The London Series

Insight 5 – Residential: Rebuilding momentum

Q1 2026

Our fifth paper in the London Series, focusing on the residential market.

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Key takeaways

1

London's housing crisis is deepening

London is delivering far fewer homes than required, with just 33,000 completions in 2025 – only 37% of the annual 88,000 housing target. Delivery has fallen 28% since 2020, and private starts are now at their lowest levels since 2009. The sales market also remains quiet, with private new-build sales down 28% in 2025 and 68% below the 2016 peak. Low starts today mean low completions in the years ahead, with only 14,053 homes anticipated across 2027–28 – just 8% of the government's target.

Implication for Developers / Investors

Developers encounter a challenging environment shaped by worsening viability, construction cost inflation of more than 30% since 2020, tighter development finance, and delayed exits due to weaker domestic and investor demand. Fewer starts also mean a limited future pipeline, constraining delivery capacity and weighing heavily on long-term output assumptions.

2

Early signs of improvement and emerging momentum

Despite the downturn, Q4 2025 saw a notable rise in both starts and sales, indicating a tentative return of momentum from a low base. Political alignment between central government and City Hall has led to emergency measures to unlock development, including reducing affordable housing requirements to 20%, removing density caps such as the eight-units-per-core rule. These measures shift viability marginally in developers' favour and create a time-limited window in which development economics are more favourable.

Implication for Developers / Investors

Developers see early – but fragile – improvements in viability and risk-weighting. The alignment of political agendas and targeted policy reforms introduce a window where development becomes more deliverable. Time-limited measures offer a clear incentive to bring schemes forward before 2028, improving strategic decision-making and accelerating land activity.

3

London enters this cycle from a position of quiet but accumulating strength.

Monetary policy is easing, with six rate cuts since 2024 and expectations of further reductions in 2026, supporting both development financing and buyer affordability. A more favourable policy and economic environment means the market may be at an inflection point. Yet restoring sustainable delivery requires further progress: continued planning system reform, removal of late-stage review mechanisms, improvements to Gateway approval times, and targeted demand-side support for buyers.

Implication for Developers / Investors

Developers and investors may gain a first-mover advantage if they can unlock sites during this window, but long-term recovery hinges on deeper structural reforms. Improved planning certainty, reduced review burdens, streamlined Gateway timelines, and stronger exit absorption are essential to restoring confidence and enabling large-scale investment.

Residential: Rebuilding momentum

London's commercial and residential real estate markets rely on a shared framework to achieve competitiveness: **time, place, product and capital**. Yet, more so than the capital's office sector, its housing market is shaped by a fifth factor: **policy**, which can uniquely influence viability, accelerate (or slow down) delivery and unlock stalled sites.

From planning reform to regulatory complexities, government measures on housing play a decisive role in determining whether London can meet its workforce's housing needs and have been one of the defining factors – if not the defining factor – shaping where we find ourselves in the current cycle.

Without the right measures in place to support both demand and supply, the consequences of slowing development in the capital extend far beyond the residential sector and directly affect London's economic competitiveness.

London's housing crisis is deepening. In 2025, just 33,000 homes were completed – only 37% of the 88,000 homes needed each year. Delivery has fallen 28% since 2020, putting the capital on a trajectory that is moving further away from, not closer to, its long term housing goals.

