

Why investors should focus on the Asian opportunity for sustainable data centres



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The world's appetite for data – and with it the demand for centres which house the infrastructure to process it – has increased exponentially in recent years, and shows every sign of accelerating even further. Drivers such as Industry 4.0, business migration to the cloud, the rise of 5G and the opportunities offered by the Internet of Things mean data will play a growing role in all our lives.

That growth will be compounded by the rise of Artificial Intelligence, the development of autonomous vehicles, and other technologies which are currently only in their infancy. Meanwhile our increasing reliance on technology, streaming and home working prompted by the Covid-19 epidemic likewise means data, and hence data centres, will continue to be vital for our lives in the future.

Research also shows just how important this growth will be in facilitating a more sustainable world. Digital infrastructure plays a critical role in underpinning economic growth and more inclusive access to services, according to the United Nations, the World Bank and the World Economic Forum. Indeed it's been estimated that 10% of internet penetration adds 1.38% of per capita Gross Domestic Product growth. It is hard therefore to overstate the importance of data centres in supporting global social and economic sustainability.

Data centres have become a focus for investors both in real estate and infrastructure because of the opportunities they offer for an annuity-like income with attractive, stable, long-term yields. That's because once a data centre is built and leased out, its tenants tend to stay put because the switching cost is relatively high. So far, most attention has focused on developed countries such as the US, but investors risk missing out unless they consider markets such as those in Asia or Africa.

The Asia Pacific Region, for example, is one of the fastest-developing in the world as it rapidly plays catch-up - from a data infrastructure perspective - with the rest of the world. However different markets are at different stages in their development.

While the mature markets such as Hong Kong, Singapore and Tokyo already have a relatively high level of data centre penetration, in other countries, such as South Korea and China, capacity has so far been unable to keep up with the explosion of internet use and e-commerce. In other parts of Asia, the gap between demand and supply is even greater. In order to meet the needs of businesses and consumers, infrastructure capacity will need to catch up. It is outside the mature markets, therefore, that the best investment opportunities may arise.

Actis began focusing on data centres the region from 2015. Instead of the mature markets, we are concentrating on the developing parts of Asia: we began by investing in China, before moving into South Korea, and are now looking at opportunities across South East Asia and India. As well as a shortage of infrastructure in these countries, many of the large global cloud businesses are just beginning to establish a foothold there: this will drive growth further.

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Investing in data centres in Asia is not without challenges. The region is not a single market, and each country has its own regulatory regime, especially when it comes to data and privacy. In addition, each has different rules around how to buy land, secure power and connect to the internet backbone. This fragmentation has led the biggest global data centre providers to concentrate on the mature markets instead, as they find it challenging to deploy resources in each of the developing markets to tackle local execution and manage the differing regulatory issues.

China for example was among the first to enforce data sovereignty requirements, and has its own licensing and regulatory requirements. Actis therefore decided to invest with a local partner which had a greater understanding of the operating environment there. China is indeed unique: its market is dominated by domestic users, unlike the rest of Asia. Together with the licensing requirements, this can make it difficult for global data centre players to compete: investors therefore need a domestic partner to enter.

Obtaining reliable, clean power supply is also a consideration, although not just in Asia. While using data centres is up to 90% more energy efficient than on-site data storage, it is vital that investors act

responsibly. In many ways, however, this is easier to overcome in the more developing markets than in the mature ones.

Building data centres in developing countries like China or India involves establishing new locations, where there is often just a single authority to deal with, and the power infrastructure has been specifically established to service it. By contrast, building in more mature markets such as Korea and Singapore has to take place in urban locations, and power is relatively scarce. Developing new infrastructure can therefore take time, and be more costly.

Sustainability is at the heart of Actis's investment philosophy. To ensure our investments are carried out as sustainably as possible, we optimise the energy efficiency of all our locations, sourcing reliable and clean power by leveraging expertise from our Energy team. Actis is a significant investor in energy as well as in data centres, so we are able to bring our power solutions experience to bear when developing projects. In addition, we continually measure the social impact of each project in order to ensure it meets both the goals of investors and the needs of the wider community.

Investing in data centres requires, in Asia in particular, a blend of real estate, energy and infrastructure expertise. Sourcing the appropriate land for development, deploying capital efficiently, ensuring projects meet regulatory and resilience requirements, as well as the need to secure sustainable power, are all core to data centre investments. Investors need to take time to study the local markets and choose the right partner before pulling the trigger.

The provision of better digital infrastructure is vital for our world. The United Nation's Sustainable Development Goals for example recognise the critical role it plays in fostering economic and inclusive social development across the globe. Data centres will therefore be critical if these goals are to be achieved.

Investors can play their part. While in the long term, yields may come down due to increasing commoditisation and industry consolidation, for value-add or opportunistic investors looking for a higher return profile there are substantial opportunities in Asia. The profile of long-term cashflow, low turnover and steady returns will still be there. The case for investing in data centres in Asia is, and will remain, compelling.

