REVITALISING EUROPE:

Is the tide turning for public and private infrastructure investment?

Significant investment is needed to tackle the pressing challenges posed by Europe's ageing infrastructure, climate change, geopolitical risks and rapid digitalisation. The combination of Germany's ambitious infrastructure plan and the rollout of ELTIF 2.0 could be gamechangers. Together, they are set to unlock fresh capital, accelerate investment across the continent and provide private investors access to an asset class previously reserved for institutional investors.

Across Europe, much of the essential infrastructure that communities and economies rely on is reaching the end of its intended lifespan. A considerable portion of it was built in the decades following the Second World War, meaning that many of the region's bridges, roads, railways, utilities and energy networks are over 50 years old. The ageing infrastructure presents a growing challenge. Water distribution networks in some regions lose as much as 50% of their supply through leaks, while deteriorating bridges and tunnels pose increasing safety risks, highlighted by incidents such as the Genoa bridge collapse in 2018 and the Dresden bridge collapse in 2024. Outdated power grids are struggling to meet the demands of modern renewable energy sources, and many public buildings, including hospitals and schools, require significant upgrades to meet today's safety, energy efficiency and environmental standards.

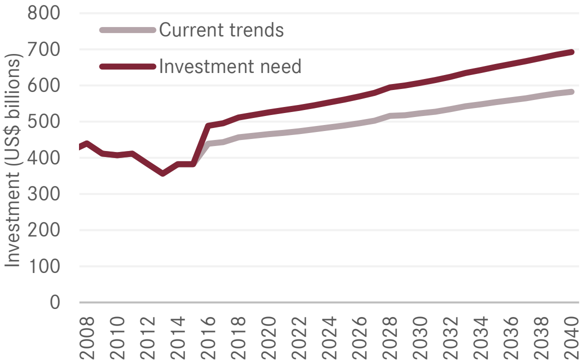
Addressing these issues is critical, not only for public safety and service reliability but also for economic productivity and climate resilience. The EU has recognised the urgency of this situation, with initiatives such as the EU Green Deal and the NextGenerationEU recovery plan prioritising infrastructure renewal and modernisation. However, with an estimated US$2 trillion investment gap by 2040, substantial work is required to ensure Europe's infrastructure is fit for the future.[1]

Encouragingly, the tide appears to be turning for infrastructure investment in Europe.

Germany, an exemplar for fiscal restraint for the past two decades, recently announced a bold new infrastructure investment plan. It is considered to be a landmark initiative aimed at revitalising the country's ageing infrastructure and achieving climate neutrality by 2045. Importantly, this fund has been structured as a special vehicle, allowing it to bypass Germany's strict debt rules, which limits the federal government's structural deficit to 0.35% of GDP annually. Other key details are set out in Figure 1.

Loosening the constitutional debt brake for this purpose creates room for blended finance and public-private partnership (PPP) models, where private expertise and funding can complement public goals. With the government taking on more of the initial burden, private investors are more likely to jump in, knowing that the foundation is solid and political will is strong. Similarly, EU-led programs like InvestEU and Recovery and Resilience Facility are channeling billions of euros into infrastructure projects. These programs reduce risk and enhance returns for investors through guarantees, loans and blended finance tools, and unlock capital from banks, pension funds and other private entities.

