

accordant The numbers supporting 30%+ IRR returns in hyperscale data center development¹

Real estate has faced its share of headwinds in recent years, but one sector has stood out, producing returns at levels not seen in decades: hyperscale data center development. Still, even that sector hasn't escaped the headlines: Has demand peaked? Are the returns sustainable? However, a closer look at the fundamentals and data tells a story of long-term growth, durable demand and continued opportunity.

Follow the facts, not the headlines: AI, cloud, and the digital core by the numbers

The scale of investment is enlightening. Hyperscale tenants – Amazon, Microsoft, Google, Meta – are collectively planning more than \$320 billion in capex to support AI compute, cloud services and enterprise infrastructure.² These firms are scaling for long-term capacity: more capacity means more revenue.

The result is a development environment unlike anything seen in recent cycles. Absorption is at all time highs, vacancy in primary markets has dropped to record lows, and new supply is being pre-leased long-term by major tenants, often before construction ever begins. The largest data center market in the world, Northern Virginia, saw over 1.4 GW of the 1.5 GW absorbed in 2024 pre-leased, pushing vacancy below 1 percent.³ Nationally, nearly 6.5 GW is under construction, more than 13 times the capacity under construction just four years ago, with 72 percent already pre-leased.⁴ These numbers underscore a massive supply/demand imbalance – one that supports the potential for outsized returns.

What's driving the returns?

Data center development returns are a byproduct of constrained supply, capital-intensive delivery, and long-term tenant commitments. Execution drives performance. Development margins in tier-one U.S. markets range from 50 percent to 65 percent,⁵ and IRRs for ground-up hyperscale projects are tracking between 25 percent and 40 percent over three- to four-year hold periods.

Scale amplifies this. A 60 MW build can reduce per-MW costs by up to 30 percent compared to a 20 MW site, thanks to fixed-cost efficiencies.⁶ Add in 10- to 15-year triple-net leases with rent escalators to credit tenants, and the risk/return profile begins to resemble infrastructure more than traditional real estate.

What it takes to deliver

In many markets, the bottleneck isn't demand – it's execution. Success often hinges on clearing four critical hurdles:

- 1. Power:** Power is the top constraint. Billions are being invested to upgrade grid capacity as new data centers face delays of up to two years for power connections. In the meantime, sites with near-term access are rare – and highly valuable.

- 2. Fiber connectivity:** Many tenants require low-latency access to major network routes. Redundant, high-throughput fiber is a critical factor.

- 3. Zoning and entitlements:** Delays can mean missed delivery timelines and lost revenue. "Not in my backyard" (NIMBY) resistance is increasingly prevalent. "Shovel-ready" sites with preapproved entitlements have a significant advantage.

- 4. Credibility:** Hyperscale tenants don't tolerate delivery risk. They vet partners rigorously. Past execution, engineering depth and utility coordination are critical.

This is not a space for generalists. The barriers to entry are high, and that's exactly why the potential returns look like they do.

The Headlines: A bubble? The data: Not so fast.

There's been some noise about whether this growth is sustainable, but the data points to a long-term structural shift.

- North America primary market absorption hit 1,809.5 MW in 2024 – up 450 percent from 2020.⁷
- Vacancy across primary U.S. markets dropped to a record-low 1.9 percent in 2024.⁸
- Global data center capacity is projected to grow 15 percent annually through 2027.⁹
- AI compute demand is expected to grow 5x by 2030.¹⁰

This data is not indicative of a cycle nearing its peak. It suggests a long-term shift in demand that's still in the early stages.

Will there be investment vehicles that deliver subpar results? Absolutely!

It's not easy and not everyone will succeed. As discussed above, it takes a high level of skill to bring all the pieces together.

Why it matters for allocators

For advisers who understand the underwriting, these projects offer something rare: access to high conviction, institutional-grade assets that are still difficult to source. The return profiles speak for themselves, but perhaps more importantly, so do the tenants. This is a sector with exponential demand dynamics – and a supply chain that can't scale fast enough. There are only a handful of teams that have the capabilities to consistently deliver. But the opportunities are real, and increasingly central to the digital economy's next phase of growth. For those with access, hyperscale data center developments represent one of the most compelling opportunities in private real estate today.



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CORPORATE OVERVIEW

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1. 30%+ IRR Returns" refers to return projections of hyperscale data center development projects by an institutional real estate investment firm and strategic partner of Accordant Investments. The "30%+" reflects gross, projected internal rates of return based on internal underwriting assumptions as of 6/2024. Actual returns may differ materially.

2. Quartz, *Big Tech's AI Spending Spree is Going Strong. Here's How Big It Could Be This Year*

3. Data Center Dynamics, *AI drove record \$57bn in data center investment in 2024*

4. JLL, *North America Data Center Report Year-end 2024*

5. Houlihan Lokey, *Real Estate Market Update: Data Centers, Summer 2024*

6. Uptime Institute, *Best-in-Class Data Center Provisioning, 2023*

7. CBRE, *Phoenix Ranks Fourth Among North American Data Center Markets in Total Data Center Inventory in 2024*

8. Data Center Frontier, *Comparing Highlights from the Latest CBRE, JLL 'State of the Market' Reports for U.S. Data Centers*

9. JLL, *2025 Global Data Center Outlook*

10. McKinsey & Company, *AI power: Expanding data center capacity to meet growing demand.*

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