

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

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In this Issue:

Introduction 1

Monitoring Points 2

Cranes and Lift Equipment 3

Construction and Mining
Equipment 3

Intermodal Freight
Transportation 4

Rolling Stock 4

Monitor Information 5

INTRODUCTION

Mixed results have continued through the third quarter of 2013 for sales of new and used heavy mobile equipment. Domestic economic uncertainty over debt ceiling concerns, coupled with continued instability in certain European economies, have led to stagnant markets in these areas, while emerging markets such as China and Central America have experienced improvements. While some growth is projected in the latter half of 2013 and into 2014, appreciable gains are not expected.

Crane and lift equipment values in the secondary marketplace have remained steady through the middle of the year. While all categories continue to be in high demand, the carry deck and rough terrain categories have experienced the most improvement in recovery values. This is also true for boom trucks and telehandlers whose versatility has become a major driver of demand in recent months. The crane and lift equipment sector is expected to remain strong for the remainder of 2013 and into 2014.

The market for construction equipment has also experienced continued stability throughout the year. While domestic housing, energy sector, and infrastructure operations continue to grow, they have not led to significant improvement to the construction

equipment marketplace. Foreign markets have also experienced limited growth as uncertainty over the global economic situation has tempered expectations. However, economic improvement is expected in 2014 and 2015, with equipment markets following suit.

After some decline in the early part of 2013, the rail industry has experienced a slight rebound, as sales and orders for intermodal equipment are up both month-over-month and year-over-year. This is especially true in the case of tank cars, which have experienced very strong growth in the wake of improved oil and gas operations. With oil and gas prices on the rise, intermodal equipment is expected to continue to be in high demand.

Rolling stock has continued to experience mixed results in recent months. While orders of class 8 truck tractors have increased significantly in recent months, sales numbers are still down year-over-year. Fleet managers have begun to replace aging fleets in an effort to meet new emissions standards and eliminate high maintenance costs. This trend has sent a number of older items into the market. However, increased demand in foreign markets has helped the secondary market to avoid overcapacity.

MONITORING POINTS

Sector	Monitoring Point	Impact
Tower Cranes	Monitor tower crane utilization and commercial building construction.	As the commercial construction sector continues to grow, the demand for tower cranes will continue to increase leading to growth in value for high-capacity cranes of this type. Recent forecasts anticipate increased spending in this sector to accompany the increase in utilization.
Construction	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.
Rolling Stock and Intermodal	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.
Rolling Stock	Monitor orders and sales for new class 8 truck tractors and trailers.	Demand for new rolling stock units will be indicative of the demand present in the secondary marketplace for similar assets. Any sales forecasts revised downward for 2013 or 2014 may indicate a slowdown in the market as a whole.

RECENT APPRAISAL TRENDS

CRANES AND LIFT EQUIPMENT

Global demand for cranes and lift equipment has remained steady over the last 12 months. While certain categories of assets have seen modest gains in value in the secondary market, other categories have not fared as well, leading to negligible change over the last six to 12 months. However, projected growth in the domestic energy and construction sectors are expected to bolster markets for most categories, specifically lower tonnage model cranes. Additionally, tower cranes have experienced noticeable growth in the domestic marketplace as users continue to see them as more viable options than they had in recent years.

Carry deck and rough terrain cranes with capacities between 50 and 100 tons have experienced the largest growth in demand in recent months. As ease of transport has increased for these categories, the costs associated with setup of these items have decreased, leading to increased desirability for these types of cranes. However, new carry decks have not been as readily available as in the past, driving buyers toward the secondary marketplace and strengthening recovery values for used equipment.

Global demand for large-capacity cranes has remained high in recent months, while the domestic market for cranes of 200-ton capacity and greater has remained relatively stagnant. Asian markets such as China and Thailand have seen increased demand as these areas begin major infrastructure projects that require cranes with increased tonnage capacities.

The market for boom trucks has also experienced year-over-year gains as demand for these relatively cheap cranes has increased substantially. Boom trucks are primarily used in housing, oil and gas, and utility operations, markets which all continue to experience modest growth. Moving forward, as these trucks are developed to have increased capacity and longer booms, their versatility and mobility will lead to increased demand and higher values in the secondary marketplace.

With regard to lift equipment, telehandlers are one key category that has experienced considerable gains in recent months. In the past, these smaller, more maneuverable lifts had primarily been used as personnel lifts. However, in recent months, manufacturers have begun to produce many different

types of new attachments for telehandlers adding to their versatility. Higher utilization rates for these items has led to an increased demand for telehandlers in the secondary marketplace as buyers look to procure these items quickly.

CONSTRUCTION AND MINING EQUIPMENT

Used construction equipment values have stayed relatively flat throughout 2013 and are expected to remain so for the foreseeable future. Improvements in the domestic housing sector, continued strength in the energy sector, and movement toward increased infrastructure spending have resulted in sustained demand for construction equipment. Demand for this type of equipment is expected to increase by 6% year-over-year through 2017, an improvement from recent years. Excavators and loaders are expected to record the fastest growth as both construction spending and investments in mining projects climb. However, many operators are replacing older machines leading to an influx into the secondary marketplace and lower recovery values for older-model equipment due to overcapacity.

