

Welsh Housing Market and Supply Update



High price growth and activity likely to continue into summer

Strong price growth and high numbers of sales have characterised the Welsh housing market in recent months. New homes completions have recovered well from the Covid disruption, but starts and particularly planning consents remain below usual levels and may limit future supply.

High demand supports transactions and price growth

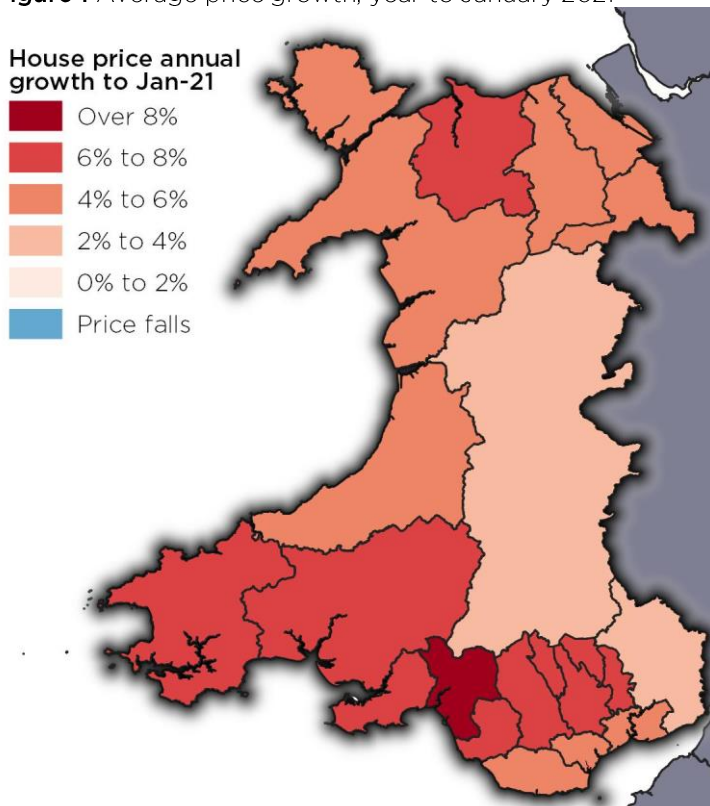
The Welsh housing market has had a strong start to 2021, with price growth and activity well above average, supported by pent up demand and the Land Transaction Tax (LTT) holiday. High price growth and transaction numbers are likely to continue into the summer before cooling slightly in the second half of the year.

Between January and March 2021, transactions were 24% higher than the 2017-19 average. Sales agreed, a leading indicator of transactions, have continued to be well above 2019 and were 36% above 2019 levels in the four weeks to 11th April, according to TwentyCi. We expect transactions to remain above average until the LTT threshold returns to normal in June.

The number of mortgaged home movers in Wales was 11% higher in Q4 2020 than Q4 2019, according to UK Finance. First time buyer (FTB) numbers were also up, but only 5% higher than the previous year, held back by a lack of higher Loan to Value (LTV) mortgages. The announcement of the Mortgage Guarantee Scheme and falling interest rates for the slowly increasing range of higher LTV mortgages may support an increase in FTBs as we move through 2021.

House prices in Wales grew by 7.0% in the year to March 2021, according to Nationwide, the highest level of growth since June 2014. High house price growth in Wales is likely to continue over the next few months, due to the large gap between demand and supply. Surveyors' have consistently reported a more widespread rise in buyer enquiries than new instructions to sell since last autumn. And their expectations for price growth over the next three months are at the highest level since 1999.

Figure 1 Average price growth, year to January 2021



Source HM Land Registry, 6 month smoothed*

In March, we forecast growth of 3.5% for 2021 for Wales. Given the level of price growth so far this year and the likelihood of strong growth continuing into the summer, this now looks pessimistic. But we do expect the market to cool during the second half of the year as the LTT cap returns to its usual value. Higher than expected price growth in 2021 is likely to mean lower growth in future years, as we continue to expect five year price growth at 22.8%.

The average rent increased by 3.8% in Wales in the year to March 2021, according to Zoopla. In all local authorities rents grew by 1.5% or more in the year to February 2021. Rental growth is likely to continue in coming months, as surveyors continue to report demand in excess of supply.

