

Scottish Housing Market Review Q1 2024

April 2024

Scottish Housing Market Review Q1 2024

Table of Contents

Key points	2
1. Sales	4
1.1. Scottish Sales Performance: National.....	4
1.2. Scottish Sales Performance: Local Authorities	5
2. House Prices	7
2.1. Scottish House Price Performance: National	7
2.2. Scottish House Price Performance by Dwelling/Buyer Type.....	7
2.3. Scottish House Price Performance: Local Authorities	8
3. Residential Land and Buildings Transaction Tax	10
4. Private Rental Sector	11
4.1. Private Housing Rental Prices	11
4.2. Cost of Living Act, Rent Adjudication & Housing Bill.....	11
5. Mortgage Approvals and LTVs	13
5.1. New Mortgage Advances.....	13
5.2. Mortgage Approvals.....	13
5.3. Loan-to-Value (LTV) Ratios	14
6. Mortgage Interest Rates	17
7. Mortgage Affordability	21
8. Mortgage Arrears and Possessions	23
8.1. Arrears.....	23
8.2. Possessions.....	24
9. Homelessness	26
10. Housing Supply	27
10.1. New Build.....	27
10.2. Affordable Housing Supply Programme (AHSP)	27
10.3. Council Tax on Second and Empty Homes.....	28
11. Lending to House Builders, Insolvencies and Construction Prices	29
11.1. Lending to House Builders.....	29
11.2. Insolvencies	29
11.3. Output and Input Prices for New Housing.....	30

Key points

Sales

- The number of transactions continue to fall in response to higher interest rates: Registers of Scotland data for Q4 2023 show that residential sales across Scotland fell by 12.0% relative to Q4 2022, and by 13.4% relative to Q4 2019, prior to the pandemic. However, more up-to-date Revenue Scotland data shows that over the 3 months to February 2024, Land and Buildings Transaction Tax (LBTT) returns fell by an annual 2.3%, which suggests the rate of decline may be moderating. Moreover, Bank of England data on mortgage approvals across the UK shows that in the 3 months to February 2024 approvals rose by an annual 39%, although they remained 18% below their pre-covid level.

House Prices

- Although higher interest rates have also weighed on the previously elevated level of house-price inflation, which has fallen from its recent peak of 13.3% in Q3 2021 to 1.2% in Q4 2023, the latest quarterly growth rate was higher than that recorded in the previous three quarters. [Source: UK House Price Index (HPI)]
- House price inflation was much higher for new-build properties than for existing build: in Q3 2023, new-build prices increased by an annual 8.1% while existing build prices decreased by 1.2% (note these figures are one quarter behind other HPI data).

Private Rental Sector

- The most recent Scottish Government private rental data, which relates mainly to advertised rents which have not been subject to caps under the Cost of Living Act, shows that the average level of rent paid in the private rent sector in Scotland in the year to September 2023 was £841 (for a 2-bed apartment – the most common size), an annual increase of £105 (14.3%). Out of all Broad Rental Market Areas in Scotland, Greater Glasgow had the largest increase at 22.3%.
- While the rent cap and eviction protection measures under the Cost of Living Act came to an end on 31 March 2024, as from 1 April the rent adjudication process has been modified for a period of one year to protect tenants from steep rent increases which could be experienced from a sudden move to open market rent.

Mortgage Lending

- New mortgage advances to first-time buyers in Scotland decreased by an annual 11.3% across 2023 as a whole, whilst for home movers the decrease was 15.0%. [Source: UK Finance].
- There has been an upward trend in the total number of residential mortgage products which in March 2024 reached 6,004, the highest level since March 2008. [Source: Moneyfacts].
- While, in response to the Bank of England leaving Bank Rate unchanged, there was a decrease in the average advertised 2-year and 5-year fixed mortgage rates in the 6 months to February 2024, average mortgage rates increased over the

month to March 2024 to stand at 5.76% and 5.34% for 2-year and 5-year fixed rates, respectively [Source: Moneyfacts].

- The increase in mortgage rates in recent years is reflected in affordability ratios: for home movers, capital and interest payments as a share of borrower income for new loans has increased from a low of 15.7% in Q3 2020 to 18.7% in Q4 2023, while for first-time buyers it has increased from a low of 15.3% in Q2 2020 to 20.5% in Q4 2023 [Source: UK Finance].
- While the number of regulated mortgage accounts entering arrears across the UK increased by an annual 22.7% to 14,824 in Q4 2023, this was a decrease from the previous quarter. There was also an annual decrease of 5.6% in new regulated mortgage possessions in Q4 2023. [Source: FCA].
- Non-regulated mortgages (which include buy-to-let (BTL) mortgages) which were 1.5% or more in arrears represented 1.62% of the total number of mortgages, up from 1.13% a year earlier, and the highest figure since Q4 2016. There was also a 31% annual increase in new non-regulated mortgage possessions in Q4 2023, although possessions remained 12% below the 2019-20 average. [Source: FCA].

Homelessness

- In Scotland, there were 20,114 homelessness applications recorded in April to September 2023, an increase of 3% compared to the corresponding period in the previous year. The number of households assessed as homeless was 16,420, an increase of 4% compared to April to September 2022. The number of households in temporary accommodation on 30 September 2023 was 15,625, an increase of 8% from 30 September 2022. [Source: Scottish Government]

Housing Supply

- There were 20,992 new build completions across all sectors in Scotland in 2023, a decrease of 11.4% (2,700 homes) on 2022. All-sector starts were down by an annual 23.8%. [Source: Scottish Government]
- 9,680 affordable housing completions were recorded in 2023, a decrease of 4.8% (493 homes) compared to 2022. Over the same period approvals have fallen by 4.8% (316 homes) to 6,239, whilst starts have decreased by 20.4% to 6,046. [Source: Scottish Government]

Housebuilding Material Prices

- Price inflation of construction materials used in new house building, which had reached 24.0% in June 2022, has fallen sharply, and was 0.5% in January 2024. [Source: UK Government]

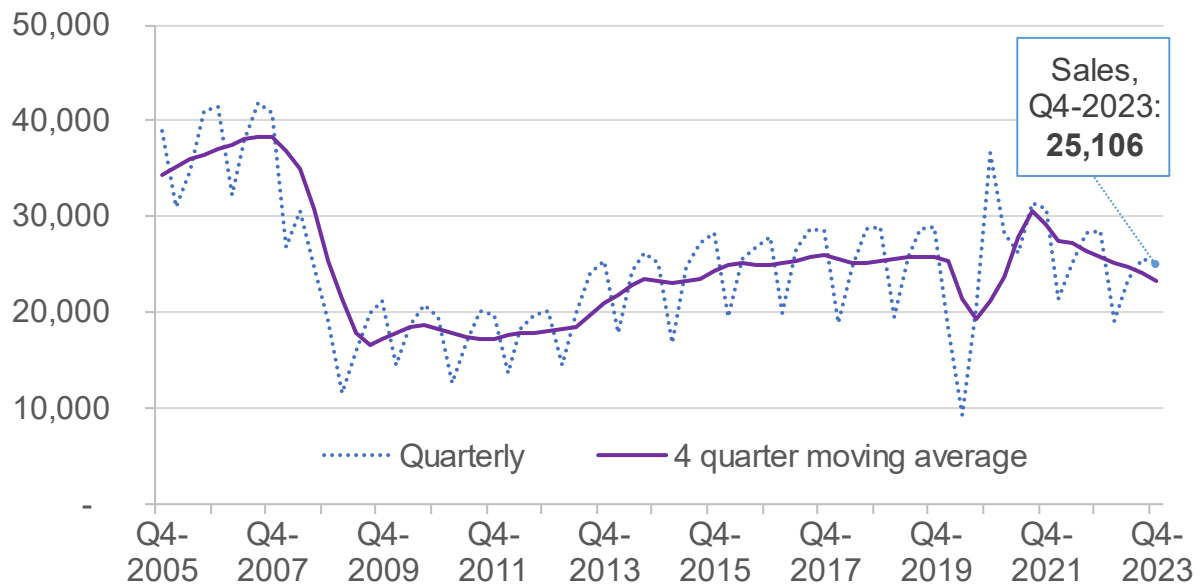
Data to: 31 March 2024

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 Q4 2023)

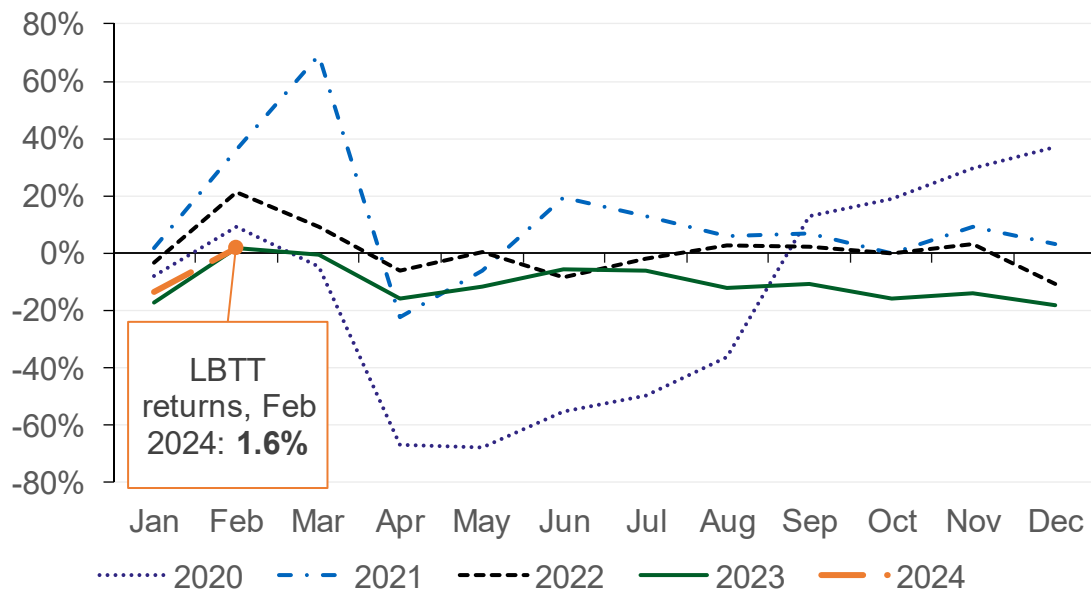


Source: Registers of Scotland

After a period of considerable volatility due to the impact of the Covid-19 pandemic, as well as measures such as the temporary reduction in Land and Buildings Transaction Tax, the volume of transactions has been trending down due to the impact of the cost-of-living crisis, in particular the increase in interest rates (see Section 6). Registers of Scotland statistics show that there were 25,106 residential property sales registered across Scotland in Q4 2023 – relative to Q4 2022 this was a decrease of 12.0% (3,413); compared to the pre-pandemic position in Q4 2019 this was a decrease of 13.4% (3,875). The annual change in transactions was negative for the ninth consecutive quarter in Q4 2023.

