

Scottish Housing Market Review

April - June 2020

Key points for this issue:

Sales

- There has been a significant drop in sales activity since Government advice to delay home moves was issued on 31 March 2020 (this was lifted on 29 June). The number of residential LBTT returns fell by an annual 67% in April and May combined, while sales registered in Scotland fell by an annual 81% over the same period (although the latter may have been affected by a temporary pause in registrations).
- Data for England suggests that following the easing of restrictions on home moves, the Scottish housing market could recover to pre-crisis levels in the coming weeks. However, there is a risk that sales may be depressed by the adverse economic impact from the Covid-19 crisis in the longer term.

Prices

- In Q1 2020, the average house price in Scotland increased by an annual 2.5%, to £152K. This was slightly above the average annual rate of change since 2010 of 1.6% (Source: UK HPI (Scotland)).
- House prices have continued to fall in Aberdeen/shire & Moray; over the last five years, the average house price has fallen by an average of 1.1% per annum (Source: RoS).
- The UK HPI has been temporarily suspended until further notice due to low sales numbers. This affects the April 2020 index (originally due to be published in June 2020) onwards.

Lending

- Following the introduction of strict stay-at-home measures to reduce the spread of Covid-19 in late March 2020, the number of mortgage products available fell by approximately half. Since then, there has only been relatively modest recovery in the mortgage market.
- The cumulative cut in Bank Rate in March 2020 of 65 basis points has largely been fed through to existing and new mortgage customers on floating rates, but there has been very little movement in new fixed mortgage rates.
- On 22 May 2020, the FCA announced that customers yet to request a mortgage payment 'holiday' would have a further three months to do so (until 31 October 2020) and, for those already taking a mortgage payment 'holiday' and unable to resume full payments, their lender should offer them a further full or partial payment deferral for 3 monthly payments. The FCA also expects all lenders to stop repossession action until 31 October 2020, regardless of whether borrowers' income has been affected by Covid-19.

Housing Supply

- In 2019/20, new build AHSP starts were up by an annual 10.8%, to 12,045, while AHSP completions totalled 9,286 in 2019/20, down by an annual 2.9%. Since Q2 2016, there have been 34,791 completions through the Affordable Housing Supply Programme (Source: SG).

Data to: 1 July 2020

Contact: Richard.Keatinge@gov.scot;

Bruce.Teubes@gov.scot

1. Sales: National

Chart 1.1 Monthly Number of Residential Property Sales Registered: Scotland

Source: Registers of Scotland

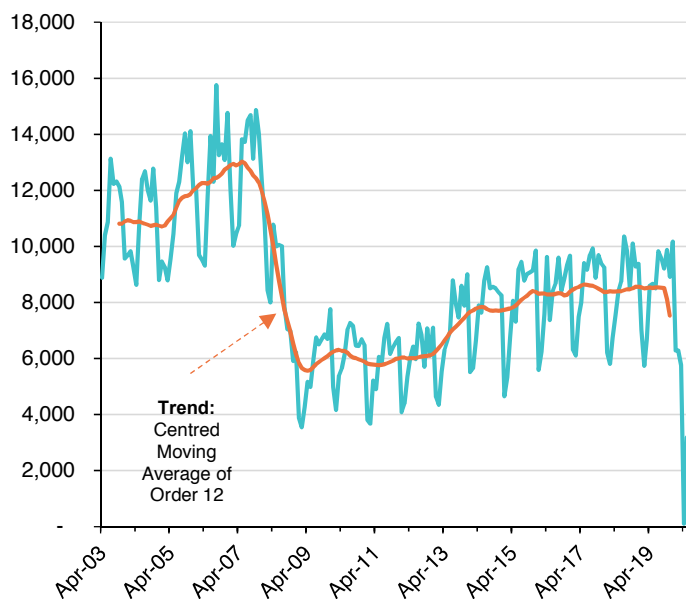
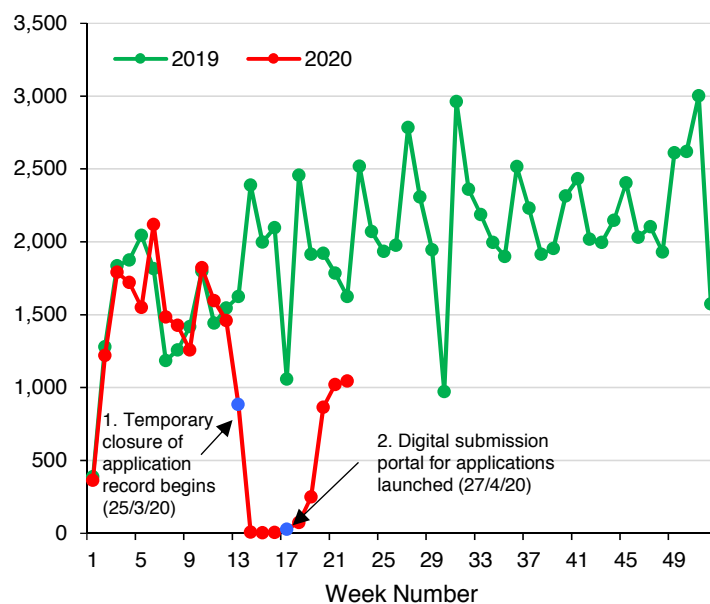


Chart 1.2 Weekly Number of Residential Property Sales Registered: Scotland

Source: Registers of Scotland



Scottish Sales Performance

The Scottish Government issued advice to home buyers on 31 March 2020 that they should delay moving home while stay-at-home measures were in place. These restrictions on home moves were relaxed on 29 June 2020 - permitting all homes moves, provided they can be carried out safely - as part of the Scottish Government's phased move to Stage 2 of the Covid-19 route map. Further information can be found at <https://www.gov.scot/publications/coronavirus-covid-19-guidance-moving-home/>

The Keeper of the Registers of Scotland (RoS) took the decision to temporarily close the application record on 25 March 2020, due to the introduction of stay-at-home measures. This caused a temporary pause in registrations, until RoS introduced a digital submission portal for applications on 27 April, which enables sales to be registered electronically.

Chart 1.1, which plots the monthly number of residential property sales registered, shows the impact of Covid-19 in a longer-term context, while Chart 1.2, which plots the weekly number of residential property sales registered in 2019 & 2020, provides a more fine-grained view of the impact of restrictions on home moves and the temporary pause in registrations. Since the launch of the application portal on 27 April there has been a sharp increase in registrations. This increase reflects the backlog of registrations from the period between the closure of the application record and the introduction of the application portal, as well as any new sales agreed. Combining data for April and May (to smooth the impact of interruptions to the registration process) shows that sales registered were down by 81% on their level in April/May 2019.

Restrictions were eased earlier in England (on 13 May 2020), and data on housing trends in England from online sales portals may give some insight into how the Scottish housing market will perform in the coming weeks (subject to the caveat that sales portals do not cover all of the market). Data from Rightmove shows that sales agreed in England, which were down by annual 90% when restrictions were imposed, have steadily recovered so that by 6 June (i.e. within a month of the relaxation of restrictions) they were back to 2019 levels. More recent Zoopla data show a similar recovery: by 21 June (i.e. 6 weeks after the relaxation), sales agreed in England through this portal had exceeded early March 2020 levels. While these figures suggest that the Scottish market could similarly recover to pre-Covid-19 levels over the coming weeks, there is greater uncertainty relating to longer-term trends. Activity immediately following the lifting of restrictions will be boosted by pent-up demand from transactions which were delayed while restrictions were in place. Once this pent-up demand subsides, there is a risk that volumes and prices may be depressed by the adverse economic impact from the Covid-19 crisis.

Key Points

Sales registered in Scotland in April/May 2020 were down by an annual 81%.

Data from England suggests that following the easing of restrictions the Scottish housing market could recover to pre-crisis levels in the short term, although the longer-term picture is more uncertain.

1. Sales: Regional

Scottish Regional Sales Performance

Regional sales data in Charts 1.3 and 1.4 cover the period up to the end of March 2020. As such, these statistics should be interpreted with some caution as they may slightly overstate the fall in activity at the end of March 2020 due to the temporary closure of the Registers of Scotland application record on 25 March 2020.

