

Welsh Housing Market and Supply Update



Housing market begins to cool as new homes supply continues to fall

Wales saw strong price growth over the last year, driven by an excess of demand over supply. But rising mortgage rates are tempering demand, which will lead to falling prices and activity over the next year.

New housing delivery is in decline. Completions and planning consents have fallen in the year to Q3 2022, while starts rose slightly. The low level of consents means delivery is likely to fall further into 2023.

Affordability constraints begin to temper demand

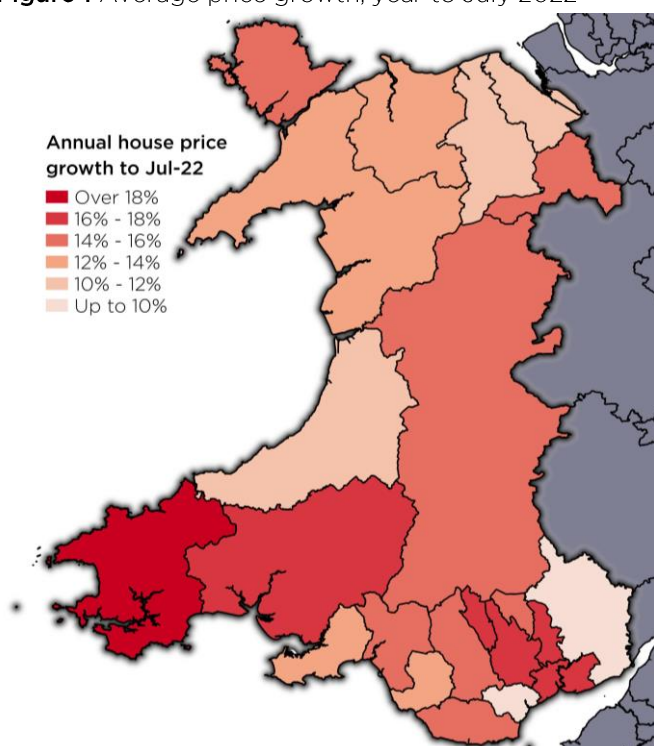
House prices and transaction activity will fall in 2023, but recover from 2024 onwards. Mortgage rates have risen sharply in recent months, constraining affordability across the UK. Demand in Wales has fallen as a result, according to the RICS survey, and will fall further as interest rates continue to rise. Changes to the LTT thresholds in October are unlikely to counteract this. Less affordable mortgages mean prices will fall by -8.5% in 2023. Activity will also fall as buyers delay purchasing decisions. But as interest rates fall from 2024, price growth will return and activity increase, with prices rising by 21.4% between 2024 and 2027.

Wales has an affordability advantage, with average prices 32% below the UK average. The impact of rising mortgage rates is therefore less severe and we expect price growth in Wales to outperform the UK average over the next 5 years, at 11.1%.

House prices in Wales grew by 12.0% in the year to September 2022, according to Nationwide. Although very strong, this has fallen from a peak of 15.8% in Q4 2021. The highest price growth was in Pembrokeshire (18.1% in the year to July 2022), alongside the more affordable areas of the Welsh Valleys, such as Torfaen (17.5%) and Merthyr Tydfil (16.1%). Variation in price growth within Wales is due to the cyclical nature of the housing market – those local authorities which have grown most quickly are those with the lowest house prices and the lowest growth since the 2007/08 peak.

Transaction activity has also been strong in 2022 so far, following a record year in 2021. This was driven first by the tax savings on offer during the LTT holiday, then by positive sentiment and low mortgage rates.

Figure 1 Average price growth, year to July 2022



Source HM Land Registry, 6 month smoothed*

Rents increased 11.9% in Wales in the year to September 2022, according to Zoopla. Growth was strongest in Torfaen and Blaenau Gwent (both 15.6%). Surveyors have consistently reported a significant excess of demand over supply in the last year, suggesting strong rental growth is likely to continue. Supply shortages have been exacerbated by landlords selling and exiting the market, benefiting from recent price growth and avoiding further regulation through the Renting Homes (Wales) Act 2016 from December this year. Since April 2020, frozen LHA rates have fallen from 84% of median rent to just 68% for 2 beds, making renting a home increasingly unaffordable for those on Housing Benefit.

