

G&T M&E Contractor Survey
January 2024

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G&T's M&E Contractor Survey summary for January 2024 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.





G&T's latest survey of M&E contractors has provided valuable insights into the current state of the UK MEP market. Surveyed contractors confirmed the rate of inflation is easing, but closely-monitored cost pressures are still present. Despite strong workloads and order books, many contractors remain cautious given the uncertain growth outlook. Recent high-profile insolvencies have caused issues across the supply chain, with suppliers understandably being extra cautious.

In recent years, the M&E market has had to contend with a global chip shortage, rising prices and supply chain disruptions. A post-pandemic surge in demand exacerbated the situation, pushing MEP prices higher.

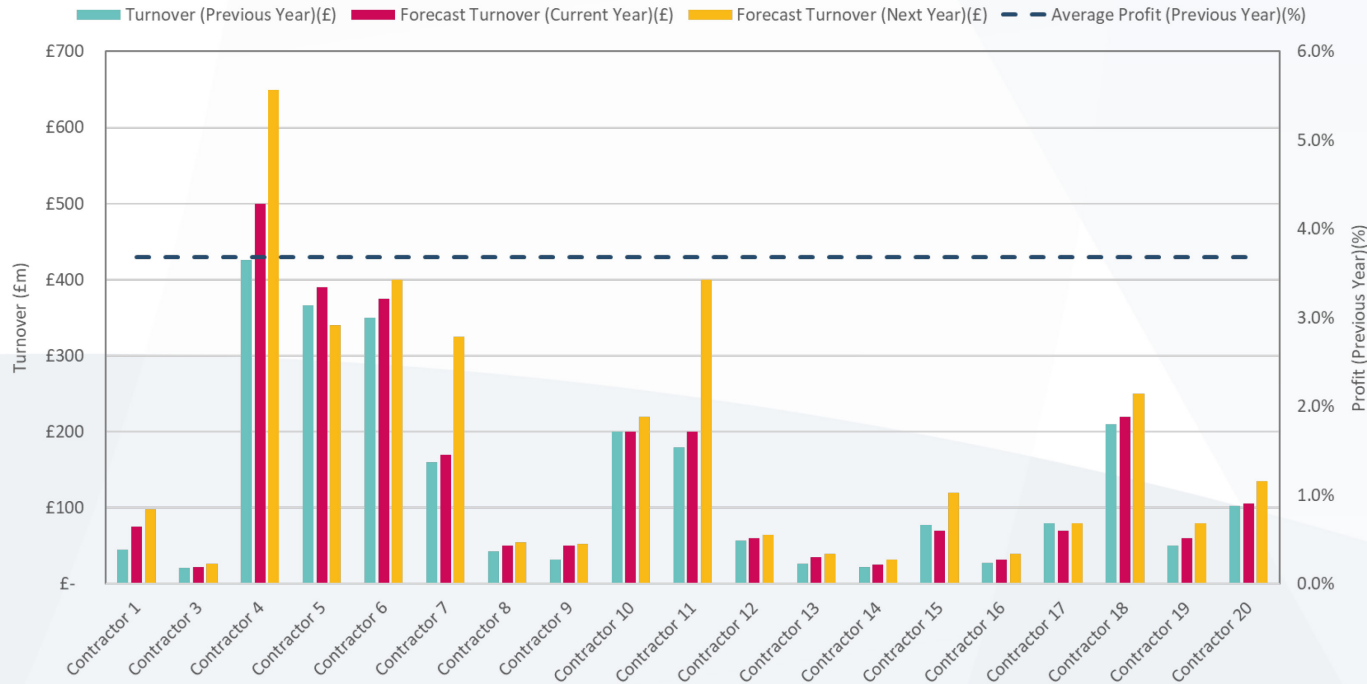
However, recent improvements in component inventories and easing demand has softened price inflation. Although improvements vary wildly by component, the general pricing outlook has improved compared to 2022.



- *In this latest survey, MEP contractors anticipate that package inflation will, on average, be 4.6% in 2024 – down from 5.3% in 2023. This bucks the wider trend in construction which is expected to experience softer levels of inflation next year. MEP can be prone to sudden price spikes as many of the critical materials and engineered components are manufactured outside the UK and so have greater exposure to currency movements, worldwide political events and international demand competition.*
- *According to surveyed contractors, workloads in the sector are holding up. The decarbonisation agenda, a push toward renewables, plant replacement in end-of-life buildings and rapidly evolving building technologies are all supporting activity. At the same time, capacity in the sector is shrinking. It is estimated the recent insolvency of M J Lonsdale has removed c.£200m p/a of capacity from the market.*
- *Overall, contractor sentiment for 2024 is positive. Almost all contractors that responded expect turnover grow and input cost to ease, but there are concerns that certain workflows may become quieter in 2024. However, as one contractor noted, this may be for the best as, for example with sprinklers, we have seen unprecedented cost increases in recent years and there needs to be a reset. Despite the potential risks identified by contractors towards the end of this report, many are adapting, making key strategic and business model changes to capitalise on existing and emerging trends.*



MEP CONTRACTOR TURNOVER v. PROFIT



90%

of contractors expect **turnover to increase** in 2024

by an average of...

