

A wide-angle photograph of the London skyline along the River Thames. In the foreground, pink cherry blossom branches hang from the top left. The river is filled with boats, including a large ship and several smaller boats. The city skyline is visible in the background, featuring the Shard, the London Eye, and various other buildings. The sky is a clear, pale blue.

OCCUPIER FIT OUT COST GUIDE

COST CONSULTANCY
SPRING 2025

MARKET UPDATE

THE GREAT COMPRESSION: LONDON'S OFFICE MARKET IN 2025

London's office market finds itself at a critical juncture: a supply squeeze is colliding with a refined, cost-conscious occupier class. Prime office availability stands at a modest 6.7 million sq ft, with vacancy rates as low as 1.5% in the City. Yet, the supply of second-tier space – much of it substandard – is ballooning, and nearly 3 million sq ft risks obsolescence under tightening energy regulations.

Developers, chastened by volatile demand post-pandemic, are reluctant to build without commitments. Of the 36 million sq ft in the pipeline, a paltry 12% is likely to materialise. Meanwhile, occupiers are reshaping the rules: nearly 80% now vacate at lease expiry – up from a historical norm of 52%. The demand is real and rising: financial and professional services lead a surge, with IT not far behind.

But it is quality, not just quantity, that tenants crave. Two-thirds of new take-up is for premium or refurbished space, a marked pivot from the 45% pre-pandemic average. Lease lengths are shortening, pre-lets are on the rise, and premium offerings now blend tech-enabled, productivity-driven environments with high-spec amenities – think rooftop terraces, wellness suites, and sustainable design.

Forecasts suggest prime rents could rise by 5-6% annually in key submarkets through 2029. While a softening in economic sentiment could temper leasing activity, the underlying structural imbalances – tight supply, expiring leases, and a persistent flight to quality – should provide a floor, preventing a return to the troughs seen during the lockdown era.

The London office market is no longer a tale of location, location, location – it's now one of function, flexibility, and fiscal finesse. As tenants become savvier and space more scarce, landlords must adapt or fall behind. In this fight for quality, only the most agile – those offering not just four walls but a compelling proposition – will win.



MARKET UPDATE

FINANCIAL DUE DILIGENCE

The demise of ISG, one of the largest commercial contractors in Europe, has publicly highlighted the financial difficulties that main contractors are facing within the UK construction market. Large, fixed price contracts, that were secured during or immediately after COVID 19 have placed significant financial pressure on many contractors and sub-contractors, as they attempted to deliver these projects within a climate of rapidly increasing material and labour costs throughout 2021, 2022 and 2023. This has made it even more important for our clients and their teams to undertake sufficient levels of financial due diligence, in order to protect themselves as best they can.

The first option is to procure an independent financial report on the proposed contractor from a recognised provider such as Dun and Bradstreet or Moody's. These will provide analytical data and risk ratings surrounding the companies financial security and liquidity. The only real limitation with the independent financial reports and summary accounts, is that they are only as accurate as the last set of company figures issued and these could be up to a year old. It should be considered that financial difficulties could have occurred post the last annual issue of accounts.

In addition to these financial checks, we advise that summary accounts for the last three years are requested. The main things that we should be looking out for are:-

- i) Sufficient retained funds in the bank
- ii) Increase in turnover 'year on year' (unless there is a good reason i.e. Covid)
- iii) The proposed project value forms less than a third of the companies overall turnover (project values in excess of this may place too great a strain on cashflow)

These checks would be undertaken when you are 'pre-qualifying' a tender list for a project.

Once you have decided to enter into contract with a contractor, there are various contractual documents that you can procure as added financial protection.

A *Parent Company Guarantee* can be obtained if a parent company exists. This is a short form agreement that passes the liability to complete the project to the parent company, should the Contractor go into administration. These do not usually cost the client anything, but if the parent company also goes bankrupt, then they obviously can't be called upon.

