How the rental market looks to you depends on where you are standing: Murray Pollok **takes the temperature of the rental industry around the world, with interviews and reports from nine countries in five continents.**

Hot and cold

Worldwide Rental Revenues in 2012

EUROPE

	Rental revenue
UK	€5.1 bn
France	€3.8 bn
Germany	€3.2 bn
Italy	€1.4 bn
Spain	€1.3 bn
Sweden	€1.4 bn
Norway	€0.87 bn
Netherlands	€0.8 bn
Belgium	€0.55 bn
Poland	€0.46 bn
Finland	€0.48 bn
Denmark	€0.4 bn
Other EU-27/EFTA	€2.0 bn
SUB-TOTAL	**€22.0 bn**
Russia	€0.8 bn
TOTAL	**€22.8 bn**

Note: Figures are from the European Rental Association (ERA) and exclude operated plant and party/events. Russian figures from consultancy RusRental.

NORTH AMERICA

	Total
USA	US$31.3 bn
Canada	US$4.5 bn
TOTAL	**US$35.8 bn**

Source: American Rental Association (ERA)

REST OF THE WORLD

Japan	€10.6 bn (Y1380 bn)
Australia/New Zealand	~€2.8 bn (A$4.2 billion)
Latin America	~€1.0-1.5 bn
Asia Pacific	<€750 m
Africa	<€450 m
Middle East	-€350-450 m
India	€300-400 m
TOTAL (Est)	~€15-18 bn

Source: Japanese estimate based on growth of 15% in 2012 (from Japanese govt sources), Indian estimate from rental company GEAR, others estimated by *IRN*.

Numbers only tell you so much, especially when the numbers themselves are of variable quality and often measuring different things. That's the 'health warning' on the industry statistics that we present on this page for 2012, because the basis for measurement remains different in different parts of the world. To give just two examples, there is no operated plant or cranes in the ERA figures for Europe, and party and events are included for ARA's North American numbers.

Our estimates for the rest of the world, meanwhile, are just that: estimates, given to provide a guide but not to be taken as the final word.

The overall story that emerges from last year and this will be no surprise to readers: sluggish Europe (with its bright spots), advancing North America (but for how long?), and a Japanese rental market still in overdrive to rebuild after the 2011 disaster (and, as Nishio Rent All tells us, also engaged on a major effort to inspect the rest of Japan's infrastructure).

Australia and South Africa, reliant on mining and natural resources, both find themselves in less than booming rental markets, while India's developing rental sector – and one quite different from that in the west - expands as rental becomes a real alternative to ownership in a slowing construction sector. In Brazil, while the economy shows signs of strain, rental continues to grow.

On the following pages we have interviews and reports from nine countries, talking to senior executives at companies as diverse as Nishio in Japan, TVH in Benelux and Germany, Once Call Hire in the UK, Compact Power Equipment Rental in the US, Gemini Equipment and Rentals in India, Madisa of Mexico, Estaf Equipamentos in Brazil and Goscor Hi-Reach in South Africa.

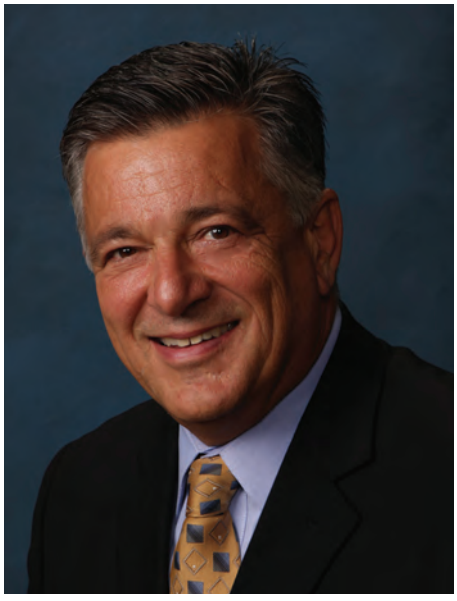
As we see, every market has its challenges, and even challenging markets have their positives. We start with the United States.

USA

One rental company in the US that exemplifies the current expansive mood of the North American rental market is Compact Power Equipment Rental (CPER), the business that rents towable, mid-sized equipment at Home Depot stores throughout North America.

From having around 100 rental sites at Home Depot stores a few years ago, and 280 at the start of 2012, it now has equipment at 907 Home Depot locations, including Canada.