Completions fall as new homes pipeline under threat

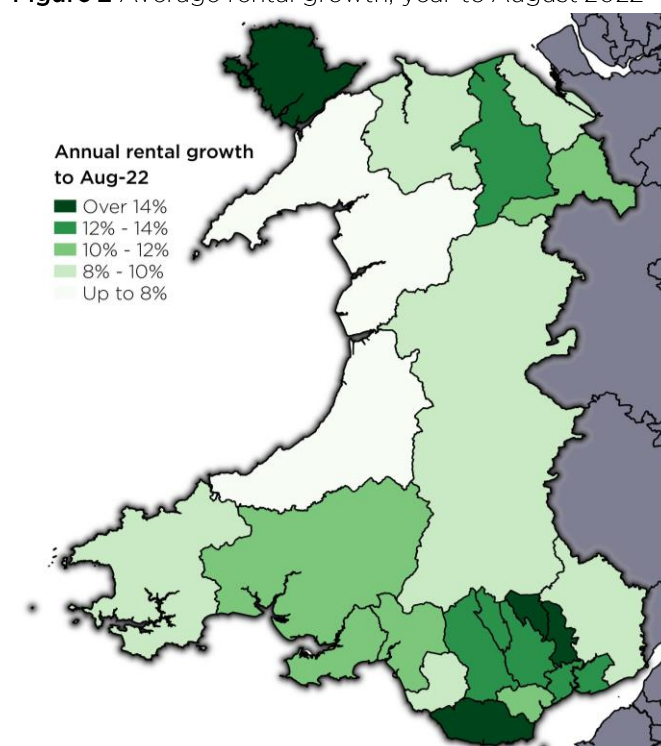
New homes completions were down -21% over the last year, according to quarterly EPC data, but they remain 10% above the 2017-19 average.

The pipeline of new homes in Wales is still shrinking and the delivery of new homes is expected to fall further over the coming months. Starts failed to keep up with completions in the year to September, falling -13% behind, according to the NHBC. New planning consents also fell by -25% in the same period, according to the HBF. The development industry faces some significant headwinds, with development finance increasingly costly, and materials and labour still in short supply.

Developers are also facing the end of the Help to Buy scheme (HtB), which will close to new applications on 31st March 2023. Use of the scheme has reduced, supporting 56% fewer sales in Q2 2022 than Q2 2021. 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 August 2022



Source Zoopla Rental Index - powered by Hometrack, 6 month smoothed

A large majority of surveyors are now reporting falling demand, exceeding the number reporting falling supply. Most surveyors reported that new buyer enquiries fell in September, with a net balance of -46. This was greater than the number reporting falling new instructions, at -24. This likely indicates that demand has fallen sharply and across many areas, while supply has fallen less sharply.

This follows a significant excess of demand over supply since the beginning of the pandemic. But falling demand is now beginning to be reflected in a slowing of price growth.

Price growth has remained relatively strong, but is expected to fall away in the coming months.

The net balance of opinion of surveyors reporting price growth has fallen to +29 in September, from an average of +89 in the 12 months to May, according to the RICS survey.

Nationwide reported house price growth of 2.5% over the three months to September 2022, down from a peak of 4.1% in June 2021.

