

# iMPACTS

THE FUTURE OF GLOBAL REAL ESTATE



## Investment benefits

How real estate helps investors diversify their portfolios **p30**

## The location advantage

Corporates turn to new markets to recruit and retain talent **p22**

## Cities that deliver

The resilient hubs attracting businesses and residents **p8**



# Real estate must deliver in a changing world

Long-term trends are reshaping the way we live and work  
– creating opportunities for the sector



**SIMON SHAW**, GROUP CHIEF EXECUTIVE, SAVILLS

**A**fter absorbing the economic and geopolitical uncertainty of the 2020s so far, prime real estate has proved its resilience.

The theme of Impacts in 2026 is 'Deliver'. Years of disruption have changed the way we think about the built environment and the role it plays in society. Fundamental shifts in the way we live, work and do business have created both challenges and opportunities.

With uncertainty seemingly here to stay, real estate must take decisive steps in response to today's market dynamics. There is a pressing need to deliver buildings and infrastructure adapted for a new world of convenience, connectivity, sustainability and liveability.

Long-term economic, environmental and social trends are accelerating the transformation of urban landscapes. Companies are looking for talent in new



locations, supply chains are evolving and AI is accelerating the pace of technological change. Extreme weather can no longer be considered unusual. Over the next decade, demographic trends will significantly alter the landscape for business owners and city planners alike, with a range of consequences for property globally.

### **A sweet spot for investors**

Capital is key to delivering the buildings that our changing world requires. The good news is that investors continue to recognise the role real estate can play in their portfolios.

Real estate is a tangible asset that provides much-needed diversification in investment portfolios. Land is a finite resource, but people still need homes, businesses need premises and society needs infrastructure, both social and technology-related.

In a volatile investment landscape, real estate occupies a sweet spot between equities and fixed income. Despite the macro-economic and geopolitical buffeting, institutional target allocations to real estate and related infrastructure have been stable since the start of this decade. There is also plenty of liquidity in debt markets, with banks and funds remaining keen to lend against assets that have largely recalibrated since 2023.

Against this backdrop, the critical question remains: where should investment be directed? As global trends change the nature of real estate delivery, old certainties about where people and businesses cluster do not always apply. Investors, developers and other real estate decision-makers need to make informed, data-driven decisions about the way the world is today – and how it might look 10 or even 20 years down the line.

### **Finding solutions to today's challenges**

Innovative approaches to the built environment are urgently needed. Successful, resilient cities are focusing not just on roads and public transport networks, but also increasingly on social infrastructure



As global trends change the nature of real estate delivery, old certainties about where people and businesses cluster do not always apply

**SIMON SHAW,**  
**GROUP CHIEF EXECUTIVE, SAVILLS**

such as schools, public spaces, leisure and riverside regeneration projects. People want liveable, walkable, mixed-use neighbourhoods that meet a spectrum of needs.

In the midst of all these changes, investors, developers and building owners face a range of issues. Construction costs impact the viability of development. Decisions must be made on whether buildings should be retrofitted rather than redeveloped to improve their environmental performance. There is also a pressing need to understand how AI will shape the future of the built environment.

### **Helping you navigate the shifts shaping the future of real estate**

This year, Impacts seeks to address all the above, and more. I hope you find it thought-provoking, and we look forward to helping you find solutions to your real estate challenges and take advantage of the opportunities that present themselves. ■

# 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



**Charlotte Rushton**  
Associate,  
World Research



**Connor Chilton**  
Associate,  
World Research

## Savills World Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across diverse sectors in global property markets. To view our previous articles, publications and webinars, go to [impacts.savills.com](https://impacts.savills.com)

## About Savills

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa, India and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

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Savills marketing lead: Kate James, Associate Director, Research and Content Marketing

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## Savills Resilient Cities Index 2026: ranking increases

- More than 20 places ▲
- 11 to 20 ▲
- 6 to 10 ▲
- 1 to 5 ▲
- 0 (no change)

### UNITED STATES

Cities in the US have risen an average of six places in our Resilient Cities Index since 2024. The US led real estate investment recovery overall in 2025, while San Francisco is benefiting from the AI boom

# CITIES THAT DELIVER



**Paul Tostevin**  
Director,  
World Research



**Charlotte Rushton**  
Associate,  
World Research

Dynamic megacities lead our Resilient Cities Index. But astute infrastructure investment and a focus on liveability are helping new cities rise up the rankings ▶

## SOUTHERN EUROPE

Madrid and Barcelona are leading a resurgence in cities across Spain, Italy, Portugal and Greece. Economies in the region are bouncing back, with rising domestic spending and falling unemployment. Strong tourism is also playing a role

## JAPAN

Tokyo is second in our index and Japanese cities rose three places on average. Economic fundamentals are improving, with wage growth and strong corporate profits helping domestic demand

## MIDDLE EAST

Significant infrastructure investments remain a priority. In Dubai and Abu Dhabi, there's an increasing focus on infrastructure that improves residents' quality of life, including education, healthcare, and walking and cycling routes

## AUSTRALIA

Sydney, Melbourne and Brisbane all feature in the top 30 of the Resilient Cities Index, with Sydney rising three places to ninth

Source: Savills Research. Note: map shows cities with a population of at least 2 million people that have risen in the 2026 Savills Resilient Cities Index compared with 2024. All research and analysis was carried out in January and February 2026

Cities are the engines of the global economy – and they are proving remarkably hard to derail. Despite tariffs, trade wars and geopolitical tension, cities continue to thrive.

The Savills Resilient Cities Index, now in its seventh year, measures cities that successfully balance economic goals with social and environmental objectives in ways that attract investors, developers and, critically, the individuals and businesses whose location preferences drive demand. They do this in many unique ways: some planned, some organic.

Traditional economic powerhouses dominate the rankings. New York, Tokyo, London and Seoul take the first four places, just as they did in 2024.

A host of interesting stories is also emerging. US cities make up 10 of the top 20 and enjoy a significant upward trajectory. Dublin – up five places year-on-year – is the single major European mover in the top 20.

Resilience is not a fixed state: forward-thinking cities must seize the opportunity to deliver the resilient buildings and infrastructure that will ensure their success – now and in the future. As our 2026 Impacts theme of ‘Deliver’ highlights, it’s time for action.

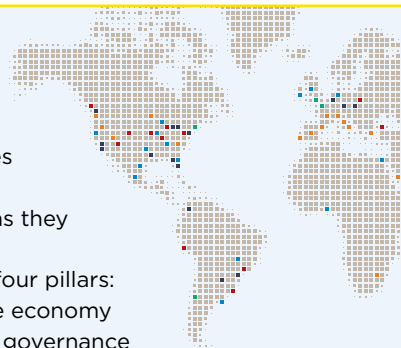
### Delivering resilience: urban economies

When it comes to resilience, scale matters. Megacities such as our top four of New York, Tokyo, London and Seoul create virtuous circles of supply and demand. Innovation and culture germinate freely. These megacities exert a gravitational pull

### What is city resilience?

Broadly, resilience is the ability of cities – comprising individuals, communities, institutions, businesses and systems – to meet current challenges and adapt to new ones as they emerge.

The index assesses cities across four pillars: economic fundamentals; knowledge economy and tech; environmental, social and governance (ESG); and real estate. Throughout this, we find cities delivering innovative solutions in one or more of these pillars, often despite significant challenges.



over their surrounding regions, drawing in talent, capital and occupiers.

Beyond these cities, key trends include ambitious social infrastructure delivery, Southern Europe’s broad-based economic resurgence and the pooling of talent in Asia’s growth hubs.

### A Southern European renaissance

While Spain’s largest cities – Madrid

and Barcelona – aren’t megacities, they exert significant influence over their respective regions and are leading a Southern European resurgence. Cities in Spain, Italy, Portugal and Greece have risen an average of 36 places in our index since 2024.

Some of this is cyclical growth, but much isn’t. Tourism is perhaps the most obvious factor: visitor numbers are strong.

Culture and lifestyle also play a role. More people in Southern Europe shop in person, fewer work from home and more eat out than elsewhere on the continent, supporting footfall and commercial occupier demand.

But the causes of the resurgence run deeper. Southern European economies are catching up after contractions earlier in the decade. This is supported by a shift towards higher-value sectors and increased domestic spending, pushing down unemployment and boosting growth.

Spanish GDP growth of 2.8% in 2025 is well above the EU average.



Southern European economies have accelerated their transition towards more resilient economic models

**JAIME PASCUAL-SANCHEZ,**  
CEO OF SAVILLS IBERIA

## SAVILLS RESILIENT CITIES 2026: TOP 20

North America Asia Pacific Europe

▲ Rise ▼ Fall ► No change

Rank	City	Change
1.	New York	►0
2.	Tokyo	►0
3.	London	►0
4.	Seoul	►0
5.	San Francisco	▲3
6.	Los Angeles	▼1

Meanwhile, skilled immigration into Madrid and Barcelona has risen, mainly from other parts of Spain but also thanks to significant international arrivals, including overseas students.

For real estate, the effects are tangible. Both cities have become key markets for global retail operators, and Madrid is refurbishing its hotel stock. The Spanish capital has also seen the emergence of a super-prime housing sector for the first time.

Jaime Pascual-Sanchiz, CEO of Savills Iberia, says: "While part of Southern Europe's momentum can be attributed to the economic cycle, the truly material shift lies in the structural forces that are redefining the region's long-term positioning.

"Southern European economies have accelerated their transition towards more resilient economic models. In Spain, a more dynamic

labour market, the steady influx of international talent, a commitment to high-value-added sectors and the impact of long-term urban infrastructure upgrades are giving rise to a more stable and sophisticated growth profile."

**Sunshine and AI**

US cities have risen an average of six places in our index since 2024. The sunbelt growth story – driven by the region's favourable climate, lower cost of living and tax benefits – has slowed significantly. Yet cities such as Phoenix, Houston, Dallas and Austin still enjoyed robust population growth in 2025.

Meanwhile, business investment has remained strong across the US. San Francisco is an early beneficiary of the AI boom, with tech start-ups boosting office markets.

Amy Fobes, Senior Vice President, Global Occupier Services,

Savills, says US businesses are increasingly looking for greater flexibility from their real estate. "Occupiers are now negotiating flexible leases that allow them to grow or decrease their footprint in response to unforeseen market shifts without incurring penalties," she says. "But longer-term leases of 10 or even 15 years are still being inked in areas with high competition for labour and robust talent pipelines."

Elsewhere, Japanese cities rose three places on average, reflecting improving economic fundamentals. Wage growth and strong corporate profits support domestic demand.

**Business districts find new purpose**

The pandemic's aftermath brought fears for business districts. But they have adapted, upgrading office estates and integrating new retail, leisure and residential elements.

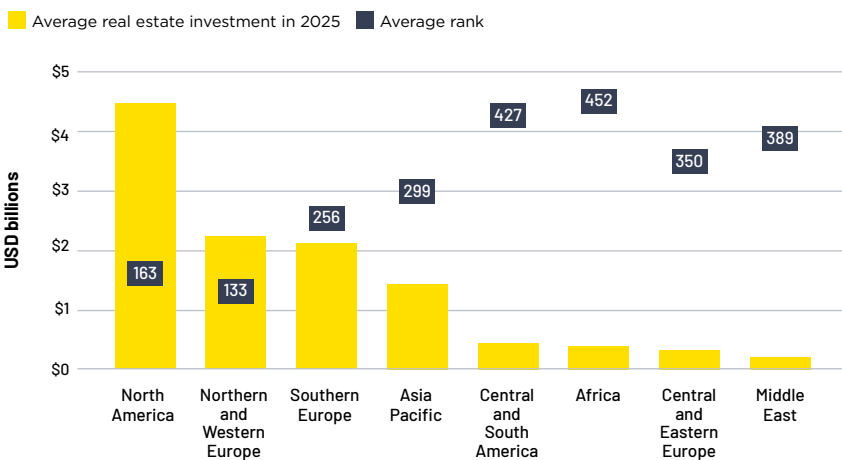
The result is dynamic and well-connected areas that draw people in and tempt them to stay after work. London's Canary Wharf, for example, has transformed into a vibrant mixed-use destination. And in Singapore's Downtown Core, adaptive reuse and flexible zoning are forging a bustling live-work-play environment.

**Delivering resilience: infrastructure and land use**

Modern infrastructure is essential to resilience. Transport hubs in particular have long been vital to the economic vitality of major cities. The success of the Elizabeth line in London, the Grand Paris Express metro extension and Mumbai's new Aqua Line underground

**Resilient cities attract more real estate investment**

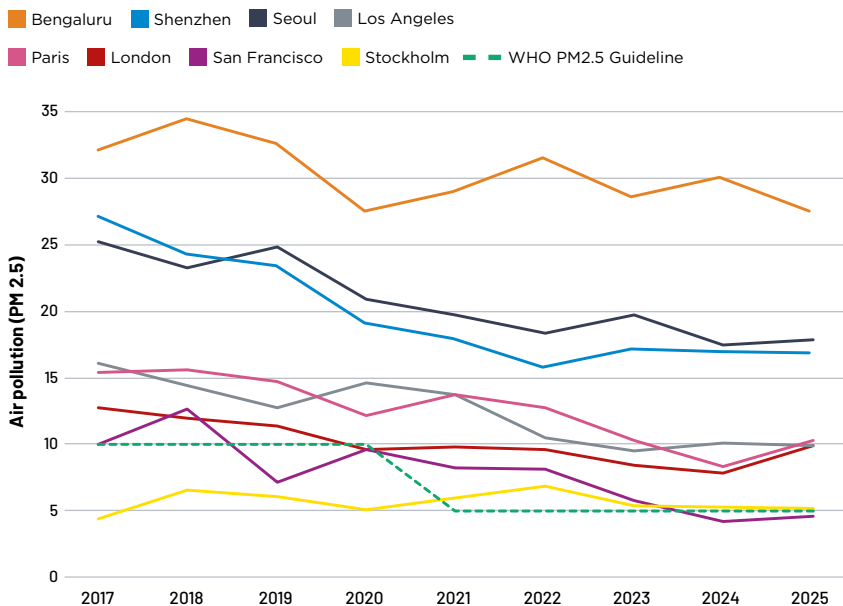
Average investment and index rank by region



Source: Savills Research, MSCI RCA



## Air quality in selected global cities compared to WHO guidelines



Source: Savills Research using IQAir

demonstrate that traditional infrastructure remains as essential as ever. Our analysis shows 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%](#).

But the definition of essential infrastructure is broadening. The cities rising fastest in our index are investing not only in roads and railways but also in so-called social infrastructure to support liveability.

### The Middle East builds beyond oil

While at the time of writing there is a level of geopolitical uncertainty across the Middle East, we believe the long-term fundamentals remain.

Cities in the UAE and Saudi Arabia have leapt 33 places on average in our index based on 2025 data, largely on the back of ambitious infrastructure projects.

In Dubai, 48% of total government spending for 2026 is earmarked for infrastructure investment, compared with the developed world average of under 20%. Abu Dhabi plans to double the population it can accommodate by 2040, backed by more than Dh240 billion (\$65.4 billion) in infrastructure expenditure.

Alongside this, both cities are placing increased emphasis on education, healthcare and other aspects of liveability. Dubai is

building a new 93km urban highway for walking and cycling. And the city's former Expo 2020 site is being repurposed as an innovation-driven district for living, working and leisure, complete with sustainable homes, sports facilities and public spaces.

"Hard infrastructure ensures cities function efficiently, but it's soft infrastructure that makes them liveable, enhances quality of life and attracts and retains talent," says Steven Morgan, CEO of Savills Middle East.

"For instance, Dubai has a diverse educational offering, world-class healthcare and extensive recreational activities. Abu Dhabi's appeal is rising thanks to the Saadiyat Island cultural district, Disney's planned opening on Yas Island and several new school openings. Meanwhile, Riyadh's focus has largely been on large-scale infrastructure, with projects such as the Riyadh Metro significantly enhancing connectivity."

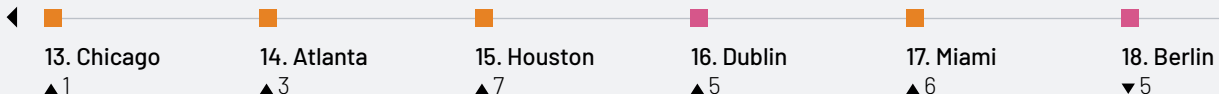
### Liveability and housing

In China, the government has increased investment in riverfront regeneration and urban renewal projects, making Chinese cities more attractive places to live and work. The Liangma River International Waterfront in Beijing, a 6km urban greenway project, is one example. Despite these improvements, cities around the world are struggling to house residents comfortably and affordably. There are calls to [reclassify housing as infrastructure to help attract the long-term investor capital it urgently needs](#). But short-termism in housing policy

## SAVILLS RESILIENT CITIES 2026: TOP 20

▲ Rise ▼ Fall ► No change

North America Asia Pacific Europe



Source: Savills Research. Ranking change is compared with 2024

is a persistent barrier to investment and a significant global challenge.

**Delivering resilience: climate**

Real estate assets around the world are increasingly exposed to flooding, rising sea levels, extreme heat and storms. Investors, insurers and lenders are pricing these climate risks into valuations and lending decisions. [Capital flows more freely into future-proof assets](#) – and energy-efficient infrastructure and buildings are part of the long-term solution to climate change.

For example, air quality has become a priority for cities. Its direct link to the health, happiness and productivity of inhabitants makes it the focus of much public attention.

There has been progress in recent years. Particulate matter (PM2.5) in China’s C40 climate leadership cities, for example, fell by 44% between 2014 and 2022. However, just 17% of cities measured by IQAir in 2024 met the WHO’s PM2.5 guidelines.

Businesses will increasingly

favour cities and districts where their employees can breathe more easily. Real estate has a direct role to play by encouraging public transport use and active travel, prioritising traffic-free outdoor spaces and low emission zones, and designing buildings that filter and improve air quality.

**Delivering the future**

If 2025 was a year of adaptation, 2026 will be one of delivery for most. The most successful cities in our index sense an opportunity to future-proof their appeal. Real estate is at the heart of their efforts.

Delivering resilience means building social and economic infrastructure that serves whole communities. It means ensuring housing meets a spectrum of needs – from students to senior citizens.

It means reimagining business districts as places people choose to spend time, not simply commute to. And it means recognising that the centre of gravity for consumer spending power is drifting towards Asia, with enormous implications for where and what to build.

For occupiers, investors and developers, the opportunities are significant. But so are the challenges. Global cities risk pricing out the people who help them function, while climate mitigation needs to go further, faster.

Solving these issues demands closer public-private collaboration, political certainty and the free flow of long-term capital. Everyone, from city authorities to institutional investors, must play their part.

However, cities remain places that many of us want to be. Delivering resilience will ensure that the principle persists, despite ongoing economic, environmental and demographic change.

*This article is based on analysis carried out in January and February 2026.*



**CHARLES SWANSON**  
VICE-PRESIDENT,  
COMMERCIAL,  
EXPO CITY DUBAI

Expo City Dubai is a sustainable urban hub, built on the site of the 2020 World Expo. That event, which attracted 24 million visitors in the wake of the pandemic, was a testament to resilience. We’re building on its legacy by creating a city where future-proofing has been a priority from the outset.

We’ve transformed the 3.5sq km site into a permanent urban centre, repurposing more than 80% of the original infrastructure into a mixed-use destination for businesses, residents and visitors – including many attending events at the neighbouring Dubai Exhibition Centre. By doing so, we’re highlighting the long-term value of sustainable and flexible design.

Resilient cities are those that balance human-centric design with environmental stewardship and economic opportunity. For us, that means ample public spaces, restaurants and retail on site, transport connectivity and flexible, Grade A offices.

Expo City is the UAE’s first Green Innovation District: energy efficiency, resource conservation and the wellbeing of occupants are at its heart. Smart technologies help everything run smoothly, providing cost savings and helping tenants meet their own ESG goals.

As we welcome our first residents in 2026, we’re continuing to learn, adapt and evolve in our mission to become a fully integrated, future-ready city.

