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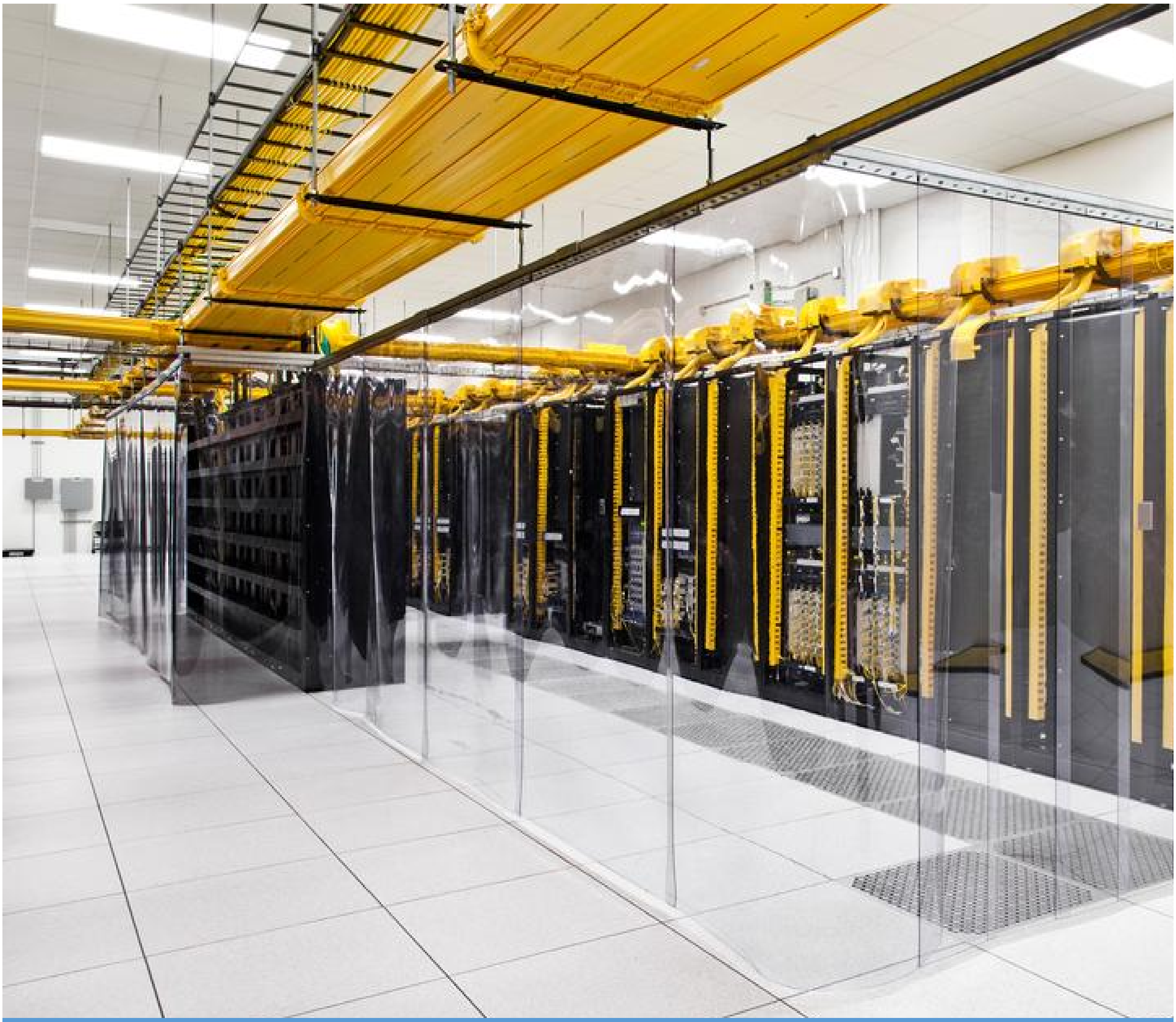

Digital Realty Trust (NYSE: DLR)

Rating: SELL Price Target: $67.00

Initiation of Coverage

20th August 2012 ValAn Research Team

Company Ticker	DLR
Exchange	NYSE
Current Share Price	$62.92
52 Week Range	$43.04-$63.99
Recommendation	BUY
Investment Period	30 Months
Target Price	$67.00

Valuation Metrics	Value
Market Cap	$8,517M
Current P/E	31.89
EPS	$1.97
P/B (mrq)	2.84
P/Sales(ttm)	5.33
Cash Dividend	$0.83
Dividend Yield	2.54%
5 Year Dividend growth	19.89%

Source: Bloomberg

Summary

We are initiating coverage on Digital Realty Trust, Inc. (DLR) with a SELL rating and $67 price target. DLR is currently trading at a modest premium to our NAV of $55.00 per share, which is based on an 11.1% unlevered IRR assumption on stabilized properties, translating to a 7.0% cap rate. While Digital Realty is the best-in-class proven operator of data centers and has one of the highest core earnings growth among equity REITs, we believe that the implied premiums of 25% at current trading levels are unwarranted, compared to our assumed premiums of 10-15%. While competition is lagging behind Digital Realty, we believe other public REITs do have the acumen to catch up at least at the US level. While expansion into Asia-Pac is the right move (given a 3 to 4 times demand/supply imbalance today) and gives Digital Realty a distinct first-mover advantage, our observation is that the current exposure and our assumed pipeline is not enough today to move the needle on valuation. Further, we believe that the US data center market conditions (new construction, less location sensitivity and slow decision making in the current economic environment) are not robust enough to support more than our assumed $2.5 billion development starts for Digital from 2013-15.

Key Points

- **Continued double-digit growth has led to overvaluation.** The attractive earnings growth that Digital Realty has exhibited in recent years, paired with expectations of above average future growth, has resulted in strong price accretion. 2010 and 2009 FFO grew by 36% and 13%, respectively, and we expect 2011 and 2012 to exhibit 22% and 10% growth, respectively. Year to date, the stock has increased 16%, compared to the REIT sector at 8%. Our valuation estimates that DLR should trade at a 15% premium to NAV, which represents a 15% downside from the current stock price.

- **Acquisitions showcase Digital's capital advantage.** In the third quarter of 2011, Digital Realty completed $67.9 million of acquisitions, which included a redevelopment property in London, an existing datacenter in Sacramento, and developable land in Australia and Portland. In 2011, the only other acquisition DLR completed was the purchase of developable land in Northern Virginia for $17.3 million in the second quarter. We expect that Digital Realty will continue to selectively acquire existing properties and land as a means of boosting FFO growth and fueling the development/redevelopment portfolio. Digital Realty is guiding about $300-400 million in acquisitions at 8-8.5% cap rate for 2012.

- **But more value will be created by the development pipeline.** Unlike other property types, datacenter development has yields in the mid- to high-teens. We are assuming discount rates ranging from 13-15% for Digital Realty's construction pipeline. We currently estimate a total of about $354.5 million in NPV of development/redevelopment for Digital Realty's future pipeline in our NAV, of which $134.7 million of NPV is in its current (already announced) redevelopment pipeline and an additional $219.9 million is in its future plausible development pipeline from 2012-2015.
- **Leasing backlog and development pipeline should support strong FFO growth.** Digital Realty's signed leases as of 9/30/2011 will add an incremental $37 million in GAAP rental revenues through 2012. Based on its 2012 guidance outlined during its investor day on January 31, 2012, Digital Realty also expects new leasing to increase its EBITDA by a run-rate of $105-130.5 million, of which $58.5 million is already in the bag. Digital also announced that the Company currently has 2.68 million square feet of construction in progress and 2.1 million square feet under redevelopment, which we expect to further supplement earnings growth going forward.

