

RAIL CORRIDOR VALUATION: STAYING ON TRACK



PRESENTATION BY

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AltusGroup

1. Corridor Fundamentals

- Definitions
- When is a corridor not a *Corridor*

2. Basic Principles

- Highest and Best Use
- Alternate valuation methods
- Valuation challenges

3. Case Studies

- Canada Transportation Agency Decisions
- Acquisitions

- 4. Case Studies – Selected Altus projects**
- 5. Selected Railway Corridor Sales**
- 6. Questions**

Definitions

- “A strip of land used for transportation or transmission purposes (e.g. rail, highway, power, information, slurries, liquids.)”

The Dictionary of Real Estate Appraisal Fifth Edition

- “...a long, narrow strip of land or property rights for which the highest and best use is to provide an economic or social benefit by making it possible to connect important end points, and sometimes serve intermediate points along the way, or providing a passage through an area congested by intense real estate development or obstructed by severe topography.”

Arthur G. Rahn

Features

- **Special Use or Special Purpose property**
 - One legal parcel or assemblage
 - Long, narrow shape
 - Specialized site preparation features
 - Limited market
- **Connects end points**
- **Scarcity**
- **Property provides special benefits**
- **Cost Avoidance**
- **Demand**

Corridor Fundamentals



Highest and Best Use

- Will determine valuation method
- Provides guidance for Corridor Factor
- Demand issues are important
- Defining economic feasibility may be challenging in urban areas

Economic Feasibility

Now



Then



Across the Fence (ATF) x Corridor Factor

Net Salvage Value

Direct Comparison

ATF x Corridor Factor

- Used if HABU is corridor
- Based on value of adjacent lands (whatever their HABU)
- No adjustments for size, shape etc.
- Typically done in segments
- Corridor Factor reflects cost saving, assemblage etc.

Working Definition

“the market value of an asset less the costs associated with its disposal. These costs can include, but are not limited to, sales commission, track removal, disposal and environmental remediation.”

Net Salvage Value

- Typically follows discontinuance proceedings (Section 145 Canada Transportation Act).
- Valuation considered by Canadian Transportation Agency
- NSV not defined in legislation
- Applies to tangible assets (track etc.) and land
- Typically used in discontinuance process
- Pragmatic determination required of alternate HABU
- Break-up value and resulting *en bloc* value
- Risks and costs

CTA Case Study – Okanagan Subdivision



Okanagan Subdivision:

- Refers to part (around 15 miles) of line between Sicamous and Armstrong
- Total line reportedly acquired for \$6.5m in 2017
- CTA decision (2013) referred to southern part
- Hearing under discontinuance provisions of Act
- Appraisal on behalf of railway at \$16.5m
- Submission by RDNO \$2.8m less ALR costs
- CTA based value on appointed appraiser - \$1.8m

