

# Welsh Housing Market and Supply Update



## Housing market remains strong as new homes supply falls

Wales saw more price growth than any other part of the UK over the last year. Strong demand and a lack of supply have supported price growth well beyond the end of the Land Transaction Tax (LTT) holiday. Market activity also remains above pre pandemic levels.

New housing delivery is in decline, however. Completions, starts and planning consents all fell over the last year. The low level of starts and consents means that delivery is likely to fall further through 2022.

### Excess demand drives highest price growth since 2004

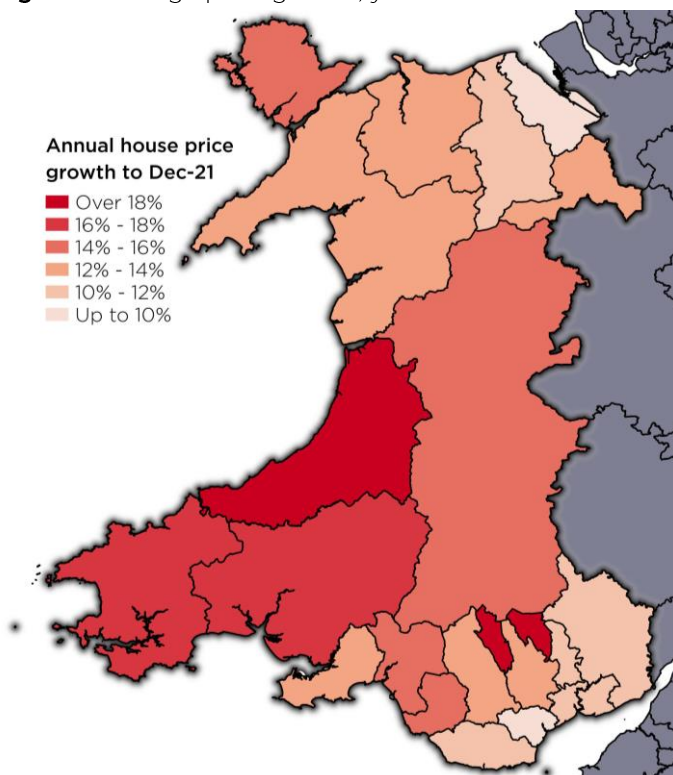
House prices in Wales grew by 15.2% in the year to March 2022, according to Nationwide. This was the third consecutive quarter of the highest price growth since 2004, as high demand has exceeded supply in the market. The strength of demand has reduced over recent months but supply remains low, according to the RICS survey.

The highest price growth was in Blaenau Gwent (24%) and Merthyr Tydfil (22%) during 2021. Variation in price growth within Wales is due to the cyclical nature of the housing market and the late-cycle stage we are now in. Those local authorities which have seen the fastest growth in the last 12 months are those which have grown least since their 2007/8 peak and which have the lowest house prices.

We expect house price growth in Wales to continue to outperform the UK average over the next five years. The persistent supply-demand imbalance will support strong house price growth over the next few months. But there is less capacity for price growth over the medium term, as high inflation and rising interest rates have eroded affordability nationwide. As a more affordable part of the UK, price growth will be stronger in Wales than in other parts of the country.

2021 saw the most transactions in a year since 2007. This was driven by the tax savings on offer during the LTT holiday and a widespread change in the lifestyle choices of buyers. Completed transactions were 12% above 2017-19 levels in Q1 2022. Sales agreed were 11% above 2019 levels in April

Figure 1 Average price growth, year to December 2021



Source HM Land Registry, 6 month smoothed\*

2022, according to TwentyCi. This suggests that the high volume of sales will continue over the next few months.

Rents increased 10.3% in Wales in the year to February 2022, according to Zoopla. All local authorities saw at least 5.3% growth over this period, and surpassed 16% in Torfaen, Caerphilly and Merthyr Tydfil. Strong rental growth is likely to continue in the coming months, as surveyors continue to report demand in excess of supply.

