

Scottish Housing Market Review Q3 2022

October 2022

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Key points for this issue

General

- **The data in this report mostly covers the period to Q2 2022. Therefore, the recent mortgage market volatility will not be reflected in most indicators.**

Sales

- **Following the COVID-19 pandemic, housing market activity appeared to have returned to pre-pandemic levels by Q2 2022**, with Registers of Scotland statistics showing that there were 25,331 residential property sales registered across Scotland. Whilst this was an annual decrease of 3.5%, relative to the average for Q2 (2016 - 2019) transactions were down by a more modest 1.7%.
- **Residential LBTT returns which are available up to August 2022 also show housing market activity returning to pre-pandemic levels**, with LBTT returns for the first eight months of 2022 0.7% higher than for the same period in 2019. (Source: Revenue Scotland).

House Prices

- **The surge in house prices since the Covid-19 pandemic continued in Q2 2022, with the average Scottish house price increasing by an annual 12.4%**, to £188K. (Source: UK HPI).
- **The strongest annual price growth by property type in Q2 2022 was for detached properties, up by an annual 16.9%**, whilst flats increased by the lowest amount, increasing by 8.3%. (Source: UK HPI).
- **The average new build property price increased by an annual 19.3% to £278k in Q1 2022**, which is higher than the increase on the average existing build price rose of 8.8%. This can be partly explained by the rise in new build construction materials. (Source: UK HPI).

Rental Prices

- **Private housing rental prices continued to increase** in August 2022, rising by an annual 3.6% in nominal terms but falling by 5.7% in real terms, due to a spike in CPI inflation. (Source: ONS)
- **The Scottish Parliament has passed the Cost of Living (Tenant Protection) Bill**, which gives Ministers temporary power to cap rents for private and social tenants, as well as for student accommodation. The Bill also introduces a moratorium on evictions.

Lending

- **Lending to both first-time buyers and home movers is approximately in line with pre-covid levels.** Comparing the 12-month period to Q2 2022 against an equivalent pre-covid period (12 months to Q2 2019), new mortgage advances to

first-time buyers increased by 1.1% whilst for home movers they decreased by 2.4%. (Source: UK Finance).

- **The Bank of England has increased the Base Rate seven times since December 2021, taking the rate from 0.1% to 2.25%.** A 215 basis point increase is estimated to increase the average monthly payment by around £180 on an average new variable rate mortgage and by £100 on an average outstanding variable rate mortgage in Scotland.
- **The Bank Rate increases and market volatility following the UKG Plan for Growth/mini-Budget caused sharp increases in mortgage rates,** with the average two-year fixed mortgage rate reaching 6.16% on 7 October, its highest since November 2008, and the average five-year rate reaching 6.07%, its highest since January 2010. (Source: Moneyfacts).
- **The market volatility also led to a sharp fall in the number of residential mortgage products,** with the 1,632 monthly reduction from September 2022 to October 2022 being the largest since April 2020 (Source: Moneyfacts)
- **There were 835 new regulated mortgage possessions in the UK in Q2 2022. While this is 35% higher than Q2 2021, it is also 33% lower than the pre-pandemic level of 1,250 in Q2 2019.**

Housing Supply

- **There were 20,767 all-sector new build homes completed over the one year period to Q1 2022, an annual increase of 39.7% (5,900 homes) on the previous year,** in which activity levels were affected by Covid-19 related lockdown measures. There were also 18,672 new build starts across all sectors in the year to end Q1 2022, up by an annual 5.1% (914 homes). (Source: SG)
- A total of **9,334 affordable homes were delivered over the one year period to Q2 2022,** an increase of 17.1% on the year prior. Over the same period approvals have fallen slightly by 2.5% to 7,775, whilst starts have decreased by 34.8% to 7,287. (Source: SG)

Housebuilding Material Prices

- **Construction output price inflation for new public and private housing increased by 12.3% annually to June 2022, driven by construction material price inflation,** which rose by 22.8% annually in June 2022. Construction material price inflation has slowed more recently to 13.5% to August 2022. Source (ONS and BEIS)

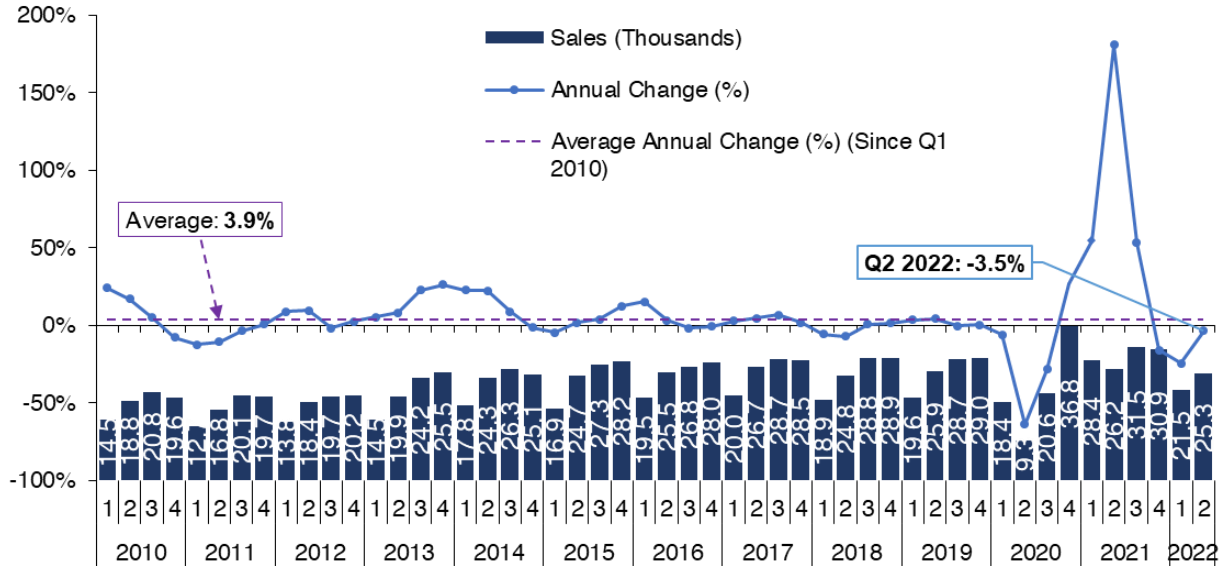
Data to: 11 October 2022

Contact: William.Ellison@gov.scot; Bruce.Teubes@gov.scot

1. Sales

National

Chart 1.1. Number of Residential Property Sales Registered: Scotland (Quarterly)



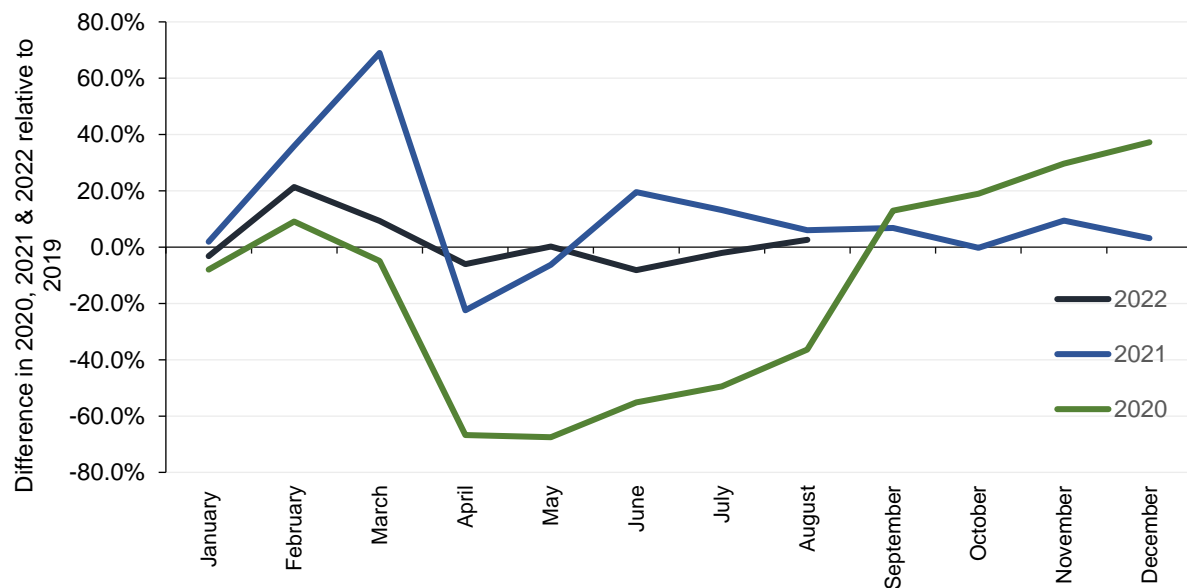
Source: Registers of Scotland

Scottish Sales Performance: National

Following the surge in transactions after home move restrictions were lifted in late June 2020, which was fuelled by pent-up demand as well as the temporary reduction in LBTT (which ended on 31 March 2021), followed by a fall as these impacts came to an end, data for Q2 2022 suggests housing market activity is returning to pre-pandemic levels, with Registers of Scotland statistics showing that there were 25,331 residential property sales registered across Scotland. Whilst this was an annual decrease of 3.5%, relative to the average for Q2 (2016 - 2019), transactions fell by a more modest 1.7%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns submitted reinforces that housing market activity is returning to pre-pandemic levels. Chart 1.2 plots the percentage difference between monthly residential LBTT returns in 2020, 2021 and 2022 relative to 2019 for the corresponding month, with 2019 reflecting pre-Covid market conditions. Analysing the first eight months of 2022 relative to the same period in 2019, it can be seen that transactions were 0.7% higher in 2022.

