

Scottish Housing Market Review

October - December 2019

Key points for this issue:

Sales

- There were 28,665 sales registered across Scotland in Q3 2019, which is a similar level to Q3 2018 (down just 0.1%, -16 sales). This slight dip is the first annual decrease in sales since Q2 2018 (Source: Registers of Scotland).
- The longer term trend is that the level of sales has been stabilising over the past three years, following a period of recovery after the 2008 financial crisis.

Prices

- The average house price in Scotland stood at £155K in Q3 2019, up by an annual 1.9% (+£3K). The rate of house price growth has moderated since the recent peak in Q1 2018; however, it is still just above the average rate of house price growth over the past 10 years (of 1.6%). In real terms, the average Scottish house price remains below the pre-recession peak (in Q3 2007) (Source: ONS HPI).

Lending

- Lending conditions for FTBs in Scotland continue to improve. The mean loan to value ratio on new mortgages to FTBs in Scotland stood at 82.8% in Q3 2019, the highest value since Q2 2005 (when the series starts). The mean loan to income ratio on new mortgages to FTBs in Scotland is also at its highest level since the series starts in Q2 2005, at 3.16 (Source: UK Finance).
- This suggests that lenders are increasingly willing to lend at high LTV and LTI ratios to FTBs in Scotland.

House Building

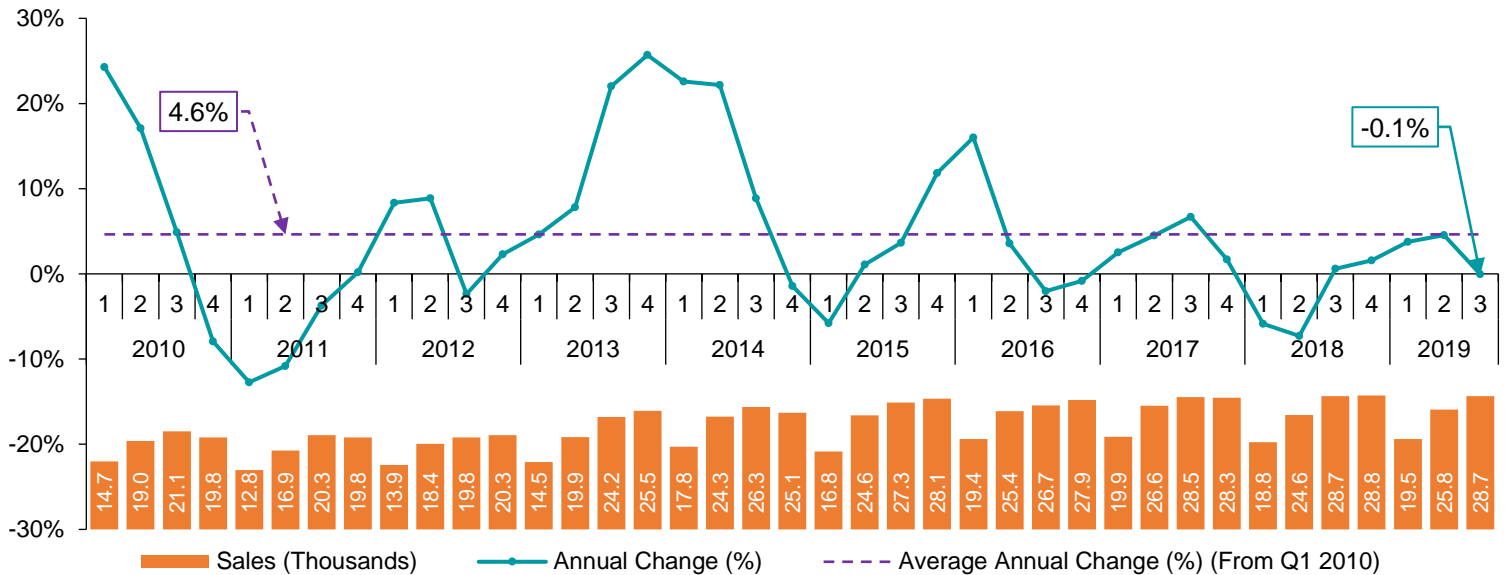
- There were 21,403 new build completions across Scotland in the year to end Q2 2019, an annual increase of 17.6% (+3,210). The annual rate of growth in new build completions has been positive for the last 8 consecutive quarters.
- The latest AHSP statistics show that in the year to end Q3 2019, there have been 8,976 completions, down slightly by an annual 0.6% (-58). Although this is a slight decrease, AHSP completions are up by just over one-fifth (22.0%) compared to 2016/17 (the AHSP includes new build, rehabilitations and off-the-shelf purchases) (Source: Scottish Government).



1. Sales

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

Source: Registers of Scotland



There were 28,665 residential property sales registered across Scotland in Q3 2019, which is a similar level to Q3 2018 (down just 0.1%, -16 sales). This slight dip is the first annual decrease in sales since Q2 2018, as shown in Chart 1.1. More broadly, Chart 1.2 shows that the level of sales has stabilised over the past three years (shown by the 12 month moving average of sales). This follows the sharp decline in sales following the 2008 financial crisis and the period of recovery from 2013-2016 (Source: Registers of Scotland).

Sales growth was strongest in Aberdeen/shire & Moray in Q3 2019, where sales increased by an annual 2.3% (+61 sales). Aberdeen/shire & Moray experienced 10 consecutive quarters of negative sales growth from Q4 2014 to Q1 2017; this coincided with the significant fall in the price of oil. Sales in Aberdeen/shire & Moray in Q3 2019 were still 24.7% below the level of sales five years ago. There was also an increase in sales in Edinburgh, Lothians and the Borders (1.1%, +63 sales) and in Clyde Valley (1.0%, +92 sales) (Source: Registers of Scotland).

There was a fall in sales in the remaining four Scotland areas. The largest fall was in Tayside & Fife, where sales decreased by an annual 2.9% (-121 sales). Meanwhile, sales in Forth Valley decreased by an annual 2.7% (-44 sales) - this is the third consecutive quarter of negative sales growth (Source: Registers of Scotland).

Chart 1.2 Residential Property Sales (Monthly)

