

Scottish Housing Market Review Q2 2023

July 2023

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Key points for this issue

Sales

- While transactions stabilised after the volatility caused by the Covid-19 pandemic, there is now evidence that the level of transactions is falling in response to higher interest rates. Registers of Scotland statistics show that number of residential property transactions in Q1 2023 was down by 1.9% compared to pre-pandemic average for Q1 (2016 - 2019), while Revenue Scotland data, which is more up-to-date, shows that over the period January to May 2023, Land and Buildings Transaction Tax returns were 9.4% below the corresponding months in 2019.

House Prices

- Higher interest rates are also weighing on the previously elevated level of house price inflation, with house price inflation falling from the recent peak of 13.3% in Q3 2021 to 2.0% in Q1 2023. [Source: UK House Price Index (HPI)]
- The strongest annual price growth by property type in Q1 2023 was for detached properties, up by an annual 3.7%, whilst flats increased by the lowest amount, up by 0.2%.
- The average new build property price increased by an annual 11.8% to £284K in Q4 2022, higher than the increase on the average existing build price of 4.6% (note these figures are one quarter behind other HPI data).

Rental Prices

- Private housing rental prices for new lets (which are not subject to the Cost of Living (Tenant Protection) Act) continue to increase. In Q1 2023, letting agencies Citylets and Rightmove recorded annual private rental increases in Scotland of 12.4% and 12.3%, respectively.
- Measures relating to the private rented sector under the Cost of Living (Tenant Protection) Act have been extended to 30 September 2023. In addition, Tenants' Rights Minister Patrick Harvie has confirmed proposals to extend these measures until 31st March 2024, at the latest, subject to parliamentary approval.

Lending

- Lending to both first-time buyers and home movers has fallen relative to pre-pandemic levels: over the 4 quarters to Q1 2023, new mortgage advances to first-time buyers in Scotland decreased by 8.7% and to home movers by 8.9% relative to the 4 quarters to 2020 Q1. [Source: UK Finance].
- There has been a significant fall in mortgage approvals (a leading indicator of housing-market activity). Over the period October 2022 to May 2023, approvals in the UK have on average been 27% lower than they were in the corresponding months of 2019, prior to the pandemic. [Source: Bank of England]
- Lenders reduced the number of residential mortgage products over the month to 1 June from 5,264 to 4,967 (-5.6%), the largest monthly fall since October 2022 following the mini-budget / UKG Plan for Growth. [Source: Moneyfacts Mortgage Treasury Report]

- The Bank of England has increased the Base Rate thirteen times since December 2021, taking the rate from 0.1% to 5.0%. This has fed into significant increases in mortgage rates, with the average advertised two-year and five-year fixed mortgage rates reaching 6.47% and 6.01% respectively at the beginning of July 2023 following the 50 basis point increase in the Bank Rate at the June Monetary Policy Committee meeting [Source: Moneyfacts].
- Tighter conditions in the mortgage market are also reflected in the decreasing share of higher-risk lending. The share of mortgage advances in the UK with both a high LTV and a high income multiple fell by 1.2% points from the previous quarter to stand at 3.4% in Q1 2023. [Source: FCA]. This has also fed into average LTV ratios, with that for new mortgages advanced to first-time buyers in Scotland falling by 2.3% points over a one-year period to 80.1% in Q1 2023 and to home movers by 3.8% points to 68.4%. [Source: UK Finance].
- The number of regulated mortgages entering arrears across the UK rose by an annual 63.1% in Q1 2023, although from a low base: relative to the pre-pandemic level in Q1 2019, the number of regulated mortgages entering arrears fell by 3.1%. [Source: UK Finance]. A new mortgage charter has been agreed with lenders to provide support to residential mortgage customers.

Housing Supply

- There were 23,512 all-sector new build homes completed in the year ending Q1 2023, an annual increase of 8.8% (1,897 homes). However, the number of new build homes started decreased by 2% (305 homes), with 19,204 starts in the year to end March 2023, down from 19,509 starts in the previous year. [Source: SG]
- A total of 10,458 affordable homes were delivered in the year to Q1 2023, an annual increase of 7.2%. However, approvals and starts have decreased over the year to Q1 2023, in-part caused by increased costs in the construction.

Housebuilding Output and Material Prices

- Construction output price inflation for new public and private housing increased by 10.4% annually to April 2022. [Source: ONS] 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 7.6% in April 2023. [Source: UK Government]
- Following a dip due to the business support available during the pandemic, insolvencies of construction firms registered in Scotland have returned to pre-pandemic levels: there were 202 insolvencies in the year to Q1 2023, compared with 210 in the year to Q1 2020. [Source: The Insolvency Service]

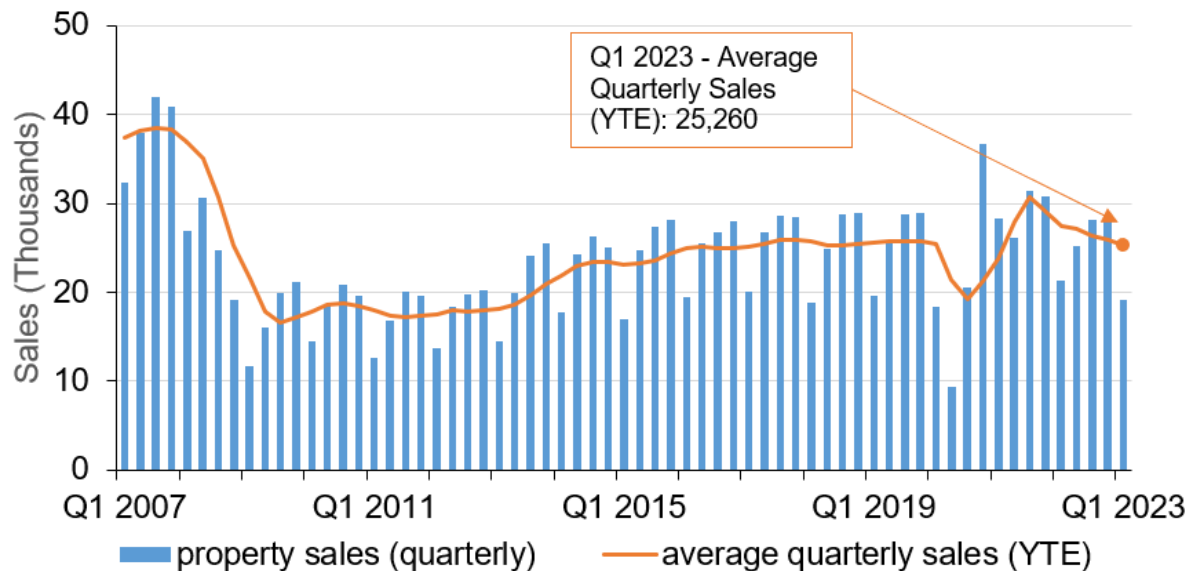
Data to: 30 June 2023

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1. Sales

Scottish Sales Performance: National

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

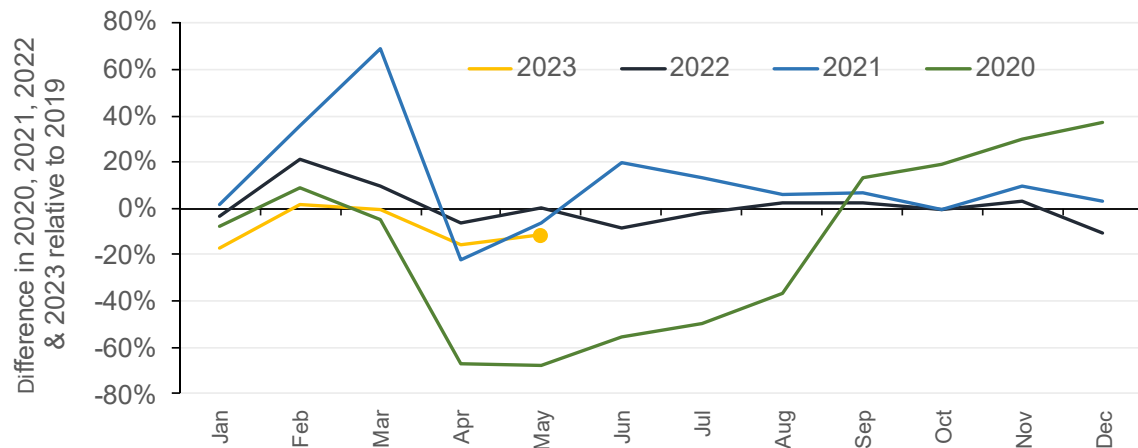


* Number of sales between £20,000 and £1 million. Source: Registers of Scotland

After considerable volatility due to the impact of the Covid-19 pandemic, as well as measures such as the temporary reduction in Land Buildings Transaction Tax (LBTT), transactions stabilised close to pre-pandemic levels. More recently, transactions have begun to slow, with Registers of Scotland statistics showing that there were 19,119 residential property sales registered across Scotland in Q1 2023. Relative to Q1 2022 this was a decrease of 10.6%; relative to the pre-pandemic average for Q1 (2016 - 2019), the number of transactions decreased by 1.9%.

Data from Revenue Scotland also indicates that there has been a reduction in housing market activity in Scotland. Chart 1.2 plots the percentage difference between monthly residential LBTT returns over the period 2020 to 2023 relative to the corresponding month in 2019, with 2019 chosen as the baseline to reflect pre-Covid market conditions. While it can be seen that for much of the latter half of 2022, transactions closely tracked their levels in 2019, the number of transactions since December 2022 has generally been lower than the comparable month before the pandemic, with transactions over the 5-month period from January to May 2023 9.4% below the corresponding months in 2019. The increase in mortgage rates (see Section 6) is likely to have contributed to this decline.

Chart 1.2 Residential LBTT Returns: Percentage Difference Between 2020, 2021, 2022 & 2023 and Corresponding Month in 2019 (Monthly)



Source: Revenue Scotland

Scottish Sales Performance: Regional

Registers of Scotland data shows that the number of residential property sales in Q1 2023 was lower than Q1 2022 not only for Scotland as a whole, but also in each region. The largest decreases in residential property sales were in Argyll & Bute and Highlands & Islands (-18.8%) and Aberdeen/shire & Moray (-17.5%), whilst the smallest decline (-7.2%) was in the Forth Valley.