Chart 1.2 Residential LBTT Returns: Percentage Difference Between 2020, 2021 & 2022 Relative to 2019 (Monthly)



Source: Revenue Scotland

Scottish Sales Performance: Regional

Registers of Scotland data shows that housing market activity in Q2 2022 relative to Q2 2021 varied quite considerably across the different regions of Scotland. There was a large increase in residential property sales in Aberdeen/shire and Moray, where sales increased by an annual 8.2%. However, sales in Tayside and Fife decreased the most in percentage terms, down by 8.9% on the same period last year.

Analysing the annual change using a rolling four quarters method, it can be seen that the decrease in transactions at the national level for the one year period to Q2 2022 relative to the year prior has also been experienced across Scotland, with the exception of Aberdeen/shire and Moray.

A summary of residential property sales activity by Scottish region is outlined in Table 1.1 below. This contains the number of residential property sales registered in Q2 2022, the annual change, as well as the annual change in sales using a rolling four quarter period to Q2 2022. The latter is included to smooth out volatility in quarterly data.

Table 1.1 Regional residential transactions

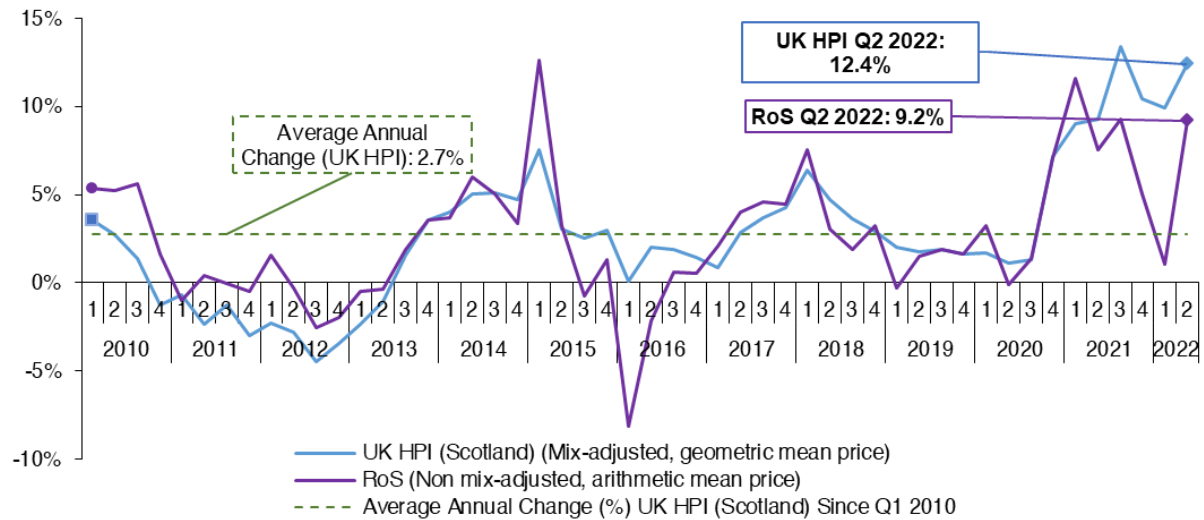
Aberdeen/shire & Moray Sales – Q2 2022 2,957 12 Month Change 8.2% Annual change (rolling 4 quarters) 11.2%	Edinburgh, Lothians & Borders Sales – Q2 2022 5,093 12 Month Change 0.5% Annual change (rolling 4 quarters) -2.8%
Argyll & Bute, Highland & Islands Sales – Q2 2022 1,677 12 Month Change -6.6% Annual change (rolling 4 quarters) -2.0%	Forth Valley Sales – Q2 2022 1,302 12 Month Change -0.4% Annual change (rolling 4 quarters) -4.9%
Ayrshires, Dumfries & Galloway Sales – Q2 2022 2,323 12 Month Change -5.9% Annual change (rolling 4 quarters) -4.7%	Tayside & Fife Sales – Q2 2022 3,628 12 Month Change -8.9% Annual change (rolling 4 quarters) -4.7%
Clyde Valley Sales – Q2 2022 8,331 12 Month Change -6.1% Annual change (rolling 4 quarters) -4.4%	Scotland Sales – Q2 2022 25,311 12 Month Change -3.5% Annual change (rolling 4 quarters) -2.5%

Source: Registers of Scotland

2. House Prices

National

Chart 2.1 Annual Change in House Prices: Scotland (Quarterly)



Source: Registers of Scotland / UK HPI

Scottish House Price Performance: National

Average house prices in Scotland, as measured by the UK HPI, increased in Q2 2022 by 12.4% relative to Q2 2021. Apart from annual house price growth in Q3 2021 of 13.4%, this is the highest quarter of house price inflation since Q1 2008, prior to the financial crisis. The average property price in Scotland stood at £188k in Q2 2022.

Data from Registers of Scotland shows a lower increase in annual house price inflation in Q2 2022, of 9.2%. Registers of Scotland data is not mix-adjusted, so it's likely to be affected by the composition of properties sold. This is supported by looking at the number of transactions in greater detail, with transactions for detached properties making up a smaller proportion of total transactions in Q2 2022 relative to Q1 2022.

UK HPI data shows that annual price growth to Q2 2022 was highest for detached properties (16.9%). Flats increased by the lowest amount, increasing by an annual 8.3%.

Scottish House Price Performance by Dwelling/Buyer Type

Chart 2.2 shows the rate of change in the average new and existing build property price in Scotland. This data is published with a lag relative to the headline HPI. In Q1 2022, the average Scottish new build property price increased to a greater extent than the existing build price, rising by 19.3% to £278K. The average existing build price rose by 8.8% to £176K.

The average price of new build properties is rising rapidly, with more recent monthly data for May 2022 showing an annual increase of 22.8%. This large increase is likely to be linked to the rise in the price of new build construction material (see Chart 10.3).

Chart 2.2 Average Scottish House Price Growth by Dwelling Type (Quarterly)



Source: UK HPI (Scotland)

The UK HPI also shows that the average price of a property bought by former owner occupiers in Scotland increased by an annual 13.5% in Q2 2022, to £228K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 11.3% in Q2 2022, to £151K.

Scottish House Price Performance: Regional

Registers of Scotland data show that house prices increased for all regions in Scotland in Q2 2022, although to a varying extent. The largest increase was in Argyll and Bute, Highlands and Islands, where house prices increased 14.6% annually to 216K (average arithmetic mean price; prices not mix-adjusted). The smallest increase was in Aberdeen/shire and Moray, which increased by 2.1% annually to £206K.

The longer-term trend (as measured by the change in house prices over the 4 quarter period to Q2 2022 over the previous four-quarter period) also shows that house price growth has been positive in all areas of Scotland. The strongest price growth was again seen in Argyll and Bute, Highlands and Islands, where house prices increased by 8.0%, whilst the smallest increase in house prices was seen in Aberdeen/shire and Moray, where house prices increased by 3.1%.

A summary of the average house price in Q2 2022 by Scottish region is included below. This also includes the annual change in the average house price in Q2 2022, as well as the annual change in the average house price using a rolling four quarter period to Q2 2022, which smooths out volatility in quarterly data (Source: Registers of Scotland).

Table 2.1 Regional house prices

Aberdeen/shire & Moray Average Price – Q2 2022 £206K 12 Month Change 2.1% Annual change (rolling 4 quarters) 3.1%	Edinburgh, Lothians & Borders Average Price – Q2 2022 278K 12 Month Change 8.5% Annual change (rolling 4 quarters) 6.3%
Argyll & Bute, Highland & Islands Average Price – Q2 2022 £216K 12 Month Change 14.6% Annual change (rolling 4 quarters) 8.0%	Forth Valley Average Price – Q2 2022 £201K 12 Month Change 12.9% Annual change (rolling 4 quarters) 4.0%
Ayrshires, Dumfries & Galloway Average Price – Q2 2022 £163K 12 Month Change 9.6% Annual change (rolling 4 quarters) 5.5%	Tayside & Fife Average Price – Q2 2022 £192K 12 Month Change 8.3% Annual change (rolling 4 quarters) 5.4%
Clyde Valley Average Price – Q2 2022 £188K 12 Month Change 9.3% Annual change (rolling 4 quarters) 5.6%	Scotland Average Price – Q2 2022 £209K 12 Month Change 9.2% Annual change (rolling 4 quarters) 5.7%

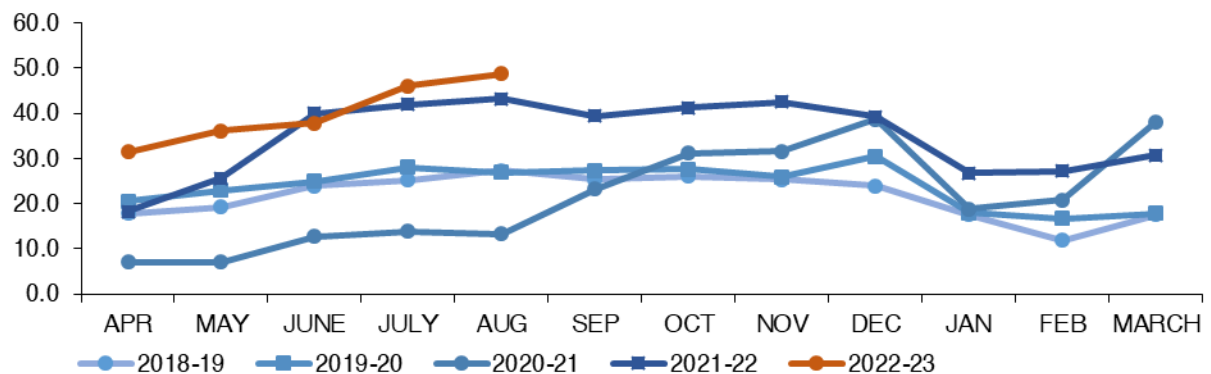
Source: Registers of Scotland

3. Residential LBTT

Residential LBTT revenues excluding ADS rose sharply from £20.8m in February 2021 to £38.1m in March 2021, before falling to £18.3m in April 2021, as transactions were brought forward due to the temporary increase of the zero rate threshold for all buyers to £250K, which took effect on 15 July 2020 and ended on 31 March 2021. Then from May 2021 residential LBTT revenues picked up and remained elevated relative to previous years, with revenue for the 2021-22 financial year 53.3% higher than the average for 2019-20 and 2020-21.

