

Welsh Housing Market and Supply Update



House prices and activity fall while new homes supply remains under threat

Prices in Wales began to fall at the end of 2022, as rising mortgage rates tempered demand. Transactions have also fallen below 2017-2019 average levels. We expect this to continue through 2023, although Wales will outperform many other areas of the UK, before a return to growth in 2024.

New homes completions held steady in Q4 2022, but a sharp drop in planning consents means that delivery is likely to fall in 2023 and beyond.

Prices and activity fall, but outlook grows more positive

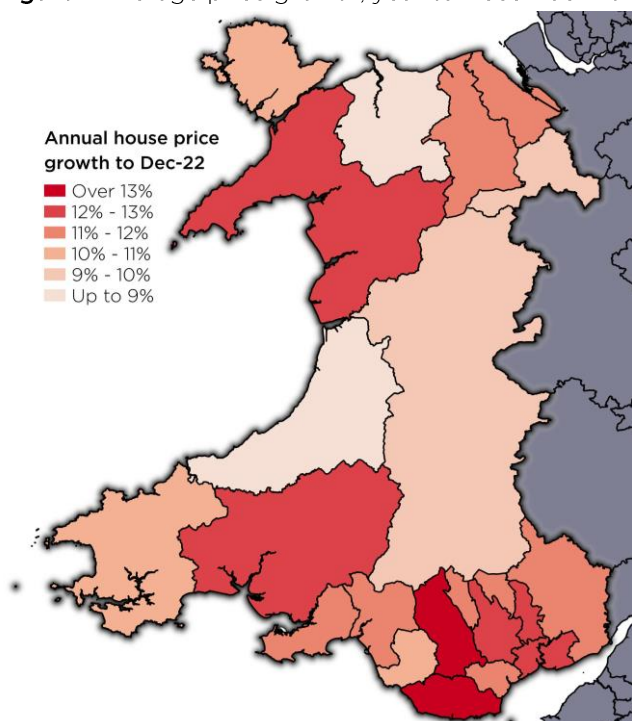
House prices and transaction activity have fallen, and will fall further in 2023, but will recover from 2024 onwards. Mortgage rates have risen sharply, constraining affordability and decreasing demand, which sits well below supply according to the RICS. We expect prices to fall by -8.5% in 2023, as the full impact of rate rises filters through. But the base rate is at or approaching its peak and medium term economic forecasts have grown more positive, with the economic turmoil of late 2022 largely in the rear view mirror. This has brought some demand back into the market. The cost of debt is expected to fall from early 2024, allowing price growth to return and activity to 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 fell by -0.6% in the year to March 2023, according to Nationwide. This marks a sharp change in market conditions compared to the 9.4% annual growth seen six months earlier. The highest growth was in Rhondda Cynon Taf and the Vale of Glamorgan in 2022, at 13.9% and 13.8% respectively, according to the Land Registry, which lags the Nationwide index and therefore continues to show strong growth.

Transaction activity has fallen away in recent months, on the back of weaker demand for homes. But transactions have been more robust than expected, at more than 90% of the pre-pandemic average. We expect activity to fall further as the full impact of rate rises is felt in the market.

Figure 1 Average price growth, year to December 2022



Source HM Land Registry, 6 month smoothed*

Rents increased 10.2% in Wales in the year to February 2023, according to Zoopla. Growth was strongest in Neath Port Talbot and Newport, at 14.1% and 12.6% respectively. Demand still significantly exceeds supply, according to the RICS survey, suggesting this strong growth may 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 2022. Since April 2020, frozen LHA rates have fallen from 84% of median rent to just 66% for 2 beds, making renting a home increasingly unaffordable for those on Housing Benefit.

