

LANDLORD REFURBISHMENT COST GUIDE

COST CONSULTANCY
SPRING 2024



MARKET UPDATE

LEASING MARKET

Whilst costs are stabilising and in some cases, raw material costs are coming down, interest rates levels are continuing to impact the feasibility of developments as funding becomes more difficult and schemes are subject to greater environmental scrutiny. However, the demand is there for space to be built. In the London office market, a clear bifurcation in demand for quality can be seen in all of our leasing data. It is clear that the highest grade stock is letting quickly (or pre-let) for top rents, whilst mid to low grade space mostly remains unoccupied, even at base rents.

ESG

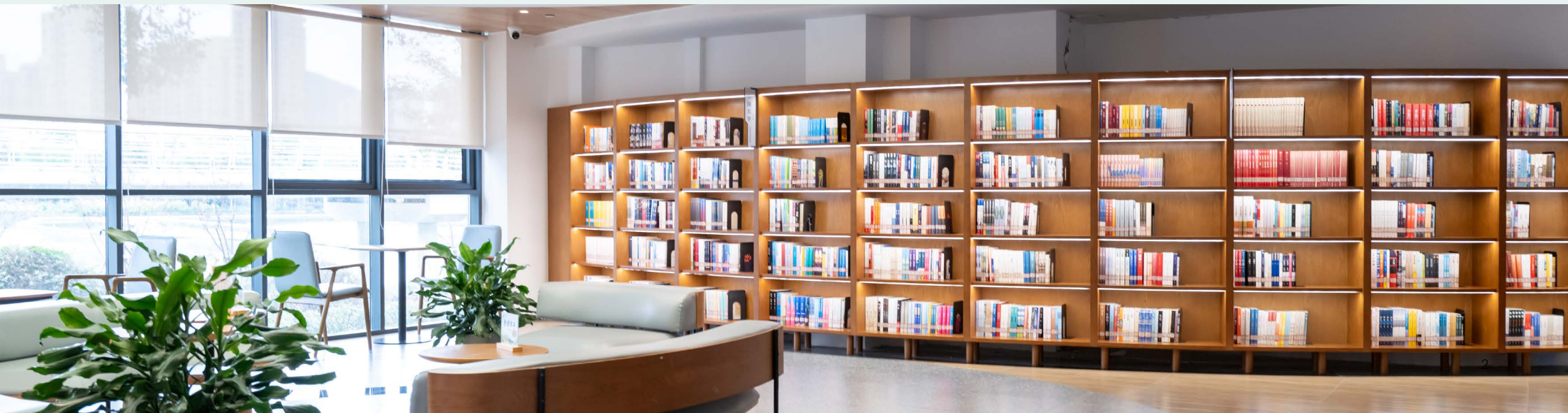
ESG considerations are becoming more and more prevalent in occupier decision making (particularly for large corporates), so high level sustainability accreditations are now seen as a fundamental part of the design and letting strategy rather than a 'nice to have' as in previous years.

Improving EPC ratings presents several challenges, particularly as the current assessment criteria prioritise shifting away from fossil fuels. This dynamic poses intriguing dilemmas for landlords, who must grapple with the costs and design complexities of incorporating new electric heating and cooling systems. Additionally, they may face the need to upgrade the building's infrastructure to accommodate larger sub-stations while ensuring continued access for utility providers.

