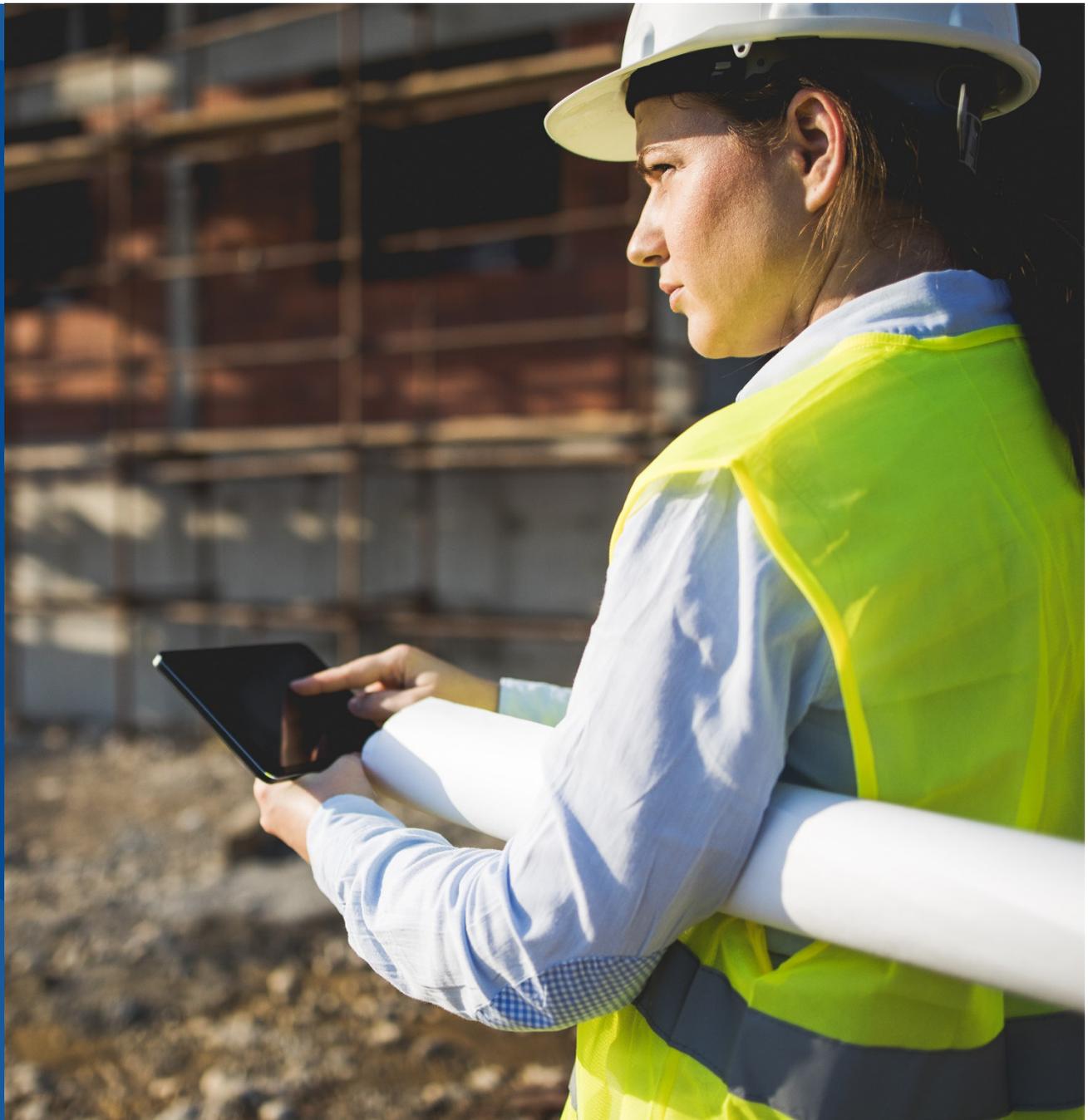


G&T M&E Contractor Survey

June
2022



G&T's M&E Contractor Survey summary for June 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.