Source: Registers of Scotland

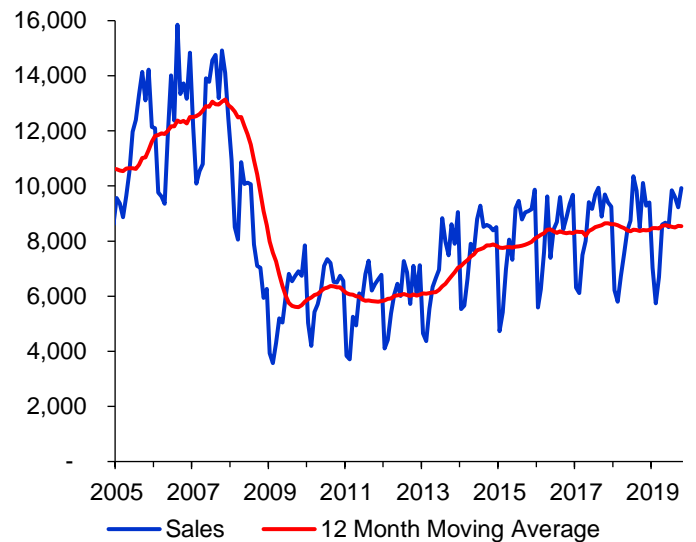
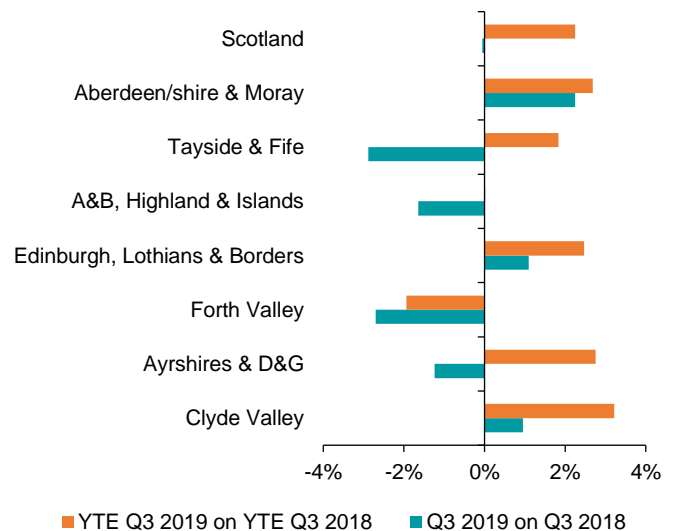


Chart 1.3 Annual Change in Residential Property Sales: Scotland Areas - Data to Q3 2019

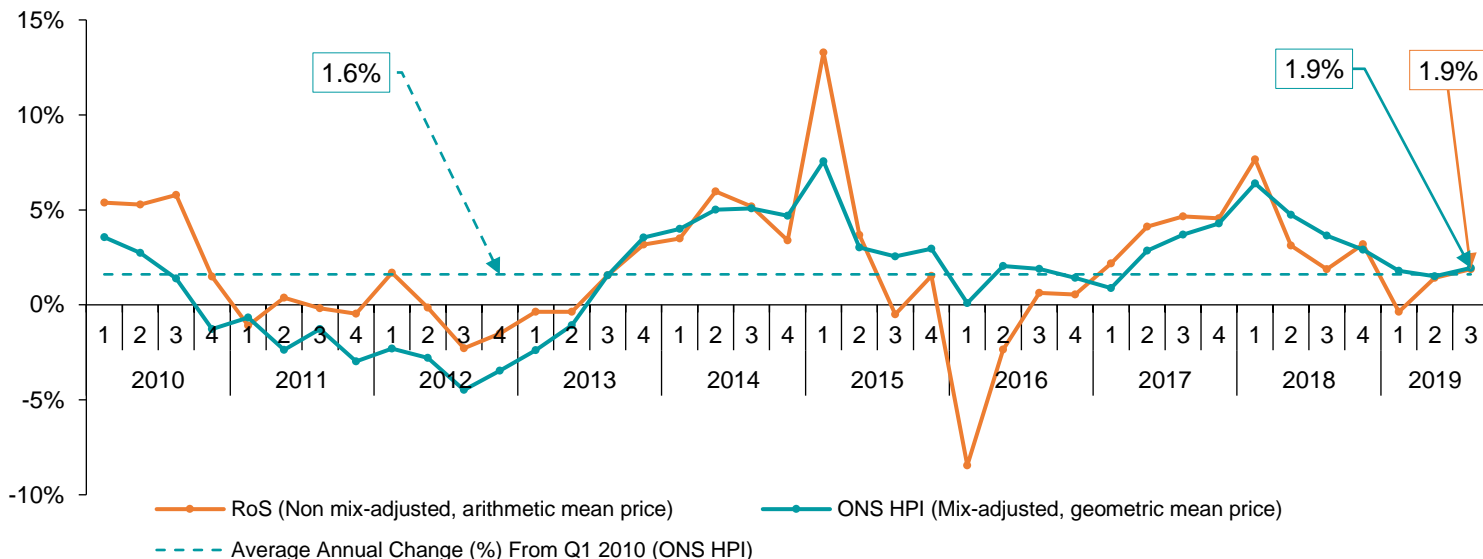
Source: Registers of Scotland



2. House Prices

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

Source: Registers of Scotland/ONS HPI



The average house price in Scotland stood at £155K in Q3 2019, up by an annual 1.9% (+£3K). As shown in Chart 2.1, house price growth has moderated since the recent peak in Q1 2018; however, it is still just above the average rate of house price growth since Q1 2010 (of 1.6%). Chart 2.1 also shows that since the start of 2019, the annual rate of house price growth has been relatively constant (between 1.5% and 1.9%). Chart 2.2 plots the average house price in current and constant (2019) prices, with the latter series removing the effect of inflation. In real terms, the average Scottish house price increased by just 0.1% in Q3 2019. The Chart also shows that, in real terms, house prices remain below the peak just prior to the 2008 financial crisis (in Q3 2007) (Source: ONS HPI/CPI).

The average new build house price stood at £206K in Q2 2019, up by an annual 2.1%, while the average existing build property price was £149K, up by an annual 1.4%. From Q2 2015 - Q2 2019, the average annual rate of change in new build house prices has been 0.9 percentage points higher than existing build price growth. This difference was most noticeable in 2016/17 and was likely due to the depreciation of Sterling at that time (and its contribution to the sharp rise in the cost of construction materials used in new build housing in 2016). The average First Time Buyer house price stood at £126K in Q3 2019, up by an annual 1.9%, while the average former owner occupier house price stood at £185K, up by an annual 2.0% (Source: ONS HPI).

Chart 2.3 shows the annual change in house prices in Q3 2019 for seven Scotland areas (this uses RoS data, which reports the arithmetic mean). The highest rate of annual house price growth in Scotland in Q3 2019 was in Forth Valley, where house prices increased by an annual 6.8%.

Chart 2.2 House Prices in Current and Constant (2019) Prices: Scotland (Quarterly)

Source: ONS HPI/CPI

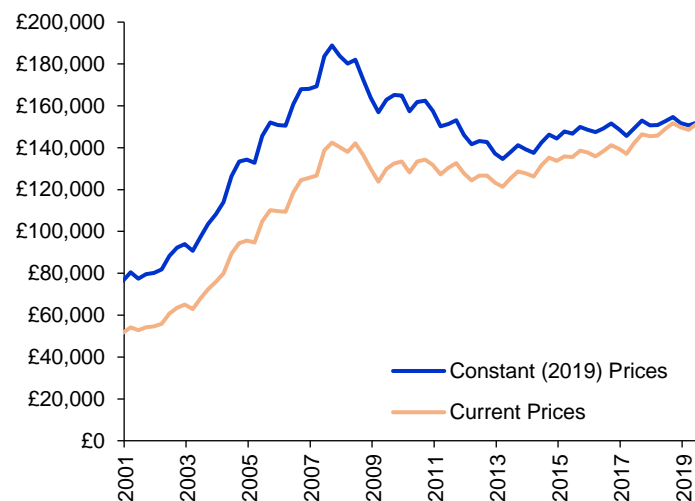
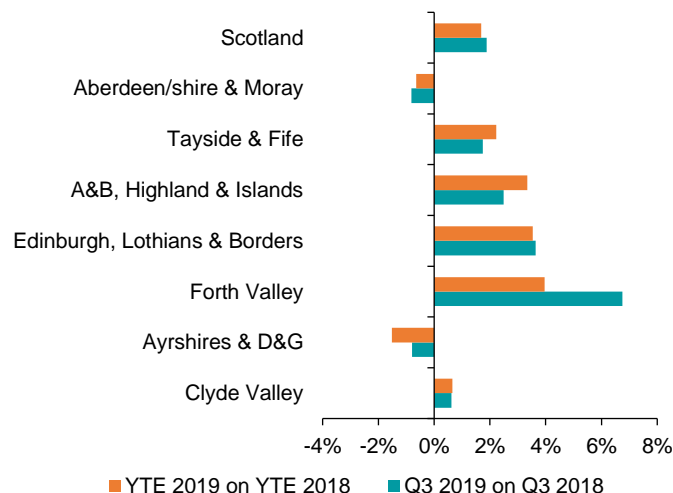


