

**G&T M&E Contractor Survey**  
November  
2022

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G&T's M&E Contractor Survey summary for November 2022 analyses some of the key trends and themes generated from the responses of our most recent M&E contractor survey.

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**Please note:** Although survey respondents operate across all geographical regions of the UK, the majority tend to operate in Greater London and the South East.



### MEP Contractor Turnover v. Profit



Average Profit  
previous financial year...

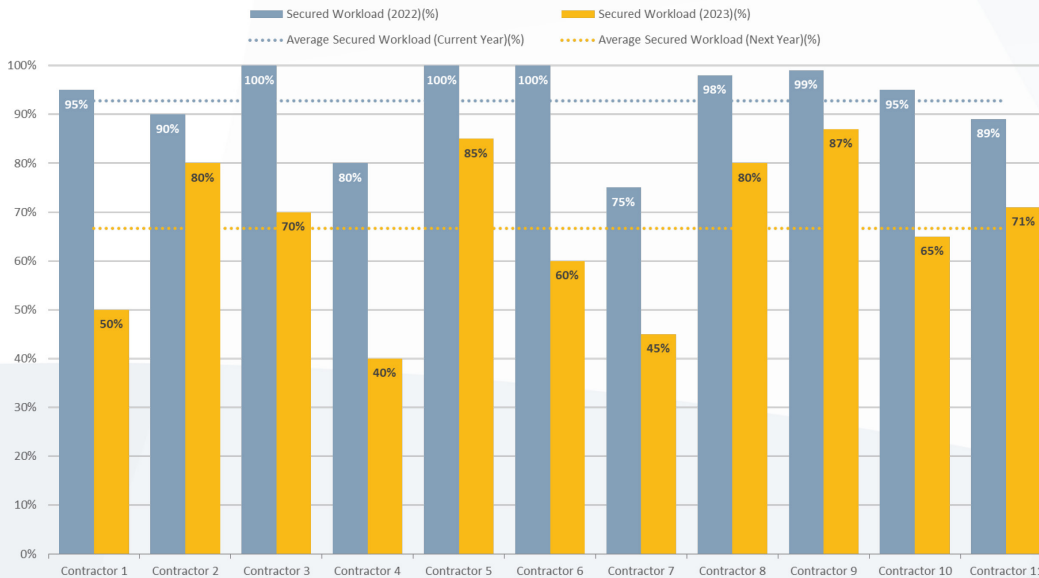
**2.4%**

2023 Turnover  
forecast to increase by...  
**+21.6%**

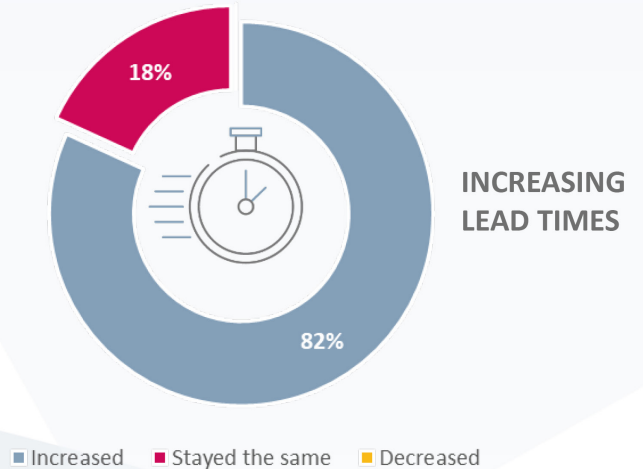
*(on average, compared to forecast turnover for current year)*

- All MEP contractors other than one forecast **turnover will increase or stay the same** for 2023
- On average, contractors expect turnover to **increase by 21.6%** next year compared to the current year
- The majority (**82%**) of contractors expect 2023 turnover to exceed 2022 turnover
- Average profit in the previous financial year (2021) was **2.4%** - unchanged from 2020 but down on 2019 average profits (**3.9%**)

### SECURED WORKLOAD (2022 v 2023)



### MEP PRODUCTS/MATERIALS LEAD TIMES: PAST SIX MONTHS



On average, contractors have secured **93%** of 2022 workloads and **67%** of 2023 workloads

- **More competitive tendering** due to anticipated market downturn
- **Clients more nervous** committing to project starts due to cost plan issues following inflation

Combined effects of Brexit, the pandemic and war in Ukraine pushing lead times higher