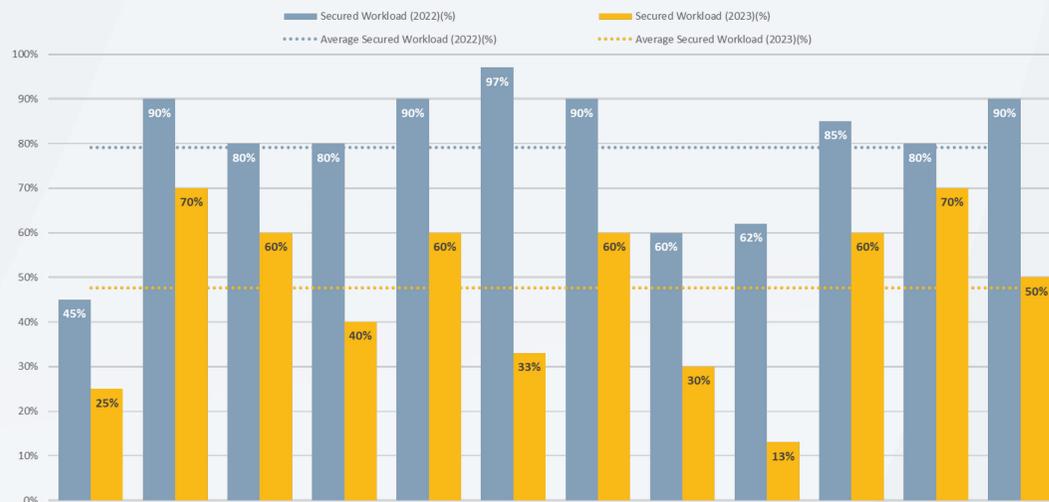


MEP Contractor Turnover v. Profit



- All MEP contractors that responded to the survey forecast their turnover will increase in 2023 compared to the current year
- On average, contractors expect their turnover to increase by **12.3%** next year compared to the current year
- The majority (**75%**) of contractors also expect their turnover this year will exceed their previous year's (2021) turnover
- The average profit in the previous year was **2.8%** - up from 2020 profit levels (**2.4%**) but down on 2019 profits (**3.9%**)

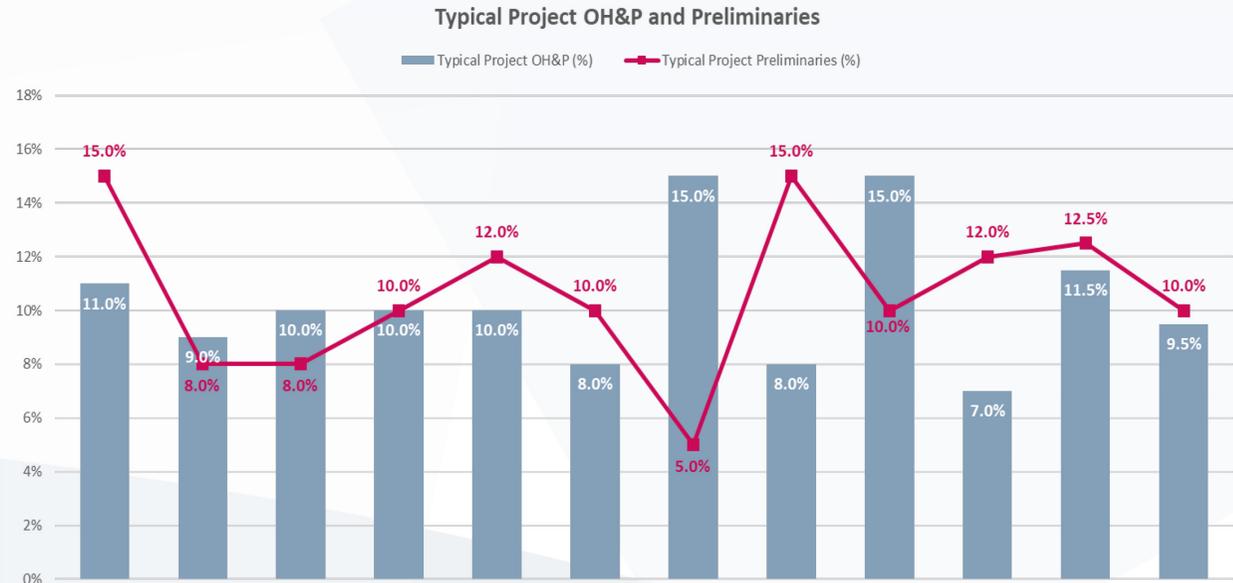
Secured Workload (Current Year v Next Year)



- The average secured workload for 2022 is **79.1%** – slightly down on the **85.6%** average secured workload level from the same month in 2021
- However, most contractors have secured **80%** or more of their 2022 workloads
- Looking ahead to 2023, just **47.6%** of MEP contractors' workloads have been secured on average. Again, this is lower than our June 2021 survey where **52.2%** of workloads had been secured for the following year
- There is a significant variation between 2023 secured workloads between contractors. One contractor has secured **13%** of their workload capacity while two others have already secured **70%**
- Some contractors reported that several large projects that have been tendered have not materialised yet due to cost plan issues following inflation while others noted that they are declining **50%** of the tenders they receive