Analysing the annual change using a rolling four quarters method, it can be seen that the decrease in transactions of 7.9% at the national level for the one year period to Q1 2023 relative to the year prior has also been experienced across Scottish regions. The largest fall in residential property sales over this time period was in Argyll & Bute and Highland & Islands (-11.6%), whilst the smallest decrease was in Forth Valley (-3.2%).

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 Q1 2023, the annual change, as well as the annual change in sales using a rolling four quarter period to Q1 2023. The latter is included to smooth out volatility in quarterly data.

Table 1.1 Regional residential transactions

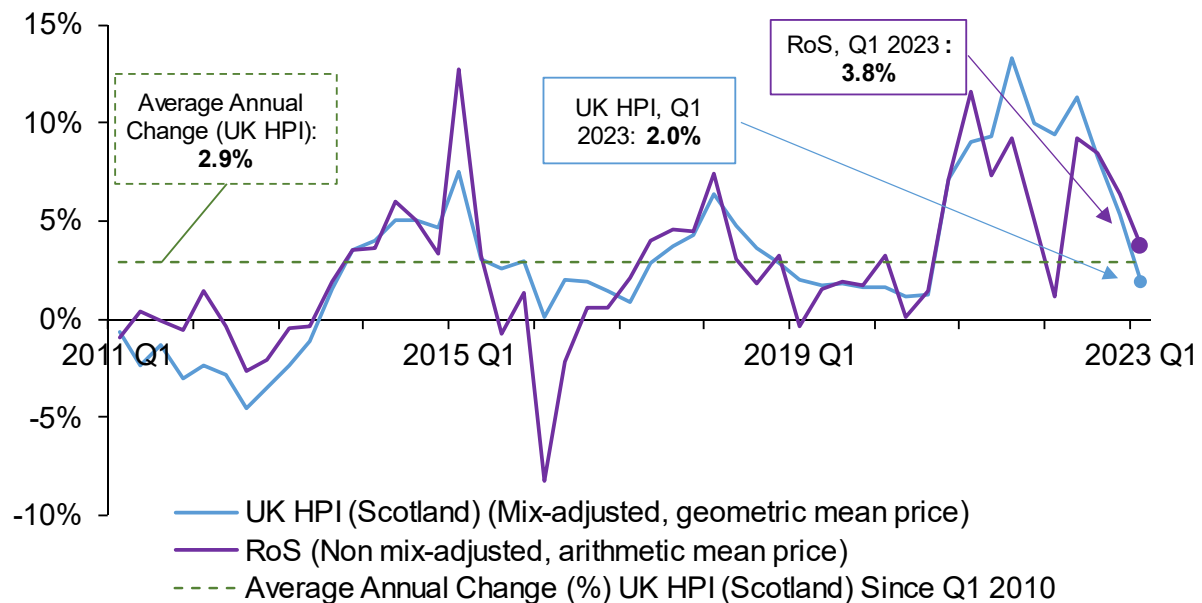
<p>Aberdeen/shire and Moray Sales – Q1 2023 1,843 12 Month Change -17.5% Annual change (rolling 4 quarters) -9.3%</p>	<p>Edinburgh, Lothians and Borders Sales – Q1 2023 3,843 12 Month Change -10.7% Annual change (rolling 4 quarters) -7.1%</p>
<p>Argyll & Bute and Highland & Islands Sales – Q1 2023 1,268 12 Month Change -18.8% Annual change (rolling 4 quarters) -11.6%</p>	<p>Forth Valley Sales – Q1 2023 1,046 12 Month Change -7.2% Annual change (rolling 4 quarters) -3.2%</p>
<p>Ayrshires and Dumfries & Galloway Sales – Q1 2023 1,782 12 Month Change -8.7% Annual change (rolling 4 quarters) -7.4%</p>	<p>Tayside & Fife Sales – Q1 2023 2,764 12 Month Change -7.8% Annual change (rolling 4 quarters) -9.1%</p>
<p>Clyde Valley Sales – Q1 2023 6,573 12 Month Change -8.8% Annual change (rolling 4 quarters) -7.6%</p>	<p>Scotland Sales – Q4 2022 19,119 12 Month Change -10.6% Annual change (rolling 4 quarters) -7.9%</p>

Source: Registers of Scotland

2. House Prices

Scottish House Price Performance: National

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



Source: Registers of Scotland / UK HPI

Average house prices in Scotland, as measured by the UK House Price Index (HPI), increased in Q1 2023 by 2.0% relative to Q1 2022. This is down from the recent peak of 13.3% in Q3 2021, and represents the slowest rate of house price inflation since Q3 2020 and is also slower than the average annual quarterly change between 2010 and 2023 (2.9%). The average property price (geometric mean) in Scotland stood at £184K in Q1 2023. More recent monthly data (which tends to be more volatile than the quarterly averages) for April 2023 similarly shows an annual increase of 2.0%.

Data from Registers of Scotland also suggests annual house price inflation slowed in Q1 2023. However, the rate of inflation was higher than the UK HPI measure at 3.8%. Registers of Scotland data is not mix-adjusted, so will be affected by the composition of properties sold. The average (arithmetic mean) house price in Scotland as at Q1 2023 according to Registers of Scotland data was £210K.

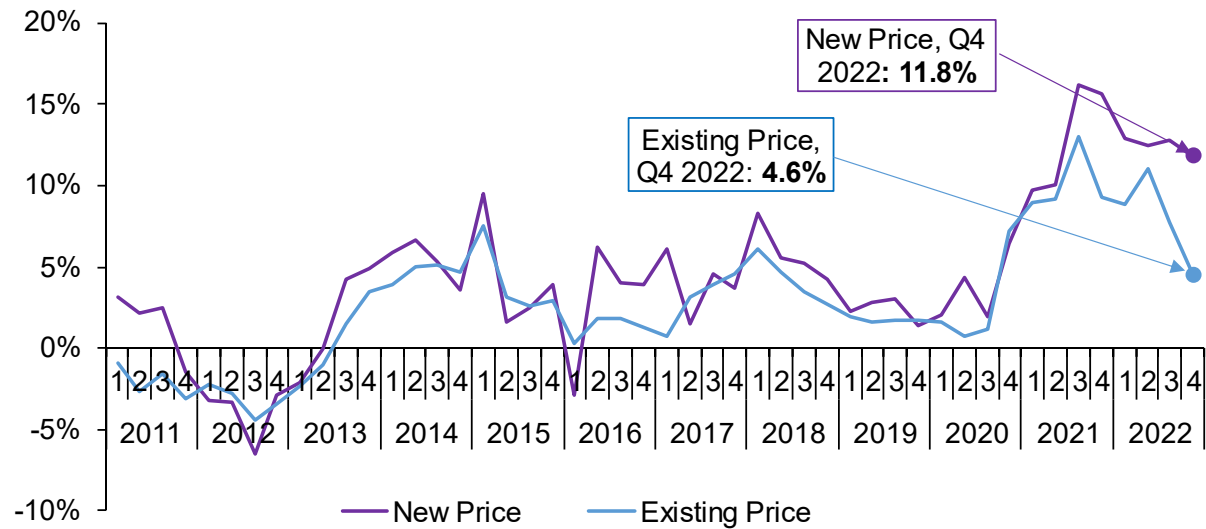
UK HPI data shows that annual price growth to Q1 2023 was highest for detached properties (3.7%). Flats increased by the lowest amount (0.2%).

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 Q4 2022, the average Scottish new build property price increased to a greater extent than the existing build price, rising by an annual 11.8% to £285K. The average existing build price rose by 4.6% to £184K. The large rise in new build property

prices can be partly explained by the large increase in new build construction material prices (see Chart 11.3).

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 2.4% in Q1 2023, to £223K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 1.6% in Q1 2023, to £147K.

Scottish House Price Performance: Regional

Registers of Scotland data show that house prices increased over the one year period to Q1 2023 for all regions in Scotland, although to a varying extent. The largest increase was in Argyle & Bute and Highlands & Islands, where house prices increased 6.5% annually to 216K (average arithmetic mean price; prices not mix-adjusted). The smallest increase was in Aberdeen/shire and Moray, where prices increased by 0.4% annually to £198K.

The longer-term trend (as measured by the change in house prices over the four-quarter period to Q1 2023 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 seen in Edinburgh, Lothians and the Borders, where house prices increased by 11.4%, whilst the smallest increase in house prices was seen in Forth Valley, where house prices increased by 1.1%.

A summary of the average house price in Q4 2022 by Scottish region is included below. This also includes the annual change in the average house price in Q1 2023, as well as the annual change in the average house price using a rolling four quarter period to Q1 2023, which smooths out volatility in quarterly data (Source: Registers of Scotland).