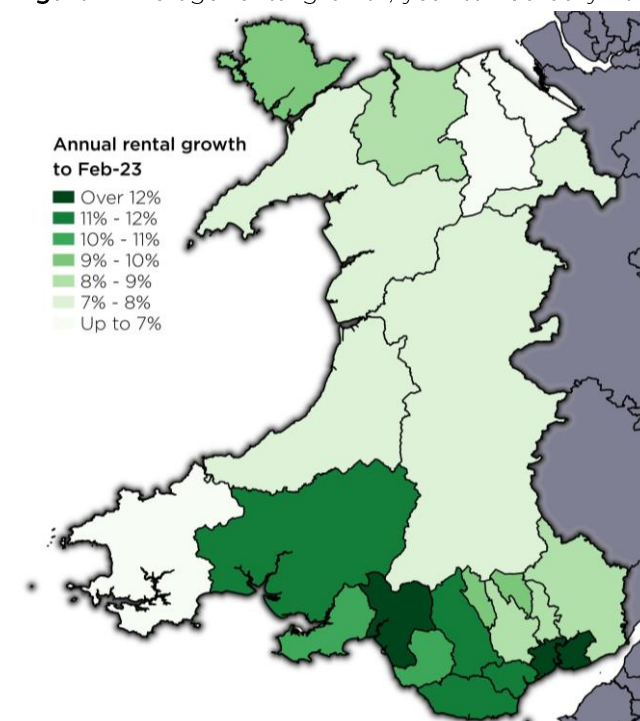
Completions steady but falling consents threatens delivery **New homes completions held steady in Q4 2022**, according to EPCs and Stats Wales, with EPCs remaining 7% above the 2017-19 average.

The development pipeline in Wales is rapidly shrinking and the delivery of new homes is expected to fall further over the coming months. Starts fell by -24% in the final quarter of 2022 as the development industry contended with a weaker sales market and higher build costs, according to Stats Wales. New planning consents were -32% below 2021 levels in 2022, according to the HBF.

The Help to Buy (HtB) Scheme has been extended in Wales. The scheme will now end on 31st March 2025, in a significant departure from housing policy in England. The extended scheme is open to all buyers and is subject to a higher price cap of £300,000. This will give developers in Wales a competitive advantage over those in England. Use of the scheme has reduced, supporting 66% fewer sales in 2022 than 2021, largely due to the lower price cap of £250,000 used since May 2021. But completions are expected to rise again under the new, more flexible, scheme.

Affordable housing delivery fell -25% short of need in 2021/22, exacerbating the backlog of under delivery built up over the last decade. Delivery will fall further as development slows and Housing Associations bear the increasing cost of decarbonisation and stock improvements.

Figure 2 Average rental growth, year to February 2023



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

A large majority of surveyors are reporting falling demand, while a smaller majority are reporting rising supply in Wales. Most surveyors reported that new buyer enquiries fell in March 2023, with a net balance of -30. A net balance of 15 reported rising new instructions.

Demand has recovered from a trough of -62 in October 2022, when the Mini-Budget caused a sharp rise in the cost of debt. With new instructions rising, October saw the largest imbalance of supply over demand on record. We expect demand to remain relatively weak over the coming months, resulting in a continued decline in house prices.

House prices have fallen by -4.3% in the last six months, according to Nationwide. Falls were largest in Q4 2022, at -2.7%, while Q1 2023 saw a smaller -1.7% fall.

The net balance of opinion of surveyors reporting price growth has fallen to -37 in March, from an average of +69 in the first 9 months of 2022, according to the RICS survey, again indicating falling prices.