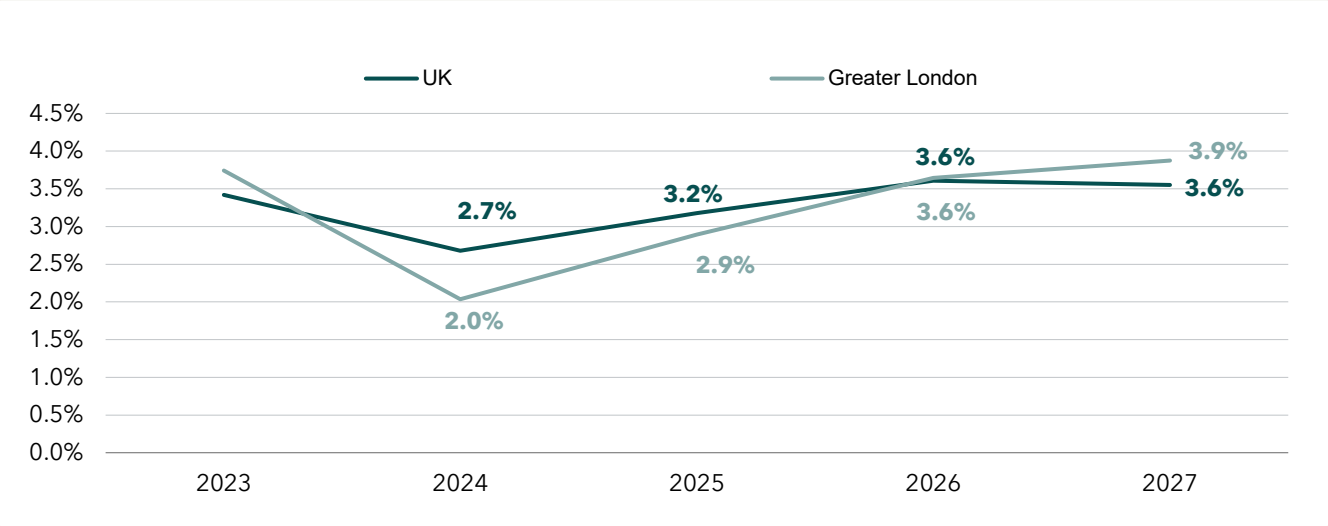
A *Performance Bond* can be procured which will provide financial protection for the client, usually up to a maximum value of 10% of the contract sum. This will be called upon should the contractor go into administration and can be used to procure a new contractor to complete the contract. This will cost the client a fee, which is based on the contract sum value. The bond can be in a standard 'JCT' or 'ABI' wording, or drafted in a bespoke form by a solicitor. The key consideration is usually whether the liability should end at PC, end of defects or at the end of the latent defects period (six or 12 years post PC).

When agreeing the payment terms, it is important that all valuation payments are made for works that have been completed and that no deposits or 'up front' payments are agreed unless absolutely necessary and agreed with the client. If 'up front' payments are made then you should look into procuring an 'advance payment bond' (see JCT contract) and if the pre-payment is for large materials being manufactured off site, then proof of ownership and vesting certification are recommended.



