
Data centre in Seoul, South Korea

SC CAPITAL PARTNERS

Strategically investing in data centres in Japan, South Korea and Southeast Asia

Recently, **Reno Sio,** Institutional Real Estate, Inc's managing director, Asia Pacific, spoke with **Suchad Chiaranussati,** chairman and founder of SC Capital Partners, and **Joe Gooi,** CEO of SC Zeus Data Centers, about their teaming up to invest in data centres in Asia. Following is an excerpt of that conversation.

Could you both give us a little background about yourselves and share what led to you set up SC Zeus Data Centers (SC Zeus)?

Suchad Chiaranussati: SC Capital Partners, the firm I founded in 2004, has been looking into the data centre sector for about five years. Given it is an area that requires extensive technical knowledge and expertise, we concluded we needed to set up a platform with a team that can deliver throughout the lifecycle of a data centre – from deal-sourcing, planning, design, procuring project management and construction management, to leasing and operating the assets.

We then came across Joe and his team, who possess the relevant technical expertise. In the past 18 months, Joe has built up a team of about 20 people with a wide range of expertise, headquartered in Singapore, and with presence in Japan, South Korea, China and Thailand. Any opportunity we come across in the data centre space is thoroughly evaluated together. SCCP will provide capital through our discretionary funds and potential additional capital from institutional investors. SCCP and its investors have the first right to every deal sourced by SC Zeus.

Joe Gooi: Through my years of experience in the real estate private equity sector, I have been particularly active in the Japan and Australia markets. A few years ago, I joined Digital Realty as their head of portfolio. This career move into the data centre business broadened my horizons. Since mid-2021, I have been working with SCCP to build the current data centre platform. Suchad and I have a very good rapport and share a common vision to develop a sustainable data centre platform in the Asia Pacific market to build best-in-class data centres that are not just financially sound but also good for the environment, and hence we decided to set up the platform together.

Is there a particular meaning in the name Zeus?

Gooi: We wanted our name to incorporate the meaning of energy or power supply, something essential for all data centres. Zeus, the god of thunder and lightning, came to mind.

What are the target markets, and what are the drivers behind the demand?

Gooi: Our immediate focus is on Japan and South Korea. Beyond that, we also see potential in Southeast Asia, Australia and greater China. We expect approximately 60 percent of the capital allocation to go to Japan and South Korea, due to the depth and liquidity of those markets. Our secondary strategy in Southeast Asia, including Singapore, would take up about 20 percent, and the remaining would go to Australia and greater China.

We identified our primary markets based on the underlying market dynamics, which have seen strong interest from institutional capital, especially from the medium and large global investors. Japan, for example, is very attractive from a geographical perspective, as transpacific submarine cables pass by Japan's waters to reach other parts of Asia. The growing demand for computing solutions is also encouraging. We have observed an increasing need for data storage, with many corporations in Japan and South Korea now outsourcing their data centre operations to third-party providers, as well as the rapid growth of gaming and the metaverse. The metaverse itself takes up a lot of memory and data, and this will increase the demand for data centre space. The pandemic, of course, has led to a rise in remote working, and even as things recover gradually, there is paradigm shift towards hybrid working arrangements that will support data centre demand in the long run.

What is the liquidity like?

Gooi: In terms of market maturity, from a data centre perspective, the United States is ahead of the pack compared with most other parts of the world. They have reached a point where the existing data centres are already stabilised and are now transacted in the secondary market. This creates liquidity in the market, providing avenues of exit for developers. We anticipate this to happen in the Asia Pacific market, as well, particularly in Japan and South Korea. Comparatively, the data centre markets in Southeast Asia apart from Singapore are still nascent and will take more time to mature. Being early movers will place us in a position to reap its benefits.

What kind of reasonable return should investors expect from a data centre investment?

Chiaranussati: In developed markets, we expect a development in a decent location with connectivity and good design to generate returns somewhere between 15 percent and 20 percent, using moderate leverage. For the more nascent markets in Asia, we would expect 150 basis points to 300 basis points more.

Assuming a core location and stable tenant, what qualities differentiate one data centre from another?

Gooi: Connectivity is of utmost importance – whether the data centres are well-connected, and whether the latency is optimal. In addition to connectivity, availability of power capacity to scale up is also key. We are also very selective about the site, ensuring the site meets most, if not all, the stringent requirements. One other differentiator is our proprietary technology, which reduces the power-usage effectiveness [PUE] to as low as 1.2 in tropical areas and even lower in temperate countries. This is one of the key criteria that hyperscalers look for when selecting their data centres because they pay for the power, and they prioritise sustainability. We also work with renewable-energy suppliers to ensure we can deliver data centres that are sustainable in the market and environmentally friendly.

Chiaranussati: Connectivity also means the asset should be located near the city and its customer base. In terms of power connectivity, we look for sites that ideally are situated in close proximity to one or two substations, to have better redundancy. Along with the implementation of our proprietary cooling technology, these factors will ensure that the data centres we build are operating at optimal efficiency for our clients, which also lowers operational costs.

