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Managers

## Harrison Street forms \$1bn JV to build data center campuses

*Teaming up with American Real Estate Partners, the Chicago-based firm is betting that multi-building properties are the future for the niche property type.*

By Kyle Campbell · 1 hour ago

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Virginia: home to Data Center Alley and several Harrison Street investments

Two managers are staking a big bet that standalone data centers will not be enough to meet the needs of tomorrow's biggest occupiers.

Chicago-based **Harrison Street Real Estate Capital** and Virginia-based **American Real Estate Partners** have committed \$1 billion to a joint venture to build multi-building data center

campuses in Northern Virginia, *PERE* has learned.

The joint venture has already acquired two development sites, on which it will develop six centers spanning 2.1 million square feet. Specifically, Harrison Street and AREP will develop “powered shells” – empty facilities that provide space and power capacity to hyperscale cloud storage providers, such as Amazon Web Services, Microsoft Azure and Google GCP, for them to house servers and other hardware.

“A very substantial portion of the growth that we’ve seen [in the data center sector] over the last several years, and expect to continue seeing in the coming years, is coming from the hyperscalers, which are the very largest technology companies that are deploying a cloud computer product for customers and end users,” Michael Hochenadel, managing director and head of digital real estate at Harrison Street, tells *PERE*.

“There were very few operators that were operating at scale and none of them were operating on a powered shell delivery basis,” Fleit says. “We thought there was a need for a scale powered shell developer and we’re finding out that need is very real and something that will create a long-term program for us.”

Many of the properties in the market were designed and built a decade ago, Fleit says, when operators needed less power than today’s hyperscale tenants. Addressing that energy shortfall retroactively is more difficult for one-off assets than campuses, he added. For example, a utility provider would be more likely to construct an electrical substation to serve a collection of data centers, rather one for one.

“There is only so much land for substations,” Fleit says. “So, sites that can accommodate substations as well as the hyperscale users are in short supply and pretty valuable.”

Hochanadel said there are also advantages to building multiple data centers on the same site from a network architecture perspective. This provides added an opportunity to link servers within different buildings and ultimately increase security.

“Effectively, those are able to operate as one node within the underlying hyperscaler’s broader network,” he says of campuses, adding that operators already do this informally by congregating in just a handful of markets.

### **Data demand**

Data centers are quickly becoming a must-have property type for institutional developers. The sector was one of the few parts of the built environment that flourished during the early stages of the pandemic and saw its usage rate increase during lockdown periods.

Harrison Street, which specializes in niche real estate tied to demographic trends, has been active in the sector since 2018, deploying \$2.4 billion into data centers and other related infrastructure, such as rentable fiber optic lines. Hochanadel was hired a year and a half ago from JLL, where he was senior managing director, to lead Harrison Street’s expansion into digital real estate.

“We’ve always invested in asset classes that are operationally intensive, somewhat non-cyclical and defensive in nature, and ultimately, categories that are supported by the exceptionally strong underlying demand fundamentals,” he says. “Over time, there was fairly broad recognition that data centers fit that category as well.”

AREP, which invested in office and multifamily before shifting its focus to data centers, entered the space in 2015 by buying a campus in Northern Virginia from Verizon Wireless.

Before forming a joint venture, the two managers acquired another property in Northern Virginia, and are in the process of demolishing existing buildings to replace them with a data center campus. They expect all three sites to be completed within the next two to three years.