

# Market Update

## Review of the European PPP Market in 2011

### Headlines

- 84 transactions reached financial close in 2011 on the European PPP market for an aggregate value of almost EUR 18 billion
- In value terms the market in 2011 was in line with that of 2010, but it shrank significantly in terms of transaction number
- Much of the market value is attributable to a small number of very large transport transactions
- The year was marked by the prevalence of the French market (in value terms) and a sharp increase in the average transaction size
- Despite a significant reduction in the number of transactions, the UK remains the most active PPP market in Europe
- Bank financing for PPP projects remained constrained in 2011. Loan margins have eased only marginally and loan tenors were on average shorter than in 2010

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## Data Collection and Methodology

The data used in this publication is an EPEC elaboration of information collected from a variety of sources, in particular Dealogic ProjectWare, InfraNews, Infrastructure Journal and Inspiratia, cross-checked where appropriate against 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.

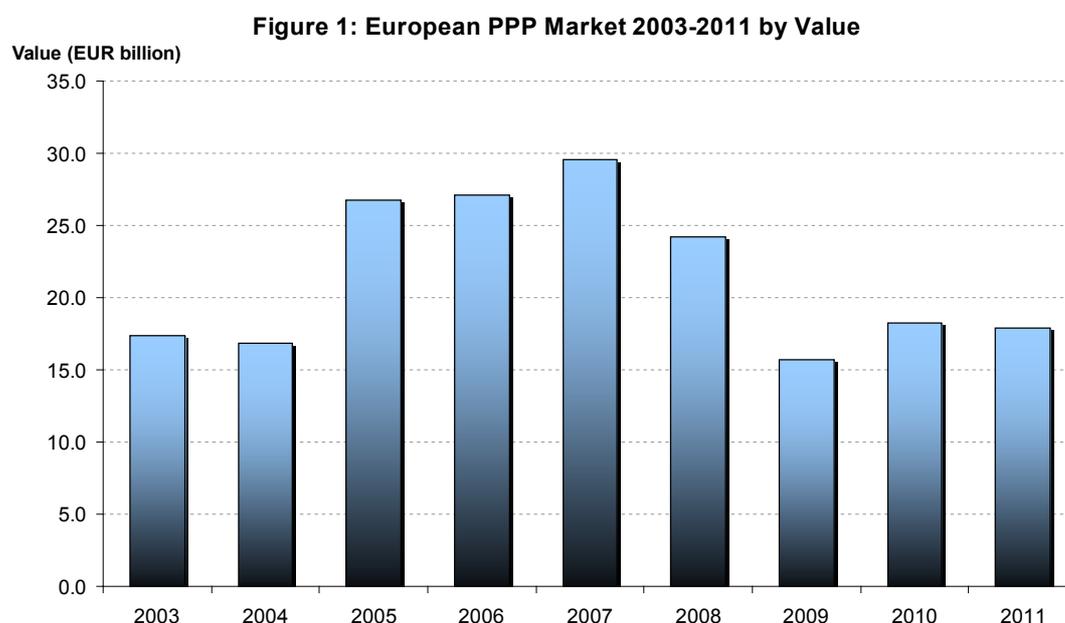
This publication deals with:

- PPP transactions 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 2011; 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 therefore exclude public capital contributions.

## 1. GLOBAL VIEW

- In 2011, the **value of PPP transactions** reaching financial close in the European market totalled EUR 17.9 billion. As Figure 1 shows, 2011 was roughly in line with 2010 (EUR 18.3 billion) but well below the peak PPP years (2005 to 2007).



