

# Welsh Housing Market and Supply Update

## Strong short-term recovery, but uncertain few months ahead

The Welsh housing market had a strong recovery following the first lockdown. There is likely to be volatility in the next nine months until medical advances allow a more sustained economic recovery. This recovery, combined with the relative affordability of Welsh housing, should enable annual house price growth from 2022 of 5% or more.

### Pent-up demand supports transactions and price growth

High levels of market activity are likely to continue over the next few months supported by the release of pent-up demand and households re-evaluating their housing needs. In October, the vast majority of surveyors saw increased new buyer enquiries, according to the RICS survey. Market activity will also be supported until March 2021 by the higher Land Transaction Tax cap of £250,000, up from the usual £180,000.

Agreed sales in August were over 55% above the same period in 2019, according to data from TwentyCi. Before the recent firebreak lockdown, the demand surge appeared to have peaked with agreed sales in the month to 25 October down to 43% above the same period last year. The firebreak lockdown renewed restrictions on estate agents and agreed sales dipped in the first week of the firebreak lockdown. But we expect agreed sales to rise again now that this second lockdown has ended, albeit less sharply than in the summer.

More rural local authorities have seen the highest levels of sales agreed compared to 2019. Sales agreed during September and October in Monmouthshire and Pembrokeshire were both at over 75% above the same period in 2019 compared to 39% above for Wales as a whole.

High house price growth in Wales may continue over the next few months. Prices in Wales grew by 3.8% in the year to September, according to Nationwide. All respondents reported price growth during the previous three months in the October RICS survey. Surveyors' expectations for the next three months were weaker, but they also reported demand expanding

faster than supply, which may drive further growth.

Across the UK, we expect prices to be flat in 2021, as the economic impact of Covid-19 hits before medical advances allow a more sustained economic recovery in the latter part of the year. Longer term, we expect the relative affordability of Welsh housing to enable higher annual price growth from 2022 of 5% or more each year, with five-year growth ahead of the UK average, at 22.3%.

The average rent increased by 2.5% in Wales over the 12 months to September, according to Zoopla, and by 1.5%, according to ONS. In all local authorities, excluding Denbighshire, rents grew, according to Zoopla. Unlike London and Edinburgh, rental growth in Cardiff remained positive at 1.8% over the same period.

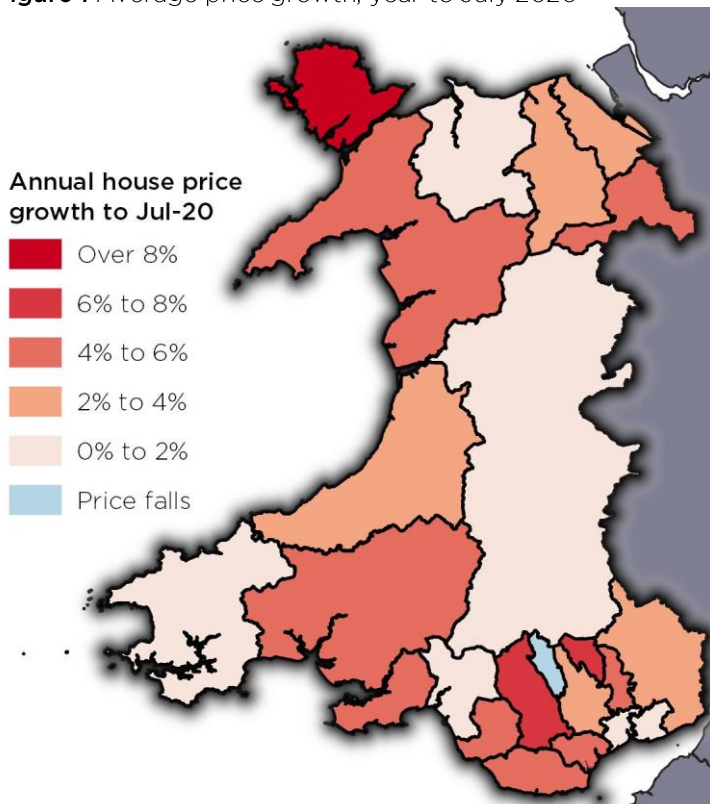
### Delivery of new homes bounced back

Half the number of new homes were delivered in Q2 2020 compared to the same quarter of 2019 as a consequence of lockdown restrictions. Throughout the summer, builders managed to reopen sites and build capacity. During the recent firebreak lockdown, construction was allowed to continue.

