

2022 Real Assets Market Overview

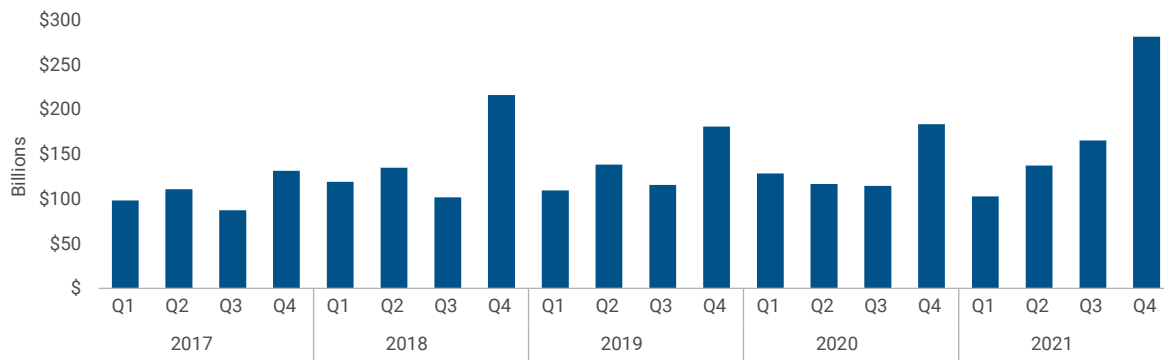
# Transportation Infrastructure

July 2022 | Lars Pace, Principal, Real Assets

It certainly is an exciting time to be a private infrastructure investor. The skeptical among you might point out that roads, bridges, airports, ports and power plants have all been around for decades – or even centuries, in some cases, and may not feel particularly compelling to growth-minded equity investors.

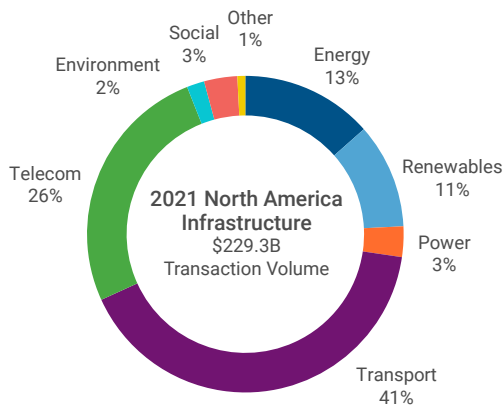
And while it's true that modern infrastructure delivers the same functionality as yesterday's infrastructure, what's different is the dire need to replace or enhance that existing infrastructure, as well as the sheer scale of investment opportunity that has continued unabated throughout the pandemic.

Infrastructure Transaction Volume by Quarter



Source: Inframation as of December 31, 2021

Focusing our attention on transportation infrastructure, we see the 2020-2021 recovery that grew initially in fits and starts is now producing excess demand, and in turn taxing operators' (and their infrastructure's) ability to match it. The potential result is unhappy passengers and travelers, or a politically fraught situation. On the positive side, however, projects that began pre-pandemic are finally coming online, with many more in the pipeline. Transportation still occupies the largest piece of the infrastructure universe and historically has garnered the highest percentage of public and private investment, as demonstrated in the chart below.



Source: Inframation as of December 31, 2021

Take the New York metropolitan area as an example. We've seen a whole range of transportation projects that have recently commenced operations or are under construction. To the west, there's the \$1.5 billion Goethals replacement bridge, connecting New Jersey to Staten Island.



To the north, the three-mile-long, \$3.9 billion Mario M. Cuomo (aka Tappan Zee) bridge, connecting Rockland and Westchester counties over the Hudson River.



Both projects replaced functionally obsolete, subscale bridges with modern high-capacity alternatives, using innovative public-private partnerships to bring them to market. The result is safer, more modern and efficient access from points west into New York City.

And it doesn't stop at bridges. Several airport projects will relieve congestion and provide an enhanced experience to both domestic and international air travelers. These projects, which we'll explore further below, are driven by projected growth in air travel that is rebounding strongly from the pandemic shutdown, as shown in this chart.

