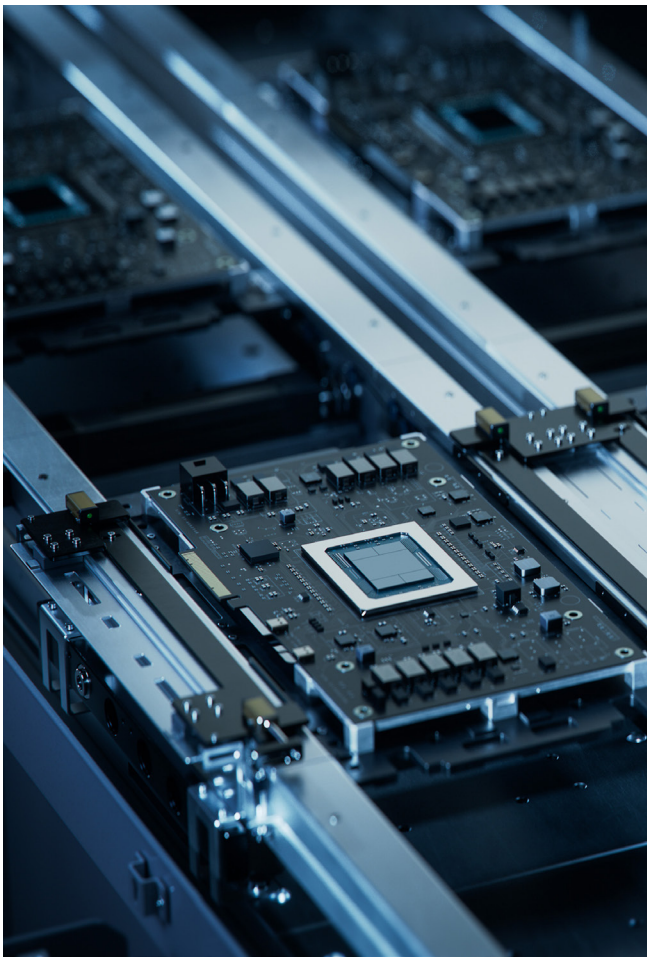
Brookfield

Five Questions About the AI Buildout

AUGUST 2026

The pace of artificial intelligence investment has brought comparisons to previous bubbles, such as the dot-com boom of the late 1990s. With capital commitments running into the hundreds of billions of dollars and headlines questioning the sustainability of AI spending, investors are rightly asking whether today's enthusiasm is getting ahead of underlying fundamentals.

We believe today's buildout is fundamentally different. Unlike the dot-com era, when highly leveraged companies built infrastructure ahead of demand, today's investment is driven by well-capitalized, investment-grade counterparties—hyperscalers, corporates and sovereigns—and is increasingly supported by long-term contracted demand. As with any era-defining industrial transformation, success will be determined by disciplined allocation, rigorous underwriting and prudent risk management.



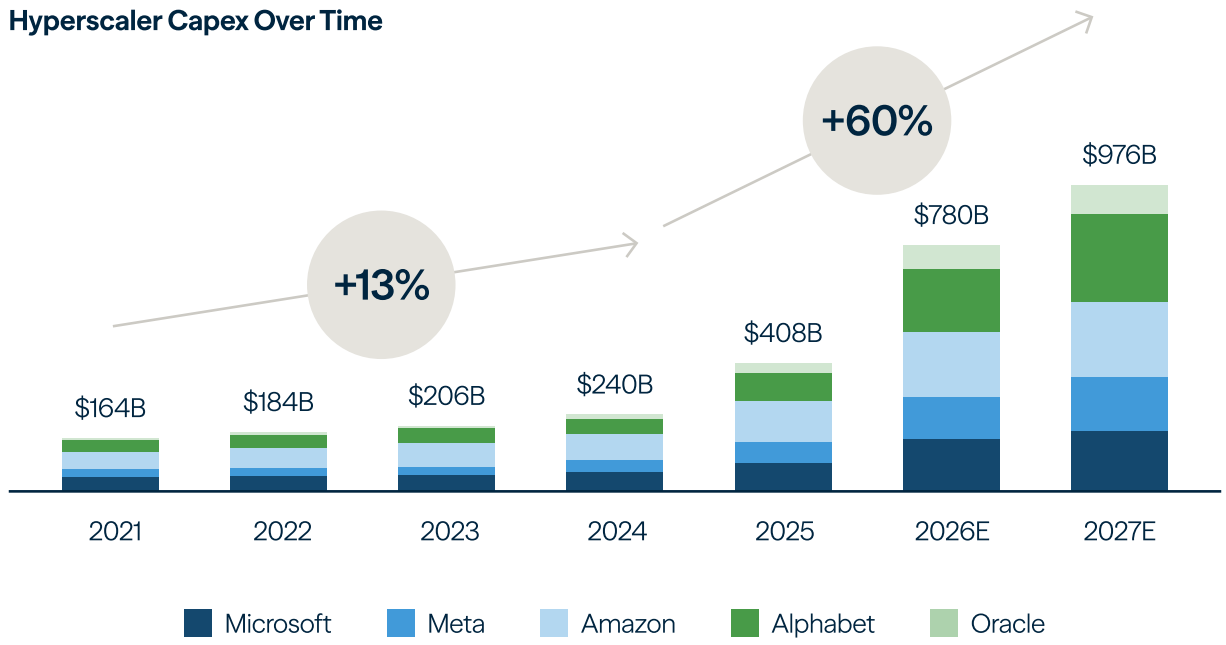
QUESTION 1: HOW DO WE KNOW DEMAND IS REAL?

