

Market Update

Review of the European PPP Market in 2014

Headlines

- 82 PPP transactions reached financial close for an aggregate value of EUR 18.7 billion in 2014
- In value terms, the market grew by 15% in 2014
- The UK was the most active market by both number of projects and value
- 13 countries closed at least one PPP project
- The most active sector was transport (by both number and value of deals)
- Over 85% of the transactions closed were authority-pay PPPs
- 2014 confirmed that institutional investors' debt has become a mainstream PPP financing product

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Data Collection and Methodology

The data used in this publication are EPEC's own 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. Project data contained in this publication may be subject to future revisions due to the late availability of information or corrections to previously reported values. The data and the findings of this publication should therefore be treated with appropriate caution.

This publication covers:

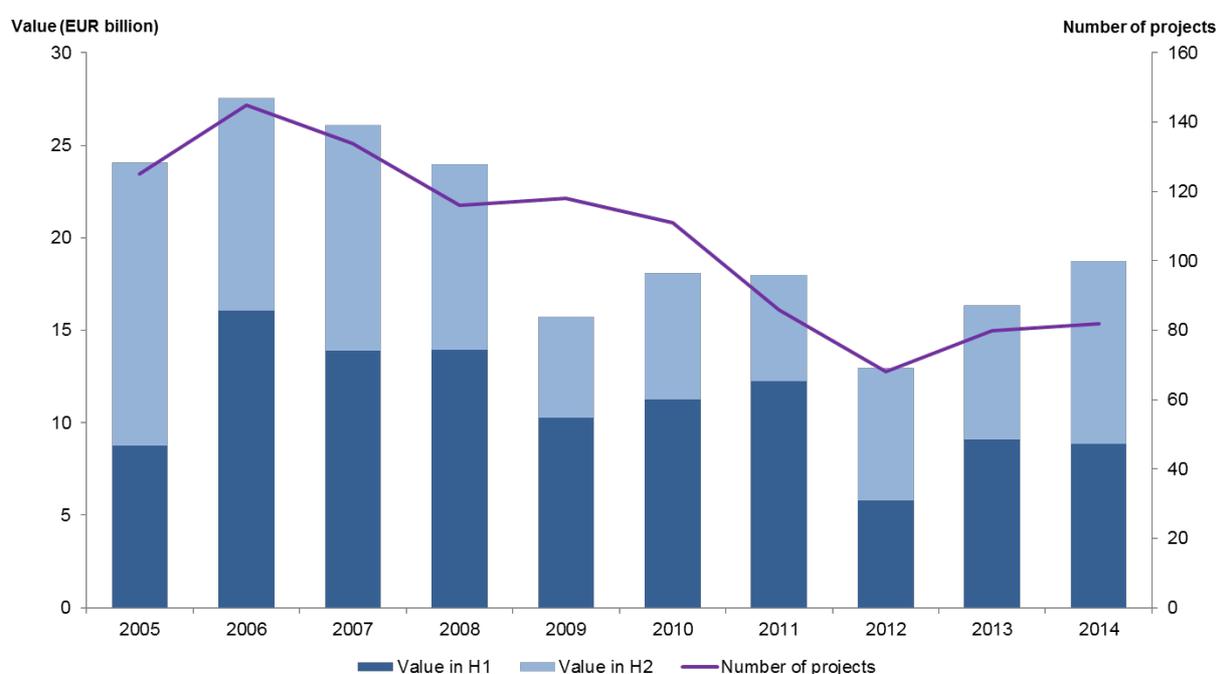
- transactions in EU-28 countries as well as Turkey and countries of the Western Balkans region (i.e. Albania, Bosnia-Herzegovina, FYROM, Kosovo, Montenegro and Serbia);
- transactions structured as design-build-finance-operate (DBFO) or design-build-finance-maintain (DBFM) or concession arrangements which feature a construction element, the provision of a public service and genuine risk sharing between the public and the private sector;
- transactions financed through 'project financing' and that reached financial close in the relevant period; and
- transactions of a value (see definition below) of at least EUR 10 million.

