

# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

**Heavy Mobile Equipment Monitor  
February 2012 - Volume 4**

## 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 February 2012 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

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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

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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 has conducted a wide variety of appraisals of HME assets. Given our experience in both the valuation and disposition of HME assets, 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

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Throughout 2011, the increased demand for energy across the globe played a significant role in the value of HME categories. The desire to reduce the need for foreign-based oil has led to increased drilling and speculation throughout the United States. Additionally, the increased appeal of domestic renewable energy infrastructure has spurred growth in the energy sector outside of the already booming crude oil arena. Equipment associated with these industries, even in an ancillary role, has experienced increased demand, and subsequently, increased recovery values.

The fourth quarter of 2011 continued the trend of growth that was prevalent throughout the year. Increased manufacturing in the United States helped to invigorate freight transportation both domestically and internationally, spurring demand for rolling stock and intermodal equipment alike. Additionally, reduced inventory in the secondary marketplace has led to increased demand for good-condition used equipment as it became available.

Aided by increased multi-family construction starts, personnel lift equipment experienced strong gains in 2011 driven mainly by the articulating boom lift, scissor lift, and telescoping lift truck (telehandler) categories. Medium-tonnage cranes utilized in these projects have also experienced consistent growth, with recovery values holding steady in the secondary marketplace. Larger-tonnage cranes, specifically all terrain cranes and crawler cranes, have led the growth of the crane sector as energy projects continue to be on the rise.

Oilfield and gas equipment continues to be a strong category within the HME space as increased speculation in the Eagle Ford shale has led to demand for both exploration and drilling equipment, as well as construction equipment necessary for site preparation, cleanup, and infrastructure in the growing areas. Increased mining related to the energy sector boom has also aided the demand for construction equipment.

## 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 less-accessible, 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.
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

Energy-sector projects were the primary driver for the demand of cranes throughout 2011. Construction of both renewable energy and traditional fossil fuel energy infrastructure stimulated the demand for higher-tonnage all terrain, rough terrain, and crawler cranes in the secondary marketplace. Most notably, the all terrain crane market has increased recently as rental fleet operators and end-users opt for the flexibility of these units over high-tonnage crawler cranes. The fourth quarter in 2011 experienced slightly improved recovery values across the all terrain, rough terrain, and crawler crane categories, which is a trend anticipated to continue.

Part of the basis for the improved recovery values in the secondary marketplace has stemmed from the increasing lead times necessary to purchase new equipment from original equipment manufacturers (“OEM”) and increased new unit prices. End-users have taken to purchasing used equipment in good condition, when available, instead of waiting for new equipment orders to be fulfilled. Additionally, equipment dealers have taken to purchasing older equipment and refurbishing it for resale, as the time necessary to do so is shorter than waiting for new orders.

Tower cranes have been growing in demand in recent months as many rental fleet operators are noting high utilization rates for these assets. New commercial construction starts have helped to generate this demand. While tower cranes are still not near the levels of the historic highs experienced in the middle of the last decade, the reported demand and increasing utilization rates are positive signs for growth and increased recovery values moving forward.



Carry deck values have experienced a resurgence in recent months as OEMs have cut back on production or have exited the market altogether. As a result, the demand for used carry decks has increased, leading to improved recovery values in the secondary marketplace.

New housing construction starts have been steady in recent months, but have shown strong improvement from the same timeframe in 2010. Values for equipment necessary to the housing construction market will continue to improve as the industry begins to move forward. However, while housing starts are up in 2011 from 2010, the recovery values of related equipment in the secondary marketplace have yet to experience significant growth.

Personnel lift equipment experienced moderate growth throughout 2011. Available inventory in the secondary marketplace has returned to normal levels after the market was inundated with excess equipment after the economic downturn. As a result, inventory that is currently available has experienced improved recovery values. Growth has come mainly from multi-family construction starts where personnel lift equipment is used frequently. Specifically, articulating boom lifts, scissor lifts, and telehandlers used in the movement of construction workers and material around construction sites have experienced the most growth.

## CONSTRUCTION EQUIPMENT

Construction equipment throughout the course of 2011 was in high demand, driven by the continued growth of the oilfield and gas industry. Significant growth in the Eagle Ford and Bakken shales has increased the demand for construction equipment necessary for site preparation and cleanup, as well as infrastructure construction, in these areas. Additionally, exploration in other parts of the country, such as the Haynesville and Barnett shales, has also kept the demand for construction high in those respective regions. As a result, market growth for construction equipment was roughly 32% during the course of 2011.

Growth of new equipment sales throughout the year was often attributed to inventory replenishment by the OEMs that had cut back on manufacturing in 2010 to cope with reduced demand. As a result of the increased demand from the end-users, OEMs ramped up production as well as new unit prices, and equipment in the secondary marketplace became highly desirable, increasing recovery values for available equipment.

# RECENT APPRAISAL TRENDS

## CONSTRUCTION EQUIPMENT (CONTINUED)

This trend continued through the fourth quarter of 2011 as equipment recovery values, especially for those related to site preparation and road building, continued to recover well in the secondary marketplace.

Continued expansion of oil and gas operations throughout the United States and Canada are projected to keep construction equipment in relatively high demand for the foreseeable future. Projects such as the Keystone pipeline are examples of energy sector endeavors that would benefit the construction industry. However, any changes in the oilfield and gas industry that could halt growth, such as decreasing commodity prices, would be detrimental to the construction industry as whole.

