

Scottish Housing Market Review

January - March 2020

Covid-19: Information presented in this report generally relates to the period up to the end of December 2019. More recent figures are included where possible; however, this edition of the Review will not yet show the effects of Covid-19 on the Scottish residential property market. We are monitoring developments in the housing market closely and are liaising with stakeholders to understand how they are being affected by the pandemic. Go to <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19> for more information and support.

Key points for this issue:

Sales

- There were 29,065 residential property sales registered across Scotland in Q4 2019, which is an annual increase of 1.0% (+298 sales) (Source: RoS). In the calendar year 2019, there were 102,930 residential property sales registered in Scotland, up by an annual 2.1%, with positive sales growth in 25/32 Scottish local authorities.

Prices

- The average (mix-adjusted) house price in Scotland stood at £153K in Q4 2019, up by an annual 2.2% (+£3K) (Source: ONS HPI). In the calendar year 2019, the average (mix-adjusted) house price in Scotland increased by an annual 1.8%, while the average (non mix-adjusted) Scottish house price increased by an annual 1.2% (Source: RoS).

Lending

- The mean LTV ratio for new mortgages advanced to FTBs in Scotland stood at 82.5% in Q4 2019, which is higher than levels seen just prior to the 2008 financial crisis. Mortgage interest rates remained low as of February 2020 and are expected to fall further after a total Bank Rate cut of 65 basis points (as of 20 March 2020) (Source: UK Finance/BoE).
- UK Finance report that mortgage lenders will offer residential and buy-to-let mortgage customers affected by Covid-19 a mortgage payment holiday. Customers will still have to repay missed payments after the holiday ends and interest will accrue during the holiday. Lenders are also temporarily stopping repossession actions.

House Building

- 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) (Source: SG).
- A total of 9,317 affordable homes were completed in 2019, up by an annual 0.7% (+61). Meanwhile, there were 10,765 starts in 2019, up by an annual 3.7% (+380). Since Q2 2016, there have been 31,136 completions through the Affordable Housing Supply Programme (Source: SG).

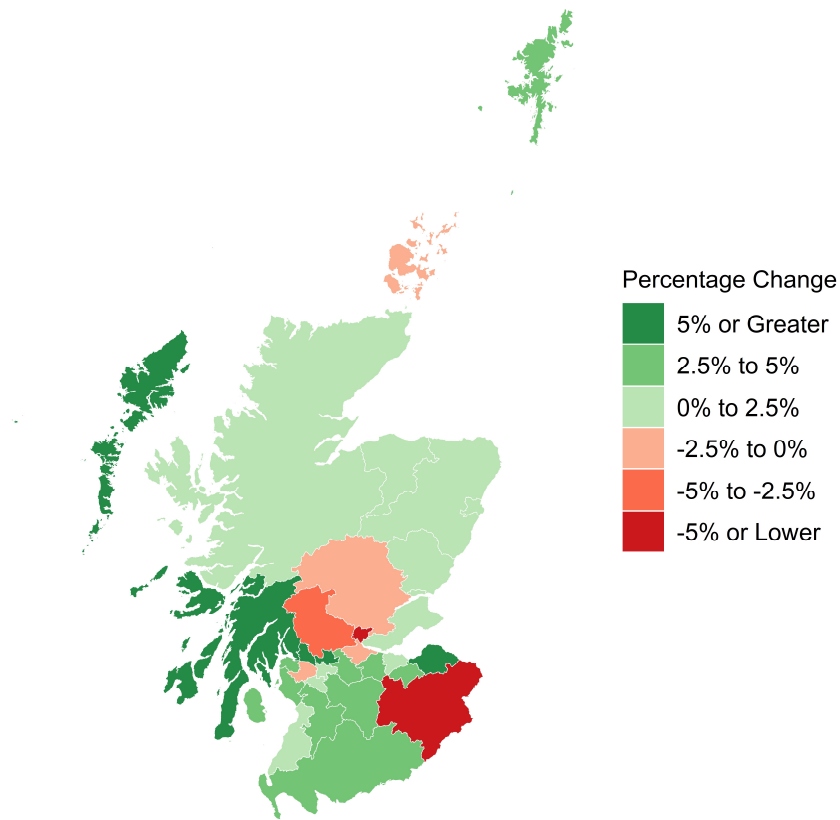
Data to: 20 March 2020

Contact: Richard.Keatinge@gov.scot;

Bruce.Teubes@gov.scot

Scottish Housing Market: At a Glance

Sales: Annual Change (2019)



In the calendar year 2019, annual **sales growth** in Scotland stood at **2.1%** (+2,076 sales).

Sales growth in 2019 was **positive** in 25/32 local authorities. It was highest in **East Dunbartonshire** (9.3%), **East Lothian** (7.8%) and **Argyll and Bute** (7.7%)*.

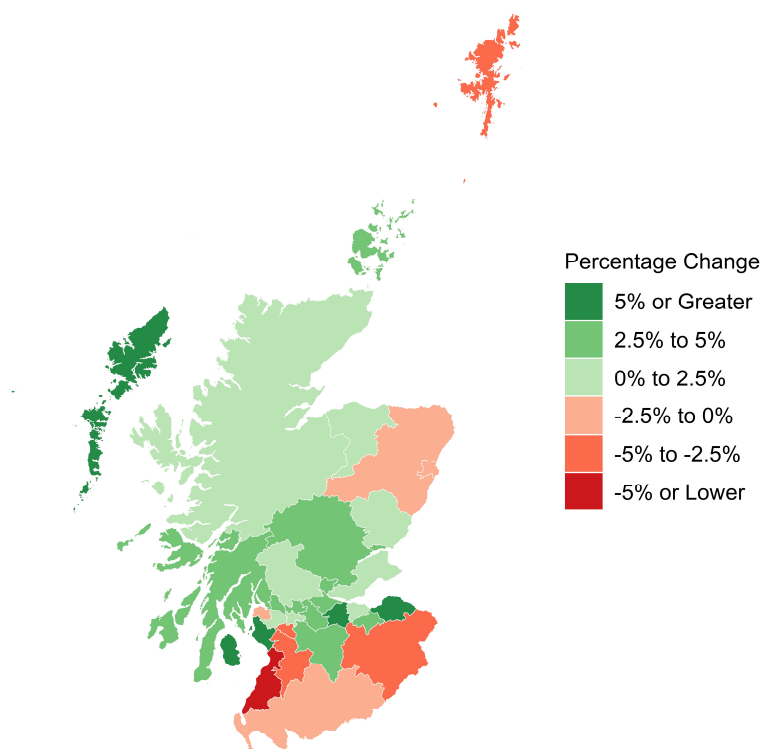
Sales growth in 2019 was **negative** in 7/32 local authorities. It was lowest in the **Scottish Borders** (-8.6%), **Stirling** (-4.2%) and **Renfrewshire** (-0.8%)*.



2.1%

Source: RoS, ONS/Ordnance Survey

Prices: Annual Change (2019)



In the calendar year 2019, the average Scottish **house price increased** by **1.2%**, to £181K.

