The London New Homes Report

2024

Analysing the market drivers of the capital's new build residential market, as well as case-studies of exemplary large mixed-use schemes, and opportunities to convert office blocks into residential schemes.

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Market update

MARKET PERFORMANCE
Reflecting a more upbeat market dynamic, average London house prices have returned to growth, rising 2% annually at the end of the third quarter of 2024 according to Nationwide (see figure 1).

We forecast that Greater London will produce average house price growth of 2% this year. However, October's Budget could change this outlook. More broadly, the impact of the US election on markets could have a bearing on the pace at which the Bank of England lowers interest rates.

Limited supply will support new home prices, as new applications slow due to challenges like rising build costs, labour shortages and lack of first-time buyer initiatives, with some developers cautious over the prospect of late-stage viability reviews. The removal of the 1,500 square metre space cap on office to residential conversions could help stimulate supply in some areas (see pages 4-5).

Despite these challenges, there remains a strong appetite for new build housing in London, evident from a rise in viewing numbers (see figure 2). London's enduring global appeal also continues to support demand for new homes.

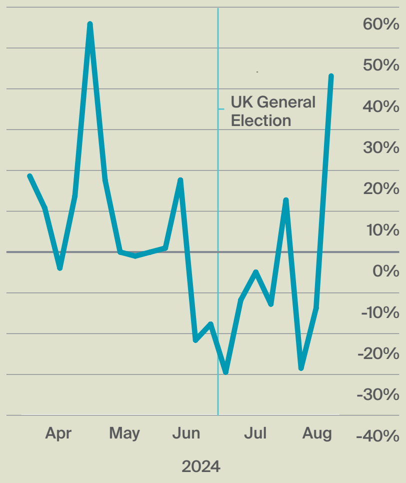
Overall, sentiment has improved with the Bank of England cutting the base rate for the first time in over four years in August to 5% from 5.25%. Financial markets are pricing in a further cut in November.

DEMAND RETURNING BUT SUPPLY AN ISSUE
Demand for new build homes in London is on the rise, with key buyer metrics showing an improvement on last year. Reservations have increased as rate cuts return, but housing supply remains limited due to a range of factors, from high costs to planning delays, restricting new developments.

The population of London has grown rapidly and is projected to rise by over a million by 2041, yet housing supply hasn't kept up, with the shortfall expected to worsen.

There is also a need to rethink the type of development required, including retrofitting old commercial buildings amid stricter regulations. The end of Help to Buy has driven demand for a broader tenure mix, with the rental market set to expand. More flexible working patterns have also changed the way that residential schemes are designed, with a greater focus on amenity provision.

Fig 2: London new homes viewings pick up after election lull
Annual % change



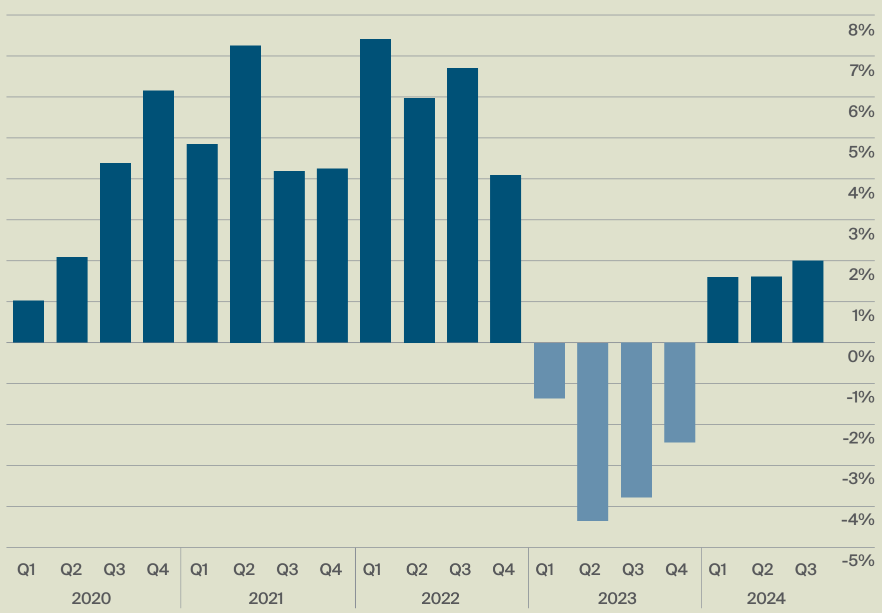
Source: Knight Frank Research

CONSTRAINED SUPPLY
Housing delivery in London remains far below target, with new starts plunging to record lows in recent quarters (see figure 4).

Annual delivery has dropped to 35,000 homes, down 10% from the previous year, against the London Plan's target of 52,300 homes. As part of the government's plans for a revised National Planning Policy Framework, the London mayor has been set a new target to deliver 80,000 homes per year.

