

# LEASING LIFE

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## Under the hammer

Equipment valuers are a key part of the UK leasing scene. Yet their sector is subject to unprecedented turmoil and change. **Brian Rogerson** reports

### ■ Box 1: RESPONDENTS Equipment valuers/auctioneer respondents

Company	Head Office	Other Offices
Bache Treharne	Birmingham	UK, Ir.
Cranmer Lawrence**	Beaconsfield, UK	
GOIndustry Henry Butcher Intl.*	London	A, B, G, Ir, It, S, C, US, HK, In, SKo, Ma, Ph, Si, Th, SAF.
King Sturge Plant & Machinery	London	21 European offices. 16 UK offices. Aus, HK, In, Indo, Ja, Ma, Si, US, C, Me.
Sanderson Weatherall	Leeds	5 UK offices. Affiliated offices abroad
SHM Smith Hodgkinson	Manchester	4 UK offices. Th, Yu, Rom, Ma, US, F, G
Tallon and Associates	Manchester	Ir.
3 Step IT**	Helsinki	UK, Sw, No, D, Es, Lat, Li.

Code: A: Austria, Aus: Australia, B: Belgium, C: Canada, D: Denmark, Es: Estonia, Fl: Finland, F: France, G: Germany, HK: Hong Kong, In: India, Ir: Ireland, It: Italy, Lat: Latvia, Li: Lithuania, Ma: Malaysia, Me: Mexico, S: Spain, SAF: South Africa, Si: Singapore, SKo: South Korea, Sw: Sweden, Th: Thailand, Yu: Yugoslavia.

\* Operates internationally under GOIndustry with varying suffixes.

\*\* These companies are not auctioneers but rather companies that intensively manage or re-build leased units as part of the leasing process.

### Q: Please provide a breakdown of the principal asset sectors in which you operate.

A: All respondents have some involvement in machine tools, engineering and food production equipment (see Box 3). Far more uncommon are companies prepared to handle assets in the hotel and leisure, marine or aerospace and defence sectors. Other equally unsought for assets are IT equipment and, more oddly given its flavour of the moment, recycling equipment.

### Q: Which assets are showing the most buoyancy in terms of market value at the present time – and which are disappointing?

A: Interestingly, companies' responses vary to this question (see boxes 4 and 5). Some respondents find that printing equipment is failing to reach the required price whilst others manage to. There is equal dichotomy in the food production equipment, construction equipment and woodworking sectors.

Peter Singleton from King Sturge stresses

that generally the market remains positive for price realisation across most asset classes and the main differentiator is not really the asset type. He says: "It is rather the age of the asset which is at issue. Old equipment is struggling to find a home at any price. Across all sectors the more specialised equipment is either very much sought after regardless of how old it is – or of no value regardless of how new it is. Value is entirely dependent upon the use to which it is to be put."

### An Olympic factor?

John Tallon of Tallon and Associates says: "We have found strong demand for engineering, machine tools and food production equipment from both UK and overseas purchasers. There appeared to be a shortage of used yellow plant and cranes in the second-hand market and we have achieved very strong prices for the same from the UK domestic market where in previous years demand was from overseas purchasers."

Singleton has also found yellow plant strong with a growing demand for good quality tippers. "This is due to the run up to the 2012 Olympics," he says. "Engineering

demand is returning together with a fair interest in window-manufacturing machinery. The export market should never be ignored and suitable auctions benefit strongly from live internet broadcasts with up to some 30 per cent of sales being transacted via the internet. This strengthens the argument that the public auction is still the best vehicle for lessors to realise their exposure."

Cranmer Lawrence is experiencing re-sale buoyancy in big-cab, big-engined Euro III tractor units. Director Ken Hunnisett says: "These are selling at a significant premium to the rest of the market. These premiums are derived, in the most part, from an operator's keenness to resist the new Euro IV and V legislation and the requirement consequently to switch from analogue to digital tachographs avoiding the financial and administrative burden of onerous data management and expensive driver training."

Hunnisett believes that the upward pressure on values is further exaggerated by the 30-week lead times for new products – as certain manufacturers struggle to service burgeoning order books from emerging markets in Eastern Europe and Asia and cannot allocate sufficient products to the UK market.

### Q: What effect is the relatively strong pound Sterling having on overseas disposal patterns?

A: Opinions varied as to what extent the strength of the pound has impacted on disposal prices worldwide. The majority of respondents (66 per cent) believe that it has impaired business with the US but others were less sure of any impact elsewhere in the world. Some 33 per cent of respondents are of the opinion that there is no adverse effect on overseas disposal patterns (see Box 6).

"Overseas purchasers," says Mark Lord of Sanderson Weatherall, "are still showing interest in modern specialised equipment although less so in conventional equipment. "Exports to Ireland," Hunnisett stresses, "with its membership of the Eurozone, have been dramatically reduced as operators there turn to Western Europe knowing that they are immunised from currency fluctuations and not prey to a strengthening pound."

