The Weekly Take

The Times They Are A-Changin': Where Data Center Demand Goes Next

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Spencer Levy
The digital infrastructure that makes the world go 'round these days is growing ever more essential – but also presents challenges. In another conversation that's ripped from the headlines, we shed light on this hot topic. On this episode, a major industrial developer takes us inside the work of building data and bridges to communities with questions.

Adam Kramer
We're already going to build the generation and the storage and we're going to need to connect to the grid and we need to get community support. How can we think more collectively about doing this? We're seeing a lot of that conversation starting to happen.

Spencer Levy
That's Adam Kramer, a Partner and Head of Data Centers for North America at Panattoni, one of the largest industrial developers in the world. Adam has a track record of developing more than 1.2 gigawatts of data center capacity globally. And I sat down with him on stage at CBRE's recent Digital Infrastructure Summit in Dallas in mid-October, where this conversation about his specialty took place. Coming up: A data center developer on the state of play in this newsmaking asset type. I'm Spencer Levy and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, live from Dallas at the Data Center summit, Adam Kramer of Panattoni, the largest private developer of industrial in the world. Thanks for coming out, Adam.

Adam Kramer
Pleasure to be here.

Spencer Levy
So, Panattoni – I've known you a long time as being a traditional industrial developer. What got you into data centers?

Adam Kramer
Aidan Panattoni. He was looking out at the space and saying, you know, we've built this incredible platform over, now, 40 years. We just, in fact, celebrated our 40th anniversary last week. And the nature of Panattoni is that we have 70 offices throughout the world and we're in 20 different countries. And we've built these really deeply local and personal relationships. And being able to leverage that, along with our relationships with capital, along with relationships with general contractors, and then with the team that we built

around data centers, our relationship with hyperscalers – putting those all together and hopefully creating a recipe for success and being able to go out there. So he had this idea. I was very fortunate to be at the right place at the time and take the helm here.

Spencer Levy
And the right place at the right time is not just the United States. It is global in nature. What's your point of view of location when you pick a site to develop?

Adam Kramer
We have a very different model than a public REIT and in the co-lo space. And as a developer, what we're looking for is where is the client demand? Where is that need? So what we are looking for is – of course we can go to tier one markets or we can find places where there's heavy infrastructure, favorable political climate, and has adjacency to those tier one markets. A good example of that is we're building in Northeast Ohio, right? It's not Columbus. But it's Northeast Ohio. There's heavy 765 transmission lines going through there. Existing steel plants used to be in the area, so heavy water infrastructure's in there. And you have a built-in workforce that knows how to build for the digital economy sitting right there. And so for us, it's really been about identifying these key factors in any of the markets we're looking at that fit this. And part of it is creating the demand. Depending on your operating model, part of your operating model can be that we have capital, we need to deploy it, so we're gonna go find places where we're looking for return on capital through direct investment into known tier one markets. Or as a developer, we can be a little bit more risk tolerant and look for places where we can help create that demand that we believe that's where the market signals are going to be, based off what we're seeing. Well, that's what we are doing effectively as a developer. We're trying to get to the spot of where do we think the demand can be, not necessarily where the demand is. And hopefully we're right.

Spencer Levy
We're typically looking at that in other asset classes, most often office. but creating demand is the key, I believe, for the next decade. Because even though you're a merchant builder, you have a shorter-term hold. Many of the folks in this room are not. They are longer-term holders. And unless they have the ability to create that demand, to create longer-terms, higher rent, higher NOI than the next person, they're not getting bailed out by lower exit cap rates.

Adam Kramer
That's absolutely right. I mean, listen, being a developer is kind of like being a cowboy a little bit. I think the nature of being a developer is to go create that demand. It is to find that. And it's one of the advantages we have. Because we're merchant, that even more so leans into the fact that we get to go find where we think the demand is going to be. The capital – we're not platform funded capital, right? – the platform is from the Panattoni family and the partners like myself that are funding this. So we really get to go take strong conviction into where we think demand's gonna be and then go invest.

Spencer Levy
And speaking about the capital, a lot of it, perhaps most of it is from the Panattoni family, from yourself, from others, but in our prior panel, I'm trying to remember the word that was used. The word that was used was "exciting" for the capital markets. I've given a lot of stage speeches. I've never used that word to describe the capital market. But how would you describe them today and how is that impacting your development decisions?

