

Newsteer



#OurSteer

London Residential
Development Market
Q1 2026

Current Market Conditions

- We started the quarter with some quiet optimism that 2026 could finally be the year that the market would release the shackles - or, as the Minister for Housing, Communities and Local Government put it, “build, baby, build”. Viability challenges were acknowledged by MCHLG and the GLA through the promotion of the emergency measures to support housing delivery and the reforms of the Building Safety Regulator
- War in Iran is having a significant inflationary impact on the UK economy, with inflation now expected to be double the Bank of England’s target, leaving the UK the worst hit out of the G7. In March, the Bank of England held the base rate at 3.75%, with many commentators now pricing in the prospect of future increases.
- The impact of the conflict on the mortgage market was immediate, with lenders withdrawing products and repricing risk. The rising cost of energy is predicted to have an impact on the cost of materials, particularly steel. While the full consequences are yet to be felt, this has tempered the positivity felt at the start of the year.
- The Labour government and the GLA have introduced new policy interventions aimed at supporting development viability. Such measures are expected to unlock a growing number of stalled sites, however, their time limited nature means developers will need to act promptly to fully capitalise on the opportunities available.

Policy Updates

In March, the GLA confirmed the **emergency measures** in the [Support for Housebuilding LPG](#), which provides for schemes commencing before 2029:

1. *Up to 50% borough CIL relief for eligible schemes.*
2. *Modification to dual aspect, cycle storage and units per core guidance.*
3. *Reduction to affordable housing thresholds from 50% to 35% on public land and 35% to 20% on private land under fast-tracked applications.*
4. *Grant funding via the [Mayor’s City Hall Developer Investment Fund](#).*

The Mayor secured £11.7bn from central government under the **[New Social and Affordable Homes Programme \(2026–36\)](#)**.

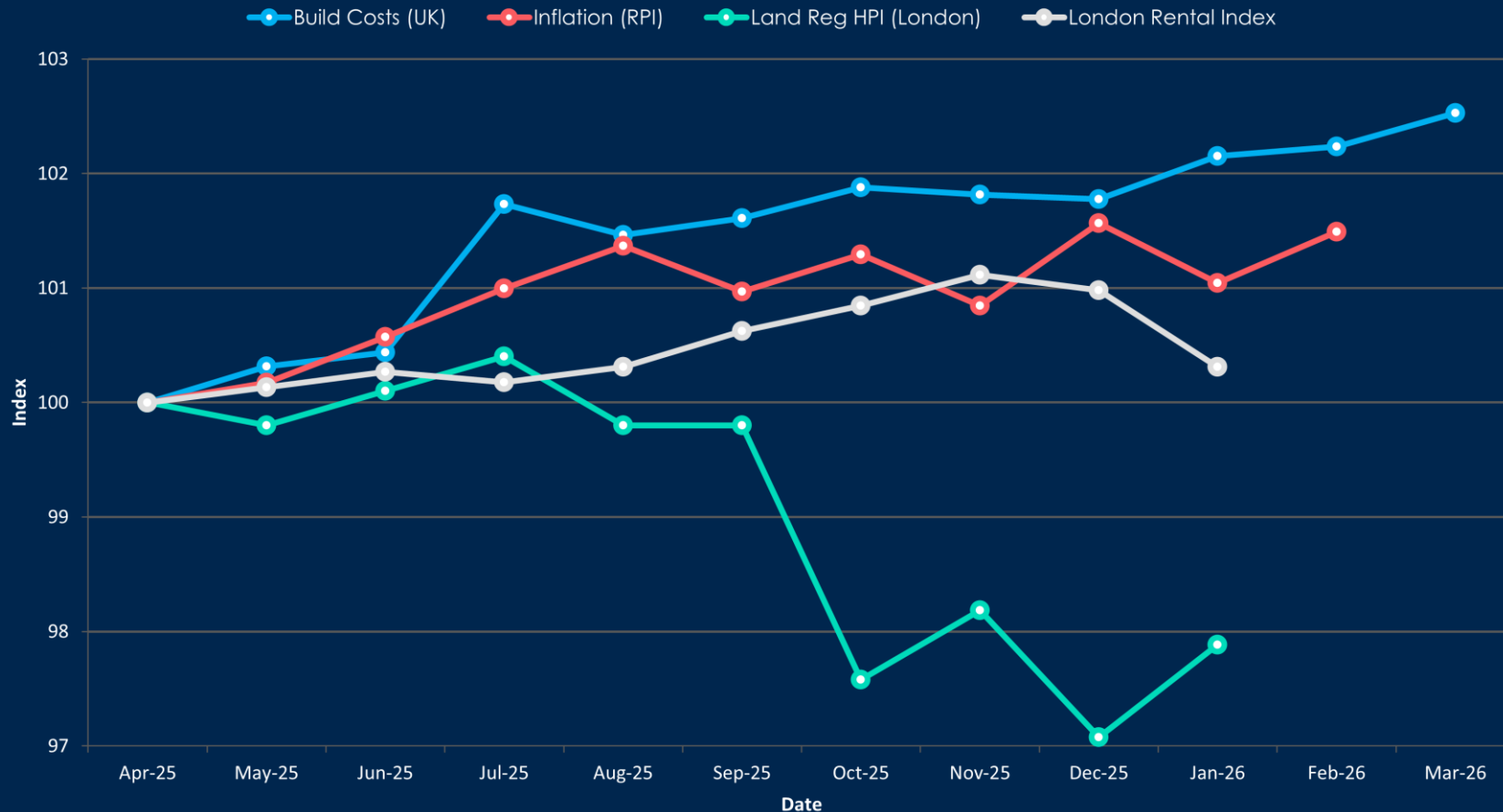
Updates to the **[Accelerated Funding Route](#)** allows grant on all affordable homes above the first 10% of units on schemes delivering 20%+ affordable housing, with no viability assessment. Planning approval required by 31/12/2028 (or revised London Plan publication) or funding is withdrawn.