The planning pipeline is also under pressure, with the number of new homes gaining planning permission falling 35% last year to a 12-year low of 42,908, Home Builders Federation data shows. The capital has seen a steeper decline in its new homes pipeline than any other region in England (see figure 3). Government data shows the number of housing projects approved in the capital hit a 14-year low in the second quarter this year of 1,192.

Fig 1: London house prices return to growth in 2024
Annual % change in values



Source: Knight Frank Research, Nationwide

WHERE WILL FUTURE DELIVERY COME FROM?

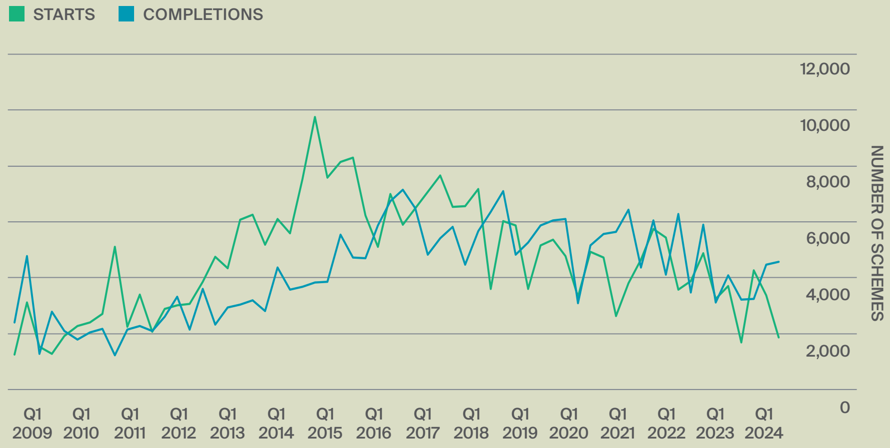
Opportunity areas
These are key zones in the Mayor's London Plan for new homes, jobs and infrastructure, often linked to transport improvements. They typically support at least 2,500 homes or 5,000 jobs, with 47 areas identified. These zones have accounted for over 40% of London's annual housing delivery, averaging 16,500 homes per year in the three years to March 2023. However, completions fell to 9,883 homes in the year to March 2024, the lowest in nine years.

BROWNFIELD REGISTERS
All local planning authorities must publish a Brownfield Land Register to encourage the delivery of housing and investment. In London, many of these sites are small and fragmented. Inner London's current registers show capacity for 160,000 homes on larger sites with space for 50+ dwellings. However, after excluding sites already in planning or under construction, there's limited capacity left. The registers should be used cautiously as they are updated irregularly.

Fig 3: London sees sharp decline in new homes pipeline
Units granted permission, % change 2023 vs 2022

Source: Knight Frank Research, HBF

Fig 4: London new home starts, quarterly
20+ Unit schemes

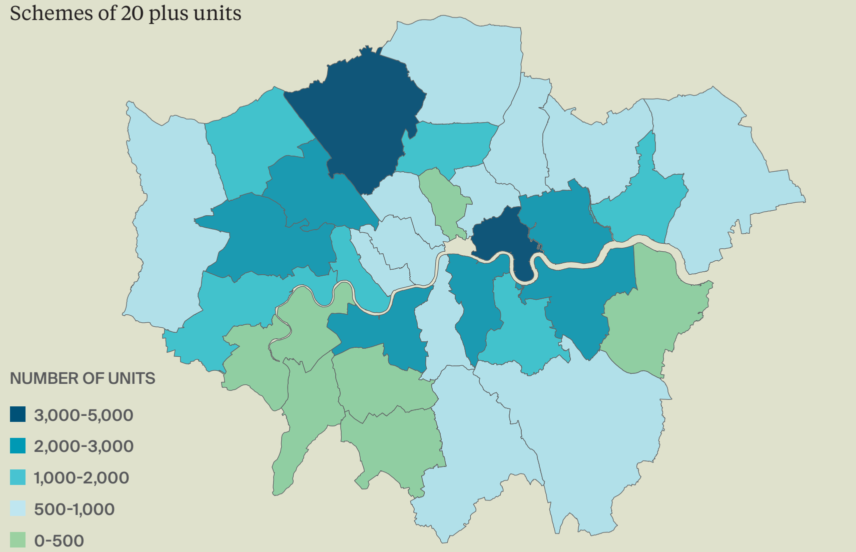


Source: Knight Frank Research, Molior

WHAT ARE LONDON BUYERS LOOKING FOR IN A NEW BUILD HOME?
A recent Knight Frank survey of over 300 UK-based individuals found that London buyers are most attracted to new build homes for their energy efficiency, lack of a seller chain, and financial incentives. London buyers prioritize these factors, along with on-site amenities, more than buyers across the UK (see figure 10 on p.7), due to higher competition and affordability pressures in the city. The focus on amenities, such as green spaces, also reflects urban living needs.

