

# Scottish Housing Market Review Q4 2022

January 2023

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## Key points for this issue

### Sales

- After significant volatility in housing market activity following the Covid-19 pandemic, **house sales appear to have stabilised around pre-pandemic levels, with Registers of Scotland statistics showing an increase of 0.1% in residential property transactions in Q3 2022 relative to the 2016 – 2019 average for Q3.**
- **Residential LBTT returns, which are available up to November 2022, also show housing market activity stabilising around pre-pandemic levels,** with LBTT returns for the first eleven months of 2022 1.0% higher than for the same period in 2019. (Source: Revenue Scotland)

### House Prices

- **The elevated level of house price growth since the Covid-19 pandemic continued in Q3 2022, although there are signs it might be slowing, with the average Scottish house price increasing by an annual 8.8% to £193K,** down from 11.7% in Q2 2022. (Source: UK HPI)
- **The strongest annual price growth by property type in Q3 2022 was for detached properties, up by an annual 10.8%,** whilst flats increased by the lowest amount, up by 6.2%. (Source: UK HPI)
- **The average new build property price increased by an annual 15.2% to £274k in Q2 2022,** which is higher than the increase on the average existing build price rose of 11.2%. 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 November 2022, rising by an annual 4.4% in nominal terms, the highest since the series began. (Source: ONS). Data based entirely on new let rents, such as letting agent data, shows higher growth rates in recent months.
- Decisions on whether to extend the protections in the Cost of Living (Tenant Protection) Act will be made in the coming weeks. Meanwhile, **an agreement has been reached between the Ministers and social landlords for below-inflation rent increases for the 2023-24 financial year.**

### Lending

- **Lending to both first-time buyers and home movers** fell in Q3 2022, with new mortgage advances to first-time buyers decreasing by an annual 15.9% whilst for home movers they decreased by 8.1%. The large annual decrease can be explained by the high number of new mortgages advanced in Q3 2021 and rises in interest rates (Source: UK Finance).

- **The Bank of England has increased the Base Rate nine times since December 2021, taking the rate from 0.1% to 3.5%.** A 340 basis point increase is estimated to increase the monthly payment by around £300 on an average new variable rate mortgage and by £170 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 and five-year fixed mortgage rates reaching 6.65% and 6.51% on 20 October, before falling to 6.01% and 5.80% respectively as at 1 December. (Source: Moneyfacts)
- **The market volatility also led to a sharp fall in the number of residential mortgage products,** with residential mortgage products falling from 4,407 in August 2022 to 2,258 in October 2022, although there has been some recovery more recently. (Source: Moneyfacts)
- **The number of regulated mortgages entering arrears across the UK rose by an annual 17.2% in Q3 2022,** although from a low base; **relative to the pre-pandemic level in Q3 2019, they fell by 14.7%.** Similarly, while **new regulated mortgage possessions** in the UK rose by an annual 26.2% in Q3 2022, they were **21.1% lower than the pre-pandemic level** in Q3 2019. (Source: UK Finance)

## Housing Supply

- The next update to new build starts and completions will be published on 24<sup>th</sup> January 2023. Meanwhile, after a sharp fall following the impact of Covid-19, **private new build sales have returned to pre-pandemic levels,** with the number of transactions over the one year period to August 2022 increasing by 2.0% relative to the one year period to August 2019. (Source: UK HPI)

## Housebuilding Material Prices

- **Construction output price inflation for new public and private housing increased by 10.5% annually in September 2022.** One of the drivers of output price inflation has been large increases in the **prices of construction materials used in new build,** although the annual growth rate **has moderated from 24.0% in June 2022 to 10.1% in October 2022.** Source (ONS and BEIS)
- The growth in construction material prices has likely contributed to the number of insolvencies of construction companies registered in England and Wales in the first three quarters of 2022 being at their highest level in a decade; however, **for construction companies registered in Scotland, the 48 insolvencies in Q3 2022 was in line with the 2016 – 2019 average for Q3.** (Source: The Insolvency Service)

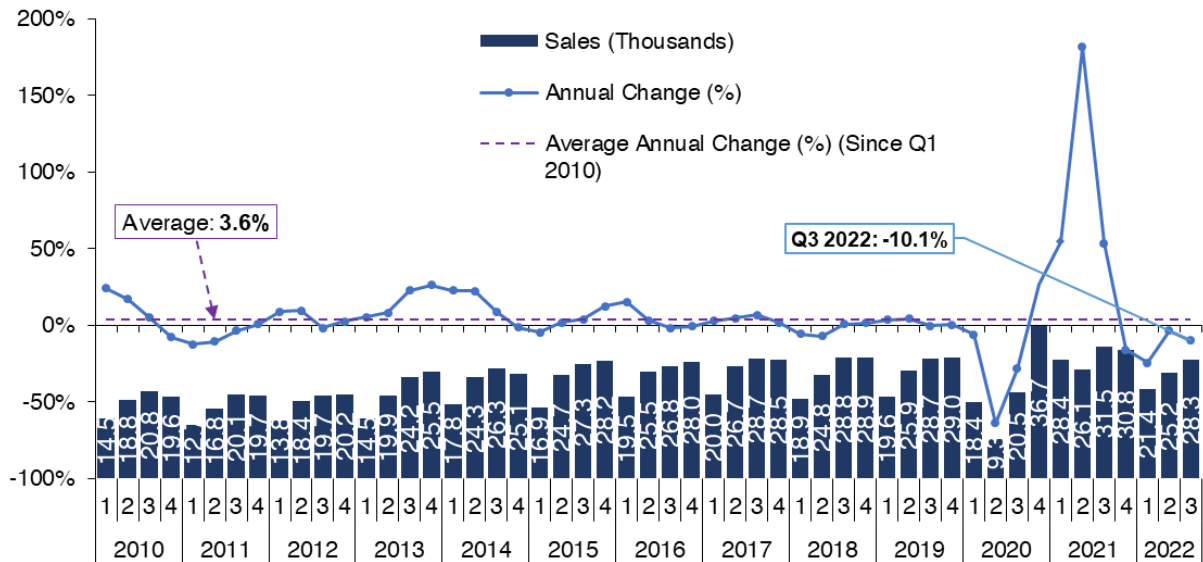
Data to: 30 December 2022

Contact: [William.Ellison@gov.scot](mailto:William.Ellison@gov.scot); [Bruce.Teubes@gov.scot](mailto:Bruce.Teubes@gov.scot)

# 1. Sales

## National

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



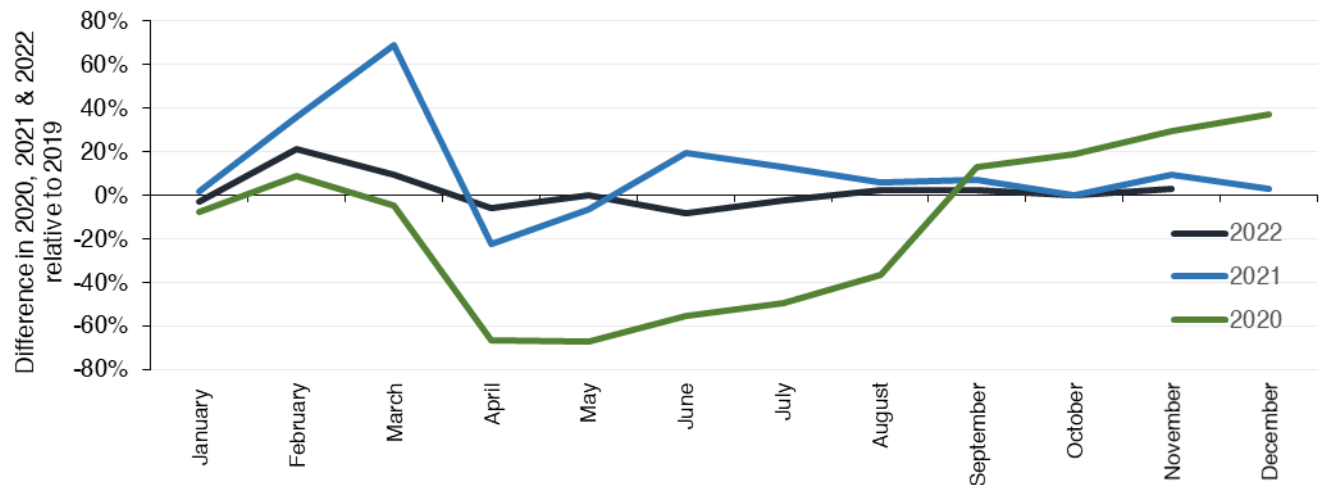
Source: Registers of Scotland

### 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 Q3 2022 suggests housing market activity is stabilising at pre-pandemic levels, with Registers of Scotland statistics showing that there were 28,271 residential property sales registered across Scotland. Whilst relative to Q3 2021 this was an decrease of 10.1%, relative to the pre-pandemic average for Q3 (2016 - 2019), transactions increased by 0.1%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns submitted reinforces that housing market activity is stabilising at 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 eleven months of 2022 relative to the same period in 2019, it can be seen that transactions were 1.0% 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 Q3 2022 decreased relative to Q3 2021 across Scotland. The largest annual fall in residential property sales, of 17.7%, took place in Argyll & Bute and Highlands & Islands, whilst the smallest decrease, of 3.2%, took place in the Forth Valley. However, the large reductions in residential property sales reflects the high level of transactions in Q3 2021 across Scotland.

