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INVESTMENTS

THE IMPACT OF AI ON PUBLIC REAL ESTATE

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The Impact of AI on Public Real Estate

In an era where artificial intelligence is transforming equity markets, the public real estate sector, often not associated with artificial intelligence (“AI”), stands on the cusp of profound transformation as well. While not typically perceived to be at the forefront of technological disruption, Real Estate Investment Trusts (REITs) are set to experience considerable impacts from AI's ascent, reshaping asset values, operational models, and investment strategies.

At the center of this shift is the rapidly expanding data center sector, where AI's insatiable demand for computational power is driving extraordinary growth. Data center REITs, as the critical infrastructure layer of AI, are positioned as clear beneficiaries. Beyond this, the rise of mobile generative AI (GenAI) applications has the potential to create strong tailwinds for cell tower REITs, given the

heightened requirements for connectivity and data transmission.

Equally important, AI is unlocking efficiencies across the broader commercial real estate landscape. From automating property management functions to enabling advanced resource optimization and eventually, the deployment of physical AI and robotics, these technologies have the potential to deliver meaningful cost savings and operational improvements.

This paper explores the implications of AI for the public real estate sector and the opportunities that may emerge at the intersection of technological innovation and real estate investment.



AI & Data Centers

When it comes to AI, public market attention has been squarely focused on the Magnificent Seven (“MAG 7”) and the semiconductor companies that manufacture chips for their frontier models. This attention is understandable: competition among the mega cap tech names in the AI space is unparalleled. Meta’s recent AI hiring spree highlighted this reality with athlete-level nine figure pay packages and “reverse acquihire” deals worth billions for top AI talent¹.

However, talent is only one side of the race to superintelligence. The other is infrastructure. The size and scale of data centers are reaching unprecedented levels as each company fights to build the “most intelligent” AI model. For example, xAI’s “Grok” model was trained using a specialized data center cluster of 100,000 graphic processing units (“GPUs”), built in a record-setting 122 days - an achievement that was expected to take around two years². Within three months, the company then doubled the training cluster to 200,000 GPUs².

Concerns earlier this year about more efficient challengers, such as Deepseek, now appear to have been only temporary speed bumps, as the size and scale of training clusters continues to expand. This trend underscores a larger point: while AI headlines often focus on algorithms and talent, the real foundation of progress lies in the data centers that facilitate and train these models. In many ways, they represent the true “picks and shovels” of the AI boom.

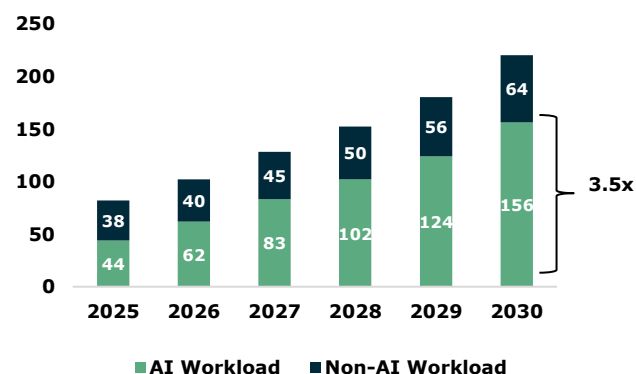
As GPU training clusters grow even larger and the race towards artificial general intelligence (“AGI”) and artificial super

intelligence (“ASI”) intensifies, demand for data center capacity is swelling at precisely the moment supply is constrained. This unprecedented demand-supply imbalance creates a powerful tailwind for data center REITs, positioning them as key beneficiaries of AI.

Quantifying The Impact

Looking longer-term, it is estimated that companies will invest ~\$6.7 trillion (USD) in capital expenditures on data center infrastructure globally by 2030 with demand for data center capacity growing at a compounded annual growth rate (CAGR) between 18% to 27%³. While traditional drivers such as SaaS, social media, and cloud computing continue to fuel this expansion, it is difficult to overstate the role AI will play. Figure 1 below highlights the estimated demand for global data center capacity differentiated by AI and non-AI workloads. As illustrated in the chart, AI workload demand is expected to increase 3.5 times by 2030.

