

Will DeepSeek Reshape the AI Infrastructure Landscape?

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A new open-source AI model from Chinese AI research lab DeepSeek made headlines in January. The model claims to offer a cost-effective AI solution that requires significantly less computation power than other leading models. The news drove a sharp sell-off in AI-related tech stocks. Nvidia, a stock that has dominated much of the AI trade to date, took one of the biggest hits from the news as investors began questioning demand for its high-computing GPU infrastructure¹. As the news is still fresh, there is broad speculation about implications for the larger AI community. We remain optimistic on AI overall and believe developments like this could help accelerate innovation in the infrastructure landscape.

How does the Emergence of DeepSeek Affect Data Center Investing?

We believe investing in data center developments in latency-sensitive Tier 1 markets (Northern Virginia, Silicon Valley, Frankfurt, Tokyo, etc.), where the gap between supply and demand is the largest and where market rents are rising the fastest presents compelling opportunities, a view not impacted by this development. The latency-sensitive demand is generally characterized by both traditional cloud computing workloads as well as the inference stage of AI. While the innovation of the DeepSeek AI model is interesting, any impacts would be felt at the AI Machine Learning (ML) stage. These ML workloads are NOT latency sensitive and the data centers for these are typically large campuses and located in non-traditional markets (Iowa, Mississippi, Finland, Malaysia).

What Does DeepSeek Mean for Data Centers?

Following the launch of DeepSeek in January, the digital infrastructure community is grappling with what a potential reduction in the compute capacity needed for the Machine Learning stage of AI, to train large language models means for data center investments. The headline story from most operators is, unsurprisingly, don't panic. Cheaper and more efficient ways to build generative AI will actually lead to increased adoption and therefore equal, if not more, demand for data center capacity. This logic is two-fold – firstly lower training costs will make AI in its current form more affordable for enterprises to adopt, potentially realigning the ROI decisions that have contributed to reluctance so far. Secondly, improved efficiency gives AI developers the opportunity to “do more with less,” and if DeepSeek's training efficiency breakthrough holds and sweeps from China across to the United States, then more powerful AI applications and models can be developed.

² [DeepSeek's AI Shockwave Hits Nvidia Hard, Wiping Out Billions](#), Forbes, February 3, 2025.

The Shift to Inference

What is likely to change, however, is the nature of future capacity deployments. Since the launch of ChatGPT in Q4 2022, much of the AI-generated demand for data centers over the past two years has been for machine learning training purposes. As the barrier-to-entry for AI models makes the technology more accessible, this will speed up the shift over to inference workloads where the general public interact with the trained models. The inference compute workloads are generally housed in latency-sensitive Tier-1 markets, which is our focus. Training may become more efficient, but inference workloads will expand significantly, meaning overall demand for computing and power will continue to rise. Additionally, lower barriers to entry will enable smaller organizations and start-ups to contribute to AI advancements.

Jevons Paradox

The message is clear: AI infrastructure becoming more efficient does not necessarily mean a reduction in overall demand. Many industry leaders argue that Jevons Paradox, where efficiency gains lead to greater overall consumption, will apply to AI infrastructure. Many see DeepSeek's efficiency gains as an accelerator, rather than a disruptor. More affordable, accessible AI will lead to increased demand through faster adoption and wider proliferation in the market.

The Investor Angle

General consensus is that DeepSeek's breakthrough is just another step in AI's evolution rather than a turning point. Experts never really expected that demand for compute would scale on a straight-line basis. Our expectation, as we've seen with other technologies, is that we will always

see a level of continuous improvement.

DeepSeek's breakthrough, combined with the broader trend of AI adoption, could accelerate investment in data center infrastructure across new and emerging markets.

Tech Giants Double Down on Their Massive AI Spending

Tech giants are significantly increasing their investments in AI data centers, projecting tens of billions of dollars in spending this year, with plans to escalate further in 2025. The four biggest spenders on AI data centers—Microsoft, Google, Meta Platforms, and Amazon—are projecting a combined capital expenditure of at least \$215 billion for their current fiscal years, a more than 45% annual increase. Amazon alone anticipates its total capex to grow to over \$100 billion, with most of the increase allocated for AI. Amazon's capex on leased equipment hit a record \$26 billion in the last quarter of 2024, with plans to maintain this level in 2025. Google's parent company, Alphabet, is increasing its AI data center investments to about \$75 billion this year, up from \$52.5 billion in 2024.² CEOs of these companies have highlighted AI's transformative potential.

The increasing usage of artificial intelligence, along with the more efficient accessibility of AI and increasing investment in the implementation of AI by the tech-giants and the real estate development community will help drive innovation and potentially accelerate the demand for high-performing data centers, globally.

² [Tech Giants Double Down on Their Massive AI Spending](#) - WSJ, February 6, 2025.

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