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Communications Infrastructure | North America

Data Centers Debated - Reiterate EQIX Top Pick

We discuss recent data center debates in the market, including impact of moratoriums, open vs. closed-weight models, AI sovereignty and interconnection networks. We remain constructive on colocated data centers, continue to see interconnection scale as a key moat and raise EQIX bull case estimates.

AlphaWise 

Key Takeaways

- Data center debates are growing louder, as open-weight models, data sovereignty and moratoriums draw focus. We see colocation data centers well positioned.
- Open-weight adoption should tilt incremental AI demand towards EQIX, as enterprises look for greater control over inference deployments.
- Interconnection is an underappreciated pricing lever - we expect virtual connections to grow alongside further data traffic, and prefer EQIX's scaled network.
- Requirements to fund grid infrastructure may pressure development yields, while moratoriums strengthen pricing power for incumbent operators.
- Push for sovereign AI should drive demand for localized infrastructure with emphasis on data residency and regional compute, benefiting colocation operators.

We revisit several debates shaping the data center industry including open- versus closed-weight models, interconnection monetization, development restrictions and sovereign AI. We walk away with greater conviction that **colocation data centers remain well positioned across a range of outcomes**. We continue to prefer EQIX (OW, \$1,250 PT) given its diversified enterprise customer base, global footprint and the industry's largest interconnection web.

Open-weight model adoption should make enterprise AI architecture more distributed and complex, increasing the number of connections between private infrastructure, clouds, model providers and neoclouds. This environment plays directly to Equinix's strengths in retail colocation enabling private, low-latency connections. A closed-weight outcome would skew incremental demand more toward hyperscale-oriented operators such as DLR or BXDC, though EQIX would continue to participate through xScale and cloud on-ramps.

We increasingly view **interconnection as an underappreciated source of both competitive differentiation and earnings upside**. AI agents are driving rapid growth in machine generated traffic and we expect virtual interconnections to take a larger

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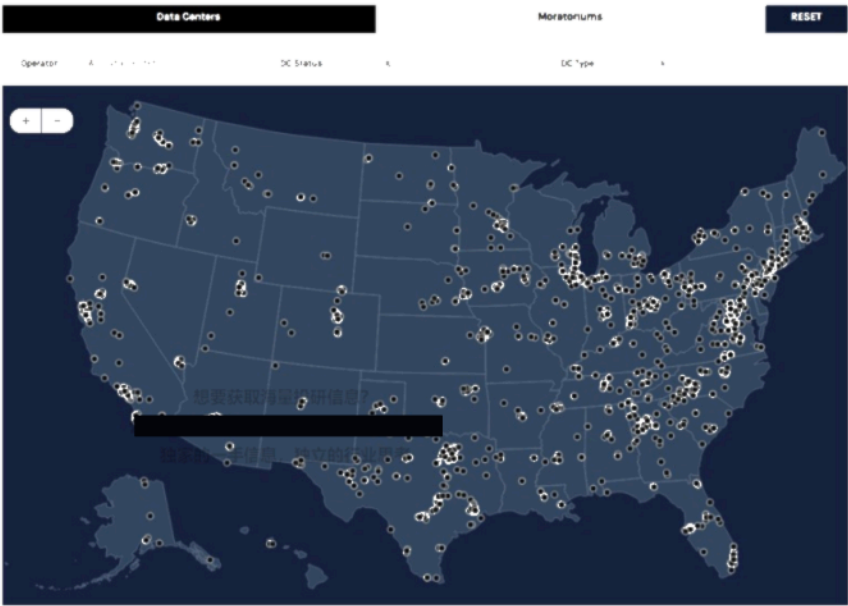
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share of the mix. We see an opportunity for Equinix to evolve pricing beyond recurring fees for cross-connections toward greater monetization of actual data movement. Given the scale of the existing ecosystem, even modest improvement in MRR per interconnection could produce high margin upside and flow through to AFFO (Exhibit 2). The positive interconnection flywheel further utilizes network effects to increase both customer stickiness and the moat. We see incremental upside from potential new interconnection pricing mechanics, and raise our EQIX bull case estimates (Exhibit 7).

The growing political scrutiny of data center development introduces risk, but the implications are not all negative for incumbents. **Requirements that developers fund more grid infrastructure could pressure development yields, while moratoriums and permitting delays could constrain new supply and strengthen pricing power for operators with existing powered capacity.** Sovereign AI creates a similar balance: regulatory and compliance requirements may become more complex, but greater emphasis on data residency, localized compute and control over network routing should drive more duplicated, jurisdiction-specific infrastructure. We see Equinix as particularly well positioned as sovereignty broadens from where data is stored to where it is processed and which infrastructure it can access (see [here](#) for further thoughts on AI sovereignty).

We track current opposition efforts via moratoriums below overlaid with the footprint of the three colocation data centers, along with all other data centers based on 451 Research data:

Exhibit 1 Tracking Data Center Moratoriums



Source: AlphaWise Web Intelligence, Morgan Stanley Research, 451 Research, Interconnected Capital.

Interconnection a Key Value Unlock

We increasingly see scale in interconnection as an underappreciated driver of value and enabler of the growth flywheel among colocated data centers. The interconnection offering connects tenants directly within and between data centers, either through fiber or increasingly virtually via a software platform (Equinix Fabric, Digital Realty ServiceFabric). A larger interconnection web creates positive network effects and increases the stickiness of each tenant. Accordingly, **the value of the interconnection offering grows as an operator gains scale**. Equinix is the largest interconnection provider with 522,700 interconnections vs. DLR 235,500 and CSQR with 36,000. In addition, we continue to see demand for AI inference workloads inflecting higher, and expect interconnection scale to play a key role in enabling this growth, as further discussed [here](#).

Today, interconnection is generally monetized based on the number of connections or provisioned capacity:

Physical cross connects: priced primarily per physical connection - tenant pays a monthly recurring charge for the cross-connect.

Fabric / virtual interconnections: priced primarily on provisioned capacity, not actual data traffic - tenant selects a port size (e.g., 1/10/100 Gbps) and virtual connection bandwidth, and those choices determine the recurring charge.

True usage / traffic based pricing: this would mean charging based on the actual amount of data moved (e.g., \$/GB) or the measured traffic rate/throughput (e.g., Mbps/Gbps). Equinix offers both pricing tiers within [Internet Access](#) through usage-based and burst billing. Traffic based usage is likely easiest to monetize in the virtual interconnection offering.

In our bull case, we assume Equinix's interconnection pricing mechanic evolves to capture actual volume of data traffic. We raise our bull case '27 interconnection revenue growth estimates to 16.6% and 16.5% in '28 vs. 14.5% and 16.3% previously. Our sensitivity analysis ([Exhibit 2](#)) shows the AFFO/sh uplift given every 25bps increase in interconnection revenue growth. We continue to prefer EQIX as the scaled retail colocation operator with the largest interconnection network. Put simply, the interconnection thesis is for the network effect to continue, and we see tailwinds to each component of interconnection revenue:

Interconnection revenue = billable cabinets × interconnections/cabinet × MRR/interconnection

In the base case, we expect Equinix to expand the number of billable cabinets by ~22,000 in '27 and ~30,000 in '28, raise the volume of interconnections per billable cabinet by 1.6% and 2.1%, and also grow MRR / interconnection by 3.8% and 3.9%. The bull case is that Equinix is able to successfully pull the pricing lever on data movement (with the volume of data generated growing at a ~25% CAGR ([Exhibit 6](#))) as opposed to recurring fees per connection, and increase MRR/interconnection.