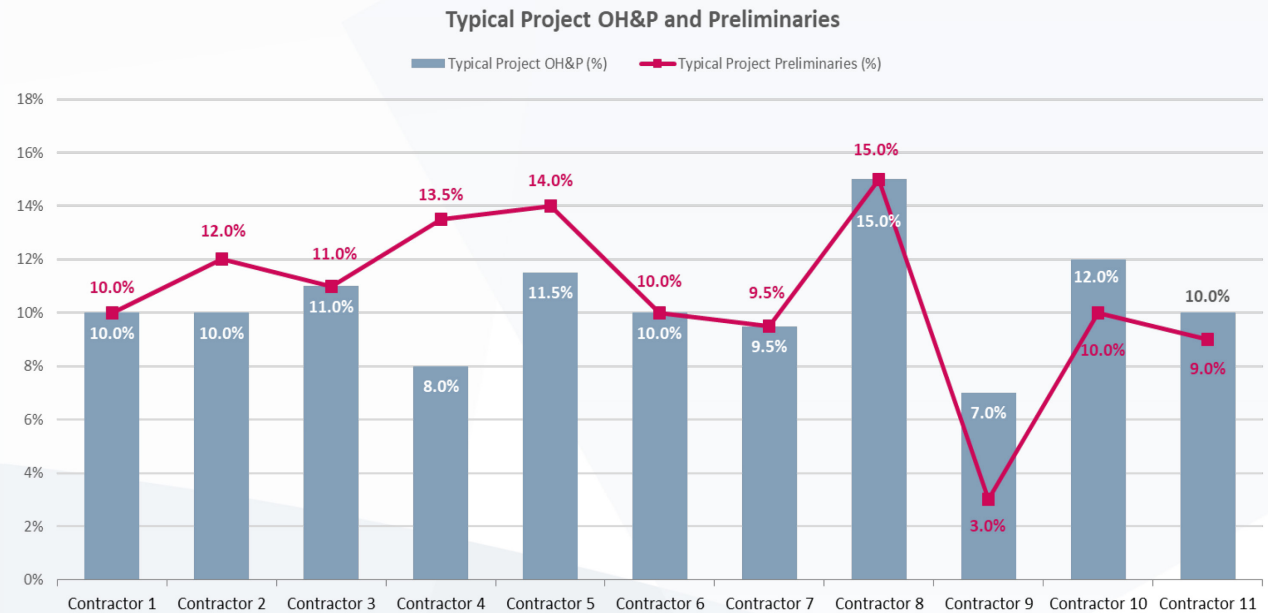
- High demand for **chillers, generators, switchgear** and **air source heat pumps**
- Global supply chain issues causing **delayed orders, extended delivery times** and **part shortages**

TYPICAL OVERHEADS AND PROFIT (OH&P) RANGED BETWEEN **7-15%**, WITH AN AVERAGE OH&P FIGURE OF **10.4%**

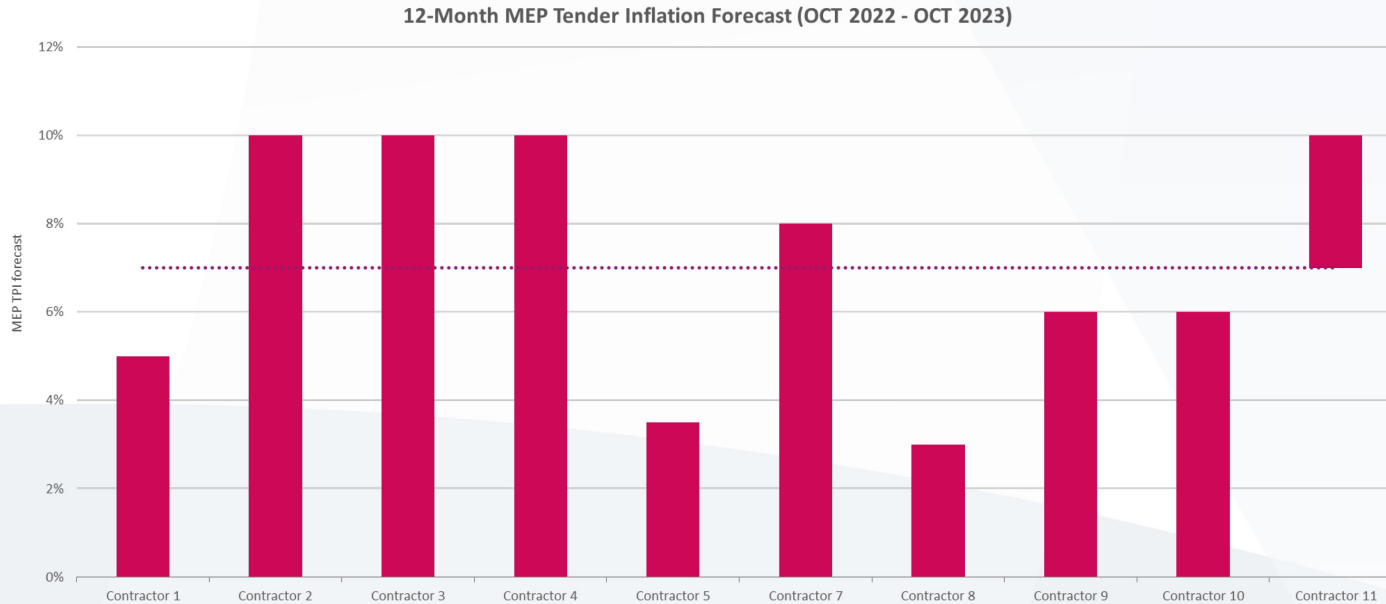
TYPICAL PROJECT PRELIMINARIES COSTS RANGED BETWEEN **3-15%**, WITH AN AVERAGE OF **10.6%**



*“Inflated salary demands for staff are pushing up preliminaries. Higher fuel prices (and the removal of the red diesel rebate) have also put upward pressure on plant operation and site transportation costs.”*



- No significant change in average OH&P and Preliminaries costs compared to [May 2022 M&E report](#)
- Differences between typical OH&P and Preliminaries costs between contractors could be due to the sectors in which they primarily work, as well as the way they structure their pricing
- For example, the **3%** preliminaries figure provided by one contractor may be due to passing most of the works onto sub-contractors and just performing a very high-level management role
- Higher OH&P levels may be due to how individual companies cost their overheads. Some may include more scope than others within their overheads, such as director costs