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Financial Performance and Outlook

Our 2012 and 2013 FFO per share estimates for DLR are $4.45 and $4.93, respectively, implying year-over-year growth of 10% and 11%, respectively. Our 2012 and 2013 AFFO per share estimates are $3.56 and $3.87, respectively. These estimates imply year-over-year growth of 13% and 9%, respectively. We estimate that the $2.72 per share current annual dividend represents a 76.5% and 70.3% AFFO payout in 2012 and 2013, respectively.

Key assumptions in our earnings estimates include 1) Turn-key occupancy levels of 91.5%, 92.0%, and 93.0% at year-end 2012-2014, respectively; 2) powered base occupancy levels of 96.2%, 96.3%, and 96.3% at year-end 2012-2014, respectively, 3) -1.0%, 0.0%, and 3.0% cash leasing spreads on turn-key space in 2012-2014, respectively; 4) the issuance of 5 million common shares in 3Q:12; 5) $300 million of 2012 acquisitions at an average 8.0% cap rate; 6) $500 million of development/redevelopment starts in each 2012, 2013, 2014 and 2015; and 7) the issuance of $300 million of debt in 2Q:12.

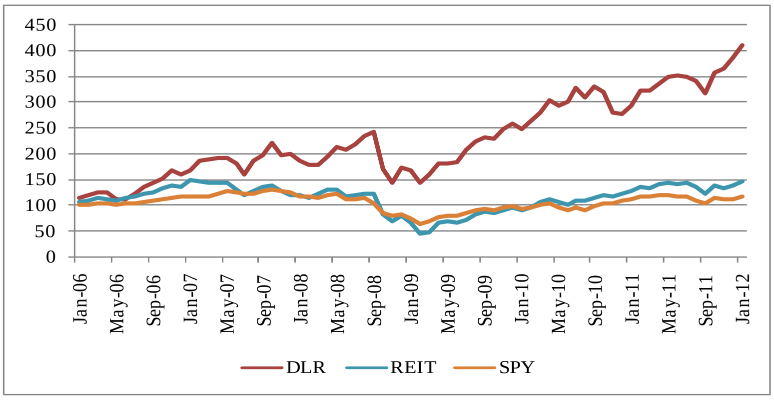
Dividend and Dividend Payout

We estimate that the $2.72 per share current annualized dividend represents an 86.7% and 76.5% AFFO payout for 2011 and 2012, respectively.

Dividend level should continue to grow on pace with AFFO

Dividend level should continue to grow. The current annualized dividend level of $2.72 compares to the 2010 and 2009 dividends of $2.02 and $1.47, respectively, which translates to 34.7% and 37.4% year-over-year growth in 2011 and 2010, respectively. Going forward, we expect that that dividend level will continue to grow proportionally to AFFO growth. Our current earnings model assumptions include $3.00 and $3.32 per share in 2012 and 2013 common dividends, respectively, representing a 10% increase in the first quarter of both years.

Exhibit 1: DLR Total Return Compares to All REITs and S&P 500



Source: Thomson One and VALAN GLOBAL research

Valuation

Valuing a data center property type. First, the data center property construction finishes can range from pure shell to raised floor with office space, and, finally, to turnkey space. Therefore, the construction costs could range from $250-1,000 per square foot and annual rents from $35-150 per square foot, depending on the finish. Second, data center transactions are not prevalent, and extrapolation of per-square-foot values, or cap rates, to the Digital Realty portfolio is difficult. Therefore, we use an unlevered internal rate of return (IRR)-based approach (of 11.1%) to arrive at a capitalization rate of 7.0% for the overall company. While the finish and rent levels can be quite disparate, we believe that overall growth across such finishes should be more or less identical, as improvements/infrastructure deployed by tenants can be quite sticky and fundamental demand drivers are similar.

Our $67.00 price target for DLR implies a 12-month return of approximately -2.1%

The ValAn Global price target for DLR is $67.00, which implies a 12-month total return of -2.1% inclusive of the dividend. This return expectation is below our 12-month total return expectation for the RMZ, which we currently forecast to be 4.6-9.6%.

For Digital Realty Trust, Inc., our price target components are as follows:

NAV ($55.00). The underlying IRR-based applied cap rate is 7.0%.

IRR. The unlevered 10-year IRR is 11.1%. We justify the unlevered IRR as it compares to 7-8% IRRs for short lease REIT operators, CBD office and industrial REITs, and 12% for less established data center REITs.

Appropriate premium/ (discount): We apply a 22% premium to our NAV estimate. We justify this applied premium due to Digital Realty's above-average FFO growth expectations and better-than-average balance sheet.

The key comparable REITs for Digital Realty Trust, Inc. are DuPont Fabros Technology, Inc. (NYSE: DFT, BUY) and CoreSite Realty Corp. (NYSE: COR, BUY). DLR is currently yielding 3.8%, in terms of dividend, versus 1.8% and 3.4% for DFT and COR, respectively. Per the February 3, 2012, closing price of $71.50, DLR is trading at 20.1x our 2012 adjusted FFO per share estimate, versus DFT and COR at 18.9x and 16.5x, respectively. The weighted average for REITs overall is 21.4x and 19.3x on a straight average calculation.

Exhibit 2: Comparable Peer Multiples

Company	Tkr.	Stock	AFFO				Div.	12 AFFO
		Price	12 Est.	13 Est.	12 Mult.	13 Mult.	Yield	Payout
Digital Realty Trust, Inc.	**DLR**	**$71.50**	**$3.56**	**$3.87**	**20.1x**	**18.5x**	**3.8%**	**76.5%**
DuPont Fabros Technology, Inc.	DFT	$26.08	$1.38	$1.73	18.9x	15.0x	1.8%	34.8%
CoreSite Realty Corporation	COR	$21.04	$1.28	$1.55	16.5x	13.6x	3.4%	56.4%
Peer Weighted Average (Excluding DLR)					18.4x	14.8x	2.2%	
Peer Straight Average (Excluding DLR)					17.7x	14.3x	2.6%	
Total REIT Weighted Average					21.4x	19.7x	3.4%	
Implied Premium / (Discount)					-6.1%	-6.2%	11.9%	

Source: Company documents, SNL Financial, Thomson One, and ValAn Global Research

The ValAn Global REIT Rating System

Given our current REIT sector return expectations of 4.6-9.6%, our REIT stock rating system may then be simply explained as follows:

(1) **BUY rating:** If the ValAn Global price target for the common stock implies a total return (price appreciation plus dividend yield) of about 2.5 percentage points above the midpoint of our REIT sector forecasts over the next 12 months, currently 7.1%, we rate the common stock a “BUY.” Said another way, any stock with total returns of 9.6% or more over the next 12 months is currently rated a “BUY.”

(2) **SELL rating:** If the ValAn Global price target for the common stock implies a total return (price appreciation plus dividend yield) of about 2.5 percentage points below the midpoint of our REIT sector forecasts over the next 12 months, currently 7.1%, we rate the common stock a “SELL.” Said another way, any stock with total returns of 4.6% or less over the next 12 months is currently rated a “SELL.”