"Housing delivery in London remains far below target, with completions declining and new starts down 20% in the past year."

Fig 5: Number of homes currently under construction by London borough
Schemes of 20 plus units



Source: Knight Frank Research, Molior

Where are the capital's key housing projects?

A breakdown of regeneration schemes emerging in inner London boroughs

There are currently over 300 residential schemes of 20 plus homes under construction across the capital. This amounts to just over 41,000 units actively under construction, according to Molior. In terms of split, around a quarter of the units recorded underway in the second quarter were Build-to-Rent, Molior data shows. Tower Hamlets, Barnet and Greenwich are the top three boroughs with the most homes currently under construction.

In total, just 1,879 units started construction (in schemes of 20 plus homes) in the second quarter, one of the lowest levels on record, according to Molior.

That said, there are plans for large-scale schemes in the works. The capital's 20 plus unit pipeline includes over 105,000 homes that were granted full planning permission within the last three years. So far this year, developers have put in applications for a further 23,000 homes.

1. NORTH LONDON: BARNSBURY & HOLLOWAY

As the final apartments are sold in the King's Cross regeneration scheme, the focus is now shifting to new developments in surrounding areas.

Peabody and London Square are developing Holloway Park, a 10-acre housing and community development on the site of the former Holloway Prison. The development, will provide 985 new homes, 60% of which will be affordable.

In Islington, the council has approved plans from Newlon and Mount Anvil to redevelop the Barnsbury Estate. Existing social rented and market homes will be replaced, and the project will lead to a significant uplift in affordable and market housing. The project will deliver 914 homes, up 40% from the existing 646, two new parks, new streets, and a new community centre.

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Local context: A £500 million project in Camden is in the pipeline, covering 3.56 acres across two council-owned sites: 120-136 Camley Street and 3-30 Cedar Way, N1. The plan includes around 350 homes, with 170 affordable units, and over 200,000 sq ft of commercial space for life sciences, technology, and digital industries.

2. EAST LONDON: CANARY WHARF

While the pandemic saw buyers gravitate towards outer-London schemes with access to green space, there has been a revival of interest in residential schemes in financial districts. Notably, these are also attracting a wider demographic, with larger units now selling faster than one-bed apartments or studios.

Local context: Around 3,500 people now live in Canary Wharf Estate, up from zero in 2020, which Canary Wharf Group (CWG), the developer and management company of the estate, hopes to double in the coming years. There are currently five major residential schemes under construction in Canary Wharf. They include Wood Wharf, which is CWG's major residential project with plans for over 3,000 apartments, serviced flats and student residences. Currently.

Pushing out of Canary Wharf into the areas nearby on the DLR line, there is further regeneration around Poplar and East India Dock. In Poplar City Hall has approved plans by EcoWorld London and Poplar HARCA for up to 1,565 new homes at Oxbow, formerly the Aberfeldy estate. Other projects in the area include Berkeley's 2,800-home Poplar Riverside and Twelve Trees Park, 3,800 homes.

> "While the pandemic saw buyers gravitate towards outer-London schemes with access to green space, there has been a revival of interest in residential schemes in financial districts."

3. SOUTH LONDON: SOUTHBANK

Bankside Yards, a £2.5bn project on London's Southbank, aims for net-zero operational status. Currently, 264 homes are under construction at Bankside Yards West, with approval for 341 more at Bankside Yards East. The project also includes a 33-storey tower with a 171-room Mandarin Oriental hotel and 70 branded residences. By sourcing electricity from renewables and using a low-temperature piping network, Bankside Yards aims to cut energy consumption significantly.

Local context: In the Southbank area, council registers list just 13 available land sites with permission for around 90 homes. This comes after a period of renewal and development in the area, with 900 homes having completed since 2019 across five major sites (schemes of 20 plus units) and five minor ones. Key residential schemes include One Blackfriars, Southbank Place, Southbank Tower and Triptych Bankside. Recent planning approvals include over 400 new homes at 18 Blackfriars from Hines and 149 homes at The Edit from Mount Anvil.