**Average MEP Inflation Forecast** (Oct 22 – Oct 23...)

**7%**

12-month MEP tender inflation forecast is **7%** – down from **7.4%** in May 2022 M&E report

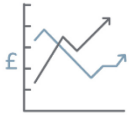
This compares to a G&T MEP inflationary forecast range of **3-6%** for the next 12 months\*

Forecast range: **3% to 10%** – with the wide variance due to current levels of uncertainty/volatility over cost inflation

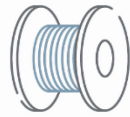
*“We are seeing pressures in relation to unavailability of resources from Russia/Ukraine as well as continued lockdowns due to COVID in China which impacts the overall delivery of components across all sectors. The impact of rising energy costs has also been a factor.”*

\*Level of forecast M&E tender price inflation dependant on contractor and their secured workload. Broad range reflects risk that projects may go on hold and pricing may become more aggressive.

## Market pressures currently driving M&E prices...



Energy Costs/Fuel Prices



Material Availability



Weaker pound and Fixed Price Requests



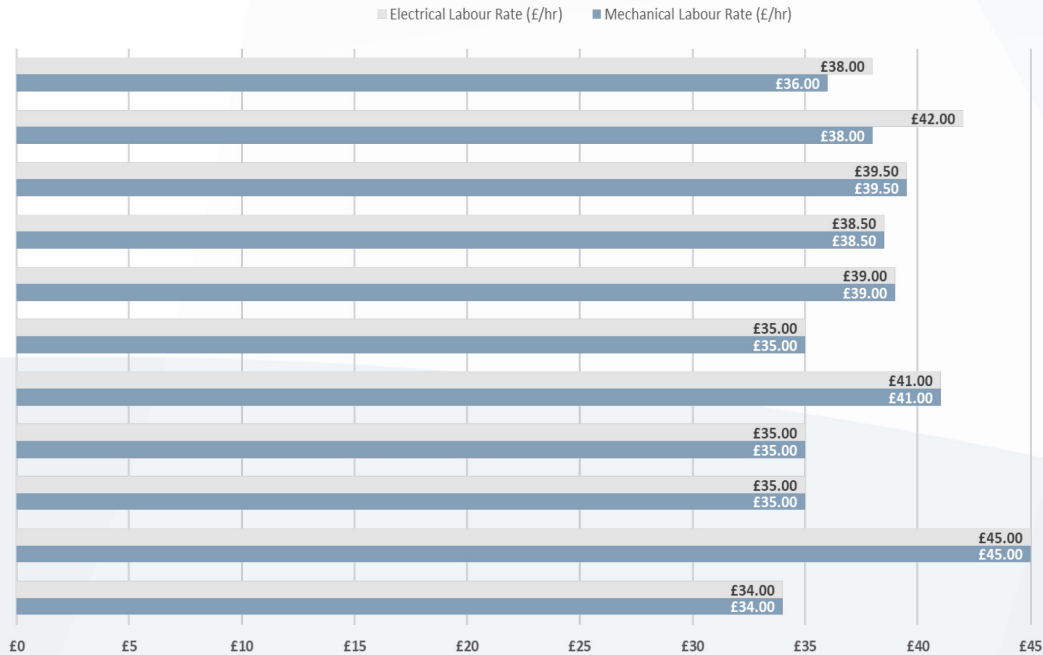
Financial Pressure on Suppliers/Sub-contractors

## Market risks for 2023...

- Further inflationary rises (fuel/energy-driven)
- Shortages of materials and long lead times
- Labour shortfall
- Exchange rate volatility
- Political/economic uncertainty slowing demand



## Mechanical & Electrical Labour Rates (£/hr)



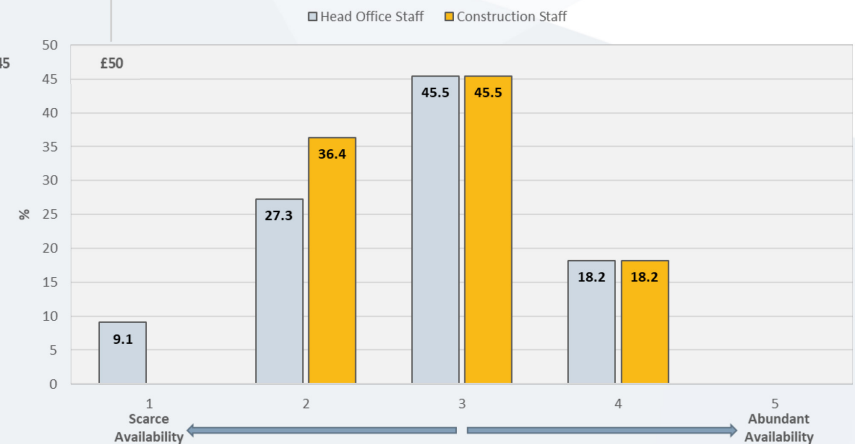
Most M&E firms reported no difference between head office and construction staff availability but indicated that on the whole, resource availability has tightened compared to the May 2022 survey. Respondents noted:

- Firms that directly employ and train operatives/staff from the ground are experiencing **fewer resource issues** and have **better retention levels**
- Strong work volumes causing demand for staff to increase but **some teams are starting to come free** as projects complete
- Uncertain economic conditions mean **fewer are willing to leave current secure positions**, potentially providing some downward pressure on earnings

