

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Building Materials Monitor
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Introduction

Welcome to the fourth issue of the *Building Materials Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value and industry trends for a variety of building material products. 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 commodity nature of certain building materials, 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.

The *Building Products Monitor* relates information covering most building projects, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the building products industry. Please feel free to utilize our contact information shown in this and all *Building Materials Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

Within the building materials vertical, net recovery values on the whole have experienced mixed results in the third quarter from the second quarter 2011. Factors driving Net Orderly Liquidation Value (“NOLV”) changes tend to vary depending on the industry segment, as the industry vertical consists of a wide array of product categories.

Trend Tracker
NOLVs: Mixed
Sales Trends: Decreasing
Gross Margin: Decreasing
Inventory: Mixed
Pricing: Decreasing

NOLV changes range from a decrease of two percentage points to an increase of three percentage points. Flat to slightly negative sales trends have been present in many of GA’s engagements, continuing on a trajectory consistent with the first and second quarters. Poor housing indicators continue to ail the industry as a whole, and future projections are flat at best. Despite the poor statistical performance of the industry, certain industry segments have remained buoyant. In the lumber production segment, export demand to China has resulted in higher market pricing, what has had a correlative positive impact on recovery values. Building material distributors continue to manage inventory levels, which has prevented major gross margin decreases, although margins on the whole have experienced compression. In the roofing sector, poor weather conditions have offset rising input costs for shingles. However, as the industry approaches what has historically proven a slow period, pessimism lingers for the fourth quarter.

GA internally tracks recovery ranges for specialty and exotic hardwoods and softwoods, building product retailers and wholesale distributors, hardware supply stores and distributors, and specialty building products, but we are 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 *Building Materials Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, food, automotive, and chemicals industries, among many others.

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EXPERIENCE

In 2010, GA was involved in the liquidation of three National Home Centers building products locations, as well as the liquidation of inventory and fixed assets across eight North Pacific Building Materials distribution centers. GA has worked with and appraised numerous companies within the building products industry, including industry leaders within each category. While our clients remain confidential, they include industry leaders such as globally-recognized full-line lumber and building materials distributors and some of the largest U.S. roofing distributors, as well as market-leading manufacturers and distributors of plumbing fixtures. GA's extensive list of appraisal experience includes:

- The nation's largest supplier of building materials for home building, as well as professional and contract builders.
- One of the largest roofing products distributors in the United States, with locations throughout the country and sales exceeding \$2 billion annually.
- Global leaders in home fixtures and plumbing products, including faucets, sinks, toilets, and bath tubs, with presence in over 40 countries.
- Leading manufacturers of HVAC systems, serving residential, light commercial, and commercial applications, with annual sales exceeding \$1 billion.
- One of the nation's largest producers of oriented strand board (OSB), siding, and engineered wood products.

GA also maintains appraisal experience involving more regionalized and specialized building materials companies, allowing for the utmost depth in our valuations:

- Regional sawmills, log processors, and producers of green and kiln-dried lumber.
- Specialty producers of custom interior wood doors for the education, commercial, health care, institutional, and hospitality industries.
- A leading distributor of roofing materials, with 60 distribution facilities nationwide.
- A manufacturer and distributor of exterior residential building products, primarily servicing professional contractors.
- Distributors of exotic imported hardwoods utilized in high-end building projects.
- Independent building material and plumbing product retailers and wholesalers, each serving distinct regional customer bases.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the Building Products industry that we utilize for insight and perspective on recovery values.

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OVERVIEW

The construction market experienced little in the way of change, good or bad, during the third quarter 2011. While continuing on a flat trajectory, indicators remain below historical levels, with little evidence of upward mobility in sight. Housing starts fell to their lowest annual rate in three months in September, declining to 571,000 from 601,000 in August. The market continues to search for a bottom in the wake of declining consumer confidence and a drop in mortgage approvals.

According to the Commerce Department, the August decline hit the Northeast U.S. harder than any other region, as new buildings fell a precipitous 29.1%, while multi-family construction decreased 12.4%. Furthering the pessimistic outlook in the region, construction of single-family units set a new record for fruitlessness, declining 10.8% to 33,000. Despite the poor showing in the Northeast, the gloom lifted slightly in other areas of the U.S., with new construction rising in the Midwest and West at rates of 2.6% and 2.2%, respectively.

