

Find a place to fit function, future growth

Corporate tenants need to consider both fit-out and make-good expenses when deciding whether to relocate, says **Jacqueline Lizzio**.

The good news for the property market is that more than 300,000 square metres of stock is due to be added throughout

Australia in the second half of 2006.

The bad news for prospective tenants is that all that additional space will have to be fitted out at great expense.

And the killer additional cost may be stripping out the original fit-out in the old office.

The essential first step in deciding on an office and then on a fit-out is to know just how big a space you need, says Robert Bowles, managing director at CBD Projects. A good guide is to allow about nine to 10 sq m per person.

"Also, allow for future expansion because if you are signing up for a five-year or an eight-year lease, you don't want to be signing up to something which perfectly fits the number of people in your first year," he says.

"Most companies would look at a 30 per cent increase in requirement over five years."

The costs for fitting out an office will depend entirely on what sort of functions the space has to provide for and therefore the extent of the fit-out that is needed.

Bowles says fit-out can range from \$500 a sq m for a lower range

basic open plan to \$750 to \$800 a sq m for a good quality medium range layout, which may have a variety of open plan and meetings areas.

About \$1000 a sq m and above will be spent on more corporate-type head offices and fancier materials or additions.

Managing director at BBR Design, Mike Watson, cites similar figures and says that it also depends on whether tenants need new furniture, because this will dictate the cost.

All these prices generally include infrastructure like cabling and fire services, but not extras such as security systems.

Both Bowles and Watson say that there is a shift from a tenant's market to a landlord's market, which is having an effect on trends in costs for office fit-outs.

"It is becoming more expensive," says Bowles.

"There has been a false costing on most fit-outs at the moment, because landlords have been tipping in so much money to get tenants into their space, so they have been offering incentives of 20-30 per cent of the overall lease value. So tenants were actually thinking they are getting a fit-out for virtually nothing," he says.

But Bowles say that this is



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beginning to change because the incentives are getting lower and tenants are starting to pay real dollar value for fit-outs, so from their point of view the perception will be that it is getting more costly.

Watson also highlights that changes in incentives are geographically based, and says that in the CBD markets the incentives are definitely going down and subsequently not covering all the costs of the fit-out.

Materials and labour expenses are also on the rise, and Watson says that the extent of the increase is dictated by the economies in each city.

"Sydney has gone up a little bit

'Most companies need a 30 per cent increase in floor space in five years.'

but in places like Perth and Brisbane, [prices] have jumped in the last year or two," he says.

Deciding whether to stay put and refurbish or relocate will depend on

what space there is to work with and what needs to be achieved.

While it can be done for as low as \$200 a sq m, Watson says that there is often not a lot of saving in staying and updating because it requires a lot more work behind the scenes, such as accommodating staff and working out of hours.

It can also cause a lack of productivity, Bowles says, because of the potential disruption to the office. Although he says it will cost on average about 20 per cent more than fitting out an empty space because the work needs to be staged, Bowles finds it is done fairly often and is common for companies to reinvent themselves every few years.

The final, yet important consideration that tenants can overlook is the make-good obligation that needs to be carried out at the end of a lease.

This quite literally involves putting the space back to how it was before the company moved in.

As would be expected, the more extravagant and obscure the fit-out, the greater the expense to strip it

Shift in costs

- Fit-out costs vary from \$500 to \$1000 a square metre.
- Declining incentives and rising wages are making relocations more expensive.
- Make-good costs can be unexpectedly high for tenants who vacate premises.

back, so the figures vary considerably.

"It is around \$75 to \$125 a sq m which is something that a lot of people do forget and they don't put it in their forecasts — and then all of a sudden they have 1000 sq m to put back together. That can come as quite a shock," says Bowles.

And as Watson points out, the money for the make-good usually comes out of the budget that is planned for the fit-out of the new premises.