+26%

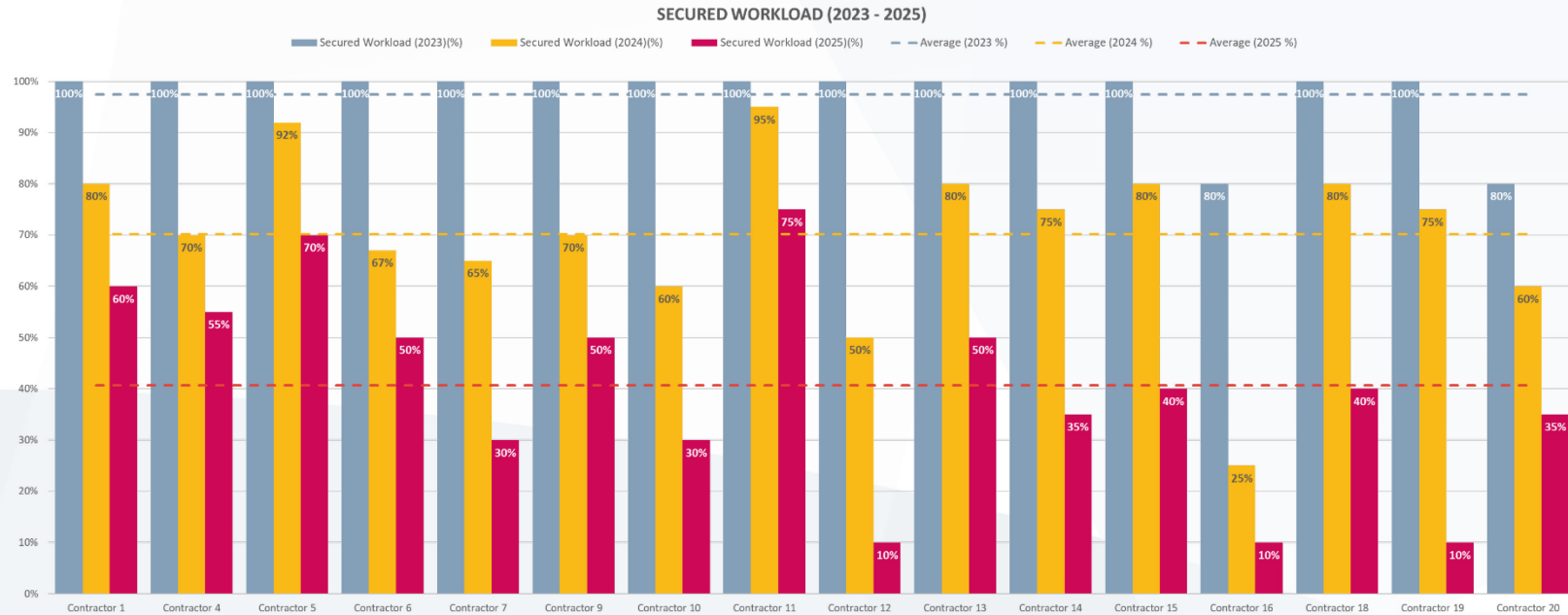
(compared to forecast turnover for current year)

Average Profit previous financial year...

5.7%

(compared to **2.7%** in 2021-22)

- According to surveyed MEP contractors, turnover for the current financial year (2023/24) is expected to be **9%** higher on average than the previous year's turnover
- Contractors expect turnover to rise significantly next financial year, **increasing 26%** on average compared to the current financial year
- In line with previous surveys, an overwhelming majority of contractors (**95%**) anticipate that turnover in the next financial year will surpass the current year
- Average profit in the previous financial year (2022-23) was **5.7%** - up from **2.7%** in the 2021-22 financial year



On average, contractors have secured **98%** of 2023 workloads, **70%** of 2024 workloads and **41%** of 2025 workloads

- At **70%**, average secured workloads for next year are slightly higher than they were at the same time last year in 2022 (**67%**)
- A solid foundation of work has already been secured for 2025, with seven contractors having secured over **50%** of their expected capacity

Workloads are being supported by the **decarbonisation agenda** – plant replacement, renewables, increasing building technology etc.

- However, the cancellation or delay of projects due to **economic uncertainty** and **high borrowing costs** poses a risk to project pipelines

“We are concerned that ongoing global conflicts, the uncertain political situation in the UK and rising insolvencies in the supply chain could impact project starts.”

TYPICAL OH&P

11.3%

(Range: 6-18%)

TYPICAL PROJECT PRELIMINARIES

12.4%

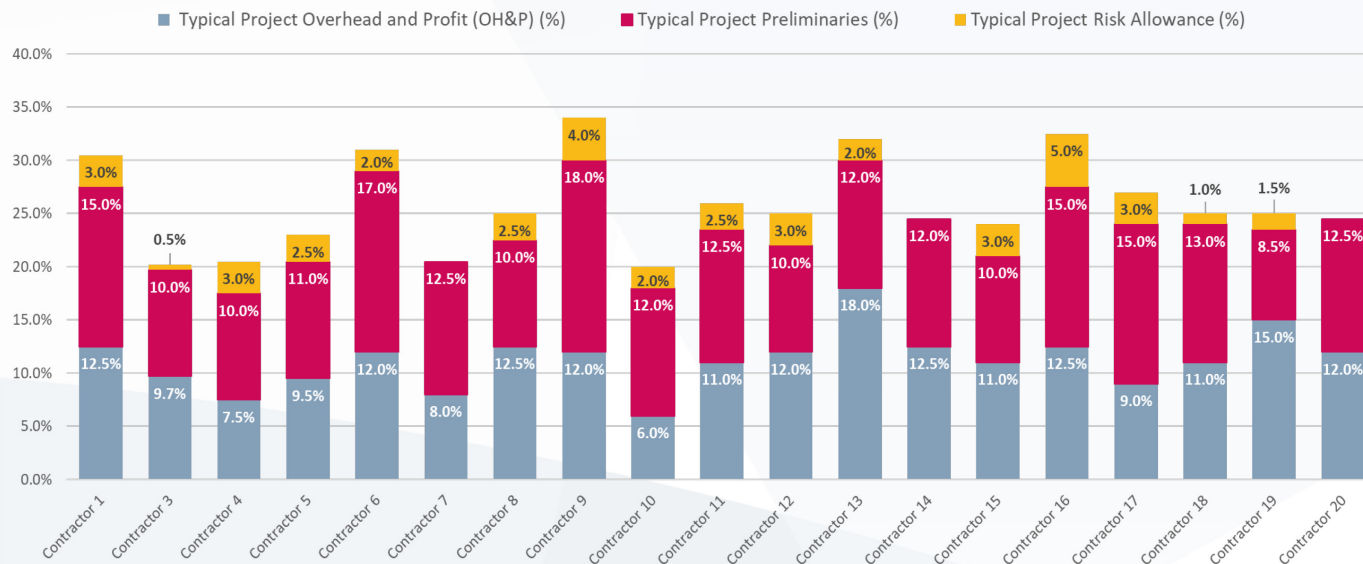
(Range: 8.5-18%)

