CONSTRUCTION EQUIPMENT & RENTAL

CURRENT TRENDS

- Strength in residential construction has bolstered the market, leading to a 8.9% increase in total U.S. construction spending for August 2021 over August 2020.
- Ongoing economic recovery continues to boost confidence in the equipment finance market. The Monthly Confidence Index for the Equipment Finance Industry reports a confidence level of 60.5 data points in September 2021, a significant increase from the historic low of 22.3 in April 2020.
- Gordon Brothers expects existing and pending infrastructure legislation will bolster growth for construction equipment sales and increase construction jobs.
- Data suggests economic recovery efforts will drive auction sale prices for standard yellow iron and construction equipment.

PROJECTED VALUES (12-MONTH OUTLOOK)

DECREASING | STABLE | INCREASING

GORDON BROTHERS BY THE NUMBERS

$94B

construction assets appraised & disposed

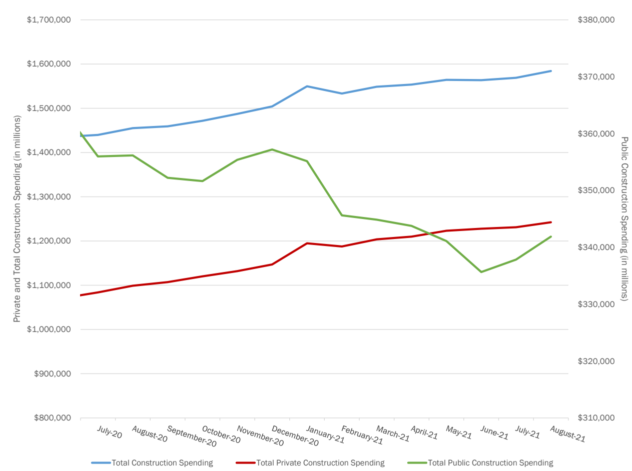
60K

cranes appraised

5

worked with the world's 5 largest construction companies

U.S. CONSTRUCTION SPENDING



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CONSTRUCTION SPENDING MIXED: Increased residential construction activity is driving construction spending in 2021. U.S. construction spending increased 8.9% in August 2021 compared to August 2020 to an overall total of $1.58 trillion on a seasonally adjusted basis according to Commerce Department data, with the bulk of the increase in private residential construction spending. In August 2021, total private construction spending increased 13.0% year-over-year to $1.24 trillion. Private residential construction spending increased 24.3% while private nonresidential spending fell 2.3% for the same period.

Total public spending in August 2021 increased over July but was down over August 2020 by 4.0% to $341.8 billion. While public spending for highway and street construction increased 2.7% year over year, public education spending dropped 5.9% to $79.8 billion. Public residential spending dropped 4.3% while public nonresidential spending also dropped 4.0% for the same period.

It's important to note that the ongoing COVID-19 pandemic and supply chain challenges could hinder momentum despite growth in private residential construction.

"The rapid spread of the delta variant of COVID-19 is causing a pullback in re-openings and travel that may lead some owners to postpone new projects," said Ken Simonson, chief economist, Associated General Contractors of America. "Meanwhile, materials price increases, limited supplies of key materials, and long or uncertain delivery times are impeding the industry's recovery."

Construction progress prior to pandemic-related shutdowns is a key factor in determining the success to continue these projects. For example, projects that broke ground before the shutdowns have resumed largely unhindered, barring new restrictions or challenges with material delivery. Alternatively, new construction activity has progressed inconsistently, a trend likely to continue in the coming months.

Strong auction results during the pandemic informed positive projections for construction equipment sales and market activity. Secondary-market equipment demand and sales improved in the second half of 2020 following the initial pandemic-related shock to the market. Additionally, demand and value increased for asset groups most heavily affected by supply shortages. Data as of mid-2021 shows auction sale pricing increased for standard yellow iron and construction equipment. Available equipment supply pricing surpassed fall 2020 expectations because of supply shortage and increased demand to meet growing construction needs.

Firms are opting to rent or lease major assets instead of buying new equipment outright, which is a growing trend that's likely to continue. According to the American Rental Association's (ARA) forecasts, equipment rental revenue could exceed $47.8 billion in 2021, up 3.5% over 2020. This projection has increased since the Association's first-quarter forecast, which indicated an annual growth rate of 3.1%. The forecast represents revenue from the construction and industrial and general tool segments.

