MARKET IN MINUTES
Savills Research

Savills Build: Perspective

savills

The latest reading from the Savills Build: Perspective index suggests that some sectors are starting to see cost reductions and shortening programme durations. This is encouraging for improving scheme viability at a point where stronger economic data will hopefully boost confidence and therefore, activity, in the development, re-purposing & refurbishment sectors.

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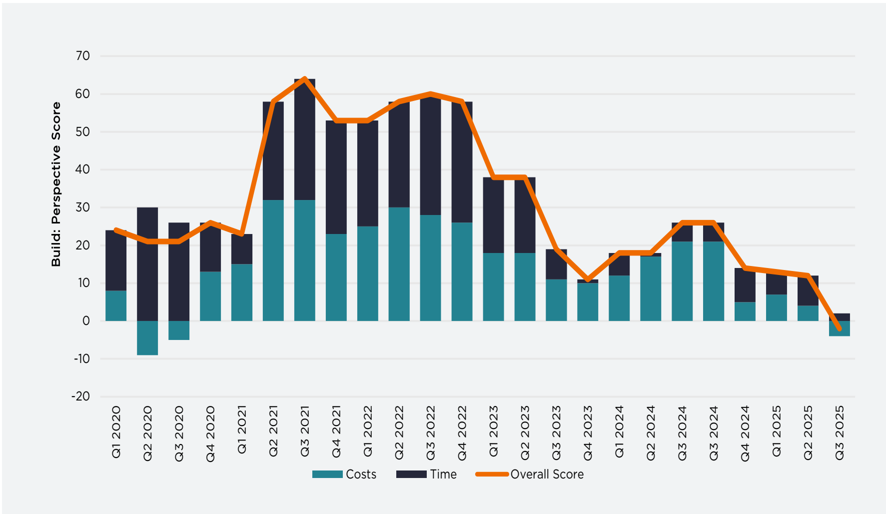
Construction sentiment belies wider economic indicators

At the start of the year, we were optimistic that we had turned a corner and were seeing the dawn of a market recovery. Tariffs, conflict, and negative political rhetoric have since dominated the airwaves, with a tangible impact on business and investor confidence. But are things really as bad as they seem? If we compare a number of economic indicators to twelve months ago, the situation in some areas has improved more than it has declined. Base rates are down, construction GVA has moved from negative to positive territory, and exports have seen stronger-than-expected growth. As a consequence, the British Chambers of Commerce revised its previous GDP forecast from 1.1% to 1.3%. However, against this backdrop, the UK construction PMI remains in negative territory, albeit the rate of contraction continues to moderate. This also correlates with the latest reading from the Savills Build: Perspective index, which, after a period of stability, contracted sharply in Q3 2025, suggesting that some sectors are starting to see drops in both build costs and programme length. With the next UK Budget now pushed back until the end of November, it is difficult to see how sentiment improves in the fourth quarter. However, with economic data continuing to surprise on the upside, we expect sentiment to improve as 2026 progresses.

FIGURE 1: SAVILLS BUILD: PERSPECTIVE SCORE



Source: Savills Research

FIGURE 2: BUILD PERSPECTIVE SECTOR BREAKDOWN

	New build & heavy refurb costs	New build & heavy refurb time	Occupier fit-out costs	Occupier fit-out time
Offices - Central London	↔	↔	↔	↔
Offices - Regional	↔	↔	↔	↓
Warehousing <100,000 sq ft	↓	↔	↓	↔
Warehousing 100,000 - 500,000 sq ft	↓	↔	↓	↔
Warehousing 500,000 sq ft +	↓	↔	↓	↔
Prime Residential - Central London	↔	↑	↑	↔
Rented Living - London	↔	↑	↑	↔
Rented Living - Regional	↔	↑	↑	↔
Foodstores	↔	↔	↔	↔
High St Retail	↔	↔	↔	↔
Out of Town Retail	↔	↔	↔	↔
Shopping Centre	↔	↔	↔	↔
Science - Laboratory	↔	↔	↔	↔
Education - Academic	↔	↔	↔	↔
Education - Commercial	↔	↔	↔	↔
Education - Other	↔	↔	↔	↔

Source: Savills Research

METHODOLOGY & APPROACH

Savills Building and Project Consultancy sector experts track build cost and programme timescale sentiment across 64 separate markets and sectors. A high Build: Perspective score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative score would suggest that most markets and sectors are experiencing downward pressure. A score around zero suggests that build costs and programme timescales are largely static.

