DLA PIPER | NEW ZEALAND

Emerging trends: Infrastructure, Construction and Transport

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Shaping the future of infrastructure in New Zealand

New Zealand's infrastructure development has long been led by the public sector but rising demand and budget pressures are driving greater private sector involvement. Globally, private capital, led by firms like BlackRock and Morrison, plays a central role in infrastructure development. Now, New Zealand is starting to embrace this trend, recognising the need for private investment to strengthen its infrastructure pipeline.

Global infrastructure spending seems set to rise, with key focus areas including renewable energy, digital infrastructure, and health and social services. In New Zealand, solar, wind, and green hydrogen projects are attracting private capital, reflecting international priorities. The government has also launched an updated Public-Private Partnerships (PPP) framework to modernise infrastructure delivery, leverage private sector expertise, and ensure efficient, cost-effective public projects.

Similarly, digital infrastructure is a growth area, with global data centre investments reaching USD22 billion in early 2024. New Zealand's renewable energy strengths make it an attractive destination for data centre and digital network development. This report draws on our global expertise to explore four key trends shaping infrastructure locally and internationally:

1. Global sector growth

2. Renewable Energy focus

3. Health and Social Infrastructure deficit

4. Digital Infrastructure

These insights are shaped from our latest global report, Trends in infrastructure: An evolving asset class, and draw on our extensive experience, industry feedback, legislative developments, and global market data. These trends reflect a dynamic shift in New Zealand's infrastructure landscape, with growing focus on these critical areas. We hope this summary provides valuable perspectives on the constantly evolving sector and provides thought provoking and relevant commentary.

Global ICT trends recap

Four key themes we're seeing globally across the sector

1. Likely increased Infrastructure Spend

Overall optimism

DLA Piper international survey report: Almost three quarters (70%) of respondents expect their level of infrastructure fundraising to increase over the next 24 months, with 30% anticipating a substantial increase. Seventy-seven percent of respondents plan to ramp up their infrastructure investments in both volume and value over the same period, compared to the previous two years.

Impacts on investment

In 2015, the infrastructure M&A market recorded 551 deals valued at USD148.5 billion. By 2022, these figures had skyrocketed to 2,105 deals at USD658.4 billion. However, 2023 saw a decrease in the number of transactions by 14.5% to 1,800 (as against the previous year).

This decline can be attributed to several factors, including high interest rates and tight debt markets and a wider pullback in private markets that is most evident in a slower leveraged buyout market.

Looking forward

However, 2024 appears to show the sector is stabilising. With 909 deals valued at USD281.6 billion so far (as of August 2024), this year looks set to match 2023 on a value basis.

Looking ahead, there is a case for cautious optimism for a continued rebound. Stabilising interest rates, more realistic valuations, the unstoppable digitalisation wave and the pressing need for renewable energy infrastructure are expected to support activity levels.

2. Renewable energy Focus

Global decarbonisation is driving infrastructure investment, with 54% of survey respondents citing the energy transition—led by renewables and energy efficiency projects—as a key catalyst. However, challenges persist, particularly with lengthy network approval processes that delay projects, as seen in both Australia and New Zealand.

While renewables are central to decarbonisation, the sector faces sustainability challenges, especially in upstream supply chains. Battery storage technologies, critical for grid integration, highlight tensions between sustainability goals and the extractive demands for minerals like lithium, cobalt, and rare earth elements.

Mining in regions with poor environmental regulations and labour conditions raises ethical and environmental concerns. Similarly, PV panel production is associated with carbon-intensive manufacturing, water usage, and labour rights abuses, particularly around polysilicon sourcing. Greater focus is needed on ESG standards, responsible sourcing, and recycling technologies to align renewable energy growth with sustainability.

All survey respondents (102) manage or invest in sustainable infrastructure funds, underscoring the strategic importance of ESG. However, regulatory hurdles—such as transparency and conflicting jurisdictional requirements—continue to frustrate fund managers. Navigating these challenges will be critical as the industry works toward defining truly "ESG-friendly" infrastructure.

3. Health and social infrastructure investment

The COVID-19 pandemic exposed significant gaps in healthcare and social infrastructure. As a result, 35% of respondents anticipate increased investment in these sectors across Asia-Pacific (APAC) within the next two years, with healthcare expected to attract the lion's share (78%) of health, education, and social (HES) infrastructure investments.

Regional focus on APAC

In APAC, aging demographics and rising chronic diseases (e.g., diabetes, heart disease, cancer) are driving demand for modernized hospitals, long-term care facilities, and specialised treatment centres. Investment will be shaped by government policies, with some countries, like China, favouring state-driven approaches, while others, such as Australia, rely on mature PPP frameworks. New Zealand, often aligned with Australia, may also see a resurgence of PPPs in healthcare and other sectors, as seen in historic projects like prisons and roads.

