Middle-market executives understand the importance of a robust infrastructure. Over 75 percent of participants in the 2014 CIT Voice of the Middle Market study said it was “very” or “somewhat” important for Congress to take action on infrastructure investment. The American Society of Civil Engineers agrees: The organization recently gave the nation’s infrastructure a D+ grade, and estimated that it requires a $3.6 trillion investment by 2020.

An infrastructure deficit leads to traffic jams, increased freight and transportation costs, more frequent power outages, public safety hazards and more.

But with the U.S. government’s infrastructure spending at a 20-year low, public funds will only cover a fraction of infrastructure needs. That’s why government agencies are encouraging private investment in infrastructure. And that could create opportunity for investors.

Why Infrastructure?
As the U.S. government (and other governments around the world) encourages private investment in infrastructure, investors are paying more attention to the advantages of infrastructure as an asset class. Many infrastructure owners enjoy a near-monopoly over the services they provide because of the nature of the service or the high-cost barriers that competitors face. And the demand for services such as water, electricity or transportation is relatively inelastic. For all these reasons, revenue streams from infrastructure are considered lower risk and are less sensitive to economic cycles or market gyrations than revenues from many kinds of businesses.

Another benefit: Many infrastructure projects pay out significant and stable cash distributions, often over a long period of time, because some infrastructures have useful lives spanning 30 years or more. Their revenue streams may also keep up with inflation. For example, utilities typically ask regulators for inflation-linked customer rate increases, while long-term government contracts often guarantee inflation-linked payment adjustments.

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Institutional investors, including pension funds, are showing a growing interest in infrastructure investing. According to Pensions and
Investments, infrastructure has been the fastest-growing category of alternative asset investment by pension funds, with investment up 50.6 percent in the 12 months ending September 2014.

Today, there are a growing number of avenues for private investment in infrastructure. More than 30 state governments have implemented legislation facilitating public-private partnerships. In these arrangements, a government entity contracts with a private firm to design, finance, build, operate or maintain projects, or take on some combination of those roles.

The Obama administration is encouraging more such projects. In July 2014, the White House announced the Build America Investment Initiative, which highlighted existing programs such as loan guarantees under the Transportation Infrastructure Finance and Innovation Act. The Build America Investment Initiative also established the Build America Transportation Investment Center, which serves as a clearinghouse for information about federal financing of public-private partnerships and provides technical assistance for companies seeking to partner on infrastructure projects.

Certainly, investing in infrastructure — or partnering with government to build or maintain infrastructure — requires investors to accommodate the unique demands of government. Of course, infrastructure investing also carries risks. Infrastructure projects are typically built and maintained through complex arrangements with governments, and are therefore subject to regulatory and political risk. In addition, these projects are often highly leveraged, creating debt and refinancing risk. Therefore, private infrastructure investment generally carries more risk than government bonds such as Treasuries.

New Partnerships
Some of what we consider infrastructure in the U.S., including electric power, oil and gas provision, telecommunications and freight rail, is primarily built and maintained by the private sector. Investors have long had the option of buying debt or equity in these types of companies. They have also been able to invest in tax-advantaged municipal bonds to fund public infrastructure projects like roads and schools.

Certainly, investing in infrastructure — or partnering with government to build or maintain infrastructure — requires investors to accommodate the unique demands of government. However, unique investment opportunities are available to those who are willing to do so.