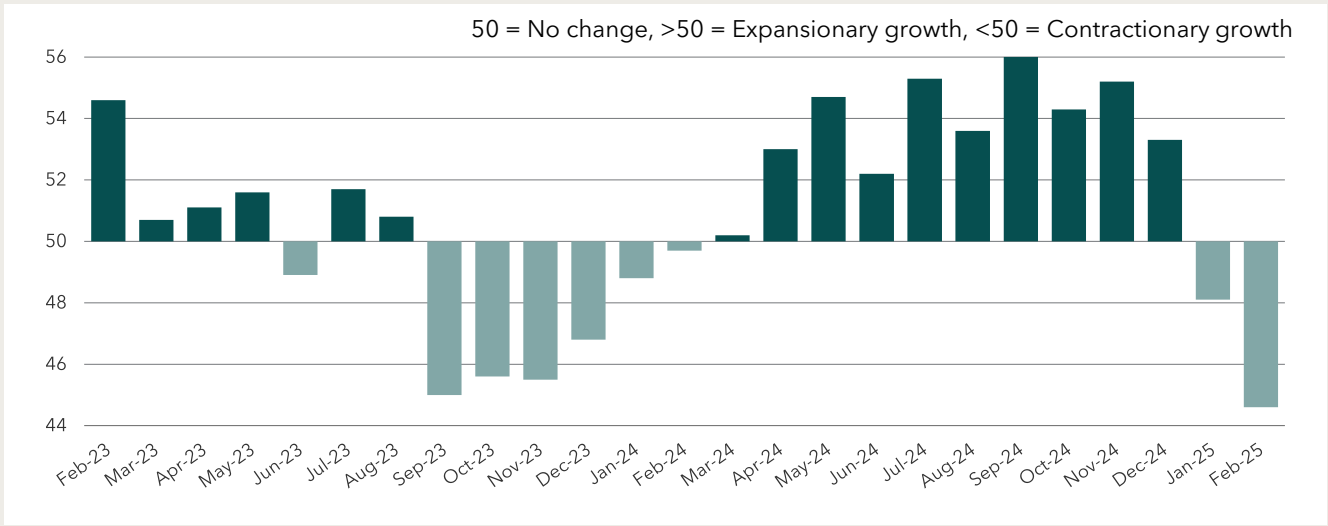
TENDER PRICE INFLATION AND MACRO ECONOMICS

TENDER PRICE FORECAST (LONDON) MARCH 2025 UPDATE



Source: Knight Frank Research

UNITED KINGDOM CONSTRUCTION PMI INDEX



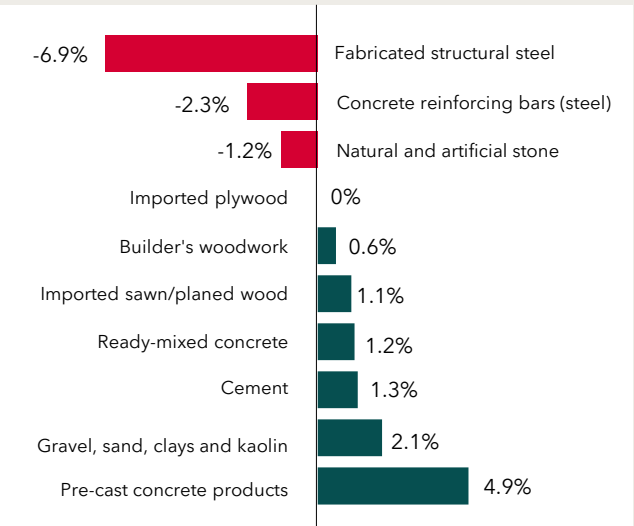
Source: S&P Global/CIPS

LATEST MACROECONOMICS

| | | |
|---------|---|---------------------------------------|
| 4.4% | ▲ | Unemployment Rate (%) |
| 4.5% | ▼ | Interest Rates Policy Rates (%) |
| 3.0% | ▲ | CPI Inflation (annual % change) |
| 1.4% | ▲ | GDP (annual % change) |
| 46.9 | ▼ | UK Purchasing Managers' Index |
| -19.0 | ▲ | Consumer Confidence Index |
| \$73.41 | ▼ | Brent Crude Oil Prices |
| 5.8% | ▲ | Average Earnings (3m annual % change) |
| -0.1% | ▼ | Producer Prices (Input Prices) |

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

MATERIAL COST "BIG MOVERS"



Source: The Office for National Statistics (January 2024 - January 2025)