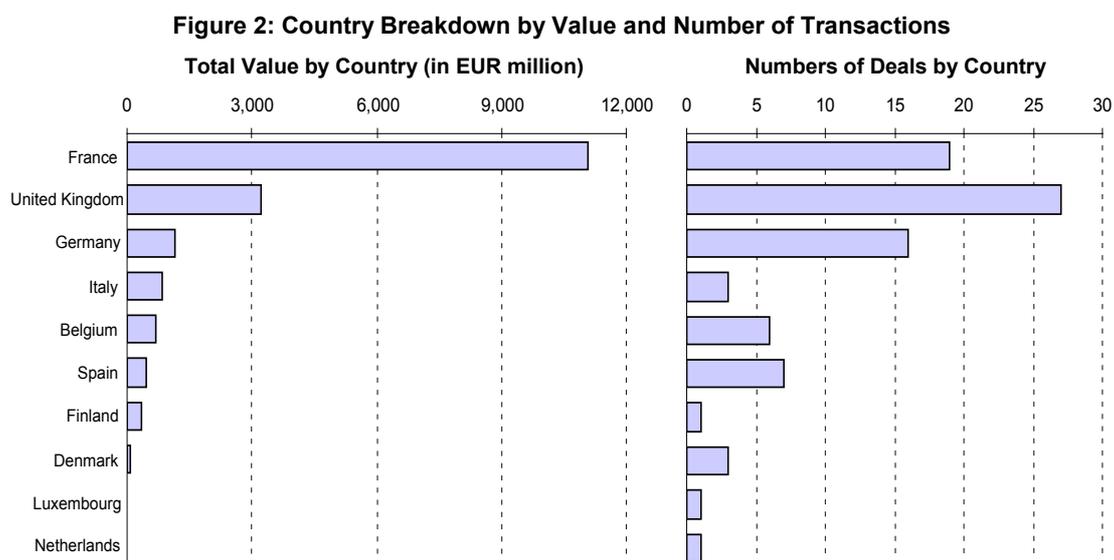
- **84 PPP transactions reached financial close** in 2011. This is significantly below the 112 and 118 deals closed in 2010 and 2009 respectively.
- The **average transaction size** increased considerably in 2011 to reach EUR 213 million (compared to EUR 163 million in 2010). However, if the EUR 5.4 billion Tours-Bordeaux high-speed railway project is excluded from the calculation, the average transaction size drops to EUR 150 million.
- **7 large transactions<sup>1</sup>** closed in 2011 (compared to 10 in 2010). These are:
  - the Tours-Bordeaux high-speed railway in France (EUR 5.4 billion);
  - the Ministry of Defence headquarters in France (EUR 1.5 billion);
  - the Bretagne-Pays de la Loire high-speed railway in France (EUR 1.2 billion);
  - the A63 motorway in France (EUR 1 billion);
  - the Eco Taxe road charging project in France (EUR 840 million);
  - the Strada dei Parchi A24/A25 motorway in Italy (EUR 620 million); and
  - the Nottingham Express Transit (phase II) in the UK (EUR 620 million).
- The role of **governments and public financial institutions** (domestic or supranational) remained significant in 2011 as a number of PPP transactions benefited from their funding and guarantee commitments. The EIB for example financed 10 PPP projects for a lending volume of EUR 3.6 billion.

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

## 2. DETAILED ANALYSIS

### Country breakdown

- As Figure 2 below shows, **France dominated the 2011 European PPP market in value terms**, overtaking Spain and the UK who led the market in 2010. France alone accounted for 62% of the overall European market value.
- With 27 deals closed in 2011 (compared to 44 in 2010), **the UK still remains the most active market in terms of number of transactions**. France, Germany, Spain and Belgium closed 19, 16, 7 and 6 deals respectively. These 5 countries together accounted for 82% of all European PPP transactions closed in 2011.
- Only 10 countries closed at least one PPP transaction in 2011 (compared to 14 in 2010). Portugal, Sweden, the Czech Republic, Ireland, Lithuania and Bulgaria dropped out of the PPP market in 2011, while Finland and Luxembourg<sup>2</sup> entered it.
- In value terms, only the French, German and Italian markets grew in 2011.



### Large and small PPPs

- 8% of the deals signed in 2011 were of a value in excess of EUR 500 million (“large PPPs”). **Large PPPs** accounted for 63% of the aggregate market value. The Tours-Bordeaux high-speed railway project alone accounted for 30% of the market value.
- Figure 3 (in annex) shows that most of the large PPPs closed in France. The Strada dei Parchi motorway in Italy and the Nottingham Express Transit (phase II) in the UK were the only **large PPPs reaching financial close outside France**.
- Germany and the UK continued to be the most active markets for **smaller transactions**. The Belgian market, which featured large transport projects in 2010, shifted toward smaller prison projects in 2011.

<sup>2</sup> Luxembourg closed its first PPP transaction, a EUR 33 million sport centre (at least since the start of the data series collected by EPEC).

