

Scottish Housing Market Review Q2 2022

June 2022

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Key points for this issue

Sales

- **After a period of significant volatility, housing market activity appears to be stabilising at more normal levels**, with Registers of Scotland statistics showing that there were 21,553 residential property sales registered across Scotland in Q1 2022. Whilst this was an annual decrease of 24.2%, this can be explained by the post-lockdown elevated level of transactions in Q1 2021. Relative to Q1 2019, transactions were up by 10.0%.
- **Residential LBTT returns show that the stabilisation of housing market activity above pre-pandemic levels has continued more recently**, with LBTT returns for the first five months of 2022 3.1% higher than for the same period in 2019. (Source: Revenue Scotland).

House Prices

- **The surge in house prices since the Covid-19 pandemic has continued, with the average Scottish house price increasing by an annual 10.6% in Q1 2022**, to £182K. (Source: UK HPI).
- **The strongest annual price growth by property type in Q1 2022 was for detached properties, up by an annual 15.3%**, whilst flats increased by the lowest amount, increasing by 6.8%. (Source: UK HPI).
- **The average new build property price increased by an annual 20.0% to £264k in Q4 2021**, which is higher than the increase on the average existing build price rose of 9.0%. This can be partly explained by the rise in new build construction materials. (Source: UK HPI).

Rental Prices

- **Private housing rental price growth has started to increase**, rising by an annual 3.1% in nominal terms but falling by 5.4% in real terms in May 2022, due to a spike in CPI inflation. (Source: ONS)

Lending

- While new mortgages to first-time buyers and home movers in Scotland fell over the one year period to Q1 2022 by 9.6% and 27.4% due to the very high level of property market activity in Q1 2021, **comparing the 12-month period to Q1 2022 against the previous 12 months, new mortgages to first-time-buyers increased by 13.0%, whilst for home movers there was a 6.4% increase**. (Source: UK Finance).
- Following a significant reduction due to the impact of Covid-19, **there has been an increase in high LTV mortgage lending recently**. Data for Q1 2022 shows that 3.9% of gross mortgage advances in the UK had an LTV ratio over 90%, up 2.8 percentage points on Q1 2021. (Source: FCA). **This has been driven by the strong recovery in the number of high LTV products**, with the number of

95% LTV mortgages products increasing from 14 in June 2021 to 347 in June 2022. (Source: Moneyfacts).

- **The Bank of England has increased the base rate five times since December 2021, taking the rate from 0.1% to 1.25%.** A 115 basis point increase is estimated to increase the average monthly payment by around £100 on an average new variable rate mortgage and by £50 on an average outstanding variable rate mortgage in Scotland.
- **The interest rate premium on high LTV mortgages is now below pre-pandemic levels.** The spread between the average advertised 2 year fixed 90% LTV and 75% LTV mortgage rate, which increased from 51 basis points in April 2020 to 189 basis points in December 2020, has fallen to 23 basis points in May 2022, the lowest level since June 2008. (Source: BoE).
- **There were 622 new regulated mortgage possessions in the UK in Q1 2022. While this is 43% higher than Q1 2021, it is also 40% lower than the pre-pandemic level of 1,042 in Q1 2020.**

Housing Supply

- **There were 20,056 all-sector new build homes completed over the one year period to September 2021, an annual increase of 26.3% (4,174 homes) on the previous year,** in which activity levels were affected by Covid-19 related lockdown measures. (Source: SG).
- **More recent sales transactions data shows that private new build sales have increased since the restrictions on non-essential construction activity were lifted,** with the number of transactions over the year to February 2022 increasing by 36.9% relative to the previous year, although the latest figure is 6.3% below the equivalent level in the year to February 2020. (Source: UK HPI)
- A total of **9,757 affordable homes were delivered over the one year period to Q1 2022,** an increase of 50.6% (+3,279) on the year prior, and the highest financial year figure recorded since the start of the series in 2000-01, **which meant that the target to deliver 50k affordable homes has been met.** Over the last year, approvals have fallen slightly by 0.8% to 7,821, whilst starts decreased by 18.7% to 8,253. (Source: SG).

Housebuilding Material Prices

- **Construction material price inflation has started to increase again since Russia's invasion of Ukraine,** with a 22.0% annual increase reported in April 2022. Source (BEIS).

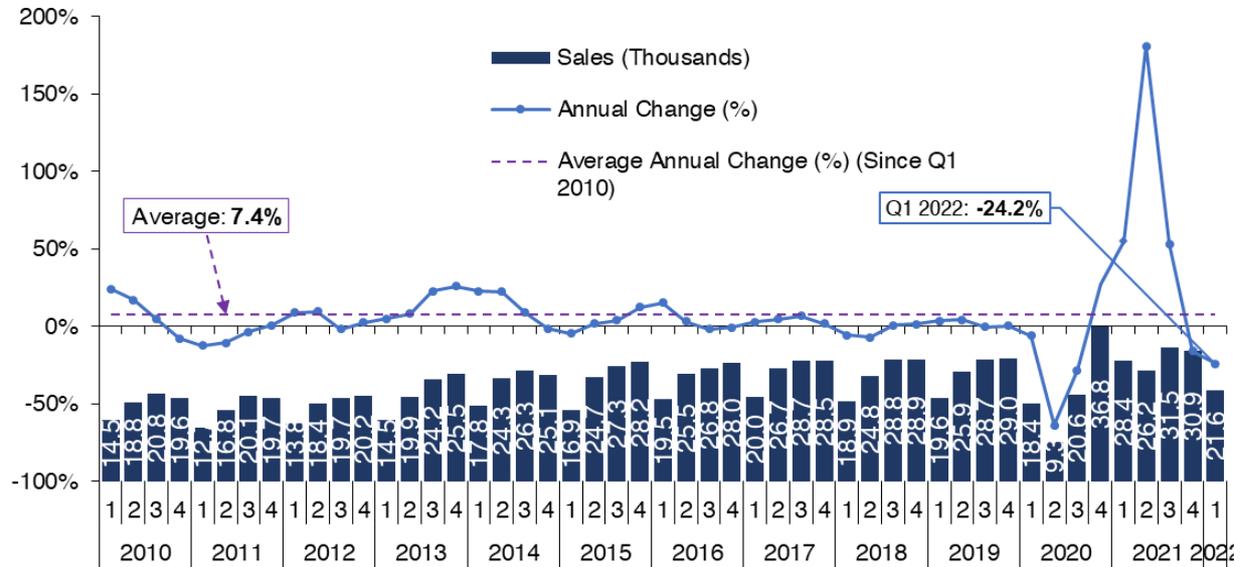
Data to: 30 June 2022

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1. Sales

National

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



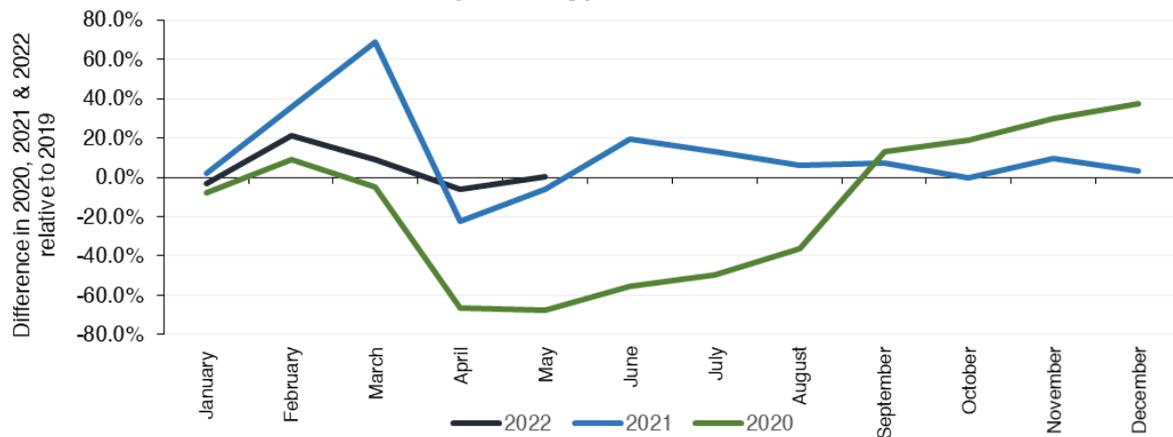
Source: Registers of Scotland

Scottish Sales Performance: National

Following the surge in transactions after home move restrictions were lifted in late June 2020, which was fuelled by pent-up demand as well as the temporary reduction in LBTT (which ended on 31 March 2021), data for Q1 2022 suggests housing market activity is stabilising but remains above pre-pandemic levels, with Registers of Scotland statistics showing that there were 21,553 residential property sales registered across Scotland. Whilst this was an annual decrease of 24.2%, this can be explained by the elevated level of transactions in Q1 2021, prior to the end of the temporary reduction in LBTT, as mentioned above. Relative to Q1 2019, transactions were up by 10.0%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns submitted also confirms that although housing market activity remains elevated, it is gradually returning to more normal levels. Chart 1.2 plots the percentage difference between monthly residential LBTT returns in 2020, 2021 and 2022 relative to 2019 for the corresponding month, with 2019 reflecting pre-Covid market conditions. Following a surge and then dip in transactions around March 2021 when the temporary reduction in LBTT ended, since May 2021 monthly transactions have generally been somewhat higher than the same month in 2019. The first five months of 2022 relative to the same period in 2019 has highlighted this trend, with transactions 3.1% higher in 2022.

