INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

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AUSTRALIAN INFRASTRUCTURE INVESTMENT MONITOR 2024

Infrastructure Partnerships Australia is an industry think tank and an executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest.

For more information contact:

Adrian Dwyer
Chief Executive Officer
P +61 2 9152 6000
E adrian.dwyer@infrastructure.org.au

Katie Dempsey
Senior Policy Adviser
E katie.dempsey@infrastructure.org.au

For all media enquiries, contact:

Boronia Morison
Head of External Affairs
E boronia.morison@infrastructure.org.au

This report was prepared by Katie Dempsey, Zoe Shariev and Isaac Husarek.

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For more information please contact:

David Donnelly
Partner
Allens
P +61 3 9613 8112
E david.donnelly@allens.com.au

Kip Fitzsimon
Partner
Allens
P +61 2 9230 4170
E kip.fitzsimon@allens.com.au

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About the 2024 *Australian Infrastructure Investment Monitor*

Infrastructure Partnerships Australia and Allens are pleased to jointly present the 2024 edition of the *Australian Infrastructure Investment Monitor*.

This year's report is the ninth iteration of this research and provides a comprehensive view of investor appetite and sentiment for the Australian infrastructure market. The report reveals insights into the drivers and challenges for infrastructure investors, which include sovereign wealth funds, pension funds, fund managers, banks and other infrastructure professionals.

This report is informed by a survey which captures the views of international and Australian investors who together collectively own or manage over A$716 billion of infrastructure assets across the globe. The survey findings are furthered by insights from a series of interviews undertaken with 13 senior Australian investors.

EXECUTIVE MESSAGE

The 2024 *Australian Infrastructure Investment Monitor* marks the ninth edition of this research and remains the most comprehensive sector-wide analysis of the trends, issues and opportunities facing current and prospective investors in Australian infrastructure. This year's report provides an important temperature check of investor sentiment towards the Australian infrastructure market against a backdrop of economic and fiscal constraints, heightened international uncertainty, and shifting asset opportunities. Now more than ever, understanding investors' priorities and perspectives is essential to leverage private sector expertise, attract and retain capital in the market, and deliver a sustainable infrastructure pipeline.

Australia remains a stable market for investment, but investors view the short-term pipeline of opportunities as somewhat static

Australia has cemented its reputation as a stable destination for infrastructure investment. Investors continue to cite a strong knowledge of market participants, successful track record of infrastructure business and economic stability as key strengths. The domestic infrastructure market continues to attract significant investment interest, with 90 per cent of survey respondents planning to invest or continue investing over the next three years. However, investors continue to raise concerns over limited investment opportunities, particularly in the short term. The volume of private financing opportunities has reduced considerably, with few Public Private Partnerships (PPPs) coming to market. Meanwhile, some investors have been spooked by the independent review of toll roads commissioned by the NSW Government, which threatened to override concessions and put sovereign risk firmly back on the table.

Investors continue to favour investment in energy, but hurdles remain on the path to the energy transition

Continuing a growing trend over recent years, many investors remain firmly focused on the energy transition. This year, energy asset classes take a clean sweep of the podium, with firming and storage, transmission and distribution, and renewable generation comprising the top three forms of infrastructure investors are interested in. The preference for battery and short duration storage exceeds that of longer duration storage, driven by swifter approval and delivery processes, lower planning risk, and the volatility of the grid offering investors more compelling rewards. The dominance of Australia's energy transition as a driver of investment is reflected in a burgeoning pipeline, with 264 energy projects, reflecting A$604 billion in capital expenditure, listed on the Australia and New Zealand Infrastructure Pipeline (ANZIP).[1] This represents a 175 per cent increase in the number of listed projects and a 144 per cent increase in total cost over just the past three years.

However, uncertainty remains about Australia's capacity to move energy projects from announcement to delivery. Investors cited the adequacy of transmission network augmentation as a leading concern, with a need to prioritise its upgrade as an enabler of greater investment in generation and storage. Getting the right settings in place – including efficient regulatory processes – will be critical to ensuring timelines for delivery of the energy pipeline do not continue being pushed to the right, undermining investor confidence and raising costs and risks.

Australia risks being left behind amid rising global competition for capital and resources

While investors continue to indicate it is a good place to do business, Australia faces increasing competition for investment on the international stage. For the first time since the 2018 edition of the *Investment Monitor*, investors now rate Europe more highly than Australia for compelling investment opportunities. North America continues to lead the way, surpassing Australia for the third consecutive year. Notably, investors are increasingly drawn to the clarity of policy direction underpinning the energy transition in these regions, as well as the regulatory incentives on offer, with expanding project pipelines and positive investment metrics offering strong growth prospects for private capital.

With global competition for capital, skills and resources rising, Australia's policy and investment signals are crucial in enhancing our competitiveness and investor appeal. Labour costs, skilled labour availability and continued frustration with red and green tape are seen as the top challenges to investing in Australia. Investors are generally underwhelmed with initiatives such as the Federal Government's Future Made in Australia, with far more concrete, investable plans in place in other regions. Investors are also watching a number of policy and market developments cautiously, including the industrial relations landscape, changes to taxation settings and government signals in response to the NSW independent review of toll roads. Addressing shortcomings should be a priority for policymakers in an increasingly competitive global market.

1. As of November 2024

Government investment signals see investors continuing to shift focus to new asset opportunities

In core infrastructure asset classes other than energy, there has been little to excite investors. Tightening fiscal conditions and rising debt off the back of COVID-era stimulus measures have seen governments focus their efforts on delivery of the existing pipeline, with few new major commitments. While the Federal Government's review and cancellation of road and rail projects in late 2023 had little impact on private finance opportunities, this reflects the broader trend of weakening investor sentiment in core, non-energy asset classes. Unsurprisingly, investors are increasingly shifting their attention to social infrastructure and core-plus opportunities, with digital assets like data centres and housing – both social and affordable – providing bright spots and seeing rapidly rising demand. Hospitals and healthcare have remained a point of investor interest over recent years as state and territory governments have boosted their pipelines, but are increasingly being seen as a high-risk proposition, with limitations around rising labour and construction costs and long-term profitability.

With capital ready to be deployed and governments operating within constrained fiscal environments, the case for private capital is compelling

This year's *Investment Monitor* sends a clear signal to governments: interest and confidence in the Australian infrastructure market is slipping, and capital is increasingly looking offshore for more of the stable, attractive opportunities previously found here. Australia's policies and investment programs, particularly in relation to the energy transition and decarbonisation, lack clarity and certainty in comparison to those available in other regions. But despite these concerns, investors remain well positioned and eager to deploy their funds here if the right opportunities emerge. Their readiness to invest, particularly in the asset classes of energy, housing and digital infrastructure, offers a significant opportunity for Australia to accelerate delivery of a growing national pipeline.

This research draws on investors' insights gathered between March and July this year. In a fast-changing global and domestic environment, several significant events have occurred since then, including the U.S. Presidential Election, a change of government in Queensland and an evolving industrial relations landscape. We look forward to capturing investor sentiment on these developments in the next iteration of this research.

Infrastructure Partnerships Australia thanks each research participant for their contribution to the ninth *Australian Infrastructure Investment Monitor.*

Adrian Dwyer
Chief Executive Officer –
Infrastructure Partnerships Australia

David Donnelly
Partner – Allens

Kip Fitzsimon
Partner – Allens

KEY FINDINGS

Investor appetite for Australian infrastructure remains robust

90 per cent
of surveyed investors are 'highly likely' to invest or continue to invest in Australia

Australia's position as a stable and mature market for infrastructure investment continues, with opportunities available for investors

90 per cent
say a 'strong knowledge of market participants' makes Australia an attractive investment destination

68 per cent
believe Australia is 'reasonably likely' or 'highly likely' to provide sufficient opportunities to meet their needs over the next three years

However, investors view the market as relatively static in the short term and Australia lags other regions on pipeline certainty

Just **14 per cent see the 'availability of stock'** and **28 per cent view 'pipeline certainty'** as key attractions to the Australian market

While investors rate Australia's **'economic stability'** and **'track record of infrastructure business'** highly, both dropped in sentiment this year – **down 10 and 16 percentage points respectively**

Australia continues to trail North America, and fell behind Europe this year for the first time since 2018

When asked to identify the regions with the most compelling infrastructure investment opportunities:

68 per cent
identified North America

46 per cent
selected Europe

43 per cent
identified Australia

The energy transition continues to spark keen investor interest

Energy infrastructure took out investors' top three preferred asset classes

72 per cent of investors indicated an interest in grid storage and firming, 69 per cent in transmission and distribution, and 62 per cent in renewable energy generation

Within energy assets, **75 per cent of participants identified battery/short duration storage assets** as an attractive asset class – making it the most preferred renewable energy infrastructure asset class in 2024

Despite strong interest, challenges to delivering the energy pipeline remain

71 per cent
believe having an adequate transmission network is the biggest challenge facing the energy transition

64 per cent
see having adequate policy and regulatory frameworks as a challenge

61 per cent
identified global demand for energy infrastructure as a challenge, up 25 percentage points on last year

Investors are cooling on their preference for investing in the East Coast states

Each of the three major East Coast states dipped in investor interest this year, with infrastructure track record, pipeline certainty and political stability cited as the top three factors driving sentiment for particular jurisdictions:

Interest in Victoria
declined by 20 percentage points

Interest in New South Wales was
down 9 percentage points

Interest in Queensland
fell by 4 percentage points

Regional projects are attractive, but labour and supply chain challenges affect willingness to invest

78 per cent
of respondents would consider investment in projects located in regional areas

54 per cent
view labour mobility/willingness to relocate to regional areas and workforce shortages in the regions as factors impeding their willingness to invest

50 per cent
cited supply chain challenges as an inhibiting factor

PARTICIPANT PROFILE

Survey participants have **over A$716 billion** in infrastructure investments globally

Nearly 70 per cent of participants manage more than A$10 billion of investments globally

90 per cent currently hold infrastructure investments in Australia

41 per cent hold more than half or all of their global investment portfolio in infrastructure

46 per cent hold more than half or all of their infrastructure investments in Australia

INVESTMENT INTENTIONS AND PREFERENCES

KEY FINDINGS

- 90 per cent of those surveyed are highly likely to invest or continue to invest over the next three years in the Australian infrastructure market
- 68 per cent believe Australia will likely provide sufficient infrastructure investment opportunities for their needs over the next three years, up 10 percentage points on last year
- Energy asset classes take out the top three spots for preferred infrastructure assets to invest in
- Grid storage and firming takes out the top spot (72 per cent), followed by transmission and distribution (69 per cent)
- Preference to invest in renewable energy generation has fallen 14 percentage points from last year, dropping from first to third place (62 per cent)
- Investor preference for social infrastructure (excluding social and affordable housing) has fallen over the past three years, while interest in digital infrastructure remains steady
- The appetite for private sector investment in transport continues to stagnate, with interest in roads (45 per cent) almost halving since its peak in 2018 (85 per cent)
- Having an adequate transmission network, adequate policy and regulatory frameworks, and global demand are the leading challenges to delivering Australia's energy transition

Investor appetite for the Australian infrastructure market remains robust, though views vary on the sufficiency of opportunities

The Australian infrastructure market continues to attract substantial interest from investors, with 90 per cent of survey participants highly likely to invest within the next three years, an additional seven per cent considering investing and three per cent unsure. Australia is consistently viewed as a secure long term investment destination, with 68 per cent of respondents confident that the country will offer sufficient opportunities in the next three years – a 10 percentage point rise from last year's survey results. However, many of the investors interviewed flagged limited investment opportunities in Australia in the short term, spurring them to look at divestment and overseas opportunities. This highlights a growing gap between the theory and reality of investing in Australian infrastructure, with no shortage of interest in-principle and confidence in the long-term pipeline, but with some question marks and differing opinions about how long it will take for investable opportunities to come to mark.

