AUSTRALIAN INFRASTRUCTURE INVESTMENT REPORT 2022

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

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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.

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Our market leading infrastructure, renewable energy, and project financing teams advise across the full lifecycle of infrastructure projects. They play an active role in the development of the markets in which we operate.

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About the 2022 *Australian Infrastructure Investment Report*

Infrastructure Partnerships Australia and Allens are pleased to jointly present the 2022 edition of the *Australian Infrastructure Investment Report*.

This year's survey captures the views of international and Australian investors who together collectively own or manage over A$680 billion of infrastructure assets across the globe.

Our report provides a comprehensive view of investor appetite and sentiment. 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.

We would like to acknowledge the contributions of Glenn Byres, Headland Advisory, and Jon Frazer to the research underpinning this report.

EXECUTIVE MESSAGE

The 2022 *Australian Infrastructure Investment Report* marks the seventh 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. With the previous edition undertaken in the first half of 2021, this report provides an important analysis of the current status of Australia's infrastructure market as the world emerges from the COVID-19 pandemic.

Australia remains an attractive destination for investment, underpinned by a strong reputation

The Australian infrastructure market continues to be underpinned by its strong reputation for delivering infrastructure projects, with 88 per cent of participants 'highly likely' to invest in Australia in the next two to three years. The attractiveness of the Australian infrastructure market is primarily driven by our track record for delivering infrastructure and sophistication of market participants and partners.

Australia's performance in ESG is varied

ESG credentials of investments continue to be a key driver for investors, and Australia has an opportunity to catch up to more sophisticated ESG markets overseas. While 58 per cent of participants agree the country performs well in the 'Governance' element of ESG and 46 per cent say Australia is above average in the 'Social' element, just 32 per cent say the same of the 'Environmental' element, with 10 per cent identifying it as one of the worst markets globally. However, as ESG becomes a central driver, Australia's investors are stepping up to the task for a range of reasons, including reputational risk, desire to drive positive change and client expectations.

Investors are keen to drive decarbonisation efforts but need policy certainty

Australia's progress in the energy transition has been marred by a historical lack of political and regulatory certainty to drive decarbonisation of the infrastructure sector, with Australia viewed as a laggard on the international level. However, strong leadership from state and territory governments – and the private sector – has the infrastructure sector taking clear strides in decarbonisation. Investor appetite for 'green' infrastructure is continuing to reach record levels, with a strong attraction to renewable generation, and transmission and distribution infrastructure. There is a sense of optimism that the 'climate wars' are now in the rear-view mirror.

Supply chain constraints and inflationary economic conditions are challenging investors

While the Australian infrastructure market's stability and track record for infrastructure delivery continues to bring investors to our shores, supply chain constraints, particularly in the labour and materials market, and growing uncertainty around the global economic outlook, are challenging investors.

In order to ride out a potential coming economic 'storm' we need to ensure we have the right settings to attract and preserve private capital. With the current record project pipeline across Australia – including an increasing number of megaprojects entering their delivery phases – the infrastructure sector will need to balance an expanding infrastructure pipeline with delivery timeframes and the sector's capacity.

Private capital is hungry for a home and Australia must continually calibrate market settings to attract that capital

Australia remains an attractive destination for infrastructure investments, however, we risk losing our advantage if we continue with business as usual. Australia has slipped behind North America as the most attractive investment destination globally. With growing uncertainty around the effects of inflation and geopolitical issues, we risk missing out to other regions.

There is a wall of private capital hungry for a home. With the growing scale of domestic superannuation savings, Australia needs to ensure the policy and regulatory settings encourage private finance in the sector. The 2021 Your Future, Your Super reform package has generated a series of improvements, alongside some unintended consequences. Views of the materiality of these challenges vary widely amongst investors – ranging from welcome to extremely damaging. However, on average, views are neutral with a preference for evolution of the measures. With a periodic review of the reform package in the near term, there is a platform available to make positive changes.

With record infrastructure spends announced over the past few years, governments are entering a post-pandemic era where battered balance sheets and rising borrowing costs means sustaining investor appetite will require different approaches to infrastructure investments. Infrastructure Partnerships Australia has identified 67 greenfield projects across the country – representing $72.3 billion worth of opportunity – suitable for governments to engage private capital on. While these are greenfield projects today, they will be brownfield opportunities 'tomorrow' that first investors or governments may look to recycle down the track.

Fortunately, Australia has a deep history of leveraging private capital to release funding from existing infrastructure by recycling assets, and for new infrastructure through models like Public Private Partnerships (PPPs). This year's report shows Australia needs to re-learn some old skills and unlock the vast sums of private capital available to meet our infrastructure aspirations.

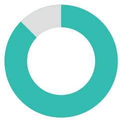
Adrian Dwyer
Chief Executive Officer – Infrastructure Partnerships Australia

David Donnelly
Partner – Allens

Kip Fitzsimon
Partner – Allens

KEY FINDINGS

Investor appetite for Australian infrastructure remains strong



88 per cent of surveyed investors are 'highly likely' to invest in Australia

The maturity of the Australian market continues to attract investors

84 per cent

say Australia's 'strong knowledge of market participants' and 'track record for infrastructure business' makes Australia an attractive investment destination

'Value to be found' and 'the cost of equity' have increased

22 and 19 percentage points

from last year

Capacity constraints and economic uncertainty are dampening investor confidence

85 per cent

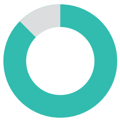
agree the Australian infrastructure market is facing capacity constraints

Economic stability fell

19 percentage points

with high levels of inflation contributing to investor uncertainty

ESG considerations of investments have grown over the past year



88 per cent
believe ESG credentials of investments have become more important

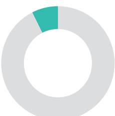
58 per cent
agree diversity in organisations and among leadership groups has become more important to investors

74 per cent
believe climate risk has increased

74 per cent
of participants believe maintaining a social licence for projects is more important

Decarbonisation of the infrastructure sector is a primary consideration for investors

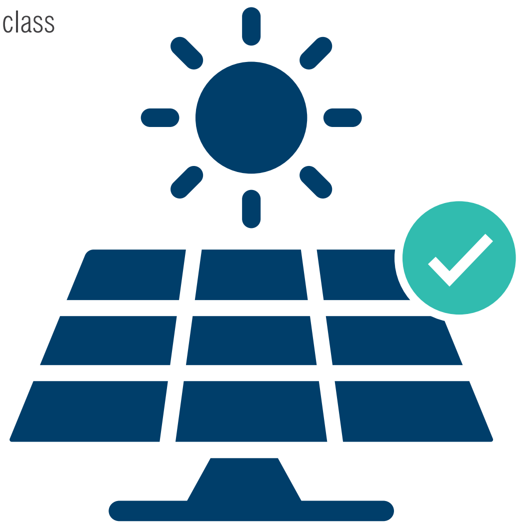
69 per cent
of participants identified renewable generation as an attractive asset class



Just 9 per cent
said the same for non-renewable generation

68 per cent
of participants identified energy transmission and distribution as a preferred asset class to invest in

64 per cent
of participants would like to see Australian governments do more to push decarbonisation, regardless of higher costs



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 the second quarter of 2022, we conducted a quantitative survey of 36 senior market participants to understand investment trends in Australian infrastructure.

We followed the survey with detailed qualitative interviews with 16 leading Australian and international infrastructure investors to gain a deeper insight into the observed investment themes.

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

Participants

The market participants surveyed are senior representatives of major infrastructure organisations with over A$680 billion invested globally, including banks, fund managers, superannuation funds, pension funds, investors, investment managers and infrastructure constructors and operators.

Over half of the participants have their head office located in Australia, with the remainder spread across Europe, Asia-Pacific, and North America. All individuals surveyed are based in Australia, reflecting the importance of local presence to effectively participate in the Australian infrastructure market.

Survey participants included Chief Executives, General Managers, Investment Managers, Chief Investment Officers, Corporate Affairs Managers, M&A Managers, Fund Managers, Non-Executive Directors, Bankers, Managing Directors, Directors, and Heads of Infrastructure.

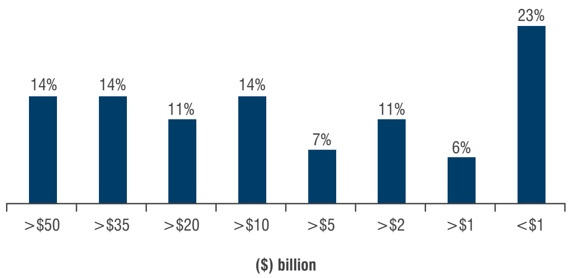
PARTICIPANTS’ INVESTMENTS

PARTICIPANT STATISTICS

- **Participants have over A$680 billion in infrastructure investments globally**
- **Over half of the participants manage more than A$10 billion of investments**
- **Nearly 60 per cent hold more than half or all their investments in Australia**
- **Over 60 per cent hold social infrastructure, renewable energy generation, roads, transmission and distribution, passenger rail and water infrastructure assets**

In each edition, the *Australian Infrastructure Investment Report* continues to grow in terms of the value of assets under management. In 2022, the report surveyed 36 participants managing more than $680 billion in infrastructure investments worldwide, up from the original 21 participants and less than $100 billion in 2015. This year, 28 per cent have a total of over $35 billion invested in infrastructure globally, as shown in Figure 1.

Figure 1: Profile of survey participants’ global infrastructure investments



In the 2022 survey, 94 per cent of participants have already invested in Australian infrastructure, with the remaining six per cent identifying as market participants, but not investors (see Figure 2). Over half of the participants had either all, or more than 50 per cent, of their investments in Australia, as shown in Figure 3.

Figure 2: Current investment in Australian infrastructure

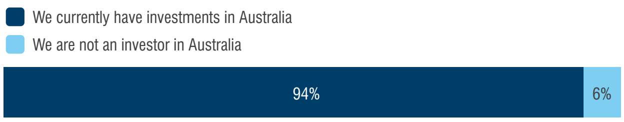
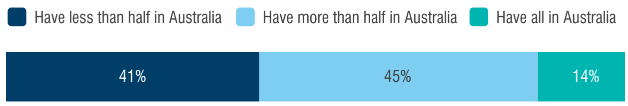
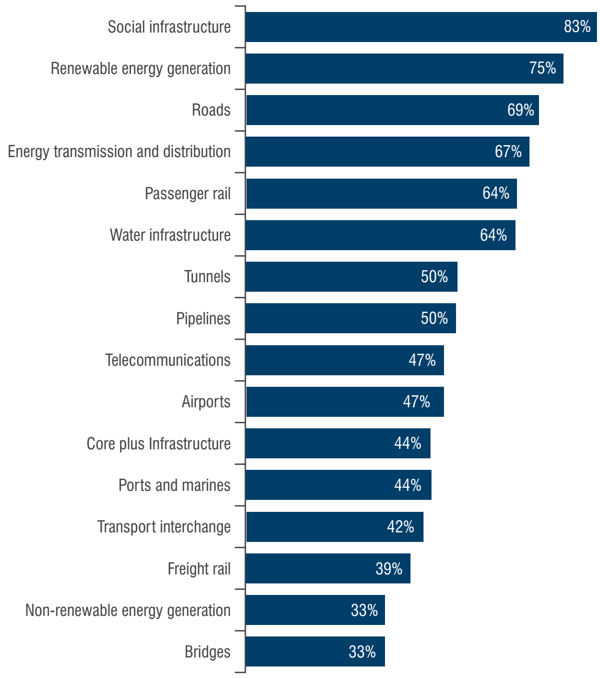


Figure 3: Proportion of investments in Australia versus elsewhere



The participants surveyed invest in a broad range of asset types, however, some forms of infrastructure are more prevalent than others. In a first for the *Australian Infrastructure Investment Report*, this year more participants have an investment in social infrastructure and renewable energy, overtaking roads. These are followed by energy transmission and distribution, passenger rail and water infrastructure, as shown in Figure 4.