11.9m sq ft

record low level of supply in the South East

84%

of upcoming supply will come from refurbishments

£1.50

average difference between rent for new builds and refurbishments

Refurbishment drives market amid supply constraints

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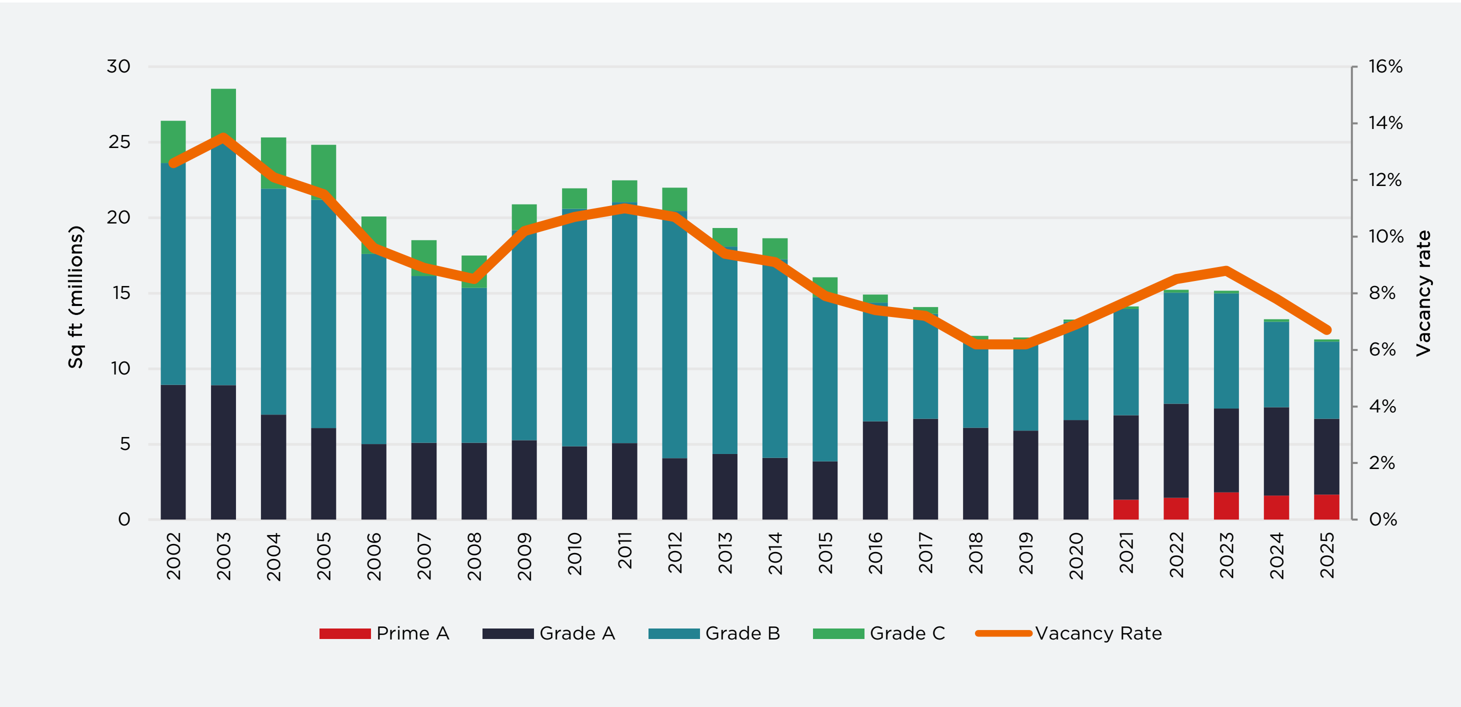
In the South East, Q3 take-up reached 492,000 sq ft amid ongoing economic and political uncertainty, standing 42% below the same period in 2024. Q1–Q3 take-up stands at 2.02 million sq ft, and is expected to align with levels recorded over the past three years. Supply has fallen to a record low of 11.9 million sq ft, and with Prime availability expected to tighten further, it will drive rental growth. The increase in activity from larger occupiers is supporting the flight to quality in the market, which resulted in Grade A and Prime space accounting for 81% of take-up in Q1–Q3 2025.

Supply has declined by 15% since the end of 2023. While Prime and Grade A availability remains ahead of pre-pandemic levels, 2024 marked the first year that the supply of these assets fell. Supply of poorer quality stock is also being eroded through conversion to alternative uses. Indeed, with 60 million sq ft of stock now more than 20 years old, most supply can be considered in need of significant capital expenditure. With the development pipeline at an all-time low, further rental growth is expected. Already in Q3, Chelmsford's headline rent increased by 14% to £32.00 per sq ft, Farnborough saw rents rise to £35.00 per sq ft, and the Skechers letting in St Albans pushed the headline rent to £43.00 per sq ft. These rental uplifts reinforce the trend of occupiers being prepared to pay premium rents amidst the ongoing flight to quality and a lack of options across the market. The lack of new build development is also evident across the Big Six regional cities, where space is in short supply. The average rent difference between new builds and refurbished offices has halved since 2019, now standing at just £1.50 per sq ft, highlighting the growing value placed on well-executed refurbishments in good locations.

Whilst the above should support speculative office development, viability remains an issue. This, combined with the fact that new headline rents are being achieved in key regional cities and the yield spread between prime and secondary offices, means investors are increasingly looking to undertake refurbishments of core-plus buildings that are well-located. 84% of the upcoming office space in these markets over the next three years will come from refurbished buildings, a significant rise from 29% pre-Covid, reflecting a strategic shift to meet occupier expectations. They offer flexibility, faster delivery timelines, less below-ground risk, less planning risk, and the potential for lower whole life carbon (WLC) emissions.

Looking ahead, the success of the Big Six office markets will hinge on how effectively landlords can cope with the challenges in repositioning existing assets, such as inefficient floor plates, low ceiling heights, listed building restrictions, unknown structural capacity, deleterious materials, and a lack of relevant skills that push up construction costs. In a landscape where quality, ESG, and adaptability are paramount, refurbishment is no longer a fallback; it has become a strategic response to the evolving demands of modern occupiers and a direct answer to a stalled development pipeline.

FIGURE 3: GREATER LONDON & SOUTH EAST SUPPLY



Source: Savills Research

£99.75
current prime City rent

-2%
take-up down on Q1-Q3 2024

26.5m sq ft
development pipeline to 2029

Prime space prevails amid market uncertainty

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Uncertainty began to feed into central London's office market in Q3 with take-up reaching 1.9 million sq ft, a 30% decline quarter-on-quarter and 28% below the long-term Q3 average. The lower take-up was primarily driven by a lack of larger transactions, with no deals over 100,000 sq ft completing in the City and none exceeding 50,000 sq ft in the West End. This brought year-to-date (YTD) take-up to 6.8 million sq ft, which is down 2% on Q1–Q3 2024. While take-up is currently 8% below the long-term average, it is 2% ahead of our 'new normal' post-Covid expectations. In total, three transactions over 50,000 sq ft completed, the largest being law firm Bristows' acquisition of the 4th to 7th floors of Bow Bells House, 11 Bread Street, EC4 (70,000 sq ft), on a 15-year lease.

Prime rental expectations strengthened this year, with Savills revising growth forecasts upwards in H1. Annual growth is now projected at 4.2% in the City (up 20 bps) and 4.1% in the West End (up 10 bps) for the 2025–2029 period. Current prime rents average £99.75 per sq ft in the City and £168.26 per sq ft in the West End, underlining continued appetite for best-in-class space. This demand profile is increasingly ESG-driven: 60% of leasing activity in H1 was in top-rated BREEAM buildings, up from 57% last year, while interest in older, lower-grade stock continues to decline.

