

# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

## Building Materials Monitor February 2011 - Volume 1

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### Introduction

Welcome to the first 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 lumber segment, year-over-year comparisons on collateral updates have shown modest NOLV gains in several engagements from zero to three percentage points. Supply shortages have caused run-ups in demand, particularly for softwoods. Positive gains have also been observed in plumbing, while roofing has remained stable. Federal guidelines eliminating the manufacture of equipment using R22 refrigerant resulted in recovery increases in HVAC product segments during the first half of 2010. As inventory levels have been depleted, recoveries have trended upward since the low point of the recession.

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

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Great American Group 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

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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, including 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 distributor 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.

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 customer interior wood doors for the education, commercial, health care, institutional, and hospitality industries.
- Distributors of exotic imported hardwoods utilized in high-end building projects.
- Independent building material and plumbing product retailers and wholesalers, each serving distinct regions within the United States.

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 building materials industry remained a fragile market as 2010 drew to a close. In early November, McGraw Hill Construction (“McGraw Hill”) released its 2011 Construction Outlook. Although the construction industry has experienced precipitous declines in the wake of the economic recession, McGraw Hill predicts that 2011 will see modest improvement in the construction sector.

Despite optimism regarding a full-scale rebound, indicators remain mixed at best, particularly in the residential construction segment. Data for the most recent month of November 2010 suggests further setbacks in the market; although the seasonally-adjusted annual rate (“SAAR”) of housing starts increased 3.9% and the SAAR of housing completions increased 14.1% from October 2010, privately-owned housing units authorized by building permits fell 4.0% from October. Furthermore, the SAARs for housing starts, completions, and building permits for November 2010 stood 5.8%, 39.6%, and 14.7% below the November 2009 readings, respectively.

Vice President of Economic Affairs for McGraw Hill Robert Murray states that, “The housing sector, after losing momentum during the spring, appears to be edging upward once again, but to this point the pickup has been meager. For the public works sector, this year’s growth for transportation-related work has been offset by weaker activity for the environmental project types. In the near term, the overall economy may be helped by the recent extension of the federal tax cuts, but going into 2011 the construction industry will still face several constraints. These include: restrictive bank lending standards which have yet to ease, fading stimulus support, and further erosion in the fiscal health of states and localities.”



Experts predict that sales will bounce back slowly over the next several years. According to the National Association of Home Builders (“NAHB”), the number of housing starts nationwide rose “modestly” in 2010 and will increase more significantly in 2011 and 2012.

The NAHB reports that builder confidence remained flat in December 2010 at an index reading of 15. Concerns over the struggling job market and the large number of foreclosed homes for sale have driven down sentiment in recent months. As foreclosed homes are typically sold well below the price of a newly-built home, optimism for the coming six months is hard to come by. The NAHB reports that 87% of homebuilders experienced adverse affects from the plethora of foreclosures on the market, as the average price for homes remains depressed.

NAHB chairman Bob Jones predicts that factors such as “ongoing weakness in the job market, the rising number of foreclosures and short-sales, and a very challenging credit conditions,” will exacerbate a holiday season that has been plagued historically by cold-weather slowdowns in sales activity. Despite the lack of positive indicators, the index has not experienced significant downward pressure. Positive indicators during one month are often followed by negative data in the following month. NAHB Chief Economist David Crowe noted that “the good news is that the index and its subcomponents remain above recent lows from early fall. NAHB expects an improving job market this spring will help prospective buyers feel more confident and propel more sales activity in 2011. However, the continued problems that builders are facing in obtaining construction credit and accurate appraisal values could significantly slow the onset of a housing recovery.”

# RECENT APPRAISAL TRENDS

## SOFTWOOD AND HARDWOOD LUMBER

Sales trends have shown declines in the last two quarters after a promising start to 2010. However, most suppliers and dealers that GA has met with have reduced inventory levels to a point where the decline in demand has been met with appropriate stocking levels. Therefore, low inventory levels have caused a slight run-up in demand despite flagging sales, positively impacting recovery values.

GA has worked with the top full line lumber and specialty building material distributors in the U.S. Gross recoveries in the building material distribution market have increased slightly year-over-year. Lumber product categories typically recover higher on cost than most building products.

Appraisals in the production of lumber products have produced gross recovery results similar to what has been seen in lumber distribution, depending on the current relationship to market values. As lumber producers are involved with the entire spectrum of lumber, including logs and green lumber, values for this segment tend to be more closely tied to market prices. As such, values for lumber producers maintain a wider range of values.