Roger Braswell, the company's CEO, tells *IRN* that the aim is to have CPER operations at all the 1200 Home Depot stores in North America by the end →



Roger Braswell, CEO of Compact Power Equipment Rentals

JAPAN

There is no escaping the fact that the rebuilding and clean-up following the 2011 earthquake and tsunami still dominate the Japanese rental market, and not just because of the direct works required.

"The current level of rental demand in Japan is good", says a spokesman for Nishio Rent All Co Ltd, one of the giants of Japan's large rental sector, "And, for the future, demand is expected to continue to be active [because of the] full scale reconstruction in the areas where earthquake and tsunami attacked, [but] also in other areas, such as the nationwide inspection of public infrastructure such as bridges and tunnels, and also fire-prevention and disaster-prevention jobs are increasing, which will result in increased rental demand." Depending on which government statistics you use, the Japanese rental sector grew by between 13% and 16% in 2012.

The reconstruction continues to be challenging and will take years to complete; "Rental demand is large due to the reconstruction jobs and decontamination work. Various reconstruction jobs will continued at least to the year 2018, if we base it on the reconstruction work plans developed by municipal offices of those areas."

For Nishio, and its major competitors like Aktio, Nikken and Kanamoto, there are other challenges, one being the prospect of a changed dynamic for used equipment sales. "In the past, used excavators and wheel loaders, which are the main equipment in construction equipment rental, have been exported to other Asian countries after rental use in Japan.

"By use of this rental equipment cycle, rental companies managed to make the rental business workable, by adding the profit coming from sales of used equipment. [However], construction equipment to be produced from November 2013 should meet Japanese exhaust emission control regulations equivalent to Tier 4, and will use higher purity, light diesel fuel.

"The specifications of this equipment will not be suitable for other Asian market where lower grade diesel fuel is used, and the [traditional] rental equipment cycle may not be maintained. As a result, a change in the rental industry is foreseen, and the industry will need to cope with this change." A look at how it buys its equipment is one possible solution.

A Nishio Rent All branch in Japan. The company hopes to grow its rental business in South East Asia.

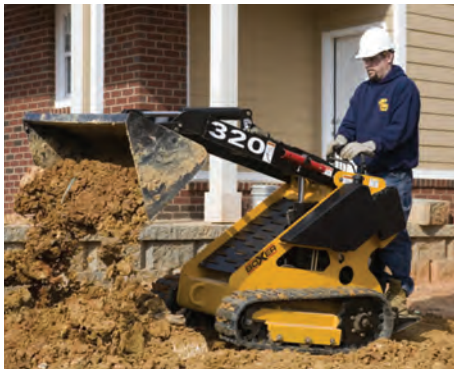
Nishio's wider strategy is to continue to internationalise its business, a process begun as long ago as 1992 when it established a rental business in Malaysia. Since then it has opened up new businesses in Thailand and Singapore.

"We started our rental operations by servicing major Japanese general contractors, and then, gradually expanded to service local construction companies", says the spokesman, "We are going to increase the types of equipment we offer for rental, and aim to expand the business in these companies".

More recently the company established a local corporation in Vietnam in April last year and then in Hong Kong in October.

"For the overseas market, we will concentrate on expansion of business in these countries [Malaysia, Thailand, Singapore, Vietnam and Hong Kong]." An intermediate target of Yen10 billion (€75 million) has been set for revenues outside Japan.

Nishio Rent All says new engine emission regulations will complicate the Japanese rental model, which places a large emphasis on exporting used machines to Asia.



Compact Power Equipment Rentals stocks towable equipment, like this Boxer tool carrier, at more than 900 Home Depot stores in North America.

of 2014, except at those locations that don't have sufficient space.

The CPER story is partly that of a strategy that was well planned and executed, and partly one of good timing. Having successfully tested the rental of trailer towable equipment - such as the Boxer range of mini tool carriers - at a number of Home Depot locations, the company has been repeating the model throughout the Home Depot network, equipping each store with a start up fleet of between five and 10 machines, with the largest operations having around 30 units. These fleets now stock Kubota and Terex mini excavators, Toro trenchers and stump grinders and Altec chippers, alongside the core Boxer range of mini tool carriers.

The good timing comes in with the recession, and Roger Braswell's firm belief that the slowdown pushed the focus from ownership of equipment towards rental; "It was underway before the recession, but the recession has underscored the value of rental. I'm convinced that has happened."

He adds that the economic troubles "caused a good number of companies to fail and out of these came start-up companies, created by former owners and employees, and these start-ups recognise the need to conserve capital."

