BIGGS APPRAISAL

Subjects of Value

The Inspection and Appraisal of Rail Equipment

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Inside this issue:

MEMBER OF THE AMERICAN SOCIETY OF APPRAISERS

Looking at the Fleet from 10,000 feet a 4 year perspective

A series of related occurrences created a marked decline in the numbers of rail cars in the North American Rail car Fleet over the last four years. While they were a very long time coming, the positive effects of deregulation has put the railroad industry in a period of self sustaining growth. Massive Cap X programs have improved railroad infrastructure adding capacity and removing bottle necks with the goal of improving system velocities and reducing terminal dwell times. New designs of lighter weight higher capacity cars have accelerated the obsolescence of many cars that were in what was generally considered in the prime of life "The early 20's." Car shortages caused by new business growth accounted for many older cars getting life extensions to fill the gap in new car building. A world economic crisis effectively stalled all but a slim base line of new car building for the past two years. Rail carload shipments declined in every commodity group effectively flushing the rail system of any clutter. Positive railroad system velocities and drastic reductions in terminal dwell time gave the railroads a taste of efficiencies that had never been seen before and are now driven to hold onto.

Here we are in early 2011 coming out of a recession with an expectation that the rail industry will follow the same course charted over those past remembered ends of recessions. The expectation that demand will increase, the rail system will slow down and draw in, in that exponential way an increased number of rail cars and locomotives into the system. Except for a few particular shortages of certain car types, that has primed new car building, we are not seeing any thing but modest increases in demand for rail equipment.

What happened? During the recession the railroads kept up the CAP X pace and generally got a lot of bang for a reduced buck. Less congestion on the main lines allowed more productive windows of Maintenance of Way opportunities with reduced overtime expenditures and somewhat lower prices for rail and other track materials. This allowed the railroads to remove additional bottle necks and improve overall operations. Diversions that normally occur from carload size business to truck load size as industrial production decreased was recaptured by the railroads in the form of domestic container growth. The railroad saw increased domestic intermodal container business due in large part to the drastic improvements in delivery times and reliability. The railroads are now poised to capture significant domestic container traffic as the trucking industry struggles out of the disarray from the recession.

Continued on Page Three

Sixty One years and still called Budd

The Budd in question is the infamous Budd Rail Diesel Car (RDC), the original American diesel motor unit (DMU). While the term diesel motor unit or DMU can apply to any diesel powered multiple unit rail passenger cars, the rail industry knows that Budd and Rail Diesel Car (RDC) are synonymous.

The Budd cars owe their longevity to the right combination of materials, practical engineering, ingenuity and determination on the part of Edward G Budd, Sr. and a creative staff at the Budd Company. The Budd car was born out of previous failures that were mainly related to inadequate power plants. The RDC was the marriage of the best ideas and general needs of the rail industry with a pair of very reliable General Motors Detroit Diesel V-6 diesel power plants combined with hydraulic torque converter drive systems.

Continued on Page Two

Sixty One years old and still called Budd

Continued from Page One

The Budd cars were offered at about $160,000 in the early 1950 and when production terminated in 1962 just under 400 had been built. What the purchaser got was a standardized product in 4 models. The largest and most popular group of Budd cars was an 85', 90 seat passenger car that fully loaded could start from a station, accelerate quickly to 57 MPH in the first mile, and cover 5 miles in five minutes. It could decelerate quickly thanks to disk brakes and anti skid sensors. The Budd car could be braked from 85 MPH to a full stop in 2300 feet.

The Budd car was a low cost operators dream. It could operate in either direction without turning the unit and the operator only had to carry two control handles from one end of the car to the other. They could be used as regular coaches in a standard train if need be. Built from stainless steel the car bodies have held up remarkably well. The General Motors power plants and torque converter have stood the test of time repeated times.

Whether they were called Budd cars, Highliners, Shoreliner, Beeliners, Zepherette's or just RDC the plain fact is that a simple straight forward design, that was easily accessible to repair and comfortable to ride in, kept these cars around for a long time. You can still find Budd cars for sale.

Obviously Mr. Budd could not have developed and produced the RDC with out a strong revenue source from other parts of his business. I was encouraged by the news that American companies are working to produce a modern replacement for the RDC. It was to be Born out of the Colorado Railcar DMU plans and the new American Made DMU was to be manufactured in a joint venture. Uncle Sugar was to be the deep pockets in the form of a Tiger grant. According to the Ohio Department of Transportation Rail Division the project is unfortunately dead. I was hoping that a competitive new American Made DMU would be available in what appears to be a growing commuter rail connection marketplace.

