

# DIGITAL CORE REIT

## CUSTOMER SITUATION OVERVIEW

JUNE 2023

Core | Sustainable | Growth



# SUMMARY OVERVIEW

## SITUATION OVERVIEW

- Digital Core REIT's second-largest customer, a global colocation and interconnection provider representing approximately \$16.3 million, or 22.4% of annualised rent<sup>(1)</sup>, filed for bankruptcy protection in the state of New Jersey on 4 June 2023
- The customer is deployed across six data centres representing 26.6% of total portfolio value<sup>(2)</sup>
- The customer occupies 100% of three shell & core facilities in Silicon Valley; 100% of two shell & core facilities in Los Angeles; and 1.5 megawatts, or 4%, of a fully-fitted facility in Frankfurt
- The customer has remained current on its rental obligations through the month of May
- The customer has not yet determined which leases it may accept or reject, but has disclosed that it has obtained \$200 million of debtor-in-possession financing to support its business going forward, including paying suppliers in the ordinary course
- Over the past several months, the Manager has performed property diligence, market evaluations and valuation assessments of the facilities leased to the customer. Given tight market conditions and below-market rents, the Manager expects to be able to minimize any potential DPU impact and maintain or enhance long-term value and returns for unitholders
  - All else equal, if 100% of the annual revenue from this customer were to be eliminated, the Manager estimates that Digital Core REIT's distribution per unit, or DPU, would be reduced by approximately 2.00 U.S. cents<sup>(3)</sup>
- Digital Realty remains committed to Digital Core REIT's long-term success and the Manager will continue to explore opportunities for the Sponsor to demonstrate its support as it gains greater visibility on the outcome of the situation

## DILIGENCE OVERVIEW



### PROPERTY DILIGENCE

Engaged a third-party data centre engineering consultant to conduct extensive site visits to evaluate the property condition, identify any required upgrades (i.e., potential CapEx requirements), gauge overall site utilization and to assess the marketability of each asset



### MARKET EVALUATIONS

Evaluated current data centre market fundamentals for each metro, including current in-place rents relative market rents and future data centre supply in each market



### VALUATION ASSESSMENTS

Hired a third-party appraiser to perform preliminary valuation assessments of the single-tenant data centres under the assumption that the customer rejects each of the leases and fully vacates each of the buildings

<sup>1)</sup> Based on annualised rent as at 31 March 2023.

<sup>2)</sup> The appraised values and portfolio values (at share) are based on the last appraised value as at 31 December 2022 and do not include any capitalised transaction costs, straight-line rent or property additions.

<sup>3)</sup> Impact to DPU based on \$22.9 million of annual revenue, including rental revenue and tenant reimbursements (at share).

# CUSTOMER PROFILE

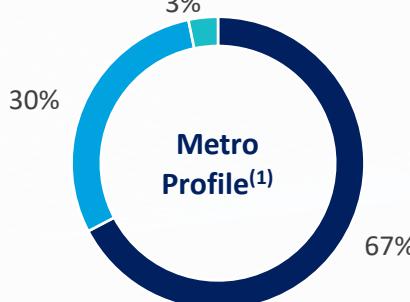
## CUSTOMER PORTFOLIO PROFILE

### Los Angeles

**2**

Single-Tenant  
Shell & Core  
Data Centres

Silicon Valley   Los Angeles   Frankfurt



### Silicon Valley

**3**

Single-Tenant  
Shell & Core  
Data Centres

Triple Net   Gross + E(lectricity)



### Frankfurt

**4%**

of Net Rentable  
Square Feet at the  
Frankfurt Facility

## CUSTOMER FINANCIAL PROFILE

(USD in millions)

