

# Market Update

## Review of the European PPP Market in 2012

### Headlines

- The European PPP market recorded in 2012 its lowest volume and number of transactions for a decade
- 66 PPP transactions reached financial close for an aggregate value of EUR 11.7 billion. Compared to 2011, this represents a 21% decrease in the number of closed deals and a 35% drop in value
- The number of large projects dropped significantly compared to 2011
- The UK proved to be the most active PPP market in Europe both in terms of volume and number of projects

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## Data Collection and Methodology

The data used in this publication is an EPEC aggregation of information collected from a variety of sources, in particular Dealogic ProjectWare, InfraNews, Infrastructure Journal and Inspiratia, cross-checked where appropriate against the EIB's own project files. The list of PPP projects forming the dataset has been reviewed, where possible, by EPEC members. The data is inevitably incomplete. As a consequence, the findings of this publication should be treated with caution.

This publication deals with:

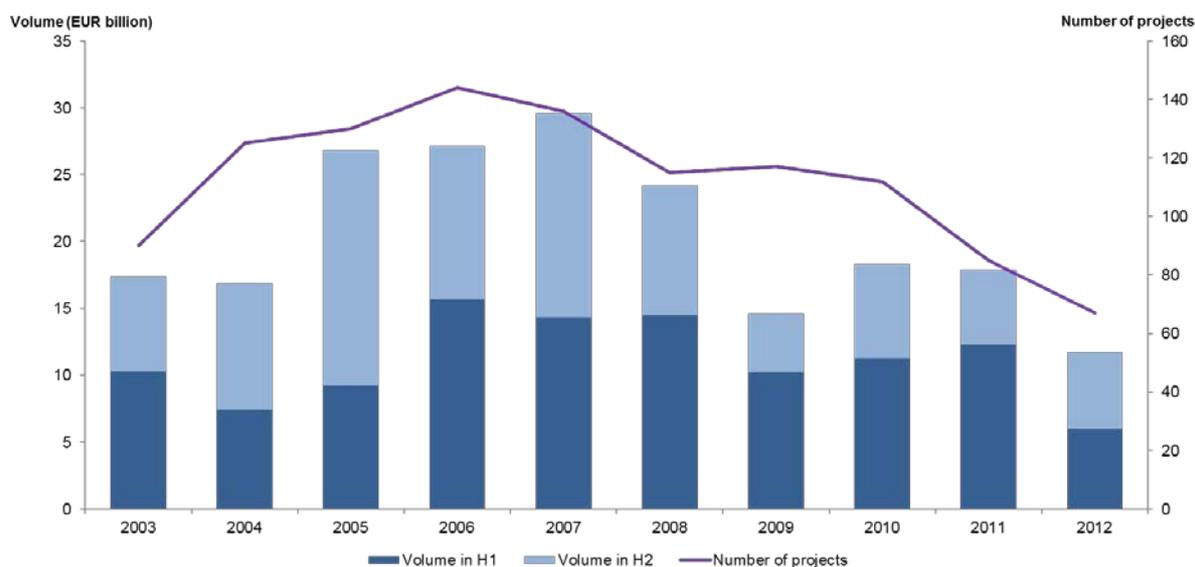
- PPP transactions in the EU;
- transactions of a design-build-finance-operate (DBFO) nature or a design-build-finance-maintain (DBFM) nature or concession arrangements which feature a construction element, the provision of a public service and a genuine risk sharing between the public and the private sector;
- transactions financed through 'project financing' and which reached financial close in the year; and
- transactions for a value of at least EUR 10 million.

The project values quoted in this publication refer to the projects' external funding requirements at the time of financial close (i.e. the sum of debt and equity) and exclude public capital contributions. The external funding requirement of a project can be significantly different to its capital investment cost.

## 1. GLOBAL VIEW

- In 2012, the value of PPP transactions reaching financial close in the European market totalled EUR 11.7 billion. This represents a 35% drop compared to 2011 (EUR 17.9 billion) and the lowest market value since 2003 (see Figure 1).

Figure 1: European PPP Market 2003-2012 by Volume and Number of projects



- **66 PPP transactions reached financial close** in 2012, a 21% reduction compared to 2011 when 84 projects reached financial close.
- The **average transaction size decreased significantly in 2012** reaching EUR 177 million (compared to EUR 213 million in 2011).
- **Four large transactions<sup>1</sup> closed in 2012** (compared to seven in 2011). These were:
  - The Intercity Express Programme (Phase 1) in the UK (EUR 3.2 billion);
  - The Nimes-Montpellier high speed rail bypass in France (EUR 1.8 billion);
  - The Rotterdam World Gateway port expansion (Maasvlakte 2) in the Netherlands (EUR 720 million); and
  - The Tribunal de Grande Instance de Paris courthouse PPP in France (EUR 563 million).

