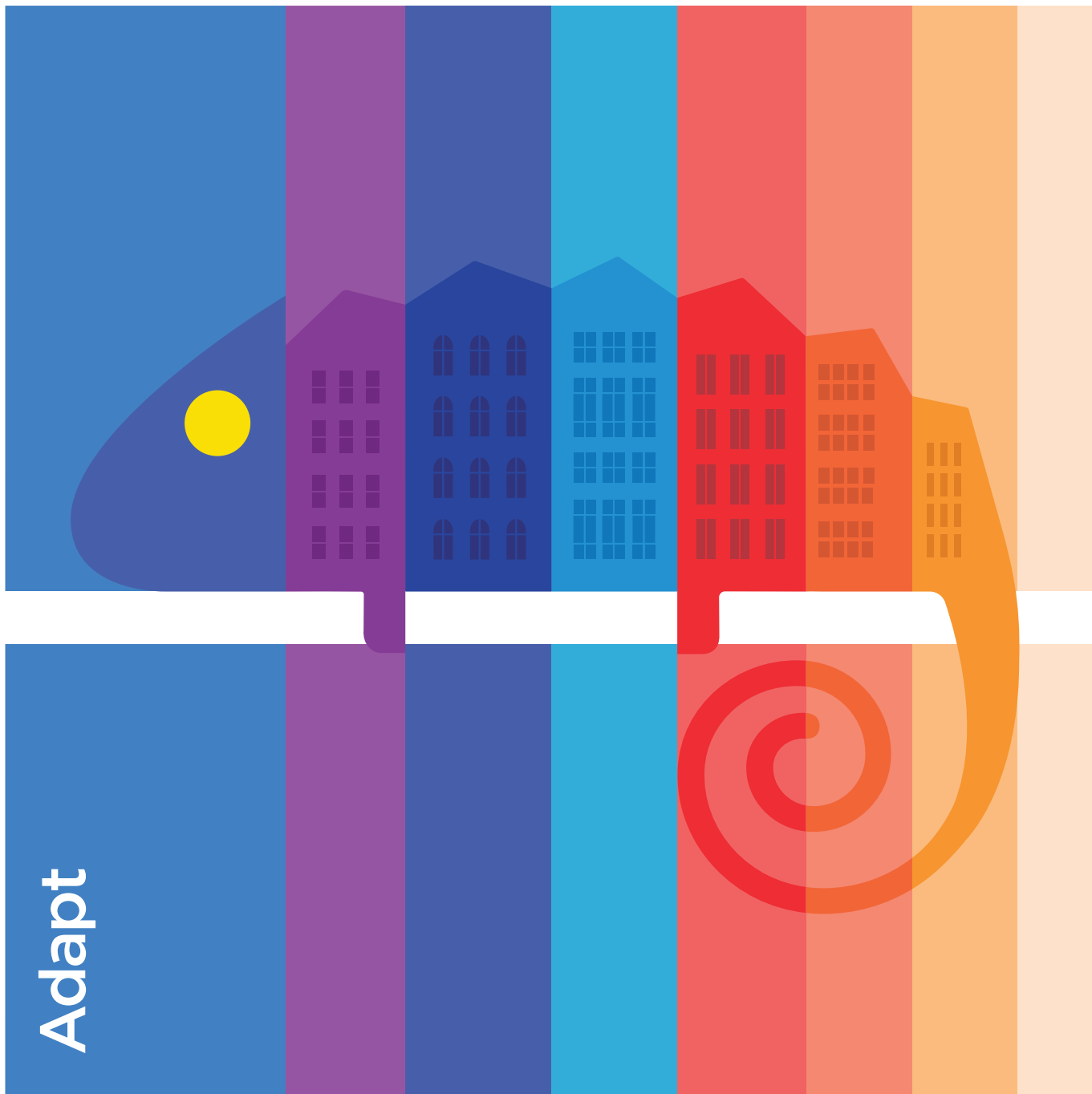


# iMPACTS

THE FUTURE OF GLOBAL REAL ESTATE



## What tenants want

The five trends shaping office space requirements **p22**

## Wealth of choice

How businesses and wealthy individuals pick a base **p30**

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# It's time to adapt to thrive

Amid economic and geopolitical volatility, the ability to adapt will be central to real estate's success in 2025

MARK RIDLEY, GROUP AND GLOBAL CEO, SAVILLS



**T**he world is changing fast – and real estate is having to change with it. Heightened geopolitical risk is making today's operating and investment environment more uncertain, reshaping supply chains and reframing the way we look at markets. Changing workforce dynamics and evolving working preferences are making occupiers rethink what they want from their spaces, putting greater emphasis on amenity. Climate change and extreme weather pose threats to buildings and critical infrastructure.

That's why 'Adapt' is the theme of this year's edition of Impacts. Real estate has always adjusted to evolving circumstances, but today's challenges require a shift in approach, and make the need to think and act differently especially relevant.

Against a backdrop of ongoing economic and geopolitical volatility, real estate markets, businesses, buildings, investors and institutions must adapt to present and future threats in order to thrive.

## Changing investment strategies

Real estate investors need to react decisively and adopt new strategies to generate the returns to which they are accustomed in a changing and more uncertain world. Property remains a safe haven for investors. However, today's investors need to consider not only local market conditions but also the global positioning of these markets.

There are still many opportunities for those who make data-driven decisions and pursue proactive investment strategies. Thematic investing, focusing on long-term structural drivers rather than traditional sectors and geographies, is becoming increasingly popular because of its potential to protect against short-term shocks and cyclical changes.

## Real estate as a service

Investors and owners also need to understand the changing requirements of occupiers. Real estate must be designed to give occupiers what they are looking for – from high-quality facilities and features that support wellbeing to strong sustainability performance and smart technologies. Amenity is more important than ever. The 'hotelification' of office and living spaces with wellbeing hubs, cafes and restaurants, and other amenities is another example of operational real estate in action. ▶

# Occupiers are rethinking what they want from their spaces, putting greater emphasis on amenity

Occupiers also want spaces that can adapt as their needs change – and property owners who will work with them to plan their real estate requirements, help them meet growth ambitions, support their people and create back-up plans. For real estate investors, closer collaboration with tenants can open new revenue streams through the provision of additional services – and also promote loyalty.

The rebounding retail sector is a case in point. Some bricks-and-mortar retail markets are performing well. However, the shopping experience and consumers' expectations have changed, and the active management of dynamic, multi-purpose spaces is essential to support returns and avoid building obsolescence. The good news is that owners and investors are adapting already, by increasingly treating retail space as a blend of product and service.

This comes as retail, as well as industrial and logistics occupiers, actively re-evaluate supply chains driven by a desire for resilience against geopolitical disruptions. Many of the largest multinationals increasingly favour manufacturing locations closer to home markets as they adopt 'nearshoring' or 'reshoring' strategies.

## **Building resilient communities**

For developers, property owners and city managers, partnership is key. As workplaces evolve, new technologies emerge and climate resilience becomes an increasingly crucial factor in real estate decisions, stakeholders must work together to reshape the built environment.

That means upgrading buildings and updating infrastructure. And it means doing so despite capacity constraints in the construction industry, which is currently facing elevated costs and skills shortages in many parts of the world.

Global wealth flows are also changing, as corporate and individual wealth becomes increasingly nomadic. For globally mobile businesses, access to talent – and the cost of that talent – is key. Locations competing to attract investment need to consider the combination of financial incentives, local amenities and quality of life they offer.

## **Adapt to succeed**

While adapting can be challenging, it is necessary. Around the world, people want to live and work in places that add to their quality of life and foster a sense of community. To thrive, real estate must play an active part in developing neighbourhoods that meet their needs today and in future.

Policymakers also have a key role to play – not least in developing policies and strategies to mitigate the impact of climate change. Another major challenge facing the industry is how to fund the construction of much-needed housing around the world. Thinking of residential property as infrastructure could open up investment and development opportunities.

In 2025, the need to adapt is pressing. All stakeholders – from governments and investors to developers and communities – must come together to adapt the built environment to the new ways in which we live and work. ■

# Meet the authors



**Paul Tostevin**  
Director,  
World Research



**Oliver Salmon**  
Director,  
World Research



**Kelcie Sellers**  
Associate Director,  
World Research



**Sarah Brooks**  
Associate Director,  
World Research



**Marie Hickey**  
Director,  
Retail Research



**Charlotte Rushton**  
Associate,  
World Research



**Connor Chilton**  
Analyst,  
World Research

Savills has a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the global property market.

For 170 years, Savills has been helping people thrive through place and spaces. Listed on the London Stock Exchange, we have more than 42,000 professionals collaborating across over 70 countries, delivering unrivalled coverage and expertise to the world of commercial, prime residential and rural real estate. By applying world research data and trends to local and global settings, we're able to empower our clients with insights from the forefront of the industry – bringing their aspirations to life through innovative, tailor-made solutions. Whether we are working with a global corporate looking to expand, an investor seeking to sustainably optimise their portfolio, or a family trying to find a new home, we help our clients make better property decisions.

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**Highbrook.**



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Real estate investment

# Time for a new strategy

SHUTTERSTOCK



The previous cycle was a golden age for real estate investment – but there’s unlikely to be a repeat. Investors will need to adopt new approaches to secure the returns they are looking for

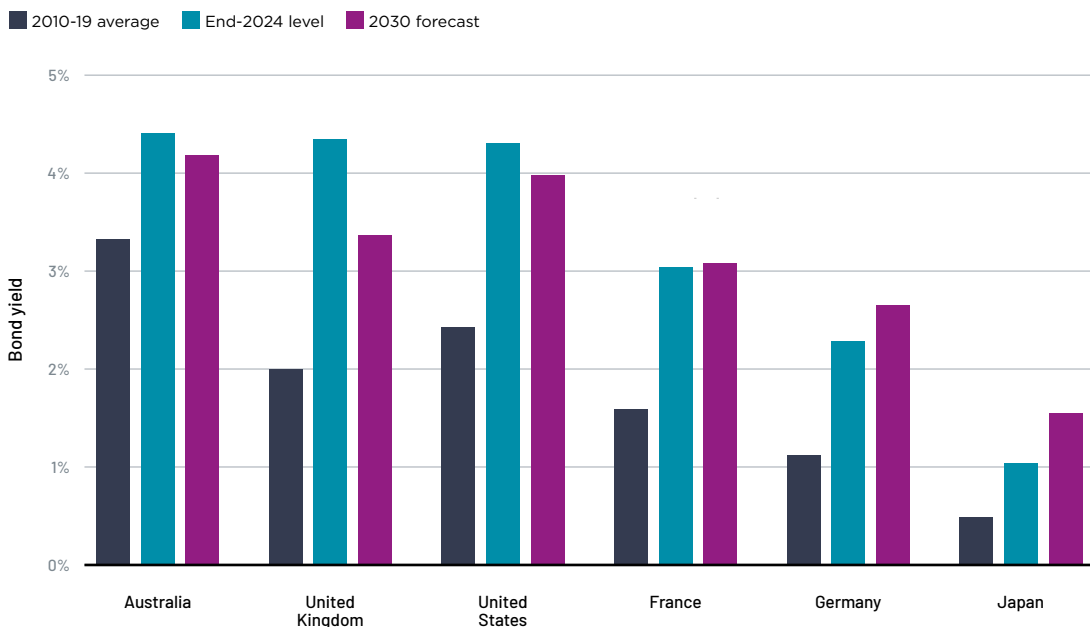
WORDS **OLIVER SALMON**

**A**s we anticipate a new real estate cycle, we should keep in mind that history does not repeat itself. The previous cycle, rising from the ashes of the global financial crisis, will be remembered as a golden age for investors. But those hoping to ride the same train again are likely to be disappointed. Covid-19 triggered a paradigm shift in the macroeconomic landscape: a new playbook is required to address three challenges in the years ahead.

First, accelerating structural change is driving an increase in volatility. The future looks more uncertain, with greater dispersion in asset returns and a shorter business cycle. Second, a material rebasing of interest rates is under way. Third, the global economy is returning to an environment of secular stagnation, in which an ageing population and shrinking labour force result in weak private demand.

The real estate market is also evolving. “Capital markets are larger, more transparent and more sophisticated, implying greater competition and fewer opportunities to make super-normal profits,” says Rasheed Hassan, Head of Global Cross Border Investment, Savills. “Institutional allocations have stabilised, making new capital scarcer, and tenant requirements are becoming more diverse and complex. Tenants are demanding greater flexibility in the buildings they occupy and the landlords they contract with.” ▶

### Long term government bond yields



Source: Savills Research using Oxford Economics

## A capital reason to buy real estate

These challenges are not insurmountable. But this new environment requires a more proactive investment approach. To understand the reason, it is worth considering first why investors buy real estate.

For multi-asset investors, the oft-quoted reason is diversification. Historically, real estate has offered solid returns uncorrelated with other asset classes – sitting between equities and bonds by providing both regular income and capital growth. But while investors often emphasise the importance of steady rental income, it is growth in capital values that ensures their loyalty.

This will be even more important in the years ahead. With interest rates rebasing higher, the ‘income-hungry’ investor now has options across fixed income. Investment grade corporate bonds, for example, currently offer yields to maturity of 5-6% in the US and 3-4% in the euro area – not dissimilar to the initial yield on prime real estate, but with the added advantage of greater liquidity and a very low default rate. Higher interest rates also reduce the scope for investors to leverage their income returns by using cheap debt.

Therefore, buying real estate now requires greater conviction on the outlook for capital values. There are two main drivers of capital values: yield compression and rental growth. Neither is guaranteed in this cycle.

First, property yields, which move in line with long-term government bond yields plus a risk premium. Analysis of the last two major real estate cycles shows how both bond yields

and the risk premium impacted returns. In 2002-07, we saw a decline in risk premiums underpinned by weight of money, risk-on financial markets and strong economic growth. In 2010-19, the key factor was falling bond yields, driven by expanding central bank balance sheets and zero interest-rate policy.

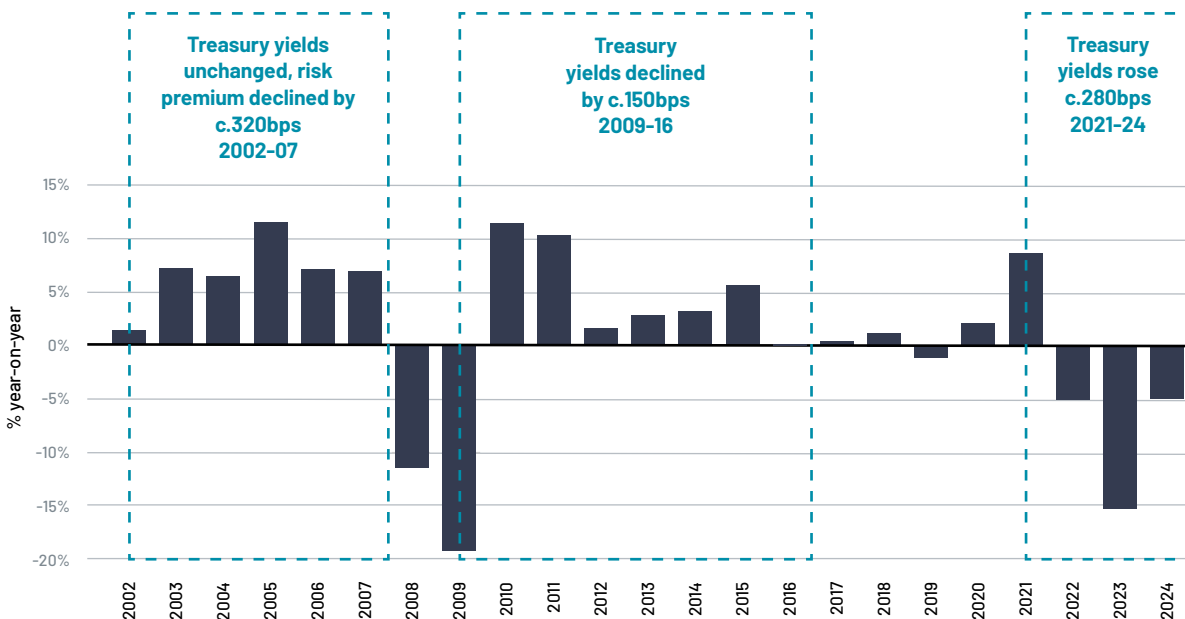
Looking ahead, long-term interest rates are already at or close to where they are expected to settle, even though central banks continue to ease policy rates. Equally, risk premiums are very thin because property yields have not kept pace with rising bond yields. Neither provides significant room for yield compression in the recovery.

Where there is space for yields to come in, this will happen quickly. Indeed, we have already seen declines in selected markets and sectors, driven by competitive bidding. This largely explains why the more opportunistic investors, such as private equity, have been increasingly active over the past 12 months.

Without yield compression, rising capital values must be driven by rental growth. But here too, the outlook is mixed. Real estate is a GDP-linked asset class and so rents are broadly tied to the pace of economic growth. A continued slowdown in global growth therefore implies a weaker outlook for rents.

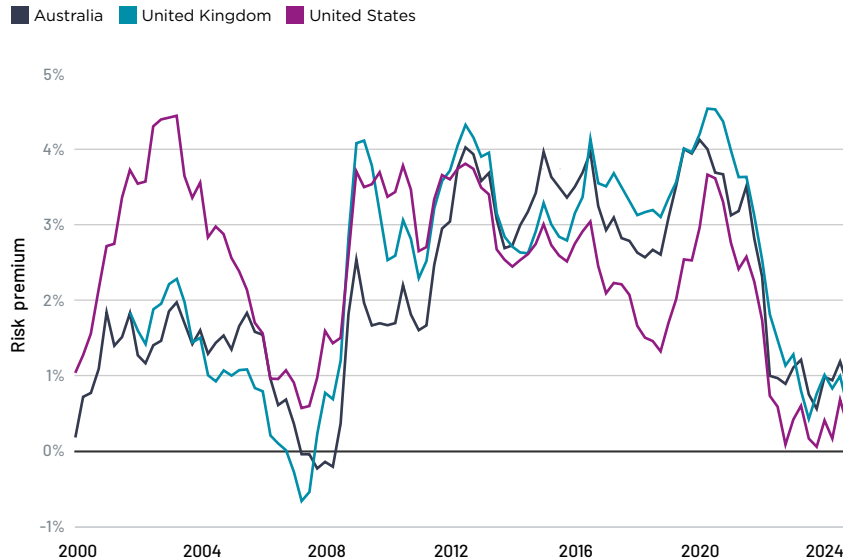
As a result, passive investment strategies are likely to underperform in this cycle and investors will need to work harder to achieve the returns they have become accustomed to. One approach, according to Hassan, is to move up the risk

## US all-property capital value growth driven by yield movements



Source: Savills Research using MSCI

## Real estate risk premiums are at or close to historic lows



**Source:** Savills Research using MSCI and Macrobond. Risk premium based on the difference between all-property yields and the 10-year government bond yield.

curve. “Value-add and opportunistic investors will continue to look for dislocations in the market, explore more nascent sectors and geographies and pursue opportunities to refurbish or repurpose existing properties as strategies to generate value.

“But this is an increasingly crowded space, and one that does not suit many of the more risk-averse institutional investors that underpin global real estate capital markets. Furthermore, higher-risk investors rely on these institutions for their exit strategy, so a hollowing out of core investors would have a ripple effect across the whole market.”

Another alternative is to develop strategies more likely to deliver the income growth required to support capital values. Investors are coalescing around a broad approach to achieving this.

### An alternative, high-level view: thematic investing

From a top-down perspective, ‘thematic’ strategies are increasingly popular. In times of uncertainty, investors often look for strategies that can transcend the business cycle. Thematic funds aim to do this by focusing on long-term, structural drivers of economic growth rather than traditional sectors and geographies.

Many of these are relatively predictable. We know, for



**ALEX JEFFREY**  
CHIEF EXECUTIVE, SAVILLS  
INVESTMENT MANAGEMENT

“ The last few years have been pretty subdued from a capital markets perspective, with many institutions choosing to sit on the sidelines. We have however seen some movement back into the market since mid-2024, after the US Fed started moving, and with some electoral questions around the world getting answered.

But we’re not expecting a sharp V-shaped recovery in activity. This is partly because interest rates are unlikely to come down rapidly – given there is some stubborn inflation left in the system – while in many major markets there remains a lack of economic growth. As such, institutions and fund managers need rather to accelerate a return back into the market.

Looking further ahead, allocations to real estate are no longer increasing, but have plateaued globally on average. This is a significant change from the last decade or so, when the market enjoyed the twin tailwinds of rising target allocations and investors being under-allocated to real estate.

This fundamentally changes the mindset and puts the focus on having genuine sector operational expertise. Investors can no longer rely on yield compression – though they may get it if they can catch the right point in the cycle. They will need to deliver returns from the underlying yield and whatever they can do to improve the asset and make it attractive to occupiers.



example, that rising life expectancy and slowing birth rates mean the world's population is ageing. Even where an outcome is less obvious, there are still high-conviction themes: AI, for example, could have a wide range of impacts on society, but in any case, it requires more data processing and storage capacity. As a factor of production, real estate has an integral role in shaping all megatrends, whether facilitating continued growth in urban populations or mitigating the effects of man-made climate change.

This shift to thematic investing is not unique to real estate; according to Morningstar, assets under management in global thematic equity funds have doubled over the past five years, reaching \$562 billion in mid-2024. Much of this growth occurred in the aftermath of Covid-19, which provided a catalyst for the acceleration in structural change that has helped to drive the popularity of thematic investing.

Nor is thematic investing a new phenomenon. It has already underpinned a shift in real estate allocations, with structural demand drivers favouring 'beds and sheds'. Meanwhile, the investment universe is growing. Unencumbered by a narrow sector focus, investors are exploring further assets across the living sector (student, senior, co-living), as well as data centres, healthcare, education and self-storage. The market for these sectors has risen from less than 4% of global investment in 2008 to nearly 13% last year.

