

Pair Of Data Center Megaprojects Suddenly In Jeopardy In The Sector's Most Important Market

November 2, 2023 | Dan Rabb, Data Centers (<https://www.bisnow.com/author/dan-rabb-496530>) (<mailto:dan.rabb@bisnow>)

Over the span of 72 hours last week, the fate of the two largest data center development efforts in the region around the industry's Northern Virginia epicenter suffered serious setbacks that have spurred new concerns for a booming industry already facing a supply crunch.



On Wednesday, Aligned Data Centers (<https://www.bisnow.com/tags/aligned-data-centers>) withdrew from Quantum Loophole (<https://www.datacenterdynamics.com/en/news/quantum-loopholes-maryland-campus-aligned-pulls-out-as-rowan-green-data-arrives/>), a planned megacampus in Maryland where it was expected to be the anchor tenant, citing emissions restrictions that could make the entire campus unviable.

Two days later, officials in Prince William County (<https://www.bisnow.com/tags/prince-william-county>), Virginia, recommended that lawmakers reject zoning changes

(<https://www.bisnow.com/national/news/data-center/northern-virginia-officials-formally-oppose-massive-pw-digital-gateway-data-center-project-121399>) required for the controversial Digital Gateway, a proposed assemblage of data center campuses that would be one of the largest concentrations of these facilities in the world.

Together, Quantum Loophole and Digital Gateway represent more than 2 gigawatts of data center capacity — more than exists in any market other than Northern Virginia, according to JLL (<https://www.us.jll.com/en/trends-and-insights/research/na-data-center-outlook>). Should both projects fall through, it would be the equivalent of canceling the entire development pipeline in major data center hubs like Phoenix or Northern California. That could have a significant impact on an industry already struggling to develop new capacity quickly enough to meet record demand (<https://www.bisnow.com/national/news/data-center/record-leasing-is-expanding-the-data-center-map-120380>).

“It’s not the best time for this to have occurred, frankly,” said Alykhan Shivji, a partner at law firm Allen Matkins (<https://www.bisnow.com/tags/allen-matkins>) specializing in data center transactions. “Globally, but particularly in Northern Virginia, supply right now is short, mostly thanks to power issues, and demand is high, mostly thanks to AI. So, this is happening at the wrong time.”

While both Digital Gateway and Quantum Loophole are in jeopardy, the two projects face different challenges.

Digital Gateway would allow data center development on 2,139 acres next to the historic Manassas battlefield in Prince William County, part of a stretch of agricultural land, neighborhoods and protected forest known as the Rural Crescent. Compass Datacenters (<https://www.bisnow.com/tags/compass-datacenters>) and QTS (<https://www.bisnow.com/tags/qts>) have proposed large campuses (<https://www.datacenterdynamics.com/en/news/prince-william-county-staff-recommend-denial-of-pw-gateway-project/#:~:text=A%20letter%20of%20NOVEC%20in,Civil%20War%20Dera%20Manassas>) the Digital Gateway footprint — more than 30 data centers in total with a capacity exceeding 1,000 megawatts. That is nearly as much as has been built or is under construction in neighboring Loudoun County (<https://www.bisnow.com/tags/loudoun-county>), the largest data center market in the world.

While this potential influx of industrial development generated furious local opposition almost immediately (<https://www.bisnow.com/national/news/data-center/more-data-center-resistance-in-nova-with-protest-at-qts-112067>), county lawmakers passed land use changes (<https://www.bisnow.com/national/news/data-center/prince-william-county-approves-controversial-2100-acre-data-center-plan-116172>) in 2022 that seemed to pave the way for the projects to move forward. But QTS and Compass still need lawmakers to approve zoning changes, and that has

become less of a certainty over the past year, as opposition to the project emerged as a central issue in local elections, with candidates opposed to the project unseating incumbents who supported it (<https://www.bisnow.com/national/news/data-center/prince-william-primary-could-mean-big-changes-for-data-center-developers-119517>).

But perhaps the most significant blow to the Digital Gateway's prospects came last week, with the county's planning staff issuing a report recommending that lawmakers reject all proposed rezoning for the Digital Gateway. With political support for the project already waning ahead of a final vote in December, the recommendation is a significant addition to the growing chorus of local pushback threatening to derail the Digital Gateway entirely.

In the days since, both developers have raced to amend their applications in response to the county planning staff's criticism. QTS announced "major concessions" and "major new commitments" on details like building height and conservation measures in an effort to keep the project on track, while Compass said it amended its application but didn't disclose details, the Washington Business Journal reported Thursday

([https://www.bizjournals.com/washington/news/2023/11/02/prince-william-digital-gateway-data-centers-qts.html?](https://www.bizjournals.com/washington/news/2023/11/02/prince-william-digital-gateway-data-centers-qts.html?utm_source=st&utm_medium=en&utm_campaign=EX&utm_content=wa&ana=e_wa_EX&11-02)

[utm_source=st&utm_medium=en&utm_campaign=EX&utm_content=wa&ana=e_wa_EX&11-02](https://www.bizjournals.com/washington/news/2023/11/02/prince-william-digital-gateway-data-centers-qts.html?utm_source=st&utm_medium=en&utm_campaign=EX&utm_content=wa&ana=e_wa_EX&11-02)).