Chart 1.3 shows that in Q1 2020, the number of sales registered fell by 5.7% annually in Scotland (-1,114), to 18,337. The largest decline was in Aberdeen/shire & Moray, where sales registered fell by 11.4% annually. Sales in this area had already been trending downwards, as shown in the year on year change. This could suggest that the large quarterly fall reflects a continuation of this recent decline in sales activity rather than Covid-19 affecting the Aberdeen/shire & Moray housing market to a greater extent than other areas. The map below shows the year on year change in sales by local authority.

Chart 1.3 Annual Change in Sales

Source: Registers of Scotland

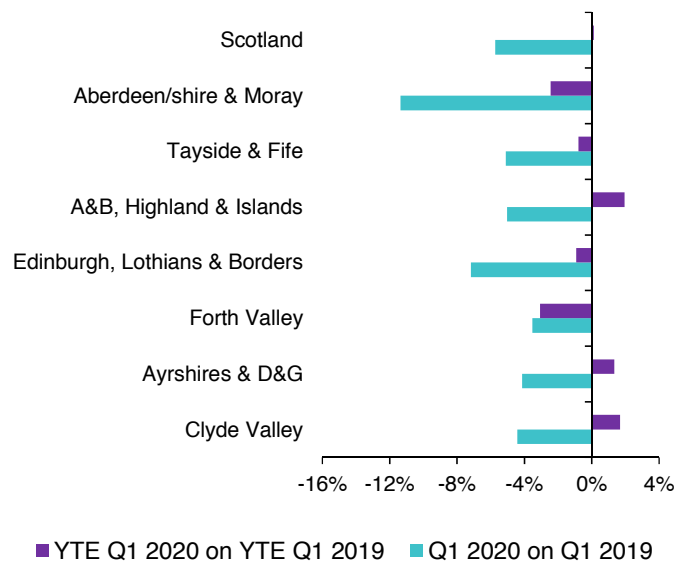
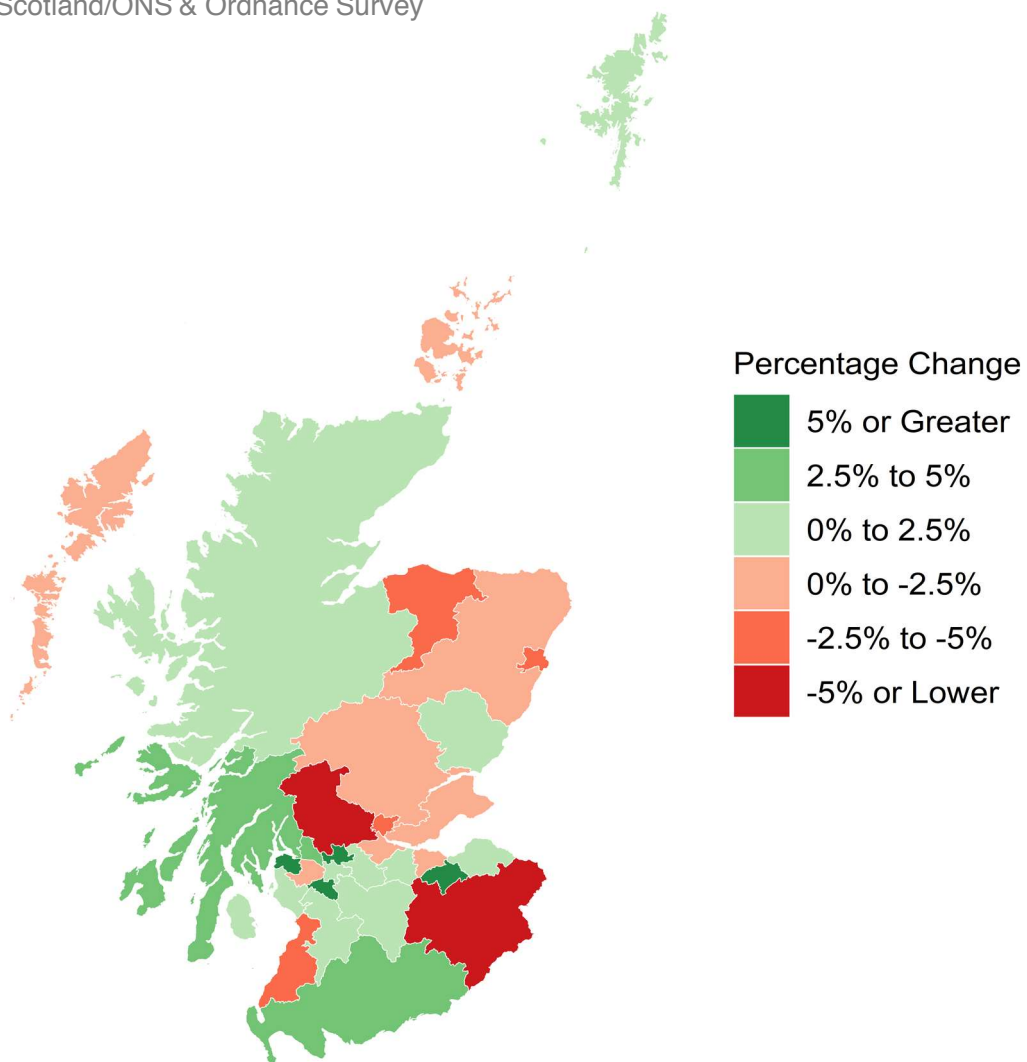


Chart 1.4 Annual Change in Sales (Year to End Q1 2020)

Source: Registers of Scotland/ONS & Ordnance Survey



Highest
East Dunbartonshire (11.2%)

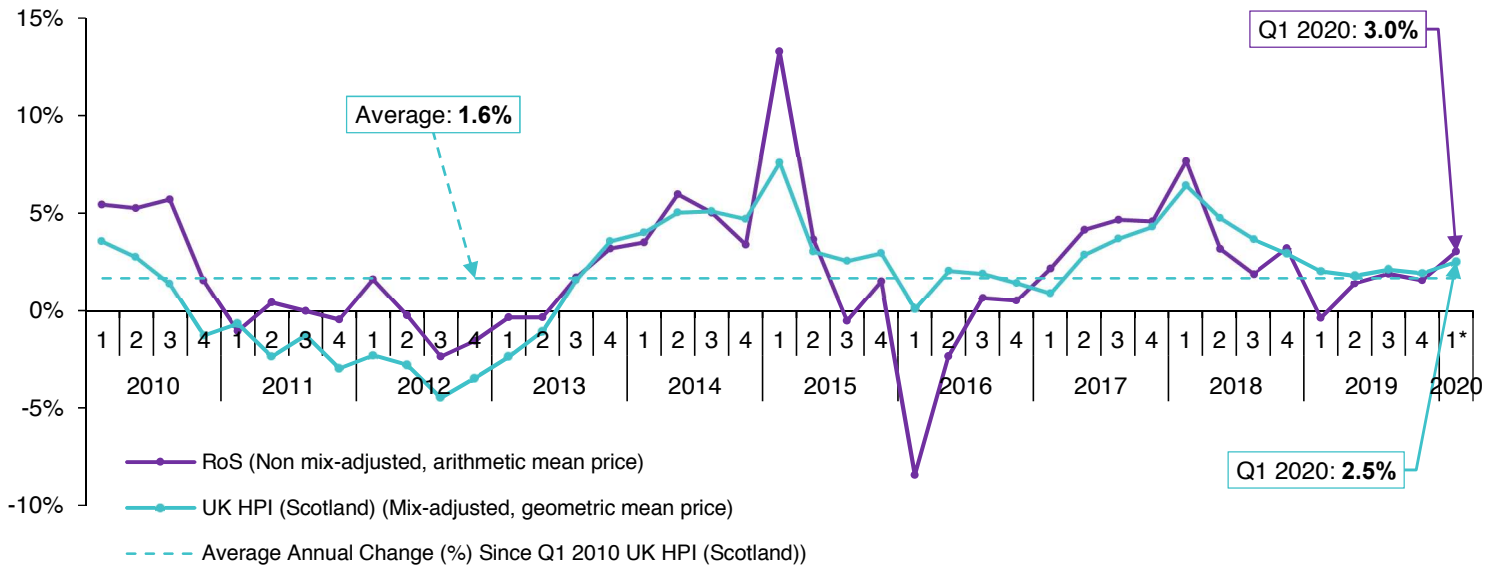


Lowest
Scottish Borders (-9.7%)

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

In March 2020 - the final month of data available before production of the HPI was temporarily suspended due to thin volumes - annual house price growth in Scotland stood at 1.5%. This is only slightly below the rate of change in previous months. For Q1 2020 as a whole, the average house price in Scotland increased by an annual 2.5%, to £152K. This is just above the annual average change in house prices since Q1 2010 of 1.6%. (Source: UK HPI (Scotland)).