"I remain positive about the Australian market over the next three to five years, but the next 12 to 24 months, there aren't a lot of opportunities."
Infrastructure Investor and Developer

"Australia is still fundamentally viewed as a safe place to invest and those with capital are looking to deploy it here."
Investment Bank

"We will be investing much more offshore than here in Australia and where we are divesting, it is mostly here in Australia."
Superfund

Figure 1: Likelihood of investing in Australian infrastructure

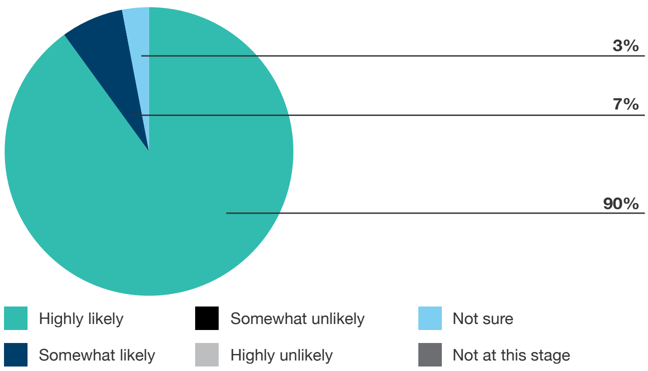
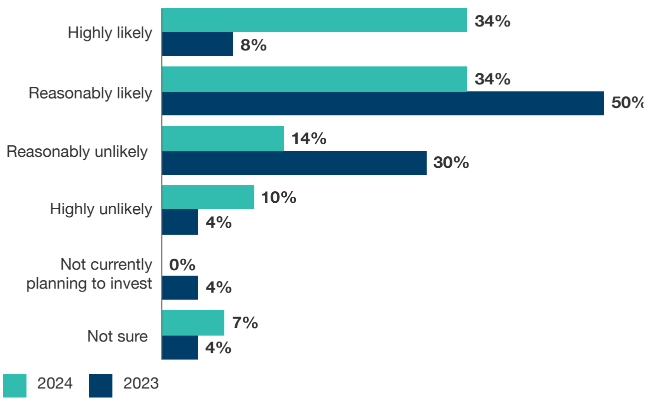


Figure 2: Likelihood that Australia will provide sufficient investment opportunities over next three years

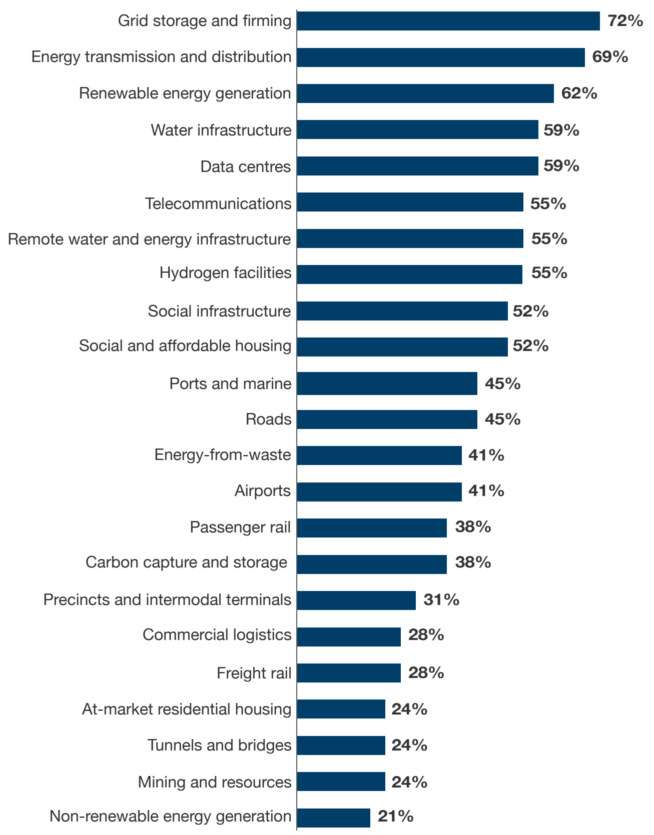


Energy continues to dominate investor interest, with firming and storage most in demand

After topping the *Investment Monitor* charts last year, investors' interest in energy infrastructure continues to gain momentum. The top three asset classes being eyed by investors over the next three years are all in energy, topped by grid storage and firming (72 per cent), followed by energy transmission and distribution (69 per cent) and renewable energy generation assets (62 per cent) (see Figure 3). This high rate of interest in energy investment has been mirrored in the Australian infrastructure pipeline over recent years, with energy projects comprising 57 per cent of all additions to ANZIP by value since 2021.[2]

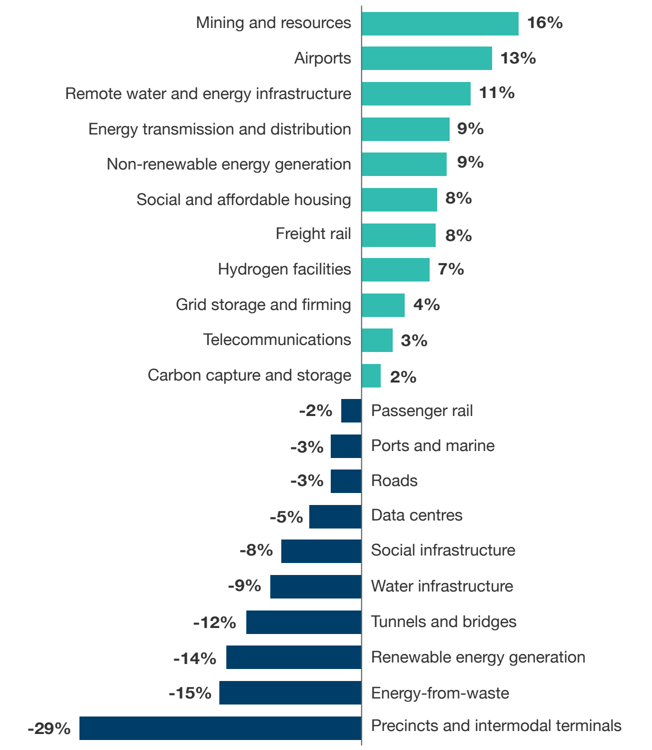
"The requirement to invest in renewable assets is so huge, so there will always be a right place and right price and that'll include Australia."
Infrastructure Investor

Figure 3: Preferred Australian asset types to invest in



2. As of November 2024

Figure 4: Preferred Australian asset types to invest in, compared to 2023



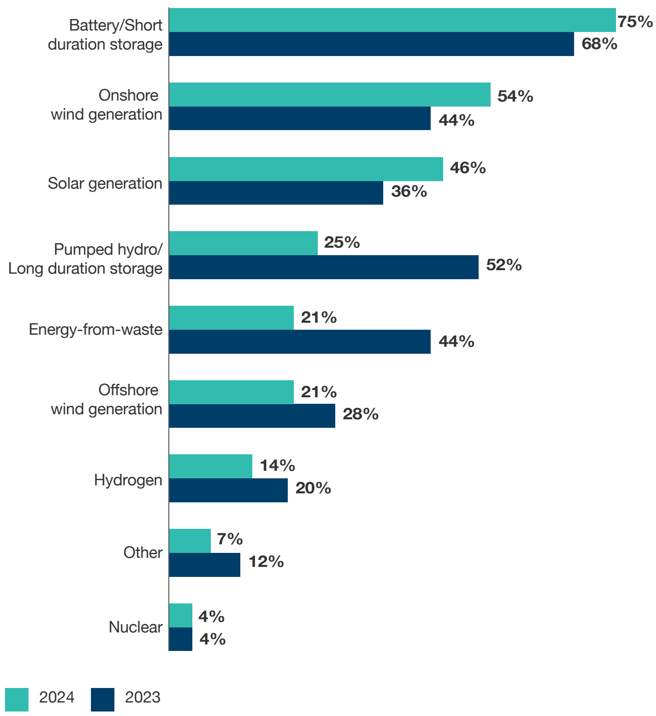
Drilling down further into investors' appetite for energy, among renewable energy opportunities as shown in Figure 5, battery and short duration storage projects were identified as the most attractive asset class (75 per cent), beating out onshore wind (54 per cent) and solar generation (46 per cent). Interviewees agreed with this finding, pointing to swifter approval and delivery processes, lower planning risk, and the volatility of the grid as factors driving demand for these assets.

"You have seen a very large increase in the amount of battery storage projects run out versus solar farms and wind farms, which is largely a function of the approvals and landholder issues you run into on those projects. Batteries are quicker and easier to get done."
Institutional Investor

"From an environmental perspective, storage is easier. Some people like it for the volatility and there's a quick pay off attached. There's also quicker timelines because it comes in off the back of a truck and has lower planning risk."
Infrastructure Investor and Developer

"You are going to have volatility because of electricity and gas shortages so you invest in firming and storage because the returns will be high."
Institutional Investor

Figure 5: Which renewable energy infrastructure asset classes are attractive to investors



Larger energy storage and energy-from-waste projects have slipped down investors' list of priorities

On the other hand, as shown in Figure 5, interest in pumped hydro and long duration storage projects has fallen this year, with only 25 per cent viewing the asset class as attractive, down from 52 per cent last year. Investors have flagged the duration risk associated with longer term projects as well as the cost and complexity of delivery as deterring their interest. Another renewable energy asset class to slip is energy-from-waste, falling 23 percentage points from last year to 21 per cent investor interest (see Figure 5).

"You have no idea at the start of a ten year build project what the market demand is going to be like at the end of it. Competitors may be building plenty of batteries in the meantime."
Investment Bank

On energy-from-waste:

"The problem in Australia is the scalability piece. It's hard to see how there can be more than one project per state; they take a long time to put in operation; the approvals and red tape and regulatory risk is significant. That's why I don't see private sectors being keen on it."
Institutional Investor

"There is probably a home for energy-from-waste. Each state can probably handle one or two facilities, but the reality is we don't have a large enough population, evenly spread, to warrant more."
Superfund

Transport has fallen further behind energy in investors' eyes

Transport asset classes continue to see a slide in interest, with a steady decline over the past six years. This trend commenced before the COVID pandemic, but has been exacerbated by a tailing off of stimulus funding, highlighted by the release of the Federal Government's response to the *Infrastructure Investment Program Strategic Review*, which saw around 50 transport projects cancelled. While few of these were likely to see private investment, the broader trend has seen the transport PPP pipeline all-but shut off by state and territory governments, with a few notable exceptions. The *Independent Toll Review* interim report commissioned by the NSW Government further undermined investor confidence by thinking out loud about the possibility of overriding concessions and putting sovereign risk firmly back on the table.

As shown in Figure 3, the equal-most attractive transport infrastructure remains roads, with 45 per cent of investors attracted to the asset class over the next three years, but this is a far cry from the 85 per cent interest seen in 2018. Along with roads, ports and marine (45 per cent) was the top transport asset class, though both declining by three percentage points from last year. Tunnels and bridges (24 per cent) fell 12 percentage points from last year, while passenger rail (38 per cent) was down two percentage points. Precincts and intermodal terminals (31 per cent), introduced into the *Investment Monitor* last year, is also down 29 percentage points this year.