House price growth in 2019 was **positive** in 23/32 local authorities. It was highest in **East Lothian** (7.2%), **North Ayrshire** (5.3%) and **West Lothian** (5.2%)*.

House price growth in 2019 was **negative** in 9/32 local authorities. It was lowest in the **South Ayrshire** (-6.1%), **Scottish Borders** (-3.8%) and **East Ayrshire** (-3.2%)*.



1.2%

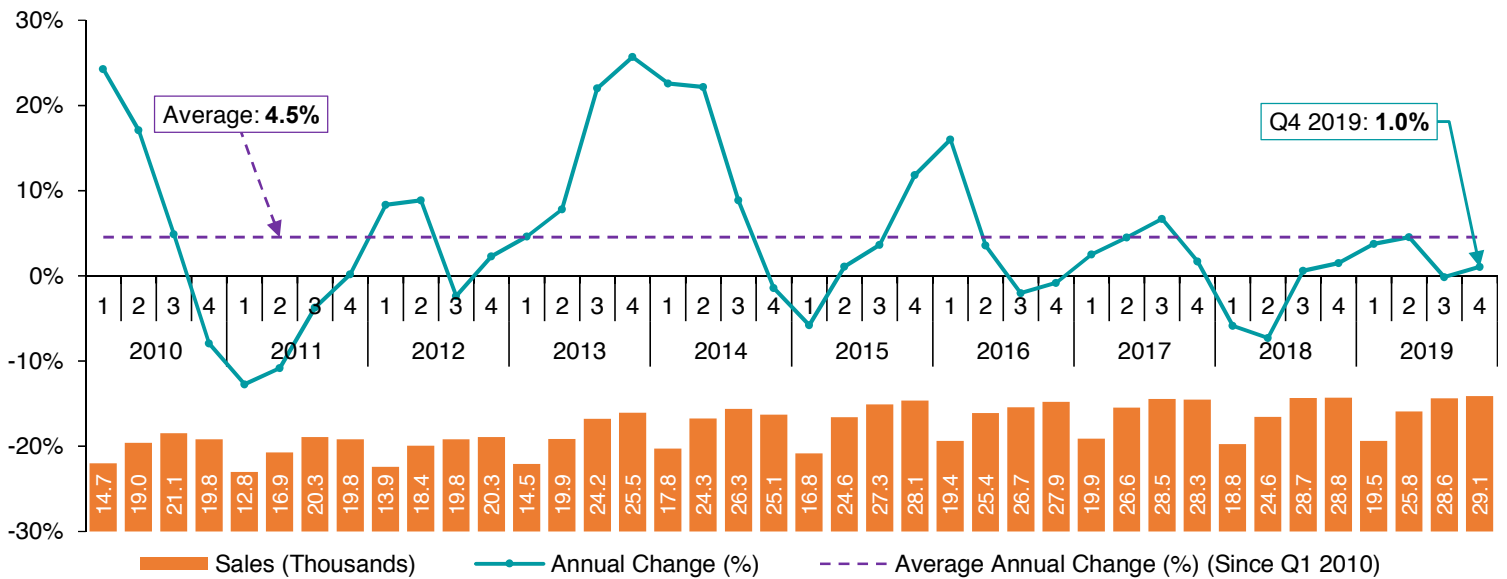
Source: RoS, ONS/Ordnance Survey

*Excludes LAs where sales represent less than 1% of total Scottish sales.

1. Sales

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

Source: Registers of Scotland



Scottish Sales Performance

There were 29,065 residential property sales registered across Scotland in Q4 2019, which is an annual increase of 1.0% (+298 sales). Meanwhile, annual sales growth for the calendar year 2019 stood at 2.1% (+2,076 sales) (Source: Registers of Scotland). Chart 1.2 shows that the level of sales has been stabilising over the past three years. This follows the sharp decline in sales following the 2008 financial crisis and the period of growth from 2013-2016 (Source: Registers of Scotland).

Regional Sales Performance

Annual sales growth in the year to end 2019 has been largely positive across Scotland, as shown in Chart 1.3. In the year to end 2019, the strongest sales growth was recorded in Clyde Valley, where the number of sales registered increased by an annual 3.2% (+1,084 sales). Within Clyde Valley, sales growth has been particularly strong in South Lanarkshire, with positive sales growth in all but one quarter over the past four years. In addition, sales growth has rebounded in East Dunbartonshire after a fall in activity in 2018. There was a similar level of sales growth in Ayrshires & Dumfries and Galloway (2.9%), and positive annual sales growth in all but one of the housing market areas (Source: Registers of Scotland).

There was an annual fall in sales of 2.9% (-166 sales) in the year to end 2019 in Forth Valley. This is principally due to the performance of sales in Stirling, where sales growth has been negative in five out of the last six quarters (Source: Registers of Scotland).

Chart 1.2 Monthly Sales (Scotland)

Source: Registers of Scotland

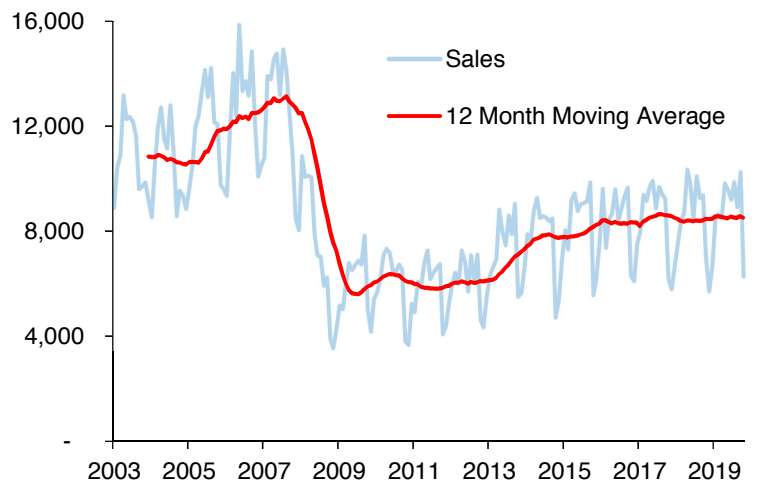
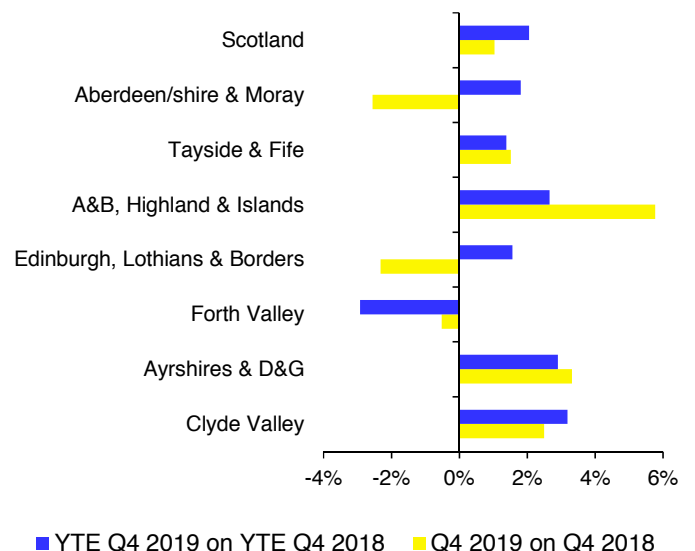


