

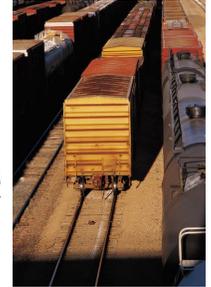


**BIGGS APPRAISAL**

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY

# Subjects of Value

*The Inspection and Appraisal of Rail Equipment*



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## Where are the Rain Maker's?

Shortly after I joined Railcar Limited In 1999, we had a motivational speaker at a company team building get together. The speaker asked everyone how they saw themselves in the company. Frank Zisak a salesman said he saw himself as the "rain maker". Frank was a big deal super salesman that worked a few very big clients with great success. He juggled a number of deals simultaneously, and held great sway in how things happened at our small leasing company. He was one of a number of rain makers at Railcar Limited-- Larry Smith, Ed Holt, Ken Roseberry, John Meade, and Tom McGraw are a few of the others. Looking back at their success, I see that the market went from weak to very strong

and then weak again. The existing cars and cars that Railcar modified to suit the customer were readily available. Frank and the other rain makers were lucky in having a strong market at one point, but they all went way past the easy deals. They explored new markets for cars and pushed the envelope to develop new business.

The rail industry is a demand driven business. When a particular commodities traffic is hot, it is generally very hot, and when it is cold it is frigid. The status of the economy, whether it slows down or picks up, can exponentially drive the demand across the rail system. The fluidity of a railroads operations typically are directly related to how many trains are moving in

the system. As additional trains are added, systems slow down and congestion increases. When a railroad system is only using 76% of the available freight cars, as we are seeing today, it can be very fluid.

When I was new in the railroad industry, my first leasing company started a rail division. They acquired existing

manufacturing blocks with a number of builders that manufactured 4,750 cubic foot grain type covered hoppers. Half of those positions had firm orders from grain shippers, and the rest were built on speculation. Enter the "Russian Grain Embargo". Who was that president? Hint: Peanut farmer, submarine captain, builder of houses for Humanity. That is when I became aware of shortline railroads and storage locations, as most of the speculation covered hoppers rolled off the assembly line right into storage. While it is easy to put freight cars into service in a strong market, it is extremely hard to place cars in a soft market. You may find that people who you spoke with regularly are not taking your calls. Fast forward to today, and they may not be taking your emails either. Be patient this to will pass. Before you take that big write down, make sure that impairment truly exists in regards to your asset. The operative word is permanent.

Today we are seeing a small cube covered hoppers in over supply. You may see shipper bankruptcies, short-term lease expiration returns, and lots of cars going into

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storage. Look at the big picture the whole rail car fleet of 1,672,349 units was showing 393,850, or 24% of those units as stored. The covered hopper portion of 572,188 units had 137,100 units, or 24% stored. Stored covered hopper cars were down 5,029 units from February 1, 2020. This is down a full percentage point. The AAR only provides storage information on major car type classifications because it deems dialing it down to the detail to be Confidential.

If you made a new car, or even late model purchase decision on railcars of any type, you were buying a 50-year life in interchange asset. As an appraiser of value, it makes me pause and think of these assets as being impaired. We have a modern design car built to load out and cube out in the most efficient way to utilize the maximum standard carrying weight allowable on railroads. These cars may have been built recently to fill orders for Frac sand, but this is a multi-commodity asset. It can also carry cement, and has done so in large quantities. According to a Biggs special study of the Surface Transportation Board Raw Data reports we use in our appraisals, small cube covered hoppers in the C112 and older C111 types are used to carry Nonmetallic Minerals or Earths, Ground, Potassium Compounds, Light. Weight Aggregates, Clays or Slags, Ashes, Apatite or Phosphate Rock, Clay or Sand, Crude, Common Salt, Blacks, Lime or Lime Plaster,

Broken or Crushed Stone, Rock Salt, Crude, Crushed, Lump or Screened, Industrial Inorganic Chemicals, Petroleum Coke, Feldspar Ground or Otherwise Treated, Waste Stream materials, Miscellaneous Metal, Crude Bauxite Ores, Glass or Glassware, Ball or Kaolin Clay, Crude, Anhydrite or Gypsum Crude, and Sand (Aggregate or Ballast)

Getting back to the 50 year life in interchange, the current modern small cube covered hoppers are part of a replacement cycle. They are replacing cars that have reached, or are reaching, 50 years in service that are required to be retired. In February of this year, the older generation cars in the C111 & C112 fleets, with 263,000 pound gross rail load standard, represented about 7,700 units built mid 1990's or before. In today's marketplace, a small cube covered hopper of 263,000 pound gross rail load that was off lease could meet the permanent impairment category requirements. Having a substantial portion of a particular fleet of cars approaching 95% of the modern 286,000 pound gross rail load makes a car of a lesser capacity harder to sell because there are so many high capacity cars available at distressed prices.

Until recently, any small cube covered hopper was in demand, and that demand was primarily to carry Frac sand. There is now have a surplus of a great vehicle for carrying a lot of heavy weight products, which is an ideal

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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 40 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 11 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 four 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 added to the Subjects of Value mailing list there is a sign-up form on the front page of our website [Biggsappraisal.com](http://Biggsappraisal.com). We encourage industry distribution of this newsletter.*

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situation for a new crop of rail industry rain makers. For many years, the rail industry has modified and upgraded railcars as the great recyclers. To many industries, the concept of having rail service is still new, and only of interest because railroads have improved service time and reliability. The small cube covered hopper already has an impressive list of commodities that it's proven it can carry. This is not all that can be carried in this modern 286,000 pound gross rail load car. Thinking out of the box on what other products this car can carry is likely to yield addition demand. In 2017, the C112 type carried about 607,000 carloads of sand in 2016 that was about 331,000 carloads. In 2019, the carloads of sand dropped off to about 440,000 carloads, it certainly did not go away. Frac sand consumption dropped off because oil exploration was curtailed. A lack of Crude demand is one factor.

However, a supply of drilled wells that were brought in but not opened is another factor that is now allowing the oil companies to curtail exploration with out diminishing what they can produce. Investors that wanted a return was another reason. Will demand recover? Does anyone in the United States want energy independence to go away? Not likely. Demand for oil will likely recover and fracking will likely continue. I am told that the wells will need to go deeper, and need more sand in the future.

Potential Rain Makers its time to get off your duffs and reach out for opportunities. A lot of companies will completely disregard my advice to "Stay the course", and will take a loss on cars. It has not yet happened to my knowledge, but the potential to increase your opportunities is there. Learn from Mr. Z and the Older Rain Makers, explore new markets and push the envelope to develop new business.

## Thank You Railroaders

Railroads are so far from public consciousness that trains of 13,000+ trailing tons pulled by four or more high horsepower locomotives can stealthily slip through their neighborhoods without notice. Railroaders are the unknown and underappreciated providers of the essential service of delivering the goods in large quantities that make America work well. On a late March rail car inspection trip to North

Carolina I saw a number of signs saying "Thank you Truckers". I just wanted to express my gratitude to my friends in the railroad industry that keep things moving every day. You are appreciated "Big Time"

-The Biggs Appraisal Family.