„Real Assets“

Newsletter IV/2026

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Dear Ladies and Gentlemen,
Dear Members,

Infrastructure - (My) 5-Point Plan

Once again, I'll begin this editorial with an extremely astute observation that is sure to surprise you: Germany has an infrastructure problem! And it's one of our own making. There is a shortage of railways, bridges, electricity and heating grids, digital infrastructure, housing, and municipal investments. The investment backlog is so massive that even the 500-billion-euro special fund can only be part of the solution. The federal government has indeed recognized the scale of the problem and mobilized substantial funds. But, for one thing, this sum is nowhere near enough. And, for another, money alone doesn't build bridges, modernize the power grid, or turn a municipal infrastructure project into an investable asset.

This is precisely where the real problem lies: there is—at least to some extent—an awareness of the issue in Germany, but coordination, alignment, and implementation are lacking. This is especially true when it comes to involving private capital.

The new BAI Infrastructure Report Germany 2026 makes this issue unmistakably clear. For German energy utilities and municipal utilities alone, the investment needs through 2045 total approximately 535 billion euros. This leaves a financing gap of 346 billion euros—299 billion euros on the debt side and 47 billion euros on the equity side. Ninety-two percent of the municipal utilities surveyed expect that necessary investments will have to be additionally supported by external financing instruments.

This is not a minor funding gap that could be closed with a little more grant money. It is a structural challenge. And it collides with an equally structural weakness: Germany often does not develop or produce infrastructure projects in a form that allows long-term institutional investors to finance them. In short: the capital is there. Too often, the projects are not. Or, even when they do exist, there is a lack of transparency, consolidation, or scalability; there is a lack of standardization in processes and contract drafting; and, as a result, a lack of investment attractiveness. And then, return expectations often seem to diverge as well.

Perhaps one of the most important messages in our report is this: Insurers, pension funds, retirement plans, and other institutional investors generally have an interest in infrastructure. With its long-term, stable cash flows, infrastructure is an excellent fit for long-term commitments. Infrastructure debt, in particular, is gaining importance because diversification, predictable returns, and an attractive risk-return profile are in demand. The average infrastructure allocation among German institutional investors now stands at 5.6 percent for equity and debt combined. Canada, however, stands at 10.1 percent.

So one could say: Germany certainly has domestic capital that could finance infrastructure. However, this capital has so far flowed far too often into international markets, while German infrastructure investments have been lacking. This is the reverse "home bias" that we pointed out years ago and called for a change in mindset: German investors are investing in infrastructure —just not enough in Germany.

Why? Not because German infrastructure is inherently too risky. On the contrary: The credit default rates analyzed in the report show that companies in the municipal infrastructure sector actually have lower default rates than the overall economy and are below the already defensive infrastructure benchmark. As outlined above, the problem lies rather in the combination of complexity, granularity, a lack of standardization, regulatory uncertainty, and a risk-return ratio that is not always attractive. My conclusion is this: Germany is turning what is actually an attractive asset class into an unnecessarily complicated product.

What is particularly striking is that these problems reinforce one another. Municipalities and municipal utilities need capital. Institutional investors are looking for long-term assets. Asset managers could act as intermediaries between the two sides and structure projects. And yet the market still hasn't really taken off.

This is where policymakers must step in. For years, we have been engaging with the relevant stakeholders at the federal, state, and local levels. But what has happened so far, and what are the proposed solutions from policymakers?

The Infrastructure and Climate Neutrality Special Fund (SVIK) is falling significantly short of all expectations. Above all, we must not succumb to the illusion that a special fund of 500 billion euros will automatically result in 500 billion euros in additional infrastructure. The federal government itself points out that the allocation of funds from the special fund is the responsibility of the respective ministries and requires very different procedures depending on the sector. 100 billion euros are available to the states and municipalities; at the same time, the states themselves decide how these funds are to be used and distributed to the municipalities. This is in line with federal principles. However, it is far from sufficient governance for a generational project. My conclusion regarding the SVIK and many discussions with the relevant stakeholders is this: We need less focus on jurisdictional boundaries and more expertise in implementation.

Germany is remarkably good at developing funding programs, special funds, strategies, and action plans. The next step, however, is more challenging: Who coordinates the projects? Who standardizes them? Who handles the structuring? Who ensures that financing is bankable or suitable for institutional investors? And who bears which risks?

This is precisely where the debate on private capital must begin, and we have developed and presented corresponding proposals. Some of these proposals date back more than a decade, as these very issues were already being discussed back then. And even at that time, there was a consensus: private capital must not be misunderstood as a substitute for government responsibility. Infrastructure is part of public services. The government must define goals, set standards, and assume responsibility where the market cannot. But this does not mean that the government must finance, own, and operate every project itself. On the contrary: Given the scale of the investments ahead, an intelligent division of labor is essential.