TYPICAL RISK ALLOWANCE

2.5%

(Range: 0-4%)

TYPICAL PROJECT OH&P, PRELIMINARIES, AND RISK ALLOWANCE

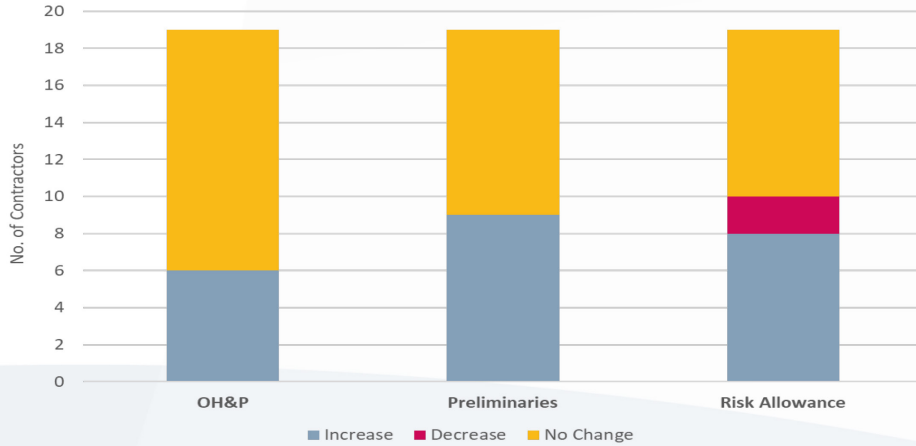


“Currently, there is no shortage of tender [opportunities] and we are finding that supply chain is busy and therefore able to pick and choose which schemes to bid on to an extent.”

- Average Overheads and Profit (OH&P) rose from **10.8%** to **11.3%** compared to [July 2023 M&E report](#). Preliminaries costs also increased from **11.4%** to **12.4%**
- Higher general plant/operational costs as well as staff wage pressures pushed preliminaries costs higher
- With sustained workloads and strong order books, most MEP contractors aren’t being squeezed to reduce OH&P
- However, if new order growth softens (as is expected in certain specialist sub-trades), some contractors may start to chase turnover and accept lower margins

Note: 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 **8.5%** 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.

ON COSTS: FORECASTED CHANGE (2024)



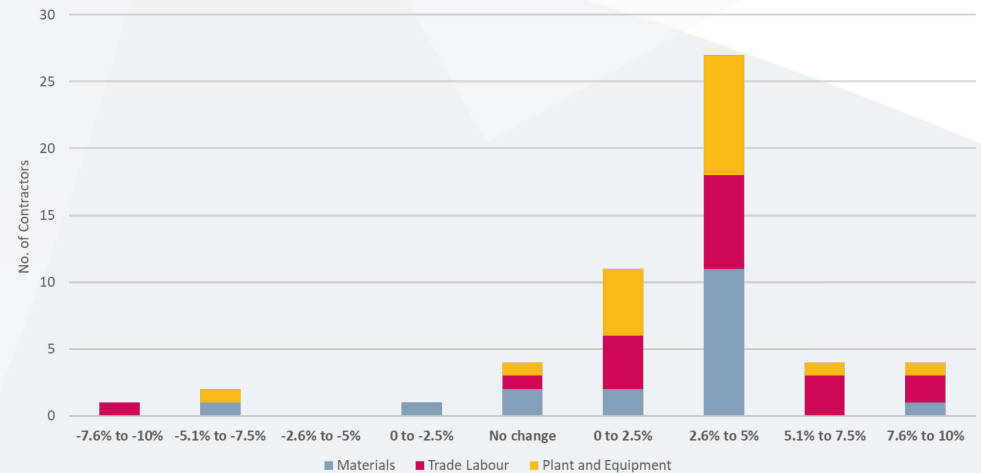
On Costs:

