

JACKSON | LUCAS

The Rise of Data Centers

and Their Impact on Today's CRE Market

By Tripp Lyons, Associate Partner



A Structural Shift Reshaping Capital Flows, Land Markets, and Infrastructure

The data center sector has emerged as one of the most consequential forces in commercial real estate. What was once a niche property type has rapidly become a primary destination for institutional capital, driven by the explosive growth of artificial intelligence, cloud computing, and the digital infrastructure required to support both. The scale of investment is staggering: Moody's projects \$3 trillion in global data center investment over the next five years, while the four largest U.S. hyperscalers—Amazon, Microsoft, Alphabet, and Meta—are collectively spending approximately \$400 billion annually, a figure expected to grow by another \$200 billion through 2028. Amazon alone has committed \$200 billion in capital expenditures for 2026, more than 50% above the prior year, with the vast majority directed toward AWS data center capacity.

Market Fundamentals: Demand Outpacing Supply

The supply-demand imbalance in data centers is unlike anything in traditional CRE. According to CBRE, North American primary market vacancy fell to a record low of 1.4% at year-end 2025, while JLL's most recent report pegs the figure at just 1% for the second consecutive year. Net absorption in primary markets reached a record 2,497.6 MW in 2025, surpassing the prior record of 1,809.5 MW set in 2024. Northern Virginia alone absorbed over 1,100 MW. Critically, 92% of capacity under construction is already pre-committed through binding leases or owner-occupied development. Average asking rents for wholesale capacity have climbed 20–35% since 2023, reaching \$150–\$200 per kW per month in primary markets. Construction costs have risen in tandem, with ConstructConnect reporting average build costs of \$960 per square foot—a figure that reflects both material inflation and the specialized nature of these facilities.





Broader CRE Market Implications

The data center boom is creating material second-order effects across the CRE landscape. First, land and power competition is intensifying. Data centers are absorbing industrial land in established markets like Northern Virginia, Dallas, and Phoenix, while simultaneously pushing into frontier markets—West Texas, Tennessee, Wisconsin, and Ohio—where 64% of capacity under construction is now located. Dallas-Fort Worth's data center inventory is expected to double by year-end 2026. This land absorption compresses supply for traditional industrial and logistics users and reshapes entitlement dynamics in suburban and exurban corridors.

Second, capital allocation is shifting. Between January and August 2025, there were 42 data center transactions totaling nearly \$13 billion, following \$52 billion in deal volume in 2024. Data center REITs posted over 21% year-over-year FFO growth and 7.2% NOI gains in Q1 2025. As institutional investors increasingly classify digital infrastructure as a core allocation, capital may rotate away from traditional sectors—a trend that has implications for pricing across office, retail, and even multifamily.

Third, power grid constraints are becoming a binding factor not just for data centers, but for all commercial development in affected regions. S&P Global projects U.S. data center grid-power demand will reach 75 GW in 2026 and nearly triple to 134 GW by 2030. PJM Interconnection, the largest U.S. grid operator serving over 65 million people, projects it will be six gigawatts short of reliability requirements by 2027. In Northern Virginia, Dominion Energy's interconnection queue stretches past 36 months, and the utility proposed its first base-rate increase since 1992. These infrastructure pressures raise energy costs and complicate site selection for all property types, not just data centers.

Looking Ahead: Opportunity and Tension

The trajectory is clear: data centers represent a structural, not cyclical, shift in commercial real estate. Yet investors should weigh the risks alongside the opportunity. Tenant concentration is significant—a handful of hyperscalers drive the majority of demand. Community pushback is mounting as municipalities contend with facilities that consume enormous power but generate relatively few permanent jobs per square foot. Regulatory frameworks are evolving; Texas Senate Bill 6, for instance, grants grid operators the authority to disconnect data centers during emergencies. Meanwhile, Gartner predicts that power shortages will operationally constrain 40% of AI data centers by 2027.

For CRE professionals, the imperative is to understand how this asset class interacts with the broader market—through land competition, capital reallocation, infrastructure strain, and evolving zoning and regulatory landscapes. Data centers are no longer a sidecar to the real estate conversation. They are increasingly central to it.

Tripp Lyons
Associate Partner



TrippL@jacksonlucas.com
203-609-1602

JACKSON | LUCAS