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



Source: Revenue Scotland

Scottish Sales Performance: Regional

Registers of Scotland data shows that the reduction in housing market activity in Q1 2022 relative to Q1 2021 (which was elevated by the strong recovery after the lockdown in Q2 2020 and the temporary reduction in LBTT, as discussed above) was experienced across the different regions of Scotland. The largest decrease in residential property sales occurred in Edinburgh, Lothians and Borders, where sales fell by an annual 29.1%. Sales in Aberdeen/shire and Moray decreased by the lowest amount in Scotland, down by 15.7% on the same period last year.

Analysing the annual change using a rolling four quarters method, it can be seen that the increase in transactions for the one year period to Q1 2022 relative to the year prior at the national level has also been experienced across Scotland. The largest increase in sales on a rolling four quarter basis was in Aberdeen/shire and Moray by 30.5% and the lowest increase in sales was in the Forth Valley by 8.9%.

A summary of residential property sales activity by Scottish region is included below. This contains the number of residential property sales registered in Q1 2022, the annual change, as well as the annual change in sales using a rolling four quarter period to Q1 2022. The latter is included to smooth out volatility in quarterly data.

Table 1.1 Regional residential transactions

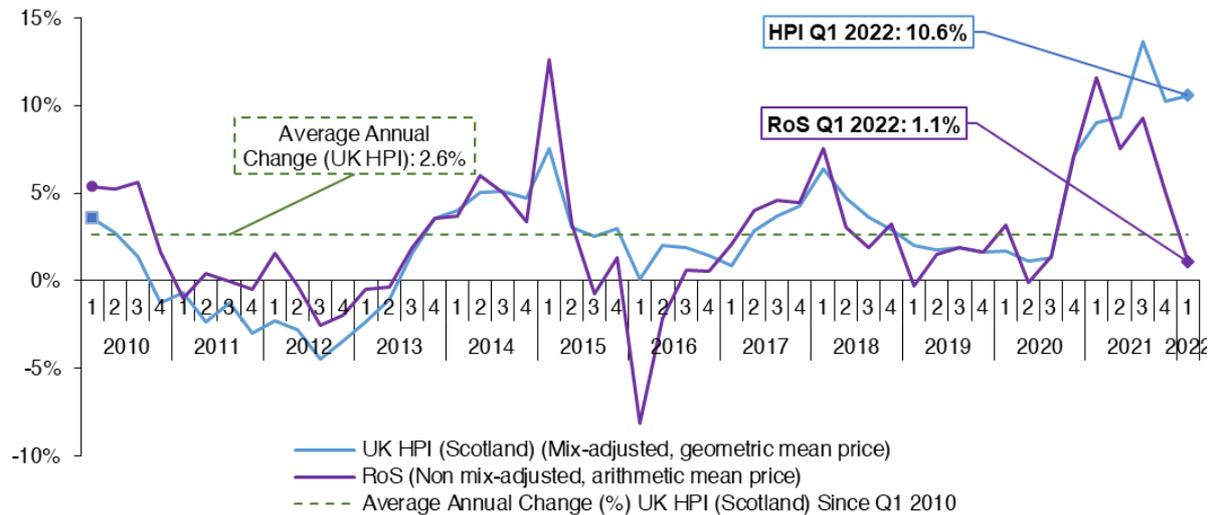
Aberdeen/shire & Moray Sales – Q1 2022 2,257 12 Month Change -15.7% Annual change (rolling 4 quarters) 30.5%	Edinburgh, Lothians & Borders Sales – Q1 2022 4,343 12 Month Change -29.1% Annual change (rolling 4 quarters) 14.5%
Argyll & Bute, Highland & Islands Sales – Q1 2022 1,578 12 Month Change -25.2% Annual change (rolling 4 quarters) 14.8%	Forth Valley Sales – Q1 2022 1,138 12 Month Change -24.1% Annual change (rolling 4 quarters) 8.9%
Ayrshires, Dumfries & Galloway Sales – Q1 2022 1,965 12 Month Change -22.3% Annual change (rolling 4 quarters) 13.9%	Tayside & Fife Sales – Q1 2022 3,022 12 Month Change -25.8% Annual change (rolling 4 quarters) 15.4%
Clyde Valley Sales – Q1 2022 7,250 12 Month Change -23.1% Annual change (rolling 4 quarters) 14.6%	Scotland Sales – Q1 2022 21,553 12 Month Change -24.2% Annual change (rolling 4 quarters) 15.9%

Source: Registers of Scotland

2. House Prices

National

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



Source: Registers of Scotland / UK HPI

Scottish House Price Performance: National

Average house prices in Scotland, as measured by the UK HPI, increased in Q1 2022 by 10.6% relative to Q1 2021. Apart from annual house price growth to Q3 2021 of 13.5%, this is the highest quarter of house price inflation since Q1 2008, prior to the financial crisis. The average property price in Scotland stood at £182k in Q1 2022.

Data from Registers of Scotland shows a lower increase in annual house price inflation in Q1 2022, of 1.1%. RoS data is not mix-adjusted, so it's likely to be affected by the composition of properties sold. This is supported by looking at the number of transactions in greater detail, with transactions for flats making up a greater proportion of total transactions in Q1 2022.

UK HPI data shows that annual price growth to Q1 2022 was highest for detached properties (15.3%). Flats increased by the lowest amount, increasing by an annual 6.8%.

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 2021, the average Scottish new build property price increased to a greater extent than the existing build price, rising by 20.0% to £264K. The average existing build price rose by 9.0% to £175K.

The average price of new build properties is rising rapidly, with more recent monthly data to February 2022 showing an annual increase of 26.1%. This large increase is likely to be linked to the rise in the price of new build construction material (see Chart 10.3).

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



Source: UK HPI (Scotland)

The UK HPI also shows that the average price of a property bought by former owner occupier in Scotland increased by an annual 11.6% in Q1 2022, to £221K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 9.5% in Q1 2022, to £146K.

Scottish House Price Performance: Regional

Registers of Scotland data show that house prices fluctuated in Scotland in Q1 2022. The largest increase was in Edinburgh, the Lothians and the Borders, where house prices increased 3.9% annually to 270K (average arithmetic mean price; prices not mix-adjusted). The largest decrease was in Aberdeen/shire and Moray, which decreased by 1.3% annually to £197K.

The longer-term trend (as measured by the change in house prices over the 4 quarter period to Q1 2022 over the previous four-quarter period) shows that house price growth has been positive in all areas of Scotland. The strongest price growth was again seen in Argyll and Bute, Highlands and Islands, where house prices increased by 5.3%, whilst the smallest increase in house prices was seen in the Forth Valley, where house prices increased by 1.0%.