This trend has continued in the first five months of 2022-23, with revenue 62.4% higher than the same five months in 2019-20. The increase in residential LBTT revenue can be explained by higher house prices (see Chart 2.1).

Chart 3.1 Residential LBTT Revenue (Excluding ADS, Monthly, £ millions)



Source: Revenue Scotland

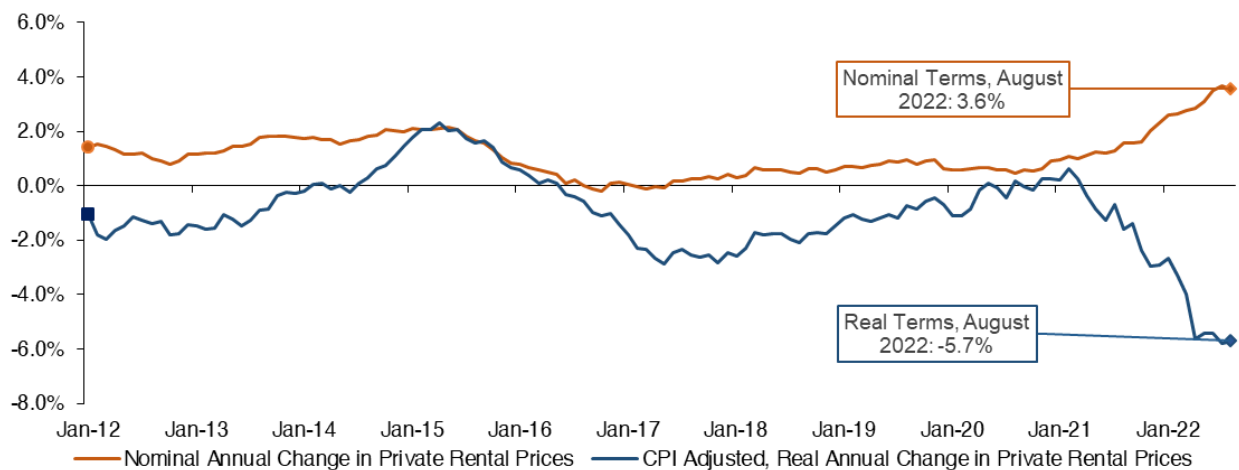
4. Private Rental Sector

Private Housing Rental Prices

Private housing rental prices in Scotland increased by 3.6% annually to August 2022. Nominal private rental price growth had been relatively stable since June 2017, ranging between 0% and 2%, with an average of 0.9% to May 2022. However, in recent months nominal rental prices have increased, with the 3.6% annual growth in August 2022 the second highest recorded since the index began, only surpassed by the 3.7% recorded in July 2022.

In real terms (adjusting for inflation, using CPI), the annual change in August 2022 was -5.7%. Chart 4.1 shows that the annual change in real private housing rental prices rose towards positive territory as CPI inflation fell due to the impact of Covid-19, but it has returned to negative territory with the recent spike in CPI inflation, which reached 9.9% in August 2022. The heightened level of CPI inflation can be partly explained by an increase in the price of food and non-alcoholic beverages.

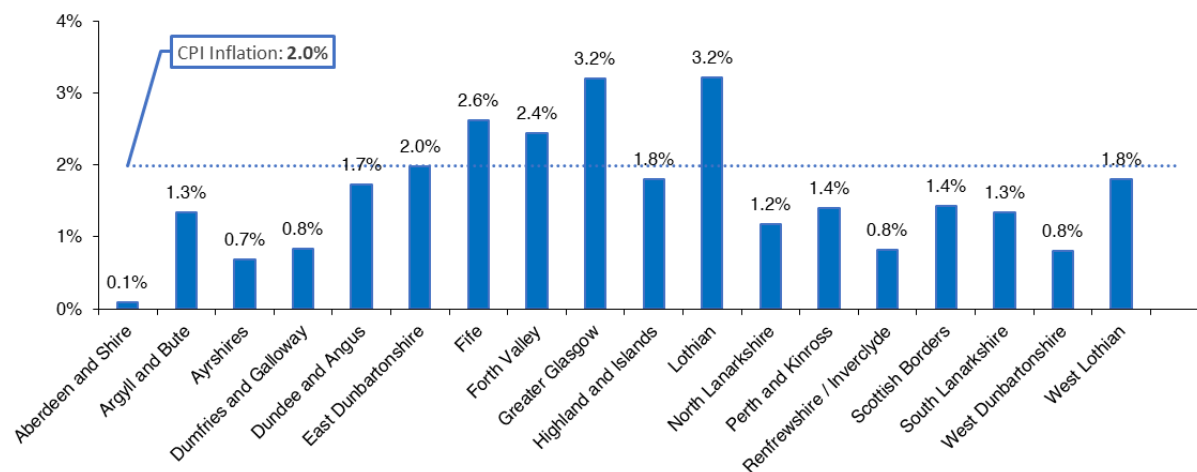
Chart 4.1 Annual Change in Private Housing Rental Prices (Monthly): Scotland



Source: ONS Rental Price Index, Consumer Price Inflation (CPI)

Scottish Government statistics show that from 2010 to 2021 (years to end September), four broad market rental areas (“BRMAs”) have seen average rents for 2 bedroom properties increase, on an average annualised basis, above the average level of CPI inflation (2.0%): these are the Lothian (3.2%), Greater Glasgow (3.2%), Fife (2.6%) and the Forth Valley (2.4%) BRMAs. Therefore, the annualised average rate of change was equal to or below that of inflation (CPI) in 14/18 BRMAs, with the lowest annualised rate of change seen in Aberdeen and Shire of just 0.1%.

Chart 4.2 Annualised Average Rate of Change in Mean Rent (2 Bedroom Property), YTE Sept-10 to YTE Sept-21, by BRMA



Source: SG/ONS CPI

* Note: Scottish Government statistics are based almost entirely on advertised rents at point of new let, whilst the ONS methodology makes an allowance for existing lets. In addition, Chart 4.2 looks solely at 2 bedroom properties, whilst Chart 4.1 looks at the entire market.

Rent Freeze and Evictions Moratorium

Tenants will have increased protection from rent increases and evictions during the cost of living crisis under emergency legislation passed by the Scottish Parliament. The Cost of Living (Tenant Protection) Bill gives Ministers temporary power to cap rents for private and social tenants, as well as for student accommodation. The Bill also introduces a moratorium on evictions.

This cap, which applies to in-tenancy rent increases, has initially been set at 0% for rent-increase notices served from 6 September 2022 until 31 March 2023. Ministers have the power to vary the rent cap while it is in force. The measures can be extended over two further six-month periods. Enforcement of eviction actions resulting from the cost crisis are prevented over the same period except in a number of specified circumstances, and damages for unlawful evictions have been increased to a maximum of 36 months’ worth of rent.

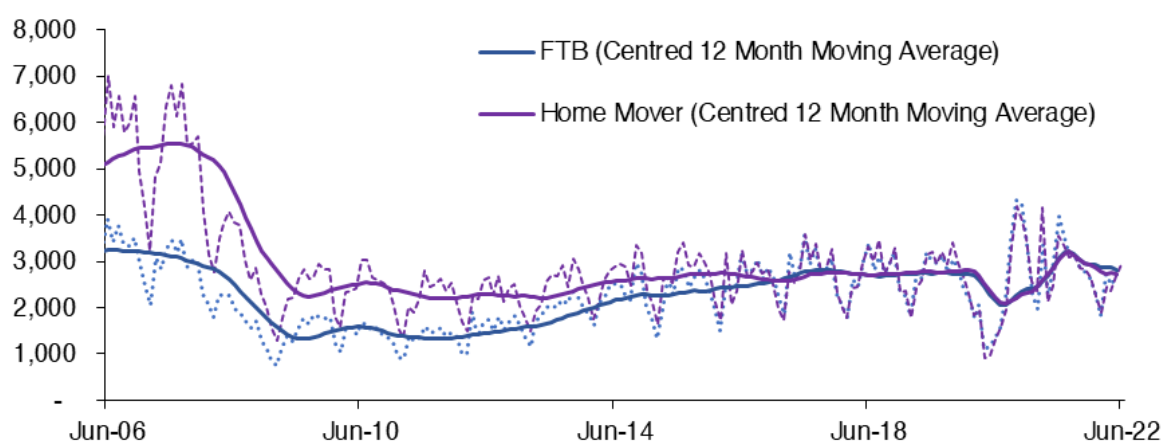
The temporary legislation balances the protections that are needed for tenants with some safeguards for those landlords who may also be impacted by the cost crisis, who would be able to increase rents if they can demonstrate an increase in certain costs, such as increased mortgage interest payments, capped at a maximum of 3%.

