

Scottish Housing Market Review

October - December 2020

Key points for this issue:

Sales

- **The recovery in residential property sales continued in Q4 2020** in Scotland, with transactions increasing by an annual 27.7% in Q4 2020, although sales for 2020 as a whole fell by 17.3%. (Source: Registers of Scotland)
- **The boost in transactions in Q4 was experienced across Scotland**, with the largest increase in Aberdeen/shire & Moray and the smallest increase in Argyll & Bute and the Highlands and Islands. (Source: Registers of Scotland)
- **Strong transaction growth persisted in January and February**, with sales across Scotland up by an annual 17.5% over the two months, relative to a 2016-2019 baseline (Source: Revenue Scotland).

House Prices

- **House price growth increased by 7.7% annually in Q4 2020.** This is the highest quarterly house price inflation rate since Q1 2008, prior to the financial crisis. (Source: UK HPI)
- **HPI data outlines that house price growth for detached properties (9.9%) has been greater than for flats (7.3%)**, possibly linked to a change in preferences due to Covid-19.

Rental Prices

- **Private housing rental price growth remain moderate**, rising by an annual 1.0% in nominal terms and 0.2% in real terms in January 2021. (Source: ONS)
- **The Scottish Government has extended the ban on social and private rent evictions and repossessions of mortgaged properties to 30 September**, subject to a review every 3 weeks.

Lending

- **There has been a reduction in high LTV mortgage lending due to the impact of Covid-19.** Data from the FCA for Q4 2020 shows that 1.4% of gross mortgage advances in the UK had an LTV ratio over 90%, down 4.3 percentage points on Q4 2019.
- **New mortgages to first-time buyers in Scotland increased by an annual 43.2% in Q4 2020, while new mortgages to home movers increased by 26.7%.** Across 2020 as a whole, new mortgages to first-time-buyers decreased by 12.3% compared to a fall of 17.8% for home movers (Source: UK Finance)
- **The trend of high LTV mortgages becoming more expensive has started to stabilise.** In February 2021, the spread between the average advertised 2 year fixed 90% LTV and 75% LTV mortgage rate, at 188 basis points, was just 1 basis point lower than December 2020. (Source: Bank of England)

Housing Supply

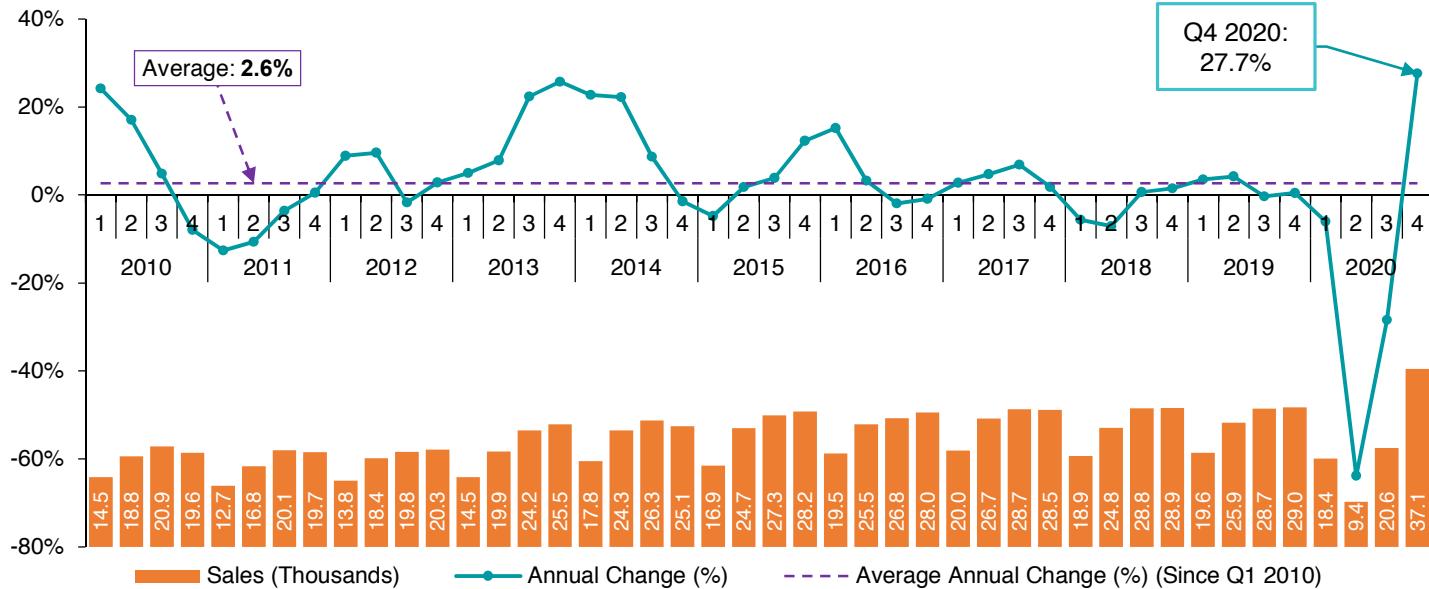
- **There were 21,910 new build homes completed across all sectors in 2019/20, an annual increase of 3% (722 homes) on the previous year**, despite activity levels being affected by the introduction of COVID-19 lockdown measures in March 2020.
- **Private new build sales, which fell by an annual 86% in May 2020, have recovered strongly, increasing by an annual 4.4% in October 2020.** (Source: UK HPI)
- **The supply of affordable housing has recovered since Q2**, although supply remains below the Q4 2019 level. **1,918 affordable homes were delivered in Q4 2020**, an increase of 861 (81.5%) on Q3 2020 but an annual decrease of 22%. Affordable Housing Supply Programme starts and approvals also increased in Q4 2020 relative to Q3 2020 but remained below their level in Q4 2019 (Source: Scottish Government).

Data to: 23 March 2021 - Contact: William.Ellison@gov.scot; Bruce.Teubes@gov.scot