Chart 1.3 Annual Change in Sales

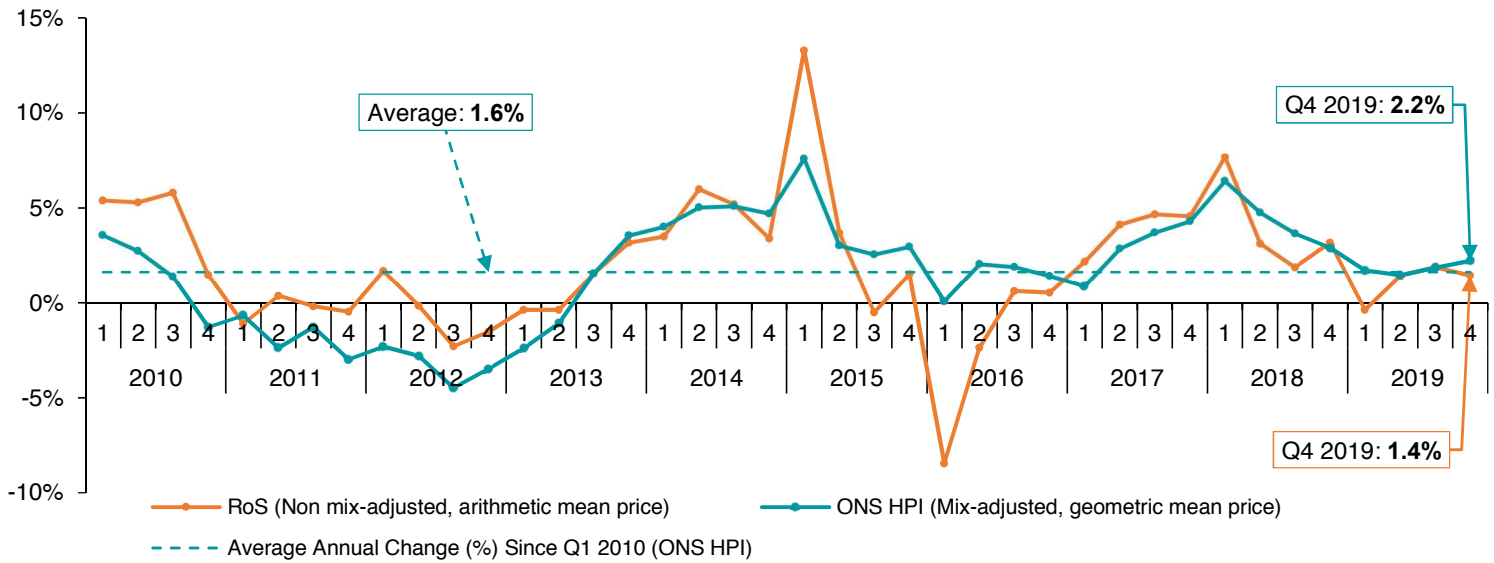
Source: Registers of Scotland



2. House Prices

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

Source: Registers of Scotland/ONS HPI



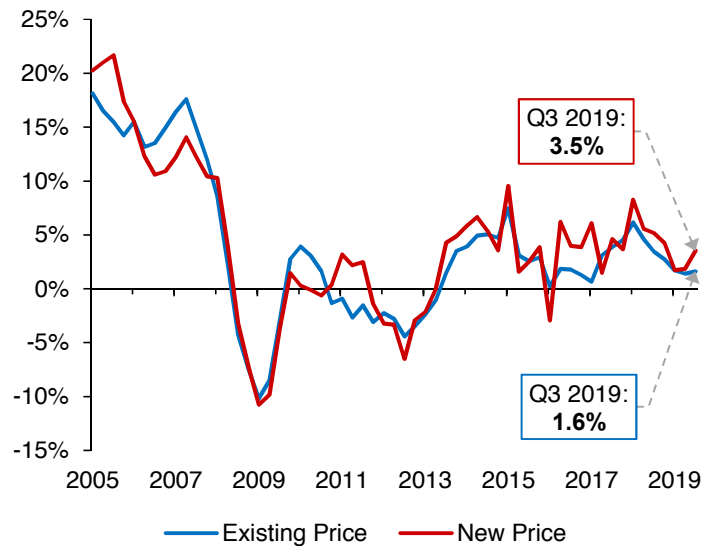
Scottish House Price Performance

The average house price in Scotland stood at £153K in Q4 2019, up by an annual 2.2% (+£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%). House price growth has been relatively stable at around 1.4%-2.2% growth per annum in 2019 (Source: ONS HPI).

The average new build house price in Scotland stood at £214K in Q3 2019, up by an annual 3.5%, while the average existing build property price was £152K, up by an annual 1.6%. This is shown in Chart 2.2. The average Scottish first-time buyer house price stood at £124K in Q4 2019, up by an annual 1.8%, while the average home-mover house price stood at £184K, up by an annual 2.6% (Source: ONS HPI).

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

Source: ONS HPI

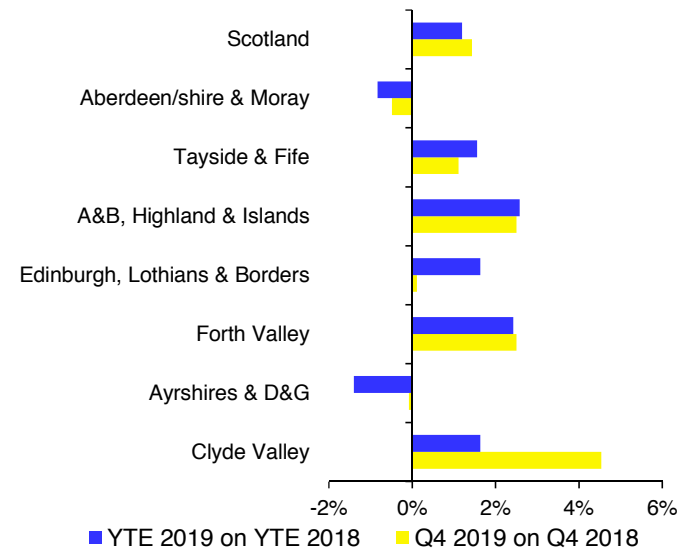


Regional House Price Performance

Chart 2.3 shows the annual change in house prices for the seven Scotland areas. In the year to end Q4 2019, house price growth was highest in Argyll and Bute, Highland & Islands, where house prices increased by an annual 2.6%, while the rate of house price growth was similar in Forth Valley (2.4%). On a quarterly basis, house price growth has been negative for the last five quarters in Ayrshires & Dumfries and Galloway (Source: RoS).

