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US infrastructure – living the dream/nightmare

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Writing on Friday the 13th, waiting to board the most cost-effective flight money can buy between New York and London, this hack's infra career is flashing before his eyes. And the one thing that repeatedly lodges front-and-centre is the US infrastructure market – the highs, the lows… the horror.

Take a moment to join me on a voyage over the years starting with the first time you heard someone opine that the US was "the next big thing" in infrastructure. Goodness knows, you can't have missed it given the number of column inches that have been published on the potential for private sector involvement in America's ageing infrastructure.

The latest folk to bang the US infra drum are our friends at Global Infrastructure Hub, writing from the comfort of Sydney with G20-sponsored dire tidings that the US is likely to invest just $8.5 trillion in infrastructure between 2016 and 2040… but that just ain't enough to keep the nation on track and accommodate expected economic and demographic growth.

According to the GIH (finger held confidently aloft to test wind direction), the US actually needs to inject a cool $12.4 trillion over that timeframe – an average yearly spend of $494 billion.

Having spent much of this week in New York, wearing out shoe leather on uneven pavements (sidewalks, around these parts) and drinking more coffee than the doctor recommends, it's impossible to argue the point.

Having been one of the hacks to breathlessly identify the US as the next big thing back in the early 2000s, this is starting to feel uncomfortably familiar. Taking a look at the big picture – and it's a mighty big picture – the future remains as unclear now as it was a decade-plus ago, but there have been some developments.

Talking to folk around the Big Apple this week, there is a sense of cautious confidence for a market that has evolved in unexpected ways over the years.

Having started off with (dare I say) that typical American panache and insistence that big is beautiful – think back to the glorious folly that was the Trans-Texas Corridor – what we see these days is a lot more petite and… varied.

In such a young infra market (as we define it), the US has jumped the gun and gone straight to stretching its definition. Instead of banging on endlessly about the next massive highway project, people are focused more on the other end of the scale.

While conversation will inevitably take in a highway or two and will definitely incorporate airport privatisation, you are more likely to hear people singing the praises of everything from street lighting through to renewables, energy storage and broadband.

Street lighting is a curiosity and a hugely interesting development that should pay dividends in the long-term for the future of private sector involvement in the delivery of infrastructure across the 50 states. Such simple deals make an immediate impact and will serve as much-needed foundations for future transactions, allowing project finance to evolve.

Airports are clearly the most exciting area and have the scale to bring in the biggest players. Filing this story from JFK, the need for investment in US facilities has never been starker.

The pain (or humour, depending on where you sit) of Credit Suisse losing its shirt on Chicago Midway has long since been dulled and the opportunity is very real, much needed and will be welcomed by all travellers (not least this one).

At the moment we have on the block:

- St Louis – seeking advisers and at the earliest stage of all four
- Westchester Airport – final bid stage with three lined up
- Kansas Airport – valued at $974 million and with Edgemoor and Meridiam in place as preferred bidder. However it is subject to a residents' vote next month (November)
- San Diego – cargo facility which is at preferred bidder and is due for award next month
- Denver Airport – valued at $650 million and a contract signed with Ferrovial, with financial close before the end of 2017

And then there are the $5.5 billion LAX airport facilities that are charging through the system, scheduled to close next year (2018). They are:

- new cargo facility – which came to market in August
- automated people mover – which is at RFP with three teams bidding
- ConRAC to consolidate car rental facilities – also at RFP stage and with four teams bidding

That's a bit more like it. But these are the only projects of real scale in the infrastructure space that are currently in procurement.

Back to petite projects, then.

In this space you can expect to see a good bunch of renewables proceed, but a spanner has been thrown in the works with import taxes being brought to bear on Chinese solar panels which the US fears are being dumped in its back yard.

However, the momentum in renewables – solar and wind in particular, of course – has built to such a pace that it is irreversible… even though there are moves to revive coal-fired thermal power plants which is not worrying the industry overly as gas dominates and looks set to win that battle with ease.

Telecoms is increasingly exciting and incorporating (stretch away guys) everything from data centres through to towers and fibre optic.

And the good news is – depending on where you stand, of course – that it's getting a whole bunch cheaper.

Refinance of renewable energy projects is sitting at 120-130bp while at holdco level you are looking at 175bp to 200bp. Meanwhile, in the private placement space, you can expect spreads of 3.75% to 4%.

Asian investors are charging in to the US market with the Japanese and Koreans leading this.

Not such a nightmare, really

When you look at the bigger picture, it's not such a nightmare. The US faces the same issues that many other markets have been struggling with in recent years – awash with liquidity, just not enough projects to keep them going.

There is so much potential to make the US infra market great (for the first time) and all the pieces are in place.

In the meantime, let's be grateful for neighbours. There's plenty going on to the north and south to keep everyone busy.

Well that's an editorial for another day and another potential nightmare airport experience. Hopefully it won't be on a Friday the 13th. Now, let's get on this nightmare plane.