



Finding the infrastructure opportunity in the AI revolution

We recently spoke with **Josh Oboler**, investment partner at **Palistar**, about the opportunities AI and digital demand growth are presenting in the digital infrastructure space. Following is an excerpt of that conversation.

AI is on everyone's radar. How do you differentiate between what's hype and what's real connectivity-led infrastructure?

We're in the middle of a race among companies and countries to harness the AI potential. However, despite the headlines, the market is characterized by shortages. There's a shortage of power and water. There's a shortage of capital. There's also a shortage of people and talent, whether that's labor or AI developers. Everything's in short supply. There are also questions around AI's underlying business models, the future of the underlying technology, and what the industry looks like five years or 10 years from now. So that's the headline-grabbing piece of it. It all looks like a huge investment opportunity.

Our job as investors is to guard against being seduced by the headline-grabbing nature of AI. Instead, we need to focus on the long-term, long-duration pieces of the story that are going to outlast the current cycle.

AI is a huge tailwind. All the subsectors will benefit from the demand for power and connectivity it creates. But you need to be mindful when something is so in the news that you're investing in infrastructure fundamentals and looking through the cycle.

What does this tailwind mean for allocations to wireless and fiber infrastructure?

The AI tailwind means the infrastructure place to invest is in increasing data capacity, though not only in data centers themselves. Each data center facility needs to be connected through fiber, but a lot of the existing fiber infrastructure is insufficient for the massive amount of data that is being transported between facilities. We can begin to rectify that situation by investing in dark fiber to connect facilities. We are not investing in AI, the increase of wireless services or data centers per se, but we are using their tailwinds to drive fiber infrastructure returns.

As we become more connected and reliant on the internet of things, we need high reliability, low latency and high throughput. All of that is going to create investment and demand for the network. The current network is not going to be able to handle the needs that we put on it five or 10 years from now. We've got to be looking ahead, and it's not just about the processing capacity. AI is a tailwind for all the connectivity and the whole breadth of the network.

How should LPs think about portfolio construction, diversification and risk management?

As an LP, you want exposure to the breadth of these end markets, but you want to do it in a way that is infrastructure-centric. You don't want to take on the volatility that's going to come with the equity-like growth component on these assets or

where you could experience a change in technology that could really catch you off guard. You want exposure to macro wireless, fiber and data centers, but within each of these subsectors, there's a lot of different ways to create investments. Part of the value that we offer as both a middle-market player and specialist is being able to look underneath the hood of the different business models to find true infrastructure investments.

We look for long-duration businesses that are going to have value through cycles where we can see predictable, contracted cash flows. We're not taking big bets on the future of AI and who the winner is going to be. We've had years of experience across these cycles, and we've seen the ups and the downs. We've seen technology cycles; we've seen rate cycles; we've seen economic cycles. So, portfolio construction matters tremendously. You want to be diversified across the subsectors, but you also want to be diversified across business models, and you want to be thoughtful about the types of business models you're investing in.

How do you derisk the greenfield development that you do?

We've been doing greenfield development in the fiber space as the need for connectivity has grown. However, we're not developing assets on spec. The whole development process is a contracted process that we do in partnership with the prospective tenant. So, it might be a new development, but it's really about partnership where we have contracted cash flows before the first shovel hits the ground. That partnership element is another piece of being a specialist and being very deeply involved with our customers and their thinking. We're very involved in the operations of our portfolio companies. That allows us to achieve the best outcome.

How do you manage risk when investing in higher-risk digital infrastructure subsectors?

We manage risk through our business model as well as the capital structure. Some developers build the fiber and then try to connect as many customers as possible. There's a lot of incumbent commercial risk inside doing it that way. We mitigate this risk by working hand-in-glove with an operator and develop a network together. We then have a long-term off take in place with that operator and I've derisked the commercial side of it. I've derisked the development side of it by working with marquee partners.

The other way that we've modulated risk is through capital structure. We have a lot of experience investing in the equity of assets, developing assets and buying assets, but we also have a lot of experience doing more structured investments that have some senior debt component to them.

If we can create investments that have lower coverage points and enter at better valuation situations, we can get a reasonable rate of return with lower risk. There's a lot of need for capital in the structured portion of the market where we do not have to take the last dollar of equity risk. We are also cognizant of how cycles and markets evolve. At different points, it might be better

to be in equity versus debt or a preferred instrument, and we watch and modulate that throughout the cycle.

What characteristics of fiber assets make them particularly well suited for institutions who right now are looking for safety?