Table 2.1 Regional house prices

<p>Aberdeen/shire and Moray Average Price – Q1 2023 £198K 12 Month Change 0.4% Annual change (rolling 4 quarters) 1.3%</p>	<p>Edinburgh, Lothians and Borders Average Price – Q1 2023 284K 12 Month Change 4.9% Annual change (rolling 4 quarters) 11.4%</p>
<p>Argyll & Bute and Highland & Islands Average Price – Q1 2023 £216K 12 Month Change 6.5% Annual change (rolling 4 quarters) 9.8%</p>	<p>Forth Valley Average Price – Q1 2023 £200K 12 Month Change 6.2% Annual change (rolling 4 quarters) 1.1%</p>
<p>Ayrshires and Dumfries & Galloway Average Price – Q1 2023 £165K 12 Month Change 1.6% Annual change (rolling 4 quarters) 6.0%</p>	<p>Tayside and Fife Average Price – Q1 2023 £193K 12 Month Change 3.3% Annual change (rolling 4 quarters) 7.0%</p>
<p>Clyde Valley Average Price – Q1 2023 £190K 12 Month Change 4.1% Annual change (rolling 4 quarters) 8.9%</p>	<p>Scotland Average Price – Q1 2023 £210K 12 Month Change 3.8% Annual change (rolling 4 quarters) 7.1%</p>

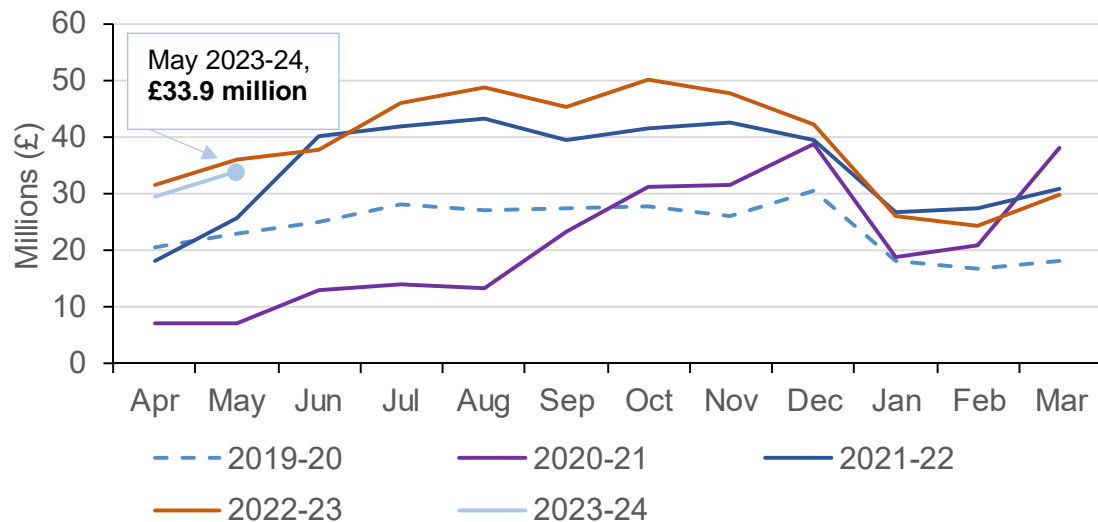
Source: Registers of Scotland

3. Residential Land Buildings Transaction Tax (LBTT)

Residential Land and Buildings Transaction Tax (LBTT) revenue excluding the Additional Dwelling Supplement (ADS) rose sharply from £20.8m in February 2021 to £38.1m in March 2021, due to transactions being brought forward in response 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. Revenue then fell to £18.2m in April 2021, but as from May 2021 residential LBTT revenues picked up and remained elevated relative to previous years, with revenue for the 2021-22 financial year 45% higher than in 2019-20.

This trend continued during 2022-23, with revenue 12% higher than in 2021-22, and 62% higher than 2019-20, prior to Covid-19, with higher house prices (see Chart 2.1) a key factor in the increase in revenue. In the first two months of 2023-23, revenues have been below their level in the corresponding months of 2022-23, reflecting declining activity levels and the slowdown in house price inflation.

Chart 3.1 Residential LBTT Revenue Excluding ADS (Monthly)



Source: Revenue Scotland

4. Private Rental Sector

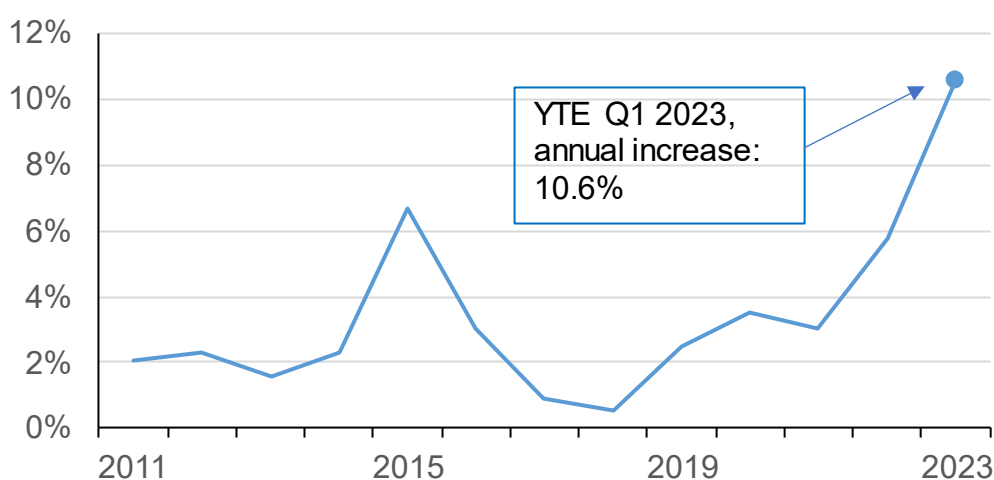
Private Housing Rental Prices

Note: In previous editions of the quarterly housing market review the ONS Private Rental Sector index was used to monitor changes in the private rents. However, the methodology used for this index, in particular the assumptions which are made about the behaviour of rents paid by existing tenants due to limited data on actual trends in this sub-sector in Scotland, means that the behaviour of the index may not robustly capture the impact of the Cost of Living (Tenant Protection) Act on capping rents for existing tenants (see next section). Therefore the analysis in this section focuses on data from letting agents, which covers rents for new tenants, and is not affected by the emergency legislation.

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. Subject to these caveats, data from Citylets, which showed a 12.4% annual increase in its Private Housing Rental Price Index in Q1 2023, and Rightmove, which recorded a 12.3% increase in its Rental Tracker, tell a similar story about recent trends in rents for new tenants in Scotland. Between 2010 and 2021, nominal growth in rents for new tenants, as measured by the Citylets index, had largely ranged between 0% and 5%, (see Chart 4.1), before rental growth began to accelerate in 2022.

In real terms (adjusting for inflation, using the Consumer Price Index), the annual change in the Citylets private rental prices index in Q1 2023 was 2.0%, due to CPI inflation reaching 10.4% over the same period. The heightened level of CPI inflation can be partly explained by a substantial increase in the price of Housing and Household Services, principally from electricity, gas, and other fuels.

Chart 4.1 Annual Change in Citylets Private Rental Prices Index (YTE Q1): Scotland



Source: Citylets, Quarterly Report, Q1 2023

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 introduced a temporary rent cap, a temporary moratorium on the enforcement of evictions (except in a number of specified circumstances), and increased the level of damages for unlawful evictions 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 cap has since been extended to 30 September 2023, with changes meaning that from 1 April 2023 if a private landlord serves a notice to increase a tenant's rent mid-tenancy then the increase will be capped at 3%. Private landlords will alternatively be able to apply for a rent increase of up to 6% (previously 3%) to help cover certain increases in costs in defined and limited circumstances. Enforcement of evictions will continue to be paused for up to six months except in a number of specified circumstances.

The rent cap for student accommodation has been suspended, recognising its limited impact on annual rents set on the basis of an academic year, and the social sector rent cap has been replaced with agreements from landlords to keep any rent increase for 2023-24 well below inflation.

Tenants' Rights Minister Patrick Harvie has set out proposals to extend the current measures until 31st March 2024, at the latest, subject to parliamentary approval.

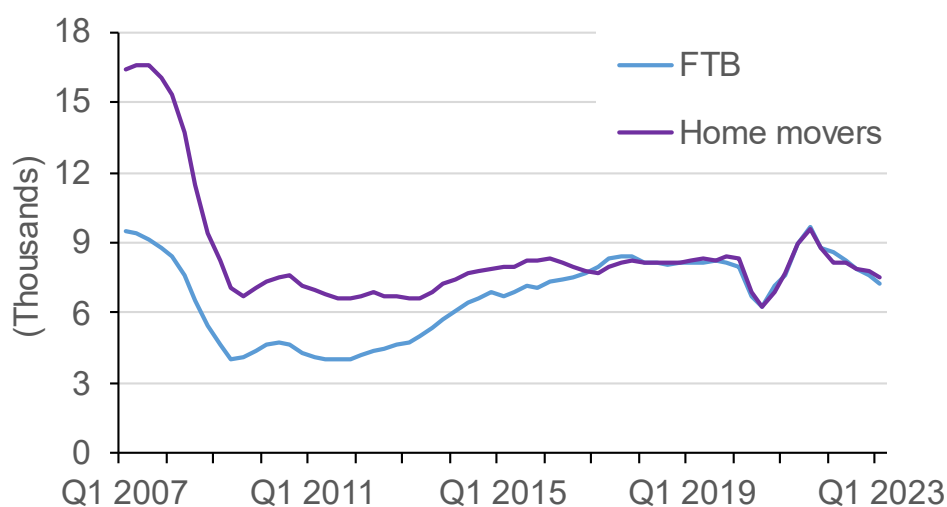
5. Mortgage Approvals & LTVs

New Mortgage Advances

Chart 5.1 plots the number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 5,520 new mortgages advanced to first-time buyers in Scotland in Q1 2023, an annual decrease of 19.7% (-1,350). Meanwhile, there were 5,570 new mortgages advanced to home movers in Scotland in Q1 2023, an annual decrease of 15.5% (-1,020). Comparing the 4-quarter period to Q1 2023 against the previous 4 quarters, new mortgage advances to first-time buyers decreased by 14.9% whilst for home movers they decreased by 7.4%. (Source: UK Finance). Comparing to the 4 quarters to Q1 2020, immediately before the pandemic, first-time buyer new mortgages (-8.7%) and home mover new mortgages (-8.9%) were down by similar amounts.

These trends are likely to reflect the impact of increase in mortgage rates (see Section 6) on activity levels in the housing market, which had previously rebounded strongly after the release of Covid-19 pandemic restrictions.

