

Scottish Housing Market Review

October - December 2020

Key points for this issue:

Sales

- **Residential property sales rebounded strongly in Q3 2020 in Scotland**, although activity was below the level seen in Q3 2019. Following a 63.9% annual decline in Q2 when restrictions on home moves were in force, the fall in transactions moderated to 28.3% in Q3. (Source: Registers of Scotland)
- **The recovery in transactions in Q3 was fairly uniform across Scotland**, with the largest reduction in Argyll & Bute and the Highlands & Islands (-31.7%) and the smallest in Tayside & Fife (-24.4%). (Source: Registers of Scotland)
- **The recovery continued into October and November**, with sales across Scotland up by an annual 22.9% over these two months.

House Prices

- **House price growth has been relatively stable since the start of 2019**, and in Q3 (at an annual 1.3%) was only marginally below the long-term trend of 1.6% since 2010. (Source: UK HPI)
- **However, more recent data for October showed a 6.0% annual increase**, with price growth for detached properties (7.0%) higher than for flats (4.6%) possibly linked to a change in preferences due to Covid-19.

Rental Prices

- **Private housing rental price growth remain moderate**, rising by 0.6% in November 2020. (Source: ONS)
- **The Scottish Government has laid regulations to extend the ban on social and private rent evictions**, from 22 January until 31 March, subject to a review every 3 weeks.

Lending

- **There has been a reduction in high LTV mortgage lending due to the impact of Covid-19**. Data from the FCA for Q3 2020 shows that 3.5% of gross mortgage advances in the UK had an LTV ratio over 90%, down 2.4 percentage points on Q3 2019.
- **New mortgages to first-time buyers in Scotland fell by an annual 18.6% in Q3 2020, while new mortgages to home movers fell by 24.6%**. (Source: UK Finance)
- **The trend of high LTV mortgages becoming more expensive has continued**. In November 2020, the spread between the average advertised 2 year fixed 90% LTV and 75% LTV mortgage rate, at 184 basis points, was nearly triple the amount in January 2020. (Source: Bank of England)
- **The FCA is consulting on extending the period during which lenders should not enforce repossessions** from 31 January to 1 April 2021.

Housing Supply

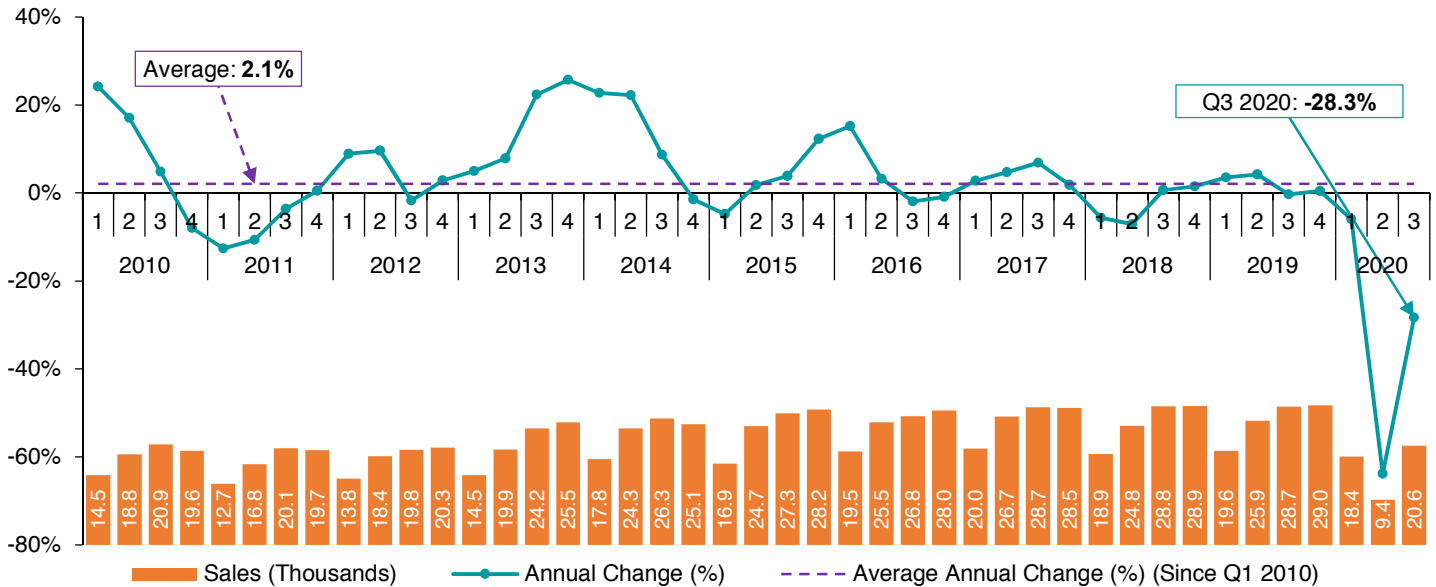
- **Private new build sales transactions in Scotland have been recovering since the lockdown of non-essential construction was lifted in June 2020**, with the annual fall in transactions moderating to 15% in July relative to a fall of 86% in May. (Source: UK HPI)
- **The supply of affordable housing has recovered slightly since Q2**, although supply remains below the Q3 2019 level. **1,057 affordable homes** were delivered in Q3 2020, an annual decrease of 49%. (Source: Scottish Government)
- **AHSP starts and approvals were also down in Q3**. There were 2,009 starts and 1,026 approvals in Q3 2020, down by an annual 24.2% and 53.4% respectively.