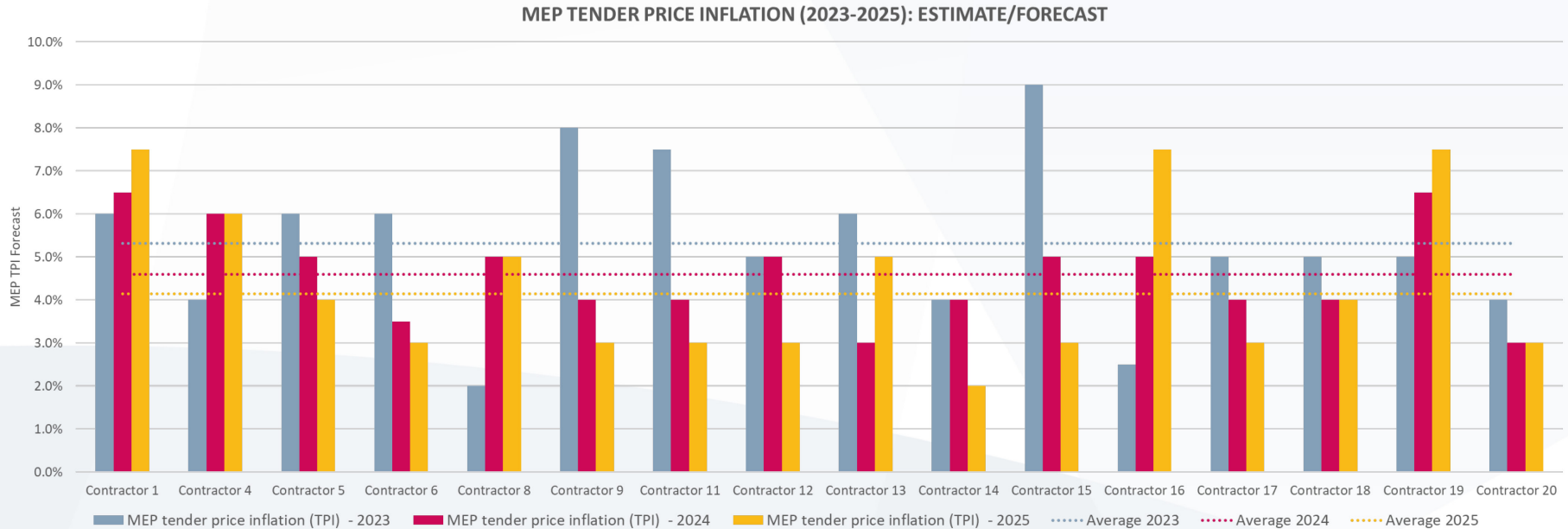
- No decreases expected for OH&P and Preliminaries in 2024
- Roughly equal proportions anticipate preliminaries costs to either remain the same or increase
- 68% of respondents believe that OH&P will see no changes in 2024, partly due to contractors' strong order books

Input Prices:

- A significant number of respondents anticipate price hikes of 2.6% to 5% in 2024 for materials, plant and trade labour
- Limited availability of skilled/specialist labour (at all levels) is expected to put pressure on labour costs next year

INPUT COSTS: FORECASTED CHANGE (2024)





Average MEP Contractor Forecast (2023)

5.3%

Average MEP Contractor Forecast (2024)

4.6%

Average MEP Contractor Forecast (2024)

4.1%

“...The steep [inflationary] increases we saw in 2022 and the first half of 2023 have somewhat reduced now, and we are seeing more normal increases. I suspect as we move into 2024, we will see the [typical] January hikes...after that we will hopefully see prices steady. We remain cautious though.”

*This compares to a **G&T MEP** inflationary forecast range of **3-5%** over the next 12 months.

*Note: M&E tender price inflation forecasts/estimates can be influenced by a variety of factors, such as size of the contractor, its purchasing power and the type/size/value of projects the firm typically works on. The forecasts provided are solely those of the survey respondents and do not necessarily reflect the views or opinions of Gardiner & Theobald.

Market pressures currently driving M&E prices...



Full Order books



Availability of supply chain and labour



Demand for major plant and equipment



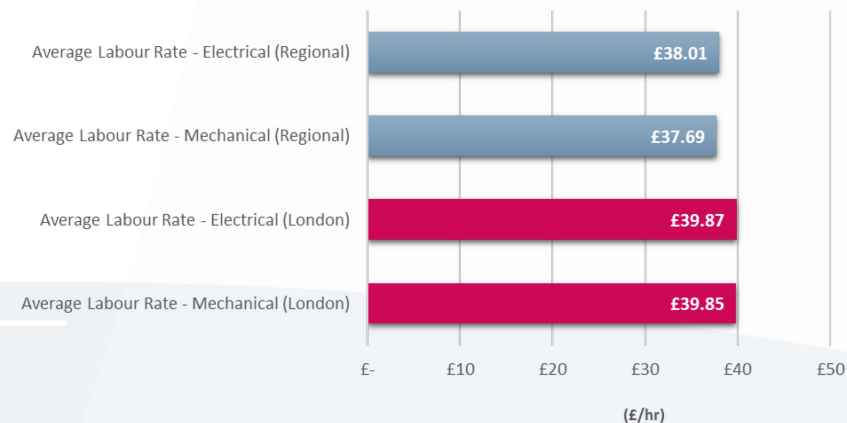
Net zero cost premium

Market risks for 2024...

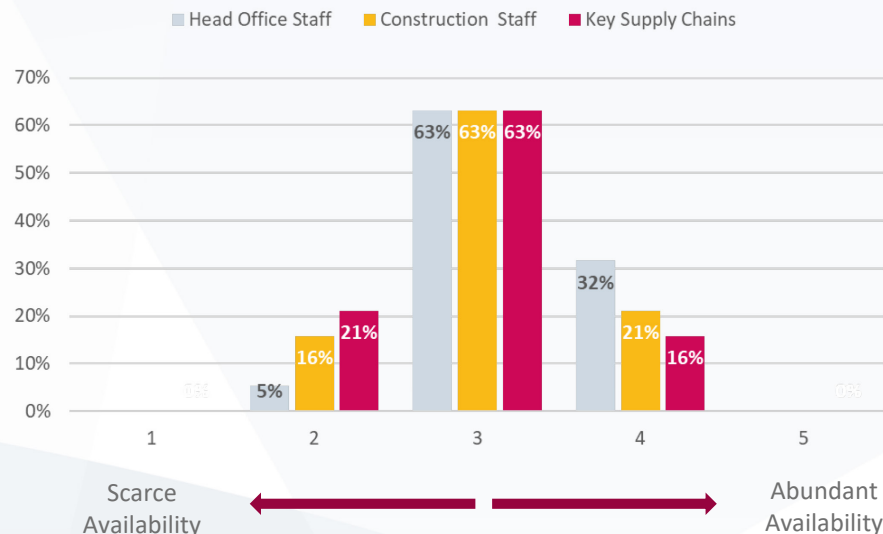
- Rising supply chain insolvencies
- Projects being delayed or cancelled
- Long and unpredictable lead times for certain items
- Uncertain demand conditions
- Labour shortages