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

Table 2.1 Regional house prices

Aberdeen/shire & Moray Average Price – Q1 2022 £197K 12 Month Change -1.3% Annual change (rolling 4 quarters) 3.1%	Edinburgh, Lothians & Borders Average Price – Q1 2022 270K 12 Month Change 3.9% Annual change (rolling 4 quarters) 4.8%
Argyll & Bute, Highland & Islands Average Price – Q1 2022 £203K 12 Month Change 3.8% Annual change (rolling 4 quarters) 5.3%	Forth Valley Average Price – Q1 2022 £189K 12 Month Change -0.1% Annual change (rolling 4 quarters) 1.0%
Ayrshires, Dumfries & Galloway Average Price – Q1 2022 £163K 12 Month Change 2.9% Annual change (rolling 4 quarters) 3.1%	Tayside & Fife Average Price – Q1 2022 £187K 12 Month Change -0.2% Annual change (rolling 4 quarters) 3.5%
Clyde Valley Average Price – Q1 2022 £182K 12 Month Change 0.8% Annual change (rolling 4 quarters) 4.0%	Scotland Average Price – Q1 2022 £202K 12 Month Change 1.1% Annual change (rolling 4 quarters) 4.0%

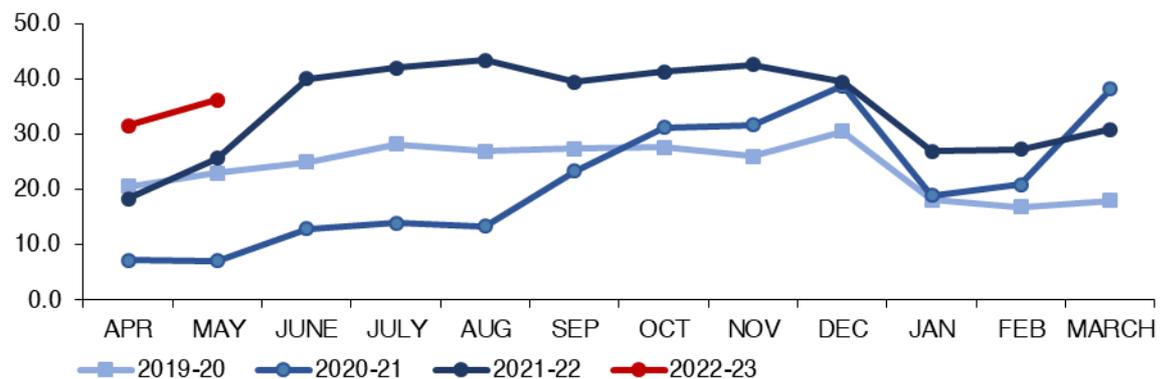
Source: Registers of Scotland

3. Residential LBTT

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

This trend has continued in the first two months of 2022-23, with revenue 55.8% higher than the same two months in 2019-20. The increase in residential LBTT revenue can be explained by a combination of higher transaction volumes (see Chart 1.2) and in particular higher house prices (see Chart 2.1).

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



Source: Revenue Scotland

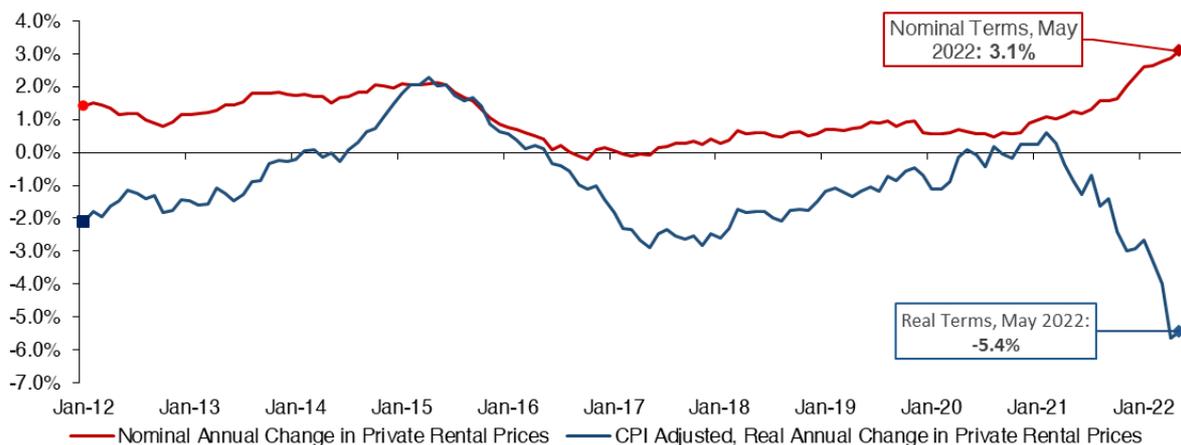
4. Private Rental Sector

Private Housing Rental Prices

Private housing rental prices in Scotland increased by 3.1% annually to May 2022. Nominal private rental price growth had been relatively stable since June 2017, ranging between 0% and 2%, with an average of 0.9% to May 2022. However, in recent months nominal rental prices have increased, with the 3.1% annual growth in February the highest recorded since the index began.

In real terms (adjusting for inflation, using CPI), the annual change in May 2022 was -5.4%. Chart 4.1 shows that the annual change in real private housing rental prices rose towards positive territory as CPI inflation fell due to the impact of Covid-19, but it has returned to negative territory with the recent spike in CPI inflation, which reached 9.1% in May 2022. The heightened level of CPI inflation can be partly explained by an increase in the price of food and non-alcoholic beverages, as well as in energy prices.

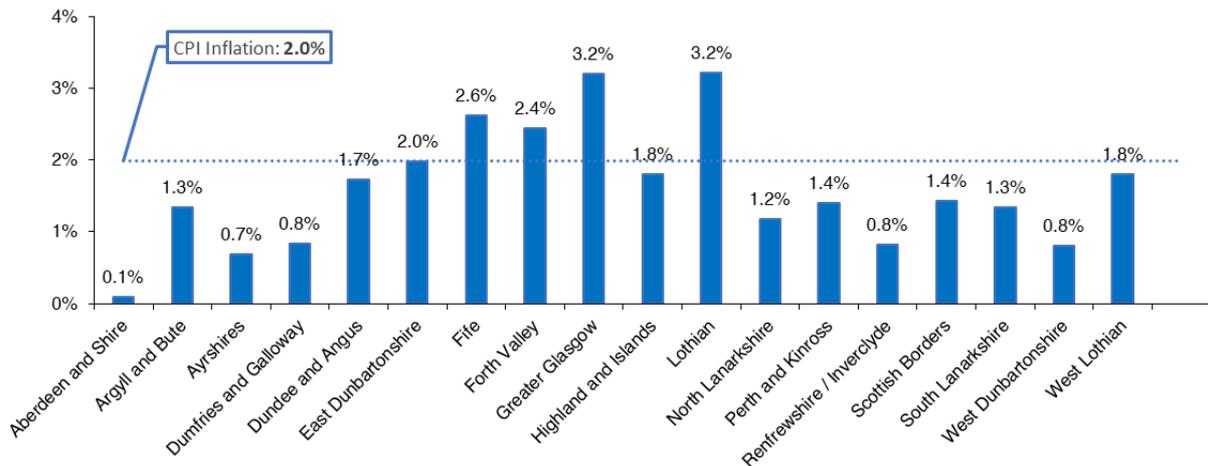
Chart 4.1 Annual Change in Private Housing Rental Prices (Monthly): Scotland



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

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

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



Source: SG/ONS CPI

* Note: Scottish Government statistics are based almost entirely on advertised rents at point of new let, and thus will tend to be higher than the ONS data which makes an allowance for rent changes in existing lets. In addition, Chart 4.2 looks solely at 2 bedroom properties, whilst Chart 4.1 looks at the entire market.

Evictions

The Coronavirus (Recovery and Reform) (Scotland) Bill, introduced to Parliament on 25 January and was passed on 28 June, seeks to embed reforms in Scotland’s public services and justice system that, though necessitated by the Covid pandemic, have delivered improvements for service users and improved efficiency.

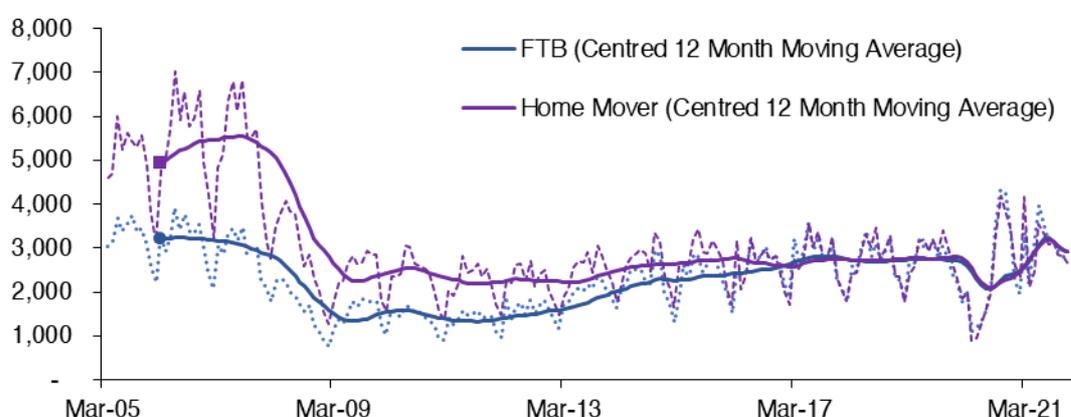
Part 4 of the Bill relates to eviction from properties and means certain measures introduced in response to the pandemic in the private rented sector will continue. These are maintaining pre-eviction protocols relating to rent arrears in the private rented sector, ensuring that tenants have all the information they need about their rights, and that all grounds for repossession will continue to be discretionary, ensuring that the First-tier Tribunal for Scotland (Housing and Property Chamber) are able to take the circumstances of both parties into account when deciding whether an eviction is reasonable.

