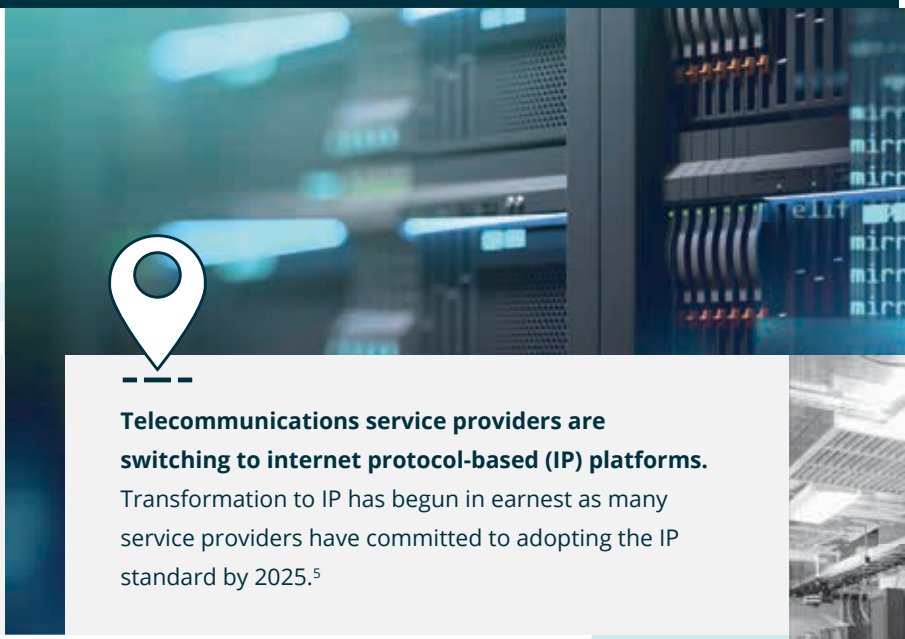
Data Centers Present Opportunities Amid the COVID-19 Pandemic

Since the onset of the coronavirus pandemic in early 2020, it has been difficult to find a silver lining in most commercial real estate sectors. Yet if the opportunity presented by data centers, cell towers and other digital infrastructure was not apparent prior to the health crisis, the massive shift to remote work should make that point clear.[1]

Even before the pandemic struck, CIM believed that the exponential growth of connected devices and applications used in homes, businesses, hospitals, automobiles and other settings had positioned digital infrastructure to benefit from the increasing demand for data services. The response to the pandemic and the fact that digital assets have been uncorrelated to GDP growth have only bolstered our view. Indeed, Cisco projects that data traffic volume will grow nearly three times by 2022 compared with five years earlier.[2]

Trends Contributing to Data Traffic Growth



Mobile devices are proliferating, shifting data generation and traffic volumes toward population centers. By 2023, 88 percent of the population in North America, or some 329 million people, will use mobile devices, up from 86 percent of the population in 2018.[3]

Telecommunications service providers are switching to internet protocol-based (IP) platforms. Transformation to IP has begun in earnest as many service providers have committed to adopting the IP standard by 2025.[5]

Technology applications are becoming more data intensive and sensitive to speed. By 2023, mobile device users will have downloaded nearly 300 billion applications.[4]

In the U.S., 20 typical households produce more internet traffic data today than was generated across the entire internet in 2008.[6]

Amid the accelerating adoption of mobile device and high-bandwidth applications, demand and customer insistence for highly resilient and fast data networks show no signs of waning. The number of adults using the internet today has ballooned to 90 percent, and 73 percent have high-speed broadband.[7] Meanwhile, the average fixed broadband speed is expected to increase to 141.8 megabits per second (Mbps) in 2023 – or 141.8 million bits of information per second – which is a 150 percent gain over the average speed in 2018.[8]

The growing prevalence of high-bandwidth telecommunications, data networks and mobile devices is fueling the expansion of new software applications that rely on massive volumes of real-time data traffic and processing power.

The COVID-19 pandemic reinforced digital infrastructure's vital role in supporting business continuity as companies initiated an intensive work-from-home effort amid the imposition of social distancing requirements and other restrictions on the public. In March 2020, data interconnection hubs hit a record high level of traffic, driven by online classrooms and increased volumes of video streaming and online gaming.

The growing volume of data and the dearth of capacity presents a compelling argument for investing in a digital infrastructure, especially in certain markets that are vital to the broader data networks and ecosystems. Data centers and cell towers that serve densely populated urban areas benefit from high barriers to entry, for example, which tend to minimize new competition and preserve the long-term economic life of a project.

Similarly, data centers and fiber lines adjacent to established telecommunications and data networks possess enhanced strategic relevance to IT services, which will help the services retain customers and support their long-term profitability.

As telecommunications companies and internet service providers race to build out their networks and capitalize on these trends, opportunities to buy and develop assets that will benefit from demand today and increased demand over the next several years are likely to attract the attention of numerous markets. Investors that are well-capitalized and have deep expertise in the industry will be best positioned to pinpoint the most rewarding prospects in the most mission-critical locations.

This article was excerpted from the recent CIM Group Market Insight on Digital Infrastructure. Read the full article and find additional research at **www.cimgroup.com/insights**.

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1 https://hbr.org/2019/11/how-should-we-measure-the-digital-economy#:~:text=The%20Problem,typically%20contributes%20zero%20to%20GDP

2 Cisco Visual Networking Index: Global IP Traffic Forecast 2017-2022, updated February 2019.

3 Cisco Annual Internet Report 2018-2023.

4 https://www.telecompetitor.com/cisco-by-2023-almost-half-of-the-30-billion-activedevices-will-be-mobile/

5 Panduit, *Light into Money*, Nov. 2, 2018.

6 IBM/Domo, *Data Never Sleeps 6.0*, 2018.

7 Pew.

8 Cisco Annual Internet Report 2018-2023.

9 Data Center Frontier, *Internet Exchanges See Record Levels of Network Traffic*, March 11, 2020.