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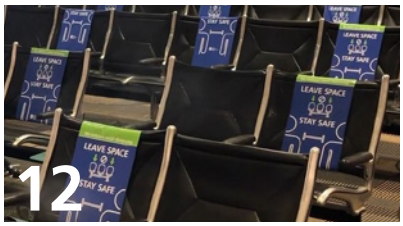

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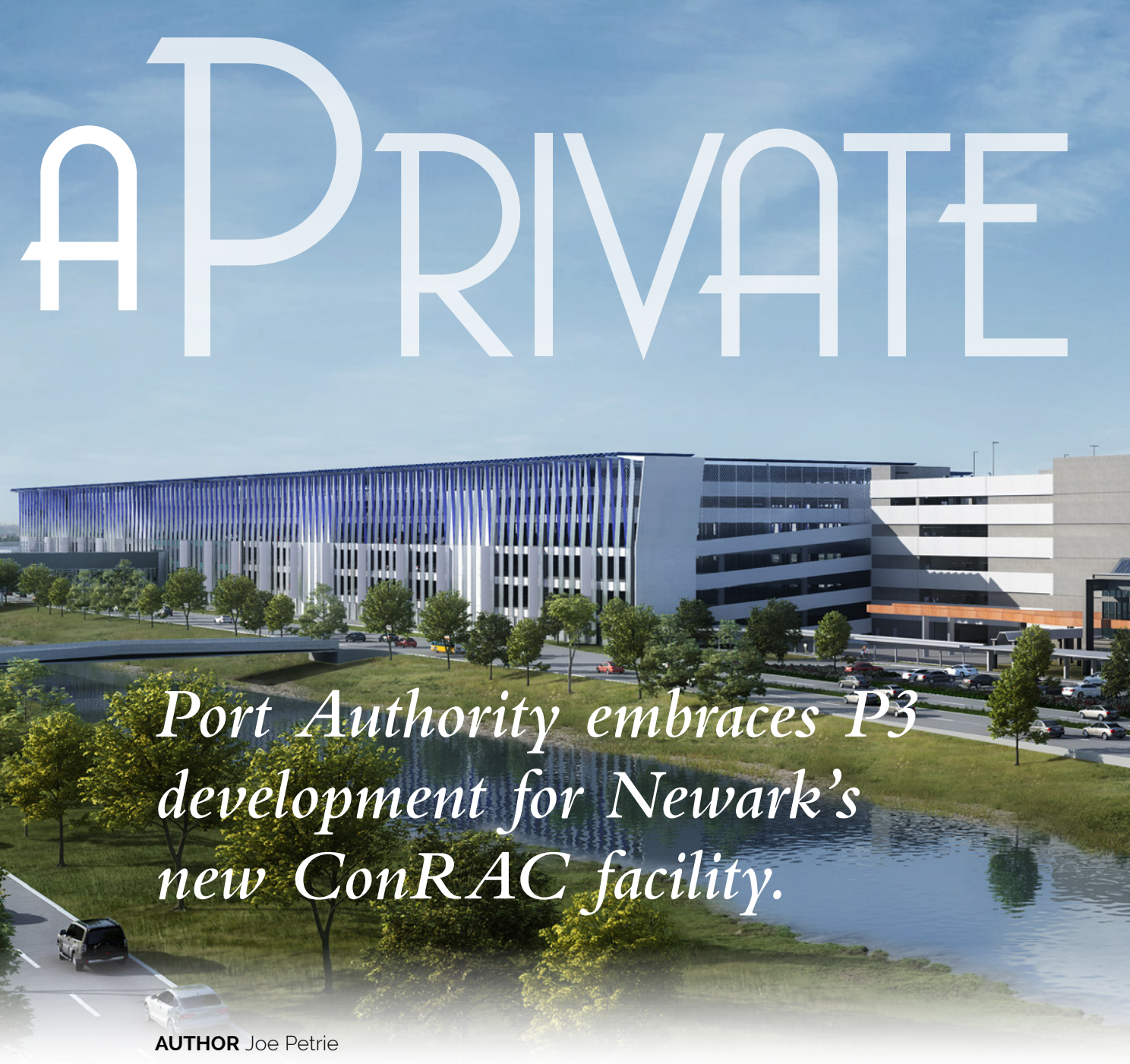

Port Authority embraces P3 development for Newark's new ConRAC facility.

