

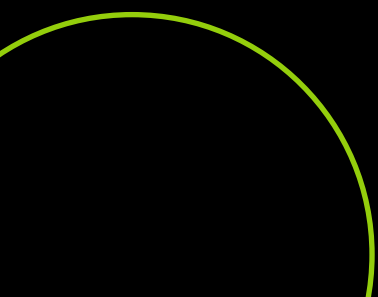


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**Infrastructure
Real Estate
Investment Trust**



Infrastructure real estate investment trusts (REITs) and their impact on the construction sector

Infrastructure construction projects mainly involve transportation, water and power supply networks, communications facilities, ecological and environmental protection, and municipal facilities. In recent years, infrastructure has become a way for countries to promote economic growth and secure employment due to its "multiplier effect", which can drive total social demand that is several times the size of infrastructure investments. Since 2020, global economic growth has slowed as the COVID-19 pandemic has taken hold, and major economies have sought to stimulate economic growth through infrastructure construction¹. For example, in China, the Government has been promoting "new infrastructure" since 2020² and in November 2021, the US Congress passed the Infrastructure Investment and Jobs Act (IIJA)³. Finding sustainable, replicable solutions for investment and construction is a point of focus for all stakeholders in the infrastructure sector.

Features of the infrastructure sector

- Large investment, a long investment term, and high capital requirements.

As of October 2021, there are 7,784 infrastructure projects with a total investment of more than RMB11 trillion (approximately US\$1.7 trillion) registered in China's National private public partnerships(PPP) information platform⁴. Average investment per project exceeds RMB1.4 billion (approximately US\$220 million), and each project has a partnership term of more than 10 years⁵. Heavy investment and lengthy partnerships impose high capital requirements on investors in infrastructure projects.

- Limited return on investment (ROI).

The public nature of infrastructure projects means their pricing is subject to government administration or policy regulation. Although a market mechanism has been introduced into the PPP model in recent years, the nature of the sector means it is impossible to achieve a high ROI.

- Stable cash flow and a large proportion of debt financing.

The features of infrastructure projects, including stable cash flows and low asset liquidity during operations, mean they feature a large proportion of debt financing and difficulties in equity financing.

1. Deloitte China “基础设施REITs对基建行业影响分析报告”, published 6 January 2022 <https://www2.deloitte.com/cn/zh/pages/energy-and-resources/articles/analysis-report-impact-infrastructure-reits-oninfrastructure-industry.html> Accessed 7 January 2022

2. Wang Xiaosong “New infrastructure can boost economy”, China Daily, published 14 May 2021. <http://global.chinadaily.com.cn/a/202005/14/WS5ebc85c0a310a8b241155809.html> Accessed 27 November 2021

3. “Biden signs \$1.2 trillion US infrastructure bill into law”, China Daily, published 16 November 2021. <http://www.chinadaily.com.cn/a/202111/16/WS6192d45fa310cdd39bc7577d.html> Accessed 27 November 2021

4. China's National private public partnerships(PPP) information platrm, published October 2021. <https://www.tzxm.gov.cn:8081/tzxmweb/tzxmweb/pages/pppInfo/pppIndex.jsp> Accessed 27 November 2021

An overview of global infrastructure REITs

REITs have been issued in more than 40 countries and regions, with the US, Japan, Australia, and Singapore among the largest markets⁶. Retail and commercial property, residential apartments, industrial parks, and warehousing are the most common underlying assets.

Since the classification of REITs varies across countries and regions, this article classifies infrastructure REITs in their narrow sense, i.e., REITs with infrastructure construction as underlying assets. Below are some of the major infrastructure REITs in various global markets (Figure 1).

Infrastructure REITs currently occupy only a small proportion of the global REIT market. However, their strong anti-risk capability and stable earnings make infrastructure REITs an important part of many investment portfolios. As the world's largest market for infrastructure investment and construction, China's infrastructure REIT market is set to expand rapidly following the initial issuance of infrastructure REITs in 2021⁷.

