

PLANNING YOUR NEW OFFICE

The Office Fit-Out

"Everything you need to know prior to embarking on an office fitting out project"

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Guidance Notes

The Office fit-out is a niche market requiring consultants and contractors with specialist skills. These include identifying client requirements, deriving maximum efficiency from lettable space, delivering projects to tight cost and time constraints and managing the complex process of the business move. Most fit-out clients are end users, with varying degrees of experience in the design, procurement and construction process involved.

Common client requirements on fit-out projects will include:

- The ability to accommodate the specific needs of the organisation
- Delivery within tightly controlled timescales and capital budgets
- The ability to accommodate change, including amendments to layouts and stacking plans during the construction programme.

Fit-out projects are more dynamic than base-build office schemes and as a result, a high degree of flexibility is required to meet the client's objectives.

Increasing efficiency through new space or reorganising existing space presents the opportunity for an organisation to challenge the way in which floor space is used and how it operates – both of which can contribute to greater organisational effectiveness.

Maximising the efficiency of space usage is essential for companies to maintain competitiveness.

Property costs, including rent, rates, energy costs, maintenance and fit-outs are typically the second largest business cost after personnel. Better use of expensive work space can be achieved in the following ways;

Selecting floor plates that have well planned cores and a layout that permits efficient circulation and means of escape.

Optimising occupation densities by:

- Greater use of open-plan office space
- Rationalising space standards
- Actively managing on-floor storage
- Minimising requirements for secondary on-floor circulation.

Office churn has become an increasingly significant element of cost as more organisations structure themselves by project team. In some companies, annual churn rates in excess of 100% are the norm.

Costs of moving staff within the organisation can be minimised by:

- Adopting universal space planning standards – the ability to move people without reconfiguring workspaces is vital in facilitating cost-effective churn
- Utilising interchangeable furniture and partition systems
- Providing an appropriate density of small power and data points to enable simple reconfiguration.
- Increasing the intensity of the use of workstations



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Utilisation of desk space in many organisations can be as low as 50%, and methods such as hot-desking have been used to increase the utilisation of fixed space. However, hot-desking only suits firms with a highly mobile workforce such as sales or audit teams.

In addition to the physical efficiency of space planning, the fit-out will also have an impact upon the effectiveness of the workforce. Part of this effect is related to the quality of the working environment; the other element is related to the range of settings available to staff to enable them to work more effectively either in teams or individually as required, and using the zoning of different types of space to minimise disruption caused by noisier, collaborative working.

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The range of space that will be included in a typical fit-out will contain:

- Open-plan space with a combination of shared and owned desks
- Limited cellular office space
- 'Touchdown' space with communications links for visiting staff
- Team tables or informal meeting space
- Study booths for concentrated work
- Flexible enclosed meeting rooms
- Service areas for printing, photocopying and other such activities.

As fitted-out space becomes more varied, the challenge for the designer is to maintain the overall efficiency of space-planning, both in terms of area per head and also to increase effectiveness by providing appropriate work settings and segregating incompatible spaces.

Types of fit-out

Category A

A category 'A' fit-out (developer's finish) typically includes all finishes, suspended ceilings, raised floors, carpets and the extension of mechanical and electrical services into the office area. There is, however, no standard definition, and the level of provision varies slightly from developer to developer. Shell-and-core developments, on the other hand, include finishes to landlord's areas only, with services distribution capped off at risers to each office floor.

Category B

Category 'B' fit-out works are required to go one stage further, and complete the fit-out to the future occupier's specific requirements, including partitioning to cellular offices, enhanced finishes, fittings and services to specialist areas, furniture and fittings and IT installations. This fit-out can also include modifications to shell-and-core and/or Category 'A' finishes and services installations to accommodate a client's space-planning and operational requirements.



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There are significant potential benefits to tenants in taking space in a shell-and-core condition, particularly as a pre-let. These include:

- Avoiding costs associated with stripping out the Category A fit-out, or modifying the base building.
- The opportunity to incorporate changes to the base-build specification without significant cost penalties.
- Potential overall programme savings of 18-20%.

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However, in the current demand-led market there are increasingly fewer new-build developments seeking a pre-let that provide this opportunity.

The scope and definition of fit-out works as fit-out works are tailored to the precise requirements of clients, they are harder to summarise in terms of cost or programme than many other types of construction.

Five factors in particular contribute to this:

- the business and organisational structure of the client
- the state of completion and suitability of the base building
- the range of different types of space and facilities required
- the extent of the services installation, and in particular, the degree of resilience required for small power and IT
- the speed of construction necessary to achieve the client's programme.

Nature of organisation:

The first factor, the nature of the client organisation, has a profound effect upon the type of fit-out.

The differing requirements of clients such as banks, corporations or professional firms create sub-markets for schemes with widely varying expectations of occupational density, degree of cellularisation, quality, flexibility, servicing requirements and capital and recurrent costs.

The second factor, the extent of the developer's finish and potential requirements for base building modifications, can also make it difficult to compare the costs of fit-out projects on a like-for-like basis. This will be due to:

- Variations in the scope of category A and category B fit-out works, including the extent of small power provision, lighting control, density of HVAC terminals, or the number of IT points
- The extent of the fit-out. Some office buildings may only have one floor completed to a Category A standard for marketing purposes. Although the fit-out of the remaining floors will avoid costs of adaptation, no benefit will be obtained from integration with the base build works
- The cost of modifications to the base building and the Category A fit-out.



