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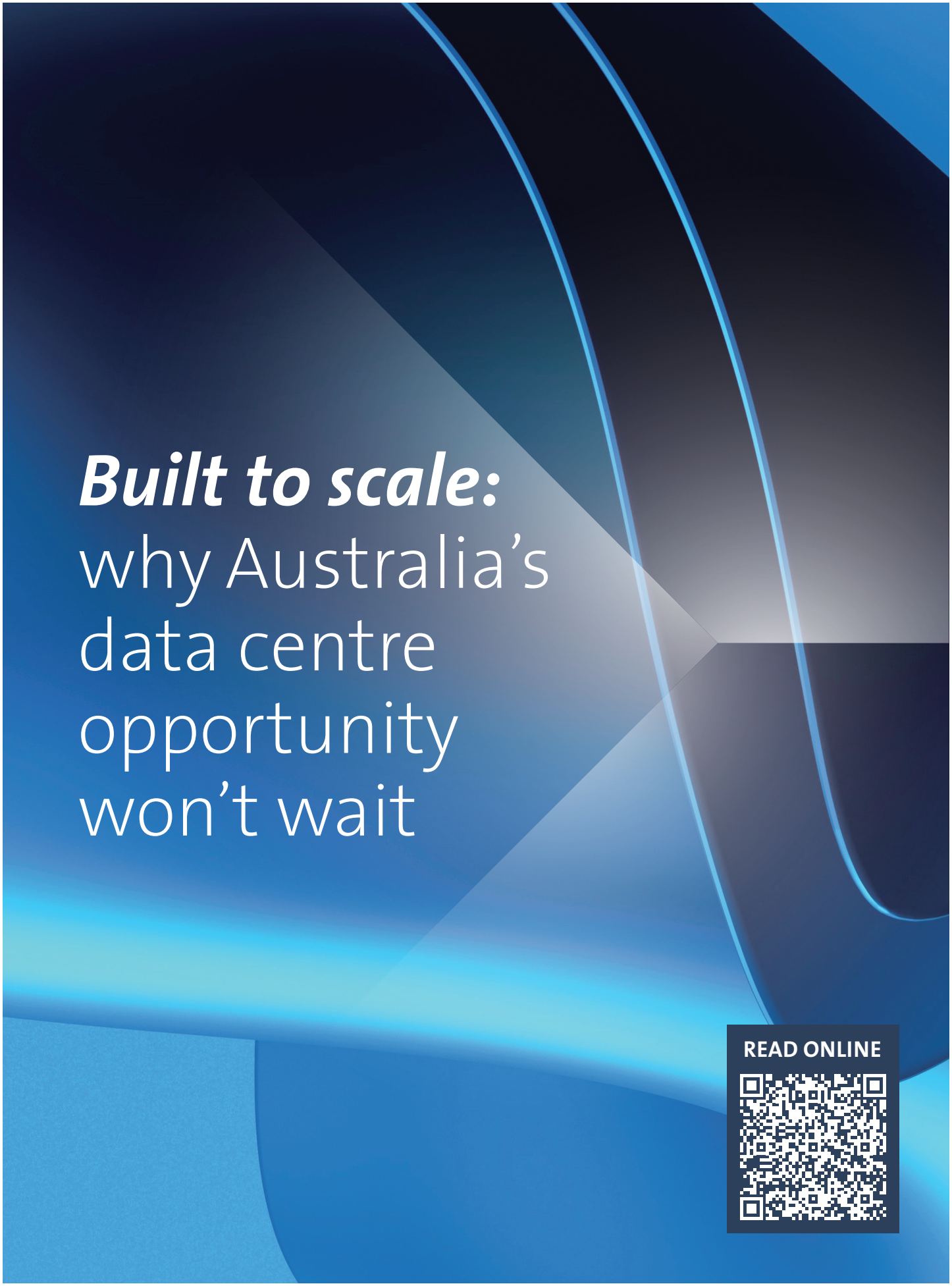

Built to scale: why Australia's data centre opportunity won't wait

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Demand is not the problem. Delivery is.

Australia is at a pivotal moment in the development of data centres—an asset class that constitutes essential national infrastructure, underpinning our future economic growth and digital sovereignty.