### All real estate is operational: investors should consider occupiers' needs

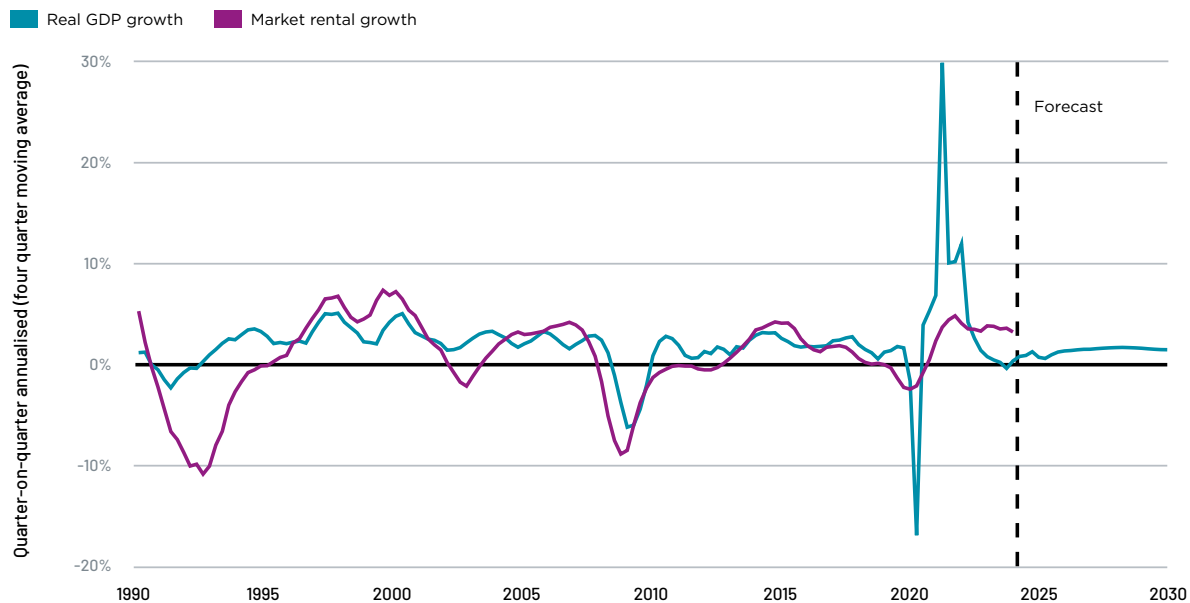
With a thematic top-down strategy comes a more active bottom-up approach. Part of this is concerned with stock selection and executing a less prescriptive strategy. Stock selection has always been crucial in real estate, as it is difficult to gain broad exposure to the asset class in the way investors can in public markets. More importantly, investors will need to manage their assets more actively in the future, due to the growing realisation that 'all real estate is operational'.

With operational real estate, returns are strongly correlated with the performance of the occupier. Real estate is inherently an operationally intensive business – certain revenues and costs are determined by the performance of buildings and tenants. But much of the operational risk has in the past been pushed back to the tenant (e.g. via Full Repair and Insurance leases, where the tenant assumes responsibility for many operational costs), or outsourced (e.g. via rent collection and building upkeep).

This is beginning to change. Thematic investing is based in part on the belief that real estate should no longer be considered a commoditised product to be traded or leased. Instead, it represents a blend of product and service, adding value to the tenant's business and supporting the wellbeing of occupiers and those in close proximity.

By considering the tenant experience, investors can design

## UK all-property market rental growth tracks GDP over the long term



Source: Savills Research using MSCI and Oxford Economics



# Value creation is moving beyond the design and use of physical space to the provision of additional services to tenants

spaces that align better with their requirements – whether it be to boost attendance and productivity (more collaborative space or better amenities), or to help tenants achieve wider corporate ambitions. Investors must follow the occupiers in real estate: creating desirable buildings will naturally support stronger returns and reduce obsolescence risk.

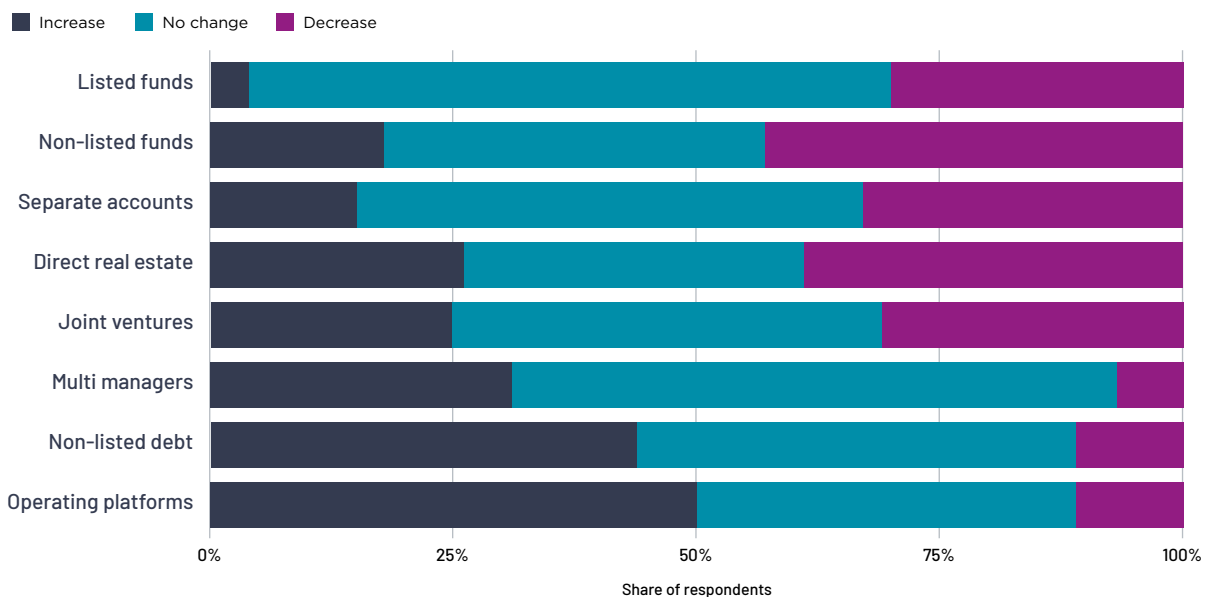
Meanwhile, value creation is moving beyond the design and use of physical space to the provision of additional services to tenants ('real-estate-as-a-service'). This can create new revenue streams and diversify income sources. The 'hotelification' of the office – adopting a more consumer-centric approach borrowed from hospitality – is a good example. Meanwhile, smart buildings and the better use of data can improve efficiency and reduce costs.

This approach requires greater collaboration with tenants so that investors can respond to changing demands. Closer landlord-tenant relationships should foster customer loyalty

– delivering the pricing power that can support rising rents and capital values as well as reducing obsolescence risk (especially in an environment of shorter leases).

The major capital allocators are alive to this trend. Institutional investors identify operating platforms that prioritise service-based propositions as key entry points to real estate markets over the next two years. The next real estate cycle is in its infancy, but some of its outlines are already becoming clear. ■

## Expected changes to institutional real estate allocations in Europe over the next two years



Source: Savills Research using INREV Investment Intentions Survey 2025

# Adapt

As global temperatures exceed the critical threshold of 1.5°C over pre-industrial levels, real estate must adapt to protect property and prosperity from climate change

TORONTO 

LOS ANGELES 

NEW YORK 

MEXICO CITY 

MIAMI 

## Cyclones

Formed over large bodies of warm water, cyclones threaten the eastern seaboard of the US and Mexico, but can also reach cities further inland, such as Toronto



WORDS **PAUL TOSTEVIN** AND  
**CONNOR CHILTON**



**Floods**

Temperate climates make flooding the chief threat to Europe's relatively low-lying cities. This is caused by heavy rainfall and/or rising sea levels and poor drainage

**GREATEST RISK TO CITY**

- DROUGHT
- FLOOD
- HEAT
- WILDFIRE
- CYCLONE



Scan to see more about how cities are adapting to tackle climate hazards, or visit [savills.com/adapt](http://savills.com/adapt)



Source: Savills Research using Think Hazard, Aqueduct Water Risk Atlas and NASA Centre for Climate Simulation

**E**xtrême weather makes it more difficult to finance and insure buildings. It makes investors harder to find because investing is riskier.

It makes buildings more expensive to operate and more costly to occupy. Climate change is a multifaceted threat to the real estate sector, affecting cash flow, value and long-term financial performance.

But it brings opportunity, too. Decisive developers, owners and occupiers stand to benefit from a flight to prime centred on resilient real estate. As climate adaptation becomes a core criterion in decisions around investment and expansion, cities that create resilient infrastructure make their property more attractive to residents, businesses and visitors.

2024 was marked by devastating wildfires, destructive storms and extreme heat. Spain was hit by floods, Hurricane Helene tore through the south-eastern United States and Greece experienced the hottest summer in its meteorological history.

Globally, it was the hottest year on record and the first when average global temperatures exceeded 1.5°C over pre-industrial levels. With this critical threshold breached, climate impacts become more unpredictable. January 2025's wildfires in Los Angeles were a reminder that 2024 was no one-off.

Against this backdrop, cities and the real estate sector need to act quickly to remain centres of commerce, industry and tourism. They need to shield their populations or risk social breakdown or

exodus. Adapting will take major investment, but failing to adapt will likely cost more.

“The ability of buildings to bounce back after natural disasters and extreme weather events will be crucial to the sustainability of real estate assets,” says Marylis Ramos, Director, Savills Earth Advisory. “Adapting to risk now will save in terms of repair costs, insurance costs, the potential loss of tenants and the reputational damage that might arise from failing to protect buildings and occupants from extreme weather events.”

### **The growing risk of climate change to real estate**

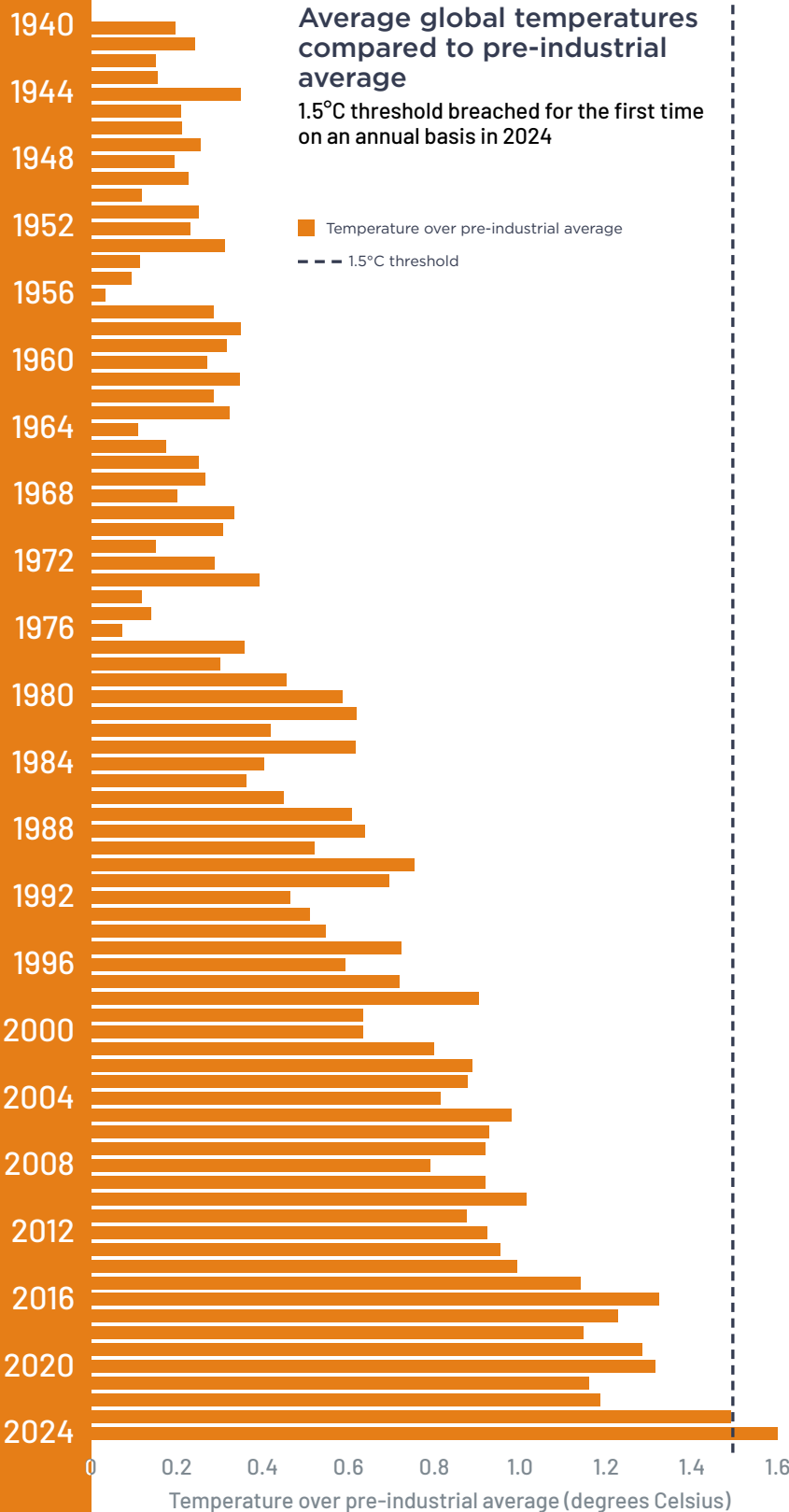
The immediate result of extreme weather on real estate is that buildings flood, storms cut power and offices become too hot to work in. Secondary impacts include the growing risk of subsidence, a threat compounded by groundwater extraction. New York, Shanghai and Jakarta are all sinking cities, making them more susceptible to rising sea levels.

Climate change makes buildings more expensive to operate and insure, increasing development costs and making real estate less attractive to investors. “There’s still a limited understanding of the significant financial risk attached to all of the climate-related changes that are happening in the world,” says Ramos. “It’s difficult for people to grasp that these events have a link to their investments. But increasingly, investors will be looking at these factors because they will have to.”

## **2024 was marked by devastating wildfires, destructive storms and extreme heat**







Source: Savills Research using Copernicus Climate Change Service ERA5, Global surface air temperature increases above the 1850-1900 pre-industrial reference period

### Insurance: the first mover

Insurance companies are among the first to react to extreme weather, given their business model depends on assessing risk. According to insurer Aon, cyclones, fires and other disasters caused \$368 billion of losses in 2024.

Insurance costs have risen as a result. Properties tracked by the MSCI US Quarterly Property Index have seen insurance costs as a share of income double over the past five years. The Deloitte Center for Financial Services forecasts the costs of commercial buildings insurance in the US will rise at an average compound annual growth rate of 8.7% until 2030, and at 10.2% in states with the highest extreme weather risk.

These are US examples, but the phenomenon is global. Growing insurance and operational costs drive rent increases and a flight of occupiers to less risky, or better adapted, locations. When it becomes impossible to afford sufficient insurance, investors or lenders have to take on more risk or move money to safer assets. At the same time, buildings become less saleable and more illiquid, creating stranded assets.

“The impacts of climate change on extreme weather events and longer-term climate patterns – for example, sea level rise – have financial repercussions for the real estate sector and increase the risk of stranded assets,” says Sarah Brayshaw, Principal Climate Risk and Resilience Consultant, Savills UK.

“There are direct and indirect factors ▶

that could lead an asset to become stranded. Direct factors are assets not being able to recover to their original state as a result of damage from an extreme weather event. Indirect factors are the declining market value of buildings in areas with high exposure to climate hazards. This can be exacerbated by insurance cover being unaffordable or even unavailable when insurers cease underwriting new policies in high-risk areas.”

### Climate risks by property sector

Sectors are not impacted equally, however. Residential property tends to have the greatest risk, because homes have permanent residents – some vulnerable – who often stay in a property for a long time. In contrast, industrial units are usually shorter lived and less likely to be located in the most at-risk areas, such as on the coast.

But there are still multiple factors to consider. “Location is key for industrial units and infrastructure,” says Tom Dearing, Director, Climate and Major Projects, Savills UK. “Multiple public and private transport links improve the resilience of access for the workforce, and for some facilities access to multiple ports or airports for offshore supply chains or sales is important. And – while not every facility can be a power island – on-site renewable or low-carbon generation coupled with energy storage is attractive not just for reducing greenhouse gas emissions, but also for tiding over power outages.”

### Risk, reliance and adaptation: the city view

To protect property – and prosperity – cities need to mitigate and adapt. When they mitigate, they reduce their contribution to climate change. When they adapt, they prevent or lessen the impacts of extreme weather.

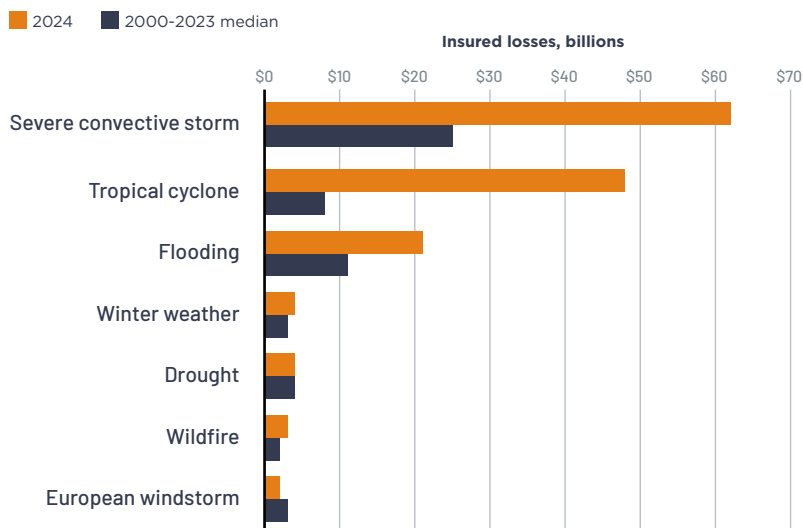
Adaptation is about more than buildings. It doesn’t matter how resilient your building is if flooding regularly disrupts local infrastructure and leaves occupiers stranded.

Whole cities need to adapt, to protect infrastructure and reassure occupiers, investors and developers. Landowners are more likely to pay a premium to develop resilient real estate, or retrofit resilience into older buildings, when entire cities actively pursue adaptation strategies. Affordable insurance cover will depend increasingly on a city’s ability to reduce climate risk for its built environment.

Cities face different climate-related threats and are at different stages of preparedness. One city leading the way is Tokyo. In 2022, it launched the Tokyo Resilience Project, a plan to protect the city for the next 100 years from risks including flooding, earthquakes and volcanic eruptions and their potential impact on infrastructure and power supplies.

A particular focus is ensuring the resilience of high-rise buildings. The city’s Mori JP Tower, for example, has been designed to be earthquake and flood-resistant. It has its own co-generation system for power and heat, as well as a large shelter that can accommodate 3,600 people.

## Global insured losses by climate hazard



Source: Savills Research using Aon

## Real estate risk from extreme weather



Source: Savills Research

But, for all cities, more needs to be done. The map on the opening spread of this article highlights the chief vulnerability of the global cities that are high on the list of international investors and occupiers. How are they responding to these risks?

In the next section, we'll take a closer look at adaptations that are making a difference, as investors and insurers increasingly analyse a range of datasets – including weather patterns, environmental factors and historical disaster records – to evaluate present and future climate-related risk. ▶

## To protect property – and prosperity – cities need to mitigate and adapt

# How cities are adapting to thrive



## Wildfires

The risk of wildfires is increasing globally, and new and larger areas are being affected. The wildfires in Los Angeles in January 2025 were far from the first in the region in recent years.

Three-quarters of California's most destructive wildfires have occurred since 2015. While tougher regulations were introduced following fires in 2018, these were not applied retroactively to existing buildings – meaning the majority of housing stock was not covered.

Australia has a similar hot, dry climate. New South Wales alone has 1.4 million properties in bushfire-prone land. Like California, new building codes have been introduced, which in Australia include a grading system of risk based on the intensity of bushfire heat any building is likely to be exposed to.

Mt Coot-Tha House in Brisbane is an example of resilient home design in the second-highest bushfire zone. Designed by Nielsen Jenkins, the property is made from resilient materials and protected by high blockwork walls. It sits inside a perimeter of 'wet walls', flat green courtyards mimicking forest clearings that soak up surface water and act as a further fire-protection measure.



## Floods

Sea levels are increasing by 0.33 cm (0.13 in) per year.

Cities are also threatened

by flash floods caused by increased rainfall and snow melt. Beyond the obvious physical damage, properties in areas prone to flooding are also likely to face rising insurance premiums.

Tokyo and Amsterdam are both flood-prone cities and are at the forefront of urban flood-resilience efforts. Tokyo has built a massive underground reservoir that collects water from heavy rainfall. Estimates suggest the development saves nearly 30,000 housing units from flooding every year.

Amsterdam is also taking a multifaceted approach to flood adaptation, including pioneering work on floating real estate. The Schoonschip community is a sustainable floating neighbourhood built to rise and fall with river water levels.

Ho Chi Minh City faces a range of water-related challenges, including

flooding, saltwater intrusion into the city's water network and subsidence. The last is often exacerbated by excessive groundwater extraction, something the city has now restricted. Meanwhile, saltwater intrusion can worsen droughts and harm agriculture.

"In a global context, Ho Chi Minh City is one of the most exposed cities to climate change," says Troy Griffiths, Deputy Managing Director, Savills Vietnam. "An extension of the Mekong Delta, it regularly suffers adverse flooding, both from tidal events and heavy monsoon rains.

"The Mekong Delta is known as Vietnam's food bowl. Rice is a key crop. However, saltwater intrusion and flooding mean yields are falling.