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 Q3 2022 relative to the year prior has also been experienced across Scotland. The largest fall in residential property sales over this time period (17.2%) also took place in Argyll & Bute and Highlands & Islands, whilst the smallest decrease took place in Aberdeen/shire and Moray, where sales decreased by an annual 5.6%.

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 Q3 2022, the annual change, as well as the annual change in sales using a rolling four quarter period to Q3 2022. The latter is included to smooth out volatility in quarterly data.

**Table 1.1 Regional residential transactions**

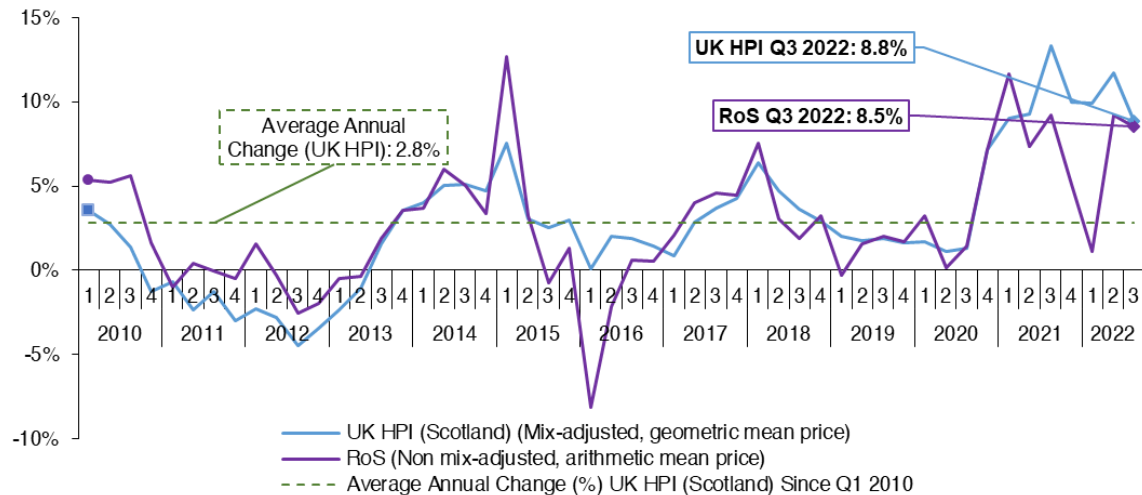
<p><b>Aberdeen/shire and Moray</b>  Sales – Q3 2022 <b>3,130</b>  12 Month Change <b>-11.8%</b>  Annual change (rolling 4 quarters) <b>-5.6%</b></p>	<p><b>Edinburgh, Lothians and Borders</b>  Sales – Q3 2022 <b>5,813</b>  12 Month Change <b>-8.0%</b>  Annual change (rolling 4 quarters) <b>-13.2%</b></p>
<p><b>Argyll &amp; Bute and Highland &amp; Islands</b>  Sales – Q3 2022 <b>1,899</b>  12 Month Change <b>-17.7%</b>  Annual change (rolling 4 quarters) <b>-17.2%</b></p>	<p><b>Forth Valley</b>  Sales – Q3 2022 <b>1,491</b>  12 Month Change <b>-3.2%</b>  Annual change (rolling 4 quarters) <b>-12.4%</b></p>
<p><b>Ayrshires and Dumfries &amp; Galloway</b>  Sales – Q3 2022 <b>2,608</b>  12 Month Change <b>-7.8%</b>  Annual change (rolling 4 quarters) <b>-14.8%</b></p>	<p><b>Tayside &amp; Fife</b>  Sales – Q3 2022 <b>4,158</b>  12 Month Change <b>-11.8%</b>  Annual change (rolling 4 quarters) <b>-16.4%</b></p>
<p><b>Clyde Valley</b>  Sales – Q3 2022 <b>9,172</b>  12 Month Change <b>-10.2%</b>  Annual change (rolling 4 quarters) <b>-14.9%</b></p>	<p><b>Scotland</b>  Sales – Q3 2022 <b>28,271</b>  12 Month Change <b>-10.1%</b>  Annual change (rolling 4 quarters) <b>-13.9%</b></p>

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 Q3 2022 by 8.8% relative to Q3 2021. Although this remains a high level of annual house price growth, this is down from the 11.7% annual house price growth to Q2 2022. The average property price in Scotland stood at £193k in Q3 2022.

Data from Registers of Scotland showed similar annual house price inflation in Q3 2022, of 8.5%. Registers of Scotland data is not mix-adjusted, so will be affected by the composition of properties sold.

UK HPI data shows that annual price growth to Q3 2022 was highest for detached properties (10.8%). Flats increased by the lowest amount (6.2%).

### 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 Q2 2022, the average Scottish new build property price increased to a greater extent than the existing build price, rising by an annual 15.2% to £274K. The average existing build price rose by 11.2% to £183K. The large rise in new build property prices can be partly explained by the large increase in new build construction materials (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 9.2% in Q3 2022, to £233K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 8.4% in Q3 2022, to £155K.

### Scottish House Price Performance: Regional

Registers of Scotland data show that house prices increased over the one year period to Q3 2022 for all regions in Scotland, although to a varying extent. The largest increase was in Argyll & Bute and Highlands & Islands, where house prices increased 11.9% annually to 221K (average arithmetic mean price; prices not mix-adjusted). The smallest increase was in Aberdeen/shire and Moray, which increased by 1.3% annually to £213K.

The longer-term trend (as measured by the change in house prices over the four-quarter period to Q3 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 & Bute and Highlands & Islands, where house prices increased by 9.8%, whilst the smallest increase in house prices was again seen in Aberdeen/shire and Moray, where house prices increased by 1.2%.

A summary of the average house price in Q3 2022 by Scottish region is included below. This also includes the annual change in the average house price in Q3 2022, as well as the annual change in the average house price using a rolling four quarter period to Q3 2022, which smooths out volatility in quarterly data (Source: Registers of Scotland).

**Table 2.1 Regional house prices**

<b>Aberdeen/shire and Moray</b> Average Price – Q3 2022 <b>£213K</b> 12 Month Change <b>1.3%</b> Annual change (rolling 4 quarters) <b>1.2%</b>	<b>Edinburgh, Lothians and Borders</b> Average Price – Q3 2022 <b>296K</b> 12 Month Change <b>8.4%</b> Annual change (rolling 4 quarters) <b>6.6%</b>
<b>Argyll &amp; Bute and Highland &amp; Islands</b> Average Price – Q3 2022 <b>£221K</b> 12 Month Change <b>11.9%</b> Annual change (rolling 4 quarters) <b>9.8%</b>	<b>Forth Valley</b> Average Price – Q3 2022 <b>£201K</b> 12 Month Change <b>9.5%</b> Annual change (rolling 4 quarters) <b>5.8%</b>
<b>Ayrshires and Dumfries &amp; Galloway</b> Average Price – Q3 2022 <b>£178K</b> 12 Month Change <b>11.8%</b> Annual change (rolling 4 quarters) <b>6.6%</b>	<b>Tayside and Fife</b> Average Price – Q3 2022 <b>£207K</b> 12 Month Change <b>7.7%</b> Annual change (rolling 4 quarters) <b>5.4%</b>
<b>Clyde Valley</b> Average Price – Q3 2022 <b>£202K</b> 12 Month Change <b>9.7%</b> Annual change (rolling 4 quarters) <b>6.3%</b>	<b>Scotland</b> Average Price – Q3 2022 <b>£222K</b> 12 Month Change <b>8.5%</b> Annual change (rolling 4 quarters) <b>6.1%</b>