## Sector breakdown

- Figure 4 (in annex) shows that, with 23 projects, the **education** sector recorded the highest number of projects. In 2011, the education sector witnessed a significant reduction in deal number (38 in 2010) and in value terms (EUR 1 billion in 2011 compared to EUR 3.5 billion in 2010). Due to the prevalence of small projects, the sector only accounted for 6% of the EU market as a whole.
- The number of transactions closed in the **general public services** sector increased from the previous year. This sector accounted for 11% of the total market value (7% in 2010). Projects in this sector involved the implementation of a satellite-based tax collection system for heavy good vehicles in France, the construction of a number of leisure, aquatic and sport facilities (most notably two football stadia in France), public offices and street-lighting.
- Only 12 deals reached financial close in the **transport** sector (compared to 24 in 2010). Transport remained the largest sector in value terms, accounting for 58% of the total market value. France was the only country to reach financial close on rail projects (Tours-Bordeaux and Bretagne-Pays de la Loire). Motorway deals reached financial close in Germany, France, Italy, Spain, Belgium and Finland. Only 1 transport project reached financial close in the UK (the Nottingham Express Transit (phase II) tramway), its largest PPP deal in 2011.
- 12 **public order and safety**<sup>3</sup> deals closed for an aggregate value of EUR 2.3 billion, confirming the rising trend observed since 2005. Projects included the French Balard Ministry of Defence headquarters, 4 prisons in Belgium and a number of fire stations and law courts.
- Only 5 PPP transactions reached financial close in the **healthcare** sector, for a value of EUR 608 million in aggregate.
- In the **environment** sector, 7 waste management projects reached financial close for a total funding requirement of EUR 1.4 billion. Only 1 project was outside the UK.
- No **telecoms** PPP reached financial close in 2011. 5 transactions closed in this sector in 2010.

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<sup>3</sup> This sector includes defence-related projects.

### 3. FINANCING TERMS

Bank financing for PPP projects remained constrained in 2011. Loan margins have eased only marginally and loan tenors were on average shorter than in 2010.<sup>4</sup>

#### Commercial debt tenors

- The average tenor of senior debt financings<sup>5</sup> **exceeded 20 years** in 2011. Compared to 2010, in which half of the PPP transactions had debt tenors in excess of **25 years**, in 2011 only 24% of transactions exceeded the 25-year mark. Germany and France accounted for 80% of transactions with loan tenors in excess of 27 years.
- Figure 5 (in annex) shows that there are **important country differences**. Excluding the Netherlands where only 1 deal reached financial close, the average loan tenor proved to be the longest in Belgium. Excluding Finland where only 1 deal reached financial close, Spain registered the shortest average loan tenor (16.8 years) with no tenor exceeding 20 years.

#### Commercial debt pricing

- Our partial data sample across the EU indicates that in 2011:
  - the **average** loan margin was around 230 bps (240 bps in 2010) for the construction phase and around 270 bps (275 bps in 2010) approaching maturity; and
  - the **lowest and highest** margins for construction phase stood respectively at 170 bps (180 bps in 2010) and 300 bps (425 bps in 2010).
- In most deals, margins step up through time, reflecting financing risks at longer tenors.

### 4. NOTEWORTHY TRANSACTIONS

The following noteworthy transactions reached financial close in 2011:

- The **Tours-Bordeaux high-speed railway** (France) project consists of the construction of a 303 km high-speed line for a total capital cost of EUR 5.4 billion<sup>6</sup>, to be carried out under a 50-year concession arrangement. The role of the public sector in financing the project has been particularly significant. Grants from the French State, the relevant regions and RFF (the State-owned company managing the French rail network) amount to EUR 3.8 billion. About 60% of the debt is guaranteed by either RFF or the Government.
- The **Strada dei Parchi motorway** (Italy) reached financial close in February. The debt package for this project financing amounted to EUR 570 million. The project foresees the refurbishment and upgrading of parts of the A24 and A25 roads linking the Adriatic to the Tyrrhenian coasts. Strada dei Parchi, the private concessionaire operating the

<sup>4</sup> As the quality of data on financing terms is weak in places, these conclusions should be treated with caution.

<sup>5</sup> Non-weighted average calculated on projects for which the maturity data was available.

<sup>6</sup> State subsidies are excluded from the calculation. When public capital contributions are included the value rises to EUR 7.8 billion.