5. Mortgage Approvals & LTVs

New Mortgage Advances

Chart 5.1 plots the monthly number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 6,890 new mortgages advanced to first-time buyers in Scotland in Q1 2022, an annual decrease of 9.6% (-730). Meanwhile, there were 6,610 new mortgages advanced to home movers in Scotland in Q1 2022, an annual decrease of 27.4% (-2,490). Whilst the annual decreases for first-time buyers and home movers are large, this can be explained by the very high number of new mortgages advanced in Q1 2021 (see discussion in Sales section). Comparing the 12-month period to Q1 2022 against the previous 12 months, new mortgage advances to first-time buyers increased by 13.0% whilst the increase for home movers equalled 6.4%. (Source: UK Finance).

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



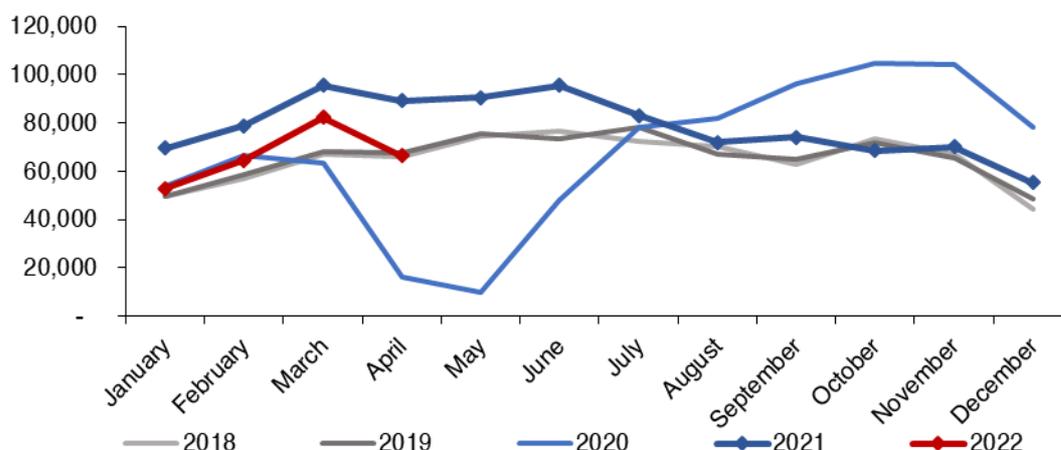
Source: UK Finance

Mortgage Approvals

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

Mortgage approvals for house purchase across the UK rebounded strongly following the lockdown in the second half of 2020, with mortgage approvals increasing from 9,922 in May 2020 to 104,806 in October 2020 (see Chart 5.2). Mortgage approvals have now returned to more normal levels, with mortgage approvals for house purchase 1.0% higher in April 2022 relative to the 2017-2019 average for the same month.

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

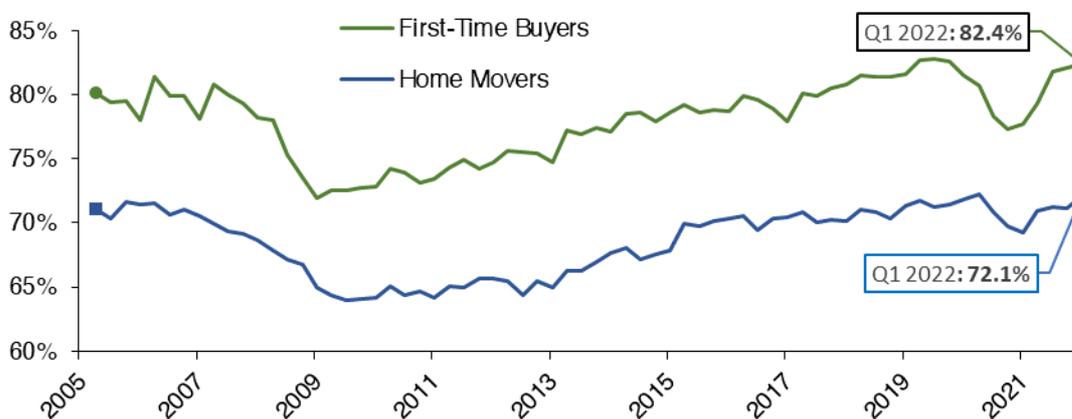


Source: Bank of England

Loan-to-Value (LTV) Ratios

In Q1 2022, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 82.4%, an annual increase of 4.7 percentage points. This likely reflects the return of high LTV ratio mortgages, whose availability fell substantially during the beginning of the coronavirus pandemic. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 72.1% in Q1 2022, up 2.9 percentage points over the one year period. This is shown in Chart 5.3. (Source: UK Finance).

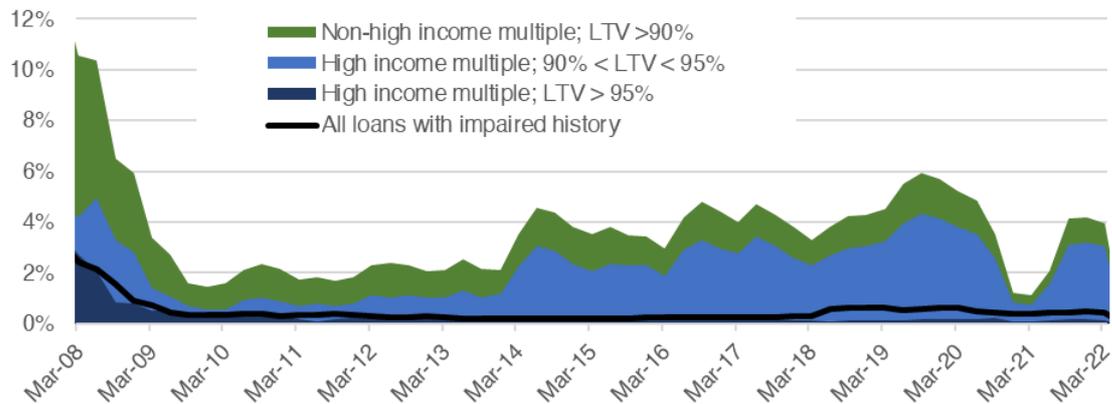
Chart 5.3 Mean Loan to Value Ratio (Quarterly), Scotland



Source: UK Finance

Chart 5.4 shows that there was a reduction in new lending at high LTV mortgage ratios across the UK since March 2020 but the market is starting to recover. The share of gross mortgage advances across the UK in Q1 2022 with an LTV ratio greater than 90% was 3.9%, 2.8 percentage points above the share in Q1 2021 but 1.3 percentage points lower than the share in Q1 2020. There has been a slight recovery in lending which is both high LTV and high LTI (loan-to-income) over the quarter, with the share of gross advances classified as high LTV and LTI increasing to 3.2% in Q1 2022, up by 2.4 percentage points on Q1 2021 but 0.8 percentage points lower than the share in Q1 2020.

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



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

Source: FCA

There has been a substantial increase in the number of high LTV products offered by mortgage lenders, with the number of 95% LTV mortgage products increasing from 14 in June 2021 to 347 in June 2022. This recovery could in part reflect the UK Government's Mortgage Guarantee scheme. The Mortgage Guarantee Scheme aims to increase the availability of 91% - 95% LTV mortgage products by providing a government guarantee that would compensate lenders a portion of their losses in the event of foreclosure. The scheme was launched on 19 April 2021 and will close on 31 December 2022. However, a number of high LTV products have been introduced outside this scheme. (Source: Moneyfacts Mortgage Treasury Report).

6. Mortgage Interest Rates

Chart 6.1 and Chart 6.2 show the effective (or average) interest rate on outstanding mortgage balances and new mortgage advances. (Source: BoE).

In March 2020, Bank Rate was cut by a total of 65 basis points to 0.1% as a result of the Covid-19 pandemic. This fed through quickly into variable rate mortgages, with the average variable rate on outstanding mortgages falling from 2.97% in February 2020 to 2.26% in May 2020, and the average interest rate on new variable rate mortgages falling from 2.06% in February 2020 to 1.48% in May 2020, although it then increased back to 1.96% in July 2021. The average fixed rate on outstanding mortgages gradually drifted down during this period, while the average fixed rate on new mortgages, despite displaying more volatility, also fell to 1.58% by December 2021.