"Early trials of saltwater-resistant rice varieties are ongoing. In addition, master planning has been a focus of the Vietnam Government to ensure efficient allocation of resources to address infrastructure needs, specifically around flooding and flood mitigation."



SHUTTERSTOCK: ADOBE STOCK





## Heat

Urban centres around the world are seeing more severe and longer heatwaves, with devastating impacts. Over 70,000 excess deaths were recorded during the European heatwave of 2022. Against this, cities must act to protect the health of citizens and guarantee supplies of water and goods.

Aggressive air-conditioning, which is costly and environmentally harmful, is not a sustainable solution to excessive heat. A better one is district cooling, a system where water is collected and chilled at a centralised location and then piped into surrounding buildings to keep interiors chilled. In Dubai, this has achieved energy-efficiency index ratings between five and 10 times higher than conventional systems.

Paris has taken an innovative approach, prioritising the creation of ‘cool islands’: easily accessible city spaces that provide relief from vicious heat. These include temporary pools, misting zones and specialised cool

rooms. A connected project has increased the number of water fountains by more than 200 to 1,273 since 2023.

“These developments are necessary because Europe is warming faster than the global average,” says Elena Rivilla-Lutterkort, Head of Sustainability, Savills France. “Paris is working under an assumption that an average increase of +4°C is a likely scenario. As well as cool islands, the city has introduced a heatwave hotline aimed at supporting the elderly and vulnerable.

“Over 10,000 people have signed up to a service that calls people on the list and carries out welfare check-ins by phone during periods of extreme heat.”

But making Paris more heat resilient has not been without controversy. “The pace of adaptation is tricky, because it can be conflated with gentrification,” Rivilla-Lutterkort adds.

“The creation of new green spaces has attracted wealthier households, which is changing real estate pricing dynamics around better-adapted spaces.” ■



**GABRIELLA ZEPF**  
SUSTAINABILITY  
DIRECTOR, SEGRO



SEGRO develops and manages sustainable industrial and

warehousing spaces across the UK and much of Europe. We strive to identify and mitigate climate risk exposure, so our existing and new-build assets remain useful for many years to come.

Climate hazards will become increasingly complex to manage. They differ by region and our response must mirror local reality. At least one of our developments in Spain needs trenches to carry away flood water and tanks to collect rainwater in case of drought.

Our mandatory sustainability policy supports our net-zero ambitions, but will also increasingly be required to embed climate resilience, for example through exploring methods to adopt climate adaptation standards across our existing and new buildings, such as using ‘brise soleil’ structures to deflect sunlight and reduce internal heat.

Our approach to sustainability is designed to preserve long-term value for the business, and investors understand that climate adaptation can add value to their portfolios. Occupiers have a wide range of perspectives, of course, but should see the benefits of making buildings more resilient increasingly clearly over time.

But we can’t do anything alone. The alignment of developers, investors and local authorities is crucial. A resilient building surrounded by highly resilient infrastructure and good climate legislation at a local level will help us create the coherent ecosystem we all need.





**changes  
to tenant  
needs in**

WORDS **SARAH BROOKS**

**T**he nature of the office has changed significantly in the past five years, adapting to the needs and expectations of tenants during a period of disruption and change. The preferences of today's employees – particularly younger generations – mean companies want premium, thoughtfully designed spaces to support talent attraction, retention and productivity.

Five key trends have shaped commercial tenants' office space requirements over the past five years – and will continue to influence them in the future. These are:

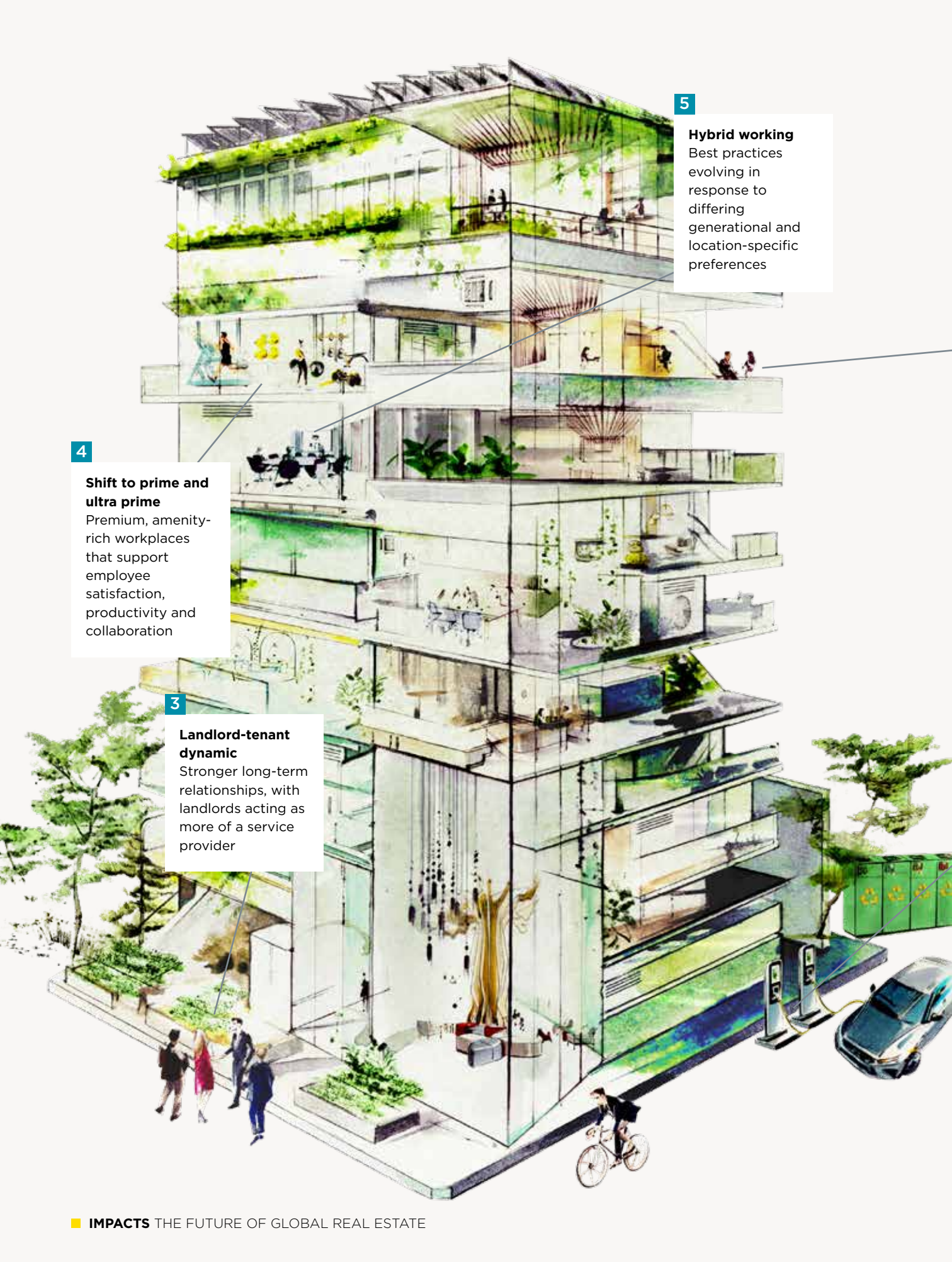
- 1 Workplace health and wellness.** Tenants seek to boost employee productivity and retention by prioritising wellbeing in their office strategies.
- 2 Environmental sustainability.** Occupiers expect strong environmental and energy efficiency credentials.
- 3 A changing landlord-tenant dynamic.** Landlords are working more closely with their clients to improve workplaces.
- 4 A shift to prime, ultra prime and character.** Businesses increasingly want premium, amenity-rich and characterful office spaces that provide a high-quality experience for employees.
- 5 The evolution of hybrid working.** Employers are adapting their hybrid working policies in response to differing regional and generational preferences. New best practices are emerging as businesses look to harness the benefits of hybrid working, while managing the practicalities of full capacity in-office days.

From amenity-rich workspaces that prioritise employee wellness and inclusivity, to accredited buildings that align with sustainability goals, office occupiers' needs continue to evolve



# five years





5

**Hybrid working**

Best practices evolving in response to differing generational and location-specific preferences

4

**Shift to prime and ultra prime**

Premium, amenity-rich workplaces that support employee satisfaction, productivity and collaboration

3

**Landlord-tenant dynamic**

Stronger long-term relationships, with landlords acting as more of a service provider

# 1 Promoting workplace health and wellness

We are seeing a clear global shift towards office buildings that incorporate health and wellness as a core design principle.

In part, this shift is driven by changing demographics. In 2019, Baby Boomers and Generation X comprised about 60% of the global workforce. But by 2034 – in advanced economies at least – Millennials, Generation Z and Generation Alpha will make up about 80%. As these younger generations join the workforce, they are prioritising their health and mental wellbeing – and they expect their workplace to support it.

Tenants are now looking for offices with features such as natural and circadian lighting, ergonomic furniture, high-quality breakout spaces, active design to encourage less sedentary working, and wellness rooms. Spaces that offer outdoor access and emphasise light, open, airy or biophilic design (using plants and other natural features) are high on occupiers’ wish-lists.

“The physical workspace can support mental wellbeing by providing quality break-out areas to help increase social connections and support downtime, as well as better access to daylight and good air quality,” says Michelle Needles, Executive Vice President, Global Head of Enterprise Solutions, Savills Global Occupier Services.

The focus on wellbeing is reflected by the number of buildings seeking accreditation from the WELL Building Standards programme, which certifies spaces that advance human health and wellbeing. Since 2020, there has been a 300% increase in real estate enrolled in one or more WELL programmes.

Similar certifications are also becoming more popular and well-recognised. These include Fitwel, which focuses on how buildings support wellbeing, and RESET, which includes a standard for indoor air quality.

1

## Health and wellness

Natural and circadian lighting, breakout spaces, plants and good indoor air quality

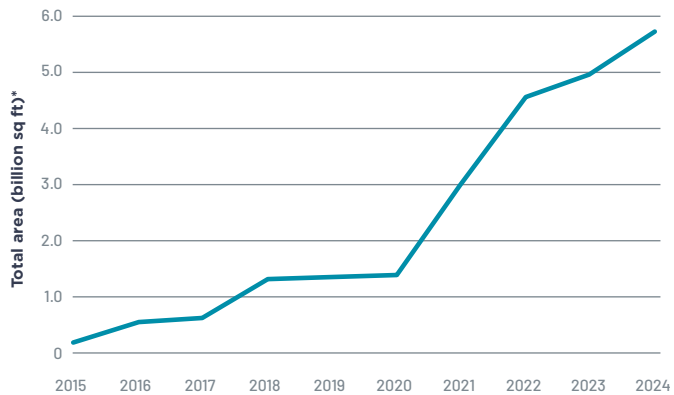
2

## Environmental sustainability

Energy-efficient systems, environmentally friendly designs and certifications such as LEED, BREEAM and Energy Star

PETRA DUFKOVA

### The rise of WELL Building Standards



Source: Savills Research using International WELL Building Institute data.  
\*Total area of real estate enrolled in one or more WELL programmes (billion sq ft)

Since the pandemic, indoor air quality has become a priority for occupiers. There is growing awareness of the role good ventilation can play in reducing the transmission of airborne viruses and boosting productivity. High-quality, oxygen-rich air can also enhance performance, while the inhalation of common indoor pollutants can cause fatigue, headaches and impaired cognitive function.

In regions where outdoor pollution is a significant health issue, like in China and India, indoor air quality has become an essential feature of prime office space as it can be up to ten times better than outside. Advanced filtration systems, sensors and certifications are now standard.

## 2 Making buildings more sustainable

With the climate crisis escalating in recent years, occupiers are prioritising the environmental sustainability of their buildings. Driven by changing regulation and the expectations of consumers, employees and other stakeholders, many companies have set ambitious net-zero emissions targets for their operations.

As a result, occupiers now expect prime offices to incorporate strong environmental credentials. This includes energy-efficient systems, environmentally-friendly designs and certifications such as LEED, BREEAM and Energy Star.

“In Europe, sustainability is a key factor in leasing decisions,” says Ellen Waals, Head of Agency, Savills Netherlands. “In the Netherlands, office buildings with a BREEAM certification of Excellent or Outstanding command

rents up to 15% higher when compared with rents for lower or non-rated buildings.

“But it’s not just about sustainability. Tenants need the whole business case to add up, and will also evaluate requirements such as high-quality amenities, support for health and wellbeing and the size of the space.”

In Asia Pacific, sustainability efforts are evolving rapidly, especially in China, Japan and South Korea, where environmental sustainability is increasingly integrated into corporate strategies. However, the level of adoption and focus varies greatly across the region. As such, green premiums vary significantly between markets, but tend to average around 10% for green-certified Grade A stock.

In the US, while landlords tend not to market office buildings explicitly as “green”, tenants with near-term corporate sustainability targets increasingly view energy efficiency and related building performance as key criteria.

## 3 The landlord-tenant dynamic is evolving

The third major development we’ve seen over the past five years has been a change in the relationship between office landlords and their tenants. This started during the pandemic, when challenging conditions saw landlords and occupiers move away from a mostly transactional relationship to increased communication and collaboration.

Today, office occupiers are interested in less but better-

# Occupiers now expect prime offices to incorporate strong environmental credentials





# Landlords are prioritising getting closer to their tenants as they seek to boost retention in a challenging leasing environment



quality space. Leasing activity has softened and tenant incentives have increased, particularly in the US and Europe. This has signalled a shift in the balance of power, from landlord-friendly to a more tenant-friendly market.

As a result, landlords are prioritising getting closer to their tenants as they seek to boost retention in a challenging leasing environment. By engaging with tenants, understanding space requirements and incorporating services that improve human experiences and support office attendance levels, landlords are becoming more aligned to the priorities of employers.

While tenant-friendly market conditions won't last forever, these strengthened relationships look set to endure. There is a recognition among landlords that having a tenant-centric mindset – cultivating stronger long-term relationships and acting as more of a service provider – is the way forward.

## 4 Occupiers shift to a new concept of prime office

What companies and their people want from offices has changed profoundly in the past five years. Today, businesses demand premium workplaces that get the best from their people and drive company culture. These spaces need to provide a hub for collaboration and connection, while also supporting diverse workforces.

Key to the success of the modern prime office is amenity, both in the building and the immediate local area. Vibrant offices in attractive urban centres are increasingly important to broader human resource strategy, helping organisations to create workplaces that foster satisfaction, productivity and loyalty. ▶



**YALPESH PAJWANI**  
HEAD OF PROPERTY AND  
WORKSPACE SERVICES,  
ALLIANZ INSURANCE, UK

“Allianz Insurance is one of the UK's largest general insurers. I've seen our property portfolio evolve alongside fundamental shifts in how, where and why we work.

Our people are central to our strategy. We identify, design and operate buildings that foster collaboration, innovation and wellbeing, while reinforcing our brand and culture. We design environments to optimise productivity and engagement, ensuring our workspaces reflect our values and drive organisational success.

Sustainability is core to our strategic vision. While we aim to select properties with convenient transport links and access to high-quality amenities, we recognise that availability varies by location. We are committed to sourcing the best possible properties that support employee wellbeing and office-based collaboration, while supporting a low-carbon future.

Our people-centric, tech-enabled approach is developed in close collaboration with HR and IT, ensuring we meet diverse needs. PropTech plays a crucial role in enhancing wellbeing, sustainability and cost efficiencies, providing strategic insights that empower our workforce and optimise the use of our spaces.

Real estate is now a strategic lever for us. Through strong supplier partnerships, we are constructing adaptive, inclusive and sustainable spaces that embody our identity and prepare us for the future.



# 12%

## As a global average, Gen Z spends 12% more time working from the office compared to older cohorts

Businesses also increasingly expect prime offices to support diversity, equity and inclusion strategies by providing spaces where everyone can thrive. This includes private areas such as prayer rooms and mothers' rooms, as well as thoughtful designs that support accessibility needs and neurodiverse workers.

This shift to prime offices looks set to stay, alongside a growing global demand for best-in-class office space – also known as trophy or ultra prime. This trend is particularly noticeable in the US, where the premium for trophy assets averages around 60%, but can exceed 100%.

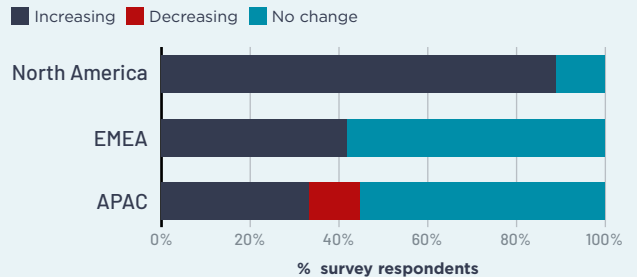
“In Asia Pacific there is increasing demand for ‘ultra prime work resorts’ with elevated levels of amenities, including features such as fitness centres, childcare and curated workspaces,” says Simon Raper, Head of Design, Savills Asia Pacific.

“Tenants want people to have a reason to come into the office; to genuinely see the value of a space and do good work there. Occupiers don't want to go to just a really good building, they want to go to the best.”

At the ultra-prime end of the market, there is also an emerging shift to character buildings as businesses utilise unique offices to differentiate against the competition. Demand for modern office space in refurbished heritage buildings, for example, has increased in recent years, particularly in European and Asia Pacific markets. Architectural character is also being achieved via unique design and the use of materials in purpose-built prime offices.

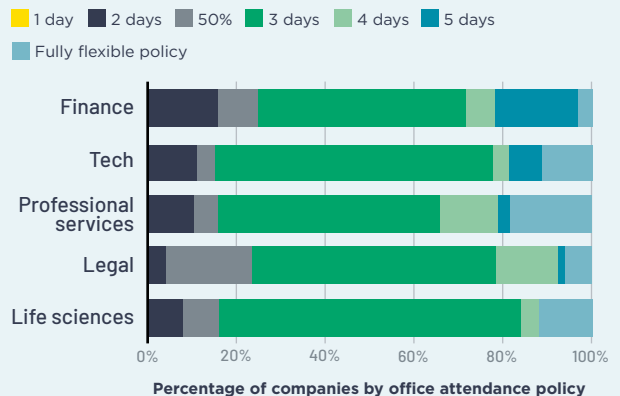
In the mid to long term, the bifurcation of the market between prime, including ultra-prime offices, and wider Grade A is expected to become more structural, particularly as demographic shifts, environmental factors, working patterns and technology reshape the traditional office and redefine premium space.

### Do you expect to see employers increasing or decreasing office daily attendance mandates in the next 12 months?



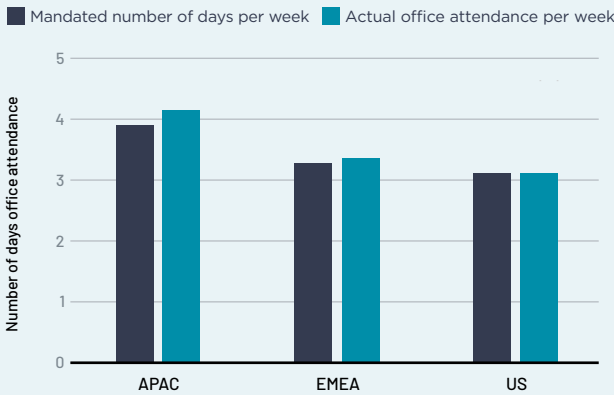
Source: Savills Research, survey of global network

### Office attendance mandates by sector



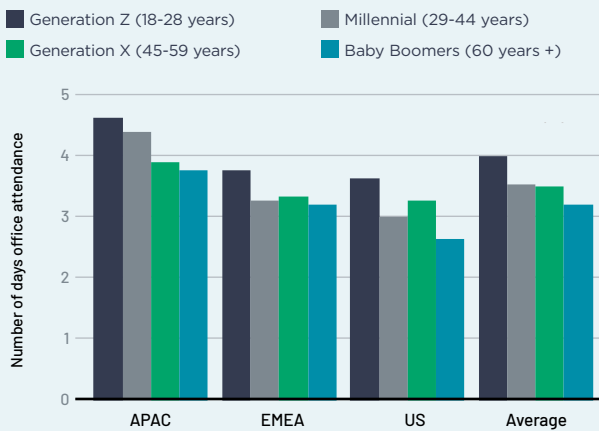
Source: Savills Research using company announcements.  
Note: Based on a sample of the top 50 companies in each sector by revenue, with the exception of the legal sector which was based on a sample of the top 50 firms as ranked by The American Lawyer in the Global 200

## Office attendance by region



Source: Savills Research

## Office attendance by generation



Source: Savills Research

expect changes to office attendance policies this year. In fact, 11% of survey respondents anticipated businesses would start to offer more flexible hybrid arrangements – although this is partly due to the relatively strict office-attendance models currently in place.

Across EMEA and the US, the pendulum is swinging back in favour of more days in the office. It’s a trend that’s particularly marked in North America, where the return to office has been slowest to date.

Financial services businesses are among the sectors leading this drive. JPMorganChase, Citigroup, Goldman Sachs and Morgan Stanley, for example, have all asked employees to return to the office five days a week. In the tech sector, Amazon and Dell have made the same demand.

Our research across 32 markets reveals that the practice of three to four days in the workplace has become the norm for most businesses globally, with actual office attendance exceeding mandates in all regions. This trend is most significant in Asian cities, demonstrating a strong commitment to workplace presence.

As a global average, Generation Z spends 12% more time working from the office compared to older cohorts. This generation tends to view the opportunities for learning, connection and mentorship that the office provides as essential to career progression.

Office attendance continues to be uneven throughout the week, with Tuesdays to Thursdays still the most popular in-office days, and attendance dropping off markedly on Mondays and particularly Fridays.

Local governments and transport bodies are exploring innovative approaches to increase commuting overall and travel on quieter days. In Paris, for example, private-sector employers are obliged to cover a minimum of 50% of their employees’ costs of commuting on public transport.