"There are fewer major platforms being privatised, procured or sold."
Institutional Investor

"People are moving from transport to transmission, because that's where big opportunities exist."
Institutional Investor

Opportunities for investment in social infrastructure are limited, though social and affordable housing is the bright spot

For the third consecutive year, interest in future investment in social infrastructure has dipped, falling from a peak of 75 per cent in 2021 to 52 per cent this year (see Figure 3). Interviewees noted that the current pipeline has few investable opportunities, and where there are opportunities, they are typically too small to attract institutional-scale capital. In particular, investors have pointed out that despite growth in the scale and number of hospitals being announced across the country, these proposals have provided little scope for private finance. The frameworks for private investment in the health sector need to be further developed to capitalise on existing interest.

Social and affordable housing has been flagged as a potential bright spot for future private investment opportunities (52 per cent, an 8 percentage point increase, as shown in Figure 4). With government initiatives being progressed under the National Housing Accord and Social Housing Accelerator to deliver additional affordable and social housing – including 20,000 new affordable homes by 2029 and 4,000 new social homes by mid-2028, respectively – there is ample opportunity to capitalise on private sector expertise and finance.

Following Victoria's lead, the Ground Lease Model or similar innovations have the potential to gain traction in other Australian jurisdictions. With other jurisdictions also exploring initiatives aimed at promoting private investment in social and affordable housing, this could create a compelling opportunity for investors seeking scalable investments with stable revenue streams.

"A challenge with social is the assets often lack the scale we're looking for."
Superfund

"We've got a massive challenge ahead of us on issues like social and affordable housing, which has a huge investment demand attached to it."
Infrastructure Investor

"The area of green shoots is in social housing. Victoria's Ground Lease Model has seen some projects get away and we hope a similar model will be adopted by other states. It's always been a vexed issue for private finance but the Ground Lease Model has a runway now."
Investment Bank

Digital infrastructure is a rising priority for investors, with data centres most in demand

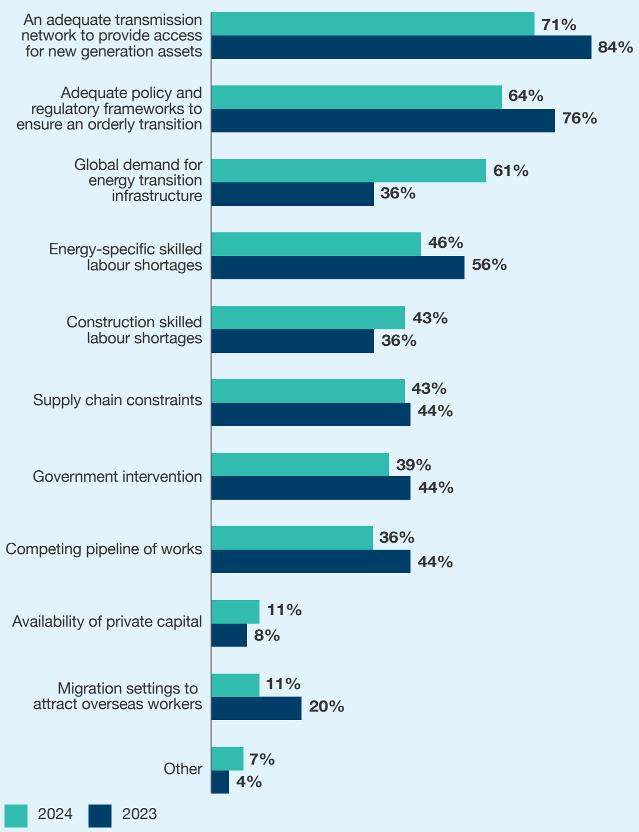
This year's *Investment Monitor* picks up on a global trend of rising demand for digital infrastructure, with participants prioritising data centres (59 per cent) and telecommunications infrastructure (55 per cent) in their future portfolios. While the digital infrastructure pipeline is still building, emerging investment opportunities are scalable, data sovereignty is a growing emphasis, and data centres present a compelling intersection of digital infrastructure, property and renewable energy inputs. Considering this confluence of factors, it is unsurprising that investor interest in data centres has ranked in fourth place for the second year running, trailing closely behind energy. This is an asset class to watch closely in the coming years.

INSIGHT: Progressing the energy transition

The energy transition has gained significant momentum, but Australia faces challenges in moving projects through to delivery

Investor interest in Australia's energy transition is clear. Over the last two years alone, Australian-located generation, storage and transmission projects have been responsible for the addition of 143 projects with a total estimated capital cost of A$320 billion to ANZIP. However, the pathway to delivering this energy pipeline is not without its challenges. Many energy projects have faced delays in progressing from announcement to delivery – pushing project timelines to the right. Investor sentiment is that Australia is at risk of failing to meet its 2030 renewable energy and emissions reduction targets, although respondents note we are not alone in facing this challenge.

Figure 6: Challenges to delivering Australia's energy transition



"The question is whether we're going to make it on the timeframe we have: no. But I don't think we're alone. Is any country going to make its net zero deadline? I doubt it. We're very good in Australia at saying it's all going off track, but when you spend time overseas you realise that everyone has the same problem."
Global Investment Adviser

Transmission is a key piece of the transition puzzle

Surveyed investors identified the adequacy of the transmission network (71 per cent) as the number one challenge as part of the energy transition for the second year running. Interviewees agreed with this sentiment, highlighting that transmission infrastructure needs to be prioritised over the medium term to reach national targets and facilitate an orderly transition as the grid's generation capacity expands rapidly, and consumer demands for electricity grow and change.

"We really need to fix the transmission side before we can maximise the investment in generation or storage."
Superfund

"The government will have to start with the basics – which is to favour transmission before anything else. In relative terms it's the best one, but that doesn't mean it's good – and until governments resolve that, the private sector will no longer satisfy itself with a sub-par risk-return profile."
Institutional Investor

The second-most identified challenge is the adequacy of policy and regulatory frameworks (64 per cent), underscoring the essential role of policymakers and regulators in refining energy infrastructure planning and approval frameworks and processes. Competition for capital, skills and resources is also a rising concern, with the challenge of global demand for energy infrastructure rising by 25 percentage points (61 per cent) from fifth to third place from last year.

"We have some of the lowest regulatory returns in the entire industry globally, you risk not being so happy about how much capital is flowing in."
Institutional Investor

Investors are increasingly agnostic about investment regulation and the development stage of potential assets

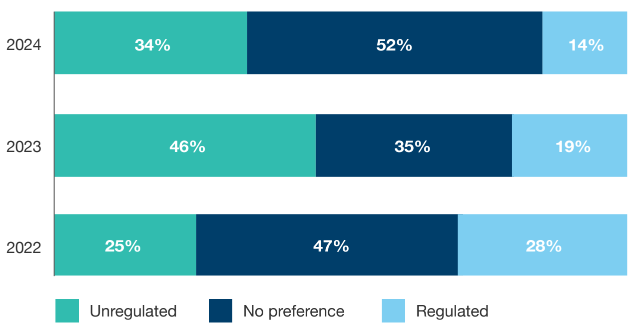
With fewer and fewer opportunities being served up to the Australian market, it is little surprise that investors are becoming less picky about what they will consider. More than half of respondents expressed no preference for regulated or unregulated assets. Last year's *Investment Monitor* saw a spike in interest for unregulated assets (46 per cent), potentially influenced by several transactions occuring around the time of the research. This year sees investors' preferences for unregulated assets cool to 34 per cent, while a preference for regulated assets fell further to 14 per cent. A number of investors interviewed expressed strong caution towards regulated assets, given the perceived risks and returns associated with these investments.

"I think the answer would be unregulated, as long as there is no risk of being regulated. Look at energy, where the [Australian Energy Regulator] is constantly looking to push returns lower. It makes people even more nervous given you look at the greater risk of government intervention in parts of the economy – not just here, but globally where populism is the trend."
Investment Bank

"For me, the preference is stability of regulation. There's nothing worse than buying something on the assumption it is going to be lightly regulated, then you're hit with heavy regulation. It's hard to price that risk."
Superfund

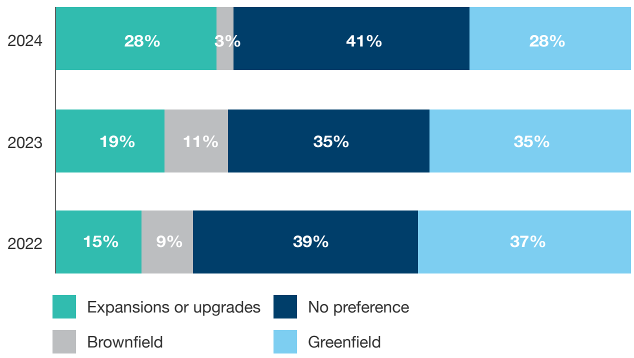
"We're agnostic. If we think we can manage the regulatory risk and the return profile is there, so be it."
Investment Bank

Figure 7: Preferred regulatory model for investments



Similarly, the proportion of investors who expressed no clear preference for greenfield, brownfield or expansions to existing assets has grown to 41 per cent. Investors' preference for greenfield assets continued to slide to 28 per cent, reflecting broader hesitancy around the capacity to effectively manage the risks of new builds, with construction schedules moving to the right and costs continuing to rise across the country. A preference for expansions or upgrades continues to grow, almost doubling over the past two years to 28 per cent. Only three per cent prefer to invest in brownfield assets, with value and availability anchoring these firmly at the bottom of investors' shopping lists.

Figure 8: Do you prefer investing in greenfield projects, brownfield projects, or major expansions to existing assets?



THE AUSTRALIAN INFRASTRUCTURE MARKET AND EMERGING CONDITIONS

KEY FINDINGS

- A strong knowledge of market participants, economic stability, transparency, and a track record of infrastructure business are the top attractions for Australian infrastructure
- Australia has fallen behind Europe as a region with the most compelling infrastructure investment opportunities, and further behind North America
- Labour costs and a lack of skilled personnel were identified as the top challenges to investment in the Australian market
- Cost and complexity of bidding fell from the top two challenges to joint ninth place
- Preference for investment in the East Coast states has dipped this year
- 78 per cent of respondents would consider investing in regionally located projects
- More investors are choosing return-on-investment as a key factor in driving the shift to ESG investments over the past three years

Australia remains an attractive place to do business, but sentiment has softened on even the strongest performing factors

As with prior *Investment Monitor* editions, a strong knowledge of market participants and partners (90 per cent), economic stability (86 per cent), transparency (72 per cent), and a track record of infrastructure business (72 per cent) continue to make Australia an attractive destination for investors' capital (see Figure 9). However, positive sentiment has softened this year, with each of these factors falling in absolute terms. The ease of doing business in Australia (48 per cent) and pipeline certainty (28 per cent) have each slipped one place down the rankings from last year, falling by 16 and 12 percentage points respectively. Investors seem most concerned with the lack of projects available for private investment, with only 14 per cent flagging the availability of stock as an attraction to the Australian market. This drought of opportunities was highlighted as a major concern among many of the investors interviewed.

"The PPP pipeline has gone to a trickle. There are no privatisations."
Investment Bank

"Government procurement is way down. Projects that are market led are significant but not coming as fast as anyone hoped or thought – again because they're caught in government procurement and planning cycles. The returns are very skinny because people are competing aggressively on the limited pipeline that exists."
Infrastructure Investor and Developer

"The biggest challenge is the lack of pipeline over the next five years. If governments re-established asset recycling and had good infrastructure pipelines, people would re-engage quickly."
Investment Bank

Figure 9: What makes Australia attractive for infrastructure investment?