4. WEST LONDON: WHITE CITY

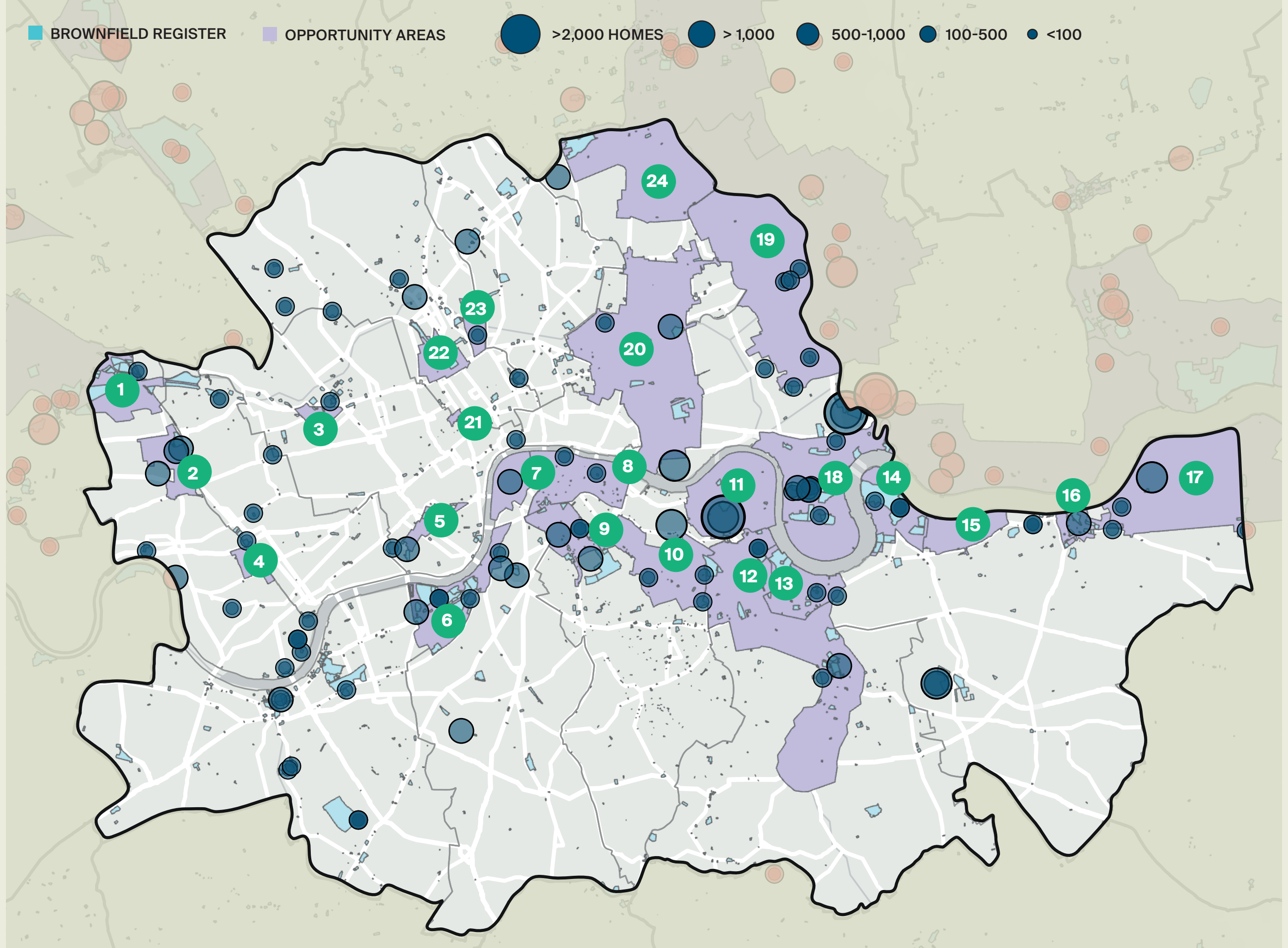
A new district is emerging west of Notting Hill and north of Shepherd's Bush. Major projects include Westfield Shepherd's Bush, with 1,700 homes, and Berkeley's White City Place, delivering 2,500 homes.

Television Centre, the 14-acre BBC complex, is being redeveloped into 950 homes by Mitsui Fudosan UK and Stanhope. The first £1bn phase, now complete, includes 432 homes and 500,000 sq ft of office space. The second phase will add 511 homes, 142 of which are affordable.

Local context: White City sits just north of Shepherd's Bush. It is one of London's biggest regeneration projects, a collaboration between local government and private investors which aims to create 6,000 new homes, 2.2 million square feet of office space and 20,000 jobs. The White City masterplan is one of the largest regeneration zones in West London at 110 hectares. More developments are emerging south of White City, including Fabrica's 200-home Artisi in Hammersmith and TT Group has submitted plans to redevelop Ravenscourt Park Hospital into 140 new homes. Just to the west of White City in Acton, Peabody and Mount Anvil are developing 1,228 homes at The Verdean.

Fig 6: Inner London's largest new housing schemes are clustered along the river

Schemes of 20 plus units under construction



Source: Knight Frank Research, Molior, GLA

Inner London opportunity areas*

1	OLD OAK/PARK ROYAL	9	ELEPHANT AND CASTLE	17	THAMESMEAD AND ABBEY WOOD
2	WHITE CITY	10	OLD KENT ROAD	18	ISLE OF DOGS
3	PADDINGTON	11	CANADA WATER	19	OLYMPIC LEGACY
4	EARL'S COURT/WEST KENSINGTON	12	NEW CROSS/LEWISHAM/CATFORD	20	CITY FRINGE/TECH CITY
5	VICTORIA	13	DEPTFORD CREEK/GREENWICH RIVERSIDE	21	TOTTENHAM COURT ROAD
6	VAUXHALL NINE ELMS BATTERSEA	14	GREENWICH PENINSULA	22	EUSTON
7	WATERLOO	15	CHARLTON RIVERSIDE	23	KING'S CROSS
8	LONDON BRIDGE/BANKSIDE	16	WOOLWICH	24	LEE VALLEY

*Areas identified in the Mayor's London Plan as key locations for new homes, jobs and infrastructure.