The growth of CPER in Home Depot – which will see significant investment for another five years as the fleets are expanded at each location – also reflects a broadening of the customer base for rental; "Quite often our customers were going to do a job by hand, then they see our equipment and decide to rent something", says Mr Braswell, "We have broadened the market and brought new people to rental."

Read the Compact Power story and you start to better understand the confident growth predictions for the US rental market being made by the American Rental Association (ARA).

He acknowledges some surprise that the plan and the forecasts for the business have been so close to the reality. "I started selling equipment to Home Depot in 2001 and servicing it in 2002, so I was very close to what happened at store level, at customer level. We could see the need for what we were doing", he tells *IRN*, "To be able to execute on your idea - I'm thankful as a business partner and as an entrepreneur to have had that opportunity."

Going forward, Mr Braswell shares wider concerns about the impact of the withdrawal of Federal 'quantitative easing' support for the US economy. He supports its phased withdrawal, and hopes it won't have too big an impact; "My hope is that we won't see brakes put on the economy. It may not continue to expand, but I'm hopeful we won't see a return to the conditions of 2008 and 2009." ■ ➡

SOUTH AFRICA

"The South Africa economy is a bit patchy", says George Landsberg, managing director of Goscor Hi-Reach, a South African distributor of aerial platforms and telehandlers that also has sister company that rents platforms, "Our economy tracks Europe less than the US, so we are going through some of the pain that you find in Europe as well."

One important element of that economic picture is a devaluation of the Rand against the US Dollar, which is making it more expensive for South African rental companies to import US made products, which is significant in an access market where the two biggest suppliers, Terex AWP and JLG, are US-based.

"There has been quite an increase in import costs for rental companies – the bulk of equipment is imported", he says. Goscor Hi-Reach, which is part of the well-established Goscor Group, is dealer for Terex AWP's Genie machines.

Mr Landsberg says there are particular parts of the rental industry under strain, such as the earthmoving sector, where work on two major power projects –the R100 billion (€7.4 billion) Medupi Power Station in Limpopo province and the R150 billion (€11 billion) Kusile Power Station in Mpumalanga – is now scaling down.

"Rental companies involved in the civil works were very busy, up to a point, but now it's very quiet", he says, "For people in the small plant business, they are doing OK, but not great."

Construction of the new Medupi power station brought lots of work for rental companies in South Africa.

Performing a little better is the aerial platform sector, says Mr Landsberg; "Overall we're not in a purple patch for rental, but the eastern Cape is picking up nicely, and aerial rentals to the two power plants is doing OK." Work at the Medupi and Kusile sites will continue for three or four years.

In the Northern Cape, meanwhile, Mr Landsberg highlights the growth of the solar and wind energy sectors. However, South Africa has still to see a significant investment in large truck mounted aerial platforms to help construct and maintain the turbines, although "that will change", he says.

George Landsberg, managing director of Goscor Hi-Reach.

The mining market has long been an important one for South Africa, but Mr Landsberg says that sector is "very quiet, and it is normally an industry where you get a lot of work. Platinum and gold prices have come down, imports are expensive, and we're not seeing any new mines being developed, if anything there has been some mothballing of sites."

Goscor's own aerials rental business is still managing to expand, with a fleet of 400 machines assembled in little over 20 months and three locations in Durban, Cape Town and Gauteng (the province that includes both Johannesburg and Pretoria).

"It's really now starting to grow", says Mr Landsberg, who founded Johnson Access in South Africa before selling it and moving into the Goscor group, "we're adding around 20 units a month."

There are still relatively few major access rental fleets in South Africa, but Mr Landsberg has seen the arrival of a number of small players with small fleets, often starting with used equipment. "In time the dynamic will change, but in the short term it is putting pressure on pricing." ■ →

BENELUX/CENTRAL EUROPE

Andries Schouten has a good view of the Benelux and central European rental market by virtue of his position as managing director of HDW Nederland and Gunco, two sales and rental businesses within TVH Rental Equipment, the rental business of Belgian parts specialist TVH, which also now includes Mateco in Germany.

Gunco rents aerial platforms throughout the Benelux and is sales dealer for JLG in Belgium and Luxembourg, while HDW sells a wide range of aerial platform and telehandlers in 17 European countries, including the Benelux region and eastern Europe (and represents Terex AWP/Genie in the Netherlands and eastern Europe).

