

Montreal University Hospital Research Centre P3

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At a time when large-scale healthcare projects are becoming increasingly rare, the Centre de Recherche at the Centre Hospitalier de l'Université de Montréal (CRCHUM) points towards a positive future for the sector.

That the Can\$434 million (US\$410m) DBFM project brought together a diverse mix of domestic and international private sector firms while also using the capital markets as a financing solution reminds the market of what can be achieved - even in a constrained market [\[Projects Database\]](#).

However, the procurement was not without its difficulties - particularly with regard to affordability - which threatened to derail the project as a PPP.

The sponsor also had to contend with the loss of an equity provider during the bidding process.

Background

The procuring authority - infrastructure Ontario, alongside the hospital management - first brought the project to market in 2008 with two bidders subsequently pre-qualified to compete for the scheme.

The original bid teams were:

- **Axor-Dalkia** - Group Axor, Dalkia Canada, URS, AXOR Construction Canada, Ellenzweig
- **Accès Recherche CHUM** - Babcock & Brown Canada ULC, Pomerleau, Verreault; Honeywell, CIM, NFOE and associated architects, Menkès Shooner Dagenais LeTourneux Architects, Parkin Architects, Group Lemay, Jodoin Lamarre Pratte and associated architects

Meridiam Infrastructure subsequently replaced Babcock & Brown as an equity partner in the Accès Recherche consortium following the firm's dissolution in 2009.

Technical bids were submitted in July 2009 with financial offers made later in the autumn. However, by January 2010 the authority had asked both teams to resubmit final bids after deeming neither to be VfM.

The Axor-Dalkia team failed to resubmit a bid within the 60 day deadline set - leaving Accès Recherche CHUM as the sole remaining bidder.

Financial close was reached on 21 May - however early works construction had already begun in March following the PB appointment.

The Project

For the first time - in the single largest centralisation of health research experts in the history of Quebec - CRCHUM will bring together more than 1,000 academics and health professionals, allowing it to consolidate its ground-breaking research activities.

Spanning around 40 months, the construction phase primarily consists of a 15-storey research and training facility at 300 Viger Tower.

The building will house several ambulatory clinics - including the Renata Hornstein Evaluation Centre within the André-Barbeau Movement Disorder Unit - in addition to various teaching and training facilities such as simulation laboratories.

A smaller six-storey building dealing with administrative matters - situated opposite at St-Antoine Tower - will connect to the main facility via a bridge on the respective buildings' second floors.

The site will also be directly connected to the Champs-de-Mars metro station, positioning the facility as central to the city's transport infrastructure over the coming decades. The station is also famous for its art - Marcelle Feron's work is widely featured - and the stations architecture has been cited as an influence in the project's design.

The sponsor has also gone to great pains to reduce the project's environmental impact with a stream of measures in areas including bio-safety protection, water treatments and energy efficiency.

The project has received a rating of silver in Leadership in Energy and Environmental Design from the US Green Building Council (USBGC). Details of the project's environmental credentials include a pledge to divert a minimum of 75 per cent of construction waste away from landfill sites and source a minimum of 20 per cent of construction materials locally.

Secure bicycle parking - along with shower and changing facilities - is also to be provided. Storm water retention tanks will be included in the facility's basement to reduce peak flows into the public sewer system.

Work on the project is scheduled to start in late May 2010, with delivery of the facilities expected by 30 September 2013. Up to 3,000 jobs will be created during construction.

Financing

The project was financed via two bond issues:

- **Short-term bonds** - Can\$59.8 million (US\$55m) which matures at end of construction, 31 March 2016 - 6 years
- **Long-term bonds** - Can\$332 million (US\$314m) amortizing bonds, which matures on 31 December 2042 - 32 years

The debt:equity ratio on the project is 90:10 with a DSCR of 1.38x over the term of the project. The long-term bond has a tail of nine months.

The sponsor - Accès Recherche - invested Can\$43.5 million (US\$41m) in equity, split equally between Meridian Infrastructure and Fiera Axiom Infrastructure. The loan-life cover ratio (LLCR) is expected to range between 1.42x and 1.47x for the duration of the project term.

RBC Capital Markets acted as bond arranger on the deal.

