

Welsh Housing Market and Supply Update

Activity improves and prices rise, but development remains challenging

House prices and sales activity in Wales have risen in 2024. An improved macroeconomic outlook has caused mortgage rates to fall to their lowest in two years, improving confidence and increasing demand in the sales market. As rates fall further, capacity for price growth will open up gradually, and sales activity should increase further.

Planning consents remain at historically low levels, falling below the number of completions. This will lead to falling completions in the coming months. The CMA has blamed the planning system, and a lack of clarity and consistency from Local Planning Authorities (LPAs), for the weak numbers.

Prices set to rise as improvement in demand continues
We expect house prices in Wales to outperform the UK average over the next five years at 25.2%. Supply and demand in Wales are both strong, suggesting near-term growth will be moderate. But affordability in Wales is less stretched than elsewhere, so as mortgage rates fall over the next few years and affordability improves, prices will grow more strongly.

House prices in Wales rose by 2.5% in the year to Q3 2024, according to Nationwide, leaving prices -3.1% below their late-2022 peak. Demand reached its highest level since 2021 in August, according to the RICS. Lower mortgage rates have improved confidence and have begun to improve affordability, although rates remain high in a recent historic context.

Market activity has also increased in 2024, as stronger demand has been met by increases in supply. In the five months since April, transactions have exceeded their 2023 level by 10%. But they remain below the 2017-19 average level by some way, falling -15% short since April. The pipeline of sales agreed has remained positive, but has fallen since the early part of the year. A continuation of the positive trends seen this year will rely on mortgage rates continuing to fall.

Annual price growth has varied across Wales. The Land Registry price index is lagged but is showing price growth in most local authorities during the year to June, led by the Isle of Anglesey (6.7%) and Merthyr Tydfil (6.3%). The largest falls were in South East Wales, including Blaenau Gwent, Newport and Bridgend.

Rental growth for new lets has fallen to 5.6% in the year to August, the lowest for more than three years, according to Zoopla. Worsening affordability means rents are beginning to reach a ceiling, with tenants not

being able to bid rents upwards any further. Growth is slowing as a result. Rental supply in Wales is low, with the number of listings available per branch in September -32% below the 2018-19 average, according to Savills analysis of portal data. Supply is likely to remain constrained, as UK Government proposals to mandate landlords upgrade their properties to an EPC C by 2030 may push landlords to leave the sector. But capacity for further rental growth is limited by affordability, so rental growth is still likely to moderate further from its current rate.

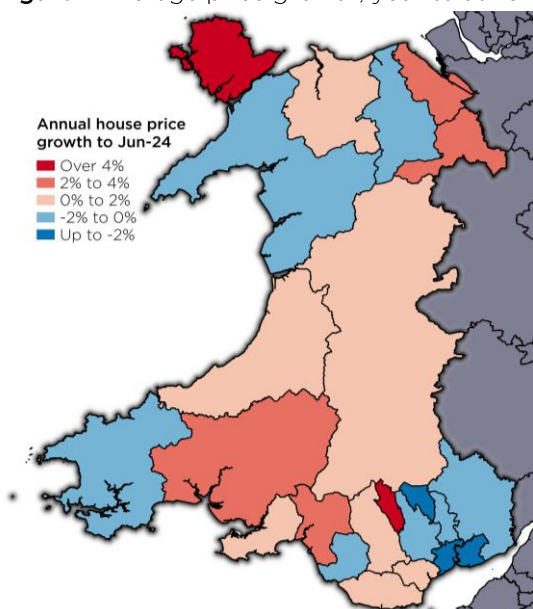
Consents at historic lows, with completions set to fall
New homes completions have been flat since the middle of 2023 on an annualised basis, according to EPC data, and remain -4% below the 2017-19 average. But starts have fallen away after increasing through 2023, with by far the lowest number of quarterly starts on record in Q1 2024 (exc. the pandemic), according to StatsWales.

And planning consents remain at historically low levels, with annualised numbers of consents at their lowest since 2012 excluding the pandemic. They have now fallen -41% since their 2022 peak, according to the HBF. The shrinking pipeline of new homes will lead to declining completions in the coming months.