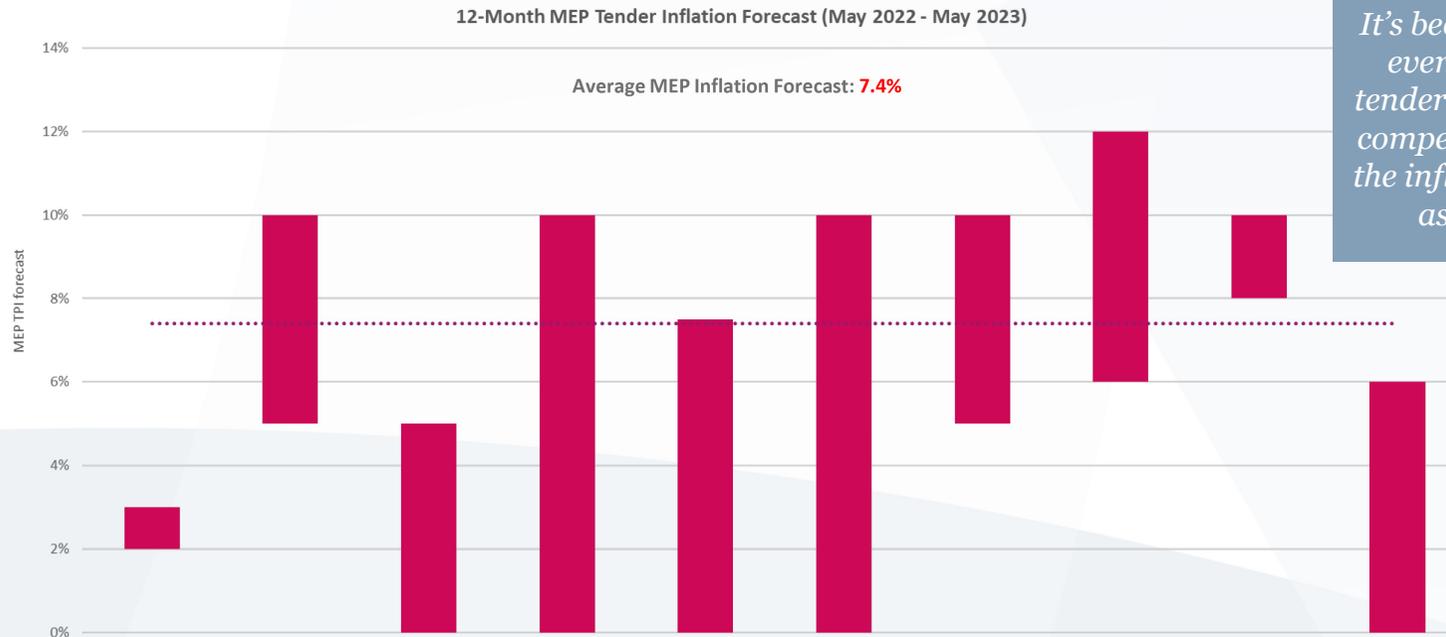
TYPICAL OVERHEADS AND PROFIT (OH&P)
RANGED BETWEEN 7-15%, WITH AN
AVERAGE OH&P FIGURE OF 10.3%

TYPICAL PROJECT PRELIMINARIES COSTS
RANGED BETWEEN 5-15%, 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.”

- 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 5% preliminaries figure provided by one contractor may be due to passing most of the works onto subcontractors 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 overheads such as director costs

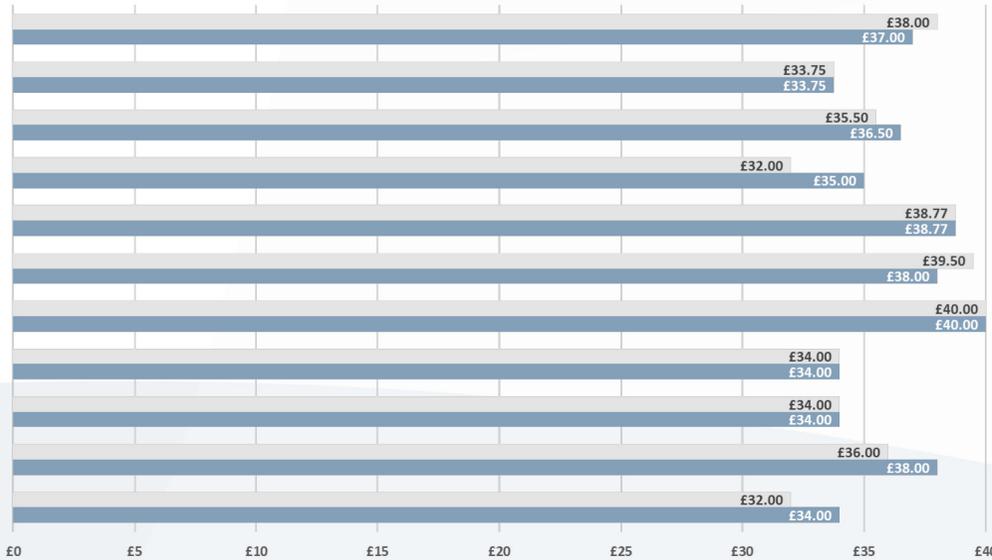


It's become more important than ever to carefully consider the tender list for projects to ensure a competitive process and mitigate the inflationary pressure as much as the market will allow.