Data to: 19 January 2021 - Contact: William.Ellison@gov.scot; Bruce.Teubes@gov.scot

1. Sales: National

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

Source: Registers of Scotland



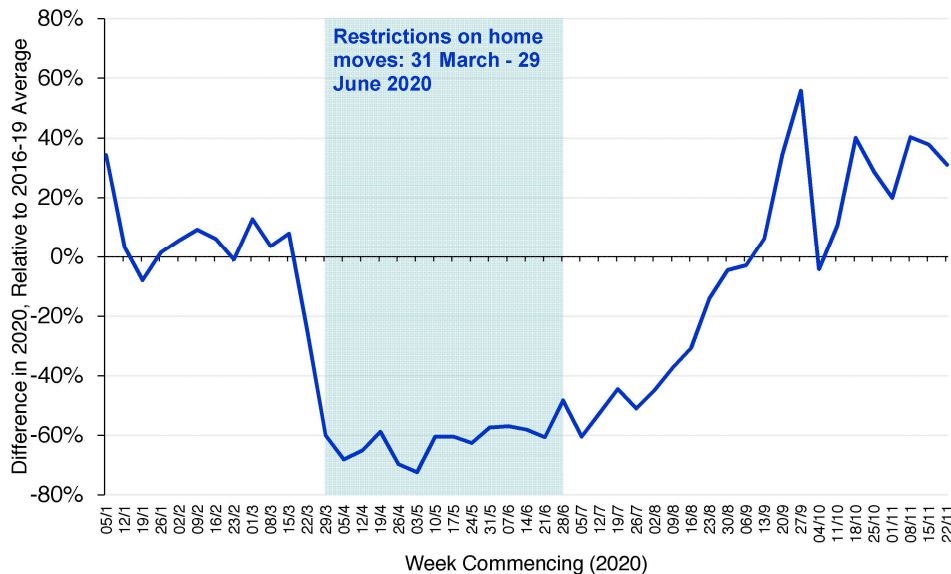
Scottish Sales Performance: National

Housing market activity in Scotland rebounded in Q3 2020, although activity remained below the level seen in Q3 2019. The rebound relative to Q2 (when transactions fell by an annual 64%) is in line with expectations as Q2 included the period where restrictions on home moves were in place (from 31 March 2020 until 29 June 2020). Registers of Scotland statistics show that there were 20,607 residential property sales registered across Scotland in Q3 2020, down by an annual 28%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns submitted show the improvement in housing market activity in Q3 continued into October and November. Chart 1.2 plots the percentage difference between weekly residential LBTT returns in 2020, and the average from 2016 to 2019 for the corresponding week. The recovery has been sufficiently strong that the level of transactions in October and November combined increased by an annual 22.9%. However, the rebound in housing market activity in Q3 and Q4 2020 was not enough to offset the reduction earlier in the year: for the period January to November, transactions are down by 20% in 2020 compared to 2019.

Chart 1.2 Weekly Residential LBTT Returns: Percentage Difference Between 2020 and 2016-2019 (Weekly Average)

Source: Revenue Scotland



Key Points

Residential property sales rebounded strongly in Q3 2020 in Scotland, although activity remained below the level seen in Q3 2019.

More recent data using residential LBTT returns shows that the rebound in housing market activity has continued in October and November, with transactions during this two-month period up by an annual 22.9%.

1. Sales: Regional

Scottish Sales Performance: Regional

Registers of Scotland data shows that the rebound in housing market activity in Q3 2020 was experienced across Scotland, although in all areas the level of sales in this period was still down on an annual basis. The decrease in sales relative to the previous year was fairly uniform across Scotland. The largest reduction in residential property sales occurred in Argyll & Bute and the Highlands & Islands, where sales fell by an annual 31.7%. Sales in Tayside & Fife fell by the lowest amount in Scotland in Q3 2020, down 24.4% on the same period last year.