Location	Net Rentable Square Feet	At Share			2022 Appraised Value <sup>(2)</sup>
		Annualised Rent <sup>(1)</sup> Amount	% of Total	Amount	
<b>Los Angeles</b>					
3015 Winona Avenue	74,620	\$2.1	2.9%	\$48.6	3.4%
200 North Nash Street	102,245	2.7	3.6%	62.1	4.3%
<b>Total: Los Angeles</b>	<b>176,865</b>	<b>\$4.8</b>	<b>6.6%</b>	<b>\$110.7</b>	<b>7.7%</b>
<b>Silicon Valley</b>					
2401 Walsh Avenue	151,139	\$4.2	5.8%	\$99.0	6.9%
2403 Walsh Avenue	93,546	2.6	3.6%	61.2	4.3%
1500 Space Park Drive	46,454	4.1	5.7%	103.5	7.2%
<b>Total: Silicon Valley</b>	<b>291,138</b>	<b>\$11.0</b>	<b>15.1%</b>	<b>\$263.7</b>	<b>18.4%</b>
<b>Frankfurt</b>					
Wilhelm-Fay-Strasse 24 <sup>(3)</sup>	4,356	\$0.5	0.7%	\$6.0	0.4%
<b>Total: Customer Assets</b>	<b>472,359</b>	<b>\$16.3</b>	<b>22.4%</b>	<b>\$380.4</b>	<b>26.6%</b>
Other Data Centres	728,275	56.5	77.6%	1,049.9	73.4%
<b>Total Portfolio</b>	<b>1,200,634</b>	<b>\$72.8</b>	<b>100.0%</b>	<b>\$1,430.2</b>	<b>100.0%</b>

Note: Portfolio statistics and financial figures shown at share.

1) Based on annualised rent as at 31 March 2023.

2) The appraised values and portfolio values (at share) are based on the last appraised value as at 31 December 2022 and do not include any capitalised transaction costs, straight-line rent or property additions.

3) Figures represent the customer's deployment and space at Wilhelm-Fay-Strasse 24. Appraised value based on the customer's proportional share of the building.

# PROPERTY DILIGENCE

LOS ANGELES		SILICON VALLEY			FRANKFURT		
<b>Location</b>	<b>3015 Winona Avenue</b>	<b>200 North Nash Street</b>	<b>2401 Walsh Avenue</b>	<b>2403 Walsh Avenue</b>	<b>1500 Space Park Drive</b>		
<b>Data Centre Type</b>	Shell & Core	Shell & Core	Shell & Core	Shell & Core	Shell & Core		
<b>Lease Structure</b>	Triple Net	Triple Net	Triple Net	Triple Net	Gross + E(lectricity)		
<b>Marketability Score</b>	AVERAGE	HIGH	HIGH	HIGH	HIGH		
<b>Current Rent vs. Market Rent<sup>(1)</sup></b>	Below Market		Below Market		Below Market		
IN EVENT OF LEASE REJECTION							
<b>Potential Impact to Asset Valuation<sup>(2)</sup></b>	3% Impact to Total Asset Value		3% Impact to Total Asset Value		Minimal Impact		
<b>Potential Downtime<sup>(1)</sup></b>	0 – 18 Months						
<b>Potential Debt-Funded CapEx<sup>(1)</sup></b>	\$5 million – \$10 million Per Data Centre						
<b>Potential Pro Forma Leverage<sup>(1)(3)</sup></b>	35% – 40% Aggregate Leverage						

1) Per management estimates.

2) Based on preliminary valuation assessments performed by a third-party appraiser and subject to change.

3) Pro forma leverage based on potential impact to asset valuations and potential requirements for debt-funded capex.

# MARKET EVALUATIONS: SILICON VALLEY SPOTLIGHT

## OVERVIEW OF KEY LOCATIONS



1500 Space Park Drive



2401 Walsh Avenue



2403 Walsh Avenue



NVIDIA



## KEY HIGHLIGHTS

Below Market on  
In-Place Rents<sup>(1)</sup>

Limited Land / Sites  
Available for  
New Data Centre  
Developments

Limited Available Real  
Estate Also Subject to  
Competing Uses  
(e.g., Residential)

2028

Earliest Date for New Utility  
Power to be Provided For  
Data Centre Developments

<sup>(1)</sup> Per management estimates.

