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North Jersey Finds Popularity as Home for Data Centers



Sarah Rice for The New York Times

At the Cervalis data center in Totowa, N.J., uninterrupted power supply rooms house battery backups — and those rooms have backups of their own.

By JOTHAM SEDERSTROM
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The boxy three-story building at 5851 Westside Avenue in North Bergen, N.J., attracts as much attention from passing motorists as a cornfield by the side of an interstate in Iowa.

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Sarah Rice for The New York Times

Mike Boccardi, chief executive of Cervalis IT Infrastructure Solutions, with equipment that monitors electrical distribution at the Totowa center.

No signs proclaim its occupant, and its generic off-white facade and empty parking lot offer few clues as to what prompted developers to rehab the 163,000-square-foot structure in 2008, after it had sat vacant for about a decade.

It is only after passing through a thicket of security checkpoints that the facility's identity as a state-of-the-art data center becomes apparent. Filled with hundreds of miles of fiber optic wire and rows of 15-ton diesel generators, it houses the data servers of more than 200 companies, from a video game programmer to a financial services company occupying 3,000 square feet of caged-in

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cabinet space. It is one of a handful of such centers to have opened in New Jersey since 2008, but analysts predict that at least eight more will open this year alone.

With a never-ending stream of new Internet applications, social networking sites, on-demand video and [text messaging](#) straining the nation's information storage capabilities, the data center business has become a bright spot in the commercial real estate market. Worldwide demand for data centers is expected to rise 12 percent this year, 14 percent in 2011 and 17 percent in 2012, according to Tier1 Research.

"My first pager beeped, and that's all it did," said Herb Villa, an engineer for Switch and Data, a data center provider based in Florida that owns the North Bergen facility and 33 others across the country. "It didn't even have the alphanumeric capability of the later models. Now you have the [iPod](#) and everything else. That's the difference, and that's what's driving the new demand."

Last month, the social networking site [Facebook](#) said it intended to build a 147,000-square-foot data center in the forested central Oregon town of Prineville at a cost of \$188.2 million. The storage facility will accommodate some 350 million Facebook members, whose every breathless status update has, until now, been stored in leased space at centers in California and Virginia.

Later this year, the [New York Stock Exchange](#) is expected to relocate most of its data servers and those of financial customers like [Goldman Sachs](#) to a new 400,000-square-foot building in Bergen County. The site, say brokers who are not involved with the deal, will be one of the most heavily fortified data centers in the country.

Data center providers and industry analysts said that North Jersey was an ideal location for the data needs of New York City's large financial services industry. In a business that does countless transactions in a second, a greater distance would add milliseconds to every action taken online, but if the center is situated too close to Manhattan, construction costs can soar. Michael Boccardi, chief executive of Cervalis, a 10-year-old data center provider with facilities in Connecticut and New York State, said his company chose a site in Passaic County for its first New Jersey facility for those reasons.

"We felt that we wanted to be close but not too close, but still within that core 25-mile vicinity of New York City," Mr. Boccardi said of the 150,000-square-foot operation, which he said would open by the end of the month and accommodate many of the financial services firms that were affected by Sept. 11.

Elsewhere in New Jersey, [Credit Suisse](#) is expected to open a 285,000-square-foot data center in Clifton by next year, according to brokers involved in the transaction who were not authorized to speak publicly about it.

"Even though capital constraints are holding a lot of companies back from being able to make significant expenditures, we're tracking about two million square feet of data center space in New Jersey that is in some phase of vertical construction," said Michael Pembroke, a senior vice president for leasing and marketing at Russo Development, the group that is leasing facilities to Credit Suisse and the New York Stock Exchange.

The surge in demand comes as a relief to many of the largest data center providers. Construction slowed at the national level as a result of the global [credit crisis](#) over the last several years. Because of the complexities of erecting data centers, which can cost more than \$1,200 per square foot, many projects that were announced as long ago as 2007 are only now beginning construction, several brokers said.

"I'd go even further and characterize 2007 and most of 2008 as not just slowed down, but certainly on the development side an almost total freeze," said Colton Brown, a managing director at [FirstService](#) Williams, which has completed approximately 1.5

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million square feet of data center transactions over the last four years. “These are extremely capital-intensive projects, and very few people have had access to the funds to continue building.”

Mr. Brown, who has brokered deals on behalf of many of the largest data center providers, said that while the commercial real estate market in general was tied to the jobless rate, data centers were less sensitive to high unemployment because they typically housed wires, servers and generators — but very few employees. He added that new technology had allowed more small and midsize businesses to outsource data services, further driving demand for such space.

“Putting that risk onto somebody else is a very appealing option, and something we’re seeing more of,” Mr. Brown said. “Basically the cost savings are that you don’t have to build this stuff out yourself. Instead of spending millions of dollars in building yourself, you can lease space from somebody else.”

[DuPont Fabros Technology](#), which develops and operates data centers and leases space to companies like [Google](#), [Yahoo](#) and [Microsoft](#), halted three construction projects in early 2008 after financing dried up. But after raising more than \$175 million through the sale of debt and in the equity markets — according to filings with the [Securities and Exchange Commission](#) — the group was able to restart work on large facilities in Ashburn, Va., and Northern New Jersey late last year. Both projects are expected to begin operating this year.

Along with other publicly traded data center operators like [Digital Realty Trust](#), DuPont Fabros’s stock surged at the end of 2009 in a way that few real estate firms could match. Since December 2008, its share price has risen from under \$2 a share to nearly \$16 a share

“We’re still in the beginnings of the growth of new business models that will change the way we do business and change the way we live,” said Hossein Fateh, chief executive of DuPont Fabros, who pointed to the new [Apple iPad](#). “That’s just going to mean more and more demand for data center space.”