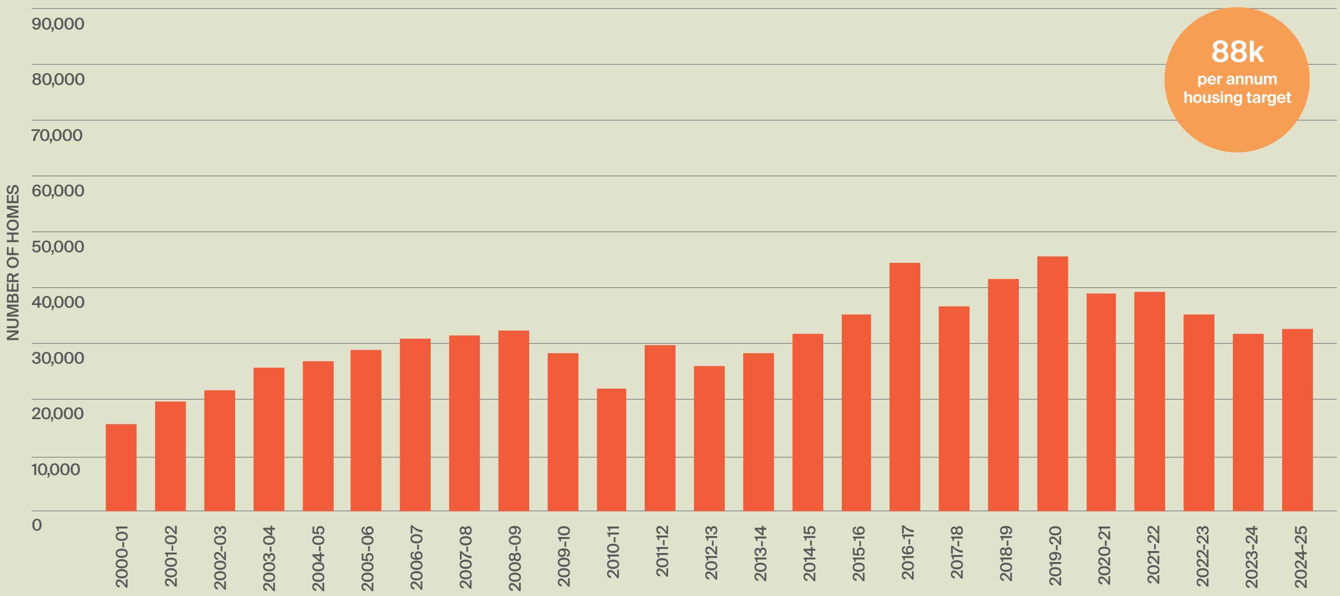
Yet beneath the weight of this downturn, there are signs emerging that might suggest the worst is behind us. Lower interest rates, a more aligned political landscape, policy reform and renewed confidence should help unlock momentum as we head into 2026. Development sites have started to return to the market in early 2026, a trend that could support a rebound in land transactions.

For developers willing to take a strategic view – and crucially who can unlock sites now – this combination of factors could present a unique opportunity to deliver homes. But let's be clear, seizing that opportunity is far from straightforward, and it's not going to move the needle anywhere near 88,000 homes.

> "London's housing crisis is deepening. In 2025, just 33,000 homes were completed – only 37% of the 88,000 homes needed each year."

