

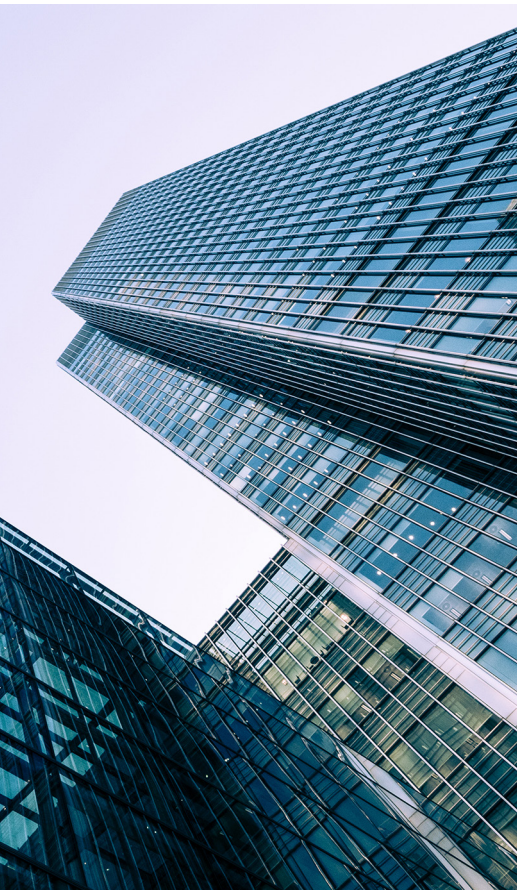
REPORT

AI Risk is clear and present but success needs bold government decisions

Capital, grid and sustainability risk dominate AI data centre decisions;
lack of community engagement escalates as a threat to planned deployments

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The electrification of the globe is being driven by the need to increase productivity across all industry sectors and the massive economic opportunity that AI presents to accelerate these processes. However as JP Morgan has commented in its 10-year outlook for tech, this debate is rational because we have arrived at a momentous time in the evolution of building a digital tomorrow. The tantalizing yield will be an increase of 40% in GDP over the decade even in an increasingly multipolar world.

Current argument about data centres has been publicly accentuated by increasing levels of dissension at community level around the impact of their physical build. Community engagement has risen up the agenda in response and there is now a much much higher expectation that industry players will find innovative and meaningful if not financial ways and means to mitigate concerns.

Sustainability has also moved from the margins to the heart of the investment case. Energy sourcing, efficiency, grid impact and long-term resilience are increasingly influencing both capital allocation and customer decisions. *[Source: Simmons & Simmons]*

> “Despite these hurdles and challenges, AI is not creating a bubble.

Inevitably across the next five to ten years we have to expect substantial volatility – stock market fluctuations, inflation, economic nationalism, countries re-investing in themselves and the intersecting needs of shrinking fiscal headroom for social care, investment in education, energy security and importantly defence in the wake of threats to the post-war stability that has endured until now with economic growth and globalization.

Despite these hurdles and challenges, AI is not creating a bubble. Construction will still take several years and is a natural capex build programme but on a scale that is completely different to anything previously experienced. Investment levels suggest between US$7 and US$12 trillion for data centres globally over the next five years. The US has around 30 gigawatts of capacity today and plans to add at least another 30GW more, although large US projects can wait four to seven years for power *[Source: Global Data Center Hub]*. In Europe EMEA data centre market is set for impressive growth, adding 13GW of new capacity by 2030 to reach 34GW *[Source: JLL]*. Market reports suggest (although there needs to be more evidence) that APAC could reach near 50GW by 2030.

In the short to medium term, national policy for AI in the US is unlikely to change and by 2029-2030 much of the current construction programme will have been completed. New markets will emerge in agentic AI for example but there will also be many others not yet even imagined.

Demand for AI is present and exists, but the roll-out (and the economic and GDP gains it will bring) is being retarded at the most fundamental level by a lack of grid power capacity - a critical determinant of value - multi-year queues for access to power, concerns about water usage,

and in capital markets concerns about circular financial arrangements, about an impact on the credit markets, and the delays, costs and need for re-insurance to manage through these growth periods.

Yet this is not another dot.com precisely because cash-flow is being built with revenues coming through currently at a granular level. The speed of AI growth will be determined by the speed of grid access but are there more innovative ways to combat this? Energy investment is already making deals on a vast range of power solutions.

Governments rightly have an obligation to control. But the big mistake being made already reflect in part some fears associated with AI and the challenge of political backlash by responding with new restrictions, imposing pauses in build permissions, introducing high levels of regulation in some way to contain or impede this demand. These measures will only delay better economic outcomes. It is also counter intuitive because the shift from training to inference and workload distribution means deployment of new data centres is already driving site selection to different geographies and moving to locations where capacity is available. A gasp for breathing space only creates a market vacuum.

So for the present it remains a volatile time but as capital markets well know, the trade-off is risk, in this case a higher level of risk, and with a greater level of ebb and flow with deep market swings. It is also evident that data centres are no longer a single asset class: development assets, powered land, stabilised facilities and operating platforms each carry very different risk and return characteristics.

There will be winners and losers perhaps on a wider scale than previously experienced – and a plenary theme by the way we have addressed every year at the Platform Global conference in Antibes.

Data centre markets confront a time of challenge but technologies continue to evolve, and solutions identified. They are not only a set of investment asset classes in their own right but represent the new factories of the 21C.

Governments must therefore engage quickly with the industry to support faster progress and deliver great outcomes and recognize the GDP advances that can be made in the medium to long term.

Where permissions are unclear, decisions impacting development are spread across several ministries, they must install both an industry think-tank for guidance and advice in tandem with a planned one-stop shop to implement innovative and new policies to take advantage of world shifts, offer incentive packages, shore up local economic development, speedily re-assess the commercial reality of locations and opportunities for AI growth zones and be recognized as a competitive country in which to do business.

Short term pauses on AI data centre development will not only hinder but damage perhaps for many years the prospects to solve the national social and economic challenges already here and more that lie ahead.



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