The rate of new housing delivery has now recovered to 2019 levels: completions in the four weeks to 8 November stood at 891 homes, 15% above the same period last year. But starts have been slower to recover and remain 27% below the same period in 2018 and 2019.

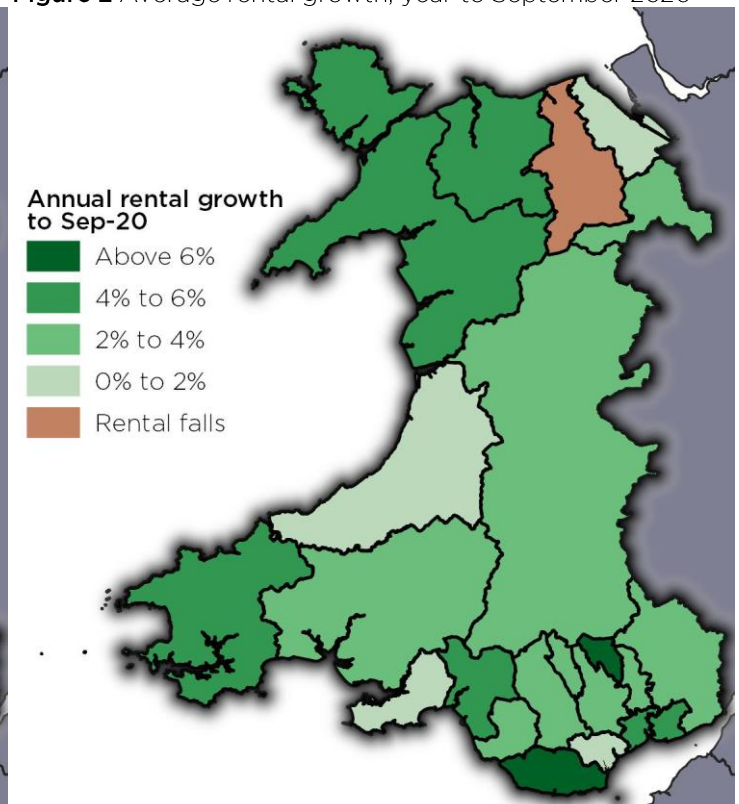
Economic uncertainty over the next nine months may mean developers continue to focus on completing sites rather than starting new ones. But confidence will be supported by the extension of Help to Buy which was due to end in Wales on 31 March 2021. It will now continue until March 2022, possibly March 2023, if funding can be secured. Similarly to all regions in England, except London, a lower price cap (£250,000 in Wales) will be introduced alongside the extension.

**Figure 1** Average price growth, year to July 2020



Source HM Land Registry, 6 month smoothed\*

**Figure 2** Average rental growth, year to September 2020



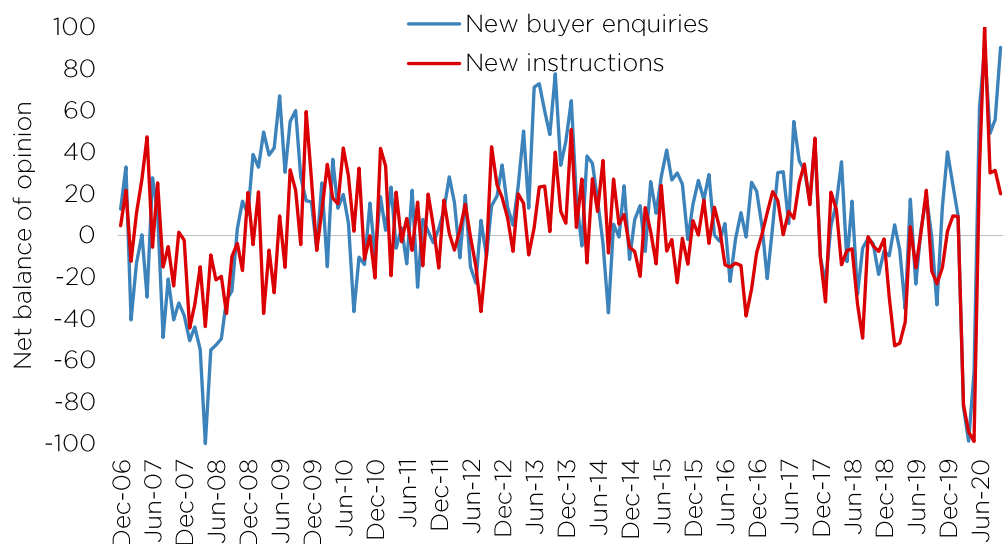
Source Zoopla Rental Index - powered by Hometrack

Following the partial reopening of the Welsh housing market from June, activity rebounded strongly in July with the vast majority of Welsh surveyors reporting rising new buyer enquiries and all respondents reporting rising new instructions.