AUTHOR Joe Petrie

THE PORT Authority of New York and New Jersey is utilizing a P3 program to build a new consolidated rent-a-car facility (ConRAC) at Newark Liberty International Airport (EWR).

The new ConRac will be located next to the new Terminal One at EWR. The facility will include a six-story parking structure of mixed parking and rental car operations. It will have 3,369 facility parking spaces and is designed for potential growth.

The Port Authority of New York and New Jersey started talking to rental car companies several years ago about building a new consolidated facility at EWR. The authority was looking to the rental car companies to lead on the project both from the design-build standpoint and the finance and operations point of view.

Dan Pine managing principal of CS Capital, part of Conrac Solutions said the agreement allows access to different markets for debt, which allows a more efficient financing method, which allows for lower capitalized interest. It has a lower debt ratio and allows customer facilities charges (CFC) to be lower.

"Ultimately, the airport will control every facet of the project through the execution of a lease agreement with the project company," he said.

Under the terms of the 35-year lease of the facility, the CFCs escalate

AFFAIR

annually at 2 percent throughout the lease term. Lower CFCs are better for customers, better for rental car companies and better for airports. Pine said the method of financing used in the deal allowed that to come to fruition.

"We like to call it set it and forget it," Pine said. "We set the CFC at the beginning of the lease and that's it for the entirety of the lease. That gives clarity to airports, rental car companies and customers knowing what that charge is going to be."

The facility is comprised of two buildings — a six story parking structure, three floors for rental returns and three floors of parking ran by the Port Authority. The second is a quick turnaround facility (QTA), which include the carwash, garbage and other items used in the turnaround of rental cars. It utilizes a ramping system to allow each rental car company to have its turnaround

"We design these facilities not only to meet their needs, but to have things added to them like the ability to ramp up electric car usage and certain things like that," Pine said

Airports of all sizes can benefit to a P3 project similar to EWR. It's key to make sure the airport has control of the facility at the end of the lease and what the terms are when set forth.

"The financing is done off the books for the airport, so the airport isn't taking on any economic or financial burdens while still controlling the design," Pine said.

Andrew Right, managing partner, Related Infrastructure, said the EWR ConRAC investment was an opportunity for Conrac Solutions to develop a transformative piece of aviation infrastructure in the Greater New York City area. The facility will support rental car demand linked to long-term growth at Newark airport.

This project was an opportunity for Related Fund Management (RFM), to lead the private equity financing of a

unique piece of transport infrastructure in the New York City area, a geography that RFM knows and has a corporate presence.

"The ConRAC will provide greater choice and an improved customer experience for airplane passengers seeking ground transportation options, something we believe will be important going forward in a post-COVID-19 travel environment," he said. "The EWR project is the first large-scale privately-financed ConRAC in the U.S. and builds on Conrac Solutions' track record as the only integrated developer, operator and financier of ConRACs in the U.S., further strengthening the company's market position.

"The transaction was recognized by leading infrastructure investment journals as a landmark deal and we believe the EWR project will serve as a model for future ConRAC developments."

Mac Bell, managing director of infrastructure investments for Fengate Asset Management, said the Newark project was attractive for all the stakeholders because it allowed them to take on some risk in developing the project.

"Our job is to put capital to work on behalf of our clients. Our clients are all pension funds," he said. "Putting all private capital in rather than having public capital fund the project, it allows us to put more capital to work and take on greater risk in having a revenue stream that we underwrite."

Bell said it wasn't an easy deal to finance. They tried to do an underwritten bond when they initially went to the market, but the private placement market wasn't there.

"There were some concerns about the tenor of the project agreement," he said. "It was a little longer than people were used to and there's a concern about the rental car market."

The deal team did a lot to de-risk itself from the current rental car market challenges.

"We're building, for lack of a better term, a box on the Newark airport property. There is not a lot of available space on Newark airport, so there's a lot of barriers to entry, which is what a lot of infrastructure investors look for," Bell said. "We know that no one is going to be able to design another box to compete with it."

Bell said the company went with a piece of bank debt with a 10-year term, which gives them plenty of opportunities to refinance after construction is done.

Right said Conrac Solutions navigated the challenge of creatively managing and satisfying the interests of the range of EWR ConRAC stakeholders in order to secure the development and investment opportunity. The project's key stakeholders include the rental car industry and the Port Authority of New York and New Jersey.

