Clouded horizon: while many central London office schemes are under way, developers are finding it hard to steer future projects through planning

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A tale of two cities' planning woes

Market participants in the capital say development is grinding to a halt in the City of London and City of Westminster, as additional layers of planning requirements take their toll. **Tim Clark** reports

In terms of economic growth, the City of London and the City of Westminster could be considered the geese that lay the golden eggs. For centuries, the two boroughs have powered the London and wider UK economy, acting as a magnet for business, entertainment and international investors.

However, according to many developers, the advantage of holding one of the most sought-after spots on the global property map has been eaten away by a string of planning hurdles that are grinding development to a standstill.

In March 2024, Westminster introduced draft proposals for a retrofit sequential test. Under the proposals, applicants seeking demolition must pass a four-stage assessment including whether the structure is sound and could be repurposed; if retrofit could deliver operational needs and other obligations; if redevelopment will cut whole-life carbon; and whether demolition delivers extra public benefits.

While the draft retrofit-first policy is not yet formally adopted, it still carries some weight when it comes to planning applications.

"They [Westminster] are hell bent on bringing in this retrofit-first policy," says Matt Richards, director in the London planning team at Savills. "It has been through an examination in public [by a planning inspector in early May] and got an absolute grilling, especially on certain aspects of the sequential test."

The planning inspector is due to release a report in the autumn that is expected to recommend some modifications, but no significant changes, to the policy, including the sequential test.

Strict rules

A number of other London boroughs have brought forward retrofit-first proposals. The City of London published its draft Carbon Options Guidance Planning Advice Note in 2022, while Camden published its own plans in 2024. However, one industry expert tells *Property Week* they believe the rules Westminster is proposing are far too strict.

"When they [Westminster] launched the retrofit policy for consultation, the embodied carbon limits were so tough all you'd be able to do would be to paint a building," they said. "You wouldn't get anything through planning."

The new rules have raised concerns because of their impact on development in the borough's core economic zone.

According to the Westminster Property Alliance (WPA), in the 10-year period from 2013 to 2023, there was a 54% decline in major planning applications across what is dubbed the Central Activities Zone (CAZ) – an area of central London that spans several boroughs. Of all central London boroughs, Westminster saw the sharpest decline, with a 75% reduction in major schemes. By comparison, Tower Hamlets posted a 53% decline and the City of London a 17% drop.

Other factors have, of course, contributed to the slowdown in development: the UK and London economies have had to contend with headwinds in the past decade including Brexit, the Covid-19 pandemic, the war in Ukraine, a cost-of-living crisis and a rise in borrowing costs.

However, the additional planning burdens on developers in central London have set off alarm bells in the real estate sector.

Property agents *Property Week* has spoken to say that overzealous local planning regimes have made it far more difficult to gain consent. The list of planning validation requirements for Westminster, updated in March 2024, runs to 28 pages. It includes nine national requirements and 44 local requirements.

"I think it's developed into a perfect storm," says Paul Brailsford, partner at law firm Freeths. "Westminster adopted their local plan in April 2021, effectively enshrining the New London Plan policies, which were more onerous in terms of requirements on new developments, whether from sustainability criteria, urban greening or affordable housing contributions; the bill just goes up and up at a time when you also have build-cost inflation."

A report by the WPA reveals that despite the opening of Crossrail, Westminster's CAZ lost 3.7m sq ft of office space between 2019 and 2023. Total office floorspace in the borough's CAZ area fell by 6% in the four-year period.

"There seems to be a disconnect between local authorities' understanding of how commercial development, particularly the office sector, works," one central London agent tells *Property Week*, speaking on condition of anonymity. "They are putting in various hurdles and regulations and embodied carbon targets, which, on paper, everyone's largely aligned to, but the practicalities of delivery change from site to site."

Other agents *Property Week* has spoken to have considered moving staff from their central London teams to other areas such as outer London where there is a bigger workload.

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> **Paul Brailsford,** Freeths

The City of London generates £109.2bn of economic activity per year, with Westminster generating £94.8bn, far exceeding the next most prosperous borough or council in the country, Tower Hamlets – which includes Canary Wharf – on £44bn. Behind that is Camden at around £40bn. In GDP terms, London's two designated cities are in a league of their own. This makes any slowdown in activity important not only locally but for the UK government.