Since then, the balance of surveyors seeing rising instructions has continued to be positive but has been slipping back from the July peak. The balance of surveyors reporting rising new buyer enquiries rose back to July levels in October having fallen in August and September.

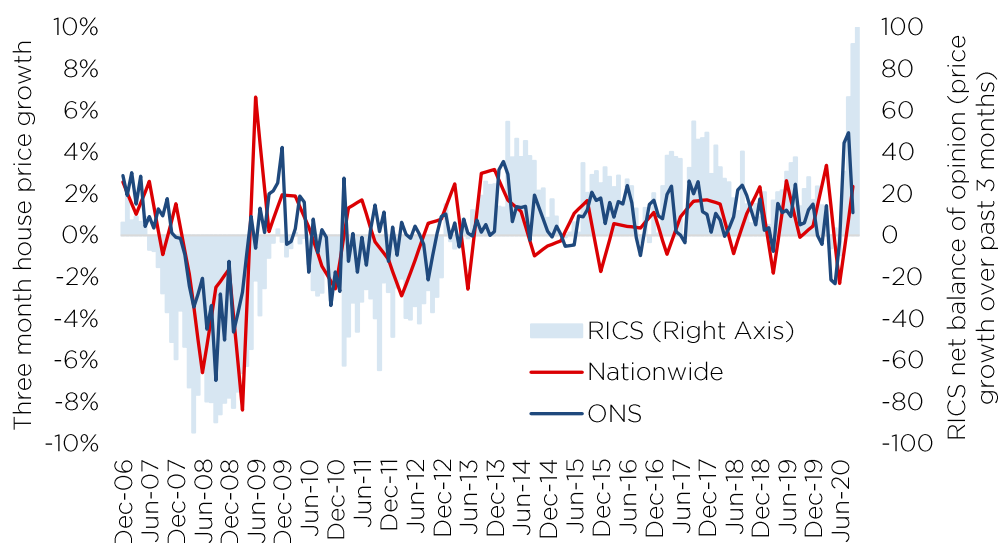
This excess of demand over supply may drive further strong price growth over the next few months.

**Figure 3** Activity remains high, with demand rising more than supply



Source RICS (seasonally adjusted)

**Figure 4** Price growth high for now



Source RICS (seasonally adjusted), Nationwide, ONS

Both Nationwide and ONS suggest there was a slight dip in prices during April and May but that prices have grown as the market emerged from lockdown. Nationwide states that prices grew by 2.4% in the three months to September and ONS that prices grew by 1.1% in the three months to September.

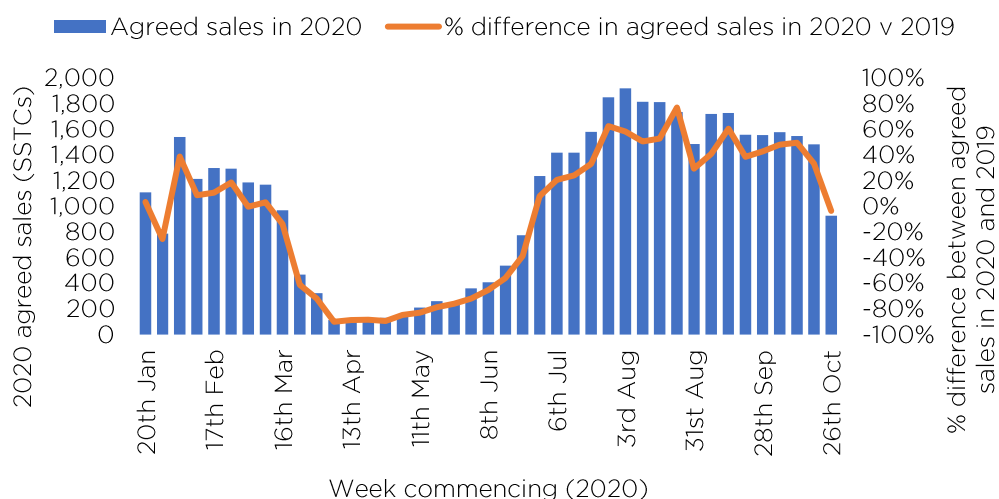
This high house price growth is echoed in the October RICS survey, where in the three months to October, all respondents reported house price growth.

