

OCCUPIER FIT OUT COST GUIDE

COST CONSULTANCY
SPRING 2024



MARKET UPDATE

LEASING MARKET

Whilst costs are stabilising, or in some raw material cases, coming down, interest rates levels are continuing to impact the feasibility of developments as funding becomes more difficult and developments 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

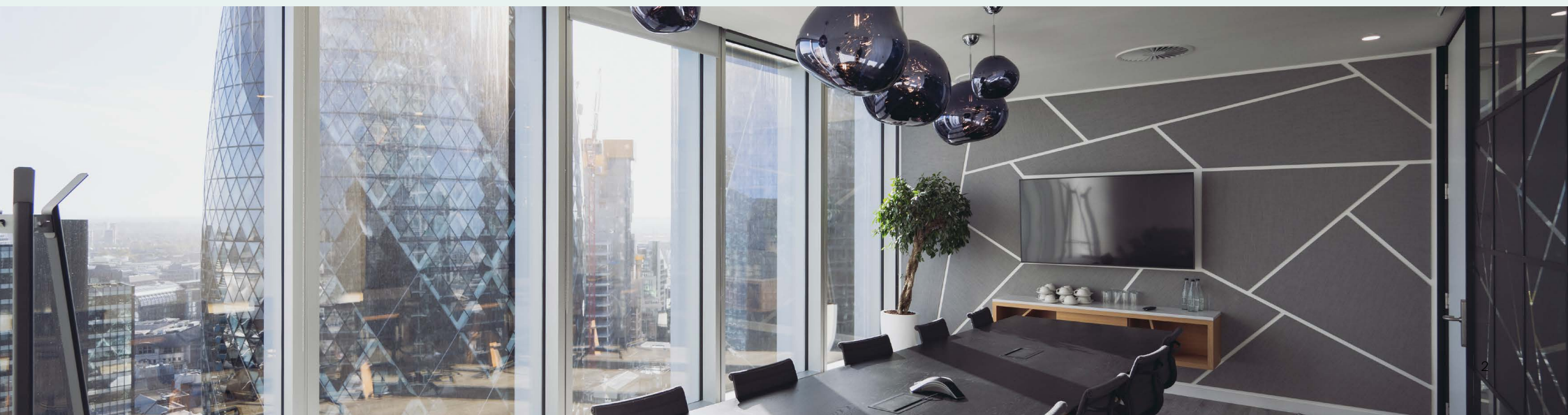
ESG considerations are becoming more and more prevalent in occupier decision making (particularly for large corporates), so high level sustainability accreditations are now seen as a fundamental part of the design and letting strategy rather than a 'nice to have' as in previous years.

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

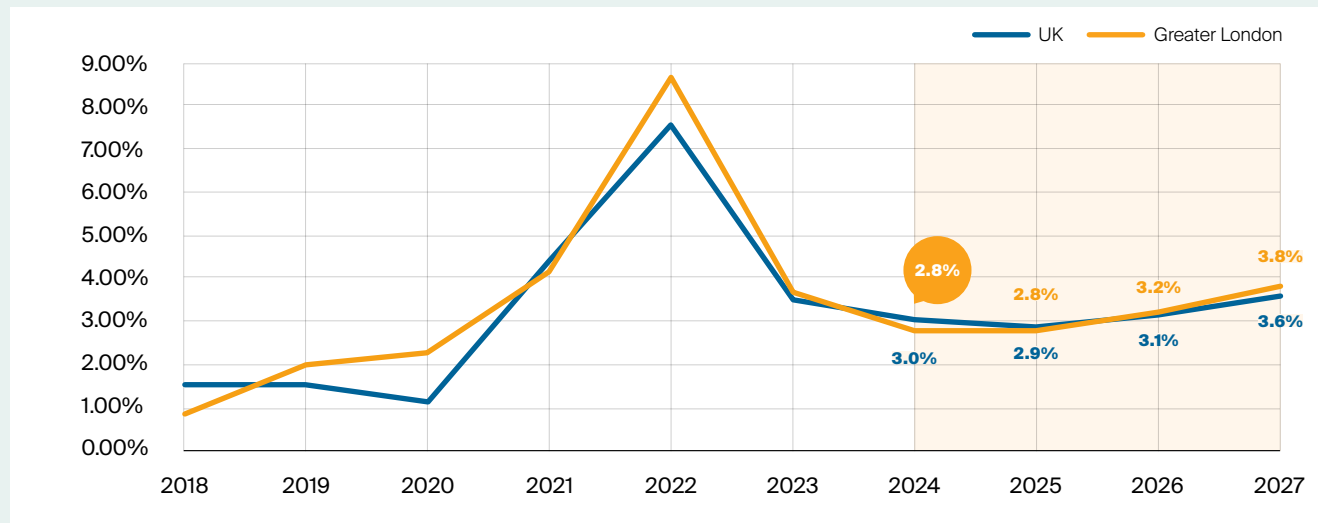
Main contractor order books are generally slowing and therefore, we are seeing 'single stage' tenders make a return, rather than the top tier contractor market only accepting 'two stage' or negotiated opportunities. Although this is dependent on the project value, risk profile and complexity. There have 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.



