

## Building services sector is 'turning the corner'

1 year ago



Mechanical, electrical, and plumbing (MEP) contractors are increasingly optimistic about their future growth prospects, according to a new report from the [Building Engineering Services Association](#) (BESA).

The Association's latest annual [Top 30 Mechanical and Electrical \(M&E\) Contractor report](#), produced in partnership with the construction consultancy [GHCS/GH Engage](#), found the sector's largest companies in good spirits despite most experiencing severe difficulties over the past few years.

Collective turnover is up by 16% on last year and most reported robust growth prospects for the next two to five years.

The 5th edition of the report did reflect on the string of high-profile insolvencies suffered by the sector recently, notably Michael J Lonsdale, and continuing consolidation across the sector. However, it also found senior managers in a more hopeful frame of mind, with most firms saying they had "turned a corner".

The UK M&E contracting market is worth approximately £20 billion\* and constitutes around a fifth of the UK construction sector's GDP. Those interviewed for [the BESA report](#) said that value was likely to increase over time as building engineering services became increasingly sophisticated and technology driven.

Gokhan Hassan, managing director of GHCS/GH Engage, said the report showed that the industry was "heading in the right direction", but he warned that financial headwinds would persist for the next two to three years.

Tough

BESA's chief executive officer David Frise agreed that market conditions remained "tough", and that

profitability was still “relatively low”, but he praised many of the sector’s larger firms for refocusing their businesses on high value, fast growing sectors, such as data centres, research, and healthcare, and for “avoiding low bidding as much as possible”.

Growing pressure on clients to meet net zero targets and greater investment in refurbishment and retrofit of the existing building stock were also contributing to the improving market conditions, according to the report. However, investors are still treating construction-related businesses with caution.

“The sector is seen as ‘risky’ and cash poor by the money markets and shifting that perception will take some time,” said Frise. “However, our report and the interviews with leading contractors demonstrate that most large MEP firms have a strong foundation for progress and are focused on reducing their exposure to risk, which should play well with insurers.”

BESA also believes that project bank accounts will play a larger part in industry financing over the next few years as more clients recognise how they can be used to insulate them from risk while ensuring better cash flows through supply chains.

The report also revealed that more MEP firms were being asked to take on the role of principle contractor on large multi-million pound projects because the building services elements account for an increasing proportion of the overall value.

Abdul Tantouch, head of content at AMA Research, said the M&E contracting market had demonstrated “significant resilience” having rebounded from a 12% decline in 2020 caused by the Covid-19 pandemic.

“The sector has not only recovered to pre-pandemic levels, but is now on a trajectory of robust growth,” he added. “This is being driven by the integration of innovative practices and technologies aimed at advancing towards net zero carbon emissions.”

Tantouch said the market was expected to achieve a value of almost £21 billion next year, supported by key trends such as increased demand for data centres and green energy solutions.

Minimum Energy Efficiency Standards (MEES) legislation is also expected to fuel further growth as commercial building owners and managers look to avoid ending up with unlettable ‘stranded assets’. This will lead to more MEP contractors working directly for end clients, according to the report.

Along with promising UK-wide GDP growth in the first quarter of this year, another key development is the easing of inflation pressures. While material and labour prices remain at historic highs, pricing stability has returned making it easier for companies to plan.

However, most of the firms interviewed said it would take time to adapt to the biggest change to building safety regulations in a generation in the shape of the Building Safety Act.

#### Productivity

The industry also has some major problems around productivity and skills that will have to be addressed if growth is to be sustained, according to BESA, which emphasised the importance of increasing the level of digital skills in the workforce and improving diversity.

“The financial stability of our largest firms is important because it feeds down through supply chains and

has a direct impact on the profitability of thousands of smaller, specialist contractors,” said Frise. “It is, therefore, heartening to see our top 30 in a better place following the extraordinarily challenging conditions created by the unprecedented combination of the pandemic, Brexit, and the war in Ukraine.”

[You can view the full report here.](#)

*\*Source: Barbour ABI, AMA Research, M&E Contractors Report, UK 2021 to 2025.*