#OurSteer:

**Act quickly to capitalise
on time-limited policy
measures**

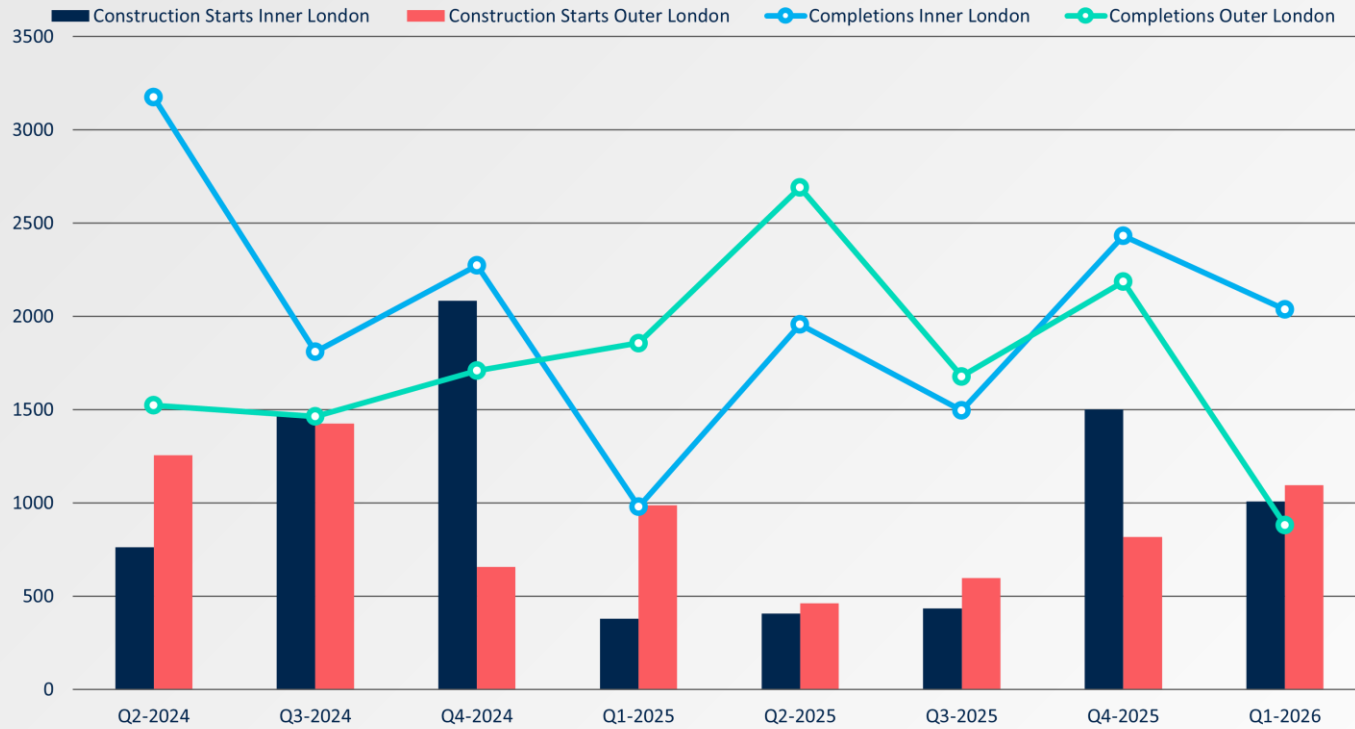
Build Costs Outpacing Values, Squeezing Viability



