H2 2025

CBRE Investment Management

Infrastructure House View

Contents

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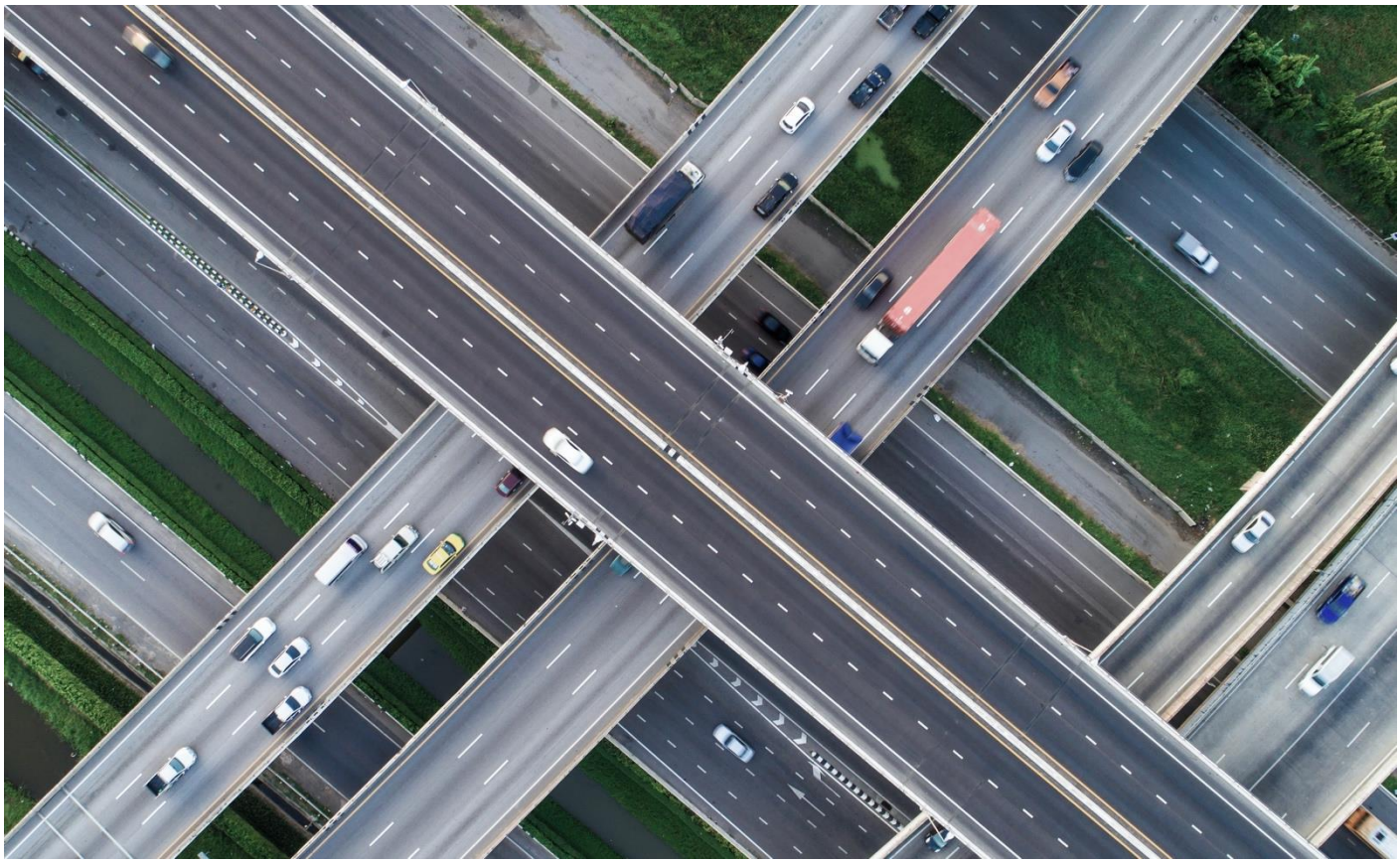
Introduction

The catalyst of disruption

Three years ago, our House View report talked about the energy transition as a long and winding road. This has never been so clear as today: some countries are in the fast lane, others have slowed their ambitions and the U.S. has taken a turn at a crossroads. But the journey remains the same: it is about powering the future of our economies and providing the foundation for a data-enabled world.

Our return expectations are rooted in two beliefs: the power growth story with the proliferation of data centers and onshoring of manufacturing, and the tide of global investment in energy security and technological prowess. Investors are navigating a volatile macroeconomic backdrop with higher -for-longer rates, tariff-induced inflation and geopolitical fragmentation. Infrastructure strategies have gradually tilted to higher risk/return, raising questions about the assumed growth potential and the balance of income versus capital growth.

Tactically, we see attractive entry points in power and renewables due to the disrupted path of the energy transition. Emerging policy clarity from the OBBBA[1] and strong market demand support segments such as distributed renewables generation, battery energy storage, geothermal energy and decentralized heating and cooling. Digital infrastructure continues to offer superior returns but fewer arbitrage opportunities due to the abundant capital inflows from diverse stakeholders.

