

Welsh Housing Market and Supply Update



Record price growth and market activity as housebuilding recovers

Strong price growth and record numbers of sales have characterised the Welsh housing market in recent months. New homes completions, starts and consents all showed signs of recovery from the Covid disruption, but with completions growing more rapidly than starts and consents, the pipeline of new homes under construction is shrinking.

High demand supports transactions and price growth

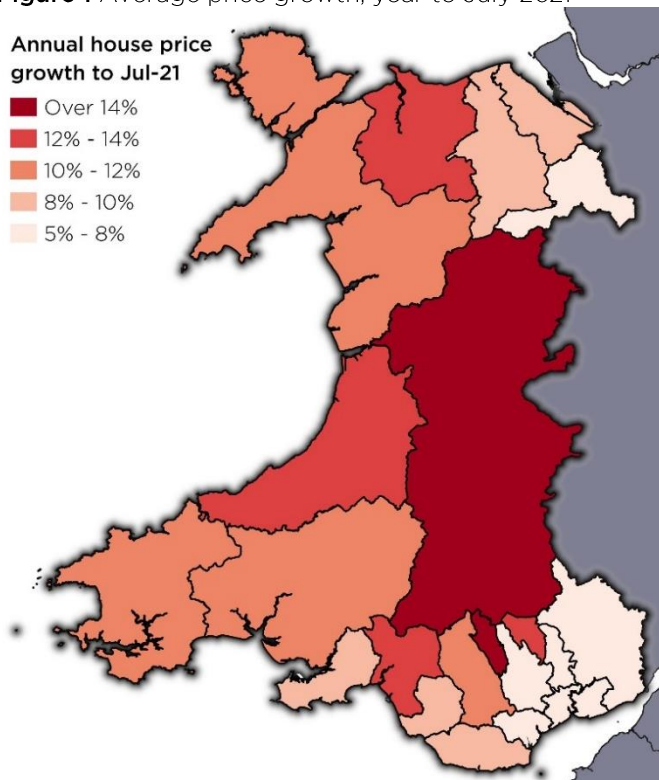
The Welsh housing market has performed strongly in 2021. Pent up demand and the extended Land Transaction Tax (LTT) holiday supported rapid price growth and high levels of activity in the first three quarters of the year. Price growth is expected to slow and activity to return towards pre-covid levels towards the end of the year and into 2022.

House prices in Wales grew by 15.3% in the year to September 2021, according to Nationwide, the highest level of growth since 2003. This was driven by a demand surge, brought on by the LTT holiday and the race for space which occurred during the pandemic. Surveyors have reported that growth in new buyer enquiries has exceeded growth in new instructions in 16 of the 18 months since April 2020. The large gap which remains between demand and supply will support continued house price growth in Wales into 2022.

Despite this, we do expect price growth to slow into 2022 now government stimulus has ended. Wales will likely outperform the UK average growth rate as other areas of the UK 'catch up' to London and the South East. We therefore expect growth of 4.0% in Wales in 2022, and five year growth of 18.2% to 2026.

In the first nine months of 2021, transactions were 19% higher than the 2017-19 average. Sales agreed, a leading indicator of transactions, were still 19% above 2019 levels in the four weeks to 3rd October 2021, according to TwentyCi. We expect transactional activity to return to pre-pandemic levels in 2022.

Figure 1 Average price growth, year to July 2021



Source HM Land Registry, 6 month smoothed*

The number of mortgaged home movers in Wales was 46% higher in Q2 2021 than Q2 2019, according to UK Finance. First time buyer (FTB) numbers were also up, but only 17% higher than 2019, held back by a shortage of higher Loan to Value (LTV) mortgages. Although the Mortgage Guarantee Scheme and falling interest rates on higher LTV mortgages may support FTBs, recent high inflation has created a risk that interest rates may rise, which would squeeze affordability moving into 2022.

The average rent increased by 7.7% in Wales in the year to September 2021, according to Zoopla. Rents grew by at least 3.8% in all Welsh local authorities in the year to August 2021. Rental growth is likely to continue in the coming months, as surveyors continue to report demand in excess of supply.

