

slattery

Kaizen: Workplace 01

The real cost of delivering a modern workplace

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The workplace should represent a company's brand and corporate values, and enable staff productivity and efficiency.

This has always been part of the brief for workplace design and construction but nowadays tenants are dealing with a society that demands an enormous emphasis on health, wellbeing and sustainability. It is not uncommon for commercial office buildings and workplaces to have wellness centres, change facilities and collaboration hubs, all with multiple tenants under the one roof.



So what is the impact on cost and how do landlords and tenants balance budgets and modern day pressures to deliver a workplace that "has it all"? Slattery examines the cost of delivering a modern workplace and the key issues facing both tenants and landlords.

Australia's office market right now

According to recent office market research from the Property Council of Australia, Sydney and Melbourne are the only two CBD markets showing strong rental growth and a fall in office vacancy. Sydney is near pre-GFC levels for rental growth on the back of a strong services sector and white-collar employment. Both cities also have the withdrawal of office stock for residential and hotel conversion to thank for their net absorption performance which has led to healthy levels of demand.

It's a different story however for other markets. Adelaide and Perth continue to show a decline in rental growth, in conjunction with rising tenant incentives including rent-free periods and reduced rent, while Brisbane and Canberra are flat in terms of demand and rental growth.

With significant rent increases in Australia's two largest cities and tougher economic conditions across the rest of Australia, tenants are often making their real estate decisions based on cost. There is also a need to continually evaluate and improve a workplace to remain competitive.

For landlords to remain attractive in this current market, they need to upgrade and reposition their assets to accommodate tenant demands.

Accommodating the changing tenant

Density of tenants in one building

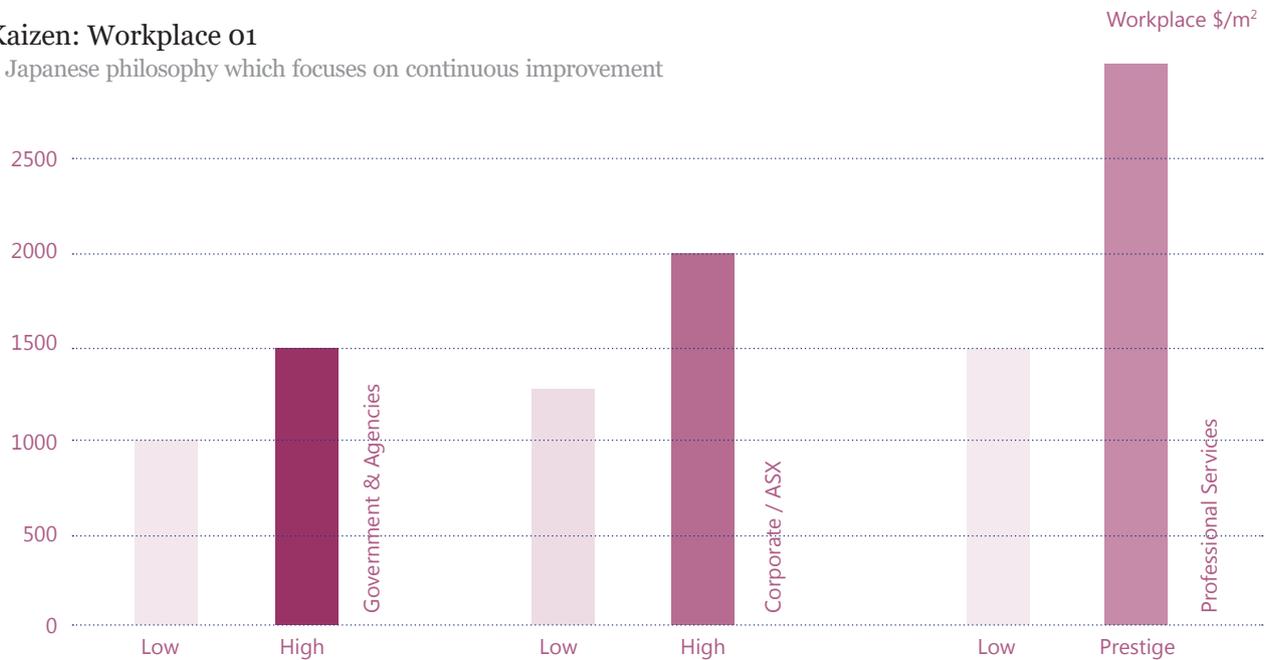
In the past, landlords sought tenants who would take multiple floors or at least one whole floor. Now, as tenants seek to minimise their real estate footprint and shoehorn growing workforces into the same smaller spaces, landlords are prepared to have multiple tenants on the one floor, even in premium grade buildings, in an effort to maximise their leasing and protect their valuation. In these instances, landlords are forced to give up precious square metres of lettable area to create circulation space.

Amenity is king

It is not uncommon in the modern workplace to find end-of-trip facilities including bike parking, locker rooms and change rooms for staff to use after cycling, jogging or walking to work. In fact, most employees now demand these facilities. Enhanced conference and meeting rooms, wellness centres and even child-care centres are popping up to cater for the work-life demands of a modern workforce. To

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keep up with this, landlords are being forced to reposition their assets and give up potential lettable area to keep existing, or attract new, tenants.