Chart 5.1 New mortgage advances for home purchase (4-quarter moving average), Scotland



Source: UK Finance

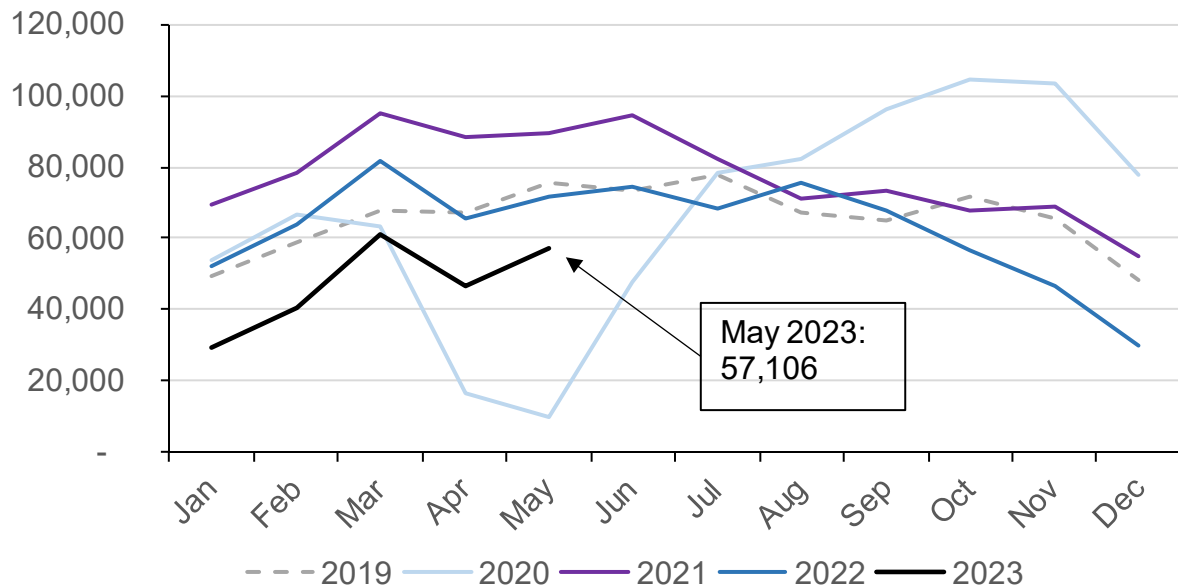
Mortgage Approvals

Chart 5.2 plots the monthly number of mortgage approvals across the UK for house purchase by individuals (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 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 104,598 in October 2020 (see Chart 5.2). Mortgage approvals returned to more

normal levels up until September 2022, but thereafter there has been a significant fall in approvals: over the period October 2022 to May 2023, approvals have on average been around a quarter (27%) lower than they were in the corresponding months of 2019, prior to the pandemic.

Chart 5.2 Mortgage Approvals for House Purchase by Individuals (Monthly), UK

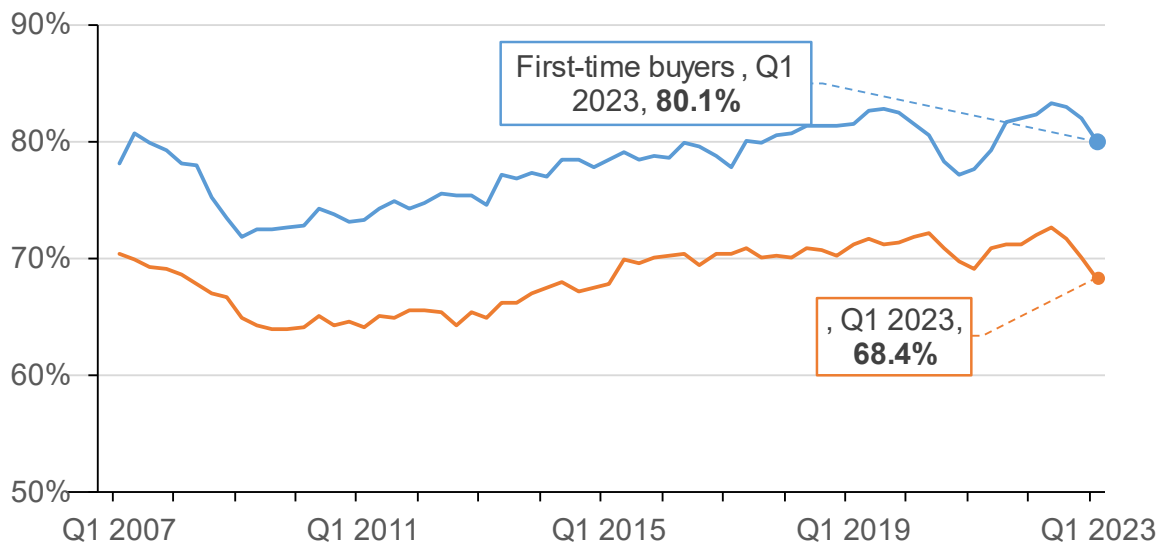


Source: Bank of England

Loan-to-Value (LTV) Ratios

In Q1 2023, the mean LTV ratio on new mortgages advanced to first-time buyers in Scotland stood at 80.1%, down by 2.3 percentage points over a one-year period. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 68.4% in Q1 2023, down 3.8 percentage points over a one-year period. This is shown in Chart 5.3. (Source: UK Finance).

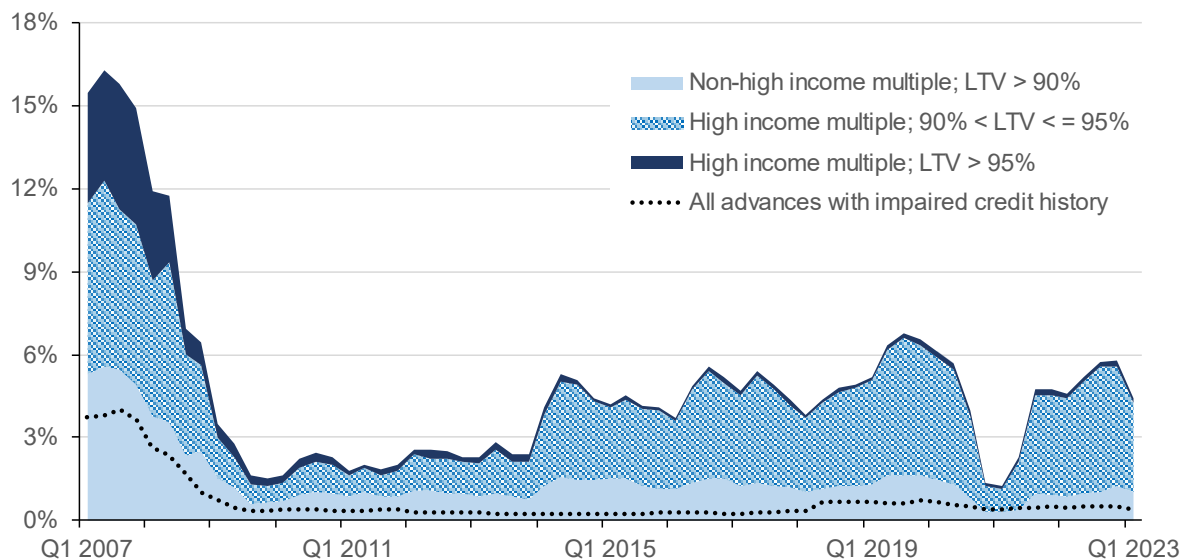
Chart 5.3 Mean Loan-to-Value Ratio (Quarterly), Scotland



Source: UK Finance

Chart 5.4 shows that while there was a reduction in new regulated residential lending at high LTV ratios across the UK which coincided with the Covid-19 pandemic, there was a strong rebound once Covid restrictions were lifted. However, in Q1 2023 there was a dip in higher-risk lending. The share of all advances with an LTV greater than 90% has fallen by 1.4 percentage points from Q4 2022 to stand at 4.4%, and within this the share of all loans with an LTV greater than 90% and a high income multiple has fallen by 1.2 percentage points to stand at 3.4%.

Chart 5.4 Higher-Risk* Lending as a % of all Regulated Residential Lending to Individuals (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)

The trends set above have been partly the result of fluctuations in the number of high LTV mortgage products. Following a sharp fall due to the impact of the Covid-19 pandemic, there was a strong recovery in high LTV products offered by lenders, with the number of 95% LTV mortgages products increasing from 8 on 1 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 on 1 October, before recovering somewhat to 187 on 1 May 2023. (Source: Moneyfacts Mortgage Treasury Report).

After a smaller-than-expected decline in the annual rate of CPI inflation in April 2023 (published in May) led to a further 25 basis point rise in the Bank Rate at the May Monetary Policy Committee meeting, the total number of mortgage products available fell from 5,264 on 1 May to 4,967 (-5.6%) on 1 June 2023, the largest monthly decline since the fall-out from the mini-Budget in September 2022. This fall was experienced across most LTV levels; in contrast, the 95% category recorded a further increase, to stand at 229 on 1 June 2023, although this remained substantially below the 347 products available on 1 June 2022.

Buy-to-let mortgage products similarly fell across most LTV categories over the month of May, with the total number of mortgage products on 1 June 2023 (2,330) down by 385 (14%) relative to 1 May, although this remained higher than the 2,246 products available in February 2023.

The publication in June of another higher-than-expected CPI figure for May 2023, which was followed by a 50 basis point rise in the Bank Rate, has caused further volatility in the mortgage market, with lenders withdrawing some products, potentially in order to reprice them.

6. Mortgage Interest Rates

In March 2020, the 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 thirteen times since December 2021, most recently by 25 basis points in May 2023 and by 50 basis points in June 2023. Since December 2021, the Bank Rate has increased by 490 basis points to 5.00%, 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. (Source: BoE). From December 2021 to May 2023, increases in mortgage rates have been below the increase in Bank Rate: compared to a cumulative 440 basis point increase in the Bank Rate over this period: the average variable rate on outstanding mortgages increased by 379 basis points to 6.12%, the average variable rate on new advances by 343 basis points to 5.11%, and the average fixed rate on new advances increased by 298 basis points to 4.47%. The average fixed rate on outstanding mortgages has started to increase, albeit by only 40 basis points since December 2021, to 2.35% as at May 2023 – due to the large share of mortgages on fixed rates (see Chart 6.4), most of which are two- and five-year fixes, it takes some time before outstanding mortgages are affected by the increase in interest rates.