Adam Kramer
Kind of like that cowboy reference, right? You ride that 10, you're like a bucking bronco. It's going up and down every single day here. In February, we were at a 3.98 and today or yesterday we were hitting a 5.28. And you're seeing that kind of rapid movement. So it's certainly an interesting time here. I'll use interesting instead of exciting. An interesting time here, to be taking projects out to market. But I think that it all comes back to the fundamentals, right? Do you have a good project? Do you have a good tenant? And is it a market that people believe has long-term value? Then you can price it. The ten-year's always gonna move. That's a solvable problem. Capital markets are something you just need to work through.

Spencer Levy
Well, I guess on the development side of the business, SOFR, the floaters are probably more relevant than the 10-year. The 10-year is much more relevant to long-term fixed-rate debt, but nevertheless SOFR has been going up as well.

Adam Kramer
SOFR's been going up and you can always buy a tool to solve a problem, right? You can buy a rate cap, you can buy different tools to be able to kind of fix your risk profile inside of a deal and be able to solve for that as you do it. For us, the way that we're building as merchant is we look at different structures and if we do something like a funded forward, the 10-year is very relevant for us onto what we're looking at and how we're pricing these deals because we have to take some longer point of view in how we are taking this asset to the market.

Spencer Levy
Let's touch on that for a moment because a high percentage of your deals are funded forwards, meaning that you're selling the deal before you've built it. And I think it's a great structure until you see a massive rise in rates and then you might have some people who have that forward might push back. So tell us about how having funded forwards help you build even what might be a choppy market.

Adam Kramer
Fundamental to us is that we want to be the best in the world at delivery. We put the service to our clients, number one, which means delivering them projects on time, on budget, right, every hyperscaler is focused on capacity and delivery timing and that's on us to make sure we do that. And so the reason we like the funded forwards is we are, as developers, trying to remove that market risk to have 100% of our focus on that delivery mechanism. And we've been very fortunate to find really incredible capital partners in the market who share that belief, want to invest, and are willing to take that journey with us.

Spencer Levy
So let's talk about the macro fundamentals, and one of them that I look at quite a bit is the infrastructure. And one that we talked about pre-meeting today is the underwater sea cables, which is why I like Portugal, which is why I like Brazil, because the underwater sea cables from northern Virginia terminate in each one of those places. So how much does that macro strategic infrastructure matter to your decisions?

Adam Kramer
It absolutely matters, right. A data center that's not connected to the Internet isn't a data Center and so thinking about where that connectivity is coming from and how you're creating or tapping into the network for the customer is a critical piece to the game here

and I think we lost a lot of sight into that when we were trying to focus on big AI data centers, or for LLM's, and saying, oh great, it doesn't matter where the connectivity is, just find a bunch of power in the middle of nowhere and do this. Well, great, that may solve a short-term problem, but we need to think about this. So when you're talking about capital investment in the billions of dollars – and it was funny, the previous conversation said, you know, a smaller data center deal, like a billion and a half dollars – I'm like, I remember when a billion dollars was a lot of money. And–

Spencer Levy
You sound like Dr. Evil when you say that. Can you do that with your pinky like that?

Adam Kramer
It still is, by the way. And so I think that making those kinds of decisions and looking at where the infrastructure is, where that connectivity is, is important. And it's a reason I think you're seeing growth in markets like South Carolina, right? You have big undersea cable stations and you're an expansion of that as more undersea fiber is built.

Spencer Levy
And you mentioned–I'm going to use your quote, a data center not connected to the internet is not a data center. There was a comedian who said once that a donut without a hole is not a donut, it's a danish, but then I realized there was jelly donuts and I got all confused. So, power. Speaking about things not being the same as they used to, we were talking about old movies before we got up here – and just so you know, Adam is a child of the ‘90s, I'm sort of a child the ‘70s and ‘80s, but the movie that I think that brings us together is the Back to the Future movie. Where I ask you, and I'll ask you again here on stage, how much power does it take to build a time machine?

Adam Kramer
1.21 gigawatts. Or Jigawatts!