Figure 4: Global profile of participants with an investment in each asset type



INVESTMENT INTENTIONS

KEY FINDINGS

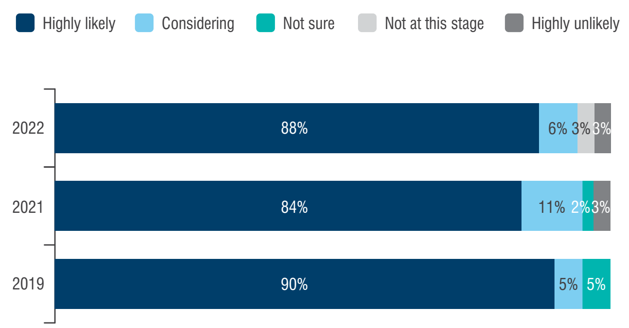
- **88 per cent of those surveyed are 'highly likely' to invest in the Australian infrastructure market, and a further six per cent are considering investing over the next two years**
- **Investor appetite for 'green' assets continues, reaching 69 per cent for renewable generation and 68 per cent for transmission and distribution**
- **Just nine per cent of participants see non-renewable generation as attractive, a 32 percentage point drop from last year**
- **Investors preference for passenger and freight rail assets grew by 11 and eight percentage points respectively since last year**
- **Interest in unregulated assets fell by 14 percentage points from 2021, while regulated assets are up two percentage points**

Participants were asked about their investment intentions in Australia. The questions ranged from the likelihood of investing in Australia, to the particular asset class and type preferred. While investment appetite has rebounded strongly since last year, there is lingering uncertainty around available opportunities in the Australian market.

The appetite for investing in the Australian infrastructure market remains strong, but is still below pre-pandemic levels

As shown in Figure 5, 88 per cent of participants are 'highly likely' to invest in Australian infrastructure in the next two years, and a further six per cent are 'considering' investing. There is evidence that the Australian infrastructure market has rebounded strongly from COVID-19, with the growth in 'highly likely' responses close to pre-pandemic levels once again. However, there is lingering uncertainty in the market, with six per cent either not considering or 'highly unlikely' to invest in Australia, up from three per cent in 2021.

Figure 5: Likelihood of investing in Australian infrastructure



Social infrastructure remains the most attractive asset class

As shown in Figure 6, social infrastructure remains the most attractive asset class for investment in Australia, after overtaking roads in last year's report for the first time. The increased focus on social infrastructure from investors over the past two years coincides with significant government funding commitments to the sector through 2022-23 state budgets, especially in health. In this year's budget round, the NSW Government allocated $11.9 billion in capital expenditure on hospitals and health facilities over four years, the Queensland Government announced a six-year $9.8 billion Queensland Health Capacity Expansion Program, and the Victorian Government allocated $2.9 billion over four years towards new and upgraded health infrastructure – with Victoria in particular leveraging a privately financed approach to delivery.

‘Green’ energy assets spanning generation and transmission are viewed favourably

Across all energy assets, there was a clear preference for renewable energy generation and transmission, as well as emerging technologies such as hydrogen. Energy transmission and distribution assets increased from nineth position last year to equal third position this year, with 68 per cent of participants identifying it as a preferred asset class to invest in (see Figure 6). The transmission and distribution asset class was one of just six classes that recorded an increase in attractiveness, registering a six percentage point improvement on 2021 results (see Figure 7).

Regarding the generation side of the energy market, renewable generation has retained its position as the second most attractive asset class, with 69 per cent of participants selecting it as their preferred class (see Figure 6). Conversely, non-renewable generation suffered the largest fall in attractiveness and now sits last, with just nine per cent of participants identifying it as attractive, down 32 percentage points from last year (see Figure 6 and 7).

Figure 6: Preferred Australian asset types to invest in

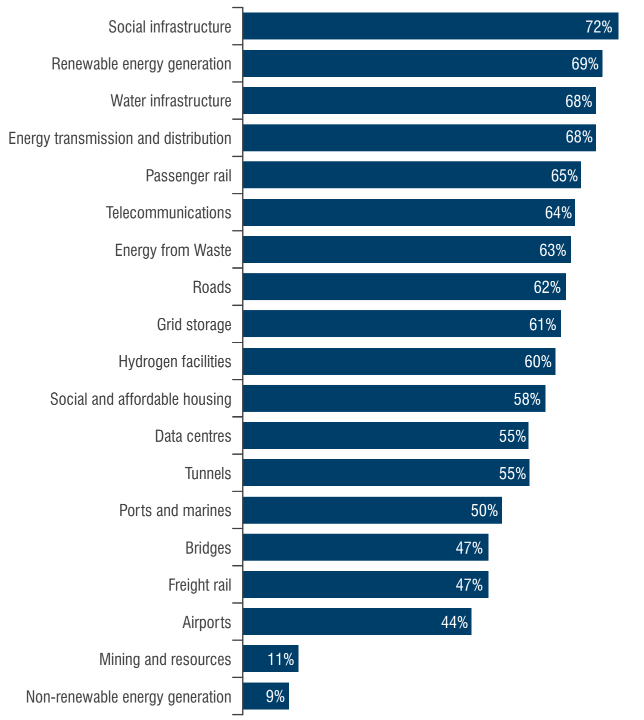
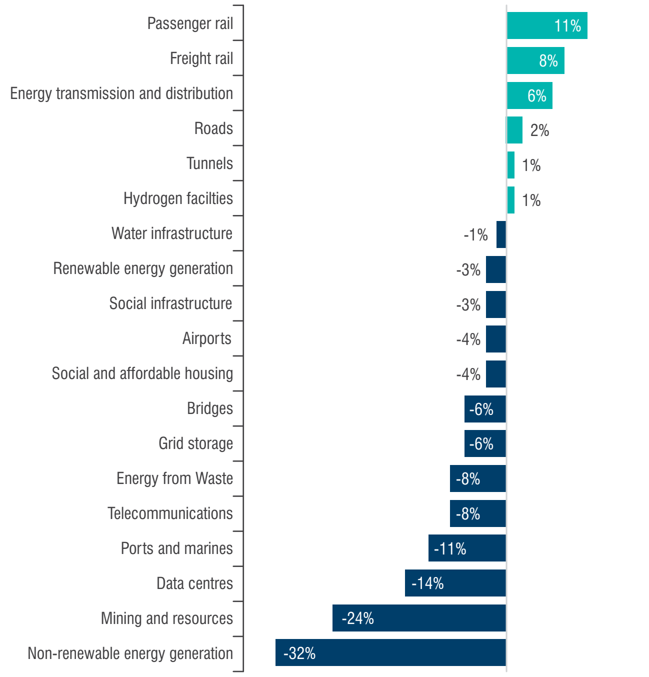


Figure 7: Preferred Australian asset to invest in, compared to 2021



The qualitative interviews found that there is a significant amount of private capital continuing to hunt for renewable energy assets, however, the availability of well-priced opportunities continues to challenge the sector.

> *“I think there is significantly more interest than there are projects available, and a degree of interest in high quality assets and platforms.”*
>
> Investment Bank

> *“Between now and 2026, there is a race on in NSW to effectively replace the coal fired generation and the numbers are stratospheric given the amount of new generation capacity required.”*
>
> Infrastructure Investor and Developer

Despite the rapid growth of renewable energy asset attractiveness, some participants expressed concern around misallocation in the Australian energy market, particularly around the lack of storage and transmission, and the availability of energy offtakes.

"The energy market is complex and poorly understood. It doesn't matter how many wind turbines or solar panels you put up, the storage isn't there."
Super Fund Manager

"The big roadblock at the moment is the transmission networks."
Super Fund Manager

"There remains a strong undercurrent of interest for renewable energy projects and that will continue but the biggest constraint is finding offtake for renewable energy."
Investment Bank

While investor appetite for emerging renewable energy technologies, such as hydrogen facilities, rose from twelfth to tenth position (see Figure 6), participants expressed hesitance around the viability and risk profile of the technology.

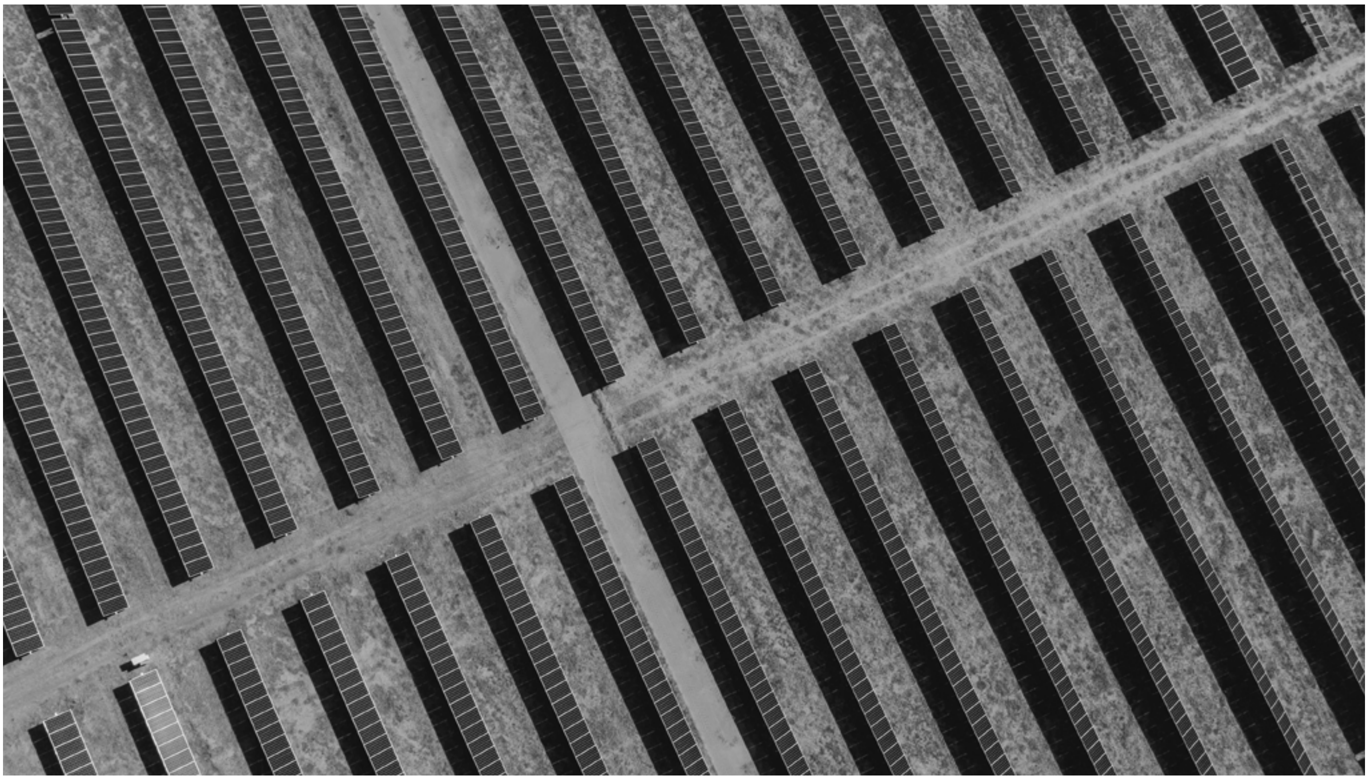
"When I get into the details of hydrogen, I don't see when it becomes investible. Batteries – they are just un-investible. I don't know how they are going to be efficient, they've got a life of 20 years and at the end of that you've got to do something with toxic waste."
Super Fund Manager

"Hydrogen doesn't appear to be ready for large scale capital deployment. There is still risk around it and maybe venture capital and the like are more interested for now, but maybe not infrastructure capital unless it is significantly de-risked."
Investment Bank

While the attractiveness of most asset classes fell, passenger and freight rail thrived

As shown in Figure 7, investor preference for most asset classes fell this year compared to 2021, however, both passenger and freight rail assets were viewed significantly more favourably compared to last year. Preference for passenger rail grew by 11 percentage points and rose to the fifth most attractive asset class, while preference for freight rail grew by eight percentage points, though still remains among the least attractive classes.