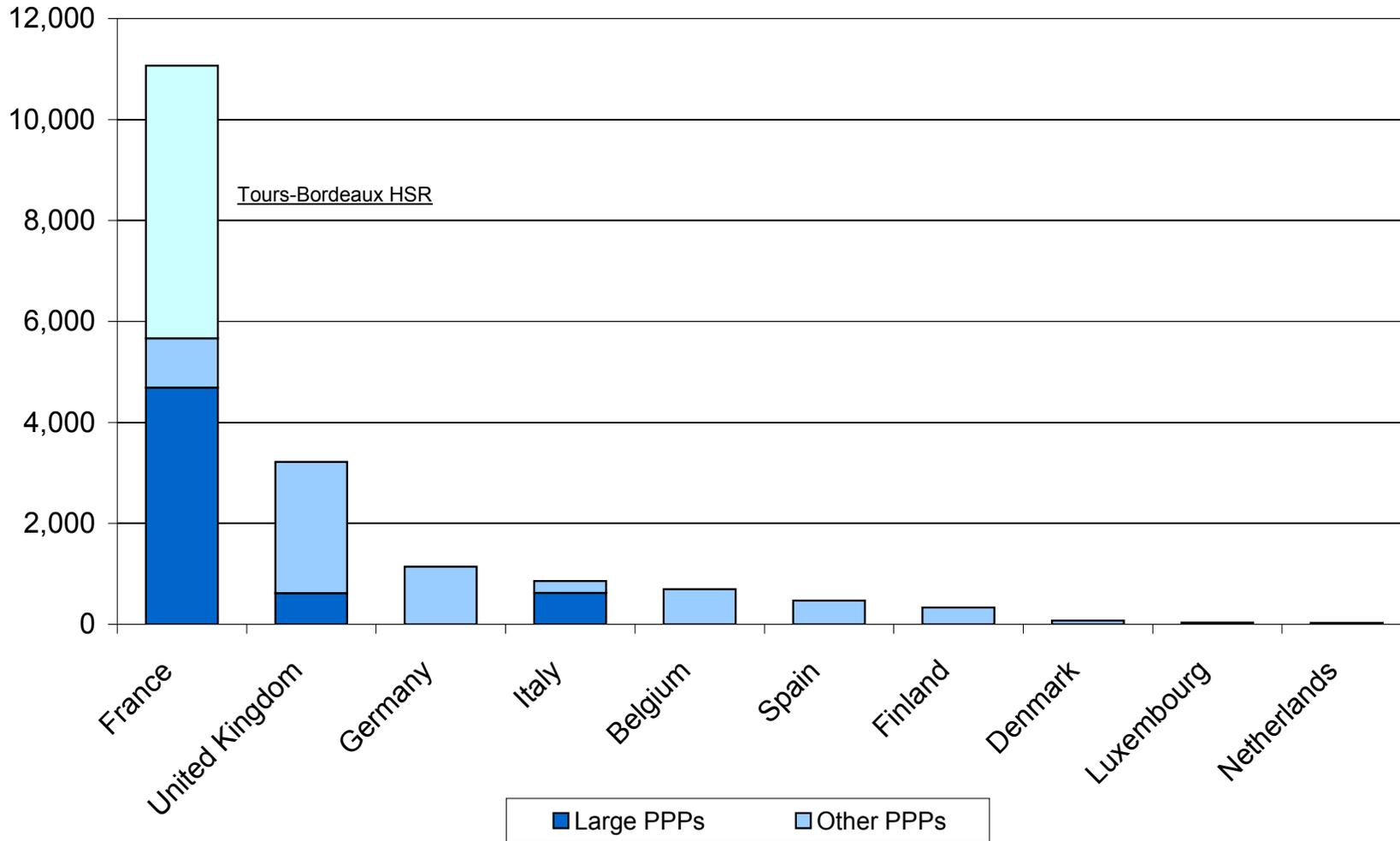
A24 and A25 toll roads, is regulated through a 'regulatory asset-based' mechanism. Under this mechanism, the regulator sets the level of road user tolls based on an agreed investment programme the concessionaire is committed to implement.