Chart 2.3 Annual Change in House Prices

Source: Registers of Scotland



3. Lending To Homebuyers

New Mortgage Advances

There were 8,290 new mortgages advanced to first-time buyers (FTBs) in Scotland in Q4 2019, an annual decrease of 2.9% (-250). As shown in Chart 3.1, the number of new mortgages advanced to FTBs in Scotland has been fairly stable over the past three years. Meanwhile, there were 9,100 new mortgages advanced for home-movers (HMs) in Scotland in Q4 2019, up by an annual 6.1% (+520). In the calendar year 2019, there were 66,420 new mortgages advanced to all buyer types, up by an annual 1.7% (+1,140). New mortgages advanced to FTBs in 2019 accounted for 49% of all new mortgages advanced in Scotland (Source: UK Finance).

Loan-to-Value (LTV) Ratios

In Q4 2019, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to FTBs stood at 82.5%. This is up by an annual 1.1 percentage points and continues the upward trend in FTB LTV ratios since 2009. LTV ratios for FTBs are currently above the level they stood at prior to the 2008 financial crisis. Meanwhile, the mean LTV ratio for HMs stood at 71.5% in Q4 2019, up by an annual 1.1 percentage points also (Source: UK Finance).

Data from the FCA shows that in the first half of 2019, the share of mortgage sales for new build properties with an LTV greater than 85% stood at just under one-third in Scotland (31%). This share is the same as it was in 2007.

Interest Rates

In response to the Covid-19 pandemic, the Bank of England cut Bank Rate twice in March by a cumulative total of 65 basis points, from 0.75% to 0.1% (as of 20 March 2020). Lenders are expected to reduce their variable and new fixed-rate mortgages in response. Related to Covid-19, UK Finance report that mortgage lenders will offer residential and buy-to-let mortgage customers affected by Covid-19 a mortgage payment holiday. Customers will still need to repay missed payments after the holiday ends and interest will accrue during the holiday. As of the end of February 2020 (before the Bank Rate cuts), the average 2 year (75% LTV) fixed mortgage rate stood at 1.48%, while the average 5 year fixed (75% LTV) mortgage rate stood at 1.71%, 23 basis points higher. Chart 3.3 shows that the spread between 2 year 90% and 75% LTV ratios remains narrow (Source: BoE).

Chart 4.1 (over the page) shows that in Q4 2019, just over three-quarters (76.1%) of balances outstanding were on fixed-rates. It will therefore take time for the Bank Rate cut to feed through to most existing mortgage customers (Source: FCA).

Chart 3.1 New Mortgage Advances for Home Purchase (Rolling 4 Quarter Total), Scotland

Source: UK Finance

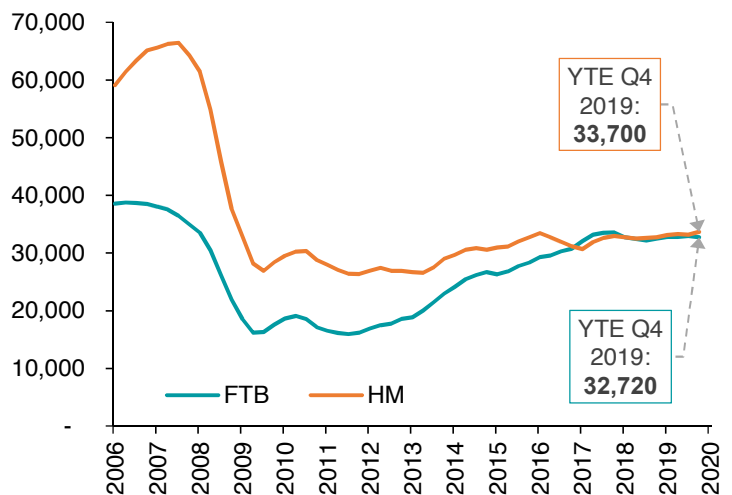


Chart 3.2 Mean Loan to Value Ratio (Quarterly), Scotland

Source: UK Finance

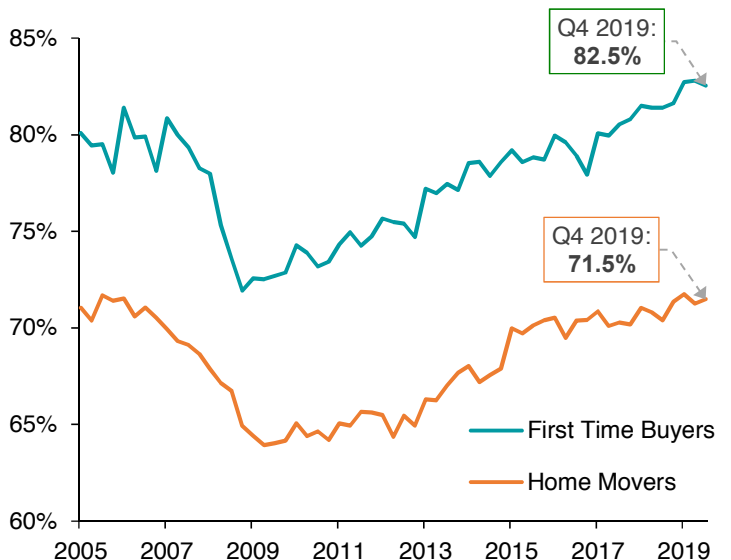
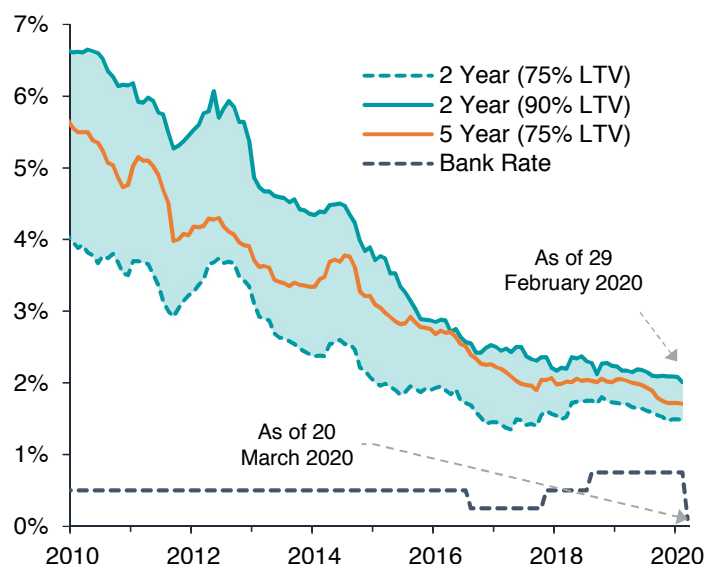


Chart 3.3 Mortgage Interest Rates: UK (Monthly)

Source: Bank of England



4. Lending To Homebuyers

Arrears

There were 13,043 regulated mortgages that went into arrears across the UK in Q4 2019, down by an annual 3.5% (-470). As shown in Chart 4.2, this is 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, 125,640 mortgages were in arrears at the end of Q4 2019 across the UK, down by an annual 9.0% (-12,359) (Source: FCA).

