

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Building Materials Monitor
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Introduction

Welcome to the second 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

Net recovery values within the building materials vertical have remained stable during the first quarter of 2011. Due to the wide variety of product categories within building materials, factors driving NOLV changes tend to vary depending on the industry segment. While certain seasonal considerations have impacted indicators, such as inventory levels, across the market, the majority of deviation within recovery values has been contingent upon company-specific indicators such as inventory mix.

Commodity lumber prices remained generally at or below 2010 levels by the end of the first quarter. Although there is a general level of optimism for modest demand recovery in 2011, there is little expectation for a near term run on pricing. The potential impact on lumber pricing from reconstruction efforts in the wake of the earthquake in Japan has yet to be determined.

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 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

Until the state of U.S. employment improves to a substantive degree, a material upsurge in the housing sector is unlikely. Recent reports indicate that the jobless rate dropped to a two-year low of 8.8% in March 2011, as employers added 216,000 workers over the course of the month. Despite the recent positivity in the job market, the housing sector has yet to show signs of meaningful improvement. According to the U.S. Commerce Department, construction spending in the U.S. fell 1.4% in February 2011, to an annual rate of \$760.6 billion.

Spending on private construction declined 1.4% from January's rate, settling at a \$468 billion, the lowest rate since April 1997. Home construction plummeted 23% to an annual rate of 479,000 units, and homebuilding outlays decreased 3.7%. Many analysts are now predicting that first quarter results will remain flat with fourth-quarter 2010 results, after initial forecasts of modest growth. Worries exist within the industry regarding high inventory levels, particularly with such a large number of potential foreclosures still on the horizon.

According to data from the National Climatic Data Center, January represented the fifth snowiest month in the past 45 years, with approximately 71% of the country covered in snow by January 12. February provided no relief in terms of weather conditions, as evidenced by an 8.2% decrease in building permits. The rate of building permits, which stood at 517,000 units in February 2011, marked the lowest rate on record.



Home prices have also continued to decline during the first quarter of 2011. The Case-Shiller U.S. home-price index reported a 3.1% year-over-year decline in January 2011. Insiders cite a substantial risk of selling prices for homes falling up to 25%. Home prices have fallen 33% since their peak, and analysts believe that the reduction in home prices may have a stabilizing affect on the market, drawing market prices closer to the overall rate of inflation. Despite the 33% drop in the Case-Shiller home price index, the gap between home prices and baseline inflation remains at 25%; as a result, home prices still have room for downward movement in the coming years. Since 2000, the Case-Shiller index has increased 40%, while incomes have remained flat and the U.S. private sector has created almost no new net jobs.

Privately-Owned Housing Units	Change February 2011 vs January 2011
Building Permits	(8.2%)
Housing Starts	(22.5%)
Housing Completions	13.9%

RECENT APPRAISAL TRENDS

SOFTWOOD AND HARDWOOD LUMBER

Year-over-year sales trends for lumber dealers have generally been positive for fourth quarter of 2010, into early 2011. This can be attributed primarily to a very soft market in 2009 and early 2010. Inventory levels remain very low, which is consistent with industry-wide inventory reduction efforts in 2009 and 2010. Dealer lumber inventory weeks of supply have ranged anywhere from seven to 11 weeks, which has allowed gross recovery levels on lumber to remain consistent.

Based on GA's experience within the lumber and specialty building material distribution markets, as well as the lumber production industry, gross recoveries have trended up year-over-year. Lumber producers have experienced slightly higher levels of fluctuation in terms of recovery values, contingent upon the current relationship of cost to market values. Recovery values for lumber producers typically exhibit a higher level of dependence upon market pricing, as these companies are often involved with the entire spectrum of lumber, from logs, to green lumber, to kiln-dried varieties. As such, gross recoveries for lumber producers have shown a wider range of values.

ROOFING

This market relies on a higher percentage of replacement business and can be impacted by sporadic storm activity, particularly the heavy snowfall that impacted much of the U.S. during the first quarter of 2011.

GA has noted that the market for higher-margin accessory products continues to require higher levels of discounting in liquidations. However, more essential products, including asphalt shingles, underlayment, and low slope/commercial products, have exhibited greater demand and typically require lower levels of discounting. However, as the price of crude oil and other petroleum products continues to escalate, margins will likely be squeezed for products such as asphalt shingles.



One-stop roofing shops have also trended downward in certain product categories, as these goods maintain lower inventory turnover due to the breadth and depth of product lines. In particular, siding and other exterior products, which are often offered in a wide variety of colors, textures, and accessory items, will require higher levels of discounting in order to incentivize purchasing in a liquidation setting.