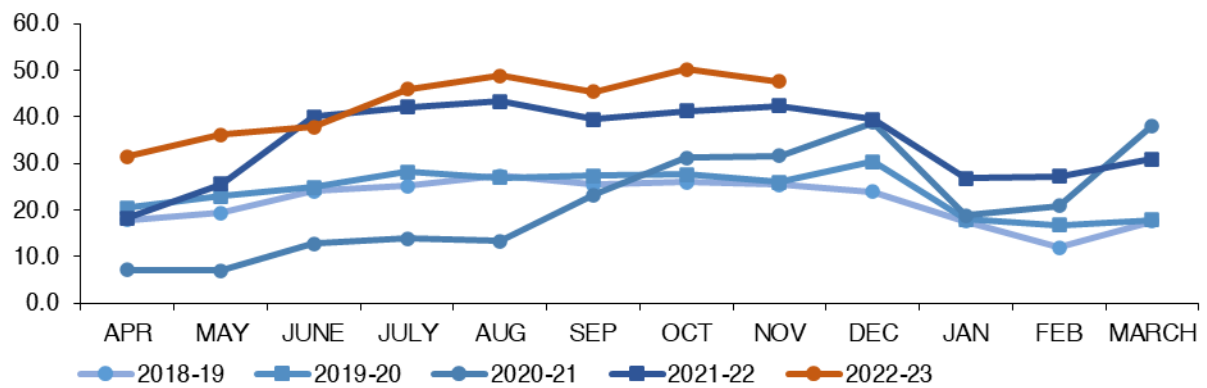
Source: Registers of Scotland

### 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 eight months of 2022-23, with revenue 68.2% higher than the same eight months in 2019-20, prior to Covid-19. 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

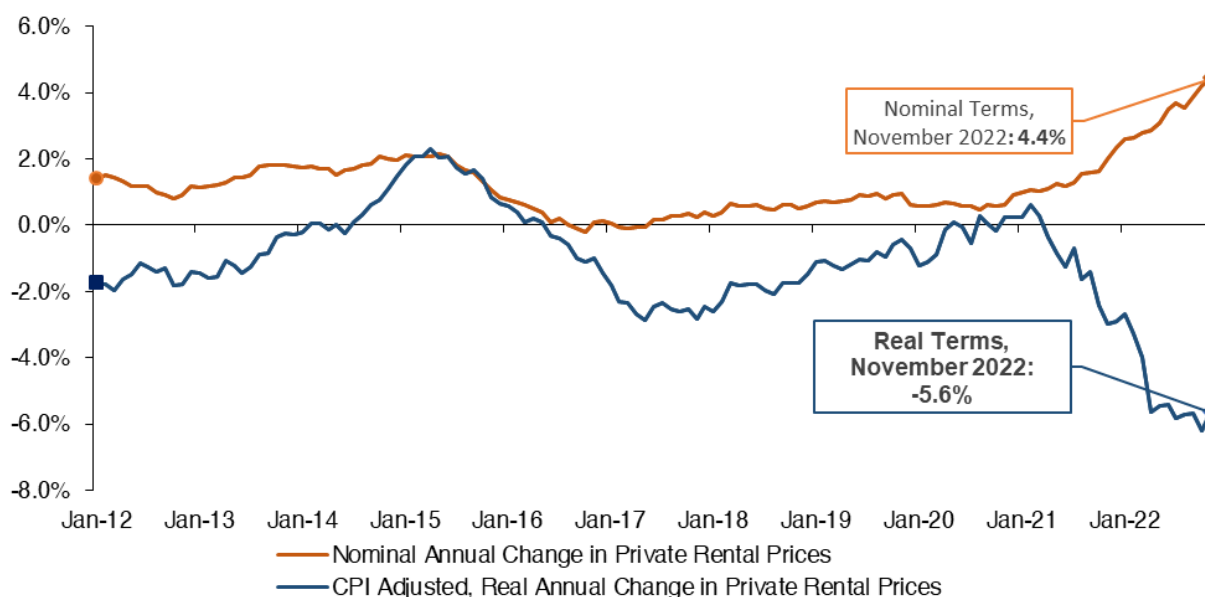
### Private Housing Rental Prices

The ONS Private Housing Rental Price Index for Scotland increased by 4.4% annually in November 2022. Previously, nominal private rental price growth across Scotland as a whole had been relatively stable, ranging between 0% and 2% from June 2017 to November 2021. However, in recent months nominal rental prices have increased significantly, with November's figure the highest annual growth recorded since the index began.

While the ONS index uses data drawn from the Rent Service Scotland data collection, which is largely based on advertised rents, it attempts to make an allowance for rents paid by existing tenants by assuming that a rent record remains unchanged for a period of 14 months. Therefore, when rental growth begins to accelerate, the ONS index will lag indices which are based entirely on new let rents. This explains the difference with letting agents' reports, with Citylets reporting annual growth of 8.3% and Rightmove 13.0% in Q3 2022. Letting agencies only cover around half of the private rented sector, and each letting agent's data will be affected by its market coverage, which will vary by geography and market segment; in contrast, Rent Service Scotland data (which is also used in the Scottish Government private rent statistics discussed below) is designed to be representative of the whole market.

In real terms (adjusting for inflation, using CPI), the annual change in the ONS Private Rental Index in November 2022 was -5.6%, due to CPI inflation reaching 10.7% over the same period. The heightened level of CPI inflation can be partly explained by an increase in the price of Housing and Household Services, principally from electricity, gas, and other fuels.

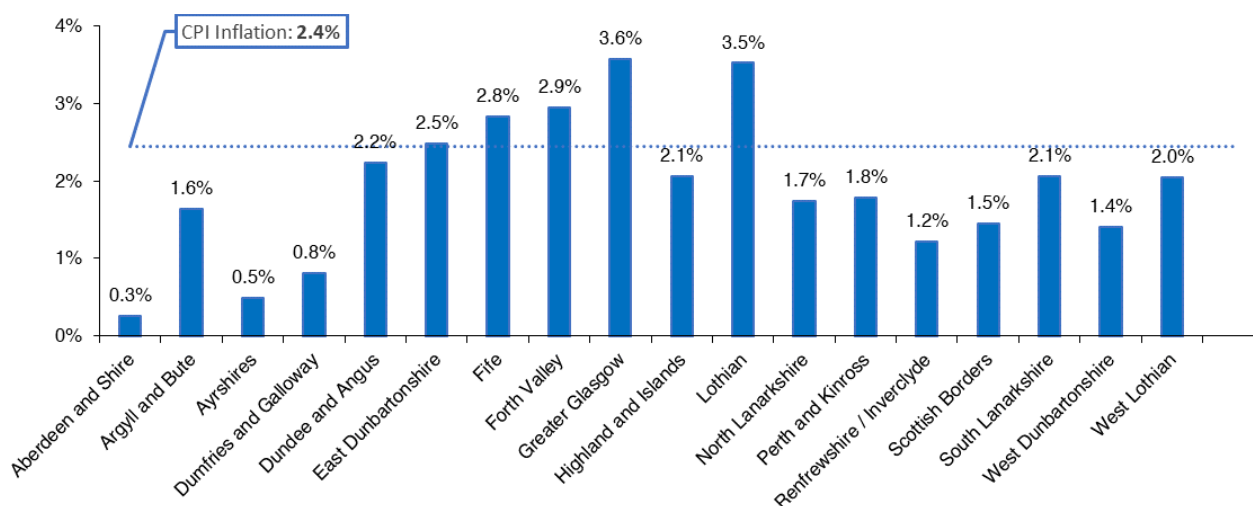
**Chart 4.1 Annual Change in Private Housing Rental Prices (Monthly): Scotland**



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

Scottish Government statistics show that from 2010 to 2022 (years to end September), five 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 (2.4%): these are the Greater Glasgow (3.6%), Lothian (3.5%), Forth Valley (2.9%), Fife (2.8%) and East Dunbartonshire (2.5%) BRMAs. Therefore, the annualised average rate of change was equal to or below that of inflation (CPI) in 13/18 BRMAs, with the lowest annualised rate of change seen in Aberdeen and Shire of just 0.3%.

**Chart 4.2 Annualised Average Rate of Change in Mean Rent (2 Bedroom Property), YTE Sept-10 to YTE Sept-22, 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 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) Act gives Ministers temporary power to cap rents for private and social tenants, as well as for student accommodation. The Act also introduces a moratorium on evictions, except in a number of specified circumstances, and damages for unlawful evictions have been increased to a maximum of 36 months’ worth of rent.

This cap, which applies to in-tenancy rent increases, was initially set at 0% for rent-increase notices served from 6 September 2022 until 31 March 2023. 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 are able to increase rents if they can demonstrate an increase in certain costs, such as mortgage interest payments, capped at a maximum of 3%.

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, subject to Parliamentary approval, and a decision on the next six-month period will be made in January 2023.