- The average MEP tender inflation forecast for the next 12 months is **7.4%** (after taking the mid-point value of each contractor's forecasted range, where applicable, and combining with any absolute forecasts). This compares to a G&T MEP inflationary forecast range of **5-7.5%** for the next 12 months
- In our June 2021 MEP survey, the average MEP tender inflation forecast for the preceding 12 months was **3.2%**, significantly below the new 12-month average forecast (**7.4%**) and undershooting the actual level of MEP tender inflation over the past year
- Forecasts ranged from a low of **2%** to a high of **12%** – with the wide variance being an indicator of the current levels of uncertainty/volatility over cost inflation
- Contractors likely to mitigate shortages by using incentives to attract/retain skilled workers
- The situation in Ukraine has made for a volatile metals market, with supply issues and energy price increases pushing up manufacturing costs for copper and steel
- Rising commodity and raw material prices have been accompanied by higher staffing/labour costs and strong, post-pandemic demand for construction

Mechanical & Electrical Labour Rates (£/hr)

■ Electrical Labour Rate (£/hr) ■ Mechanical Labour Rate (£/hr)



M&E firms reported no difference between head office and construction staff availability but indicated that on the whole, resource remains tight. Respondents noted:

- Increased competition between contractors to recruit/retain skilled employees
- Extended periods to find good quality staff (ie six months) and salary demands are inflated
- Site labour costs are increasing significantly
- Estimation and design resource is at a premium and some are having to decline tenders partly due to low availability

According to our 2022 M&E Survey:

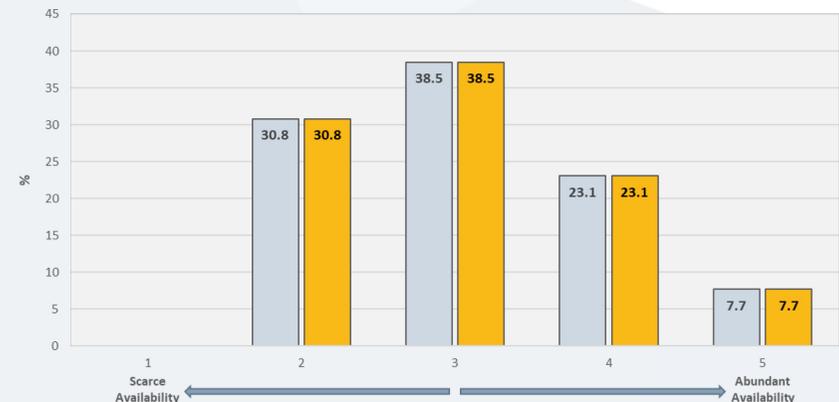
- **Average Electrical Labour Rate: £35.8 p/h**
- **Average Mechanical Labour Rate: £36.3 p/h**

Compared to G&T's June 2021 survey, average electrical labour rates have risen by **2.5%** while mechanical labour rates have increased by nearly **4%**.

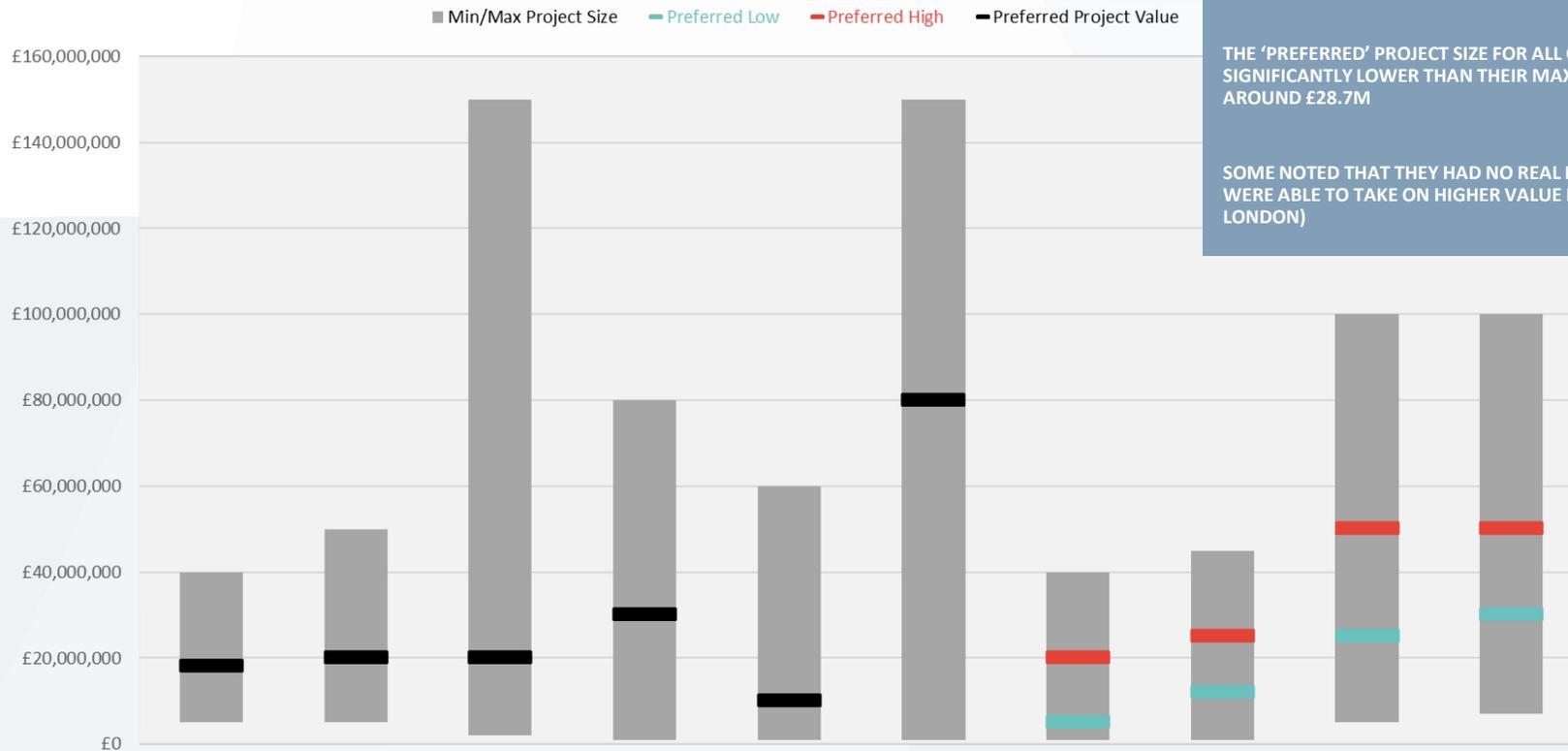
- Ongoing labour shortages are impacting sub-contracting availability/ capacity
- Pipe fitting labour costs have risen particularly sharply
- The worsening cost-of-living crisis is expected to put further upward pressure on rates
- Contractors likely to mitigate shortages by using incentives to attract/retain skilled workers