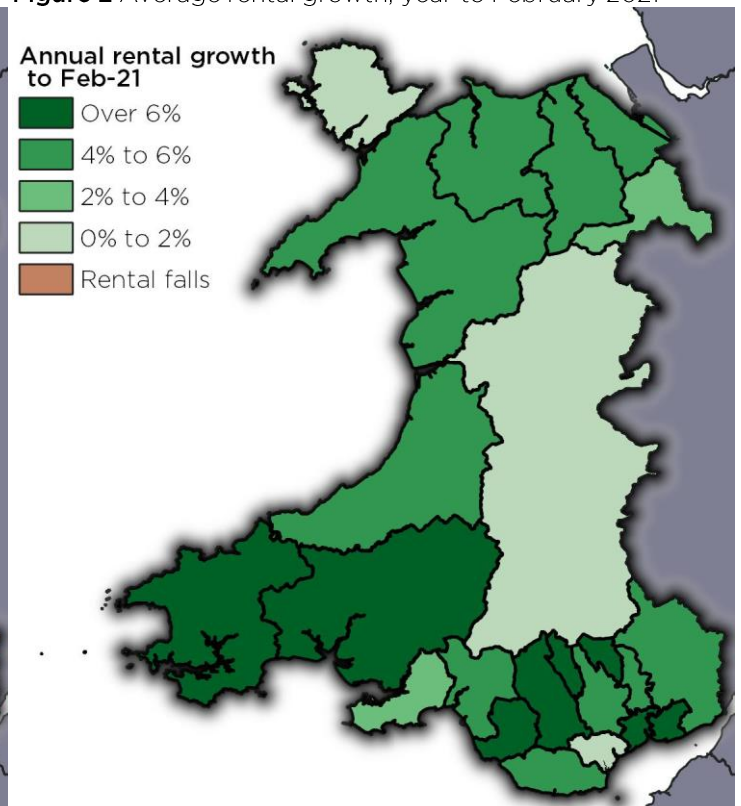
Completions up; starts and consents down

Following a dip in supply in Q2 2020, new housing delivery recovered to 98% of H2 2019 levels during the second half of 2020, according to quarterly EPC data. New homes completions in Q1 2021 were 2% above the same quarter in 2019.

The outlook for housing supply is less positive. Starts have recovered less strongly than completions, according to NHBC, cutting the number of units in the pipeline. And planning consents have fallen well below average. Full consents on sites over 20 units were at less than half the level of the previous year in the three months to March 2021, according to Glenigan. This slowdown in starts and consents may slow down supply in coming years.

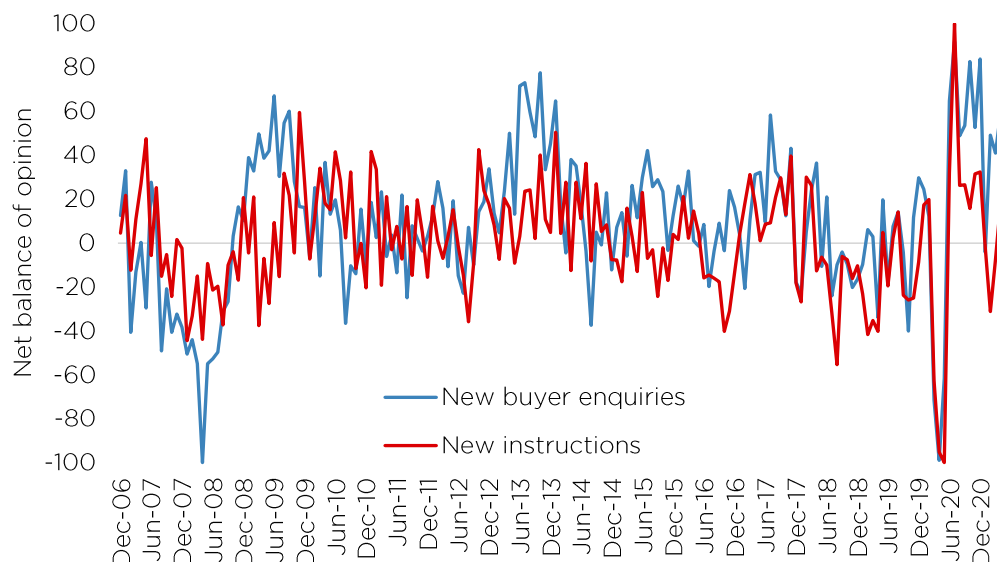
Help to Buy accounted for 19% of completions across Wales, in the year to March 2021. The scheme will continue for at least another year with a new price cap of £250,000. Just under a third (32%) of all Help to Buy sales were between £250,000 and the previous cap of £300,000 over the last year. These sales would now be excluded, restricting access to new homes to only those with higher deposits.