### Housing supply set to continue falling

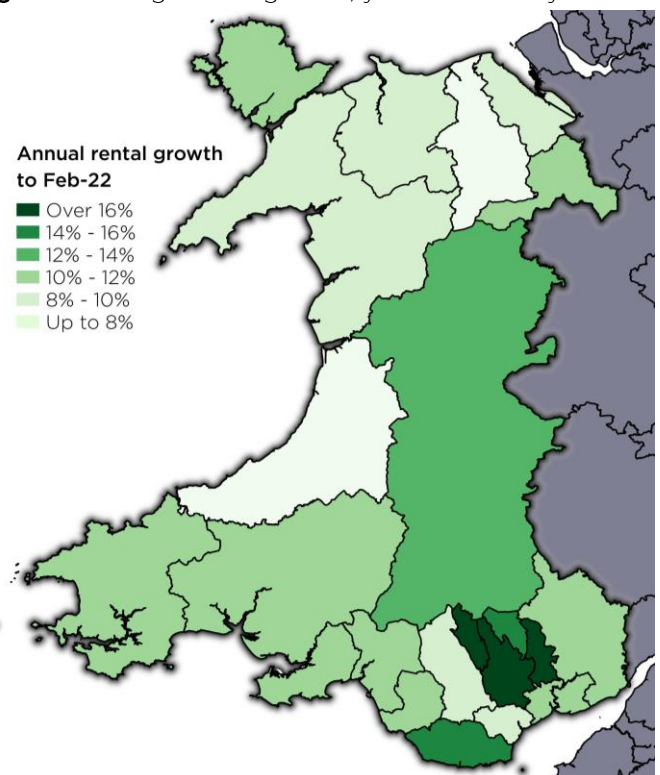
New housing delivery fell over the last six months, with completions in Q1 2022 14% below Q1 2021, according to quarterly EPC data. New housing starts are 24% down on 2019 levels.

This follows 18 months of a shrinking construction pipeline in Wales. The decline stopped in the most recent quarter, but it will take time for the pipeline to build up again. This will not be helped by the fall in planning consents, which were at roughly 2016-18 levels during the year to March 2022, more than 20% below the 2019 highs. Mark Harris of the Home Builders Federation commented that “the industry faces an extremely challenging operating environment, with delays in the planning system and a shortage of viable allocated sites high amongst a number of major constraints on supply.”

The support provided by Help to Buy (HtB) has also reduced with the scheme supporting fewer sales in Wales in H2 2021. There were 36% fewer HtB sales in H2 2021 compared to H1. This fall is largely due to the lower cap of £250,000 which has applied to purchases under the scheme since May 2021.

Affordable housing delivery met need in 2020/21, but there remains a backlog of under delivery. Delivery has increased by 56% in the three years to 2020/21, driven by a significant increase in grant funded completions. Provisional data suggests that affordable delivery remained at an elevated level in 2021/22.