## Oct 2022 M&E Survey:

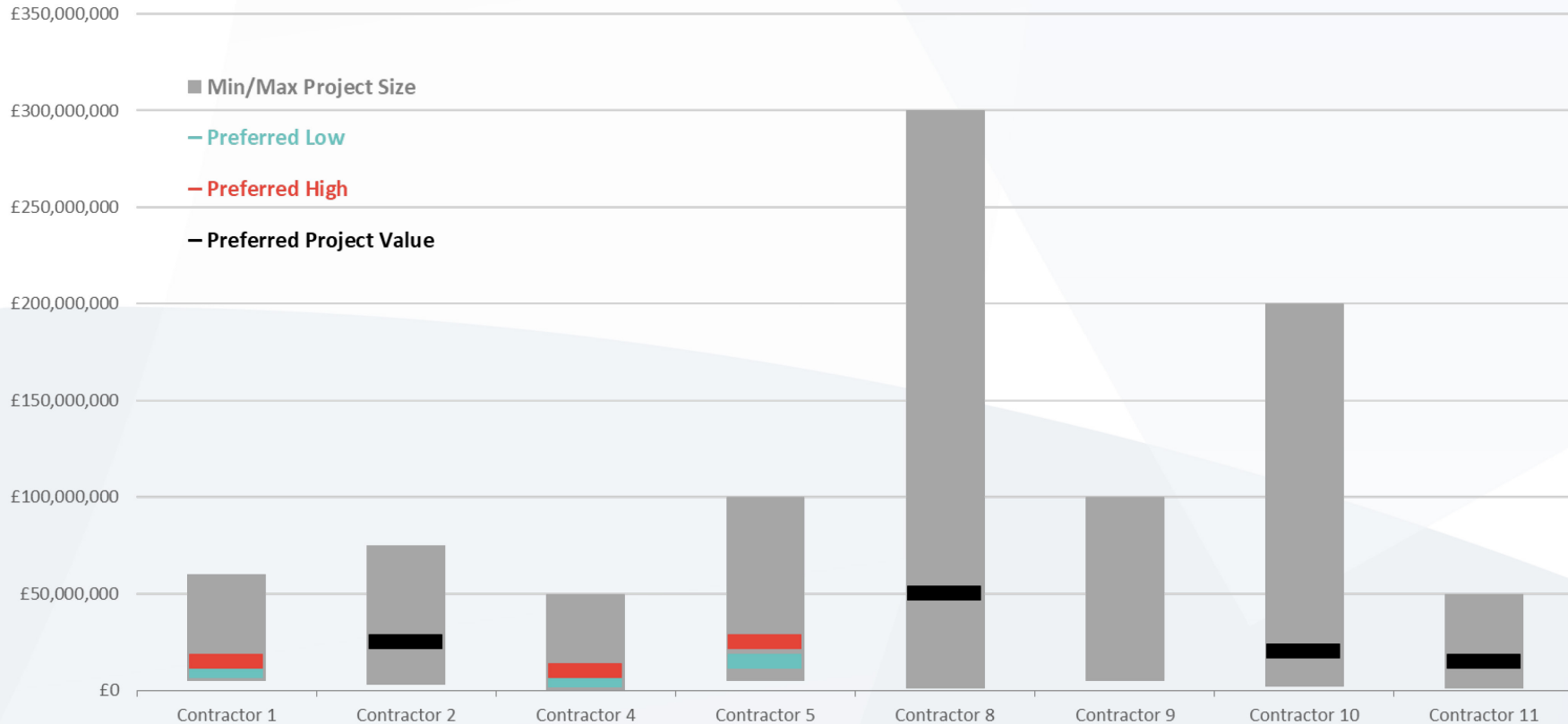
- **Average Electrical Labour Rate: £38.36 p/h**
- **Average Mechanical Labour Rate: £37.82 p/h**
- Compared to [G&T's May 2022 survey](#), average electrical labour rates have risen by **7.2%** while mechanical labour rates have increased by **4.2%**
- **Difficulty filling vacancies** creating upward pressure on wages, but a significant proportion of contractors were neutral on resource availability
- Potential new recruits **demanding higher salaries** than expected against their relevant experience levels