The scale of opportunity can't be overestimated. Global data centre investment is projected to reach US$4 trillion by 2030,[1] growing at an 18% compound annual rate. Capital expenditure exceeded US$770 billion in 2025,[2] rivalling peak investment in the oil and gas sector. Australia was ranked the second-largest data centre investment destination globally in 2024, attracting US$6.7 billion—trailing only the United States.[3] Domestically, the pipeline has expanded rapidly, reaching approximately 14.8GW of capacity across more than 300 assets, with growth of around 65% in less than a year.[4]

Capital is willing. Global interest is strong. Demand is not the problem.

Certainty of delivery is the problem.

Delays in grid connections, fragmented planning frameworks, construction complexity and growing community engagement pressures are compounding across the system. The core issue is process: Australia's regulatory, energy and infrastructure settings were not designed for the speed, scale and integration that modern data centre development requires.

Without coordinated reform, Australia risks falling behind competing markets, despite its strong fundamentals. We may squander one of the decade's most important infrastructure opportunities.

Unlocking the next wave of investment requires a shift from fragmented, project-by-project decision-making to better coordinated, system-wide enablement. The five priorities are:

- **grid access certainty**—faster, more transparent and prioritised connection pathways;
- **energy and data centre alignment**—long-term supply coordination, to reduce execution risk;
- **planning reform**—frameworks that recognise data centres as essential infrastructure;
- **delivery capacity**—coordinating delivery, and addressing construction and supply chain constraints at scale; and
- **ESG integration and social licence**—proactive governance, to protect project viability and deliver community support.

Small increases in certainty will unlock even greater flows of capital. With the right coordination, Australia can move from a constrained, reactive model to having a globally competitive platform for digital infrastructure investment.

'Data centres have moved from a nascent asset class to core economic infrastructure and the expectations around delivery certainty have shifted accordingly.'

David Donnelly, Partner, Practice Group Leader—Projects & Development

1 Knight Frank, 2025.
2 Knight Frank, 2025.
3 Knight Frank, 2025.
4 Stanford, 2026; CBRE, 2025; Cushman & Wakefield, 2025.

The opportunity: a national growth engine

Australia holds genuine structural advantages. Relative to more constrained markets, it offers greater renewable energy potential, a larger land footprint and a stable investment environment. With the right policy and delivery settings, it can become a regional hub for digital infrastructure.

The benefits extend well beyond the facilities themselves:

- **Magnet for investment and customer demand** Global capital is actively seeking exposure to digital infrastructure. Customer demand is also high. In a signal of the scale of commitment already in play, CDC Data Centres recently secured the largest data centre contract in Australian history, at 555MW,[5] over double the previous record (250MW), which itself was only achieved in April.[6] With clearer delivery pathways, Australia could attract tens of billions of dollars in additional long-term investment, allowing it to become a regional digital infrastructure powerhouse.
- **Employment and skills** Each new facility supports thousands of jobs across planning, construction, engineering and operations. The demand for skilled technicians, electricians and data engineers creates a durable employment base that complements the clean energy and construction sectors.
- **Construction stimulus** Data centres drive sustained demand for materials, logistics and specialist trades. Their multi-stage build programs provide a pipeline of work that can stabilise construction activity across economic cycles.
- **Energy and utility integration** As some of the economy's largest electricity consumers, data centres have the potential to accelerate investment in renewable generation and grid modernisation. Co-location with energy projects, and use of waste heat or recycled water, can improve broader system efficiency. Data centres will also help to spread the costs of expanding and modernising grid infrastructure across a broader user base.

Sovereign capability

Beyond the economic case, investment in domestic digital infrastructure is a matter of national security. Data storage and processing capabilities are fundamental to the functioning of Australia's economy. Reliance on offshore capacity, particularly in an increasingly fractured geopolitical environment, represents a material risk both to economic resilience and national security. That risk will only magnify as the AI revolution plays out and the volume of sensitive data requiring domestic processing continues to grow.

Together, these factors make data centres more than a private sector investment story. They are a cornerstone of Australia's digital, economic and strategic future.

'Reliance on offshore capacity, particularly in an increasingly fractured geopolitical environment, represents a material risk to Australia's economic resilience and national security.'

William Coote, Managing Associate

Case study: Stockland—data centre capital partnership with EdgeConneX

Allens advised Stockland on a capital partnership with data centre operator EdgeConneX, to develop, own and operate an Australian portfolio of data centres. The partnership combines Stockland's land, development and project management expertise with EdgeConneX's global experience in delivering data centre solutions to cloud and AI providers.

The deal reflects a growing trend of established Australian property developers entering the data centre sector, bringing deep experience in site identification, planning approvals and stakeholder engagement to an asset class that demands it. With a pipeline of identified assets and a flexible structure to deploy capital over time in line with customer demand, the partnership is designed to scale alongside the market.

