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## Russo Finds its Niche in NJ Data Centers

February 2nd, 2010 : Rich Miller

Sometimes you find a business niche. And sometimes, as with [Russo Development](#), the niche finds you.

Russo is a commercial real estate developer that is a leading supplier of data centers for Wall Street and the providers that support it. Over the past decade the Hackensack, N.J. company has built seven major data center projects spanning 1.7 million square feet for clients including J.P. Morgan Chase, NYSE Euronext, Cervalis Managed Hosting and SunGard Availability Services.

What made Russo Development target this lucrative market? "We got into it by accident," recalls Michael Pembroke, the company's senior vice president of leasing and marketing. "In 1999 we ended up working with a tenant, Comdisco (now part of SunGard) that wanted to build a data center in one of our existing facilities. We ended up building a 300,000 square foot facility in Carlstadt, and then building two additional facilities. We now have a total of 600,000 square feet in three buildings in Carlstadt."

### New Jersey Specialists

Russo's success in the data center market is rooted in the old real estate saying: "location, location, location." The company's expertise aligned neatly with the target market for Wall Street firms seeking mission-critical facilities. "We're local to Northeast New Jersey, and this was the niche we saw in our market," said Pembroke.

At the time of the Sept. 11 attacks, many Wall Street firms had secondary data centers in Manhattan, Brooklyn and Northern New Jersey. Regulators wanted to ensure that disaster recovery centers were distant enough so that a single event on the scope of a nuclear explosion couldn't destroy both the primary and secondary facilities. That prompted financial firms to look beyond the five boroughs. In most cases that meant New Jersey, where local utility PSE&G had a track record working with data center tenants.

Russo typically locates and acquires prospective sites, often working with a prospective tenant with a data center requirement. The company has done both speculative data centers and build-to-suit projects, and delivers a powered shell, allowing the tenant to build out the data center area.

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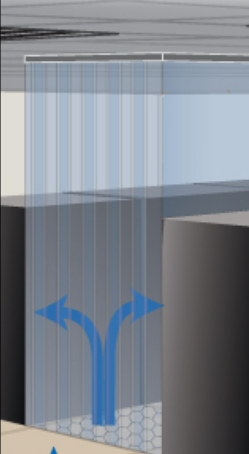
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### One-Stop Shop for Shell Space

"We do a lot of the process in-house, bird dogging the sites to find locations," said Pembroke. "We have construction management staff and own the heavy equipment, so we can do much of the construction ourselves. We like to think of ourselves as a one-stop shop to build the exterior (of the data center) and let our clients focus on the interior."

The financial crisis of 2008 has had a major impact on the financial industry, and that extends to its data centers. Wall Street firms that ordinarily might choose to build new facilities have opted to preserve capital and meet short-term needs with colocation or wholesale data center space.

"Many of the companies we talked to haven't been able to act, so have been forced to band-aid or take temporary space until they're able to come into an autonomous facility of their own," said Pembroke. "The capital markets have not loosened up enough yet."

### Pent-Up Demand

But he believes financial sector will resume building and leasing. "These companies can't choose whether or not to have a data center," said Pembroke. "Sooner or later, this pent up demand has to be met. All of these data centers will continue to locate here."

But when Wall Street firms have the financial means to invest in stand-alone data centers, will they continue to do so? Or will more opt for the wholesale data center model, which has gained momentum during the economic downturn?

Wholesale providers build the data center, including the raised-floor technical space and the power and cooling infrastructure, and then lease the completed facility. The tenant pays a significant premium over typical leases for office space, but is spared the capital investment to construct the data center. In the wholesale model, users can also occupy their data center space in about eight months, rather than the one to two years needed to build an enterprise data center.

### Eyeing The Wholesale Model

"We're taking a hard look ourselves of being able to deliver different product types," said Pembroke. "There's a finite number of users in the marketplace that want 400,000 square-foot data centers. If they had the time and capital, they would have their own facility. But if they don't have the time or capital, they may be forced to locate to a wholesale data center or colocation provider."

"Very large companies are asking us to write a full turn-key solution and finance the whole thing," he continued. "Traditional sources of financing have a lot of difficulty with this (data center) asset class. There's a lot of (investment) funds out there that don't develop data centers themselves but see data centers as a great opportunity."

Pembroke believes that the data center business will be healthy in New Jersey for some time to come.

"This is a big part of our business and will continue to be," he said. "New Jersey has everyone's attention, and the one bright spot in the market right now is data centers."



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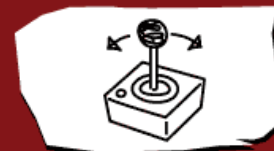
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