Available Seat Miles and Revenue Passenger Miles



Source: Bloomberg as of September 30, 2021

LaGuardia Airport's new Terminal B recently opened with much fanfare, and for good reason. The \$4 billion project replaced an overcrowded, dilapidated and disliked experience with a unique 1.3 million-square-foot modern terminal including 35 new

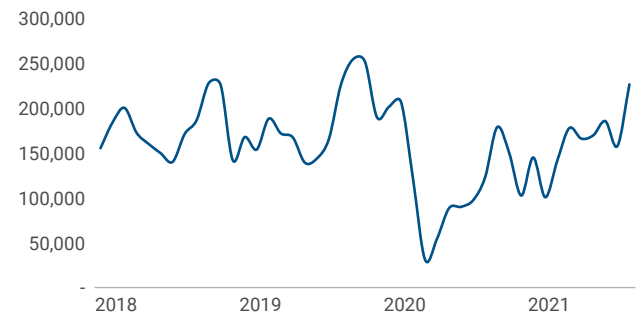
gates, a common-use terminal, soaring ceilings with natural lighting, 50 new shops, improved parking and ground access, and dual pedestrian bridges spanning active aviation taxi lanes connecting the main terminal to two island concourses. LaGuardia Gateway Partners, a private consortium comprised of infrastructure investors, airport operators and construction and design companies, is operating the terminal under a 35-year lease with the Port Authority of New York and New Jersey (PANYNJ).

The adjacent \$4 billion Delta Terminal C is also open after six years of construction. The 1.3 million-square-foot terminal C is 85% larger than the two terminals it replaced. Travelers have access to 37 gates through one arrivals and departures hall, containing art curated by the Queens Museum. The combined \$8 billion of investment at LGA represents the first major U.S. airport (re)built in the last 25 years, two-thirds of which is funded through private financing and existing passenger fees. These projects have generated \$2 billion in contracts awarded to MWBE businesses and demonstrate a significant focus to work with locally based contractors.

Similar projects are launching now at JFK International Airport. After several years of delays and revisions, the new Terminal 1 project has reached financial close and is beginning construction. The \$9.5 billion project replaces three terminals (1, 2 and 3) at the airport's southern edge. With 2.4 million square feet, Terminal 1 will be JFK's largest terminal and the same size as LaGuardia's two new terminals combined. Construction is set to occur in three phases, matching capacity with an expected rebound of international travel. The first phase, including the new arrivals and departures hall and first set of new gates, is expected to open in 2026. By 2030, the new Terminal 1 will have 23 gates designed to enhance the travel experience and compete directly with other highly rated airport terminals. As at LGA, New York State and the PANYNJ turned to an innovative consortium of specialist infrastructure investors, construction and design companies, and airport operators to develop this project.

Turning to private aviation, we've witnessed several marquis transactions within general aviation focused on fixed-based operators (FBOs) that provide terminal, fuel, hangar and ancillary support to private operators. General aviation rebounded earlier and more strongly than its commercial counterpart and has attracted interest from growth-oriented infrastructure investors.

U.S. Domestic Unscheduled Revenue Passenger Miles



Source: Bloomberg as of September 30, 2021

In both transactions, investors are expected to benefit from growing flight hours, stimulated demand from existing and new travelers, targeted growth in leisure and business markets, and consolidation of a still fragmented market. The FBO market is shifting from one primarily based on fuel revenues to focus on real estate development, enhanced by technology and improved customer service. Modern FBOs are also committed to improving their carbon footprint by utilizing sustainable aviation fuel, electric vehicles, renewable power sources and LEED-certified facilities.



Looking collectively at these completed projects and future developments, I'm sure you'll now see why we used the words "exciting" and "infrastructure" in the same sentence.

## STRATEGY DEFINITIONS

Infrastructure –An investment strategy that invests in physical systems involved in the distribution of people, goods, and resources.

Natural Resources –An investment strategy that invests in companies involved in the extraction, refinement, or distribution of natural resources.

Real Assets –Real Assets includes any PM fund with a strategy of Infrastructure, Natural Resources, or Real Estate.

Real Estate –Any closed-end fund that primarily invests in non-core real estate, excluding separate accounts and joint ventures.

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As of July 21, 2022