Scottish Housing Market Review Q3 2023

October 2023

Scottish Government
Riaghaltas na h-Alba

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Key points

Sales

- Transactions appear to be slowing in response to higher interest rates: Registers of Scotland data for Q2 2023 show that residential sales across Scotland fell by 6.5% relative to Q2 2022, and by 8.9% relative to Q2 2019, prior to the pandemic. Revenue Scotland data, which is more up-to-date, shows that over the period January to August 2023, Land and Buildings Transaction Tax (LBTT) returns were 8.8% below the corresponding months in 2019.

House Prices

- Higher interest rates are also weighing on the previously elevated level of house-price inflation, which has fallen from its recent peak of 13.3% in Q3 2021 to 1.0% in Q2 2023. [Source: UK House Price Index (HPI)]
- Whereas the strongest annual price growth was recorded for detached houses as the market emerged from covid restrictions, recently the gap in price growth between different house types has narrowed.
- House price inflation has been higher for new-build properties than for existing build: in Q1 2023, new-build prices increased by an annual 10.0% while existing build prices increased by 0.4% (note these figures are one quarter behind other HPI data).

Private Rental Sector

- Private housing rental prices for new lets (which are not subject to the Cost of Living (Tenant Protection) (Scotland) Act) continue to increase. In Q2 2023, letting agencies Citylets and Rightmove recorded annual private rental increases in Scotland of 11.4% and 13.7%, respectively.
- Measures relating to the private rented sector under the Cost of Living (Tenant Protection) (Scotland) Act have been extended to 31st March 2024 at the latest.

Mortgage Lending

- Lending to both first-time buyers and home movers has fallen relative to pre-pandemic levels: in 2022-23, new mortgage advances to first-time buyers in Scotland decreased by 13.2% and to home movers by 12.0% compared to 2019-20. [Source: UK Finance].
- There has been a significant fall in mortgage approvals (a leading indicator of housing-market activity). In the first eight months of 2023, approvals in the UK have on average been 26% lower than they were in the corresponding months of 2019. [Source: Bank of England]
- While there has been significant volatility in mortgage product numbers, the total number of residential mortgage products on 1 September 2023 was 37% higher than a year earlier, prior to the UK Government mini-budget, and the total number of buy-to-let mortgage products was up by 19% over the year. In contrast, the number of residential mortgages with a maximum LTV of 95% was down by 11% over the year. [Source: Moneyfacts]

- After 14 consecutive increases, the Bank of England left Bank Rate unchanged at 5.25% at the September Monetary Policy Committee meeting. This has translated into a decrease in mortgage rates, with the average advertised 2-year mortgage rate standing at 6.50% on 28th September as compared to 6.85% on 1 August 2023, and the average advertised 5-year rate dipping below 6% to stand at 5.99%, as compared to 6.37% on 1 August 2023. [Source: Moneyfacts].
- Despite these recent decreases, the longer-term increase in mortgage rates is reflected in affordability ratios: for home movers, mortgage payments as a share of borrower income for new loans has increased from a low of 15.7% in Q3 2020 to 18.2% in Q2 2023, while for first-time buyers it has increased from a low of 15.3% in Q2 2020 to 19.1% in Q2 2023. [Source: UK Finance].
- The number of regulated mortgage accounts entering arrears across the UK rose by an annual 58% in Q2 2023, to the highest level since Q1 2016, although the number of new regulated possessions fell by an annual 14% and was 42% below its average for 2019-20. [Source: FCA]
- For non-regulated mortgages (which include buy-to-let (BTL) mortgages), balances in cases where mortgages were 1.5% or more in arrears represented 1.2% of total loan balances at the end of Q2 2023, the highest figure since Q4 2016, although possessions during Q2 2023 were 13% below their average for 2019-20. [Source: FCA]. UK Finance data shows that there were 13,760 BTL mortgages in arrears of 1.5% or more of the outstanding balance across the UK at the end of Q2 2023, up by an annual 81%, while the share of all BTL mortgages which were in arrears of 1.5% or more, at 0.68%, was at its highest level since 2013. There was a 26% annual increase in BTL properties taken into possession in Q2 2023, but this was 31% below the level in Q1 2020, immediately prior to the pandemic.

Homelessness

- In 2022-23, homelessness applications (up by an annual 9%) and assessments (up 10%) were at their highest since 2012-13 and 2011-12 respectively, while the number of households in temporary accommodation (up 6%) was at its highest since the time series began in 2017-18. [Source: Scottish Government]

Housing Supply

- There were 23,346 all-sector new-build homes completed in the year ending Q2 2023, an annual increase of 6.8%. However, the number of new-build homes started decreased by 11.8% to 17,425. [Source: Scottish Government]
- A total of 10,757 affordable homes were delivered in the year to Q2 2023, an annual increase of 12.4%. However, approvals and starts have decreased over the year to Q2 2023, by 22.2% and 2.5% respectively.

Housebuilding Material Prices

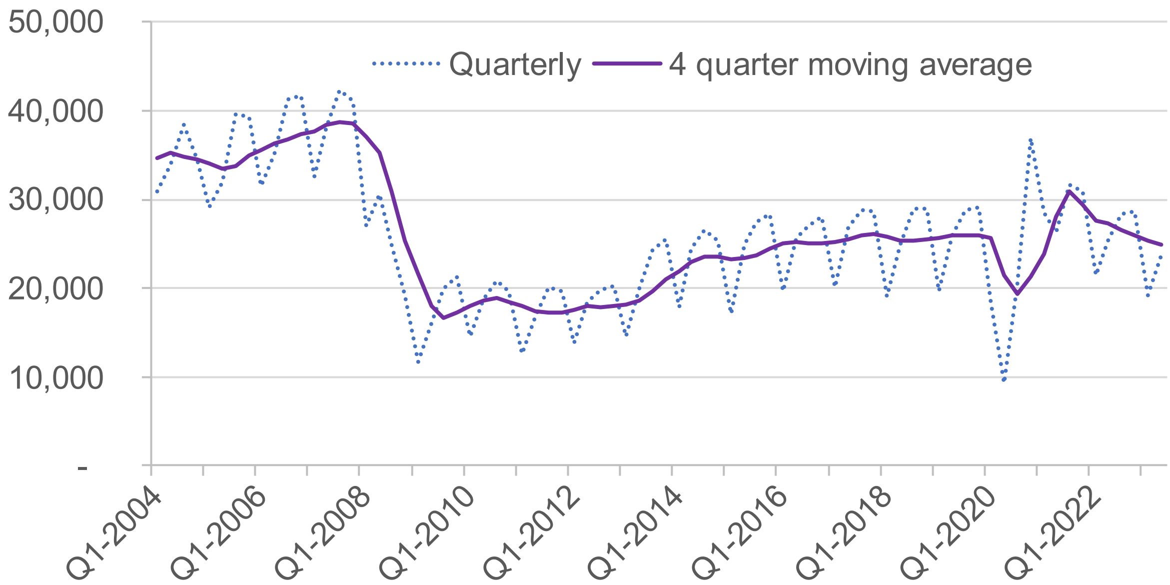
- Price inflation of construction materials used in new house building, which had reached 24.0% in June 2022, has fallen sharply, moving into negative territory (-1.5%) in July 2023.

Data to: 29 September 2023
Contact: Jake.Forsyth@gov.scot; Bruce.Teubes@gov.scot

1. Sales

1.1. Scottish Sales Performance: National

Chart 1.1. Number of residential property sales registered: Scotland (quarterly data, to Q2 2023)

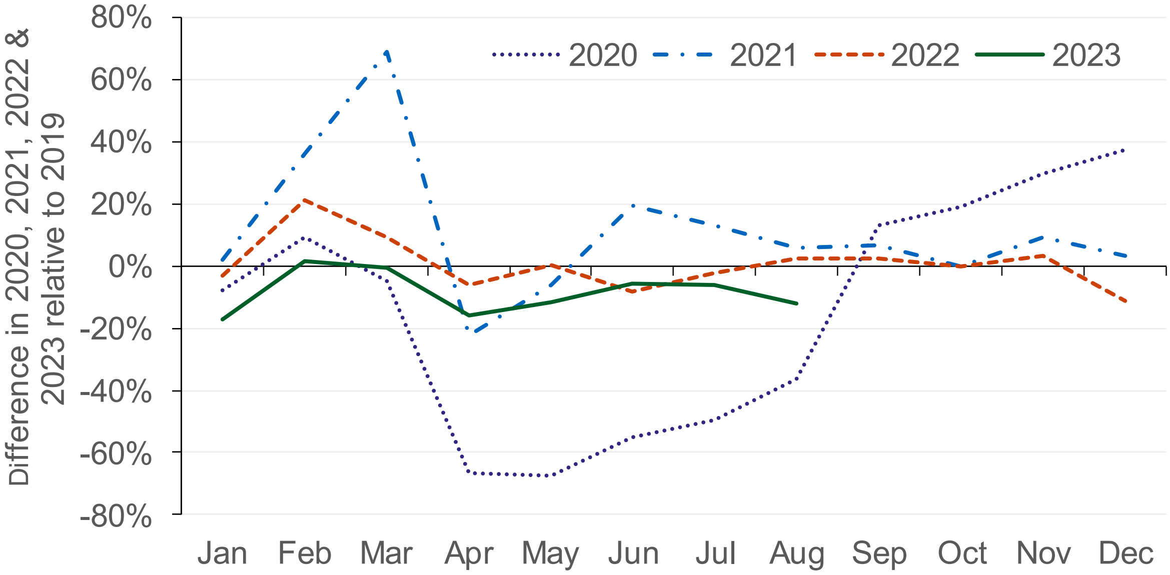


Source: Registers of Scotland

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, transactions stabilised around pre-pandemic levels. More recently, transactions have begun to slow, with Registers of Scotland statistics showing that there were 23,660 residential property sales registered across Scotland in Q2 2023. Relative to Q2 2022 this was a decrease of 6.5%; relative to Q2 2019, prior to the pandemic, the decrease was 8.9%.

More up-to-date data from Revenue Scotland confirms 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 2022, transactions closely tracked their levels in 2019, the number of transactions since December 2022 has generally been lower than before the pandemic, with transactions over the 8-month period from January to August 2023 8.8% 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

1.2. Scottish Sales Performance: Regional

As set out in Table 1.1, Registers of Scotland data shows that the 6.5% annual fall in the number of transactions at the Scotland-level in Q2 2023 was mirrored in each region with the exception of the Forth Valley, where transactions were up by 1.3%. The largest annual decrease (16.5%) was in Aberdeen/shire & Moray.

Using a rolling four-quarter average to look at longer-term trends and smooth out volatility in the quarterly data, the annual fall in transactions at the Scotland-level (of 8.7%) was experienced across all regions of Scotland. Again, the best-preforming region, which had the smallest decrease of 2.9%, was the Forth Valley, while the worst-performing region was Aberdeen/shire & Moray, which recorded a decrease of 15.0%.