PLUMBING

Sluggish demand in the retail and wholesale sectors has resulted in attempts by plumbing fixture manufacturers to align production to consumption, causing tightened supply on the market. Major indicators such as weeks of supply and inventory velocity have improved over the previous 12 months, which has resulted in positive gains in this sector from a supplier perspective.

Higher-margin items such as Chinaware and Fittings have fared better in terms of gross recoveries than products such as Acrylic-based fixtures, based on GA's appraisals of multiple plumbing fixtures manufacturers.

Due to the highly-specialized nature of raw materials, including purchased components, acrylic sheets, resins, clay, glaze, and other hardware items, demand remains slack in the marketplace, and distribution channels are limited. These goods typically recover lower than more essential products such as fixtures. However, recovery values for plumbing product distributors have exhibited more variation, as liquidation channels are highly contingent upon existing customer bases, which show greater variability.



RECENT APPRAISAL TRENDS

HVAC

Consistent with the previous monitor, a run-up in demand for R-22 refrigerant-based HVAC products has positively impacted recovery values within the marketplace. Due to regulations passed by the EPA, as of January 1, 2010, air conditioner manufacturers are no longer allowed by law to produce units utilizing R-22 refrigerant. R-22 has been proven to deplete the ozone layer as a result of its hydrochlorofluorocarbon emissions. Despite the cessation of production, the sale of R-22 products has not been prohibited by law, and demand has continued to escalate as supply tightens. As many manufacturers have historically produced air conditioners with R-22 refrigerant, many producers have systematically replaced production of R-22 units with more eco-friendly R-410A units.

Similar to the plumbing marketplace, raw materials typically do not fare as well in liquidation scenarios as finished goods, as these products are not typically marketed toward existing customer bases, and increased discounts are often offered to compensate for additional processing required. Raw materials in the plumbing marketplace include purchased components and other hardware items that typically recover much lower than finished items, as their specialized nature maintains more narrow channels of distribution. More commodity-based items, such as metal sheets, typically require higher levels of discounting than finished goods, but maintain wider channels of distribution as compared to more specialized inputs.

Consistent with other distributors within the building products distribution market, HVAC distributors often offer product lines of immense breadth and depth, which therefore maintain higher weeks of supply and lower margins. As distributors typically sell to contractors and builders that purchase on an as-needed basis, the majority of distressed sales occur in secondary markets, which require higher levels of discounting.



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.

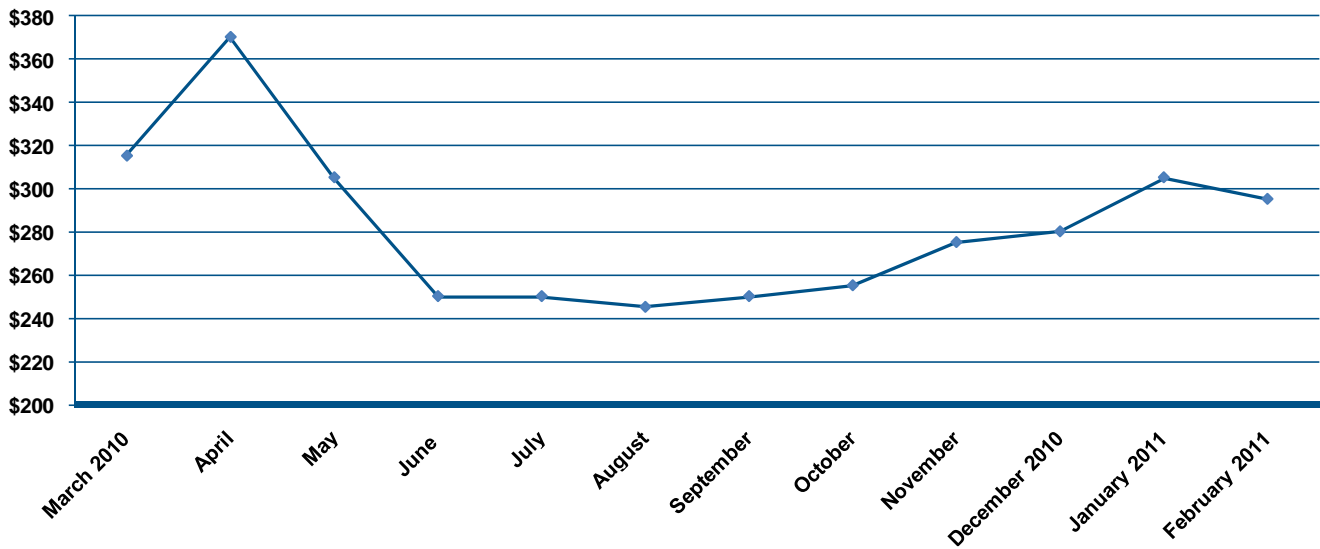
PRICING TRENDS

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. Dimensional lumber prices have had a soft start in 2011, unable to match the run-up in pricing seen during the same period in 2010. Domestic demand continues to be weak. Severe weather, combined with a leveling of export activity, has kept prices in check. There has been no short-term impact to dimensional pricing as a result of the earthquake in Japan, as most experts believe any impact to lumber pricing will be a long term one.



