



Yardi[®] Matrix

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Data Centers a Growing Subsector

- The world has become increasingly digital, a trend that has only accelerated during the pandemic, and consequently data centers are becoming a more prominent segment of industrial real estate.
- According to Yardi Matrix, data centers are highly clustered, with more than half of all square footage located in just seven markets: Washington DC–Northern Virginia, Dallas–Fort Worth, Chicago, the Bay Area, New Jersey, Phoenix and Atlanta. Yardi Matrix data also shows the gigantic premium data centers command in the transaction market. The average sale price of a data center in 2021 is \$319 per square foot, 195% higher than the \$108 average sale price for industrial overall.
- The Infrastructure Investment and Jobs Act, if it becomes law, would have a massive impact on data center demand by increasing the number of broadband users nationwide. Among its allocations, \$65 billion is targeted at closing the “digital divide” that keeps 10% of Americans, most of whom are in rural areas, from accessing broadband internet. The bill also includes a subsidy for low-income Americans to pay for high-speed internet. Currently, 77% of American adults have access to broadband at home, according to Pew Research. A concerted effort to provide broadband to the remaining 23% would accelerate data center demand growth.
- While most data centers are geographically clustered, that could change over the course of this decade due to the Infrastructure Investment and Jobs Act. Projects delineated in the bill include building out fiber optic networks across the country as well as expanding energy grids and increasing the capacity of renewable energy. Combined, this could open up many new markets for data centers.
- The environmental impact of data centers is a growing concern, and renewable energy cannot solve every challenge, such as the massive amount of water needed for cooling. This is an especially prominent issue in Phoenix, where water resources are scarce and data center activity is exploding. A total of 28 data center pipeline projects are located in Phoenix, with five currently under construction, eight planned and 15 prospective properties. Recently, Facebook announced a 960,000-square-foot data center in Mesa, alarming locals and elected officials over reports that the building could use a million gallons of water a day. Facebook has pledged three water projects it says will restore more water than the data center uses, while the center will use 60% less water than the typical such structure. While this may alleviate concerns for the building, water will be front and center for future Phoenix projects.

