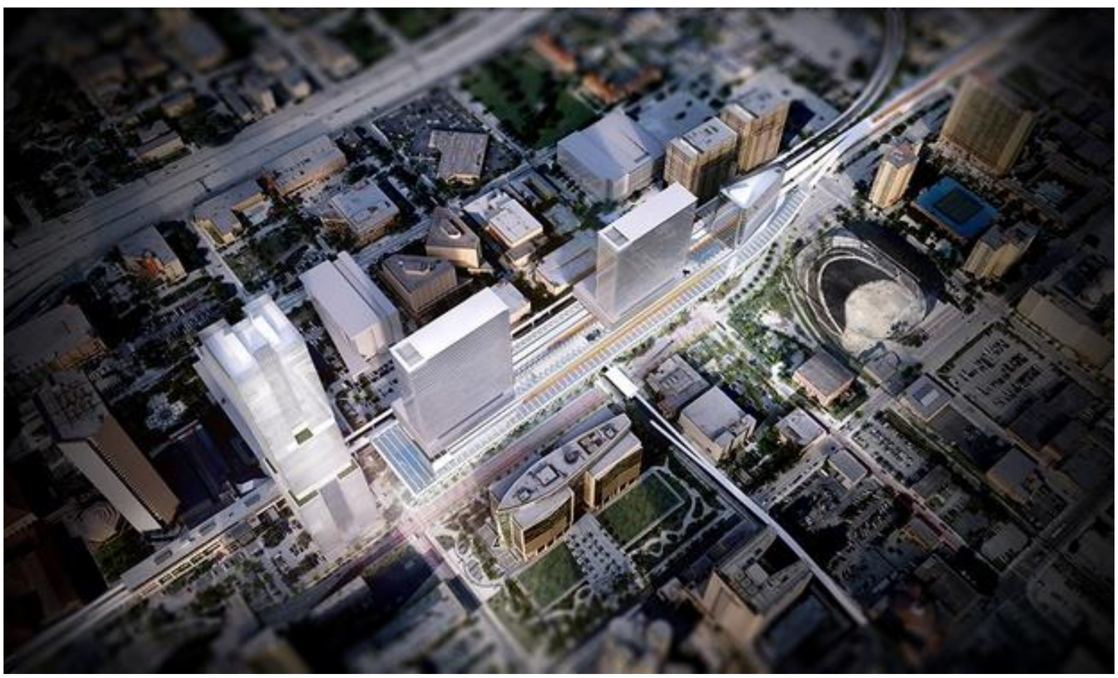
From The Atlantic
CITYLAB

The Triumphant Return of Private U.S. Passenger Rail

Can new train service between Miami and Orlando be a model for the rest of the country?

- **HENRY GRABAR**



A rendering of All Aboard Florida's rail station in downtown Miami. (All Aboard Florida)

MIAMI—Beginning in 2016, All Aboard Florida will run 32 departures a day between Miami, Fort Lauderdale, and West Palm Beach, with service extending to Orlando soon afterwards. With a maximum speed of 125 miles per hour, the trains will complete the 240-mile journey in less than three hours. In South Florida, around the three initial stations, the company will develop 4.2 million square feet of real estate. In Orlando, the terminus will be located at the airport and connect to a new commuter rail line at a sparkling, state-funded $215 million transportation hub.

It's a big project by any standard, but it looms even larger in historical context. No private intercity passenger rail line has operated in the United States in 30 years — and it has been longer still since a new service was introduced. "You'd have to go back over 100 years to find a significant investment in private intercity rail in the U.S.," says David Levinson, a transportation analyst at the University of Minnesota.

Broadly speaking, there are two reasons All Aboard Florida may be able to revive a transportation model whose decline began during the Hoover administration. The first might be called *what is already there:* a coastline's worth of right-of-way, half of Florida's population, and tens of millions of travelers on business and vacation. The second might be called *what could be there:* 21 acres of transit-oriented development in three South Florida downtowns.

Can All Aboard Florida establish a blueprint for how private freight railways, which averted financial ruin by abandoning passenger service, can profit from its revival? "If it can work there, it could work in other markets. The other private rail firms absolutely can be watching this," says Adie Tomer, an associate at the Brookings Institution Metropolitan Policy Program who studies passenger rail. "This a great test for America."

