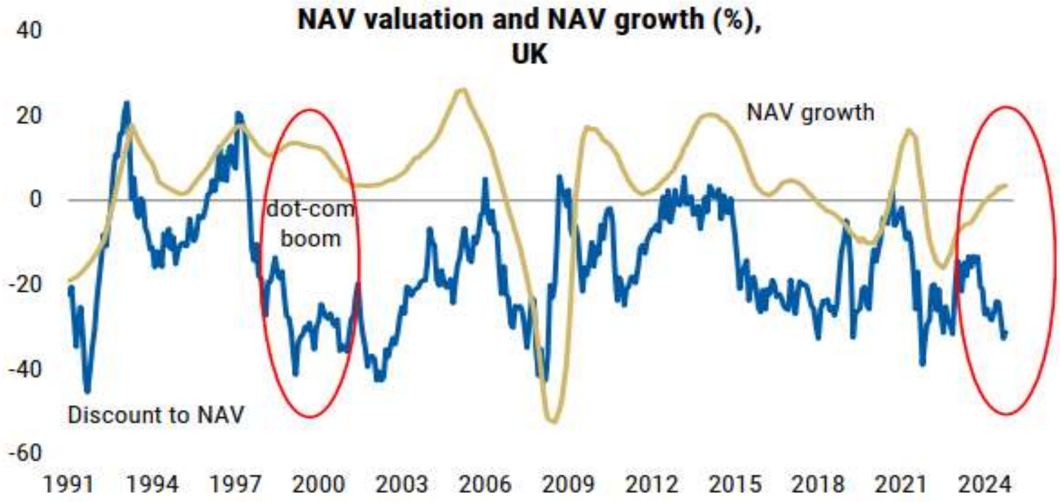
The AI race – headwind or boon for real estate investments?

Claude (Sonnet 4.5) seems to think that developments in big tech currently have an outsized impact on real estate investments. The large language model ("LLM") came up with this idea while it was trying to help me understand why property remains the most underinvested sector by global fund managers, despite its strong fundamentals.

Despite net asset value ("NAV") growth returning to positive territory in 2024, real estate stocks in Europe and the UK are still trading at close to historical discounts. Usually, NAV growth would be a catalyst for the share prices of those stocks to re-rate strongly. NAV growth and NAV valuations are completely decoupled. Morgan Stanley highlights that the last time we saw such a decoupling was during the dot-com boom in the late 90s.



Source: Company data, Datastream, Morgan Stanley Research

Real estate was completely out of favor during the dot-com boom, as it is now. Growth-seeking investors are concentrated on higher-beta tech names rather than diversifying into yield-generating REITs. Property's "boring" but stable characteristics have become a liability in a momentum-driven market.

Following the dot-com crash, UK property stocks rallied 63% in the just over 2 years between February 2000 and May 2002. Google AI's Gemini (2.5 Flash) explains that this was due to a few factors:

- A **flight to safety** after the crash led investors to seek out "safer" income-producing assets that were less correlated with the volatile tech sector. Real estate, and REITs specifically, provided this safe haven. Real estate investments offered consistent dividends (around 8% on average in 2000), making them attractive to income seeking investors.

- Following the 2001 recession, central banks (led by the Fed), adopted accommodative monetary policy to stimulate their economies. **Falling interest rates** have made real estate purchases more affordable, boosting demand for residential and commercial property.

- The core real estate market demonstrated relative strength and stability during this period, insulating it from the broader economic slowdown. The sector displayed **strong underlying fundamentals** even before the crash.

Gemini summarises that the surge in real estate stocks from 2000 to 2002 was a clear case of **sector rotation**: money flowed out of the crashing tech stocks and into the higher-yielding, perceived-as-safer, and fundamentally supported real estate sector.