(3) **HOLD rating:** If the ValAn Global price target for the common stock implies a total return (price appreciation plus dividend yield) that lies within 2.5 percentage points of the sector forecast of 7.1% on either side over the next 12 months, we rate the common stock a “HOLD.” Said another way, any stock with total returns between 4.6% and 9.6% over the next 12 months is currently rated a “HOLD.”

Readers should note that the percentage point spread and the midpoint of total sector returns used for our rating may change from time to time, depending on our forecasted risk and return environment for the overall REIT sector. We intend to revisit the risk and return forecasts from time to time as macroeconomic events unfold. We also intend to maintain our distribution of BUY, HOLD, and SELL ratings regardless of the total sector return expectations; that is, our ratings will remain relative to the REIT sector, not on an absolute total return basis.

Company History

Digital Realty Trust, Inc. (DLR), headquartered in San Francisco, is a real estate investment trust (REIT) engaged in the ownership, acquisition, development, redevelopment, and management of technology-related real estate. DLR was founded in March 2004 and completed its IPO on November 3, 2004. DLR owns controlling interest in the Digital Realty Trust, L.P. (Operating Partnership), with a 95.4% common general partnership interest.

Digital Realty's current portfolio totals approximately 17.4 million rentable square feet, including approximately 2.1 million square feet of redevelopment space within an aggregate of 98 technology-related real estate properties (excludes three properties held as investments in unconsolidated joint ventures). Its portfolio consists of Internet gateway and corporate data center properties, technology manufacturing properties, and headquarters of technology companies that are located throughout 31 markets in North America, Europe, Singapore, and Australia.

Data Center Industry Overview

The demand for data center real estate remains the best among all real estate property types, and we believe this relative strength will continue in 2012–2013. Demand drivers for data centers include (1) the growth of "cloud computing"; (2) increasing enterprise applications using servers such as ERP, CRM, data backup/storage; (3) higher risk-control regulatory demands for data/performance/storage (specifically government, financial, and healthcare sectors); (4) higher security, disaster recovery requirements; (5) broader Internet usage and data storage; and (6) more Web hosting services. However, near-term supply issues, specifically in the U.S., cause less than robust market conditions directly in Santa Clara and New York/New Jersey. We believe data center rents across the U.S. will likely remain below peak levels attained in 2007-8 in 2012-13.

Cloud Computing Translates to More Data Center Demand

Cloud computing and data storage needs will support fundamentals going forward--the wholesale business model remains intact, with near-term supply affecting a few U.S. markets

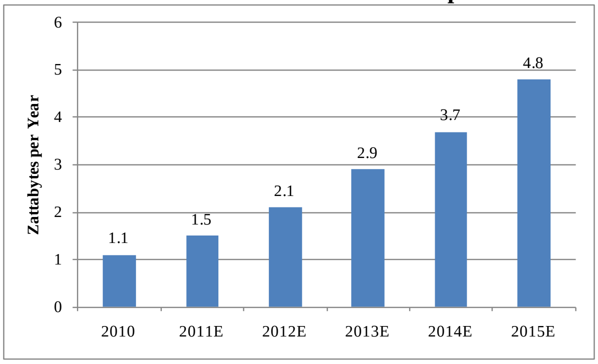
The International Data Corporation (IDC) defines "cloud services" as consumer and business products, services, and solutions that are delivered and consumed in real time over the Internet. Examples of cloud services include social networking sites, web-based e-mail services, virtual online office products, remote data storage, and other software-on-demand or software-as-a-service (SaaS) applications. Prior to 2008, peer-to-peer file sharing dominated Internet traffic. Therefore the majority of Internet traffic did not touch the data center. After 2008, the environment completely changed. Most traffic has originated or terminated in a data center. Cisco (NSDQ: CSCO, NC) predicts that global data center IP traffic will increase four-fold over the next five years. Cisco also expects data center IP traffic to grow at a compound annual growth rate (CAGR) of 33% from 2010-2015. Further, by 2014, over 50% of all workloads will be processed in the cloud, per Cisco. As the need for cloud services expands, it directly translates to increased data center real estate needs to host these cloud servers.

Exhibit 3: Global IP Traffic

	2010	2011E	2012E	2013E	2014E	2015E	CAGR 2010-2015E
By Type (PB per Month)							
Fixed Internet	14,955	20,650	27,434	35,879	46,290	59,354	32%
Managed IP	4,989	6,839	9,014	11,352	13,189	14,848	24%
Mobile data	237	546	1,163	2,198	3,806	6,254	92%
By Segment (PB per Month)							
Consumer	16,221	23,130	31,592	42,063	54,270	70,045	34%
Business	3,930	4,894	6,011	7,357	8,997	10,410	22%
By Geography (PB per Month)							
North America	6,998	9,947	12,978	16,116	18,848	22,274	26%
Western Europe	4,776	6,496	8,819	11,774	15,187	18,858	32%
Asia Pacific	5,368	7,317	9,847	13,341	18,060	24,150	35%
Japan	1,414	1,923	2,540	3,283	4,019	4,762	27%
Latin America	665	993	1,465	2,158	3,238	4,681	48%
Central and Eastern Europe	708	1,004	1,413	1,955	2,700	3,713	39%
Middle East and Africa	253	366	550	802	1,235	2,019	52%
Total (PB per Month)							
Total IP traffic	20,151	28,023	37,603	49,420	63,267	80,456	32%

Source: Cisco VNI, 2011

Exhibit 4: Global Data Center Traffic Is Expected to Grow at a 33% CAGR



Source: CSCO Global Cloud Computing Index

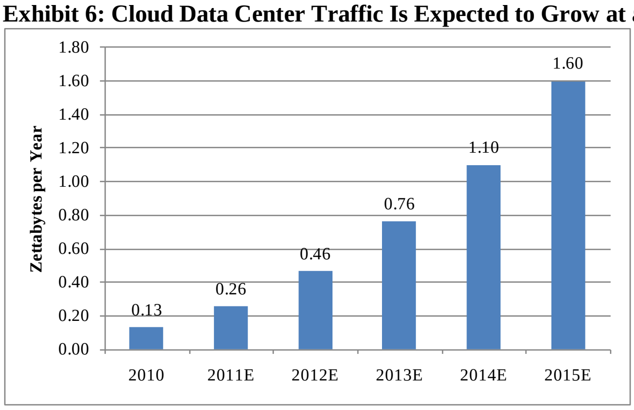
Exhibit 5: Consumer Internet Traffic, 2010-15E

	2010	2011E	2012E	2013E	2014E	2015E	CAGR 2010-2015E
By Network (PB per Month)							
Fixed	12,355	17,467	23,618	31,318	40,842	53,282	34%
Mobile	174	399	858	1,654	2,930	4,931	95%
By Subsegment (PB per Month)							
File sharing	4,968	6,017	7,277	8,867	11,040	13,797	23%
Internet video	4,672	8,079	12,146	17,583	24,357	33,620	48%
Web, email, and data	2,393	3,113	4,146	5,325	6,769	8,592	29%
Video calling	308	442	659	905	1,251	1,736	41%
Online gaming	49	68	95	133	187	290	43%
Voice over IP (VoIP)	138	147	153	157	160	168	4%
Other	0	1	1	3	8	11	132%
By Geography (PB per Month)							
North America	3,301	5,000	6,579	8,306	10,012	12,537	31%
Western Europe	3,147	4,360	6,075	8,224	10,841	13,896	35%
Asia Pacific	4,403	6,006	8,142	11,129	15,249	20,758	36%
Japan	638	932	1,317	1,807	2,344	2,968	36%
Latin America	482	735	1,106	1,667	2,577	3,850	52%
Central and Eastern Europe	454	667	971	1,381	1,963	2,805	44%
Middle East and Africa	103	166	286	459	784	1,399	68%
Total (PB per Month)							
Consumer Internet traffic	12,528	17,866	24,476	32,973	43,771	58,214	36%