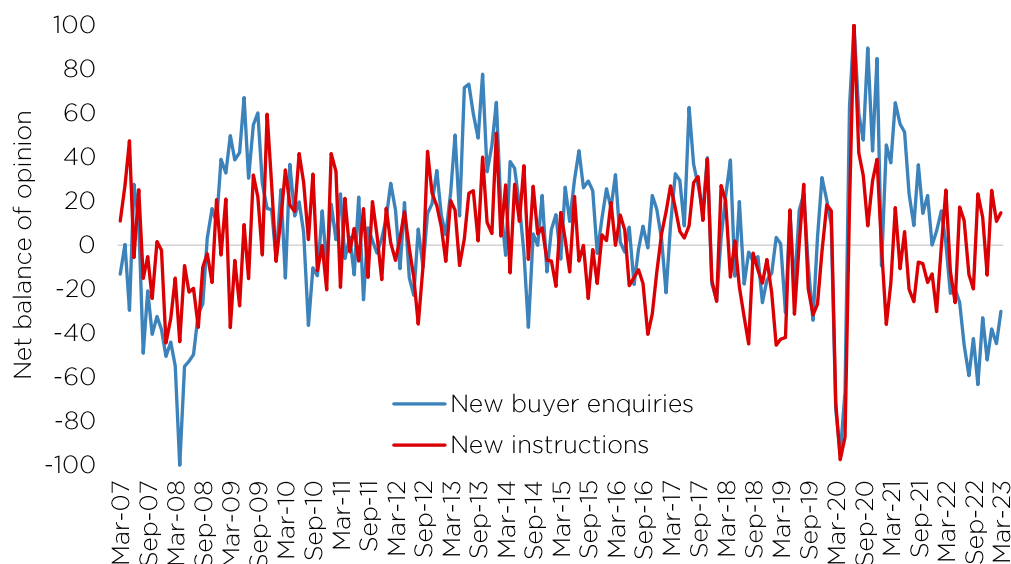
Surveyors' expectations for the next three months remain negative, although less so than in late 2022. And they are less negative in Wales than most other areas in the UK, highlighting that, while the market is weak, Wales will be hit less hard than other areas.

Transaction activity has fallen to -7% below the pre-pandemic average in the three months to January 2023. Activity has been slightly below average since June 2022.

Rising interest rates have constrained affordability, causing activity to fall after the post-pandemic mini boom in transactions. Given the scale of this affordability squeeze, activity has remained robust, at more than 90% of the pre-pandemic average.

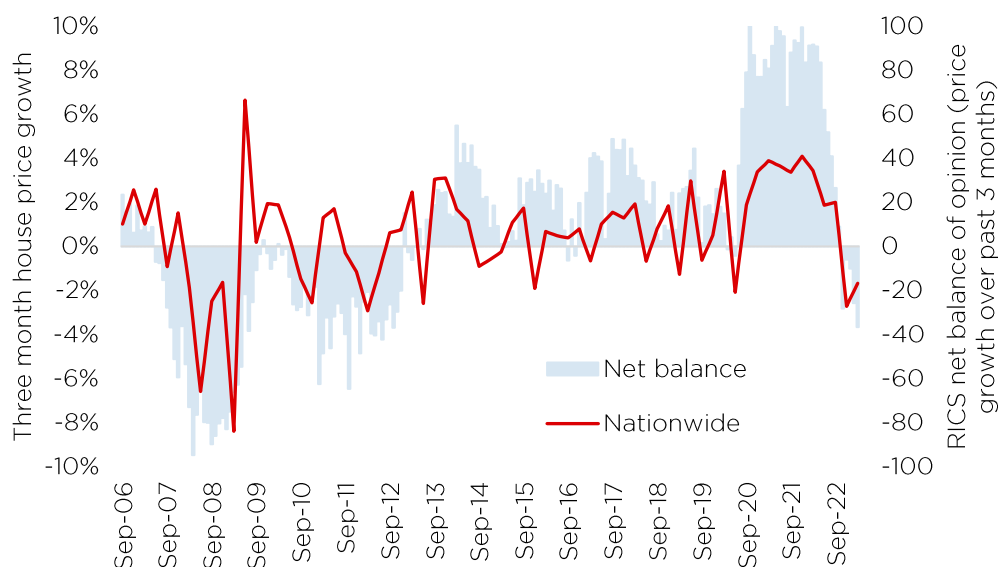
We expect transaction activity to continue to cool over the rest of the year as the lagged impact of higher interest rates is felt across the market. However, activity will return in 2024 and beyond, as interest rates fall back.