**AVERAGE MECHANICAL & ELECTRICAL LABOUR RATES (£/hr):
LONDON AND REGIONAL**



RESOURCE AVAILABILITY

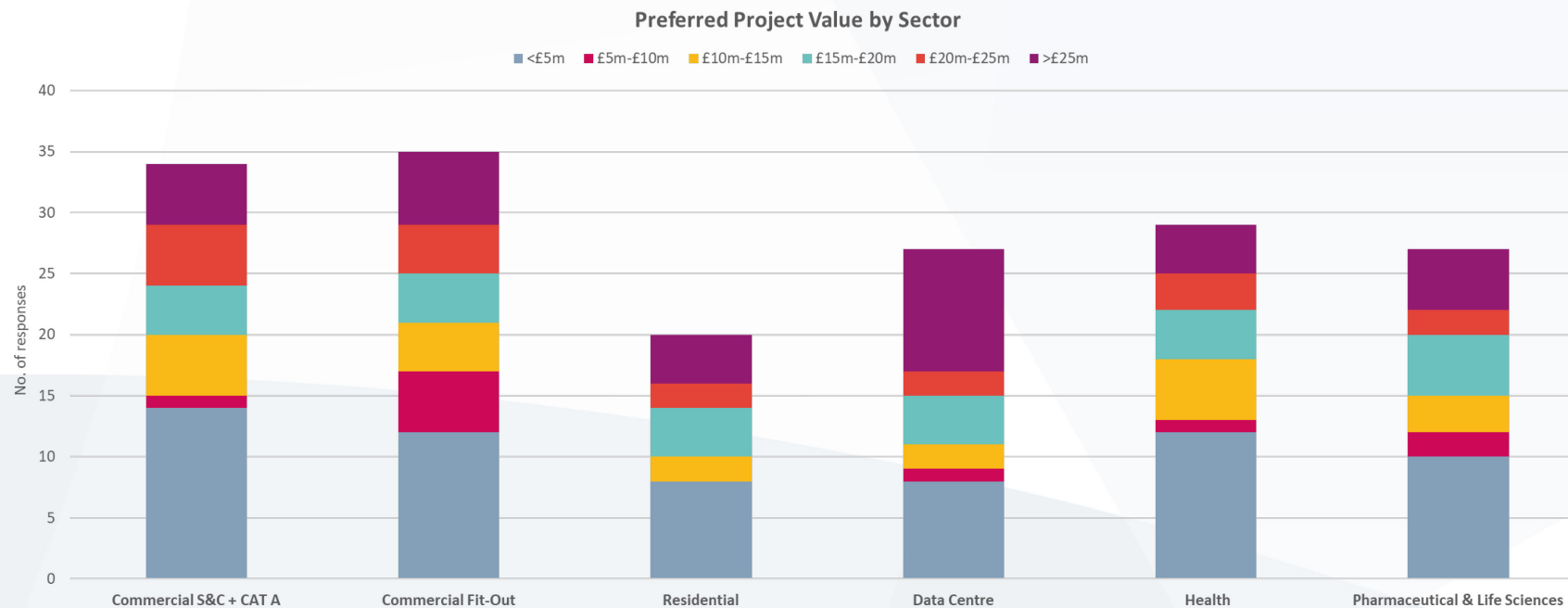


*Average mechanical and electrical rates (London) increase by **1.6%** and **0.9%** since July 2023 survey*

- Higher rates driven by limited availability of skilled site labour, high demand for staff (particularly estimators and QS) and strong workloads
- With the administration of MJL, some contractors have been able to recruit key staff for projects, bolstering their estimating teams

*While the **labour market remains tight**, resource availability has improved since the July 2023 report*

- However, good quality labour is hard to get and the cost of staff has increased significantly, particularly for Commercial, Planning and CAD. Engineering labour resource less so, but labour costs for sprinklers are high due to the limited number of suppliers
- Those that employ their staff/labour directly are finding resourcing less difficult

