

# Rental Market

# Diverse Underground Rental Market Keeps Industry Healthy

Rented equipment and tools continue to play a significant role in the work being done on construction sites in North America.

Citing figures from its 2007 State of the Equipment Rental Industry Report, the American Rental Association (ARA) says that construction and industrial equipment rentals accounted for 69.7 percent of the \$44.3 billion in rental revenues posted in the U.S. and Canada last year. In addition, the general tool category accounted for just under 25 percent of revenues.

The report found that rental companies contributing information for the study said nonresidential construction more than offset the decline in business from the sagging housing market.

Looking ahead, the ARA report projected continued growth for the rental industry, but at a slower pace than the compound rate of 4.1 percent in 2007.

While it is clear rental equipment is routinely used on underground construction, maintenance and rehabilitation projects, this ARA report and others in the past have not included statistics about the types of equipment most-often used on underground projects. Because horizontal directional drilling and vacuum excavation equipment are not widely available in the general rental outlets, most would not be included in ARA statistics, although they are routinely rented by equipment dealerships.

For a more detailed look at how rental relates to the underground construction market, United Rentals, the world's largest equipment rental organization, provided information for this report.

## Slow growth

From United Rentals' perspective the state of the equipment rental industry is ex-



Paul McDonnell

periencing cautious forward momentum, said Paul McDonnell, senior vice president, trench safety, pump and power.

"Our customers are telling us that they have projects on the books, but bid activity for future work is not as strong as it was at

this time last year," said McDonnell. "This coincides with our company's own experience: our rental revenues were up for the first quarter but in general, demand for equipment appears to be softening. We're watching a number of leading indicators very closely, and they are signaling caution."

Speaking specifically about underground construction markets, McDonnell said there have been some constraints on project starts, most notably the uncertainty in the bond market and the potential impact

of declining tax revenues on funding for infrastructure projects.

"Of course, residential construction is still very weak," he added. "However, from a macro standpoint, these weaknesses are being at least partially offset by an upswing in industrial rentals and a boom in energy pipeline work. We have a lot of traction in the energy sector."

Following are McDonnell's answers to specific questions.

## **Underground Construction:** *How is the slowdown in housing construction affecting equipment rentals?*

**Paul McDonnell:** For us, residential construction represents only about 10 percent of total company rental revenues, so the direct impact is marginalized with two exceptions: the California market and our trench safety business. However, when housing starts slow down there is an adjacent impact on commercial construction of strip malls, offices, supermarkets and other non-residential projects, as well as utility work.

So a drop in housing starts does tend to subsequently create some non-residential softness. We use equipment transfers and other fleet management tactics to offset softness in one sector by developing business in others.

*Is reduced demand for extending utilities to new developments affecting rentals of loader-backhoes, trenchers, compact excavators and mini skid-steers? What about larger excavator and loader models?*

**McDonnell:** Our smaller fleet range – compact equipment and mini-excavators – are staples of plumbing and telecommunications customers, whereas the demand for backhoes in this context is tied to water and sewer jobs and general engineering contractors. To some degree economic uncertainty can be a lever for rental activity: contractors can become more cautious about capital investment, which makes the rental option very attractive in terms of cash outlay and cash flow. It's not unusual for a contractor to invest in owning machines up to a certain point, and then rent from us to supplement his fleet.

*Can you share any statistics illustrating demand for particular equipment categories?*

**McDonnell:** Based on OEC (original equipment cost), looking at a seven-day period in early May, our mini-excavator category had about a 2 percent year over year increase in OEC on rent, and skid-steer loaders were nearly flat. Trenchers were down a few points. Such a short time period isn't a true sampling, of course, especially with some of the weather we had this spring, but we really haven't seen any major negativities by category at this time. As a general observation, the larger earth moving equipment tends to be more susceptible to fluctuations in underground construction activity. Smaller machines are often more versatile.

On the trench safety side, we are experiencing a higher demand for steel road plates, which we believe is being driven by two factors: the escalating price of steel and a growing appreciation for the advantages of renting this equipment.