Exhibit 2: A 100 bps uplift to interconnection pricing growth drives ~1.6% upside to current AFFO/sh estimates by 2030

Upside to Consolidated AFFO/sh										
IX Pricing Growth Uplift		2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
	0 bps	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	25 bps	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%
	50 bps	0.2%	0.4%	0.6%	0.8%	1.0%	1.2%	1.4%	1.6%	1.8%
	75 bps	0.3%	0.6%	0.9%	1.2%	1.5%	1.8%	2.1%	2.4%	2.7%
	100 bps	0.4%	0.8%	1.2%	1.6%	2.0%	2.4%	2.8%	3.3%	3.7%
	125 bps	0.5%	0.9%	1.5%	2.0%	2.5%	3.0%	3.6%	4.1%	4.7%
	150 bps	0.5%	1.1%	1.8%	2.4%	3.0%	3.6%	4.3%	5.0%	5.6%
	175 bps	0.6%	1.3%	2.0%	2.8%	3.5%	4.3%	5.0%	5.8%	6.6%

Source: Company data, Morgan Stanley Research

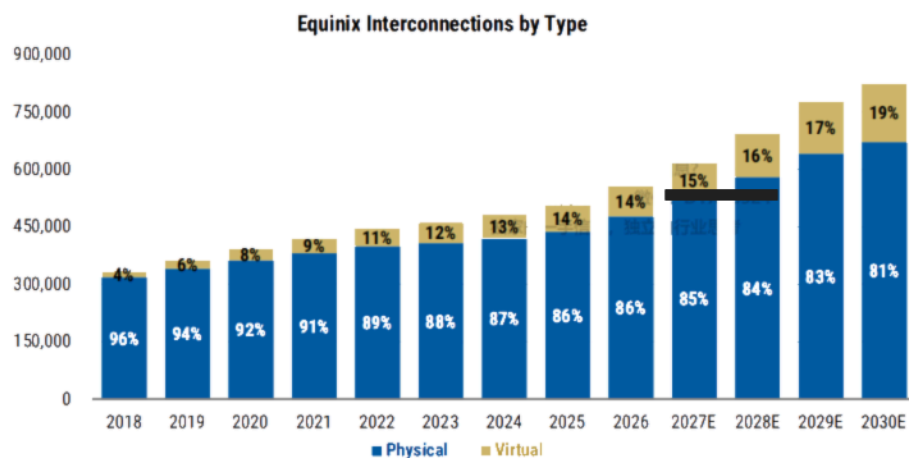
Note: Assumes 50% incremental margins on interconnection revenue. IX pricing refers to MRR / interconnect (calculated as interconnection revenue / average interconnection count). Sensitivity based on changes in y/y growth rate of MRR / interconnect and assumes base case interconnection volume.

We have greater conviction in this opportunity after listening to Matthew Prince, the CEO of Cloudflare, this earnings quarter. Describing the growth in online data traffic in the context of AI agents, he said **non-human traffic will be as much as 1,000x human traffic**. If Equinix is able to adjust interconnection pricing to capture value from traffic volume, we see upside to consensus interconnection revenue estimates. Full quote from Matthew Prince here:

"So I was quite surprised when in May of this year, our team came to me and said, you won't believe it, but non-human traffic has now passed human traffic online. And to give you a sense of how this trend is playing out and with the big caveat that I have called it wrong at every point along the way, if the current trends continue, we think in five years, non-human traffic will be as much as 1,000x as much as human traffic. In other words, humans will be a rounding error on the Internet, not because human traffic goes down, but that's just how fast we're seeing non-human traffic grow."

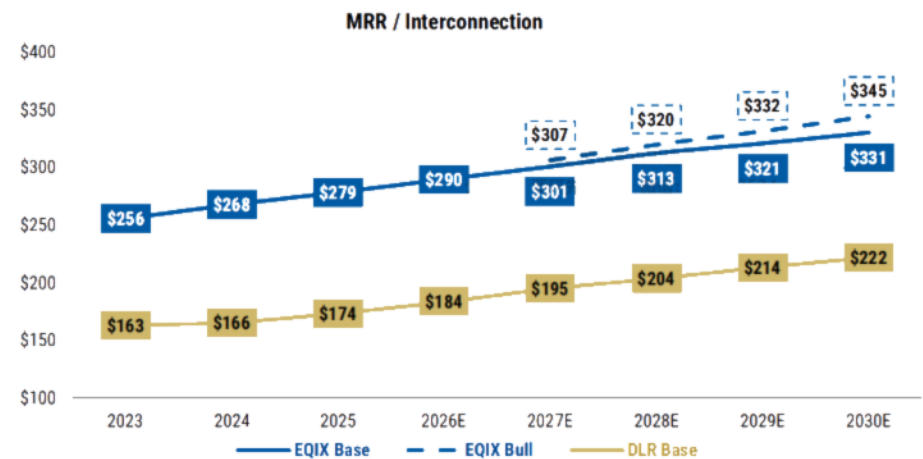
We expect virtual interconnections to gain share of total interconnections at Equinix over time (Exhibit 3), bringing upside optionality to interconnection revenue if Equinix can evolve the pricing strategy.

Exhibit 3: We expect Equinix virtual interconnections to represent a growing share of total interconnections through 2030



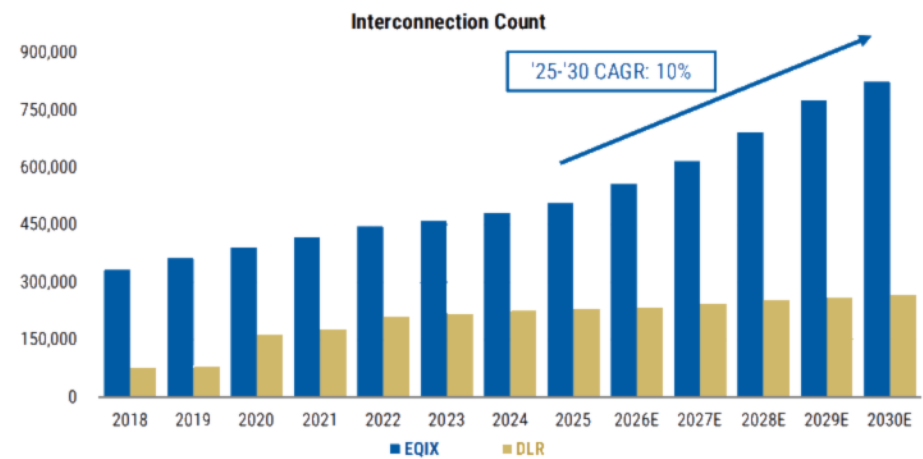
Source: Company data, Morgan Stanley Research

Exhibit 4: Equinix is the global price leader in the interconnection market. We expect pricing growth at both Equinix and Digital Realty as interconnection networks continue to scale



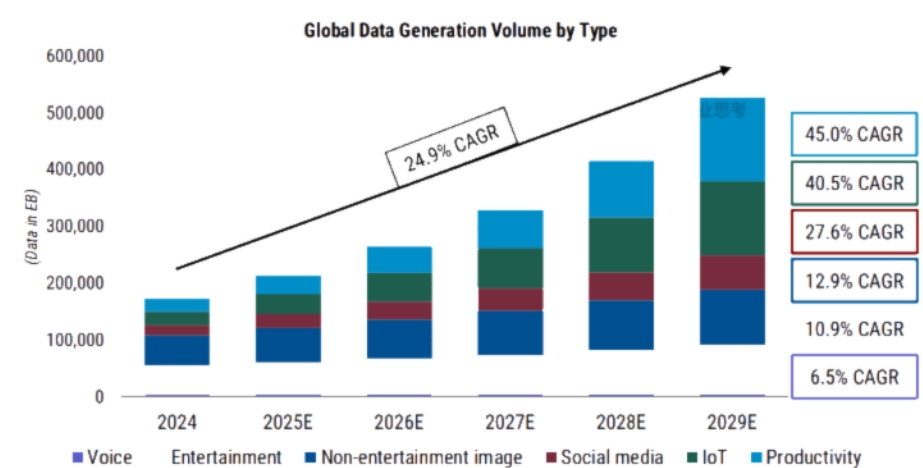
Source: Company data, Morgan Stanley Research

Exhibit 5: Equinix currently has >2x the interconnection volume of Digital Realty, and we expect this gap to widen