Table 1.1 Regional residential transactions

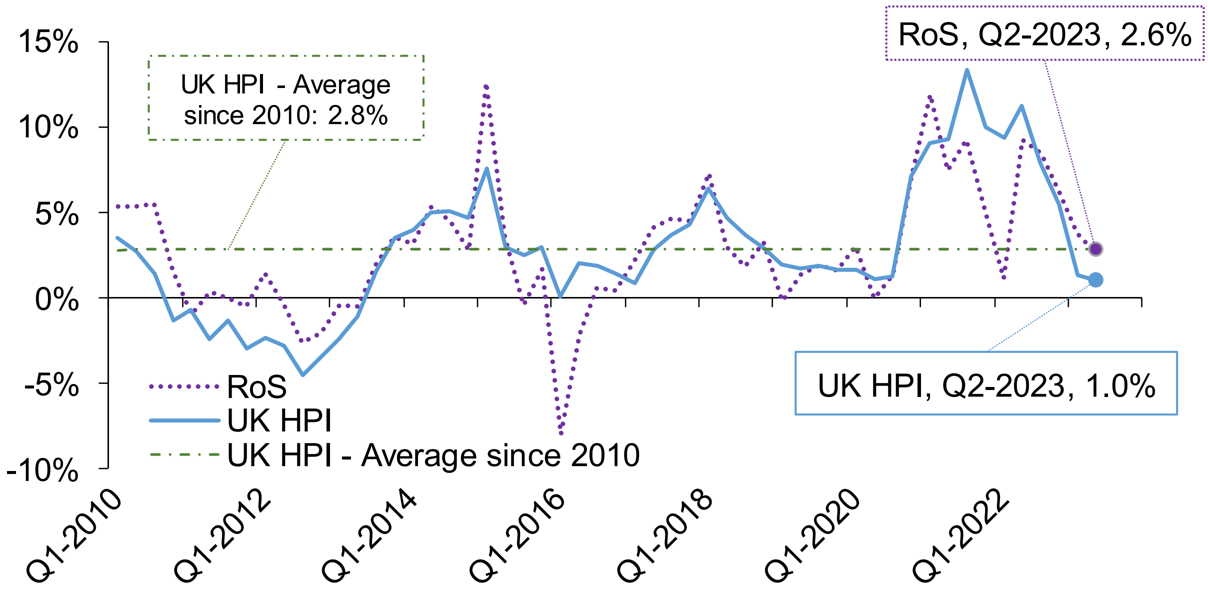
Aberdeen/shire and Moray Sales – Q2 2023 2,460 12 Month Change -16.5% Annual change (rolling 4 quarters) -15.0%	**Edinburgh, Lothians and Borders** Sales – Q2 2023 4,721 12 Month Change -8.0% Annual change (rolling 4 quarters) -9.0%
Argyll & Bute and Highland & Islands Sales – Q2 2023 1,594 12 Month Change -4.4% Annual change (rolling 4 quarters) -11.1%	**Forth Valley** Sales – Q2 2023 1,316 12 Month Change 1.3% Annual change (rolling 4 quarters) -2.9%
Ayrshires and Dumfries & Galloway Sales – Q2 2023 2,312 12 Month Change -0.4% Annual change (rolling 4 quarters) -6.3%	**Tayside & Fife** Sales – Q2 2023 3,437 12 Month Change -5.1% Annual change (rolling 4 quarters) -8.3%
Clyde Valley Sales – Q2 2023 7,820 12 Month Change -5.9% Annual change (rolling 4 quarters) -7.6%	**Scotland** Sales – Q2 2023 23,660 12 Month Change -6.5% Annual change (rolling 4 quarters) -8.7%

Source: Registers of Scotland

2. House Prices

2.1. Scottish House Price Performance: National

Chart 2.1 Annual change in house prices: Scotland (quarterly data, to Q2 2023)



Source: Registers of Scotland, UK HPI (Scotland)

Average house prices in Scotland, as measured by the UK House Price Index (HPI), increased by an annual 1.0% in Q2 2023. This is down from the recent peak of 13.3% in Q3 2021, and represents the slowest rate of house price inflation since Q1 2017 and is also below the average annual quarterly change between 2010 and 2023 (2.8%). The average property price (mix-adjusted, geometric mean) in Scotland stood at £188K in Q2 2023. More recent monthly data (which tends to be more volatile than the quarterly averages) for July 2023 shows a further decline in house-price inflation to 0.1%.

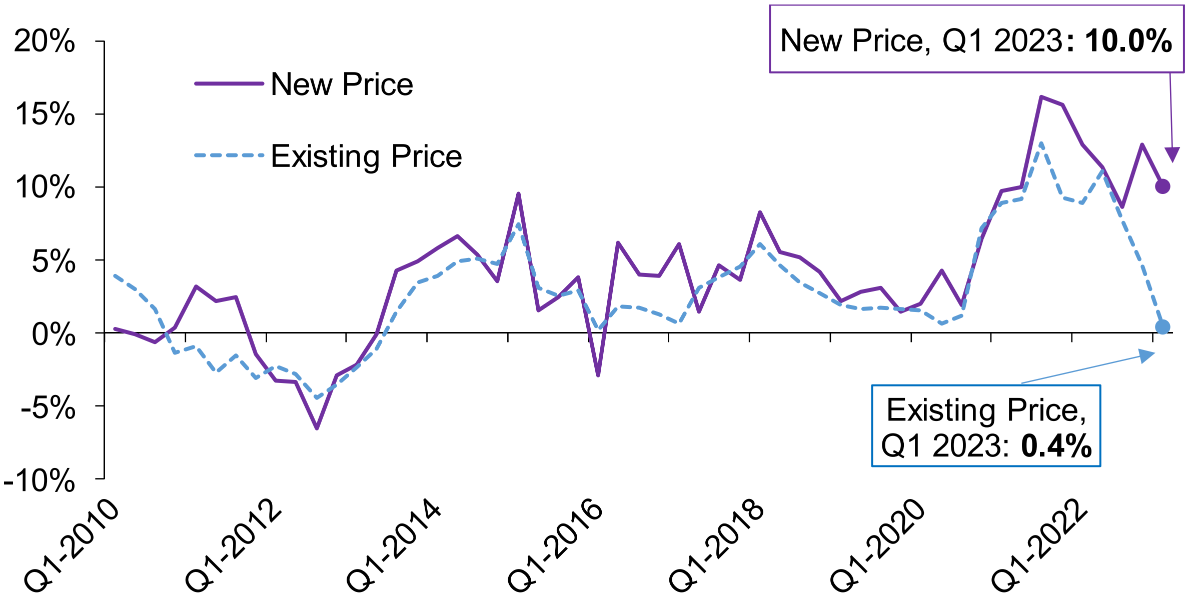
Data from Registers of Scotland also suggests annual house price inflation slowed in Q2 2023. However, the rate of inflation was higher than the UK HPI measure at 2.6%, although this was down from 9.3% in Q2 2022. Registers of Scotland data is not mix-adjusted, so will be affected by the composition of properties sold. The average (arithmetic mean) house price in Scotland in Q2 2023 according to Registers of Scotland data was £214K.

UK HPI data shows that annual price growth in Q2 2023 was highest for semi-detached properties (1.3%), while terraced houses increased by the lowest amount (0.7%). The gap in price growth between different house types has narrowed recently: in Q3 2021, annual price growth for detached houses had reached 15.8%, while for flats it stood at 10.7%, likely influenced by a search for space in the aftermath of the pandemic.

2.2. Scottish House Price Performance by Dwelling/Buyer Type

Chart 2.2 shows the rate of change in the average new and existing build property prices in Scotland. This data is published with a lag relative to the headline HPI. In Q1 2023, the average Scottish new-build property price increased to a greater extent than the existing build price, rising by an annual 10.0% to £289K. The average existing build price was little changed over the year, rising by 0.4% to £177K. New-build prices have been affected by the large increase in construction material prices although in recent months material-price inflation has fallen sharply (see Chart 11.3).

Chart 2.2 House-price growth by dwelling type: Scotland (quarterly data, to Q1 2023)



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 0.9% in Q1 2023, to £227K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 1.0% in Q1 2023, to £151K.

2.3. Scottish House Price Performance: Regional

Registers of Scotland data show that although house prices increased by an annual 2.6% in Q2 2023 across Scotland, there was a more mixed picture across the regions. Table 2.1 shows that four regions experienced positive house-price growth, with the highest rate of 4.4% in Tayside and Fife, while three regions experienced a decrease, with the largest decrease of 3.4% in the Forth Valley.

The longer-term trend (as measured by the annual change in the four-quarter moving average, which helps smooth volatility) shows that house price growth was positive not only at the Scotland-level (5.3%) but also across all regions, with the highest rate recorded in Clyde Valley (6.7%) and the lowest in Aberdeen/shire & Moray (0.6%).

Table 2.1 Regional house prices

Aberdeen/shire and Moray Average Price – Q2 2023 £206K 12 Month Change -0.5% Annual change (rolling 4 quarters) 0.6%	**Edinburgh, Lothians and Borders** Average Price – Q2 2023 286K 12 Month Change 4.2% Annual change (rolling 4 quarters) 5.8%
Argyll & Bute and Highland & Islands Average Price – Q2 2023 £212K 12 Month Change -1.3% Annual change (rolling 4 quarters) 5.7%	**Forth Valley** Average Price – Q2 2023 £194K 12 Month Change -3.4% Annual change (rolling 4 quarters) 4.9%
Ayrshires and Dumfries & Galloway Average Price – Q2 2023 £166K 12 Month Change 2.5% Annual change (rolling 4 quarters) 6.0%	**Tayside and Fife** Average Price – Q2 2023 £200K 12 Month Change 4.6% Annual change (rolling 4 quarters) 5.3%
Clyde Valley Average Price – Q2 2023 £196K 12 Month Change 4.4% Annual change (rolling 4 quarters) 6.7%	**Scotland** Average Price – Q2 2023 £214K 12 Month Change 2.6% Annual change (rolling 4 quarters) 5.3%