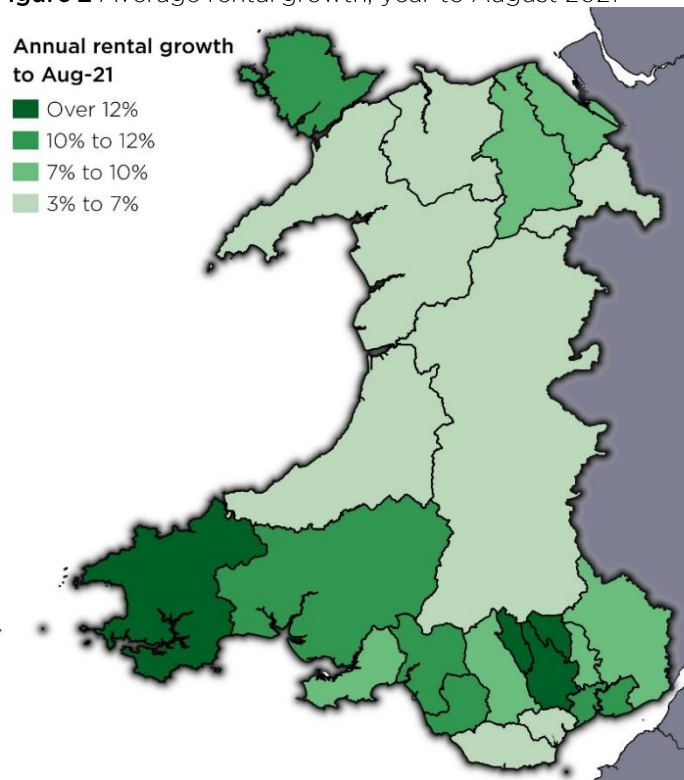
Housing supply stages recovery

Following a dip in supply in Q2 2020, new housing delivery reached its highest point since before 2009 in Q3 2021, exceeding Q3 2019 delivery by 30.7%, according to quarterly EPC data.

Although completions are back at average pre-pandemic levels on a quarterly basis, starts have recovered more slowly and sit below completions. This suggests a shrinking pipeline of housing under construction. Planning consents fell sharply during the pandemic, with Q4 2020 consents just 24% of the Q3 2019 peak, according to HBF and Glenigan. Since then, consents have recovered rapidly, exceeding average 2019 levels in Q2 2021 before falling slightly below in Q3.

Help to Buy (HtB) accounted for 20% of completions across Wales in the year to June 2021. From May 2021, a lower cap of £250,000 applies to purchases under the scheme. 32% of all Help to Buy sales were between £250,000 and the previous higher cap of £300,000 in the year to March 2021, suggesting that HtB use will decline in Q3 and beyond.

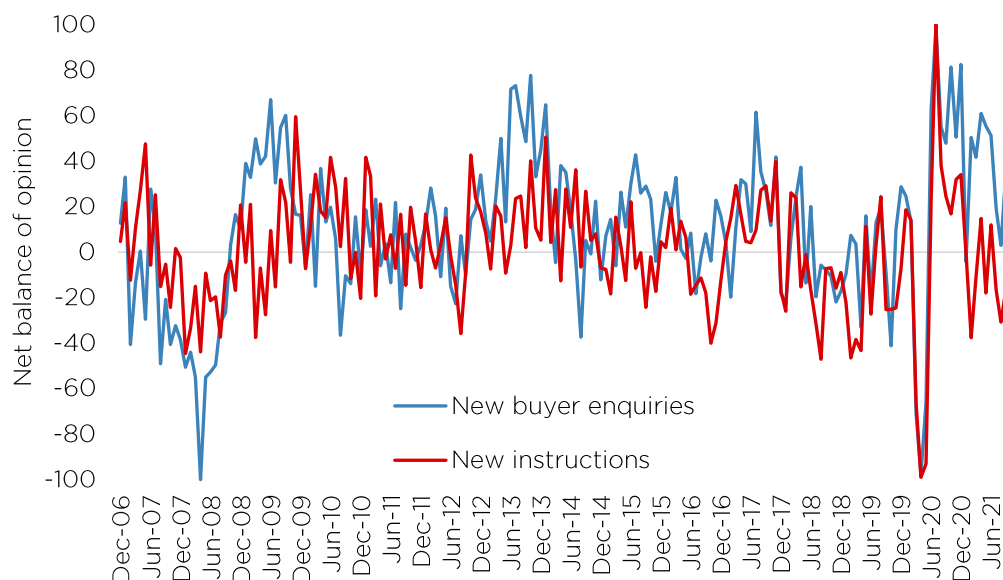
Figure 2 Average rental growth, year to August 2021



Source Zoopla Rental Index - powered by Hometrack

Figure 3 Demand continues to exceed supply

Demand for homes is increasing while new supply of homes is falling. Surveyors have reported increasing new buyer enquiries and falling new instructions, with net balances of 36 and -16 respectively in September, a gap comparable to June and July 2013. This imbalance is likely to support further price growth in the near term; we expect price growth in Wales to exceed the UK average over the next year.



