



Metro Phoenix Data Center Market Update

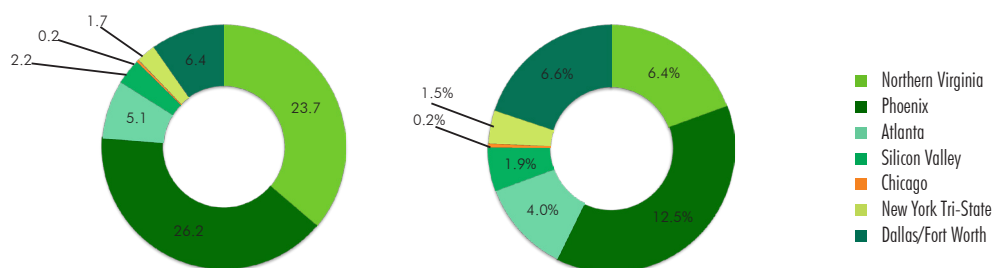
DATA CENTER SOLUTIONS GROUP

CBRE GLOBAL RESEARCH AND CONSULTING

Like the mythical bird for which the city is named, the data center market in Metro Phoenix emerged from the ashes in the second quarter of 2014 posting phenomenal numbers for both the delivery and absorption of data center inventory. With the most active leasing market in the country, the west's largest data center hub seems to be back on track after a short quiet period that ran from the late months of 2013 into the first few months of 2014.

In Q2 2014 the market saw two transactions that delivered more than 10MW of total commitment each consummate with different landlords. While much of the second quarter's absorption was driven by these enormous deals, current touring and lease negotiation activity indicate that the Valley's operators will likely see the market return to an absorption pattern driven by commitments made in 1 – 5MW increments. This is positive news for the market with its 17MW of inventory currently under construction.

Q2 2014 NET ABSORPTION (MW) Q2 2014 NET ABSORPTION AS A SHARE OF MKT INVENTORY



SOURCE: CBRE Data Center Solutions Group, Q2 2014

It seems as though much of the market's growth can be attributed to yielding the lowest total costs of occupancy available in a major city in the western United States. Though rent for data center space in Eastern Washington is roughly equivalent to rents in Phoenix and power rates are a third of those in Phoenix, it seems the three hour commute from the nearest airport is proving to be an obstacle for leasing in the Pacific Northwest. With the low cost outlier aside, new statutory tax incentives and consistently low power costs give Phoenix the edge against the other major western markets. Corporations seeking to maximize economic and operational efficiencies have found Phoenix to provide the optimal mix of both.

As can be observed in other densely supplied markets around the world, providers with a traditional aim toward wholesale tenants are chasing smaller retail clients while historically retail-focused providers are doing larger deals. That means Phoenix is now home to a dozen data center operators that can accommodate an installation with 250 kW of critical load, adding to what was an already diverse mix of providers. This competitive landscape keeps rent prices compressed for incoming tenants and allows many of the region's existing tenants to renew their occupancy contracts at lower rates than they paid during their initial term.