Resource Availability: Head Office & Construction Staff

■ Head Office Staff ■ Construction Staff



Preferred Project Size: Upper/ Lower Project Value



ACROSS ALL SURVEYED MEP CONTRACTORS, THE AVERAGE MINIMUM PROJECT SIZE WAS £2.9M WHILE THE AVERAGE MAXIMUM SIZE OF PROJECT WAS £81.5M

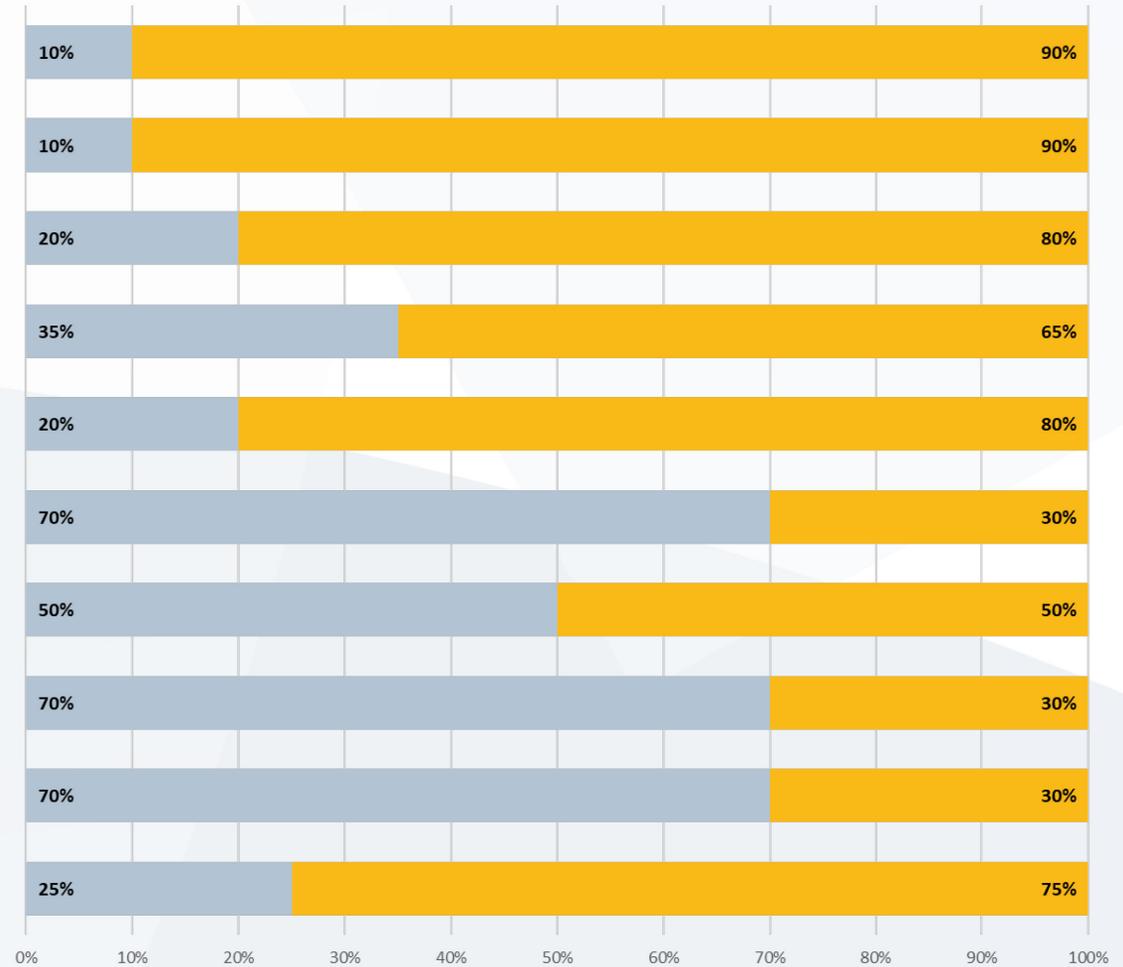
THE LOWEST STATED PROJECT VALUE ANY CONTRACTOR WOULD CONSIDER WAS £1M. TWO CONTRACTORS INDICATED THEIR ABILITY TO GET INVOLVED IN PROJECTS UP TO £150M