Figure 2 Average rental growth, year to February 2022

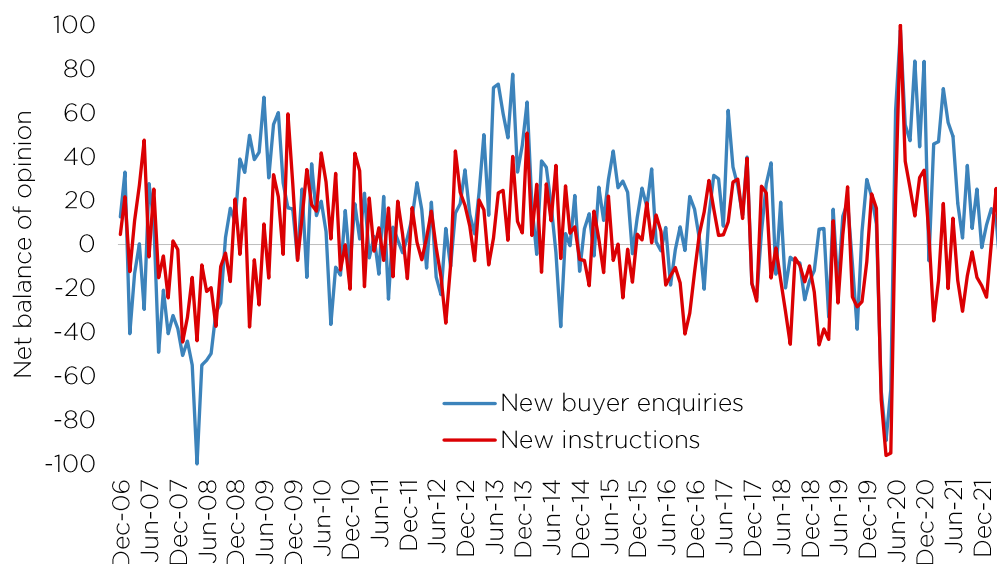


Source Zoopla Rental Index - powered by Hometrack

**Demand has fallen and is now exceeded by new supply.** Surveyors reported that new buyer enquiries fell more than new instructions in April, with net balances of -15 and -10 respectively.

The gap between demand and supply, which peaked at +87 in February 2021, has now closed. This has been driven by falling demand, while supply remains relatively constricted. The imbalance is likely to support further price growth in the near term, as stock will take a while to replenish. However, falling demand is starting to be reflected in a slowing of price growth.

**Figure 3** Demand continues to exceed supply

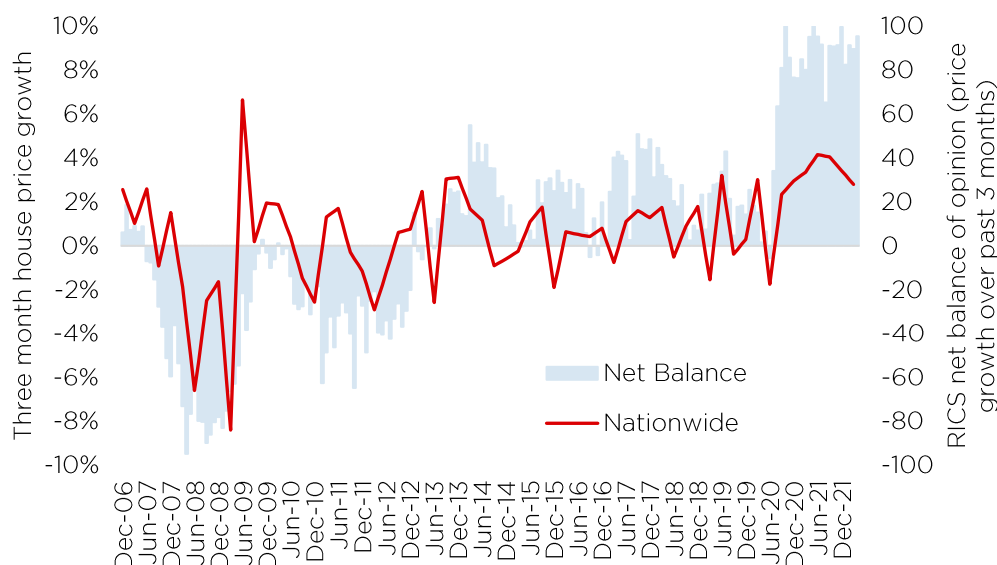


Source RICS (seasonally adjusted)

**By all measures, Wales has experienced rapid price growth in the last 18 months.** The vast majority of surveyors have reported price growth for some time now, according to the RICS survey, with an average net balance of opinion of +90 in the year to April 2022.

Nationwide reported house price growth of 2.8% over the three months to March 2022, down from a peak of 4.1% in June 2021. Surveyors' expectations for the next three months remain firmly positive, although less so than in early 2021. Price growth is therefore slowing, but likely to remain positive over the next few months.