CTA Case Study – Okanagan Subdivision

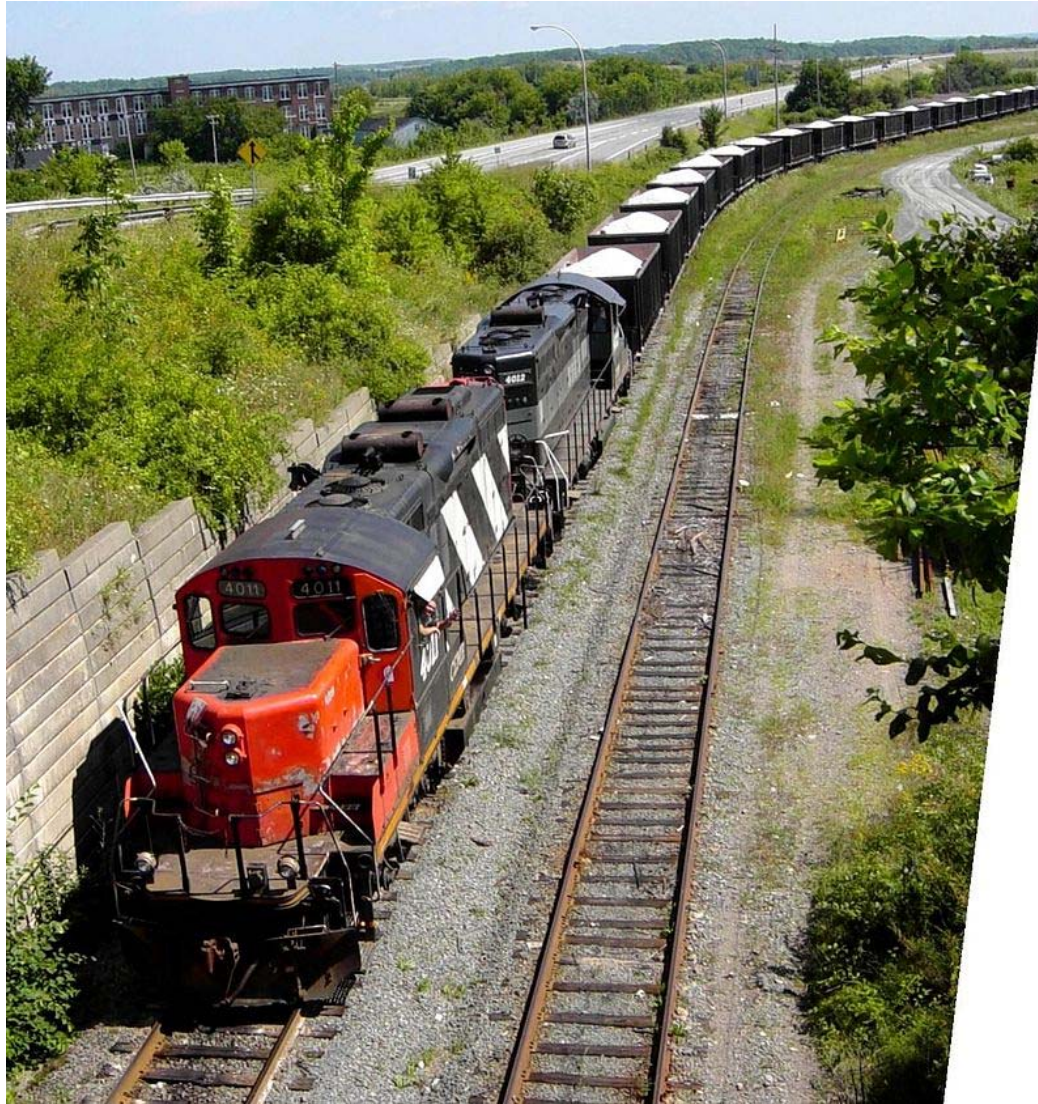
Issues:

- **HABU – Corridor or “break-up”?**
- **CTA decided evidence indicated no corridor demand**
- **Rail company’s submission of industrial value or ATF plus enhancement factor rejected.**

Valuation based on “ATF” less 75% discount to reflect:

- **Land Use regulations (ALR; Zoning; Riparian)**
- **Land Titles problems**
- **Environmental**

CTA Case Study – Windsor and Hantsport Rly (CN)



Windsor and Hantsport Railway

- 31.58 mile corridor between Windsor Junction and Windsor
- Serviced former gypsum quarry; no traffic since 2010
- CTA decision (2013) based on their appointed appraiser's opinion - \$590,000
- HABU not corridor
- Break-up value discounted for marketing, sales, fees.
- CN suggested \$1.91m based on ATF value with no discount or enhancement
- Appraisal for W&H (former operators) at \$400,000 based on average of break-up value and comparable sale.
- W&H currently (2018) negotiating to purchase.

Railway Corridor Sales...In Vancouver, BC



Arbutus Corridor

Vendor:	Canadian Pacific Railway Company
Purchaser:	City of Vancouver
Sale Price:	\$55,000,000 (plus CP Option)
Environmental Responsibility	Purchaser
Sale Date:	March 2016

Issues:

- Status of discontinuance process – and applicability of Section 145

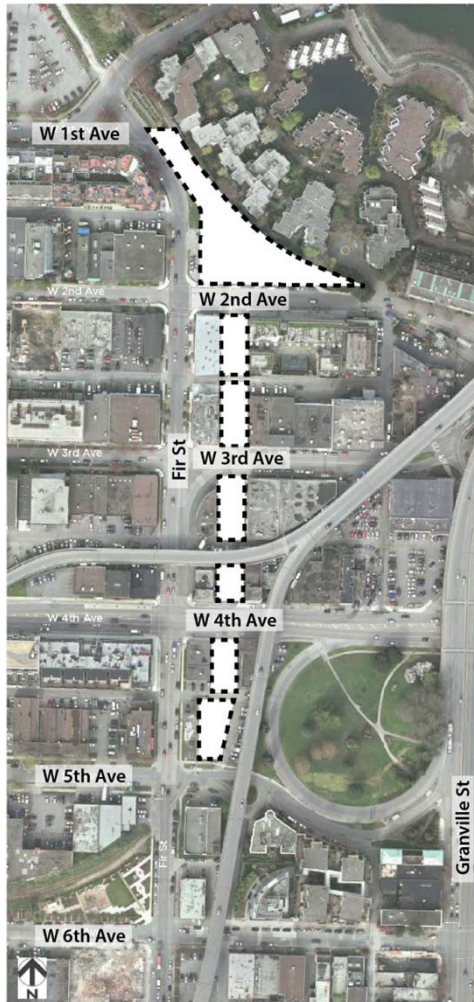


Issues:

- Impact of ODP on value
- Purchase Agreement provides for additional payment
- If “Excess Lands” sold, CP receives:
 - 75% of first \$50 million
 - 50% of next \$50 million
 - 25% of next \$50 million

OR

CP may exercise option over “Option Lands”



- Not required for Greenway or transportation
- 1.53 acres
- Option price - \$1
- ODP amended
- Environmental remediation costs shared by City and CP

Influenced by (*per Rahn*):

- Importance of end points and other points along the corridors
- Density of development along the corridors and general level of ATF value along the corridors
- The demand for corridor use in each location and availability of substitute corridors
- Length
- Width, related to use
- Straightness and curvature grade, particularly as compared with surrounding terrain and site preparation implications
- The number of parcels that might have to be acquired to assemble a substitute parcel

Other Considerations:

- Demand and potential revenue for other uses
- Encumbrances
- Maintenance of operating rights
- Method of determining “ATF” and whether there is agreement between parties
- Corridor within a corridor
- Bargaining power of the parties

Corridor Factor



Canadian Examples:

1. Operating rail line purchased for commuter rail
2. Discontinued rail line purchased for road
3. Operating freight line purchased for removal of freight activity from downtown
4. Parts of operating rail line purchased for rapid transit
5. Operating rail line purchased for light rail
6. Operating line purchased to preserve corridor for future rapid transit

Range: 0.9 to 1.3

Publications

Clifford Zoll : Appraisal Journal October 1991:

Liquidation	0.25–0.50
Continued use	1.00–1.74
Acquisition	4.00–6.00

Hunsperger , McGuire and Throupe: Appraisal Journal Summer 2012

“...those purchased by railway/transportation companies tend to cluster around 1.20–1.30, but some may approach 1.50 or greater.”

Corridor Factor – Caution!



Negotiations affect the outcome

Analysis rather than anecdotal evidence preferred



Fibre Optic right of way running along Rail Corridor from Toronto to Montreal



Introduction: Rail Corridor from Toronto to Montreal

- **Purpose:** assist client in negotiations with landlord for renewal of a license
- **10 separate rail corridors:**
- **7 in southern and eastern Ontario**
- **3 in Quebec**
- **+/- 380 miles of track (based on the one foot width of fibre optic cable)**
- **across the fence valuation**
- **issues**

Dufferin Wind Power Corridor – County of Dufferin



Introduction: Dufferin Wind Power Corridor – County of Dufferin

- **purpose: to assist Dufferin Wind Power Inc. in their negotiations with the County of Dufferin**
- **easement**
- **new transmission line**
- **32 miles**
- **across the fence valuation**
- **issues**

