Singapore Sports Hub PPP

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The closing of the Singapore Sports Hub project is arguably one of the most remarkable success stories in the project finance arena in a decade.

That any project of such a scale could survive the global financial crisis almost unscathed would be worthy of praise, but given that the scheme that could never be described as 'essential infrastructure' makes the achievement even greater still.

The deal stands out for several reasons, not least because it is both the largest sports stadium and the largest social infra transaction in Asia to be financed via PPP [Projects Database].

Crucially, however, the deal has re-opened the debate on what a PPP financing structure can achieve. At a time when the argument is increasingly being dominated by naysayers who favour a retreat to 'core' activities, the deal stands as a beacon for those keen to pursue innovation.

Background

The Singapore Government was discussing the project as early as 2004 - with a series of bidders days held in Sydney, Singapore and London during H1 2005.

The project came to market in December 2005 with a highly ambitious procurement timetable. The authority originally hoped to achieve financial close in 2007 ahead of an operational start date of 2011.

The original capex for the project was also significantly lower with the authority putting the cost at S$800 million (US$490m) at the highest - with S$500 million (US$368m) thought to be more realistic.

Four bidders submitted expressions of interest (EoIs) for the project in March 2006, and of these only Audience Systems - a subsidiary of Japan's Kotobuki - did not subsequently join or form a consortium.

The remaining three bidders were invited to tender (ITT) in early 2007. They were:

- **Alpine Mayreder Consortium** - including Alpine Mayreder, Alpine Bau Deutschland, Tim Hupe Architects Germany, RSP Architects Planners & Engineers, SBP Schlaich Bergermann & Partners, Squire Mech, Woh Hup, Dalkia, SMG, APF Alpine Project Finance, Guocoland, SMBC, Babcock & Brown and Great Eastern, Ashurst
- **Singapore Gold Consortium** - including Macquarie, HOK Sport, CPG Corporation, CPG/SKM, Shimizu Corporation, CPG FM, Ogden IFC, PM Link, IMG, Lend Lease / United Engineers, John Laing Infrastructure, Freehills, Marsh
- **Singapore Sports Hub Consortium** - including Dragages Singapore (Bouygues subsidiary), Arup Sports, DP Architect, CICADA, DHI Water & Environment, Duffill Watts, Faithful & Gould, United PREMAS, Global Spectrum - Comcast Spectator - PICO, World Sport Group, ARM, HSBC Singapore, Knight Frank, HSBC Infrastructure Fund, Ernst & Young, Rajah & Tann, Norton Rose, AON

Bids were evaluated on the following basis:

- appeal of sports, leisure and entertainment programming - 40 per cent
- functionality and quality design - 25 per cent
- financial and legal appeal - 25 per cent
- FM - 10 per cent

Due to the project's complexity - particularly with regards to the pool development - the authority also chose to add a final clarification stage (FCS) to the ITT process.

The Bouygues-led Singapore Sports Hub consortium was named preferred bidder for the project in January 2008 - just as the first tremors of the global financial crisis were beginning to be felt.

However, construction costs were already steadily rising - bringing the debt pile to S$1.2 billion (US$840m) and making forming a lending club all the more difficult.

Over the following 12 months the authority conducted due diligence and functionality checks alongside gaining planning approval for the site. However, financing proved elusive and by April 2009 the Ministry of Finance was looking at what support it could provide for the project.

Reports at the time of the Government being prepared to fund the project via the D&B route are understood to be wide of the mark, although there was significant concern at the lack of progress.

The problem stemmed from the worldwide constriction of credit with no lenders willing to take a ticket of more than S$200 million (US$148m). With a debt pile now standing at S$1.4 billion (US$1.03bn) and a sponsor hoping to limit its lending club to no more than a dozen members the prospect of a significant capital injection was on the cards.

However, over the following six months - particularly after the close of Manchester Waste [Projects Database] - market conditions improved markedly with lead arranger HSBC able to organise a funding competition for the scheme.

Despite the improvements significant obstacles to achieving financial close remained - not least the lenders' discomfort with repayment fluctuations.

While stadia sit within the infrastructure bracket, for many they are unnatural bedfellows given that assumptions on cash flows cannot be guaranteed in the same way as a traditional unitary charge.

The dependence on relying on returns from independent ventures - like shops and eateries - gives cause for concern.

With a smaller deal a simple rise in amount of equity can suffice. However, here more sophisticated solutions needed to be employed. An interface agreement - the most complex ever created -essentially 'hard wired' the SPV to operate as a multifunctional entity.

Meanwhile the financing structure was altered from a straightforward long-term tenor to incorporate a waterfall cash mechanism and balloon payment. Government support for the project evolved into an incoming sharing regime, providing further security.

The project reached financial close on 26 August 2010 - a shade over five years after it came to market.

Nick Merritt, infrastructure partner at Norton Rose, commenting on the deal said: "To reach financial close is an immensely satisfying achievement.

"To act for the Singapore SportsHub Consortium on this innovative project demonstrates the collective expertise and shared vision of the government and the Consortium."

The project

The 'cluster' development will integrate sports facilities within the city on a 35 hectare site in Kallang - in the south-eastern part of Singapore.

Following a 43 month building period - due to begin in September 2010 - the centre will include:

- a national stadium with retractable roof - 55,000-capacity
- an indoor aquatics centre - 6,000-capacity
- a multi-purpose arena - 3,000-capacity
- commercial space - 41,000m²
- a water sports centre
- the existing 12,000-capacity Singapore Indoor Stadium

The Hub will be the centre for elite athletes and high performance management as well as a location for sport and entertainment events, sports administration, and sport and recreation businesses.

