

Scottish Housing Market Review

Q2 2019

Key Points

- The housing market has remained healthy through the first quarter of 2019. There were 19,491 transactions registered across Scotland in Q1 2019, up by an annual 3.9% (RoS). More recent data from Revenue Scotland for the 3 months to May 2019 shows a 7.1% annual increase. Across 2018/19 as a whole, volumes were down slightly with 101,668 transactions registered in the year. This is a slight dip of 0.5%, or 534 fewer sales.
- House price inflation has continued to moderate since Q1 2018. The average (mix-adjusted, geometric mean) house price across Scotland in Q1 2019 was £149K according to the ONS HPI, up by an annual 2.0% (compared to 6.4% in Q1 2018).
- The average (mean) deposit for first-time buyers in Scotland stood at £26.7K in Q1 2019. This is a real terms reduction of more than one-third (34.3%) on the size of the average first-time buyer deposit 10 years ago.
- There have been sizeable increases in new build housing output. In 2018, new build completions (20,255) and starts (22,258) both exceeded 20K units for the first time following the 2008 financial crisis.
- This quarter's special feature explores the ways in which housing directly and indirectly contributes to Scotland's economic growth, as well as the significant impact that housing has on wider societal outcomes.

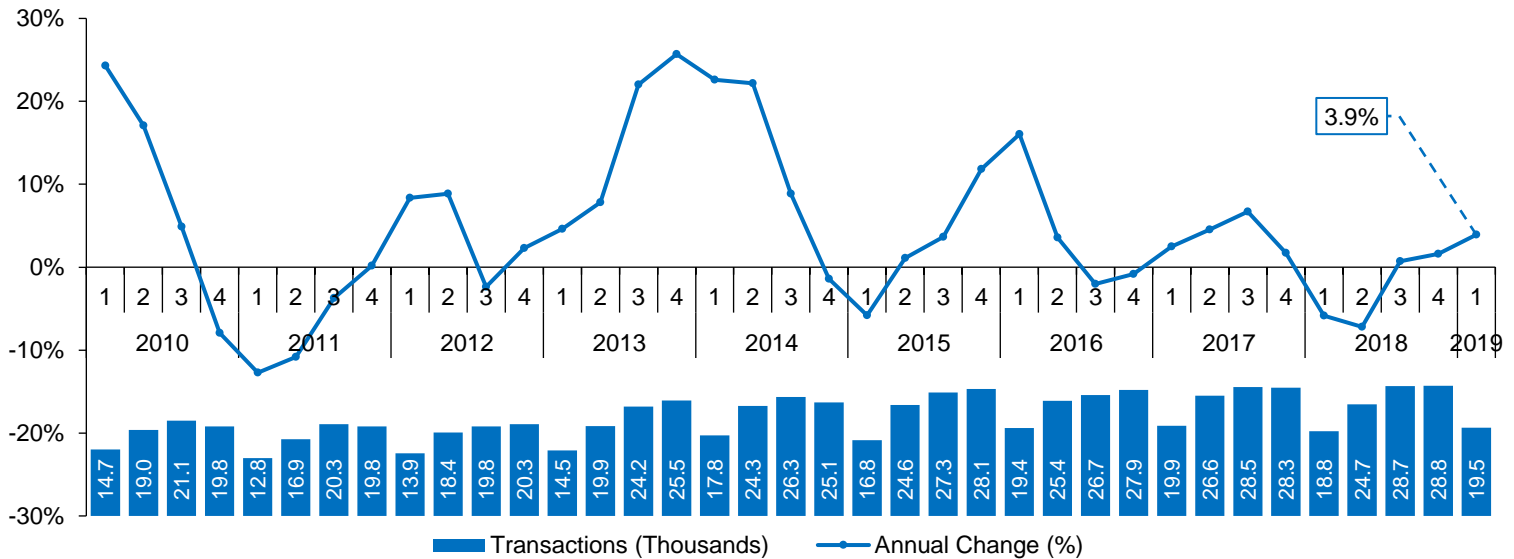
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Data to: 27/06/2019

Transactions

Annual Change in Transactions: Scotland (Quarterly)

Source: Registers of Scotland



Transactions Across Scotland

There were 19,491 transactions registered across Scotland in Q1 2019 (Registers of Scotland), an annual increase of 3.9% (+732). Across 2018/19 as a whole, volumes were down slightly with 101,668 transactions registered in the year. This is a slight dip of 0.5%, or 534 fewer sales. More recent data from Revenue Scotland spanning the original EU exit departure date (29 March 2019) (which is based on the date of the LBTT return, rather than the date of registration through RoS) shows that there were 25,490 transactions in the three months to May 2019, up by an annual 7.1% (+1,690).

Regional Trends

There were 1,890 sales across Aberdeen/shire & Moray in Q1 2019, up by an annual 11.4% (+193 sales). While sales have picked up in the latest quarter, they remain below levels seen following the 2008 financial crisis. In the year to end March 2019, there were 9,724 sales, down 23.4% on the same period to March 2015.

