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DATA CENTRES INVESTMENT OPPORTUNITIES IN EUROPE

Key stakeholders in European data centres and real estate assess sector trends and strategies

Editor: Helen Richards
Designer: Douglas Soldera Junqueira & Mikael Jacob
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INTERACTIVE TITLES

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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report collates the exclusive insights exchanged between key stakeholders of European data centres and real estate during high-level roundtable discussions at GRI Club Meeting '**Data Centres Investment Opportunities in Europe**', hosted in partnership with Dentons.

CHECK OUT ALL THE PHOTOS FROM **DATA CENTRES INVESTMENT OPPORTUNITIES IN EUROPE**

DATA CENTRE MARKET INSIGHTS FROM

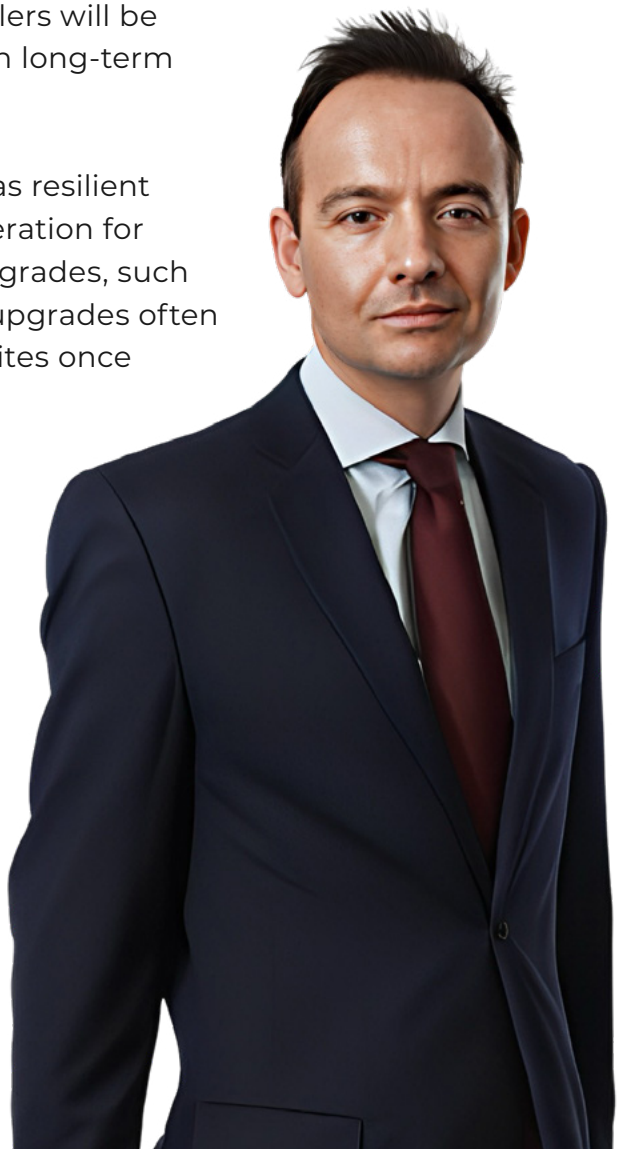
Alex Coulter, Real Estate Partner DENTONS

The rapid expansion of AI has significantly increased demand for data storage. While data itself is location-agnostic, the needs of users are not. As primary markets become saturated, data centre expansion is increasingly driven by the need for operational efficiency. Hyperscalers are focusing on optimising their operations to maintain a competitive edge, with efficiency improvements becoming crucial for staying ahead.

Despite market pressures, speculative acquisitions remain viable when the right conditions - such as access to power, land, and infrastructure - are met. The inherent complexity for hyperscalers of relocating infrastructure also makes data centres “sticky,” presenting significant challenges for migration during expansion.

Site selection remains a critical factor, particularly securing locations with reliable power supplies. Grid constraints are limiting growth in major markets like Amsterdam, pushing investment into secondary locations such as Milan and Madrid, but due to the infrastructure needed, FLAPD (Frankfurt, London, Amsterdam, Paris, and Dublin) remains the primary target for developers. Collaboration between investors, developers, power providers, and hyperscalers will be essential to meet these power challenges and sustain long-term growth.