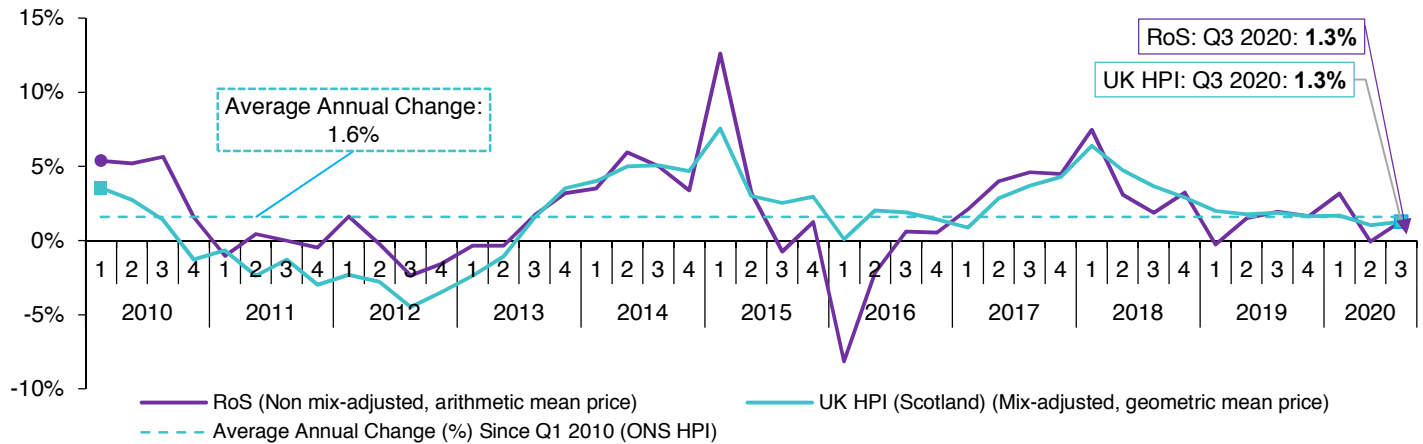
A summary of residential property sales activity by Scottish region is included below. This contains the number of residential property sales registered in Q3 2020, the annual change, as well as the annual change in sales using a rolling four quarter period to Q3 2020. The latter is included to smooth out volatility in quarterly data. This further highlights that residential property sales fell by a similar magnitude across Scotland in Q3 2020.

Aberdeen/shire & Moray		A&B, Highland & Islands		Ayrshires & D&G	
Sales - Q3 2020	2,041	Sales - Q3 2020	1,386	Sales - Q3 2020	1,883
12 Month Change	-26.7%	12 Month Change	-31.7%	12 Month Change	-28.9%
Annual change to Q3 2020 (rolling 4 quarters)	-25.4%	Annual change to Q3 2020 (rolling 4 quarters)	-23.2%	Annual change to Q3 2020 (rolling 4 quarters)	-23.9%
Clyde Valley		Edinburgh, Lothians & Borders		Forth Valley	
Sales - Q3 2020	6,869	Sales - Q3 2020	4,225	Sales - Q3 2020	1,108
12 Month Change	-29.8%	12 Month Change	-27.3%	12 Month Change	-30.2%
Annual change to Q3 2020 (rolling 4 quarters)	-25.0%	Annual change to Q3 2020 (rolling 4 quarters)	-26.7%	Annual change to Q3 2020 (rolling 4 quarters)	-23.9%
Tayside & Fife		Scotland			
Sales - Q3 2020	3,095	Sales - Q3 2020	20,607		
12 Month Change	-24.4%	12 Month Change	-28.3%		
Annual change to Q3 2020 (rolling 4 quarters)	-23.8%	Annual change to Q3 2020 (rolling 4 quarters)	-24.9%		

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: National

House price inflation has been relatively steady since the start of 2019, remaining in line with its long-term average since Q1 2010 of 1.6%. Unlike transactions, house prices were largely unaffected by the restrictions on the housing market in Q2, as shown in Chart 2.1. Furthermore, the rate of change in Q3 2020 (1.3%) was only just below the long-term average, with the average property price in Scotland standing at £157K (Source: UK HPI). Meanwhile, data from Registers of Scotland suggests that the average house price in Scotland increased in Q3 2020, by 1.3%, relative to Q3 2019 (although this data is not mix-adjusted, so could be affected by the composition of properties sold).