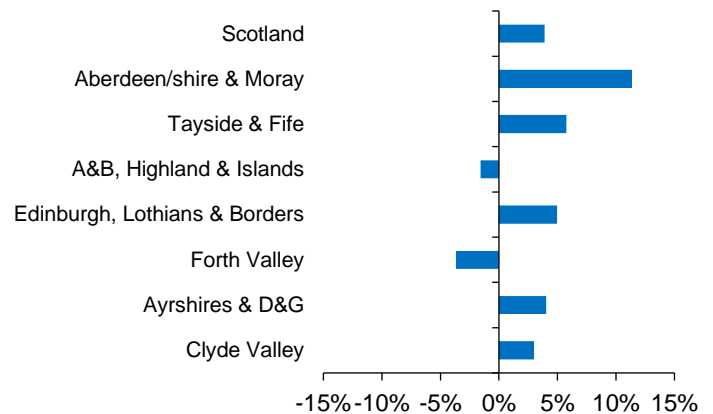
In Tayside & Fife, there were 2,812 sales in Q1 2019, up by an annual 5.8% (+153 sales). Sales were also up across Edinburgh, Lothians & Borders where there were 4,040 sales in Q1 2019, up by an annual 5.0% (+191 sales). This can be attributed to the increase in sales in East Lothian and West Lothian, with the number of sales almost unchanged in Edinburgh.

There were 1,674 sales across Ayrshires and Dumfries & Galloway, up by an annual 4.0% (+65 sales). In Clyde Valley, there were 6,610 sales in Q1 2019, up by an annual 3.0% (+192 sales). Sales in Glasgow City totalled 2,227, up by an annual 0.7% (+16 sales).

There was a fall in sales across Argyll & Bute, Highland & Islands, with 1,442 sales in Q1 2019, down by an annual 1.6% (-23 sales). Sales also decreased in Forth Valley in Q1 2019, with 1,023 sales, down by an annual 3.7% (-39 sales).

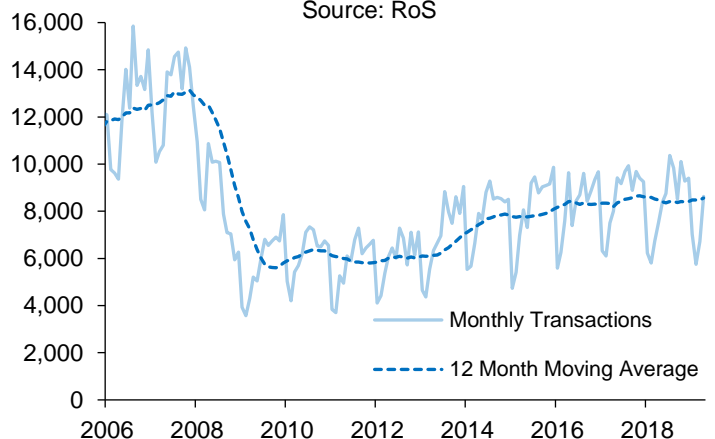
Annual Change in Transactions: Scotland Areas, Q1 2019

Source: RoS



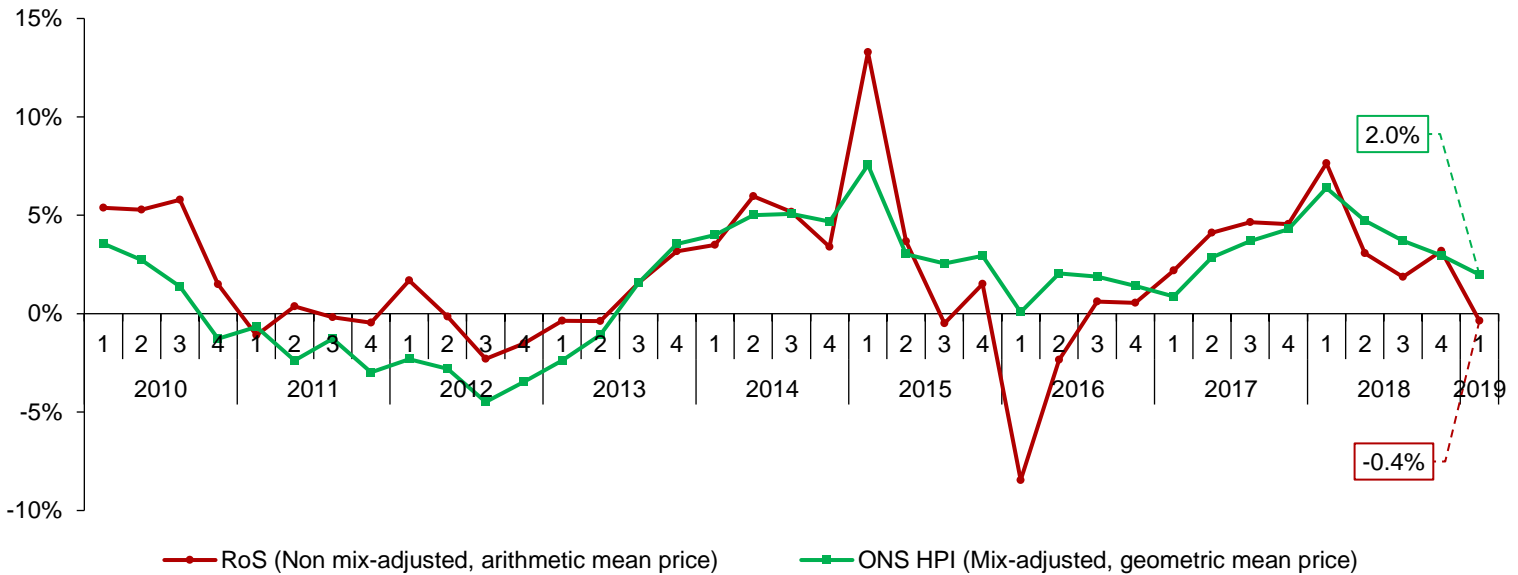
House Sale Transactions: Scotland (Monthly, to April 2019)

