

Unlocking data center opportunities through partnership

In today's dynamic market, partnering with top-tier data center providers supports our broader investment process. Provider selection matters.

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The data center landscape has changed dramatically in just the last year and continues to rapidly evolve. For example:

- The capital requirements for development are multiples higher than even five years ago (a hyperscale data center can now cost a billion dollars or more to build)
- The design and operation of the facilities is more complex, with much higher levels of density and new cooling technologies
- Development is increasingly occurring in new markets

This dynamism makes asset managers' partnerships with top-tier data center providers critical for success. The value of those partnerships is expanded access, to:

- Tenants
- Power
- Deal opportunities

Not all data center providers are created equal, of course. We partner with companies that have:

- Experience delivering for hyperscale tenants
- Relationships with utilities
- Established presence in and institutionalized knowledge about strategic markets

Ideally, a partner has all three. However, opportunities for additional return can exist with partners that demonstrate strength in one or two of these areas. Our 18+ years of experience in the data center sector enables us to effectively evaluate these situations and determine when we need to take a more proactive role.

Why we partner

In today's increasingly dynamic market, asset managers' partnerships with data center providers are critical for success. Tapping into the specialized knowledge, relationships, and experience of top-tier partners expands our access—to tenants, to power, and to deal opportunities.

Access to tenants

By 2030, hyperscalers may account for 61% of the installed data center capacity worldwide.^{*1} (In Europe, hyperscalers' share is already 80-85%.) These are among the largest and most creditworthy companies in the world—Amazon, Microsoft, Google, Meta, Apple, Oracle. Most tend to work with a small handful of trusted data center providers. For an asset manager, then, partnering with providers that have active leases with hyperscalers helps minimize execution risk. (This is less critical when vacancy rates remain near zero. But as more capacity comes online and the market normalizes, easy access to hyperscale tenants will continue to influence how investment decisions are made.)

Access to power

Timely access to power is one of the most significant constraints on new data center development, and a key reason why development is moving to [new markets](#). The issue is not a lack of generating capacity but the time it takes utilities to build new transmission lines to get the power to the new data centers. According to analysis by Lawrence Berkeley National Laboratory, “the timeline from the initial connection request to having a fully built and operational plant has increased from under two years for projects built in 2000-2007 to more than four years for those built in 2018-2023.”^{**2}

The advantage of partnering with data center providers that have clear paths to power is most significant in markets where power is hardest to come by. In those markets, sites with power have offered the lowest risk returns. Furthermore, a clear path to power is critical for reducing time to market.



Learn more in our paper [How data center developers are powering AI](#)

Access to deal opportunities

In established data center markets like Northern Virginia, Dallas/Fort Worth, Phoenix, and Frankfurt, vacancy rates are near zero and most new capacity is pre-leased well before development is complete. For new development, suitable sites with a clear path to permitting and access to utility power are increasingly limited as well. Deals are, simply put, very hard to come by.

More development is now occurring in less-established markets like Central WA/OR, Reno, the Carolinas, and Milan. Land and power are easier to come by in these markets, but institutional knowledge of market dynamics—and access to the best deals—is not. Asset managers therefore can benefit by partnering with seasoned data center providers that have an established presence in and institutionalized knowledge about these markets.



^{*1} Synergy Research, [The World's Total Data Center Capacity is Shifting Rapidly to Hyperscale Operators](#), 24 Jun 2025.

^{**2} Lawrence Berkeley National Laboratory, [Grid connection backlog grows by 30% in 2023](#), 10 Apr 2024

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With availability limited in primary markets, new development opportunities have been increasing in secondary markets



Learn more in our paper [Data center development opportunities in secondary markets](#)

What we look for in a partner

Not all data center providers are created equal, of course. We focus on partnering with those that have experience (delivering for hyperscale tenants, in particular); established utility relationships and proven power connectivity; and established presence in and institutionalized knowledge about strategic markets. Sometimes, a partner has all three, though that doesn't have to be the case.

