UK housebuilding

Spiralling costs stall London housing projects

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Spiralling construction costs have stalled a series of residential building projects across London, with several developers seeking to renegotiate with planners on the grounds that their schemes have become unviable.

A shortage of labour has driven London construction costs steeply upwards. According to contractor and developer estimates, they have risen by as much as 10 per cent in the past year and Arcadis, a consultancy, said they were now the world's second-highest after New York.

Galliard Homes, a private developer with £3.6bn of projects under construction, said its Capital Towers development in Bow, east London, had become unviable in its current form because of "high build cost inflation in 2014 into 2015, with particular works packages inflating significantly beyond the average rates of increase".

It has applied for a cut in the payments it must make to the local authority in lieu of constructing affordable homes. The reduction in the obligatory payment aims to restore the developer's profit margin.

Loromah Estates, a developer building 71 apartments, late last year secured concessions from the London borough of Lewisham on its affordable homes contribution, on the grounds that "abnormally high construction costs" had made the project unviable. A 34-unit scheme in Woolwich secured similar concessions in May this year, citing costs.

Another developer, Essential Living — which builds homes for rent — this year scrapped its main contractors on a project in London's Docklands as part of a company-wide effort to control costs. But it still does not have a start date for the scheme, originally slated to begin in 2014.

"This is a pretty widespread issue in the industry at the moment," said Mark Farmer, chief executive of Cast, a planning consultancy.

"There are some examples where schemes might not go ahead because of these issues."

Arcadis said in a report that “unpredictable patterns of high inflation affecting the cost of labour and profit margins have made accurate prediction of construction prices very difficult”.

The rise in costs is particularly painful for residential developers in the capital, said Mr Farmer, since rapid price growth for new London homes has slowed and, at the top of the market, reversed.

Michael Dall, chief economist at Barbour ABI, a construction consultancy, said: “The developers may have agreed the contracts in the halcyon days when it seemed the residential boom would never end and they were a lot more optimistic about margins.” However, he added: “Private housebuilding is still growing, still profitable and still a very good industry to be in.”

Mr Farmer said a “self-checking” mechanism might take effect as “the big contractors in the market are starting to be a bit more concerned about biting the hand that feeds them”.

A subsidiary of Galliard has applied to the London Legacy Development Corporation, a planning authority, to cut its affordable housing payment on the basis that its profit margin on the Bow project had dropped to 1.3 per cent from a planned 20 per cent when it initiated the project. The application was first reported by Vice News.

Galliard said in a statement: “This particular viability has been materially affected by sharply increased construction costs during the build programme.”