

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

**Heavy Mobile Equipment Monitor
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In this Issue:

Overview 3

Monitoring Points 4

Recent Appraisal Trends 5

Cranes and Lift Equipment 5

Construction Equipment 5

**Intermodal Freight
Transportation 6**

Oilfield and Gas Equipment 6

Rolling Stock 7

Introduction

Welcome to the December 2011 edition of the *Heavy Mobile Equipment Monitor* from Great American Group Advisory & Valuation Services, L.L.C. (“GA”). This publication will provide you with market value and industry trends for a variety of heavy mobile equipment (“HME”) assets.

The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the nature of certain HME assets, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

This issue relates information covering most HME products, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the HME industry.

GA welcomes the opportunity to make our expertise available to you in every possible way. Please feel free to contact us at any time.

This monitor provides you with information concerning the major types of assets within the HME industry: cranes and lift equipment, construction equipment, intermodal freight transportation, oilfield and gas equipment, and rolling stock.

We are always mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

GA is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *HME Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building products, food, automotive, chemicals, and plastics industries, among many others.

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EXPERIENCE

GA has been involved in the asset disposition of many industrial contractors, rental construction equipment companies, oil and gas service companies, and freight haulers. Recent transactions include:

- Affholder Construction
- Canron Construction
- Chesapeake Construction
- City of Cedar Hill
- Cook Harriet Construction
- DE Rice Equipment Construction
- Ibarra Concrete
- Joe Bland Construction
- Marine Pipeline
- Mohawk Concrete
- Pease Construction
- Pickus Construction
- R.E. Holland/American Excavating
- Rinker Material Group/Twin Mountain Rock
- Roads Construction
- SelectBuild (BMC West)
- Stigler Construction
- Super Transport
- Tamrock Drill Rigs
- U-Brothers
- Victory Industrial



In addition, GA have conducted a wide variety of appraisals of HME assets. Given our experience in both the valuation and disposition of heavy mobile equipment, GA is uniquely qualified to not only render value opinions, but to also assist with your liquidity needs through the sales of surplus and/or idle HME assets.

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OVERVIEW

The HME sector has experienced growth across most categories in recent months. Housing starts continue to remain low from the recent economic downturn, and commercial construction remains sluggish. However, while the domestic economy continues to falter during this time of recovery, assets related to the various HME categories remain in relatively high demand. The main driver for HME assets, especially in the construction and crane categories, is continued spending in infrastructure and industrial construction, specifically in the energy and petrochemical sectors.

The third quarter of 2011 saw the demand for rolling stock and intermodal equipment increase in significant ways. Class 8 tractors experienced a six-month high with regards to purchase orders as the demand for new equipment outpaces the available supply.

Likewise, railcar manufacturers saw new railcar orders continue to grow through the third quarter, exceeding manufacturer capabilities and expanding the backorder logs accordingly.

The demand for higher tonnage cranes remains steady as increased petrochemical and energy sector spending persists. This, coupled with continued stimulus spending on infrastructure, ensures that the need for construction and lift equipment remains moderate. However, equipment specifically tied to the housing and commercial building sector continue to be in reduced demand, as non-industrial building starts remain low.

Oilfield-and gas-related equipment remains a strong commodity as the demand for goods from this sector remains high. Increased speculation in the Eagle Ford Shale, Bakken Shale, and Marcellus Shale has led to increased demand for the equipment necessary to carry through the exploration and drilling.

MONITORING POINTS

Monitoring Point	Impact
Monitor housing, commercial, and industrial construction growth.	As these markets are large users of heavy equipment, they are vital to the construction equipment and rental industries and can increase the demand for construction equipment, thus increasing recovery values.
Monitor the price of oil and gas.	As the price of oil and gas increases, it becomes more profitable to source oil from deeper, less-accessible reservoirs. This type of drilling requires heavier-duty equipment for inaccessible, high-pressure drilling.
Monitor manufacturing production and retail spending.	Lower manufacturing production and decreased retail spending caused a decline in demand for local freight trucking during the economic downturn. This, accompanied by rising fuel costs, has engaged industry operators in price competition and lower profit margins. Recently the manufacturing base has improved, increasing demand for over-the-road freight trucking.
Monitor alternative energy construction and growth.	As the energy market shifts to cleaner energy sources, growth is expected in the construction of sustainable energy solutions, such as wind turbines, leading to growth for high-capacity cranes and other excavation equipment for the construction of wind farms.