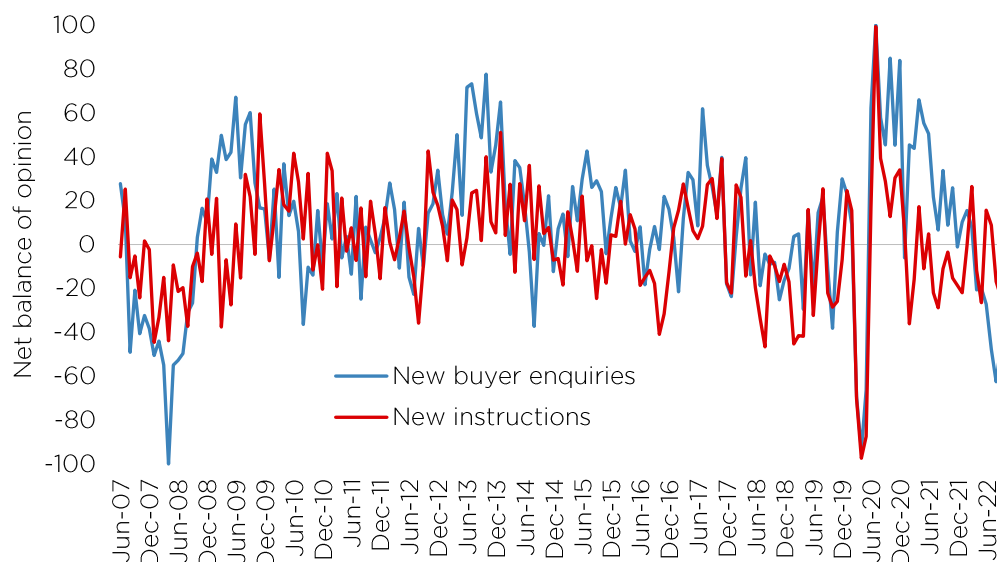
Surveyors' expectations for the next three months are negative for the first time since 2020. But they are less negative in Wales than most other areas in the UK, again highlighting that, while the market is turning downwards, Wales will be hit less hard than other areas.

Transaction activity has fallen to -5% below the pre-pandemic average in the four months to September 2022. This is the first sustained period of below-average activity since late 2020.

This follows a record year of activity in 2021, driven by the LTT holiday and the savings it provided. Activity then remained 8% above the pre-pandemic average in the first five months of 2022. Rising interest rates then began to constrain affordability, leading to a drop in activity.

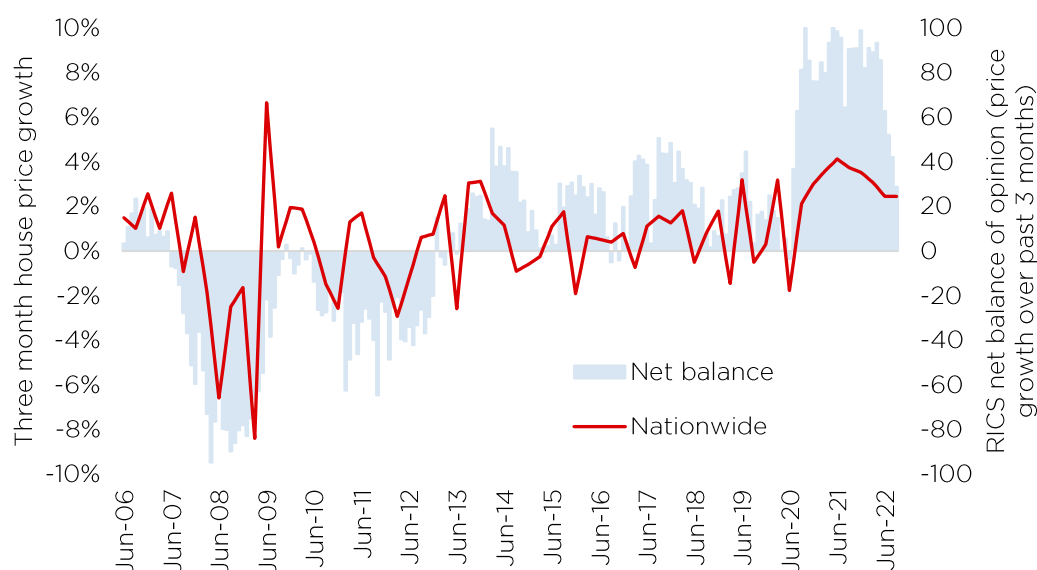
We expect transaction activity to continue to cool in the next year as interest rates rise further. However, activity will return to the market in 2024 and beyond, as interest rates fall back.

