

PUBLICATIONS



REAL ASSETS ADVISER
SEPTEMBER 1, 2026: VOL. 13, NUMBER 8

Data centers and the multiplier effect

BY ED DEL BECCARO

Investors are taking note that data centers are the new major property type they should be considering for their portfolios. It was reported in the February 2026 issue of *ConstructConnect News* that U.S. data center spending totaled \$11.5 billion with first quarter 2026 coming at \$36.9 billion. This compares with \$1.4 billion in all of 2025.

If this construction spending continues at this pace, year-end spending could reach \$116 billion. Most of this spending takes place in Virginia, Texas and other parts of southeast United States considered top-tier power sites. Pennsylvania, Indiana, Ohio and Oregon could also see significant investment in this area.

This investment in data centers is driven by a massive structural shift toward artificial intelligence. Tech giants are aggressively deploying capital into digital infrastructure, forcing them to outbid traditional commercial real estate sectors for land, labor and equipment. The tech giants are investing hundreds of billions of dollars into AI to remain competitive in the new era of computing and to secure new potentially massive revenue stream

The AI revolution is a major industry disruption, akin to the invention of the internet, increasing productivity via automating repetitive tasks, optimizing workflows and instantly synthesizing information, hence the need for more data centers despite their increasing controversy amidst a backlash in many U.S. communities reluctant to build them because of their enormous energy and water demands.



The new capital expenditure buzz phrase for tech companies investing and utilizing data centers is “hyperscalers,” companies such as Alphabet, Amazon, Meta and Microsoft that are projected to invest upward of \$500 billion in large data centers during 2026 alone.

Data centers will spur innovation and have a multiplier effect on creating local and regional jobs. The data center sector is projected to generate 3.5 to 6 indirect jobs as a job multiplier for every data center job in the surrounding community in regional utilities, equipment logistics and other services per an Oracle study in March. More than 108,000 temporary jobs in 2026 alone, mostly in construction, will be created.

Advanced engineering clusters developed around data centers are creating jobs in manufacturing, power distribution, battery storage, fiber optics, cybersecurity and advanced cooling loops. Community colleges across the nation are hiring industry experts for certificate courses to supply the required workforce talent. “Data center technician” become one of the fastest growing job titles in the state of Ohio.

A May study by the Brookings Institution confirmed that counties where new data centers are built experience a 3 percent to 4 percent increase in local jobs. Counties and cities also benefit by increased property tax revenues with these massive capital investments. Not only are the buildings and parcels taxed as real property, but data centers, with their massive equipment investment, generate increased personal property tax revenues. This tax revenue increases over time as the data centers continually upgrade their onsite equipment.

The construction, maintenance and ongoing optimization of data campuses become long-term economic engines enhancing regional supply chain ecosystems. Local traditional suppliers in sectors such as concrete, structural steel and commercial HVAC scale up to meet the projected 10- to 15-year data center development windows.

This is a major opportunity for investors. The data center asset class could significantly outperform traditional real estate categories. The AI Consulting Network estimates that “stabilized core assets” would have target yields of 10 percent to 14 percent net IRR characterized by highly compressed cap rates ranging from 4.5 percent to 6 percent. Value-add yields are targeting 18 percent to 25 percent IRR.

Some investors are taking advantage of this new investment trend.

Principal Financial Group has created an investment equity fund called the Principal Data Center Growth & Income Fund managed by Principal Real Estate Investors. The fund, which closed at \$3.6 billion, focuses on capitalizing and developing U.S. hyperscale data centers, partnering with Stream Data Centers to build out extensive digital infrastructure. While \$2 billion of the fund’s proceeds are earmarked for U.S. data centers, another \$1 billion will be invested in Europe data centers, according to Institutional Real Estate, Inc.’s IRE.IQ database.

Atlanta, Columbus, Dallas, Phoenix and Northern Virginia are the currently prime areas for development for data centers. Markets such as Boise; Des Moines, Iowa; Kansas; and Reno, Nev., are considered prime future development sites for data centers because of their lower power costs and shorter timelines for approval.

Why are local communities resisting and outright banning the construction of data centers? Local residential neighborhoods fear increased electrical rates. Ashburn and Loudoun counties in Northern Virginia and have seen electrical utility rate increases and energy shortages. Several cities in California and New York have established data center moratoriums.

Data center developers are aware of this and are taking action. Grid capacity bottlenecks are forcing developers to rely heavily in independent on-site power solutions.



In 2025, power infrastructure starts surpassed \$36 billion, a record, and are expected to grow by another 32 percent in 2026. AI data centers require exponentially more electricity than legacy cloud facilities, pushing up the price tag of every new build. Power infrastructure construction starts rose 21.2 percent in early 2026, requiring local power grids to upgrade to support continuous energy demands.

