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EXECUTIVE OVERVIEW



A welcome upturn in market demand this quarter has provided some optimism to total take-up for the year and raised confidence going into the final quarter.

Activity in the European carrier neutral colocation market has in the main been characterised by the ongoing European economic crisis. This has continued to prove to be a major factor in limiting demand and weakening end user confidence. The result of this has been a reduction in the number and scale of requirements that have come to market, with planned budgetary spending coming under more scrutiny.

Nonetheless, it is clear that some locations have felt the impact of this uncertainty greater than others. Quarter 3 has seen a continuation of demand disparity amongst the European tier 1 locations with Amsterdam in particular continuing to see strong demand. Additionally this quarter, Frankfurt has seen demand improving with the conclusion of a sizeable transaction boosting take-up. Both these cities have benefitted from an increase in activity from the technology and telecoms sector which is currently the main source of demand across the European Tier 1 market. Indeed it is the absence of significant corporate demand that has resulted in subdued activity levels in Paris and London this year.

Whilst it is true that IT spending has not been at the level expected in 2011, the reliance on IT to support critical business functions has continued to proliferate. With this in mind, the importance of comprehensive investment in IT will only become ever more critical and necessitate higher specification power and space capacity that third party data centre operators are well positioned to provide. A notable aspect of this year has been the commitment to several expansion projects by the major colocation operators in anticipation of increases in demand. Although a number of concerns still persist particularly regarding the economic outlook, the delivery of this new supply may prove to be timely.

In addition to the many market challenges that have been evident this year, a recently concluded legal case has given illustration of some of the pitfalls that can occur when structuring data centre agreements. Our data centre topic this quarter provides a useful insight into the risks involved and underlines the importance expert advice in technical real estate acquisitions.

EUROPEAN TIER 1 COLOCATION MARKET PERFORMANCE Q3 2011

Stock (m ²)	Availability (m ²)	Vacancy Rate	Take-up (m ²)	Total Market Take-up m ²
619,950	109,610	17.68%	30,185 YTD	30,185 YTD
↑	↓	↓	↓	↓
<i>Comparison on previous year i.e. Quarter 3 2010</i>				
+2.2%	-13.0%	-3.10%	-7.45%	-9.57%



COLOCATION SUPPLY

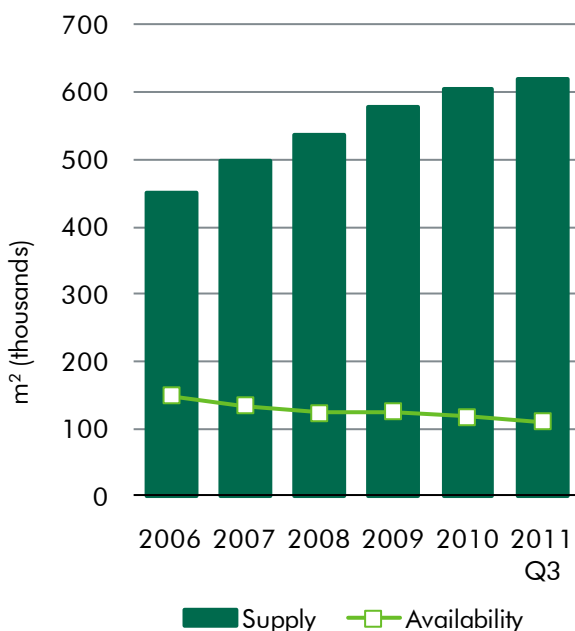
European Tier 1 supply rose by 2.25% during the third quarter following the unveiling of two new schemes and several key expansion projects being completed. Most notably, the acquisition of a site in Chessington by Digital Realty Trust, which was concluded this quarter, has provided a significant uplift in data centre provision for the London market and gives indication of expectations for future demand growth.

Prior to the rise in supply this quarter, the 12 months to June 2011 had been particularly quiet, with only a small amount of additional supply being added to European Tier 1 stock. This dynamic exemplifies the challenging market conditions that have been present since the credit crunch, with market demand having been largely subdued and operators able to utilise existing space to meet the level of customer requirements.

It is clear that significant uncertainty remains with regard to the extent and timing of future demand growth. It has been encouraging however that several major colocation operators have continued their commitment to building out new data centres and are actively sourcing new opportunities.

Indeed the supply pipeline for 2012 looks to be particularly healthy. CBRE estimate that close to 68,000 m² of new supply will be delivered across the Tier 1 markets by the close of next year. This will provide an 11% rise in total supply and gives further indication of expectations of demand growth by operators.

SUPPLY & AVAILABILITY



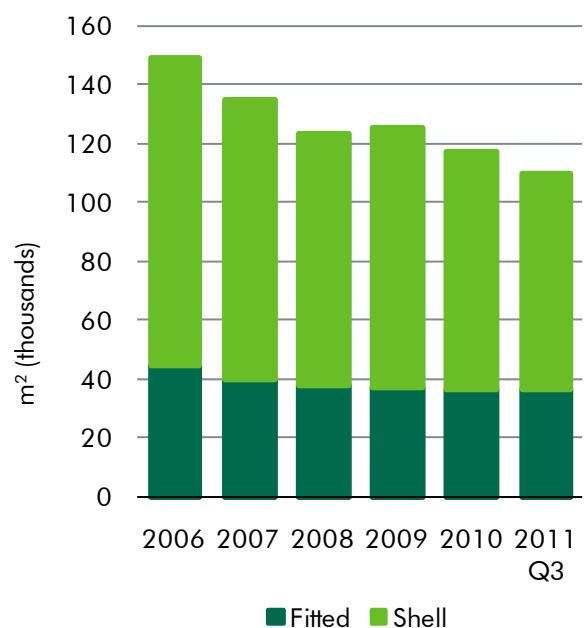
COLOCATION AVAILABILITY

The level of available space across the European Tier 1 market has remained constrained this quarter despite an increase to overall supply. The current overall vacancy rate is now 17.68%, a marginal increase from Quarter 2. Although the scale of market demand has warranted some strategic expansion projects this year, the European Tier 1 market has remained in relative equilibrium despite the drop in availability.

Of particular note has been the continual decline in the level of available Fully fitted space. At the end of Quarter 3, this had remained at a historically low level of 7.45%. It is reflective of the market challenges that operators have encountered this year which has seen a reduction in the amount of retained speculative space.

Moreover, as reported last quarter the level of available shell space has also been in decline over the past 12-18 months. This reached an all time low in Quarter 2 of this year and has risen marginally in Quarter 3 following an increase in supply. The reduction in shell space has been as a result of the build out of existing space to meet secured customer requirements and small amounts of speculative fit out. With a significant amount of new space forecast for next year, the vacancy rate can be expected to begin to rise alleviating pressure on existing supply.

AVAILABILITY SPLIT



Source: CBRE Research

MARKET NEWS – SUPPLY

Even within the context of uncertainty which characterises the wider economy at present, the European technical real estate market has continued to benefit from the addition of new supply during the third quarter of 2011. As with the preceding three month period, retail colocation providers have continued to be active, with 4 of the 5 largest European providers announcing new expansions. **Interxion** reported plans for a new 9,000 m² data centre in Paris and 1,550 m² of new space in Frankfurt. Whilst in Amsterdam, **Terremark** – now part of **Verizon** – announced the opening of their new 2,325 m² facility.

