CBRE Investment Management

The road ahead for transportation infrastructure

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 regain ground from the cyclical rebound. Investors seem to have turned the corner and see the effect 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?

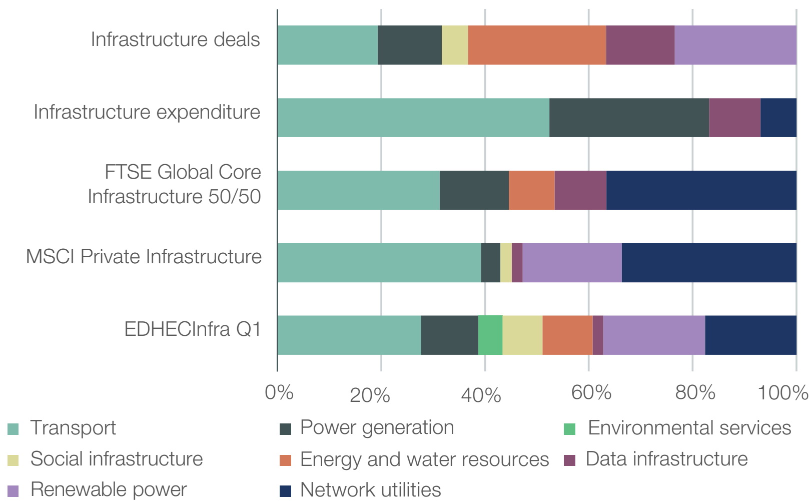
More so than in other infrastructure sectors, the need for and use of transportation will increase due to demographic shifts: rising population in some regions, a booming middle class and the ongoing migration from rural areas to cities. In addition, the landscape for transport infrastructure will be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

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 percent 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 accelerating ecommerce. Aviation, in particular international travel, took the largest hit — in 2020, global air-passenger travel declined by almost 66 percent. 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 the second and third quarters of 2020).

Chart 1: Infrastructure transport weight in market indexes, deal flows and forecasted investments



Sources: Infralogic (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

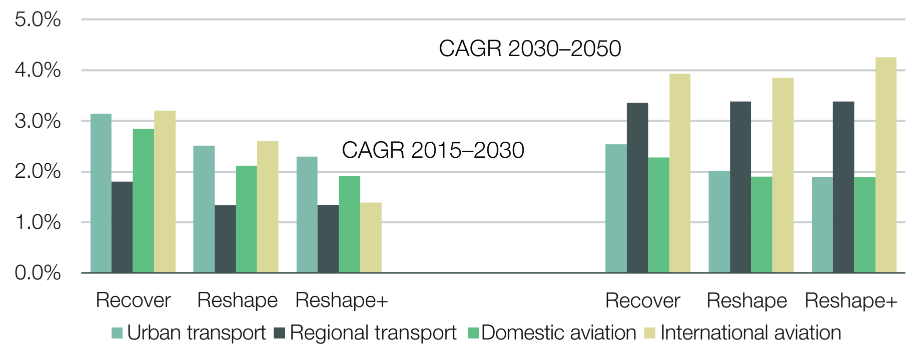
Overall, the cash flow and financial position of many transportation-infrastructure companies proved more intact than their traffic. This is because government support packages were made available in order for transport services, such as rail and bus, to provide uninterrupted services. To this end, the European Commission enacted the temporary framework for state aid. Public airports in the United States 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 a number of uncertainties into the demand forecasting mix. The seminal *ITF Transport Outlook 2021*, a report by an intergovernmental organization within the Organization for Economic Cooperation and Development (OECD), finds that pandemic-adjusted global demand will be slower and less predictable than in previous editions. The increase in jet-fuel prices as Russia's war in Ukraine rages on and shrinking disposable incomes can also create short-term pressure on volumes.

Nevertheless, the ITF report still points to doubling of passenger rides by 2050, with the fastest growth rates in international aviation. Similarly, the International Air Transport Association (IATA) continues to forecast global air passenger growth of between 1.5 percent and 3.6 percent in the next 20 years. Under all demand scenarios, greener policies matter, as they result in lower demand for transport across modes, particularly in long-haul aviation.

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



Source: CBRE Investment Management, based on ITF Transport Outlook 2021

People, people everywhere

Global population growth, forecasted at close to 3 percent 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 percent of the global share, while the growth in consumption by developed middle-class markets will stagnate.

And finally, the urban population globally is steadily, increasingly 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.

The case for clean transport

Transport accounts for the largest share of the $3.2 trillion infrastructure stimulus 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 promote the adoption of clean transportation. For example, the costs of batteries (at present, lithium-ion) used in electric vehicles have reduced manyfold in the last decade. The decline is almost outpacing the cost revolution we saw with renewable technologies. Furthermore, the ongoing rollout 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 modernization, which allows more room for private capital. The recently signed approximately $1.0 trillion bipartisan U.S. 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 decarbonize transport, more opportunities will emerge with transport privatizations and public-private contracts.

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Tania Tsoneva leads CBRE Investment Management's Global Infrastructure research capability. Tsoneva joined CBRE Investment Management in 2021 from S&P Global Ratings, where she was most recently a director and lead analyst within the Infrastructure Ratings team, with responsibility for some of the largest issuers globally within the toll road, airport and rail sectors.

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