1. Sales: National

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

Source: Registers of Scotland



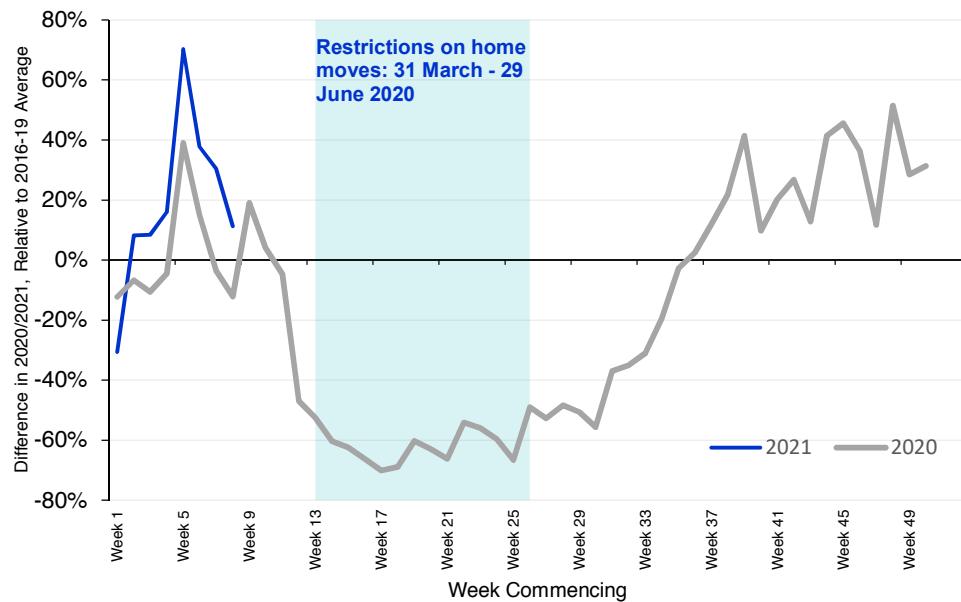
Scottish Sales Performance: National

The recovery in housing market activity in Scotland continued in Q4 2020, although activity for 2020 as a whole still lags 2019 (-17.3%). The rebound relative to the first half of 2020 (when transactions fell by an annual 38.9%) is in line with expectations as Q2 included the period where restrictions on home moves were in place (from 31 March 2020 until 29 June 2020). Registers of Scotland statistics show that there were 37,064 residential property sales registered across Scotland in Q4 2020, an annual increase of 27.7%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns submitted show the improvement in housing market activity in Q4 continued into January and February. Chart 1.2 plots the percentage difference between weekly residential LBTT returns in 2021 and 2020, and the average from 2016 to 2019 for the corresponding week. Activity has remained elevated in the early part of 2021, with the level of transactions in January and February combined increasing by an annual 17.5% relative to the 2016-2019 baseline.

Chart 1.2 Weekly Residential LBTT Returns: Percentage Difference Between 2020 & 2021 and 2016-2019 (Weekly Average)

Source: Revenue Scotland



Key Points

The recovery in residential property sales continued in Q4 2020 in Scotland, with transactions increasing by an annual 27.7% in Q4 2020, although they fell by 17.3% for 2020 as a whole.

More recent data using residential LBTT returns shows that this trend continued in January and February 2021, with transactions during this two-month period up by an annual 17.5% relative to a 2016-2019 weekly average.

1. Sales: Regional

Scottish Sales Performance: Regional

Registers of Scotland data shows that the continuation of the rebound in housing market activity in Q4 2020 was experienced across Scotland. The largest increase in residential property sales occurred in Aberdeen/shire & Moray, where sales rose by an annual 34.6%. Sales in Argyll & Bute and the Highlands & Islands increased by the lowest amount in Scotland in Q4 2020 but this remains a sizeable increase in transactions, up by 21.6% on the same period last year.

Analysing the annual change using a rolling four quarters method, it can be seen that the reduction in transactions for 2020 relative to 2019 has been experienced in a broadly uniform manner across Scotland. The smallest decrease in sales on a rolling four quarter basis was in Tayside and Fife by 15.1% and the largest decrease in sales was in Edinburgh, Lothians and the Scottish Borders by 19.3%.

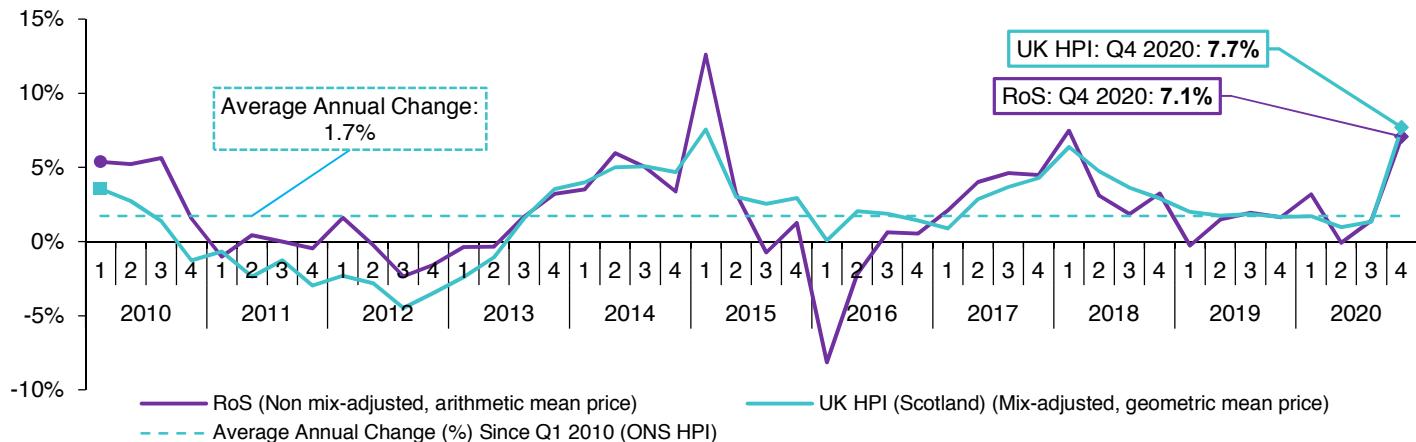
A summary of residential property sales activity by Scottish region is included below. This contains the number of residential property sales registered in Q4 2020, the annual change, as well as the annual change in sales using a rolling four quarter period to Q4 2020. The latter is included to smooth out volatility in quarterly data.

Aberdeen/shire & Moray		A&B, Highland & Islands		Ayrshires & D&G	
Sales - Q4 2020	3,555	Sales - Q4 2020	2,644	Sales - Q4 2020	3,577
12 Month Change	34.6%	12 Month Change	21.6%	12 Month Change	28.9%
Annual change (rolling 4 quarters)	-15.5%	Annual change (rolling 4 quarters)	-18.0%	Annual change (rolling 4 quarters)	-16.0%
Clyde Valley		Edinburgh, Lothians & Borders		Forth Valley	
Sales - Q4 2020	12,597	Sales - Q4 2020	7,249	Sales - Q4 2020	1,995
12 Month Change	26.3%	12 Month Change	24.9%	12 Month Change	29.3%
Annual change (rolling 4 quarters)	-17.9%	Annual change (rolling 4 quarters)	-19.3%	Annual change (rolling 4 quarters)	-15.5%
Tayside & Fife		Scotland			
Sales - Q4 2020	5,447	Sales - Q4 2020	37,064		
12 Month Change	32.0%	12 Month Change	27.7%		
Annual change (rolling 4 quarters)	-15.1%	Annual change (rolling 4 quarters)	-17.3%		

2. House Prices: National

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

Source: Registers of Scotland/UK HPI (Scotland)



Scottish House Price Performance: National

House price inflation increased in Q4 2020 by 7.7% relative to Q4 2019. This is the highest quarter of house price inflation since Q1 2008, prior to the financial crisis. The strong price growth has continued in January 2021, with the average house price in Scotland increasing 8.0% annually. The average property price in Scotland stood at £164K in Q4 2020. Data from Registers of Scotland suggests that the average house price in Scotland increased in Q4 2020, by 7.1%, relative to Q4 2019 (although this data is not mix-adjusted, so could be affected by the composition of properties sold).