# MARKET EVALUATIONS: LOS ANGELES SPOTLIGHT

## OVERVIEW OF KEY LOCATIONS



3015 Winona Avenue



200 North Nash Street

### SUBSEA CABLES

#### Pacific Light Cable Network

##### Landing Points

El Segundo, CA  
Toucheng Taiwan  
Baler, Philippines

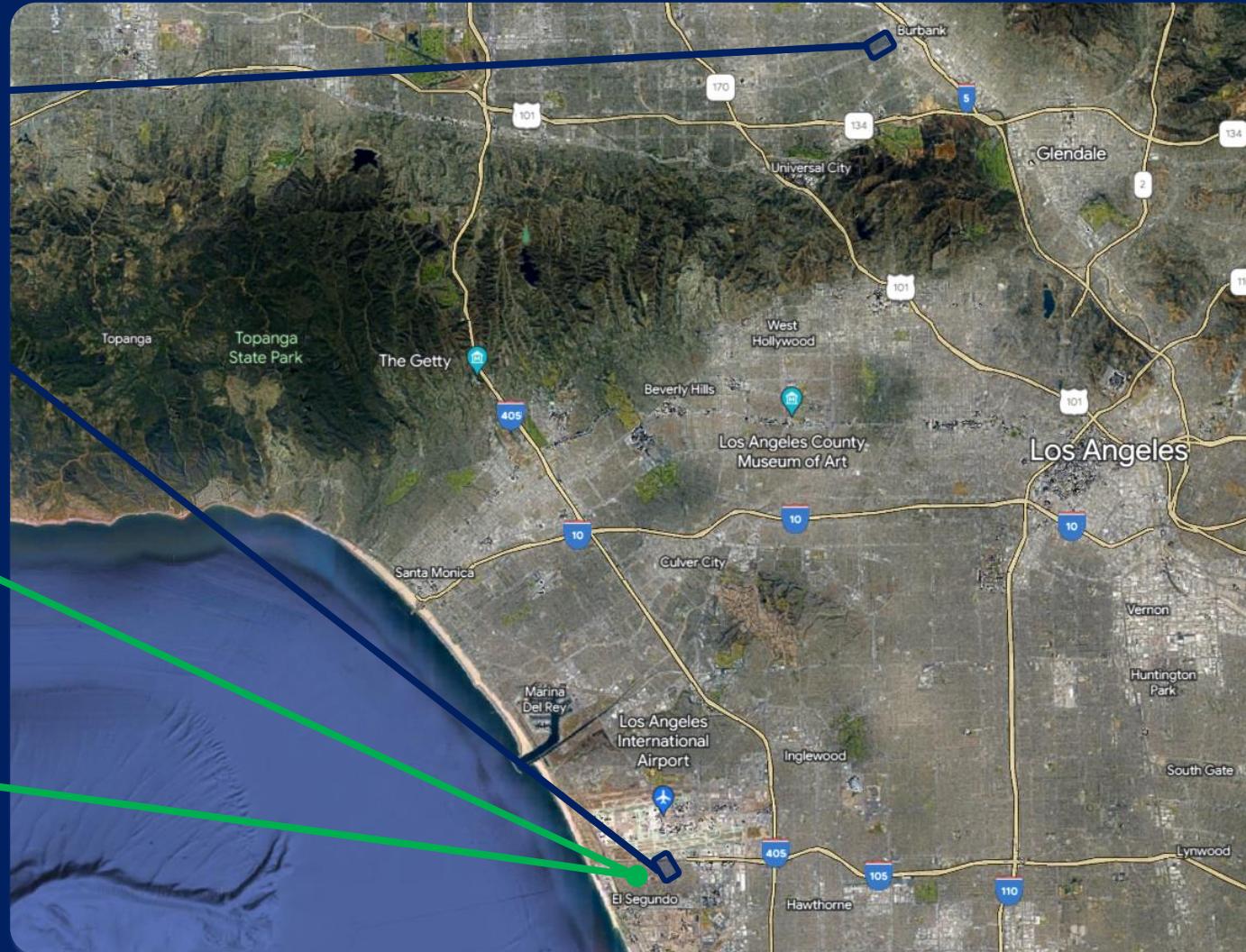
Google  
Meta

#### Curie

##### Landing Points

El Segundo, CA  
Balboa, Panama  
Valparaiso, Chile

Google



## KEY HIGHLIGHTS

Below Market on  
In-Place Rents<sup>(1)</sup>

120+  
Digital Realty Customers  
Located in Los Angeles

**EL SEGUNDO, CA**  
International Network Point,  
Connecting Asia and  
South America

**BURBANK, CA**  
Home of Media and Content  
Studios and Companies

<sup>(1)</sup> Per management estimates.

