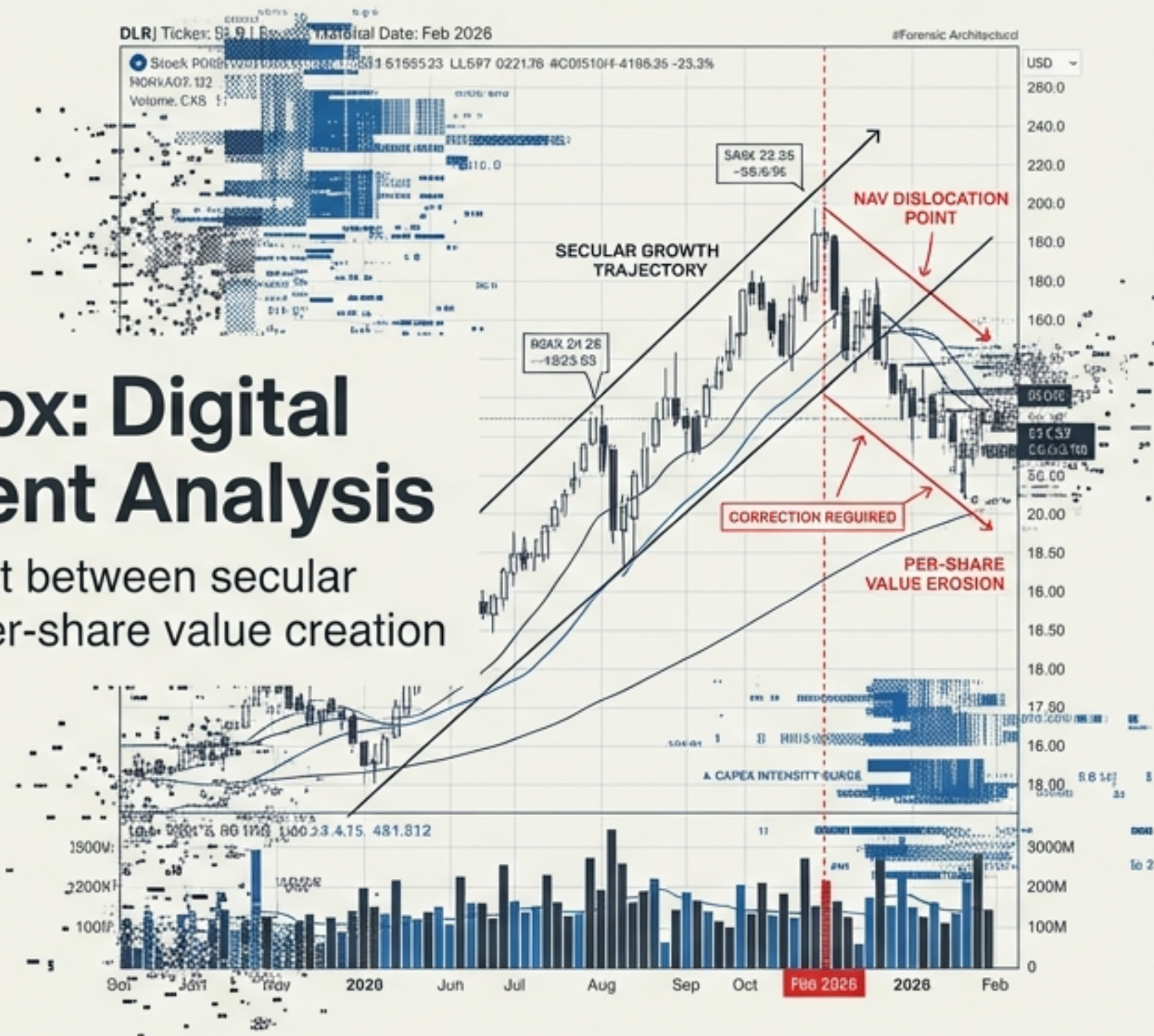


# The AI Paradox: Digital Realty Investment Analysis

Navigating the disconnect between secular infrastructure tailwinds and per-share value creation





# THE EPICENTER OF THE BUILDOUT, THE STRUGGLE FOR RETURNS

Digital Realty operates at the physical bottleneck of the AI revolution but faces a complex paradox: it provides the essential utility for the future yet struggles to generate returns above its cost of capital.

## THE TAILWINDS (MACRO)

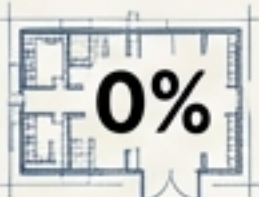
- **Record Demand:** AI buildout driving unprecedented leasing.



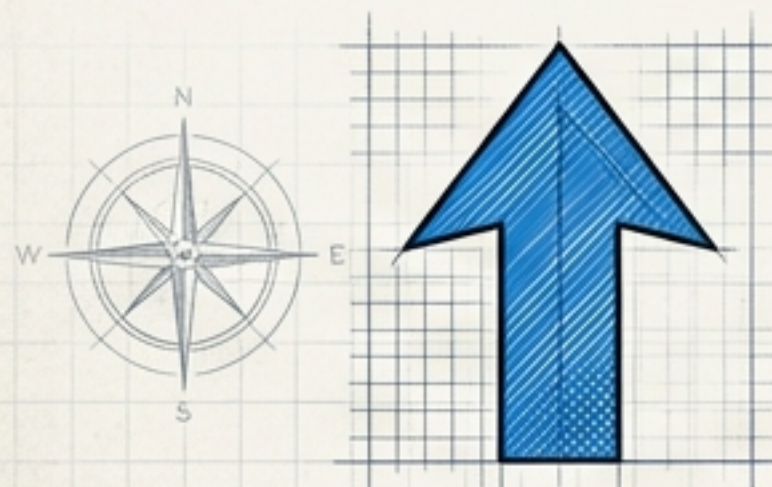
- **Backlog:** \$1.4 Billion (Record High).



- **Vacancy:** 0% in Tier-1 Markets.



- **2025 Revenue:** \$6.11 Billion.

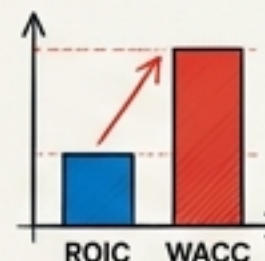


## THE HEADWINDS (MICRO)

- **Capital Friction:** High intensity, low efficiency.



- **ROIC vs WACC:** ~2.0% ROIC is consistently below ~8.3% Cost of Capital.