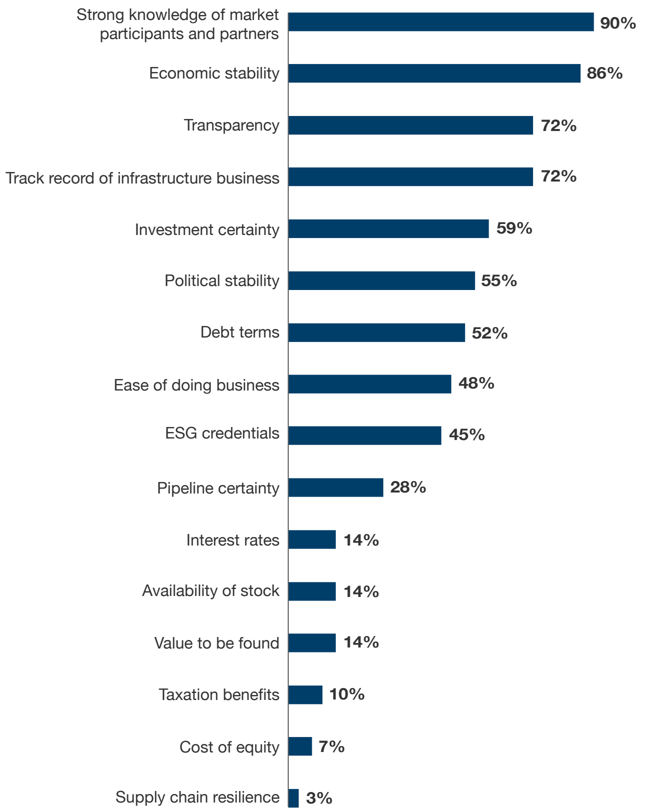
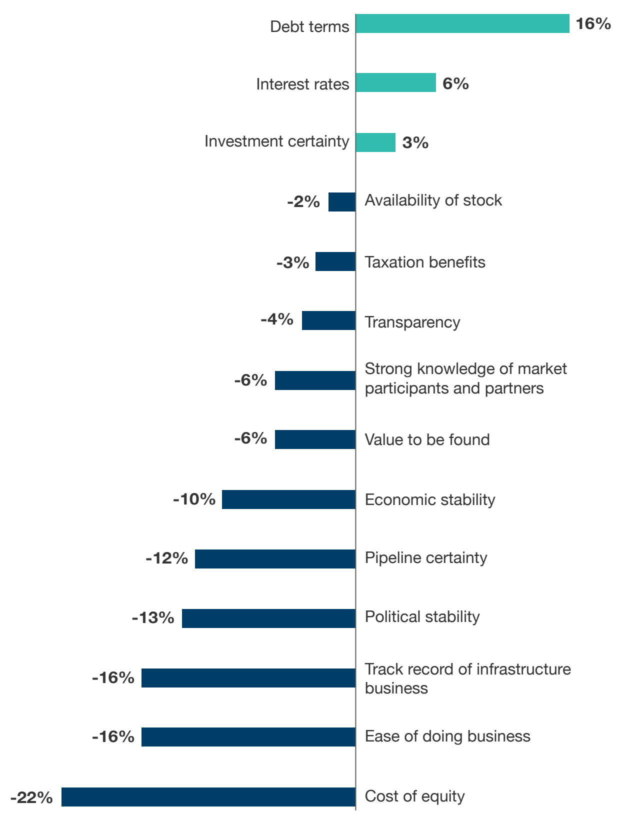


Figure 10: What makes Australia attractive for infrastructure investment, compared to 2023



Long-standing concerns of investors around supply chain resilience, taxation settings and value continue to limit confidence

Among the least attractive factors for investment in Australia, supply chain resilience stands out as a serious concern, with just three per cent of respondents viewing this favourably (see Figure 9). Interviewees flagged a wariness of Australia's dependence on international trade, while geopolitical tensions and other factors have driven up costs and slowed resource delivery. With many of the major components and resources required to deliver the energy transition being produced offshore, this trend will need to be watched closely over the coming years.

Another common bugbear of investors, Australia's taxation benefits have further decreased in attractiveness, with just one in ten seeing this as a positive of the domestic market. Interviewees pointed to recent changes to foreign investment reviews as one such example of changes in taxation settings which have caused a level of investor uncertainty. The generous incentives on offer in other regions such as North America and Europe have further diminished Australia's relative standing, with initiatives such as the Federal Government's Future Made in Australia doing little to generate interest.

"I think the pandemic exposed the risk we face up and down supply chains, and nowhere more acutely than labour."
Superfund

"I think it's just the structure of the Australian economy. Because we're not a manufacturing economy we rely on the outside world and by logic, we're less resilient."
Institutional Investor

"There tends to be a lag on these things, but it's been actively talked about as a risk from the tax changes and offshore investors are contemplating whether they should be exiting the market."
Investment Bank

"Clearly the US policy dragged capital and focus to their shores, but what we're doing that is not helping is that the tax regime for foreign investors keeps being fiddled with. Changes to the thin capitalisation regime are an example of that."
Investment Bank

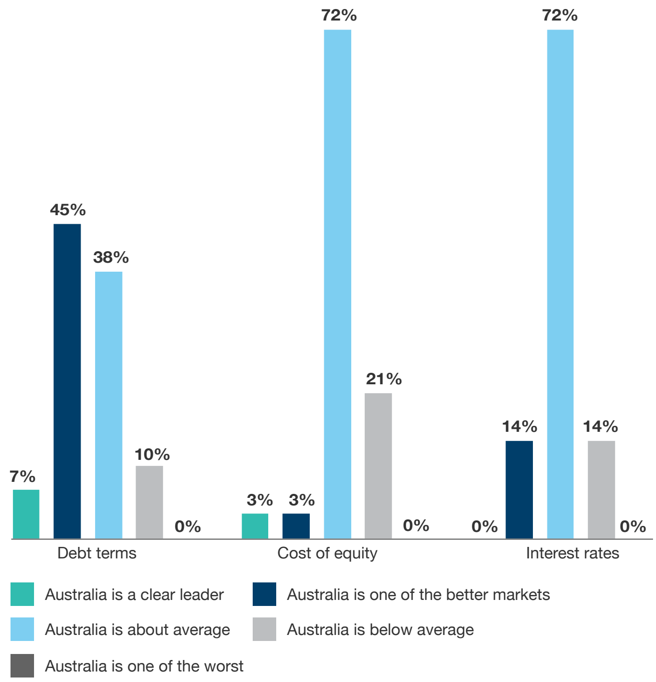
Investors view Australia's costs of capital as relatively high

Continuing a trend over recent years, few investors see Australia's cost of equity as a drawcard for the local market (see Figure 11). Only seven per cent of investors see this as an attracting factor – declining 22 percentage points from last year (see Figures 9 and 10). This is exacerbated by just 14 per cent of those surveyed seeing Australia as one of the better markets for interest rate competitiveness. With the U.S. Federal Reserve having commenced rate cuts and having greater runway to continue cutting compared to the Reserve Bank of Australia, this is likely to compound the effects of lower equity returns compared to international markets in the near term. One bright spot is investors' views of Australian debt terms, which more than half of respondents view favourably and rose 16 percentage points since last year's research.

"Australia is seen as a tough market to make high returns. It's such a competitive market and every good asset is chased and priced accordingly."
Investment Bank

"Over the last few years, we have had a dynamic where interest rates here were relatively high compared to the US. That's all changed post-pandemic, and you can get higher returns on equity in the US than Australia. It's pretty unusual to have such a glaring differential."
Institutional Investor

Figure 11: How Australia compares to other infrastructure markets for capital costs



Labour costs and shortages ranked as the top challenges to investment

It will come as no surprise to close observers of the Australian infrastructure market that challenges abound, and that these challenges are impacting investors' confidence and willingness to deploy their capital here. Chief among these issues are labour costs (55 per cent) and a lack of skilled personnel (52 per cent), which are becoming increasingly acute as the energy transition moves into the delivery phase. Heightened tensions within the industrial relations landscape have added to the uncertainty on the duration and scope of impact of ongoing supply constraints. Almost half (48 per cent) of survey respondents also identified red and green tape as a barrier to investing in Australian infrastructure.

These have overtaken the cost (down 39 percentage points) and complexity (down 27 percentage points) of bidding at the top of investors' list of challenges, which have fallen from first and second place last year to equal ninth this year. Interviewees recognised that governments had made progress in reducing costs of participating in public procurement, but were not as convinced about reduced complexity, with reforms to procurement guidelines in a number of states and territories taking time to filter through to bid processes.

"We're seeing [labour shortages] across the board, from building social housing to energy projects as part of the transition."
Institutional Investor

"It's clearly an issue for the affordability of projects, including when they're up and running. Some of it is industrial relations, and some is imported factors."
Investment Bank

"The complexity of bidding hasn't got easier but governments have come to the table on the net cost of bidding, so that has helped."
Infrastructure Investor and Developer

"The complexity and size of the deals hasn't changed, and I'm not sure there is a lot government can do from here other than being crystal clear on what they want, what the brief is and derisking the procurement process by having high quality procurement teams on the government side."
Infrastructure Investor and Developer

Figure 12: Most significant challenges to investing in Australian infrastructure

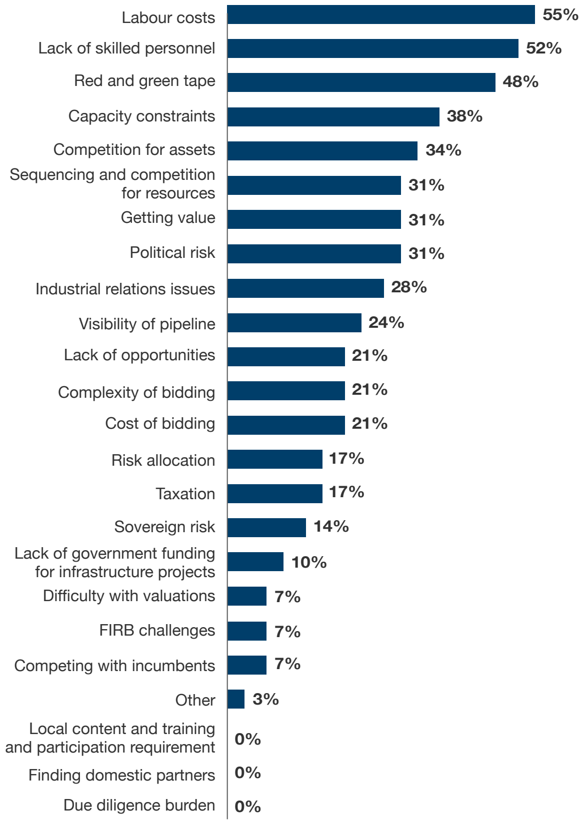
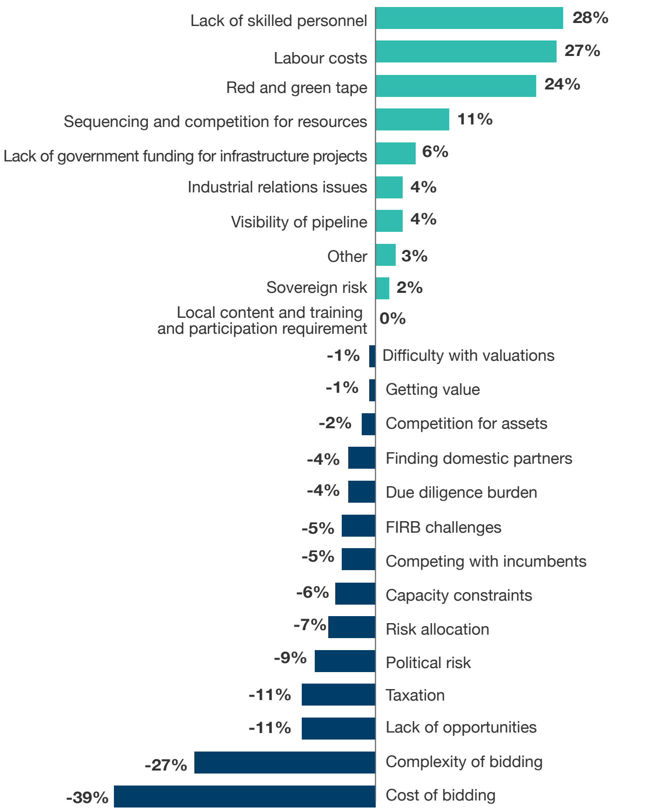


Figure 13: Most significant challenges to investing in Australian infrastructure, compared to 2023



Australia faces increasing competition on the global stage

These factors have undoubtedly impacted Australia's global standing, especially with other regions forging ahead with clear decarbonisation and investment programs. For the first time since 2018, Australia (43 per cent) has fallen behind Europe (46 per cent) as a region with some of the most compelling opportunities, and for the third year in a row behind North America (68 per cent) (see Figure 14). Interviewees flagged the depth of opportunities available, particularly in the energy transition, as more compelling. The competitiveness of Australia's investment policy settings also appear to not hold up on the global stage.

