

Infrastructure Outlook 2025

The infrastructure asset class will continue to offer attractive prospects in 2025 – political developments do not change the need for investment or the high demand for capital. We expect allocations by institutional investors to rise again and anticipate increased transaction activity.

December 2024

Overview of statements in this Outlook

- “Allocations to infrastructure are likely to increase again in 2025.”
- “Any conceivable future German government will have on its agenda the investment needed in critical infrastructure.”
- “The energy and heating transition will remain the great challenge for Germany over the next decade.”
- “Battery storage systems are playing an increasingly important role.”
- “The expansion of data center capacities in Germany will continue to be a focus of investments in 2025.”

“Allocations to infrastructure are likely to increase again in 2025.”

- An efficient infrastructure is essential for a sustainable economic recovery in Europe. High levels of public debt continue to present very attractive opportunities for private infrastructure investors to close funding gaps.
- Fundraising and transaction activity declined significantly in 2023 and stabilized at the current level in 2024. Institutional investors stocked up again on large volumes of liquid fixed-income products in the wake of higher interest rates. The hype has eased and investors are increasingly returning to private market investments (infrastructure, private equity, etc.) – albeit not as “bullishly” as a few years ago.
- **Market participants expect allocations to infrastructure to increase in 2025.** Various studies also predict this.
- In our view, the extent to which allocations increase depends on various factors:
 - **On the one hand, the future trend of interest rates plays a decisive role.** As long as uncertainty prevails, investors might remain cautious. Then again, further cuts in key interest rates by Western central banks are likely to have a positive impact on investors’ appetite for infrastructure investments and thus on fundraising.
 - **On the other hand, some investors are still waiting to see what happens with regard to infrastructure quotas.** Many would like to invest more in infrastructure but are limited by quota rules. Efforts are currently being made to introduce a separate infrastructure quota, as already exists in North Rhine-Westphalia. The corresponding draft legislation has been welcomed by representatives of the German pension system. Actual implementation should lead to increased investment activity.

Palladio Partners is the German specialist for global real asset investments, in particular infrastructure investments, for institutional investors.

The owner-managed investment boutique with offices in Frankfurt and Luxembourg was founded in 2012 and today employs more than 95 employees and manages around EUR 9.7 billion.

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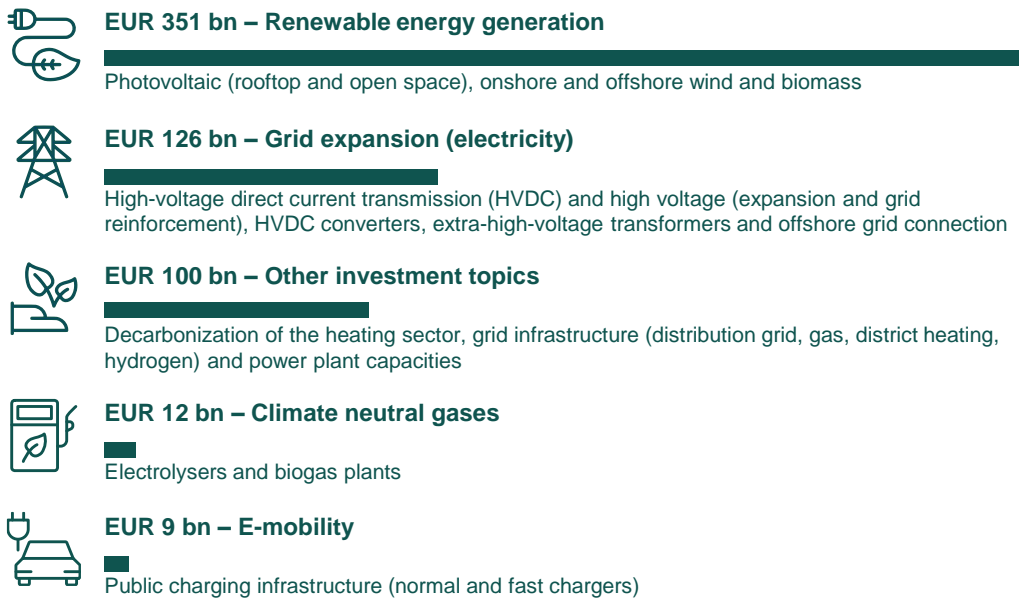
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“Any conceivable future German government will have on its agenda the investment needed in critical infrastructure.”