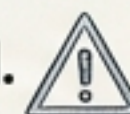


- **Dilution:** Growth funded by 251% share count increase over the last decade.



## THE VERDICT

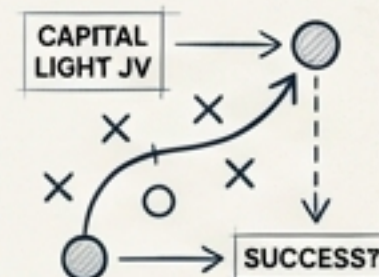
- **Caution Required.**



- **Valuation:** Trading at growth premium (22x FFO).

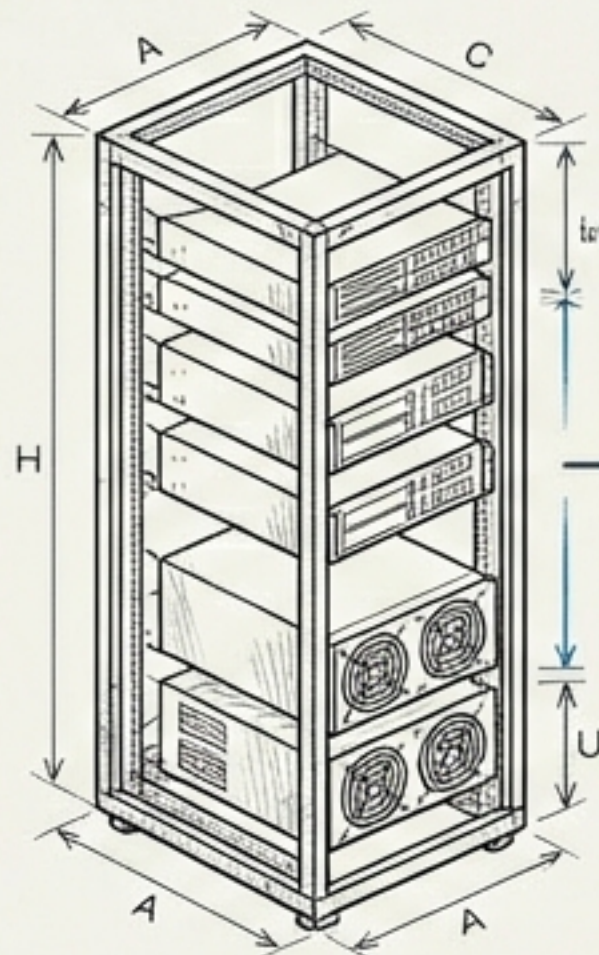


- **Strategy:** Investment merit hinges on the success of the new "Capital Light" JV strategy.



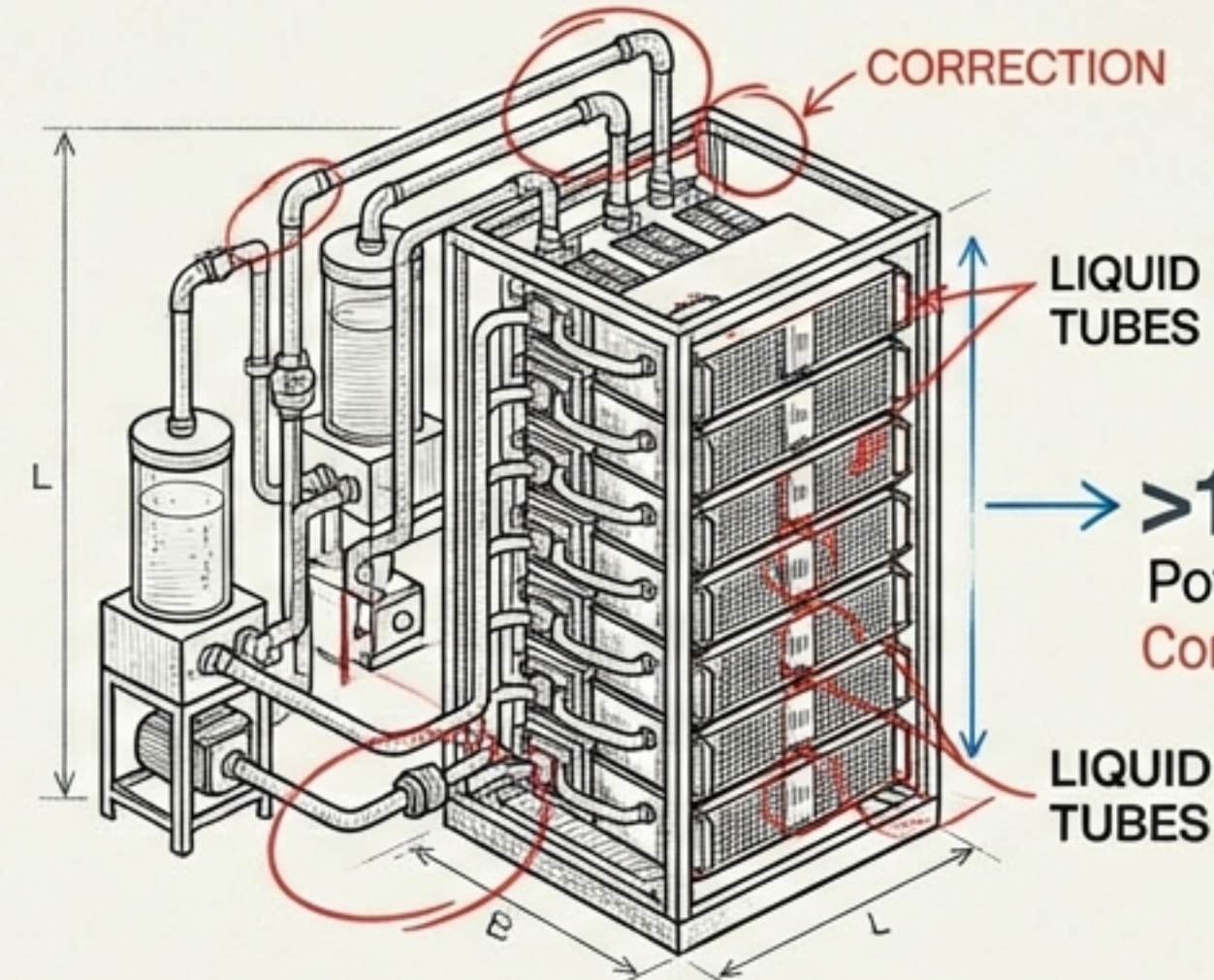


# THE AI CAPEX SUPERCYCLE: DENSITY CHANGES PHYSICS



→ **5–10 kW**  
Power Density

LEGACY CLOUD RACK



→ **>100 kW**  
Power Density  
Correction Red

AI CLUSTER (H100/BLACKWELL)



## HYPERSCALE COMMITMENTS

AWS, Microsoft, Google, Oracle committed **>\$250B** to buildouts in 2025.