# POTENTIAL NEAR-TERM IMPACT

## IMPACTED PROPERTIES

### LOS ANGELES

3015 Winona Avenue

200 North Nash Street

2401 Walsh Avenue

### SILICON VALLEY

2403 Walsh Avenue

1500 Space Park Drive

### FRANKFURT

Wilhelm-Fay-Strasse 24<sup>(4)</sup>

Customer Market Occupancy<sup>(1)</sup>

57%

95%

70%

Status of Leases

**No Determination of Either Assumption or Rejection**  
(Rent to be Paid Until an Event of Rejection)

Annualised Rent<sup>(2)</sup> (at Share)

\$2.1 million

\$2.7 million

\$4.2 million

\$2.6 million

\$4.1 million

\$0.5 million

Appraised Value<sup>(3)</sup> (at Share)

\$48.6 million

\$62.1 million

\$99.0 million

\$61.2 million

\$103.5 million

\$6.0 million

## MITIGANTS



### Core Markets

Assets are located in key data centre markets with limited supply



### Below Market Rents

In-place rents are below market with a marketability score of either average or high



### Ability to Operate Colocation

Potential to maintain end-user customers and operate as colocation facilities

## POTENTIAL IMPACT

The Manager expects to be able to minimize any potential DPU impact and maintain or enhance long-term value and returns for unitholders

All else equal, if 100% of the annual revenue from this customer were to be eliminated, the Manager estimates that Digital Core REIT's distribution per unit, or DPU, would be reduced by approximately 2.00 U.S. cents<sup>(5)</sup>

Digital Realty remains committed to Digital Core REIT's long-term success and the Manager will explore opportunities for the Sponsor to demonstrate its support as it gains greater visibility on the outcome of the situation

1) Per public company filings as at 31 March 2023.

2) Based on annualised rent as at 31 March 2023.

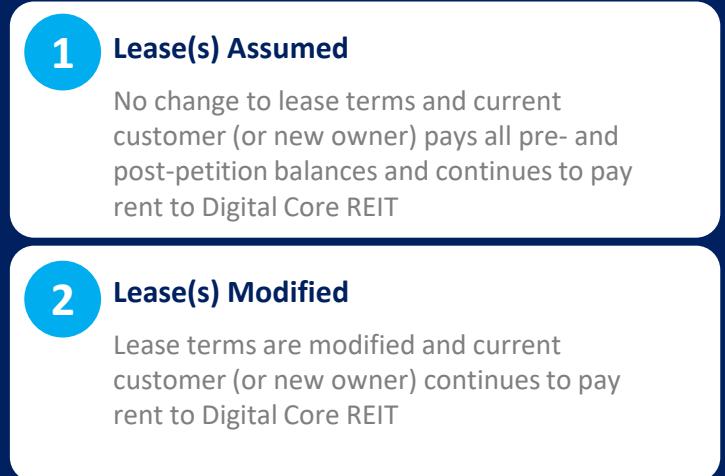
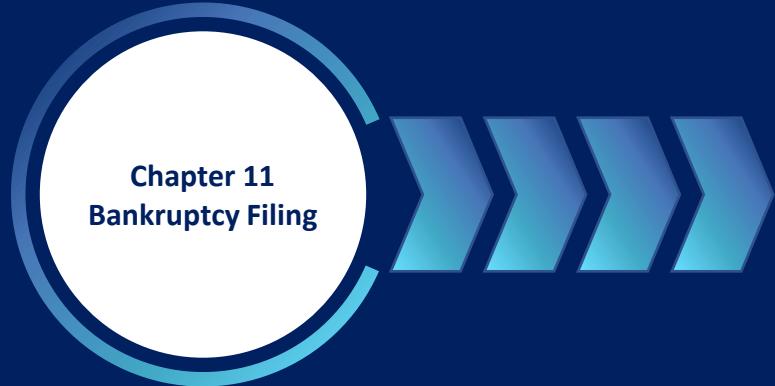
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4) Figures represent customer's deployment and space at Wilhelm-Fay-Strasse 24. Appraised value estimated to reflect the customer's proportional share of the building.

5) Impact to DPU based on \$22.9 million of annual revenue, including rental revenue and tenant reimbursements (at share).

