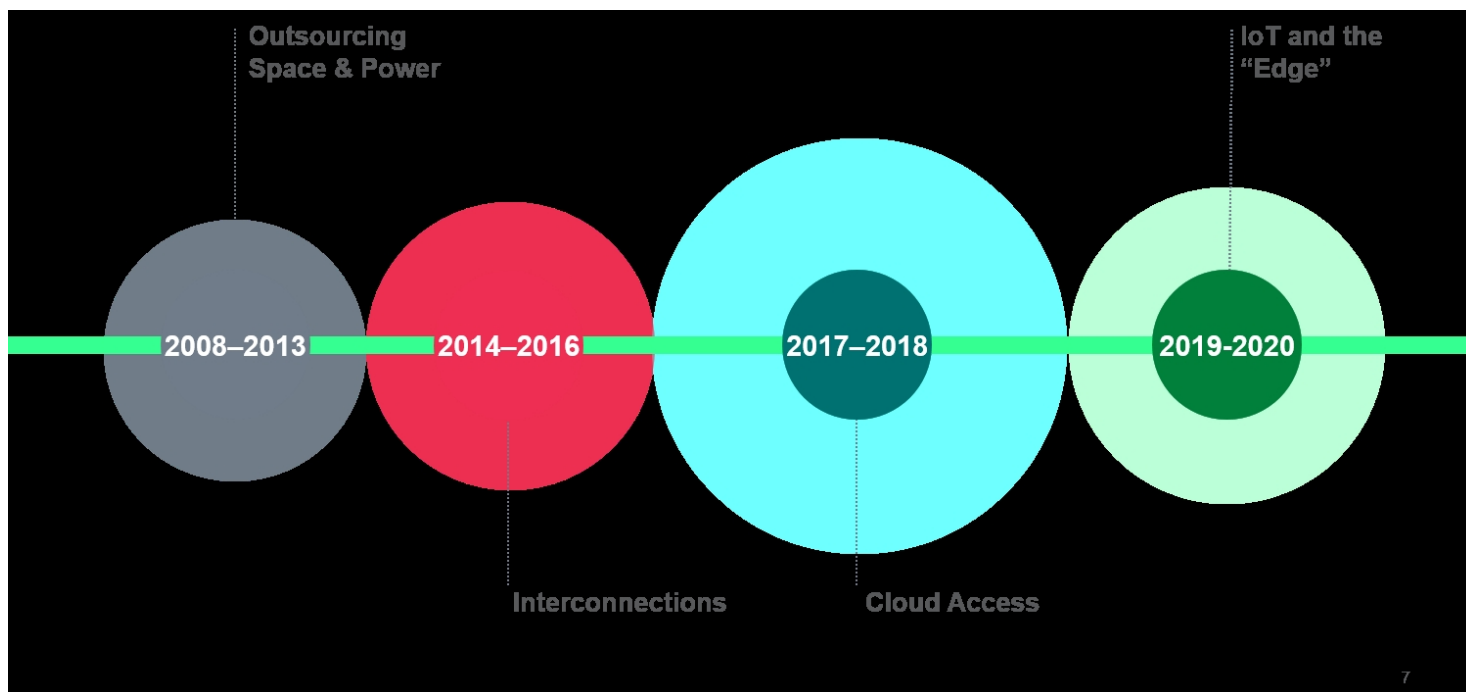


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The market for colocation services is dynamic. It's marked by frequent mergers and acquisitions, sales of assets, and an evolution of drivers. All of which have led to steady double-digit CAGRs for over a decade. As with so many tech industries, colocation will be changed by its relationship with the Internet of Things. But before jumping into the future, let's take a quick look in the review mirror.



## Outsourcing of Space & Power

In the years following the global recession, the market for colocation (which IHS Markit defines as the leasing of space, power, and connectivity) benefited from enterprises' uncertainty in the economy and their own future. Companies lacked the capital to invest in data centers, as well as the confidence in the future to build even when money was available. Moving data center operations into a colocation facility enabled companies to avoid major upfront investments and potential risk. The relatively shorter leases with a colocation provider and ability to scale was a comfortable solution for companies needing flexibility but not yet ready for the uncertainty of the

cloud (where major concerns around privacy and data security abounded).

### Interconnections

In the 2013 to 2015 timeframe, data exchange ecosystems began to emerge around certain industries, particularly financial and content providers, wanting to quickly and easily share information between one another and their shared customers. These ecosystems benefited from physical proximity to one another, leading to a desire to colocate in the same data center facility. Other industries started to realize the benefits of interconnecting within a data center: reduced latency, better security, improved reliability, and reduced data transmission costs. Similarly, businesses were driven to colocations in hopes of more direct connections with business partners and customers alike.

### Cloud Access

Now we find ourselves in the “cloud era,” where the colocation market is so intertwined with cloud service providers, it’s hard to believe anyone ever thought they were rival industries. Two major themes define this era: One, huge wholesale deals signed by cloud service providers (CSPs) leasing large portions of space. Two, an increased volume of retail leases signed by enterprises looking for direct access to CSPs. The first is driven by network density, ability to quickly scale and a desire to cache content closer to end users. The second is driven by a multi-cloud era where secure, fast and reliable connections to multiple cloud service providers are key for optimal business functioning.

### IoT and the “Edge”

Looking ahead, the next big driver for colocation leases will be the Internet of Things and “the edge.” Companies are shifting their business models to compete in a world where everything is connected and constant, fast data transmission and storage is a necessity. Colocations can help companies compete by providing quick, scalable capacity. Plus, colos offer geographically distributed data centers for enterprises and cloud service providers needing proximity to end-users and IoT devices, allowing for lower latency connections. The IoT means more data centers in more regions, and colocation service providers are perfectly suited to address these needs. Especially in the early stages of IoT, where new types of private information will be

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shared, companies may feel more comfortable opting for colocation (where the enterprise still owns and provides the IT equipment) over cloud services (where security is of greater concern.) IHSM expects the colocation market will see an increase in smaller, retail deals, with enterprises setting up a few racks in regions across the globe to serve local customers, as well as growth in “Tier 2” cities like Phoenix, Atlanta, Milan and Dublin.

IHS Markit is still seeing colocation revenues impacted and driven by cloud service providers, but beginning in 2018/2019 the effect of the Internet of Things and the “edge” will be more significant. These changes will continue to be tracked in the [IHSM Multi-tenant Data Center Intelligence Service](#).