Institutional investors continue to view data centres as resilient assets with strong long-term potential. A key consideration for investors is the cost and timeline of technological upgrades, such as advanced cooling systems, at lease expiry. These upgrades often take precedence over exploring alternative uses for sites once leases end.



Technological advancements, particularly in artificial intelligence, are reshaping the demand for data centre infrastructure. AI training, which does not face the same latency challenges as deployment, is a major driver of this demand. Meanwhile, growing concerns around cybersecurity are prompting governments to explore in-house cloud solutions, reducing reliance on third-party providers. Indeed, the UK government has classified data centres as critical infrastructure.

A talent gap remains a significant challenge for stakeholders in the sector, as the complexity of data centres - merging real estate, infrastructure, and cutting-edge technology - requires specialised expertise. Upskilling and leadership development will be crucial as the industry continues to evolve. Partnerships between data centre operators, investors, developers, and power providers will be vital to overcoming sustainability, grid constraint, and operational efficiency challenges.

So, why do we need data centres? AI is high on everyone's agenda. Dentons' recent Laws of AI Traction Report, which surveyed 450 business leaders, revealed a significant gap between the ambitions of large businesses to leverage AI and their actual progress in adoption.

Notably, 74% of business leaders believe AI is now essential for protecting their organisation's revenue and bottom line. As data centres increasingly support AI-driven demand, our work in this area has never been more critical.

As demand surges across the UK and Europe, the future of the data centre sector will depend on innovative solutions and creative collaboration. Addressing power and site limitations, as well as adapting to technological shifts, will be key to unlocking the next wave of growth in this critical industry.

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POWERING THE DIGITAL TRANSFORMATION

Data centres are increasingly recognised as critical infrastructure, vital for supporting the rapid growth of AI, cloud computing, and digital transformation. Governments and industries alike depend on these facilities to enable seamless digital services, high-performance computing, and data storage.

Technologies like ChatGPT and Midjourney have amplified the need for computational power, while the widespread adoption of IoT and consumer demands for high-quality digital experiences are driving unprecedented growth in data centre investments. Europe, in particular, is experiencing a surge in demand as it works to close the gap with the US in cloud adoption and digital infrastructure development.

This rise of AI technologies has fundamentally altered the demands on data centre infrastructure, driving innovations in power density, cooling, and energy efficiency. High-performance hardware, such as GPUs for AI workloads, requires advanced cooling systems like Direct Liquid Cooling (DLC) to manage heat and improve efficiency. These changes have transformed data centres from simple server warehouses to highly sophisticated facilities that integrate advanced engineering systems.

