EquipmentWatch RENTAL UPDATE

2016-Q4 in Review | A Quarterly Recap of Retail Rental Rate Trends

Number of Participating Rental Companies: 460
Number of Equipment Types Covered: 214
Total number of rates collected: 600,849

Fourth Quarter in Review:

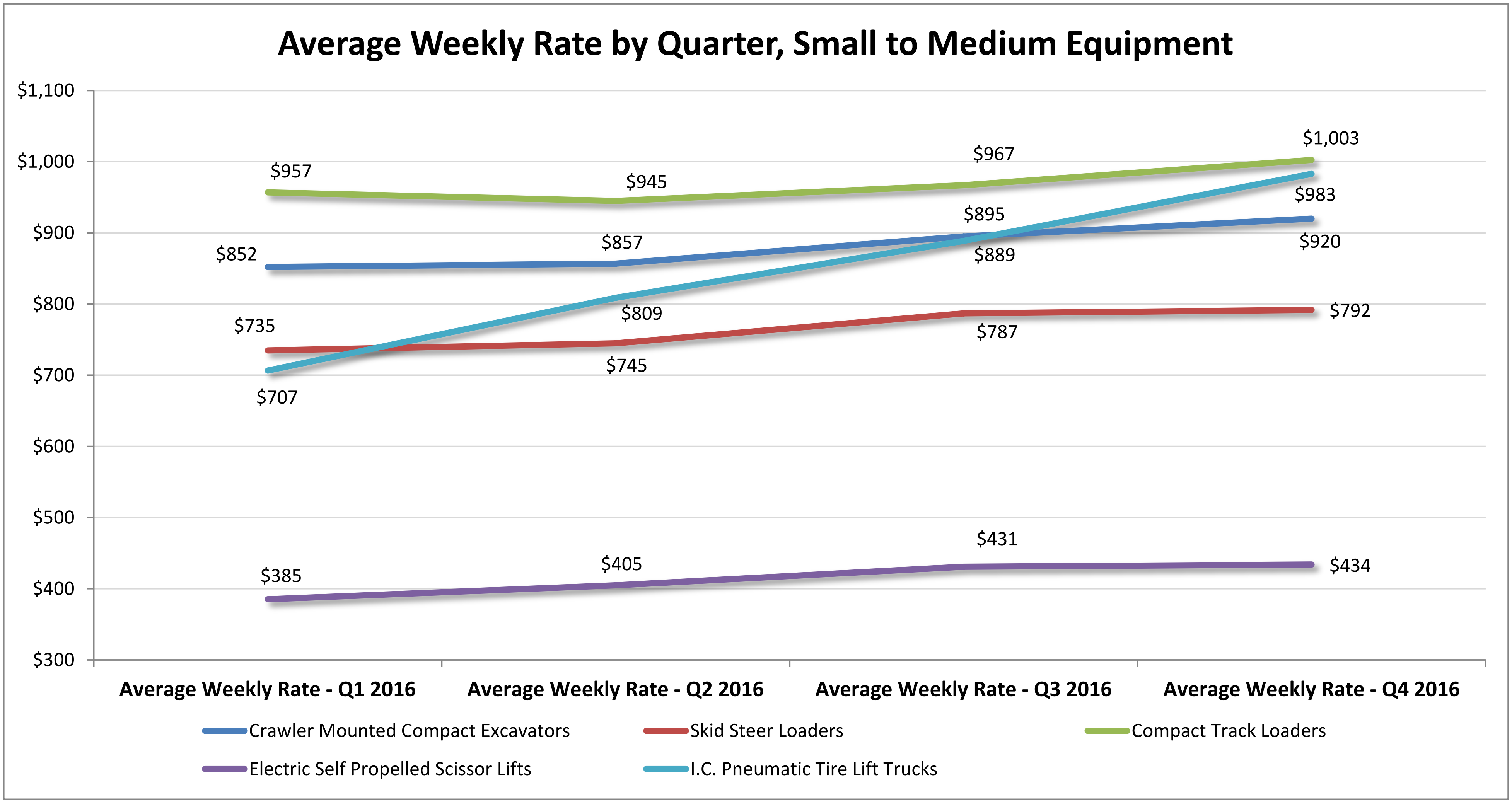
The 4th Quarter of 2016 was about even in terms of rates increasing or decreasing across heavy equipment rental markets. Weekly retail rental rates in the 4th quarter increased in six of the top ten equipment types as compared to Q3. Over the last three months of 2016, I.C. Pneumatic Tire Lift Trucks had the largest increase among the ten equipment types displayed below, and Standard Crawler Dozers had the largest decrease. Q4 also showed evidence that monthly rates are dropping more than the daily and weekly rates, which was not the case in 2016Q3's update. The two smallest equipment types, Skid Steer Loaders and Electric Self Propelled Scissor Lifts, remained relatively even over the past quarter. The decrease across the board of the four largest equipment types could mean that there was not as much need for this equipment in the 4th quarter of 2016.

