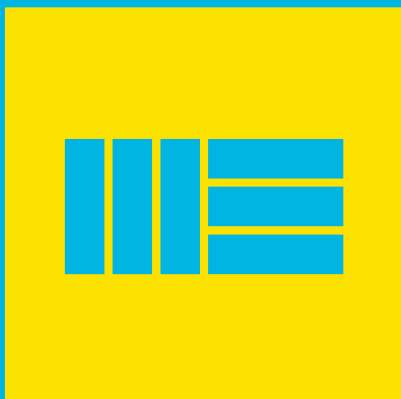


LONDON'S HOMEBUILDING CRISIS: POLICY CHALLENGES, MARKET PRESSURES AND SOLUTIONS

30 OCTOBER 2025



QUICK SUMMARY

HOUSING STARTS IN LONDON HAVE COLLAPSED: ONLY 3,248 HOMES BEGAN CONSTRUCTION OVER THE FIRST NINE MONTHS OF 2025, EQUIVALENT TO JUST 11% OF THE RECENT AVERAGE AND UNDER 5% OF THE GOVERNMENT'S TARGET. AFFORDABLE HOUSING DELIVERY HAS FALLEN BACK EVEN MORE SHARPLY.

This is a crisis with huge implications for the living standards of Londoners, the economy of the capital, and the robustness of its construction industry and supply chains. Given the city's central role in both housing delivery and the national economy, it needs urgent attention at both central and local government levels.

WHAT ARE THE REASONS FOR THIS COLLAPSE?

Regulatory delays: Building Safety Act and Gateway processes have created bottlenecks, with only 9% of tall building applications approved since 2023

Viability challenges: Construction and debt costs have surged, while residential land values have dropped. Regulatory burdens and inflexible affordable housing quotas make schemes unprofitable. Land values are now not high enough to convince owners to sell, and in some cases are negative.

Weak demand: Overseas investors have retreated, domestic buyers face affordability constraints, and unsold stock is building up. Prices have risen rather than fallen in response to lower demand as developers have tried to keep sites profitable. This is not giving the wider market the confidence to proceed.

Affordable housing crisis: Grant funding is insufficient, quotas are too high, and Registered Providers lack capacity to take on s106 units. As so many sites in London are mixed tenure and in flatted blocks, affordable housing is tied to private delivery more than elsewhere in the country.

Market shift: Developers currently prefer lower-density suburban projects, which in London are prevented by green belt constraints; incentives, not regulation, are needed to incentivise more urban development.

The multifaceted nature of the crisis poses a deeper question: is London's residential development model broken? Does it need to be rethought from the ground up?

LONDON'S FAILING DEVELOPMENT MODEL

London's current development model has only really existed since the 2000s and relies on rising land values, high affordable housing quotas, and off-plan investor demand. This paper argues that this is now broken owing to economic, regulatory and market changes. Private development has become unviable owing to increased costs, weaker demand and regulatory delays. Affordable housing faces similar problems; grant no longer makes construction viable, Registered Providers are not taking on new stock, and in any case provision in mixed-tenure schemes would be held back anyway by private sector issues.

The Government has introduced some welcome temporary measures aimed at kickstarting activity in London. These will be much more impactful than many in the market are assuming; while modest individually, acting together they strongly support viability. There is still a need for a wider rethink of how London's planning system delivers and regulates housing development if government targets are to be met in the longer term.

KEY RECOMMENDATIONS

1. Accelerate Gateway and planning processes.
2. Relax the requirement for late-stage viability reviews.
3. Reinstate Section 106BA reviews for viability reassessment.
4. Offer relief from Mayoral CIL as well as local CIL.
5. Extend recent measures to co-living and student accommodation, to encourage more affordable housing delivery
6. Utilise public sector investment to unlock pension fund capital and accelerate plans for a National Housing Bank.
7. Introduce some form of buyer support.
8. Release low-quality green belt land for gentle density housing around stations.
9. Further review design rules and space standards to permit higher density in Inner London in particular.
10. Update income ceilings for affordable housing access.

LONDON HOUSING MODEL

Policymakers must recognise that in a world of higher interest rates, more attractive alternative investment options, and a weaker economy (at least in the short term), London property and land values can no longer be mined to the extent they were in the past, or expected to absorb the impacts of more costly and stringent regulation.

Attempts to do so will lead to even more stalled development in the future and a continued crisis in affordable housing provision, which in the capital is so linked. This is not just about viability; low land values will not incentivise owners to sell to developers, particularly in areas where alternative uses compete. There will still be planning gain which can justifiably be used for affordable housing and other social goods. But now and in the future, these may not be as large as in the past.

THE NEW MODEL MUST:



Be far more flexible and adaptable,

Given that market shifts may be more pronounced in the future given volatile economic conditions.



Be far more rapid

Given that in such conditions speed becomes more, not less, important to developers, as future values are more uncertain. Higher interest rates have increased the time value of money, meaning delays are more costly and more damaging to viability.



