

Welsh Housing Market and Supply Update



Lockdown pauses the Welsh housing market

The Covid-19 lockdown has created a pause in both sales of houses and new home development. Prior to the lockdown, Wales was experiencing strong house price growth and high levels of new build development. This strength may support the recovery in Wales when restrictions are lifted.

Strong price growth but Covid-19 puts a brake on activity

The lockdown has prevented viewing houses and other practical activities related to buying and selling homes and, although restrictions were lifted in England on 13th May, they remain in place in Wales. We currently anticipate UK transactions in 2020 to fall to 20-40% of the five year average, but recover quickly to 60-80% of this by January 2021.

When restrictions are lifted, activity will be supported by a degree of pent up demand in the short term. Towards the end of April, we surveyed almost 700 prospective buyers and sellers. They were predictably cautious for the short term, but expressed a greater desire to move within the next 24 months than previously. There was particular emphasis on moving for more space, and to the countryside. You can read more [here](#).

It is also possible that the new homes market may recover faster, due to it being easier to perform virtual and socially distanced viewings in new build homes.

With no activity, there is no evident movement in house prices. But as activity returns, we do expect short term price falls of around -5% to -10% across the UK. Before the lockdown, Wales had stronger house price growth than the UK as a whole, with house prices rising 6.3% over the year to March 2020, according to Nationwide. This underlying strength, supported by the relative affordability of housing in Wales, should support price growth over the medium term.

The average rent increased by 1.2% in Wales over the 12 months to March, according to the ONS. Rental value growth over the next year is likely to slow as incomes are impacted by the lockdown, with growth accelerating thereafter as income growth returns.

Rising development volumes suspended

Before the lockdown, new build delivery was on an upward trend in Wales. In the year to Q3 2019, there were 11,956 planning consents, the highest since recording began in 2011, and the number of homes delivered peaked at 9,101 homes in the year to December 2019, before falling marginally to 8,833 homes in the year to March 2020.

Lockdown caused most construction sites in Wales to shut: as of 22nd April, sites with capacity for over 10,000 units were closed in Wales, according to data from Glenigan. As of 13th May sites with capacity for over 3,500 units had reopened, but reopening is likely to be hampered by supply chain problems and social distancing. Assuming housebuilders are able to work back up to 80% of their previous capacity by the end of the year, we would expect the rate of delivery to be 30-35% below 2019 output.

Most development activity is supported by private sales and, although constructions sites are restarting, sustained activity will depend on a return of buyer demand. This may be supported by tenure switches to Affordable housing. The Welsh Government will remain keen to meet its Affordable housing target of 20,000 new homes during the current electoral term. In February, an additional £24m was pledged to support 'shovel-ready' schemes. This includes money to continue the Help to Buy scheme in Wales, which runs until the end of 2021 and accounted for almost one fifth (19%) of new homes sales in 2019.