Chart 2.3 Annual Change in House Prices: Scotland Areas - Data to Q3 2019

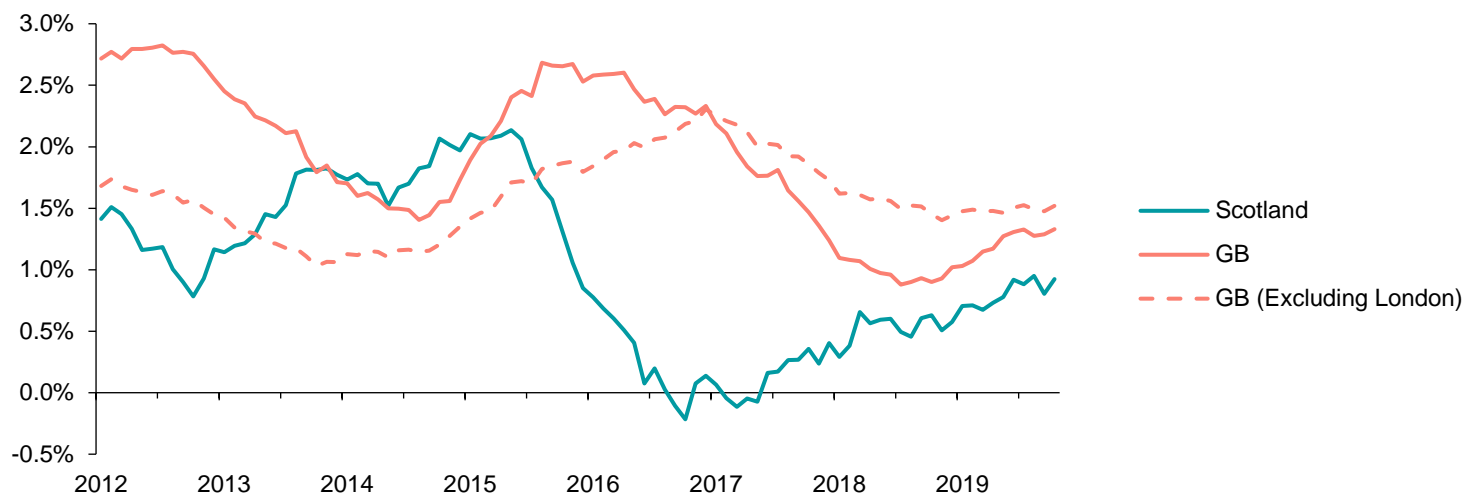
Source: Registers of Scotland



3. Rental Prices

Chart 3.1 Annual Rental Price Growth (Monthly)

Source: ONS Rental Price Index



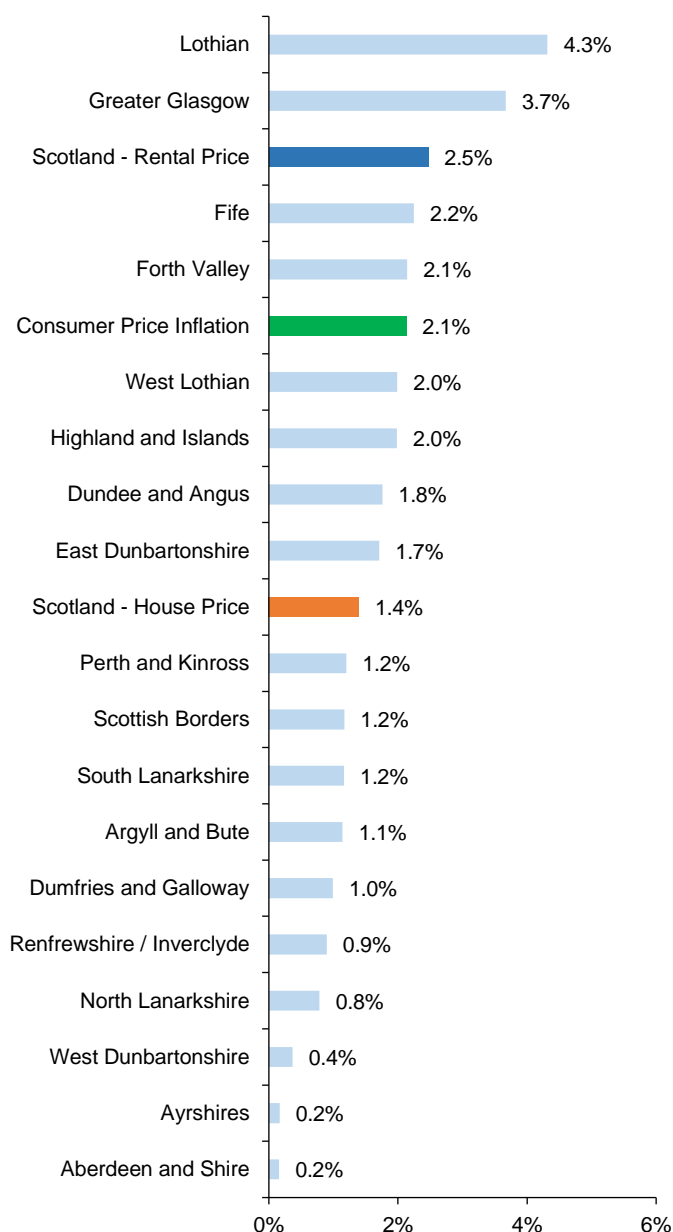
The ONS Rental Price Index for Scotland increased by an annual 0.9% in Scotland in October 2019. The rate of increase in the index has been rising since mid-2017 and now stands at 0.6 percentage points below the rate of increase in the GB (excluding London) index.

In the year to end September 2019, the mean monthly rental price of a 2 bedroom property in Scotland stood at £668 per month, an increase of 2.4% on the previous year. The largest annual increase in the mean monthly rental price of a 2 bedroom property was in Greater Glasgow, where the mean monthly rental price increased by 5.3%, to £780. Meanwhile, the largest annual fall in rental prices was in East Dunbartonshire, where rental prices fell 1.0%, to £677. Since 2010, the mean monthly rental price has increased by 24.6% across Scotland, or 2.5% per annum on an annualised basis (as shown in Chart 3.2). This is higher than the increase in the mean house price over the same period, of 13.3% (or 1.4% per annum on an annualised basis) (Source: Scottish Government/RoS).

