



The Lord Bailey of Paddington AM **Chair of the Housing Committee**

Sadiq Khan
Mayor of London
(Sent by email)

22 February 2024

Dear Sadiq,

I am writing to you on behalf of the London Assembly Housing Committee following our recent meeting on the financial sustainability of the housing sector. At this meeting, we discussed market trends in the private housebuilding sector, and heard troubling evidence about housebuilders and housing supply in London.

At our meeting on 6 December 2023, guests included **Seena Shah**, Director of Communications, Federation of Master Builders; **Michaela Bygrave**, Viability Consultant for Community Led Housing and Managing Director of Pointe Michel; **Dr Chris Foye**, Lecturer in Housing Economics, University of Reading; **Katy Warrick**, Head of London Residential Research, Savills; and **Amy Shaw**, Partner, Trowers & Hamblins LLP.¹

We were very concerned to hear that in the 12 months to September 2023, starts of homes in London were down by almost 30 per cent compared to the previous year,² and 60 per cent below their 2015 peak.³ New planning applications and new permissions were each down by almost 50 per cent in the 12 months to September 2023 compared to the previous year.⁴ As Katy Warrick (Head of London Residential Research, Savills) put it:

¹ London Assembly Housing Committee – 6 December 2023, [Transcript – Financial Sustainability of the Housing Sector](#)

² Savills, [‘Market Pressures’](#), 18 January 2024

³ London Assembly Housing Committee – 6 December 2023, [Transcript – Financial Sustainability of the Housing Sector](#)

⁴ Savills, [‘Market Pressures’](#), 18 January 2024

“It is not just construction activity that has been affected, it is at every stage. It starts on site, it is planning applications, it is planning permissions, as well as land activity. It is at every single stage, which leads us to suggest that the worst is yet to come.”⁵

Whilst we appreciate there are pressures at the national level, such as interest rates, building material costs and second staircases, there are also many specific issues relating to London, including planning issues, skills, land availability and access to finance. We are therefore interested in understanding what actions you are taking to support and boost the housebuilding market in London.

Housebuilders

During our meeting in December we heard from guests that owing to a range of challenges facing the sector, larger housebuilders are choosing not to buy land or build out on land they already own in London. Katy Warrick stated that:

“The glaring issue, is how to get the housebuilders back interested in London, the big players, because at the moment even Berkeley and Barratt are not buying land in London.”

Katy Warrick stated that on large housing sites such as those owned by Berkeley (which delivered around 10 per cent of London’s new builds in 2023⁶):

“...there is a reprioritisation going on to slow down on some sites, to speed up the ones so that they can match firstly where the market demand is greatest, but also in terms of planning to be able to speed up the ones that look like they will be able to get through planning the quickest... to be able to deliver at a time before anyone else can. There is a bit of a bottleneck I would say, and the main issue is around the second stair cores.”

Amy Shaw (Partner, Trowers & Hamlins LLP) confirmed that because of issues around second staircases and build costs, “we are not seeing that appetite for the more complex inner-city developments.”

We also heard that at the end of September 2023 there were 65 stalled residential sites across London.⁷

Homes built for market sale or rent represent the majority of starts and completions in the capital. However, we note that there is limited reliable, public source evidence relating to which developers are responsible for the majority of housing delivery in London. We also note that the joint position statement from the London Housing Delivery Taskforce does not mention actions that need to be taken to support the private market.⁸

1. What actions are you taking to monitor output among private housebuilders and how are you supporting the market to mitigate against drops in supply?

⁵ London Assembly Housing Committee – 6 December 2023, [Transcript – Financial Sustainability of the Housing Sector](#)

⁶ Berkeley, [2023 Annual Report](#)

⁷ London Assembly Housing Committee – 6 December 2023, [Transcript – Financial Sustainability of the Housing Sector](#)

⁸ London Housing Delivery Taskforce – [Joint position statement](#), November 2023

We also heard that there is currently limited demand from Registered Providers (RPs) for buying Section 106 packages⁹ from developers, due to grant constraints. Guests told the Committee this is affecting the viability of the overall sites. Amy Shaw (Partner, Trowers & Hamblins LLP) stated:

“It is not just the fact that they do not count towards the Affordable [Housing] Programme in terms of the grant. It is a management issue for the bigger RPs. They do not want to acquire six units on a particular site because, in terms of managing those homes, it is intensive in terms of the number of homes that are there. Their preference is for larger amounts of affordable homes in one locality so that they can streamline the management of those.”

2. What actions are you considering to address the issue of low demand for Section 106 homes, including how Registered Providers could be incentivised to come forward to purchase Section 106 homes?