The project values quoted in this publication refer to the external financing requirements for projects at the time of financial close (i.e. the sum of debt and equity) and exclude public capital contributions. Readers should note that the external financing requirement of a project can be significantly different to its capital investment cost (the latter being difficult to obtain on a consistent basis).

1. OVERVIEW

- In 2014, the **aggregate value** of PPP transactions which reached financial close in the **European market**¹ totalled **EUR 18.7 billion**, a 15% increase over 2013 (EUR 16.3 billion).

Figure 1: European PPP Market 2005-2014 by Value and Number of Projects



- **82 PPP transactions** reached financial close. This is in line with 2013 during which 80 deals closed.
- The **average transaction size increased** to reach EUR 229 million (EUR 203 million in 2013).
- **11 large transactions**² closed, compared to six in 2013. Their aggregate value amounted to EUR 11 billion, which represented around 60% of the total market value. The large transactions reaching financial close in 2014 were:³
 - phase 2 of the Intercity Express Programme for rolling stock replacement (EUR 2.6 billion) in the UK;
 - the Northern Marmara motorway (EUR 2 billion) in Turkey;
 - the A11 Brugge-Zeebrugge motorway (EUR 1.1 billion) in Belgium;
 - the Milan Metro 4 (EUR 820 million) in Italy;
 - the Aberdeen Western peripheral route (EUR 725 million) in the UK;

¹ Defined as EU-28, countries of the Western Balkans and Turkey.

² Defined as deals exceeding EUR 500 million in value.

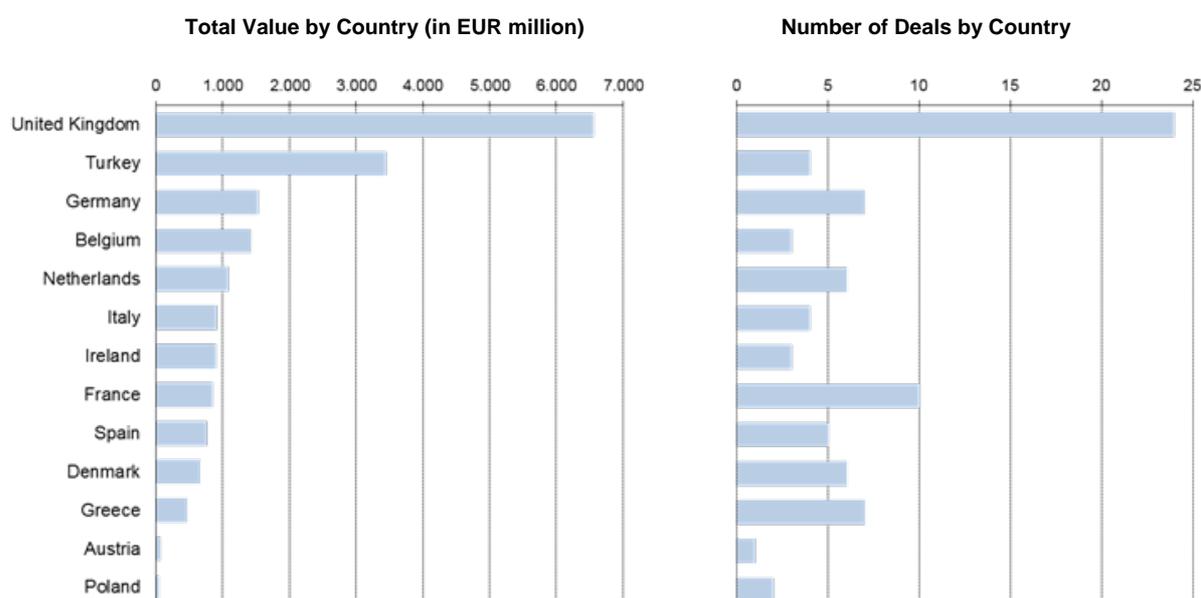
³ More detail is available in Annex 1.

