



Market Insight Report Reprint

Minneapolis datacenter market expands amid increased demand

June 10 2021

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Introduction

The Minneapolis-St. Paul leased datacenter market is comprised of over 40 facilities operated by nearly 30 providers, offering approximately 614,000 square feet of space and 81MW of critical power. The area is fueled primarily by the financial industry, but providers have seen an increase in demand from cloud and content suppliers. While providers were once concerned about the implications of potential oversupply in the area, many of them have filled previously built capacity and have kicked off expansion projects throughout the area.

THE 451 TAKE

While Minneapolis has a competitive incentives program attracting datacenters to the area, most providers qualify for the program, lessening the competitive edge within the market. However, Minnesota's low disaster risk makes it somewhat more appealing than other Midwest markets for disaster-recovery-as-a-service (DRaaS) deployments, and providers with geographically diverse footprints have done well in attracting existing customers in other markets to Minneapolis for secondary locations.

In just five years, Minneapolis has expanded the market by 12 facilities, six providers and approximately 200,000 square feet, all significant numbers for an emerging market. In spite of widespread concern that the market was oversaturated with supply, providers are adding capacity on a regular basis and pipelines remain steady. Utilization has increased following an addition of capacity in 2013, and again in 2016. We expect this overall market growth to continue through 2021 and beyond.

Market summary and drivers

The Minneapolis-St. Paul (MSP) metropolitan area, known as the Twin Cities, is home to 21 Fortune 1000 companies, including United Health Group, Target, Best Buy, 3M, US Bancorp, and others. In addition, the country's largest private company, Cargill, is based in Minneapolis, as well as Carlson, Radisson Hotel Group, and others. The Twin Cities serve as the financial hub of the upper Midwest and the headquarters of the Ninth Federal Reserve District Bank. Local banks, venture capital concerns and insurance firms play a major role in the cities' economics. High tech industries are also integral to the local economy.

While the area is home to several large enterprises, several of them still operate their own datacenter space, which can range in size from a single rack in a closet to a larger, enterprise-level datacenter facility. Most of the leased datacenter demand in Minneapolis stems from the financial sector and the Fortune 2000 firms in the area.

The Twin Cities are located in Seismic Zone 0 and have little risk of earthquakes. This gives local providers a small leg up in deals against Detroit and Chicago operators, particularly in DRaaS deployments. Minnesota is located at the northern end of Tornado Alley and tornados have occurred infrequently. Parts of the state have experienced flooding, but the Twin Cities have little risk of flooding. Leased datacenters with fortified roofs mitigate that risk for enterprise customers that must protect critical systems and data. The area benefits from cooler weather most of the year, which reduces cooling costs and ongoing operational expenses. Winter brings possible blizzards with risks of dangerous driving conditions and power outages.

With the onset of COVID-19 and the restrictions around building access, many of these companies realized the importance of colocation as part of their digital transformation strategy. Providers in the area have seen an increase in single to 10-cabinet deals, with some remote hands and other managed services stacked on top.

The impact of cloud

In 2019, Google introduced plans for a \$600m datacenter in Becker, just shy of 50 miles northwest of Minneapolis, which would be powered by two wind farms dedicated to Google. The negotiations continued through 2020, but the search giant has yet to commence construction of the facility. Many other providers in Minneapolis, including DataBank, Flexential and OneNeck, offer private cloud services, as well as public cloud onramp and interconnectivity services via partnerships with hyperscalers like Megaport and PacketFabric. Providers in the market still see significant demand for traditional colocation services, primarily to support legacy applications, but also benefit from the local customer base pursuing cloud options that leave their applications in the same facility as their colocation deployments, in most cases.

Sales tax incentives

Minnesota's state legislature passed a two-pronged sales tax incentives bill in 2011 aimed at spurring growth and revitalization in the market. Targeting both new builds and refurbishment projects, the bill grants qualifying facilities 20 years of sales tax exemptions. In the case of new builds, providers must develop at least 25,000 square feet in gross operational space and invest a minimum of \$30m over the first four years. Refurbishment projects must also result in 25,000 gross square feet but require a \$50m investment over only two years. In both cases, a combination of provider, partner and tenant capex qualifies under the legislation. Outside of sales tax, Minnesota also does not tax personal property, inventories, utilities, internet access, information services, or custom-created software.

