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Americas

RICS Launches PPP Report: The Future of Public Private Partnerships

An essential tool for meeting global infrastructure needs, finds RICS report

NEW YORK, NY, June 17, 2011 – Public Private Partnerships (PPPs) have, in fact, proven to be an effective method for the procurement of infrastructure projects globally over the last ten years, finds the new RICS research report, *The Future of Public Private Partnerships*, to be issued on Monday; a finding in stark contrast with the generally negative popular opinion these ventures receive.

At a time when many national Governments are introducing public spending cuts post-financial crisis, and with an estimated annual spend of US\$500 trillion until 2030 needed to meet global infrastructure demands, PPPs will continue to play an essential role in redressing the infrastructure 'investment gap', suggests the report.

The research also contends that steps must be taken in order to establish a best-practice framework to ensure the successful provision of this procurement model going forward.

RICS, the world's leading professional body for qualifications and standards in land, property and construction, will launch the report at Georgetown University on Monday, June 20, 2011. The event will be held at the White Gravenor Classroom, from 5:00 p.m. to 7:30 p.m.

Commenting on the report, Simon Taylor FRICS (Head of RICS' Construction Council) and Principal at Questant Inc., said, "It is vital that a robust method of capturing the expertise – and investment ability of the private sector is developed that addresses local, in-country culture and concerns. One global solution does not fit all; this report seeks to identify the differential issues that should be considered to build that acceptable delivery model and allow the ever-growing infrastructure gap to be reduced. With our global platform of property expertise, RICS looks forward to continuing the dialog to build excellence in this field, and find local, workable solutions."

The report, which reflects the views and experiences of key stakeholder groups across five key PPP markets, suggests the following:

- Government support is fundamental to the functioning of a robust PPP market. This support can take the form of clear and consistent regulatory and legal frameworks, as well as the creation of an infrastructure project pipeline to improve transparency and encourage private sector investment.
- Elongated and complex tender processes result in disproportionately high bid costs, discouraging contractor participation and undermining the credibility of 'competitive tendering'.
- The provision of robust risk transfer and whole-life-cost data relative to conventional forms of procurement is essential to ensure the credible and objective evaluation of PPP projects so that true 'value for money' evaluations can be undertaken.
- In order to secure future private investment, particularly from institutional investors, the construction industry needs to communicate more clearly the investment potential of infrastructure as an investment asset class, including risk-return characteristics and diversification benefits. Additionally, it is essential to improve the transparency of infrastructure investment markets to enable performance benchmarking across asset classes and to create innovative investment vehicles to best match investor risk profiles and investment capacities.

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Regional Summaries

USA

The aging and widespread disrepair of infrastructure provision in the USA, allied with sustained underinvestment relative to China and India, threatens the country's position in the global economy, the report states. Traditional funding mechanisms for the maintenance and upkeep of essential infrastructure have not kept pace with demand, yielding an estimated cost of repairs of approximately US\$2.2 trillion. Urgent action is needed to address the underfunding of infrastructure provision, which, in turn, is affecting economic competitiveness.

Federal and state governments have been forced to cut back spending to address budget deficits following the financial crisis. Infrastructural investment contained within the wider economic stimulus package has merely served to 'paper over' burgeoning deficits in infrastructure budgets across a number of states. The scale and diverse nature of the infrastructural challenge will necessitate significant volumes of private sector funding. PPPs have a credible track record internationally in terms of infrastructure delivery and have the capacity to encourage greater collaboration between the public and private sectors.

Paradoxically, the PPP market in the USA is not as well established as in Canada, Australia and the UK. Nonetheless, the majority of states now have legislation in place and there is support at federal government level. Going forward, government officials need to effectively communicate the PPP model to overcome public skepticism, as well as taking the opportunity to learn from established markets to ensure the system functions effectively. Legal and financial competencies ensure that the USA has the capacity to rapidly ascend the PPP market maturity curve.

Canada

According to the report, Canada's PPP system is well-established at both provincial and federal level and is one of the most efficient systems in the world with short tender times and low initial bid costs. In addition, the findings from the research confirm that the PPP market in Canada has not suffered from the 2007 financial crisis to the same extent as other PPP markets since Canadian banks, credit markets and the economy in general were comparatively unharmed.

The report suggests that the PPP system in Canada has evolved over time, learning from past problems to concentrate on procurement process efficiency and value for money. The establishment of the PPP Canada fund has demonstrated federal government support for PPPs and encouraged expansion in their use. Nonetheless, research evidence stresses that focus must now turn to increasing transparency within the PPP market in order to provide a suitable platform for institutional investment.

UK

The report finds that Private Finance Initiatives PFIs/PPPs have made a significant contribution to infrastructural provision over the last ten years, currently accounting for 10-15 percent of all infrastructure spending. Illiquidity, initially within the UK banking sector and subsequently within the bond markets, has had a profound impact on the PPP market. Most importantly, loan margins for infrastructure projects widened from 1 percent pre-financial crisis to around 2.5 percent on average thereafter, rising to 3 percent on more complex schemes.