Provide financing for some form of affordable housing or viability fund

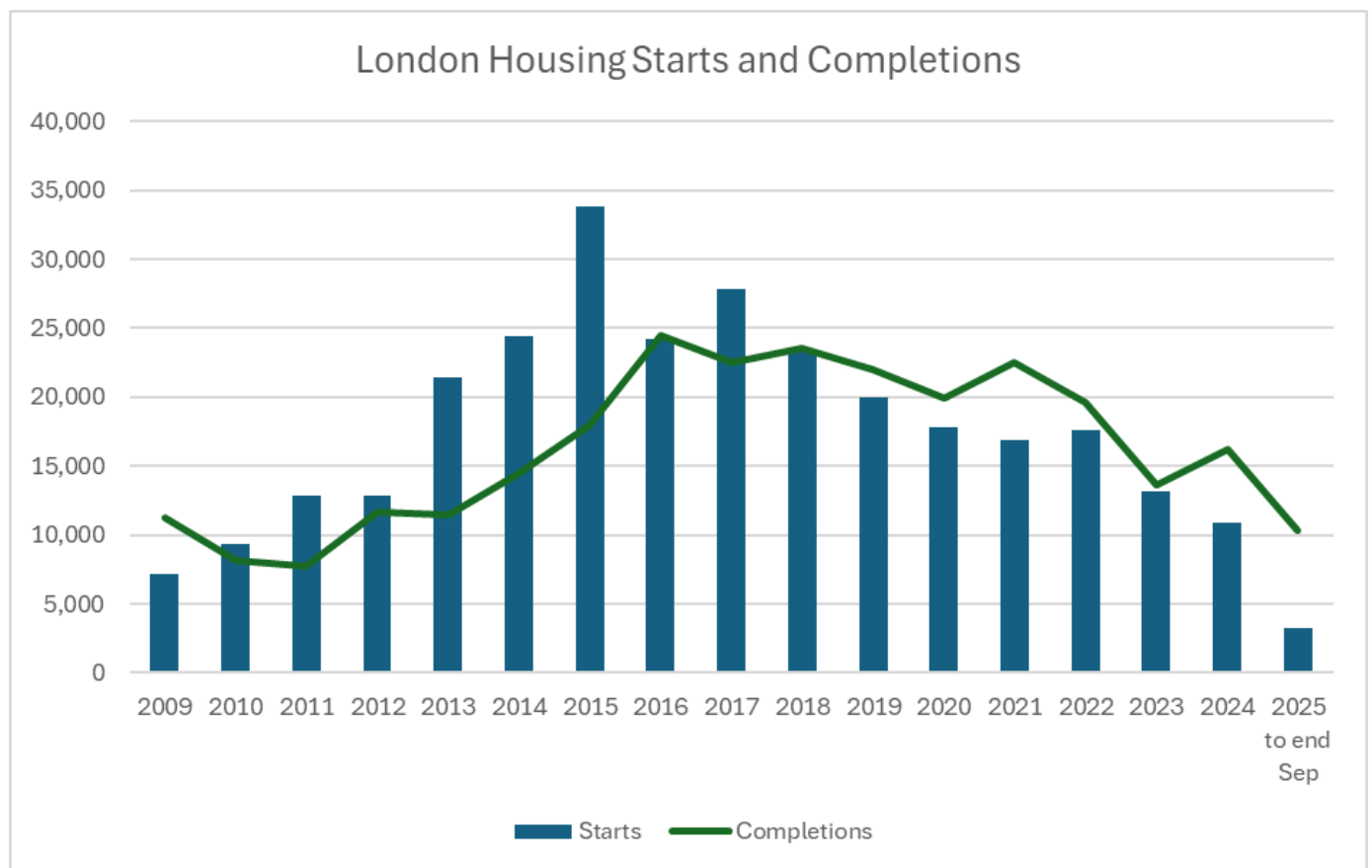
which can be used to support the industry, or even individual sites, during market downturns

INTRODUCTION

It is no exaggeration to say that London housebuilding has collapsed over the past year or so, leaving the industry in a state close to an emergency.

Over the past five years, the capital has delivered on average 38,220 new units. But according to the London residential development specialist research house Molior, construction began on 3,248 homes during the first nine months of 2025 – equivalent to an annual rate of 4,331. That is not only just 11% of what is needed to sustain the activity of the past five years, it's also under 5% of the government's target.

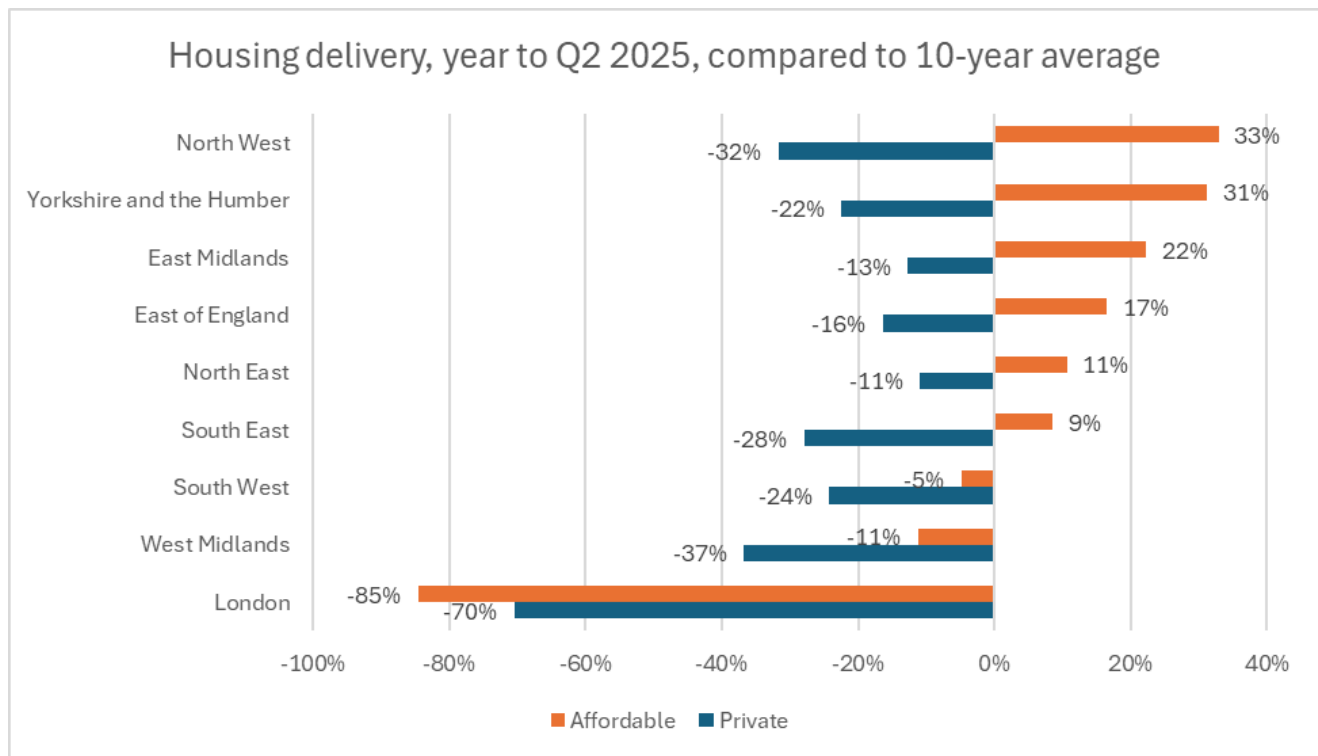
This is starting to filter into construction volumes and completions, which are now lower than at any point since the aftermath of the Global Financial Crisis. Molior estimates – presumably based on the lead-in times for new homes – that just 9,100 homes will complete during the **entire 24-month period** spanning 2027 and 2028: just 5.2% of the government's target for London.



