Alternatives Research

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DWS

Data Centres: Asset Classes, Strategies and the AI boom

European market comes into focus.

IN A NUTSHELL

- Data centres have surged to the forefront of global investment, fuelled by AI-driven demand and cloud growth.
- The European data centre market is at a pivotal juncture, offering the potential for strong growth but requiring disciplined strategy, risk management, and innovative partnerships.
- Infrastructure investors have flocked into the sector, with both hyperscale and colocation business models seeing a surge in investment over the last five years. Overall, the colocation model potentially offers investors a more infrastructure-like business profile, while the hyperscale market offers significant scale.
- Data centres remain a niche within European real estate, but their share is growing as investors adopt varied ownership models and strategies, from powered-shell or filly-fitted structures to asset conversions and land plays.

Introduction

Data centres have been front and centre of global investment trends over 2025. Artificial intelligence (AI) and the associated capital expenditure of major U.S. technology companies have fuelled what was already a heavily targeted sector by investors across asset classes and investment strategies. We remain positive on the fundamental investment case for additional data centre (DC) capacity, based on continued requirements for cloud and IT services, with differentiated investment strategies across infrastructure and real estate potentially giving investors a choice of exposures.

While market constraints exist around land, water and power availability, the growth of the market is expected to continue globally, led by the U.S., but increasingly in other regions like Europe where data sovereignty and the need to have the infrastructure to develop independent AI businesses are likely to also drive the market. Overall, appropriate diversification in DC exposure is likely to remain important in seeking to mitigate risks for investors against market exuberance that could lead to a pullback in demand for certain DC segments.

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Infrastructure

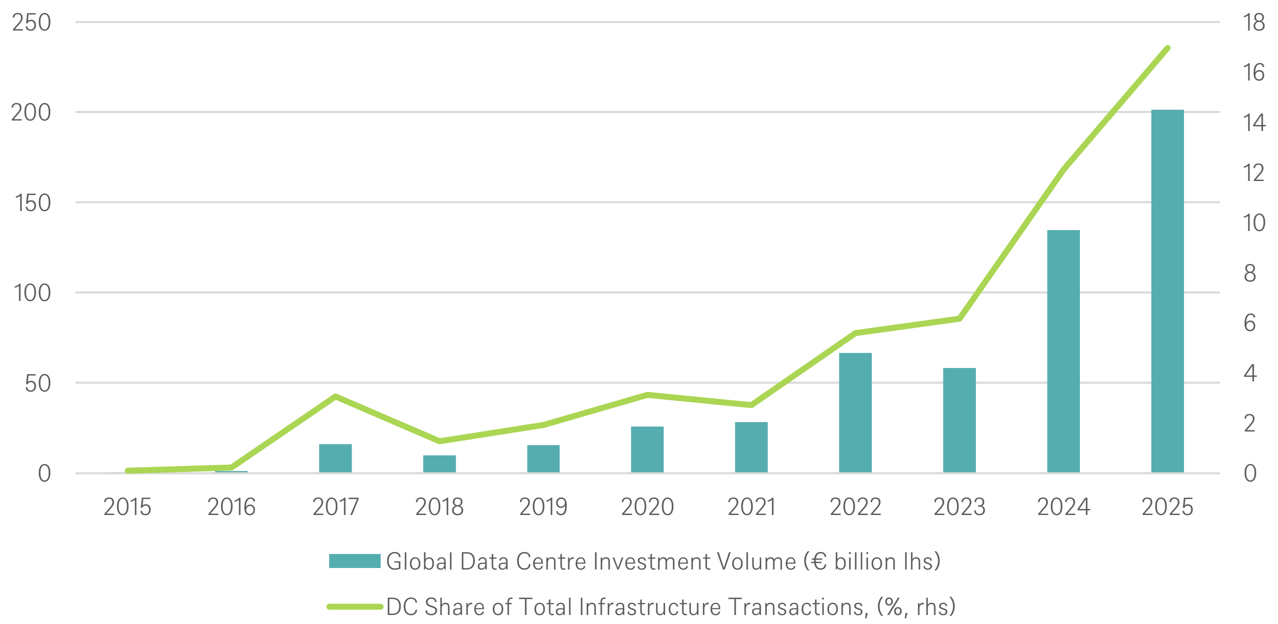
The data centre growth story is one of the strongest thematic capital deployment areas within the infrastructure sector, globally. Fundamentally, we remain positive on future data centre capacity requirements and the infrastructure characteristics these dynamics may offer to investor portfolios. Such has the popularity of data centres grown in recent years that there is now discussion as to whether the market may be overheated and that valuations could be too high. While the market for artificial AI-driven data centre demand has more ambiguity around current dynamics, the need for more capacity is expected to remain strong across markets more broadly.