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Private, inter-city passenger rail in America has been dead since 1983, the year the Rio Grande Zephyr, which ran through the Rockies between Denver and Ogden, Utah, was folded into Amtrak's California Zephyr route. That was the final bow of a long fifth act that began with the ascent of the American automobile six decades earlier. The number of passenger trains in the United States dropped 45 percent between 1929 and 1945, and 85 percent between 1929 and 1965.

Today America's passenger trains are operated publicly by Amtrak. Conceived as a political escape valve to relieve freight companies of the burden of passenger service, Amtrak was never expected to succeed, says Albert Churella, a historian of the Pennsylvania Railroad. "It was made very clear to everybody — *wink wink*, *nudge nudge* — that in a few years we're going to shut all this stuff down," he says. Amtrak has survived thanks to its political appeal and popularity, but not because it's good business; it receives more than a billion dollars in taxpayer subsidies each year.

A rendering of All Aboard Florida's Miami Station. (All Aboard Florida)

All Aboard Florida, however, has a couple of inherent advantages. The first is in its infrastructure. As a corporate descendent of the Florida East Coast Railway, AAF owns an easement for passenger service on a long, centrally located, well-maintained freight corridor. The second is demographic. On the strength of Disney World, Universal Studios, and other theme parks, Orlando is the most visited city in the United States, with nearly 60 million tourists last year. Miami, with its global cachet and thriving cruise ship port, counted 14 million visitors in 2013. All Aboard says that there are 500 million trips made every year between its destination cities.

So AAF will set a passenger railway in motion. With 32 trips each day and a train capacity of 400 travelers, the service can theoretically carry more daily riders between Miami and Orlando than Amtrak's Acela does between New York and Washington, D.C. Tourists and in-state leisure travelers will account for nearly three-quarters of AAF ridership, with business travelers making up the rest. (It's virtually the inverse of the Acela's business-heavy traveler ratio.)

"Our expectation is that the train will be profitable, in and of itself," says John Guitar, senior vice president of business development at AAF.

It's a daunting goal. The Florida Fun Train, which ran between Fort Lauderdale and Tampa during the late 1990s, vastly overestimated tourist demand in the region and shuttered after less than a year of operation. A Congressional Research Service report estimates that ridership levels needed to justify the cost of high-speed rail start at 6 million annual riders. The maximum number of Miami-Orlando tickets that AAF can sell each year will be 4.7 million.

There is one place in America where passenger rail operates in the black. Amtrak's Acela and Northeast Regional trains, which serve the dense Boston-Washington megalopolis ands its population of 50 million, count 11.5 million annual riders between them. The Acela's operating surplus, the larger of the two, was $237 million in FY 2013.

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But Churella is quick to clarify that those figures constitute the "above the rails" profit, and don't account for capital costs like buying trains, laying tracks, and keeping the whole system in good repair. "Doesn't the Northeast Corridor make a profit?" he says. "Only if you assume that the entire physical bed just dropped out of the sky for free."

Mike Reininger, the president and chief development officer of All Aboard Florida, says building and owning infrastructure is not a disadvantage in the long run. "There are a number of these privately operated and profitable businesses in this space," he says, pointing to an Italian high-speed service, Italo, which debuted in 2012. "What's interesting, however, is that while those businesses are profitable, they're profitable even after they have to pay an access fee to utilize the infrastructure they rely on." Instead of paying such a fee, AAF will pay construction costs: building tracks and stations, and upgrading signaling, bridges, and grade crossings.

The cost of the project, says AAF, will be in the neighborhood of $2.5 billion, of which $1.6 billion is expected to come from a RIFF loan from the Federal Railroad Administration. Will All Aboard transport enough people to pay off that loan? Two years ago, in documents submitted to the Florida DOT, AAF cited a preliminary ridership study that estimated it could ultimately book 3.9 million trips each year, with annual fare revenue of $145 million. (Reininger says those figures are conservative, but declined to disclose current projections.)

Under that projection, and assuming a profit margin roughly equivalent to Acela's, AAF would pile up profits approximately equal to annual debt service on the loan. But the passenger rail business seems unlikely to meet what FECI CEO Vincent Signorella told *Florida Trends* magazine last year was the company's benchmark for investments: doubling its money.