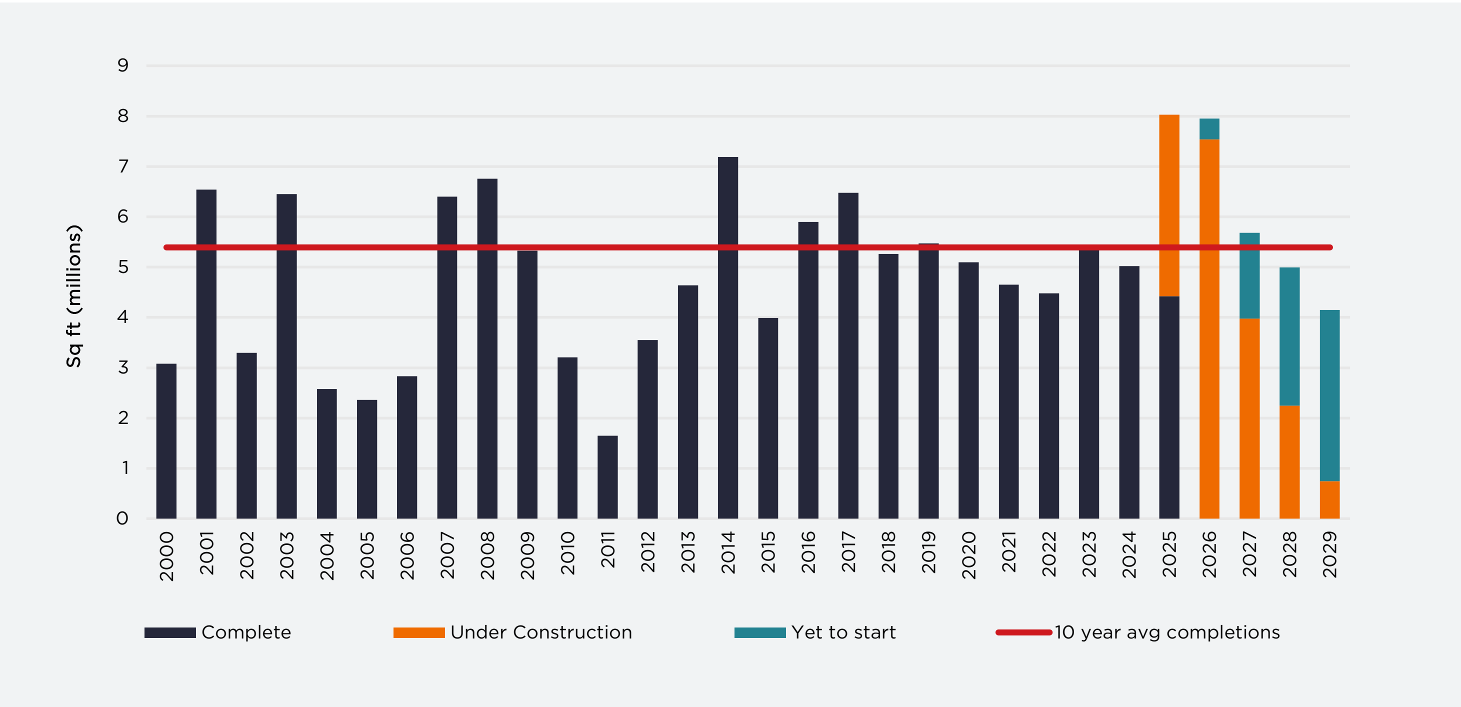
Refurbishments have dominated construction starts so far this year, accounting for 75%, as landlords and developers responded to rising ESG requirements and embodied-carbon considerations. This shift reflects both cost efficiency and planning realities, with deep retrofits increasingly preferred over full redevelopment. New development starts totalled 2.3 million sq ft in Q3, bringing the YTD figure to 5.8 million sq ft, nearly matching the full-year total of 5.9 million sq ft recorded in 2024.

We currently anticipate that development completions between now and 2029 will reach 26.5 million sq ft, although 31% of this pipeline is yet to start.

On the construction side, material prices eased slightly, falling 0.7% year-on-year, but remain 37% above pre-pandemic levels. Pressure persists in finishing trades and MEP packages due to high import costs and strong demand, with intermittent supply issues for fire-rated ductwork, electrical components and mechanical plant.

Looking ahead, tender price inflation is forecast at 2.75% for 2025–2026, supported by expectations of sector output recovery, though public sector weakness may temper growth. Risks remain around trade policy, with potential US–China tariffs threatening global supply chains and commodity pricing, while regulatory requirements such as Gateway 2 approvals continue to add complexity and cost.

FIGURE 4: CENTRAL LONDON OFFICE DEVELOPMENT PIPELINE



Source: Savills Research

18%
2025 take-up higher than the same period in 2024

32m sq ft
expected demand from the Defence sector

Japan
Japanese developers provide childcare facilities

Can the sector look to Japan to improve the wellness offer?

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Despite the uncertainty injected into global markets by the Trump administration's 'Liberation Day' tariffs and the subsequent adjustments made since, take-up in the UK logistics sector is on track for its best year since the end of the pandemic. YTD take-up by the end of Q3 2025 totalled 26.3 million sq ft, 18% higher than the same period in 2024. Savills is aware of a further 5.5 million sq ft of space under offer. If these units transact in Q4, this would bring full-year take-up to 32 million sq ft, in line with 2019. Uncertainty remains a significant issue for both developers and occupiers, delaying decision-making and weighing on occupier take-up, which has exacerbated supply issues over the last two years. Developers have delayed bringing forward speculative schemes in response, with the speculative development pipeline falling to its lowest level since Q3 2020, with just 7.6 million sq ft of speculatively developed stock under construction.

Falling development has seen work thin out for construction contractors, which should lead to tighter margins in tender returns and potentially lower materials prices, which could have a deflationary impact on construction costs. As such, the Savills Build: Perspective index for industrial and logistics (I&L) is now starting to exhibit downward pressure.