Falling short of targets

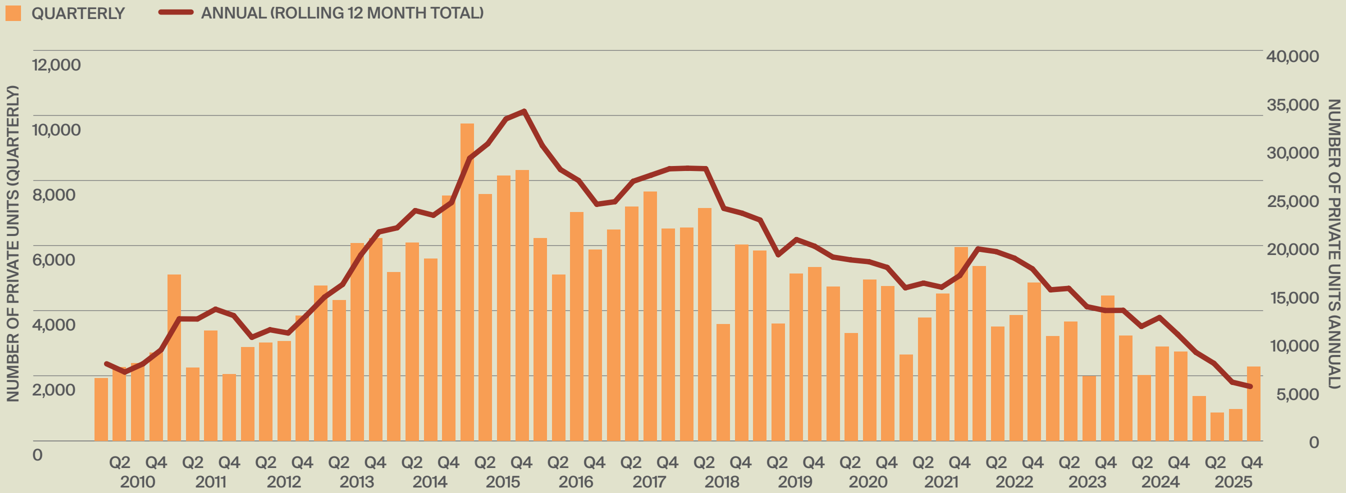
London net additional dwellings



Source: Knight Frank Research, MHCLG

London housing starts drop to lowest level since pre-2009

Private housing starts, 20+ unit schemes



Source: Knight Frank Research using Molior London

LOOKING BACK TO LOOK FORWARD

The decline in new housing activity has been starkest in the private sector, where housing starts have fallen to their lowest levels since 2009.

Molior data shows just 5,500 new private homes broke ground in London during the whole of 2025 – that is half the level of 2024 and 83% lower than the peak in 2015.

This falling level of starts has longer-term implications: low starts today mean low completions in the years ahead. Based on the current delivery pipeline, just 14,053 homes are expected to complete across both 2027 and 2028, just 8% of the government's 176,000 two-year housing target.

THE PERFECT STORM

So how did we get here? The current slowdown isn't the result of a single shock. Instead, a myriad of challenges has collectively impacted viability and confidence.

London delivery to fall short of target

Expected delivery based on homes currently under construction

Source: Knight Frank Research using Molior London

On the development side, cost pressures sit high on this list. Construction inflation has risen sharply in recent years, up by more than 30% since 2020 according to the BCIS, adding weight to development appraisals and further squeezing already tight margins.

Compounding this, the cost of development finance has become more restrictive. Borrowing is more expensive, lender appetite is more conservative in some cases, and risk adjusted returns are more difficult to achieve.

Regulatory and procedural delays have added further complexity. The planning system, already strained, has faced additional pressure from the introduction of new building safety requirements. The Gateway process, although created with good intent, has introduced significant delays for high-rise buildings, adding months to development timelines.

SHOW ME THE EXIT

At the same time, the sales market for new-build homes has weakened, particularly among domestic buyers and buy to let investors. The latter group has left developers without the off-plan sales needed to sustain cash flow during construction. Overseas demand has also softened amid tax reforms and stronger global competition.

Indeed, the previous peak in London housebuilding was in 2015, when developers started 33,782 homes – still far fewer than half the government's target. Developers sold 26,313 homes that year, aided by Help to Buy and plenty of off-plan investor sales closely to commencement, de-risking projects and enabling them to progress.