Global Comparisons

Globally, APAC leads in expected HES infrastructure investment, with 35% of respondents prioritising the region compared to only 2% in Europe and none in North America. Australia's established PPP frameworks, supported by robust legal protections and government backing, make it particularly attractive for institutional investors seeking stable, long-term returns.

Social infrastructure and inclusive growth

Investment in housing, public spaces, and welfare services is equally critical. For example, Australia's emerging Build-to-Rent (BTR) sector now incorporates affordable housing mandates, with 10% of units capped at 74.9% of market rents under new 2024 legislation. These initiatives aim to address housing crises, enhance social stability, and promote inclusive economic growth. Investors increasingly prioritize projects that align with ESG principles, responding to stakeholder demands for socially responsible practices.

4. Digital infrastructure

Data Centres at the forefront

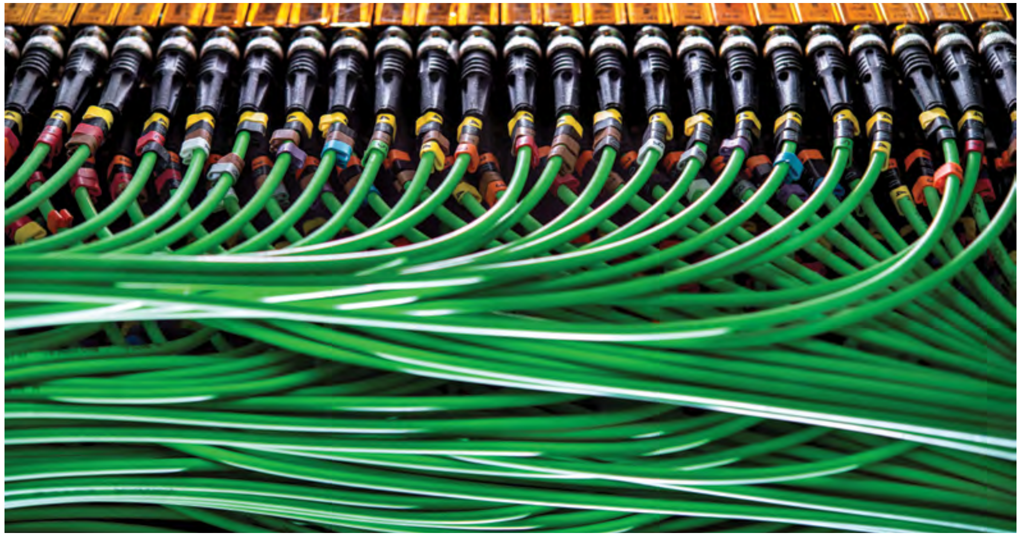
Data centres are a focal point of digital infrastructure investment, with 65% of respondents expecting them to attract the most capital in the next two years. In the first five months of 2024, global data centre investments totalled USD22 billion, on track to make 2024 the second-highest investment year in a decade after 2023's record of USD36 billion. This growth is fuelled by the expansion of cloud computing services and AI adoption, both of which demand significant data storage and computational resources.

Market growth and trends

The global cloud market is projected to grow from USD445 billion in 2021 to USD947 billion by 2026. According to JLL, the data centre sector is set to be one of the fastest-growing across geographies through 2026, driven by strategic adoption of AI. AI is shaping site selection for data centres, emphasising low energy prices, low land costs, and advanced cooling systems to accommodate evolving hardware needs.

Strategic navigation required

The evolution of AI and its integration into digital infrastructure introduces new opportunities and risks. As highlighted in *JLL's Global Real Estate Outlook 2024*, success in this sector will require expertise in navigating shifting requirements for data centre locations, construction, and operations to meet the demands of the AI era.



Implications for New Zealand

How these themes are showing up in the local market

Growth in sector spending

New Zealand's construction industry faces significant challenges, including economic pressures like inflation and high interest rates, leading to reduced profitability and increased competition. A slowdown in growth, declining dwelling consents, and persistent labour shortages further strain the sector.

Despite these hurdles, opportunities exist in infrastructure development, technological innovation, and adopting sustainable practices to build resilience and meet evolving societal needs.

Renewable energy focus

Investment in renewable energy is surging in New Zealand, with examples including Aquila Capital's 20.8MW Pukenui Solar Farm and its wider 1.4GW solar project pipeline, Contact Energy's joint venture with Lightsource to develop a range of solar farms throughout New Zealand, and Lodestone Energy's significant solar farm development pipeline. Offshore investors are also exploring onshore wind and green hydrogen opportunities. Despite the change in Government, New Zealand remains committed to renewables and decarbonisation and this continues to drive strong domestic and international interest. Significant activity is anticipated through out 2025. However, ensuring a reliable electricity supply during peak demand remains a challenge as the country transitions to a more intermittent renewable energy mix. The need for greater investment in flexible power resources, including fast-start generators, grid-scale batteries, and demand response systems to address this issue has been highlighted.