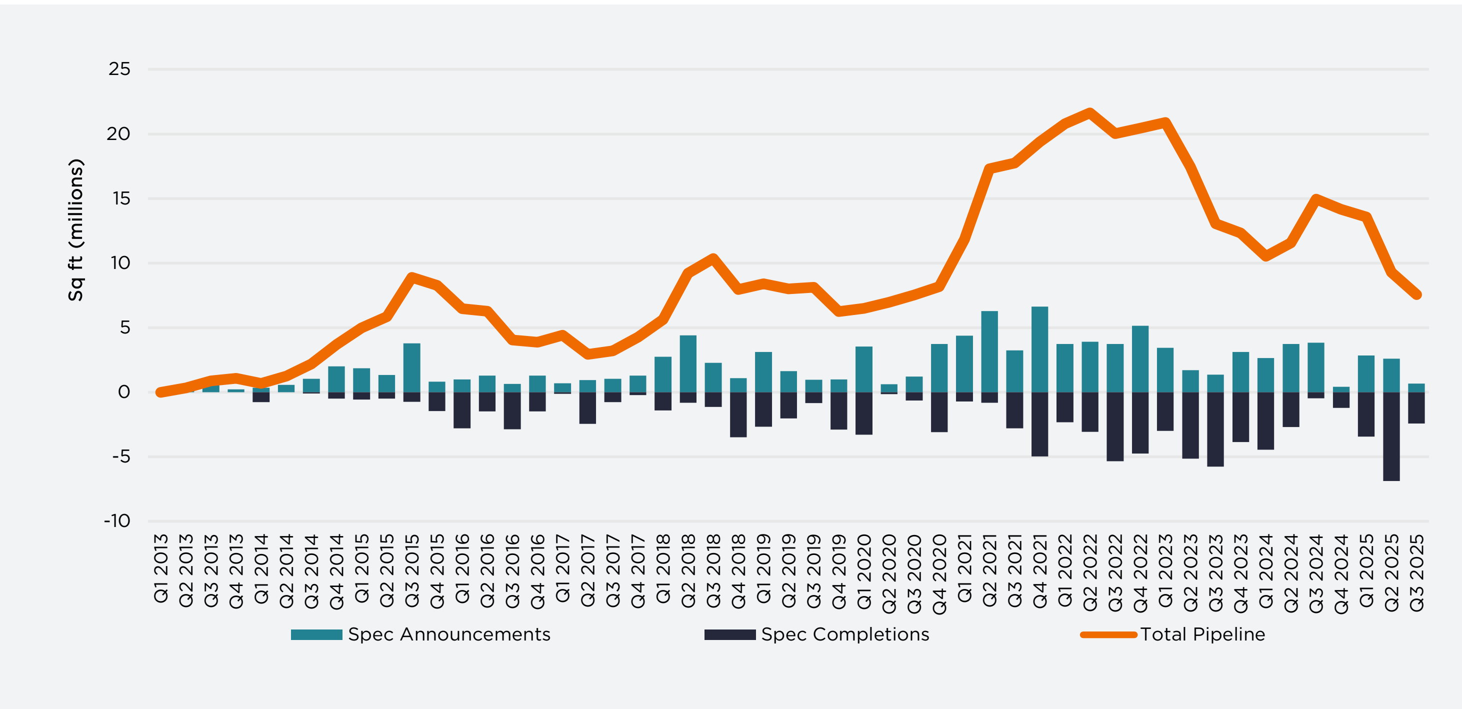
We continue to see upward pressure on land values as the AI boom is driving significant demand in the data centre sector, with these assets often in direct competition with traditional I&L sites. Additionally, Savills estimates rising defence expenditure could lead to 32.3 million sq ft of additional demand over the next seven years. Notably, much of this will likely be build-to-suit (BTS) due to the complex nature of such facilities and associated security measures.

While some cost pressures on development are easing, the introduction of the UK Net Zero Carbon Buildings Standard (UKNZCBS) means that developers will need to increase the coverage of rooftop PV panels to comply going forward. The UKNZCBS benchmarks for compliant levels of embodied and operational carbon from I&L buildings are set to reduce incrementally over time, meaning that alignment to the standard will become increasingly challenging and potentially more costly in the short to medium term. Other developers are looking to offset embodied carbon through planting new forests and creating enhanced habitats, with one new scheme requiring a land bank almost the size of Gatwick airport and so competition for land remains fierce.

On-site wellness amenities are also becoming more prevalent, particularly in large I&L parks. Given that much of the labour for these parks commutes, there may be opportunities for developers to expand on-site offerings to include crèches and food outlets. An interesting case study is Granta Park Life Sciences in Cambridge, which has a doctor's surgery, cricket pitch, crèche and pool. This could be a model for the I&L sector to follow, but case studies from the European market remain thin on the ground

In Japan, the developer ESR has developed facilities which include children's day-care centres known as 'R:KIDS'. Managed by licensed day-care providers and offered free of charge, ESR's R:KIDS provide high-quality childcare services, which have been well received by families who work for the tenant companies in the facilities. Not only does this initiative support ESR's customers in attracting and keeping the talent they need, it also improves the well-being of on-site employees and workforce productivity, whilst creating greater inclusiveness, diversity and flexibility.

FIGURE 5: THE SPECULATIVE DEVELOPMENT PIPELINE IS CONTRACTING FROM PANDEMIC-ERA HIGHS



Source: Savills Research

1.2%
strongest rise in sales volumes since 2022

£600m
additional business rates burden for major retailers

2.5%
rise in footfall at retail parks

Retail recovery strengthens despite economic headwinds

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In spite of the lingering effects of the pandemic and subsequent cost-of-living crisis, retail has continued a slow but steady recovery in 2025. On a rolling twelve-month basis, retail sales volumes and values increased by 1.2% and 1.9%, respectively, in June 2025. In volume terms, this marks the strongest expansion in retail sales volumes since April 2022.

Consumer confidence has been adversely affected by global macroeconomic conditions, following a decline in April, consumer confidence and the climate for major purchases improved in May and June. Across all asset classes, MRI UK footfall figures show modest gains in footfall, with retail parks (+2.5%) the strongest performing asset class, followed by shopping centres (+1.8%) and high streets (+1.1%).

Vacancy rates on the high street (16.9%) and in shopping centres (13.6%) have fallen over the four quarters to Q2 2025, while the vacancy rate in the retail warehouse (5.0%) has edged up marginally since the start of the year. Coupled with stabilising footfall and a growing volume of operators seeking space across the sub-markets, the overall retail sector appears to be in a significantly better position than in recent years.