Effective Monthly Mortgage Interest Rates (Monthly), UK

Chart 6.1 Outstanding Balances

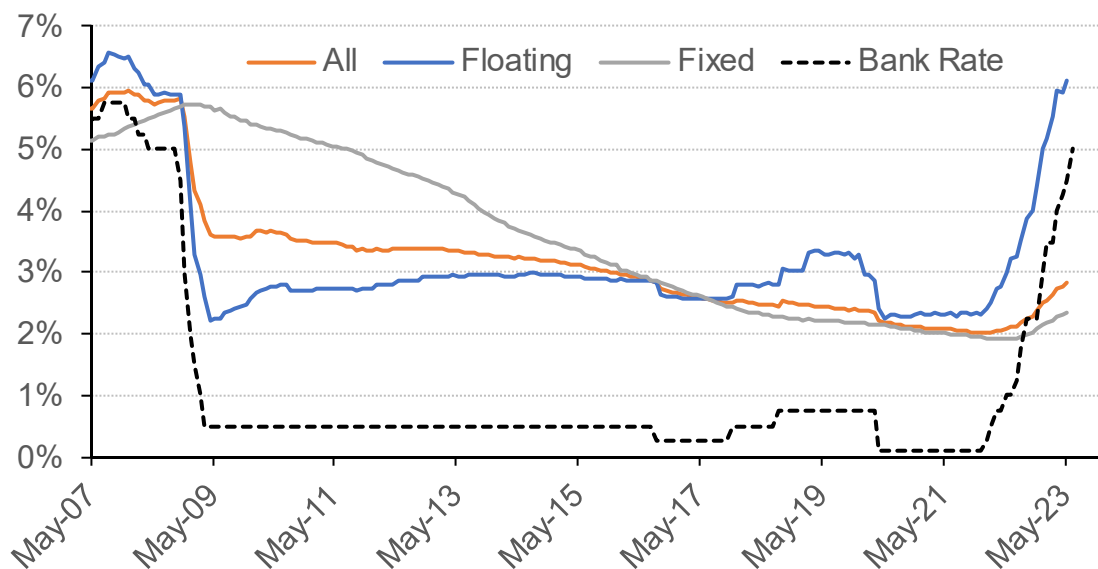
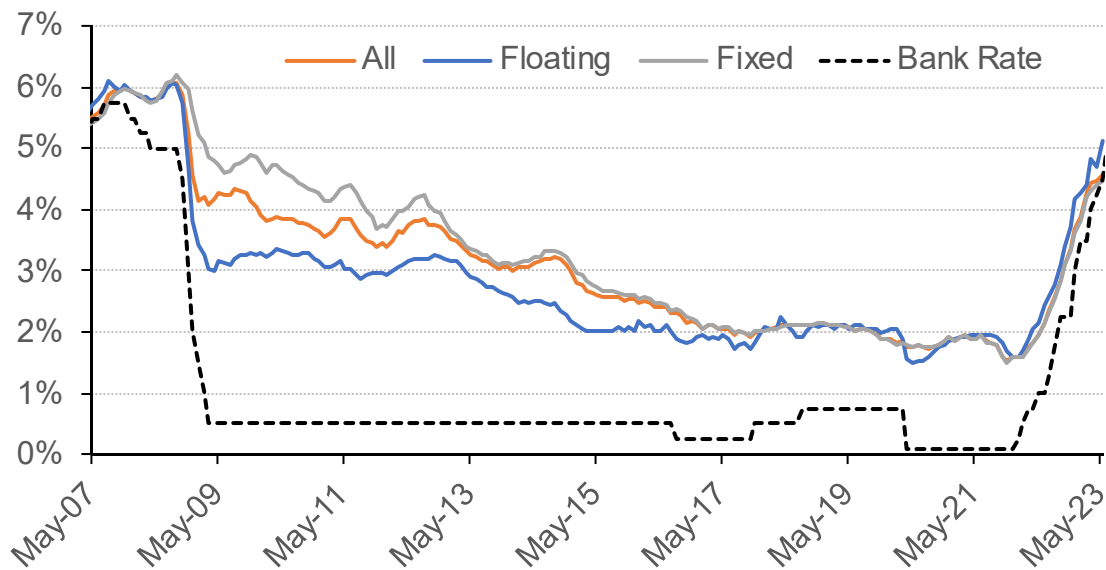


Chart 6.2 New Mortgages

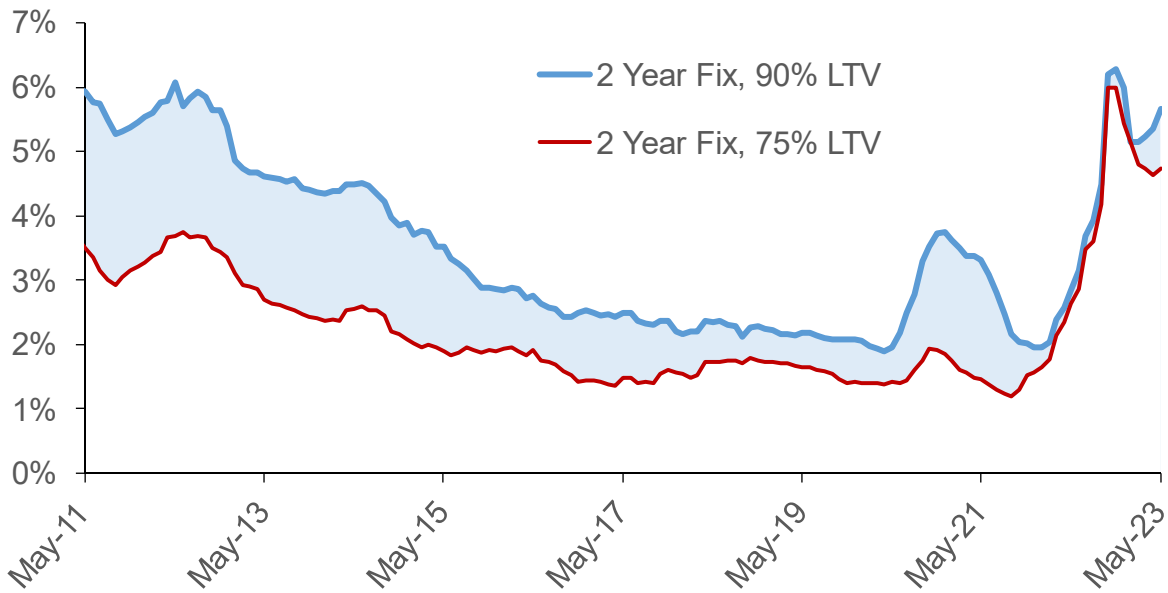


Source: Bank of England

More recent data indicates that mortgage interest rates continued increasing in June and into July. Following the 50 basis point increase in the Bank Rate at the Monetary Policy Meeting on 21 June, the average rate on advertised two-year fixed-rate mortgages increased to 6.47% on 4 July, relative to 5.49% on 1 June. Meanwhile the average rate on advertised five-year fixed-rate mortgages increased from 5.17% on 1 June to 6.01% on 4 July. The fact that five-year fixes are at lower rates than two-year fixes reflects market expectations that interest rates will moderate over the medium term. (Source: Moneyfacts press release; note that this data refers to the average of advertised rates, rather than of interest actually paid, and is therefore calculated on a somewhat different basis to the data in Chart 6.1 and Chart 6.2)

As shown in Chart 6.3, the spread between the average advertised rate on two-year fixed-rate 90% and 75% LTV mortgages was elevated during the pandemic and peaked in December and April 2020 at 189 basis points. After that the spread reduced virtually to zero by January 2023, although since then the spread has widened to 93 basis points in May 2023. (Source: BoE).

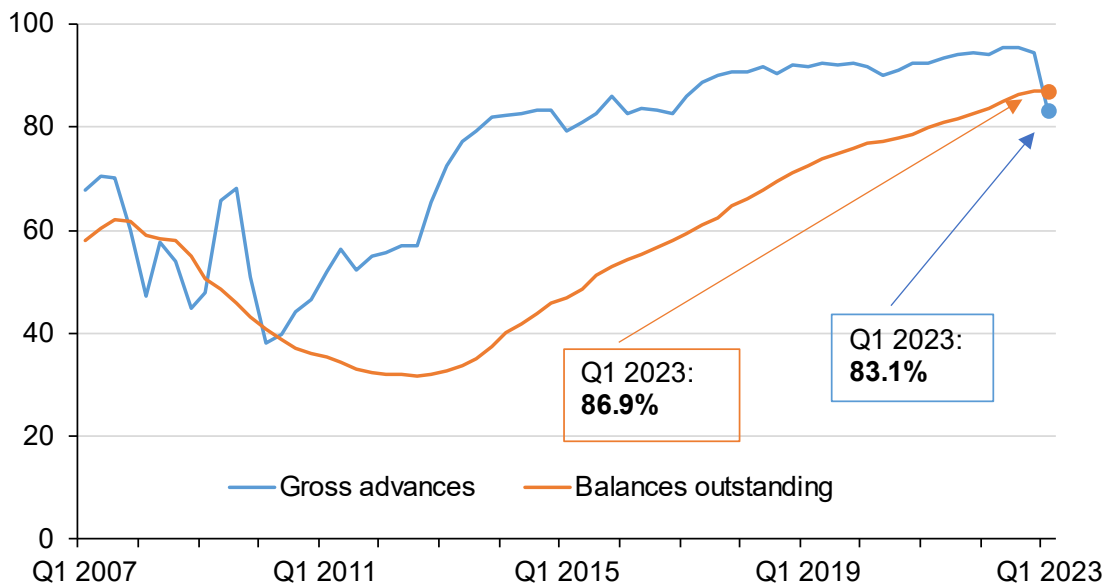
Chart 6.3 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)



Source: Bank of England

Chart 6.4 shows that the vast majority of regulated¹ mortgages are on fixed rates, with 83.1% of new mortgages and 86.9% of outstanding mortgages on fixed rates as of Q1 2023. The corresponding figures for unregulated² mortgages are 83.0% and 77.6%. (Source: FCA). However, following a period of sustained increase, there was a sharp drop in the share of new mortgages on fixed rates in Q1 2023.

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



¹ 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.