## Resource Availability: Head Office & Construction Staff





### Preferred Project Size: Upper/ Lower Project Value



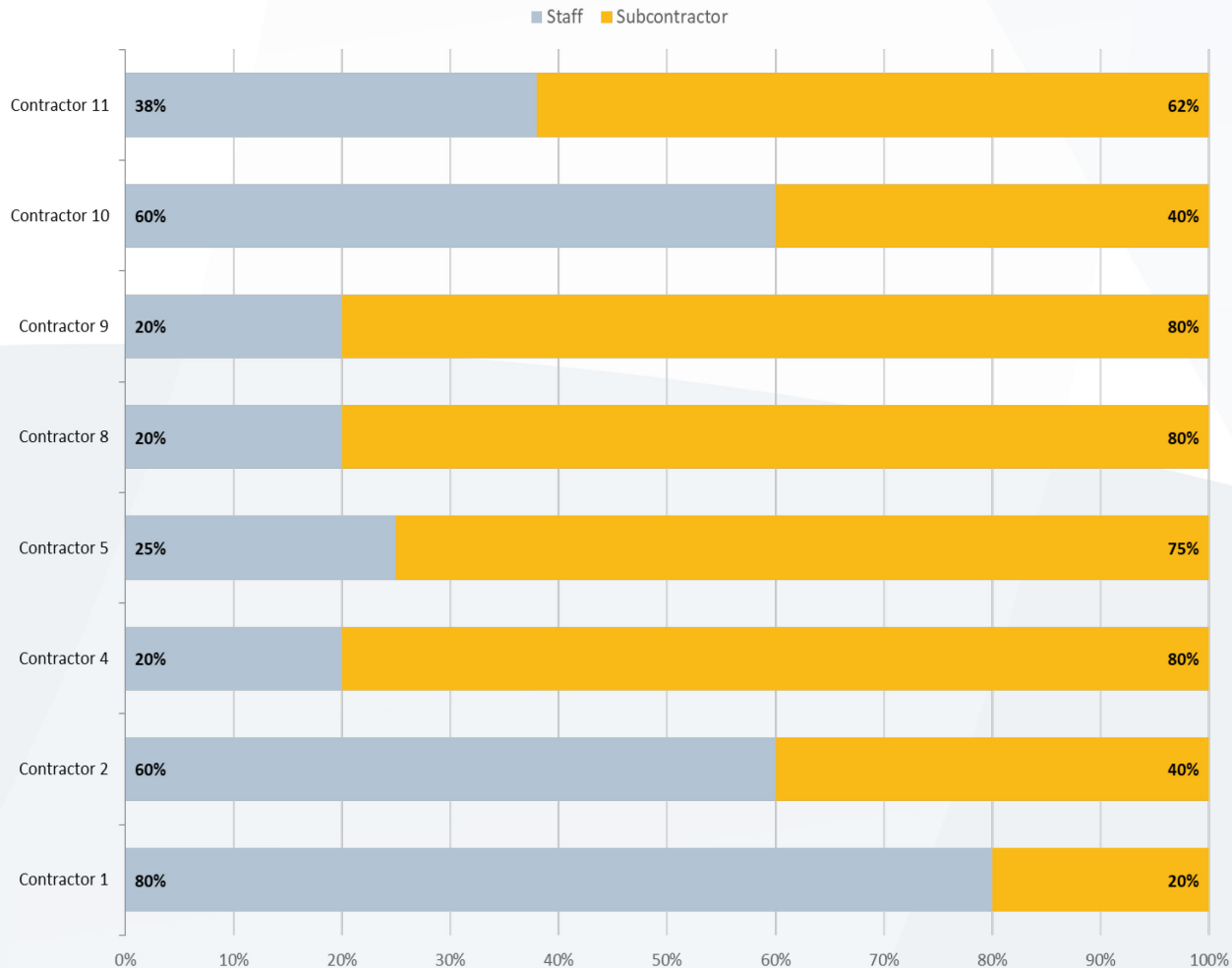
Across all surveyed MEP contractors, the average minimum project size was £2.7m while the average maximum size of project was £116.9m

The lowest stated project value any contractor would consider was £100,000. One contractor indicated its ability to get involved in projects up to £300m

The 'preferred' project size for all contractors tended to be significantly lower than their maximum project size, averaging around £21.4m

Some noted that they had no real preference regarding size and were able to take on higher value projects in certain regions (eg London) and on an exceptional basis

Staff/ Subcontractor Labour Split (%)



In our October 2022 survey, the average staff/sub-contractor split was **40:60**

(June 2022 split: **38:62**)

1. M&E contractors typically directly employ a significant proportion of the labour force. This helps control costs during periods of high demand and is perhaps why M&E rates have not increased as much as other trades, such as brick/blockwork, where there is a greater degree of fragmentation in the delivery of work on site
2. Even those contractors that are more heavily reliant on subcontracted labour noted that because the skill base is at an all-time low, they have started to employ apprentices for the first time in more than two years



*“Most projects currently tendered are at stage 3 design which affects the level of risk applied to the tender”*



- The average successful tender ratio was **28.8%** but ratios ranged between **10-60%** across all respondents
- The average successful tender ratio has risen by a further **0.7%** since our May 2022 survey, when the successful tender ratio was **28.1%**

During 2020 and early 2021, contractors reported that, on average, 12 MEP contractors were competing for open tenders, but strong new order growth over the past year has eased tendering competition levels.

Strong growth in data centres, logistics hubs, infrastructure and multi-storey warehousing, as well as a pick-up in the office market revived by the return to work, have increased bidding opportunities.

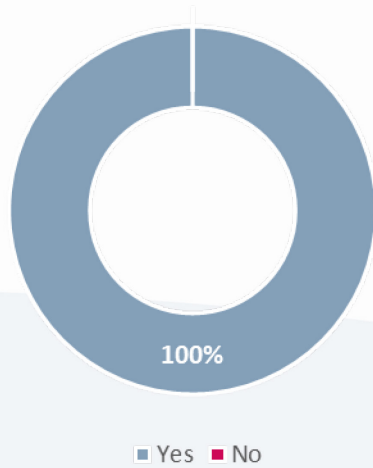
Over the past 18 months, contractors have become more selective on both the type of project and the clients they tender for. For example, one respondent said they will no longer price for CAT B fit-out projects, residential projects or for projects where there are more than three-four MEP contractors tendering. Another said they will only tender on projects if they have “good working

relationships” with the client and main contractor, along with confidence/surety in their ability to deliver successfully.

While resource availability, tender competition, main contractor list and T&Cs are all key parts of the tender vetting process, a greater emphasis has been placed on project risk profile recently.

With persistent inflationary pressures creating some client hesitancy and an anticipated slowing of new order growth in 2023, contractors will not be as selective in their approach to tendering projects and will likely begin to price projects more competitively.