One of the challenges with investing in emerging technologies is distinguishing real demand from optimistic forecasts. The infrastructure demand behind AI is observable and accelerating. Customer spending on cloud infrastructure services rose roughly 35% year-over-year in the first quarter of 2026, reaching $129 billion in the quarter and a half-trillion-dollar annual run rate[1]—capacity that is being consumed and paid for, not simply built ahead of demand.

And that forward demand is increasingly contracted: Over the same period, Microsoft, Amazon and Alphabet disclosed customer backlogs and remaining performance obligations that totaled well over $1 trillion, reflecting committed demand.[2]

All of which helps to explain why hyperscaler capex is so high, as shown in Figure 1.

Figure 1: Annual AI infrastructure investment is accelerating

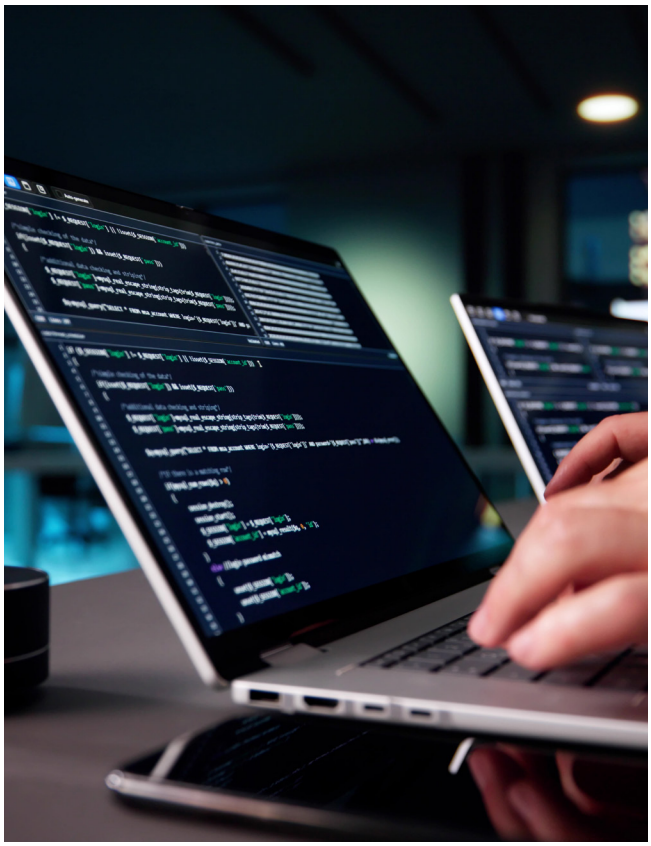


Market forecasts and estimates are based on current market conditions and are subject to change without notice.
Source: CapIQ consensus based on SEC filings and earnings releases. Data by calendar year. As of July 2026.

