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Real Estate Value Capture In Railyard Restructuring

*by David Wuenscher**

UNDER THE ASSUMPTION that a major restructuring of multiple railyards has been accomplished, hundreds of acres of former yards and rights-of-way become available for non-rail use. Depending on the location within an urban area, this "new" land for re-use may provide a significant source of revenue to the railroads and may provide a significant opportunity to enhance an area's economic base. For example, in our St. Louis Metropolitan area, such a railyard restructuring could release or make available hundreds of acres of riverfront land, opposite downtown St. Louis, in the Illinois portion of this core area.

In estimating the value capture due to railyard restructuring, the appraiser is faced with a considerable task. The assignment is somewhat unique for several reasons:

1. The large quantity of land being made available.
2. The multiple ownership of this land.
3. The lack of any comparable sales of large land tracts in this type of location.
4. The element of time required for the real estate market to absorb this quantity of land.

In a railyard restructuring program, there should be developed a re-use plan for the properties to be removed from rail use. Development of such a plan should be based on thorough market analysis. These analyses would provide conclusions as to the highest and best alternate use or uses indicated for the properties. Further, estimates of the rate of land absorption for various uses would be provided. Market analyses would identify the competitive supply of land which would be considered by purchasers as alternatives to the new land supply created. Demand for land of the type to become available would be assessed, including forecasts of growth within the metropolitan area and selected sectors thereof. Finally, based on the attributes of the new land created (such as location, access to rail, highways and the river), the market analysts would then estimate the subject's potential capture of the total effective demand for various uses.

The real estate appraiser, with these market analyses and a plan in hand, would then be able to proceed with market value estimates of the properties. His approach to value will be based primarily on the Market Data basis in which he will estimate unit prices for the subject based on adjustments to the sales and asking prices of the alternative and competitive land supply, according to use.

Next, the appraiser would develop a discounted cash flow program which would reflect, among other items, the following:

1. Projected volume of sales annually
2. Cost of sales
3. Development costs, if any

The result would be an estimate of the present worth (discounted value) of the net proceeds resulting from an extended period of marketing effort under the re-utilization plan.

In this entire process of market analysis and appraisal, it must be remembered that the property being analyzed and appraised will be free of existing railyards and structures. Further, the property will be part of a new planned development with a new environment. The extent to which these factors affect the future use — and value — of the property must be carefully evaluated.

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