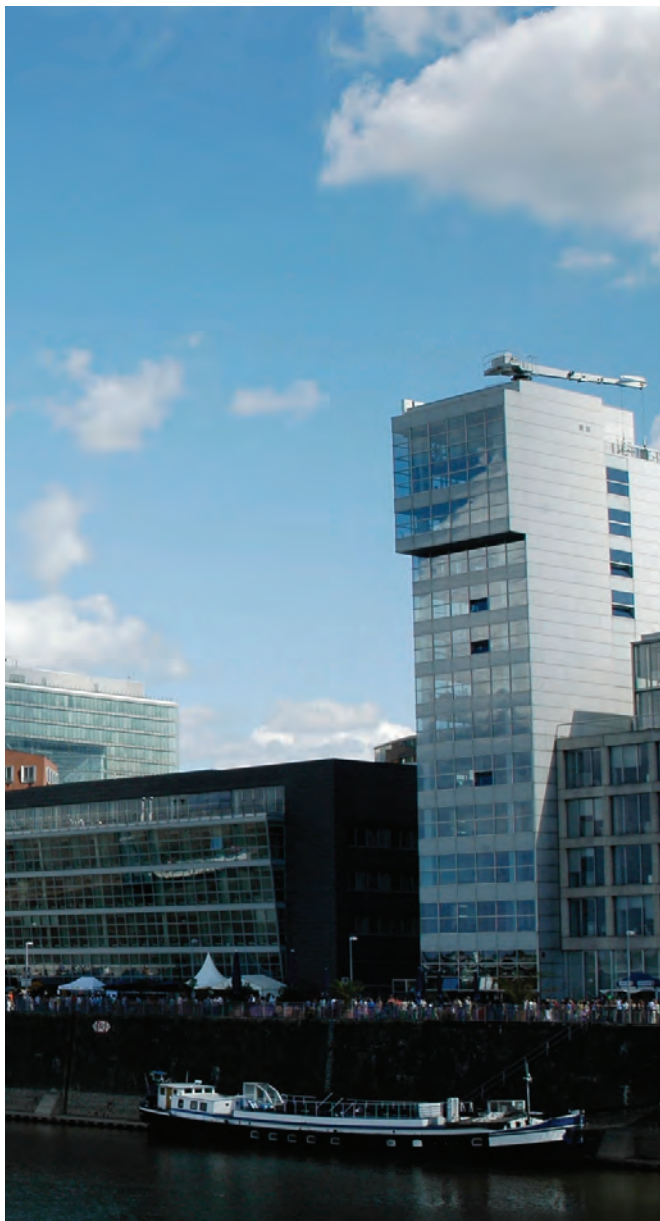


OFFICE FIT OUT COSTS CAN HAVE AN IMPACT ON PROFITABILITY



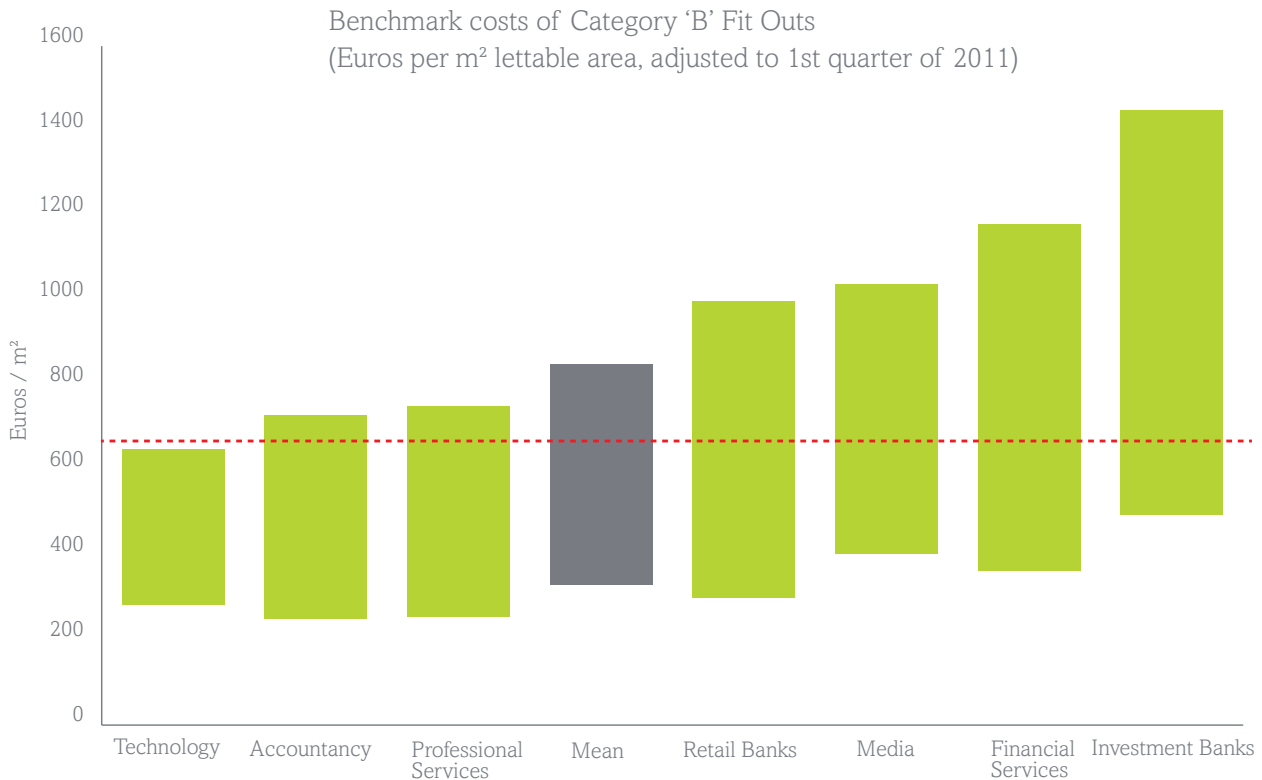
Office fit out costs can be a substantial ‘add-on’ when a client has commissioned a new office or is undertaking an office refurbishment. Creating an understanding of where the costs lie should go some way towards controlling them and allowing schemes to come in under budget.

EC Harris have been involved in a large number of office fit outs in Germany and we have analysed those costs to provide indicative ranges of costs for a number of different client types.

The data which we have collected and analysed is the cost of what is known as Category ‘B’ Fit Out costs of offices. This is a concept in which most new offices are constructed to ‘Developers’ Fit Out’ - also known in Great Britain as Category ‘A’ Fit Out and the fitting out for the tenant - the Category ‘B’ Fit Out - is carried out after the new build has been completed. As we consider this differentiation as very useful and no common demarcation line between landlord and tenant is known in Germany a fuller definition of Cat ‘A’ and Cat ‘B’ is provided later in this paper.

Different clients have different priorities when fitting out a building and these, naturally, will affect the standard of specification and the delivered cost. The graph on the next page presents indicative benchmark costs for office fit outs for different sector clients. Note that the costs have been equalised and brought up to date to reflect current price levels in Germany at first quarter 2011.

The figures provided are realistic costs per m² of lettable area and provide guideline costs for use in every day situations. Note that the figures exclude land costs, professional and legal fees, VAT, etc, which, where relevant, should be added to the costs in this study.



The mean cost of all the schemes in the study was approximately 620 Euros per m², but as the above graph indicates, there is a large range of costs dependent on the sector in which the client is operating.

