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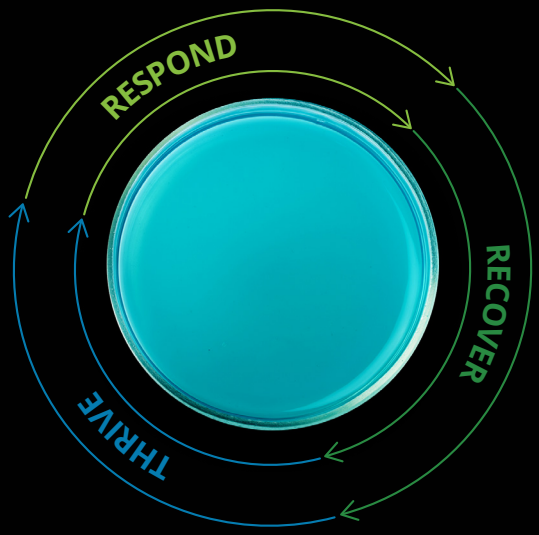
The Impact of COVID-19 on US Infrastructure and Capital Projects

Is a strategic refresh within the infrastructure sector warranted?



In 2019, total investment dollars raised for infrastructure and real assets reached a record-breaking high mark. Institutional money managers like pension funds, insurance companies, university endowments, and other large capital allocators closed on $81.73B of commitments to funds in 2019, billions more than what was raised in 2017 and 2018.

Why did institutional investors allocate record amounts of money into infrastructure and capital assets funds? And will these investors continue to do so post-COVID-19?

Institutional money managers such as the ones mentioned above have long investment horizons. The impact of COVID-19 on public equity markets could lead to a long-term rebalancing of the portfolio of these institutional funds. It could result in an increase in the allocation that is made to contracted assets with stable long-term return profiles, such as infrastructure, and the sponsors and developers who manage these assets.

Investment dollars are ready. What does this mean for US infrastructure?

Understanding the nature of available capital will be important in realizing the number of opportunities that arise for investors, developers, and the public sector.

On the credit side, due to the impact of COVID-19 on the economy, the cost of debt is historically low in the United States. It still remains significantly above the levels of some foreign countries, where sovereign debt yields are lower or negative. This spread is expected to further increase foreign allocation of institutional capital into US assets, including infrastructure. The risk-free rate in the United States is historically low on long-term obligations as well. The price premia for federal infrastructure debt (+1 bps), municipal bonds (+50–150 bps) and private project finance debt (+100–350 bps) for creditworthy assets reflect the rush to secure assets in times of uncertainty. These historically low rates could be further lowered by the global response to the COVID-19 crisis, as governments are increasingly signaling further use of monetary policy tools such as lowering interest rates and buying Treasury securities.

For equity investors in infrastructure projects, the lowering of the cost of debt translates into lower equity hurdle rates for project investment analyses. In an ultra-low- or zero-interest-rate environment, infrastructure investors will likely see increased equity returns and may even be willing to accept lower yield for capital invested in creditworthy public infrastructure assets.

These changes in the financing dynamic are expected to get increasingly attractive for public sector entities who seek to mobilize private sector financing, expertise, and risk-sharing for infrastructure programs and projects.

Now what? Opportunity to increase the number of bankable projects

Because of these economic pressures and opportunities, government and industry will be incentivized to find new ways to innovate together for infrastructure. The appetite and urgency to deploy private dollars into public assets will likely increase with the lowering of interest rates. Because of the low cost of debt, the ability for the private sector to benefit from enhanced equity opportunities may return. This creates a unique opportunity for many public-private partnership projects that may not have been bankable under recent "normal" rate scenarios to suddenly become feasible.

Ideas such as bundling projects have been tried on limited scale before, but the new paradigm brought by the COVID-19 crisis could trigger their resurgence and attractiveness where they otherwise may not be. Bolstered by a potential federal government stimulus for infrastructure, the environment of the sector necessitates a strategic refresh by all parties who seek to contribute to the rebuilding of America's infrastructure.

If you want to talk more about your organization's priorities in this field, please contact:

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