Impact on services

The increase in a building's occupancy also puts pressure on its building services. To maintain a building's appeal to the tenant market, air conditioning and power requirements may need to be upgraded, or at least supplemented, to deal with the increased heat load brought about by occupant density, IT and audio visual systems.

Lifts may need to be upgraded to cope with an increase in population. While lift car sizes in existing buildings are already fixed, new lift motors can be upgraded to improve speeds and reduce wait times. The introduction of destination controls may also assist in increasing a building's lift efficiency.

Toilet facilities are also put under pressure and can force landlords to upgrade the base building offerings to satisfy growing demand. Upgrading and/or designing accessible toilet and change amenities for people with disabilities is a requisite for landlords.

The cost cascade of different designs

Often, people ask what type of workplace is more expensive. There are many variables to this question but one thing that remains the same is that each design and fitout element has an impact on the next, meaning the importance of each design issue cascades.

The floor plate

The shape of a building's floor plate and whether the building has a central or side core has a major effect on how the workplace is designed and functions once operational. Curved or peculiar shaped floor plates may provide a challenge in designing an efficient and productive workspace but conversely, they also provide opportunity to create interesting and dynamic spaces that facilitate Activity Based Working and other flexible working styles.

Analysis shows that, on average, open plan workspaces are utilising 13m² per workstation and 20m² per workstation for tenancies where staff are in offices. So choosing a floor plate that enables a tenant to plan their space efficiently leads to greater usage of the available

workspace, an ability to rationalise and even standardise space planning standards, active management of floor storage and minimising wasteful secondary circulation.

Cellularisation

Cellularisation, the density of enclosed offices and meeting space, is the next key design and cost impact. As a general rule, the greater the cellularisation, the greater the cost. The ratio of internal wall area, including partitions or operable walls to floor area, is a key metric for tenants to understand when comparing their project against others. A high ratio is an indicator that the workplace is more cellularised and therefore generally more expensive.

Our research indicates that an average cellularisation ratio for open plan is 0.4m² wall to 1m² NLA and for offices is 0.85m² wall to 1m² NLA. However the expense is not just in the cost of the walls themselves, but the knock-on effects to the building services, the finishes being applied and also acoustic considerations.

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Building services

Building Services can be over 30% of a project's cost due to the air conditioning, lighting, power, fire protection and plumbing needs of the tenant.

Workspaces with increased occupant density, or with a high level of individual offices and meeting spaces, will require supplementary air conditioning over and above what the base building provides to give the necessary comfort requirements.

Tenants with extensive IT and AV hardware, and or power-hungry equipment, may also need to upgrade the base building power to meet their requirements. In these instances, tenants may also need improved fire protection measures to ensure business continuity.

As tenants increase, amenities for their staff, plumbing requirements for breakout spaces, tea and coffee points and kitchens and shower facilities will all require careful coordination with the base building.

Finishes

When you walk into an office reception that has the wow factor, it's generally due to the high quality finishes. These costly finishes are mostly reserved for front-of-house and other client areas. Professional services and corporate organisations, in particular, use these spaces to make a design statement in an effort to create, or reinforce, their brand.

It's a different story for government departments and agencies, where any front-of-house space tends to be functional and designed to meet high usage. In actual workspace areas, the tenants generally uses the base building's finishes – particularly in open plan environments.

Workstations and furniture

Workstations come in all types, shapes and sizes and it is imperative that a tenant 'tests' different options to identify which configuration best suits their business.

As an example, for ergonomic benefit, there is a substantial increase in the use of 'sit-to-stand' (variable height) workstations, which can be manually or electronically operated. These come at a premium compared to ordinary workstations but are being increasingly introduced to suit each person's preferred way of working. In open-plan environments, workstations cost an average of \$2,300 each. However, in offices it can average \$4,400 each. The difference in cost can be directly linked to the types of organisations, such as top-tier professional consulting businesses, that house their staff in offices

Task chairs, where ergonomic performance is also a must, have varying costs and selection is often based on both comfort and budget parameters. Other loose furniture, like meeting room tables and chairs and reception area couches, are chosen for design or brand impact and functionality and budget. The cost impact will depend on which factor has the highest priority and there is certainly no office configuration that will be a suitable carbon copy of the next.

Acoustics

More people in one space means a higher usage of mobile phones, audiovisual equipment and video conferencing. The knock-on effect of this is a modern workplace that is sensitive to its acoustic performance and requires appropriate materials to cater for usage. Enclosed rooms for meetings and video conferencing, for example, increasingly need materials to absorb sound within the space.

The use of baffles and acoustic blankets in the ceiling prevents noise transfer to other areas. The more stringent the acoustic requirements, the greater the cost, due in part to the knock-on effect of the finishes and building services.

Achieving a great workplace on time and on budget

There is certainly no one-size-fits-all approach to cost management in workplaces. However, projects that follow cost management best practice will intrinsically seek to deliver a design that is efficient and productive. Whether you're on the right track to 'best practice' can be measured through the benchmarking of similar projects.