In London, the city’s transport authority, Transport for London, ran a trial in May 2024 to incentivise Tube and rail travel on Fridays by charging cheaper off-peak fares all day. Lack of public awareness was a critical factor in the performance of this trial. However, where commuters were aware of the programme, it did have an impact, particularly for younger workers.

Across European and US markets, organisations looking to boost office attendance need to strike the right balance between accommodating full-capacity days with the need for office designs that support varied work activities and positive human experiences. ■

## 5 Hybrid working hasn’t gone away - but it is changing

Hybrid working policies have evolved significantly in the past five years and are still changing. While many businesses have embraced flexible working models, the balance of in-office and remote work varies according to factors such as local market preferences, infrastructure and housing affordability.

According to a January 2025 poll of the Savills global network, almost 90% of respondents anticipate that companies will increase daily office attendance requirements this year, although there are clear regional differences.

In Asia Pacific, around half of the markets analysed did not

An aerial night view of a city skyline, likely Dubai, featuring numerous skyscrapers and a complex highway interchange. The scene is illuminated by city lights, with a prominent tall skyscraper on the right side. The sky is a deep blue, suggesting dusk or dawn.

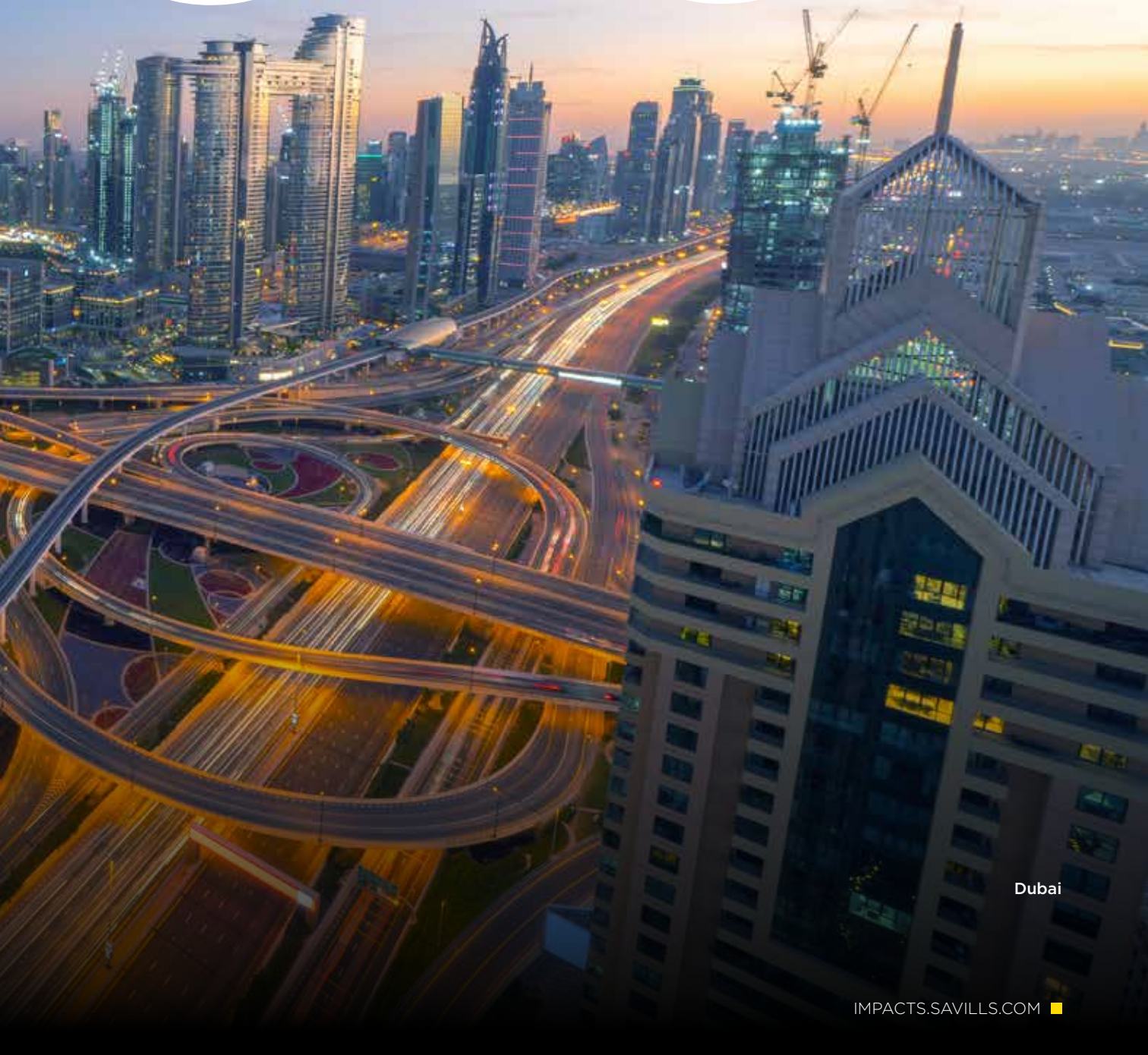
# We of choice

WORDS **PAUL TOSTEVIN**

Businesses and high net worth individuals consider multiple factors when deciding where to base themselves. In addition to financial incentives, a location's intrinsic qualities and lifestyle are increasingly important ▶



# alth



Dubai

**A**gainst a fluid geopolitical and economic backdrop, global wealth flows are evolving, as high net worth individuals (HNWIs) and businesses take a more holistic view on where to locate.

Global corporate and individual wealth is nomadic and discerning, and will seek out destinations that provide the environment that suits it best. Although government policies, taxes and incentives continue to be key drivers, HNWIs and corporates are now taking other criteria into account.

A sense of place – incorporating access to talent as well as softer factors such as quality of life, culture and climate – has become interlinked with financial incentives. And it can often be the deciding factor when choosing between potential bases that offer similar financial sweeteners.

“Wealth is emerging from a wider group of jurisdictions and industries, and there is a new frontier of locations competing for this investment,” says Alex Christian, Joint Head of Savills Private Office. “The sources and flow of wealth may be changing, but real estate remains a hedge against global volatility and an important store for capital.”

### Changing incentives for HNWIs

Governments around the world remain eager to attract HNWIs and offer a variety of incentives to do so.

These range from tax breaks on foreign-sourced income to ‘golden visa’ programmes that offer pathways to residency or citizenship in return for capital and investment. More than 100 countries across five continents have golden visa legislation in place.

But what governments are offering is evolving. Budgetary constraints have prompted some jurisdictions to scale back tax incentives, while others have made wealth creation a priority for HNWI migration policy. Many countries have rolled back the real estate component of their citizenship schemes ▶

## HIGHEST-COST MARKETS FOR PRIME RESIDENTIAL, OFFICES AND WAREHOUSING IN 2024



### Average prime residential capital value per sq ft

Hong Kong	\$3,860
New York	\$2,590
Geneva	\$2,550
Tokyo	\$2,120
Shanghai	\$2,000
Sydney	\$1,950
London	\$1,920
Paris	\$1,880
Seoul	\$1,860
Singapore	\$1,810
Milan	\$1,520
Beijing	\$1,490

**Hong Kong**  
Prime residential  
cost per square foot:  
**\$3,860**





**London**  
**Prime**  
**warehousing**  
**cost per**  
**square foot:**  
**\$44**

**Prime warehousing cost per sq ft per annum (rent + service charges + taxes)**

London	\$44
Sydney	\$30
Hong Kong	\$26
Los Angeles	\$25
Dubai	\$23
Northern New Jersey	\$23
Midlands UK	\$22
North West UK	\$20
Tokyo	\$19
Melbourne	\$19
Yorkshire UK	\$18
Singapore	\$15



**New York**  
**Prime offices**  
**cost per**  
**square foot:**  
**\$207**

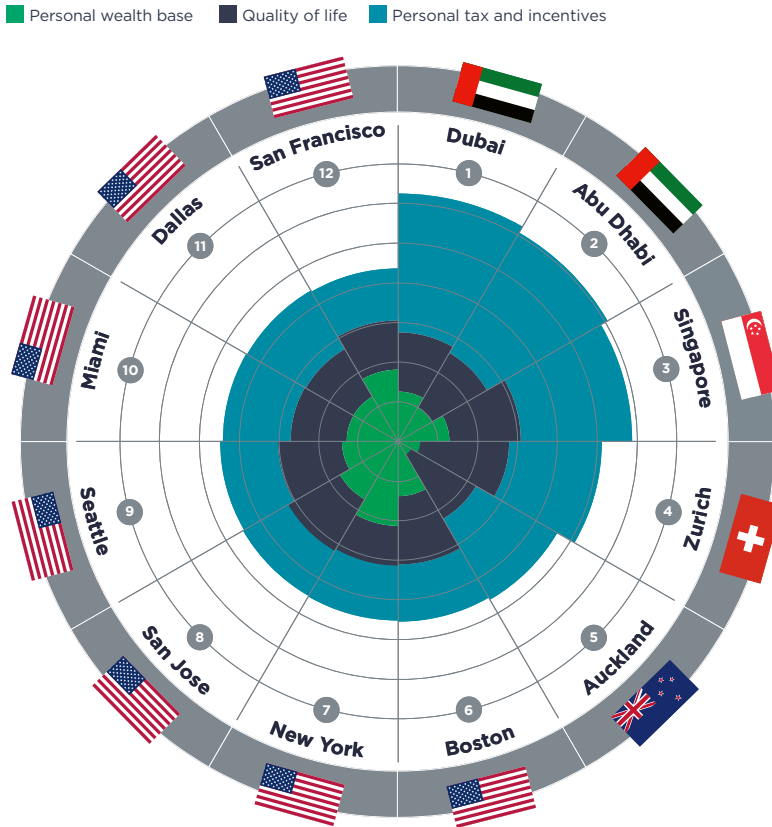
**Prime office net effective cost to occupier, price per sq ft per annum**

London (West End)	\$278
Hong Kong	\$230
New York (Midtown)	\$207
London (City)	\$170
Tokyo	\$147
Singapore	\$144
Zurich	\$143
Dubai	\$142
San Francisco	\$130
Paris	\$116
Los Angeles (Century City)	\$111
Shanghai	\$104

Source: Savills Research

## Dynamic Wealth Index: Individuals

Top global cities for attracting and developing individual wealth



Source: Savills Research using Oxford Economics, Numbeo, national sources

in recent years, in favour of allocations to local investment funds or cultural heritage projects.

HNWIs are adapting to these shifting migration frameworks. While the moderately wealthy tend to relocate if incentives become less favourable, ultra HNWIs are more likely to set up additional residences rather than leave locations where they have existing networks.

Major global cities, such as New York, London, Paris and Tokyo, plus Monaco, remain popular among HNWIs, but others are attracting growing attention.

Parts of Italy, for example, which combine appealing lifestyle credentials with attractive financial incentives, are now on HNWIs' radars.

HNWIs who have not been tax

residents there for at least nine of the previous 10 years have the option of an annual flat tax of €200,000 per year on worldwide income. This has boosted real estate in cities such as Milan, where prime residential prices have grown by 19.2% since 2020. In Sardinia and Costa Smeralda, four in five prime residential buyers are from international backgrounds.

But perhaps nowhere is doing more than the United Arab Emirates (UAE) to entice HNWIs to its shores, via a package of attractive financial and lifestyle elements.

Successful applicants to its golden visa programme are granted a stay of 10 years in this low-tax, expat-friendly environment in exchange for an investment of 2 million UAE Dirham (about \$550,000).

The UAE is a particularly attractive option for HNWIs who bring their companies with them – it has a dynamic economy that's diversifying away from oil and attracting growing sums of corporate and sovereign wealth investment. This has boosted real estate transaction volumes and values. Prime residential capital values in Dubai rose by 6.8% in 2024, with prime office values growing by 7% in Q4 alone.

It's a similar picture in Abu Dhabi, says Rachael Kennerley, Director, Research and Advisory, Savills Middle East. "Abu Dhabi's sovereign wealth has notably attracted connected family offices and global corporates. In turn, this has stimulated office demand – with new businesses requiring space – and the luxury residential market. Arguably, the push of fiscal policies of other countries has heightened the UAE's pull. Although VAT and corporation tax have been introduced, income tax has not."

### Bringing in corporate investment

Businesses considering location moves are grappling with the challenges of a more fragmented global economy, including nearshoring and onshoring trends and trade tariffs.

This fragmentation led to an 8% decline in foreign direct investment (FDI) globally in 2024. However, there are significant regional variations.

India, which announced 195 overseas-funded greenfield projects in the third quarter of 2024, remains a focus for Western investors such as Blackstone. It plans to invest at least \$10 billion in Asia, primarily in India.

The previous US administration put in place a number of measures to incentivise FDI wealth flows, awarding \$54.4 billion in incentives since 2020. These FDI incentives sit alongside around a further \$1 trillion of corporate investment into the US economy between 2020 and 2024 via the Inflation Reduction Act, the CHIPS and Science Act and the Infrastructure Investment and Jobs Act.

US states are also competing against each other, offering state-specific tax credits and property tax relief.

Commercial success is still the most important driver for companies as they work through site selection, though, as far as Ken Biberaj, Executive Managing Director, Savills US, is concerned. “The priorities for advanced manufacturers revolve around people, power and place. Companies need proximity to the right workforce and sufficient power for their facilities, which is getting more difficult based on the demand for AI and data centres. Lastly, they want to be in the right ecosystem and location that optimises their access to suppliers, strategic partners and supply chain needs.”

### Virtuous clusters

The growing importance of people and place in destination decision-making has led to new industries clustering around select locations that feature the ‘triple helix’ of universities, private-sector companies and funding, and government.

Clusters can span cities, regions and even countries, and are characterised by interconnected businesses, suppliers and institutions benefiting from shared

talent pools. These dynamics foster a virtuous circle of investment and talent agglomeration – and in turn, shape real estate investment and demand.

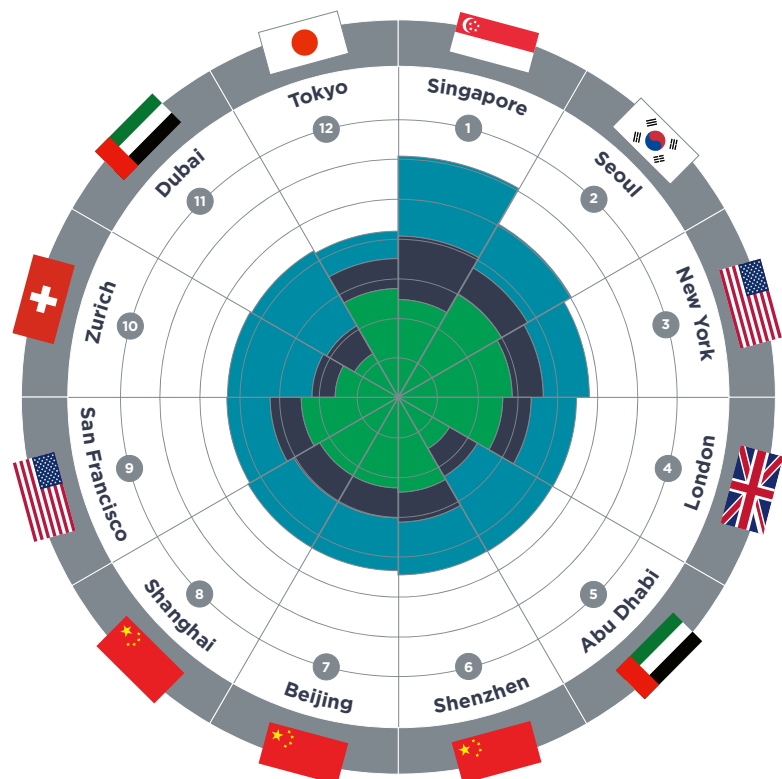
In the US, Silicon Valley has driven rapid innovation in technology by combining top research institutes and universities, such as Berkeley and Stanford, with companies, venture capital investors and a highly skilled workforce – all in a concentrated area.

Similarly, the UK’s Golden Triangle, between Cambridge, Oxford and London, has become a leading life sciences cluster by pulling together the prominent research hubs of the cluster’s universities with London’s corporate base and investment funding ecosystem. ▶

### Dynamic Wealth Index: Corporates

Top global cities for attracting and developing business wealth and investment

■ Economy, knowledge and tech base ■ Concentration of FDI  
■ Corporate tax and business environment



Source: Savills Research using Oxford Economics, World Bank, IMD, national sources

Clusters can also span multiple regions and industries. China's Greater Bay Area, which comprises nine cities on the mainland, including Guangzhou, Shenzhen and Dongguan, as well as the special administrative regions of Hong Kong and Macao, is a case in point.

"Its economic strength arises from the strategic integration of complementary sectors: Hong Kong as a financial centre, Shenzhen as a technology and innovation hub, and Guangzhou as a manufacturing base," says James Macdonald, Head of Research, Savills China. "Supported by extensive infrastructure and coordinated policies, this synergy drives significant economies of scale."

### The importance of place

There is no single factor that dictates where businesses and HNWI's will locate themselves. For HNWI's especially, financial incentives need to be backed up by softer factors.

"HNWI's are putting new locations on their shortlists," says Victoria Garrett, Head of Global Residential (excluding UK), Savills. "Tax and financial incentives remain key when they are moving to a new jurisdiction. But they are also giving more weight to factors including culture, community, lifestyle, healthcare and school quality and access."

Personal preferences also come into it. One HNWI might be swayed by the proximity of good golf courses, another by a nearby university, the quality of the surf, the local restaurants or the presence of a large expat community.

Skilled workers are similarly drawn to areas that offer a combination of financial incentives and an attractive lifestyle. The resulting concentration of talent becomes an important draw for relocating and expanding businesses to consider.

The Savills Dynamic Wealth Index identifies the cities that are performing well at attracting and developing wealth and investment from individuals and businesses – and highlights some key



SHUTTERSTOCK





**GUNNLAUGUR  
ERLENDSSON**  
FOUNDER AND CEO,  
ENSO

“ ENSO is a London-based tyre technology company that makes tyres for electric vehicles (EVs). Tyre wear is a significant source of air pollution. Our tyres are designed to reduce this pollution and extend an EV's range – helping owners save money while being more environmentally sustainable.

We're about to build a new tyre factory, using carbon-neutral raw and building materials, and 100% renewable energy. We've decided to build this factory in the US.

The market opportunity was a key factor in our decision to expand into the US. There's a significant EV consumer base, but a relative lack of domestic production capacity. The regulatory environment also played an important role. Initiatives such as the Inflation Reduction Act enabled more ambitious Environmental Protection Agency emissions standards, paving the way for similar advancements in the tyre industry.

Initially, the factory will create 600 jobs. That will rise to 2,400 once we hit full production capacity of 20 million tyres a year – or 8% of the US's total annual tyre market. We're considering states including Colorado, Nevada, Texas and Georgia as potential locations, with transport links and supply chains among the factors we're looking at. ”

factors shaping their location decisions.

Dubai, which combines financial incentives with a good climate and quality of life, tops the index for individuals, followed by Abu Dhabi and Singapore.

Singapore is even more attractive to corporates. It heads the corporate index, buoyed by a highly business-friendly environment, strong economic base and significant levels of FDI. Cities with strong tech and higher education sectors that perform well in today's knowledge economy, such as Seoul, Shenzhen and San Francisco, also perform well in the corporate index, as do the 'traditional' megacities of New York, London and Tokyo.

Six of the top 12 locations feature in

both the corporate and individual Dynamic Wealth indices – highlighting how business and personal priorities can often overlap. Businesses want to locate in destinations that can provide the necessary talent to sustain them and skilled workers tend to prioritise a better quality of life.

While lifestyle factors appeal chiefly to the individual, the knock-on effects of creating talent clusters – or HNWIs bringing their businesses with them when they relocate – make them a magnet for corporate wealth, too.