More recent UK HPI data for October however shows a significant increase in prices, with the annual rate of change reaching 6.0%. When looking into further detail, house price growth was greater for detached properties (7.0%) relative to flats (4.6%). This could reflect a shift in buyer preferences arising from Covid-19, with buyers increasingly looking for properties with more space or gardens.

Key Points

The average Scottish house price increased by an annual 1.3% in Q3 2020, to £157K (UK HPI).

More recent data for October showed a 6.0% increase, with price growth for detached properties (7.0%) higher than for flats (4.6%) possibly linked to a change in preferences due to Covid-19.

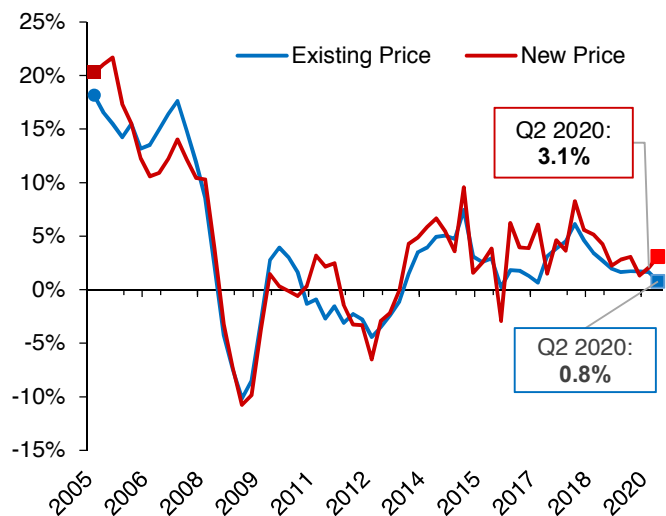
Scottish House Price Performance by Dwelling/Buyer Type

Chart 2.2 shows the rate of change in the average new and existing build property price in Scotland. This data is published with a lag. In Q2 2020, the rate of change in the average Scottish new build property price increased to a greater extent than existing build price growth, increasing by 3.1% to £214K. Existing build price growth increased marginally by 0.8% to £151K.

The UK HPI also shows that the average first-time buyer property price in Scotland increased by an annual 0.9% in Q3 2020, to £127K. Meanwhile, the average price of a property purchased by a former owner occupier increased by an annual 1.8% in Q3 2020, to £188K.

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

Source: UK HPI (Scotland)



2. House Prices: Regional

Scottish House Price Performance: Regional

Registers of Scotland data show that, while house prices for Scotland as a whole rose modestly in Q3 2020, there was significant variation at the local level, ranging from a 3.5% increase in Argyll & Bute and the Highlands & Islands, where the average (arithmetic mean) price stood at £184k in Q3 2020, to a 4.4% decrease in Aberdeen/shire & Moray, where the average price was £190k. Over the five year period to Q3 2020, the annualised house price inflation rate in Aberdeen/shire & Moray was -2.2%, relative to 2.1% across Scotland. This can in part be explained by lower oil prices, which have led to a decline in the oil industry, a crucial component of the Aberdeen economy, and therefore, the regional housing market. There was a further sharp fall in oil prices due to the initial impact of Covid-19 on the world economy during Q1 2020, although they have now recovered to pre-Covid levels.

The longer-term trend (as measured by the change in house prices over the 4 quarter period to Q3 2020 on the same period a year ago) shows that house price growth has been positive in all areas of Scotland with the exception of Aberdeen/shire & Moray. Meanwhile, Argyll & Bute and the Highlands & Islands, Edinburgh, Lothians and the Borders, Clyde Valley and Tayside and Fife all recorded positive price growth over the one year period to Q3 2020, as well as over the one year period using a rolling four quarter period to Q3 2020.

A summary of the average house price in Q3 2020 by Scottish region is included below. This also includes the annual change in the average house price in Q3 2020, as well as the annual change in the average house price using a rolling four quarter period to Q3 2020, which smooths out volatility in quarterly data (Source: RoS).