THE 'PREFERRED' PROJECT SIZE FOR ALL CONTRACTORS TENDED TO BE SIGNIFICANTLY LOWER THAN THEIR MAXIMUM PROJECT SIZE, AVERAGING AROUND £28.7M

SOME NOTED THAT THEY HAD NO REAL PREFERENCE REGARDING SIZE AND WERE ABLE TO TAKE ON HIGHER VALUE PROJECTS IN CERTAIN REGIONS (EG LONDON)

Staff/ Subcontractor Labour Split (%)

■ Staff ■ Subcontractor



1. In our June 2022 survey, the average staff/ subcontractor labour split was **38:62** (compared to **39:61** in our previous survey)
2. M&E contractors generally 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
3. 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



“OVER THE PAST YEAR WE HAVE BEEN MORE SELECTIVE ON WHAT WE TENDER”



- The average successful tender ratio was **28.1%** but ratios ranged between **15-60%** across all respondents
- The average successful tender ratio has risen by **1.9%** since our June 2021 survey, when the successful tender ratio was **26.2%**

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, as has several M&E contractor insolvencies.

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.

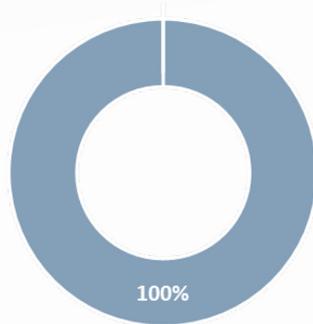
Over the past year, contractors have become more selective on what they tender. For example, one respondent said they will no longer price for CAT B fit-out projects, residential projects, or for projects where there are more three to four MEP contractors tendering.

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 project risk profile recently.

With renewed inflationary pressures creating some client hesitancy and slowing new order growth, some contractors may have to scale back their recent drive towards selectivity.

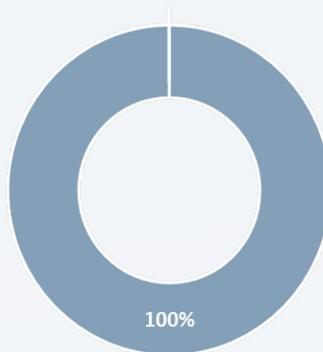
With Estimation and Design Resource at a Premium, Some Contractors are Declining 50% of Tenders Received

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



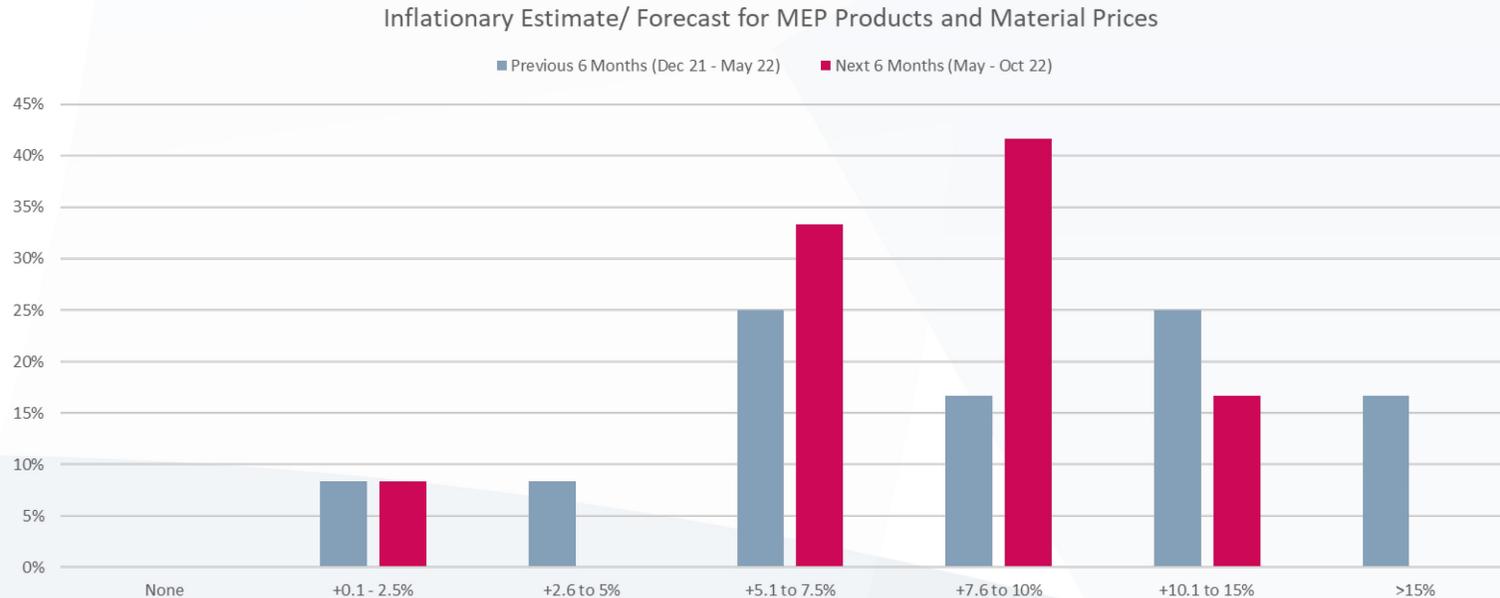
■ Yes ■ No

Over the past six months, have lead times for MEP products/materials:



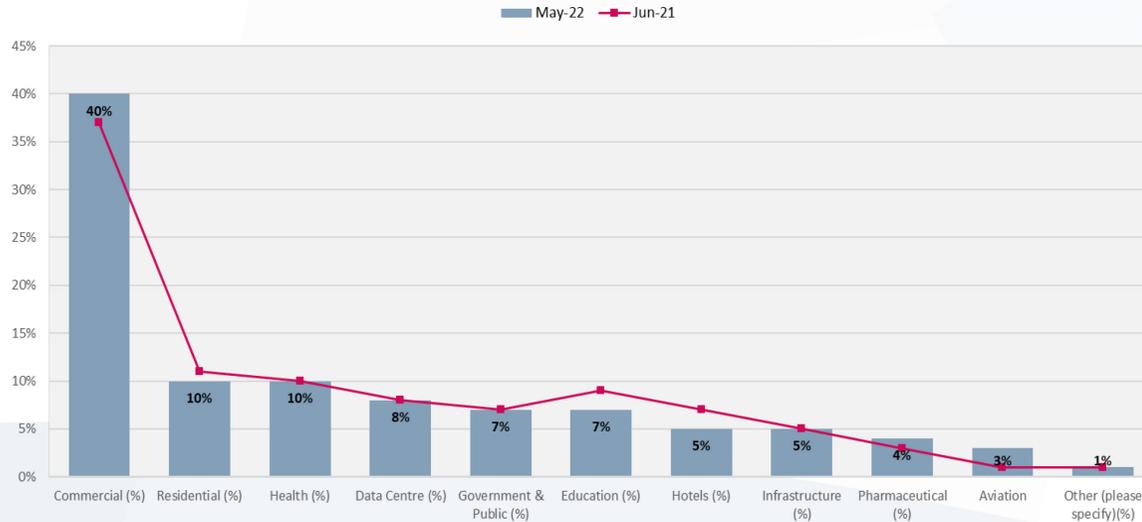
■ Increased ■ Stayed the same ■ Decreased

- All respondents are experiencing supply issues with MEP products/materials
 - The Ukraine crisis is affecting the availability and cost of steel ductwork, copper and other raw materials
 - M&E supply chain is now selling plant/materials made from the steel purchased at peak prices
 - Plant with digital controllers, damper systems due to fire testing requirements and generators are in short supply
 - Shortages of semiconductors, plastic resin Polypropylene, lighting/lighting control, air conditioning equipment, valves, and pumps/booster sets were also noted
 - In some cases, only part orders are being received due to availability/supply issues
-
- A current lack of consistency and coherence in lead-in times
 - Lead-in times and delivery periods for electronic components and major plant (particularly switchgear) are extending due to:
 1. Post-Brexit logistical issues/customs regulations
 2. Component shortages created by pandemic effects on manufacturing
 3. High demand created by a busy construction sector post-pandemic
 4. Elevated shipping costs (brought on by fuel prices and container availability)
 5. Reduced volume of Chinese materials being manufactured for export
 - Reports of manufacturers 'over-trading' (potentially to recover lost revenues in 2020/21), accepting orders with no strategy on how/when to dispatch. Partly being mitigated by requesting written confirmation of delivery dates prior to order placement but manufacturers are stating dates were an 'indicative estimate'