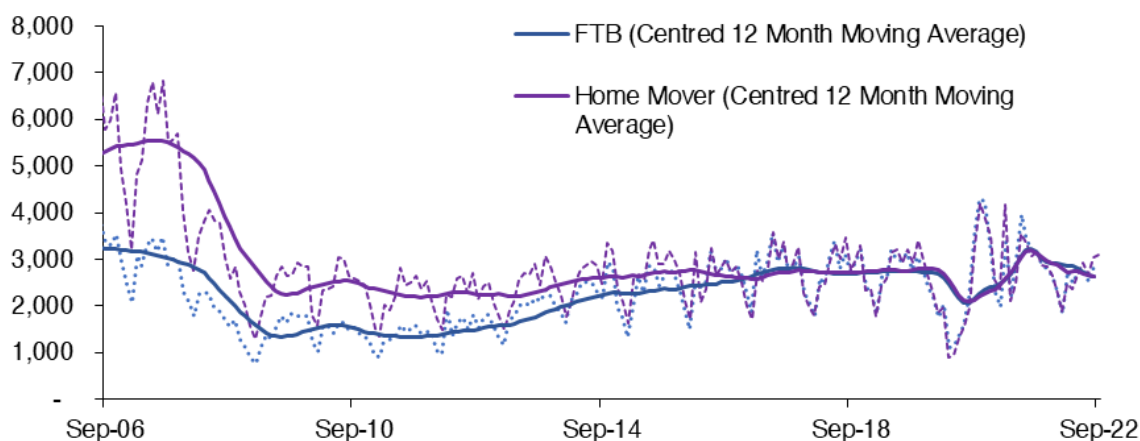
Meanwhile, Ministers and social landlords have agreed on below-inflation social sector rent increases for the next financial year (2023-2024). COSLA has committed to keeping local authority rent increases to an average of no more than £5 a week. Members of the Scottish Federation of Housing Associations and Glasgow West of Scotland Forum of Housing Associations have reported planned increases averaging 6.1%.

## 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 8,290 new mortgages advanced to first-time buyers in Scotland in Q3 2022, an annual decrease of 15.9% (-1,570). Meanwhile, there were 8,790 new mortgages advanced to home movers in Scotland in Q3 2022, an annual decrease of 8.1% (-770). These large annual decreases are explained by the high number of new mortgages advanced in Q3 2021, as well as interest rate increases since the end of 2021, although the impact from the mortgage market volatility after the UKG Plan for Growth/mini-Budget on 23 September 2022 will likely only be captured in Q4 2022 data, due to the lags between mortgage approval and advance (see further below). Comparing the 12-month period to Q3 2022 against the 12 months prior, new mortgage advances to first-time buyers decreased by 18.4% whilst for home movers they decreased by 17.4%, again reflecting the high levels of housing market activity after the release of Covid-19 pandemic restrictions. (Source: UK Finance).

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



Source: UK Finance

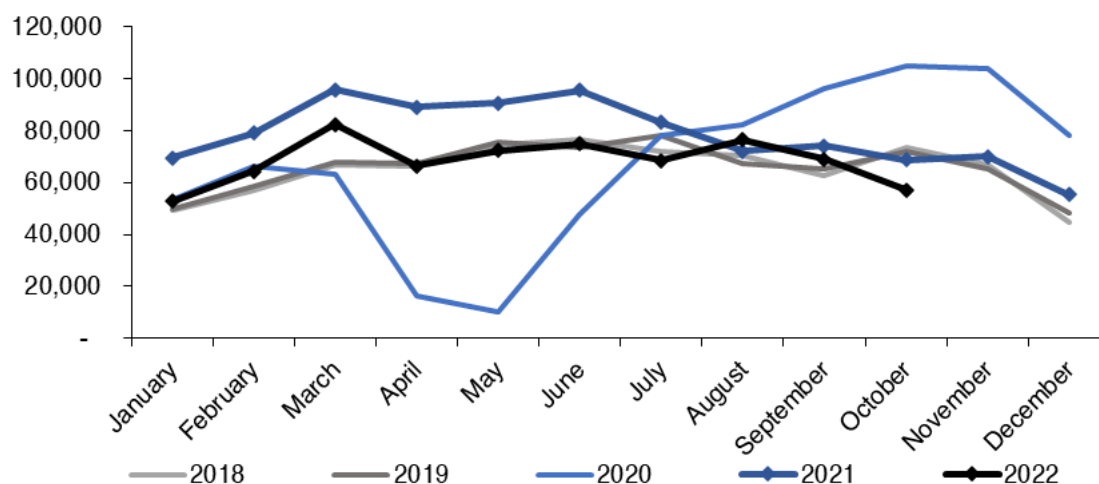
### Mortgage Approvals

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 returned to more normal levels up until September 2022, with mortgage approvals for house purchase 3.0% higher in the first nine months of 2022 relative to the 2016-2019 average for the same months. However, the volatility in the mortgage market following the UKG Plan for Growth/mini-Budget on 23 September 2022 led to a

18.8% fall in mortgage approvals in October 2022 relative to the 2016 – 2019 average for the same month.

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

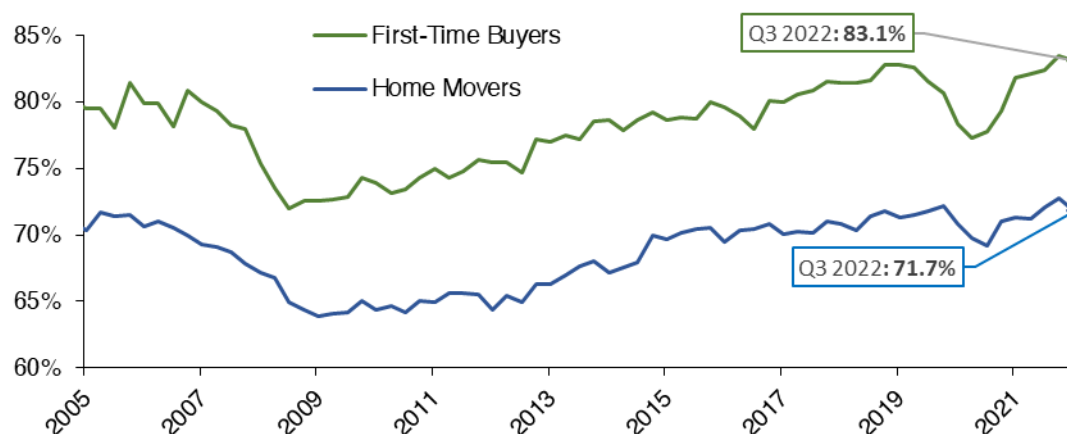


Source: Bank of England

### Loan-to-Value (LTV) Ratios

In Q3 2022, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 83.1%, an annual increase of 1.3 percentage points. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 71.7% in Q3 2022, up 0.5 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**



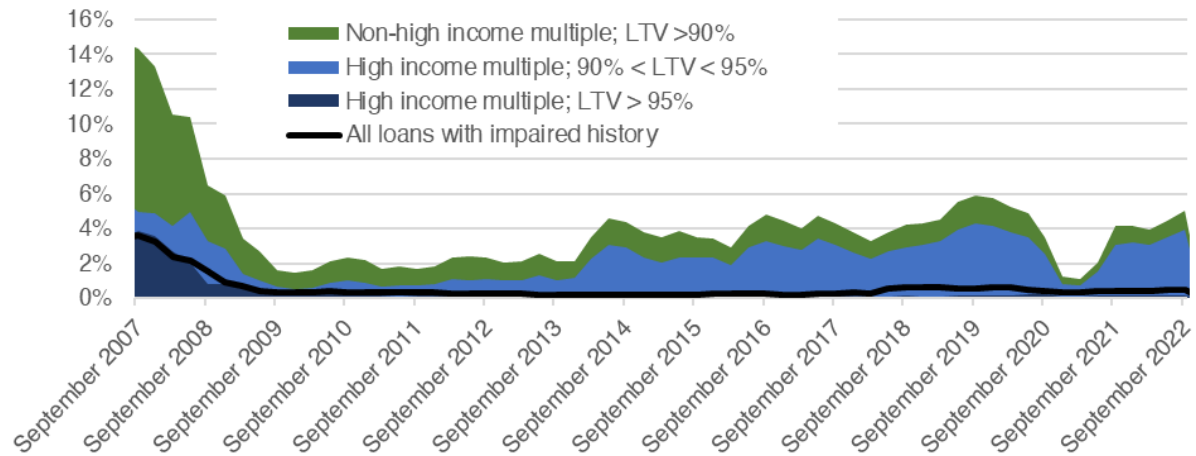
Source: UK Finance

Similarly, Chart 5.4 shows that while there was a reduction in new lending at high LTV mortgage ratios across the UK from March 2020, the market has been recovering. The share of gross mortgage advances across the UK in Q3 2022 with an LTV ratio greater than 90% was 5.0%, 0.9 percentage points above the share in Q3 2021 but 0.9 percentage points lower than the share in Q3 2019. There has also been an increase 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 4.1% in Q3 2022, up by 0.8 percentage points on Q3 2021 but 0.4 percentage points lower than the share in Q3 2019. It should be noted that this data will not yet have been affected by the mortgage market volatility in September 2022.