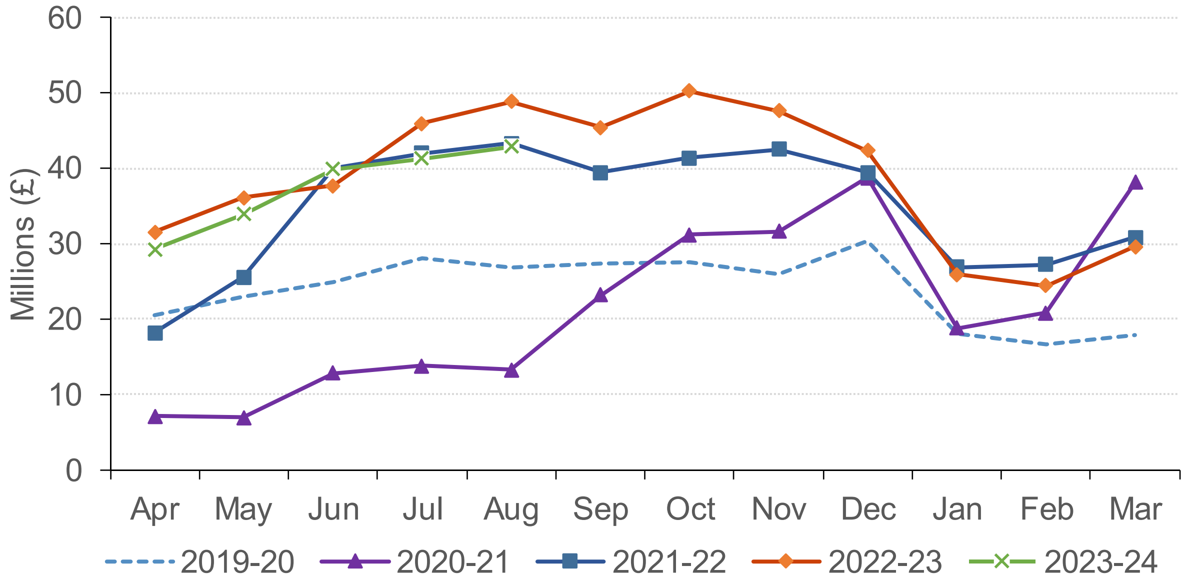
Source: Registers of Scotland

3. Residential Land & Buildings Transaction Tax

Residential Land and Buildings Transaction Tax (LBTT) revenue excluding the Additional Dwelling Supplement (ADS) fell sharply in the early months of 2020-21 due to the impact of Covid restrictions on residential transactions. However, since the latter half of 2020-21, revenues have generally been significantly above their pre-pandemic levels in 2019-20, boosted not only by the sharp rebound in transactions (see Chart 1.1) as Covid restrictions were lifted but also by significant house-price inflation (see Chart 2.1). As a result, revenue for the 2021-22 financial year was 45% higher than in 2019-20, while in 2022-23 revenue was 12% higher than in 2021-22 and 62% higher than 2019-20.

However, the latest data indicates a slowdown in revenue, with revenue for the first five months of 2023-24 6% less than the corresponding months of 2022-23, although it was 52% higher than the corresponding months of 2019-20, prior to the pandemic.

Chart 3.1 Residential LBTT revenue excluding ADS (monthly data, to August 2023)



Source: Revenue Scotland

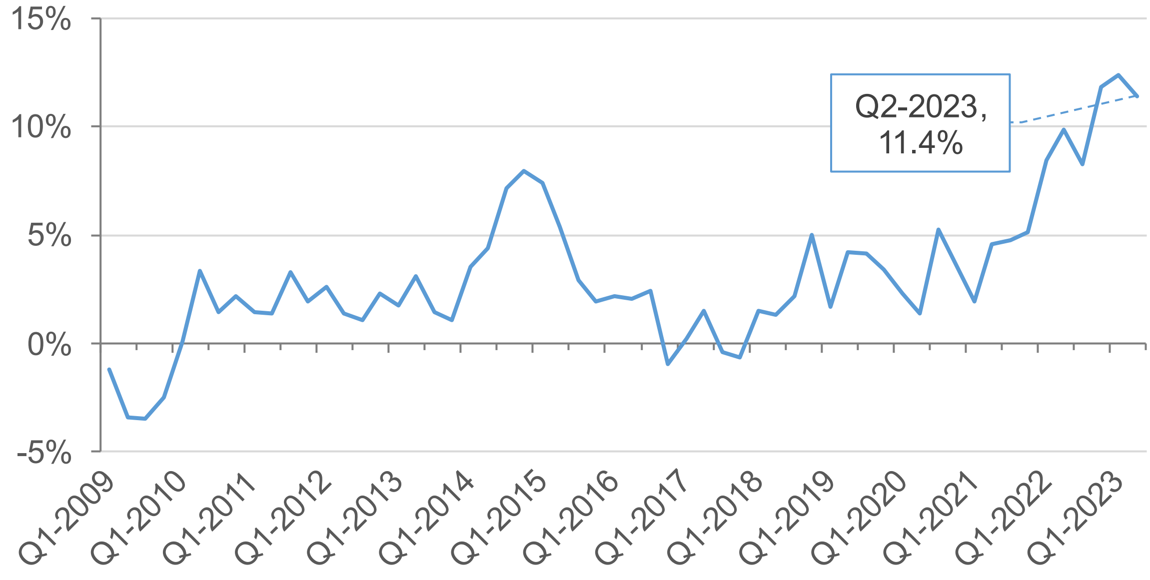
4. Private Rental Sector

4.1. Private Housing Rental Prices

Note: In previous editions of the Scottish 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 Section 4.2). 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 an 11.4% annual increase in its Private Housing Rental Price Index in Q2 2023, and Rightmove, which recorded a 13.7% 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, nearly doubling from 5.2% in Q4 2021 to 9.9% in Q2 2022.

Chart 4.1 Annual change in Citylets Private Rental Prices Index: Scotland (quarterly data, to Q2 2023)



Source: Citylets

4.2. 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) (Scotland) Act 2022, which was passed by the

Scottish Parliament in early October 2022, 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 was replaced with agreements with landlords to keep average rent increases for 2023-24 below the inflation rate at the time that rents for the coming year were set.

In September, the Scottish Parliament voted to approve regulations that will extend the remaining emergency measures for a further, and final, 6-month period to 31st March 2024 (at the latest).

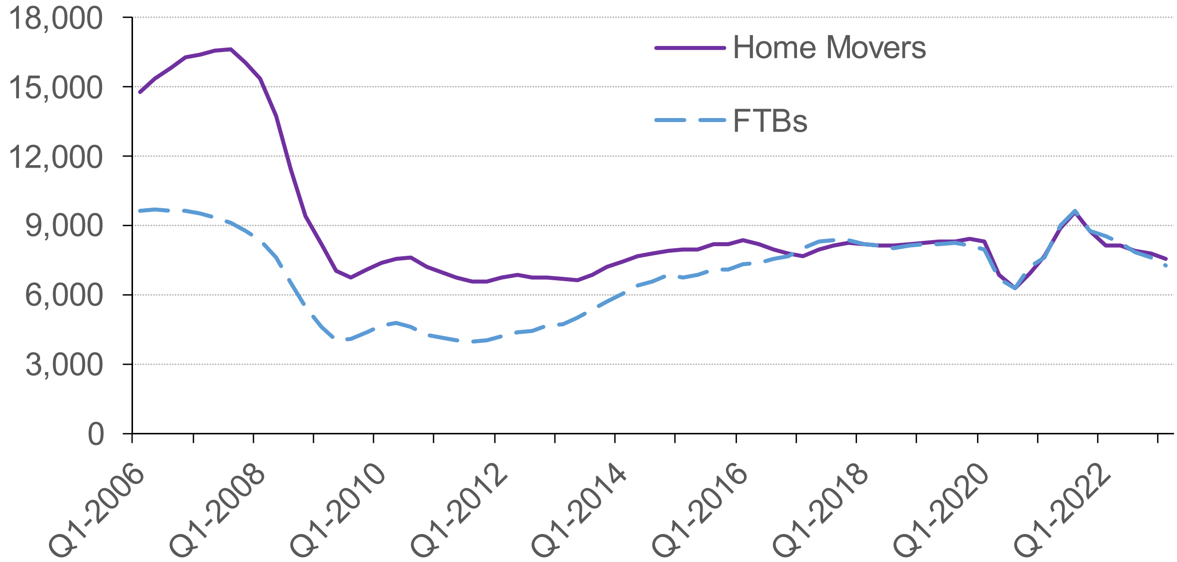
5. Mortgage Approvals & LTVs

5.1. New Mortgage Advances

Chart 5.1 plots the number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 7,210 new mortgages advanced to first-time buyers in Scotland in Q2 2023, an annual decrease of 9.6% (770 loans). Meanwhile, there were 7,020 new mortgages advanced to home movers in Scotland in Q2 2023, an annual decrease of 11.8% (940 loans). Comparing the 4-quarter period to Q2 2023 against the previous 4 quarters, new mortgage advances to first-time buyers decreased by 14.1% whilst for home movers they decreased by 9.8%. Comparing to the 4 quarters to Q2 2019, prior to the pandemic, the decrease in new mortgages to first-time buyers (13.2%) was slightly larger than the decrease for home movers (12.0%). (Source: UK Finance).

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: Scotland (4-quarter moving average, to Q2 2023)



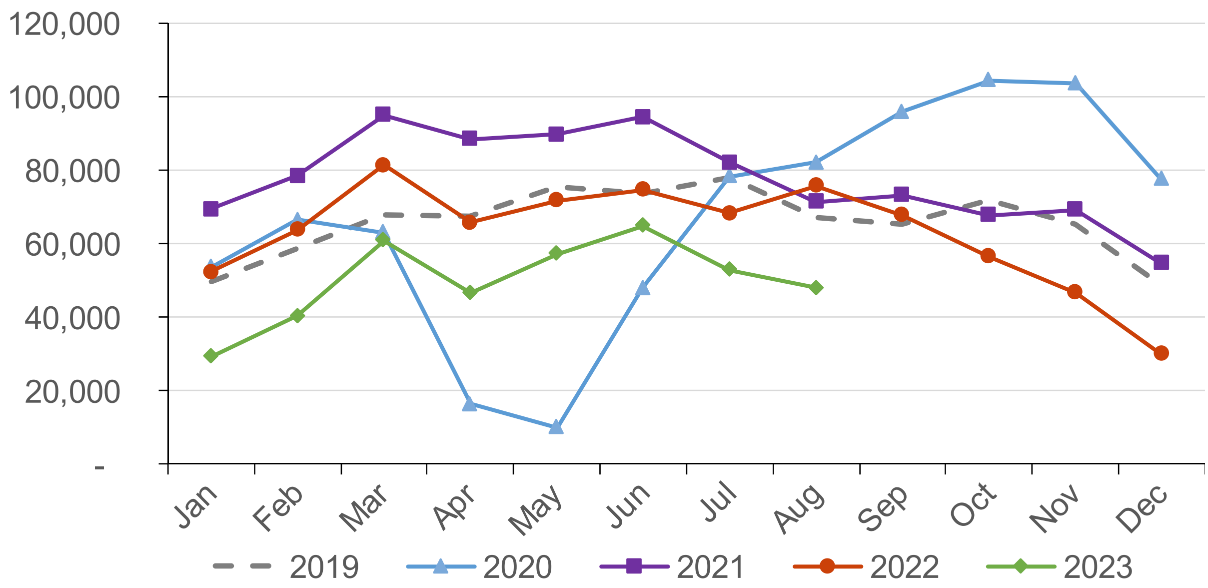
Source: UK Finance

5.2. Mortgage Approvals

Chart 5.2 plots the monthly number of mortgage approvals across the UK for house purchase by individuals. 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 in the latter half of 2020 after the easing of Covid-19 restrictions, before stabilising around 2019 (pre-covid) levels in the second half of 2021 and much of 2022 (see Chart 5.2). However, in the last quarter of 2022, approvals began to fall significantly below pre-covid levels, and this trend has continued in 2023: in the first eight months of 2023, approvals are down by around a quarter (26%) relative to the corresponding period in 2019. (Source: Bank of England).