## LEASING VELOCITY

Q3 2025 leasing (7.4 GW) exceeded the entirety of 2024 leasing (7 GW).



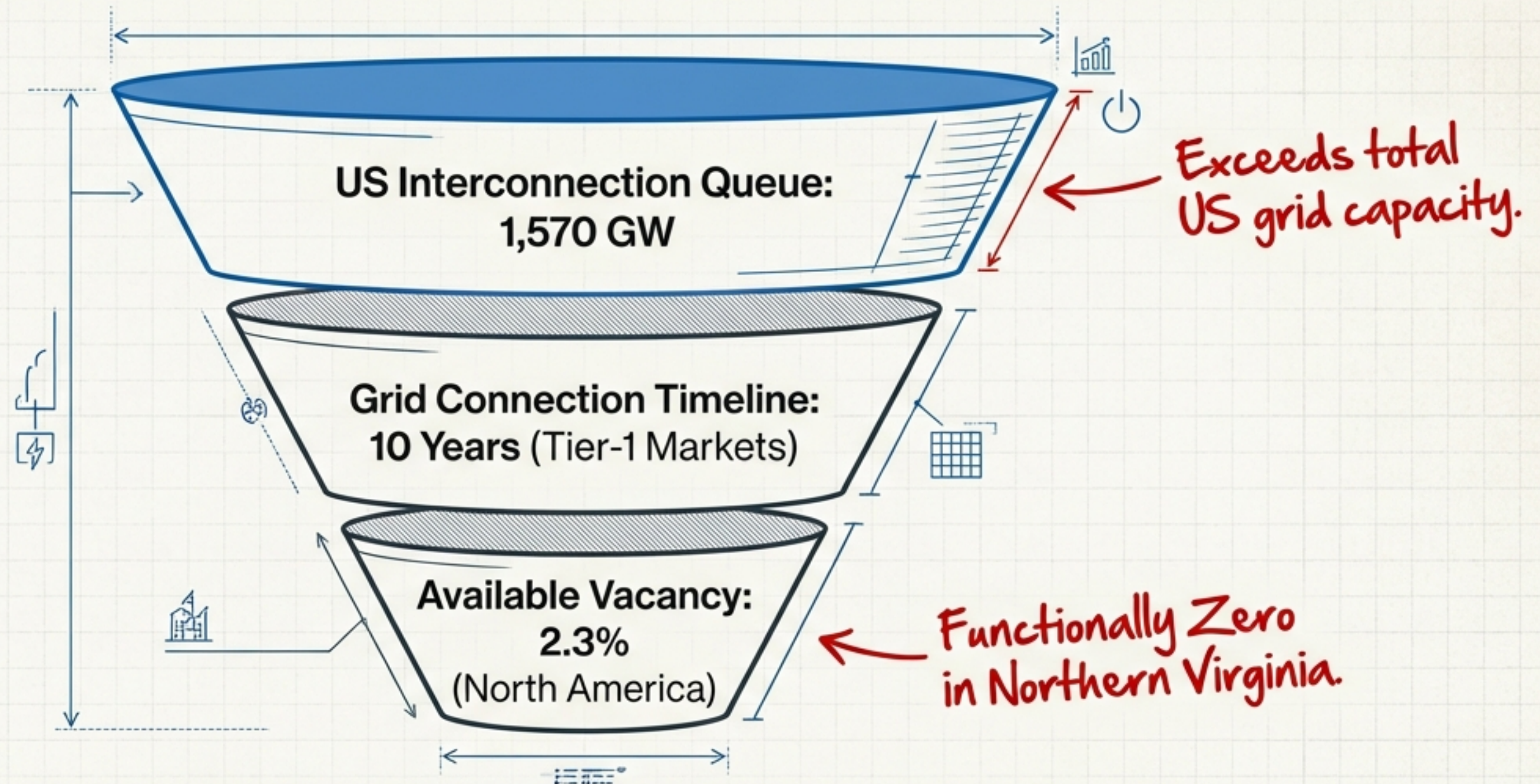
## PHYSICS CONSTRAINT

Requires liquid cooling and reinforced floors legacy assets cannot support.