I liked the Chrysler commercial that was seen during the super bowl "Imported from Detroit" Unfortunately it is to easy to send our precious dollars and jobs off shore to countries that have the fore sight to encourage to develop modern rail transportation solutions for their own country and get those dumb Americans with the best politicians money can buy to pay for their prosperity. A recent example is the Sonoma- Marin agency awards DMU contract to Sumitomo Corp of America/ Nippon Sharyo for 18 DMU's for $56.8 million. Looking at my records for a similar new American made DMU it appears that we have priced ourselves out of the market for this vehicle by well over $500,000 per unit.

It appears that if you want an American Made DMU in any kind of quantity you will still be still

RDC — The Car You're Going To Ride In

The letters R D C stand for rail diesel car. It is the stainless steel, self-propelled railway passenger car, built exclusively by The Budd Company, which is rapidly establishing itself as the essential rail passenger carrying car.

All logic points in that direction.

On the Baltimore & Ohio, for example, two RDC's are doing the work of nine coaches and three locomotives—and increasing the patronage.

On the Michigan Central, one RDC has replaced a locomotive and five cars, speeded up the schedule between Bay City, Michigan, and Detroit, and enabled the railroad to restore rail service between Bay City and Midland that was abandoned 25 years ago.

Two RDC's are saving the Western Pacific $600,000 a year (RDC's cost about $165,000 apiece).

Eleven domestic railroads, and railroads in three foreign countries, have bought a total of one hundred and sixteen RDC's. The New Haven Railroad alone has bought forty. All this since the first RDC was built, barely three years ago.

The car has met every demand with distinction, with spectacular performance (in Australia it cut a forty-three hour schedule to nineteen and a quarter hours), and with operational cost savings that border on the unbelievable. RDC is proving to be the most important contribution to railway passenger service since the invention of the air brake. If you're not already riding in RDC's, the day is not distant when you will be.

The Budd Company, Philadelphia, Detroit, Gary.

Budd

PIONEERS IN BETTER TRANSPORTATION

[1]Sonoma – Marin agency awards DMU contract to Sumitomo/Nippon Sharyo 12/17/10 Progressive Railroading.com

Looking at the Fleet from 10,000 feet a 4 year perspective

Continued from Page One

Looking at the rail car fleet from the desk top level.

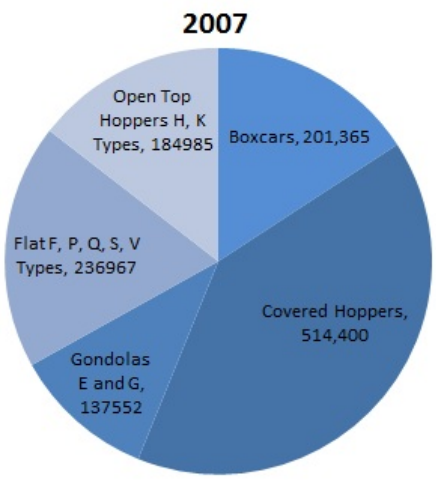
There are still significant numbers of stored cars statistically speaking. The percentage of cars that will never work again in the modern railroad industry in my estimation is pretty high. Looking at 2010 to 2011, with scrap prices for rail cars being pretty low there was a significant decline in the fleet. I would expect that a landslide of cars moving to be scrapped will occur in the first half of 2011 or as long as scrap remains over $400 per ton. It certainly would not be my recommendation to scrap certain older rail car and locomotive assets. In some cases it is appropriate to loosen the repair budget for some types of equipment because the demand is strong and supply is short.

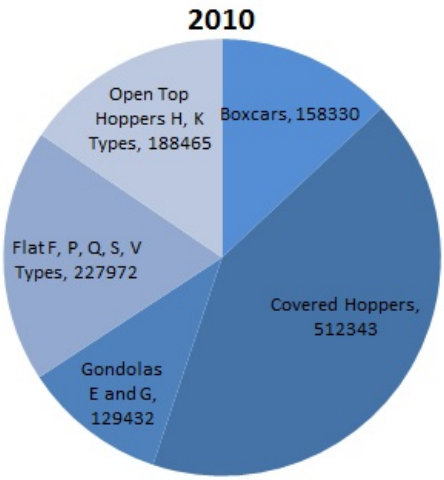
What existing rail equipment will be in demand in the near term?

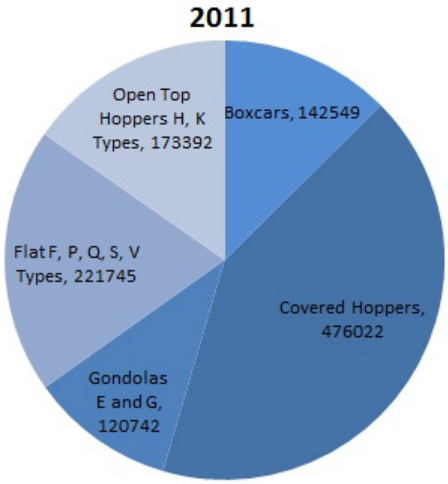
Gondolas ,short, long and tall, Flat cars plain and with special equipment, Box cars 50' and 60' plug doors 100 ton+, Open Top Hoppers, Continued pressure on Covered Hoppers in all types should keep them in steady demand. Locomotives 4 Axle in running condition are already short supply with growing demand.

