

Developers Gear Up for New Telecom Hotels --- Buildings Become Centers For Switches and Servers, But Some See a Glut

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The latest real-estate gold rush has developers scrambling to capture the bricks that house the clicks.

Salivating over the growth prospects of the Internet, developers are snapping up old warehouses or racing to build new facilities where Web firms and telecom companies can store much of the high-technology equipment that powers their businesses.

These highly specialized centers house the computerized servers where Internet companies store and manage their data, as well as telecom-switching devices, which route telephone calls between long-distance carriers and local networks. With high ceilings, reinforced floors and special cooling systems, the centers also hold back-up generators and fuel tanks.

Real-estate developers see this trend as an enormous boon to the industry, giving new life to previously abandoned office buildings while driving up rents in old industrial neighborhoods. The developers see little end in sight, given the astronomical projections for increases in Internet traffic and telecom use.

"Every time we have come to a point where we thought the demand was going to be satisfied, we found that we misjudged the market and the demand outstrips the space available," says Clifford J. Preminger, president of T-Rex Developers, a unit of Miami-based real-estate concern Terremark Holdings Inc. Before forming T-Rex, Mr. Preminger, along with partner Thomas M. Mulroy, now T-Rex's chief executive officer, had developed five data centers during the past 18 months. Now having teamed with veteran developer Manuel D. Medina of Terremark, the company has two data centers under development and is negotiating to buy an additional 12 properties within the next 60 days.

Certainly, tenants are gobbling up space at an unprecedented rate. Since its founding two years ago, Level 3 Communications Inc., the Broomfield, Colo., telecom network firm, for example, has gone from nothing to four million square feet in 30 facilities.

According to Jeanne Schaaf, senior analyst at Forrester Research, so-called Web hosting -- where technology firms either offer companies space for their servers or manage servers for clients--is projected to grow at an annual compound rate of 76% between this year and 2003.

As with any hot real-estate trend, some observers fret that over-exuberance will turn the boom into a bust. "There are too many {data centers} coming online at the same time," says Jimmy Byrd, senior vice president for global Internet protocols and gateway services at Level 3. In addition to the real-estate developers, telecom companies themselves are developing data centers. MCI WorldCom Inc. plans to spend \$1.2 billion this year building or expanding facilities to house both its own switches and its customers' Web servers in 50 markets.

As developers pile into the market, the need for more space may actually be diminishing. "One of the things on the real-estate side that is missed is that every generation of technology gets more out of less space," says Bob Taylor, chief executive of Focal Communications Corp., a Chicago-based competitive local-exchange carrier. "You don't need a whole lot of space to do a whole lot of things."

Many telecom and Internet-services firms say it is too early for a doomsday scenario. "All of us combined can't fulfill the demand," says John Sidgmore, vice chairman of MCI WorldCom and chairman of UUNET, the Internet unit of the

telecom giant.

Until recently, development of the data centers has been largely in the hands of local, entrepreneurial landlords that have come to the business serendipitously. That was the case with Taconic Investment Partners, a New York-based real-estate concern that was formed in 1997 to buy and manage office buildings. With its early purchase of 111 Eighth Avenue in Manhattan -- a 2.6 million square-foot building -- the company inherited three telecom tenants. Because five telecom carriers already had fiber cables wired into the building, Taconic's founders, developers Charles Bendit and Paul Pariser, decided to market the property to other telecom and Web-hosting companies that needed to connect equipment to the fiber networks.

Now a handful of companies -- including Taconic, which is developing a 1.2 million square-foot facility in Chicago and is negotiating deals in several other cities -- are trying to develop national chains of data centers. Among them: T-Rex; Young Woo & Associates, based in New York; DataCentersNow, of Rockville, Md., a unit of real-estate concern BECO Management; NeXcomm Capital Partners, based in Southport, Conn.; Markley Stearns Partners, of Los Angeles; and Infocrossing, a unit of Computer Outsourcing Services Inc., Leonia, N.J.

Some are buying up old warehouses or office buildings and converting them. Others, like DataCentersNow, are building new properties with specialized design features: no windows (for security and cooling purposes), extra thick structural walls (ditto), and large compounds for storing fuel tanks (backup power).

For some developers, the presence of telecom switches and Web servers helps market a building to office tenants, albeit those that rely on equipment housed next door. Infomart Holdings, a development company owned by NeXcomm Capital and four partners, is trying to roll out a concept it developed at the 1.6 million square-foot Infomart in Dallas, where advertising firms and dot-coms rent office space alongside the telecom companies and Web firms housing their equipment in about 447,000 square feet of space.

As more developers scramble to buy or build facilities, some are likely to violate the fundamental principle of real estate: location, location, location. If no fiber cables go within five miles of a center, it doesn't do the tenants much good.

Jeff Markley, partner in Markley Stearns Partners, a developer of data centers since the mid-1990s, says his firm has turned down options to buy buildings, only to see subsequent data-center developers buy them, then struggle to lease them up.

Ultimately, the development of cyberspace isn't about physical space. "We've all been through this land-grab stage," says Laurie Priddy, chief operating officer of GlobalCenter, a unit of Global Crossing Ltd. But "it's not about how many square feet I have; it's about what I do with that square footage."

Credit: Staff Reporter of The Wall Street Journal