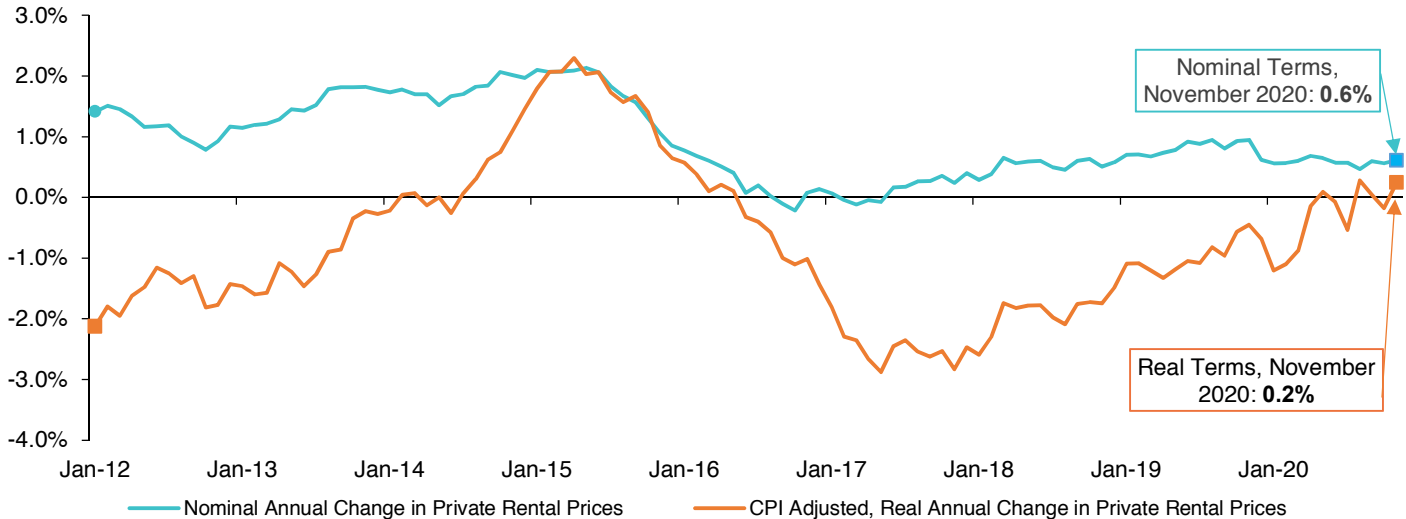
Aberdeen/shire & Moray	A&B, Highland & Islands	Ayrshires & D&G			
Average Price - Q3 2020	£190K	Average Price - Q3 2020	£184K	Average Price - Q3 2020	£142K
12 Month Change	-4.4%	12 Month Change	3.5%	12 Month Change	-0.3%
Annual change to Q3 2020 (rolling 4 quarters)	-2.1%	Annual change to Q3 2020 (rolling 4 quarters)	2.4%	Annual change to Q3 2020 (rolling 4 quarters)	1.3%
Clyde Valley	Edinburgh, Lothians & Borders	Forth Valley			
Average Price - Q3 2020	£168K	Average Price - Q3 2020	£250K	Average Price - Q3 2020	£174K
12 Month Change	1.8%	12 Month Change	2.3%	12 Month Change	-0.4%
Annual change to Q3 2020 (rolling 4 quarters)	3.5%	Annual change to Q3 2020 (rolling 4 quarters)	1.5%	Annual change to Q3 2020 (rolling 4 quarters)	2.9%
Tayside & Fife	Scotland				
Average Price - Q3 2020	£174K	Average Price - Q3 2020	£187K		
12 Month Change	2.1%	12 Month Change	1.3%		
Annual change to Q3 2020 (rolling 4 quarters)	2.0%	Annual change to Q3 2020 (rolling 4 quarters)	1.7%		

Source: RoS

3. Rental Prices

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

Source: ONS Rental Price Index, Consumer Price Inflation (CPI)



Private Housing Rental Prices

Private housing rental prices increased by 0.6% annually in Scotland in November 2020. This continues a period of relative stability in nominal private rental price growth. Since June 2017, the annual rate of change in nominal rental price growth has ranged between 0% and 1%, with an average of 0.6%. In real terms (adjusting for inflation, using CPI), the annual change in November 2020 stood at 0.2%. Chart 3.1 shows that the annual change in real private housing rental prices has risen towards positive territory since the start of the year. This is due to CPI inflation falling over the period, from 1.8% in January 2020 to just 0.4% in November 2020.