Tempering any positive sentiment regarding the state of the construction industry, the National Association of Home Builders released its Housing Market Index, which shows little impetus for optimism in the coming months. The index, which defines an overall positive outlook as a reading over 50, fell one point to 14 for September 2011. The index has remained between 13 and 16 for the last six months. Each component of the market index, including current sales conditions, six-month forward projections, and prospective-buyer traffic, fell for the month. Overall confidence fell two points in both the Northeast and the South, while falling three points in the West.



As noted in prior *Building Materials Monitors*, the state of the housing market is unlikely to show progress in any form until the legal logjam stalling foreclosures is cleared. Banks have slowed sales of foreclosed properties amidst allegations of “robo-signing,” or the signing of documents lending banks right to sell these homes without proper review. Only 3.6% of loans in foreclosure were liquidated in June 2011, a decrease from 5.7% in August 2010. The foreclosure process itself is being lengthened significantly in the face of scrutiny, as the average duration of non-payment for homes prior to foreclosure increased 25% from August 2010 to July 2011.

The construction crisis is no longer localized within the housing sector, as over half of U.S. cities have cancelled construction projects in 2011. Public works projects, particularly in cities, rely on revenue garnered from property taxes; as such, the dearth of new home sales, combined with a glut of foreclosed properties, has squeezed municipal budgets. In order to make up the gap in funding, the majority of cities have cut personnel. The worst may not be over just yet, as property taxes do not typically fully reflect falling home prices until several years after the fact.

RECENT APPRAISAL TRENDS

SOFTWOOD AND HARDWOOD LUMBER

Indicators for producers of lumber and lumber products reflect the continued slump in the U.S. residential construction market, and the resulting negative impact to lumber prices. Panel producers, in particular, have seen pricing continue to slide with flat to decreasing volume demand. It has been the export market which has helped buoy revenue and pricing for both hardwood and softwood producers, both in the European and Asian markets. China continues to be the import leader, with exports to that country well ahead of the 2010 pace. However, recent reports indicate that an excess supply of lumber at Chinese distributors and manufacturers has started to cool demand, and the U.S. may experience weakening short term sales as Chinese operators begin to right size inventory.

One negative impact from the rise of Chinese demand has been the impact to log prices, particularly in the Northwest. The scarcity of supply, as well as the increased priced on said supply, has forced certain producers to reduce operations. Random Lengths cites the reduction of logs supplied by Russia as a significant driver in the continued demand for North American logs. The current market for logs and rising prices has had a positive impact on that inventory segment from an appraisal perspective, as log inventories in affected regions could attract higher pricing and increased demand.

Trends in the wholesale and dealer sector have been a bit less volatile, as these companies have been working in a down economic cycle for a period of years, and the corrective measures taken to supply chain activities has led to primarily consistent indicators from one period to the next. Inventory levels continue to be kept in check with diminished demand, and sales trends for the most recent quarter end have tended to be flat, or, in some cases, slightly improved over what was a particularly depressed demand period in 2010.

ROOFING

Appraisal engagements within the roofing sector continued to provide consistent results, as the distributors and dealers encountered by GA exhibited positive sales trends and consistent gross margins due to increased weather activity over the course of 2011. Rising energy costs impacted shingle pricing during the first part of 2011, as most major manufacturers announced monthly increases beginning in March, all the way through the summer. However, GA found most of these increases effectively passed on by the dealer, resulting in minimal impact to recovery values.



RECENT APPRAISAL TRENDS

OTHER BUILDING PRODUCTS

Recovery values in the brick manufacturing remain depressed, as product demand in this sector has shown little to no evidence of improvement. Appraisals in this segment have been hindered by high weeks of supply and declining margin. Brick and block product are closely tied to residential construction, and with ample supply in the market, producers maintain little ability to raise prices.

In cement and concrete sector, declining demand has led to pricing pressures in certain regions of the U.S., which has squeezed gross margins and led to slight declines in valuations. However, as infrastructure and commercial demand begin to show improvement, it is anticipated that margin points can be regained. Values on raw material items which go into production, such as sand, clinker, and aggregate have remained consistent, with finished product being the only inventory segment experiencing slight declines.

Demand in the window and door segment has fallen sharply, with rising energy costs having impacted material costs rising over the course of 2011, particularly in the vinyl window sector. GA has seen slight declines in appraisal values during this period, related largely to downward pressure on gross margins.



