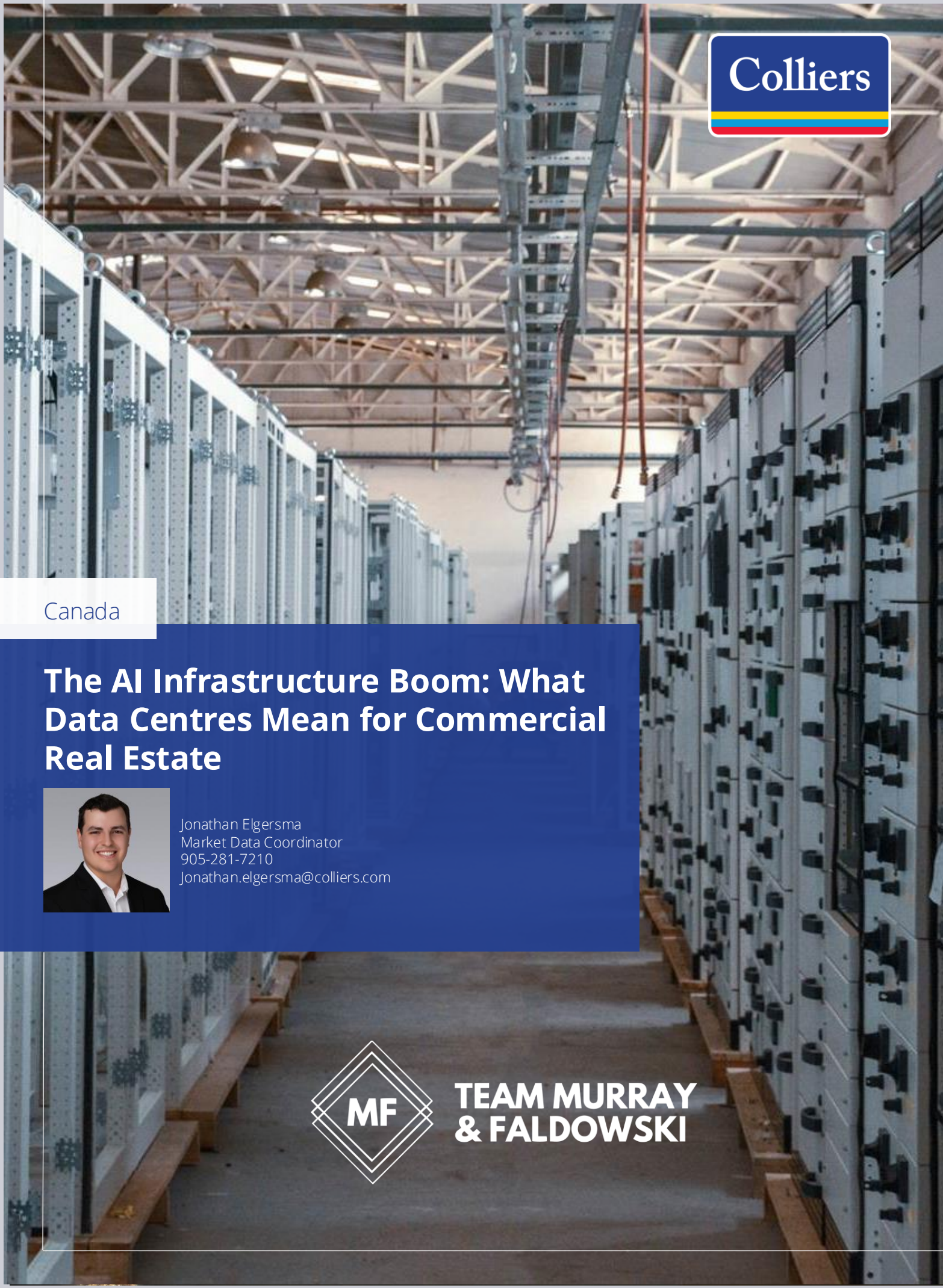

Canada

The AI Infrastructure Boom: What Data Centres Mean for Commercial Real Estate

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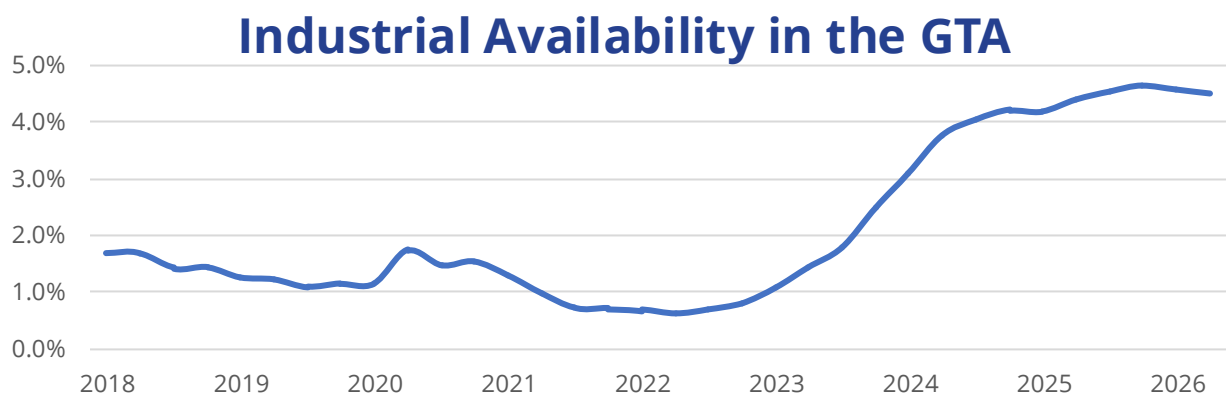
TEAM MURRAY & FALDOWSKI

Introduction

The commercial real estate (CRE) market has navigated a wide range of trends over the past decade, reshaping the behaviors and preferences of purchasers, vendors, tenants, and landlords. With the pandemic now in the rearview mirror, most market participants have adapted to external pressures such as the ever-looming threat of tariffs - recognizing them as unpredictable but unavoidable variables.

The AI boom (or potential bubble) has emerged as the market's newest catalyst. Since the peak of the market in 2022, industrial availability across the Greater Toronto Area (GTA) has crept up to nearly 5%. This spike has caused developers to pause projects and slowed land transactions. However, the rising need for data centres offers a compelling new use case for industrial land. This demand could provide the spark the market needs to absorb availability and drive the higher valuations landlords and developers have been waiting for. On a broader level, the Canadian economy—currently facing stagnant GDP growth and lagging productivity—is also searching for a catalyst.

Data centres are poised to become one of the most vital sources of industrial real estate demand over the next decade. Ultimately, their long-term success in Canada will depend less on land availability and more on how governments, businesses, and communities collaborate to balance infrastructure costs with economic opportunity.



The Opportunity

After years of record industrial growth driven primarily by e-commerce and logistics, many markets are currently experiencing slower leasing velocity and higher availability rates. Data centres represent a distinct class of industrial asset, one driven by computational demand rather than consumer preferences. With some traditional industrial developments being canceled across the GTA due to rising availability and softening rental rates, pivoting this land toward data centre projects provides a lucrative alternative for developers, operators, and municipalities. For landlords utilizing their own land, data centres represent high-tier spaces occupied by exceptionally stable tenants; the four largest data centre operators globally are tech giants Amazon, Microsoft, Google, and Meta.