In the UK, **Equinix**, launched the second phase of its latest data centre, which will provide a further 4,000 m² of space in Slough, whilst **Telehouse** reported a 1,000 m² increase of its Telehouse West facility in the Docklands, London. Elsewhere in the UK, **The Bunker** announced the addition of a new data hall at its Newbury data centre, whilst in Manchester infrastructure provider, **M247**, reported that it would expand its data centre at Trafford Park. In Hemel Hempstead, **Gyron Internet** launched its new scheme which will provide 6,130 m² of data centre space and 2,050 m² of associated offices and disaster recovery areas by early 2012.

IT integrators and carriers continue to play an active role in the European data centre market, particularly over the last quarter. In Portugal, **Portugal Telecom** has awarded **Quark** the engineering design for their new data centre campus in Covilha. The data centre will have 12,000 m² of rack space and is planned to be developed in 4 phases. In Belgium, **Cegeka** expanded its data centre in Hasselt, whilst in Madrid, **Telefonica** announced the start of construction on phase one of their new data centre. The facility, set to be operational in late 2012 will be built in five phases, with the first offering 24,700 m² of technical space.

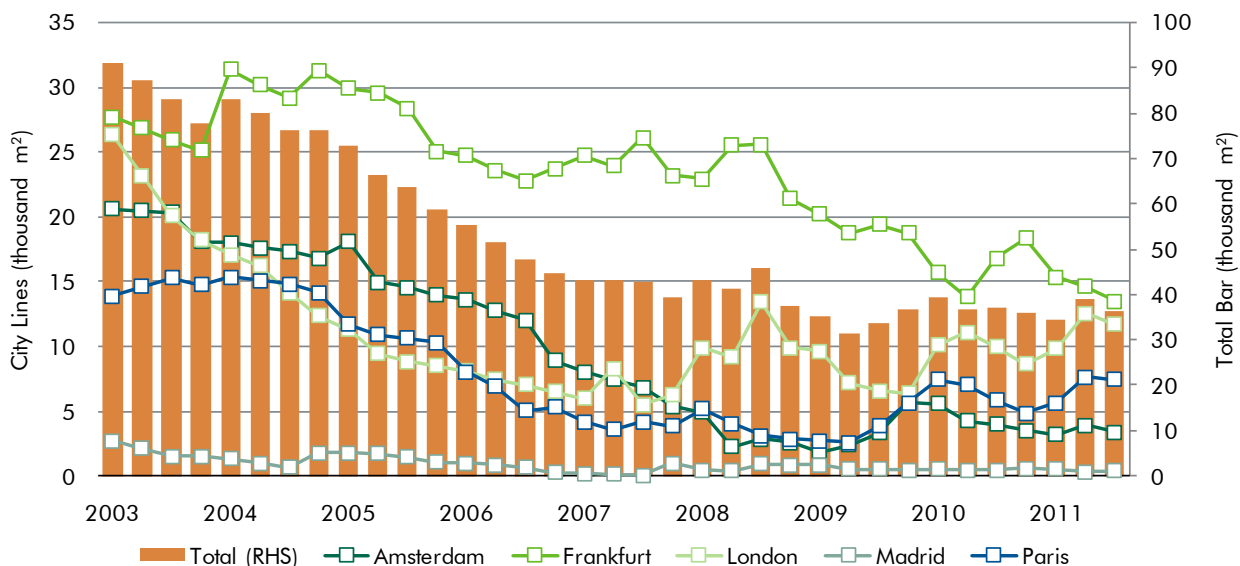
On the development front, the level of new build activity remains relatively limited, particularly from a speculative perspective. The third quarter did see some interesting examples of schemes moving forward. In Amsterdam, **Switch Datacenter Group** finalised the first phase of its new 8,320 m² data centre; in Keflavik, Iceland, **Verne Global** announced the opening of its 18-hectare data centre campus, whilst in Guernsey, **The Long Port Group**, a privately owned property company, reported that it is developing the Guernsey Data Park, a data centre and business continuity scheme, offering units from 930 m² to 9,300 m².

In the UK, **Digital Realty Trust** announced that it has acquired a development site in Chessington, Surrey for £12.9 million. The building will total approximately 12,080 m² and be capable of supporting five 1440kW Turn-Key Datacentre PODs, with total IT capacity of 8MW. In addition, **Stirling Scotfield** finally secured planning consent for a data centre at Lindley Moor, near Huddersfield.

In Ireland, it was reported that **Microsoft** is set to add a new 11,150 m² data centre to sit alongside its existing 28,150 m² facility in Dublin. In the same area of West Dublin, **Google** will invest €75 million in a new data centre, having acquired 11 acres of land and an existing building in Profile Park, Grange Castle, set to accommodate a 4,000 m² scheme. Meanwhile, in Italy, the energy company, **Eni** announced the start of construction of its new Green data centre in Ferrera Erbognone, Pavia and in Hungary, systems integrator, **Simac**, in partnership with **Minkels** has built two new data centres of 2,000 m² each for **KBC Banking and Insurance**.

Source: iXConsulting

FULLY-FITTED COLOCATION AVAILABLE STOCK PER TIER 1 MARKET



TAKE-UP AND DEMAND

Demand in the European Tier 1 market has remained relatively subdued although Quarter 3 has shown some improvement, producing a handful of notable transactions. Confidence, or lack of it, in the outlook for global economic growth has continued to encourage a cautious approach toward significant procurement. As such the appetite of businesses to progress comprehensive IT investment has been reduced.

It is of little surprise therefore that the overall level of demand for third party data centre space has been adversely affected. Total take-up in Quarter 3 2011 was 12,640 m², a considerable improvement on Quarter 2, although remaining below the 5-year average for quarterly take-up. The year-to-date total is now 30,185 m², again behind the longer term average, although similar to the total at this stage in 2010.

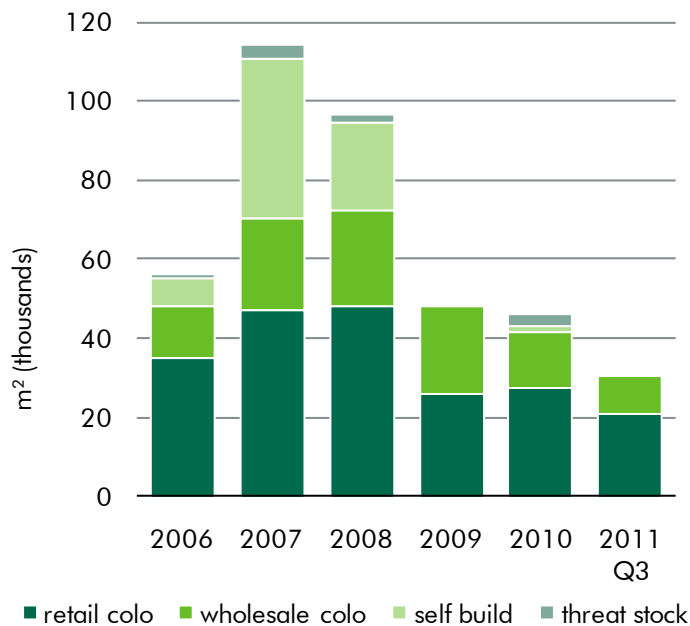
Demand from the telecoms and technology sector remains the most active source of new business for data centre operators at present. This has subsequently been to the benefit of locations such as Amsterdam and Frankfurt. Combined, these two cities account for close to two thirds of total European Tier 1 take-up for this year.

