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Data Center Development: Moving Beyond the Headlines

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Why is Data Center Development Attractive?

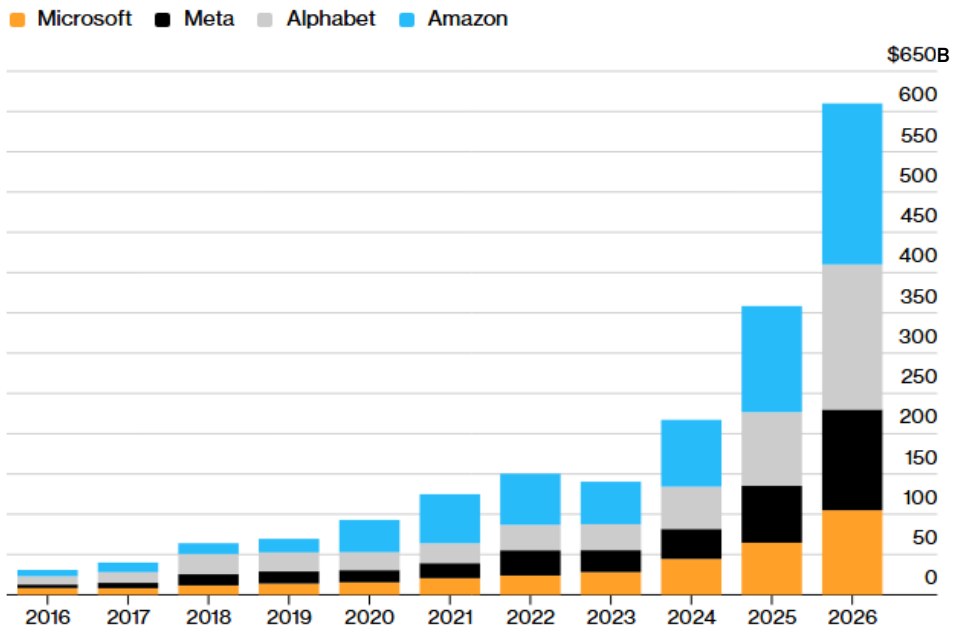
1. High demand from the world's largest companies who deem data centers as mission-critical to their businesses
2. Constrained supply driven by a range of factors, including energization dates, permitting, and infrastructure deliverability
3. Developer and landlord pricing power
4. Capital markets open to financing projects
5. Institutional investors interested in owning stabilized core data centers

Highlights

Demand is Very Strong: Green Street Research states, "Across the globe, data centers can't be built fast enough to keep pace with demand. Hyperscalers, neocloud providers, and AI companies are all citing capacity constraints. AI accounts for the bulk of new leasing, though traditional cloud needs are still robust." As illustrated in the chart below, major technology companies have announced significant CapEx spending for 2026.

EXHIBIT 1: Hyperscaler CapEx Explodes Higher

Infrastructure demand is scaling to support AI and cloud growth.