- the Mersey Gateway bridge (EUR 707 million) in the UK;
 - A9 Gaasperdammerweg motorway (EUR 700 million) in the Netherlands;
 - the A7 Bordesholm-Hamburg motorway (EUR 646 million) in Germany;
 - the university hospital of Schleswig-Holstein (EUR 630 million) in Germany;
 - the Adana health campus (EUR 542 million) in Turkey; and
 - phase 2 of the Gebze-Orhangazi-Izmir motorway (EUR 516 million) in Turkey.
- Over **85%** of the transactions closed were **authority-pay PPPs** (e.g. availability payments).

2. COUNTRY BREAKDOWN

- As Figure 2 shows, the **UK remained the largest PPP market** in Europe both in terms of value and number of projects. 24 transactions closed (compared to 31 in 2013) for a value of about EUR 6.6 billion (EUR 6 billion in 2013).

Figure 2: Country Breakdown by Value and Number of Transactions in 2014



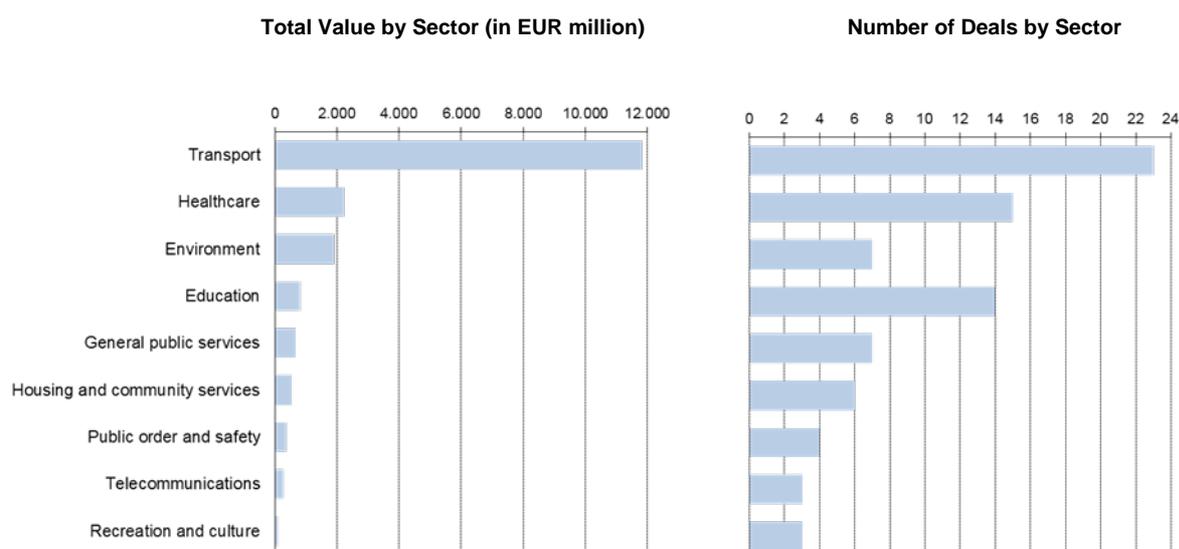
- In value terms, Turkey was the second largest PPP market (EUR 3.5 billion). A very large project (the Northern Marmara motorway project, worth EUR 2 billion) accounted for the majority of the Turkish PPP market.
- **Germany emerged as the third largest PPP market** in Europe (EUR 1.5 billion) with two large transactions (the A7 Bordesholm-Hamburg motorway and the university hospital of Schleswig-Holstein) accounting for most of the domestic PPP market by value.

- With regard to the number of transactions closed, the UK was followed by **France** (10 deals), **Germany** and **Greece** (seven deals each). Six deals closed in **Denmark** representing half of the transactions closed in the country over the last decade.
- 11 countries closed more than two deals (compared to six countries in 2013) and **13 countries closed at least one PPP transaction** (14 in 2013). **Greece** closed PPP deals for the first time since 2009 (seven projects).