Source: Cisco VNI, 2011

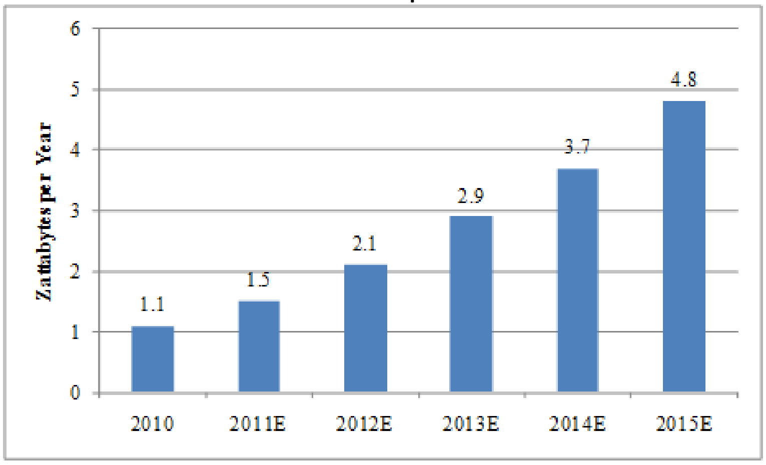
Cloud data center traffic is expected to grow at 55% CAGR

Exhibit 6: Cloud Data Center Traffic Is Expected to Grow at a 55% CAGR



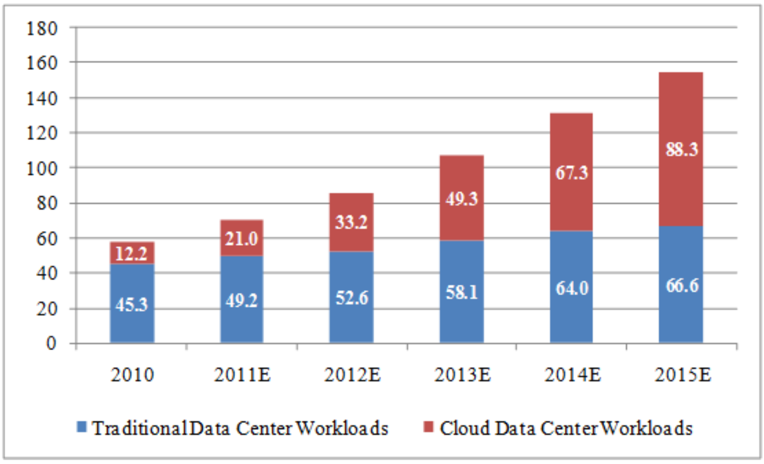
Source: CSCO Global Cloud Computing Index

Exhibit 6: Global Data Center Traffic Is Expected to Grow at a 33% CAGR



Source: CSCO Global Cloud Computing Index

Exhibit 7: Cloud Data Center Workloads at 57% of Data Center Workloads in 2015



Source: CSCO Global Cloud Computing Index

Growth Will Outweigh Virtualization, and Not All Applications Are Virtualizable

Virtualization and Containerization are long-term threats, but demand growth should outweigh these phenomena near-term

While virtualization, which is running applications on unused servers and the more efficient computation of data, should theoretically improve efficiency and reduce costs and the overall footprint of data center real estate, the adoption of virtualization has been slow. More importantly, we believe that the demand for data center space, in terms of the load of data that is being processed and stored, will outgrow the efficiencies created through virtualization. Cisco believes that the number of workloads per installed clouds server should increase from 3.5 in 2010 to 7.8 in 2015. We believe regulatory as well as performance issues may also prevent virtualization from reaching higher levels.

Leasing Versus Building Data Centers: Digital Realty's Tenants Come in All Sizes

While data center real estate may be in high demand, the common argument is that cash-rich large companies such as Microsoft (NSDQ: MSFT, NC) and Google (NSDQ: GOOG, NC) may build more of their own data centers, as opposed to leasing them. However, there are markets/submarkets where companies may prefer leasing to owning due to (1) time constraints, (2) higher performance/interconnectivity requirements, and (3) smaller footprint needs. Digital Realty's tenant demands come from all sizes and verticals, and local needs vary. These include infrastructure/cloud/Web hosting service providers such as Equinix (NSDQ: EQIX, NC) and CenturyLink (NYSE: CTL, NC), software companies such as Microsoft, and financial services firms such as Morgan Stanley (NYSE: MS, NC) and JP Morgan Chase & Co (NYSE: JPM, NC).

Tracking Trends in the Data Center Space

Tracking individual market data center demand and supply is difficult; we track U.S. fundamentals through Costar, Grubb Ellis data center stats, and Newmark Knight Frank

Timely vacancy/supply data are difficult to obtain for data centers both globally as well as in individual metros. Vendors / brokers do provide data on a lagging two- to three-quarter basis that can be significantly different from what is actually occurring on the ground. Therefore, we believe that the overall trend in the marketplace is also tracked by hardware shipments—notably servers, routers, and switches. In this regard, IDC believes that worldwide server market revenue increased 4.2% year-over-year in 3Q:11. IDC estimates that it is the slowest quarterly growth rate since the recovery in 1Q:10. Pacific and Japan exhibited strong revenue growth, while server demand in the rest of the world was flat to slightly down year-over-year. However, the moderation in server shipment growth is not overly troubling, as the complementary networking gear shipments have risen to record levels in 3Q:11. For example, 10 GE switch revenues were up 29.9%, driven by data center and campus deployments. Therefore, we believe the overall health of the data center market continues to be very positive, with a heavy tilt toward Asia-Pacific. We believe that Digital Realty remains well-positioned to exploit this growth opportunity, compared to DuPont Fabros or CoreSite.

Data centers are mission-critical facilities—no risk taking or pioneering by technology companies. Therefore, adoption of new technologies or new landlords/operators will take significant time, as a typical decision maker, such as the Chief Information Officer, minimizes the risk of choosing the wrong technology or wrong location. Further, local sites may be preferred to remote ones, as proximity and risk aversion may be paramount over even energy costs for a typical corporation. In this regard, Digital Realty's brand awareness is well ahead of any landlord's, given the length and breadth of Digital Realty's experience. However, we believe that DuPont Fabros and CoreSite will catch up to Digital Realty's leasing acumen over time.

