

# Dallas/Fort Worth Data Center Market Overview

The Dallas/Fort Worth (DFW) data center market has grown steadily over the past five years. Demand in the DFW market often originates from companies with a large presence in the area. However, many companies outside the area evaluating the DFW market find it appealing. Data center users find the Dallas/Fort Worth market attractive because of the following five attributes:

1. **Favorable Business Environment** – DFW is home to over 100,000 businesses with an economy that expanded 5.7% last year (the seventh best in the United States)
2. **Competitive Colocation/Cloud Environment** – A large number of qualified operators deliver facilities, services, and expertise to the region's many companies who outsource their information technology (IT) infrastructure
3. **Low Power Cost** – Compared to other primary data center markets, DFW is a competitive deregulated electric market that enjoys relatively low electricity costs, and offers users the advantage of negotiating their own electric utility contracts.
4. **Robust Infrastructure** – The region's electrical and telecommunications infrastructure is both dense and diverse
5. **Tax Abatement Incentives** – The State of Texas passed legislation in 2013 to grant tax breaks for large colocation and enterprise users



The economy over the last three years in Dallas/Fort Worth has drawn large corporate relocations to the market. Most companies go to Texas due to the state's central location, affordable real estate prices, and good tax incentives. According to Moody's, the cost of doing business in Dallas is 4% lower than the national average, and less than half the cost of doing business in New York or San Francisco. The DFW area in particular has a diversified labor force, with strong growth recently from the technology and services industries. Between July 2017 and July 2018, the DFW market created jobs at a 3.3% rate which is better than the rest of the state (3.1%) and the United States overall (1.6%), as per the Bureau of Labor Statistics. In addition, the DFW market's unemployment rate is currently 3.2% and has continually declined since 2009.

The initial growth of DFW's data center market originated in the downtown area of Dallas. Because the downtown area is rich in telecommunication infrastructure, several buildings office buildings were retrofit to accommodate data center users (e.g. Infomart Dallas, 2323 Bryan, et cetera). These

buildings typically attract smaller colocation customers along with telecommunications companies. As the colocation market grew significantly in 2009 and 2010, these companies expanded into the northern suburbs of the Dallas area. Cities like Richardson, Plano, Far-North Dallas, Garland and Carrollton benefited from the growth by offering sites and buildings with expansion opportunities. In addition, most colocation providers in the DFW market are choosing to construct new facilities instead of retrofitting existing buildings worthy of conversion.

Data center requirements in the DFW market come from companies both in and out of the market. A significant amount of growth in the region can be directly tied to business growth. The area is home to the corporate headquarters of eighteen Fortune 500 companies including Exxon Mobil, JC Penney, AT&T, Texas Instruments, and others. State Farm's data center in Richardson, just south of their 2.5 million SF regional office campus, is a good example (among others). In addition, a portion of the data center activity has come from companies tasked with upgrading aged data center infrastructure within an owned facility. Instead of reinvesting in the existing operation, many of those companies have chosen to house their infrastructure with colocation providers, fueling development in the area. This trend is pervasive across all major markets.

Companies from outside the Dallas market view the area as strategic for multiple reasons, including its central location. For enterprises that have data

centers in primary coastal markets such as Northern California or New York City, the DFW market is a logical location to be in the center of the United States. In addition, the steady colocation supply delivered over the past few years puts DFW in a position to compete for large, national projects. Larger colocation providers completed record transaction sizes in DFW over the past few years, with some being as large as 10 MW of critical load.

The DFW market has been the beneficiary from the growth of cloud computing as well. Several cloud providers, including IBM Softlayer, Rackspace, and Verizon Terremark have placed their infrastructure with larger colocation providers. For instance, at Digital Realty's 68-acre Richardson campus, over 20 MW of the delivered 35 MW are portioned to growing cloud providers. It's anticipated this trend will continue, as data center users further embrace cloud computing and cloud providers rely on larger colocation providers for infrastructure support.

From a demand perspective, the DFW market averages approximately 30 MW of net new growth per year. This growth traditionally comes from financial, technology, managed services/ cloud, telecommunications, and the healthcare industry. To handle the anticipated demand, several providers have announced expansions and/or entrances into DFW. It's anticipated that pricing will remain aggressive in the DFW market given the amount of supply and new companies that are entering the market.



## Power Overview

Texas is unique in that it is decoupled from the interconnected power grids serving the eastern and western United States. Among the contiguous 48 states, Texas is the only one that has a standalone electric grid entirely within the state. This means that with few exceptions, Texas produces the electricity consumed within its borders and therefore is not subject to the Federal Power Act, a Depression-era law where the Federal Power Commission oversees all interstate electricity sales. The Electric Reliability Council of Texas (ERCOT), a nonprofit corporation governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and the Texas Legislature, is responsible for managing 90% of the electricity in the state of Texas.