Figure 1 Average price versus 2007/8 peak, Feb-20

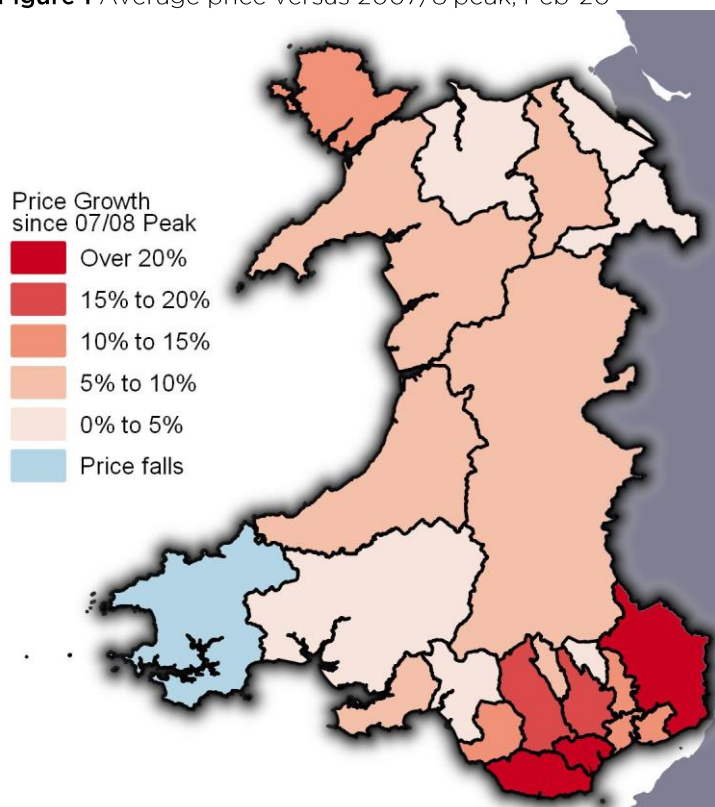
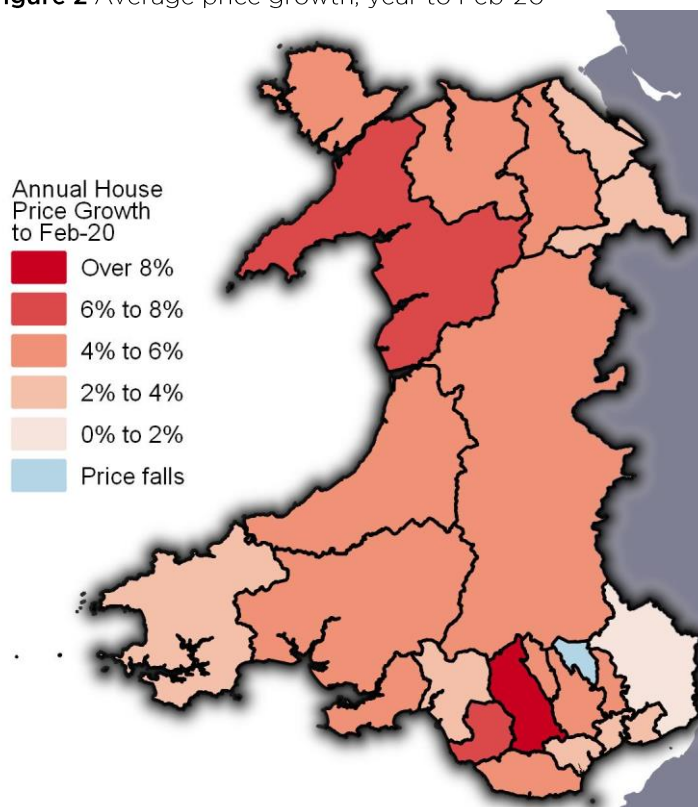


Figure 2 Average price growth, year to Feb-20

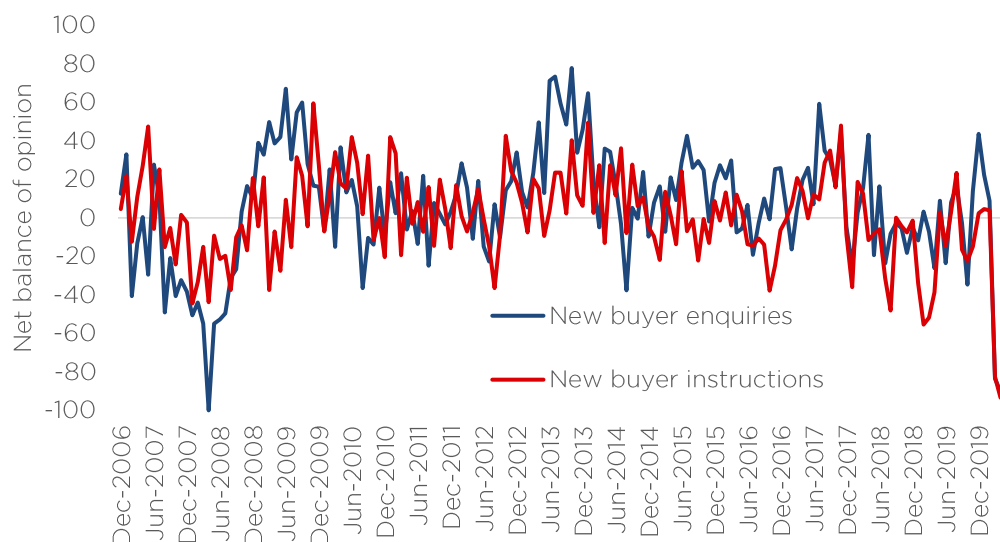


Source Savills using HM Land Registry (6 month smoothed)*

Following a period of falling activity throughout the second half of 2018 and much of 2019, the general election result at the end of 2019 saw an upswing in activity, particularly new enquiries.