United States

We track United States fundamentals through Costar, Grubb Ellis data center statistics, and our discussions with Newmark Knight Frank's Data Center

Consulting Group. While it is difficult to track individual market statistics for data centers, unlike typical office or industrial properties, we obtained decent color from these three sources. We believe that data center rents are highly cyclical to the economy and are currently well below peaks attained in 2008-9. Multiple contacts/sources quote a 10-15% rental decline from peak levels on a triple net critical load dollar per square foot basis in most markets. We also note that the financial crisis in 2008-9 has caused the U.S. data center fundamentals to be highly sensitive to an individual market's supply; notably, Santa Clara and New Jersey recently have seen drops in rents, thanks to operators' need to fill up available space quickly. On the flip side, our contacts continue to expect a strong 15-20% recovery in rents by end of 2012 for these disrupted markets. While containerization is a threat, this is more a slow, secular, long-term trend perhaps weighted heavily towards the secondary and tertiary markets, rather than the U.S. core markets. We now provide updated market color on each of the top five markets in the U.S., Santa Clara, Dallas, Chicago, New York/New Jersey, and Northern Virginia, as well as Los Angeles and select secondary markets.

Exhibit 8: Largest New Wholesale/Colocation Facilities Announced During 2011

Operator	Capacity	Location
CyrusOne	TBD (110 MW)	Phoenix,AZ
Sabey	40 MW	Manhattan,NY
i/o (PBB)	831,000 sf (30 MW)	Edison,NJ
Telx	215,000 sf (28 MW)	Clifton,NJ
T5	206,000 sf (16.65MW)	El Segundo,CA
RagingWire	70,000 sf (14.4 MW)	Ashburn,VA
Latisys	82,000 sf (14 MW)	Englewood,CO
Data Gryd	120,000 sf (12.5 MW)	Manhattan,NY
T5	150,000 sf (10.5 MW)	Dallas,TX
Equinix (PBB)	125,000 sf (10 MW)	Ashburn,VA
Fortune	240,000 sf (7.8 MW)	Hillsboro,OR
Savvis	70,000 sf (6 MW)	Piscataway,NJ
XO Comm. (PBB)	49,000 sf (3 MW)	Manhattan,NY
CyrusOne	45,000 sf	Dallas,TX
Terremark	30,000 sf	Santa Clara,CA
Sabey	TBD	Ashburn,VA

Source: Grubb Ellis 2011 Data Center Summary

Santa Clara. In 2011, the Santa Clara market saw a surge in supply from the public REITs as well as private operators such as Vantage. Further, recent private leasing activity confirms that rents continue to be under pressure due to availability, but could quickly abate, given that there is continued demand in the market and no new major supply of 10MW+ projects coming online in 2012 so far. Rents are currently quoted at about $100-120/kilowatt/month (triple net) and are expected to increase 15-20% by 2013. Drivers in the market continue to be small but highly successful startups—predominantly in the technology sector, which should continue to thrive in 2012, despite higher operating costs in the market.

Los Angeles. While not a major data center market, Los Angeles serves as an international hub for Asia. Noted demand drivers include entertainment and electronic gaming companies. However, our contacts believe that the size in demand from such a tenant pool (despite the diversity of companies) is not typically large—under 1MW. Therefore, exposure to the high operating cost market is typically only for the tenant who has to be in Los Angeles for the afore-mentioned Asian connectivity or to draw on personnel from specific sectors. Our sources continue to expect rents to be stable in 2012 in the $120-140/kilowatt/month and more or less steady demand in Los Angeles, with very little supply.

Dallas. Surprisingly, despite the recent new deliveries, the Dallas data center market rents have held up well in 2011, with rents being quoted in the $130-140/kilowatt/month. Digital Realty continues to remain as the dominant landlord in the market and therefore enjoys a distinct advantage over its rivals particularly in the Data center Park, which can house over 100 MW. Digital Realty currently lists over 726,000 square feet of redevelopment space in Dallas.

The Chicago market remains the tightest in the nation, while New Jersey and Santa Clara have near-term supply disruptions despite demand strength

Chicago—a tale of two markets. The Chicago downtown market continues to enjoy great strength thanks to trading latency requirements (due to the proximity of the Chicago Mercantile Exchange). Wholesale rents are quoted in the $140-160/kilowatt/month range, with rental rents well over $200-250/kilowatt/month. Digital Realty's own portfolio is anchored by 350 E. Cermak—whose success has been well documented in the past. Rents at 350 E. Cermak for the little remaining space are well north of $250/kilowatt/month. However, the Chicago suburbs are another story. Rents have remained in the $120-140/kilowatt/month, with availability from DuPont Fabros (DFT) and other smaller operators. Our sources indicate that rents will likely increase in 2012, as supply will remain somewhat muted.

New York/New Jersey. Despite steady but small-sized demand, quoted rents in this market have declined to $130-140/kilowatt/month from $150-170/kilowatt/month in 2008-9. This decline can be attributed to the supply in the market in recent months by both public REITs as well as private operators in excess of 40MW. Despite competition from containerization as well as Northern NJ (close to NYSE) projects, we believe that Digital's projects in Central NJ will lease up well in the coming months as larger corporate demand returns slowly to the market. While DuPont's NJ1 project competes directly, we believe that there is enough depth and variety of demand for leasing. However, we do expect rents to remain flat in the $130-140 area for the next few years.

Northern Virginia. Despite a heavy concentration of inventory around the Ashburn, Virginia area, demand in this market is still plentiful, supported by a variety of technology as well as corporate tenants. We believe that Northern Virginia may be the second most popular data center market next to Santa Clara, for historical reasons, backbone networks, as well as government technology and infrastructure spending/presence in the market. Rents have remained in the $110-120/kilowatt/month in 2010-11, below peak levels of $130-140/kilowatt/month in 2008-9.

Secondary markets—Phoenix, St. Louis, Atlanta, and Denver. Surprisingly, competition is scarce in these markets, allowing Digital to maintain a dominant presence. Rents have remained sticky in the $140-160 range (surprisingly higher than the Santa Clara and Ashburn markets) as local corporate users have few options to expand their data center needs. However, supply may be around the corner in such markets, particularly Phoenix.

Exhibit 9: Largest Blocks of Wholesale Space Available for Immediate Occupancy

Operator	Capacity	Location
CyrusOne	60,000 sf (20 MW)	Houston,TX
CyrusOne	41,000 sf (20 MW)	Austin, TX
DuPont Fabros	44,000 sf (14.1 MW)	Santa Clara,CA
DuPont Fabros	60,000 sf (12 MW)	Piscataway,NJ
DuPont Fabros	60,000 sf (12 MW)	Ashburn, VA
Powerloft	50,000 sf (9 MW)	Manassas,VA
Core Site	45,715 sf (8.5 MW)	Santa Clara,CA
Benaroya	50,000 sf (7.5 MW)	Puyallup, WA
DuPont Fabros	31,900 sf (5.3 MW)	Elk Grove Village,IL
T5	54,319 sf (6 MW)	Atlanta,GA
Quality Technology	50,000 sf (5 MW)	Atlanta,GA
Digital Realty Trust	28,254 sf (3.8 MW)	Chandler,AZ
Sentinel	20,000 sf (3.5 MW)	Somerset,NJ
CyrusOne	25,000 sf (2.2 MW)	Dallas,TX

Source: Grubb Ellis 2011 Data Center Summary

Europe

We track European fundamentals through CB Richard Ellis' (CBRE) Technology Practice Group reports in London. The exhibit below shows a snapshot of Europe's Tier 1 data center markets. The ongoing European crisis has stymied corporate demand in Paris and London, but Amsterdam and Frankfurt continue to be strong performers. Overall, in Tier 1 colocation markets, CBRE estimates about 30,185 square meters of absorption year-to-date, or about 5% of the overall stock. CBRE also forecasts deliveries of about 5-6% of total stock in Europe Tier 1 data center markets in 2012-13, with supply increasing by 9-10% in 2012 at least, characterized by developers' anticipation of future growth, despite cautious or negligible large corporate spending outlooks. However, CBRE believes that data center spending in Europe should remain robust, given corporations need to update their infrastructure and reduce energy costs. While CBRE believes that London, Paris, and Frankfurt remain the first three choices for end users with regard to increasing IT spending within Europe overall, Amsterdam has shown increasing absorption in 2010-11, compared to decreases in the top three cities. Digital has 3.9%, 2.4% and 0.9% exposure to London, Paris, and Amsterdam, respectively.