Figure 3 Demand has fallen sharply, but has begun to recover slightly



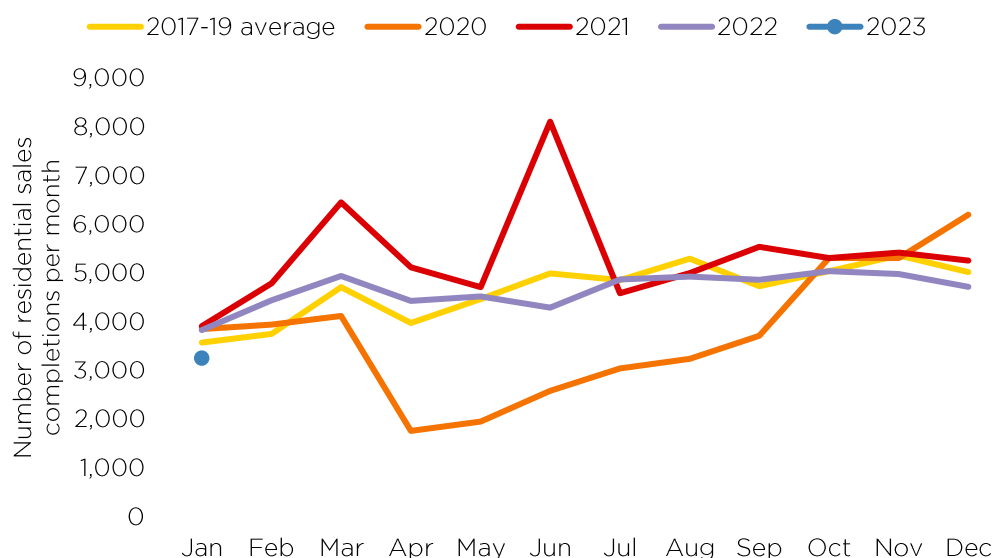
Source RICS (seasonally adjusted)

Figure 4 House prices fall as rising mortgage rates weaken demand



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

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



Source Welsh Revenue Authority, HMRC

Completions have held relatively steady in the last year, but consents and starts have fallen amid pressure on housebuilders.

Completions remain around 2019 average levels having fallen from the post-pandemic peak, according to new build EPC data. On a quarterly basis, completions in Q4 2022 were -5% below Q3 2022. Completions rose but starts fell in the last quarter of 2022, according to Stats Wales.

Consents in 2022 were -32% below 2021 and -24% below the 2017-19 average, according to the HBF and Glenigan. This sharp drop means delivery is likely to fall over the next year, as housebuilders contend with higher build costs and a weaker sales market.

Affordable delivery fell by -26% in the year to March 2022, failing to meet the latest affordable housing need figure. Delivery fell -25% short of need, driven by falls in the delivery of social rented and intermediate rented homes, of -30% and -46% respectively.

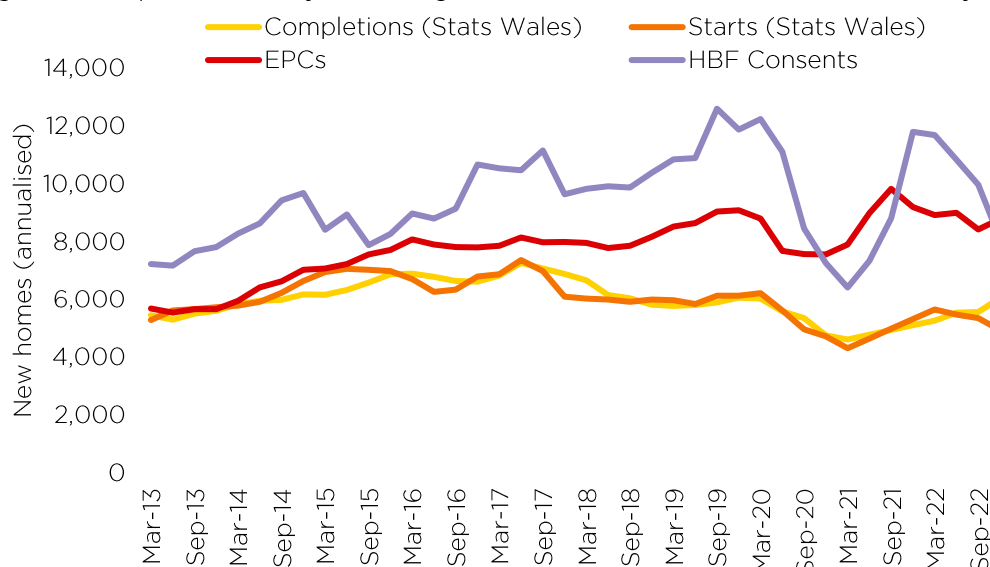
The year to March 2022 still saw the third strongest annual delivery in the last decade. This points to the significant backlog of underdelivery which has accumulated in Wales. Stronger grant funding can form part of a solution, but with a slowing pipeline of consents in Wales, affordable housing delivery is likely to remain below need in the coming years.