Activity has now declined as a result of the lockdown. In the April RICS survey, 90% of Welsh surveyors reported falls in new enquiries and 93% reported falls in new instructions to sell over the past month. This is the second consecutive month of significant falls, with 83% of Welsh surveyors reporting falls in new enquiries and 83% reporting falls in new instructions in the March survey.

Figure 3 Lockdown causes falls in activity



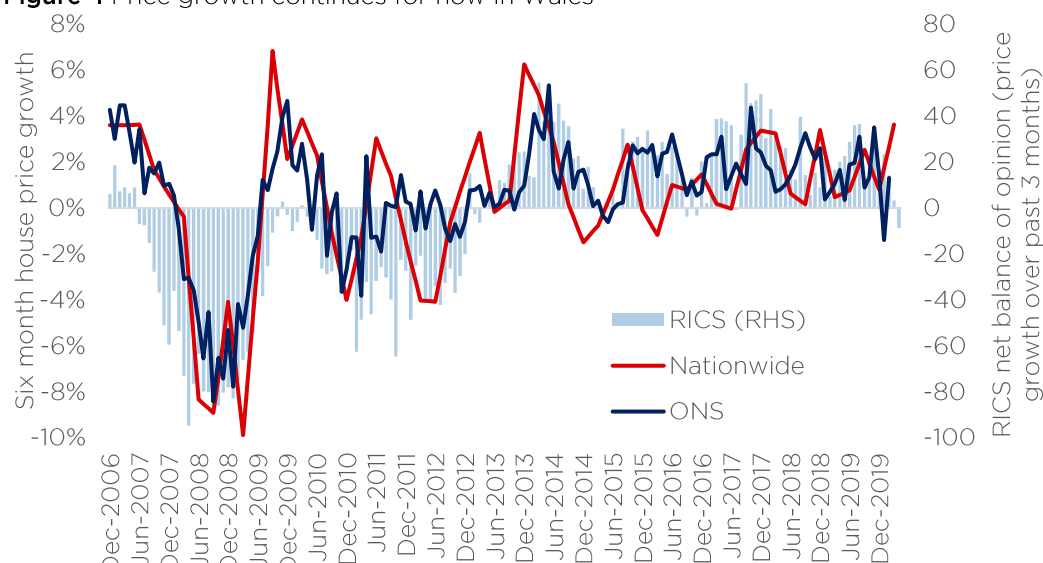
Source RICS (seasonally adjusted)

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

Nationwide suggests that there has been house price growth over the past few months, registering the highest price growth since 2014.

The ONS index has shown greater variation although generally suggests there has been price growth. However, in the April RICS survey, a small majority of respondents were reporting price falls over the past three months. Across the UK, we expect short term price falls of around -5% to -10%.