Are you currently experiencing any supply issues with regards to any MEP products/materials?



- All respondents continue to experience supply issues with MEP products/materials
- Extended delivery periods and longer lead in needed on all works
- Even when engaging early with the supply chain, there are still some issues with product/material availability
- Some contractors noted ongoing supply chain pressures were resulting in part orders
- Some key suppliers unable to provide fixed quotes making further inflation post order a risk

### MEP Products/Materials Affected by Supply Issues:

- Most products with Microchips
- Large plant (**ASHP, AHUs**)
- Switchgear
- Generators
- Chillers
- Uninterruptable Power Supply (**UPS**) Systems
- Computer Room Air Handler (**CRAH**) Units

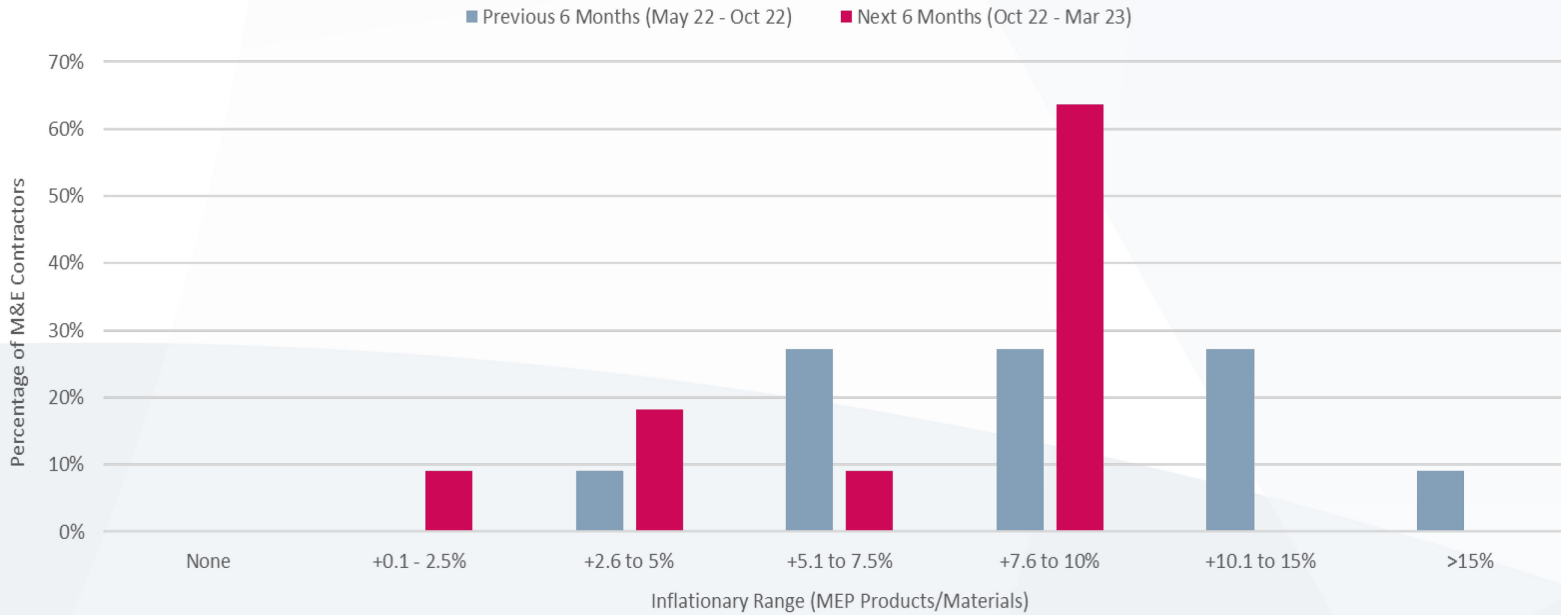
| MEP Products/Materials With Longest Lead Times | Lead Time (Weeks) |
|--|-------------------|
| ICT/Security Equipment (eg servers)            | 52 weeks          |
| Generators                                     | 30-40 weeks       |
| UPS  | 24-26 weeks       |
| Chillers                                       | 22-26 weeks       |
| Switchgear                                     | 18-30 weeks       |
| Downflow Units                                 | 18-20 weeks       |

| Plant                               | Lead Time (Weeks) |
|-------------------------------------|-------------------|
| Air Handling Units                  | 14-16 weeks       |
| Chillers                            | 22-26 weeks       |
| Air Source Heat Pumps               | 14-16 weeks       |
| Water Source Heat Pumps             | 14-16 weeks       |
| Pumpset                             | 12-14 weeks       |
| Downflow Units                      | 18-20 weeks       |
| Fan Coil Units                      | 12-16 weeks       |
| Tanks                               | 6-8 weeks         |
| Switchgear                          | 18-30 weeks       |
| Generators                          | 30-40 weeks       |
| ICT/Security Equipment (eg servers) | 52 weeks          |



| Materials           | Lead Time (Weeks) |
|---------------------|-------------------|
| Luminaries          | 4-6 weeks         |
| Cables              | 6-8 weeks         |
| Busbar              | 10-12 weeks       |
| Containment         | 4-6 weeks         |
| Pipework & Fittings | 4-6 weeks         |
|                     |                   |
| <b>Other Items</b>  |                   |
| UPS                 | 24-26 weeks       |

## MEP Products and Material Prices: Inflationary Estimate/Forecast



*Inflationary estimates for MEP Products and Materials are dropping compared to six months ago*