Chart 3.2 shows the annualised rate of rental price growth for a 2 bedroom property in the 18 Scottish BRMAs, from 2010 to 2019. It also contains annualised rental price and house price growth for Scotland. This Chart shows that, since 2010, rental prices have grown by approximately 4.3% per annum in the Lothian BRMA, 1.8 percentage points more per annum than the Scottish rental price average. Meanwhile, the Scottish annualised rate of rental price growth is higher than the Scottish annualised rate of house price growth over this period (and above the annualised rate of consumer price inflation). The average Scottish house price increased at 1.4% per annum, 1.1 percentage points less per annum than the average Scottish rental price (Source: Scottish Government/RoS/ONS CPI).

Chart 3.2 Annualised Rental Price Growth (2010 - 2019) (2 Bed Property, Mean Rental Price)

Source: SG/RoS/ONS CPI



4. Lending: To Homebuyers

There were 8,810 new mortgages advanced to First-Time Buyers (FTBs) in Scotland in Q3 2019, up by an annual 1.6% (+140). This is an improvement on last quarter, when the number of new mortgages to FTBs decreased by an annual 0.3%. Meanwhile, there were 9,060 new mortgages advanced to home movers, down by an annual 1.8% (-170). Chart 4.1 plots the 12 month moving average of new mortgages to FTBs and Home Movers (HM) and shows that new mortgages to FTBs have almost recovered to pre-financial crisis levels. New mortgages to home movers still lag behind the pre-financial crisis peak (Q3 2007, 18,450) by around 51% (Source: UK Finance).

Loan to Value (LTV) ratios for FTBs have continued to increase, a trend that has been fairly consistent since 2009. In Q3 2019, the mean LTV to FTBs in Scotland stood at 82.8%, up by an annual 1.4 percentage points. As shown in Chart 4.2, this is the highest level that the series has reached since Q2 2005 (when the series begins). Meanwhile, the mean LTV to home movers in Scotland stood at 71.3%, up by an annual 0.4 percentage points (Source: UK Finance).

Loan to Income (LTI) ratios for FTBs in Scotland increased for the 11th consecutive quarter in Q3 2019, with the mean LTI ratio standing at 3.16 (up by an annual 0.02 points). This is the highest level that the series has reached since Q2 2005 (when the series begins). The mean LTI ratio for home movers in Scotland has also been steadily increasing, and stood at 2.85 in Q3 2019 (the 17th consecutive quarter of growth) (Source: UK Finance).

The mean FTB deposit in Scotland stood at £25.5K in Q3 2019, down by an annual 6.3% (-£1.7K) when expressed in constant (2019) prices. Since the beginning of 2010, the mean FTB deposit has decreased annually in all but four quarters - this is illustrated in Chart 4.3. Furthermore, in real terms the mean FTB deposit is just 8.0% (£1.9K) above the lowest level in the series (Q2 2005, £23.6K) (Source: UK Finance/ONS CPI).

Chart 4.3 also plots the mean capital and interest payments on new mortgages advanced to FTBs in Scotland. In Q3 2019, this ratio stood at 16.2%, which is equivalent to a monthly mortgage cost of £550. This ratio has been steadily decreasing since 2009 and is currently below pre-financial crisis levels (Source: UK Finance).

Chart 4.1 New Mortgages to FTBs and Home Movers (12 Month Moving Average), Scotland

Source: UK Finance

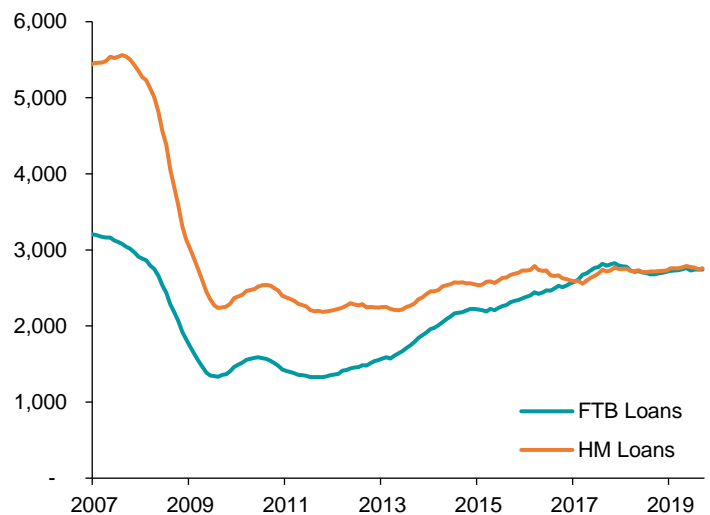


Chart 4.2 Mean Loan to Value Ratio (Quarterly), Scotland

Source: UK Finance

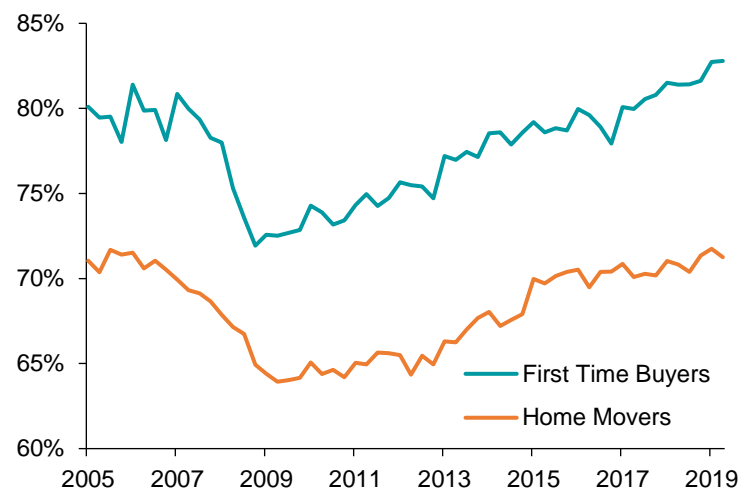
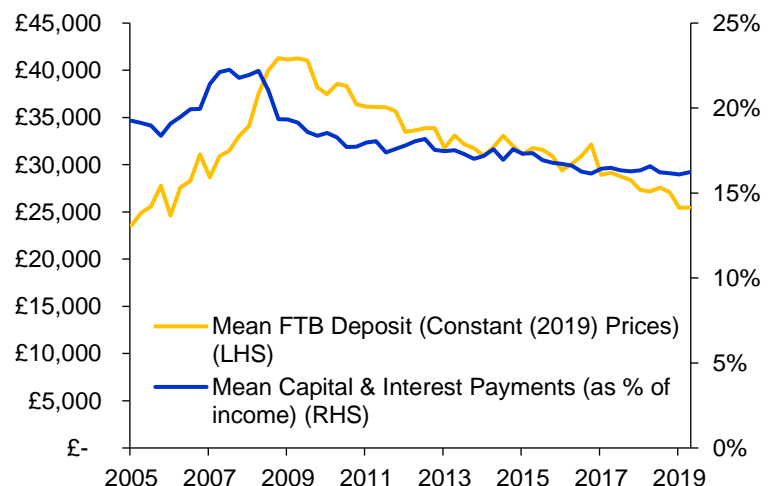


Chart 4.3 FTB Deposit and Mortgage Capital & Interest Payments (Quarterly), Scotland

Source: UK Finance/ONS CPI



4. Lending: To Homebuyers

Chart 4.4 Share of New Mortgages to FTBs by LTV: Scotland (Quarterly)

