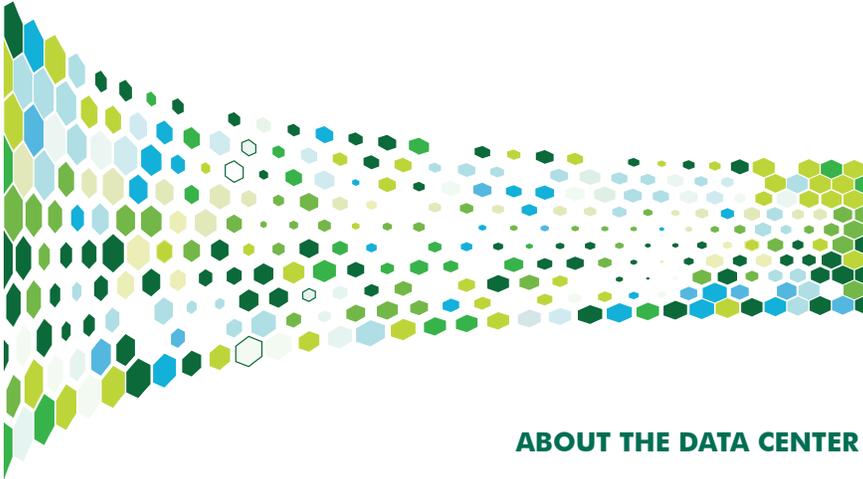
Charlotte and Raleigh/Durham are North Carolina's two most prominent metropolitan markets. Connected by I-85, Charlotte and Raleigh/Durham are approximately 150 miles apart. Each market has its own unique dynamics but are similar in population and office market square footage, with key differentiators in industry composition and airport logistics. Charlotte's commercial real estate sector is driven by the financial services, manufacturing and energy industries compared to Raleigh/Durham's concentration in technology and life sciences companies.

	CHARLOTTE	RALEIGH/DURHAM
Colocation Market Size	169K RFSF	160K RFSF
Current Vacancy	No Wholesale Vacancy	40,000 RFSF Wholesale
Under Construction	50,000 RFSF / 5.25 MW	No new construction in the pipeline
2013 Deliveries	No new deliveries in 2013	68,000 RFSF / 10.4 MWs
Office Market Size	39M SF	46M SF
Key Industries	Financial, Manufacturing and Energy	Technology and Life Sciences

Source: CBRE Data Center Solutions Group

NOTABLE MARKET ACTIVITY

- T5 landed a financial services tenant for half of its 150,000 sq. ft. speculative building in Kings Mountain.
- Server Farm Realty acquired a 60,000 sq. ft. building in Charlotte and went on to sign a lease with Windstream Hosted Solutions.
- DataChambers signed a lease on a 50,000 sq. ft. shell building in the North Carolina Research Campus in Kannapolis.
- Carter Validus acquired a 143,770 sq. ft. multi-tenant data center facility in Raleigh/Durham market.



ABOUT THE DATA CENTER SOLUTIONS GROUP

CBRE has the world's only fully integrated data center real estate team, offering strategy, acquisition and disposition representation, project management and facilities management from a single provider. Our Data Center Solutions Group has experience in primary, secondary and tertiary mission critical markets across the globe. We have the tools and knowledge to make your project successful regardless of location. With over 100 data center acquisition/ disposition specialists, 4,200 engineers, and over 300 project managers in over 75 global markets, CBRE has the global reach, resources, expertise and relationships to provide our clients with end-to-end market analysis, planning, construction, operations, maintenance, and execution capabilities. The DCSG completed over 180 MW of transactions globally in 2013, has managed over 2.5 MSF of projects over the last five years, and has over 450 Tier I to Tier IV data centers under management.



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