More recently in response to the rise in inflation, the Bank of England has increased the Bank rate by 15 basis points in December, followed by 25 basis points in February, March, May and June for a cumulative rise of 115 basis points to 1.25%, returning Bank Rate to the highest level since 2009. Since the latest data on average mortgage rates is for April 2022, the data only reflects the December, February and March Bank Rate changes. The increase in the bank rate appears to be increasing average variable rates and fixed rates on new advances, with the average variable rate on outstanding mortgages increasing from 2.32% in December 2021 to 2.78% in April 2022. In addition, the average variable rate on new advances also increased after the rise in bank rate, from 1.60% to 2.05% over the same period, whilst fixed rates on new advances increased from 1.58% to 1.81%.

Effective Monthly Mortgage Interest Rates (UK)

Chart 6.1 Outstanding Balances (%)

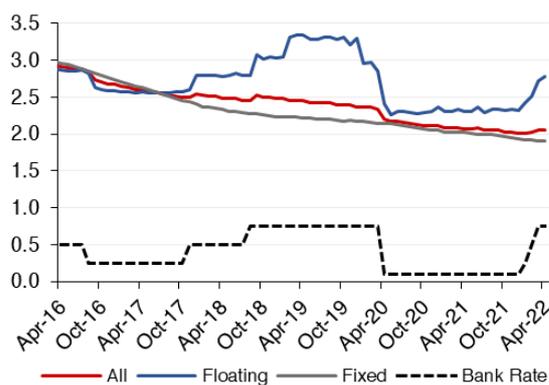
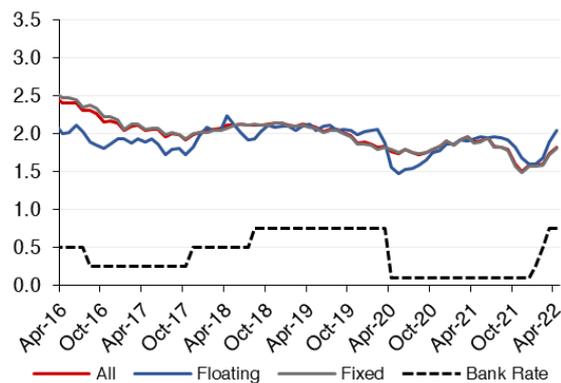


Chart 6.2 New Mortgages (%)



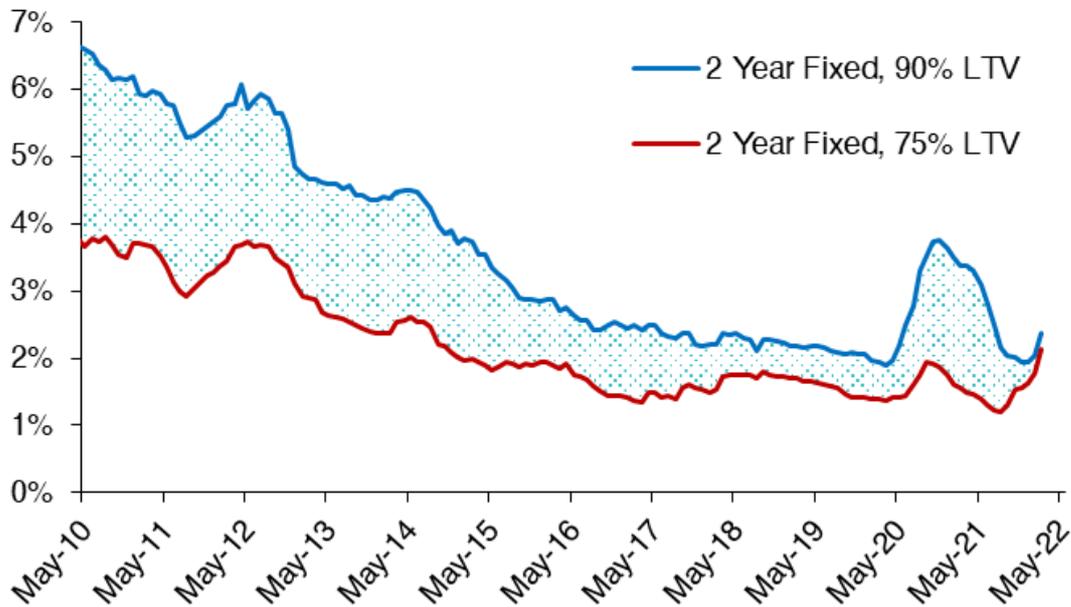
Source: Bank of England

A 115 basis point increase in interest rates is estimated to increase the monthly payment by around £100 per month for an average new variable rate and by around £50 per month on the average outstanding variable rate mortgage in Scotland.

The spread between the average advertised rate on 2 year fixed 90% and 75% LTV mortgages increased during the pandemic from 51 basis points in April 2020 to 189 basis points in December 2020, as shown in Chart 6.3. However, since

April 2021, the spread has been falling, reaching 23 basis points in May 2022, the lowest level since June 2008. (Source: BoE)

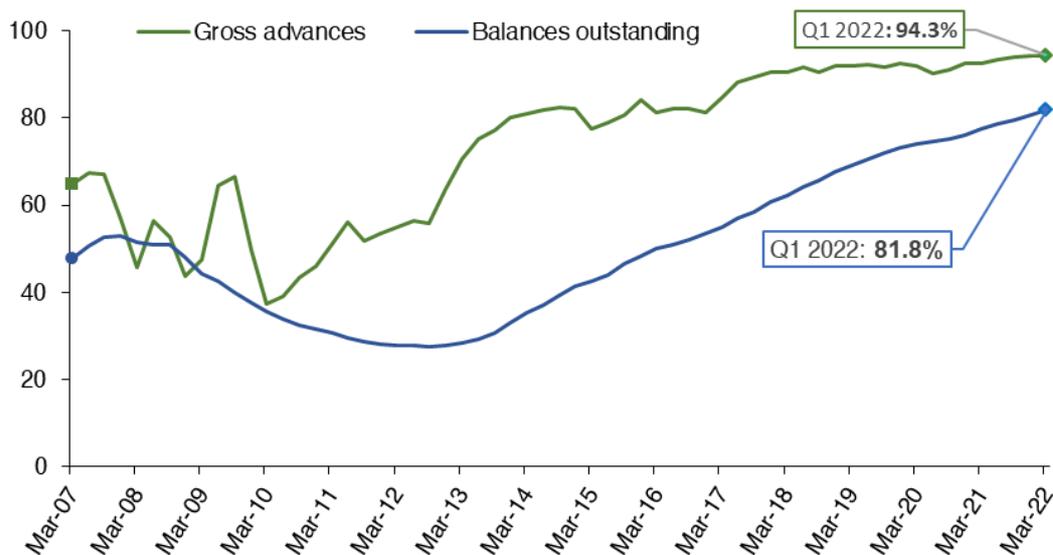
Chart 6.3 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)



Source: Bank of England

Chart 6.4 shows that the trend for an increasing share of mortgages to be at fixed rates has continued, with 94.3% of new mortgages and 81.8% of outstanding mortgages on fixed rates as of Q1 2022. (Source: FCA)

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



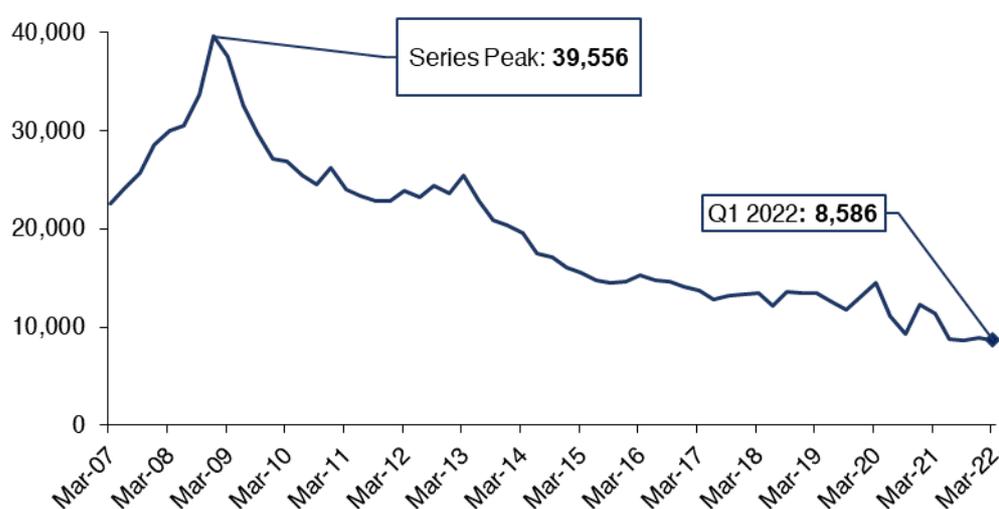
Source: FCA

7. Mortgage Arrears & Possessions

Arrears

There were 8,586 regulated mortgages that went into arrears across the UK in Q1 2022, a decrease of 24.4% (-2,777) on Q1 2021. As shown in Chart 7.1, following a peak of 39,556 in Q4 2008 during the financial crisis, there has been a declining trend in the number of regulated mortgages entering arrears, which has continued despite the impact of Covid-19. It should be noted that Covid-19 payment holidays were not classified as technical arrears, and thus are not reflected in these figures; however, even though these payment holidays came to an end in April 2021, this has not result in an increase in arrears so far. (Source: FCA)