Amsterdam in particular has again seen demand at high levels. At the end of Quarter 3, it passed the 2010 total for take-up and will complete another record year by close of 2011. Most noteworthy from this year has been a number of sizeable Wholesale colocation transactions which have bolstered the existing demand for Retail space in the city.

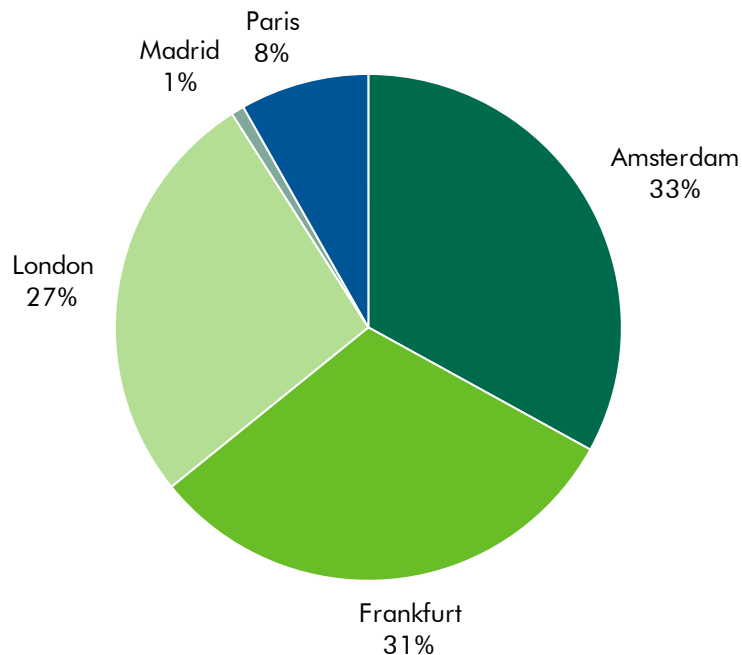
London and Paris by contrast have experienced a more challenging business environment. With corporate spending, particularly from the financial services sector, under greater scrutiny. It is understandable that these cities which traditionally service a high level of corporate demand have seen a reduction in total take-up.

As we approach the end of the year a significant shift in the scale of European Tier 1 data centre demand is unlikely. Longer term, growth in applications use and business reliance on IT infrastructure will necessitate the need to acquire greater data centre provision and subsequently fuel new demand. Given the current positioning of European economies, the timing and extent at which new demand will emerge is less clear.

TOTAL MARKET TAKE-UP BY MARKET SECTOR



TOTAL MARKET TAKE-UP



TAKE-UP

European Tier 1 Cities	Colocation Take-up (m ²)	Total Market Take-up (m ²)
2007	70,350	114,095
2008	72,030	96,730
2009	48,110	48,575
2010	41,610	45,770
2011 YTD	30,185	30,185

Source: CBRE Research

MARKET NEWS – DEMAND

Companies are continuing to action IT strategies and technology refreshes, albeit within the context of budgetary constraint. As a consequence, "third party" service provision continues to have its attractions, in particular "cloud computing" represents an increasingly attractive option, particularly as concerns over issues such as security – historically perceived as a major drawback with this type of solution – diminish as a result of improved technologies and software.

Despite the ongoing economic uncertainty, the third quarter of 2011 provided evidence that the European technical real estate market, maintains a degree of solidity, with some notable transactions, although it remains difficult to quantify always in terms of floorspace. In the UK, **Atos** announced that it had secured the contract to provide Danish facilities management giant **ISS** with IT infrastructure and cloud services; **Civica** reported that it will provide IT outsourcing services to employment-focused training company, **Avanta**, whilst in Austria, systems integrator **Kapsch** announced two major contacts with engineering group **ELIN** and gas line operator, **OMV Gas**.

Other notable transactions saw **Lufthansa Systems** announce an IT infrastructure contract with **Thomas Cook**, to supply its operations in Belgium, France, Germany, Luxembourg, the Netherlands and the UK, from its recently opened data centre in Welwyn, whilst **ITV** signed a three-year deal with data centre operator, **BIS**, for the provisioning of colocation and network connectivity services. In addition, in Iceland, the previously mentioned **Verne Global** announced that **Datapipe**, a provider of managed services, will be one of the new data centre's first tenants.

The use of modular building strategies, including containerised solutions, continued to grow in the third quarter. One notable deal saw **Airbus**, the aircraft manufacturing giant, announce that it had doubled its usable supercomputing power by utilising modular **Hewlett Packard** PODs at its sites in Toulouse, France, and Hamburg, Germany. According to the reports, the water-cooled **HP** PODs consume up to 40% less power, with a near-optimum Power Usage Effectiveness (PUE) rating of 1.25, allowing them to deliver power capacity in excess of 15 KW/m².

MARKET NEWS – INVESTMENT

Reported corporate activity in the form of significant company acquisitions in the IT sector, has been relatively quiet during the third quarter in contrast to the first half of the 2011. **TelecityGroup** was one of the busiest companies during the quarter acquiring **Data Electronics Group**, an Irish data centre provider for £87.6 million in the process adding 4,600 m² of technical floorspace to its exiting portfolio. **TelecityGroup** also acquired the Manchester based data centre operator **UK Grid** for £11.7 million.

Following its £22 million purchase of **Blue Square Data** in March, **Lumison** further expanded its exposure in the UK IT managed services sector during the third quarter by acquiring Reading-based **DediPower**. Also in the UK, **UK Solutions** merged with MPLS provider **NetworkFlow** and voice services company **Protel** to create a new managed data services group – **Six Degrees Group** who launched their new data centre based in Studley, Warwickshire. In addition, **Interoute Communications** acquired **Quantix**, a cloud services provider in Nottingham.

Outside the UK, the Dutch technical services provider **Imtech** announced it acquired two ICT companies, **Qbranch** in Sweden and **Comnet** in Austria, whilst in France, **Cappemini** completed the acquisition of French internet and telecoms services company **Prosodie** for €382 million.

Source: iXConsulting

FORECAST

CBRE forecast at the end of 2010 that the bottom of the current market cycle had been reached and market demand would begin to show gradual improvement. However as 2011 has unfolded it has become clear that the prolonged economic uncertainty within the international arena has given rise to increased anxiety around forecasts for all business growth. As a consequence, comprehensive investment in IT has again come under review and demand in the European Tier 1 markets has suffered as a result. Therefore although 2010 did mark a low point of the current market cycle, this has continued through 2011 with total take-up at year end not expected to match last year's total.

