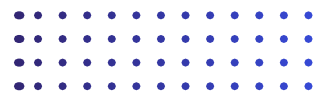




Servicing the Data Center Boom

Middle-market investors who want to enter the AI infrastructure space—or already have money in the game—see potential in data center services but risk in community pushback

BY HILARY COLLINS





Huge amounts of capital are flowing into AI infrastructure, with the Pew Research Center [reporting](#) that more than 1,500 data centers are in development across the U.S. as of April. McKinsey estimates the total spend on the AI infrastructure build out could reach \$7 trillion globally by 2030, and the Wall Street Journal [forecast](#) that four big tech companies will spend more than \$670 billion on data centers and other AI infrastructure projects in 2026 alone.

Of course, AI infrastructure as a category comprises not just data centers but also compute resources, hardware, software, energy infrastructure, and more. In [an episode](#) of the Brookfield Perspectives podcast, Sikander Rashid, global head of AI infrastructure at [Brookfield](#), noted that that \$7 trillion is “total capex encompassing the entire AI value chain,” and estimated that chips and graphic processing units (GPUs) accounted for about half of the projected \$7 trillion, data centers \$2 trillion, and behind-the-meter dedicated power about \$500 billion. “Then the remaining trillion is other strategic adjacencies, whether it’s dedicated fiber build out, liquid cooling technologies, and other capital partnerships with semiconductor chip manufacturer and design companies,” he noted.

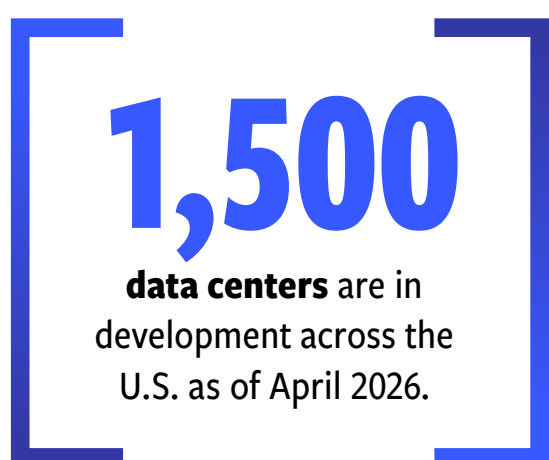
With so much hype and capital flooding the space, middle-market investors are looking for ways to enter the sector. An [EY-Parthenon report](#) noted that digital infrastructure is “a core growth theme” for private equity firms, with the AI build out “creating differentiated opportunities in compute, data center development, supply chain services and powered land”—opportunities that dealmakers will be eager to seize.

Specialized Services Stand Out

Even if the bulk of this investment over the new few years goes to data centers and GPUs, middle-market investors are likely to see the most potential in the surrounding services, says Brian Thom, a managing director at Brown Gibbons Lang & Company (BGL). “The things that I

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BRIAN THOM | Managing Director, Brown Gibbons Lang & Company



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Source: Pew Research Center

would be focused on from a midmarket perspective are the services companies—the plumbing, electrical, everything that takes manpower,” says Thom, who leads BGL’s investments in the infrastructure software space with a special focus on AI. “Literally just building a huge building with very complex processes and protocols that go through regulatory issues, it all comes down to picks and shovels.”

As data centers go up across the country, businesses that support those centers are popping up as well, providing intriguing opportunities for middle-market investors and dealmakers. Colt Luedde, managing director at GulfStar Group, a middle-market investment bank, says that AI infrastructure is going to create new jobs and businesses to not just erect but also maintain and preserve data centers in the coming years.

Among those businesses are things like specialized cleaning services for data centers or natural gas-powered microgrids to keep centers in continuous operation. “I think it’s a new infrastructure category,” Luedde says. “I mean, data centers are not new, but the growth of them is profoundly new.”

Recent AI infrastructure-related deals include [the merger](#) of Fleaux Services and SCS Technologies to form SCS Industrials, which will provide design, engineering, manufacturing, distribution, and field services in the energy and industrial space and will support a “rapidly growing” data center solutions business. GulfStar served as Fleaux Services’ exclusive financial advisor through the transaction.