Spencer Levy
Jigwatts, thank you very much. And that sounded like all the power in the world. Just like a billion dollars sounded like all the money in the word. But now, that's not all the power in the world. How much power do you actually need?

Adam Kramer
If you know the answer, you tell me. I mean, I remember, and I think for many people in this room, like when we signed a 100 KW co-lo deal, we popped bottles of champagne. That was a big deal, right? And dealing with so many people who are new to the data center space, they're like, oh, that site's only a 200 megawatt site. I'm like, you don't understand what 200 megawatts means, let alone a gigawatt or two gigawatts or whatever the number is that they're talking about. And so. I don't know, to be honest with you, what that is, but we are continually trying to find the right size project in the right location, and it is definitely more art than science at this point, I think, for everybody involved as they're figuring it out.

Spencer Levy
I think one of the issues that a lot of people don't talk about a lot and may be as important is transmission, not just creation of power. And by the way, for most people who don't even know this, your power company probably doesn't produce any power. They probably are a transmitter of that power. And so it's one thing to say, well, there's a nuclear power plant five miles down the road, but if you can't get the power lines across the roads or through

somebody else's land, it can't come there. So are we moving to a place now, because the power needs are so extreme in our business, in the data center business that you're going to see more self-contained power – whether it be natural gas, nuclear, or otherwise – on-site?

Adam Kramer
Yes, I think that's the short answer, but I think we're at the beginning of creativity there. Building a site and saying we're just going to co-locate generation next to it isn't the end of that creativity. We've heard a lot of people talk about throughout the conference the importance of having an interconnected site. We talked about capital. Capital doesn't want to invest, particularly into sites that aren't going to be interconnected to the grid or have real capacity because you create a lot financial risk by not having any way to shed some of that load and sell that back here. So you still see a lot of these same dynamics that you're trying to solve for here. This is why batteries are gonna end up being, I think, a really key part of this, because when you're talking about transmission and you're talking about the grid, what is going to help support data centers the most? And what I think is also gonna create the greatest value for the communities we build in is increasing load factor on the transmission system. That transmission infrastructure has a fixed cost. And right now people are paying that fixed cost whether you're using 40% of the system or 60% of the system. If we can start pushing that load factor up into the 90s and utilizing batteries and having curtailment contracts with data centers, now all of a sudden you're gonna have residents who are gonna see their power bills start to decrease because these fixed costs are gonna be carried primarily by the data centers not by the residents. You're gonna see the benefit of dispatchable energy resources like batteries and potentially the on-site gas generation. I think that that's kind of the next phase of this conversation. We're talking about solving our problem as a data center industry from a power perspective. The other problem we have to solve is our community problem, and one of the best ways to do it is actually thinking about, well, if we're already going to build the generation and the storage, and we're going to need to connect to the grid, and need to get community support, how can we think more collectively about doing this? We're seeing a lot of that conversation starting to happen, But I think if we sit here in 12 months from now, that conversation will have advanced quite a bit.

Spencer Levy
Adaptive reuse versus straight new build. What's your point of view?

Adam Kramer
Yes. It's both. And we are finding a lot of interesting opportunities, I think, particularly in Europe with adaptive reuse, where there are sites that were advanced manufacturing. There's also been a lot of stalled projects here in the last four to five years, like factories or other things that were supposed to start but didn't, started building–

Spencer Levy
Stalled projects in traditional manufacturing.

Adam Kramer
In traditional manufacturing, yes, thank you – in traditional manufacturing where there may be a shell or there may be assets that we're able to leverage and go through that adaptive reuse. And then you have sites that are not stalled projects but that are former sites in–we talk about western Pennsylvania, we talk about Ohio, we talk about Kentucky, West Virginia – where you have heavy infrastructure already on site here. And how do you leverage this? I mean, I remember a decade to go looking at Bethlehem, Pennsylvania for

this and at the time the cost of remediation to be able to go do this project was way too much. But all the infrastructure was there. Today you would jump on that project without a second thought because you have the infrastructure, the interconnect, and all of these pieces. So adaptive reuse, yes. Green field, yes. It's going to be about speed to market at the end of the day.

Spencer Levy
The bottom line is this, we are now looking for places that have both green fields and brown fields, meaning that they have environmental problems, as potential opportunities.