CONTRACTOR

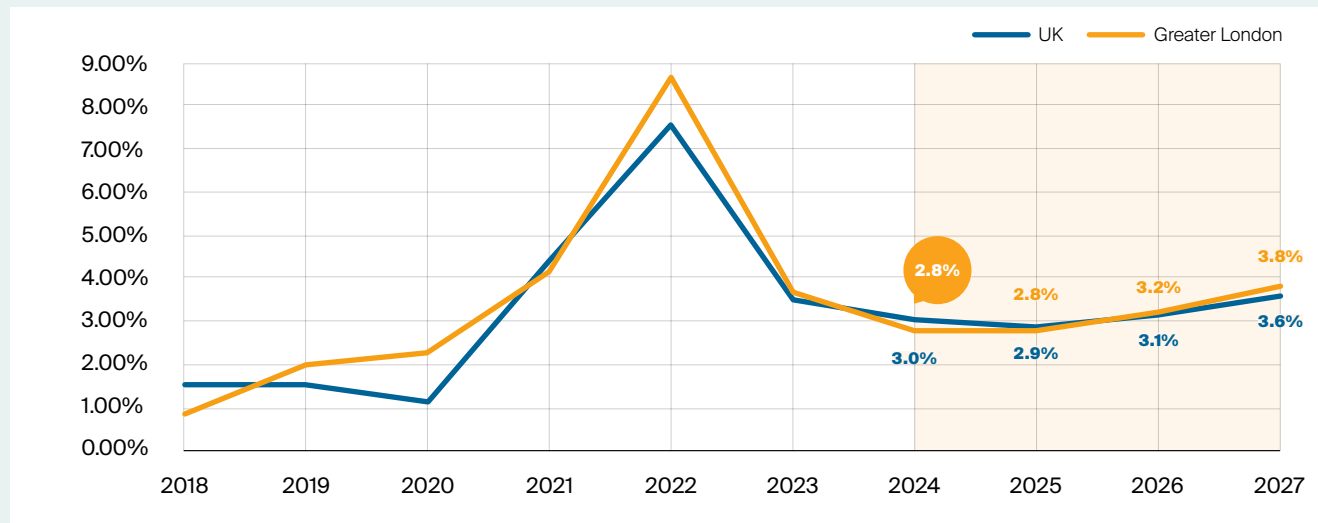
Main contractor order books are generally slowing and therefore, we are seeing 'single stage' tenders make a return, rather than the top tier contractor market only accepting 'two stage' or negotiated opportunities. Although this is dependent on the project value, risk profile and complexity. There have been some high profile main contractors and sub-contractors casualties over the past 12 months, with some sizeable companies falling into liquidation. This has made professional teams and developers wary and additional financial due diligence is now a lot more prevalent, with financial stability now one of the major considerations when appointing a supply chain.

2024 is an election year with a London Mayoral Race in May and the General Election later this year. All eyes will be on the new strategies and legislation put in place by the probable new government.



