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3Q24 Business & Operational Update

Thank you for joining us for our third-quarter Operational Update.

Key Highlights

Let's begin with the Key Highlights on page two of our presentation.

Data center fundamentals took a step-function higher in the third-quarter of 2024, driven by the explosive growth of artificial intelligence workloads. The Digital Core REIT team was well positioned, worked hard, and executed well to capitalise on the sector's momentum. Over the last 90 days, Digital Core REIT renewed lease agreements encompassing more than one-third of our annualised rent and nearly doubling the portfolio WALE from 2.8 years at 30 June to just over five years by mid-October.

We more than doubled our weighted-average debt maturity, from 2.4 years to 4.9 years, with the successful recast of our credit facilities. With the support of our bank group, we were able to improve the currency mix to better match the evolution of our business, given our investment activity outside the U.S. since our IPO. We achieved a 30-basis point reduction in our weighted average cost of debt, while maintaining a healthy level of fixed rate debt, with 87% hedged against variable rate exposure.

We also exercised our option to acquire an additional interest in the Frankfurt facility from our Sponsor. We have the opportunity to acquire an additional stake of between 0.2%-40.0% in the Frankfurt facility, and we have until early December to make a final determination on the size of the stake. The agreed value represents a discount of approximately 18% to the appraised value, and this investment offers a unique opportunity to create value for unitholders. We intend to monitor market conditions over the next six weeks and execute upon a transaction size that provides the best balance between delivery to unitholders of the benefits from the transaction with preserving balance sheet flexibility.

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We also continued to invest in our existing portfolio at a discount, repurchasing 7.6 million units in the third quarter at a 12% discount to NAV, demonstrating our prioritisation of value creation over AUM growth, and generating 50 basis points of accretion, while adding just 30 basis points to leverage. Year-to-date, we have repurchased over 22 million units at a 13% discount to NAV, delivering 150 basis points of accretion. Aggregate leverage at the end of the third quarter was 35.8%, towards the low end of our 35%-40% target leverage range.

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Customer Bankruptcy

Almost exactly one year ago, we announced a comprehensive resolution to the bankruptcy of our second-largest customer. As you may recall, and as highlighted on page three of our presentation, this resolution included:

- the sale of two Silicon Valley assets at book value and a 4.4% cap rate;

- the assumption of the lease for a third property in Silicon Valley, with no change to the existing lease terms or rental rate;

- the termination of a lease in Frankfurt; and

- finally, the amendment of the lease terms for two properties in Los Angeles to accelerate the expiration dates from 2033-2035 to 30 September 2024.

As highlighted in the boxes at the bottom of page three, we underwrote a 50% drop in the annualised rent followed by an 18-month lease-up for the two properties in Los Angeles and the lease termination in Frankfurt.

We disclosed last quarter that we retained all the end-user customers in Frankfurt, significantly outperforming our underwriting. To put a finer point on the outperformance in Frankfurt, annualised rent increased by more than 85%, compared to a projected 50% decline.

Based on our success in Frankfurt, we indicated that we were cautiously optimistic we would be able to outperform our underwriting in Los Angeles.

We officially took over operations of the two L.A. properties on 1 October, and I am pleased to report that we have likewise dramatically outperformed our underwriting in L.A. We have leased out 60% of the capacity to date, but rather than a 50% drop in annualised rent, we have signed customer contracts representing more than $7 million of annualised rent, or 130% of the in-place rent, as shown in the middle of page four.

We also have a healthy funnel of additional activity in flight, which we expect will take us to 80% leased and double the in-place rent by year-end.

To be fair, this isn't exactly an apples-to-apples comparison. The in-place rent was a triple-net rental rate, whereas most of the new contracts include power, and we will incur higher OpEx now that we are responsible for operating the properties, so the outperformance is not quite as pronounced at the NPI line. We will also need to invest some capital to re-brand and bring the facilities up to our standards.

Nonetheless, the robust leasing momentum we have generated – with no downtime and no capital invested to date – is a strong testament to the viability of these facilities, the strength of core-market data center fundamentals, and the power of Digital Realty's global platform.