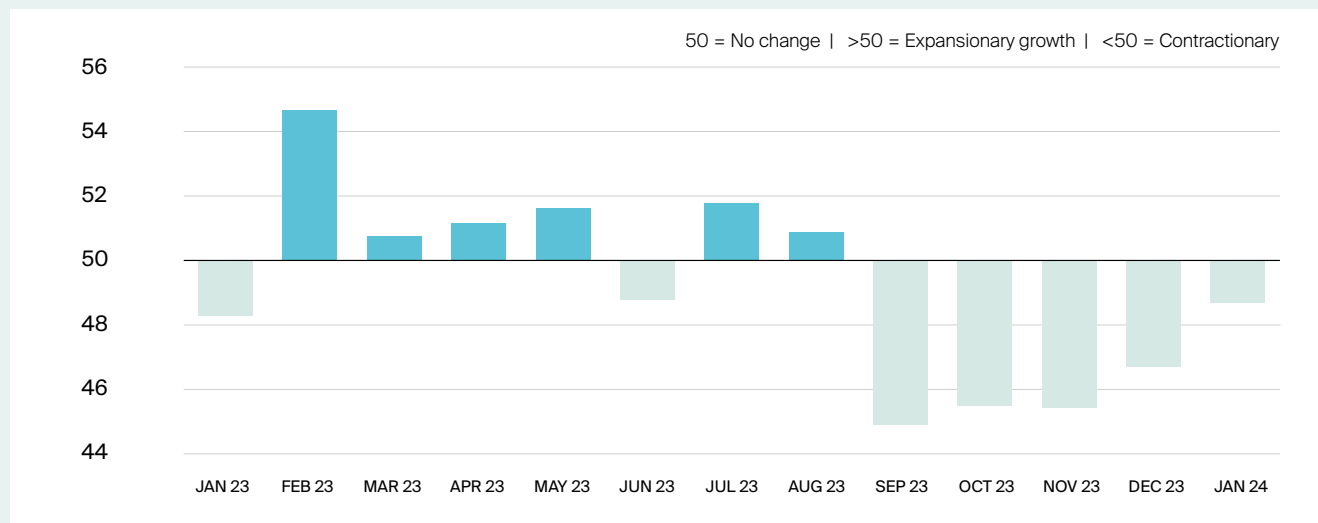
TENDER PRICE INFLATION AND MACRO ECONOMICS

TENDER PRICE FORECAST (LONDON) FOR 2024 Q1



Source: Knight Frank Research

UNITED KINGDOM CONSTRUCTION PMI INDEX



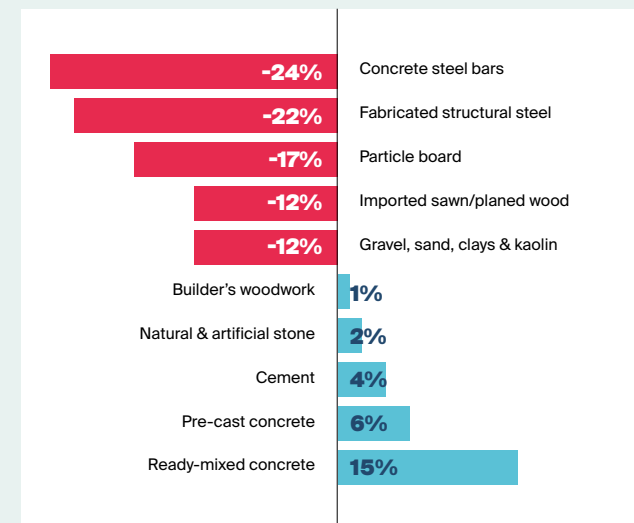
Source: S&P Global/CIPS

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)

