A green premium on the most sustainable offices will aid year long delays to London’s development pipeline

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According to the latest analysis from Savills, the delay in the development pipeline of Central London offices is putting at risk the capital’s ability to deliver prime offices to meet occupier demand and Net Zero ambitions.

Savills estimates that, over the last year, 43% of projects due for delivery between now and 2026 have been delayed, with 20% delayed by over a year. Furthermore, the firm reports 70% of the pipeline to 2026 has not yet started with a potential fall out of up to 5 million sq ft of office development between now and 2026.

Increased pricing on materials and supply chain issues, as a result of wider macro trends, has kept upward pressure on costs and project timescales, says Savills, while planning issues and increasingly challenging conditions in the finance markets may compound delays, the firm warns.

James Goldsmith, director in Strategic Investment Advisory at Savills, comments: “The current environment brings the question of viability into firm view, with added economic uncertainty, presenting a real threat to the delivery of prime offices that occupiers are demanding and the market needs. If we are to avoid further delays in delivery, rents for new schemes with the best environmental credentials have to rise. We understand occupiers are prepared to pay higher rents in return for amenity rich buildings with good connectivity and better sustainability credentials, with 90% of space acquired in 2022 YTD of Grade A standard. There is also evidence of a green premium with the best rated BREEAM buildings on average achieving rents 11% higher than in unrated buildings during 2021.”

Meanwhile Savills says 83% of Central London office stock has an EPC rating of C or below with most of the stock 38% rated EPC D. In addition to this only around 27% of Central London stock currently has a BREEAM rating, further illustrating the challenges ahead to 'greening' Central London office buildings and improving the energy efficiency as demand increases and expectations change.

Mat Oakley, head of Commercial Research at Savills, adds: "A tightening development pipeline in the medium term implies stronger than expected shortages of the best space. While economic conditions might lead to us revising down our near-term rental growth forecasts, the changing supply and demand balance in the medium term should compensate for any near-term weakening."