Health and social infrastructure deficit

New Zealand faces a significant health and social infrastructure deficit, highlighted by a consistent funding shortfall. The Governments Quarter Four (Q4) Action Plan seeks to address these issues by prioritising faster infrastructure delivery through resource management reform, expedited approvals, and new funding tools. PPPs are likely to play a role in the development of social infrastructure, including in the health sector, where the Government has stated it is open to exploring alternative funding mechanisms.

Digital infrastructure

Data centres are a key driver of digital infrastructure investment, with global investments totalling USD22 billion in the first half of 2024, spurred by cloud computing and AI demand. New Zealand offers unique opportunities for data centre growth, including smaller facilities on city outskirts to address latency.

As AI evolves, data centres must adapt with low-cost locations and advanced cooling systems, ensuring sustained investment and innovation in this rapidly growing sector. While New Zealand has experienced some fairly significant data centre investment to date, we anticipate that there is more to come.

Other key updates

Three key initiatives are set to drive significant change in New Zealand's infrastructure sector.

The infrastructure sector is undergoing a transformative shift, with PPPs, streamlined processes, and strategic investments driving efforts to close New Zealand's **NZD210 billion infrastructure gap** and meet the nation's long-term economic and development needs.

The National Infrastructure Agency (NIA), aims to address gaps in project delivery and provide the commercial expertise needed to manage **projects worth billions of dollars**.

A refreshed Public-Private Partnership (PPP) framework seeks to enhance collaboration between public and private sectors, to meet the **infrastructure deficit** over the next 30 years.

Finally, the Fast-Track Approvals Bill is streamlining processes **for 149 major projects** (including many infrastructure projects), cutting red tape to accelerate critical developments in housing, energy, and transport.

Refreshed PPP framework introduced

On 13 November 2024, the government launched an updated PPP framework to provide a clear blueprint for future collaborations between the public and private sectors. This framework outlines the government's approach to PPP transactions, aiming to leverage private sector capital and expertise to meet public infrastructure needs. The initiative reflects a commitment to modernising infrastructure procurement and delivery methods, ensuring value for money and efficient project execution.

Creation of the NIA to enhance delivery capabilities

In August 2024, the New Zealand government announced the creation of the National Infrastructure Agency (NIA) by repurposing Crown Infrastructure Partners (CIP). The NIA is tasked with improving the country's infrastructure delivery capabilities, addressing existing gaps in project execution, and enhancing commercial expertise within the public sector. This strategic move is expected to streamline infrastructure development processes and ensure timely completion of essential projects.

Release of Fast-Track Approvals Bill

In October 2024, the government released a list of 149 projects included in the Fast-Track Approvals Bill. This legislation aims to expedite the consenting process for significant infrastructure projects, addressing the country's infrastructure deficit and stimulating economic growth. The fast-track process is designed to reduce bureaucratic delays, enabling quicker commencement and completion of critical projects across various sectors, including housing, energy, and transportation.

Summary

A case for cautious optimism

Global trends and markets

The infrastructure sector is experiencing robust growth, driven by significant investments in energy transition, digital infrastructure, and core assets. The global push towards decarbonisation and advancements in digitalization are key drivers, with a focus on data centres, 5G networks, and smart infrastructure. Sustainability and ESG considerations are increasingly important, contributing to a positive outlook for infrastructure investment in the coming years.

The local outlook

The New Zealand construction industry is currently navigating a complex landscape marked by economic challenges and evolving demands. Inflation and high interest rates have been of primary concern, with 67% of industry leaders anticipating significant impacts on profitability. This economic strain has led to increased competition and reduced profit margins, with 41% of businesses reporting declines. Growth has decelerated since mid-2022, although the infrastructure segment shows resilience. Persistent labour shortages further complicate the sector's recovery.

To address these challenges, there's a pressing need for innovative approaches that enhance resilience, sustainability, and adaptability to climate change. Opportunities lie in infrastructure development, technological advancements, and sustainable practices, which are essential for meeting future societal needs and restoring confidence in the sector.

Want to hear more?

If you'd like to hear more or are interested in any of the topics covered, please reach out to our team.

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Information sources:

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2. Navigating Global Growth in Data Centers – Riding the AI Wave | DLA Piper
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4. The meteoric rise of the data centre: Global data centre investment outlook | DLA Piper
5. Public Private Partnerships (PPPs) | Guidance | Te Waihanga

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