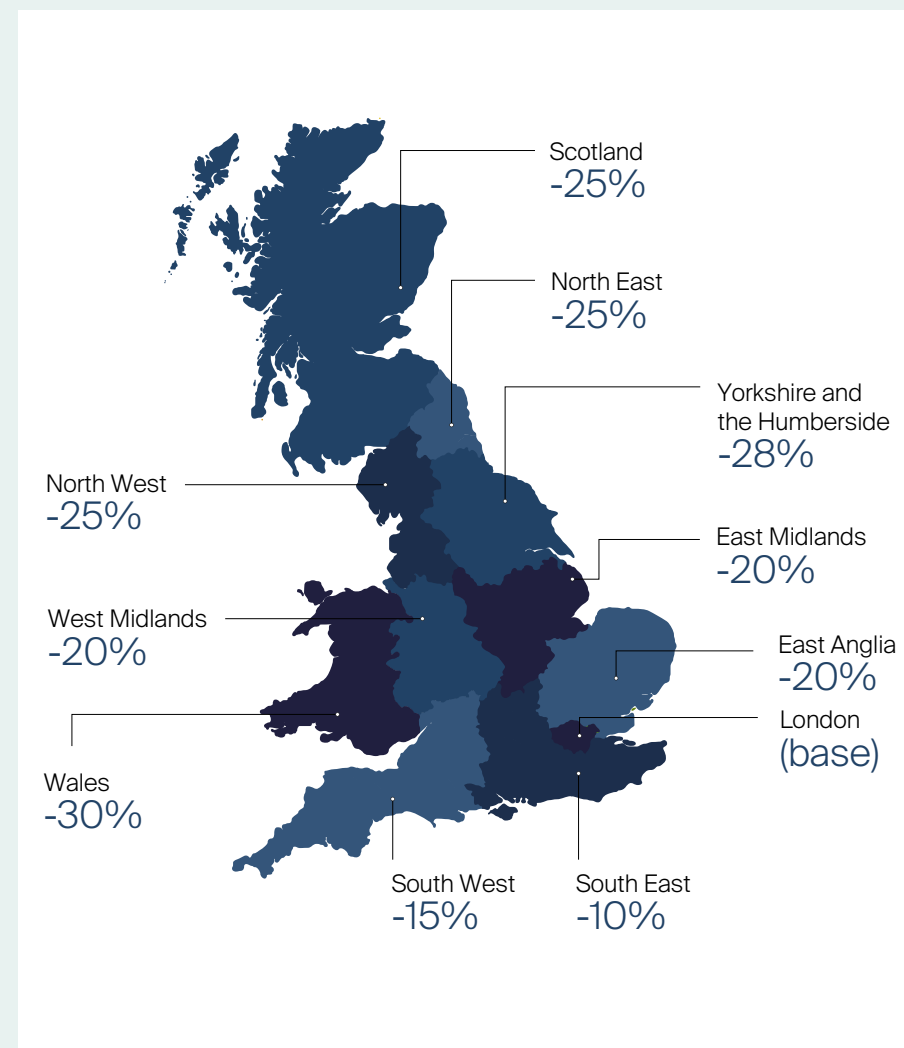
COST BENCHMARKING

FIT OUT COSTS	£100ft ² (LOW)	£175ft ² (MEDIUM)	£250ft ² + (HIGH)
Internal walls	£7	£13	£20
Internal doors	£3	£6	£10
Floor finishes	£5	£8	£12
Wall finishes	£5	£12	£20
Ceiling finishes	£4	£7	£10
Joinery	£7	£18	£30
Mechanical services (air con & ventilation)	£15	£20	£25
Electrical services (fire alarm & power)	£10	£20	£25
Data cabling	£3	£4	£5
Security	£2	£4	£6
Audio visual	£5	£12	£20
Furniture	£25	£30	£35
Professional fees	£10	£21	£32