## ROOFING

At the distributor level, year over year sales trends were negative, although not as significant as the general building sector, as this market relies on a higher percentage of replacement business and can be impacted by sporadic storm activity. Seasonal trends remained consistent with minimal changes to NOLV on collateral updates.



GA has conducted appraisals with some of the largest U.S. roofing product distributors in the past 12 months. Over this time, asphalt shingles, underlayment and low slope/commercial roofing products generally receive less discounting than higher margin accessory products.

Distributors whose product mix focuses more on the siding and other exterior products will generally have lower recovery values, as these products tend to turn more slowly and have a wider variety of colors, textures and accessory items.

## PLUMBING

Fixture manufacturers have been reducing inventory levels significantly over the last 12 months in order to right-size inventory with waning demand in the retail and wholesale sectors. As such, we have seen improved indicators in weeks of supply and inventory velocity, which has resulted in positive gains in this sector from a supplier perspective.

GA has conducted multiple appraisals over the past year for manufacturers of plumbing fixtures. Gross recovery values on finished goods as a percentage of cost have ranged higher for items such as Chinaware and Fittings, while Acrylic goods have trended lower.

Raw materials in this setting typically include purchased components, acrylic sheets, resins, clay, glaze, and other hardware items. Gross recovery values for these items fall below finished goods, as these items are often specialized and maintain more limited distribution channels. GA has also conducted appraisals on plumbing product distributors, where sales are more dependent on the contractor customer base.



# RECENT APPRAISAL TRENDS

## HVAC

As mentioned, federal guidelines eliminating the manufacture of equipment using R22 refrigerant as of December 31, 2009 caused a run up in demand that lasted through the first half of 2010, which resulted in recovery increases in specific product segments. As inventory levels have been depleted, recoveries have normalized to historical levels.

Raw materials in this setting typically include purchased components, metal sheets and coils, and other hardware items. These items typically recover much lower than finished items, as their specialized nature maintains more narrow channels of distribution.

HVAC distribution models have had similar product trends, but gross recovery values are typically lower, as these environments tend to have higher weeks of supply on-hand and lower margins. In addition, a larger percentage of distressed sales would occur in secondary markets, as contractor customers would be less likely to participate in bulk cash sales.



## 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 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.

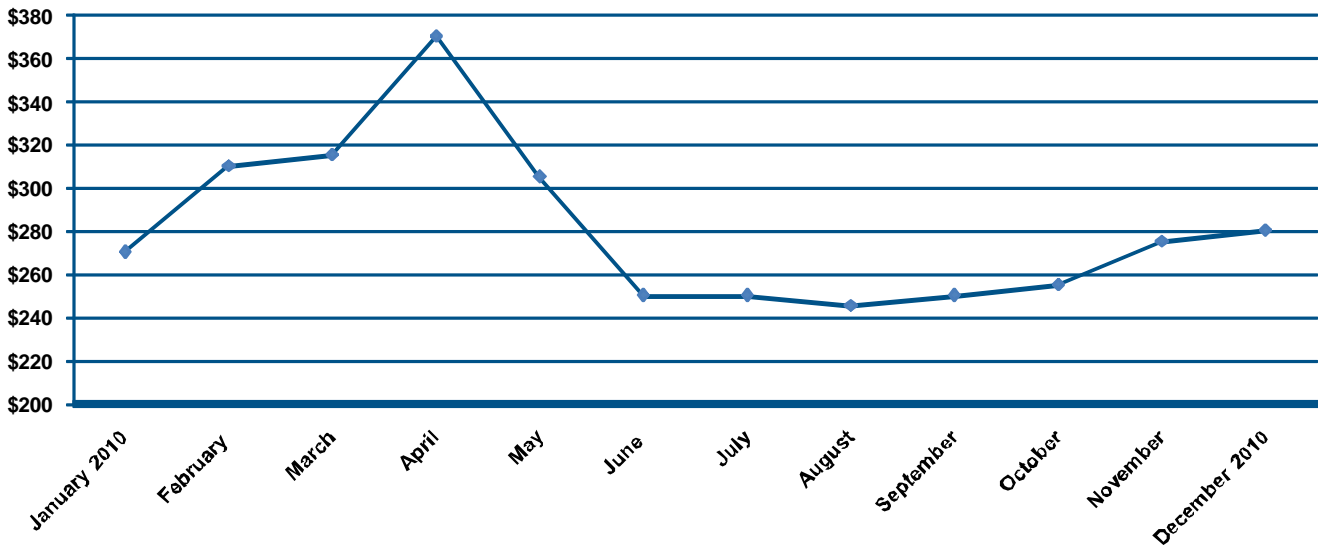
# PRICING TRENDS

## 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. Lumber prices rose in the last quarter of 2010, with a particularly strong increase toward the end of December. Analysts seem to agree that the recent surge in pricing is supply driven, as the mills have softened production during the winter and holiday slowdown. As remaining export orders to Japan and China were filled prior to the Chinese New Year, a U.S. distribution market working off lean inventories sought to restock prior to a perceived Q1 pickup.