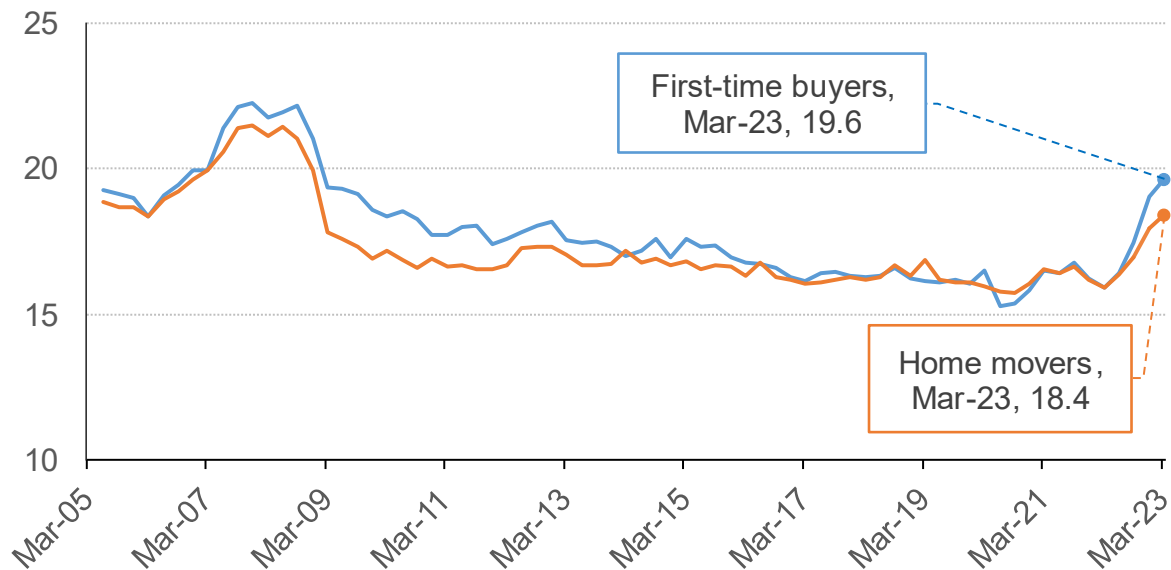
² A non-regulated loan is all other mortgage lending to individuals that is not regulated, such as buy-to-let lending.

Source: FCA Mortgage Affordability

7. Mortgage Affordability

The impact of the increase in interest rates can be seen in measures of mortgage affordability. As illustrated by Chart 7.1, over the year to March 2023, the average share of income which is taken up by mortgage payments for new loans for home purchase has increased by 2.5% points for home movers to stand at 18.4%, and by a larger 3.4% points for first-time buyers to stand at 19.6%.

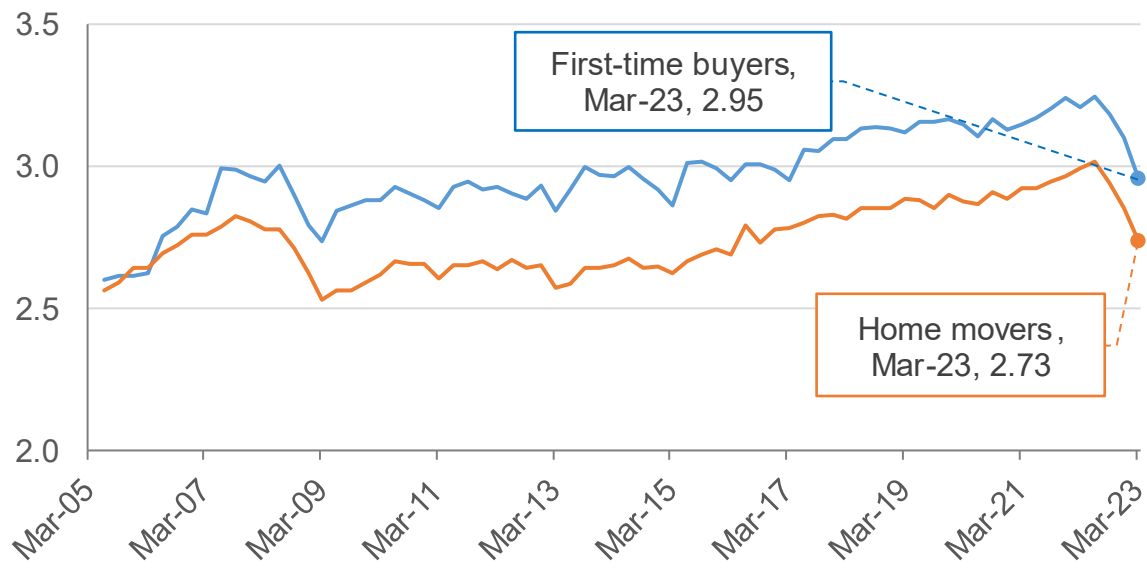
Chart 7.1 Average (Mean) Capital and Interest Payments as a Percentage of Income for New Mortgages: Scotland, % (Monthly)



Source: UK Finance

The trends shown in Chart 7.1 are mirrored in Chart 7.2 which shows that over the year to March 2023, the average house-price-to-income ratio has decreased by 0.26 for home movers, to stand at 2.73, and by a similar amount (0.25) for first-time buyers, to stand at 2.95.

Chart 7.2 Average (Mean) House-Price-to-Income Ratio for New Mortgages: Scotland, (Monthly)

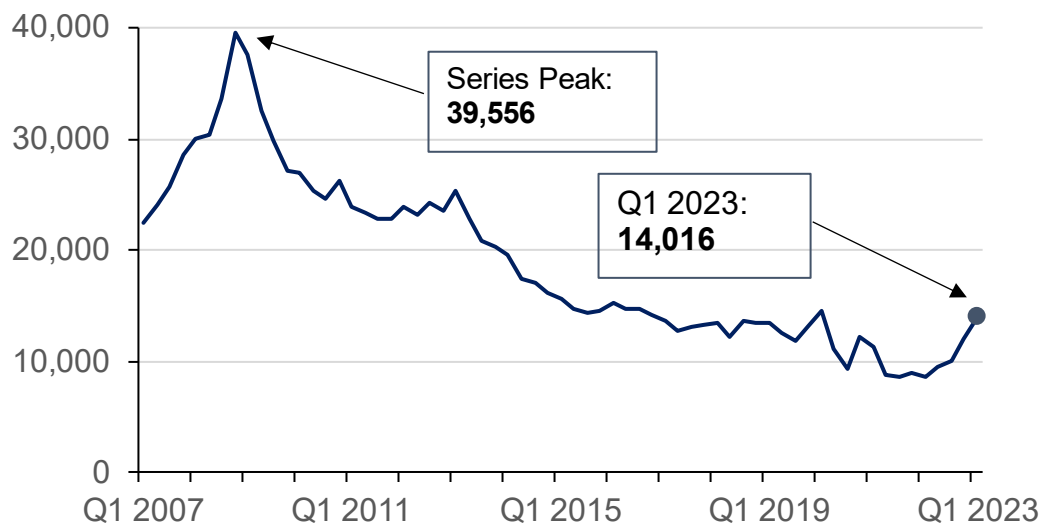


8. Mortgage Arrears & Possessions

Arrears

There were 14,016 regulated mortgages that went into arrears across the UK in Q1 2023, an annual increase of 63.1% (5,424), although this is from very low levels in Q1 2022. Comparing to the pre-pandemic period in Q1 2020, the number of regulated mortgages entering arrears has fallen by 3.1% (-446). As shown in Chart 8.1, following a peak of 39,556 in Q4 2008 during the financial crisis, there was a declining trend in arrears which continued during the Covid period; however, arrears have now started to increase towards pre-pandemic levels. 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)

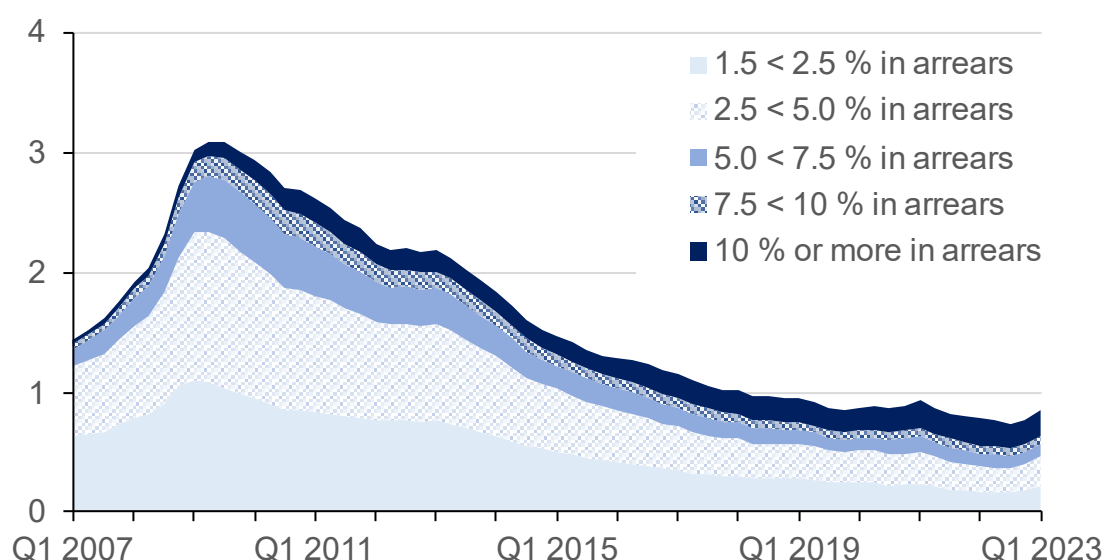
Chart 8.1 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)



Source: FCA

The share of lenders' outstanding regulated mortgage balances that were in arrears stood at 0.84% at the end of Q1 2023. This has remained broadly stable during the pandemic but did start to increase towards the end of 2022 and into 2023. Chart 8.2 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 8.2 Regulated Mortgage Balances in Arrears by Severity: UK, % (Quarterly)