Monthly Average Framing Lumber Pricing Trend
March 2010 through February 2011
\$ per MBF

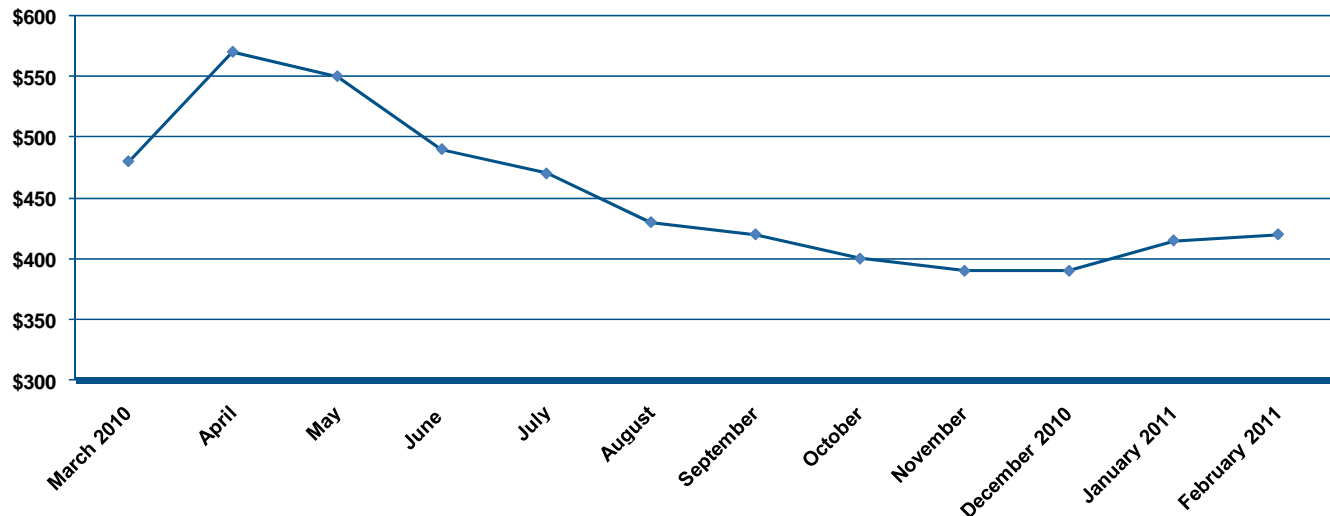


The market for softwood lumber has continued to show mixed signals of growth and contraction. Chinese demand, which helped buoy prices in 2010, has stagnated to some extent early in 2011, and disappointing housing statistics have kept dealers from overstocking. In addition, the persistent rise in fuel costs continues to cut into supplier margins. Despite the lack of promising data on the housing front, there remains cautious optimism on the dealer front that a modest recovery is still to come in 2011, and there is no indication that dealer inventories have been decreased below 2010 levels.

PRICING TRENDS

SOFTWOOD LUMBER

Plywood Panel Pricing Trend
March 2010 through February 2011
\$ per MBF



The market for products such as OSB, plywood, and veneers have remained flat to start 2011, due to many of the same factors burdening the softwood lumber market. However, plywood was the only one to experience pickup in demand as a result of the earthquake in Japan. Demand for temporary housing pushed up plywood sector pricing in recent weeks, but it is expected to be a short term development. OSB demand, as well as resulting prices, has remained weak during the first quarter of 2011.