Chart 1.2, which uses Revenue Scotland data to plot the percentage difference between monthly residential LBTT returns over the period 2020 to 2024 relative to the corresponding month in 2019 (with 2019 chosen as the baseline to reflect pre-Covid market conditions), provides a more fine-grained picture of recent trends. 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 significantly lower than before the pandemic. While this remains the case for the most recent 3-month period ending February 2024, with transactions down by 11.7% relative to the 3 month-period ending February 2020, immediately prior to the pandemic, transactions were only down by 2.3% compared to the 3 months ending February 2023, which may suggest that the rate at which transactions are falling is beginning to moderate.

Chart 1.2 Residential LBTT returns: Percentage difference between 2020, 2021, 2022, 2023 and 2024 and corresponding month in 2019 (Monthly data, to February 2024)



Source: Revenue Scotland

1.2. Scottish Sales Performance: Local Authorities

Table 1.1 sets out the level and annual change in quarterly transactions by local authority. The volume of transactions at local authority level can fluctuate significantly – particularly in smaller local authorities like Shetland Islands and Orkney Islands – and to remove some of this volatility, the change in transactions in the last 4 quarters compared to the preceding 4 quarters is also presented.

Table 1.1 shows that housing market activity has declined at both the national and local level throughout 2023. Only South Ayrshire had more sales in the year to Q4 2023 than the corresponding period a year earlier and this was modest growth at 0.1%. Aberdeenshire was the area that recorded the largest fall, with the number of transactions falling by 19.7%.

Table 1.1 Local Authority residential transactions

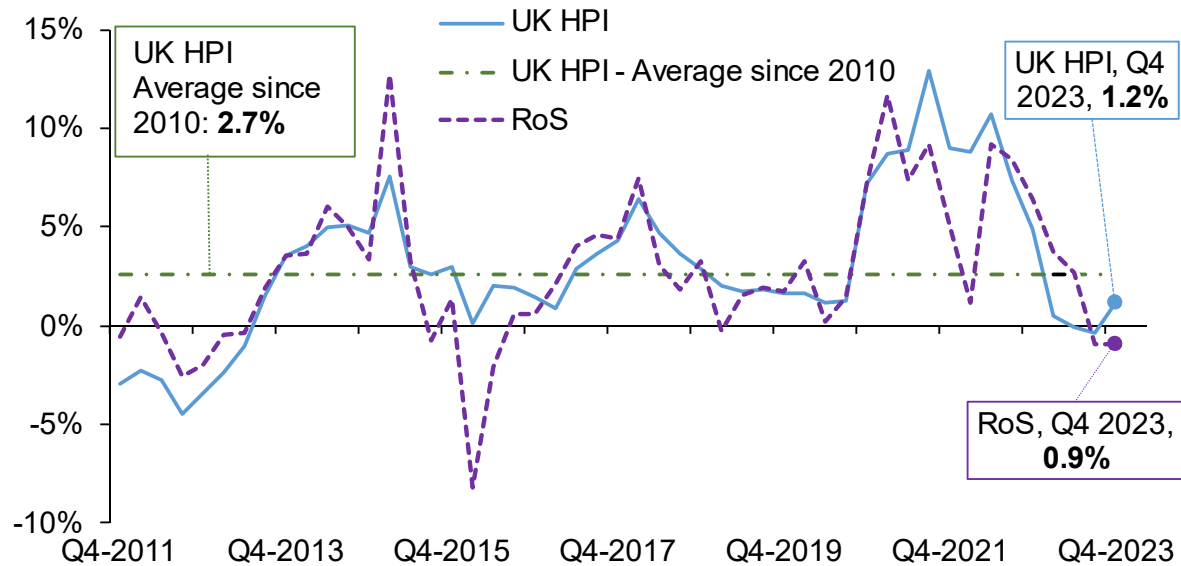
	Sales - Q4 2023	Annual change – Q4 2023	Annual change – 4 quarters to Q4 2023
Aberdeen City	1,080	-9.5%	-12.5%
Aberdeenshire	926	-20.4%	-19.7%
Angus	477	-17.3%	-15.6%
Argyll and Bute	461	-15.1%	-10.5%
Clackmannanshire	219	-14.8%	-9.1%
Dumfries and Galloway	607	-5.6%	-8.1%
Dundee City	628	-17.9%	-16.2%
East Ayrshire	582	-7.0%	-8.9%
East Dunbartonshire	433	-12.9%	-4.6%
East Lothian	618	-8.4%	-2.1%
East Renfrewshire	465	-9.0%	-7.6%
Edinburgh, City of	2,629	-10.3%	-11.8%
Falkirk	680	-15.6%	-6.2%
Fife	1,667	-9.2%	-4.8%
Glasgow City	2,847	-14.8%	-10.9%
Highland	1,103	-14.8%	-13.8%
Inverclyde	350	4.2%	-9.2%
Midlothian	474	-10.4%	-9.6%
Moray	477	-13.1%	-6.9%
Na h-Eileanan Siar	94	3.3%	-10.4%
North Ayrshire	677	-0.3%	-1.6%
North Lanarkshire	1,403	-11.4%	-8.6%
Orkney Islands	94	2.2%	7.6%
Perth and Kinross	773	-15.2%	-9.8%
Renfrewshire	939	-14.2%	-8.1%
Scottish Borders	497	-12.5%	-14.9%
Shetland Islands	56	-29.1%	-16.7%
South Ayrshire	661	0.2%	0.1%
South Lanarkshire	1,664	-14.7%	-9.4%
Stirling	422	-18.5%	-6.7%
West Dunbartonshire	348	4.2%	-2.8%
West Lothian	755	-14.2%	-8.3%
Scotland	25,106	-12.0%	-9.7%

Source: Registers of Scotland

2. House Prices

2.1. Scottish House Price Performance: National

Chart 2.1 Annual house-price growth: Scotland (Quarterly data, to Q4 2023)



Source: Registers of Scotland, UK HPI (Scotland)

Average house prices in Scotland, as measured by the UK House Price Index (HPI), increased annually by 1.2% in Q4 2023. This is higher than the growth rate for the previous three quarters but remains lower than the UK HPI average recorded since 2010 (2.7%). The average property price (mix-adjusted, geometric mean) in Scotland stood at £189K in Q4 2023. More recent data for January suggests that annual house price inflation (at 4.8%) remains in positive territory.

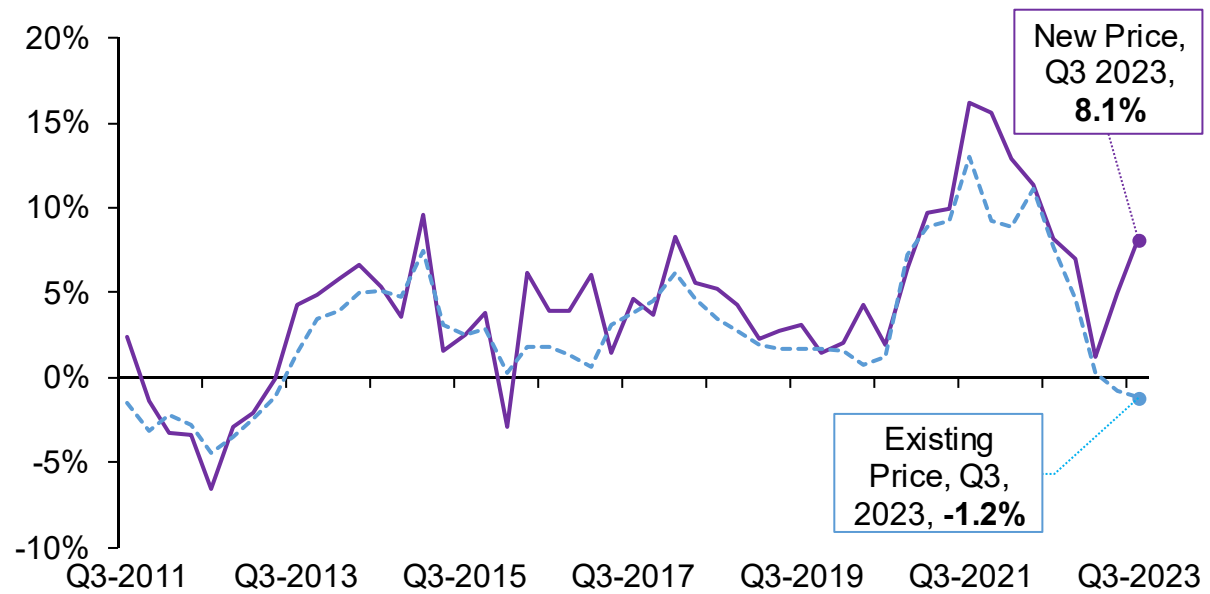
Registers of Scotland data shows that the average (arithmetic mean) house price in Scotland fell by 0.9% to £219K in the year to Q4 2023. Registers of Scotland data is not mix-adjusted, so it will be affected by the composition of properties sold.

UK HPI data shows that annual house price growth in Q4 2023 was highest for detached properties (2.3%), while terraced houses increased the least (0.3%).

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 Q3 2023, the average Scottish new-build property price increased to a greater extent than the existing build price, rising by an annual 8.1% to £295K. The average existing build price decreased over the year, falling by 1.2% to £185K.

Chart 2.2 Annual house-price growth by dwelling type: Scotland (Quarterly data, to Q3 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 1.9% in Q4 2023, to £232K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 0.8% in Q4 2023, to £152K.

2.3. Scottish House Price Performance: Local Authorities

Table 2.1 sets out the level and annual change in quarterly house prices by local authority. The small number of sales in some local authorities, such as in the Orkney and Shetland Islands, can lead to some volatility in estimated house prices despite the HPI methodology adjusting for the mix of houses sold; therefore, the change in average house prices in the last 4 quarters compared to the preceding 4 quarters is also presented.

Looking at the four-quarter on four-quarter change, 18 of the 32 local authorities saw an increase in their average house price. The rate of increase was highest in North Lanarkshire (8.7%), while the largest decrease was in Aberdeenshire (5.9%), closely followed by the Orkney Islands (5.6%).