**Figure 4** House price growth continues

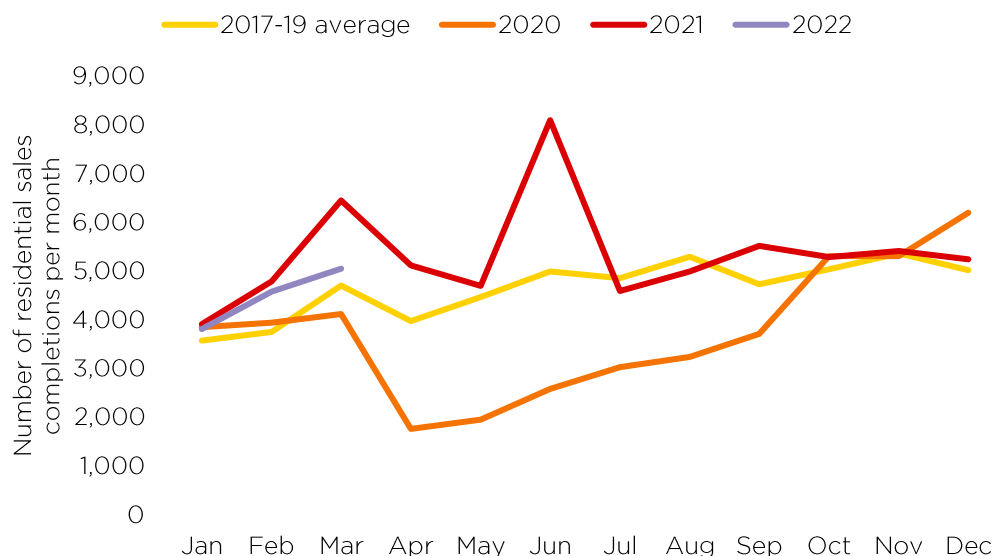


Source RICS (seasonally adjusted), Nationwide (seasonally adjusted)

**The 64,110 transactions completed in Wales in 2021 were the most in any year since 2007.** This record was driven by three peaks of activity in March, June and September, as buyers aimed to take advantage of the LTT holiday before its various deadlines. The 8,100 transactions completed in June were the most in a single month on record.

Transactions in Q4 2021 did not fall below average levels, despite the end of the LTT holiday. A strong Q1 2022 then saw transactions 12% above the 2017-19 average. Early indications from sales agreed data suggests this above-average level will continue for the next few months.

**Figure 5** Record year for transactions in 2021



Source Welsh Revenue Authority, HMRC

## Completions, starts and consents have all fallen on an annual basis in Q1 2022.

Completions have fallen back to 2019 levels, having peaked in Q3 2021, according to EPC data. On a quarterly basis, completions in Q1 2022 were 14% below Q1 2021 and 12% below Q1 2019.

Starts have fallen less, matching completions in Q1 2022, according to the NHBC. But the pipeline of homes under construction will take time to build up again.

Consents have not returned to 2019 levels, which will further hamper future delivery, according to the HBF and Glenigan. Q1 2022 saw an 8% fall in consents compared to Q1 2021 on a quarterly basis, suggesting that a recovery to the pre-pandemic peak is unlikely in the near future.

## Housing delivery exceeded Welsh Government housing need in all four regions of Wales in the year to Q1 2022.

Total completions exceeded need by 20.7%, according to EPC data.

Local Development Plans (LDPs) set more ambitious housebuilding targets. These targets were only met in Mid Wales. Updated LDPs have been delayed by Covid-19, but many are in the process of being adopted (see Figure 9).

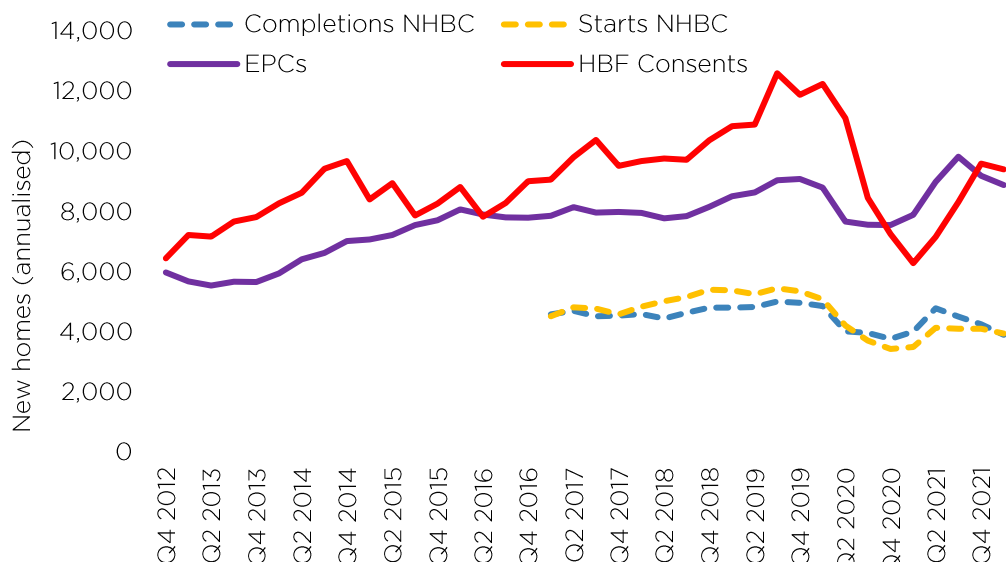
## Affordable delivery increased by 22.5% in the year to March 2021, meeting the latest affordable need figure for the first time.