Exhibit 10: European Tier 1 Colocation 2011 Market Performance

	Inventory (Sq. Meters)	Vacancy (Sq. Meters)	Vacancy Rate	3Q11 Net Absorption (Sq. Meters)	YTD 2011 Net Absorption (Sq. Meters)
London	260,280	47,670	18.31%	3,280	8,085
Paris	95,460	14,930	15.64%	535	2,480
Frankfurt	150,220	262,020	17.45%	5,205	9,405
Amsterdam	79,370	13,080	16.48%	3,620	1,000
Madrid	34,620	7,710	22.27%	-	250
Total European Tier 1 Colocation Market	**619,950**	**109,610**	**17.68%**	**12,640**	**30,185**

Source: CBRE ViewPoint, European Data Centres, 3Q:11

Exhibit 11: European Tier 1 Colocation Historical Market Performance

Year	Colocation Net Absorption (Sq. Meters)	Total Net Absorption (Sq. Meters)
2007	70,350	114,095
2008	72,030	96,730
2009	48,110	48,575
2010	41,610	45,770
2011 YTD	30,185	30,185

Source: CBRE ViewPoint, European Data Centres, 3Q:11

Company Overview

Strong portfolio, tenant roster, acquisition discipline, and development pipeline should provide continued double-digit earnings growth

Digital Realty's portfolio totals 15.3 million rentable square feet across North America, Europe, and Asia, as illustrated in the exhibit below. Additionally, it is important to note that Digital Realty entered the Sydney and Melbourne markets in Australia, and the Portland, Oregon market with land purchases in 3Q:11. Digital Realty's portfolio is well distributed among key wholesale data center markets, and we believe that Digital Realty holds a significant market presence (>30-40% market share) in the U.S. wholesale data center market, based on our database of U.S. properties compiled from websites and Costar Group.

Exhibit 12: Summary of Digital Realty's Portfolio Exposure

Market	Annualized Rent	% of Annualized Rent	Occupancy (9/30/11)
Silicon Valley	91,996	12.3%	98.0%
Norther Virginia	80,046	10.7%	93.9%
New York Metro	71,812	9.6%	93.9%
San Francisco	71,538	9.5%	93.2%
Chicago	71,129	9.4%	92.8%
Dallas	67,598	9.1%	89.6%
Phoenix	63,094	8.5%	93.7%
Boston	44,464	5.8%	95.0%
Los Angeles	37,114	4.8%	98.8%
London, England	29,749	3.9%	86.7%
Dublin, Ireland	20,503	2.8%	99.6%
Paris, France	18,372	2.4%	91.6%
Non-Datacenter Properties	16,480	2.3%	100.0%
Philadelphia	12,356	1.5%	88.9%
Atlanta	8,780	1.2%	99.7%
St. Louis	7,205	1.0%	84.8%
Amsterdam, Netherlands	6,756	0.9%	84.3%
Miami	5,534	0.7%	97.0%
Singapore	4,599	0.6%	49.3%
Houston	4,117	0.5%	80.6%
Denver	3,567	0.5%	100.0%
Charlotte	3,495	0.5%	100.0%
Sacramento	2,992	0.4%	62.4%
Toronto, Canada	1,985	0.3%	100.0%
Manchester, England	1,978	0.3%	100.0%
Minneapolis/St. Paul	1,437	0.2%	100.0%
Geneva, Switzerland	1,646	0.2%	100.0%
Austin	605	0.1%	94.0%
Total Portfolio	**750,947**	**100%**	**93.7%**

Source : Company Reports and ValAn Global research

Tenant Concentration and Consolidation

Since its IPO in 2004, Digital Realty Trust has significantly reduced its tenant concentration through diverse acquisitions and leasing. The top three tenants, CenturyLink (CenturyLink acquired Qwest in 2Q:11 and Savvis in 3Q:11), Facebook (privately held), and Equinix represent 18.8% of DLR's annualized revenues, down from 22.5% at the end of 2009 and 19.5% at the end of 2010.

Exhibit 13: Top 20 Tenants

Tenant	# Locations	Occupied Square Feet	Annualized Rent ($000s)	% of Annualized Rent	Average Remaining Lease Term (Months)
CenturyLink, Inc.	33	2,696,292	$ 80,169	10.7%	91
Facebook, Inc.	4	231,488	$ 30,624	4.1%	83
Equinix Operating Company, Inc.	8	725,558	$ 30,390	4.0%	77
TelX Group, Inc.	11	254,314	$ 26,479	3.5%	174
Morgan Stanley	5	182,592	$ 26,479	3.5%	37
NTT Communications Company	5	309,759	$ 19,215	2.6%	44
AT&T	17	598,292	$ 17,202	2.3%	87
Softlayer Technologies, Inc.	5	215,074	$ 15,075	2.0%	118
Amazon	6	448,895	$ 12,846	1.7%	113
Level 3 Communications, LLC	28	303,583	$ 12,186	1.6%	103
Pfizer, Inc.	1	87,049	$ 11,201	1.5%	75
Yahoo! Inc.	2	110,847	$ 10,357	1.4%	73
TATA Communications (UK)	2	105,366	$ 10,173	1.4%	75
Sprint Communications Co., LP	6	173,319	$ 9,422	1.3%	36
BT Americas, Inc.	3	67,685	$ 9,418	1.3%	68
JPMorgan Chase & Co.	2	117,953	$ 9,387	1.3%	128
Microsoft Corporation	3	322,587	$ 9,267	1.2%	49
eircom Limited	1	124,500	$ 8,791	1.2%	94
T-Systems North America, Inc.	2	77,610	$ 8,377	1.1%	30
Carpathia Hosting	3	51,784	$ 8,147	1.1%	67
Total/Weighted Average		**7,204,547**	**$ 365,205**	**48.8%**	**87**

Source: Company reports and VALAN GLOBAL Research

Near-term Lease Expirations Are Minimal

Supporting the near-term stability of Digital's portfolio is the minimal lease expirations over the next several years. As is illustrated in Exhibit 13 below, Digital has only 5.06% of annualized revenues expiring in 2012 and 9.18% expiring in 2013. Even in looking further out, we believe that the largest single year of expirations, 13.03% of annualized revenues in 2014, is manageable.

