Welsh Housing Update

Strong price growth and steady activity levels

Despite falling 0.4% in Q3, Wales had stronger house price growth than the UK as a whole over the last year, with house prices rising 3.0% in Wales compared to 0.2% in the UK, according to Nationwide. We expect this relatively strong house price growth in Wales to continue over the next five years.

Housing market confidence has been susceptible to the rollercoaster of Brexit deadlines in Wales as it has been in the rest of the country. Over the summer, a small majority of surveyors reported seeing rising numbers of enquiries and instructions as activity levels stabilised. But Wales has actually seen relatively stable transaction volumes during 2019, unlike the rest of the country where the number of sales has fallen. Activity remains closer to pre-2007 levels in Wales than it is elsewhere in the UK. The extension of Article 50 and the announcement of a General Election in December will now prolong the political uncertainty into 2020.

Annual house price growth during the year to August was highest in the south east of Wales. The exception to this was Cardiff, where prices are already 21% above their previous peak, higher than any other district in Wales excluding Monmouthshire (24%). Ceredigion saw the lowest price growth over the same period, with prices falling 0.8%. Pembrokeshire is the only part of Wales where the average house is still worth less than it was in 2007/08.

The average rent increased by 1.2% in Wales over the 12 months to August and annual rental growth has been mostly stable at between 1.0 and 1.5% since mid-2017, according to the ONS. The RICS survey shows that tenant demand in Wales has continued to increase, while landlord instructions have fallen. This suggests rental growth will continue and may strengthen over the next few months.

Housing supply is almost meeting need, but there is still a shortfall in affordable delivery

The number of Energy Performance Certificates (EPCs) for new homes reached 9,058 in the year to Q3 2019. This was far below the targets set out in local development plans, but did exceed the Welsh Government’s assessment of housing need, which stands at 8,350 new homes needed per year over the five years to March 2024. The number of new homes gaining planning consent is running at around 10,000 each year.

The only substantial shortfall relative to the Government’s housing need numbers is in the delivery of affordable homes. During 2017/18, 2,316 affordable homes were completed and Government figures expect this to have reached 3,095 in 2018/19. But both of these are well below the 3,895 affordable homes needed per year over the five years to March 2024, according to the Welsh Government’s housing need numbers.

Help to Buy has been a major factor in new homes delivery, with sales using the scheme accounting for more than 20% of all new homes since 2015 and reaching 25% of new homes in 2018.

During 2019, the number of Help to Buy sales has fallen back slightly. The Welsh Government has yet to make a decision on whether to follow England in extending Help to Buy beyond 2021. This creates uncertainty for housebuilders, who will currently be buying land to develop after this date, and affordable housing providers, who will be assessing demand for alternative low cost home ownership schemes.

Figure 1 Average price versus 2007/08 peak, August 2019

Figure 2 Average price growth, year to August 2019
A small majority of surveyors have reported rising numbers of new enquiries and instructions over the last few months.

The RICS Survey has, at times, been a good forward indicator of house price movements, which are later picked up by the indices.

The Nationwide and ONS indices agree that six month house price growth in Wales is running at between 2 and 3%.

The RICS survey for Wales shows that most surveyors think growth is continuing.

Following a period of falling activity throughout the second half of 2018 and much of 2019, more recent RICS surveys have seen a return to stability.

A small majority of surveyors have reported rising numbers of new enquiries and instructions over the last few months in Wales.

Transactions remain around 80% of the pre-GFC average in Wales but this has been much higher than the national average over the last 18 months.

Transaction volumes in Wales have slowly declined during 2019, but more slowly than Great Britain as a whole, according to HM Land Registry data.

However, the latest HMRC data suggests that transaction numbers have been relatively stable during 2019.
The number of EPCs for new dwellings reached 9,058 during the year to Q3 2019, exceeding the level of need.

The number of EPCs for new dwellings reached 9,058 during the year to Q3 2019, above the 8,350 new homes required each year to meet need, according to Welsh Government.

There were 10,509 additional planning consents for new homes in the year to March 2019, well ahead of current delivery volumes.

Welsh Government data on completions and starts appears to be increasingly undercounting the number of new homes delivered, when compared to the number of EPCs.

The chart compares the level of delivery in the year to September 2019 (as measured by EPCs) to the Government housing need number and Local Development Plan (LDP) housing requirements.

Housing delivery slightly exceeded the Government housing need figures in all regions of Wales.

Housing delivery is well short of the LDP housing requirements, which were set before the publication of the latest housing need numbers in June 2019.

Affordable housing need averages 3,895 per year between 2019 and 2024, according to the Government figures. This is substantially higher than recent delivery.

In 2018 affordable delivery fell 18%, but ‘planned’ delivery suggests this will increase to over 3,000 units in 2019. This is still 20% below the level of need.

Between 2019 and 2024, 47% of new homes built need to be affordable, according to the Welsh Government. But on average 35% of homes built since 2010 have been affordable.
New homes sales supported by Help to Buy peaked at 25% of all housing supply in the year to June 2018. Since then the number of Help to Buy loans has fallen slightly and amounted to only 20% of all new homes in the year to September 2019.

The ONS index reports the amount of rent being paid has been growing at a rate of between 1.0 and 1.5% per year since mid-2017. But the LSL rental tracker has recorded mostly falling rents, based on new lettings, since early 2015. This measure moved to show some rental growth at the beginning of 2019.

The RICS survey shows that tenant demand in Wales has continued to increase, while landlord instructions have fallen. This suggests rental growth will continue and may strengthen over the next few months.

Table 1 Recent house price growth

<table>
<thead>
<tr>
<th>Nationally (To Sep-19)</th>
<th>ONS (To Aug-19)</th>
<th>Savills (To Aug-19)</th>
</tr>
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<tbody>
<tr>
<td>m/m</td>
<td>q/q</td>
<td>y/y</td>
</tr>
<tr>
<td>UK</td>
<td>-0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Wales</td>
<td>-</td>
<td>-0.4%</td>
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</table>

Table 2 Five-year house price forecasts

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1.0%</td>
<td>4.5%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Wales</td>
<td>2.0%</td>
<td>6.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>18.1%</td>
</tr>
</tbody>
</table>

Figure 9 Help to Buy has fallen back from a peak

Figure 10 Rental growth is steady

Source: Savills Research using HM Land Registry and Registers of Scotland*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

*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. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.