Housing delivery exceeded Welsh Government housing need in three of the four regions of Wales in the year to Q4 2022. Total completions exceeded need by 19%, according to new build EPC data. But South West Wales is falling short of its housing need by 10%.

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).

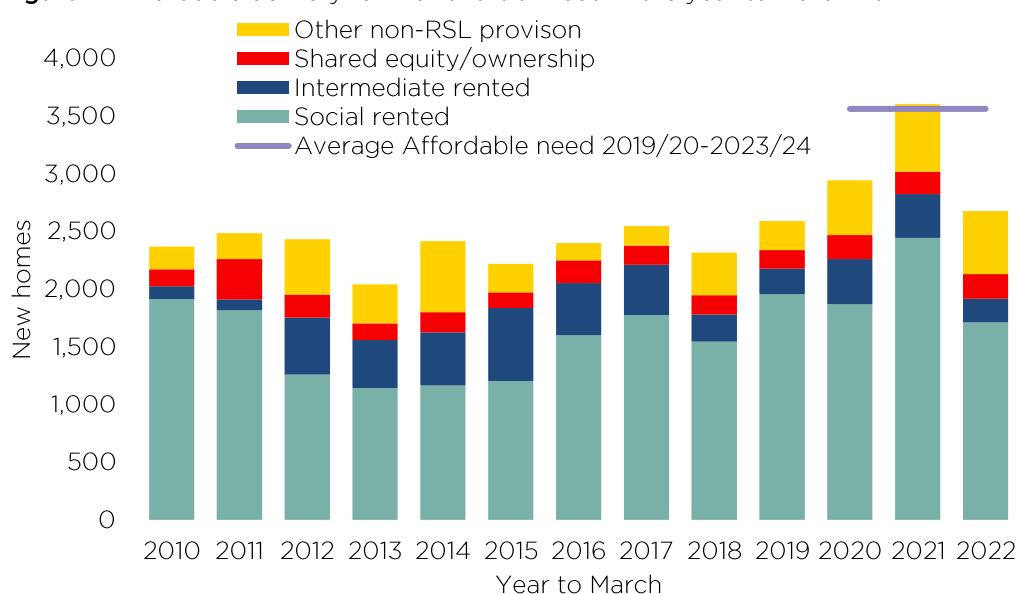
Delivery has fallen in all but one region over the last year, suggesting that meeting need may become more difficult in future.

Figure 6 Completions steady, but falling consents and starts threaten future delivery