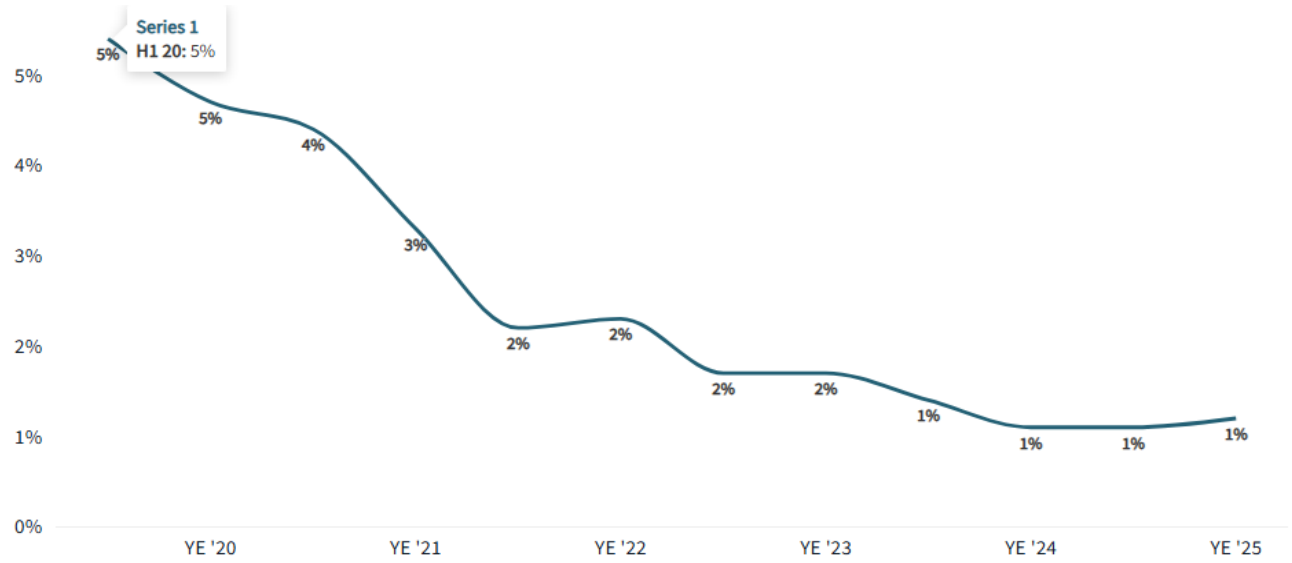
Note: 2026 values based on mid-point of guidance from Meta, Amazon, and Alphabet. Analyst estimates used for Microsoft.

Source: Bloomberg

There is No Supply: The JLL Research graph on the next page shows that vacancy remained at 1% for a second consecutive year, which they state, "is a powerful statistic that challenges bubble concerns." JLL also notes that 92% of capacity currently under construction is precommitted, either through binding lease agreements or owner-occupied development. Taken together, JLL believes these dynamics point to vacancy remaining in the low single digits through 2030.

EXHIBIT 2: North America Data Center Vacancy (%)

With 92% of the development pipeline precommitted, vacancy is likely to remain near zero for several years.

