

## Demand for Data Centers Still Running Hot



2022 was a bumper year for the data center industry. A Q4 market report from industry analysts datacenterHawk outlined massive growth, showing that data center absorption jumped 2.5x, smashing the records previously set in 2021.

The report adds: “Transactions are getting larger and a wider pool of companies are executing large-scale leases. These companies are also globalizing quickly, absorbing capacity, and developing new data center space in markets around the world.”

### Continued Growth

Recent research from McKinsey indicates we can expect that trend to continue through 2023 and beyond, though with the usual caveat that current headwinds may slow growth in the short term.

McKinsey says: “In the US market alone, demand—measured by power consumption to reflect the number of servers a data center can house—is expected to reach 35 gigawatts (GW) by 2030, up from 17 GW in 2022.”

### The Data Center “Ecosystem”

Interestingly, McKinsey predicts that we should expect to see growth in assets that support and enable data centers as well. In other words, the value being created is not just about the data center real estate itself, but also additional opportunities elsewhere in the value chain.

Some of their top picks for industries that will benefit from the boom include:

- Green energy, to meet growing data center power demands in a sustainable way,
- Advanced cooling systems, and
- Modular or prefab buildings or components, to meet construction demand.

# Demand for Data Centers Still Running Hot

## Construction Outlook Positive

On the construction front, data centers are anticipated to be one of the asset types still on 'solid foundations' in 2023.

In a recent article for "International Banker", Kenneth D. Simonson, Chief Economist for Associated General Contractors of America states: "[A]ny slowing in [other CRE sectors] will likely be outweighed by ongoing growth or pickups in four other major categories: manufacturing, renewable energy, infrastructure and data centers."

He adds that there are "massive investments on the way" for these types of projects that are bolstering construction demand during an otherwise challenging year.

## Strength, Despite Headwinds

All in all, the consensus seems to be that the sector is headed 'onwards and upwards.' Growth will, however, be somewhat subdued in 2023, according to the datacenterHawk report, though they add it's "unlikely demand will decrease."

For our part, we certainly think this is a sector worth keeping a very close eye on in the coming year. We do add a note of caution, however, that this shouldn't be treated as investment advice.

The data center outlook will, of course, vary by location and situation. Interested investors should therefore contact local experts for insights into the industry's performance in their area, before running ahead with any potential investments.