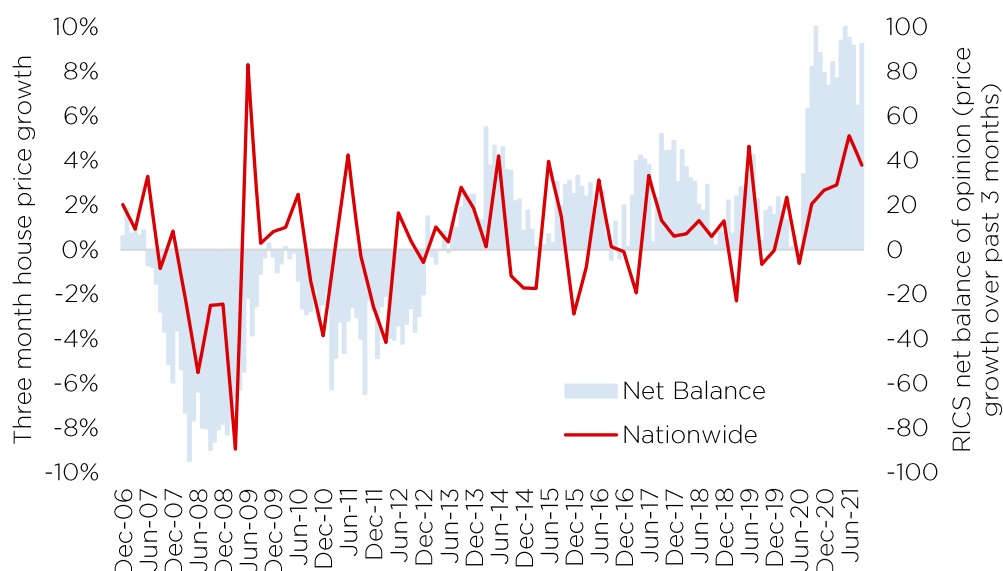
Source RICS (seasonally adjusted)

Figure 4 House price growth continues

By all measures, Wales has experienced rapid price growth in recent 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 87 in the year to September 2021. This has at times been a good forward indicator of house price index movements.

Surveyors' expectations for the next three months remain positive, although less so than in early 2021.

Nationwide reported house price growth of 3.8% over the three months to September 2021.



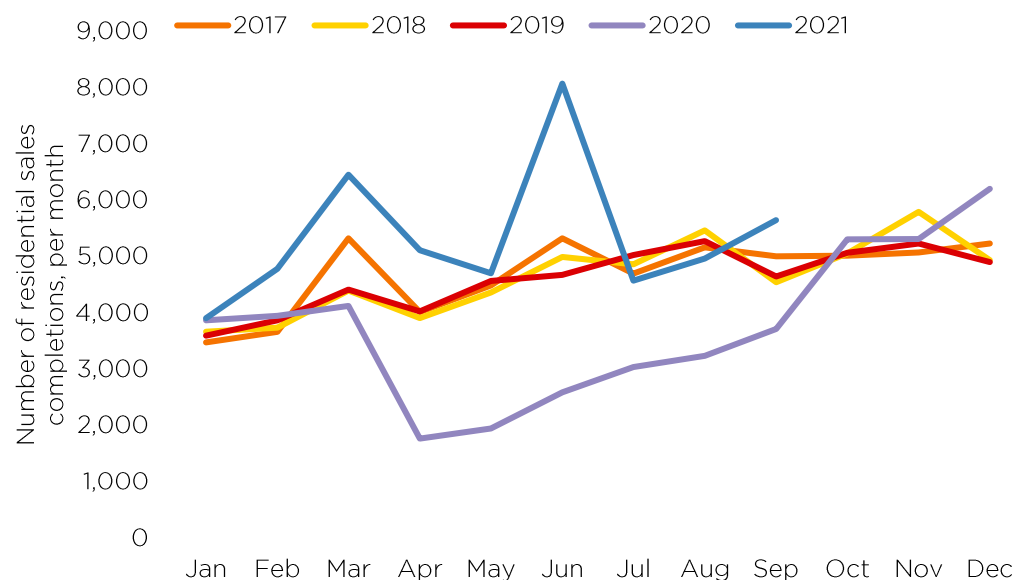
Source RICS (seasonally adjusted), Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Figure 5 Record year for transactions

The last year has seen record high transaction levels. The year to September 2021 saw the most completed transactions in Wales since February 2008, at 64,960.