### ■ Box 2: NAMES Names of respondents and their job titles

Company	Respondent	Job Title
Bache Treharne	Peter Bache	Senior Partner
Cranmer Lawrence	Ken Hunnisett	Director
GOIndustry Henry Butcher Intl.	Neil Smith	Senior Manager
King Sturge Plant & Machinery	Peter Singleton	Managing Director
Sanderson Weatherall	Mark Lord	Associate Director
SHM Smith Hodgkinson	Christian Humphreys	Associate Director
Tallon and Associates	John Tallon	Director
3 Step IT	Jon Davies	Director

**■ Box 3: ASSET TYPES**  
Percentage of responding companies operating in specific asset sectors

Asset type	% involved
Machine tools/engineering	100
Food production	100
Printing equipment	83
Electronics	66
Transport & logistics	66
Petro chemical	50
Construction	50
Plastics	50
Woodworking & timber	33
Audio visual	33
Textiles	33
Pharmaceuticals	33
IT	33
Retail	17
Marine	17
Hotel & leisure	17
Sports stadia	17
Mining & quarrying	17
Aerospace & defence	17
Recycling	17

**Q: What is the state of the UK market for the resale of manufacturing assets?**

**A:** “With the exception of late quality machine tools, fabrication equipment and food equipment, we have found that UK demand for manufacturing assets continues to decline. Sectors including plastics, textiles, packaging, woodworking and electronics continue to decline as more and more manufacturers choose either to re-locate or source overseas.” – *Tallon and Associates*

“Strong in certain sectors but poorer for textiles, woodworking and plastic moulding.” – *SHM Smith Hodgkinson*

“There is still some UK market – but this is mainly restricted to the upper quality end of the market.” – *GOIndustry Henry Butcher International*

“Poor. The manufacturing industries continue to re-locate to low-cost labour countries. As a result we are finding fewer domestic end-users, so re-sale costs have to consider re-location expenditure to these areas.” – *Bache Treharne*

**Q: Is demand increasing from Far Eastern markets for used assets? If so, what impact is this having on prices?**

**A:** “Certain areas have shown an increase in demand such as the Indian sub-continent, Middle East and China in particular. The growing demand has had a stabilising effect on prices rather than increasing them.” – *Bache Treharne*



■ Ken Hunnisett

“Not discernable.” – *Sanderson Weatherall*

“Market demand is increasing from Far Eastern markets and this is generally improving prices.” – *GOIndustry Henry Butcher International*

“As a buyer of assets from the UK we see the European market as more important. Certain markets have imposed restrictions on the import of some equipment and this obviously has an impact.” – *King Sturge Plant and Machinery*

“We have seen enquiries from the Far East reduce as it now has access to its own domestic new equipment market. However, there will always be strong demand for high-technology quality-branded assets from the electronic and consumer goods manufacturing sectors.” – *Tallon and Associates*

**■ Box 4: BOOMING MARKETS**  
Percentage of assets showing buoyancy in terms of market value

Asset type	%
Construction plant	17
Food production	17
Pallet production	17
Plastics	17
Printing	17
Test equipment	17
Tipplers	17
Woodworking	17
Yellow plant	33
Large engineering	50
Machine tools	66

**■ Box 5: CHALLENGED MARKET**  
Percentage of assets showing a disappointing return in terms of market value

Asset type	%
Audio visual	17
Coaches & CVs	17
Construction equipment	17
Food production	17
Poultry processing	17
UPVC	17
Plastics	33
Woodworking	33
Web-feed printing presses	50
Electronics	66

**Q: What types of assets are selling best in Far Eastern markets?**

**A:** Again there is little consensus amongst companies regarding which assets are selling best in Far Eastern markets. One half, however, finds that consumer goods manufacturing and foundry plant is doing well (see box 7).

Hunnisett’s experience is that the values of older vehicles have been depressed by increasingly discerning overseas buyers who demand ever-younger products – often in light of legislative hurdles in their own jurisdictions. He says: “Malaysia, for example, has raised the import duty by 20 per cent for those vehicles that are more than five years old.”

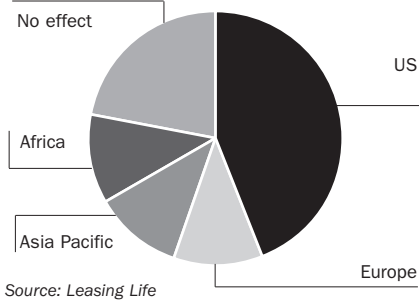
**Q: In your experience, which are the most significant overseas markets for used assets?**

**A:** There was a unanimous selection of Eastern Europe as the most important overseas market for the re-sale of assets (see box 8).

Hunnisett believes that disposal companies need to remain open-minded when they consider what disposal channels to use. He says: “Like many lessors and residual value underwriters that were engaged in local authority operating leasing in the late 1990s, we are faced with managing away residual investments in refuse collection vehicles at a level considerably in excess of their realisable market value in the UK. We have often derived better outcomes for our investors by breaking up the vehicles into their component parts.”

He adds: “For example, we have been successful in exporting the comparatively lightly used Cummins 245 and 280 engines and the Allison automatic transmissions and back axles from Dennis RCVs to South America for use in public service vehicles.”

