

DIGITAL INFRASTRUCTURE

Real Estate for the Digital Age



In today's "connected" data-driven world, digital infrastructure has become a critical component of our daily lives and an increasingly popular investment option for real estate investors. The expanding number of mobile and connected devices, combined with tremendous growth in data creation, analysis, and consumption, is catalyzing ongoing demand in the sector. As the world becomes more connected and reliant on technology, digital infrastructure stands to benefit from ongoing advances in cloud computing, social media, 5G, artificial intelligence (AI), autonomous vehicles, and so much more. Unlike traditional commercial real estate whose performance is generally underpinned to macroeconomic indicators, digital infrastructure has considerable ties to mobility, connectivity and technological advancement, given that it supports the transmission, storage and processing of data and information.

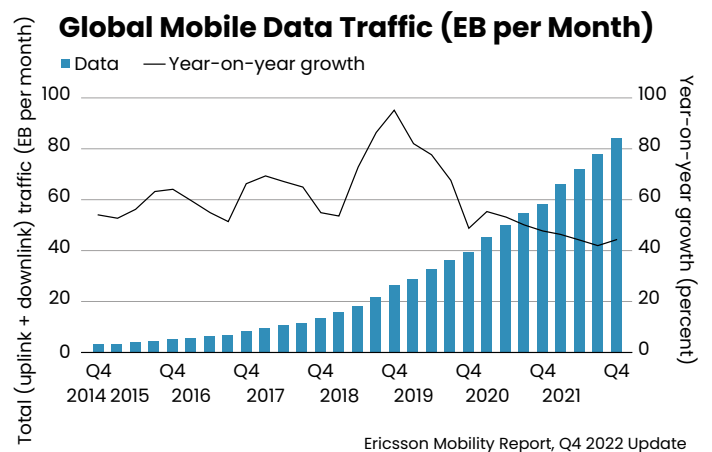
Digital infrastructure includes a wide range of assets, including cell towers, data centers, fiber-optic networks, telecom switching centers, and more. These assets provide the connectivity we rely on every day and form the backbone of the internet, allowing for the seamless flow of data across the globe.

StratCap, a global alternative investment management platform focused on a wide range of digital economy investments, recently released its [Digital Infrastructure Market Update Report \(2022 in Review – 2023 Outlook\)](#) discussing digital infrastructure market dynamics. As described in the report, the company believes the sector is poised for sustained long-term growth, citing strong market demand fundamentals and favorable tailwinds created by the acceleration of digital transformation throughout the world.

Cell Towers

The cell tower sector in particular, has displayed considerable resiliency and growth amid rising interest rates, recession concerns, inflation, weakness in the banking sector, and supply chain issues. Connectivity has, in essence, become a "fourth utility" that is difficult to live without. And with that, cell towers have solidified their mission critical role in our digital ecosystem.

Despite the greater market challenges, mobile data traffic continues to soar, and credit-rated carriers like AT&T, Verizon, and T-Mobile continue to lease space on towers, providing relatively stable rental revenues to tower owners.



StratCap continues to remain positive on its long-term view of the wireless infrastructure sector. The company believes the increasing numbers of connected devices, growing data consumption per connected device, and rising mobile data traffic, all support the need for existing wireless infrastructure. In addition, the continued implementation of 5G, network densification, new entrants to the space, and private network opportunities paint a favorable picture for ongoing development of new infrastructure assets and long-term growth potential in the sector.

Data Centers

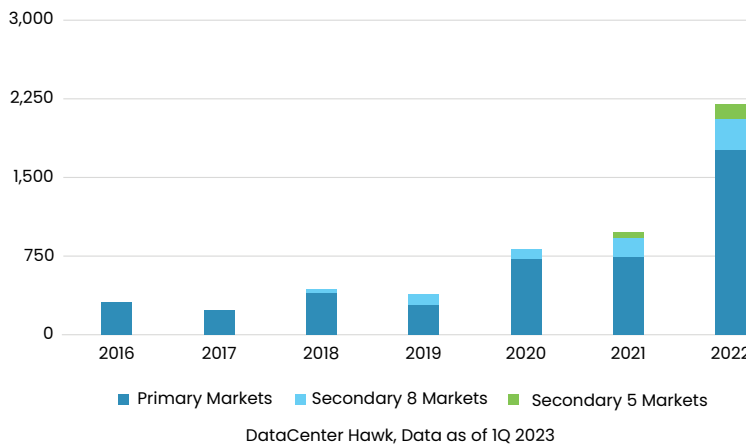
Data centers function as an indispensable component of the digital economy. Whether you are shopping online, video conferencing, or simply paying bills via your computer or phone, you are accessing, communicating with, and interacting with data and information hosted in a data center. The data center market is smaller than its traditional core commercial real estate counterparts (office, industrial, retail and multifamily), but opportunities seemingly abound.

Demand for space is soaring as the world's data needs continue to grow through increased consumption of apps, gaming services, streaming services, video calls, e-commerce, and more. As such, the market is struggling to maintain an adequate supply of data center space. This, coupled with power constraints in particular markets, has pushed operators and investors to secondary and tertiary markets.



Strong demand and constrained supply are resulting in higher occupancy and lower vacancy rates. According to CBRE's H2 2022 North American Data Center Trends report, North American primary market vacancy is now averaging 3.2%, its lowest point ever. While there are a few markets with some capacity available to meet demand, most markets are supply constrained.

Estimated Annual Total North American Data Center Market Absorption (MW)



Note that the primary method of analyzing data center markets is measured in terms of megawatts ("MW"), not in terms of square feet. This is because data centers need critical power or "IT load" that is consumed and/or dedicated to IT equipment such as servers, storage equipment and communications switches and routers.

Once seen as an added customer benefit, reliable connectivity without restriction – all the time, at full speed, on any device, from anywhere – has become the expectation in our connected world. This expectation is why many now consider digital infrastructure (and the connectivity it provides) a "fourth utility" that is nearly just as crucial as water, gas and electricity. The global pandemic served to accelerate even greater adoption of digital platforms and as technology advances, demand for connectivity, bandwidth, and low-latency performance continues to grow. Data traffic and mobile data are growing exponentially, underpinned by trends in cloud adoption, edge computing, 5G, artificial intelligence, autonomous cars, the Internet of Things,

and more. Digital infrastructure assets like cell towers, fiber networks and data centers are the mission critical assets that make modern communications and computing possible. They are often characterized by inelastic demand and long-term leases with creditworthy tenants, providing relatively stable rental revenues. What's more, their relationship to technology and internet trends provides for a long-term growth runway for the sector.