Table 2.1 Local Authority Prices

	Prices - Q4 2023	Annual change – Q4 2023	Annual change – 4 quarters to Q4 2023
Aberdeen City	£133,895	-2.6%	-5.9%
Aberdeenshire	£197,710	-2.8%	-0.9%
Angus	£169,210	-0.3%	-0.9%
Argyll and Bute	£187,846	-4.8%	-0.5%
Clackmannanshire	£170,578	4.6%	0.9%
Dumfries and Galloway	£161,711	-3.3%	-0.7%
Dundee City	£147,900	1.6%	-1.4%
East Ayrshire	£125,250	-4.0%	-1.6%
East Dunbartonshire	£271,689	1.2%	-0.6%
East Lothian	£304,242	3.6%	4.5%
East Renfrewshire	£300,228	7.9%	3.1%
Edinburgh, City of	£326,144	2.4%	0.7%
Falkirk	£167,134	1.3%	1.2%
Fife	£173,480	1.3%	2.3%
Glasgow City	£173,865	0.6%	0.5%
Highland	£208,773	1.4%	0.9%
Inverclyde	£124,831	1.1%	1.7%
Midlothian	£235,288	3.3%	2.9%
Moray	£191,505	1.8%	4.4%
Na h-Eileanan Siar	£156,857	6.4%	3.6%
North Ayrshire	£131,113	-1.1%	-1.4%
North Lanarkshire	£125,086	13.2%	8.7%
Orkney Islands	£188,527	-11.7%	-5.6%
Perth and Kinross	£237,850	-2.2%	0.5%
Renfrewshire	£156,146	0.6%	0.3%
Scottish Borders	£199,220	-0.4%	-0.4%
Shetland Islands	£183,894	-12.3%	-1.5%
South Ayrshire	£171,692	0.0%	-1.3%
South Lanarkshire	£166,159	0.8%	0.7%
Stirling	£247,843	2.0%	1.9%
West Dunbartonshire	£134,602	0.8%	-0.5%
West Lothian	£206,599	-1.8%	0.5%
Scotland	£188,673	1.2%	0.3%

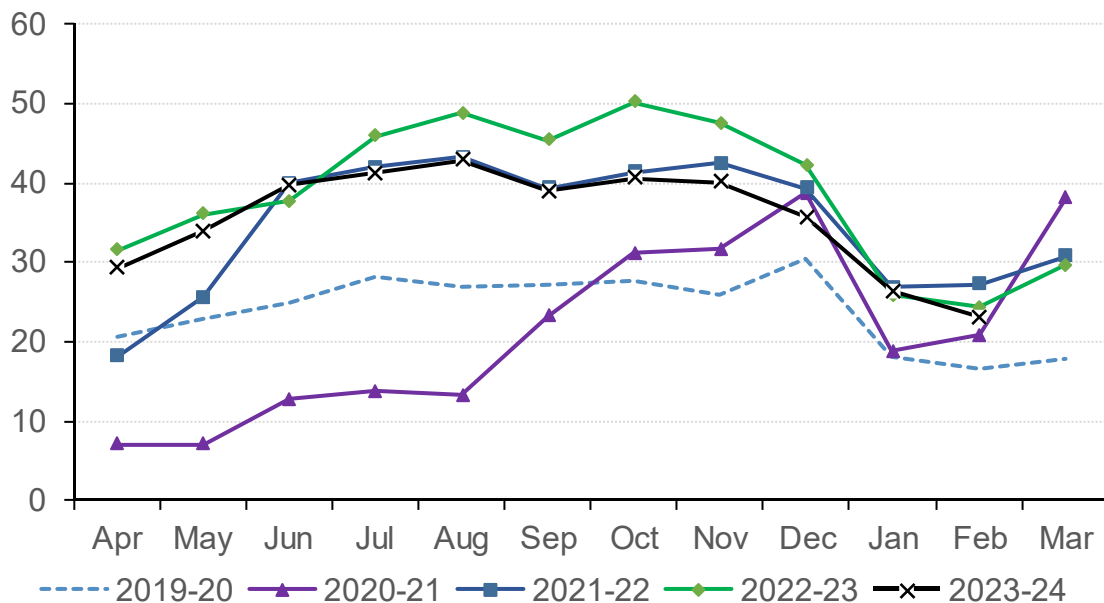
Source: UK HPI

3. Residential Land and 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 1.2). As a result, revenue for the 2021-22 fiscal year was 43% higher than in 2019-20, while in 2022-23 revenue was 17% higher than in 2021-22 and 68% higher than 2019-20.

However, the recent decline in transactions has led to revenue for the first eleven months of 2023-24 being 10% less than the corresponding months of 2022-23, although it was still 46% higher than the corresponding months of 2019-20.

Chart 3.1 Residential LBTT revenue (excluding ADS), £ millions (Monthly data, to February 2024)



Source: Revenue Scotland

4. Private Rental Sector

4.1. Private Housing Rental Prices

The latest Scottish Government private rental statistics, which were published in November 2023 and cover the year to September 2023, show that the average 2-bedroom rents (the most common size) increased in all 18 Broad Rental Market Areas of Scotland compared with the previous year. The increases ranged from 1.5% in Dumfries and Galloway up to 22.3% in Greater Glasgow. Increases in 11 of these areas were above the average 12-month UK CPI inflation rate for the corresponding period of 9.0%.

Note that these statistics are based predominantly on advertised rents, and so reflect rents that landlords are charging when their properties become available for rent at the point of tenant turnover or when properties are new to the rental market. The statistics present a similar picture to letting agent rental reports that have been presented in previous editions of the Scottish Housing Market Review.

Since these statistics are based predominantly on advertised rents, they do not reflect the Cost of Living (Tenants Protection) (Scotland) Act 2022 rent cap restrictions from September 2022 to March 2024, which applied to existing tenants. Given the rate of growth in new let rents, it is likely that in the absence of a rent cap some existing tenants would also have experienced large increases in rents, depending on the rent-setting approach of individual landlords.

Table 4.1 Average private rent levels and annual changes by bedroom size, Scotland, year to September 2023

	Average Monthly Rent (£)	Annual Change (£)	Annual Changes (%)
1-Bed Shared	490	64	15.1%
1-Bed	648	68	11.7%
2-Bed	841	105	14.3%
3-Bed	1,026	121	13.3%
4-Bed	1,656	196	13.4%

Source: Scottish Government

4.2. Cost of Living Act, Rent Adjudication & Housing Bill

The Cost of Living (Tenant Protection) (Scotland) Act 2022 was temporary legislation that was introduced to give tenants increased protection from rent increases and evictions during the cost-of-living crisis. The legislation enforced a temporary tenancy 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. The legislation was passed by the Scottish Parliament in early October 2022 with an initial expiry date of 31 March 2023. The measures were extended for two further six-month periods, but came to an end on 31 March 2024.

Following the expiry of the measures, from 1 April 2024 the rent adjudication process has been modified for a period of one year in order to smooth the transition out of the rent cap and offer protection to tenants from steep rent increases which could be experienced if there is a sudden move to open market rent levels.

Under the modified rent adjudication process, any change in rent is limited to the lowest of the following three figures:

- the open market rate
- the rent requested by the landlord
- a comparator based on the difference between the market rate and current rent (the “taper”), which only has an impact when the open market rent exceeds the current rent by more than 6%.

The modified rent adjudication process can be summarised as follows:

- If the gap between open market rent and the current rent is 6% or less, then the rent can be increased up to the level of open market rent.
- If the gap between open market rent and the current rent is above 6%, the rent can be increased by 6% plus an additional 0.3% points for each percentage point that the gap between open market rent and current rent exceeds 6%.
- If the gap between open market rent and current rent is 24% or larger, the rent increase is capped at 12%.
- The above cases are also subject to the requirement that Rent Service Scotland and the First-tier Tribunal cannot set a higher rent than that requested by the landlord.

An [illustrative rent increase calculator](#) is available to help landlords and tenants understand what level the rent may be set at if a rent adjudication application is made.

Proposals in the [Housing \(Scotland\) Bill](#), introduced to the Scottish Parliament on 26 March 2024, which relate to the private rented sector include long-term rent controls for private tenancies, new rights to keep pets and decorate rented homes, and stronger protection against eviction.

5. Mortgage Approvals and LTVs

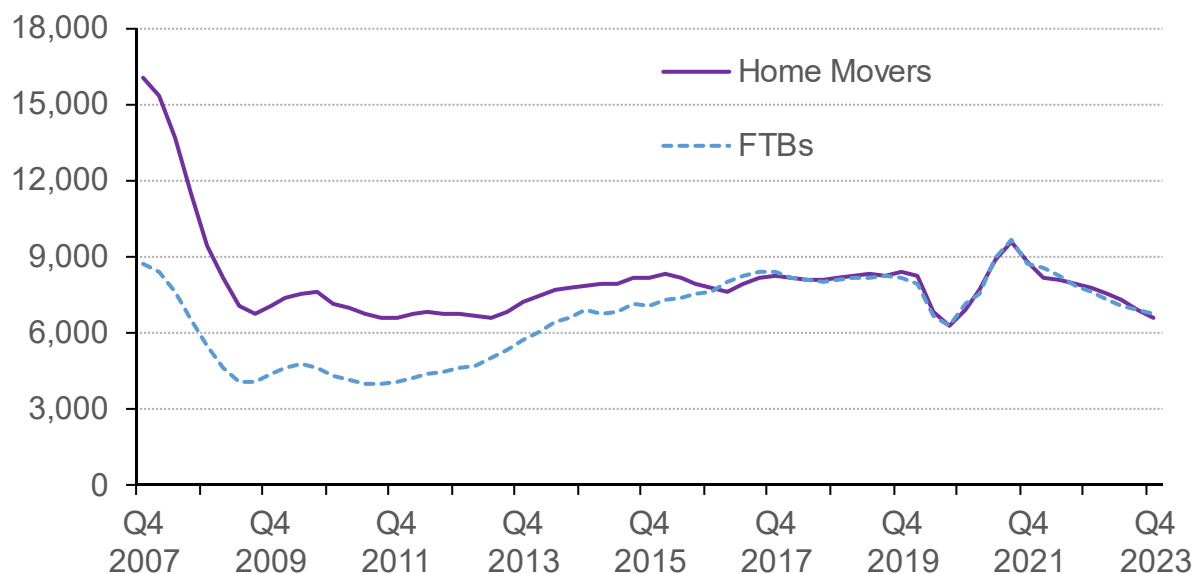
5.1. New Mortgage Advances

Chart 5.1 plots the number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 6,810 new mortgages advanced to first-time buyers in Scotland in Q4 2023, an annual decrease of 7.7%. Meanwhile, there were 6,660 new mortgages advanced to home movers in Scotland in Q4 2023, an annual decrease of 15.6%. This is the ninth consecutive quarter that the annual change in lending to first-time buyers and to home movers has been negative.

