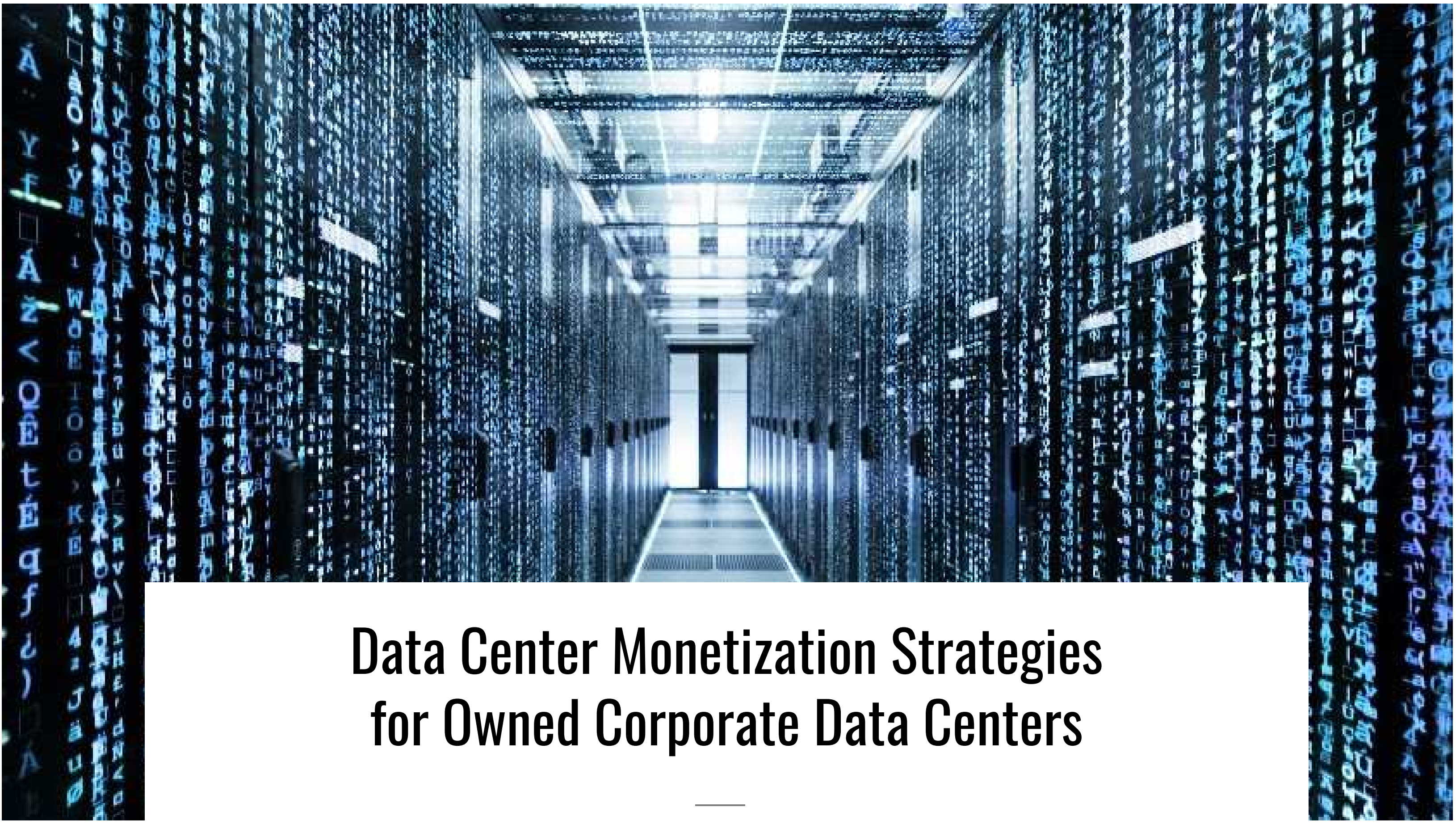

Data Center Monetization Strategies for Owned Corporate Data Centers

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Introduction

Corporations are currently struggling in addressing the right strategy for their owned legacy data centers. With the emergence of colocation space and the cloud, corporations are looking for more flexibility with their IT requirements. Utilization of owned data centers is being simultaneously reduced which has lead to corporations evaluating their options with respect to their owned data centers. Legacy owned data centers were expensive to build (over $1,000 per building sq. ft.) and have high book values that CFOs are dealing with when evaluating a monetization strategy.

The global market for data center capital markets is strong. Barron's recently published an article "Data Centers Take Center Stage in Real Estate Investing" which asserted that the explosion of technologies such as artificial intelligence, virtual reality, and the Internet of Things is generating significant demand for data which is creating significant interest in data centers as an asset class. There is also significant private and REIT capital that is chasing these assets on a global basis. Therefore, with corporations looking for more flexibility with their technology portfolios coupled with the strong data center capital markets fundamentals, the timing is favorable to currently review corporate owned data centers.

