Savills: European office completions fall by 32% year on year

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According to Savills latest research, 2023 European office completions fell by 32% year on year (YoY) to 3.3m sq m, the lowest level for five years.

In 2024, the international real estate advisor expects a 30% YoY increase to 4.3m sq m, followed by a 3% YoY fall to 4.2m sq m in 2025.

Developers have faced a significant increase in costs over the last few years which has impacted their pipeline. European office construction costs have risen by circa 50% since 2019, whilst a shortage of labour has pushed out completion dates, says Savills. 33% of office space scheduled for completion in 2023 did not complete and has been pushed out to 2024/25.

Mike Barnes, Associate Director European Research at Savills, says: “The total volume of speculative European office space in the pipeline has fallen by 21% YoY, from 5.7m sq m to 4.5m sq m, dampening any potential increase in vacancy rates. Over the last two years, the speculative development pipeline as a percentage of existing stock has fallen from 3.1% to 2.1%. As occupier demand gradually recovers over the next 12 months, we expect the supply of Grade A space to gradually decline and prime rents to continue growing.

“Budapest (4.8%), Lisbon (4.5%) and Barcelona (3.9%) have the highest proportion of speculative space set to complete by end 2025, as a percentage of total stock, although we expect much of this space will be absorbed as leasing markets remain buoyant and occupiers compete for best-in-class office stock to reduce their Scope 3 emissions.”

Savills leasing comparables data indicates that in the City of London over the last five years, office developments achieving BREEAM Outstanding/Excellent certifications are three times as likely to let prior to practical completion than BREEAM Very Good developments.

Oliver Fursdon, Director, London Commercial Development at Savills, says: “Occupiers continue to seek better quality office stock, both in terms of environmental performance as well as location. It has been positive to see that UK construction activity has returned to growth for the first time in nine months. This is likely buoyed by positive rental growth and improved sentiment regarding the UK economic outlook.”

James Burke, Director, European Capital Markets & Global Cross Border Investment at Savills, says: “Development starts have dropped significantly across Europe over the last year which could result in an undersupply of Grade A space by 2027/2028. All things being equal, it may be that developers will require prime office rents to rise by a figure in the region of 10% in order for new schemes to look viable.

“However, our analysis shows that, in real terms, European office rents have actually fallen by 10% over the past three years and are therefore accounting for a lower proportion of a company’s total operational costs. This may mean that tenants have more headroom to digest higher rents.”