

The Heightened Cyber Risk Environment and the Implications for Commercial Real Estate

Demand for modern, efficient, and secure data storage is disrupting data centre footprints, pricing models, and location selection tactics on a global scale.

Markets and industries across the globe are becoming increasingly integrated due to the improvements in infrastructure, technology, connectivity, and accessibility of information. While this greater integration undoubtedly presents opportunities for companies, it has also increased the risks of doing business.

Cushman & Wakefield – in conjunction with CoreNET Global – undertook a survey of global occupiers across different industries to understand their perceptions of risk and to find out how important security issues are to them in this progressively integrated world.



Cyber risk identified as the number one risk vector among global corporates

Cyber risk was identified by 53% of the corporate respondents as the top risk facing their organisation.

While the results of the Cushman & Wakefield/CoreNet survey are consistent with PWC's global CEO survey from January 2017, which revealed 61% of global CEOs are concerned or extremely concerned with cyber threats, interestingly despite the increasing levels of cyber breaches, the Cushman & Wakefield/CoreNet survey found that operational security was of significantly lower concern to many. This is surprising when we look at some of the other survey findings.

With the widening gap between threat and protection becoming a growing concern, especially with specialist security expertise in short supply, many corporates are now increasingly looking outside of their own infrastructures to third party cloud service providers for secure storage solutions. A trend that is re-shaping the demand for data storage facilities across the globe.

76% of respondents believe that a comprehensive security plan and a secure working environment were very important or critical (30% indicated that it is critical) in raising brand reputation, improving the quality of life for employees and helping to attract and retain skilled staff.

93% of all respondents indicate that a robust security infrastructure - if deployed correctly - can create an advantage over competitors at times of increased risk.

63% of respondents described their work security infrastructure as good or excellent, but 40% indicated that their organisation only offered adequate or poor training and guidance to staff in relation to implementing these plans and on how to deal with security risks or breaches appropriately.

25% of occupiers were either unsure if a risk strategy was even in place or felt that there was actually no mitigation strategy for risk.

The survey asked corporate occupiers their view on three primary risk classifications:



PHYSICAL SECURITY

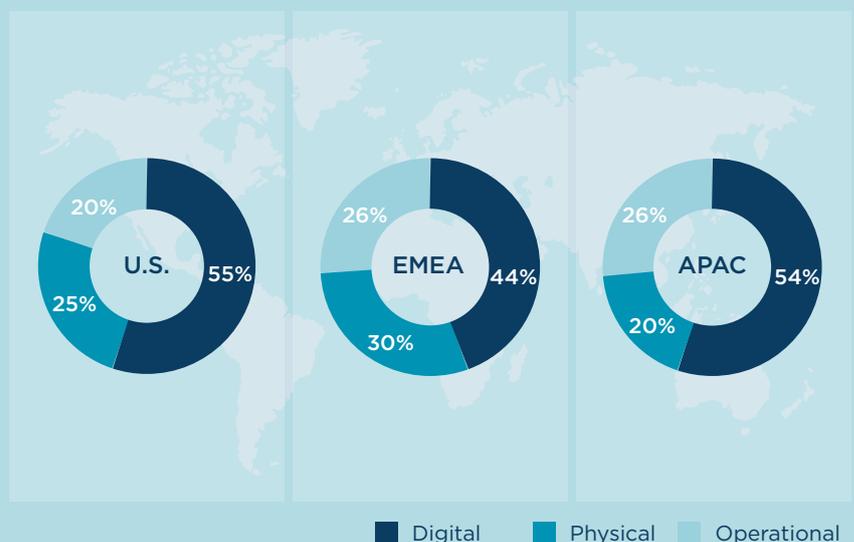


DIGITAL SECURITY
(CYBER SECURITY)



OPERATIONAL SECURITY

GLOBAL MAP OF RANKING THE RISK



Source: Cushman & Wakefield Research



DISRUPTION

Data for ransom

Digital security as the #1 risk to corporate occupiers

In the era of digital business, timing is everything. The ability to launch applications quickly and add capacity as soon as the need arises is critical for corporations that want to compete with data-driven peers and fast-moving startups. Infrastructure that enables business agility and the ability to up-scale quickly to meet growing data needs remains critical to business success or failure, while the requirements to future proof networks in a secure manner against a rising number of risks continues to challenge traditional means of operation. But, too often static infrastructure remains a stumbling block for many organisations.