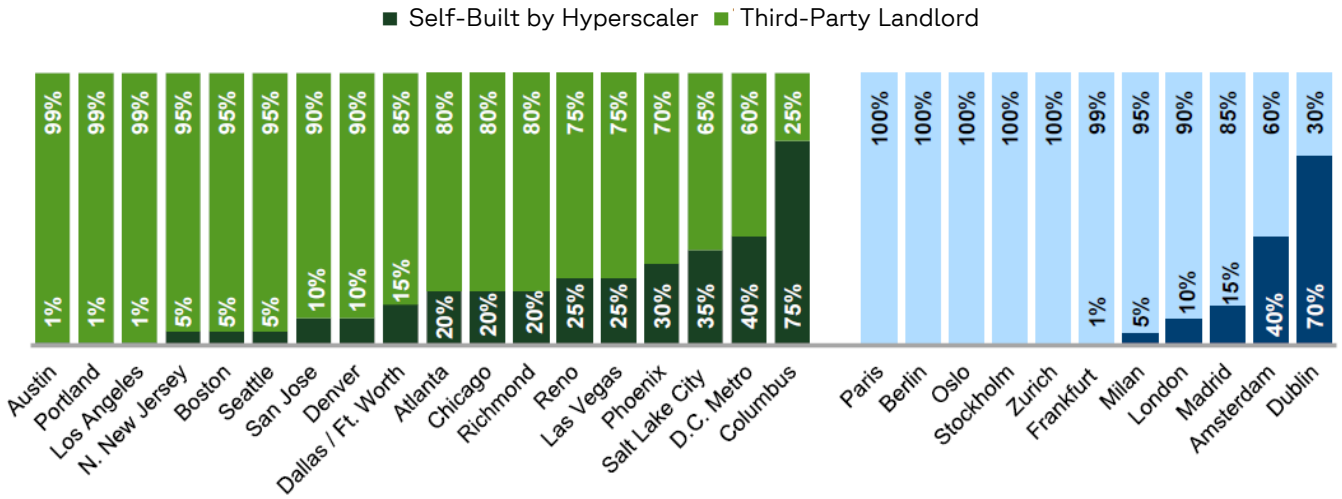


Note: Vacancy reflects leased and hyper-owned inventory.
Source: JLL Research

Data Center Development is Highly Lucrative and Should Remain That Way for Years to Come: The average development profit margins on U.S. hyperscale projects are approximately 50%, with a stabilized NOI yield of 9.1%.[1] Given the scale of the AI buildout required, the risk of hyperscalers not utilizing third-party landlords is low, as shown by Green Street's chart below.

EXHIBIT 3: Primary Market Inventory Mix, Third-Party Landlord vs. Hyperscaler Self-Build

Third-party landlords remain a core component as hyperscaler self-build expands in select markets.



Source: Green Street[1]

[1] Green Street, *Data Centers & the AI Surge: Is the Best Still Ahead?* February 5, 2026.

Addressing Investment Risks Around Data Center Development

Risk: Are too many data centers being built?

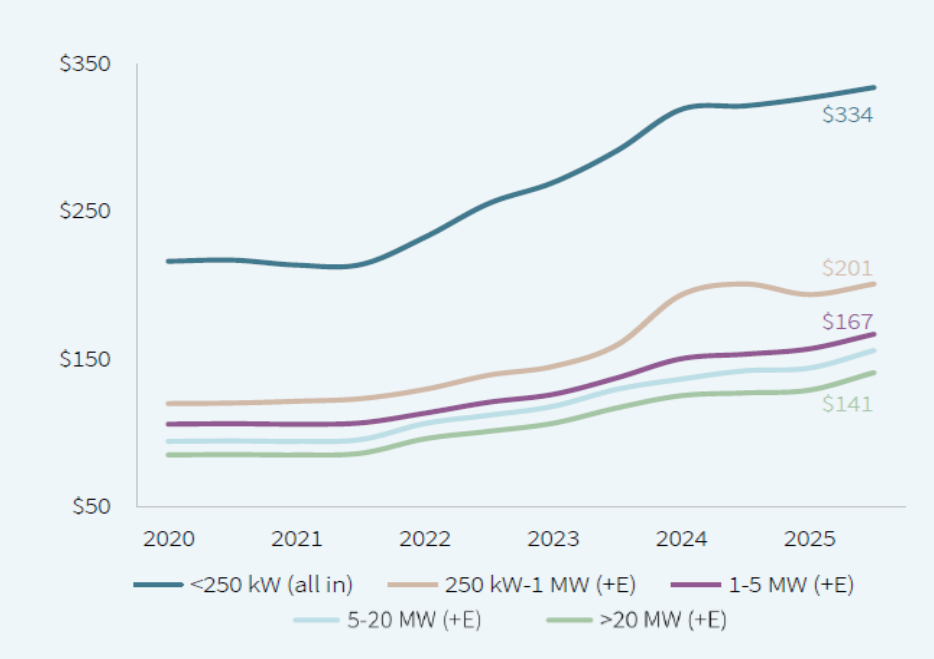
Reality: The pace of data center development will eventually slow, but all indicators heavily lean toward a very positive environment over the next few years. Hyperscalers aren't signing leases until they see power availability 24 months out, and there is virtually zero capacity in the major markets currently.

Preleasing represents around 90%, according to JLL. These are very expensive projects, which curtail speculative data center development without signed leases. It is challenging for hyperscalers to estimate demand into the future while having to secure equipment and sites years in advance, but we don't think this will mirror the massive glut of fiber optic cable built during the telecom bubble.

After years of sluggish rent growth, landlords have pricing power and can lock in long-term leases at attractive yearly price increases, as seen in the JLL graph below from their Year-End 2025 North America Data Center Report. While utility companies announced their massive backlog of data center project requests, we suspect the number of actual projects completed will be smaller due to power interconnection timelines, utility capacity constraints, permitting challenges, and infrastructure deliverability.

