

## REPORT REPRINT

# Element Critical enters Chicago market with two suburban datacenters

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The colocation provider has entered the Chicago market via the purchase of two live multi-tenant datacenters in the western suburbs. The San Francisco-based company will also invest \$40m in developing and enhancing the facilities.

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Colocation provider Element Critical has acquired two live multi-tenant datacenters in the western suburbs of Chicago. The San Francisco-based company will also invest \$40m in developing and enhancing the facilities, which are in Wood Dale near the technology hub of Elk Grove Village. Element Critical will offer clients at both sites a platform of complementary managed services and cloud connectivity solutions via a strategic partnership with Synoptek. Via this purchase, Element Critical will integrate almost all the existing tenants into its portfolio. Executives believe that providing incumbent clients access to additional services and products, in addition to colocation options in the other Element Critical geographies, represents a significant potential business driver.

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## THE 451 TAKE

Looking at the Chicago colocation market, a new provider without a huge national presence making a name for itself in the city seems like a difficult, if not impossible, task. As the local industry has grown rapidly over the last few years, however, operators have begun to divide themselves into two groups: wholesale developers going after hyperscale deals and players like Element Critical that are sticking with the enterprise despite the lengthier and more involved sales process. Although the former group accounts for most of the projected growth in Chicago over the next couple of years, and a handful of large cloud deals have grabbed all the attention, enterprises continue to drive most of the actual take-up in the area. By acquiring two live sites already operated as multi-tenant facilities in a highly desirable suburb, Element Critical seems primed for a quick start in the Midwest. Renovation and expansion before other enterprise-oriented providers get up to speed will be key to ensuring this initial momentum continues.

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## CONTEXT

Colocation and hybrid IT services provider Element Critical, based in San Francisco, opened its first datacenter in Sunnyvale, California, in 2014, originally named CentralColo. Backed by primary financial partners Safanad and Industry Capital, the company also owns and operates a facility in Tysons Corner, Virginia. Members of Element Critical's executive team have had previous industry roles at ByteGrid, Vantage Data Centers, Sentinel Data Centers, Digital Realty, INAP and QTS.

At the end of 2018, the provider rolled out a new strategic partner program for various sales channels, including sales agents, value added resellers, systems integrators and managed services providers. Element Critical itself also offers remote hands and device management services as well as interconnection and datacenter and cloud connectivity.

## STRATEGY

Element Critical's two new facilities are in Wood Dale, Illinois, a suburban town that borders both Elk Grove Village, Chicago's most popular datacenter destination, and Itasca, where local utility Commonwealth Edison brought a new substation online in 2018 to keep up with the area's development. Combined, the two buildings feature 111,000 operational square feet supported by 15MW. Element Critical's overall growth strategy has been to acquire, renovate and expand existing facilities in top US markets, and the company could make further moves in new locations by the end of the year.

The provider has already made significant investment across its portfolio toward retooling and updating supporting infrastructure. Chicago, where Element Critical will commit at least \$40m to develop and enhance the two existing structures, will be no different. The Wood Dale datacenters are also home to a significant amount of disaster recovery (DR) and business continuity processing (BCP) space, products Element Critical will support both directly and in strategic partnerships with national DR and BCP providers. For cloud connectivity, Element Critical will bring in multiple partners to enable cloud on-ramp and other critical services.

## CUSTOMERS

Midsized and retail deployments from large enterprises have taken up the majority of Element Critical's utilized capacity so far. The company reports that, although it has the capability to engage in build-to-suit projects for hyperscale clients, its focus continues to be solutions engineering-oriented, customized, high-density offerings for end users. The Wood Dale facilities, having already been multi-tenant under their previous owner, are currently operational with some degree of available capacity. Element Critical has also already outlined expansion plans for the two sites, including the immediate development of 30,000 gross square feet of new datacenter space.

Element Critical's new Chicago footprint is already well leased, and the provider hopes to benefit from the new cross-selling opportunities the strategic acquisition might eventually yield. All the company's prospective engagements for Chicago and its other markets involve consultative sales processes predicated on solutions engineering.

## COMPETITION

According to the 451 Research Datacenter KnowledgeBase, Element Critical's sizable acquisition immediately makes it the fifth largest retail provider in the entire Chicago market. Even with existing customers already in place, the move will see the California company now regularly bump up against the other top colocation firms in the city, including Equinix, Cxtera, Zayo and CenturyLink (after the carrier's purchase of Level 3's datacenter portfolio). TierPoint, New Continuum Data Centers and ServerCentral maintain large local presences as well, while Brookfield Infrastructure Partners' new datacenter business, picked up from AT&T and labeled Evoque, also includes two suburban Chicago sites.

Element Critical enters the suburban Chicago market in the middle of an especially hot time for the area's local multi-tenant datacenter industry. In 2018, market leader (in terms of online capacity) Digital Realty added a new phase to its Elk Grove Village campus (originally owned by DuPont Fabros) and acquired a large facility in Northlake from Carter Validus for \$315m. Stream Data Centers also made its grand entrance with a new datacenter offering 70,000 operational square feet. CyrusOne and T5 Data Centers expect to grow at their existing locations, and Iron Mountain, RagingWire and new venture Indiana NAP all intend to stake their claims.

Element Critical believes that, unlike these various players, its retail and midsized, as opposed to wholesale, market positioning, as well as the proximity and current availability of its new facilities, will allow the company to quickly carve out a profitable niche in what is becoming one of the most competitive metropolitan areas in the country.

## SWOT ANALYSIS

### STRENGTHS

In the increasingly saturated Chicago market, where rising land costs and a lack of suitable sites with adequate power availability are driving providers to untested locations further away from the downtown area, the geographic positioning of Element Critical's new facilities, about as close to Elk Grove Village as possible, could be critical to the company quickly winning new business.

### WEAKNESSES

On the other hand, the two buildings are currently utilized at high rates and despite Element Critical's stated expansion plans, the integration process may delay the availability of large amounts of new product for a few months.

### OPPORTUNITIES

Cross-selling may be important for Element Critical to get up and running in Chicago, but in the long run the Midwest's vast pool of enterprises all at different stages of digital transformation should provide the company with ample opportunity to thrive.

### THREATS

Chicago's lengthy list of established and well-known retail colocation providers will pose a challenge for Element Critical, a relative up-start.