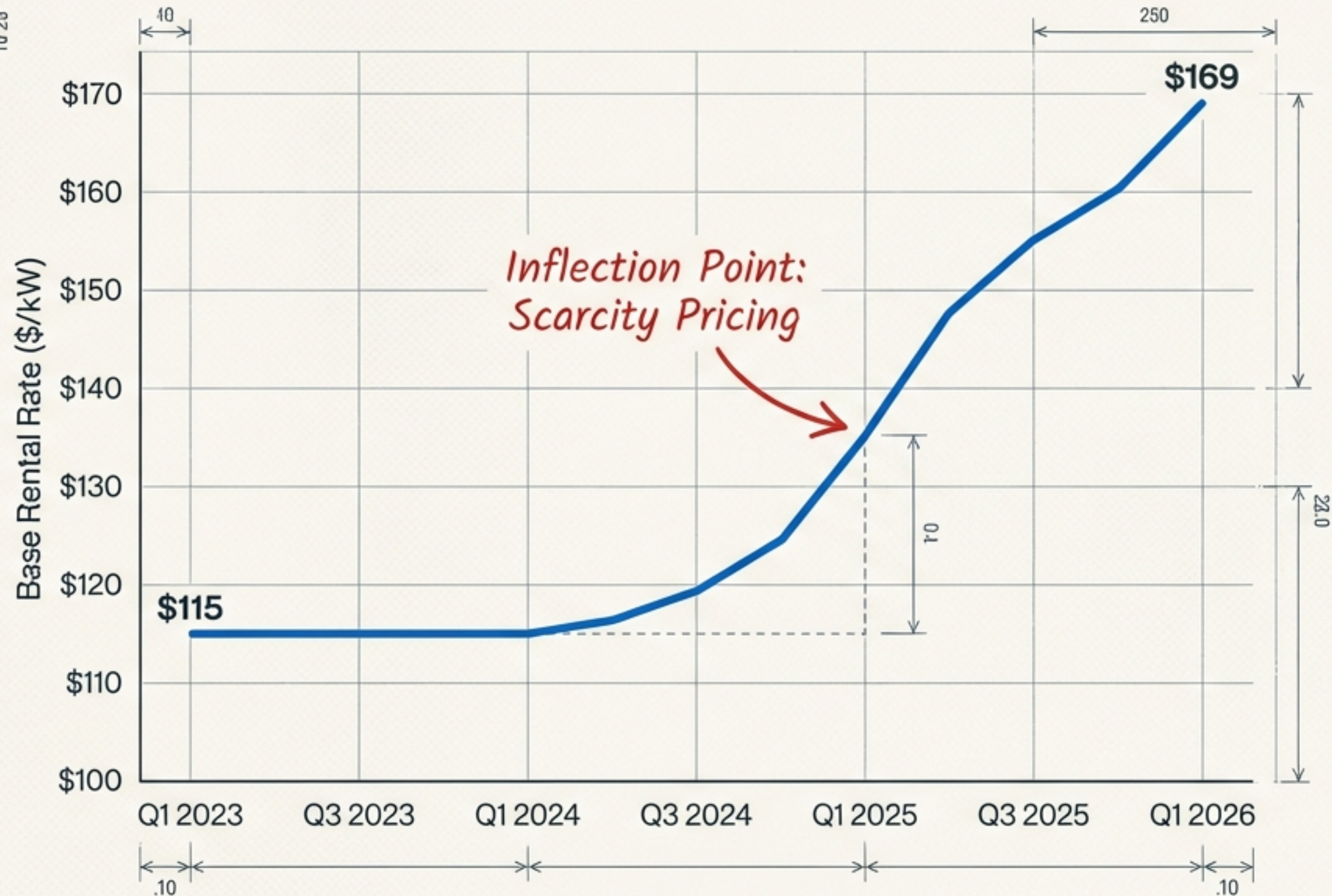
# ELECTRICITY IS THE OXYGEN OF THE INTERNET



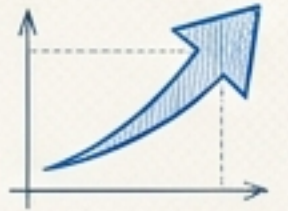
**Strategic Implication:** DLR's 5 GW of secured power capacity is its most valuable intangible asset. Barrier to entry has shifted from Real Estate to Utility Scale Power.



# The Structural Shift to a Sellers' Market



**Renewal Spreads:**  
**+12.0%**  
(GAAP Q4 '25)



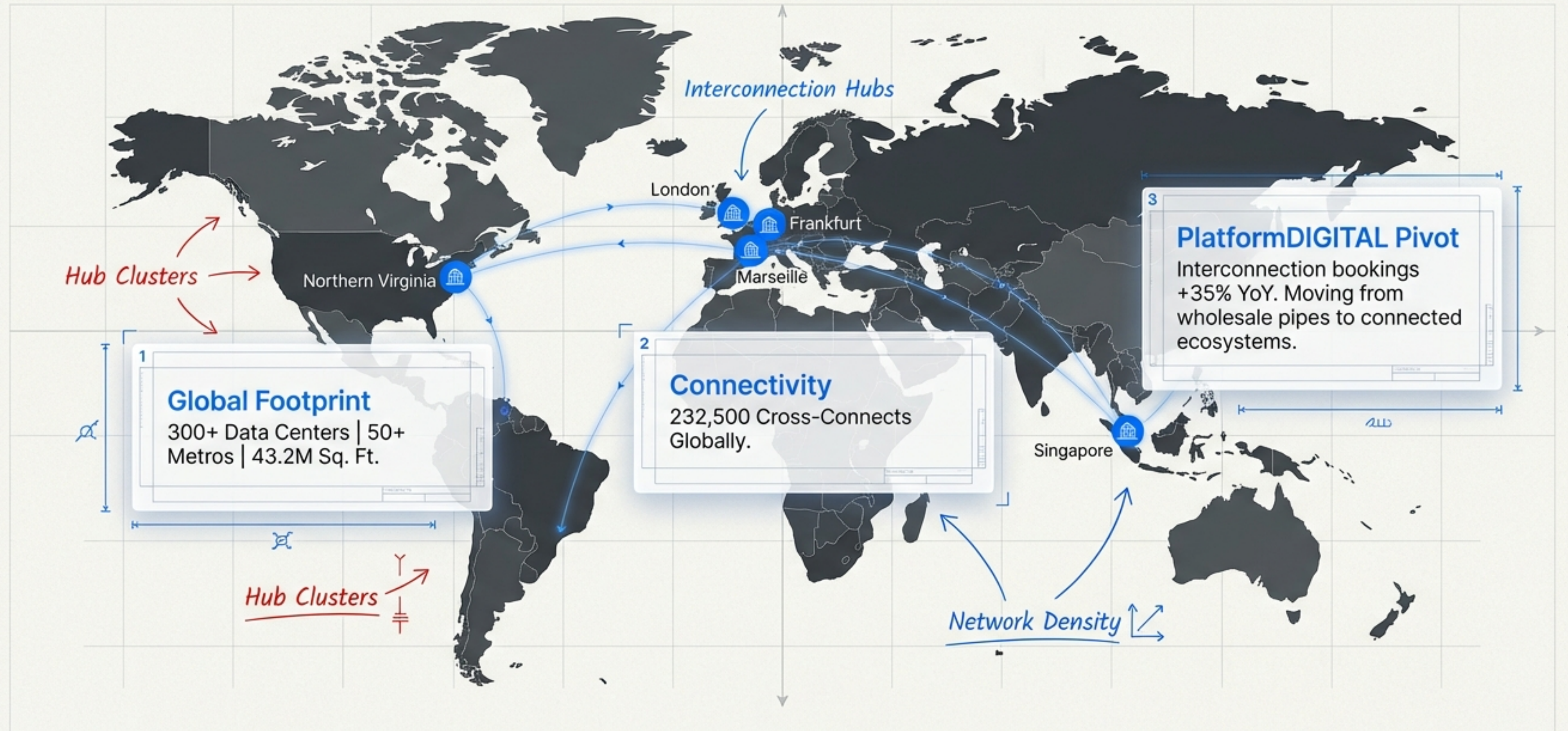
**Lease Structure:**  
**Full Pass-Through**  
**of Power Costs**