The 8,070 transactions in June are the most seen in a single month on record. This was the most significant of three peaks in March, June and September, all driven by buyers aiming to take advantage of the LTT holiday, which was first scheduled to end in March, before being extended to June and then continuing in a tapered form until September.

Transactions are expected to return approximately to 2017-19 average levels in the rest of the year.



Source Welsh Revenue Authority, HMRC

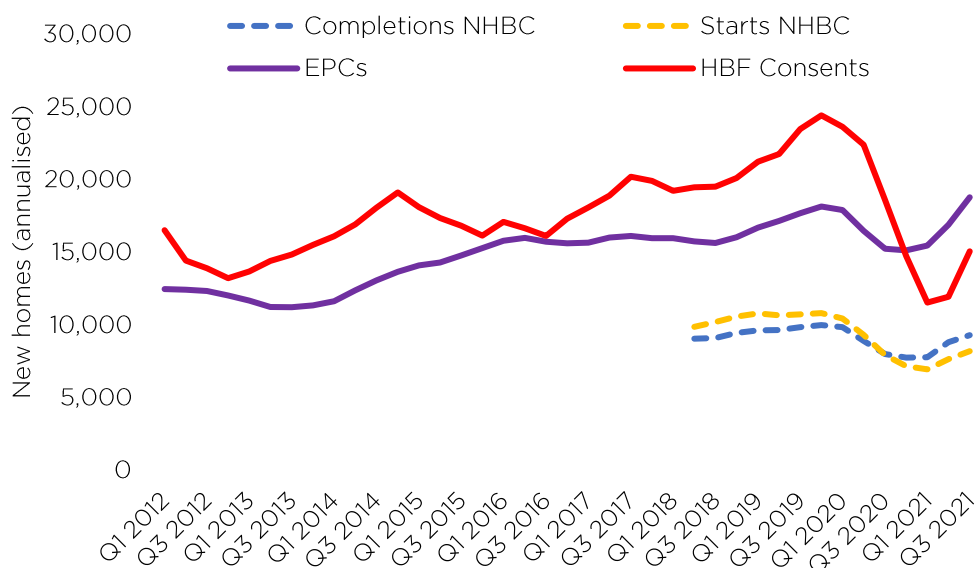
Completions, starts and consents have all shown signs of recovery in recent months.

Completions have reached their highest level since before 2009 in Q3 2021, according to EPC data.

NHBC data suggests that completions remain slightly ahead of starts, indicating a shrinking pipeline of homes under construction.

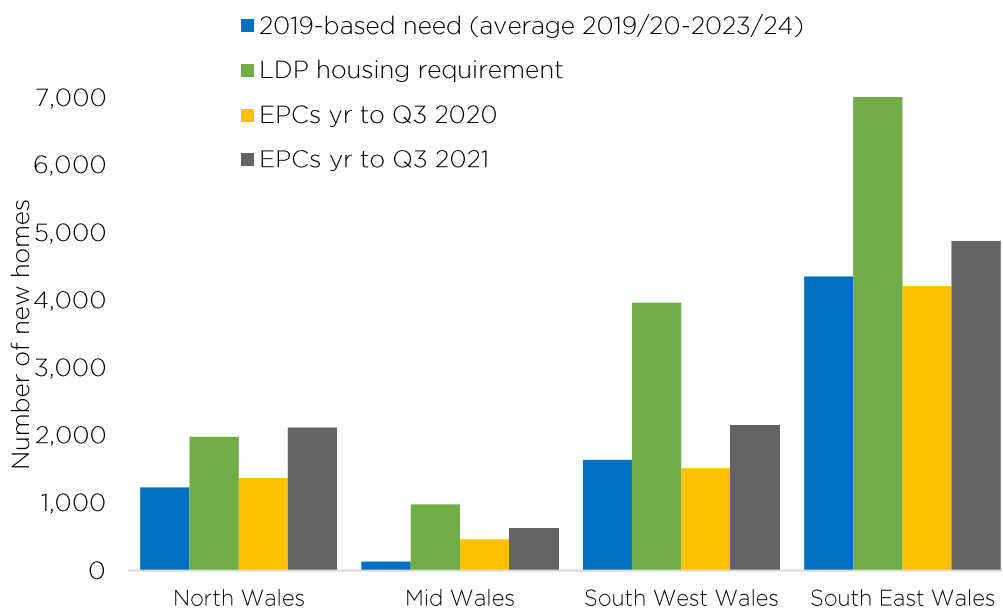
Consents were the measure most significantly affected by the pandemic. Consents in Q4 2020 were just 29% of the Q4 2019 figure, according to the HBF and Glenigan. They have since recovered to pre-pandemic levels in Q2 2021, with Q3 sitting at roughly long-term average levels.