	Daily		Weekly		Monthly	
Equipment Type	**Average Rental Rate**	**Average Change from Previous Quarter**	**Average Rental Rate**	**Average Change from Previous Quarter**	**Average Rental Rate**	**Average Change from Previous Quarter**
Standard Crawler Dozers	$845	-19.29%	**$2,619**	**-14.23%**	$6,414	-24.22%
Crawler Mounted Hydraulic Excavators	$771	-4.35%	**$2,315**	**-8.26%**	$6,226	-12.58%
4-Wd Articulated Wheel Loaders	$671	-9.61%	**$2,108**	**-7.25%**	$5,591	-11.38%
Single Drum Vibratory Compactors	$437	-1.88%	**$1,385**	**-2.37%**	$3,622	-7.31%
Telescoping Boom Rough Terrain Lift Trucks (Telehandlers)	$554	13.73%	**$1,464**	**4.20%**	$3,566	-0.13%
Compact Track Loaders	$323	5.15%	**$1,003**	**3.67%**	$2,554	-1.12%
Crawler Mounted Compact Excavators	$292	7.13%	**$920**	**2.80%**	$2,306	-2.63%
I.C. Pneumatic Tire Lift Trucks	$342	15.92%	**$983**	**10.58%**	$2,337	5.15%
Skid Steer Loaders	$257	2.38%	**$792**	**0.65%**	$1,985	-4.05%
Electric Self Propelled Scissor Lifts	$194	6.73%	**$434**	**0.73%**	$960	-1.73%

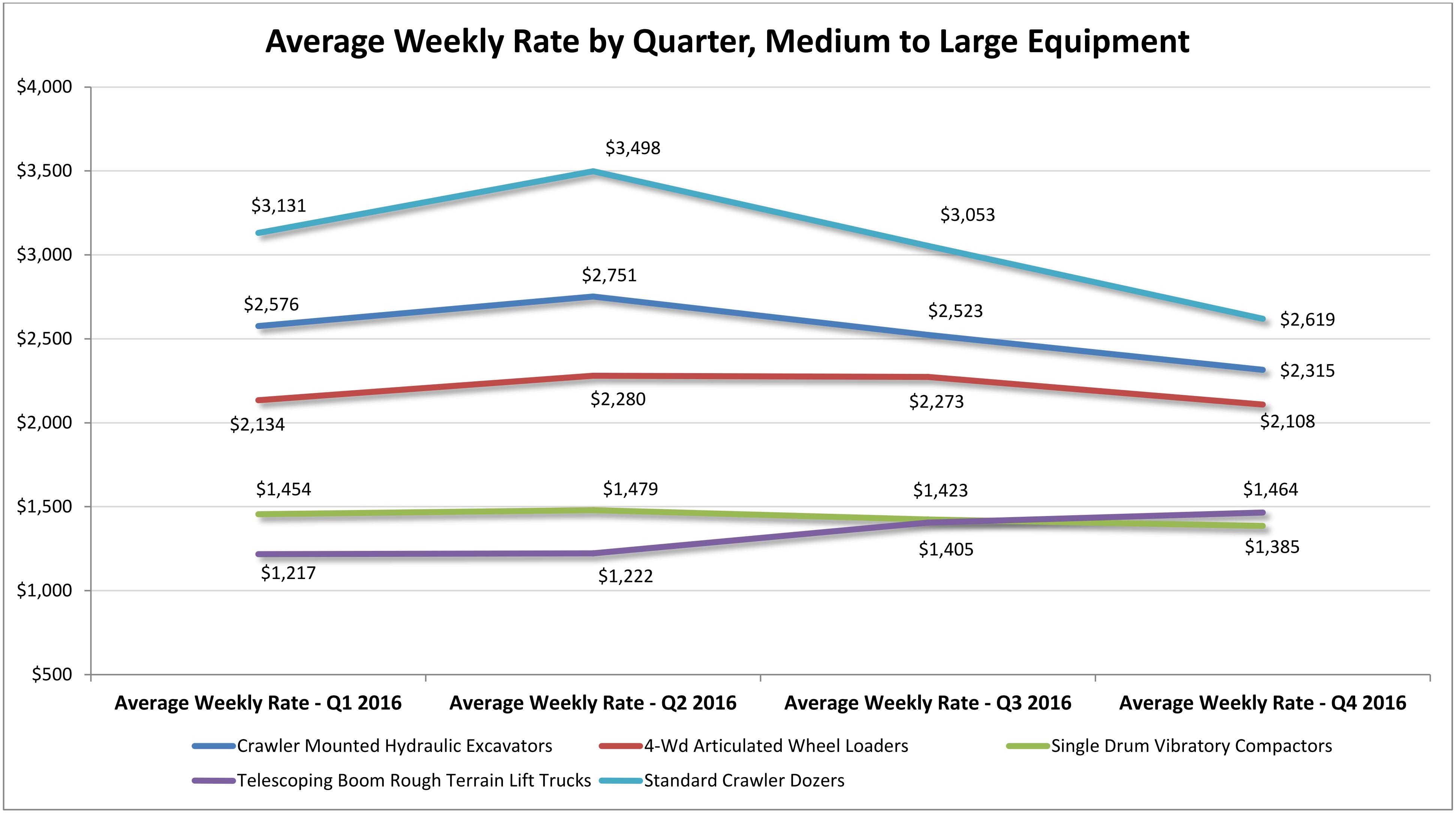
Quarterly change in rates for the top ten subtypes by volume. These retail rental rates are an overall average by subtype and are derived from average rates advertised by distributors throughout the United States and Canada. All rates included were either publically advertised online or obtained through exclusive rental house partnerships.