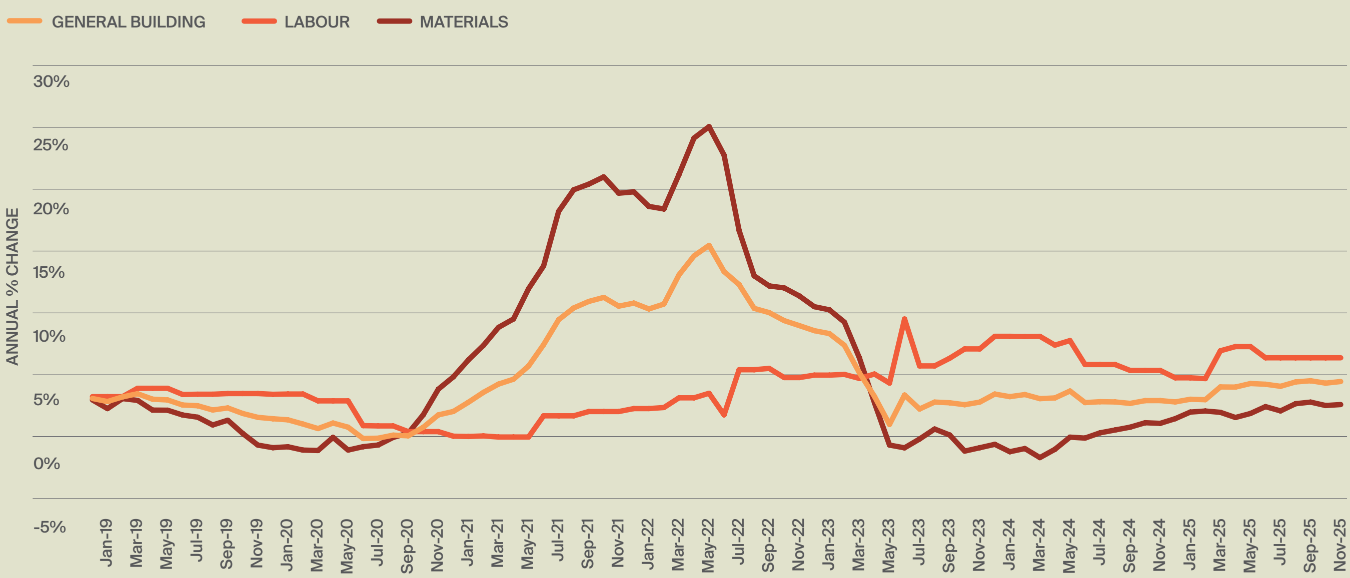
But the government introduced a 3% stamp duty surcharge for second homes and buy-to-let properties a year later, and off-plan investor purchasing began dwindling. That levy has since been raised to 5%, a move which followed the closure of Help to Buy in 2023. Starts have now been falling for a decade.

Private new homes sales totalled 8,436 in 2025, according to Molior, down 28% annually and 68% lower than the peak of the market in 2016. The impact of weaker demand is clear: if developers can't sell homes, they won't build them.

> "Construction inflation has risen sharply in recent years, up by more than 30% since 2020."