Source: Molior

This emergency is of national importance. London is expected to deliver about 25% of the UK's total housing over the next five years. And while other regions are down on longer-term trends, at 25% or so below, their problems are nothing like London's. Far more properties are delivered as houses or low-rise flats, meaning building safety issues are marginal, while affordability is less stretched. But as London remains the most productive part of the UK economy; allowing low housing supply here, at a time when the government is desperately searching for higher economic growth, is deeply unwise.

There are other reasons why this building crisis qualifies as an emergency. The most glaring is that in London homes will be more expensive and scarcer than they would otherwise have been. Even more worryingly, this crisis extends just as much to affordable housing delivery. This shares some of the same problems as the private sector, while the additional problem that grant funding is no longer sufficient to make schemes work. Affordable housing outside London does not face quite the same issues and is acting in a more countercyclical way, as the chart below shows.



Source: National Statistics

With
building

With building activity at such low levels, there are risks of widespread layoffs in the construction industry and business failures, which could cause economic scarring. It will be difficult for the supply chain to bounce back quickly if conditions remain so dire; if things do not improve quickly, it could take years to rebuild capacity.

WHY HAS BUILDING IN LONDON STALLED?

There is no shortage of potential reasons for why housing delivery in the capital is struggling so much.

1. Viability is severely challenged:

- **Construction costs** for new housing have risen dramatically since the pandemic – by 14% and 34% over the past three and five years respectively, according to Government data. This may be an underestimate for higher density homes.

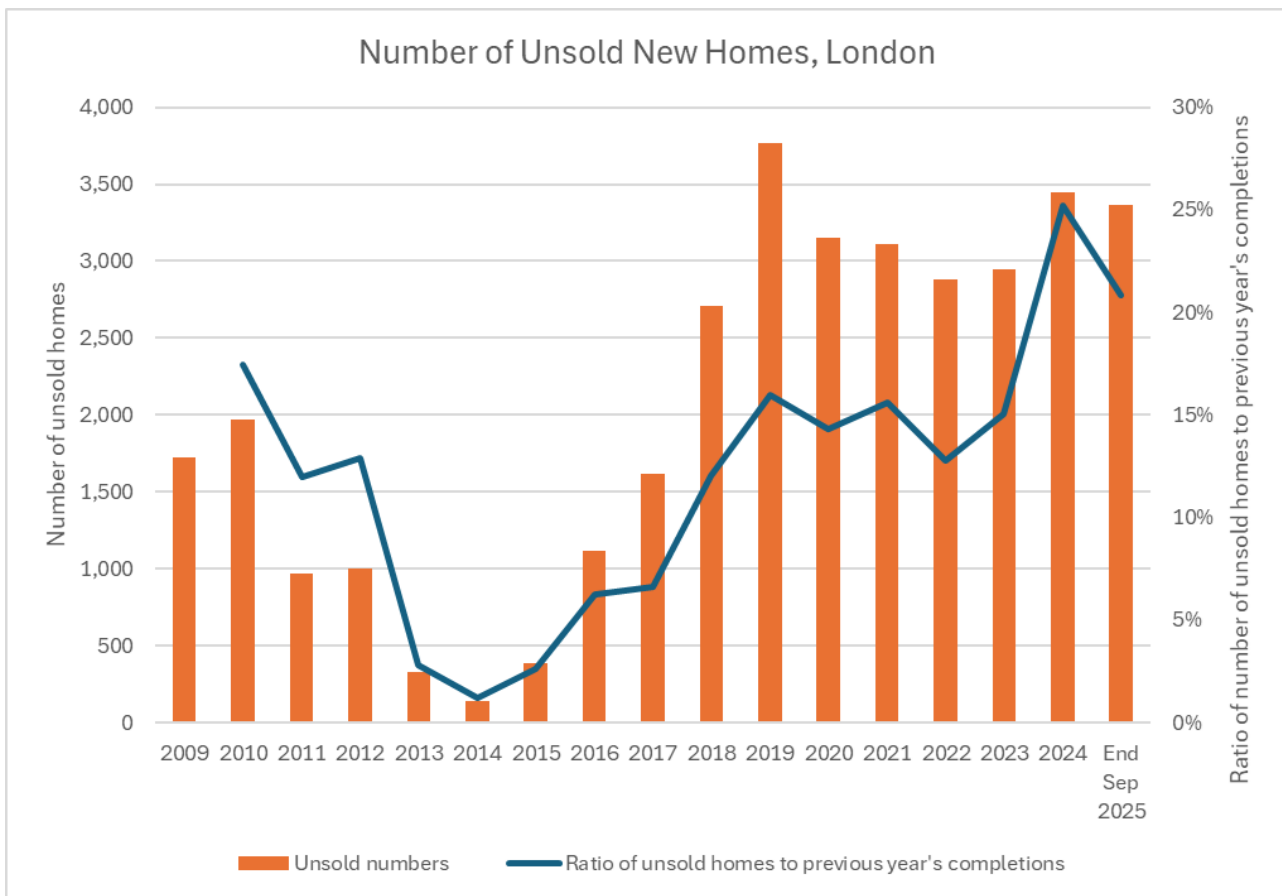
This is partly a result inflation in materials and labour costs, and partly a result of more expensive building regulations and requirements.