Can you give an example from a development under way?

Gooi: We recently completed the acquisition of a land parcel within the Seoul Metropolitan Area, also securing the power to build a 50-megawatt data centre. The location in Bucheon is strategically located, within close proximity to the Gasan Digital Valley and a Microsoft data centre site. We are currently in the designing phase and in the process of applying for permits to construct the data centre, with a target completion of the first phase in 2025. We will implement our proprietary cooling methodology to achieve lower PUE. We will also be adopting a modular construction approach, which will enhance the speed of delivery and optimise cost efficiency. From an investor's perspective, potential net operating income is boosted by adapting our space-optimisation strategy to the data centre, which is key to improving returns.

Chiaranussati: The total investment cost required for this project is somewhere between US$480 million and US$520 million. The land is freehold, and the location also has two redundancy power-supply sources, which we find extremely attractive.

What is the target portfolio size you are aiming to achieve in three to five years?

Gooi: Across Asia Pacific, we are aiming to build a 300 MW IT portfolio during the next three to five years, equivalent to about US$3 billion in development costs. Coupling these greenfield developments with 100 MW to 150 MW of brownfield development, we believe we will be able to achieve US$6 billion assets under management.

Chiaranussati: The data centre space is fast expanding, and competition is stiff. The team is well-equipped — our proprietary technologies, the adaptation of efficient space-use design, and the use of modular construction will be key drivers for us in developing data centres that are more efficient. Over the next few years, the team will focus on brownfield and greenfield development opportunities to grow the platform organically.

What would you say to investors sitting on the fence?

Gooi: Data centres are essential infrastructure required to support the growing demand for computing, digitalisation, the rapid growth of gaming and the rise of the metaverse. If investors believe that the trend of digitalisation is here to stay, the data centre is a sector they should not miss.

Chiaranussati: Everything we do in life today requires some form of data through technology. All these bits and pieces of information are stored in data centres. The trend of digitalisation, ecommerce, gaming, cross-border transactions, data sovereignty and the requirement of very sophisticated mathematical calculation in material science and medicine all support investment in data centres.

What are the potential headwinds in this sector today?

Gooi: Technology changes can lead to obsolescence over time — this is a constant we cannot avoid. The current headwinds for data centre investments are volatility in commodity prices and supply-chain issues, which are impacting the speed and cost at which a data centre can be completed and delivered. The ability to manage these challenges will distinguish between what makes a good data centre operator and a mediocre one.

Chiaranussati: Inflation and rising construction costs are impacting all asset classes, including data centres. Relevant development and management expertise will be crucial to ensure costs are properly managed such that projects can be completed on time and on budget. This is why, at SC Capital Partners, we place very strong emphasis on developing in-house expertise. Also, given the attention and capital chasing this sector currently, it is important to maintain investment discipline. As a team, we are laser-focused on building up a portfolio of best-in-class, sustainable data centres that can withstand any potential disruptions in the market.

CONTRIBUTORS

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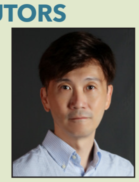

Joe Gooi
CEO
SC Zeus Data Centers

CORPORATE OVERVIEWS

SC Capital Partners Pte Ltd (https://www.sccpasia.com/) was established in 2004 and is an employee-owned Asia Pacific real estate investment manager headquartered and MAS-licensed in Singapore. SCCP Group* manages the Real Estate Capital Asia Partners (RECAP) series of opportunistic real estate funds, an open-end core-plus fund, SC Core Fund (SCORE+), and also includes two listed REITs, Japan Hotel REIT (www. jhrth.co.jp/en/), the largest hospitality REIT in Japan, and TPRIME (http://en.tprimereit.com/), a commercial REIT in Thailand. The firm has an 18-year track record across Asia Pacific and has raised approximately US$3.4 billion in equity commitments from a diverse pool of institutional investors. With 52 people and presence in seven different locations in the region — Singapore (HQ), Australia, Hong Kong, China, Japan, South Korea and Vietnam — our competitive advantage stems from being firmly embedded in local knowledge, cultures and jurisdictions, giving us the resources and networks necessary to execute successfully in the region.

SC Zeus Data Centers' mission is to deliver world-class data centre infrastructure and services that provide value, security, reliability, scaleability and peace of mind for our customers. SC Zeus is building the next-generation network of advanced data centres across Asia. With locations in Japan, South Korea, Thailand, Singapore and Indonesia, our data centres comprise innovative data centre design and infrastructure to optimise scaleability, reliability and security, along with maximum energy efficiency, and a roadmap to 100 percent clean and renewable energy. Our senior management team has an average of more than 20 years' experience in financing, developing and managing world-class data centres. SC Zeus has solid financial backing from SC Capital Partners, which already has numerous leading institutional investors.

*Comprising SC Capital Partners Pte Ltd and affiliated entities (under the ownership and control of Suchad Chiaranussati either singly and/or together with his partners)

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