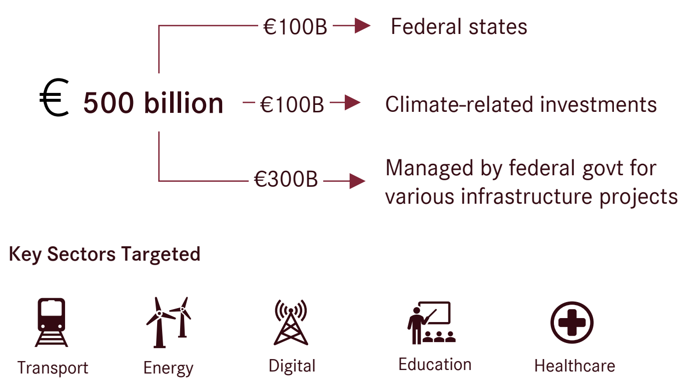
CHART 1: EUROPEAN INFRASTRUCTURE GAP



Source: PATRIZIA, Global Infrastructure Hub

[1] https://outlook.gihub.org/region/Europe

FIGURE 1: GERMANY'S INFRASTUCTURE INVESTMENT PLAN

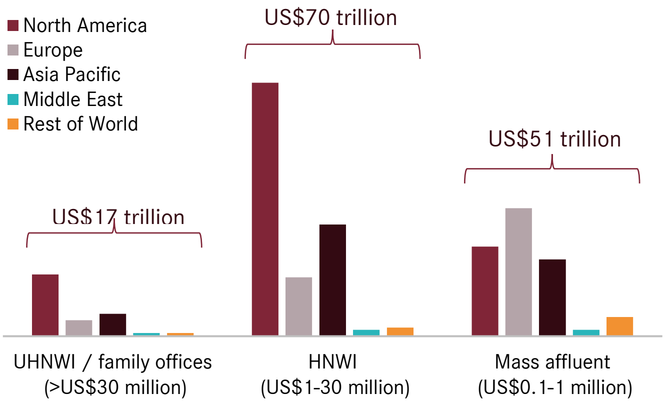


Germany's infrastructure investment program marks a transformative approach to national development, combining significant public funding with initiatives to attract private investment. By addressing critical infrastructure needs and fostering a more conducive environment for private sector participation, the program has the potential to rejuvenate Germany's economy and set a precedent for European infrastructure investment. Critically, private capital needs to come from a variety of sources for this type of initiative to be successful.

Since the turn of the 21st century, unlisted infrastructure has been a mainstream asset class for institutional investors in regions such as Canada and Australia, however broadly speaking, investment in the unlisted infrastructure asset class in Europe by defined benefit pension funds stands at low levels and is materially lower than unlisted real estate which has been an asset class staple for decades.[1] Germany took some steps in February to increase investment in the asset class by large, institutional funds. Pension funds can now put up to 5% of their assets into infrastructure projects in an effort to provide funds with more opportunities to invest in higher returning investments.

Recognizing the need to future-proof Europe, there is support from the European Union and governments to encourage not only institutional investment, but also to tap into the non-institutional, private wealth market, where there is an estimated US$140 trillion globally, as set out in Chart 2.
An estimated US$20 trillion of private wealth is held by the European mass affluent.

CHART 2: SHARE OF GLOBAL WEALTH AMONG PRIVATE INVESTORS



Source: PATRIZIA, Bain & Company

[1] Mercer (2021), European Asset Allocation Insights – DB Asset Allocation trends across the UK and Europe. | [2] Bain & Company, July 2023, Private Asset Investing Desperately Needs New Market Infrastructure

Despite accounting for approximately half of the global wealth, private investors only account for 16% of all investment in private assets.[2] Private investor investment in infrastructure is materially lower than the average across private asset classes given it has traditionally been one of the hardest to access asset classes for small investors, due to the complexity of the asset class and regulatory roadblocks.

It has not been a lack of interest that has prevented private investors from investing in infrastructure; approved fund structures for non-institutional investors have been nearly non-existent.

In 2015, the European Long Term Investment Fund (ELTIF) structure was introduced as the first vehicle that would allow a scalable and regulated pan-European distribution of private markets investments across different investor types, including retail investors. The hope was the new structure would both boost the real economy and support the 'democratisation' of private assets for a larger pool of investors.

To address criticisms of the original regulations, ELTIF 2.0 reforms took effect in 2024. They are considered pivotal to enable private investors to access private markets, given they broaden eligible investments, make diversification, concentration and borrowing limits more flexible and remove minimal initial investment sizes. We consider the ELTIF 2.0 structure to be an attractive solution for European private investors looking to invest in infrastructure. Unsurprisingly, infrastructure has proven to be the most popular investment asset class for ELTIFs launched to date.

In our view, Germany's infrastructure investment plan and the ELTIF regulation are examples of forward-thinking regulatory change that will encourage long-term investments in infrastructure. Together, these initiatives create a robust environment for private capital to flow into essential infrastructure projects that deliver services, improve societies, make communities function more efficiently and help tackle some key challenges, including the energy transition and climate change. Importantly, investors will also benefit from the stable, uncorrelated, inflation-linked returns and portfolio diversification that infrastructure investments provide.

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