What factors are influencing London rents and house prices?

"Demand is strongest for smaller sized properties currently, with rental growth for one or two beds outpacing larger properties."

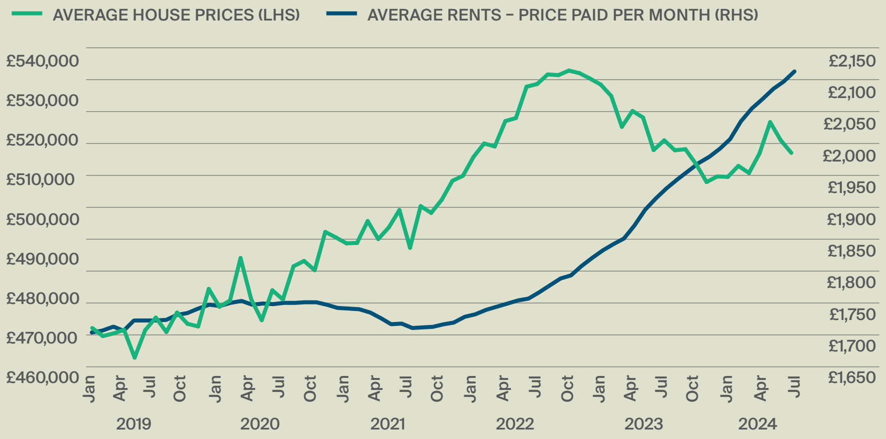
LONDON LETTINGS MARKET

Rents are expected to grow faster than house prices in the UK, particularly in London. We are forecasting annual rental growth of 5.5% this year across Greater London, reducing to 3.5% in 2025. Tougher rules for landlords could mean more look to sell, which would further increase upwards pressure on rents.

The government is set to introduce a new Renters' Rights Bill during this Parliament. Measures include making it harder to evict tenants. Plus, the government has confirmed tighter green credential rules, specifically new EPC requirements for rental properties to achieve minimum C by 2030, putting pressure on landlords to upgrade their homes and encouraging new ones towards more energy efficient new build homes. Meanwhile, capital gains tax could also rise in October's Budget.

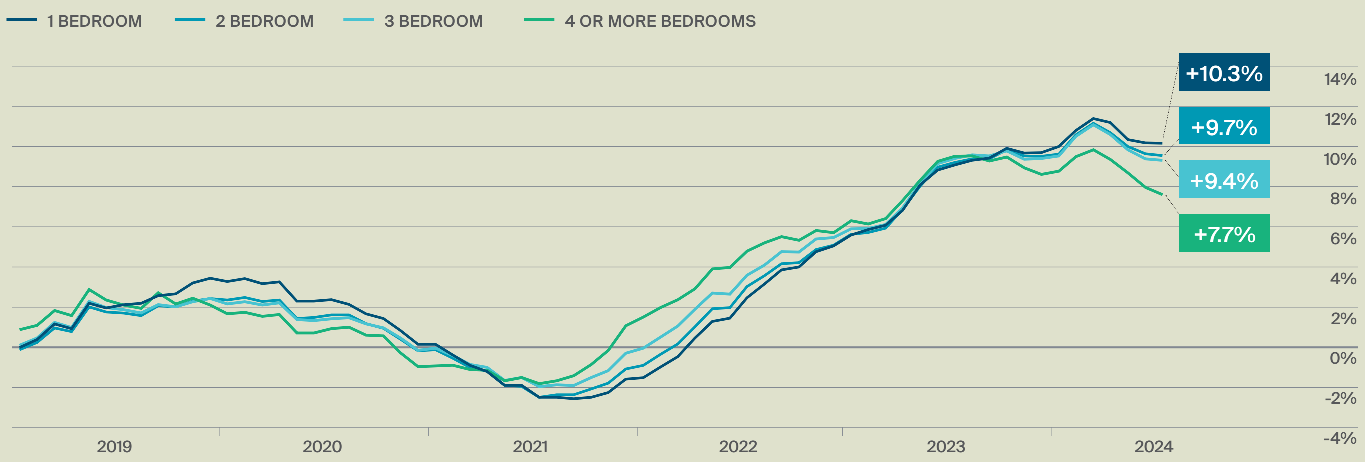
Rents first started accelerating markedly at the start of 2021 up to late 2023 (see figure 7). This large growth was driven by a significant uplift in demand towards the end of the pandemic linked to the reopening of workplaces and universities, and a longer-term trend of falling supply in London's private rental sector. Since then, the pace of growth has eased a little on an annual basis, but rents continue to rise. In fact, the capital was the English region with the highest rental inflation in the 12 months to August this year at 9.6%, ONS data shows. Demand is strongest for smaller sized properties currently, with rental growth for one or two beds outpacing larger properties (see figure 8).