Affordable housing delivery is under significant pressure in Wales. The Government has identified a pipeline of 19,913 homes for delivery by March 2026, against a target of 20,000. Build cost inflation in housing of 24% since the last Senedd election in May 2021 (BCIS) means that an additional £580m - £740m could be needed on top of existing budget assumptions to deliver these homes, according to Audit Wales. The new Minister for Delivery has pledged to “do what is necessary” to meet the target, and former Senedd minister Lee Waters has been drafted in to assess planning applications as they come forward. The latest data is provisional and somewhat lagged, but suggests affordable delivery fell short of need by -12% in 2023/24, and fell by -7% compared to 2022/23.

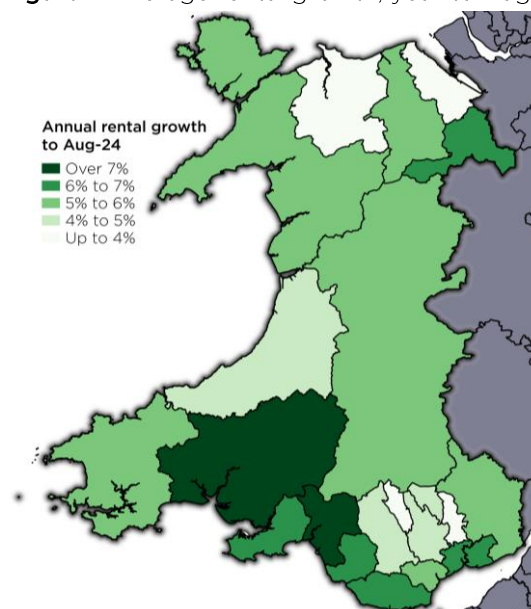
The Help to Buy Scheme has seen increased use, supporting more sales in Q2 2024 than any point since Q4 2021, but remains at just 31% of its 2017-19 level. The extended scheme is set to end in March 2025, meaning new homes will lose their competitive advantage in Wales. This will make development viability and new homes sales more challenging.

Figure 1 Average price growth, year to June 2024



Source HM Land Registry, 6 month smoothed*

Figure 2 Average rental growth, year to August 2024



Source Zoopla Rental Index - powered by Hometrack

Demand and supply in the sales market have both improved markedly in 2024. Most surveyors have reported rising demand and supply in the six months to September, with average net balances of +20 and +32 respectively.

Demand had been firmly negative for a prolonged period from March 2022, as the rising cost of debt limited buyer appetite. But an improved macroeconomic outlook and an associated drop in mortgage rates has allowed demand to recover. Supply has also risen, which suggests this is unlikely to fuel significant price growth, but may lead to higher levels of activity.

House prices rose by 2.5% in the year to September 2024 in Wales, according to Nationwide. Prices are now -3.1% lower than their Q3 2022 peak. Price growth was very strong in the first quarter of the year, growing by 1.1%, but has moderated since then.

Surveyors have reported price falls in most months of 2024, but reported growth in September, with a net balance of +2, according to the RICS survey.

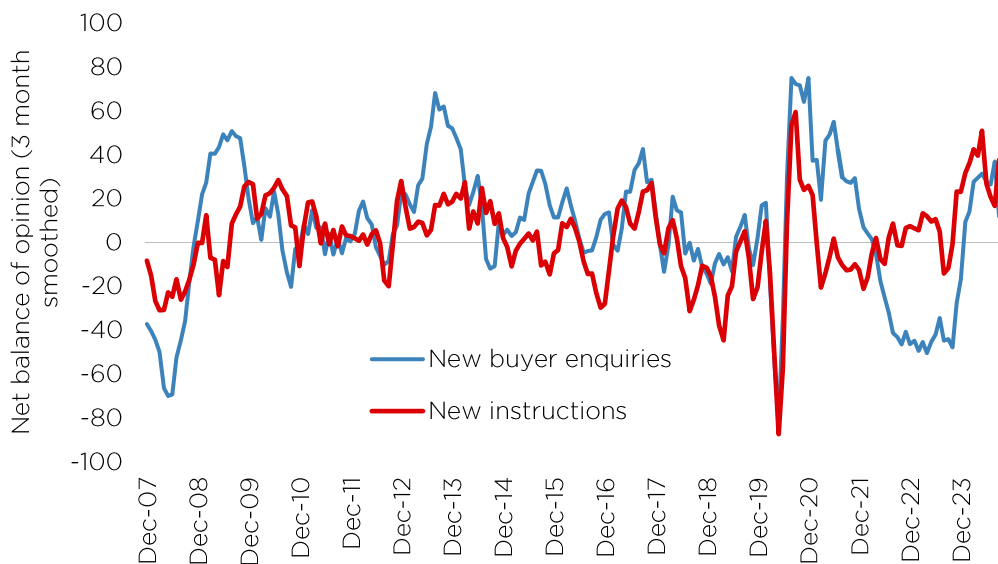
Surveyors' expectations for the next three months remain negative, with a relatively significant majority expecting price falls. With both demand and supply rising, this suggests that price growth is not guaranteed in the coming months.