Figure 4 Price growth continues for now in Wales



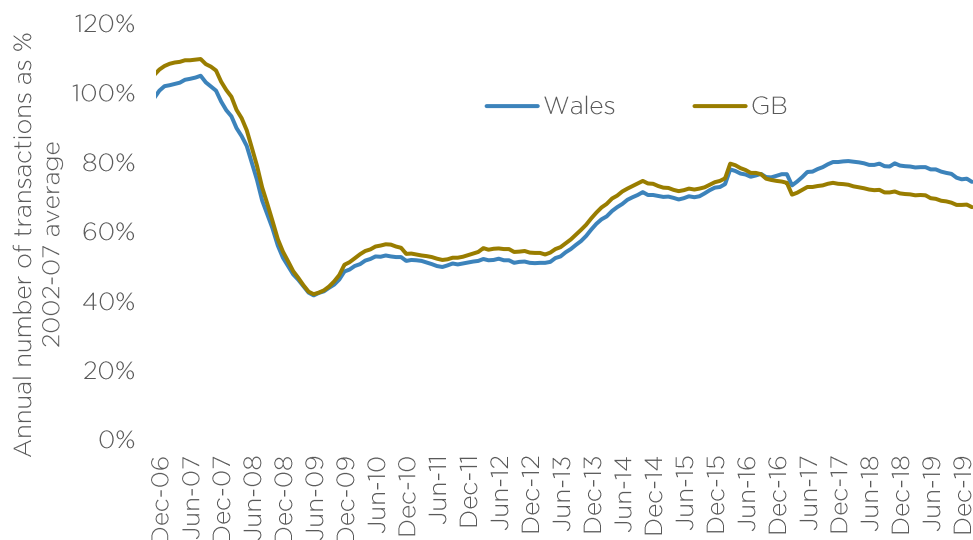
Source RICS, Nationwide, ONS

Figure 5 Transactions data yet to show impact of Covid-19

Transactions remain around 80% of the pre-GFC average in Wales, but this has been slightly higher than the Great Britain average over the last two years.

Transaction volumes in Wales have been relatively flat, although they have been trending marginally downward in the past year.

The lockdown has caused transaction numbers to fall significantly. This will not appear in the data for another couple of months.



Source Savills using HM Land Registry (adjusted for count lag)

In the year to Q3 2019, there were 11,956 planning consents, the highest number since recording began in 2011 and the number of homes delivered peaked at 9,101 homes in the year to December 2019, before falling marginally to 8,833 homes in the year to March 2020. This may have been caused by the very beginning of the lockdown, and Q2 2020 is likely to see a substantially lower level of completions.

The number of sites gaining permission in April fell by 32% month on month, but this should improve with the help of video technology.

Delivery has exceeded Government housing need in both Mid and South West Wales, and South East Wales. Delivery was at 97% of need in North Wales.

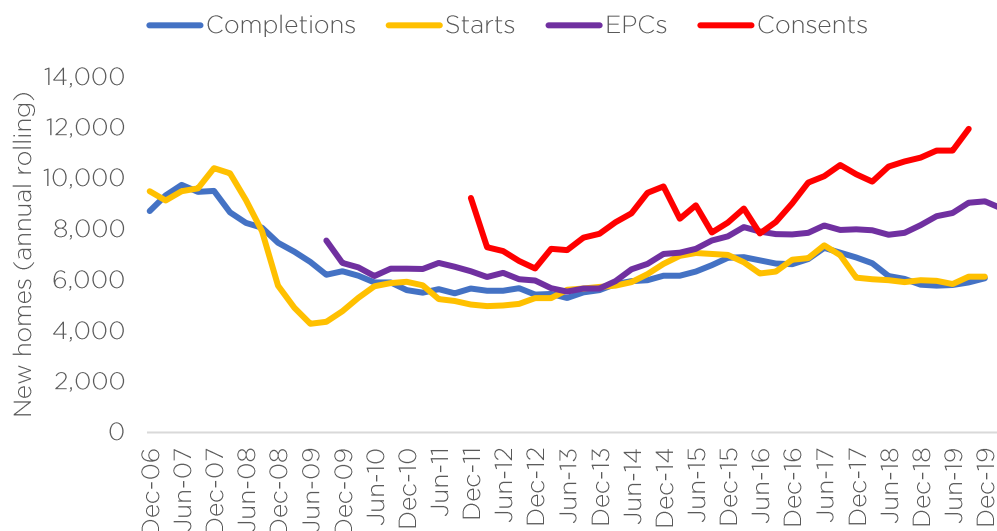
Delivery has been below the totals of the LDP housing requirements in all regions. However, household projections released in 2020 show a general fall in the projected number of households compared to previous projections. This is likely to reduce LDP requirements as they are updated.

The lockdown is likely to mean that supply underperforms against benchmarks in 2021 but the exact impact will depend on the speed at which construction resumes.

Supply of Affordable homes has been relatively flat and has not increased at the same rate as all delivery, falling from 38% of delivery between 2010 to 2014 to 31% of delivery since 2015.