Comparing 2023 as a whole to 2022, new mortgage advances to first-time buyers decreased by 11.3%, whilst for home movers there was a decrease of 15.0%. (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 Q4 2023)



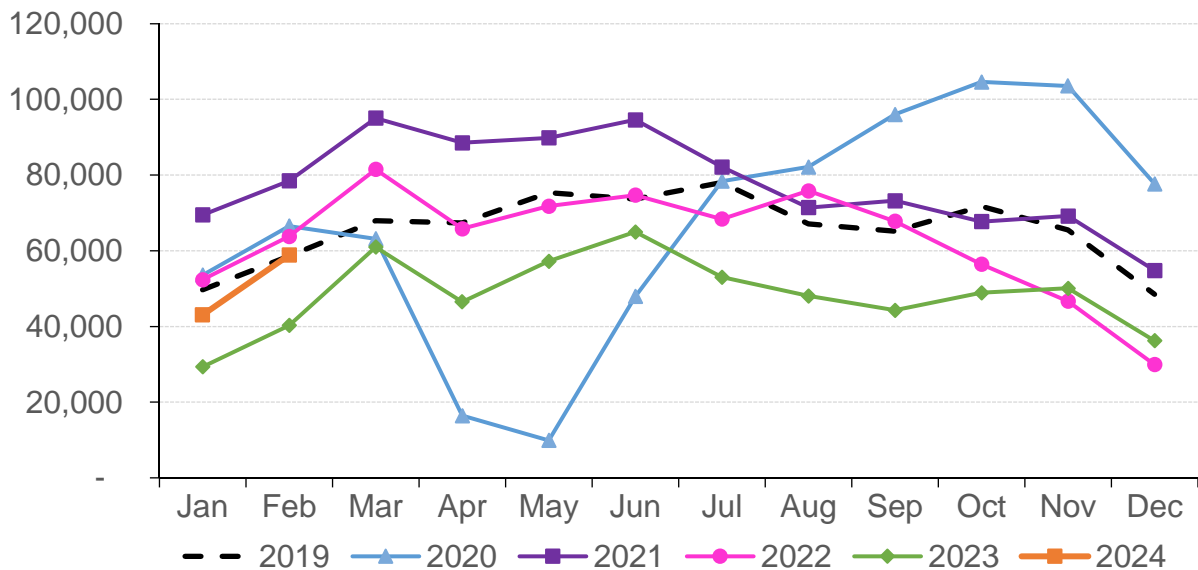
Source: UK Finance

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). Subsequently, beginning in the last quarter of 2022 and continuing into 2023, approvals began to fall significantly below pre-covid levels. However, in the latest 3-month period (to February 2024), approvals have risen by 39% relative to the corresponding period a year earlier, although this remains 18% below the level recorded in the 3 months to February 2020, immediately before the pandemic started (Source: Bank of England).

Chart 5.2 Mortgage approvals for house purchase by individuals: UK (Monthly data, to January 2024)

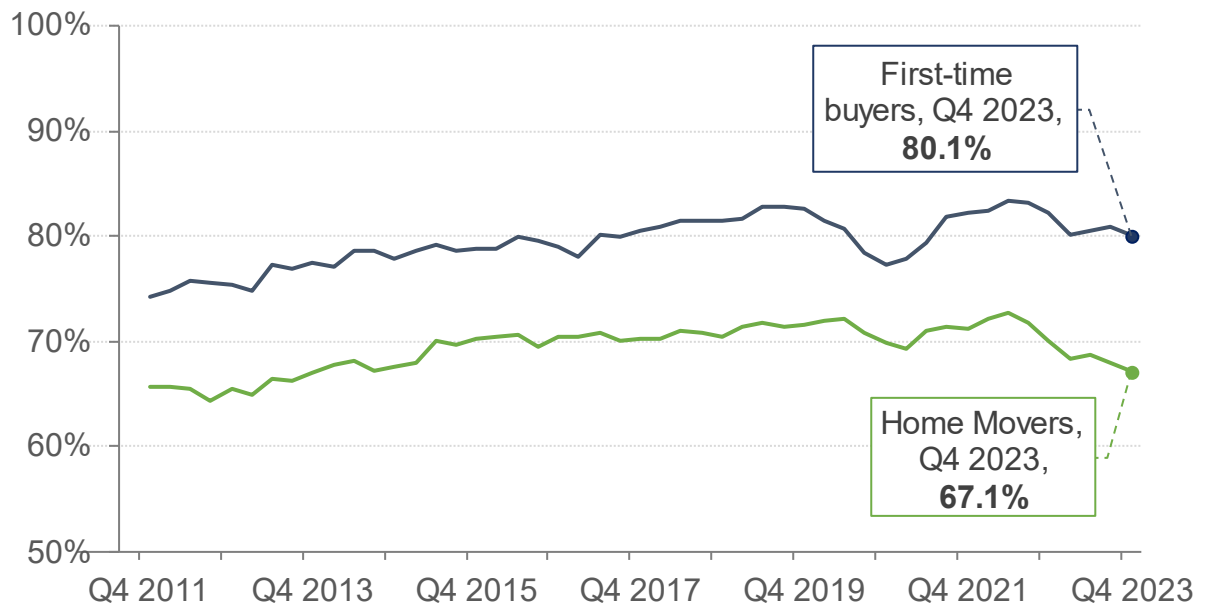


Source: Bank of England

5.3. Loan-to-Value (LTV) Ratios

In Q4 2023, the mean LTV ratio on new mortgages advanced to first-time buyers in Scotland stood at 80.1%, down by 2.1 percentage points over a one-year period. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 67.1% in Q4 2023, down 3.0 percentage points over a one-year period. This is shown in Chart 5.3. (Source: UK Finance).

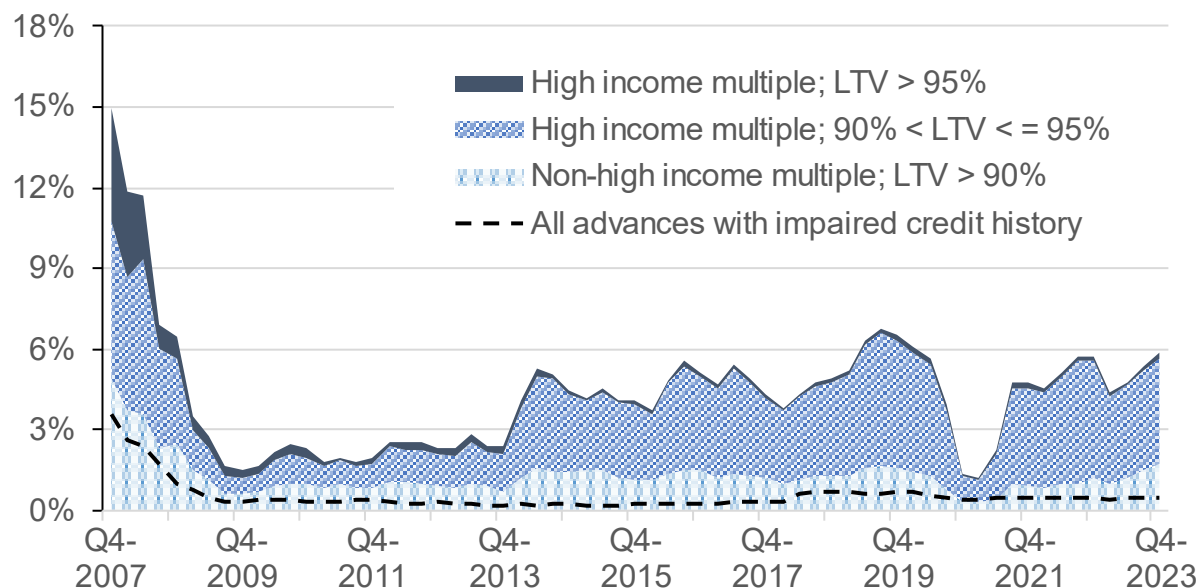
Chart 5.3 Mean Loan-to-Value ratio on new mortgages: Scotland (Quarterly data, to Q4 2023)



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 Q4 2023 there was an increase in the share of all advances with an LTV greater than 90% (0.5% points compared to the previous quarter) as well as in the share of all loans with both an LTV greater than 90% and a high income multiple (0.3% points). On an annual basis, the share of all loans with an LTV greater than 90% increased by 0.1% points and the share of all loans with both an LTV greater than 90% and a high income multiple decreased by 0.3% points.

Chart 5.4 Higher-risk lending as a share of all regulated residential lending to individuals: UK (Quarterly data, to Q4 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. The market volatility following the UK Government Plan for Growth/mini-budget on 23 September 2022 resulted in a sharp fall in the total number of residential mortgage products to 2,258 on 1 October 2022. Since then, and aside from a temporary fall following higher-than-expected inflation figures released in mid-2023, the total number of products has been on an upward trend, reaching 6,004 on 1 March 2024. This represents the highest level recorded since March 2008, and is also far higher than a year ago (4,372). All LTV tiers had an increase in the number of mortgage products over the month to 1 March 2024. (Source: Moneyfacts UK Mortgage Trends Treasury Reports)

Mortgage shelf life is the length of time between the launch of a product and its repricing or withdrawal from the market, and average shelf life is an indicator of volatility in the mortgage market. Despite the average mortgage product shelf life increasing to 28 days on 1 February 2024, which was the highest since early 2023, the shelf life dropped significantly over the month to 1 March 2024, to 15 days (Source: Moneyfacts UK Mortgage Trends Treasury Reports).

The total number of buy-to-let (BTL) mortgage products also 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, in general, there has been an increase in the number of BTL products. The total number of BTL products on 1 March 2024 was 2,844, which is 444 (18.5%) higher than a year earlier (Source: Moneyfacts UK Mortgage Trends Treasury Reports).

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 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, the Monetary Policy Committee (MPC) has kept Bank Rate unchanged since August 2023.

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 most recent tightening cycle began in December 2021. The effective floating rate on outstanding mortgages has increased by 453 basis points to 6.85% and the effective floating rate on new advances by 417 basis points to 5.77% by January 2024. The effective fixed rate on new advances has increased by 351 basis points to 5.09%, while the effective fixed rate on outstanding mortgages has increased by only 99 basis to 2.93% – 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 Bank rate has peaked; 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 (3.42% in January 2024) 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 (Data as at month-end, to January 2024)