Having a workplace that embraces wellbeing needs to be a priority, not an afterthought. Incorporating wellbeing does not need to become an expensive premium and can be introduced early on in the design process.

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Each workplace project is unique because it is designed to the specific requirements of the tenant and how they intend to use the space. A well-considered and detailed brief that balances efficiency, productivity, brand and wellness is a must at the start of any project. Based on a project's unique requirements, the appropriate prioritising of cost, time and quality will greatly determine how successful the project is in terms of delivery and its ongoing usage.

Procurement

Prioritising cost, time and quality imperatives will determine the appropriate procurement options available to the tenant. For workplace projects, time is usually of the essence, with completion dates typically being driven by either business needs or by lease expiry dates.

Lump-sum or construction management procurement methods enable competitive tensions in the market to be accessed and can be used to successfully deliver workplace projects. These procurement methods are the two most prevalent in the industry, particularly where the tenant is moving into an existing building. For those tenants who have 'pre-committed' to a new building that has not yet been built or is under construction, then an integrated fitout process gives an additional option.

Where time is available, lump-sum gives the client a relatively straightforward solution, with cost certainty at a much earlier stage. It does however require the design to be completed and coordinated at the time of tender.

However projects that have a tight construction program, where works need to commence before design can be completed, should consider

construction management (trade-package based procurement). While this will assist in getting construction underway sooner, cost certainty can't be achieved until the last of the trade packages has been tendered.

Irrespective of the best procurement option, clients also need to be mindful of items within the design that have long lead-in times. Workstations, furniture, AV and IT are all examples of items that will take significant time to be either sourced from overseas or manufactured prior to delivery. It may be necessary for the client to procure these items directly to prevent delays to the program.

Cost Model

Using analysis from Slattery's benchmark data, the following table provides a low and high range of average square metre rates for both open-plan and cellularised workspaces.

Other notable project costs include:

- Consultant fees and statutory charges – tenants will generally need a team of design and management consultants to help deliver their workspace. They will also incur statutory charges that need to be budgeted. For open plan workspace projects there is a significant range of 5% to 12% of construction cost.

For workspaces that are predominantly offices the range is 10% to 15% of construction cost.

- Relocation costs – much will depend on the reuse of existing furniture being brought from the existing tenancy, as well as the amount of stored material to be relocated. Indicative costs can range from \$10/m² to \$20/m².
- Inter-tenancy stairs – many organisations will have a tenancy that occupies multiple and ideally contiguous floors. It will often be beneficial to construct an inter-tenancy stair so that an organisation can increase its communication between teams and encourage vertical movement. From a cost perspective, much will depend on the structural works required to the base building, along with the shape and finish of the stair. Analysis suggests a range of \$250,000 to \$400,000 per level.

Due to their highly specific and bespoke nature, the following items have been excluded from the below costs. However a tenant should still be cognisant of these costs. These include:

- Security systems
- AV, IT and IT relocations
- 'Make good' and dilapidation works in the existing tenancy.

	Open Plan 7,000m ² 544 Workstations			Offices 4,000m ² 198 Workstations		
	Low \$m ²	High \$m ²	%	Low \$m ²	High \$m ²	%
Partitions, Operable Walls & Doors	140	170	11%	320	430	19%
Finishes (Walls, Floors & Ceilings)	140	170	11%	230	270	12%
Joinery, Fittings & Special Equipment	180	220	14%	270	330	14%
Building Services (MEP & Fire)	420	520	33%	440	540	23%
Workstations & Loose Furniture	320	390	24%	490	580	25%
Contractor's Preliminaries & Margin	100	130	8%	120	150	7%
Fit Out Total	1,300	1,600	100%	1,900	2,300	100%



About Slattery & Kaizen

Slattery is a property and construction advisory firm specialising in quantity surveying, cost management and early phase project advisory, with an outstanding history spanning more than 40 years.

We work hand-in-hand with governments, institutions and organisations as well as planners, developers, architects and design teams on a broad range of property and construction projects.

A commitment to excellence and innovation, and an ability to become an integral part of the project team has earned Slattery the trust and respect of clients and project teams alike. Slattery adds value by taking control and ownership of the cost management process from the outset. We understand the importance to drive innovation and productivity.

Slattery's Kaizen Papers focus on sharing knowledge, ideas and pertinent cost information related to our industry. Kaizen is the Japanese word for improvement, and a business philosophy that strives for continuous improvement in process. We produce papers across the sectors we work with, which are shared with our clients and made available on our website for all to view.

We invite you to explore these further at www.slattery.com.au/thought-leadership

Commercial & Workplace

Slattery has worked on numerous commercial office and workplace projects across Australia. With our breadth of experience, our team understands the impact of key project drivers specific to developers, landlords and tenants alike. Using our knowledge of design, procurement and construction challenges and opportunities, we are passionate about assisting our clients and industry colleagues on achieving successful outcomes.

For more information about Slattery and our Commercial and Workplace team, please contact National Sector Lead Barry Laycock at barry.laycock@slattery.com.au

Images throughout are of Maddocks workplace Melbourne, courtesy of Bates Smart and Maddocks workplace Sydney, courtesy of Hassell