Figure 2 Average rental growth, year to February 2021



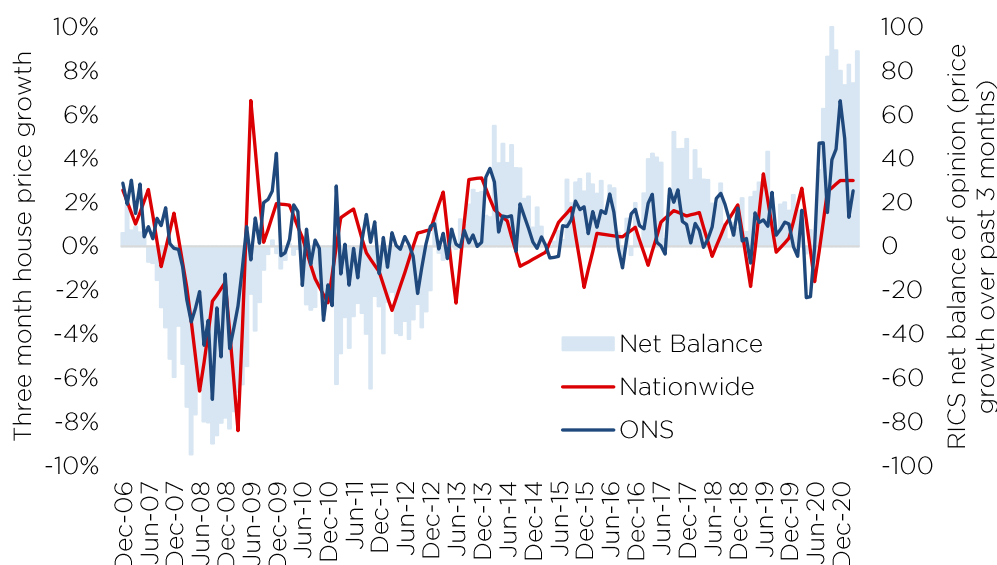
Source Zoopla Rental Index - powered by Hometrack

Figure 3 Demand outstripping supply



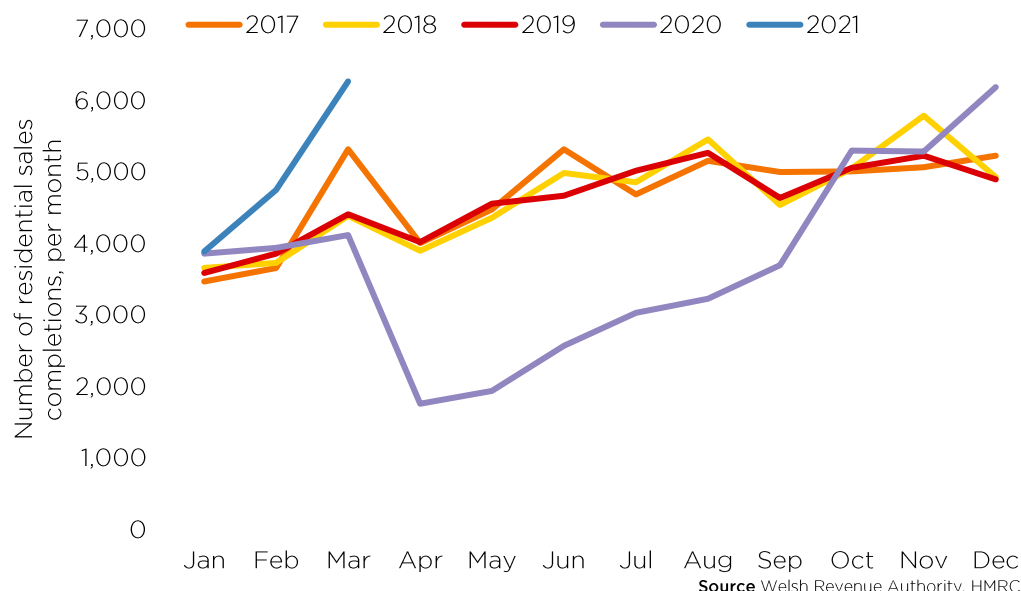
Source RICS (seasonally adjusted)

