
KEYNOTE INTERVIEW

Exploring Asia's data center frontiers



*The untapped potential of Asia's data center market offers opportunities to investors with the right skillset, says **Kok-Chye Ong***

The stars have aligned for the data center sector in Asia. The region has seen strong growth in internet traffic underpinned by secular growth in cloud computing adoption, development of 5G networks and e-commerce. Historical under-investment in the past and the pandemic have only further fueled this growth.

However, this growth has been uneven and the region remains more fragmented and less mature than Europe and North America. That means there are opportunities for real estate investors, so long as they are well-resourced to manage these specialist assets, says Kok-Chye Ong, managing director – head of IDC Platform, Asia ex-China

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at Hong Kong-based investment manager Gaw Capital Partners.

Q Why is the Asia internet data center sector interesting to focus on?

Asia represents one of the last geographic frontiers in the data center space and is the area where we have the greatest opportunities. There is a huge mismatch between the lack of supply and the increasing demand in various parts of Asia.

The region is also very fragmented:

there are established data center markets, with many operators, like Singapore and Tokyo, and on the other hand, emerging markets like the Philippines, Vietnam, Thailand and Indonesia, where it is only recently that there has been interest coming into the sector. While there are still opportunities in established markets, we also believe that by being early investors in some of these emerging markets, we stand to reap significant rewards in these areas.

Gaw has a long history of investing in the region through our gateway funds, so we have real estate experience in these markets that can be brought to bear on the data center market. Last year we raised \$1.3 billion for our

China data center fund and \$400 million for the pan-Asia data center fund 1. We have now fully committed that capital and are raising pan-Asia data center fund 2.

Q What does an investor need to do in order to succeed in this specialist sector?

In a typical real estate project, say a commercial building, perhaps 60-70 percent of the capital commitment is in the land and the building. However, for a data center project, the land and building account for only 20-30 percent of the capital commitment, while more than 70 percent is in equipment

and infrastructure that goes into the building.

The data center industry thus sits at the intersection of many different disciplines. You need myriad skills in real estate, telecommunications, fiber connectivity, plus environmental, mechanical and electrical engineering.

The first thing any investor or manager needs to do is to get familiar with how all of these factors interplay with each other, from site selection to leasing and operations. This is what we have done at Gaw Capital and created a small team, comprising professionals from each and every one of these disciplines.

So, on my team, I have brokers, a

former head of operations for a telecom company and somebody who was previously from a hyperscale end-user, as well as data center designers and project managers. The team works with our various operating partners in various markets to ensure successful project delivery.

This approach translates into a good all-round understanding of the data center product from conception to delivery, including pairing up the project with the appropriate capital funding source, which improves the probability of an optimal outcome for our LPs. As this asset class is rather specialist and niche in nature, a hands-on approach is essential.

Q What are you looking for in a partner and offering to potential partners?

Although Asian markets are different, when it comes to selecting sites, we are looking for the same things: access to fiber and access to power, for example. In Singapore the processes are pretty transparent, but that is not the same in Indonesia, the Philippines or Vietnam. Therefore, we believe that working with a local partner takes away some of that risk, especially if it is a suitable data center operator that has done this before.

We look for partners that have a track record and experience in developing data centers in those countries in the past, or which have their own land or deal pipeline. We bring capital and can also connect them with other data center operators in other regions and help them to grow their business by connecting them with other players and getting international business into their markets. At the same time, they will be able to retain their independent identity within the Gaw data center platform as an operator affiliate.



Q How different is the data center market in Asia? What do investors need to be aware of?

A “one size fits all” approach probably wouldn’t work here, whereas the US and Europe are each more homogeneous markets, with the same planning guidelines, the same legal frameworks that apply across different states. In Asia, the first two years of a project require very local knowledge because there are different rules and necessities regarding site selection, permits and securing power, for example. So, we are working with or looking for operating partners here.

