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Materials, Labor Shortages Threaten Data Center Construction Boom

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Demand for data center construction remains stronger than ever, but issues around labor, supply chain, and inflation could mute the pace of building in the sector, according to a Turton Bond data center market report.

"The overall outlook for data center construction in 2022 will come with plenty of challenges and uncertainties," the New York-based real estate consultant's report stated, including the need to bring skilled labor to the rural areas where these projects are typically located.

The price of steel, a major component of data center construction, has increased just under 50% over the last 12 months, though it is down off recent highs. Other critical inputs have been on the rise, as well. "The majority of materials right now are still showing that they're increasing on a quarterly basis," said Darren Flood, director of Turton Bond's San Francisco office. "This is worrying too."

Flood noted that his firm's data center clients still want to build.

"They said that they have never been building at this pace, and that pace going forward is only going to increase," Flood said.

But the triple threat of rising prices, continually choked supply chains and scarce labor availability are standing in the way of that demand.

Turton Bond has worked with Google and Facebook in the past. Google plans to invest $9.5 billion in offices and data centers in the U.S. this year, while Meta, parent company of Facebook, recently launched two more data centers in Temple, Texas and Kansas City, Missouri.

To be sure, activity in the sector has been brisk, and the same challenges that stand in the way of more physical development are also contributing to demand for it.

"The data center market has been a solid performer over the past several years, and the repercussions from the pandemic are likely to be a further boost to the sector," said Richard Branch, chief economist at Dodge Data & Analytics, during a mid-year construction outlook webinar. “Increased working from home and hybrid work will create demand for more robust cloud-based systems resulting in continued strength in data center construction.”

Through the first quarter of 2022, for example, data center construction has been on a tear, according to Dodge. Starts reached $1.4 billion during the first three months of 2022, a 29.2% increase from the first quarter of 2021. That’s double the pace for construction starts in general.

But inflation, supply chain constraints, and labor shortages create an unpredictable market, which may affect the data center construction sector, according to the Turton Bond report.

For example, the nature of most data center projects, which can be located far from cities where land is cheap, creates a need to import workers.

“This creates a need to incentivize subcontractors to [come to] the area to complete the required work,” the report said. “Overall, the outlook for availability of trades is optimistic in 2022, but with a strong pipeline of construction works, a labor squeeze is likely to increase construction costs.”

Operators who focus on procuring key materials and equipment early, have good relationships with vendors and can secure warehouse space for storing equipment and products offsite are the ones making headway in this challenging environment, the report said.

“Smaller companies that build the two megawatt to four megawatt data centers, they’re probably not going to have that relationship with the vendors,” Flood said. “Supply chain is definitely still an issue right now.”

About the Author

Sebastian Obando is a reporter covering the construction industry for Construction Dive, based in Washington D.C. Prior to Construction Dive, Sebastian covered the commercial real estate industry for the National Real Estate Investor, based in New York City, as well as contributing to Forbes, covering personal investment topics. He has also appeared in Adweek, New York Post, Washington Post, among others, and interned with The Daily Caller in our nation's capital.

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