The aggregate value of these transactions accounted for 52% of the total market value. The Intercity Express Programme (Phase 1) project alone accounted for 27% of the total market value.

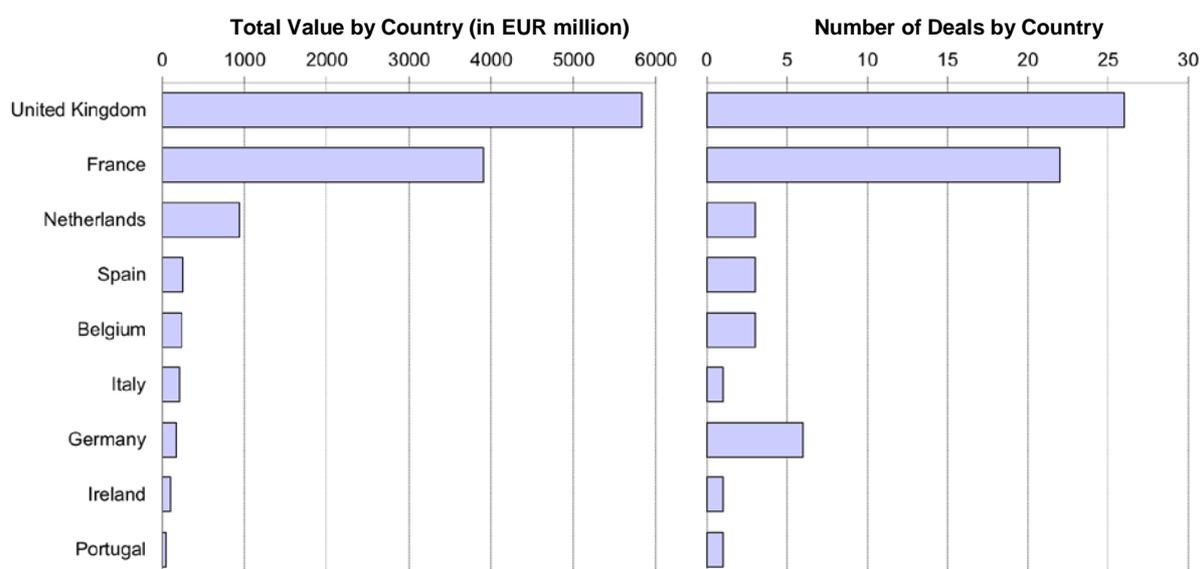
- **The role of governments and public financial institutions (domestic or supranational) appears less significant than in 2011** as only five PPP transactions benefited from public funding and guarantee commitments.

<sup>1</sup> Defined as deals exceeding EUR 500 million in value.

## 2. COUNTRY BREAKDOWN

- As Figure 2 below shows, **the UK dominated the 2012 European PPP market** in terms of value, overtaking France which led the market in 2011. The UK alone accounted for 48% of the European market value.
- With 26 deals closed in 2012 (compared to 27 in 2011), **the UK also remained the most active market in terms of number of transactions**. France followed with 22 deals. Germany, the third most active market, closed six deals, whilst Belgium, the Netherlands and Spain closed three transactions each. These six countries together accounted for 97% of all European PPP transactions closed in 2012.
- **Only nine countries closed at least one PPP transaction in 2012** (compared to 10 in 2011). Finland, Denmark and Luxembourg dropped out of the European PPP market, while Portugal and Ireland closed PPP deals for the first time since 2010.
- In value terms, **only the Dutch market grew in 2012** by comparison with 2011.