**Churn:**  
**1.0% – 1.6%**  
(Tenants are captive)





# The Digital Fortress: Scale & Interconnection





# Strategic Divergence: Digital Realty vs. Equinix

## Equinix (EQIX) The Retail Network

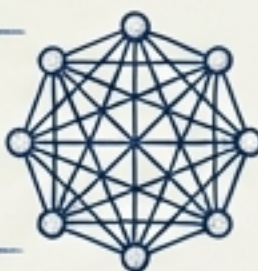
**Model:** Retail Colocation  
(thousands of small tenants)



**Economics:** High Margin,  
High Valuation (24x-28x AFFO)

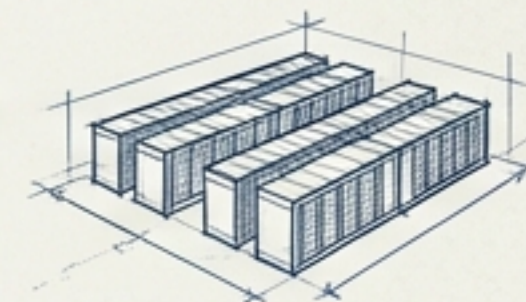


**Moat:** Network Density



## Digital Realty (DLR) The Wholesale Utility

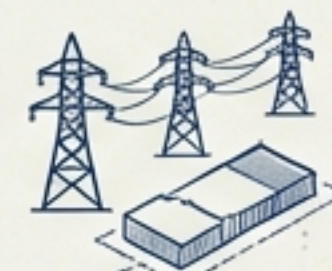
**Model:** Wholesale Roots  
(Hyperscale halls)



**Economics:** Lower Margin,  
Lower Valuation (15x-20x Historic)



**Moat:** Scale & Power Capacity



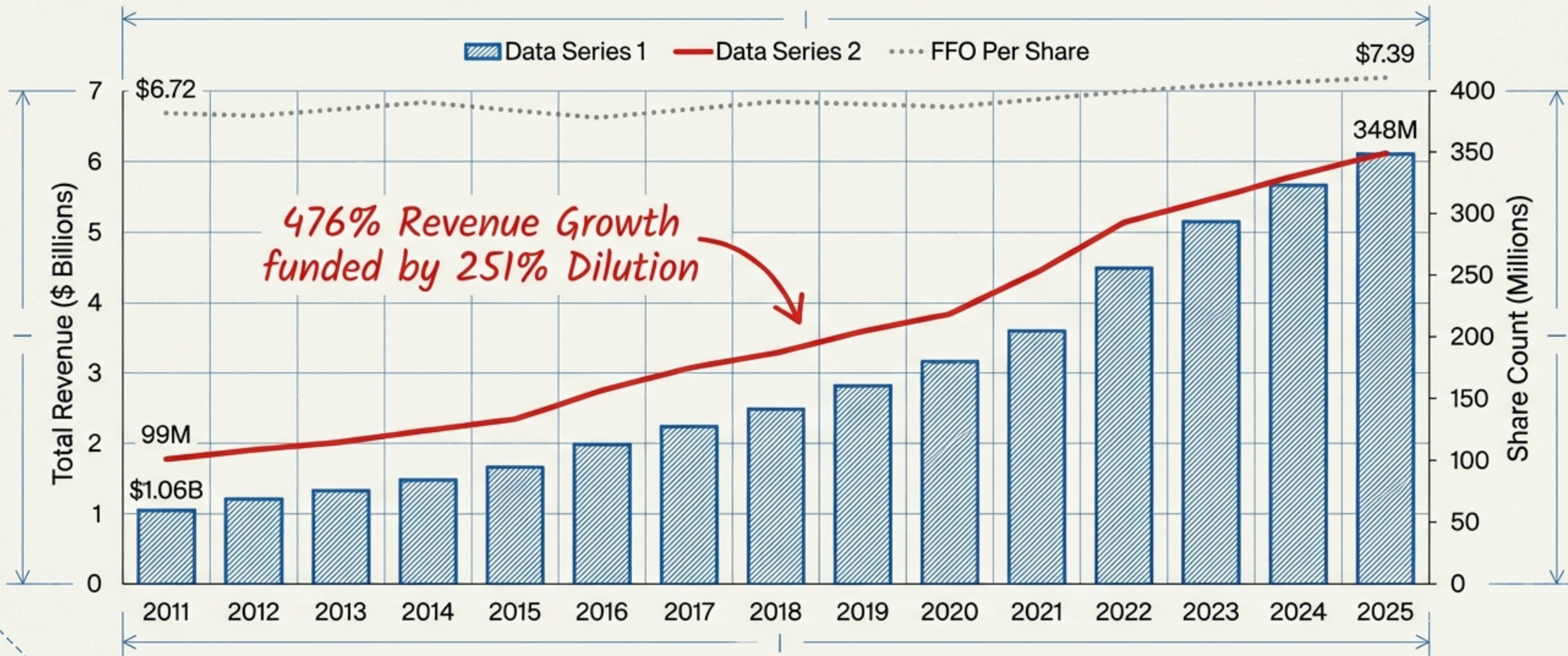
DLR is pivoting toward the Equinix model via PlatformDIGITAL  
to capture higher ROIC, blurring the historical lines.