Analysing the UK HPI data in further detail, annual house price growth was greater for detached properties (9.9%) relative to flats (7.3%) to December 2020. This could reflect a shift in buyer preferences arising from Covid-19, with buyers increasingly looking for properties with more space or gardens.

Key Points

The average Scottish house price increased by an annual 7.7% in Q4 2020, to £164K (UK HPI).

Analysing the HPI data in more detail, it can be seen that price growth for detached properties (9.9%) was higher than for flats (7.3%) possibly linked to a change in preferences due to Covid-19.

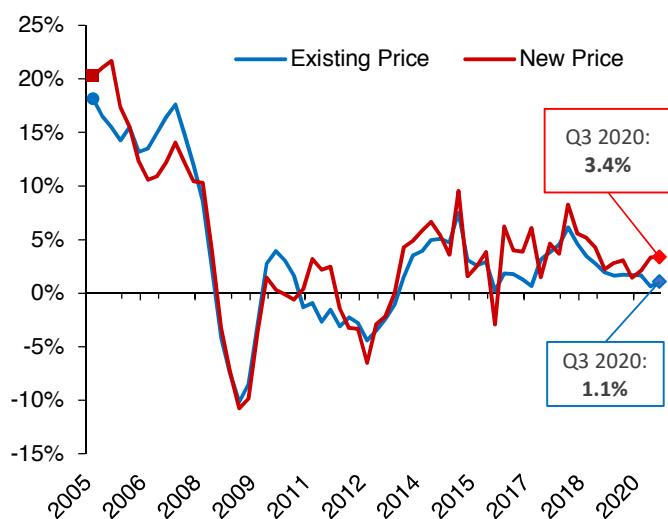
Scottish House Price Performance by Dwelling/Buyer Type

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. In Q3 2020, the rate of change in the average Scottish new build property price increased to a greater extent than existing build price growth, increasing by 3.4% to £220K. Existing build price growth increased by 1.1% to £154K.

The UK HPI also shows that the average first-time buyer property price in Scotland increased by an annual 7.4% in Q4 2020, to £132K. Meanwhile, the average price of a property purchased by a former owner occupier increased by an annual 8.0% in Q4 2020, to £197K.

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

Source: UK HPI (Scotland)



2. House Prices: Regional

Scottish House Price Performance: Regional

Registers of Scotland data show that house prices for Scotland increased strongly in Q4 2020 but this varied at the local level, ranging from 14.8% increase in Ayrshires & Dumfries and Galloway, where the average (arithmetic mean) price stood at £160k in Q4 2020, to a 2.2% increase in Aberdeen/shire & Moray, where the average price was £204k. Over the five year period to Q4 2020, the annualised house price inflation rate in Aberdeen/shire & Moray was -0.9%, relative to 3.4% across Scotland. This can in part be explained by lower oil prices, which have led to a decline in the oil industry, a crucial component of the Aberdeen economy, and therefore, the regional housing market. There was a further sharp fall in oil prices due to the initial impact of Covid-19 on the world economy during Q1 2020, although they have now recovered to pre-Covid levels.

The longer-term trend (as measured by the change in house prices over the 4 quarter period to Q4 2020 on the same period a year ago) shows that house price growth has been positive in all areas of Scotland with the exception of Aberdeen/shire & Moray.

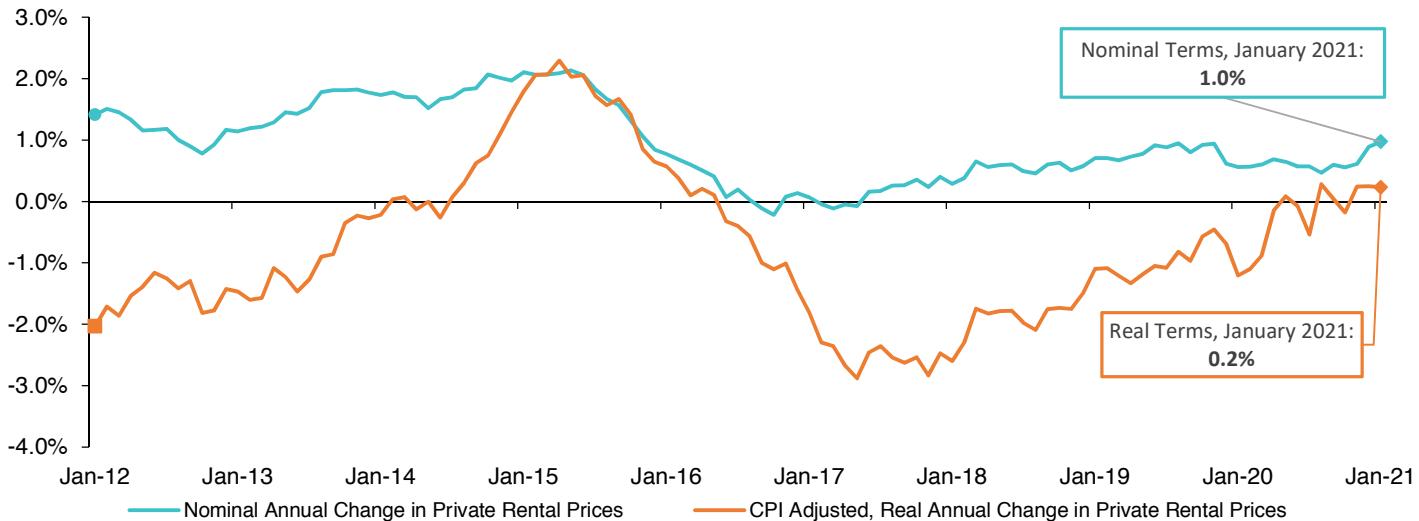
A summary of the average house price in Q4 2020 by Scottish region is included below. This also includes the annual change in the average house price in Q4 2020, as well as the annual change in the average house price using a rolling four quarter period to Q4 2020, which smooths out volatility in quarterly data (Source: RoS).

Aberdeen/shire & Moray	A&B, Highland & Islands	Ayrshires & D&G
Average Price - Q4 2020	£204K	Average Price - Q4 2020
12 Month Change	2.2%	12 Month Change
Annual change (rolling 4 quarters)	-0.7%	Annual change (rolling 4 quarters)
Clyde Valley	Edinburgh, Lothians & Borders	Forth Valley
Average Price - Q4 2020	£177K	Average Price - Q4 2020
12 Month Change	5.0%	12 Month Change
Annual change (rolling 4 quarters)	4.5%	Annual change (rolling 4 quarters)
Tayside & Fife	Scotland	
Average Price - Q4 2020	£185K	Average Price - Q4 2020
12 Month Change	10.2%	12 Month Change
Annual change (rolling 4 quarters)	6.1%	Annual change (rolling 4 quarters)

3. Rental Prices

Chart 3.1 Annual Change in Private Housing Rental Prices (Monthly): Scotland

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



Private Housing Rental Prices

Private housing rental prices increased by 1.0% annually in Scotland in January 2021. This continues a period of relative stability in nominal private rental price growth. Since June 2017, the annual rate of change in nominal rental price growth has ranged between 0% and 1%, with an average of 0.6%. In real terms (adjusting for inflation, using CPI), the annual change in January 2021 stood at 0.2%. Chart 3.1 shows that the annual change in real private housing rental prices has risen towards positive territory since the start of the year. This is due to CPI inflation falling over the period, from 1.8% in January 2020 to 0.7% in January 2021.