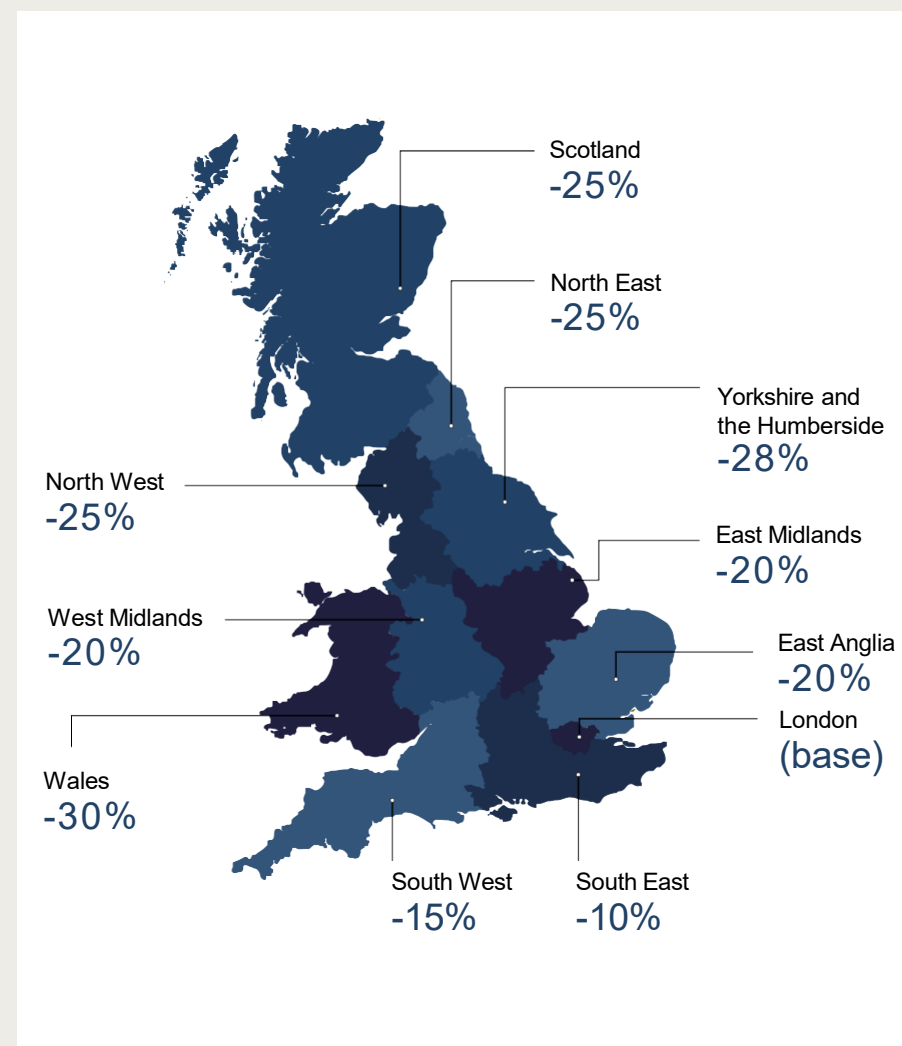
COST BENCHMARKING

Note: Assumed delivered from Landlord's 'CAT A' specification

| 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 | £4 | £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 |
| IT hardware (racks, servers etc) | Excl. | Excl. | Excl. |