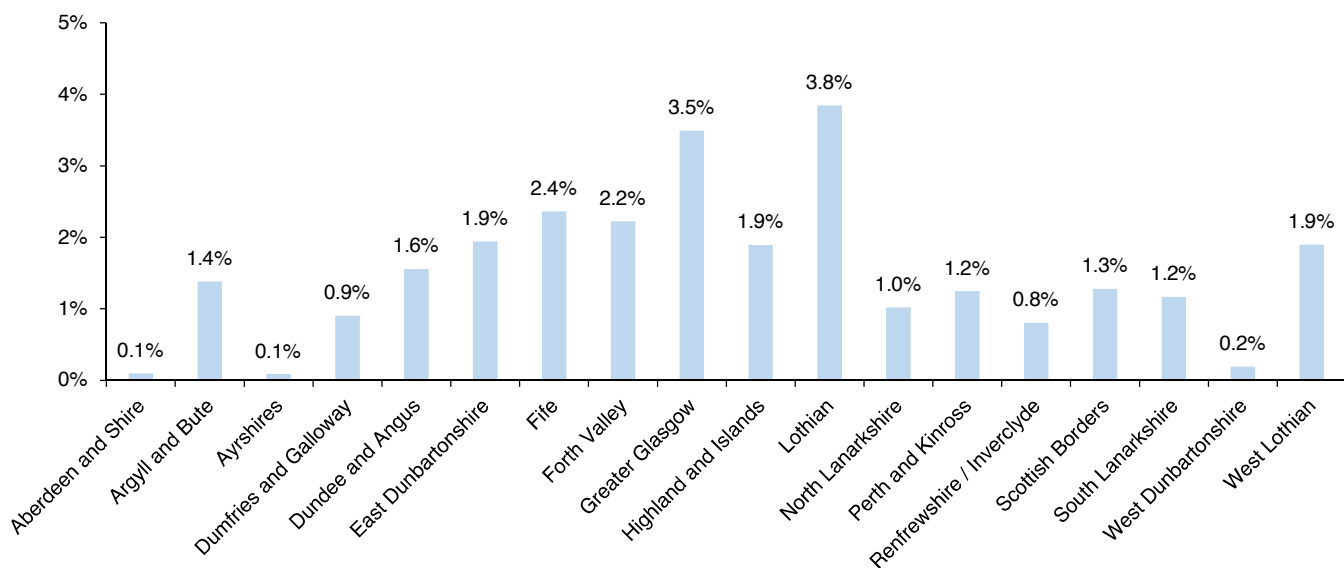
The moderate growth in average rents across Scotland masks significant regional variation. Scottish Government statistics show that from 2010 to 2020 (years to end September), the annualised average rate of change in mean rent for a 2 bedroom property was over double that of inflation (CPI) (1.4%) in both Greater Glasgow (3.5%) and Lothian (3.8%) BRMAs. Meanwhile, the annualised average rate of change was equal to or below that of inflation (CPI) in 10/18 BRMAs.

Note: Scottish Government statistics are based almost entirely on advertised rents at point of new let, and thus will tend to be higher than the ONS data which makes an allowance for rent changes in existing lets. In addition, chart 3.2 looks solely at 2 bedroom properties, whilst 3.1 looks at the entire market.

The Scottish Government has laid regulations to extend the ban on social and private rent evictions, currently in place until 22 January 2021. The extended ban will apply to all evictions in areas subject to level 3 or 4 restrictions (except in cases of serious anti-social behaviour, including domestic abuse), and, subject to review ever three weeks, will remain in force until 31 March.

Chart 3.2 Annualised Average Rate of Change in Mean Rent (2 Bedroom Property), YTE Sept-10 to YTE Sept-20, by BRMA

Source: SG/ONS CPI



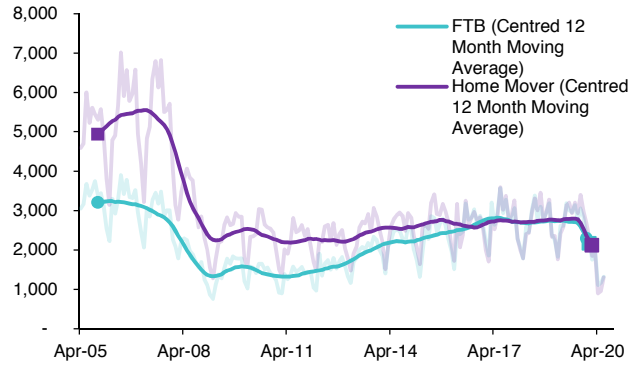
4. Lending To Homebuyers: Mortgage Approvals & LTVs

New Mortgage Advances

Chart 4.1 plots the monthly number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 7,210 new mortgages advanced to first-time buyers in Scotland in Q3 2020, an annual decrease of 18.6% (-1,650). Meanwhile, there were 6,850 new mortgages advanced to home movers in Scotland in Q3 2020, down by an annual 24.6% (-2,230). (Source: UK Finance)