MONITORING POINTS

Monitoring Point	Impact
Monitor export activity among lumber producers and distributors.	As high export activity has buoyed market prices domestically, falling export demand would result in downward pricing pressures for lumber.
Monitor inventory levels among building product manufacturers and distributors.	Low inventory levels and slow-downs in production capacity often cause run-ups in demand, and therefore increases in recovery valuations. Conversely, inventory restocking and overstocking within the building products industry in preparation for a rebound in housing markets would cause a decrease in valuations, should the market fail to improve.
Monitor oil and fuel prices.	Oil and fuel prices impact production costs for petroleum-based building materials, such as asphalt shingles. The increased cost of such inputs would negatively impact gross margins. Furthermore, rising gas prices would increase the cost of freight, which would have a similar impact on gross margins.

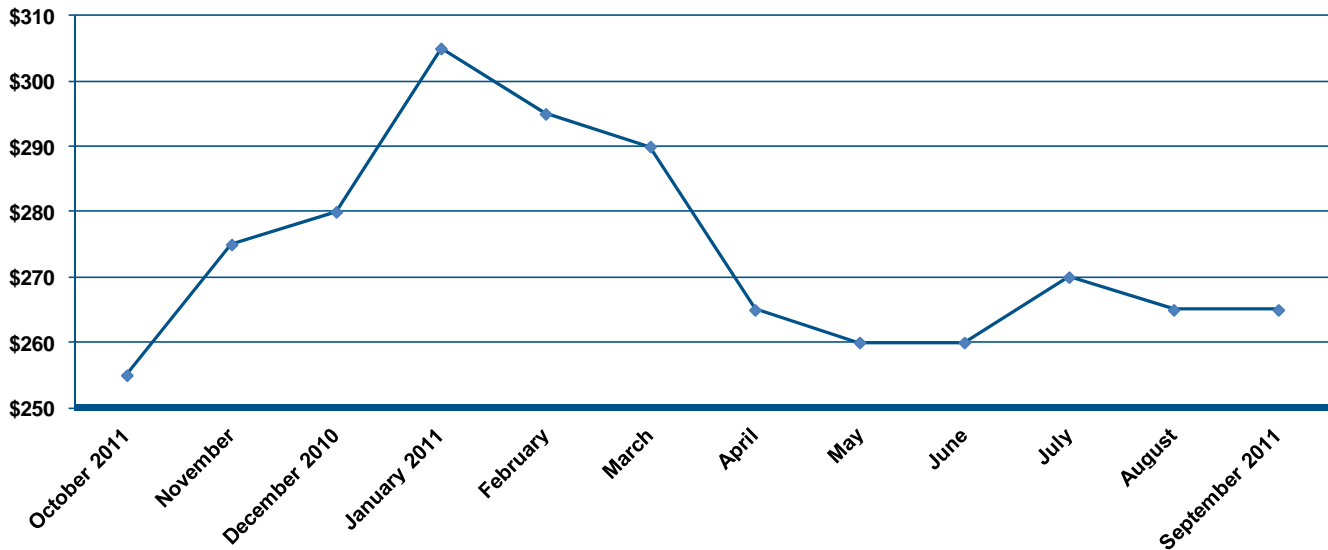
PRICING TRENDS

SOFTWOOD LUMBER

Softwood lumber includes species such as Spruce, Pine, Fir, and Cedar, and is typically used for structural building purposes, as well as millwork. As seen in the graph below, softwood lumber prices continued to decline through much of the summer, with a slight leveling off as the quarter came to a close, as strong export demand kept prices afloat amid poor domestic demand. Although the impact of the slowdown has yet to be seen in trading markets, the North American export lumber market has softened in recent months after a record pace in during the summer. Further, as North American lumber production through June represented a nearly 6% increase year-over-year, continued support of current pricing remains dubious.



Monthly Average Framing Lumber Pricing Trend
October 2011 through September 2011
\$ per MBF