Source: FCA PSD

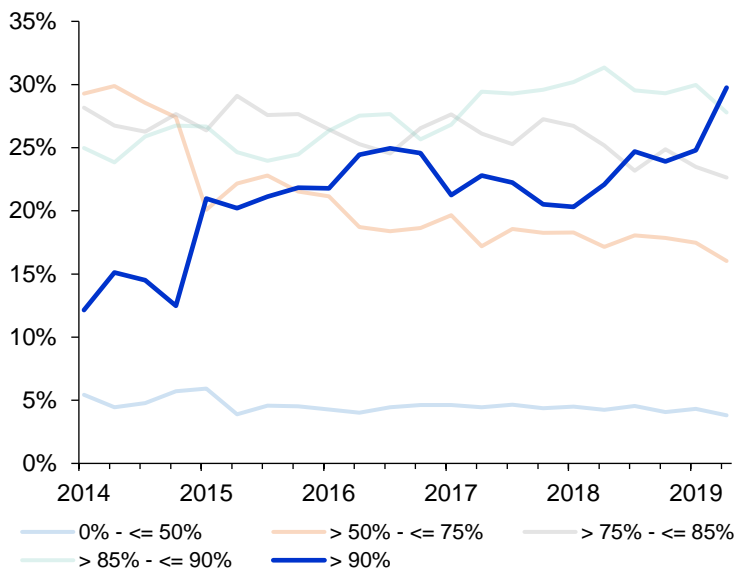
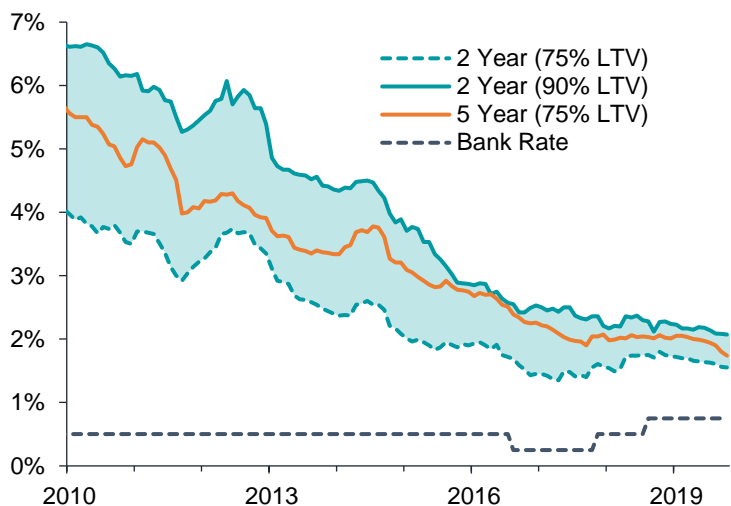


Chart 4.4 shows the share of new mortgages to FTBs in Scotland by LTV band since Q1 2014, with the LTV > 90% band highlighted in bold. At the start of the series, the share of new FTB mortgages with an LTV greater than 90% was 12.1%; however, over the past five years the share has trended upwards and in Q2 2019 stood at 29.8%. Over the same period, the share of FTB mortgages with an LTV between 50% and 75% has fallen from 29.3% to 16.0%. This growth in high LTV lending to FTBs across Scotland, as well as the real terms reduction in the size of FTB deposits following the 2008 financial crisis, suggests that deposit constraints are easing for FTBs (Source: FCA PSD).

Mortgage interest rates remain near historic lows, with fixed rates continuing to fall. The latest data for October 2019 shows that 2 year 75% and 90% LTV, as well as 5 year 75% LTV, rates are all below the level they were at at the beginning of 2019. In addition, the spread between 2 and 5 year 75% mortgage rates is currently at a post-financial crisis low (at 19 basis points) (Source: Bank of England).

Chart 4.5 Mortgage Interest Rates: UK (Monthly)

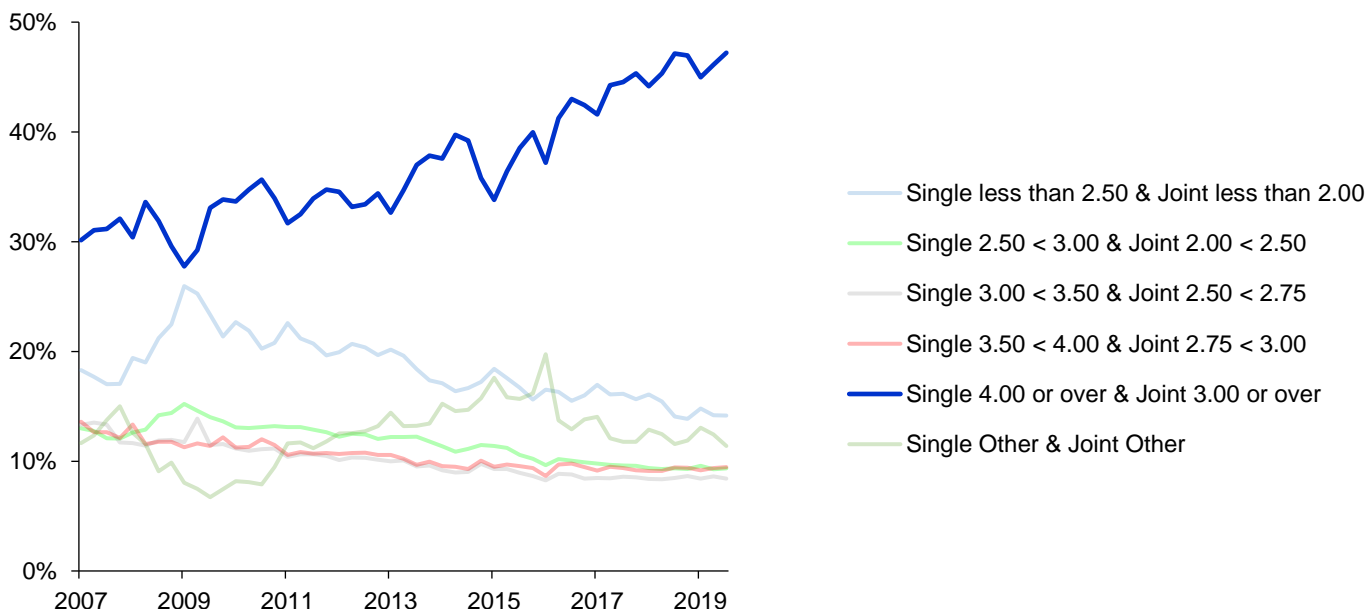
Source: Bank of England



Across the UK, the share of gross advances at high loan to income (LTI) ratios (loans greater than four times the value of annual income for a single borrower or greater than three times annual income for joint borrowers) has been trending upwards since Q1 2007, with a slightly faster rate of increase from Q1 2015. This is shown in Chart 4.6, below. In Q3 2019, 47.2% of gross advances were at a high income multiple, 0.1 percentage points greater than in Q3 2018 (Source: FCA MLAR).

