Digital Realty And Prudential Real Estate Investors Announce $369 Million Joint Venture

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SAN FRANCISCO, Oct. 2, 2013 /PRNewswire/ -- Digital Realty Trust, Inc. (NYSE: DLR), a leading global provider of data center solutions, announced today the formation of a $369 million joint venture with an investment fund managed by Prudential Real Estate Investors ("PREI"), the real estate investment management and advisory business of Prudential Financial, Inc. (NYSE: PRU).

Digital Realty seeded the joint venture, which was formed on September 27, 2013, with nine Powered Base Building® data centers totaling 1.06 million square feet and valued at approximately $366.4 million (excluding $2.8 million of closing costs), or $346 per square foot. The properties are expected to generate cash net operating income of approximately $24.5 million in 2013, representing a 6.7% cap rate. The properties are 100% leased, with an average remaining lease term of approximately nine years. The PREI®-managed fund will take an 80% interest in the joint venture and Digital Realty will retain a 20% interest. The joint venture is structured to provide a current annual preferred return from cash flow to the PREI®-managed interest, while Digital Realty will receive fees and a promote participation for managing the properties.

The joint venture has arranged a $185 million five-year unsecured bank loan at LIBOR plus 180 basis points, representing a loan-to-value ratio of approximately 50%. The transaction generated approximately $328.6 million of net proceeds to Digital Realty, comprised of Digital Realty's share of the initial draw-down on the bank loan in addition to the PREI fund's equity contribution, less Digital Realty's share of closing costs. Digital Realty will recognize a gain on depreciated book value of approximately $115 million on the sale of the 80% interest in the nine properties during the third quarter of 2013.

"We are delighted to be partnering with an institution of PREI's caliber, and we believe this transaction represents an important validation of the appeal of data centers as an asset class to a sophisticated, core real estate investor," commented Michael F. Foust, Digital Realty's Chief Executive Officer.

"The long lease terms and contractual rental rate increases on these Powered Base Building® data centers provide a stable rental income stream that represents a good fit with our investment objectives," noted Cathy Marcus, managing director at PREI and senior portfolio manager of the firm's core U.S. real estate strategy. "These institutional quality properties are fully leased to a diversified roster of credit tenants, and we look forward to realizing a stable return on this portfolio over the course of a long-term relationship with Digital Realty."

A. William Stein, Digital Realty's CFO and Chief Investment Officer added, "This joint venture is a significant milestone for Digital Realty, as it furthers our objective of maximizing the menu of available capital options, while minimizing the related cost. The transaction also has the ancillary benefits of lowering leverage while reducing our tenant concentration and establishing an attractive private market valuation benchmark for our Powered Base Building® product."

Proceeds from the transaction will initially be used to pay down debt, and will eventually be used to fund future investment activity. Digital Realty plans to revise 2013 guidance to reflect closing of the joint venture on the third quarter conference call, scheduled for Wednesday, October 30, 2013.

About Digital Realty

Digital Realty Trust, Inc. focuses on delivering customer driven data center solutions by providing secure, reliable and cost effective facilities that meet each customer's unique data center needs. Digital Realty's customers include domestic and international companies across multiple industry verticals ranging from information technology and Internet enterprises, to manufacturing and financial services. Digital Realty's 127 properties, including three properties held as investments in unconsolidated joint ventures, comprise approximately 23.7 million square feet as of June 30, 2013, including 2.8 million square feet of space held for development. Digital Realty's portfolio is located in 32 markets throughout Europe, North America, Asia and Australia. Additional information about Digital Realty is included in the Company Overview and additional information about the Digital Realty / PREI fund joint venture is included in the Digital Realty/ PREI fund Core Joint Venture materials, which are available on the Investors page of Digital Realty's website at http://www.digitalrealty.com.

About PREI

PREI, which has been investing in real estate on behalf of institutional clients since 1970, is a leader in the global real estate investment management business, offering a broad range of investment vehicles that invest in private and public market opportunities in the United States, Europe, the Middle East, Asia, Australia and Latin America. Headquartered in Madison, N.J., PREI has other offices in Atlanta, Chicago, Miami, New York, San Francisco, London, Lisbon, Luxembourg, Munich, Frankfurt, Paris, Istanbul, Abu Dhabi, Mexico City, Sao Paulo, Beijing, Hong Kong, Seoul, Singapore, Sydney and Tokyo. In addition, PREI has representatives in Milan. As of March 31, 2013, PREI managed approximately $53 billion in gross real estate assets ($37.3 billion net) on behalf of more than 490 clients worldwide. For more information, visit http://www.prei.com.

Safe Harbor Statement

This press release contains forward-looking statements which are based on current expectations, forecasts and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially, including statements related to our joint venture with PREI's core U.S. real estate fund and related financing; our expected returns, fees and benefits from the joint venture; cap rate, rent to be received in future periods, remaining lease terms and rent increases related to the joint venture properties; expected use of proceeds from the joint venture transaction; and expected impact on financial results. These risks and uncertainties include, among others, the following: the impact of the recent deterioration in global economic, credit and market conditions, including the downgrade of the U.S. government's credit rating; current local economic conditions in our geographic markets; decreases in information technology spending, including as a result of economic slowdowns or recession; adverse economic or real estate developments in our industry or the industry sectors that we sell to (including risks relating to decreasing real estate valuations and impairment charges); our dependence upon significant tenants; bankruptcy or insolvency of a major tenant or a significant number of smaller tenants; defaults on or non-renewal of leases by tenants; our failure to obtain necessary debt and equity financing; increased interest rates and operating costs; risks associated with using debt to fund our business activities, including re-financing and interest rate risks, our failure to repay debt when due, adverse changes in our credit ratings or our breach of covenants or other terms contained in our loan facilities and agreements; financial market fluctuations; changes in foreign currency exchange rates; our inability to manage our growth effectively; difficulty acquiring or operating properties in foreign jurisdictions; our failure to successfully integrate and operate acquired or developed properties or businesses; the suitability of our properties and data center infrastructure, delays or disruptions in connectivity, failure of our physical infrastructure or services or availability of power; risks related to joint venture investments, including as a result of our lack of control of such investments; delays or unexpected costs in development of properties; decreased rental rates or increased vacancy rates; increased competition or available supply of data center space; our inability to successfully develop and lease new properties and space held for development; difficulties in identifying properties to acquire and completing acquisitions; our inability to acquire off-market properties; our inability to comply with the rules and regulations applicable to reporting companies; our failure to maintain our status as a REIT; possible adverse changes to tax laws; restrictions on our ability to engage in certain business activities; environmental uncertainties and risks related to natural disasters; losses in excess of our insurance coverage; changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation; and changes in local, state and federal regulatory requirements, including changes in real estate and zoning laws and increases in real property tax rates. For a further list and description of such risks and uncertainties, see the reports and other filings by the Company with the U.S. Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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