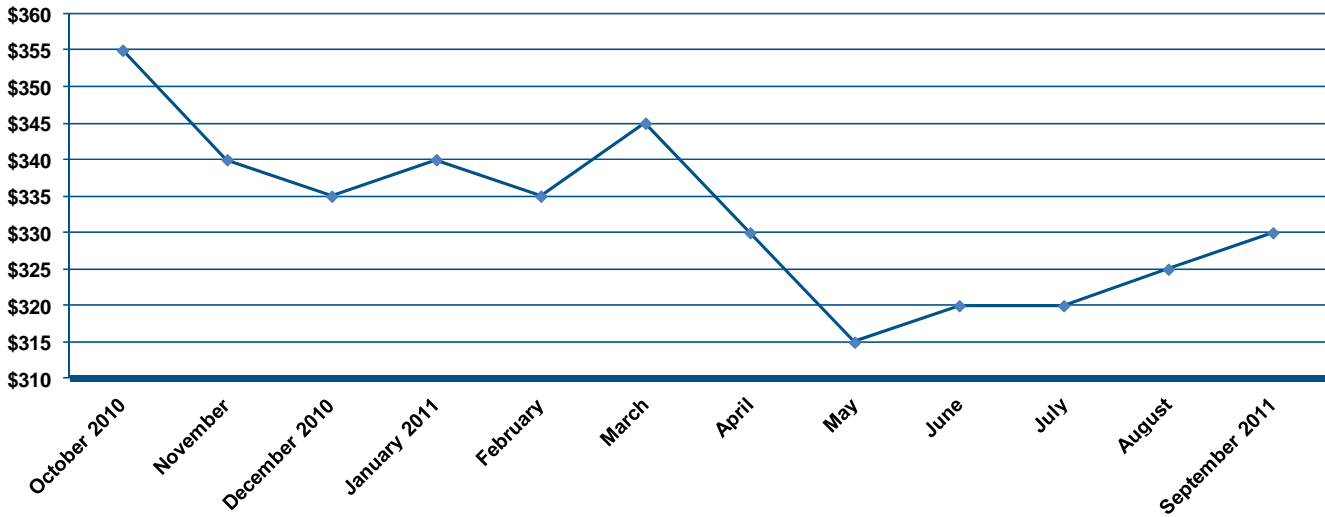
While the new home building segment continues to disappoint, relief has been found in the home improvement segment, which has, along with export volumes, buoyed market prices as of late. The median age of owner-occupied housing continues to rise, and at its current average of 34 years, marks a record high. In 2006, with the housing bubble still fully inflated, home improvement spending represented less than one-third of private residential spending. Home improvement expenditures have continued to rise, and now represent over one-half of all private residential expenditures.

PRICING TRENDS

Softwood Panels

Demand in the panel market has surged over recent weeks in the wake of an announcement that Georgia Pacific plans to stop production at two plants in Arkansas and one plant in Florida. The capacity reduction will result in a loss of approximately 850 million square feet of production. Despite the bullish market, it must be emphasized that plywood consumption remains low as a result of lagging construction figures. In addition, the majority of plywood plants throughout North America have production capability to spare, as many plants are operating at near half-capacity. Furthermore, consumption is set to struggle due to the upcoming cold weather period. Reports within the industry suggest that Georgia Pacific's closed Florida location may reopen in response to improved demand, although the likelihood of such an increase remains unlikely.

Plywood Panel Pricing Trend
October 2010 through September 2011
\$ per MBF



Unlike the plywood market, prices for OSB remain flat to slightly depressed, as demand for OSB is more closely linked to new home construction, an area currently in disarray. Producers have taken to expanding targeted customer bases outside of their respective regions in order to sell through excess inventory levels and meet sales quotas.