Source: Company data, Morgan Stanley Research

Exhibit 6: IDC estimates global data generation to grow ~25% through 2029



Source: IDC, Morgan Stanley Research

Exhibit 7: Equinix bull case prior vs. current estimates

Fiscal Year ending Dec. 31	Prior				Current				Variance			
	2026E	2027E	2028E	2029E	2026E	2027E	2028E	2029E	2026E	2027E	2028E	2029E
Prior vs. Current												
Colocation	1,220.5	8,405.7	9,988.7	**1,112.4	1,227.7	9,459.5	9,991.9	11,128.6	+0.1%	+0.0%	+0.0%	+0.1%
YoY Growth %	11.5%	17.1%	14.8%	14.7%	11.6%	17.0%	14.6%	14.6%	+11 bps	(15 bps)	(47 bps)	+13 bps
Interconnection	1,940.0	2,115.4	2,490.3	2,940.8	1,854.0	2,190.8	2,517.0	2,928.5	+0.3%	+2.1%	+2.3%	+3.1%
YoY Growth %	11.7%	14.5%	16.3%	15.3%	12.0%	16.4%	16.3%	16.3%	+36 bps	+208 bps	+18 bps	+88 bps
Managed infrastructure	464.6	498.8	538.4	577.2	464.6	498.8	538.4	577.2	+0.0%	+0.0%	+0.0%	+0.0%
YoY Growth %	(0.3%)	7.4%	7.9%	6.1%	(0.3%)	7.4%	7.9%	6.1%	+0 bps	+0 bps	+0 bps	+0 bps
Other	157.0	157.0	160.9	162.8	157.0	157.0	160.9	162.8	+0.0%	+0.0%	+0.0%	+0.0%
YoY Growth %	9.8%	(0.0%)	2.5%	1.2%	9.8%	(0.0%)	2.5%	1.2%	+0 bps	+0 bps	+0 bps	+0 bps
Recurring Revenue	8,880.4	11,226.5	12,846.2	14,687.3	8,703.4	11,278.1	12,968.2	14,781.0	+0.1%	+0.4%	+0.5%	+0.7%
YoY Growth %	10.9%	16.9%	14.4%	14.3%	11.0%	16.7%	14.5%	14.6%	+15 bps	+39 bps	+3 bps	+27 bps
Non-Recurring Revenue	509.6	573.2	638.5	674.6	508.6	573.3	638.8	674.6	+0.0%	+0.0%	+0.0%	+0.0%
Total Revenue	10,319.1	11,799.9	13,479.1	15,361.9	10,332.0	11,849.5	13,538.0	15,465.6	+0.1%	+0.4%	+0.4%	+0.7%
% YoY Growth	12.0%	14.4%	14.2%	14.0%	12.1%	14.7%	14.3%	14.2%	+14 bps	+34 bps	+3 bps	+26 bps
Gross Profit	7,123.2	8,171.4	9,368.6	10,714.9	7,132.0	8,205.8	9,401.6	10,787.3	+0.1%	+0.4%	+0.4%	+0.7%
% Gross Margin	69.6%	69.3%	69.5%	69.8%	69.0%	69.3%	69.5%	69.6%	(6 bps)	+0 bps	+0 bps	+0 bps
Sales and marketing	645.7	675.1	741.3	821.9	646.5	678.0	744.6	827.4	+0.1%	+0.4%	+0.4%	+0.7%
% of Sales	6.3%	5.7%	5.5%	5.4%	6.3%	5.7%	5.5%	5.4%	(0 bps)	+0 bps	+0 bps	+0 bps
General and administrative	1,130.6	*1,294.6	1,431.6	*1,559.2	1,141.1	1,300.1	1,437.0	1,569.8	+0.1%	+0.4%	+0.4%	+0.7%
% of Sales	11.0%	11.0%	10.6%	10.2%	11.0%	11.0%	10.6%	10.2%	+0 bps	+0 bps	(0 bps)	+0 bps
Adj. EBITDA (As reported)	5,337.9	6,381.7	7,195.6	8,333.8	5,344.5	6,327.7	7,227.0	8,380.1	+0.1%	+0.4%	+0.4%	+0.7%
% of Sales	51.7%	52.6%	53.4%	54.3%	51.7%	52.6%	53.4%	54.3%	(0 bps)	(0 bps)	+0 bps	+0 bps
YoY Growth %	17.6%	18.2%	15.0%	15.6%	18.0%	18.5%	16.0%	16.1%	+15 bps	+34 bps	+3 bps	+27 bps
Net Income	1,816.9	2,029.4	2,338.1	2,611.6	1,819.7	2,069.9	2,354.0	2,637.8	+0.2%	+0.6%	+0.6%	+1.0%
% of Sales	17.6%	17.2%	17.4%	17.0%	17.6%	17.3%	17.4%	17.1%	+0 bps	+2 bps	+3 bps	+5 bps
Adj. Diluted EPS	18.63	20.29	22.95	25.28	18.56	20.39	23.10	25.54	+0.2%	+0.6%	+0.6%	+1.0%
EPS	6,346.3	6,617.2	6,744.6	6,816.6	6,351.9	6,641.2	6,774.5	6,856.6	+0.1%	+0.5%	+0.5%	+0.8%
EPS per Share (Diluted)	\$43.78	\$48.29	\$48.37	\$43.10	\$43.84	\$48.13	\$48.56	\$43.88	+0.1%	+0.5%	+0.5%	+0.8%
% YoY Growth	14.2%	14.0%	13.0%	11.9%	14.4%	14.3%	13.0%	12.2%	+15 bps	+40 bps	+4 bps	+31 bps

Source: Company data, Morgan Stanley Research

Open-Weight Models

As our Thematics team wrote last week (see [here](#)), open-weight models have secured a strong foothold in the AI debate. Investors are concerned that compute and AI infrastructure demand will fall with the proliferation of smaller, more efficient open-weight Chinese models (see [China AI Foundation Models](#)). We believe open-weight models are good for competition and can enable faster AI diffusion, supported by the Jevons Paradox. While three "states of the world" may emerge for open- vs. closed-weight models (closed models win, open models win or a hybrid scenario) we see colocation data center operators benefitting to varying degrees.

Why does the open- vs. closed-weight mix matter for data centers? We see open-weight share gains skewing the opportunity toward EQIX, as they give enterprises greater control over where and how inference is deployed. Rather than relying primarily on centralized model-provider APIs, enterprises can fine tune and deploy open models on private infrastructure in colocation facilities while routing different workloads across multiple models and providers. We expect this to create a more distributed and interconnected architecture, increasing the number of endpoints between enterprise data, compute infrastructure, clouds and model providers and, in turn, the value of private, low-latency connectivity. Equinix shines in this environment given its retail heavy enterprise footprint and scaled interconnection ecosystem.

Conversely, a world in which closed-weight frontier models retain a greater share should favor DLR and BXDC on a relative basis. Closed models are more likely to be served from infrastructure operated by frontier labs and hyperscalers, concentrating inference workloads within a smaller number of very large compute environments rather than distributing them across enterprise-controlled infrastructure. That should translate into fewer but significantly larger, higher-density deployments, a demand profile that maps more directly to DLR and BXDC's hyperscale customer exposure and large-block wholesale leasing model.

We expect these operators to participate under either outcome. EQIX has xScale exposure to hyperscale demand and DLR has a meaningful retail and interconnection business, but open-weight adoption should tilt incremental demand toward EQIX's interconnection model, while closed-weight dominance should tilt it toward DLR's scale oriented approach. BXDC, while having not yet acquired a data center, is targeting wholesale leasing to hyperscale tenants, and likely benefits more if closed-weight models maintain share.

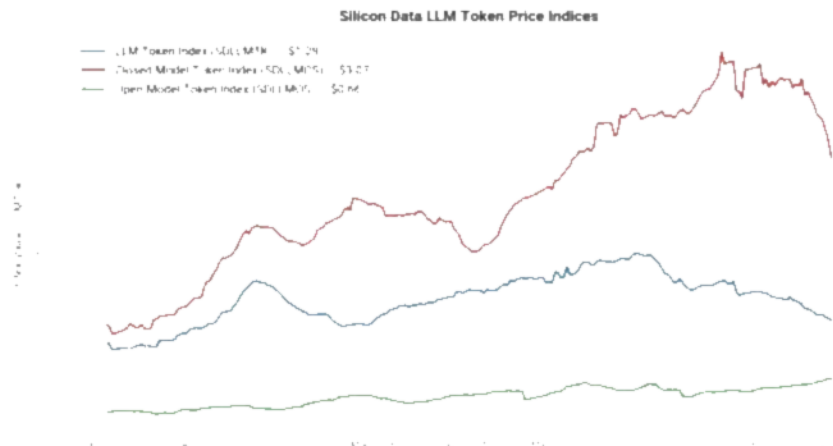
Exhibit 8: Enterprises are continuing to adopt open source models**Open source AI adoption by businesses continues to rise**

6.1% of AI-spending businesses used model-serving or inference platforms in July, up from 4.5% in January 2026.

