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Blackstone, Other Private-Equity Firms May Sit Out Trump Infrastructure Push.

Private-equity funds have raised nearly $34 billion for infrastructure investments in North America

Private-equity firms raised a record sum for infrastructure investment last year, aided by President Donald Trump's promise to pump $1 trillion into America's aging roads and bridges. That was the easy part. Spending it is another matter.

After lobbying the White House to create incentives for states and cities to accept more private money for transportation projects, buyout firms got some of what they sought in the administration's infrastructure plan released Monday.

But few firms believe Mr. Trump's infrastructure plan will open the floodgates for privatization deals, which have long been out of their reach because of cheap funding alternatives such as municipal debt and the challenges of navigating local politics.

Fund managers say they are mainly looking for assets that are already privately owned—such as renewable energy, railroads, utilities and pipelines—and not the deteriorating government-owned infrastructure like roads and bridges that helped attract the capital in the first place. To the extent they are interested in public assets, the focus is more likely to be on privatizing existing infrastructure than on new development—the heart of Mr. Trump's push.

That is the paradox of the administration's plan: It creates incentives for investment that most infrastructure funds aren't much interested in, and never really have been.

Take Blackstone Group LP. The private-equity firm plans to raise as much as $40 billion for North American infrastructure, but may devote only 10% to public assets, according to a person familiar with the matter. Other prominent infrastructure investors such as Macquarie Group have similar targets—if they target public assets at all. Macquarie, Carlyle Group LP and KKR & Co. are among the firms that have been raising infrastructure funds.

Concentrating their firepower on private assets could mean more competition, higher prices and ultimately lower returns for infrastructure funds. That has some deal makers warning of another false start for the U.S. infrastructure market after poor performance in the wake of the financial crisis.

"Most firms are probably scratching their heads, saying, 'how do I put the money to work apart from buying existing assets and paying high premiums?'" said Roger Wood, a Moelis & Co. infrastructure investment banker.

Private-equity firms raised a record $33.7 billion for North America-focused infrastructure funds last year, according to Preqin. That brought the funds' infrastructure-focused capital to roughly $70 billion, a figure that is up more than 40% since the end of 2015.

Those numbers don’t include Blackstone’s fund.

“The extensive discussion of infrastructure during the presidential election created a significant amount of excitement about the sector,” said Mike Parker, U.S. infrastructure advisory leader at EY. “And you’ve seen significant fundraising on the backs of that.”

U.S. infrastructure has been a tough nut for investors to crack. The U.S. market is the largest in the world for privately owned infrastructure, but it also is behind other countries when it comes to privatizing critical transportation assets such as roads and airports. Unlike other countries in which the federal government often has more control, decisions about how U.S. infrastructure projects are financed are often made at the state and local level.

The U.S. also has a larger and more liquid municipal-bond market than other countries. While voters tend to support transportation-spending ballot measures, the idea of giving Wall Street control of key highways or ports is often a hard sell.

That makes buying or leasing public infrastructure assets difficult for private investors. Deals often take years to get done and are notorious for falling apart at the last minute when an administration changes or legislatures reverse course.

Mr. Trump’s plan would streamline the permitting and approval process for new projects, but not do much to change the dynamics of leasing or selling existing assets. The 53-page plan allocates $200 billion of federal spending to new infrastructure projects over a decade. The administration hopes state and local governments and private investors will provide the remainder of the tab, subsequently raised to $1.5 trillion.

These and other provisions could change considerably—or die—as they wind their way through Congress.

Still, the anticipation of the Trump plan appears to have helped Blackstone land a commitment of up to $20 billion from Saudi Arabia’s Public Investment Fund, or PIF, last May. When the investment was announced, Yasir Al Rumayyan, PIF’s managing director, said it reflected “our positive views around the ambitious infrastructure initiatives being undertaken in the United States as announced by President Trump.”

Blackstone, whose Chief Executive Stephen Schwarzman headed Mr. Trump’s policy advisory council of executives until it disbanded in August, has said the firm’s talks with PIF began in May 2016—before Mr. Trump was elected. The firm is now in the initial phase of raising as much as $20 billion to match PIF’s money.

“[I]t’s very fudgy, historically, trying to do things with the public sector,“ Mr. Schwarzman said on an analyst conference call Feb. 1. Legislation that encourages private infrastructure investment in public projects “would be sort of a cherry on a sundae for us,” he said.

That hasn’t stopped Blackstone from making public infrastructure projects a major selling point for its fund. In a marketing document obtained by The Wall Street Journal under a public-records request, Blackstone listed $122 billion of public-investment opportunities, primarily new projects, that could be financed with private capital.

Last month, the Pennsylvania Public School Employees’ Retirement System approved a $500 million commitment to the Blackstone fund. A memo recommending the investment cited Blackstone’s $122 billion list and concluded President Trump’s infrastructure plan “could have a meaningful positive effect” on the buyout firm’s ability to invest in the projects.

A spokeswoman for the Pennsylvania fund said the memo's intent was to illustrate "the enormous need" to upgrade U.S. infrastructure.

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