Figure 6 Housing supply recovers



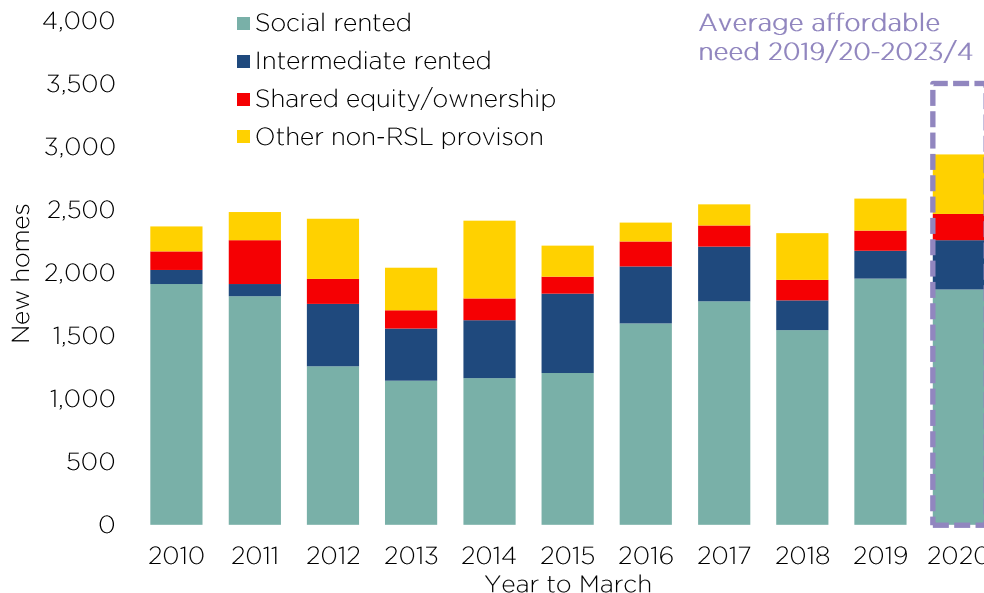
Source MHCLG Table NB1, NHBC and Glenigan for HBF, HBF Consents estimated to Mar-21 by Savills using Glenigan

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 below need



Source Stats Wales

Housing delivery exceeded Welsh Government housing need in all four regions of Wales in the year to Q3 2021. Total completions exceeded need by 32.9%, according to EPC data. Local Development Plans set more ambitious housebuilding targets. These targets were met in North Wales, but not in the other regions. Updated LDPs have been delayed by Covid-19.

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.