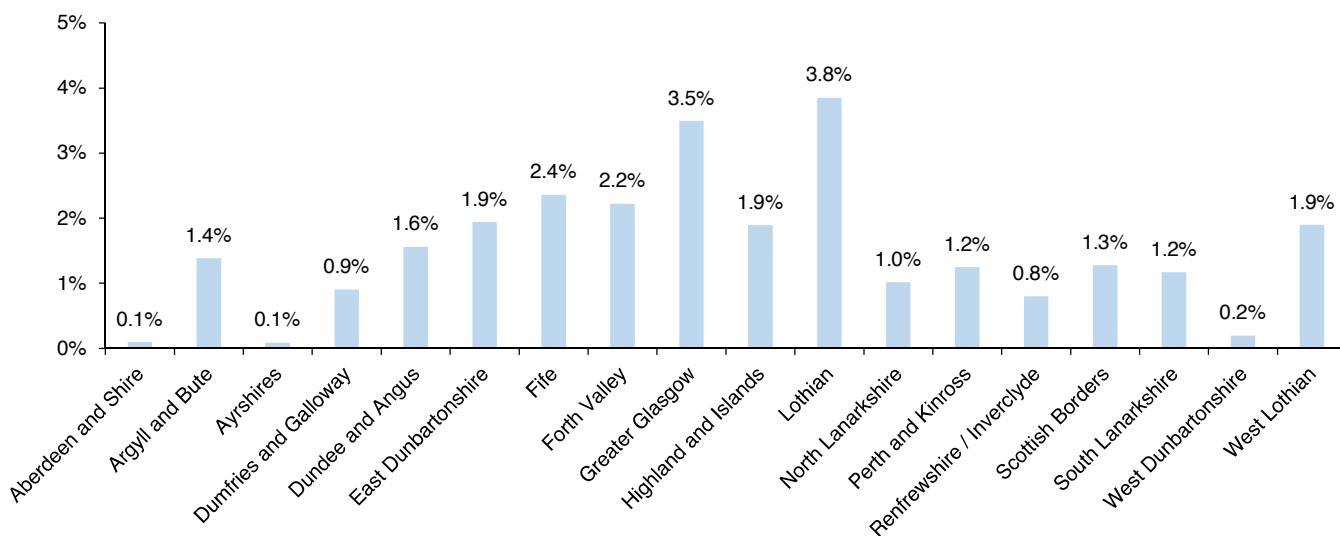
The moderate growth in average rents across Scotland masks significant regional variation. Scottish Government statistics show that from 2010 to 2020 (years to end September), the annualised average rate of change in mean rent for a 2 bedroom property was over double that of inflation (CPI) (1.4%) in both Greater Glasgow (3.5%) and Lothian (3.8%) Broad Rental Market Areas ("BRMA"). Meanwhile, the annualised average rate of change was equal to or below that of inflation (CPI) in 10/18 BRMAs.

Note: Scottish Government statistics are based almost entirely on advertised rents at point of new let, and thus will tend to be higher than the ONS data which makes an allowance for rent changes in existing lets. In addition, chart 3.2 looks solely at 2 bedroom properties, whilst 3.1 looks at the entire market.

The Scottish Government has extended the ban on all evictions in areas subject to level 3 or 4 restrictions (except in cases of serious anti-social behaviour, including domestic abuse), which are subject to review every three weeks, will remain in force until 30 September 2021.

Chart 3.2 Annualised Average Rate of Change in Mean Rent (2 Bedroom Property), YTE Sept-10 to YTE Sept-20, by BRMA

Source: SG/ONS CPI



4. Lending To Homebuyers: Mortgage Approvals & LTVs

New Mortgage Advances

Chart 4.1 plots the monthly number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 11,810 new mortgages advanced to first-time buyers in Scotland in Q4 2020, an annual increase of 43.2% (+3,560). Meanwhile, there were 11,480 new mortgages advanced to home movers in Scotland in Q4 2020, an annual increase of 26.7% (+2,420). The reduction in the number of new mortgages advanced for 2020 relative to 2019 fell to a lesser extent for first-time-buyers (-12.3%) than for home movers (-17.8%) (Source: UK Finance).

Mortgage Approvals

Chart 4.2 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 have rebounded strongly since May 2020, with mortgage approvals increasing from 9,922 to 104,053 in November 2020 (see Chart 4.2). Mortgage approvals for house purchase have reduced since November but remain high relative to the same month one year prior, with mortgage approvals rising by an annual 61% in December 2020 and 29% in January 2021.

Loan-to-Value (LTV) Ratios

In Q4 2020, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 77.3%. This is down 5.3 percentage points annually. This likely reflects the reduction in the availability of high LTV ratio mortgages (discussed below). Meanwhile, the mean LTV ratio for home movers in Scotland stood at 69.8% in Q4 2020, down 1.7 percentage points over the one year period. This is shown in Chart 4.3 (Source: UK Finance).

Chart 4.4 shows that there was a reduction in new lending at high LTV mortgage ratios across the UK since March 2020. The share of gross mortgage advances across the UK in Q4 2020 with an LTV ratio greater than 90% was 1.4%, 4.3 percentage points below the share in Q4 2019. There has also been a reduction in lending which is both high LTV and high LTI (loan-to-income). The share of gross advances classified as high LTV and LTI was 1.0% in Q4 2020, down 3.1 percentage points on Q4 2019.

The UK government are introducing the UK Mortgage Guarantee scheme to encourage lenders to issue 91% - 95% LTV mortgages, running from April 2021 to December 2022.

Chart 4.1 New Mortgage Advances for Home Purchase (Monthly), Scotland

Source: UK Finance

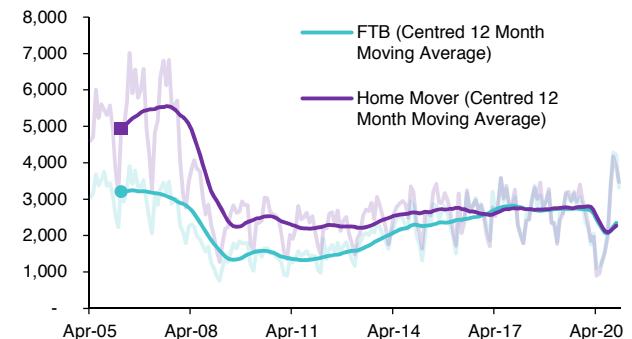


Chart 4.2 Mortgage Approvals - House Purchase (Monthly) (UK)