When considering an infrastructure investor's strategic interest in investing in DCs, as economies have gradually digitised, cloud services, e-commerce, data analytics have all grown alongside, building the fundamental demand case for DCs and establishing crucial infrastructure-like characteristics. However, from a tactical perspective, the post-Covid pandemic period has added significant momentum to the DC sector, with potential outsized returns offered by early entry into the market to capitalise on a surge in demand. Firstly, demand was stoked by the shift to work-from-home and hybrid-work arrangements, alongside the related significant uptake of e-commerce, requiring a requisite acceleration of data centre capacity[1]. Secondly, the release and commercial uptake of AI large language models (LLMs), has added huge impetus behind DC capex and growth expectations.

Significant Market Growth

The value of transactions for DCs now represents over 15% of all private infrastructure deals across the asset class[2], with the full-year 2024 figure standing at EUR135bn. This places DCs as the largest sub-sector within closed private market infrastructure deals, ahead of more traditional sectors like solar, wind, gas infrastructure and roads. For context, five years previously in 2019, DC transactions in infrastructure numbered less than 60 and amounted to EUR15.5bn of transaction value.

Chart 1: Private Market Infrastructure Closed Transactions



Source: Infralogic, DWS Infrastructure Research, December 2025

Investors appear set to continue to target the market looking to capitalise on the potential for growth it can offer and the attractive multiples that larger investors could be willing to pay for additional powered DC capacity in their portfolio. The resilience of the market has also drawn investors, with DC businesses continuing to transact in large volumes and

[1] World Bank, Digital Progress & Trends Report, 2023

[2] Infralogic, 2025. Note 15% represents the share of total value of closed infrastructure transactions January-October 2025.

greenfield developments attracting debt investors; DC transactions continued apace during the 2022-2024 period where the bulk of the infrastructure transaction market was subdued. Similarly, the EV/EBITDA multiples achieved in closed transactions in the sector have remained above average for infrastructure transactions, even while other sectors in the digital sector have faced greater pressure from higher interest rates. The Q2 2025 Global Infrastructure Investor Association Pulse Survey indicates that data centres remain the most attractive opportunity set targeted by investors in Europe and North America, a position which they have largely held since 2023.[3]

Definitions & Asset Classes

With such a rapidly growing market and evolving technology requirements, infrastructure investors have multiple strategy options for deploying capital, each with a unique risk-reward balance. The lack of clear sector definitions across the infrastructure asset class has long been discussed and this certainly extends into the DC market, which not only often blurs the lines between real estate, infrastructure and private equity, but also has multiple hybrid business models across hyperscale, enterprise and co-location assets.

As with other sectors, for an infrastructure investment in the DC sector, there should be business characteristics that make the investment infrastructure-like, rather than an investment in pure private equity or real estate. To achieve this, most commonly infrastructure investors often look to target investments into the operational side of DC businesses, rather than developers or the 'powered shell' model that real estate investors often target. The complexity of developing and running a DC on a day-to-day basis is what creates many of the barriers to entry and strong market positions that infrastructure investors target. Key examples of the roles DC infrastructure businesses may fulfil include:

- Facility Management: Helping to ensure physical security, access control, and compliance with safety standards.
- Maintaining Building Systems: Heating, ventilation and cooling (HVAC), power distribution, fire suppression.
- Power & Cooling Operations: securing and managing uninterrupted power supply, back-up generators, and electrical infrastructure. Monitor and optimize cooling systems for efficiency and reliability.
- Network & Connectivity: Provide network infrastructure, fibre connectivity and redundancy. Manage interconnections between carriers, cloud providers, and customers.

Strategic Choice

Within the DC infrastructure market, investors are largely presented with two operational business profiles for investment: hyperscale or co-location. Both offer essential services to their clients, which may result in long-term revenue profiles. However, capex requirements, client mix, contract length and business drivers vary notably between hyperscale and colocation assets, making it important that investors select the strategy closest aligned to their own risk tolerance. Similarly, the role of AI in driving demand for these businesses can also differ with hyperscale assets being the predominant focus for the current multi-billion-dollar spending plans of the major US technology companies.