**“**

US occupiers are negotiating flexible leases that allow them to grow or decrease their footprint in response to unforeseen market shifts

**AMY FOBES, GLOBAL OCCUPIER SERVICES, SAVILLS**

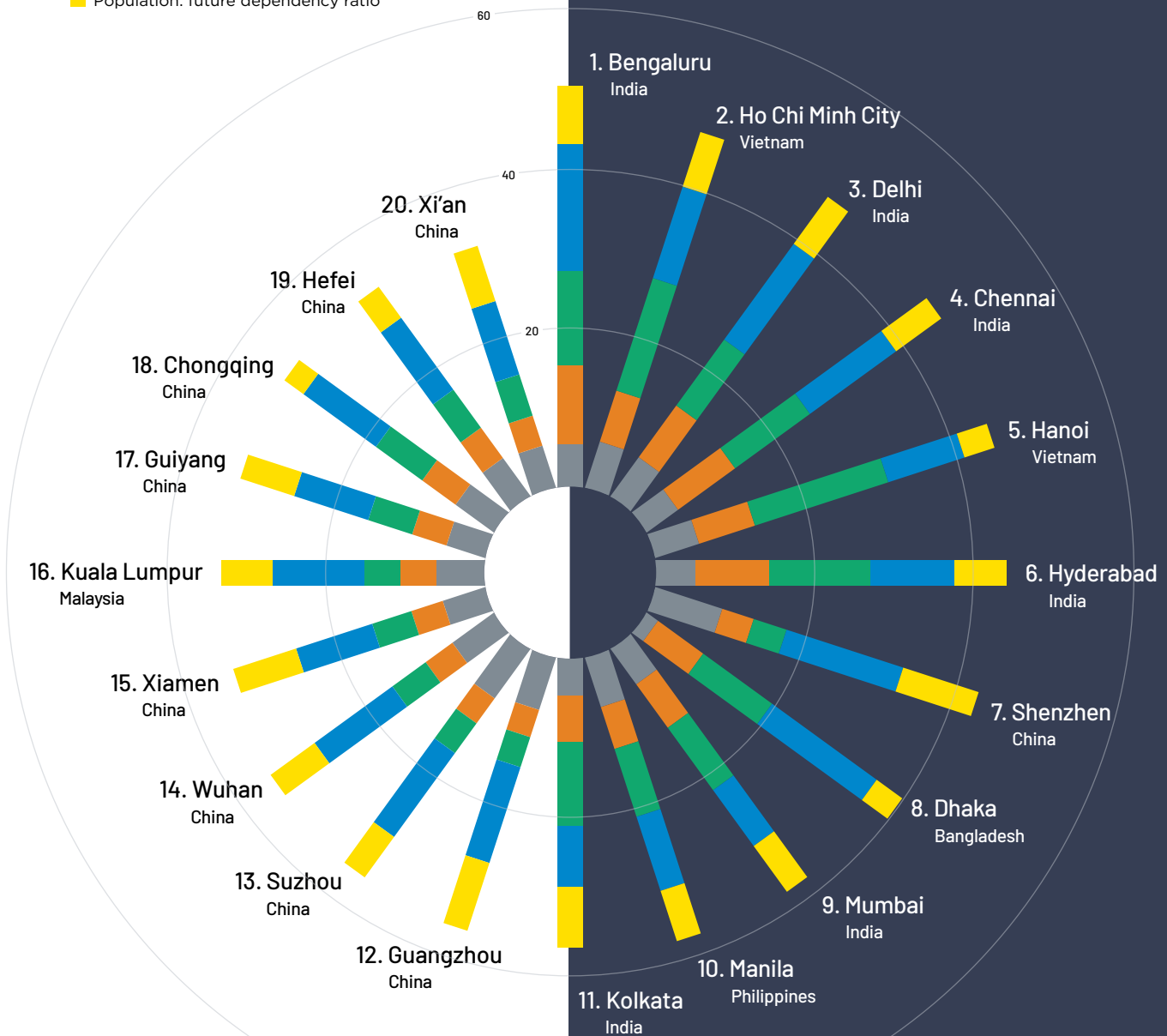
19. Copenhagen  
▼1

20. Seattle  
▲9

# TOP 20 ASIA PACIFIC GROWTH HUBS

The fastest-growing major cities by 2035, based on their economies, populations and wealth

- Economy: future strength
- Economy: growth
- Personal wealth: growth
- Population and migration growth
- Population: future dependency ratio



Source: Savills Research using Oxford Economics. Note: only cities with a GDP in 2025 of \$50 billion or above are included in the analysis.

## THE SAVILLS GROWTH HUBS INDEX

# DEMOGRAPHICS DRIVE GROWTH IN ASIA

Where are the growth hubs of the future? Savills analysis of the economic strengths of 245 locations reveals that the fastest-growing cities of the next decade will be concentrated in Asia. Cities in Asia Pacific will account for three-quarters of the top 50 and 85% of the top 20.

Bengaluru in India tops our Growth Hubs Index, propelled by a highly educated population and the city's growing popularity as a location for global capability centres. In second place, Ho Chi Minh City is benefiting from astute infrastructure investment and a growing middle class. Other Indian and Vietnamese cities complete the top five.

Chris Marriott, CEO of Savills Southeast Asia, says: "With a median

age around 30 and a large portion of the population under 35, Southeast Asia's growth hubs benefit from a powerful demographic tailwind.

"This demographic dividend is driving a young and expanding workforce, rising consumption and continued urbanisation, which is translating into stronger occupier demand around manufacturing and logistics, housing and mixed-use developments."

Asian cities are reaping the rewards of economic shifts. The diversification of Western supply chains, driven by China Plus One strategies, is drawing Asian manufacturing up the value chain. Skilled employment is swelling the ranks of the middle class, creating new retail and leisure markets. ■



**Kelcie Sellers**  
Associate Director,  
World Research



**Charlotte Rushton**  
Associate,  
World Research

# The development viability challenge

Increased construction costs, labour shortages and higher interest rates are squeezing development activity. We examine the pressures facing developers – and how they are responding

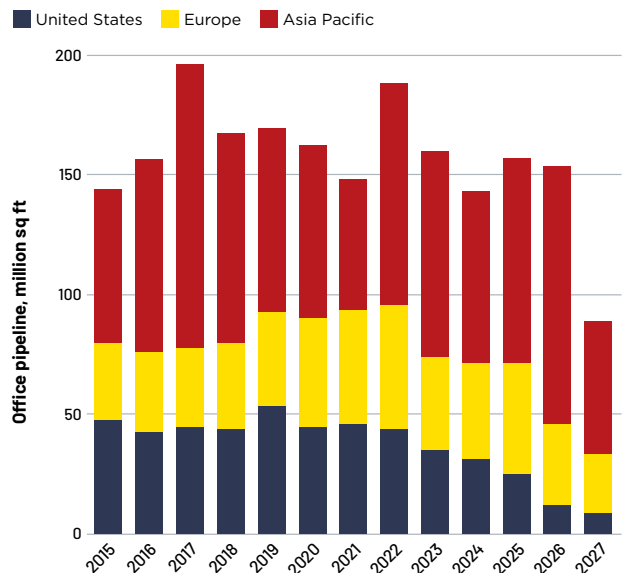
**D**evelopers across global real estate markets are facing a paradox. Supply shortages in many sectors mean there should be compelling development opportunities. But the landscape for global construction is challenging.

Cost inflation, labour shortages, elevated borrowing costs and increased regulation are undermining the viability of new projects. Economic and geopolitical uncertainty is also weighing on consumer and investor confidence.

This tension is visible in development activity, as supply-chain pressures and a weaker outlook all weigh on construction. Global construction activity is forecast to grow just under 3% in 2026, according to Oxford Economics.

Developers in several mature markets have postponed or downsized projects because of concerns over demand and financing availability. In some cases, the potential returns from sales or rental growth do not provide a sufficient return on investment.

## Global office delivery pipeline

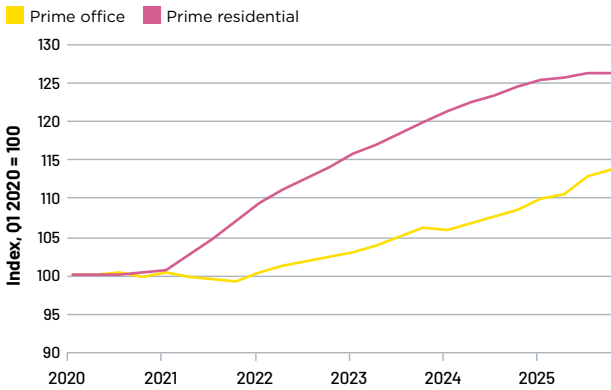


Source: Savills Research. Note: 2026 and 2027 figures are based on projections. The chart shows Grade A office pipeline across selected global Tier 1 cities

Seoul, South Korea



## Changes in global rents



Source: Savills Research

Despite these supply constraints, markets worldwide are experiencing increasing demand pressures. Rents have increased by an average of 13% for prime offices and 26% for prime residential properties since 2020. The fact that this is not encouraging significantly more development reflects the extent of viability constraints.

### The regional picture

Viability challenges are being felt around the world, with higher interest rates particularly affecting private developers. Skilled labour shortages are increasing construction delivery costs, placing contractors under pressure. In addition, there are diverse market-specific development issues.

## EUROPE

The UK has a shortage of contractors with the necessary expertise for heavy office refurbishment schemes, leading to increased build costs. In London, construction costs for offices are now two and a half times those of land per sq ft. Meanwhile, residential development has been scaled back. The housing market is subdued and new building safety regulations are extending planning timelines. This puts pressure on the delivery of multifamily, student housing and senior living properties.

Development in London remains challenged because of elevated land and construction costs, but is viable for the right sites and type of development, and indeed for retrofitting. “Commercial development viability in London is being shaped by an exceptionally thin pipeline, with virtually no speculative activity as the risk-reward balance remains difficult,” says Simon Collett, Executive Director and Head of Professional Services, Building and Project Consultancy, Savills. “Instead, many projects are refurbishing existing stock to meet the new prime standard.

“While build cost inflation continues to see upward pressure, uncertainty also remains a significant concern. In this environment, mitigating risk goes beyond the numbers: robust procurement strategies, strong contracts, trusted partners and a resilient supply chain are critical.”

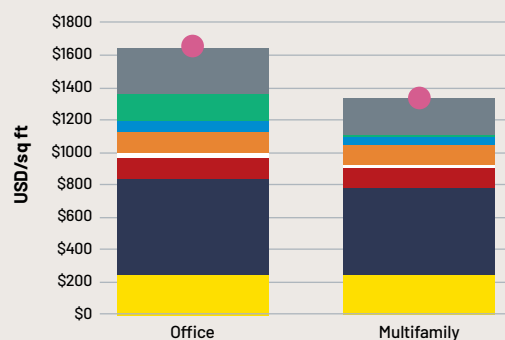
In London, although transaction volumes have been limited in recent years, evidence suggests that office development land is repricing below the peak levels seen between 2019 and 2021. However, developers and

## The development stack: assessing project viability

When evaluating the valuation and feasibility of a potential project, developers and financiers assess the ‘development stack’. They compare the total project costs – for land and construction, professional fees, financing and the profit margin – with the potential income from a project to understand the gross development value. This must be high enough to justify breaking ground; if it isn’t, the project is not considered viable.

## Indicative development stacks in example cities

### London



Source: Savills Research

investors who bought land at the height of the previous cycle continue to face valuation pressures and viability challenges.

For office development, viability depends heavily on location. Schemes in the City Core and West End key markets remain viable, supported by a constrained short to medium-term pipeline and strong rental growth prospects. But outside these submarkets, viability remains difficult due to elevated construction costs, higher financing costs and a cap on achievable rents.

France faces its own structural headwinds. The ‘Zéro Artificialisation Nette’ mandate is designed to protect greenfield land. It encourages developers to focus residential projects on existing urban and brownfield sites, which come with heavier technical and financial burdens. In the tightly constrained market of Paris, brownfield costs currently sit at over \$900 per sq ft.

In the Netherlands, land prices, high construction costs and protracted permitting procedures limit office development in Amsterdam. The city has also imposed rent controls on mid-market residential property.

### NORTH AMERICA

The doubling of steel tariffs in 2025, combined with the expansion of aluminium duties, has sharply increased materials prices in the US. New York City has the highest construction costs of any global market, surpassing \$1000 per sq ft for offices. “These costs, together with expensive financing and tariff-driven materials inflation, present formidable development economics for the city,” says Matt Schreck, Research Director, New York and Tri-State, Savills US.

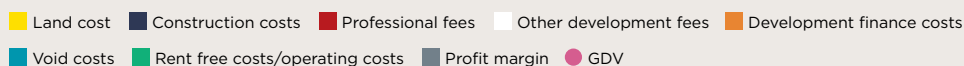
“However, a sustained flight-to-quality for offices has created a tight trophy and Grade A+ market with limited large contiguous blocks, prompting some major occupiers to commit as anchor tenants on new-build schemes. On the multifamily side, developers have increasingly turned to office-to-residential conversions, enabled by city tax incentives and expanded zoning eligibility under the ‘City of Yes’ reforms. Developers plan to start construction on approximately 9.5 million sq ft of conversions in 2026 alone.”

But residential construction costs have risen significantly since 2020, and regulations, high interest rates and zoning restrictions for new residential development mean the pace of building apartments is slow. New York City residential construction currently costs approximately \$600 per sq ft across all types, according to the NYC Building Congress. It is even higher for prime new multifamily development in Manhattan.

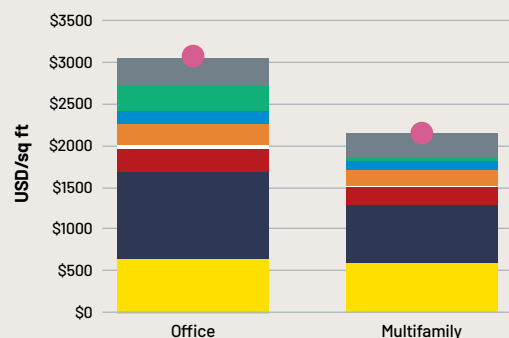
### ASIA PACIFIC

Across APAC, rising construction and land costs continue to stretch scheme feasibility. In Seoul, prime office projects in the city’s central business district (CBD) have been particularly affected by cost pressures and problems in obtaining project financing.

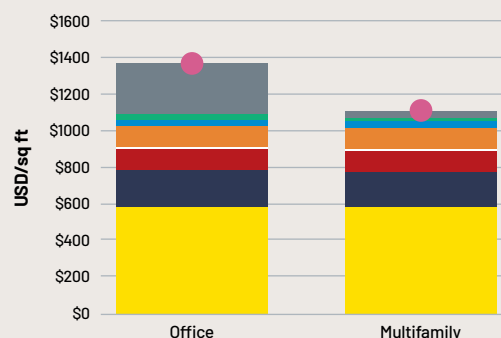
As of September 2025, 32% of the city’s 2029 prime office pipeline (approximately 4.5 million sq ft) had yet to secure project financing, increasing the likelihood of delays into 2030 or beyond. However, government initiatives, including changes to zoning rules, have enabled several projects to proceed.



#### New York City



#### Seoul



“Higher construction costs have delayed project completions by one to two years, with a significant wave of supply expected from 2029 onwards, especially in the office market,” says JoAnn Jieun Hong, Senior Director, Research and Consultancy, Savills Korea. “But if geopolitical tensions persist, this may require further base rate hikes, as rising raw material and energy prices place upward pressure on inflation. In this scenario, development pipelines may face additional delays.”

In Tokyo, land and construction costs have risen by 40% to 50% since 2020, with land prices for housing projects exceeding viable levels. Developers are also facing labour shortages, causing some schemes to be delayed or cancelled. In Sydney, the office market faces a significant viability gap, with market rents up to 20% below what is required to justify new construction, according to Dexus.

## Making development happen

So how are developers responding to these global and regional pressures? A practical and flexible approach is key. Here are six core strategies shaping development activity at present.

### 1 Developing in the right location

Location has always mattered, but today its definition has become hyper-local. Developers are focusing not on entire cities, but on specific neighbourhoods (and even streets) where tenant demand is particularly strong. In supply-constrained office markets, a prime building in the right location can be just as appealing as a ‘super-prime’ asset, while having lower development costs. In amenity-rich districts, some developers are also streamlining operational expenses by omitting features which are available nearby, such as on-site gyms or wellness facilities.



The projects that are delivered are those that invest early in master-planning, infrastructure and robust phasing

JEMMA AITKEN-QUACK,  
DIRECTOR, SAVILLS  
INTERNATIONAL DEVELOPMENT

### 2 Spreading risk through mixed-use schemes

Mixed-use development has become an increasingly effective risk mitigation tool, enabling developers to create diversified revenue streams and more resilient occupancy profiles. By combining uses, such as office, retail, residential and leisure, they can generate 24/7 footfall and benefit from more flexible leasing strategies. While this is already common in some markets, the urgency of viability pressures has given it renewed relevance in others.

Developers are also diversifying their investments. Instead of building one large logistics facility near a major city, for instance, they may instead develop multiple smaller warehouses across several locations, mirroring the diversification strategies of industrial occupiers seeking supply-chain resilience. In developed markets in particular, many are targeting sectors aligned with the low-carbon economy, from green offices to energy-efficient residential assets.

### 3 Choosing refurbishment over ground-up development

[Deep retrofits of office buildings typically require less capital expenditure than new developments](#) and avoid land acquisition, demolition and groundwork costs. One approach for developers is to upgrade secondary office buildings in prime locations to Grade A.

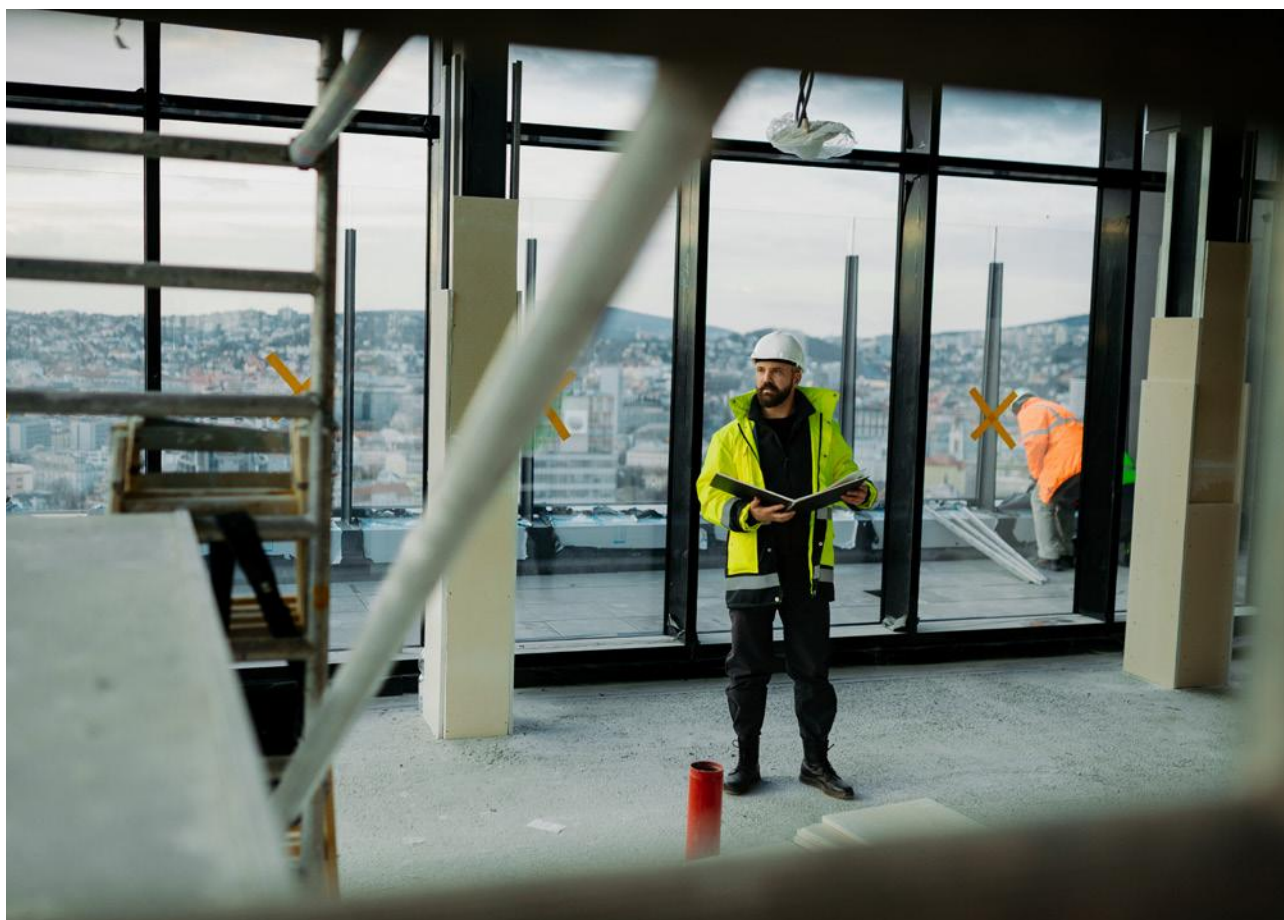
Retrofitting projects tend to have less planning complexity, lower delivery risk and less embodied carbon (the emissions generated by a building’s materials and construction). But new builds usually deliver the best day-to-day operational carbon performance, provide flexible and future-proof space, and can offer the highest rents.

### 4 Creating flexible buildings to increase resilience

Developers are looking at delivering flexible, future-proofed spaces that can adapt to tenants’ changing needs, supporting viability by maintaining occupancy and rental levels. Flexibility in design, such as offices where rooms can be reconfigured to cater for different requirements, can reduce long-term risk and increase the chance a scheme remains attractive across cycles.

### 5 Forming partnerships with long-horizon capital

Long-term capital, including sovereign wealth funds, family offices and private investors, has become an important enabler of development. These groups are increasingly shifting from passive fund investments to joint ventures and



co-investment structures, gaining more control over timing and risk.

This approach can bring capital with decades-long time horizons into a scheme, allowing an investment to withstand lower returns and higher risks early on in a project's lifecycle. One example is the Abu Dhabi Investment Authority's 2021 joint venture with Greystar for London's build-to-rent sector.

## 6 Taking advantage of improving capital market conditions

While the cost of debt remains relatively high, funding remains available. In a recent European Commission survey, for example, only 6% of respondents cited financial constraints as the primary barrier to building activity in Europe. Debt markets are liquid, with banks and private debt funds keen to deploy into compelling risk-adjusted opportunities.

Lenders are actively seeking opportunities,

creating a borrowers' market in certain sectors and geographies. For developers able to proceed, this can provide more competitive pricing, flexible structures and reduced financing friction.

### Flexibility key to development delivery

Development viability remains challenging, with persistent pressures shifting the risk-return equation. To deliver, developers need to rethink their approach to schemes and asset positioning, and manage costs and risks effectively.

"The projects that are delivered are those that invest early in master-planning, infrastructure and robust phasing," says Jemma Aitken-Quack, Director, Savills International Development. "They curate strong ecosystems, and plan and bring the right partners to the table from the outset – the public sector, private capital, institutions and end users. These are the schemes that are investable, liveable and resilient."

As ever, location will be key. Those who innovate now will be well-placed to capture demand later. ■



# THE LOCATION ADVANTAGE



**Sarah Brooks**  
Associate Director,  
World Research



**Charlotte Rushton**  
Associate,  
World Research

As skilled workers become harder to find and retain, companies are rethinking where they locate. We explore how businesses are spreading their operations across multiple hubs – and look at some of the cities that are benefiting

**T**he past decade has brought some of the most profound changes to working practices since the Industrial Revolution. Labour scarcity, slowing cross-border migration of skilled workers and macroeconomic volatility have made finding and retaining talent more complex. At the same time, maturing digital technology has enabled companies to spread functions across different cities.

Traditionally, businesses clustered in a select few leading global cities, drawn by deep talent pools, access to capital and proximity to clients.

Today, a new corporate geography is emerging. These major global cities remain important, but are now part of wider office networks that support growth, provide access to talent and improve cost efficiency.

