LANDLORD REFURBISHMENT COST GUIDE

COST CONSULTANCY

SPRING 2023

COST BENCHMARKING

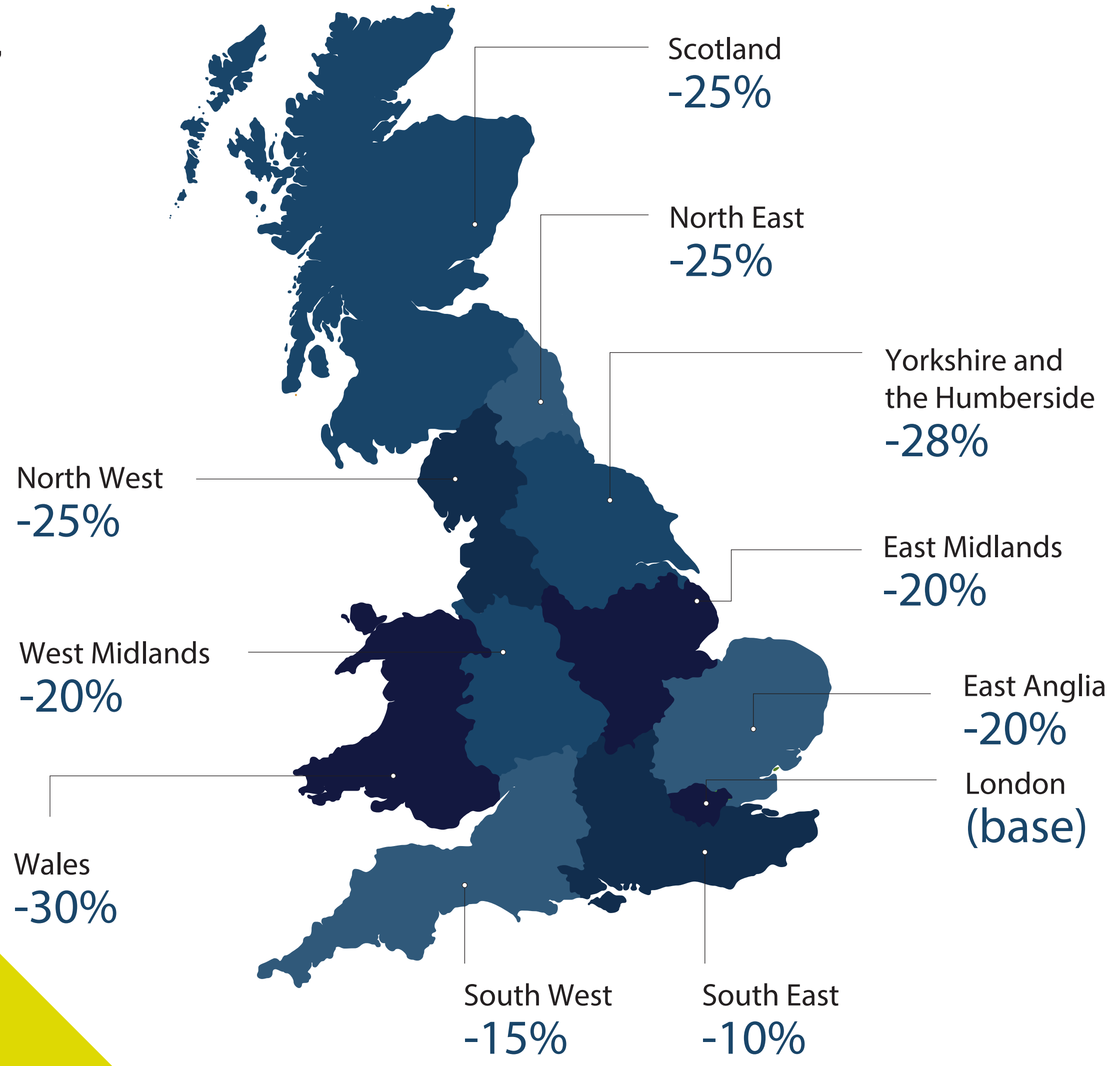
Note: based on London pricing, re-base as necessary

Construction Spend on GIA (excluding Fees and VAT)

