

INFRASTRUCTURE TRENDS - #2: DEMOGRAPHICS ARE DRIVING GREENFIELD PROJECTS

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Legal Briefings - By **Erin Wyeth, Peter Butler and Jim Theodore**

In this series of short articles we look at the [current trends affecting infrastructure investment in Australia](#). This article considers trend #2 - how demographics are driving greenfield infrastructure projects.

CLEARING THE CONGESTION AND BOOSTING CONNECTIVITY

Experts predict Australia's population to double in the next 50 years. The Federal Treasury's Intergeneration Report from 2010 (Australia to 2050: future challenges) forecast a national population of 35.9 million by 2050. The Australian Bureau of Statistics currently forecasts the Australian population to increase by up to 42 million people by 2056. Most of this growth will occur in Sydney and Melbourne. Australia's infrastructure needs to keep pace with this expected population boom.

The Federal and State governments are looking to encourage and fund new initiatives aimed at anticipating this population growth by making our cities smarter, curbing congestion in urban population centres, increasing our national supply chain capacity and enhancing connectivity (not only between our urban hubs, but also throughout regional Australia).

To address this and pre-existing network overloads, a number of projects are already underway across Australia to future-proof cities' transportation networks against increasing peak usage demands. We see this trend continuing to drive a significant amount of further greenfield infrastructure projects in Australia in the coming years.

RAIL

Rail projects have been at the forefront of Government strategy to combat urban congestion. Projects include Cross River Rail in Brisbane, the Brisbane, Sydney and Melbourne Metro projects, Perth's Metronet project and the Parramatta Light Rail. We expect this momentum in rapid passenger transport projects will continue, as well as increased public pressure for inter-capital city rail projects. NSW has also announced its intention to replace its existing regional rollingstock fleet under a NSW Regional Rail PPP.

The recent Federal Government budget announced the creation of a \$10 billion National Rail Program to help fund urban and regional rail developments from 2019.

We also expect that rail projects won't be limited to passenger transportation, with a targeted focus on projects to boost Australia's freight capacity. This movement has been kicked off with the Inland Rail project aimed at increasing the connectivity of our cities and ensuring Australia's exports remain competitive by lowering transport costs. The Inland Rail project is expected to deliver other supply chain benefits, such as a shift of intermodal freight from road to rail. The project will need to be supported by investment in intermodal infrastructure, which may take inspiration from NSW's recently completed Moorebank Intermodal Terminal.

ROADS

Sydney's WestConnex and Melbourne's Western Distributor Project are examples of the types of greenfield road investments we believe State Governments will continue to make to upgrade the capacity of city roads, and to complete 'missing links' in the existing road networks. Other projects of this nature include:

- Sydney's Western Harbour Tunnel and Beaches Link; and
- Melbourne's various Outer Suburban Arterial Roads (OSAR) packages and North East Link.

PORTS

Recent Government activity in the ports sector has been on privatisation (witness the long term leases of the Ports of Melbourne, Darwin, Newcastle and Botany/Kembla). Focus is now shifting to increasing the capacity and efficiency of Australia's ports through the construction of new ports and expansion of existing facilities. This targeted optimisation of major ports is part of wider plans to create multi-modal hubs aimed at supporting better functioning supply chains and increased productivity. The Port of Townsville Channel Capacity Upgrade has already won Government support and we expect that other port expansion projects will follow.

AIRPORTS

The forecast population growth will see increased emphasis on expanding the capacity of Australia's airports. The recently announced \$5 billion Western Sydney Airport is the clearest example of this, along with proposals to construct additional runways at Melbourne Airport and Perth Airport.

CONSIDERATIONS WHEN BIDDING ON MAJOR INFRASTRUCTURE GREENFIELD PROJECTS

Based on our broad ranging experience and involvement in greenfield transport infrastructure projects, we believe the following will be important considerations for investors:

- **Future proofing:** Existing and new infrastructure will need to consider flexibility and optionality for future expansions or capacity enhancements.
- **Integration:** Investors will need to consider how their assets can 'link in' with and enhance existing infrastructure to increase the utility of the network rather than simply providing a new 'standalone' asset. The impacts of connecting projects on existing projects will be key as there is the potential for significant impacts on traffic throughput and value "free kicks".
- **Embracing disruption:** Investors must consider the impact of changing user behaviour, increasing levels of automation and other disruptive technologies. Projects need to be designed with these factors in mind to ensure longevity in fitness for purpose. Examples of these factors in the transport sector are autonomous vehicles, the introduction of transport/road network pricing and 'mobility as a service'.
- **Value capture:** Governments at all levels are committed to pursuing value capture opportunities. Commercial developments surrounding rail and road infrastructure, or utilising airspace rights, are an example. Leveraging the development opportunities created and capturing some of the increases in existing property values generated by new infrastructure will play an increasing role in the funding mix.
- **Innovation:** While 'innovation' has been a buzz-word for some time now, Government will continue to look for innovation from proponents of greenfield infrastructure projects. We see innovation as becoming even more important in light of the challenges presented by population growth, changing user behaviours and the disruption factor.
- **Collaborative contracting:** Traditional contracting may not provide the most economical solution, particularly for mega infrastructure projects. A contractor's resources, credit rating and preferred liability caps for example may mean a collaborative contracting approach will deliver better outcomes. High Speed 2 and

Crossrail in London, and Australian rail projects like Melbourne Metro and Cross River Rail, indicate that collaborative contracting will feature as part of the delivery solution for major projects.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



ERIN WYETH
PARTNER,
MELBOURNE
+61 3 9288 1383
Erin.Wyeth@hsf.com



PETER G BUTLER
PARTNER, BRISBANE
+61 7 3258 6521
Peter.G.Butler@hsf.com



JIM THEODORE
PARTNER,
MELBOURNE
+61 3 9288 1420
Jim.Theodore@hsf.com

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