Market activity has increased in 2024, as rising demand and supply have created a slightly more liquid market.

In the five months since April, transactions have exceeded their 2023 level by 10%. But they remain -15% below the 2017-19 average over this period.

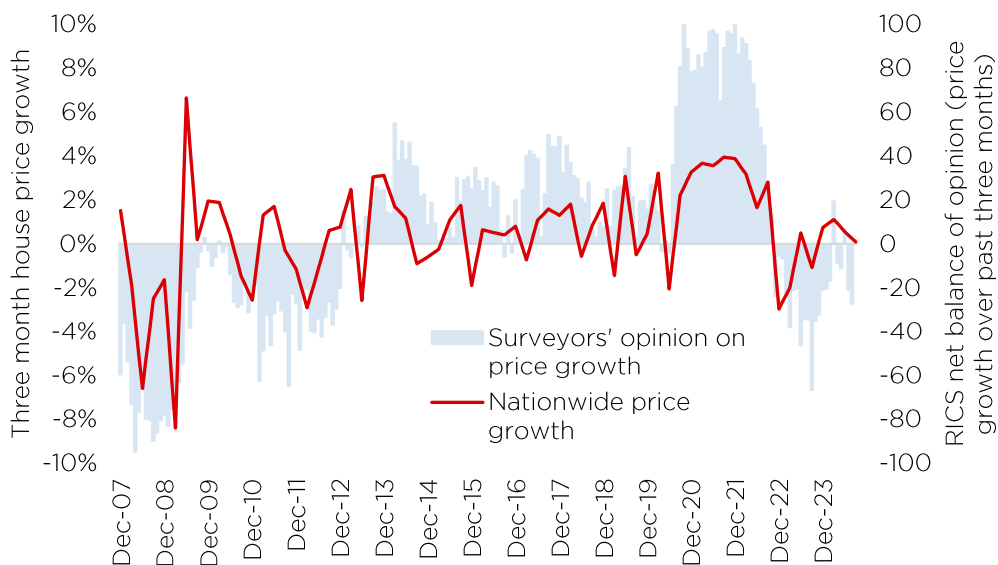
Transaction volumes are likely to continue improving gradually as mortgage rates fall. While sales agreed remain positive, they have fallen since the early part of 2024, suggesting activity is unlikely to reach pre-pandemic levels in the near term.