Meanwhile, data from Registers of Scotland show that house prices in Scotland increased by an annual 3.0%, to £180K, in Q1 2020.

Key Points

The average house price in Scotland stood at £152K in Q1 2020, an annual increase of 2.5% (Source: UK HPI (Scotland)).

This is just above the average annual change in house prices since Q1 2010 of 1.6%.

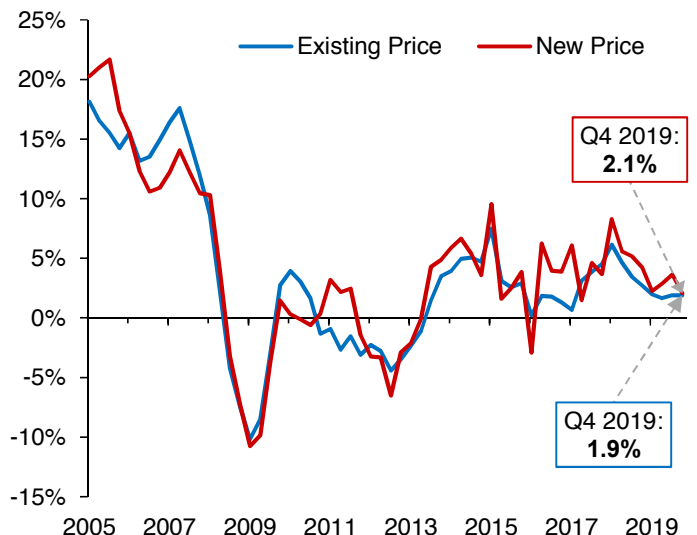
Scottish House Price Performance by Dwelling/Buyer Type

New and existing build house prices have followed similar trends since 2017, as shown in Chart 2.2. In Q4 2019, new build house prices in Scotland increased by an annual 2.1%, to £208K. Meanwhile, existing build house prices in Scotland increased by an annual 1.9%, to £150K.

The average first-time buyer house price in Scotland was £123K in Q1 2020, an annual increase of 2.1%. Meanwhile, the average home mover house price stood at £183K, an annual increase of 3.0% (Source: UK HPI (Scotland)).

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

Source: UK HPI (Scotland)



*The UK House Price Index (HPI) is a joint publication by: HM Land Registry for England and Wales, Land & Property Services Northern Ireland, Registers of Scotland and Office for National Statistics. HPI references in the Review are for Scotland, unless otherwise stated.

2. House Prices: Regional

Scottish Regional House Price Performance

House prices increased on an annual basis in most areas of Scotland in Q1 2020. In Clyde Valley, house prices increased by 6.5% in Q1 2020, to £164K. A 12 month on 12 month comparison - which smooths out some of the volatility in quarterly data - shows that in 2019/20, house prices increased by an annual 3.1% in Clyde Valley.

Over the last five years, house price growth has averaged 3.5% per annum in both Clyde Valley and Edinburgh, Lothian & Borders. Meanwhile, house prices have fallen at an average rate of 1.1% per annum in Aberdeen/shire & Moray. This is likely driven by the fall in oil prices since 2014.

The map below shows how house prices have changed across LA's on a year-on-year basis.

Chart 2.3 Annual Change in House Prices

Source: Registers of Scotland

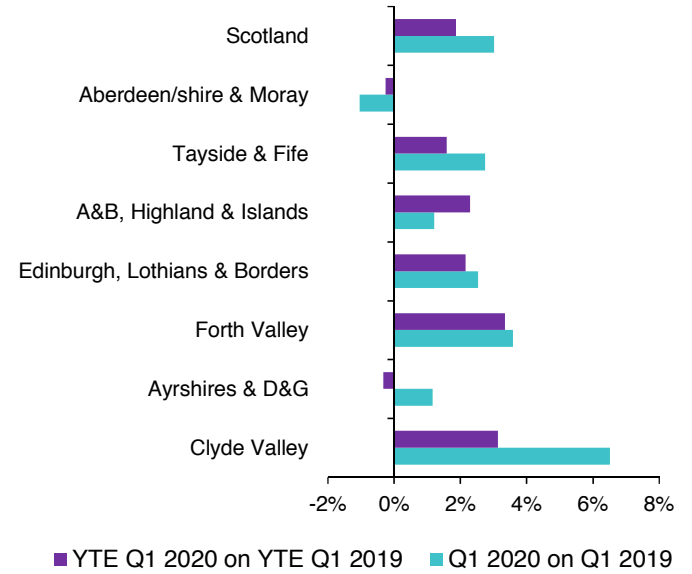
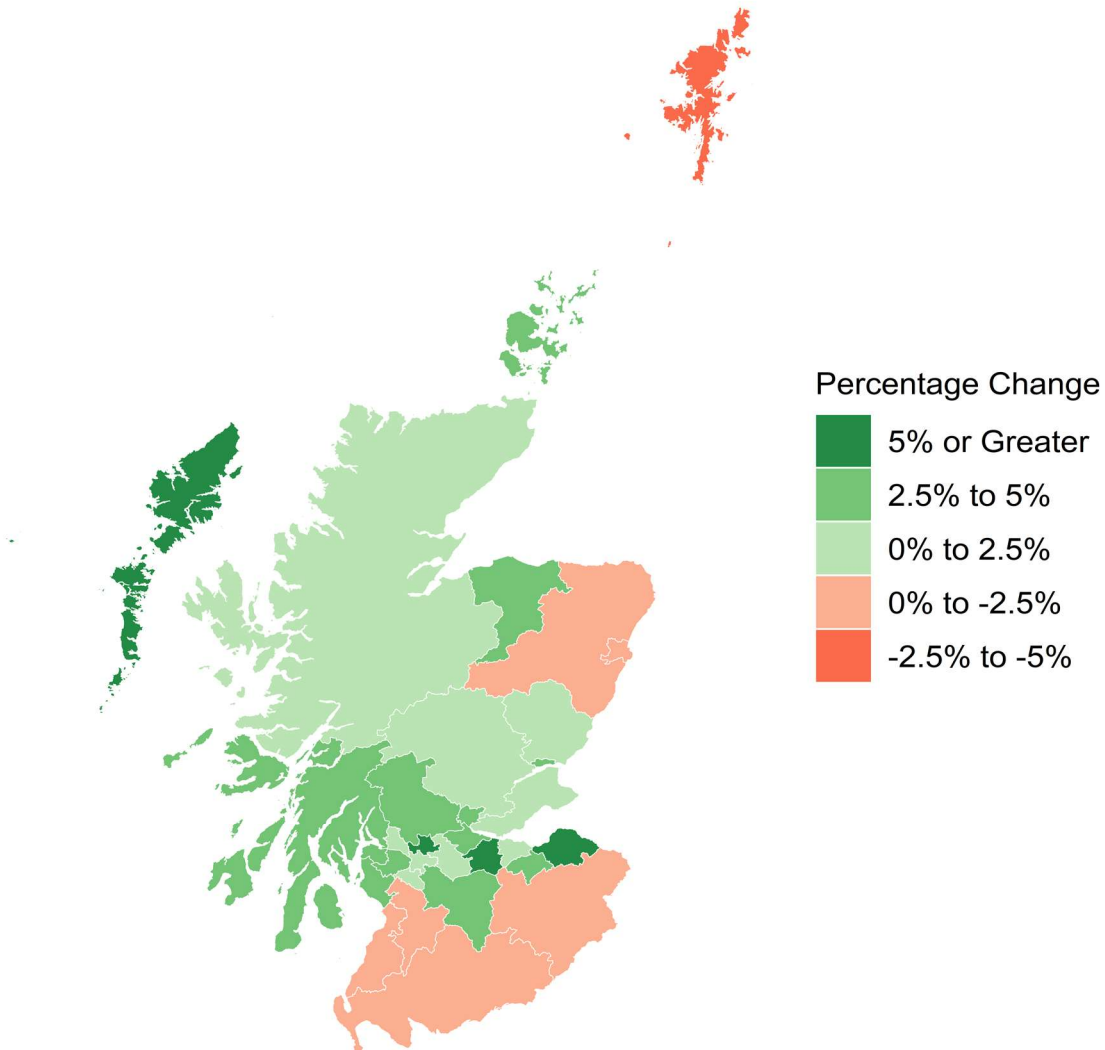


