

How Master Leasing Could be the Next Big Thing for Data Centers

Dear Clients & Colleagues –

While data centers are dominating conversation within the commercial real estate investment world, they are highly specialized and complex assets whose operations can often leave interested investors confused and overwhelmed. The high level of sophistication needed to acquire and successfully operate a data center property has significantly reduced the number of market participants, resulting in a relatively insulated community of investors for data center assets.

Master leasing – which provides a lessee with the ability to sublease and control a property – will be a significant value enhancement through its ability to streamline the barriers of entry that exist for data center ownership. A master lease entails a landlord signing a long-term net lease with a third-party operator, allowing the operator full control over the subleasing, maintenance, and operation of the data center. Master lease structures have become commonplace in the commercial real estate world due to their marketability, simplicity, and absolute net lease structure.

The use of master leases in the data center world is not without precedent and is a strategy that is gaining momentum as it fuels the growth of the still-evolving industry. More recently, master lease structures have been used to help organize colocation facility deals – essentially the multi-tenant retail of the data center world. Colocation is the term used to describe when a third-party operator rents out IT infrastructure and power, within their larger data center, to a multitude of different customers.

The occupancy costs and complexity of management involved with data center ownership allows only a specialized group of buyers to be active in the marketplace. Over the next decade, master leasing is likely to become the dominant trend for colocation data centers, simplifying the management of the property and in turn transforming the capital markets environment. Eliminating the current barriers in place, which mainly allow specialized groups to invest in data centers, will empower once hesitant capital to enter the equation. A more robust marketplace could drive the cost of capital down on the magnitude of 50 to 150 basis points, setting in motion a rising tide that will raise all ships. From increased property valuations to tenant occupancy cost reductions, the benefits go on and on.

Master Lease entails a landlord signing a long-term net lease with a third-party colocation operator.

Colocation Operator has full control over the subleasing, maintenance, and operation of the data center.

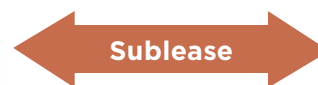
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Colocation Operator



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