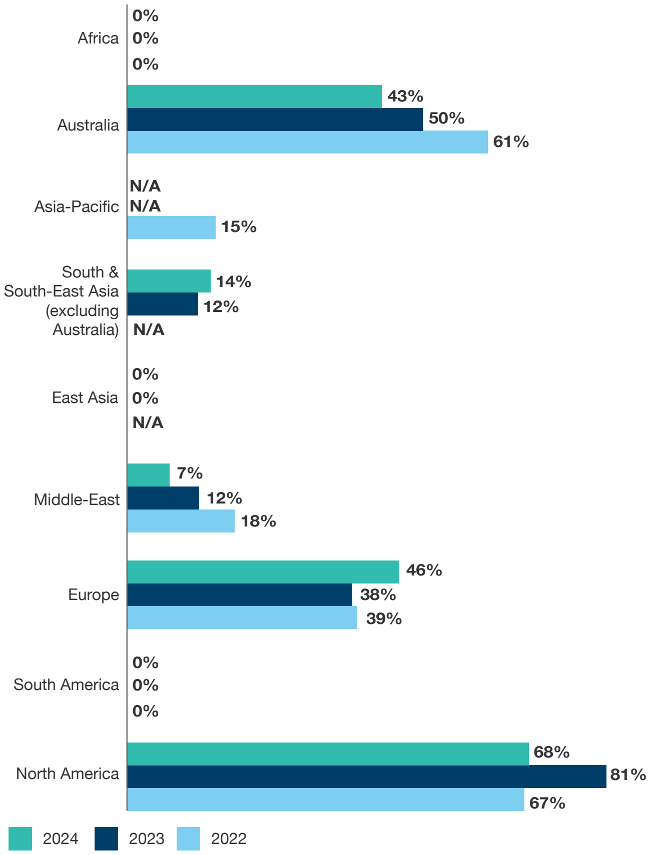
"I think they're a lot more positive in Europe regarding the direction it is heading. The potential for a change in government may open up the market and the pipeline in Ireland is strong. The theme of decarbonising and energy security is critical in Europe off the back of the Ukraine War."
Institutional Investor

"We see Europe, particularly on the energy transition, has moved from a low growth or static market to suddenly having a hot burst of activity in the energy transition where there's a lot of opportunities with money pouring in. They don't need to come here for growth when they can get it in their backyard."
Institutional Investor

"When you talk Europe and the UK, it's more than a handful of countries and regulatory environments, and that's before you come to regulatory incentives."
Superfund

"There's clearly been additional incentives and more substantive policy direction than in the Australian market, which have led them to overtake us."
Superfund

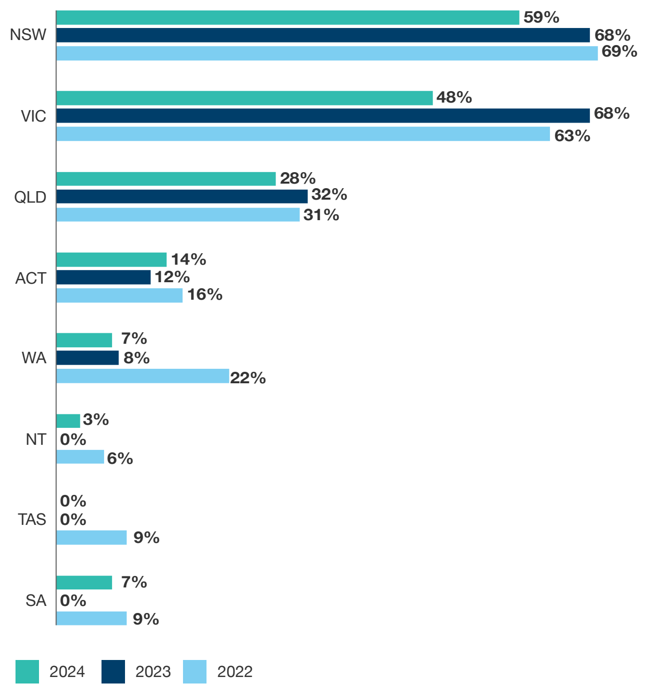
Figure 14: Regions with most compelling opportunities



Investors are cooling on NSW and Victoria, though increasingly signal no jurisdictional preference

The two powerhouses of the Australian infrastructure market over past decades have been NSW and Victoria, but investors' preferences for these jurisdictions have slid over the past year. Victoria in particular has seen a sharp fall in interest – down 20 percentage points – while NSW dropped nine percentage points. Both jurisdictions remain head and shoulders above all other states and territories, however, with Queensland in third place attracting only 28 per cent of investors. Surveyed investors identified jurisdictions' track record of infrastructure business, pipeline certainty, political stability and economic stability as the top four factors which drive their preference for particular jurisdictions (see Figure 30). The proportion of survey respondents expressing no preference for any jurisdiction has continued to grow, rising to 38 per cent (up 2 percentage points from last year). This reflects investors' willingness to go where the opportunities are.

Figure 15: Which Australian jurisdictions do you have a preference for investing in?



Governments need to step up policy and investment reforms to enhance Australia's competitiveness

Engagement through this year's *Investment Monitor* has highlighted the growing significance of establishing clear and consistent policy signals to attract investment in a competitive global environment. Critically, these must be actionable and transparent in order to attract and retain interest of potential investors, with well-articulated, heavily-incentivised plans in place in other regions. The investors interviewed reacted cynically to the Federal Government's initiatives under the Future Made In Australia agenda, with many noting the absence of clarity around what role investors can play.

With the number and severity of challenges facing the Australian infrastructure market, there is no shortage of potential reforms for governments to tackle. However, investors have increasingly emphasised the importance of bringing the private sector along on policy reform processes. The Independent Toll Review commissioned by the NSW Government was a case study in what not to do in this regard. The Interim Report's reckless thought bubbles about potentially overriding existing concession contracts between the NSW Government and toll road operators raised serious concerns about sovereign risk. While the Final Report walked back those suggestions somewhat, threats of ripping up contracts live long in investors' minds. Investors welcome sensible infrastructure reforms – and toll road reform remains an opportunity for governments to grasp that could benefit all parties. However, as this review shows, these processes must be guided by common sense and an absence of ideology if governments want to protect and enhance Australia's reputation as a safe and sensible place to do business.

On the Independent Toll Review Interim Report:

"It would be radioactive if the government reneged on a signed concession. What does it mean for every other infrastructure concession in Australia, and can governments start retroactively changing contract terms?"
Global Investment Adviser

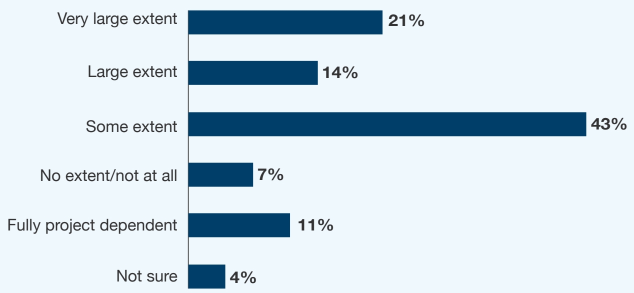
On Future Made in Australia:

"No substance, no teeth, and doesn't change anything. It's a fantasy that means nothing."
Institutional Investor

INSIGHT: Investment shifting to the regions

With the energy transition in full swing, there has been a shift in the geographical spread of large infrastructure projects out of the cities towards regional and remote areas. Of the projects on ANZIP located in Australia, 54 per cent are located in regional or remote areas, representing 56 per cent of the total value of Australian-located projects on ANZIP. The majority of *Investment Monitor* survey respondents are considering investment in regional projects, with 35 per cent to a large or very large extent, and over half (55 per cent) signalling their interest in remote water and energy infrastructure investment in the next three years (see Figure 3). This interest reflects the growing scope and scale of the regional pipeline, with 67 per cent of Australian-located energy projects on ANZIP situated in regional or remote areas of Australia.

Figure 16: To what extent would you consider investment in regional projects?



However, delivering these projects is often more complex than that of their metropolitan counterparts, with 54 per cent of respondents identifying labour mobility and workforce shortages as significant challenges affecting their willingness to invest (see Figure 18). With unemployment in many regional areas already reaching record lows, governments and industry will need to work together to attract the skilled workforces (and their families) needed to realise this shift in investment activity from the cities to the regions.

The unprecedented scale of these projects is also likely to have substantial implications on supply chains, with respondents citing supply chain challenges (50 per cent) and logistical constraints (46 per cent) affecting their willingness to invest.

While investors tend to agree (75 per cent, see Figure 17) that gaining and maintaining social licence in the management and delivery of investments is important, nearly half (46 per cent) of respondents find this to be a hurdle in their decision-making process (see Figure 18). Regional and remote communities stand to benefit from this growing infrastructure investment in theory. However, it is important for governments and project proponents to work with communities to address and mitigate any concerns, and to help them reap the rewards of change.

Figure 17: To what extent do you agree or disagree that maintaining a social licence to operate has become more important when managing or making investments?

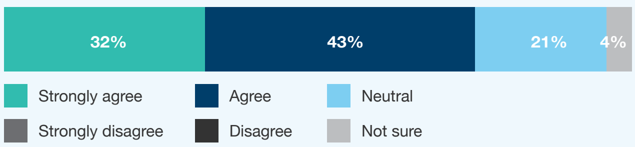
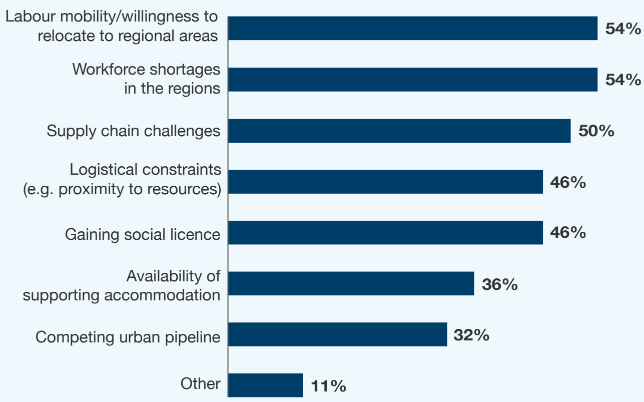


Figure 18: What factors impact your willingness to invest in regionally located projects?