**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

Falling a sharp fall due to the impact of the Covid-19 pandemic, there was a strong recovery in the number of high LTV products offered by mortgage lenders, with the number of 95% LTV mortgages products increasing from 8 in December 2020 to over 300 in the first 8 months of 2022. However, after the UKG Plan for Growth/mini-budget on 23 September 2022, the number of 95% LTV products dropped to 132 as at 1 October, before increasing slightly to 144 at 1 December. While the impact was starkest in the high LTV sector, the impact on the volatility in the mortgage markets was felt across different LTV levels, leading the total number of residential mortgage products to fall from 4,407 on 1 August 2022 to 2,258 on 1 October 2022, before recovering somewhat to 3,730 on 1 December 2022. (Source: Moneyfacts Mortgage Treasury Report).

## 6. Mortgage Interest Rates

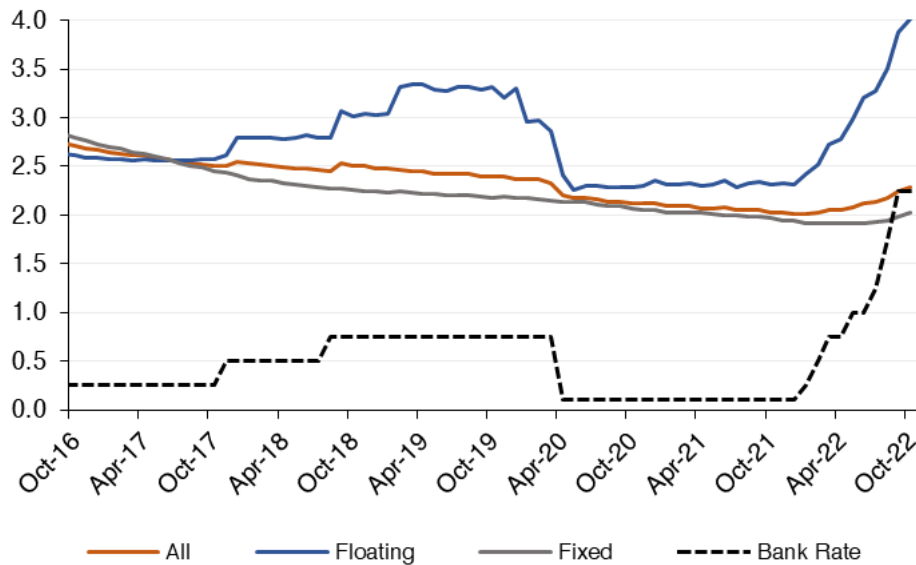
In March 2020, Bank Rate was cut by a total of 65 basis points to 0.1% as a result of the Covid-19 pandemic. More recently in response to the rise in inflation, the Bank of England has increased the Bank rate nine times in the last 12 months, most recently by 75 basis points in November 2022 and by 50 basis points in December 2022. Over the past 12 months, Bank rate has increased by 340 basis points to 3.50%, its highest level since 2008.

A 340 basis point increase in interest rates is estimated to increase the monthly payment by around £300 per month for an average new variable rate and by around £170 per month on the average outstanding variable rate mortgage in Scotland.

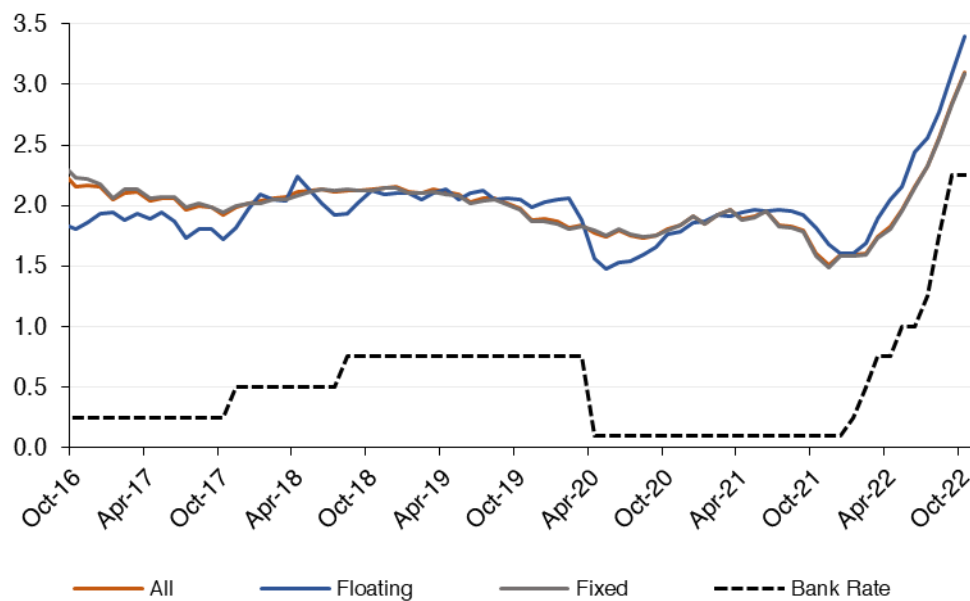
Chart 6.1 and Chart 6.2 show data on the effective (or average) interest rates on outstanding mortgage balances and new mortgage advances, which are available up to October 2022. (Source: BoE). From December 2021 to October 2022, the increases in mortgage rates were below the cumulative 215 basis point increase in Bank Rate during this period: the average variable rate on outstanding mortgages increased by 170 basis points to 4.02%, the average variable rate on new advances increased by 180 basis points to 3.40%, and the average fixed rate on new advances increased by 151 basis points to 3.09%. 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 (%)



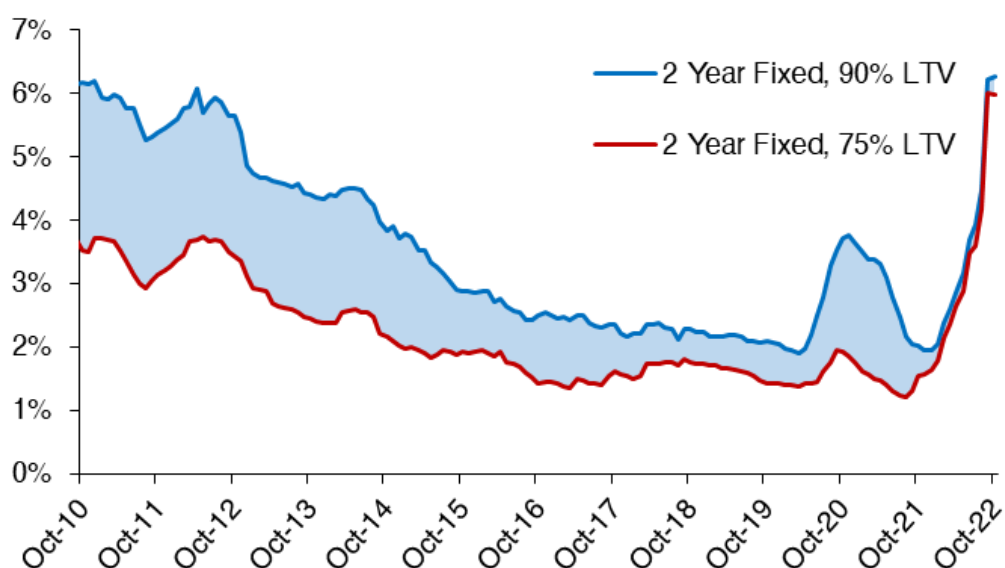
### Chart 6.2 New Mortgages (%)



Source: Bank of England

The spread between the average advertised rate on 2 year fixed 90% and 75% LTV mortgages increased during the pandemic from 51 basis points in April 2020 to 189 basis points in December 2020, as shown in Chart 6.3. However, from April 2021 the spread fell from 189 basis points to 31 basis points in January 2022, with the spread remaining stable since then. In November 2022, the spread stood at 28 basis points. (Source: BoE)

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



Source: Bank of England

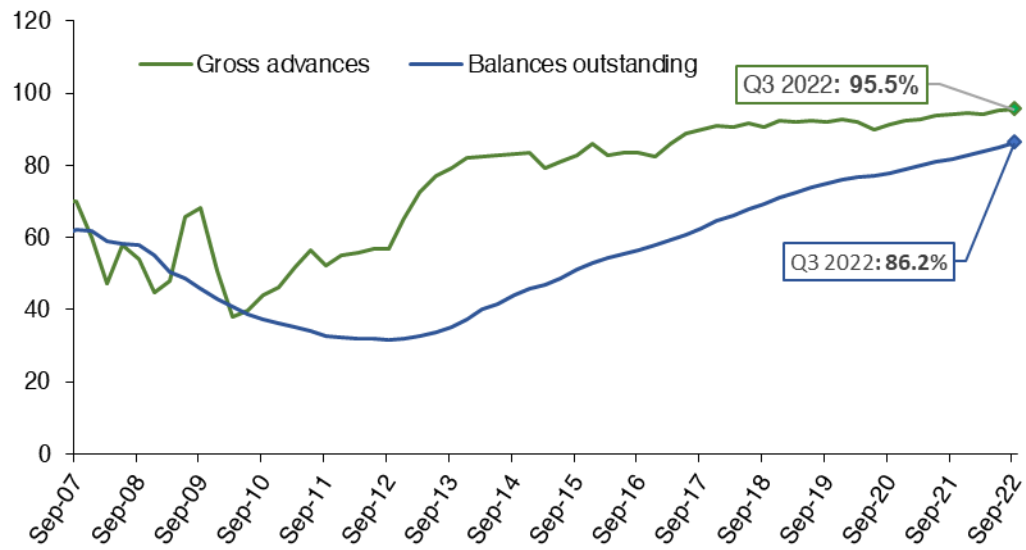
Moneyfacts' data for 1 October 2022, after the UKG Plan for Growth/mini-Budget on 23 September, shows that the average two-year and five-year fixed rates had increased by 119 and 90 basis points relative to 1 September 2022, reaching 5.43% and 5.23% respectively. By 20 October, both of these rates had breached 6%, with the average two-year rate at 6.65% and the average five-year rate at 6.51%. Since then, the average two-year and five-year fixed rates have fallen slightly, with the average two-year fixed rate at 6.01% and the average five-year fixed rate at 5.80% as at 1 December 2022. (Source: Moneyfacts Mortgage Treasury Report and news release).