- The **Nice Eco Stadium** (France) is part of the French effort to host the European Football Championships in 2016. The EUR 204 million project reached financial close in January. It will be constructed in an "eco-valley" near Nice. The project design provides for energy-efficient solutions for heating, cooling, lighting and rainwater utilisation. In addition, the stadium is expected to be self-sufficient from an energy standpoint thanks to 16,000 m<sup>2</sup> of photovoltaic panels. The PPP structure is designed to include commercial revenues within a standard availability payment scheme.
- The EUR 844 million **Eco Taxe** project (France) involves a DBFOM arrangement for a satellite system aimed at tracking road freight vehicles weighing more than 3.5 tonnes for taxation purposes. The Eco Taxe system is expected to improve the fairness and environmental performance of the taxation system as well as generating income for future transport investments.
- Belgium reached financial close on 4 **PPP prisons** transactions in 2011 (Marche-en-Famenne, Dendermonde, Bevern and Leuze), as part of a programme aimed at addressing the poor state of national detention facilities. The average deal value amounted to EUR 105 million. Interestingly, these are the first social infrastructure projects procured by a federal agency in Belgium.
- With a value of EUR 1.5 billion, the **French Ministry of Defence new headquarters in Balard** is the largest non-transport PPP deal closed in 2011. The DBFM project will group, on the same premises, various services of the Ministry of Defence, to form the 'French Pentagon'.
- The **A8** is one of the latest German A-model PPP motorway projects to reach financial close. This EUR 400 million deal entails the operation and maintenance of a 51 km of motorway, of which 41 km will be expanded from 4 to 6 lanes. The 30-year DBFO contract features shadow toll payments.
- The construction of the **Koskenylä-Kotka** section of the E-18 marks the return of Finland to PPPs. The EUR 332 million project involves the design, construction and maintenance (over a 15-years period) of a 53 km motorway. The last Finnish PPP transaction which reached financial close in 2005 involved the construction of another section of the E-18.