» Market Trends

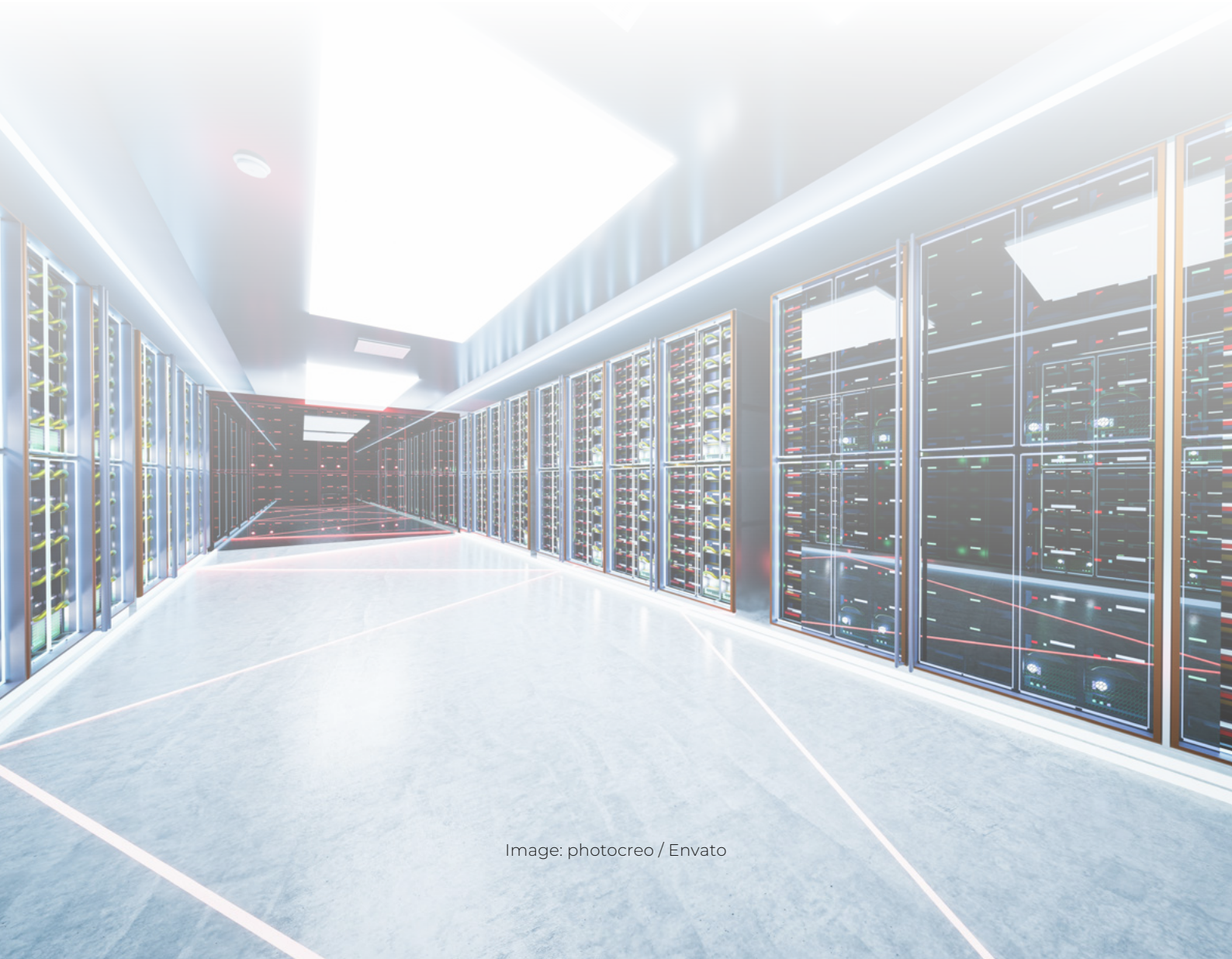
The data centre market is evolving rapidly, with a notable shift from being viewed as a real estate asset with predictable income streams to being treated as an infrastructure investment requiring sophisticated design, ongoing technological upgrades, and collaboration with tenants.

Project sizes have also expanded significantly. In 2019, a 70 MW data centre was considered large, but now campuses requiring 100-200 MW are the norm, with gigawatt-scale projects emerging in the US. This transformation is driven by the increasing complexity of design and operation, coupled with the technical requirements of hyperscalers and AI workloads.

Hyperscale projects by companies like Amazon and Google dominate the market, demanding specialised facilities with high upfront costs. Rental returns are therefore lower, although the long-term stability can be attractive to investors.

In contrast, multi-tenant colocation centres are gaining traction due to their ability to cater to diverse clients, such as startups, medium-sized enterprises, and government agencies. Although these facilities are riskier and require more operational effort with tenant management and tailored services, the margins are often higher, making them an attractive investment opportunity.

Amid this scenario, hybrid approaches are also gaining traction, integrating hyperscale and colocation elements, providing operators with the opportunity to balance stability and profitability.



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DEVELOPMENT STRATEGIES

Data centre investors are employing both long-term and opportunistic strategies to navigate the rapidly growing and competitive market. Long-term approaches focus on acquiring raw land and securing power to develop large-scale projects with efficient capital deployment, though these projects often require a lead time of 4-7 years. This strategy targets high alpha returns by bypassing intermediaries in the development process.

Opportunistic strategies, on the other hand, prioritise shorter-term gains by targeting stabilised assets in markets with immediate demand, or engaging in build-to-suit (BTS) developments tailored for hyperscalers like Microsoft and Amazon.