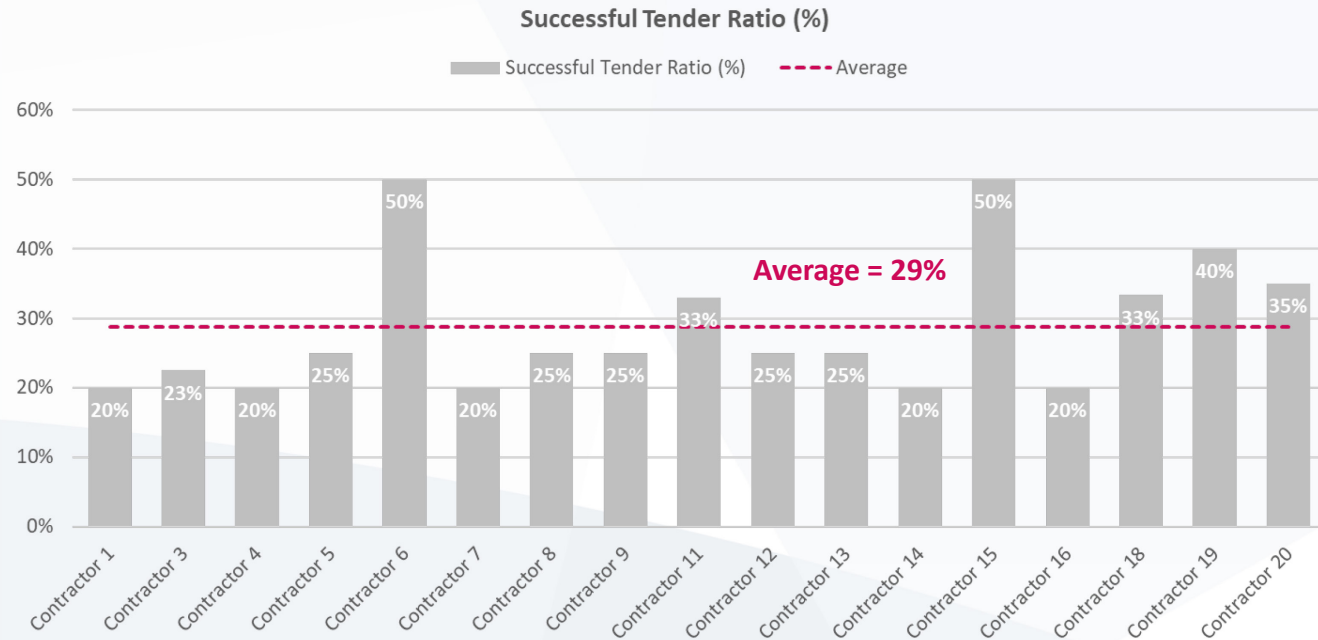


Fewer contractors are focusing on residential schemes, expressing no project value preference, while **commercial fit-out continues to be a highly active sector** for almost all respondents

- Given that a greater number of smaller MEP contractors participated in the latest survey, the preferred project value across all sectors was relatively small (**<£5m**). However, the largest contractors were able to take on higher value schemes (**>£25m**) and expressed a preference for such across sectors
- Surveyed MEP contractors expressed a preference for higher value Data Centre projects (with 10 contractors preferring schemes with values more than **£25m**). However, relatively few preferred higher value health and residential schemes



“We have been more selective in our choice of tenders this year, which has [impacted our] strike rate...This will continue into next year.”



Average Successful Tender Ratio

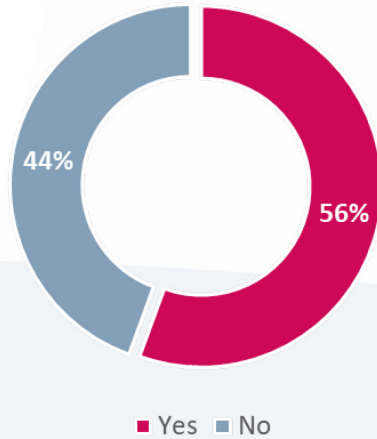
29%

With ratios ranging between **20-50%**

Successful tender ratio has fallen since our July 2023 survey, where the average was **33%**

- A lower average tender ratio is potentially reflective of softer workload growth and **increased tendering competition** as contractors seek to secure pipeline in an uncertain market
- Although contractors' survey responses indicate tendering competition has increased, the data could also suggest that **contractors are chasing a smaller number of lower risk schemes** and are being less successful
- MEP contractors expressed **a preference for early engagement** – having a design at a stage that allows for early procurement, rather than inheriting a poor design and having to go back to first principles
- **Contractors are being more selective** about who they work with, focusing their tendering efforts on schemes with clients they have close relationships with and where the Main Contractor is perceived as financially strong

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



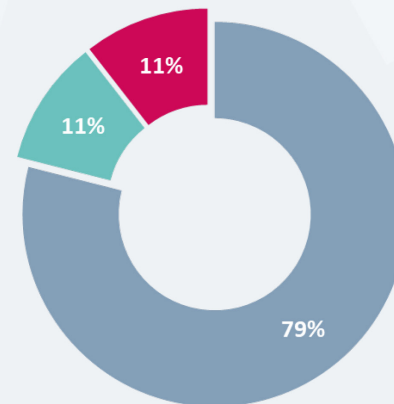
“Most bread-and-butter materials have been much improved in the last 6 months after the difficulties of the previous 18 months. Some, however, are still having supply issues.”

- **56%** of contractors are currently experiencing supply issues with certain MEP products/materials, compared to **73%** in the July 2023 report
- Lead times are stabilising but remain high for key plant due to strong demand and a shortage of suppliers. However, most items have returned to pre-pandemic timescales
- Manufacturers of major plant are not being particularly forthcoming with details about price increases and delivery timescales. The availability of production slots are difficult to gauge

MEP Products/Materials Affected by Long/Extending Lead Times:

- Transformers
 - HV Equipment
 - Generators
 - Switchgear
- 
- ASHPs
 - MVHR units
 - Air source heat pumps
 - AHUs