The dominance of ESG as an investment thematic continues to grow

A consistent trend of the *Investment Monitor* over its nine editions has been the rise of ESG as a dominant investment theme. This has reached a point where transactions live and die by their alignment with ESG principles. When asked to identify the factors that are more important than a year ago, three quarters of respondents highlighted the ESG credentials of potential investments as being more important (see Figure 19). This was closely followed by climate risk (71 per cent), illustrating the dominance of this thematic in not only choosing which investments to pursue, but also how to manage broader investment portfolios, including potential divestments from climate-exposed assets. Investors noted that clients' expectations (71 per cent) dominate their preference for ESG investments, followed by management of reputational risk (61 per cent) and a desire to drive positive change (57 per cent) (see Figure 20). Notably, this year has seen a 20-percentage point increase in the emphasis on return on investments, while compliance with corporate targets has decreased by 14 percentage points.

Figure 19: Factors that are more important to investors compared to 2023

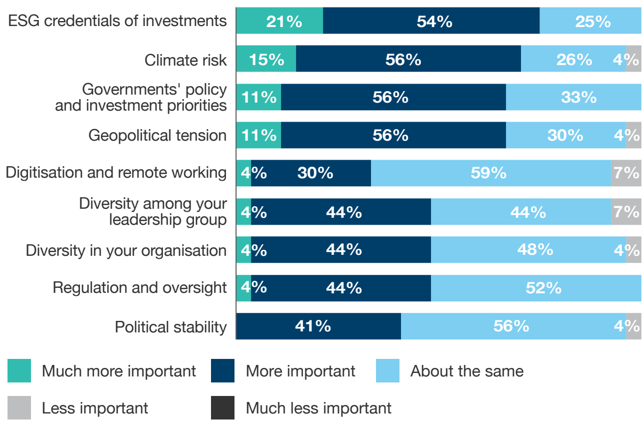
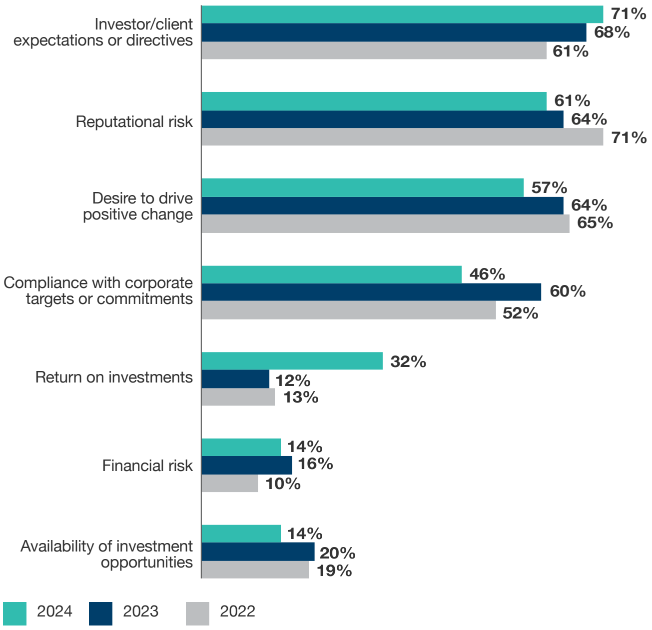


Figure 20: Key drivers of the shift to ESG investments



APPENDIX A: METHODOLOGY & PARTICIPANT PROFILE

Methodology

This report provides a unique insight into the preferences, intentions and sentiments of major market participants who have invested or are considering investing in the Australian infrastructure market.

The report draws on both quantitative and qualitative research to provide insights into the perceptions of investors about Australian infrastructure and the factors that influence their decisions.

In March-April 2024, we conducted a quantitative survey of 29 senior market participants to understand investment trends in Australian infrastructure.

We followed the survey with detailed qualitative interviews, undertaken between May and July, with 13 leading Australian and international infrastructure investors to gain a deeper insight into the observed investment themes.

As the ninth edition in this series, the report also identifies changes in investment intentions over time and investigates the underlying causes of observed trends.

Participant Profile

The market participants surveyed are senior representatives of major infrastructure organisations with over A$716 billion invested globally, including banks, fund managers, superannuation funds, pension funds, investors, investment managers and infrastructure constructors and operators.

- Nearly 70 per cent of the participants manage more than A$10 billion of investments globally
- 41 per cent hold more than half or all of their global investment portfolio in infrastructure
- 46 per cent hold more than half or all of their infrastructure investments in Australia

Figure 21: What is your investment status in Australia in 2024?

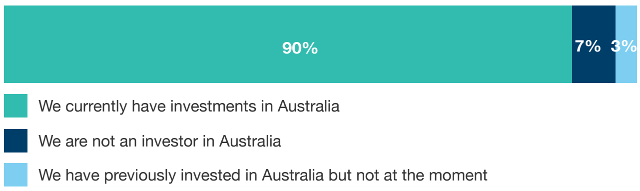
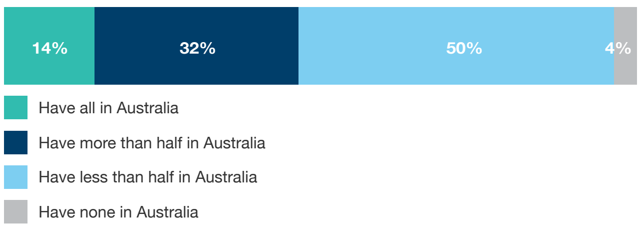


Figure 22: What proportion of your global investments are in infrastructure?

Figure 23: What proportion of your infrastructure investments are in Australia?



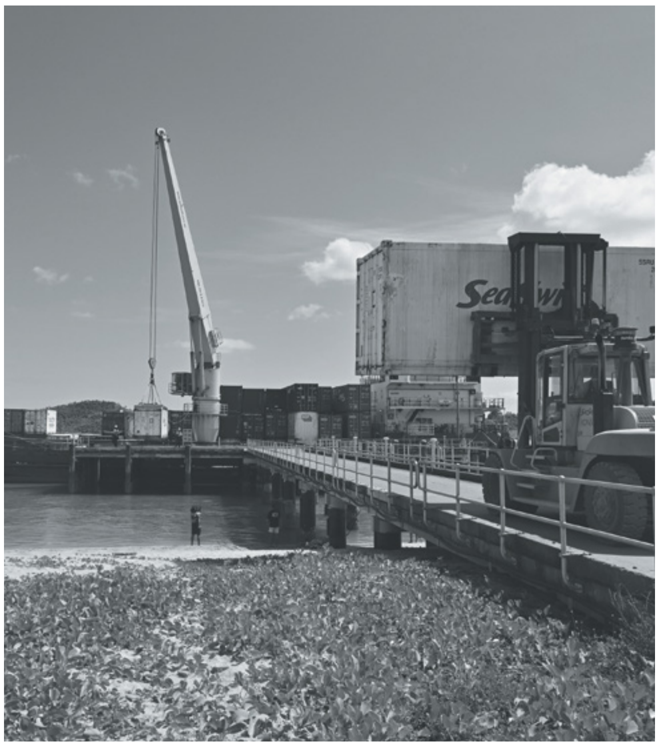


Figure 24: Approximately how much in total do you currently have invested in infrastructure globally?

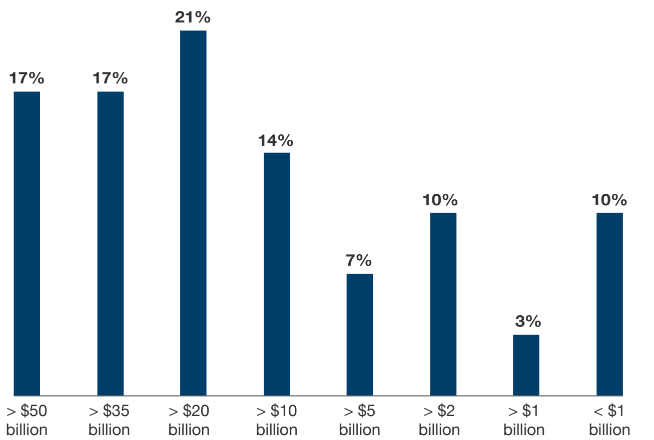
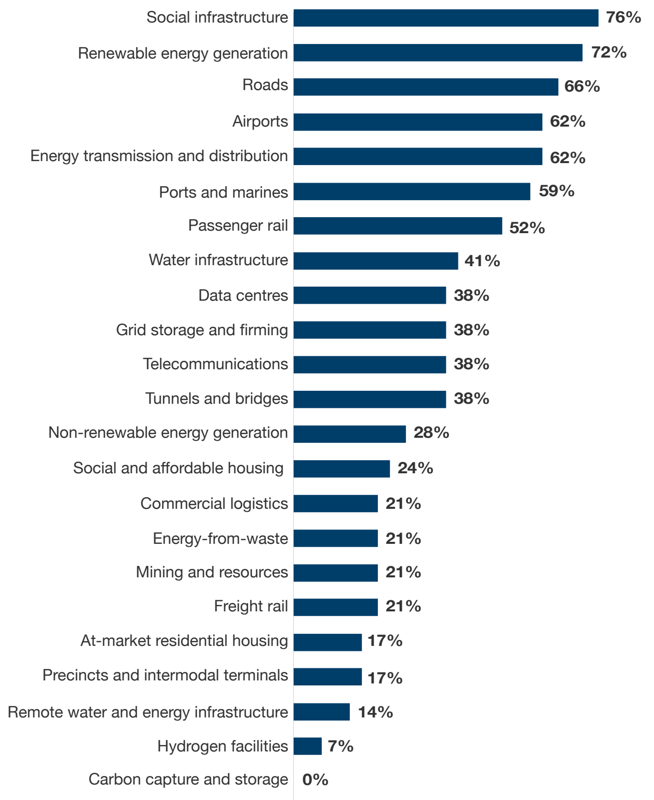


Figure 25: What types of infrastructure projects do you currently invest in, in Australia?



APPENDIX B: ADDITIONAL DATA

Investor preferences

Figure 26: Do you prefer to deploy your investments through debt or equity?

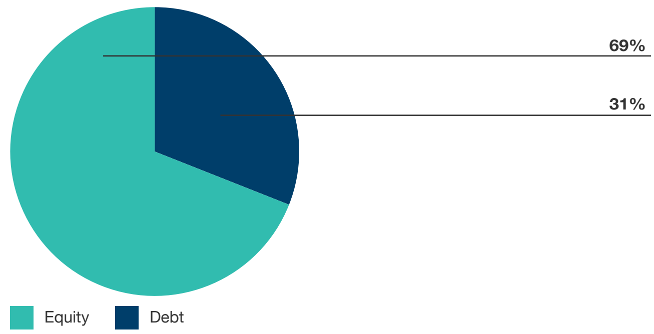


Figure 27: Are you more or less likely to engage in infrastructure M&A activity in Australia compared to a year ago?

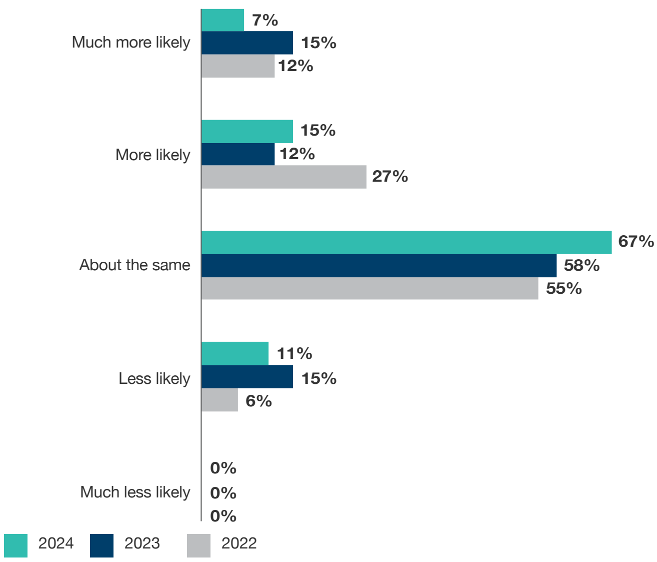


Figure 28: Assuming there were enough projects of the right size and type, what is the combined total amount that you would be comfortable investing in Australian infrastructure projects?

