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FEC may sell land near airport

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Land in Miami's industrial hotbed Airport West is in short supply, forcing values to jump and developers to start looking east of the Miami International Airport.

Now, land owner Florida East Coast Industries is examining whether it can ease the tight market and bring more value to its shareholders.

Top managers at FECI (NYSE: FLA) are considering whether to put a portion of its 350-acre Hialeah rail yard in play.

"We're looking at redesigning the yard to free up a substantial piece of it and put it up for development," Robert W. Anestis, chairman, president and CEO of FECI, said from a second-story conference room with a sweeping view of his Hialeah rail yard filled with car loads of gravel and freight.

Discussions about the potential change are still embryonic, said Husein Cumber, assistant VP for public affairs at FECI. That means no consultants have been hired yet.

Commercial brokers said the land would be prized if put on the market, and Anestis foresees a transformation. "A railroad is an obstacle that a community has to build around," Anestis said. "When the obstacle is removed, the community changes."

Anestis has a track record on the issue. At the Chicago Northwestern Railroad he was a financial consultant and led an effort to consolidate operations to free up redundant assets. He's also been a consultant to some of the nation's larger railroads.

"The opportunity exists because he's done it before and the assumption is it is possible here," Cumber said.

The first step toward development is to examine the impact of such a redesign on the freight operations of the railroad and if that's judged possible, a cost analysis would come next, Cumber said. Carloads of Rinker Materials' rock and minerals go out at night and trains full of automobiles • up to 250,000 a year • come in by day.

Reconfiguring the operation in Hialeah means those functions go somewhere else.

"You have to figure out what can you isolate from Hialeah and where can you make up for that in the railroad network," he said. "Hialeah still continues to remain essential to the freight so any decision on the future of the rail yard would have to have no effect on ongoing operations. It's a mature railroad that's using all of the rail yard now."

Tangible assets

The St. Augustine-based holding company operates the FEC Railway and subsidiaries in commercial development, freight shipping and telecom.

Since Anestis' arrival three years ago, FECI has undergone change and reorganization geared toward increasing shareholder value and maximizing return on its assets, valued at \$1.2 billion.

"I felt a portfolio of this value could best be managed by our own people in an entrepreneurial way," he said.

Under its Flagler Development Co. arm, FECI has a 15,700-acre land portfolio along Florida's east coast with nearly \$64 million of surplus land listed for sale. The FEC Railway has 1,241 acres of land assets being held for sale, lease or development.

But the company has encountered some slow track as that strategy plays out.

It had to take a \$110.2 million charge for restructuring and asset impairment after pumping in \$350 million into its Epik Communications telecom subsidiary. That resulted in a \$69 million loss in 2001.

The stock (with a 52-week range of \$17 to \$39.70) has been flat. It traded Wednesday at \$21.40.

Man with a mission

Anestis came to the company with years of experience in asset evaluation and monetization. He said he sees a strong future for the company if it can make good decisions about using its many holdings.

To that end, 2002 has been active for FECI in the Miami real estate market.

It has 6.8 acres on the Miami River under contract and is marketing a 54-acre tract, dubbed the "Buena Vista" yard in Miami's Wynwood section. It was once the railroad's major switching point in Miami but the Port of Miami has leased it since the early 1990s to store containers and ease congestion at Dodge Island. It is one of the last remaining chunks of undeveloped land in Miami.

At FEC's Beacon Station in Medley, predevelopment is under way for 361,000 square feet of

space with plans for 4 million square feet of development after build out.

And now comes the potential of the land in Hialeah. Air travel caused the demise of train travel, but air cargo means that land Henry Flagler bought for pennies an acre 100 years ago could be worth half a million dollars an acre now.

"Over the years, there have been rumors something would happen with that parcel," said Michael Silver, a VP at CB Richard Ellis in Miami. "With the lack of vacant industrial land in the Airport West market, now is an appropriate time to bring that parcel forward."

Pricing in Airport West for well located industrially zoned sites can be \$12 to \$15 a square foot or higher, depending on size configurations or location, Silver said. Prices of \$15 to \$20 a square foot is on the higher end of the scale, he said, and a buyer would pay more for smaller tracts.

Business proximity to the airport drives demand and prices, CB Richard Ellis broker Paul Cohen said. He authored a report that says there are 821 acres now available in Airport West.

With an annual absorption of 3 million square feet, the current supply should run out by July 2006, according to a recent study by the South Florida Land Group.

There are several national real estate companies gobbling up what they can, said Ron Berger, managing director at Insignia/ESG in Miami. Firms such as AMB Property Corp. in Boston have become big players in Airport West and "are down here looking for what we can knock down and rebuild," he said.

"They are already talking about going east of the airport," he said.

"Without question, there are millions of industrial square feet available for sublease between Airport West and Medley, but not a lot of available land," Silver said.

Beacon Station at Gran Park had 20 acres on the market two years ago that sold for more than \$4.50 a square foot.

"Now it's \$9, almost double," he said.

That means if the land fetches \$10 a square foot, 50 acres at the Hialeah rail yard could unlock upward of \$21 million for FECI.

That's a nice return on land with a 100-year-old book value of pennies on the dollar.