This has flipped the traditional relationship between workers and jobs: increasingly, companies are not asking talent to relocate, but are moving to where they can find skills matched to their strategy. In boardrooms across the globe, corporate expansion plans are driven by the question: where can we find – and keep – the right people? ▶

# City archetypes: the locations attracting global businesses

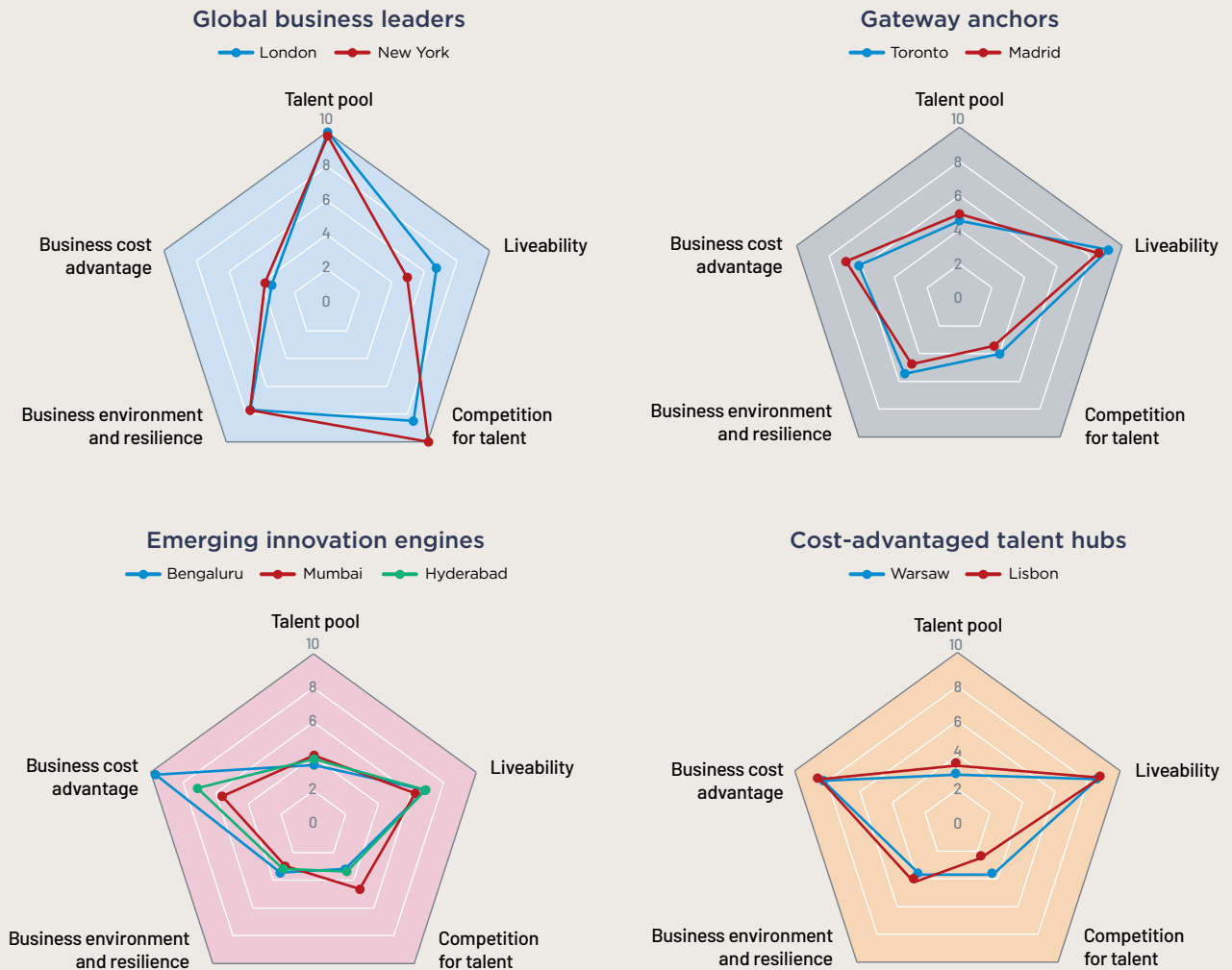
To understand the evolving role of cities, we have examined their position in the broader talent ecosystem. Our Savills Talent Cities Index analyses global business hubs according to five categories: access to talent, liveability, local competition, economic resilience and business cost advantage (including salary and real estate costs).

However, rather than focusing our analysis on a ranking of cities from best to worst, we have grouped them into a series of archetypes with shared characteristics. Six distinct profiles emerged, as outlined in the table below.

ARCHETYPE	DESCRIPTION	EXAMPLE CITIES	PRIMARY BUSINESS OPPORTUNITY	KEY CHALLENGES
<b>GLOBAL BUSINESS LEADERS</b> 	Global command hubs for capital and decision-making. These cities play host to headquarters, client engagement and leadership	New York London Tokyo Singapore	<ul style="list-style-type: none"> <li>■ Deepest global talent pools</li> <li>■ Dense corporate ecosystems and VC networks</li> <li>■ Prestige and client proximity</li> <li>■ High-quality office stock</li> </ul>	<ul style="list-style-type: none"> <li>■ Rising cost pressures for talent (living and housing)</li> <li>■ Intense talent competition</li> <li>■ High operating costs</li> <li>■ Talent retention challenges</li> </ul>
<b>GATEWAY ANCHORS</b> 	Large, globally connected cities with strong regional dominance	Berlin Madrid Toronto Atlanta	<ul style="list-style-type: none"> <li>■ Cost arbitrage vs global business leaders</li> <li>■ Strong regional talent pools</li> <li>■ 'HQ-lite' or dual-hub strategies</li> </ul>	<ul style="list-style-type: none"> <li>■ Limited talent pool depth relative to global business leaders</li> <li>■ Lower global connectivity</li> </ul>
<b>LIVEABILITY MAGNETS</b> 	Highly attractive for liveability, lower cost of living and broader talent appeal	Melbourne Copenhagen Manchester Tampa Austin	<ul style="list-style-type: none"> <li>■ Ease of attraction and retention</li> <li>■ Lower cost base vs global business leaders and gateway anchors</li> </ul>	<ul style="list-style-type: none"> <li>■ Smaller talent pools, requires greater training investment</li> <li>■ Lower density of corporate ecosystems</li> </ul>
<b>EMERGING INNOVATION ENGINES</b> 	High-growth cities with large, cost-effective and increasingly specialised talent pools	Bengaluru Hyderabad Mumbai Wuhan	<ul style="list-style-type: none"> <li>■ Access to large, specialised, cost-effective talent pools</li> <li>■ Favourable demographics</li> <li>■ Rapidly expanding innovation capacity</li> </ul>	<ul style="list-style-type: none"> <li>■ Infrastructure stress</li> <li>■ Limited supply of quality office space</li> <li>■ Growing competition for talent</li> <li>■ Wage inflation underway</li> </ul>
<b>SECTOR CLUSTERS</b> 	Cities where specific industries concentrate and form dense innovation clusters	Boston Zurich	<ul style="list-style-type: none"> <li>■ Access to specialised talent and research ecosystems</li> <li>■ Cluster-driven innovation</li> </ul>	<ul style="list-style-type: none"> <li>■ Exposure to sector-specific volatility</li> </ul>
<b>COST-ADVANTAGED TALENT HUBS</b> 	Cost-efficient delivery centres supporting global operations	Kuala Lumpur Warsaw Lisbon Guadalajara	<ul style="list-style-type: none"> <li>■ Talent cost advantage</li> <li>■ Growing skilled workforce</li> <li>■ Government incentives and outsourcing ecosystems</li> </ul>	<ul style="list-style-type: none"> <li>■ Talent competition as hubs mature</li> <li>■ Wage inflation reducing cost arbitrage over time</li> <li>■ Variable depth of senior leadership and specialist talent</li> <li>■ Constrained Grade A office availability</li> </ul>

Source: Savills Research

## How archetypes compare: scores from the Savills Talent Cities Index



Source: Savills Research

### Trends reshaping the working world

Talent competition has intensified. [Our 2025 survey, conducted in collaboration with CoreNet Global, found that almost two-thirds of organisations reported a reduction in talent availability in their headquarters location](#), rising to 73% in the technology sector. This catalyst is driving companies' willingness to relocate or expand into new markets to access skills.

But acquiring talent is complex: unemployment across advanced economies is close to historic lows, while ageing populations mean more workers are retiring than entering the labour market.

The cities with the highest concentrations of talent are also among the most expensive places to live and work. There is significant skills availability, but it comes with intense competition. You can hire great people, but can you afford to

keep them? Are they doing their best work? In many competitive markets, long commutes and high living costs take a toll on retention and day-to-day engagement.

For many, the answer is not to abandon the **global business leader** cities, but to rebalance their footprint. Headquarters remain anchored in major hubs where senior decision-makers can connect with key clients and raise capital, while growth, innovation and

operations are increasingly distributed across talent-matched locations.

There is an inherent tension in the data. Cities that score highest for liveability tend to score lowest on the depth of their talent pools and the presence of competitor businesses. That might seem to be a weakness, but viewed through the lens of retention, less competition for staff means lower attrition, and a better quality of life means more engaged employees.

As Michelle Needles, Global Head of Enterprise Solutions, Global Occupier Services, Savills, explains: "When everyone goes to the same place for talent, there is no competitive advantage left. Instead, we find saturated hiring markets, wage inflation already underway and talent with too many options, which makes operations more fragile."

"If your location map mirrors your competitors', your challenges will too," Needles adds. "The best talent strategy often involves places your competitors haven't validated yet."

### Cities in focus

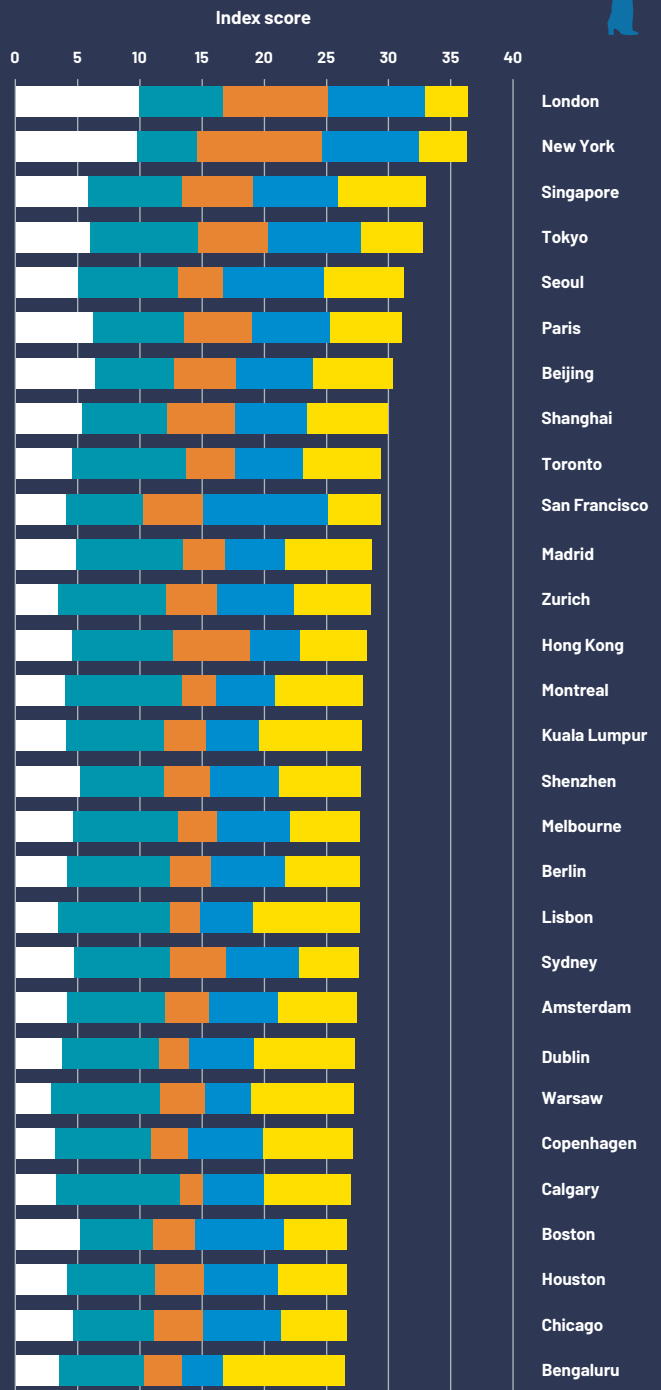
The shift towards a 'talent-first' location strategy is causing cities to move between archetypes. Locations that were once primarily **cost-advantaged talent hubs** have capitalised on their talent pipelines, moving up the value chain. Others that were traditionally seen as secondary or tertiary cities are becoming prominent hubs in their own right. Here are three cities on the move.

### NORTH AMERICA: TORONTO

Our research identifies Toronto as a **gateway anchor**: a city that offers strong regional talent alongside cost savings. Canada's largest city has become a focal point for global companies seeking skilled and engaged talent. Toronto ranks fourth for liveability in our Savills Talent

## Savills Talent Cities Index

Talent pool
  Liveability
  Intensity of competition
   
 Business environment and resilience
  Business cost advantage



Source: Savills Research, top 30 cities in Savills Talent Cities Index

Cities Index, with many amenities, short commutes and reasonably priced housing.

A key structural advantage for Toronto is Canada’s migration policy. Canada tops our Savills Ease of Migration Tracker thanks to its points-based immigration system, helping companies to recruit international talent more easily.

According to Devon Munos, Senior Vice President, Head of Americas Research, Savills, leasing activity in the city has been well above average for the past three years. She says that the first quarter of 2026 has been “structurally transformational”, with record levels of deals.

Toronto is the city of choice for many tech firms looking to grow their operations. Microsoft has expanded its engineering team in the city, Uber has built an AI research centre and Google is developing a large-scale campus.

“Global employers are drawn to Toronto’s well-educated workforce and its relative affordability, which support resilient and scalable operations,” says James Butchard, Executive Vice President, Savills Downtown Toronto. The city may be a **gateway anchor** today, but it could be a **global business leader** of tomorrow.

Elsewhere in North America, Dallas and Atlanta have become increasingly attractive locations. These cities offer a compelling mix of lifestyle, affordable quality housing and career opportunities. Nashville is also emerging as a strong regional hub, with Starbucks recently announcing its new \$100 million headquarters in the city.

**ASIA-PACIFIC: BENGALURU**

Once a **cost-advantaged talent hub**, Bengaluru (formerly Bangalore) has taken on the more strategic role of an **emerging innovation engine**. In recent years, it has become a

hotspot for the global technology industry and [the country’s primary base for global capability centres](#).

Naveen Nandwani, Managing Director, Commercial Advisory and Transactions, Savills India, has been working in this market for 20 years. “Bengaluru and Hyderabad are moving beyond their traditional roles as outsourcing centres to become deeply embedded within global operations, taking on R&D and innovation-led roles,” he says.

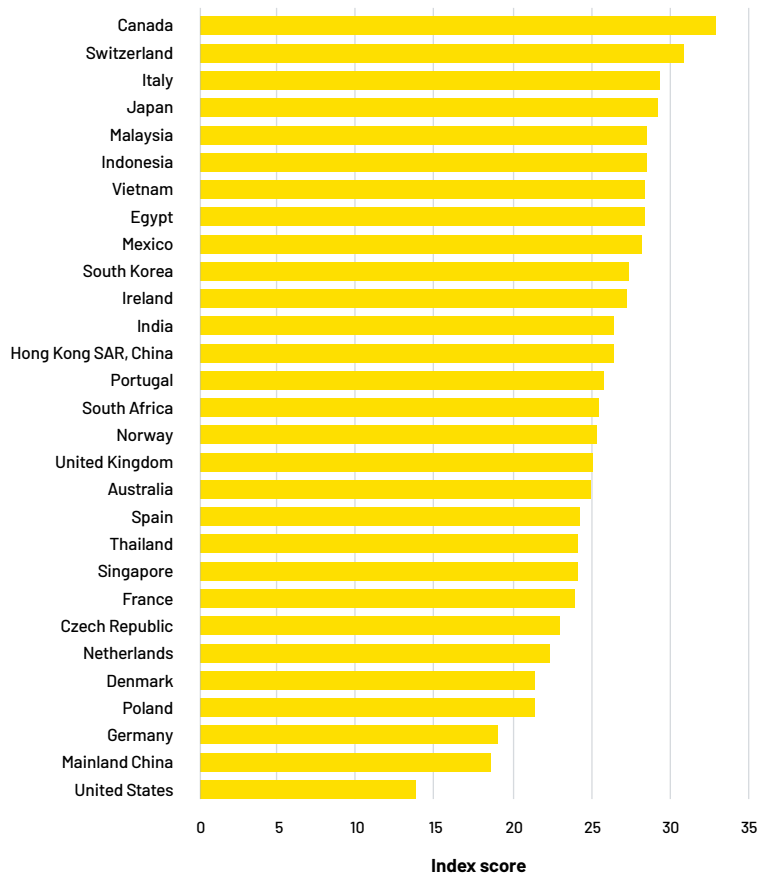
Bengaluru has abundant tech talent, thanks to its youthful population and network of prestigious engineering colleges. The city is now home to the sprawling campuses of Infosys, Accenture, Amazon, Microsoft and

more. According to Nandwani, domestic migrants – drawn by this concentration of tech companies – account for 60% of the population. Google is currently building a new 20,000-employee campus, which will attract even more skilled workers to the city.

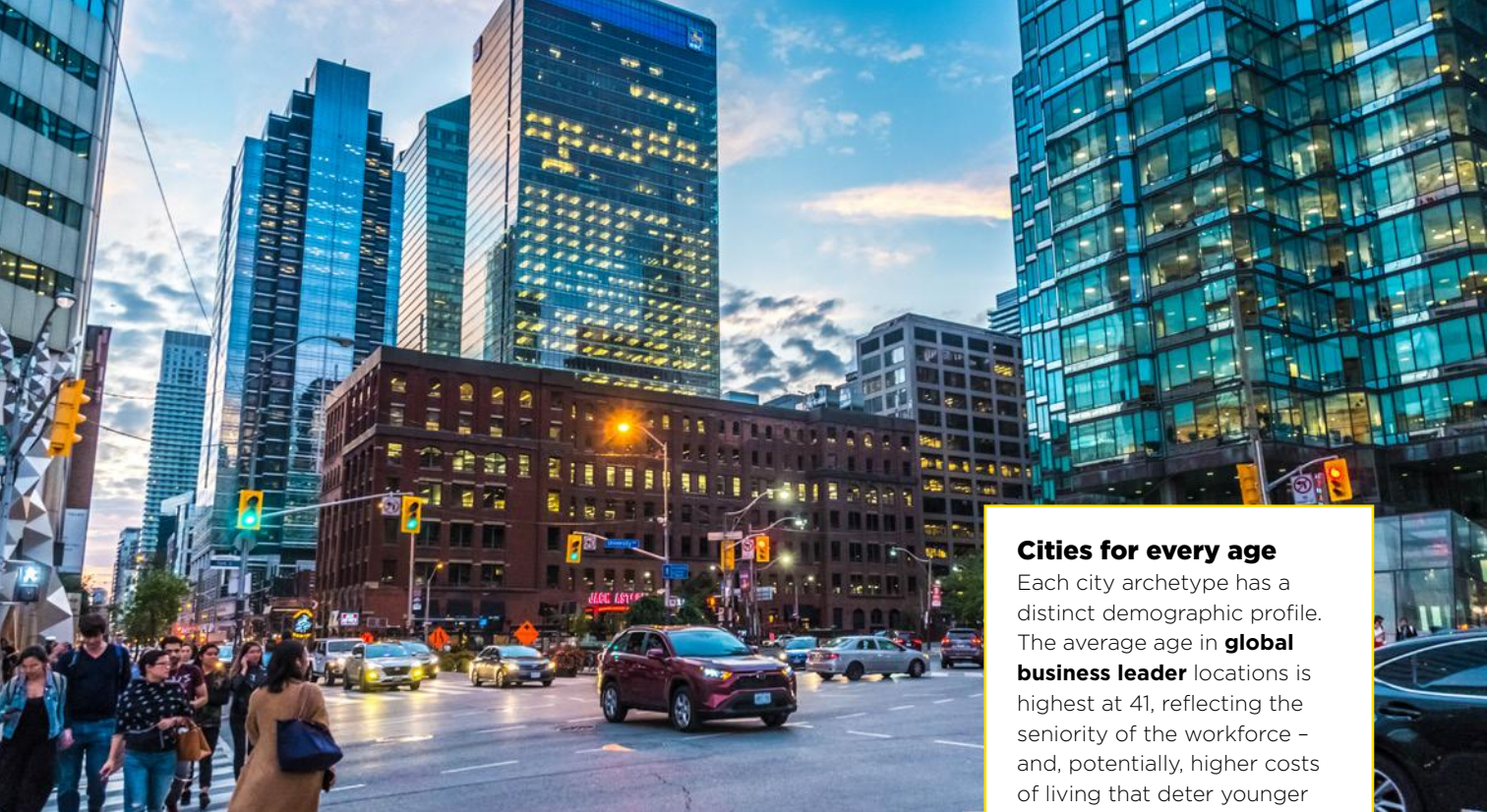
Bengaluru ranks second in the Savills Talent Cities Index for business cost advantage, giving it the edge over cities such as Mumbai. But in the short term, its growth has created infrastructure problems that are key for businesses to understand and navigate.

Beyond Bengaluru, across India, Gurugram, New Delhi and Mumbai are strengthening their position as global innovation hubs, with inflows

**Savills Ease of Migration Tracker**



Source: Savills Research



### Cities for every age

Each city archetype has a distinct demographic profile. The average age in **global business leader** locations is highest at 41, reflecting the seniority of the workforce – and, potentially, higher costs of living that deter younger workers from putting down roots. **Liveability magnets** skew younger (35), attracting mid-career professionals and families drawn to affordability and work-life balance.

These patterns are reinforced by shifting migration flows. Net migration into **global business leader** cities has fallen sharply – from an average of 147,000 annually in the 2000s to just 24,000 in the 2021-25 period – as workers have prioritised liveability. Meanwhile, **gateway anchors** and **liveability magnets** have seen steady increases.