The government should provide a regulatory framework, planning certainty, and, where appropriate, targeted risk-sharing. Municipalities and municipal utilities should consolidate and professionalize their projects. Asset managers should turn these into investable structures. Banks and institutional investors can provide long-term debt and equity capital. That wouldn't be a withdrawal of the government, either. It would be a more efficient use of government funds!

The BAI Report outlines specific approaches to this end: platform models, standardization, alliances between investors and asset managers, joint ventures, special-purpose entities, and hybrid capital can serve different functions depending on the type of infrastructure. There is no one-size-fits-all solution. But there is certainly a common denominator: transaction costs and complexity must be reduced.

Above all, we must think and act holistically: transportation, energy, heating, digitalization, and municipal infrastructure are still too often treated as separate policy areas. In reality, they have long since become a single, integrated system. A data center needs electricity. Industry needs grids. The heating transition needs municipal infrastructure. Electric mobility needs distribution grids. New industrial developments require transportation and energy infrastructure. Digitalization, in turn, places greater demands on the power supply and data infrastructure. Failure to plan these interdependencies collectively will inevitably lead to duplication of effort, bottlenecks, and misallocations. That is why Germany does not need another infrastructure strategy. Germany needs infrastructure governance!

So, what should we do? Here's my 5-point plan:

First, there needs to be a clear political consensus on the role of private capital. Private investors still too often reflexively distinguish between “public” and “private.” This debate is outdated. What matters is who assumes which risks, what return is appropriate in exchange, and how public interests are safeguarded in the long term.

Second, we need a systematic consolidation of projects. A municipal infrastructure project with a budget of five or ten million euros is often simply too small for a large institutional investor. In contrast, a hundred comparable projects can result in an attractive portfolio. This is precisely where platforms and professional asset managers can play a key role.

Third, the public sector must improve its own project management capabilities. Not every municipal utility and not every municipality can or should become an infrastructure fund manager. But there is a need for professional interfaces, standardized data rooms, transparent bidding and contracting structures, and robust business cases.

Fourth, funding instruments must be used in a much more targeted manner. The government's role should not be to permanently subsidize projects that are actually viable in the market. It makes much more sense to assume risks where they have so far prevented private investment. Guarantees, first-loss structures, or other risk-sharing instruments can serve as suitable levers for this purpose. International experience—such as that of the EIB—shows that targeted risk-taking can mobilize significant additional private financing.

But here, too, the following applies: The government must be able to do the math. A first-loss structure is not a free pass. It must be calibrated in such a way that it actually mobilizes additional capital and does not merely subsidize the returns of private investors. The report rightly points out that, in the case of regulated infrastructure, the yield premium over liquid bonds may already be limited given the higher interest rate environment.

Fifth, we finally need greater planning and legal certainty that extends beyond legislative terms. Infrastructure is not a four-year project. An investor who commits capital for 20 or 30 years cannot be confronted every few years with new fundamental policy decisions that affect the basis of their investment. Reliability is therefore an infrastructure asset in its own right.

BAI Events in Fall 2026

You can once again look forward to a diverse program of BAI events this fall: Three BAI events are still on the schedule as we head into the final stretch of the year, and we look forward to welcoming you to one or more of these events.

Kicking things off on September 23 is the BAI InnovationsDay in Frankfurt, which is dedicated to current developments at the intersection of technology, digitalization, and alternative investments. The focus will include digital assets, DLT, AI, and other technological developments, as well as their impact on the investment and financial sectors.

On December 2, the BAI Workshop on Sustainable Finance & ESG will also take place in Frankfurt. The focus will be on current regulatory developments surrounding SFDR 2.0, the EU Taxonomy, CSRD/ESRS, and the Omnibus initiatives, as well as their implications for investors, asset managers, and ESG reporting. Additionally, the event will address impact investing and ESG issues in illiquid asset classes and private markets.

This will be preceded on November 19 by the BAI Real Assets Symposium in Frankfurt, which this year will be entirely dedicated to infrastructure. The program will focus, among other things, on digital infrastructure, AI and data centers, Europe's energy supply, battery storage, and transportation and municipal infrastructure. It will be complemented by investor perspectives and discussions on current developments in the real assets markets.

About the articles in this newsletter

However, this newsletter is not just about infrastructure, but also about real assets as a whole. The entire real assets sector is of great relevance not only in terms of investment but also in terms of Germany's location policy. Real assets link capital to the real economy. Their economic significance therefore extends far beyond the return on a single asset or fund.

We would like to thank all the authors and sponsors for their contributions to this newsletter, which, as always, are well worth reading. I hope you had a wonderful summer break; I wish you an engaging and informative read, and I look forward to in-depth and productive discussions on the topic of alternative investments.

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