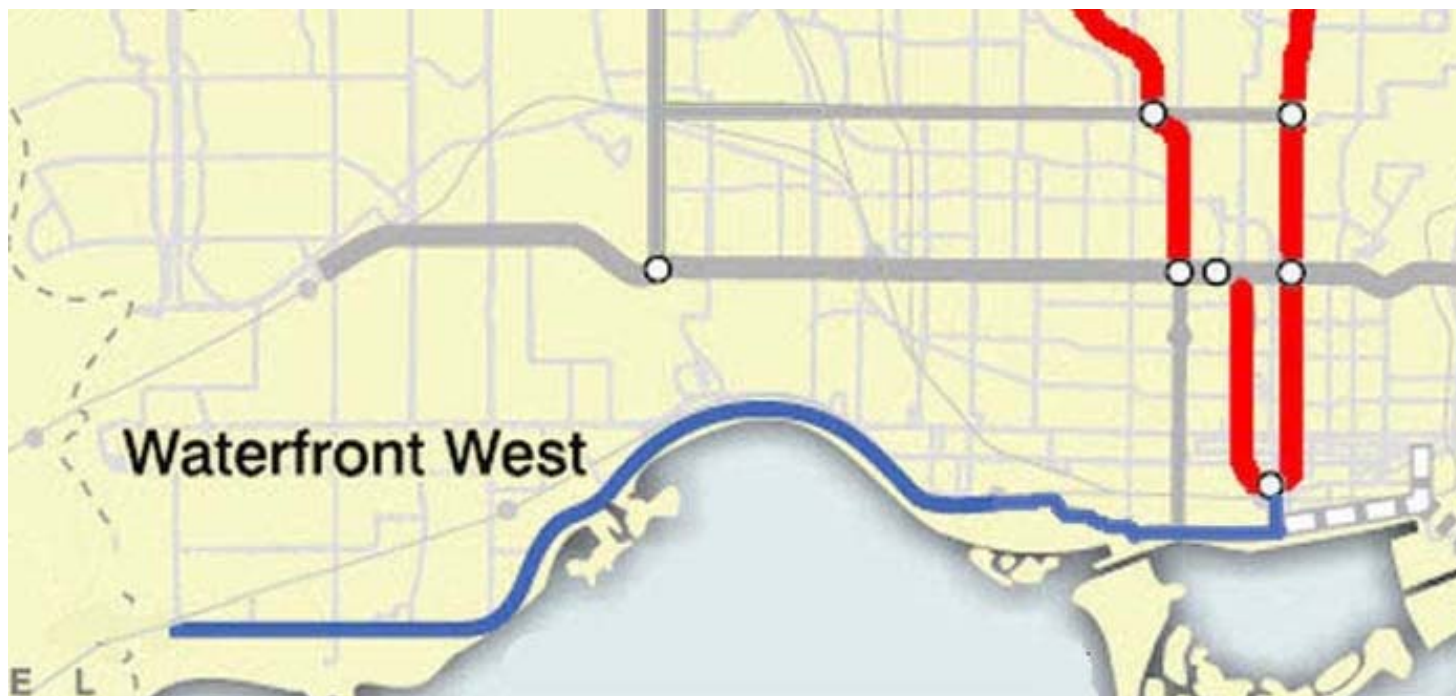
Toronto Lakeshore East to Pickering



Introduction: Railway Corridor from Toronto Lakeshore East to Pickering

- **purpose: to assist Metrolinx with purchase**
- **CN Rail Line from Toronto to Pickering**
- **18.6-miles – 36 sections**
- **281 acres**
- **across the fence valuation**
- **issues**

Railway Corridor Sales...In Toronto, ON



Portions of the Lakeshore West Line	
Vendor:	Canadian National Railway Company
Purchaser:	Go Transit
Sale Price:	\$163,680,400
Sale Date:	April 2010

Source: RealNet

Railway Corridor Sales...In Calgary, AB

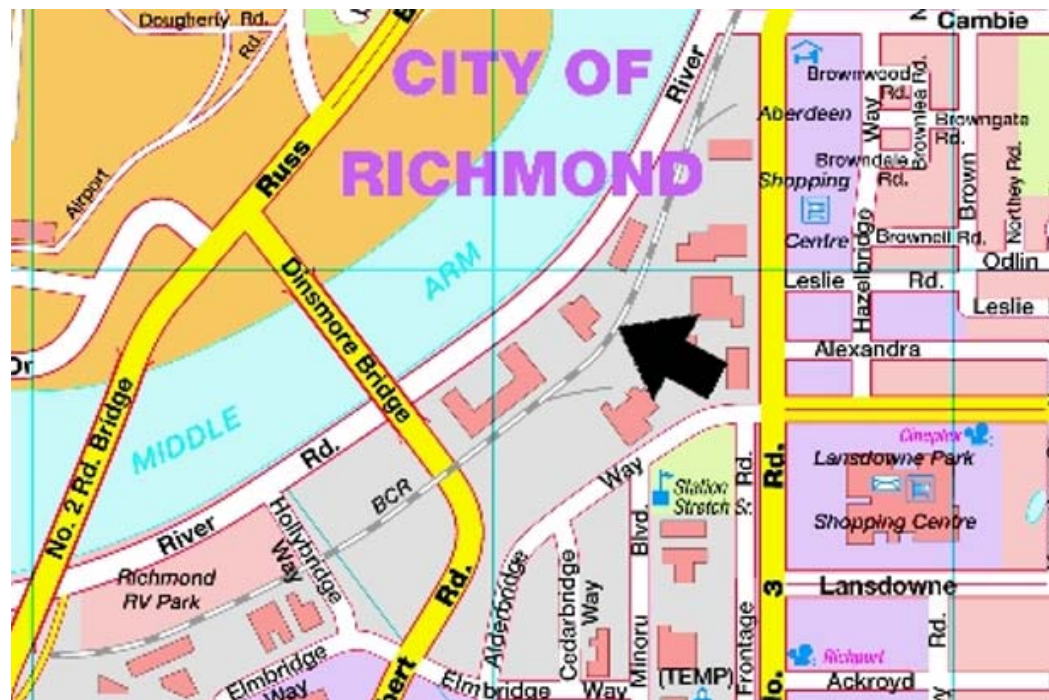


Alyth/Bonnybrook (Green Line LRT Lands)

Vendor:	Canadian National Railway Company
Purchaser:	The City of Calgary
Sale Price:	\$39,000,000
Sale Date:	April 2018

Source: RealNet

Railway Corridor Sales...In Richmond, BC



Van Horne Spur Line

Vendor:	Canadian Pacific Railway Company
Purchaser:	City of Richmond
Sale Price:	\$21,258,725
Sale Date:	December 2005

Source: RealNet

Questions?



For More Information

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