**Box 6: STERLING**  
Areas of the world where respondents believe the £'s strength is affecting disposal patterns



Source: Leasing Life

**Q: In such a fast-evolving market what is your view on the current and future re-sale value of computer and other IT equipment?**

**A:** "There is severe asset depreciation in IT due to obsolescence factors. The pace of change is likely to continue in the near future." – Sanderson Weatherall

"Extremely poor due to lower new cost and technical obsolescence when re-selling." – Bache Treharne

"I believe that residuals will get worse." – GOIndustry Henry Butcher International

"The resale value will continue to fall, in line with the new price." – King Sturge

"The maximum economic life we attribute to IT is three years." – Tallon and Associates

"There continues to be a strong demand for re-used IT equipment. Clearly the continued price erosion of new hardware does have a knock-on impact on resale values. We are primarily an organisation that assists clients manage their IT estate and in this regard we take care of the full asset lifecycle. Thus only 20 per cent of the typical three-year cost of using IT assets is related to the hardware. Therefore, having efficient systems and processes for managing the lifecycle of the asset is a lot more cost-effective than purely focusing on maximising the residual value. Much of the cost/risk implications lie in effectively handling the data security and disposal issues and if these aspects are not correctly managed the costs can be very high." – 3 Step IT

**Q: To what degree is growing use of the internet influencing asset disposal?**

**A:** "Online and web-cast auctions continue to grow in popularity both with buyers and sellers. Buyers are able to participate in sales

without the need to attend in person, thus reducing associated costs. They are open to the international market place increasing opportunities for buyers as well as increasing competitive bidding." – Bache Treharne

"Live web casts are now an established realisation tool and are likely to become more widespread once general buyer confidence is increased." – Sanderson Weatherall

"In 2005 our company had some 30 live auctions and around 100 online auctions. In 2006 we conducted just five live auctions but 310 online auctions – so internet growth has affected us considerably." – GOIndustry Henry Butcher International

"Massively, online sales and live web-cast auctions have helped hugely in reaching a global market/buyer both in marketing and sales potential." – SHM Smith Hodgkinson

"Completely – all assets are now offered across the web in some form and purchasers expect to be able to access information on the assets for sale via websites." – King Sturge Plant and Machinery

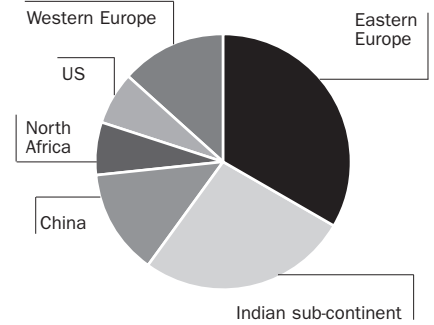
**Q: What are the biggest challenges facing valuers of UK assets over the next 12 months?**

**A:** "Forecasting the demand, taking into consideration the continued expansion of the low-cost labour markets and the decline of UK manufacturing." – Bache Treharne

"The transition of the UK from a manufacturing to a service-led economy. Engendering greater confidence in the marketplace for online sales and adapting quickly to the requirements of the developing ABL market." – Sanderson Weatherall

"Having something to value. The majority of manufacturing equipment is moving abroad so we have to offer expertise in other areas. The market is far more competitive nowadays with many more players as well as leasing companies having in-house

**Box 8: BEST DEALS**  
The most significant overseas markets



Source: Leasing Life

capabilities for setting residual and other valuations on plant and equipment." – GOIndustry Henry Butcher International

"Responding to the demands of clients for high quality work. Training sufficient people to the standards required. We are facing inflationary pressures due to rising global commodity prices for European, Japanese and US-built assets. Against this is the potential deflationary effect of Chinese-built assets (particularly construction assets) being imported with substantially lower asking prices." – King Sturge Plant and Machinery

"The challenge is to keep up-to-date with changing markets as market places and prices are changing at a faster pace than they did historically. This results in our comparable databases and market information having a relatively short shelf life. It will be imperative that valuers update their records and carry out more research at the time of reporting. In relation to disposals, depending upon asset type it will be important to conduct more focused marketing campaigns as the target market spreads globally." – Tallon and Associates

"The challenge for valuers and lessors will be to provide services that enable customers to manage and control the assets' full lifecycle. Particularly regarding IT, the issues of data security and the environment need to be considered at the point of acquisition as opposed to only being considered at the point of disposal." – 3 Step IT

"We predict that with the inevitable cyclical downturn in the UK economy, 'sweating the assets' in the US style is likely to become more prevalent. It has always been in the interest of lessors to strive to extend the life of their assets and with the predicted downward turn in the economy with all its cash-flow and interest rate implications, lessees will inevitably see it as in their interest also." – Cranmer Lawrence

**Box 7: OVERSEAS**  
Percentage of respondents selling assets in Far Eastern countries

Assets	%
Electronics	25
Machine tools	25
Conventional print & finishing	25
Fabrication/metal working	25
Heavy engineering	25
Chemical processing	25
Consumer goods manufacturing	50
Foundry plant	50