Table 1: Hyperscale Colocation Data Centre Comparison

	Hyperscale	Colocation	Strategic Consideration
Powered Capacity	From 30MW, but mainly in the 50-300MW range. Gigawatt-scale campuses now also being developed.	2-10MW for edge assets, up to 20-30MW for larger sites.	Hyperscale assets may benefit from economies of scale but are more limited in development locations due to high power and land requirements. Colocation's smaller assets potentially reduce market constraints risk.
Potential Costs (Can very significantly depending on location e.g. land and	100MW hyperscale assets could range around USD600-800mn of capex	20MW facility costs range around the USD200-280mn range. Greater	Both strategies increasingly looking towards modular construction to scale assets

[3] GIIA, Q2 2025 Infrastructure Pulse, June 2025

utilities costs, and power density e.g. cooling requirements, redundancy infrastructure)	requirement. AI-specific hyperscale can be much more expensive due to higher computing power requirement.	complexity and cost in meeting multiple client requirements, but lower exposure to expensive hardware associated with AI.	as demand grows. Hyperscale asset starting demand often begins at multiple 100MWs, meaning a higher upfront cost.
Client Base	Often leased to one client with significant requirements. Top tier credit-worthy clients like Microsoft, Meta, Alphabet, AWS etc. DCs core to cloud services, content delivery and increasingly AI and machine learning.	Multiple clients; ranges from several larger clients and cloud service providers, up to several hundred enterprises. Outsourcing DC requirements is cost effective for many businesses and can be scaled quickly. Often want options to have hybrid IT systems, partially cloud-based while retaining low latency or being carrier-neutral. Colocation assets can also accommodate high-density customers which may have AI inference requirements.	Hyperscale assets exposed to single-client risk i.e. shifting demand and expenditure plans, end-of-contract risk also can be an issue. Contracts in hyperscale are also often favourable to customers on terms. Colocation assets help spread risks across multiple clients.
Contract Length	Often 10-15+ years	3-7 years	Both strategies tend to be very sticky in that it is high cost and high risk for a client to leave their existing DC service. However, end of contract renegotiations are typically more critical with a single client, whereas colocation can benefit from rolling contract cycling, where new clients may be brought in under new terms.
AI	AI-focussed hyperscale DC capex creating massive opportunities, as large technology companies undertake AI model training which requires huge computing power. Long-term demand profile also regarded as strong given AI tool integration in technology company cloud services e.g. Microsoft 365.	Smaller AI workload to date due to limited training work done in colocation facilities. Demand is expected to grow over time as more AI adoption leads to higher data usage by colocation customers. Neocloud (new generation of AI-first businesses with significant GPU capacity) and other AI inference businesses are a growing demand driver in colocation facilities, but less often the major client.	Much AI capex is planned on the future profitability of currently early-stage models and businesses. Advances in technology, chip power requirements and potentially lower uptake of AI tools may impact demand for hyperscale assets.

Source: DWS Infrastructure Research. For illustrative purposes only. Past performance is not indicative of future performance. Any mentions of specific properties or securities are for illustrative purposes only and should not be considered a recommendation.

Investors considering exposure to the DC market may need to assess if exposure to the rapidly growing hyperscale market that is driven predominantly by the requirements of several large technology companies' capex plans provides them with the risk-profile commensurate to their infrastructure allocations. We do expect that the market could become more diverse, especially as Europe continues to build out its own 'sovereign' cloud and AI capabilities, but much of the market remains driven by a few companies. Conversely, in the colocation market, the diverse mix of clients within a single DC may provide diversification of risk, while giving exposure to potential upside in returns as capacity is expanded and new clients are added. Overall, as the infrastructure market shifts towards more focus on large-cap vs mid-cap investment strategies, hyperscale strategies are more likely to match to the capital deployment and returns profiles of a large-cap investor, leaving the mid-market investors to pursue colocation strategies. If we do see some kind of market correction around the development of AI, it may be more likely to impact the business models of the hyperscale market. That said, given the main clients in that market are the largest companies in the world with balance sheets able to withstand market volatility, hyperscale assets could remain attractive. For colocation markets, the main risk from a slowdown in the roll out of AI is not that there will be a drop in demand for DCs, but rather the market's potential future growth could slow as there is less integration of AI and it takes place over a longer period of time.