Chart 6.1 Outstanding balances

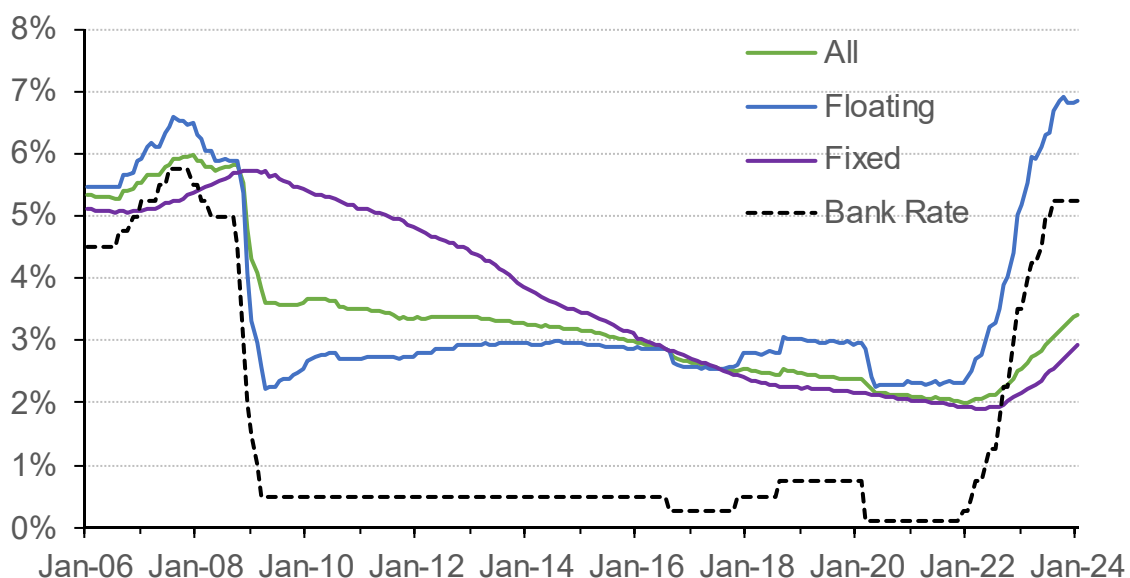
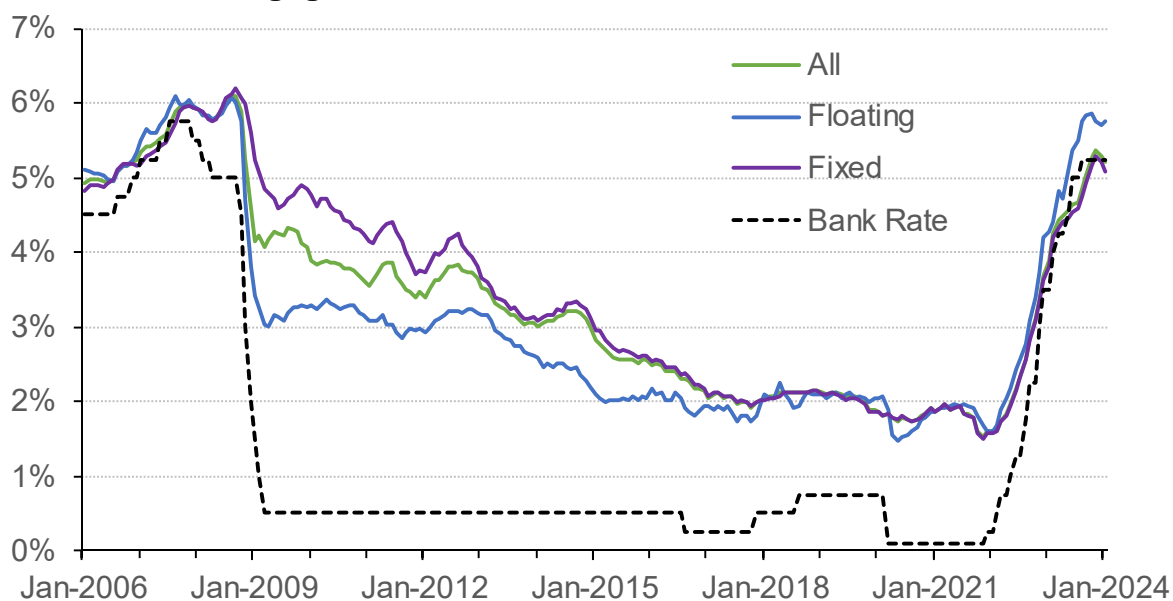


Chart 6.2 New mortgages



Source: Bank of England

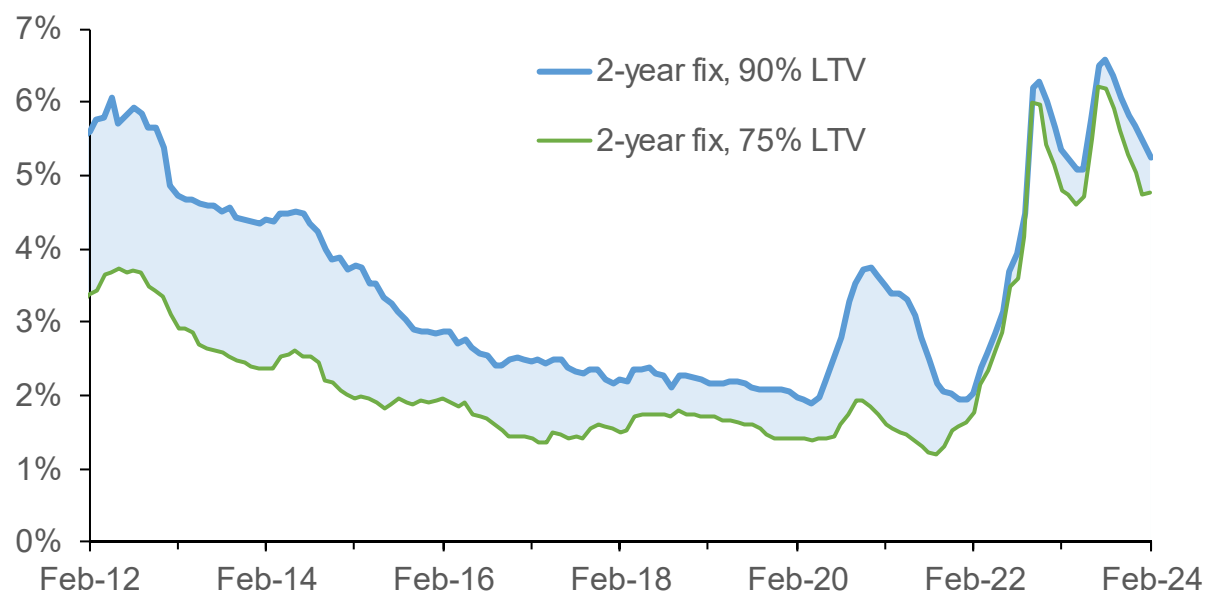
More recent data indicates that the downward trend in consumer price inflation, and the subsequent decisions of the MPC to hold rates steady at the last 6 meetings, has led to a downwards movement in mortgage rates. Both the average two-year and five-year fixed rates fell consistently between 1 August 2023 and 1 February 2024, by 129 and 119 basis points respectively. (Source: Moneyfacts¹)

However, Moneyfacts data shows that mortgage rates did increase over the month to 1 March 2024: the average two-year fixed rate mortgage from 5.56% on 1 February to 5.76% on 1 March 2024, and the average five-year fixed rate from 5.18% to 5.34%. 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 consumer inflation falls back towards target.

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 48 basis points in February 2024, 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-rate 90% and 75% LTV advertised mortgage rates: UK (Data as at month-end, to February 2024)



Source: Bank of England

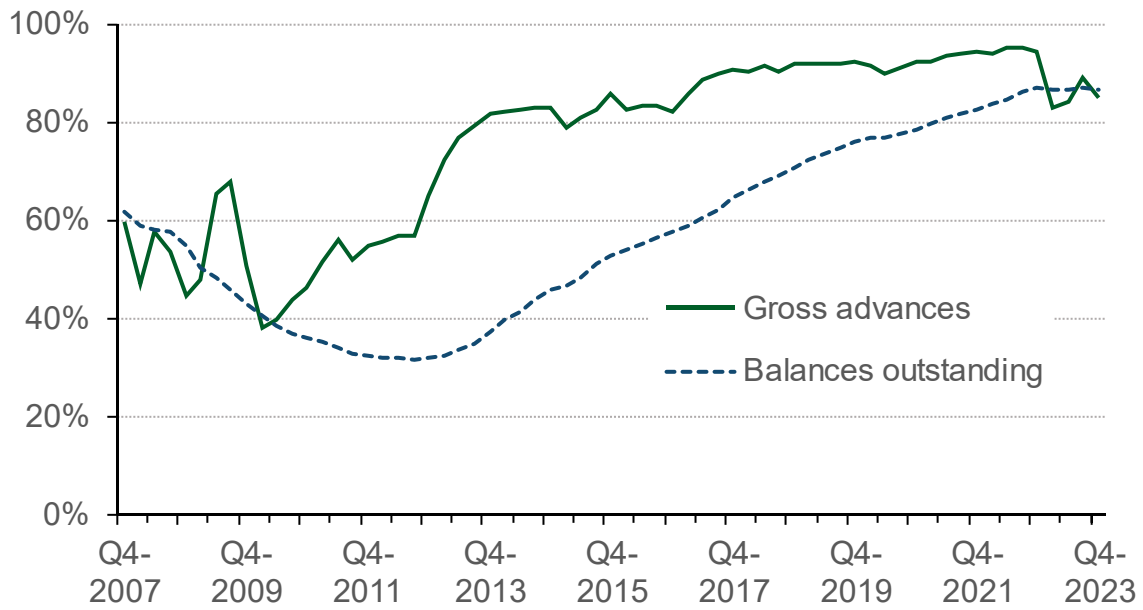
Chart 6.4 shows that the vast majority of regulated² mortgages are on fixed rates. However, following a period of sustained increase, there was a sharp drop in the share of new mortgages on fixed rates in Q1 2023, to 83.1% from 94.5% the previous quarter. It is possible that the spike in advertised mortgage 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 85% in Q4 2023. The share of outstanding regulated balances on fixed rates stood at 87% in Q4 2023, while the corresponding figures for non-regulated³ mortgages was 86% for gross lending and 79% 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 data, to Q4 2023)

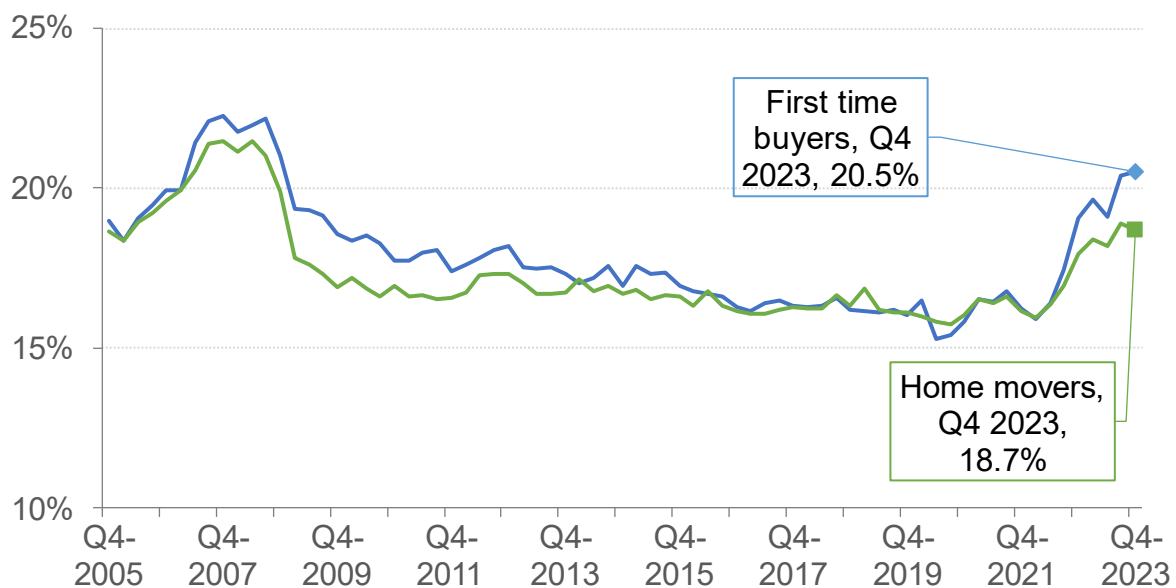


Source: FCA

7. Mortgage Affordability

The impact of the increase in interest rates is reflected in measures of mortgage affordability. As illustrated by Chart 7.1, the share of borrower income taken up by principal 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 to 18.7% in Q4 2023, while for first-time buyers the share has increased from a low of 15.3% in Q2 2020 to 20.5% in Q4 2023.