Fig 7: London average rents remain elevated
Price paid per calendar month



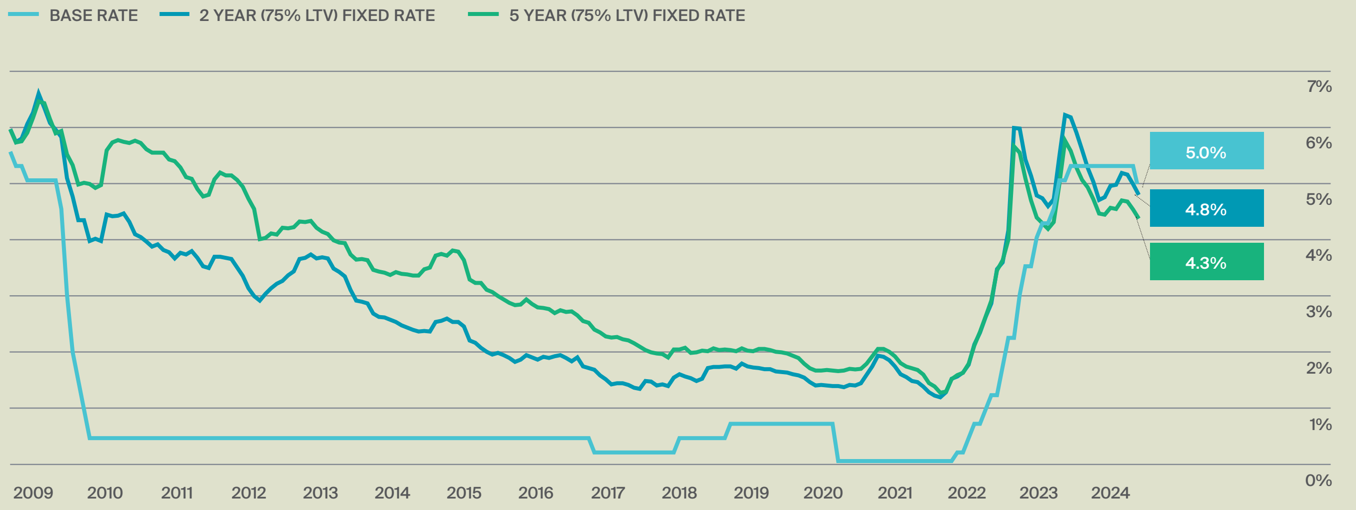
Source: Knight Frank Research, ONS

Fig 8: Rental growth strongest for smaller properties in London
Annual % change



Source: Knight Frank Research, ONS

Fig 9: UK mortgage rates ease up as Bank cuts base rates
Monthly base rate vs two and five year fixed rates 2008-2024



Source: Knight Frank Research, Bank of England

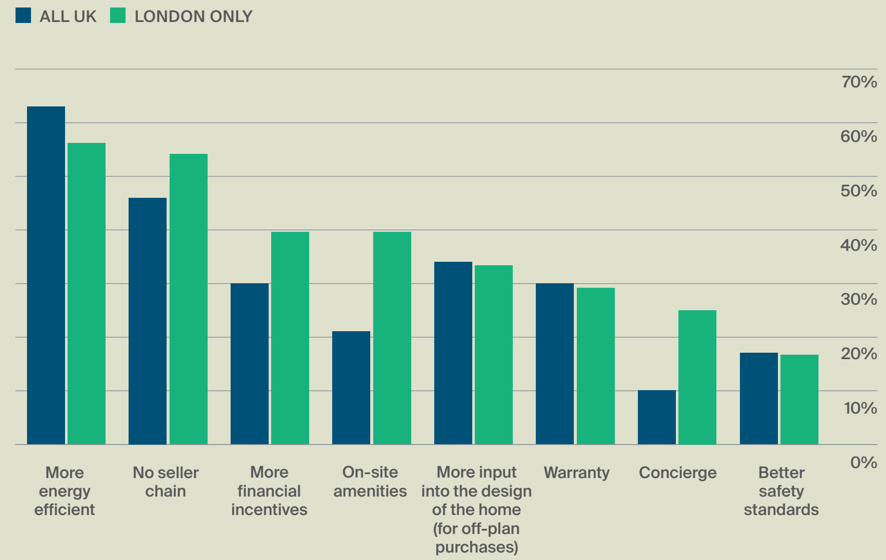
LONDON SALES MARKET

The London sales market has picked up following a recent decline in borrowing costs. We are predicting Greater London house prices will rise this year by 2% and next by another 2%.