AI's projected shift from training models to inference will also influence the possibilities for investors, says Thom. For the past few years, AI's resources have mostly been focused on training large language models like ChatGPT or Copilot on massive data pools. However, AI companies now expect those resources to shift from training LLMs to answering user queries and requests, a process called inference. That has implications for where data centers need to be and how they work. Training is a "power-hungry" process, [per McKinsey](#), while inference is "latency-critical." (Latency is a measure of delay in a system, like an LLM's response time to a user query—once inference becomes the dominant use of AI's resources, speed will become very important.)

"Data centers are usually super huge," says Thom. "Once it flips to inference, you're going to need smaller data centers at edge locations, where users are, rather than just really large ones in Atlanta or New York or Texas."

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Source: Data Center Watch

Public Pushback Produces Real Risks

Of course, even a rapidly growing space is not without its challenges. Supply chain issues have dogged AI build outs, with the most well-known perhaps being the ongoing [chip shortages at Nvidia](#).

Energy shortages have also become a hot topic, with research from the Brookings Institute [noting](#) that after two decades of "essentially flat" energy consumption in the U.S., AI has accelerated demand. Santiago Gallino, a professor at Wharton who studies operations management challenges, issued a warning about AI's supply chain problem in [a recent article](#), writing, "The AI revolution is being built on an infrastructure foundation that cannot keep pace with the demand being placed on it."

"It ultimately gets down to the timing of development," says Luedde. "How fast can [data centers] get dedicated, consistent power to a physical build location?"

Another bottleneck stems from residents' opposition. Community pushback to planned data centers and a souring public perception of AI could constitute a serious risk to investors. Data Center Watch [reports](#) that \$64 billion in data center projects have been blocked or delayed due to local opposition. The report notes that common complaints from residents include higher utility bills, water consumption, noise, and drops in property value.

Thom says that the impact of negative public perception carries a very real risk of decreased net present value for investors if that negative sentiment can stop a data center build out. "I don't want to understate what's going on from a localized community perspective that could actually affect real returns from a private equity perspective," he notes.

Luedde says that the news cycle might be overselling the size of the problem, but public pressure, whether perceived or real, is driving legal and regulatory changes. Even the usually business-friendly Texas Governor Greg Abbott [recommended regulatory changes](#) to force data centers to cover their costs and address community concerns, including mandating closed-loop water systems to limit the drain on local water resources and repealing some existing tax incentives for data centers.

“Ultimately, you’ve got to find the right balance,” says Luedde. “There’s going to be a limit as to how fast we can scale up power. We’ve already seen changes just in the last two or three years to how power deals are being negotiated with the data center developers themselves. I think that tension is going to continue and they’ll figure out a way to navigate around it.”

How Long Will the Gold Rush Last?

Current and would-be investors have one important question: Is the build out boom sustainable? “I would say that the belief today is that the build cycle’s been elongated and it’s got more duration than people thought it would have three years ago,” says Luedde. “I think as we sit right now, people might say we’ve got a solid 10-year build cycle.”

Thom compares the current risk of overinvestment to the Clinton-era fiber optic build out. A 2002 [Wall Street Journal](#) article details the millions of miles of lines buried in the late ’90s, only 2.7% of which were being used a few years later. The mistaken belief that internet traffic would grow annually at a rate of 1,000% led companies to go under and investors to lose money.

“But my point is, we all ended up using [the fiber optic network]. It took time, but we all ended up using it,” Thom says. “Do I think we’re overspending and overcapitalized today, where the demand for AI from both a consumer and a company perspective is less than the AI they’re building out today? Yes. Do I believe the ‘pipes’ are necessary in order for what the demand is going to be in the future? I believe that we will need it and we will use it.”

Of course, this requires discipline as an investor to buy companies that are “stable and sticky,” he says. “And that’s why I go back to the picks and shovels—invest in those companies that can toggle up and toggle down as the trajectory of AI continues.” //

HILARY COLLINS is ACG’s associate editor.

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