Chart 2.4 Annual Change in House Prices (Year to End Q1 2020)

Source: Registers of Scotland/ONS & Ordnance Survey



Highest
East Dunbartonshire (7.8%)

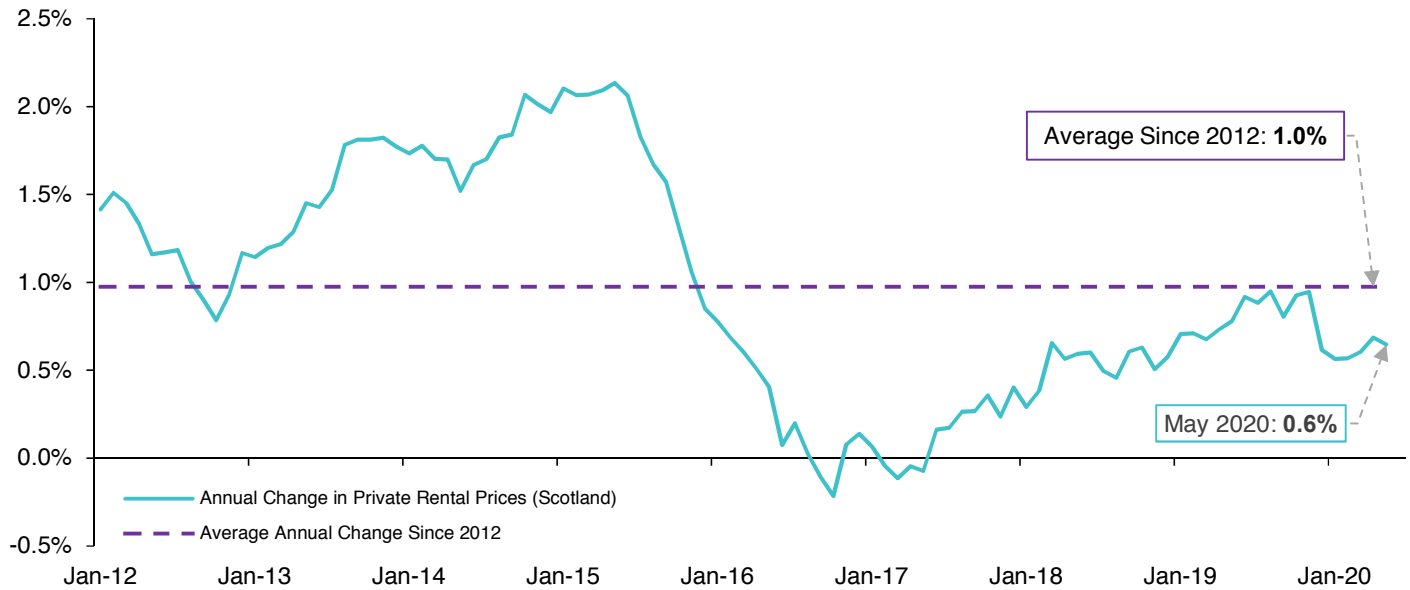


Lowest
Shetland Islands (-3.6%)

3. Rental Prices

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

Source: ONS Rental Price Index



Private Housing Rental Prices

Private housing rental prices increased in Scotland by 0.6% annually in May 2020, which is slightly below the average rate of change since 2012 of 1.0% per annum. Chart 3.1 shows that the rate of rental price growth has slowed since the period of 2012-2016, and has been less than 1% since 2016. For comparison, since 2012 the Consumer Price Index (CPI), which measures the change in the price level of commonly purchased goods and services by households, increased at an average annual rate of 1.8% over the same period (Source: ONS).

The latest Scottish Government private housing rental price statistics show that the median monthly rent for a 2 bedroom property in Scotland was £600 for the year to end September 2019, which was an increase of 0.8% per annum. The median monthly rent for a 2 bedroom property was highest in the Lothian Broad Rental Market Area (BRMA) at £900, and lowest in the Ayrshires BRMA, where the median monthly rent was half that of Edinburgh, at £450.

Key Points

Private housing rental prices in Scotland increased by 0.6% annually in May 2020.

Private housing rental prices in Scotland have increased at an average annual rate of 1.0% since 2012. This is lower than the average annual increase in CPI of 1.8% over the same period.

Social Housing Rental Prices

Social housing rental prices are produced with a time lag and are only published at the national level by the Scottish Housing Regulator. In 2018/19, the average monthly rent for tenants in social housing provided by registered social landlords was £369 (up 3.5% on 2017/18), and £318 for tenants in social housing provided by local authorities (up 3.9% on 2017/18).

Tenure Composition

The latest Scottish Household Survey (2018) showed that:

- 33% of households were **owner occupiers: owned outright**
- 29% of households were **owner occupiers: mortgage**
- 23% of households were **social renters**
- 14% of households were **private renters**

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. There were 6,180 new mortgages advanced to first-time buyers in Scotland in Q1 2020, an annual decrease of 8.0% (-540). Meanwhile, there were 6,280 new mortgages advanced to home movers in Scotland in Q1 2020, down by an annual 4.4% (+290). These decreases in new lending likely reflect Covid-19 starting to affect the property market towards the end of the quarter. In total, new mortgages advanced to home buyers in Q1 2020 were down by an annual 6.2% (Source: UK Finance).

Mortgage Approvals

Chart 4.2 plots the monthly number of mortgage approvals across the UK (Source: BoE) for house purchase. Mortgage approvals for house purchase are the firm offers of lenders to advance credit fully secured on dwellings by a first charge mortgage, and therefore are a useful leading indicator of mortgage sales as they reflect activity early in the sales process. Chart 4.2 shows that across the UK there was a significant drop in the number of mortgage approvals for house purchase in April and May 2020, down 82% on the same period last year. Meanwhile, the number of mortgage approvals for remortgaging (with a different lender) decreased by 37% annually over the same period (Source: BoE).

Loan-to-Value (LTV) Ratios

In Q1 2020, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 81.4%. This is down 1.2 percentage points on Q4 2019 and down 0.2 percentage points annually. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 71.7% in Q1 2020, up 0.2 percentage points on Q4 2019 and up by an annual 0.4 percentage points (Source: UK Finance). This is shown in Chart 4.3.

Lenders cut the number of mortgage products they offer by half in April, relative to the start of 2020, according to analysis of Moneyfacts data by the Bank of England. Most of the products cut were those with higher LTV ratios. This was due in part to difficulties in obtaining in-person valuations, resource pressures from responding to Covid-19 queries and heightened economic uncertainty. There has since been some recovery in high-LTV products, but this has been modest. For example, Nationwide has reduced its maximum LTV for new business to 85%.

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

Source: UK Finance

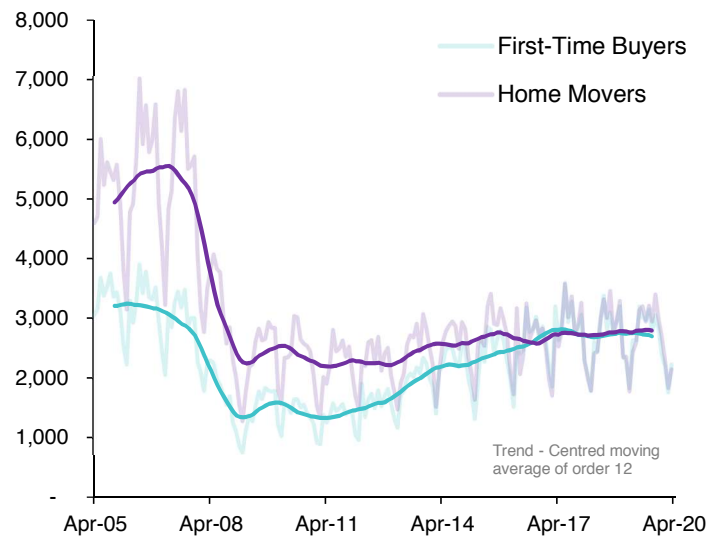


Chart 4.2 Mortgage Approvals (House Purchase) (Monthly) (UK)