The share of lenders' mortgage balances outstanding that were in arrears as of the end of Q4 2019 stood at 0.87%. Chart 4.3 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. In Q4 2019, half of lenders' outstanding balances that were in arrears were cases where the arrears were worth up to 5% of the loan amount (Source: FCA).

Possessions

There were 1,315 new possessions across the UK in Q4 2019, up by an annual 16.2% (+183). Chart 4.4 shows that 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).

Lenders are temporarily stopping repossession actions to help customers affected by Covid-19 (Source: FCA).

Chart 4.1 Share of Mortgage Lending at Fixed Rates: UK, % (Quarterly)

Source: FCA

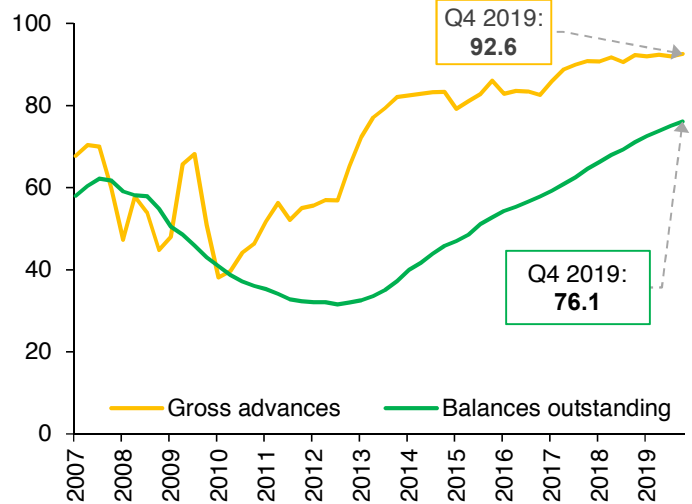


Chart 4.2 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)

Source: FCA

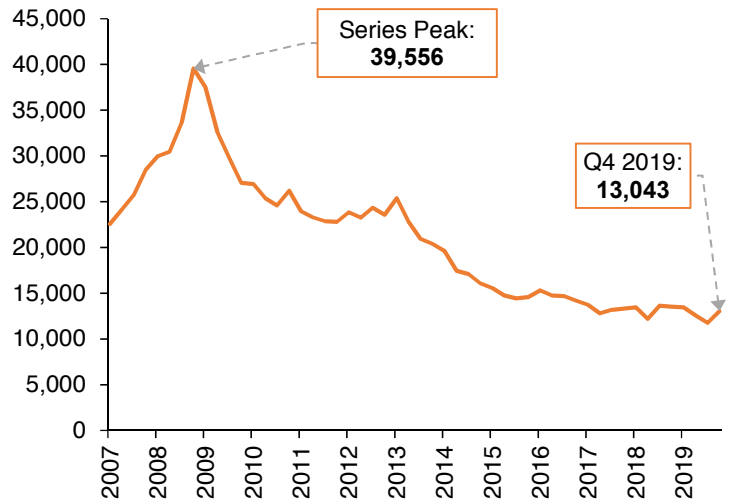


Chart 4.3 Balances in Arrears by Severity: UK, % (Quarterly)

Source: FCA

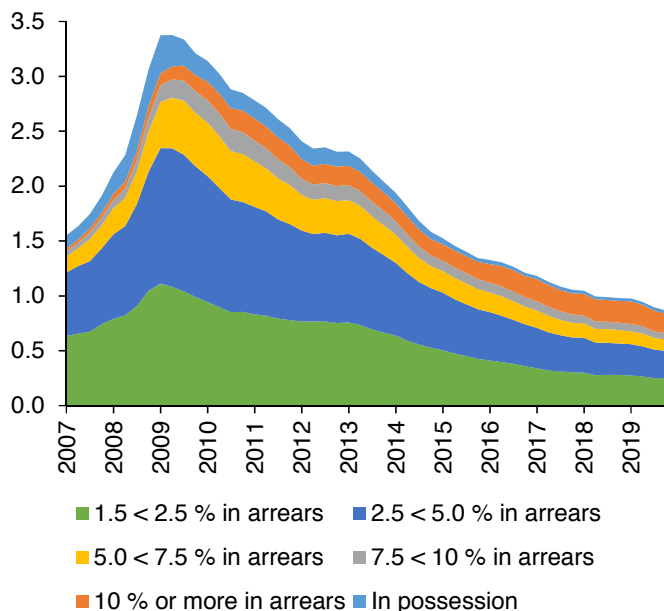
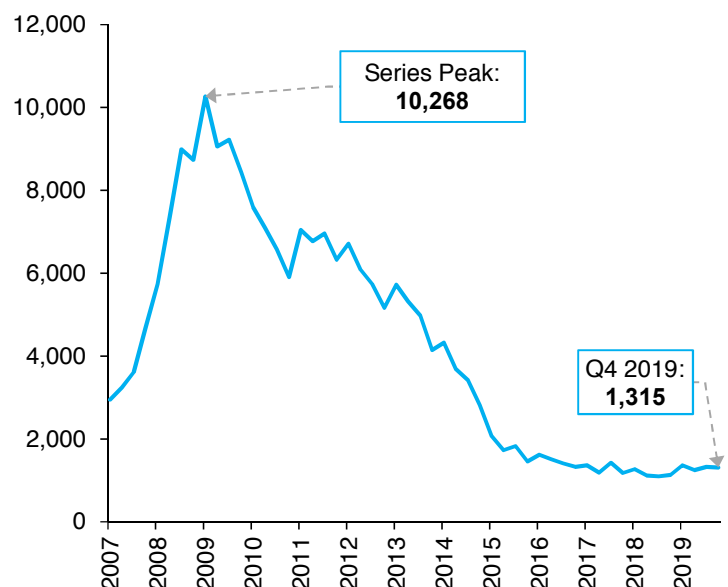


Chart 4.4 Number of New Possessions: UK (Quarterly)