Revitalizing Core Commercial Areas

For cities like Hamilton, which boast vacant land in core commercial zones, data centres can serve as a massive economic booster. For instance, 800 acres of former Stelco lands on the Hamilton waterfront have been marketed for industrial development for years. Although a recent land severance application was denied, effectively halting a proposed AI data centre on the site, projects of this caliber have the potential to revitalize industrial hubs. They justify the installation of robust power grid infrastructure and free up capital and time for institutional landlords and developers to look at their next project.

Expanding into Non-Traditional Markets

When sites prove suboptimal for traditional warehousing or manufacturing needs, data centres create value where demand might otherwise be limited. Unlike logistics hubs, data centres do not need to be located near major population centres; their primary prerequisites are robust power, water, and fiber-optic infrastructure. A prime example is the recent development plan for a massive data centre in northern Alberta. While traditional industrial demand in such an area is minimal, this new use case vastly increases both the land's value and the development potential of surrounding sites.

Stable, Long-Term Investment

Due to the massive capital investment required to build a data centre, these tenants are incredibly stable, providing steady, long-term income to investors and landlords. To minimize initial capital expenditures, developers will increasingly target lands with pre-existing electrical, fiber, and water infrastructure, making these sites premium offerings and further boosting the commercial land market. While existing traditional industrial buildings will likely remain unaffected, repurposing available land for this new asset class will inject much-needed capital into the lagging industrial sector.