On August 1, 2024, the Bank of England's Monetary Policy Committee (MPC) voted to lower the base rate from 5.25% to 5% (see figure 9). This was the first time rates had dropped since March 2020, when the UK entered the first Covid lockdown. Rates have eased a little following the rate cut. The best five year fixed rates are below 4%, but most borrowers are opting for two-year products, the cheapest of which can now also be found below 4%. Previously mortgage rates had climbed dramatically as the Bank of England increased the base rate more than a dozen times, from 0.10% in December 2021 to a peak of 5.25%. It is early days, but mortgage rates are falling into territory that will give buyers more confidence and support a fuller recovery of the sales market.

"We are predicting Greater London house prices will rise this year by 2%."

Fig 10: What most appeals to you about a new build home?
% of respondents



Source: Knight Frank sentiment survey 2024

Fig 11: Forecasts: Greater London

	Prices	Rents
2024	2%	5.5%
2025	2%	3.5%
2026	3%	3.0%
2027	4%	3.0%
2028	4%	3.0%
2024-2028	**15.9%**	**19.3%**

Source: Knight Frank Research

Permitted development – New homes boost for London?

London sees first slug of applications to convert large offices into flats since 2021

Earlier this year, the government loosened restrictions around the conversion of commercial buildings to residential. Previously, the permitted development space cap was 1,500 square meters. However, as of March this cap has been removed.

Over the course of the following six months, developers in London have put in applications to build 1,875 new homes on sites which involve converting a commercial building of at least 1,500 square metres, according to analysis of council planning websites and Molior London.

Stripping out a rush of applications in 2021 before the space cap came in, it is the highest volume of applications for large 1,500 sq m plus commercial-to-residential conversions recorded over this six-month period to end August in nearly a decade (see figure 14). This demonstrates the relaxation of the space cap is already leading to a pickup in new homes coming forward.

However, for context, 1,875 homes represents around 5% of total annual London housing delivery, which was 35,000 in the year to the end of March 2023. Plus, a number of councils have already refused some of the larger applications, resulting in around 300 homes being blocked since March.

It is nearly 20% higher than the 1,400 homes that came forward in the same time-frame pre-pandemic in 2019 (looking at applications to convert an office of at least 1,500 sq m between March and August). But well below the volume shortly before the space cap came in. In the six months to end August 2021, applications for 3,375 homes came forward, although it's worth flagging that schemes totaling 700 homes were refused in the end.

However, some London councils are making moves to limit the number of conversions, such as by consulting on Article 4 Directions, a part of planning legislation that allows the council to remove permitted development rights from an area. That means that there is now a tight window for developers and office landlords in some areas of London to press ahead with the 'prior approval' process – which typically takes at least two months.

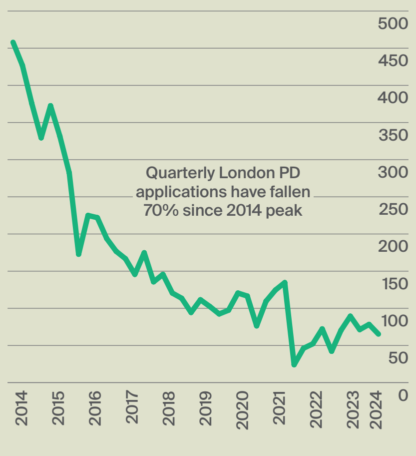
Since March, 24 large schemes have emerged across 12 London boroughs, with major projects in Croydon and Hounslow. The latter borough has four applications for over 100 units each, including converting a Dell EMC office into 206 flats and two towers of Great West House into 263 flats. In Croydon, there are proposals to convert the "50p Building" into 250 flats and The Landsdowne Building into 118 flats.

In central London, prominent schemes include One Bessborough Gardens, a former MI5 spy school. Developer Firethorn Trust has secured permission to convert the office building into 53 homes.

Although almost 2,000 homes have been proposed since the size cap was lifted, this represents just a fraction of London's identified housing need for 80,000 homes per year.

Fig 12: Permitted development applications plunge – London

Commercial to residential



Source: Knight Frank Research, MHCLG

Key takeaways

1,875

Total volume of homes developers have put PD applications in for to convert from large commercial spaces since March 2024

1,500sqm

The space cap in place since August 2021 up to March 2024 on all permitted development from commercial buildings to residential

20%

Increase in the number of homes coming forward in the six months to end August 2024 via PD conversions from large commercial spaces compared to the same time-frame in 2019

102,830

New homes were delivered in England through change-of-use permitted development rights between 2015 and 2023. Over a fifth of these were located in London

6,000

Homes were built via permitted development in London at the peak of the market in 2016-17

24

Large schemes have come forward via PD applications across London since March 2024 after the size cap was lifted

"Between 2015-16 and 2022-23, 102,830 new homes were delivered in England through change-of-use PDRs."