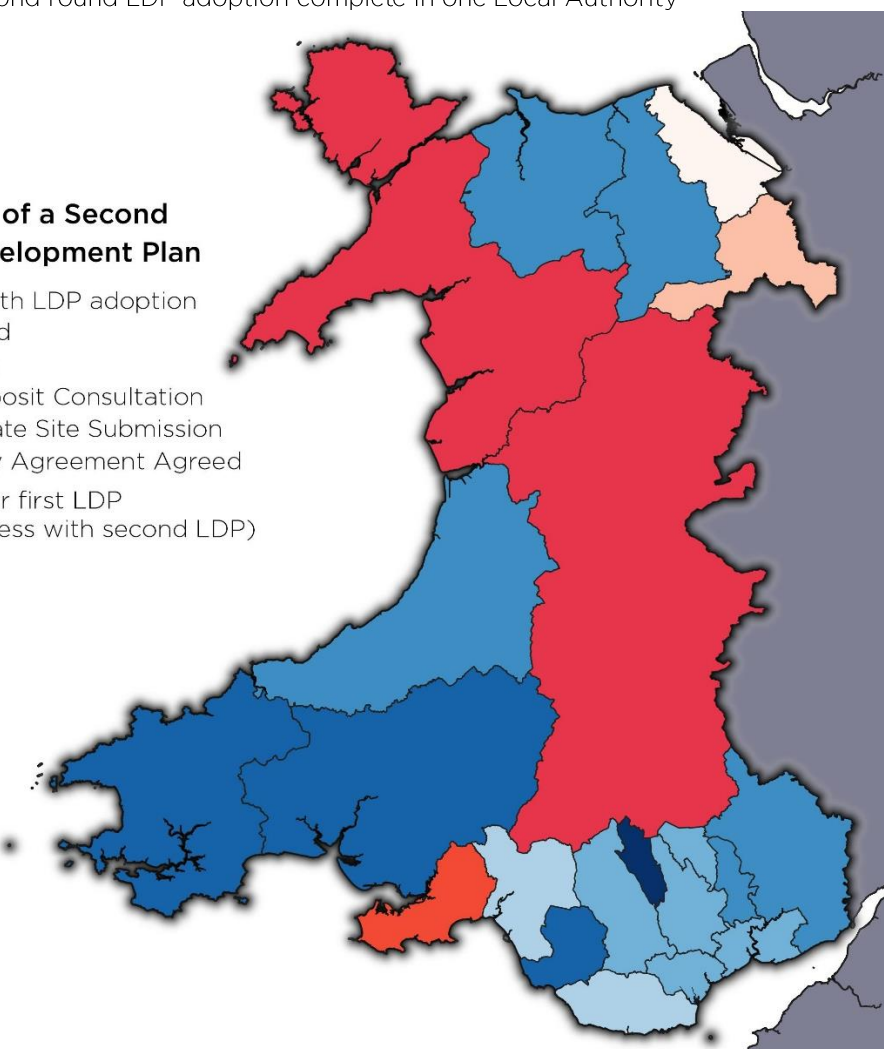
Figure 9: Second round LDP adoption complete in one Local Authority

Most Local Planning Authorities (LPA) in Wales have begun the process of adopting a second Local Development Plan (LDP). Merthyr Tydfil is the only LPA, aside from two National Park authorities, which has adopted its second LDP.

Five LPAs have made no progress towards adopting a second LDP whilst two LPAs are yet to adopt their first LDP.

Bridgend, Camarthenshire and Pembrokeshire have completed a Deposit stage consultation. Four LPAs have recently completed LDPs, such as Monmouthshire and Torfaen. Five others are about to commence pre-deposit consultations, (including Caerphilly, Cardiff and Rhondda Cynon Taf). With delivery agreements now in place, the Vale of Glamorgan and Neath Port Talbot are expected to undertake a call for sites in 2022.