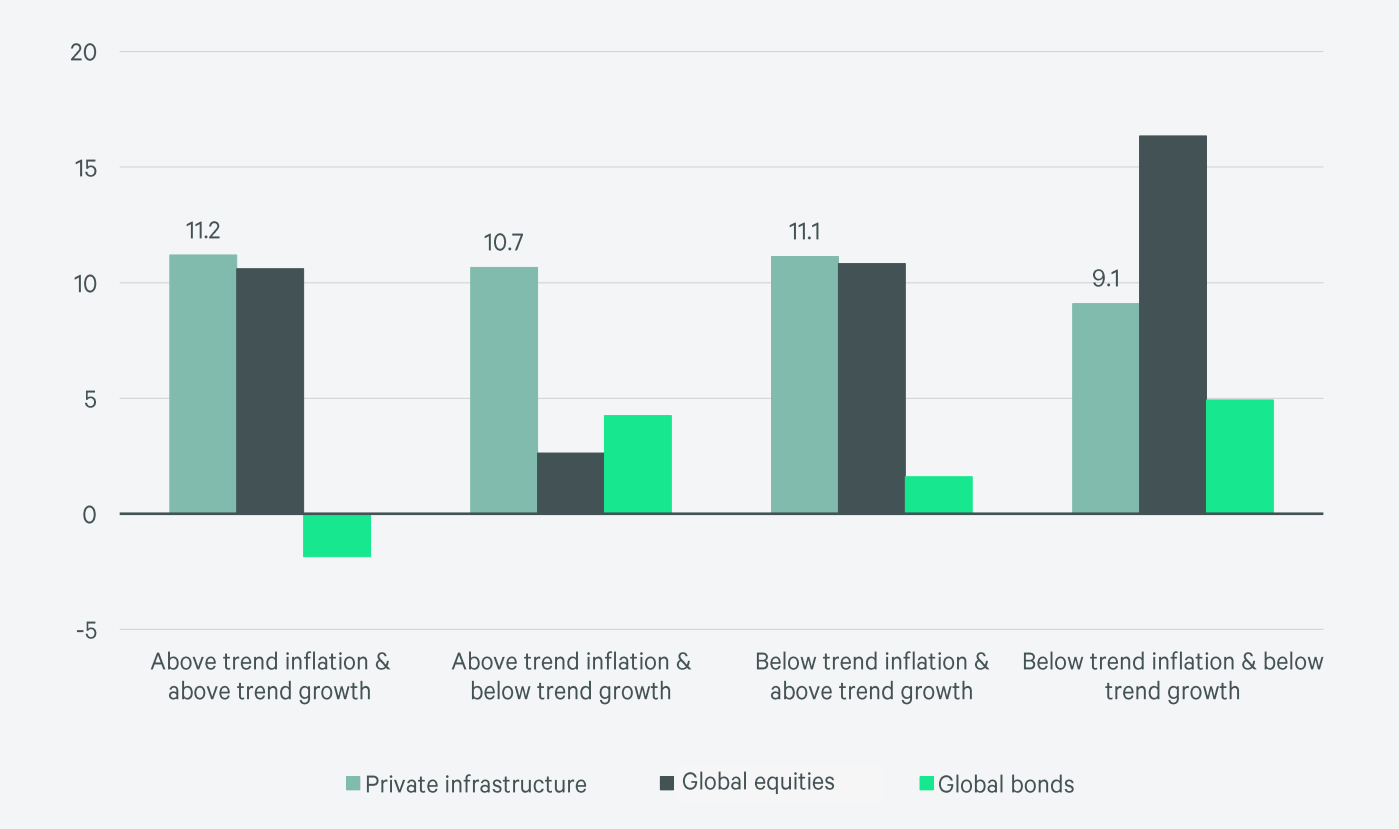


[1] OBBBA—One Big Beautiful Bill Act, a budget and tax reconciliation bill, signed into law by President Trump on July 4, 2025.

A good fit for stagflation-lite

Our Q3 2025 macro case points to numerous economies facing a stagflation-lite outlook—slow growth with rising inflation. Private infrastructure historically has achieved consistent performance across macro cycles and outperformed global equities and bonds in periods of above-trend inflation and stagnating growth (**Figure 1**).

Figure 1: **Private infrastructure, equities and bonds annualized total returns, %**



Macro regime definition based on the year-over-year change in U.S. CPI and U.S. real GDP growth, normalizing the 20-year history of each series using a z-score and tracking the two-quarter moving average of that z-score.
Source: Private infrastructure: Cambridge Associates Infrastructure Fund index, net of fees. Global bonds: Bloomberg Global Aggregate Fixed Income index in USD. Global equities: MSCI World index in USD. Period is Q1 2003 to Q1 2025.

No need for strategic rebalancing

We are still cautious about U.S. infrastructure. However, policy clarity, as well as superior historical and forecast returns, set against an unmatched scale of opportunities in power and data centers, lend weight to an unchanged position.