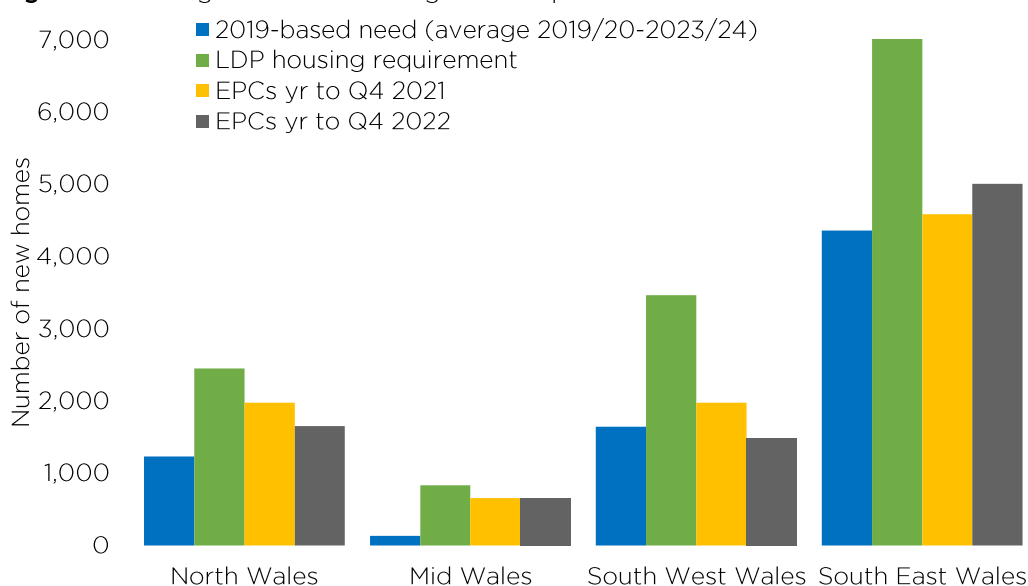
Source Stats Wales, DLUHC Table NB1 and Glenigan for HBF, HBF Consents estimated to Dec-22 by Savills using Glenigan

Figure 7 Affordable delivery fell well short of need in the year to March 2022



Source Stats Wales

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



Source Stats Wales, LDPs and MHCLG Table NB1

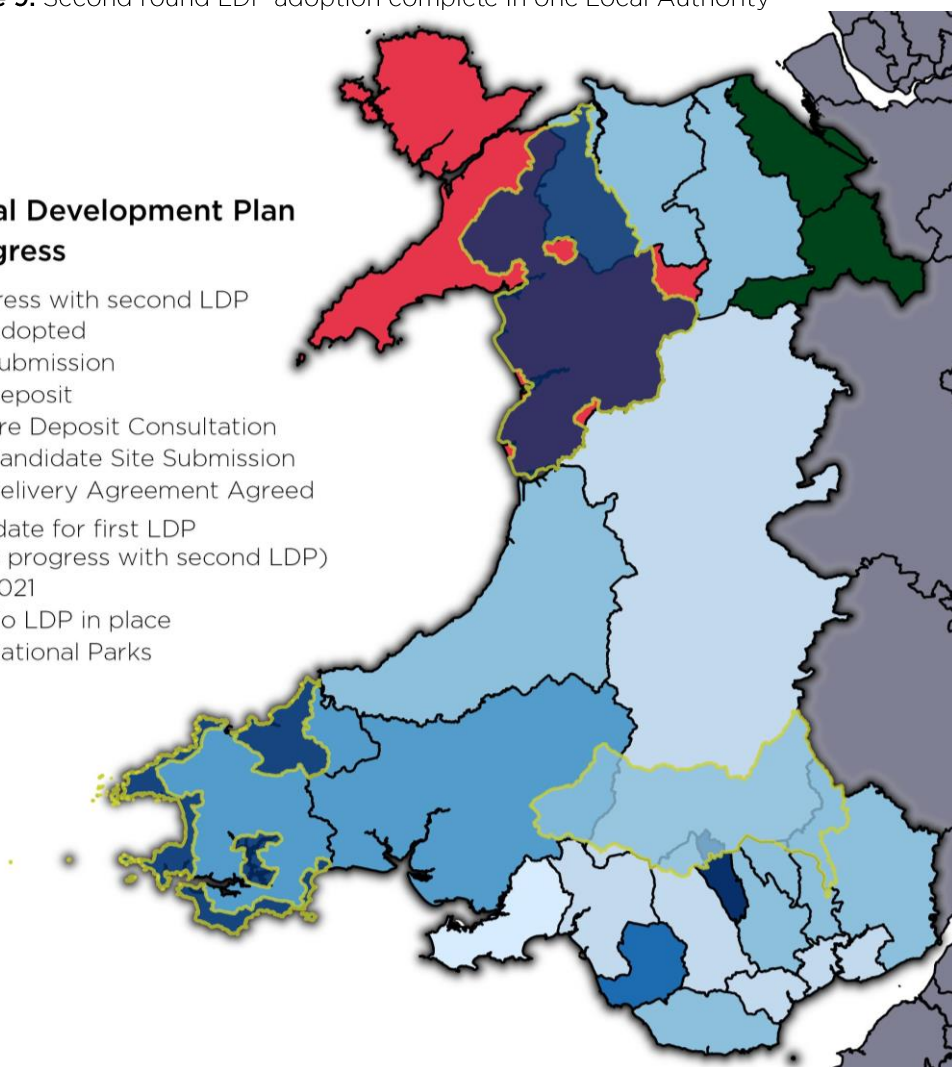
Figure 9: Second round LDP adoption complete in one Local Authority