Mr Schouten says his feeling is that Belgium is currently doing slightly better than the Netherlands; "From May last year is slowed down in the Netherlands. Now 2013 is at the same level – it's not good. There aren't many new projects, and when there are, everybody jumps on them." One consequence has been lower rental prices in the Netherlands compared to Belgium, where there are fewer big rental players in the access market.

He says Gunco benefits from being able to sell used machines as well as rent, and also from the strength of its parent company TVH; "If we were only dong rental, then we could be struggling. That has always been part of the strategy."

Mr Schouten is, however, encouraged by a general feeling in the market "that we have reached the bottom and are slowly going up. For the next one and a half years it will still be a challenging market – because the market dropped the prices, and it will take a long time to get the prices back up."

HDW's sales and leasing activities in eastern Europe are an important part of its business, and here Mr Schouten offers a summary picture; "the Czech Republic is doing OK for us, Poland is also doing OK, with good utilisation, but with seriously lower prices than two or three years ago. Poland peaked in 2011 and at the start of 2012, and it's rather stable now.

"Romania and Hungary went very well when they joined the EU, but the market is still very, very slow. It's a huge struggle – prices are low, payment behaviour is terrible, and it is a difficult place to rent, with long distances to travel and poor road conditions."

Of Germany, where TVH owns Mateco, Mr Schouten is more upbeat; "In general it's a lot more positive than most European countries – still quite positive growth." There was a slow start to the year – which was weather impacted - but now has returned to a better level.

In terms of investment in the fleet this year, Mr Schouten says that around €50 million will be spent on the Gunco, HDW and Mateco fleets, of which around 90% will be for replacement. Markets that will see their fleets growing will include Poland, Hungary, Belgium and Romania, while the group's operations in the Netherlands and Germany will operate stable fleet sizes.

UK

Although with a downbeat economy – only recently out of recession – and a badly impacted construction sector, there are rental companies in the UK still investing and reporting improving market conditions.

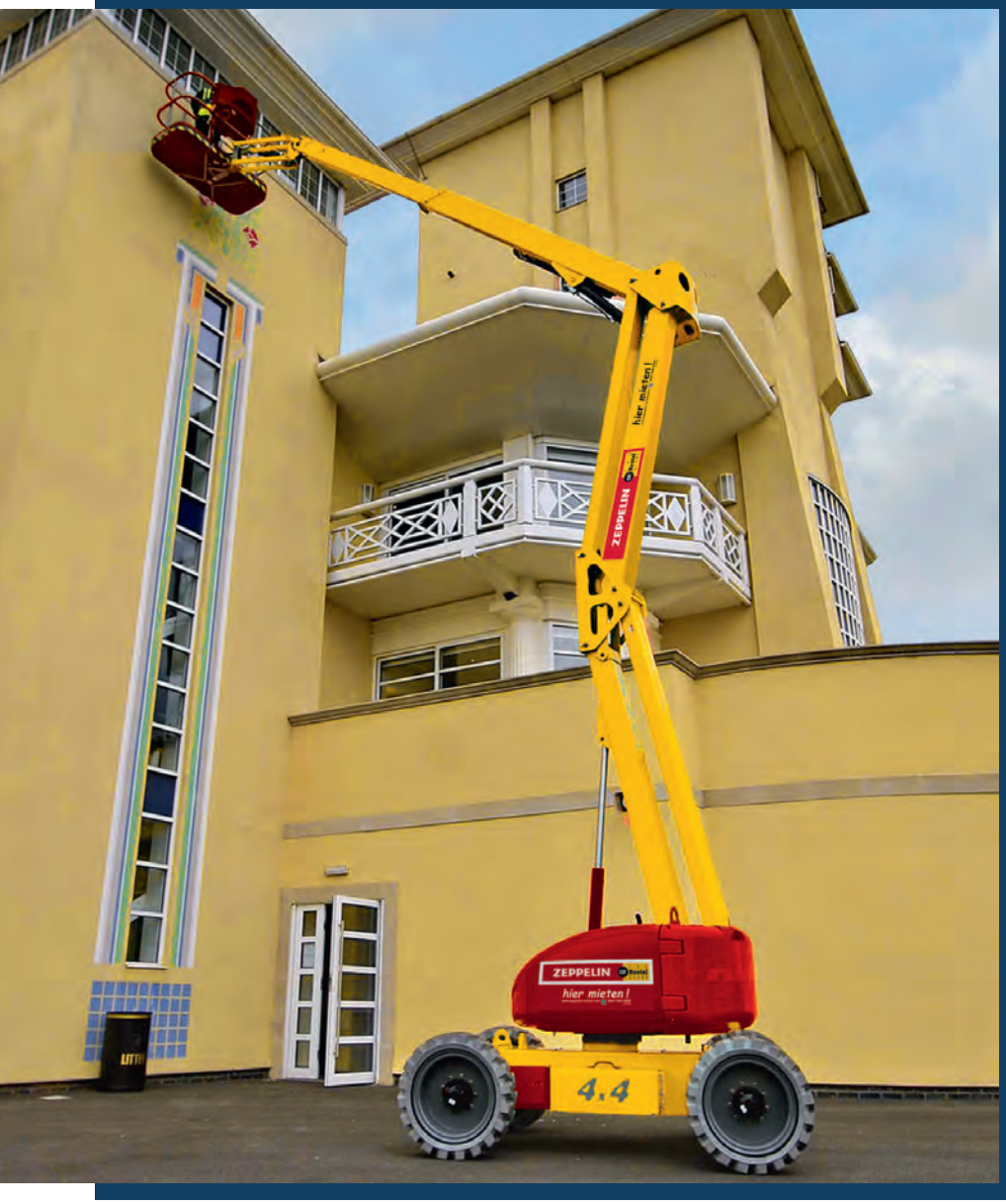
London-based One Call Hire, for example, has continued to spend heavily on its 'high quality rentals' strategy. John Fitzpatrick, chairman and shareholder of the family-owned firm, tells *IRN* that the £34-36 million investment on fleet this year is so that it can continue to supply "the best machines on the market. It's like when you renting from Hertz or Sixt, you want a new car.

