

Always consider growing industries and the opportunities they may present



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When asked to write an article for this special publication by the New England Real Estate Journal, I struggled to find an appropriate topic. Despite close to twenty years of real estate experience I didn't predict the demise of the mortgage conduit business nor did I foresee the credit crunch presently being felt across the industry. I also haven't created a new formula to derive an overall capitalization rate and haven't developed an alternative method to value real estate. Nonetheless, I was

determined to find something useful to report even if it wasn't an earth shattering revelation.

With more questions than answers and the Thanksgiving holiday providing some additional free time I ventured to the great outdoors, dog in tow, for a leisurely hike. Our hike took us to an open field that bordered the former Boston & Albany railroad tracks that are now owned by CSX. In a span of fifteen minutes two freight trains barreled through, each with approximately 75 cars. A short while later we stumbled upon a little used spur that connected with the double-tracked CSX line. Hiking south along what I assumed was an abandoned line we came across a small freight station that to my amazement didn't exhibit any deferred maintenance let alone the usual derelict and abandoned appearance of many railroad related buildings throughout the country. In fact, this one seemed to get quite a bit of use as attested by the lack of rust on the top of the steel railheads and clearly an expansion of the building to increase its capacity to handle two box cars instead of one. Curiosity, and my companion's bounding through the brush along the right-of-way, propelled me further south along the tracks.

There was nothing but woods, brush, and marsh, and occasionally an older residential home barely visible through the trees for the next mile. Then we saw it. The extended nose shrouded in blue tarp to protect it from the elements; steel wheels and trucks exposed; painted green metal sides; hand rails and steps leading to a walkway alongside the nose; more steps leading to the interior cab. Here was the engine and heartbeat of this small branch line that hadn't disappeared like so many other lines that have quietly vanished over the past few decades.

Back home and still intrigued by what I saw, a little research revealed that I had come across the Grafton & Upton Railroad, a 16-mile, Class III short line that extends from North Grafton south to Milford. John Delli Priscoli, a Marlborough based real estate developer and owner of First Colony Development, intends to reopen the line for freight

traffic (only the northern one mile of the line is operable). Reportedly, the Grafton & Upton line attracted his interest because it connects two larger lines in Worcester and Franklin that move a considerable amount of freight traffic. With the cost of transportation increasing, he sees railroads as a growth market.

Okay, when someone mentions "growth market" in today's economic malaise its worth listening. With Mr. Priscoli's words still reverberating I wondered if he was on to something and decided to investigate further. According to the Association of American Railroads (AAR), in 2007, the 565 freight railroads operating in the United States had aggregate freight revenue of nearly \$57 billion. And although rail traffic was down slightly in 2007 and continues to be sluggish (mainly due to problems in the housing and auto sectors), the long term trend is upward. In fact, the U.S. Department of Transportation recently forecast that railroad demand would increase 88% by 2035 from 2002 levels. Other forecasters predict substantial rail growth, pointing to the urgent need for adequate rail capacity in the years ahead to meet that growth.

Railroads, having adapted to shippers needs, serve nearly every industrial, wholesale, retail, agricultural, and mineral-based sector of the economy. Freight railroads account for more than 40% of U.S. freight ton-miles (more than any other mode of transportation), yet it costs a little more than 50% less in inflation-adjusted terms to move freight by rail in 2007 than it did in 1981. Compared with trucks, locomotives are more fuel efficient thereby decreasing greenhouse gas emissions. Trucks emit roughly three times the amount of nitrogen oxide and other particulates that a locomotive produces. An additional benefit to the public is the reduced highway congestion and the obvious decrease in costs to maintain these roads.

In the interest of brevity, the preceding paragraphs highlight what I believe are the reasons behind Mr. Priscoli's belief that railroads are a growth market. Since railroads are a highly capital intensive business and certain lawmakers continue to push for re-regulation, I wouldn't suggest property owners and/or developers change careers. However, my advice would be to explore opportunities where warehouse, manufacturing and other industrial improvements provide reasonable access to active rail lines. Give more than a cursory look at vacant or under-utilized land parcels in similar areas. And don't minimize the value of a property with an existing rail spur just because the current tenant or occupant does not utilize rail service. With all the negative economic news thrust to our attention by an overly pessimistic media, and the very real issues affecting all types of real estate, it's important to consider growing industries and the opportunities they may present.

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