Figure 4 Price growth high



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

Figure 5 Transactions in March 33% above 2017-2019 average



Source Welsh Revenue Authority, HMRC

There is an imbalance of supply and demand in the market, with far more surveyors reporting rising enquiries than rising instructions. This is likely to support further price growth in the near term.

The RICS Survey has, at times, been a good forward indicator of house price movements, which are later picked up by the indices. The vast majority of surveyors reported price growth over the past three months.

Nationwide suggests that there has been house price growth of 3% over the three months to March 2021.

The ONS index has shown greater variation but is broadly in line with the Nationwide.

Surveyors' expectations for the next three months are the most positive they have been since 1999.

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Following a dip in supply in Q2 2020, supply recovered in H2 2020 to 98% of H2 2019 levels, according to quarterly EPC data. New homes completions have remained high through Q1 2021.

NHBC data does not capture all new homes being built but does give a timely update on direction of travel for new build delivery. Completions are back at pre-pandemic levels, in line with the recovery in EPC numbers. But the number of starts has not recovered in the same way. This suggests supply will fall over the next 12 months.

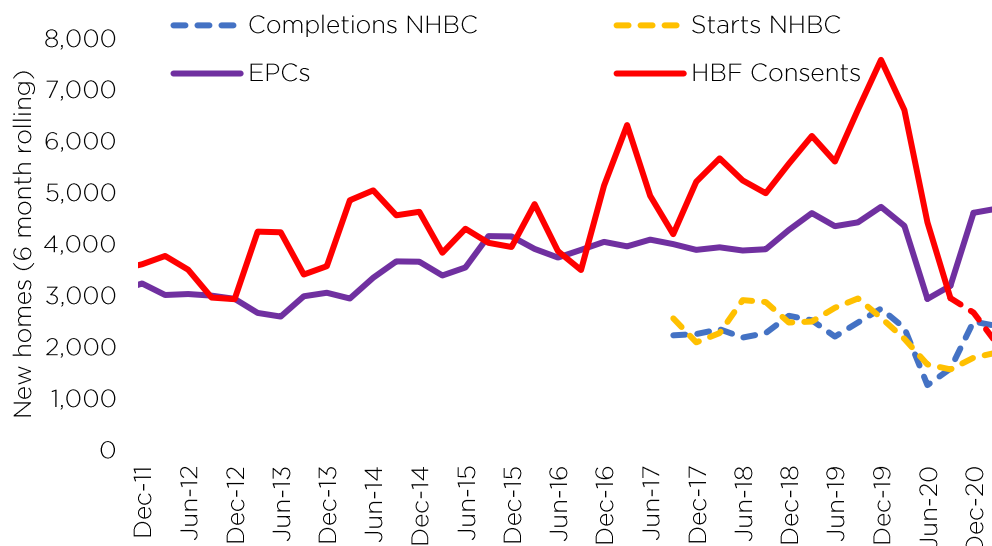
Consents have fallen considerably according to both HBF and Glenigan. The extent of the fall presents a substantial risk to longer term housing delivery.

Although completions recovered from Q3 2020, the fall in completions in the year to Q1 2021 meant that housing need was not met in South West and South East Wales.

Local Development Plans updates continue to be delayed by Covid-19 and the Government housing need assessment is far below the levels outlined in these plans.