Source: RoS



Annual Change in House Prices: Scotland (Quarterly)

Source: RoS/ONS



Property Prices in Scotland

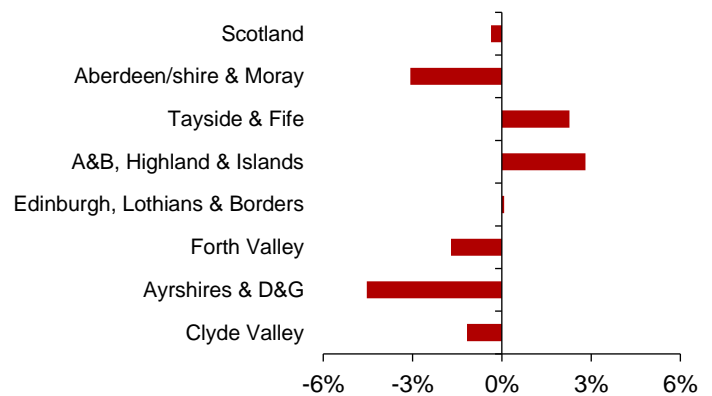
The average (mix-adjusted, geometric mean) house price in Scotland was £149K in Q1 2019, up by an annual 2.0% (ONS HPI). This continues the downward trend in the annual rate of house price growth since Q1 2018. Meanwhile, the average (non mix-adjusted, arithmetic mean) price reported by Registers of Scotland was £174K in Q1 2019, down by an annual 0.4%. This fall in the average price can partly be explained by the composition of transactions, with the share of transactions above £325K in Q1 2019 down 0.7 percentage points on Q1 2018.

Regional Trends, Prices by Property Type & Rental Prices

The largest increase in price (in percentage terms) across Scotland in Q1 2019 was seen in Argyll & Bute, Highland and Islands (+2.8%), with prices also increasing in Tayside & Fife (+2.3%). In Edinburgh, Lothians & Borders, the average (arithmetic) property price was £231K in Q1 2019, up by an annual 0.1%. This was the most expensive area across Scotland, with Edinburgh having the highest average price (£259K) across all local authorities. Prices fell in the remaining Scotland areas. The largest fall was in Ayrshires & Dumfries & Galloway, where prices fell by 4.5%. Prices also fell in Aberdeen/shire & Moray (-3.1%) and Forth Valley (-1.7%). The average price in Clyde Valley was £154K, down by an annual 1.2%.

Annual Change in Prices: Scotland Areas, Q1 2019

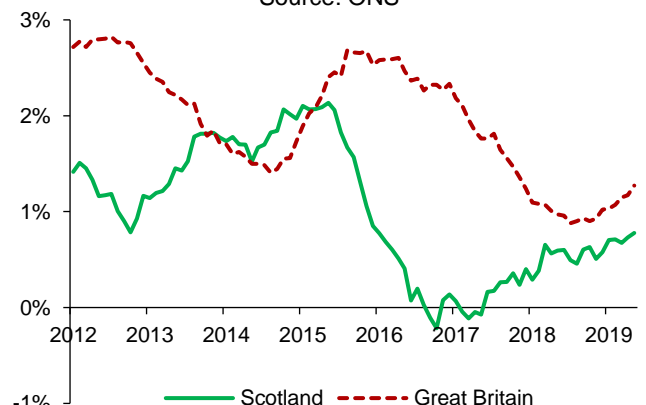
Source: RoS



In the private rented sector, rental prices increased by an annual 0.8% in Scotland in May 2019, according to data from the ONS. This is lower than across Great Britain, where rental prices increased by an annual 1.3%. The latest SG PRS rent statistics show that in the year to end September 2018, the median monthly rent for a 2 bedroom property in Scotland was £595, unchanged on 2017.