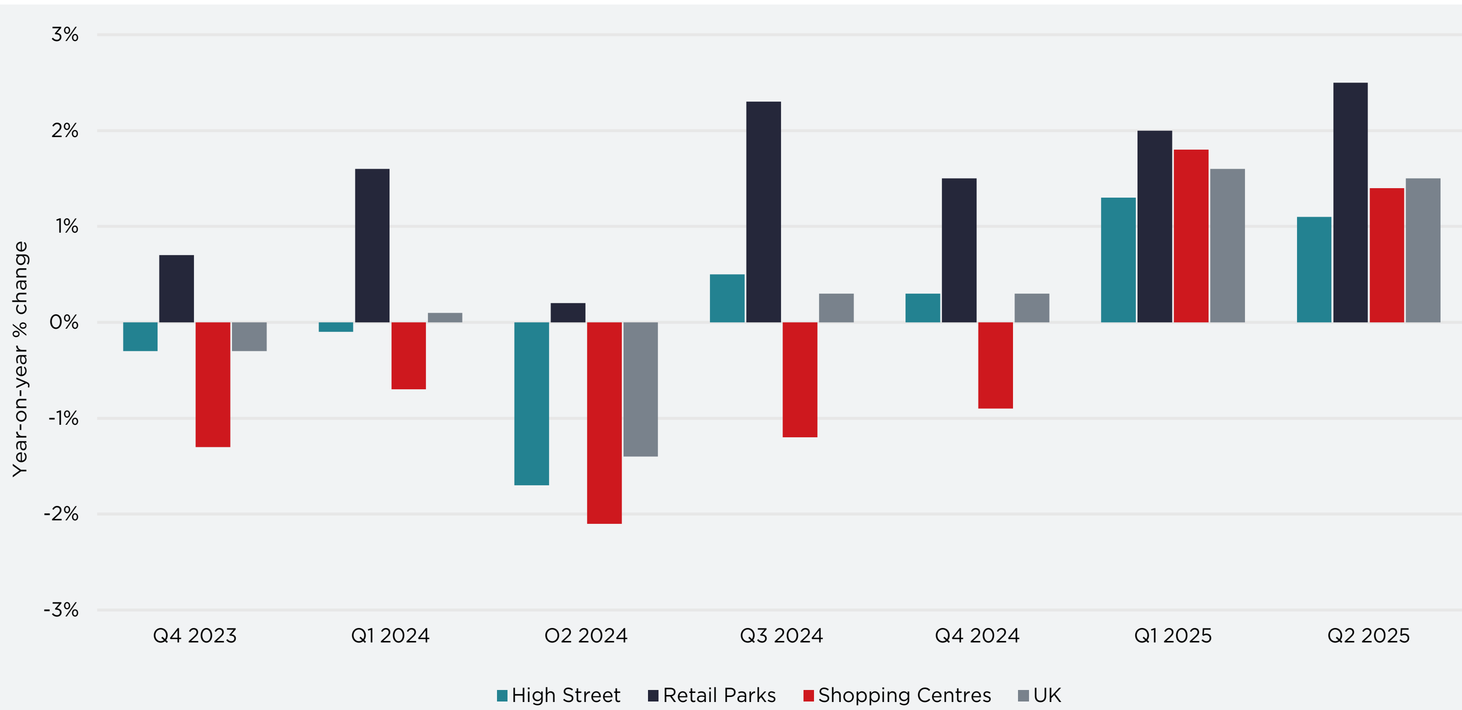
With April 2026's business rates overhaul nearing, many retailers are facing further increases to operating costs. Large retailers will take the brunt of this, with an estimated tax burden of £600 million for major retailers and supermarket operators. Small retailers are contending with increased overheads following the current reduction in rates relief, while larger chains anticipate passing on tax costs through price hikes when the reforms take hold in Q2 next year.

Development in the retail sector was recently well summarised by Trinny London MD, Mark Smith, who was quoted as saying, "Retail doesn't need more stores, it needs better ones." As such, much of the development that has occurred in the sector has focused on rebuilding previous schemes.

The challenges continue to incentivise landlords to optimise existing asset use, carving up larger units, or in the case of larger retailers, encouraging concessions, click and collect facilities or experiential retail. There is a scarcity of available contractors, which is driving up fit-out times and construction costs limiting the ability to deliver the higher quality finish of experiential retail offerings.

Compounding on the challenges above, shrinkage has become an increasing issue. This has forced retailers to make changes to their stores and IT infrastructure. Personnel changes, such as increased use of undercover security officers, are yet another cost that retailers are now having to take on in order to deal with these issues.

FIGURE 6: UK RETAIL FOOTFALL



Source: MRI

2030

Government plan to make the UK a leading life science economy

+3%

average construction tender price forecast

393k sq ft

active requirements in the Oxford market

Navigating market volatility and emerging trends

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The UK government released its Life Sciences Sector Plan in July this year, as part of its Industrial Strategy. This ten-year plan outlines a vision and actions to drive growth, boost innovation, and improve healthcare outcomes by making the UK a leading life sciences economy in Europe by 2030. It focuses on three main areas: strengthening research and development through data and digital infrastructure, creating an attractive ecosystem for business growth, and reforming the NHS to accelerate patient access to new treatments and technologies.

However, the news flow over the summer has been less than positive, with the sector being hit by several high-profile blows, including Eli Lilly pulling out of its London HQ plans, Merck pulling out of its £1 billion new London UK HQ, and AstraZeneca cancelling its £450,000 Merseyside manufacturing facility expansion. Nevertheless, as autumn emerges from the languid summer, more tenant activity is noted on the ground by our transactional teams, which we expect to drive higher confidence in development.

Indeed, the data from our recent Spotlight: Golden Triangle Offices & Laboratories report highlights that, for the most part, take-up is robust. At the halfway point of 2025, demand in Cambridge has reached 81% of the whole of 2024, and London is even more respectable at 87%. Whilst Oxford is currently languishing at just 24% of last year's total, the outlook for H2 2025 is more positive, with 82,000 sq ft currently under offer and 393,000 sq ft of active requirements.