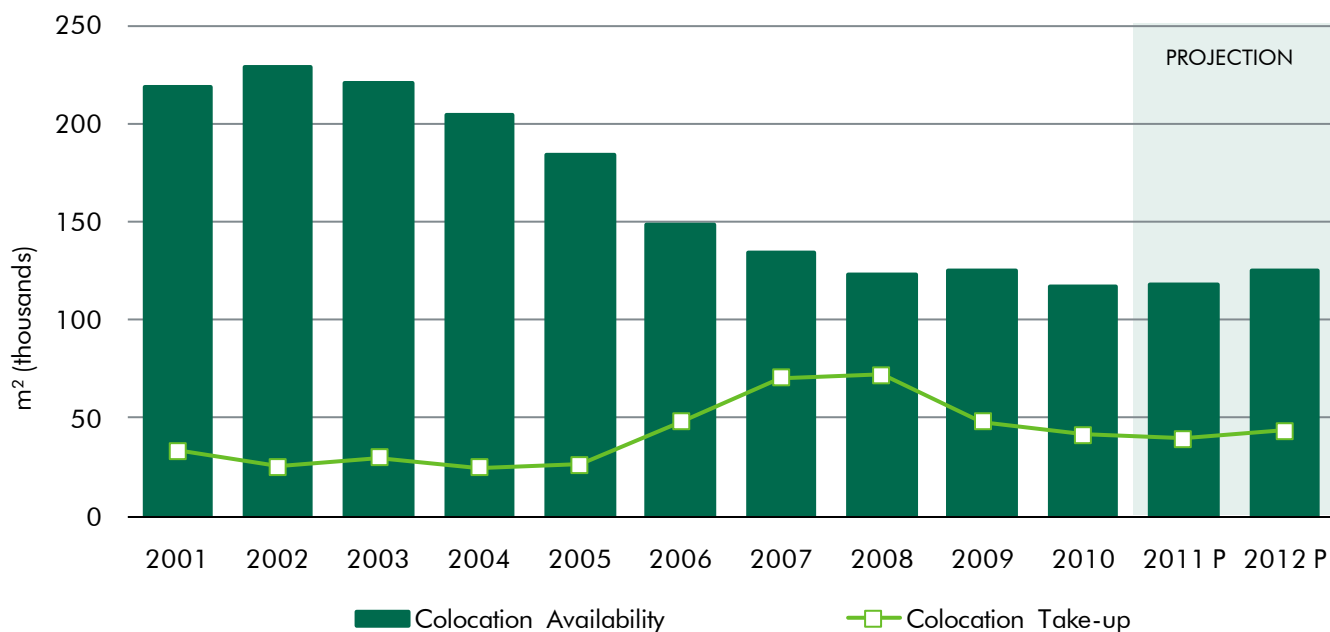
Despite the challenges of the past 12-24 months, however, the outlook for the European Tier 1 market holds many positives. Concern over the instability of local and international economies has for now discouraged significant investment in IT although this position is unsustainable long term. The continual growth in application use and the integration of developing technology to support wider business functions will only further fuel the need for additional data centre capacity going forward.

Moreover, as the introduction of new technology to everyday business continues at pace, the focus on new innovation to gain competitive advantage will grow. As such the need for third party solutions to provide sufficient power and space capacity to enable this will become ever more necessary.

In anticipation of an approaching release of pent up demand, 2011 has already provided illustration of operator expectations for future growth. Several new projects have been announced which will deliver a significant amount of additional capacity in key locations. An estimated 68,000 m² of new space is scheduled for the coming year with further increases expected in 2013. As the speed and scale of new demand begins to become clearer, further announcements regarding investment in new data centre schemes can be expected to follow.

The forecast new supply will be largely focussed around the traditional locations which retain the highest attraction to potential end users. With the interest in improving efficiency by use of technology such as cloud deployment continuing to attract ever greater attention, the support of the data centres will gain higher prominence. This in turn will provide additional demand for third party operators may well encourage new schemes outside of the familiar data centre hubs.

EUROPEAN TIER 1 MARKET HISTORY AND FUTURE PROJECTION



Source: CBRE Research

MARKET NEWS – FORECAST

The outlook for the European data centre market looks relatively positive in the short to medium term despite the current worrying state of many European economies. A recent survey from **IDG Enterprise** of more than 1,700 IT decision makers revealed that investment in data centres is an important focus for organisations, with 28% of overall IT budgets being spent in this area. According to **IDG**, this number is likely to remain consistent over the next two years. In addition, **Canalys** has announced that it expects data centre IT infrastructure investment, covering everything from server closets to large data centres, in Europe, the Middle East and Africa to grow from US\$29 billion in 2010 to US\$40 billion by 2015, fuelled by private and public cloud development driving data centre transformation and consolidation.

External solutions to a company's data centre requirements are becoming increasingly couched within the debate over "cloud computing", a broad umbrella term for a set of solutions which are becoming more and more prominent. All manner of surveys have attested to the development and likely continued growth of cloud-based solutions. For example, a recent survey by **Informa** estimated that Communication service providers committed almost US\$8 billion to cloud-related pursuits in the first six months of 2011 and **Forrester** has forecast that the global cloud computing market will grow from US\$41 billion this year to US\$241 billion in 2020. In Norway, for example, a recent survey from **Rambøll** in collaboration with **EDB ErgoGroup** suggested that use of cloud computing has more than doubled over the last year. Over 35% of public sector bodies and private sector companies now use "software as a service", as compared to just 14% last year.

There is evidence that there still remains a degree of uncertainty of cloud solutions. A recent study by managed service provider, **Colt**, reveals that CIOs are increasingly concerned about the location and privacy of data, whilst research from **SunGard Availability Services** shows that despite fast adoption rates, only one in ten UK CIOs feel "completely confident" in the security and resilience of third party cloud solutions. The research, conducted by **Vanson Bourne** among 250 UK CIOs, also reveals that a majority (68%) are only happy to move to the cloud data which is not deemed critical or sensitive.

Despite these concerns, it would seem that the case for moving over to an IT strategy in cloud solutions remains compelling and it is likely to continue to grow in importance amongst enterprise customers.

As the European technical real estate market provides the base infrastructure that supports these technologies, it appears that it will now undoubtedly benefit from this growth.

The Environmental Context

Data centres and their environmental impact are an issue that needs continual assessment by providers and users alike. Both groups continue to look for innovative and efficient solutions to lessen any potential negative environmental impact that the use of technical real estate may cause. In recent months, for example, **Interxion** has announced that its London data centre has taken another step forward in reducing its carbon footprint by signing with **SmartestEnergy**, a purchaser and supplier of electricity from independent generators, to supply 100% renewable energy. This involves using all power from renewable energy sources including wind, hydro and biomass. In another example of innovation, UK managed IT service provider **InTechnology** has said it is examining the possibility of building a new data centre which would be powered by household waste.

Innovation needs to have support however. On the regulatory front, it is important that Governments utilise their regulatory apparatus to provide the right infrastructure to support the environmental agenda and activities of providers and users of data centres. For example, there is little incentive for users to consolidate data centres into one place, as to do so could result in the single larger facility falling under the auspices of the carbon reduction scheme, and potentially resulting in greater costs, despite the larger facility being generally more efficient than a number of smaller ones. Although efficiencies gained by such consolidation may well outstrip any potential downside caused the carbon reduction scheme, there is little doubt that regulation of the industry to ensure the correct environmental response, needs to be constructive as well as achievable.