- This is compounded by the fact that competition among contractors – particularly for complex high-rise blocks - has reduced. This has allowed them to become more conservative and given recent inflation they appear to be building more headroom into estimates and prices
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Debt costs for developers have also increased by as much as five percentage points. This adds further to costs.

2. Market activity has weakened

- **Weak off-plan Demand.** Overseas buyers – who used to underwrite the early stages of large schemes through pre-sales – have stepped back from London's market. This is partly a reflection of Brexit, Covid and the UK's economic difficulties, but is also a result of the government introducing measures, such as the SDLT surcharge in 2021, which discourage foreign investment. There are also more locations competing for their attention. Together with the ending of non-dom status, this also gives the impression that they are not welcome, and other measures may be incoming. Domestic investors are also dissuaded by other factors, such as changing tenant legislation. Many developers used to sell a significant chunk of their scheme off plan to access finance and kickstart the scheme.
- **Effective Demand from first-time buyers** has also weakened. Mortgage costs have risen steeply, particularly for those buying with small deposits – many of whom will be first-time buyers. Put simply, with mortgage rates at 4-5%, a buyer on a given income can simply afford rather less than when they were at 1-2%. Sales rates per annum have fallen from a high of over 25,000 in 2015 to 11,650 in 2024 and are on track for a similar figure this year. But this might be misleading, as it could be limited by availability.
- The fact that **unsold stock is building up** suggests that this is not the case, though. There are currently 3,678 unsold completed homes available in London – the second highest on record after 2019's 3,767, although this followed several years when there had been 22,000-24,000 completions, compared to last year's c. 16,000. The ratio of unsold homes to the previous year's completions might be a better way to look at market tightness. Using this measure, around 23% of last year's delivery total remains unsold, marginally down from the 25% recorded at the end of 2024 but well ahead of the 10-year average of 13%. The chart below gives the data in detail.



- Another measure involves looking at how sales over the year compare to the same year's completions. At the moment that figure is 54%; last year it was 72%; the average is 97%. The extent to which total sales over the period exceeds unsold stock is also a measure of sales velocity. For the first six months of the year, total sales were just 10% ahead; in every other year on record sales have been at least three times unsold stock, usually five to fifteen times. Whichever way you look at these figures, it's clear that at the moment effective demand is weak. That's not a market in which developers will be keen to build more.
- A further complication is *where* the unsold stock is. The top five boroughs for unsold stock are Tower Hamlets (556), Wandsworth (455), Westminster (315), Barnet (294) and Hammersmith & Fulham (274). These are not low-value boroughs, to say the least; the issues seem to be that the unsold stock is generally in locations where affordability is most stretched or where the market was most investor-dependent. (It's notable that starts are clustered in cheaper, outer boroughs – see below – meaning developers are shifting away from more expensive, more flat-orientated Inner London).
- **New build has become more unaffordable....** Part of the issue may be that new build prices have, despite the build-up of new build stock, risen faster than in the second-hand market. According to the Land Registry, new build pricing in London is now 7.8% higher than three years ago, compared to 0.3% for the market as a whole. Even over the past year, new build prices have risen by 3.4%, compared to 0.7% more generally. (This figure is based on a dwindling sample of new build sales, so it may be less robust, but it is worth noting that this trend is backed up by the Nationwide index at national level, where new builds have increased in price by 6.2% over the past three years, compared to 0.9% in the wider market). This reflects developers attempting to recoup the much higher costs – potentially lossmaking – that have been produced by the very different construction and debt conditions of the past few years. But it also means that sales fall and unsold stock builds up, as we are seeing.

- **End of Help to Buy.** Help to Buy, the Government's equity loan scheme for new build sales, was not as important in London as elsewhere – but nevertheless an estimated 27% of private housing completions over the scheme's lifespan in London involved it. (This compares with a third in, for example, the South East). The end of the scheme for units completing by mid-year 2023 clearly impacted new build sales, which in that year were 35% below 2022 levels, and have not recovered since.
- **Build to Rent.** According to Molior, there were just 37 build-to-rent starts in the first six months of the year, compared to 2,626 in 2024 and a 10-year average of 5,600. Build to rent faces similar problems in costs and viability to 'for sale' development, but it is complicated by the funding/investment side. Put simply, although residential remains a priority sector for many funds – which see the long-term issues around a growing population and a structural lack of supply – other asset classes, such as government bonds, currently look more compelling. So, the flow of capital generally has slowed. More specifically, yields for build-to-rent in London, at 4-4.5%, are lower than for any other sector, which at a time of higher risk-free rates is problematic. This also explains why build to rent development in the main regional cities (yields 50bps higher) has continued, albeit at a slower rate.

2. Regulatory Burdens increased while the market thrived but have not yet reduced despite weaker activity

- **Affordable Housing requirements have become too high and inflexible given current market conditions.** London has historically set relatively high affordable housing requirements (35%, compared to a minimum NPPF expectation of 10%). The package announced by the government, in combination with CIL reliefs and higher grant levels (see below) will boost viability, but a more flexible approach needs to be taken in the longer term.
- **CIL contributions represent a further burden.** The Mayoral Community Infrastructure Levy (MCIL) which back-funds the Elizabeth Line can be a prohibitively high amount in the current market, particularly when combined with local CIL levels.
- **Lack of capacity from Registered Providers (RPs).** A further complication is the difficulty in finding a RP) to take on any affordable homes, as most housing associations have financing issues themselves and are focussed in any case on the issues around their legacy stock. The Home Builders Federation (HBF) reported in October 2025 that there were 17,432 Section 106 affordable units that remain unallocated. It is unclear how much of these are in London, but it is likely to be a high number.
- **The Building Safety Levy will be introduced next year.** In addition to the above measures – which are already in force -there is another important factor coming into play next year. As of October 1, 2026, developers of residential properties of more than 10 dwellings (excluding affordable housing) will be liable for this charge at building control stage. It will be calculated by every ~
- **The Residential Developer Tax.** In addition to all the above, developers of residential property are liable for a 4% additional levy on their profits. While this does not impact on the viability of particular schemes, it makes developers more risk-averse and conservative. It also deters to new entrants, reducing competition.

