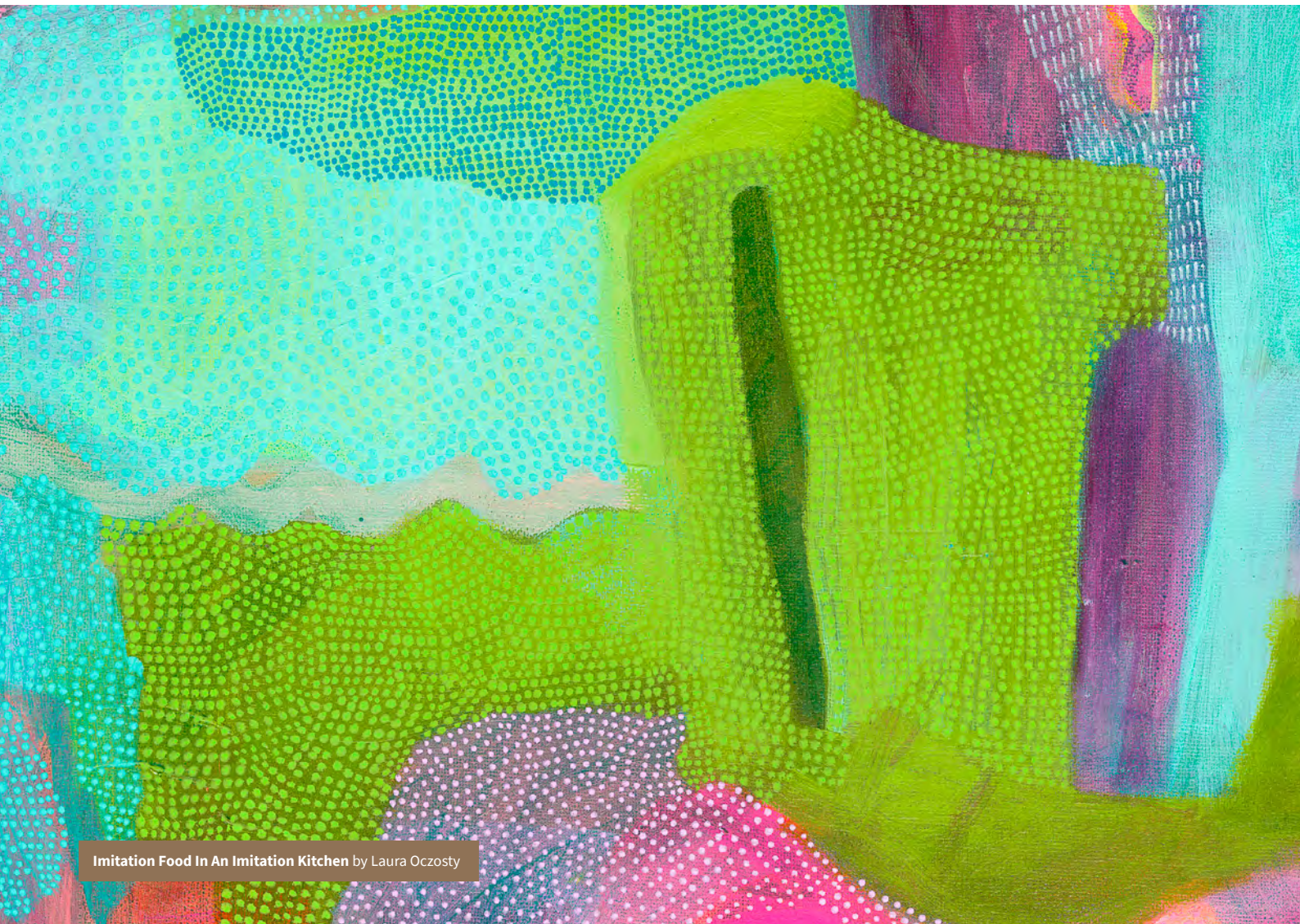


IN PRIVATE

KWM M&A INSIGHTS | 2025



PRIVATE CAPITAL LEADING THE SURGE INTO DATA CENTRES

What have we learned and what next?



Australia and the Asia Pacific Region emerge as a hotbed for data centre investment, as the AI revolution and resulting demand for digital infrastructure surges. Just a trend, or a transformative shift in allocations to real assets?

Australia and the Asia Pacific region are experiencing a surge of private capital into the data centre sector.

