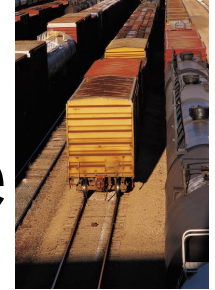




BIGGS APPRAISAL

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY



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What is the best replacement for a 50-foot 70-Ton Plate C Boxcar?

By Edward Biggs

The conventional railroader thinking is the best replacement for a 50' 70-ton plate C boxcar is a 50' or 60' Plate F TTX standard boxcar.

Sometimes unconventional thinking is a better solution. The current 50' 70 Ton boxcar fleet is down to a rationalized size of 46 Equipment Type Codes (ETC) or AAR Car types that total 25,688 cars. This fleet of 50' boxcars currently handle commodities that both cube out and weight out with a modest amount of dunnage and work on railroads that might have older facilities with clearance issues, and/or track and bridge weight restrictions. In non-railroad parlance "A darn near perfect fit is the 70 ton 50' plate C boxcar".

The problem is these darn near fit

boxcars are aging out at a rapid rate. They also have potential problems that have been created by longer train lengths, such as underframe and draft gear failures in the form of pull-aparts due to train handling. Let's not forget old doors that are hard to open. While the modern Plate F 286K car is an ideal solution to the age and structural failures issues, some will argue it is a bigger and heavier car that has a lot of wasted space for a lot of shipper's commodities.

While the railroads have been rapidly moving to the modern standard of a 286,000-pound gross rail load on most car types, there are still many cars in the fleet that really shine at lower gross rail loads, auto racks and specialty covered hoppers being two of the largest groups.

Is a modern 70-ton plate C boxcar a viable replacement for the venerable workhorses? Is the need for roll paper going to go completely away? Amazon doesn't think so with all the corrugated boxes they ship. One car builder is building new boxcar doors; another supplier is building new 70-ton trucks. How hard is it to shorten a boxcar from Plate F to plate C in a CAD program and still retain the modern underframe and draft gear to eliminate the current older boxcars shortfalls? It seems like it would not be very hard to accomplish.

Getting someone to finance the cars with a reasonable expectation that they will make a profit is a key piece of making an unconventional solution practical. As an old timer in the industry, I remember a deal floating around about 25 or so years ago that was building new 40' boxcars. The leasing company I worked at had experts that all concurred that building an obsolete boxcar type did not make sense. Yet today there are still hundreds of these "obsolete" cars still out working thanks to Per Diem rates that gave investors returns consummate with the risk associated

with a Per Diem lease vs a promise to pay lease.

Granted, out of the current 25,000¹ plus geriatric 50' boxcars, the loads of approximately 10,000 cars could go into larger boxcars and take advantage of the increased weight capacity and space. That still leaves about 15,000 potential new 50' 70-ton cars that under the right circumstances justify a long and profitable life. The core issue is a fair rate of return to investors willing to take the risk. The shipping and shortline railroad industry see the problem as a cliff, with a boxcar shortage experienced in the 1970's repeating itself.

A letter dated July 18, 2019 from the Railway Supply Institute's (RSI) Equipment Leasing Committee to the Surface Transportation Board outlined the problem of boxcar supply.² The key points of the letter follows:

"The default rate rule provides that a railcar carrying a railroad mark that does not have a negotiated or arbitrated per diem rate will be assigned a "default rate equal to the lowest negotiated positive rate in effect for that equipment type at the end of the previous quarter."

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¹Count as of January 30, 2024 Biggs Special study of Umler Data by Gross Rail Load looking only at 220,000 pound GRL 50' cars in the A3, A4, B3 & B4 car types.

²<https://www.stb.gov/wp-content/uploads/Letter-from-RSI-to-STB-re-Car-Hire-July-18-2019.pdf>

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2255 Sumter Lake Drive
Marietta, Georgia 30062

Edward Biggs, ASA

President

Phone: 404.625.4059

E-mail: Biggsappraisal@yahoo.com

Stuart Biggs

Managing Director, Appraiser

Phone: 404.245.9638

Email: s.biggs@biggsappraisal.com

Johanna Biggs Crowley, ASA

Rail Equipment Inspection and Appraiser

Phone: 404.775.8115

Email: jbiggsmitchell@biggsappraisal.com

Edward Biggs IV

Sales Manager

Phone: 702.330.2638

Email: biggsedward@gmail.com

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 47 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 16 years and is a qualified rail equipment appraiser and inspector. Johanna Biggs Crowley, ASA has been working for six years in research, appraisals, and inspections both are members of the American Society of Appraisers. 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 added to the Subjects of Value mailing list there is a sign-up form on the front page of our website Biggsappraisal.com. We encourage industry distribution of this newsletter.



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This default rate is used to determine applicable per diem charges for each railcar unless a specific market rate is established through negotiation or arbitration. As we explained during our meetings, the members of RSI's ELC and numerous rail shippers and short line railroads have concluded that the default rate rule set forth in the ARR Code of Car Hire Rules artificially depresses per diem rates for railcars used by the railroads. This creates a significant disincentive for railcar leasing companies, short lines and shippers to invest in new railcars, and is projected to result in a shortage of general-purpose railcars (particularly boxcars) in the near future. Given that more than 18% of the boxcar fleet is projected to fall out within five years (increasing to more than 40% in the following 5 – 10 years) unless substantial investments are made, it is our position that changes to the default rate rule must happen now to avoid the significant adverse impacts associated with a boxcar shortage."

Current status of the Issue is before the Surface Transportation Board as of March 25, 2024, found in Docket No. EP 334 (Sub-No. 8A) Joint Petition for Exemption of Arbitration Rule from Application of 49 U.S.C. § 10706 and Motion to Dismiss.³

The Conclusion of this docket is: "The Arbitration Rule has not lived up to its promise of producing market-based

car hire rates that incentivize investment in an adequate supply of railcars. Instead, it has led the rail network to the brink of a boxcar supply crisis and market dominance by TTX. For the reasons in this petition, the Board should determine that material error, new evidence, and substantially changed circumstances warrant reopening of this proceeding, reopen this proceeding, review the Arbitration Rule pursuant to the procedures in Part V, and grant such other relief as it may deem appropriate."

This public record is very interesting and detailed reading for those interested in averting a shortage of boxcars. It will be interesting to see how this important matter is resolved.

Between 1979 and 1999, I worked for three leasing companies that leased boxcars to shortlines on a Per Diem basis, as well as a shortline that leased boxcars. The boxcars allowed companies with insufficient credit to get good solid equipment, allowing them to grow their business with a ready supply of equipment. Per Diem cars are a pay-as-you-use type of equipment that has a significant revenue associated with moving the load of which the Class one reaps the lion share. The boxcar investor/owner is looking for a return that is commensurate with the risk associated with pay-as-you-use equipment.

³https://dcms-external.s3.amazonaws.com/DCMS_External_PROD/1711467517809/308133.pdf

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