Elsewhere in Europe, Barcelona is also gaining traction within an evolving talent landscape. Julia Moore, Director, Global Occupier Services, Savills, has seen increasing interest from multinationals in the city as well as in Madrid and Lisbon. “Barcelona has built a strong reputation for attracting skilled

of venture capital funding into these cities increasing 400% in the past decade.

Momentum is also building in Seoul, with its highly educated workforce and deep expertise in AI, semiconductors and gaming. In China, Wuhan is emerging as a strong innovation engine, supported by a growing pipeline of highly skilled graduates.

### EUROPE: MANCHESTER

Manchester offers a combination of cost competitiveness, a strong talent pipeline and high liveability – earning it a **liveability magnet** classification. It has experienced an unprecedented residential development boom in recent years, meaning employees can live in the city centre while benefiting from lower outgoings compared with London.

“The local government is investing in public transport, cycling infrastructure and notable mixed-use developments such as Spinningfields, NOMA and Mayfield,” says Andrew Cooke, Director, UK Tenant Representation, Savills. He

adds that these projects are creating vibrant new urban neighbourhoods.

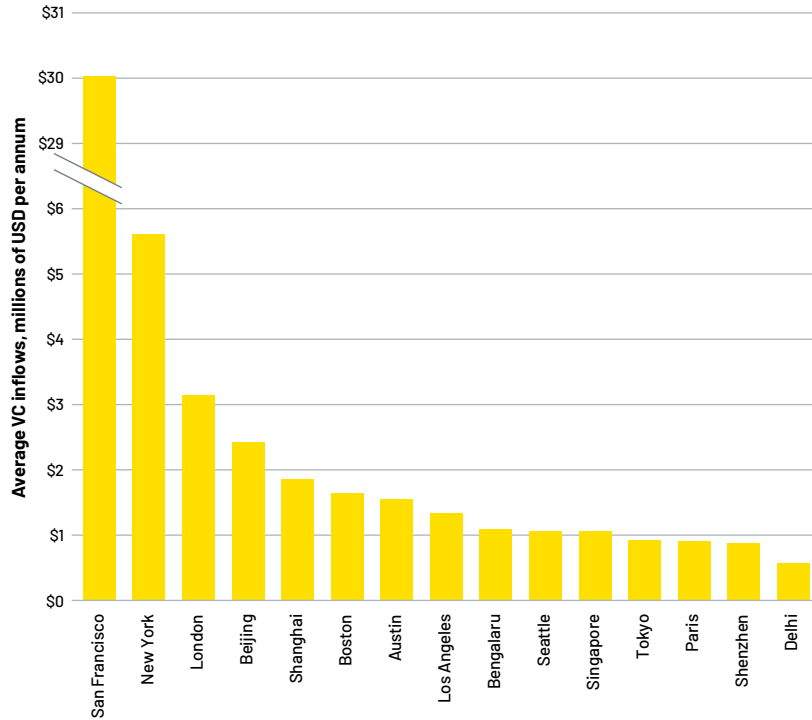
Manchester is also a major academic hub, with over 120,000 higher-education students – one of the largest concentrations in Europe. Critically, it holds on to its talent: 65% of its graduates decide to call Manchester their permanent home.

“The city has a diverse occupier base: The Hut Group, AO.com, AutoTrader and Boohoo were all born here,” says Cooke. Other notable occupiers include German fashion and sports company Puma, which moved its UK headquarters to Manchester in 2025. Travel giant Booking.com’s Manchester campus is now the company’s second-largest international office after its Amsterdam HQ.

Despite the city’s smaller talent pool, fewer business competitors mean the average tenure of employees in Manchester is 21% higher than in London. Our research shows the city could outgrow its classification as a **liveability magnet**, taking on the characteristics of a **gateway anchor** over the medium term.

## Venture capital inflows to selected cities

Bengaluru and Delhi punch above their weight in venture capital



Source: Savills Research using PitchBook data, reflects annualised five-year average from 2000-2025. Note: Data has not been reviewed by PitchBook analysts. Scale break used for San Francisco to allow comparison across remaining cities

professionals drawn by its quality of life and growing business ecosystem,” she says.

Overall, key business hubs on the Iberian Peninsula score highly for lifestyle, with Lisbon, Barcelona and Madrid all ranking in the top 15 of our Savills Talent Cities Index for liveability.

### A network-based strategy

The way companies think about their operations across the world is changing. They are still investing in **global business leader** locations as a base for senior talent, but increasingly complementing them with networks of locations from across the city archetypes to provide the talent to deliver their corporate strategies.

“Forward-thinking companies are defining a talent-centric location strategy from first principles,” says Needles. “They are selecting the types of cities where the right talent wants to be – and will continue to want to be.” ■





# Diversification is consistently the largest driver for property investment

Reasons to invest in real estate

- Diversification benefits for a multi-asset portfolio
- Income return    ■ Risk-adjusted performance over other asset types
- Enhanced returns    ■ Inflation hedge

Source: Savills Research using ANREV Investment Intentions Survey 2026

# Investment in the era of Great Volatility

Despite economic instability, attractive valuations and traditional diversification benefits mean real estate still has a role in investor portfolios



**Oliver Salmon**  
Director,  
World Research



**Charlotte Rushton**  
Associate,  
World Research

**T**he past five years have been characterised by a structural return of inflation, a rebasing in interest rates and an increase in volatility.

At the same time, we have seen rapid technological progress, a rise in populist governments and increased global fragmentation. The current environment contrasts sharply with the era of 'Great Moderation', a period of relative macroeconomic stability spanning the previous several decades.

There has been a structural shift in the established rules governing the behaviour of economies and financial markets, disrupting

investors' preconceptions around how different parts of the system interact. In this new regime – let's call it the era of 'Great Volatility' – the investment landscape has changed.

We have seen the emergence and adoption of new asset classes, such as digital assets, whose tangible value is still being debated. Meanwhile, old asset classes have started behaving differently, leaving question marks over relationships investors previously took for granted.

Bond market volatility has increased. This is mostly due to the return of inflation, but it's also because, in this new era, bonds are not as 'risk-free' as they once were. Gold has gone from being the ultimate safe-haven asset to one driven by speculative capital. The US dollar has depreciated during periods of global risk-off behaviour, prompting speculation about its

continued position as the global reserve currency.

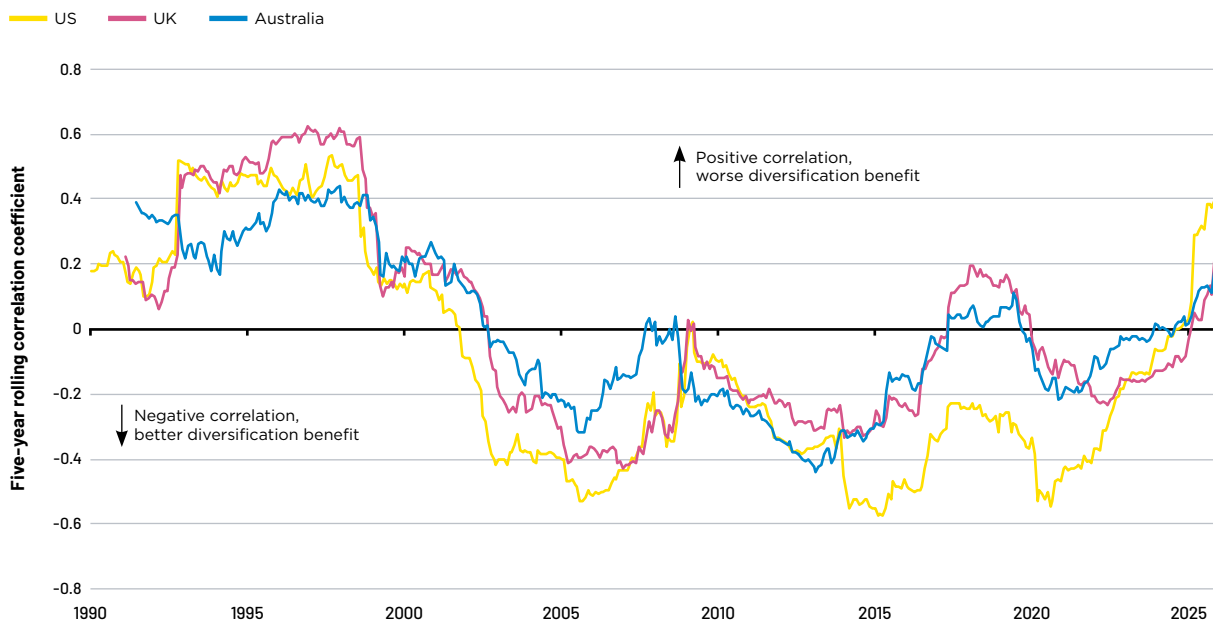
From an asset management perspective, perhaps the most significant ramification of this structural shift is the breakdown in the relationship between equities and bonds – or, at least, a return to the pre-2000s relationship of positive correlation. If fixed income

“

Diversification is once again becoming central to institutional asset allocation

**NEIL BROOKES**  
HEAD OF ASIA PACIFIC  
CAPITAL MARKETS, SAVILLS

## Equity bond correlation



Source: Savills Research using Macrobond. Based on total return, benchmark equity indices and 10-year government bond. Correlation coefficient is a statistical measure ranging from -1 to +1 that quantifies the strength and direction of the relationship between two variables

can no longer provide an effective hedge for higher-risk equities, it brings into question the modern-day relevance of the 60:40 portfolio, which has been a mainstay of investment strategy and portfolio construction over recent decades.

### Is real estate a safe-haven asset?

With the US dollar, gold and equity-bond correlations all behaving atypically, the question becomes: where should investors seek safety in the current investment landscape?

Real estate is often regarded as a safe-haven asset, but the reality is more complex. Safety can mean different things for different

investors, but there are some common characteristics. Safe-haven assets typically need to be highly liquid, able to retain or increase their value through periods of economic stress, and be uncorrelated with a reference market. They have minimal or zero credit risk and their value is often anchored by a tangible purpose, or scarcity of supply.

Which assets can provide these characteristics? Gold and other precious metals, which retain both commercial and retail value, satisfy the conditions of liquidity, tangibility and scarcity. Currencies such as the US dollar, Japanese yen and Swiss franc, which are issued by stable democracies in countries with strong institutions and open capital

markets, also respond to safe-haven demand. Government bonds can increase in value during periods of economic uncertainty. They are generally liquid and have a low default risk, often being referred to as the 'risk-free' benchmark (although only in countries with low political risk and credible fiscal records).

Clearly, property does not satisfy all these conditions. It is not liquid and it can carry credit risk, depending on the underlying tenant base or debt provider. Large transaction sizes can also concentrate exposure to a single economy, sector or tenant, introducing further risk. Investors need significant capital to build a

diversified portfolio from both geographic and sectoral perspectives (although pooled investment vehicles can mitigate against this risk).

This concentration can accentuate exposure to black swan events if assets are located in proximity. In the aftermath of Russia's invasion of Ukraine, for example, many global corporations incurred significant financial losses due to divestments, write-offs or outright seizures of their Russian operations, including real estate holdings. Generally speaking, the more physical and immobile the asset, the larger the write-off.

Finally, real estate is a GDP-linked asset class. Total returns are correlated with the performance of the wider economy – albeit with a lag – driven by trends in employment, consumer spending

and trade. That makes them inherently cyclical.

All that said, property is tangible, with a clear functionality and purpose to support its returns. Land is a scarce resource that will retain some value through economic cycles, even in an extreme scenario where the bricks and mortar themselves become obsolete. Rental income, meanwhile, can provide steady returns during periods of uncertainty, even if capital values are more volatile.

In the UK, for example, the average annual income return from real estate during periods of recession was 5.7%, a mere 20 basis points below the non-recessionary average of 5.9%, according to MSCI data spanning the past 55 years.

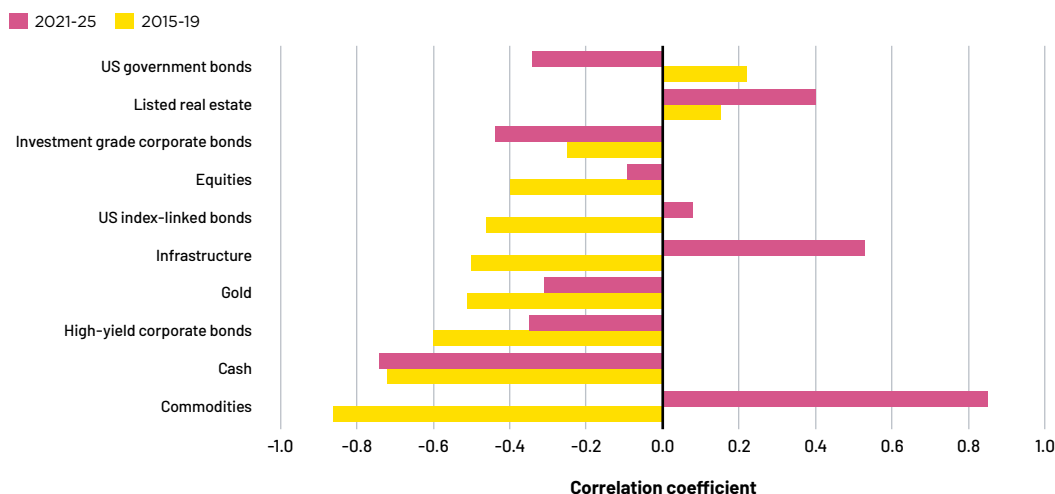
**A diversified return profile**

A more important factor, however, ▶

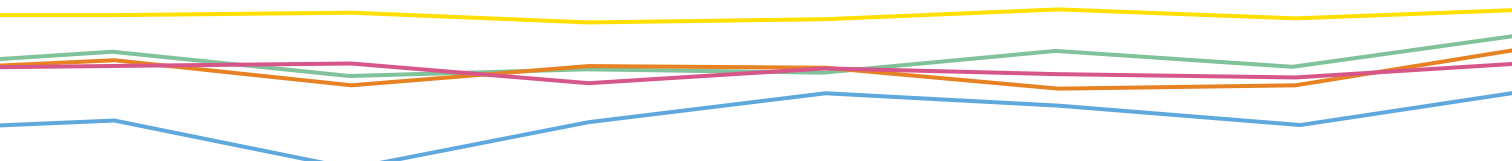
10.8%

**GLOBAL INSTITUTIONAL TARGET ALLOCATIONS TO REAL ESTATE IN 2026**

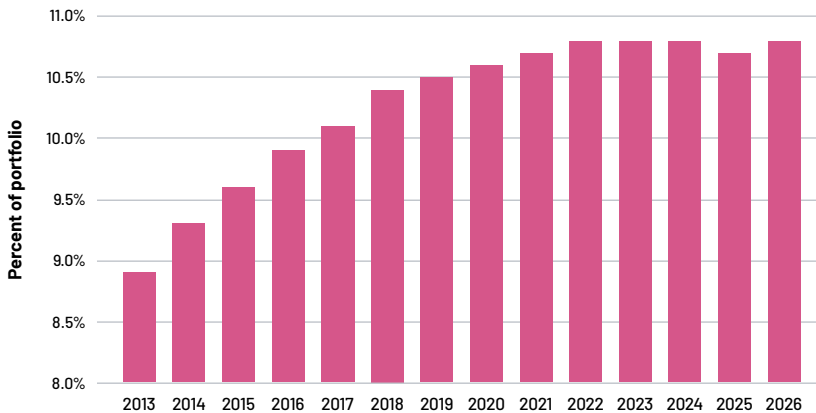
**US private real estate total return correlations**



Source: Savills Research using Macrobond and S&P Global. Private real estate based on the NCREIF Property Index



## Global institutional target allocations to real estate



Source: Savills Research using Cornell University/Hodes Weill & Associates Real Estate Institutional Allocations Monitor

is that real estate returns are uncorrelated with other asset classes, and particularly with equities. Indeed, diversification is routinely cited as the *raison d'être* for real estate investment. "What we're seeing globally is a reset in how investors think about diversification," says Neil Brookes, Head of Asia Pacific Capital Markets, Savills. "With equities and bonds increasingly moving together, real estate's combination of income, tangible value and portfolio diversification is once again becoming central to institutional asset allocation."

Real estate's diversification potential is underpinned by its heterogeneous nature, the long-term-orientated investor base and relatively stable underlying cashflow. It is also a function of infrequent valuations. Indeed, illiquidity is often cited as a reason for investing in private markets more broadly, not

only because it can boost returns through the 'illiquidity premium', but also because it reduces volatility across a wider portfolio.

This dynamic was evident during the most recent cycle. Global developed market equities, as represented by the MSCI World IMI Index, declined by nearly 22% peak-to-trough between January and October 2022, driven by Covid-19-related supply-chain disruptions and Russia's invasion of Ukraine. Over the same period, the MSCI Global Property Index returned a positive 5%. Real estate values only began to correct in late 2022, by which point equity markets had already passed the bottom.

With low volatility and a diversified return profile, the evidence shows that, over the long term, an allocation to real estate can boost overall returns, particularly on a risk-adjusted basis. This appears unchanged in the era of Great

Volatility. Based on US data, private real estate continued to be negatively correlated with the major investible asset classes, including equities, government and corporate bonds, and gold, from 2021-25. Furthermore, on a risk-adjusted basis, private real estate continues to occupy the sweet spot between equities and fixed income.

The benefits of diversification become even more important in a world where it is increasingly challenging to find. As outlined above, equity and bond correlation is now positive, negating the benefits of using fixed income to hedge stock prices.

Geographical and sectoral diversification is also diminished:



Real estate continues to provide a good diversification to other asset classes, including equities, while helping to reduce overall portfolio volatility

**RASHEED HASSAN**  
HEAD OF GLOBAL CROSS BORDER  
INVESTMENT, SAVILLS



index-linked leases, turnover rents and triple net agreements). However, there are important sectoral and geographic distinctions, and the cyclicity of underlying returns implies that the underlying driver of inflation influences real estate's effectiveness as a hedge.

### **The more things change, the more they stay the same**

So where does real estate sit in today's investment landscape? Essentially, it is where it has always been. With change everywhere, the 'world's oldest asset class' remains largely true to itself.

As Rasheed Hassan, Head of Global Cross Border Investment, Savills, says: "Real estate continues to provide a good diversification to other asset classes, including equities, while helping to reduce overall portfolio volatility. It also continues to deliver a relatively stable income through the economic cycle and sits in the sweet spot between fixed income and equities in the risk-return profile, providing both income and capital growth."

On top of this, real estate can provide investors with a viable safe haven during periods of market volatility, as well as some protection against inflation. This consistency is reflected in the preferences of major global capital allocators. Despite all the flux that now defines the era of Great Volatility, institutional allocations to real estate have held steady at nearly 11% since the beginning of the decade. Now is certainly not the time to reduce those allocations because, as a point of entry, global real estate is starting to look attractive relative to other asset classes. ▶

world markets are more correlated now than in past decades. This is driven by a more globalised economy, increasingly synchronised monetary policy cycles and the greater availability and speed of information.

Meanwhile, benchmark equity markets are more narrowly concentrated, particularly in the US, where concentration is at its highest level for at least 100 years, according to the UBS Global Investment Returns Yearbook.

### **Adjusting for inflation**

A defining feature of the era of Great Volatility is the return of inflation. Across the OECD group of developed economies, inflation

has averaged nearly 6% over the five-year period from 2021-25, more than double the rate over the previous two decades. While real estate is widely held up as a good hedge for inflation, here too, the reality is more nuanced.

The characteristics required to protect against inflation are similar to those that support safe-haven demand. Tangibility means an asset's value is more likely to follow underlying price trends, while scarcity provides pricing power for asset owners to pass on rising costs.

For real estate, tangibility and scarcity generally apply. Some property also has a direct link with inflation through the structure of lease agreements (for example,



**MARTIN TOWNS**  
GLOBAL HEAD  
OF REAL ESTATE,  
M&G INVESTMENTS

“ Real estate has tested the patience of investors in recent years, but it is now firmly back on the agenda for asset allocators.

Following a period of underperformance relative to public markets – and, in some cases, significant value destruction that has been driven by structural change – the asset class has reset.

As capital returns to the sector, we are seeing the fundamental strengths of real estate reassert themselves. Income, diversification and inflation linkage are once again differentiating property – and this is happening at a time when equities and bonds are increasingly moving in tandem, and geopolitical risk continues to inject volatility into the public markets.

Valuations have adjusted meaningfully, prompting an improvement in the relative appeal of real estate. However, the performance of assets will not be uniform. Returns will be driven by selectivity: investing in places that endure and buildings that are capable of meeting the complex needs of a changing economy.

The opportunity is clear, but investors who want to make the most of it will need to take an active, disciplined approach. There is no room at all for complacency: this will not be a market that rewards passive capital.



6%

**AVERAGE RATE OF INFLATION  
ACROSS OECD ECONOMIES  
BETWEEN 2021 AND 2025  
- MORE THAN DOUBLE THE  
RATE OVER THE PREVIOUS  
TWO DECADES**

This is particularly true relative to equities. Global stock prices have nearly doubled over the past three years. Such an increase is rare. Over the course of 150 years in the US, for example, it has only occurred three times: in the lead up to, and subsequent recovery from, the Great Depression in the 1930s; during a stock market boom in the mid-1950s;

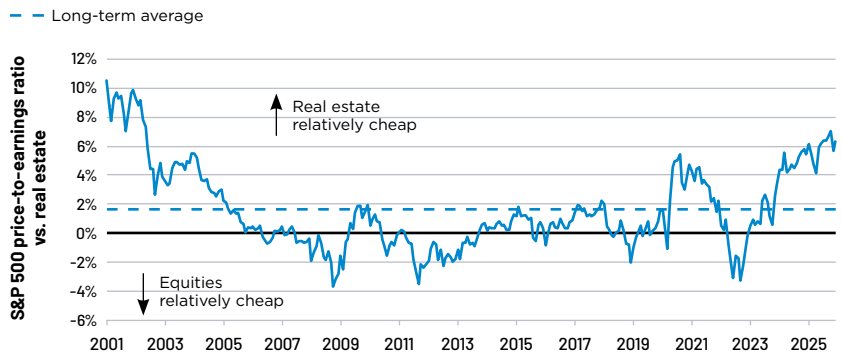
and through the dotcom bubble of the late 1990s.