Annual Change in Rental Prices (Monthly, to May 2019)

Source: ONS



	Average Price		Annual Change
All	£149K	Q1 2019	2.0%
First-Time Buyer	£120K	Q1 2019	2.3%
Home Mover	£178K	Q1 2019	1.7%
Existing Build	£148K	Q4 2018	2.8%
New Build	£204K	Q4 2018	4.1%

Lending

Mortgages & Affordability

There were 6,870 **loans for home purchase** to first-time buyers across Scotland in Q1 2019, up by an annual 6.2% (+400), data from UK Finance shows. Meanwhile, loans for home purchase to home movers totalled 6,710 in Q1 2019, up by an annual 8.1% (+500).

The average (mean) **loan to value (LTV)** ratio for FTBs in Q1 2019 was 81.6%. This is up by an annual 0.8 percentage points and is the highest level seen since 2005. There was a slightly larger increase in the average LTV for home movers of 1.2 percentage points, to 71.4%.

The increase in LTV ratios has contributed to the reduction in the average (mean) **deposit for first-time buyers** across Scotland since the 2008 financial crisis. In Q1 2019, the average (mean) FTB deposit was £26.7K, equivalent to two-thirds of the average FTB's annual income. This is a real terms reduction of just over one-third (34.3%) over the past 10 years, a decrease of £14.0K.

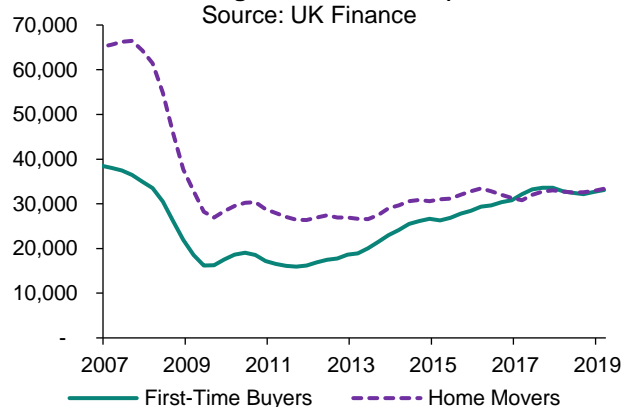
Data from UK Finance also shows that **mortgage payments for first-time buyers** across Scotland experienced little movement compared to last year. In Q1 2019, average (mean) mortgage capital and interest payments as a share of FTB income stood at 16.2%, (down 0.1 percentage points on Q1 2018). This is down 3.2 percentage points on Q1 2009 and is largely due to the fall in interest rates following the 2008 financial crisis (interest rates are covered on the following page).

There has not been significant movement in **income multiples** for FTBs and home movers across Scotland recently. In Q1 2019, the average (mean) income multiple for FTBs was 3.1 and 2.9 for home movers.

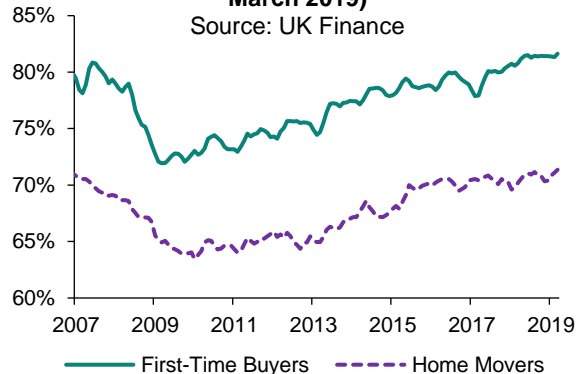
Lending by Purpose

Data from the FCA for the UK shows that in the year to end Q1 2019, the value of gross advances for remortgaging increased by an annual 11.0% (to £86.5bn), while the value of gross advances for buy to let purposes increased by 1.6% (to £35.7bn). Meanwhile, the total value of lending to first-time buyers was £57.3bn, up by an annual 3.2%, and £80.5bn to home movers (-0.4%).

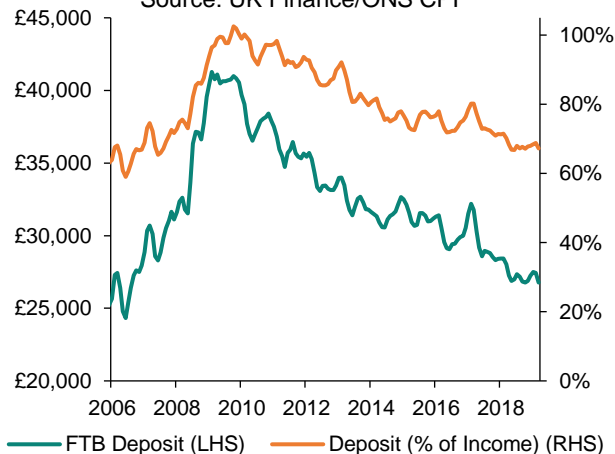
Loans for Home Purchase: Scotland (4Q Moving Total, to Q1 2019)
Source: UK Finance



Mean LTV for Home Purchase: Scotland (3M Moving Average, to March 2019)
Source: UK Finance



Mean FTB Deposit (Inflation Adjusted, 3M Moving Average), to March 2019
Source: UK Finance/ONS CPI



Box 1. Fuel Poverty (Targets, Definition and Strategy) (Scotland) Bill

Legislation setting ambitious targets to tackle fuel poverty has now been unanimously passed by the Scottish Parliament. The Fuel Poverty (Targets, Definition and Strategy) (Scotland) Bill enshrines in law the Scottish Government's commitment to tackle the root causes of fuel poverty and transform homes to be warmer and more energy-efficient.