Share of businesses with any AI spend that used model-serving and inference vendors



Source: Ramp

Exhibit 9: The combination of 1) mix shifting to open-weights models, and 2) closed-weights model price declines is causing a decline in overall token prices

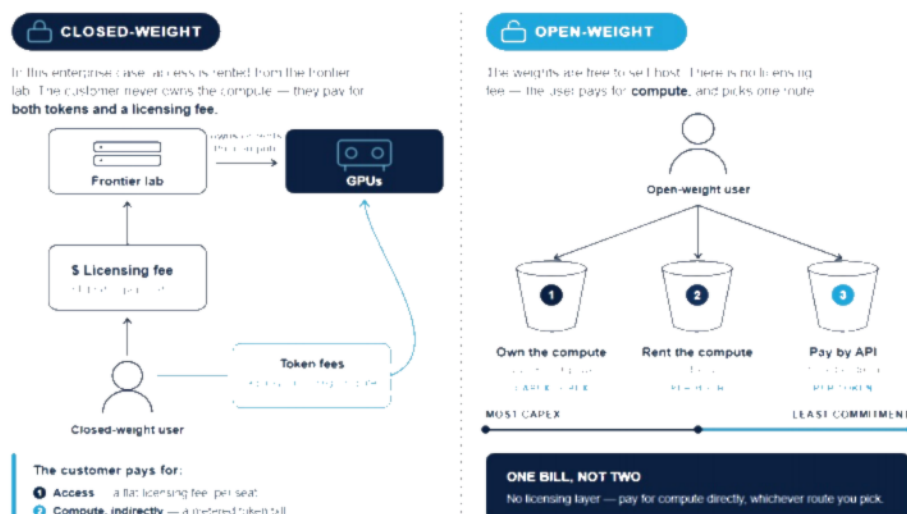
Source: Silicon Data

What are open-source models? Put simply, they are models that can be adapted to a specific use case (provided a user has sufficient time, money, and compute) while closed weight models are the same for every user. Open-weight or closed-weight is not necessarily a permanent state, rather describing the permissions of a user's access. The highest-performing models, like those produced by the frontier labs, are closed weight because of the incredible monetary costs with producing them. These companies cannot afford to give these models away until they release their next generation of models. It is at this point that the former "best" models become a part of a "freemium" model to encourage non-paying users to adopt the technology while gating them from the best available product.

Historically, open-weights models tend to be smaller (in number of total parameters), faster, and more cost-efficient; as such, the wider audience came to expect these models to be of "lower quality" or "light" versions of the higher-parameter frontier models (known

as closed-weight models). The difference between open-weights (or open-weight) models and closed weight models has nothing to do with the number of active parameters, overall cost, or efficiency. The distinction between the two relates to how users pay and/or interact with the models: **open-source models are 1) free to access, as opposed to gated by subscriptions, 2) able to be trained and tuned (weights are "open" or able to be changed), as opposed to being the same for every user (weights are "closed"), and 3) give ultimate deployment flexibility, as it can be run on-prem, in the cloud, or through an API (either model creator's API, hosted service like AWS Bedrock, or self-hosted API; outlined in Exhibit 10).** Closed-weight models, alternately, can either be accessed directly from a model provider (the user pays a licensing fee, like a subscription, for access, and a token cost that serves as a proxy for GPU usage) or through a cloud provider should PII be a concern.

Exhibit 10: Enterprise closed weight users incur both licensing and token costs while open-weight users pay for their usage in three main ways



Source: Morgan Stanley Research

A few notable company references to open-weights models during recent earnings:

- **Pinterest** is utilizing open-source models post-trained on their data with applications like Pinterest Assistant and a model router layer to optimize model use. This is helping them achieve "cost per transaction at less than 8% of the cost of comparable closed proprietary models." They cited that this opportunity becomes even more compelling as open-source models, including those from the US labs, continue to improve.
- **Revolve** is utilizing a model routing layer and commented: "open source and some of these lower-cost models is going to be a huge part of the mix. It's already a huge part of our mix."
- **Spotify** is allowing users to "switch models mid-task and route every job to the best available performance," including to open source models.
- **Duolingo** noted "our view inside the company is that it is in our best interest as a company to use open weight models as much as possible, so if I had a magic wand, I would try to move everything to an open weight model" due to cost considerations.

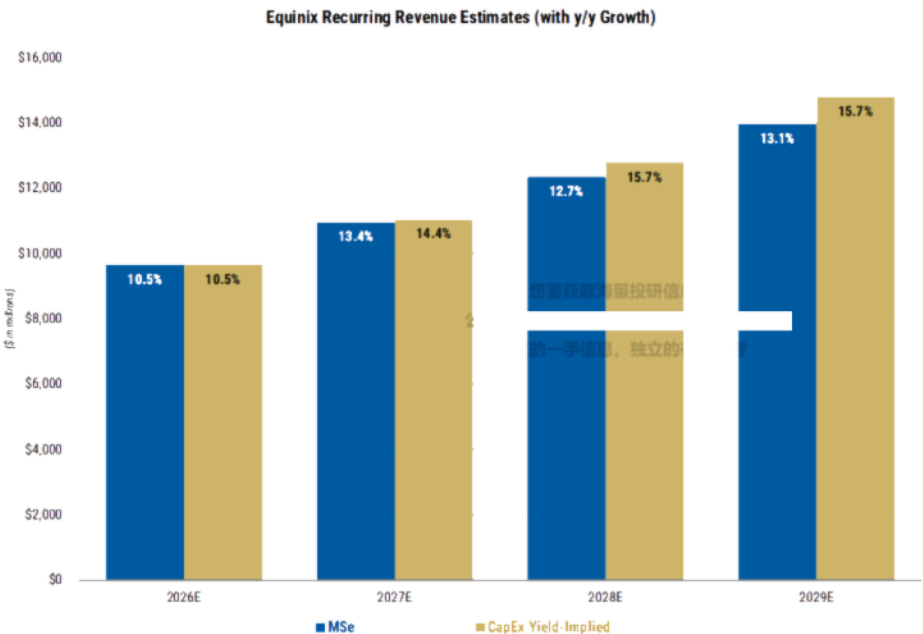
Data Center Moratoriums

The political drum beat against data centers is getting louder. Texas is auditing every data center advancing through ERCOT's interconnection process against more than 474 GW of pending requests, ~90% data center-related, with major developers indicating they will comply. Virginia's July 31 Rider T1 order moves Dominion toward "cost causer pays" for direct-connect transmission. Ohio's debate has become electoral through Vivek Ramaswamy's "Ohioans-First" proposal, which is not current law and is better read as a sentiment indicator than a change to project economics.

We expect this conversation to spread as it gains relevance with voters ahead of the midterms - the majority of community pushback is concentrated around 3 issues: (1) Affordability and the concern that data center power consumption will raise consumer power bills, (2) Environmental issues, especially water use and air pollution, and (3) Quality of life concerns including noise, dust, and traffic.

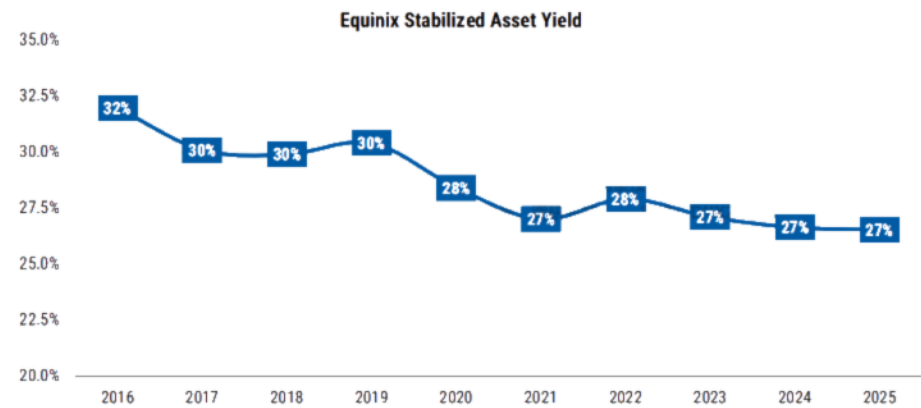
While we see the colocation data centers as relatively insulated given their size, modest AI exposure and critical nature, the further politicization of AI data centers is the bear case for future development and growth. As scrutiny intensifies, operators will likely opt to pay for infrastructure to protect ratepayers, similar to Equinix's announcement in Georgia [here](#). While modest now, **this trend may ultimately compress development yields**. Below we outline potential impact to Equinix's recurring revenue growth if stabilized yields fall to 25%, below the historical average ([Exhibit 11](#)). We do see this as a risk, but note even at yields below the historical average Equinix can still growth revenue double digits y/y.