Affordable need was exceeded by 2.6%, despite disruption from the Covid-19 pandemic.

Provisional data for 2021/22 suggests delivery remains at around the Welsh Government's 2019-based affordable housing need figure for a second year. This strong growth in delivery has been driven by an increase in grant-funded completions.

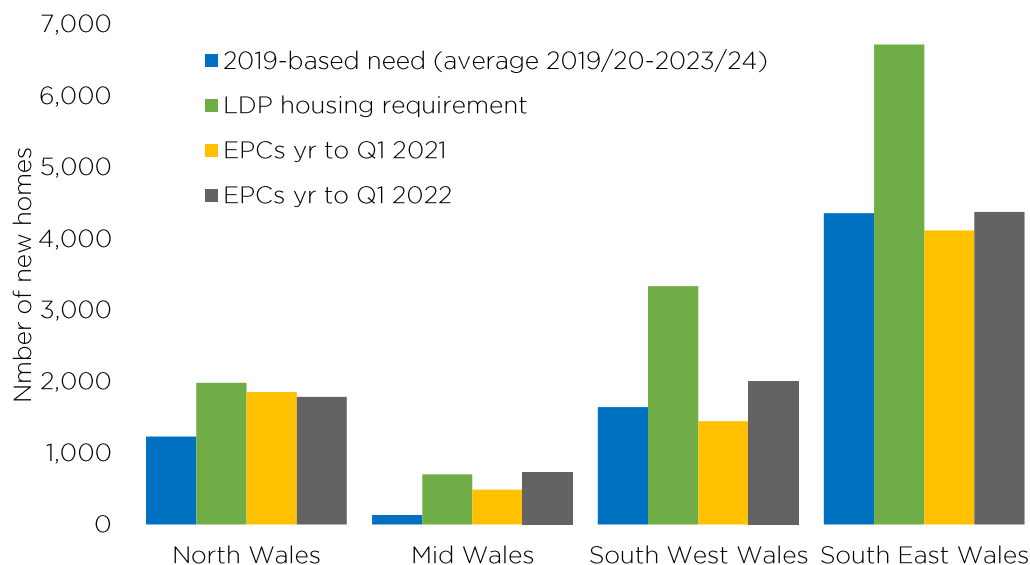
There remains a significant backlog of underdelivery of affordable housing in Wales, however, which will take years of strong delivery to correct.