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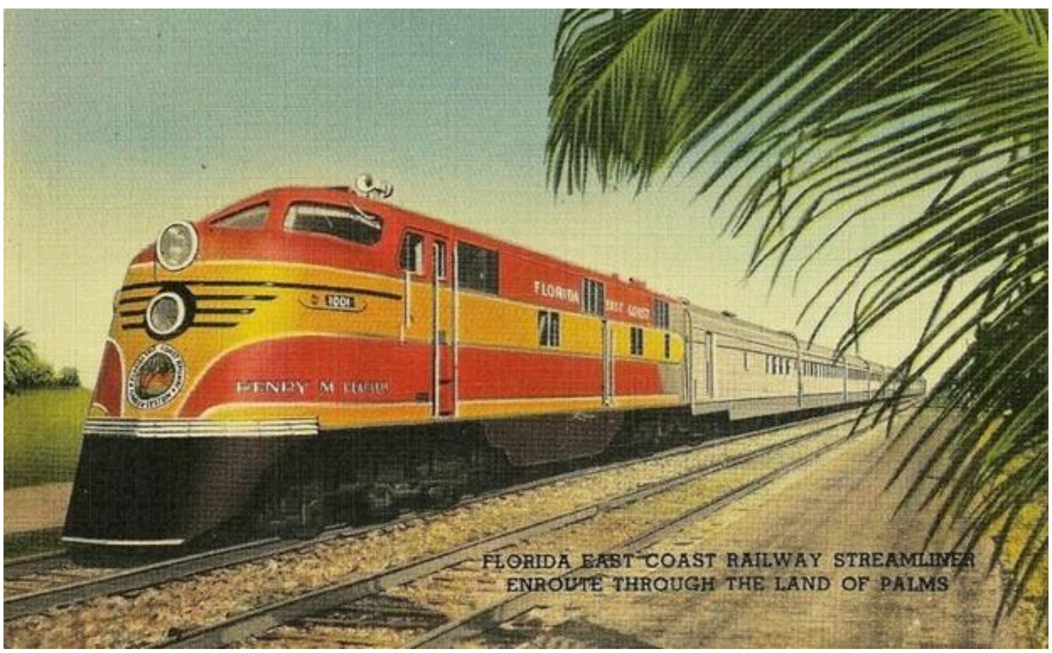
Henry Flagler, founder of the Florida East Coast Railway, has been called the "man who built Miami." There were hardly a thousand people living on the edge of Biscayne Bay when Flagler's tracks reached South Florida at the turn of the 20th century. But that, writes historian Les Standiford in *Last Train to Paradise*, was his method: "Build a railroad to a place, erect a destination-worthy resort hotel there, and other development was sure to follow." There are streets named for Flagler in nearly every town on Florida's Atlantic Coast — including the four served by AAF's new route.

"When Henry Flagler did his rail line, real estate was a big component," Jose Gonzalez, executive vice president at FECI, All Aboard's parent company, told attendees at a presentation in May. "And it still is today. He would be very proud of the way we're looking at it."



An undated postcard from Florida East Coast passenger rail days. (Wiki Commons)

Over the past few years, AAF has quietly assembled a total of 21 acres of land in the downtowns of West Palm Beach, Fort Lauderdale, and Miami. Half that property is in Miami, where the company still owns the nine acres on which Flagler's rail yards once stood. Today the site is an eight-block parking lot served by two stations of Miami's Metrorail line and two stations of the downtown people mover. To this site AAF has added an additional two acres, purchased from a Miami Community Redevelopment Agency in September 2013 for $2.7 million.