MEP PRODUCTS/MATERIALS LEAD TIMES: PAST SIX MONTHS



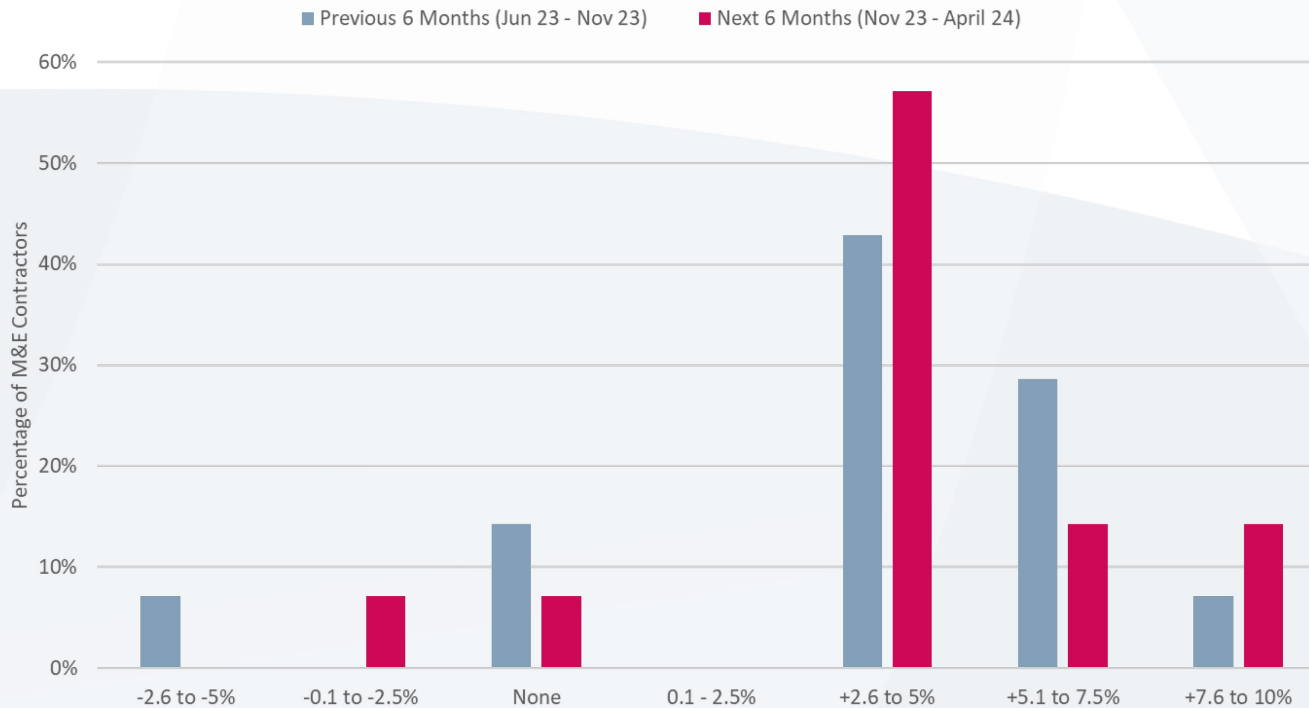
LEAD TIMES STABILISING

- Stayed the same
- Increased
- Reduced

The emerging trend is one of disinflation (ie a slowing in the rate of price increases) for most MEP materials...

“Despite a slight fall in [material price] inflation, we are still experiencing cost pressure.”

MEP Products and Material Prices: Inflationary Estimate/Forecast

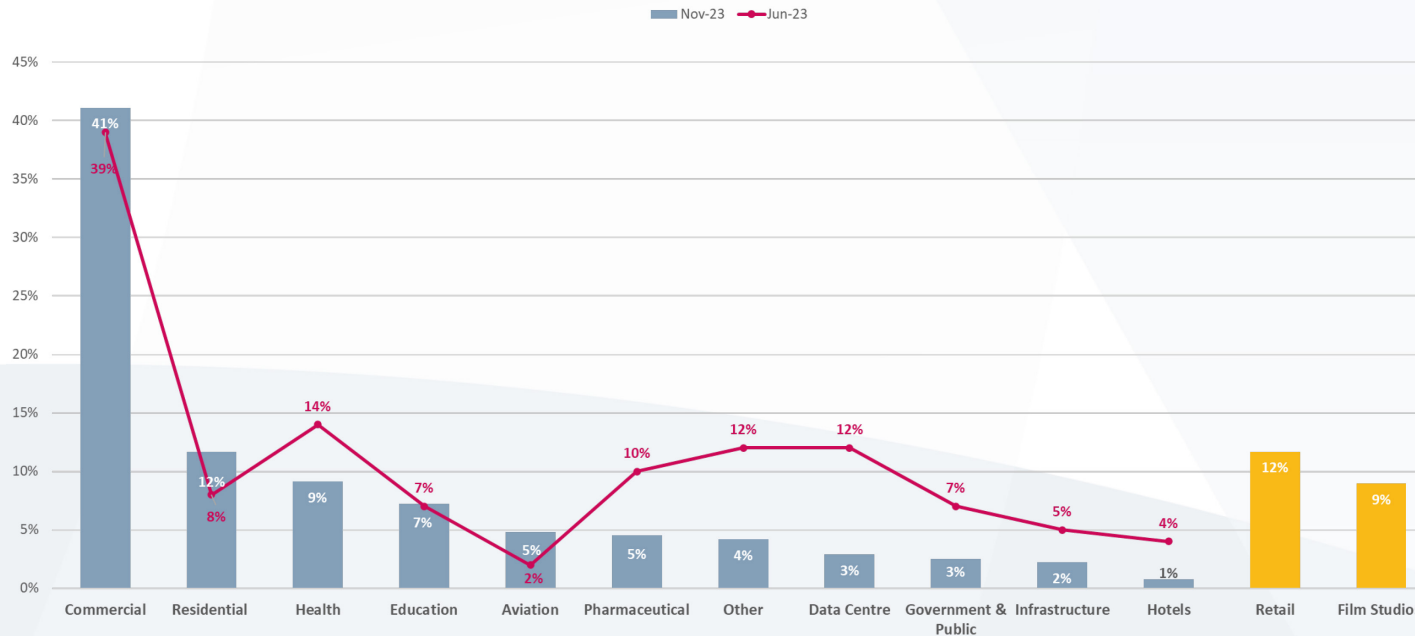


Price pressures are easing, but most still expect an inflationary increase in the **‘+2.6 to 5%’** over the next six months

Major price increases started in early 2022 and continued until mid-2023

Contractors are constantly monitoring prices through wholesalers and manufacturers, and the emerging trend is one of softer price growth