Participants noted that the attractiveness of rail assets likely rose due to numerous investors and financiers looking at current deal flows in Australia's infrastructure pipeline, including major projects such as Sydney Metro, Inland Rail, and the Suburban Rail Loop. In addition, rail's apparent resilience to, and rebound from, COVID-19 held the asset class in high stead.



“Rail is a big untapped opportunity. There’s still a lot of government ownership of infrastructure so people look at that as the next pipeline of opportunities.”
Institutional Investor

“During COVID-19, we saw the resilience of freight traffic – it’s consistent with what we saw through ports.”
Institutional Investor

However, participants also acknowledged mounting risks in freight rail assets, especially due to changing market dynamics – in terms of growing labour costs and demand, and capacity constraints.

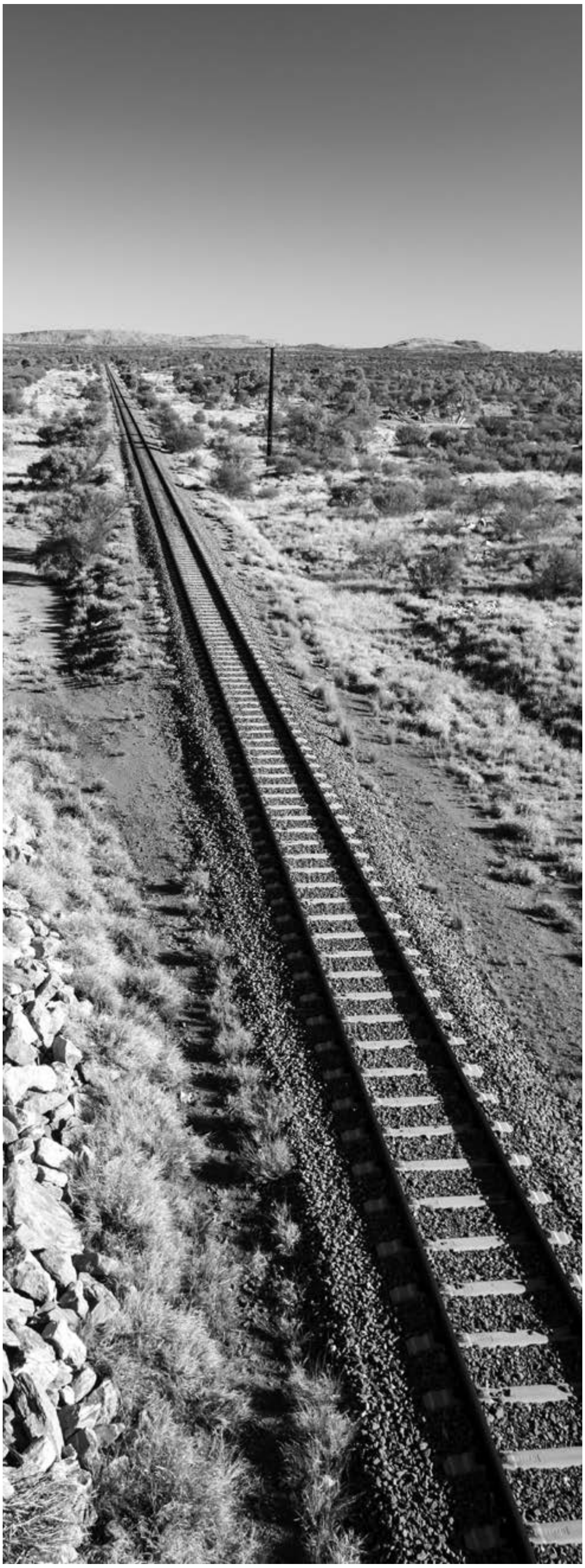
“On the portfolio side of freight, you probably have to run the risk of running coal on your asset which is increasingly problematic from an ESG perspective.”
Institutional Investor

“A lot of those freight businesses are very manual and that’s an issue with labour costs increasing.”
Institutional Investor

Telecommunications assets remain attractive, but opportunities are drying up

After experiencing a rapid growth in last year’s findings, preference for telecommunications assets has contracted over the past 12 months, falling by eight percentage points and slipping from the second most attractive asset class to the sixth, as shown in Figures 6 and 7. Similarly, investor appetite for data centres fell by 14 percentage points to the equal twelfth most attractive asset class (see Figures 6 and 7).

However, diminishing interest in telecommunications assets is likely an artificial decline and the result of the brownfield pipeline drying up, with all tower networks across Australia having had a full, or partial sale over the past 12 months, including Telstra’s Amplitel Towers, Optus’ Australia Tower Network, Macquarie Asset Management’s Axicom Towers, and TPG’s tower business sale.



Preference for regulated assets overtakes unregulated for the first time, but this is expected to be short lived

For the first time in the *Australian Infrastructure Investment Report*, investor preference for regulated assets has overtaken preference for unregulated assets. As shown in Figure 8, 28 per cent of participants prefer regulated assets compared to 25 per cent for unregulated, down 14 percentage points from last year. The qualitative interviews indicated this was likely a result of strong alignment of government intentions with regulated assets as well as a reflection of current global economic pressures.

> *"I think it depends on the sector. There is a bit more alignment with government's political will with regulated assets. For example, if you look at government transmission and distribution, they desperately want these assets to get off the ground."*
> Institutional Investor

> *"The hedge against inflation will be one of the main drivers. I think inflation concerns are driving some of these preferences – the reason being, regulated assets are well insulated against inflation and interest rate volatility over the long term."*
> Investment Bank

This shift in investor attitude was foreshadowed in last year's survey, as participants identified a 'flight to safety' in the form of regulated assets during COVID-19 due to the need to gain a more balanced and diversified portfolio. However, some participants challenged these findings, identifying the heightened levels of risk around regulated assets in a high-inflation environment.

> *"In an inflationary environment, the government protects you by resetting the costs on regulated assets. My question is whether that works in a high-inflationary environment, when there is a point where governments will be reluctant to pass through higher regulated prices. The protections may not exist."*
> Global Investment Adviser

> *"There is a whole level of political risk in them that people don't price. The pressure governments are facing to bring the cost of living under control is going to be an issue."*
> Infrastructure Investor

Figure 8: Preferred regulatory model for investments

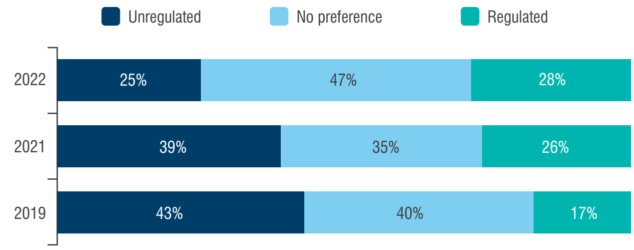
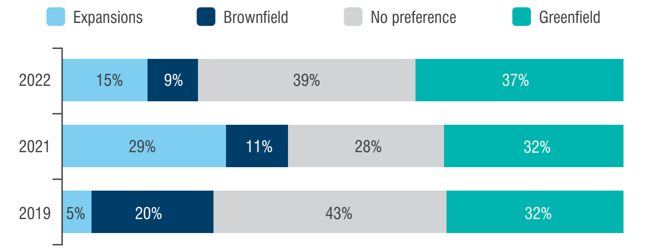


Figure 9: Investors' preferences for greenfield, brownfield or asset expansions



Participants also expressed scepticism of whether this is a long-term trend, with some identifying the inability of regulated assets to meet the return requirements investors are seeking.

"It's a little bit as a result of COVID-19 and people seeing those structures as having certainty and giving appropriate risk adjusted returns, but they will drift away soon enough."

Investment Bank

"I think the market will turn and see good investments in unregulated assets."

Infrastructure Investor and Developer

Preferences for greenfield assets remain steady, but carries high risk

When asked about preference for greenfield (new developments) or brownfield (mature operating assets) investments, 37 per cent of participants expressed a preference for greenfield assets, while preference for expansions to existing assets fell by 14 percentage points from last year (see Figure 9). Only nine per cent of participants expressed a preference for brownfield assets.

Investors identified that while there is a larger risk profile in greenfield assets, the opportunities for higher returns continues to attract investor preference when compared to brownfield assets or expansions to existing assets.

"If you are pursuing a higher return, you might be happy to take on greenfield risk."

Super Fund Manager

"There are risks on greenfield delivery but at the same time, there is a desire by Australian investors to participate given the significant premium that exists compared to brownfield."

Infrastructure Investor and Developer

"I think it goes back to the fundamental issues of investors looking for higher returns and brownfield assets have been bid down. And now, the benchmark index is forcing investors up the risk curve."

Global Investment Adviser

However, some participants questioned whether this trend will continue, and identified a market shift emerging away from greenfield assets due to rising interest rates and inflation, and uncertainty surrounding greenfield developments.

"The question is whether this will hold in the new era of interest rates and inflation. A few months ago, you had brownfield assets that were trading at ridiculously low levels of return. At that time, you felt as though the risk-return equation was more beneficial on the greenfield side."

Institutional Investors

"The brownfield assets will need to be adjusted and might create a narrowing effect of the implicit risk premium between a greenfield and a brownfield asset."

Institutional Investor

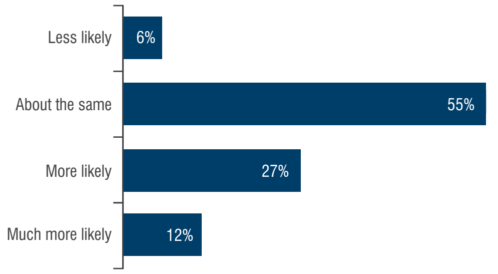
"Taking on construction risk is something that infrastructure investors have been doing for many years, but at the moment, construction risk is a higher risk than it was two years ago."

Global Investment Adviser

There is growing appetite for M&A activity, but opportunities are dwindling

Following a flurry of infrastructure merger and acquisition (M&A) activity over the past 12 months – including the take private of Sydney Airport – and the sustained growth of superannuation funds, 39 per cent of participants are either 'more' or 'much more' likely to engage in M&A activity compared to last year, while a further 55 per cent remain 'about the same' (see Figure 10).

Figure 10: Investors' appetite for M&A activity



The majority of qualitative interview participants agreed the pace and motivators for M&A activity are likely to continue over the next year, driven by the growing size of superannuation funds and sheer volume of private capital available in the Australian infrastructure market.

"I think it'll keep occurring and those large super funds will be more important as money is concentrated in them."

Investment Bank

"Longer-term, the size of capital in super funds will look at listed assets or purchasing direct or public-to-private. The sector is now at a scale where it is buying assets it wouldn't have bought five years ago."

Super Fund Manager

However, some participants expressed uncertainty around Australia's M&A market, identifying a lack of available stock as opportunities dry up, and seeing superannuation funds looking to overseas markets.

"I'm not sure about how much more activity we can have. There might be some recycling but I'm not seeing what is going to be the driver. I don't think any of the remaining capital city airports will be transacted. The ports are largely done. I can't see the Queensland or Western Australian Governments putting assets to market, and no one wants to touch the coal assets."

Super Fund Manager

"I think it's going to continue and the only question is whether there are opportunities domestically versus having to look harder in international markets."

Infrastructure Investor and Developer

"The real issue is whether there are enough investible assets. At some stage the market will run out of options – even if it is not quite there yet."