5 CDC, 2026.
6 DCD, 2026.

The investment reality: unprecedented capital intensity

Access to capital is critical but does not on its own solve the delivery challenge.

AI-oriented data centres are much more capital intensive than conventional facilities. A single 100MW facility designed for AI compute workloads now costs A$1.5–2.0 billion to construct.[7] Securing grid connections, substations and transmission infrastructure also requires substantial upfront capital, often years before capacity is fully leased.

Investors increasingly view data centres as infrastructure-like assets, supported by long-dated customer contracts of 10–15 years or longer. But the upfront capital intensity, combined with long construction timelines and limited ability to manage back-to-back delivery risk, creates a risk profile that is meaningfully higher than for traditional infrastructure, even where revenue appears stable.

Unlike legacy PPP or utility models, data centre developers:

- can't fully transfer construction and delivery risk to contractors;
- carry considerable operational and timing risk themselves; and
- have limited negotiating leverage with hyperscale customers.

This means that even where demand is clear and capital is available, the gap between committed investment and delivered capacity continues to widen.

Case study: La Caisse—A$1.7 billion commitment in NEXTDC

Allens advised La Caisse de dépôt et placement du Québec on its A$1.7 billion commitment in hybrid securities issued by NEXTDC Limited—one of the largest single capital commitments to Australian digital infrastructure. The funding supports NEXTDC's expanding pipeline of data centre developments as demand driven by AI and cloud computing accelerates.

The hybrid structure aligns long-duration institutional capital with the infrastructure-like characteristics of data centre assets, long-dated customer contracts, essential-service demand and predictable revenue. It reflects a broader shift away from conventional equity and project finance, towards innovative funding models tailored to the sector's scale and risk profile.

The transaction demonstrates that global institutional capital is actively seeking exposure to Australian digital infrastructure and that the right structures can mobilise it.

The opportunities and investment in data centres

Australia is estimated to have more than **300 live data centres** as of 2025, with capacity expected to grow from **1.3GW to around 1.8GW within three years**—still falling short of projected demand, leaving an estimated **supply gap of 0.7–1.7GW by 2028**.[8]

Assuming build costs of **A$15–20 million per megawatt**, Australia faces an estimated **A$32–42 billion data centre investment program** over the next five years.[9]

Asia-Pacific captured US$15.5 billion in data centre investment in 2024, accounting for **70% of global cross-border investment**.[10]

Sydney's data centre vacancy rate fell sharply, from **9% to 5.2%**, in 2025, reflecting intense metropolitan demand.[11]

7 Morgan Stanley, 2026.
8 Stanford; CBRE, 2025.
9 Morgan Stanley, 2026.
10 Knight Frank, 2025.
11 Cushman & Wakefield, 2025.

The key barriers

Investors are not avoiding data centres—quite the opposite—however, they are pricing in risk. The constraints are interconnected and addressing them in isolation won't be sufficient.

1. Coordination of risk

Data centres sit at the intersection of energy, planning, construction and technology, yet no single framework coordinates delivery across these domains. The result is a fragmented risk profile that is difficult for investors to price with confidence.

Unlike traditional infrastructure, data centres follow a developer-led model. As such, developers, not contractors, drive outcomes, bringing more extensive design control, technical expertise and supply chain relationships. This shifts both risk and execution capability into specialised hands, creating a higher-risk, higher-control delivery model that does not fit neatly within established procurement frameworks.

What needs to change: The priority is not solving individual issues in isolation but improving system-wide coordination. This requires better alignment across energy (generation and networks), data centre development and water infrastructure; streamlined and more consistent planning frameworks; and targeted investment to relieve key bottlenecks. Victoria's establishment of a dedicated taskforce to support proponents through the approvals process and New South Wales's move in a similar direction are positive steps. We need more of this coordination nationally.

2. Grid connection certainty

Grid certainty is foundational to data centre investment. Developers are reluctant to commit time or capital until they have reasonable confidence that sufficient capacity will be available, at the right location, in the right configuration, within a workable timeframe and at a supportable cost.

> 'Grid certainty has overtaken demand as the threshold question for investment.'
>
> **Danielle Jones, Partner**

Australia's connection framework was not designed with multiple large load-side applicants in mind. Assessment timelines are lengthy. Grid capacity doesn't always align with the urban locations data centres require, and the connection process rules don't give visibility over the status of competing applications.