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

Source: UK Finance

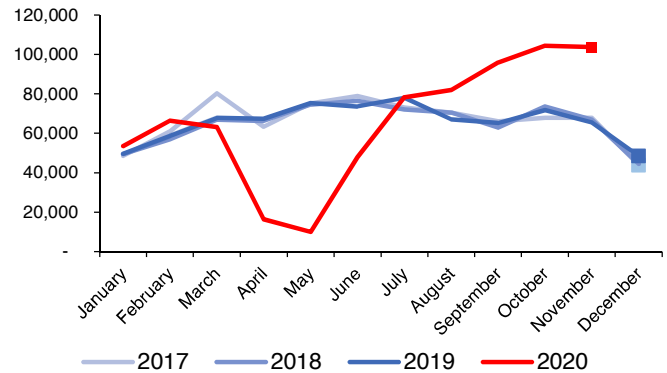


Mortgage Approvals

Chart 4.2 plots the monthly number of mortgage approvals across the UK for house purchase (Source: BoE). Mortgage approvals for house purchase are the firm offers of lenders to advance credit fully secured on dwellings by a first charge mortgage. This data is a leading indicator of mortgage sales as it reflects activity early in the buying process.

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

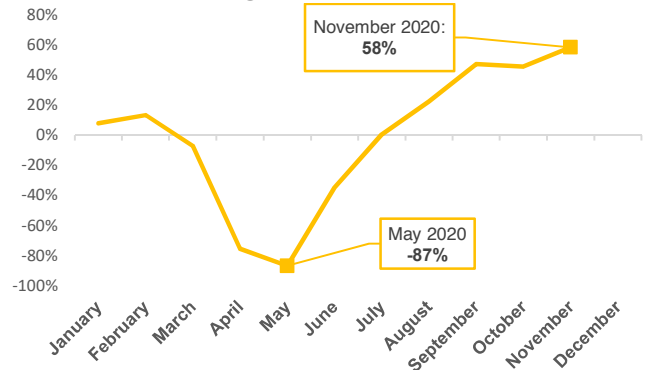
Source: Bank of England



Mortgage approvals for house purchase across the UK have rebounded strongly since May 2020, with mortgage approvals increasing from 9,922 to 103,748 in November 2020 (see Chart 4.2). Chart 4.3, which shows the annual growth in mortgage approvals, shows that after falling by 87% in May 2020, by November 2020 UK mortgage approvals were up by as much as 58%.

Chart 4.3 Growth of Mortgage Approvals - House Purchase (Monthly) (UK)

Source: Bank of England, Data for 2020

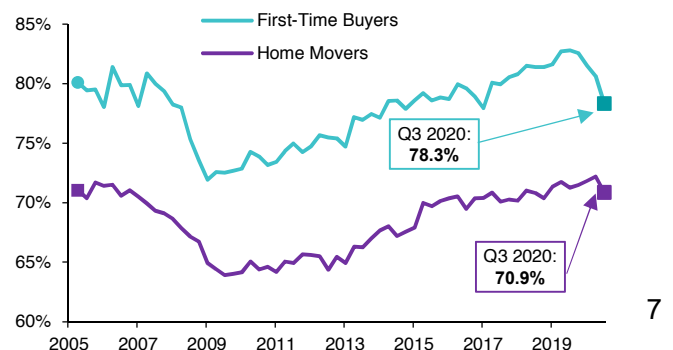


Loan-to-Value (LTV) Ratios

In Q3 2020, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 78.3%. This is down 2.4 percentage points on Q2 2020 and down 4.5 percentage points annually. This likely reflects the reduction in the availability of high LTV ratio mortgages (discussed below). Meanwhile, the mean LTV ratio for home movers in Scotland stood at 70.9% in Q3 2020, down 1.3 percentage points on Q2 2020 and 0.4 percentage points over the one year period. This is shown in Chart 4.4 (Source: UK Finance).

Chart 4.4 Mean Loan to Value Ratio (Quarterly), Scotland

Source: UK Finance



There has been a reduction in new lending at high LTV mortgage ratios across the UK since March 2020, data from the FCA shows. The share of gross mortgage advances across the UK in Q3 2020 with an LTV ratio greater than 90% was 3.5%, 2.4 percentage points below the share in Q3 2019.