Breakdown of Spend Patterns

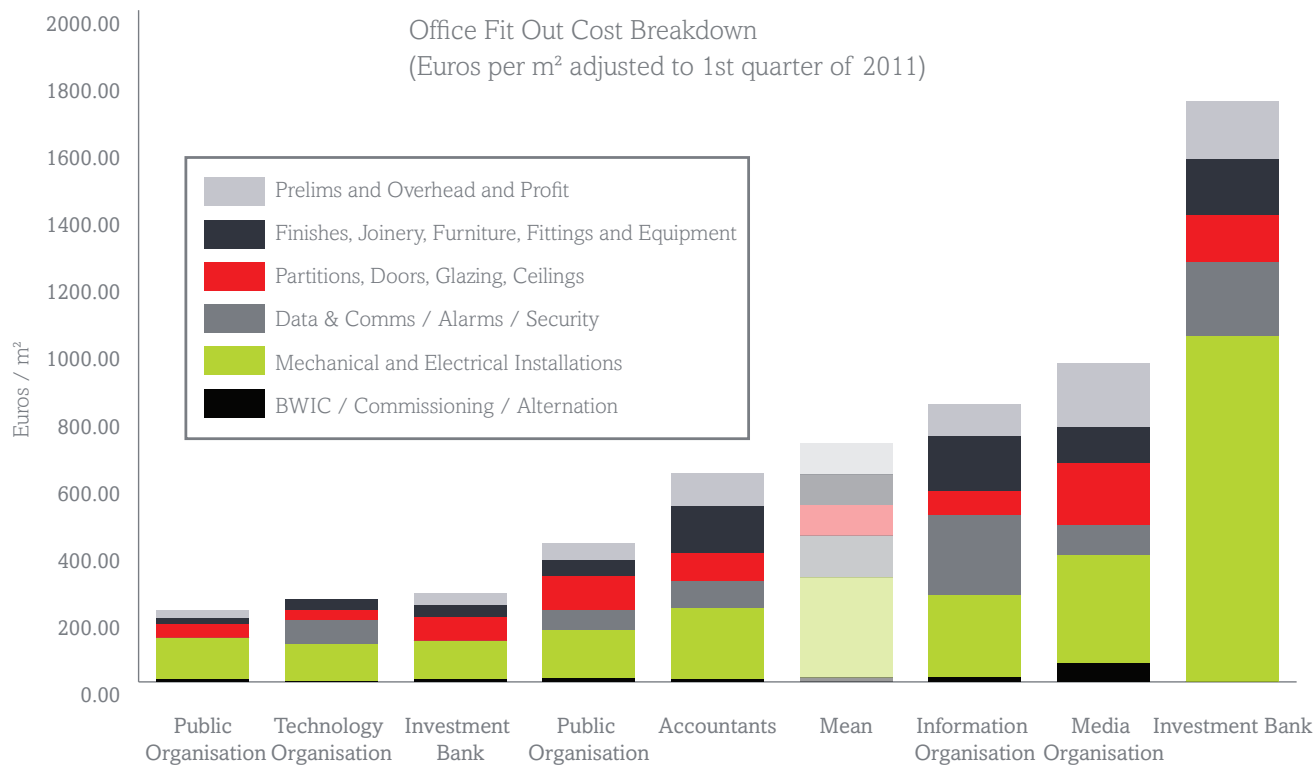
We have been able to analyse the costs of a number of the schemes in our sample to provide an insight as to where money is being spent and have used an elemental break down to the costs of the offices into the main cost centres. Office fit out costs tend to centre on the internal partitioning and internal doors, internal finishings, fitting and mechanical and electrical (M&E) services installations.

We have therefore used the elemental structure as the basis for our breakdown, although have aggregated the costs of some of the smaller value elements. The results of the breakdown indicate the following breakdowns as costs per m² (please refer to graph on page 3).

“Office occupation costs are the second largest business cost after staff costs, so efficient use of office space is essential in order for companies to maintain their competitiveness.”

John Atkins - Location Leader, Germany





Scope and Definition of fit out works

Since office fit outs are designed for specific client requirements, it can be difficult to summarise the costs drivers, since different clients have different priorities. In essence there are six different factors which drive fit out costs.

1. Business and organisation of the client. As indicated in the graph above, there are huge differences between the fit out costs for the different clients types. The differing requirements of different clients change the expectations of occupational density, degree of cellularisation, quality, flexibility, and servicing requirement. At one end of the scale are Public Sector and Technology Clients who are the cheapest in the range; at the other end of the range are Financial Services clients and Investment Banks where the expectations are of very high standards of fit out.