- Current political developments do not change the fundamental trend or the need for investment. According to studies by the German Economic Institute, a significant proportion of companies in Germany are already suffering from a lack of infrastructure.
- **The focus must be on sustainable investments in critical infrastructure, driven by the megatrends of digitalization and decarbonization, among others.** All democratic parties recognize this in principle.

Estimated costs of the energy transition until 2030



Source: VktU, bdeW, Deloitte | Kapital für die Energiewende Positionspapier

- Taking two infrastructure segments by way of example:
 - Regardless of the future political direction in Berlin, the transport sector is facing radical changes. In the past, this sector has fallen well short of CO2 emissions targets. Comprehensive reform of the transport sector is essential if Germany wants to continue to adhere to the CO2 reduction targets it has set itself.
 - The trend towards ever greater bandwidths and exponential growth in data consumption, partly due to the increased use of AI applications, continue unabated. Essentially, the outlook for the sector appears positive, regardless of any political changes.
- No draft has yet been presented for the concept of an infrastructure fund which would help to decouple the financing of infrastructure from budget debates and involve private capital in order to renovate the ailing transport infrastructure. It is uncertain how quickly significant progress can be made here against the backdrop of the current political realignment.
- In addition to the concept of an infrastructure fund, which has been called for by transport ministers, other initiatives have been proposed for better integration of private capital into the financing of infrastructure projects: the energy transition fund presented by BDEW, VKU and Deloitte forms a good basis for discussion, but still leaves many issues unresolved from investors' point of view.

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“The energy and heating transition will remain Germany’s great challenge over the next decade.”

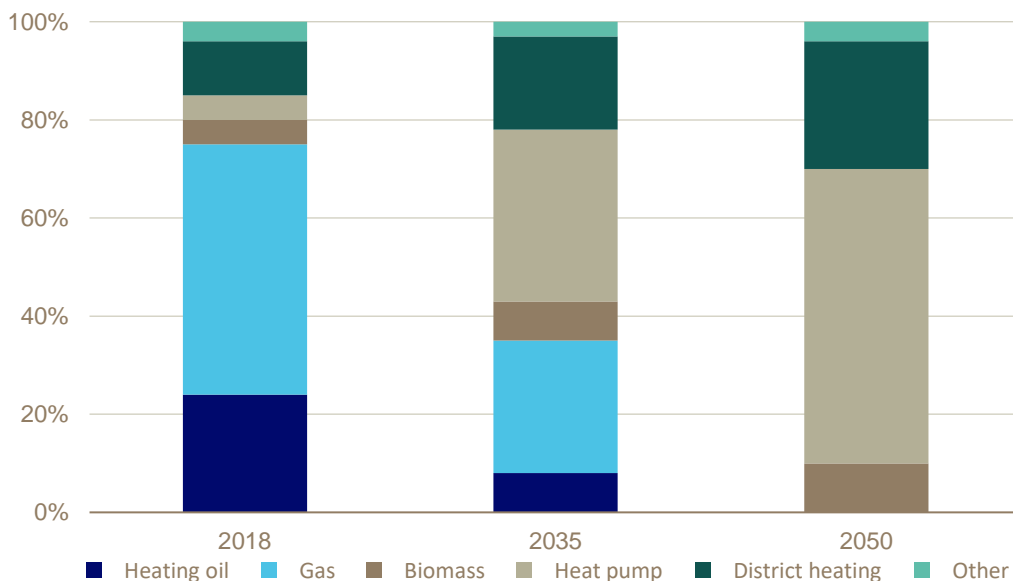
- Financing the energy and heating transition will remain one of the biggest challenges in Germany for at least the next ten years. This presents many opportunities.
- The investment needed in electricity grids due to the decentralization of power generation are massive and form the basis for:
 - transformation of the energy supply
 - integration of renewable energies into the system
 - and the achievement of ambitious climate targets.
- At the same time, policy makers at KfW have recently made it clear that financing transmission grids remains possible, but that financing infrastructure projects at local authority level is out of the question.
- This underlines the need for partnership between private investors and local authorities – which are becoming ever more open to cooperation.
- Small and medium-sized enterprises clearly do not believe that their energy needs can be electrified – hydrogen distribution grids are needed for SMEs and for heat generation.
- To achieve attractive risk-return profiles, infrastructure investors must increasingly familiarize themselves with different technologies and their impact on the complex energy supply system. The choice of competent industry partners is critical to success.