Source: Bank of England

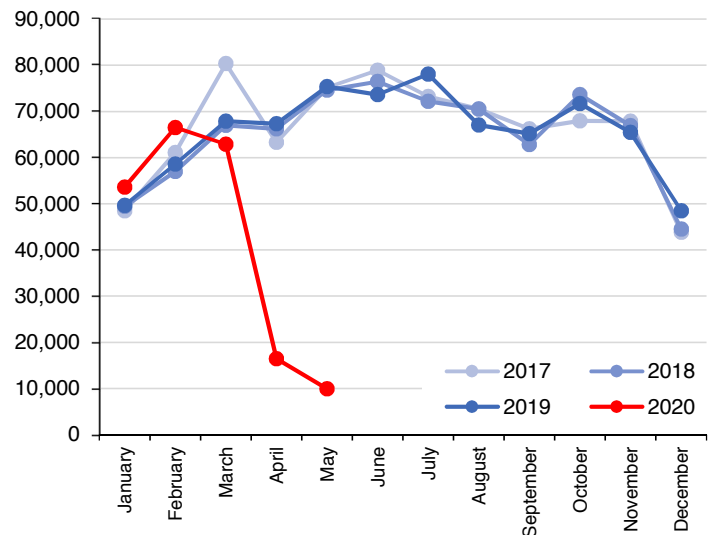
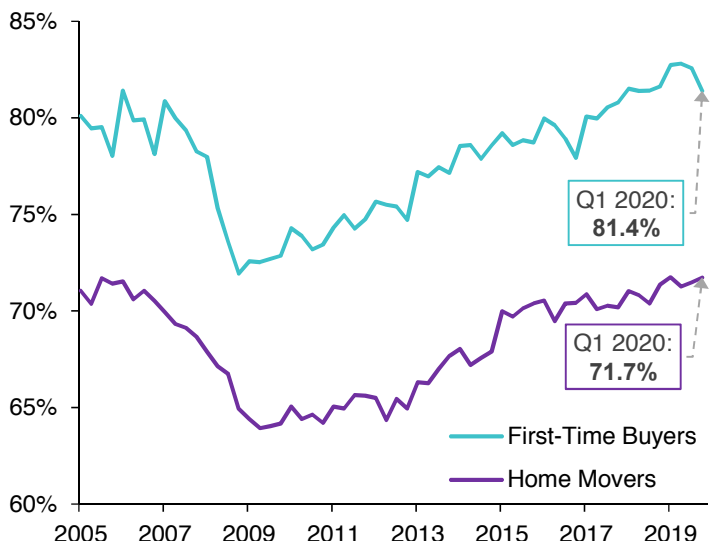


Chart 4.3 Mean Loan to Value Ratio (Quarterly), Scotland

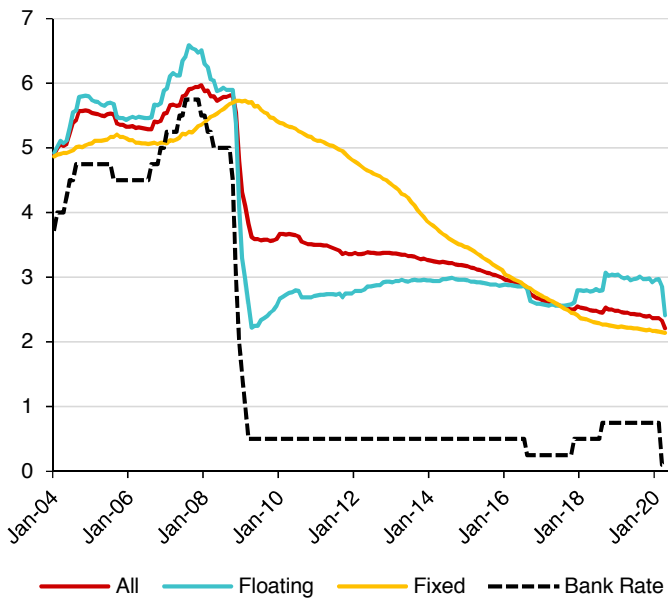
Source: UK Finance



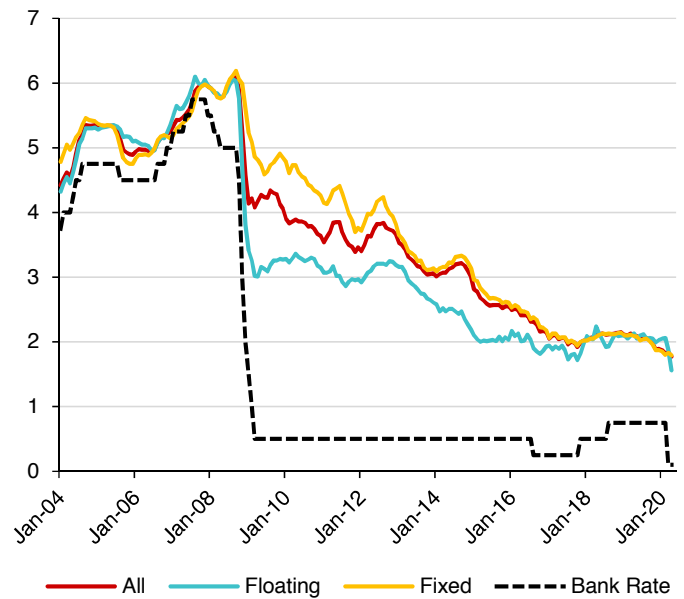
4. Lending To Homebuyers: Interest Rates

Charts 4.4 (L) and 4.5 (R): Effective Monthly Mortgage Interest Rate (UK)
Source: Bank of England

Outstanding Balances



New Mortgages



Mortgage Interest Rates

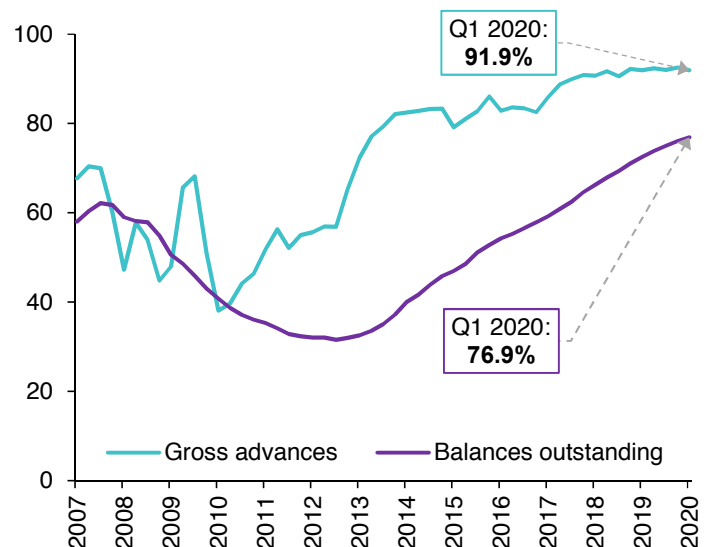
Charts 4.4 and 4.5 show the effective interest rate on outstanding mortgage balances and new mortgage advances (Source: BoE). The effective interest rate is the average rate charged on the stock of loans/new lending in a given month.

In March 2020, Bank Rate was cut by a cumulative total of 65 basis points. The latest BoE data for April 2020 suggests that most of this rate cut has been fed through to floating rate mortgage customers already. Since the start of the year, the average floating rate has fallen by 55 basis points for outstanding mortgages and 49 basis points for new mortgages. There hasn't been much change to fixed rates on new mortgages though, dropping only 6 basis points since the start of the year. Given the low level of sales activity in April 2020 and that not much time has passed since the rate cut, it is too early to say whether this reflects lenders pricing in increased risk due to the economic uncertainty arising from Covid-19.

Chart 4.6 shows that the vast majority of new mortgage lending (91.9%), as well as most outstanding mortgages (76.9%), are on fixed rates, as of Q1 2020 (Source: FCA).

Chart 4.6 Share of Mortgage Lending at Fixed Rates: UK, % (Quarterly)

Source: FCA



Key Points

The cumulative cut in Bank Rate in March 2020 of 65 basis points has largely been fed through to existing and new mortgage customers on floating rates, but there has been little movement in new fixed mortgage rates.