Figure 1. Estimated Global Data Center Capacity Demand (GW)

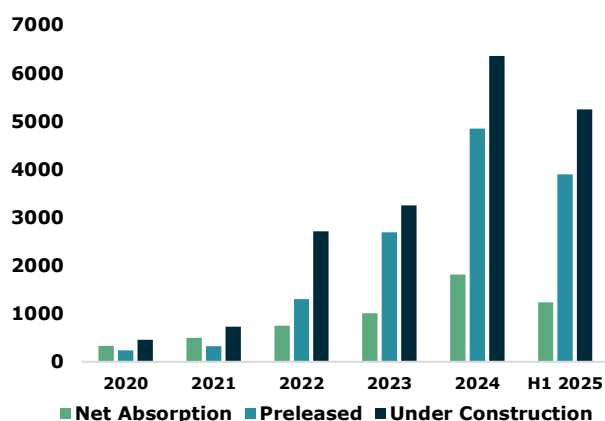


Source: McKinsey & Company, April 2025.

This surging demand is colliding with significant constraints to supply. In the first half of 2025, vacancy in North America fell to a record low of just 1.6%, highlighting the depth of unmet demand⁴. This record low vacancy rate is leading to higher levels of new construction (up 43.4% year-over-year in North American primary markets) as developers look to meet record levels of demand.

Although new construction is higher, pre-leasing activity in the first half of 2025 remained strong, with 74.3% of total under-construction capacity already committed⁴. Figure 2 underscores this dynamic, showing how net absorption and pre-leasing remain elevated even as new supply ramps up in primary markets within North America. This continued dynamic should result in vacancy rates remaining near record low levels, translating to multi-year, double-digit revenue growth and impressive funds from operations (FFO) growth.

Figure 2. North America Primary Markets Net Absorption, Preleasing & Under Construction (MW)



Source: CBRE Research, CBRE Data Center Solutions, H1 2025.

Looking ahead, future supply growth faces structural bottlenecks, particularly around grid capacity, water scarcity, and skilled labor shortages. Data centers consume vast amounts of both power and water, with U.S. electricity demand projected to triple by 2030, requiring an additional 460 terawatt-hours, while water consumption is expected to rise by 170%³. These constraints, coupled with higher construction and land costs are creating multi-year lags for new data center developments. This is particularly pronounced in primary markets where sites offering power access even within 18 to 36 months are highly sought after⁴.

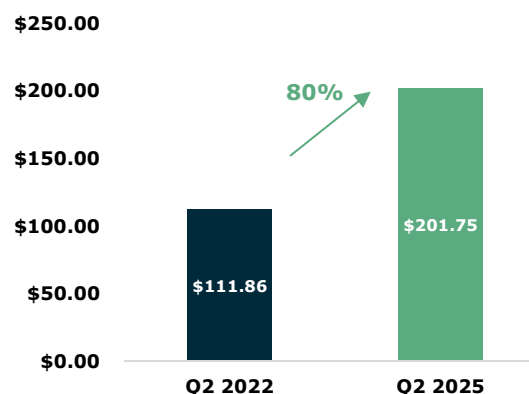
Although, the U.S. administration has announced “America’s AI Action Plan” and committed to addressing these capacity shortfalls, the effectiveness of these policies remains uncertain⁵. Labor constraints add further pressure with the

Bureau of Labor Statistics estimating the U.S. is likely to see ~80,000 job openings for electricians each year over the next decade due to AI related data center demand⁶.

This confluence of remarkable demand-supply fundamentals is driving outsized rent and earnings growth for data center operators. Within the greater than 10 MW (megawatt) power segment, average market pricing in North America’s primary markets increased 19% from the second half of 2024 to the first half of 2025³. This impressive pricing power has translated into robust revenue growth for global data center REITs like Digital Realty Trust and Equinix. Sell-side analysts estimate Digital Realty Trust will grow its annual revenue by 11.4% from 2025 to 2026⁷. Future growth beyond that seems even more auspicious given some of Digital Realty’s largest customers like Oracle have signed multi-year deals with OpenAI for over \$300 billion (USD)⁸.

The extraordinary growth of AI has also contributed to data center REITs significantly increasing their market share within the global REIT universe. Figure 3 depicts the increase in market share of data center REITs within the FTSE EPRA NAREIT Developed Index over the last three years.

