CONCLUSION: RIPE FOR REVIVAL

SEIZE THE OPPORTUNITY

European infrastructure markets have been depressed throughout the financial crisis, with both deal values and volumes significantly below pre-crisis levels. However, our research shows that there are clear signs that a revival could be on the way, with appetite for investment from an increasing number of sources and geographies and large sums of private money earmarked for European infrastructure assets and projects over the next decade. The total amount of available funds, estimated at US$1trn over the next 10 years, is a sizeable sum and an opportunity that needs to be grasped with both hands.

All of the ingredients for a revival are there: infrastructure investment needs are great across Europe; austerity has cut public spending and long-term private financial investors are actively seeking stable, high-yield returns offered by infrastructure investments and are willing to pay good prices for, or to invest in, attractive assets and projects. The biggest obstacle now is not the lack of private finance, but the lack of assets to buy or appropriately structured projects to invest in.

To turn the potential for investment into sustainable infrastructure growth will require a new commitment from European governments to leverage long-term private capital for public purposes. However, there is a reluctance both to launch projects in a time of austerity and to privatise assets in a political climate often increasingly hostile towards private infrastructure ownership. Hostile or unstable pricing regulation is a significant barrier to private investment, as investors seek stable, hospitable regulatory environments which allow them to calculate risk throughout the long lifespan of an infrastructure investment.

Governments have the opportunity to take advantage of the current appetite for European infrastructure.

To date, however, we continue to see large sums of money chasing a limited number of deals. This has led to inflated prices for many brownfield assets. This ought to be an added incentive for governments to sell national infrastructure to private investors, taking advantage of an overheated market, but few have taken the opportunity to do so. Instead, over the last couple of years, it is largely corporate disposals that have provided a pipeline of brownfield assets for investors. Many have been tempted to sell non-core assets to reduce debt levels or generate money for new investments further afield.

Governments can attract investment through new projects and privatisation of infrastructure assets, which they can still control in the national interest through adequate structuring and regulation. However, for their part, investors need to know that infrastructure assets are indeed stable, predictable and safe over the long-term: that is what makes them attractive. The level of risk involved in the asset class should be relatively low. Governments can achieve this – and unlock the potential for investment into their country – by structuring new-build deals so as to share risks during construction, and by giving investors confidence that pricing and other regulation of operating assets will not change to meet short-term political goals. This is particularly important in countries which historically are seen as higher risk and which therefore need to work harder to reassure investors that the risk of investment will indeed be adequately rewarded.

Ultimately, the increasing appetite for European infrastructure by new private investors is an opportunity that needs to be seized rather than squandered. If governments start wooing private money and stop attacking it for political reasons, then there is every indication that European infrastructure investment will bounce back strongly from its post-crisis doldrums. ■