4. Lending To Homebuyers: Arrears

Arrears

There were 14,466 regulated mortgages that went into arrears across the UK in Q1 2020, an increase of 10.6% (+1,391) on Q4 2019. This is the second consecutive quarter where the number of mortgages entering arrears has risen. As shown in Chart 4.7, this is still 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. In total, 130,739 mortgages were in arrears at the end of Q1 2020 across the UK, up 2.6% (+3,308) on Q4 2019 (Source: FCA).

The share of lenders' mortgage balances outstanding that were in arrears stood at 0.86% at the end of Q1 2020, which is up 2.2% on Q4 2019. Chart 4.8 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. The mortgage payment 'holiday' schemes offered by lenders, which enable customers affected by Covid-19 to reduce or stop repayments for a limited period, should reduce the number of accounts entering into arrears.

Possessions

There were 1,065 new possessions across the UK in Q1 2020, down 19.2% (-253) on Q4 2019. The number of new possessions is considerably lower than at the height of the 2008 financial crisis, when there were 10,268 new possessions in Q1 2009 (Source: FCA). The FCA expects all lenders to stop repossession action until 31 October 2020, regardless of whether borrowers' income has been affected by Covid-19. Information on mortgage holidays is in the box below.

Chart 4.7 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)

Source: FCA

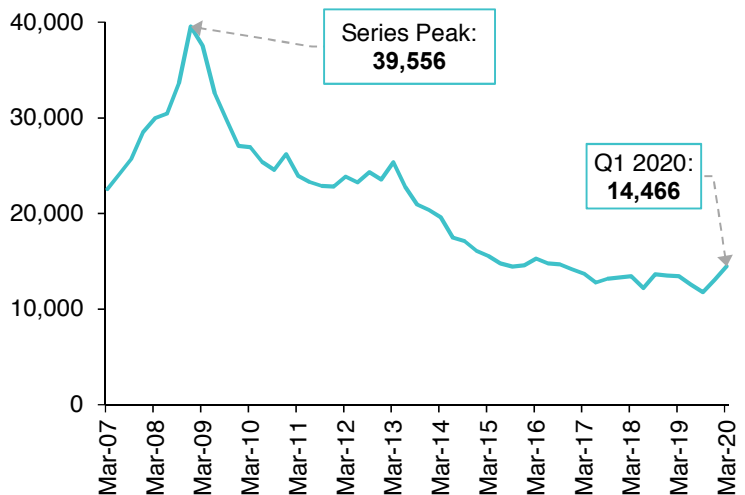
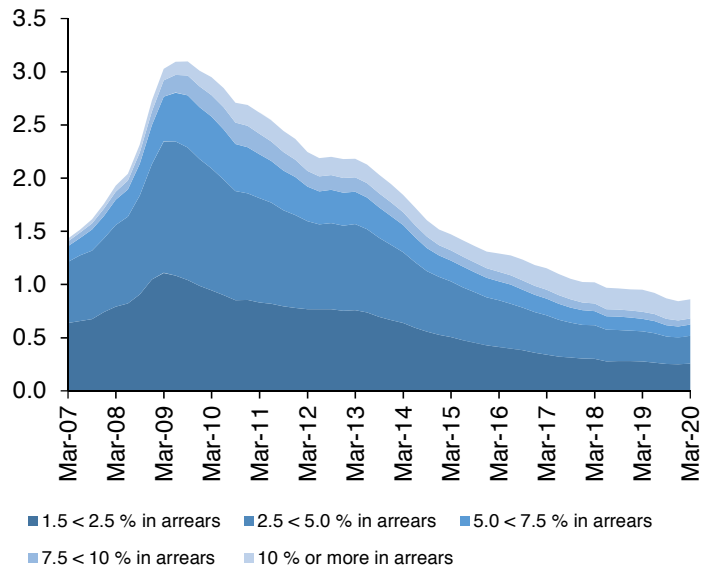


Chart 4.8 Balances in Arrears by Severity: UK, % (Quarterly)

Source: FCA



The Cost of Mortgage Payment 'Holidays'

UK Finance report that there have been 1.86 million mortgage payment 'holidays' granted as of 28 May 2020, which is around one in six mortgages across the UK. On 22 May 2020, the FCA announced that customers yet to request a payment 'holiday' would have a further three months to do so (until 31 October 2020) and, for those already taking a payment 'holiday' and unable to resume full payments, their lender should offer them a further full or partial payment deferral for 3 monthly payments. A mortgage payment 'holiday' allows the mortgage customer to temporarily pause repayments if they have been affected by Covid-19; however, this will often increase the overall cost of the mortgage. Interest will still accrue during the mortgage payment 'holiday' period and is typically added to the outstanding principal amount. Borrowers will be charged interest on this higher outstanding principal balance, increasing the cost of interest payments over the remainder of the mortgage repayment period.

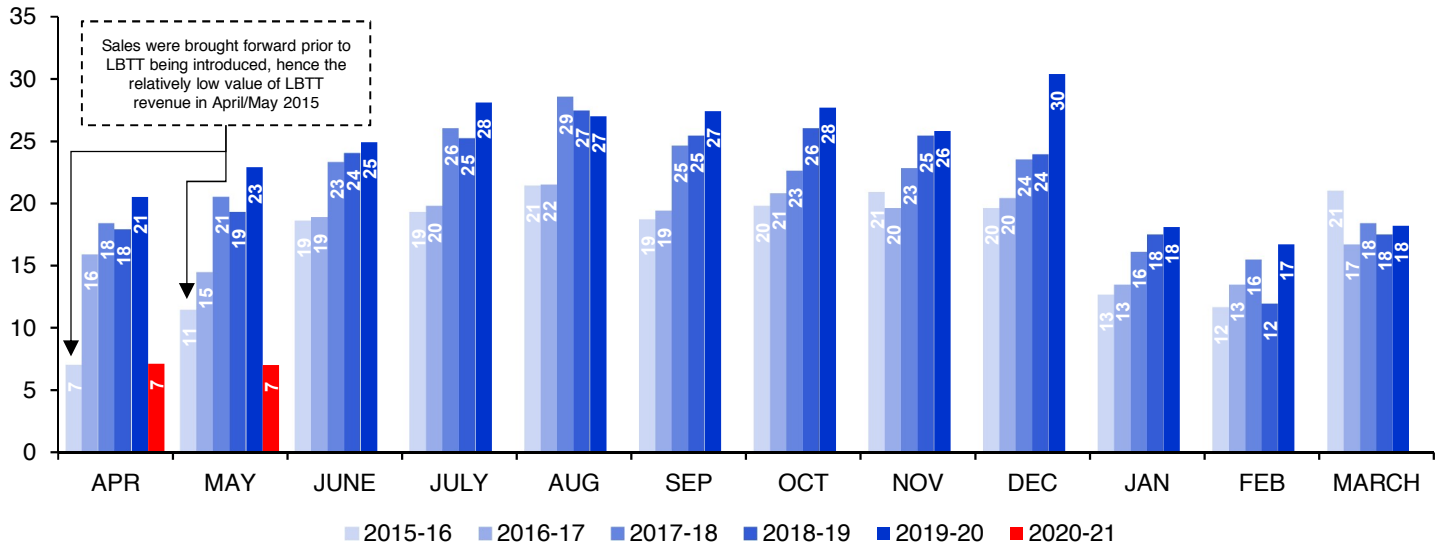
We estimate that for the average owner occupier with a repayment mortgage in Scotland, a 3 month mortgage 'holiday' with no extension to the mortgage repayment period could result in monthly mortgage repayments increasing by c. £10 per month. In terms of the actual cost of the 'holiday' - resulting from the capitalisation of interest - this is estimated to be c. £300 over the remainder of the mortgage repayment period. This assumes accrued interest from the holiday period is capitalised into the outstanding principal amount and repaid over the remainder of the mortgage repayment period. For a 6 month holiday, average mortgage repayments are estimated to increase by c. £20 per month and cost c. £600 over the remainder of the mortgage repayment period.

Methodology: The Scottish Household Survey estimates that in 2018 there were 720,000 households with a mortgage in Scotland, and that these households had spent 9 years on average at their current address. At the end of Q3 2019, UK Finance reported that the value of outstanding mortgage balances in Scotland stood at £62.8bn. This gives an average outstanding balance of just under £90K per mortgage customer in Scotland. We have assumed the mortgage repayment period is 25 years and the interest rate for the remainder of the mortgage is 2.21% (the average rate on existing mortgages in April 2020). In addition, we have assumed that there is no extension to the mortgage repayment period and missed interest payments are capitalised into the outstanding principal amount.