**PIVOT**



# The Empire Building Problem: Revenue vs. Value

Deep Charcoal Helvetica Now Display



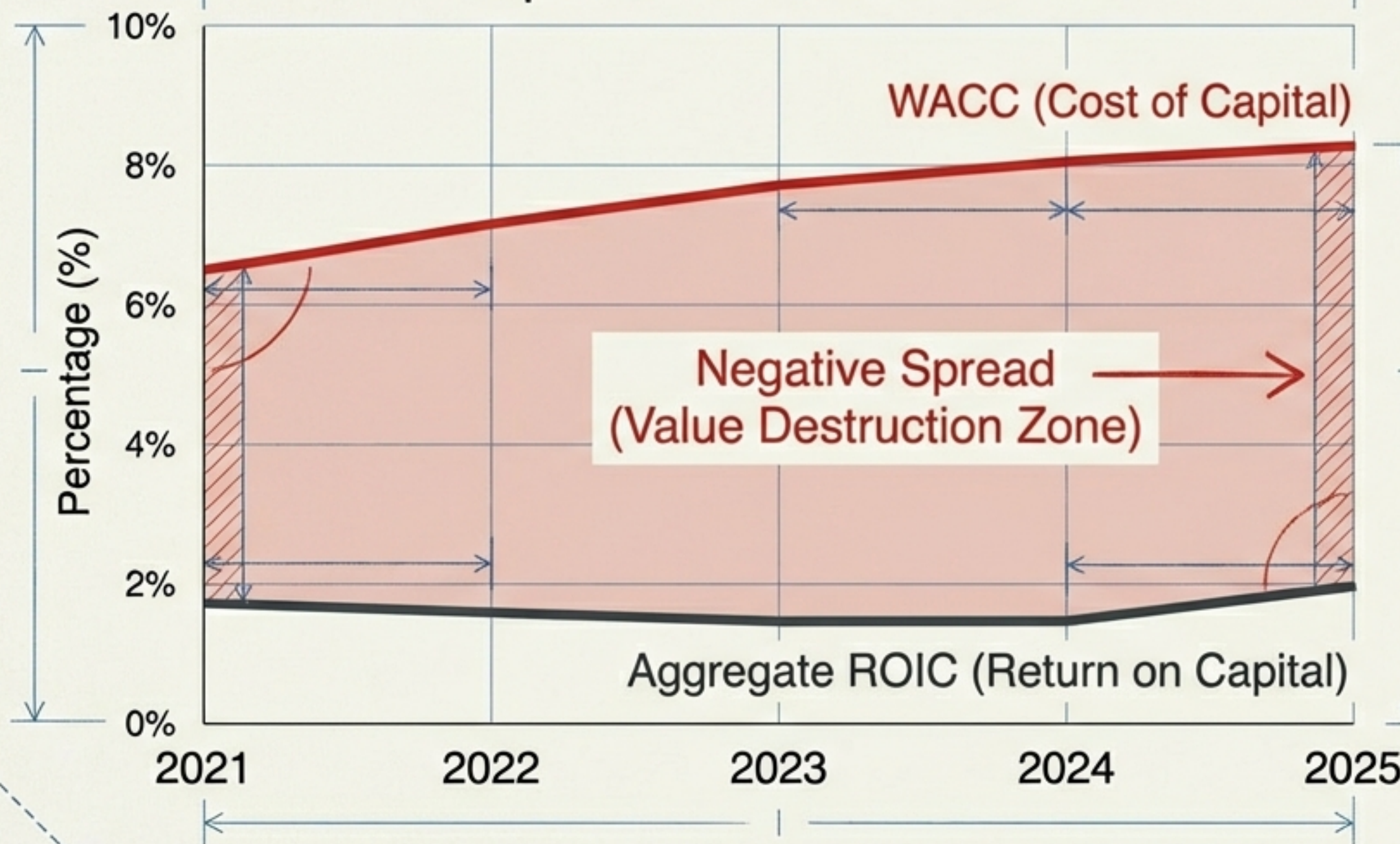
Management grew the empire, but per-share cash flow has been a slow grind.



# The Value Destruction Core: ROIC < WACC

Deep Charcoal Helvetica Now Display

Spread Chart: 2021–2025



## The Math:

WACC (~8.3%) > ROIC (~2.0%).

**The Cause:** Premium-priced M&A legacy assets drag down returns.

**The Nuance:** New development yields target ~11.9%, but the massive historical capital base weighs down the aggregate.



# M&A Track Record: Buying Revenue at a Premium

Helvetica Now Display

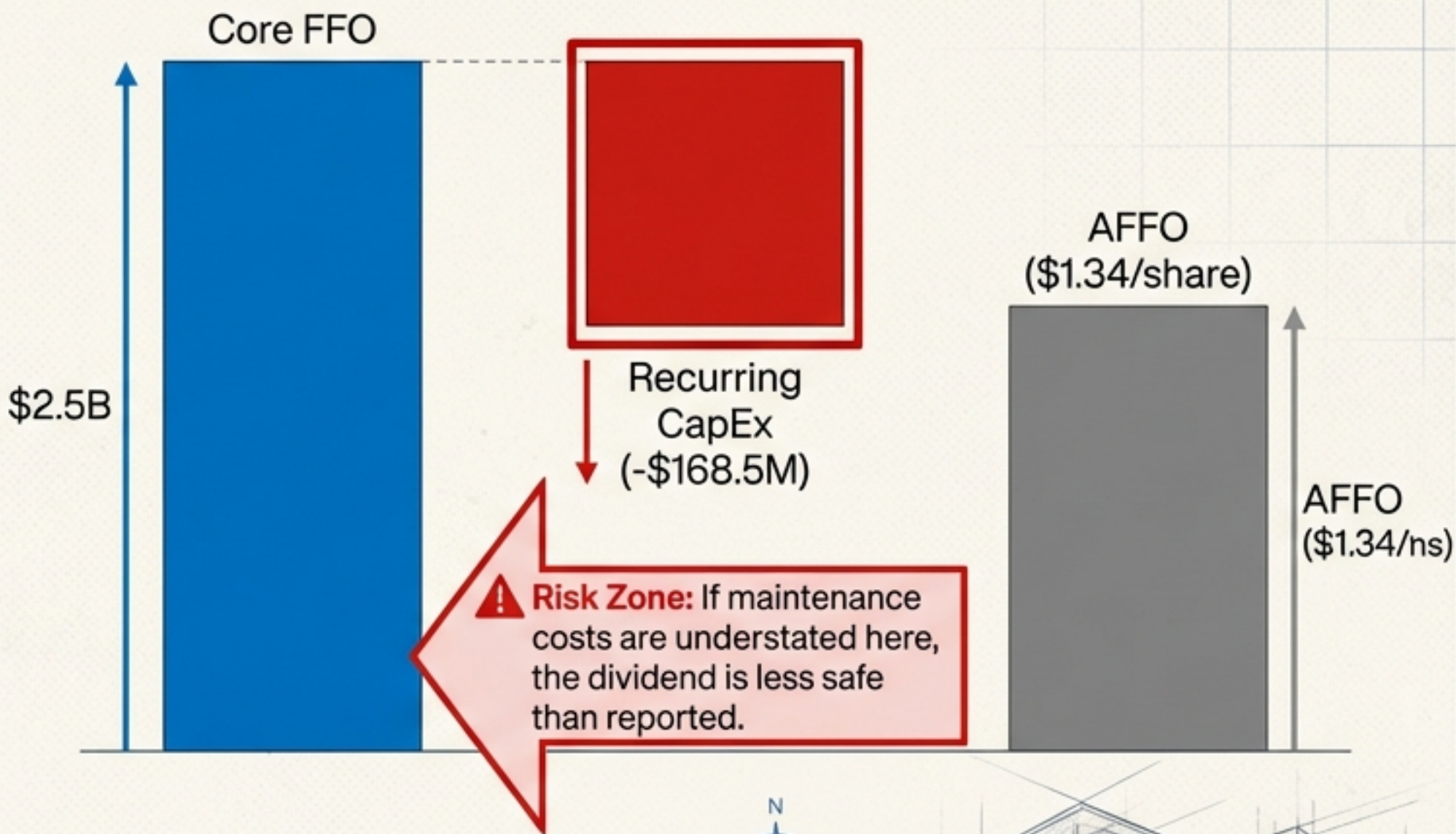
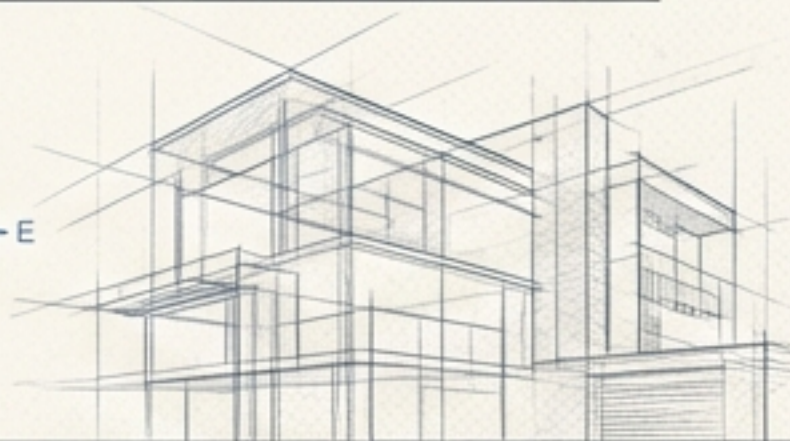