Financial incentives will always be a fundamental pillar of every location decision, but the importance of place in the global distribution of wealth shouldn't be overlooked. ■

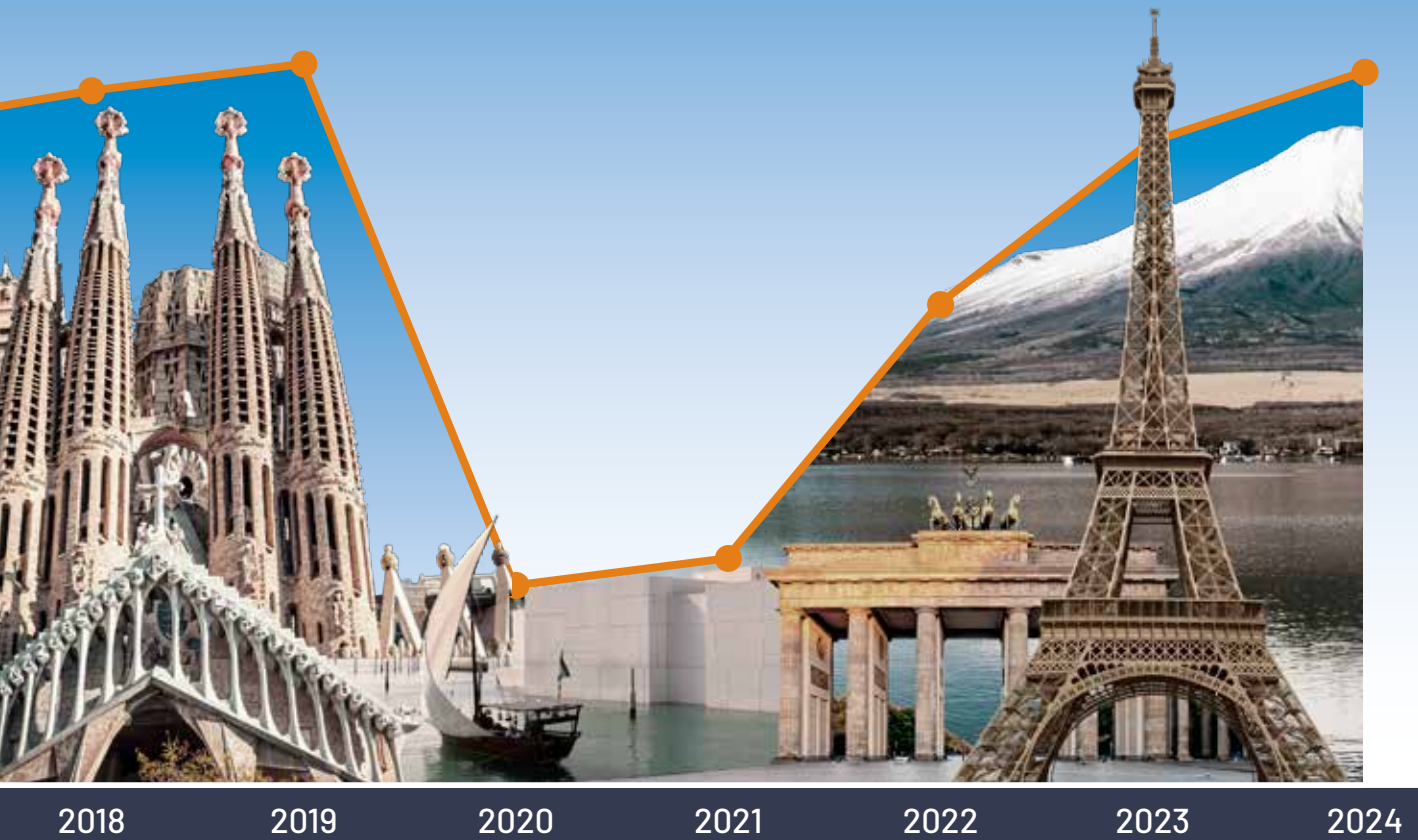
## Global international tourist arrivals



# Tourism boun

WORDS KELCIE SELLERS





Source: Savills Research using UN Tourism

Global tourism has made a full recovery, prompting increased investor interest in the hotels sector

# ces back

**G**lobal tourism continues to recover as people around the world whet their appetite for travel. In 2024, international tourism returned to pre-pandemic levels. Globally, 1.4 billion international tourists (overnight visitors) were recorded – up 140 million, or 11%, on 2023 figures. Strong demand for travel – particularly in markets that provide the most tourists – and the ongoing recovery of destinations in Asia and the Pacific drove the increase, with most destinations exceeding 2019 levels.

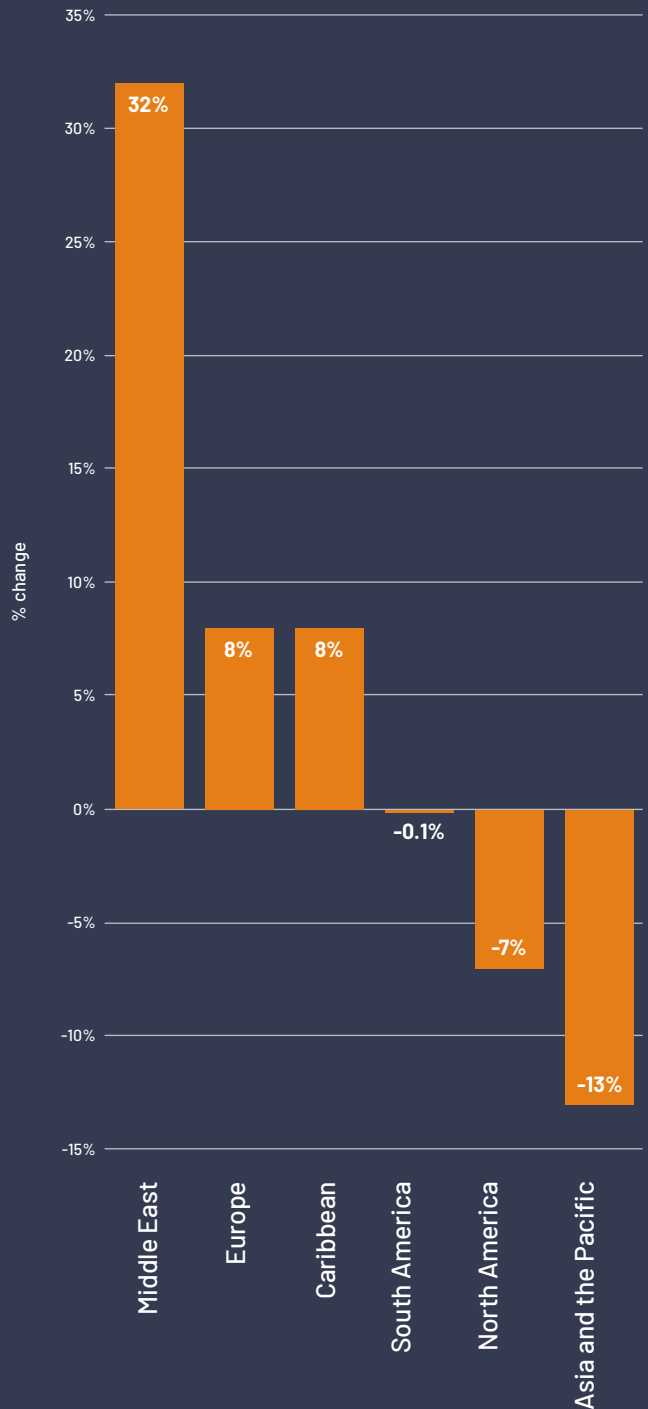
A resurgent travel sector has significant implications for real estate. Operational real estate – of which hotels are the most mature asset class – is increasingly attractive to investors.

They find the revenue streams that hospitality assets provide appealing – particularly in the context of recent high inflation and debt costs. Strong underlying demand has also boosted hotel occupancy levels and average daily room rates (ADR), which rose 2.6% to \$142 per night in 2024 – further supporting investor confidence.

Tourism’s recovery is expected to continue in 2025. Preliminary forecasts show year-on-year growth in international tourist arrivals of 3-5% and a flurry of new hotels set to open their doors. Shanghai, New York City, London and Dubai are forecast to open the most rooms in 2025, according to real estate data provider CoStar.

Leyre Octavio de Toledo, Executive Director, Architecture and Occupier

## Tourism arrival growth by region, percentage change, 2019-2024



Source: Savills Research using UN Tourism

Solutions, Savills Spain, believes hotels need to respond to changing market demands to succeed. "It's no longer enough to aesthetically renovate a hotel," she says. "It's now necessary to rethink a hotel's spaces and functionalities to be more flexible, sustainable and connected to its surroundings, without losing the essence and character."

Tourism trends fuelling growth include increasing demand for travel from the expanding middle classes in emerging markets and consumers prioritising experiences over goods.

While recovery has been global, nuances exist across regions. Germany, the US and China remain the largest

source markets for international travel. In China, outbound international travel continues to recover but is not expected to reach 2019 levels until 2026.

Total estimated export revenues from tourism (including passenger transport) reached \$1.9 trillion in 2024, about 4% up on 2019 levels, making it a key economic driver for many jurisdictions.

Nonetheless, this global recovery has not been without its challenges. In 2024, Barcelona, Paris and the Canary Islands experienced protests against over-tourism.

However, these isolated incidents could help boost visitor numbers to lesser-known locations, as tourists seek out new destinations.

## Estimated export revenues from tourism reached \$1.9 trillion in 2024



Barbados



## THE REGIONAL PICTURE: FOUR MARKETS IN FOCUS

### The Americas: longer stays and luxury living in the Caribbean

International tourist arrivals to the long-popular Caribbean region surpassed their pre-pandemic peaks in 2023, and reached 28 million arrivals in 2024. From 2010-24, tourist arrivals to the region increased by 40% and grew by 8% from 2019-24.

One of the Caribbean's key features, alongside hotel and resort development, has been the growing prominence of branded residences and other purpose-built developments.

As of July 2024, there were 21 operating developments across the region, with 1,500 residences. A further 30 developments are in the pipeline, which will bring an additional 2,100 residences to the region.

"Branded residences as an asset class were born out of the hospitality industry, specifically luxury hotels," says Rico Picenoni, Head of Global Residential Development Consultancy (International), Savills. "Today, these developments, whether they are co-located with a hotel or standalone, support local economies and help to increase tourism to their local markets."

For many resort developers, especially in the luxury segment, branded residential is just one part of a more mixed-use approach, as global operators look to leverage their brands and diversify their income. The Caribbean also tends to see more condo-hotels, which typically are unbranded, where occupants can live for the whole year if they wish.

### Europe: sun, sand and city breaks in Spain

In 2024, the volume of international travellers visiting Spain exceeded 2019 levels. Most of its 94 million visitors prefer coastal regions, with the Canary Islands the most popular destination.

Other European countries are the main source of visitors. The vast majority (82%) stay in tourist accommodation, with 67% checking into hotels and 11% preferring tourist housing.

Spain's tourism sector accounts for more than 13% of GDP. It is expanding at double the rate of the overall economy and was projected to be worth more than €200 billion (\$225 billion) in 2024. Revenue per available room (RevPAR) increased by 11.5% in 2024, with Madrid (up 14%) enjoying particularly strong growth.

"The key to consolidating this success will be the capacity to continue to offer differential experiences for ever-more demanding customers, maintaining the quality of service and avoiding standardisation," says Juan Garnica Alvarez-Alonso, Executive Director, Hotels, Savills Spain.

"The outlook for 2025 is very positive, with a rationalised growth in visitors, room nights and ADRs at sustainable levels," adds Garnica. "We also foresee – potentially starting this year – a concentration of both ownership and operators, which will provide a surge in corporate transactions."

### The Middle East: emerging as an international destination

International arrivals to the Middle East in 2024 were up 32% on 2019, making it one of the strongest-performing regions relative to pre-pandemic levels.

Tourist developments across the Middle East are widespread and ambitious as countries seek to diversify their economies and create jobs. The UAE has developed global appeal; Saudi Arabia is pushing forward with its 2030 vision; and Oman has a new airport, enabling it to accommodate increasing visitor numbers.

The Middle East's tourism sector makes up around 9% of the region's GDP and is forecast to average 7.7% growth per year until 2032. That's three times the 2.5% growth rate for the region's economy overall. The increasing number of tourist attractions encourages visitors to draw up travel itineraries that encompass all the region's key sights.



Dubai



“Western Europe and South Asia consistently deliver the most visitors to the UAE, while there has been noticeable growth from China,” says Rachael Kennerley, Director, Research and Advisory, Savills Middle East. She adds that tourists from Western Europe come for winter sun, while those from warmer climates typically seek more experience-based breaks.

“Much anticipation surrounds the opening of the Wynn Al Marjan Island in Ras Al Khaimah in early 2027, the UAE’s first licensed gaming venue, while the forthcoming Etihad Rail passenger service between 11 cities across the seven emirates could also bring ‘interrailing’ to the UAE.”

She adds that a strong pipeline of mega-projects in Saudi Arabia, combined with seven new ports for cruise ships, will significantly broaden the country’s appeal.

Japan



### Asia-Pacific: Japanese tourism reaches new heights

Japan attracted 37 million tourists in 2024, comfortably beating the previous high of 32 million in 2019, and further growth is forecast. ADR continued to rise in 2024, spearheaded by a 20% year-on-year increase in Tokyo, and occupancy levels recovered.

Elevated construction costs and labour shortages continue to strain new hotel supply. The limited pipelines will benefit existing hotels – particularly in major tourist hubs such as Tokyo, Osaka and Kyoto – and should contribute to higher ADRs and hotel asset valuations.

Repeat visitors to Japan are more likely to venture beyond the major tourist hubs, which is likely to lead to sustainable growth in regional markets.

“In 2024, Japan’s hotel market averaged 19% RevPAR growth nationwide. Approximately 80% of this growth was driven by an increase in ADR, with upscale and luxury hotels in

Tokyo and other major cities exceeding the national average,” says Hirofumi Matsunaga, Director of Hotels, Savills Japan.

Hotel assets in Japan are highly prized among investors and accounted for a historic 20% of total annual real estate transactions in 2024, buoyed by several standout deals. Japan’s comparative lack of upscale and luxury-branded hotels is expected to drive more development, branding and value enhancement.

“The market has continued its strong growth this year, supported by a weaker Japanese yen. Large-scale events, such as the Osaka-Kansai Expo, will also drive demand,” adds Matsunaga.

With the rebound in international tourism projected to continue over the coming years, we expect the hospitality sector to benefit further, as increased demand pushes up room rates, elevating returns for investors. ■

WORDS SARAH BROOKS

**Transport links  
are a priority for  
prime office  
occupiers.**

**But what else are  
they looking for?**

**And how will the  
office change  
in future?**



# TOKYO

## The proximity premium

How walking distance from a transport hub affects prime office rents

**13% rent increase for every five minutes closer on foot**

**Tokyo Station**



**Shibuya Station**





Offices today are at a crossroads. The modern global workforce demands an environment that supports productivity, flexibility and wellbeing.

The pandemic brought about a rapid and unprecedented change to workplace dynamics, forcing businesses to reassess the purpose of the office. Today, hybrid working models are the norm. As a result, offices are no longer just workspaces, but also hubs for collaboration, innovation and talent development.

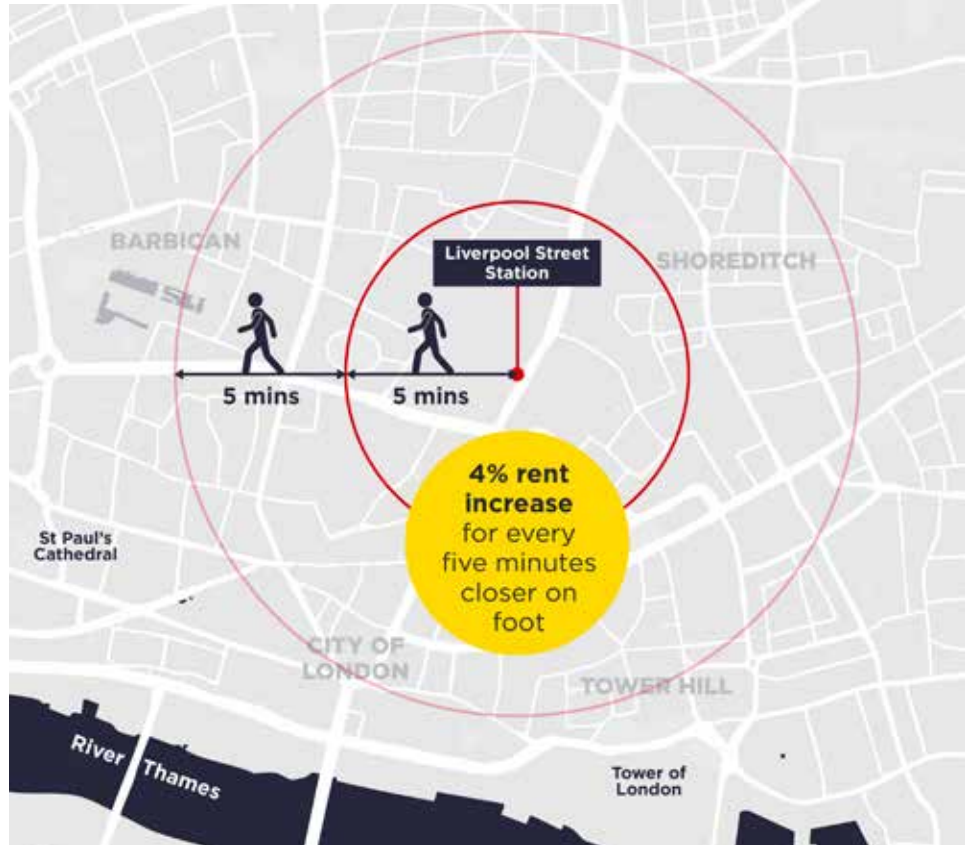
But they also need to meet a range of other needs. To gain a deeper insight into the defining traits of a prime office in 2025, Savills conducted a global survey of tenants, landlords and developers to understand their priorities and expectations.

Traditional factors such as natural light, building security and floor-to-ceiling height ranked highly. For tenants, the quality of collaboration spaces is a priority: they value them more highly than landlords and developers. Location is also key: as well as proximity to transport links, corporate tenants are focusing on vibrant city centre locations, that are close to shops and restaurants and are attractive places to work for their employees.

## LONDON

### The proximity premium

How walking distance from a transport hub affects prime office rents



Source: Savills Research

## A BRIEF HISTORY OF THE OFFICE

### Birth of the office

Palaces to purpose-built headquarters



1560

From grand galleries to global trading houses, the earliest offices are built to command respect and assert influence as much as to administer business

The Uffizi Gallery in Florence is commissioned. Widely regarded as the first modern administrative building, its name loosely translates as 'offices'

The Bank of England moves to premises on London's Threadneedle Street in 1734, one of the first purpose-built offices

1730s



1855

Alfred Savill, the founder of Savills, sets up first office in London, Savill and Son

Indeed, the greatest priority for survey respondents is being close to a key transport hub, with 70% ranking this as the most important site selection factor for a prime office.

### The proximity premium

To gain further insight into the importance of good transport links, we performed a regression analysis to assess how distance from a major transit hub affects prime office rents in three major cities: New York, London and Tokyo. Across the three cities, the study revealed that for every five minutes by foot that a prime office is closer to a major transport hub, the rent increases by an average of 6.7%.

Offices in Tokyo demonstrated the highest premium. For every five minutes closer to either Shibuya or Tokyo Stations, office rents increased by an average of 13%. For Tokyo Station alone, the effect was even more pronounced, with rents climbing 17% for each five-minute reduction in walking distance.

“We’re seeing strong demand for office space in Tokyo,” says Tetsuya Kaneko, Director and Head of Research and Consultancy, Savills Japan. “Business expansion and increased office attendance have encouraged tenants to lease more space or move to

higher-quality premises. Good amenities and transport links are key to supporting the recruitment and retention of talented workers.”

In London, our study focused on offices within a one-mile radius of Liverpool Street Station, in the heart of the city’s financial district. Here, every five minutes closer on foot to the station equates to a 4% increase in prime office rent.

And in New York, we considered walking distance to either Grand Central or Penn Station. The results showed that every five minutes closer to one of these transit hubs boosted rents by 3%.

### Key rent dynamics

Of course, there are an array of local dynamics that influence rents. In New York, a key determinant is whether a building is classified as a ‘trophy asset’. On average this carries a 35% rent premium, although we are seeing examples of trophy assets that carry a 100% premium over wider Grade A space.

“There’s really one reason why these trophy assets are getting these rents, and that’s because they are in buildings that other people want to be in,” says Gabe Marans, Vice Chairman, Savills New York. “I don’t see the demand for

# We are seeing examples of trophy assets in New York that carry a 100% premium

## Second Industrial Revolution

Industry and innovation transform the workplace

Breakthroughs in electricity, communications and steel production drive rapid economic expansion. These technologies transform offices and boost productivity as businesses redesign workflows

1868

The first commercially successful typewriter is developed



1870s

Commercialisation of the electric lightbulb extends the working day, lifts are installed in offices and the telephone is invented





these premium spaces shrinking – we’ll continue to see tight supply and upward pressure on prices.”

Location-specific idiosyncrasies also help to shed light on variations in rents across cities. “Transport connectivity is a major priority for occupiers in London,” says Catherine Facer, Director, Central London Agency, Savills UK. “But in other parts of the city, such as the West End, we found no clear correlation between rents and distance to key Underground stations.

“That’s partly because of London’s extensive Tube network. But it’s also linked to the significance certain postcodes and streets hold for specific brands and industries, which command a higher premium regardless of their proximity to transport.”

It’s a similar story in New York. “Real estate here is extraordinarily local – and culture and history play an important role,” says Marans. “Some buildings have historically commanded high rents. As a result, they have housed premium tenants, which has made them more prestigious and supported the rent levels.”

### The importance of green building credentials

The environmental credentials of office buildings are an important

## NEW YORK

### The proximity premium

How walking distance from a transport hub affects prime office rents



Source: Savills Research



1884

The Home Insurance Building in Chicago becomes the world's first skyscraper, setting the stage for iconic city skylines

### 1900-1970s

The modern office takes shape

Global events and new management thinking reshape the office. Post-war growth brings iconic high-rises, while movements such as Bürolandschaft introduce more human-centric, collaborative design

1906

Frank Lloyd Wright's Larkin Administration Building opens, incorporating innovations such as air conditioning and acoustic engineering

Post-war economic expansion fuels a wave of office construction. Bold, modernist designs emerge

1950s





consideration for survey respondents. This is particularly marked in Europe, driven by investor and market expectations and strict regulation. It's also a factor in Asia Pacific, where Australia leads the way.

There is less emphasis on green building standards in the US, according to our survey, with the focus being more on energy efficiency. That said, many US-based institutional investors, landlords and multinationals have stepped up their commitments to sustainable practices amid growing momentum for environmental sustainability around the world.

As many corporate tenants prioritise sustainable office credentials, a green rental premium is increasingly evident, with the most environmentally certified office buildings commanding higher rents compared to their non-certified counterparts. In Europe, this green premium averages around 18% but varies by market.

In Asia Pacific, meanwhile, the green premium averages 14%. Key cities including Singapore, Sydney, Tokyo, Seoul and Hong Kong are seeing the most notable green premiums. In the US, top-tier markets such as New York, Washington DC and Boston – where environmental, social and governance-conscious occupiers and institutional

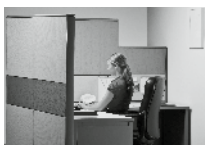
landlords dominate – tend to see the strongest premiums.

This green premium is expected to increase over time, as regulations tighten, corporate ESG standards become more embedded, and scrutiny of greenwashing increases. At the same time, 'brown discounts' – rent penalties for less sustainable buildings – are emerging as a counterpoint to the green premium.