Real Estate

Structural Shifts

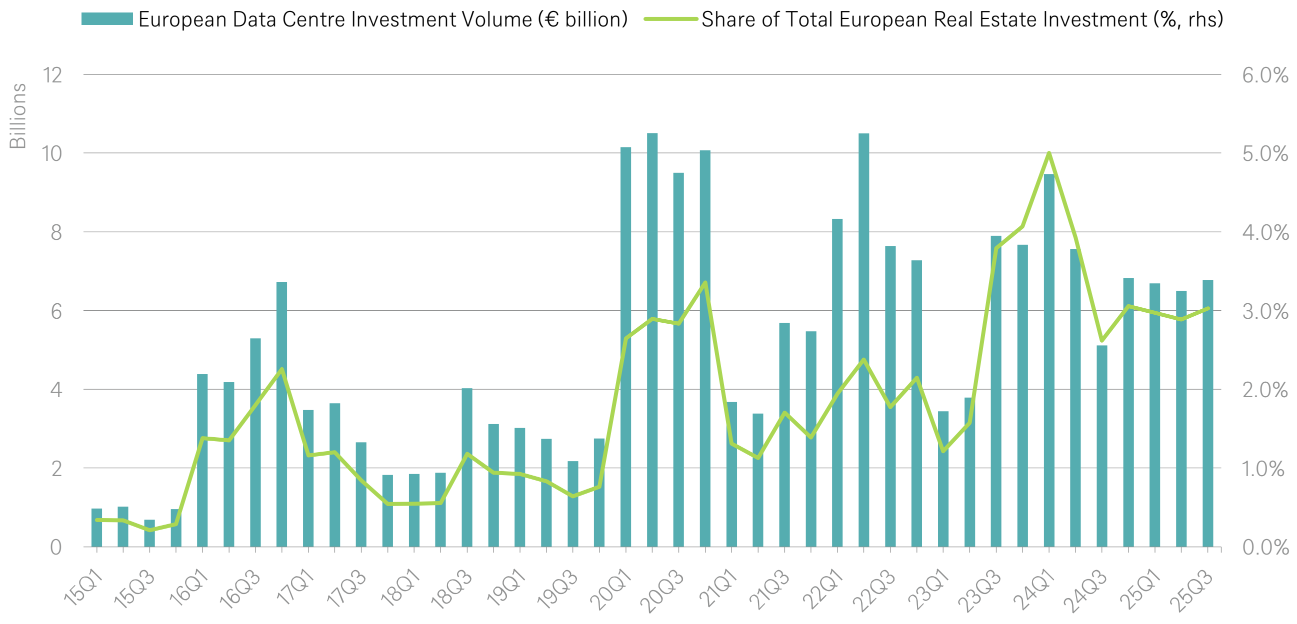
Data centres remain a niche sector within European real estate, representing less than 1% of the FTSE EPRA Nareit Developed Index[4] and accounting for just 3% of direct investment volumes in the first half of 2025.[5] However, the investment landscape for European DCs appear to be undergoing a structural shift, with traditional real estate investors increasingly competing with infrastructure specialists to access the sector's rapid growth.

Real estate investor interest is underpinned by the DC sector's strong fundamentals, structural trends such as the rise of Artificial Intelligence and the potential for portfolio diversification and enhanced returns. Indeed, since 2022, DCs have consistently ranked among the top five asset classes in PWC/ULI's *Emerging Trends in Real Estate, Europe*. Notably, in both the 2025 and 2026 surveys, the sector led overall prospect rankings and topped the lists for investment, development, and income prospects.[6]

Whilst the sector may remain niche at present, investor momentum is accelerating and the trajectory for real estate investment seems clear. Globally, DC fundraising accounted for 31% of sector-focused capital raised over the first nine months of 2025, second only to residential and up from 13% in 2024, highlighting the growing investor appetite.[7] Real estate vehicles dedicated to European DCs have exceeded fundraising targets, with a diverse range of institutional and private capital looking to access the sector. This trend is expected to continue and over the coming decades, we expect DCs to develop from niche assets into core components of institutional real estate portfolios.

While the growth potential of DCs is clear, the sector presents unique challenges to real estate investors. DCs are capital-intensive, operationally complex and often require deep knowledge and specialist expertise. As more real estate investors enter the space, deal structures are evolving as investment strategies are tailored to individual risk appetites. Ownership models vary significantly, each offering distinct risk-return profiles.