RECENT APPRAISAL TRENDS

CRANES AND LIFT EQUIPMENT

The continued spending in the energy and petrochemical sectors has helped to keep recovery values of cranes steady in recent months. High-tonnage rough terrain cranes and crawler cranes continue to benefit the most from the growth in these sectors, as recovery values of these assets in the secondary marketplace have experienced slight ticks upward. Energy spending, primarily in California as it relates to wind farm installations, has been a big driver of the continued need for large-tonnage cranes. Additionally, the continued expansion of the petrochemical industry, primarily in the Gulf Coast, has helped recovery values in the region.

Infrastructure spending, especially with regards to highway construction and bridge retrofiting, has also assisted in maintaining the demand for higher-tonnage lift equipment. Infrastructure spending in California, Texas, and New York remains at elevated levels as continued government spending provides the capital necessary to carry out these operations.

Tower cranes, which have suffered in demand greatly over the last few years due to the global decline of commercial building construction, have maintained flat growth in recent months. While the demand for these items is not at levels once observed in previous years, the steady demand for these assets buoys the recovery values in the secondary marketplace.

Lower-capacity equipment tied to housing construction continues to recover poorly. New housing starts continue to decline, and equipment associated with this sector is in surplus and oftentimes idle. Until housing construction starts can consistently grow from month to month, demand for these assets will remain tepid. However, new building permit applications have increased in recent months, providing increased optimism for this sector.



CONSTRUCTION EQUIPMENT

Construction equipment recovery values continue to see increases in the secondary marketplace as infrastructure spending and spending in the energy and petrochemical sectors drive the demand for construction equipment. Equipment necessary in site preparation and grading are benefiting the most from increased demand, as related recovery values continue to increase as they have throughout 2011. Additionally, increased public works projects have played a part in the increased demand for this type of equipment. The demand for construction equipment in the secondary marketplace continues to be highest for late-model equipment in good condition. However, slightly older equipment with fewer hours also experiences high demand.

The rapid growth experienced in the beginning of the year has slowed down in recent months, but certain assets continue to remain hot-ticket items. Excavators, crawler tractors, motor graders, and loader backhoes have seen upswings in recovery values in recent months as continued spending in infrastructure remains high. Additionally, these items can be used in site preparation and cleanup in the oilfield and gas industries, which continue to be very strong as they have been throughout 2011. Expansion of oilfield exploration in Canada, which has been opened up to foreign investors, has led to an increase in demand for all equipment related to this operation. Heavy investment from China as well as the United States has seen construction equipment movement into Canada increase substantially.

Lastly, recent natural disasters, both in the United States and abroad, have seen the demand for equipment necessary in the reconstruction of municipalities increase. However, the increased demand is fairly localized to the affected areas. On the whole, equipment such as skid steer loaders, utilized more in the commercial and residential construction markets, have seen declines in recovery values in recent months.

Continued concerns over the global economy and fears of a second recession will play a significant factor in the continued improvement of recovery values for construction equipment. Nevertheless, construction equipment has experienced a strong rebound from the declines in 2008 and 2009 and will continue to improve as long as the global economy stabilizes.

RECENT APPRAISAL TRENDS

INTERMODAL FREIGHT TRANSPORTATION

The intermodal industry continues to perform well from the downturn in 2008 and 2009. New railcar orders have surged in recent months as manufacturers are unable to keep up with demand, leading to expanding backlogs. At this time, railcar backlogs are mid-way through 2012 and are expected to grow through the rest of next year, albeit at a more moderate pace. The inability of manufacturers to keep up with demand stems from the drop in production capabilities during the recent recession to curb costs. However, while the increased demand for equipment has led to increased production capabilities by the manufacturers, the ability to match that demand has yet to be realized. As a function of this, the recovery values of used equipment in the marketplace have experienced steady growth.

Equipment in good operating condition is hard to find in the marketplace, and when available, is commanding top recovery values. While the demand for new equipment has not surpassed that of the middle part of the last decade, growth has moved well beyond the declines from a few years ago. Specifically, tank cars and small-cube covered hoppers are doing very well in the secondary marketplace, while mid-size covered hoppers, coal cars, and intermodal platforms have also fared well.