3. SECTOR BREAKDOWN

- As shown in Figure 3, the **transport sector** remained by far the most active in value terms. With EUR 11.8 billion worth of transactions, transport represents two thirds of the total market value. The number of deals closed in the sector increased to 23 (from 16 in 2013), making it the most active sector in terms of number of projects also.
- 2014 confirmed the upward trend observed for the **healthcare sector** over the last few years. The sector was the second largest both in number of projects and value: 15 health transactions reached financial close worth an aggregate value of EUR 2.2 billion (12 projects with an aggregate value of EUR 1.5 billion in 2013).
- The **environment** sector contracted significantly in terms of closed deals (seven in 2014 and 13 in 2013). It also recorded a moderate reduction in value terms (EUR 1.9 billion in 2014 and 2.3 billion in 2013).
- The number of transactions closed in the **education sector** (the most active sector in 2013 in terms of deal number) decreased by 33%. With 14 transactions closed, it still however ranked as the third most active sector by number of deals.

Figure 3: Sector Breakdown by Value and Number of Transactions in 2014



4. FINANCING⁴

- **23 transactions** (16 in 2013) involved the provision of debt by institutional investors (e.g. insurance companies, pension funds) through a variety of financing models. Overall, institutional investors lent **around EUR 2.8 billion** (EUR 2.5 billion in 2013) to European PPPs at **very long maturities** (on average 24 years, with a maximum of 43 years).
- Six countries closed transactions involving institutional investors' debt: **the UK, Belgium, Denmark, Germany, Ireland and the Netherlands** (compared to only three countries in 2013).
- The role of **governments and public financial institutions** (domestic or supranational) remained important, for example:
 - all seven deals in Greece involved EU funding (grants or JESSICA loans);
 - KfW IPEX-Bank, the German development bank, was involved in the financing of the two large transactions which closed in the country; and
 - the EIB financed 14 projects for a total lending volume of EUR 3.3 billion.⁵
- The **average tenor of commercial bank senior debt**⁶ remained stable at around **21 years** in 2014. In the data sample, the longest commercial bank debt tenor recorded was 31 years. The share of projects with loan tenors **in excess of 25 years** increased considerably to **40%** (28% in 2013). Annex 2 shows however that significant country differences in commercial bank loan tenors remained. The **longest tenors** were recorded in **the UK, Germany, the Netherlands and France**.
- Our partial data sample indicates that in 2014 the average **commercial bank loan margins moderately decreased** and stood at around **268 bps** for the construction phase (286 bps in 2013) and around **275 bps** (341 bps in 2013) near the loan maturity. The lowest and highest margins stood at 140 bps and 500 bps respectively (210 bps and 510 bps in 2013).

5. NOTEWORTHY TRANSACTIONS

The following noteworthy PPP projects reached financial close in the second half of 2014:⁷

- The **A7 Bordschholm-Hamburg motorway** (EUR 646 million) in Germany is the first project financed under the EIB/EC Project Bond Initiative in Germany. It features a multi-source financing combining a bond placement and commercial bank debt facilities.

⁴ As the quality of data on financing terms is limited in places, the information provided in this section should be treated with caution.

⁵ Regular updates of the list of PPPs financed by the European Investment Bank are available at: www.eib.org/epec/library/index_old.htm#Market_Updates