Chart 5.2 Mortgage approvals for house purchase by individuals: UK (monthly data, to August 2023)

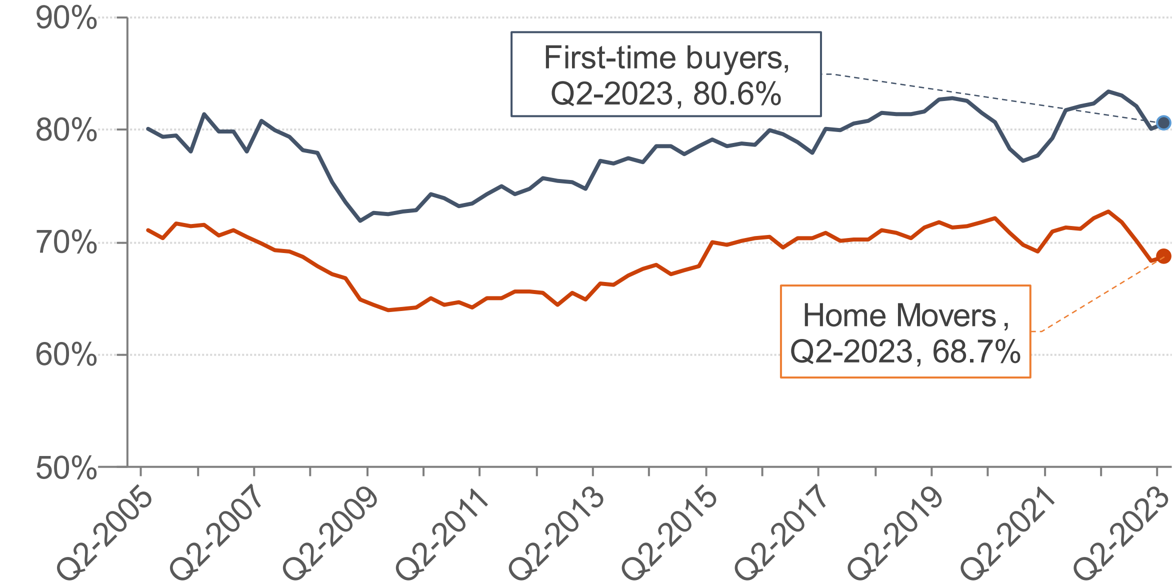


Source: Bank of England

5.3. Loan-to-Value (LTV) Ratios

In Q2 2023, the mean LTV ratio on new mortgages advanced to first-time buyers in Scotland stood at 80.6%, down by 2.8 percentage points over a one-year period. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 68.7% in Q2 2023, down 4.1 percentage points over a one-year period. This is shown in Chart 5.3. (Source: UK Finance).

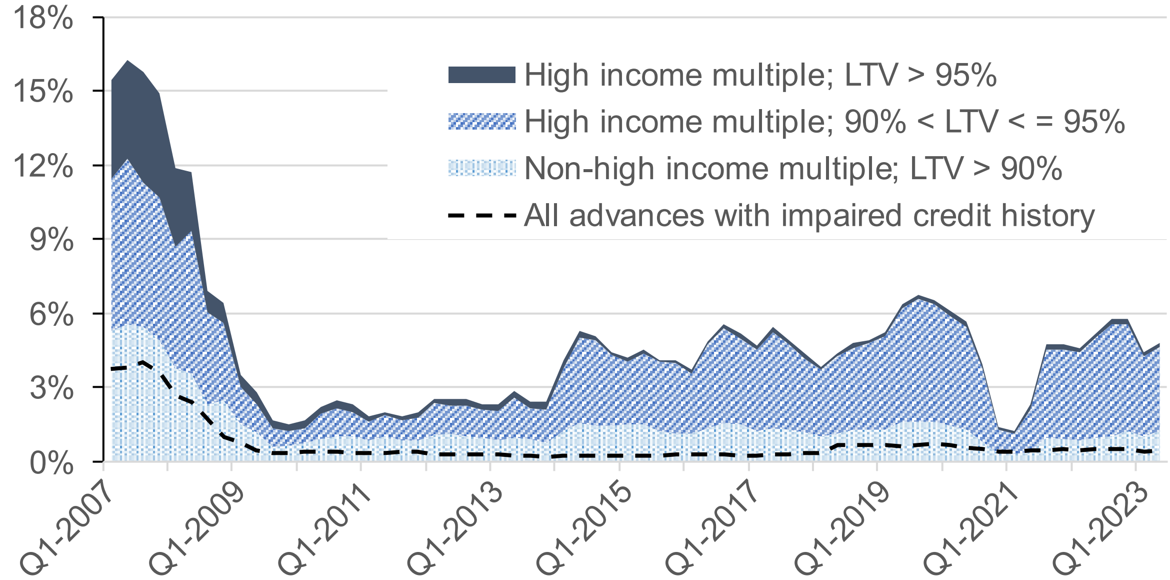
Chart 5.3 Mean Loan-to-Value ratio: Scotland (quarterly data, to Q2 2023)



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 during the onset of the Covid-19 pandemic, there was a strong rebound once covid restrictions were lifted. While the recovery has stalled due to the impact of higher mortgage rates, in Q2 2023 there was a small increase in the share of all advances with an LTV greater than 90% (0.4% points) as well as in the share of all loans with an LTV greater than 90% and a high income multiple (0.2% points), although this still left them somewhat below their level a year ago (down by 0.4% and 0.7% points respectively).

Chart 5.4 Higher-risk lending as a share of all regulated residential lending to individuals: UK (quarterly data, to Q2 2023)



Source: FCA. Higher-risk lending is classified by the FCA as an LTV over 90% or an income multiple greater than or equal to 3.5 for single income purchasers / 2.75 for joint income purchasers.

These trends are in part the result of fluctuations in the availability of mortgage products, particularly those with higher LTVs. Following market volatility after the UK Government Plan for Growth/mini-budget on 23 September 2022, the total number of residential mortgage products fell by 42% from 3,890 on 1 September 2022 to 2,258 on 1 October 2022, while the number of residential mortgages with a maximum LTV of 95% fell by an even greater proportion (52%) from 274 to 132. Thereafter, with the exception of a small fall during December 2022, there was a steady recovery in both total and 95% LTV products over the period to 1 May 2023. (Source: Moneyfacts UK Mortgage Trends Treasury Reports).

However, after higher-than-expected CPI figures for April and May (released in May and June respectively), total products fell from 5,264 on 1 May to 4,432 on 1 July. While 95% LTV products increased during May, they then fell during June, to stand at 188 on 1 July 2023 as compared to 212 on 1 May 2023. Both total and 95% LTV products then increased during July and August. The level of total products on 1 September was 5,338, 37% higher than their level on 1 September 2022, prior to the UKG mini-budget; in contrast, despite recent increases, the level of 95% LTV products on 1 September 2023 (243) was 11% lower than a year earlier.

The volatility in the mortgage market has also been reflected in trends in the average mortgage product shelf life, which has been on a generally decreasing trend, from around approximately 40 days in the years immediately prior to Covid-19, to 28 days on 1 September 2022 prior to the UK Government mini-budget, to 15 days on 1 September 2023.

The total number of buy-to-let (BTL) mortgage products similarly fell sharply after the UK Government mini-budget, decreasing by 52% from 2,075 on 1 September 2022 to 988 on 1 October 2022. Since then, with the exception of monthly declines during May and August 2023, BTL products have recovered steadily. The total number of BTL products on 1 September 2023 was 2,475, 19% higher than a year earlier.

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 at fourteen consecutive Monetary Policy Committee meetings beginning in December 2021, taking Bank Rate to 5.25%, its highest level since 2008. However, at their September 2023 meeting, the Monetary Policy Committee broke this trend by leaving Bank Rate unchanged.

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: Bank of England). The increases in mortgage rates have been below the cumulative 515 basis point increase in the Bank Rate since the current tightening cycle began in December 2021. The effective floating rate on outstanding mortgages has increased by 436 basis points to 6.69% and the effective floating rate on new advances by 408 basis points to 5.76% by August 2023; the smaller increase in and lower level of rates on new advances will be partly due to customers' being more likely to shop around when first taking out a mortgage. The effective fixed rate on new advances has increased by 325 basis points to 4.74%, while the effective fixed rate on outstanding mortgages has increased by only 61 basis to 2.56% – this is due to the most common fixes being two and five years, which means that many fixed-rate mortgages have not yet reached their end of term since rates began to rise; also, some would have reached their end of term and been refinanced at fixed rates when rates had not yet increased much. The effective rate on all outstanding balances (3.07% in August 2023) is closer to the effective rate on fixed-rate than floating-rate mortgages because of the large share of mortgages on fixed rates (see Chart 6.4).

Effective monthly interest rates on mortgage lending to households: UK (month-end, to August 2023)