Figure 3 Demand and supply have improved markedly as mortgage rates have eased



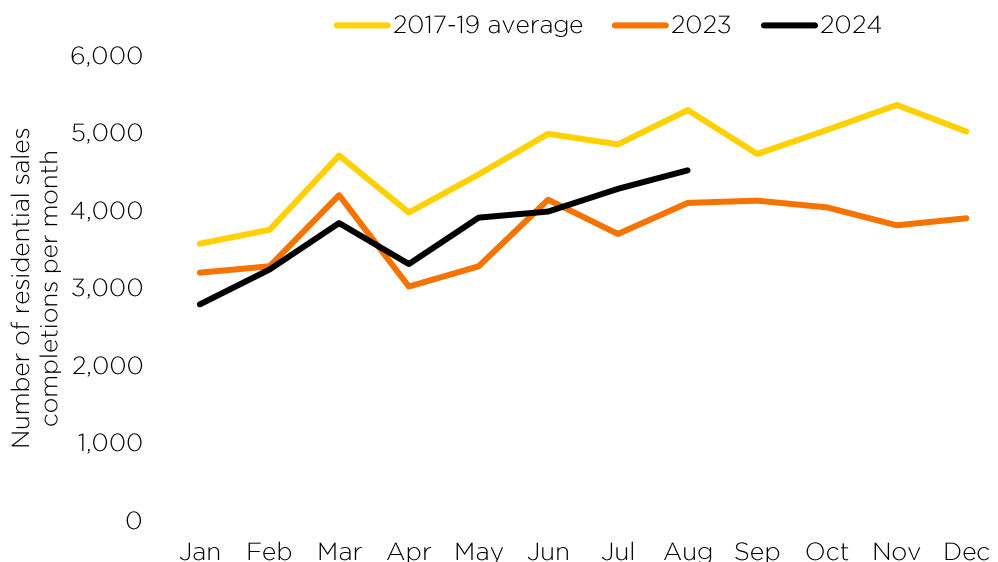
Source RICS (seasonally adjusted)

Figure 4 House prices rose in the last year, although surveyors expect further falls



Source RICS (seasonally adjusted), Nationwide (seasonally adjusted)

Figure 5 Transaction activity has improved in recent months



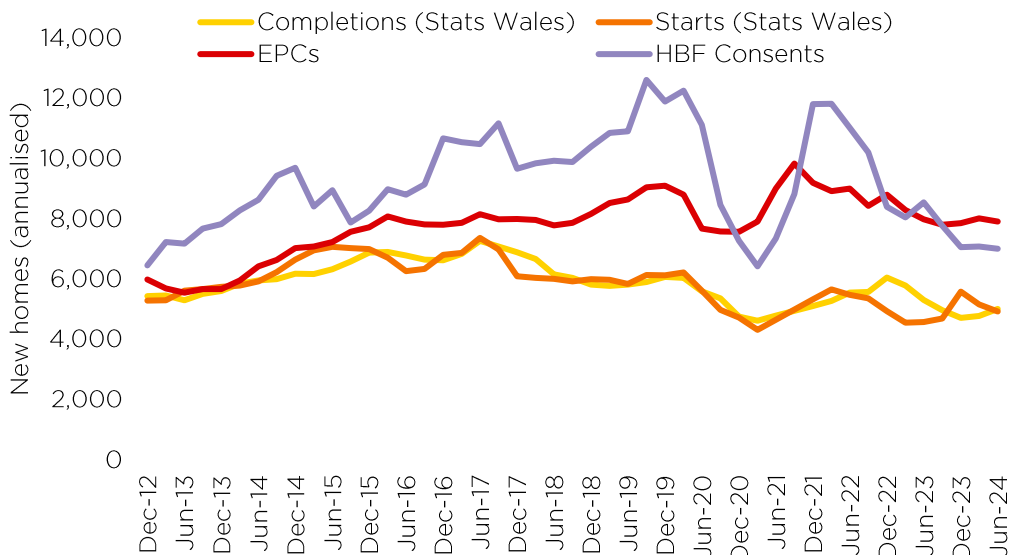
Source Welsh Revenue Authority, HMRC

Completions have been broadly flat over the last year, according to new build EPC data, while consents have continued to fall sharply, further threatening the future delivery of new homes.

Starts have fallen back in the last six months, following a record quarterly low in Q1 2024, according to StatsWales.

Annualised planning consents have fallen by -18% in the last year and by -41% since their 2022 peak to their lowest level since 2012 (excluding the pandemic), according to the HBF. Consents have fallen below completions in 2024, meaning new homes delivery is likely to fall in the future.