Agreed sales were over 70% lower through April and May compared to the same period in 2019.

Following the partial reopening of the Welsh market in June, there was a surge in demand, with agreed sales subject to contract (SSTCs) in the month of August running at over 55% above the same period in 2019. Before the firebreak lockdown, pent-up demand appeared to be past its peak with agreed sales in the month to 25 October down to 43% above the same period in 2019.

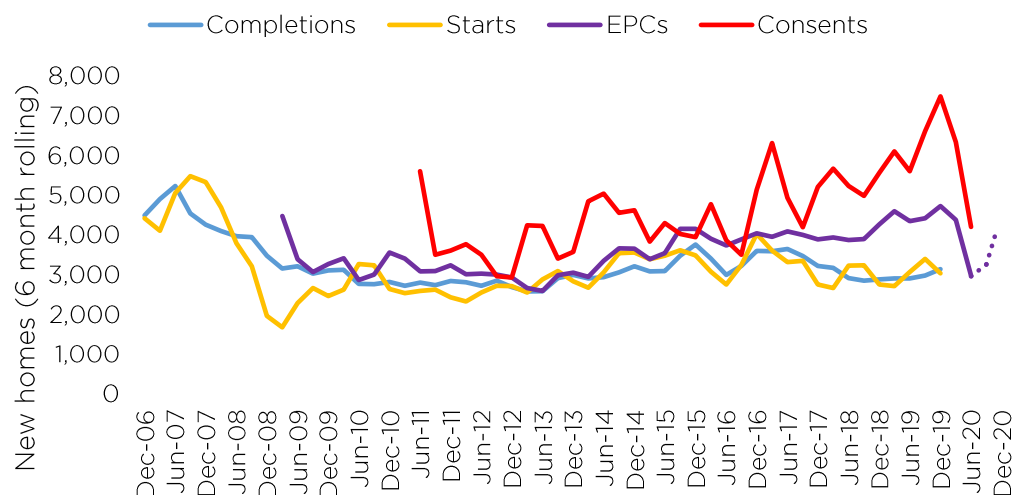
Sales agreed fell from 33% above the same week in 2019 in the week before the firebreak lockdown to 3% below the same week in 2019 during the first week of firebreak lockdown.