Build, labour and materials costs remain elevated

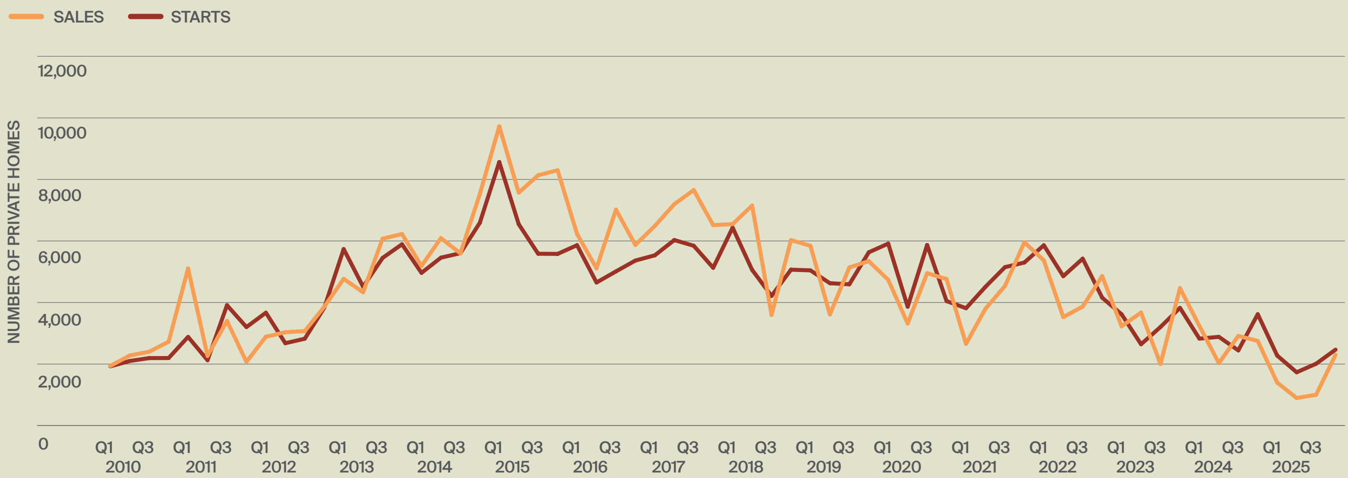
Annual % change



Source: Knight Frank Research, BCIS

Correlation between sales rates and starts

Quarterly, private homes



Source: Knight Frank Research using Molior London

And yet, there are early signs of improvement. Both starts and sales rose markedly in Q4 2025 versus the rest of the year. The numbers remain far from where they need to be to meet housing targets, but the data implies momentum may be returning – albeit slowly, and from a low base.

THIS TIME IT'S DIFFERENT. SO, WHAT'S CHANGED?

One catalyst has been political. For the first time in more than a decade, London benefits from political alignment between central government and City Hall. That helped pave the way for a package of emergency measures announced jointly by the Ministry of Housing, Communities and Local Government and the GLA late last year aimed at unlocking development.

Although still at consultation stage, the proposals paint a positive picture for improving supply. The withdrawal of guidance restricting density and additional mayoral intervention powers should also help shift risk more favourably in favour of getting projects off the ground. Removing the eight-unit-per-core limit will significantly improve efficiencies, for example.

While a temporary reduction in affordable housing requirements to 20% suggests a more pragmatic stance. The net result is that we're likely to see more schemes come forward where the development economics now make sense.

The measures are also time limited, so development will be more profitable now than it will be post-2028, which will provide developers with a powerful incentive to get building.

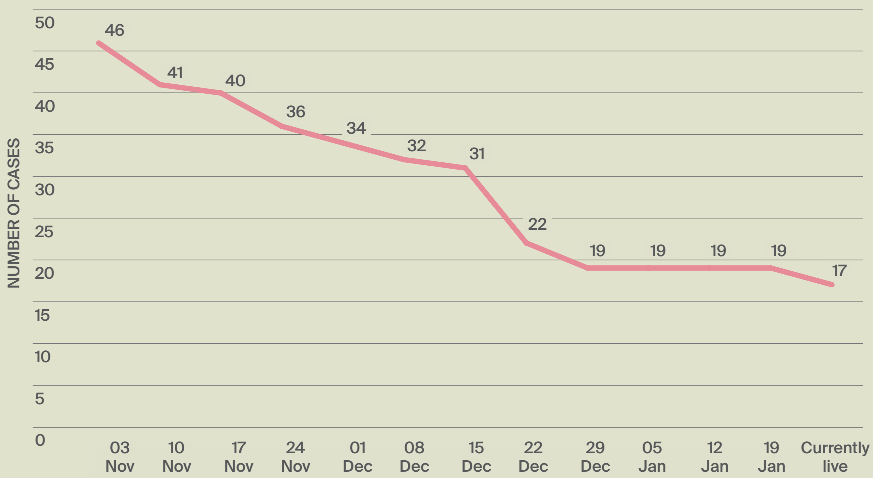
As we have already noted, delays at the Building Safety Regulator (BSR) relating to Gateway 2 remain a significant blocker to the delivery of high-rise, high-density housing. However, while challenges remain, clearer guidance, better resourcing and a more proportionate approach to approvals have begun to reduce bottlenecks.

The latest data from the BSR shows legacy new build cases in London are

> "The latest data from the Building Safety Regulator shows legacy new build cases in London are down from nearly 50 in November to 17 at the end of January, with 7,354 residential units approved."