Investment Bank

Preference for multi-billion dollar investments in Australia rebounded this year

This year's results see participant appetite for a high-volume of investments in Australia return to pre-pandemic levels – with 58 per cent of participants comfortable investing over $2 billion in total in Australia, a 19 percentage point increase on last year's results and equal to the 2019 survey (see Figure 11). This is likely a reflection of the volume of capital in the Australian market searching for a home, as investors, particularly superannuation funds, compete for limited opportunities.

Similarly, investor appetite for single investments between $1 billion and $2 billion grew by six percentage points, while preference for single investments over $2 billion grew by 14 percentage points (see Figure 12). These findings indicate that participants are likely more willing to accept perceived risks associated with megaprojects than they were during the height of the pandemic. Despite this, participants also expressed a significant preference for assets in the $200 million to $500 million bracket, with 32 per cent of participants identifying it as their preferred largest single investment size – suggesting a number of investors remain wary of overcommitting to large-scale projects.

Figure 11: Total amount comfortable investing in Australia

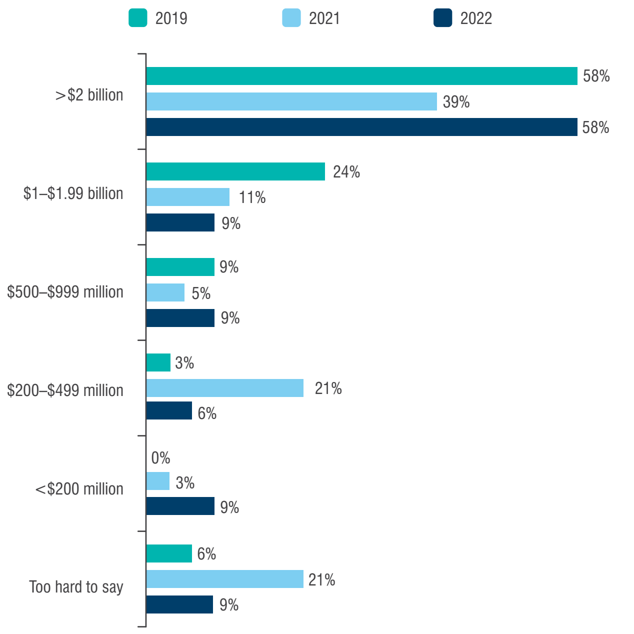
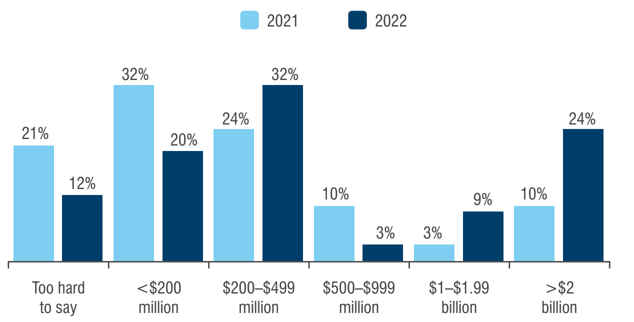


Figure 12: Single investment sizes considered by participants

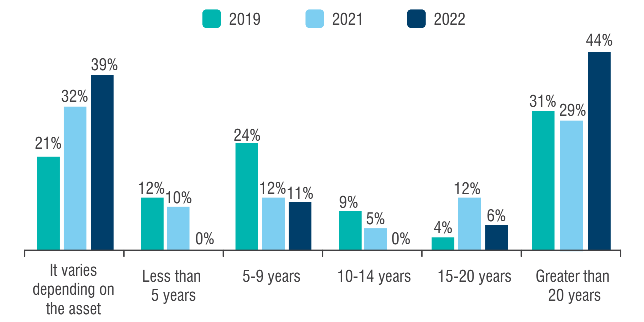


Preference for long-term investments remains strong

When asked about the intended tenure of investments, respondents reinforced an ongoing trend from past years of investors looking to buy and hold assets for the long-term, with 50 per cent preferring to hold assets longer than 15 years, and 44 per cent of those preferring to hold assets over 20 years (see Figure 13).

This year's research also saw a seven percentage point increase in participants selecting 'it varies depending on the asset', which reached 39 per cent. The growth in this category may be attributed to growing uncertainty and changing market dynamics such as inflation and higher commodity prices, leading to investors taking a more flexible approach to the types of assets and investment tenures they are considering.

Figure 13: How long are assets held on average?



EMERGING MARKET CONDITIONS

KEY FINDINGS

- **88 per cent of participants believe ESG credentials of investments have become more important than a year ago**
- **74 per cent of participants agree maintaining a social licence for projects is more important than a year ago**
- **74 per cent believe climate risk has increased over the past year**
- **64 per cent of participants would like to see Australian governments do more to push decarbonisation, regardless of higher costs**
- **58 per cent of participants agree diversity in organisations and among leadership groups has become more important to investors over the past year**
- **Reputational risk is the key driver of the shift to ESG investments**

Investors are placing greater importance on diversity in organisations and leadership groups

This year, 58 per cent of participants agree that diversity in both their organisation, and in their leadership groups, has become ‘more important’ or ‘much more important’ (see Figure 14). Participants emphasised that the infrastructure sector is making some progress on this front – but still has a long way to go, especially in regards to attracting women at earlier stages of, and retaining them throughout, their careers.

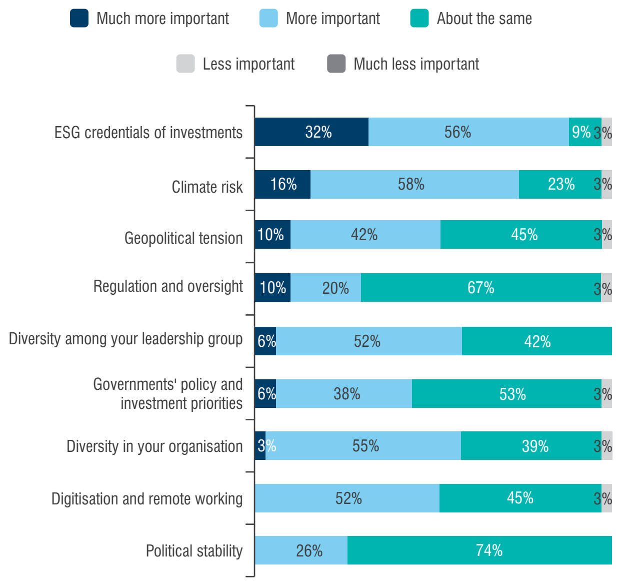
“I’d say there is a lot more awareness on gender diversity across the industry, but I still think we’re not best-in-class at all.”
Infrastructure Investor and Developer

“It’s good and moving in the right direction, but we’re really only a third of the way there.”
Institutional Investor

However, some participants pointed to a deeper issue in Australia’s infrastructure sector and identified that diversity in Australia needs to extend beyond gender diversity.

“There’s a focus on gender diversity and we’re not necessarily recognising the cultural diversity we have as an industry.”
Infrastructure Investor and Developer

Figure 14: Factors that are more important to investors compared to last year



Climate risk is a pressing issue for investors

Climate risk has also evolved into a core concern for investors, with 74 per cent of participants identifying it as ‘more’ or ‘much more’ important compared to last year (see Figure 14). This is likely due to a culmination of three years of extreme weather events across the country.

Increasing climate risks, both to greenfield and brownfield assets, will require governments to take a proactive approach to the planning and procurement of projects as investors move further toward prioritising climate resiliency in their investments.

ESG remains a strong driver for investment decision-making

ESG considerations remain at the forefront of investors' mindsets compared to previous years where they were relegated as secondary drivers of investment. This year, 88 per cent of participants believe that the ESG credentials of investments have become 'more important' or 'much more important' in their investment decision-making over the past year (see Figure 14).

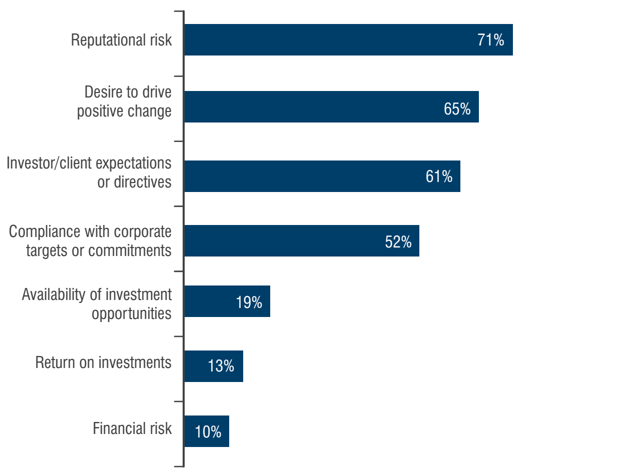
Reputational risk is driving ESG investments

When asked about the key drivers of the shift to ESG investment, 71 per cent of participants identified 'reputational risk' as the strongest driver, while 65 per cent identified a 'desire to drive positive change' as another primary driver of ESG (see Figure 15).

> *"Reputational risk is a facet that is increasing. If we buy an asset and we don't deliver the right service or put prices up outside expectations, it flows very quickly to reputational damage."*
>
> Super Fund Manager

Closely following 'reputational risk' and a 'desire to drive positive change', 61 per cent identified 'investor/client expectations or directives' and 52 per cent nominated 'compliance with corporate targets or commitments' as other significant ESG investment drivers.

Figure 15: Key drivers of the shift to ESG investments



Australia stands out in the 'G' element of ESG

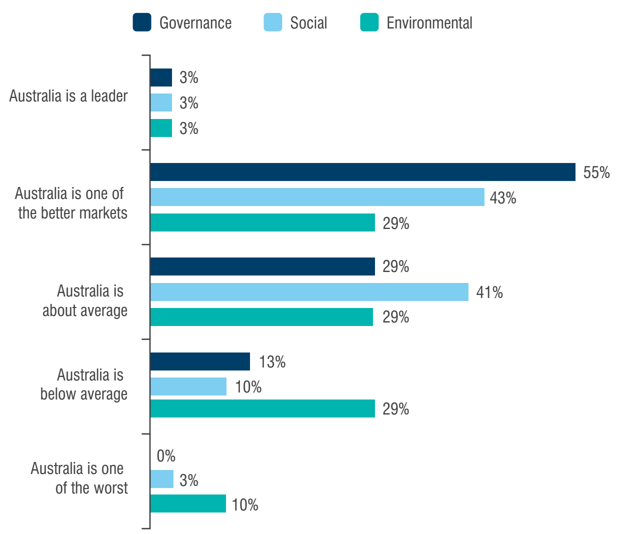
In terms of Australia's performance in ESG elements, 58 per cent of participants believed that Australia is 'one of the better markets' or a 'leader' in 'Governance' (see Figure 16).

> *"I think corporates in Australia have a good separation between Chair and CEO roles compared to other jurisdictions where they are combined into one. There is awareness and Boards are pushing companies to provide disclosures that are not done in other jurisdictions."*
>
> Investment Bank

> *"Australia is considered a benchmark worldwide and I can compare what's going into my portfolio compared to other regions and we're at a different level."*
>
> Institutional Investor

> *"Governance in Australia is very strong and if you go into some overseas markets, it's not as robust."*
>
> Infrastructure Investor and Developer

Figure 16: Australia's performance in ESG elements



There is room for improvement in the 'E' element of ESG

The 'Environmental' element is considered as Australia's weakest ESG component, with 10 per cent of participants ranking Australia as 'one of the worst' markets in the environmental space, and a further 29 per cent identifying it as 'below average' (see Figure 16). Participants highlighted the perception of Australia as a laggard in environmental issues can be partly credited to the policy priorities of the former Federal Government.

