

Why London stopped building

Nick Cuff argues that the public sector does not have the cash to build, so it must find ways to encourage others to take the risk

A few weeks ago, London focused furniture company David Phillips went into administration. The business, roughly 25 years old, cited the ongoing downturn in the housing and construction market. I had worked successfully with David Phillips on mobilising several build to rent schemes. It was a great business and an important part of the complex ecosystem of companies that aid the delivery of good quality homes for sale and rent.

That ecosystem, once so bright, is being rapidly dissembled, the victim of a series of poorly thought through policy interventions and perhaps well-intentioned but politically motivated attempts to spur affordable housing that have backfired.

Only 3,950 new homes were sold in the first half of 2025, according to housing data company Molior – just nine per cent of the government's half year delivery target for London.

Molior predicts that by 2028 the industry can expect just £90 million of completion funds to flow through per week rather than the £1 billion it should expect. This is not the bottom. It is likely to get worse. High density brownfield sites for residential flattened schemes, once the bedrock of the London market, are no longer viable. There appears as yet to be no meaningful attempt in government to address the issues.

Why has London stopped building? The first thing to say is that it is not because of NIMBYs and defective planning committees alone, although neither are very helpful.

The system was always precarious – a delicate balance of pragmatic trade-offs by local authorities and developers accepting risk of discretionary decisions because the returns were there. Sometimes they did well, sometimes they did not, but there was always an opportunity to recover returns during the elongated development process.

Those returns have been whittled away over the last five years. On the demand side, erosion has come in the form of Stamp Duty, soaring mortgage rates, tax changes on overseas investors and Buy To Lets, the loss of Help to Buy and the impact of higher risk free rates on Build To Rent yields.

On the supply side, more taxes mean more costs

to carry. Two forms of Community Infrastructure Levy (CIL), Section 106 contributions, carbon offset levies, biodiversity net gain and now the soon to be adopted Building Safety Levy (BSL). It doesn't end there: a landfill tax hike is also being mooted to firmly nail the coffin of brownfield housing development.

Then you have new regulatory requirements around fire safety. Buildings have lost around three to five percent of net saleable floor area from the addition of secondary cores and evacuation lifts. Less revenue, more cost and on an appraisal the impact is around 20 per cent on land value (or if you had already bought your site before the changes, your entire profit).

That's a big ouch made worse by the fact you still have to pay CIL and the BSL on all that extra space. The newly implemented Gateway system, rather than facilitating safer developments, has merely become a check post causing serious delays to delivery, exacerbating the shortage of housing.

It's been five years since James Murray left the role of London's deputy mayor for housing to sit on the green benches. He departed with a legacy of additional planning requirements which now cannot work alongside the tax and building safety changes of the last three years.

"Genuinely affordable" housing was good party politics for Murray and adopted by the Sadiq Khan mayoralty when he came to office. It suggested previous administrations had somehow got a bad deal from developers. With limited grant available to pay for social housing, City Hall decided to put further onus onto the private sector by introducing a set of profit capture mechanisms, or late stage reviews, for all development proposals which didn't hit 35 per cent both in terms of tenure and mix.

This meant the Mayor proposed to take the majority of profit over a certain percentage. His upside is unlimited and difficult to price. He has no downside and he has no capital at risk. That sits squarely on the developer: to assemble, fund and project manage a development where profit is fixed for all time but you are exposed to catastrophic losses. The result? Investors required far higher returns



Nick Cuff is managing director of real estate advisers Urban Sketch

because the London planning system is so obscure. Such complexity has also disempowered local politicians and planners from making judgement calls.

Is there much distinction between a local politician who opposes new housing and a local politician who supports new housing as long as it is social housing? If the state is not willing to pay for it and the private sector cannot afford it, there is actually little difference between the two positions. Both end up at the same place – nothing gets built. That is what is happening across London.

A mistaken belief that the private sector could and should pay for everything and anything has led to an exodus from the capital and to other, less politicised, asset classes. The housebuilders were the first to go, then the investors, both foreign and domestic. The housing associations have consolidated and looked to their own estates for improvements rather than take development risk.

Multifamily Build To Rent, which should be motoring in a rental crisis, now creates negative land values, unable to provide anywhere near 35 per cent affordable due to higher debt costs. The sector that is functioning is single family housing – much less risk and far, far away from London.