Note: Main contractor preliminaries and OH&P included in rates

LOW	MEDIUM	HIGH
Predominantly 'open plan'	Meeting rooms but no / few offices	High level of acoustics to all areas
Base build lighting retained	Some amendments to base build mechanical services	Upgrade base build services to all areas
Minimal amendments to base build mechanical services	Upgrade of lighting and ceiling to 'front of house' only	Upgrade of lighting and ceiling to 'front of house' and collaboration areas
'Basic' finishes (carpet & paint)	High quality finishes to 'front of house' only	High quality finishes to 'front of house' and collaboration areas
Low level acoustics	High level acoustics to 'front of house' - reduced to staff areas	Bespoke items - e.g. feature staircase, catering kitchen etc
Entry level furniture	Mid-range furniture	High quality AV
Basic AV to front of house	Mid-level AV; screens to all rooms	High quality furniture; e.g. sit / stand desking throughout
Project Management & Cost Consultancy only. Design with Contractor	Project Management & Cost Consultancy. Limited Design team input client side (produce ERs)	Full design team 'client side'

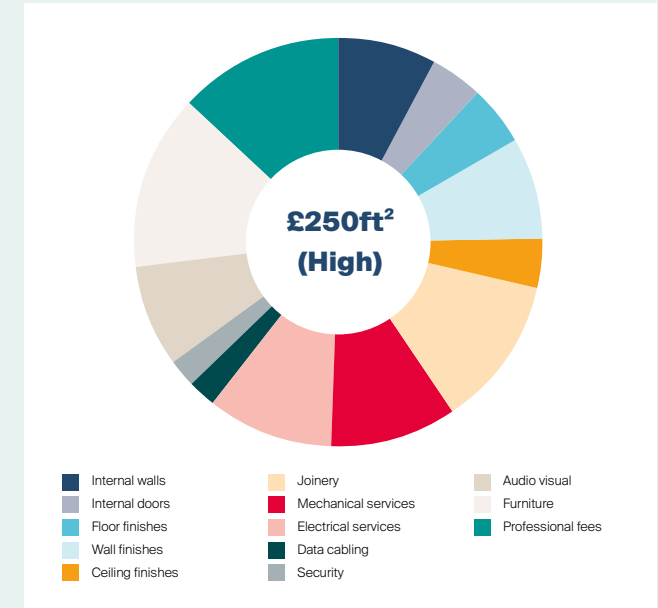
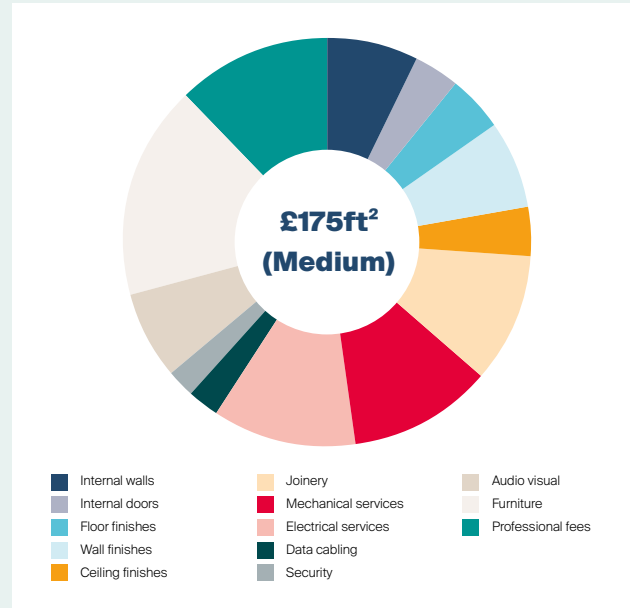
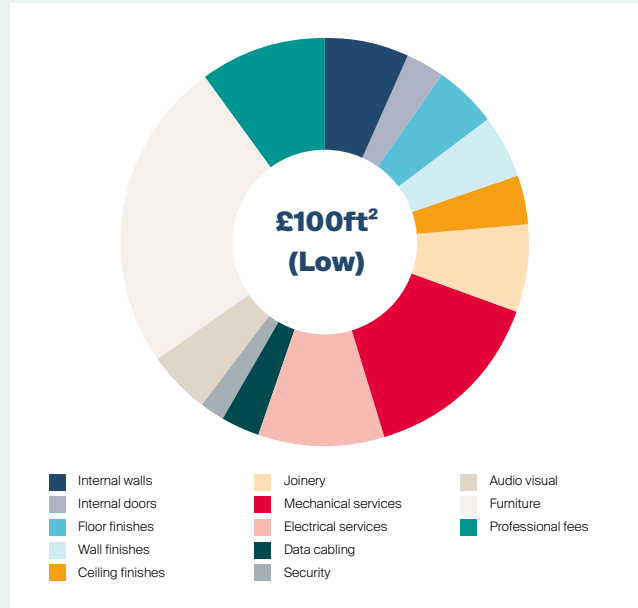
Using Central London as a 'base' the map below details indicative cost differences between regions.