Market	REIT	Primary business
US	AMERICAN TOWER (NYSE: AMT)	Communications tower, distributed antenna system.
	COREENERGY INFRASTRUCTURE TRUST (NYSE: CORR)	Upstream and midstream energy infrastructure assets, oil and gas pipeline, storage terminal, and gathering system.
	CROWN CASTLE (NYSE: CCI)	Base station tower, small base station nodes, and fiber router.
	SBA COMMUNICATIONS CORP (NYSE: SBAC)	Base station equipment leasing; installation, optimization, and integration services for cellular base stations.
	UNITI GROUP (NYSE: UNIT)	Communications distribution system.
Japan	Takara Leben Infrastructure Fund, Inc.	Solar power generation assets.
	Ichigo Green Infrastructure Investment Corporation	
	Renewable Japan Energy Infrastructure Fund, Inc.	
	Canadian Solar Infrastructure Fund, Inc.	
	Tokyo Infrastructure Energy Fund, Inc.	
	Enex Infrastructure Investment Corporation	
	Japan Infrastructure Investment Corporation	
Singapore	Keppel Infrastructure Trust	Natural gas and sewage disposal
	Netlink NBN Trust	Wideband transmission equipment
Australia	APA Group	Gas pipelines
	AusNet Services	Power grid, power distribution network, gas distribution network
	Infigen Energy	Wind power and solar power plant
	Atlas Arteria	Tollway
	Spark Infrastructure Group	Power distribution network
	Sydney Airports	Sydney Kingsford Smith Airport
	Transurban Group	Tollway
India	IRB InvIT FUND	Highway
	IndiGrid InvIT Trust	Power transmission network
China	Zheshang Huhangyong Expressway REIT	Tollway
	Fullgoal Beijing Capital Sewage REIT	Sewage disposal
	Pingan Guangzhou Communications Investment Guangzhou-Heyuan Expressway REIT	Tollway
	AVIC Shougang Green Energy REIT	Biomass energy
	Huaxia Yuexiu Expressway REIT	Tollway

Figure 1: Source: Deloitte China “基础设施REITs对基建行业影响分析报告”

5. China's National private public partnerships (PPP) information platform, published October 2021. <https://www.tzxm.gov.cn:8081/tzxmweb/tzxmweb/pages/pppInfo/pppIndex.jsp> Accessed 27 November 2021

6. Deloitte China “基础设施REITs对基建行业影响分析报告”, published 6 January 2022. <https://www2.deloitte.com/cn/zh/pages/energy-and-resources/articles/analysis-report-impact-infrastructure-reits-oninfrastructure-industry.html> Accessed 7 January 2022

7. Deloitte China “基础设施REITs对基建行业影响分析报告”, published 6 January 2022. <https://www2.deloitte.com/cn/zh/pages/energy-and-resources/articles/analysis-report-impact-infrastructure-reits-oninfrastructure-industry.html> Accessed 7 January 2022

REITs' role in promoting infrastructure construction

- Strengthen the reinvestment capability of infrastructure enterprises.

By issuing infrastructure REITs, investors can obtain early returns on capital for reinvestment or debt repayment. At the same time, the listing and sale of infrastructure assets helps reduce balance sheet ratios and enhance refinancing and reinvestment capabilities.

- Create sources of capital for infrastructure project investment and construction.

Infrastructure REITs feature moderate risk, stable cash flows, and medium liquidity, enabling institutions and retail investors to invest in infrastructure by purchasing REIT shares and expanding the available sources of capital for infrastructure construction.

- Form a “closed loop” of investment and financing for the infrastructure sector.

“Investment, construction, operation, exit, and reinvestment” form a complete chain and virtuous circle in the infrastructure sector. Generally, there are limited investment exit options from infrastructure projects due to the large investment required and long investment term. Infrastructure REITs provide investors with a normalized, standardized withdrawal channel and enhance project liquidity.

Outlook for infrastructure REITs

Infrastructure REITs are an effective way of involving capital markets in the infrastructure sector. This reduces reliance on government investment for infrastructure construction, expands sources of capital, and improves the financial structure of infrastructure investment enterprises. It also enhances the industry's capacity for sustainable growth.

Financial deficits and government debt continue to rise in many countries. Infrastructure REITs – now one of the few viable options for governments to stimulate economic growth without creating an additional fiscal burden from infrastructure investment and construction – are set to develop rapidly.

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