As mentioned earlier, some markets in Asia are more mature, while others are just starting out. Therefore, a different approach is needed depending on the market situation. In some markets, especially the emerging markets, you may want to land-grab, while in other markets one can take a more nuanced and calibrated approach.

Q What is the best way to construct a pan-Asia data center portfolio?

We want to offer investors a good balance of risk and reward. When we construct a portfolio, we translate this into destinations and products, which

represents a good mix of mature and emerging markets. We will target Singapore as well as Vietnam, for example.

We will also invest in different types of data centers, from the huge hyperscale sites to the more medium-sized wholesale colocation data centers. We will be delivering the product through a number of operating partners in order to scale up as quickly as we can. We have two investments in North Asia and one in Indonesia, but we are looking at a number of Southeast Asian markets, such as Vietnam and Malaysia.

Our end-user clients are simply looking for the same user experience in all the markets, and top of that list is reliability in operations. We are working with our operating partners on this.

A key part of this is standardization of our design and construction philosophy. Build, review, iterate and repeat – over time, we will evolve our design, reduce operational issues and increase predictability in operations and costing, and reap scale economies as we deploy across multiple regions.

Q Gaw recently announced a new Japan data center project. What is the outlook for that market?

We have acquired two buildings in Fuchu City, a district in West Tokyo, which will be converted to a data center campus. It is located in a data center cluster.

Due to technological advancements such as 5G communications, 4K transmission, the Internet of Things and artificial intelligence, there is an ever-growing amount of data traffic driving the demand for data centers.

Japan is a market with enormous potential, but one with considerable culture and language barriers to entry, so we are looking for suitable operating partners.

In many ways, we will adopt a similar approach as to Korea, where we have just taken our first step by investing in a platform.

Q What is the new Korea platform investment?

We formed a partnership with IMM Investment Corp., a private equity firm in Korea, to make a strategic investment in Dreammark1 and form a mutual strategic partnership to grow Dreamline Co, a telecommunications business, which operates a fiber network and data center services. Dreammark1 is an internet data center operator based in Seoul, South Korea, that owns a data center in Guro, Seoul, with a capacity of over 1,200 racks and power supply of 10MW.

Having established a unique market position as one of the top-tier carrier-neutral IDC operators in Korea,

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Dreammark1 is independent from the major carrier providers in the country, hence its clients are provided a wide selection of network services. Facilities are protected by a dual-source electricity supply system and earthquake-resistant design that ensures data protection in addition to superior capabilities to provide uninterrupted services to its clients.

Dreammark1 is also an investor in the upcoming Jukjeon Data Center project. Demand is growing in Korea due to the government’s policy of promoting cloud computing, and we will continue to look for new investments and partnerships.

Q What particular demands do investors make in this space?

We are backed by institutional investors who see the digital economy and continued data creation as a long-term play: no one is going to switch off the internet. However, one of the key things that comes up more and more often is sustainability.

In fact, if I track my conversations with them over the last nine months, sustainability is now coming up as one of the first three questions they ask. When I joined Gaw Capital, it was one of the last three questions.

We are developing a comprehensive strategy to really tackle this. Carbon is emitted throughout the entire development cycle, from pre-construction to operations. Our platform is at the beginning of this journey because we are still in construction mode for all of our data centers: our first property will be ready at the end of next year.

During the construction stage, we are setting up checklists and guidelines, so that we can track the amount of carbon emissions and whether we are using the right materials by our contractors, and working together to minimize carbon emissions.

We will be looking at carbon credits and participating in renewable projects with partners to create renewable energy to offset the energy that we are consuming. We aim to continually improve the power usage effectiveness of our data centers as operations get underway and are looking to source green energy.

We are always on the lookout for new technologies to adopt into our data centers. For example, one of the key sources of carbon is actually the use of diesel generators as back-up power.

A large data center may have as many as 20. One of the things that we will look at is the use of hydrogen fuel cells to replace the diesel generators when we think that technology and the supply chain becomes reliable enough. ■