AVERAGE SECTOR SPLIT (%) - NOV 2023 v. JUN 2023 SURVEY

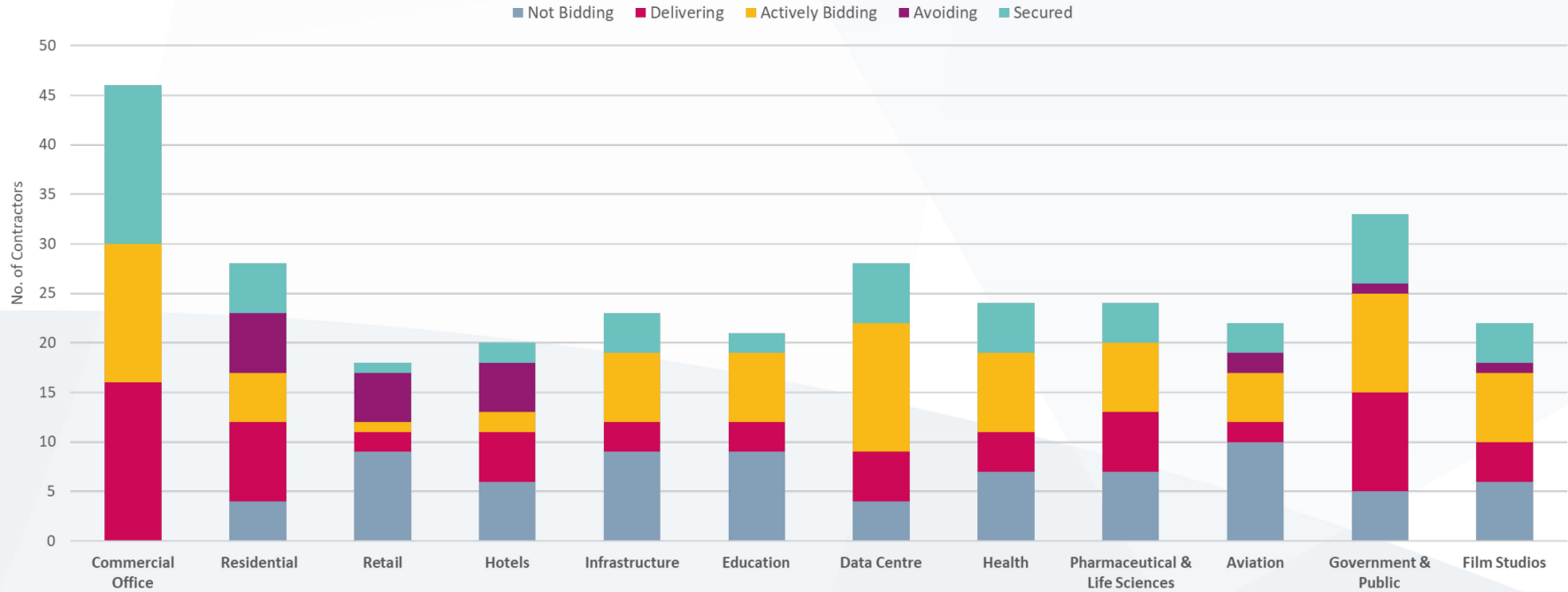


“We are actively targeting technically complex projects in sectors such as Life Science, Pharmaceutical, Health, Data Centres, where we can offer technical support.”

- MEP contractors reported that most of their current workload continues to be in the commercial sector – **41%** on average (up from **39%** previously)
- Commercial (**+2%**), Residential (**+5%**) and Aviation (**+3%**) were the only sectors to see their average split figures rise in the latest survey
- Several sectors saw their average split figure fall. This was partly due to a greater sample size of contractors – particularly smaller firms that focus on a narrow range of sectors
- Increased commercial activity has been driven by demand for office fit-out work rather than new build activity. Tenants demand greener/more sustainable space that can meet their net zero carbon strategies and are focused on meeting WELL and NABERS standards

Note: *Retail and Film Studios* are new sectors to the November 2023 survey. A comparison with previous surveys was therefore not possible.

SECTOR ACTIVITY



Resilient new order growth is supporting bidding activity for **Commercial Office** and **Data Centres**

Some MEP contractors are avoiding **Residential**, **Retail** and **Hotels** given weaker short-term growth outlooks

Over half of the respondents are currently involved in delivering **Government** and **Public** schemes

Main Risks Facing UK Market:

- **Supply chain issues:** rising administrations, supply chain defaults and insolvency of sub-sub-contractors
- **Contractual issues:** difficult legal conditions, terms and conditions of the contract and cost uncertainty/fixed price
- **Resource shortages:** skilled MEP labour shortages across all disciplines
- **Long lead times/delivery periods:** for major plant and equipment
- **Project delays:** cancellation or delays of projects due to the political and global financial situation, cost of borrowing, planning and power issues for data centres and unpredictable lead times
- **High demand for sprinklers** on large projects with not enough contractors to deliver

“...certain workflows may get quieter for a period next year, which will affect tender prices. This may be for the best as for example with sprinklers, we have seen unprecedented cost increases and there needs to be a reset...”

Factors Currently Influencing Successful Project Procurement

- Early engagement/PCSAs ahead of getting into contract to place early orders
- Unrealistic cost plans and poor-quality MEP designs
- Having quality design information at a stage that allows for early procurement
- Resource and product availability
- Programme certainty and lead times
- Financial strength of companies in the supply chain
- Procurement method and route
- Type of work/design and its buildability
- Transparency, capability and selection of main contractor

What Market Pressures Are Driving Pricing?

- Supply chain having full order books (picking/choosing projects)
- Slower payment times by clients and main contractors
- High interest rates/borrowing costs impacting credit availability
- A lack of skilled labour resource
- Limited design information provided
- Strong demand for plant and equipment
- Capacity issues due to insolvencies



Interesting MEP Market Trends



Net zero carbon and sustainability initiatives



Increased use of digital technologies, smart buildings and all electric schemes



BIM moving forward another step (4D planning)



Impact of new fire regulations and 'Golden Thread' requirement on cost/time

Strategic/business model changes planned...



More looking to get actively involved in data centres



Maintain selectivity over choice of tenders



Some exploring the potential of self-delivering sprinklers

Continue to evolve and grow at a sustainable rate



Increase in middle management and contract administration to manage T&Cs



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