Progress on unlocking the Gateway 2 backlog

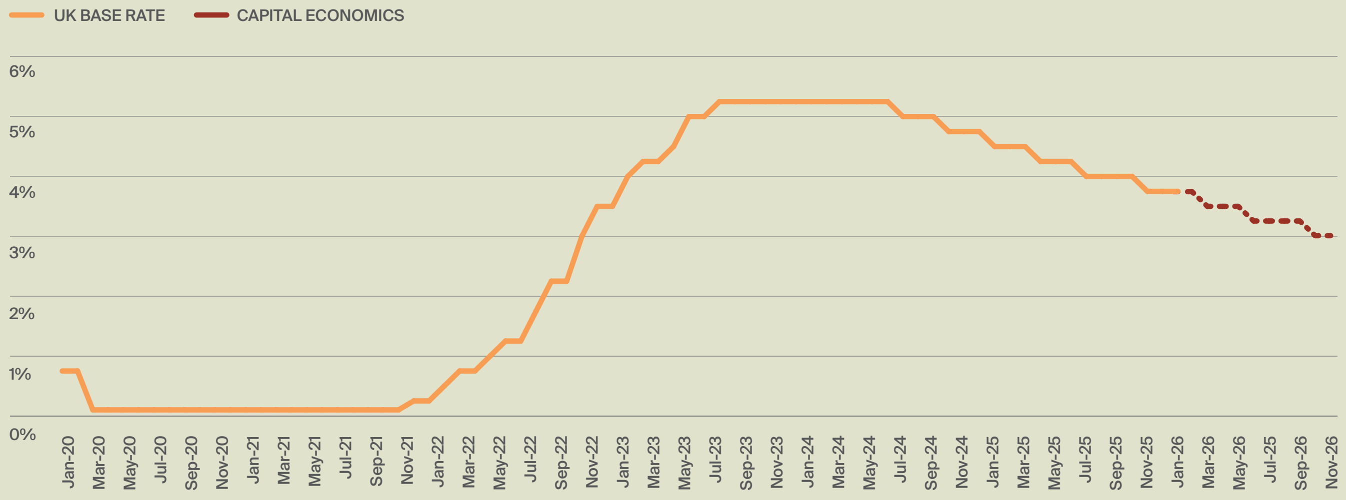
London: Gateway 2 new build legacy cases



Source: Knight Frank Research, BSR

Base rate expectations

Actual and Capital Economics forecasts



Source: Knight Frank Research, ONS, Capital Economics

down from nearly 50 in November to 17 at the end of January, with 7,354 residential units approved.

While this signals a more favourable policy environment, none of it is a silver bullet. These reforms are only likely to be the first difficult steps towards reversing the generational decline in housebuilding, but they are moving in the right direction.

MACRO MATTERS

The fact the Bank of England has cut rates six times since 2024 – bringing the base rate down to 3.75% – matters for development viability and mortgage availability.

The future direction of monetary policy is also now firmly towards supporting growth even if there's still caution. Further rate cuts are expected throughout 2026, which will improve the pricing of debt available to developers, and further loosen the affordability burden on buyers. Capital Economics expects three cuts in 2026 taking the base rate to 3.0% by year-end, one more than the two expected by financial markets.

Progress... but you can't live in a planning permission

Despite the turbulence of recent years, the London development market may now be approaching a moment of opportunity – and developers with the capital and conviction to act now may gain a first mover advantage.

Yet while recent reforms mark meaningful progress, more is required if London is to restore delivery to sustainable levels.

So, what do we need?

1. The planning system must continue to evolve, reducing uncertainty and enabling timely decision making.
2. The removal of late-stage review mechanisms, an outdated tax imposed on developers that undermines viability and discourages equity investment into schemes.
3. Improvements to the Gateway system must continue until approval times become predictable and proportionate.
4. Demand-side support. Developers will not build housing at scale if there is insufficient absorption on exit. Targeted support for first-time buyers – particularly in a climate of elevated interest rates – would play a critical role in restoring the confidence needed for private developers to commit to new schemes.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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