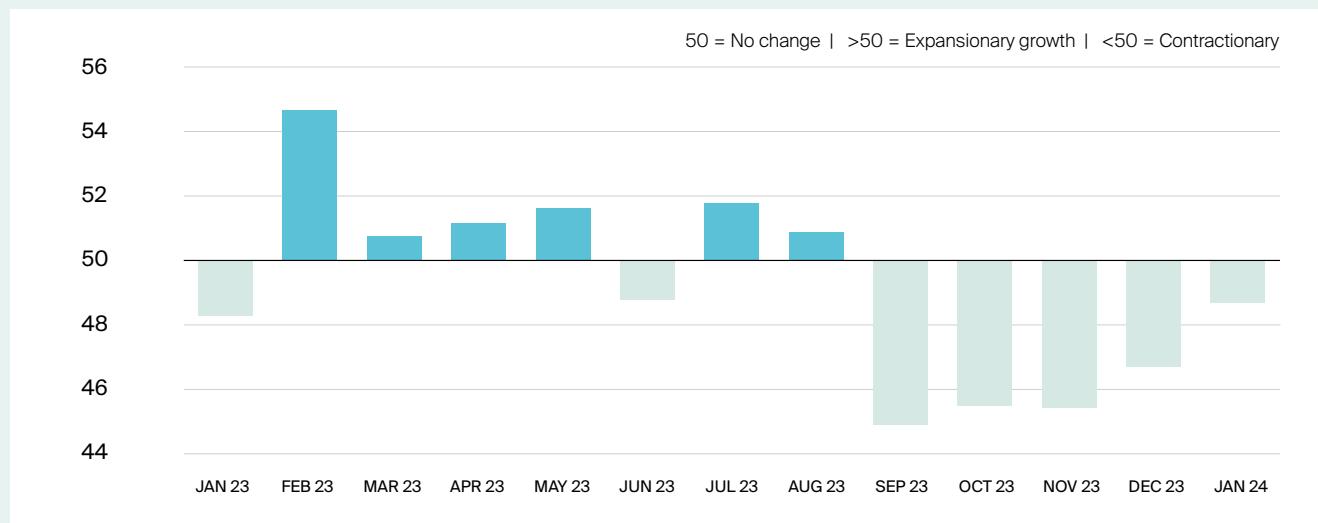
TENDER PRICE INFLATION AND MACRO ECONOMICS

TENDER PRICE FORECAST (LONDON) FOR 2024 Q1



Source: Knight Frank Research

UNITED KINGDOM CONSTRUCTION PMI INDEX



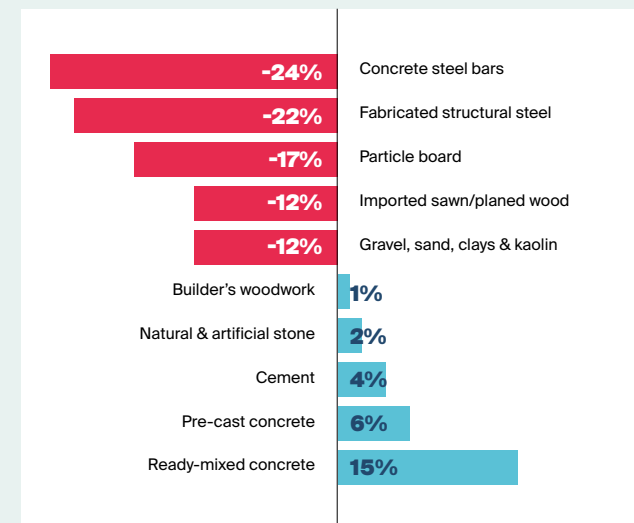
Source: S&P Global/CIPS

LATEST MACROECONOMICS

3.8%	▼	Unemployment Rate (%)
5.25%	■	Interest Rates Policy Rates (%)
4.0%	▼	CPI Inflation (annual % change)
-0.2%	▼	GDP (annual % change)
52.5%	▲	UK Purchasing Managers' Index
-19.0%	▲	Consumer Confidence Index
\$81.34	▼	Brent Crude Oil Prices
5.8%	▼	Average Earnings (3m annual % change)
-3.3%	▼	Producer Prices (Input Prices)

Source: The Office for National Statistics (arrows reflect annual change)

MATERIAL COST "BIG MOVERS"