Longer term, a recent report from **Pike Research** claims that growth in Cloud services will have important implications for both energy consumption and greenhouse gas emissions. They suggest that the continued adoption of cloud computing will lead to a reduction of data centre energy consumption of 31% from 2010 to 2020.

Source: iXConsulting

MARKET FOCUS – LONDON

The London market in recent years has been the stalwart of the European Tier 1 locations with consistent strong levels of demand. However, although recent market interest has been encouraging, 2011 has so far proved to be challenging for London's data centre operators.

London in particular is experiencing the negative effect of unrest in the global economy and capital markets. London retains a high proportion of occupiers deriving from the Financial services sector and in this sector demand for data centre space has slowed this year. Total take-up for the year to date is 8,085 m², accounting for 27% of total take-up in the European Tier 1 market. This position is lower than in previous years and gives further indication of the slower pace and smaller scale of transactions that are being completed.

It is testament to the dominant position of London and confidence in future demand, that has continued to encourage further investment in the expansion of London's data centre provision. London's supply continues to grow, rising by a further 2.2% in Quarter 3. The recent acquisition of a site in Chessington by Digital Realty Trust has been of particular note. This has been in addition to expansion activity at Telehouse, Equinix, and a further 11MW of power secured at Interxion's city of London campus.

Looking further forward, the supply pipeline up until the end of 2012 looks to be equally healthy. An estimated 14,000 m² of new space is scheduled to come to market during this time with Phase 2 of Telecity's Powergate facility most immediate.

KEY MARKET HIGHLIGHTS

Equinix opened the second phase of its latest LD5 data centre, the expansion adding another 4,000 m² of space.

Just outside London, in Welwyn **Lufthansa Systems** opened a new data centre and secured the contact to supply IT infrastructure to **Thomas Cook**.

Telehouse announced a 1,000 m² expansion on their Telehouse West facility.

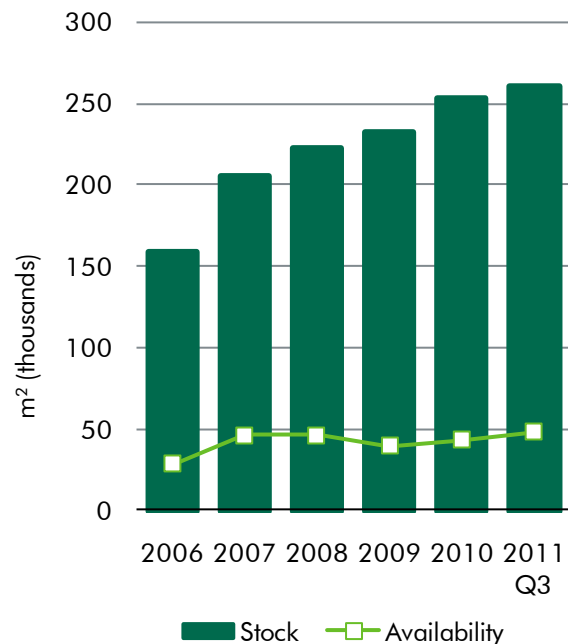
Source: Jonathan Heap, iXConsulting

COLOCATION MARKET – KEY INDICATORS

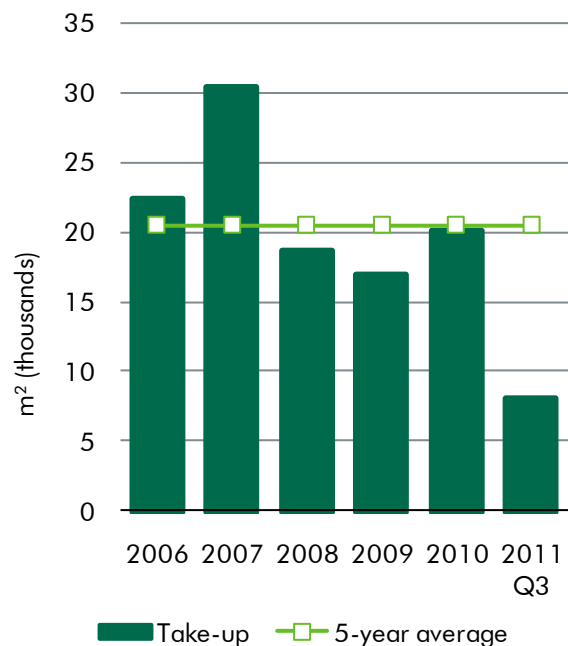
Stock (m ²)	Availability (m ²)	Vacancy Rate	Q3 Take-up (m ²)
260,280	47,670	18.31%	3,280



5-YEAR COLOCATION SUPPLY



5-YEAR COLOCATION TAKE-UP



Source: CBRE Research

MARKET FOCUS – PARIS

Activity in the Paris market continues to be relatively subdued mirroring the levels seen in 2010. The uplift in demand that was anticipated for this year has to date not been forthcoming. As a result transactional activity has been slow; this is represented in lower than expected total take-up.

In conjunction with London, Paris, is also affected from turmoil in the global economy and capital markets. Total take-up for 2011 has now reached 2,480 m², well short of the 5-year average and less than half of the total at this stage last year. Economic unrest has hindered the scale of corporate IT spending in the market this year, with IT budgets being considered and revised downward. Evidence to this can be seen in the lack of any significant Wholesale colocation transactions completed in 2011.

Nevertheless, Paris has one of the highest concentrations of international firms amongst world cities. Future demand will be driven from the need to service an ever increasing IT footprint in support of core business activities. Paris already possesses the lowest level of vacancy of any of the European Tier 1 cities (15.6%) and therefore new supply will be required to support this.

Recent announcements of new facilities in the city by several of the major operators provide further evidence to expectations of future growth. The supply pipeline appears to be particularly healthy with 33,000 m² scheduled to be delivered before the end of 2012. This provides clear demonstration of the industry's confidence in the long term outlook for the Paris market.

KEY MARKET HIGHLIGHTS

Interxion announced plans to open a new data centre in the city, the first phase providing 4,500 m² of equipped space by mid 2012.

France-IX, the French internet exchange has expanded its network with the installation of a new point of presence in **TelecityGroup's** Condorcet data centre.

Cloud hosting provider **Host Virtual** has opened a new Paris data centre.