Figure 3 Demand has fallen sharply, outpacing falls in supply



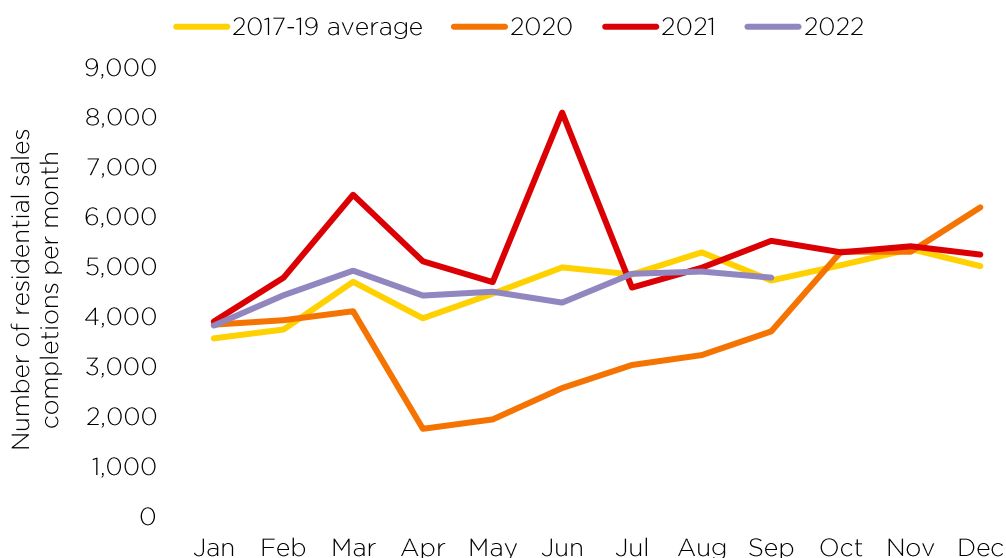
Source RICS (seasonally adjusted)

Figure 4 House price growth continues but has begun to slow



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

Figure 5 Transaction activity cools to below pre-pandemic average level



Source Welsh Revenue Authority, HMRC

Completions and consents have both fallen on an annual basis in Q3 2022.

Completions have fallen back to 2018 levels, having peaked in Q3 2021, according to new build EPC data. On a quarterly basis, completions in Q3 2022 were -21% below Q3 2021 but were 5% above Q3 2019.

Starts and completions have both remained relatively flat, according to the NHBC. But completions have exceeded starts on an annual basis to Q3 2022, indicating a shrinking pipeline of homes under construction.

Consents in Q3 were -25% below Q3 2021 and -16% below the 2017-19 average, according to the HBF and Glenigan, which will further hamper future delivery.

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.

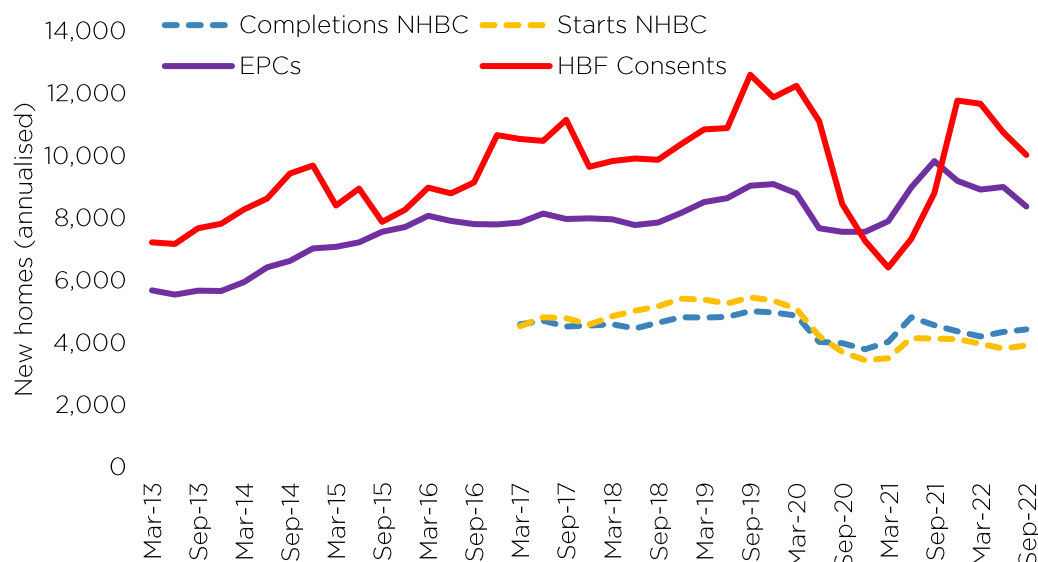
Provisional data for 2021/22 suggests delivery remained at around the Welsh Government's 2019-based affordable housing need figure for a second year. This strong growth in delivery has been driven by an increase in grant-funded completions.