Electrification and densification are the dominant themes

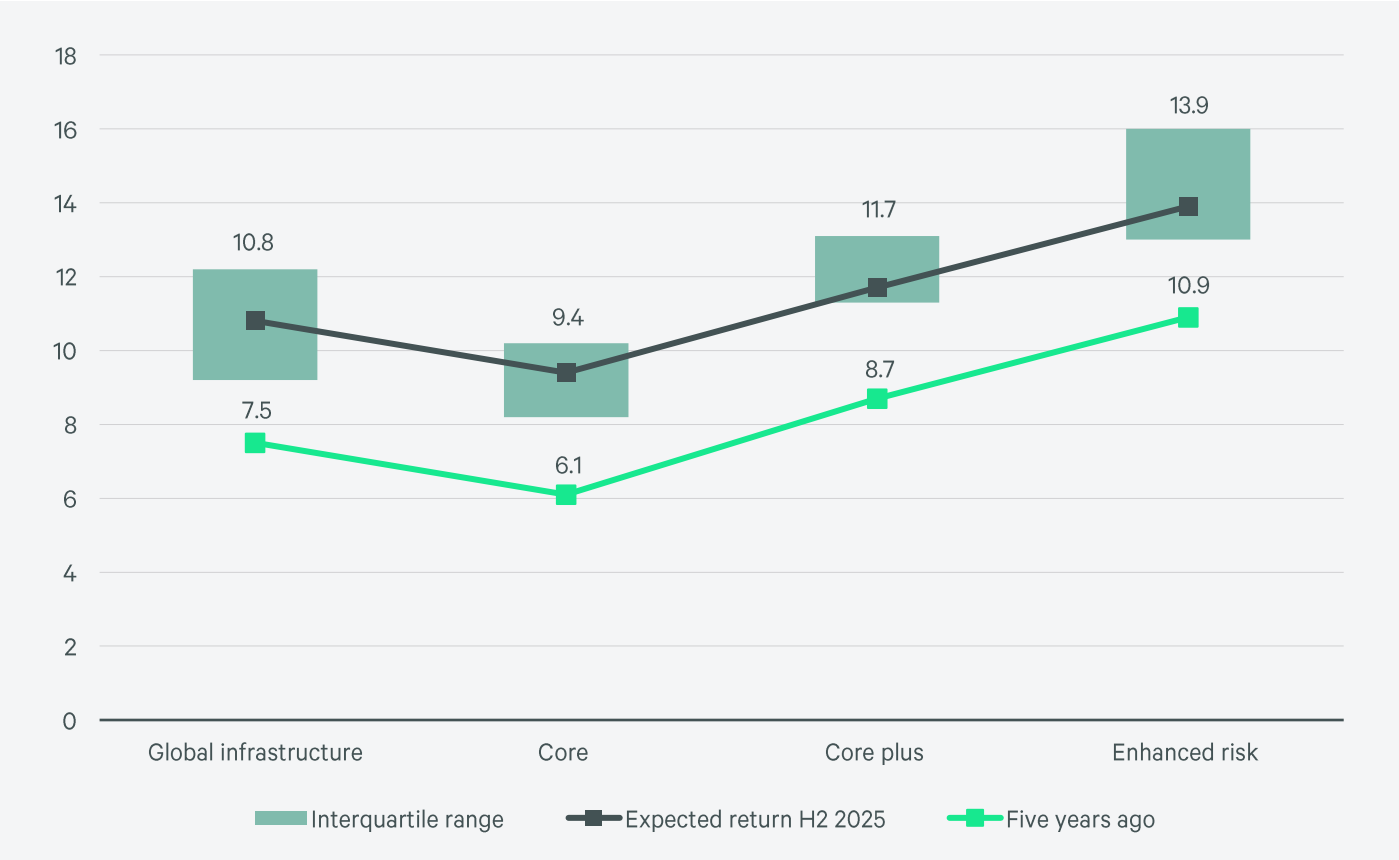
Numerous drivers are behind the rising electricity consumption globally and the rapid buildout of digital infrastructure to facilitate high performance computing and intense data use. Portfolio diversity is essential in a world of fast-maturing clean energy technologies and open questions about AI adoption and energy efficiency.

Return expectations

The mantra of growth

Our return forecast for private infrastructure has flatlined at 10.8% per annum (p.a.), levered entry level IRR, gross of fees (**Figure 2**). Infrastructure expected returns repriced steeply over the past five years, as did base interest rates. Returns are laddered by risk strategy and differ significantly by region considering the investment universe and the level of risk-free rates. For lower-risk investors looking for defensive income, a portfolio with equal weights to core and core plus investments can provide gross returns in the range of 9%-12% p.a. Higher risk strategies start in the mid-teen range and offer a significant upside for opportunistic investments with a strong weighting to greenfield exposure and merchant power prices.

Figure 2: **Expected entry level returns, gross of fees levered IRRs, %**

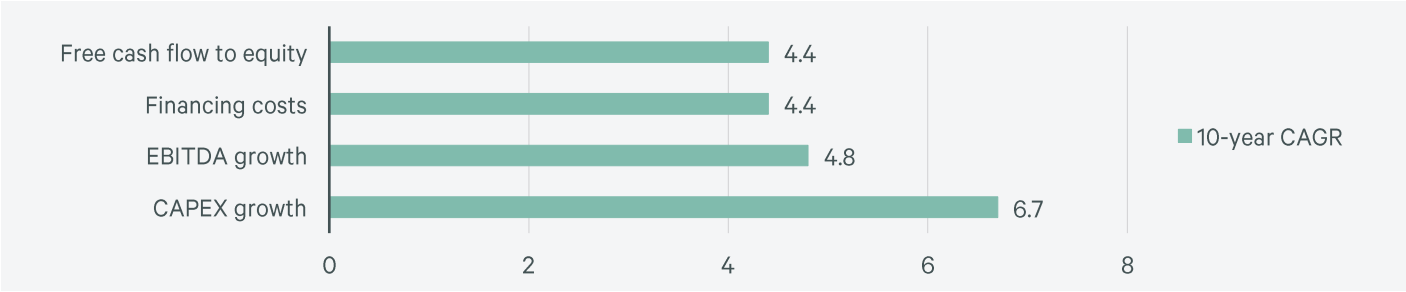


Source: Expected return: IRR 10-year exit period, local currency, unhedged, gross of fees. EDHECinfra Valuation metrics as of Q2 2025 and Q2 2020. CBRE IM forecasts. All median values. The data is based on 569 unlisted infrastructure companies in advanced economies. EDHECinfra300, USD, equally weighted. For illustrative purposes only. Forecasts are inherently uncertain and subject to change.