# POTENTIAL LEASE OUTCOMES

## CHAPTER 11 BANKRUPTCY PROCEEDINGS



## POTENTIAL LEASE OUTCOMES

- A total of six leases with Digital Core REIT<sup>(1)</sup>
- Unpaid rent prior to bankruptcy filing is subject to unsecured creditors' claims resolution process
- Customer has paid rent through May

- The debtor will have up to 120 days to determine which leases to assume or reject, though a determination can be made sooner or the deadline may be extended by the bankruptcy court<sup>(2)</sup>
- Until an event of lease rejection, post-petition rent must continue to be paid
- If post-petition rental payments are not received, Digital Core REIT will have the right to initiate a termination of the lease(s)

### 1 Lease(s) Assumed

No change to lease terms and current customer (or new owner) pays all pre- and post-petition balances and continues to pay rent to Digital Core REIT

### 2 Lease(s) Modified

Lease terms are modified and current customer (or new owner) continues to pay rent to Digital Core REIT

### 3 Retain Existing End-User Customers

Digital Core REIT retains existing end-user customers and operates as a colocation facility

### 4 Re-Lease Vacated Space

Digital Core REIT re-leases vacated space, subject to downtime and potential CapEx and following the exit of existing end-customers

1) The customer's subsidiary in Germany is not included in the court-supervised process.

2) This is done in connection with a sale process, under the Chapter 11 plan, or on a standalone basis pursuant to a motion filed with the bankruptcy court.

# LONG-TERM VALUE CREATION

Focused on Delivering Long-Term, Sustainable Value for All Stakeholders

## PRO FORMA COMPANY PROFILE

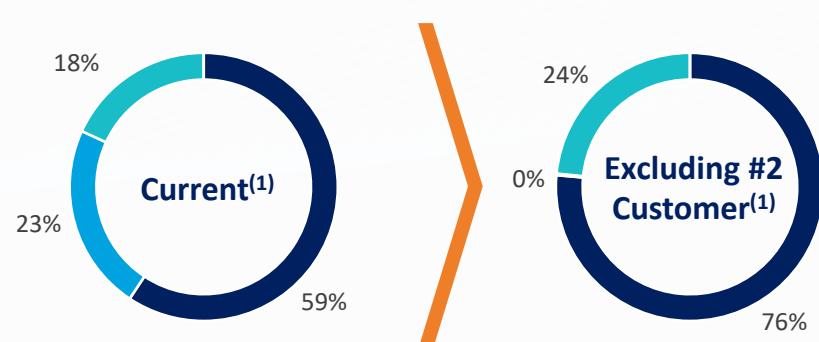
### Credit Quality

- Investment Grade
- Non-Investment Grade



### Trade Sector

- Hyperscale CSP
- Colocation / IT SP
- Social Media / Other



## LOOKING AHEAD

- Existing portfolio benefits from improved credit quality of customers (excluding the second-largest customer, 98% of the customer roster is investment grade)
- Customer profile also shifts towards a greater concentration of hyperscalers (excluding the second-largest customer, 76% of customers are hyperscale cloud service providers)
- Focused on minimizing any potential impact from this customer situation while also backfilling and driving additional upside through lease-up of existing vacancy in Toronto and Frankfurt
- Upon greater clarity regarding the customer leases, management will also seek to enhance the company's geographic and customer diversification

Note: Portfolio statistics and figures shown at share.

1) Based on annualised rent as at 31 March 2023.

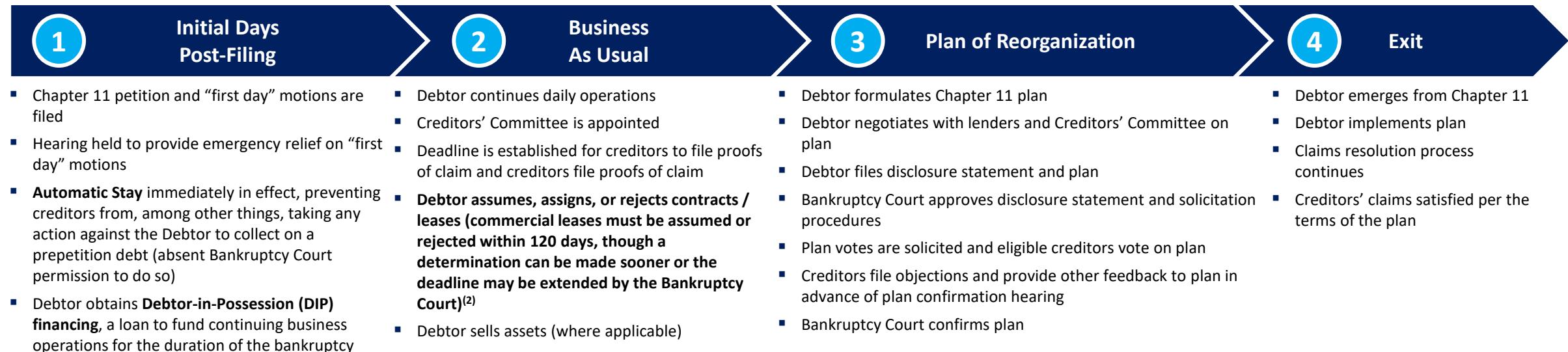
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# APPENDIX