This means two things: grid connection is inherently complex and may take longer than developers anticipate; and developments may face unforeseen constraints, or greater competition for shared network infrastructure than originally anticipated.

The Australian Energy Regulator has acknowledged that current frameworks weren't built for this type of demand. Reform that establishes faster, more predictable timelines is needed, not only for data centres but across the energy transition. However, reform that trades speed for system security will ultimately serve no one well.

What needs to be done:

- **Improve transparency on capacity**, so developers can make informed decisions about connection timing and site selection based on the status of existing applications.
- **Fast-track applications** for data centres that bring their own generation and system support solutions.
- **Consider conditional capacity reservation** for projects that have demonstrated a genuine commitment to proceed—eg by satisfying planning or tenure milestones within agreed timeframes.

Case study: Keppel—720MW data centre campus, Gippsland

Allens advised Keppel, a Singapore-headquartered global asset manager operating more than 39 data centres across Asia-Pacific and Europe, on its proposed development of a 720MW data centre campus on a 123-hectare site near Victoria's former Hazelwood power station.

The site's location within the proposed Gippsland Renewable Energy Zone, one of the state's largest electricity nodes, provides direct access to power, water infrastructure and intercity dark fibre networks, with the potential for a dedicated transmission connection to neighbouring terminal stations. This is a clear example of energy-proximate site selection enabling large-scale digital infrastructure development.

3. New generation to meet growing demand

The first half of 2026 has seen a notable flattening of the electricity spot market. Favourable weather conditions have allowed wind and solar to maximise output, new battery capacity is smoothing evening peaks, and the uptake of home batteries is moderating midday price troughs. While welcome developments for consumers, this is dampening investor appetite for the new generation and firming capacity the grid will need when anticipated data centre demand materialises. If that demand arrives in proximity to the exit of one or more coal-fired power stations, the spot market will face a period of significant volatility.

The generation needed to meet data centre demand can't be built overnight. A data centre may take one to three years from conception to operation. A wind farm, or portfolio of wind farms, large enough to support that facility's demand may take seven to ten years. Rising wind energy costs have further stalled a number of projects, creating a mismatch between offtakers' and developers' price expectations. These factors make it unrealistic for data centres to bring their own generation from day one.

What needs to be done:

- **Incentivise long-term offtake commitments** that provide sufficient revenue certainty to support investment in new generation and firming capacity. Where a data centre, or data centre customer, can demonstrate it has executed a long-term offtake with a new renewable facility scheduled to commence within a reasonable period of the data centre beginning operation, that commitment could be used to streamline planning and connection pathways.
- **Strengthen the Renewable Electricity Guarantee of Origin (*REGO*) framework.** While currently voluntary, there is a strong case for requiring data centres, or major data centre customers, to participate, including through time-stamped matching of renewable generation to load. This would give operators a credible basis for clean energy claims, stimulate demand for REGOs and provide an additional revenue stream for renewable generators.
- **Deploy government-backed contract-for-difference mechanisms** to reduce the risk premium that generation investors currently require. This aligns with the Electricity Services Entry Mechanism framework objectives being pursued under the Nelson Review, and data centre demand may provide further impetus to accelerate that work.

The current period of market stability is unlikely to persist. The time to put the right contracting and investment frameworks in place is now, not when the market is already under pressure.

4. Planning and approvals

Planning and approval frameworks vary markedly across states and territories, making some jurisdictions materially harder to navigate than others. Current approval processes for data centres are often based on standard industrial or commercial development categories. In these cases, the planning controls against which data centre applications are assessed are poorly suited to an emerging digital infrastructure asset class, in terms of environmental assessment requirements, the calculation of infrastructure contribution charges, and the need to augment services infrastructure to meet energy and water demands.

The key issues are clear:

- **Planning and zoning barriers** Controls that are ill suited to data centre developments, slow and uncertain approval processes, and differing state approaches make it difficult to secure timely approvals.
- **Power and water approval constraints** Grid upgrades and water access often require off-site works on third-party land, necessitating engagement with third-party land owners, external agencies and utility authorities, and triggering complex approvals and environmental assessments that can seriously delay projects.
- **Misaligned contribution regimes** Existing infrastructure contribution frameworks are not suited to data centres, often overcharging assets that are capital intensive but not employment dense.

> 'Capital is not only seeking demand—it is seeking favourable jurisdictions where securing approvals is prompt and predictable.'
>
> Rebecca Ritchie, Managing Associate

Although New South Wales data centre developments benefit from a state-assessed approval pathway, proponents must still navigate local planning controls, and often engage in protracted negotiations with councils and utilities authorities to secure the approvals needed to construct and connect to essential services, frequently causing considerable delay in construction.

