Unlocking land value to fund passenger rail

In 2007, the National Surface Transportation Policy and Revenue Study Commission Passenger Rail Working Group (PRWG) presented to the 109th Congress a plan for a national intercity passenger rail system that connects major population centers and serves rural areas throughout the 48 contiguous states. But with many rail lines having been abandoned, and federal funding policies emphasizing highway and aviation systems, the PRWG estimated that the investment needed to create such a system would be $357.2 billion in total capital costs and $8.1 billion in annual operating costs, through 2050.

Regardless of what policies are adopted for passenger rail in the U.S., infrastructure investment requirements will continue to increase, and many different approaches will be needed to generate the necessary funding.

One approach is for rail operators and owners to tap into the value of existing, underutilized assets, such as their real estate holdings. Parallel Infrastructure, a national right-of-way management and infrastructure development company, believes that a material new source of financing for intercity passenger rail can be realized in this manner.

As a wholly owned subsidiary of Florida East Coast Industries with a heritage dating back to the railroad pioneering days of Henry Flagler, Parallel Infrastructure invests in and manages rights-of-way, creating significant value for both public and private owners.

Our model is unique in that we provide both the capital and resources to develop revenue-generating assets on right-of-way property, and then share the returns with the property owner. This frees the owner to focus on capital and core operations, while benefiting from a new source of revenue.

We have used this model successfully to establish asset development agreements with 31 freight railroads on more than 2,000 miles of right-of-way. We manage more than 5,000 lease agreements and hundreds of separate land parcels, including some with existing buildings or structures, sized from one to more than 300 acres that are mostly adjacent to or near the right-of-way.

Passenger revenue and government subsidies combined don’t fully meet operating and capital needs.

The opportunity to fully earn revenues from right-of-way real estate is huge. There are more than one million miles of transportation corridors in the U.S., owned principally by state departments of transportation, local governments, and private railroads.

To provide a sense of scale, assuming that these right-of-way owners could earn just $1,000 per mile from the types of revenue-generating activities we undertake, these one million miles would generate $1 billion. Such a projection is well within reason when you consider that Parallel Infrastructure is generating approximately $50,000 per mile for the 351-mile-long Florida East Coast Railway (FEC) corridor.

In addition to maximizing the monetary value earned from real estate assets and providing additional recurring revenues for right-of-way owners, Parallel Infrastructure’s best practices approach and proactive right-of-way management services allow owners to access new capital by collateralizing these predictable revenue streams.

For example, if a transit agency garnered $10 million in annual revenue from its land holdings, it could easily use that as collateral to secure $100 million in capital through a financing transaction. So, by first unlocking the value of underutilized real estate by leveraging a third-party’s capital and, in turn, leveraging the value of the annuities, an agency is positioned to take on previously unfunded or underfunded capital projects, such as passenger rail infrastructure improvements.

When you look at intercity passenger rail systems across the country, passenger revenue and government subsidies combined do not adequately meet current and future operating and capital expenditure requirements. Certainly, there are many approaches to closing such funding gaps.

But today’s marketplace indicates that proactive right-of-way management and infrastructure development can be a feasible part of financing solutions to quickly generate annuity streams that can be used as collateral to secure financing for capital projects.

By aggressively monetizing ancillary assets in this collaborative and innovative manner, intercity passenger rail systems can be financially stronger, more viable, and better positioned to leverage steady revenue streams, revive dormant assets, and ultimately thrive in ways that have not been accomplished in the past 50 years.

Frank Chechile is CEO of Parallel Infrastructure.