5. Residential LBTT; Homelessness

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

Source: Revenue Scotland



Residential LBTT

There has been a sharp fall in residential LBTT revenue in 2020-21 due to the slowdown in housing market activity. In April and May 2020, total residential LBTT revenue (excluding ADS) amounted to £14m, which is down by an annual 68%. Meanwhile, gross ADS liabilities were down by a similar amount (71%) annually, and totalled £8m in April and May 2020. The fall in the number of residential LBTT returns in April and May 2020 (of 67% annually) was evenly distributed across the residential LBTT price bands.

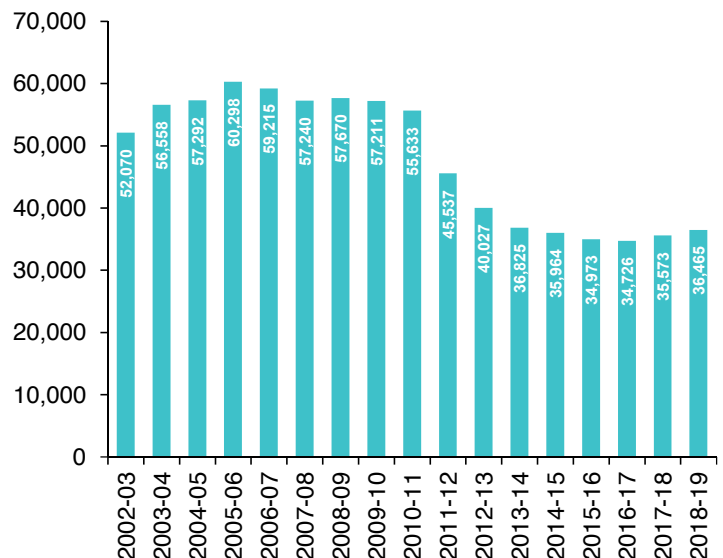
Under the Coronavirus (Scotland) (No. 2) Act 2020, there has been an increase of 18 months to the period in which some buyers can dispose of a previous main residence and still be eligible for a repayment of the ADS. The new measure will only apply to those buyers who purchased a new main residence prior to 25 March 2020, with an effective date for the purchase between 24 September 2018 and 24 March 2020. These buyers will have paid ADS but might have been unable to dispose of their previous main residence due to restrictions on home moves within the original 18 month time limit. The Scottish Fiscal Commission's costing of this policy measure is c. £15m, spread over three years.

Homelessness

There were 36,465 homelessness applications in Scotland in 2018-19, an annual increase of 2.5% (+892). This is the second consecutive year that homelessness applications have increased; however, homelessness applications are still 36.3% below the 10 year peak value (Source: Scottish Government).

Chart 5.2 Number of Homelessness Applications: Scotland (Annual)

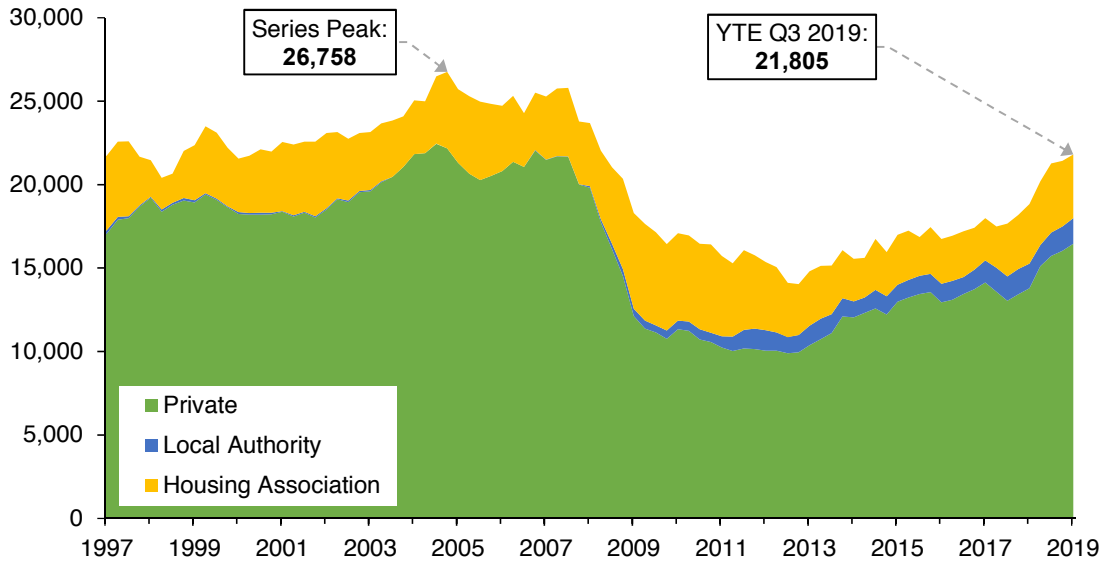
Source: Scottish Government



6. Housing Supply: Starts and Completions

Chart 6.1 Scottish New Build Completions by Sector (4Q Moving Total, to Q3 2019)

Source: Scottish Government



Key Points

In 2019/20, new build AHSP starts were up by an annual 10.8%.

Since the start of Q2 2016, there have been 34,791 completions through the Affordable Housing Supply Programme.

The latest SG quarterly house building statistics for Q2 2020 just feature an update on AHSP activity. This is because focussing efforts to respond to Covid-19, the impact of lockdown on some local authorities being able to access IT systems, and staffing issues arising from Covid-19 has led to some local authorities being unable to meet usual new build data collection deadlines.

Affordable Housing Supply Programme

A total of 9,286 affordable homes were completed in 2019/20, down by an annual 2.9% (-282). Meanwhile, there were 12,045 starts in 2019/20, up by an annual 10.8% (+1,173). Since the start of Q2 2016, there have been 34,791 completions through the Affordable Housing Supply Programme (Source: SG).

New Build: All Sectors (Last Updated Q1 2020)

There were 21,805 new build completions across all sectors in Scotland in the year to end Q3 2019, an annual increase of 15.8% (+2,972). This is shown in Chart 6.1, which includes the composition of new build sales by sector. Meanwhile, there were 24,873 new build starts across all sectors in the year to end Q3 2019, up by an annual 24.4% (+4,876).

Geographic Trends (Last Updated Q1 2020)

In the year to end Q3 2019, new build completions increased annually in 21/32 Scottish local authorities. The largest percentage increase was in the region Edinburgh, Lothians and Borders (+24.7%, +1,178) to 5,955 completions (as shown in Chart 6.2). Meanwhile, in the year to end Q3 2019, new build starts increased annually in 20/32 Scottish local authorities. The largest percentage increase in new build starts was in the Clyde Valley region (+52.6%, +2,864), with 8,309 new build starts (Source: SG).

Chart 6.2 Annual Change in New Build Starts and Completions (YTE Q3 2019)

Source: Scottish Government

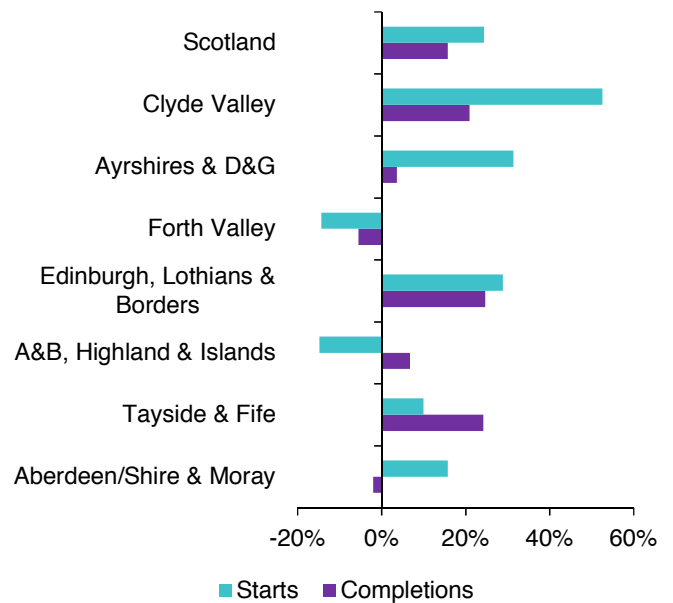
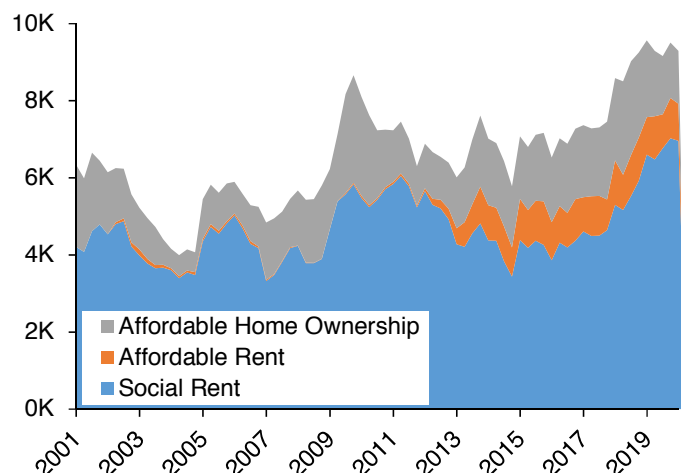


