Gmail **Sanjeev Yamsani <yamsanisanjeev@gmail.com>**

The Briefing: Blackstone Loves Data Centers

1 message

Martin Peers <info@theinformation.com> Wed, Oct 16, 2024 at 5:32 AM
Reply-To: Martin Peers <info@theinformation.com>
To: Sanjeev Yamsani <yamsanisanjeev@gmail.com>

The Information Oct 15, 2024

The Briefing

By Martin Peers

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Thanks for reading The Briefing, our nightly column where we break down the day's news. If you like what you see, I encourage you to subscribe to our reporting here.

Greetings!

Big tech companies don't report September-quarter earnings until the end of this month. But you don't have to wait until then to get an update on the artificial intelligence data center gold rush that's now underway. Instead, just tune in to Blackstone's earnings call on Thursday.

The giant investment firm has emerged as one of the big global financiers of data centers—a key piece of the bricks and mortar needed to run chatbots and other forms of AI. Today, for instance, Reuters reported that the investment giant planned to invest $8.2 billion to develop data centers in Spain's Aragon region, following similar moves in that area by Microsoft and Amazon. Early last month, Blackstone said it had agreed to buy a big data center developer in Asia Pacific at a value of $16 billion.

Even before making these deals, Blackstone had a data center portfolio worth $55 billion, CEO Steve Schwarzman told investors in July when the company reported earnings. The company had the foresight to see the value of data centers early: Schwarzman noted in those July comments that Blackstone had in recent years sold some of its U.S. office buildings to free up capital for data centers as well as for warehouses and rental housing.

Blackstone isn't the only investor making such moves. We reported today that Crusoe, an AI data center company, was working with Blue Owl Capital and another data center–focused investor to finance construction of a data center in Texas for OpenAI. BlackRock, meanwhile, has partnered with Microsoft on a $30 billion data center fund.

But Blackstone may be leading the field, part of a broader AI play that also involves providing $4.5 billion in financing for AI cloud firm CoreWeave. If all the projections from AI industry executives like Sam Altman are right, then Blackstone is well positioned to make enormous returns on its data center play.

Any boom carries a risk of overbuilding, as occurred with fiber network construction during the dot-com bubble. In Blackstone's favor, the constraints on building new data centers—in terms of power availability and land—may act as a counterweight to some of the gold rush mentality. Moreover, there will likely be plenty of demand for data centers outside AI, including from self-driving cars and from traditional computing's move to the cloud.

Some data centers now under development are specialized for AI work, however. Blackstone has to ensure it doesn't go too heavily into that part of the industry. The bottom line is that if we end up with a glut of AI data centers, Blackstone and big tech both may have to bear the consequences.

Google's New Best Friend

Presidential candidate Donald Trump says he won't break up Google if he wins next month's election, The New York Times reported. Trump noted that "China is afraid of Google" and that "we want to have great companies.…We don't want China to have these companies." (Readers of The Information agree with Trump's thinking on this issue, as the results of our latest reader survey show.)

The breakup idea is on the table because the Justice Department indicated earlier this month that it may seek "structural remedies"—typically code for breaking up a company—as a solution to a court's finding that Google broke antitrust laws in its efforts to protect its search monopoly.

Trump's comments today are meaningful, given that he may be president before the Justice Department finalizes the remedies it will seek. He reportedly said he would seek to make sure Google's behavior is "more fair."

If Trump follows through, he could tell the DOJ to scale back what it is asking for. There is an irony here: The DOJ first sued Google for alleged antitrust breaches in search when Trump was president before, in late 2020. Even so, Trump may just have given tech people a reason to vote for him.

In Other News

- The New York Times Co. sent AI startup Perplexity a cease-and-desist notice demanding that the firm stop using its content, The Wall Street Journal reported.
- Harry Stebbings, host of "The Twenty Minute VC," a podcast, has raised $400 million across two new funds from limited partners, including MIT Investment Management Co. and Horsley Bridge Partners (more here).
- Goldman Sachs and Bank of America on Tuesday joined other Wall Street banks in reporting jumps in investment banking and trading revenue for the third quarter (more here).

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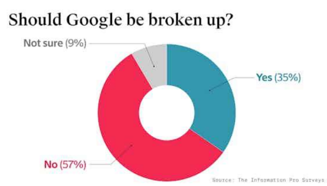

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