5. Mortgage Approvals & LTVs

New Mortgage Advances

Chart 5.1 plots the monthly number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 7,980 new mortgages advanced to first-time buyers in Scotland in Q2 2022, an annual decrease of 13.3% (-1,220). Meanwhile, there were 7,970 new mortgages advanced to home movers in Scotland in Q2 2022, an annual decrease of 2.1% (-170). Whilst the annual decrease for first-time buyers is large, this can be explained by the high number of new mortgages advanced in Q2 2021. Comparing the 12-month period to Q2 2022 against an equivalent pre-covid period (12 months to Q2 2019), new mortgage advances to first-time buyers increased by 1.1% whilst for home movers they decreased by 2.4%. (Source: UK Finance).

Chart 5.1 New Mortgage Advances for Home Purchase (Monthly), Scotland



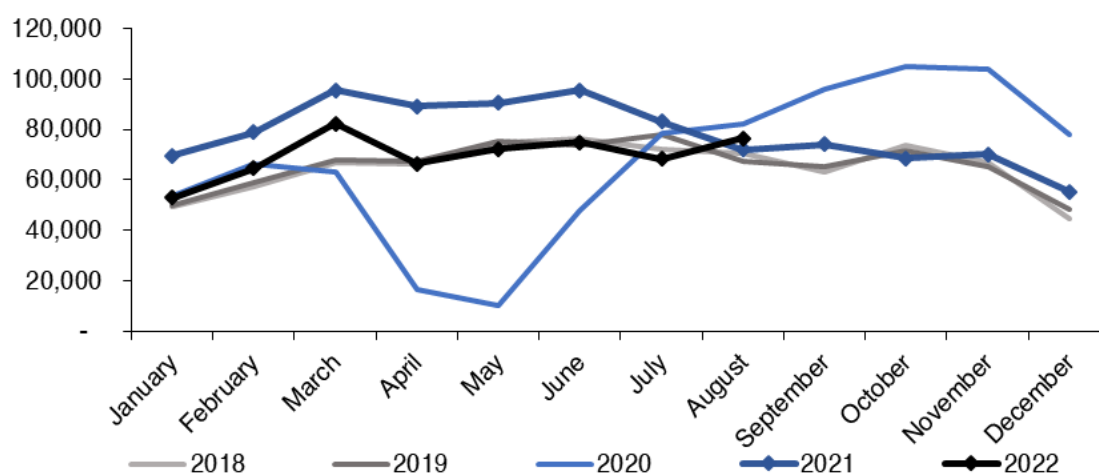
Source: UK Finance

Mortgage Approvals

Chart 5.2 plots the monthly number of mortgage approvals across the UK for house purchase (Source: BoE). Mortgage approvals for house purchase are the firm offers of lenders to advance credit fully secured on dwellings by a first charge mortgage. This data is a leading indicator of mortgage sales as it reflects activity early in the buying process.

Mortgage approvals for house purchase across the UK rebounded strongly following the lockdown in the second half of 2020, with mortgage approvals increasing from 9,922 in May 2020 to 104,806 in October 2020 (see Chart 5.2). Mortgage approvals have returned to more normal levels, with mortgage approvals for house purchase 2.7% higher in the first eight months of 2022 relative to the 2016-2019 average for the same months, however this data does not cover the period since the UKG Plan for Growth/mini-Budget on 23 September 2022.

Chart 5.2 Mortgage Approvals - House Purchase (Monthly) (UK)

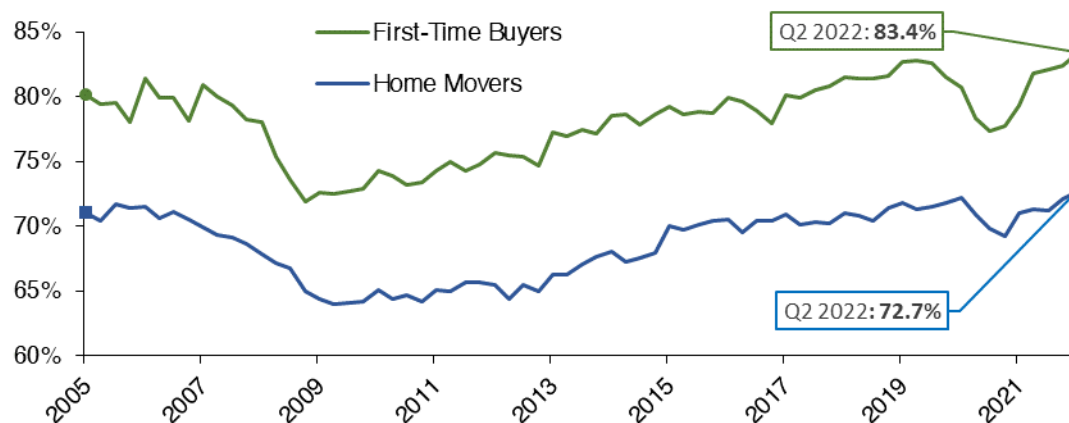


Source: Bank of England

Loan-to-Value (LTV) Ratios

In Q2 2022, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 83.4%, an annual increase of 4.1 percentage points. This likely reflects the return of high LTV ratio mortgages, whose availability fell substantially during the beginning of the coronavirus pandemic. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 72.7% in Q2 2022, up 1.7 percentage points over the one year period. This is shown in Chart 5.3. (Source: UK Finance).

Chart 5.3 Mean Loan to Value Ratio (Quarterly), Scotland

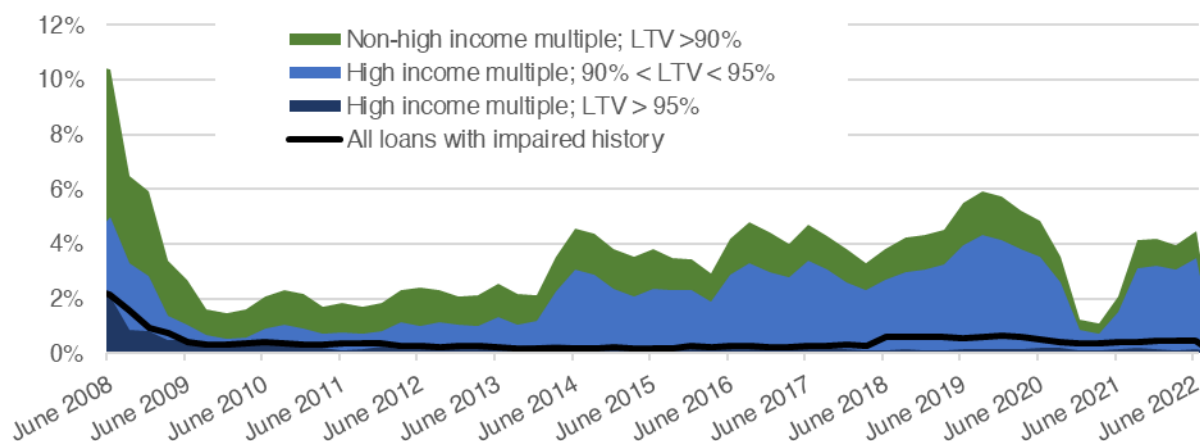


Source: UK Finance

Similarly, Chart 5.4 shows that while there was a reduction in new lending at high LTV mortgage ratios across the UK as from March 2020, the market has been recovering. The share of gross mortgage advances across the UK in Q2 2022 with an LTV ratio greater than 90% was 4.5%, 2.4 percentage points above the share in Q2 2021 but 1.0 percentage points lower than the share in Q2 2019. There has been a slight recovery in lending which is both high LTV and high LTI (loan-to-income) over the quarter, with the share of gross advances classified as

high LTV and LTI increasing to 3.6% in Q2 2022, up by 2.0 percentage points on Q2 2021 but 0.5 percentage points lower than the share in Q2 2019.

Chart 5.4 Higher Risk Lending* as a % of all Residential Lending (Quarterly), UK



* Higher risk lending is classified by the FCA as an LTV over 90% and an income multiple greater than or equal to 3.5 for single income purchasers, or greater than or equal to 2.75 for joint income purchaser/s

Source: FCA

There was a substantial increase in the number of high LTV products offered by mortgage lenders after the Covid-19 pandemic, with the number of 95% LTV mortgages products increasing from 14 in September 2020 to 274 in September 2022. However, after the UKG Plan for Growth/mini-budget on 23 September 2022, the residential mortgage market saw a dramatic fall in the number of deals available to new borrowers over the month. The total number of residential mortgage products dropped to 2,258 in October. The fall of 1,632 from September 2022 marks the largest monthly drop in product numbers since April 2020 (2,030), when the market was struck by the COVID-19 pandemic. The fall in residential mortgages was seen to a greater extent in high LTV mortgages, exemplified by the number of 95% LTV mortgage products reaching 132 in October 2022, a decrease of more than 50% over the one month period. Furthermore, the decrease in high LTV mortgage products was more prominent in fixed rate mortgages, falling from 244 fixed rate, 95% LTV mortgage products in September 2022 to 105 in October 2022 (Source: Moneyfacts Mortgage Treasury Report).

