

All We Are Saying Is Give Lease a Chance

With the Volatile Economy, Leasing Equipment Can Offer an Interesting Alternative

By Christina Schave

As recent as three years ago, contractors may have been hesitant to lease construction equipment. Dealers heard things such as "I'm not interested in a lease" or "I want to own my equipment and use it for years." While this still holds true for some contractors, many are entertaining leasing as a finance option.

"You can make a strong point right now for leasing as an equipment purchase option," says George Macia, program manager, Americas, Doosan Financial Solutions. "The economic environment we have come through in the past couple of years has opened people's minds to considering leasing over financing in some cases."

In a survey the Equipment Leasing & Finance Association (ELFA) conducted in November of 2010, 43 percent of survey respondents, up from 34 percent in October, believe demand for leases and loans to fund capital expenditures will increase over the next four months. Sixty-four percent of respondents indicated they expect the same access to capital to fund business as they have had in the last few months. Regardless of whether the economy makes a quick rebound or a slow steady increase, contractors have solid solutions in the rental, financing and leasing areas.

Rent for Short-Term Contracts

Purchasing a piece of equipment, only to take on the storage and maintenance costs associated with it can sometimes be more expensive than many contractors can afford.

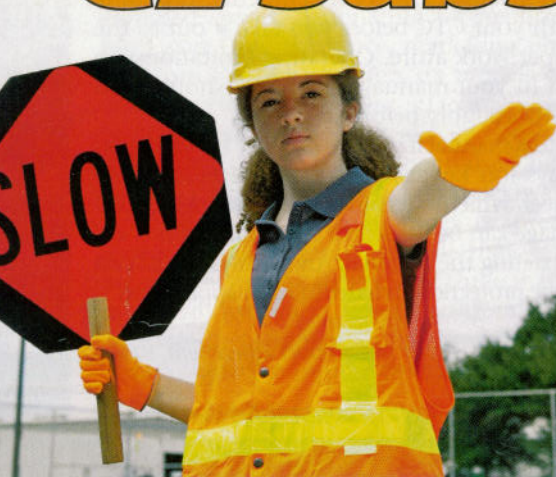
Contractors who are taking on short-term contracts and one-off-type jobs might want to consider renting certain machines they know they can't or won't use on other jobsites. Renting lets you fit the right type and size of equipment to the job, which can prove economical and serve as a safety precaution.

"Rental is a great option for many contractors because you can get the equipment on a shorter term than financing and still have lower payments," Macia explains. "However, you



Leasing is not quite as flexible as a short-term rental, but it is more flexible than a purchase. In addition, leasing equipment has different tax advantages than financing. The entire lease amount can be deducted as a business expense over the course of the equipment's depreciation.

CE Subscription Zone.



Slow Down,
Sign Up and
Receive 12 Issues of
Compact Equipment
FREE in 2011!

do pay for the flexibility of rental, and it's typically a bit more expensive."

In the case of using larger machines than what is in a contractor's typical fleet, renting can significantly reduce costs by eliminating the need for large equipment storage areas. Also, rental stores have access to the latest models of equipment, offer guarantees about functionality and have the ability to service the equipment should it suffer an unexpected malfunction. Dealers are armed with solutions to help put contractors into a rental fleet to support short-term needs.

Financing Smart

If your company has a solid operating history and great credit, an equipment loan might be your best alternative. Manufacturers from Bobcat to Doosan provide several programs to help customers own equipment, particularly if they want to hang on to the equipment for many years. "Traditionally, if you're buying, you have to go to a longer term to get lower payments," Macia says. "A lot of people prefer this option."

The Association of Equipment Manufacturers (AEM) recently released the results of its *Construction Equipment Outlook* report, which predicts growth in construction equipment sales through 2013. While a key impediment to growth in the construction equipment industry is the stagnant housing market, credit availability will also play a role in how many machines are purchased in 2011. According to AEM president Dennis Slater, "You have to remember our industry was down 30 percent to 50 percent in the recession, so there is a long way to go. Although business is improving, it will take years to recover the sales losses of 2008 and 2009."

Financing construction equipment is a popular route to ownership because this equipment, unlike equipment in other industries, typically isn't faced by obsolescence. With proper maintenance, construction equipment can more than outlast the cost-benefits of a lease. Once the machine is paid for, a contractor enjoys the benefits of owning the equipment and has the future flexibility to use accrued equity to leverage working capital, if needed.

Leasing Is Attractive

Recent industry statistics show that more than \$3 billion worth of construction equipment is leased each year in the United States, alone. Many leasing programs offer contractors a variety of options, including lease-to-own financing that enables the customer to "defer the decision to purchase the equipment to the end of the lease term," Macia says. Leasing enables contractors to customize a financing program to address their business' cash flow issues, including budgeting, transaction and cyclical fluctuations. Many contractors are interested in seasonal leases which help them to slot payments into their busiest months and avoid payments during the off-season.

The advantage of leasing over financing is a loan will finance the total value of the equipment plus the interest

earned over a given period. Leasing can be arranged so the business only pays for the depreciation of the equipment during the lease term. This can mean significant savings and smaller regular payments. Also, traditional financing accrues interest from the beginning to the end of the loan. Leasing only accrues financing as long as the equipment is depreciated. If a lease term is for 60 months and the equipment is depreciated for 48, the final 12 months of the lease accrues no interest.

In addition, lease payments are typically much less per month and fixed for the term of the lease, while long-term loan money is usually on a floating or variable rate tied to prime or some other indices.

Finally, conventional equipment loans can require up to 25 percent down, while leases usually require little or no down-payment to start. Leasing can benefit newer companies or those with less-than-stellar credit that need help getting a jump start.



Purchasing a piece of equipment, only to take on the storage and maintenance costs associated with it can sometimes be more expensive than many contractors can afford.

"In general, throughout the industry, there has been an uptick in leasing solutions; it's a hybrid between a rental and a purchase decision," Macia explains. "Leasing is not quite as flexible as a short-term rental, but it is more flexible than a purchase."

In addition, leasing equipment has different tax advantages than financing. The entire lease amount can be deducted as a business expense over the course of the equipment's depreciation. In certain tax situations, the deduction for the lease offsets taxes owed during the lease period and the equipment lease pays for itself.

"Basically, it's time to re-evaluate the 'leasing is not a viable option for me' mindset," Macia says. "Leasing solutions can offer significant value, particularly to customers who know they have work for the foreseeable future, but might not be sure about two to three years down the road. It's an excellent way to hedge your bets in a still-recovering economy."

Christina Schave is a public relations writer for Two Rivers Marketing, based in Des Moines, Iowa.