EXHIBIT 4: North America Data Center Lease Rates ($/kW/mo)

Data center rents increased 9% year-over-year, reinforcing the durability of pricing momentum.



Source: JLL Research

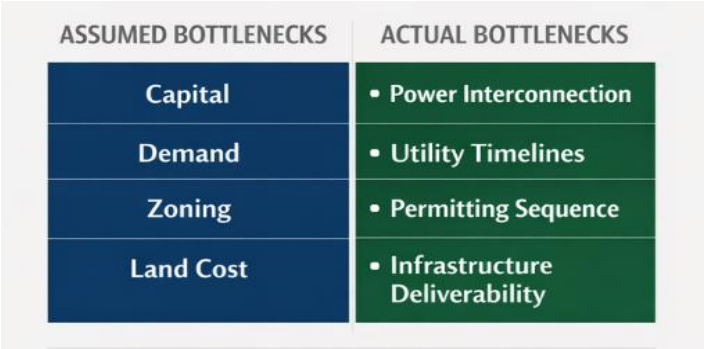
Risk: What happens if land is purchased but you fail to secure a hyperscaler tenant?

Reality: Investors need to partner with a highly experienced team that understands hyperscaler requirements and conducts thorough due diligence for each location to ensure confidence around energization dates. These risks are highlighted in the Data Center Resources analysis shown on the following page, which outline common causes of early project failure. Land prices have risen given the search for data center sites, so the inability to move ahead with a project would likely result in a loss on the land, as secondary uses would be less valuable.

The potential for large losses should be avoided, as developers typically do not go vertical with construction without a lease signed by a hyperscaler. With almost no supply on the market, hyperscalers are very interested in properly selected sites with power visibility. **We view the risk of purchasing land and not moving forward on a project to be very low for the vintage of data center sites we plan to invest in, as they have the correct permitting and near-term energization dates.**

EXHIBIT 5: Why Data Center Projects Fail Early

Infrastructure realities now define project viability.



Source: Data Center Resources

Risk: How will investors be able to exit these data center investments?

Reality: Large-scale data centers are a new asset class with little transaction history, but we see various types of institutional investors attracted to the high-quality tenant profile and long-duration income. Hyperscalers view these data centers as mission-critical and have a right of first refusal to purchase the data centers they are leasing. Large sales of data centers rose again in 2025, as the sector set its third straight annual volume record and brokerages continue to staff up in the space.[2]

Trades totalling $3.23 billion took place among properties worth at least $25 million last year, according to Green Street's Sales Comp Database shown below. While the absolute number of sales is small compared to other real estate sectors, the trend is up for data centers, as new development in the sector is translating into investment sales.

Green Street states that one path that appears to be gaining traction is a publicly traded data center vehicle to house stabilized assets, as reported by Bloomberg. There are also rumoured IPOs on the table, but given market volatility, those have been sidelined for the time being. Data center-backed securitizations are growing and now represent 13% of all SASB (Single Asset Single Borrower) issuance, per Goldman Sachs. SASB deals ($91.3 billion in 2025) accounted for nearly 75% of total CMBS issuance last year. In late 2025, Blackstone broke records with the largest CMBS refinancing deal at $3.46 billion on ten data centers owned by QTS Real Trust.[3] The capital markets are willing to invest in this infrastructure, from bank syndicates to private-credit shops, as data center owners look to turn long-term leases into liquid capital.[4] In summary, the exit market is developing for stabilized large-scale data centers.

EXHIBIT 6: Top Brokers of Data-Center Properties in 2025

Brokers represent sellers in deals of at least $25 million.