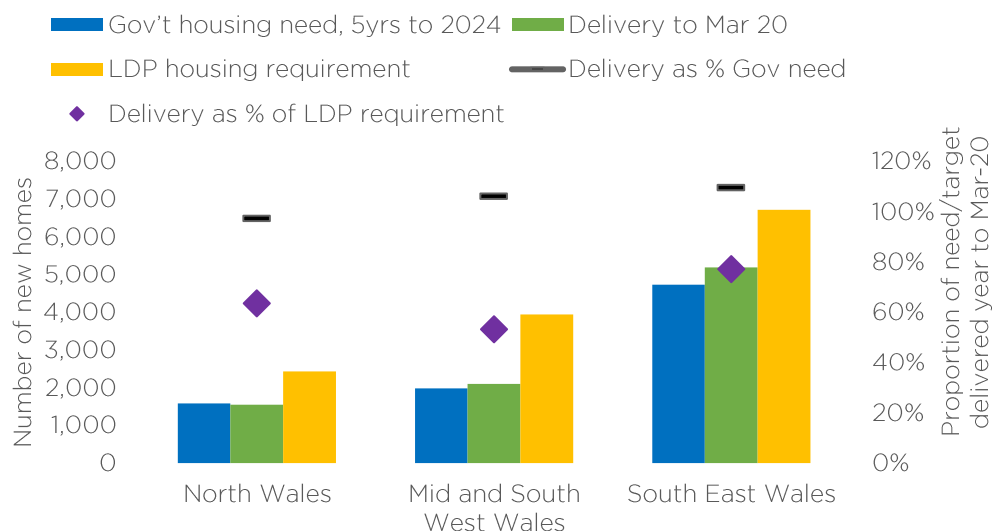
To meet the government target, of 3,895 Affordable homes per year between 2019 and 2024, the number of Affordable homes would have to be 50% higher than the 2,592 delivered in 2019. In February 2020, an additional £24m was pledged by the Welsh Government to meet its Affordable housing target of 20,000 new homes (including Help to Buy) during the current electoral term. This may support delivery in the next two years.

Figure 6 High levels of new build supply in Wales before the lockdown



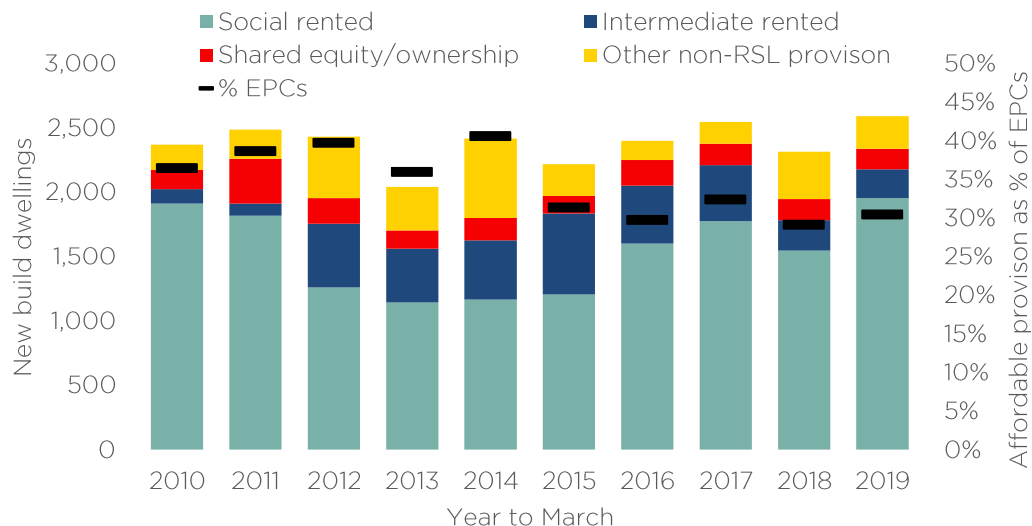
Source MHCLG Table NB1, Stats Wales and Glenigan for HBF