The report maintains that constraints on Government spending and the focus on tackling national debt will increase the requirement for substantial volumes of private sector capital to meet essential infrastructure needs and goes on to suggest that the proposed establishment of a National Infrastructure Bank will support PPPs and help reduce borrowing costs on essential infrastructure projects.



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Australia

This research shows that infrastructure development in Australia has not kept pace with demand and the lack of capacity is having a negative impact on economic growth. Approximately AU\$455 billion will need to be spent on infrastructure by 2018. PPPs, the report suggests, provide an established way of financing this expansion. The research confers that the PPP model facilitates value for money and enhanced infrastructural design, incorporating private sector innovation and investment expertise.

Additionally, the research demonstrates that PPPs in Australia deliver projects for a price closer to the expected cost than projects procured through traditional mechanisms. On average, 23.5 percent of traditionally procured projects were completed behind time while 3.4 percent of PPP projects were completed ahead of time.

The report concludes that to effectively support the delivery of PPPs, there needs to be more clarity across diverse regulatory frameworks in different states to enhance the efficiency of the PPP process. Additionally, more consideration must be given to the structuring of PPP deals to encourage investment from pension funds, including superannuation funds, and further Federal Government support including the possibility of increased gap funding is also needed.

India

As it evolves to meet the challenge of becoming a world economic superpower, India will need to invest in infrastructure to support growth and attract foreign investment, contends the report. Approximately US\$500 billion needs to be spent to give India world-class infrastructural provision. PPPs, which have been in use in India for around 15 years, will be key to this achievement.

The report highlights that the Indian PPP market has not been as adversely affected by the global financial crisis and is, therefore, in a relatively strong position to help finance infrastructure development. The report also maintains that cooperation between Government and the development industry will be needed in order to deal with problems such as the lack of a clear framework for projects, an absence of rigorous contracts and weak regulatory support. Additionally, steps need to be taken to encourage institutional investment, for example from pension funds, to help provide additional funding for projects.

-ENDS-

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Notes to Editors



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About the Report: The Future of Public Private Partnerships is a new RICS research report carried out by the University of Ulster and the University of Aberdeen between the summer of 2010 and early 2011. It aims to set out recommendations for the future use of PPPs in helping to meet global infrastructure needs.

The report examines the impact of the global financial crisis on the use of PPPs in the USA, Canada, UK, Australia, and India. It draws on these experiences to suggest how PPP systems in each country can adapt and be improved to help meet the challenges of a new financial reality where Governments are reducing spending with austerity measures, but still want to provide infrastructure.

About the Authors: The research was led by Professor Alastair Adair and incorporated a research consortium drawn from the Built Environment Research Institute at the Universities of Ulster and Aberdeen Business Schools in the United Kingdom.

Dr. Martin Haran – Research Fellow, University of Ulster

Dr. Martin Haran is a Research Fellow at the University of Ulster. Dr. Haran has authored a number of industry reports and academic papers including research collaborations with leading international academics and practitioners in the areas of real estate finance, investment performance, regeneration, planning and property development. Dr. Haran is a member of the American Real Estate Society (ARES) and the European Real Estate Society (ERES).

Professor Alastair Adair – Pro-Vice Chancellor, University of Ulster

Dr. Alastair Adair is a Professor of Property Investment and Pro-Vice Chancellor (Communication & External Affairs) at the University of Ulster. In 2008, he was awarded the Richard Ratcliff Award by the American Real Estate Society “in recognition of his distinguished record of international achievement and research leadership in the areas of valuation and urban regeneration and for the advancement of the property discipline”. He holds a Ph.D. in Urban Development from the University of Reading. He is a Fellow of the Royal Institution of Chartered Surveyors (RICS) and a Past President of the Irish Auctioneers and Valuers Institute.

Professor Stanley McGreal – Professor of Property Research, University of Ulster

Professor Stanley McGreal has researched widely into issues relating to housing, urban development and regeneration, planning, globalization, property market performance, and investment. Professor McGreal has been involved in major research contracts funded by government departments and agencies, research councils, charities and the private sector. Analysis of housing, urban renewal strategies and regeneration outputs in the property sector and the investment market have been a central theme of this research with particular implications for policy. Professor McGreal has over 300 published works and is editor of the Journal of European Real Estate Research. He has been an invited speaker at several conferences, holds membership on several editorial boards and serves on various international committees. He is a Past-President of the International Real Estate Society (IRES), and is currently Director of the Built Environment Research Institute at the University of Ulster.



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RICS is an **independent** professional body originally established in the UK by Royal Charter. Since 1868, RICS has been committed to setting and upholding the **highest standards** of **excellence** and **integrity** – providing **impartial, authoritative advice** on key issues affecting businesses and society. RICS is a regulator of both its individual members and firms enabling it to **maintain the highest standards** and providing the basis for **unparalleled client confidence** in the sector.



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