		2025 Amount ($Mil.)	No. of Properties	Market Share (%)	2024 Amount ($Mil.)	No. of Properties	Market Share (%)	'24-'25 % Chg.
1	Eastdil Secured	$1,575.7	10	49.8	$0.0	0	0.0	
2	CBRE	1,124.0	8	35.5	1,363.2	12	76.1	-17.5
3	Newmark	322.0	1	10.2	248.0	2	13.8	29.8
4	JLL	76.0	8	2.4	96.6	1	5.4	-21.3
5	Kidder Mathews	37.2	1	1.2	0.0	0	0.0	
6	Cushman & Wakefield	28.5	1	0.9	83.5	1	4.7	-65.8
	OTHERS	0.0	0	0.0	0.0	0	0.0	
	Brokered Total	**3,163.4**	**29**	**100.0**	**1,791.3**	**16**	**100.0**	**76.6**
	No Broker	67.9	2		1,248.4	7		-94.6
	TOTAL	**3,231.3**	**31**		**3,039.7**	**23**		**6.3**

Source: Real Estate Alert, January 27, 2026.

[2] Real Estate Alert, January 27, 2026.
[3] *Data Centers Drive $3.5B Blackstone CMBS Refinance Deal*, CRE Daily, November 11, 2025.
[4] *Blackstone Snags $419M Cash in $2.05B QTS Data Hub Refi*, Hoodline, February 2026.

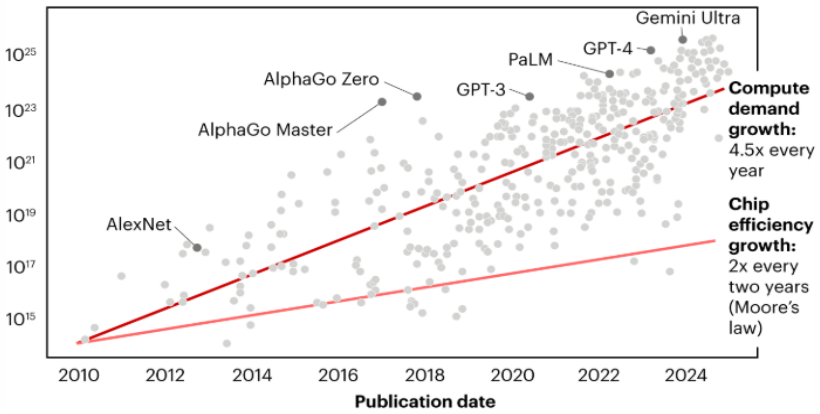
Risk: Data centers will become obsolete quickly.

Reality: Over the last 50 years, computing efficiency has not eliminated infrastructure demand, as shown in the graph below. Data centers are critical infrastructure and will not go away, but we do agree that data centers must be future-ready or certain locations could become disadvantaged and risk becoming less viable. We favor data centers built in locations that are attractive for both cloud computing and AI. Second, we favor construction using a modular design to allow for future upgrades. While data centers should retain value from their existing power supply and building infrastructure, the thousands of data centers built over the last few decades are more at risk of becoming obsolete than a modern data center expected to be built and stabilized in 2029 and 2030. Next, we favor signing triple-net powered shell leases with hyperscalers, who are responsible for short-lived infrastructure such as computer servers and networking equipment. The triple-net lease significantly reduces risk for investors.

Lastly, we are currently focused on the build-and-sell development approach. This strategy is to sell the data centers after stabilization, so obsolescence is a remote risk for owning first-generation assets.

EXHIBIT 7: Training Compute (FLOP)

Compute demand grows twice as fast as chip efficiency.



Note: Chip efficiency growth not shown to exact scale, with the rate of growth intended to be illustrative; FLOP = floating point operations, which are the number of calculations a system performs