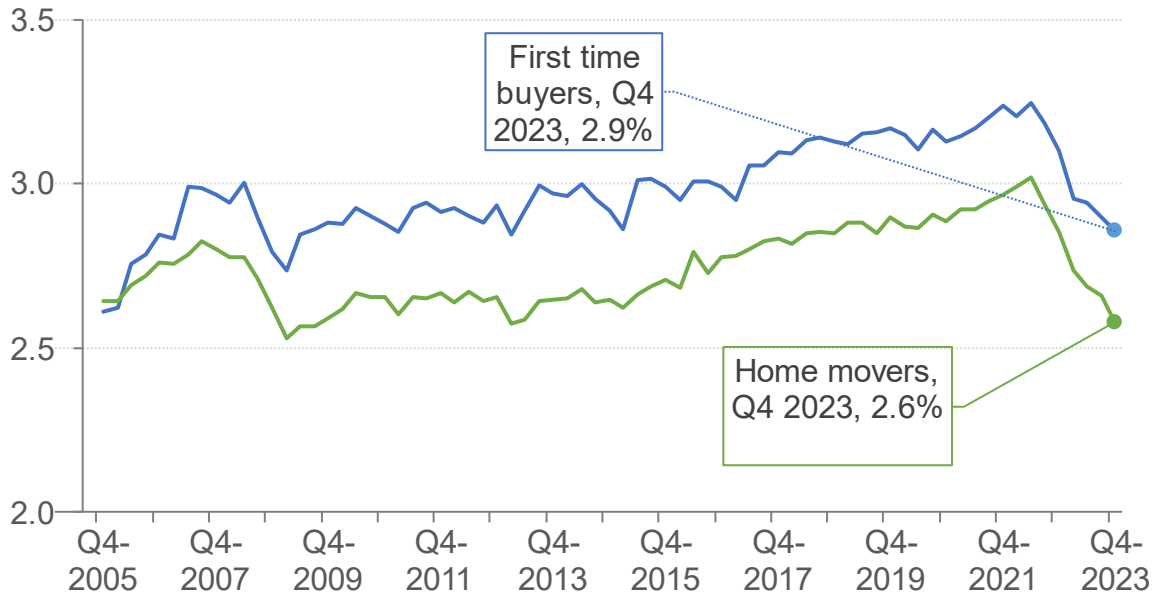
Chart 7.1 Average (mean) capital and interest payments as a percentage of income for new mortgages: Scotland (Quarterly data, to Q4 2023)



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 2.6 for home movers in Q4 2023, its lowest level since Q2 2013 (2.6), while for first-time buyers it has decreased to 2.9, its lowest level since Q1 2013 (2.8).

Chart 7.2 Average (mean) house-price-to-income ratio for new mortgages: Scotland (Quarterly data, to Q4 2023)



Source: UK Finance

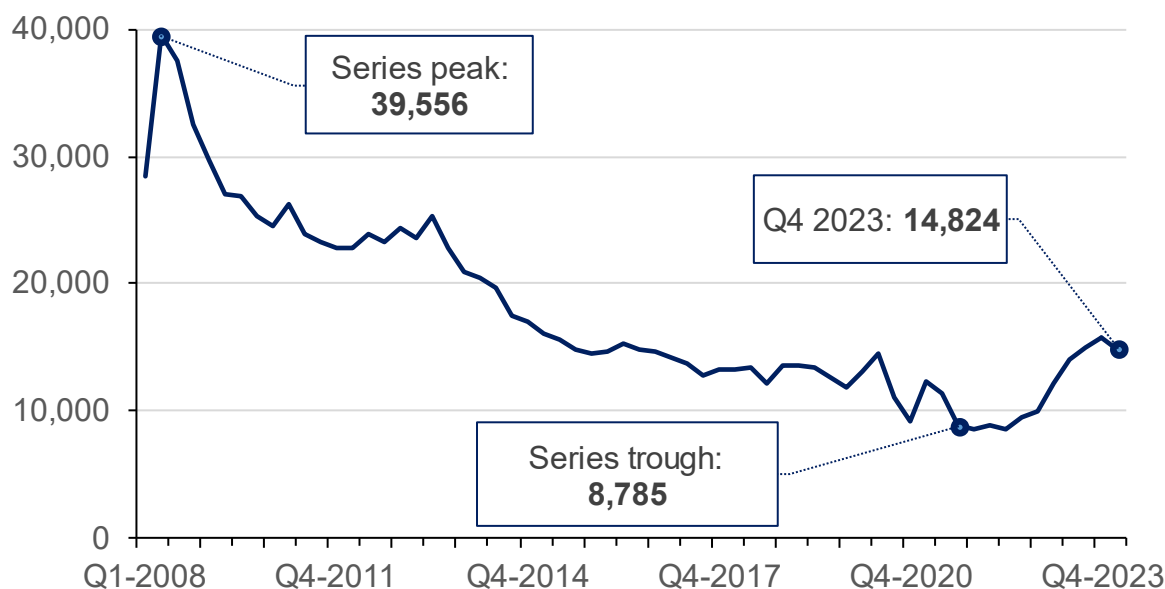
8. Mortgage Arrears and Possessions

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 2021⁴ (Source: FCA). More recently, the number of regulated mortgage loan accounts entering arrears increased consistently from Q1 2022 to Q3 2023 before decreasing in Q4 2023 to 14,824.

Despite the number of mortgage accounts entering arrears easing on the quarter, the number of accounts entering arrears in the UK has increased annually by 2,746 (22.7%). Moreover compared to the quarterly average for 2019-20, immediately prior to the pandemic, the level of arrears in Q4 2023 was 16% higher.

Chart 8.1 Number of regulated mortgage loan accounts entering arrears: UK (Quarterly data, to Q4 2023)



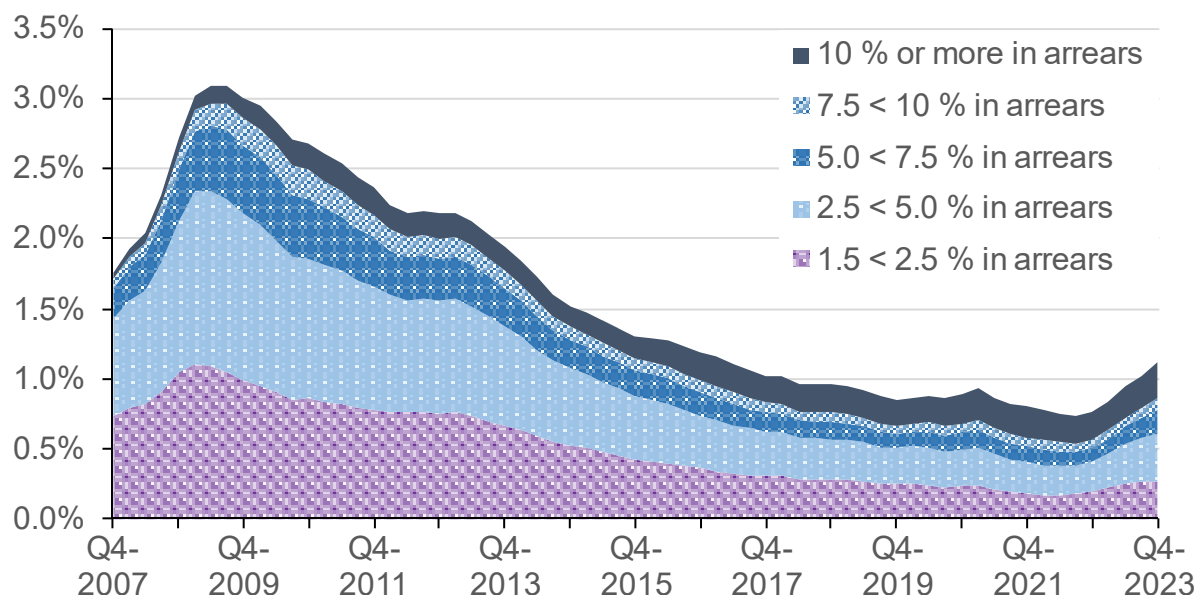
Source: FCA. Includes both securitised and unsecuritised loans

The share of lenders' outstanding regulated mortgage balances that were in arrears of more than 1.5% of the outstanding loan balance stood at 1.1% at the end of Q4 2023. This share had remained broadly stable during the pandemic but started to increase sharply at 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% - 5.0%) since it will take time for arrears to accumulate. In Q4 2023, the share of the highest category of arrears (10% or more) is, at 0.25% 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 ended 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 (0.22% over the period from Q2 2020 to Q4 2023).

Chart 8.2 Regulated mortgage balances in arrears by severity: UK (Quarterly data, to Q4 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 was 19,560 BTL mortgages in arrears of 1.5% or more of the outstanding balance across the UK at the end of Q4 2023, compared to 8,820 a year earlier; this is the highest level since Q1 2009 when comparable data was first available. The number of BTL mortgages in arrears of 1.5% or more as a percentage of the total number of BTL mortgages was 0.99%. FCA data for non-regulated lending (which includes BTL lending but also some other types of lending, and is collected on a somewhat different basis⁵) shows that at the end of Q4 2023 mortgages which were 1.5% or more in arrears represented 1.62% of the total number of mortgages, up from 1.13% a year earlier, and the highest figure since Q4 2016, although it remains well below the peak of 2.68% reached in Q1 2009 during the financial crisis.