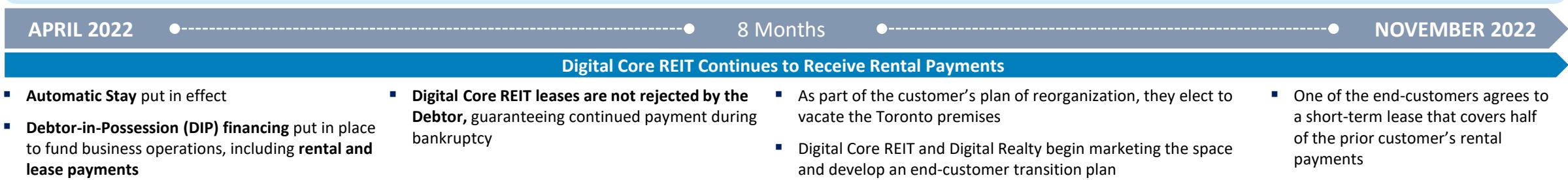
# CHAPTER 11 BANKRUPTCY PROCESS AND TIMELINE

## ILLUSTRATIVE: SUMMARY OF CHAPTER 11 REORGANIZATION PROCESS

**Chapter 11 Bankruptcy** allows companies to continue operating their businesses while pursuing a reorganization<sup>(1)</sup>. Upon filing for Chapter 11, the business is referred to as the “Debtor” and any entities, including vendors and landlords, that are owed money from the Debtor are called “Creditors”. Filing for Chapter 11 gives a Debtor an opportunity to restructure its business affairs, debts, and assets, so it can reemerge as a healthy organization.



## DIGITAL CORE REIT: SUMMARY OF 2022 CUSTOMER BANKRUPTCY IN TORONTO



<sup>1)</sup> Chapter 11 may also be used to liquidate businesses.

<sup>2)</sup> This is done in connection with a sale process, under the Chapter 11 plan, or on a standalone basis pursuant to a motion filed with the Bankruptcy Court.