Figure 3. Data Center REIT Market Share of Global Index (Billions USD)



Source: Bloomberg LP. Data as of Q2 2025.

During this period, the index weighting for the data center sector increased from ~6.0% to ~10%. If AI demand continues to trend at the current breakneck pace, it is likely this rising market share dynamic for data center REITs will continue as well.

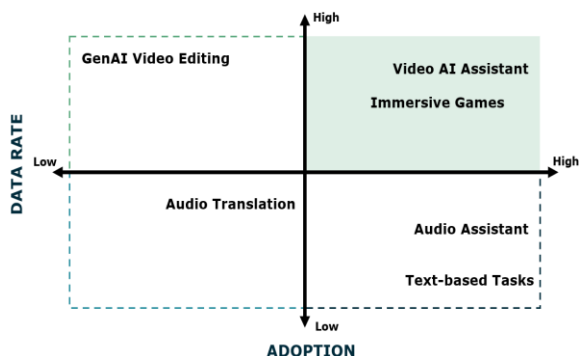
AI & Cell Towers

Beyond data centers, the rise of GenAI in mobile applications has the potential to materially increase network demands, which could create positive tailwinds for cell tower REITs. These REITs own the critical infrastructure leased to mobile carriers and benefit directly from increased tower upgrades, colocation demand and densification.

The global mobile AI app market soared to 115 million downloads in December of last year alone, an 81% year-on-year increase with ChatGPT leading as the most downloaded app⁹. As the number of GenAI capable smartphones rises and GenAI apps evolve from text-based tools to multimodal experiences that integrate voice, video, and augmented reality (AR) via devices such as smart glasses, uplink traffic requirements can rise significantly by 2030.

It is important to highlight that not all GenAI applications will impact traffic equally. High bandwidth but low adoption apps such as video editing are niche in usage and capable of being absorbed by the existing network. Conversely, text-based chatbots are widely adopted but relatively low in data intensity. The most transformative impact will come from applications that combine both high adoption and high data rate requirements, for example, video-based AI assistants, as illustrated in Figure 4 below.

Figure 4. GenAI Applications, Adoption vs. Data Rates

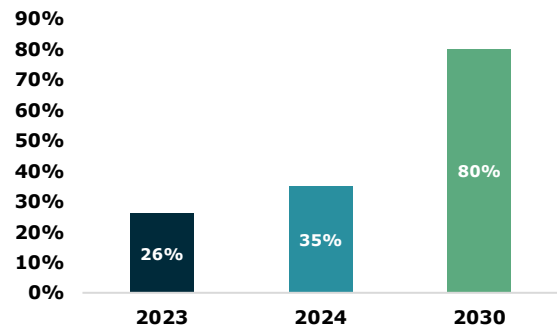


Source: Ericsson Mobility Report, June 2025.

Looking forward, as 5G subscriptions climb to an estimated 6.3 billion globally by 2030, and mobile data traffic grows at a CAGR of 17%, carriers will prioritize low latency 5G

standalone networks to accommodate the increased traffic⁹. Figure 5 displays the growth of 5G globally as a percentage of total mobile traffic by 2030.

Figure 5. 5G Share of Global Mobile Data Traffic



Source: Ericsson Mobility Report, June 2025.

This growth in 5G is vital for seamless GenAI experiences and ensures steady cell tower REIT revenue growth through increased colocation demand and expanded leasing. Colocation demand, in the context of North American cell tower REITs like American Tower and Crown Castle or European cell tower companies like Cellnex, refers to the increasing need from wireless carriers, such as Verizon, AT&T, and T-Mobile, to share or lease space on the same tower infrastructure. This arises as 5G network growth drives higher data traffic, necessitating denser networks with additional equipment like small cells, antennas, and edge computing nodes. When carriers co-locate, they utilize existing tower space rather than building new structures, boosting REIT revenues through higher per-tower rental income and reduced operational costs as maintenance is spread across tenants, leading to improved margins.