Additionally, the ARA projects a nearly 10% year-over-year increase to $52.5 billion in 2022, which would surpass the equipment rental industry's previous revenue peak of approximately $51 billion in 2019. Data suggests construction and industrial services revenue will increase 11.9% to $38.9 billion, surpassing the record of $37.7 billion in 2019.

The Expert: Jerry Galaszewski

Jerry Galaszewski manages Gordon Brothers' Machinery and Equipment practice where he oversees the production of all machinery and equipment valuations. With over 20 years of experience in the industry, he has conducted and managed hundreds of machinery and equipment valuations across a wide range of industries.
Read his full bio here.

GROWTH FORECAST FOR RENTAL EQUIPMENT: Ongoing economic recovery continues to boost confidence in the equipment finance market. The Monthly Confidence Index for the Equipment Finance Industry reported a confidence level of 60.5 data points in September 2021, a significant increase from the historic low of 22.3 in April 2020. The Index is based on a survey of 25 companies representing a cross section of the $900 billion equipment finance sector, including Bank of America Corporation, Truist Financial Corporation and CIT Group Inc. Industry executives surveyed provide qualitative assessments of both prevailing and expected future business conditions. Index ratings above 50 indicate a positive outlook for the industry, and current ratings exceed pre-pandemic levels. For context, the index reported a rating of 57.9 in July 2019.

Additionally, the August 2021 Monthly Leasing and Finance Index reported a 21% increase over August 2020 in overall new business volume, totaling $8.5 billion. On a month-to-month basis, volume decreased 14% from $9.9 billion in July. Year to date, the index showed cumulative new business volume up nearly 10% over 2020.

For builders, renting equipment for construction projects is an attractive alternative to buying. Buying construction equipment outright often requires significant down payments and diverts large portions of capital from operating expenses. Other expenses include insurance, taxes, licensing, interest on loans and storage costs. Additionally, equipment owners need to coordinate transportation to job sites. Equipment rental companies can deliver equipment to sites more efficiently with automated maintenance programs and GPS systems that track location, status and service needs.

Rental companies upgrade their inventories on a regular basis, offering renters access to the newest and most advanced equipment. This makes compliance with Environment Protection Agency emissions standards easier, including Tier 4 standards, which are the strictest requirement for off-highway diesel engines.

Additionally, rental companies have the tools and expertise to respond to issues promptly. For example, they can dispatch mechanics to fix malfunctioning equipment or provide replacements on site. Renting equipment could offer a competitive advantage to younger construction companies bidding for larger contracts.

ANTICIPATED INFRASTRUCTURE PROJECTS TO DRIVE FUTURE GROWTH: Heavy equipment is used for earthmoving, finishing, material handling and material transport. Global infrastructure development and related activities drive growth for the heavy construction equipment industry. Ongoing economic recovery from the COVID-19 pandemic continues to bolster construction equipment sales growth and the rental market.

In August 2021, the American Road and Transportation Builders Association (ARTBA) supported a campaign of more than 80 national organizations and labor unions urging the Senate to pass the $3.5 trillion fiscal year 2022 budget resolution. The budget would provide funding for long overdue repairs and improvements to roads, bridges, rail and public transportation systems across the country. Additionally, the legislation would invest in airports, ports, broadband, cybersecurity, water systems and energy systems.

According to the March 2021 National Bridge Report issued by ARTBA, 36% of U.S. bridges need repair work, more than 45,000 bridges rank as being in "poor condition" and "structurally deficient," and 79,500 bridges should be replaced. ARTBA suggests job creation and retention stemming from strategic road and bridge improvements will support continued economic recovery.

In September 2020, lawmakers extended the 2015 Fixing America's Surface Transportation Act through 2021, adding $13.6 billion in additional spending. This extension and the recently passed $1.2 trillion Infrastructure Investment and Jobs Act, passed by the Senate in August 2021, would add over $850 billion in infrastructure and housing spending and spur industry growth over the next five years. In combination with the budget resolution, these bills would positively affect spending on public construction and infrastructure.

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