actis

THE IMPORTANCE OF HYPERSCALERS TO DATA CENTRE OWNERS

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Hyperscalers dominate the market for data centre usage. These giant businesses – which offer cloud computing, network and other internet services to support the growing demand for data – are huge users of space at these facilities, accounting for between 60% and 80% of overall capacity globally. And their presence is only likely to grow in the next few years due to the increasing prevalence of the Cloud, technologies that combine cyber-physical systems, the Internet of Things, the growth of 5G, the rise in the importance of data retention policies, and other changes.

HYPERSCALERS ACCOUNT FOR BETWEEN 60% AND 80% OF OVERALL CAPACITY GLOBALLY.

Data centres are essential for hyperscalers because they contain their base infrastructure through which they run their operations. This includes support for retail e-commerce, social media, corporate network operations and search engines. A data centre offers redundant and resilient infrastructure with uninterruptable power and network connectivity, protected by sufficient cooling and physical security, ensuring that data does not get into the wrong hands.

Hyperscalers tend to follow a similar approach when it comes to working with data centre providers. At a global level, they follow a worldwide strategy which favours multi-regional relationships and supplier engagement. At a regional level, they appreciate local expertise and partnerships. They utilise their purchasing power to seek the best contract terms and Service Level Agreements (SLAs) they can achieve, but they also put significant emphasis on high standards in engineering design, project delivery and operational requirements.

Despite their size and reach, hyperscalers are sometimes reluctant to build their own data centres, particularly in newer markets, for a number of reasons. When it comes to markets such as Asia, Latin America and Africa for example, they are competing with more nimble businesses who are better equipped or positioned to acquire the suitable land and contract power supply, at times in power-short markets. A lack of local knowledge can handicap their ability to roll out facilities quickly enough and at sufficient scale: self-builds typically take between 24 and 36 months, and much longer in new markets. Calculating exactly how much capacity the hyperscalers will require can also be an issue. By their very nature they need to be flexible and scalable, making forecasting the future difficult. As a result, particularly in emerging markets, it often does not make commercial sense for them to build and operate such facilities alone.

Instead, many work with a business like Actis, who can offer either an existing co-location or a Build-to-Suit (BTS) facility. Many of Actis' global markets are in the fastest-growing regions of the world, where digital penetration is at its weakest, and hence the benefits of access to the data and technology that hyperscalers bring are the most significant. However, these are often some of the most challenging regions for a new business to penetrate, meaning there is a premium on working with a partner with an on-the-ground presence who understands both the technology and the best way to navigate the complexities of working in a particular jurisdiction.

For hyperscalers, advantages of working with a partner include:

- Benefitting from flexibility of scale, which is particularly important as economic conditions get tougher. Working with a partner offers hyperscalers the opportunity to minimise their own capital expenditure in the event of a cyclical downturn
- Accessing the same, or even better, facilities for the same price without sacrificing quality, due to economies of scale at the data centres they utilise
- Avoiding the need to compete - particularly across multiple emerging markets - for location, land and power, with data centres who are specialists in these fields and markets. Real estate, infrastructure and renewable energy (which are all increasingly factors in data centre development) are not necessarily among the hyperscalers' core skillsets, so it is often beneficial to work with a business with specific expertise in these areas

- An existing co-location data centre or BTS means hyperscalers are working with an operator who has already secured land and power, smoothing the commissioning process and facilitating faster entry

Hyperscalers are attracted to Actis in particular for a variety of reasons. While it is relatively easy for them to operate in some of the more mature markets, execution can be challenging in some of the markets in which we specialise, where there is high competition for both land and power. We have 75 years of history in these regions, extensive experience of building infrastructure, and we have an in-depth knowledge of these markets. We have a deep and strong track record as builders, we know how to manage and navigate issues such as local regulatory frameworks, and we know how to construct assets in the most efficient way.

For Actis, partnering with hyperscalers offers a series of advantages. Their scale makes them important players in the market. Working with hyperscalers can mean a more cost-efficient and de-risked build - we are able to design and construct facilities with a known customer, with consistent requirements that can be met on a replicable basis across different markets. A well established partner like Actis is able to secure hyperscaler offtake 6 months -2 years prior to build.

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Having fewer, larger customers at our facilities makes them operationally easier to manage. Offering specific halls or floors within our facilities avoids stranded capacity, while having dedicated infrastructure and a single customer in a data hall or floor makes power and cooling SLA management much easier. Also, given the size of the customers, contracts tend to be longer term. The level of expertise we have in our markets means we are an attractive partner, in turn able to deliver solid, dependable, stable yields for our investors.

Looking to the future, the capacity requirement from hyperscalers will continue to grow. They will require facilities to be built closer to where their services are consumed. In the places where we operate, that means data centres moving beyond the hub markets to more regional locations. They will also need more renewable power. Many hyperscalers have made promises to their own investors and other stakeholders that they will become carbon neutral in the near future: being able to demonstrate their data centres conform to these objectives will become a key priority for them in those markets where renewable energy is available.

For a business like Actis - a global sustainability leader which operates at scale, with a strong operational knowhow and culture – working with hyperscalers allows us to bring the benefits of technology to the parts of the world where it is most needed, delivering long-term, stable yields for our own investors.