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Space requirements:

The third factor that affects the fit-out works, and therefore costs, is the content of the office space itself. Although general office space will take up the bulk of the floorplate, most fit-out schemes will include varying degrees of cellularisation and additional facilities such as meeting rooms or catering facilities, which have different cost profiles.

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Scope of services installation:

The fourth cost driver involves the scope of the building services installation. The main areas of variation include:

- The density of occupation in open plan areas, which may require additional ventilation and cooling
- The location of "hot spots" around service centres and other areas with high equipment loads
- Requirements for additional services and dedicated controls for cellular space and meeting rooms
- The specification of uninterrupted power supply and standby power generation. In addition to the total load, the resilience of the system to component failure will also affect costs, being determined by requirements for dual power supplies, modular plant and in some cases, reserve machinery
- The extent of the IT and communications installation, including density of connection points and number of main and sub equipment rooms.

Construction programme:

The final factor that affects cost levels is the overall duration of the project – in particular, the degree of acceleration required to meet the client's programme.

Reduced overall project durations can be achieved by overlapping the design, procurement and construction processes, by compressing tender periods, or by increasing pace of work using double- or triple-shift working.

Multiple shift working on a fast-track procurement programme can reduce project length up to 35% compared with a traditionally procured project, but will incur cost premiums of between 30% and 50%.



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Taxation Issues (Guidance only)

Capital allowances are available to encourage investment in commercial property. The allowances that will typically be available on a fit-out project are:

- Machinery and plant allowances at 25% per annum on a reducing balance basis, on the value of allowable expenditure
- Enhanced allowances in the form of a 100% first year allowance on energy saving machinery and plant.

The rules about capital allowances are given in the Capital Allowances Act 2001 and subsequent finance acts. The legislation only defines what cannot be "machinery and plant", so ultimately what can qualify can only be determined by reference to a body of case law.

In general, office fit-outs involve a high proportion of claimable items and the proportion of capital cost that can qualify for allowances can be as high as 50%-80%.

Examples of items of fit-out expenditure that may be included in a capital allowances claim include:

- Demountable partitions
- Raised access floors (only if used as an air-conditioning plenum)
- Carpet tiles
- Suspended ceilings (only if used as an air-conditioning plenum)
- Fixed furniture and fittings
- Window blinds
- Kitchens, tea points and so on, including water, drainage and ventilation services
- Air-conditioning installations
- Dedicated ventilation systems
- Underfloor busbar small power distribution
- Lighting and luminaires designed to specific business requirements
- Emergency lighting
- Lighting control systems
- Sprinkler systems
- Fire alarms, data wiring, CCTV and security systems, including wire ways.

Allowances for modifications to existing systems, incidental alteration works, builder's work testing and commissioning, preliminaries and professional fees can also be included in any claim.



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Procurement;

It is good practice to consider and clearly identify allowable works at an early stage in the procurement process and ensure that contract documentation provides an audit trail that can be used to support negotiations with the Inland Revenue.

- Procurement like most construction contracts, certainty over cost, time and quality and the achievement of value for money are major factors for the client in determining the selection of the procurement route. Programme is usually the most significant factor with completion dates being set by business needs or by lease dates. A further factor that needs to be accounted for in the selection is the need for flexibility to accommodate changes driven by business need or to take into account requirements that cannot be defined at the outset of the project.
- Both lump-sum or package-based procurement routes can be successfully used for fit-out works. In the current market, characterised by medium-sized projects and a high degree of competition, lump-sum projects offer a straightforward solution that can be adapted to meet constraints of programme or design development as required.
- Where the programme allows, single-stage lump-sum tenders based on abbreviated quantities will provide maximum price competition and early cost certainty. In circumstances whereby design information will not be available early enough for a full tender, a two-stage process can be adopted, with the main contractor appointment based on resource costs, preliminaries and overheads and profit.
- On particularly tight construction programmes, negotiation with a single contractor may be the best option. Although some competitive edge may be lost compared with the single-stage tender, the benefits of early appointment, including contractor input into pre-planning, value engineering and early ordering of long-lead-in items may offset any premium paid to meet the required completion date.
- Fit-out projects involve a large number of specialist contracts and most of these – including the IT installation will be incorporated into the main contract. Where direct contracts for office furniture and other items are used, it is good practice to ensure that the main contractor allows for these works in the programme and that the tender includes allowances for an appropriate level of management resource.



Additional Direct Costs

- In addition to the building works that are typically included within a fit-out contract, there are many sources of direct cost that the client must take into consideration and need to be allowed for in the overall cost of the office project.
- These client costs are typically excluded from the construction budgets of fit-out projects, and include:
 - Professional fees
 - VAT
 - Statutory fees
 - Project insurances
 - Computer and data systems beyond data cabling
 - Data links to other buildings, including satellite dishes
 - PABX systems and handsets
 - Office equipment including reprographics, copiers, faxes, task lighting and loose desk accessories
 - AV installations to meeting rooms
 - Medical equipment to sickrooms
 - Vending machines
 - Non statutory signage
 - Plants
 - Works of art
 - Operating supplies
 - Removals, including move management, insurance, security and disposal of redundant furniture
 - Personnel costs, including redundancy payments