2. State of completion and suitability of the base building.

The extent of the developers' finish and the potential requirements for base build modifications can make it difficult to compare costs between buildings on a like-for-like basis. Variations particularly exist in the extent of small power provision, lighting control, density of HVAC terminals and the number and placement of IT points.

3. Range of different types of space and facilities required. Although general open plan office space will tend to take up the bulk of the floor space, most fit out schemes will include varying degrees of cellularisation and additional facilities such as meeting rooms or catering facilities which can have different cost profiles.

4. Extent of the services installations. The scope of the M&E services installations will depend on key factors such as density of occupation, location of 'hot spots' with high equipment loads, requirements for additional services and dedicated controls for meeting rooms. In addition, at the top end of the range, Investment Banks will invariably also require extra items such as Uninterrupted Power Supply (UPS), standby generators and enhanced security services. The degree of resilience of the system will also affect costs which will be determined by the extent of dual power supplies, modular plant and in some cases reserve machinery.

5. Speed of construction. If a reduced contract period is needed to meet the client's requirements this may be able to be achieved through overlapping the design and construction processes, compressing tender periods or by increasing the pace of work by multiple shifting. These methods can reduce the contract period substantially, but will attract cost premia of up to 50%.

6. **Level of occupancy.** In general terms, the fit out costs increase as the occupational density of the building increases - our research indicates that there is quite a high correlation between occupancy and fit out costs in the sample studied.

Increasing efficiency through fit out

The occupation of new office space or the re-organisation of existing space gives client organisations an ideal opportunity to reassess how space is used and operates and to try to reorganise both for greater efficiency. For many businesses office occupation costs are the second largest business cost after staff costs, so efficient use of space is essential for companies in order for them to maintain their competitiveness.

Better use of floor space can be achieved in a number of ways:

Floorplate selection - Selecting floorplates which suit the business and have well planned cores and layouts which permit efficient circulation.

Space planning efficiency - Optimising occupancy through use of open plan space, rationalising space standards, managing storage and minimising secondary on-floor circulation.

Minimising the cost of 'churn' - The cost of moving staff within the organisation can be reduced by adopting universal space planning standards, making use of interchangeable furniture and partitioning systems and providing the appropriate density of small power, and data points to allow re-configuration.

Increasing the use of workstations - Utilisation of workstations can be less than 50% in some organisations; appropriate use of 'hot-desking' can increase the utilisation of fixed space and reduce occupancy costs by a significant degree.

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Offices - definitions

There is no universal definition of 'Shell and Core', 'Category A' or 'Category B' fit outs, however the following definitions describe what can be assumed to be included:

Shell and Core

The building is completed to the following specification:

- Fully finished area:- Entrance Hall, staircases, common areas, toilets, lifts and core
- Shell finished areas:- Base Services' plant and equipment, terminated at breakout points to floors. Basic safety infrastructure (e.g. sprinkler pumps, tanks and risers, main fire alarm panel and emergency standby generator etc).

Category 'A' (also known as Developer's Fit out)

These works include the completion of the base building works to shell and core and also include a level of fitting out between the shell and core option and the point at which internal components must be designed to a specification for the end user, (known as Category 'B').

Category A Fitting out elements will usually include: Suspended ceilings and raised floors; basic mechanical and electrical services (lighting, heating, ventilation and cooling systems and associated control systems); finishes to cores; fully fitted out WCs; sprinklers, fire alarms and basic safety signage; office carpets; distributed power to each floor, but not to floor boxes/grommets.

Category 'B' Works (also known as final fit out)

These works generally follow completion of Category 'A' works, but may sometimes be incorporated into the Category 'A' construction programme to reduce construction time and avoid duplication of materials and handling.

Category B Fitting out elements will usually include: suspended ceiling upgrades and modifications; internal partitioning; floor finishes (other than office carpet); completion of mechanical and electrical services including adapting to final tenant specification and upgrades; specific items of systems, plant and equipment; adaptation of raised floor systems; installation of below-floor power and data cabling to user accessible termination; enhanced WC provision; adaptation of life safety systems; installation of safety signage systems; decoration and branding; furniture fixtures and office equipment; upgrades to core finishes.