Chart 4.6 Share of Gross Advances by Income Multiple: UK (Quarterly)

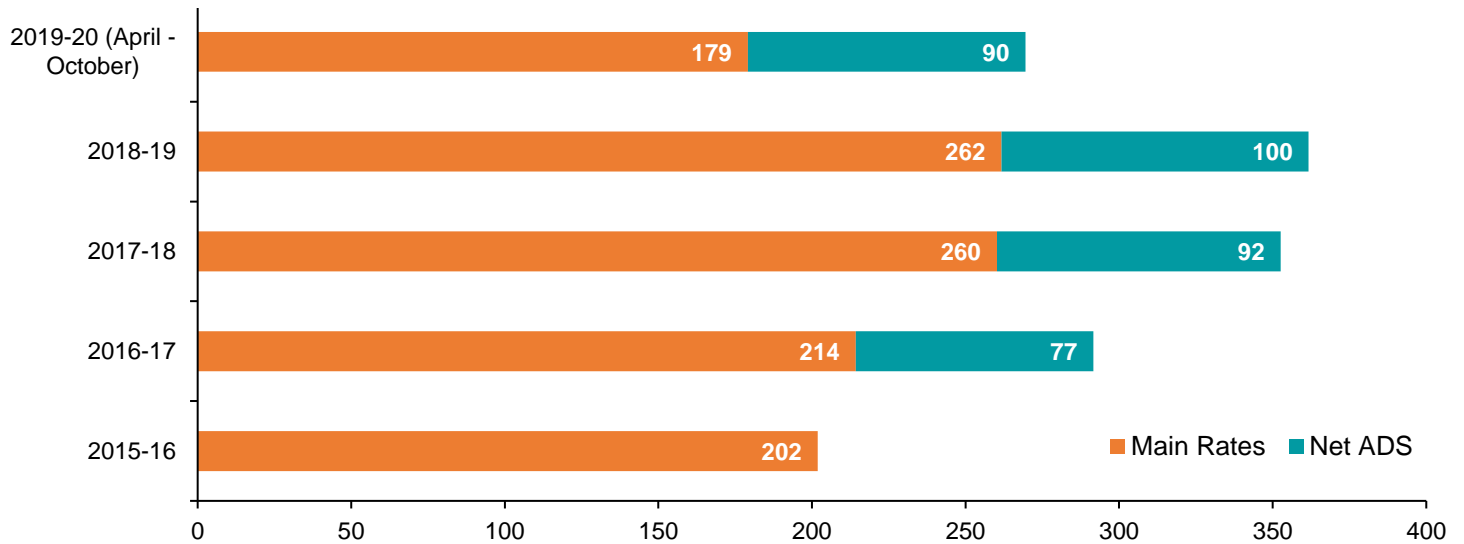
Source: FCA MLAR



5. Residential LBTT

Chart 5.1 Residential LBTT Revenue (£ millions)

Source: Revenue Scotland

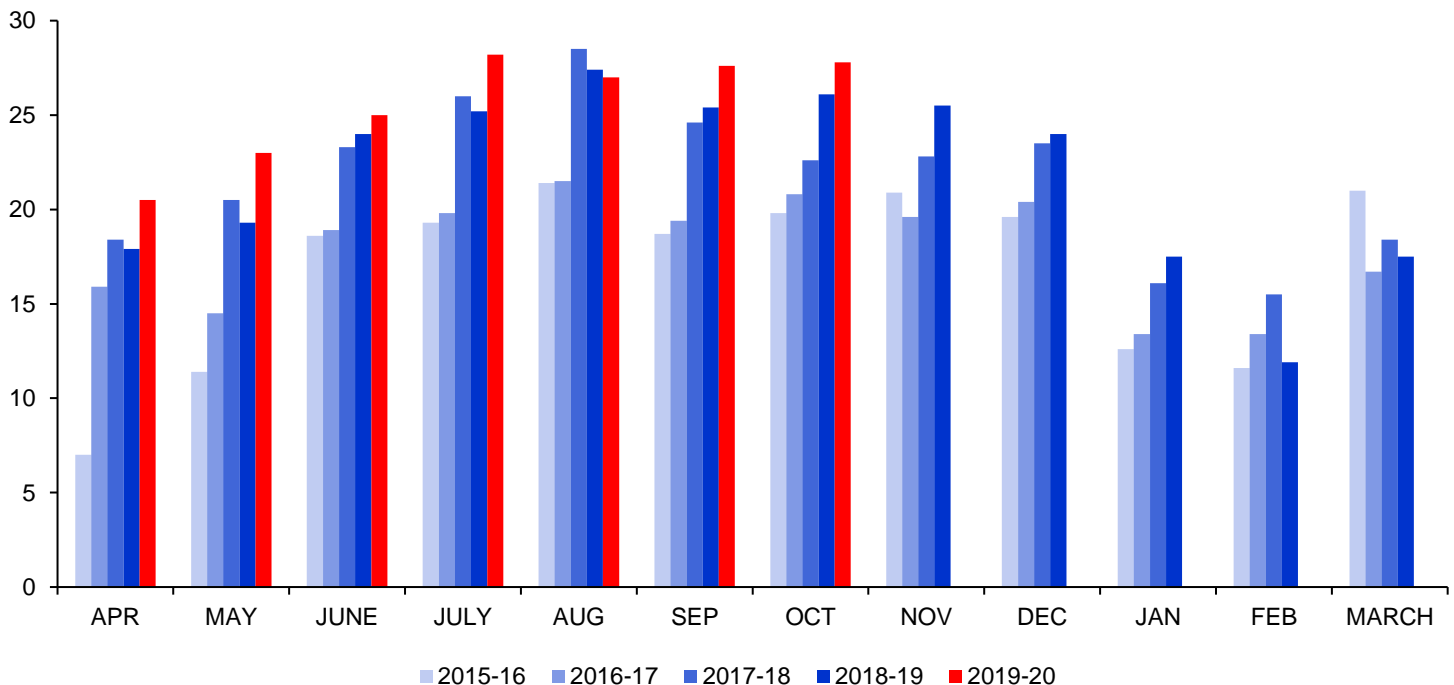


Residential LBTT revenue from the main rates of LBTT (i.e. excluding ADS) totalled £179m from April to October 2019, which is up 8.3% (£13.8m) on the same period last year. A year-on-year revenue comparison is not suitable for ADS due to the rate change in January 2019 (which saw the rate of ADS increase from 3% to 4%); however, there has been a slight dip in ADS liable transactions compared to the same period last year of 1.8% (to 14,370). One of the reasons for the increase in revenue from the main rates of LBTT is the performance of sales in the top LBTT band (sales over £750K). From April - October 2019, transactions in this band have increased by an annual 10.5% (+40 sales, to 420), while revenue has increased by 24.2% (+£6.9m, to £35.4m) (Source: Revenue Scotland).

Chart 5.2 shows a monthly breakdown of residential LBTT revenue from the main rates of LBTT (excluding ADS). This shows that in each month since April 2019, LBTT revenue has been higher on an annual basis - apart from in August 2019. This was due to a slight dip in sales in the £325K - £750K band in August 2019, compared to August 2018 (Source: Revenue Scotland).

