

Close proximity wins: Colocation as a home advantage for SaaS providers

Cloud costs are rising; compliance is becoming more complex, and AI needs on-site computing power. SaaS providers in the DACH region wanting to remain competitive can hardly avoid local colocation infrastructure.

The German software market is undergoing a profound transformation. According to Bitkom around 58 percent of software market revenue is now generated in public clouds, amounting to approximately €30.6 billion or 17 percent more than the previous year. At first glance, this confirms the ongoing cloud trend. However, a closer look reveals a counter-movement: companies that have consistently relied on hyperscalers for years are now facing rising costs, increasing dependencies and growing regulatory requirements.

The SaaS industry is thus facing a host of new challenges: increasing compliance requirements, a growing need for AI resources, demands for data sovereignty and increasing margin pressure. Against this backdrop, one model is gaining strategic importance: the local colocation data center.

SaaS providers are in a unique position. They are both cloud users and cloud providers. Their customers expect reliability, data protection and high performance, while the underlying infrastructure must remain scalable and cost-effective. This is precisely where a pure public cloud strategy is reaching its limits.

Full Data Control

The market is responding. According to the Bitkom study "Data Centers in Germany. Update 2025," colocation data centers - for the first time - account for more than 50% of total data center capacity in Germany. Capacity increased by 17.5% to a total of 2,980 megawatts. Around 10,000 companies in Germany are already using colocation services.

The reason is clear: Colocation combines the advantages of having your own infrastructure with the economies of scale of professional data centers. Companies operate their own hardware in the facilities of a colocation provider. Space, power supply, cooling and network connectivity are provided, while servers, data and infrastructure control remain in your hands.

Proximity, low latency, and optimal connectivity

A key advantage of local data centers lies in their proximity to end users. Colocation locations, for example in Hamburg, Munich or Luxembourg, enable particularly short distances to customers and applications. Many digital services rely on minimal latency. Local data centers reduce response times and enable systems to operate in near real-

time. This improves the user experience and creates a measurable competitive advantage.

In addition, modern colocation providers offer direct connections to leading cloud and SaaS ecosystems via AWS Direct Connect, Azure ExpressRoute and private peering connections to SAP, Salesforce, and others. SaaS providers therefore benefit from high-performance, predictable connections with defined bandwidths, both for their own applications and for the services they themselves use.

Compliance: Obligation Becomes an Advantage

Compliance also favors local colocation sites. And compared to many overseas providers, German and European data centers offer the advantage of better meeting regulatory requirements, local legal frameworks and industry-specific security standards.

SaaS providers serving customers in regulated industries – and this applies to the majority – must be able to demonstrate where data is processed and what security measures are in place. Banks, insurance companies, healthcare providers, operators of critical infrastructure and public administration require physically traceable data storage in Germany or Europe. Local colocation data centers meet these requirements and facilitate verification.

In addition, there is the issue of cybersecurity. 59 percent of German companies now consider cyberattacks to be an existential threat. Bitcom reports that spending on IT security is rising to €11.1 billion (+10.1%). Those who retain physical control over their infrastructure can implement security measures more effectively, monitor them more consistently and better adapt them to individual requirements.

Digital Sovereignty

The tense geopolitical situation is bringing digital sovereignty into sharp focus. The CLOUD Act allows US authorities, under certain conditions, to access data from US companies regardless of where it is stored. This creates an additional risk factor for European companies and SaaS providers.

Those who promise digital sovereignty must also deliver on it. Data sovereignty begins with the choice of infrastructure. This is precisely where a key differentiator lies in the competitive landscape. In a colocation environment, location, access rights and responsibilities can be clearly defined, right down to the specific rack.

AI Boom

Artificial intelligence is a driving force in the SaaS market. Providers integrating AI capabilities need a suitable infrastructure that supports high data volumes, GPU workloads and low latency.

Colocation data centers are designed for AI workloads. They enable hybrid architectures while flexibly scaling computing power. Inference workloads that need to react to customer data can thus operate in real time, a crucial difference for AI features in SaaS products.

Colocation and SaaS in Practice

The future is hybrid. Colocation data centers take on the role of the platform for business-critical systems, while standardized applications are obtained as SaaS.

Production-related applications, sensitive data repositories or custom platforms remain in a colocation environment. CRM, collaboration and other standard applications, on the other hand, can be used as SaaS. Backup and disaster recovery scenarios can also be seamlessly integrated into such hybrid architectures.

The result: Companies reduce the operational overhead for standard software and retain control over strategic systems.

For many SaaS providers, colocation can also be an economically viable option. They typically have highly predictable baseline workloads. For these, dedicated resources in a colocation environment are often significantly more cost-effective than pure capacity in the public cloud.

High-Performance IT Infrastructure

Portus Data Centers Group's data centers are precisely tailored to today's requirements. The company has been operating carrier-neutral edge and colocation sites since 2020. With data centers in Hamburg, Munich and Luxembourg, the data center operator provides the foundation for flexible and scalable IT architectures.

All locations feature state-of-the-art security with multi-level access controls, video surveillance and 24/7 monitoring. This is complemented by a highly available, redundant power supply and modern cooling systems. As a result, data-intensive applications can be reliably operated with high availability and low latency.

The data centers meet industry-standard certification requirements and address the stringent demands for security, compliance and availability. Portus combines regional presence with international connectivity.

Conclusion

The market for SaaS solutions continues to evolve. Those who want to be successful in this environment in the long term need an infrastructure strategy that combines compliance, performance, sovereignty and cost-effectiveness.

Local colocation data centers provide the appropriate framework; they create an infrastructure that is both economically and technologically geared towards future requirements.