Most Local Planning Authorities (LPA) in Wales have begun the process of adopting a second Local Development Plan (LDP). Since the last update, the examination for Bridgend's second LDP has taken place with Bridgend likely the next authority to adopt a second LDP.

Where previously Gwynedd and Anglesey had prepared a joint LDP, their planning policy unit has split with each authority now to prepare a separate LDP. Now that Swansea has published a Delivery Agreement, these are the only two authorities with an adopted LDP yet to commence work on a second LDP.

Whilst it may appear that there has been limited progress among the South Wales authorities in the last six months, there is an expectation that a number will consult on various stage plans over the summer months.

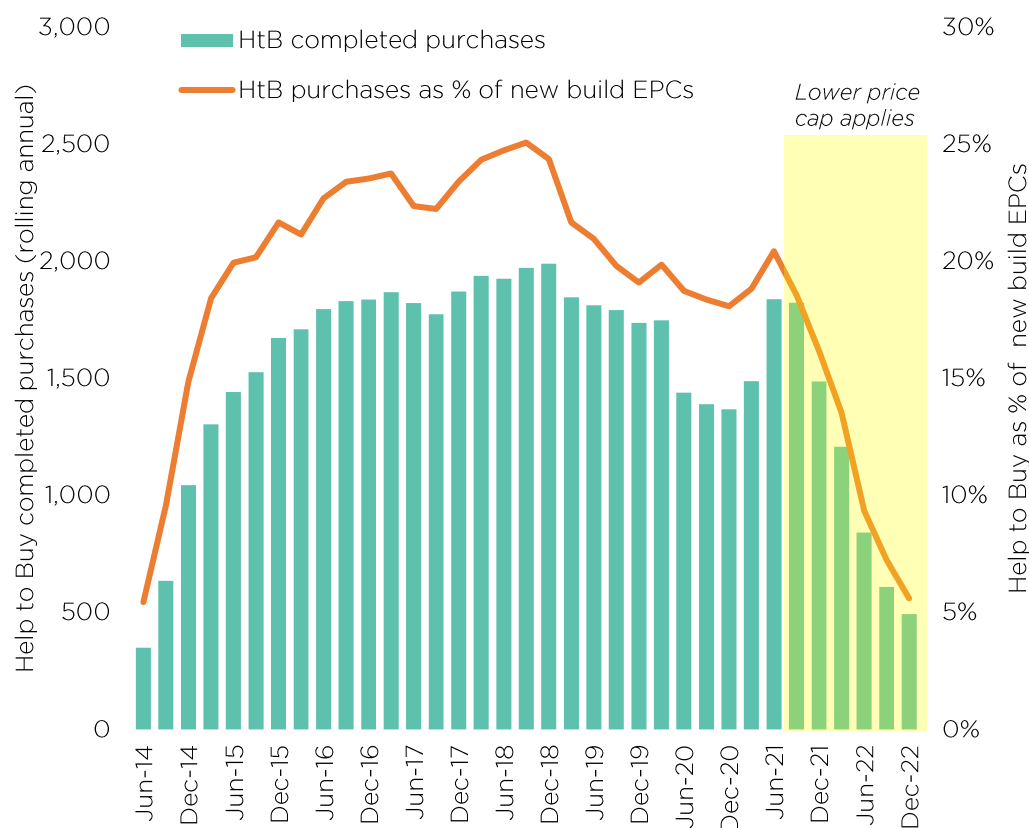
Local Development Plan Progress



Source LDPs

Use of Help to Buy in Wales has fallen, with the scheme supporting -67% fewer sales in 2022 than 2021. Just 6% of new build purchases in 2022 were made through the scheme, down from 16% a year earlier. The scheme had applied to first-time buyers only, with a reduced price cap of £250,000 since May 2021, resulting in falling take-up. It had been due to close to applicants on 31st March 2023.

