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# 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

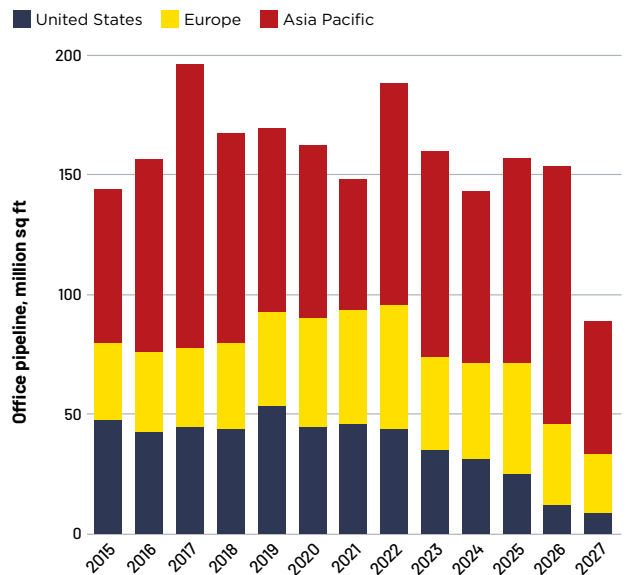
**D**evelopers across global real estate markets are facing a paradox. Supply shortages in many sectors mean there should be compelling development opportunities. But the landscape for global construction is challenging.

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

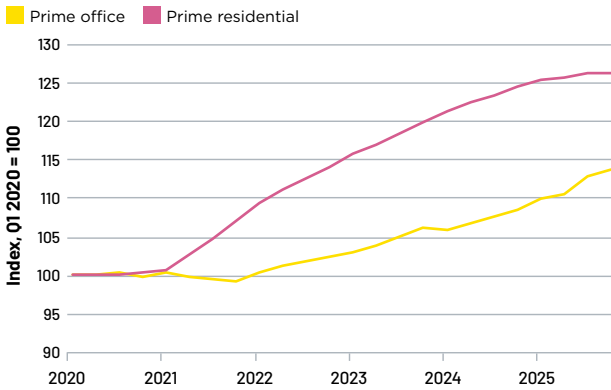


Source: Savills Research. Note: 2026 and 2027 figures are based on projections. The chart shows Grade A office pipeline across selected global Tier 1 cities

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.”

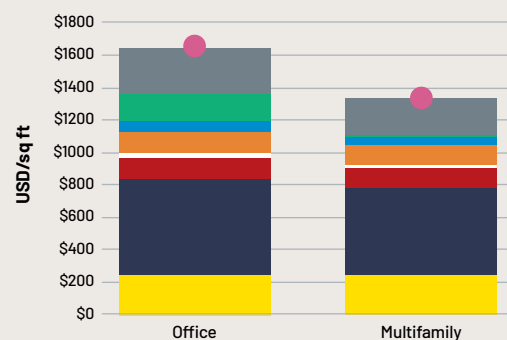
In London, although transaction volumes have been limited in recent years, evidence suggests that office development land is repricing below the peak levels seen between 2019 and 2021. However, developers and

## 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.

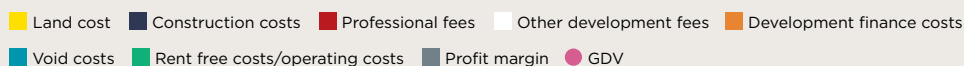
“However, a sustained flight-to-quality for offices has created a tight trophy and Grade A+ market with limited large contiguous blocks, prompting some major occupiers to commit as anchor tenants on new-build schemes. On the multifamily side, developers have increasingly turned to office-to-residential 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.

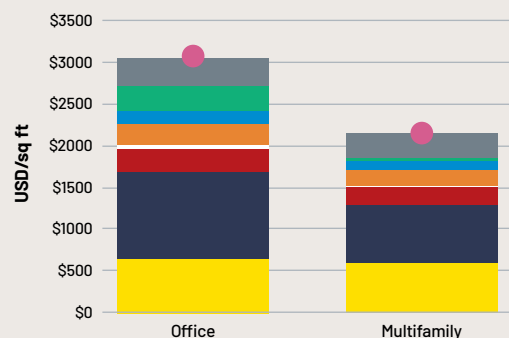
### ASIA PACIFIC

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.

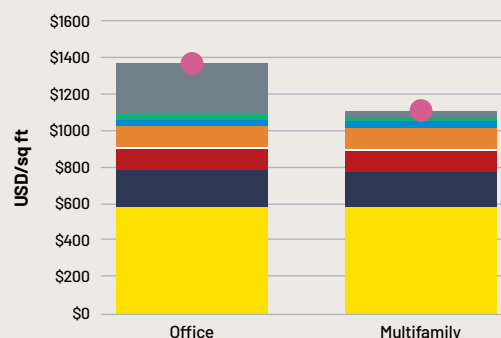
As of September 2025, 32% of the city’s 2029 prime office pipeline (approximately 4.5 million sq ft) had yet to secure project financing, increasing the likelihood of delays into 2030 or beyond. However, government initiatives, including changes to zoning rules, have enabled several projects to proceed.



#### 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.

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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. ■