Small builders and small sites

The Committee was also very concerned to hear about the state of the sector for smaller housebuilders. Guests told us that the smallest housebuilders (i.e. those building between one and five sites across London), are moving out of the capital because of costs, risks to viability and planning policy. Seena Shah (Director of Communications, Federation of Master Builders), said:

“SMEs [small and medium-sized enterprises] are really struggling to forward-plan based on build costs. They do not know what the cost of materials is going to be week to week because of the volatility there. Therefore, it is particularly difficult for them to be able to price a job and to understand the viability of a project.”

We also heard that SME builders are struggling to access finance. Seena Shah stated:

“Effectively it is about that upfront cost and if they cannot access lending or lending is too expensive that it makes it unviable that is the biggest challenge, as we have seen, even with those that are already building”

Meanwhile, Katy Warrick (Head of London Residential Research, Savills) highlighted a “hostile planning environment” as a key reason why many SME builders are “not able to operate in London anymore”:

“It is the SMEs who absolutely find that they are not able to operate in London anymore. The ones that they saw five to ten years ago just find it too hostile a planning environment to be able to get schemes off the ground. Everything for a developer is about risk and reward. The reward is not there, and the market has been very weak in London, particularly the last year, but the last five years has been nothing too exciting happening to be able to give them that sort of reward.”

⁹ Affordable homes provided as part of Section 106 contributions

Your Housing Strategy emphasises the importance of supporting SME builders, stating these are more likely to keep building in economic downturns than larger volume developers.¹⁰ Yet, the evidence the Committee heard raises doubts about how small builders are faring in this challenging economic climate.

3. What actions are you taking to support small builders, including around supporting their access to finance, and addressing the planning obstacles faced by small builders and other developers in London?

Your Housing Strategy states that “We need to develop more small sites for housing, and these sites are likely to be less attractive to larger construction firms, which tend to focus on larger schemes”.¹¹ During the meeting, we heard about the complexity of developing on small sites, and that small builders often may not have the specific skills needed to do so. Michaela Bygrave (Viability Consultant for Community-Led Housing and Managing Director, Pointe Michel) said:

“Small sites are extremely tricky to work on for logistical reasons but also because it is hard to find builders who have the expertise to work on them... Technically, a small site sounds like it would be great. But there is usually a reason that those small sites have not been developed up until this point. A lot of the infill sites will already have been developed if they were easy to develop and so what you are left with are the harder ones.”

We note that the GLA has developed the Small Sites Small Builders programme 2022-25.¹²

4. What progress has been made under the Small Sites Small Builders programme in helping to get complex sites ready for development?

5. What actions are you taking to upskill small builders to work on small sites?

We heard during our meeting about practices that could support SME builders – for example, contracting large sites to groups of SMEs. Michaela Bygrave said:

“Instead of looking at these giant sites and saying, “All right. We need a giant builder”, look at those sites and say, “OK, how can we split this up to allow a series of small builders to develop this for us using their expertise?””

6. How are you using GLA Group land (including large parcels of land) to support SME builders, including the suggestion the Committee heard from Michaela Bygrave, about splitting up large sites into smaller parcels for small builders to develop?

The 2021 London Plan sets a target of 120,000 completions on small sites (below 0.25 hectares in size) across London by 2029, nearly a quarter of the overall housing target for London.¹³ We were concerned to hear that there has been a large drop in starts on small private sites (of less than ten

¹⁰ Mayor of London, [London Housing Strategy](#), May 2018, p.77.

¹¹ Mayor of London, [London Housing Strategy](#), May 2018, p.77.

¹² Mayor of London, [MD3093 Small Sites Small Builders 2022-25](#), February 2023.

¹³ Mayor of London, [London Plan 2021](#)

homes) in London. Katy Warrick told the Committee that while starts on these sites averaged 11 per cent in 2017-2019, they represented only one per cent of total housing starts in the year to November 2023.¹⁴ The Committee is concerned about what this means for delivery against the targets set out in the London Plan.

7. How many starts and completions have there been on small sites in London so far, and what are you doing to ensure that your London Plan small sites housing target is met?

It was also suggested by Seena Shah (Director of Communications, Federation of Master Builders) that:

“You need something like over 10,000 small businesses every year to be able to deliver on that target. We do not have that many SME builders in the London market at the moment, therefore there is certainly a lot that needs to be done to help more of the SME builders that are delivering other services to enter the housebuilding market.”

8. What is being done to attract sufficient numbers of smaller builders to London in order to meet the small sites target?

I would be grateful for a response to this letter by **24 May 2024**.

Yours,



**The Lord Bailey of Paddington AM
Chair of the Housing Committee**

¹⁴ London Assembly Housing Committee – 6 December 2023, [Transcript – Financial Sustainability of the Housing Sector](#)