The scheme has now been extended to March 2025, and applies to all buyers with a higher price cap of £300,000. This is a significant departure from policy in England, where the scheme has now ended. The scheme enables buyers to take on more debt and purchase more expensive homes than they would otherwise be able to afford. This will give new build homes in Wales a competitive advantage and will support greater delivery over the next two years.

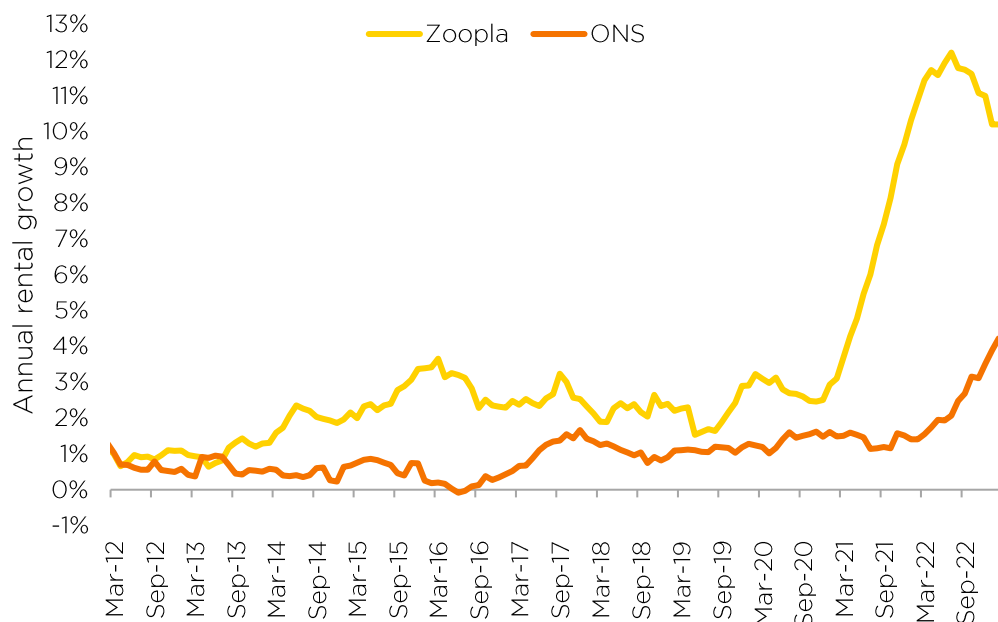
Figure 10 Help to Buy use falls but scheme extension will bring greater activity


Source Stats Wales, MHCLG Table NB1

Figure 11 Rental growth begins to slow, but remains at elevated levels

Rental growth in the year to February was 10.2%, below the July 2022 peak of 12.1%, according to Zoopla. The ONS estimated rental growth in the same period was 4.2%, the highest figure on record. It is lower because this index measures the full stock of rents, including renewals and existing leases, whereas Zoopla measures only newly agreed rents.

Strong growth has been driven by a significant gap between demand and supply. An average net balance of +66 surveyors saw increasing demand in the six months to September, compared to -27 for rental supply. Rental growth is therefore likely to continue in the coming months.



Source ONS, Zoopla Rental Index - powered by Hometrack

Table 1 Recent house price and rental growth

	Nationwide (house prices) (to Mar-23)			Savills (house prices) (to Dec-22)			Zoopla (rents) (to Feb-23)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.8%	-1.9%	-3.0%	0.5%	2.2%	10.8%	0.7%	2.4%	10.9%
Wales	-	-1.7%	-0.6%	0.6%	2.4%	11.5%	1.0%	2.3%	10.2%

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%
Wales	5.5%	3.5%	2.0%	2.4%	2.3%	16.7%

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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