Exhibit 11: Our capex yield analysis conservatively assumes 25% stabilized gross profit yields and implies upside to our recurring revenue estimates



Source: Company data, Morgan Stanley Research

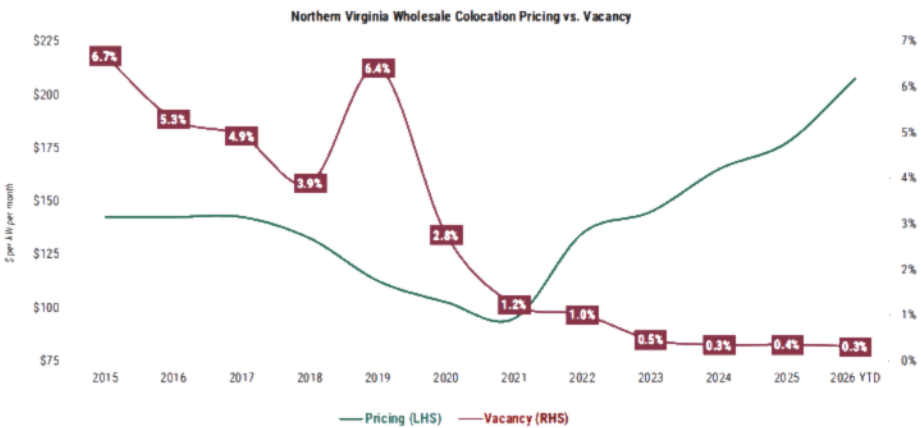
Exhibit 12: While stabilized asset yields have fallen over the last 10 years, Equinix expects consistent yields going forward



Source: Company data, Morgan Stanley Research

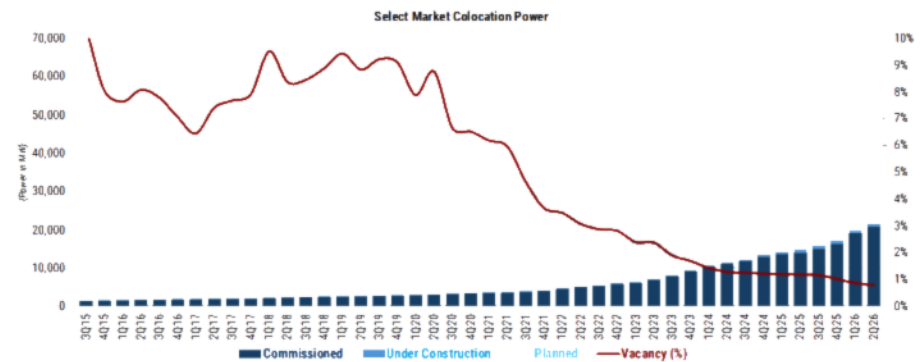
The bull case is a favorable read to incumbent players with operational powered assets. If further developments are delayed or banned, we expect pricing power for operational assets to inflect higher. We look to Northern Virginia's historical pricing and vacancy trends as an example - the lack of incremental power limited developments and dropped vacancy rates, and pricing increased 118% over 5 years ([Exhibit 13](#)). We would expect a directionally similar pricing uplift for the incumbent operators in this scenario.

Exhibit 13: In Northern Virginia, wholesale colocation pricing growth inflected when vacancy dropped below 2% in 2021



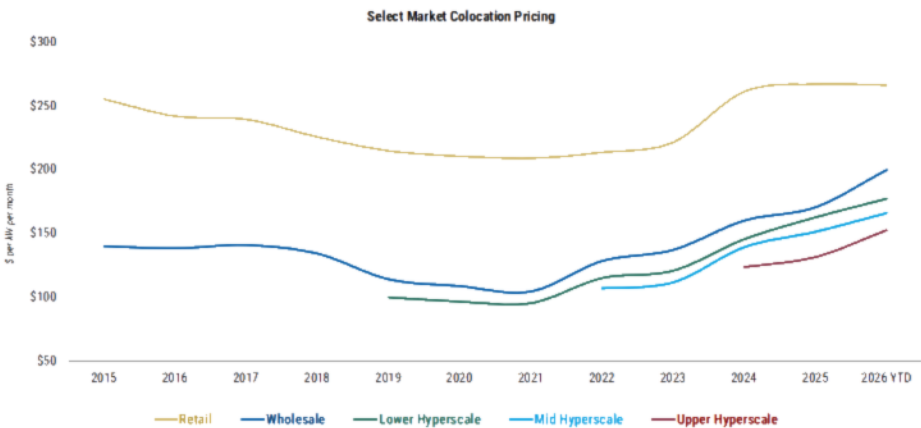
Source: DataCenterHub, Morgan Stanley Research
Note: Wholesale defined as 250 kW - 4 MW

Exhibit 14: The recent data center demand inflection has driven down vacancy rates in select markets despite steadily growing power capacity



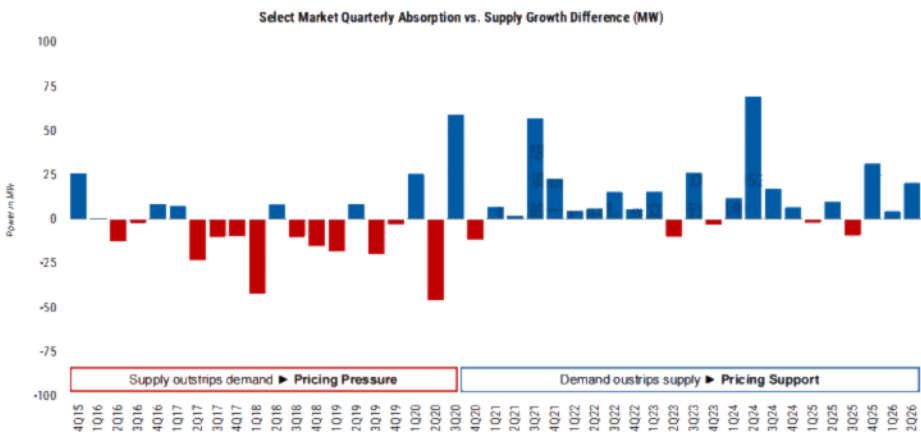
Source: DataCenter-Jawz, Morgan Stanley Research.
Note: Data reflects Atlanta, Chicago, Dallas Ft. Worth, Northern California, Northern Virginia, Phoenix. Vacancy calculated as Available / Commissioned Power.

Exhibit 15: Colocation pricing has risen in select markets across the entire deployment spectrum, with wholesale and hyperscale rates growing fastest in recent years



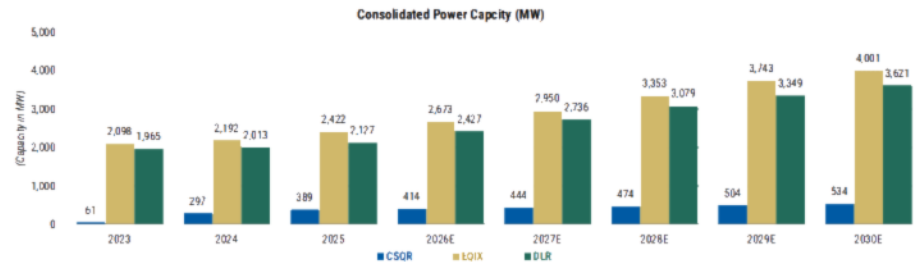
Source: DataCenter-Jawz, Morgan Stanley Research.
Note: Average pricing calculated as an unweighted average of midpoints for Northern Virginia, Atlanta, Chicago, Dallas Ft. Worth, Northern California, and Phoenix. Retail defined as leases <250 kW, Wholesale defined as 250 kW - 4 MW, Lower Hyperscale defined as 4 - 5 MW, Mid Hyperscale defined as 25 - 100 MW, Upper Hyperscale defined as >100 MW.

