

“Our behaviour will continue to evolve, as will the requirements for real estate across all sectors”



Mark Ridley Global Chief Executive Officer, Savills

Welcome to the latest edition of *Impacts*, which centres on the theme 'evolve'.

While 'evolve' characterises gradual development, 'adapt' has also been a theme of the past 18 months as we've adapted rapidly to cope with the pandemic. As we enter a period when vaccinations and other measures help us to look to the future, our behaviour will continue to evolve, as will the requirements for real estate across all sectors.

In fact, this period has shown me the importance of never jumping too early to conclusions or generalising. Pendulum swings indicate that the trends and adaptations we saw in early lockdown have, in some cases, already been superseded, and long-term solutions require an evolving mindset. How long behaviours remain affected is yet to be answered. It may well be that the 'new normal' is closer to the 'old normal' than we might have

anticipated. I do think that priorities have been re-ordered, structural changes already occurring pre-pandemic have accelerated, while the linkage between all sectors of real estate have fused more closely together.

At Savills, I believe this plays to our strength. Our in-depth experience over 166 years across all sectors is vital as we consider questions of how to re-use land and real estate most effectively for the future. This is clearly illustrated by the continued blurring of the sector boundary between what makes up commercial and residential real estate, as well as the current debate on how companies and their work forces will return to an office environment. Again, generalisation is dangerous, but in some geographies and sectors hybrid working will become more prevalent (p20), with many considering that some roles and functions can be effectively provided remotely.

Early predictions have now been recalibrated and businesses where creativity, human interaction and collaboration are part of the services needed, still regard the office as the vital hub or incubator and have missed the opportunity to interact through the successive lockdowns.

With hybrid working putting greater emphasis on the need for effective home working, many are now placing more value on the quality of their residential accommodation. As markets re-opened worldwide, they have experienced strong demand, driven by a desire for more space and more amenity. This demand has resulted in significant and rapid price increases.

The focus on the home has also fuelled other sectors, and

Priorities have been reordered, structural changes already occurring pre-pandemic have accelerated, while the linkage between all sectors of real estate have fused more closely together

the three that have emerged strongly are 'meds, beds and sheds.' The beds piece is obvious, with greater demand from both occupiers and investors alike whilst affordability and availability will remain major issues, which need urgent engagement and planning.

The meds, or life sciences, as we should describe them, has always been an important emerging sector, and its convergence with technology has accelerated its growth (p62). Investors and developers around the world are comparing the different models which have evolved, to understand both the ingredients and recipe for success.

The sector that undoubtedly enjoyed the most growth during the pandemic is the logistics sector or sheds. The acceleration of online

shopping during the pandemic, the need for greater diversity of supply chains, with inventory requirements on a 'just in time' basis, have fuelled continued occupier and investor demand for more space worldwide. This is highlighting shortages in many regions, albeit now that the retail markets are re-opening we may see this pendulum swing dampen, as consumer behaviour moves back to the physical enjoyment of shopping and leisure activities.

So, what is the future of the office and how should cities adapt to the changing behaviour of their populations? Many office occupiers now realise the benefits a positive environment can give their staff – improving mental health and wellbeing – as well as instilling cultural values and a sense of

belonging. In fact, office demand is recovering strongly in many markets, which will reassure investors. As our outlook for 2022 indicates (p18), offices are the dominant investment choice in more than half of the cities surveyed.

Moving on to how markets may evolve in the future, they will be more greatly influenced by all elements of ESG but, in particular, environmental issues and sustainability, characterised by the physical climate risk faced by cities worldwide (p32), and the growing commitment to green buildings by occupiers and investors alike (p38).

These behavioural forces will be major influences on why some global cities will continue to thrive, and others may lag behind. We have taken a detailed look at this with our Resilient Cities Index (p6). While economic growth is always a primary driver, we are seeing greater emphasis placed on environmental issues, inclusive societies and prioritisation of wellness and access to healthcare – all contributing to a high Index ranking.

I hope that this issue of *Impacts* provides you with food for thought across the sectors. Some early predictions and generalisations on the pandemic's impact on the real estate markets have proved inaccurate and it will be fascinating to see how behaviours evolve. While the tragedy of the pandemic must not be overlooked, the resilience and adaptation we have seen across all global markets has been uplifting, and I am enormously excited to look forward to being able to visit our offices worldwide in the coming months. Virtual does not compete with physical and the human need for interaction. I therefore look forward to seeing many more of you, our valued clients, in person in the very near future.