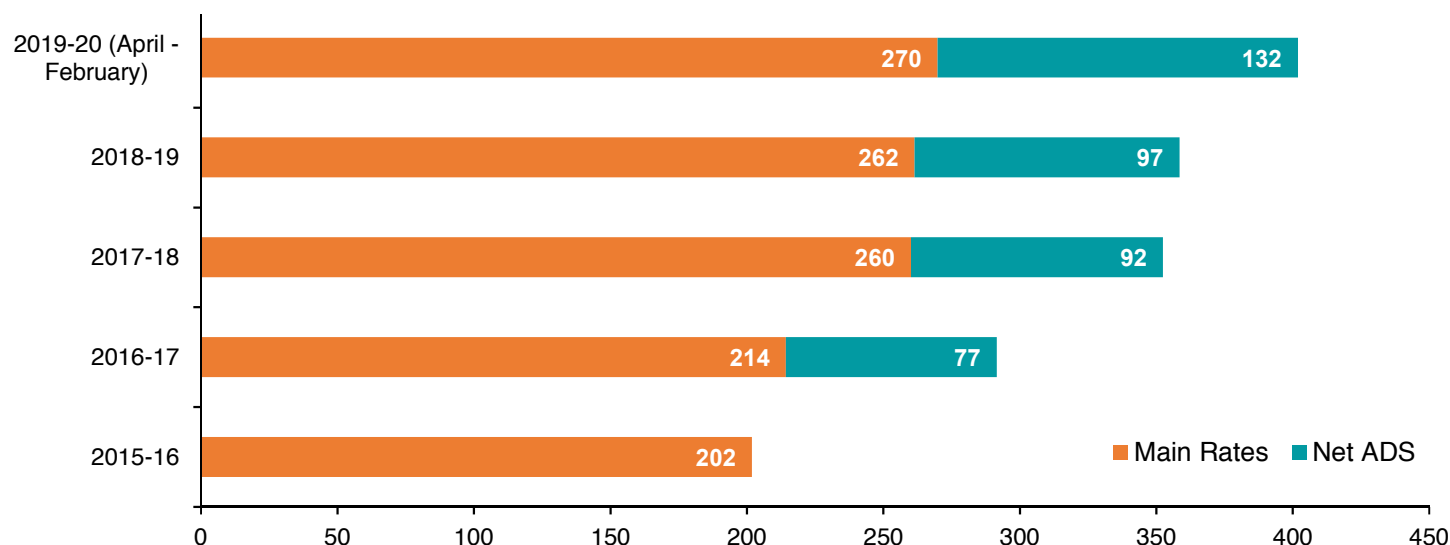
Source: FCA



5. Residential LBTT

Chart 5.1 Residential LBTT Revenue (£ millions)

Source: Revenue Scotland



LBTT (Excluding ADS)

The latest Revenue Scotland statistics show that from April 2019 - February 2020, residential LBTT from the main rates of LBTT totalled £270m, up by an annual 10.6% (+£26m) on the same period last year. Residential LBTT revenue has been particularly strong in the 3 months to February 2020, totalling £65.4m (up by an annual 22.7%). Within this period, revenue from transactions in the upper band of residential LBTT (£750K+) increased by an annual 67.0%, to £15.7m. This accounted for 52% of the annual increase in residential LBTT (excluding ADS) revenue.

Additional Dwelling Supplement (ADS)

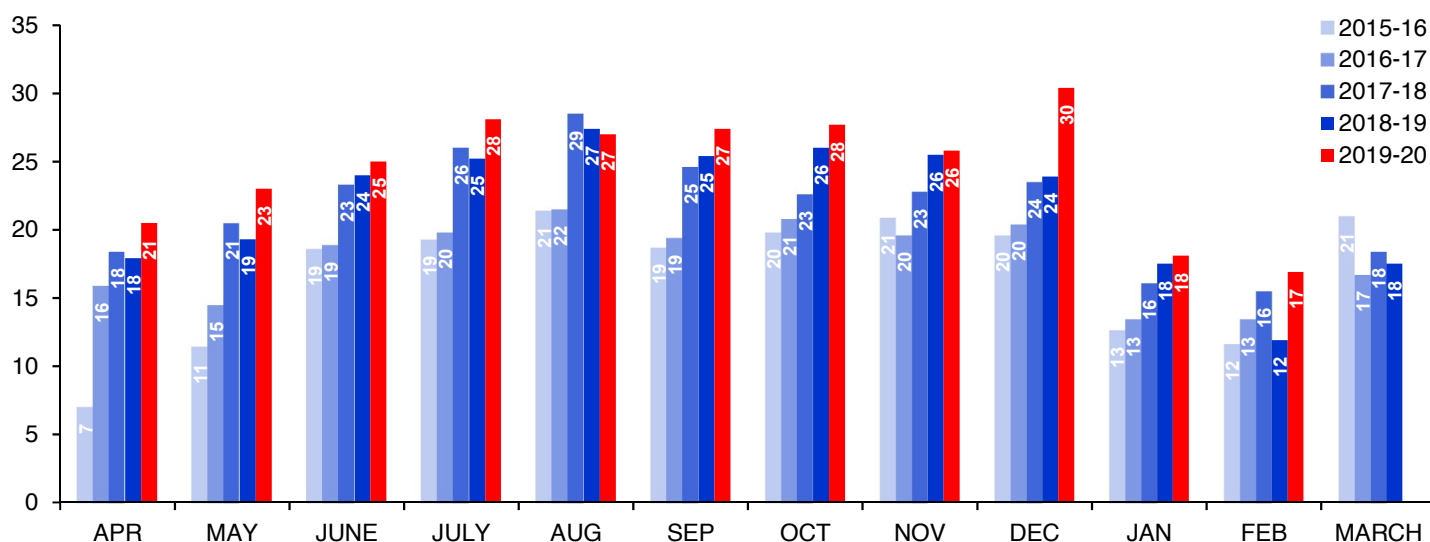
There have been 21,820 residential transactions liable to pay ADS from April 2019 - February 2020, down by an annual 1.8% (-400). This compares to annual growth of 2.8% for non-ADS liable residential transactions. This decrease in residential transactions liable to pay ADS could be due to the ADS rate rise from 3% to 4% in January 2019, as well as wider policy changes, such as the phased withdrawal of mortgage interest relief for landlords.

Scottish Government and UK Government Budget Recap

There were no changes to residential LBTT in the Scottish Budget for 2020-21. The UK Government announced in the 2020-21 Budget that it would introduce a 2 per cent Stamp Duty Land Tax (SDLT) surcharge on all purchases of residential property by non-UK residents from April 2021.

