

## TECHNOLOGY

# Malls Fill Vacant Stores With Server Rooms

Empty Department Stores Are Converted Into Data Centers; 'Who Else Wants Them?'



Zayo Group runs a data center and interconnection hub from part of Phoenix's Park Central mall, which is now mostly used by office tenants. *MARK PETERMAN FOR THE WALL STREET JOURNAL*

By **DREW FITZGERALD** and **PAUL ZIOBRO**

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The Internet is moving to a shopping center near you.

In Fort Wayne, Ind., a vacated Target store is about to be home to rows of computer servers, network routers and Ethernet cables courtesy of a local data-center operator. In Jackson, Miss., a former McRae's department store will get the same treatment next year. And one quadrant of the Marley Station Mall south of Baltimore is already occupied by a data-center company that last year offered to buy out the rest of the building.

As America's retailers struggle to keep up with online shopping, the Internet is starting to settle into some of the very spaces where brick-and-mortar customers used to shop. The shift brings welcome tenants to some abandoned stretches of the suburban landscape, though it doesn't replace all the jobs and sales-tax revenue that local communities lost when stores left the building.

Venju Solutions LLC, a data-center operator that is renovating the former department store in Jackson, sees more opportunity for conversion because of sheer amount of distressed retail properties. "Who else wants them?" said Brian Vandegrift, the company's executive vice president of sales. "You're not competing with people in substantial businesses who want those spaces."

Many malls and neighborhood shopping centers are still grappling with vacancies five years after the recession. The average mall vacancy rate hovers around 5.8%, according to market researcher CoStar Group, the same level as in the third quarter of 2009. Strip-mall vacancy sits at 10.1%, down from 11.5% five years ago. Rents are down too. Asking rents at malls have fallen 16% over the past five years, while strip mall rents declined 12%, according to CoStar.

For companies that house the equipment that makes online shopping possible, however, business is booming, helped by surging volumes of Internet traffic. Revenue from the biggest data-center operators is expected to increase 15% this year, according to tech consultancy 451 Research.

Deepak Jain, the chief executive of data-center operator AiNET, bought a former Boscov's department store in 2012 at Marley Station Mall, a shopping center south of Baltimore where Macy's, Sears, and J.C. Penney still operate as anchor tenants. Last year, Mr. Jain offered to buy out the rest of the mall but said he was rebuffed.

In scouting properties, Mr. Jain said the most attractive real-estate prices are often in middle-class neighborhoods where many consumers have turned to online shopping. “The Internet helps serve that dislocation, and there’s no trend in sight that seems to change that,” Mr. Jain said.

Operators like AiNET and Venyu aren’t the first landlords to pack server stacks where clothing racks once stood. Midwestern data-center operator Cosentry Inc. turned a half of a vacant J.C. Penney store in Omaha, Neb., into a data center more than a decade ago. A PayPal office moved into the other side.

Zayo Group Holdings Inc. runs a hub for Internet providers’ connections from part of Phoenix’s Park Central mall, which is now largely an office park.

*Zayo Group runs a data center from part of Phoenix’s Park Central mall. MARK PETERMAN FOR THE WALL STREET JOURNAL*

Converting retail properties isn’t simple, however. Data-center operators have specific needs for their properties including access to heavy-duty fiber optic communications cables and reliable and affordable power access. The buildings need to be able to withstand tumultuous weather, from hurricanes to tornadoes. Windows are a negative.

For those reasons, the former big-box real estate locations are appealing though they are used by the less-demanding “retail” end of the data-center market that serves clients like local hospitals and law firms, which only need a few square feet of space to back up critical documents.

Venyu is in talks with a company that “mines” virtual currencies like Bitcoin by performing massive calculations around the clock for space in its converted mall in Baton Rouge, La. “We’re wanting to make sure he’s going to pay us with U.S. currency,” Mr. Vandegrift said.

Many websites aren’t likely to move into the shopping center down the street. Big brands like Amazon.com Inc. and Google Inc. are more likely to use custom-built server farms.

Equinix Inc., the country’s biggest independent data-center operator by revenue, avoids active malls because they don’t offer the kind of built-in security its customers need. Tenants like restaurants that use fire would represent a liability, said Charles Meyers, the company’s chief operating officer.

*Phoenix’s Park Central mall, which was built in 1956, is now mostly used as office space. Shown, an undated postcard a few years after it opened. BOB PETLEY STUDIOS / THE JOAN DE ARC CRUSADER*

Sears Holdings Corp. set up a new unit last year to try to sell excess space from its auto centers to telecom companies but has yet to find a customer.

And while data centers bring much needed occupants to often deserted locations, they aren’t restoring employment levels. Venyu plans to hire about 30 people for its new location in Jackson, Miss. The local department store employed twice as many.

In Fort Wayne, Lifeline Data Centers LLC said it would hire about 10 people to work in the 110,000 square foot space. That compares with roughly 90 when it was a Target store.

Lifeline’s investment will create months of construction work as it seeks to upgrade the property it bought in September that Target vacated nine years ago.

Rich Banta, a Lifeline co-founder, said Lifeline will spend \$3.2 million, more than three times the price for the location, to fortify the walls with concrete and add steel girders to the roof to withstand tornado strength winds up to 130 miles an hour.

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The company has done it before. In 2008, Lifeline bought an abandoned shopping mall in Indianapolis with the plan to level the building and build up the 41-acre site. But it turned out part of it was a fallout shelter in the 1950s, making that section suitable for servers.

Mr. Banta said the location of the Fort Wayne site—more than a half mile away from a highway, rail line or river, 5 miles from an airport and outside a flood zone—was what made it attractive. “By the time you’ve done all that vetting, most sites don’t fit that criteria,” he said.

The location happens to be across the street from a McDonald’s and a recently closed Kmart.

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### Corrections & Amplifications

Venue is in talks with a company that “mines” virtual currency for space in its converted Baton Rouge, La., mall. An earlier version of the article misstated the city. (Nov. 4)



The advertisement for SAS Visual Analytics features the SAS logo at the top left with the tagline "THE POWER TO KNOW." Below this, the text "SAS® Visual Analytics" is prominently displayed. Underneath, a message reads: "Running your business is costly. Your analytics shouldn't be." An orange button with the text "Try the demo" is positioned below the text. The bottom half of the advertisement shows a close-up of a person's hand in a dark suit jacket interacting with a tablet. The tablet screen displays a complex data visualization interface with various charts, including a bar chart, a line graph, and a map, all set against a light background.

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