4. The supply of land is falling as a result, and developers are becoming more risk averse.

- **Landowners are not willing to drop their prices.** Many owners of land are not in a rush to sell and are happy to sit out what they see as market cycles. In most cases, they will have a minimum price in mind set by earlier market conditions or by the value of their asset in its existing guise, say a supermarket. At the moment, these are radically lower than a few years ago, which incentivises many to 'sit tight'. Even if these conditions persist, it takes some time for their expectations to adjust. In the meantime, developers cannot feasibly meet the prices being demanded; if they do, they risk pricing themselves out of the sales market, as may already be happening.

The problem is compounded by affordable housing requirements, which are based on market conditions that no longer exist. This has forced land prices even lower – in some cases below zero. Together, this means that the pipeline of land for development will be constrained.

- **Planning Delays and Costs.** The UK's already infamously complex, slow and costly planning process has become even more so over the past few years. This is a further drain on viability, but it also slows down the supply of consented land into the system. This is a result of the introduction of additional requirements (such as biodiversity net gain, which often has higher costs on long-term derelict sites), but also because councils have lost a lot of planning staff through budget cuts. Other services have been more protected. Even though funding has improved over recent years compared to the nadir of 2018/19, it remains 25% below the 2010 level.
- **Increasing risk aversion.** Growing regulatory burdens, volatile construction costs, and an uncertain economic outlook are leading developers to focus on a smaller number of 'easier' schemes – largely housing-orientated sites away from London.
- **The Big One: The Building Safety Act and the Gateway Processes.** The Building Safety Act introduced new requirements for residential buildings over 18 metres or six storeys. These include, for example, a second staircase to aid evacuation, which adds a not insignificant amount to build costs, especially in mid-rise schemes.

But more importantly, plans for such developments also need to be submitted to the Building Safety Regulator (BSR) for approval. This consists of Three Gateways. Gateway 1 relates to pre-planning guidance. The key issue is at Gateway 2, which is a 'hold point' where "construction cannot begin until the Regulator is satisfied that the design meets the functional requirements of the building regulation". Plans need to outline exactly how compliance will be met.

Figures published in July 2025 showed that of the 193 applications received since the BSR was set up in 2023, only 64 had been determined by March 2025. Of these, only 15 had been approved, with 17 rejected, 12 withdrawn and 20 viewed as invalid. This means that only 9% of proposed tall buildings hoping to start construction between Autumn 2023 and Spring 2025 have been permitted, in theory, to start.

A Freedom of Information (FoI) request submitted by the Architects' Journal showed that, as of August 2025, there were still some 72 Gateway 2 applications which had been outstanding for more than 12 weeks – the target timescale for decisions - covering 18,436 homes. In scheme terms, more than half of them (37) were in London). Building magazine is reporting the average sign-off time is nine months.

Gateway 3 occurs at completion as part of the building control process. The numbers reaching this stage are far lower – presumably because so many have failed to get past Gateway 2. Figures here are harder to get hold of, but in February figures emerging showing that only 1 in 4 projects reaching this stage had been approved. One completed 487-home development in Ealing sat empty for months, gaining approval in late September this year. There is a danger that even if Gateway 2 accelerates, that blocks of flats could be completed and standing empty long term if this third check proves to be equally delay-producing. This risk will clearly reduce the appetite for development.

The Government has vowed to speed up the process, but it is unclear how and when this will be done. The process is understandable given the Grenfell tragedy that led to the original act, but it is having a distorting effect on the market. In particular, developers are avoiding schemes over 6 storeys, meaning

- London is disproportionately affected, as delivery in the capital is skewed towards higher rise buildings
- Inner London is particularly impacted, as delivery is even more skewed here
- This is further pushing developers towards more low-rise and suburban schemes outside London

THE END OF MODEL?

All these factors (and particularly the Gateway 2 delays and costs) are responsible for the delays. But perhaps the problem is deeper: the model that has underpinned London development for the past two decades is increasingly under duress. A reconsideration may be well overdue.

This 'model' is based on a set of assumptions: that land values would always increase in the medium term, that they could be tapped in some way to provide very high levels of affordable housing and other social goods, and that the expensive private homes driving the whole process would sell – with the early stages sold to off plan to (largely overseas) investors. This latter stage would 'unlock' the scheme, enabling debt at viable levels.

This does not mean that this model will never be viable again. But it would be misguided to think that it can return in the near future to such an extent that London can deliver more homes, let alone reach the government's target. A new approach will be needed if London can deliver in the medium term.

PUTTING THINGS IN PERSPECTIVE

It's important to bear in mind that large-scale private new build development in London is a relatively recent phenomenon. Between 1955 and 1975 only around 200,000 homes were privately built in the capital, around three quarters in Outer London boroughs, just 5.4% of the nation's total.

To put this in context, this is slightly less than were built in the eight-year period between 2016 and 2023 (when delivery was more evenly split between Inner and Outer London), when the capital accounted for 14.9% of private delivery.

This is of course *private* development. Social and affordable housing was a different matter. Between 1955 and 1975, London built some 300,000 affordable homes, half as much again as the private sector, or 12.4% of the UK total.