Private infrastructure has experienced a clear shift in the composition of total returns, with moderating income return versus strong capital growth. The share of income to capital return has structurally changed from 40:60 to 30:70.[2] We expect this to persist as the biggest driver of forecast returns is the level of organic investment. It translates gradually over time into stronger EBITDA margins and free cashflow generation (**Figure 3**).

[2] MSCI Private infrastructure asset index, expanded, based on annualized income and capital returns, period Q1 2015 to Q1 2025.

Figure 3: Infrastructure forecasts, compounded annual growth rates, 2025 to 2034, %



Source: CBRE Investment Management forecasting models. Based on CBRE Investment Management's subjective assessment and subject to change. For illustrative purposes only. Forecasts are inherently uncertain and subject to change.

The increase in the embedded cost of debt for infrastructure also impacts income returns, but to a much lower extent. Infrastructure credit spreads in the public bond markets continued to tighten in H1 2025. In addition to traditional project finance, infrastructure has access to a deep and cost-effective channel for ABS (asset-backed securities) lending for fiber, data center and tower companies. Bespoke solutions, such as preferred and structured equity financing, are also becoming prevalent in growth platforms.

Mind the gap

With positive momentum in fundraising so far in 2025, the assets under management (AUM) in infrastructure funds have grown rapidly to rival real estate on the basis of committed capital.[3] As the asset class expands and interest rates stay higher-for-longer, infrastructure investors have focused on investment strategies seeking higher return and growth. While core plus remains the strategy of choice, value-add funds now represent 22% of total AUM, on par with core.

The evolution of the asset class has important implications for investors' portfolio risk and target returns. While our forecasts are gross of fees, we monitor the track record of infrastructure strategies net of fees. Based on 10 years of data, core/core plus funds outperformed value-add funds on an absolute and volatility-adjusted basis (**Figure 4**). Investors should consider the typically higher fee load of value-add strategies and their incremental sensitivity to market inputs and project supply chains.

Figure 4: Historical total returns and Sharpe ratio, net of fees levered IRR, %

Source: Cambridge Associates Infrastructure Index, net of fees, as of Q1 2025. Includes 80 core/core plus funds with market capitalization of $240 billion and 93 value add funds with market capitalization of $303 billion. For illustrative purposes only. Current market conditions differ from prior market conditions, including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

[3] Preqin, as of December 2024. Infrastructure unrealized value (AUM excluding dry powder): $1,227 billion, real estate unrealized value (AUM excluding dry powder): $1,373 billion.

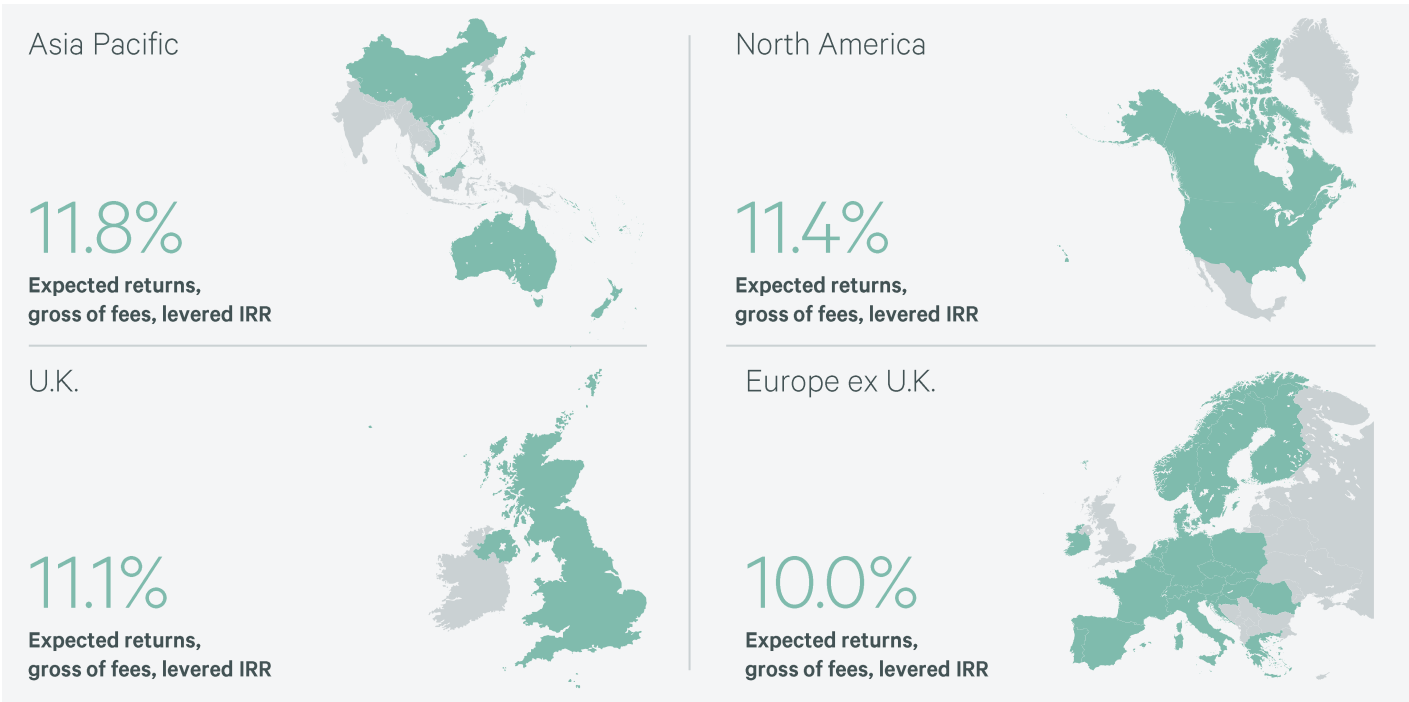
Regional outlook

No need for strategic rebalancing

We maintain our expected returns for Continental Europe and the U.K. on the back of firm investor sentiment and resurgent infrastructure investment (**Figure 5**). Tactically, investors will channel capital flows to European infrastructure because:

- The €500 billion infrastructure fund, announced by the German government in March 2025, will likely boost investments in energy, utilities and transport (notably railways).
- Europe is seen as the leader in green investment in power and data centers with ambitious targets and more stringent energy efficiency regulations.
- On the downside, Continental Europe still deals with the lingering impacts of the war in Ukraine on energy security and more volatile commodity and power prices linked to imported natural gas.
- The National Infrastructure Strategy, published by the U.K. government, highlights the commitment to private capital in infrastructure development.
- The European Central Bank was early in the rate cutting cycle, leading to value-accretive financing conditions in the eurozone.
- At the market level, European infrastructure comes with lower profitability (~33%, 10-year average EBIT margin) compared to North America and Asia Pacific (~42%).[4]

Figure 5: **Expected returns by region, gross of fees, levered IRR**



Source: Based on CBRE Investment Management's subjective assessment and subject to change. Forecasts as of H2 2025. Asia Pacific includes Australia, New Zealand, Singapore, Malaysia and Philippines. Continental Europe includes Austria, Belgium, France, Germany, Italy, Netherlands, Poland, Portugal and Spain. For Illustrative purposes only. Forecasts are inherently uncertain and subject to change.

[4] EDHEC Valuation metrics, 2014-2024.

Our return forecast for North America, the majority in the U.S., is slightly higher in absolute terms and our strategic outlook remains cautiously constructive. Policy clarity in the U.S. improved after the signing of the OBBBA and recent trade agreements. However, abrupt policy changes will shape a volatile backdrop with a high tail risk.

Investors have looked through the volatility, maintaining risk indicators such as infrastructure credit spreads and equity risk premiums for North America's infrastructure at a low level.

Power load growth is already taking place in many U.S. markets, driving up the need for new power generation across fuel types (renewables, battery energy storage, nuclear and natural gas).

Historical investment performance is consistent and compelling—according to MSCI, private infrastructure in the Americas outperformed Europe and Asia Pacific in the past five years.

The U.S. is the largest infrastructure market and continued to expand in the first half of 2025. Investment volumes increased faster than any other region—by 25% year-over-year (Y-o-Y), boosted by a growing share of renewables and data centers.

Historically, U.S. social infrastructure and transport were funded mostly by government and state funds. With a deteriorating fiscal position and focus on federal efficiency, we see impetus for promoting public -private partnerships.[5]

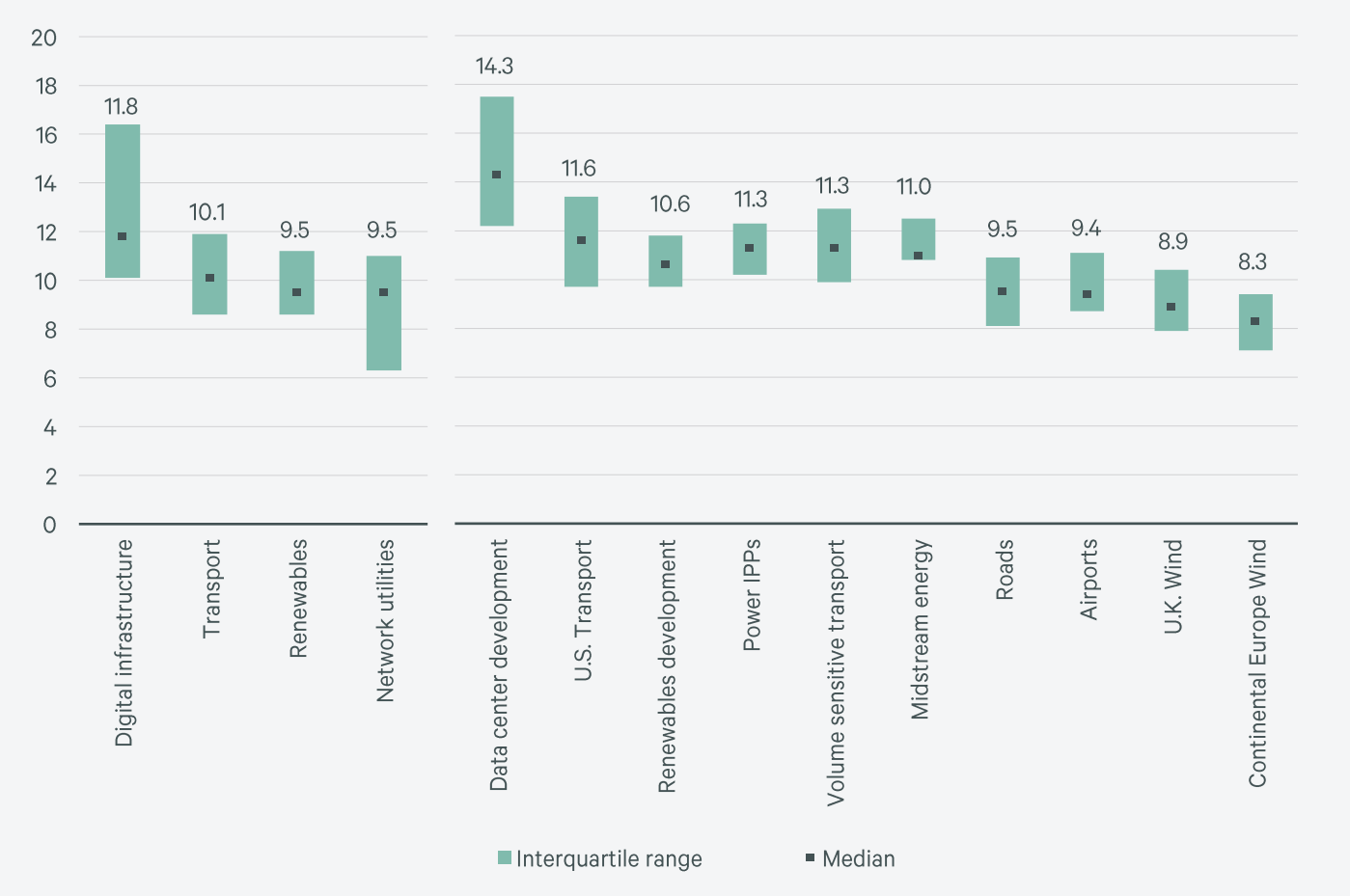
[5]Source: Infralogic, H1 2025 Rankings Report.