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

Housing delivery exceeded Welsh Government housing need in three of the four regions of Wales in the year to Q3 2022. Total completions exceeded need by 14%, according to new build EPC data. But South West Wales is falling short of its housing need by 16%.

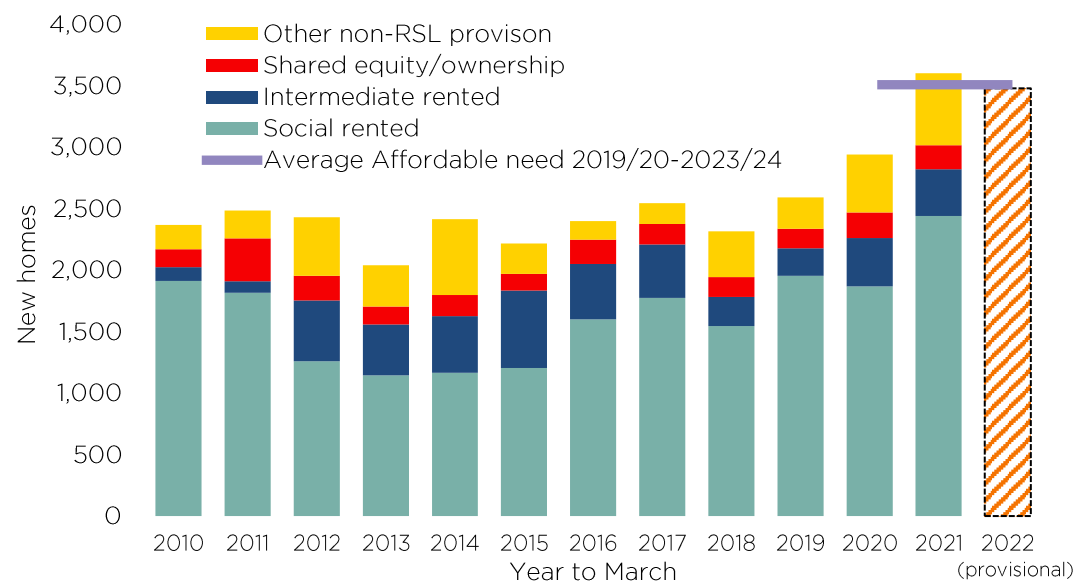
Local Development Plans (LDPs) set more ambitious housebuilding targets. These targets were not met in any region in the last year. Updated LDPs have been delayed by Covid-19, but many are in the process of being adopted (see Figure 9).