The new National Stadium will feature individual seats, natural ventilation and a retractable roof for all-weather enjoyment.

Its state-of-the-art credentials are underlined by the use an innovative bowl cooling system that provides comfort with limited energy usage and extensive use of fibre optic technology to involve remote spectators on a level never seen before.

The complex will be connected to the Mass Rapid Transit network and major expressways, 15 minutes from the Singapore Changi International airport.

The scheme is located next to the Marina Bay, which includes other developments such as:

- Marina Bay Sands Integrated Resort
- Marina Barrage
- Singapore Flyer
- floating platform at Marina Bay

Dr Vivian Balakrishnan, Minister for Community Development, Youth & Sports said: "I am glad that we are ready to start construction of the Singapore Sports Hub.

"It will be a fully integrated sports, leisure, entertainment and lifestyle hub for world class events and community activities. The facilities will be accessible to both the general public and top athletes to train and compete in."

Financing

A group of 11 banks are providing a term loan of S$1.45 billion (US$1.06bn):

- BNP Paribas
- Bank of Tokyo-Mitsubishi UFJ
- Credit Agricole CIB
- DBS
- HSBC (lead arranger)
- NAB
- Natixis
- OCBC
- SMBC
- Standard Chartered
- WestLB

The debt has a 24 year tenor with a balloon payment due after 10 years.

Ticket sizes are understood to vary significantly between the lenders with contributions ranging from S$100 to S$200 million. The debt pile was oversubscribed by 30 per cent.

Four of the lenders - HSBC, NAB, Natixis and SMBC - contributed an equity bridge loan of S$300 million (US$221m). The project has a debt to equity ratio of 80:20.

The equity split is as follows:

- HSBC - 82 per cent
- Bouygues - 11 per cent
- Global Spectrum - 4 per cent
- United PREMAS - 3 per cent

The project reached financial close on 26 August 2010.

Future developments

Due to the state's size and population the pipeline of deals in Singapore is never likely to progress beyond a trickle. However, given the successful close of the Sports Hub the deal flow is unlikely to dry up completely.

Legislation will at least ensure that the financing structure is examined, with the Ministry of Finance's PPP Handbook - published in September 2004 - dictating that any project with a capital value of S$50 million should be assessed for PPP applicability.

Even without the PPP moniker the Government is committed to using project financing to achieve its infra aims. The most recent example is the reverse osmosis desalination plant at Tuas that PUB, the procuring authority, aims to build under a 25-year DBOO arrangement.

Singapore's neighbours are understood to be eyeing the project with great interest as it moves into the operational stage as they look to develop PPP in their own markets.

The Philippines in particular is hopeful of creating PPP programmes across both the transport and social infra sectors. A new steering group - the Economic Team of the Philippines - has recently been formed by the new Government and tasked with creating a suitable deal pipeline.

Looking at the future of stadia PPP globally there is great cause for optimism, with France leading the charge. Various regional authorities there are planning to either build or redevelop 10 stadia in time for the 2016 UEFA Football Championships and the public ownership of French stadia makes PPP an ideal fit.

The success or failure of adopting the model on such a large scale cannot help but influence the thinking of the Italian authorities whose stadia operate under an almost identical ownership structure.

Conclusion

The Singapore Sports Hub stands as a testament to what can be achieved through the PPP model with the right mix of determination and expertise.

Furthermore, the innovation present throughout the SPV and the financing structure coupled with strong support from Government gives the market assurance that the nation state has the both the tenacity and wherewithal to get projects over the line.

The deal is unlikely to be repeated in the same form elsewhere - given that it was designed to service a unique set of needs with the backdrop of extraordinary market conditions. However, there is every chance that the example set will point the way for future innovation in the social infra arena.

Project at a glance

Project Name	Singapore Sports Hub PPP
Location	Kallang south-eastern Singapore
Description	The project will see the development of a national sports hub on a 35 hectare site in Kallang, south-eastern Singapore. It is the world's largest sports facility PPP to date. The project will integrate various facilities and will comprise a national stadium with retractable roof (55,000 capacity), indoor aquatic centre (6,000 capacity), multi-purpose arena (3,000 capacity), commercial space (41,000m2), water sports centre and the existing Singapore Indoor Stadium. The hub will cater for both land and sea sports and entertainment
Sponsors	Singapore Sports Hub Consortium - including Dragages Singapore, Arup Sports, DP Architect, CICADA, DHI Water & Environment, Duffill Watts, Faithful & Gould, United PREMAS, Global Spectrum - Comcast Spectator - PICO, World Sport Group, ARM, HSBC Singapore, Knight Frank, HSBC Infrastructure Fund, Ernst & Young, Rajah & Tann, Norton Rose, AON
Project Duration (Including construction)	25 years
Construction Stage	43 months
Total Project Value	S$1.75 billion (US$1.29bn)
Total equity	S$300 million (US$221m)
Equity Breakdown	HSBC - 82 per cent Bouygues - 11 per cent Global Spectrum - 4 per cent United PREMAS - 3 per cent
Total senior debt	S$1.45 billion (US$1.06bn)
Debt:equity ratio	80: 20
Mandated lead arrangers	BNP Paribas Bank of Tokyo-Mitsubishi UFJ Credit Agricole CIB DBS HSBC (lead arranger) NAB Natixis OCBC SMBC Standard Chartered WestLB
Legal Adviser to sponsor	Norton Rose
Financial Adviser to sponsor	HSBC
Legal adviser to banks	Ashurst
Legal adviser to government	Lovells Lee & Lee (now Hogan Lovells Lee & Lee) & Linklaters
Financial adviser to government	PwC/Deutsche Bank
Technical and commercial adviser to government	Faithful & Gould
Date of financial close	26 August 2010