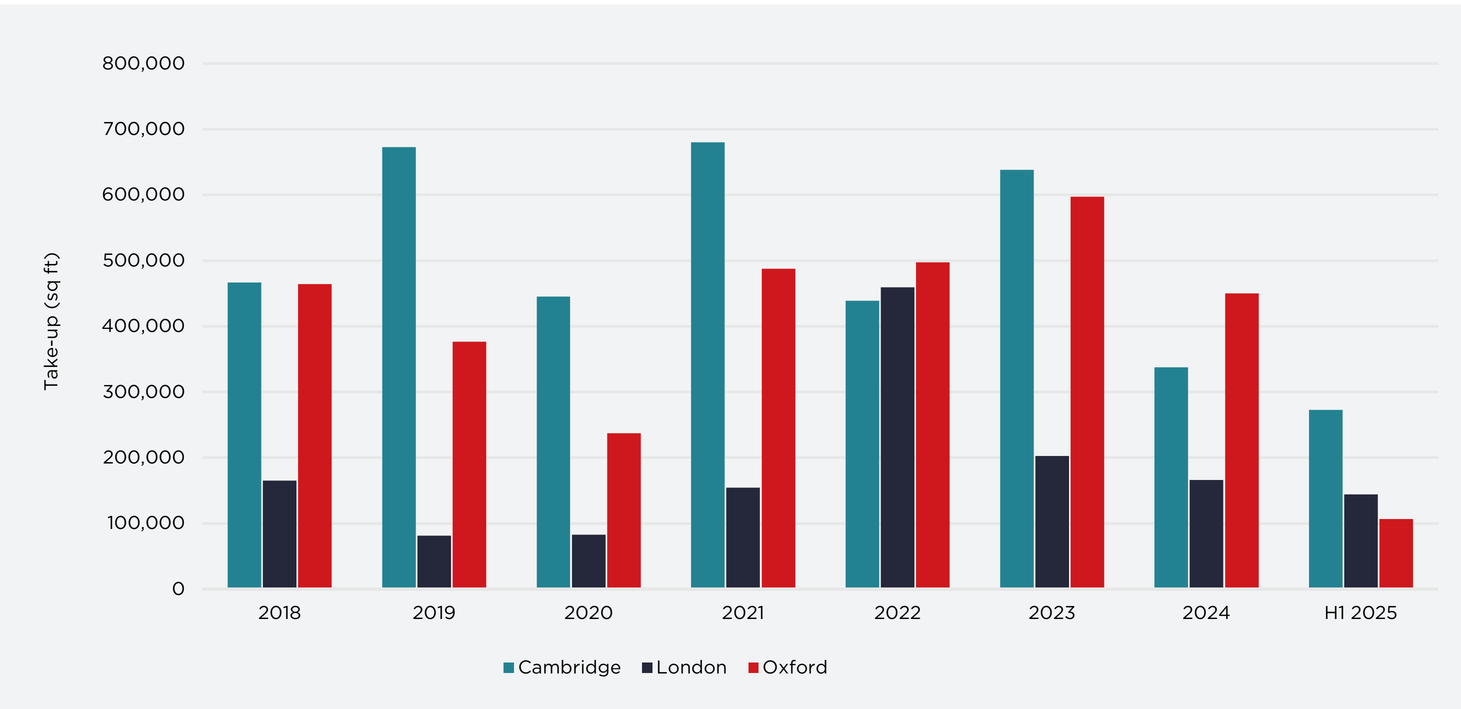
Turning to the construction of new science facilities, the average construction tender price forecast across leading cost consultants for science projects remains at an average of 3% for 2025, reflecting no significant change. Costs of science facilities continue to be impacted by the proportion of high-cost mechanical, electrical, and plumbing (MEP) systems in science facilities, disproportionately impacting the sector. Slower activity within the sector may cause tender prices to decrease in the coming quarters, as contractors need to work harder to win fewer live projects.

We continue to observe a trend of landlords speculatively fitting space and offering higher leasing terms to end users, meaning landlords are driven to provide speculative fitted space, alongside shell and core. At the smaller end of the market, seed and Series A companies continue to show a preference for 'turnkey' lab space with communal shared services, whereas larger requirements for companies into and beyond Series B still require bespoke solutions, and as such, spaces are still left in shell and core condition for leasing.

Moving forward, we continue to see plant and equipment remain on long lead times with project teams being driven to mitigate programmatic impacts through early orders.

Recent news reports that the UK government has drawn up proposals to increase the amount the NHS pays pharmaceutical firms for drugs will, hopefully, be a welcome boost to the sector. A more stable business environment will ultimately pave the way for improved business confidence and, in turn, investment in new facilities.

FIGURE 7: LIFE SCIENCE TAKE-UP IN THE GOLDEN TRIANGLE



Source: Savills Research

£2.4bn
annual commitment to school rebuilding programme

48%
of non-residential higher education buildings at or below EPC D

20%
of residential higher education buildings at or below EPC D

Budget pressures place constraints on the sector

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The UK education sector is undergoing a strategic transformation, with real estate at the heart of its evolution. Amid shifting student demographics, sustainability mandates, and financial constraints, institutions are rethinking how they manage and invest in their estates.

Large-scale construction projects have slowed considerably, as universities and colleges prioritise the maintenance and optimisation of existing assets. Smaller-scale refurbishment works – more agile and cost-effective – are becoming central to estate strategies. These allow institutions to adapt facilities to evolving pedagogical needs without the financial burden of new builds. Build costs across the sector remain elevated, driven by inflation, labour shortages, and supply chain disruptions. Retrofitting older buildings – especially those affected by materials like RAAC (reinforced autoclaved aerated concrete) – adds complexity and expense. Despite increased government investment, including a £2.4 billion annual commitment to the School Rebuilding Programme, many institutions face delays and cost overruns. These pressures are prompting a shift toward phased upgrades and modular solutions that offer greater budget control.