"The contractor wants to work with high quality equipment – it looks professional – and they want their own decals on it. It's about health and safety and the perception of the client. The client and the contractor want a professional job. You can't have five year old equipment on site."

In the UK, One call Hire is making a point of buying Stage IIIB excavators for its hire fleet.

London-based One Call Hire says having a young fleet is central to its strategy.

Germany's Zeppelin Rental generated revenues of almost €20 million in July, a record for the business, and says the order backload for construction work in the country would lead to increased demand in the coming months. "Construction order books are well filled", said Zeppelin Rental sales director Peter Schrader, "At more than €27 billion the construction industry has the highest backlog since 1999. This is currently leading to a significant increase in demand and will have a positive impact in the coming months on the rental." Zeppelin will add 500 construction machines and 400 new aerial platforms to its fleet this year, and has plans to open five new branches during the year.



The typical annual investment by the company – which only rents equipment without operators - has been around £15-20 million, targeted at maintaining a young fleet, with the average age of its excavators above 8t at around 8 months.

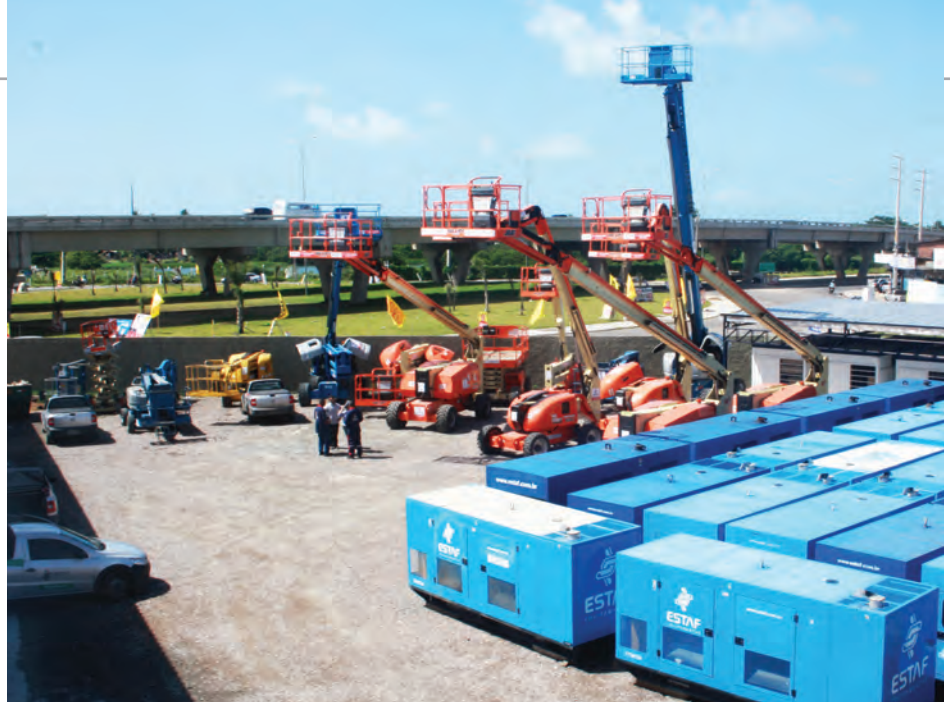
Low-emission models are also a key part of the strategy, with all of the company's 20 t excavators now Stage IIIB, and all 13 t units to be so by the end of the year. Mr Fitzpatrick says the sales argument is £100/week fuel savings; "Contractors are beginning to listen to that. It's getting to the right people at the top, that's the only problem."