### Where do we go from here?

What will the prime office of the future look like? As businesses face up to major trends such as demographic shifts, the climate crisis, and the Fourth Industrial Revolution, the question is not whether offices will continue to change, but how we will shape that change. ▶

## A green rental premium is increasingly evident



1964

Robert Propst unveils the 'Action Office'. One of the most influential office furniture systems of the 20th century, it is designed to provide a private workspace for individuals that supports physical health

### 1980-2019

Digital, global, green

**The digital revolution transforms working life through personal tech and constant connectivity. Climate awareness drives sustainable building practices, while open-plan offices evolve into flexible environments with new design principles**



**CECILE BABCOCK**  
HEAD OF DISTRIBUTION,  
EDGE



As a green real estate developer and investment manager,

EDGE has long delivered best-in-class office buildings that are sustainable in terms of carbon, energy and wellbeing – delivering exceptional spaces for tenants and returns for investors. Today's commercial tenants are seeking human-centric workplaces that foster community, support wellbeing and reflect their own net zero goals. While connectivity remains essential, location is just one part of a truly premium offer.

Looking ahead, environmental, social, financial and technological forces will reshape what makes a great office. The climate crisis, evolving workplace expectations and regulatory shifts all require more adaptive, intelligent and inspiring buildings.

Developments like EDGE Amsterdam West and EDGE East Side Berlin show what's possible – smart, biophilic design boosting wellbeing and flexibility. EDGE Suedkreuz Berlin sets new standards for low embodied and operational carbon through innovative use of mass timber.

In our view at EDGE, the next generation of offices must be more flexible, purposeful and experience-driven. Offices will remain vital, even as remote work tools advance – but their role will be more intentional. They must offer value beyond function: future-proof places that energise people, reflect company values and help organisations thrive in a changing world.



SHUTTERSTOCK, ADOBE STOCK, GETTY

# India will be home to 1 billion working-age adults by 2030

Countries such as Japan and much of Europe are facing a relative shortage of younger workers. As populations age, some developed economies are also seeing a shift towards higher retirement ages. As a result, the office of the future will need to adapt to a multi-generational workforce, meeting the needs of older workers while catering to younger employees who may prefer different work styles and dynamics.

Companies may also become more reliant on global talent pools to counter the scarcity of workers in certain geographies. “India will be home to a billion working-age adults by 2030,” says Arvind Nandan, Managing Director, Research and Consulting, Savills India. “The country’s youthful and skilled technology workforce will increasingly attract global businesses seeking to access developing talent hubs.”

Globally, the push to green buildings is likely to continue, as the climate crisis accelerates. Businesses, architects and urban planners will need to continue to innovate.

As well as creating sustainable offices that are energy-efficient and minimise waste, they need to design climate-resilient buildings that can withstand extreme heat, flooding, storms and other climate-related events.

The most significant change, however, is likely to come from the

Fourth Industrial Revolution. AI and immersive technologies have the potential to redefine the office, increase efficiency and change the way we think about work.

But for the potentially transformative impact of these technologies to be fully realised, a shift in mindset will be required. If businesses treat AI as just another tool to optimise outdated structures – rather than reimagining workflows, collaboration and decision-making – they may risk missing out on its full transformative power.

For example, AI-driven decision-making could make companies more agile, but only if businesses are willing to rethink their organisational models. Meanwhile, technologies such as Microsoft’s HoloLens, Meta’s hand-tracking VR systems and Apple’s Vision Pro could point to a future based around gesture-based computing – but how quickly will a workforce that is familiar with using a keyboard be willing to embrace it?

One thing is clear: the office will need to build on its successful history of adaptation to thrive in the future. It needs to continue to evolve to ensure we design workplaces that inspire and empower the people who work in them and make the most of technological change. ■



1980s

The rise of personal computers, followed by mobile phones and the internet, revolutionises productivity and enables convenient global communication

Sustainability standards are founded, driving the adoption of greener building practices globally

1990-1998

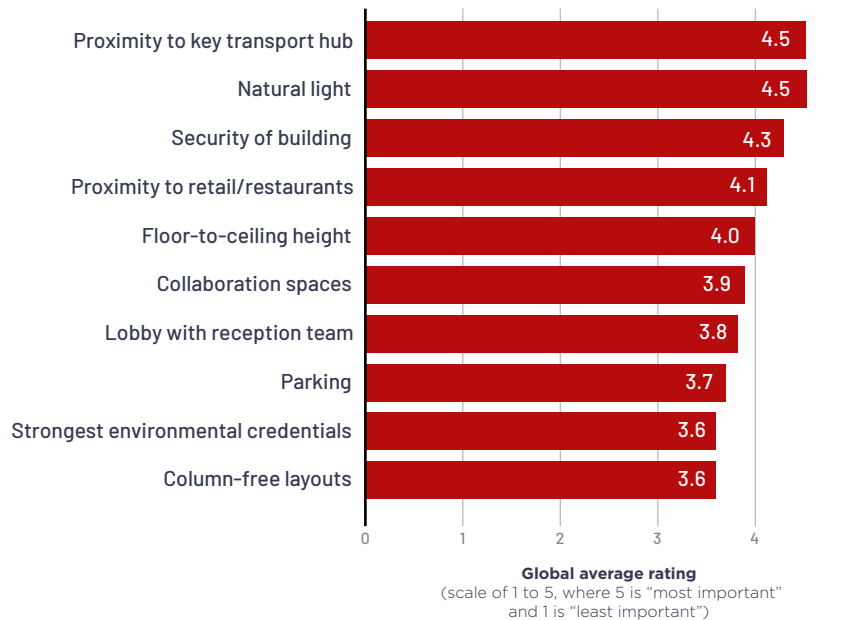


2010

The first WeWork opens in New York, and Australia’s first carbon neutral office building is completed



### For an office to be deemed “prime” in your market, what are the most important features?



Source: Savills global survey of office tenants, landlords and developers

# The office will need to build on its successful history of adaptation to thrive in the future

## 2020 onwards

The next generation of prime



2020

CapitaSpring opens. The AI-enabled, mixed-use development is one of the most environmentally friendly buildings in Singapore



2025

## 2025 and beyond

Hybrid work and rapid tech advances have redefined the office. Today’s prime spaces are strategic – designed to support wellbeing, enable collaboration and meet climate goals while integrating AI

22 Bishopsgate is completed in London, defining the new standard for workplace design



Savills celebrates 170 years

Prime offices will continue to adapt in response to demographic shifts, climate change and the Fourth Industrial Revolution



# Rising to the construction challenge

SHUTTERSTOCK



WORDS PAUL TOSTEVIN

## High costs, finance constraints and skills shortages are the top three factors limiting construction globally. So how can the industry adapt and find solutions to these challenges?

**C**onstruction has emerged from a half-decade of volatility into a new era of stubbornly high costs and persistent capacity issues.

These cost pressures, together with financial, logistical and regulatory headwinds, continue to affect construction project viability. Meanwhile, developers also face increased demands from tenants and enhanced environmental, social and governance (ESG) standards.

For the construction industry, the challenge is how to adapt – and succeed – in this tougher environment.

### Finance challenges in construction

The past three years have seen the end of the low interest rate era, with the cost of money spiking in most developed economies. While rates are now coming down, concerns about persistent inflation are slowing this decrease, meaning the cost of development and construction finance remains a barrier

in many countries. Lenders are requiring more security in the form of equity on their loans, and have increased their due diligence requirements.

Solutions to these challenges can be found in alternative forms of funding, such as institutional or patient capital, which can back projects with long-term, reliable returns. In the UK, for example, institutional investors have supported ‘for profit’ social landlords to build affordable housing, which offers stable, low-risk returns backed by largely government-guaranteed rental streams.

### Tackling higher build costs

The growth in build costs has been notably extreme. In nine major economies, build costs consistently outpaced consumer price index (CPI) inflation between 2020-24, according to our analysis (see chart on p54). While the gap has since narrowed, it hasn’t closed, as contractors seek to recover margins.

In many parts of the world, these

increased costs have affected project viability, forcing schemes to go on hold and putting some contractors out of business. In the UK, the impact has been severe: construction companies accounted for 17% of all insolvencies in 2024, the highest number for any sector.

But there are regional variations. Will Forwood, Regional Managing Director, Asia Pacific, Savills Projects, notes costs are less of a factor in many emerging Asian economies – but pressures remain. “We’re seeing high demand in several markets – in Malaysia for new build, high-value industrial manufacturing facilities; in Japan for high-grade hotel and retail assets; and in India for office and residential space,” he says. “Labour costs are rising well above inflation rates within the construction industry in these sectors in these markets.”

Price pressure is exacerbated by the increasing demand for quality, driven by regulatory and market demands. Michael Glatt, President, North America Project Management, Savills US, says: ▶

## 3 top factors limiting construction activity globally



Financial constraints



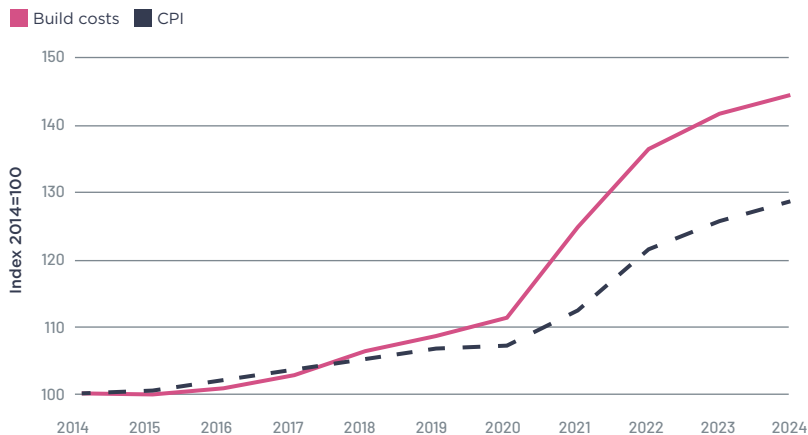
Cost of materials



Skills shortages

Source: RICS Global Construction Monitor

## Build cost inflation has outpaced CPI across major markets



Source: Savills Research using national sources. Average of Australia, France, Germany, the Netherlands, Singapore, Spain, Sweden, United Kingdom, United States

“Higher construction costs for prime office space come as occupiers seek premium design with associated high-quality materials and finishes. This, coupled with elevated costs of materials, labour scarcity, as well as financial constraints, contribute to a higher cost of fit-out.”

There are few shortcuts to tackling inflation. However, bringing contractors in early to scope and de-risk projects, and thinking carefully about procurement strategies, will be key. While lump sum, fixed-price contracts still dominate, larger developers may consider other contract forms if they can reduce prices by absorbing more of the risk on materials and labour.

Ken Ng, National Head, Project Management, Savills Australia, explains

how this works in the state of Queensland, where prices are being bolstered by the demand stemming from the forthcoming 2032 Brisbane Olympics. “Here we’ve seen the highest cost escalation of all Australian states, and forecasts for the next few years exceed 6% annually, making project feasibilities difficult to stack up,” he says.

The key is “more frequent” early contractor involvement (ECI), he adds. “The ECI allows the developer and contractor to impart their preferred construction methodology resulting in more realistic pre-construction pricing. This also saves time.”

Greater use of Building Information Modelling (BIM) – an approach to collaborating on build projects using shared digital designs – could also be

beneficial. BIM can help to create more efficient designs, detect potential problems and reduce waste. While BIM is widely deployed by designers and main contractors on the largest projects, there is the potential for it to be used on smaller schemes and by construction firms further down the supply chain.

## Dealing with skills shortages

Another key global challenge is finding a workforce. The construction sector is increasingly losing the battle for young talent to non-manual and digital occupations, particularly in developed economies. Construction vacancies in the US, for example, were 56% above their 20-year average in 2024.

Amid low general unemployment levels and these deepening skills shortages, construction labour costs have risen sharply. This is particularly evident in complex infrastructure and high-end data centre projects, which have driven demand for specialist skills.

While the construction labour challenge is less intense in many developing economies, this is not universally true. In India – which saw the absorption of 75 million sq ft of office space in 2024 across six key markets – a shortage of skilled labour is exacerbated by seasonal fluctuations.

“Many construction workers are drawn from the rural workforce,” says Sumit Rakshit, Managing Director and Head of Project Management, Savills India. “They often return to the countryside to work during harvest seasons – increasing labour scarcity and costs for construction (due to project delays).

“The informal nature of much construction work, with many workers lacking formal employment contracts or social security benefits, contributes to this seasonal migration.”

One way of tackling the industry’s skills shortages and productivity challenges is increasing the use of modern methods of construction (MMC) – building methods which involve a significant degree of off-site

# Construction is increasingly losing the battle for young talent to non-manual and digital occupations

# India is making increasing use of offsite construction to mitigate labour issues

manufacturing before on-site assembly.

From component systems to full volumetric modules, MMC can help cut build times, improve quality control, reduce site labour requirements and potentially reduce foundation work. India is making increasing use of offsite construction to mitigate labour issues. Singapore, meanwhile, has experienced success with modular builds. Even in markets where labour is more readily available, MMC is valued for its ability to deliver improved build quality and reduced site time.

## Overcoming other challenges

As well as finance, build costs and labour shortages, developers face other challenges. The need to adapt to climate change has led to the introduction of higher building standards in some countries to ensure buildings can cope with extreme weather.

In mature markets, land availability and planning obstacles are major bottlenecks, often exacerbated by increasing regulation.

Additionally, many geographies are constrained by power availability, as countries switch to digital-first economies while reducing reliance on fossil fuels. The development of data centres to support AI usage is driving this trend, with ChatGPT queries consuming 10 times the energy of a Google search. Governments are attempting to help with these burdens, with several administrations elected in 2024 promising to boost housing and cut planning red tape. In the UK, planning policy has become more pro-development, with the government keen to boost construction.

Chris Buckle, Director, Residential

Research, Savills UK, says large sites can provide a long-term source of development land to underpin housebuilding volumes – but the problem is the “upfront investment” they require. “There are only a small number of players taking such sites forward,” he says. “The appetite for investment is not infinite, so there is a role for government to accelerate delivery.”

## Seizing the opportunities

Despite economic uncertainty, demand in many areas remains strong – meaning there are opportunities for firms that can navigate project viability challenges.

For example, even though development is increasing, there remains a lack of prime office supply in major cities in the UK, EMEA and other core global markets. As a result, landlords could use lease renewals or re-lets as an opportunity to improve their buildings. Creating high-quality, prime spaces will attract higher rents, in turn offsetting the cost of delivery.

“We are seeing increasing collaboration between landlords and tenants in aligning ESG ambitions from real estate, which is resulting in the opportunity for lease re-gears on existing office assets as part of sustainability-driven redevelopment and retrofitting,” says Simon Collett, Executive Director, Building and Project Consultancy, Savills UK. “We anticipate seeing a movement towards new development in the next upswing of the property cycle.”

Challenges remain – but construction firms that adapt to this new and evolving landscape are well-placed to prosper. ■



**JONATHAN FENTON-JONES**  
OPERATIONS DIRECTOR,  
BAYTREE

“At Baytree, we develop logistics and industrial buildings within the UK, Germany and France. We use digital technology to streamline a project’s lifecycle – from early design intent, building permits and tender to detailed design, construction, operational and end-of-life phases.

This enables us to quickly test alternative processes, materials and design solutions, and make continuous improvements. We’re also planning to link the data created during design and construction to an AI-based system to help us simplify building operations and management.

We use sensor suite technology to optimise environmental conditions within buildings and prioritise the use of natural materials.

We recently built a 30,000 sq ft, four-level office building using timber instead of steel. The cross-laminated timber (CLT) floors alone are estimated to have 64% less embodied carbon than conventional composite flooring. In another development, we halved the number of internal columns in a warehouse and eliminated the need for internal rainwater gutters and pipework.

One of our main goals is to reduce our buildings’ impact on the environment and support users’ health and wellbeing. We’re targeting full circularity in our developments by 2030 – meaning no materials would become waste.







# Making sense of geopolitical **RISK**



WORDS **OLIVER SALMON** AND **CHARLOTTE RUSHTON**

# Geopolitical risk is redrawing the investment map. For real estate, the implications are profound, as shifting capital flows, disrupted supply chains and more insular policymaking reshape markets

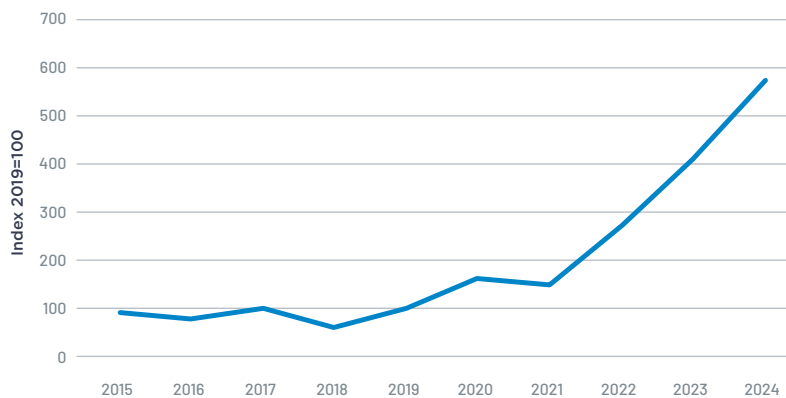
**G**eopolitical risk has leapt up real estate investors’ agendas. Its impact on financial markets creates challenges for pricing and forecasting, leaving investors with the dilemma of how to respond.

In 2016, Mark Carney, then governor of the Bank of England, identified what he called an ‘uncertainty trinity’ affecting economic performance: economic uncertainty, policy uncertainty and geopolitical uncertainty. While the first two are relatively familiar and often quantifiable, geopolitical uncertainty represents a more complex challenge – essentially the cross-border spillover of economic and policy volatility that can disrupt financial markets and international relations at both regional and global levels.

This category of risk is particularly challenging to measure because it encompasses such a broad range of outcomes: military conflict, regulatory changes, terrorism, cyber threats, energy security, climate policy and, of course, trade wars. And it involves diverse actors from governments and corporations to households and activists, each with their own motives and decision-making processes.

BARBARA GIBSON

**Real estate: mentions of geopolitics in public reporting**



Source: Savills Research. Based on a review of the annual reports of a selection of major global real estate investors

## ‘Omnipresent’ risks

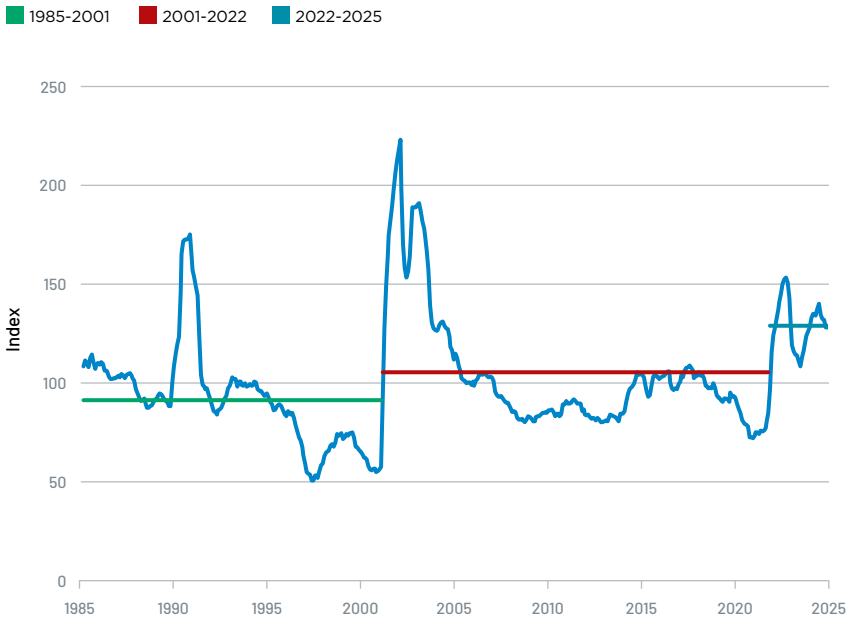
Geopolitical risk is increasingly omnipresent in global markets. As a result, it’s firmly on the radar of real estate investors, as the Investment Intentions Survey of real estate investors conducted by INREV, ANREV and PREA in late 2024 underlined. Across Asia Pacific, Europe and North America, respondents put geopolitics in the top three issues affecting global real estate investment.

Emma Steele, Director, Global Cross

Border Investment, Savills, says that geopolitical risk can cause investors to pause investment activities and adopt a ‘wait-and-see’ approach. “But that said, we continue to see good demand in the real estate market and have seen a series of investors actually taking an even more positive stance on the prospects for real estate,” she says. “They predominantly cite its tangibility, but also its growth prospects and potential for attractive returns.”

The interconnected nature of trade

## World Geopolitical Risk Index



Source: Savills Research using Macrobond. Geopolitical risk index based on text-based analysis to identify frequency of related language

**Public markets have the benefit of being highly liquid, which private markets, such as real estate, do not**



and capital flows means events can have a far-reaching impact. Russia's invasion of Ukraine in 2022, for example, led to a spike in food and energy prices and a global surge in inflation, even in economies with little or no direct exposure to the conflict. It's indicative of how geopolitics often involves events that were previously viewed as low-probability 'what if' tail-risks, but which transpired with potentially large and lasting implications.

### The impact of geopolitical uncertainty

While geopolitical risks are challenging to forecast, their economic impact is clearer. It can be direct, in terms of sanctions; restrictions on the flow of trade, capital and people; or wars or cyber and terrorist attacks. But it can also be indirect, through more volatile asset prices, higher risk premiums and increased caution among investors, households and businesses.

There is a clear correlation between spikes in geopolitical risk and the underperformance of listed equities, bonds, currencies and commodities in the short term, but these impacts tend to fade over time.