Figure 6 Consents continue to hit historic lows, as completions remain steady for now



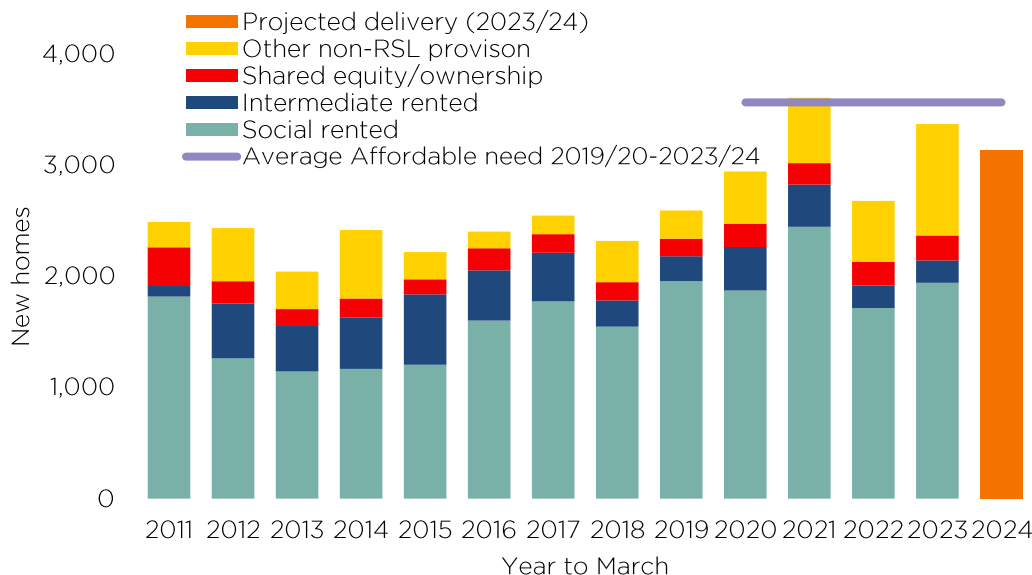
Source StatsWales, DLUHC Table NB1 and HBF

The Welsh Government may need an additional £580 - £740m to reach its target of delivering 20,000 affordable homes by March 2026, according to Audit Wales.

Build cost inflation has exceeded all assumptions, meaning grant funding has delivered fewer homes than expected since April 2021. The Government has pledged to meet its target regardless, and may require significant additional funding and resource to do this.

Provisional data, albeit lagged, suggests that affordable housing delivery fell by -7% in 2023/24 compared to the previous year. This left total delivery -12% short of affordable housing need.

Figure 7 Affordable delivery may miss targets without further Government support



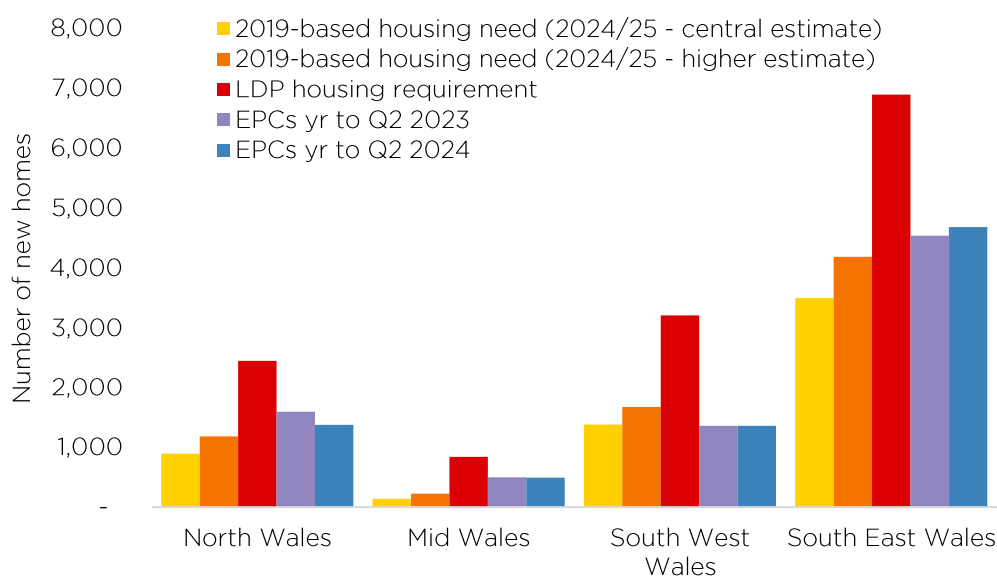
Source StatsWales

Housing delivery exceeded Welsh Government housing need in three Welsh regions in the year to Q2 2024, but fell short in the South West. Alternative targets laid out in LDPs were missed in all regions.