8.2. Possessions

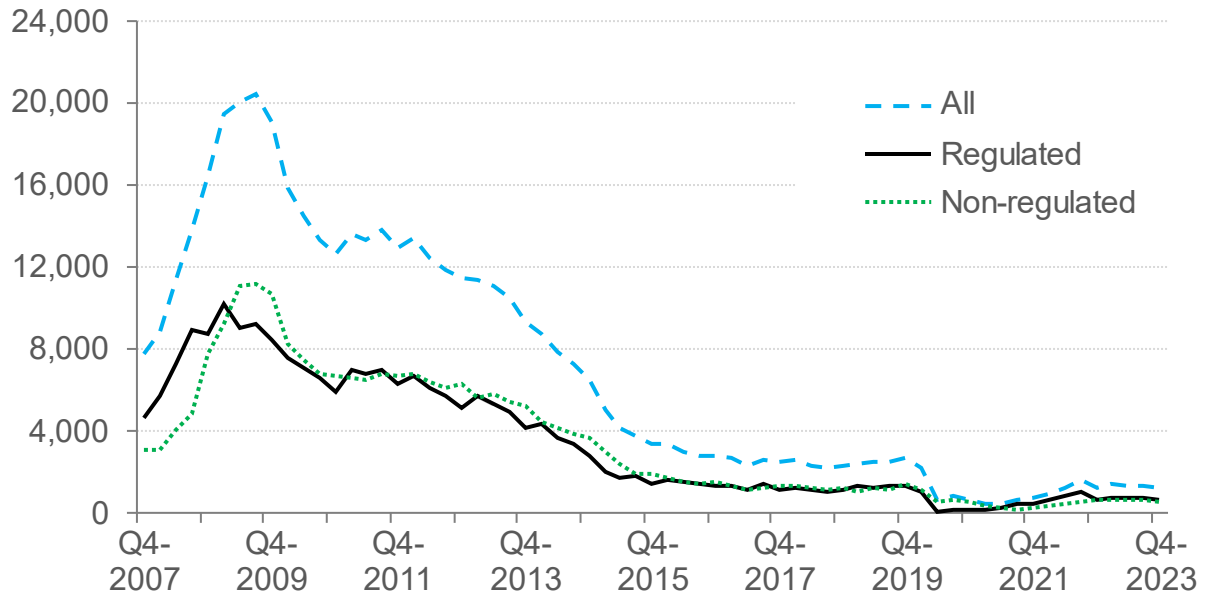
FCA data (see Chart 8.3) shows that despite restrictions on possessions having being lifted on 1 April 2021, there were only 698 new regulated mortgage possessions across the UK in Q4 2023. This was a decrease of 37 (5.6%) relative to a year before, and 44% below the quarterly average for 2019-20, the fiscal year preceding the pandemic.

With respect to non-regulated mortgage lending, FCA data show that although there was a 31% annual increase in new possessions in Q4 2023, the level of possessions remained 12% below the average for 2019-20. Similarly, UK Finance data on Buy-to-

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.

Let mortgages specifically shows a 56% annual rise Q4 2023, with new Buy-to-Let possessions across the UK standing at 500, although this is 26% below the average for 2019-20.

Chart 8.3 New possessions by type of mortgage: UK (Data as at end of quarter, to Q4 2023)



Source: FCA

9. Homelessness

In Scotland, there were 20,144 homelessness applications recorded in April to September 2023, an increase of 3% compared to the corresponding period in the previous year (19,486), and an increase of 2,931 (17.0%) compared to April to September 2020, the last comparable period before the Cost-of-Living Crisis.

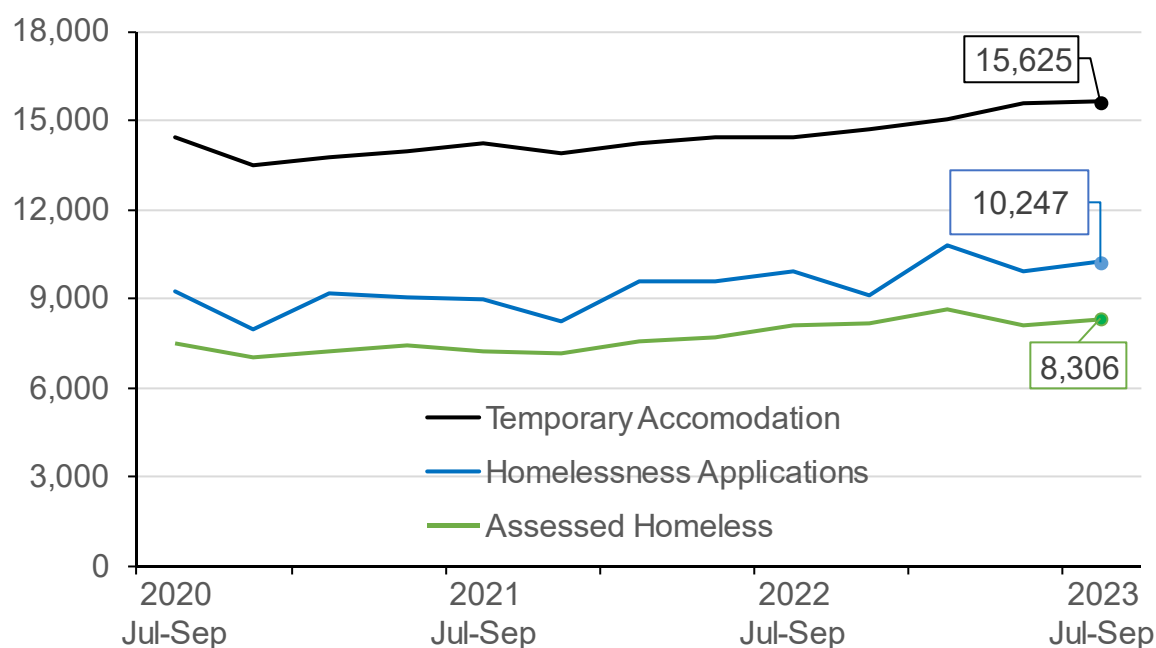
The number of households assessed as homeless was 16,420, an increase of 4% compared to April to September 2022 (15,793). The number of households in temporary accommodation as at 30 September 2023 was 15,625, an increase of 8% from 30 September 2022 (14,452).

Applications and assessments are at their highest since 2012-13 and 2011-12 respectively, while the number of households living in temporary accommodation is at its highest since the time series began in 2002.

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 3,010 in the period April to September 2022, to 2,240 in the period October 2022 to March 2023 (during which the Cost of Living (Tenants Protection) Act has been in operation).

Proposals in the Housing (Scotland) Bill which relate to homelessness include an 'ask and act' duty on social landlords, health boards and the police to ask about a person's housing situation and act to avoid them becoming homeless wherever possible; reform of provision for people threatened with homelessness up to six months ahead; and provisions for tenants experiencing domestic abuse.

Chart 9.1 Homelessness: Scotland (Quarterly data, to Jul-Sep 2023)



Source: Scottish Government

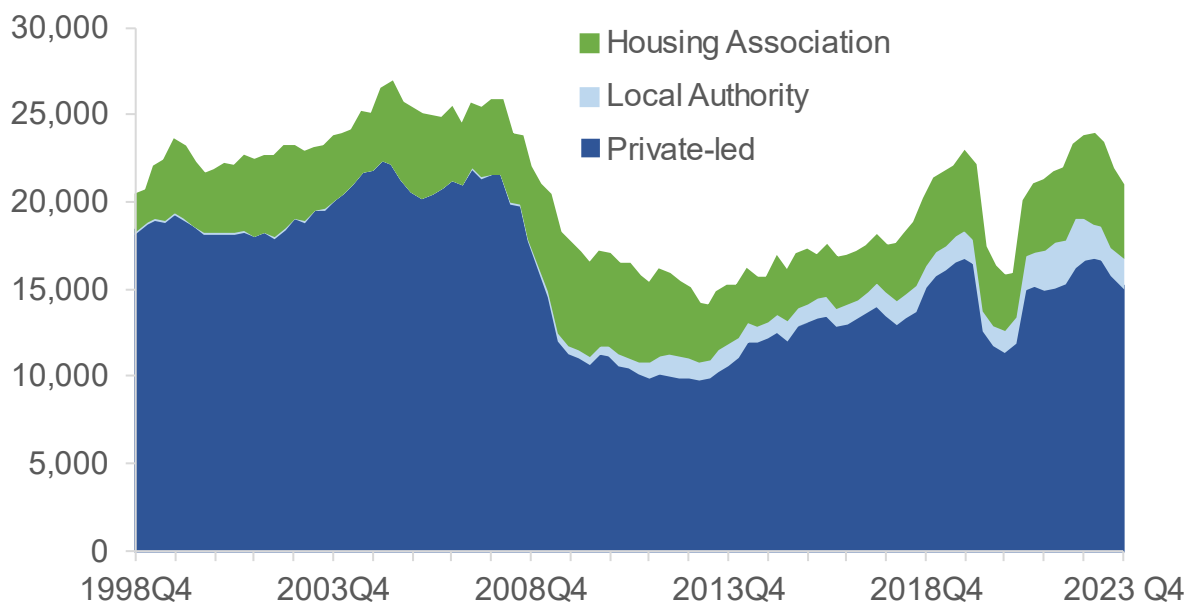
Note: Homeless applications and assessments refer to the number over the quarter, while temporary accommodation figures refer to the number at the end of quarter.

10. Housing Supply

10.1. New Build

There was a strong rebound in new housebuilding completions once the Covid-19 restrictions on non-essential construction activity were eased in Q3 2020, but more recently completions have begun to fall: the 20,992 new build completions across all sectors in Scotland in the year to end Q4 2023 was a decrease of 11.4% (2,700 homes) on the previous year. This is illustrated in Chart 10.1, which includes a breakdown of new build completions by sector. Meanwhile, there were 16,017 new build starts across all sectors over the same period, down by 23.8% (5,009) relative to the previous year.

Chart 10.1 New-build completions by sector: Scotland (4-quarter moving total, to Q4 2023)

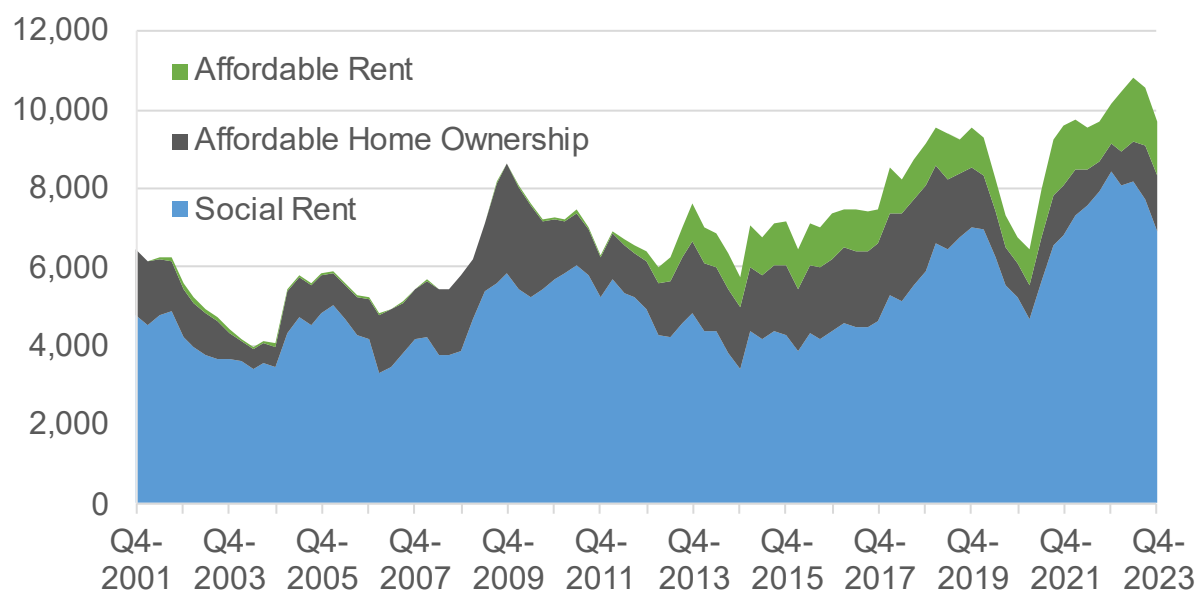


Source: Scottish Government

10.2. Affordable Housing Supply Programme (AHSP)

Chart 10.2 similarly shows that, following a substantial increase after covid restrictions were released, the number of affordable homes delivered has recently begun to decrease: the 9,680 affordable housing completions recorded over the year to end Q4 2023 represented a decline of 4.8% (493 homes) compared to the year prior. Over the same period approvals have fallen by 4.8% (316 homes) to 6,239, whilst starts have decreased by 20.4% to 6,046 homes.