**Figure 5** Recovery in sales agreed has peaked



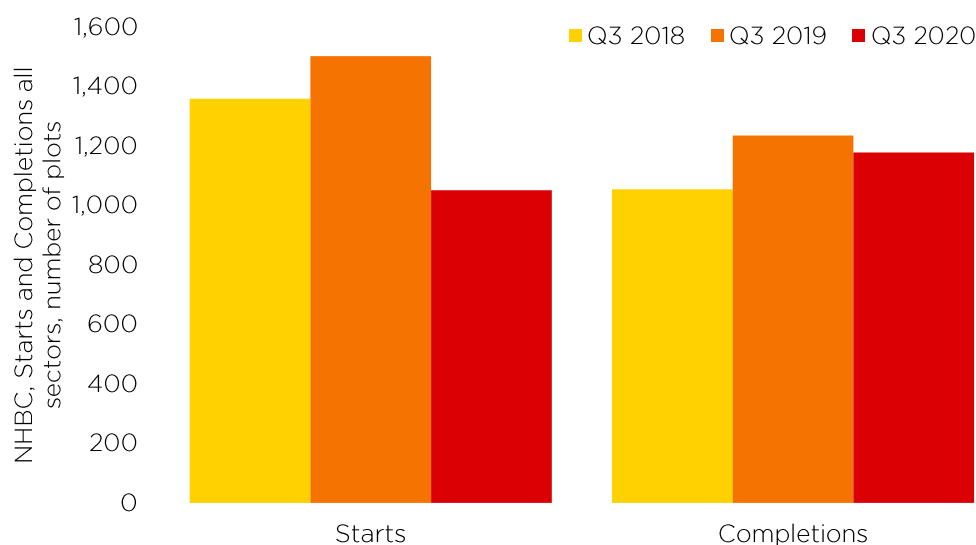
Source Savills using TwentyCi

**Figure 6** New build supply recovering after lockdown



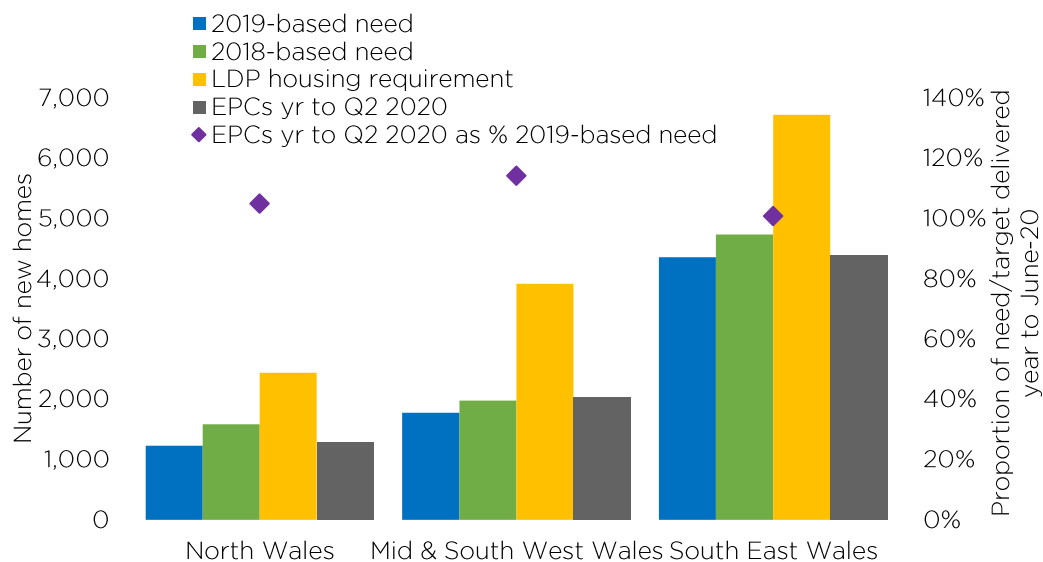
Source MHCLG Table NB1 and Weekly EPCs, Stats Wales and Glenigan for HBF, EPCs from July 2020 estimated using weekly data

**Figure 7** Completions recovering faster than starts



Source NHBC

**Figure 8** Housing need met despite lockdown



Source Stats Wales, LDPs and MHCLG Table NB1

Following record delivery in 2019, the first lockdown caused a significant fall in the completion of new homes. In Q2 2020, 1,098 homes were delivered, 50% below the 2,216 homes delivered over the same period in 2019. However, supply has recovered and completions in the four weeks to 8 November stood at 891 homes, 15% above the same period last year.

In Q2 2020, there were 1,255 planning consents, 50% below the 2,520 consents in Q2 2019. However, this is likely to rise as virtual planning committees become more established.

NHBC data does not capture all new homes being built but does give a timely update on direction of travel for new build delivery.

Whilst completions have been recovering to 2018/2019 levels, starts on plots have been slower to recover. Plot starts in Q3 2020 were 27% below the average number of starts in Q3 2018/2019, according to NHBC.

In August 2020, new housing need figures were produced based on new household projections. This has led to assessed housing need falling in all regions and opened up an even greater disconnect between these numbers and Local Development Plans. Many updates of these plans have been delayed by Covid-19.

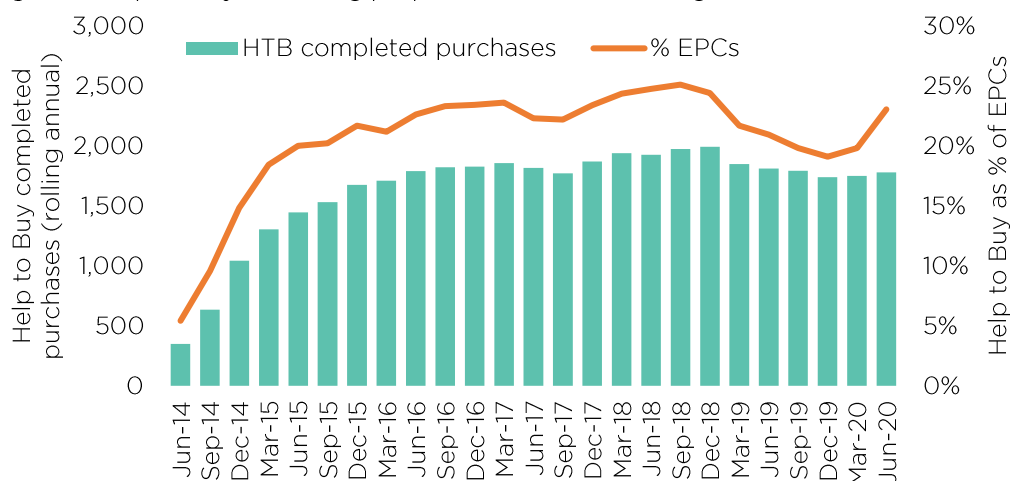
Despite falls in completions during Q2 2020, the lower level of need meant that delivery still exceeded need in all Welsh regions.