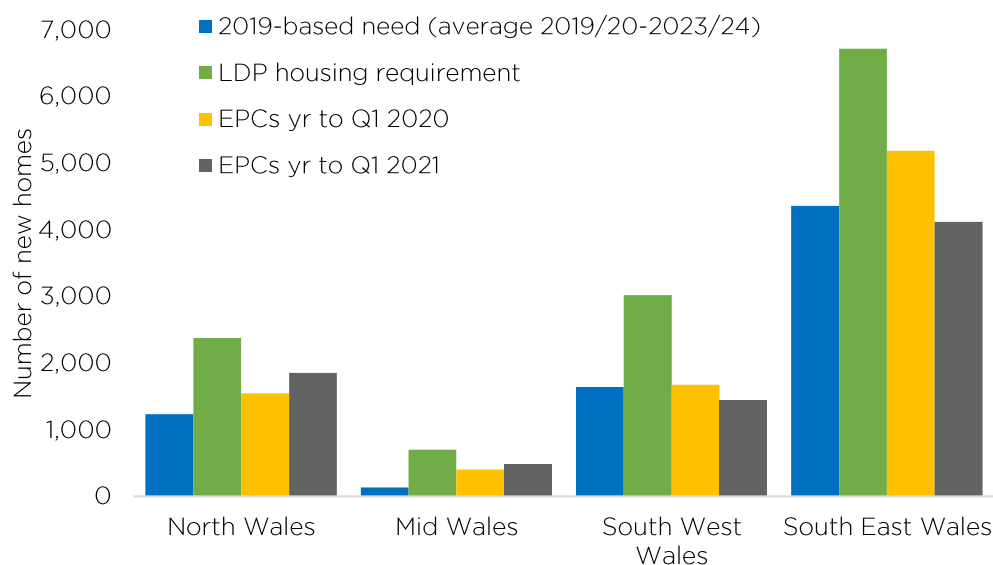
Affordable delivery increased by 14% in the year to March 2020. But affordable delivery was 16% below need. This was almost entirely before any Covid-19 disruption and it is likely that 2021 delivery will be below 2020 delivery. This will create an even greater gap between delivery and need.

Figure 6 New build supply has recovered but consents are down



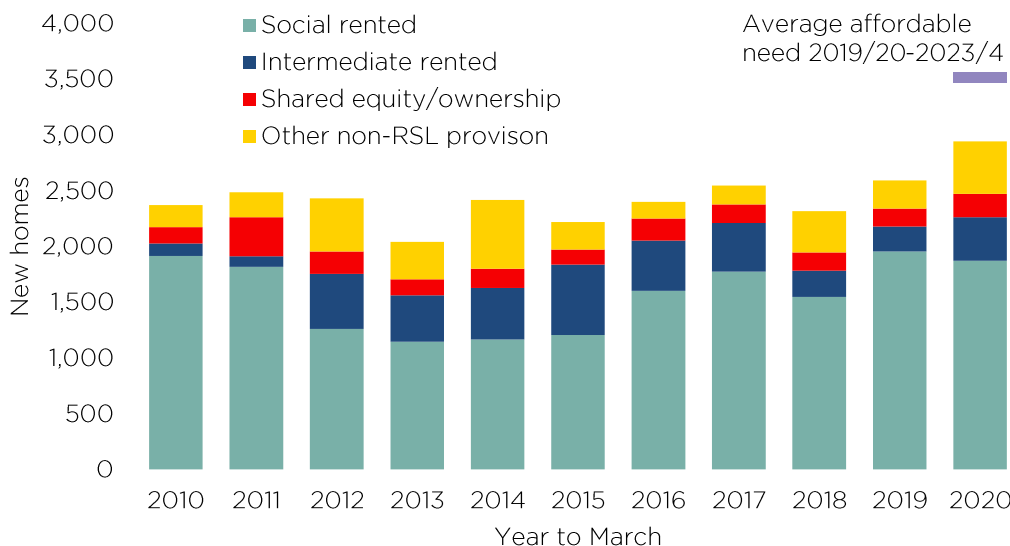
Source MHCLG Table NB1, NHBC and Glenigan for HBF, HBF Consents estimated to Mar-21 by Savills using Glenigan

Figure 7 Housing Need not met in South Wales



Source Stats Wales, LDPs and MHCLG Table NB1, excluded LDP need in National Parks