These complementary strategies enable investors to balance risk and capitalise on both established and emerging opportunities.

» Geographical Considerations

Geographically, investors are identifying high-growth markets across Europe, and increasingly in cities outside the saturated FLAPD (Frankfurt, London, Amsterdam, Paris, and Dublin) hubs, which remain critical but increasingly challenging due to competition and resource constraints.

Location plays a crucial role in data centre strategy, as proximity to key population hubs reduces latency and ensures seamless service delivery. Major hubs like London remain central due to their established connectivity networks, particularly for hyperscalers which prioritise low latency for AI inference and cloud services.

Underserved regions in Southern Europe, such as Spain and Italy, are emerging as viable markets for edge data centres and localised solutions. These regions have strong network connectivity and lower energy costs. However, they also face challenges with local power availability, making the region ripe for smaller colocation facilities and edge data centres catering to local demand.

» Power

Access to power is a significant bottleneck, with intense competition for energy supplies in high-demand areas like Berlin and London, which are nearing capacity. In Berlin, for example, hyperscalers have already monopolised much of the available energy, making it challenging for new developments to secure power.

In certain areas, power allocations are distributed only a few times a year, creating uncertainty for developers and making it harder to value properties or plan projects. Developers are increasingly valuing land not just by location but by the amount of contracted power available. Two identical plots of land may have vastly different values based on their ability to access and utilise grid energy.

While sites with proximity to urban hubs are preferred by hyperscalers and those occupiers which prioritise low latency, remote areas or regions with lower power competition also have their value, and are being considered for AI training workloads, which are less latency-sensitive compared to AI inference tasks.

As power continues to be a key element for any data centre development, governments and operators alike face challenges with infrastructure expansion. Data centre operators are heavily investing in grid upgrades, or even turning to self-generation solutions like on-site gas plants to ensure energy security, as governments are often too resource-constrained to modernise infrastructure to meet growing power demands.

Earlier this year, the UK government classified data centres as Critical National Infrastructure (CNI). As other governments follow suit, they will inevitably begin to balance the development of data centres with the development of other critical infrastructure and homes, reflecting the long-term importance of reliable digital infrastructure.

» Talent Shortages

The rapid growth of the data centre industry has intensified the demand for skilled talent across multiple disciplines, creating significant challenges in attracting and retaining the right workforce. Companies require expertise in areas such as construction management, design engineering, energy systems, and tenant relations to deliver large-scale, technically complex projects. However, the talent pool remains limited, particularly for operational and maintenance roles, where vocational training and career pathways are often underdeveloped.

Developers are addressing this gap by investing in training programs and forming partnerships with vocational schools to build a pipeline of qualified professionals. This proactive approach aims to position data centre careers as attractive opportunities, emphasising their association with leading technology firms and high-growth industries.

At senior levels, the shortage of experienced executives capable of managing multidisciplinary, multibillion-dollar projects across diverse geographies underscores the need for organisations to upskill internal talent and recruit from adjacent sectors such as construction and telecommunications. These efforts are critical to ensuring the scalability and sustainability of operations as the sector continues to expand.

FINANCIAL STRUCTURES

The financing of data centre projects requires a multifaceted approach due to the large capital demands and varying risk profiles associated with different stages of development. Capital is typically deployed in three distinct tiers:

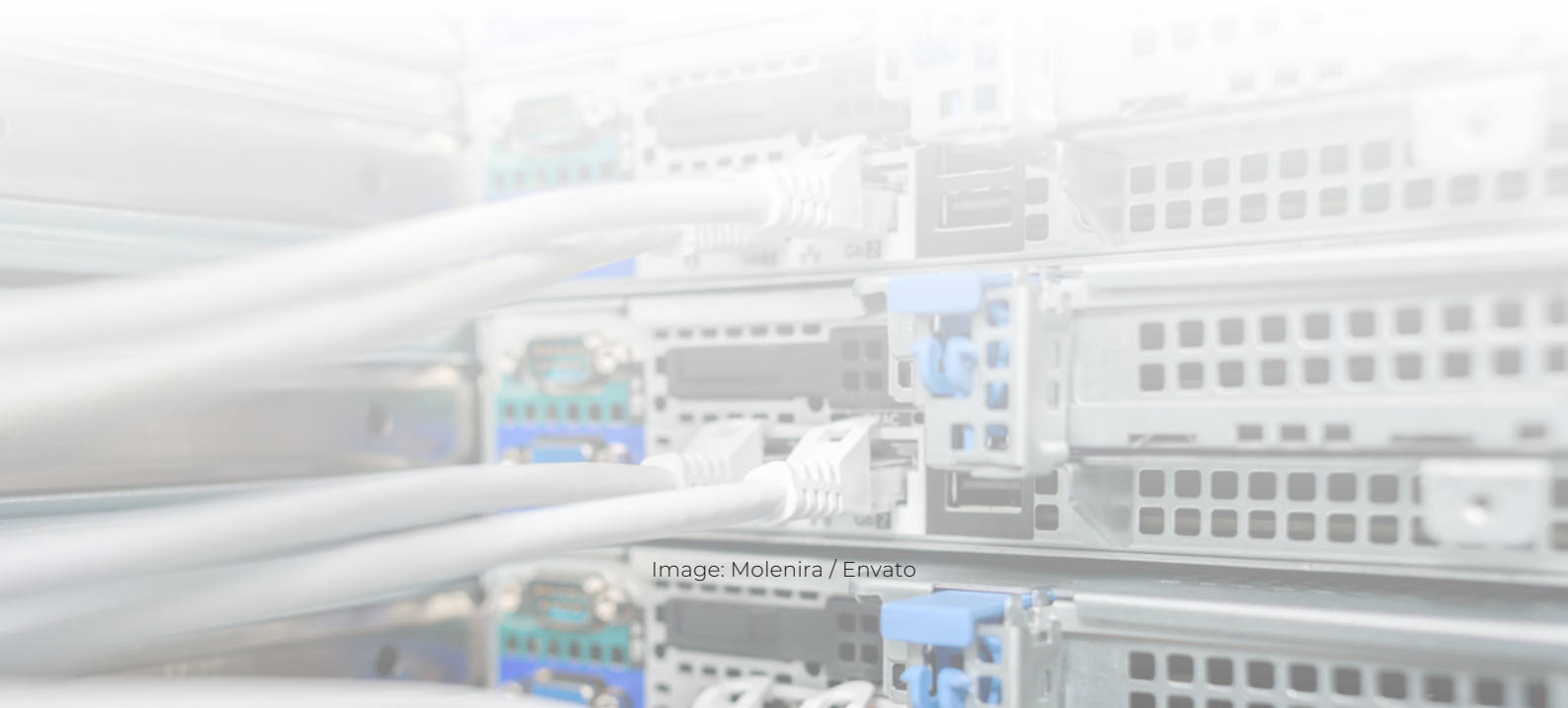
Tier 1 - high-risk equity for land acquisition and early development, often requiring a high cost of capital but offering significant rewards;

Tier 2 - debt financing for construction, where risk is perceived as lower once power and lease agreements are secured;

Tier 3 - stabilised assets, where lower-cost capital is used to refinance or acquire completed projects.

As these projects grow in scale, developers and investors increasingly turn to joint ventures, partnerships, and diversified funding sources to manage risk. Lender engagement in the sector is also expanding, with a variety of international players including European, Asian, and Middle Eastern banks, though financing structures remain hybrid and flexible due to the unique nature of data centres as both real estate and infrastructure assets.

Standardisation of leasing and financing terms is expected to evolve, making the sector more accessible to institutional capital, which has been slow to enter but is anticipated to increase as the asset class matures and investors become more familiar with its dynamics.



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SUSTAINABLE DEVELOPMENT & REGULATIONS

The data centre industry is increasingly influenced by stringent regulations focused on energy efficiency, sustainability, and environmental impact. The cost of compliance is substantial, and non-compliance risks include penalties and reputational damage.