Railroad operators have spent significant capital in the last year improving existing rail lines and constructing new corridors. Improvements to existing rail lines have primarily focused on intermodal demands, such as improving clearance heights for double stack rail cars and doubling the amount of rail lines in certain areas. Additionally, improvements to the infrastructure have led to higher velocities on the existing lines and dwindling terminal load times, helping intermodal transportation become an even more viable alternative to the commercial trucking industry. These improvements have helped to spur the demand for intermodal equipment, and the related recovery values in the secondary marketplace have experienced an increase accordingly.

As gas prices remain high and intermodal operators become increasingly more efficient and cost effective, the demand for intermodal equipment will continue to increase. However, if consumer spending decreased thus leading to declining freight transportation needs, or gas prices dropped dramatically, this demand could experience a significant drop.

OILFIELD AND GAS EQUIPMENT

While the price of a barrel of oil dropped below \$80 for the first time in nearly a year at the end of September, the price has once again moved back into the \$100 range. With the projected one-year forecast set at \$113 a barrel, the foreseeable future for oil prices looks promising. As a result, the equipment necessary to extract this oil continues to be in high demand.

Increased exploration in both the Eagle Ford, located in Texas, and Bakken Shale, located in the Dakotas and Montana, has led to a surge in the demand for oilfield and gas equipment. Equipment associated with both drilling and site preparation has seen strong upticks in demand, and subsequent recovery values, in the secondary marketplace. Specifically, any equipment for sale in these regions, as well as the Marcellus and Barnett Shales, demands a premium, as the costs associated with relocating the equipment is minimal. Additionally, movement by operators from the Marcellus Shale, located in West Virginia, Pennsylvania, and New York, where oil is prevalent, to the Eagle Ford Shale, where both oil and gas are available, has seen the demand for equipment in this region pick up significantly.

The price of natural gas has dropped in recent months to \$3.80 per thousand cubic feet from as high as \$4.27 per thousand cubic feet in July. With this drop in pricing, many operators have continued to drill, utilizing hydraulic fracturing as a primary method, in order to fulfill lease obligations, but are waiting to tap the wells until the price of natural gas gets back in the \$4.20 range. However, as drilling is still taking place, the demand for related equipment remains stable.

The price of both oil as well as natural gas will continue to dictate the demand for related assets. Higher values for these commodities will yield a higher demand in exploration and finished oil and gas products, as well as the equipment used to provide both services. However, the market for both oil and natural gas can be fickle, as has been the case in recent years, and while prices are anticipated to remain high for these goods in the coming years, any decreases in demand will lead to reduced recovery values in the future.

RECENT APPRAISAL TRENDS

OILFIELD AND GAS EQUIPMENT (Continued)

According to Baker Hughes data from December 2, 2011, the U.S. rig count totaled 1,993 rigs actively exploring for or developing oil or natural gas, decreasing by seven rigs from the previous week and up by 280 rigs versus November 24, 2010. The rig count peaked at 4,530 rigs in 1981, with a bottom of 488 rigs in 1999.

	United States	Canada	International
Date of Recent Rig Count	December 2, 2011	December 2, 2011	November 2011
Count	1,993	484	1,185
Date of Prior Rig Count	November 23, 2011	November 23, 2011	October 2011
Change From Prior Count	(7)	No Change	12
Date of Last Year's Rig Count	November 24, 2010	November 24, 2010	November 2010
Change From Last Year's Count	280	35	55

ROLLING STOCK

New orders for class 8 tractors reached a six-month high in October as fleet operators continue to replace aging components of their fleets. As a result, and due to the drop in new truck tractor production during the economic downturn, manufacturers are unable to keep up with the demand, leading to increased back orders for new equipment. Subsequently, the recovery values for late-model equipment or low-mileage equipment continues to improve. Forecasts show that this trend should continue through the remainder of this year and into 2012. The increased demand for rolling stock has been a derivative of increased freight transportation demands as a function of increased consumer spending.

However, the amount of used equipment sales has seen a decline in recent months as the available inventory has diminished, thus leading to increased recovery values.

Tanker trailers continue to do well in the secondary marketplace and are in high demand as the need to transport petrochemical products increases. However, the recovery values for dry van trailers and flatbed trailers have remained flat, as there is available inventory in the secondary marketplace. Forecasts suggest that the demand for these types of equipment will increase as fleet operators look to replace their aging, existing fleet with newer equipment in the coming years.

Class 8 Heavy-Duty Truck Sales Forecast