Figure 2: Country Breakdown by Value and Number of Transactions

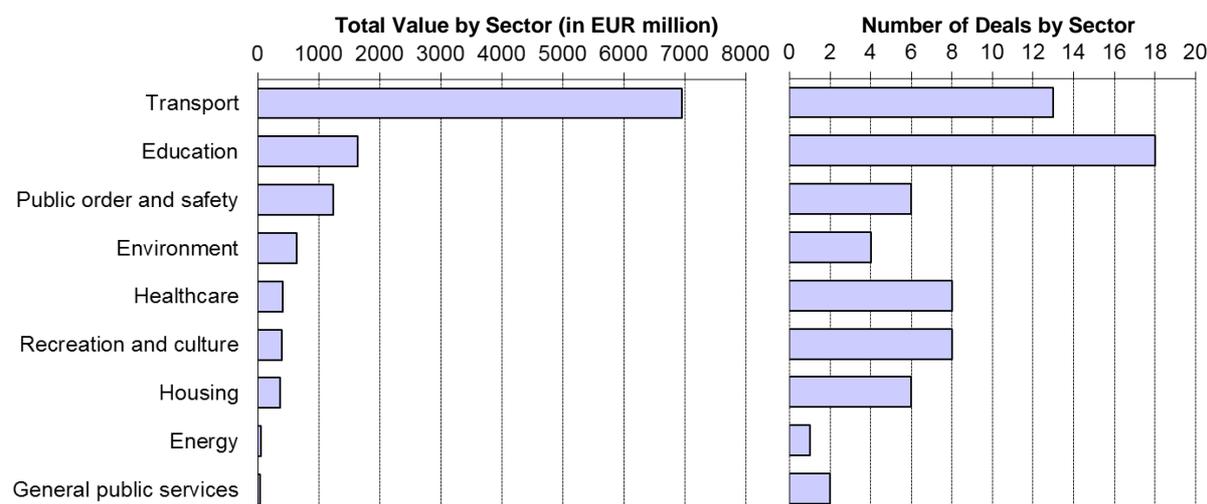


## 3. SECTOR BREAKDOWN

- Figure 3 below shows that, with 18 projects, **education** was the most active sector in 2012 although less than in 2010 and 2011 (38 and 23 projects respectively). In value terms, the education sector recorded a 63% increase in 2012. Due to the prevalence of small projects, the sector only accounted for 10% of the EU market as a whole.
- 13 deals reached financial close in the **transport** sector (compared to 12 in 2011). Transport remained the largest sector in value terms, accounting for 59% of the total market value. The two rail projects that reached financial close (Nimes-Montpellier and Intercity Express Programme) were the two largest PPP projects closed in 2012.

- Eight PPP transactions reached financial close in the **healthcare** sector, a slight increase from 2011. The aggregate value of healthcare projects however decreased by 33% from 2011 to EUR 405 million.
- Six **public order and safety**<sup>2</sup> deals closed for an aggregate value of EUR 1.2 billion, a 47% decrease compared to 2011, thus halting the upward trend observed for the sector since 2005. Projects included police stations in the UK and prisons in France.
- In the **environment** sector, only four waste management projects reached financial close for a total value of EUR 642 million, a 54% drop over 2011. All four projects were located in the UK.
- The number of transactions closed in the **general public services** sector decreased dramatically in 2012. With two deals closed, the sector accounted for less than 1% of the total market value.
- No **telecom** PPPs reached financial close in 2012.

Figure 3: Sector Breakdown by Value and Number of Transactions



#### 4. FINANCING TERMS

Bank financing for PPP projects remained constrained in 2012. Loan margins increased and loan tenors remained on average the same as in 2011.<sup>3</sup>

##### Commercial debt tenors

- The average tenor of senior debt financings<sup>4</sup> slightly **exceeded 21 years** in 2012 (i.e. more or less as in 2011). 26% of the projects in the data sample had debt tenors in excess of **25 years**. These transactions were concentrated in the UK, France and Belgium.

<sup>2</sup> This sector includes defence-related projects.

<sup>3</sup> As the quality of data on financing terms is weak in places, these conclusions should be treated with caution.

<sup>4</sup> Non-weighted average calculated on projects for which the maturity data was available.

- Figure 5 (in annex) shows that **important country** differences in commercial loan tenors continued in 2012. The average loan tenor proved to be the longest in the UK.

### Commercial debt pricing

- Our partial data sample across the EU indicates that in 2012:
  - the **average loan margin** was around 300 bps (230 bps in 2011) for construction phase and around 350 bps (270 bps in 2011) approaching maturity; and
  - the **lowest and highest margins** for construction phase stood respectively at 220 bps (170 bps in 2011) and 450 bps (300 bps in 2011).
- In most deals, margins step up through time.