In Germany, the Energy Efficiency Act (EnEfG) imposes rigorous standards, requiring data centres that start operations before July 2026 to achieve a Power Usage Effectiveness (PUE) of 1.5 or lower by July 2027, and 1.3 or lower by July 2030, creating complex challenges for operators with legacy infrastructure. For those data centres constructed after July 2026, a PUE of 1.2 or lower must be achieved.

Similar regulatory initiatives are being implemented across Europe under broader EU directives aimed at reducing the carbon footprint of digital infrastructure. A key component of these regulations is the transition to 100% renewable energy for data centres, with deadlines varying across regions. Additionally, water usage restrictions are pushing the adoption of innovative cooling solutions, such as dry cooling and Direct Liquid Cooling (DLC), to minimise environmental impact.

» Energy Efficiency Metrics Reporting

Compliance requirements extend beyond design to include real-time monitoring and reporting of energy efficiency metrics. PUE tracking and tenant-specific energy monitoring are becoming mandatory, increasing operational complexity for data centre operators. These measures ensure transparency and accountability but require significant investments in monitoring technologies and skilled personnel.

» Opportunities Behind Sustainability

While regulations pose operational and financial challenges, they also create opportunities. Older facilities must be retrofitted to meet modern standards, driving demand for refurbishment projects and innovative technologies.

Operators capable of exceeding these standards gain a market advantage, attracting environmentally conscious clients and securing lucrative government contracts. In highly regulated markets like Germany, professional colocation services are in demand, as smaller enterprises and startups seek compliant solutions to avoid the complexities of self-managing IT infrastructure.

OBSOLESCENCE RISK

The rapid pace of technological advancements in AI and cooling solutions poses a risk of obsolescence for older data centres. Operators and investors must prepare for lifecycle upgrades, retrofitting facilities to meet evolving efficiency and environmental standards.

Redundancy is a critical focus, with operators building flexibility into their designs to support both traditional workloads and cutting-edge AI applications. This approach helps mitigate risks while ensuring compliance with strict service-level agreements (SLAs) regarding various systems including power, cooling, and connectivity.

» Split Designs & Future-Proofing

Considering the importance of flexibility and adaptability, split designs can offer the advantage of allowing facilities to support both traditional and cutting-edge workloads, hedging against market changes.

These split designs involve segmenting a data centre into different zones or sections, each tailored for specific cooling and energy requirements. For example, a split design could serve tenants needing 20-kilowatt racks with liquid cooling while simultaneously accommodating clients with 5-kilowatt air-cooled setups.

By supporting varied workloads, split designs attract a broader mix of tenants, including hyperscalers, startups, government agencies, and medium-sized enterprises. Furthermore, operators can charge higher rates for sections using advanced technologies like DLC while still maintaining steady income from traditional systems.

Additional zones can also be left as “we will see” areas, allowing flexibility for integrating emerging cooling technologies or accommodating unforeseen client demands, further protecting against the risk of obsolescence.