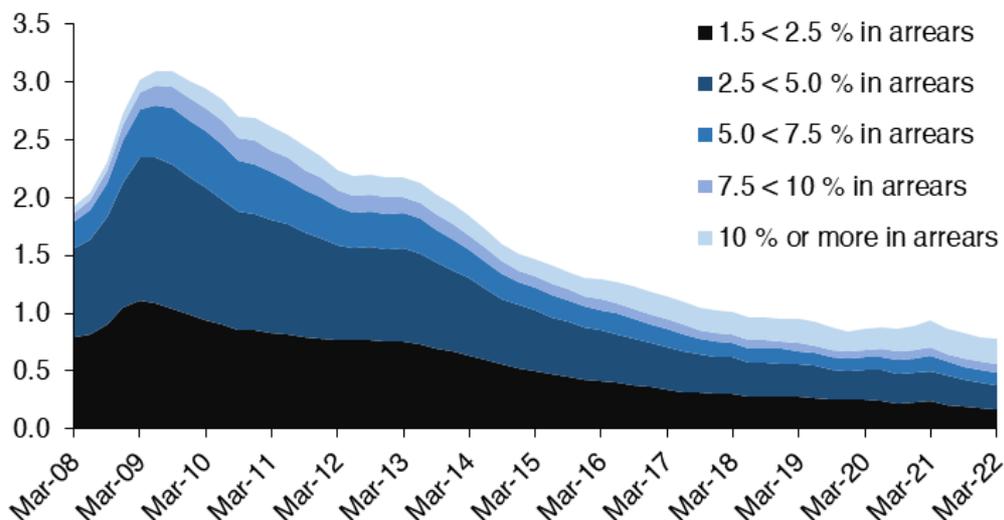
Chart 7.1 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)



Source: FCA

The share of lenders' outstanding regulated mortgage balances that were in arrears stood at 0.78% at the end of Q1 2022. This has remained broadly stable during the pandemic, with arrears at 0.86% at the end of Q1 2020. Chart 7.2 plots the share of lenders' outstanding balances that were in arrears by degree of severity. Arrears reported in the FCA MLAR data relate only to loans where the amount of actual arrears is 1.5% or more of the borrower's current loan balance.

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



Source: FCA

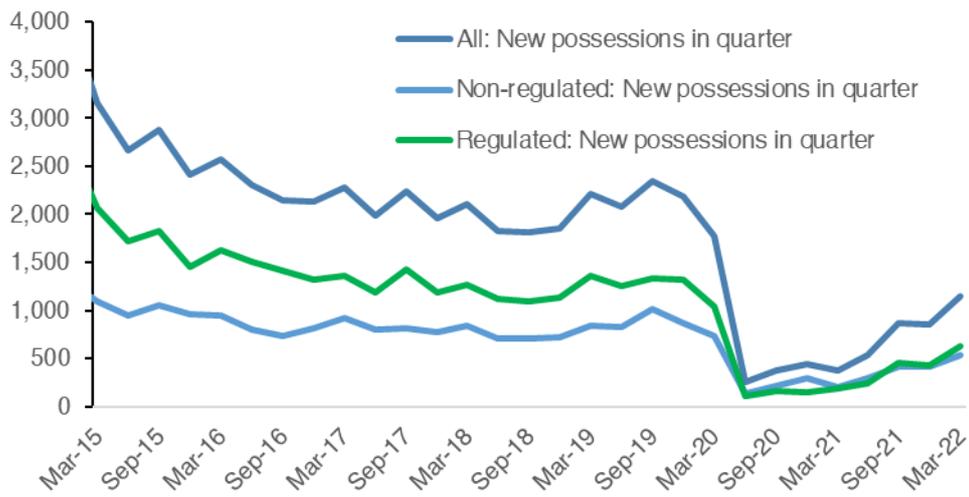
UK Finance data show that there were 5,860 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q1 2022. This is down by an annual 5.2% (-320), and is also low relative to the period of the 2008 financial crisis. The number of buy-to-let mortgages in arrears of 2.5% or more as a percentage of the total number of buy-to-let mortgages was 0.29% as at Q1 2022, slightly lower than Q1 2021 (0.31%).

Possessions

The FCA published finalised guidance for UK mortgage lenders in March 2021, outlining that possessions could be enforced from 1 April 2021 but this must be in accordance with FCA guidance and regulatory requirements, which means that possessions should only take place as a last resort, if all other reasonable attempts to resolve the situation have failed. In Scotland, a ban on the enforcement of eviction orders in areas in Covid Protection Levels 3 and 4 ended on the 30 September 2021.

Chart 7.3 shows that despite restrictions on possessions being lifted, there were only 622 new regulated mortgage possessions across the UK in Q1 2022. While this was an increase relative to Q1 2021 of 188 (+43.3%), and the level of possessions also increased over the quarter, possessions are still substantially lower (down 420, or 40.3%) relative to Q1 2020, immediately prior to the pandemic. It can also be seen that regulated and non-regulated possessions moved in a similar direction over the recent period.

Chart 7.3 New Possessions in quarter by type (Quarterly)

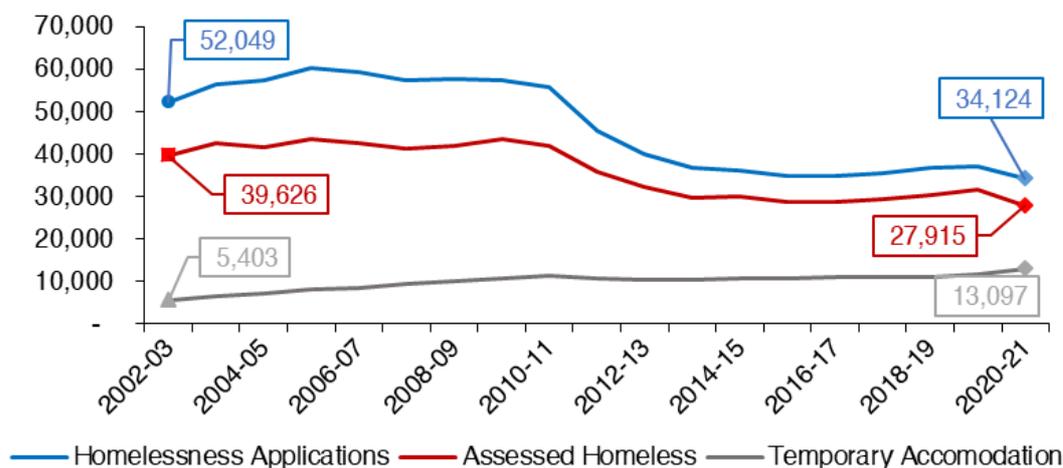


Source: FCA

8. Homelessness

Over the one year period to 31 March 2021, there were 34,124 homelessness applications in Scotland and 27,915 households assessed as homeless (including those threatened with homelessness). In addition, 13,097 households were in temporary accommodation as at 31 March 2021, as illustrated in Chart 8.1.