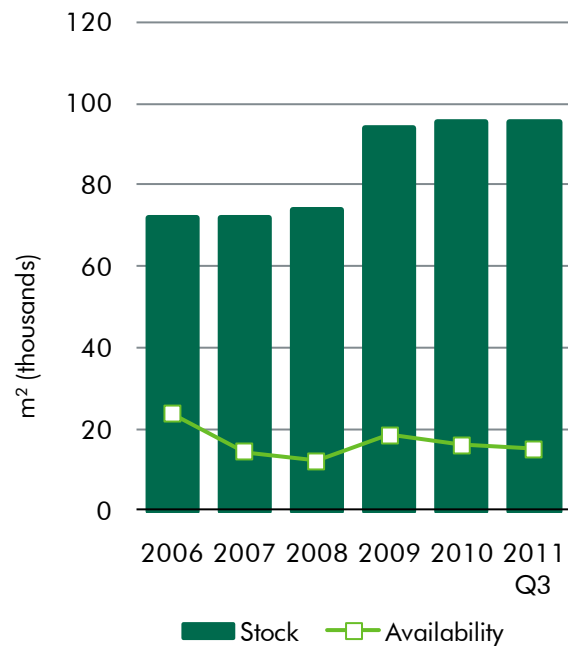
Source: Jonathan Heap, iXConsulting

COLOCATION MARKET – KEY INDICATORS

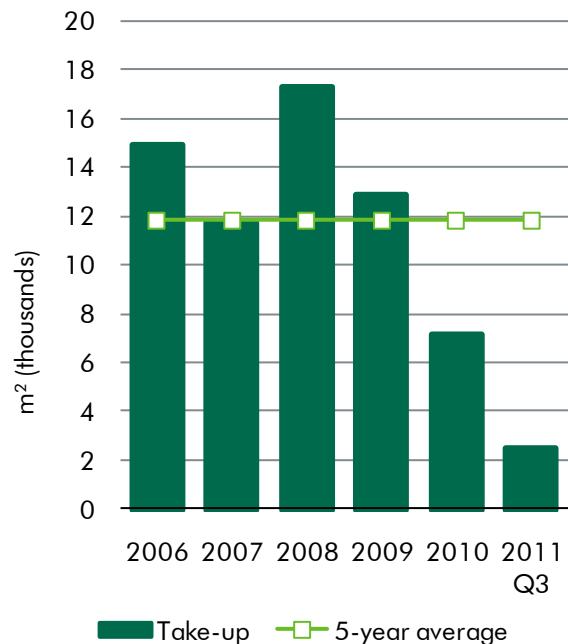
Stock (m ²)	Availability (m ²)	Vacancy Rate	Q3 Take-up (m ²)
95,460	14,930	15.64%	535



5-YEAR COLOCATION SUPPLY



5-YEAR COLOCATION TAKE-UP



Source: CBRE Research

MARKET FOCUS – FRANKFURT

The Frankfurt data centre market, similar to the German economy is showing some resilience to wider economic crisis in Europe. Market activity in 2011 has continued to show gradual improvement with the end of Quarter 3 seeing total take-up for the year to date almost double that of 2010. Most noteworthy from Quarter 3 has been a sizeable deal completed at Databurg which has given rise to the sharp spike in take-up for this quarter.

Nonetheless, it is evident that the Frankfurt market is seeing greater interest this year when compared to last and this has transferred into a higher level of completed transactions. Total take-up for the year to date is now 9,405 m² which represents 31% of the European Tier 1 total in 2011. Although corporate demand has remained rather sporadic, demand has come from the Telecoms and Technology sector, additionally supplemented by connectivity requirements arising from cloud adoption.

As demand has improved the level of available supply has come under greater pressure. In Quarter 3 the total market vacancy rate fell to a new low of 17.45%. The vacant level of Fully fitted space has equally been eroded this year falling to 11.75% by quarter end. The decline in available supply has been as a result of limited new space coming to market, stock rising by only 3.8% since 2008 Q3, coupled with recent growth in demand.

New investment is being made in the Frankfurt market with the recent announcement from Interxion of particular note this quarter. Given the current vacancy rate we can expect to learn of further new schemes in the near future.

KEY MARKET HIGHLIGHTS

Interxion announced plans to open a new 1,550 m² data centre in the city.

Comarch has opened a new data centre in Frankfurt within an **e-shelter** facility.

RTS Realtime Systems Group has collocated in **Equinix's** FR2 data centre facility.

Source: Jonathan Heap, iXConsulting

COLOCATION MARKET – KEY INDICATORS

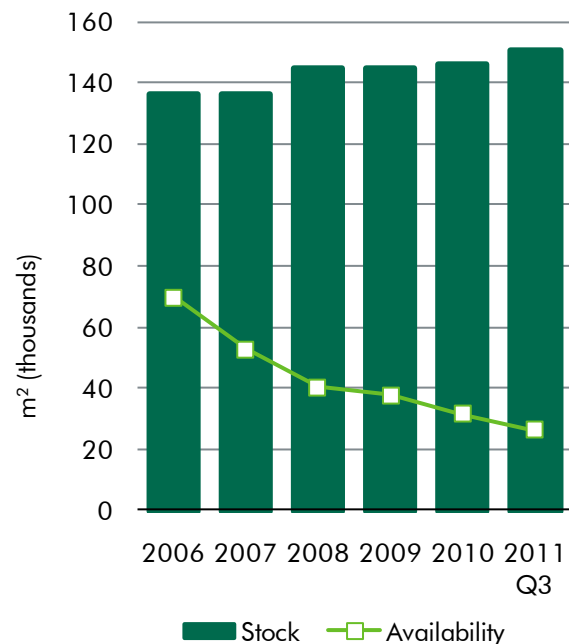
Stock (m ²)	Availability (m ²)	Vacancy Rate	Q3 Take-up (m ²)
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150,220	26,220	17.45%	5,205
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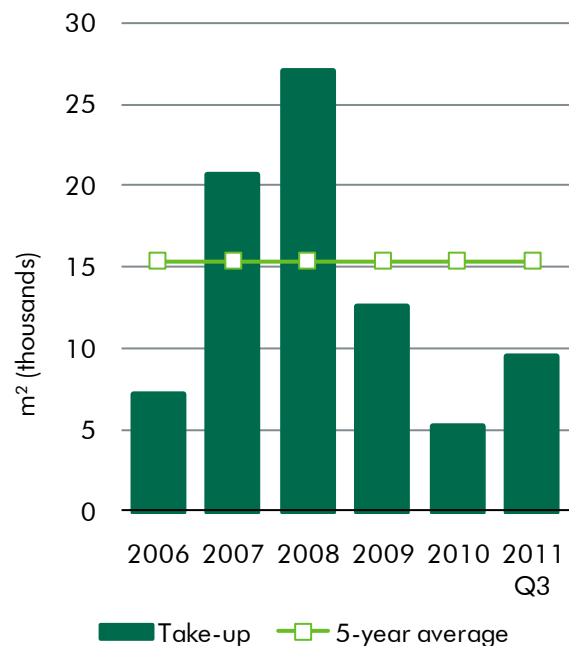


Comparison on previous quarter

5-YEAR COLOCATION SUPPLY



5-YEAR COLOCATION TAKE-UP



Source: CBRE Research

MARKET FOCUS – AMSTERDAM

Amsterdam has continued to defy the current European economic uncertainty, again enjoying another quarter of strong demand. 2011 has now become a record year in terms of overall take-up for the city, surpassing the 2010 total this quarter. The strategic importance of Amsterdam has continued to provide a consistent source of new business with the Telecoms and Technology sector particularly active.

Year to date, Amsterdam has received the highest level of take-up of any of the European Tier 1 markets. Total take-up for the year is now just under 10,000 m², representing 33% of the European Tier 1 total. Although not at the level of 2010, demand for Retail space has remained close to the 5 year average. It is two sizeable deals concluded by Digital Realty Trust, however, which have boosted figures for this year.

With demand expected to maintain its present level at least for the foreseeable term, Amsterdam is likely to continue to gain increasing attention from operators looking to exploit untapped demand and increase market share.

