



London's housing market has stalled – but capital hasn't left the city

News by Joe Freedman

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Residential London



London isn't suffering from a lack of housing demand. It's suffering from a failure to

deliver.

Data from Molior underlines the scale of that failure. Just 5,547 private homes broke ground across the capital last year, an 84% drop from a decade ago. Against an annual requirement of roughly 88,000 homes, development has slowed to a trickle. Even with a modest uptick in starts toward the end of 2025, the pipeline remains deeply inadequate: Molior expects only around 14,000 homes to complete in 2027 and 2028 combined, a more than 90% shortfall.

For anyone active in real estate, this isn't a surprise. Strong structural demand collides with projects that no longer stack up. This isn't a demand crisis. It's a viability crisis.

The maths no longer works

Across much of the market, the numbers have shifted decisively against developers. Construction inflation, labour shortages, higher debt costs and regulatory changes, particularly around fire safety and cladding, have pushed budgets up sharply. Planning delays only compound the problem, leaving schemes exposed to months or years of uncertainty.

Crucially, the imbalance is most acute where London needs homes most. Delivery costs increasingly price new-build stock above where the bulk of demand sits. Developers are being asked to produce mid-market housing at prices that only prime-level sales can support. The result is predictable: schemes don't launch, sites stall and supply quietly dries up.

Sales rates have softened too. Higher mortgage costs, weaker buyer confidence, rising incentives and reduced cashflow visibility make pre-sales harder to achieve. Without strong pre-sales, lenders and equity providers are cautious. Thousands of homes have stalled mid-construction. Others never leave the drawing board. Supply freezes not with a crash, but with a growing pile of "almost viable" schemes.

Yet while mainstream development struggles, capital hasn't abandoned London. At the top end, activity is returning. After several years of price correction, prime and super-prime London property increasingly looks like relative value globally. More than £1bn of £15m-plus homes traded last year, with buyers from the Middle East, South Asia, China and North America stepping in. London still offers political stability, legal security, global connectivity and cultural pull.

Tax changes and softer pricing have reset expectations rather than killed demand, narrowing the gap between buyers and sellers, and bringing liquidity back to best-in-class stock. Volume-led, mid-market schemes remain hardest to finance, while scarce, high-quality assets in prime locations continue to transact. Confidence in London itself remains intact. What's changed is how risk is priced.

Capital today is selective, not scarce. Lenders and investors focus on experienced

sponsors, clear demand, strong locations and defensible downside cases. Increasingly, value lies in complexity, repositioning older stock, navigating building safety works or structuring finance creatively, rather than straightforward leveraged development. Expertise now matters as much as capital.

For those able to manage planning risk, control costs and deliver genuinely differentiated product, a clear route to execution remains. But the days of easy underwriting are over.

A long way to go

The collapse in housing starts should be a wake-up call for policymakers. The government has put housebuilding at the centre of its growth agenda, yet London is on course to miss its targets by a wide margin. Ambitious targets are meaningless without practical delivery: faster, more consistent planning decisions, regulatory clarity and policy frameworks aligned with today's build costs.

Recent improvements in activity are welcome, but they barely dent the shortfall. London still has a long way to go before supply and demand are even close to balanced.

It would be wrong, however, to interpret the slowdown as structural decline. London's fundamentals, population growth, deep employment markets, world-class education and constrained land, remain unchanged. Nor has its ability to attract global capital.

What we are seeing is a market recalibrating after sharp cost inflation and higher rates. For developers, lenders and investors, the message is clear: this isn't a city to retreat from. It's one that demands sharper underwriting, greater discipline and a more hands-on approach to risk.

The need for new homes has never been greater. The challenge isn't demand. It's making the numbers work so those homes can actually be built.

Joe Freedman is head of origination at Ask Partners

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