This has driven valuations to near record highs, as measured by the price-to-earnings ratio. Based on historical data, investing in the S&P 500 at the current valuation would deliver annual returns of around 2% over a five-year investment horizon, barely keeping up with expected inflation.

Other geographies show a similar dynamic. In the UK, for example, the expected annualised five-year forward return would be less than 5%.

Real estate, therefore, enters the new era not as a sector looking for relevance, but as an asset class whose long-established virtues remain valid – and one of the few asset classes where today’s entry point looks compelling. ■

### Relative valuation of US direct real estate vs S&P 500



Source: Savills Research using Macrobond and MSCI RCA. Direct real estate P/E ratio calculated as the inverse of a blended cap rate



DATA STORY

# AI IS SET TO TRANSFORM HOW WE LIVE AND WORK. WHAT DOES THIS MEAN FOR REAL ESTATE?



**Paul Tostevin**  
Director,  
World Research



**Connor Chilton**  
Associate,  
World Research



# The developing AI landscape

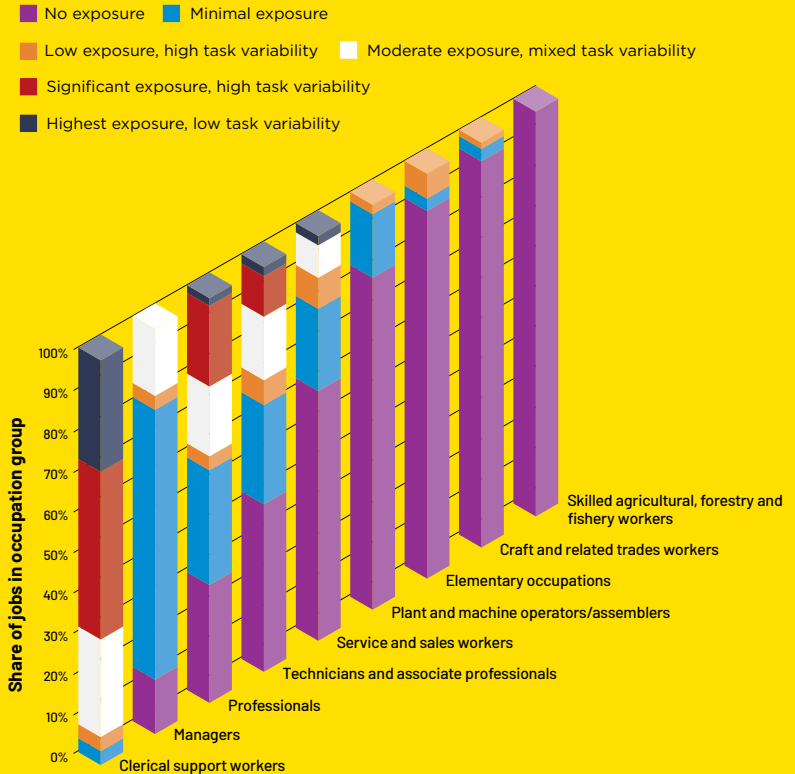
The adoption of AI has grown rapidly since OpenAI launched ChatGPT, the first mass-market large-language model, in late 2022. While the technology is still in its infancy, its effects on productivity and labour markets are starting to be felt. Regulators around the world are also considering how to respond.

Real estate is already experiencing AI's impact: data centres are enjoying an investment boom. This is driven in part by record hyperscaler spending, for which the US has been the major recipient. There are also knock-on effects for logistics, with Europe alone expected to see an additional 8.5 million sq ft of demand for supporting warehousing space over the next three years.

Longer term, the implications for the industry are less certain. But if the current pace of uptake and technological development continues, AI could have a transformative effect.

## AI's impact on different job types will vary

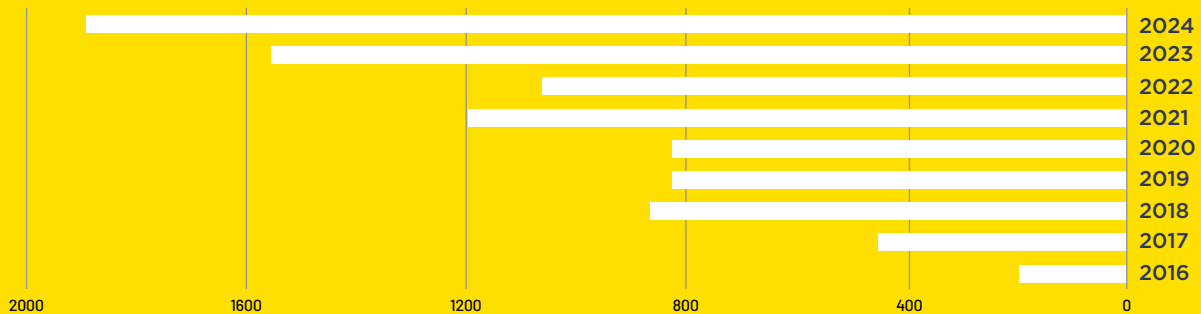
Occupational exposure to AI-driven disruption (%)



Source: Savills Research using ILO

## Governments are tightening legislation in response to AI's rapid growth

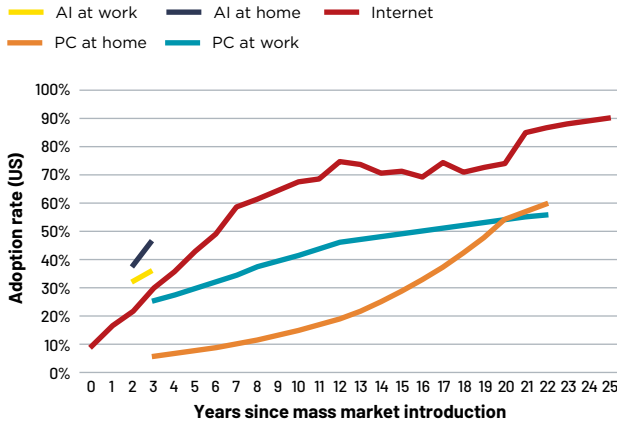
Mentions of AI in legislative proceedings in 75 jurisdictions



Source: Savills Research using Stanford HAI

## AI's growth is outpacing earlier technologies - but market saturation is some way off

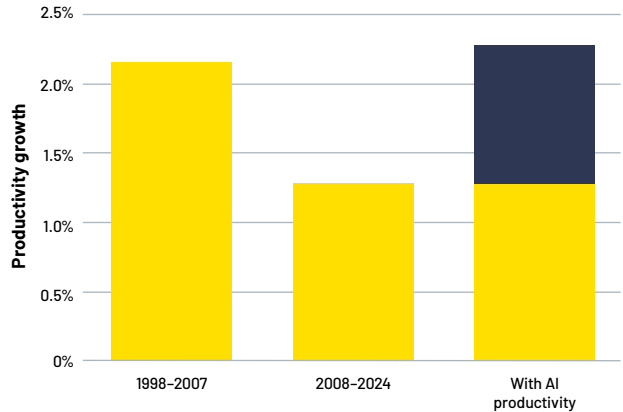
Adoption of different technologies over time (%)



Source: Savills Research using US Real-Time Population Survey  
Note: denotes usage in prior week

## AI has the potential to boost slow productivity growth

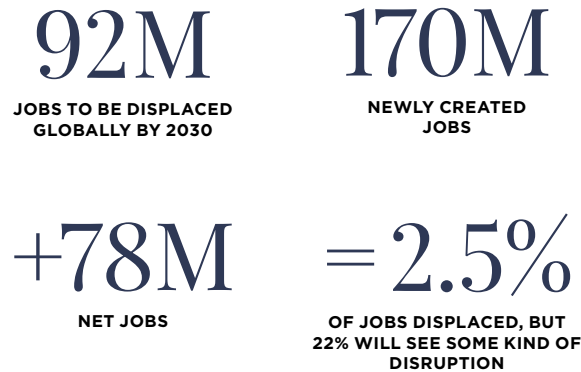
Annual productivity growth Potential AI productivity boost



Source: Savills Research using OECD and AI-related productivity scenarios

## AI is disrupting labour markets, but will also create new jobs

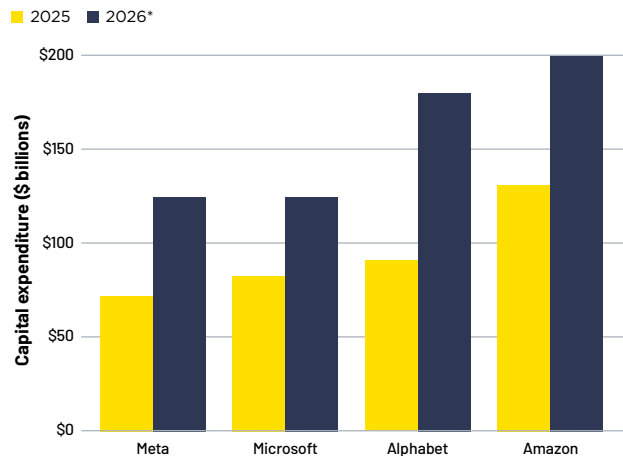
Forecast impact of AI and wider structural labour market transformation



Source: Savills Research using World Economic Forum. Structural forces include AI and automation, broader technological change, demographic shifts, the green transition and geo-economic pressures

## Investment in data centres has reached record levels

Capital expenditure by major hyperscalers



Source: Savills Research. \*Mid-range estimates based on public announcements



“As AI speeds up routine work, the value of human connection grows. Offices must become ever more collaborative, social and supportive environments that enable teams to create, innovate and thrive

CAROLINE PONTIFEX, DIRECTOR, HEAD OF WORKPLACE AND DESIGN, SAVILLS

# AI's implications for real estate

The long-term impact of AI on real estate will depend on two factors: the pace at which the technology is adopted and the level of sophistication or advancement it reaches. A high-adoption, high-advancement scenario will fundamentally change what people need from homes, workplaces, leisure facilities and logistics networks.

Alternatively, uneven AI deployment could concentrate economic gains in a limited number of firms or regions. Or adoption may fall short of full-scale automation, resulting in more incremental changes.

The impact is already being felt in different sectors. AI has fuelled rapid investment in data centres. Wider everyday adoption will further boost demand for edge data centres to handle time-sensitive workloads.

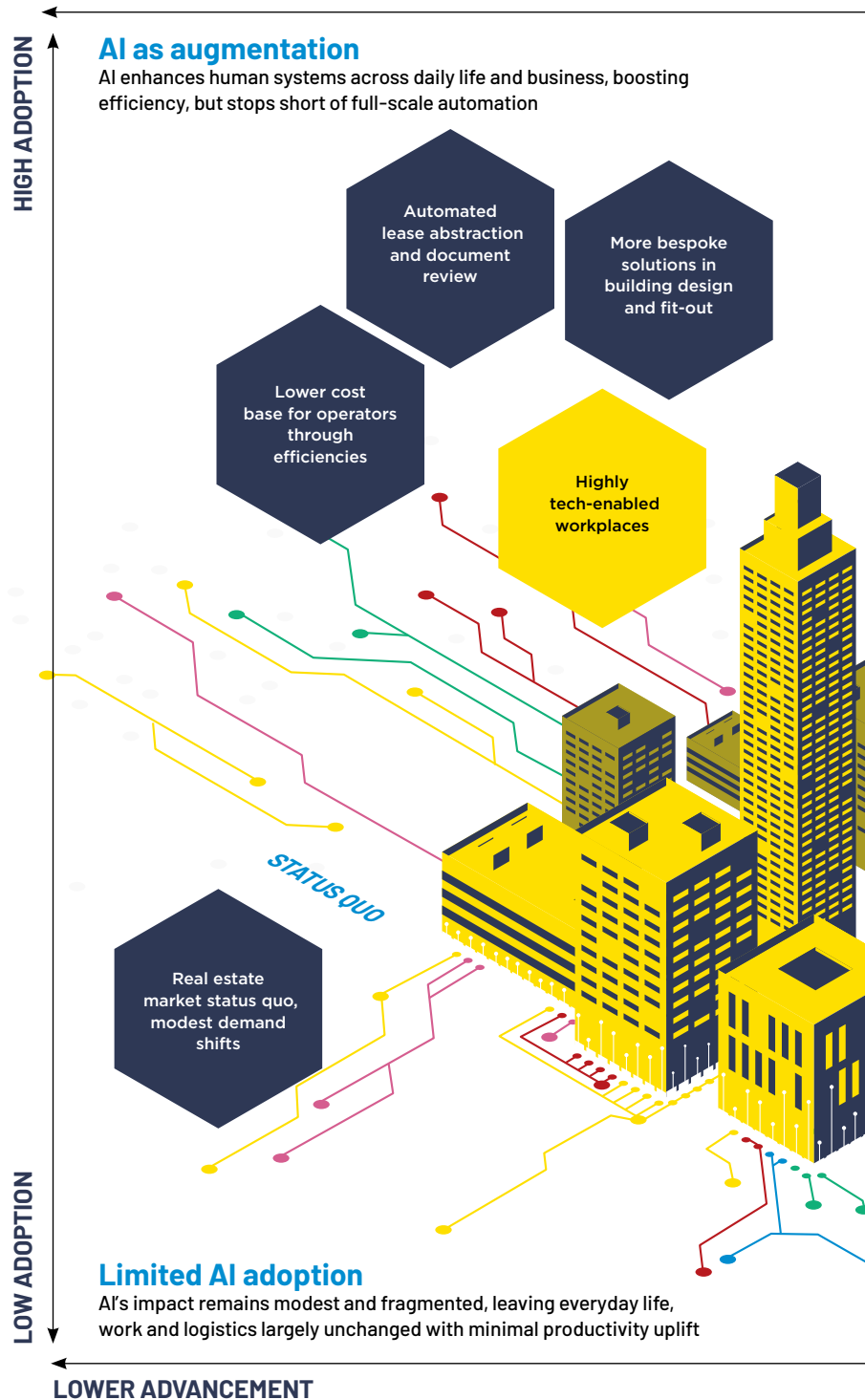
As AI is integrated into operational systems, tech-enabled workspaces, ▶

“AI is reshaping the way real estate services can be delivered by allowing us to build tools in-house in days that once took months or required outsourcing. With AI automating more processes, the real value shifts to our people’s expertise and ability to accelerate workflows to deliver better client outcomes

**RICHARD CARD, GROUP CHIEF INFORMATION OFFICER, SAVILLS**



■ Cross-sector implication
 ■ Sector-specific implication



Source: Savills Research





“ AI-driven efficiencies in inventory management and routing may allow retailers to better match supply with demand, changing their warehousing needs. But as tangible goods still need storing, this largely moves space requirements further down the supply chain. Suppliers might need to hold more buffer stock, increasing demand for more cost-effective warehousing on the periphery of prime and in secondary locations

**KEVIN MOFID, DIRECTOR, HEAD OF EMEA INDUSTRIAL AND LOGISTICS RESEARCH, SAVILLS**

warehouses, retail and homes could become the norm, pushing businesses towards higher-quality space. AI-driven efficiency gains could lead to more resilient, lower-risk tenants who are more likely to expand, boosting real estate demand.

In a more fragmented deployment scenario, AI's economic benefits could accrue disproportionately to certain firms, sectors or regions. Differences in office employment have, so far, been explained by economic growth, labour market maturity and sectoral drivers rather than AI, with GDP growth the strongest factor. But key AI knowledge and skill clusters could outperform, with office take-up concentrated in sectors most directly benefiting from the technology. ■

## The cities benefiting from the AI revolution

The cities leading the way in AI – and other advanced, research-intensive innovations such as quantum computing, nanotechnology and biotech – are enjoying a significant economic boost. Our Savills Deep Tech Index analyses the top 15 cities where real estate markets are already benefiting from this growth.

Part of our broader [Tech Cities research programme](#), our research shows that the economies of these Deep Tech cities have grown 0.9 percentage points a year faster than the countries they are located in over the past decade. We expect this trend to continue.

As a result, locations such as San Francisco, New York, the UK's 'Golden Triangle' (London, Oxford and Cambridge), Seoul and Tokyo have seen strong demand for office and laboratory space, as well as increased residential needs from highly skilled workers. In addition, the growing integration of AI into life sciences is expected to boost demand for dry labs for computational work.

The San Francisco Bay Area tops the index. It is home to major AI companies and associated businesses, including OpenAI, Anthropic, Google DeepMind and Nvidia. Leasing activity from AI firms has helped San Francisco's office markets stage a partial recovery, with availability falling from record highs.

The UK's Golden Triangle is third in our index. A key global biotech and life sciences hub, it is home to 11 top-ranked universities (QS Global 500), including leading research institutions. "Strong corporate and venture capital investment in AI is lifting office demand across key knowledge clusters," says Tom Mellows, Head of UK Science, Savills. "London has become Europe's leading Deep Tech hub. The Knowledge Quarter (spanning King's Cross, Bloomsbury and Euston) is at the forefront,



“ The data centre sector remains heavily concentrated in North America, where public cloud has driven demand since 2012–13. In Europe, most data-centre activity is still very location-driven because latency matters. Access to cheap power is also essential, which is why we're seeing the strongest growth in Spain and Portugal and the Nordics

**RUPERT DUCKWORTH, ASSOCIATE DIRECTOR, EMEA DATA CENTRE ADVISORY, SAVILLS**

benefiting from clustering with tech firms, proximity to leading institutions such as UCL and the Alan Turing Institute, and an amenity-rich urban setting coupled with strong transport links.

“Demand spans both pure-play AI developers such as OpenAI and Anthropic – which have recently announced new or expanded offices – and a growing cohort of science and tech-related businesses that are utilising AI across areas such as robotics, autonomous vehicles, computing, materials and pharma. The latter in particular are redefining building specifications, driving demand for higher power capacity, on-site data infrastructure, enhanced ventilation and, in some cases, clean room facilities.”

Deep Tech cities typically benefit from factors including:

- A pipeline of highly skilled tech and science graduates.
- Proximity to leading universities, research institutions and testing facilities.
- Access to mature and sophisticated venture capital markets.
- Robust intellectual property regulation.

Increasingly, AI adoption means access to power supplies is also becoming advantageous.

### Top 15 Deep Tech hubs



- |  |               |             |
|--|---------------|-------------|
| 1 San Francisco Bay Area                         | 6 Beijing     | 11 Paris    |
| 2 New York                                       | 7 Los Angeles | 12 Shanghai |
| 3 UK Golden Triangle (London, Oxford, Cambridge) | 8 Boston      | 13 Seattle  |
| 4 Seoul  | 9 Austin      | 14 Sydney   |
| 5 Tokyo  | 10 Singapore  | 15 Toronto  |

Source: Savills Research

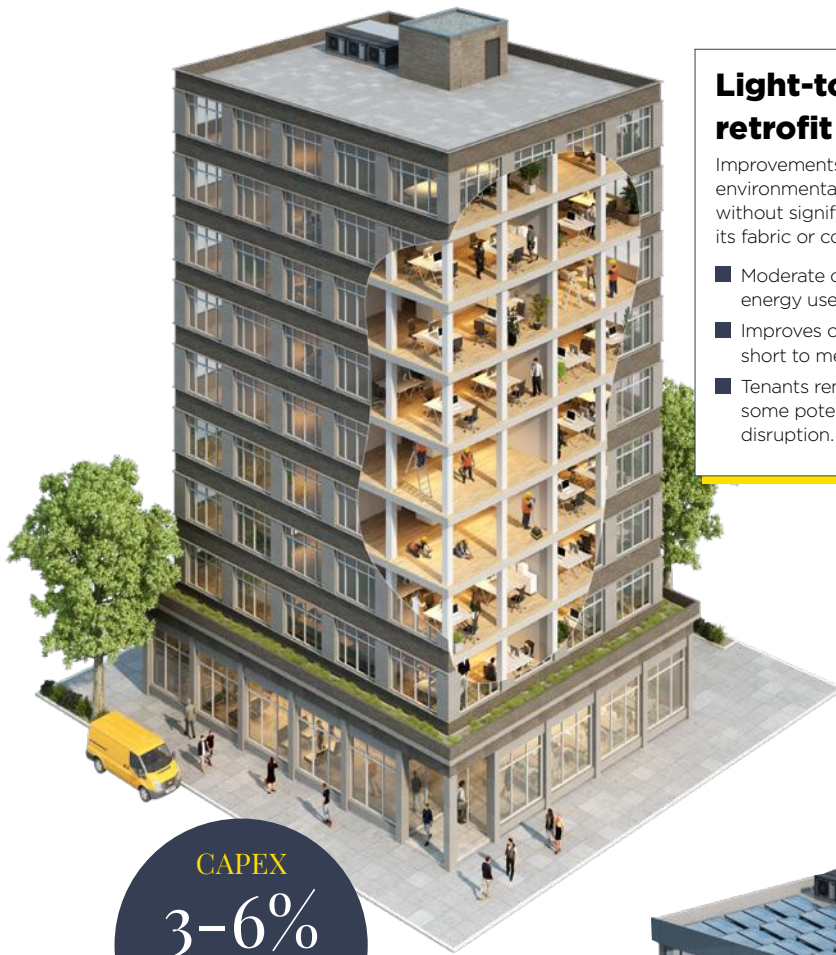


**WILL HAWKING**  
HEAD OF LIFE SCIENCES,  
ROYAL LONDON ASSET  
MANAGEMENT

AI is fundamentally reshaping how science and research organisations operate. That shift is playing out clearly across London’s Knowledge Quarter. While UK life sciences real estate is often discussed through a narrow wet-lab lens, we are seeing growing requirements for flexible real estate as traditional research embraces AI and computational data models. Demand is not declining, but evolving.

Our recent lettings to AI-led occupiers at One Triton Square, including Anthropic, illustrate how science-driven and technology-led businesses are converging. These organisations may not require traditional lab space, but they are deeply research-intensive and value proximity to leading institutions, access to talent and collaboration within established innovation ecosystems. Locations like the Knowledge Quarter offer a unique combination of academic excellence, global and regional connectivity and an amenity-rich urban environment.