Source: Bank of England

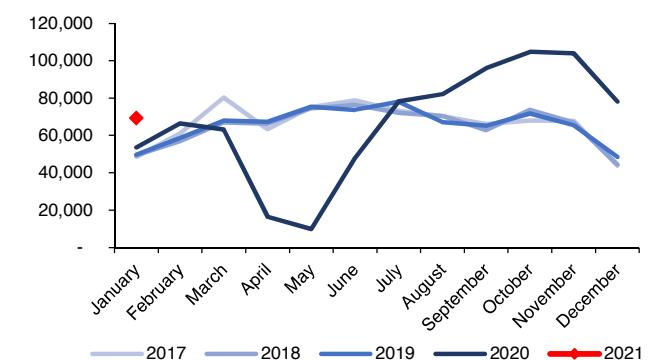


Chart 4.3 Mean Loan to Value Ratio (Quarterly), Scotland

Source: UK Finance

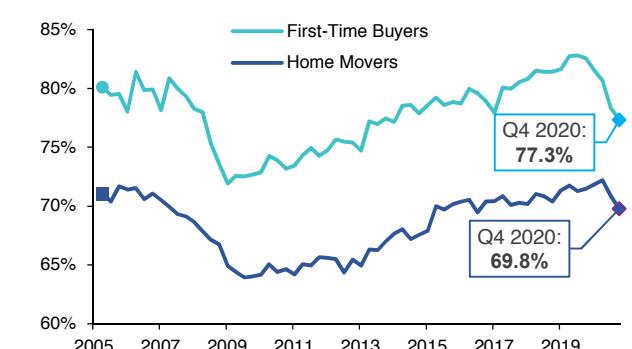
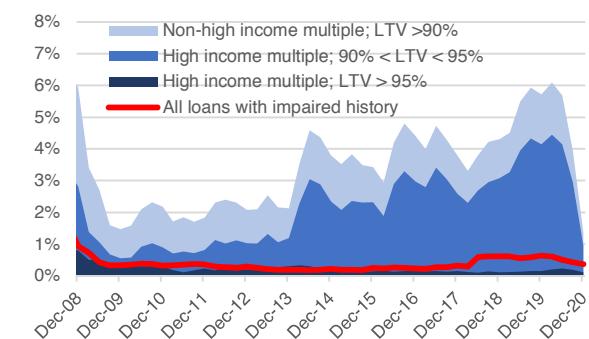


Chart 4.4 Higher Risk Lending * as a % of all Residential Lending (Quarterly), UK

Source: FCA



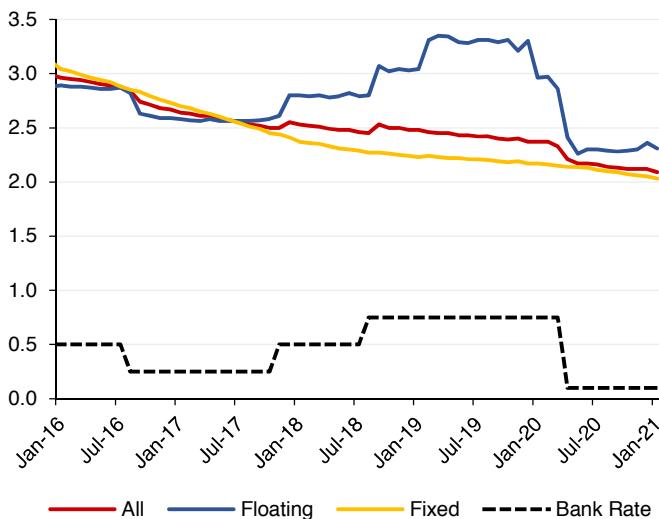
* Higher risk lending is classified by the FCA as an LTV over 90% and an income multiple greater than or equal to 3.5 for single income purchasers, or greater than or equal to 2.75 for joint income purchasers

4.1 Lending To Homebuyers: Interest Rates

Charts 4.5 (L) and 4.6 (R): Effective Monthly Mortgage Interest Rate (UK) (%)

Source: Bank of England

Outstanding Balances (%)



Mortgage Interest Rates

Charts 4.5 & 4.6 show the effective interest rate on outstanding mortgage balances and new mortgage advances (Source: BoE). The effective interest rate is the average rate charged on the stock of loans/new lending in a given month.

In March 2020, Bank Rate was cut by total of 65 basis points, leaving it at 0.1%. The reduction in Bank Rate has fed through to outstanding variable rate mortgages, with the average interest rate falling from 2.97% in February 2020 to 2.30% in June and stabilising since then, standing at 2.31% in January 2021. The average interest rate on new variable rate mortgages fell from 2.06% in February to 1.53% in June, although it has since increased to 1.87% in January 2021. The average fixed rate on new mortgages has been relatively stable throughout the period of Covid-19, standing at 1.85% in January 2021, the same level as in January 2020 (Source: BoE).

The increase in the spread between the average advertised rate on 2 year fixed 90% and 75% LTV mortgages has stabilised recently, as shown in Chart 4.7. In February 2021, the spread stood at 188 basis points, up from 64 basis points in January 2020 but broadly consistent with the spread in December 2020 (189 basis points). It should be noted that Chart 4.7 shows the spread is still relatively narrow in the long-term context (Source: BoE).

Chart 4.8 shows that the majority of new mortgage lending (92.2%) is on fixed rates. The share of outstanding mortgages on fixed rates fell from 73.2% in Q4 2019 to 61.6% in Q1 2020, possibly due to borrowers whose fixed rate mortgages reached their end of term either choosing to remain on default variable rates, since these had fallen, or being unable to switch immediately to a new fixed rate mortgage due to lender capacity constraints during lockdown. The share has since increased to 64.3% in Q4 2020.

New Mortgages (%)

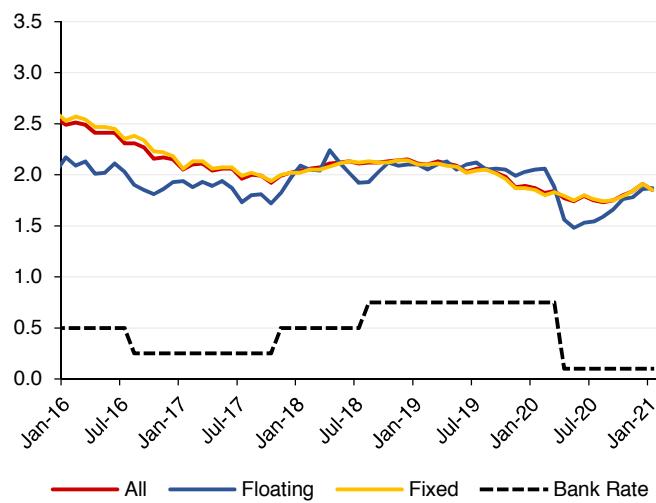


Chart 4.7 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)