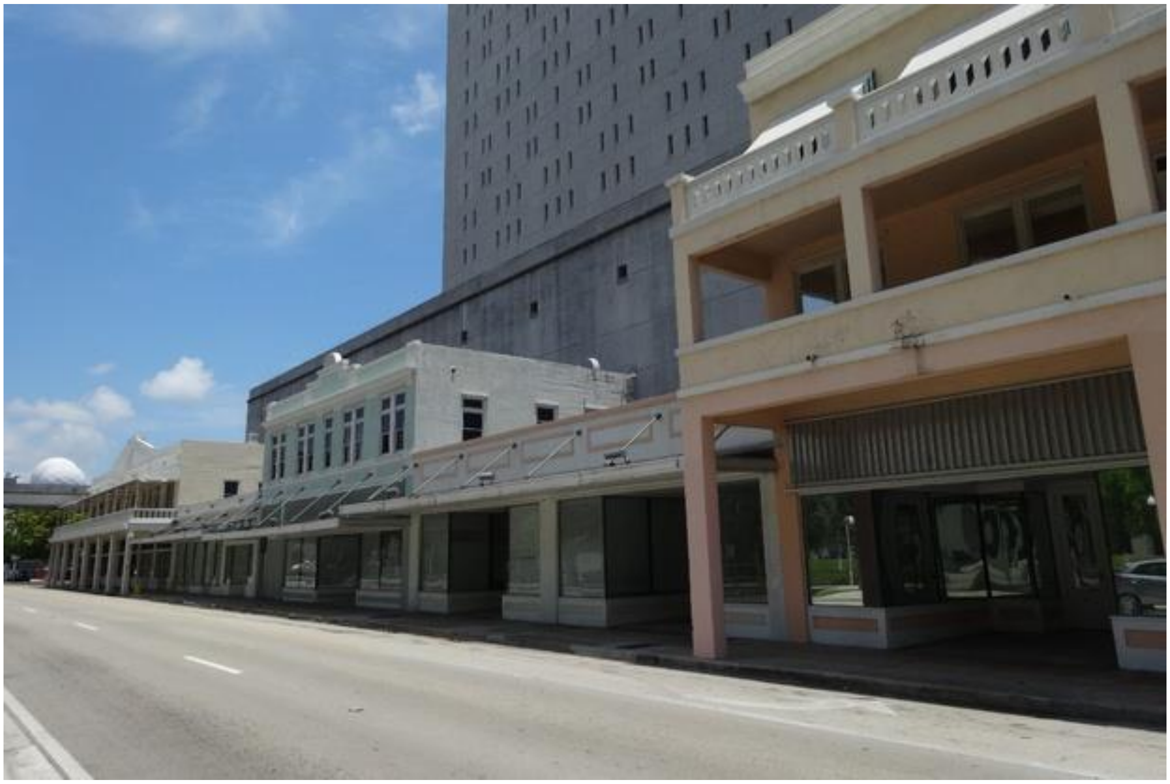
Right now the area is desolate. "Everything on this site by five o'clock is dead. All the county workers leave, and there's no life here," says Gonzalez, who described the company's plans as we drove through the neighborhood. The only residents in this part of downtown Miami are the homeless, encamped along the chain link fence that marks the northern edge of Flager's property.

When passengers begin arriving in downtown Miami on intercity trains, in 2016, All Aboard Florida plans to have transformed this neighborhood. There will be a colossal station complex designed by Skidmore, Owings and Merrill that includes a half-dozen towers, over a million square feet of office space, 1,111 residential units, a hotel, car rental outlets, parking, and blocks of ground-floor retail facing the street. (One tower, planned for 70 stories, will be among Florida's tallest.) The main station will arise at the northern edge of the property, across from Metrorail's Overtown stop, while the skyscraper anchors the southern edge. Shoppers, residents, workers and travelers will be able to walk from one end of the development to the other along an internal concourse that bridges several downtown cross streets.

Gonzalez says real estate prices have been rising around the site. "The station will not only bring the people; it will bring a mix of uses and it will help be a catalyst for all these real estate opportunities that have been, for the last decade, passed over. You're going to come back in ten years and say: 'How did this not happen sooner?' "

It appears to be a classic study in value capture, a catch-all term for the variety of practices that governments and developers use to profit from rising land prices spurred by changes both physical, such as a new rail line, and legal, such as a new zoning code. In a case like AAF's, intercity rail transforms a lifeless downtown into a hot commodity, right as transit-oriented development enhances the appeal of carless travel. "What we are really doing is building a platform comprised of two businesses," says Reininger, referring to rail and real estate. "They hold hands, exist independent of one another, but each makes the other one better."

All Aboard Florida



Empty storefronts line North Miami Avenue, one block from All Aboard Florida's future station complex (top, rendering). (Henry Grabar)

What's happening in downtown Miami is straight out of the Flagler playbook. People both inside and outside of All Aboard Florida talk about the station development as a "catalyst" for transit-oriented development downtown. On two empty acres to the west of the Miami station site, the developers Baron Channer and Don Peebles are building Overtown Gateway, which will include a 150,000 square-foot hotel, 400 apartments, and a mix of retail designed as an entertainment district. Across the street from the station to the east, a mammoth development called Miami World Center — with a million square feet of retail, a 600,000 square foot convention center, and an 1,800-room Marriott — will break ground later this year.