Chart 1: European Real Estate: Data Centre Investment Volumes (Rolling Annual)



Source: RCA/ MCSI November 2025

[4] FTSE EPRA Nareit Global Real Estate Index, July 2024
[5] RCA, MSCI, October 2025
[6] PWC/ULI Emerging Trends In Real Estate, November 2024 & November 2025
[7] PERE Fundraising Report, October 2025

Ownership Models

For core real estate investors, the 'powered shell' model is generally most aligned with traditional real estate investment and arguably offers the most accessible entry point. This structure involves owning the land, building and shell, and leasing the asset to a DC operator, typically a hyperscaler, under long-term agreements. Leases are usually long, and to a single tenant, with rent paid per square metre and indexed to CPI or fixed growth. In Europe, a number of established logistics specialists are currently active in this space, developing or acquiring powered shell data centres within established industrial estates.

Alternatively, investors seeking higher returns may opt for 'fully fitted' or 'turnkey' DCs, which include ownership of the infrastructure, such as generators, cooling and power systems, alongside the 'shell' or building. This model can be more capital intensive and operationally demanding, aligning more closely with infrastructure-style investment. While fully fitted models typically offer higher return potential, they also require greater capital expenditure and carry increased operational risk.

To mitigate risk and access technical expertise, real estate investors are increasingly forming joint ventures with experienced operators. Strategic partnerships allow real estate investors to participate more directly in the sector's growth, including potentially benefitting from power price appreciation, which is expected to outpace rental growth, marking a strategic shift from powered shell to more integrated ownership.

Table 2: Real Estate Data Centre Ownership Structures

	Powered Shell	Fully Fitted DC
Landlord Ownership	Land and building	Land, building and infrastructure (batteries, cooling equipment, computer servers)
Structure of Agreement	Lease to a hyperscaler or 3rd party DC operator	Partnership or joint venture with DC operator (incl. management contracts)
Tenant Profile	Hyperscalers (Amazon, Google, Microsoft) and large cloud providers	Colocation operators (Equinix, Digital Realty) and enterprise clients
Income Basis	Rent / sqm	Rate / kW
Typical Lease Term	Long leases: >10 years	Shorter leases: 3-10 years
CapEx Requirement	Low: basic building and power infrastructure	High: IT equipment, cooling systems

Source: DWS Real Estate Research, November 2025. For illustrative purposes only.

Strategic Opportunities

Real estate owners may hold natural advantage in the DC market through existing land portfolios. As demand accelerates across Europe, the need for suitable development sites is intensifying. Land with access to power infrastructure, often already embedded within real estate holdings, can potentially unlock significant untapped value. With power and permitting processes often slow and complex in Europe, powered sites are therefore increasingly viewed as strategic assets.

In some cases, existing assets may be repurposed for DC use, offering alternative exit strategies for real estate owners. One of Europe's largest logistics owner has actively converted warehouse stock into DCs in several European markets, leveraging existing infrastructure, power access and proximity to urban demand hubs, in an effort to unlock additional value. Conversion strategies may offer value-add opportunities in constrained markets and enable participation in DC growth without undertaking greenfield risk. This strategy appears particularly attractive in high-demand, supply constrained markets, such as the FLAP-D markets of Frankfurt, London, Amsterdam Paris and Dublin. Emerging markets, including Milan, Madrid and Warsaw, may also offer compelling growth and diversification potential.

Furthermore, the repurposing of underutilised office stock into edge or vertical data centres is likely to gain traction, providing an innovative solution to meet rising demand for low-latency infrastructure in urban environments. This approach may not only mitigates greenfield development risk but also leverages existing assets to capture decentralised capacity and proximity to end-users.

Finally, real estate investors are increasingly accessing the sector through debt financing. According to JLL, up to 80% of DC development funding relies on debt,[8] highlighting a significant financing gap as Europe scales to meet DC demand. Real estate debt funds are emerging as competitive lenders, especially for hyperscale-tenanted assets. In parallel, increasing volumes of long-term financing is being directed towards stabilised DCs.

Summary

The European DC market stands at a pivotal juncture, shaped by the accelerating demands of artificial intelligence, cloud computing, and digital transformation. European DCs present a compelling, if complex, opportunity. Success may depend on disciplined strategy selection, prudent risk management, and a willingness to innovate in partnership and asset management. For institutional investors in real assets, the sector can offer a rare combination of robust growth prospects, portfolio diversification, and evolving strategic opportunities, albeit the ability to navigate regulation, power and land constraints could be decisive.

[8] JLL, 2025

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