**Monthly Average Framing Lumber Pricing Trend**  
January 2010 through December 2010  
\$ per MBF



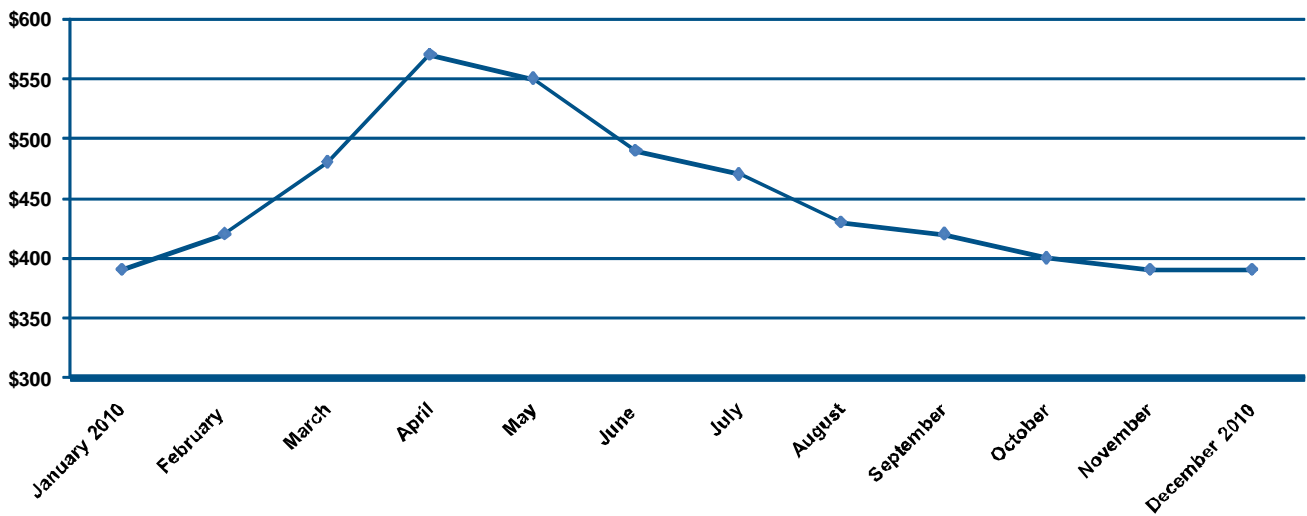
The Q1 price increases seen in 2010 may have pushed wholesalers to begin restocking prior to January 2011, but in any event, activity was better than expected, which allowed the smaller production runs from the mills to be easily absorbed by the market. Analysts have also predicted a potential run up in prices in Q1, similar to what was seen the previous year, should the housing market experience any significant gain. Dealer inventories remain very low, coupled with reduced supplies from the mills. However, a potential offsetting factor in pricing could be any reduced export demand from China due to inflationary concerns, or a reduction in the current tax imposed by Russia on its log exports.

# PRICING TRENDS

## SOFTWOOD LUMBER

Demand in the panel market has remained subdued, with overall pricing declining slightly from the third quarter, and lacking the upward surge seen in framing lumber, although OSB did see some modest gains which the industry attributed to the supply of available OSB drying up as it neared year end. Similar to framing lumber, there remains potential of a Q1 price increase following any turnaround in demand in plywood, OSB and other panel products, as a result of limited supplies in the market.