Co-living and student development are still there. But London cannot rely on this alone and even these tenures are under huge pressure due to the building safety regulations and the risks around the Renters Rights Bill. There is no golden goose to be found in them, just an avoidance of negative land value.

The simple truth is that housing development is not a bonanza of goodies, yet successive governments and the mayoralty have mistakenly thought otherwise. It can offer something, but if the planning >>>

Unlocking small sites

We are asking too much from small sites, says Nick Cuff

Should the focus of planning reform be on the bigger sites and bigger players? Is it possible for small sites and small developers to make a meaningful contribution to housing numbers? Or is it too late to try and change what has become the default setting? This was the debate and the line of inquiry taking place over the summer in Whitehall.

Let's start with what we know. There has been a material reduction in the contribution of SME developers. 30 years ago, they contributed 40% of housing supply. Today it's around 12%. In London, between 2006 and 2016 there was a 50% reduction in small site development.

The decline has not gone unnoticed by policy makers. Indeed, supporting smaller builders has been a central plank of Government housing policy for at least a decade; most recently through initiatives such as the ENABLE Build loans. This £1bn loan guarantee scheme was launched to support finance for smaller housebuilders. But is finance what is actually needed?

Getting under the bonnet

There are differing theories as to why there has been a fall in SMEs. If we want to get under the bonnet and move beyond conjecture, data is required. Unfortunately, there is very little of it. There is no doomsday book detailing how many small sites exist in the UK. There is not a national wide data set on small sites developments and small developers.

There is though, thanks to the GLA, a dataset of small sites that have obtained planning permission in Greater London – the only dataset of its kind. With this data the team at Pocket working in conjunction with our colleagues at planning consultancy Litchfields decided we had a chance to conduct a deeper analysis of the journey of small site developers and find out what's happening out there.

The dataset consists of 675 small sites. By small sites we mean not micro sites – under ten homes, instead we mean over ten homes and under 150 homes or less than 0.25 hectares of land. When you remove outliers such as 100%

Nick Cuff is managing director of real estate advisers Urban Sketch



grant funded schemes and permitted development schemes (different approval regime), you are left with the state of play for SMEs in Greater London. The team then undertook a deeper analysis at random of 10% of the data set, 60 sites equating to over 2,000 homes and averaging 33 homes per site to see if there were any common threads.