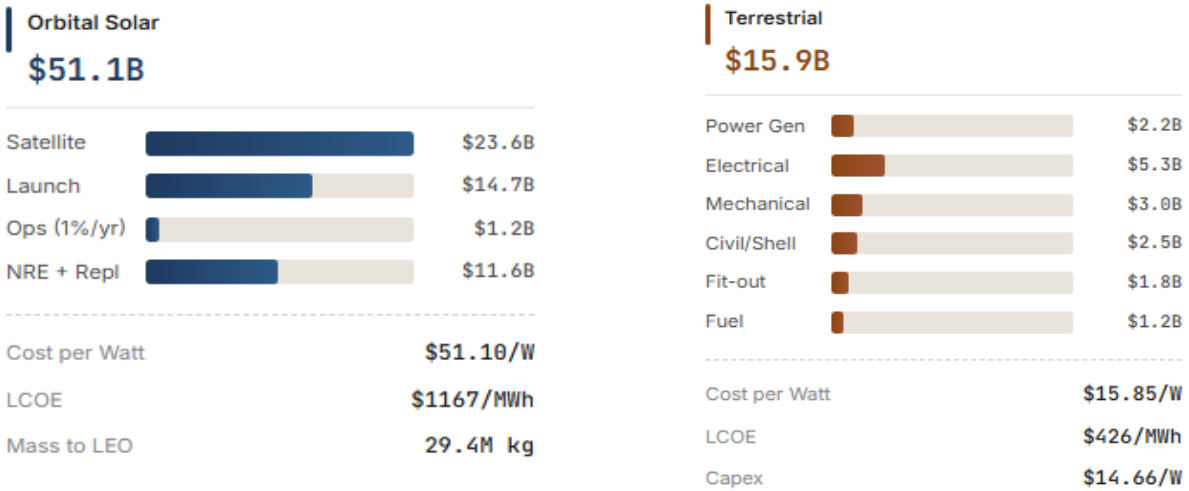
Source: Epoch AI

Risk: Space-based data centers will be more attractive vs. terrestrial data centers over the next few years.

Reality: The current economics of orbital data centers are not attractive. Sam Altman recently said, "I honestly think the idea, with the current landscape, of putting data centers in space is ridiculous." Andrew McCalip of Varda Space Industries has put together one of the more comprehensive economic models on the cost per watt between terrestrial and orbital solar data centers. [5] There are also physics challenges and engineering difficulties that must be overcome.

EXHIBIT 8: Economics of Orbital vs. Terrestrial Data Centers

Current economics continue to favor terrestrial data center development.



Source: Andrew McCalip, *Economics of Orbital vs. Terrestrial Data Centers*, 2024.

[5] Economies of Orbital vs. Terrestrial Data Centers. www.andrewmccalip.com/space-datacenters.

Elon Musk and others have touted the benefits of space-based data centers versus terrestrial from a resource perspective (power and water). We believe there is merit to this, and Elon Musk and Google's Project Suncatcher, along with other space industry companies, are innovating to make this happen. Yet, if hyperscalers felt that this is the singular solution in the near term, they would not be eagerly signing 15-year leases, building energy infrastructure, and securing long-term power plant options like nuclear power. Most likely, it will be gradual over the next 10+ years that we will first see a hybrid approach with both terrestrial and first-generation space-based data centers (small satellites to start) in operation.

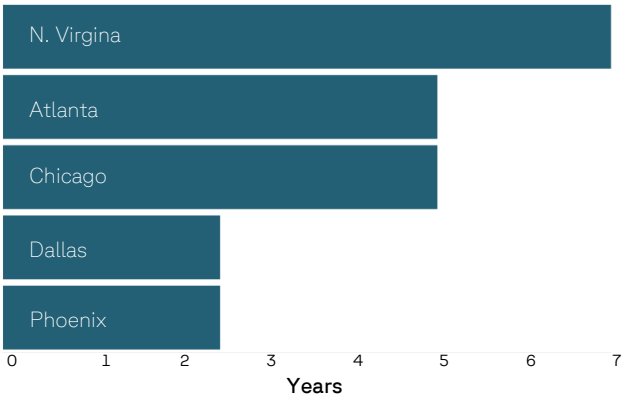
At a high level, there are several significant hurdles that stand today. Most importantly, SpaceX (which appears the furthest along) and other rocket companies must successfully demonstrate the mass production and use of fully reusable super heavy-lift rockets to bring down launch costs, which as of today, are not competitive with building terrestrial data centers. Second, data centers in space face unique challenges regarding radiation exposure and cooling. Third, hardware cannot be repaired or upgraded at scale in space. Musk proposed launching a million satellites, which are magnitudes larger than anything that currently exists. Musk and others also believe it would be cheaper to build large data centers in space than on Earth. To accomplish this, Musk has proposed factories on the moon with a railgun to launch payloads, which would require infrastructure on the moon that does not exist. **Suffice it to say, we believe this is a multi-decade build-out that will not impact the necessity for terrestrial data centers required by hyperscalers today.**

Risk: Securing timely, cost-effective power for new data centers has become a challenge.

