

# Powering the future: the strategic role of data centres in the AI evolution in Europe

Data centre demand is surging, driven primarily by the rapid evolution of AI technologies. In PIMCO's view, this represents a significant opportunity for investors in European data centres.



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Generative artificial intelligence-driven workloads are rapidly accelerating data centre demand, which is likely to boost Tier 2 and 3 markets across Europe over the next five years. This complements increases in content generation and migration to the cloud in driving secular demand for localised data centre capacity globally and, in Europe, making data centres an increasingly attractive investment opportunity.

In their first-quarter earnings reports for 2024, the largest technology companies – including Microsoft, Amazon, and Alphabet – highlighted AI as a primary growth driver, both as a standalone product and as an additional source of demand for cloud services, which continue to see double-digit growth rates. Achieving their AI ambitions requires significant investment, which is projected to increase by around 44% year-on-year in 2024. Data centres are central to this AI push, serving as the critical infrastructure that powers and enables the expansion of AI technologies.

We have already seen a transformational increase in data centre demand over the last 12 months, with Q1 2024 leasing volumes exceeding 1,800 MW (megawatts) globally – just three years ago average quarterly leasing volumes stood at 200-300 MW.

## The Role of AI Training and Inference in Shaping Data Centre Trends

There are two primary demands for AI-driven data centre capacity: AI training and AI inference, with the latter expected to significantly exceed the former in capacity requirements.

AI training facilities are used to train generative AI models on large datasets, which have grown increasingly complex over the past five years. For example, OpenAI GPT-2 had around two billion parameters while OpenAI GPT-4 is estimated to have approximately 1.7 trillion.

AI inference facilities are designed to deliver AI capabilities to consumers, enterprises, and governments, and are therefore very latency sensitive and are often located in similar places as cloud data centres.

We expect that the following 18-24 months will see the build-out of hyperscalers' AI inference capabilities. In essence, just as the logistics

sector maintains a dual need for both expansive big box warehouses to store vast quantities of goods and agile "last mile" logistics to deliver these goods efficiently to consumers, the AI sector similarly requires robust training facilities to develop powerful models and extensive low latency inference capabilities to deploy these models effectively in real-world applications.

## The Strategic Migration to New European Data Centre Hubs

This new growth demand driver for generative AI-driven data centre workloads underscores our continued enthusiasm for the development of data centres in Europe. Yet power transmission limitations are increasingly restricting the ability to expand capacity in the Tier 1 data centre markets (Frankfurt, London, Amsterdam, Paris, and Dublin) in the near term. These constraints are already leading to some hyperscalers strategically shifting workloads out of Tier 1 markets and into Tier 2 and Tier 3 markets (such as Madrid, Milan, and Berlin) that may be less power constrained and often have good access to renewable power.

We are also seeing strong support from local governments and municipalities in bringing data centres to Tier 2 and Tier 3 markets as they see the importance of supporting critical digital infrastructure, the value of the local investment as well as the long-term positive social and economic impacts data centres can provide.

## Capitalizing on AI Demand: Investment Opportunities in European Data Centres

The AI theme is likely to play an important role in investor portfolios over the coming years. Data centres support this theme without depending on specific winners in the AI race and enable investors to gain exposure to AI growth without taking idiosyncratic risks. Within the European data centre sector, we favour Tier 2 and Tier 3 markets that are likely to benefit from growth in capacity requirements driven by AI and digital sovereignty as well as a continued growth in cloud-based demand. The emphasis here is to focus on locations with lower latency and scalable campus developments that can accommodate increasing AI workloads.

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