6. Mortgage Interest Rates

In March 2020, Bank Rate was cut by a total of 65 basis points to 0.1% as a result of the Covid-19 pandemic. More recently in response to the rise in inflation, the Bank of England has increased the Bank rate by 15 basis points in December, followed by 25 basis points in February, March, May and June and by 50 basis points in August and September for a cumulative rise of 215 basis points to 2.25%, returning Bank Rate to its highest level since 2008.

Chart 6.1 and Chart 6.2 show data on the effective (or average) interest rates on outstanding mortgage balances and new mortgage advances, which are available up to August 2022. (Source: BoE). From December 2021 to August 2022, the increases in mortgage rates were below the cumulative 165 basis point increase in Bank Rate during this period: the average variable rate on outstanding mortgages increased by 119 basis points to 3.51%, the average variable rate on new advances increased by 117 basis points to 2.77%, and the average fixed rate on new advances increased by 97 basis points to 2.55%. The average fixed rate on outstanding mortgages was in fact little changed over this period, since even though interest rates on new deals were increasing, they were not above the rates on fixed rate deals which expired during this period.

Effective Monthly Mortgage Interest Rates (UK)

Chart 6.1 Outstanding Balances (%)

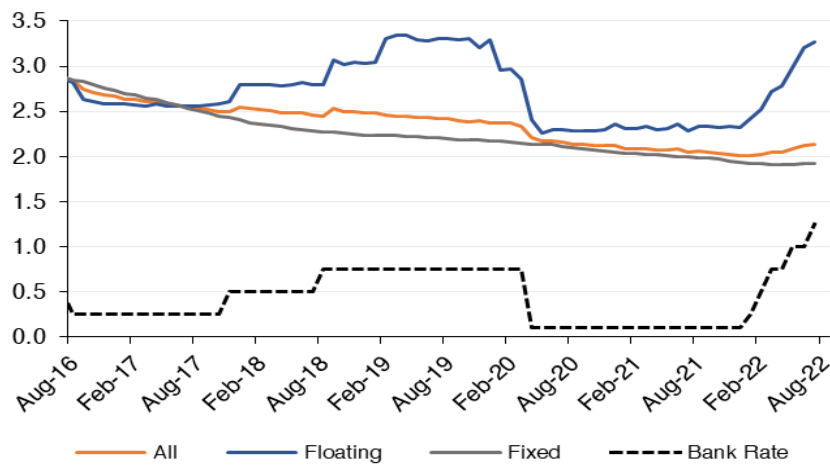
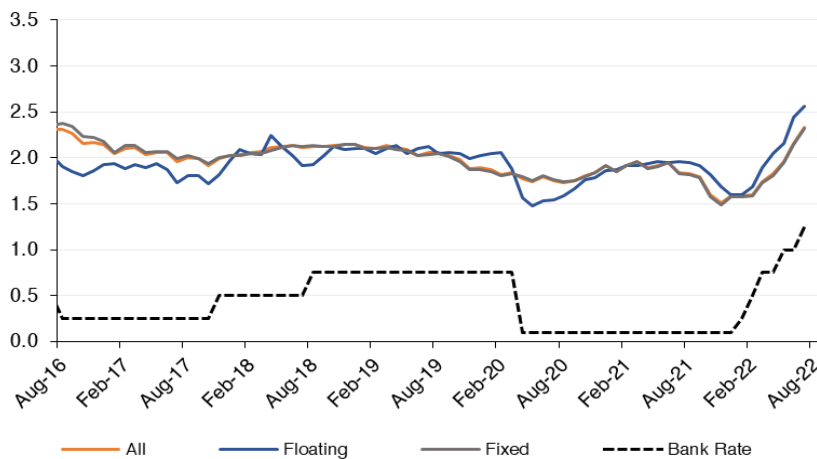


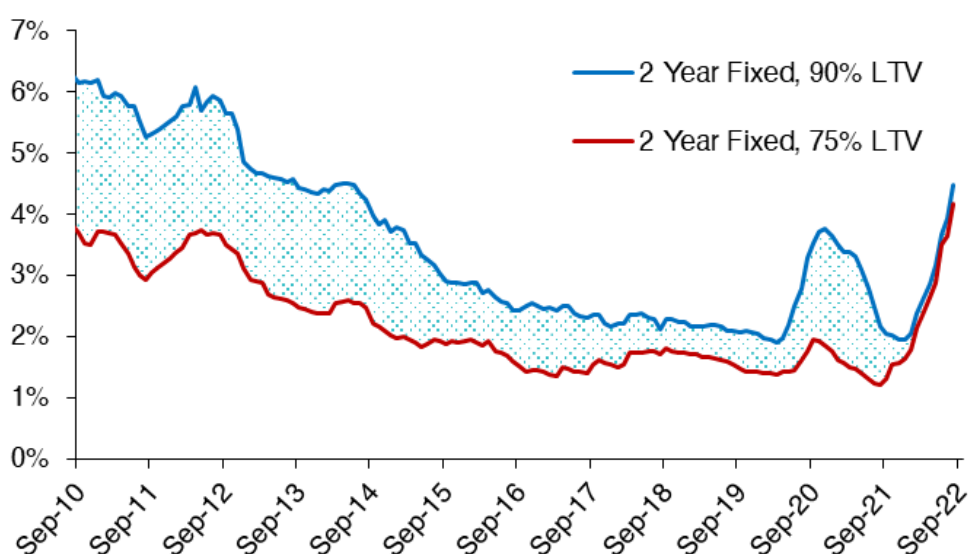
Chart 6.2 New Mortgages (%)



Source: Bank of England

It should be noted that Bank of England data on effective mortgage interest rates (i.e. the average rate on actual lending) does not include the impact of the 50 basis point increase in the Bank Rate on 22 September, as well as the UKG Growth Plan/mini-budget on 23 September which led to significant volatility in interest rates. More recent Bank of England data on advertised mortgages rates, illustrated in Chart 6.3, shows that over the month of September the average advertised 2 year fixed rate increased by 53 basis points to 4.17% for a 75% LTV mortgage and by 55 basis points to 4.47% for a 90% LTV mortgage. These increases both broadly mirrored the increase in Bank rate in September, and also meant that the spread between 2 year fixed 90% and 75% LTV mortgages, which had increased during the pandemic from 51 basis points in April 2020 to 189 basis points in December 2020, before decreasing to 31 basis points in January 2022, continued its recent trend of remaining stable at around 30 basis points.

Chart 6.3 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)



Source: Bank of England

Moneyfacts' data as at 1 October 2022 shows that the average two-year and five-year fixed rates increased by 119 and 90 basis points relative to 1 September 2022, reaching 5.43% and 5.23% respectively. By 7 October, both of these rates had breached 6%, with the average two-year rate at 6.16%, its highest since November 2008, during the onset of the financial crisis, and the average five-year rate at 6.07%, its highest since January 2010. (Source: Moneyfacts Mortgage Treasury Report and news release).

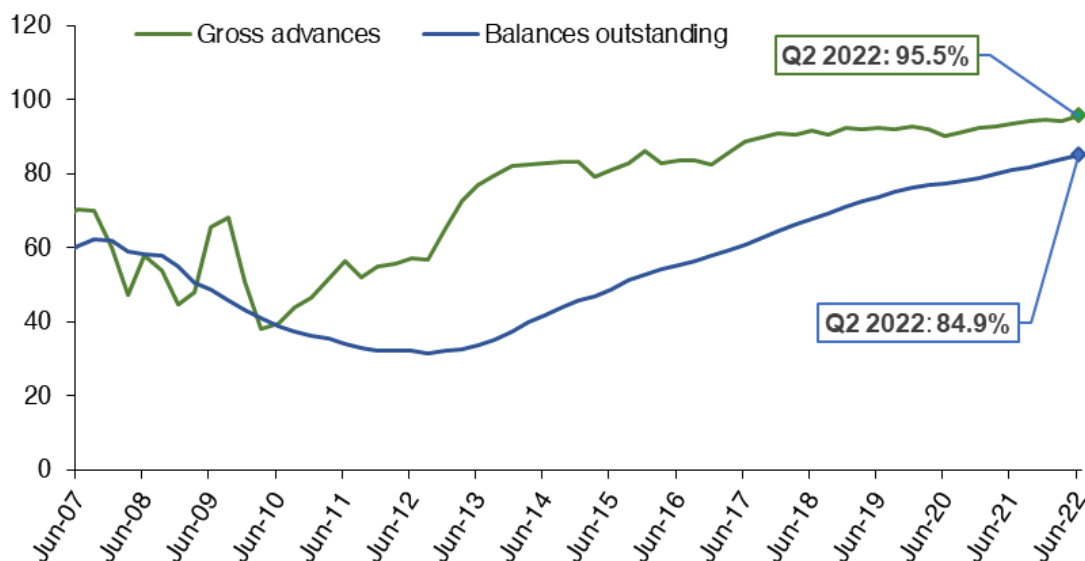
Moneyfacts data also show that the market turmoil led to the number of residential mortgage products falling by 1,632 from September 2022 to October 2022, the largest monthly fall since April 2020, when the market was struck by the Covid-19 pandemic. At 2,258, the number of residential products is at its lowest level since May 2010. Relatedly, the average shelf life of a mortgage product fell to record low of 15 days due to the number of product withdrawals and significant repricing activity. The number of buy-to-let mortgages also fell sharply, halving from September 2022 to October 2022 to stand at 988, the lowest level since July 2015. (Source: Moneyfacts Mortgage Treasury Report).