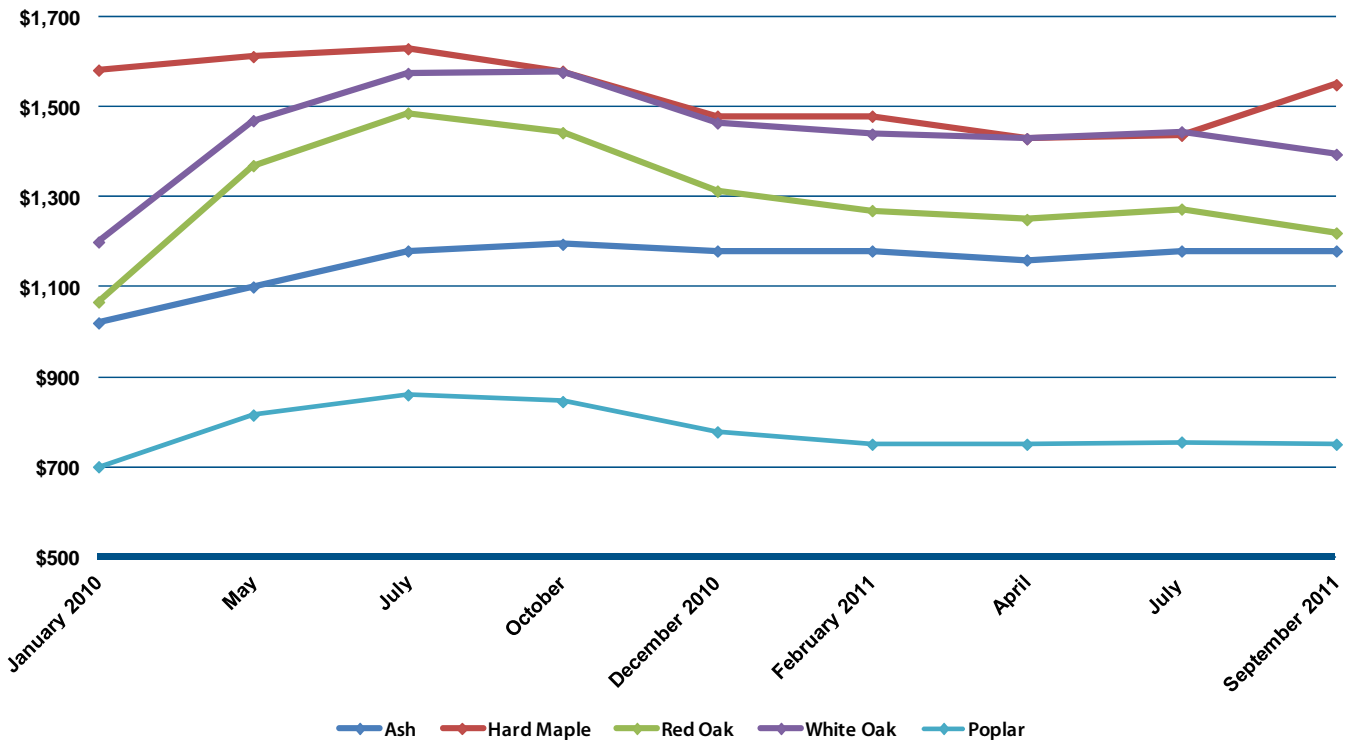
PRICING TRENDS

HARDWOOD LUMBER

The hardwood market, which includes species such as Oak, Cherry, Maple, Ash, Hickory and Poplar, continues to lag behind expectations due to poor housing indicators. Similar to softwood lumber, hardwoods have experienced a deterioration in pricing since the start of 2011, with various species showing declines between 3% and 9%. Again, pricing declines can be attributed to a lack of consumption within the U.S., as well as slowing export demand (although still far above historical figures). There do not exist metrics that support an uptick in demand to end the year, which would indicate that pricing may remain at current levels for the foreseeable future.