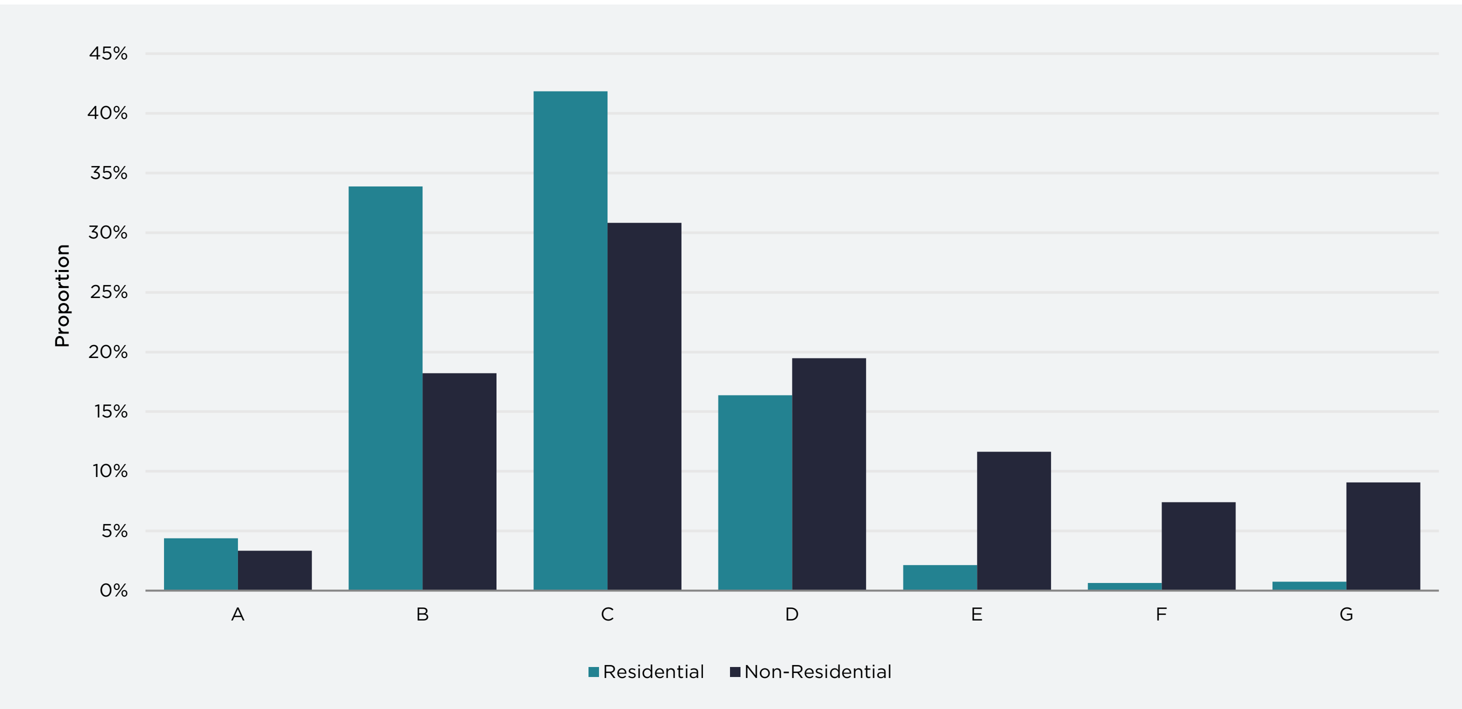
Fluctuating student populations are placing new demands on estate quality. With fewer international students in some regions and increased competition for enrolment, universities are investing in high-quality, well-maintained facilities to attract and retain talent. Flexible learning spaces, digital infrastructure, and wellness-oriented design are becoming key differentiators.

Sustainability remains a strategic imperative. Universities are grappling with the financial and technical challenges of decarbonising their estates, particularly older buildings. Retrofitting for energy efficiency and carbon reduction is costly, but essential. Institutions are seeking strategic, cost-effective solutions that align with long-term climate targets. As the chart below demonstrates, for non-residential buildings within higher education estates, 48% currently have an EPC of D or below. For residential assets, the situation is much improved, with just 20% falling below an EPC of D.

Government funding for capital projects has slowed, leading to deferred developments. While master planning continues, institutions are increasingly exploring alternative funding models such as joint ventures and public-private partnerships. These approaches offer flexibility and shared risk, enabling progress on key estate initiatives despite public funding delays.

The monetisation of campus real estate is accelerating. Universities are leveraging underutilised assets –through leasing, retail partnerships, and event hosting – to generate revenue and support financial sustainability. This commercial lens is reshaping estate strategies, with mixed-use developments and entrepreneurial space planning gaining traction.

FIGURE 8: EPC RATING OF BUILDINGS IN THE HIGHER EDUCATION SECTOR



Source: HESA

-30% residential completions in London since 2020

45% of build-to-rent investment is in operational stock over last 2 years

21 weeks on average for Gateway 2 approval for refurbishment

Refurbishment rising amid delivery and planning strains

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Despite progress on reforming the planning system, the residential sector currently faces significant hurdles to increasing delivery. London is particularly hard hit, with starts on private housing falling by half over the past twelve months. Meanwhile completions have fallen 30% since 2020, to c.32,000 in 2024, a little over a third of the Government's estimate of need. Affordable housing has been particularly affected, with just 876 homes completed between April and June 2025. Weak market conditions are a key factor, with fewer than 4,000 new homes sold in London during H1 2025, according to figures from Molior, with sales rates falling to 2009 levels.

Outside London, the picture is more optimistic. Starts were up by over 50% in the twelve months to June 2025 compared to a year earlier, driven by large housebuilders delivering for private sale. Regional alternative starts grew by only 27% over the same period. Planning remains a barrier across the country. 80% of Home Builders Federation members cited it as a 'major constraint' in the latest survey, ahead of cost, labour, and land availability.

Given the challenges facing residential development as a whole, is investment activity in the living sector being redirected from building new homes to the refurbishment of existing stock?

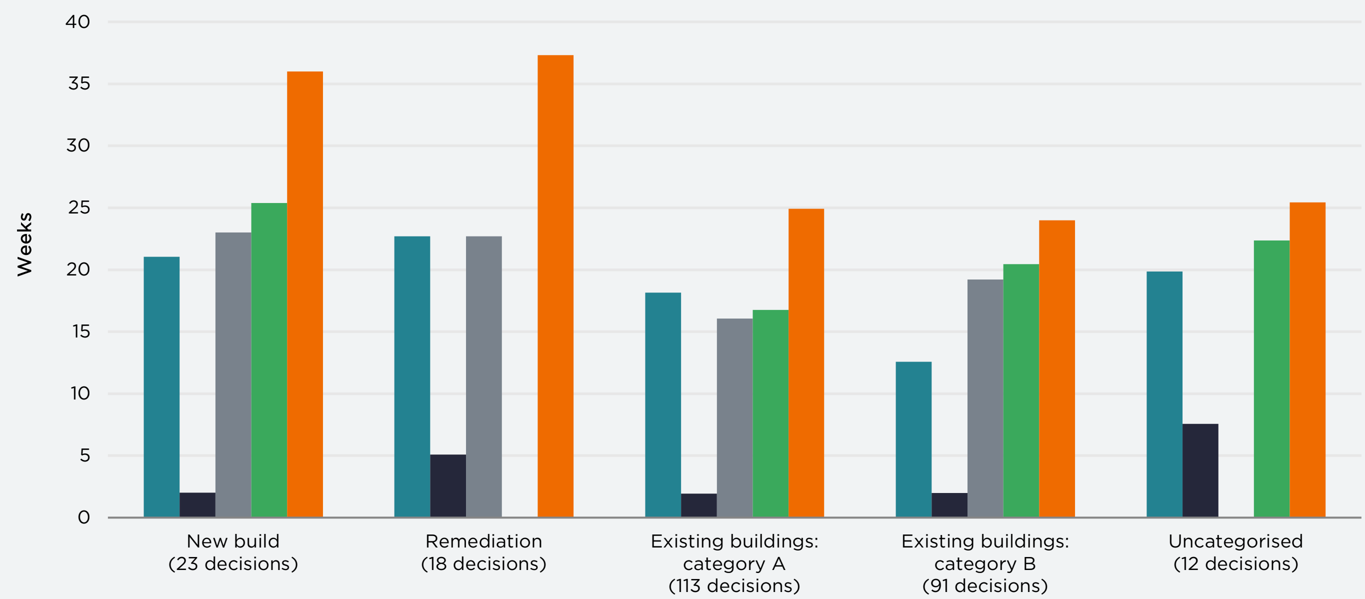
In 2024, 45% of investment in multifamily Build to Rent was into operational stock, compared to just 17% two years earlier. Investors are repositioning older assets to enhance rental income and tenant experience. Common strategies include rebranding, professional management, upgraded unit specs, improved shared amenities, ESG enhancements, and increased site density. Student accommodation is also seeing increased refurbishment activity, with Unite's £32 million programme being most notable, alongside additional schemes from iQ, Grosvenor, and PGIM.