While participants expressed general disappointment towards Australia's historical policy direction in the environmental aspect, there were praises for state and territory government initiatives. Additionally, participants highlighted the importance of leadership from industry and the private sector in progressing environmental reform and considerations.

"You've had states trying to provide a runway on projects to deliver carbon targets and in procurement you've seen states being proscriptive as to what they want on environmental outcomes."
Infrastructure Investor and Developer

"The leadership has come from the investors themselves. Most owners have ambitious net zero and interim targets, so it has driven the leadership. The imperative is there already."
Institutional Investor

Interestingly, while Australia performs poorly in the 'Environment' element of ESG, participants highlighted that it is regarded as the most important component to organisations – potentially to the detriment of the other two elements.

"There is almost an emotional attraction to be seen to be contributing to the renewable energy transition. It's hard to argue you're contributing to the energy transition when you are buying existing assets. For many investors, if you can't tick the box on 'E' you can't get to the other two. It's so fundamental to what the market wants these days."
Global Investment Adviser

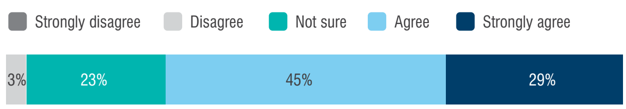
"People are paying more for those assets than the risk they are undertaking and they are doing it to get some green dollars invested."
Super Fund Manager

"There's no way there are enough opportunities. It's gone beyond sensible settings."
Investment Bank

Australia's 'S' performance is well regarded

Investors identified that Australia also performs well in the 'Social' element of ESG, with 46 per cent of participants ranking Australia as 'one of the better markets' or a 'leader' in the 'S' component (see Figure 16). This is particularly pertinent when considering the social licence of infrastructure assets, where 74 per cent of participants 'agree' or 'strongly agree' that maintaining a social licence for projects is more important compared to two years ago (see Figure 17).

Figure 17: Maintaining a social licence to operate has become more important when managing or making investments



Reservations remain over the usefulness of ESG frameworks and the adequacy of ESG rating tools

When asked about the usefulness of ESG frameworks for assessing and reporting on the ESG credentials of projects, 54 per cent of participants believed these frameworks were useful, including 19 per cent identifying them as 'very useful', as shown in Figure 18. However, it is important to note that 22 per cent – or nearly a quarter of participants – did not find ESG frameworks to be useful.

The qualitative interviews revealed that the dominant view among investors was ESG frameworks are essential tools but are frustrating and deficient. Most participants argued that standardisation is key to improving the ESG framework.

"Standardisation around reporting would be useful. There are a lot of different dynamics and measurement types and approaches."

Super Fund Manager

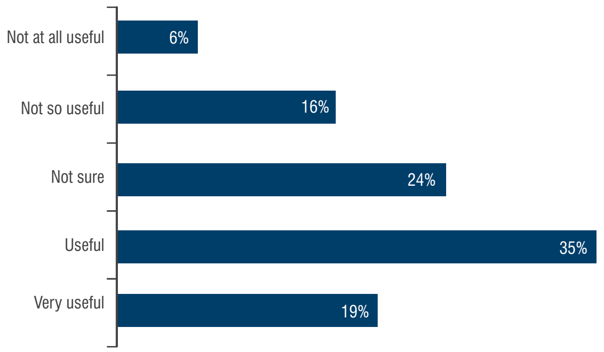
"Do I think the frameworks are well enough developed to really hit home? We've got a bit of way to go yet. We're a two on the way to a five."

Super Fund Manager

"My first desire would be to have just one. They take up a huge amount of time and they don't recognise that sometimes you can decide something isn't appropriate for your business. To be meaningful, they have to measure progress rather than just the status quo."

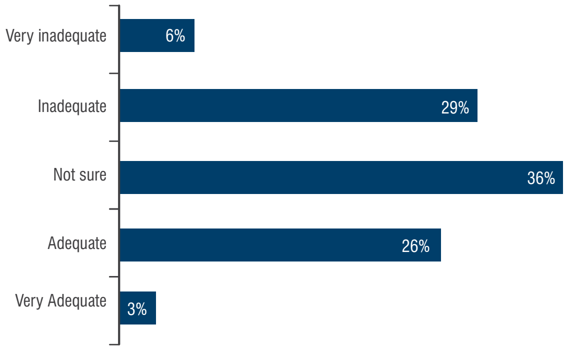
Infrastructure Investor

Figure 18: Usefulness of ESG frameworks for assessing and reporting on ESG credentials of projects



In addition, participants were asked about the adequacy of the current ESG rating tools for measuring the sustainability of greenfield infrastructure projects, with 35 per cent of respondents identifying the rating tools as 'inadequate' and 29 per cent finding them to be 'adequate' (see Figure 19). The perception that ESG frameworks do not effectively measure ESG credential performance signals a need for governments to develop an updated measuring standard in line with user expectations.

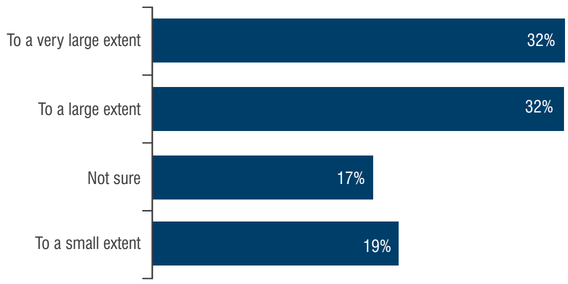
Figure 19: Adequacy of ESG rating tools for measuring the sustainability of greenfield infrastructure projects



Participants expressed a willingness to drive faster decarbonisation of the sector

As shown in Figure 20, 64 per cent of participants would like to see Australian governments do more to push decarbonisation efforts, even if it incurs additional costs. Many investors are looking to decarbonise infrastructure assets and are adopting internal net zero targets. However, participants emphasised the need for more government action to assist their decarbonisation efforts using a coordinated, long-term policy approach, especially in regard to emerging technologies for hard-to-abate sectors.

Figure 20: Investors' appetite for government action towards decarbonisation, regardless of additional costs



"If we're going to be successful in achieving decarbonisation across everything, we've got to be sensible and consistent. A combination of government policy and tabloid sentiment pushes us to a place where everything is good or bad, rather than recognise there is a journey to get there. I don't feel like there is a coordinated approach and there is a lot of reactionary measures rather than long-term planning."

Infrastructure Investor and Developer

Australian governments need to coordinate public policy with private capital

While most participants would like to see decarbonisation efforts accelerated by governments and acknowledge their substantial role to play in the transition, there appears to be lingering doubt that Australian governments can efficiently integrate private capital in line with their existing infrastructure pipelines.

"Governments are usually laggards when it comes to mega trends in capital markets. They lack the dexterity and foresight of capital and that will remain the case."

Infrastructure Investor and Developer

"At least in NSW, they are trying to give the most strong and consistent signals of where the state is trying to get to."

Institutional Investor

Participants identified opportunities for governments to utilise private capital in decarbonisation efforts, with some investors noting the appeal of decarbonised assets and their substantial opportunity for revenue.

"Investors are all trying to reduce their exposure to carbon emissions, so I don't think there is market for governments trying to sell dirty brown assets without a transition plan."

Global Investment Adviser

"If you can provide a path to facilitate resolution of emissions, that's another revenue opportunity."

Institutional Investor

"The perfect scenario for us is to buy a dirty generation asset and flip it into a green one where there is a premium. That is the holy grail."

Super Fund Manager

The challenge for investors then, is how transitional costs are priced and who carries the risk.

"The obvious answer to that is in how you establish the value of money – is it coming out of user charges or government coffers as to who pays for the change in the carbon profile?"

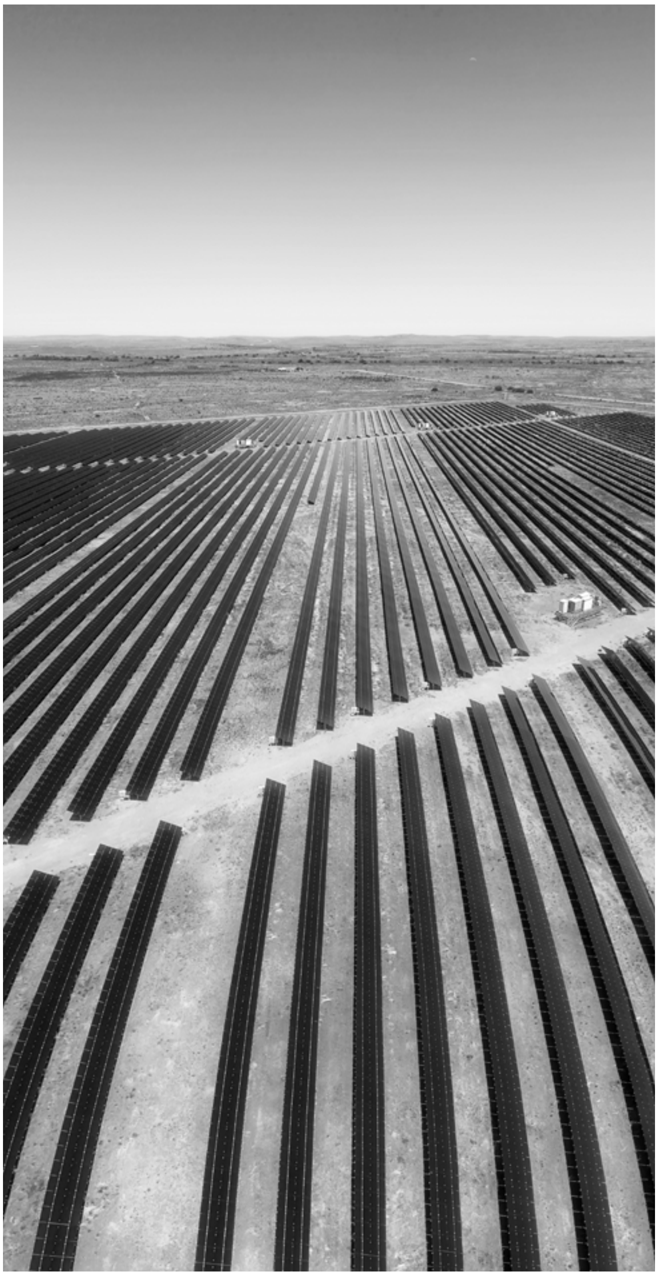
Investment Bank

"We've seen private investors try to offload carbon intensive assets and they've failed or are offloading at a price below expectations. It'll be exactly the same for governments."

Investment Bank

"Governments will be able to sell them, but at a heavily discounted price and only to select buyers with the capacity to deliver the transitional plan."

Investment Bank



WHY AUSTRALIA FOR INFRASTRUCTURE?

KEY FINDINGS

- **'Track record of infrastructure business', 'knowledge of market participants' and 'economic stability' remain the top reasons for investment in Australian infrastructure**
- **'Economic stability' slipped for the first time since 2019 – falling 19 percentage points compared to 2021**
- **'Value to be found' and the 'cost of equity' increased by 22 and 19 percentage points respectively**
- **'Taxation benefits' remains the least attractive aspect of the Australian market**
- **Australia's response to COVID-19 fell 31 percentage points**

Participants indicated the same factors that have made Australia an attractive investment destination largely remain in place. Australia's track record for infrastructure (84 per cent), knowledge of market participants (84 per cent) and economic stability (75 per cent), have remained the most important factors for all seven editions of the *Australian Infrastructure Investment Report* – but all ratings fell compared to last year (see Figures 21 and 22).

Figure 21: What makes Australia attractive for infrastructure investment?