Inner London's record is even more stark: 126,207 affordable homes and just 41,238 private homes.

Indeed, between 1974 and 1984, some 63% of all privately built London homes were delivered in just 10 boroughs: Bromley, Sutton, Barnet, Hillingdon, Bexley, Havering, Richmond, Enfield Kingston and Harrow. Presumably this reflects family housing on (relatively) greenfield sites.

Some London boroughs that are now deeply desirable saw extremely low delivery over that period – Tower Hamlets (just 316), Hammersmith & Fulham (just 369), Camden (just 442), Lambeth (just 489). Hackney, Greenwich, Brent, Islington, and Wandsworth all saw less than 1,000 (or less than 100 homes per year).

This was not a period of any urban *private* housebuilding at scale. The industry largely built suburban homes and the odd medium-rise block of flats, while urban development was largely the province of councils. The exceptions were a few infill scheme carried out in the more affluent parts of London. In other words, there was no real at-scale urban private housing model. (The big regional cities were no different, incidentally, although many lacked infill projects too).

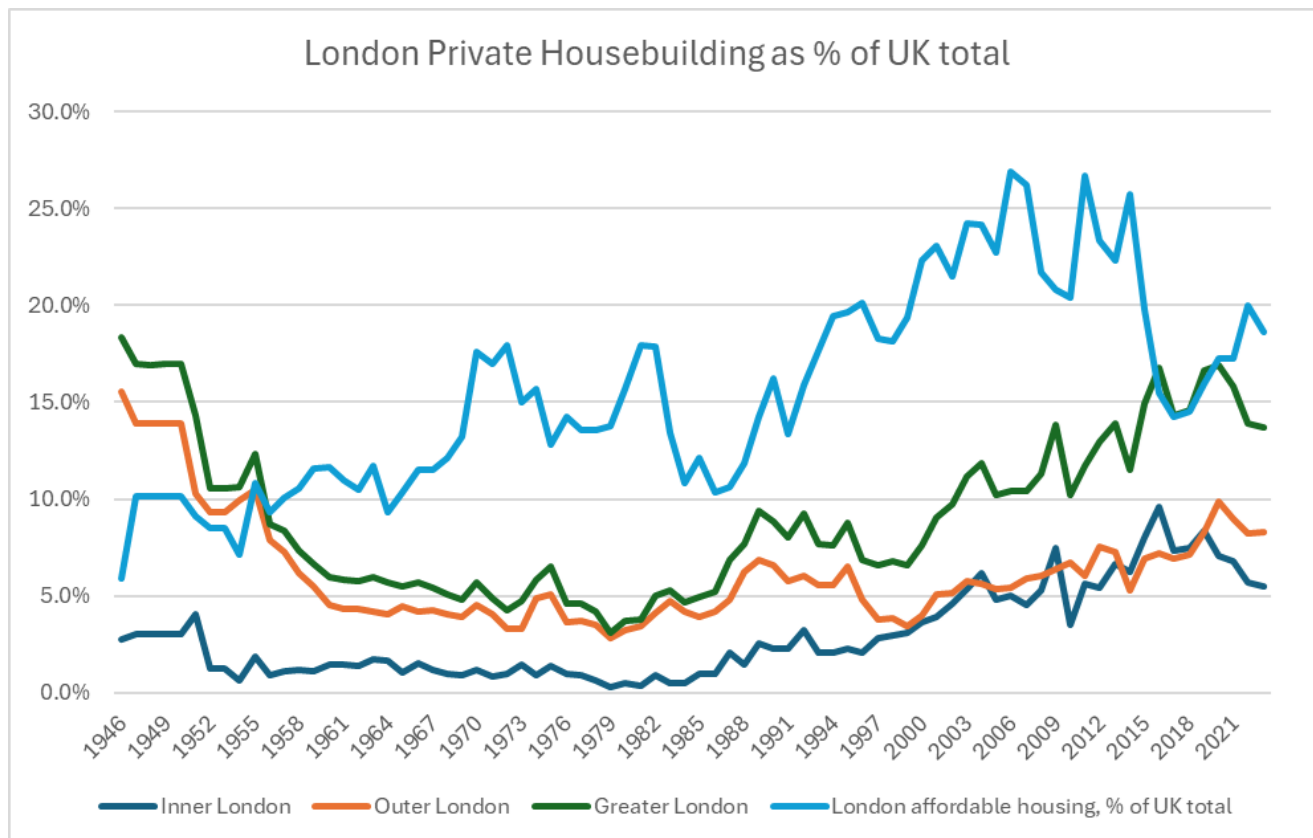
The following ten years – between 1985 and 1994 - were not so different. Inner London boroughs were delivering somewhat more (typically 500-1,250) but the likes of Hillingdon, Bromley and Enfield remained the standout deliverers. There were two exceptions: Southwark and Tower Hamlets, which saw almost 10,000 and almost 6,000 private homes respectively. This was a sign of what was to come, as it reflects the first large-scale private residential development in London since the likes of Dolphin Square before the war – the regeneration of Docklands and parts of the South Bank and Surrey Docks respectively.

The modern era of London development, though, can probably be dated back to the likes of the Montevetro scheme in Wandsworth, which completed in 2000. It was the first large-scale luxury flatted development outside Docklands and would set the scene for a new wave of private development in London. By 1995-2015 the league table of delivery was led by Tower Hamlets and Southwark, with Westminster and Wandsworth high up in the table, a position that would continue: Inner London boroughs had become major contributors.

This was of course a reflection of changing attitudes towards Inner London – a so-called ‘gentrification’ that was being matched by a reversal in prices (Outer London boroughs were largely more expensive than inner ones in the decades after the war).

The history can be seen clearly in the chart below – London providing 14-18% of new builds post-war (a combination of reconstruction in Inner London and, more importantly, suburban expansion that had been approved before the modern planning system was introduced in 1947), followed by London making a 4-6% contribution to total private housebuilding in the sixties, seventies and eighties, mostly accounted for by Outer London (Inner London providing less than 2% for much of this period).