Across our wider portfolio, from more established wet-lab environments such as Cambridge Research Park to highly flexible innovation buildings in central London, we see an expanding spectrum of occupier needs. The success of One Triton Square shows why London’s leading knowledge clusters continue to attract global AI and Deep Tech demand.



## Light-touch retrofit

Improvements to a building's environmental credentials without significant changes to its fabric or core services

- Moderate carbon and energy use reductions.
- Improves compliance in short to medium term.
- Tenants remain but there is some potential for disruption.

CAPEX  
3-6%  
of building  
value

CAPEX  
8-12%  
of building  
value

## Deep retrofit

Comprehensive upgrades to a building's fabric and core systems

- Can reduce energy use by 40-70%.
- But structural constraints may limit scope and effectiveness of upgrades.
- Tenants move out for some or all of the retrofit project.



CAPEX  
**>70%**  
of building  
value



**Redevelopment**

Demolition and replacement with a new, high-performance building

- Best operational carbon performance.
- Highest embodied carbon, cost and delivery risk.
- Easier to adapt to future regulations and user needs.

ILLUSTRATION: OLIVER HASSELLUHN

# Retrofit or redevelopment?

Faced with tightening climate regulations and rising tenant expectations, what's the right move for office owners? ▶



**Sarah Brooks**  
Associate Director,  
World Research



**Connor Chilton**  
Associate,  
World Research

Offices around the world are transforming. Take Singapore's 18 Cross. Originally constructed in the early 2000s, the building has been upgraded to meet Grade A office standards in a mixed-use retrofit project that maximises natural light and includes a 20-metre 'green wall'.

Sustainability was at the heart of the scheme, which incorporates features such as solar energy, rainwater harvesting and electric-vehicle charging and bike parking facilities.

It is a project that reflects two key trends preoccupying the owners of older commercial buildings. First, the decarbonisation goals of national governments have pushed regulators and cities worldwide to ratchet up sustainability requirements for offices. Second, occupiers, faced with their own net zero commitments, increasingly require offices with high environmental performance and are often willing to pay a premium to get them.

As a result, landlords with underperforming buildings face an imperative to decarbonise, both to ensure regulatory compliance and to maintain their assets' appeal to tenants. The question is how: should they optimise their existing offices, carry out a retrofit or opt for a sustainable redevelopment?

### **A tightening decarbonisation regulatory framework**

The scale of the issue is significant. According to the World Economic Forum, an estimated 80% of buildings in cities that will be in use in 2050 in most mature markets have already been built, many before the introduction of modern energy efficiency standards. As Joanna Conceicao, Director, Sustainable Design, Savills Earth, says: "Building owners are faced with an enormous upgrade challenge to get this stock in line with regulatory requirements and market expectations that are already in place and getting stricter with time."

In many major markets, the majority of overall office stock requires investment to meet tightening upcoming or proposed environmental performance standards by 2030. For example, the Tertiary Decree in Paris requires a substantial proportion of office buildings to reduce

energy consumption by 40% by 2030. In London proposed Minimum Energy Efficiency Standards require at least an Energy Performance Certificate 'B' rating by 2030, with 61% of office buildings currently below this standard.

In the European Union, the Energy Performance of Buildings Directive (EPBD) will require the renovation of over a quarter of the worst-performing commercial buildings by 2033. In New York, Local Law 97 caps annual emissions from buildings and imposes fines where this is exceeded, with 64% of buildings currently expected to be non-compliant in 2030.

Elsewhere, Sydney is witnessing a step change towards electrification of its office stock. New large commercial buildings will be required to be all-electric by 2027, but we are also seeing a trend for existing Grade A stock to include the electrification of heating as part of wider retrofit interventions.

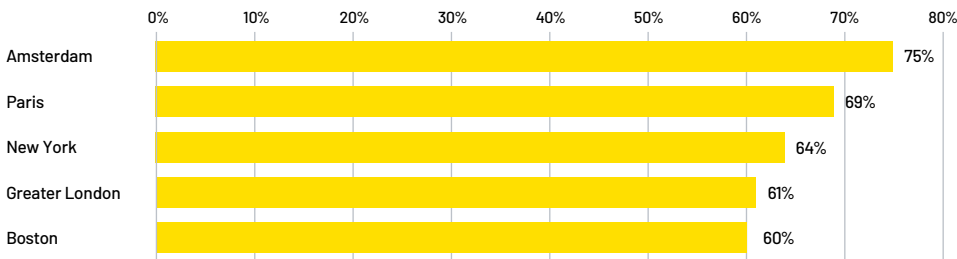
64%

**OF BUILDINGS IN NEW YORK ARE CURRENTLY EXPECTED TO BE NON-COMPLIANT WITH ENERGY PERFORMANCE STANDARDS BY 2030**



## Offices require investment to meet higher environmental standards by 2030

% of office buildings needing investment



Source: Savills Research. Note: reflects percentage of total office buildings requiring intervention to meet tightening regulatory standards by 2030



### The options: optimisation, retrofit or redevelopment

What are the strategic options available to commercial building owners with underperforming assets? In essence, there are four decarbonisation pathways:

- **Building optimisation** involves simple, low-cost improvements such as upgrading building management systems or installing lighting sensors. They cause minimal disruption to tenants, but rarely bring a significant uplift to a building's performance.
- **Light-touch retrofits** deliver moderate energy performance upgrades without significant changes to the building fabric or core services. Offices remain occupied, but there is some disruption to tenants.
- **Deep retrofits** are major upgrades to a building's fabric and core systems, which can include reconfiguring layouts, electrifying heating systems and upgrading ventilation and cooling infrastructure. They are capital-intensive and require tenants to move out for some or all of the time, but can cut carbon impact by 40-70%.
- **Redevelopment** involves demolishing existing offices and replacing them. It can bring the greatest reduction in operational carbon (the emissions generated by the energy used to run the building), but has the highest cost, delivery risk and embodied carbon (the emissions generated by a building's materials and construction).

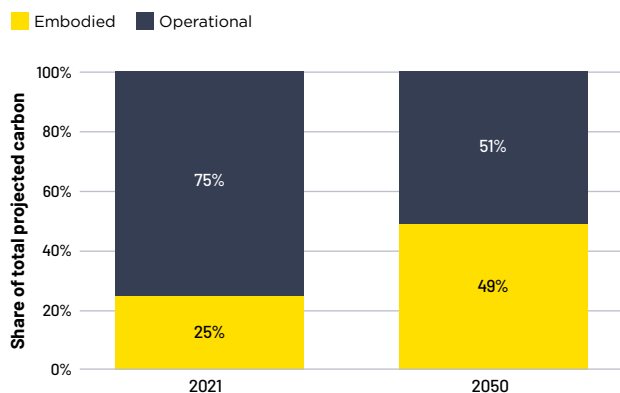
Owners must weigh up a range of factors when determining the best pathway, including the sustainability benefits, local regulatory and market environment, costs and financial returns, and the ease of adapting the existing building.

### Assessing the carbon impact

Determining the potential carbon impact of retrofitting or redeveloping offices is complex, as it requires considering both embodied and operational carbon across their full life cycle (known as whole-life emissions) – from the manufacture of materials and construction, through occupation, to demolition and beyond. Offices have become operationally more efficient in recent years, a trend that will accelerate as the grid decarbonises. As a result, embodied carbon is becoming responsible for a larger proportion of buildings' emissions. By 2050, it will account for 49% of whole-life emissions in new construction, compared with 25% in 2021.

It is a trend that favours retrofitting offices, but structural or viability constraints mean this is not always the best option. Thoughtfully designed new buildings can deliver lower operational carbon than retrofitted assets, as well as benefits for tenants and the community. Advances in lower-carbon alternative materials in new

## Projected carbon emissions from global new construction to 2050



Source: Savills Research using UN Environment Programme

developments can also mitigate the carbon impact.

The growth of circular approaches in construction can reduce the embodied carbon footprint of a new development. A joint study by the World Economic Forum and McKinsey found that a circular approach prioritising the reuse of materials could reduce the carbon impact of new builds by almost 75% in 2050. “At the moment, retrofit is almost always better than redevelopment on a sustainability analysis because it has lower embodied carbon,” says Nuno Fideles, Head of Sustainability, Savills Portugal.

“But as the circular economy becomes more mature, an increasing proportion of a new building’s materials will be reused – helping to narrow the embodied carbon gap.”

The ability to do this is, however, reliant on local ecosystems of companies to take and trade reclaimed materials, and local regulations or policies encouraging the circular economy. The Savills Material Reuse Maturity Index analyses how this varies in different cities around the world, with London and Amsterdam leading the way.

### What’s possible with a retrofit?

There can be technical limits to what retrofit projects can deliver. Office occupiers are increasingly prioritising wellbeing, with good natural light, consistent temperatures and high air quality seen as essentials. Often, the structures of older buildings, with lower floor-ceiling heights and inflexible layouts, cannot be adapted to this. In some cases, the thermal or overall carbon performance can’t be sufficiently upgraded either.

In contrast, new offices can be developed using a ‘long-life, loose-fit’ approach that can adapt to changing

user needs over a building’s lifetime. A well-designed, adaptable new building is also likely to offer greater resilience against a changing climate.

### The financial case for office upgrade investments

When considering investment in existing stock, building owners balance factors including capital expenditure, risk of vacancies, planning risk, exit yields and the potential increase in rents. The owner’s access to capital and risk appetite will also play into that assessment.

Some landlords may opt for building optimisation or a light-touch retrofit to meet immediate compliance and occupier requirements before considering more capital-intensive options at a later stage.

Building optimisation is typically less than 2% of a building’s value, with light-touch retrofit around 3–6%. The risks are relatively low: tenants typically don’t move out, so no rent is lost, and there is no (or limited) planning risk. However, there is little prospect of significantly increasing rents.

The costs and risks of other interventions are higher, but the rewards can be greater, too. Both deep retrofit and redevelopment entail vacant periods and extensive planning and construction risk.

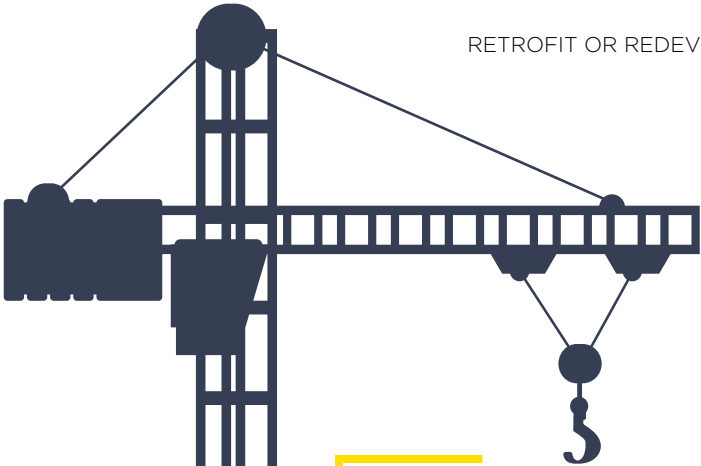
Deep retrofit typically costs 8–12% of a building’s value. But the scarcity of premium office space in some markets means that high-quality retrofits can command significant rent increases. For example, successful projects outperformed average rental growth by 57% in Madrid and 67% in New York over an average four-year time frame.

“The decision between retrofit and redevelopment is rarely binary,” says Michael Glatt, President, North America Project Management, Savills.

““

As the circular economy becomes more mature, an increasing proportion of a new building’s materials will be reused

**NUNO FIDELES, HEAD OF SUSTAINABILITY, SAVILLS PORTUGAL**

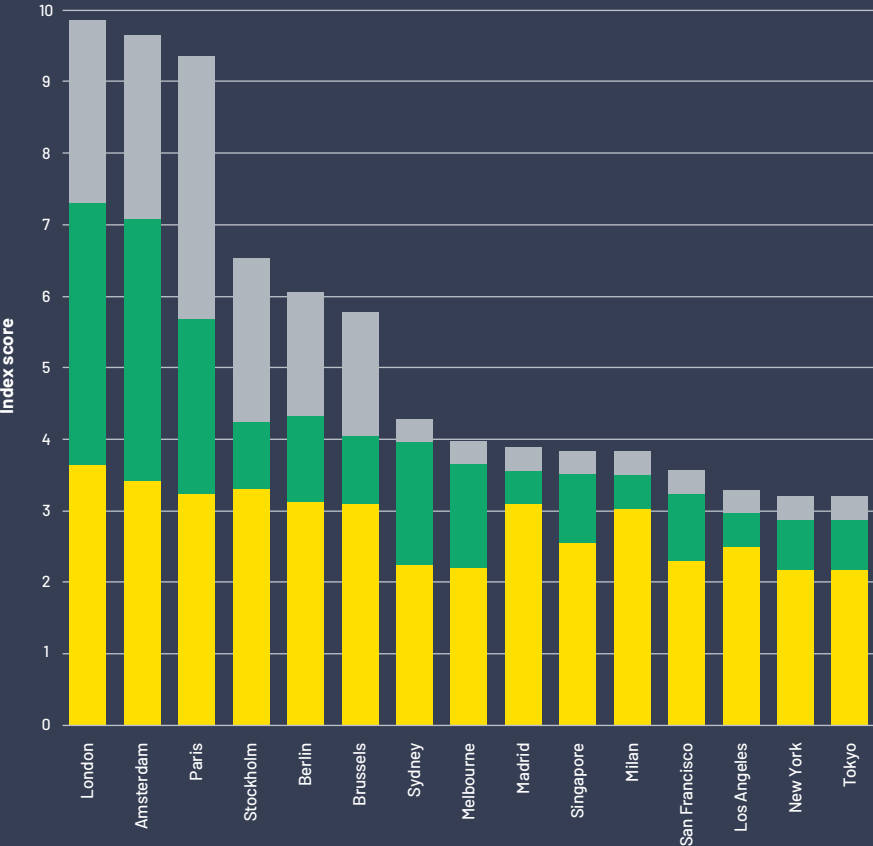


# 75%

POTENTIAL REDUCTION  
IN CARBON IMPACT OF  
NEW BUILDS FROM  
CIRCULAR CONSTRUCTION  
APPROACHES BY 2050

### Savills Material Reuse Maturity Index

Recovery and reuse rate   Material reuse facilitators   Policy and regulation



Source: Savills Research



## **MB4, LISBON**

### Transforming a 40-year-old space

The MB4 building in central Lisbon has undergone a deep retrofit that has transformed the 14,000 sq m space. The 40-year-old building now offers flexible accommodation for tenants, wellness spaces, a café, an auditorium, a bike park and a transformed ground floor that has been designed to be an engaging public space. Structural changes have enabled access for people with reduced mobility and the building has achieved BREEAM In-Use 'Excellent' certification.

“Redevelopment can unlock transformational value and deliver highly efficient, future-ready space – but it carries greater capital exposure, planning complexity and delivery risk. Retrofitting, on the other hand, can preserve embodied carbon and maximise the use of existing assets, though it often requires careful navigation of legacy infrastructure and structural constraints.”

#### **It's time to deliver on decarbonisation**

Deciding on the best way to decarbonise an office building involves navigating a complex set of trade-offs. While retrofitting should be the priority for existing buildings, it will not always be the right solution.

These options are also not mutually exclusive. For many assets, the most effective strategy is a phased approach – combining near-term optimisation measures with more substantial retrofit interventions over time, aligned with lease events, capital cycles and asset repositioning. This might mean optimising performance today, delivering a light-touch retrofit in the medium term and planning for a deeper retrofit or rebuild when opportunities arise.

Glatt adds: “The most successful strategies rigorously evaluate both financial and non-financial factors, including sustainability, operational performance, risk

## **DING HAO 3, BEIJING**

### From electronic market to high-quality offices

Growing demand for offices in Beijing's 'Silicon Valley' led to the decision to convert the 200,000 sq m Ding Hao 3 electronic market building into high-quality office space. The retrofit project – which reflects the Beijing city government's focus on reusing existing buildings rather than a 'build and scrap' approach – achieved Gold LEED certification and has cut carbon emissions by an estimated 60% compared with demolition and redevelopment.

profile and long-term flexibility. Increasingly, we're seeing clients look for hybrid solutions that retain and reuse valuable components while selectively redeveloping where it drives real performance gains."

Where redevelopment is pursued, the focus must be on minimising whole-life carbon and delivering long-term impact – environmentally, socially and economically. This includes embedding circular principles from demolition to construction, prioritising low-carbon material choices and designing buildings with flexibility, adaptability and climate resilience in mind. Done well, redevelopment can strengthen connections with local communities, particularly through active and engaging ground-floor uses.

The right approach will vary by asset, but those who align decarbonisation strategies with a building's potential and market demand will be best placed to deliver lasting value. ■



**DAVID FORBES**  
CO-FOUNDER,  
ENRIGHT CAPITAL

“ Enright Capital invests in, develops and manages commercial property in Calgary, Canada. We acquire Grade A and B office buildings and generate returns by retrofitting and refurbishing them.

In a market with average occupancy of 70–80%, we typically purchase buildings that are 50–65% leased. They generate income of around 8–10% of their acquisition prices at the time of purchase, supporting conventional financing. These buildings have often become less attractive to occupiers because the previous owners have been reluctant to reinvest capital in them.

Our approach centres on repositioning assets to align with modern occupier expectations. This includes building multiple move-in-ready show suites, upgrading common areas and adding amenities such as fitness centres, conference facilities and tenant lounges.

We focus on leasing to small and medium-sized enterprises. While this increases leasing and management costs, it enables stronger lease terms due to reduced competition from landlords in this segment. A diversified tenant base also enhances income resilience.

Our target is to achieve stabilised occupancy of 90%. Currently, average occupancy across our portfolio is 98%. As income grows, we focus on refinancing our assets to fund further improvements and return capital to investors.

”





DATA STORY

# REAL ESTATE'S DEMOGRAPHIC DRIVERS

Major demographic shifts will reshape real estate in the coming decades. Residential, office, industrial and retail property must respond to the changing needs of people and businesses.

Here are seven key points



**Kelcie Sellers**  
Associate Director,  
World Research



**Connor Chilton**  
Associate,  
World Research

# 1 The global population is close to peaking. Developed countries are already seeing declines, but growth is still forecast elsewhere

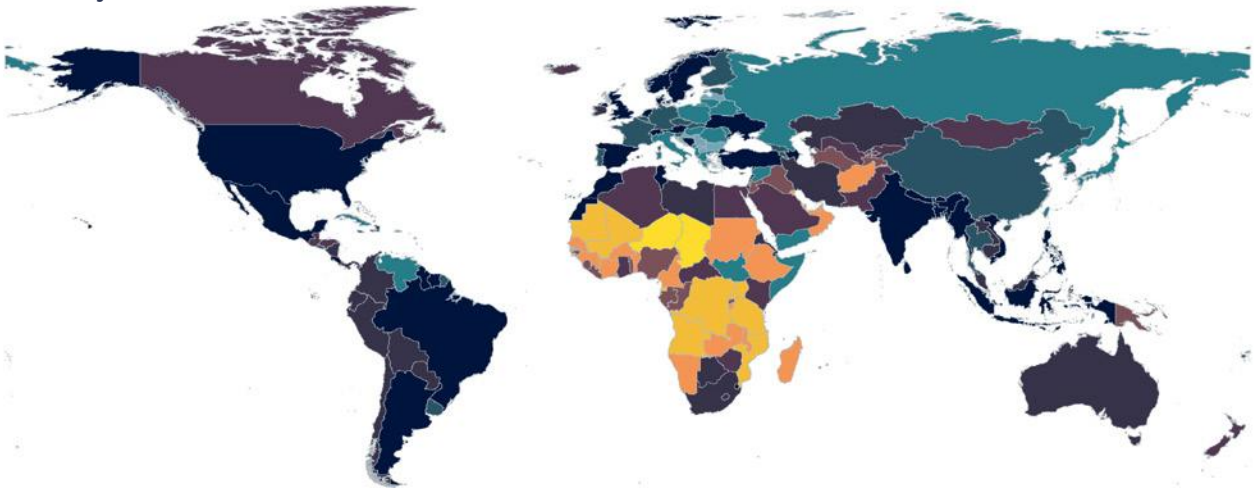
After a long period of sustained growth, the global population is likely to peak and then fall within this century, with huge implications for public finances, labour markets and real estate. Developed markets are already experiencing falling populations, a phenomenon we will start seeing in emerging economies over the next 10 years.

But populations are continuing to grow in some regions. Africa, for example, is experiencing a rapid demographic and urban transformation that is set to generate significant opportunities. Locations with rising populations will likely benefit from increased investment, business formation and economic growth over the coming decades. ▶

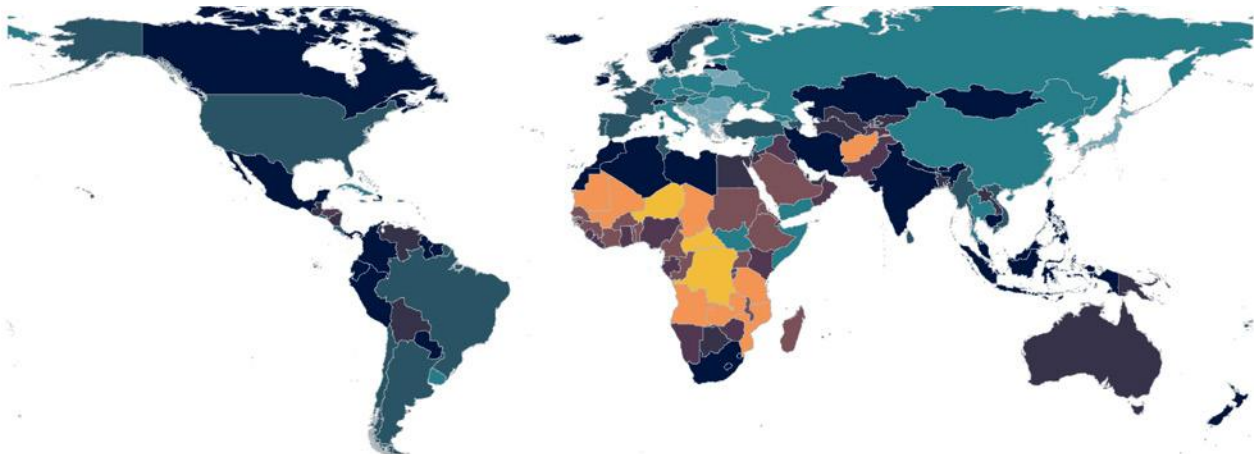
## Population growth by country (%)



Past 10 years



Next 10 years



## 2

### Global fertility rates have more than halved over the past 70 years

The total fertility rate has fallen from around five children per woman globally in 1950 to 2.25 children in 2023. The economic implications are significant: fewer births today means fewer working-age adults in 15 to 20 years' time.