Exhibit 16: Our analysis of quarterly supply growth vs. absorption shows that demand began to outstrip supply in 2021, coinciding with falling vacancy and pricing growth across select markets



Source: DataCenterTalk, Morgan Stanley Research
Note: Data reflects Atlanta, Chicago, Dallas Ft. Worth, Northern California, Northern Virginia, Phoenix. Values calculated as Absorption minus Change in Commissioned Power.

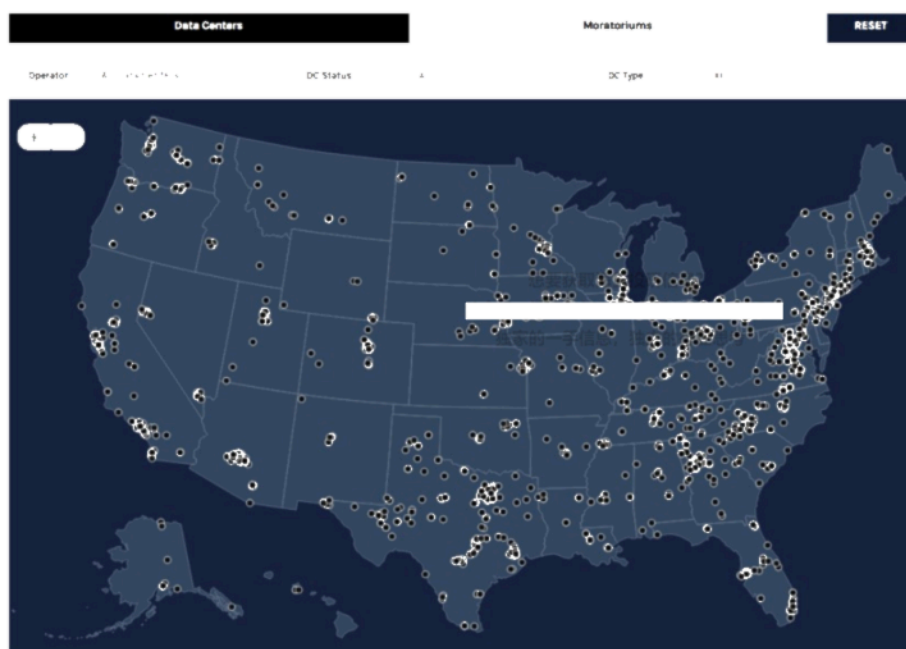
Exhibit 17: We expect all 3 colocation data center operators to continue adding new power capacity, a key revenue growth driver



Source: Company data, Morgan Stanley Research
Note: Values reflect total capacity for CSQR, IBX capacity for EQIX, and consolidated power for DLR.

We track current opposition efforts via moratoriums below overlaid with the footprint of the three colocation data centers, along with all other data centers based on 451 Research data:

Exhibit 18 Tracking Data Center Moratoriums



Source: AlphaWise Web Intelligence, Morgan Stanley Research, 451 Research, Interconnected Capital.

The mapping tool provides an overview of the following datasets:

451 Research Data Center Locations (as of 1Q26), including owner, operational status, and utility power usage (where available). This dataset can be toggled to differentiate between existing data centers and those still in the planning or construction phase. Given the rapid growth in the announced data center pipeline and evolving project disclosures, our analysis should be viewed as a point-in-time snapshot of the industry's geographic distribution, constrained by currently available data.

Interconnected Capital's Moratorium Tracker including status, length and scope (as of 8/18/26).

Sovereign AI

We see colocated data centers (EQIX, DLR, CSQR) as one of the cleaner infrastructure beneficiaries of sovereign AI. The broader sovereign AI thesis implies more domestic and regional compute, greater redundancy and less globally fungible infrastructure as governments and enterprises place greater emphasis on local hosting and control over sensitive data. Colocation data centers fit this model well. Operators including Equinix, Digital Realty and Csquare provide the physical infrastructure (power, cooling, space, security and interconnection) while customers control the IT equipment and workloads running inside the facility. As a result, data center operators are more directly **exposed to where compute has to reside and how it connects rather than to which chip, model or software stack ultimately wins.**

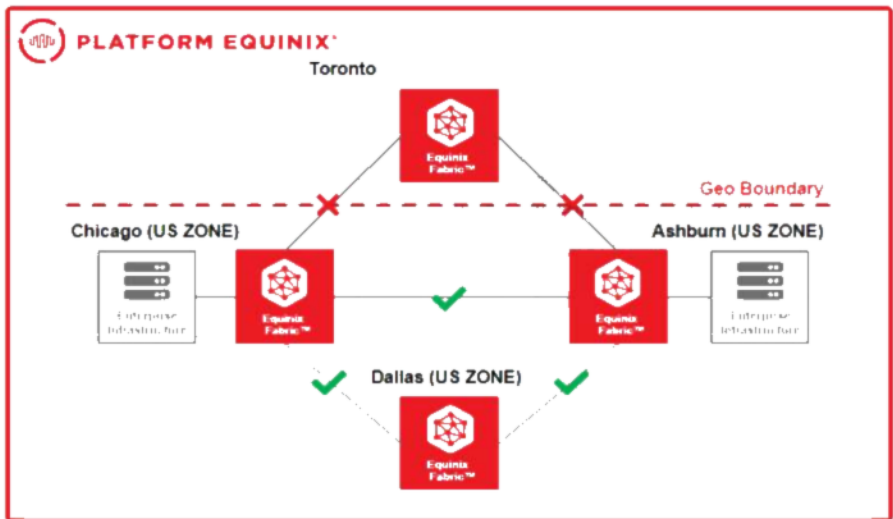
The sovereign AI opportunity is accompanied by greater regulatory complexity. If sovereign AI rules expand from restrictions on chips and models toward requirements around offshore compute, customer verification, cybersecurity or network routing, data center operators themselves could face additional compliance obligations and less flexibility in how capacity is used across customers and geographies.

Overall, we see Equinix as best positioned as sovereignty broadens out into control over the infrastructure and connectivity architecture. Equinix messaging has evolved from sovereignty keeping data and compute local toward enterprises ensuring control over where data is stored, processed and transferred. This includes the routes data takes between private infrastructure and multiple clouds. On the most recent earnings call, Equinix highlighted four AI use cases in its enterprise customer base:

1. customers running open-weight models on private AI infrastructure to lower token costs;
2. sovereign AI stacks deployed for residency and compliance;
3. AI factories supporting training and batch inference; and
4. metro-based inference where latency and data backhaul costs favor local deployment.

We expect sovereignty to require more geographically distributed private infrastructure and tighter control over the connections between clouds, AI providers and local compute. Equinix capitalizes on this requirement directly through Fabric Geo Zones (see [here](#) and [Exhibit 19](#)), which can geofence traffic within a particular country. Equinix has greater China exposure than DLR or Csquare, though its footprint is relatively modest at 6 Hong Kong IBXs and 5 partner operated sites in Shanghai versus ~280 data centers globally. Deeper US-China bifurcation could add regulatory complexity, but also reinforce demand for duplicated, jurisdiction specific infrastructure.

Exhibit 19: Equinix's Fabric Geo Zones give control over where traffic is allowed to travel across the Equinix Fabric Network



Source: Equinix

Digital Realty should also benefit as AI sovereignty increases demand for localized private infrastructure. DLR differs in its greater weighting towards large scale workload deployment, with an ability to service governments, regulated enterprises and multinationals that need AI infrastructure close to sensitive data while retaining connectivity to broader cloud ecosystems. Similar to EQIX, restrictions on specific models or accelerators should primarily affect the customer stack rather than DLR's underlying space, power and cooling business. We note tighter compute or KYC rules could increase compliance requirements.

DLR also has relatively limited direct China exposure, concentrated in Hong Kong rather than mainland China, reducing regulatory risk from deeper US-China bifurcation. We see AI sovereignty primarily as an incremental demand opportunity through localized compute, Private AI and duplicated regional capacity, with Europe a particularly relevant opportunity as the region seeks to expand domestic data center capacity and cloud and AI sovereignty.