Sector outlook

Policy gains and pains

It may appear surprising that in a dynamic and policy charged year, our sector forecasts have changed only at the margin (**Figure 6**). Infrastructure is global and diverse, and while some segments or geographies underperform, others gain traction. Some renewable energy funds recorded negative returns in Q4 2024,[6] which may have been due to subdued power prices in Europe affecting recent vintages of solar and wind projects with exposure to the merchant curve. Offshore wind in the U.S. is subject to policy backlash and both early stage and permitted projects are experiencing capital impairments.

Figure 6: **Private infrastructure sectors and selected subsectors—entry level expected returns, IRR, levered, gross of fees, %**



Renewables includes 115 contracted, merchant and in development projects, including battery storage.
Network utilities based on CBRE Investment Management's methodology, discounted cash flow analysis, regulatory filings and recent transactions. Network utilities include 64 electric and gas transmission and distribution companies.
Source: CBRE Investment Management's forecasts based on EDHEC Valuation metrics as of Q2 2025, median, advanced economies, monthly observations, market validation and adjustments. Advanced economies. Forecasts are inherently uncertain and subject to change.

[6]Cambridge Associates Infrastructure Fund Index, net of fees IRR. 37 funds with $23 billion market capitalization.

While the U.S. is slipping in rankings, Asia Pacific is emerging as a destination for renewables investment. Australia announced ambitious renewables policy targets backed by 25-year contracts. Offshore wind may retreat because of technical challenges and rising costs but the colocation of battery storage and solar is rapidly becoming the mainstream investment case.

Volume-sensitive transport faces the adversity of tariffs and slowing global trade. U.S. port volumes continued strong, fueled by strong consumer spending and frontloading of imports to mitigate the impact of upcoming tariffs. The forecasts point to a weaker second half of 2025 and the following year. We maintained our forecast return for transport as many of the private companies operate under availability-based contracts with limited volume risk. In contrast to ports, airports present compelling growth. Air travel globally is forecasted to grow by 5.8% in 2025, almost double the growth of global GDP.[7]

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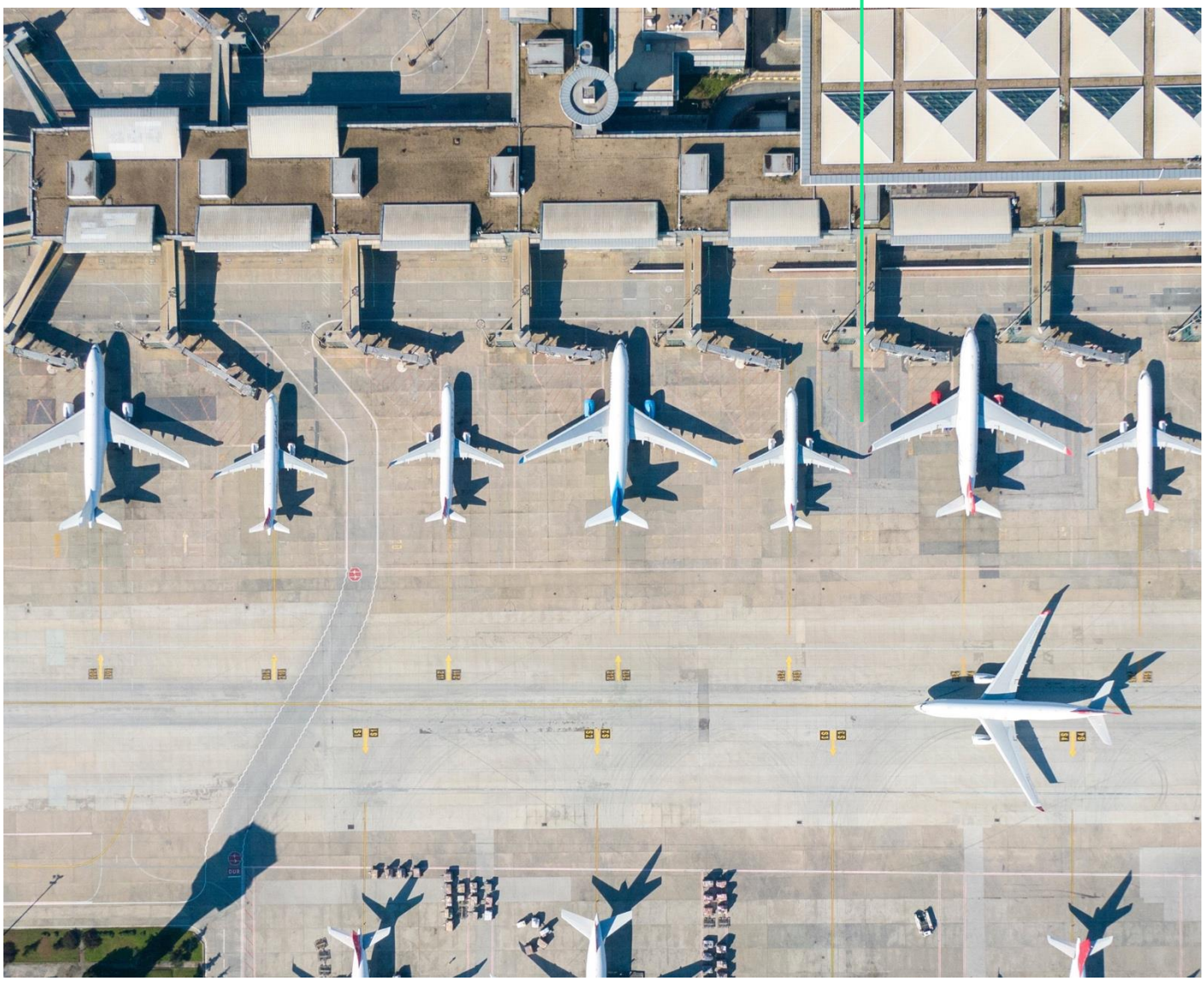