# COMPONENTS OF A DATA CENTRE

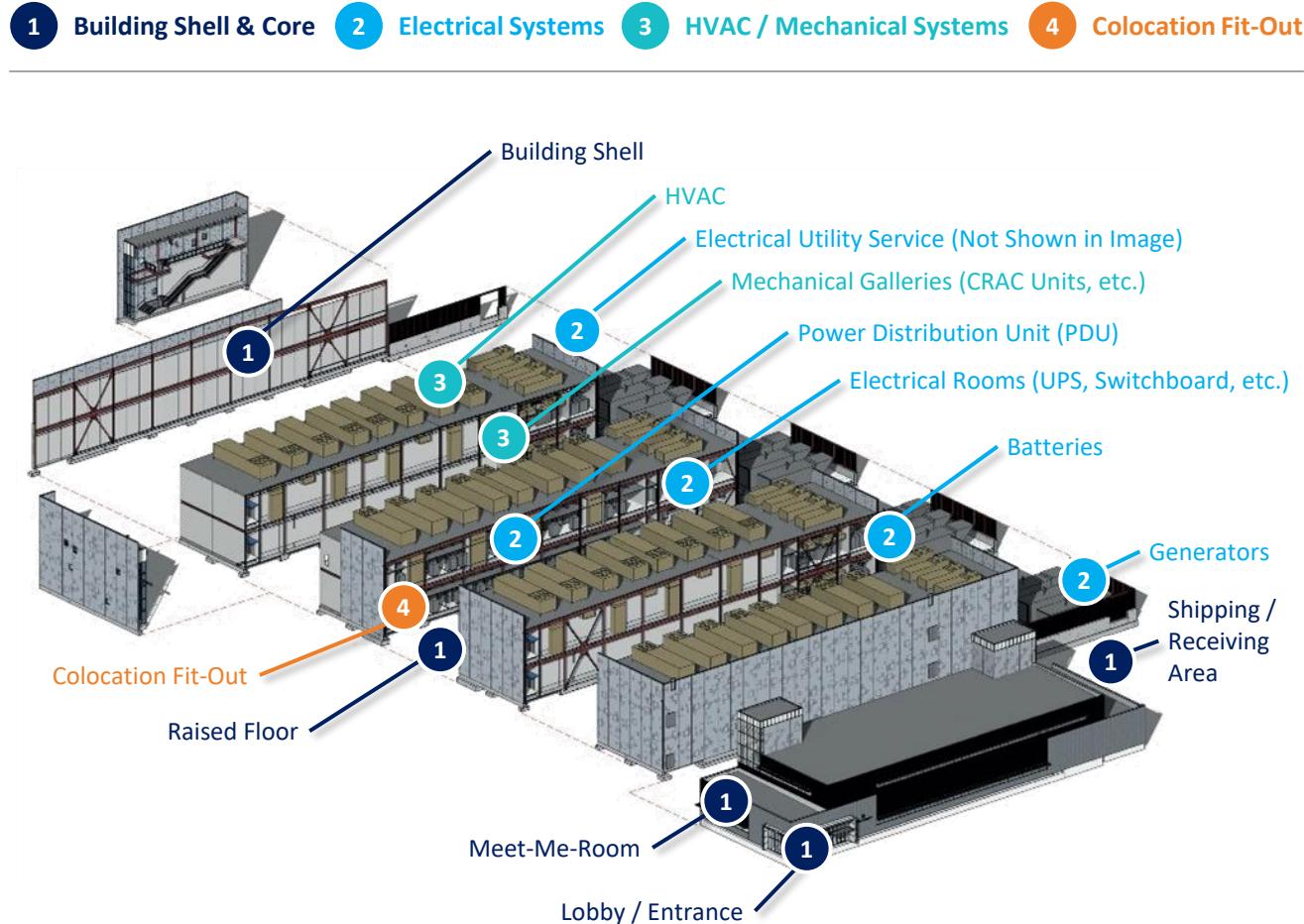
## DATA CENTRES

Data centres are designed to house servers and network equipment. Data centres provide a highly reliable, secure environment with redundant mechanical, cooling, electrical power systems and network communication connections.

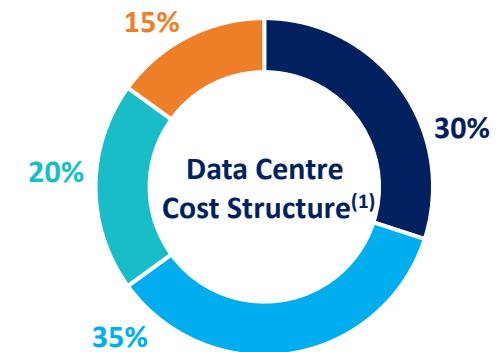
## SERVERS

Computer servers, which process and store data, are supplied and owned by customers.

## DATA CENTER LAYOUT



## DATA CENTER COST DISTRIBUTION



### 1 Building Shell & Core

- Building Shell (including Roof)
- Raised Floor
- Lobby / Entrance / Meet-Me-Room
- Shipping / Receiving Area

### 2 Electrical Systems

- Generator
- Batteries
- Power Distribution Unit (PDU)
- Uninterruptible Power Supplies (UPS)

### 3 HVAC / Mechanical Systems

- Computer Room Air Conditioner (CRAC Unit)
- Energy Efficient DSE

### 4 Colocation Fit-Out

- Racks and Cages
- Hot and Cold Aisle Containment Systems

<sup>1)</sup> Percentage costs for data center development shown are based on a sample Digital Realty data center build and are not necessarily representative of all development projects.