Csquare offers a cleaner geographic expression of the sovereignty theme, though with current limited exposure to AI inference workloads. Csquare's portfolio is concentrated in the US, Canada and the UK and has no China exposure. Its presence in Tier 1 markets positions them well for distributed enterprise inference, where latency sensitive workloads increasingly need to run closer to users, applications and sensitive. We would expect this to support demand for local, customer controlled infrastructure and evolving private AI deployments. Csquare's smaller geographic footprint limits its ability than to follow multinational customers across sovereign jurisdictions, but its concentration provides relatively clean exposure to North American localization, private AI and edge inference.

Risk Reward – Equinix Inc. (EQIX.O) Top Pick

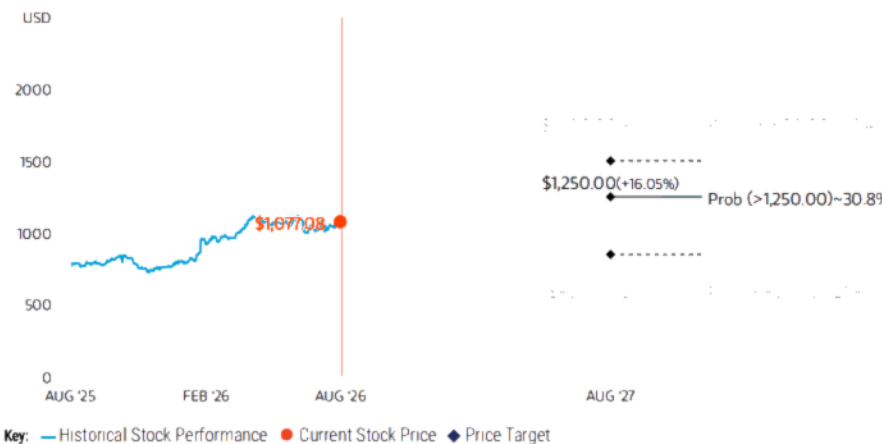
Global Leader in High Connectivity Colocation Data Centers

PRICE TARGET **\$1,250.00**

Our valuation assumes 26x fwd. Adj. EBITDA, or 25x fwd. AFFO / Share. We assume ~11.6% y/y revenue growth in FY26E, with 51% Adj. EBITDA margins and ~12.6% AFFO / share growth.



RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Equinix Inc. (EQIX.O) is a leading provider of high connectivity colocation data centers. The company's revenue is primarily derived from its data center operations, which are characterized by high margins and strong growth. The company's stock price has shown a steady upward trend, reflecting its strong performance and growth prospects. The price target of \$1,250.00 is based on our valuation assumptions and is subject to change based on market conditions and company performance.

BULL CASE **\$1,500.00**

29x fwd. Adj. EBITDA

Enterprises accelerate rollout of generative AI applications and integrations, rapidly increasing the demand for AI inference with low latency requirements. Equinix capitalizes through Tier 1 market locations, best-in-class interconnection network, and modest pricing growth. Assumes ~12% y/y revenue growth in FY26E, with ~52% Adj. EBITDA margins and 14.4% AFFO / share growth.

BASE CASE **\$1,250.00**

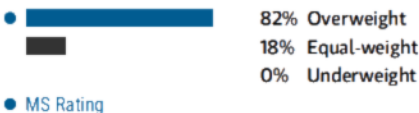
26.1x fwd. Adj. EBITDA

Equinix's capex plans translate into significant returns, leading to results that exceed long-term management guidance from the 2025 Analyst Day. Interconnect continues to be a sticky product, and the data center industry sees firm pricing. Assumes ~11.6% y/y revenue growth in FY26E, with 51% Adj. EBITDA margins and 12.6% AFFO / share growth. 26.1x EBITDA assumes modest multiple expansion given double digit growth in revenue and shifting market narrative to AI winner.

OVERWEIGHT THESIS

- We see robust tailwinds to the retail colocation market, and see Equinix's increased capital spending positioned to further capture this demand.
- We expect MRR / billable cabinet to continue to grow as cabinet power densities increase across the portfolio of assets.
- We see room for growth on the number of interconnections / billable cabinet, increasing the stickiness of Equinix's ecosystem and driving outsized interconnection revenue growth.
- Despite market caution, we view Equinix's long-term guidance as achievable due to long-term benefits from increased capital spending, and see upside from AI related workloads (primarily inference) that is not priced in.

Consensus Rating Distribution



Risk Reward Themes

New Data Era: Positive
Secular Growth: Positive
Technology Diffusion: Positive

Long-term growth and value creation [here](#)

BEAR CASE **\$850.00**

20.9x fwd. Adj. EBITDA

Macro softness reduces IT infrastructure investment, bringing down data center demand. Equinix sees lower returns on heavy capital investment plan as absorption levels and presales fall short of expectations. Assumes ~10.9% y/y revenue growth in FY26E, with 50.7% Adj. EBITDA margins and ~11% AFFO / share growth.

Risk Reward – Equinix Inc. (EQIX.O)

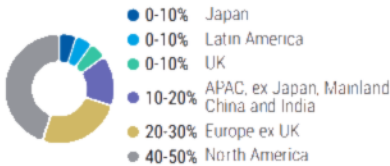
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Total revenue growth (Y/Y) (%)	5.4	11.6	12.1	12.5
AFFO per share growth (Y/Y) (%)	9.4	12.6	11.2	9.8
Adjusted EBITDA growth (Y/Y) (%)	10.6	16.3	13.8	13.3
Capex (\$) (\$, mm)	4,311	5,823	5,997	6,363

INVESTMENT DRIVERS

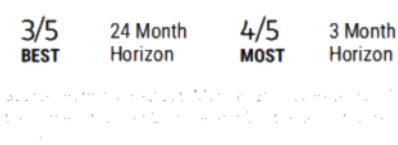
- Demand has outpaced supply in recent years, putting upward pressure on pricing and benefitting data centers.
- Hyperscalers continue to build AI data centers, and the role of inference in colocation data centers remains uncertain.

GLOBAL REVENUE EXPOSURE



View Morgan Stanley's research on Equinix Inc. by clicking [here](#)

MS ALPHA MODELS



View Morgan Stanley's research on Equinix Inc. by clicking [here](#)

RISKS TO PT/RATING

RISKS TO UPSIDE

- Power supply remains constrained, reducing risk of overbuild and strengthening pricing power
- Sustained growth in interconnections / billable cabinets

RISKS TO DOWNSIDE

- Macroeconomic softness reducing investments in IT data center spend
- Excess supply coming online and pressuring pricing power
- Larger than expected power density requirements increasing obsolescence risk
- Interest rates higher for longer

OWNERSHIP POSITIONING

Inst. Owners, % Active	54%
HF Sector Long/Short Ratio	1.4x
HF Sector Net Exposure	2%

View Morgan Stanley's research on Equinix Inc. by clicking [here](#)

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



View Morgan Stanley's research on Equinix Inc. by clicking [here](#)

Risk Reward – Csquare, Inc (CSQR.N)

US-Focused Retail Colocation Player, Deleveraging Key to Re-Rating

PRICE TARGET \$26.00

Price target reflects 15.5x fwd. EV/EBITDA, below multiples at comparable data center REIT peers, reflecting higher leverage, execution risk, and ecosystem scale. Assumes double digit revenue growth through FY28E and ~200bps of adj. EBITDA margin expansion by FY29E.

Consensus Price Target Distribution



RISK REWARD CHART

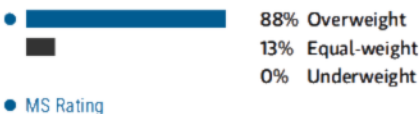


Source: Morgan Stanley Research, Bloomberg

OVERWEIGHT THESIS

- We see robust tailwinds to the retail colocation market, and see Csquare's development spend plans as positioned to capture this demand.
- Targeted net development costs of \$4-8 million per MW and 4-6x targeted build multiples imply higher yields and attractive development economics vs. peers.
- We see current data center development constraints as tailwinds for operators with secured power access, offering support to pricing power over time.
- We see a path to multiple re-rating if Csquare can deliver on capacity expansion, grow the interconnection network, and demonstrate consistent deleveraging.

