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New investment vehicles will help build and modernize world's infrastructure

“We are about to see a new era in which public institutions and private capital and expertise will redefine and reenergize the public-private investment partnership as a vehicle to create change,” says Ernst & Young’s Global Real Estate Director Dale Reiss

CHICAGO, 10 MAY 2007 – “The private sector is going to play an expanded role in the coming global movement to build and modernize the world’s infrastructure,” according to Dale Reiss, the Director of the Ernst & Young Global Real Estate Group.

In her remarks today to the Spring Meeting of the Urban Land Institute (ULI) in Chicago, Reiss also said that while the traditional methods of financing infrastructure will continue to be effective, new investment vehicles will be developed to jointly address the needs of the public and private investment sectors. As a result, Reiss contends, the private sector will take a more active role.

On the heels of the release of *Infrastructure 2007: A Global Perspective*, a joint ULI / Ernst & Young study [available at www.uli.com] Reiss told the gathering of planners, government representatives, developers, and financial advisors that it is no accident that new investment vehicles emphasizing stability of return, closely monitored risk and long-term predictability will emerge at a time when many people are looking for “annuities” for their retirement portfolios.

“I am hopeful that we in the private sector, worldwide, are about to embark on a new path that will give us an important and expanded role. This will be an opportunity to apply our expertise” Reiss said. “We are going to see a shift in the current business model that will change the playing field across the board, from governments and contractors, to financial resources, developers, planners and others.”

Reiss said that the kind of infrastructure development we see in coming decades will, by necessity, be larger in scope and probably more progressive than ever before. Of course we will see increasing privatization of roadways, prisons, and other traditional, publicly funded infrastructure, she says. But through larger scale public-private joint action, Reiss envisions larger projects like the accelerated expansions of transit systems and other more aggressive building programs to create new functional infrastructure, including the water treatment and energy support systems that are needed so badly throughout the world. In addition to project financing, privatization will create efficiencies in facilities management and other aspects of the infrastructure programs to come.

The changes are basic, says Reiss. The traditional dislike of density by neighbors, for example, will no longer be an easy excuse to thwart growth. More and more cities are finding that they are more aligned with developers in trying to meet smart growth goals, and are forming

public-private joint ventures to work together to meet mandated housing goals. Public transit won't be a choice, it will be mandatory, forced if necessary by some governments hard-pressed to make ends meet. Reiss says private investors will vie with traditional bond financing techniques to compete for, and woo the ownership and management of, these costly systems, drawing them out of the exclusive realm of the public sector.

Among the issues that will need to be considered are the tax ramifications, both for US investors and other global investors on the institutional and private side, according to Reiss. "Since these investments often involve both tangible assets and intangible assets, such as toll concessions and land leases, cost recovery of the project-level expenditures is critically important. Requirements regarding cost capitalization and, in the case of domestic US investments, the impact of state and local tax issues on investment performance, are investor level issues as well."

With her comments to the members of the Urban Land Institute, perhaps one of the world's most influential bodies when it comes to forward-planning for any kind of physical improvements on real estate, Reiss was suggesting that ULI members face an opportunity to impact the physical side of the world, which she says is destined to recreate itself in the next few decades.

"We have to be concerned with creating better efficiencies, and new financing vehicles, and facilitating better global communication among real estate interests and local, regional and national governments," said Reiss. "While the financial implications will be crucial, the decisions we make in the next few years with regard to global investor return expectations, return of capital, cross-border funding and management, bonds versus limited partnerships and those kinds of issues, will only serve as the structural issues facing a new millennium.

"I have no doubt," says Reiss, "that we are about to see a new era in which public institutions and private capital and expertise will redefine and reenergize the public-private partnership as a vehicle to change the world."

Notes to editors:

According to *Infrastructure 2007: A Global Perspective*, a new report from the ULI and Ernst & Young:

- China is spending US\$160 billion on new infrastructure projects every year.
- India is spending upwards of 8% of its gross domestic product on roads, ports, airport expansions
- Japan traditionally spends more than 10% of its GDP on infrastructure, although its has declined in recent years
- Spain now budgets more than US\$120 billion for improvements to roads, rail, ports and airports with an additional US\$200 billion earmarked through 2020

- During the next five years, the US will **under spend** on needed infrastructure investment by approximately **US\$1.6 trillion dollars**.
- For the next generation in the US, just retooling one bridge—the Tappan Zee—north of New York could cost anywhere between US\$3 billion and US\$15 billion. Replacing an old draw bridge in New York City will cost US\$600 million.

- In ULI surveys, more than 90% of state transportation officials said that current infrastructure meets most or some of *current* needs. However, more than 90% also said roads, bridges, tunnels, rail and mass transit will need “much or moderate” improvement to meet future needs.
- In Europe building and operating toll roads has been turned over to private companies since the 1970s. Many airports as well as schools and hospitals are already operated by private companies.
- The new global twist has been the raft of investment funds, sponsored by global investment banks, private equity firms, and institutional money managers looking to place money from pension funds, insurers and high net worth clients into infrastructure investments. Before moving to Europe, the trend began in Australia, where now US\$30 billion of infrastructure assets are publicly traded.

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About the Urban Land Institute

The Urban Land Institute (www.uli.org) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has more than 36,000 members representing all aspects of land use.

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