# Quality of Earnings: The Maintenance CapEx Debate

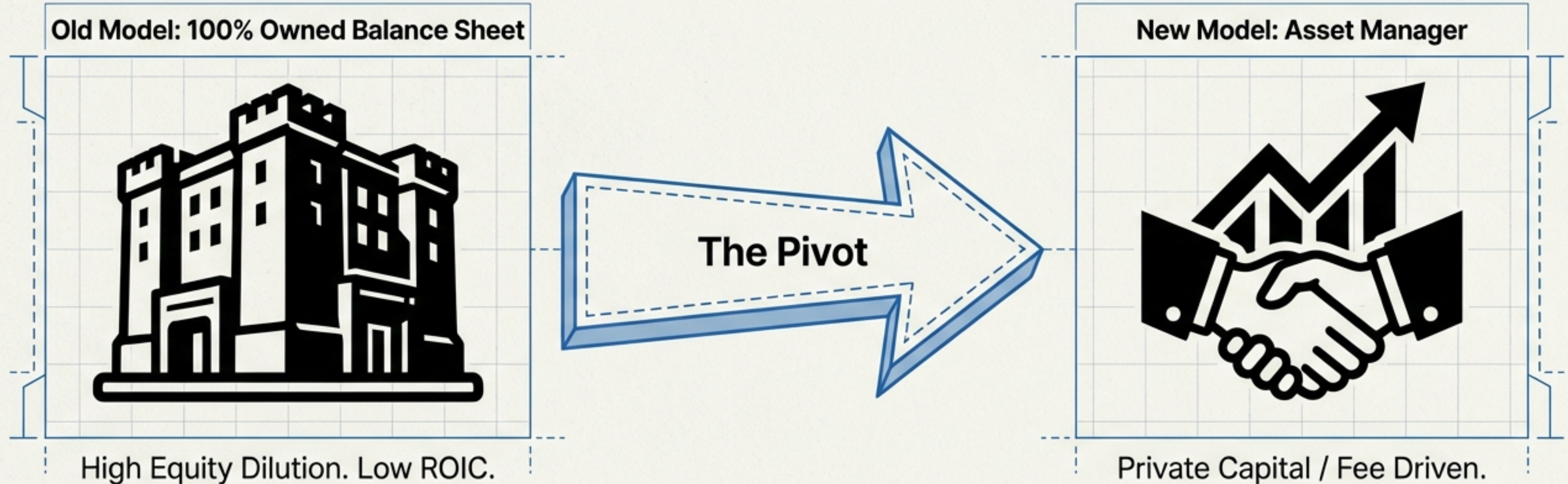
## The Hindenburg Context

Short-sellers allege the sector misclassifies routine maintenance (lightbulbs, battery replacements) as “Growth CapEx” to artificially inflate AFFO.





# The Strategic Fix: Joint Ventures & Capital Recycling

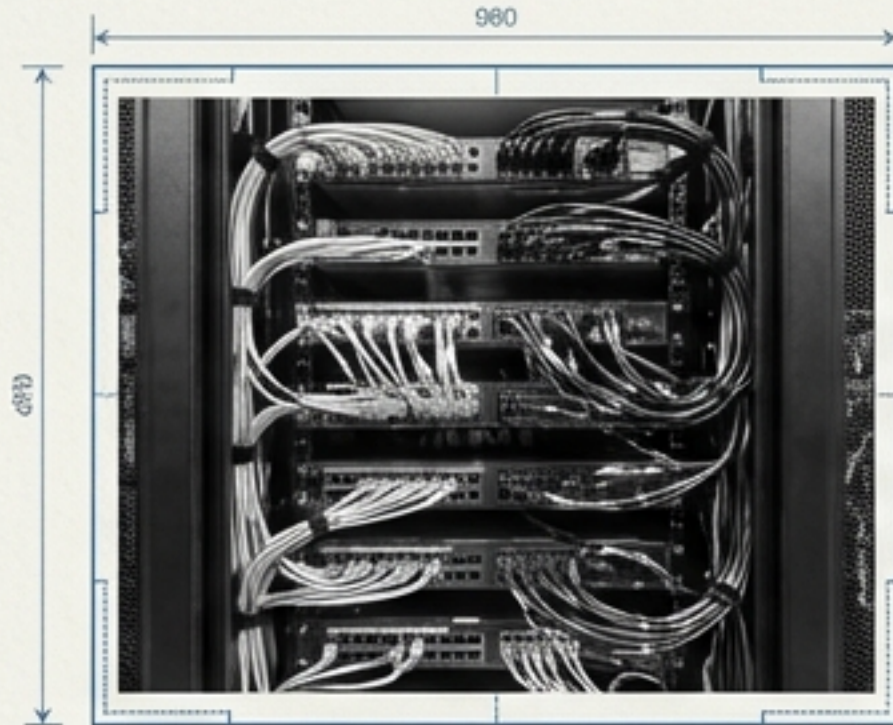


**Hyperscale Fund:** \$3.2B LP Equity Raised (2025).  
**Fee Income:** Doubled YoY.  
**Result:** Improves ROIC by moving heavy capex off-balance sheet.