A 215 basis point increase in interest rates is estimated to increase the monthly payment by around £180 per month for an average new variable rate and by around £100 per month on the average outstanding variable rate mortgage in Scotland. If the Bank Rate reaches 6% as some market participants have suggested, this is likely to lead to an increase of £550 per month for an average new variable rate and by around £300 per month on the average outstanding variable rate mortgage in

Scotland relative to November 2021, immediately prior to the current upward cycle in Bank Rate.

Chart 6.4 shows that the trend for an increasing share of regulated¹ mortgages to be at fixed rates has continued, with 95.5% of new mortgages and 84.9% of outstanding mortgages on fixed rates as of Q2 2022. The corresponding figures for unregulated² mortgages are 95.9% and 73.3%. (Source: FCA)

Chart 6.4 Share of regulated Mortgage Lending at Fixed Rates: UK, % (Quarterly)



Source: FCA

¹ A regulated loan is a loan to an individual, secured by a first or second charge on residential property, and where the property is for the use of the borrower or a close relative.

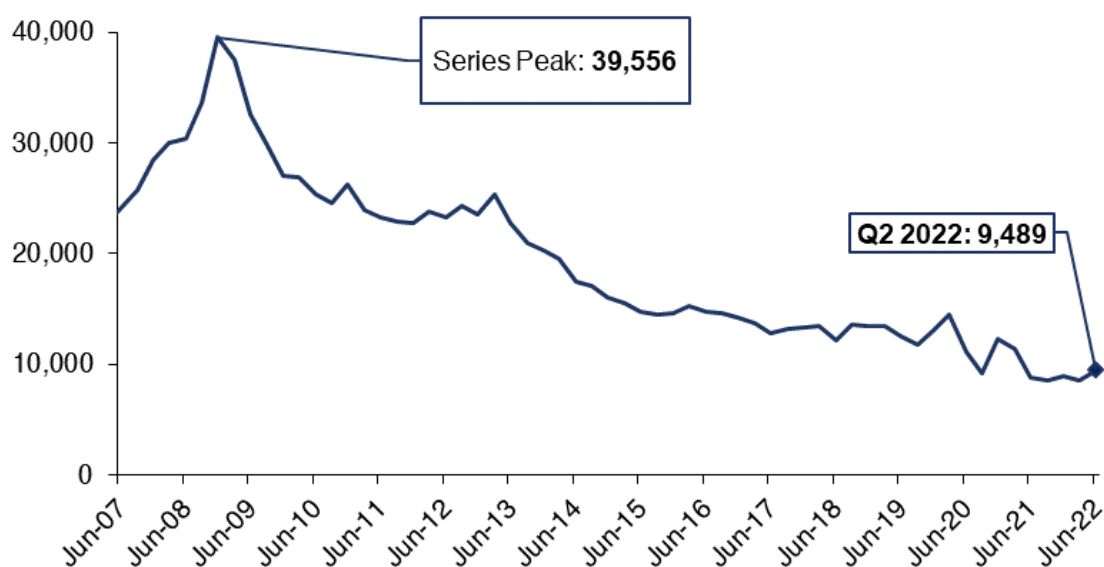
² A non-regulated loan is all other mortgage lending to individuals that is not regulated, such as buy-to-let lending.

7. Mortgage Arrears & Possessions

Arrears

There were 9,489 regulated mortgages that went into arrears across the UK in Q2 2022, an annual increase of 8.0% (705), although this is from very low levels in Q2 2021. As shown in Chart 7.1, following a peak of 39,556 in Q4 2008 during the financial crisis, there has been a declining trend in the number of regulated mortgages entering arrears, which has continued despite the impact of Covid-19. It should be noted that Covid-19 payment holidays were not classified as technical arrears, and thus are not reflected in these figures; however, even though these payment holidays came to an end in April 2021, this has not resulted in a substantial increase in arrears so far, with arrears still below pre-pandemic levels. (Source: FCA)

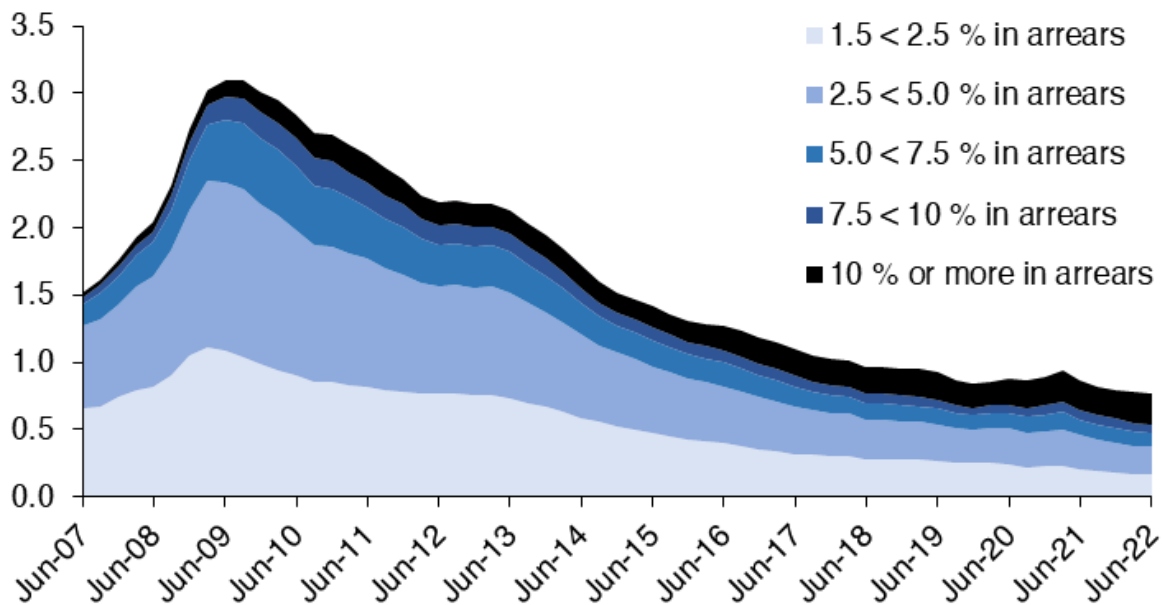
Chart 7.1 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)



Source: FCA

The share of lenders' outstanding regulated mortgage balances that were in arrears stood at 0.76% at the end of Q2 2022. This has remained broadly stable during the pandemic, with arrears at 0.86% at the end of Q1 2020. Chart 7.2 plots the share of lenders' outstanding balances that were in arrears by degree of severity. Arrears reported in the FCA MLAR data relate only to loans where the amount of actual arrears is 1.5% or more of the borrower's current loan balance.

Chart 7.2 Regulated Mortgage Balances in Arrears by Severity: UK, % (Quarterly)



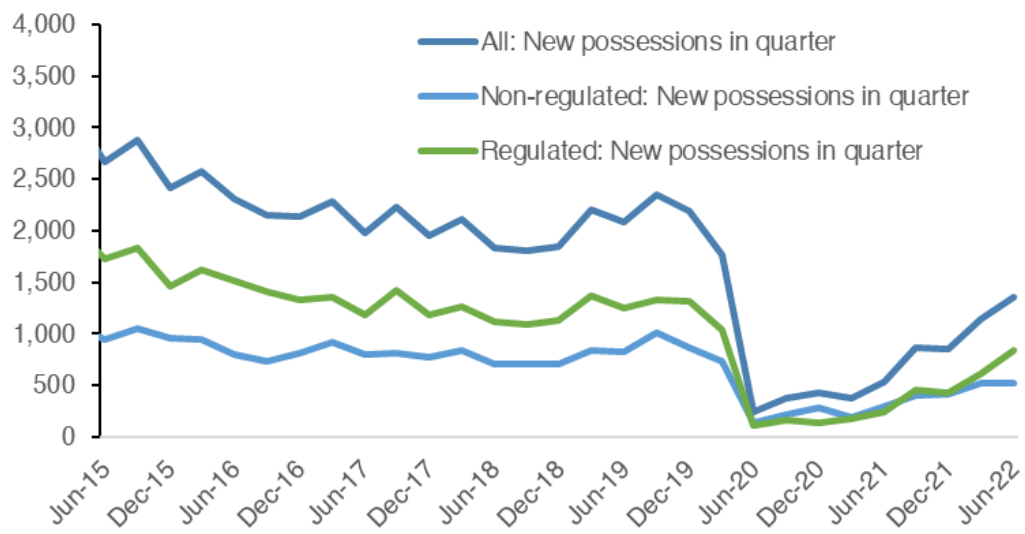
Source: FCA

UK Finance data show that there were 5,640 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q2 2022. This is down by an annual 9.9% (-620), and is also low relative to the period of the 2008 financial crisis. The number of buy-to-let mortgages in arrears of 2.5% or more as a percentage of the total number of buy-to-let mortgages was 0.28% as at Q2 2022, slightly lower than Q2 2021 (0.31%).

Possessions

Chart 7.3 shows that despite restrictions on possessions being lifted since 1 April 2021, there were only 835 new regulated mortgage possessions across the UK in Q2 2022. While this was an increase relative to Q1 2022 of 216 (+34.9%), and the level of possessions also increased over the year, possessions are still substantially lower (down 415, or 33.2%) relative to Q2 2019, prior to the pandemic.