The State of Texas introduced competitive electric markets in 2002, creating a system where electric generation and supply is a retail business competing for customers while the transmission—often the incumbent owners of power lines—remains heavily regulated. The confluence of a competitive market, the abundance of in-state power sources (notably natural gas), and a standalone power grid have driven power costs in the Dallas/Fort Worth market down over the past few years. This low-cost power makes DFW more competitive, attracting both regional and national transactions.

## Tax Incentives Overview

Texas legislators passed a bill in 2013 to eliminate taxes paid on qualifying hardware and software purchases for data centers. While the exemption does not cover local sales taxes

on purchases, data center owners/operators/occupants are 100% exempt from the 6.25% state sales and use taxes for up to fifteen years on electricity consumption and equipment purchases. This exemption includes purchases of servers, generators, storage devices, software, and other systems necessary for data center operations.

To qualify, the data center must:

- Total 100,000 SF of gross building area
- Achieve a capital investment of \$200+ million over a five-year period
- Create at least twenty permanent jobs for locals
- Pay wages equivalent to 120% of the national average

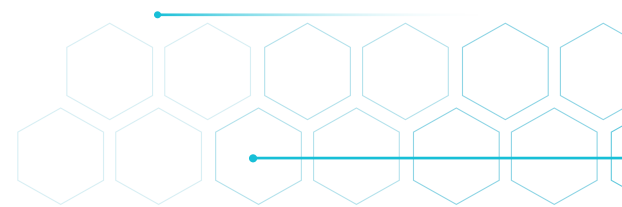
## Hazard Risk Overview

Despite being relatively free of natural disasters, new entrants to the Dallas/Fort Worth market can sometimes worry about tornado risk. In addition, small earthquakes that have rattled the market recently have raised safety concerns. Data center providers in DFW know to address these concerns by designing facilities that meet building codes and withstand seasonal bouts of high-powered winds.

## Connectivity Overview

Multiple carriers' fiber networks blanket the DFW Metroplex connected to a robust last-mile infrastructure. Alpheus (a regional fiber provider based in Texas), CenturyLink, Cogent, EarthLink, FiberLight (another regional player based in Atlanta, GA), Level 3, Sprint, Verizon, Windstream, and XO all serve the Metroplex. Long-haul fiber from multiple carriers connect the urban centers of both Ft. Worth and Dallas. Telecom giant AT&T relocated their world headquarters to downtown Dallas in 2008 and the company's long-haul fiber is prevalent in DFW. AT&T fiber runs through the Alliance Airport area (home to the new Facebook data center) south to downtown Ft. Worth, then west to downtown Dallas, and winds up into the northern suburbs of Carrollton and Lewisville—an area with several large colocation data centers. To the east in Dallas' northern suburbs of Richardson and Plano, enterprise-grade fiber infrastructure attracted the majority of DFW's new data center construction in the past five years.

*Courtesy of datacenterHawk 2019*



## Why Dallas?

The Dallas Region features a strong business climate in a central location with two great airports. It is a hotbed of innovation with a vibrant quality of life for all who live here. The region's size and diversity mean there is something for every person and every industry.

- Dallas ranks 5th in annual ranking of best-performing cities, according to a new Milken Institute report.
- With an estimated 194,790 tech workers, North Texas has more people working in the technology sector than Seattle or Silicon Valley.

## Location

Everything is bigger in Texas, and that includes the Dallas-Fort Worth region, which has a combined footprint larger than some U.S. states. DFW is the nation's fourth-largest metro area, conveniently positioned in the middle of the United States, and offering competitive advantages to businesses that locate here. For business travelers, DFW's midcontinent situation means time savings when it comes to travel. All major U.S. cities are less than four hours away.

## Labor Supply

Employers in Dallas and Fort Worth draw from a well-educated and skilled workforce throughout the 13-county region. A robust network of interstate highways, state highways, and tollways makes it easy for workers to navigate the area, while keeping commute times low for major employment centers in and around the Dallas-Fort Worth central business districts. Seventy-three percent of the region's 7.2 million residents are of working age. From this base, employers can tap into a total civilian labor force of 3.8 million people, a workforce size surpassed only by the much larger Chicago, Los Angeles, and New York metro areas.

## Economic Forecast

The DFW economy continues to be a key driver of business activity in the state. The area's business complex is diverse, including concentrations in health care, logistics, technology, and more. The Perryman Group's most recent projections indicate expansion in the region at a rate exceeding most areas. Dallas-Fort Worth and the surrounding area remains one of the best-performing economic regions, a pattern expected to continue through the next five years.

## Major Companies And Headquarters

The Dallas-Fort Worth region has been a magnet for corporate headquarters and major company operations, attracting 22 Fortune 500 company headquarters and 42 headquarters among the Fortune 1000. The DFW region's corporate powerhouse companies are distributed throughout Dallas-Fort Worth, an indication of its strength, quality of the workforce, and ease of navigation between cities and corporate centers. This diverse base of employers drives the region's economic strength, pulling from a variety of industries, so that growth is possible even during weak business cycles.

Learn more at <https://www.dallaschamber.org/why-dallas/>