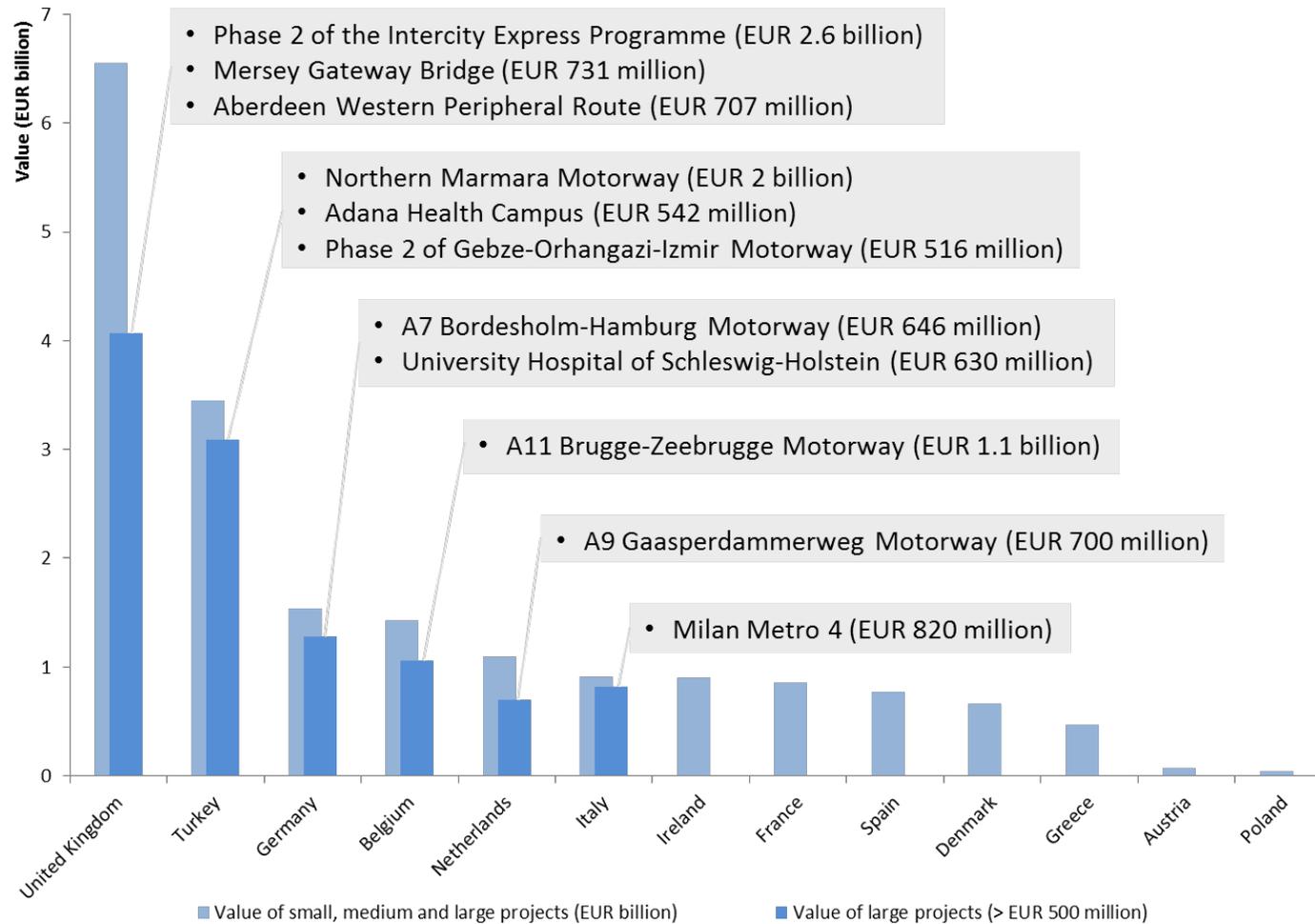
⁶ Non-weighted average calculated on projects for which the maturity data was available.

⁷ For the first half of 2014, see: www.eib.org/epec/resources/epec_market_update_2014_h1_en.pdf

- The **Adana integrated health campus** (EUR 542 million) and the **Mersin integrated health campus** (EUR 363 million) are the first healthcare PPP projects to close in Turkey. The projects are part of a EUR 12 billion government-sponsored PPP hospital programme involving the construction of 60 facilities.
- The **Aarhus hospital** (EUR 174 million) in Denmark was entirely financed by a pension fund.