Source: FCA

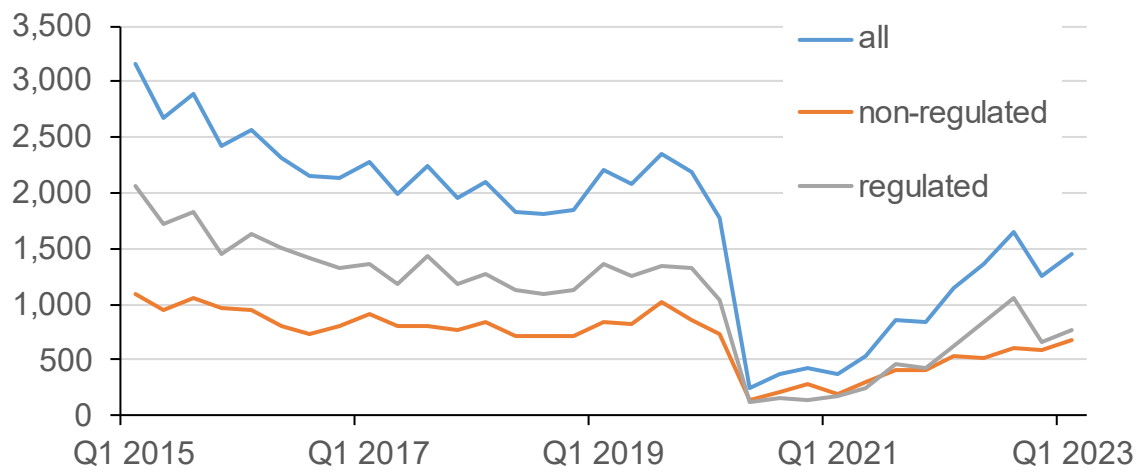
UK Finance data show that there were 7,030 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q1 2023. This is up by an annual 19.8% (1,160). The number of buy-to-let mortgages in arrears of 2.5% or more as a percentage of the total number of buy-to-let mortgages was 0.34% as at Q1 2023, slightly above Q1 2022 (0.29%).

Possessions

Chart 8.3 shows that despite restrictions on possessions being lifted since 1 April 2021, there were only 769 new regulated mortgage possessions across the UK in Q1 2023. While this was an increase relative to Q1 2022 of 150 (+24.2%), possessions are still substantially lower (down 273, or 26.2%) relative to Q1 2020, prior to the pandemic. (Source: FCA)

In June 2023, the Chancellor of the Exchequer met with the UK's principal mortgage lenders and the FCA, they agreed to a new mortgage charter which provides support to residential mortgage customers. The charter states that anyone can call their lender for information and support without any impact on their credit score. Residential mortgage customers who are up to date with payments can change to interest-only payments or extend the term of their mortgage and return to their original mortgage deal, within six months, with no impact on their credit score. The banks and mortgage lenders have also agreed there will be a minimum 12-month period before there is enforcement of repossession orders without consent.

Chart 8.3 New Possessions in quarter by type (Quarterly)

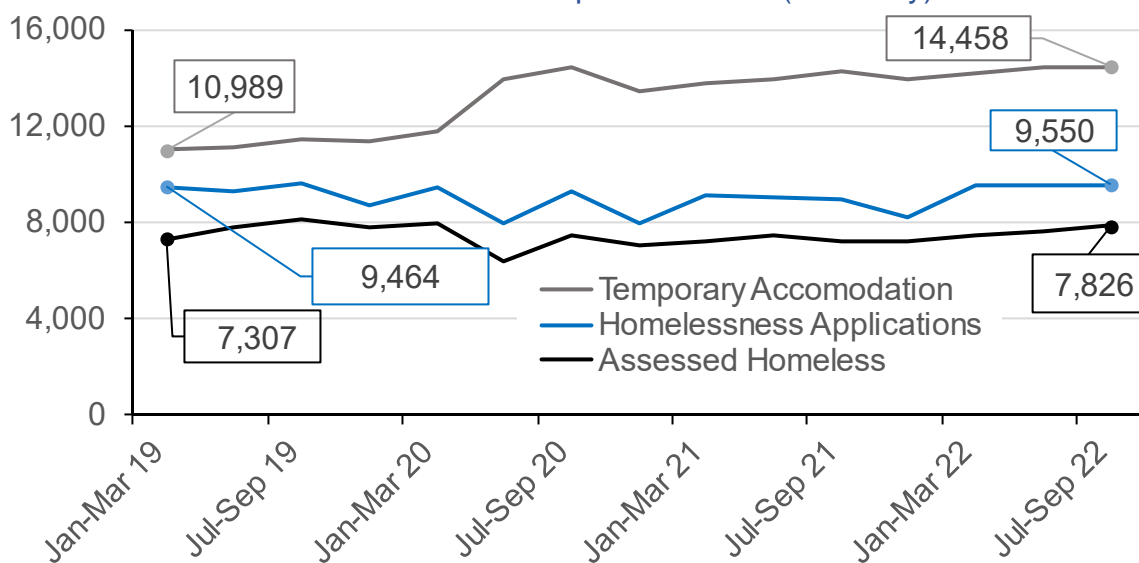


Source: FCA

9. Homelessness

Data to 30 September 2022 shows that there were 9,550 homelessness applications between July and September 2022, which now marginally exceed pre-pandemic levels (9,475 in Q1 2020). The number of households assessed as homeless has also been rising gradually over the last few quarters – to 7,826 in the latest quarter – but remains below pre-pandemic levels, where there were 7,972 households assessed as homeless in Q1 2020. The number of households in temporary accommodation continued to rise and is 14,458 at 30 September 2022. These increases are thought to be a result of the backlog of cases that built up during COVID-19 and the ongoing cost and supply issues for materials and lack of tradespeople which are required to provide settled accommodation.

Chart 9.1 Homelessness in Scotland to September 2022 (Quarterly)



Source: Scottish Government

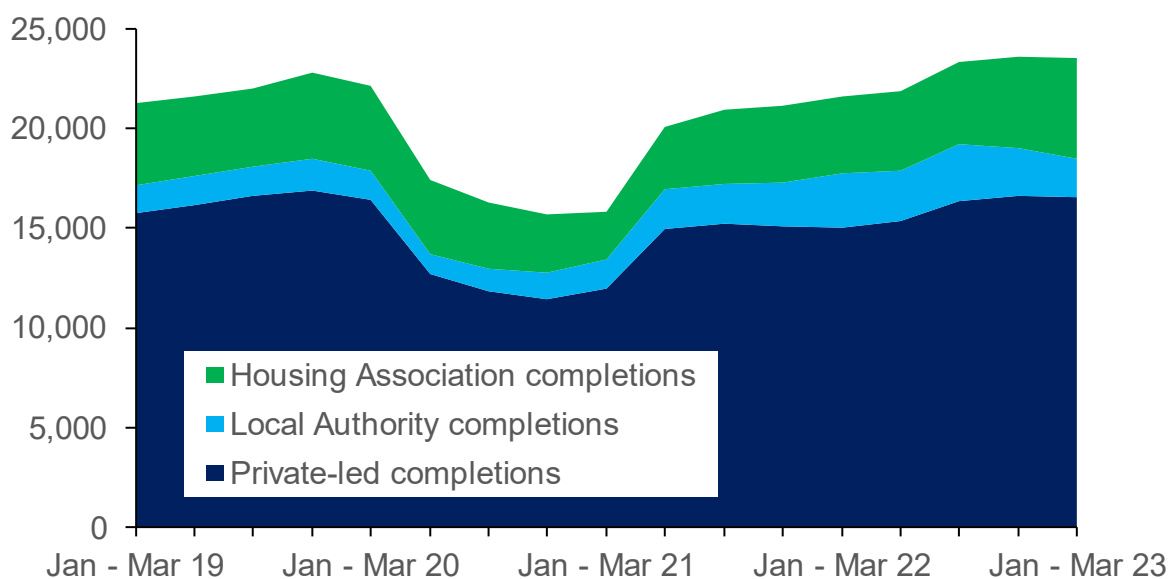
Please note that the number of homelessness applications and those assessed as homeless are a flow variable (i.e. the number shown is the number of homelessness applications and the number of households assessed as homeless over the quarter). On the other hand, the temporary accommodation figures shown are a stock variable, which means there were 14,458 households in temporary accommodation as at 30 September 2022.

10. Housing Starts & Completions

New build completions – all sectors

New housebuilding completions have increased since the Covid-19 restrictions on non-essential construction activity were eased in Q3 2020. There were 23,512 new build completions across all sectors in Scotland in the year to end Q1 2023, an increase of 8.8% (1,897 homes) on the previous year. This is outlined in Chart 10.1, which includes the breakdown of new build completions by sector. Meanwhile, there were 19,204 new build starts across all sectors in the year to end Q1 2023, down by 24.9% (6,382) relative to the year to end Q1 2020 (pre-pandemic).

Chart 10.1 Scottish New Build Completions by Sector (4Q Moving Total, to Q1 2023)

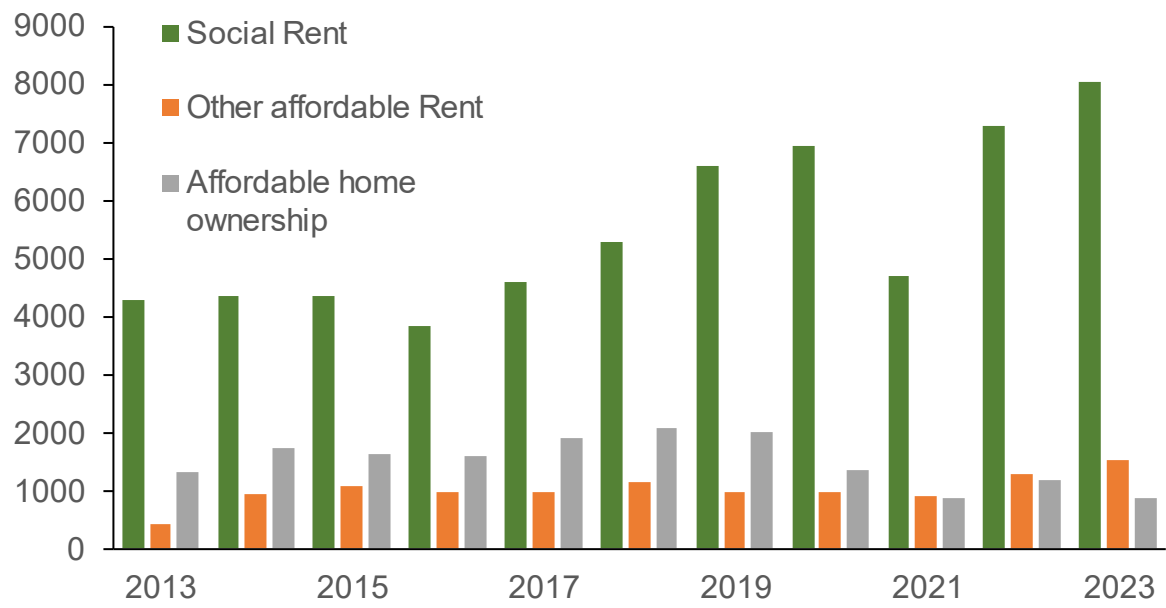


Source: Scottish Government

Affordable Housing Supply Programme

Chart 10.2 shows that the number of affordable homes delivered has increased since the restrictions on non-essential construction activity were eased in Q3 2020. 10,458 affordable housing completions were recorded over the one year to Q1 2023, an increase of 7.2% compared to the year prior, and the highest annual figure since the start of the statistical series in 2000. However, over the same period approvals have fallen by 18.2% to 6,396, whilst starts have decreased by 15.1% to 6,987. This potentially reflects the ongoing challenges with construction material inflation (as shown in Chart 11.3).