Chart 5.2 Residential LBTT Revenue (Excluding ADS, Monthly, £ millions)

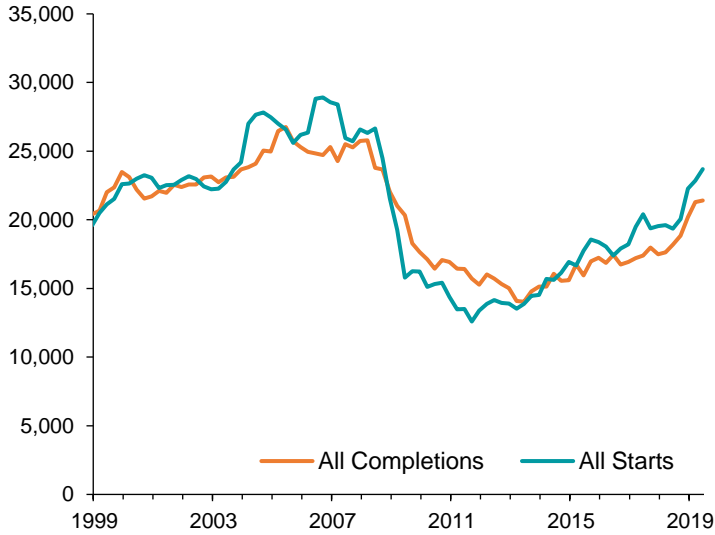
Source: Revenue Scotland



6. House Building

Chart 6.1 Scottish New Builds (4Q Moving Total, to Q2 2019)

Source: SG



There were 21,403 new build completions across Scotland in the YTE Q2 2019, an annual increase of 17.6% (+3,210) - this is the eighth consecutive quarter that the annual rate in new build completions has been positive. The level of new build completions has been trending upwards since the trough following the 2008 financial crisis in Q2 2013 (14,037), and are approaching pre-financial crisis levels (as shown in Chart 6.1). Private sector completions accounted for nearly three quarters of all new build completions in the YTE Q2 2019 (74.9%, 16,025 completions) and grew by an annual 19.5% (+2,610). More recent data for Q3 2019 shows that social new build completions totalled 5,349 in the YTE Q3 2019, an annual increase of 5.5% (+279 completions) (Source: SG).

Chart 6.2 shows the number of new build completions per 10K people across the seven Scotland areas, in 2008 and in 2018. This shows that across Scotland, there were 37.1 new build completions per 10K people in 2018, which is down 5.2 completions on 2008. In Edinburgh, Lothians and Borders, there were 54.1 new build completions per 10K people, which is up 13.5 new build completions on 2008 (or 33.3%). This is the largest increase in level and percentage terms. Meanwhile, in Tayside and Fife, the number of new build completions per 10K people has fallen from 47.2 in 2008 to 29.9 in 2018 (-17.3, -36.7%). This is the largest decrease in level and percentage terms (Source: SG/NRS).

The latest Affordable Housing Supply Programme (AHSP) statistics show that in the YTE Q3 2019, there have been 8,976 completions, down slightly by an annual 0.6% (-58). Although this is a slight decrease, AHSP completions are up by just over one-fifth (22.0%) compared to 2016/17. This is shown in Chart 6.4 (Source: SG).

Chart 6.2 New Build Completions Per 10K People
Source: SG

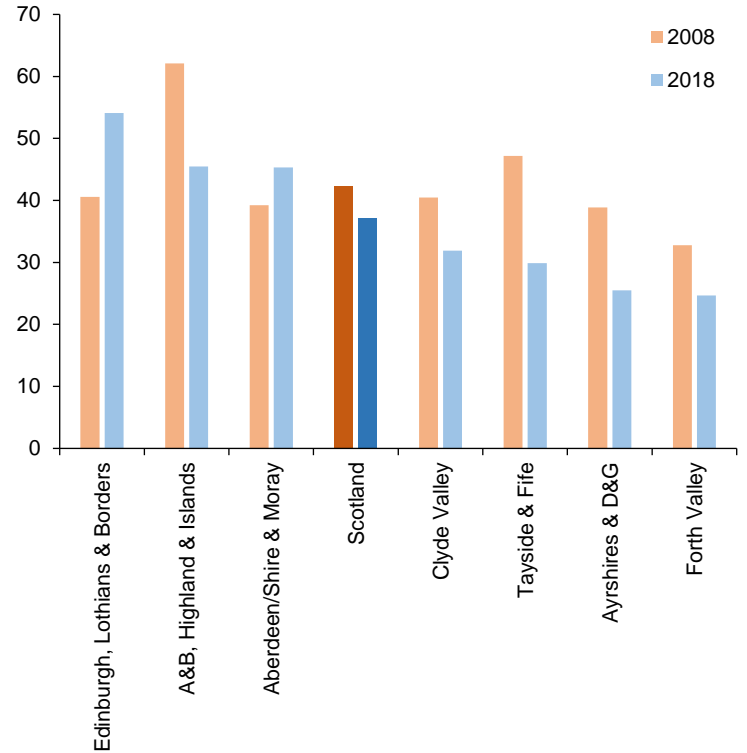


Chart 6.3 New Build Completions by Area (Thousands)

Source: SG

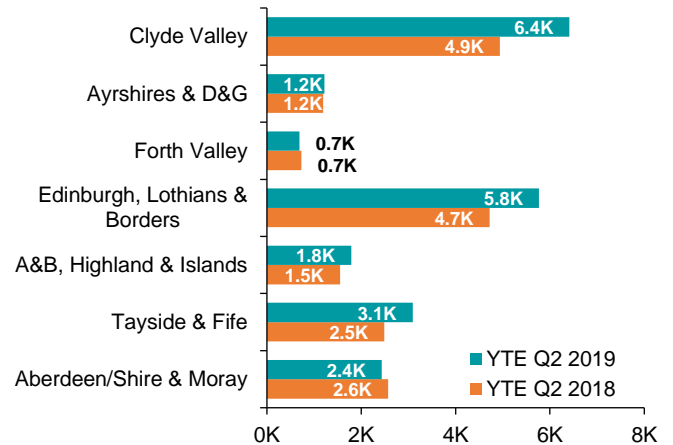
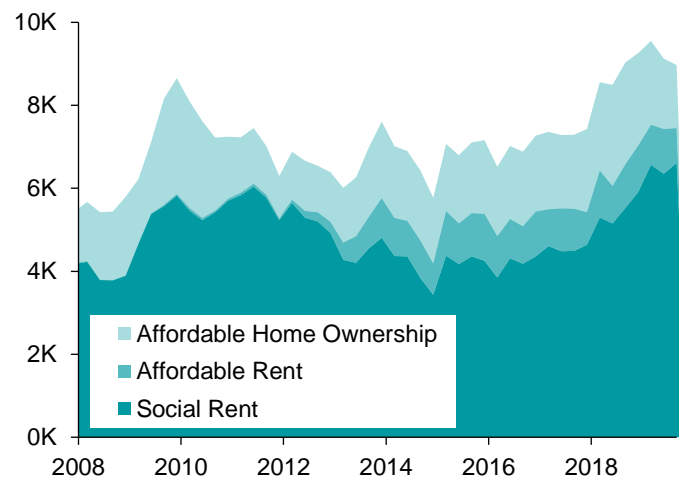


Chart 6.4 AHSP Completions (4Q Moving Total, to Q3 2019)

Source: SG



7. House Building: Costs and Lending; Homelessness

Chart 7.1 Annual Change in Price of Construction Materials for New Build Housing: UK (Monthly)