Chart 6.1 Outstanding Balances

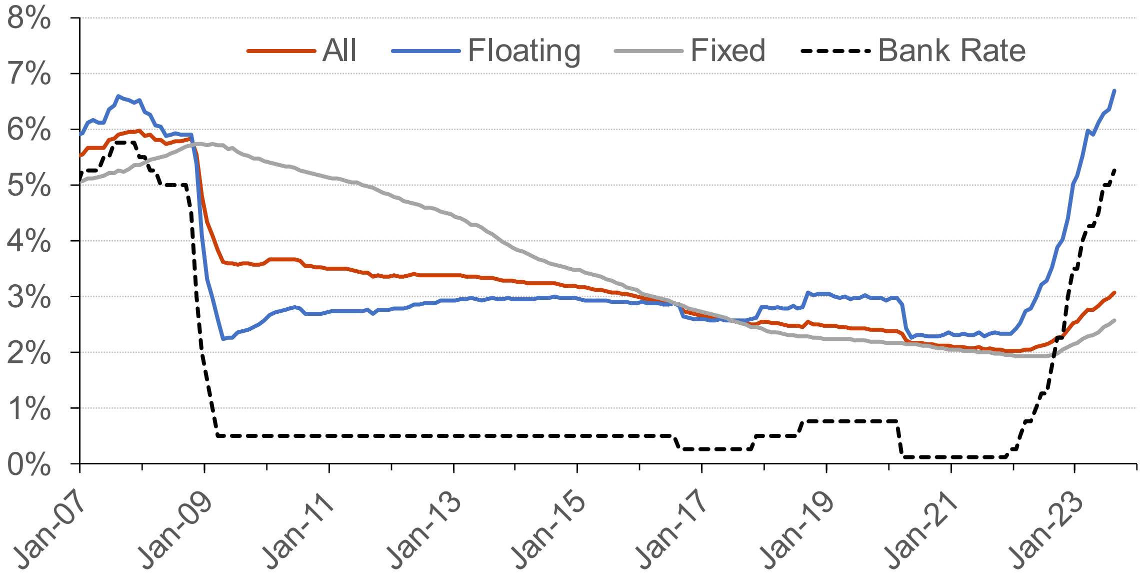
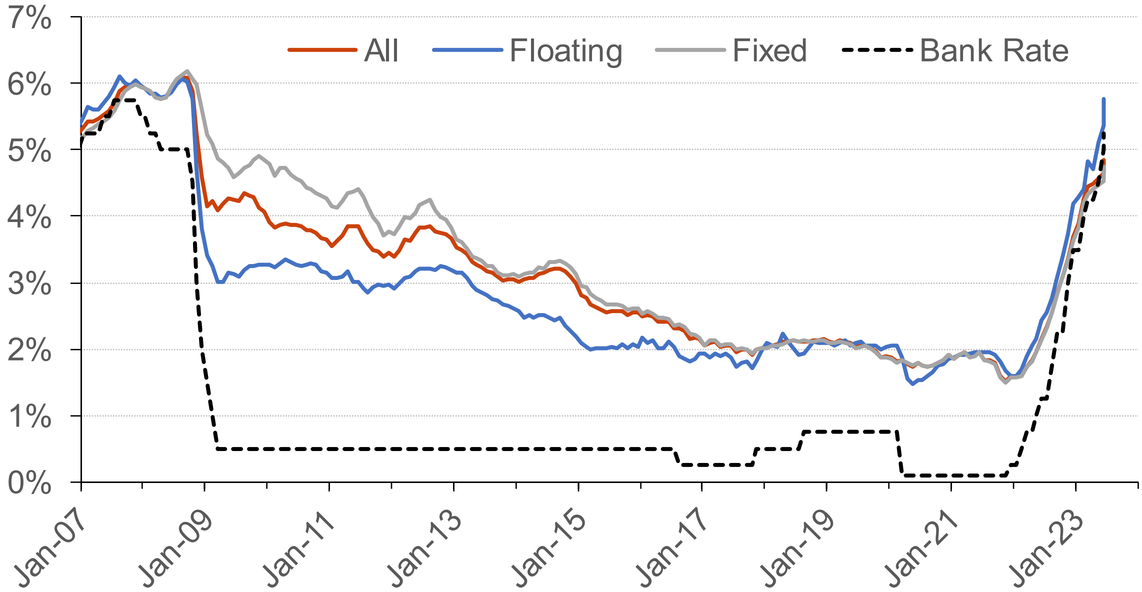


Chart 6.2 New Mortgages



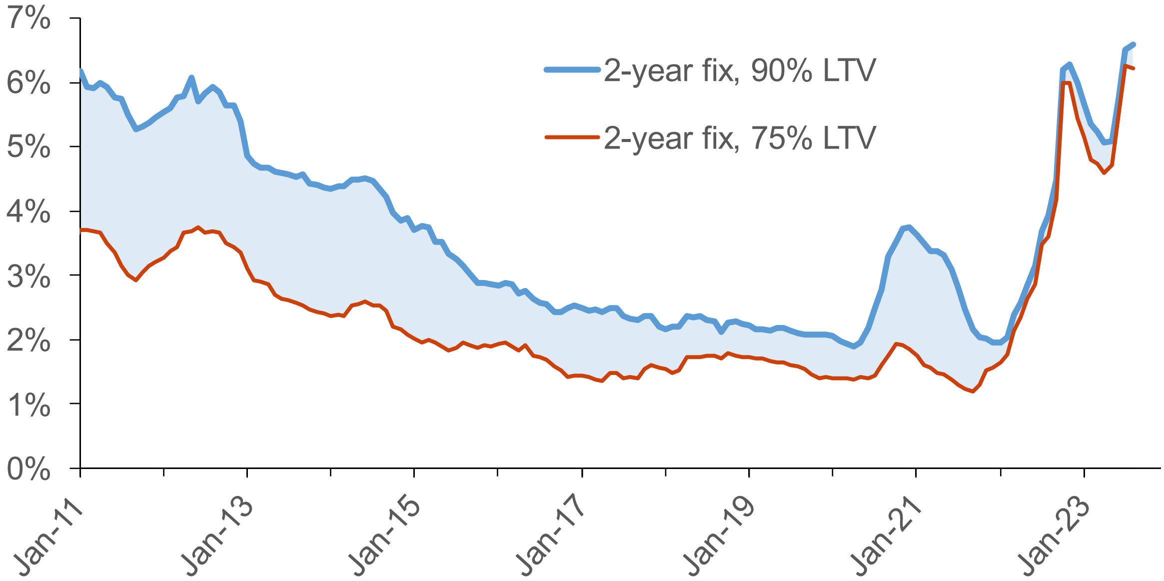
Source: Bank of England

More recent data indicates that the lower-than-expected CPI figure for August (released on 20th September) and the subsequent decision of the MPC to hold rates steady at their meeting on 21st September has led to a decrease in mortgage rates. According to Moneyfacts, the average two-year residential mortgage rate on 28th September was 6.50%, as compared to 6.70% on 1 September and 6.85% on 1 August 2023. Meanwhile, the average five rate has dipped below 6%, standing at 5.99% on 28th September, as compared to 6.19% on 1 September and 6.37% on 1 August 2023. The fact that the five-year rate is lower than the two-year rate reflects market expectations that the interest rates will moderate in the future as CPI falls back towards target. (Source: Moneyfacts press release)[1]

As shown in Chart 6.3, the spread between the average advertised rate on two-year fixed-rate 90% LTV and 75% LTV mortgages was elevated during the Covid pandemic and peaked in December 2020 and then again in April 2021 at 189 basis points. Since then, the spread has been small, standing at just 38 basis points in August 2023, significantly below the average levels that prevailed prior to the pandemic. (Source: Bank of England).

[1] Note that this data differs from data in Chart 6.1 and Chart 6.2 because it refers to the average of advertised rates rather than the average of interest actually paid, and differs from data in Chart 6.3 because it is the average across all LTV levels.

Chart 6.3 Average 2-year fixed 90% and 75% LTV advertised mortgage rates: UK (month-end, to August 2023)



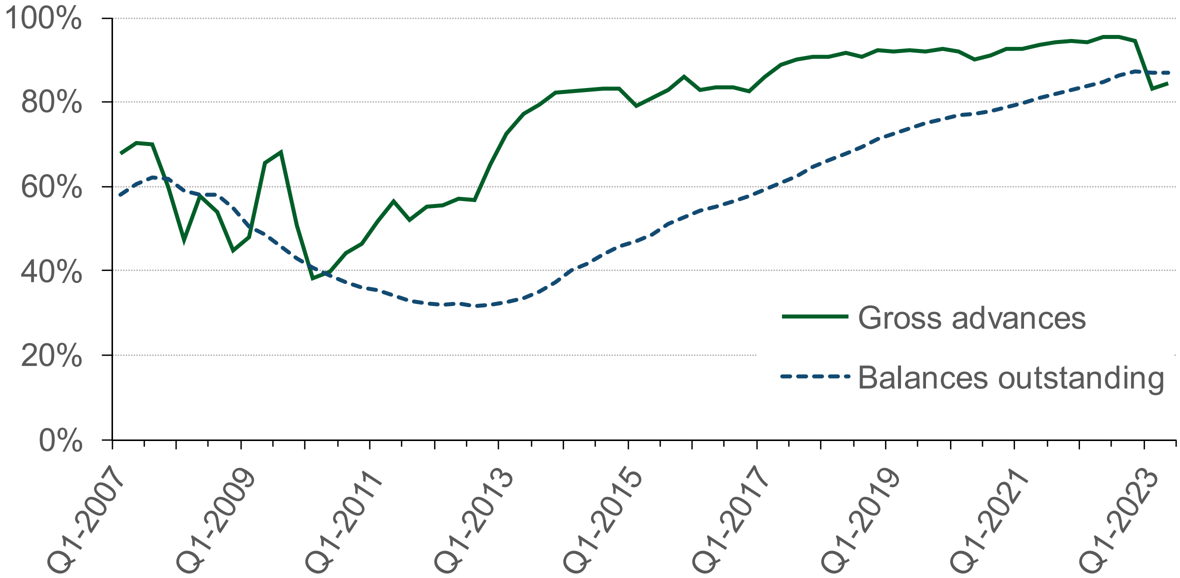
Source: Bank of England

Chart 6.4 shows that the vast majority of regulated[2] mortgages are on fixed rates. However, following a period of sustained increase, there was a sharp drop in the share of new mortgages on fixed rates in Q1 2023, to 83.1% from 94.5% the previous quarter. It is possible that the spike in advertised mortgage rates towards the end of 2022 following the UK Government mini-budget in September 2022 led to an increased share of customers choosing a variable-rate mortgage in the hope that mortgage rates would fall once the mortgage-market volatility subsided. More recently, there has been a small increase in the share of new lending at fixed rates, to 84.4% in Q2 2023. The share of outstanding regulated balances on fixed rates stood at 87.0% in Q2 2023, while the corresponding figures for non-regulated[3] mortgages were 81.0% for gross lending and 78.1% for outstanding balances. (Source: FCA).

[2] 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.

[3] 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)

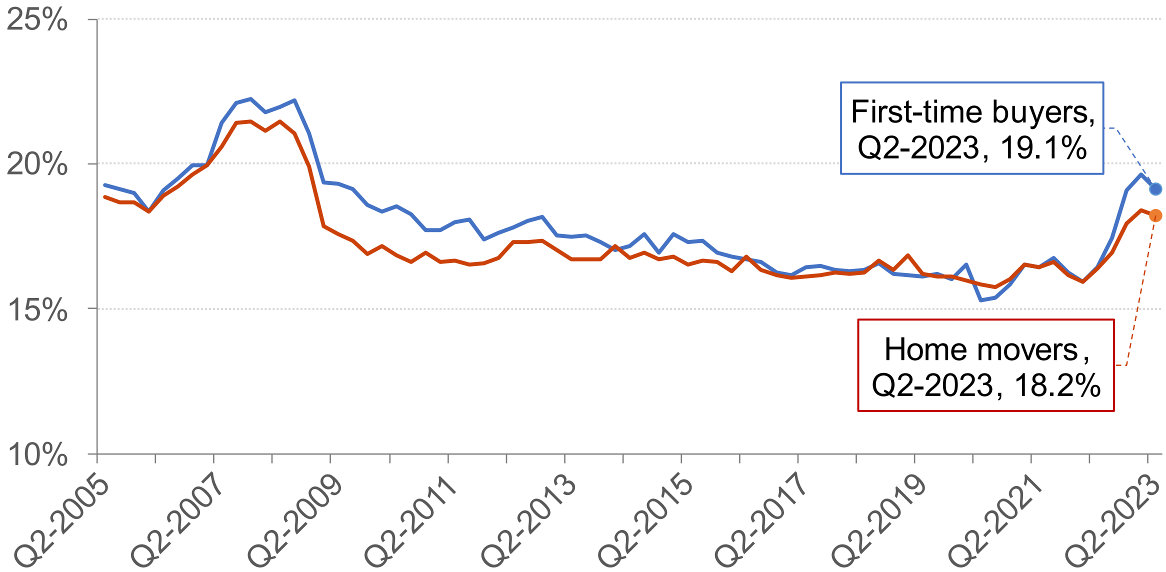


Source: FCA Mortgage Affordability

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, the share of borrower income taken up by principial and interest payments for new mortgages had reached a low in 2020 due to the fall in interest rates in response to the Covid pandemic. However, since then there has been a significant increase in mortgage payments as a share of income due to interest rate rises. From a low of 15.7% in Q3 2020, for home movers the share has increased by 2.4% points to 18.2% in Q2 2023, while for first-time buyers the share has increased from a low of 15.3% in Q2 2020 to 19.1% in Q2 2023, an increase of 3.8% points.