Adoption of a Second Local Development Plan

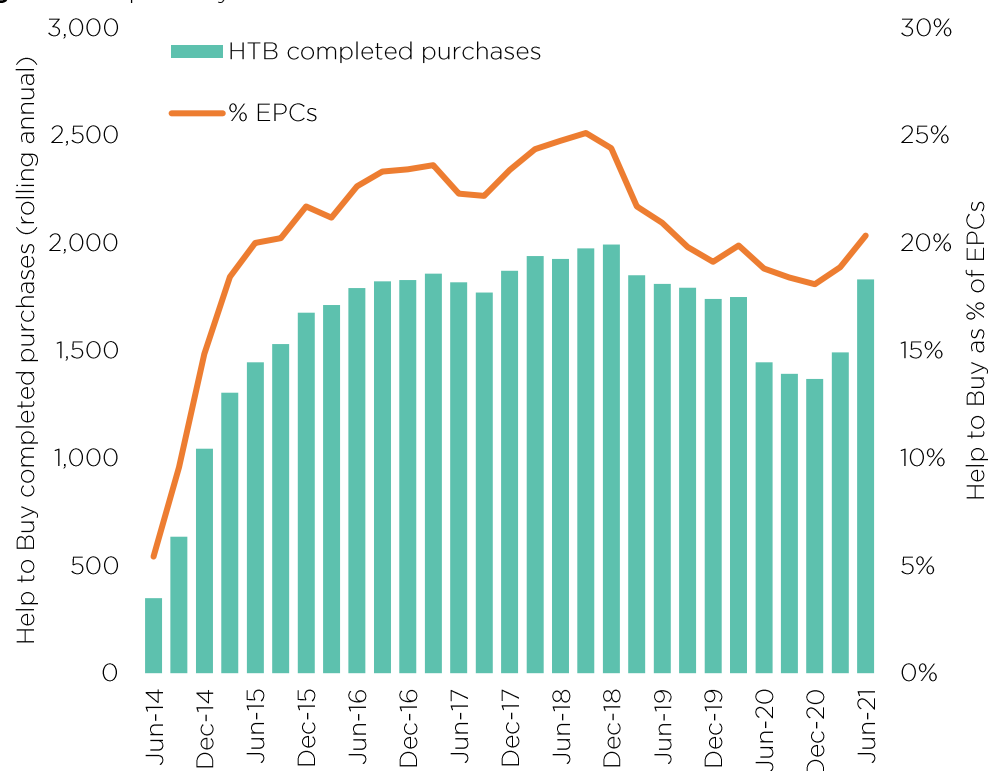


Source LDPs

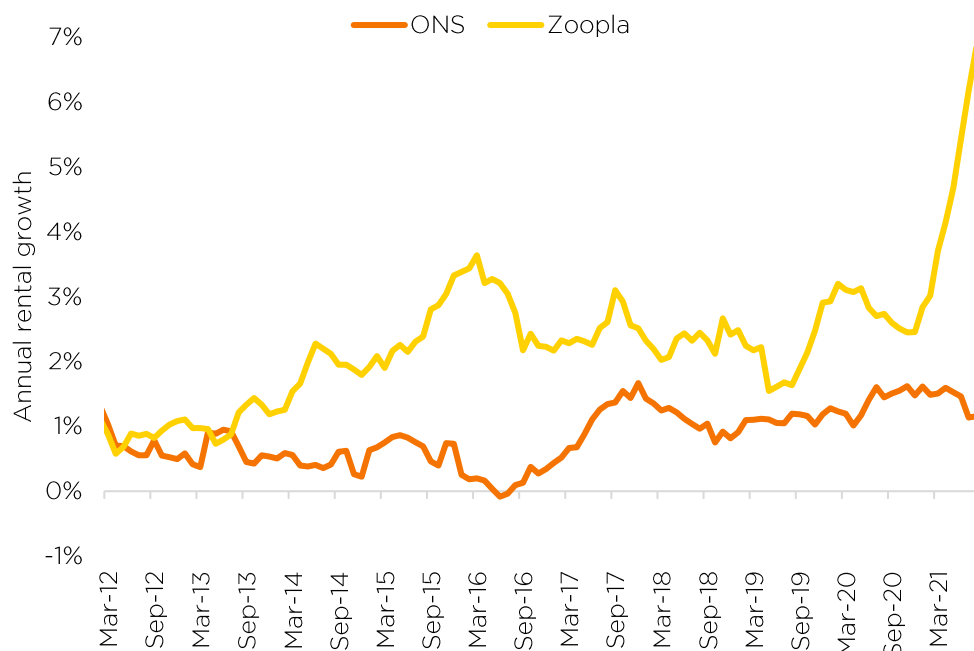
Use of Help to Buy in Wales has risen to June 2021, after a period of declining use since 2018. Help to Buy supported 20.3% of new build purchases in the year to Q2 2021, up from 18.1% in the year to Q4 2020.

The Help to Buy scheme extension to 2022 reduced the cap to £250,000 from £300,000 from May 2021. This deadline was originally scheduled for March, but was extended as a result of delays to construction and completions caused by the pandemic. The Q2 spike in HtB use may therefore reflect a rush to complete before this May deadline.

The new £250,000 cap would have excluded 32% of HtB sales in the year to March 2021. Falling HtB use in annual terms will therefore likely emerge over the next 12 months, as the impact of the price cap is felt.

Figure 10 Help to Buy 20% of new build market in Q2 2021


Source Stats Wales and MHCLG Table NB1

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 Sep-21; Wales to Q3)			Savills (house prices) (to Aug-21)			Zoopla (rents) (to Sep-21)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.1%	1.4%	9.9%	2.9%	4.3%	10.6%	1.2%	3.0%	4.6%
Wales	-	3.8%	15.3%	2.8%	4.4%	12.5%	1.2%	3.1%	7.7%

Source Savills using HM Land Registry and Registers of Scotland*, 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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