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

VISUAL REPRESENTATION OF PROJECT EXPENDITURE

Note: Costs include construction, furniture, AV and professional fees but exclude IT hardware.



SPEND BY SECTOR

When benchmarking projects from the last 12 months, we can see that the financial and legal sectors still lead the way on capital spend per project. Our data shows that tech companies are spending more and more as many have moved from startups, to established and successful businesses. The public sector remains the lowest spender.



Costs above exclude IT hardware



INDICATIVE PROGRAMMES

Programmes assume fit out of Cat A space, including furniture and AV

	MONTHS																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Up to 10,000 sq ft																				
Design and procurement	█	█	█	█																
LTA approvals					█															
Construction						█	█	█	█											
Furniture Installation / Go Live									█											
10,000 - 20,000 sq ft																				
Design and procurement	█	█	█	█	█	█														
LTA approvals							█													
Construction							█	█	█	█	█	█								
Furniture Installation / Go Live													█							
20,000 - 50,000 sq ft																				
Design and procurement	█	█	█	█	█	█	█	█												
LTA approvals							█	█												
Construction										█	█	█	█	█	█					
Furniture Installation / Go Live																█				
50,000 - 100,000 sq ft																				
Design and procurement	█	█	█	█	█	█	█	█	█											
LTA approvals									█	█										
Construction											█	█	█	█	█	█	█	█	█	
Furniture Installation / Go Live																				█








NOTES:

1. Choice of procurement route may affect programme (design and build, traditional, negotiated, single stage, two stage).
2. Scope of fit out may affect programme; quality levels, structural works, planning requirement, interlinking staircase etc.
3. Programme based on commercial only. Residential accommodation will affect the programme.

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 = ~£2,250 	<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 = ~£3,000 	<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 (then £500pa) 	<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 = ~£8,000 	<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 = ~£8,000 + £0.13/ft2 	<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 = ~£13,500

THE OCCUPIER PERSPECTIVE

Accreditations can be a key aspect to ensure that occupiers are aligning with their ESG goals, corporate responsibility and can enhance their reputation.

Measuring not only the construction of the office environment, but also the impact of occupation can provide an excellent overview of the environment being provided. Ongoing monitoring of staff wellbeing throughout the occupation is critical; accessibility and inclusivity of workforce is vitally important in creating a diverse workforce.

With each accreditation, specialist consultants will need to be appointed (cost not included above) and in most cases a pre-assessment would be recommended to inform suitability and any necessary works required.

Please note that the above does not include the costs of any upgrade works to the construction projects required to gain certain accreditations.

It is also vital to ensure that sustainable design is considered throughout any project undertaken, and that sustainability is paramount throughout the lifecycle of occupation. 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, tenants need to consider aligning 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



James Shanahan
Cost Consultancy

+44 7929 669716
james.shanahan@knightfrank.com



Umar Sarkar
Cost Consultancy

+44 7974 879141
umar.sarkar@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