Public markets have the benefit of being highly liquid, which private markets, such as real estate, do not. This raises risk for the latter. For example, after the invasion of Ukraine, public equity investors in Russia could quickly sell some of their positions. Businesses and investors with private, off-market holdings, on the other hand, faced a much longer exit route and often had to accept significant losses to extricate themselves from the country.

Although the impact of geopolitical risk on financial markets is largely short-lived, it has a more lasting effect on business investment. Firms generally adopt a 'wait-and-see' approach before

making irreversible fixed capital commitments to expensive new buildings or heavy machinery.

Essentially, geopolitical risk introduces friction into decision-making. This can lead to under-investment or inefficient investment. For example, when companies bring manufacturing closer to home markets to reduce supply-chain disruptions, this usually comes at a cost.

**What it means for real estate**

Some real estate investors are much more focused on buying and selling properties for financial gain, as opposed to just for the benefit of the incomes they can generate. But these assets are large, illiquid and expensive to transact. As a result, geopolitical uncertainty can significantly influence activity.

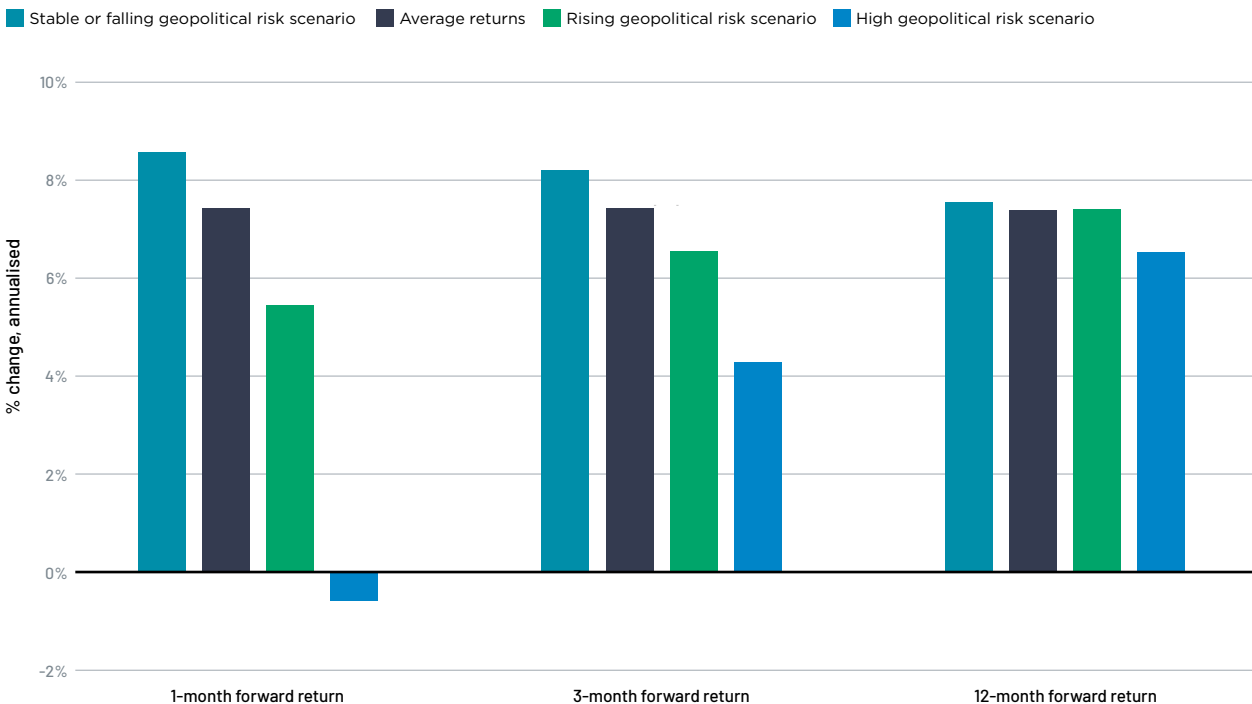
We are already seeing tangible shifts, as businesses actively re-evaluate supply

chains. The 2024 UNCTAD World Investment Report identified a pronounced five-year trend of the largest multinationals increasingly favouring manufacturing locations closer to home markets (‘nearshoring’ or ‘reshoring’), particularly for strategic sectors. Driven by a desire for resilience against geopolitical disruptions, this shift has benefited the companies’ domestic bases, largely in Europe and North America.

Simultaneously, global foreign direct investment (FDI) has declined. In 2023-24, FDI to the 20 largest recipient countries averaged around 1.3% of GDP – the lowest proportion since 1996 and well below the long-term average of more than 2%. National governments are also tightening restrictions on inward investment by implementing FDI screening measures, particularly for sectors deemed critical to national

**In 2023-24, FDI to the 20 largest recipients averaged around 1.3% of GDP, the lowest proportion since 1996**

**Impact of geopolitical risk on public equity markets**



**Source:** Savills Research using Macrobond. Geopolitical risk quantified by the geopolitical risk index. Based on equity price returns in Japan, US, UK, France, and Germany since 1985. High risk scenario defined as any month where the geopolitical risk index was a standard deviation above the average level



security (such as semiconductors, aerospace and defence).

China provides an example. Escalating tensions with the US, coupled with a difficult recovery after the pandemic and rising regulatory risks, has led some institutions to rethink the country’s potential. This is reflected in a sharp decline in FDI inflows, mirrored by a decline in cross-border real estate investment.

Proximity to conflict zones also has a clear impact. Poland, historically the largest and most liquid real estate market in central and eastern Europe, saw investment plummet after Russia’s 2022 invasion of Ukraine. Before the war, Poland accounted for between 50% and 60% of foreign capital inflows to the region. Cross-border investment in 2023 totalled \$1.5 billion – roughly equivalent to a single quarter’s average before the pandemic – with long-haul investors from the Americas and Asia Pacific withdrawing almost entirely. However, this has since stabilised (see chart on facing page).

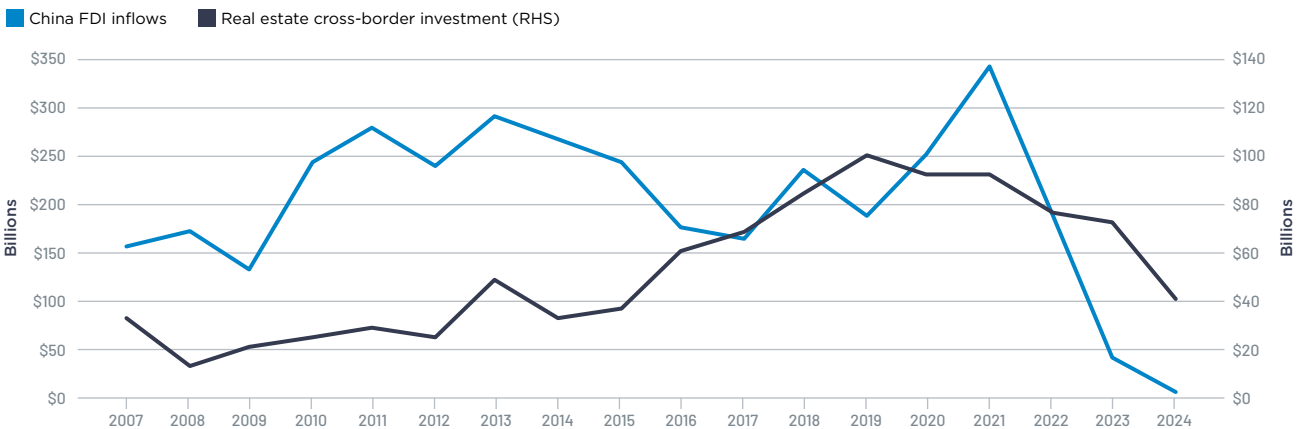
“Now we are starting to see a recovery in activity as a status quo has been established in the region, giving investors more certainty over the outlook,” says Stuart Jordan, CEO of Savills Central and Eastern Europe. “Poland has led European growth in recent years and is expected to do so again going forward.”

**A more volatile, fragmented world?**

Risk and opportunity are, of course, two sides of the same coin. The great fear, however, is that investor confidence and appetite for risk could be casualties of the current fragmentation in our world order. Looking ahead, a sustained period of heightened geopolitical risk points towards several broad macroeconomic implications.

Reduced free movement of goods, capital and people is undermining the efficiency gains from specialisation and competition. It also weakens the shock-absorbing capacity of global supply chains and distorts capital flows ▶

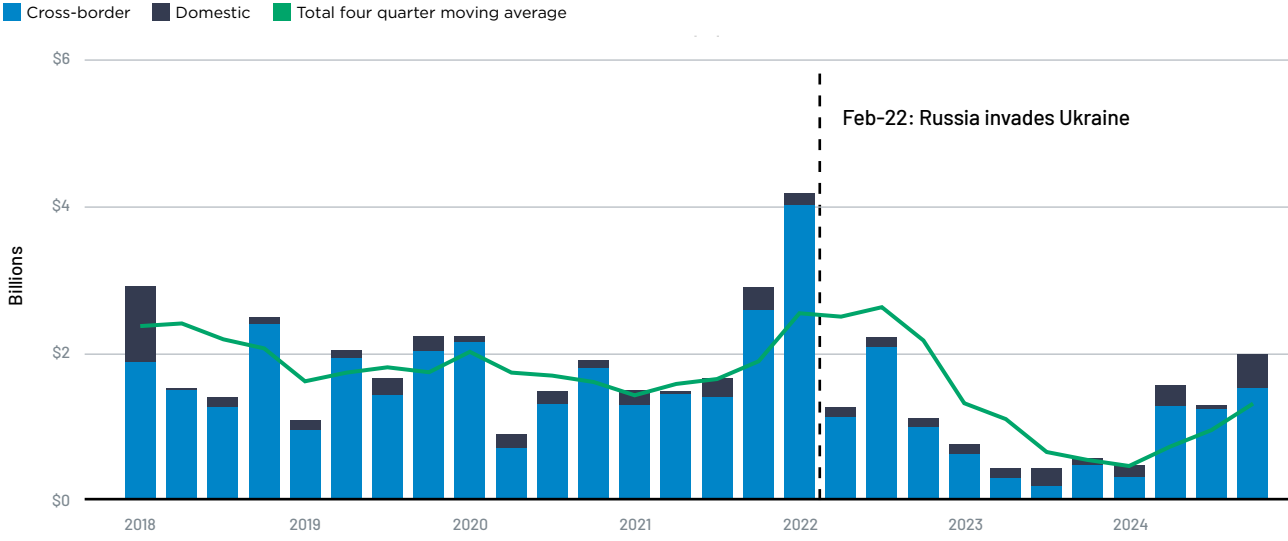
**China FDI and cross-border investment**



Source: Savills Research using Macrobond and MSCI Real Capital Analytics



### Commercial real estate investment in Poland



**Investor confidence and appetite for risk could be casualties of fragmentation**



# Slower economic growth will clearly affect all real estate sectors, due to reduced tenant demand

away from their most productive uses.

Waning support for multilateralism in the face of nationalist politics could combine with fading globalisation to sap economic growth and weaken the world's ability to meet challenges such as climate change, pandemics and sovereign debt crises. At the same time, the erosion of global cooperation limits positive spillovers like technology diffusion and talent migration. All this, as higher defence spending crowds out more productive use of public funds, further strains already stretched government finances.

Will a new generation of risk-averse 'depression babies', shaped by persistent uncertainty, hinder the entrepreneurialism needed to drive recovery?

Let's hope not. Certainly, it need not be that way. Overall cross-border real estate investment since the pandemic has stabilised at around 21-22% of total investment globally, albeit down from an average of nearly 30% in the five years to 2020.

And there are other encouraging trends. Global capital flows, though weaker than before, are now a bit more widely spread, benefiting lesser-served markets. That said, diversification remains a relatively narrow concept in real estate, with the 10 major markets in North America, Europe and Asia Pacific accounting for more than three-quarters of investment.

Slower economic growth will clearly affect all real estate sectors, due to reduced tenant demand. Unwinding our highly integrated economies could stall growth in logistics centres and warehouses, while supply chain issues and inflation push up labour and construction costs across the board.





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### Sector opportunities

As Mark Carney noted regarding uncertainty: “Any economic decision that requires finance, has a sunk cost, or an uncertain payoff, is affected.” Real estate typically involves all three. So what does today’s complex and uncertain geopolitical environment mean for the sector?

Despite headwinds, the new world order presents some specific sector opportunities. Data centres, for example, are experiencing soaring demand, driven by the growing popularity of AI and cloud computing. Concerns over energy and security, meanwhile, are prompting hyperscalers – the major providers of cloud computing and data management services – to build in more locations and increasingly favour national data sovereignty, reshoring infrastructure to reduce exposure to geopolitical risk.

Less understood, perhaps, is the

potential impact increased defence spending is having on real estate, particularly in the industrial and logistics and offices sectors. ESG concerns and reputational sensitivities, however, may limit some investors’ willingness to engage with defence-adjacent tenants, despite their typically long leases and solid covenants.

Opportunities always arise during periods of flux and disruption – precisely the kind of environment the world now faces. Geopolitical risk has, unfortunately, become a permanent feature affecting global and local economies alike.

While it’s important to manage this risk, the lesson from history is to resist becoming over-cautious as a result. The most successful investors will be those who can both manage risk effectively and adapt quickly to the changing landscape, finding opportunity where others see only uncertainty. ■



**The most successful investors will be those who can both manage risk effectively and adapt quickly**





ICONSIAM, Bangkok



WORDS MARIE HICKEY AND OLIVER SALMON

# Resilient retail makes a comeback

The retail sector is experiencing a nuanced recovery – where some formats thrive while others struggle. For investors, success now depends not just on what they buy, but how they operate what they own

If there is one thing global retailers have proved over the past two decades, it is that they are remarkably agile and resilient. The growth of e-commerce, the global financial crisis, the pandemic, a cost-of-living squeeze, extreme weather and geopolitical uncertainty have all threatened to derail the sector. Yet retail has adapted and – in some markets – thrived.

The much-forecasted wave of store closures has failed to materialise. Instead, as rents have rebased, many retailers are again expanding their store networks, leading to the return of rental growth across a number of prime retail locations. As a result, the world's largest property investors are taking note of a sector that for a long time was a no-go area.

North America exemplifies this recovery trend. Visits to US malls were up around 1.5% in 2024 over 2023 and 7.3% compared with 2019, according to location analytics company Placer.ai. And, despite continued growth in online sales, nearly eight out of every 10 consumer dollars are still spent in a store, according to US Department of Commerce data.

“Retailers have shown remarkable resilience while navigating global economic volatility,” says Sam Foyle, Director and Co-Head of Prime Global Retail, Savills. “Retail vacancy rates in the US are at a historic low of 4.7%. Strong

demand across all categories – including discount, beauty, athleisure, luxury, sport and fashion – has driven this growth. Having said this, some international brands are now pausing or slowing US expansion in response to increased global volatility and looking to Canada for greater regional exposure.”

At a US National Retail Federation (NRF) Big Show in New York in January, the bosses of Lululemon, Foot Locker and Sephora were among those to outline global expansion plans. In a further sign of conviction, real estate giant Unibail-Rodamco-Westfield opened the doors to the shopping centre at its huge HafenCity mixed-use scheme in Hamburg, Germany, in April 2025.

Demand from occupiers is driving this fresh investment and development impetus. However, the situation is complex. Just as not all retailers have successfully navigated the challenges they have faced, neither is all retail real estate immune from the trends reshaping the industry.

In North America, for example, Bed Bath & Beyond, Big Lots, Joann, Hudson's Bay Company and Forever 21 have all entered into Chapter 11 bankruptcy – with some subsequently acquired and some not. As US retail luminary Steve Sadove, the former CEO of Saks Fifth Avenue, reflected at the NRF



## Investment in stores is increasingly being seen as an opportunity

Big Show: “What is becoming evident is that there are winners and losers. But the idea that physical retail is dead and has become a digital play is incorrect.”

### Navigating macro uncertainty

The most notable challenge for the industry remains the volatility of global economics and geopolitics. Affecting retailers and real estate alike, it is beyond the control of even the most active and focused investor.

The underlying macroeconomic backdrop has been broadly supportive of retail: falling interest rates, low unemployment in many areas of the world, improving household confidence, the global travel recovery, and rebased rents and valuations for retail space in many markets. But, of course, the early months of 2025 have brought further volatility.

Previous supply chain challenges have compelled retailers to bolster their logistics resilience, nearshore or broaden their supply chains and adopt technology to improve efficiency. The popularity of online sales has led to better integration of digital channels, with stores now playing multifunctional roles – as showrooms, fulfilment hubs and return points. Many are also investigating new revenue streams such as selling advertising to brands on in-store screens and radio. As a result, investment in stores is increasingly being seen as an opportunity.

Many retailers have already demonstrated their resilience

and ability to adapt to shifting trade conditions. Lesser-known retailers and brands may use disruption as an opportunity to usurp incumbent names, while digital-native operators such as Gymshark may spy a chance to trial physical retail. The UK gymwear brand has opened a number of stores in the UK, including one on London’s Regent Street, and has further openings completed or planned for Dubai, Amsterdam and New York.

### Occupiers lead, investors follow

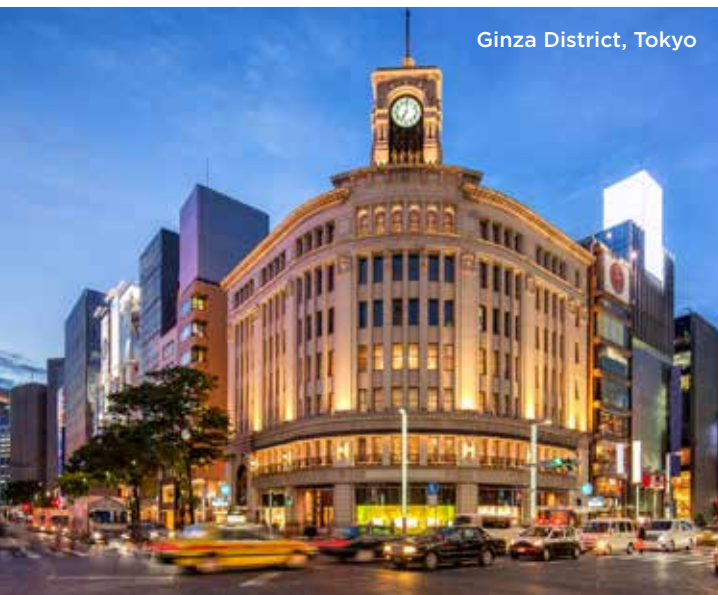
There remain plenty of investors deterred by their previous forays into retail, sitting on stranded assets and having lost significant sums of money. According to the ANREV Investment Intentions Survey, global institutional allocations to retail are forecast to be 12.4% of the total in 2025, compared with 27.7% in 2018.

But investors are beginning to look at retail again. In 2024, investment was broadly stable, with momentum building in the second half of the year.

Supported by some marquee transactions, retail real estate



La Rambla, Barcelona



Ginza District, Tokyo

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has attracted an increasing share of institutional capital. Retail warehousing and retail parks have led this recovery – possibly because of their defensive characteristics and their ability to complement omnichannel retail strategies.

Meanwhile, asset repricing has provided interesting opportunities for investors. Yields are particularly attractive relative to other popular sectors, such as living and logistics, which need continued strong rental growth to underwrite and are relatively tightly priced due to the weight of capital pursuing them.

These trends are reflected in the latest INREV Investment Intentions Survey, which shows a significant uptick in investor interest in retail in 2025.

Major players have been readjusting their stance. In 2024, Hines publicly declared its return to retail real estate investment, saying good and bad retail had been tarred with the same brush. Westfield decided to downsize rather than sell its US mall portfolio.

In Asia Pacific, the retail sector is demonstrating growth potential, although its recovery has been mixed. Australia, Malaysia and India experienced growth in retail investment in Q4 2024 due to increased demand for regional malls. Other bright spots include US athleisure brand Vuori opening a store in Shanghai – its first in mainland China. In Japan, meanwhile, retail sales growth has been boosted by inbound tourism, while the luxury sector benefited from a weakened yen.

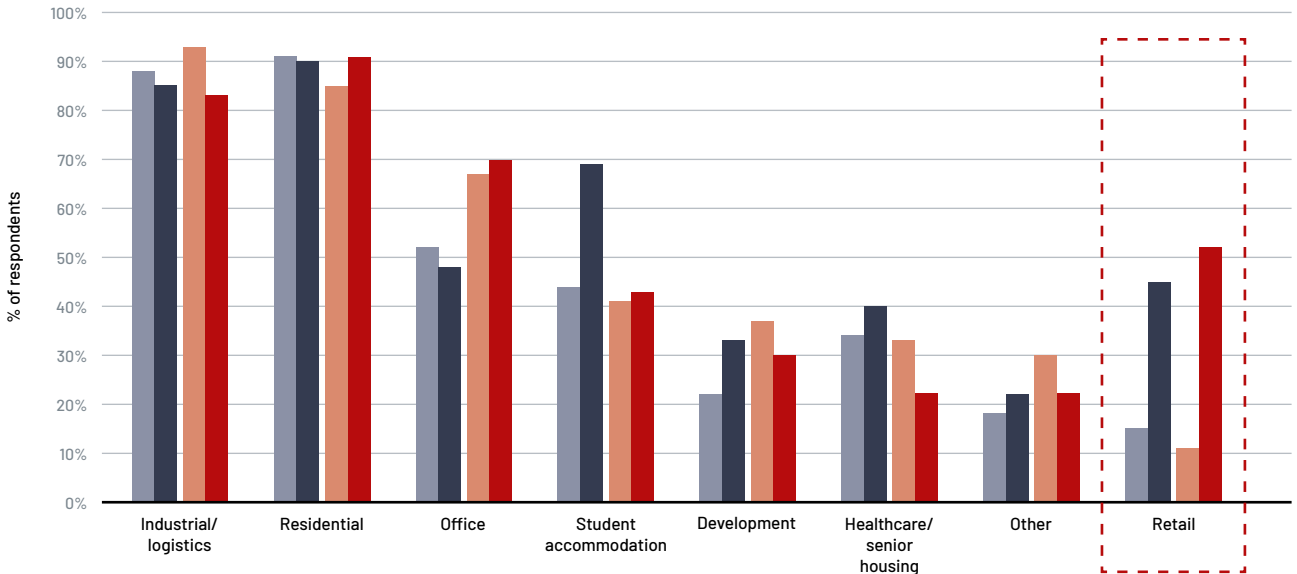
“We still see luxury brands expanding their store footprints, despite challenges across Asia as Chinese consumers hold back on travelling and spending,” says Nick Bradstreet, Head of Asia Pacific Retail, Savills. “This expansion will be cautious, with openings of new stores being largely within their trusted partners’ developments.