- Upward pressure levelling off, but further cost pressures anticipated
- Large variance in materials makes it difficult to provide a broad forecast
- Ductwork prices steadied but insulation products seen big increases

## Six Month Inflation Forecast for MEP products/materials...

**64% of contractors**

*Expect inflation to fall within a range of:*

**+7.6 to 10%**

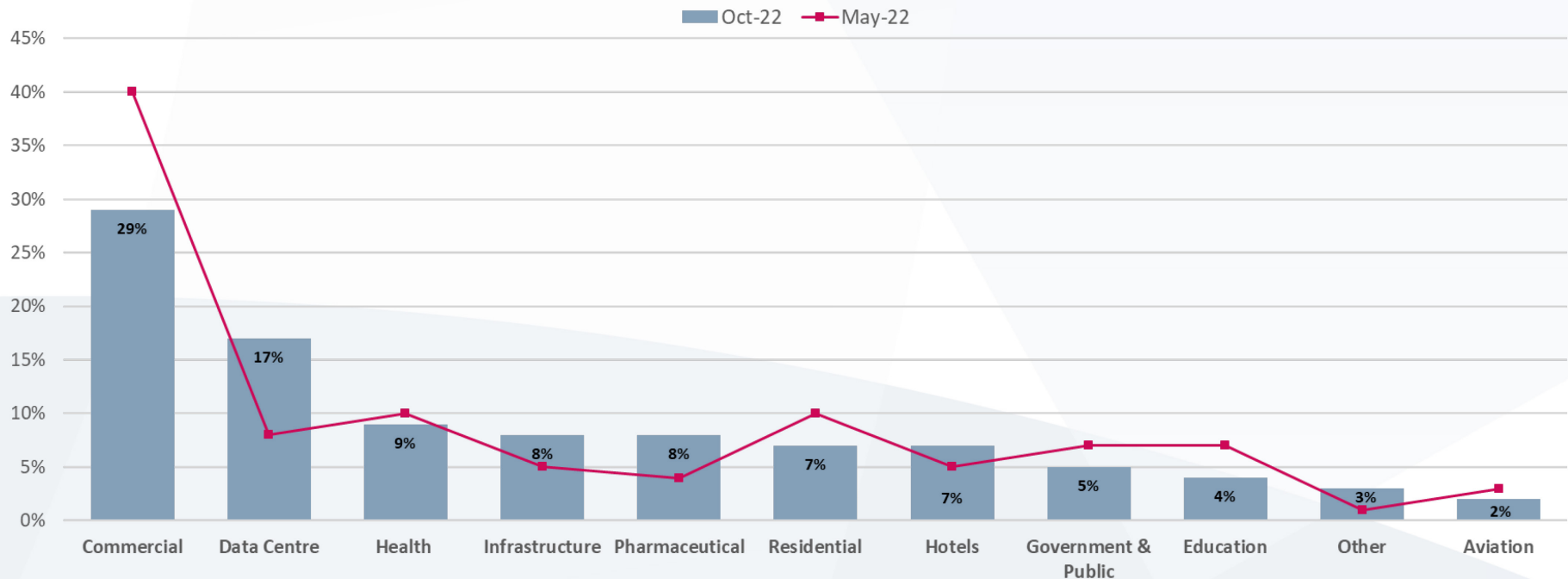
## Look Ahead at Inflation:

- Contractors' look-ahead for the next six months shows a left-shift in terms of inflationary expectations. While most still expect inflation for MEP products/materials to be relatively high (within a **+7.6 to 10%** range), none are anticipating inflationary rises of more than **10%**. Furthermore, around one-third expect inflation to be within an much lower range of **+0.1 to 5%**.
- It was noted that without a weaker pound, these inflationary forecasts for the next six months could have fallen even further.
- A number of contractors caveated these forecasts, noting there was a wide variance between different MEP materials/products and that an 'across the board' estimate/forecast was difficult to provide.
- Substantial increases in the price of ductwork/steel tubes were noted previously but prices have since steadied. Insulation products appear to have taken ductwork's place with contractors reporting double-digit increases over the past six months and a further **15%** rise expected in the coming months.
- **Reassuringly, most suggested that material costs are starting to stabilise. However, expect to see lower rates of price increases across the board rather than no increases at all.**

## Look back at Inflation:

- Over the past six months (May-Oct 22), contractors' estimated inflation for MEP products/materials fell within a range of **+5.1 to 15%**.
- Even the mid-point of this range surpasses the rate of inflation provided by the BEIS 'All Work' material price index (**4.5%** over the past six months) suggesting MEP products/materials have experienced stronger inflationary pressures than many other construction materials