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

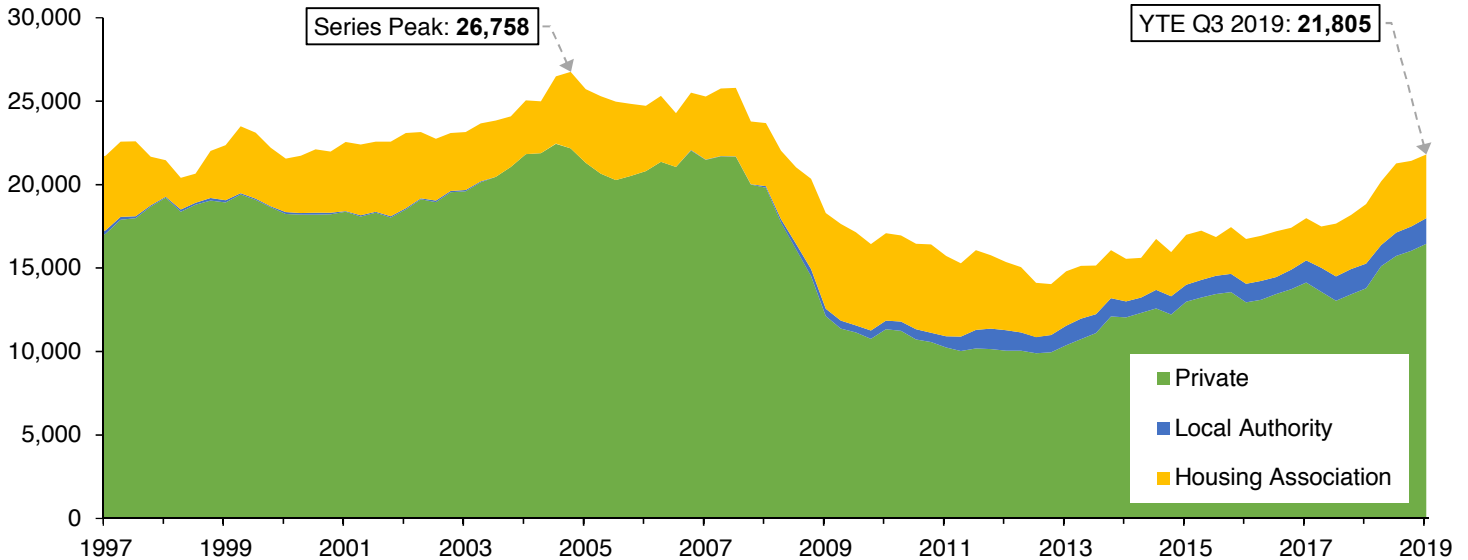
Source: Revenue Scotland



6. House Building

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

Source: SG



New Build: All Sectors

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. Private sector new build completions accounted for three-quarters of all new build completions (75.4%), while local authority (7.1%) and housing association (17.5%) completions comprised the remainder. 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

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). This is the largest number of new build completions since at least 1997. 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).

Affordable Housing Supply Programme

A total of 9,317 affordable homes were completed in 2019, up by an annual 0.7% (+61). Meanwhile, there were 10,765 starts in 2019, up by an annual 3.7% (+380). Since Q2 2016, there have been 31,136 completions through the Affordable Housing Supply Programme (Source: SG).

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

Source: SG

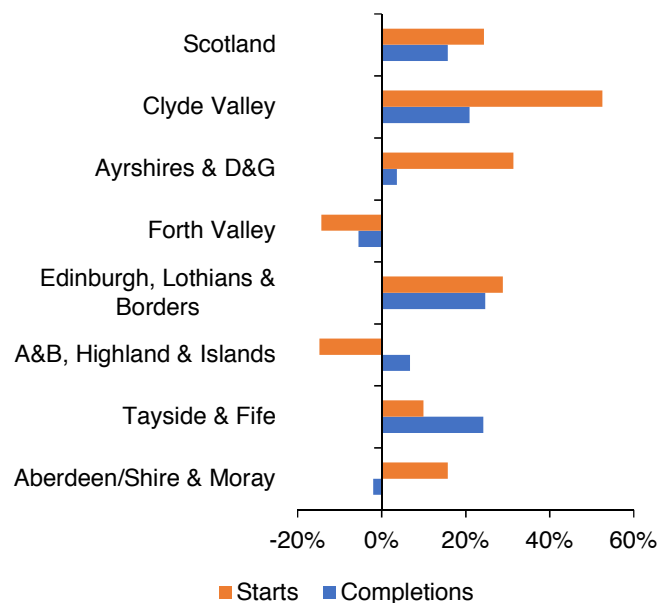
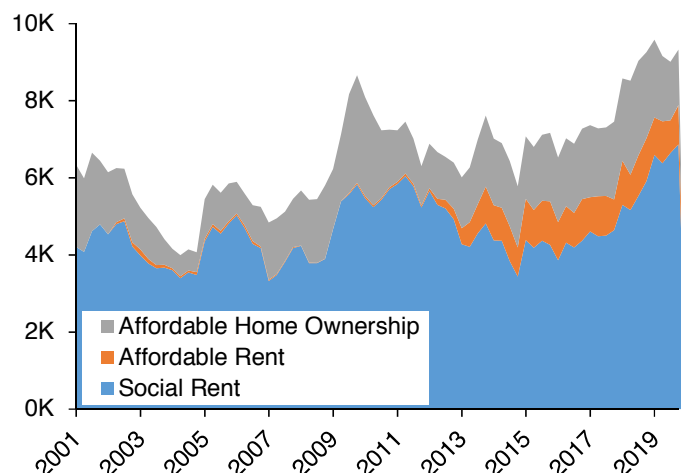


Chart 6.3 AHSP Completions (4Q Moving Total, to Q3 2019)

Source: SG



7. House Building: Costs and Lending; Homelessness

New Build Material Prices

Data from BEIS on the cost of construction materials shows that in January 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 7.1), coinciding with the depreciation of Sterling after the Brexit referendum.

Lending to Firms Involved in the Construction of Buildings

The total value of outstanding loans to firms involved in the construction of buildings stood at £14.7bn across the UK at the end of January 2020. This is up 3.5% on January 2019 but, as chart 7.2 shows, outstanding loans to SME firms has fallen from £9.7bn in early 2017 to £7.9bn in January 2020. Meanwhile, the value of outstanding loans to large firms has been gradually increasing since 2017 (Source: Bank of England).

Homelessness Applications

There were 9,409 homelessness applications in Scotland in Q3 2019, down by an annual 0.4% (-38).

Chart 7.3 shows that homelessness applications are down significantly compared to levels seen a decade ago (-36.6%, -21,039 on Q3 2009). However, in recent years, homelessness applications have ticked up slightly (Source: SG).

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

Source: BEIS

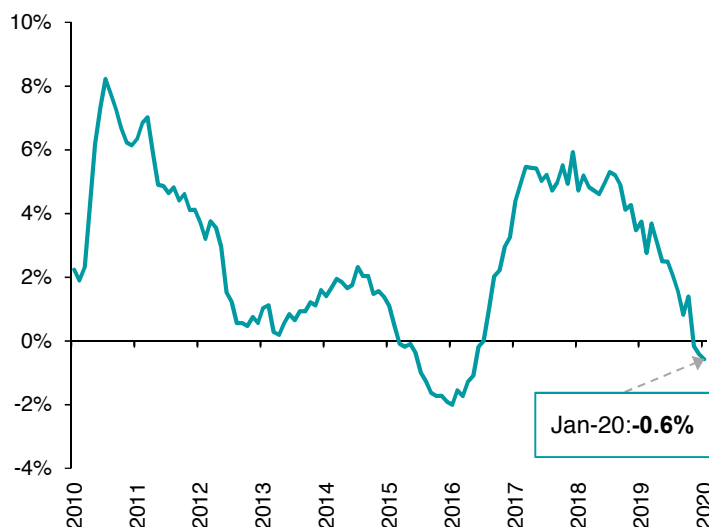


Chart 7.2 Outstanding Loans to Companies Involved in Construction of Buildings (£ million): UK (Monthly)