Source: BCIS, ONS, Land Registry, Rebased to Apr-25

- Rising build costs against weaker sales values mean scheme costs are increasing while London house prices have softened, compressing margins and decreasing deliverability.
- Limited rental growth and volatile inflation constrain the ability for income to absorb higher costs, reducing flexibility across both market for sale and build to rent models.
- Overall, the divergence between costs and values underpins the challenge of delivery, as developers face higher upfront investment with less support from capital values or rental growth.
- In a weak sales market, developers are increasing bulk sales to companies, institutions, and local authorities.

Construction Starts and Completions



Source: Molior

- Development remains concentrated in outer London, where starts continue to outpace inner London due to better affordability, land availability, grey-belt activity, and deliverability. Inner London activity remains constrained.
- Completions fell sharply in Q1 2026, reflecting the slowdown in starts through late 2024 and into 2025.
- Starts have recovered since Q1 2025 but remain below 2024 levels and well short of the c.22,000 homes per quarter needed to meet the 88,000 annual target.
- This imbalance highlights delivery challenges, with completions outpacing starts, reducing future supply and increasing the risk of undersupply unless viability, planning and delivery constraints ease - particularly in inner London.

Planning Applications Tracker

Permissions Granted

4,556 units

-66% Q4 25

Outer London
Permissions Granted

4,186 units

-42% Q4 25

Inner London
Permissions Granted

370 units

-93% Q4 25

Largest Scheme:
Lesnes Estate Bexley

1,950 units

Outlook for Q2 2026

- The local elections in May are expected to disrupt settled Councils, with likely gains for Reform UK and the Green Party leading to less clear policy direction and new, possibly inexperienced members on planning committees.
- The ongoing Iran conflict overshadows major decision-making, with the risk of a major oil supply shock threatening build cost, inflation, and interest rates rises while also putting downward pressure on sales values.
- Nevertheless, with policy interventions confirmed we foresee forward-thinking clients taking the time now to go back into planning to reshape schemes and capitalise on the positive policy environment with the expectation that macro-economic matters will have cooled once permissions have been obtained.



Source: Makower Architects – London Road Barking
Client: BeFirst

Get in Contact



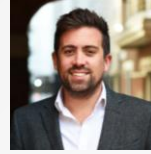
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