

A SHIFT IN FOCUS

Big Project ME speaks to MEP experts to understand the risks and challenges facing this vital sub-sector of the construction industry

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s the GCC construction industry continues to deal with rapidly shifting trends and market forces, certain sectors of the industry feel the effects of market pressures and dynamics more strongly than others.

The MEP sector is particularly susceptible to these changes, given that contractors operating in this field are often at the mercy of circumstances beyond their control. While it was predicted in 2016 that the sector would see growth in 2017 off the back of investment in tourism and hospitality development, six months into the year it has become increasingly apparent that greater challenges lie ahead.

Given the altered landscape, **Big Project ME** spoke to three leading MEP contractors and consultants to get a rounded view of the market and learn how firms are adapting to the new realities around them.

“Despite trying to recover, the MEP market is still flat since the 2008 downturn,” says Robert McDonnell, senior estimating manager for ALEMCO. “The buoyancy has never really returned to the market, as some MEP contractors are still undercutting project values, which is just compounding the problem in an already flat market.”

“As a result, some established contractors are no longer active in the market, while new MEP players have arrived on the scene, and in an attempt to establish themselves quickly have taken on risky work at the wrong prices. This has also led to the delay of the MEP market recovery.”

This has also caused a shift in focus for the MEP industry, with established contractors now

focusing on milestone projects that come with certain guarantees in terms of fees, delivery and scheduling, as Sameer Daoud, chief development officer and managing director for KSA at Drake & Scull International, explains.

“The MEP market in the UAE is very promising. We have a lot of work available, with many upcoming milestones such as the Expo 2020 and the 2030 Vision. We see great development and projects coming up that will comprise a lot of MEP work.

“In addition, we see a lot of focus on the infrastructure side, in terms of delivering water reticulation and district cooling. A third component is the industrial market. The UAE government is supporting and pushing these projects forward, and that looks very promising.”

Furthermore, with longevity and cost savings now on the agenda, Cathy Christer, partner and head of MEP at Godwin Austen Johnson, explains that

there is now increased client interest in sustainability and green building measures.

“The MEP industry is well placed to deliver the green construction and sustainability targets as the designers of water, power and cooling systems within the developments. The local MEP market is, as ever, fast-paced with a lot of new projects large and small to bid on, and if successful, work on as well.

“We have seen a trend with increased client interest in sustainability and green building measures, which is great. In addition, clients are interested in the longevity of their buildings – how will the designs and systems perform in five or ten years’ time,” she adds.

A by-product of this shift in thinking is that specialist MEP firms will have more opportunities in a market that seems to be focused on quality and the long term, rather than immediate cost savings. Specialist firms who

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are familiar with the market and are flexible and agile at delivering clients' requirements will do well, predicts Christer.

"In my opinion, a specialist is someone who will give the best solution to a problem. Therefore, a specialist MEP firm will be well placed to respond to a client's requirements, be they to provide a low-cost solution or a design to meet a mid- or high-range budget. The specialist will work together with the quantity surveyor to inform the client as to the risks and opportunities within the brief and budget."

However, while Sameer Daoud agrees that specialist firms will have an advantage in the current market, he asserts that this will only exist if there is cash available from the client.

"Our biggest challenge, whether as an MEP specialist or as a general contractor, consultant or end user, is funding, which is key. Cash is only available when all stakeholders are on board with plans and budgets, with adequate credit secured. If the funding issues are resolved, then

I don't see any further challenges in the MEP market in the UAE.

"The biggest problem we have faced in the last few years is the declining oil price, while the political unrest has impacted the willingness of clients to pay. Sometimes, even when there is sufficient budget, there are now more ancillary issues to contend with, such as delayed payments, onerous terms and conditions, and intense competition, to the point where some contractors have been forced to deliver projects at cost, or even at a loss, to retain their staff," Daoud explains.

"That can be a solution for a short period, but it is not sustainable. Eventually it catches up with you. Again, the root cause is liquidity and access to ready cash. Cash flow is part of the supply chain, and if that integral link is broken, it doesn't work."

Robert McDonnell is quick to agree, pointing out that while specialist firms may be desired in a market where clients are looking for quality, the tight budgets mean subcontractors will be exposed to greater risk.