## INTERMODAL FREIGHT TRANSPORTATION

Freight delivery throughout the United States experienced strong growth in 2011. Increased manufacturing across the country over the last several months has driven the demand for increased freight transportation. This, coupled with a weakened dollar, has led to increased demand for freight delivery of American goods internationally. As a result, the demand for railcars used to transport ISO containers from ports to rail yards and vice versa has improved. The available inventory of new railcars is currently low, as OEMs cut back on production during the economic downturn, and used equipment is highly sought after. Until the OEMs can produce new items at a rate that can match the demand, the recovery values of railcars in the secondary marketplace will continue to be strong.

Tank cars utilized in the transport of petroleum and crude oil have also experienced an increased demand in recent months. The delay of the Keystone pipeline between Canada and the Gulf Coast has led to speculation that the rail industry will benefit, as product will still need to be moved to refineries from Canada. As a result, the demand for new and used tank cars has improved with related recovery values following suit in the secondary marketplace.

Continued capital expenditures, projected at \$13 billion in 2012, from both the private and public sector on the expansion and renovation of existing railways will continue to drive the demand for intermodal equipment. If transport times for intermodal carriers can continue to be reduced, then railway usage becomes a much more appealing alternative to over-the-road transportation. Current and past projects have been primarily focused on improving clearances around existing railways to allow for double-stack cars to move between the East Coast and the Midwest unimpeded. Additionally, capital expenditures have continued on double railway lines through key corridors. Both of these sets of improvements are aimed at increasing capacity and reducing transport times in an effort to make intermodal transportation a more appealing option. Coupled with increasing diesel and gasoline prices, intermodal transportation and the demand for intermodal equipment continue to grow.

## OILFIELD AND GAS EQUIPMENT

The oilfield and gas industry is currently one of the strongest in the United States. Increased global energy demand, which has led to the increased cost of crude oil and natural gas, has sparked widespread activity in the exploration and drilling of various reserves across the United States. Most notable of late has been the Eagle Ford shale location in southern Texas. Activity in this region due to the presence of both oil and natural gas has led to increased drilling. As a result, the equipment necessary to perform all related tasks in oilfield and gas exploration has been in high demand in this area, and across the country.

The price of oil and gas has and will continue to be the main driving factor for the surge in exploration and drilling. With oil prices continuing to hover around \$100 per barrel, the demand for crude oil remains near all-time highs. However, natural gas prices have dropped in recent months to roughly \$2.80 per thousand cubic feet as an unseasonably warm winter has led to decreased demand. As a result, many companies have shifted operations away from the Haynesville and Barnett shales due to the prevalence of only natural gas, to the Eagle Ford and Bakken shales, which maintain supplies of both natural gas and crude oil. While the amount of exploration and drilling has slowed in these areas, they have not ceased, with many operators drilling wells but keeping them inoperative while waiting for the demand, and price, to increase.

# RECENT APPRAISAL TRENDS

## OILFIELD AND GAS EQUIPMENT (CONTINUED)

Fracking, which has been a contentious environmental issue in the last year, continues to remain a very strong industry. Fracking companies have maintained high equipment utilization rates while also being subjected to long lead times (upwards of a year) for new equipment. As a result, the secondary marketplace has experienced improved recovery values for fracking equipment in recent months as operators expand their fleets to keep up with demand.

The oilfield and gas industry had a very strong 2011 and was one of the main drivers for the continued improvement of the construction equipment marketplace throughout the year. At this time, the industry appears to remain strong for the foreseeable future as the United States seeks to reduce its dependence on foreign oil. However, as is often the case with commodity products, if the price were to drop substantially, the demand for new avenues of exploration would dry up as the potential revenue would not be worthwhile. If oil and gas prices fell substantially in the near future, the current strength of the industry could fade quickly.

According to Baker Hughes data from February 3, 2012, the United States rig count totaled 1,997 rigs actively exploring for or developing oil or natural gas, decreasing by 11 rigs from the previous week and up by 258 rigs versus February 6, 2011. 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	February 3, 2012	February 3, 2012	December 2011
Count	1,997	710	1,180
Date of Prior Rig Count	January 27, 2012	January 27, 2012	November 2011
Change From Prior Count	(11)	28	(5)
Date of Last Year's Rig Count	February 6, 2011	February 6, 2011	December 2010
Change From Last Year's Count	258	84	62

## ROLLING STOCK

Heavy-duty and medium-duty rolling stock pieces experienced a strong rebound in 2011 from the post-recession woes of recent years. Freight tonnage in December 2011 hit a 13-year high as increased manufacturing and inventory restocking led to increased demand for short and long haul transportation. The demand for freight transportation has been a boon to both the rolling stock and intermodal industries. As a result, new truck sales rose drastically at the end of 2011 as trucking fleet operators looked to expand fleets to keep up with demand. Subsequently, the demand for used equipment in good condition in the secondary marketplace has increased, leading to a seller's market. This, coupled with the reduction of available inventory, growing lead times for new items, and increasing new unit prices, has led to significantly improved recovery values from previous years.

Forecasts indicate that rolling stock fleets that had previously been driving sales with the replacement of aging units will shift towards the expansion of existing fleets through 2012. Accordingly, recovery values for the foreseeable future are expected to remain strong.

As has been the case with all equipment associated with the oil and gas industry, tanker trailers are in high demand and trending upward with regards to recovery values. Additionally, reefer trailers have recovered well in recent months as the transportation of food has steadily grown throughout the economic downturn and recovery. Recovery values for flatbed and dry van trailers have continued to remain flat in the secondary marketplace as inventory is still readily available.