The Concerns

While data centres present a tremendous opportunity to stimulate both the commercial real estate market and the broader economy, the asset class is not without its challenges. Canada operates from a position of strength regarding land, power, and water, but these resources are not infinite. Large-scale facilities require massive electrical grid upgrades, placing immense pressure on local utilities and raising complex questions about who bears the financial burden.

In the global race to build digital infrastructure, Canadian provinces must still determine how development costs will be equitably divided between developers and the government. Development charges in Canada are already a major hurdle for new projects, and these fees may need to be increased for data centres to offset the additional strain on municipal infrastructure.

While vacant land holds immense potential for this asset class, data centres will do little to reduce the existing vacant industrial space already on the market. Retrofitting a traditional warehouse to meet the extreme power, cooling, spatial, and structural constraints of a modern data centre is highly challenging and often prohibitively expensive compared to ground-up development. Placing data centres near population centres also creates significant community friction. Nearby residents frequently raise valid concerns regarding noise pollution from massive cooling systems and disproportionate utility consumption, as recently demonstrated by community protests at Hamilton city council meetings over local data centre proposals.

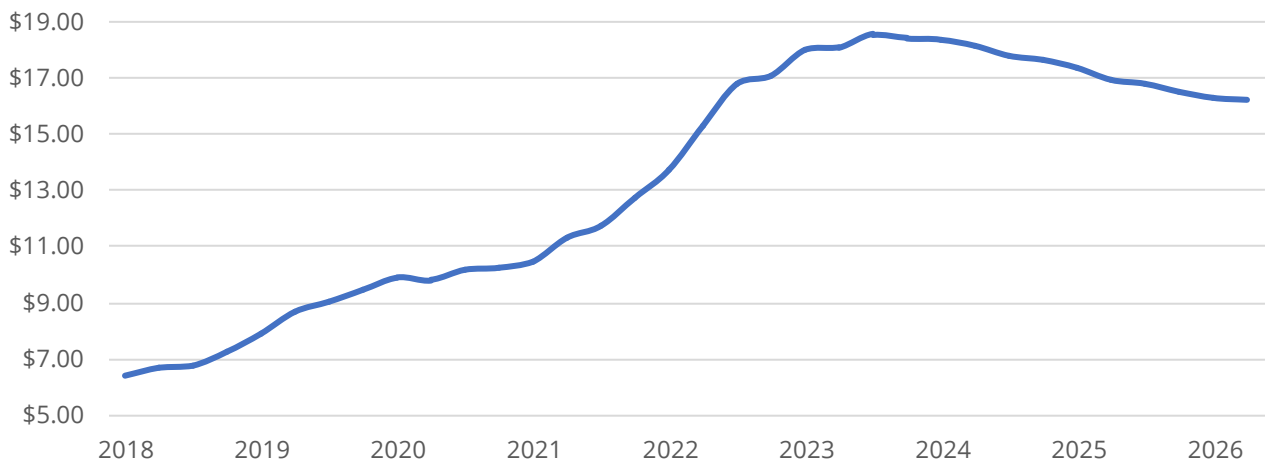
Finally, there are long-term market and technological risks to consider. If data centres dominate the acquisition of highly desirable "powered" sites, traditional industrial sectors could face longer wait times and higher prices for serviced land, creating high barriers to entry for manufacturers and logisticians. Compounding this issue is the threat of rapid obsolescence. The technology surrounding AI and data processing is evolving at a breakneck pace compared to traditional warehousing. A standard warehouse built in the late 20th century remains entirely functional today, whereas predicting data centre requirements 20 years from now is far more uncertain. With experimental concepts already exploring data centres positioned in orbit or submerged directly in the ocean to solve cooling and spatial constraints, terrestrial facilities could eventually face unpredictable technological shifts that alter their long-term value.