Stepping into direct agreements with the end-user customers has also improved customer diversification. We've signed contracts with sixty customers in the two L.A. facilities, increasing our customer count from over 50 to more than 100. The average term of these customer contracts is a little over two years, and despite the much smaller size of the deployments, overall credit quality improved as well: our investment grade customer concentration has increased from 84% to 85%.

In addition to the more than $7 million of annualised rent we signed at the two L.A. properties, we also signed over $30 million of renewal leases across North America. This combined leasing activity represents more than 40% of our total portfolio annualised rent, at a positive 10.5% a cash rental reversion, comprised of 2%-3% reversions on hyperscale renewal leases signed and triple-digit reversions on the L.A. colocation contracts. As previously mentioned, the leasing activity we've executed over the past 90 days nearly doubled the portfolio WALE, from 2.8 years at 30 June to just over five years by mid-October.

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As you may recall, we also shared last quarter that we were, "in active negotiations to renew all the leases expiring across our portfolio over the next 12 months, except for a 10-megawatt, fully-fitted facility in Northern Virginia."

We have since executed renewal leases for all the leases expiring over the next 12 months, except for the Northern Virginia facility, featured on the righthand side of page four. The lease for this facility expires on 30 June 2025, and the current customer has a renewal option that expires on 31 December 2024.

This asset was purpose-built as a data center, is water-cooled, and is capable of supporting high-density AI workloads. It's situated on a 32-acre wooded parcel with a 24-megawatt NOVEC sub-station onsite. The property has been occupied and very well maintained by the same customer, a AAA-rated leading global cloud provider. The facility is 20 years old and will likely require some CapEx if the current customer does not, in fact, renew their lease.

We will reach a near-term decision tree upon expiration of the customer's renewal option on 31 December 2024. In the meantime, we are evaluating a series of options, including potentially re-leasing the facility as is; developing an annex in the parking lot; or potentially demolishing the existing building and developing a much larger facility on the site.

If the customer elects not to exercise their renewal option, and if we elect to re-develop rather than immediately re-lease the property, there is potential for near-term DPU disruption. To frame the magnitude of the potential exposure, every one month of downtime corresponds to 0.06 cents of DPU.

However, given the severe power constraints in a market with less than one percent vacancy – in addition to the size of the parcel and the potential access to power – we believe the potential short-term DPU disruption is far outweighed by the opportunity for long-term value creation.

Sustainable Growth

Let's turn to page four to discuss the path forward.

Our portfolio is still over 90% leased, and given the growing scarcity of data center capacity across core global data center markets, the remaining vacancy in Los Angeles, Toronto, Frankfurt and Osaka represents an opportunity to generate organic growth and enhance the current return on our existing asset base.

We also have a unique set of opportunities that enable us to play offense on capital allocation. We will carefully evaluate our options to execute on investments that generate accretion for unitholders while preserving the flexibility of our balance sheet. Our leverage remains at the low end of our 35%-40% target range, and 87% of our debt is hedged against variable rate exposure.

One hundred percent of our debt is unsecured, and we own the freehold to 100% of our assets. Following the recast of our credit facilities, we have over $40 million of cash on our balance sheet, $275 million of availability on our line of credit, and our weighted average debt maturity is nearly five years.

Since our IPO nearly three years ago, we have faced a series of challenges, which have forced us to adapt and evolve. Our business – and our team – have proven resilient, and we have emerged stronger. The entire data center sector has benefitted from a powerful tailwind, driven by the explosive growth of artificial intelligence, at the same time capacity has become constrained across numerous core global data center markets.

The current backdrop of accelerating data centre fundamentals, combined with the evolution of our portfolio, provides a new set of opportunities. We continue to enjoy strong support from our Sponsor – a leading global data centre owner and operator. Our Sponsor acquisition pipeline is unparalleled in the industry, and we have a unique opportunity to source accretive investments in state-of-the-art digital infrastructure across the globe.

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In summary, we believe we a long runway for growth, a strong tailwind at our back, and – following the significant de-risking of our business over the past 90 days – a solid launchpad for capitalising on the opportunities ahead of us to create long-term value for unitholders.