Real estate’s new center of gravity: Data centers

AI pulls capital toward one property type at unprecedented scale

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CoStar News
June 22, 2026 | 3:51 P.M.

The unprecedented surge of investment in data centers that support artificial intelligence is reshaping capital flows across commercial real estate, concentrating an extraordinary share of funding in a single, highly specialized property type.

For investors — from portfolio managers to policymakers — the implications are immediate. The largest investment boom in a generation has become a concentrated bet, hinging on the durability of AI infrastructure demand, the staying power of current technology and the long-term usefulness of the buildings themselves.

The numbers are striking. Data center development in the United States has surpassed spending on all other commercial buildings combined, according to Jason Thomas, head of global research and investment strategy at Carlyle. Since the launch of OpenAI's ChatGPT in November 2022, completed data center projects have increased roughly 220%, while all other real estate development is up less than 10%. Capital is following that momentum. Funds with exposure to digital systems raised over $100 billion last year — double the 2024 total — and accounted for roughly half of all infrastructure fundraising, according to financial data provider Preqin. Private transactions now routinely top $10 billion, including a $40 billion deal in 2025. Debt financing has followed suit, rising from $27 billion in 2020 to $92 billion last year, according to JLL.

That concentration raises a fundamental question: What happens if the thesis underpinning the build-out shifts?

Caution abound

Given current capital expenditure projections, "We may soon reach a point where data centers consume virtually all the economy's net private capital formation," Thomas warned in an outlook earlier this year.

It's "a lot of eggs put into this basket, especially when considering uncertainties about depreciation rates, hardware replacement cycles, and monetization timelines."

Those concerns are spreading. Companies have recently disclosed risks ranging from technological obsolescence to geographic concentration and tenant dependency.

MSCI reported in April that data centers have become a core institutional allocation in private markets, with exposure across infrastructure, real estate and private equity closed-end funds totaling $122 billion as of the third quarter.

While individual funds may face overconcentration risk, John Vavas, co-head of Polsinelli's real estate practice, said the broader market has not reached that point.

"I wouldn't say that the trend to lend on data centers is causing other asset classes to feel like there is no capital available to them. I think the overall sentiment in the market is that there is a lot of capital to be deployed," Vavas said.

The rush is also drawing in new entrants. Sovereign funds and global investors are now routinely pursuing U.S. data center opportunities, said Michael Rareshide of Site Selection Group.

"Investors I wouldn't be talking to three years ago are talking to me today," he said

Still, Rareshide cautioned that newcomers often underestimate the speed and scale required.

"I have a level of skepticism when it comes to new money coming in," Rareshide said.

But if New York-based alternative asset manager "KKR calls up with a new fund, I'm listening. They have proven what they can do. There's no shortage of money for projects," he added.

Carey Heyman, managing principal at CliftonLarsonAllen, warned the cycle echoes past speculative booms, including the overbuilding of shopping malls based on assumptions of permanent demand. Many of those centers remain vacant today.

Data centers share a similar vulnerability, he said: They are highly specialized and difficult to repurpose as technology evolves.

Sector outpacing all others

The scale of the build-out continues to accelerate. The U.S. has 110.9 million square feet of data center space under construction, compared with 67.4 million square feet of office space, according to CoStar data.

Federal data tells a similar story. Investment in power and communication infrastructure — a category that includes data centers — has climbed from $139.4 billion in early 2020 to surpass commercial property investment, which fell to $166 billion in the first quarter.

As a result, real estate is now more tightly linked to the tech sector than ever before. That linkage introduces new exposure, tying long-lived assets to a technology cycle that can shift much more quickly.

Many investors view data centers as infrastructure rather than traditional real estate, allowing them to tap a broader pool of capital than sectors such as housing, said Evan Stone, founder and managing partner of Goodwin Advisors.

Still, he acknowledged the pressure. "I've not heard anyone saying they are no longer going to do X, Y or Z because they are putting all their capital into data center development, but it has to be using precious equity and debt resources."

Simply put, investors are allocating more capital to data centers than the sector's size would typically justify — reflecting strong conviction in the current cycle.

"Data centers are attracting capital because the path to investor returns is clearer," CliftonLarsonAllen's Heyman said. "Demand is visible, lease terms are long and current incentives support development. Housing demand is just as strong, but execution is less certain. Longer timelines and less predictable outcomes slow capital investment."

Bottlenecks in housing, office

That buildup comes as other sectors face structural constraints. A National Low Income Housing Coalition report found a shortage of 7.2 million affordable homes for low-income households, leaving just 35 affordable and available rental homes for every 100 extremely low-income renter households nationwide.

Meanwhile, the office market remains under pressure.

Scott Douglass, co-founder and co-chief investment officer of Prime Finance, was blunt: "It's definitely a winners and losers space. No question that investment in things like data centers in general is getting siphoned away from office. Office is still really challenging now."

Public market allocations reflect that shift. Office fell from 10% of REIT investment funds in the first quarter of 2020 to 1.5% in the fourth quarter of 2023, according to Nareit. It rebounded to 3.9% in early 2025 before slipping again, to 2.8%, last quarter.

Data centers, by contrast, rose from 5.9% to 18.5% over the same period.

The contrarian case

Not everyone sees a problem. For some investors, an opportunity is being created.

"The shift of capital away from traditional real estate has created a repricing and a meaningful thinning of competition in sectors that still have strong long-term fundamentals," said David Steinbach, global chief investment officer at developer Hines.

Construction starts across the residential, office and industrial sectors have dropped as much as 50% to 80% from cyclical peaks, he said, citing data from real estate services firm CBRE.

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David Steinbach, global chief investment officer at Hines

"That's not a market in decline," he said. "That's a market building a supply shortage that will matter enormously in two to four years."

Steinbach urged investors to look beyond the data center boom.

"The investor waiting for traditional real estate to look compelling in the headlines will likely find they may have already missed the entry point," he said. "In our view, we are in the buy phase of this cycle, and the case for acting is clearest today."

Hines is targeting assets at the intersection of real estate and infrastructure demand, such as logistics sites with access to power that could support future digital uses.

What comes next

Even so, the data center boom shows no sign of slowing.

An estimated 40,000 acres of powered land will be needed worldwide over the next five years to meet projected demand, according to Hines. CBRE said 95% of global investors plan to increase spending on data centers.

That momentum raises the stakes. The more capital concentrates around a single thesis, however compelling, the greater the potential dislocation if it shifts.

The question is not just whether demand is strong today, but how durable it will be — and how adaptable these assets remain if conditions change.

For now, the trade is crowded. For investors willing to look past it, the opportunity may lie not in the boom itself, but in what follows if it cools.