“Over the past 10-15 years, luxury groups have aligned their interests with a small group of trusted developers across ▶



## Europe and Asia Pacific: preferred sectors for investors, 2024-25

Europe 2024 2025 Asia Pacific 2024 2025



Source: INREV/ANREV Investment Intentions Survey 2025

Asia, which have built high-quality shopping centres and can manage and operate them over time.”

In Ireland, the country’s largest mall, Blanchardstown Centre, was purchased by investment firm Strategic Value Partners. In the UK, Redevco spent £520 million (\$695 million) acquiring a portfolio of retail parks; Norway’s sovereign wealth fund Norges bought Sheffield’s Meadowhall shopping centre and a stake in Shaftesbury Capital’s Covent Garden estate; and Landsec acquired a 92% stake in the retail-led Liverpool ONE development.

“Global uncertainty has led to some sectoral cooling in Europe, but the flight to prime continues, with retailers pursuing the best locations and opportunities,” says Larry Brennan, Head of European Retail Agency, Savills. “Right-sizing is also a persistent theme, driving both opportunities and activity.

“The bellwether sectors remain sports and athleisure, along with value fashion brands, which continue to transact the highest volumes of space. The retail park sector also remains resilient, with limited availability in most markets, backed by very strong levels of demand.”

UK retail parks in particular are a standout sub-sector. Their move away from a reliance on bulky goods and furniture has seen them diversify their tenant base, adding in services such as gyms and improving the availability of restaurants and cafes. They have also attracted major fashion retailers such as Next, which was one of the first to pivot from the high street to out-of-town retail parks.



Orihuela shopping mall, Costa Blanca, Spain



In Spain, GDP growth of 3.2% in 2024 – driven by strong domestic consumption, resilient private investment and a surge in tourism – has created a supportive environment for investment in shopping centres. This totalled €1.1 billion (\$1.2 billion) in 2024.

“Prime yields remain highly attractive, ranging between 6.5% and 7.25%, supported by robust retail sales growth, increasing footfall and stabilised capital values,” says Luis Espadas Cestero, Executive Director, Head of Retail, Savills Spain. “Banks are also showing renewed appetite to lend against retail assets, further fuelling market activity.

“With capital values often below replacement costs and limited new developments in the pipeline, supply remains constrained, creating favourable conditions for existing assets.”

### Retail as operational real estate

While the lack of new development in the US and Europe is ostensibly good news for the value of existing retail real estate, the nuanced recovery requires careful asset selection by investors. Prime flagship malls and specialist sub-sectors such as retail parks and designer outlets generally continue to perform well.

But value will be far harder to extract in secondary retail destinations – for example, in locations where there is a

dominant high street or super-regional mall – without significant repositioning. Investors need to consider carefully the reasons why an asset is struggling, and whether the issues relate to a lack of available capital expenditure or the fundamentals.

Equally important is the recognition that retail can no longer be viewed as a passive investment – and instead should be treated as operational real estate. Shopping destinations now require active asset management, capital for refreshment and evolution that is informed through in-depth customer insight, and focused marketing to position the centres for their catchments.

As well as considering the needs of their tenants, landlords need to understand why shoppers are coming to a mall, high street or retail park. The cookie-cutter approach of the 1980s and 1990s is no longer enough. Consumers want choice and authenticity and are looking for a mix of big brand names, local independents, bars and restaurants.

In 2025, retail is back – but not all retail. The sector’s recovery is characterised by a significant divergence between asset types, locations and management approaches. Understanding the differences between those that will thrive amid an ever-changing economic and political backdrop – and those that will not – is critical for the new wave of investors shopping for retail assets. ■



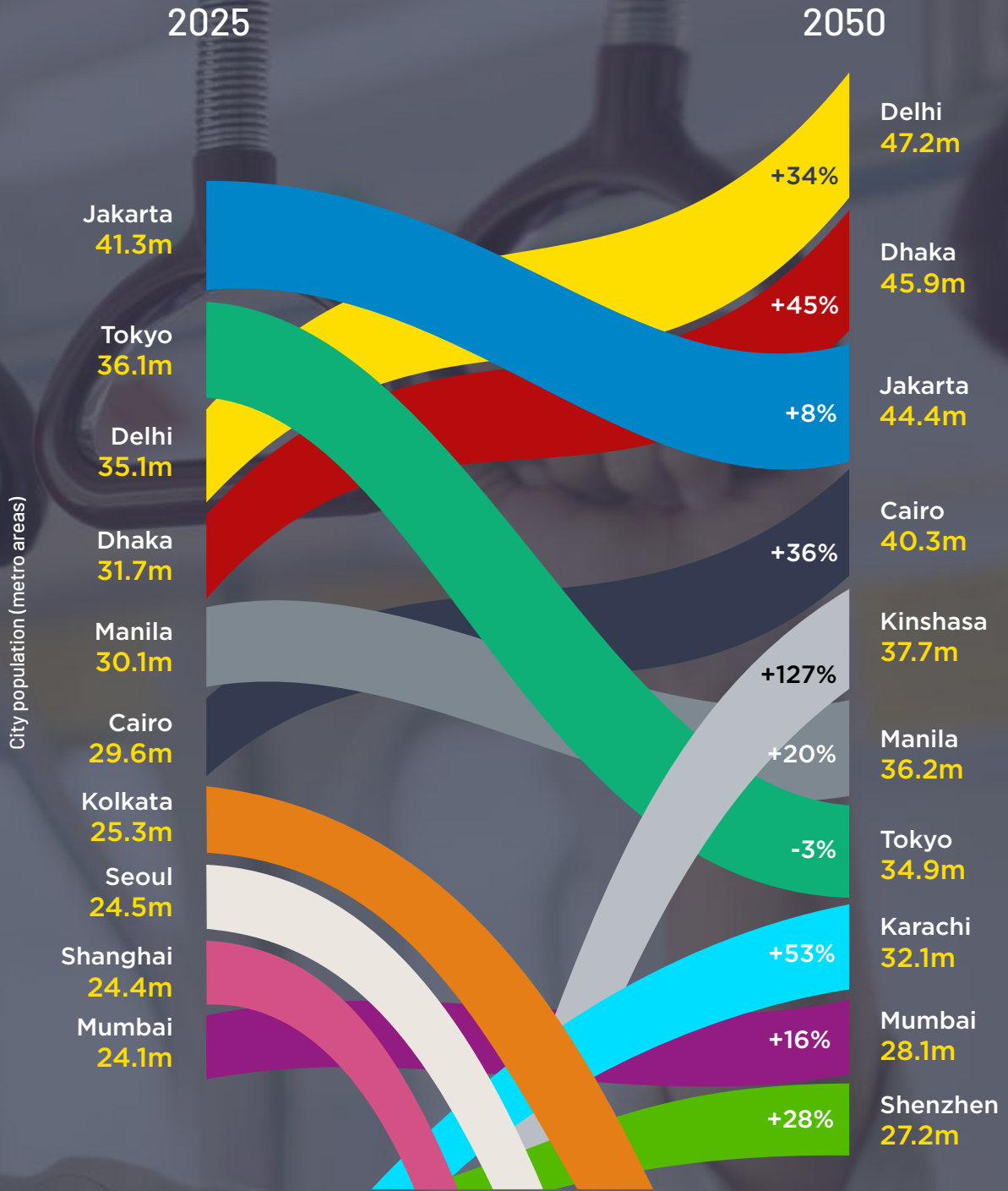
Pavilion Kuala Lumpur, Malaysia

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WORDS KELCIE SELLERS

68% of the world's population is expected to live in cities by 2050. **Treating housing as infrastructure** could help fund homes for them

## World's most populous cities, 2025 vs 2050



Source: Savills Research using Oxford Economics

% growth





**W**ith urban populations projected to exceed two-thirds of the global total by 2050, cities face growing pressure to deliver adequate and sustainable housing. The United Nations' Sustainable Development Goal 11 calls for urban environments that are inclusive, safe, resilient and sustainable. Yet achieving these ambitions is proving difficult, particularly amid high inflation and fiscal tightening that limit public-sector investment capacity.

Today, an estimated 1.6 billion people lack access to adequate housing. As affordability deteriorates further – driven by housing costs that consistently outpace average incomes – the need for scalable, long-term solutions becomes more urgent. While private capital, particularly from institutional investors, could help close the gap, persistent short-termism in housing policy has dampened participation.

Frequent shifts in regulation and political priorities deter long-horizon investors such as pension funds and insurers, who require stability and predictability to support decades-long commitments. The lack of continuity in national housing strategies leaves potential capital on the sidelines.

A shift in perspective may be necessary. Reframing housing as core infrastructure – on par with transport or energy – could unlock longer-term investment and encourage greater policy continuity. Doing so would strengthen economic and social outcomes and could also help mobilise the scale of funding needed to address the global housing shortage.

Shanghai



## The global housing shortage

As cities continue to grow, local and national governments must ensure infrastructure and services are not overwhelmed. Schools, hospitals, roads and public transit networks – as well as housing – must keep pace.

Cities that develop in a controlled and inclusive manner could benefit global society in several ways. More sustainable new housing developments can support the transition to a low-carbon economy and reduce air pollution, while incorporating shared and green spaces can improve inhabitants' quality of life and safety. Increased provision of residential property also supports economic growth as employees can live closer to work and participate in the local economy.

However, the most significant obstacle to sustainable urban growth is the lack of housing availability. Shortages are fuelled not only by more people moving to urban areas, but also by the increasing cost of housing relative to incomes.

A recent International Monetary Fund study of 200 global cities found that 90% were 'unaffordable' to live in – with the typical home costing more than three times average annual earnings. Meanwhile, figures from UN-Habitat suggest that the





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## Housing plays a vital role in enhancing economic and social wellbeing



### ROGER MADELIN

JOINT HEAD OF  
CANADA WATER,  
BRITISH LAND

“ Canada Water is a project to create a new district for London that is rooted in the area’s heritage. The 53-acre mixed-use scheme – a joint venture between British Land and AustralianSuper, working in partnership with Southwark Council – will include the first new high street in the city for 100 years.

Residential property is central to the vision for Canada Water. With around 3,000 new homes planned, the scheme will help address London’s urgent housing needs. The homes will also complement a broader workspace and retail offering – ensuring the area becomes a vibrant, mixed-use destination.

The first residents are due to move in very shortly, boosting natural daily footfall. To support this, more than £33 million (\$44 million) is being invested in local transport improvements, including upgrades to Surrey Quays station.

Our single ownership of the area will enable us to deliver a carefully curated mix of retail and leisure amenities, designed to appeal to incoming residents, workers and the existing local community. People living here won’t just occupy homes – they’ll be part of a vibrant neighbourhood. The diverse live music, food and cultural offerings of the newly opened, multi-use leisure venue, Corner Corner, for example, has been designed to reflect the fabric of London.

”

world would need to build 96,000 new affordable homes every day to adequately address the housing shortage between now and 2030.

New construction is not the only solution. The OECD estimates there are 42 million empty homes globally. In the US, more than 11% of homes are unoccupied. In Canada, the figure is almost 9%, representing around six years of housing supply. However, the legal and logistical challenges of making unoccupied homes available to the market are considerable.

## Increasing housing supply

We've analysed housing supply pressures in several major cities to see how policymakers are tackling regulatory and logistical obstacles to increasing the supply of new homes.

### SINGAPORE SUCCESS

Following high net migration in recent years, Singapore's Government is targeting 50,000 new public dwellings annually between 2025-27. The city-state funds high-quality public housing through its Housing Development Board (HDB) to prevent locals from being priced out.

"Since independence, Singapore has approached the issue of housing holistically. Public housing and urban planning authorities worked together to provide affordable housing by identifying new towns to develop," says Alan Cheong,

Executive Director of Research and Consultancy, Savills Singapore. "These estates were often developed near employment centres, initially manufacturing clusters. Modern HDB flats feature sleeker, condo-like finishings that offer a contemporary aesthetic and improved functionality, with laminated timber doors, steel entrance gates, larger tiles and improved sanitary fittings."

Divided into 24 towns and three estates, each area is self-sufficient, with access to public transport, retail outlets, schools, recreation and healthcare. Around 80% of Singaporeans live in HDB housing, which benchmarks prices to local private-sector resale values minus a discount. The HDB makes no profit, and its annual deficit is covered by a Ministry of Finance grant.

Cheong adds: "By analysing population demographic and income trends, the provision of public housing in Singapore has become a well-oiled machine. Thanks to the Government's encouragement of home ownership, public housing today serves not only as shelter but as a store of wealth for Singaporeans. For other governments to replicate this model, they must understand that success depends on political will, not just institutions."

### SUPPLY SHORTFALLS

To address growing demand and improve affordability, the UK Government has set an ambitious target of 88,000 new homes in London annually for the mayor's office. However, the city delivered just 35,850 homes in 2024. Despite a policy push, including the flexing of planning rules like Development Consent Orders (DCOs) to streamline approvals, the capital's housing pipeline is stalling. Private housing starts have plunged to their lowest level since 2010, dragged down by construction inflation, debt costs and regulatory bottlenecks. With completions dwindling to under 15,000 units per year and a shrinking backlog of projects, the gap between aspiration and delivery is widening.

New York City has seen a steady increase in new dwellings,



Orgues de Flandre, Paris

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reaching 34,000 deliveries in 2024. The city's mayor has laid out a bold target of 500,000 new housing units by 2032, requiring the delivery of 66,000 units a year. However, 2024 saw just 34,000 completed. Still, the city is leveraging incentives: tax credits and a \$500 million capital fund to nudge developers towards affordability.

#### **POPULATION PRESSURES**

In 2024, Shanghai completed an estimated 127,000 new dwellings, reflecting a consistent trend in China. While affordability remains a significant issue, there are also broader factors at play like the general cost of living, fewer job opportunities and other lifestyle pressures. These factors have contributed to a population decline over the past two years. Policymakers are focusing on boosting income growth and enhancing consumer confidence in the property sector to address these challenges.

Paris averaged 40,000 new homes annually from 2000-24. With limited land and high prices, the city is shifting focus from new construction to adaptive reuse. Under its 2024 housing plan, Paris aims to convert existing buildings and reach 40% public housing by 2035. To put idle units back into circulation, there are targets to implement vacant property taxes.

## **Around 80% of Singaporeans live in Housing Development Board homes**



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# By 2050, the world's top 10 most populous cities will be home to nearly 374 million people

## **An infrastructure boost to investment**

These cities are far from the only major population centres grappling with the need for more housing. By 2050, the world's 10 most populous cities will be home to nearly 374 million people – and most will experience significant population growth over that period.

These growing numbers of people will need housing. To fund the construction of homes and support sustainable urban growth, more public and private capital is urgently needed. While housing continues to attract significant investment, planning systems, housing policy and political uncertainty can deter the flow of long-term, patient capital needed to deliver at scale.

Richard Valentine-Selsey, Head of European Living Research and Consultancy, Savills, notes: “Typically a residential property development might have a five-year investment horizon. However, institutional investors prefer to deploy their capital over much longer timeframes, of 20 years or more. Delivering housing, especially affordable housing, as infrastructure with long-term cashflows can unlock deep pools of capital beyond traditional real estate funds.”

One promising solution could be to reposition housing as a form of national infrastructure. When housing is treated with the same strategic importance as transport or energy networks, it becomes more attractive to long-term capital providers. Countries such as Singapore already take this integrated view, embedding housing within national infrastructure planning alongside utilities and social services. Similarly, Austria, Denmark and the Netherlands maintain robust social housing

sectors as part of their long-term public policy frameworks.

Framing housing as infrastructure also offers structural advantages. Infrastructure projects tend to carry cross-party political support and long-term government backing – qualities that institutional investors value. Moreover, this approach could reduce the cost of housing delivery, support greater affordability and help incorporate broader objectives like climate resilience and sustainability into development pipelines.

Policy innovation is beginning to reflect this shift. In England, changes to the DCO regime are streamlining planning for housing tied to major infrastructure projects. By creating faster, more predictable approval pathways, governments can remove bureaucratic barriers that often delay or deter private investment.

Of course, redefining housing as infrastructure is not a panacea for the global housing crisis. However, it is a necessary step towards unlocking new sources of capital and aligning long-term investment with long-term needs. In an era defined by demographic pressure, affordability concerns and sustainability imperatives, such a reframing may be essential for cities seeking to build housing at the scale and pace required. ■



## THE LAST WORD

# Healthy debt markets give grounds for optimism



Andy Davis

**Real estate debt funds received \$32 billion in commitments in 2024**

“ We have endured three tough years in global real estate markets, following the sharp rise in interest rates from early 2022. However, there is growing evidence that sentiment among investors is improving and that the cycle is turning. Real estate is adapting and looks to be on the way back.

Before we examine the reasons to be cheerful, it is worth recalling one or two dire forecasts that did not come true. Chief among these are the fears that spread in early 2023 of a crisis among US regional banks caused by over-exposure to souring real estate loans. Although some banks creaked a little and lending standards were tightened significantly, the fallout was comfortably contained.

That is not to suggest that everything will be plain sailing from here. Interest rates are on a downward trend but are not falling as fast as some had forecast. Pervasive geopolitical uncertainty is feeding through to higher yields on long-dated government bonds. Questions remain over where long-term demand for offices will settle, especially those in secondary locations.

But for all the caveats, there are more reasons to feel optimistic. For a start, real estate debt markets are in good health, thanks to the growing availability of non-bank finance. Tighter regulation of banks after the global financial crisis of 2008-09 meant they were able to ride out the 15%-20% drop in capital values over the past three years with little difficulty. Regulation has also permanently curbed their risk appetite.

Instead, private capital has flowed into the market – real estate debt funds received \$32 billion in commitments in 2024, up 16% on 2023. Although fundraising remains tough for real estate equity sponsors, Preqin data shows real estate was the only area of private markets in 2024 to have the same number of fund closes as in 2023. All the others declined.

So plentiful debt finance is available. Capital values have reset without causing major problems. News from the occupier market is positive – forward-looking indicators on rental growth and leasing activity are strongly positive across almost all sub-sectors and regions. For those with above-average equity risk appetite, that is a great backdrop.

ANDY DAVIS IS A FINANCIAL WRITER AND INVESTMENT COLUMNIST, AND A FORMER EDITOR OF FT WEEKEND.

# SAVILLS CONTRIBUTORS

<b>Alan Cheong</b>	Executive Director of Research and Consultancy, Singapore
<b>Alex Christian</b>	Joint Head of Savills Private Office
<b>Arvind Nandan</b>	Managing Director, Research and Consulting, India
<b>Catherine Facer</b>	Director, Central London Agency, UK
<b>Chris Buckle</b>	Director, Residential Research, UK
<b>Elena Rivilla-Lutterkort</b>	Head of Sustainability, France
<b>Ellen Waals</b>	Head of Agency, Netherlands
<b>Emma Steele</b>	Director, Global Cross Border Investment
<b>Gabe Marans</b>	Vice Chairman, New York
<b>Hirofumi Matsunaga</b>	Director of Hotels, Japan
<b>James Macdonald</b>	Head of Research, China
<b>Juan Garnica Alvarez-Alonso</b>	Executive Director, Hotels, Spain
<b>Ken Biberaj</b>	Executive Managing Director, US
<b>Ken Ng</b>	National Head, Project Management, Australia
<b>Larry Brennan</b>	Head of European Retail Agency
<b>Leyre Octavio de Toledo</b>	Executive Director, Architecture and Occupier Solutions, Spain
<b>Luis Espadas Cestero</b>	Executive Director, Head of Retail, Spain
<b>Marylís Ramos</b>	Director, Savills Earth Advisory
<b>Michael Glatt</b>	President, North America Project Management
<b>Michelle Needles</b>	Executive Vice President, Global Head of Enterprise Solutions, Global Occupier Services
<b>Nick Bradstreet</b>	Head of Asia Pacific Retail
<b>Rachael Kennerley</b>	Director, Research and Advisory, Middle East
<b>Rasheed Hassan</b>	Head of Global Cross Border Investment
<b>Richard Valentine-Selsey</b>	Head of European Living Research and Consultancy
<b>Rico Picononi</b>	Head of Global Residential Development Consultancy (International)
<b>Sam Foyle</b>	Director and Co-Head of Prime Global Retail
<b>Sarah Brayshaw</b>	Principal Climate Risk and Resilience Consultant, UK
<b>Simon Collett</b>	Executive Director, Building and Project Consultancy
<b>Simon Raper</b>	Head of Design, Asia Pacific
<b>Stuart Jordan</b>	CEO of Central and Eastern Europe
<b>Sumit Rakshit</b>	Managing Director and Head of Project Management, India
<b>Tetsuya Kaneko</b>	Director and Head of Research and Consultancy, Japan
<b>Tom Dearing</b>	Director, Climate and Major Projects, UK
<b>Troy Griffiths</b>	Deputy Managing Director, Vietnam
<b>Victoria Garrett</b>	Head of Global Residential (excluding UK)
<b>Will Forwood</b>	Regional Managing Director, Asia Pacific, Savills Projects

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