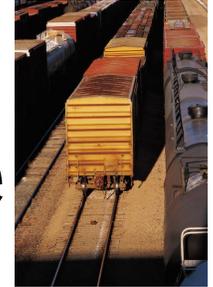




BIGGS APPRAISAL

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY



Subjects of Value

The Inspection and Appraisal of Rail Equipment

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The Recovery from Covid

As we close out an unusual year with many twists and turns it is time to look forward to what might be happening in 2021. Onward from the really dark days of the end of June when 32% of the freight car fleet of 1,668,676 units were in storage, we are seeing month over month improvements in all car types going back into service. Freight cars in storage had dropped to 26% on December 1 which is getting close to the 24% of the fleet in storage during the period January through April of 2020.

According to the Association of American Railroads (AAR) Policy and Economic Department in their December 4, 2020 Rail Time Indicators report, "In terms of correlation with GDP growth, the best rail traffic aggregation to use is intermodal plus carloads excluding coal, grain, and

petroleum products. (Carloads of those three categories tend to rise or fall for reasons that have little to do with the state of the overall economy). In November 2020, that traffic category was up 6.5% over November 2019. That's its third straight increase, its biggest percentage increase since December 2016, and consistent with a growing economy."

December 10, 2020, "Oil had a strong day with Brent rising above the \$50/bbl mark for the first time since March, led higher by improving sentiment around the vaccine and demand recovery."

Velocities on the railroads are still very high and terminal dwell times are very low. As a result of a lack of any reportable congestion. As increasing numbers of freight cars come back into the system, it is inevitable that the

railroads velocities will drop off and that will pull additional freight cars into the system.

The China agricultural deals have made grain type cars the best performers for months. During July and August, the covered hopper fleet stayed steady at 30% of the fleet in storage. As orders increased from China the covered hoppers in storage dropped to 26% reflecting the whole grain and grain mill products covered hoppers going back into service. In week 50 we are seeing that grain traffic increased 19.1% year over year.

The whole grain type covered hoppers are represented by about 76,672 older 263,000-pound gross rail load C113 type cars and about 106,547 C114 type. The older C113 cars have been retiring at a very steady rate and it is likely as the economy recovers additional C114 types in the 5,000 to 5,325 Cubic foot capacity will be needed to replace them.

We have just seen prices for scrap railcars hit \$300.00 a ton and I expect that an increased rationalization of the utility coal fleet will occur. It surprises me that there have been few conversions via rebody when all those cars have a 53' under frame and meet full 286K Gross Rail Load S286 standards. Yes! aggregates body conversions were a hit for

a while but other cost-effective conversions could happen to fill a void that we see. We have an old 1980's vintage shredder metal gondola fleet that is looking in pretty sad shape. Those older converted utility coal cars proved the concept but now we need to start replacing them with purpose-built cars, and a rebody is a very cost-effective way to do it. That same game plan would work for mill gondolas and C & D gondolas as well. The increase in scrap prices mean more scrap will be moving by rail and a smaller fleet of mill gondolas (as a result of scrapping of older cars) may be strained as traffic increases.

What about the value of railcars? As in every downturn we have seen, since Jimmy Carters grain embargo in the early 1980's, there have always been rumors of freight cars selling for crazy low prices. Sure, there are always desperate situations that a car owner may encounter that may force them to take a drastic loss on a sale. Most of the rumors are unfounded when real buyers call for more information on those supposedly distressed cars, they seem to disappear like dust in the wind. We not have seen sales of freight cars that substantially change values that we were seeing pre-pandemic.

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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 43 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 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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Potential byproduct of current scrapping activity

We are seeing increasing freight car scrapping activity of utility coal equipment. As a result of late model coal cars of full 286,000-pound gross rail load capacity (286K) being scrapped, there will be an abundance of 286K trucks available for upgrades of existing modern design car bodies that were built to 286K capacity but now are riding on and rated at 263K capacity trucks. Why would I upgrade a 30-year-old car to 286K? The old logic was the remaining 20 years of a 50-year life in interchange was not long enough to recoup the investment. Enter "Increased Life Status" rules that can allow the use of the car to age 65. If your car was already designed for 286K or was late model enough with minor modifications to achieve full 286K status your older car becomes very competitive with newer cars. Every year as new cars are built to 286K capacity the lower capacity older cars become less competitive. Many car types have already reached the tipping point where a lessee may ask you "How much will you pay me to use your cars".

Biggs Appraisal Team has grown again. One of the areas that I have enjoyed working in for most of my rail career has been leasing, sales, and sourcing of rail equipment. Seeing a real need in the industry to work off the surplus of equipment I have brought on Edward D. Biggs IV as Sales Manager to work with our existing and new client needs while expanding

the Biggs Appraisal presence in the industry. If you need any boxcars, centerbeams, or tank cars, Edward will be happy to talk with you about what we have available.

Johanna and Stuart have been busy on their professional appraisal growth in the American Society of Appraisers (ASA) as well. Johanna is an Associate Appraiser in the ASA and has submitted her appraisal for review. In short order she too will be an Accredited Senior Appraiser. Stuart's technical and mechanical savvy has supported our company growth and abilities to meet our customers deadlines in a remarkable way. He is currently a Candidate member of the ASA with over twelve years of rail equipment inspection and appraisal experience. He is working through his ASA course requirements and will soon be an Accredited Senior Appraiser. Ed the older, is still having fun but plans to actually scale back in 2021 to full time.

We wish you all the best that life can bring you for the Christmas Holidays and a much more enjoyable and Happy New Year



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