Adam Kramer
Panattoni's doing both. Yeah, we again focused on speed to market, market location. And if it's something that we can build and we have customer demand, the answer is gonna be yes.

Spencer Levy
I was talking a moment ago about two recent IPOs in Australia, which didn't go. I think a lot of that had to do with the capital markets being unfriendly at the moment that the window may have closed, but the thing that was mentioned in the Wall Street Journal article was a failure of storytelling. And I think that's a lot of what we're challenged with here today. What do you think?

Adam Kramer
Absolutely. Our biggest failure is that we lost the storyline, right? We gave that up to community members that wanted to create a narrative one way or the other. We have a great story. What we're doing as an industry is not only economically beneficial, but it's environmentally beneficial. You look at the hyperscalers out here, they're investing more into carbon-free energy than any renewable portfolio standard has ever prescribed. The commitment to hitting hourly, carbon-free matching of their use is not something that is being legislated, but something that's being driven by the customers. That story doesn't show up. That story doesn't come out in these community conversations. You have conversations around water use. You take a company like Google, who very publicly is doing a lot of work with effluent water. I think their first project was in Douglas County, Georgia.

Spencer Levy
With what water?

Adam Kramer
Effluent, so reused water that comes out of the water treatment facility and using that for their cooling. Well, when you do that, you have two benefits. One is you're not using potable water, drinking water, but two is you are actually expanding that water treatment facilities capacity because usually they have a maximum amount of water they can discharge, whether that's into a lake or into a river or a stream. So when you can increase that capacity for a community, that means they don't need to invest into the expansion of that facility. The data center is taking off that capacity. We did that in Reno. We built a 13-mile pipeline, taking 3,500 acre feet of water from Washoe County into Storey County, which saved that community over $100 million in infrastructure upgrades, and resulted in about 3,000 acre feet of clean water staying in the Truckee River, which is the primary watershed for Northern Nevada. So all of these incredible stories, but we're not talking about them. So how is anyone else going to talk about them? And we have to do a better

job, and we're seeing that. We're seeing commercials running on TV. We're seeing advertising and social media, but we're so far behind right now. We have a long way to go.

Spencer Levy
I think part of the challenge we have in data centers is very often they think that we sit on an island and the island is called data centers and there's nothing around it. But how much do you think part of the story should be that we create not just jobs generically, not just money generically but other real estate, other businesses that will support that data center?

Adam Kramer
Absolutely. Look at the advanced manufacturing that's been onshore here around batteries, around equipment. You have companies like Veritiv in Ohio, you have Fluence Energy in Tennessee, you have Schneider Electric, you've all these companies that are building and doing. We've talked about bringing manufacturing back to the U.S. for years and it's not all back by any stretch, but it's coming. We have a lot of manufacturing coming here. Just looking at the logistics and industrial business where we sit. So many of our leases now are data center adjacent leases for people that need capacity from the logistics side to support their growth in helping the data center industry. And so you've got truck drivers, you've got contractors, you got people working in manufacturing. And then you think about all of the induced jobs that are coming from this. The data center has the highest induced job creation of any industry.

Spencer Levy
What does induced mean?

Adam Kramer
Effectively, for every job that we are creating in the data center industry that is direct employment, we are creating six indirect jobs, five to six indirect jobs, depending on where we are. Because the economic benefit from this is so high on a per capita basis, each employee working in a data center, they're creating more economic benefit per person than somebody working at a grocery store or at a car wash. And it's not to diminish that work. Iit's to say that the data center's paying a lot in taxes. It's generating a huge economic resource, but it's not necessarily a huge drain on the community because we don't have 10,000 employees working there.

Spencer Levy
When I'm thinking about our audience here today, I think most of them would agree with the following statement: It's a really hard time to get joint venture equity right now. It just is. I think the debt's far more available. It may be more expensive, but it just is. Number one, do you agree with that? And number two, how is Panattoni succeeding and continuing to build today when so many people are sometimes hitting the pause button?