The Bill defines a household to be in fuel poverty if more than 10% of its net income (after housing costs) is required to heat the home and pay for other fuel costs – with not enough money left for an acceptable standard of living. If more than 20% of net income is needed, the household is defined as being in extreme fuel poverty.

The new law sets a target of no more than 5% of Scottish households in fuel poverty by 2040, and no more than 1% of households being in extreme fuel poverty. There are also targets to reduce the depth of household fuel poverty levels as progress is made towards meeting the 2040 targets.

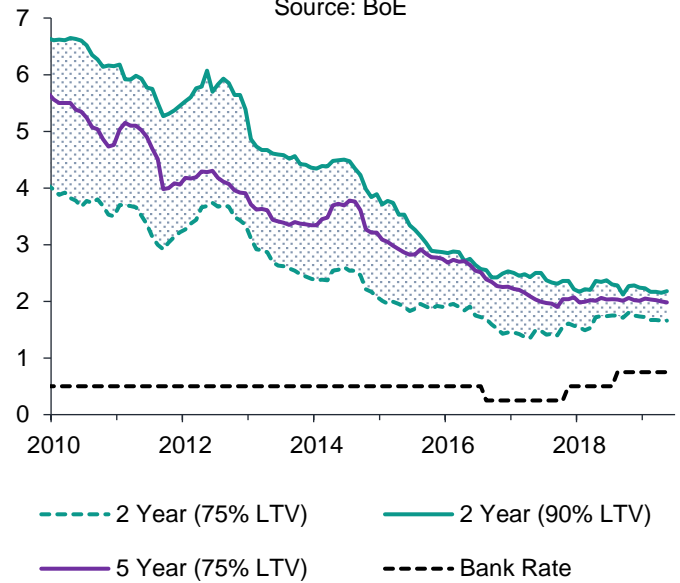
Lending

Interest Rates

Data from the Bank of England shows that the average interest rate on 2 year fixed rate (75% LTV) mortgages was 1.7% in May 2019, while the average rate on 2 year (90% LTV) mortgages was 2.2%. The spread between 2 year 75% and 90% LTV mortgages, a measure of lender risk appetite, was 0.5 percentage points. This is down 0.1 percentage points on May 2018, and 2.3 percentage points lower than in May 2010. Meanwhile, the average interest rate on 5 year (75% LTV) mortgages stood at 2.0% in May 2019.

UK Finance data shows that buyers have been taking out longer fixed rate terms as they look to take advantage of low interest rates. In April 2019, 5 year fixed rate lending accounted for 48% of all new residential lending across the UK, up 22 percentage points on April 2017. Meanwhile, the share of 2 year fixed rate lending has fallen by 16 percentage points over the same period.

Mortgage Interest Rates: UK (% Monthly, to May 2019)
Source: BoE



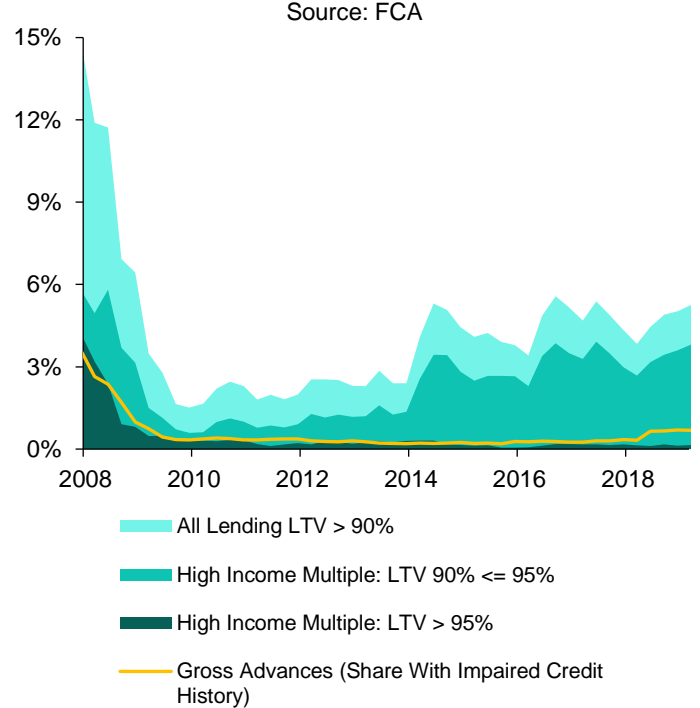
Higher Risk Lending

Across the UK, 5.3% of (regulated) gross advances had an LTV ratio greater than 90% in Q1 2019, according to data from the FCA. This is up by an annual 1.4 percentage points. Of these gross advances with an LTV ratio greater than 90%, three quarters had a high income multiple with the vast majority in the LTV 90% <= 95% band.