*Have expanding broadband networks and sewer and water construction increased rentals for work in these areas?*

**McDonnell:** When we look at the public construction landscape we see a lot of regional variation, even to the point of big swings within regions. In Texas, the Austin area is in the seventh year of a nine-year clean water initiative. Corpus Christi is another robust area with sewer work and related infrastructure construction under way. I would

estimate that, right now, most metro areas around the country appear to be maintaining historical levels of rehab and replacement for in-ground infrastructure.

*Energy pipeline construction is booming. Is rental equipment being used on such projects? What about trench shoring equipment?*

**McDonnell:** Yes, the boom is being driven

by a projected 40 percent increase in energy demand by 2025. The U.S. is going to need more energy from all sources, and pipe is the safest and most economical method of transporting natural gas, liquid hydrocarbons and crude oil. Texas alone has more than 200,000 miles of intrastate pipeline. There is a life cycle to pipelines that dictates repair or replacement. And of course, there's a lot of new pipe going in the ground

right now – mostly in and around the Gulf. But the energy explosion isn't only about pipelines; there's a lot of related construction of new terminals and refineries, which drives demand for earth movers and all kinds of general construction equipment. Pipeline work has become a staple of our trench safety business (see related story below).

### *Do you project the pipeline market will remain strong?*

**McDonnell:** We don't see any signs of it slowing down – in fact, just the opposite. The Pipe Line Contractors Association estimated recently that approximately 5,679 miles of pipe was laid in the U.S. in 2007, compared to 1,600 miles in 2006, and believes the number will go even higher in 2008. That's good news for equipment rentals. The only constraint could be the availability of skilled construction labor; it's very competitive right now.

### *What about rentals for electrical projects?*

**McDonnell:** Windmill farms offer new opportunities – construction of these farms is being driven by tax incentives and public interest. A wind tower is attached to a kind of concrete bunker that houses the electrical panels and wiring, so when you multiple that times 20 or 25 windmills per farm, you can see that a lot of general construction needs to be done.

Wind farms by nature are sited in remote areas where buildings won't block the wind, so access to equipment is critical. Our company's branch footprint gives us an advantage in servicing remote sites. Right now we have three of these farms on the books.

### *What about the market for industrial rentals?*

**McDonnell:** Industrial rentals represent an untapped opportunity for our company

and, in fact, the equipment rental industry overall. Equipment needs in this sector fall into several buckets, one being ongoing plant maintenance. The corporate budgets that govern these rentals can be difficult to forecast, and the work itself can be subject to delays, making it a little less predictable than construction rentals.

Other industrial rental needs are more construction-related, driven by the building of new plants and, in some cases, new units within existing plants. Chemical plants and refineries are prime examples of an industrial sub-sector that's showing strong demand for many different types of equipment rentals.

Earlier, I mentioned domestic pipeline activity. The other side of the coin is that energy imports are also driving rentals: our equipment is being used to build specialized facilities in the Gulf to unload, store and transmit liquefied natural gas as it arrives

## Trench Safety Equipment

Rental of specialty equipment is nothing new for United Rentals, and the company has long offered trench safety equipment. Since the first trench safety branch opened in 2005, United Rentals has quickly become North America's leading supplier of trench safety technology, including steel and aluminum trench shields, aluminum trench shores, steel sheet pile with modular walling systems, steel crossing plates and custom slide rail systems.

In attaining this position, United Rentals has become much more than a renter of product, taking an active role in safety training and conducting research to improve trench safety equipment.

"As the leading trench safety provider in the marketplace, we've taken the lead in trying to help contractors close the gap between safety awareness and safety practices," said Paul McDonnell, senior vice president, trench safety, pump and power. "We think it's good business and one of the reasons our customers value our services and keep returning. Since we launched our full-scale training initiative just over a year ago, we've trained thousands of individuals in our Excavation Awareness and Confined Space Entry classes. These are offered on the first Friday of every month at each of our trench safety locations nationwide."

McDonnell said customer training initiatives have been extremely positive and so well received that the curriculum has been expanded. Many contractors are aware of underground construction requirements such as having a competent person on site, but safe practices haven't risen to the same level as awareness, he added.