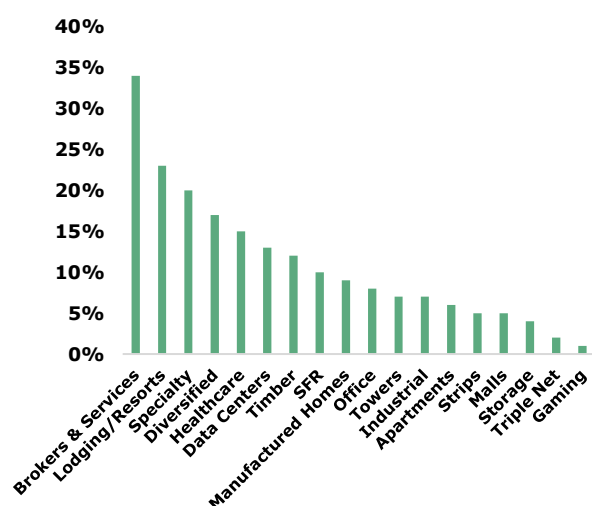


AI & Broader Implications for REITs

While the direct impact of AI adoption is more visible for specific REIT sectors like cell towers and data centers, it is also worth examining how AI applications can improve efficiencies and create value for the overall REIT market. In particular, GenAI and agentic AI offer considerable scope for enhancing operational margins through labor automation and cost reductions.

A recent analysis across 23 occupational categories revealed that roughly 37% of tasks in the public REIT and commercial real estate (“CRE”) services sector are capable of being automated, representing an estimated \$34 billion in cost savings, or roughly 16% of operational cash flow¹⁰. These margin improvements could support multiple expansion over time, as investors begin to price in structurally higher earnings power. It is estimated that CRE Brokers and CRE services companies could see the most benefits with a potential 34% operating cash uplift by implementing AI to automate certain functions¹⁰. Figure 6 showcases a breakdown of potential operating cash flow upside from AI automation for various real estate sectors.

**Figure 6. AI Driven Labor Cost Opportunity
% of Operating Cash (Before Interest & Labor)**



Source: Alphawise, Linkup, Anthropic Economic Index 3/27/2025, Samaya AI, Morgan Stanley Research.

Although some labor displacement is expected from this automation, economists note that productivity gains and the creation

of new tasks could ultimately result in net positive job growth, albeit with significant reskilling required. It is also important to preface this by acknowledging that the timing and success of this labor market transformation is still largely unknown at this time.

Several REITs have already embraced AI within their operations. AvalonBay Communities, in the U.S. multifamily sector, has used AI to streamline leasing and operations, reducing overhead costs by 15% since 2021 while maintaining tenant satisfaction. Meanwhile, Public Storage, a U.S. self-storage REIT, has integrated AI into its digital platform, with 85% of customer interactions now occurring through AI-driven tools¹⁰. Another consideration is the potential impact of AI on the productivity of commercial real estate tenants as higher profitability for corporations, particularly those located in prime business hubs, can be viewed as a signal for potential rent growth. However, it is important to recognize the successful deployment of AI initiatives hinges on overcoming the organizational resistance inherent in adaptation. Research from MIT estimates ~95% of GenAI pilots for businesses fail because companies seek to eliminate friction rather than strategically integrate it, highlighting the critical need for thoughtful workflow redesign to ensure effective implementation¹¹.

Physical AI and robotics are also beginning to enter REIT operations, delivering efficiencies and enhancing tenant experiences. In Canada, Chartwell Retirement Residences has piloted a robotics program at one of their properties focused on food delivery to residents and in-unit cleaning¹². Looking to the future, continued advances in physical AI could extend to mobility support and personal care assistance in senior housing, further reducing costs.

RECAP



Recap

As artificial intelligence revolutionizes global markets, the public real estate sector, often overshadowed by tech trends, is poised for a profound transformation. AI is altering market dynamics, streamlining operations, and unlocking new efficiencies across the REIT landscape.

Data center REITs are positioned at the heart of this shift, with AI's insatiable demand for computational power creating powerful, multi-year secular growth tailwinds. Cell tower REITs, likewise, have the potential to benefit from the surge in mobile GenAI applications, which can drive further network utilization and tower upgrades. Beyond infrastructure, AI-driven automation and robotics are beginning to enhance property management, reduce costs, and elevate tenant experiences—particularly in labor-intensive sectors.