There has been a slight increase in the share of regulated gross advances with an impaired credit history across the UK. In Q1 2019, this share stood at 0.69%, just more than double the share in Q1 2018.

In Q1 2019, there were 14,045 residential loans entering into arrears across both regulated and non-regulated lending, down by an annual 1.2%.

Higher Risk Lending as % of All Regulated Lending: UK (Quarterly, to Q1 2019)
Source: FCA

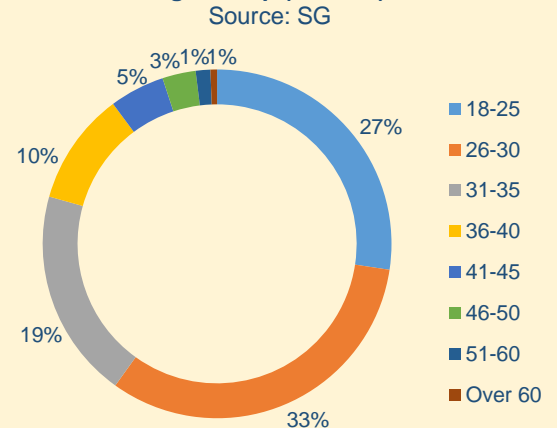


Box 2. SG Shared Equity Schemes

Analysis of the characteristics of buyers in two of the Scottish Government's shared equity schemes - Open Market Shared Equity and Help to Buy (Scotland) - was published in June.

Over 8 in 10 (82%) households purchasing through HTB were first-time buyers, while 79% of purchasers were aged 35 or under. In Open Market Shared Equity, nearly all (99%) purchasers were first-time buyers and just over two-thirds (69%) of purchasers were aged 35 or under. Just over one-fifth (21%) of purchasers through Open Market Shared Equity had previously been living in social rented accommodation. More details can be found here: <https://news.gov.scot/news/young-people-and-families-helped-to-buy-their-own-homes>

Help to Buy (Scotland) Purchasers by Age Group (2018/19)
Source: SG



House Building

Private & Social Sector

There were 14,997 private sector new build starts in the year to end December 2018, up by an annual 9.3% (+1,277). Meanwhile, there were 6,727 social sector starts in the year to end March 2019, up by an annual 10.6% (+643).

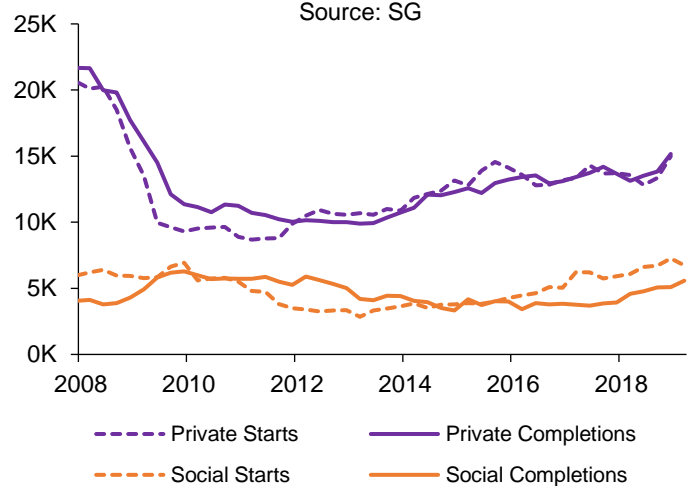
There were 15,152 private sector new build completions in the year to end December 2018, up by an annual 10.9% (+1,491). Meanwhile, there were 5,582 social sector new build completions, up by an annual 21.5% (+988).

More broadly, there were 20,255 completions in 2018, up by an annual 15.2% (+2,669). Meanwhile, there were 22,258 new build starts across all sectors in 2018, up by an annual 13.3% (+2,621). This is the first time both new build completions and starts have exceeded 20K units following the 2008 financial crisis.

