

# The emergence of data centres: investment opportunity or risk?

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The Africa data centre market size is expected to exceed US\$3 billion by 2025, growing at a compound annual growth rate of +12%. South Africa remains the largest market in the continent for data centres, according to research.



3D perspective of the NTT new data centre at Growthpoint's Centralpoint Innovation district, Samrand



By Denise Mhlanga



Richard Divall



David Amsterdam



Terence Tang

Traditionally, data centres have been attractive to investors as they generally provide secure and vanilla product with a long-term certainty.

According to **Richard Divall**, Colliers' head of cross border capital markets: EMEA (the Europe, the Middle East and Africa), in recent years transaction volumes have been relatively low due to the limited number of assets brought to market.

"This is largely because of structural changes in the industry with fewer corporates seeking to have their own data centres, opting instead to have no critical functions within the public or private cloud. Furthermore, the basis and nature on which many operators hold their data centres, is not particularly suited to the traditional real estate investment market."

The [Colliers International 2021 Global Investor Outlook report](#) has revealed an increased investor appetite for data centres. Richard says North America is a more mature market

where investors can achieve scale for income-producing assets, while EMEA and the Asia-Pacific regions have growth potential. Foreign investors are reportedly eyeing the U.S. data centres, with an influx of cross-border capital investments into this sector expected over the next few years, says **David Amsterdam**, president for Colliers Capital Markets U.S.

"Data centres have emerged as a highly sought-after asset class across the country. For industrial assets with the right access to power and fibre, there are immediate opportunities for data centre conversions, including locations outside of the last mile where pricing remains extremely competitive with additional alternative asset classes, including cold storage," says David.

**Terence Tang**, Colliers' managing director, capital markets and investment services in Asia, says demand for data centres has



grown exponentially given their support for the growth of cloud platforms - part of the ecosystem of the current transformational technological growth.

"Data centres are highly regulated assets which require costly infrastructural improvements. Potential investors should work closely with data centres operators to fully understand sector dynamics and required financial considerations, in order to achieve their desired returns."

According to **John Marasco**, Colliers' managing director for capital markets and investment services: Australia & New Zealand, industrial and logistics and data centres were top investment asset sector choices for 2021 as per the survey respondents.

In Australia, the sector is currently valued at \$2,8 billion with growth averaging 11.1% annually over the past five years.



John Marasco

“This emergence is due to businesses shifting away from in-house server systems towards outsourced data storage requirements. As a result, businesses are able to scale up or down their storage requirements depending on demand.”

### Growth in Africa

According to The Africa Data Centres Association (ADCA) and Xalam Analytics report, Africa needs 1,000MW and 700 facilities to meet growing demand for data centres, and bring the rest of the continent onto level terms with the capacity and density of South Africa.

A number of investment funds are being set up to invest in the continent, with a recent announcement of US\$300 million of US investment in Liquid Telecom’s Africa Data Centres, to fund expansion in SA and Kenya as well as new builds and acquisitions elsewhere.

Richard says the rapid adoption of IT across Africa is changing, with significant interest from major global cloud service providers such as Amazon Web Services (AWS), Microsoft and Huawei in recent years along with international data centre developers looking to capitalise on the demand.

According to the ADCA, the Africa data centre market size is expected to cross US\$3 billion by 2025, growing at a compound annual rate



Impression of the Teraco JB4 data centre, Johannesburg. Image: B2 Architects

of +12%. With a total GDP of +US\$315 billion, and a 6% digital economy contribution, South Africa remains the largest market in the continent for data centres, and is the principal ‘landing point’ for international operators into Africa.

He notes that SA is ranked 25 globally on Cloudscene based on data centre density, with top service providers including Internet Solutions, Liquid Telecom and MTN. The country has 52 internet users per 100, and the connectivity ecosystem is made up of 52 colocation data centres, 335 cloud service providers and six network fabrics.

Nigeria has 47 internet users per 100 and the connectivity ecosystem is made up of five

colocation data centres, 50 cloud service providers and one network fabric. Kenya is a growing market for data centres with 46 internet users per 100 and the connectivity ecosystem is made up of 10 colocation data centres, 23 cloud service providers and two network fabrics.

New markets include countries like Cameroon, Ethiopia, Senegal, Tanzania and Zambia.

The data centre market in Africa is still in its infancy, but demand is expected to grow, says **Prof. Francois Viruly**, property economist at the University of Cape Town. He says this asset class offers investors opportunities to repurpose existing space, and to secure relatively long-term leases.



Prof. Francois Viruly



Liliane Barnard

“Data centres offer an alternative investment product that can complement existing portfolios in the traditional sectors like offices, retail and warehousing.”

**Liliane Barnard**, Metope Investment Managers CEO and portfolio manager, says SA and the rest of the African continent are still in the process of developing underlying infrastructure. Currently, there are no public specialist data centre companies and exposure can be gained via companies that own data centres as part of their business models such as Gyro within the Telkom stable, Teraco, African Data Centres, Amazon and Google, explains Liliane.

“This asset class which has underlying similarities to traditional property asset classes but with its own unique value drivers, should provide a good diversifier of long-term income streams, provided that risks of obsolescence are taken into account,” says Liliane.

Recently, JSE-listed REIT, Growthpoint Properties announced the development of the

first NTT data centre in Africa at Centralpoint Innovation District in Samrand, Johannesburg. The centre will comprise 6,000m<sup>2</sup> of IT space and 20MW of IT load facility. NTT operates one of the largest data centre platforms in the world, with over 160 data centres spanning more than 20 countries and regions.