But as London’s renaissance kicked in the figures for both rose, with Inner London in particular seeing private development of residential that had not occurred at anything like that scale for a very long time – arguably since late Victorian times.



The 'broken model' issue is more of a concern for Inner London. Of the 2,153 starts in London over the first six months of 2025, only 23% were in Inner London. This compares with a long-term trend of 39%. The boroughs seeing the highest number of starts in London were Barking & Dagenham, Barnet and Hounslow; where values are lower, development is less dense, easier and comprises low rise flats or town houses; and there is less affordability stress.

A further problem is that affordable housing delivery is now more linked to private development in a way that it was not the case in the immediate post-war period – partly because of section 106 agreements, partly because of the nature of development in London, with a majority of flatted, mixed-tenure blocks that cannot be built piecemeal.

In the mid-1970s, around 15% of affordable housing in the UK was being delivered in London; by the 2010s this had risen to as much as a quarter. As a result of the general problems and the link with the viability of private schemes, it was probably around 2% over the year to the end of Q2 2025.

This leads to two important conclusions. Firstly, that London's private sector has become far more important to national housing delivery. Secondly, that as social housing has also become linked to that same private sector, it has become linked to market cycles, and more vulnerable to downturns, like this one, that disproportionately impact on private development in London. This implies that there is a need for a rethink of the whole system, rather than just some – admittedly helpful – emergency measures.

THE MEASURES ANNOUNCED SO FAR

The scale of the crisis has now been recognised by the government. On 23rd October the Housing Secretary and the Mayor of London announced a package of policies aimed at kickstarting residential development.

These include:

- A new 'time limited' planning route – a 'fast track' – where developments on private land that commit to at least 20% affordable housing (of which 60% must be social rent) will not require viability testing. This figure will increase to 35% on public land or industrial land where the space is not re-provided. The measure will also apply to build-to-rent schemes where 30% of units are at London Living Rent.
- A 20% increase in grant for social rented units
- Temporary relief from Borough Community Infrastructure Levies (CILs)
- Removal of planning guidance maximising dual aspect units and constraining the number of units per floor.

These measures appear modest individually and have led to some disappointment in the market. However, our calculations show that acting together, they substantially increase viability, particularly for schemes in lower-value areas where deliverability has been weakest. Their impact should be substantial in the medium term.

However, a wider rethink of the housing model will be needed if London is in any hope of delivering in line with recent trends, let alone its targets.

It is also important to note, too, that none of the above measures apply to Purpose Built Student Accommodation (PBSA) and Co-Living – the two uses that are currently most viable in the capital, and have the greatest potential to deliver affordable housing in the short-term.

SO, WHAT NEEDS TO HAPPEN?

London is a very different housing market to the rest of the UK. Land values and end values are higher but so are build costs; high rise buildings and smaller flats account for a higher proportion of delivery; and affordable housing is expected to be delivered on a scale unmatched elsewhere in Britain.

Moreover, over the past few decades, London has accounted for a higher proportion of UK delivery than has been historically typical, making it far more critical to national housing goals – a situation that is not sustainable given market shifts and regulatory burdens.

Together, this means that London needs a different policy approach than the rest of the country, one that is essential if its contribution to *overall national housing* goals is to be reinstated. Our suggestions include:

Accelerate the Gateway processes. This is absolutely critical, as this is the main source of delay in London. Resolving it might not lead to a huge jump in starts – given that other factors are dampening developer appetite – but it would support activity and mean more sites are ‘shovel ready’ when conditions improve. One potential option is to break the Gateway 2 processes down into phases, so that construction can start at an earlier point.

Be more flexible on affordable housing requirements. Ultimately, there needs to be a recognition that land values have fallen and can no longer sustain policies that were developed in different market conditions – and perhaps even an assumption that land values and prices can only rise. In short, minimum requirements need to be cut back drastically, even if this is only temporary.

Relax Requirement for Late-Stage Reviews. Late-Stage Reviews were introduced in 2017, to reassess viability and potential affordable housing contributions on schemes of 10 units or more *after* consent had been granted. This was successfully challenged in court but still applied to larger developments that involved phases over several years or had delayed starts or completion dates. As this applies to many London schemes, it is a further risk and potential source of delay, disincentivising developers and funders. The measure was introduced at a time when the market was buoyant; given that this is no longer the case, the requirement should be relaxed.

Reintroduce Section 106BA. Section 106 BA, BB and BC were introduced to the Town and Country Planning legislation in 2013. They allowed for a review of affordable housing requirements within five years of consent, based on viability. This was, to all intents and purposes, removed in 2016. Reinstating these clauses would seem sensible given the huge market shifts of the past few years. Encouraging and allowing such reviews could be key to making stalled sites viable.

Reliefs to CIL levies. The reliefs announced by the Government only apply to local authority CIL levies, but the high level of Mayoral CIL (MCIL) can be a major factor holding back development. Some form of temporary relief would help to make schemes more viable, particularly as MCIL is designed to increase in line with inflation even when pricing falls. It is understood that the MCIL is an important contribution to the funding of the Elizabeth Line, so this might have to be tied to future payments if and when the market recovers.

Provide more support for build-to-rent. Policymakers have always been reluctant to back build-to-rent; they fear the electoral cost of not backing homeownership or in being seen to support corporate investment in people's homes. But there is a huge appetite for the residential sector still among large-scale investors, and rental housing is important for a huge swathe of middle-income Londoners.. Applying less stringent affordable housing criteria to such developments, at least in the short term, would make the sector a more viable proposition for institutions. It is worth noting that the Government keen to push local authority pension funds – including the London Pensions Fund Authority – to invest in housing and other forms of regeneration. This could be key to unlocking more housing sites in London.