Marketplace Analysis: Average Weekly Rate Trends

The average weekly rental rate for the top five small to medium-sized equipment types over the past four quarters is graphed below. Average rates for all five of the top equipment types increased, with I.C. Pneumatic Tire Lift Trucks once again having the largest increase. These forklifts have been the only equipment type that has had a constant growth over the past year; we can speculate that either demand for this item has been growing for some time, or that larger forklifts are becoming more widely available. Compact Track Loaders remained the highest weekly rate out of the five sub types in the graph, while I.C. Pneumatic Tire Lift Trucks moved into the second highest weekly rate in the 4th quarter, surpassing Crawler Mounted Compact Excavators.



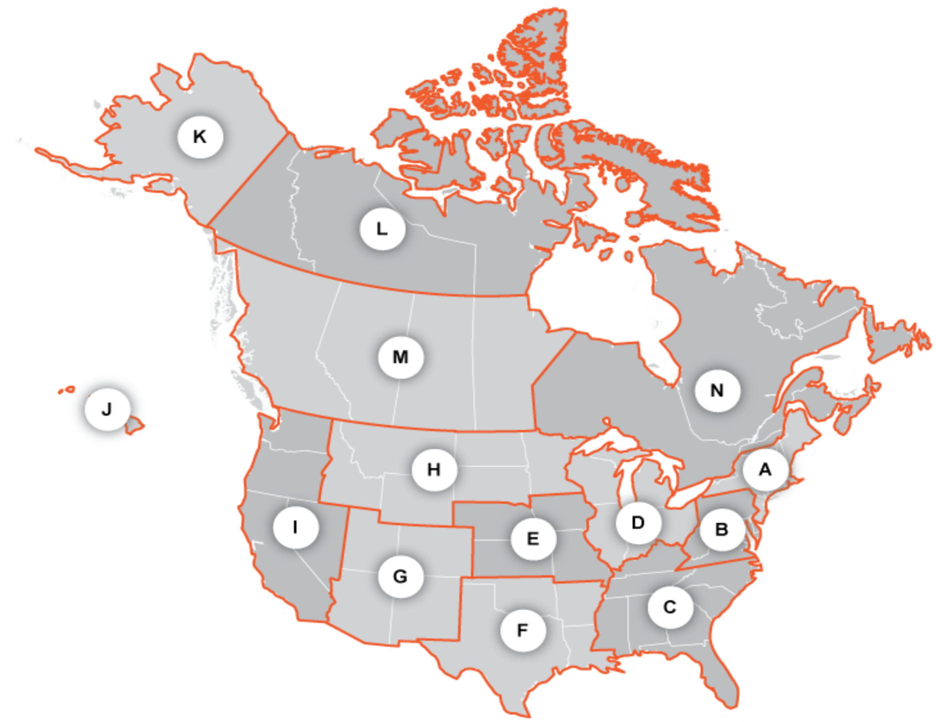
Only one of the five largest equipment types saw an increase over the 4th quarter, with Telescoping Boom Rough Terrain Lift Trucks (Telehandlers) increasing by about 4%. Standard Crawler Dozers had the largest decrease, continuing its trend from the previous quarter with a 14% decrease in the 4th quarter. Crawler Mounted Hydraulic Excavators and 4-Wd Articulated Wheel Loaders also had somewhat large decreases, dropping by about 7% and 8% from the 3rd quarter. Single Drum Vibratory Compactors remained relatively flat as compared to Q3.