The project reached financial close on 21 May.

Further developments

CRCHUM is one of three Quebecoise hospital PPPs to issue RFPs since June 2008 as part of the government's Can\$5.2 billion (US\$4.1bn) hospital investment programme.

The next most likely to close in the programme is the Can\$1.58 billion (US\$1.5bn) McGill University Health Centre (MUHC) P3 in Montreal. When built the facility will include 500 beds for medicine, surgery, women's health, oncology and paediatrics as well as 19 operation rooms.

The Groupe Immobilier Santé McGill consortium won the 30-year concession in April 2010 - seeing off a challenge from Partenariat CUSM.

A group of seven banks - including Dexia and Credit Agricole CIB - are in place to provide equal shares of the senior debt facility. Financial close for the project has been targeted for July [Projects Database].

The final project in the pipeline is the Can\$1.86 billion (US\$1.47bn) Montreal University Hospital (CHUM) PPP. The so-called 'big brother' to CRCHUM involves the redevelopment of a 772-bed Hospital Centre at the 1000 Saint-Denis site.

39 new operating rooms, an emergency ward, ICU, birthing room, radiology, nuclear medicine, labs, pharmacy, endoscopy and support services are also expected to be included in the scheme [Projects Database].

The following consortia are currently bidding for the project:

- **Innisfree-Axor-OHL-Dalkia:** Innisfree, Group AXOR, Obrascon Huarte Lain, Dalkia Canada, URS, Perkins + Will
- **Accès Santé CHUM:** Meridiam Infrastructure, Acciona Infraestructuras, Pomerleau, Verreault, Honeywell, Imperial Carpark Canada, Council in Immobilization & Management, Group Lemay, Jodoin Lamarre Pratte and associated architects, Parkin Architects, NFOE and associated architects, Menkès Shooner Dagenais LeTourneux Architects

A preferred bidder is expected to be in place during H2 2010

Conclusion

In spite of the globally constrained financing environment, P3 opportunities are continuing to develop in Canada. The closing of CRCHUM using a purely capital markets solution is evidence of growing confidence in the market.

Nor is the rate of investment likely to diminish in the near future given that health - alongside transport - is a key infrastructure need in a country where growing population numbers and ageing facilities are producing an acute need for fresh investment.

In short, while more mature PPP markets are likely to fall on fallow times over the next 24 months the Canadian market represents a far surer bet for sponsors and investors alike.

And with the return to activity for the capital markets solution, an essential source of funding is once again being tapped to keep infrastructure investments on track.

The visible pipeline together with growing confidence among the construcion and financing communities spells an interesting near-to-medium future for the Canadian market.

The project at a glance

Project Name	Montreal University Hospital Research Centre P3 (CRCHUM)
Location	Montreal, Canada
Description	The project will be the single largest centralisation of health research experts in Quebec bringing the administrative, technical and financial resources of six research centres under a single roof.
Sponsors	Accès Recherche
Consortium Breakdown	Meridiam Infrastructure, Pomerleau, Verreault; Honeywell, CIM, NFOE and associated architects, Menkès Shooner Dagenais LeTourneux Architects, Parkin Architects, Group Lemay, Jodoin Lamarre Pratte and associated architects
Project Duration (Including construction)	32 years
Construction Stage	3 years
Total Project Value	Can\$434million (US\$410m)
Total equity	Can\$43.5 million (US\$41m)
Equity Breakdown	Fiera-Axium - 50 per cent - Can\$21.75 million (US\$20.5m) Meridiam Infrastructure - 50 per cent - Can\$21.75 million (US\$20.5m)
Total senior debt	Can\$391.8 (US\$373m)

Senior debt breakdown	Short-term bonds - Can\$59.8 million (US\$55m) matures at end of construction, 31 March 2016 - six years Long-term bonds - Can\$332 million (US\$314m) amortizing bonds, maturing on 31 December 2042 - 32 years
Senior debt pricing	1.38x
Debt:equity ratio	90:10
Bond Arranger	RBC Capital Markets
Legal adviser to government	Fasken Martineau, Heenan Blaikie
Financial adviser to government	Grant Thornton
Date of financial close	21 May 2010

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