Data centers also typically need water for cooling. Their high-density server racks generate extreme heat, requiring costly liquid cooling systems and complex power management integrated circuits – multi-function chips that convert, regulate and distribute electrical power within electronic devices. They act as the “heart” and “irrigation system” of hardware, taking a single power source and simultaneously delivering the precise, stable voltages required by different system components.

An average-sized data center requires 360,000 gallons of water per day for cooling. To conserve water usage, data center servers are using closed loop systems. Ironically many new large data centers are being built in the arid southern portions of the United States. The above-mentioned Principal Data Center Growth & Income Fund has taken note of the water and electrical demands of data centers with its European fund concentration on developing sites in the northern Nordic part of Europe with its cooler temperatures along with access to cheaper hydraulic power.

The major barriers to entry for building large hyperscale data centers also help ensure returns will remain strong for the next several years. Local power grids are notoriously constrained with four- to seven-year waiting queues to hook up and be approved in the top markets.

While massive gigawatt-scale hyperscale campuses capture major headlines for AI model training, smaller data centers are essential infrastructure for AI application deployment, compliance and enterprise digital transformation. The market for smaller data centers, typically categorized as edge data centers, local colocation facilities or enterprise private cloud hubs (ranging from several hundred kilowatts to less than 5 megawatts) is experiencing booming, highly resilient demand.

A major data center category is coshare or colocation data centers that are multitenant facilities where multiple different companies rent shared physical space, power, cooling and network connectivity to house their own servers and IT hardware, or even just rent other existing data center equipment.

There are already more than 160 data centers in Silicon Valley and Northern California with the vast majority coshare data centers with multiple users. Santa Clara alone has more than 60 coshare facilities. Equinix, Digital Realty and Vantage Data Centers are players in this arena. These existing coshare data centers were originally built to take advantage of localized municipal power incentives and existing fiber-optic backbone density. This is not a coincidence. The tech concentration of companies in Silicon Valley alongside academic research institutions that have their own data centers require these types of smaller data centers. Northern Virginia, Dallas-Fort Worth, Phoenix, Ohio and Chicago have similar dense concentrations of coshare data centers. Business parks across the country are considering developing smaller coshare data centers inside their parks to attract innovation companies in advanced manufacturing and other R&D sectors to replace general office uses that at present suffer from high vacancy rates. These business parks such, such as Bishop Ranch in San Ramon, Calif., have created private grids using the vast acreage of building rooftops to generate solar power.

Reliable sustainable electric power and water must be developed to ensure they do not strain local utility increase rates.

MIT has developed a new class of altermagnets allowing more efficient storage of digital data on thinner computer chip wafers. Innovations in data center water and liquid cooling, where water is recirculated in closed loops, focus on transitioning infrastructure from room-level air cooling to component-level fluid cooling.



Operators of data centers are evolving from passive users of existing power grids to proactive grid operators. Data centers are bypassing traditional transmission lines by building independent, localized energy networks (microgrids). Nuclear power is coming back. Tech giants facing strict carbon-neutral goals see nuclear energy as a carbon-free 24/7 source of reliable power, more reliable than intermittent solar and wind.

Microsoft has a power-purchase agreement to revive Three Mile Island in Pennsylvania rebranding it as clean power that will generate 800 megawatts of power. Meta has executed a 20-year procurement agreement with Constellation Energy in Illinois to generate 1.1 gigawatts of nuclear power starting 2027. Smaller next generation modular reactors (SMRs) have secured funding to build small factory prefabricated nuclear units for data centers with the goal of installing these in 2032 on data center sites.

Battery storage is also rapidly evolving where short-term battery backup is necessary for grid-size energy systems to protect against energy fluctuations and shutdowns. New nickel, zinc and sodium ion technologies are being developed to replace lithium battery storage due to rare earth supply shortages and fire safety issues.

Data centers along with AI-driven processes are one of those “disruptive technologies” that have changed society for the better, but they are also controversial in their initial implementation. Society will digest these new technologies, improving living standards in ways similar to the advent of electricity, automobiles and the internet.

Investors should take note.

Ed Del Beccaro is executive vice president and San Francisco Bay Area manager for **TRI Commercial Real Estate Services**.

For reprint and licensing requests for this article, [Click Here](#).

SHARE THIS ARTICLE



Visit our Preference Center

Sign up to receive emails from IREI. You'll receive updates on upcoming events, special publication offers and more. [Sign up here](#).

 Institutional Real Estate, Inc.
2010 Crow Canyon Place, Suite 455,
San Ramon, CA 94583, U.S.A. | +1 925-244-0500

Contact Us



Privacy Policy