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Data center development – The picks-and-shovels investment remains attractive despite AI bubble fears

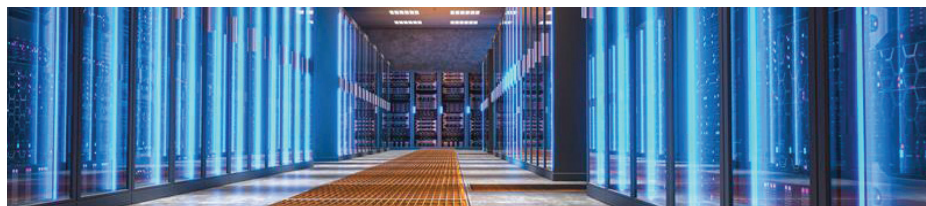
Data centers: Private real estate's largest growth driver today

Concerns over an AI "bubble" grew during the course of 2025,¹ and that anxiety is expected to continue into 2026.² Many public and private companies have seen their valuations soar based on the hype of AI and expected future adoption and growth for their businesses. More recently, though, the market has been rationalizing these risks and questioning revenue and monetization, and the stock prices of many of the most highly leveraged and perceived riskiest companies have been impacted substantially. As Andy Wu recently said in the *Harvard Gazette* about a potential AI bubble, "It's easy to get over-exuberant about technology."³

There is no doubt that there will be companies that fail and massive data center projects that never get built. That said, most industry experts believe in the long-term value creation of generative AI. Wu stated, "From a long-term perspective, the scale of the buildout is absolutely necessary to facilitate AI. If anything, we're probably too slow; not just on the data center side, but especially on the electrical grid."

Despite these fears, the data center buildout is not expected to slow materially. The hyperscalers, unlike many of the start-ups and new entrants, have ample cash flow and strong enough balance sheets to support their infrastructure expansion. These firms are thinking long-term to maintain their competitive moats and have financial resilience to withstand market corrections or the risk of overinvesting.

For perspective, **hyperscaler capital expenditures in 2026 are estimated to exceed \$600 billion**, up 36 percent year-over-year.³ This is nearly double the annual



GDP of countries such as Finland or Chile. When paired with **AI workloads projected to grow 165 percent in data center power demand by 2030**,⁴ the scale of demand becomes difficult to overstate.

It is not easy to build modern data centers, as supply is constrained by execution bottlenecks. Power access is the primary gating factor, with new connections delayed by multiple years in some regions. In the meantime, sites with near-term power availability are commanding a premium. The buildout of data centers is now playing out on a global scale and expanding as we enter 2026 with large projects moving ahead in Europe, Asia and Latin America.

The markets, however, are sniffing out the aspirational and grandiose multi-gigawatt campuses (see Fermi), which face challenges to becoming real builds, especially within expected timeframes. Yet, institutional capital has been ratcheting up investment, with 95 percent of CBRE's *Global Investor Intentions Survey*⁵ respondents stating they plan to increase their data center investments in 2026, with new development build-to-suit hyperscale strategies being the top preference. What these sophisticated investors are signaling is that they believe in the asset class and the strong need for continued buildout over the coming years to sustain the growth of digital services, including cloud computing, big data analytics and AI. The supply/demand imbalance is very attrac-

tive to developers who have access to development properties with visibility on site approval and power. Hyperscalers are currently willing to sign attractive, long-term leases in primary or strategic data center locations with those characteristics.

The evolution of digital infrastructure and data centers continues to move fast. Concern around regulation, power, questionable accounting practices on depreciation of equipment, obsolescence through technology breakthroughs, etc., will continue to be written about, but we think this misses the forest for the trees. The hyperscalers consider these data centers mission-critical to real estate and want to own and/or lease these sites for the foreseeable future, and they have the financial means to do so. Real estate projects always entail risk to generate equity-like returns, but developers that have the expertise, relationships and sites that are attractive to the hyperscalers will generate attractive returns for investors on projects that are shovel-ready during the next few years at a minimum.

Sources

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3. CreditSights, "Technology: Hyperscaler Capex 2026 Estimates"
4. *AI Magazine*, "AI Data Centres Will Drive a 165% Power Demand: Explained"
5. *2025 Global Data Center Investor Intentions Survey*



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CORPORATE OVERVIEW

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