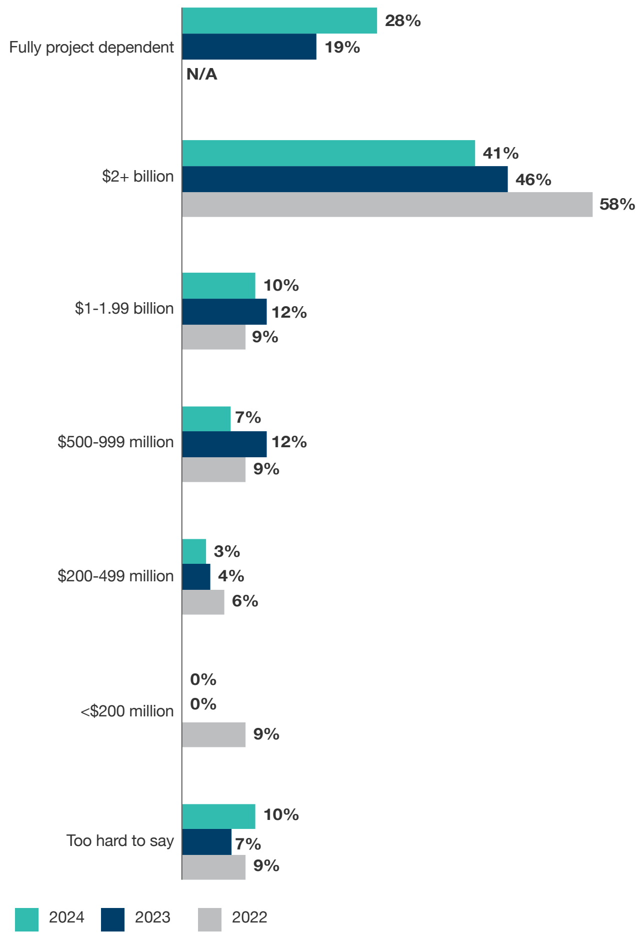


Figure 29: Assuming there were enough projects of the right size and type, what is the maximum size of a single investment in an infrastructure project that you would consider in Australia?

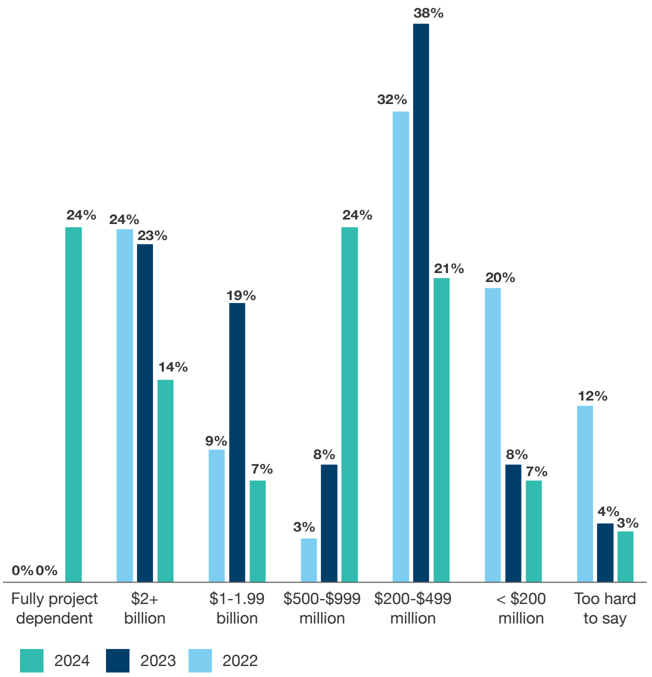
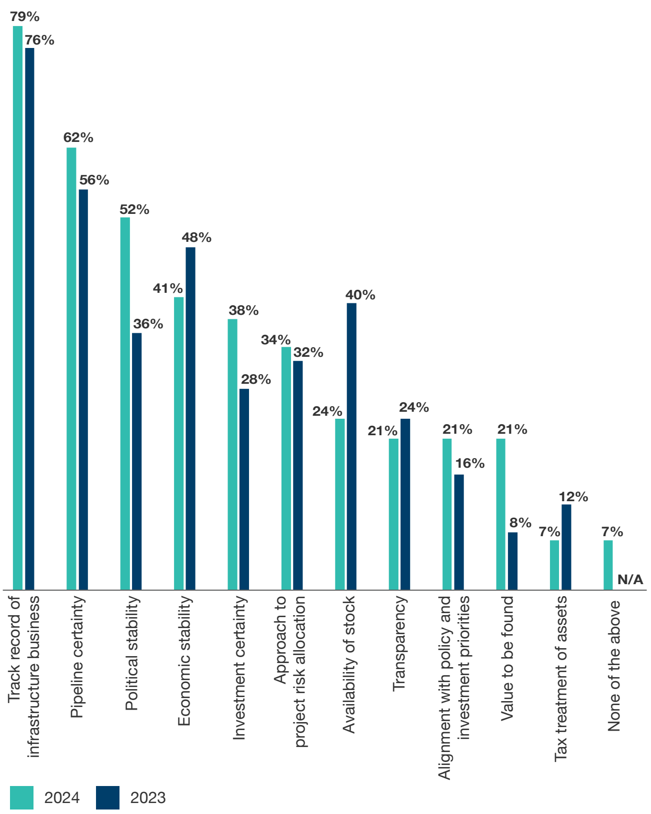


Figure 30: What factors make particular jurisdictions more attractive?



Energy transition

Figure 31: Impact of government interventions in energy markets on investors' likelihood to invest in energy transition infrastructure

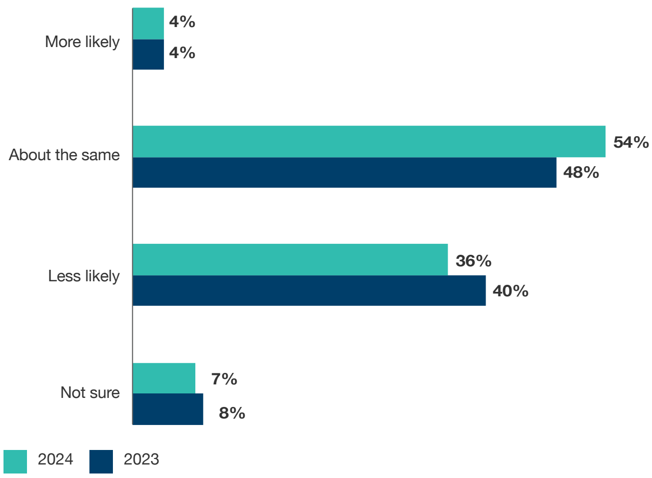


Figure 32: To what extent would you support governments procuring infrastructure projects using a Time, Quality and Cost + Carbon framework, in order to procure lower carbon outcomes?

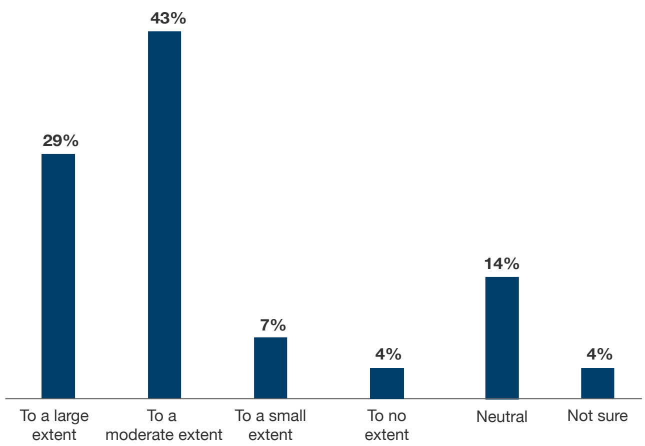
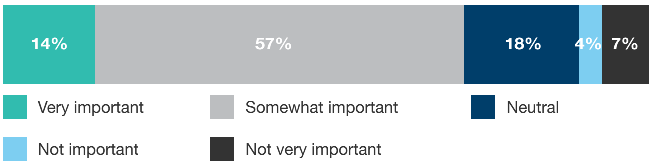


Figure 33: How important are Scope Three emissions as a consideration in investment decision making?



Emerging Market Conditions

Figure 34: Do you think the development of new models, such as hybrid PPPs, will lead to more or less private investment opportunities in Australian infrastructure?

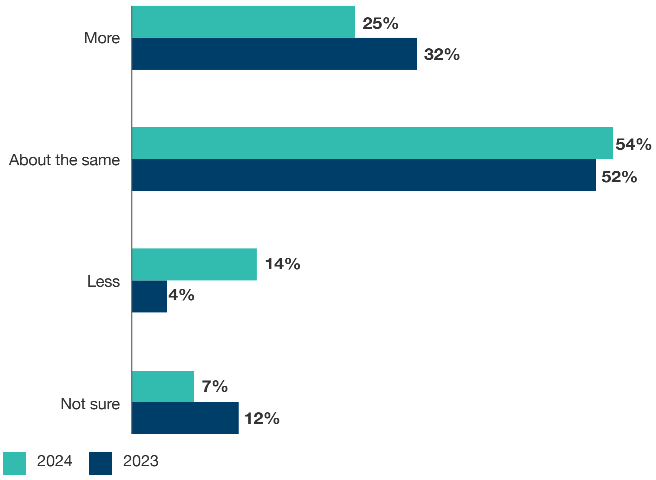


Figure 35: Usefulness of ESG frameworks for assessing and reporting on ESG credentials of projects

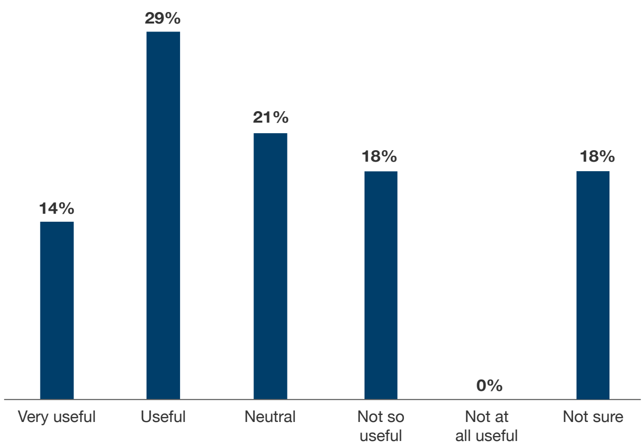


Figure 36: Australia's performance in ESG elements

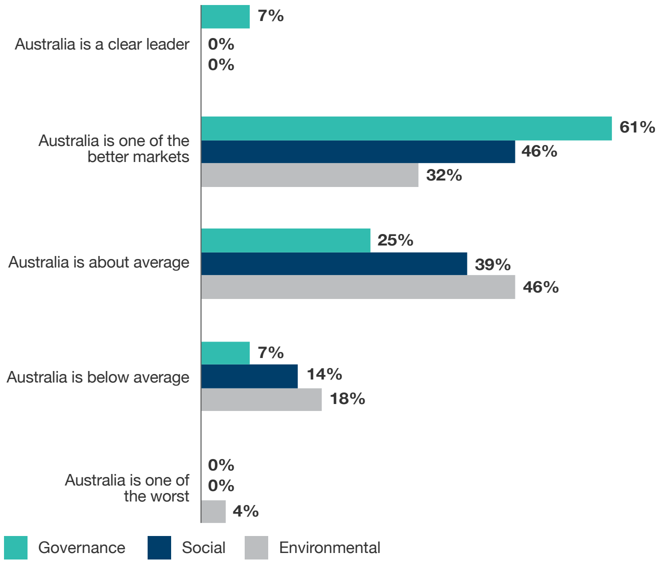


Figure 37: To what extent are the current national ESG rating tools adequate for measuring the sustainability of greenfield infrastructure projects?