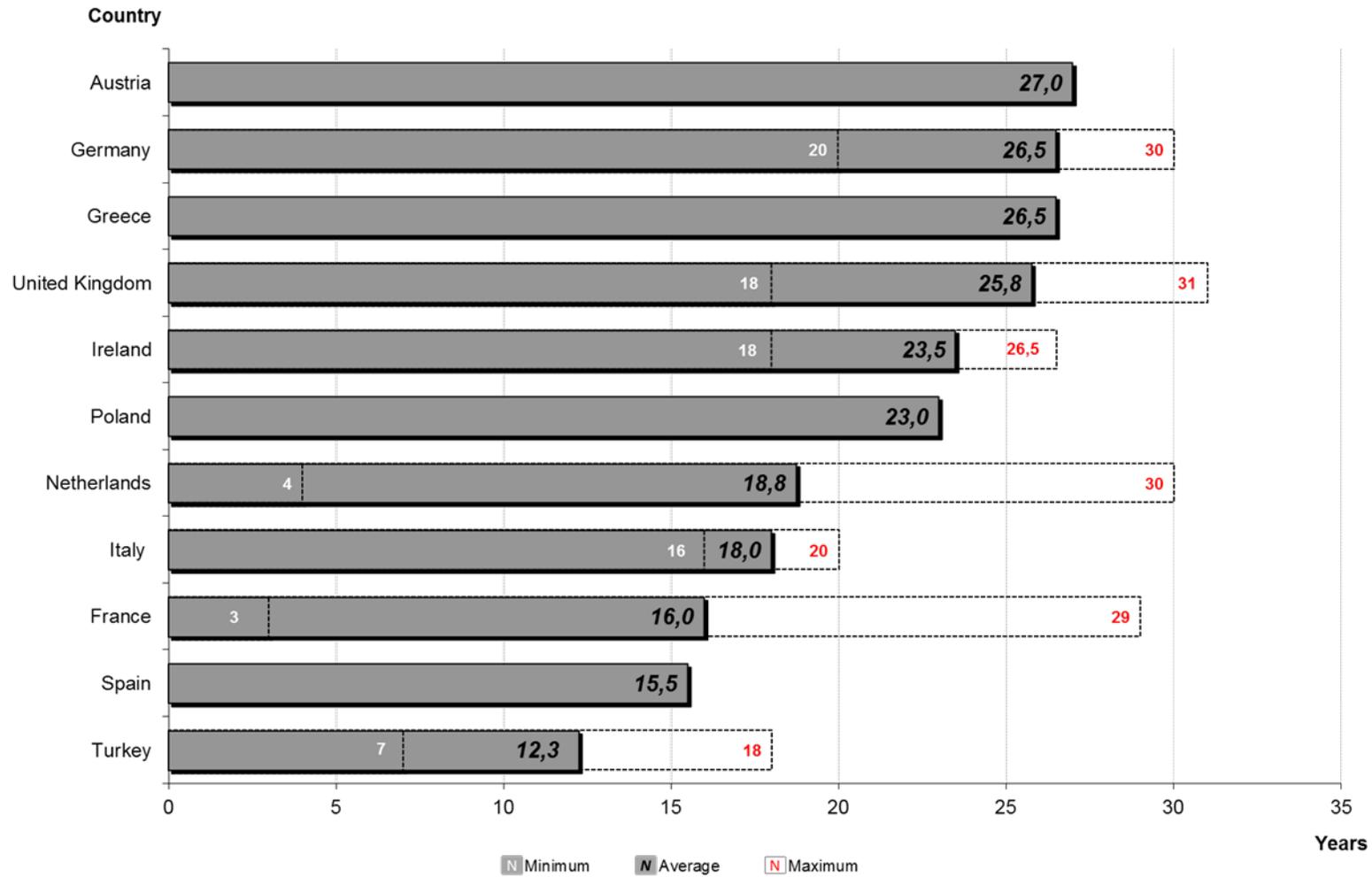
Annex 1

Location of large projects in 2014 (> EUR 500 million)



Annex 2

Loan maturities of senior commercial bank debt by country in 2014





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