The company was impacted by the recession, but Mr Fitzpatrick says that since the Olympics in London last year the market in the southern half of the UK, particularly the south east, where One Call is strong, has steadily improved. "Last year was a dip for us – down around 8% - however, post Olympics, from October 2012 it has steadily increased. It has bounced back, and we foresee that there will be a gradual increase over the next 18 months." Company revenues could reach around £17.5-18 million this year.

The huge Crossrail project in London is helping the company, but also the upsurge in the housebuilding sector; "that will go on before tapering off in 2016, but 2014 and 2015 are still to come. We're confident about the market in the next 16 months, and I suspect that we will outperform the general market."

However, the success of One Call Hire, a company so dependent on the southern half of the country, also points to another feature of the UK market, the north-south divide, with the south east of the country and London faring better than the rest. This is reflected also in trends in equipment use. For example, Mr Fitzpatrick says the use of Stage IIIB machines and the argument about lower emissions is "totally irrelevant from the Midlands upwards."

The UK rental market is definitely seeing improving conditions, but not to the same extent everywhere. ■ ➡



Estaf rents aerial platforms, power and scaffolding. This is its head office depot in Pernambuco.

Gustavo Lima, CEO of Estaf Equipamentos, one of Brazil's biggest rental companies.

BRAZIL

If there is a common assumption that it is World Cup and Olympic projects that dominate the workloads of Brazil's contractors and rental companies, then that view is quickly dispelled by Estaf Equipamentos, one of the country's top five rental companies.

Gustavo Lima, Estaf CEO, tells *IRN* that less that 5% of its R$55 million (€17.1 million) annual revenues are World Cup or Olympics related; "World Cup and Olympic projects are the tip of the iceberg for infrastructure in Brazil."

Continued investment in infrastructure, housing and commercial buildings like shopping malls - around 75-80 malls are currently under construction in Brazil - have helped the rental market grow by 15-20% annually over the past few years. Can that level of growth be sustained?

"Right now, we're not sure about that", says Mr Lima, "Brazil has some problems. I'm not confident in terms of 2013 and 2014, and it's an election year [next year], so we are not sure about government plans."

Still, the overall growth prospects and investment plans for Brazil convince Esaf that rental - and its three chosen sectors of scaffolding/formwork, aerial platforms and power rental - offer good prospects in the longer term.

The company, based in the coastal town of Olinda, north of Recife in Pernambuco province, received inward investment from private equity firm Rio Bravo in early 2011, and has since invested R$100 million (€31 million) in its fleet, including this year, with spending next year likely to be around R$30 million (€10 million). Estaf says it has invested more ➡

MEXICO

A recent slowing of Mexico's economy - GDP growth this year is likely to be under 2% following good years in 2011 and 2012 - is leading to a cooling off in the rental sector.