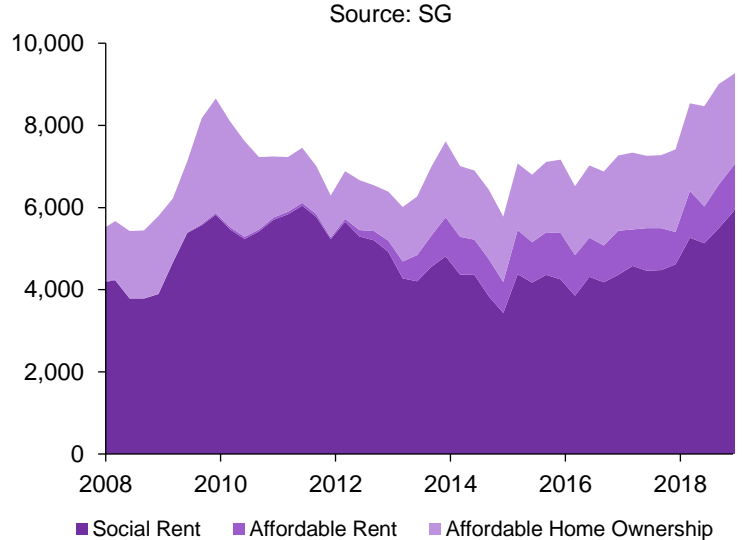
Affordable Housing Supply Programme

With regard to the Affordable Housing Supply Programme (AHSP), there were 9,535 completions in the year to end Q1 2019, up by an annual 11.7% (+1,001). There has also been an increase in AHSP starts, with 10,872 starts in the year to end Q1 2019 (up 2.9%, +303). Approvals were down slightly in the year to end Q1 2019, with 11,130 approvals, down by an annual 4.7% (-547). Since Q2 2016, there have been 25,405 completions through the affordable housing supply programme.

New Build Housing Starts & Completions: Scotland (4Q Moving Total, Private to Q4 2018, Social to Q1 2019)



Affordable Housing Supply Programme Completions (4Q Moving Total, to Q1 2019)



Homelessness

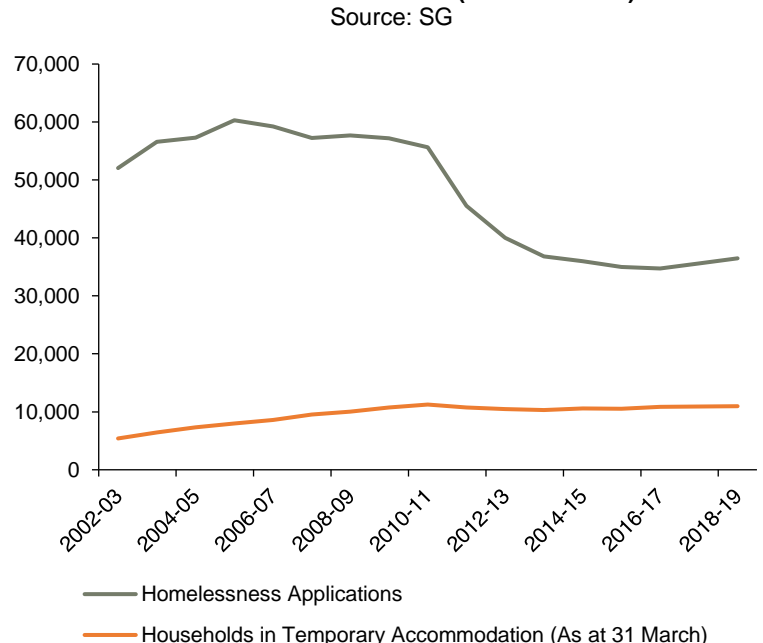
Homelessness Applications

There were 36,465 homelessness applications in 2018/19, up by an annual 2.5% (+892). This is the second consecutive period of increasing numbers of homelessness applications, which had been falling since 2008/09 and the introduction of Housing Options services. The largest increase in the number of homelessness applications was in Glasgow City, with an additional 428 homelessness applications in 2018/19, up by an annual 8.2% to 5,679. Meanwhile, the greatest fall in homelessness applications was in Falkirk, where there were 109 fewer homelessness applications. This was down by an annual 9.7% to 1,017.

Temporary Accommodation

The number of households in temporary accommodation stood at 10,989 as at 31 March 2019, up by an annual 0.5% (+56).

Homelessness in Scotland (Financial Year)



Housing's Contribution to Scotland's Economy and Societal Outcomes

This quarter's special feature explores the ways in which housing directly and indirectly contributes to Scotland's economic growth, as well as the significant role that housing has on wider societal outcomes.

