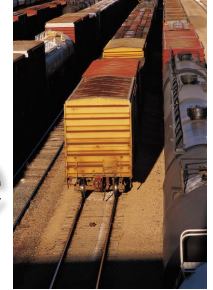




BIGGS APPRAISAL

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY



Subjects of Value

The Inspection and Appraisal of Rail Equipment

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Go Green
It's 2015!



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Opportunities in Migration

In the animal world migration is a key to survival. In the rail shipping commodity world getting the largest amount of a commodity moved safely for lowest overall cost is the driver of migration from one car type to another.

On the general freight car side we have seen a constant migration of commodities from cars with gross rail loads (GRL) of 220K to 263K to 286K and Plate B boxcars to larger sized Plate C then to Plate E and F cars. The migration of utility coal from 263K GRL cars to 286K GRL is likely higher than 95% complete. The switch from the AAR Type C113 (popularly known as the 4750) to whole grain sized C114 Covered Hoppers is just under 50% complete. New whole grain sized cars in the 5150 to 5400 cubic foot size are in current production. Building some order of magnitude of grain sized covered hoppers is a very safe bet even on speculation as the youngest of the 263K GRL C113's of the 1980's are in or approaching their mid 30's. High cost of repair or use in terminal use commodities like salt will keep the yearly attrition rate high for the foreseeable future. Small cube covered hoppers driven by Frac sand needs has seen a huge migration from the old 263K GRL C111 and C112 car types to the C112 of 286K GRL which is currently at over 80% complete.

Until recently not many people in the rail leasing and rail finance industry knew beans about tank cars. Today just about anyone currently active in rail equipment

leasing and finance knows what packing group 1 & 2 are. They can talk about DOT proposed rulemaking requirements, shell thickness, head shields, and self-closing safety valves to name a few. The profit potential related to push for oil independence and crude oil by rail as the creator of surge in demand along with accident driven Government regulations has been an excellent motivator to get educated. The drop in oil prices has added to the educational requirements of this course.

In looking at opportunities for future car investments specifically in tank cars, one might look at the migration of nonhazardous commodities from one tank car type of a lower gross rail load capacity to the next higher capacity car of 286K GRL. The reference to not knowing beans about tank cars was a segue to soybeans. Soybeans are a great large volume whole grain item that railroaders like as it moves multiple times on rail both in whole form and as oil. It moves in covered hoppers to processing facilities that press out the oil. For many years soybean oil has moved in the T107 type tank cars of 263K GRL. A no brainer migration is to move soybean and other similar oils into a T108 nonhazardous version of the tank car that all of the big builders have been building in large quantities for crude. As a nonhazardous commodity, the tank shell can be thinner allowing gallon per car maximization as well as less additional specialty additions. These tank cars can be built as follow on orders to the crude oil tanks. What kind of potential numbers are we talking about?

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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 over 38 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. We encourage industry distribution of this newsletter.

Opportunities in Migration

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Look at the chart below that shows the soybean oil carried over time in the T107 and T108 to see the potential.

Staying ahead of the rail equipment investment crowd takes a bit of effort. Forward thinking people do their research and look for opportunities before the world finds out about them. Biggs mines the data, does the research and looks for opportunities in the rail equipment space. Biggs can do that for you?

Commodities Carried in the T107 Over Time

Rank	Commodity	2013	2012	2010	1999
1	Soybean oil, crude or refined	53,504	53,906	59,388	43,280
2	Nut or vegetable oils	36,450	39,903	38,396	13,388
3	Crude petroleum	25,775	14,470	1,408	6,008
4	Petroleum lubricating or similar oils	22,177	22,687	19,400	13,280
Total For type by year		326,837	303,993	274,496	171,768

Commodities Carried in the T108 Over Time

Rank	Commodity	2013	2012	2010	1999
1	Alcohols	401,257	400,596	444,663	59,612
2	Crude petroleum	264,639	168,197	26,420	Less than 1000
3	Gasoline or jet or petroleum fuels	18,130	21,614	20,996	9,624
4	Soybean oil, crude or refined	17,836	16,409	13,248	5,620
Total For type by year		834,538	741,016	617,526	134,630

Biggs Special Study of Surface Transportation Board Railroad Carload studies 1999, 2010, 2012 and 2013