Reality: Investors should closely scrutinize managers offering data center projects in blind pool structures or projects with long-duration timeslines, as access to power in a cost-effective and timely fashion has become challenging, as seen in the graph by JLL Research. Developers must focus on site approval and power visibility to entice hyperscalers to move quickly on leasing. It is important to work closely with local utility companies and secure ESAs (electrical servicing agreements). We are excited about the latest projects we see, given their near-term energization dates of 2027/2028 with the utility companies. **We believe getting power for the future projects we have access to is a low risk.**

EXHIBIT 9: Average Grid Connection Lead Times for New 50 MW Data Centers (Years)

Grid connection timelines are extending across key data center markets.



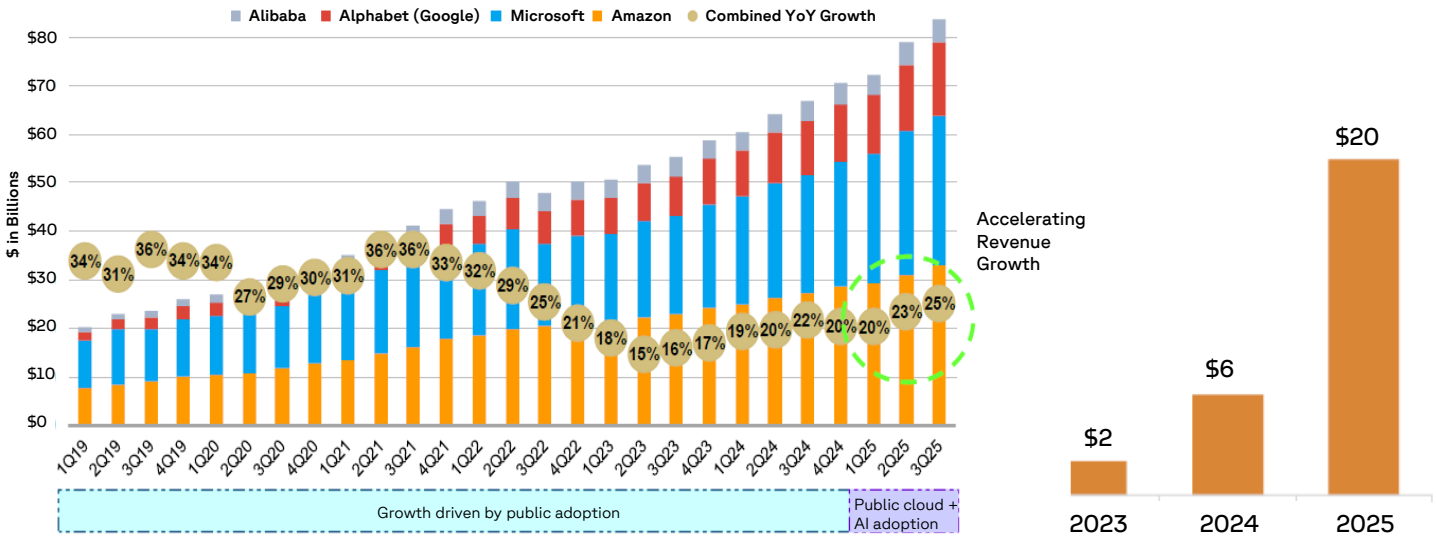
Source: JLL Research, 2025. Dublin is paused until 2028.

Risk: Will the data center boom follow the telecom crash in the early 2000s?