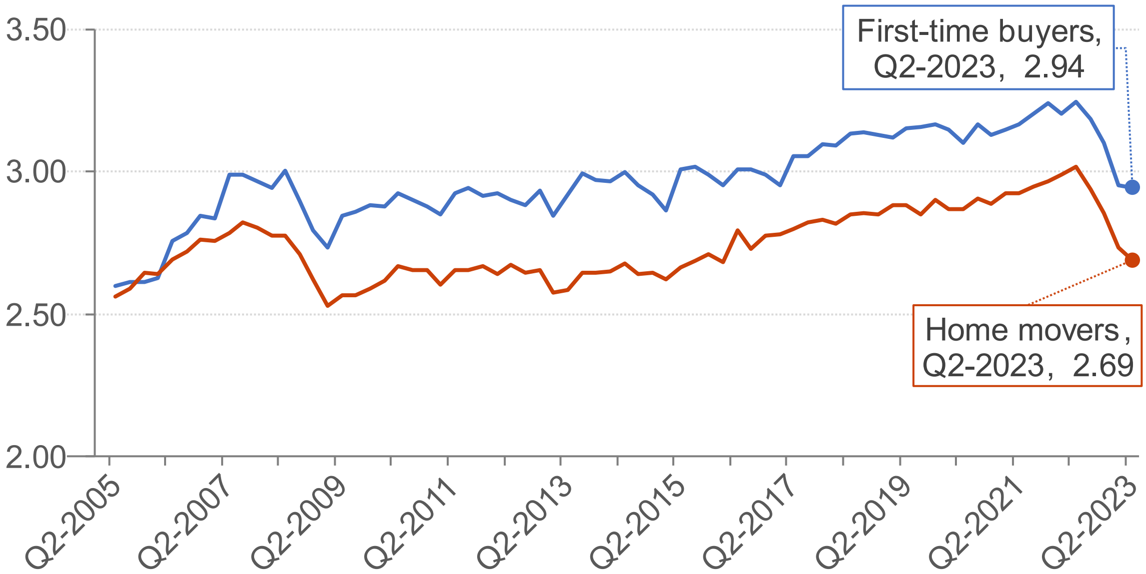
Chart 7.1 Average (mean) capital and interest payments as a percentage of income for new mortgages: Scotland (quarterly data, to Q2 2023)



Source: UK Finance

The trends shown in Chart 7.1 are mirrored in Chart 7.2 which shows that the average house-price-to-income ratio has decreased to 2.69 for home movers in Q2 2023, its lowest level since Q1 2016, while for first-time buyers it has decreased to 2.94, its lowest level since Q1 2015.

Chart 7.2 Average (mean) house-price-to-Income ratio for new mortgages: Scotland (quarterly data, to Q2 2023)



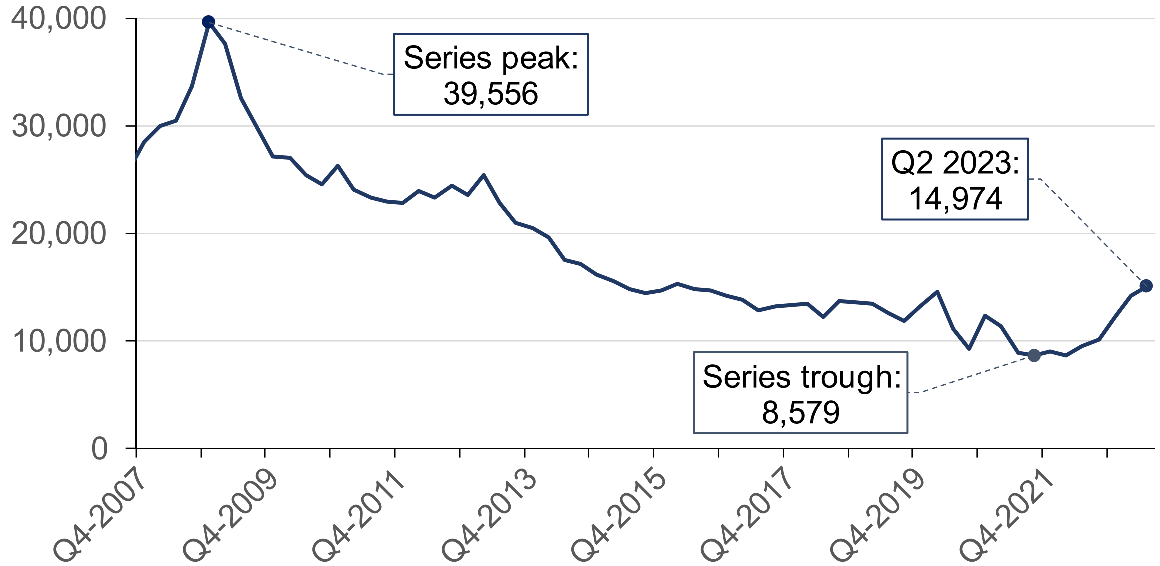
Source: UK Finance

8. Mortgage Arrears & Possessions

8.1. Arrears

As shown in Chart 8.1, following a peak of 39,556 in Q4 2008 during the financial crisis, there was a long-term declining trend in the number of regulated mortgage accounts entering arrears, which continued during the covid period to reach a trough of 8,579 in Q3 2021.[4] (Source: FCA). Since then the level of arrears has begun to increase, and there were 14,974 accounts that went into arrears across the UK in Q2 2023, an annual increase of 58% and an increase of 75% since the trough (although these changes are from a very low base) and the highest since Q1 2016. Compared to the average for 2019-20, immediately prior to the pandemic, the level of arrears in Q2 2023 was 15% higher.

Chart 8.1 Number of regulated mortgage loan accounts entering arrears: UK (quarterly data, to Q2 2023)



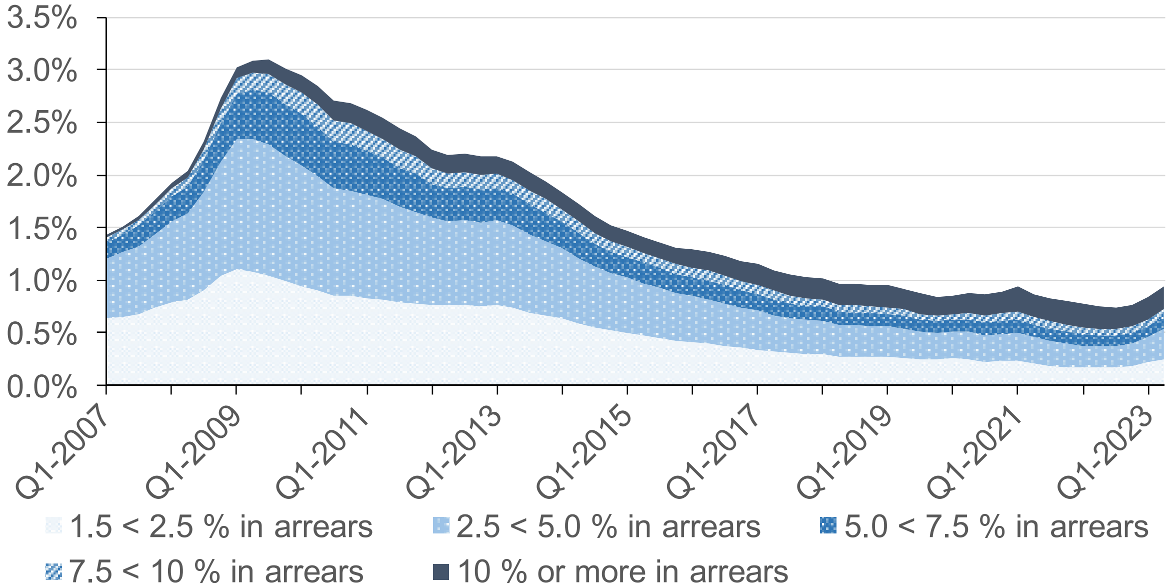
Source: FCA. Includes both securitised and unsecuritised loans

The share of lenders' outstanding regulated mortgage balances that were in arrears of more than 1.5% of the outstanding loan balance stood at 0.94% at the end of Q2 2023. This share had remained broadly stable during the pandemic but then started 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. As would be expected, the categories which have recorded the largest increase in share since the recent trough are the lowest arrears categories (1.5% - 2.5% and 2.5% - 5%) since it will take time for arrears to accumulate. In Q2 2023, the share of the highest category of arrears (10% or more) is, at 0.22% of total loan balances, currently still

[4] Note that since covid payment holidays were not classified as technical arrears, they are not reflected in these figures; however, when these payment holidays came to an end in April 2021, this did not result in an immediate substantial increase in arrears.

approximately in line with its average in the post-covid period (0.21% over the period from Q2 2020 to Q2 2023).

Chart 8.2 Regulated mortgage balances in arrears by severity: UK (quarterly data, to Q2 2023)



Source: FCA. Includes both securitised and unsecuritised loans; share is calculated as balances on cases which are in arrears, expressed as a % of total loan balances

UK Finance data shows that there were 13,760 BTL mortgages in arrears of 1.5% or more of the outstanding balance across the UK at the end of Q2 2023, up by an annual 81%. The number BTL mortgages in arrears of 1.5% or more as a percentage of the total number of BTL mortgages was 0.68%, the highest level since 2013. FCA data for non-regulated lending (which includes BTL lending but also some other types of lending, and is collected on a somewhat different basis to UK Finance data[5]) shows that at the end of Q2 2023 balances in cases where mortgages were 1.5% or more in arrears represented 1.20% of total loan balances, up from 0.84% a year earlier, and the highest figure since Q4 2016, although it remains well below the peak of 3.93% reached in Q1 2009 during the financial crisis.