Digital infrastructure assets are truly uncorrelated to the broader portfolio. There are two components of that. Data consumption is increasing at a steady long-term rate, and we're consuming many multiples of what we used to consume. So, there's this uncorrelated demand for data and bits. We saw that during COVID when the activity around a lot of conventional infrastructure assets ground to a halt. We weren't driving, we weren't flying, we weren't consuming the same way. Activity at ports was reduced. A lot of the things that you traditionally thought were uncorrelated turned out in certain circumstances to be correlated. Digital was the opposite. We learned how critical our connected lives are. And in part, that COVID experience spurred incremental investment in this space.

We also have contracted long-term cash flows with investment-grade counterparties. Our contracts always come with escalators. There is a strong real growth tailwind. There are incremental services that people are asking for from their devices, which then result in increased network investment. This demand growth is going to continue for decades. All those things together – downside protection, long-duration assets, as well as this growth tailwind – are just incredibly unique and an amazing combination to have.

What are you looking for when you invest in an asset?

We want a long-term contract with an investment-grade counterparty. We're looking for high-margin businesses. Some of the assets we invest in are triple-net with a 99 percent operating margin. Other businesses that we invest in have fixed-cost bases with low marginal costs. As you add new revenue and tenants, your margins become even higher. We look for assets that aren't static so that there is long-term growth behind them. We're going to be investing in assets that don't require a lot of ongoing maintenance. That allows us to generate strong free cash flow profiles.

At the end of the day, investors want and need to realize cash out of their investments. We want to generate free cash flow, and we want to be able to grow that free cash flow over time. It's really a fundamental approach to investing and what gives these assets durability. We would rather lean toward things where we can see the asset, the growth, the performance and the downside protection rather than things that might have a little bit higher headline equity-like return, but that have an unpredictable nature and outcome.

Why do you believe the middle market offers a particularly compelling opportunity within digital infrastructure?

At the end of the day, we're looking to generate alpha for our investors. We want to be generating outsized return relative to the risk that we're taking relative to the performance of the market. By focusing on this end of the market, we're able to create assets at better valuations, whether that's developing assets at the right price, using micro aggregation strategies, developing individual cell phone towers, or buying individual macro wireless rooftop and ground lease assets. We can create assets that have room for growth.

Using middle-market valuations, we can take assets from a \$200 million investment and grow them by curating asset pools to get to financial and operating scale. At that point, we're relevant for our customers, our operations are efficient, we've got low overhead, and we can create a long-term growth profile, with high margins and predictable free cash flow. By doing that, we enhance value over time. That means we can lower the discount rate on our assets and increase our options, whether that's building an attractive capital structure or finding the right partner to exit. We can create investments with the types of characteristics that we like.

How should LPs think about regional risk-return dynamics in North American digital infrastructure compared with other global markets?

America is obviously a technology leader. A huge proportion of global AI investment is happening inside of the United States. The United States is also going to be a leader in 6G in the next evolution of wireless technology. And North America has been the gold standard for investments in communications and digital infrastructure. So, we continue to see long tailwinds here. Consumers in the U.S. markets are willing to pay top dollar for access to the right digital services, whether that's their cell phone service or other ways they consume broadband, media, and so many other things in their digital lives. So, North America is a super robust market, and we expect to be active here for a long, long time.

Where do you see Palistar in five or 10 years?

Part of our competitive advantage is being focused on these subsectors. Over the long term, it's about the relationships and the people. Our customers see us and our behavior as a trusted partner. We have spent a long time building that trust and those relationships. So, I still see us here, and we'll continue to look for interesting ways to expand and grow our firm. Digital infrastructure is a great sector to be in, and there's plenty of legs for continued growth, both for this industry as well as us as a player in this industry.

CONTRIBUTOR



Josh Oboler
Investment Partner

Palistar Capital is an alternative asset manager led by managing partner and founder, Omar Jaffrey, focused on digital infrastructure investments. The firm seeks to invest through direct asset ownership as well as by developing innovative financing solutions to complex problems for leading global digital infrastructure-related companies. To learn more about Palistar, visit www.palistar.com.

CORPORATE OVERVIEW

CORPORATE CONTACTS

Brian O'Grady, Global Head of Business Development & Capital Solutions

347-449-2041 | brian.ogrady@palistar.com

Brittenay Banh, Managing Director, Head of Investor Relations & Capital Formation

212-583-8472 | brittenay.banh@palistar.com

This article presents the author's opinions reflecting current market conditions. It has been prepared for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

Copyright © 2026 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.