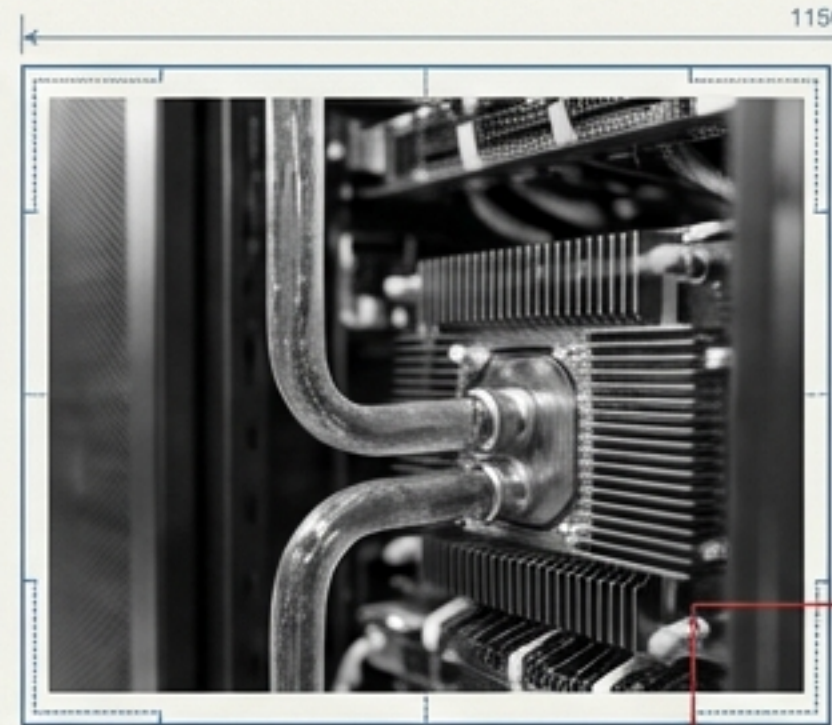


# Headwinds & Thesis Risks



## Customer Concentration

Top 3 customers = 23% of revenue. High negotiating leverage for Hyperscalers.



## Obsolescence Risk

Will liquid cooling requirements render legacy buildings worthless?  
Impairment risk. ⚠️



## The Hyperscaler Threat

Build vs. Lease. If supply chains ease, AWS/Google may revert to self-building.

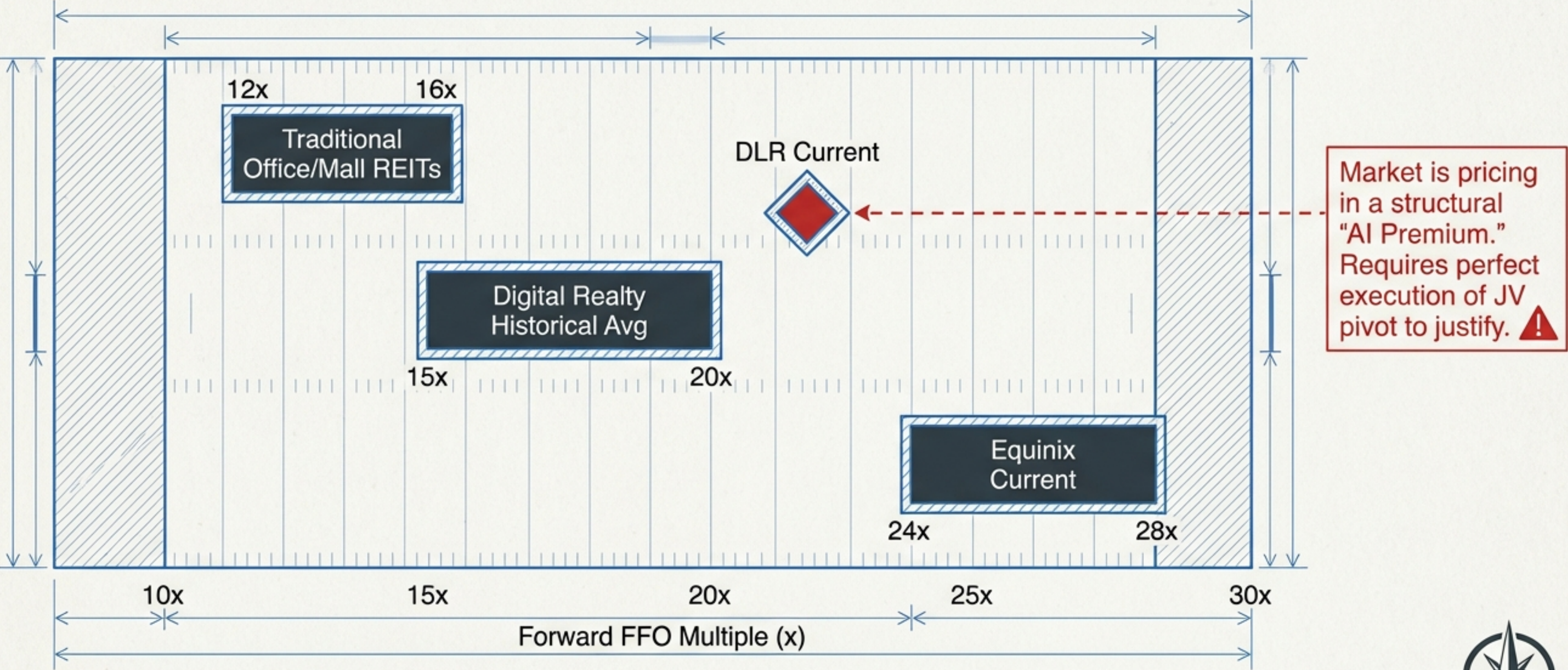


## Jevons Paradox Failure

If AI software monetization stalls, the \$250B CapEx cycle halts, leaving stranded capacity.



# Valuation Context: Priced for Perfection?





**Asset Quality**

Irreplicable Global Portfolio  
5 GW Power Bank  
0% Vacancy

**Capital Efficiency**

Low ROIC  
Heavy Dilution  
High Capital Intensity

Fulcrum