Exhibit 14: Upcoming Lease Expirations Are Manageable

Year	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Net Rentable Square Feet	Annualized Rent ($000s)	Percentage of Annualized Rent	Annualized Rent Per Occupied Square Foot	Annualized Rent Per Occupied Square Foot at Expiration	Annualized Rent at Expiration ($000s)
Available		961,060	6.30%		0.00%			
2011	152	140,497	0.90%	14,162	1.89%	$100.80	$100.80	14,162
2012	243	400,348	2.60%	38,001	5.06%	$94.92	$96.12	38,482
2013	247	974,871	6.40%	68,954	9.18%	$70.73	$73.89	72,030
2014	214	1,350,386	8.90%	97,844	13.03%	$72.46	$77.64	104,839
2015	128	1,957,003	12.80%	82,118	10.94%	$41.96	$45.79	89,613
2016	131	1,632,150	10.70%	68,146	9.07%	$41.75	$46.52	75,922
2017	59	936,546	6.10%	41,064	5.47%	$43.85	$49.43	46,294
2018	83	1,080,373	7.10%	53,489	7.12%	$49.51	$60.15	64,985
2019	78	1,618,451	10.60%	96,675	12.87%	$59.73	$72.83	117,864
2020	75	913,495	6.00%	55,483	7.39%	$60.74	$76.33	69,730
Thereafter	176	3,297,679	21.60%	135,010	17.98%	$40.94	$60.93	200,930
Portfolio Total / Weighted Average	**1,586**	**15,262,859**	**100.00%**	**$750,946**	**100.00%**	**$52.51**	**$62.57**	**$894,851**

Source: Company filings and ValAn Global research

Development/Redevelopment Activity Should Support Continued Growth

We expect the development pipeline to continue to contribute to earnings growth

We expect that Digital Realty's development pipeline will continue to provide both earnings and NAV accretion going forward. Data center development has yields in the mid- to high-teens, higher than those of other property types. We currently estimate a total of about $354.5 million in NPV of development/redevelopment for Digital Realty's future pipeline in our NAV, of which $134.7 million of NPV is in its current (already announced) redevelopment pipeline and an additional $219.9 million is in its future plausible development pipeline from 2012-2014. Further, we anticipate that the development pipeline will contribute an additional $6.1 million of NOI in 2012, $37.1 million in 2013, and $84.4 million in 2014. The exhibit below summarizes Digital Realty's development portfolio as of 9/30/2011.

Exhibit 15: Digital Realty Development/Redevelopment Projects (square feet)

	United States	Europe	Asia/Pacific	Total	% Leased
Turn-Key Datacenter	229,433	14,747	105,858	350,038	15.9%
Powered Base Building	395,842	147,636	-	543,478	2.9%
Build-to-Suit	251,000	-	-	251,000	100.0%
Total Construction in Progress	**876,275**	**162,383**	**105,858**	**1,144,516**	**28.2%**
Total Redevelopment Space	**1,698,409**	**182,229**	**245,493**	**2,126,131**	

Source: Company reports and ValAn Global Research

In addition to the projects included in the exhibit above, subsequent to the end of the third quarter, Digital Realty entered into a 50/50 joint venture partnership with Clise Properties, Inc. (private) to redevelop a six-story Seattle parking garage to include four floors of data center space. The joint venture has signed a build-to-suit agreement with Equinix at the site, which will support 4,100 kilowatts of capacity.

Capital Availability Situation Sufficient for Future External Growth

We believe that Digital Realty's balance sheet and capital availablity are in sufficient condition to support the capital needs of the Company going forward. We estimate that the company has $1.6 billion of dry powder as of the end of 3Q:11, by way of $38.7 million in cash, approximately $1.4 billion of availability among the company's two credit facilities, and approximately $160 million of availability on the current equity program.

Sufficient dry powder for continued acquisitions, development, and redevelopment

Our capital source assumptions included in our earnings estimates are the issuance of $300 million of debt in 2Q:12 and the issuance of 5 million shares in 2Q:12 for total proceeds of $318.5 million. Additionally, we are assuming that all expiring secured debt is replaced with the same level of secured debt.

Exhibit 16 below illustrates Digital Realty's sources and uses assumptions for 2012, as is included in the Company issued FFO per share guidance range of $4.02-4.05. Our forward assumptions, as included in our earnings estimates, are towards the low side of these ranges. There is significant room for incremental earnings growth if Digital does not issue either the assumed term loan or bonds.

Exhibit 16: 2012 Sources and Uses Guidance

	2012 Range	
	Low	High
Uses:		
Acquisition of incoming producing proeprties	300	400
Development and Redevelopment capital expenditures	700	900
Portfolio level capital expenditures	50	65
Repayment of maturing secured debt	142	142
Repayment of maturing unsecured debt	-	-
Total Uses	**1,192**	**1,507**
Sources:		
Cash Flow from Operations (after dividends)	90	100
Bank Term Loan	300	500
Bond Issuance	300	500
Preferred and/or Common Equity	300	400
Total Sources	**990**	**1,500**
Net Sources / (Uses)	**(202)**	**(7)**

Source: Company filings and VALAN GLOBAL research

Management

The current management team has been in place since the Digital Realty Trust IPO in 2004. Richard A. Magnuson (Chairman of the Board) and Michael F. Foust (Director and CEO) founded GI Partners in 2001, the predecessor to Digital Realty Trust, and are very experienced in technology-related real estate. Additionally, A. William Stein (CFO, CIO, and Secretary) has more than 30 years of investment, financial and operating management experience.

Richard Magnuson (Chairman) Mr. Magnuson has served as Chairman of Digital Realty since the IPO in 2004. Additionally, since 2001, he has served as CEO of GI Partners. Further, Since November 1999, he has served as Executive Managing Director of CB Richard Ellis Investors, where he manages the investments and activities of GI Partners. Mr. Magnuson holds a B.A. from Dartmouth College and an M.B.A. from Stanford University Graduate School of Business.

Michael F. Foust (Chief Executive Officer and Director) Mr. Foust has served as CEO at Digital Realty since the IPO in October 2004. Prior, he co-founded GI Partners, Digital's predecessor private equity fund. He received an A.B. degree from Harvard University and an M.B.A. from Harvard Business School.

A. William Stein (Chief Financial Officer and Chief Investment Officer) Mr. Stein has served in his current capacity at Digital Realty since July 2004. His previous experience includes Co-Head of VentureBank@PNC, Media and Communications Finance at The PNC Financial Services Group, and President/COO and EVP/CFO of TriNet Corporate Realty (now part of iStar Financial). Mr. Stein received an A.B. degree in Classics from Princeton University, a J.D. degree from the University of Pittsburgh, and an M.S.I.A. degree from Carnegie Mellon University.

Risks

Macro risk. Changes in the broader global economy may result in deteriorating tenant credit conditions, lower demand for vacant space, increased supply of competitive space, higher leasing costs, and decreasing rental rates.

Technology obsolescence risk. The level of technological sophistication is an important factor in a data center customer's decision as to where to occupy space. As technology is ever-evolving, the current in-place infrastructure is at risk of becoming obsolete, becoming unattractive to tenants, and potentially requiring significant capital to upgrade.

Commercial real estate valuation risk. REIT prices have rebounded sharply since bottoming in 2008. There is a risk to these valuations, given the widespread bid–ask spread and dearth of transaction activity in the private markets that suggests that true property price benchmarks have yet to be established.

Tenant concentration risk. 48.8% of Digital's annualized revenues come from its top 20 tenants. This high level of concentration presents a sizable risk to the future revenue stream of the Company in the event a large tenant were to move out.

Interest rate risk. An increase in interest rates will have a negative impact on earnings results. REITs traditionally carry a large amount of debt on their balance sheets, and it often incorporates a floating interest rate.

Carrier and network provider risk. Digital Realty's data centers are dependent on connectivity by way of third-party carriers and network providers. Any interruption in these services, whether temporary or permanent, would impair Digital's ability to attract and retain customers.