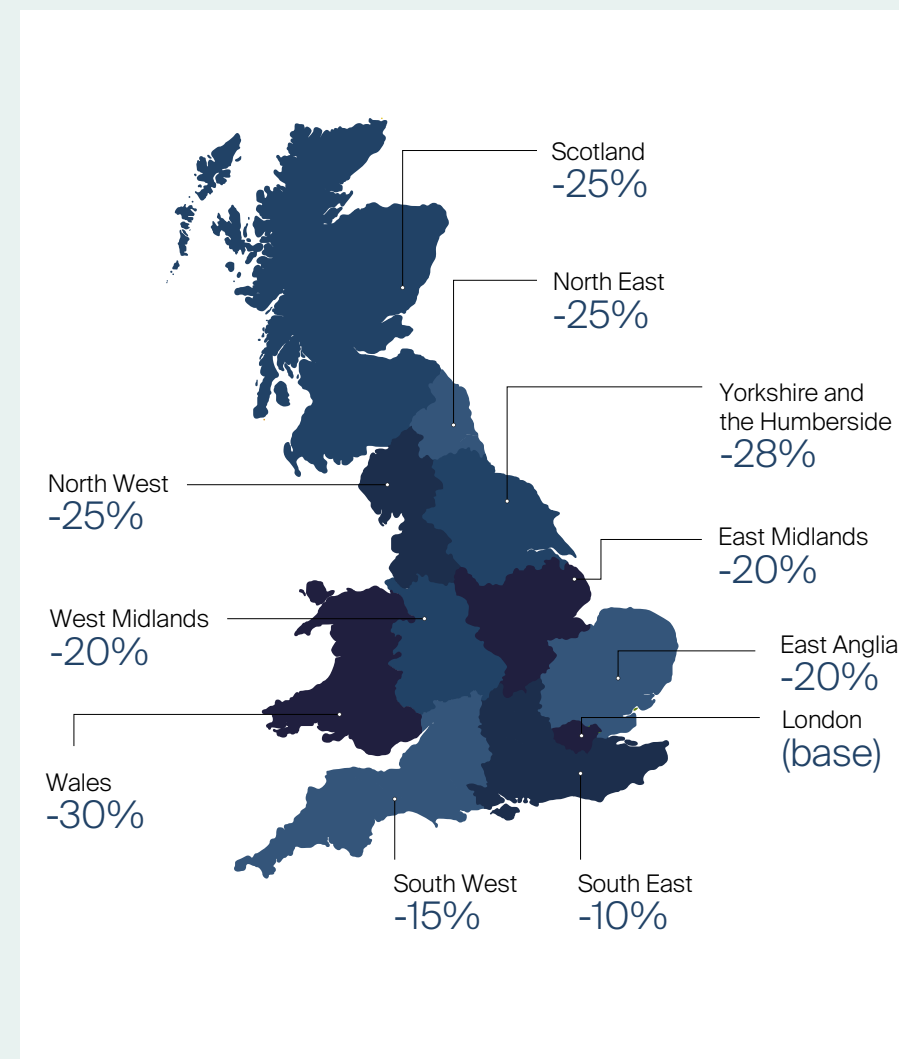


Source: The Office for National Statistics (December 2022 - December 2023)

COST BENCHMARKING

	£175ft ²	£250ft ²	£250ft ² Plus
OFFICE FLOORS			
Strip out existing fit-out	£7	£7	£7
Raised access floor (new or refurbish)	£6	£6	£6
Suspended ceiling / soffit treatment	£8	£8	£8
Decorations	£4	£4	£4
Joinery	£5	£5	£5
LED lighting, power & fire alarms	£25	£25	£25
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)	£10	£10	£10
MAIN PLANT			
Major overhaul / replacement of lifts	x	£8	£8
Air con and ventilation plant	x	£15	£15
Main electrical plant (distribution boards, main switchgear)	x	£15	£15
Security (access control and CCTV)	x	£2	£2
Main fire alarm panel and infrastructure	x	£2	£2
Building Management System (incl. 'smart' enablement)	x	£5	£5
Electric boilers	x	£3	£3
Air source heat pumps	x	£10	£10
MAIN CONTRACTOR COSTS			
Preliminaries and OH&P / risk @ 25%	£35	£50	£50
ADDITIONAL OPTIONS			
Relocations / alterations to core		£25-£50	
Replacement of facades / windows		£50-£100	
Additional massing (on new area only)		£450-£500	
Rooftop terrace (communal)		£10-£25	
Cat A+/Cat B fit out incl. furniture		£100-£150	

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



Note: Sustainability and EPC upgrades included in £250/ft² schemes. Precise rating / accreditations to be evaluated on a 'project by project' basis.

