

February 20, 2025

## To Our Valued Partners,

Euphoria turned into panic on January 27th as America's largest tech companies lost \$1 trillion in value when DeepSeek, an obscure Chinese hedge fund turned AI startup, shocked the world with its latest large language model, R1. DeepSeek's chatbot became the most downloaded app on iPhones that weekend, as the company claimed it had trained AI models that performed nearly as well as Western models but at a fraction of the computing power and cost. This sparked concerns about the future of AI and the Western companies that have invested billions into building models whose competitive moats suddenly appeared more fragile. It further called into question the need for the most advanced semiconductor chips, increased energy consumption, and the anticipated demand for more and larger data centers.

Accordant benefits from a strong network in the technology and real estate sectors, and over the past few weeks, we have gathered information to share along with our initial perspective as more facts have emerged. Regarding DeepSeek's technology, we believe the market overreacted in the near term, driven by limited information and high expectations. We expect users to continue to rely on high-quality, transparent providers such as OpenAI, Microsoft, and other major U.S. corporations, and we believe that Accordant's data center investment thesis remains very much intact:

- AI advancements are being made weekly, especially as models train upon existing models, which continues to drive a massive supply/demand imbalance. It has always been expected that AI would be delivered more efficiently over time, and in fact, required if it is to be economically viable long term. **We are told that DeepSeek is not even the most advanced on this front today, and industry experts suggest others are well ahead but have not yet released their models publicly.**
- Initial feedback we've gathered through our hyperscaler relationships is that the demand for data and compute (processing capability for AI and cloud computing) is still enormous. If anything, this advancement will democratize AI, increase competition, and accelerate the development of useful products. It should also require more physical space for the data that is manipulated, generated, and stored. **February earnings reports from Microsoft, Amazon, Google, and Meta confirmed this outlook—these companies made it clear they have no plans to change their strategies and will continue to collectively spend \$330 billion this year to build out their infrastructure (most of it AI-related).** That figure does not include other major projects like OpenAI and Oracle's \$500 billion Stargate initiative, which will be executed over a multi-year time frame.
- **There has been concern that advancements by DeepSeek and others would decrease the demand for data center space, but this would be contrary to historical reality.** Moore's Law, which states that transistors on a microchip double as costs decrease proportionally, only served to radically increase the demand for data and computing power, not decrease it as many once anticipated. This is an example of Jevons Paradox, the principle that as technology improves efficiency, consumption increases because costs decline, new downstream applications emerge, and innovation drives further demand. We expect the same dynamic to play out here.
- While Nvidia is best known for providing the chips that are used to "train" or build new AI models, it has said that it now generates just as much revenue from chips used for "inference" (processing user requests using a finished model). On a recent podcast, Nvidia's CEO stated that **inference demand "is about to go up by a billion times" due to new AI models that "reason" or take time to plan and deliver answers to complex queries. All of this supports the continued demand for high-powered compute in centralized locations.**

- **We continue to reiterate that not all data center development projects are created equal.** Our initial investments with our strategic partner, Affinius, take what we consider to be a conservative and disciplined approach to the asset class. Affinius focuses on securing access to limited power in key markets to develop best-in-class facilities with proprietary designs that can adapt to evolving demands. The tenant assumes the risk of the server technology within the building, and we do not take on development risk until a tenant commits to a long-term lease. We believe this remains a prudent and effective strategy with excellent risk mitigation. Furthermore, while AI is a major driver of data center demand, the original thesis was based on the explosive growth of cloud computing, a trend that continues very strongly independent of AI's "supercharge" for demand, and **hyperscalers remain significantly behind the supply curve for the foreseeable future with access to limited power still driving aggressive pre-leasing.**

To summarize, AI efficiency should be viewed as a positive catalyst that will continue driving significant demand for data centers as new products and models roll out, alongside already high demand for cloud computing. While future market volatility is possible as the industry rapidly evolves, we believe in the enduring importance of real estate and infrastructure for the digital economy and continue to see this sector as an attractive investment opportunity.



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