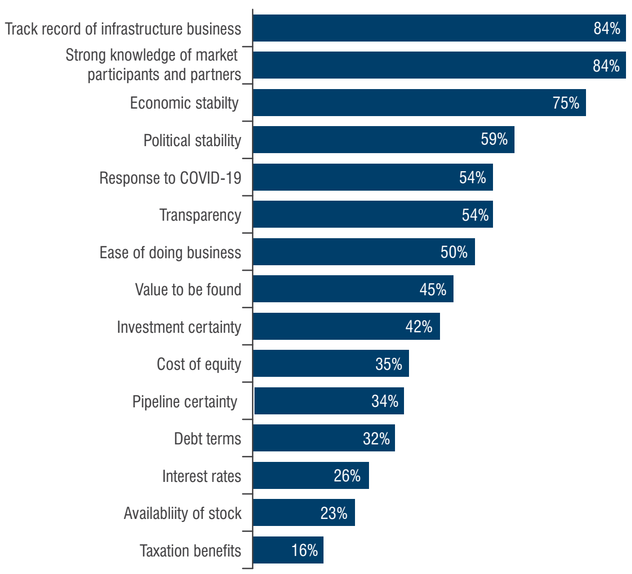
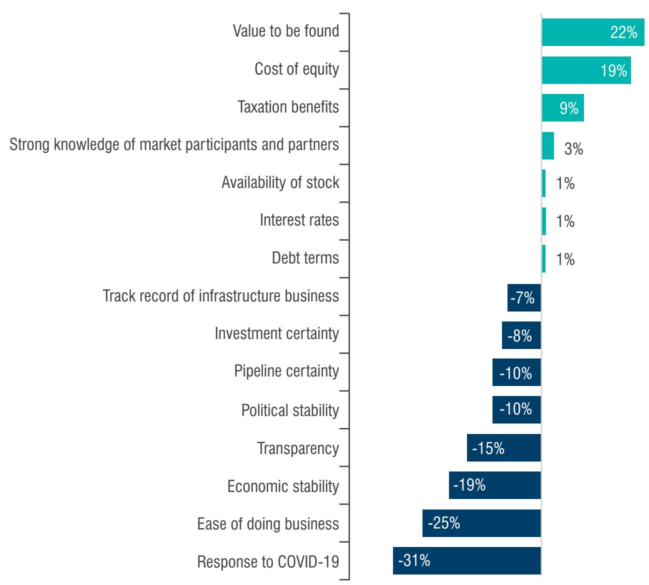


Figure 22: What makes Australia attractive for infrastructure investment compared to 2021



Economic stability slips for the first time since 2019

For the first time since 2019, 'economic stability' (75 per cent), has decreased, falling 19 percentage points compared to last year, as shown in Figure 21 and 22. This year, 'strong knowledge of market participants and partners', and Australia's 'track record for infrastructure business' are tied at 84 per cent each as the most important factors for Australia's infrastructure investment environment.

Value to be found and the cost of equity increased

This year's survey identified that 'value to be found' (45 per cent) and the 'cost of equity' (35 per cent) showed a marked increase from last year, with a 22 and 19 percentage point increase from 2021 respectively (see Figures 21 and 22). While taxation benefits have increased by nine percentage points compared to last year, it is still the least attractive aspect of the Australian market, and has been a consistent challenge across all editions of the *Australian Infrastructure Investment Report*.

"We certainly see value. We consider Australia being one of the few mature stable infrastructure markets with a good perspective on quality deal flow."
Institutional Investor

"It's still a highly competitive market with fewer opportunities, but it has proven more resilient and that is where we find value."
Infrastructure Investor and Developer

"If you look at what happened post COVID-19 with Sydney Airport being taken private and other large assets, there has been very large amounts of money put to work in the infrastructure space in Australia. If you added the big take-privates, there's been a reasonably active second market and there's been a lot of activity in the energy transition space. There has been some buoyancy."
Infrastructure Investor and Developer

Australia's response to COVID-19 is no longer a primary concern for investors

Last year, Australia's response to COVID-19 was a primary concern for investors, with 85 per cent of participants agreeing that Australia's initial response to COVID-19 made the country an attractive investment destination. However, this year just 54 per cent of participants identified the nation's pandemic response as attractive, a 31 percentage point decrease, and the largest movement on any key factor compared to 2021 (see Figures 21 and 22). This may be the result of the country's prolonged vaccine rollout and multiple lockdowns during 2021, making investors weary of Australia's market. However, it may also be the result of the risk profile of COVID-19 having changed since it first appeared over two years ago, with Australia and much of the rest of the world moving on from lockdowns and re-opening their borders.

CHALLENGES FOR AUSTRALIAN INFRASTRUCTURE

KEY FINDINGS

- **North America surpassed Australia as the region with the most compelling investment opportunities**
- **'Economic stability' fell 19 percentage points with high levels of inflation contributing to investor uncertainty**
- **85 per cent agree the Australian infrastructure market is facing capacity constraints**
- **'Availability of stock' and a lack of opportunities remain impediments to Australian infrastructure**
- **The Your Future, Your Super reform package is largely supported by the sector, but may require refining**

Australia is no longer the most attractive global destination for investors

As forecast in last year's report, Australia's rise to the most attractive global region for infrastructure investment was short lived, with North America jumping from 41 per cent last year to 67 per cent this year (see Figure 23). North America is closely followed by Australia, which has remained steady at 61 per cent across both years. The qualitative interviews identified the North American market is seen as holding more depth than the Australian market, with a greater volume of investable opportunities.

"Returns are higher in the US market. It's a larger market with more opportunities to deploy capital. Australia is a more competitive market so the cost of capital gets bid down here."
Investment Bank

"At the end of the day, the size of our economy is one-twelfth the size of the US, so scale of opportunities there is always going to be so much greater."
Infrastructure Investor and Developer

"The short answer is there is a volume of activity in a far bigger market and I'm not sure Australia can bridge that gap."
Infrastructure Investor and Developer

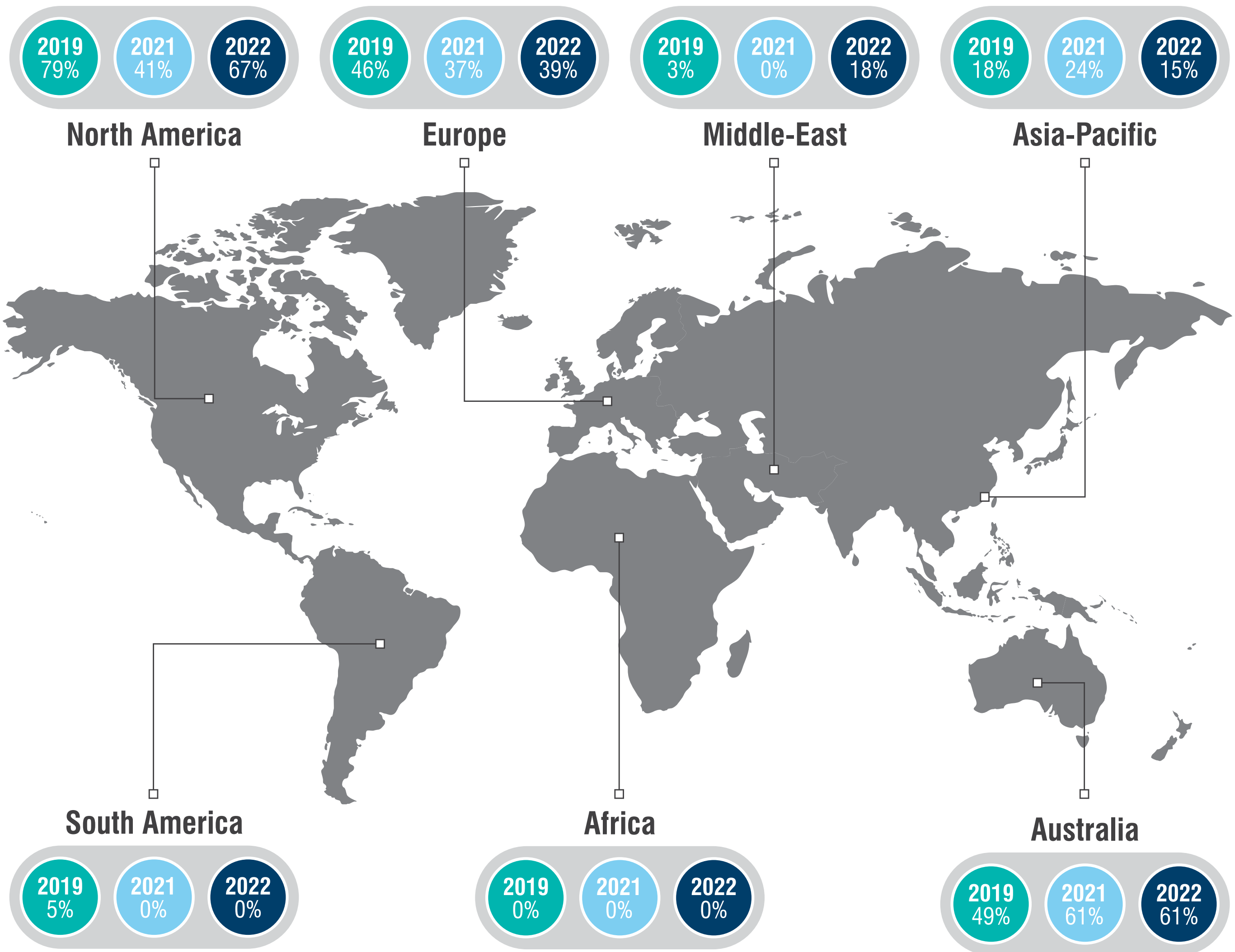
The European and South American regions have remained relatively stable while the Asia-Pacific slightly lost its appeal by dropping to 15 per cent from 24 per cent last year. The Middle East has shown significant growth, jumping from zero per cent in 2021 to 18 per cent in 2022.

Last year's results, in which Australia ranked first, reflected a perception of the country's success in avoiding the worst economic and health impacts of COVID-19. Yet, despite falling behind North America this year, some participants staunchly defended the Australian market.

"You know the type of deal flow you are going to get in Australia, which is not necessarily what you are going to get in the US or Europe."
Institutional Investor

"I'm not sure that it is that simple. If the northern hemisphere markets are demonstrably more attractive, then why do we continue to see North American institutions setting up teams and driving investment into projects here? Genuinely global investors are choosing to establish a presence here."
Global Investment Adviser

Figure 23: Regions with most compelling opportunities



High inflation is adding to investor uncertainty

As shown in Figure 24, Australia remains ahead of other global regions in economic stability, with 75 per cent of participants identifying it as above average. However, this fell 19 percentage points compared to last year (see Figure 22), likely as a result of the current global economic outlook and inflationary environment.

However, participants explained that while high inflation rates inevitably lead to greater uncertainty, the infrastructure sector itself remains in good stead. In contrast to the quantitative survey results, interview participants explained that rising inflation and interest rates can boost the earnings and provide high returns on investments on infrastructure assets and a safe haven for capital.