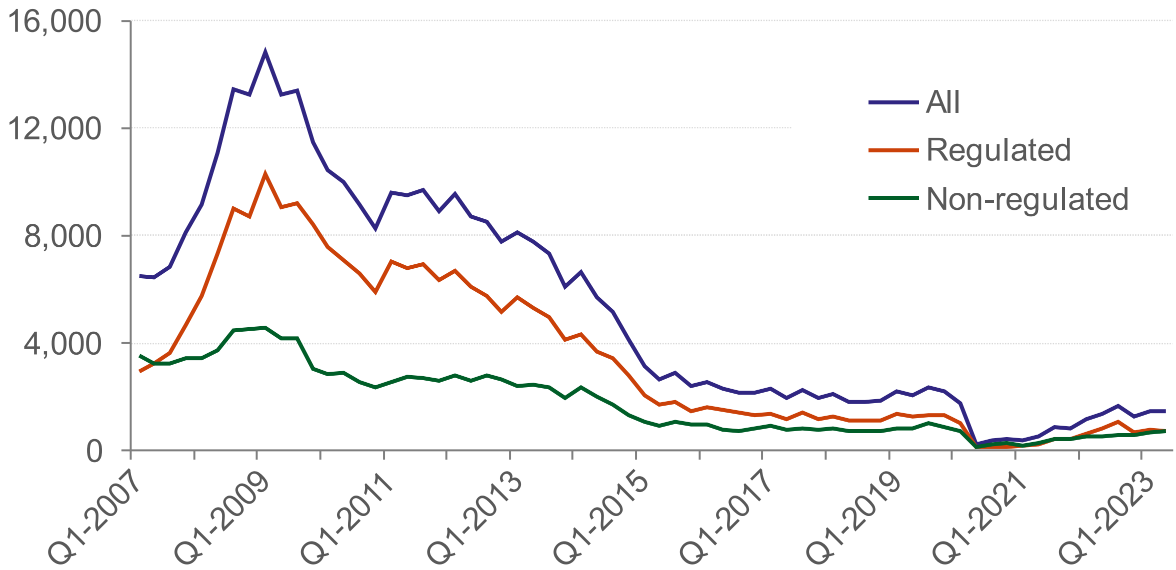
8.2. Possessions

FCA data (see Chart 8.3) shows that despite restrictions on possessions being lifted since 1 April 2021, there were only 720 new regulated mortgage possessions across the UK in Q2 2023. This was a decrease of 115 (14%) relative to a year before, and also 42% below the average for 2019-20, the fiscal year preceding the pandemic. The 748 non-regulated mortgage possessions (which includes buy-to-let mortgages) in Q2 2023 was similarly 13% below the average for 2019-20. Meanwhile, UK Finance data show that there 440 BTL properties taken into possession across the

[5] FCA data is collected on an account basis, whereas UK Finance data is collected on a borrower basis and covers first-charge mortgage lending only.

UK in Q2 2023, a 26% annual increase, but 31% below the level in Q1 2020, immediately prior to the pandemic.

Chart 8.3 New possessions by type of mortgage: UK (quarterly, as at end of quarter, data to Q2 2023)



Source: FCA

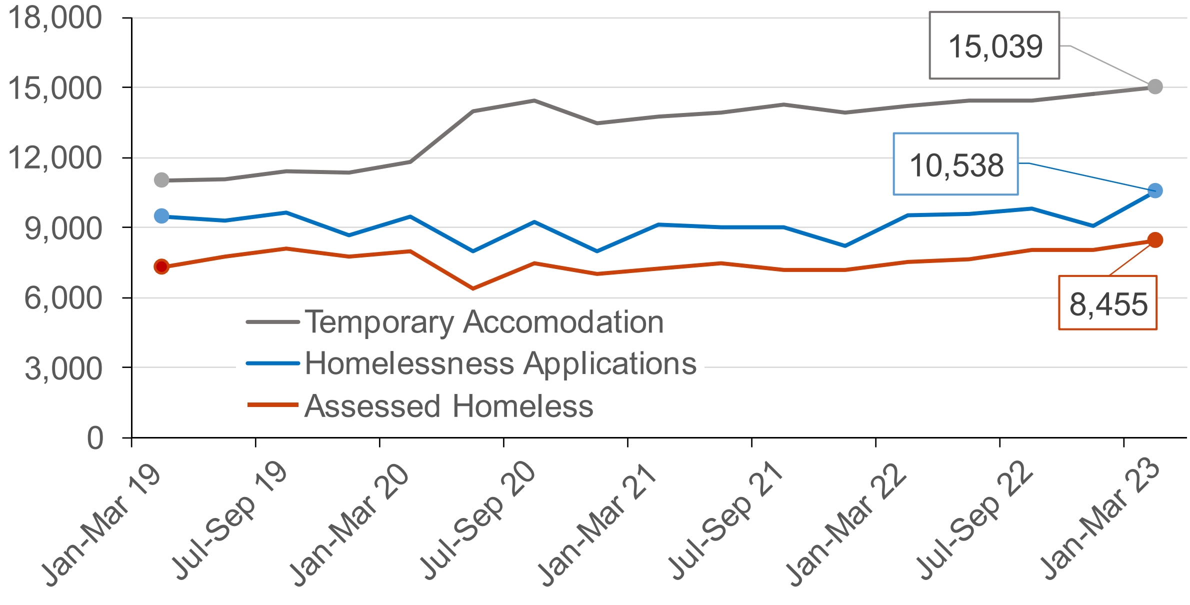
In June 2023, the Chancellor of the Exchequer met with the UK's principal mortgage lenders and the FCA, they agreed to a new mortgage charter which provides support to residential mortgage customers. The charter states that anyone can call their lender for information and support without any impact on 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.

9. Homelessness

There were 39,006 homelessness applications recorded in 2022-23, an increase of 9% compared to 2021-22 (35,759), and now exceeding the pre-Covid level (37,053 in 2019-20). The number of households assessed as homeless was 32,242, an increase of 10% compared to 2021-22 (29,339), and also now exceeding the pre-Covid level (31,618 in 2019-20). The number of households in temporary accommodation as at 31 March 2023 was 15,039, an increase of 6% from 31 March 2022 (14,214). Unlike applications and assessments, temporary accommodation increased during the Covid period. Applications and assessments are at their highest since 2012-13 and 2011-12 respectively, while temporary accommodation is at its highest since the time series began in 2017-18

While in 2022-23 as whole, there was an increase from 4,271 in 2021-22 to 5,190 (22%) in households becoming homeless from the private rented sector, there was a fall in the second half of 2022-23: from 2,990 in the period April to September 2022, to 2,200 in the period October 2022 to March 2023 (during which the Cost of Living (Tenants Protection) Act has been in operation).

Chart 9.1 Homelessness: Scotland (quarterly data, to Jan-Mar 2023)



Source: Scottish Government

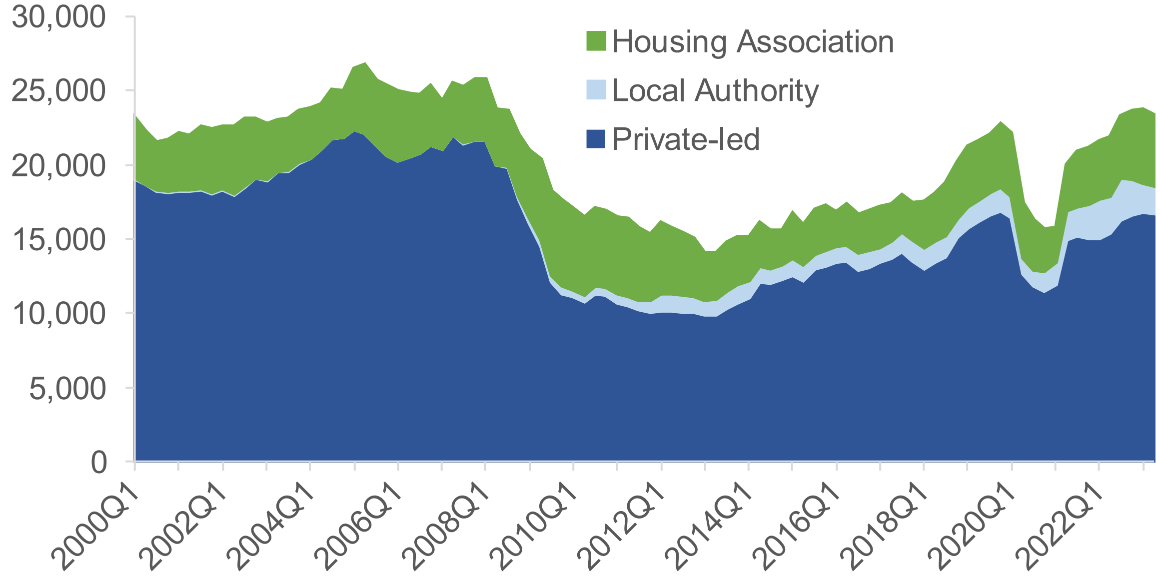
Note: Homeless applications and assessments refer to the number over the quarter, while temporary accommodation figures refer to the number at the end of quarter.

10. Housing Supply

10.1. New Build

New housebuilding completions have increased since the Covid-19 restrictions on non-essential construction activity were eased in Q3 2020. There were 23,346 new build completions across all sectors in Scotland in the year to end Q2 2023, an increase of 6.8% (1,481 homes) on the previous year, and the highest year-to-end-Q2 figure since 2008. This is illustrated in Chart 10.1, which includes a breakdown of new build completions by sector. Meanwhile, there were 17,425 new build starts across all sectors over the same period, down by 11.8% (2,340) relative to the previous year, and the lowest year-to-end-Q2 figure since 2016.

Chart 10.1 New-build completions by sector: Scotland (4 quarter moving total, to Q2 2023)

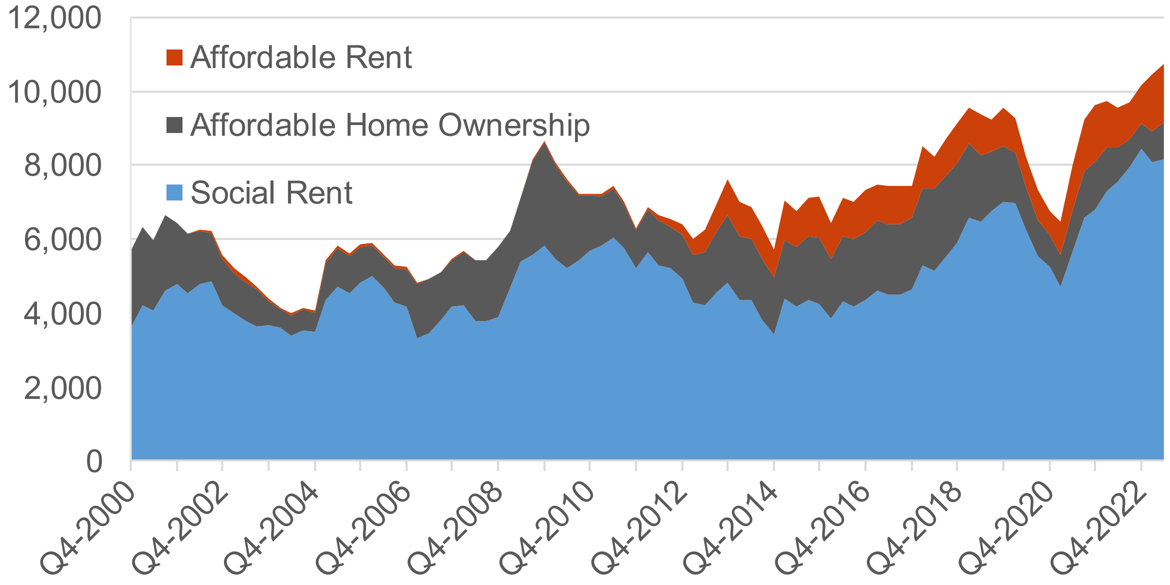


Source: Scottish Government

10.2. Affordable Housing Supply Programme (AHSP)

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. 10,757 affordable housing completions were recorded over the year to Q2 2023, an increase of 12.4% (1,188 homes) 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 22.2% (1,724 homes) to 6,042, whilst starts have decreased by 2.5% to 7,124 homes.