Financial Analysis

Income Statement

Exhibit 17: Digital Realty Income Statement ($000s)

Rental Operations - Consolidated	**2014-Q1**	**2013 -Q1**	**% Change**
Rental Income	$303,739	$281,399	7.9%
Tenant reimbursements	83,621	75,917	10.1%
Construction management	1,183	806	46.8%
Other	2,047	248	725.4%
Total Property Revenues	$390,590	$358,370	9.0%
Operating Expenses	117,896	106,780	10.4%
Real Estate Taxes	22,125	21,042	5.1%
Insurance	2,422	2,205	9.8%
Construction management	164	384	-57.3%
Total Owned Property Expenses	**$142,607**	**$130,411**	9.4%
YOY Same Store NOI Growth	9.5%	8.1%	17.3%
TOTAL GAAP NOI	244,753	227,959	7.4%
TOTAL Cash NOI	221,495	203,745	8.7%
Other Items			
Depreciation and Amortization	130,620	111,623	17.0%
General and Administrative Expenses	18,248	15,951	14.4%
Equity in Earnings from Unconsolidated JV	1,738	2,335	-25.6%
Equity in earnings adjustment for non-core items	843	-	
Gain on contriibution of properties to unconsoidated joint venture	1,906		
Interest Income and Other	1,727	41	4112.2%
Interest Expense	47,374	48,078	-1.5%
Loss from Early Debt Extinguishment	292	-	
Tax Expense	1,838	1,203	52.8%
Gain on insurance settlement	-	-	
Transactions & Other Expenses	9,108	1,799	406.3%
Income From Continuing Operations	**$46,717**	**$51,681**	-9.6%
EBITDA	**$226,549**	**$212,585**	6.6%
Other Items			
Net Income Attributable to noncontrolling interest	(805)	(970)	-17.0%
Income from Continuing Operations	45,912	50,711	-9.5%
Discontinued Operations	-	-	
Net Income	45,912	50,711	-9.5%
Preferred Dividends	(11,726)	(8,054)	45.6%
Net Income Available for Common Shares	**$34,186**	**$42,657**	-19.9%
GAAP First Call FFO - Diluted/Share	**$1.22**	**$1.16**	5.2%

Source: Company reports and ValAn Global research

Balance Sheet

Exhibit 18: Digital Realty Latest Balance Sheet ($000s)

Assets	2014- Q1	2013 -Q1	% Change
Land	$685,640	$679,803	0.9%
Acquired Ground Leases	14,680	13,137	11.7%
Building and Equipment	8,834,693	7,826,501	12.9%
Tenant Improvements	490,697	419,062	17.1%
Accumulated Depreciation and Amortization	(1,665,421)	(1,288,440)	29.3%
Net real estate investments	**$8,360,289**	**$7,650,063**	9.3%
Investment in unconsolidated JVs	81,411	72,930	11.6%
Cash	70,242	42,130	66.7%
Accounts and other receivables	181,433	177,951	2.0%
Deferred rent	415,515	340,753	21.9%
Acquired above market leases	49,521	59,079	-16.2%
Deferred leasing costs	479,940	494,384	-2.9%
Deferred financing costs	34,295	33,393	2.7%
Restricted cash	42,842	43,929	-2.5%
Assets held for sale	25,070	-	
Other assets	64,836	56,880	14.0%
Total Assets	**$9,805,394**	**$8,971,492**	9.3%
Liabilities and Shareholders' Equity			
Notes payable under line of credit	$790,500	$546,649	44.6%
Unsecured Senior Notes	2,368,848	2,341,972	1.1%
Exchangable Senior Debentures,Convertible Debt & Unsecured term loan	1,293,291	1,014,230	27.5%
Mortgage Loans	554,742	779,273	-28.8%
Accounts payable and accrued expenses	614,645	613,537	0.2%
Accrued dividends	-	-	
Acquired below market leases	123,152	141,257	-12.8%
Liabilities related to assets held for sale	3,610	-	
Tenant security deposits	180,886	152,626	18.5%
Total Liabilities	**$5,929,674**	**$5,589,544**	6.1%
Minority interest:			
Minority interests in consolidated JV	37,406	30,186	23.9%
Minority interests in operating partnership	7,081	6,135	15.4%
Total Minority Interest	**$44,487**	**$36,321**	**22.5%**
Preferred stock - Series F	$176,191	$176,191	0.0%
Preferred stock - Series E	277,172	277,172	0.0%
Preferred stock - Series G	241,468	-	
Preferred stock - Series H	289,857	-	
Common stock	1,279	1,279	0.0%
Additional paid in capital	3,689,098	3,677,070	0.3%
Dividends in excess of retained earnings	(857,779)	(713,612)	20.2%
Accumulated other comprehensive income	13,947	(72,473)	-119.2%
Total Equity	**$3,831,233**	**$3,345,627**	**$0.15**
Total Liabilities and Equity	**$9,805,394**	**$8,971,492**	**$0.09**

Source: Company Financial Supplement

NAV Valuation

Exhibit 19: Digital Realty Net Asset Value ($000s)

As Of 3/31/2014	Consolidated	Unconsolidated Share	Minority Interest	Proportional Share
$ in thousands				
Stabilized Properties Cash NOI	**$934,531**	**$21,697**		**$956,228**
Management Fees @ 3%	(46,727)	(1,085)		(47,811)
NOI Adjustments - Forward Growth	-	-		-
Annualization Factor	1	1		1
Assumed Capitalization Rate	0	0		0
Stabilized Property Real Estate Value	12,682,921	284,306		12,967,226
SF Owned	19,887,709	1,511,842		21,399,551
Gross Real Estate Value per SF	**$ 638**	**$ 188**		**$ 606**
Total RE Adjusted Net Operating Income	887,804	20,612		908,417
Blended Capitalization Rate	0			0
Private Market Value of Properties	12,682,921			12,967,226
SF Owned				21,399,551
Gross Real Estate Value per SF				606
Pre-stabilized inventory, at cost	$497,954			$497,954
Development/Re-development Identified - NPV	524,706			524,706
Development Shadow - NPV	-			-
Land/CIP	940,152			940,152
CIP Associated with FY 14 backlog NOI	(186,900)			(186,900)
Total Gross Real Estate Value	**14,458,833**			**14,458,833**
Construction Management Income	4,076			4,076
Assumed Capitalization Rate	0			0
Value of Property Management Income	16,304			16,304
Total Cash and Equivalents	$70,242			$70,242
Notes/Accounts Receivable	181,433			181,433
Other Assets	64,836		(428)	64,408
Restricted Cash	42,842			42,842
Assets held for sale	-			
Private Market Value of Assets	**$14,834,490**			**$14,834,062**
Total Consolidated Debt	$4,717,813	$117,891		$4,835,704
Accounts Payable	614,645			614,645
Resident Security Deposits & Prepaid Rent	180,886			180,886
Accrued Dividends and Distributions	-			-
FY14 backlog NOI cost to complete	147,800			147,800
Total Preferred Stock	1,020,000			1,020,000
Private Net Market Value of Assets	**$8,153,346**			**$8,035,027**
Common Shares and OP Units Outstanding				138,751
Net Asset Value per Share				**$ 57.91**
Current Stock Price As of 28th July 2014				$ 62.92
Premium/(discount) to NAV				**8.60%**

Source: Company reports and ValAn Global Research

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