Key Takeaways

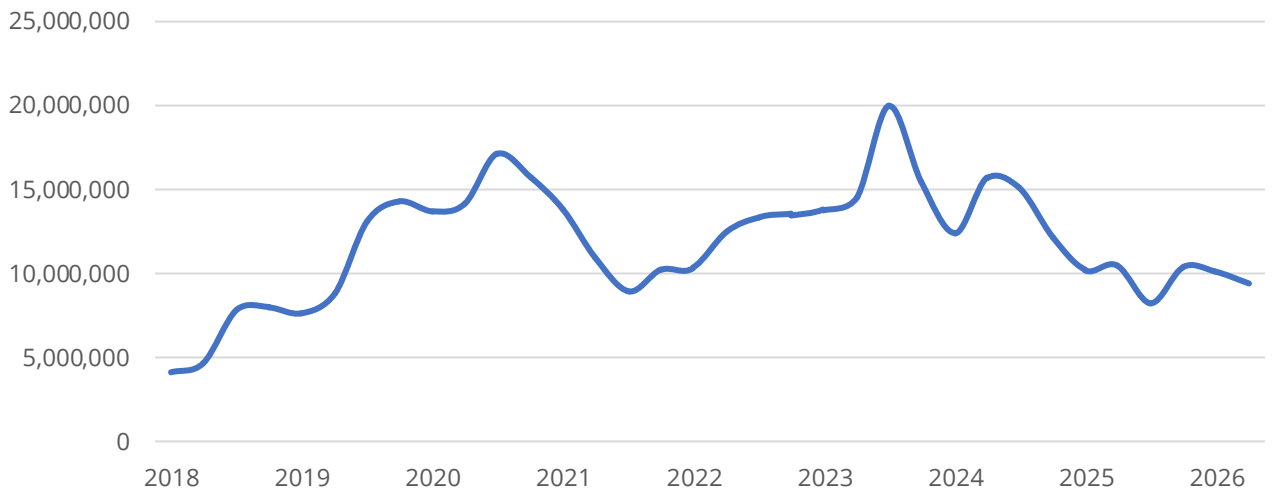
Ultimately, the intersection of the AI boom and the commercial real estate market presents a defining yet complex frontier for Canada’s industrial sector. While data centres offer a much-needed catalyst for economic growth, capital deployment, and the revitalization of underutilized commercial lands, their long-term viability requires careful navigation. Stakeholders must balance the immediate allure of premium, stable tenancies with the systemic realities of grid capacity, community integration, and the looming risk of rapid technological obsolescence. If developers, municipalities, and utility providers can collaboratively manage these structural constraints, data centres have the potential to anchor the next major wave of Canadian industrial real estate expansion.

Relevant Statistics

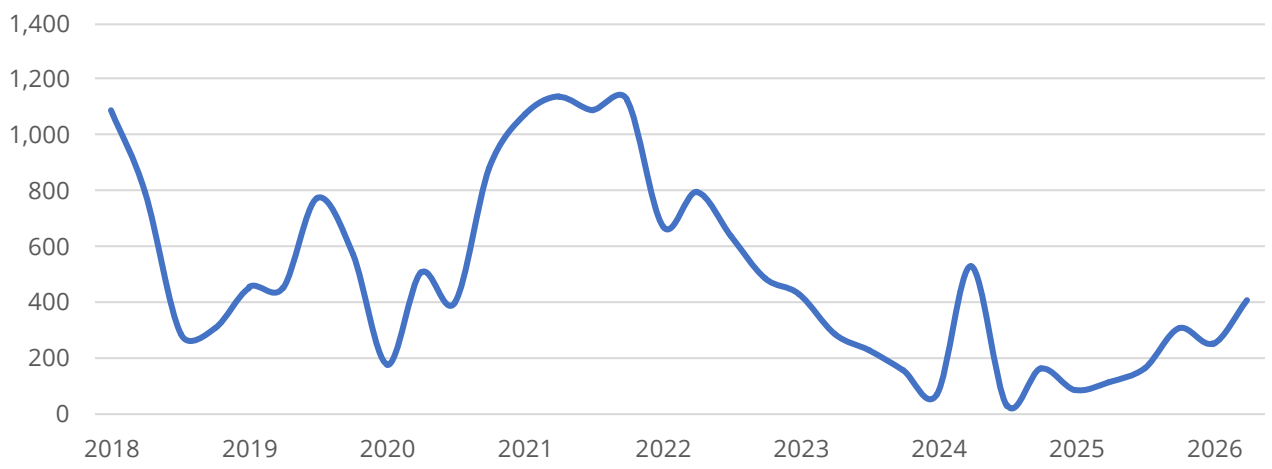
GTA Weighted Average Asking Net Rent



GTA Industrial SF Under Construction



GTA Acres of ICI Land Sold



All data and Information are sourced from Colliers Internal Research

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