[7]IATA Industry statistics, June 2025. Measured in RPK—revenue per passenger kilometer.

The race to power

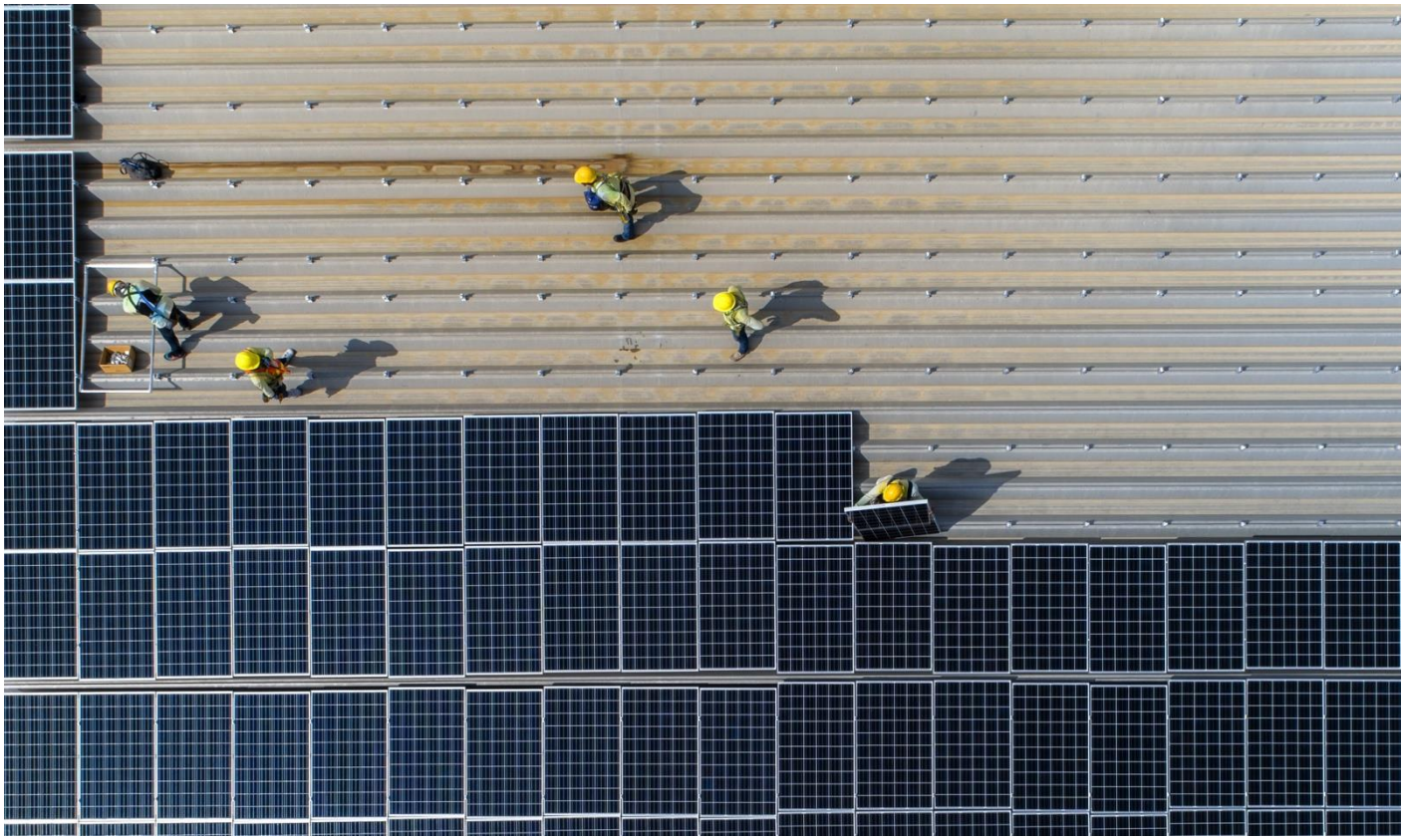
The industry is still digesting the implications of the OBBBA on clean energy investment and the impact of federal entity of concern (FEOC) rules on supply chains and development costs. While the new U.S. policies are disruptive for certain renewable technologies, market dynamics present entry points with a clear fundamental value.

The pace of renewable deployment will slow down after an initial rush to take advantage of clean energy tax credits. Bloomberg NEF forecasts a 23% drop in new wind, solar and energy storage additions through 2030 compared to its H1 2025 forecast.