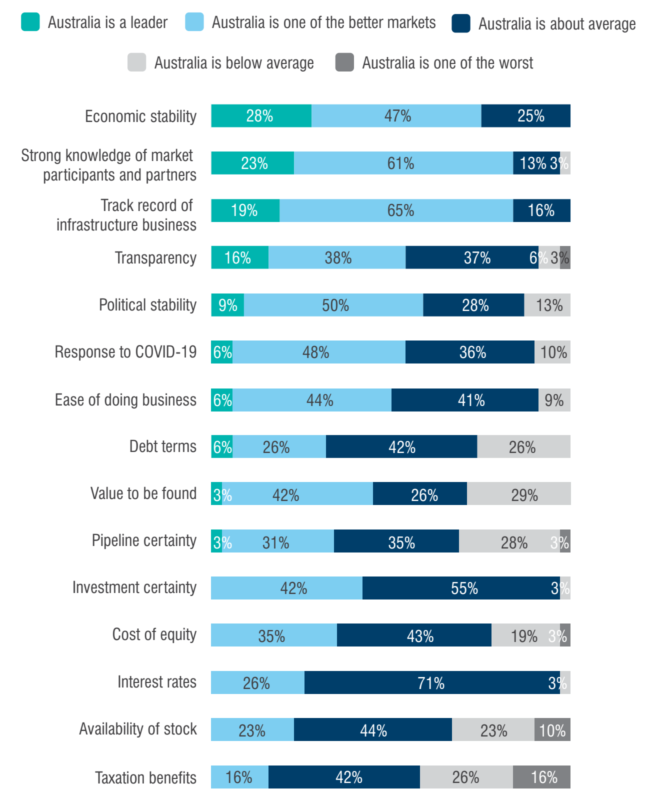
> *"Provided we don't see a material drop-off in demand, a rising inflation and interest rate environment is generally positive for the earnings performance of our assets. Pricing mechanisms that track inflation indices combined with the relatively high earnings margins in infrastructure assets results in strong performance outcomes."*
>
> Institutional Investor

> *"A key feature of our core infrastructure assets is their positive linkage to inflation, with the cost to use an asset typically increasing by a factor of CPI on an annual basis. Whilst inflation usually co-exists with rising interest rates, the relatively high earnings margins prevalent in infrastructure businesses and relatively conservative gearing in place means the value wedge gets bigger over time."*
>
> Institutional Investor

Low availability of stock continues to constrain the market

As has been the case in all editions of the *Australian Infrastructure Investment Report*, 'availability of stock' remains a key challenge to the Australian infrastructure market when compared to foreign markets (see Figure 24). Only 23 per cent of participants view Australia as above average when considering Australia's availability of stock. Given the persistence of this challenge over previous years, it is plausible to argue that a lack of opportunities may be considered a defining feature of Australia's infrastructure market, and it appears to be here to stay.

Figure 24: How Australia compares to other infrastructure markets



"The larger investors are saying they're not going to get out of bed for anything less than $500 million and want core plus style assets. There is barely anything of that size and scale at the right value in Australia."
Infrastructure Investor and Developer

"The value proposition relative to offshore is a challenge as it is very competitive, there are limited opportunities and there are larger pipelines in offshore markets."
Institutional Investor

Infrastructure Partnerships Australia's analysis of the Australian and New Zealand Infrastructure Pipeline has identified 67 greenfield projects across the country – representing $72.3 billion worth of opportunity – suitable for governments to engage private capital on. It is up to governments to capitalise on this available pipeline and make private capital work harder for Australia's infrastructure market.

The 2021 Your Future, Your Super reform package is largely supported by the sector, but will require ongoing attention

Fuelling some of the uncertainty regarding Australia's infrastructure pipeline, is the perceived impact of the Federal Government's Your Future, Your Super reforms, which have generated improvements in the sector, as well as some unintended consequences. Views of the challenges incurred by the reforms, which included the introduction of the benchmark index, were varied across surveyed investors. When considering the reforms, participants were, on average, ambivalent to the reforms, finding them to be in support of their end goal of maintaining a high-performing superannuation sector.

"We should be held to account because we're effectively given 10 per cent of the nation's wages every year and there should be an obligation to achieve a reasonable return on that."
Super Fund Manager

"I don't think it'll have much of an impact. We don't even think or talk about it."
Super Fund Manager

However, some participants acknowledged that the reforms may require tweaking. In particular, participants noted that the current index risks pushing superannuation firms up the risk curve, and away from core assets to pursue higher returns to meet the benchmark index's requirements. In addition, some participants raised concerns that the benchmark index may force Australian superannuation funds to chase offshore assets.

"An impact is that we are going to see a transformation of Australian super portfolio holdings be moved from domestic to offshore, with lower risk assets predominantly held offshore."
Infrastructure Investor and Developer

Having moved past the recent asset recycling peak, there is a perceived lack of opportunities in public-to-private transactions

A driving factor behind investors' perceived lack of available opportunities in Australia's infrastructure market are low levels of asset recycling and public-to-private brownfield transactions by Australian governments. There is currently a wall of private capital in Australia's infrastructure market looking for a home, spurred on by the rapid rise and scale of superannuation funds.

"Australia has a pretty good background of bringing assets to market. Maybe the slowdown in asset in recycling is informing the view."
Super Fund Manager

"There's not much on the horizon in terms of government privatisation, so the pipeline has become a lot smaller."
Institutional Investor

"If you're looking for large assets, there's not much in the government pipeline at all."
Infrastructure Investor

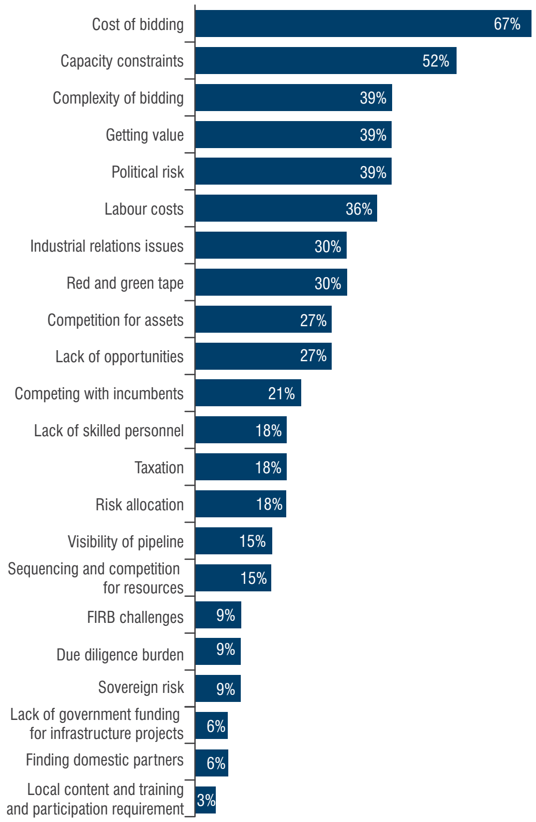
In the wake of COVID-19 and the significant government debt incurred in maintaining Australia's economic stability through fiscal spending, governments may need to undertake more asset recycling and privatisation to offset constrained balance sheets.

Capacity constraints continues to be a top concern for investors

While 52 per cent of participants identified capacity constraints as *the* most significant challenge to Australian infrastructure investment (see Figure 25), 85 per cent of participants 'agree' or 'strongly agree' that the Australian infrastructure market is facing capacity constraints – a seven percentage point increase from 2021, as shown in Figure 27.

With record infrastructure pipelines announced by most major jurisdictions, governments will need to take market capacity constraints into consideration in order to manage supply chain issues and labour costs, including in the package sizes and timelines for major infrastructure projects.

Figure 25: Most significant challenges to investing in Australian infrastructure



When discussing capacity constraints, participants projected the issue to remain a challenge of the market for some time as a result of an inflationary economy and tight labour market, despite the re-opening of international and state borders.

"It's more economy related than COVID-19 related and I don't think there is going to be change any time soon."

Global Investment Adviser

"We'd love government to loosen the restrictions around skilled migration but in practice there's a long-time lag on that taking effect and having any meaningful effect on the market."

Infrastructure Investor and Developer

Participants identified three core factors contributing to the challenge – the ability to access talent, the availability of construction partners and the challenge of managing labour costs.

"It is having an effect at an operational level. You see that on airports where they're struggling to get the staff needed as activity gets back to pre-COVID-19 levels."

Institutional Investor

"It does not appear that the labour challenges are going to be abated any time soon. The skills shortage on the construction side is becoming more acute and I don't think we've yet reached the pinnacle of construction with the planned works that are in rail."

Infrastructure Investor and Developer

"As you move further up the risk spectrum and chase core-plus assets, the requirement to manage operating costs down becomes quite critical to deliver on return requirements – and a large part of that is labour."

Investment Bank

Figure 26: Most significant challenges to investing in Australian infrastructure compared to 2021

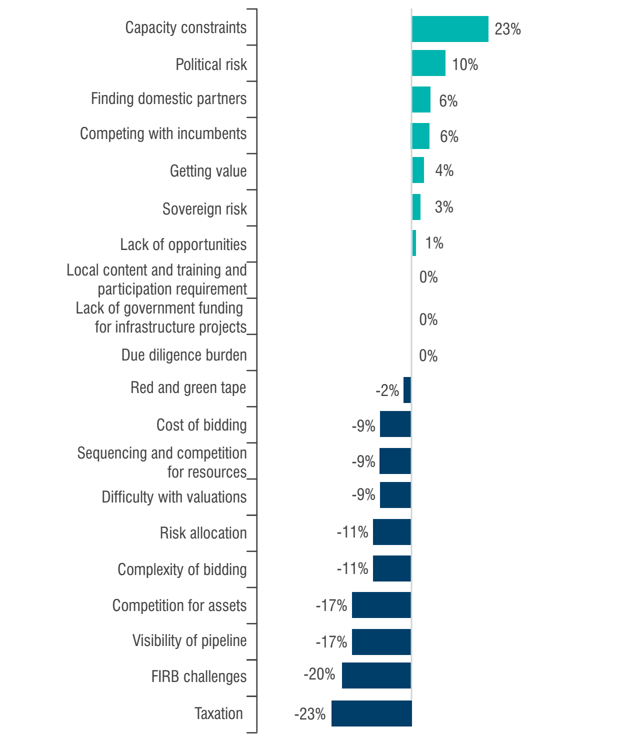
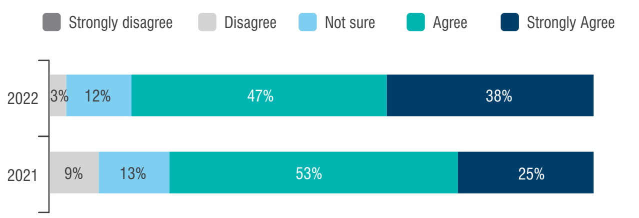


Figure 27: Is the Australian infrastructure market facing capacity constraints?



The cost of bidding continues to challenge investors

Similar to a lack of opportunities, high costs of bidding is becoming synonymous with the Australian infrastructure market. The ‘cost of bidding’ (67 per cent) has remained the largest challenge to investors in the Australian infrastructure market again this year, despite falling nine percentage points from last year (see Figures 25 and 26). Notwithstanding a slight decline, the cost of bidding has firmed as a mainstay for challenges in the Australian market and is unlikely to stray far from among the primary issues identified by investors in the near- to medium-term.

Political risk remains a challenge to investors, but is less significant outside the energy sector

This year, 39 per cent of participants identified ‘political risk’ as a major challenge in Australia – a 10 percentage point increase compared to 2021 and now the third most significant challenge in the Australian infrastructure market (see Figures 25 and 26). Participants emphasised a moderate degree of nervousness about the implications for Public Private Partnership (PPP) program risk in the face of the upcoming Victorian and NSW state elections. Compounding this nervousness are cost-of-living pressures and the possibility of government market intervention in capping regulated price increases.

“In the PPP space, we’re seeing a very steady-as-we-go approach among the states. With the elections in NSW and Victoria, it may throw up its own challenges and be disruptive in their own. In NSW in particular, we understand the policy that informs the pipeline and we can plan our resources accordingly.”

Infrastructure Investor and Developer

“One of the reasons we’ve moved away from PPPs is that we lost faith in governments’ ability to see them as partnerships. If you’re looking for long-term stable cash flows, you want to know you’ve got a partner that is there for the long term.”

Infrastructure Investor

Participants explained that the increase in political risk can also be attributed to government interventions in markets limiting their willingness to invest, however, some participants felt political risk was exaggerated as an issue outside the energy sector.

“I don’t see major risks outside energy markets, other than where residual COVID-19 issues and policy settings have an effect.”