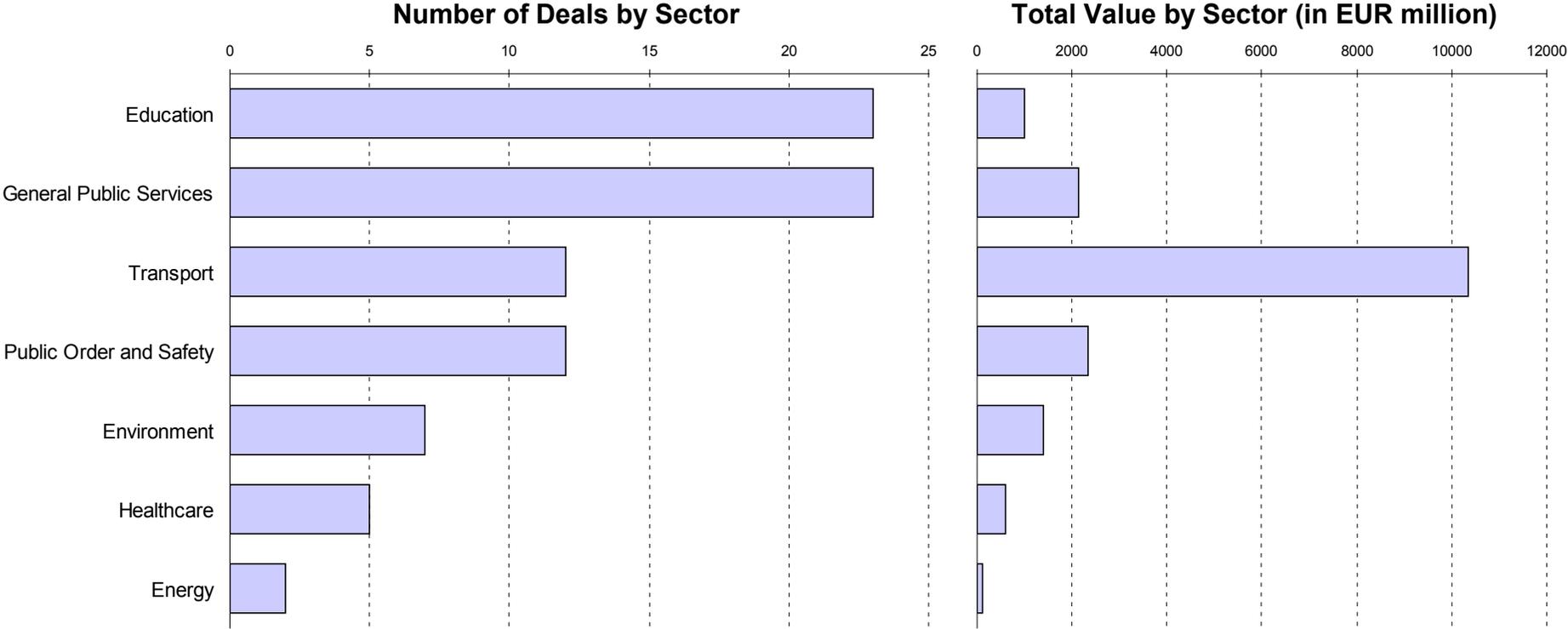
ANNEXES

**Figure 3 - Incidence of Large PPP Projects in 2011**

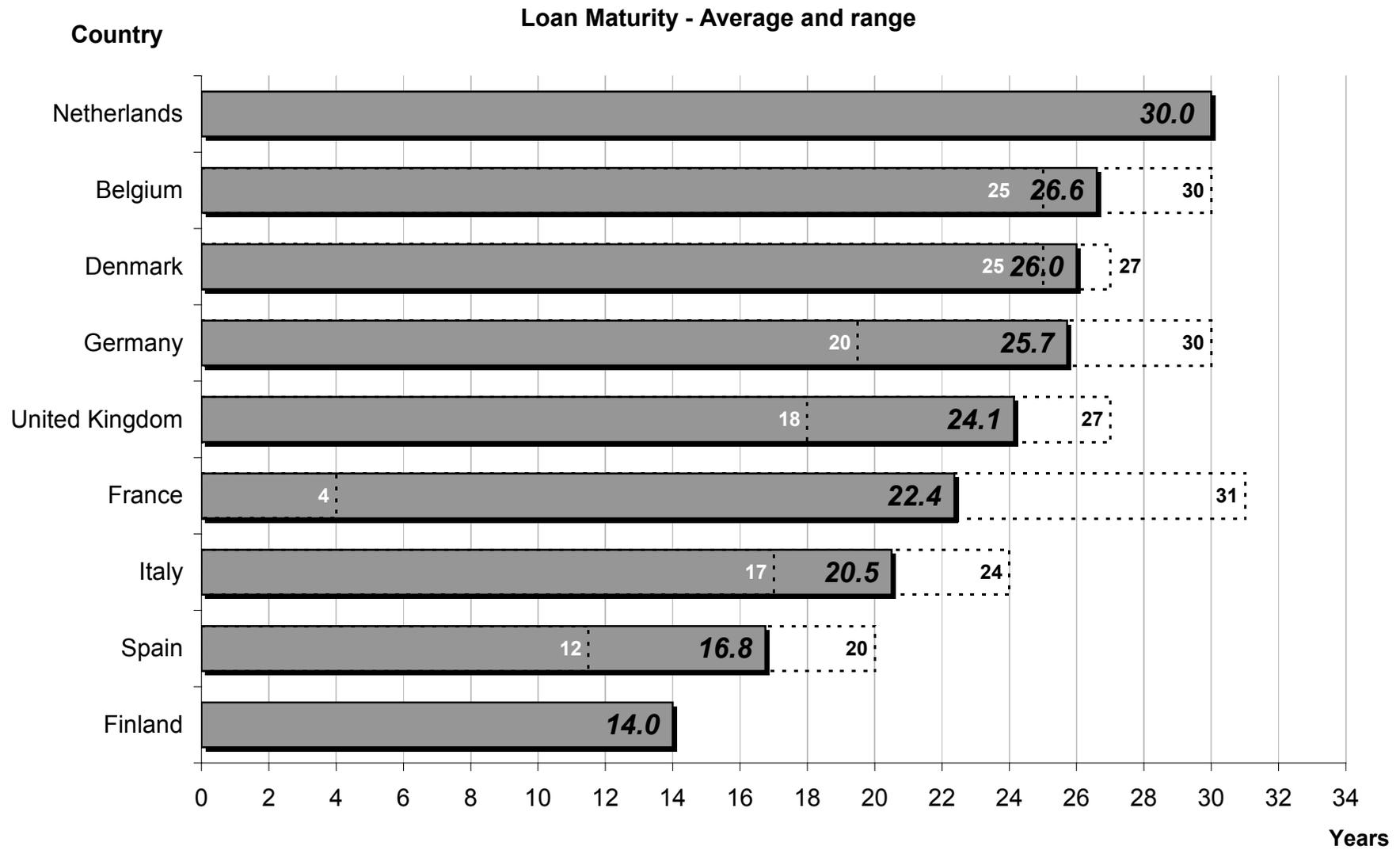
Value EUR million



**Figure 4 – Sector Breakdown in 2011**



**Figure 5 – Loan Maturities Per Country in 2011**





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