Reality: **While current euphoria feels similar, there are major differences.** Telecom companies and the ecosystem had significant leverage, while hyperscalers have increased their use of debt from very low levels; they maintain strong balance sheets and generate more than enough cash flow to cover operations. The telecom bubble happened because demand was severely overestimated at the same time that companies were overleveraged. **Today, hyperscalers report being challenged to meet capacity needs at peak times.** Investor concern centers on the ROI from AI, but hyperscalers are reporting accelerating revenue growth, as are OpenAI and others, as shown in the Green Street Research chart on the following page. Surveys continue to point to growing usage, with excitement around better AI models and the use of agentic AI. In telecom, there were exponential improvements in how much traffic could be carried on existing fiber. Today, the semiconductor industry is up against physics. There is a need for faster and smaller devices while maintaining efficiency. Technology improvements will happen, but that will be an evolution, not a revolution, and will not come cheap. DeepSeek fears have receded. Today, we are at the early stages of the use of AI permeating every sector of the economy. Consumption will continue to move higher, while models require more power, not less.

EXHIBIT 10 & 11: Hyperscaler Cloud Business Revenue, OpenAI Annualized Revenue ($ Billions)

Cloud and AI revenue growth continues to accelerate across platforms.



Source: Green Street, *Data Centers & the AI Surge: Is the Best Still Ahead?* February 5, 2026

Conclusion

We believe investors need to focus on five areas of a data center project: 1) power risk, 2) entitlement risk, 3) lease risk, 4) construction risk, and 5) exit risk. The right strategy for a data center development project can mitigate many of these risks through a clear line of sight to power and entitlement, hyperscaler engagement, and proper lease terms. We believe signing maximum guaranteed contracts with construction companies and having strategic data center sites with long-term powered shell leases with investment-grade credits will attract buyers.

Much of the risk of a data center development project is removed once a lease gets signed, and that is the time when a developer goes vertical with construction. We view the risk/reward as very attractive, which we don't think investors appreciate when they just see the news headlines. In a worst-case scenario, if a data center gets built and is unable to be sold, investors would make money on the attractive long-term lease and still own the location. That said, we see a market developing for these attractive, cash flowing assets. In a best-case scenario, the data center is built, stabilized, and sold at an attractive exit cap rate for expected base-case net returns of approximately +20%. Bloomberg recently reported that one of the world's largest alternative asset managers is planning to raise billions of dollars to launch a publicly traded acquisition company to invest in pre-built and leased data center assets.[6]

While we believe the risk/reward is highly attractive, there are always risks and adverse outcomes that could come into play. For data center developers who plan to build, stabilize, and sell, the most important item is the anticipated exit cap rate. Should these assets be viewed less favourably by investors over the coming years, developers would fail to earn the opportunistic returns in their financial models. Once a developer signs a lease with a hyperscaler, they are now a landlord and run the risk that the tenant could experience financial trouble, resulting in unpaid rent. Lastly, as a landlord, the developer must provide power to the data center. Hyperscaler leases typically have provisions for service-level breaches and allow the tenant to exit the lease if they experience significant disruptions or incidents that exceed a negotiated duration.

Amazon and Microsoft bonds expiring around 2040 are providing yields close to 5% to 5.5%. We believe building data centers and leasing them to these investment-grade hyperscalers is more attractive than owning their long-duration bonds. From a credit risk perspective, Microsoft is rated AAA by all three major rating agencies, while Amazon is rated AA/AA-, which should provide investors with a level of comfort regarding the ability of these companies to honor their leases. We think there are very few areas in the financial markets where you can potentially earn opportunistic returns with the downside curtailed.

[6] Bloomberg, *Blackstone Plans Public Company for AI Data Center Buying Spree*, February 27, 2026.

Investors tell us they are once again looking at real estate, but they are also focused on private equity and venture capital funds. Over the past two decades, private equity has demonstrated annualized returns ranging from 10.5% to 13%, depending on the index and methodology, per Cliffwater. For venture capital, median fund IRRs have typically been in the 8-10% range, per Cambridge Associates. If you can get into top-quartile VC funds with the right vintage, you could certainly earn 20%+ returns. Data center development, done properly, remains one of the most attractive places to invest at scale today across the alternative investment landscape.

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