'NEW BUILD' OFFICE DEVELOPMENT – CENTRAL LONDON

LOW - £400/ft ²	MEDIUM - £500/ft ²	HIGH - £600/ft ²
SUBSTRUCTURE	SUBSTRUCTURE	SUBSTRUCTURE
No abnormal risks in ground	No abnormal risks in ground	No abnormal risks in ground
No basement	Single basement level	Single or multiple basement levels
FRAME	FRAME	FRAME
Concrete, steel or a combination	CLT, steel or a combination	CLT, steel or a combination
ROOFS	ROOFS	ROOFS
Conventional flat roof system	Conventional flat roof system, incl. small occupiable terraces	Conventional flat roof system, incl. enhanced occupiable terraces and planting schemes to improve biodiversity net gain
FAÇADE	FAÇADE	FAÇADE
Brickwork/render and windows or mid level cladding system	Structural glazing system. Potentially with stone cladding	Structural glazing system. Potentially with stone cladding
MECHANICAL & ELECTRICAL	MECHANICAL & ELECTRICAL	MECHANICAL & ELECTRICAL
All electric building	All electric building	All electric building
Air source heat pumps and electric boilers	Air source heat pumps and electric boilers	Air source heat pumps and electric boilers
Mechanical or natural ventilation	Mechanical or natural ventilation	Mechanical or natural ventilation
Heating & cooling via VRF/ VRV system	Heating & cooling via VRF/ VRV system	Heating & cooling via VRF/ VRV system
Basic BMS controls	BMS controls	BMS controls incl. 'smart' system integration
LED lighting	LED lighting & some 'feature' lighting to key areas	High spec LED lighting throughout, incl. 'feature' lighting
Sprinklers if required	Generator	Generator
Sufficient quantity of lifts to meet Building regulations	Sprinklers if required	Sprinklers if required
	Sufficient quantity of lifts to meet BCO	Lift provision and speed to go beyond BCO
FACILITIES & FINISHES	FACILITIES & FINISHES	FACILITIES & FINISHES
Basic end of journey facilities	BCO compliant end of journey facilities	London Plan compliant end of journey facilities
Reception area	Reception area with high spec finishes	Reception area with high spec/ bespoke finishes & coffee shop/ touchdown area
Exposed services with no rafts to offices	Exposed services with acoustic rafts to offices	Exposed services with acoustic rafts to offices
Paint finish to walls & tile/ vinyl flooring to lift lobbies	Feature wall finish and tiled floor to lift lobbies	Feature wall finish and tiled floor to lift lobbies
Ceramic tiling & low-mid level sanitary fittings to WCs	Fully tiled WCs with high quality joinery & sanitary fittings	Fully tiled WCs with high quality joinery & sanitary fittings
	Communal terrace	Extensive & high specification communal terrace & possibly private terraces as well
		Bar/ restaurant and/ or function facility
SUSTAINABILITY	SUSTAINABILITY	SUSTAINABILITY
Sufficient accreditations to meet planning requirements	Highest accreditation across key areas (BREEAM, Well)	Highest accreditation across multiple areas (BREEAM, Wired Score, Nabers, Well etc). Carbon neutral building
		Community stakeholder input & collaboration

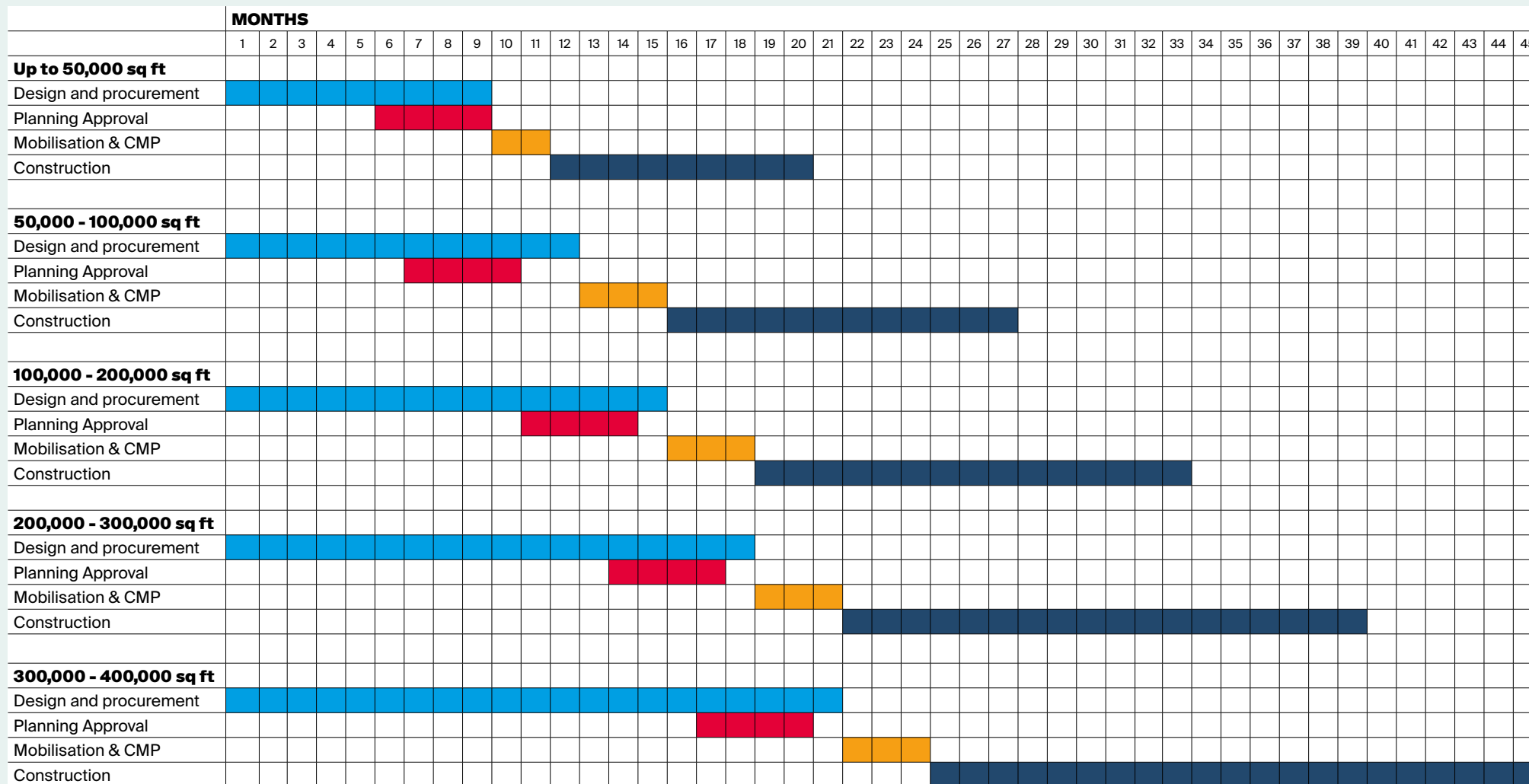
NOTES:

1. Towers such as 8 and 22 Bishopsgate etc will be in excess of the "HIGH" category
2. A cost premium may need to be applied to 'new builds' below 50,000ft²
3. Costs exclude professional fees, section 106 costs, Rights of Light, CIL payments, utility upgrades & insurances

4. VAT is excluded
5. Excludes new builds within conservations areas as the design and materiality would need to be traditional and in keeping with the surrounding buildings

INDICATIVE PROGRAMMES

Assumed Scope; End of Journey, Reception, WCs, 'Cat A' to office floors, all new MEP systems and plant, communal rooftop terrace BUT NO additional massing or window/cladding replacement

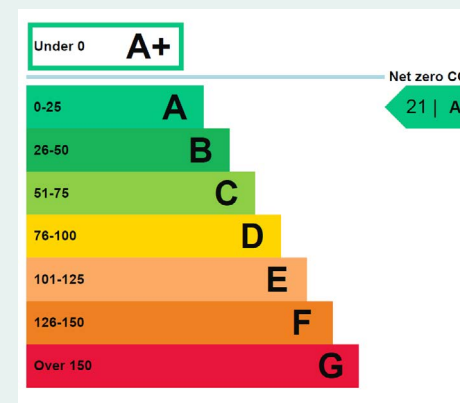


- NOTES:
- Choice of procurement route may affect programme (design and build, traditional, negotiated, single stage, two stage).
 - Introduction of additional massing and/ or window/ cladding replacement will extend the programme.
 - "CMP" is a Construction Management Plan; which is a planning requirement.
 - Programme based on commercial only. Residential accommodation will affect the programme.

EPCS/MEES

Whilst MEES is a key driver for landlord refurbishment, future liquidity of an asset may require more substantial interventions to enable tenants to sign up to an FRI lease. Any value engineering to facilitate economic viability may result in future valuations being based on net rental income where there are anticipated future maintenance costs.

The UKGBC Net Zero Carbon Buildings Framework was published in April 2019 following an industry task group and extensive consultation process. The framework sets out high level definitions for net zero carbon buildings covering emissions from both operational energy and construction. It acts as guidance for achieving net zero and will be further developed to include detail and stricter requirements which can be integrated into the framework over time. This will increase the level of ambition needed and challenge the industry to mainstream leading practice. The first extension to the framework was the energy performance targets for commercial office buildings as this was highlighted by industry as a priority topic. The targets are intended as a minimum energy efficiency target for buildings seeking to achieve net zero carbon status today, using a trajectory consistent with the performance levels that all buildings will be required to achieve by 2050.



CONSULTATION IN 2021

The Government undertook a consultation in 2021 which considered, amongst other things, a phased implementation to raise the minimum standard to:

- EPC C rating by April 2027; and
- EPC B rating by April 2030

Exemptions such as the '7 year pay back' rule do apply.

