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LEADERSHIP MATTERS

A discussion with Bill Stein, CEO of Digital Realty Trust

The frame for this series of articles is that Leadership Matters. I'm interviewing Bay Area real estate CEOs and talking not about deal-making but their view on the importance of the business enterprise—the human and intellectual capital, the systems, the culture, if this word has meaning, the replicable DNA built into today's leading real estate companies.

My first interview is Bill Stein, CEO of San Francisco-based Digital Realty Trust, a company that provides an interconnected global ecosystem of data centers along with a network of colocation services. Prior to his current role, Bill has held the Chief Financial Officer and Chief Investment Officer positions at Digital Realty over the last decade and has been the company's CEO since November of 2014.

First question—am I barking up the wrong tree to focus on leadership and business enterprise? Or does it really all just default back to buying, building and owning great buildings?

STEIN: No, I think you're hitting the nail on the head, actually. When I took over as Interimx CEO two years ago, I outlined a series of initiatives, and "Unleashing the intellectual capital embedded within the organization" was one of our top priorities. On my watch, we've done our best to foster a culture supportive of First Amendment rights, and we've rounded out the senior management ranks with the addition of new talent.

One of our goals as an organization is to build a company where talented employees have ample opportunities for career development. We are blessed with a wealth of talent, and one of my primary objectives is placing the right people in the right chairs.

We have built a global platform of data centers through which our clients are literally tied to us. Our customer base is global, so we have to be global, too, and they work with us, in part, because of the consistency and predictability of experience. Our delivery at that level of consistency and performance, across the globe, is essential. So, yes, it is the platform, not just the assets.

SLEPIN: Sounds to me like you might be among the stickiest of all real estate companies?

STEIN: It's true. Connectivity is the right term. Our customers invest a significant amount of their own capital in the space they lease from us, and we also enable them to directly connect to the rest of our customer base within a property or campus to exchange data traffic. Once our customers invest that capital and establish a number of connections, our business tends to be very sticky. That is not to say that circumstances can't change. We are actually one part technology company, in addition to our foundation as a real estate company. And again, back to your thesis, that's why leadership and the platform matter so much in our business.

SLEPIN: When I think of technology companies, I think of the potential for scalability and hockey stick growth. I rarely think

of that in the context of a real estate company. Talk about your growth, which has been explosive.

STEIN: We started the business in 2001 with private equity capital. We took it public in 2004. When we took it public, our enterprise value was roughly \$800 million. Today we are over \$20 billion, a little more than eleven years later. We have generated positive growth in dividends and core [funds from operations] per-share each and every year since our IPO. We have the good fortune to be levered to secular demand drivers that are both somewhat independent from, and growing faster than, GDP.

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SLEPIN: That velocity of growth means going through plateau phases of growth and at the end of one, great change is necessary to reach the next level. How do you manage that?

STEIN: This business has indeed been a series of step functions, and next steps are always challenging. It is a constant process. To grow into that next phase, there is always dead skin that needs to be peeled away. It is not easy, and some of our strong people were not able to, or did not want to, make that transition. Because of the dramatic increase in our size, it's absolutely imperative that we have individuals and systems that are significantly scalable.

One of those plateaus was the Board's decision to transition from the founding CEO, who had done a good job starting us up, but then we needed to keep ahead of the curve in terms of growth and innovation. Since I became CEO, we have changed out over half the executive team. We have new skill sets, particularly in technology and internationally. Acquiring Telx greatly enhanced our size, scale, footprint and skill set. And now, with the new team in place and the merger fairly well integrated, we are positioned to reaccelerate that growth curve again.

SLEPIN: Talk about the role of the CEO in leading that.

STEIN: A CEO needs to be able to lead the orchestra appropriately—needs to know how to optimize the resources

within the company to achieve the desired outcome. When I retire one day, it will be important to find a successor who can press ahead on that vision and leadership.

SLEPIN: You must keep up.

STEIN: As we like to say, we want to skate to where the puck is headed.

SLEPIN: Where is the puck internationally? And, where do you look for successful models internationally?

STEIN: Remember, first, that we are a capital-intensive business with an investment focus. So you have to look to some of the hotel companies, Marriott, for example, for business models. Closer to home, of course, you can point to ProLogis. But there are no clear roadmaps.

But we have been able to bring in great talent. For our head of HR, we hired someone from American Airlines who had managed their integration with Continental Airlines, so big worldwide experience and perspective. Our new chief information officer actually worked for Ericsson for a number of years. He was based in Sweden and was involved in their global rollout. So he's had very good experience in that respect. Our head of sales covered overseas governments for Microsoft. So he was working government sales, and the business unit leader for Telx worked for an Indian telecommunications company for period of time and spent a lot of time in the Pacific Rim. And remember, we were started by some private equity guys who'd spent time in London for Nomura, and one of our first assets was in the UK, so we've had international perspective in our DNA from the beginning.

SLEPIN: Ah, DNA. Talk about that. What does the word DNA mean when talking about a business? Also, you're probably not here in 10 or 15 years. Is there DNA in place to have an identifiable Digital Realty Trust at that time?

STEIN: First, in 10 or 15 years, our top client relationships will look far more like partnership relationships. We are working closely with our clients on their needs, not only for future space, but on changes that might need to occur within their existing space to make them more efficient. I have no doubt that the business will be more global than it is today with less revenue coming out of the U.S. on a percentage basis.

There is cultural DNA as well. The people here are very hard-working and are passionate about what they do. They believe in the company. It's also transparency. We want people to be totally comfortable in talking about whatever the important issues are. Given our growth, we've been able to provide significant development opportunities for individuals that have that potential. We've also recognized the importance of bringing in new blood. So I think that we've been successful in balancing the need for new perspective as well as the perspective of those who have been here—in some cases, from the very beginning.

One last comment—it has been a meaningful competitive advantage to be based here in San Francisco from where much of the technology emanates. So, we have not only geographic proximity to our customers, but also cultural proximity. Our most successful sales team, in terms of market share, is our West Coast team. We also look more naturally to Asia than East Coast companies, and that region represents the most expansive growth opportunity. And, of course, you've gotta love living in the Bay Area! 📍