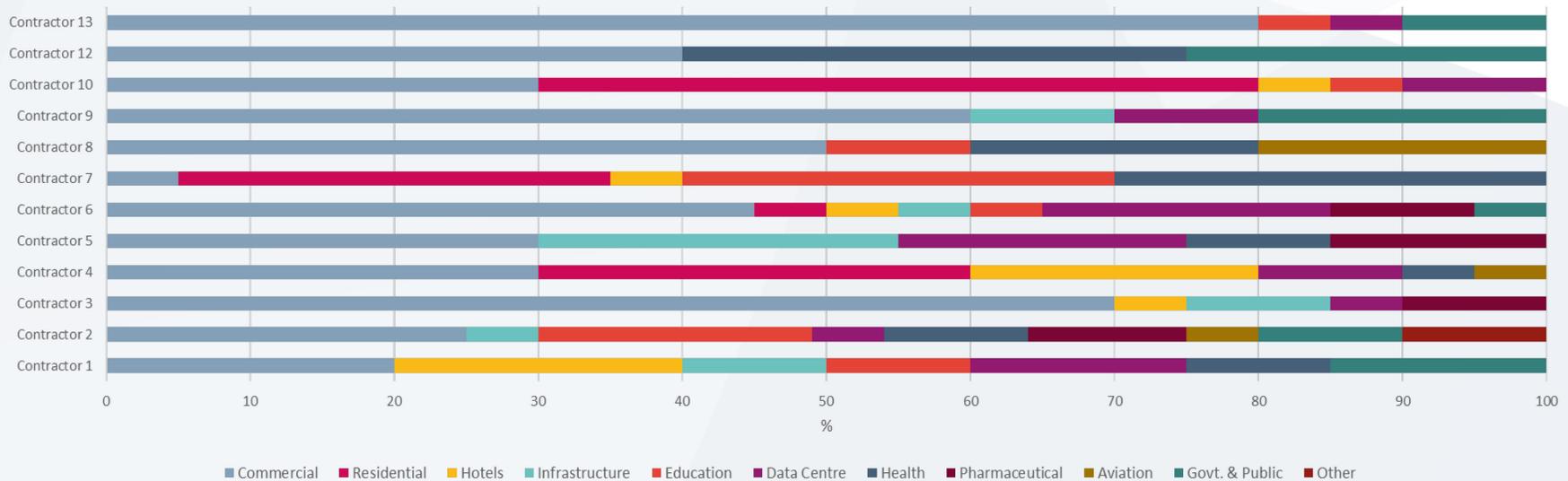
- There was a range of inflationary forecasts for MEP products/materials over the past six months, but most thought inflation lay somewhere between **5%-15%**
- Material cost increases were expected to plateau, but following the Ukraine crisis, the cost of base materials continues to rise
- Price increase notifications from suppliers such as Schneider and MK increased saw prices rise by **6-16%** between March and June alone
- A volatile metals markets has made supply and cost a major issue in recent weeks. This, in conjunction with the previous shortage of semi-conductors/capacitors, has increased MEP costs
- Labour cost pressures, transportation/fuel cost increases and record-high commodity prices are also feeding into tender price inflation
- Looking ahead, the consensus is that MEP product and material price inflation will likely fall within a range of **5-10%** over the next six months
- Further upward cost pressure is anticipated on steel pipe, copper, insulation and sprinklers according to survey respondents, but many said that they cannot realistically forecast future increases due to the geopolitical uncertainties
- High fuel and energy prices will continue to drive materials pricing. Many contractors are therefore advising early engagement and early ordering of CDP packages/major plant to help mitigate some of the inflation risks
- Contractors also said that they expect these sustained inflationary pressures will impact their project pipelines

Average Sector Split (%) - May 2022 v. Jun 2021



- Unchanged from the previous (June 2021) M&E survey, most work for MEP contractors was still in the commercial sector. On average, **40%** of respondents' work was in the commercial sector. This is up from **37%** in our June 2021 survey and above the pre-pandemic (2019) average of **38%**
- Residential (**10%**), health (**10%**) and data centre projects (**8%**) continue to provide significant volumes of work but there were notable drops in workload in the education and hotel sectors
- Several respondents mentioned recent moves into data centres, life sciences and public work projects due to strong demand and growth prospects in these sectors. Many have adapted their business models and strategies in order to win work in these sectors

Sector Split by MEP Contractor



Main Risks Facing UK Construction:

- Unwillingness to commit on new projects beyond RIBA stage 1/ 2 by developers
- High fuel costs driving material price inflation
- Disrupted supply chains causing materials supply issues and extended lead-in times
- Labour/staff shortages
- Volatile market conditions following Ukraine conflict and geopolitical issues
- Inflationary pressures impacting pipeline growth
- Stagflation and potential risk of recession as cost-of-living crisis bites

“Clients [are] awarding projects based on out-of-date cost plans which are not sustainable, the project will eventually suffer.”

Interesting Market Trends

- Data Centre, commercial and leisure markets are busy but high-end residential is not
- Increased demand for Smart building technology and ESG/Net Zero Carbon requirements
- Increased use of Modern Methods of Construction (MMC)
- More client teams are developing to stage 4 in BIM
- Increased use of drone deployment for scanning, measurement and surveying
- Increased use of HoloLens for remote witnessing
- Unrealistic client budgets for the building that has been designed is a common theme, especially around smart building requirements

What Market Pressures Are Driving Pricing?

- Availability of capital, plant, and sub-contractors
- Uncertainty over material price inflation and availability
- Fuel/ energy prices
- Lead times
- Brexit impacts, the pandemic and interrupted global trade flows
- Increased interest rates/borrowing costs
- Ukraine crisis

Factors Currently Influencing Successful Project Procurement

- Incomplete designs/late orders are preventing procurement
- The level of scrutiny given to and robustness of the supply chain
- How early contractors are engaged to help mitigate price inflation risks
- The capability and availability of delivery teams
- Delivery and manufacturing lead times
- The financial stability and dependability of businesses
- How early CDP packages and major plant can be ordered
- Experience, the level of tendering competition, and the availability of equipment are also key factors influencing successful procurement

“The market is still challenging and will be for the next 12 months at least with unannounced/unexpected price rises occurring. [This] puts pressure on bids that have been submitted/secured.”

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