Source: BoE

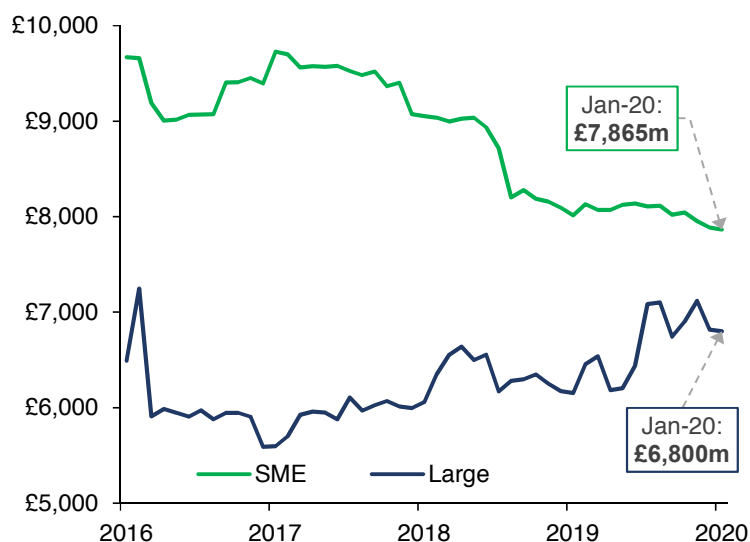
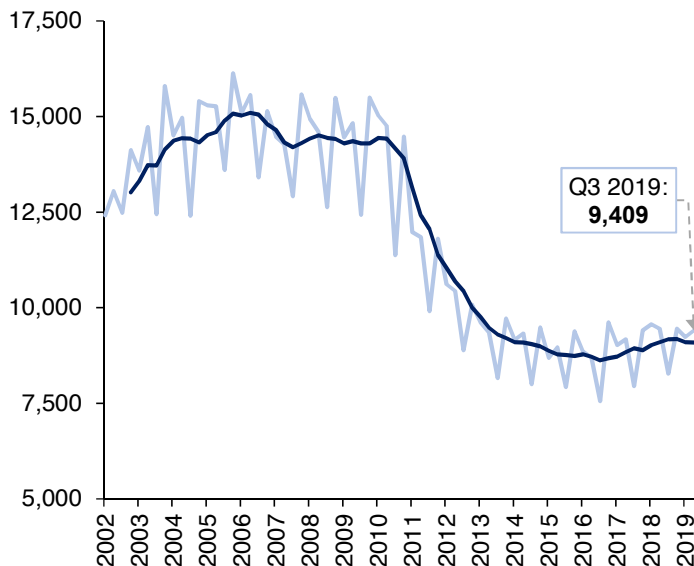


Chart 7.3 Homelessness Applications: Scotland (Quarterly)

Source: SG



Special Feature: SME & Large Developers

This quarter's special feature explores the impact of the 2008 financial crisis on housebuilders of different sizes, the current employment structure of the wider Scottish construction sector, and the challenges SME housebuilders were facing prior to the impact of the Covid-19 pandemic. This will inform understanding of how the sector, and SME housebuilders in particular, may be affected by the pandemic.

The 2008 financial crisis had a significant, adverse effect on the Scottish new build market. In 2007-08, there were 21,663 private-led new build completions (Source: SG); however, five years later this had fallen by more than half (54%) to 9,892. Subsequently, there has been a steady recovery, with 15,170 private new build completions in 2018-19, likely driven by the return of high-LTV lending on new build properties to pre-financial crisis levels, as well as Scottish Government initiatives such as Help to Buy (Scotland).

Within this overall recovery, the effect of the 2008 financial crisis on SME developers has arguably been more pronounced than for large developers. Chart 1 shows the time profile of private new build sales by developers building i) 1 - 50 units, ii) 51 - 200 units and ii) more than 200 units per annum. This shows that immediately following the 2008 financial crisis, sales by large developers fell slightly more than smaller developers, but have since grown more strongly. Scottish Government analysis of Registers of Scotland data shows that in 2007-08, 46% of private new build sales were by developers building 200 or more units in that year. In 2017-18, the market share for this group had increased by 10 percentage points, to 56%. Within this, the 6 largest developers in 2007-08 built just under one-third (32%) of private new build properties; by 2017-18, this figure had increased to just under half (48%). In terms of the actual number of units delivered by these developers, this translates to a drop of just 4% over the period from 2007-08 to 2017-18 (compared to a drop of 30% in aggregate private new build completions). Meanwhile, the share of those building less than 50 units per annum fell from 27% in 2007-08 to 23% in 2017-18. There has also been a reduction in the share of those building between 50 and 200 units, from 27% to 20%.

Estimates of employment by firm size in the Scottish construction industry in 2019 from the Department for Business, Energy & Industrial Strategy (BEIS) (Chart 2) show that in 2019, nearly three in ten (29%) Scottish construction workers were self-employed (46K) (i.e. working in an enterprise with no employees, although they may be employed by their own company, i.e. not treated as self-employed from a tax viewpoint). Of the remaining 71% of the workforce (113K workers), 42% of workers (66K) were in firms employing up to 50 workers and 30% of workers were in firms employing more than 50 workers (47K).

The Scottish Government carried out an online survey of SME developers in Summer 2019 to find out what obstacles they had experienced in the past 3 years and expected to experience in the following 5 years*. This is the second such survey (the first was in 2016). Respondents were asked to identify the top 3 obstacles that they had experienced over the last 3 years from a list of 10 options, with the most common responses being: Time lost waiting for infrastructure provision (36/57); Unable to obtain planning consent for development (36/57); Cost of meeting infrastructure and S75 obligations (23/57); Lack of development finance (16/57). Only 3 SME developers included a lack of mortgage finance for customers in their top 3 obstacles, suggesting that at that time lack of demand was no longer as significant an issue as it was immediately following the 2008 financial crisis. In the next 5 years, a lack of development finance was reported to be of slightly less concern, but a lack of skilled workers was anticipated to be more of an issue.

*Research report available at <https://www.gov.scot/publications/small-housing-developers-scotland-views-outputs-future-prospects-obstacles-solutions-government-initiatives/>.

Chart 1. Private-Led New Build Sales by Developer Size (Source: SG analysis of RoS Data)

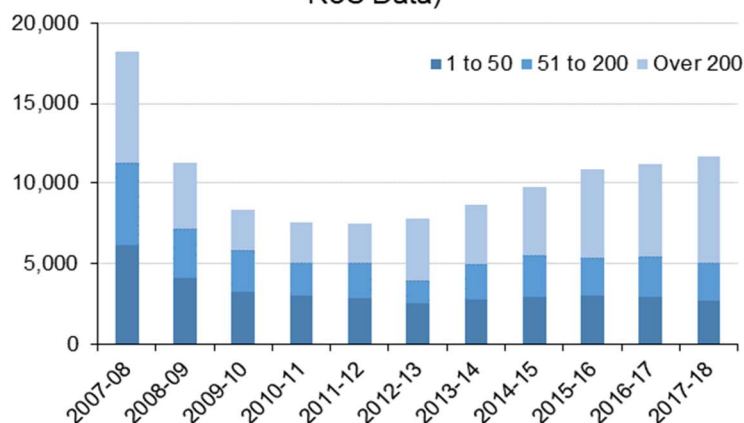


Chart 2. Employment in Construction by Enterprise Size (2019): Scotland (Thousands) (Source: BEIS)