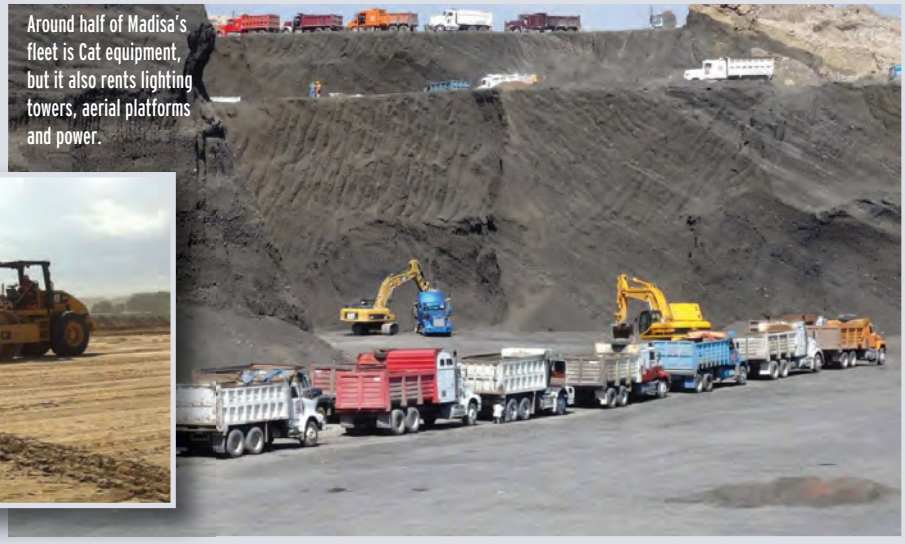
"It's a difficult market", says Alfonso Gutiérrez, rental sales manager at Madisa, the largest Caterpillar dealer in Mexico, "We have two kinds of clients, those that want good products, and those that want a low price. Competitors use old equipment. At least the bigger contractors are informed about products, and that's where we make our business."

The company operates a large rental fleet run from around 40 of Madisa's 51 locations around Mexico, with its two major rental locations at Mexico City and Monterrey. Something like half of the 3000 unit, US$160 million fleet comprises Caterpillar machines (from mini excavators up to massive 777 trucks), but in the last few years it has also added other products including compressors, lighting towers, generators, forklifts, portable accommodation and cranes.

Mr Gutiérrez says its main customer base is Mexico's major contractors - the best payers - followed by companies in the mining sector and then the steel industry. Competitors in the Mexican market include OEM dealers who are renting - such as John Deere and JCB dealers - as well as regional independents.

Madisa continues to invest in its fleet, having added Cat machines, aerial platforms and temporary accommodation to its fleet earlier this year. These three product groups are currently the key investment areas for Madisa's rental fleet.

However, Mr Gutiérrez reiterates that Mexico is not enjoying a golden period; "At the moment it is a very difficult time to invest", he says, "The government takes a long time to pay contractors, and the contractors then take time to pay us. It's a difficult situation."



Around half of Madisa's fleet is Cat equipment, but it also rents lighting towers, aerial platforms and power.

Caterpillar machine's in Madisa's rental fleet working in Puebla, Mexico.

in the last three years than it did in the previous 35.

The aerial platform fleet will continue to be established as a national business, while the scaffolding and power generation operations will be focused in the north east of Brazil, close to its base. Power will eventually be expanded nationally, but Estaf want to consolidate its knowledge of this product before expanding, having only entered the power market in 2010. Its fleet of 350 generators are sourced from Caterpillar, Atlas Copco and Stemac, a Brazilian manufacturer.

The investment from Rio Bravo has also allowed the company to expand its footprint, with eight current locations spread around Brazil and plans for another four within the next 12 months.

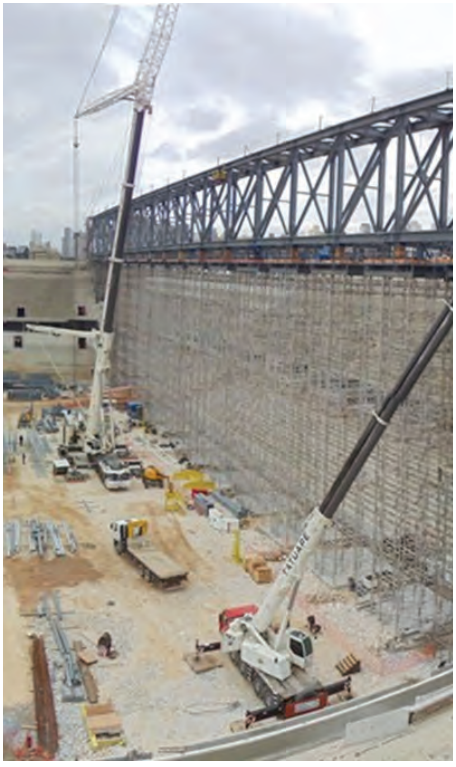
The aerials business – with a fleet of 1000 machines by the end of the year - is now a major focus, and takes up the lion's share of fleet investment.

Despite the heavy investment in aerials by Brazilian companies - including Mills and Solaris - Mr Lima does not see yet see evidence of oversupply; "Even with the growing fleet in Brazil, the rental price is still about the same."