Institutional Investor

“I don’t think it is a long-term issue but more likely a function of what has happened in Ukraine and what has happened in energy markets here in recent months.”

Super Fund Manager

STATE VERSUS STATE

KEY FINDINGS

- **New South Wales (69 per cent) and Victoria (63 per cent) remain Australia's most preferred infrastructure investment destinations**
- **Investment interest in Western Australia increased by 13 percentage points to 22 per cent**
- **Each jurisdiction's track record for infrastructure remains the most important factor for investors when deciding where to invest**

As in all editions of the *Australian Infrastructure Investment Report*, New South Wales and Victoria remain clear leaders for investors' preferred states to invest in. Investor preference for New South Wales continues to climb, surpassing last year's record by a further two percentage points to reach 69 per cent, while in Victoria, investor preferences returned to its pre-pandemic levels of 63 per cent, as shown in Figure 28.

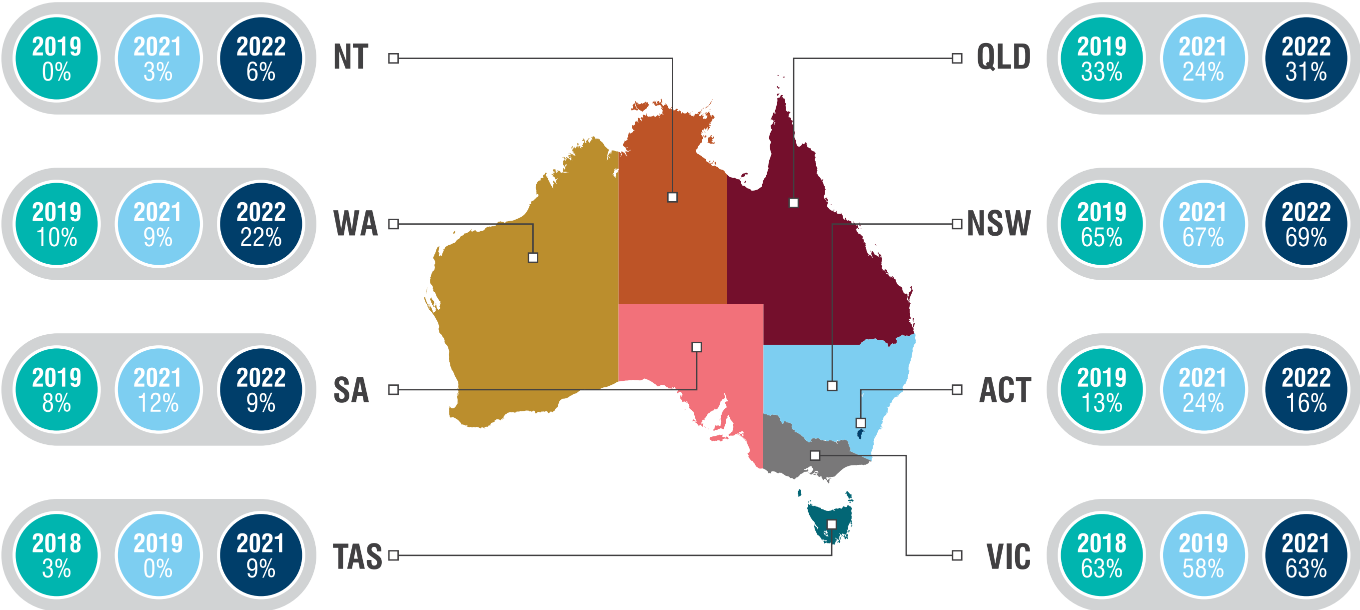
It comes as no surprise that investors' preference for New South Wales and Victoria stand a whopping 32 percentage points higher than the next most attractive destination, Queensland, with the two states combined representing a total of 68 per cent of all juridictions' budget investments. In their respective 2022-23 Budgets, the New South Wales Government allocated \$88.4 billion in general government infrastructure expenditure over the four years to FY2025-26 and the Victorian Government allocated \$85.3 billion.[1]

Investor preference for Western Australia saw a 13 percentage point increase compared to 2021 – the largest movement on last year's results (see Figure 28). Queensland also saw an increase in investor preference, rising by seven percentage points to 31 per cent, nearly at pre-pandemic levels.

The only Australian jurisdictions to suffer a decrease in attractiveness were South Australia and the Australian Capital Territory, falling by three and eight percentage points respectively. While the ACT's decrease may be representative of a smaller jurisdictional pipeline, South Australia's decline is likely the result of the newly-elected Malinauskas Government's election campaign decisions to 'cancel' the Adelaide Metro Passenger Train and Tram and Bus contracts, undermining investor confidence in the South Australian Government's commitment to delivering its infrastructure pipeline.

1. Infrastructure Partnerships Australia analysis

Figure 28: Preference to invest on a state-by-state basis

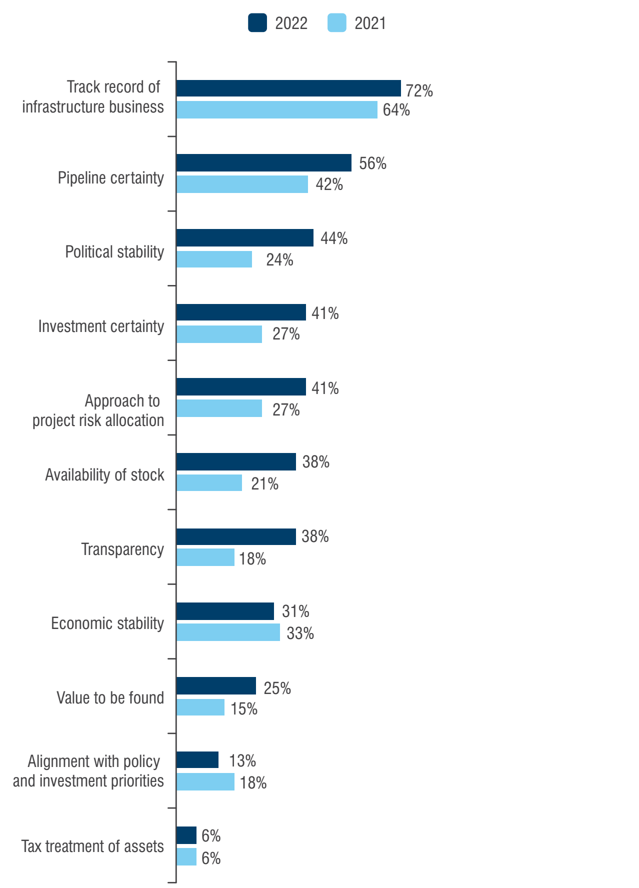


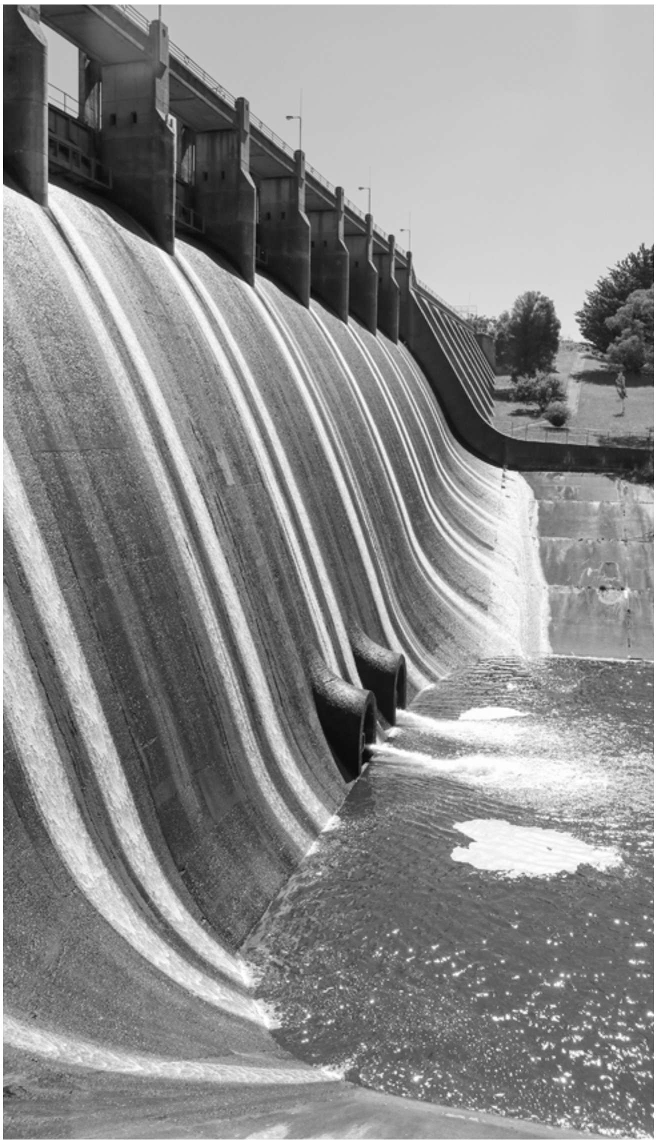
Track record of delivery and pipeline certainty drives preference for particular jurisdictions

Investor preference for particular jurisdictions remains primarily driven by their 'track record for infrastructure business' (72 per cent) and 'pipeline certainty' (56 per cent), as shown in Figure 29. As was the case for most measures, these increased on last year's results by eight and 14 percentage points respectively, with 'pipeline certainty' remaining 12 percentage points clear of the third largest driver, 'political stability'.

The two largest increases on last year's results were 'political stability' (44 per cent) and 'transparency' (38 per cent), which each grew by 20 percentage points, while 'availability of stock' increased by 17 percentage points. 'Political stability' as a measure increased from the sixth most important factor to the third most important, likely due to the quantity of elections occurring over a 12-month period before and after the survey was undertaken, including Federally, and in South Australia, Victoria and New South Wales.

Figure 29: What drives preference for particular states?





CONCLUSION

The 2022 *Australian Infrastructure Investment Report* explores the current status of Australia's infrastructure market as the world emerges from the COVID-19 pandemic. Australia's mature and stable market has maintained investor confidence and continues to be a leading destination for investment.

However, investors face a range of challenges, particularly supply chain constraints and economic instability, due to rising inflation and higher costs of borrowing. As a result, North America has surpassed Australia as the region with the most compelling investment opportunities.

The importance of ESG in investment decision-making remains at the forefront of investors' minds, with Australia performing well in the 'Governance' and 'Social' elements of ESG, but poorly in the 'Environmental' element. Australia's poor performance in the 'E' element was partly credited to the policy priorities of the former Federal Government, meanwhile, state government initiatives and industry leadership were heralded in the environmental space.

Decarbonisation was a key concern in this year's report, with investors signalling a strong appetite to drive decarbonisation goals through their investments, and work with industry to deliver Australia's emissions reduction targets. Interest in green assets increased, particularly for renewable energy generation and transmission, while preference for non-renewable generation assets plummeted to the least-preferred asset class.

There is a burgeoning pool of private capital hungry for a home and, with the swelling size of superannuation funds, Australia needs to ensure the policy and regulatory settings encourage private finance in the sector. Governments need to seize the opportunities that private capital provides – particularly in green assets, which can contribute to achieving decarbonisation goals.

Strong policy leadership boosting Australia's environmental and social credentials, a recommitment to key market principles of competition and limited intervention, and utilising private capital to unlock funding will secure Australia's place as an attractive destination for infrastructure investment.

ANZIP AUSTRALIA & NEW ZEALAND INFRASTRUCTURE PIPELINE

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

For more information on the projects mentioned in this report please visit infrastructurepipeline.org

The Australia & New Zealand Infrastructure Pipeline (infrastructurepipeline.org) provides a detailed and informed picture of upcoming greenfield and brownfield infrastructure investment and major construction opportunities, across the two countries.

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

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