Source: Bank of England

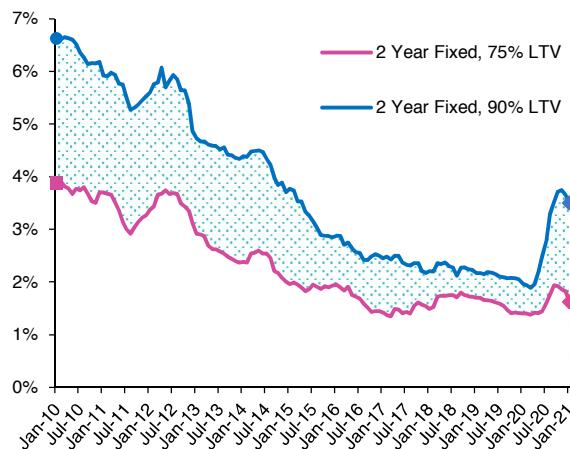
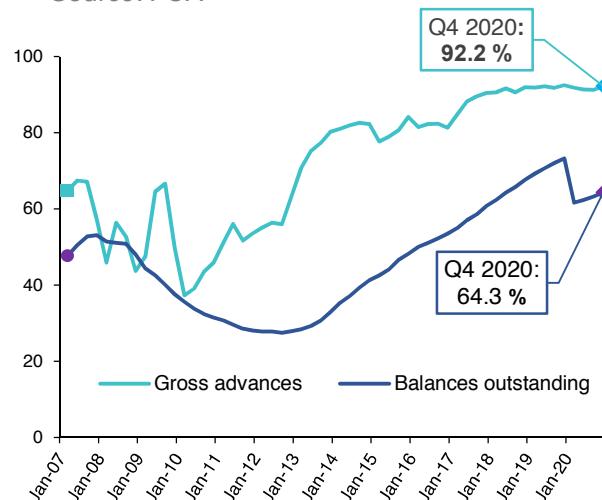


Chart 4.8 Share of Mortgage Lending at Fixed Rates: UK, % (Quarterly)

Source: FCA



4.2 Lending To Homebuyers: Arrears

Arrears

Please note: Covid-19 related mortgage payment deferrals are not considered to be formal arrears, and so will not be reflected in the statistics below.

There were 12,267 regulated mortgages that went into arrears across the UK in Q4 2020, a decrease of 6.4% (-843) on Q4 2019. As shown in Chart 4.9, this is also significantly lower than levels following the 2008 financial crisis, when the number of regulated mortgages that went into arrears peaked at 39,556 in Q4 2008.

The share of lenders' outstanding mortgage balances that were in arrears stood at 0.89% at the end of Q4 2020. This has remained broadly stable during the pandemic, with arrears at 0.85% at the end of Q4 2019. Chart 4.10 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.

UK Finance data show that there were 5,840 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q4 2020. This is up by an annual 33%, although, this growth comes from a low base. This is still low relative to the period of the 2008 financial crisis.

Possessions

There were 115 new regulated mortgage possessions across the UK in Q4 2020, an increase relative to Q3 2020 of 2 (2%) as can be seen in Chart 4.11. However, this is significantly less than Q4 2019 (-89%). It can also be seen that regulated and non-regulated possessions moved in a similar direction over the recent period.

Guidance on repossession

The FCA published updated draft guidance for mortgage lenders in March 2021, outlining that repossession can be enforced from 1 April 2021 but this must be in accordance with FCA guidance and regulatory requirements, which mean that repossession should only take place as a last resort, if all other reasonable attempts to resolve the situation have failed.

The FCA guidance also recognises that lenders will need to comply with relevant regulatory and legislative requirements in the different jurisdictions across the UK. The Scottish Government has extended the ban on repossession of mortgaged properties in areas under level 3 or 4 restrictions until 1 September 2021, subject to review every three weeks (Source: FCA).

Chart 4.9 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)

Source: FCA

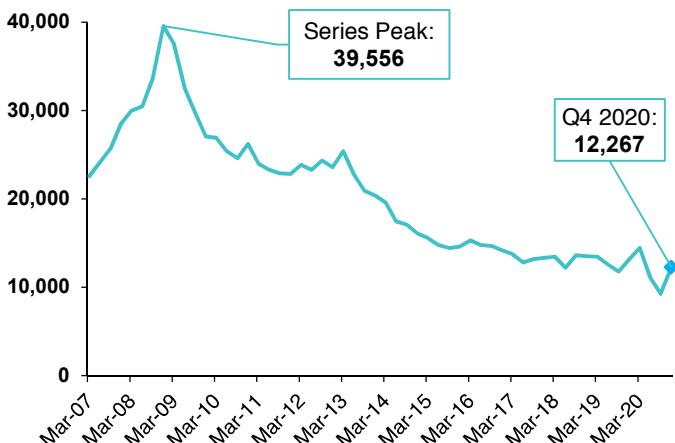


Chart 4.10 Balances in Arrears by Severity: UK, % (Quarterly) (to Q4 2020)

Source: FCA

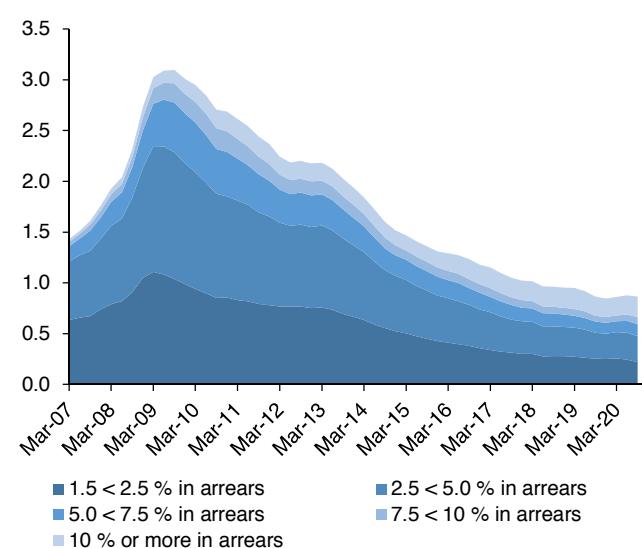
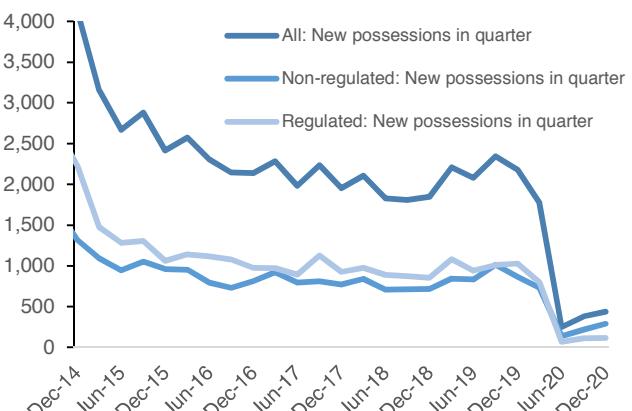


Chart 4.11 New Possessions in quarter by type (Quarterly)

