

The road ahead for transportation infrastructure

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Transport infrastructure experienced an unprecedented decline during the Covid-19 pandemic. As the world emerges from a series of lockdowns, traffic on toll roads returns more quickly than rail or air travel. Overall volume-sensitive transport continues to re-gain ground from the cyclical rebound. Investors seem to have turned the corner and see the impact on the sector as transitory rather than permanent. But what are the long-term structural trends behind the revival in investment deal flow and some of the biggest buyouts in transport infrastructure?

More so than in other infrastructure sectors, the need for and use of transportation will increase due to demographic shifts: rising population in some regions, a booming middle class, and the on-going migration from rural areas to cities. In addition, the landscape for transport infrastructure will be shaped by the twin challenges of the digital acceleration and the drive to net zero.

We believe that the universe of investment opportunities in transportation infrastructure is growing (see chart 1) and there is more scope for private capital. Against this background, sustainable transport in particular will benefit from the focus on reducing the sector's carbon footprint. According to the International Energy Agency, transport accounted for a significant 27% of 2019 global carbon emissions, and its contributions have grown over time both in absolute and relative terms.

It's not all bad news

One of the lessons we learned from the pandemic is that mobility recovered differently across modes and regions. We saw the quickest rebound in toll roads and resilience in heavy vehicles transporting goods to satisfy an accelerating e-commerce. Aviation, in particular international travel, took the largest hit – in 2020 global air passenger travel declined by almost 66%. However, an element that is often overlooked is the negligible financial impact the pandemic had on some pockets in transport infrastructure (for instance, many ports experienced a decline only in Q2/Q3 2020).

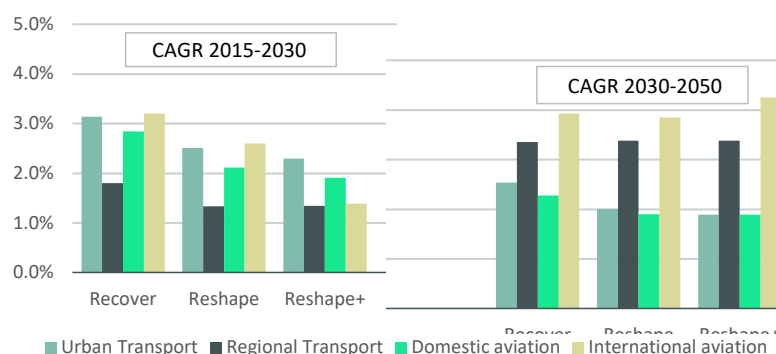
Overall, the cash flow and financial position of many transportation infrastructure companies proved more intact than their traffic. This is because government support packages were made available in order for transport services such as rail and bus to provide uninterrupted services. To this end, the European Commission enacted the temporary framework for state aid. Public airports in the US and Canada received direct grants, however regulatory relief for private airports in Europe has a mixed record.

The post-pandemic baseline

The pandemic has thrown number of uncertainties into the demand forecasting mix. The seminal ITF Transport Outlook 2021, a report by an inter-governmental organisation within the OECD, finds that pandemic-adjusted global demand will be slower and less predictable than in previous editions. The increase in jet fuel prices as the war in Ukraine rages on and shrinking disposable incomes can also create short-term pressure on volumes.

Nevertheless, the ITF report still points

Chart 2: compound annual growth rates (CAGR) under different green recovery scenarios



Source: CBRE Investment Management based on ITF Transport Outlook 2021

to doubling of passenger rides by 2050 with the fastest growth rates in international aviation. Similarly, IATA continues to forecast global air passenger growth of between 1.5% and 3.6% in the next twenty years. Under all demand scenarios, greener policies matter as they result in lower demand for transport across modes, particularly in long-haul aviation.

People, people everywhere

Global population growth, forecasted at close to 3% on average by 2030, is one driver behind this phenomenal long-term demand for transport. Looking deeper, we see a widening dichotomy between emerging and advanced economies, with greater population growth in Asia and emerging economies. In the developed world, transport investments will focus on replacing aging infrastructure and moving to less carbon-intensive modes of transport.

Second, higher GDP per capita is associated with a higher propensity to travel. According to the Brookings Institution, the global middle class – the dominant consumer goods market – is rising faster than global GDP. This growth is not uniform; by 2030, the Asia Pacific region's middle class will account for 3.5 billion people or 65% of the global share, while the growth in consumption by developed middle class markets will stagnate.

And finally, the urban population globally is steadily increasing creating a powerful 'feedback' effect. Good quality transport links become hubs for residential area expansion and provide more connections to markets and job opportunities. This promotes economic prosperity and in turn, drives more spending on transport.

announced by G20 governments (Global infrastructure hub, announcements up to August 2021). We see stronger government commitments to phase out internal combustion engines behind a capital shift into the electrification of transport networks, electric vehicle charging infrastructure and energy efficiency. The potential inclusion of more sectors into the carbon trading regimes will accelerate the switch to low carbon transport modes, such as electric and hydrogen powered rail, bus, and ferry services.

While more remote working enabled by digital technologies will dampen the demand for travel, it is precisely technology and innovation that promotes the adoption of clean transportation. For example, the costs of batteries (at present lithium-ion) used in electric vehicles have reduced manifold in the last decade. The decline is almost outpacing the cost revolution we saw with renewable technologies.

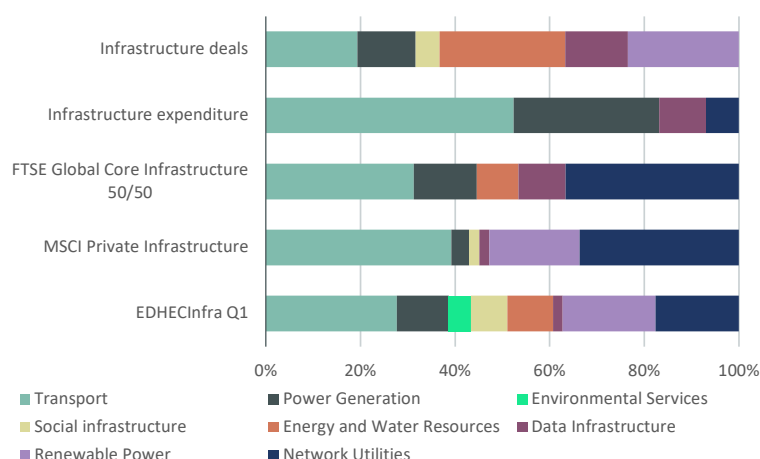
Furthermore, the on-going roll out of 5G networks and the enhanced component control of electric vehicles will pave the way to self-driving, ultimately reducing labor costs.

And finally, there is growing acceptance among politicians that transportation infrastructure needs modernisation which allows more room for private capital. The recently signed c.\$1.0 trillion bi-partisan US Infrastructure Bill allocates \$350 billion of federal funding for roads and bridges over five years. With government balance sheets squeezed by the pandemic support and the ambitious net zero pledges to decarbonise transport, more opportunities will emerge with transport privatisations and public-private contracts.

The case for clean transport
Transport accounts for the largest share of the \$3.2 trillion infrastructure stimulus



Chart 1: infrastructure transport weight in market indices, deal flows and forecasted investments



Source: Infracore (2019-2021), Global Infrastructure Hub, UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, EDHECInfra, MSCI Global Quarterly Private Infrastructure Index

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