The supply pipeline looks particularly healthy with an estimated 20,000 m² of new supply scheduled for the coming 12-15 months. This new supply is certainly required with the level of vacant space as at Quarter 3 at a 3-year low of 16.5%. Further plans are likely to be announced in the coming months as the direction and sustainability of future demand becomes clearer.

KEY MARKET HIGHLIGHTS

Terremark announced the opening of their new 2,325 m² facility, NAP of Amsterdam.

Switch Datacenter Group has finalised the first phase of its new 8.320 m² data centre.

Internet Exchange, **NL-ix** has agreed to expand their capacity in **TelecityGroup**'s new AMS 5 data centre in the city.

Source: Jonathan Heap, iXConsulting

COLOCATION MARKET – KEY INDICATORS

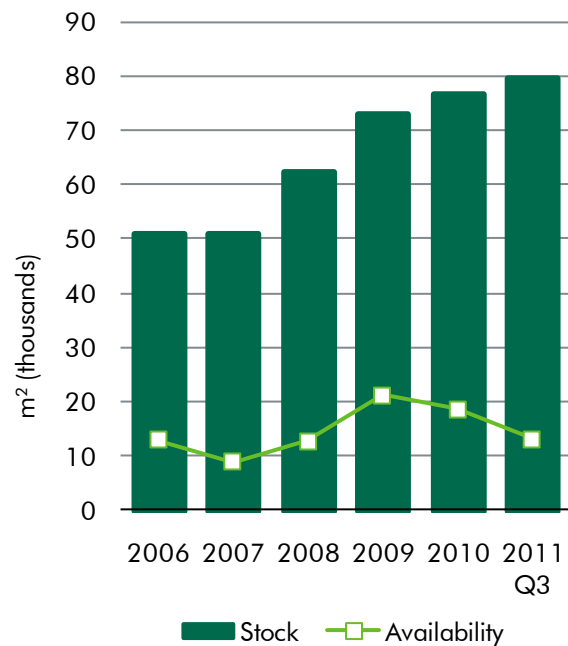
Stock (m ²)	Availability (m ²)	Vacancy Rate	Q3 Take-up (m ²)
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79,370	13,080	16.48%	3,620
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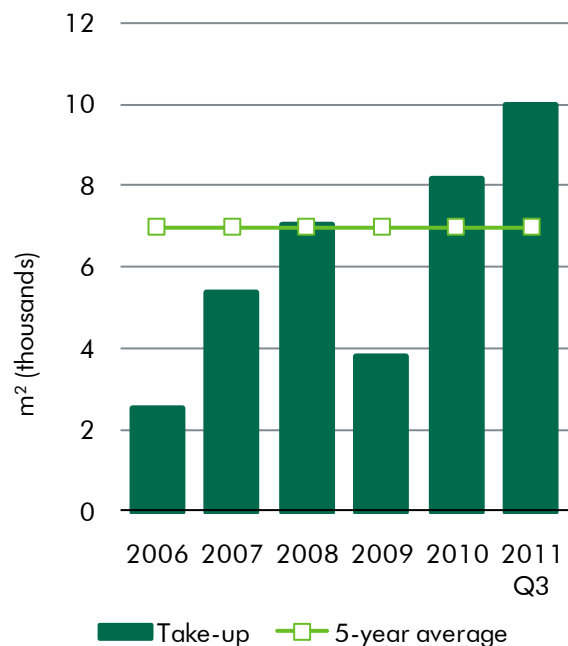


Comparison on previous quarter

5-YEAR COLOCATION SUPPLY



5-YEAR COLOCATION TAKE-UP



Source: CBRE Research

MARKET FOCUS – MADRID

In conjunction with a number of European locations the Madrid market is experiencing weakened demand as a result of economic concern. The challenges that Spain is facing with regard to future growth has been well documented. It is therefore of little surprise that the Madrid data centre market is being negatively affected.

Corporate interest in third party data centre provision has remained at a low level to date. Unlike the larger European Tier 1 locations, the corporate propensity toward outsourcing has not developed into a consistent flow market demand. As a consequence the data centre market in Madrid has not grown at the same rate.

2011 has shown little indication of this dynamic changing. To date, total market take-up has consisted of a number of smaller transactions. These have, in the main, been to the benefit of Systems Integrators who have in turn taken space in the colocation facilities.

With demand remaining at a low level additions to market supply has not been necessary. Current vacancy levels continue to be around 22% although the majority of this is shell space. Vacancy of fully-fitted space remains particularly tight, reflecting the nature of the market in which existing space is fitted as customer requirements are secured.

Looking forward, a significant rise in activity is not expected for this year. The weakening confidence in the economy will ensure market demand remains subdued. Whilst there has been recent speculation over new carrier neutral facilities being planned, it is likely that any firm commitment will remain on hold in the short term.

KEY MARKET HIGHLIGHTS

Telefonica announced the construction start on the phase one of its new data centre. The first phase is a 24,700 m² building containing seven server rooms of 680 m² each.

Source: Jonathan Heap, iXConsulting

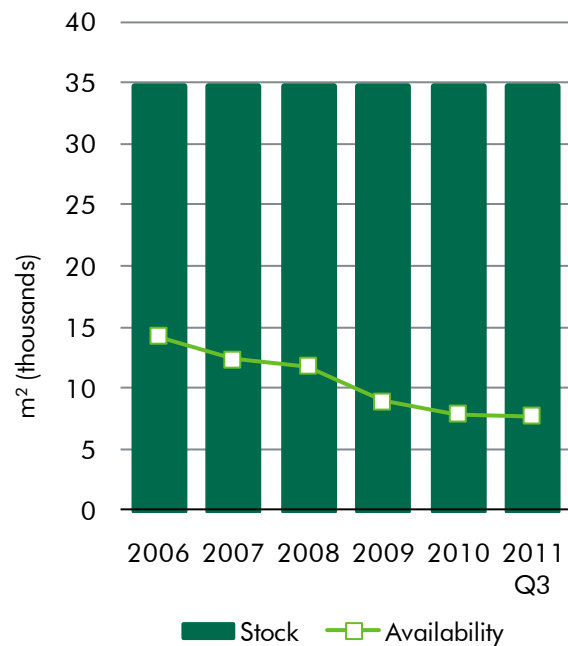
COLOCATION MARKET – KEY INDICATORS

Stock (m ²)	Availability (m ²)	Vacancy Rate	Q3 Take-up (m ²)
34,620	7,710	22.27%	-

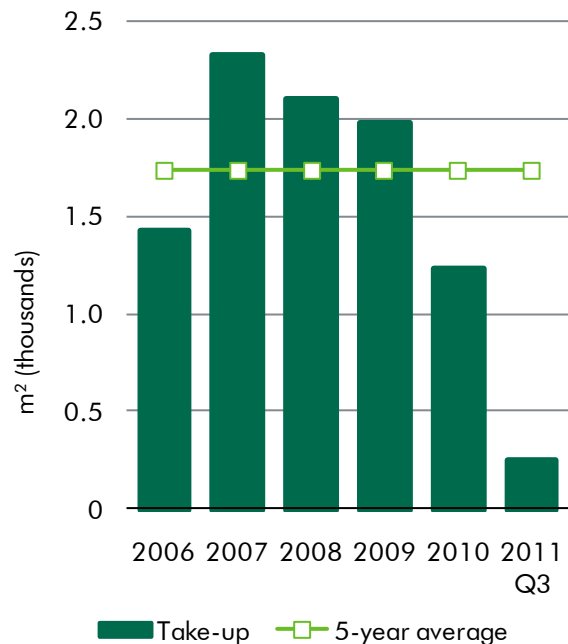


Comparison on previous quarter

5-YEAR COLOCATION SUPPLY



5-YEAR COLOCATION TAKE-UP



Source: CBRE Research

LEGAL REVIEW

BEWARE POORLY CONSTRUCTED AGREEMENTS

To ensure that the structure of any agreement to occupy premises is consistent with a data centre operator's business objectives, IT specialists need to be involved in negotiating that agreement. A recent court decision provides a warning regarding the importance of structuring agreements properly for data centre end users who occupy their own buildings and collocation companies, renting out equipment, space and bandwidth.