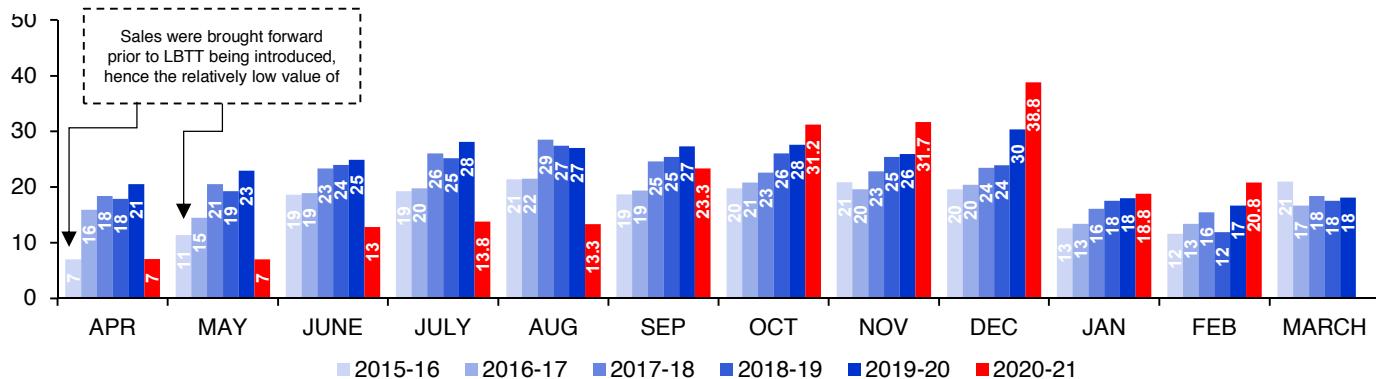
Source: FCA



5. Residential LBTT; Homelessness

Chart 5.1 Residential LBTT Revenue (Excluding ADS, Monthly, £ millions)

Source: Revenue Scotland



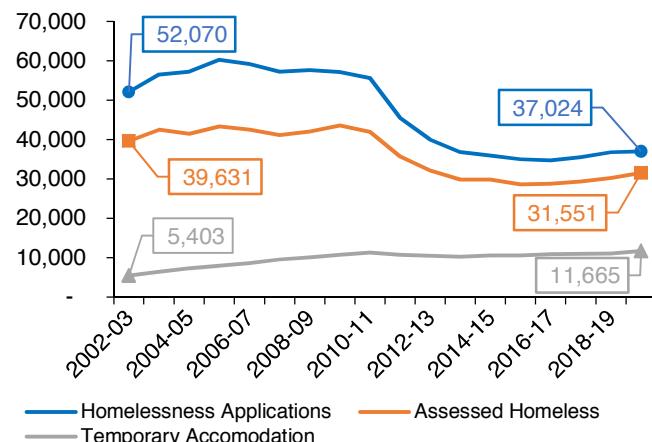
Residential LBTT

There has been a reduction in residential LBTT revenue in 2020-21, which is primarily due to the slowdown in housing market activity. In addition, the Scottish Government temporarily raised the zero rate threshold for all buyers to £250K (from £175K for first-time buyers, and £145K for other buyers), which took effect on 15 July 2020 and is due to end on 31 March 2021. It is estimated that this will result in around eight out of ten buyers paying no LBTT (excluding the Additional Dwelling Supplement ("ADS")), and will save buyers up to £2,100 in tax paid.

From July 2020 to February 2021, following the lifting of the restrictions on homes, residential LBTT liabilities excluding ADS totalled £191.7m, which is down 4.6% on the same period in 2019-20. Meanwhile, gross ADS liabilities totalled £119.3m from July 2020 to February 2021, up by an annual 4.5%. Revenue Scotland data shows that the number of LBTT returns over the one year period to February 2021 has fallen for those in the lowest (-5.2%) and second lowest (-1.5%) LBTT price bands but has increased for the remaining 3 bands (2.8%, 3.8% and 0.3%, respectively).

Chart 5.2 Homelessness in Scotland (Annual)

Source: Scottish Government



Homelessness

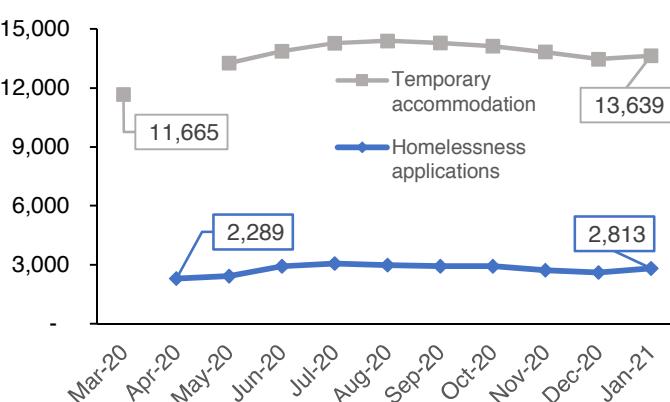
2019/20 saw 37,024 homelessness applications in Scotland, 31,551 households assessed as being homeless (including those threatened with homelessness) and 11,665 in offered temporary accommodation as at 31 March 2020. The first half of 2020/21 saw 16,997 homelessness applications (an annual decrease of 10%), of which 13,645 assessed as homeless (an annual decrease of 14%), while the number of households in temporary accommodation increased by an annual 24% to 14,151 at 30 September 2020 (Source: Homelessness in Scotland: Update to 30 September 2020).

In response to Covid-19 pandemic, the Scottish Government is publishing monthly Management Information on homelessness applications and households in temporary accommodation, although this is not directly comparable to the official homelessness statistics. The monthly data shows that in January 2021 there were 2,813 homelessness applications, an increase of 23% on April 2020. The number of households in temporary accommodation peaked at 14,397 at the end of August 2020, but has since fallen to 13,639 at the end of January, although this is still substantially higher than at the end of March 2020.*

* Note that the monthly temporary accommodation data for April was missing data from 5 local authorities. Therefore, this data point is suppressed in Chart 5.3. Instead, the figure at the end of March, taken from official statistics, is shown for comparison purposes.

Chart 5.3 Homelessness in Scotland (Monthly)*

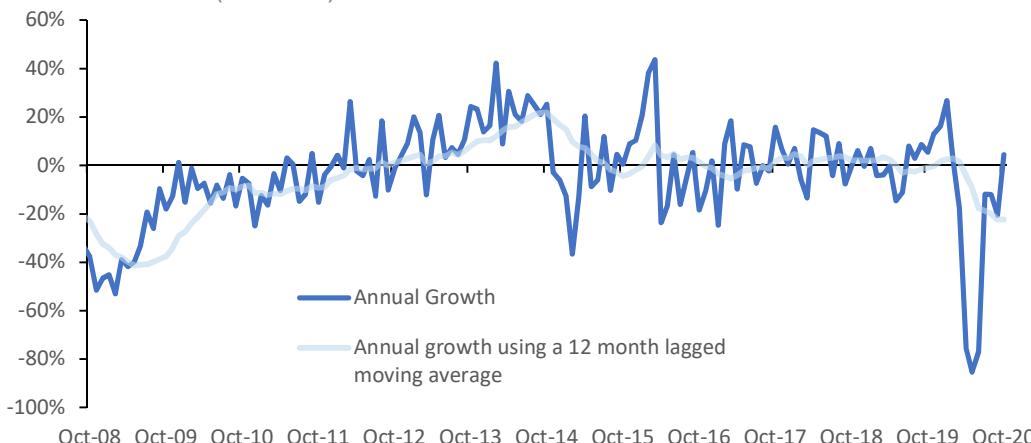
Source: Scottish Government



6. Housing Supply: Starts and Completions

Chart 6.1 Scottish Private New Build Sales to October 2020

Source: UK HPI (Scotland)



The most recent published Scottish Government figures cover the year to end March 2020, in which there were 21,910 new build homes completed across all sectors in Scotland, an increase of 3% (722 homes) on the previous year, despite activity levels being affected by the introduction of COVID-19 lockdown measures in March 2020.