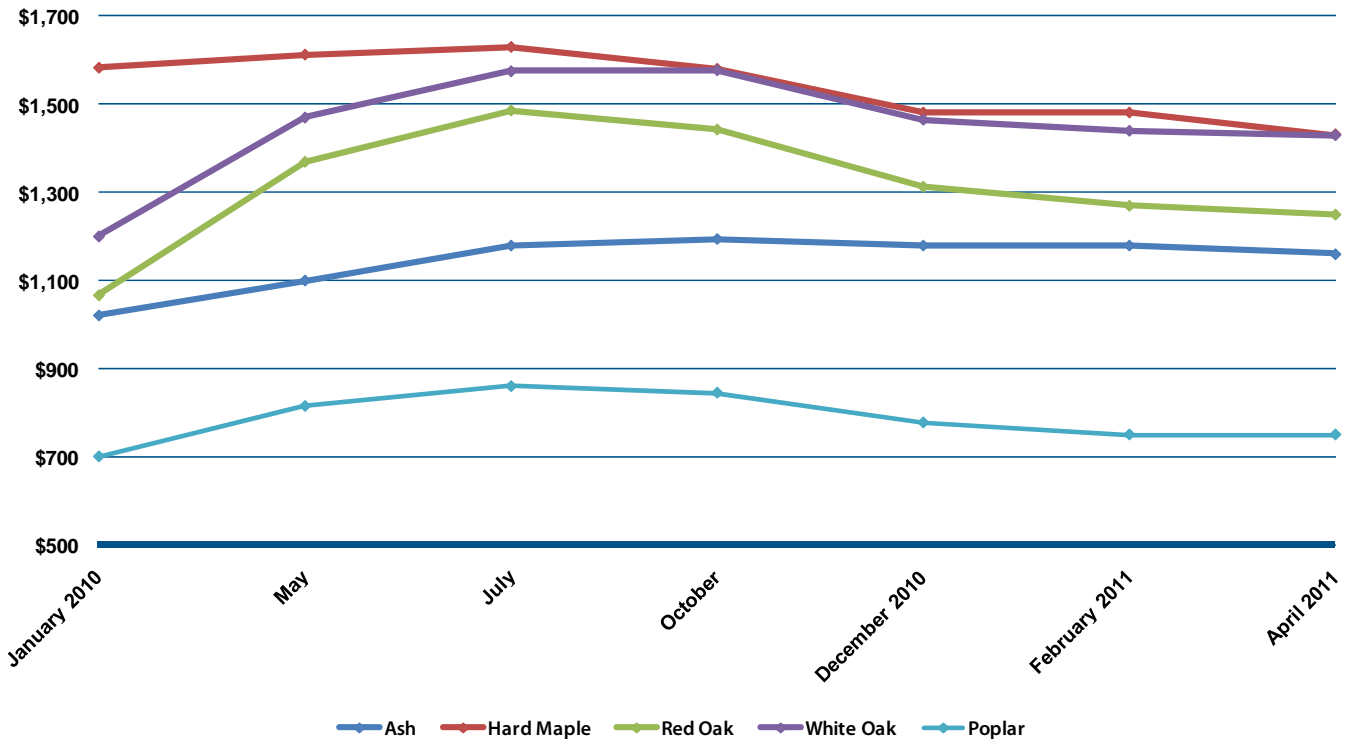
PRICING TRENDS

HARDWOOD LUMBER

The hardwood market, which includes species such as Oak, Cherry, Maple, Ash, Hickory and Poplar, has been negatively impacted by the soft economy and weakened U.S. construction rates. Generally, across all species, current prices for both green and kiln-dried lumber remain below the highs of six months ago, and either at or below the levels from a year ago. Current turmoil in areas across the globe has also negatively impacted demand and pricing, with little expectation for any increase in the near term. See the Reference Page for current Hardwood pricing.



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



BUILDING PRODUCTS REFERENCE SHEET

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

	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Average Softwood Framing Lumber (\$245 - \$360/mbf)	(32%)	1%	14%	1%
OSB (\$195 - \$410/mbf)	(31%)	(15%)	6%	4%
Pine Plywood (\$380 - \$570/mbf)	(7%)	(21%)	(2%)	7%

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

Green

	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Red Oak (\$810 - \$1,100/mbf)	4%	(7%)	(9%)	(2%)
White Oak (\$840 - \$1,100/mbf)	-	(6%)	(5%)	(2%)
Ash (\$710 - \$840/mbf)	8%	4%	(6%)	-
Poplar (\$540 - \$630/mbf)	1%	(3%)	(11%)	-
Hard Maple (\$1,200 - \$1,370/mbf)	-	(8%)	(5%)	(13%)

Kiln-dried

	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Ash (\$1,010 - \$1,200/mbf)	7%	1%	(1%)	(7%)
Hard Maple (\$1,480 - \$1,650/mbf)	1%	(3%)	(7%)	(3%)
Red Oak (\$1,000 - \$1,900/mbf)	8%	(3%)	(10%)	(5%)
White Oak (\$1,200 - \$1,590/mbf)	7%	(3%)	(10%)	(3%)
Poplar (\$700 - \$860/mbf)	5%	(2%)	(9%)	(3%)
Walnut (\$2,680 - \$3,200/mbf)	6%	4%	2%	2%