Image: MegiasD / Envato

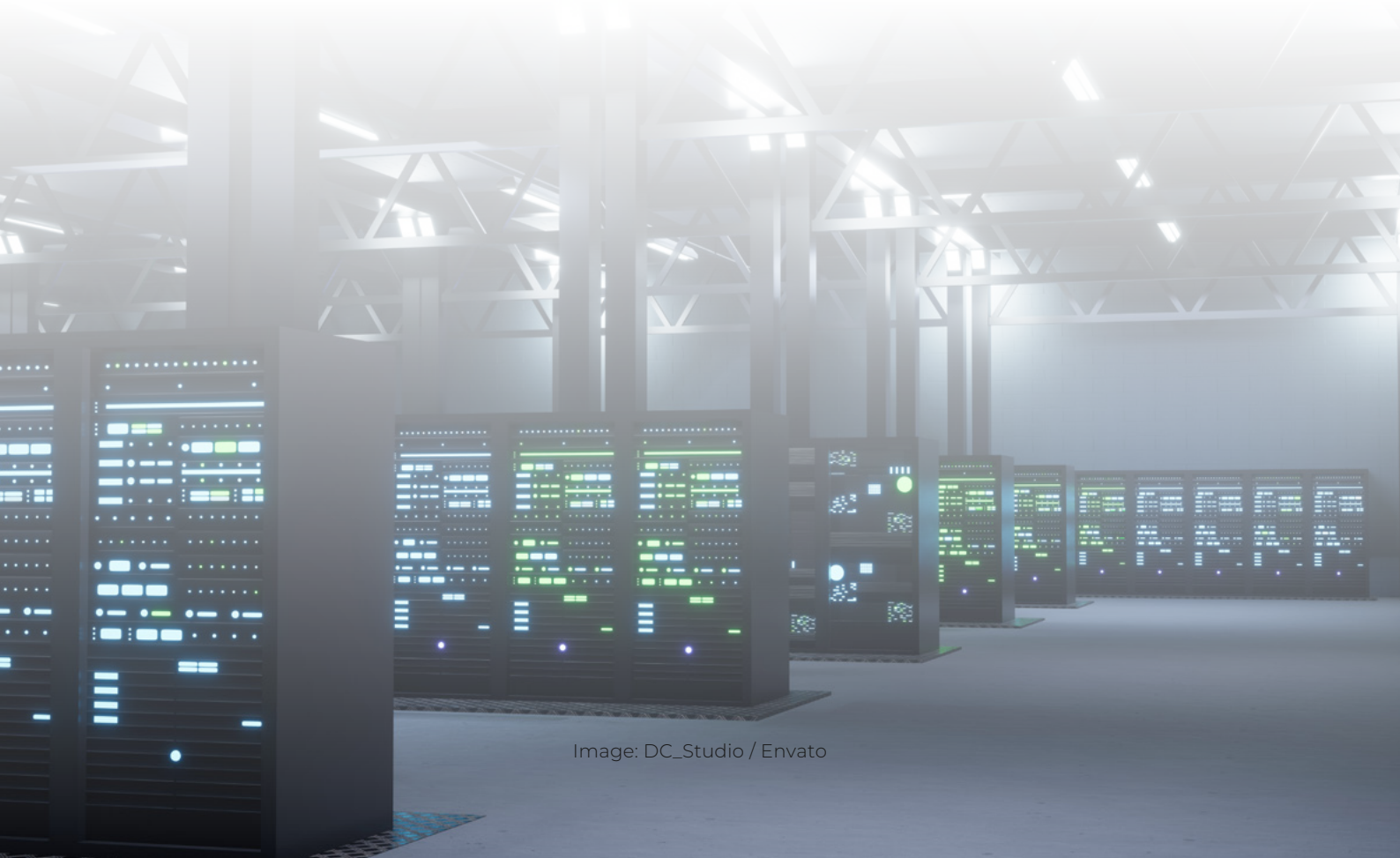
FUTURE OUTLOOK

As the data centre sector grows, leasing and financing models are expected to become more standardised. As investors become more familiar and educated with the sector, traditional asset managers are expected to increase allocations towards data centres, particularly as diversification from office-heavy portfolios grows.

Meanwhile, new market opportunities are expected to emerge as the rise of edge computing diversifies the market, and geographic expansion into underdeveloped regions strengthens. With diversification of the market, investors may also find opportunities in retrofitting older facilities to meet new standards.

Discussion participants concurred that the future of data centres lies in the ability to adapt to new demands, particularly from AI and cloud services. AI will drive the need for both hyperscale data centres for training, and localised facilities for inference tasks, while smaller colocation centres catering to startups and SMEs will play a critical role in supporting innovation.

Amid the mysteries that occupy the world of technological development, operators who build resilient and flexible facilities while maintaining a balanced tenant mix will be best positioned to succeed in this rapidly evolving industry. Meanwhile, increasing collaboration between data centre developers and power producers will also prompt a deeper integration of energy and digital infrastructure.



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Founded in 1998 in London, GRI Club currently brings together more than 18,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

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CONTACT

Diego Tavares
Managing Director & Senior Partner
diego.tavares@griclub.org

Kirsty Stevens
UK & Pan-Europe Director
kirsty.stevens@griclub.org

GRI Club

GRI Club Europe

GRI Club

@griclub.europe

griclub.org

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