And yet, the underlying consensus in Miami seems to be, as the Brickell City Center developer Stephen Owens put it, that All Aboard's development is more complement than catalyst. Downtown Miami is finally filling up. The population has nearly doubled over the past decade, from less than 40,000 at the millennium to more than 75,000 today. In a city where growth is driven by mega-projects, no urban fabric is no problem. This part of the city may look bleak to outsiders, but local developers view its growth as the inevitable next step in the revival of downtown Miami.

The question then becomes: Is the value in downtown Miami being created by transit, or is it merely the fruit of a half-century of land banking? That might seem like water cooler talk for Miami real estate brokers, but the answer will go a long way in determining whether All Aboard Florida is the exception to private U.S. passenger rail or the new rule.

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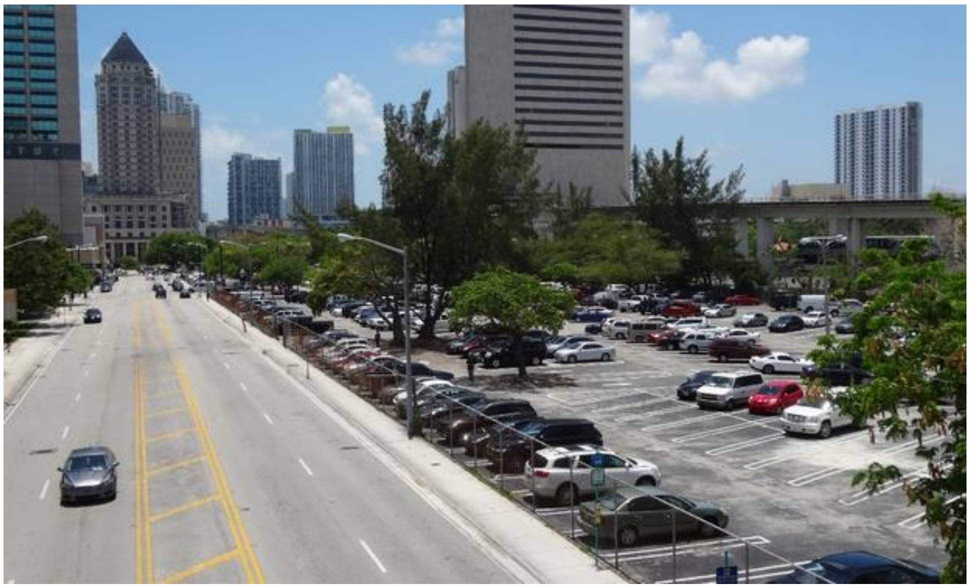
Florida East Coast Industries has the opportunity to set an example for American freight railroads, says the Brookings scholar Tomer, a Florida native who has been watching the project closely. "For these rail firms — which often also hold parcels in places, more than you'd think — that's an incredible opportunity to re-jump passenger service by being able to collect rents on their land ownership."

Unlike the activity around commuter rail, subways, and other daily-use transit, the financial spillover effect of a high-speed rail station is not clearly established. "The evidence that's looked at the economic development effect of high-speed rail has shown that there's not a whole lot of local effect," says Levinson. "A comparison is to the airport: What frequent business traveler is going to live next to the airport?"



Looking south down NW 1st Avenue, with All Aboard Florida's nine-acre Miami plot at right. (Henry Grabar)

And yet, research has shown that when high-speed rail *does* produce big gains, it's when the new station is part of a wider regeneration effort in a depressed, post-industrial center city. South Florida's hollow downtowns seem to fit that profile.

More than the flagship development in the hot Miami market, All Aboard Florida's investments in West Palm Beach and Fort Lauderdale may send a clear signal of intercity rail's capacity to revitalize a district. Land values in those downtowns are much lower than in Miami — so the value of AAF's projects there may be easier to quantify.

Expect the rest of the rail world to watch those neighborhoods carefully. In the end, any corporation trying to imitate the financial architecture of the AAF project, with its ambitious, integrated, multi-city approach, would need an understanding of whether downtown rail stations were truly causing real estate surges. Is this a project that can be replicated between Houston and Dallas, or Los Angeles and San Diego?

It's a familiar puzzle for those who study growth and development in the city. There’s no prism to split the white light of a vibrant downtown into its various components, isolating the influence of transit from long-term demographic trends, local politics, and the general revival of urban America.

All Aboard Florida may well be a success. But an example?

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