Office Floors	£150ft^2	£225ft^2	£225ft^2 Plus
Strip out existing fit-out	£6	£6	£6
Raised access floor	£6	£6	£6
Suspended ceiling / soffit treatment	£8	£8	£8
Decorations	£4	£4	£4
Joinery	£4	£4	£4
LED lighting, power & fire alarms	£20	£20	£20
Air-conditioning & mechanical ventilation	£35	£35	£35
Common Parts			
Refurbishment of WCs	£20	£20	£20
Refurbishment of reception	£10	£10	£10
Staircases and lift lobby refurbishment	£5	£5	£5
Remedial works to building fabric (windows & roof)	£5	£5	£5
Amenity space (showers, bike racks & changing)	£5	£5	£5
Main Plant			
Major overhaul / replacement of lifts	x	£8	£8
Air con and ventilation plant	x	£20	£20
Main electrical plant (distribution boards, main switchgear)	x	£15	£15
Security (access control and CCTV)	x	£2	£2
Main fire alarm panel and infrastruture	x	£2	£2
Building Management System (including 'smart' enablement)	x	£5	£5
Electric boilers	x	£3	£3
Air source heat pumps	x	£10	£10
Maintenance Contractor Costs			
Preliminaries and OH&P	£22	£32	£32
Additional Options			
Relocations / alterations to core			£25-£50
Replacement of facades / windows			£50-£100
Additional massing / terraces			£350-£450

REGIONAL VARIANCE

Using Central London as a 'base' the map featured details indicative cost differences between regions.



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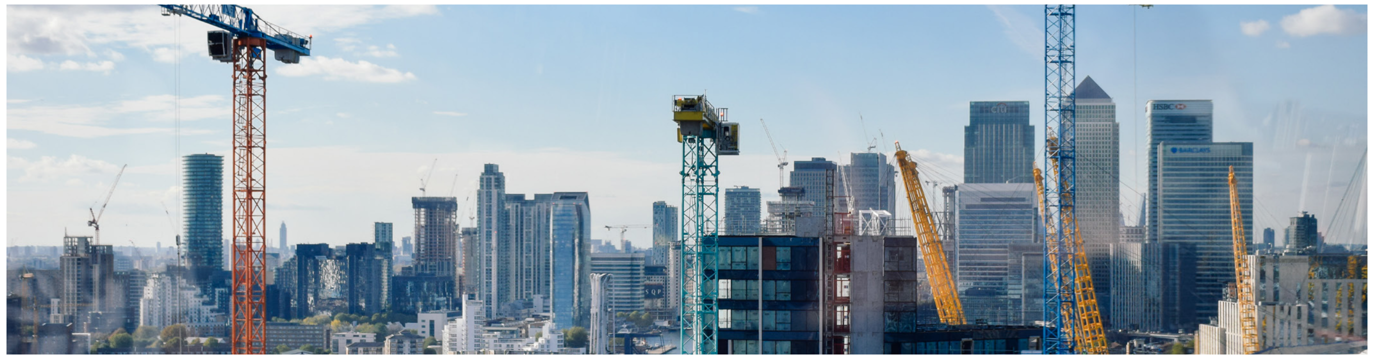
MARKET UPDATE



Inflation peaked in February 2023 rising against predictions to 10.4%, however, the Bank of England expect the annual inflation rate to ease in 2023 slowing to 4% by Q4 2023. As of March 2023, the BCIS General Building Cost Index forecast is up 7.1% from this time last year, while materials costs are up 8.1% over the same period. Both sets of costs are expected to have some steadying in the near term, however, the cost of Labour is only forecast to rise in the coming months and years out to 2028 when the BCIS forecasts end.