Adam Kramer
I think that capital is always looking for the least risky option. And not to say that that's always Panattoni, but there's something to be said about having 40 years of success and surviving recession of the late 80s, surviving the great financial crisis, going through the post-COVID pop and having a reputation where we have continued to deliver on our promise, which is that we will be on time, on budget, and make sure our capital – we don't always win, but we make sure to do the best we can. And that's how we've been able to stay in business for 40 years and continue to grow and succeed. And so when we're out in the capital markets today, capital's looking for an option that says, hey, we are going to

treat your money like our money. And we're gonna go out there, because it is our money, too, and we're going to go out and we are gonna do the best that we can on this. And so it's not easy, but we've been successful because people trust us to live up to our promise.

Spencer Levy
You can build in North America. You can build in Europe. You could build in the Middle East. You can build in India. Where's the best opportunity today?

Adam Kramer
It's North America. It just is, right. It's the easiest place to build in spite of the challenges we have. It's the easiest place to build if I was looking for I think the most underserved market which may present the biggest opportunity. And we talked about where the market's heading. It's India. I believe India has something like 1.5 gigawatts of live capacity today for 1.5 billion people And I think they only have something like six gigawatts planned right now and there's going to be that demand. So India really is exciting to me in terms of where opportunity exists. You have a very digitally native population a lot of eyeballs a very friendly economy highly educated highly a highly educated really pretty good infrastructure and A strong desire to continue forward and then you look at inflation in India Which is lower than it is in the U.S. and it happens to have some of the best market fundamentals from an investment standpoint anywhere in the world right now.

Spencer Levy
Our team out there wants to know what's coming next. So you've been incredibly successful at traditional industrial, now successful in data centers, now looking to expand this reach into India, potentially South America. What do you see coming in the next couple of years in the data center space?

Adam Kramer
That may be the single hardest question to answer, right? Because it's hard to see anything changing right now in terms of this kind of insatiable demand from our customers. I don't know what their demand signals look like internally. That's their data. But I can tell you right now, when we're looking out over the long view here, the demand profile does not seem to be changing. And we're seeing our customers who used to have a 12 to 18 month perspective on what demand signals look like to them, willing to look at a 36 month type of demand signal for them, which means that they're willing to look at sites earlier on than they were before because they're now realizing it. Now they always want what is available tomorrow, but I think that for us it's so unknown. I genuinely don't know what five years from now or ten years from now looks like in this space, and I would have said the same thing, you know–I started in the data center industries, right, as kind of cloud was continuing to grow, 2013. And we saw this growth from cloud, and we thought that was all the growth in the world from cloud demand. We had like a 19% CAGR on data center demand in the U.S. from 2013 to 2019, and that was big, right? We thought the law of large numbers, we've capped it. We've capped it. We hit it. And then AI came. So where AI goes, I believe we've just scratched the surface on AI's integration into our daily lives. We've just scratched the surface onto how this is interacting into the physical world, not just the digital world, on when we're asking Gemini all of the silly questions that we do, but how it interacts with our physical world. So I think that the growth is gonna continue up. But what that means, I don't know.

Spencer Levy
But I think you answered it in a way that I haven't heard quite that way, but I think it's the right way to answer it. It's easy for me to say, what's happening five years from now and

beyond. That's not how businesses make decisions, particularly in the merchant building business where your typical tenant is like, I want it now. And I think that given the demand side being so strong right now and not-in-my-backyard folks, if I were to look at the next 36 months you're gonna see an increasing percentage of data centers as reuses versus ground up.

Adam Kramer
Absolutely.

Spencer Levy
How much of your land do you buy or that you get involved with your power and you say, well, time to flip today versus bill going vertical.

Adam Kramer
Listen, I'm a six year old kid at heart. I like building. I like seeing a D10 on a site, pushing dirt and watching walls go up. So our goal is to build everything that we can. We are not in the business of flipping powered land. We are in the business of building data centers very distinctly. And so, no, we wanna go vertical. We love that part of the business. And I think that it speaks to the value that we bring to this community and to this ecosystem is that we are builders. We do wanna see these data centers go vertical.

Spencer Levy
I am what I am.

Adam Kramer
I am what I am,

Spencer Levy
And that's a good thing to be. You want to be first tier in the one thing where you are first tier. That's why you're not a long term holder of most of these assets or maybe any of these assets. That's what you do what you want to do and you want be the best at that niche. That–niche is the wrong word for it because it's a very big space, but be the best at one thing and that is it.