Total delivery exceeded the central estimate of need by 34%, and the higher estimate by 9%, according to EPC data. These need figures use household projections from 2018, which may not reflect current housing need in Wales.

Local Development Plans set more ambitious targets than the Welsh Government targets, which were not met in any region. The Labour administration's targets for affordable housing are also unlikely to be met by March 2026 without significant state intervention.

Figure 8 Housing need met in all regions except South West Wales



Source StatsWales, LDPs and MHCLG Table NB1

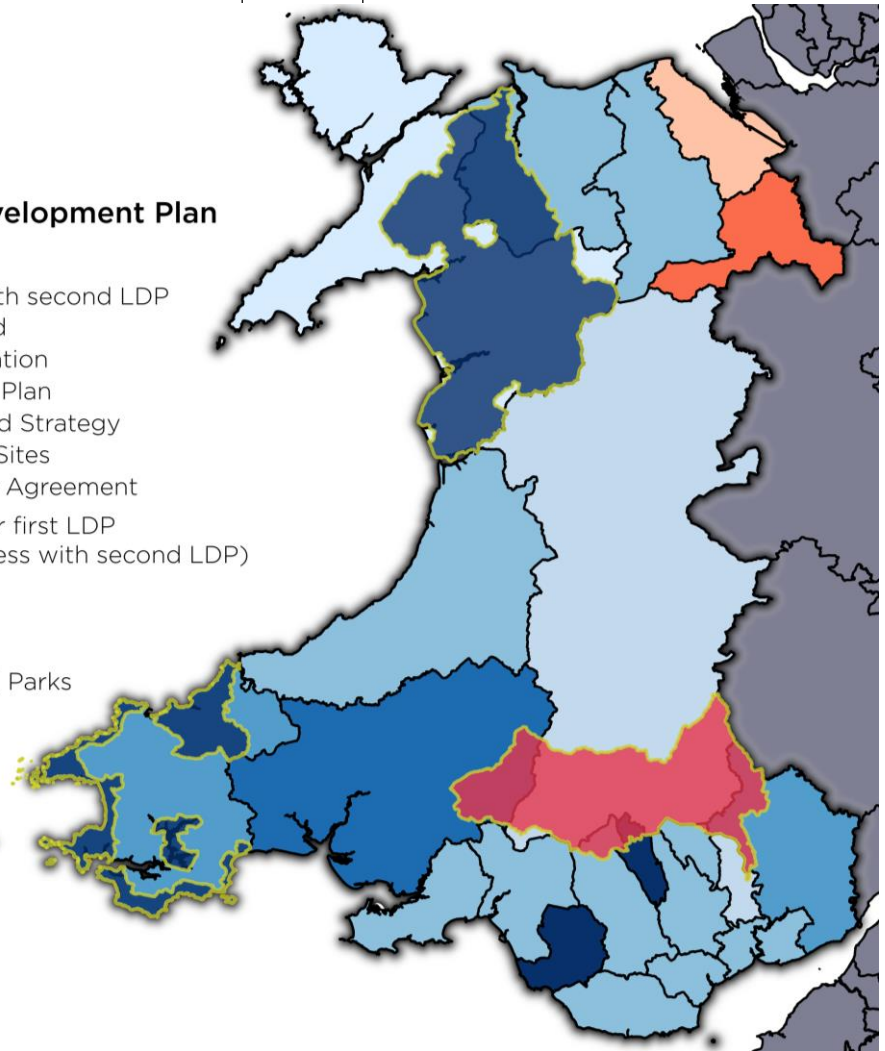
Figure 9: Second round LDP adoption complete in two Local Authorities

Most Local Planning Authorities (LPA) in Wales have begun the process of adopting a second Local Development Plan (LDP). All LPAs have now adopted a first LDP, Wrexham being the last LPA to do so in December 2023.

Monmouthshire is the first in a number of LPAs in South East Wales to commence consultation on their Deposit LDP with other LPAs consulting on Deposit LDPs in the next six to 12 months. This includes the cities of Cardiff and Newport. It will be interesting to see how Newport, along with Caerphilly, and Rhondda Cynon Taff progress their LDPs in light of responses from Welsh Government at Preferred Strategy stage raising non-conformity.