More public sector investment for affordable housing. Housing grant could be focussed on schemes that are close to viability to enable both private and affordable housing delivery. But there are more radical approaches to unlocking capital, such as the use of public pension fund capital as set out above. The National Wealth Fund might be able to invest in affordable housing if it were reclassified as infrastructure. This funding could unlock private units as well if part of the same development.

Introduce some form of buyer support. The end of Help to Buy has reduced the number of people able to access a mortgage even if they can afford payments easily. However, it was a controversial policy, given the issues around valuation and risk. There are alternatives which could be more palatable, including reliefs on stamp duty or a modified help-to-buy requiring a larger buyer cash deposit.

Release Low Quality Green Belt. Ultimately, the market is currently pushing away from high-rise urban development and towards more conventional housing. This needs to be catered for if housing delivery is to continue. This need not be unsustainable sprawl; there are huge opportunities to deliver 'gentle density' family housing (terraces, low-rise flats) on low-grade land around stations in the green belt. There are, fortunately, signs that the Government and the GLA are moving in this direction, not least in the designation of 'grey belt' – but this process needs to be accelerated.

Allow more density in Inner London. While the market in Outer London is implying that more suburban development is demanded than planning permits, the reverse is true in Inner London, where there is the potential for greater height and smaller units, at least when activity recovers. Regulations could be relaxed beyond the measures recently announced. Such units often suit the younger, childless end-users, particularly in the rental sector, who are likely to spend relatively little time and home and do not envisage staying in the properties for longer than a few years.

Apply new policy measures to Purpose Built Student Accommodation and CoLiving. The relaxation in affordable housing and viability tests should be applied to these tenures. As these uses are currently in high demand, they have the greatest potential to deliver units of all tenures – if given more flexibility. Furthermore, many local authorities have had ambivalent attitudes towards these uses, but they could offer even more in terms of delivery if given more encouragement.

Update ceilings for accessing certain forms of affordable housing in line with London incomes. The ceiling household incomes of £67,000 for London Living Rent properties and £90,000 for Shared Ownership have not been updated since 2017. Between 2017 and 2024, median incomes in London rose by 29%. This alone suggests that the caps should now be circa £85,000 and £115,000 respectively.

CONCLUSION: TOWARDS A NEW MODEL FOR LONDON RESIDENTIAL DEVELOPMENT

The measures announced in September are a strong step in the right direction and together are much more effective than when considered in isolation.

But a combination of the recommendations above will also be needed to stimulate much-needed development in the longer term, and contribute to London's economy and the well-being of its residents.

This raises the question of whether a deeper rethink is required. Private development at scale in much of London is a relatively new phenomenon. It has always been based on very different factors than most the rest of the country.

THESE INCLUDE:

- End prices that were assumed to be very high and constantly rising
- Investors (mostly but not exclusively overseas-based) buying off-plan, 'unlocking' finance for the development
- Support from Help-to-Buy in lower value locations (mostly Outer London) where investors were less active and affordability was less stretched
- Relatively strong demand from domestic owner-occupiers and, at times, from institutional investors (through build-to-rent)
- Very high land values (produced by the above) that could be used to provide large amounts of affordable housing and CIL revenue

In a world of higher interest rates, alternative investment options, and a weaker economy (at least in the short term), this model appears increasingly redundant. This rethink may require policymakers to think about how they can encourage and stimulate development in London, rather than how price increases can be used to support a growing list of wider objectives.

One of the overriding problems is that the post-war planning system was primarily designed with greenfield sites and new settlements in mind. The system we have for promoting and controlling urban development has been patched together according to a set of market conditions (and land supplies) that increasingly look historic.

Developers are unable to offer the prices that induce landowners – who are often in no rush to dispose of their long-term security – to sell. If residential land values fall below a certain point, other uses will become more appealing, or owners may simply opt to wait until conditions improve. This has huge ramifications for the supply of the raw material for development.

Aligning affordable housing so strongly with private development in London also means that it cannot act as a countercyclical stabiliser, helping to keep supply chains active, and sites viable, during market troughs (as appears to be happening in many other parts of the UK at present).

This paper does not argue that we should simply ignore planning gain. There will still be strong uplifts in land, created purely by planning consents, which can justifiably be used for affordable housing and other social goods. But now and in the future, these may not be as large as in the past, except in the most high-value areas.

IN OTHER WORDS, WE NEED A PLANNING (AND PLANNING GAIN) SYSTEM WHICH:



Be far more flexible and adaptable,

Given that market shifts may be more pronounced in the future given volatile economic conditions.



Be far more rapid

Given that in such conditions speed becomes more, not less, important to developers, as future values are more uncertain. Higher interest rates have increased the time value of money, meaning delays are more costly and more damaging to viability.



Provide financing for some form of affordable housing or viability fund

which can be used to support the industry, or even individual sites, during market downturns

The aim of any new system needs to be a set of general rules that encourage urban intensification and growth at scale, rather than assuming housing development will happen even if significant hurdles are placed in its way,.

The most recent figures show that London's productivity growth has been weak over the past few years – surpassed in % terms by the big northern conurbations. Part of the reason for this must surely be the cost and scarcity of decent housing near places of work.

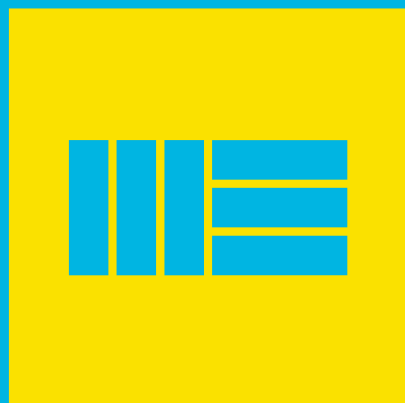
Given London's centrality to the UK economy, this is more than a social or local economic problem – it is a national emergency. Addressing it, both with the short-term measures here and a longer-term review of our approach to urban development generally, should be an urgent priority.

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