Jones Lang LaSalle

Real value in a changing world

Data Centers - The hunt for economic incentives

Given the rise of data center appeal to the mass markets and the large direct and ancillary economic impacts they bring to communities, data centers have been a target and often a focus of regions, states, counties, and cities. Some communities have become enlightened, proactively legislating data center incentives to capture the value associated with attracting a data center to an area; while some hesitate, often allowing politics to inhibit their presence thereby inherently restraining growth.

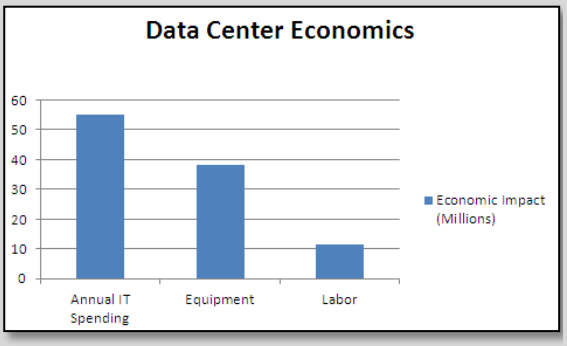
We've seen it time and time again where, during the incentive negotiation process within areas of consideration, politicians challenge the net societal benefit that data centers bring to a community. Too often, they hinge upon the fallacy that no benefits can be derived from any facility or project without employment. In many ways, this is economically irrational. To understand why, you must grasp the concept of aggregate value. In this paper, we look to provide some insight into those areas in the United States who are looking to attract data centers. We look to tell you which communities have embraced and succeeded in this endeavor and why.

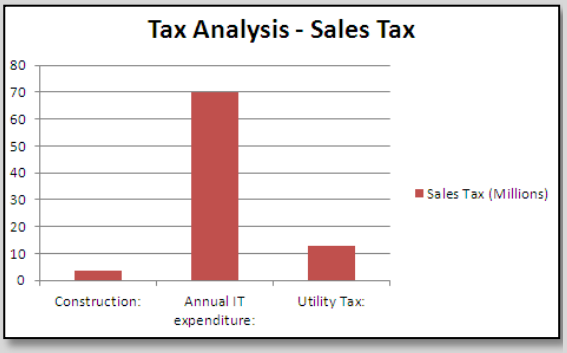
Data center incentives defined

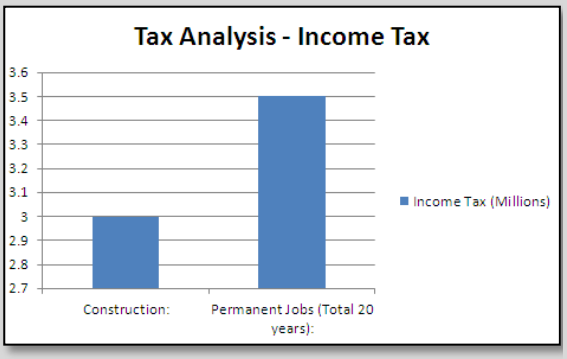
An increasing number of states are offering economic incentives targeted at data centers and mission critical facilities. Increasing acceptance of using incentives as leverage to attract these facilities includes:

1. Data centers require high capital investment to build or improve and high operating expenses to run and operate.
2. Data centers create key benefits for developing infrastructure (roads, power, fiber, water, etc.) in a community without affecting labor flow traffic creating positive externalities for incoming companies.
3. Constructing data centers can provide +$100MM over a typical useful life, and includes additional revenue generated for auxiliary functions such as construction, equipment, power consumption, et al.
4. Ancillary businesses are created to support data centers that are not directly included in the companies' expected employment numbers. These jobs include:
    - *Skilled trade and construction jobs*
    - *Vendor service and support jobs*

Potential economic impact of a new 150,000 SF data center build *(over a 10-yr term):*







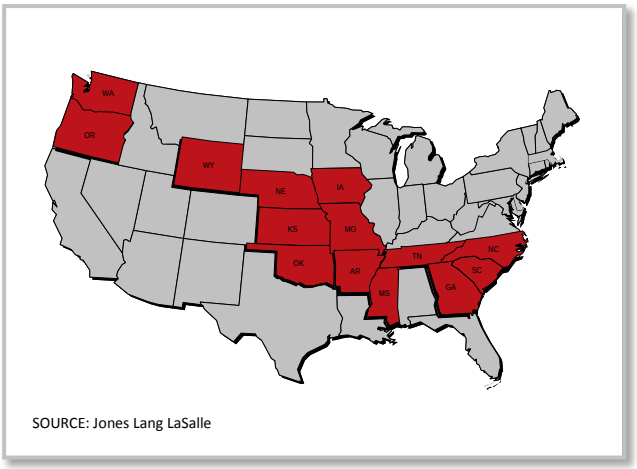
SOURCE: Jones Lang LaSalle

Note: *Data center economics can vary dramatically based on many different variables. These charts are presented as an example only*

5. With more and more communities transitioning into the digital era, data centers help to assist the advancement of new industry initiatives, position them to compete with top-tiered metro areas providing otherwise rural areas with robust infrastructure in a secure, minimally invasive environment.

6. Data centers can be pivotal in helping a community transition into the digital mainstream.

Figure 3: States with Legislated or Known Data Center Incentives (2010)



SOURCE: Jones Lang LaSalle

Incentive negotiations: Activity & examples

States with formally adopted data center incentive legislation are in the minority (see the red states in Figure 3); however, there is an increase in the number of U.S. communities taking an interest in the direct and indirect benefits a new data center project can potentially bring to an area. Specifically, there has been a significant rise in the number of states and localities devoting specific personnel, tools, and resources designed to attract data centers to their respective geographies.

Over the past couple of years, several states such as Alabama, Arkansas, Kansas, and Nebraska have learned that directly marketing to the data center community can be positive for the state's bottom line. Mississippi recently added data center specific incentives by providing a state sales tax exemption for computing equipment and software. Additionally, Missouri House Bill 564 was introduced in early 2011 that would further strengthen their existing incentive offerings by adding a sales and use tax exemption for machinery, equipment, and computers. At the local level, cities such as Kansas City, Oklahoma City, and Omaha, are offering infrastructure grants, property tax abatements or exemptions, and have partnerships in place with electric utility providers to offer reduced rates directly aimed at data centers and related targeted businesses. Many states not highlighted in the map operate existing incentive programs not necessarily targeted to data centers but may offer potential financial savings to data centers. Texas, for example enables cities to "share" in local sales and use tax revenues generated by businesses -- including data centers. This scenario is attractive to Texas cities due to the potentially large local sales tax liability originating from routine data center operational costs. These costs may include sales tax on electricity, computer replacement equipment, and building upgrades.

Conclusion

Within the past couple of years, we have seen first-hand that more and more communities are requesting consultative services on "how to attract the data center to their community." For all the reasons above, data centers add value providing both qualitative and quantitative benefit to communities. Large data center requirements typically possess a national and sometimes global scope and can provide hundreds of millions of dollars in direct investment, promoting additional mission critical attention in a given market. Furthermore, other quality initiatives and high valued projects that require a robust infrastructure and a technologically sophisticated community have followed the locational tendencies of data centers, and capitalized on the vast due diligence conducted in order to qualify a data center site (land or office / industrial conversion).

To learn more about how our location advisory experts can help you, please contact:

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