Chart 7.3 New Possessions in quarter by type (Quarterly)



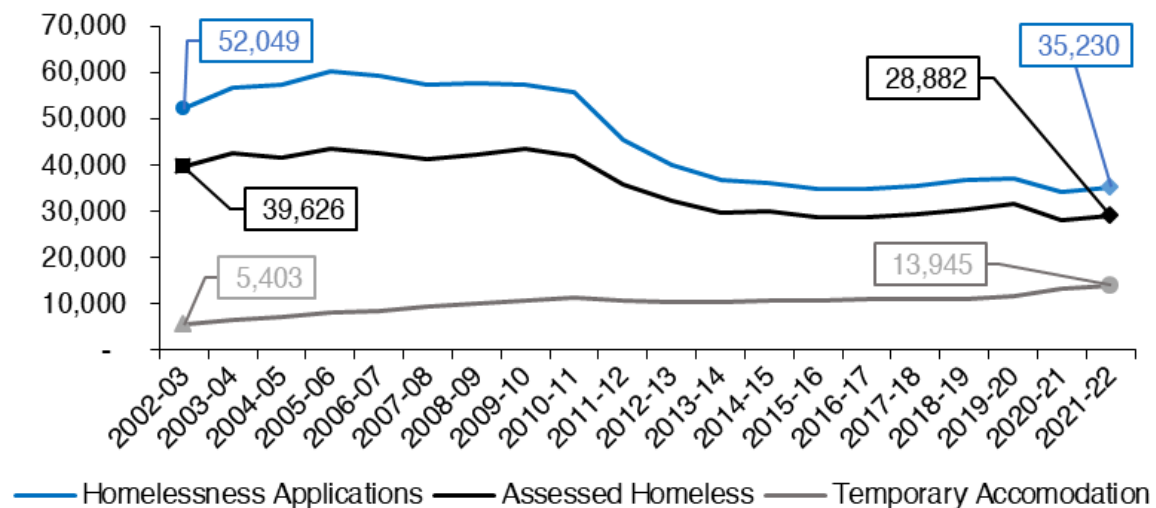
Source: FCA

8. Homelessness

As illustrated in Chart 8.1, 2021/22 saw 35,230 homelessness applications in Scotland, an annual increase of 2.8% (+944) but this remains below the pre-pandemic level of 37,060 in 2019/20. 28,882 households were assessed as being homeless (including those threatened with homelessness), an increase relative to 2020/21 of 3.0% (+840) but again below pre-pandemic levels of 31,612. The 28,882 households assessed as being homeless included 32,592 adults and 14,372 children. There were 13,945 households in offered temporary accommodation as at 31 March 2022, an annual increase of 4.4% (+586).

On a per capita basis, West Dunbartonshire has the highest number of households assessed as homeless per 100,000 population (aged 16+) in 2021/22, at 1,404. This compares to a Scottish average of 632.

Chart 8.1 Homelessness in Scotland to 31 March 2022 (Annual)



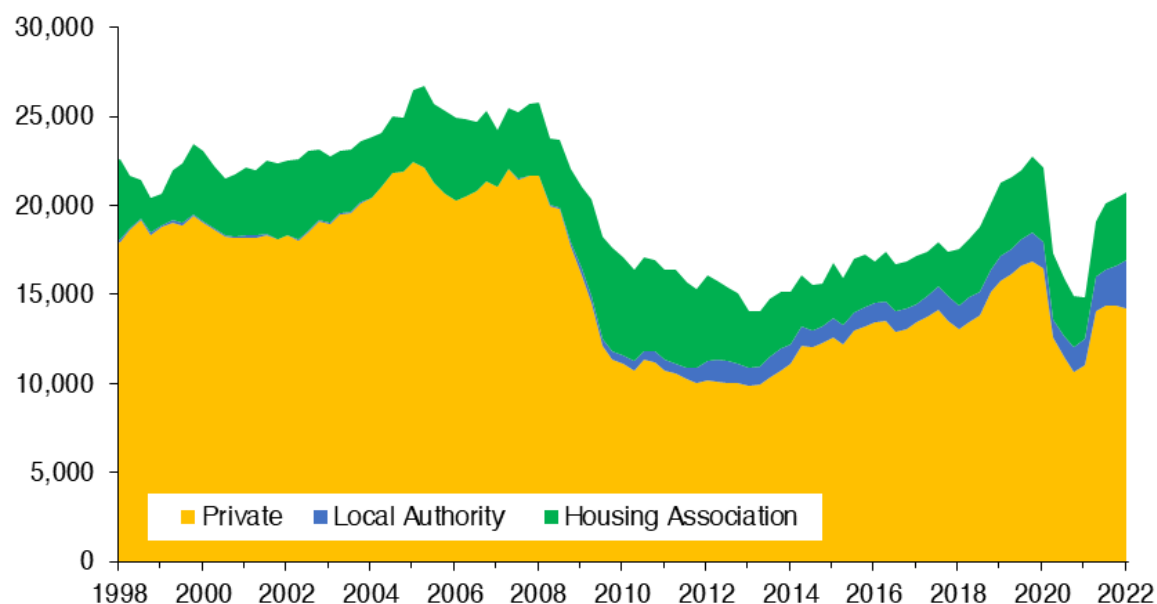
Source: Scottish Government

9. Housing Starts & Completions

New build completions – all sectors

There were 20,767 new build completions across all sectors in Scotland in the year to end Q1 2022, an increase of 39.7% (5,900 homes) on the previous year, when activity levels were affected by Covid-19 related lockdown measures. This is outlined in Chart 9.1, which includes the breakdown of new build completions by sector. Meanwhile, there were 18,672 new build starts across all sectors in the year to end Q1 2022, up by an annual 5.1% (914 homes). However, activity remains below the pre-pandemic level of 22,124 completions and 25,491 starts in the year to end March 2020.

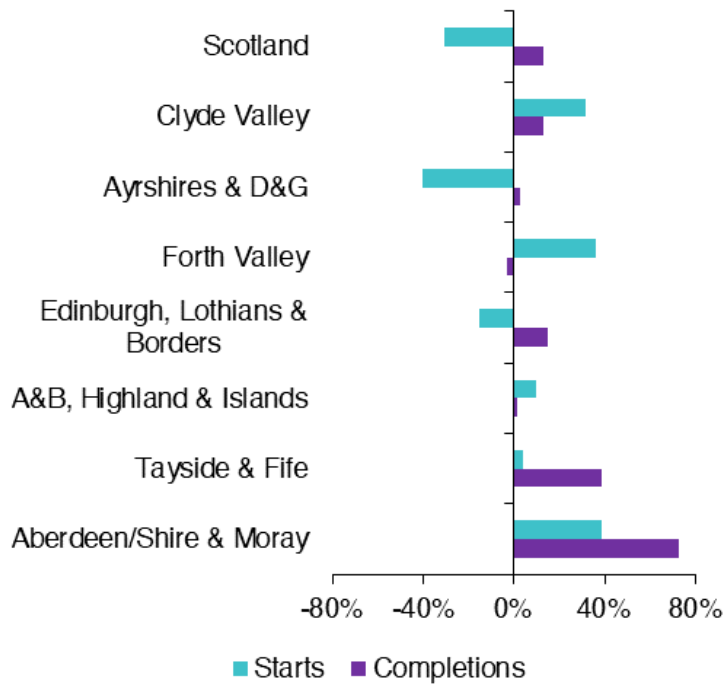
Chart 9.1 Scottish New Build Completions by Sector (4Q Moving Total, to Q1 2022)



Source: Scottish Government

Chart 9.2 outlines the growth in new build completions and starts for all sectors by region over the one year period to Q1 2022, relative to the year prior. New build completions increased for all regions shown, with the largest increase seen in Aberdeen/shire and Moray (+72.5%) and the smallest increase found in Edinburgh, the Lothians and the Borders (+16.7%). With respect to all sector new build starts, the picture was more varied by region, with the largest increase found in Aberdeen/shire and Moray (+38.7%), whilst the largest decrease was found in the Ayrshires, Dumfries and Galloway (-40.5%).

Chart 9.2 Annual Change in New Build Starts and Completions (YTE Q1 2022)

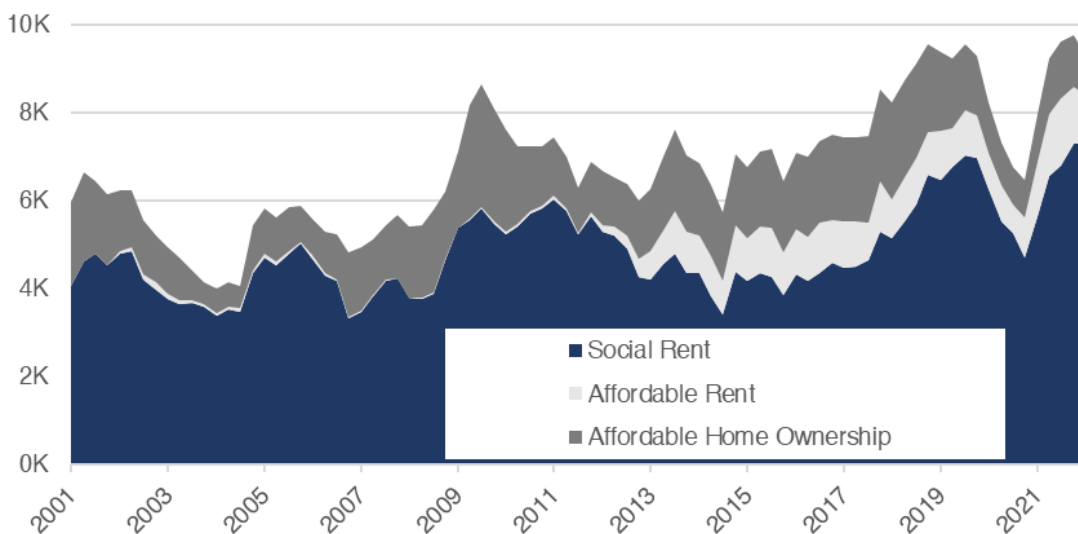


Source: Scottish Government

Affordable Housing Supply Programme

Chart 9.3 shows that the supply of affordable housing has increased since the restrictions on non-essential construction activity were eased in Q3 2020. 9,334 affordable housing completions were recorded over the one year to Q2 2022, an increase of 17.1% compared to the year prior. However, over the same period approvals have fallen slightly by 2.5% to 7,775, whilst starts have decreased by 34.8% to 7,287. (Source: SG).