Quantum Loophole, by contrast, is at risk of being derailed by regulatory hurdles of a different sort.

Located across the Potomac River from Loudoun County in Adamstown, Maryland, the 2,100-acre Quantum Loophole — the site of a former Alcoa smelting plant — has been touted by its backers

(<https://www.datacenterdynamics.com/en/analysis/quantum-loophole-heads-out-of-virginia-and-into-maryland/>) as a data center megacampus capable of supporting as much as 2 gigawatts of capacity.

The company proposes a nontraditional model of data center development:

Quantum Loophole wouldn't build any data centers itself but would provide land with power, fiber and water infrastructure, and major data center providers would develop their own subcampuses on different parts of the site. The anchor tenant was expected to be Aligned Data Centers, which announced plans

(<https://www.datacenterdynamics.com/en/news/aligned-planning-13-million-sq-ft-and-192mw-of-capacity-at-quantum-loopholes-maryland-campus/>) in late 2022 to build a 264 MW campus on the Adamstown site.

But last week, Aligned pulled out of Quantum Loophole

(<https://www.datacenterdynamics.com/en/news/quantum-loopholes-maryland-campus-aligned-pulls-out-as-rowan-green-data-arrives/>), citing a decision by state

regulators to limit the number of diesel generators allowed on the site. Those restrictions could prevent any future development at Quantum Loophole, Aligned argued in a letter (https://www.fredericknewspost.com/aligned---psc-letter-of-withdrawal/pdf_b19f6f03-5316-56fa-b1db-485fdf5cd54e.html) to Maryland officials, calling it a “negative — and perhaps fatal — signal” to potential tenants.

This sentiment was echoed by industry insiders, who said they don’t expect to see any projects move forward on the site unless those restrictions are lifted.

“If you can’t accommodate a standard market design at your campus, then it doesn't seem to make a whole lot of sense to move forward on a project, in my opinion,” said Andy Cvengros (<https://www.bisnow.com/tags/andy-cvengros>), a managing director at JLL (<https://www.bisnow.com/tags/jll>) and the firm’s U.S. data center lead.

While it is possible that both Quantum Loophole and the PW Digital Gateway will move forward as planned, the potential derailment of so much capacity in such a short period would send waves across the data center landscape, experts said.



With data center supply trailing so far behind hyperscale demand, much of this planned development was likely pre-leased or otherwise under agreement, said Ali Greenwood, executive director of Cushman & Wakefield’s data center advisory.

These Big Tech tenants are going to have to quickly meet their needs elsewhere, pushing more demand into alternative markets like Atlanta that have seen data center building booms (<https://www.bisnow.com/atlanta/news/data-center/two-more-players-planning-major-data-center-campuses-in-metro-atlanta-121440>) as development in Northern Virginia becomes more difficult.

“Atlanta will probably be a top choice,” Greenwood said. “You’ve already seen a tremendous amount of uptick there, and you’re going to see an even bigger push over the next 12 months. It’s a very positive thing for Atlanta and other alternative East Coast data center markets.”

Within the greater Northern Virginia market, Greenwood said it is too early to tell whether the difficulties these projects are encountering — and the potential disappearance of gigawatts of anticipated capacity — will have any immediate impact on transactions for developable land.

But she said she anticipates developers will be increasingly willing to pay a significant premium for sites that are already fully entitled and where there is a significantly reduced risk of the project being derailed.

“Any areas that have full zoning entitlements in place are going to be at a premium,” Cvangros said. “The data center providers are willing to pay up for that because it’s a fairly small portion of the overall project, plus it allows them to implement faster.”

But finding land appropriate for data centers with existing entitlements is rarely an option. Data centers are getting bigger and more power-hungry, (<https://www.bisnow.com/national/news/data-center/the-numbers-start-to-add-up-big-techs-ai-data-centers-could-use-more-power-than-the-netherlands-121263>) largely due to the computing needs of artificial intelligence — yet this is happening just as almost all major data center markets are experiencing severe power constraints. Developers are chasing available power into new markets (<https://www.bisnow.com/national/news/data-center/record-leasing-is-expanding-the-data-center-map-120380>) where few local governments are preemptively tailoring land use plans to data centers and where local communities, officials and regulatory bodies have little experience dealing with the industry.

This unpredictability is becoming the norm for developers, according to Allen Matkins’ Shivji, meaning the problems facing Quantum Loophole and the PW Digital Gateway may be the industry’s new normal.

“The challenge is more profound now, from a regulatory perspective and with politics,” Shivji said. “You’re dealing with local jurisdictions that aren’t necessarily as familiar and well attenuated to challenges that exist, and they’re sort of trying to get an understanding themselves. These things are going to become more and more prevalent.”

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