Chart 10.2 AHSP completions (4-quarter moving total, to Q4 2023)



Source: Scottish Government

10.3. Council Tax on Second and Empty Homes

As from April 2024 local authorities have new powers that allow them to charge up to double the full rate of council tax on second homes. Previously, while councils could vary the council tax rate from the default of a 50% discount, they could only increase it up to the full rate of council tax. All local authorities, with the exception of Falkirk, Glasgow City and North Ayrshire, have chosen to charge up to double council tax on second homes. Meanwhile, also from April 2024, new owners of homes that have been empty for longer than 12 months can benefit from a grace period of 6 months without a premium being applied if they are undertaking repairs and renovations; councils have the discretion to extend this period depending on the circumstances of individual cases. The aim of these changes is to help increase housing availability by encouraging more homes to be used for living in.

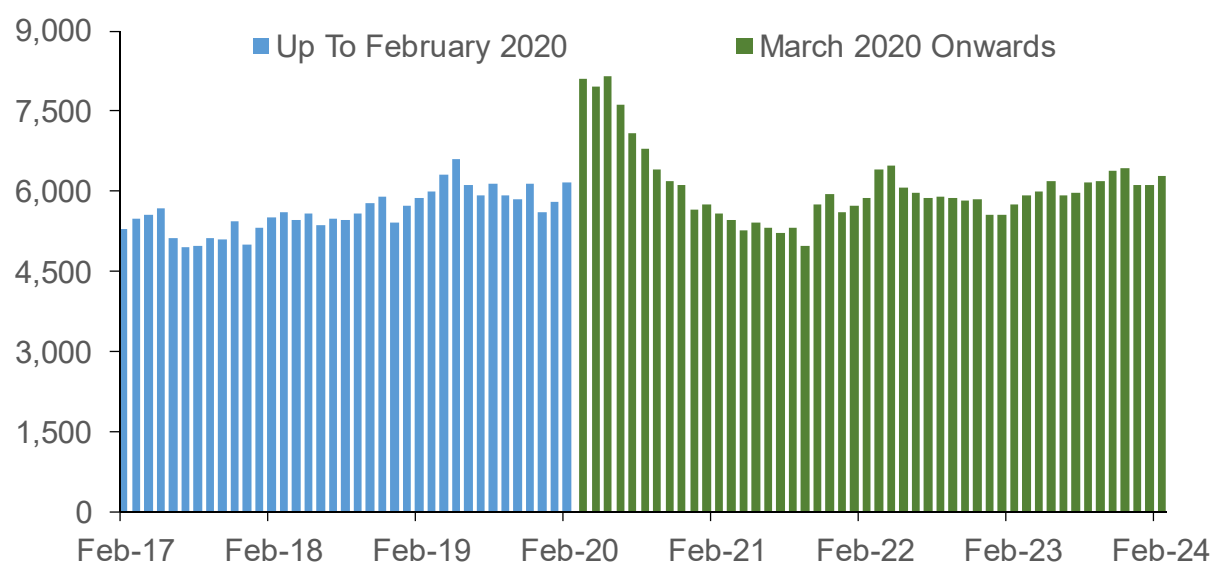
11. Lending to House Builders, Insolvencies and Construction Prices

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, and was above pre-pandemic levels in 2023. The value of outstanding loans in 2023 was 1.6% higher than the same period in 2022 and 0.5% higher than 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 February 2024)



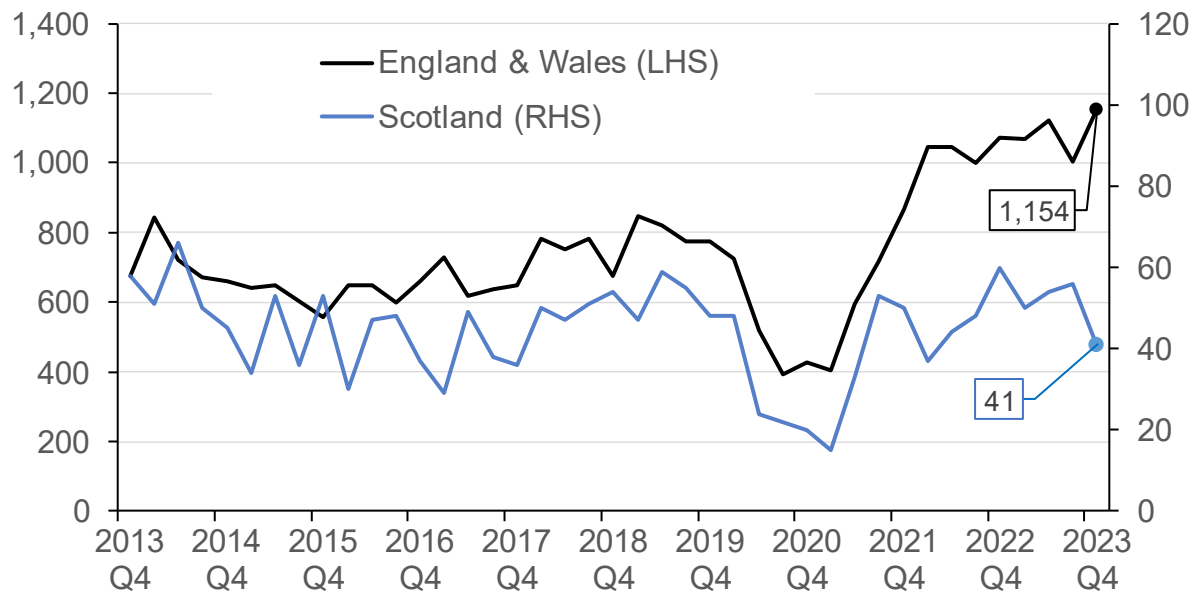
Source: Bank of England

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. Subsequently, with this support unwinding, new-build construction-output prices increasing (as shown in Chart 11.3) and cost-of-living pressures potentially impacting demand, there was an increase in insolvencies for construction companies registered in Scotland. However, latest calendar year data suggest that the number

of insolvencies in Scotland has levelled off at around pre-pandemic levels: there were 201 insolvencies in 2023, which is similar to the number of insolvencies in 2019 (209).

Chart 11.2 Number of registered company insolvencies in the construction sector (Quarterly data, to Q4 2023)



Source: The Insolvency Service

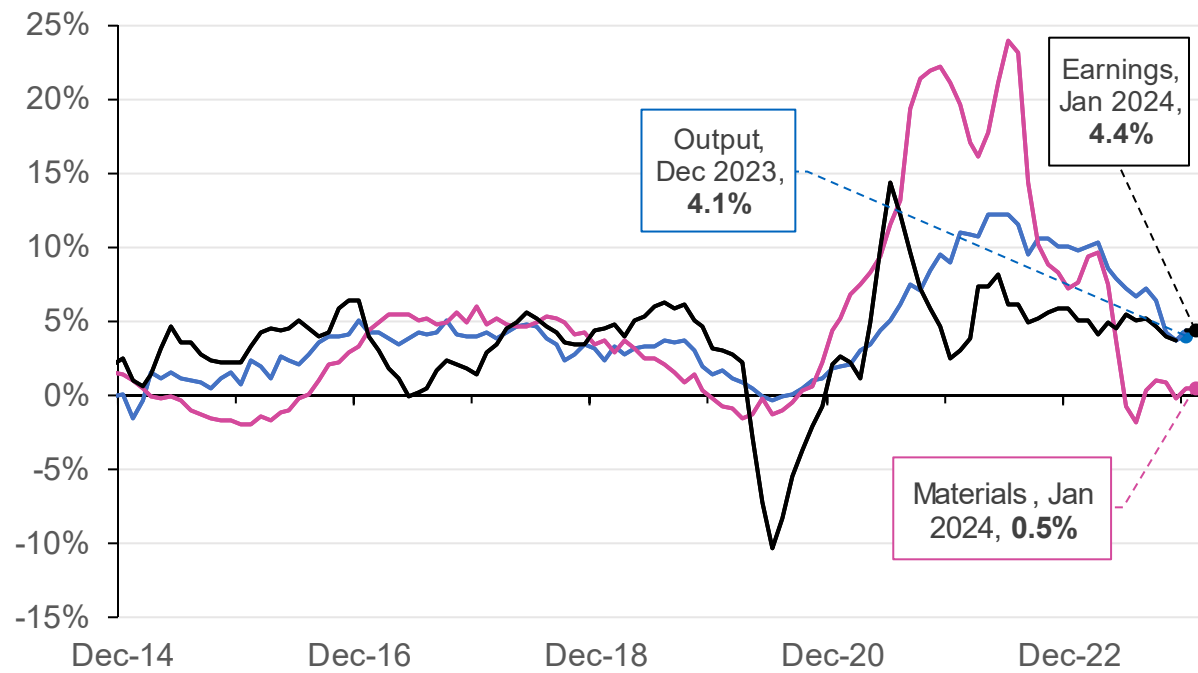
11.3. Output and Input Prices for New Housing

ONS construction-output price data shows that the index for new housing, which covers a range of costs (including earnings) associated with building new public and private housing, increased by an annual 4.1% in December 2023, falling from a peak of 12.2% in June 2022 (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 to 0.5% in January 2024. There is significant variation around this average with the highest price increases recorded for pipes and fittings (21.1%) and the lowest for steel concrete reinforcing bars (-18.2%).

ONS average weekly earnings data show that annual growth in total pay in the construction sector has slowed consistently from its peak of 14.3% in the three months to June 2021, to stand at 4.4% in the three months to December 2023. (Source: ONS).

Chart 11.3 Annual change in the output and materials price indices for new housing, and weekly earnings in the construction sector: UK (Monthly data)



Source: ONS and UK Government



© Crown copyright 2024



This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.scot

Any enquiries regarding this publication should be sent to us at

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83601-169-9 (web only)

Published by The Scottish Government, April 2024

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1446326 (04/24)

W W W . g o v . s c o t