Chart 8.1 Homelessness in Scotland to 31 March 2021 (Annual)

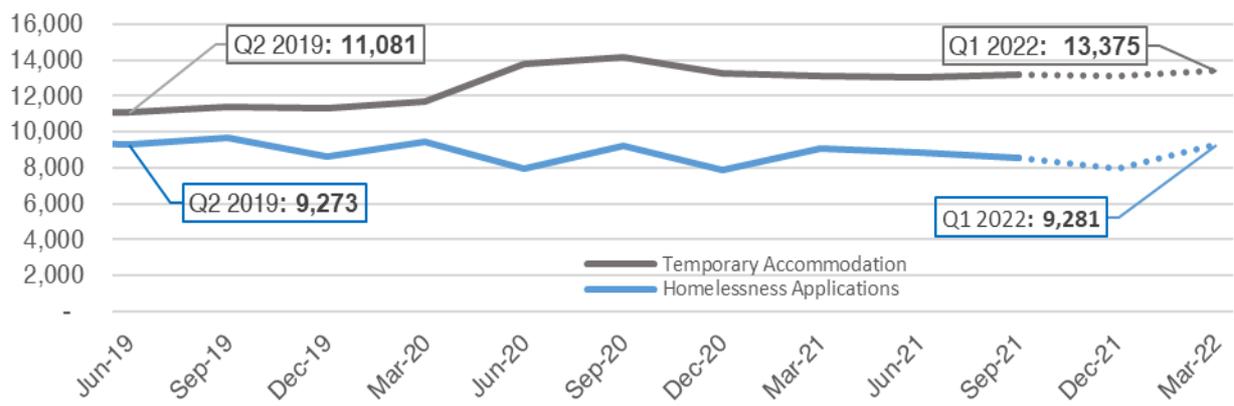


Source: Scottish Government

More recent data outlining the first half of the 2021-22 financial year saw 17,447 homelessness applications (an annual increase of 1.6%) and 14,161 households assessed as homeless (an annual increase of 2.5%), while the number of households in temporary accommodation was 13,192 at 30 September 2021, a decrease of 6.8% compared to September 2020.

Chart 8.2 plots how homelessness applications and households in temporary accommodation have progressed since the start of the Covid-19 pandemic on a quarterly basis. This chart uses Scottish Government statistics to Q3 2021 (solid line) and Scottish Housing Regulator statistics for Q4 2021 and Q1 2022 (dashed line) due to data availability, although note that the SHR data is not directly comparable to the official homelessness statistics. The quarterly data shows that since the start of the pandemic, homelessness applications have remained below pre-pandemic levels. The 9,281 applications in Q1 2022 is 2.0% less than Q1 2020. The number of households in temporary accommodation on the other hand increased during the pandemic from 11,345 in Q4 2019 to a peak of 14,151 (+24.7%) in Q3 2020 but has since fallen to 13,375 in Q1 2022.

Chart 8.2 Homelessness in Scotland to Q1 2022 (Quarterly)



Source: Scottish Government and SHR

9. Housing Starts & Completions

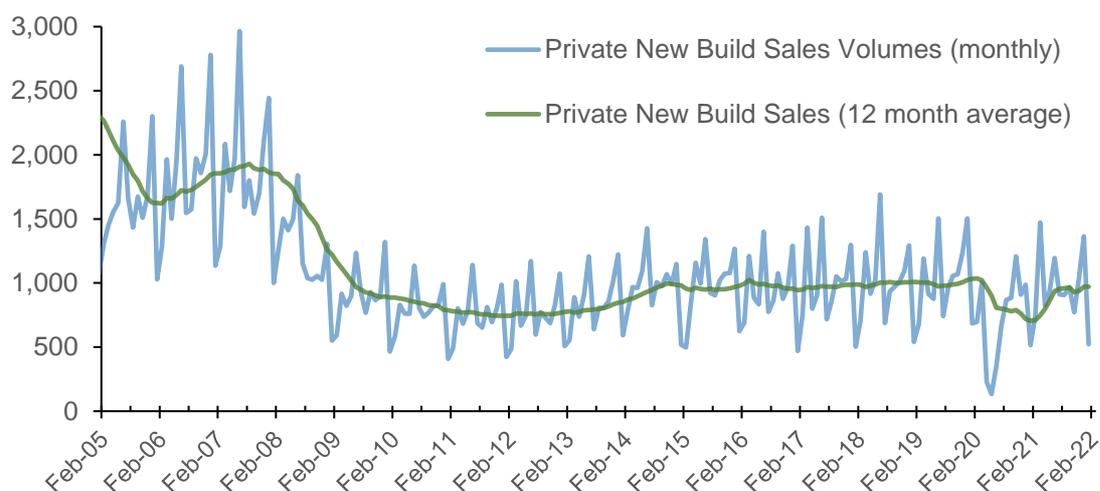
New build completions – all sectors

The most recent published Scottish Government figures for new build completions cover the year to end September 2021, in which there were 20,056 completions across all sectors in Scotland, an increase of 26.3% (4,174 homes) on the previous year, when activity levels were affected by Covid-19 related lockdown measures.

Private New Build Sales

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 of latest trends. As Chart 9.1 shows, while private new build sales decreased during the restrictions on non-essential construction activity in Q2 2020, falling by 85% annually in May 2020, there has been a strong recovery since then, with an increase in private new build sales on a rolling one year basis to February 2022 of 36.9%. However, when we compare the one year period to February 2022 against the one year period to February 2020 (i.e. prior to Covid-19), private new build sales fell by 6.3%.

Chart 9.1 Scottish Private New Build Sales to February 2022

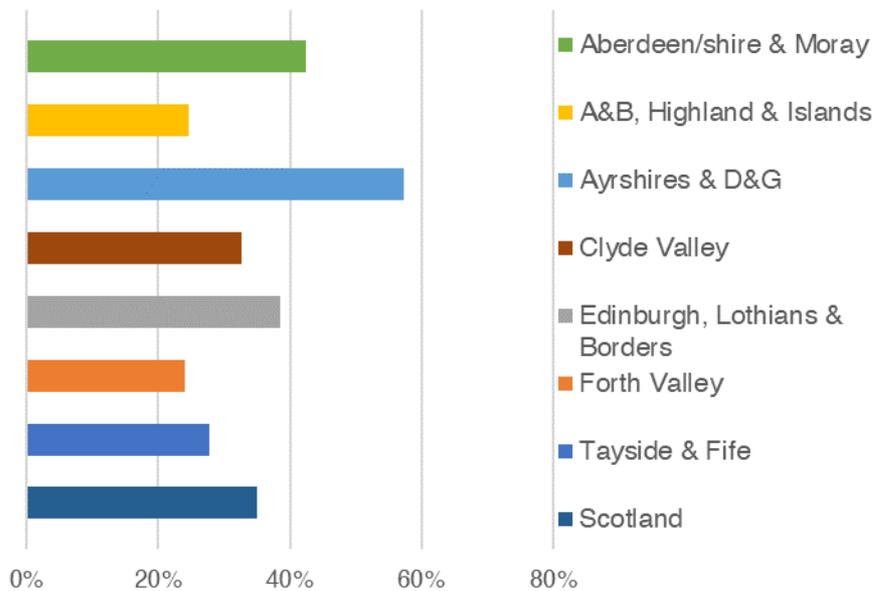


Source: UK HPI (Scotland)

Chart 9.2 provides the growth in private new build sales by region over the one year period to Q4 2021, relative to the year prior. Private new build sales increased by an annual 35.1% for Scotland as a whole. Analysing the data by region, it can be seen that private new build sales increased in all regions shown, with the largest increase in private new build sales in the Ayrshires, Dumfries and Galloway (57.3%) and the smallest increase in private new build sales in the Forth Valley of 24.1%.

(Source: UK HPI).

Chart 9.2 Rolling One Year Growth in Scottish Private New Build Sales by Local Authority to Q4 2021

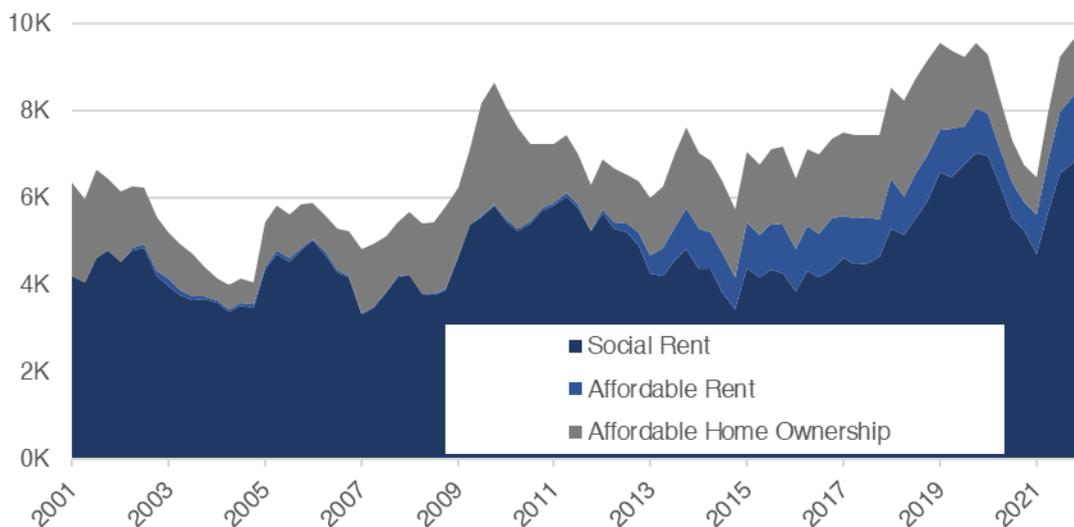


Source: UK HPI (Scotland)

Affordable Housing Supply Programme

Chart 9.3 shows that the supply of affordable housing has increased since the restrictions on non-essential construction activity were eased in Q3 2020. 9,757 affordable housing completions were recorded over the one year to Q1 2022, an increase of 50.6% compared to the year prior, and the highest financial year figure recorded since the start of the series in 2000-01. However, over the same period approvals have fallen slightly by 0.8% to 7,821, whilst starts have decreased by 18.7% to 8,253. (Source: SG).

