North America PPP Deal of the Year

Conrac: Dealing with demand risk

Given the well-publicised issues that have affected aviation – and travel in general – in the last four months, a consolidated rental car facility at an airport might be a surprising award winner in PPP. But the $443 million bank financing for the 35-year EWR Conrac concession shows that the bank market is able to competitively finance aviation market-related demand risk.

Publicly-owned airports have been increasingly willing to procure assets using availability payment-based PPP concessions. But those concessions – for assets like terminals and transit facilities – have typically not exposed sponsors and lenders to demand risk. If the private sector can demonstrate that it can finance demand risk effectively, it may persuade authorities to increase the risks they are willing to assign to private capital.

The project involves the construction of a 3,380-space consolidated car rental facility and 2,925-space car park at Newark, one of three major airports serving the Greater New York Area. The grantor is the Port Authority of New York and New Jersey, which runs all three. The total floor space of the facility, which covers a 16.65-acre site, stands at 2.7 million square feet.

The sole source of repayment for the project are the customer facility charges (CFCs) that are applied to rental car customers' bills. The operator thus in theory has an incentive, which US airports frequently lack, to make the customer experience as pleasant as possible.

The project is being built by a joint venture of Austin Commercial and VRH Construction under a bonded, fixed price and date certain contract, and is scheduled for completion in 2022. The project also makes a solid push for sustainability by featuring a solar roof, electric vehicle charging, LED lighting, water reclamation and air quality systems.

The project sponsors, Conrac Solutions, Related Fund Management, Fengate Asset Management, initially looked at a financing for the concession in the private placement market. But banks were willing to push out substantially from their seven-year comfort zone, persuading the sponsors to pivot to a bank deal.

The eventual ten-year debt package, which signed in May 2019, comprised a $310 million term loan and four letters of credit facilities, of $9.8 million, $20 million, $2.4 million and $1.7 million. It complemented $100 million in sponsor equity. The lead arrangers were CIBC, MUFG and National Bank of Canada.

The sponsors have a solid buffer during construction to wait for air travel to recover following the Covid-19 crisis, though what the future holds for both recreational and business travel is very hard to predict. What is clear, though, is that in a more competitive environment for air travel, airports that find creative ways to upgrade their facilities will be at a huge advantage.

EWR Conrac LLC

Close date: 30 May 2019

Location: Newark, New Jersey

Description: 35-year concession for a 3,380-space consolidated car rental facility and 2,925-space car park

Size: $443 million

Grantor: Port Authority of New York and New Jersey

Sponsors: Conrac Solutions, Related Fund Management, Fengate Asset Management

EPC contractor: Austin-VRH JV

Debt: $310 million 10-year term loan and $33 million in letters of credit

Lead arrangers: CIBC, MUFG, National Bank of Canada

Financial adviser: Goldman Sachs

Sponsors' legal advisers: Allen & Overy, Torys (Fengate)

Lenders' legal advisers: White & Case

Government legal adviser: Ashurst

The 35-year EWR Conrac concession shows that the bank market is able to competitively finance aviation market-related demand risk.