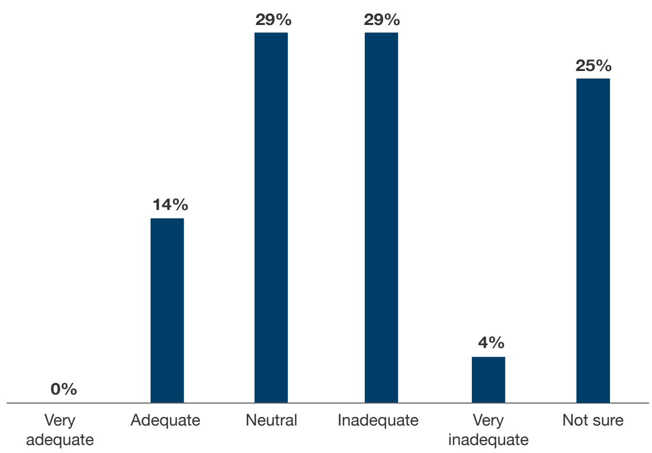


Figure 38: Extent of support for the Federal Government putting a price on carbon or establishing a formal emissions trading scheme

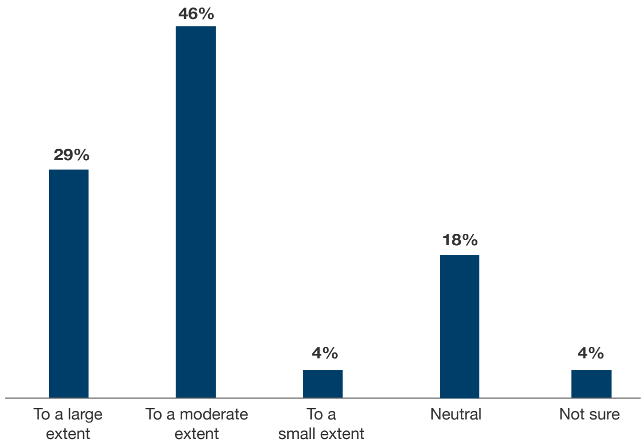


Figure 39: Extent that respondents would like to see governments resequence major project pipelines to manage capacity and budget constraints

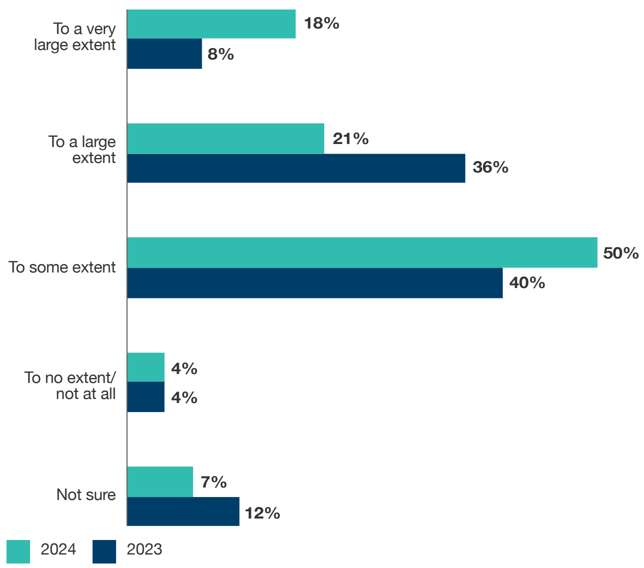


Figure 40: Effectiveness of Australia's policy settings in attracting overseas skilled labour

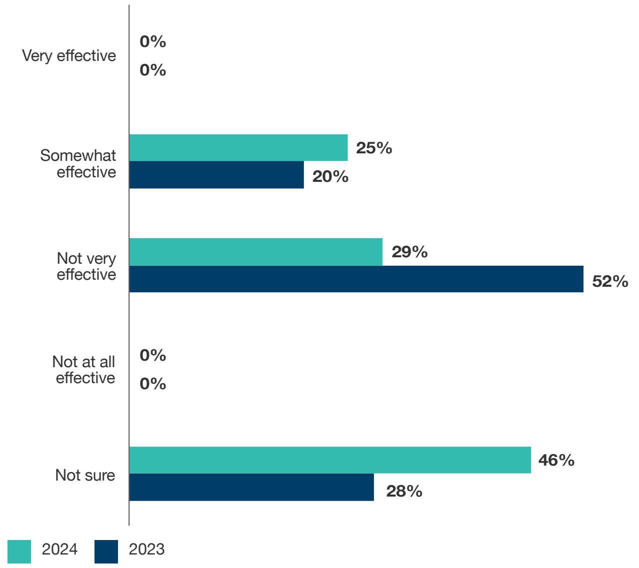
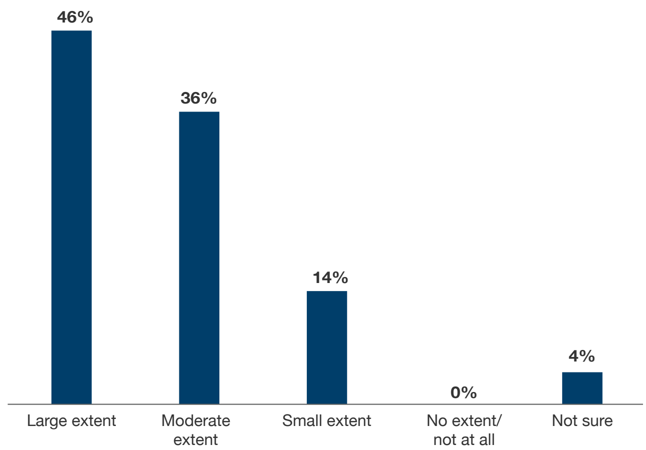


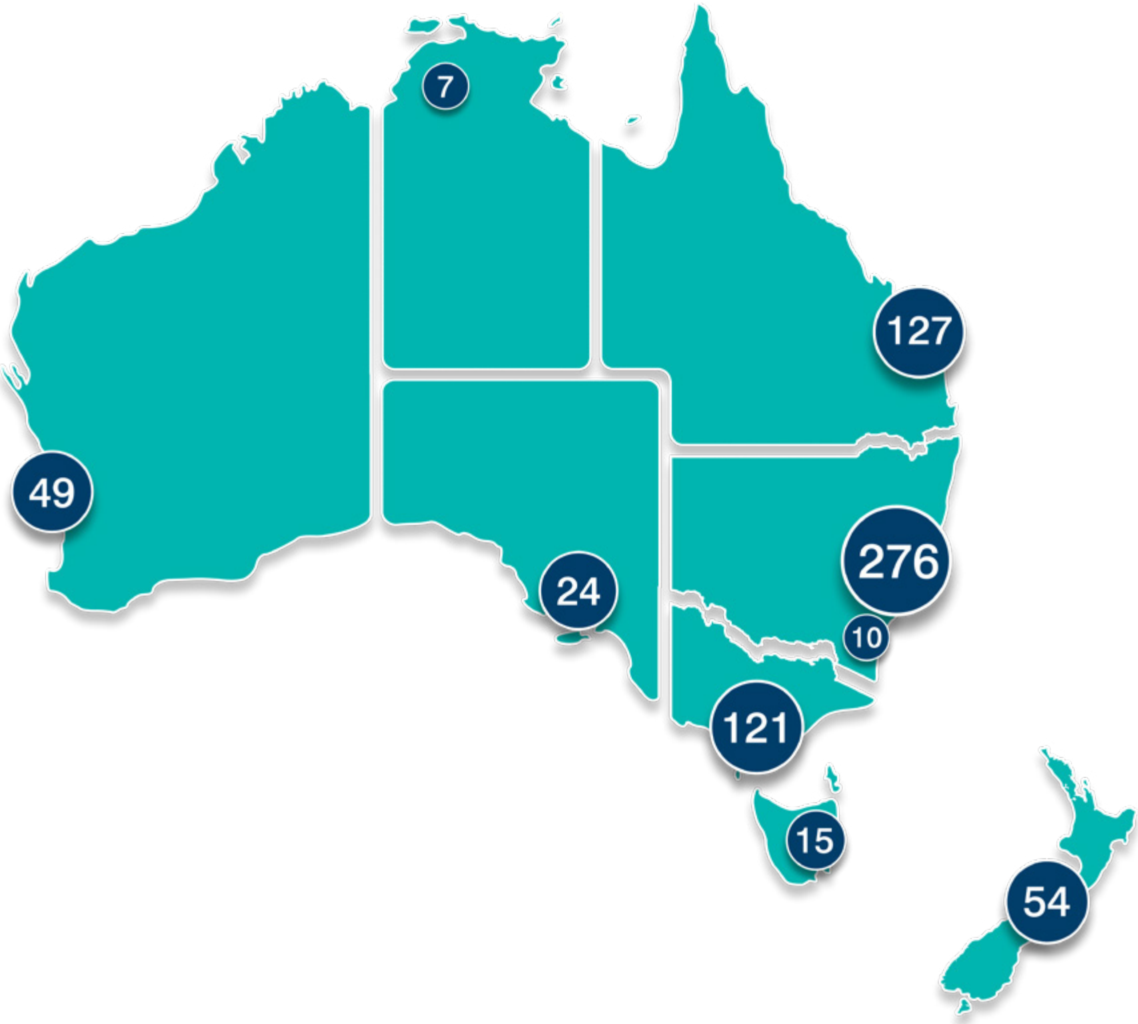
Figure 41: Extent that respondents consider the future resilience of infrastructure in their investment decision making process



For more information on the ANZIP data referred to in this report, please visit infrastructurepipeline.org

The Australia & New Zealand Infrastructure Pipeline (infrastructurepipeline.org) provides a forward view of major infrastructure projects and contracts across the two countries. ANZIP provides a transparent, detailed and independent snapshot of infrastructure investment, construction, operation and privatisation opportunities for investors, constructors, governments, advisors, researchers and the broader community. ANZIP tracks infrastructure opportunities from announcement to completion, providing updates and objective analysis each step of the way.

infrastructurepipeline.org allows you to search for project information, chart market trends and register for updates.



Infrastructure Partnerships Australia

Suite 3.03, Level 3, 95 Pitt Street
Sydney NSW 2000
PO Box R 1771
Royal Exchange NSW 1225
www.infrastructure.org.au

In alliance with Linklaters

Allens Linklaters

Level 28
Deutsche Bank Place
126 Phillip Street Sydney
NSW 2000
www.allens.com.au

Infrastructure Partnerships Australia
Suite 3.03, Level 3, 95 Pitt Street
Sydney NSW 2000
PO Box R 1771
Royal Exchange NSW 1225
www.infrastructure.org.au

Infrastructure Partnerships Australia
Level 28
Deutsche Bank Place
126 Phillip Street Sydney
NSW 2000
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