## 5. NOTEWORTHY TRANSACTIONS

The following noteworthy PPP projects reached financial close in 2012:

- The **Intercity Express Programme (IEP)** is a UK Department for Transport programme to replace the older intercity trains currently running on the rail network in mainland UK. The project is the biggest privately financed rolling stock deal ever and one of the largest PPP projects to date. The IEP, worth a total of GBP 4.5 billion over its two phases, comprises the provision of trains, maintenance depots and route upgrades. The financing structure for Phase 1 includes a GBP 280 million equity stake and a 29-year debt package for GBP 2.1 billion, including an EIB loan of GBP 235 million.
- With a value of about EUR 1.8 billion, the **Nimes-Montpellier high-speed rail bypass** in France is the second largest transaction closed in 2012. It comprises the development of tracks and junctions capable of sustaining both high-speed trains and freight wagons, for a total length of about 90 km. The project is developed under a 25-year design, construction, finance, operation, and maintenance scheme, with an availability-based payment mechanism.
- The **R4 Ghent PPP Road** (Belgium) project features junction improvements over a 4 km stretch of the Ghent ring road. A notable feature of this project is that it is the first PPP to close in Belgium with a hard mini-perm structure without recourse to a state guarantee.
- The **Dijon Hybrid Buses** project (France) involves the financing, construction and maintenance of a fleet of 102 hybrid buses, to be used for the implementation of a bus-based transport network in the Dijon area. The transaction features a contract period of 16.5 years and an availability-based payment mechanism.
- The **Irish Schools Bundle 3** project consists of eight schools, which comprises seven post-primary schools and one primary school. This is the third bundle of schools under Ireland's Department of Education and Skills' Schools PPP Programme and it is the first deal to close in two years in Ireland. The EIB provided 50% of the bank debt with a 23-year tenor.