Demand for cloud-based storage and service providers and their superior technologies that promise low capital output and high business value is therefore a trend that is escalating at pace. Traditional data centre demand,

as a result is coming into question with the asset class “losing some of its stickiness” for investors seeking to capitalise on occupier expansion, with many now relocating and capitalising on efficiencies of cloud operator procured space at lease renewal as more data is stored online.

Hyperscale cloud providers, such as Microsoft, Google, Oracle, and Amazon, are quickly growing their share of key cloud service markets as a result, which are themselves growing at impressive rates.

Hyperscale cloud-service operators typically have hundreds of thousands of servers in their data centre networks, while the largest, such as Amazon and Google, have millions of servers. These new data centres typically require a lower footprint than traditional centres to cater for storage, due to enhanced server utilisation and efficiency, but crucially greater IT loads. While these efficiencies allow for a more productive footprint the rise in data being generated on a global basis has meant that cloud provider requirements are now however on an industrial scale, given the sheer volume of data in today’s society. The relatively limited supply of stock to meet demand has meant build to suit is often becoming the only route to new supply.

With hyperscale players committing to build to suit schemes will traditional data centres remain a focal point of a cloud-centric world or fast become a dying asset class?

While the evolving data marketplace is subject to much change one thing remains the same - *data still needs a home*.

In the current climate, cloud adoption is, in its simplest form, shifting which data centres host the data, and in which geographic locations. As such, while the traditional data centre may seem under threat it is not a dying asset class, at least not yet.



Clouds live in data centres. And while it is easy to be wrapped up in developments of market leaders, in the nearer-term with the exception of the hyperscale requirements, most cloud providers don't want to build or operate their own data centres. It isn't their core business and a 20-year data centre investment doesn't match their operating time frames. It's too limiting.



Not all workloads belong in the public cloud. Public cloud is great for some workloads, such as web servers and streaming media however many other workloads, especially legacy transactional systems are less suited. For organisations that remain more risk adverse, such as banking and financial services, insurance and health care cloud adoption is still treated with great caution and riddled with third-party trust issues.



Regulatory compliance is an issue This includes not only security but also change management, data localisation and taxation. For many organisations, where the transaction occurs and where the data lives can have large financial implications. We see this most especially in financial and health care companies, but it also applies to e-commerce companies and any business generating or storing confidential personal data.



Data growth is certainly outpacing storage capacity. According to IBM research, 90% of the data in the world today was created in the last two years, and 80% of that data is unstructured. It's been said that up to 80% of the data being generated remains untapped because the systems / storage / bandwidth required is not yet available. This is the world created by the Internet of Things (IoT), Big Data, mobile and social. There is simply no limit to the number of devices we can and will connect to the network. And they all need servers and storage.

All of this continues to underpin demand for data centre space, albeit via a rearrangement of where requirements are coming from, with no near-term end in sight.

OVER THE NEXT 12 MONTHS:

Expect more mergers & acquisitions – Easing the cost burden on new market entrants which are struggling to keep pace in the competitive landscape.

Expect demand to centralise around sites offering greater connectivity – Both for those servicing small and hyperscale requirements.

Expect tighter regulation to come to the fore – Impacting how and where data is stored and associated location strategies.

Expect more compliant-driven offerings – The hyperscale players are moving quickly to take issues like data sovereignty off the table.

We anticipate greater demand for smarter data centre solutions, while operators will feel the heat to deliver more data facilities, faster, more flexibly, and most importantly more securely than ever. With numerous changes and trends currently impacting the data centre landscape, the future of the industry will continue to expand, but will most likely fall to a few key players.



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