New Equipment builds on the horizon as seen through a cloudy crystal ball.

Look for continued Grain, Sand and PD Hoppers large and small, additional 53' well cars, a modest build of auto racks, Plate F 286K boxcars and refrigerator cars. Look at increased additions of domestic containers and growth in refrigerated containers. Retiree replacement quantities of open top hoppers, utility coal gondolas, rapid discharge hoppers and tank cars. There appears to be no stampede towards the car builders but as expected escalations for materials, increases are already back. Expect shortages of castings and key components to emerge during the balance of the year. Make sure you give yourself some wiggle room in your promises to customers to accommodate delays in delivery.







GIVE ME YOUR TIRED, YOUR POOR, YOUR HUDDLED MASSES OF IMPAIRED AND OBSOLETE RAIL ASSETS

If you have been sitting on those old boxcars, open top hoppers, skeleton flat cars, and any number of other piece of rail equipment that will no longer make out into the interchange system the time is right. Delivered prices on rail cars in January climbed to over $400 a ton. In February they have dropped a bit but have remained near $400 a ton. Depending on what you read and who you talk to, the prognosis for March is that prices for scrap will either drop off a cliff or soar. I expect the first half of 2011 will be similar to driving in the mountains with plenty of ups and downs.

If you already have your cars to scrap list made up it is a good time to be ahead of the frenzy before scrappers get over loaded and picky. Remember the last time scrap prices for rail equipment got strong, the scrap buyers did not want anything with wood or foam that would slow down the process.

If you need help picking candidates to scrap from your stored equipment Biggs inspectors can help you.

BIGGS APPRAISAL

2255 Sumter Lake Drive
Marietta, Georgia 30062

Phone: 404.625.4059
E-mail: Biggsappraisal@yahoo.com

Our Website:

www.biggsappraisal.com

Biggs Appraisal and Subjects of Value are service products of Edward D. Biggs III, LLC. An Accredited Senior Appraiser (ASA) member of the American Society of Appraisers with a focus on rail equipment, locomotive, railcar, and maintenance of way equipment valuations. Biggs has spent over30 years in the railroad industry with a mix of significant experience with railroads and leasing companies, including experience in fleet operations, mechanical, and sales. Biggs has particularly in-depth knowledge of railcar extended life upgrade and rebuilding programs. He also researches a wide variety of subjects to support valuations, both for his own interests and those of his clients. The articles in Subjects of Value are by necessity brief and are designed to spur further conversation. Questions, comments, and feedback are always appreciated. This newsletter is aimed at people interested in the rail industry. If you wish to be either added or removed from our mailing list, please email us at biggsappraisal@yahoo.com.

BIGGS APPRAISAL

MY KIND OF OFFICE JOB

During my working career my office locations have ranged from swanky downtown office locations to little offices in towns that barely made the map. Some of the best offices had a window on the world and some of the worst were like being in a dungeon. One of the best offices offered an ever changing rolling panorama of Illinois, Delaware, and Massachusetts countryside. During that period I actually had two offices with the same view. One was roomier than the other and by today's standards they were small cramped and had minimal creature conveniences. These were after all old 1950's vintage locomotives. Go fast forward to today's modern mainline railroad power.

One of the first thing you notice when you enter the cab of a modern road locomotive is how large the cab is. Depending on the railroad the seats are of a comfort that exceed an executive office chair. The noise level is much lower than ever before as is the vibration. Heating for each crew member is all electric and many of these modern units have very substantial air conditioning. Should you get hungry your lunch is kept fresh in a very nice well water stocked refrigerator. The necessary is in its own room that is well stocked and fresh air ventilated.

The ever changing view is the best part. Depending on what part of the country you are in and of course time of year the cab crew is treated with any number of breath taking views, wild life of every sort and atmospheric events from rain, snow, Northern lights, breathtaking sun rises and sunsets.

This is a job after all and it has plenty of challenges that test your skills and experience on a daily basis. Mainline railroading today is a rigorous occupation for an engineer. He has to keep control over as much as 13,000 trailing tons, be able to defy gravitational pull in every kind of weather condition imaginable, all while safely sticking to a ever tighter schedule. Part and parcel with all of his other duties the engineer has to be gentle with the throttle to keep his train's fuel consumption within company mandated targets.

Modern Road Locomotives range across the railroads system rather than returning to a fixed servicing location. Modern Railroads have found that having large numbers of the same standard ultra reliable locomotives that are quickly fueled and serviced for their next run are a key component of high system velocities. Modern clean well appointed cabs in locomotive help reduce some of the fatigue issues and improve operational safety associated with today's mainline runs and make them an office I would have enjoyed coming to…back in the day.