Right said Conrac Solutions will deliver a set of unique benefits to each stakeholder of the EWR ConRAC

The new ConRac will be located next to the new Terminal One at EWR.

CONRAC SOLUTIONS AND PGAL

and this broad set of benefits for all stakeholders is what makes this an appealing investment. For the rental car industry, the project will give them a brand-new facility at Newark with state-of-the-art quick turnaround (QTA) operations which will improve operational efficiencies for the entire industry. The facility's location and walkability from the airport terminal will also improve rental car competitiveness versus taxis and rideshares.

The Port Authority will benefit by gaining a piece of critical aviation infrastructure without needing to use their own balance sheet to finance construction and can reduce airport curbside congestion by consolidating existing rental car operations.

"The project equity and debt investors can benefit through exposure to rental car demand at a gateway city airport which we believe can deliver an attractive return on their invested capital over the long term," he said. "Finally, EWR passengers will be given greater and easier access to rental cars which expands their overall choice of ground transportation options."

P3 FINANCING CAN BE APPLIED TO MOST ANY ASPECT OF THE AIRPORT AS LONG AS A CREDIT-WORTHY COUNTERPARTY IS SIGNING THE CONCESSION.

Bell said the returns are competitive on the Newark project relative to an availability-based P3 projects. Conrac Solutions has a very strong relationship with rental car companies, which also made it appealing.

"You can rarely compete with those because from a risk-return profile perspective, the risk is very low because all you have to do is build the asset and make sure it's available for use," he said.

Bell said municipal bonds offer lower cost access to money than those offered via a P3 investment, but it offers an opportunity for private capital to take on risk and cushion for cost over runs and other obstacles.

"If people have a lot of other projects at the go and don't have a lot of time or want to insure themselves and get the

private sector guarantee with fixed price, fixed date delivery, then it's a great way for them to transfer risk," he said.

P3 projects also mean airports don't have to pay all the construction costs upfront. It's slowly paid down overtime, which smooths the burden of the construction project.

P3 financing can be applied to most any aspect of the airport, Bell said, as long as a credit-worthy counterparty is signing the concession.

"It doesn't have to be something that generates revenue in itself," he said. "We've seen it used for courthouse projects and academic buildings at schools. You could use it for something like baggage handling or other things that are not thought of as generating revenue."

A Growing Trend

Airports looking at P3 solutions for financing improvements should consider items like gestation time. Bell said it can take years to close financing for a deal and if something were to kill the deal before the financing got too close, it would be a lot of wasted time and energy for investors.

"It's challenging for us, because we see a lot of nice, fancy looking projects, but we really have to ask ourselves certain questions as to whether we will be successful and our team will be successful or will anyone be successful," he said.

Bell said investors want to know an airport has the money available to work through the project and understand the P3 project. They should have good advisors and they should also make sure there are no outstanding votes that still need to happen before a project can proceed.

"The reason these project work are not because the money is cheaper. Our money will be more expensive on the return requirement basis than the capital that an airport can raise themselves," he said. "It's really the risk factor they're after. The fact there could be cost overruns and schedule overruns mitigating, on the risk transfer cost it's certainly more beneficial to them."

Bell also recommended projects be sizeable enough to get the interest of the private sector. Fengate typically looks for projects with a $30 million or more equity investment, which means you're looking at a project with private capital of $300 million or more.

"I think the future of infrastructure is going to be finding deals like this, where the private sector is expected to take some market risk," he said.

Right said the need for ConRACs continues to grow as airports seek to consolidate land currently used as rental car lots and convert that real estate into more productive uses. This migration from disparate rental car operations to a single ConRAC also eliminates the need for multiple rental car branded shuttle buses and the resulting congestion and air pollution caused by constantly circling the airport roadway or idling during passenger pick-ups and blocking curb space. These trends will continue over time and will be especially acute as air travel returns to normal.

"Among the financing options for ConRAC development, we believe the private equity financed model is the most attractive as it allows airport authorities to build new or enhanced ConRAC facilities without affecting their debt capacity or balance sheets," he said. " Conrac Solutions' leadership in innovating and developing the project, coupled with RFM's leadership as the anchor equity investor in the EWR ConRAC, provides a model for future private equity financed ConRACs across the U.S. We believe the supply of new ConRAC investment opportunities should grow over time as airport authorities look to this template when choosing to develop and build greenfield ConRACs or divest/refinance their existing airport-owned ConRACs."