Figure 8 Affordable delivery below need

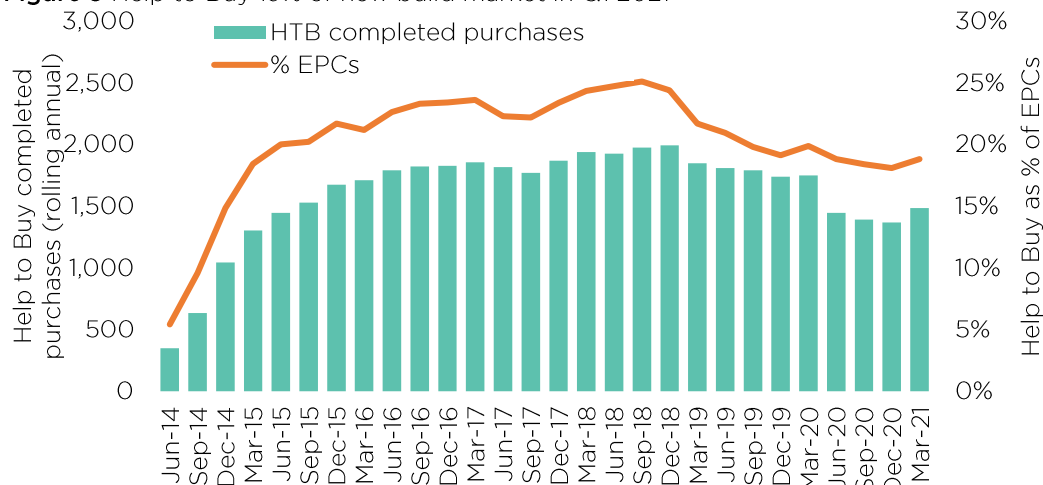


Source Stats Wales

Reliance on Help to Buy in Wales had been falling, with the scheme supporting only 19% of all new homes sales in the year to March 2021, down from a peak of a quarter of all completions in the summer of 2018.

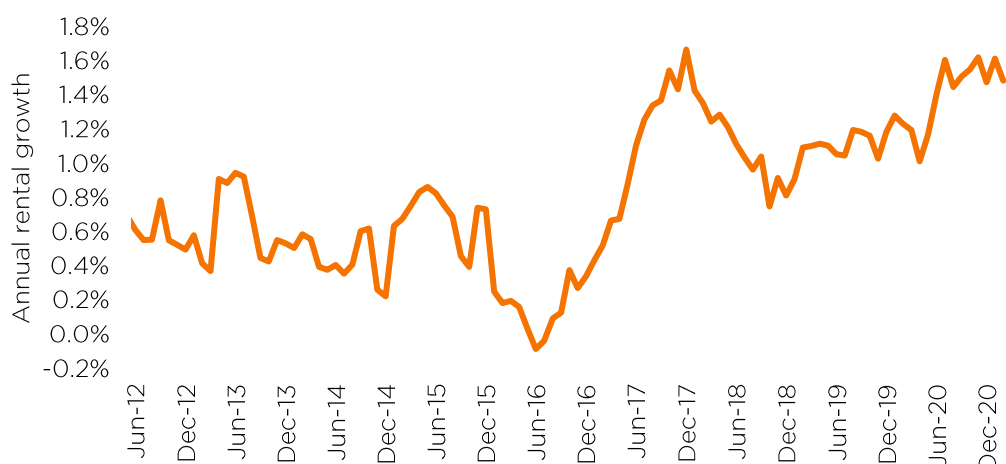
The Help to Buy scheme in Wales has now been extended to 2022 and possibly 2023. But a new cap of £250,000 applies, down from £300,000. This would have excluded just under a third of sales in the year to March 2021, so the new cap will substantially reduce the number of purchases the scheme supports.

Figure 9 Help to Buy 19% of new build market in Q1 2021



Source Stats Wales and MHCLG Table NB1

Figure 10 Positive rental growth continues



Source ONS

Table 1 Recent house price growth

	Nationwide (UK Apr-21; Wales to Q1)			ONS (to Mar-21)			Savills (to Jan-21)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	2.1%	2.5%	7.1%	2.1%	3.7%	9.9%	0.8%	2.5%	5.1%
Wales	-	3.0%	7.0%	2.9%	2.5%	11.0%	0.9%	2.4%	5.4%

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 March 2021

	2021	2022	2023	2024	2025	5yrs to 2025
UK	4.0%	5.0%	4.0%	3.5%	3.0%	21.1%
Wales	3.5%	5.5%	5.0%	4.0%	3.0%	22.8%

Source Savills

Savills team

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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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