A priority for businesses will therefore be to retain the talent they already have, including working parents. "Many parents, particularly mothers, leave or reduce their hours because of childcare pressures," says Yetta Reardon Smith, Director, Workplace and Design, Savills. "In an era of demographic decline, creating parent-friendly workplaces is no longer a nice-to-have, it's a business essential.

"Take the energy company BP: in the UK, its family-friendly policies and on-site nursery mean almost 100% of mothers return after a second child, and 97% are still with the company five years after their first. That's well above the UK average and shows what's possible when support like childcare, flexible leave and coaching is built into the workplace."

#### Global average number of children per woman



Source: Savills Research using World Bank

## 4

### People are moving, some cities are shrinking and populations are getting greyer

Population decline in China is uneven, shaped by strong internal migration. Around 57% of cities are expected to see population contraction over the next decade, as younger workers gravitate towards major economic hubs in search of better opportunities. "Young people are migrating to cities where jobs and industries are more concentrated," says James Macdonald, Head of Research, Savills China. "That leaves many smaller cities facing both population loss and a rapidly ageing demographic."

Rather than a simple decline, this reflects a broader redistribution. Policymakers are increasingly focused on managing the imbalance – supporting lower-tier cities while easing pressure on first-tier cities, where housing costs and infrastructure constraints remain acute. In response, investment is being directed towards local economies, particularly through the development of the 'silver economy' and service-led sectors, alongside initiatives to boost domestic tourism and consumption in smaller cities. "We're also seeing early signs of people returning to their hometowns," Macdonald adds. "They often bring back skills, capital and ideas developed in larger cities, supporting small business formation and more localised growth."

57% OF CHINESE CITIES WILL SHRINK OVER THE NEXT DECADE

### 3 India's demographic dividend is set to drive growth for decades to come

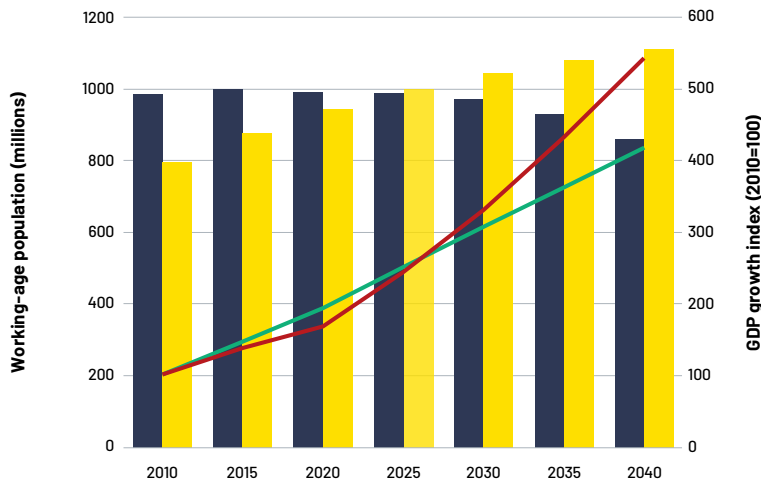
India's working-age population is forecast to continue growing over the next 15 years. "India's median age is around 28, with 67% of the population in the 15-64 age group," says Arvind Nandan, Managing Director, Research and Consulting, Savills India.

"This demographic dividend is expected to remain its

strongest point well into the latter half of this century. A high skill base, thanks to a constant stream of STEM graduates, has facilitated the growth of global capability centres. With private consumption contributing over 60% of GDP, India will continue to witness growth in urbanisation, infrastructure, energy and services."

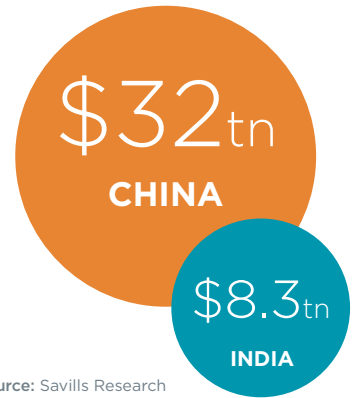
#### Working-age populations and GDP growth rates in India and China

■ China working-age population ■ India working-age population — China GDP growth index — India GDP growth index



Source: Savills Research using Oxford Economics

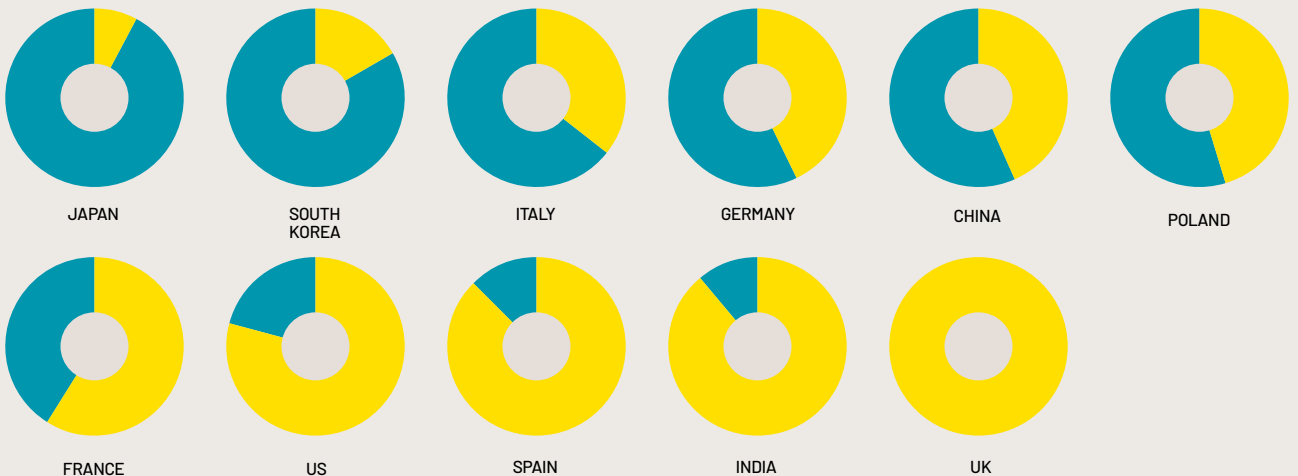
#### Forecast GDP of India and China in 2040



Source: Savills Research using Oxford Economics

#### Changes in city populations in selected markets over the next 10 years

■ % of cities growing ■ % of cities shrinking

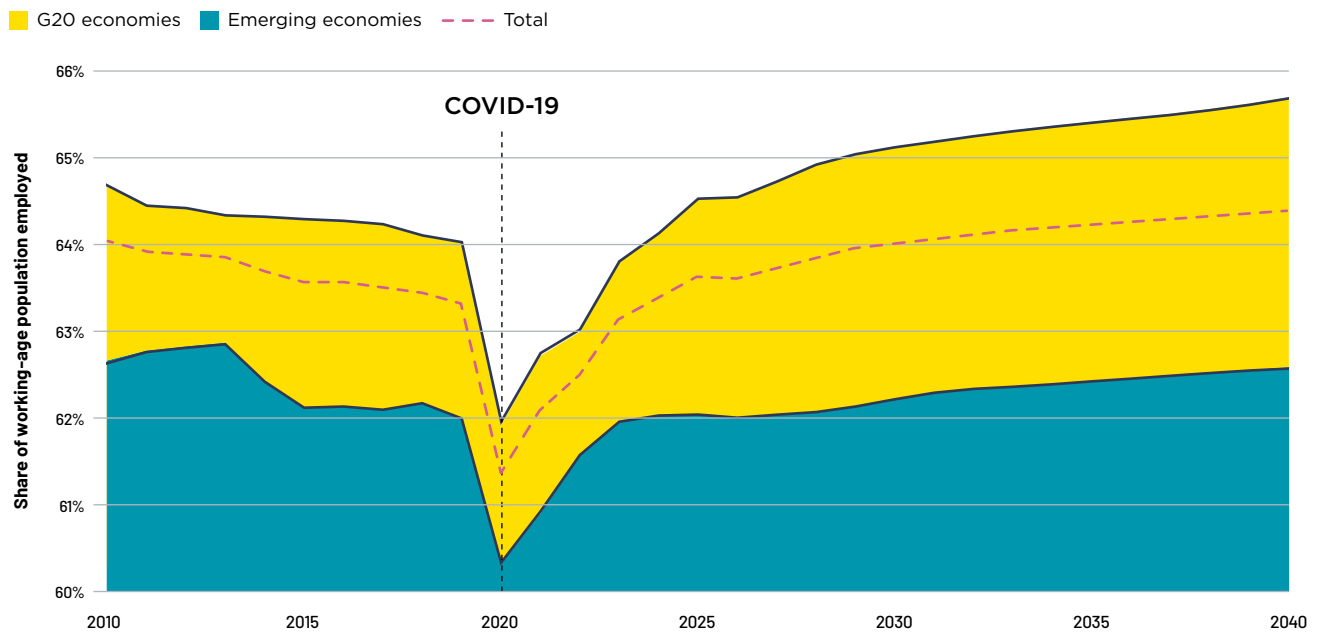


Source: Savills Research using Oxford Economics

## 5 Economies will face pressure to increase the proportion of the working-age population that is economically active

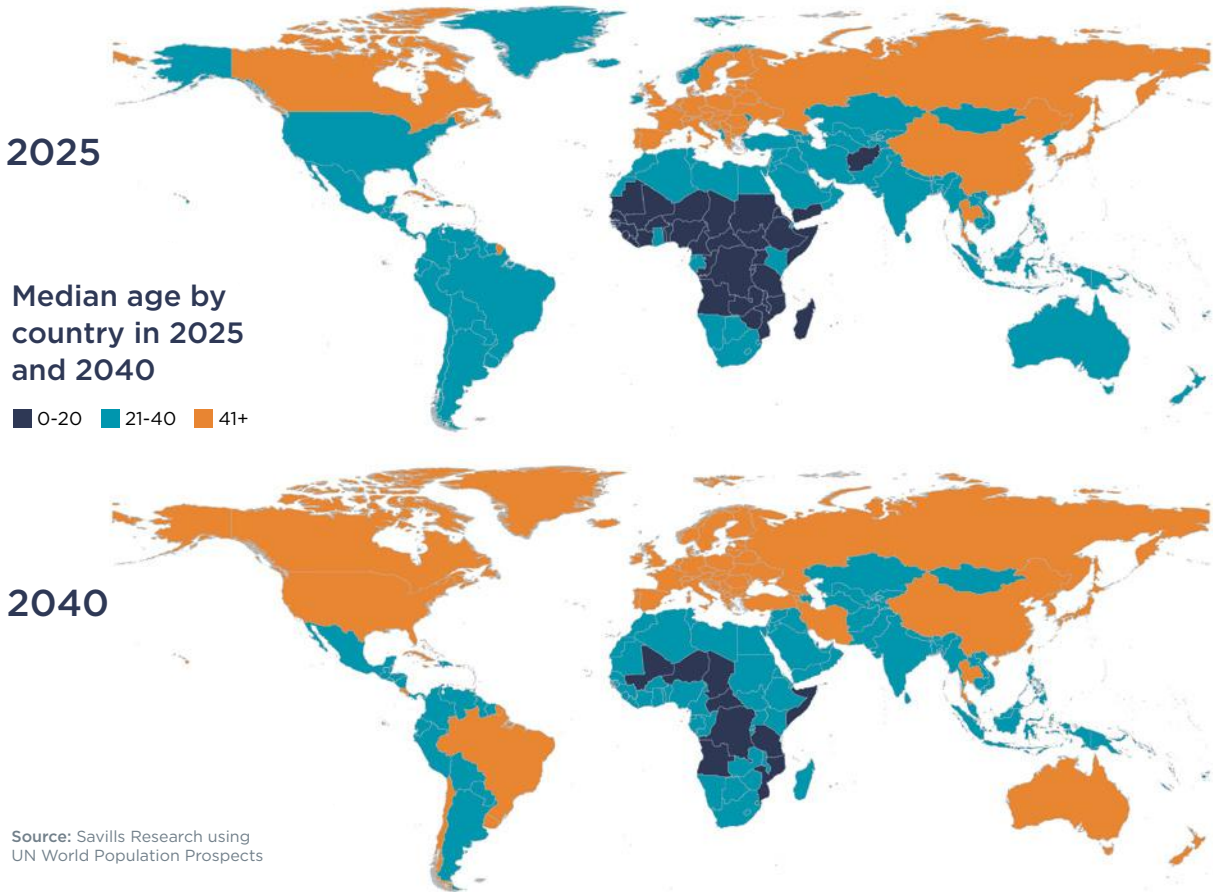
When populations fall and age, the dependency ratio (which compares the number of dependents with the working age population) increases. Currently, around a third of the working-age population globally is not in employment. A major challenge for economies in the coming decades will be increasing the proportion of people in work or shifting some tasks to new technologies such as AI or robotics.

### Share of working-age population in employment



Source: Savills Research using Oxford Economics

**6** Together, these trends will have a major impact on real estate in the coming decades



In many parts of the world, the median age is forecast to exceed 40 by 2040. The built environment will need to change to meet the residential, health and workplace needs of ageing populations, and respond to trends such as declining household sizes, rural depopulation and shrinking workforces.

Their impact is already being seen in Asia Pacific, says Emily Fell, Senior Director, Living Sectors, Asia Pacific Capital Markets, Savills. “Across cities in the region, demographic change is accelerating the repurposing of under-utilised offices, retail and hospitality assets,” she says. “As populations age,

households shrink and urban mobility increases, converting existing buildings into rental, student and senior living is becoming one of the most pragmatic and capital-efficient ways to meet future housing demand.” ▶



# The likely impact on real estate

■ Positive effect ■ Negative effect ■ Neutral effect

TRENDS	OFFICES	RETAIL	LOGISTICS	RESIDENTIAL
<b>AGEING POPULATION</b>	Offices need to be accessible and adaptable. Demand for medical office space or hybrid health-admin facilities rises	Growth in health, leisure, and wellbeing retail. Stores catering to lower mobility (pharmacy-led, service-based retail) outperform	Increased demand for logistics, cold-chain storage and last-mile delivery as mobility decreases and medical consumption rises	Housing demand eases in some areas, softening rents and prices. Shifting demand towards age-friendly housing and accessible design
<b>RISE IN SINGLE-PERSON HOUSEHOLDS</b>	Preference for urban, amenity-rich offices close to transit, enabling shorter commutes. Demand for flexible, smaller spaces in central locations	Growth in convenience retail and experiential formats as singles spend more on services and leisure over bulk goods	Parcel volumes grow, driving last-mile delivery hubs and micro-fulfilment centres in dense urban locations	Stronger demand for studios, smaller apartments, co-living schemes and professionally managed rental housing with shared amenities
<b>URBAN CONCENTRATION AND RURAL DEPOPULATION</b>	Major urban areas and city clusters outperform, benefiting from clustering effects	Urban convenience retail increases. High-street resilience depends on proximity to high-density areas	Logistics increasingly oriented towards urban last-mile facilities, with less demand for large rural sheds unless tied to strategic national networks	Urban sprawl constraints increase prices and density. Demand rises for transit-oriented urban housing
<b>MIGRATION AND DIVERSITY</b>	Gateway cities attract diverse talent pools, supporting business expansion and office demand	Expanded demand for diverse offerings supports more dynamic retail ecosystems	Labour-intensive logistics benefit from migrant workers. Import-flow-driven logistics expand in hubs connected to global trade	Migration reinforces rental demand in major cities, especially in rental markets
<b>SHRINKING WORKING-AGE POPULATION IN DEVELOPED COUNTRIES</b>	Employers to upgrade office quality to attract talent. Automation reduces some space needs but increases demand for tech-enabled offices	Staff shortages increase automation (self-checkout, robotics, AI) and smaller store formats. Less expansion in labour-scarce areas	Robotics and automation accelerate adoption of high-tech distribution centres. Labour scarcity fuels demand for newer, more automated facilities	Stable occupancy in key urban centres, but limited household formation growth minimises long-term demand
<b>INCREASING YOUTHFUL POPULATION IN DEVELOPING COUNTRIES</b>	Younger demographics drive demand for modern, tech-enabled workspaces, flexible leases, start-up hubs and innovation districts	Stronger demand for affordable fashion, convenience retail, fast-food chains, as well as large-format malls aligned with rising consumption	Rapid growth of e-commerce amplifies the need for national distribution networks, last-mile facilities, and urban fulfilment hubs	High need for plentiful, affordable housing, including large-scale developments, rental housing, and mixed-income communities

Source: Savills Research



### JEMIL DAWODU

ASSOCIATE PARTNER,  
DEMOLA DAWODU AND  
ASSOCIATES CHARTERED  
SURVEYORS AND PROPERTY  
CONSULTANTS, LAGOS

“ Africa’s rapid demographic and urban transformation presents one of the greatest opportunities of the 21st century. With 40% of Africans under the age of 14, its young population is poised to drive creativity, innovation and economic growth. By 2100, one in three babies will be born on the continent.

Africa is also the world’s fastest-urbanising region, with more than half of its people expected to live in towns and cities by 2035. This shift will generate wealth, expand business opportunities and inject new dynamism into urban centres.

By 2035, the continent will have six megacities: Lagos, Greater Cairo, Kinshasa, Greater Johannesburg, Luanda and Dar es Salaam. Each will be home to more than 10 million residents. These cities are emerging as powerful economic anchors, attracting skilled workers, global companies and rising levels of investment.

As they grow, they will play an increasingly central role in shaping Africa’s economic future through creating more dynamic and wealthier consumer markets, better-connected and more sophisticated commercial and distribution hubs, and larger bases for industrial production and global supply chains. ”

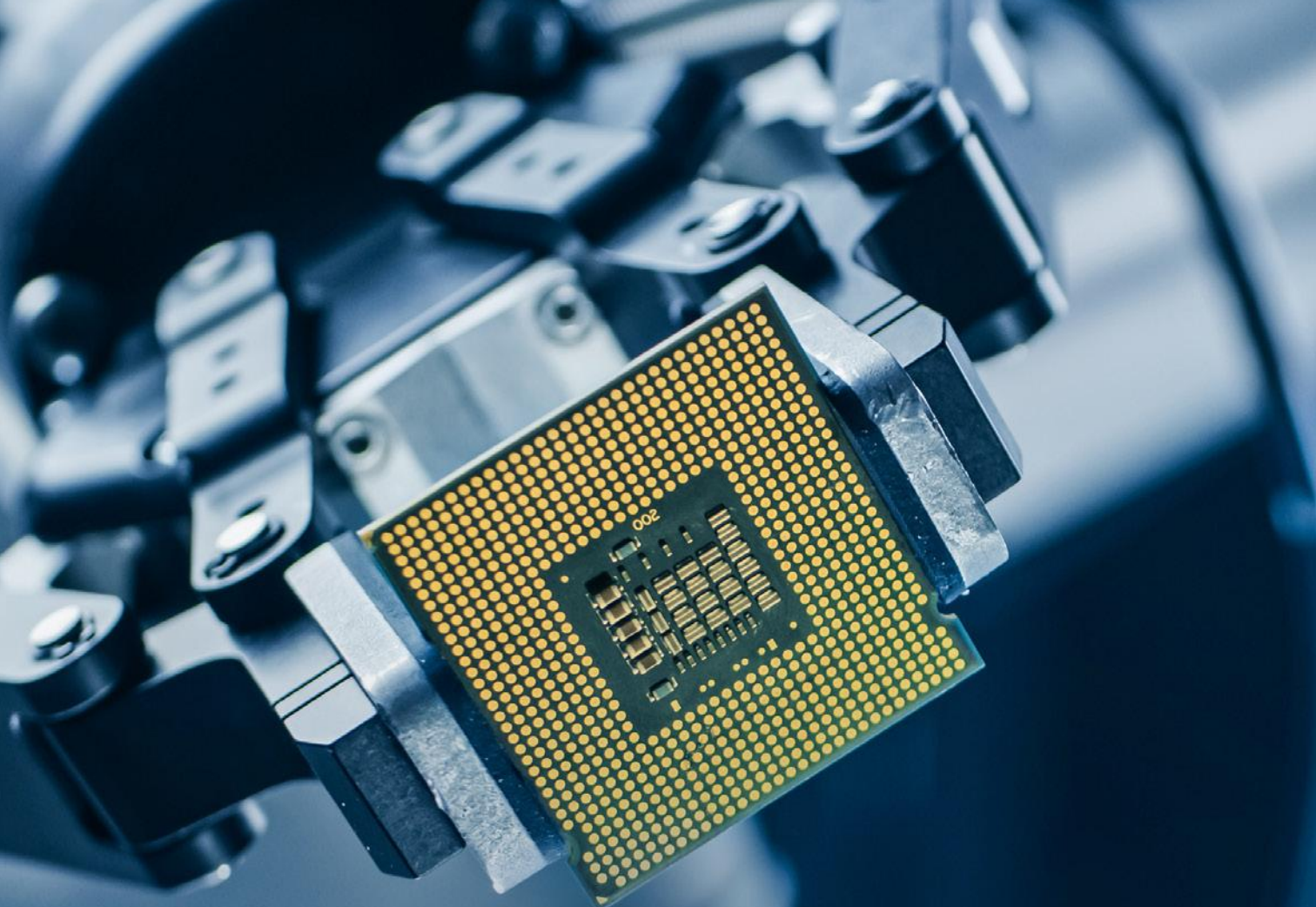
## 7

### Demographic change will resonate across sectors, including residential, retail, offices and logistics

In many markets, the challenge for real estate is rethinking how existing and new buildings can reflect the changing demographic reality.