**Plywood Panel Pricing Trend**  
January 2010 through December 2010  
\$ per MBF



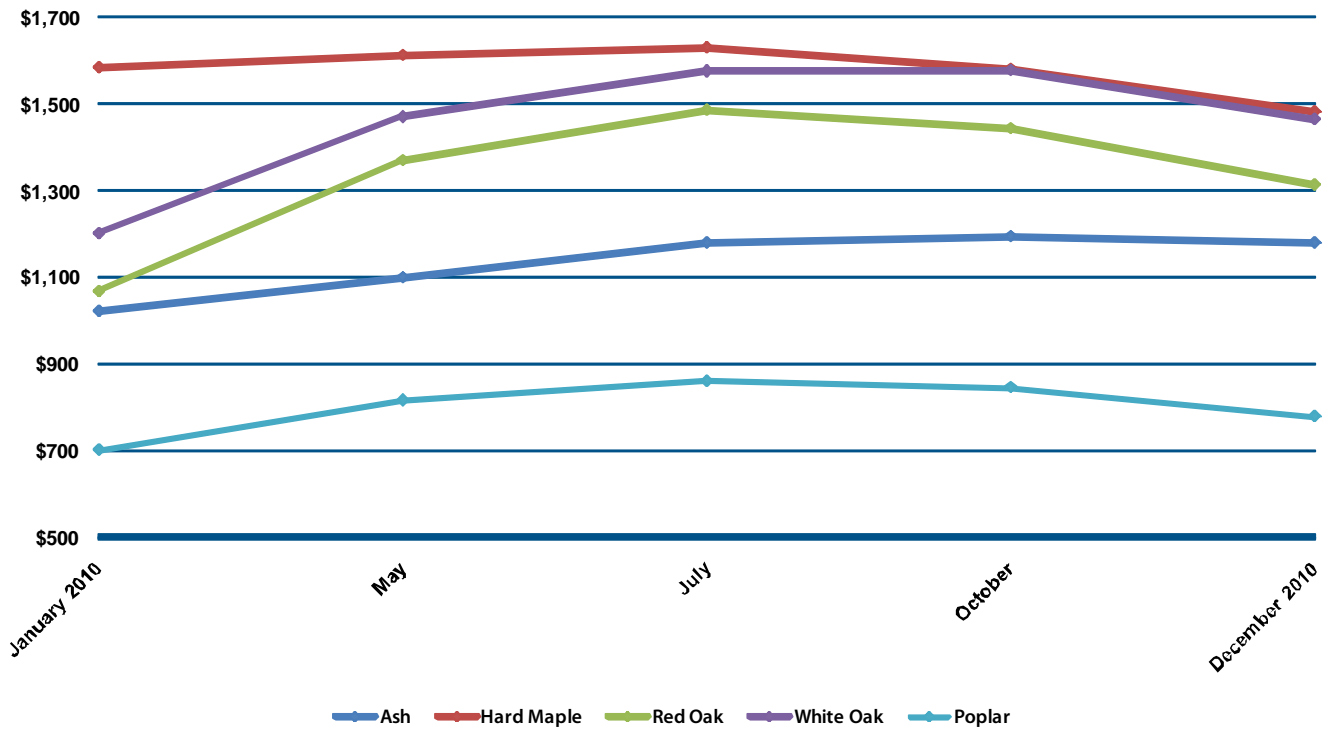
# PRICING TRENDS

## HARDWOOD LUMBER

Hardwood lumber includes species such as Oak, Cherry, Maple, Ash, Hickory and Poplar. While also used for construction, hardwood lumber is commonly used by secondary manufacturers for interior wood products such as flooring, furniture and cabinets. Recent declines in cabinet, flooring and interior hardwood product sales created an environment with excess supply, and recent price trends have reflected this relationship, particularly in species such as Red Oak, Poplar and Maple. Despite recent declines, prices remain up year-over-year. See the Reference Page for current Hardwood pricing.



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



# BUILDING PRODUCTS REFERENCE SHEET

## Softwood lumber and panel pricing trends - % change from previous quarter

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Average Softwood Framing Lumber (\$245 - \$360/mbf)	24%	(32%)	1%	14%
OSB (\$195 - \$410/mbf)	32%	(31%)	(15%)	6%
Pine Plywood (\$380 - \$570/mbf)	26%	(7%)	(21%)	(2%)

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

### Green

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Red Oak (\$810 - \$1,100/mbf)	22%	4%	(7%)	(9%)
White Oak (\$840 - \$1,100/mbf)	24%	-	(6%)	(5%)
Ash (\$710 - \$840/mbf)	4%	8%	4%	(6%)
Poplar (\$540 - \$630/mbf)	3%	1%	(3%)	(11%)
Hard Maple (\$1,200 - \$1,370/mbf)	5%	-	(8%)	(5%)

### Kiln-dried

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Ash (\$1,010 - \$1,200/mbf)	7%	7%	1%	(1%)
Hard Maple (\$1,480 - \$1,650/mbf)	2%	1%	(3%)	(7%)
Red Oak (\$1,000 - \$1,900/mbf)	22%	8%	(3%)	(10%)
White Oak (\$1,200 - \$1,590/mbf)	18%	7%	(3%)	(10%)
Poplar (\$700 - \$860/mbf)	14%	5%	(2%)	(9%)
Walnut (\$2,680 - \$3,200/mbf)	2%	6%	4%	2%