WHAT WORKS NEED TO BE DONE?

Works may include, but are not limited to:-

- LED replacements
- Building fabric and glazing upgrades
- Upgrades to the plant equipment
- Replacement of gas to 'all electric'

FACTORS FOR LANDLORD CONSIDERATION

- Are you able to put these upgrades through service charge?

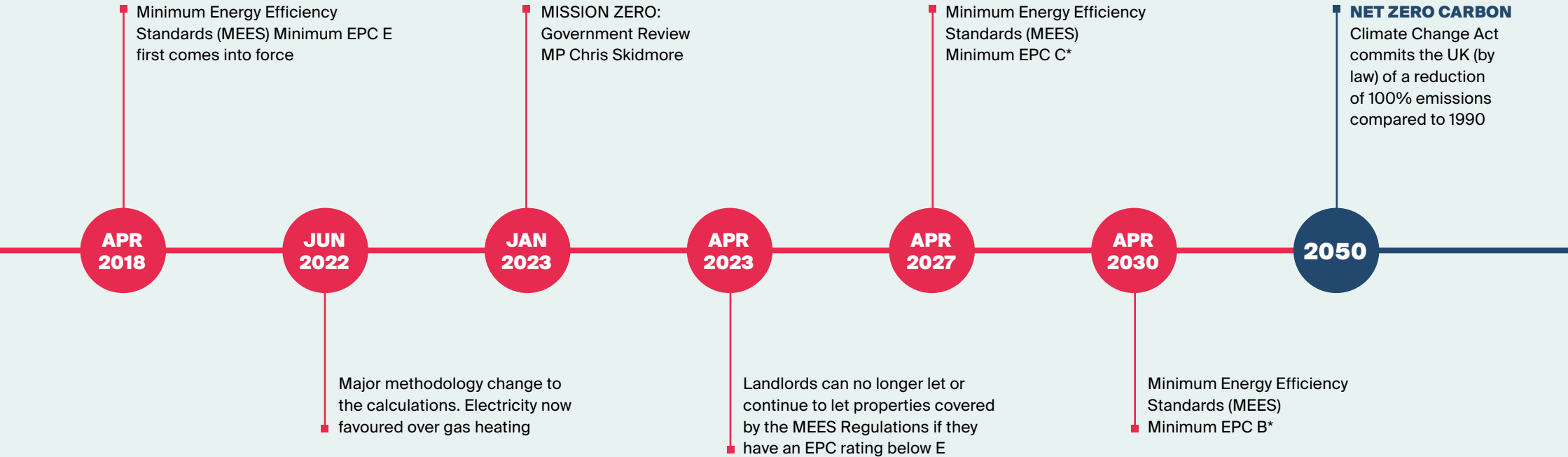
Depends on the lease provisions, but possible **yes**.

BUT

- New incoming tenants will almost certainly limit their service charge liability
- Prospective tenants may be put off by the prospect of disruptive works being undertaken during their lease period. Especially if premium rents are expected

UK REGULATIONS & MILESTONES

* MEES Requirements yet to be made into law but are expected to happen



EPC UPGRADES – INDICATIVE BUDGET COSTS

Almost every building will have different characteristics which contribute to its EPC rating and therefore, there is no 'one solution fits all' approach to EPC upgrades. We strongly advise that an EPC assessment is undertaken on the individual building and then a considered set of recommendations can be produced, that provide the most sensible, cost effective and least disruptive solutions for that building.








REF	DESCRIPTION	COST	EPC IMPACT
1	MEP Replacement		
-	Change from chiller and fan coil units to condensers and VRF	£30-£40/ft ²	Medium
-	Replace AHU with more energy efficient version	£15-£15/ft ²	High
-	Replace gas fired boilers with air source heat pumps	£10-£20/ft ²	Medium
-	LED lighting throughout with smart controls	£10-£15/ft ²	Low
-	Point of use water heaters in lieu of boilers to WCs etc	£2.5-£5/ft ²	Medium
2	External & Fabric Works		
-	Repairs to windows seals and gaskets (incl. access)	£5-£10/ft ²	Low
-	Re-new flat roof finish with increased insulation	£3-£7/ft ²	Medium
-	Replace existing glazed windows with triple glazing, incl. access (cost based on area of glazing, not floor area)	£10-£25/ft ²	Medium
-	Carry out an air permeability test, incl. necessary remedial works	£1-£10/ft ²	Medium