Q2 2014 PRIMARY WHOLESALE COLOCATION MARKET SNAPSHOT

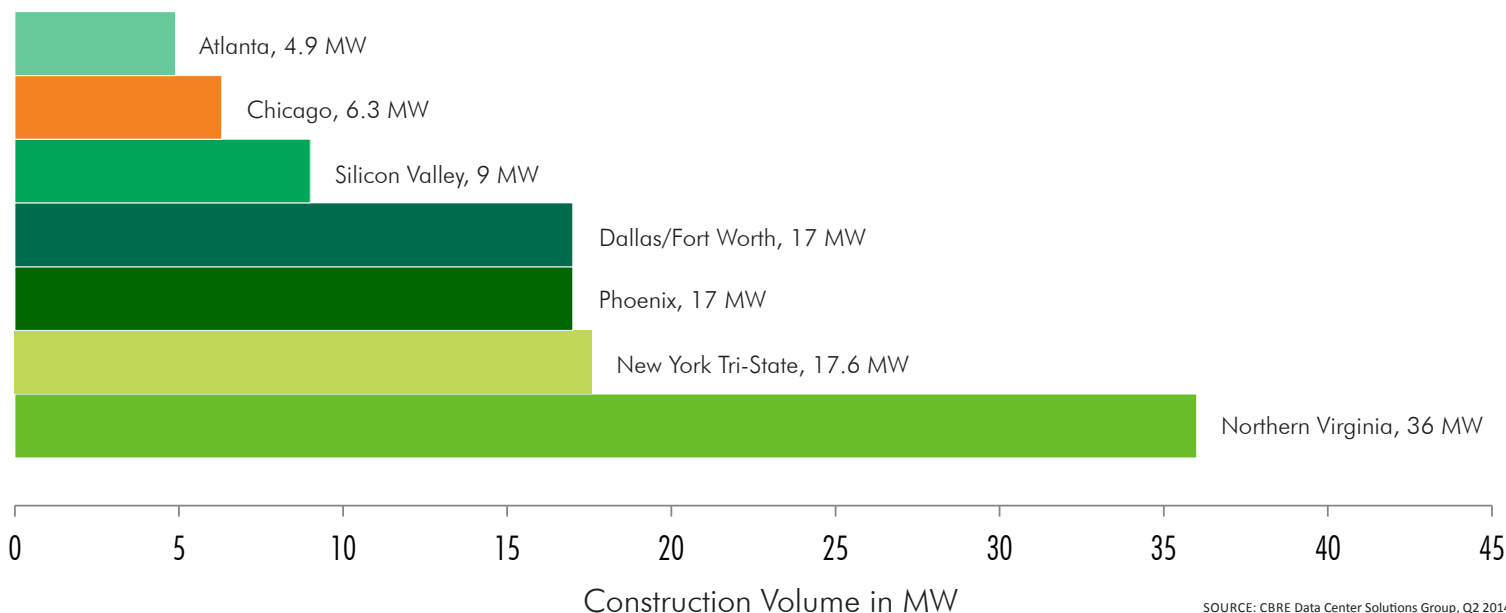
Market	Inventory	Vacancy	Absorption	Rental Rates (kW/mo)
Northern Virginia	368 MW (▲ 20 MW)	19.6 MW / 5.3% (▼ 20.6%)	23.7 MW (▼ 7.4 MW)	\$130-\$150
Phoenix	209 MW (▲ 24 MW)	6.3 MW / 3.0% (▼ 33.9%)	26.2 MW (▲ 23 MW)	\$140-\$160
Atlanta	127 MW (▲ 5 MW)	28.5 MW / 22.5% (▼ 4.3%)	5.1 MW (▲ 9.1 MW)	\$120-\$150
Silicon Valley	116 MW (nil)	13.9 MW / 12.0% (▼ 13.7%)	2.2 MW (▲ 2.2 MW)	\$145-\$150
NYC/NJ	115 MW (▲ 6.8 MW)	36.7 MW / 31.9% (▲ 9.3%)	1.7 MW (▼ 6.6 MW)	\$145-\$160*
Chicago	110 MW (nil)	4.5 MW / 4.11% (▼ 4.4%)	0.2 MW (▼ 4.9 MW)	\$145-\$165
Dallas	97 MW (▲ 10 MW)	10.9 MW / 11.2% (▼ 33.3%)	6.4 MW (▼ 0.1 MW)	\$150

SOURCE: CBRE Data Center Solution Group, Q2 2014.
 Arrows reflect quarter-over-quarter changes.
 *Quoted rates are outside of NYC proper. NYC (Manhattan) wholesale rates average \$225-\$300/kW/mo.

The wide array of choices also means that prospective clients have the ability to choose a data center operator whose mix of services and infrastructure design aligns with the underlying uptime requirements of the applications supported by the data center environment. This dynamic has allowed everyone from traditional corporations to startup bitcoin mining operations to choose Phoenix as their new digital home.

Historically chunky supply and demand dynamics may remain relative to a more consistent leasing market such as Northern Virginia. However with 17 MW of expansion construction underway and the entrance of two new providers in the market expected by Q2 2015 it seems as though Phoenix is poised to remain the west coast's favorite data center market unless some sort of tectonic shifts occur in the industry's mindset.

Q2 2014 DATA CENTER CONSTRUCTION PIPELINE



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.



ABOUT THE AUTHOR

Luke Denmon, PMP, specializes in representing tenants in the acquisition of mission critical space via lease or purchase. After graduating from a dual degree program at The University of Arizona, Mr. Denmon spent four years at one of the nation's largest banks. With a focus on highly technical transactions Luke became one of the bank's top performing lenders. During that period he acquired his Project Management Professional designation to ensure his skills matched the complicated requirements of his role. Mr. Denmon's experience in finance and project management serves as an excellent resource for clients seeking to make technical real estate decisions that integrate into their long term strategy in the face of shifting market conditions.

A founding Board Member of the Arizona Data Center Coalition, Mr. Denmon is recognized as the foremost data center market expert in the western United States. He's spent extensive time mapping the North American colocation supply market and leverages his relationships with providers of data center space to supply his clients with accurate real-time market information. With a finger on the pulse of the supply market and the ability to negotiate durable mutually-beneficial agreements, Mr. Denmon's data center advisory service is one of the most valuable resources available in today's marketplace. His combination of sound technical fundamentals and the highest level of professional character allow him to offer every client the world-class service they expect from a market leading team.

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