SPACE CAP HITS

The space cap to restrict the conversion of commercial property into residential to 1,500 sq m first came into effect from 1st August 2021. It was a significant variation on the previous no limit and led to a steep drop in PD applications in London and across the country (see figure 12).

However, these had already been trending heavily downwards since the early shake-up of permitted development rights in 2013 to speed up the construction of new homes. So although application volumes have picked up, they are far off levels seen back in 2014 and 2015.

"Since March, 24 large schemes have come forward across 12 London boroughs."

SCALE OF PERMITTED DEVELOPMENT IN THE CAPITAL

Between 2015-16 and 2022-23, 102,830 new homes were delivered in England through change-of-use PDRs, according to MHCLG data. Most of these homes (89%) were created through the conversion of offices and other commercial, business and retail units.

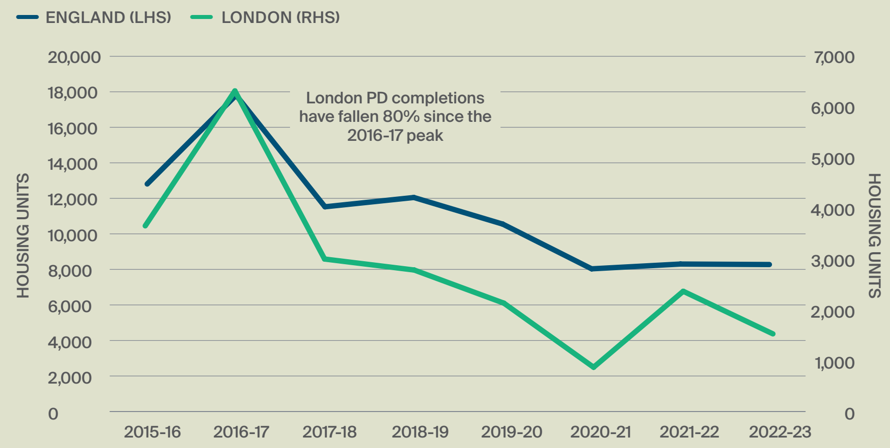
Over a fifth of these homes were located in London.

Between April 2022 and the end of March 2023, the capital delivered 1,523 homes via PD converting commercial premises into flats, which is down 35% compared to the previous year.

The peak came in 2016-17, when over 6,000 homes were delivered in London and 18,000 in England through the conversion of offices into flats (see figure 13).

Fig 13: Fall in permitted development in England and London

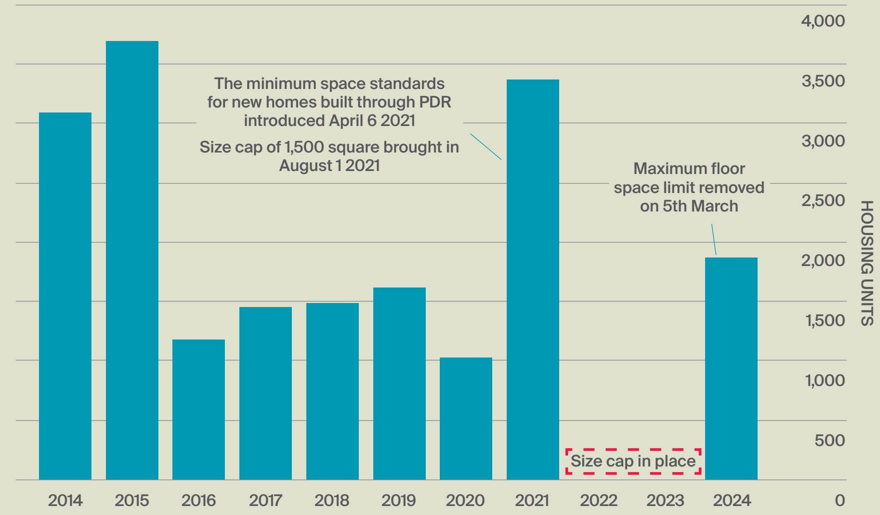
Commercial to residential new build completions



Source: Knight Frank Research, MHCLG

Fig 14: Number of homes proposed from large office conversions in London

Number of units in applications (submitted March to end August of each year) to convert 1,500 sq m plus commercial buildings



Source: Knight Frank Research, Molior

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Residential Research
Anna Ward
Associate
07971 014769
anna.ward@knightfrank.com

Raul Cimesa
Partner,
Head of London New Homes
+44 20 7718 5227
raul.cimesa@knightfrank.com

Emma Fletcher-Brewer
Partner, Department Head
+44 20 7861 1705
emma.fletcher-brewer@knightfrank.com

Priya Black
Partner, Department Head
+44 20 7861 5489
priya.black@knightfrank.com

Seb Warner
Partner, Department Head
+44 20 7861 5426
seb.warner@knightfrank.com

Nick Parr
Partner, Department Head
+44 20 7718 5224
nick.parr@knightfrank.com

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