Chart 6.3 AHSP Completions (4Q Moving Total, to Q3 2019)

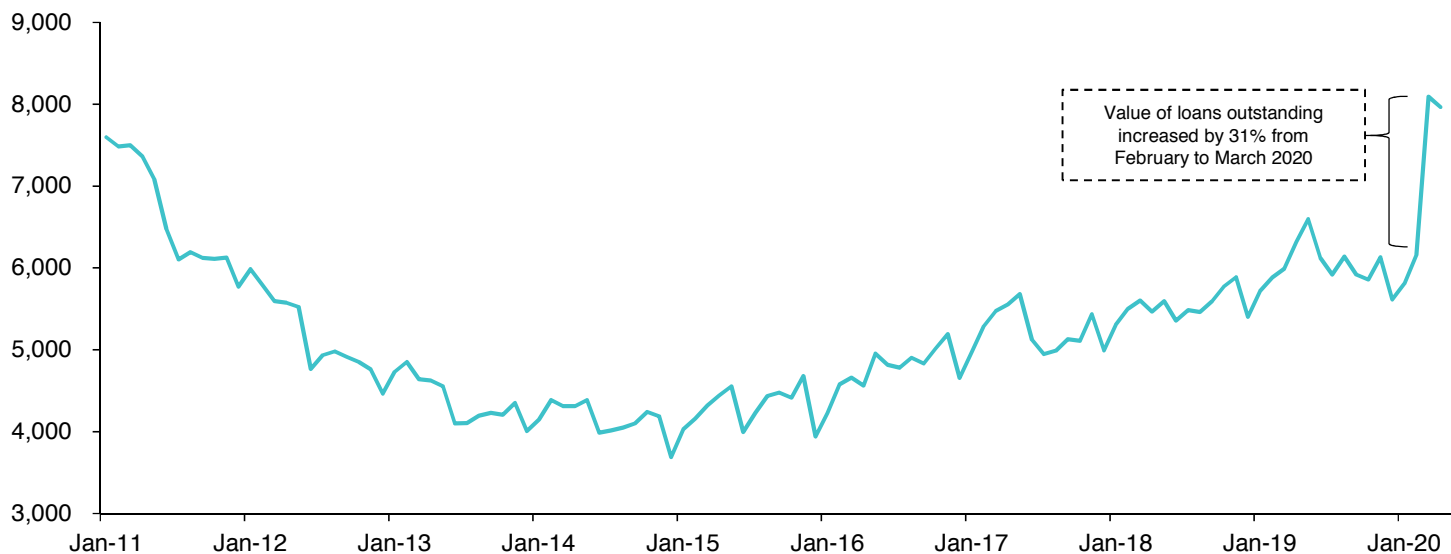
Source: Scottish Government



7. House Building: Lending

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

Source: Bank of England



Lending to House Builders

The value of loans outstanding to UK firms involved in the construction of domestic buildings jumped by nearly one-third from February to March 2020, increasing by £1.9bn (+31%), as shown in Chart 7.1. However, data spanning the construction sector more broadly suggests that this increase in lending is mostly attributable to larger firms (shown in Chart 7.2).

From February to April 2020, the value of loans outstanding to UK construction firms increased by 18% for large firms, to £20.6bn, but decreased by 1% for SME firms, to £14.7bn (shown in Chart 7.2, with lending indexed to January 2016). This may reflect larger firms having easier access to finance and being able to draw down credit lines more quickly.

The Scottish Government launched a £100 million emergency loan fund on 18 May 2020 to support small and medium-sized (SME) house builders with liquidity issues due to the temporary closure of housebuilding sites. The fund closed to new applications on 29 June. For more detail on this scheme see <https://www.gov.scot/publications/coronavirus-covid-19-liquidity-support-sme-housebuilders/>

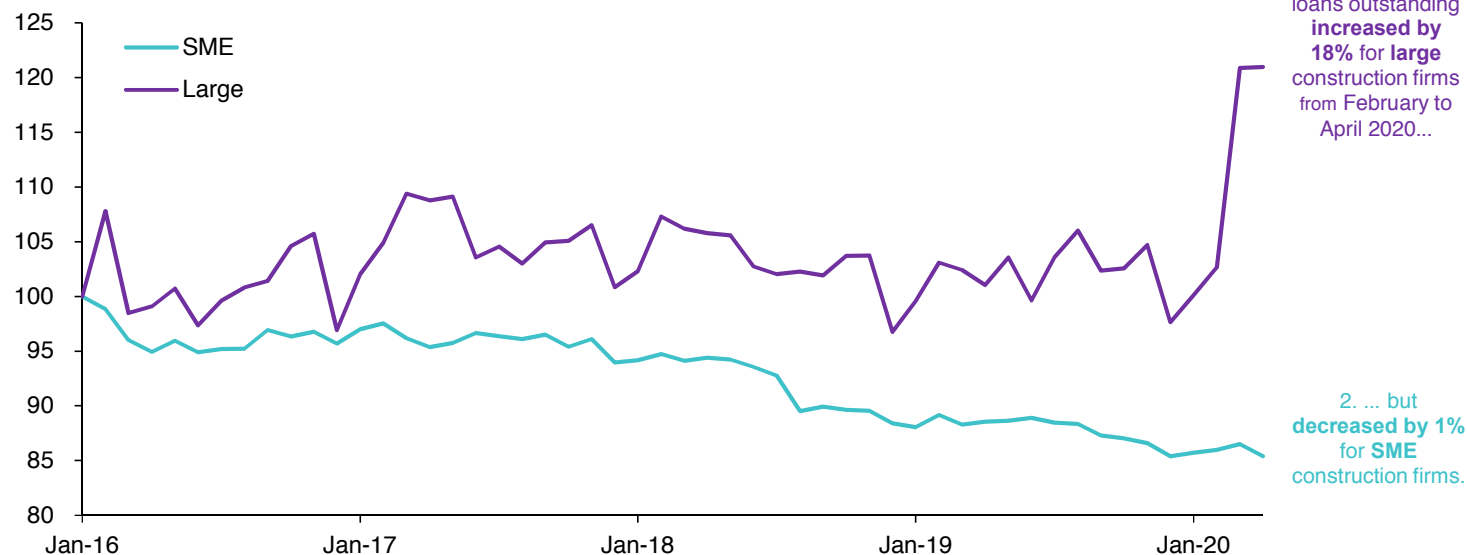
Key Points

The value of loans outstanding to firms involved in the construction of domestic buildings across the UK increased by nearly one-third from February to March 2020.

The vast majority of the increase in lending in the construction sector as a whole was attributable to large firms.

Chart 7.2 Loans Outstanding to Construction Firms by Size: UK (January 2016 = 100)

Source: Bank of England



1. The value of loans outstanding increased by 18% for large construction firms from February to April 2020...

2. ... but decreased by 1% for SME construction firms.

7. House Building: Costs

Construction Material Prices

Data from BEIS on the cost of construction materials show that in April 2020, the cost of construction materials used in new build housing fell by 0.6% annually. This follows a spike in the cost of construction materials from mid-2016 to 2019 (shown in Chart 7.3), coinciding with the depreciation of Sterling after the Brexit referendum.

Chart 7.3 Annual Change in Price of Construction Materials for New Build Housing: UK (Monthly)

Source: BEIS