SUSTAINABILITY ACCREDITATIONS

YOUR OPTIONS FOR ACCREDITATIONS

Sustainability and ESG are key to the project and achieving accreditations would not only give the project a story but would also focus the project on the environment and wellness of staff. There are a number of accreditations in this regard, but the following are common in the market:

						
<p>SKA RATING – SUSTAINABILITY</p> <ul style="list-style-type: none"> • Granular • Fit-out specific • Quicker assessment process • Criteria proportion to the speed and scope of works • Certification fees = ~£600 	<p>BREEAM RATING – SUSTAINABILITY</p> <ul style="list-style-type: none"> • Basebuild linked – (can be a requirement to use to comply with lease) • RIBA aligned • Specialist input and reports required • Less flexible • Extensive evidence required • Certification fees = ~£2,500 	<p>NABERS – SUSTAINABILITY</p> <ul style="list-style-type: none"> • Granular – 12 months of data required • Different assessments for Tenancy, Basebuild and Whole Building • Measures actual impact • Allows like-for-like comparisons • Requires regular renewal of rating • Certification fees = ~£750 	<p>AIRRATED – WELLNESS</p> <ul style="list-style-type: none"> • Measures Indoor Air Quality (IAQ) • International Benchmark • Based on medical and scientific research • Certification fees = ~£2,800 PA 	<p>FITWELL – WELLNESS</p> <ul style="list-style-type: none"> • More of a portfolio tool • Site and building related items – (out-of-control of tenant) • No measurement of green or energy / water efficiency measures • A lot of company policy / procedure credits • Quicker assessment process • Certification fees = ~£4,000 	<p>WELL BUILDING STANDARD – WELLNESS</p> <ul style="list-style-type: none"> • Extensive / prescriptive criteria • No measurement of green or energy / water efficiency measures • A lot of company policy / procedure credits • Certification fees = ~£24,000 	<p>WIRED SCORE – TECHNOLOGY & INFRASTRUCTURE</p> <ul style="list-style-type: none"> • Rating system for digital connectivity and smart buildings • Recognized by GRESB as “Green Building Certification Schemes”. • Landlord / building focus • Certification fees = ~£12,500

THE LANDLORD PERSPECTIVE

Accreditations can enhance a building’s desirability from an occupier’s view; more occupiers are demanding buildings with certain levels of accreditation.

A focus on certain accreditations can assist on the delivery and management of best-in-class buildings that will attract and retain top quality occupiers.

By targeting (and achieving) certain ratings this can prove commitment to ESG targets, aligning with those of occupiers, as well as ensuring that Landlords are providing a future-ready attractive environment and a sought-after asset.

With each accreditation, specialist consultants will need to be appointed, and in most cases a pre-assessment would be recommended to inform suitability and any necessary works required.

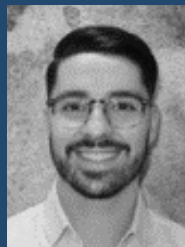
It is also vital to ensure that sustainable design is considered throughout any project undertaken, and that sustainability is paramount throughout the lifecycle of a building. Standards and targets are continuously being developed and shared by organisations such as the UK Green Building Council (UKGBC) and Better Buildings Partnership (BBP). To ensure best-in-class, landlords must align with such organisation’s visions in terms of improving the sustainability of the built environment through transforming the way every stage of a project is considered.

YOUR KNIGHT FRANK CONTACTS



Paul Prior
Head of Cost Consultancy

+44 7468 728011
paul.prior@knightfrank.com



Sam Ley
Cost Consultancy

+44 7581 014001
samuel.ley@knightfrank.com



Craig Frost
Head of Project Management

+44 7919 890 861
craig.frost@knightfrank.com



Charles Ingram Evans
Head of Project &
Building Consultancy

+44 7811 183 538
charles.ingramevans@knightfrank.com



Alex Soltynski
Partner, Client Relationships

+44 7818 160 160
alex.soltynski@knightfrank.com