Estaf's strategy is to develop a professional approach to rental, with one aspect of this the decision to buy only new equipment – primarily JLG and Genie. It operates large branches, typically with 200-300 machines, and Mr Lima says the aim is to differentiate themselves from the competition by focusing on good after sales service.

He agrees with Mills' predictions of a doubling of the access rental fleet by 2020 – which would take the fleet to close to 50-60000 units. "Yes. When you compare Brazil to Europe, it is doable", says Mr Lima.

The Estaf strategy is to focus on its three specialist products, with no current plans to add cranes or move into the general equipment market. And, of course, it is aware of the interest that rental companies outside Brazil have in its market. The message from Mr Lima is clear; "We are open to discuss joint ventures or partnerships with other companies." **IRN**



The Arena da Baixada stadium, Curitiba, has been expanded for next year's World Cup.

INDIA

By some estimates the Indian equipment rental market is growing at a compound annual growth rate of 40%, but to suggest it is simply a fast-growing version of the European or North American markets would be a mistake, says Vivek Soni, the co-CEO and CFO of Mumbai-based Gemini Equipment And Rentals (GEAR), one of India's largest pure rental companies.

Mr Soni, a chartered accounted with a background in finance, has been at the helm of GEAR for almost four years – a period in which the business has tripled in size – and he tells *IRN* that the Indian rental market is huge, but remains dominated by small, poorly organised players; "The barriers to entry are very low – anyone with 20-30 million Rupees can buy a machine and live off the rentals. 60 to 70% of all equipment in India is sold to people with net worth of less than $150000. There is very little organised rental."

In this environment, GEAR's strategy has been to focus on specialist areas, largely avoiding the overcrowded earthmoving sector, typified by the omnipresent JCB backhoe loader. That means concreting equipment (mobile placing booms, transit mixers and concrete pumps), road building machines, tower cranes, construction hoists and mast climbing work platforms. The company also created in 2011 a division that imports, sells and rents forklifts, including the Still brand.

"Now, earthmoving equipment represents the low single digits on percentage of the fleet", he says, "There's not much money in earthmoving." In contrast, concreting equipment and vertical equipment such as hoists and cranes now represent 55-60% of the business.

Vivek Soni, co-CEO and CFO of Gemini Equipment and Rentals (GEAR).

"The real kick start will come after elections next year. From a rental point of view it's a great time to be in the business, with everybody wanting to rent rather than buy."

Operating in India brings with it challenges, such as a federal structure that imposes a dense bureaucracy and a wide variety of tax regimes. To cope, GEAR operates seven regional offices and a further 150 customer sites where machines, operators, mechanics and spare parts are placed. Its fleet comprises around 600 units and it has 1800 employees. Reducing the logistical burden for contractors is seen as a major selling point for rental, says Mr Soni.

Logistics may be difficult, but GEAR – which is backed by two private equity investment firms, Cycladic Capital and its majority owner Berggruen Holdings - manages to track the location and status of its fleet daily, not by telematics – cell phone networks are not widespread enough – but by having a network of contacts (operators, site supervisors, clients) who are called daily by its call centre. All machines are rented with an operator.

Mr Soni says there are several market dynamics that favour the development of rental. India's bigger contractors, who traditionally preferred owning their equipment, have faced a slowdown in the construction market and seen their equipment lie idle; "Now they see the attractions of rental. And now capital is short, so they would rather use it on their business than in a depreciating asset."

In addition, there is a trend for India's larger contractors to outsource more site work to small and mid-sized contractors who are unable to access capital to buy equipment, so look instead to rental.

In the current slowdown, however, GEAR has targeted business with the 50 largest contractors in India, because Mr Soni says these companies are weathering the downturn better than the smaller players.

"Construction is currently going through a slight rough patch, largely because of government policy", he says, "The sector will pick up slowly – in one or two years construction will be back on track. The real kick start will come after elections next year. From a rental point of view it's a great time to be in the business, with everybody wanting to rent rather than buy."

GEAR has so far resisted the allure of the aerial platform market, where European players including Riwal and Lavendon have now established Indian footholds. Mr Soni says returns in the sector remain "sub-optimal, with lots of used assets. You can't break even with new equipment. Legislation to deal with health and safety and working at height has still not been rolled out in the construction sector. It will happen, and then access equipment will be an easy bolt-on." More interesting to Mr Soni are different sectors, such as the rental of healthcare equipment, a market that GEAR is poised to enter.

So GEAR is ready for the upturn, and resisting the urge to import the western approach to rental, instead creating an Indian variant that suits the market.