Local Development Plan Progress

- Progress with second LDP
 - Adopted
 - Examination
 - Deposit Plan
 - Preferred Strategy
 - Call for Sites
 - Delivery Agreement
- End date for first LDP (if no progress with second LDP)
 - 2022
 - 2028
 - 2030
- National Parks



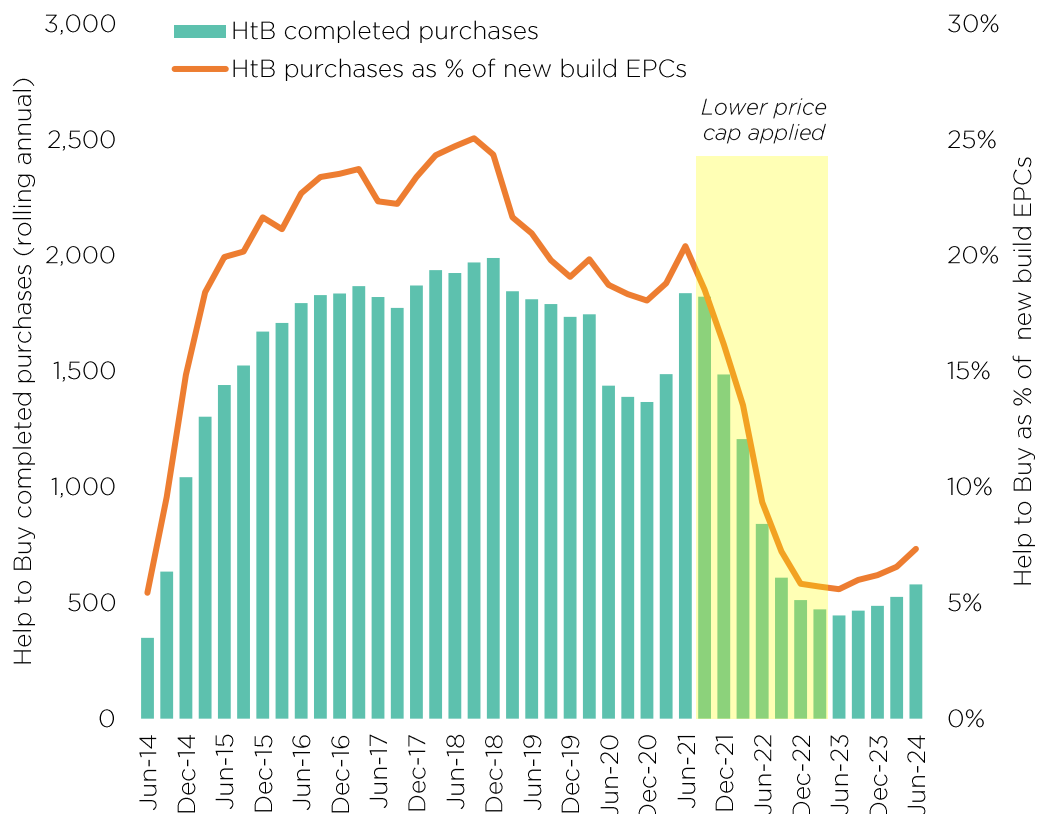
Source LDPs

Use of Help to Buy in Wales has begun to rise in the last year. 7.3% of new build purchases in the year to June were made through the scheme, compared to 5.6% a year earlier, but down from 25% at its peak.

The scheme enables buyers to take on more debt and purchase more expensive homes than they would otherwise be able to afford. Use of the scheme may continue to rise in the coming months as mortgage rates fall. But the scheme is set to end in March 2025, so new homes in Wales will lose their competitive advantage.

Take-up fell sharply between May 2021 and March 2023, as the scheme was limited to first-time buyers and had a reduced price cap of £250,000. It was then extended and will now end in March 2025. The scheme now applies to all buyers and has a price cap of £300,000, equal to the cap which was in place between 2014 and April 2021.