Looking forward, the buildout of AI infrastructure is expected to drive even more demand, with AI server markets projected to grow from around $140 billion in 2024 to over $800 billion by 2029.[3]

Capacity is not being built ahead of demand but is instead constrained. Utilization rates across major markets are already extremely high, with North American data center vacancy at 1.6%, an all-time low.[4]

These indicators do not guarantee that every investment will succeed, but they do show that demand is already visible in spending, utilization, leasing and contractual commitments.



THE BOTTOM LINE

AI demand is measurable and growing, and supply is struggling to keep up.

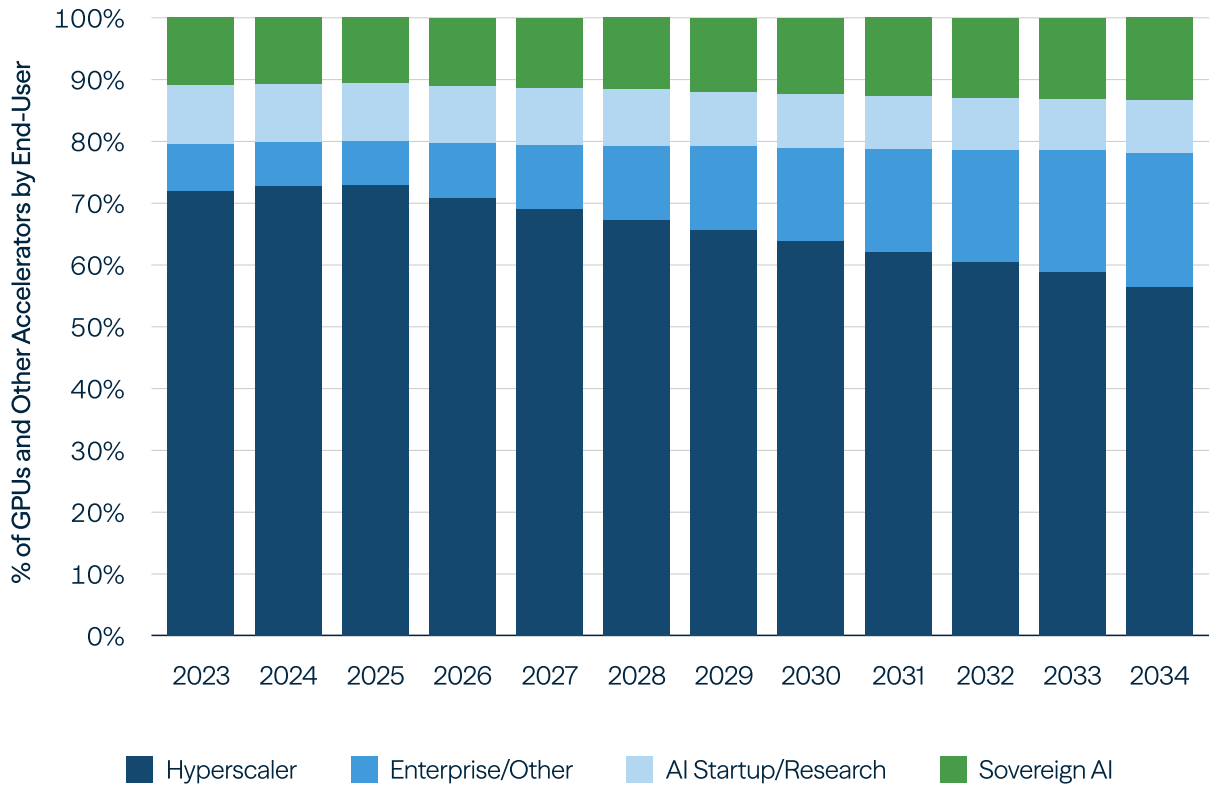
QUESTION 2: HOW DEPENDENT IS THE AI INVESTMENT THESIS ON HYPERSCALER SPENDING?

Today's buildout is led by hyperscalers, whose spending is expected to remain significant for years to come.

Sovereign governments are also increasingly making large-scale investments in AI infrastructure as AI becomes strategically important to economic competitiveness and national security.

At the same time, enterprises are deploying AI across their own operations. So while demand from hyperscalers keeps growing, it is gradually diversifying across corporate and sovereign customers, making the long-term thesis less dependent on economic cycles or corporate success.