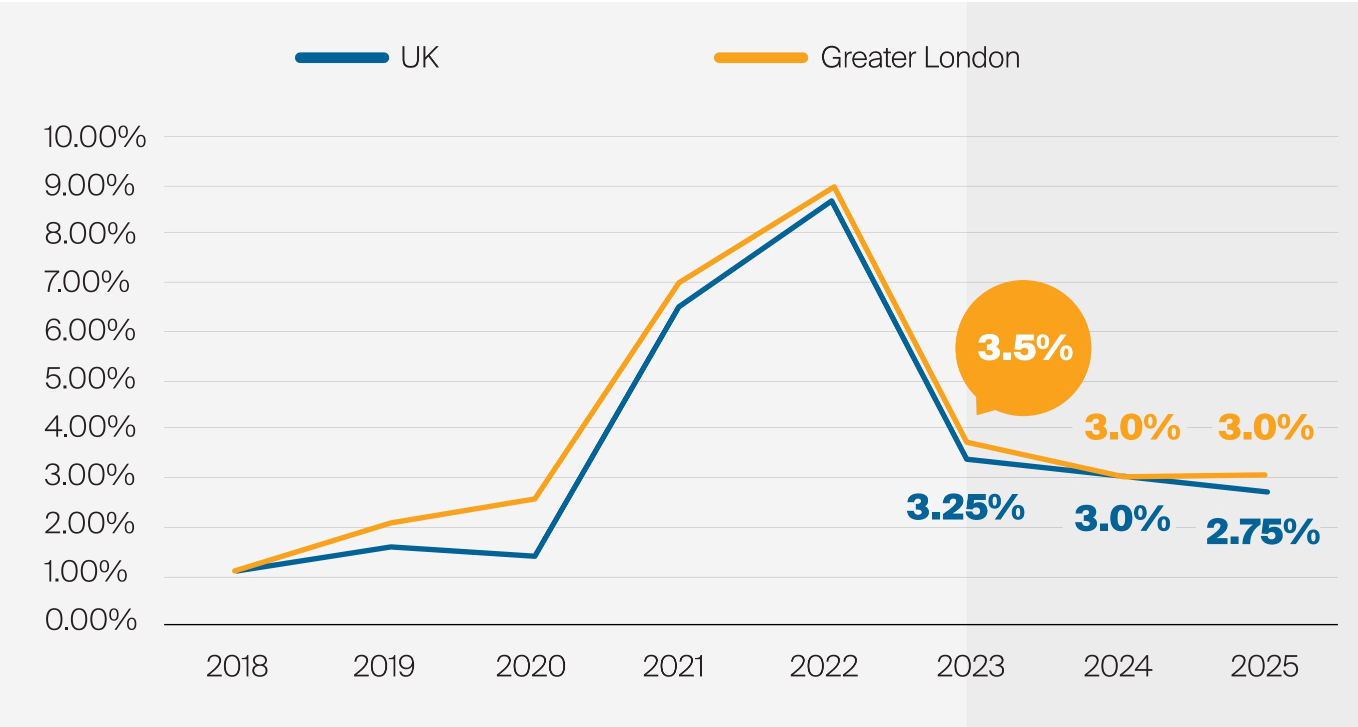
Labour, and shortage thereof, has been one of the one of the compounding issues within the UK Construction market, with the increase in job vacancies within the sector reportedly 65% higher today than at pre-pandemic levels. There is anticipated to be some easing in the labour shortfall with the Spring budget's announcement that five construction jobs were added to the shortage occupations list, which allows foreign nationals whose occupation is on the list to apply for a skilled worker visa to come and work in the UK.

While the costs of materials, energy and labour are expected to continue at a premium, constraining construction activity, there is, however, a glimmer of light for the UK commercial construction sector in that MEES regulations required on all non-domestic properties, in England and Wales, to hold an EPC certificate of B by 2030. 51% of London Office stock holds an EPC rating of C or below, indicating 140m sq ft of space that will require upgrading.

Knight Frank expects construction activity to remain constrained in the short-term with the long-term seeing developers adapting to new materials and construction methods to meet regulatory pressure and combat increased building costs.

TENDER PRICE INFLATION

This graph details projected tender price inflation for 2023.



Source: Knight Frank Research

Macroeconomics

▼	-0.3%	Unemployment Rate	12/2022
▲	3.5%	Interest Rates	3/2023
▲	1.5%	FTSE 100	3/2023
▲	5.0%	Inflation	3/2023
▼	-11.6%	GDP	1/2023
▼	-8.7%	Purchasing Managers Index	3/2023
▼	-5.0%	Consumer Confidence Index	3/2023