### **New technology**

United Rentals also has introduced new technologies such as slide rail systems and modular hydraulic bracing systems on larger projects.

"The owners and the contractors building large projects realize that the older methods can mean over-excavating and

then replacing materials, which can be costly," McDonnell said. "These new technologies are revolutionizing the way contractors use protective systems to boost productivity."

The benefits of slide rail systems are being recognized by a growing number of contractors.

"Our experience," said McDonnell, "is that the customer's need for greater productivity and desire to save time and materials are combining to drive growth in slide rail rentals. More contractors seem to be recognizing that slide rail is a cost effective alternative to older, conventional shoring systems such as timber shoring or sheet-piling for linear and pit applications. Slide rail is especially effective when a site has poor soil conditions, adjacent structures or nearby activity at ground level."

For other applications, conventional safety equipment is available.

"Trench boxes have their applications, particularly if the soil is reasonable and there are no concerns about movement outside the excavation," McDonnell said. "Under those conditions, a trench box is often the best, most cost effective solution. When we specify equipment, our criteria are determined by the circumstances of the job."

United Rentals is devoting funds to research and development of new trench safety technology.

"We've invested capital in new product development, with an emphasis on the sheeting and bracing market," explained McDonnell. "Hydraulic bracing and sheeting is very attractive for some of the deeper, wider pit applications, since it creates a clear span of workspace. We're renting these systems to construction projects for wastewater treatment plants, tank installations and removals, and remediation work.

"The systems are modular; there's no welding, cutting or wastage of materials. Here again, with the price of steel going up, contractors are choosing to rent, not purchase. These new technologies are also allowing contractors to be more productive, which is particularly important given the recent increases in material costs."

by ship from overseas. We just wrapped several of these projects, each spanning about nine months.

*What other sectors are showing promise?*

**McDonnell:** We have 15 branches with specialized fleets focused on pump applications, power generation and HVAC rental. This has allowed us to tap into two growing sources of demand: the military side of the business, and mold prevention during commercial and industrial construction. There's also a disaster recovery component. While these areas are not strictly underground construction projects, many do have underground elements.

Right now, we're doing a lot of work with the U.S. military related to getting troops ready for deployment overseas. We provide climate control for special U.S. training camps set up to mimic deployment conditions. They're almost like small cities. We basically operate as the onsite HVAC contractor and electrician, and keep one or more service technicians on site. It's a turnkey operation.

With our expertise in climate control, we've also been able to capitalize on a big upswing in the petrochemical market in the Gulf. Oil companies in the petrochemical business are preparing to refine as much stock locally as possible. They need chiller systems, air conditioning units and dehumidifiers. These companies may be trying to expand facilities or they may want to reactivate certain parts of existing plants, as I mentioned earlier. Reactivating an out-of-service oil tank that's as big as a gymnasium takes time, especially if it hasn't been used in years. We rent HVAC equipment to keep rust from reforming between the sandblasting and repainting stages.

Another area that we've tapped into is mold prevention rentals. These days there's a heightened interest in making sure that mold is not sealed into new construction when a contractor buttons down a building prior to handing it over. Building owners are requiring verification from the contractor that a building is mold-free. The incidence of mold can be directly related to the construction environment.

*In spite of consolidation in the rental industry, independents seem to be maintaining their presence. From United Rentals' perspective, what is the role of strong independents in the rental marketplace?*

**McDonnell:** The rental business is essentially a service business, and there will always be opportunities for strong service providers, both public and private. There are many independent rental companies

who do a very good job of serving the customer. As a large, public company we have the resources to bring consistency to the customer's service experience while taking equipment availability up several notches. That kind of reliability resonates with customers.

The thing to remember is that equipment rental is still a very fragmented industry and an under-penetrated market in both

the U.S. and Canada. That's one of the reasons we find it so exciting. There is plenty of potential for companies of all sizes.

**FOR MORE INFORMATION:**

- American Rental Association, (800) 334-2177, [ararental.org](http://ararental.org)
- United Rentals, (203) 622-3131, [unitedrentals.com](http://unitedrentals.com)