Chart 6.4 shows that the trend for an increasing share of regulated<sup>1</sup> mortgages to be at fixed rates has continued, with 95.5% of new mortgages and 86.2% of outstanding mortgages on fixed rates as of Q3 2022. The corresponding figures for unregulated<sup>2</sup> mortgages are 95.2% and 75.2%. (Source: FCA)

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

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

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



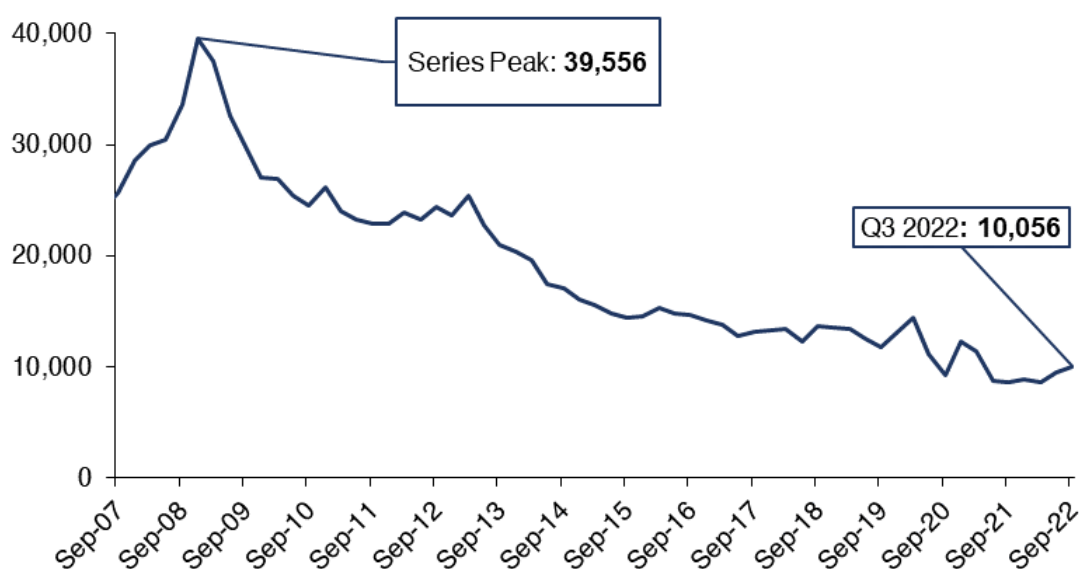
Source: FCA

## 7. Mortgage Arrears & Possessions

### Arrears

There were 10,056 regulated mortgages that went into arrears across the UK in Q3 2022, an annual increase of 17.2% (1,476), although this is from very low levels in Q3 2021. Comparing to the pre-pandemic period in Q3 2019, the number of regulated mortgages entering arrears has fallen by 14.7% (1,732). 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 when these payment holidays came to an end in April 2021, this did not result in a substantial increase in arrears. (Source: FCA)

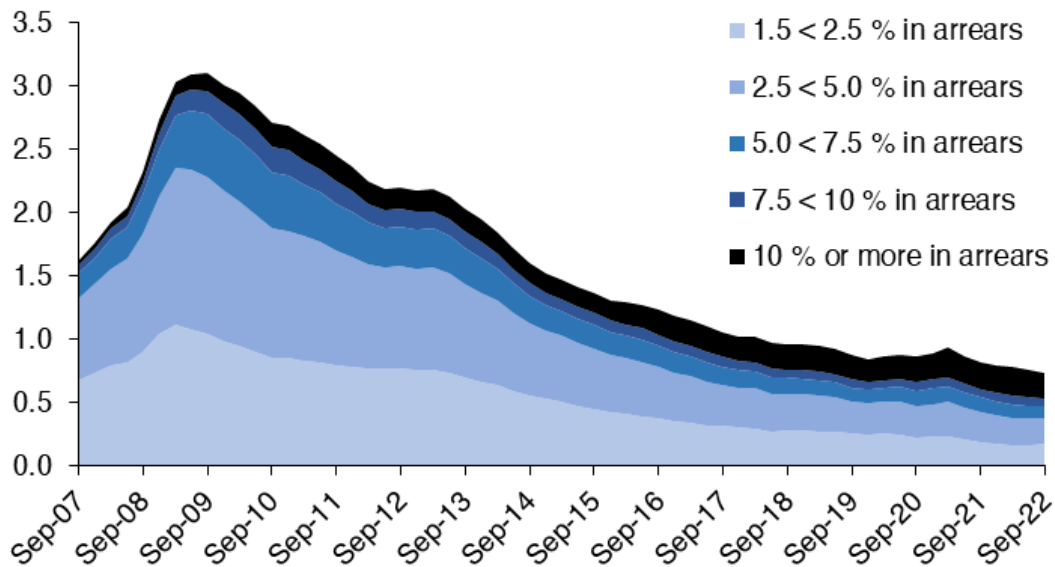
**Chart 7.1 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)**



Source: FCA

The share of lenders' outstanding regulated mortgage balances that were in arrears stood at 0.74% at the end of Q3 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)**



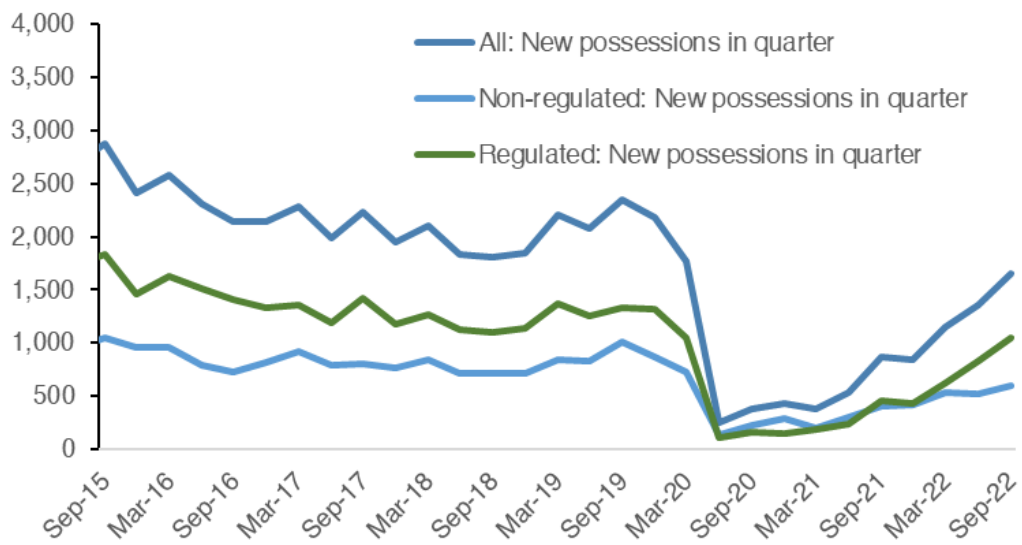
Source: FCA

UK Finance data show that there were 5,760 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q3 2022. This is down by an annual 2.0% (-120), 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 Q3 2022, similar to the level in Q3 2021 (0.29%).

### Possessions

Chart 7.3 shows that despite restrictions on possessions being lifted since 1 April 2021, there were only 1,054 new regulated mortgage possessions across the UK in Q3 2022. While this was an increase relative to Q2 2022 of 219 (+26.2%), and the level of possessions also increased over the year, possessions are still substantially lower (down 282, or 21.1%) relative to Q3 2019, prior to the pandemic.

