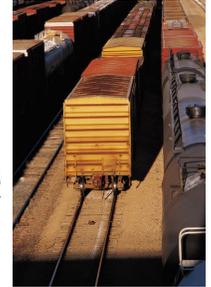




BIGGS APPRAISAL

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY



Subjects of Value

The Inspection and Appraisal of Rail Equipment

Volume 12, Issue 4

Special Edition 2017

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Turning Point Hurricane for the Railroad Industry

The destructive forces present in Hurricanes Harvey and Irma will be felt by many for many years. The damage, loss of homes, automobiles, and infrastructure is mind boggling. Relief efforts are in full swing as more and more people are looking to recovery. As one storm replaced another in the headlines the real work was getting started.

Recovery has a number of steps but one of the biggest is getting supplies in large quantities to people who will be doing the rebuilding. Railroads are a key element in any big storm recovery. Having railroad right of ways built high above typical flood

waters, as well as ample maintenance of way expertise will allow railroads to be among the first of the industries to recover in a storm stricken area.

Virtually every home that has experienced flood damage has large piles of damaged materials, wet drywall, furniture, and appliances of every sort on their front lawn. Public health being a major issue in the warm South the storm debris has to be moved quickly. If Hurricane Sandy was any example, a large number of construction and demolition (C&D) waste gondola rail cars will be needed for many years. Many of the C & D cars used in Hurricane Sandy's recovery

have long since retired or went into shredder metal service. It is likely that new cars will be needed as well as existing cars modified to meet the demand. Having so many homes destroyed will require large numbers of temporary abodes such as RV and mobile homes that could arrive on former Piggy Back flatcars.

Just like with summer allergies, congestion on the railroads from the storm recovery will take a while to clear up. Railroads will slow down during a recovery and overall system velocities on the railroads will degrade. Terminal dwell time, the time it takes a train to get through the rail yard switching process, will increase as more rail cars enter the system. During the month of August 2017 10,986 cars of all types came out of storage.

Increasing numbers of cars in the system add to congestion and require additional locomotives to be drawn out of storage plus an increase in the number of surge locomotives under lease. Train crews, many of which were in long term layoffs, will need to be

rehired and requalified before they can be productive. The rail system that has been very fluid and predictable for a long time will be heading into a prolonged period of catch up. However, due to the Cap X projects the railroads have wisely made over the years to improve their systems and remove bottlenecks we may never see the huge and memorable rail systems slowdowns of the past, but they will happen on a smaller scale.

Just because a railroad in a shipper's route slows down and shippers' cars do not return fast enough to fill orders does not mean a shipper will stop shipping. Most shippers such as power utilities have spare train sets as insurance against unforeseen slowdowns. Times like this are where their insurance cars pay off. Additional trainsets and individual cars of crude oil, chemicals, plastics, coal, and heavy capacity flatcars will be required, and these will be pulled into the mix. The numbers of cars drawn in to service will be large and will also cause additional congestion.

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Biggs Appraisal and Subjects of Value are service products of Edward D. Biggs III, LLC D/B/A Biggs Appraisal. 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. Ed Biggs has spent over 39 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. Biggs Appraisal also researches a wide variety of subjects to support valuations, both for its own interests and those of its clients. Stuart Biggs has been involved with every aspect of Biggs Appraisal's business for over 8 years and is a qualified rail equipment inspector that you can expect to see more of on inspections. Johanna Biggs Mitchell has been working behind the scenes for a couple years in research, appraisals, and inspections. 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. We encourage industry distribution of this newsletter.

Turning Point Hurricane for the Railroad Industry

The huge need for building materials of all sorts will pull the stored centerbeam flatcars and other flatcars as well as boxcars out of storage. The requirements for cement will increase demand for small cube covered hoppers to carry cement sand and light weight aggregates used to make cement blocks as well as poured foundations and driveways. As of September, there were few modern small covered hoppers in storage. It is likely that new cars will be required and even older 263,000-pound gross rail load small cube covered hoppers will be needed back in service.

Asphalt for road repairs and driveways requires oil, sand, and aggregates as well. There are no large numbers of asphalt tank cars in storage today. Rather than building new tank cars this might be a great time to look at those late model stub still 30,000-gallon former crude oil cars. These are the cars that require modifications and conversion to meet the new DOT regulations for use in crude oil service can be candidates for a more needed service by replacing the tank with a smaller tank and potentially gaining new car status.

Early estimates said that more than a million vehicles were damaged or destroyed in the two hurricanes. The demand and pressure on the auto rack fleet will most assuredly increase dramatically.

Currently, there is 20% of the North American Rail Fleet's 1,630,226 cars in storage. As the hurricane recovery process picks up speed it is not hard to

imagine that the numbers of cars needed will increase and those storage numbers will decrease rapidly.

There are additional tropical storms on the horizon and gearing up now may help avoid the rush and shortages of equipment that are very likely to occur. Increased spending on servicing stored locomotives and rolling some portion of them on to the ready tracks is already happening. The same applies to railcars that had been stored with deferred repairs. The calls will be coming based on the magnitude of the two current disasters. Even older rail car equipment that might have been scheduled for retirement might warrant a second look, as existing equipment is a lot easier to get into service than building new cars.

The devastation wrought by Harvey and Irma could potentially be a turning point for the railroad industry if the recovery is handled properly. It may just allow the railroads to return to being the darling of both Wall Street and the eyes of the American public. If nothing else the railroads' smart move to hire military veterans will pay off with people who know how to get things done under the most adverse combat like conditions. We all know the railroads "can handle it", but how long it takes to get up to flank speed is the real question. If history is any example, bank on it taking a while!