Figure 2: Demand is shifting from hyperscalers to enterprises and sovereigns



Projected figures are based on third-party estimates and are subject to change. Actual results may differ materially.
Source: EY Parthenon. As of April 2025.

THE BOTTOM LINE

Hyperscalers are likely to remain the largest customers, but they are unlikely to be the only drivers of long-term demand.

QUESTION 3: COULD AI INFRASTRUCTURE BECOME OVERBUILT?

Periods of technological transformation often produce investment mistakes and localized overbuilding, and AI infrastructure is unlikely to be immune.

But unlike laying fiber during the dot-com bubble, AI infrastructure cannot be deployed quickly or cheaply. Data centers and compute are capital-intensive assets with high operating expenses requiring continuous power, advanced cooling systems, and regular hardware refresh cycles.

Most large-scale developments are also supported by long-term contractual commitments with investment-grade counterparties before construction begins. This is not a guarantee against overbuilding, as pre-leasing concentrates exposure among a small number of large counterparties, and a sharp pullback by even one or two of them could leave committed capacity stranded. But the pre-leasing model—and the scale of capital required for AI infrastructure—leave less room for speculative investment.

While some early-stage activity occurs, such as securing land and/or power, land itself typically represents only a percentage of total project capex, and full builds are rarely undertaken without committed demand.

Perhaps most importantly, development is increasingly constrained by access to power, transmission capacity, permitting, transformers and specialized equipment. In many markets, these constraints—not capital—are becoming the primary limitation on new supply.

THE BOTTOM LINE

Pre-leasing and constraints around power, permitting and transmission suggest that the overbuild that characterized previous technology cycles is structurally less likely for AI today.

QUESTION 4: HOW MIGHT REGULATION AND COMMUNITY PUSHBACK AFFECT THE BUILDOUT?

Political, regulatory and community scrutiny is increasing, and questions around power consumption, grid reliability, and land and water use are already influencing development decisions.

AI infrastructure is becoming subject to the same constraints that have long characterized other essential infrastructure.

Regulation need not be an obstacle to investment. Well-designed frameworks may provide greater certainty around project development, clarify risk allocation and create more predictable investment environments.

They may also raise barriers to entry: As permitting grows more complex and power more constrained, well-located assets with existing development rights, stakeholder relationships and operational expertise may become increasingly valuable.