Chart 10.2 AHSP Completions (YTE March 2023) Source: Scottish Government



Source: Scottish Government

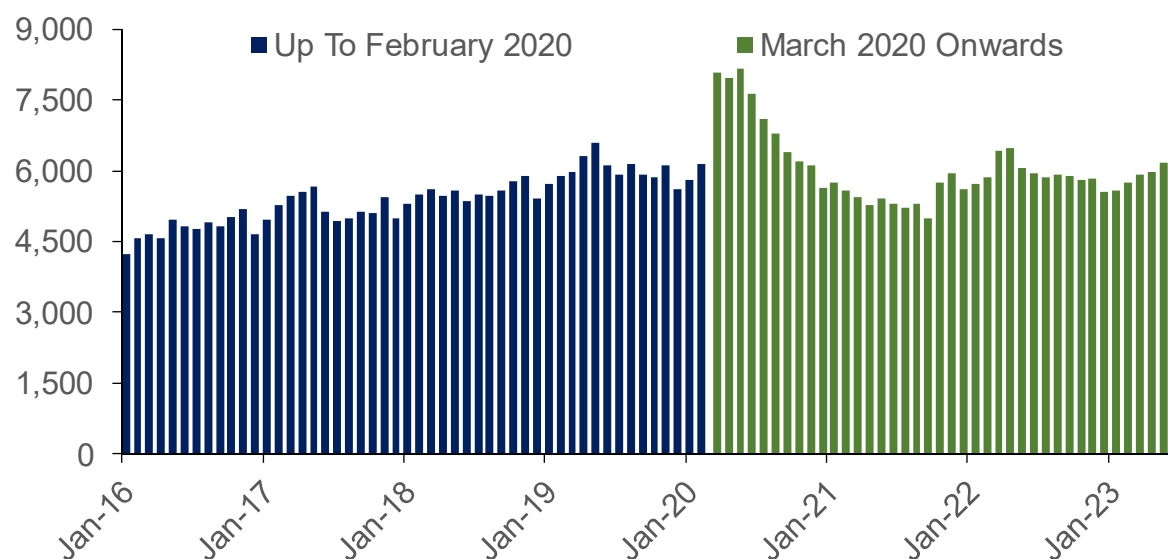
11. Lending to House Builders, Insolvencies & Construction Prices

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 11.1. 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 towards pre-pandemic levels, at least in nominal terms, with the value of outstanding loans for 2022 so far 1.1% below the same period in 2019. However, with the sharp increase in general inflation as well as in construction output prices (compare Chart 11.3), this represents a significant real-terms reduction in the total amount of lending.

Chart 11.1 Loans Outstanding to Firms Involved in Construction of Domestic Buildings: UK (£ Millions)



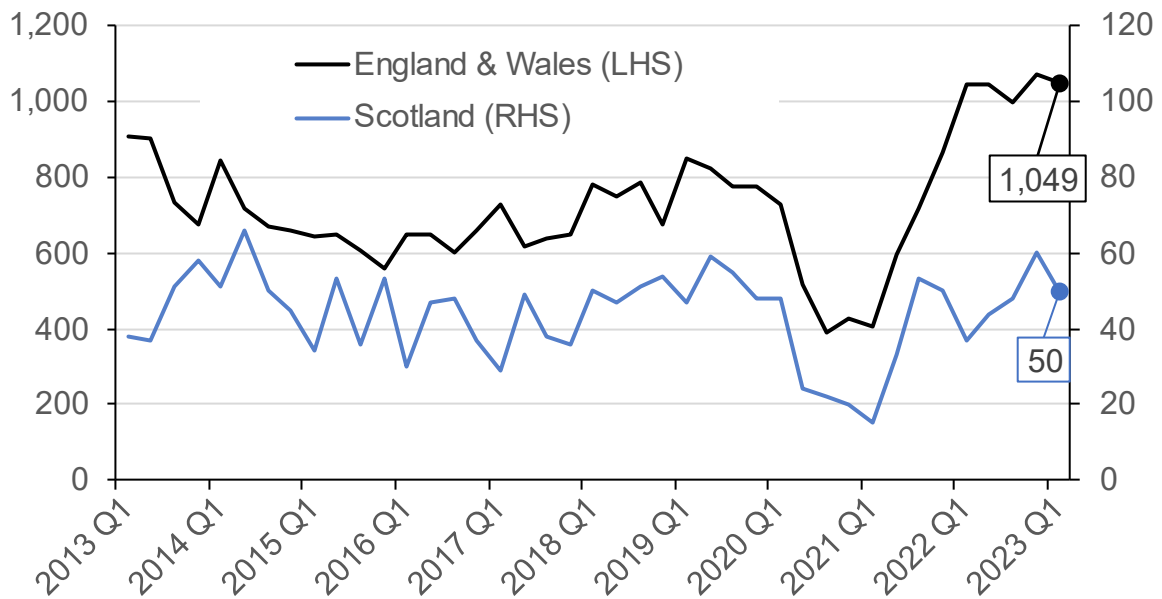
Source: Bank of England

Insolvencies

Chart 11.2 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, new build construction output prices increasing (as shown in Chart 11.3) and cost of living pressures potentially impacting demand, insolvencies for construction companies registered in Scotland have been increasing since Q2 2021. Latest data indicates that in the year to Q1 2023, there

were 202 insolvencies in the construction sector in Scotland. While this represents an increase of 7% compared to the previous year, it is 4% below the number of insolvencies in the year to Q1 2020, immediately prior to the pandemic. This suggests that in Scotland, in contrast to the position in England and Wales, there has not yet been a spike in insolvencies above the pre-pandemic level, which may have been expected due to those insolvencies which were merely postponed rather than avoided during the covid period due to the business support in place at that time.

Chart 11.2 Number of Registered Company Insolvencies in the Construction Sector (Quarterly)



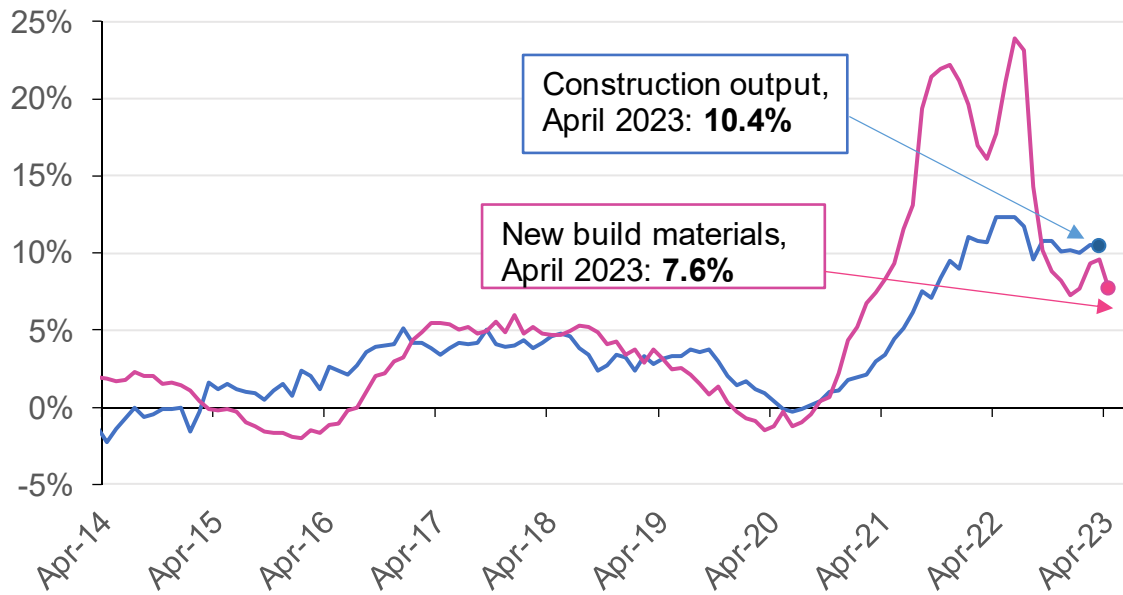
Source: The Insolvency Service

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 10.4% to April 2023 (Chart 11.3).

Data from BEIS (also illustrated in Chart 11.3) 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 7.6% in April 2023. The annual change has been driven in particular by screws etc. (+33.7%), insulating material (+28.4%) and ready-mixed concrete (+24.5%).

Chart 11.3 Annual Change in the Output Price Index of New Build Housing and the Price of Construction Materials for New Build Housing: UK (Monthly)



Source: ONS and BEIS

Data from the Business Insights and Conditions Survey (BICS) indicates that fewer businesses in the construction sector in Scotland have increased their prices in recent months, which could indicate easing cost pressures. 25.4% of the construction businesses in the survey responded that they had increased prices in the month to May 2023, as compared with 35.3% in the month to April 2023, and 42.7% in the month to March 2023.



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