In turn, registered providers (RPs) are also directing funds into upgrading and remediating existing stock, limiting their ability to invest in new homes. As such, trading of existing stock to rebuild capacity and rationalise portfolios has become essential.

With inflationary pressures and regulatory hurdles continuing to impact viability, refurbishment can offer a more predictable route. It may also face an easier time passing through the Building Safety Regulator (BSR) Gateway 2 approval process.

The last data published by the BSR in July this year suggests that new build applications took an average of 21 weeks for any outcome, with successful cases averaging 36 weeks. In contrast, existing building refurbishments (category A and B works) ranged from 13 weeks to 18 weeks, with successful outcomes averaging around 25 weeks. Notably, category A and B refurbishment applications appear to have a higher success rate, averaging 32% versus 17% for new builds. However, as refurbishment scopes can vary significantly, from internal fire safety upgrades to larger structural interventions, it is difficult to draw firm conclusions.

FIGURE 9: EXISTING BUILDING REFURBISHMENTS APPEAR TO BE FASTER THROUGH BSR APPROVAL PROCESS



Source: Building Safety Regulator data for Q1 2025 published on 9th July 2025.

Key take aways

Uncertainty remains

Whilst the dust has largely settled after 'Liberation Day' in early April, albeit with outstanding issues remaining with China, the fact that the UK Budget will take place in late November is a cause for concern. With many adopting a wait-and-see approach, it is likely we won't see improved sentiment until 2026.

Build: Perspective score drops

The latest reading from the Savills Build: Perspective index contracted sharply in Q3 2025 after a period of stability. This is suggesting that some sectors are starting to see drops in both build costs and programme length.

I&L looks to improve wellness

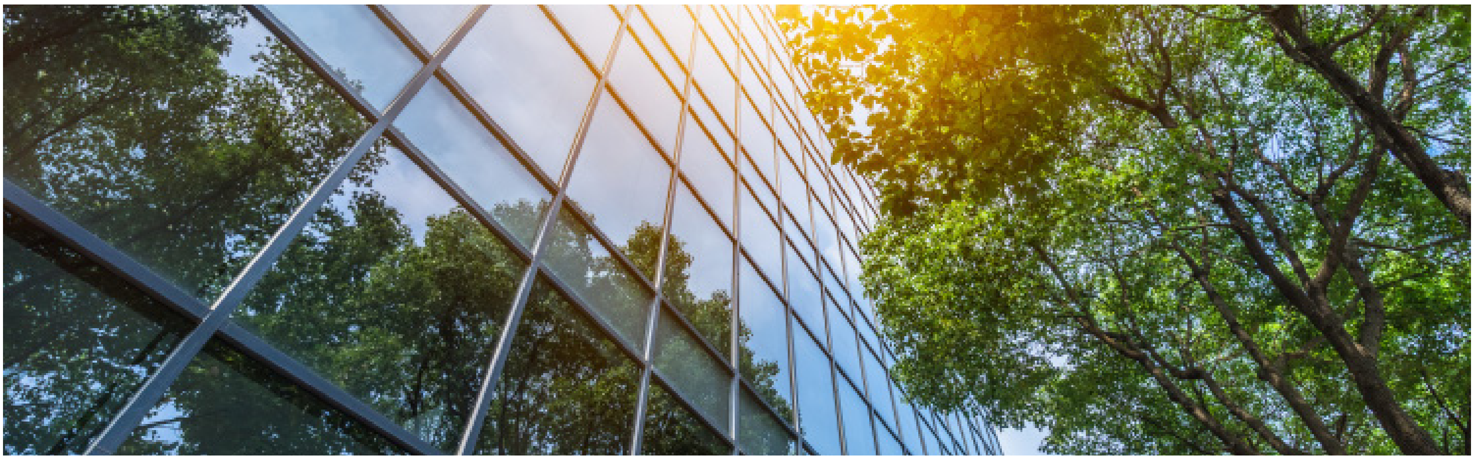
With greater competition from landlords and developers to attract occupiers to new I&L schemes, is there an opportunity to improve the wellness offer? One possibility that is common in Japan is the ability to offer free or subsidised childcare, which, in turn, improves staff retention and well-being.

Office sector looks to refurbishment

As competition intensifies for high-quality space, well-executed refurbishments are emerging as frontline solutions. They offer flexibility, faster delivery timelines, and the ability to meet sustainability targets, making them especially attractive to occupiers navigating post-pandemic workplace strategies. Looking ahead, the success of the office market will hinge on how effectively landlords can reposition existing assets.

Refurbishment in living sector

Refurbishment is gaining momentum across the living sector as planning delays, market weakness, and cost volatility hinder new housing delivery – especially in London. Investors and providers are increasingly redirecting capital to upgrading existing stock, driven by faster approvals, lower risk, and rising demand for ESG-compliant, professionally managed rental and affordable housing assets.



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