Chart 9.3 AHSP Completions (4Q Moving Total, to Q1 2022)



Source: Scottish Government

The level of affordable completions achieved in Q1 2022 also meant that the 50,000 affordable housing supply target was met by the end of March 2022. Of the 50,000 affordable homes completed between 1 April 2016 and 23 March 2022, 34,405 homes (69%) were for social rent, 6,245 (12%) were for affordable rent, and 9,350 (19%) were for affordable home ownership. Now that the 50,000 affordable homes target has been met, the longer-term ambition is to deliver 110,000 affordable homes by 2032, of which at least 70% will be for social rent and 10% will be in remote, rural and island communities.

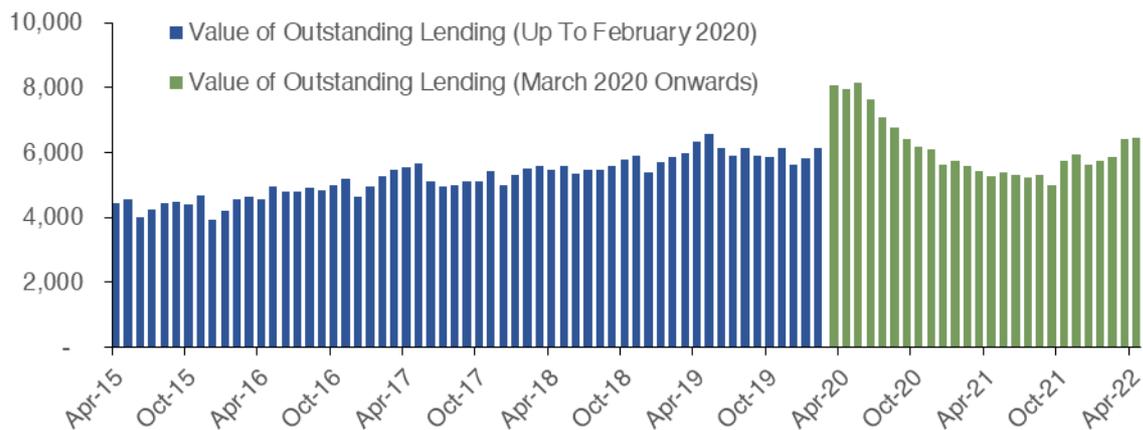
10. Lending to House Builders, Insolvencies & Construction Material Prices

Lending to House Builders

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

From May 2020 to September 2021 the value of loans steadily decreased, falling below pre-covid levels. However, the value of loans has begun to increase again, reaching £6.5bn in April 2022, 5.2% higher than the £6.2bn recorded in February 2020 immediately prior to the pandemic.

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

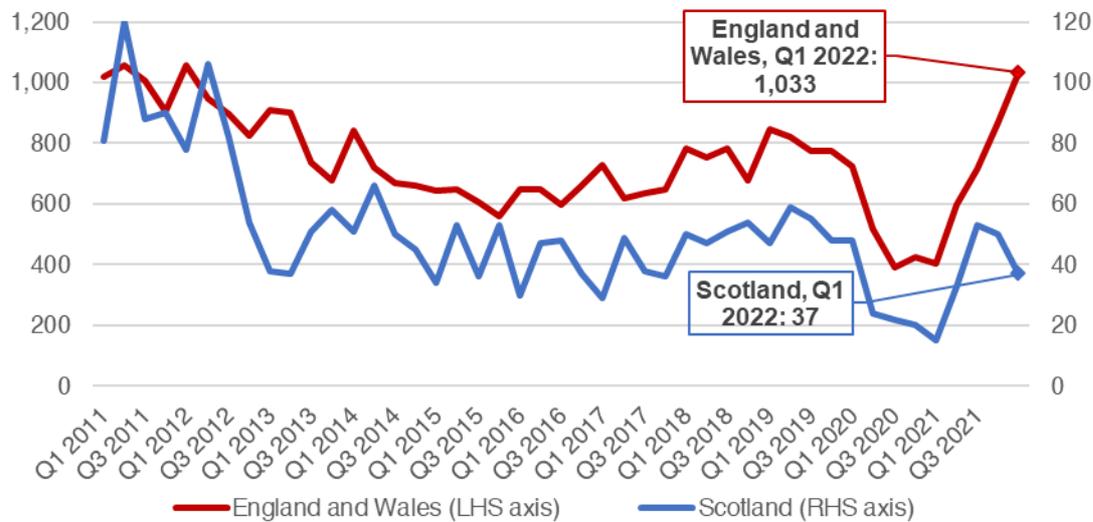


Source: Bank of England

Insolvencies

The health of construction firms can be identified by tracking the number of registered company insolvencies in the construction sector. Chart 10.2 outlines that during the pandemic insolvencies in the Scottish construction sector fell from 48 in Q1 2020 to 15 in Q1 2021, with a similar proportional fall evident in England and Wales, likely due to the business support in place. However, with this support unwinding and new build construction material prices increasing (as shown in Chart 10.3), registered company insolvencies in the construction sector in Scotland increased to 53 in Q3 2021, before falling somewhat to 37 in Q1 2022, which is 23% below the pre-pandemic level of Q1 2020. In England and Wales construction sector insolvencies have more than doubled from 403 in Q1 2021 to 1,033 in Q1 2022, the highest level since 2012.

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



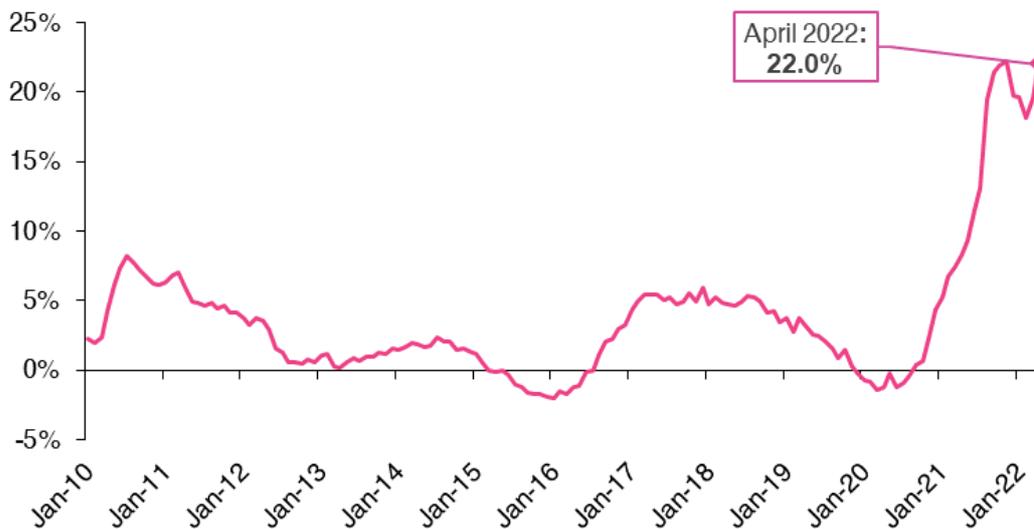
Source: The Insolvency Service

Construction Material Prices

Data from BEIS on the cost of construction materials used in new house building (Chart 10.3) shows that annual construction material price inflation has accelerated since the early stages of the Covid-19 pandemic, when it was in negative territory, to stand at 22.2% in November 2021. Although there was a slight fall in annual growth until February 2022 (18.5%), this has increased once again in the last few months to 22.0% in April 2022, potentially due to Russia’s invasion of Ukraine.

The annual increase in prices in April 2022 has been driven in particular by concrete reinforcing bars (+61.6%), fabricated structural steel (+45.9%) and particle board (33.5%).

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



Source: BEIS



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