Figure 6 Housing supply falls from post-pandemic peak



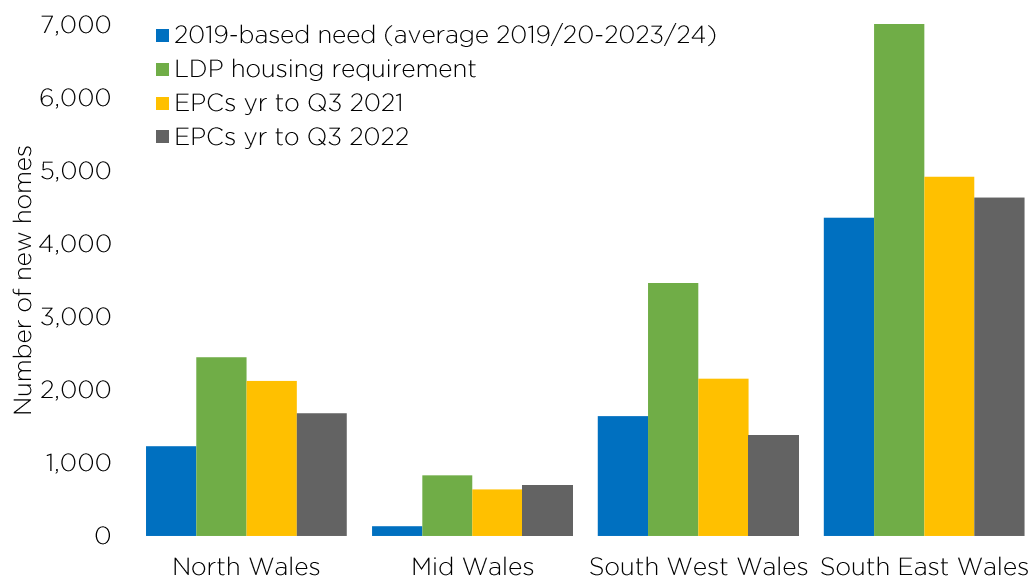
Source MHCLG Table NB1, NHBC and Glenigan for HBF, HBF Consents estimated to Sep-22 by Savills using Glenigan

Figure 7 Affordable delivery met need in the year to March 2021



Source Stats Wales

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



Source Stats Wales, LDPs and MHCLG Table NB1

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

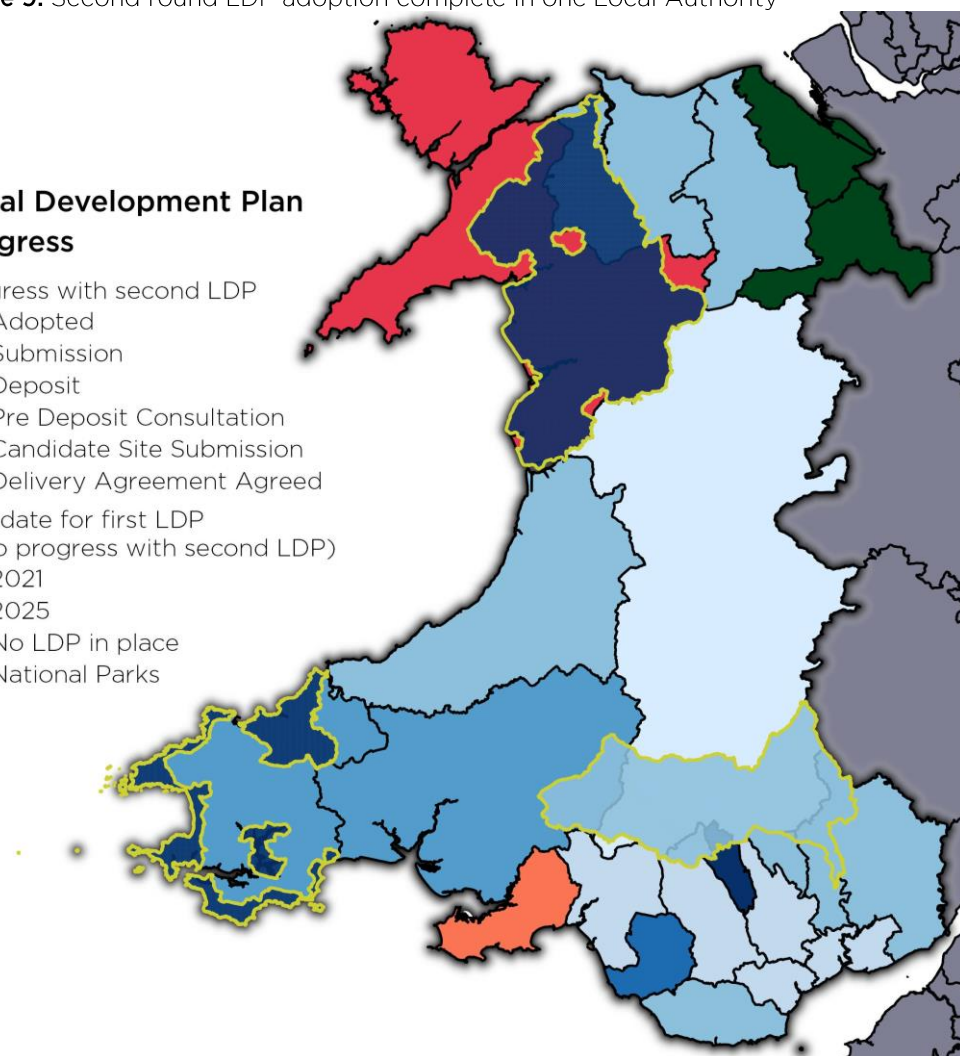
Most Local Planning Authorities (LPA) in Wales have begun the process of adopting a second Local Development Plan (LDP).