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Heating structure Living Space



Quelle: Agora Energiewende | Klimaneutrales Deutschland 2045

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“Battery storage systems are becoming increasingly important.”

- Studies forecast increasing demand for battery energy storage systems (BESS), partly due to the growing share of renewable energies (RE) in the power generation mix and the resulting sharp increase in the volatility of the generation fleet.
- The instability of electricity grids is cushioned by BESS systems. If RE generation capacity triples, demand for BESS capacities is expected to increase by a factor of 30. According to calculations by the Fraunhofer Institute for Solar Energy Systems (ISE), around 100 gigawatt hours of electrical storage capacity will be required nationwide by 2030 and around 180 gigawatt hours by 2045. Large storage batteries currently have a total capacity of 11 GWh.
- Battery storage systems are complex investments which – unlike investments in power generation – require investors to have a much better understanding of the dynamics of electricity markets as well as the technology.
- An increasing number of infrastructure projects are planning integrated solutions for renewable energies (onshore wind, solar PV) with battery storage.
- There is much interest among institutional investors in supporting the technology – investments are currently still failing due to a lack of investable structures with suitable risk-return profiles.

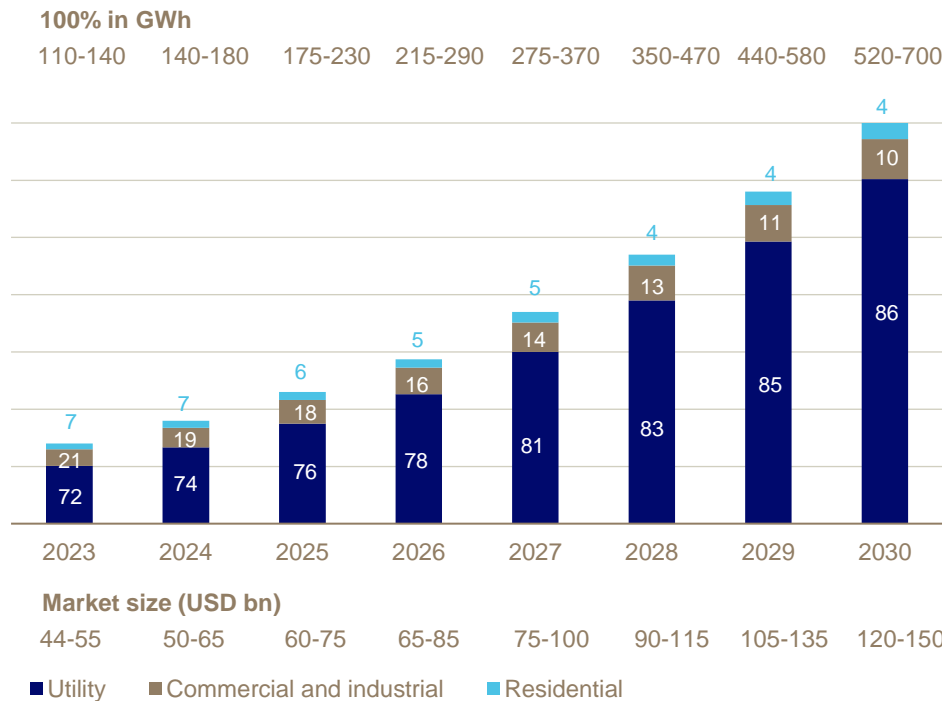
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Battery energy storage system capacity likely to quintuple until 2030

(annual added battery energy storage system (BESS) capacity (in %))



Source: McKinsey Energy Storage Insights BESS market model

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“The expansion of data center capacities in Germany will continue to be a focus of investments in 2025.”

- *"The German data center market is growing but becoming less important internationally. The US and China in particular are pulling ahead, while Germany is falling behind in terms of its share of the global server stock," the industry association Bitkom recently wrote in its latest study "[Data centers in Germany, 2024](#)".*
- Investors are making a growing contribution to the financing and expansion of data centers in Germany.
- We are seeing a trend of high investment by hyperscalers, with simultaneous growth in edge data centers which are organized in a more decentralized fashion: the increasing shortage of space, ever more new applications that demand higher data transfer rates and the growing desire for data sovereignty of sensitive information mean that more decentralized data centers are needed and being built.
- Sustainability and energy efficiency are essential in this energy-intensive industry: the trend towards sustainable data centers continues to gather pace. High demand for energy is bringing the use of renewable energy sources and efficient waste heat and water usage cycles into focus.

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