Source: BEIS

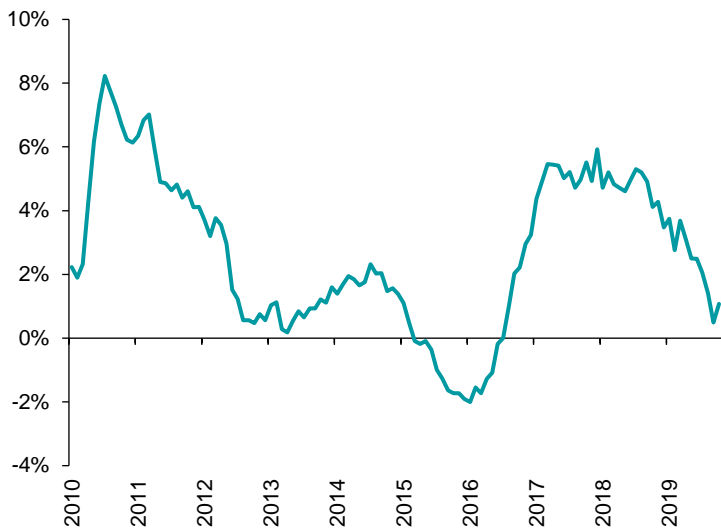


Chart 7.2 Outstanding Loans to Companies Involved in Construction of Buildings (£ million): UK (Monthly)

Source: BoE

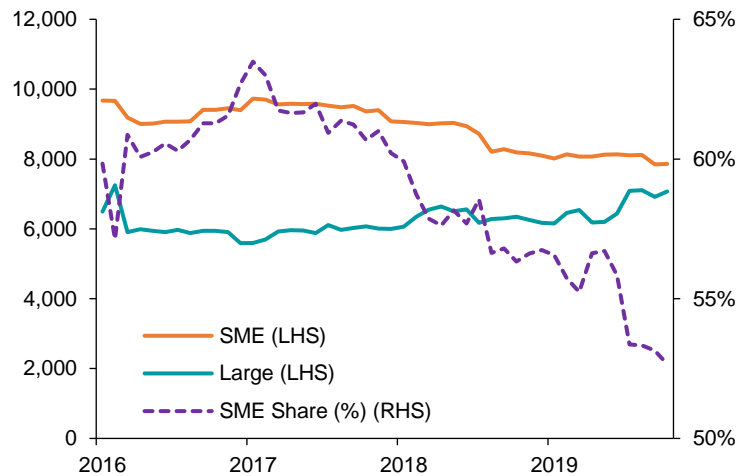


Chart 7.3 Scotland Quarterly GDP Index (Seasonally Adjusted)

Source: SG

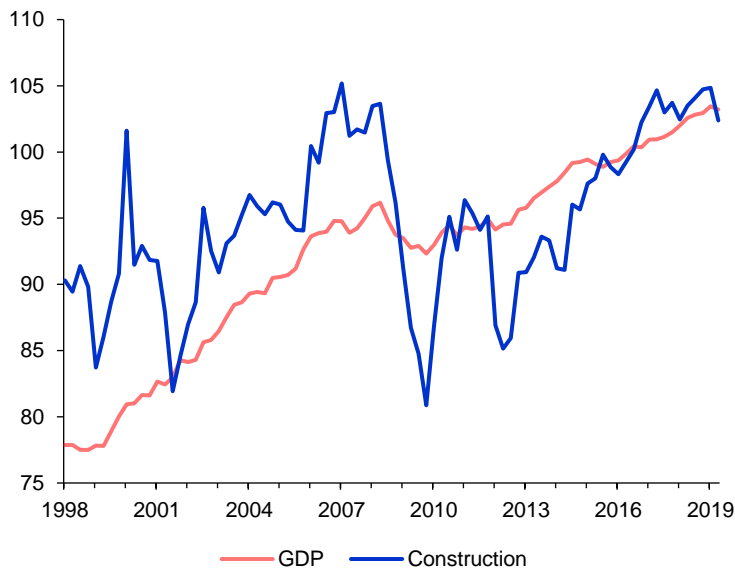
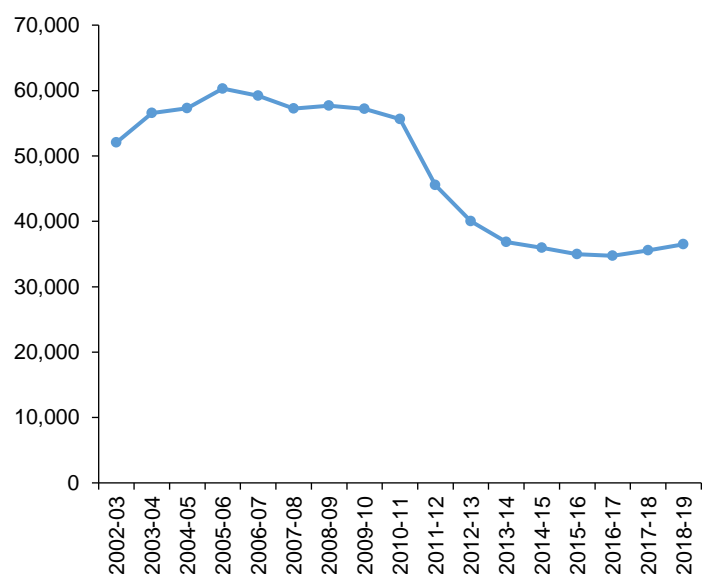


Chart 7.4 Homelessness Applications: Scotland (Annually)

Source: SG



The price of construction materials used in new build housing across the UK increased by an annual 1.1% in October 2019. The rate of construction material price growth has moderated significantly since 2018, after rising sharply in 2016. This increase coincided with the depreciation of Sterling in 2016 (Source: BEIS/BoE).

The total value of outstanding loans to companies involved in the construction of buildings stood at £14.9bn across the UK in October 2019, an annual increase of 2.7% (+£0.4bn). Outstanding loans to SME firms accounted for £7.9bn (down by an annual 4.0%), while outstanding loans to large firms stood at £7.1bn (up by an annual 11.3%) (Source: Bank of England).

Output in the Scottish construction sector as a whole, which includes but is not limited to housebuilding, decreased by 2.4% in Q2 2019, compared to the previous quarter. This follows four consecutive quarters of growth in the sector. In comparison, Scottish GDP decreased by 0.2%. Chart 7.3 shows that output in the construction sector nearly reached the pre-recession peak in Q1 2019, only 0.3% below the value of output in Q1 2007 (Source: Scottish Government).

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).

Key Figures

	Latest Period	Latest Value	Annual Change	
			+/-	%
Number of Sales	Q3 2019	28,665	-16	-0.1%
<i>Source: RoS</i>				
Average House Price	Q3 2019	£154.7K	£2.9K	1.9%
<i>Source: ONS HPI</i>				
Rental Price Index	October 2019	N/A	N/A	0.9%
<i>Source: ONS</i>				
Number of Loans to FTBs	Q3 2019	8,810	140	1.6%
<i>Source: UK Finance</i>				
Mean FTB LTV	Q3 2019	82.8%	+1.4 pp	
<i>Source: UK Finance</i>				
2 Year 75% LTV Fixed Mortgage Rate (UK)	October 2019	1.55%	-0.25 pp	
<i>Source: Bank of England</i>				
5 Year 75% LTV Fixed Mortgage Rate (UK)	October 2019	1.74%	-0.32 pp	
<i>Source: Bank of England</i>				
Residential LBTT Revenue (Excl. ADS)	April - October 2019	£179.1m	£13.8m	8.3%
<i>Source: Revenue Scotland</i>				
New Build Completions	YTE Q2 2019	21,403	3,210	17.6%
<i>Source: Scottish Government</i>				
AHSP Completions	YTE Q3 2019	8,976	-58	-0.6%
<i>Source: Scottish Government</i>				
Homelessness Applications	2018-19	36,465	892	2.5%
<i>Source: Scottish Government</i>				