**Figure 6** Housing supply falls from post-pandemic peak



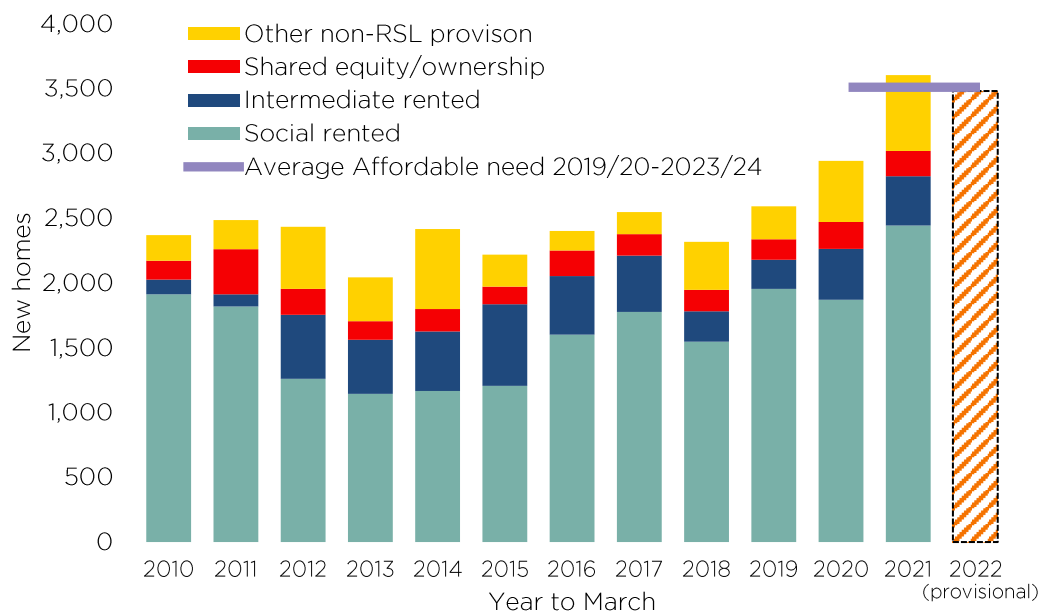
Source MHCLG Table NB1, NHBC and Glenigan for HBF, HBF Consents estimated to Mar-22 by Savills using Glenigan

**Figure 7** Housing need met in all regions



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

**Figure 8** Affordable delivery met need in the year to March 2021



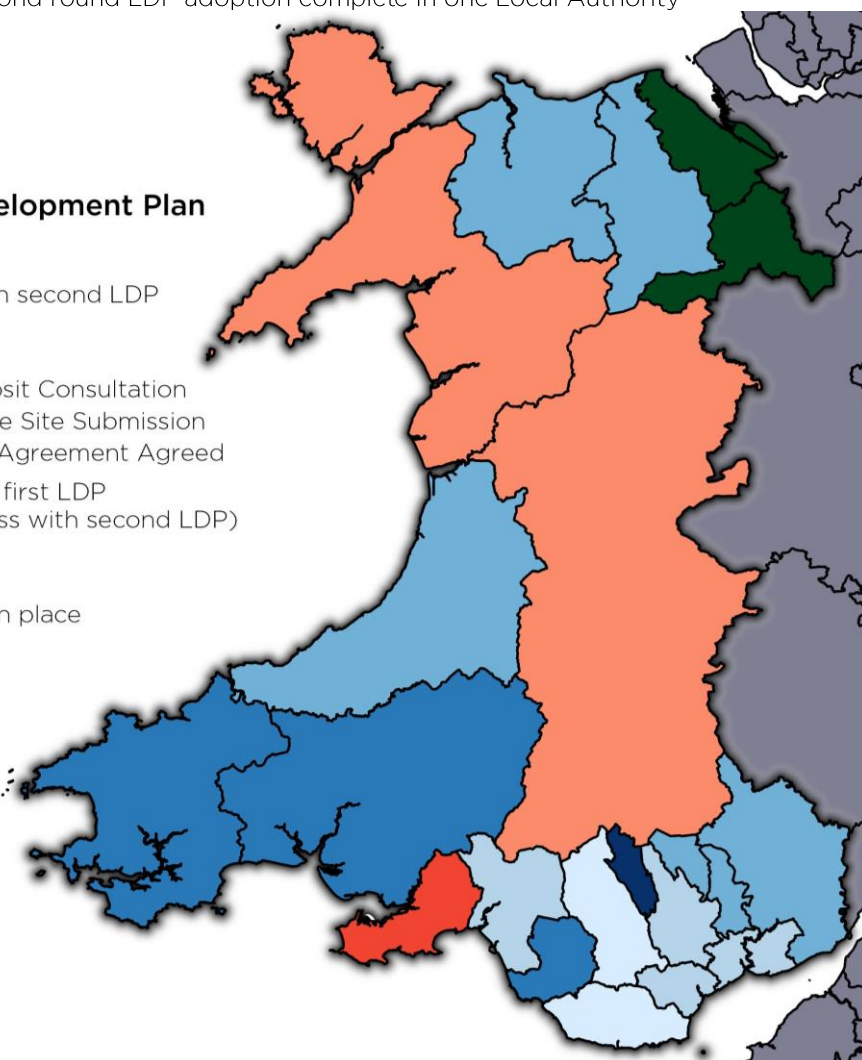
Source Stats Wales

**Figure 9:** Second round LDP adoption complete in one Local Authority

Most Local Planning Authorities (LPA) in Wales have begun the process of adopting a second Local Development Plan (LDP). Whilst the above may be the case, the map shows a mixed picture. Merthyr Tydfil is the only LPA, aside from two National Park authorities, which has adopted its second LDP, whilst Flintshire and Wrexham are yet to adopt their first.