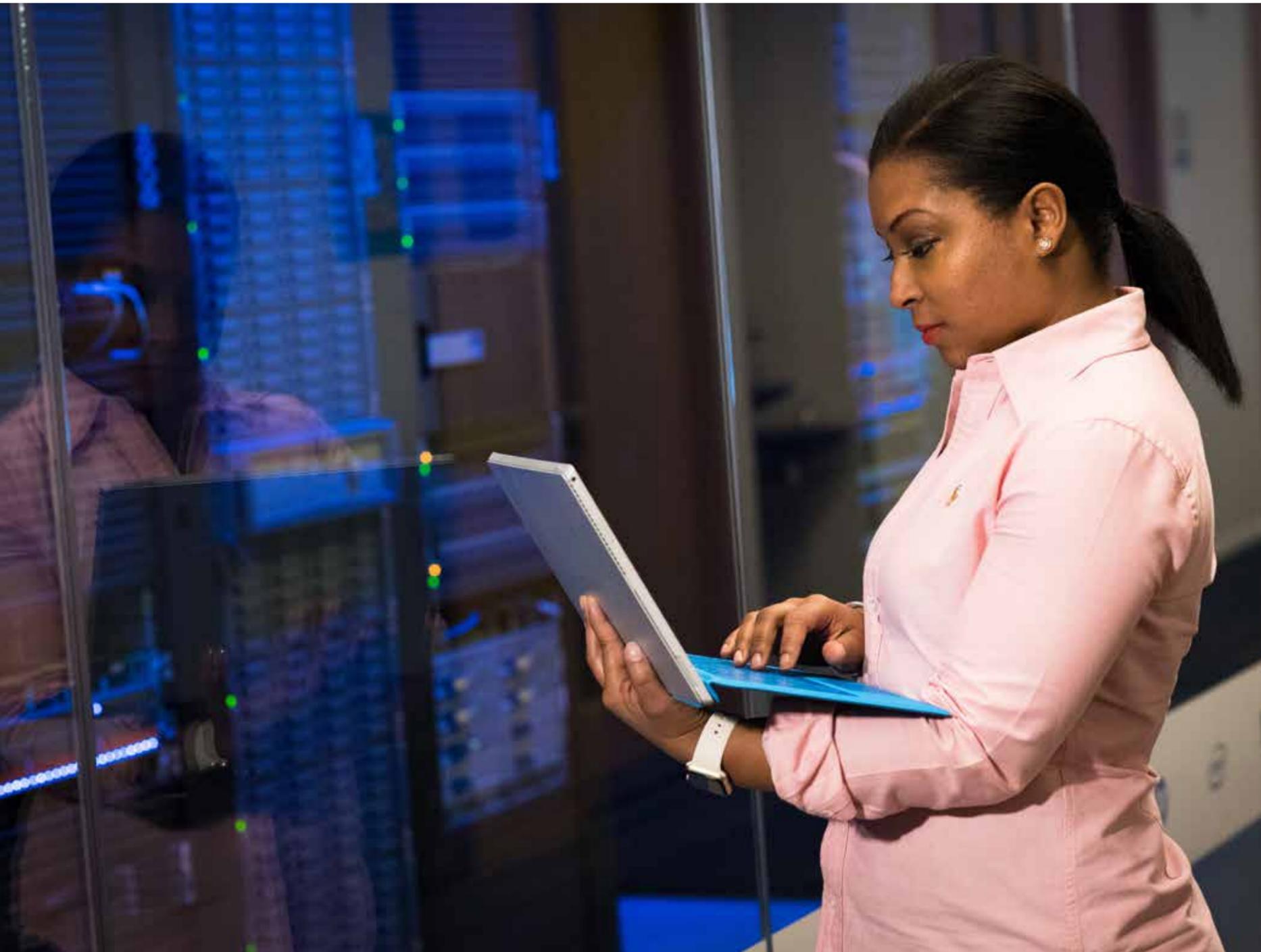
**Johann Nell**, industrial asset manager at Redefine Properties, says the demand for data centre space continues to grow in alignment with technology needs. He says two of AWS’ three availability zones in Cape Town are situated at Redefine’s Brackengate 2 and Atlantic Hills Business Park.



Johann Nell



Exterior architect's perspective of the new NTT data centre at CentralPoint, Samrand



“Accelerating trends like data centres are adding resiliency to industrial property against the backdrop of Covid-19, and the industrial property sector stands to benefit from the huge growth in data consumption,” says Johann.

### Challenges

Energy security is the biggest operational constraint in the growth of data centres in SA, says Johann.

“Our challenge as a developer of industrial land is that these data centres flock to the same nodes. It will become increasingly important to facilitate grid development for multiple large megawatt supplies.”

With adequate support infrastructure, data centres will emerge as an asset class within industrial property like warehousing and distribution, he says.

In Africa, data centre developers face challenges including raising finance for facility investment, overcoming legal land ownership issues, securing power, ensuring fibre connectivity, and making sure that the facility is resilient in the face of weather conditions, heat, and humidity, according to Richard.

Due to its niche nature, there are fewer buyers in the market, thus presenting an opportunity and a risk, says David. “The key is to identify combined resilient locations and demographics that could be converted to support the continued demand for strong distribution and manufacturing locations.”

Liliane says challenges facing the investment product include the limited number of such assets being hived off into a separate investible REIT fund initially, security concerns, and the pace of innovation that could hinder the rapid development of data centres.

“Investors have an opportunity to diversify income streams into an asset class that is firmly future-orientated,” she adds. **A+**