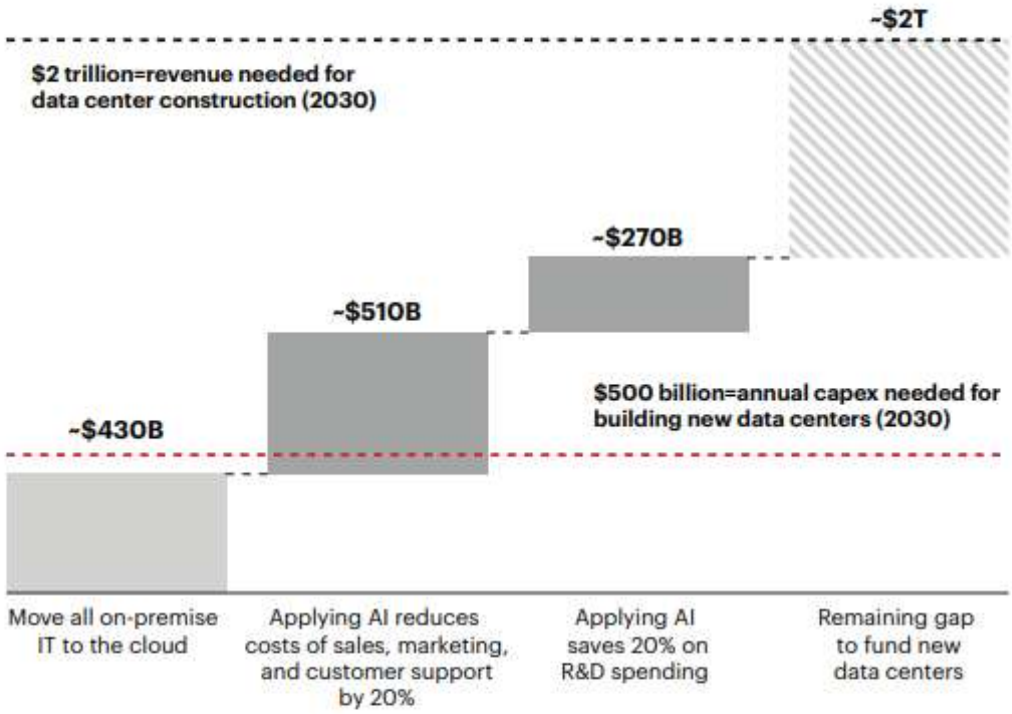
Back to 2025. According to Goldman Sacks Asset Management, AI optimism has driven significant outperformance by leading US technology companies since 2023. Currently, the ten largest US stocks, eight of which are tech-related, make up nearly 25% of the global equity market and represent a collective value greater than the economic output of Germany, Japan, India, the UK, France, Italy, and Canada combined.

Numbers tend to lose their impact once they become so big that you must ask yourself "How many zeros is that?" Never has this been as clear as when you look at the details of the recently announced Nvidia, OpenAI, Oracle deal. I'm sure you've seen the headline, but if you haven't looked at the proposed transaction in a bit more detail, I recommend you read the Daily Maverick's article here. I asked Claude whether it thinks that the deal can work and while the Anthropic owned LLM had no clear bias against its competitor OpenAI's ChatGPT, it quoted several independent sources from analysts expressing their skepticism.

Major red flags include concerns about the circular financing of the deal and a massive revenue vs. spending gap. OpenAI is expected to generate about $4.5 billion in the first half of 2025 yet has inked around $1 trillion worth of infrastructure deals.

In its 2025 Technology Report, Bain & Company estimates the AI industry needs $2 trillion in annual revenue by 2030 to complete projected data center buildouts but expects an $800 billion shortfall - a 40 percent funding gap.

They note that, ironically, not even AI-related savings will make a significant enough impact to fund the shortfall.



Sources: OECD; S&P Global; Bain Cloud CIO Survey; IDC; Fortune; Gartner

The Bain & Company report was written *before* the announcement of the Nvidia, Oracle, OpenAI deal. So, I asked ChatGPT how this deal and the general ongoing advances in the AI industry will impact commercial real estate. The LLM summarised the likely impact as follows:

- **Data center developers** will see higher demand, especially in regions with stable power, land, and fiber connectivity.
- **Land prices** near major power grids, renewable sources, and fiber backbones will spike.
- **Long-term leases** or even build-to-suit agreements may become the norm as Oracle and partners lock up capacity.

Aside from the obvious need for data centers, if successful the transaction will also generate real estate needs in other sub-sectors such as:

- **Industrial and logistics**: warehouses for chip inventory, hardware assembly, backup systems.
- **Office space**: engineering, operations, and R&D staff.
- **Housing and hospitality**: workforce expansion drives demand in nearby residential and hotel sectors.

On the surface, all of this sounds fantastic. Music to the ears of any real estate investor looking to ride the AI wave. Until you take a breath and remember that niggly funding gap that needs filling. This gap highlights the risk that much of today's AI-related capex will struggle to deliver commensurate economic returns. Bain cautions that this mismatch could lead to a glut of underutilised data center capacity if the projected AI use cases and revenue streams fail to materialise. The consultancy notes that such over-commitment could leave hyperscalers and data centre owners with stranded assets, particularly if compute efficiency, algorithmic breakthroughs, or slower enterprise adoption temper demand growth.

It seems tech and real estate are neither opposing forces fighting for the same investor attention, nor completely complementary investments that will feed off each other. As with most things, the devil seems to be in the detail.

Real estate can potentially be a major beneficiary of the severe short supply of global data centres. Real estate also benefits from the expansion of the tech industry in general as described by ChatGPT.

But trying to predict how the next 6 months will play out for listed property investors using AI, seems to be a fool's errand. Perhaps we need to ignore the headlines with the crazy numbers and go back to basics. The fundamentals for the real estate sector remain very strong:

- Interest rates are trending downward.
- Rental growth is robust across most sectors.
- The European real estate sector continues to see upward earnings revisions.
- Investors are earning circa 7% free cash flow returns even while they wait for a recovery in share prices.
- Transaction volumes – a strong leading indicator for valuation growth – continues to improve.

Granted, the numbers being reported in any of the real estate reports of late are nowhere near as exciting as those in the tech headlines, but maybe that's ok.

The above article was written with the help of Claude, Gemini and ChatGPT. The content provided by these systems were checked against the sources referenced, but while we are committed to fact checking, it is possible that some errors may have been included in the final article.