Private New Build Sales: Scotland

While more recent data on private completions is not available due to delays as a result of Covid-19-related data supply issues, the UK HPI does include private new build sales which provide a good indication. This shows that private new build sales decreased during the restrictions on non-essential construction activity in Q2 2020, as can be seen in Chart 6.1, with sales falling by 86% annually in May 2020. Since then, sales have recovered, increasing by an annual 4.4% in October 2020. However, on a rolling 1 year basis private new build sales remain negative (-22.4%).

Chart 6.2 provides the annual growth in private new build sales by region from Q3 2019 to Q3 2020. Private new build sales bounced back in Q3 but still fell relative to Q3 2019, decreasing by 15.3% for Scotland as a whole. Analysing the data by region, it can be seen that some regions have rebounded to above levels seen in Q3 2019, with Ayrshires & Dumfries & Galloway posting 23.0% annual growth but Clyde Valley private new build sales still down by 25.6%. (Source: UK HPI).

Affordable Housing Supply Programme

The supply of affordable housing has increased since the restrictions on non-essential construction activity in Q2 2020, although supply remains below the Q4 2019 level for all three categories. 1,918 affordable housing completions were recorded in Q4 2020, an increase of 861 (81.5%) on Q3 2020 but an annual decrease of 22.1% (-543). There were 2,230 starts in Q4 2020, up by 11.0% (+221) on Q3 2020 but down by an annual 10.6% (-264). Approvals more than doubled in Q4 2020 to 2,088 (+1,062), although this was an annual decrease of 33.3% (-1,044) (Source: SG).

Key Points

Private new build sales have recovered more recently, with sales up by an annual 4.4% in October 2020. However, this was not enough to offset the year-on-year reduction, which is down by 22.4%.

The supply of affordable housing has also recovered, but in Q4 remained substantially below the Q4 2019 level (down 22.1%).

Chart 6.2 Annual Growth in Scottish Private New Build Sales by Local Authority to Q3 2020

Source: UK HPI (Scotland)

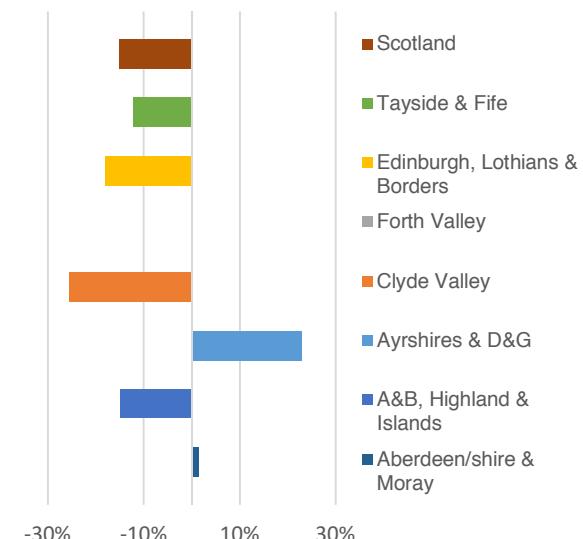
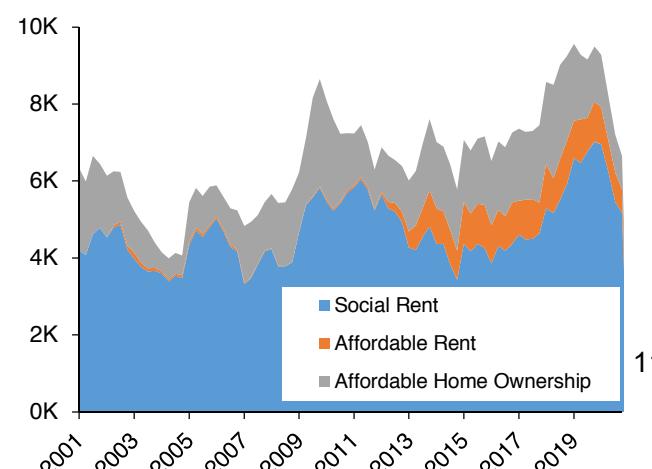


Chart 6.3 AHSP Completions (4Q Moving Total, to Q4 2020)

Source: Scottish Government



7. House Building: Lending

Lending to House Builders

The value of loans outstanding to UK firms involved in the construction of domestic dwellings increased by nearly one-third from February to March 2020, increasing by £1.9bn (+31%), as shown in Chart 7.1. However, the value of loans has returned to pre-March 2020 levels since October 2020. 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. As at January 2021, the value of loans stood at £5.8bn, £409m (or 6.6%) lower than the value of loans at February 2020 (£6.2bn).

Construction Material Prices

Data from BEIS on the cost of construction materials used in new house building (Chart 7.2) shows there was substantial volatility from January 2016, with strong price growth up until 2019, which coincided with the depreciation of Sterling.

While this price growth eased in 2019, with construction materials inflation moving into negative territory at end of 2019, since the Covid-19 pandemic there has been a pick-up in inflation, which reached an annual 6.7% in January 2021.

The trade agreement reached with the EU at the end of December has removed the threat of higher construction material inflation due to tariffs on imports from the EU, but it remains to be seen whether increased non-tariff barriers will put upward pressure on prices.

Chart 7.1 Loans Outstanding to Firms Involved in Construction of Domestic Buildings: UK (£ Millions)

Source: Bank of England

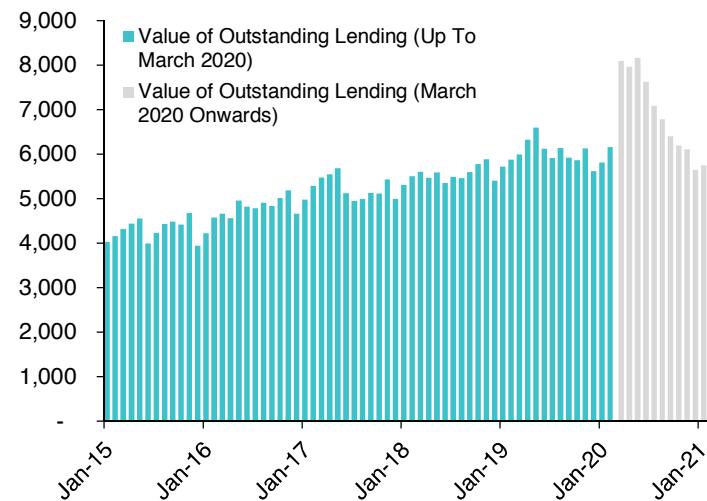


Chart 7.2 Annual Change in Price of Construction Materials for New Build Housing: UK (Monthly)

Source: BEIS