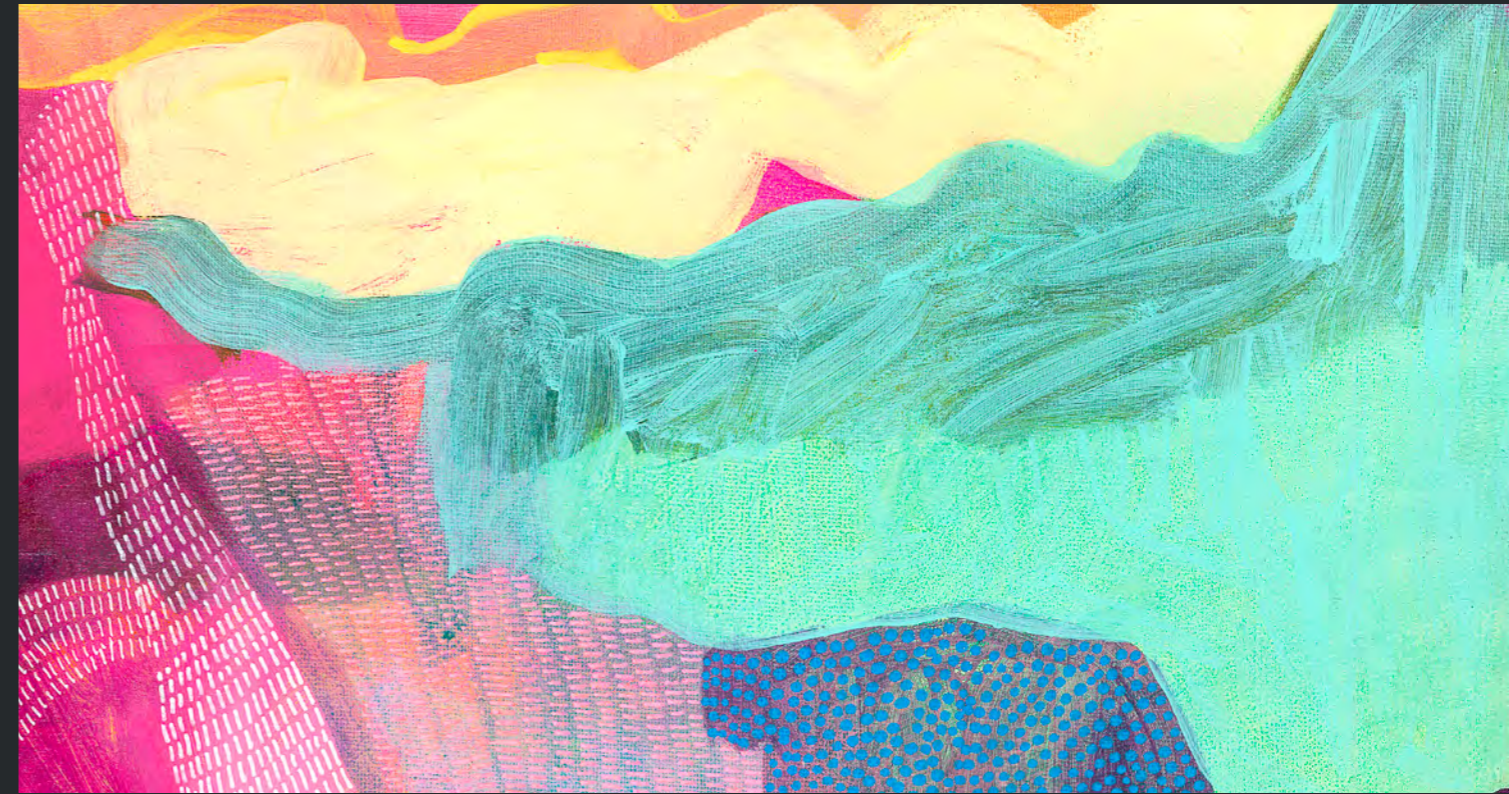
- Blackstone's landmark A\$24 billion acquisition of AirTrunk
- KKR's acquisition of a 20% interest in the Asian data centre of Singtel for S\$1.1 billion (and subsequent partnership with Singtel to invest S\$1.75 billion in ST Telemedia Global Data Centres)
- Partners Group's A\$1.2 billion investment to transform GreenSquareDC into a next-generation data centre platform.

Data centres are increasingly recognised as a distinct asset class, appealing to investors for their potential to deliver sound risk adjusted returns. According to the most recent CBRE APAC Investor Intentions Survey, data centres are the second most preferred alternative asset class for Australian real estate investment in 2024.

Australia's strategic geographic location within the Asia Pacific region, combined with its relative levels of transparency (including rule of law), has long positioned Australia's real asset markets as a prime destination for global private capital. The Reserve Bank of Australia's recent easing of monetary policy, along with similar moves by other central banks, has also buoyed optimism and supported flow into the capital-intensive real assets sector.

Underpinning demand for exposure to data centres is the digital economy's expansion, with AI, e-commerce, and cloud services being key drivers. The cloud-storage market in Australia is currently valued at approximately A\$5.2 billion and is projected to double by 2030, further entrenching Australia as a key player in the global data centre landscape.

Despite robust demand, Australia faces several supply side challenges with limited data centre stock (i.e. approximately 1% only of total warehouse space is dedicated to data centre facility or functionality).



WATTS CHANGING

- Data centres currently account for around 5% of Australia's total power generation, raising concerns about power consumption. The transition from coal to renewable energy is crucial for the long-term sustainability of data centre facilities. As public scrutiny intensifies, operators are adopting innovative practices, such as advanced cooling technologies and partnerships with renewable energy providers, to enhance their sustainability profiles.

BRICKS, MORTAR AND MONEY

- The capital-intensive nature of data centre development necessitates creative financing solutions. Investors are increasingly exploring joint ventures and staged developments to align the interests of developers and operators. As the market matures, collaboration between private equity sponsors and core-plus funds is expected to drive further investment activity.

ISSUES OF LEASE CONCERN

- As investor interest grows, pre-leasing rates are anticipated to exceed 90% by 2025, suggesting that new capacity will be leased before construction is completed. This trend mirrors the experience in North America, where vacancy rates have plummeted to record lows despite significant construction activity.

BEYOND CITY LIMITS

- To address the constraints of limited urban land, there is likely to be a shift towards developing data centres in less traditional locations, including regional areas. This strategy could alleviate pressure on urban sites while tapping into lower operational costs, making investment returns more attractive.

FRIEND-SHORING IS CARING

- Regulatory factors are also shaping the data centre landscape. Recent U.S. export control rules on AI diffusion could enhance Australia and the Asia Pacific region's appeal for private capital. Classified as a "tier 1" jurisdiction, Australia in particular benefits from fewer restrictions on the export of advanced computing technologies.

With a commitment to sustainability, innovative financing solutions, and an accommodating regulatory environment, Australia and the Asia Pacific region are strongly positioned to compete for increasing allocations to the asset class.



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