Figure 7 Strong supply across all regions



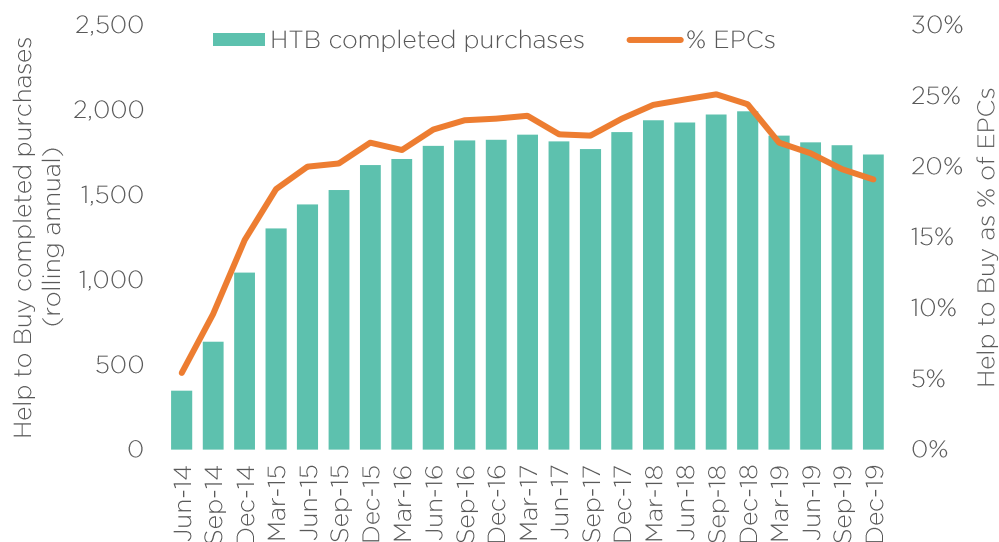
Source Stats Wales, MHCLG Table NB1, Local Development Plans

Figure 8 Steady Affordable housing delivery



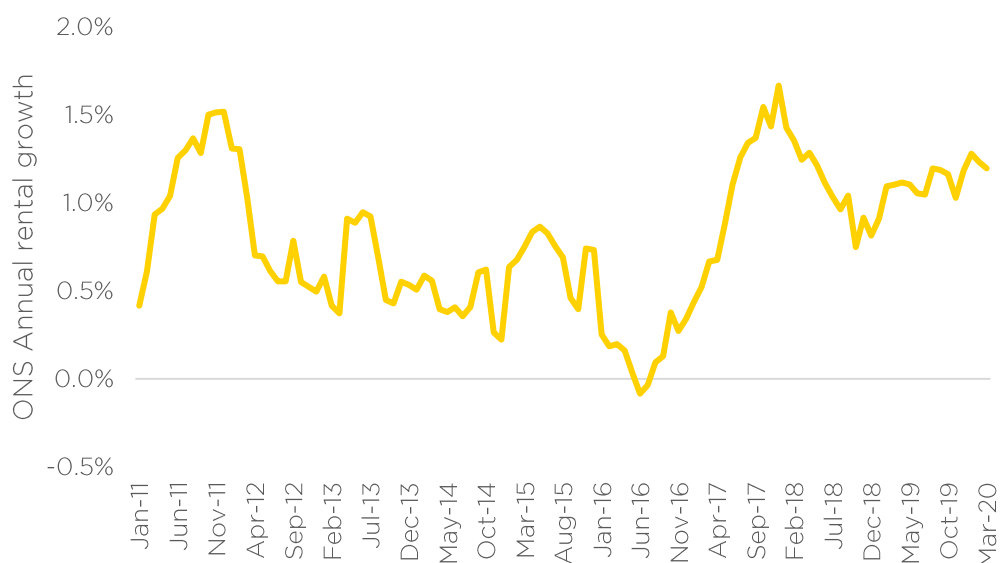
Source Stats Wales and MHCLG Table NB1

Figure 9 Just under 20% of new build sales are Help to Buy



Source: Stats Wales and MHCLG Table NB1

Figure 10 Steady rental growth



Source: ONS

The ONS index reports that the amount of rent being paid has been growing at a rate of between 1.0 and 1.5% per year since mid-2017. In the year to March 2020, rental growth was 1.2%.

Recent house price growth

	Nationwide (To Mar-20)			ONS (To Feb-20)			Savills (To Feb-20)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	0.9%	1.7%	3.0%	-0.3%	0.2%	1.2%	0.0%	0.3%	2.0%
Wales	-	2.7%	6.3%	1.3%	-1.5%	3.4%	0.1%	0.6%	4.3%

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

Forecasts Our expectations for the UK housing market are shifting rapidly in these uncertain times, as new information becomes available. For the most up to date view, please see the latest [UK Housing Market Update](#) or [Covid-19 briefing note](#).

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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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