**Chart 7.3 New Possessions in quarter by type (Quarterly)**



Source: FCA



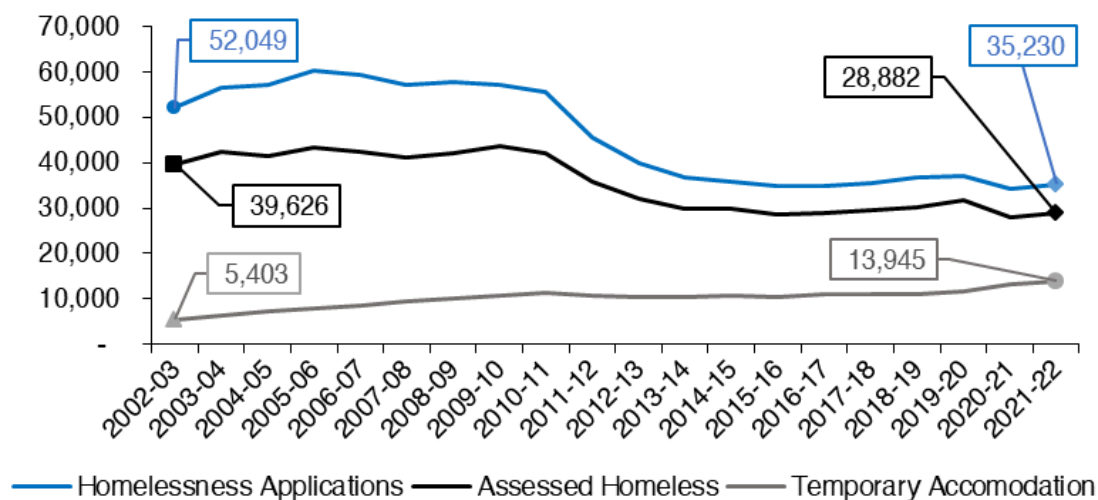
## 8. Homelessness

There have been no new homelessness statistics published since the Q3 Scottish Housing Market Review; the next update is scheduled for 31<sup>st</sup> January 2023.

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

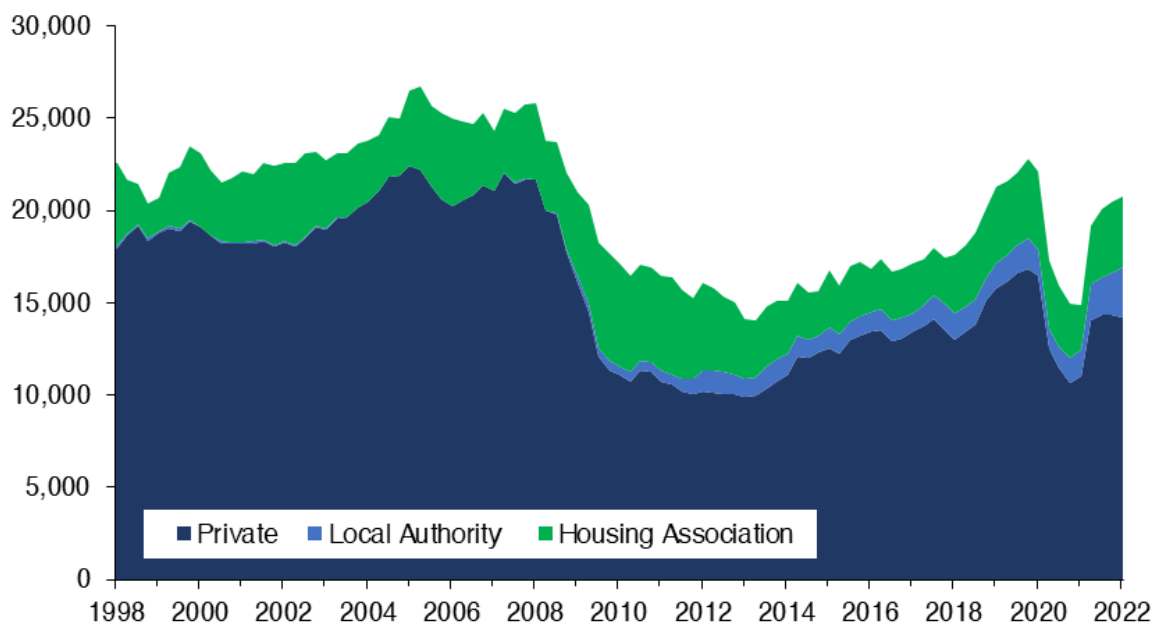
## 9. Housing Starts & Completions

### New build completions – all sectors

The most recent published Scottish Government figures for all-sector new build completions cover the period to March 2022. The next quarterly housing statistics, which will cover the period to June 2022, will be published on 24<sup>th</sup> January 2023.

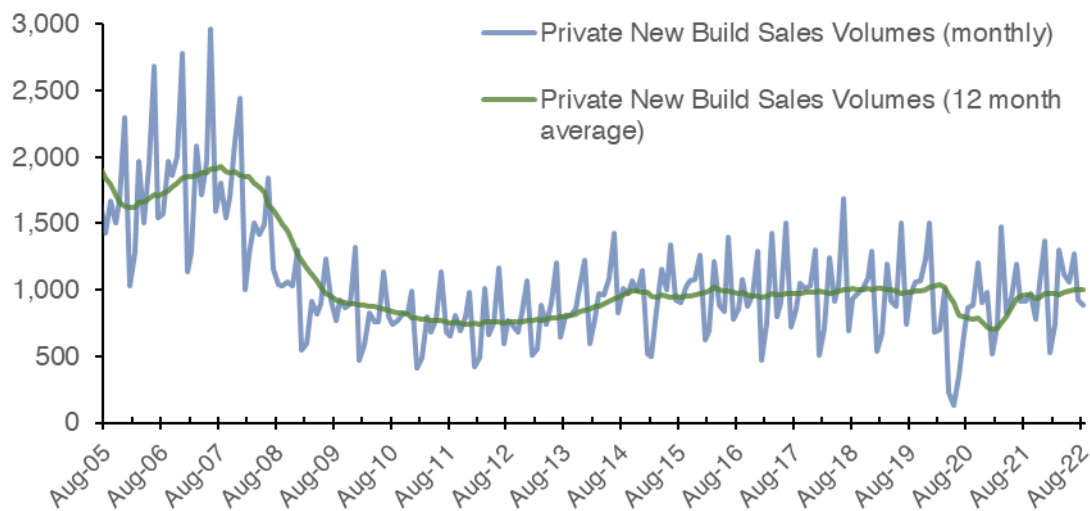
There were 20,767 new build completions across all sectors in Scotland in the year to end Q1 2022, an increase of 39.7% (5,900 homes) on the previous year, when activity levels were affected by Covid-19 related lockdown measures. This is outlined in Chart 9.1, which includes the breakdown of new build 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 Scottish Private New Build Sales to August 2022**

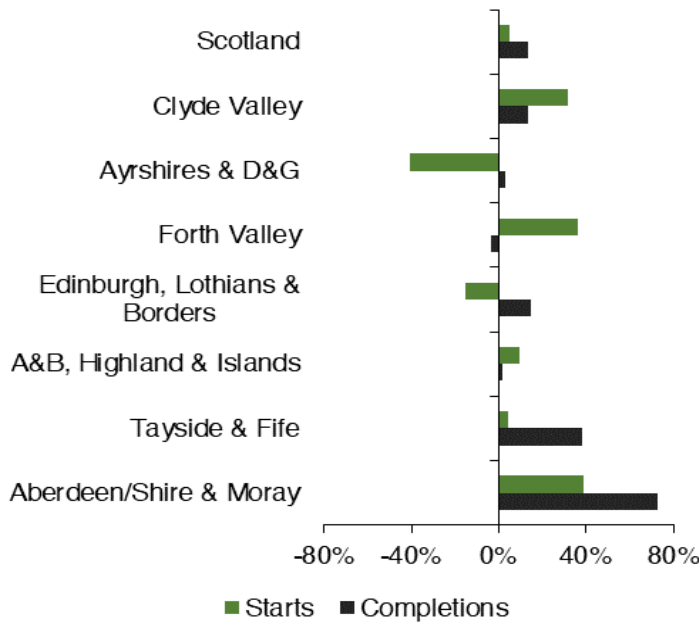


Source: UK HPI (Scotland)

The UK HPI includes private new build sales data, which provide a more up-to-date picture of the latest trends in housebuilding activity. As Chart 9.2 shows, while private new build sales decreased during the restrictions on non-essential construction activity in Q2 2020, falling by 85% annually in May 2020, there has been a strong recovery since then, with an increase in private new build sales on a rolling one year basis to August 2022 of 4.4%. Private new build sales were also up by 2.0% relative to the one-year period to August 2019, prior to the pandemic.

Chart 9. 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 the majority of regions shown, with the largest increase seen in Aberdeen/shire and Moray (+72.5%), whilst there was a small decrease in the Forth Valley of 3.3%. 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 and Dumfries & Galloway (-40.5%).

