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Digital consumption drives APAC data center growth

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According to research in 2018 by the International Data Corporation (IDC), digitalization was set to contribute $1.16 trillion to Asia Pacific´s GDP, adding 0.8% to the region´s GDP annually… but this landscape shifted dramatically as the coronavirus pandemic settled in.

Growth was anticipated to come from e-commerce, smartphone proliferation, social media and digital payments – driving developments in the underlying digital infrastructure such as data centers and cloud services.

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However, what the IDC could not have factored in was the impact of coronavirus. Covid related lockdowns brought 60 million new e-commerce users across APAC, leaving the region with a 60% global market share in e-commerce.

Some of the poorer South East Asian economies – such as the Philippines and Malaysia – have seen the strongest growth at 25% and 23% CAGR, respectively (Euromonitor International, 2021)

This trend depends on a widespread proliferation of smartphones with 78% of the region’s e-commerce being concluded via smartphones. By comparison, in North America and Western Europe, this proportion is only 43% (UN-ESCAP, 2021).

And in APAC, these stats are expected to increase with McKinsey in 2020 predicting that by 2023 some 65% of payments in APAC would be digital, compared with 52% globally (McKinsey, 2020). However, APAC remains highly heterogenous. Only 27% of adults in SE Asia hold bank accounts, allowing for significant growth potential (First Circle, 2019).

Yet this growth depends on expanding the underlying digital infrastructure, in particular data center capacity. The region has become the world´s largest for hyperscale data centers (Cisco Global Cloud Index, 2020) – which can handle 100,000 instead of a mere 1,000 servers – thus reducing the relative total cost of ownership (TCO) by 80%.

With the global data center market expected to reach $174 billion by 2023, APAC data center investment volume was $65 billion in 2021. By 2027, this figure is likely to spiral to $94 billion (Arizton, 2021).

In China alone, the data center market in 2020 was valued at $13.01 billion, which is expected to reach a value of $36.18 billion by 2026 with a CAGR of 19.2% for 2021-2026 (Mordar Intelligence, 2021).

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When it comes to investments in data centers, 60% of this in 2021 to Singapore, Tokyo, Osaka, Sydney and Beijing. The largest investors included Equinix, Digital Realty, AirTrunk Operating, GDS Services, ChinData, Keppel Data Centres, NTT Global Data Centers, NEXTDC, ST Telemedia Global Data Centres (Arizton, 2021).

“It’s certainly been a very active space for both M&A and investment,” says Jamie Palmer, a Sydney based partner with leading global law firm Allen & Overy. “We advised EQUINIX on its acquisition of Metronode for A$1.035 billion in 2016 and it hasn’t stopped since.

“With asset prices climbing higher and higher, we saw a shift from pure M&A to platform building. Platform deals generally involve an operator teaming up with a long term financial investor in a joint venture. The joint venture can then focus on greenfield development, possibly coupled with some seed assets. Our Singapore team has just led a platform deal for EdgeConnex in India.

“The pandemic underscored the fact that digital infrastructure is just as important as physical infrastructure. The statistics tell the story, but we expect continued strong activity, particularly in data centres.”

Data center operators fall into 3 categories: IT infrastructure, support infrastructure, and data center investors.

Growth is facilitated by the fact that data centers can be financed in a myriad of different ways utilizing both debt and equity. Data centers provide attractive and stable revenue streams for investors with higher margins than connectivity (telco) investments.

Indeed, APAC telco investments are seeing return on invested capital sinking way below 10% for the region, as revenues and margins are squeezed by intense competition.

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