For the three that have consulted on Deposit LDPs, submission for examination could be imminent following recent local elections. A number of consultations are expected across South Wales for the remainder of 2022 including calls for sites in the Vale of Glamorgan and Rhondda Cynon Taf, with informal and formal pre-deposit consultations likely to be undertaken by Newport and Caerphilly, subject to continuing political support following the recent local elections.

### Local Development Plan Progress

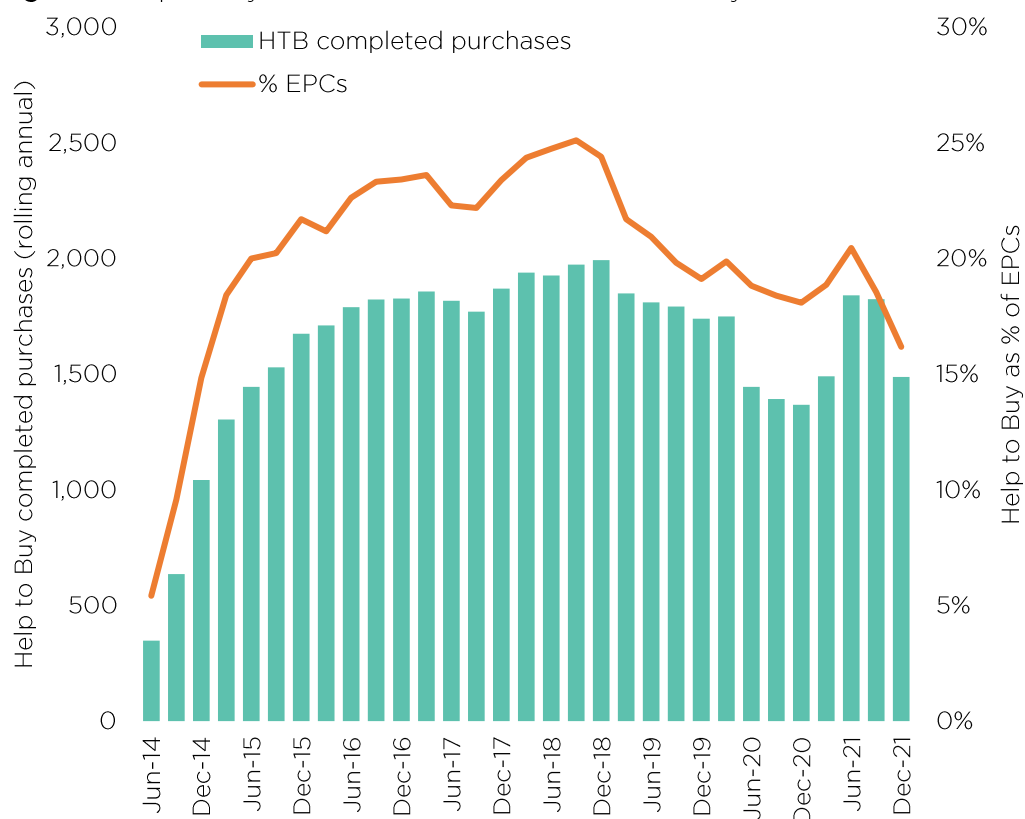


Source LDPs

### Use of Help to Buy in Wales has fallen, with the scheme supporting 36% fewer sales in H2 2021 compared to H1.

This means that just 16.2% of new build purchases in the year to Q4 2021 were made through the scheme. Use of the scheme rose briefly to 20.3% of new build purchases in the year to Q2 2021, but has fallen rapidly in Q4 to return to the long term trend of declining use.