Chart 10.2 AHSP Completions (4Q Moving Total, to Q2 2023)



Source: Scottish Government

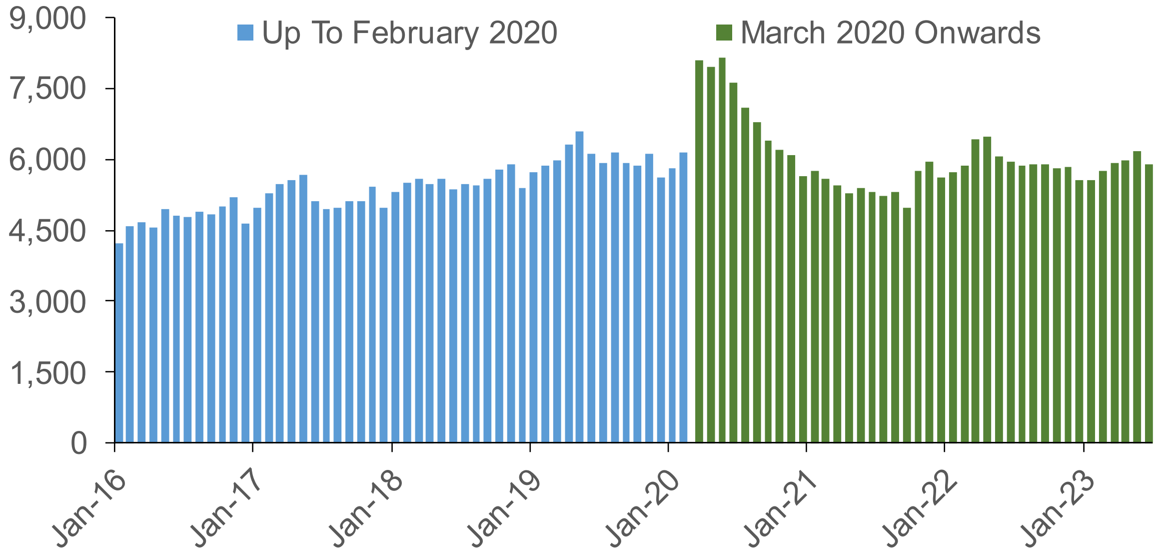
11. Lending to House Builders, Insolvencies & Construction Prices

11.1. 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 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, it then returned towards pre-pandemic levels, at least in nominal terms, with the value of outstanding loans for the first eight months of 2023 2.5% below the same period in 2019. But 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 lending.

Chart 11.1 Loans outstanding to firms involved in construction of domestic buildings: UK (£ Millions, monthly data, to August 2023)

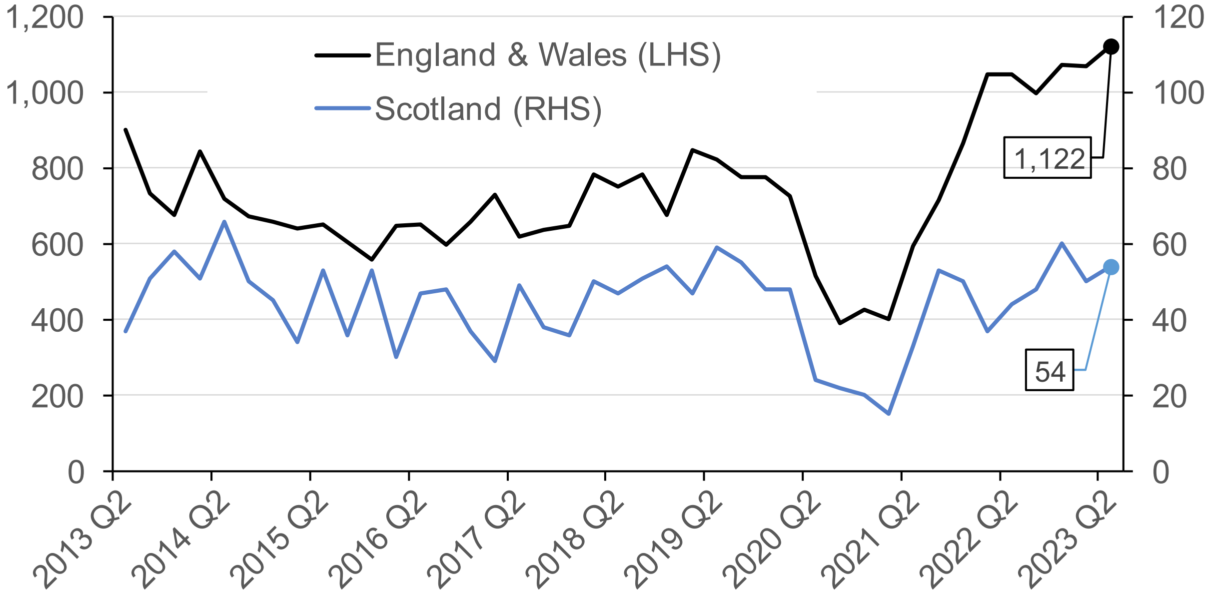


Source: Bank of England

11.2. 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 2022-23, there were 212 insolvencies in the construction sector in Scotland. While this represents an increase of 15% compared to the previous year, it is similar to the number of insolvencies in 2019-20, immediately prior to the pandemic. It might have been expected that there would be a spike in insolvencies above the pre-pandemic level, due to those insolvencies which were merely postponed rather than avoided during the covid period as a result of the business support in place at that time; indeed, this seems to be the case in England and Wales, were there were 16,571 insolvencies in 2022-23, 32% higher than the 12,574 recorded in 2019-20 immediately prior to the pandemic.

Chart 11.2 Number of registered company insolvencies in the construction sector (quarterly data, to Q2 2023)



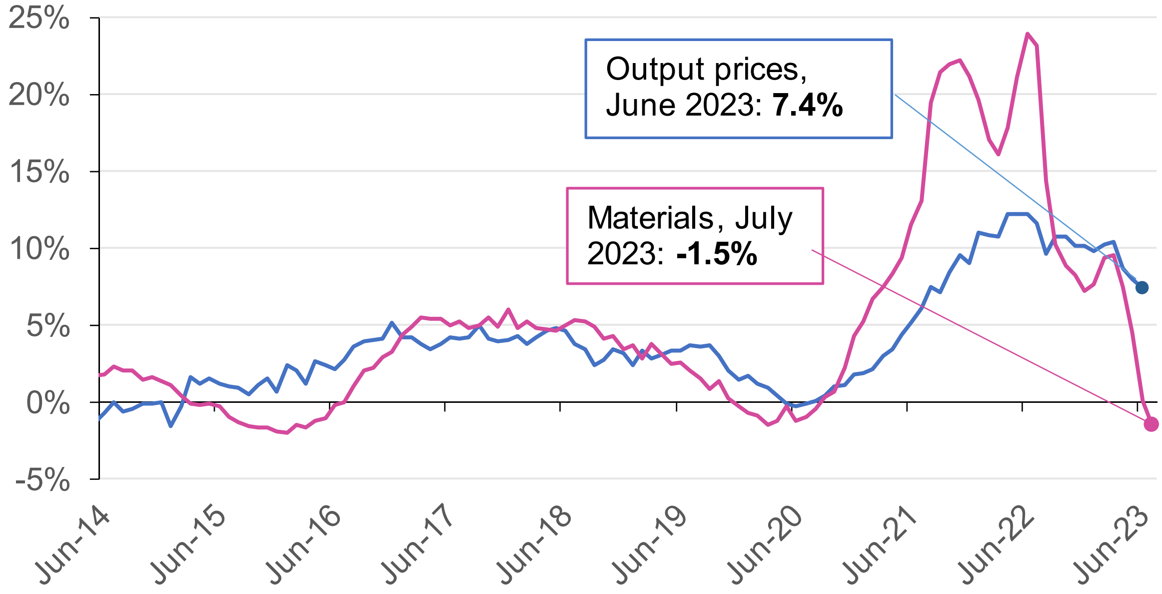
Source: The Insolvency Service

11.3. Output and Input Prices for New Housing

ONS construction-output price data shows that the index for new housing, which covers a range of costs associated with building new public and private housing, increased by an annual 7.4% in June 2023 (Chart 11.3).

Data from the UK Government (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, and thus contributed significantly to output-price inflation for new housing, has fallen sharply, moving into negative territory (-1.5%) in July 2023. There is significant variation around this average with the highest price increases recorded for screws (+26.6%), doors and windows (metal) (+22.7%) and ready-mixed concrete (+20.5%), and the largest decreases recorded for fabricated structural steel (-28.6%), concrete reinforcing bars (-27.2%) and imported sawn or planed wood (-23.5%).

Chart 11.3 Annual Change in the Output Price and Materials Price Indices for New Housing: UK (Monthly)



Source: ONS and UK Government

Data from the ONS Business Insights and Conditions Survey (BICS) which has been weighted for Scotland similarly suggests that prices of goods and services which are bought by businesses in the construction sector in Scotland are stabilising: the majority (60.5%) of construction businesses that responded to the survey said that prices had remained unchanged in July 2023 relative to the previous month, while 27.2% reported that prices had increased. This compares to March 2022, when the majority of business (70.0%) reported that prices had increased from the previous month, while 19.1% reported that they had stayed the same.

There is less evidence from BICS that labour costs have stabilised: while the share of construction business reporting that business staffing costs have increased over the last three months has fallen from 60.6% in Wave 55 (survey live from 19 April to 1 May 2022) to 50.9% in Wave 86 (26 June to 9 July 2023), this is still higher than the share reporting that costs have stayed the same, although this has increased from 32.4% in Wave 55 to 41.1% in Wave 86.

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