"We all recognise the social and economic benefits of development and investment and share a desire for the city's residents to benefit from Westminster's status as a world-leading destination for businesses, retailers and visitors," says James Raynor, chair of the WPA and chief executive of Grosvenor Property UK.

"Supporting growth while also delivering the council's wider policy ambitions is not straightforward and we commend the recent pragmatism and flexibility the administration has demonstrated to balance these objectives, as well as its commitment to improving planning performance."

City slowdown: between 2013 and 2023, the number of major planning applications fell 75% in the borough of Westminster

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A report by Savills in January highlights the issue at hand. While at first glance, office development looks healthy, with development completions expected to reach 29.2m sq ft in the next four years and 20% of space already pre-let, the report states that work is yet to start on 40% of the space scheduled for development.

"With cost pressures and viability-related pressures adding to the pressure on project timescales, actual completions are unlikely to reach these [expected] levels," it says.

Not taking risks

Richards adds: "It is fairly quiet in central [London] at the moment. People are moving on schemes that are fairly easy, but they're not wanting to take many risks.

"In central parts of Westminster, people are looking at sites, but only really looking at them seriously if they're PD [permitted development] places, so you can convert from office to resi without prior approval. That way you don't get hit with all the policy requirements."

Freeths acts on a number of commercial deals across London at any one time and Craig Jones, partner in the London real estate team, says the firm has noticed the impact of more stringent planning requirements.

"We are advising on quite a significant bit of basement space, around 90,000 sq ft, in Westminster, and navigating through all of the requirements – from BREAAM to demolition to reuse of materials – is a major headache for developers," he explains.

> **Navigating through all of the requirements is a major headache for developers**
> **Craig Jones,** Freeths

"When it comes to sustainability, the cost involved is significant, on top of what's already a very expensive process when you look at the development chain, whether it's the cost of finance or something else. We used to put six months into the programme [to gain planning consent] – now all bets are off. [The time taken] to negotiate and document Section 106 agreements runs into years."

Richards says additional planning requirements have snowballed as layers of additional rules have been adopted incrementally over the past decade. "Ten years ago, we had affordable housing [requirements], but didn't have CIL [Community Infrastructure Levy] costs, biodiversity net gain costs, carbon offsetting payments or urban greening. It is layer upon layer," he adds.

"Now we also have [a requirement for] green roofs, which means you need to build a bigger structure to hold the weight of the roof, as well as [Building Safety Regulator] gateway 2 and fire regulations coming in. You have the planning regime doing this, then you have officers sometimes being inflexible in how [policy is] applied and resistant to getting a certain quantum of development to make a scheme stack up," Richards adds. "It's not surprising that you're seeing a massive slowdown in development, in major applications in particular."

> **It's not surprising that you're seeing a massive slowdown in development**
> **Matt Richards,** Savills

A shift of responsibility for construction from building control to local planners has also been pinpointed as a cause for delays. Matters that previously fell outside the planning regime have been caught up in it over recent years.

'Complex, convoluted system'

For example, other industry professionals say fire safety should remain a building control issue, not a planning one. One expert notes that front-loading such considerations into what is "already a complex, convoluted system" adds to the burden.

Many planning policies are set nationally and beyond the City of Westminster's control. However, with the government now looking to overhaul the Building Safety Regulator, analysing the overall volume of planning criteria could be a worthwhile task.

Richards points out that when it comes to major applications, the same rules apply if you are building a 20-home scheme or a 200-home scheme. For offices, it's the same if it's a 20,000 sq ft or a 200,000 sq ft scheme.

"They are still being hit with all these onerous policy requirements and it's just not stacking up for people," he says. "Carbon reduction is a good one in principle, but you need to balance that with other factors. And you need planning officers who can make decisions on all the factors in play. You can't tick every single box on every application."

Westminster Council had yet to comment as we went to press, but sources close to it tell *Property Week* that it has listened to developers' concerns and also took in evidence from the recent planning inspector's examination.

With the sequential test setting out so many hoops to jump through, trade-offs to get schemes through planning look to be off the menu. And until a more practical system comes into force, developers have simply pressed pause. ■