Experience delivering for hyperscale tenants

Hyperscalers are rapidly adding data center capacity to their portfolios, making it impractical to onboard new providers for every project. As a result, they rely on a small handful of trusted providers. (These relationships are especially important when the provider is building a fully-fitted data center, and relatively less critical when delivering a powered shell.) Preferred providers with a history of successful development and delivery demonstrate thorough understanding of the end user's design and operations standards. Often their teams include subject matter experts who previously worked for the hyperscaler.

Utility relationships

Given that timely access to enough power is one of the most significant constraints on new data center development, savvy developers are proactive. Our development partners nurture deep relationships with local utilities, communicating and collaborating about upcoming plans. They have sophisticated people, processes, and technologies for selecting the highest-quality, lowest-risk sites to pre-develop. They keep a finger on the pulse of the industry, collaborating with the suppliers driving technology advancements and the customers deploying new capacity to de-risk proactive land development and power procurement.

Established presence in strategic markets

In an environment characterized by a race to capacity, with vacancy rates near zero and development moving to new markets, having local partners is key. In new markets in particular, deal opportunities might never officially be listed. They might be sourced via a provider's relationships with local landowners, for example, in which case in-market experience and expertise are essential. Local experience and expertise are also important for understanding the nuances that can make or break site selection—for example,

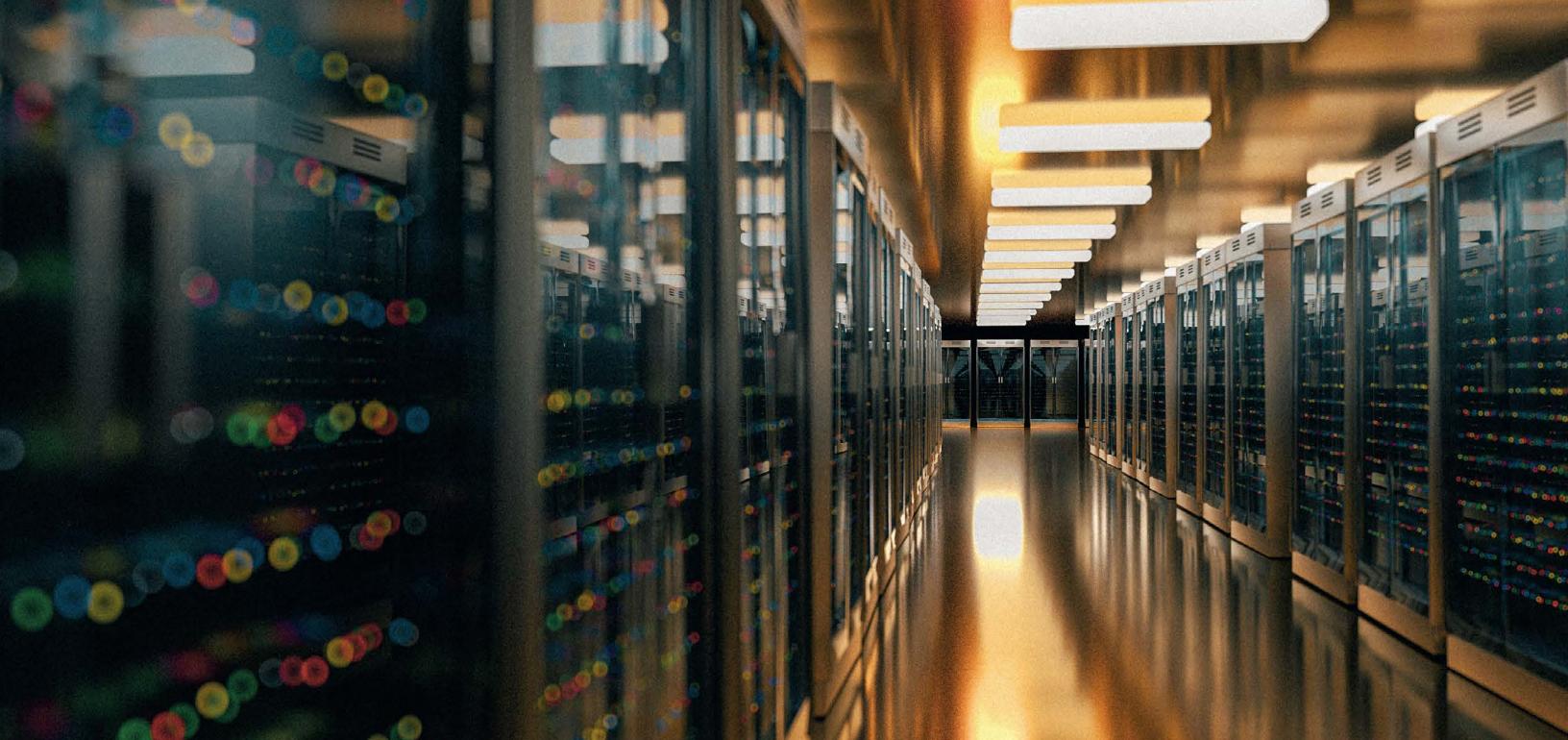
the location of fiber, power, and water; areas that require environmental remediation; neighborhoods that might resist development.