Standard commercial leases prove to be problematic if the tenant operates a data centre. For example, the standard lease provisions which restrict an occupier from sharing possession of its premises may be unacceptable to collocation companies. The ability to share a facility without needing to obtain another's consent is vital to such businesses.

Lease clauses stating that an occupier may not carry out any works on its premises without the landlord's consent should be limited to only those alterations affecting a building's structure. Traditional provisions requiring a tenant to return its premises in their original condition at lease end may also be inappropriate.

Careful drafting of the provisions regulating the supply of services to a data centre, most crucially electricity, is vital. This includes making provision for the remedies to be available should there be a failure to meet the requisite service level, such as rental credits, self-help remedies and ultimately, rights to terminate the agreement. A landlord will want its liability capped, given the substantial sums that can be lost by data centre operators on a service failure.

Traditional longer leases allow landlords to revise the rent payable after a specified period (often five years) to the greater of the current rent and that hypothetically achievable in the open market on the rent review date, taking into account certain express assumptions and disregards. Open market rent is often determined by arbitration. Many data centre leases replace such clauses with rent reviews which are fixed by way of a stated annual percentage uplift.

A recent case concerned a challenge by a data centre tenant to a rent review arbitration award. The rent review clause contained what is a standard disregard on valuation of tenant's improvement works. The award increased the rent from £1.8m to £2.8m per annum on the basis that the premises provided the shell and core from which either an ordinary office or a fully-fitted data centre could be created.

The tenant argued that the arbitrator failed to disregard the works it carried out outside the premises to enhance the power supply, which were critical for the property to function as a data centre. Without the additional power, no data-centre operator would have paid £2.8m per annum for the premises.

The Court ruled that it was for the tenant to establish that it had carried out the improvements. It was not possible to disregard an improvement without evidence of its nature, who carried it out and at what cost. The evidence which had been put before the arbitrator failed to meet that requirement. Without the relevant evidence no point of law had arisen to be considered by the arbitrator. The Court found there to be no grounds to set aside the arbitrator's award.

As the Court found in the landlord's favour, it did not go on to decide whether the disregard applied only to work carried out on the premises, or whether it extended to works to the power supply outside the building (which are common in relation to data centres). It is unfortunate that this issue was left undecided, particularly as it is not only relevant to rent review but also other aspects of landlord and tenant law concerning improvements.

If a tenant requires its improvements to be disregarded, it is vital that it can clearly identify who carried out and paid for the improvements.

The case illustrates why bespoke documentation relating to data centres often differs substantially from standard occupational leases. Data centre operators who do not consider the sector's specialist requirements and differences may find that the landlord and tenant relationship does not meet their expectations.

¹*Cordoba Holdings Ltd v Ballymore Properties Ltd* [2011] EWHC 1636 (Ch)

James Dodsworth and Simon Hartley - James Dodsworth is head of Technical Real Estate Group and Simon Hartley is the head of Real Estate Litigation at Mayer Brown International LLP

DEFINITIONS

STOCK TYPE

1. **Colocation stock:** Carrier neutral data centres where the operator allows any carrier to connect into the facility and to connect to third parties within the facility, not discriminating between different carriers and charging only nominal fees for interconnection. This is split into two distinct offerings:

- **Retail:** targets smaller requirements in terms of floor space/IT power and offering an element of colocation/managed services.
- **Wholesale:** targets larger requirements in terms of floor space/IT power and offering real estate FM services only.

2. **Self-build:** typically land for development or modern empty warehouse which is acquired for conversion to a data centre for use by an end-user who will use the space for their own purposes, i.e. a corporate.

3. **Threat stock:** Surplus carrier/webhosting space offered to the market as competing stock on a carrier neutral basis

SPACE TYPE

Shell : Shell & core space is the base real estate of a data centre, a wind and watertight structure with exposed floor and ceiling slabs and exposed finishes to the walls. The landlord would obtain permissions for data-centre use and make provisions for tenants to install their own chillers and back-up power generating equipment. In addition, an incoming diverse raw HV (high voltage) power supply would usually be provided.

Fully-fitted: Fully-fitted space is ready for tenant IT equipment to be installed almost immediately or subject only to minor works being carried out to account for bespoke equipment and layouts.

TRANSACTION TYPE

Retail Transaction: individual letting smaller than 200 m²

Wholesale Transaction: individual letting greater than 200 m²

We do not break down Retail transactions across sector type but we analyse wholesale transactions as follows:

- **Corporate**
- **Systems Integrators**
- **Technology**

TIER 1 MARKETS

Amsterdam, Frankfurt, London, Madrid, Paris

These markets were chosen as they had the highest Colocation stock size in 1999 when we started our data set. We acknowledge that Madrid is no longer a true Tier 1 market.

TOTAL MARKET TAKE-UP

This comprises Colocation, Self-build and Threat stock (either surplus carrier or corporate facilities).

DATA SOURCE

CBRE in association with Jonathan Heap, Director, iXNewsSearch

iXNewsSearch is the leading daily news research service developed for organisations with a strategic interest in the data centre and mission critical facility industries. Groundbreaking at its inception in 2001, the interactive e-mailed document is packed with global news providing invaluable and timely insights into the business of data centres.

CBRE Data Centres

CBRE formed a Data Centre team in 1994 to address the specialised technical real estate needs of high-tech firms such as telecommunications companies, data centre operators and corporates.

Core technical real estate services provided by the Data Centre team include:

- Investment
- Disposal – one-off assignments, multi-site marketing campaigns
- Acquisition – one-off assignments, worldwide network rollouts
- Consultancy – consolidation strategies, Mergers & Acquisitions
- Asset Valuation – Bank, Corporate
- Project Management, Development Monitoring, Due Diligence, Building and M&E surveys
- Research – market reports, statistics, take-up forecasting

CBRE has monitored worldwide Colocation supply statistics since 1999. This bulletin relates only to the European Colocation Tier 1 markets. Additional market statistics are available on request.

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CBRE has developed its market leading Data Centre Finder, which has become the "go to" site for occupiers searching for data centre space globally. If you would like your data centre to be listed on the site, please contact:

Simon Moore:
simon.moore@cbre.com

For a FREE, 3-week trial of iXNewsSearch please contact:

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