Adam Kramer
That's exactly it. That is the overarching ethos of what we do is be the best developer, which means getting the land, serving our clients, building the building, giving someone the keys, and then going on to the next project. That's what we do.

Spencer Levy
I tell you one other thing, you're the best at. I did this digital summit two years ago. You had the best giveaway chargers I've ever had. In fact, it was so good that I gave one to my daughter and she charged rent for it on her teen tour.

Adam Kramer
Sounds like you have an entrepreneur on your hands.

Spencer Levy
Exactly, she knew the power of power.

Adam Kramer
She sounds like she's selling data center capacity at this point.

Spencer Levy
I tell you what, she wants to be a broker one day. She's got it going already right now. But a wrap-up question or two. When I do my stage presentation, I talk about how storytelling–my current stage presentation is called Space: Outer Space and Regular Space. But when I talk about space and space – like, the space you lease and the outer space – I say the connection isn't the efficiency of space capsules. The connection is the storytelling. science fiction, and we need to look to that in a positive way when we sell data centers to the world. Is that a bridge too far or is that a fair way to put it?

Adam Kramer
Not at all. I mean, I started my career off as a news anchor and reporter. And that is a business inherently about storytelling. And for me, I think that that's been probably my biggest advantage in being a developer. It certainly wasn't a linear path from the news business to building data centers. But I think the correlation is being able to tell the story and get people excited, and with that story, the enthusiasm. I believe in what I'm doing. When I am going into a community and talking about, we're going to build this project, we're gonna invest billions of dollars, and here's the things that we're gonna do for workforce development. Here's the thing we're do for the schools. Here's environmental commitment from our customers. Here's what we are working with your local contractors on. I get genuinely really excited about it because I know that that's a positive change for this community. And it's not just the storytelling, that's how you tell that story because positivity is infectious, just as negativity is. And so if you can be a light of positivity in telling these stories, you will find people who want to find the best in what is happening here. And that is a big way in which we can win community support.

Spencer Levy
But one of the things I use in my public speaking training, I say ABP, Always Be Positive. What I actually say is: Be positive at the beginning; be positive in the end. If you've got bad news, you kind of have it somewhere in the middle. But I think the other takeaway here is this: Storytelling is an art that matters and persuasion comes down to that.

Adam Kramer
We are selling a community why they are better for having us there than not. That's a story. If you can't tell somebody why they are better for that data center being in their community, they're never going to support the data center in that community. So put together the story. Understand what it is that your value add is for this community and build a narrative around this. And again, it's not pejorative. It is literally our job, right, all of our job to be able to do this. As brokers, they sell a story on why CBRE is the best brokerage in the world and how you're gonna help us get the best value on selling the product. Well, what's the difference between that storytelling and the storytelling with community members? And that is seemingly a lost art in some places. And in others, you see you have really incredible people in this room here who are really good at it. And I think that that's where I have this optimism about the future of our industry?

Spencer Levy
Well, so do I. And the answer I say is, the business today reminds me what the business was like when I got into the business, where it was more about operations. It was more people really caring about the business, and the answer was not in the Excel spreadsheet.

Adam Kramer

Absolutely. And it's been interesting because I wouldn't consider myself a real estate guy, right? I came up through the data center industry, right, building data centers, and it was about – it may sound silly to some – but the love of the data center and the technology and going on to a data center floor and all of this. And so it's that excitement. And today it feels like you have this battle with people who are living on a spreadsheet versus people who love to build and develop. And I find myself leaning that other way. I'm like, I love to build and develop, but we have to work, as an industry you have both sides of that.

Spencer Levy
So on behalf of The Weekly Take, I want to thank Adam Kramer, President and Global Managing Partner of Panattoni for joining us here at the fantastic CBRE Data Center Summit. Thank you very much on behalf of The Weekly Take. For a wider array of insights on data centers, the overall industrial landscape, and other core and alternative asset types, check out our website at CBRE.com/TheWeeklyTake, or the archives of your favorite podcast platform, not to mention CBRE's YouTube channel. As we look ahead to the new year, there's lots of new content brewing, coming soon to help you look at the horizon for 2027 and beyond. Stay on top of our programming by subscribing to the show. Get our email updates too. And we'll see you again next week. Thanks for tuning in, I'm Spencer Levy. Be smart. Be safe. Be well.