Some LPAs have made more progress than others, however. 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. The National Parks have progressed better with plan-making than other LPAs.

A Delivery Agreement was approved in Powys in June, meaning that just two first round LDPs have seen no progress towards an update – Swansea and the joint plan in Anglesey and Gwynedd.

Bridgend has become the second LPA to submit a second LDP for examination, while a further two, Carmarthenshire and Pembrokeshire, have consulted on Deposit LDPs and are likely to submit for examination soon.

Local Development Plan Progress

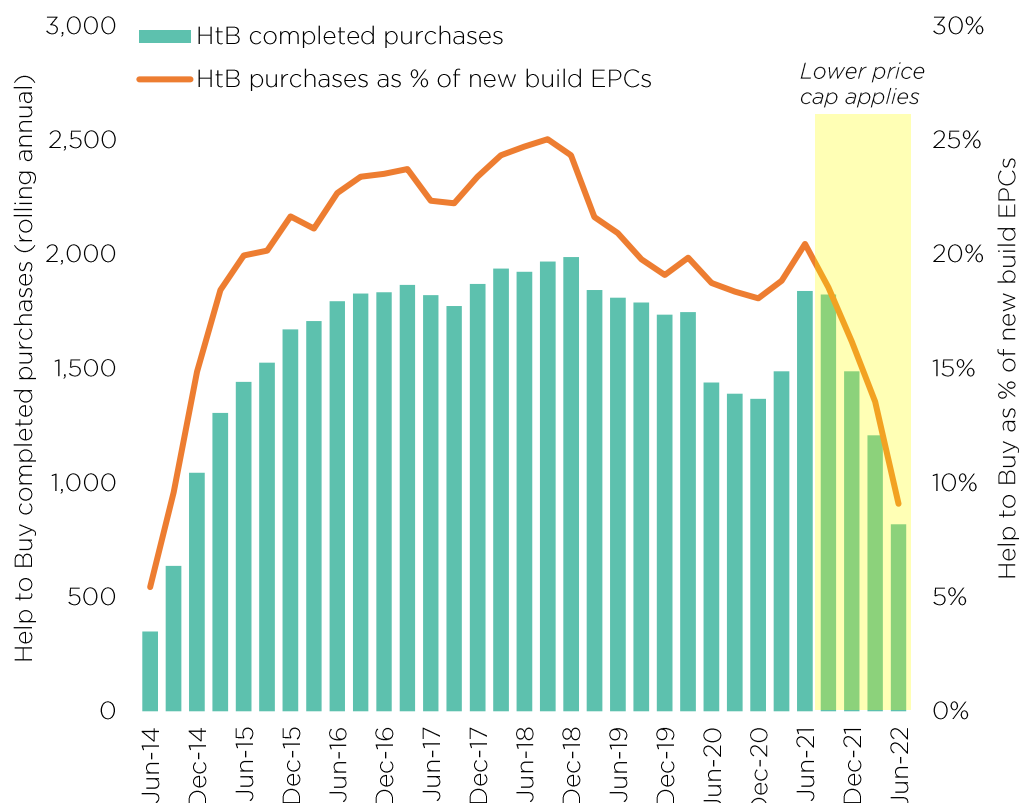


Source LDPs

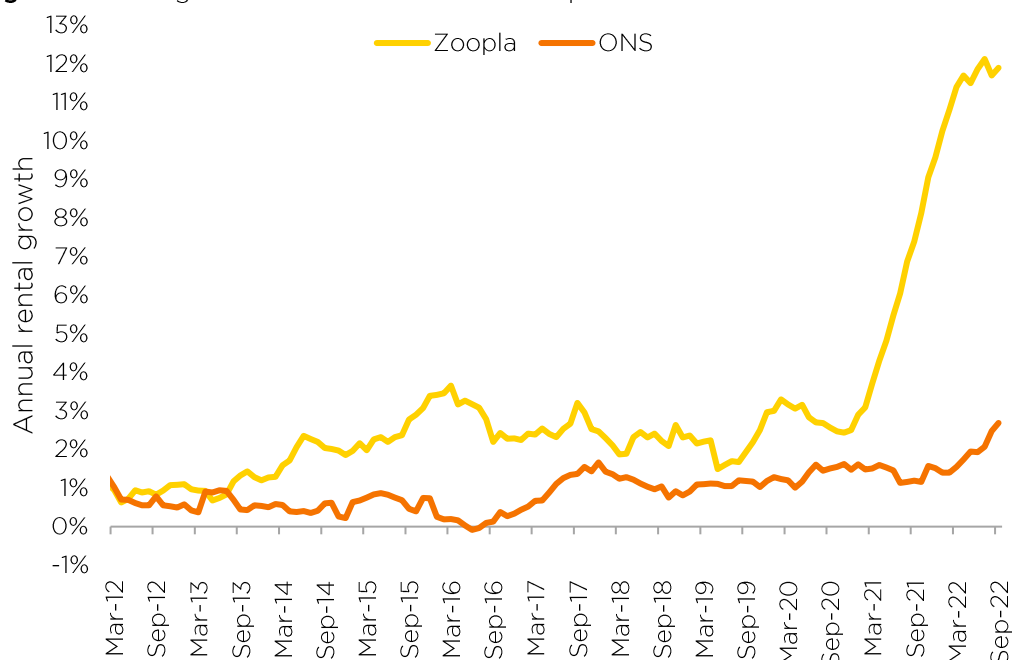
Use of Help to Buy in Wales has fallen, with the scheme supporting 56% fewer sales in Q2 2022 than the same period a year earlier.

This means that just 9.1% of new build purchases in the year to Q2 2022 were made through the scheme. The scheme was extended to 2023 for first-time buyers only and with a reduced price cap, so falling activity was expected.