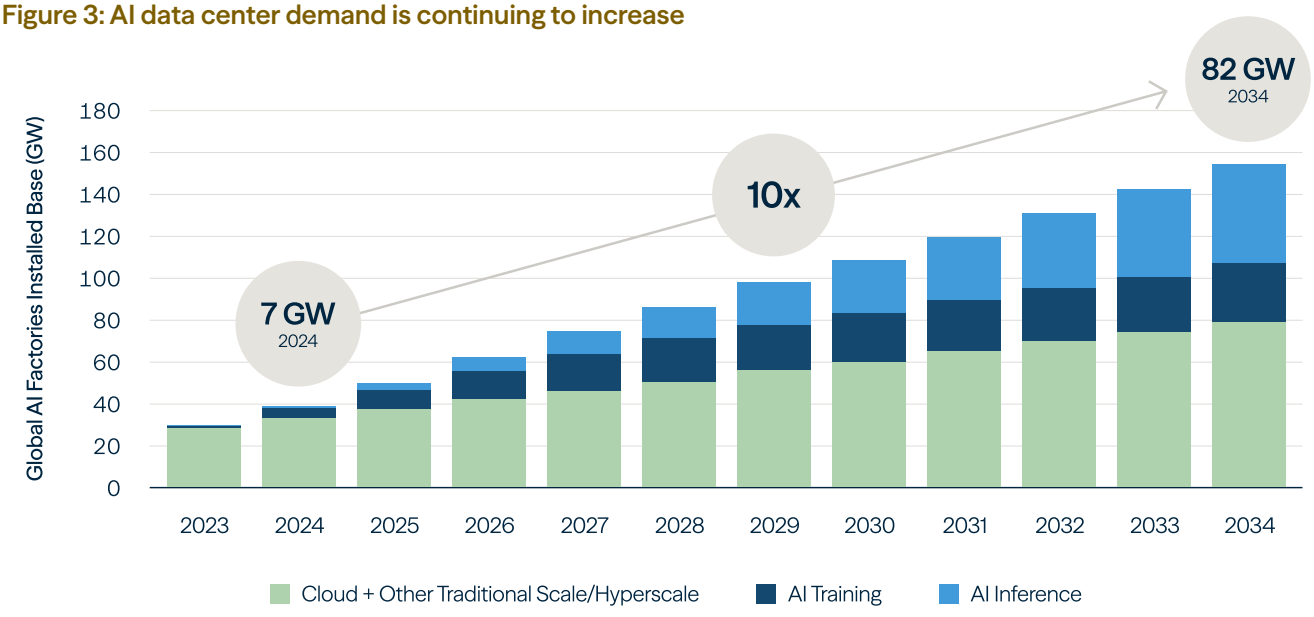
THE BOTTOM LINE

Effective infrastructure investing requires the experience to navigate complex regulatory environments, engage constructively with local stakeholders and allocate capital where long-term development conditions remain attractive.

QUESTION 5: AS AI MODELS BECOME MORE EFFICIENT, COULD INFRASTRUCTURE DEMAND PROVE TO BE LOWER THAN EXPECTED?

As technologies become more efficient and less expensive, adoption often accelerates because products and services become more affordable and accessible. Steam engines, electrification, computers and mobile phones have all historically followed this pattern, expanding the markets they served rather than reducing the infrastructure required to support them.

Figure 3: AI data center demand is continuing to increase



Forecasts represent third-party estimates and should not be viewed as guarantees of future market outcomes.
Source: McKinsey & Company. As of August 2025.

AI infrastructure is also becoming less dependent on any single model or chip generation. Rather than attempting to predict which AI developer or software platform will prevail, infrastructure investors can focus on the physical assets—power, land and transmission—that we believe will remain essential regardless of which technologies ultimately succeed.

The AI cycle is still in its early innings, with much of today's infrastructure supporting model creation and training. Over time, we believe the investment thesis will become increasingly tied to inference and adoption.

Training is concentrated among a relatively small number of companies, but inference scales with usage. Every AI-enabled application, digital agent, enterprise workflow, industrial process, healthcare system or consumer interaction requires ongoing inference capacity. As AI adoption broadens, infrastructure demand may increasingly reflect the breadth of economic adoption rather than the number of models being trained.

> THE BOTTOM LINE
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> Technology will continue to evolve, but the long-term opportunity may increasingly be driven by adoption—and the infrastructure that underpins it.

A Disciplined Approach

As with any investment, risk cannot be eliminated altogether. But disciplined AI infrastructure investing—rooted in infrastructure discipline—is about structuring investments so they can succeed across a range of plausible futures.

Responsible investing should:

- **Avoid speculative building** by backing projects with long-term contractual commitments and favorable terms;
- **Partner with durable counterparties,** including investment-grade hyperscalers, corporates and sovereign customers;
- **Prioritize contracted, third-party end demand** over counterparty commitments that trace back to a small group of interlinked companies;
- **Underwrite conservatively** by not relying on terminal value* or future re-contracting for desired returns;
- **Invest in strategically located, workload-agnostic infrastructure** with the ability to support multiple generations of AI demand;
- **Develop selectively,** rather than prioritizing land, power or infrastructure deployment;
- **Align capital structures with contracted cash flows,** with the goal of reducing reliance on refinancing and optimistic exit assumptions;
- **Seek to manage technology risk through underwriting and contract structure,** rather than predicting future hardware or software winners

Together, these guardrails provide a framework for capturing long-term AI adoption while reducing reliance on optimistic assumptions about technology or market timing.

The considerations above reflect Brookfield's investment approach and do not guarantee successful investment outcomes.
* Terminal value is the estimated value of a company or asset beyond the cash flow forecast period and into perpetuity.

ENDNOTES

1. Synergy Research Group, Cloud Market Annual Revenue Run Rate Topped Half a Trillion Dollars in Q1 as Growth Surge Continues. April 2026.

2. Microsoft Q2 FY2026 Earnings Release and Form 10-Q (Commercial Remaining Performance Obligations). Amazon Q1 2026 Earnings Release (AWS backlog). Alphabet Q1 2026 Form 10-Q (Remaining Performance Obligations, including Google Cloud).

3. Mizuho Securities. April 2026.

4. CBRE, North America Data Center Trends H1 2025.

DISCLOSURE

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