The main issues facing small site development

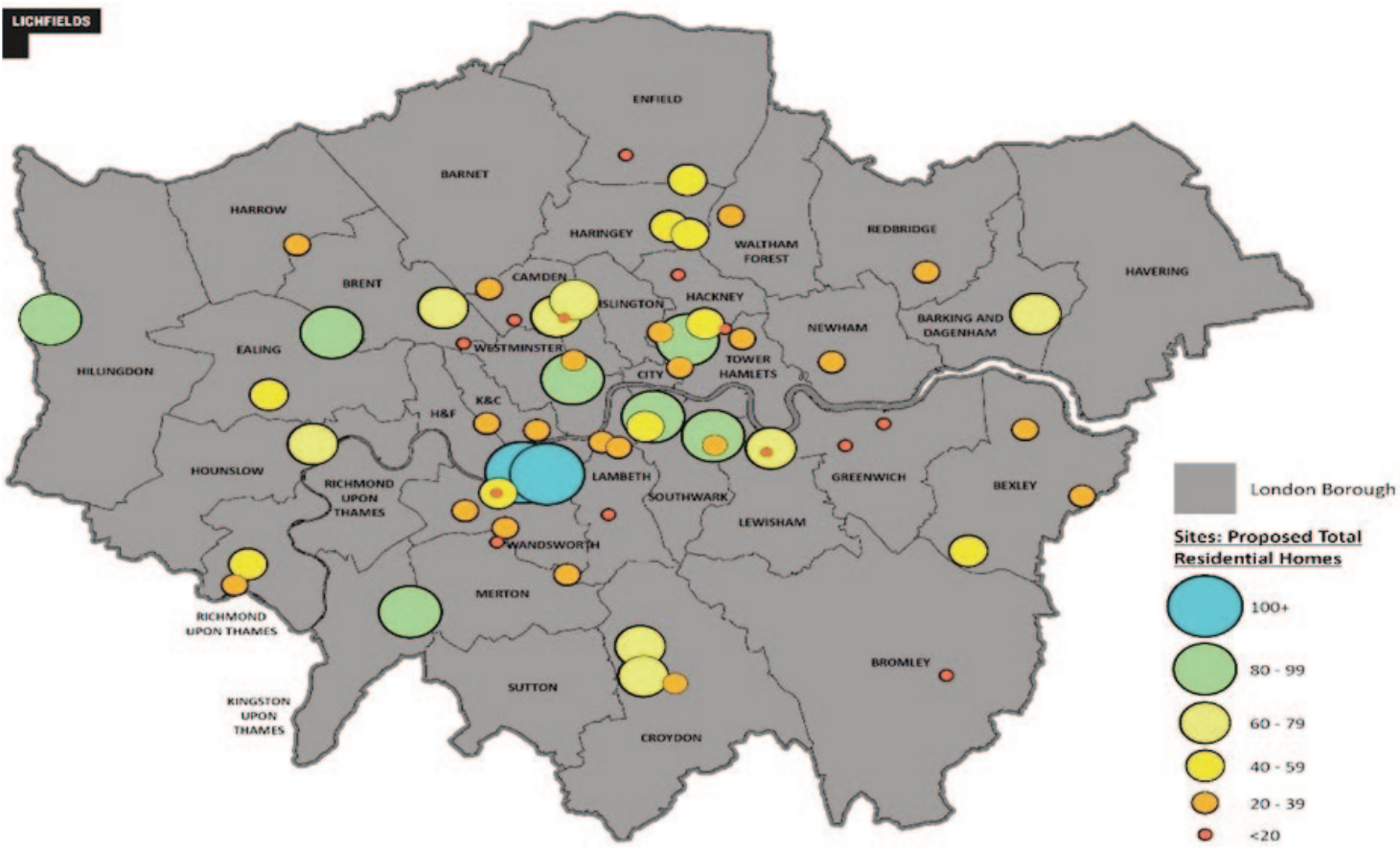
The analysis of the 60 sites sought to identify and codify the principle issues facing small sites. The findings were compelling. In three quarters of all cases, one of the biggest issues in the planning journey was affordable housing and viability. Moreover in a third of cases, there was a protracted dispute over the land value of a small site leading sometimes to deadlock between the local authority and the developer.

There were other issues, affordable housing was not considered in isolation. Residential amenity, density and parking are also considerations. However, design and architecture seemed to be an increasingly minor consideration with fewer than one in five cases giving detailed consideration to the quality of the building being delivered.

The lion's share of time between the applicant and the Authority is spent negotiating affordable housing. Only 6 applications in the data set were able to achieve a policy compliant level of affordable housing. The result was the majority entered a viability process which appeared to lead to dispute, challenge and deadlock.

The clock ticks

Any small business knows that time is your



enemy and no more so than in small site development where third-party funding is often the norm. The small sites in the sample size were taking on average a staggering 60 weeks to get planning permission. That is almost five times the statutory deadline. Just one of the sixty sites analysed met the statutory timescale and a fifth of permissions reviewed by the team took longer than two years to determine.

Much of this time delay was due to the complexity dealing with the viability and affordable housing approach. Ironically, those that actually did achieve good levels of affordable housing took longer to finally be determined due to the need to produce a more detailed Section 106 Agreement. The Section 106 process itself took an average 23 weeks to get through revealing that the journey to Committee itself was only part of the battle. There were some examples where the Agreement was taking years to agree.

Getting it right

One of the most surprising findings was that almost a quarter of the permissions reviewed from the random sample required two or three successive attempts to secure a planning permission. Half of the first-time permissions required major amendments during the determination. The amount of energy, time and money wasted trying to get through the planning system

between developer and local authority is staggering.

Where we go from here

There is no one at fault here but the system itself which has created a constant stream of conflict. We are asking too much from small sites. Viability negotiations are protracted and complex. Small sites are just not able to meet the policy hurdles. The regime leads to regular and

often intractable disputes over land value and affordable housing leaving little time to actually concentrate on what might actually be good design and place making.

This does not mean that affordable housing should not be delivered on small sites. However, it does need a simpler regime if it is to succeed. ■

Check out the full research here: <https://tinyurl.com/2aef9r4h>