The primary driving force in the demand for construction equipment in recent months has been expansion in the domestic oil and gas industry. Equipment devoted to these operations is in particularly high demand in the secondary marketplace. Further, the expansion of this industry has begun to exhibit a trickle-down effect into construction projects in industries associated with oil and gas operations. Energy-intensive industries, such as steel, glass, and fertilizer operations, have seen a surge in demand for new plants leading to increased demand for construction equipment.

Moving forward, improvements in the domestic construction markets will be offset by the negative outlook for the same markets overseas, most specifically in China. In recent years, China's robust economy had driven markets for construction equipment outside North America. However, the current outlook is far less positive and has resulted in a significant slowdown of construction operations in one of the world's largest markets. Domestic exports of construction equipment fell 25% in 2012 and this trend is expected to continue, resulting in decreased demand for construction equipment as the Chinese market becomes a less-viable option for equipment sales. Gains in Central America and Africa will provide some help to offset this downward trend for 2013 and 2014.

RECENT APPRAISAL TRENDS

INTERMODAL FREIGHT TRANSPORTATION

The rail industry as a whole is expected to continue the modest growth that has been experienced during the first three quarters of the year through 2018. As labor markets improve, so will freight volumes leading to increased demand for rail transportation across multiple industries. Improved consumer spending, spurred on by an improved economic outlook in North America, will also lead to increased freight traffic.

Early 2013 saw slight declines in the demand for new and used freight cars; however, a reversal in this trend has begun in the second half of the year. In September, container traffic increased 4.4% as compared to August and is up 5.2% year-over-year. These gains are expected to continue for the rest of the calendar year as grain traffic increases with the fall harvests and coal volumes begin to stabilize. The expansion of natural gas mining operations in North Dakota and Texas is also expected to strengthen intermodal transportation continues to be the most efficient and cost effective way to transport gas. Further, the current expansion of the Panama Canal is expected to spur rail traffic throughout North America as it moves toward its completion in 2015. Ports and railroads throughout the continent have begun gearing up for the increase in intermodal traffic for the coming years.

As a result, gains are expected in intermodal transportation markets for the foreseeable future. The market for intermodal equipment has remained stable for the first three quarters of 2013; however, with gas prices on the rise, rail freight transportation will become a more enticing option as road transportation becomes comparatively more expensive. Over the next several years, the increase in demand for intermodal equipment is expected to produce strong recovery values in the secondary marketplace.

Looking further into the future, new investments and capital spending into improvements to current railway infrastructure will lead to expansion of the industry as a whole. Development of high-speed rail systems, as well as the proliferation of double-stack cars will lead to higher capacities and faster transport times, resulting in higher demand for intermodal transportation throughout North America.

ROLLING STOCK

The market for class 8 tractors has continued to rebound from the declines experienced in recent years. Month-to-month sales have remained flat through the second and third quarters of 2013. However, overall sales of class 8 tractors are down 7.3% year-over-year through August 2013. Sales volumes have been on the rise for the past several months; however, this has only helped to offset the declines experienced in the earlier part of the year. It should also be noted that orders for new trucks grew an estimated 20% in August as compared to July of this year, suggesting that demand is beginning to improve.

Supplies of late-model and low-mileage used inventory continue to be in low supply in the secondary marketplace. Demand continues to be steady for well-maintained, low-mileage tractors. While supply has increased recent months, it has not been level with demand, leading to increased values in the secondary marketplace.

One sector in particular that has experienced increased sales volume has been Mexico. Regulatory changes in the country have brought on a meteoric surge in demand for used truck tractors. Estimates indicate used truck exports to Mexico have increased 500% for 2013 over the same period in 2012. Such a substantial increase bodes well for the secondary marketplace for the older, higher-mileage tractors that may not have the same demand in the domestic marketplace.

Trailers have seen limited growth in the middle months of 2013 after some decline earlier in the year. This growth has been led primarily by an increase in demand for dry van trailers. Demand for flatbed and refrigerated trailers is also expected to remain steady. The market for tank trailers has been buoyed in regions with heavy energy production such as Texas and North Dakota. Much of this growth has been attributed to replacement of older trailers rather than expansion of existing fleets, creating relatively flat sales in the secondary marketplace.

Lastly, it is important to note that impending changes to energy efficiency standards for trailers, coupled with stricter standards for tractors, will impact the market for older used equipment that may not fall within the confines of these new federal mandates.

MONITOR INFORMATION

The *Heavy Mobile Equipment Monitor* relates information covering a variety of heavy mobile equipment (“HME”) assets, such as cranes and lift equipment, construction equipment, intermodal freight transportation, oilfield and gas equipment, and rolling stock. Great American Group Advisory & Valuation Services, L.L.C. (“GA”) provides our customer base with a concise document highlighting the HME industry, including industry trends, market pricing, and their relation to the valuation process.

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. GA welcomes the opportunity to make our expertise available to you in every possible way. 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.

GA’s *Heavy Mobile Equipment Monitor* provides market value and industry trend information for a variety of HME products. The information contained herein is based on a composite of GA’s industry expertise, contact with industry personnel, industry publications, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. We do not guarantee the completeness of such information or make any representation as to its accuracy.

DISPOSITION 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
- American Sand & Gravel
- 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
- WDC Exploration



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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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 **Heavy Mobile Equipment 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. GA also offers the **European Monitor** via its subsidiary, GA Europe Valuations Limited.

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