Offering the best solution
Christer says that specialist MEP firms will be able to offer clients the best solutions to their problems.

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"Obviously, with tightened budgets the MEP contractors will be at a disadvantage, as will all subcontractors. The main contractor margins are under pressure and this forces the MEP prices further down, variations charges are not assessed properly, and eventually the main loser in the cycle is the client," he explains. "Generally in this situation, the quality of the MEP materials and installation suffers and the client could potentially be left with an asset that does not function the way they initially envisaged."

"The average cost of running and maintaining an asset is 20 times more than the initial construction cost, based on the entire lifetime of the building. On these grounds, it is better to avail of high-quality sustainable MEP practices and materials at construction stage, to ensure the sustainable longevity of the asset."

Risk minimisation thus becomes key to the MEP industry, given the economic conditions around it. This means greater attention has to be paid to the long-term plan and subcontractors can no longer



Cash is king
Daoud points out that the biggest challenge facing the MEP industry is funding. If funding issues are resolved, it will resolve a number of issues facing contractors.

Adapt to survive and thrive
All the experts say that the MEP industry must become more efficient, flexible and selective if it is to grow in the current market economy.



THE FUTURE OF MEP

Given the changing dynamics of the industry, what are your thoughts on the future of MEP?

CC: "The future of MEP will be governed by our ability to respond to changing work platforms, and our use of software to automate calculations and roll through the changes into the 3D environment. MEP engineering will become more about people-based design interfaces and less about number crunching, as the calculations become automated."

SD: "You cannot build anything without MEP, and that is not an exaggeration. MEP is the key to the success of any project! MEP will always be there. However, it will only grow and evolve by becoming more efficient. This is the time when we must step forward and lead the industry. We cannot be in the backseat anymore. We must be in the driver's seat and lead with innovation and technology, so as to be in a position to ride the wave of upcoming developments. Otherwise you will get left behind..."

RMCD: "The long-term vision of the UAE government is excellent. They are world leaders when it comes to visions of sustainability and innovative goals. They are continuing to bring iconic projects to the shores of the UAE, such as the EXPO 2020 District and the Dubai Creek Harbour Tower.

With these mega projects and others on the horizon, we see an injection of growth in the MEP industry, but it will only be positive growth if the MEP market learns to take stock and evaluate its behaviour from a delivery point of view and also from a commercially viable aspect. A building is a long-term fixed asset, and a quality building relies on a quality MEP installation. To achieve this, there must be a good quality design, good quality coordination between all elements of the building, good quality procurement, good quality installation and good quality maintenance. The industry must ensure that all these elements are in place if we want to create great sustainable long-term assets."

just deal with problems as they arise. To achieve this shift in mindset, Christer explains, there needs to be trust and communication between all stakeholders, while solid documentation must be provided under a range of different circumstances and pressures.

"All stakeholders need to play their part in mitigating risk. The entire project lifecycle inherently contains risk. To manage risk, you must understand the pending technical and commercial risks," adds Daoud. "When a risk becomes a reality, it is not a risk anymore, but a problem that you now have to contend with. When you manage risk properly, you avoid it completely so that it doesn't happen at all, as well as being prepared to deal with any occurrences of risk."

"MEP contractors face the same risks as others in the construction sector. The technical challenges are different, but the commercial challenges are mostly the same. Risk generally becomes a problem

when you don't have adequate risk management in place, where you haven't planned your risk exposure from day one until the very end. If you have plans in place, and link it to your project delivery, you can mitigate any risk, reduce it, or at least overcome the problems if they should arise," he insists.

"Contractors are placing more emphasis on risk management these days. We are no longer in a position where we can deal with problems when they arise. Instead we must adopt a cautious approach. We have to be more organised and selective in terms of which clients we wish to work with."

McDonnell adds that one of the biggest risks facing the MEP industry is the issue of reckless MEP contractors taking on projects they don't have the capacity or capability to cope with.

"Continuously taking on contracts below the net cost and signing up to onerous contracts and unachievable delivery dates will ensure that the MEP industry's growth will remain stagnant," the ALEMCO man warns in conclusion. ■



Stagnant growth
McDonnell warns that firms taking on projects that they don't have the capacity or capabilities to cope with, risk causing the industry's growth to stagnate.

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