The Netherlands, for example, is developing intergenerational real estate concepts that combine senior housing and childcare. “These demonstrate how the sector can respond to ageing populations while strengthening social cohesion and making more efficient use of space,” says Bas Wilberts, Head of Investment, Savills Netherlands.

“One of the key challenges in the Dutch housing market is limited residential mobility. Larger homes are often under-occupied, while downsizing options remain scarce. Addressing this mismatch is not only a policy issue, but an investment opportunity. By creating housing formats that enable downsizing and encourage intergenerational interaction, investors can contribute to improved market flow while achieving ESG objectives.” ■



# THE NEW GEOGRAPHY OF PRODUCTION

Supply chains are being reorganised around resilience, proximity and political alignment. Industrial and logistics real estate is central to this era of nearshoring



**Oliver Salmon**  
Director,  
World Research



**Connor Chilton**  
Associate,  
World Research

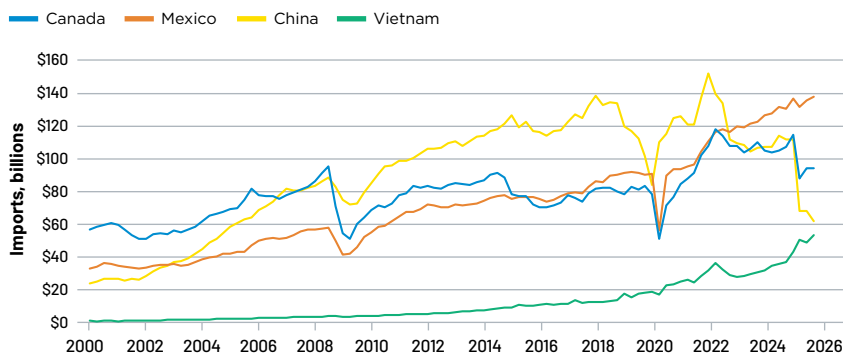
**A**fter a turbulent start to the decade, globalisation is settling into a new equilibrium. A series of major economic and geopolitical shocks have reshaped the cross-border flows of goods, capital and people that defined the previous era of 'Great Moderation'.

A key driver of change is an increase in state influence. Governments have implemented around 220 new investment policy measures annually since 2022. This represents a 75% increase on the pre-Covid-19 average, according to analysis of the UN Conference on Trade and Development's Investment Policy Monitor.

These initiatives are designed to meet a broad set of objectives, including responding to common structural pressures such as growing economic and technological competition. Many focus on supporting 'strategic' sectors, including semiconductors, clean energy and digital infrastructure, often with a national security dimension.

This activity further distorts the global allocation of capital, already buffeted in recent years by rising geopolitical risks. According to the US Federal Reserve, global foreign direct investment (FDI) is

### US major goods imports by origin



Source: Savills Research using Macrobond

increasingly fragmenting along ideological lines, with capital flowing disproportionately between like-minded economies – a trend known as friendshoring.

The trend is also showing up in global trade patterns. In the three largest single markets – the EU, the US and China – the share of domestic consumption reliant on foreign input has been in steady decline since 2020, according to the WTO. Even beyond these markets, trade flows have become more regional over the same period.

However, this does not mean a retreat to domestic production. The average number of stages in global value chains (GVC) has increased over the past five years.

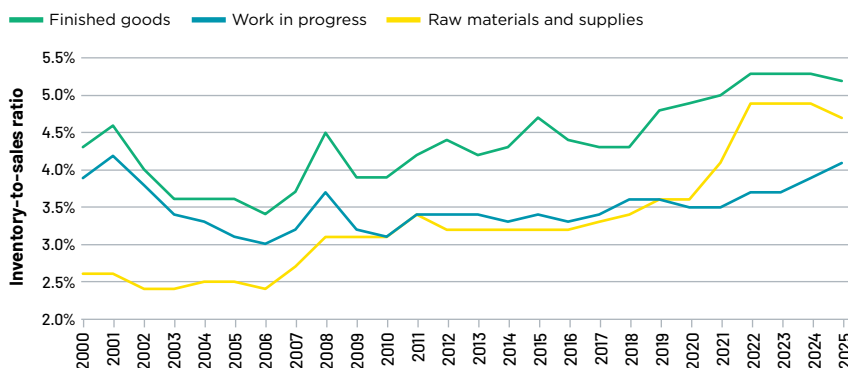
This suggests that, rather than uproot existing networks, many businesses are reorienting to reduce vulnerabilities across jurisdictions. This is especially true where domestic production is limited by a lack of expertise or capacity constraints. The reorientation of production towards geographically close partners, known as nearshoring, has become a defining feature of global supply-chain strategy.

Indeed, FDI in the global manufacturing sector (particularly in automotive, electronics and apparel) has increased in recent years, underpinned by a need to rebalance global production and reduce bottlenecks in supply chains. This has principally benefited economies in East Asia (excluding China), Eastern Europe and Central America, with strategies such as 'China Plus One'.

These trends are visible in the strained relationship between the US and China. Until recently, China was the largest import partner of the US, before trade barriers and investment restrictions took effect. Mexico has now overtaken China, driven by increased nearshoring activity, while Vietnam is emerging as a key destination for those diversifying away from China.

Industrial and logistics real estate, ►

### Japan's manufacturing inventory holdings



Source: Savills Research using Macrobond

which provides the physical infrastructure that underpins production and supply chains, is experiencing the impact of these shifts. Location, flexibility and innovation are key.

### The new location calculus

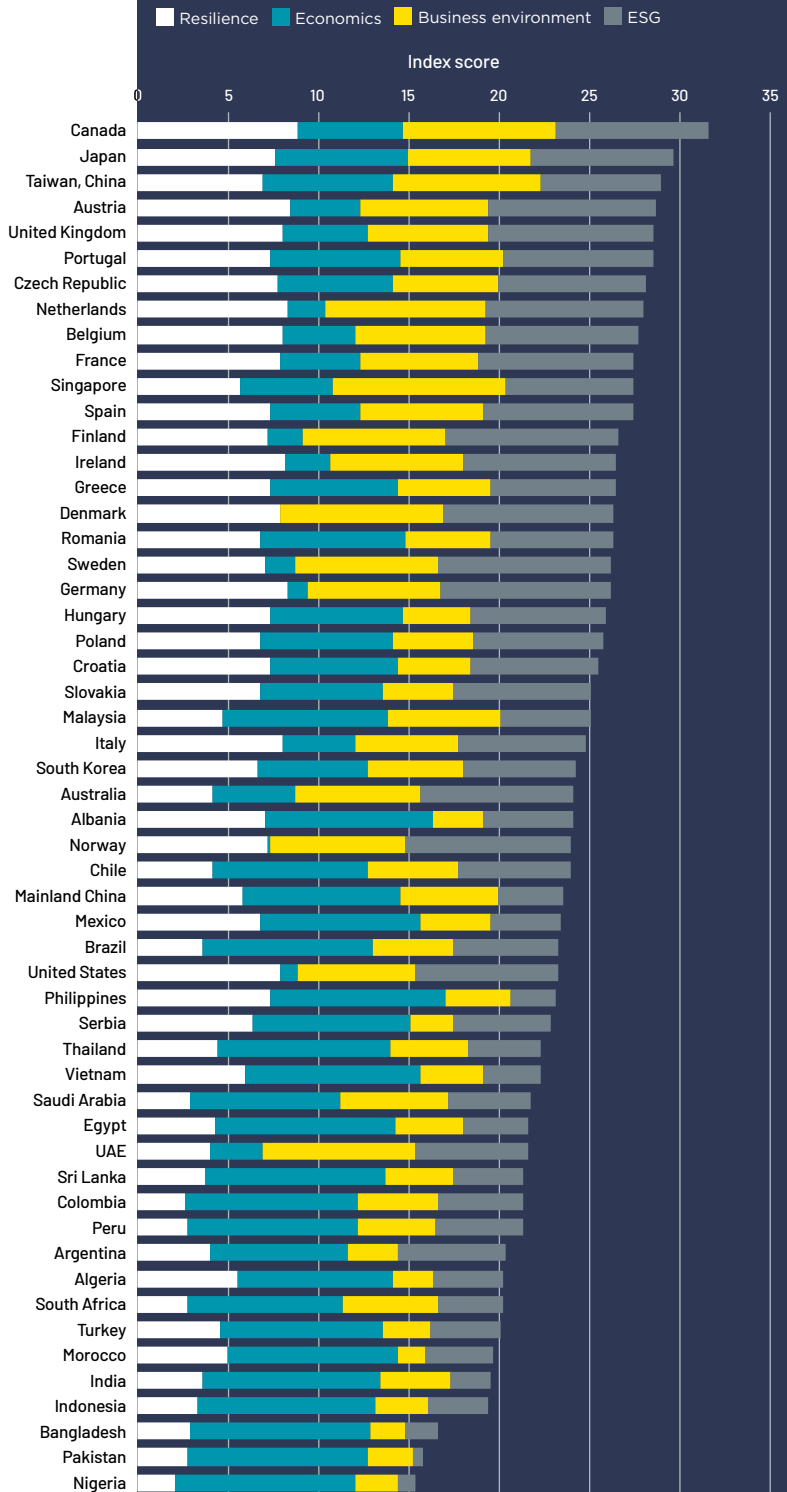
In the current climate, location is an increasingly complex decision for global manufacturing firms. Location decisions are no longer driven almost solely by a desire to minimise costs. Instead, businesses are taking into account considerations such as resilience, energy security and the policy environment, many of which pull in opposite directions.

Even when considering cost alone, the decision about where to locate is more nuanced than it may seem. Businesses must balance low vacancy and higher rents in established locations with the growing need for proximity to final customers. In the 2025 DHL e-commerce trends report, the two largest frustrations for shoppers were delivery costs (58%) and long delivery times (52%), both of which can be reduced by locating closer to market.

This dilemma is reflected in the Savills Nearshoring Index, which aims to capture the primary factors influencing global firms' decisions on where to locate production. It is composed of four equally weighted pillars:

- Resilience captures the local policy environment and proximity to final consumers.
- Economics is benchmarked on the cost of domestic labour.
- Business environment highlights the ease of doing business and the quality of trade infrastructure.
- ESG brings together environmental and labour protection standards, as well as energy security.

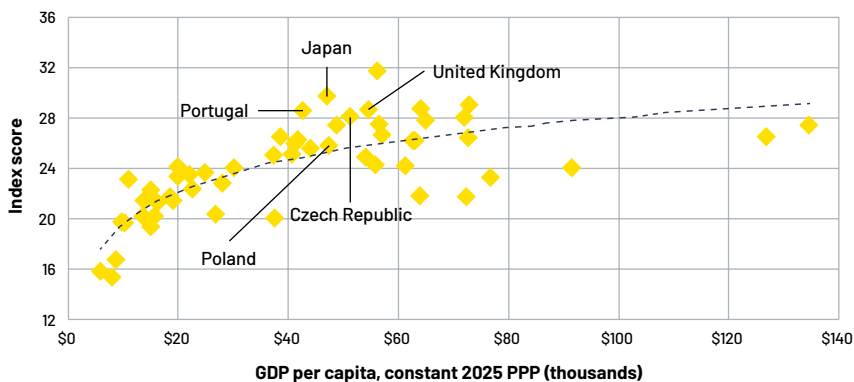
## Savills Nearshoring Index



Source: Savills Research



## Nearshoring Index and economic development



Source: Savills Research using IMF

The index is positively correlated with economic development: higher-income economies generally score near the top of the rankings.

There is an element of co-determination to this: high-income economies perform better on business environment because this is a pre-condition for productivity growth. They are also clustered geographically – notably in the EU, the largest single market in the world – so are beneficial from a market access perspective.

More interesting, however, are the markets that over- or underperform relative to economic development. In the Americas, both Canada and Mexico rank higher than would be expected, in part given preferential access to the large US market,

especially in an environment of rising trade tariffs. As highlighted by Gregg Healy, Head of Industrial and Logistics, Savills North America, “We’re seeing nearshoring play out in real time across North America. Location decisions are no longer driven by cost alone. Occupiers are prioritising resilience and proximity to demand, and that’s driving strong activity across industrial markets.”

In Europe, while Austria is the highest-ranking market – perhaps not an obvious leader, but one underpinned by its central geographic position in Europe, highly skilled workforce and strong credentials across resilience and ESG metrics – Portugal and the UK also perform well. So do many Eastern European economies, which

provide a good balance across all four pillars.

Finally, in APAC, a mix of high- and middle-income economies outperform the benchmark, including Japan, Vietnam and China, the latter confirming its continued strength as a global manufacturing superpower.

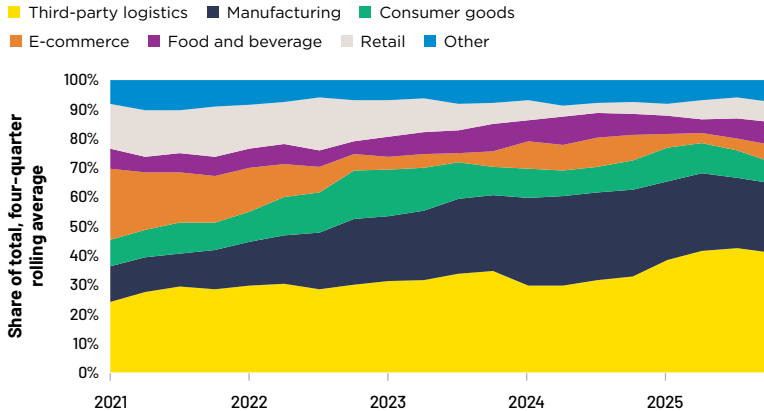
Location is also critical from an inventory management perspective. Many businesses are transitioning from a ‘just-in-time’ supply-chain strategy that prioritised costs to a ‘just-in-case’ system that favours resilience. This means retaining larger inventories in storage and holding them closer to consumers, mitigating future disruptions. This practice has contributed to strong demand for warehousing space in recent years.

### Flexibility over commitment

The ability for global businesses to remain flexible, pivoting to different markets as consumer and economic conditions rapidly change, is an important asset in today’s volatile environment. Chinese manufacturers, seeing more than 15 years of US market share eroded over the past three years, have been able to pivot to other global markets, exporting a record \$3.8 trillion of goods in 2025. Businesses have responded by rapidly leasing logistics space in new markets, often with very short lead times.

Real estate commitments are inherently inflexible. Businesses are, therefore, instead adapting how they use real estate to stay agile. This has led to growth in third-party-logistics (3PL) firms, which manage warehousing and distribution operations on behalf of customers, giving businesses access to larger distribution networks without the associated real estate commitments. In the US, 3PLs have increased their share of leasing activity from around 23% in 2020 to more than 40% in 2025.

## US industrial and logistics leasing by industry



Source: Savills Research. Based on top five leases in 27 major US markets

### Automation as arbitrage

Technology can be used to mitigate the additional costs associated with nearshoring production. High-cost economies dominate the top of the rankings in our Savills Nearshoring Index, in part due to their proximity to large consumer markets.

Automation, therefore, makes relocation a more feasible option in a cost-competitive environment. A 2025 survey from Rockwell Automation found that over 40% of manufacturing occupiers cite the

introduction of AI and automation as a core strategy for addressing labour costs and skills shortages. In China, where automation is most advanced, fully automated ‘dark warehouses’ now operate around the clock with limited human oversight.

To enable this technology, modern logistics facilities require significant power capacity. These energy concerns are not only a site selection issue, but also increasingly a geopolitical one, tied to broader

concerns around energy security. Many facilities are already building solar capacity and other forms of on-site energy generation are likely to follow in the future. “Over the past decade, rising power demands from modern logistics operations have become a structural driver of demand for industrial and logistics assets,” says Sam Quellyn Roberts, Director, Global Occupier Services/ EMEA Logistics Markets, Savills. “Since 2023, geopolitical events have further forced occupiers to factor energy price volatility and security into operational strategies, incentivising diversification of power sources.”

Globalisation is not retreating, but reorganising around new strategic and security considerations. Supply chains remain global, but the geography of production is becoming more politically aligned, more regionally concentrated and more responsive to risk. Industrial and logistics real estate will remain at the forefront of this shift, serving as the platform on which the next phase of globalisation is built. ■

## REGIONAL PERSPECTIVES: WAREHOUSING IN ASIA AND EUROPE



**JOHN TALBOT**  
CEO,  
LCA SAVILLS

“Multiple factors influence warehousing development in Asia. But a consistent theme is that businesses that require warehouses are prioritising them as a competitive tool. Increasingly, they are turning to warehouse automation to lift performance while reducing exposure to labour scarcity and associated operating cost pressures.

Warehouse automation’s rapid growth means the skills and experience required for design and delivery processes are in short supply. We therefore anticipate that among many automation success stories, there will also be some high-profile failures.

Property developers are responding to demand for high-quality warehouse space by erecting multi-floor, ramp-up facilities, usually clustered around logistics hubs close to major conurbations.”



“Three key factors have been driving our European clients to make changes to their warehousing estate and operations.

Automation is the most significant. Different types of automation – from robotics and automated guided vehicles to more conventional technologies – have a big impact on the warehouse space they choose and the financial benefit case.

Next is nearshoring, for greater resilience and reduced reliance on China. And third is the need for greater service reliability, with trade barriers and unpredictable ocean lead times causing clients to move inventory closer to customers.

Demand for sustainable warehouse buildings also remains important, with green road transport influencing warehouse locations.”



**EMILE NAUS**  
PARTNER,  
BEARINGPOINT

## THE LAST WORD

# Delivering the cities of the future



PROFESSOR GREG CLARK

“ We live on the extraordinary urbanisation path of human history. Between 1980 and 2080, ‘The Century of Cities’, our world goes from 2.3 billion people in cities to a projected possible peak of 9.2 billion, as the human population reaches its potential maximum of 10 billion. Million-person cities will rise from 275 to 1600. This is the central fact of our age.

Urbanisation is also diverging. While some cities are building at an extraordinary speed, others are stabilising, ageing or already shrinking. Africa and South Asia are experiencing the fastest urbanisation now. Europe, East Asia and North America face a different challenge: renewing, retrofitting and reinventing what already exists.

Against this backdrop, planning, designing, building and operating cities has become the world’s largest industry, employing 250 million people and responsible for roughly a third of global energy use and carbon emissions. Real estate is not simply a financial asset class that happens to occupy physical space. It is the mechanism through which humanity houses, connects and sustains itself.

Renewal is now in question. In much of the world, the city of the future is already built. The central task is the adaptation of buildings, districts and infrastructure to meet new demands. In still-growing cities, new developments must be agile, frugal and designed for future change, rather than a frozen moment.

The sector must, therefore, become an active participant in rebuilding the social contract between cities and the people who inhabit them. Climate accountability, housing affordability, building safety, public space, inclusive communities: these are not external obligations. They are the conditions of real estate’s continued legitimacy.

Consider the risk. A sector that is narrowly transactional, extracting value from cities without contributing to their resilience or liveability, will face a reckoning. Regulation will tighten. Capital will reprice. Tenants, communities and governments will withdraw consent. The stranded asset is not simply a building that fails its energy rating. It is a model of ownership that has forfeited public trust.

Those who treat cities as living systems, aligning long-term returns with long-term social and environmental outcomes and prioritising stewardship over extraction, will find themselves on the right side of policy, capital and occupier demand. Reform is not the enemy of returns. It is their precondition.

The century we are in belongs to cities. Whether the built environment helps them deliver, or stands aside while they struggle, is a defining question.



*Professor Greg Clark is the author of 10 books and 100 reports on cities, investment and place-leadership. He is an honorary professor at Strathclyde University.*

# Savills contributors

<b>Amy Fobes</b>	Senior Vice President, Global Occupier Services
<b>Andrew Cooke</b>	Director, UK Tenant Representation
<b>Arvind Nandan</b>	Managing Director, Research and Consulting, India
<b>Bas Wilberts</b>	Head of Investment, Netherlands
<b>Caroline Pontifex</b>	Director, Head of Workplace and Design
<b>Chris Marriott</b>	CEO of Southeast Asia
<b>Devon Munos</b>	Senior Vice President, Head of Americas Research
<b>Emily Fell</b>	Senior Director, Living Sectors, Asia Pacific Capital Markets
<b>Gregg Healey</b>	Head of Industrial and Logistics, North America
<b>Jaime Pascual-Sanchiz</b>	CEO of Iberia
<b>James Butchard</b>	Executive Vice President, Downtown Toronto, Canada
<b>James Macdonald</b>	Head of Research, China
<b>Jemma Aitken-Quack</b>	Director, Savills International Development
<b>JoAnn Jieun Hong</b>	Senior Director, Research and Consultancy, Korea
<b>Joanna Conceicao</b>	Director, Sustainable Design, Savills Earth
<b>Julia Moore</b>	Director, Global Occupier Services
<b>Kevin Mofid</b>	Director, Head of EMEA Industrial and Logistics Research
<b>Marie Hickey</b>	Director, Global Retail Research Lead
<b>Matt Schreck</b>	Research Director, New York and Tri-State, US
<b>Michael Glatt</b>	President, North America Project Management
<b>Michelle Needles</b>	Global Head of Enterprise Solutions, Global Occupier Services
<b>Naveen Nandwani</b>	Managing Director, Commercial Advisory and Transactions, India
<b>Neil Brooks</b>	Head of Asia Pacific Capital Markets
<b>Nuno Fideles</b>	Head of Sustainability, Portugal
<b>Rasheed Hassan</b>	Head of Global Cross Border Investment
<b>Richard Card</b>	Group Chief Information Officer
<b>Rupert Duckworth</b>	Associate Director, EMEA Data Centre Advisory
<b>Sam Quellyn Roberts</b>	Director, Global Occupier Services/EMEA Logistics Markets
<b>Simon Collett</b>	Executive Director and Head of Professional Services, Building and Project Consultancy
<b>Steven Morgan</b>	CEO of Middle East
<b>Tom Mellows</b>	Head of UK Science
<b>Yetta Reardon Smith</b>	Director, Workplace and Design

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