Chart 9.3 AHSP Completions (4Q Moving Total, to Q2 2022)



Source: Scottish Government

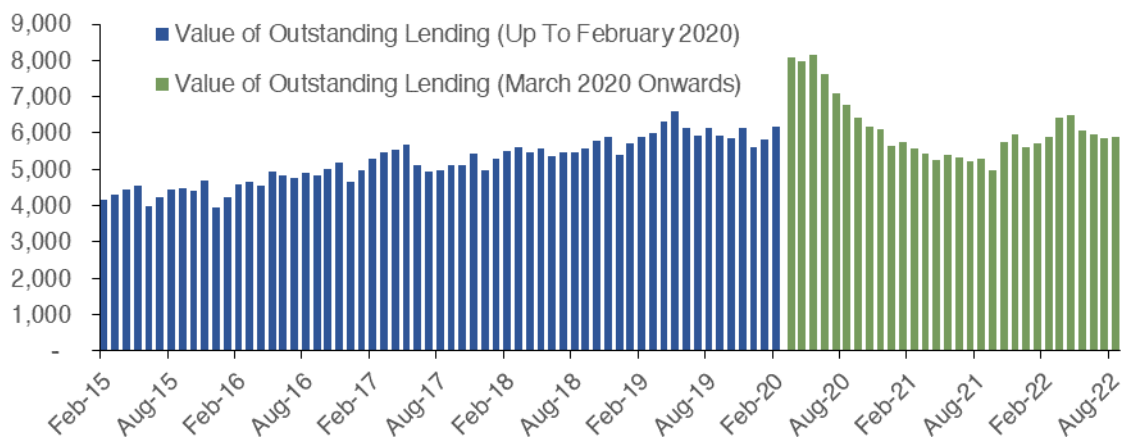
10. Lending to House Builders, Insolvencies & Construction Prices

Lending to House Builders

The value of loans outstanding to UK firms involved in the construction of domestic dwellings rose by £1.9bn from February to March 2020, an increase of nearly one-third (31%), as shown in Chart 10.1. The sudden increase likely reflected the need for credit to fund short-term liabilities owing to Covid-19 restrictions on construction activities and home moves, which had adversely affected firms' income. In addition, firms may have drawn down funds as a precaution, given the economic uncertainty.

From May 2020 to September 2021 the value of loans steadily decreased, falling below pre-covid levels. However, the value of loans seems to have returned to pre-pandemic levels, with the value of outstanding loans for 2022 so far 0.8% below the same period in 2019, despite the sharp increase in construction material price inflation (compare Chart 10.3).

Chart 10.1 Loans Outstanding to Firms Involved in Construction of Domestic Buildings: UK (£ Millions)



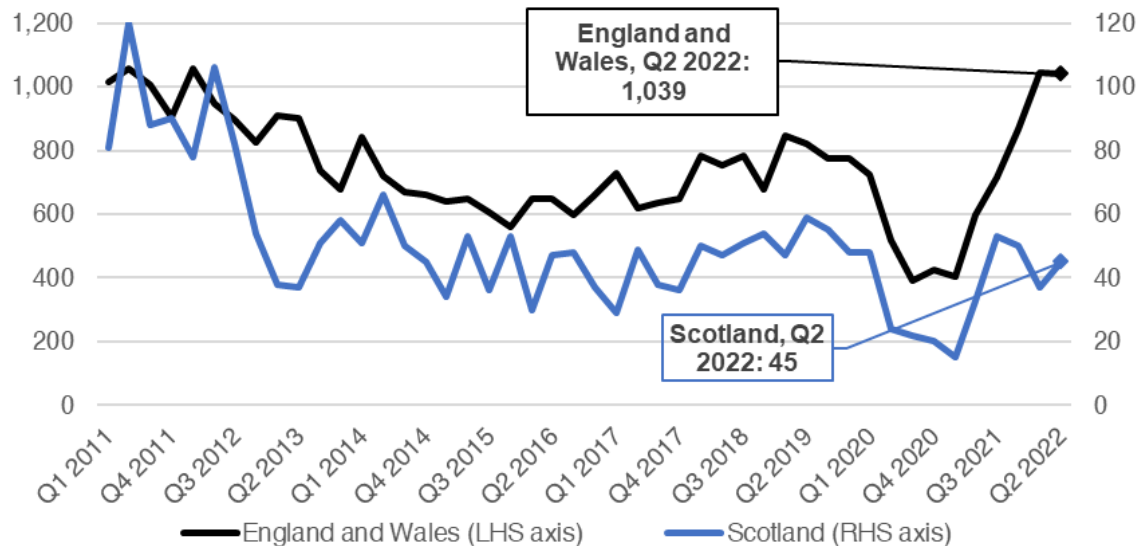
Source: Bank of England

Insolvencies

The health of construction firms can be identified by tracking the number of registered company insolvencies in the construction sector. Chart 10.2 outlines that during the pandemic insolvencies of construction companies registered in Scotland fell from 48 in Q1 2020 to 15 in Q1 2021, with a similar proportional fall evident for England and Wales, likely due to the business support in place. However, with this support unwinding and new build construction material prices increasing (as shown in Chart 10.3), insolvencies for construction companies registered in Scotland appear to have returned to pre-pandemic levels, with 45 insolvencies in Q2 2022, an increase of 36.4% on Q2 2021 but 10.9% below the 2016 – 2019 average for Q2. For construction companies registered in England and Wales, however, insolvencies have increased above pre-pandemic levels, with an annual increase of 74.0% on Q2 2021, reaching 1,039. This is also 46.2% above the 2016 – 2019 average for Q2.

This is the second highest level of registered company insolvencies in England and Wales on record, only behind the level in Q1 2022 (1,044).

Chart 10.2 Number of Registered Company Insolvencies in the Construction Sector (Quarterly)



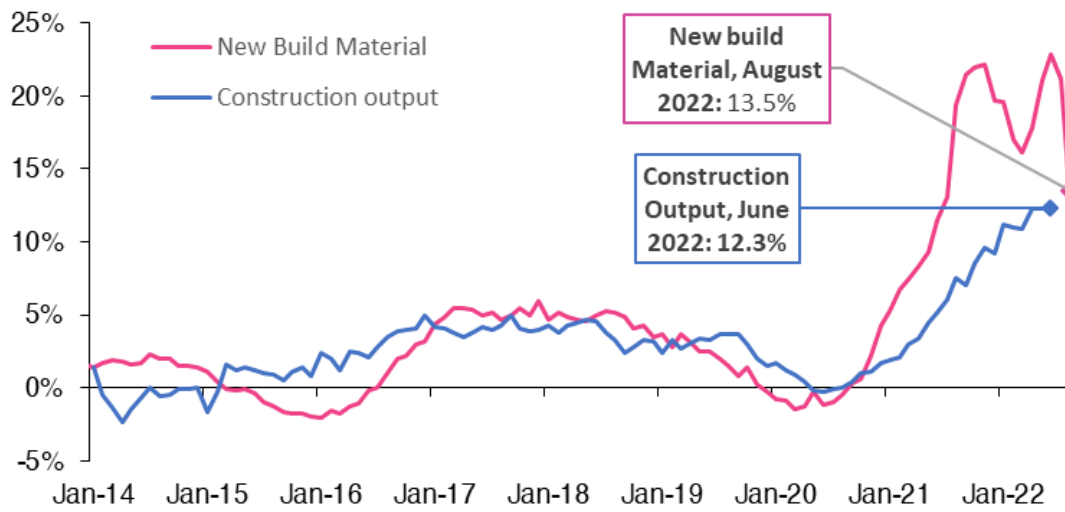
Source: The Insolvency Service

Construction Prices

Data from the ONS on the annual change in the output index price of new build housing (public and private), which covers the range of costs associated with building new public and private housing, shows an annual increase of 12.3% to June 2022. Data from BEIS on the cost of construction materials used in new house building shows that annual construction material price inflation, which stood at 22.8% to June 2022, is a key driver in the increase of the output price index of new build housing. This is outlined in Chart 10.3.

More recent data shows the annual increase in construction material prices has fallen since June 2022 to an annual 13.5% to August 2022, the first time the annual increase in construction material prices has fallen since Russia's invasion of Ukraine. The annual change has been driven in particular by gravel, sand, clays and kaolin, including aggregate levy (62.1%) and insulating material (+29.9%). The largest annual decrease in prices in August 2022 came from imported sawn or planed wood (-15.6%), imported plywood (-13.2%) and particle board (-9.1%).

Chart 10.3 Annual Change in the Output Index of New Build Housing and the Price of Construction Materials for New Build Housing: UK (Monthly)



Source: ONS and BEIS



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Any enquiries regarding this publication should be sent to us at

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-80525-030-2 (web only)

Published by The Scottish Government, October 2022

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1170022 (10/22)

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