**ANNEX**

**Figure 4: Incidence of large projects in 2012 (> EUR 500 million)**

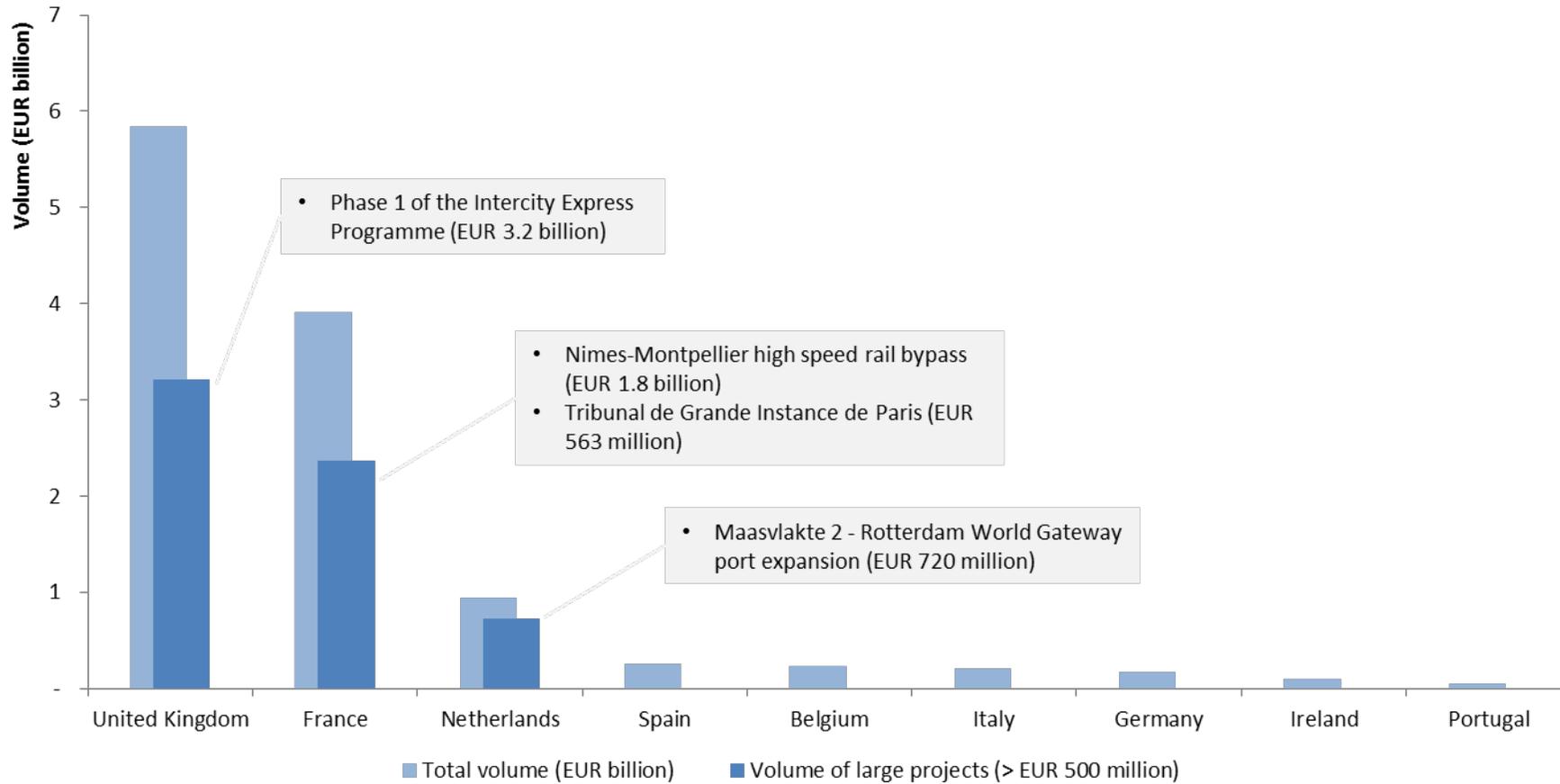
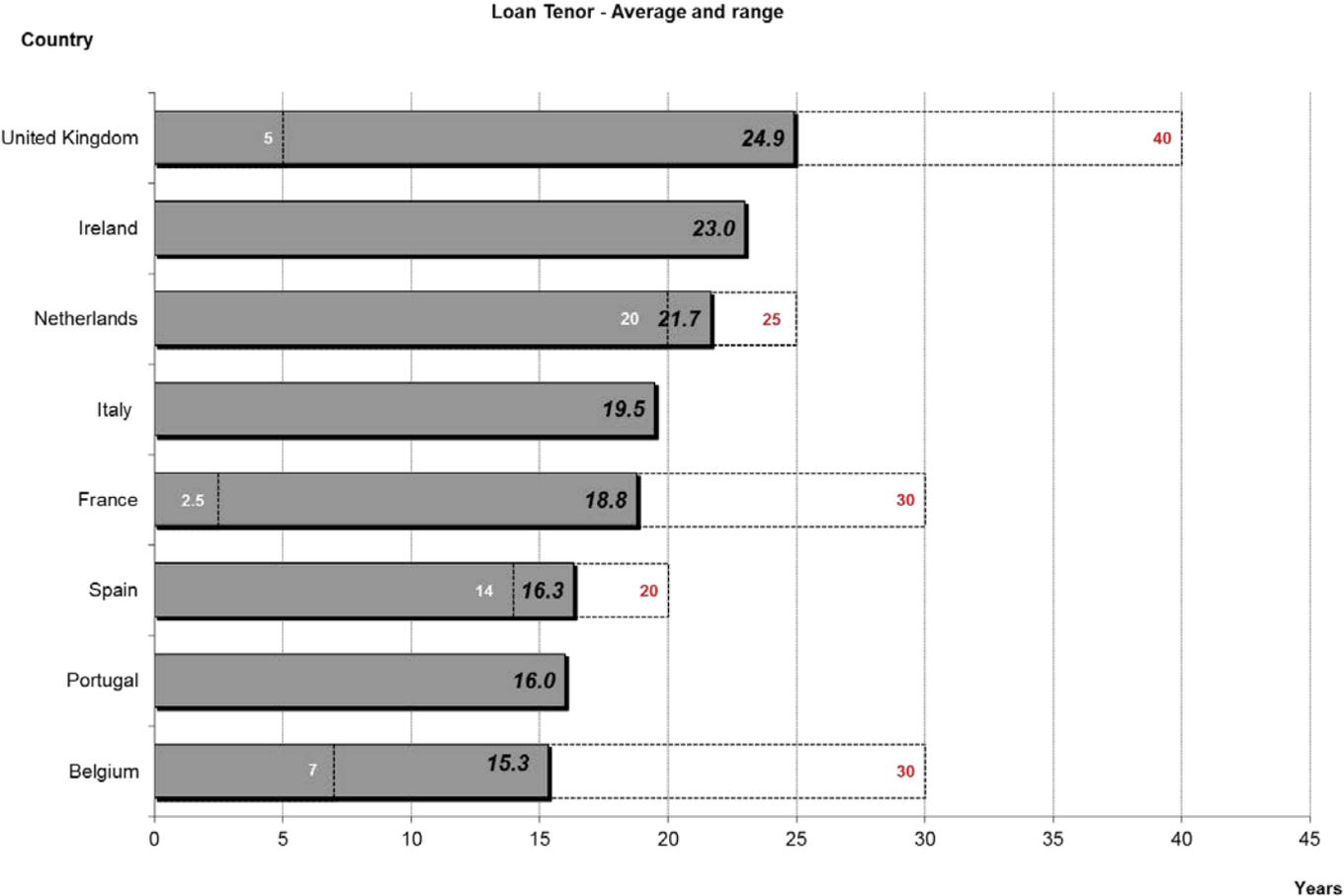


Figure 5: Loan maturities per country in 2012







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