

Identifying Real Estate Opportunities in a Pandemic

By Kristine Williams

Day after day the news is filled with dire predictions of slumping volumes and impending recession that will have lasting impacts to the rail industry. As North America treads softly towards rebuilding its economy, North American railroads can cautiously look towards resuming normal operations and identifying new opportunities.

The story of railroad real estate is varied and includes chapters well beyond sidings and grain silos. Monetizing the right of way asset has taken many forms, from capitalizing on the long linear nature of rail corridors that connect major markets to finding strategic opportunities at major intersections to leveraging key land holdings aimed at attracting loyal customers. The key to finding opportunities as we move forward post-Covid will be to capitalize on the investments made before the pandemic and be creative and open to new ideas.

The build out of the nation's fiber network – critically important as we continue working remotely from our homes – would be a short story without the partnership with railroads and their corridors. But the fiber technology is changing almost as quickly as pandemic news and new builds are fewer and fewer. So we must look to new technology and changes in other industries seeking to leverage that same connectivity.

Renewable energy projects continue to find ways to leverage new technology to move energy more efficiently, reducing the chances of signal interference and risks of heat induction beside our infrastructure. DC transmission lines have been approved across North America with an effort to export renewal energies like wind power and hydro through buried cables virtually invisible to the public eye. Installations within railroad rights of way allow transmission developers the luxury of dealing with only one land owner across the entire stretch of their project. This leads to less public opposition to unsightly towers and fewer condemnation proceedings. With a decade-long lead time to design and engineer we should move these projects toward the top of the priority list while typical revenue streams are stalled to not lose sight of this new opportunity.

Signboard developers and railroads have a long-standing working relationship and the development of signboards on railroad property was a topic recently discussed at ARDA's Executive Forum in Charleston earlier this year. Those signboard companies that chose to invest in digital signboards are finding their boards dynamic and adaptable to the changing environment. National advertisers are leveraging the digital signboard offerings across the railroad network to bring real time information to their customers about changing practices and offerings specific to the region. We continue to see strategic new builds and digital conversions across North America to support build out of the digital network. Communities more and more are viewing digital signboards as opportunities to communicate with their residents and educate the community in times of crisis. The benefits realized in these communities during the pandemic could result in continued growth of this niche of the industry by leading to a streamlined, less controversial approval process.

While intermodal volume has been decimated due to impacts throughout the supply chain and oil prices have hit historic lows, the agricultural segment continues to be a bright spot for the railroad industry.

Canadian railroads in particular are moving record amounts of grain from the Canadian Prairies. Key investments into infrastructure improvements throughout the network and the delivery of high capacity rail cars have been leveraged to see a record first quarter of 2020. Though the investments were primarily made prior to the pandemic, Class I's are in a unique position to capitalize on improvements throughout the supply chain despite the disruption to daily activities. With the continued flow of agricultural products in and out of North America, opportunities to work with our well-funded partners on capacity expansion projects should be considered.

The influx of PSR plans has led many Class I's to see surplus property across the rail network. Pricing former railroad property for commercial development is difficult in times of certainty and market stability. In the current environment commercial real estate simply does not know what to do. Industry experts do not know how to price available properties. Buyers are looking for deals and sellers are looking to retain their asset value. Railroads would be wise to consider they have held these properties for years, avoid the urge to fire sale assets, and focus instead on leveraging them for freight growth.

Although railroads host large tenants in strategic locations, we are primarily landlord to small businesses across our networks. From rural agricultural distributors to urban parking we touch every segment of the real estate industry in some way. Both the United States and Canadian governments have developed rent assistance programs to help small businesses make their rent payments. The execution of the policy places a large responsibility on the landlord to execute in the short term but maintaining the viability of these tenants should be paramount when evaluating the applicability of this program. Railroads should look at the programs as opportunities to support small business tenants, especially in markets with no alternative tenant in sight, by securing most of the rent receivable in the short term while also implementing a plan to maintain the tenant in the long term.

Across the industry the future is uncertain. Decisions are being deferred and deliberate change is being avoided as organizations look for indications of recovery. Do not fall into the trap of trying to maintain status quo. Nimble and progressive thinking is needed to position the railroads to capture new opportunities in this extraordinary time.