Figure 10 Help to Buy use begins to rise under the new extended scheme



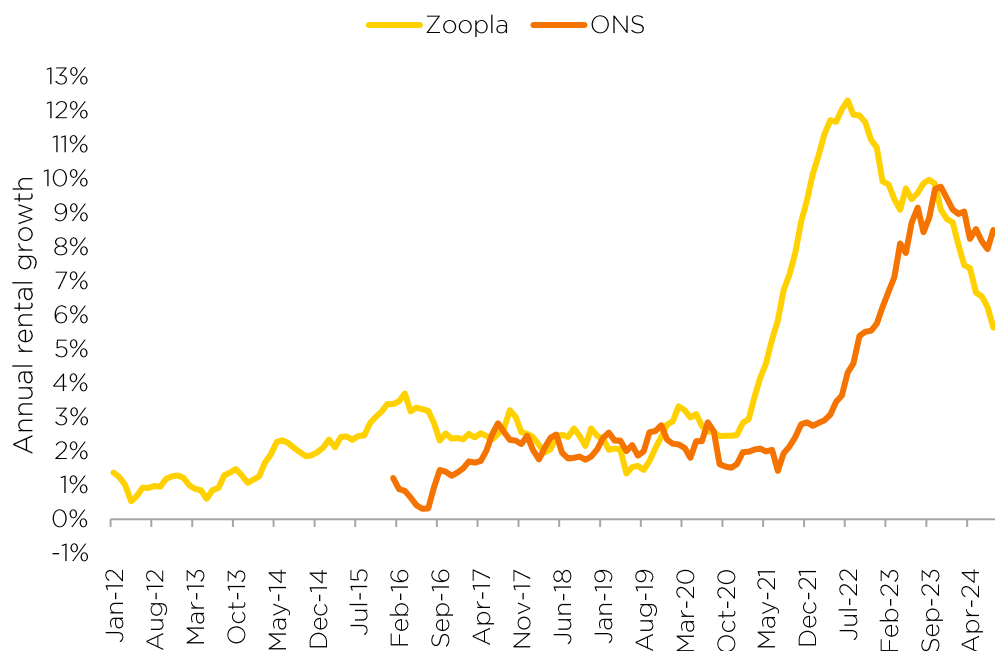
Source StatsWales, MHCLG Table NB1

Rents on new lets grew by 5.6% in the year to August, according to Zoopla, with affordability pressure beginning to restrict growth in the rental market.

Rental growth for all tenancies (including renewals and existing leases) was 8.3% in the year to September, according to the ONS, suggesting the strong recent growth in new tenancies is now filtering through to the wider market.

The supply of available rental listings per branch in Wales was 32% below the 2018-19 average in September, according to Savills analysis of portal data. Proposals to mandate landlords upgrade their properties to an EPC C by 2030 may keep supply low in the future. But with capacity for further rental growth limited by affordability, rental growth is still likely to moderate looking forwards.

Figure 11 Rental growth begins to slow as affordability bites in the rental market



Source ONS, Zoopla Rental Index - powered by Hometrack

Table 1 Recent house price and rental growth

	Nationwide (house prices) (to Sep-24)			Savills (house prices) (to Jun-24)			Zoopla (rents) (to Aug-24)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.7%	0.7%	2.5%	0.2%	-0.2%	-0.7%	0.5%	1.6%	4.8%
Wales	-	0.1%	2.5%	0.2%	0.3%	0.1%	0.4%	1.7%	5.6%

Source Savills using HM Land Registry and Registers of Scotland, 6 month smoothed*, Nationwide quarterly data (seasonally adjusted), Zoopla Rental Index - powered by Hometrack

Table 2 House price forecasts - first published November 2024

	2025	2026	2027	2028	2029	5yrs to 2029
UK	4.0%	5.5%	5.0%	4.0%	3.0%	23.4%
Wales	3.5%	5.5%	6.0%	4.5%	3.5%	25.2%

Source Savills

Table 3 Rental growth forecasts - first published November 2024

	2025	2026	2027	2028	2029	5yrs to 2029
UK	4.0%	3.5%	3.0%	3.0%	3.0%	17.6%

Source Savills

Savills team

Please contact us for further information

Dan Hill
Associate
dan.hill@savills.com
0207 299 3065

Chris Buckle
Director
cbuckle@savills.com
0207 016 3881

Emily Williams
Director
emily.williams@savills.com
07971 880 389

*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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