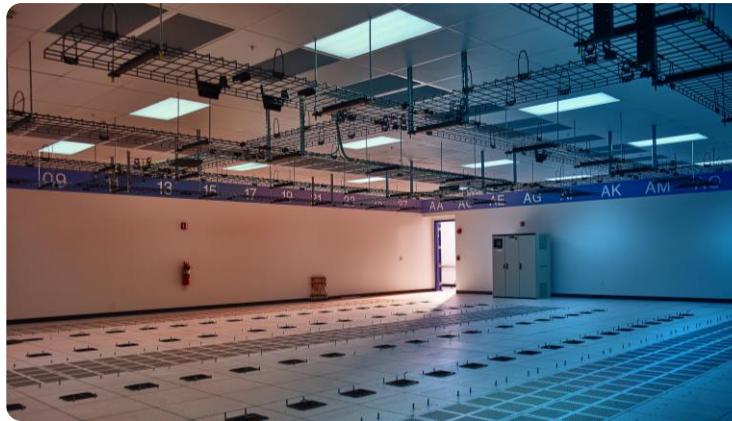
# TYPES OF DATA CENTRE SPACE

## SHELL & CORE



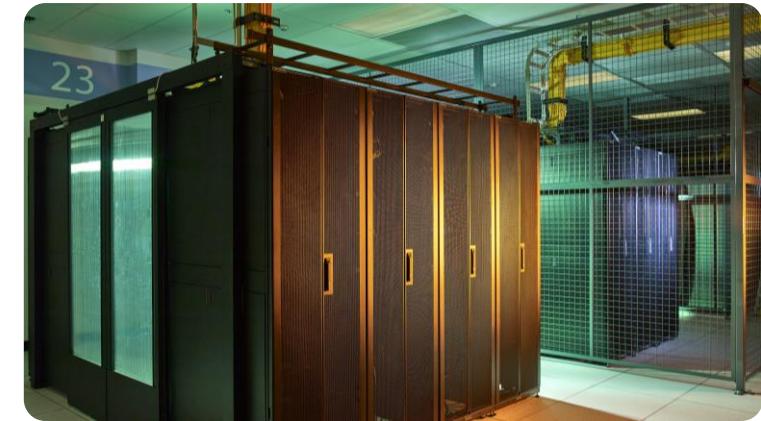
Infrastructure Requirements	<ul style="list-style-type: none"> <li>Building Shell &amp; Core</li> </ul>
Typical Size	<ul style="list-style-type: none"> <li>Entire building; can typically support 5+ MW</li> </ul>
Time to Deploy	<ul style="list-style-type: none"> <li>Ground-up development can take 18 to 24 months</li> </ul>
Contract Length	<ul style="list-style-type: none"> <li>10+ years</li> </ul>
Contract Types	<ul style="list-style-type: none"> <li>Triple Net (single-tenant)</li> </ul>
Customization	<ul style="list-style-type: none"> <li>Highly customizable; can be structured as a build-to-suit</li> </ul>
Staffing Requirements	<ul style="list-style-type: none"> <li>Customers supply own on-site staff</li> </ul>

## FULLY-FITTED



Infrastructure Requirements	<ul style="list-style-type: none"> <li>Building Shell &amp; Core</li> <li>Electrical Systems</li> <li>HVAC / Mechanical Systems</li> </ul>
Typical Size	<ul style="list-style-type: none"> <li>Medium (300+ kW) to very large compute deployments (5+ MW)</li> </ul>
Time to Deploy	<ul style="list-style-type: none"> <li>Can execute a solution for medium to large deployment in weeks / months</li> </ul>
Contract Length	<ul style="list-style-type: none"> <li>5 to 10+ years</li> </ul>
Contract Types	<ul style="list-style-type: none"> <li>Triple Net, Gross + E(lectricity)</li> </ul>
Customization	<ul style="list-style-type: none"> <li>Customize data center environment to specific deployment needs</li> </ul>
Staffing Requirements	<ul style="list-style-type: none"> <li>Customers sometimes opt to have their own on-site staff</li> </ul>

## COLOCATION



Infrastructure Requirements	<ul style="list-style-type: none"> <li>Building Shell &amp; Core</li> <li>Electrical Systems</li> <li>HVAC / Mechanical Systems</li> <li>Colocation Fit-Out (Racks, cages, etc.)</li> </ul>
Typical Size	<ul style="list-style-type: none"> <li>Small (one cabinet) to medium (racks) data center deployments</li> </ul>
Time to Deploy	<ul style="list-style-type: none"> <li>Provides agility to quickly deploy computing infrastructure in days</li> </ul>
Contract Length	<ul style="list-style-type: none"> <li>2 to 3 years</li> </ul>
Contract Types	<ul style="list-style-type: none"> <li>All-in (includes cost of electricity)</li> </ul>
Customization	<ul style="list-style-type: none"> <li>Consistent designs and operational environment; limited customization</li> </ul>
Staffing Requirements	<ul style="list-style-type: none"> <li>Leverage optional skilled remote hands and on-site customer support</li> </ul>

# DIGITAL CORE REIT

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Core

Sustainable

Growth

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