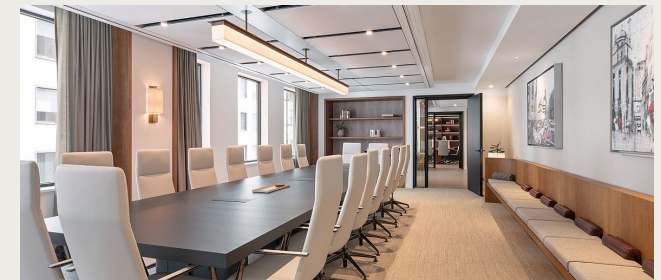
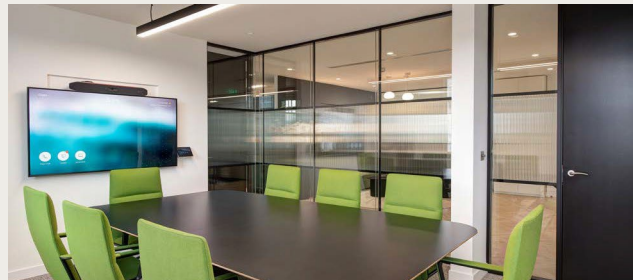
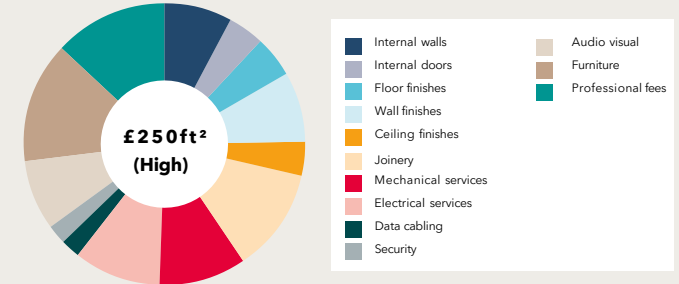
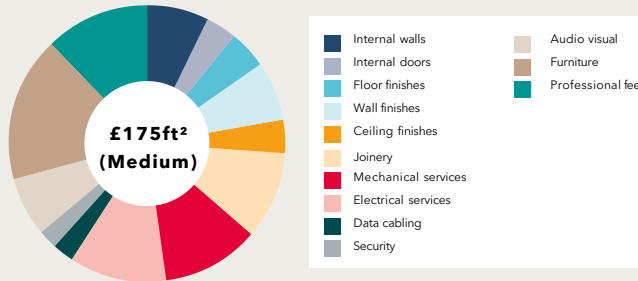
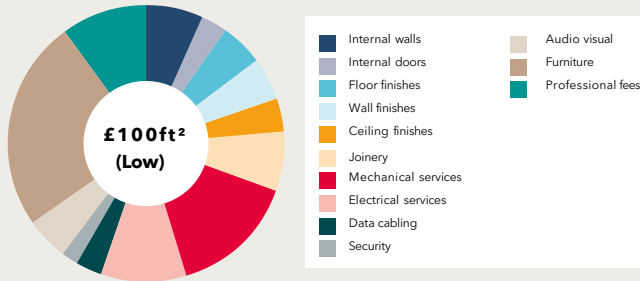
| LOW | MEDIUM | HIGH |
|--|--|---|
| Predominantly 'open plan' | Meeting rooms but no / few offices | High level of acoustics to all areas |
| Base build lighting retained | Some amendments to base build mechanical services | Upgrade base build services to all areas |
| Minimal amendments to base build 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; eg 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.