Power demand is on the rise, giving urgency to new power capacity. At the same time, the federal government keeps a focus on the level of energy bills. Faster deployment and more competitive costs will give advantage to solar and battery storage, compared to new combined cycle gas turbines (CCGT) or large nuclear plants.

Offshore wind is adversely affected by the loss of financial incentives, but also by bans on permitting. The decline in solar is milder at 5% compared to pre-OBBBA (Wood McKenzie) while the case for battery energy storage is intact (to the extent it qualifies with progressive FEOC bands on battery components).

Corporates are competing to sign power purchase agreements (PPAs) for projects meeting the timelines for tax credits, driving up PPA prices by 4% since the signing of the bill (LevenTen).



The AI energy dilemma

Digital infrastructure remains at the top of our return forecast, exceeding the median infrastructure company by 100 basis points. The growth assumptions are under scrutiny, given the uncertain rate of AI adoption and potential savings in energy efficiency and compute requirements.

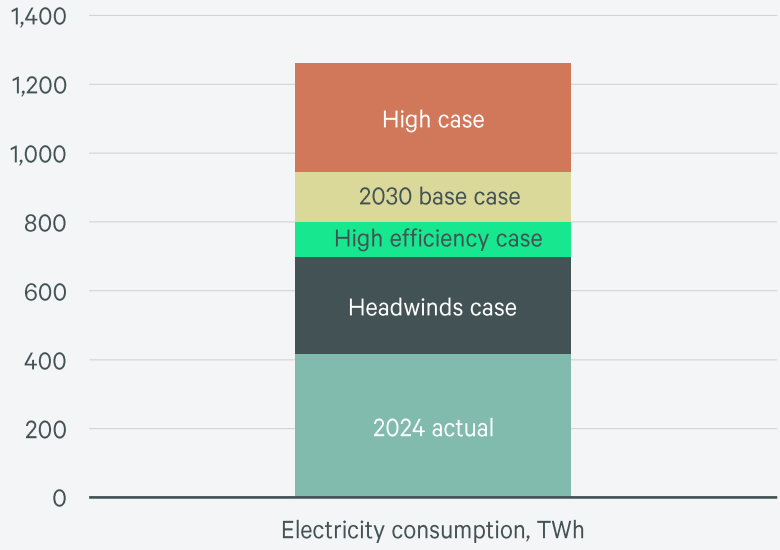
In addition to AI, we see wider use of smart applications, fast deployment of the cloud and more intense mobile data driving the need for data centers and denser wireless tower networks.

Hyperscalers are increasing capital expenditures (CAPEX) by 30%-35% in 2025 to support early winnings in the AI race. The pace of hyperscale CAPEX might moderate but the demand will increasingly come from AI start-ups and Graphics Processing Unit (GPU)-as-a-service businesses.

Forecasts point to an increase in data center power demand globally by at least double by 2030. There is more upside from AI than downside from efficiency as current demand outstrips supply (**Figure 7**).

Development yields on cost remain attractive across hyperscale and colocation data centers. Preleasing rates are strong as power bottlenecks extend development timelines to three to four years or longer.

Figure 7: **Global electricity consumption by data centers, terawatt hours**



Source: International Energy Agency. Energy and AI, May 2025. Three sensitivity cases (Lift-Off, High Efficiency and Headwinds) capture uncertainties in efficiency improvements in hardware and software, AI uptake and energy sector bottlenecks. For illustrative purposes only. forecasts are inherently uncertain and subject to change.

Conclusion

- The stability of infrastructure stands out in an environment of abrupt policy changes and uncertain rate cuts amid ongoing inflationary pressures.
- Immense growth opportunities will increase capital valuations and will translate gradually into cashflow growth and income.
- The need to electrify and densify digital networks is behind a strong investment pipeline in power grids, renewables and digital infrastructure.

Figure 7: Strategic investment outlook

	Strategic outlook	Rationale
Digital infrastructure	●	Resilient fundamentals due to new data use cases, with GenAI supercharging the urgent need for data centers and fiber-rich networks. Attractive development yields for data centers underpin CAPEX ramp-up of two to three times by 2030. Fiber networks are in a late stage of penetration and present a wide scope for consolidation.
Transport	●	Traffic volumes remain relatively stable despite the macroeconomic volatility. Air travel will grow above global GDP, supported by leisure, premium cabin and demand from Asia. Tariff and trade barriers could impact segments such as ports, air cargo and freight rail.
Renewables	●	New policies in the U.S. provide a window of opportunity for solar and wind projects. Deployment in the U.S. will decelerate in the medium term but several Asian markets screen attractive. Underperformance in offshore wind and European countries with high renewables load/low power prices.
Power	●	The case for battery storage is supported by the need for grid resilience and the availability of medium-term tolling agreements and capacity contracts. Gas-fired projects and M&A are on the rise in the U.S. due to policy tailwinds but challenged by low commodity prices and long equipment lead times.
Utilities	●	The utilities are faced with a CAPEX supercycle to modernize and expand the grid infrastructure in an age of electrification. Regulated returns gradually increase to cover higher funding costs and inflation, but large cash flow deficits and affordability concerns constrain investment returns.
Midstream energy	●	Midstream pipelines M&A has picked up and multiples started to converge on the back of political support in the United States. Natural gas and global LNG demand are volatile. The energy transition pathways and the long-term need for natural gas are still uncertain.

● Positive ● Neutral ● Negative

Source: Based on CBRE Investment Management's subjective assessment and subject to change. Global infrastructure outlook H2 2025.

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