Understanding local utility interconnection and permitting processes—and relationships with those stakeholders—can dramatically reduce time to development. That is made more difficult, though, in new markets where stakeholders are not used to data centers, as well as in Europe, where each country has a different legal system, a different power planning system, and different oversight bodies. In these markets, in particular, providers with local experience and expertise are invaluable for opening access to deal opportunities.

Often, a partner has all three, but that doesn't have to be the case

At Principal, our preference is to work with partners that have experience delivering for hyperscale tenants, relationships with utilities, and have an established presence in strategic markets. But opportunities for additional return can exist with partners that don't have all three. For example, a provider that has deep connections and insights into opportunities in a particular strategic market but doesn't have experience serving hyperscalers can still be a valuable partner.

In that case, the asset manager's role is to identify where the risks lie and how to manage them. Our 18+ years of experience in the data center sector enables us to assess when we need to take a more proactive role—to influence the provider's process more than when we're working with a partner that has deep experience delivering for end users. For example, we might do a deal with a provider that has a strategically located piece of land with a clear path to utility interconnection and permitting, and bring in a design team and a general contractor with hyperscale development experience.



Why Principal

To support our investors' long-term investment objectives, we're tapping into the expertise of the key partners in the U.S. and Europe we've built strong relationships with over the course of almost two decades investing in the data center sector. These are providers that have experience delivering for hyperscale tenants; relationships with utilities; and established presence in and institutionalized knowledge about strategic markets—which provides access to tenants, to power, and to deal opportunities.

Our capabilities

Experience

We have been investing in the sector since 2007 and have built strong relationships with key partners over this period.

Varied strategies

Build-and-lease to core strategy; value-add acquisition of existing data centers; development on a ready-to-fit or turnkey basis.

Knowledge

We have witnessed the asset class evolve and adapt, and our investment approach is focused on an understanding of where the most compelling opportunities exist in our markets.

Sustainability

Understanding of the unique development, operational, maintenance, security, and energy requirements specific to data centers, and long-term experience in responsible property investing.

Exposure

With investment teams in both the U.S. and Europe, we have a rounded view of the market and share our in-depth local market knowledge across the teams.

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Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate.

Data center properties will only be attractive to a unique type of tenant. A limited tenant base increases the risk of vacancy. Additionally, a property designed to be a data center property, may be difficult to relet to another type of tenant or convert to another use and will be more likely to become functionally obsolete when compared to other properties. For example, if converted to industrial use, the expected rents would be lower than that projected for data centers. Thus, if operating a data center were to become unprofitable, the liquidation value of properties may be substantially less than would be the case if the properties were readily adaptable to other uses.

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MM14810 | 02/2026 | 5061913-022027