**Hardwood Pricing Trend
Various Kiln-Dried Species
January 2010 through September 2011
\$ per MBF**



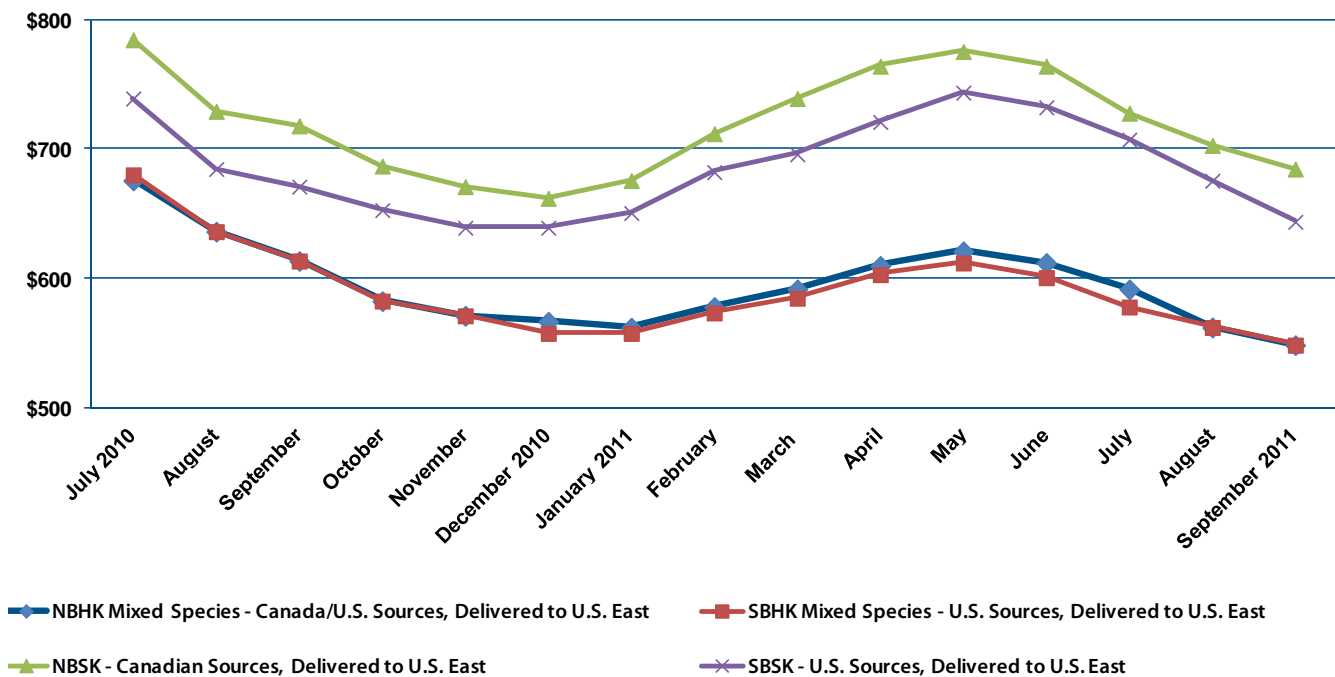
PRICING TRENDS

PULP AND WOOD FIBERS

With softwood pulp producers announcing price decreases in August 2011, market prices for softwood pulp have fallen in recent months, offsetting gains made in the first quarter of 2011. A further price decrease announced by producers Domtar, Tembec, and West Frazier, effective October 1, set the stage for back-to-back slides in market pricing, drawing prices toward the lowest point thus far in 2011. As seen in the graph below, oversupply has put bleached hardwood kraft (BHK) grades in a greater state of depression than softwood varieties. The major culprit in the precipitous price decline, both for hardwood and softwood pulp, has been a sputtering export market, as demand from China dried up at the tail-end of the summer.



Pulp
Average Spot Market Price Per Ton
July 2010 Through September 2011



With market prices for pulp sputtering, wood fiber costs remain historically high, with softwood fibers nearing \$110 per oven-dry metric ton (odmt) in the second quarter. Following suit, hardwood fibers exceeded \$115 per odmt in the second quarter, marking a nearly 6% increase from the first quarter. The largest increases for softwood and hardwood fiber pricing were seen in Russia, Finland, and the Western United States. Wood costs account for approximately 60% of production costs for pulp manufacturing. The weakened U.S. dollar was the major determinant in higher wood costs.

BUILDING PRODUCTS REFERENCE SHEET

Softwood lumber and panel pricing trends - % change from previous quarter - all U.S. regions

	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Average Softwood Framing Lumber (\$255 - \$295/mbf)	14%	1%	(13%)	-
OSB (\$195 - \$235/mbf)	6%	4%	(12%)	(1%)
Pine Plywood (\$445 - \$385/mbf)	(2%)	7%	(5%)	9.1%

Hardwood lumber pricing trends - % change from previous quarter (reflects FAS-grade pricing)

Green - all U.S. regions

	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Red Oak (\$880 - \$950/mbf)	(9%)	(2%)	(1%)	(4%)
White Oak (\$965 - \$1,110/mbf)	(5%)	(2%)	-	(1%)
Ash (\$780 - \$810/mbf)	(6%)	-	-	2%
Poplar (\$540 - \$575/mbf)	(11%)	-	-	-
Hard Maple (\$1,060 - \$1,210/mbf)	(5%)	(13%)	(10%)	3%

Kiln-dried - all U.S. regions

	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Ash (\$1,055 - \$1,190/mbf)	(1%)	(7%)	2%	-
Hard Maple (\$1,430 - \$1,550/mbf)	(7%)	(3%)	(3%)	7%
Red Oak (\$1,215 - \$1,320/mbf)	(10%)	(5%)	-	(4%)
White Oak (\$1,390 - \$1,470/mbf)	(10%)	(3%)	1%	(4%)
Poplar (\$750 - \$780/mbf)	(9%)	(3%)	-	-
Walnut (\$3,105 - \$3,190/mbf)	2%	2%	1%	-

PPI Average Pulp Spot Prices (\$ per Ton) - % change from previous month

	July 2011	August 2011	September 2011
NBHK Mixed Species - Canada/U.S. Sources, Delivered to U.S. East (\$590 to \$620/ton)	(3%)	(5%)	(2%)
SBHK Mixed Species - U.S. Sources, Delivered to U.S. East (\$580 to \$615/ton)	(4%)	(3%)	(2%)
NBSK - Canadian Sources, Delivered to U.S. East (\$730 to \$775/ton)	(5%)	(4%)	(3%)
SBSK - U.S. Sources, Delivered to U.S. East (\$710 to \$740/ton)	(3%)	(5%)	(5%)