Reliance on Help to Buy in Wales has been falling, with the scheme supporting only 19% of all new homes sales in the year to December 2019. But its share of the market has risen through 2020.

The Help to Buy scheme in Wales has now been extended to 2022 and possibly 2023.

There is a new price cap of £250,000, down from £300,000. In the year to July 2020, 19% of new homes were priced between these caps and would now be excluded.

**Figure 9** Help to Buy increasing proportion of market through 2020

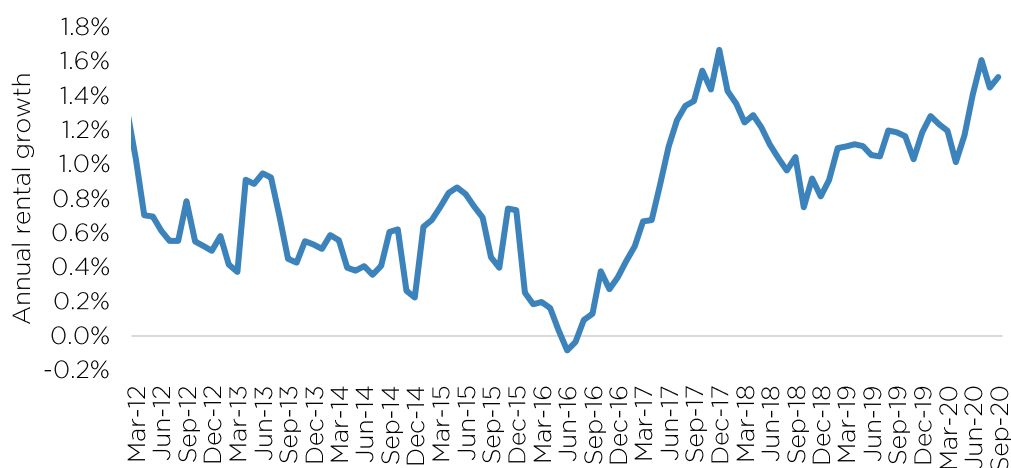


Source: Stats Wales and MHCLG Table NBI

In the year to September 2020, rental growth was 1.5%, according to the ONS. Rental growth in Wales has risen marginally since early 2020 when rental growth was between 1% and 1.25%.

The vast majority of Welsh surveyors saw tenant demand increase over the three months to October, whilst only a slight majority saw increased landlord instructions, according to the October RICS survey. This is likely to support rental growth in coming months.

**Figure 10** Positive rental growth



Source: ONS

**Table 1** Recent house price growth

	Nationwide (UK Sep-20; Wales to Q3)			ONS (to Sep-20)			Savills (to July-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.9%	4.6%	5.0%	1.8%	2.6%	4.6%	0.4%	0.6%	2.6%
Wales	-	2.4%	3.8%	-1.1%	1.1%	3.8%	0.2%	0.6%	3.7%

Source: Savills using HM Land Registry and Registers of Scotland\*, Nationwide quarterly data (seasonally adjusted), ONS (seasonally adjusted)

**Table 2** House price forecasts – First published September 2020

	H1 2020 (Actual)	H2 2020 (Forecast)	2021	2022	2023	2024	5yrs to 2024
UK		4.0%	0.0%	4.0%	6.5%	4.5%	20.4%
Wales	1.7%	1.0%	0.0%	5.0%	7.5%	5.5%	22.3%

Source: Savills

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\*Savills index is an unadjusted repeat sales index based on HM Land Registry and Registers of Scotland price paid data. Note that Savills national index (labelled UK) is for Great Britain, not including Northern Ireland.

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