Marketplace Analysis: Regional Variance

The map below shows the regional variance in weekly rental rates by region for the top ten equipment types, based on the overall average for the U.S. and Canada. Region D was the closest to the overall average national rate, with a variance of only -0.09%, which was very close to the 3rd quarter's rental update for this region. Region K once again had the highest average weekly rental rates of any region, and Region N once again had the lowest average weekly rental rates. There were only five regions with an average weekly rate below the national average and nine regions being above the national average.

Region	States/Provinces in Region	Variance
N	New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec	-22.63%
M	Alberta, British Columbia, Manitoba, Saskatchewan	-16.28%
C	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee	-2.11%
E	Iowa, Kansas, Missouri, Nebraska	-0.46%
D	Illinois, Indiana, Michigan, Ohio, Wisconsin	-0.09%
L	Northwest Territories, Nunavut, Yukon	0.49%
F	Arkansas, Louisiana, Oklahoma, Texas	1.82%
H	Idaho, Minnesota, Montana, North Dakota, South Dakota, Wyoming	1.93%
A	Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Rhode Island, Vermont	3.92%
B	Delaware, Maryland, Pennsylvania, Virginia, West Virginia	4.70%
G	Arizona, Colorado, New Mexico, Utah	4.76%
J	Hawaii	5.41%
I	California, Nevada, Oregon, Washington	6.40%
K	Alaska	7.31%



These regional rate modifiers represent the regional deviation from the average for a select group of equipment categories. In the instances where there may be insufficient data for a region within an equipment category the modifier shown is based on a comparison of all equipment categories. Canadian data was collected and converted into U.S. dollars using the current exchange rate of 0.77 USD to CAD.

Marketplace Analysis: Percent Change in Regional Variance from Q3 to Q4

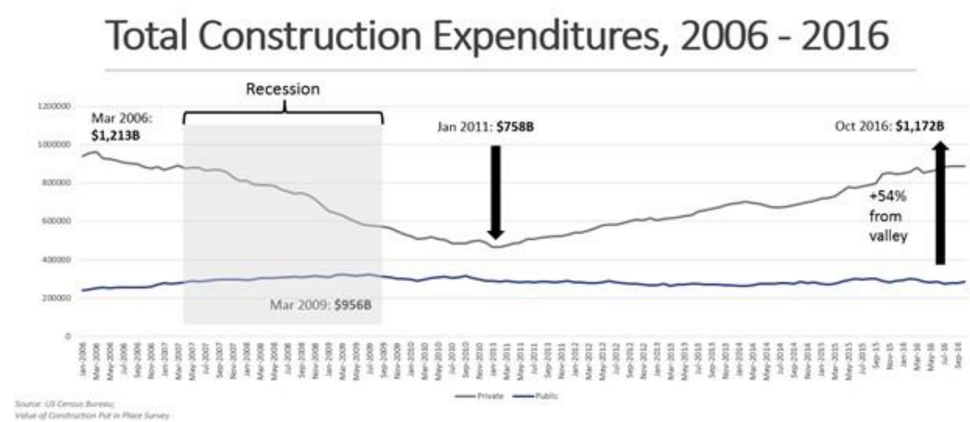
The map below shows the percent change in weekly rental rates for the top ten equipment types from Q3 to Q4, based on the overall average for the U.S. and Canada. The majority of regions saw an increase in the average weekly rate from Q3 to Q4, with only five regions dropping. Region M had the largest decrease of any region, dropping by about 18%, while Region B had the greatest increase, almost 18%. There were more regions that saw increases in regional variance than in the last update, with nine regions increasing.