The scheme will close to new applicants on the 31st March 2023. The scheme enables buyers to take on more debt and purchase more expensive homes than they would otherwise be able to afford. The end of the scheme will therefore leave a gap in demand for new homes. Housebuilders may look to alternative schemes such as Deposit Unlock or alternative pools of demand such as Build to Rent to fill this gap.

Figure 10 Help to Buy use falls as scheme winds down


Source Stats Wales, MHCLG Table NB1

Figure 11 Rental growth continues at near-record pace


Source ONS, Zoopla Rental Index - powered by Hometrack

Table 1 Recent house price and rental growth

	Nationwide (house prices) (to Sep-22)			Savills (house prices) (to Jul-22)			Zoopla (rents) (to Sep-22)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.0%	1.3%	10.4%	1.0%	2.8%	9.5%	1.1%	3.1%	12.0%
Wales	-	2.5%	12.0%	1.0%	3.2%	13.6%	1.2%	2.8%	11.9%

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 2022

	2023	2024	2025	2026	2027	5yrs to 2027
UK	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
Wales	-8.5%	2.0%	4.5%	7.5%	6.0%	11.1%

Source Savills

Table 3 Rental growth forecasts – first published November 2022

	2023	2024	2025	2026	2027	5yrs to 2027
UK	6.5%	4.0%	2.0%	2.4%	2.3%	18.3%

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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