What needs to be done:

- Reform planning frameworks to explicitly recognise data centres as essential infrastructure.
- Enable fast-track approvals in suitable zones.
- Streamline off-site utility upgrades.
- Encourage low-water cooling technologies.
- Adopt fit-for-purpose contribution models tailored to digital infrastructure.

5. Social licence, community engagement and ESG considerations

Overlaying all of the above is the need to ensure Australian data centre investment doesn't lose its social licence, as has occurred in parts of the US.

The risks are real and growing:

- **Perceived environmental footprint** Media reports that hyperscale facilities will consume enormous amounts of power and millions of litres of water annually are shaping community attitudes. The International Energy Agency's projections on data centre energy consumption have intensified this scrutiny.[12]
- **Regulatory inquiry** A Senate inquiry into AI and data centres—examining the effectiveness of existing regulatory frameworks, and the potential impacts on communities, industries and the environment—was established on 13 May 2025.
- **Community pushback** Local opposition to developments in Lane Cove (Sydney), Footscray (Melbourne) and Hazelmere (Perth) reflects a small but potentially growing resistance to data centre construction in urban and suburban areas.

If broad community sentiment turns, the result will be substantial development risk, through complaints, activism, and litigation in the form of development challenges and tortious claims. This will stymie investment at precisely the moment it's needed most.

Poorly handled ESG amplifies every other barrier. Handled well and proactively, though, it can protect social licence and underpin the major investment program ahead. Data centre investors, developers, operators and tenants should treat community engagement as an ongoing program, not a one-off exercise, and stress-test ESG management to ensure it aligns with disclosures and reporting obligations.

> 'ESG handled poorly amplifies every other barrier. Handled well and proactively, it can protect social licence and underpin the significant investment programme ahead.'
>
> **Emily Turnbull, Partner**

12 IAE, 2026.

The cost of inaction

The cost of delay is not just economic—it could be strategic.

- Delays and uncertainty may push capital offshore or towards jurisdictions with clearer delivery pathways.
- Australia risks becoming dependent on offshore data infrastructure, with flow-on implications for sovereignty and resilience.
- Public concern and negative perceptions increase when projects appear badly coordinated or rushed, further eroding the social licence that underpins long-term investment.

> 'Delay will not simply defer investment—it may change where that investment goes.'
>
> **Gavin Smith, Partner, Co-Practice Group Leader—Corporate, Practice Leader—Technology, Media and Telecommunications**

Inaction is not a neutral position. Delay widens the supply gap, risks increasing Australia's reliance on foreign-hosted infrastructure, and diminishes our ability to shape the terms on which we participate in the global digital economy.

Unlocking investment: what needs to change

Small shifts in certainty can unlock disproportionate capital.

Energy has emerged as the defining constraint—and opportunity—in data centre development. Leading projects in Australia and globally are shifting from being passive energy consumers to active participants in the energy system. Best practice centres on early-stage integration of generation, transmission and demand planning, rather than treating grid connection as a downstream approval step. Where this integration has been achieved, projects have moved faster, attracted capital more readily and maintained community licence.

The specific levers that would materially improve investment conditions are clear:

- **greater certainty and transparency around grid access and prioritisation,** including queue reform and conditional reservation mechanisms;
- **alignment between energy policy, planning frameworks and infrastructure delivery**, treating data centre development as a system-wide coordination challenge, not a series of isolated approvals;
- **proactive and credible ESG management,** ensuring social licence is built and maintained through genuine engagement, transparent reporting and responsible resource management;
- **faster, more predictable approval and connection timelines,** recognising data centres as essential infrastructure within planning frameworks; and
- **a policy narrative that reflects reality**, that data centres are enabling infrastructure, not discretionary development.

For the market to reach its full potential, these barriers need to be addressed collectively. The greatest opportunities will come from improving coordination across transmission, generation, data centre development and water infrastructure—ensuring the right assets are deployed in the right locations, and that investment in one part of the system enables and accelerates progress across others.

Capital is available. Certainty of delivery is not. Australia has the demand, the capital interest and the structural advantages to become a leading global destination for data centre investment. What it lacks is the coordinated policy, planning and energy framework to convert that potential into built capacity.

The window to act is now. Before capital moves, before supply outstrips demand, and before Australia's digital sovereignty is decided by default rather than by design.

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