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More in store at Fortune Data Centers

Silicon Valley / San Jose Business Journal - by [Katherine Conrad](#)[Print](#) [Email](#) [Reprints](#) [RSS Feeds](#) [LinkedIn](#) [Share](#) [Comments](#)

SAN JOSE — Six months after a new data center opened in San Jose, the facility is 100 percent leased and the developer is planning construction of the next phase.

When it's completed in late 2010, Fortune Data Centers' second phase, a 60,000-square-foot building, will offer 35,000 square feet on Fortune Drive. John Sheputis, CEO of the San Jose-based Fortune, said about 100 construction workers will be employed to retrofit the building, a \$40 million to \$50 million job that should take most of 2010 to complete.

"We are just beginning development and starting to put the bids out," he said.

As the new darlings of the commercial real estate industry, data centers are the only sector to show improvement in lease rates and property values in the downturn.

Fortune acquired the 9-acre campus at 2001 Fortune Drive in 2008. The facility in Edenvale was once occupied by hard drive manufacturer Maxtor, which was acquired by Seagate Technology LLC.

The first phase was redeveloped and hit the market last spring. Sheputis said all 43,000 square feet of floor space in the 78,000-square-foot building was leased several months earlier than he had predicted. He would not disclose the names of the tenants for security reasons, but said two well-known companies took the bulk of the facility.

"As a class of real estate, there's a real supply-demand imbalance in data centers," Sheputis said. "A fast lease-up is credit to the Silicon Valley market and shows it is still strong."

Data centers, which cost from \$700 to \$1,000 to a high of \$1,500 per square foot to build, store servers, host Web sites, handle telecommunications systems or hold massive amounts of backup data. Research on the sector shows that wholesale rates for centers have risen by 15 percent across the country compared with 2008, according to Grubb & Ellis.

Jim Kerrigan, head of Grubb & Ellis' Data Center Group in Chicago, is not surprised to hear how quickly the San Jose center filled up. Digital TVs, digital medical records, cloud computing and the explosion in social media all contribute to a need for more data centers.

"In general, demand is outpacing supply by a factor of three," he said.

And he doesn't see it slowing soon.

Jerry Inguagiato, a broker with CB Richard Ellis' San Jose office who specializes in data centers, agreed there's more demand than supply in the sector, but not by a factor of three. He noted that while data center vacancies in the valley are very low, about 3 percent, 2009 was a year in which companies "put the brakes" on demand — just like in every other commercial real estate sector.

"The folks who really needed to be in a data center were in, and Fortune was able to capture them," Inguagiato said.

As with the first facility, Sheputis plans to ensure the center is energy efficient. He said the



Vicki Thompson

Fortune Data Centers CEO John Sheputis said his company's San Jose data center is 100 percent leased, leading the company to plan construction on the next phase, a \$40 million to \$50 million project.

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company hopes to announce soon that the first phase will receive a Gold LEED rating from the U.S. Green Building Council.

“It makes sense as a business owner,” he said. “Remember, I’m selling power. The less power I waste, the more we have to sell to the tenant. If your data center is not as efficient as possible, you’re wasting your own money.”

In Silicon Valley, there is roughly 4 million square feet of data centers, located largely in San Jose and Santa Clara.

Space needed and still growing

Scott Greubel, regional manager for DPR Construction Inc. of Redwood City and Fortune’s contractor, has built data centers for 10 years. He discovered although it’s cheaper to build out of state where power costs are less, people who start their own companies want to be near their servers.

Not a lot of new construction occurs here, Greubel said. Instead, the Bay Area is a good place for redevelopment of existing manufacturing facilities, which costs from \$600 a square foot to \$2,500.

That hefty price tag means data center developers are as hamstrung by the credit crunch as home builders. The most recent example was the decision last fall by Dupont Fabros Technology Inc. to stop construction of its 600,000-square-foot center in Santa Clara when it failed to obtain a \$270 million loan.

Despite Dupont’s decision, the sector continues to grow. Digital Realty Trust, based in San Francisco, announced Sept. 29 that it purchased two data facilities, a 42,000-square-foot center in Sunnyvale and another of the same size in Santa Clara, for a total of \$44.3 million. The firm owns almost 14 million square feet of centers in Europe and North America.

“We are in the market looking for acquisitions,” said Pamela Matthews, director of investor relations for Digital Realty Trust. “We have other properties that we expect to close before the end of the year.”

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