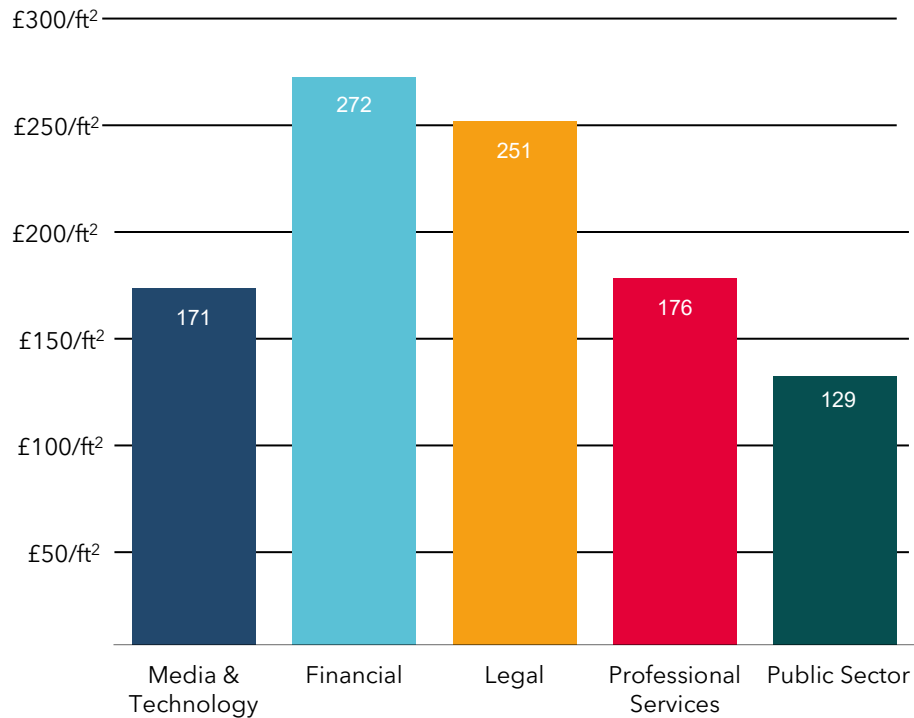
VISUAL REPRESENTATION OF PROJECT EXPENDITURE

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.



Source: Knight Frank

Costs above exclude IT hardware



INDICATIVE PROGRAMMES

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

Up to 10,000 sq ft

| Activity | Weeks | 2025 | | |
|----------------------------------|-------|------|----|----|
| | | Q2 | Q3 | Q4 |
| Design and procurement | 17 | | | |
| LTA approvals | 4 | | | |
| Construction | 17 | | | |
| Furniture Installation / Go Live | 4 | | | |

10,000 - 20,000 sq ft

| Activity | Weeks | 2025 | | | 2026 | |
|----------------------------------|-------|------|----|----|------|----|
| | | Q2 | Q3 | Q4 | Q1 | Q2 |
| Design and procurement | 26 | | | | | |
| LTA approvals | 4 | | | | | |
| Construction | 22 | | | | | |
| Furniture Installation / Go Live | 4 | | | | | |

20,000 - 50,000 sq ft

| Activity | Weeks | 2025 | | | 2026 | | |
|----------------------------------|-------|------|----|----|------|----|----|
| | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Design and procurement | 35 | | | | | | |
| LTA approvals | 9 | | | | | | |
| Construction | 26 | | | | | | |
| Furniture Installation / Go Live | 4 | | | | | | |

Approximately 50,000 - 100,000 sq ft

| Activity | Weeks | 2025 | | | 2026 | | | |
|----------------------------------|-------|------|----|----|------|----|----|----|
| | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Design and procurement | 39 | | | | | | | |
| LTA approvals | 9 | | | | | | | |
| Construction | 35 | | | | | | | |
| Furniture Installation / Go Live | 4 | | | | | | | |








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 property only. Residential accommodation will affect the programme.

SUSTAINABILITY ACCREDITATIONS

YOUR OPTIONS FOR ACCREDITATIONS

As noted previously, Sustainability and ESG continue to become increasingly prevalent in occupier decision making. Achieving specific accreditations would not only give the building a story but would also focus on the environment and wellness of staff. There are a number of accreditations in this regard, but the following are common in the market:

|  |  |  |  |  |  |  |
|---|--|--|--|--|---|--|
| SKA RATING - SUSTAINABILITY | BREEAM RATING - SUSTAINABILITY | NABERS - SUSTAINABILITY | AIRRATED - WELLNESS | FITWELL - WELLNESS | WELL BUILDING STANDARD - WELLNESS | WIRED SCORE - TECHNOLOGY & INFRASTRUCTURE |
| <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 | <ul style="list-style-type: none"> • Basebuild linked (can be a requirement to use to comply with a lease) • RIBA aligned • Specialist input and reports required • Less flexible • Extensive evidence required • Certification fees = ~£3,000 | <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) | <ul style="list-style-type: none"> • Measures Indoor Air Quality (IAQ) • International Benchmark • Based on medical and scientific research • Certification fees = ~£2,800 per annum | <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 | <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 | <ul style="list-style-type: none"> • Rating system for digital connectivity and smart buildings • Recognised 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.

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