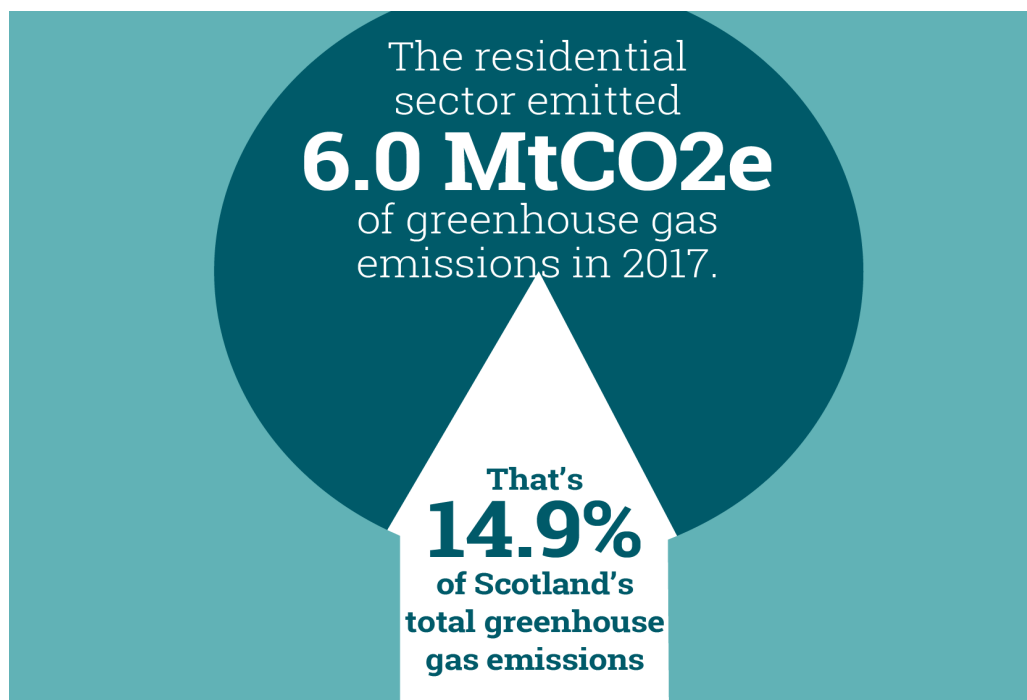
Housing makes an important contribution to Scotland's **economy** through a combination of direct and indirect channels. There were 115,000 people employed in the construction and maintenance of both residential and non-residential buildings in 2017, which contributed £6.3 billion of gross value added (GVA) to the Scottish economy. Housing also affects the Scottish economy indirectly through a variety of channels. For example, small business owners and entrepreneurs can use their home to improve their access to credit, using their housing wealth as collateral to secure funding for a business venture. The housing market is also an influential factor in ensuring that the labour market performs effectively, which has a significant bearing on economic growth. More broadly, a functioning housing market, where accommodation is available and at an affordable price, has an important role in ensuring that labour can be employed in its most productive use across Scotland.



Housing has a significant influence on societal outcomes beyond economic growth, and this is particularly true of the role that housing can play in **physical and mental health and wellbeing**. With regard to physical health, households that cannot heat their home adequately could have lower resistance to respiratory infections, due to living in colder temperatures and damp conditions. In addition, circulatory health is worsened in colder temperatures, increasing the risk of strokes and heart attacks. Housing can also have a notable effect on mental health. A study by Shelter found that 1 in 5 adults in England said that a housing issue had negatively affected their mental health in the past 5 years and that the most common issue reported was housing affordability.

Children's social and economic outcomes can be affected by housing in a number of ways and an example of this is child poverty. The latest Scottish Government statistics show that in 2015–18, 24% of children in Scotland lived in relative poverty, after housing costs - a level that is clearly unacceptable. Through the Child Poverty (Scotland) Act 2017 there are ambitious targets set to reduce this to fewer than 1 in 10 children by 2030. Reaching these targets requires a range of action to increase household incomes and reduce essential costs. Housing has a key part to play, for example: in ensuring access to affordable homes, where rent or mortgage costs are able to be met by families, and through policies to improve the energy efficiency of homes and reduce fuel costs, such as Warmer Homes Scotland. These key policies can help to reduce the cost of living and decrease the number of children living in poverty. Housing also has an important influence on children's education. Poor quality dwellings can negatively affect a child's health and their ability to focus in school, while overcrowding can prevent the child from having a quiet area to study and complete their homework. In addition, a child's studies can be disrupted by movement between schools as they have to adapt to new environments and, potentially, new curriculums. Not only this but their peer network will likely be disrupted and weakened. Efforts to improve the stability of tenure, such as the Private Housing (Tenancies) (Scotland) Act 2016, could therefore have a positive influence on children's education.

Housing also has a key role to play in reducing Scotland's **greenhouse gas emissions** and in adapting to the projected impacts of climate change. There is a global climate emergency, which poses direct risks to human health as well as to the environment. The residential sector emitted 6.0 MtCO₂e of greenhouse gas emissions in 2017 (14.9% of Scotland's total greenhouse gas emissions), down by nearly a quarter (24.4%) on 1990. Measures to improve the energy efficiency of Scotland's housing stock could not only help to reduce Scotland's greenhouse gas emissions, but also lead to noteworthy health and wellbeing improvements. For example, research suggests that improving the energy efficiency of dwellings could improve educational attainment by reducing illness stemming from cold homes. Scottish Government policies, in the form of the Energy Efficiency Standard for Social Housing (EESH), as well as Energy Efficient Scotland (EES) will work to continue this upward trend in the energy efficiency of Scotland's homes.



The full article, including references, can be read in the Joint Housing Policy and Delivery Group report on the Scottish Government website: <https://www.gov.scot/groups/joint-housing/>