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Across the Hudson, storage for Wall Street

By Sean Sposito/The Star-Ledger
April 05, 2010, 7:09AM

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Facility manager Robert Batta handles one of the systems in an uninterrupted power supply room at a Cervalis data center in Totowa. New York financial firms are relying more on data centers in the Garden State.

To passersby, the squat two-story building in Totowa might look like a vacant office park. There are no signs of activity, save a few cars dotting the parking lot.

But inside the gated facility, workers are preparing to build a server farm the size of a football field — outfitted with miles of fiber-optic wiring and hundreds of computers — to store data for Wall Street financial firms some 20 miles away.

As New York City's financial services industry struggles to cut back on IT spending, many companies are turning to data centers in New Jersey like this one, which is being built by Connecticut-based Cervalis. Data center providers say the Garden State is an ideal location for these facilities because of the lower real estate and construction costs. At the same time, it is still close enough to New York to guarantee fast data transmission speeds.

"It's what we call the 'Doughnut' — you want to be just far enough from New York City, but not too far," said Michael Boccardi, chief executive of Cervalis.

And it is big business. On average, developers spend between \$150 and \$300 million to build a data center in New Jersey, many of them featuring high-security fences, cameras and checkpoints, experts said. In turn, they can charge clients astronomical rent.

Cervalis' building in Totowa, for example, will house about 50,000 square feet of server space and rent each server "rack" — a 2-foot by 7-foot cabinet — for as much as \$3,000 a month,



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Boccardi said.

Batta shows off a network operations center at the Cervalis facility in Totowa.

The burgeoning trend has been a bright spot in an otherwise dreary commercial real estate market, analysts said. In 2008, New Jersey ranked ninth in the nation for data centers, with roughly 6 million square feet in such facilities, according to state figures. That number has since grown to 8.5 million square feet, despite a downturn in the rest of the industry, according to FirstService Williams NJ.

“That runs counter to much of the trend in commercial real estate, which has not been that upbeat,” said Michael Pembroke, a senior vice president at Russo Development, the Carlstadt-based company that leased the Totowa building to Cervalis.

Much of the trend so far has centered around North Jersey because it is closer to New York City. Apart from Cervalis, Pembroke’s company, which buys the land and then leases it to data center providers, also has recently struck deals with the New York Stock Exchange for a 400,000-square-foot building in Mahwah and with Credit Suisse for another center in Passaic. Lately, however, a combination of oversaturation in the northern part of the state and an improvement in data transmission technology has led some data center providers to venture into Central Jersey.

Rich Miller, who tracks the industry on his website, datacenterknowledge.com, said he has watched the “doughnut” around New York City expand outward as data center providers grow more confident about their storage capabilities.

In Middlesex and Somerset counties, for example, three buildings were recently purchased by San Francisco-based Digital Realty Trust for data centers, he said. And in Piscataway, DuPont Fabros Technology, a Washington-based Real Estate Investment Trust, said it is in the process of building a 340,000-square-foot data center.

“Folks might not have thought of the move a few years ago, but it’s not a problem now,” Miller said.

New Jersey, with its close ties to Wall Street, is one of four main centers around the country for such buildings, said Hossein Fateh, DuPont Fabros’ chief executive and co-founder. Chicago, northern Virginia and Santa Clara, Calif., due to their proximity to major centers of commerce and government, are the others.

Despite their appeal to businesses, data centers have garnered some negative publicity in recent years. A report by McKinsey & Co. in 2008, for instance, predicted data centers would most likely surpass the airline industry as a greenhouse gas polluter by 2020 because of their high energy consumption.

But in New Jersey, the market is only set to grow, analysts and builders said. In an internet age when companies receive second-by-second updates through e-mail and online applications, more companies will come to depend on these centers, which act as virtual hotels for digital information, they said.

“You look at my e-mail inbox — it has something like four gigabytes that has to live somewhere,” said Colton Brown, a managing director at FirstService Williams NJ. “People are saying, ‘We can just outsource that entirely to somebody else.’ ”

At Cervalis, Boccardi said that if everything goes according to plan, he wants to build at least one more data center in the state.

“Within two years, I could be opening the next facility,” he said.

Sean Sposito may be reached at ssposito@starledger.com or (973) 392-4018.

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