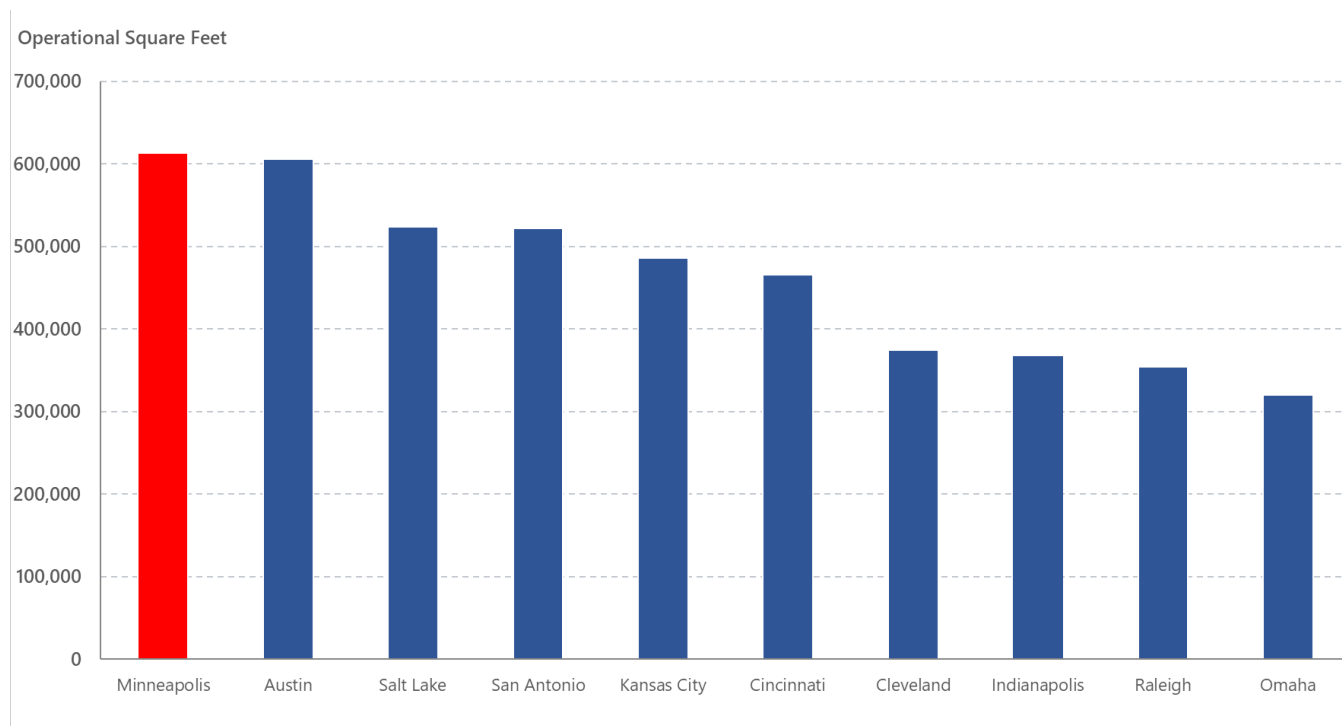
Supply additions and investment activity

Cologix expanded in Minneapolis with the acquisition last year of vXchnge's datacenter at the 511 11th Street building, where Cologix already operates three facilities. The deal added several new customer logos and empty space for the company and its customers to grow. Cologix can expand the datacenter by 1.5MW, essentially tripling the capacity of the space. Additionally, the provider added Google Cloud and Microsoft Azure Express Route connections in 2020.

DataBank purchased a 14-acre lot in Brooklyn Park in 2020 and broke ground in November to build its third datacenter in the market, MSP3. The company plans to build out the facility in two phases, with phase one housing three 15,000-square-foot data halls for a total of 9MW of critical capacity. Phase two includes a 170,000-gross-square-foot building. The company's recent acquisition of Zayo's zColo business also gives DataBank space in the 511 building downtown.

Flexential is building out an additional 27,000 square feet of raised floor at its facility in Chaska. The expansion, which was spurred by a sizeable contract, will open in Q2 2021 and bring the datacenter to a total of 9MW and 70,000 square feet of operational capacity. Flexential still has room to further expand on the 28-acre campus. The company offers wholesale and retail colocation, interconnection, managed services, and cloud and IaaS from its facility.

Estimated Net Operational Square Feet – North American Markets



Source: 451 Research's Datacenter KnowledgeBase, Q4 2020

Other notable providers

- The multiuse building at 1001-1003 3rd Avenue South, owned by Legacy 1001 Mlps Venture and managed by Cushman & Wakefield, offers datacenter space from a cage to 40,000-square-foot private suites. The site currently has 3.4MW available, expandable to 7MW, across a total of 75,000 square feet on two floors.
- Atomic Data offers colocation, cloud and managed services, as well as software development and disaster-recovery consulting from its three area datacenters.
- EdgeConneX has a single facility in Eden Prairie offering 11,000 square feet of raised floor and nine on-net carriers. The company offers its full suite of remote hands and cloud access services from Minneapolis.
- Midwest provider OneNeck IT Solutions also operates a datacenter in Eden Prairie, which houses 50,000 gross square feet. OneNeck offers cloud, managed services and professional services to customers.
- Stream Data Centers, a Dallas-based wholesale supplier, operates a single facility in Chaska. The datacenter houses 30,000 square feet of operational capacity across three data halls and 7.2MW of critical IT power, with connectivity to five on-net carriers.

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