The fall is a result of the Help to Buy scheme extension to 2023, which reduced the cap to £250,000 from £300,000 from May 2021. 32% of all HtB sales were between £250,000 and the previous higher cap of £300,000 in 2020/21. The Q2 spike in HtB use therefore reflects a rush to complete before this May deadline.

**Figure 10** Help to Buy formed 16% of new build market in the year to Q4 2021


Source Stats Wales and MHCLG Table NB1

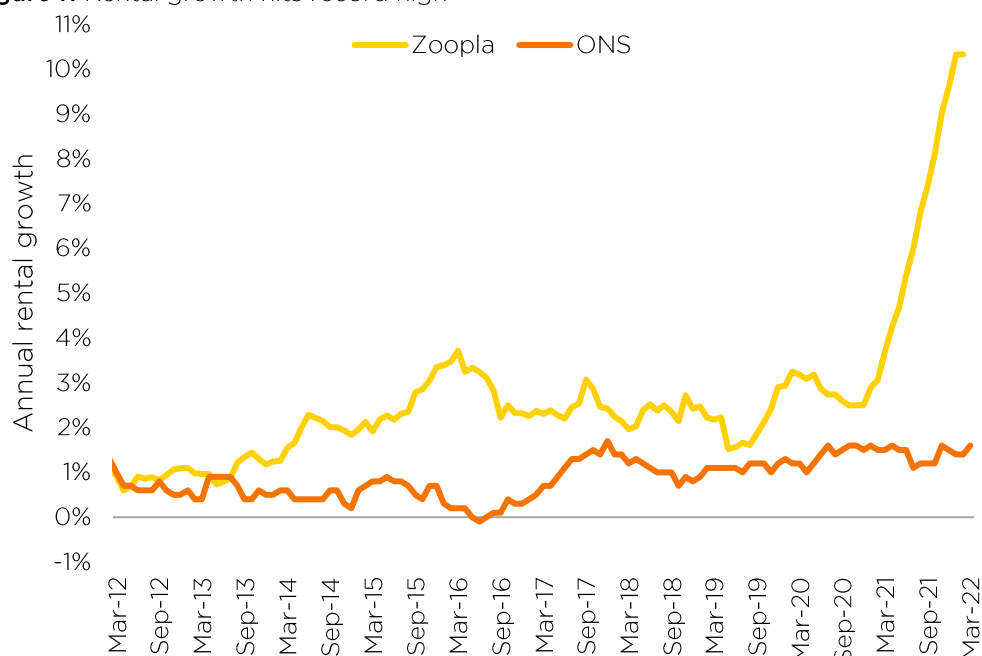


Rental growth increased to a peak of 10.3% in the year to January 2022, according to Zoopla, maintaining this level in February.

The ONS estimate rental growth in the same period to be 1.4%. It is lower because this index measures the full stock of rents, including renewals and existing leases, whereas Zoopla measures only newly agreed rents.

The significant gap between demand and supply, which is driving rapid rental growth, does not appear to be narrowing. In the three months to February 2022, the majority of Welsh surveyors saw falling landlord instructions, while a large majority saw rising tenant demand. Rental growth is likely to continue as a result.

Figure 11 Rental growth hits record high



Source ONS, Zoopla Rental Index - powered by Hometrack

Table 1 Recent house price and rental growth

	Nationwide (house prices) (UK Mar-22; Wales to Q1)			Savills (house prices) (to Jan-21)			Zoopla (rents) (to Feb-22)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	1.1%	3.8%	14.3%	1.1%	2.2%	7.6%	0.8%	3.0%	10.2%
Wales	-	2.8%	15.2%	0.8%	3.1%	13.5%	0.4%	2.7%	10.3%

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 2021

	2022	2023	2024	2025	2026	5yrs to 2026
UK	3.5%	3.0%	2.5%	2.0%	1.5%	13.1%
Wales	4.0%	4.0%	3.5%	3.0%	2.5%	18.2%

Source Savills

Table 3 Rental growth forecasts – first published November 2021

	2022	2023	2024	2025	2026	5yrs to 2026
UK	5.5%	3.5%	3.0%	3.0%	3.0%	19.9%
Wales	4.8%	3.1%	2.6%	2.6%	2.6%	17.3%

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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