Region	States/Provinces in Region	Q2 Average	Q3 Average	Change
M	Alberta, British Columbia, Manitoba, Saskatchewan	$1,497	$1,223	-18.33%
I	California, Nevada, Oregon, Washington	$1,584	$1,483	-6.36%
H	Idaho, Minnesota, Montana, North Dakota, South Dakota, Wyoming	$1,526	$1,439	-5.72%
D	Illinois, Indiana, Michigan, Ohio, Wisconsin	$1,432	$1,387	-3.16%
J	Hawaii	$1,523	$1,482	-2.68%
F	Arkansas, Louisiana, Oklahoma, Texas	$1,391	$1,407	1.13%
L	Northwest Territories, Nunavut, Yukon	$1,158	$1,171	1.14%
E	Iowa, Kansas, Missouri, Nebraska	$1,339	$1,382	3.27%
C	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee	$1,317	$1,361	3.37%
N	New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec	$923	$959	3.80%
K	Alaska	$1,415	$1,475	4.27%
G	Arizona, Colorado, New Mexico, Utah	$1,404	$1,485	5.77%
A	Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Rhode Island, Vermont	$1,327	$1,413	6.48%
B	Delaware, Maryland, Pennsylvania, Virginia, West Virginia	$1,194	$1,408	17.93%

Fourth Quarter Conclusions & 2017 Outlook

One of the biggest discussions of the 4th quarter in the construction industry revolved around federal infrastructure spending. In the energy sector, the White House's new policies signal good news for the fossil fuel business, with fewer regulations promised, more open access to federal lands, and a commitment to rebuild the coal industry. The new administration is expected to reduce regulations on issues such as methane emissions from oil and gas drilling, ozone rules, and renewable fuels. Deregulation aims to open up federal lands to oil and gas drillers, coal minerals mining, and timber companies. Since reductions in regulation are typically associated with upticks in production, energy-dependent states in this scenario should expect the increase in demand to result in much higher rental rates. Where equipment OEMs are concerned, reactions have been mixed. While shares of popular construction equipment manufacturers Caterpillar and John Deere soared the day after the election, Caterpillar shares dropped after their Q4 2016 revenues were released on January 27th having not met expectations. Martin Richenhagen, chief executive of Georgia-based Agco Corp., told Bloomberg News that infrastructure spending "is great for us and our industry". Calgary-based TransCanada said it would seek new approval to revive the Keystone XL pipeline, a large multi-state construction project that would further drive equipment rental demand upward. Many business leaders are optimistic about renewed transportation and infrastructure stimulus through tax breaks or public spending, although key details have yet to be revealed.[1]

Since the beginning of 2016, "Construction has been looking up with spending surpassing a 10-year high in Nov 2016. Notwithstanding higher mortgage rates, the construction sector seems to have recovered on the back of strong housing fundamentals. Of the construction companies in the S&P 500 cohort, 15.4% have already reported their Q4 results. According to the Zacks Earnings Preview report, 50% of the companies have surpassed earnings as well as revenue expectations. Total earnings at these construction companies increased 11.9% on 14.8% higher revenues."[2] Clearly, a large increase in infrastructure spending should have a very positive effect on the entire construction industry. We should expect to see the number of active projects grow drastically in the second half of 2017, which will increase the number of available construction jobs and should signal revenue growth for everyone involved in the construction, oil, and real estate industries.



While United Rentals posted decreasing revenues in Q4 2016, their recent acquisition of NES Rentals, the #11 rental company in the RER 100, is a strong signal that they hope to bolster their revenues for 2017. Indeed, United Rentals' shares jumped 11 percent after the news of the acquisition. When it comes to the smaller rental houses, there were many acquisitions of these in 2016 made by the larger rental companies. We should continue to see the number of unique rental companies decrease over the next few years. Focusing on 2017 Q1, we expect retail rental rates to remain about the same as in Q4, as the winter months continue before the construction market picks back up again in Q2. In relation to the long-term effects of new federal policies, we do not expect to see any major shifts in the heavy equipment rental market to occur until at least the third quarter of 2017. In this case, we should expect to see retail rental rates remain relatively even until then. "Through 2016, single-family construction improved 9.3% over the 2015 level of housing starts, and housing starts rose 4.9%."[3] With these increasing revenues in 2016 Q4, we expect 2017 to ramp up in 2017 Q3 and turn into a tremendous year for the rental and overall construction industry. Overall, we predict a three to four percent increase in rental revenue in 2017, with the second half of 2017 possibly showing even larger increases.

[1] Washington Post, 11/12/2016. "How a Trump presidency will affect 15 industries"
[2] Zacks, 1/23/2017. "Construction Stock Earnings Roster for Jan 24: DHI, NVR, EXP"
[3] Zacks, 1/23/2017. "Construction Stock Earnings Roster for Jan 24: DHI, NVR, EXP"