Data Center Monetization Analysis

Global corporations are actively focused on evaluating the future of their existing owned data centers. They are specifically analyzing how their owned data centers fit in their long-term technology plan.

The JLL Technology Advisory Team is playing a critical role in assisting corporations with evaluating their data center monetization strategies.

JLL DATA CENTER MONETIZATION ANALYSIS/APPROACH

- The JLL Technology Advisory Team will develop a high-level financial impact monetization analysis that analyzes the whole gamut of potentially viable monetization structures. JLL will identify, analyze and assess potential monetization structures that meet a client's objectives. JLL will evaluate the financial benefits and costs associated with implementing each of the potential scenarios and provide a comparison of the costs for each. Once the priority scenarios have been identified, the risk and cost/benefit profiles for each monetization scenario will be subsequently evaluated to support executive decision making and provide a comprehensive "rationale" from which a client's leadership can make the appropriate monetization scenario selection.

- After a thorough review of all factors affecting a client's operations and goals, JLL will craft a strategic monetization plan for this assignment in careful coordination with the firm. JLL's strategy will identify, quantify and qualify monetization alternatives based upon a thorough understanding of a client's monetization and occupancy requirements in the context of market dynamics and occupancy drivers to determine the most advantageous strategy. This process will enable a client to execute on a strategy with confidence as it will ensure all viable alternatives are considered and the impact of those alternatives to a client is clearly understood.

SAMPLE VALUATION SUMMARY

	Vacant	7 Year Sale Leaseback	10 Year Sale Leaseback	15 Year Sale Leaseback
Total Value	$84.3 Million	$144.5 Million	$166.2 Million	$201.4 Million
Value per SF	$259	$458	$527	$639
Cap Rate	N/A	9.20%	8.00%	6.60%
Value per MW Critical Load	$6.3 Million	$10.8 Million	$12.4 Million	$15.0 Million

As you see from the above table, there is a significant value spread between the vacant valuation vs. the leaseback scenarios. This is why our financial modeling produces value in driving strategy and planning to highlight the value of a leaseback and migration timing compared to a corporation waiting too long to sell and recoup limited value for a vacant data center.

Case Studies

JLL's approach has created significant value in monetizing data centers for corporations globally. The following are relevant case studies:

Case Studies

Fortune 50 Company

- **Objectives and Outcomes:**
  – In the first step of the process, JLL analyzed 10 global data centers for a Fortune 50 Company. From this analysis, the primary objective was to sell two data center facilities located in the Northeast and the Midwest comprising 400,000 SF for a Fortune 50 company.
  – Outcome:
    - Completed a sale-leaseback transaction for both assets in a very quick timeline (60 days).
    - Sold package of both assets to a prospective buyer who offered the highest purchase price for both assets.
    - Disposed of the market-challenged Northeast facility together with the more attractive Midwest facility, even though there was no backup bidder for the Northeast facility.
    - Final sale terms were $1M higher than the next best offer.
    - Final sale terms exceeded JLL's original estimate of value by close to $3M.
- **Service Description:**
  –Specific services, such as project management, consulting, implementation etc. that were delivered:
    - Brokerage, Capital Markets, Corporate Finance.
    - Aggressively brought the assets to the market, specifically targeting both data center operators as well as NNN lease landlords. Leveraged the stronger asset by guiding the best bidders to propose purchasing both properties at the best prices in order to win the deal.
- **Value of the Project (indicative):**
  – Created close to $50M in value for the assets.
- **Highlight Key Success Associated with the Services Delivered and Timelines:**
  – Completed all phases of the project in six months, incorporating Assessment, Analysis and Sale Process phases.

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Case Studies

Fortune 15 Company

- **Objectives and Outcomes:**

  –JLL was hired by a Fortune 15 Company to strategically liquidate, via sale leaseback transactions, core North American and European owned assets.

- **Service Description:**

  –JLL approached pre-selected, qualified investors and instructed potential bidders to offer terms based on a 10-year sale leaseback, absolute NNN lease, 2.00% escalations and a set initial rental rate.

•Service Location and Value of the Project (indicative):

–Texas.
–$75M sale-leaseback transaction.

•Highlight Key Success Associated with the Services Delivered and Timelines:

–Purchase price of $75M represented a 10% increase compared to the average ($68.9M) of the indicative round conforming bids exceeding seller's expectations.

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Conclusion

JLL believes that corporations should be proactive in focusing on analyzing its legacy technology owned data center assets to identify monetization opportunities.

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