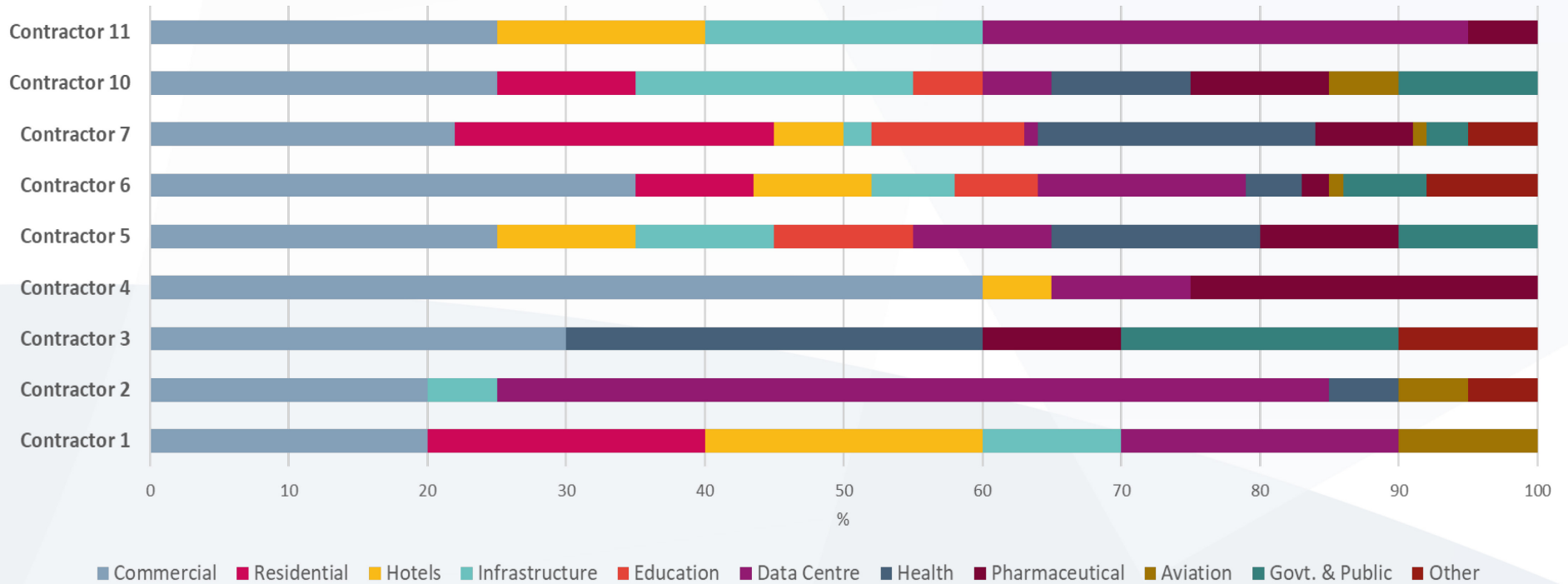
Average Sector Split (%) - Oct 2022 v. May 2022



- Significant drop in the proportion of work in the commercial sector, according to MEP contractors. On average, **40%** of respondents' work was in the commercial sector in May 2022. This has now dropped to **29%** in our latest survey and is below the pre-pandemic (2019) average figure of **38%**
- Data centres (**17%**), infrastructure (**8%**), pharmaceutical (**8%**) and hotels (**7%**) all accounted for a higher average proportion of work compared to our previous (May 2022) survey
- Several respondents mentioned recent moves into data centres, health/life sciences and public work projects due to strong demand and growth prospects in these "recession-resilient" sectors. Many have adapted their business models and strategies in order to win work in these sectors



Sector Split by MEP Contractor



Commercial continues to account for a significant source of workload for all contractors

All surveyed MEP contractors apart from one are involved in data centre work

Evidence contractors are branching out into new sub-sectors compared to six months ago\*

\*On average, MEP contractors worked across 5.4 different sectors according to May 2022 survey data. The latest survey (Oct 2022) saw the average number of sectors MEP contractor working in rise to 7.1

## Main Risks Facing UK Market:

- Further inflation and cost uncertainty
- High energy/fuel prices
- Material availability
- Insurances
- Staff/labour shortages
- Fixed prices on projects
- Lead times for plant
- Exchange rate volatility
- Clients becoming increasingly nervous to commit to project starts
- Ongoing global supply chain issues
- Rising costs and inflationary pressure whilst the market becomes more competitive

*“Supplier/Sub-contractors are under increasing financial pressure which could lead to more companies going into administration/liquidation”*

## Factors Currently Influencing Successful Project Procurement

- Good working relationships with supply chain and confidence in their ability to deliver
- Availability of materials and suitable labour
- Cost plan/programme accuracy
- Being able to correctly advise on delivery times/requirements
- Ability to make bulk orders across several projects to secure materials at quoted prices
- Surety of client and main contractor
- Willingness to fix prices on projects in 2023/24
- Early collaboration with all parties to gain agreement on not only costs but technical submittals and early procurement
- Design freezes and quality of consultant design as well as a realistic PCSA period

## What Market Pressures Are Driving Pricing?

- War in Ukraine
- Importing products from China due to lockdowns
- Fixed price requests
- Skills and materials shortages
- Weaker pound
- Delayed client decision making and uncertainty of projects starting
- Fuel/energy prices
- Equipment availability and lead times



### Interesting MEP Market Trends



Net zero carbon, social value and sustainability



Data information gathering for the use within Smart Buildings



MMC/DfMA being seen on more projects



Rapid advancement of new technologies

### Strategic/business model changes planned...



Looking at opportunities from all angles with more care/consideration



Strategic tendering introduced



Greater focus on programme and risk profile of projects

Focus on sub-sectors where "added value" can be provided



Pivoting to develop capability in 'recession-resilient' sectors



For further information, please contact:

**Jonathan Wilson** (*Partner*): [j.wilson@gardiner.com](mailto:j.wilson@gardiner.com)

**Lee Moore** (*Partner*): [l.moore@gardiner.com](mailto:l.moore@gardiner.com)

**Michael Urie** (*Senior Market Analyst*): [m.urie@gardiner.com](mailto:m.urie@gardiner.com)