

National Real Estate Advisors

Green energy–powered data centers will be at the center of tomorrow’s economy

Chase McWhorter, Institutional Real Estate, Inc.’s managing director, *Institutional Investing in Infrastructure*, recently spoke with **Jeffrey Kanne**, president and CEO of National Real Estate Advisors, LLC. The following is an excerpt of that conversation.

Describe the history of National Real Estate Advisors and your investment strategy.

The history of National is pretty simple. In 2000, the National Electrical Benefit Fund — a multibillion dollar pension plan — hired me to begin an in-house real estate program so they could invest funds directly with a build-to-core strategy, meaning all our investments were new developments or significant renovation of buildings. We were quite successful, and after we did that for about 10 years, we had other institutional investors ask if we could manage their money. So in 2010, we formed National Real Estate Advisors, which was wholly owned by the National Electrical Benefit Fund.

Why did you originally want to explore data centers?

Data centers are a new, rapidly expanding property sector, so it certainly fit our build-to-core profile. But most importantly, back in 2000, it was very clear to us that data centers would be a disruptive property type. There are also extremely high barriers to entry to get into the space, the first being the very high capital costs. Also, locations are not easy to find. You have to find a place with reliable power, with terrific connectivity and which is relatively safe. A third huge barrier to entry is the reputation of the operator — if you don’t have a solid reputation for operating excellence, property management and maintenance, you are not going to get an intelligent client to put their computers in your data center.

What drove you to partner with Sabey?

Getting into the data center space was very difficult back in 2000. Back then the industry was very disaggregated and scattered. There was no clear profile of what a data center company, operator or developer should look like, so we practically kissed about every frog in the country looking for the right partner, and it took us five years to find the Sabey family. Culturally, we are very well matched. They are long-term investors, they believe in a high level of integrity and transparency, and they are terrific operators. They have been in the business since the early 1990s, when data centers were called computer rooms. Additionally, when we formed our partnership, 100 percent of Sabey’s data centers were powered by hydro power, and we are big believers in climate change — meaning we are betting on the vast majority of scientists who think climate change is happening. And if carbon is taxed — and we think it will be — hydro-power is going to become even more important to our tenants.

What drives demand for data centers?

Virtually every action in today’s world intersects a data center in one form or another. When you watch a movie online, that movie is coming out of a data center. When you send an email, it is going through a data center. When you type a Word document, that document is often coming out of the cloud offering, through a data center. The Internet-of-Things is going to go through a data center. The demand has gone off the chart because the demand for things that are digitized is going off the charts, and there seems to be no end to that. Some people are predicting billions and billions and billions of Internet-of-Things devices that are connected to the internet. These connected devices will drive demand for data centers. For example, an autonomous car generates in one hour about the same amount of data that an average smart phone user would generate over 70 years. All that data has to be stored in order to be analyzed — that in and of itself is going to create enormous demand, let alone the need to transmit, organize and analyze the data.

How else do you see data centers impacting our future economy?

Data centers are, in effect, the critical component of the internet. The internet is a loose term for data centers that are connected through broadband pipes to various devices and computers. The internet is already the critical backbone of our social and economic infrastructure. It is already as ubiquitous and as important as electricity itself, but while electricity took many, many years to change the economy, the internet and the smart phone changed everything very rapidly. The more ingrained the internet becomes in the world, the less important location will be for living, working and consuming. That will lead to multiple, significant changes that are very hard to predict, but some of them will result in a negative change in the value of some parts of the economy, including portions of the real estate sector. Although it is very hard to predict what those changes might be, we think owning data centers themselves is a good hedge against the dislocations caused by the digital revolution.

How do you see your data center portfolio expanding over time?

We are going to continue to find more, or develop more, hydro-powered campuses. We will attempt to find other green-energy sources to power our data centers. We intend to avoid any more fossil-fuel campuses, and we hope to offset the carbon we are using in the two campuses we have by buying or developing green-energy sources somewhere else. We enjoy an excellent reputation for professionalism and operations, and we have really cheap power. We think we are a little more nimble than some of the big companies in terms of meeting our customers’ demands.



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CORPORATE OVERVIEW

National Real Estate Advisors, LLC is an investment manager specializing in build-to-core, developing and managing large-scale, urban commercial and multifamily projects for its institutional client accounts. National constructs investment portfolios of modern property assets — apartment, office, mixed-use, industrial, data center and hotel — with design features, technological enhancements and amenities that drive high tenant demand and can create value for investors. National is an independently operated subsidiary of the National Electrical Benefit Fund, a substantial pension trust with a significant amount of assets that are managed by National on a discretionary basis.

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