**Chart 9.3 Annual Change in New Build Starts and Completions (YTE Q1 2022)**

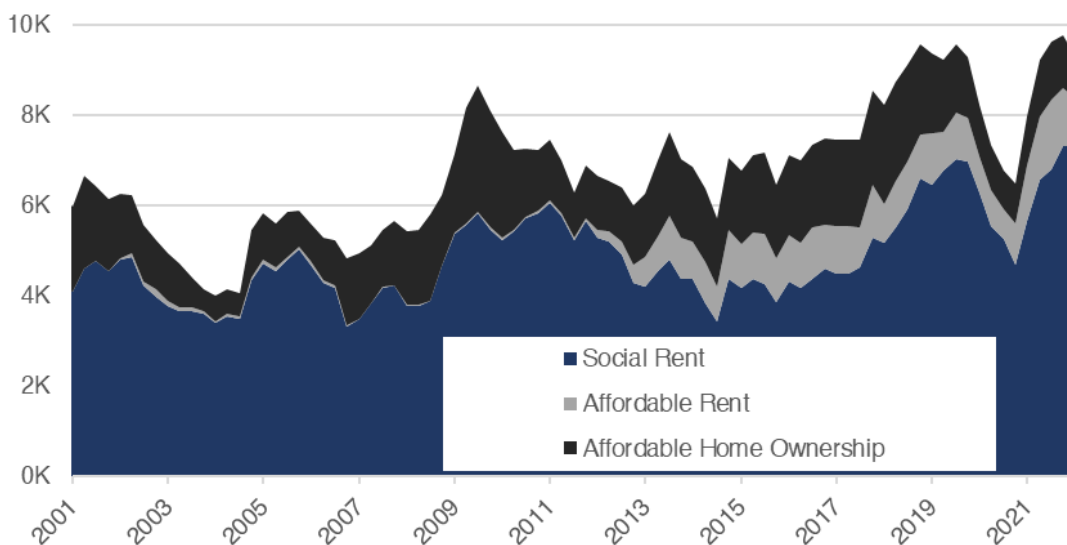


Source: Scottish Government

**Affordable Housing Supply Programme**

Chart 9. shows 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). Figures for Q3 2022 will be published on 24<sup>th</sup> January 2023.

**Chart 9.4 AHSP Completions (4Q Moving Total, to Q2 2022)**



Source: Scottish Government

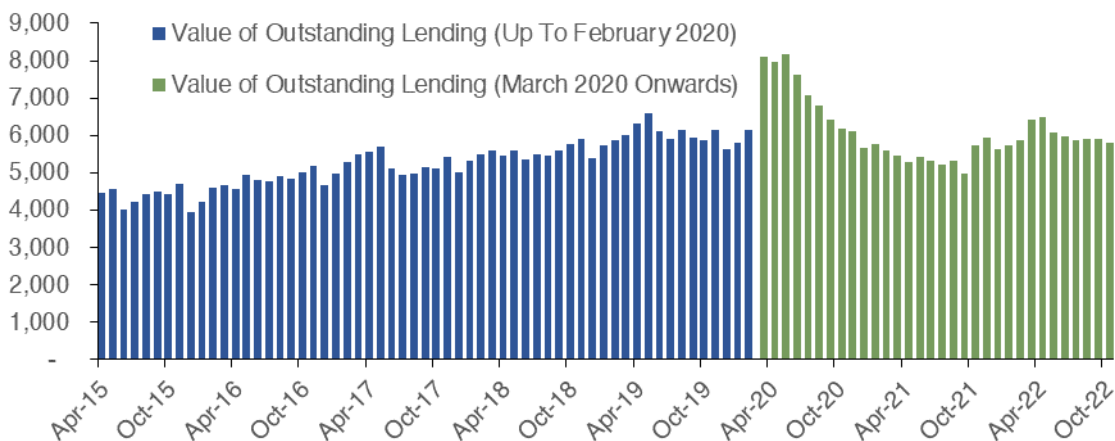
## 10. Lending to House Builders, Insolvencies & Construction Prices

### 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 0.7% 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)**



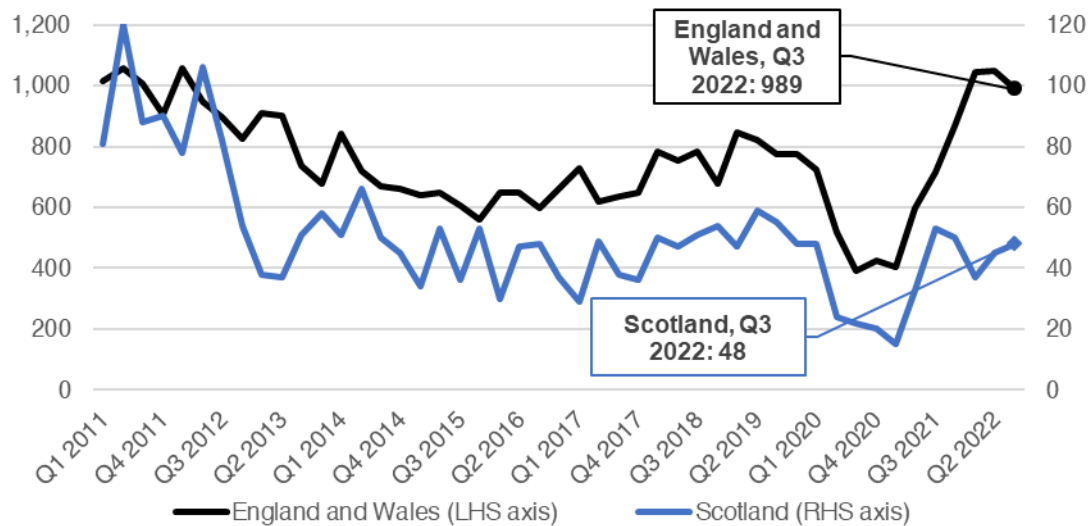
Source: Bank of England

### Insolvencies

Chart 10.2 shows 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 48 insolvencies in Q3 2022, a decrease of 9.4% on Q3 2021 but the same level as the 2016 – 2019 average for Q3. For construction companies registered in England and Wales, however, insolvencies have increased above pre-pandemic levels, with an annual increase of 38.1% on Q3 2021, reaching 989. This is also 41.5% above the 2016 – 2019 average for Q3. This is the third highest level of registered company

insolvencies in England and Wales over the last ten years, only behind the level in Q1 2022 (1,044) and Q2 2022 (1,048).

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



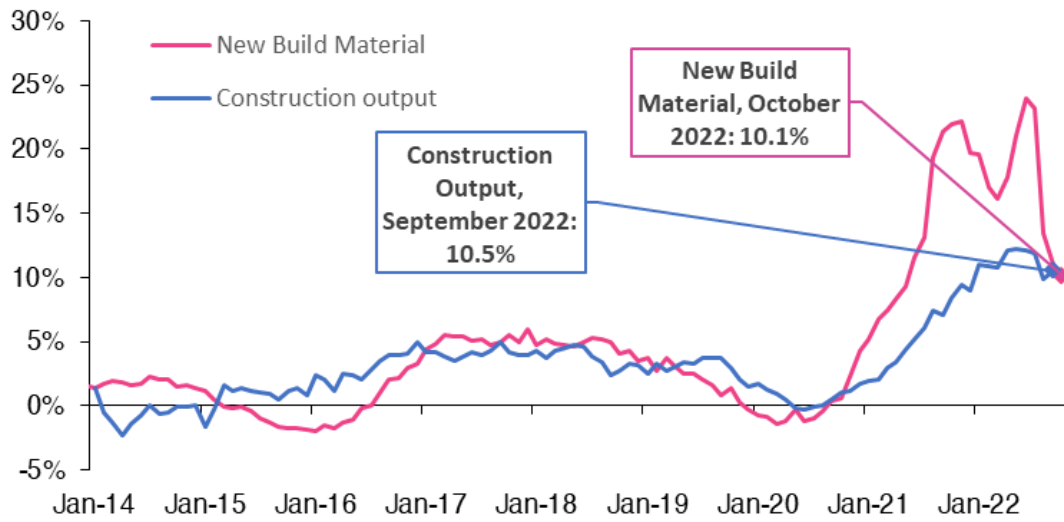
Source: The Insolvency Service

### Construction Prices

Data from the ONS on the annual change in the construction 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 10.5% to September 2022 (Chart 10.3).

Data from BEIS (also illustrated in Chart 10.3) shows that the annual growth rate in the cost of construction materials used in new house building, which had reached as high as 24.0% in June 2022, has been moderating more recently, to stand at 10.1% in October 2022. The annual change has been driven in particular by gravel, sand, clays and kaolin, including aggregate levy (56.7%) and insulating material (+51.2%). The largest annual decrease in prices in October 2022 came from imported sawn or planed wood (-19.9%) and particle board (-9.7%).

**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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