At this inflection point, REITs are uniquely positioned to capture substantial value. Those that strategically embrace AI, both as a demand driver and an efficiency tool, will be best placed to navigate this transformative era and deliver sustainable long-term growth.

At this AI crossroads, REITs are primed to harness substantial value, navigating a transformative era with strategic vision.

SOURCES AND DISCLAIMER

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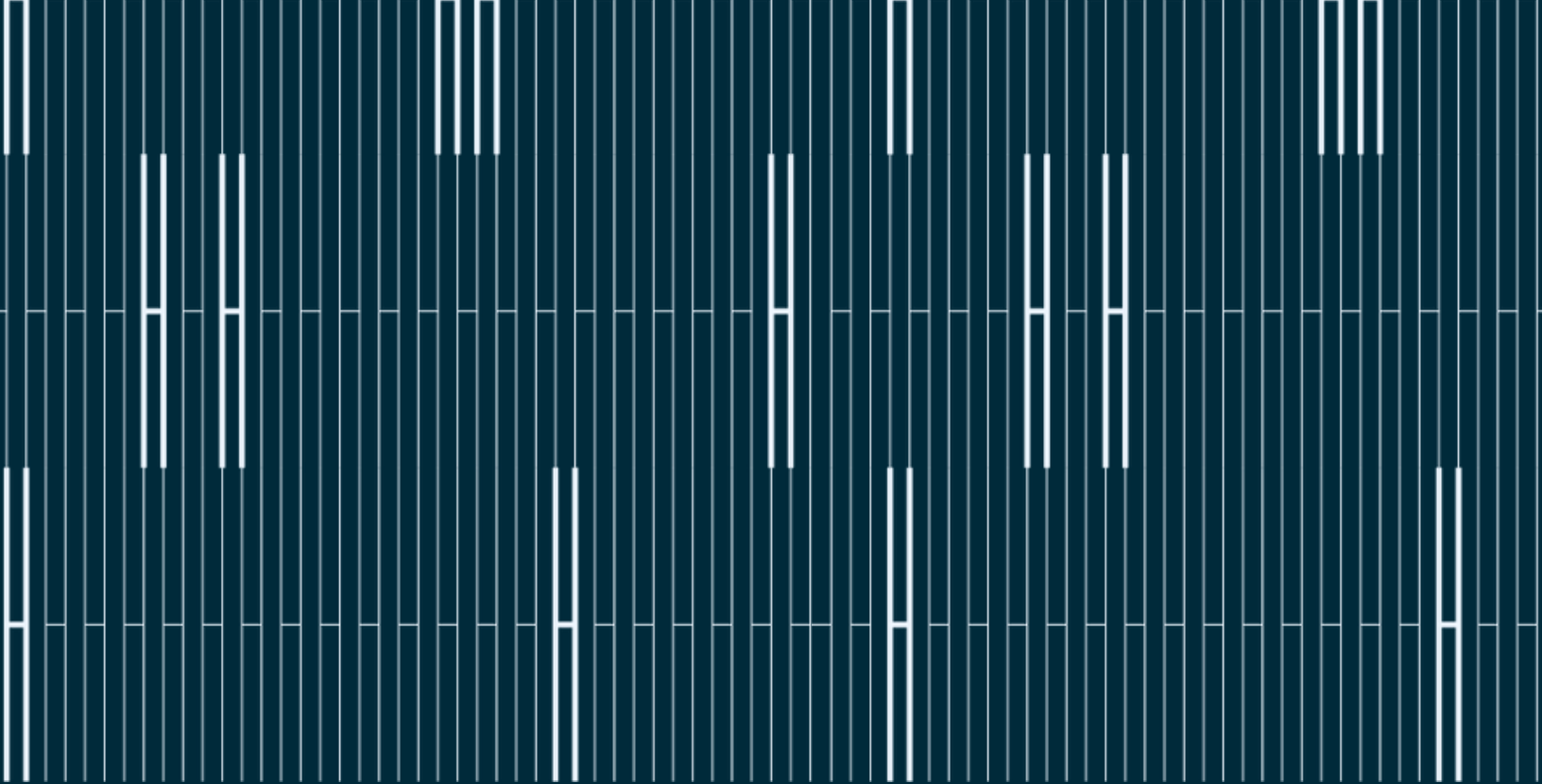
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