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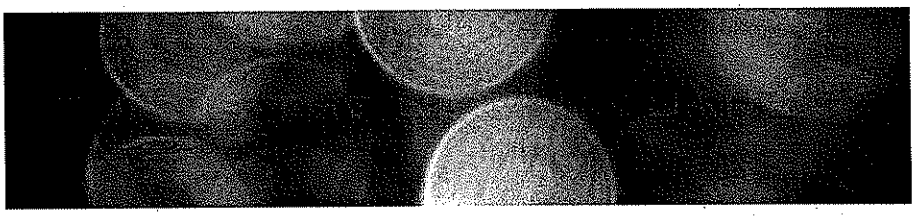

http://www.latimes.com/business/la-fi-auction20-2008nov20,0,1344005.story
From the Los Angeles Times

CONSTRUCTION EQUIPMENT

Housing slowdown spurs auction of construction equipment

Sellers dump equipment to pull in capital. Buyers are lured by cheap prices, although some are reluctant to spend on equipment that could remain idle for months.

By Tiffany Hsu

November 20, 2008

Robert Anderson, 70, wandered the huge auction yard in Perris, inspecting his fleet of excavators, backhoes and other heavy construction machines, including the first crane he ever owned.

For four decades, he ran Desert Pipeline Inc. out of Thermal, near Palm Springs, building sewers and storm drains for new housing projects. But when the housing bubble burst, Anderson went from a backlog of contracts to no job orders at all.

"If we had been getting jobs, I might have stayed on a while longer, but we knew it was coming, that the work was going to shut down," he said. "It was time, and it was a good, clean way to get out."

Anderson was among the hundreds of heavy equipment owners selling off their rigs to the highest bidders at the two-day auction, which ended Wednesday. The auctioneer, Ritchie Bros., said the more than 2,000 pieces being sold would probably fetch a combined $20 million or more.

Sellers said they were purging their inventories to pull in operating capital. Buyers said they were lured by cheap prices, although several expressed reluctance to spend money on equipment that could remain idle for months.

"These are the worst prices I've ever seen," said Steve Thompson, 52, who was there to make bids for Chuck Green & Associates Inc., a San Diego County company that buys, resells and rents heavy equipment.

Back in 2005, during the boom, the company sold a used hydraulic dirt excavator for $309,000. That same excavator changed hands Tuesday for just $50,000.

Another excavator, worth $1.4 million new, sold for $150,000, said Sean Green, Thompson's colleague.

Later, a Volvo wheel loader, a type of earth-moving machine that once could have fetched $112,000, went for $60,000.

"Auctions set the price, and traders can try to sell stuff sitting there for a year, but if it's not priced right it won't move," Thompson said.

Bidders had little cause to spend freely. The Commerce Department reported Wednesday that new home construction and building permits dived last month to their lowest level since the government began keeping records nearly 50 years

ago.

From the glass booth overseeing the action, an auctioneer named Butch kept up a singsong staccato, pausing only to nudge bidders with "Gentlemen, it's showtime!" or, "You snooze, you lose" as a pageant of tractors, water trucks and other equipment was driven onto the stage.

Amid the hum and grumble of dump truck engines and smells of gas wafting through the yard outside, would-be buyers tried out various bulldozers and other earth-moving equipment.

Some said they were bargain hunting or trying to upgrade equipment to meet emissions limits to be imposed by the California Air Resources Board next year.

Perhaps 20% of buyers don't use the equipment they purchase but plan instead to resell the rigs for a higher return, said Richard Aldersley, a regional manager for Ritchie Bros. The auctioneer gets a standard commission of about 14% on most sales.

More than half of the equipment sold will leave Southern California for healthier construction markets, he said.

This was the third auction for Tim Isiguzo, 38, of Los Angeles, who fixes up used construction equipment, exports it to Nigeria and sells it for a profit. Isiguzo, wearing clothes stained with motor oil but sporting a diamond-crowned watch, sat at the controls of a Caterpillar wheel loader he bought for $24,000, testing out its shovel.

Isiguzo said he expected to spend an extra $3,000 to fix some leaks and paint the loader, and $12,500 more to ship it to Houston and then to Nigeria. But he said he would probably be able to sell the loader for $60,000.

"I know I got a good deal," he said. "People abroad aren't feeling as much of the economic problems -- people in Nigeria are spending and the banks have money."

Other buyers were at the auction to sell equipment they could no longer afford, but they were keeping an eye out for cheap replacements.

By noon, Franky Rasic, 39, chief executive of W.A. Rasic Construction in Bell Gardens, had spent $400,000 on three excavators and a bulldozer. His company is surviving, thanks to $100 million in contracts with the city of Los Angeles. Many of his peers have abandoned home construction and are competing for municipal and other infrastructure projects to stay afloat, he said.

"Some of the buyers who normally bid against me weren't raising their hands as much," Rasic said. "Overall, this auction is definitely down. Banks aren't lending, so the smaller guys can't cash out on equipment, and everybody's hoping for the public works sector as their big pick-me-up."

The companies that build the dump trucks aren't doing that great either.

Caterpillar Inc., for example, said its third-quarter net income fell 6.4% from a year earlier to $868 million. Its stock has tumbled 53% this year, closing Wednesday down $2.32, or 6.4%, at $33.87.

JP Morgan analyst Ann Duignan wrote in a note to investors Monday that once the liquidity crisis eases, some large machinery makers may start buying up weaker companies crippled by the downturn.

Vancouver, Canada-based Ritchie Bros.' own stock has dropped 38% this year, falling 15 cents Wednesday to $17.10. Its third-quarter net income declined 20% from a year earlier to $11.9 million.

Since January, the firm has held more than 300 auctions in 13 countries, including more than 100 in the U.S., reflecting the slowdown in construction.

"Southern California is struggling and its housing market is in a world of hurt," said Aldersley, the Ritchie Bros. manager.

Auctions have become a popular way to move used equipment, said Jeff Jeter, a vice president at IronPlanet, an online heavy equipment auction company.

"You can always make a market for something depending on the price, and we're bringing in enough buyers to give the marketplace liquidity," Jeter said. "An auction offers fair market value in a global market environment."

In a room over the auctioneer's booth, there was a VIP lounge serving scalloped potatoes and Parmesan chicken for customers who trade more than $3 million in goods each year. Auction regular Guy Dabney, 46, reminisced about when he used to drop $500,000 on equipment in a single day.

Dabney, president of Dorado Equipment Corp. in San Bernardino, said rentals of his compaction equipment had plunged 30% this year. His real sales, after factoring the 50% of his inventory he sold off this year, are down 40%.

He had $250,000 in equipment on the block Tuesday.

"I don't want to be holding stuff I'm just going to look at when it needs to be utilized," Dabney said. "But some of the nicest pieces here belong to me. I hope they bring some good money, so I can at least make some cream."

Hsu is a Times staff writer.

tiffany.hsu@latimes.com

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