Consensus Rating Distribution



MS Rating

Source: Morgan Stanley Research, Bloomberg

Risk Reward Themes

- New Data Era: Positive
- Self-help: Positive
- Technology Diffusion: Positive

View the full report on Csquare's performance [here](#)

BULL CASE \$40.00

16.7x fwd. adj. EBITDA

Enterprises accelerate rollout of generative AI applications and integrations, rapidly increasing the demand for AI inference with low latency requirements. Csquare is able to expand capacity at ~70 MW annually, capitalizing on both AI and non-AI workload demand. Leverage reduces by >1 turn annually, reaching target range of 6-7x in early FY28E. Assumes >20% y/y revenue growth through FY28E, with 41.4% Adj. EBITDA margins in FY27E.

BASE CASE \$26.00

15.5x fwd. adj. EBITDA

Csquare's brownfield expansion plans result in higher development yields vs. competitors, resulting in both revenue growth and leverage reduction. Csquare is able to expand capacity at ~30 MW annually, bringing revenue growth through both capacity expansion and pricing power. Leverage reduces by ~1 turn annually, reaching target range of 6-7x by the end of FY28E. Assumes double digit y/y revenue growth through FY28E, with 40.9% Adj. EBITDA margins in FY27E.

BEAR CASE \$15.00

13.2x fwd. adj. EBITDA

Csquare's expands capacity slower than initially expected, partially missing out on demand trends for both AI and non-AI workloads. Csquare is able to expand capacity at ~16 MW annually, but faces cost per MW headwinds as labor and power equipment remain supply chain constraints. Leverage reduces by ~0.5 turns annually, reaching target range of 6-7x well beyond FY30E. Assumes single digit y/y revenue growth in FY27E+, with 40.2% Adj. EBITDA margins in FY27E.

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Total Revenue y/y growth % (%)	8.8	17.1	15.8	10.1
Adj. EBITDA y/y growth % (%)	35.1	21.1	16.0	12.0
Sellable Power Capacity (MW)	388.7	413.7	443.7	473.7
Sellable Power Capacity added (MW)	32.0	25.0	30.0	30.0

- Demand has outpaced supply in recent years, putting upward pressure on pricing and benefitting data centers.
- Hyperscalers continue to build AI data centers, and the role of inference in colocation data centers remains uncertain.

● 0-10% UK
● 90-100% North America

- Data center construction labor shortage alleviated, supporting low construction costs
- New data center power access remains constrained, supporting pricing power for operators with secured power

- Higher labor and construction costs pressure development yields
- Macroeconomic softness reducing investments in IT data center spend
- Interest rates higher for longer

◆ (1.71)

◆ Mean ◆ Morgan Stanley Estimates

Risk Reward – Digital Realty Trust Inc. (DLR.N)

Global Scaled Colocation Data Center Operator

PRICE TARGET \$215.00

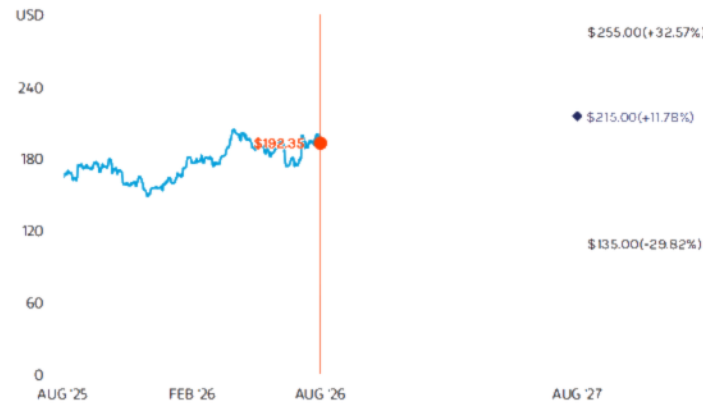
Our valuation assumes shares trade at 22.5x fwd. adj. EBITDA, or 26.2x fwd. AFFO / Share. We assume ~10.4% y/y revenue growth in FY26E, with 55.4% Adj. EBITDA margins and ~7.7% AFFO / share growth.

Consensus Price Target Distribution

Source: FactSet, Morgan Stanley Research



RISK REWARD CHART



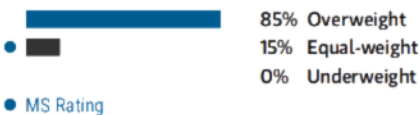
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: FactSet, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Growth in the volume of global data generation, hybrid cloud adoption, and enterprise digital transformation should serve as long-term tailwinds to revenue growth for Digital Realty.
- A large development capacity gives solid line of sight into power needs, enabling future developments to further capture this demand.
- Digital Realty has greater exposure to the wholesale leasing part of the market with longer lease times and lower pricing on a \$ / kW basis due to higher customer concentration of tenants with greater bargaining power.
- We believe the market is overly optimistic about AI-fueled growth in the short-term.

Consensus Rating Distribution



Source: FactSet, Morgan Stanley Research

Risk Reward Themes

New Data Era: Positive
Secular Growth: Positive
Technology Diffusion: Positive

View our research on AI-fueled Growth Themes [here](#)

BULL CASE \$255.00

24.7x fwd. Adj. EBITDA

Demand for both AI and non-AI workloads in data centers remains high, while power supply remains constrained, leading to higher leasing prices. DLR earns high returns from AI-focused JVs. Assumes 11.9% y/y revenue growth in FY26E, with 55.9% Adj. EBITDA margins and 9.6% AFFO / share growth.

BASE CASE \$215.00

22.5x fwd. Adj. EBITDA

DLR benefits from industry growth based on data generation volume, enterprise digital transformation, and hybrid cloud adoption. Market remains optimistic on AI-fueled growth, reducing likelihood of outperformance. Assumes 10.4% y/y revenue growth in FY26E, with 55.4% Adj. EBITDA margins and ~7.7% AFFO / share growth. 22.5x EV / fwd. EBITDA and 26.2x fwd. AFFO in-line with historical trading multiples.

BEAR CASE \$135.00

16.8x fwd. Adj. EBITDA

Macroeconomic softness reduces investments in IT data center spend. Excess supply comes online and pressures pricing power. Larger than expected power density requirements increase obsolescence risk of current data centers. Interest rates remain higher for longer, weighing on data center REIT multiples. Assumes ~9.5% y/y revenue growth in FY26E, with 54.9% Adj. EBITDA margins and ~6.2% AFFO / share growth.

Risk Reward – Digital Realty Trust Inc. (DLR.N)

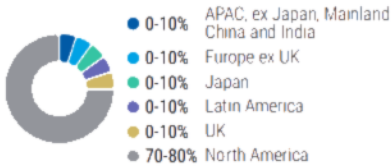
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
AFFO per share growth (Y/Y) (%)	7.2	17.9	6.5	10.8
Adjusted EBITDA growth (Y/Y) (%)	13.3	15.1	13.8	14.4
Total revenue growth (%)	10.0	16.3	11.6	13.8

INVESTMENT DRIVERS

- Demand has outpaced supply in recent years, putting upward pressure on pricing and benefitting data centers.
- Hyperscalers continue to build AI data centers, and the role of inference in colocation data centers remains uncertain.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley estimates based on the company's disclosures. For more information, see [here](#).

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon
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For Digital Realty Trust, Morgan Stanley's Alpha Model is based on the company's historical performance and our view of its future performance. The Alpha Model is not a guarantee of future performance and is subject to change.

RISKS TO PT/RATING

RISKS TO UPSIDE

- Power supply remains constrained, reducing risk of overbuild and strengthening pricing power
- Increased latency requirements for AI inference

RISKS TO DOWNSIDE

- Macroeconomic softness reducing investments in IT data center spend
- Excess supply coming online and pressuring pricing power
- Larger than expected power density requirements increasing obsolescence risk of current data centers
- Interest rates higher for longer

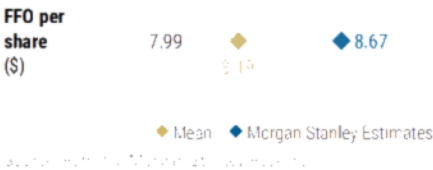
OWNERSHIP POSITIONING

Inst. Owners, % Active	48.8%
HF Sector Long/Short Ratio	1.4x
HF Sector Net Exposure	2%

Source: Morgan Stanley estimates based on the company's disclosures. For more information, see [here](#).

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Source: Morgan Stanley estimates based on the company's disclosures. For more information, see [here](#).

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [GEG_Exhibit_Link.pdf](#)
4. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
5. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)



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