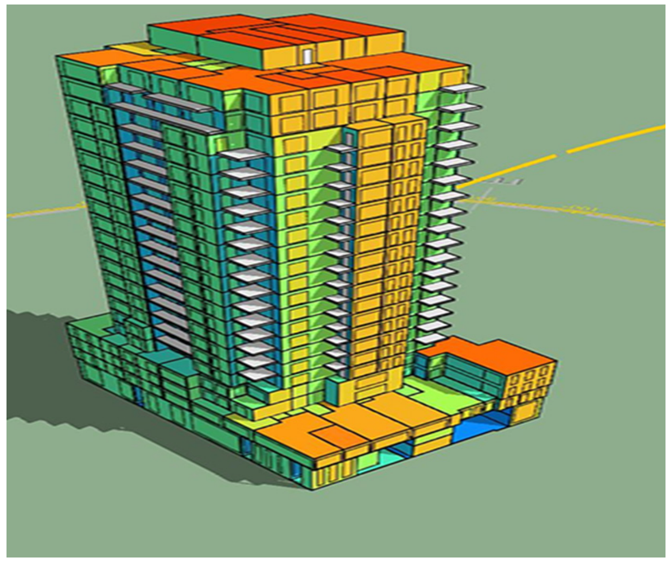
Source: The Office for National Statistics.

Material Cost “Big Movers”

Imported sawn/planed wood	-16%
Particle Board	-7%
Cement	25%
Builder’s woodwork	10%
Ready-mixed concrete	18%
Pre-cast concrete	12%
Concrete steel bars	10%
Natural & artificial stone	17%
Asphalt	41%
Gravel, sand, clays & kaolin	28%

Source: The Office for National Statistics

MEES REGULATION



The regulatory framework to decarbonise real estate is tightening across the UK, with a review of buildings' Minimum Energy Efficiency Standards (MEES).

The overall target is for all non-domestic buildings in England and Wales with existing and new leases to achieve an EPC B rating by April 2030, with incremental steps to reach this including that from April 2023, landlords should not have any ongoing lettings at a property that is below a band E rating (unless a valid exemption applies).

With the UK government committed to reach net zero carbon by 2050 and with the built environment directly responsible for 25% of the total UK carbon footprint, improving the EPC rating of buildings is one way to achieve net zero. To align this target with the realities of the market and the continuous decarbonisation of the national electricity grid, the EPC methodology and associated carbon factors were updated in in June 2022. For the first time electricity is now seen as a preferred heating fuel over natural gas. This and other changes to the interpretation of building fabric and lighting have had a profound effect on historic EPC ratings which may no longer be accurate. While EPCs are not a perfect metric of a buildings energy credentials, these updates will now encourage buildings to degasify, moving towards an electric heating system that can be net zero ready.

Improving a building's EPC to comply with future MEES EPC B targets can be expensive and difficult to implement with custom solutions often required, but it can be achieved and with value added to the asset which can show its positive EPC credentials – an important attribute for prospective occupiers.

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CHALLENGING TIMES FOR LANDLORDS

Whilst the costs of materials and labour continue to increase, the impact of legislation on the scope of building works is a significant contributing factor.

Across a number of high profile building refurbishment projects, we are seeing the test of economic viability challenged by a number of factors:

MEES Legislation: The requirement to improve EPCs and reduce operational energy consumption is resulting in wholesale base build and on-floor building services replacement. The transition to all electric buildings is leading to increased scope and cost, not to mention disruption to occupiers. The statement "fabric first" has long been associated with EPC improvements, however easier wins have resulted from a building services focussed approach, as the cost of U-values improvements has been prohibitive to achieving economic viability in schemes.

New Fire Regulations: Long overdue changes to fire regulations in the form of the Building Safety Act 2022 mean that more stringent requirements need to be designed into buildings over 18m, or 7 stories. These include the provision of firefighting and evacuation lifts as well as more regulation in the choice of materials, management protocols and the frequency of checks required.

Planning Policy: The implementation of green transportation initiatives such as providing end of trip facilities (cycle storage, showers, lockers and changing rooms) has created an arms race for buildings wishing to offer best in class, particularly offices located in central business districts. Not only does this come at a cost to the landlord to install, it can also take up a significant amount of space which is not always readily available as a result of plant rationalisation. This may result in the reduction of NIA and therefore income.

Occupier demands: Openable windows, voluminous receptions, F&B offerings, gyms, end of trip facilities and terraces are all in vogue... but who pays for them? They are important to attract occupiers, however they take up space and often require service landlord contributions to run them.

Whilst these interventions make buildings more marketable, the economic viability of schemes is being severely tested as costs increase, net to gross efficiency is reducing and rental levels are not increasing sufficiently to offset the cost of construction.

Challenging times indeed.

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