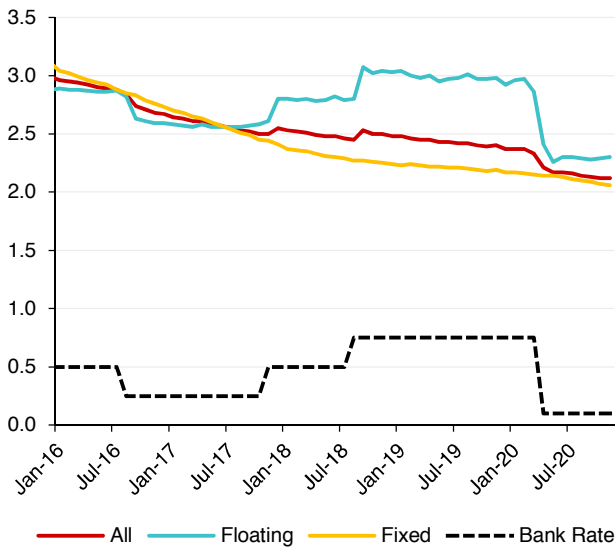
There has also been a reduction in lending which is both high LTV and high LTI (loan-to-income). This is classified by the FCA as an LTV over 90% and an income multiple greater than or equal to 3.5 for single income purchasers, or greater than or equal to 2.75 for joint income purchasers. The share of gross advances classified as high LTV and LTI was 2.6% in Q3 2020, down 1.8 percentage points on Q3 2019.

4.1 Lending To Homebuyers: Interest Rates

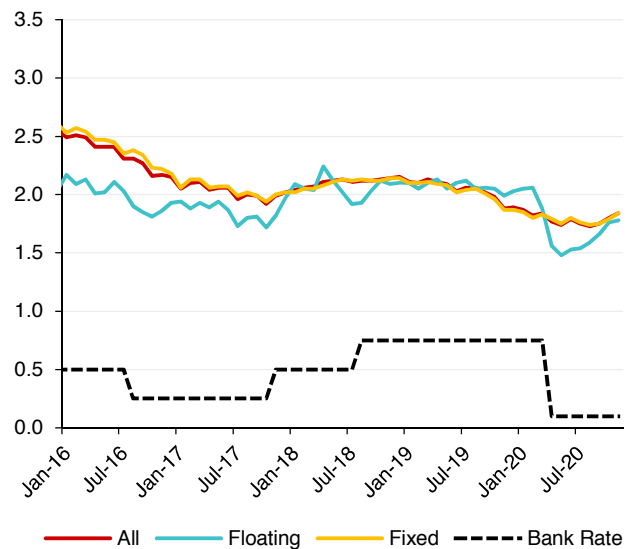
Charts 4.5 (L) and 4.6 (R): Effective Monthly Mortgage Interest Rate (UK) (%)

Source: Bank of England

Outstanding Balances (%)



New Mortgages (%)



Mortgage Interest Rates

Charts 4.5 & 4.6 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, leaving it at 0.1%. The reduction in Bank Rate has fed through to outstanding variable rate mortgages, with the average interest rate falling from 2.97% in February 2020 to 2.30% in June, where it has stabilised. While the average interest rate on new variable rate mortgages also fell, from 2.06% in February to 1.48% in May, it has since increased to 1.78% in November. The average fixed rate on new mortgages has been relatively steady throughout the period of Covid-19, standing at 1.84% in November compared to 1.80% in February (Source: BoE).

The increase in the spread between the average advertised rate on 2 year fixed 90% and 75% LTV mortgages has continued recently, as shown in Chart 4.7. In November 2020, the spread stood at 184 basis points, up from 120 basis points in August 2020 and 64 basis points in January 2020. This could reflect a decrease in lender risk appetite and/or reduced competition due to a number of LTV products being removed. But Chart 4.7 shows the spread is still relatively narrow in the long-term context (Source: BoE).

Chart 4.8 shows that the vast majority of new mortgage lending (91.2%), as well as most outstanding mortgages (75.3%), are on fixed rates, as of Q3 2020 (Source: FCA).

Chart 4.7 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)

Source: Bank of England

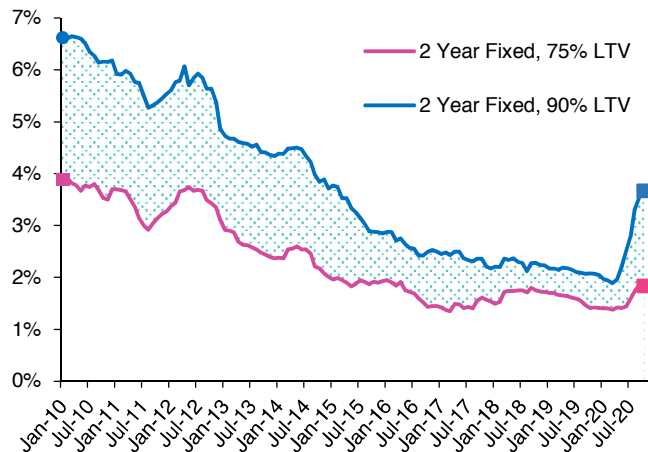
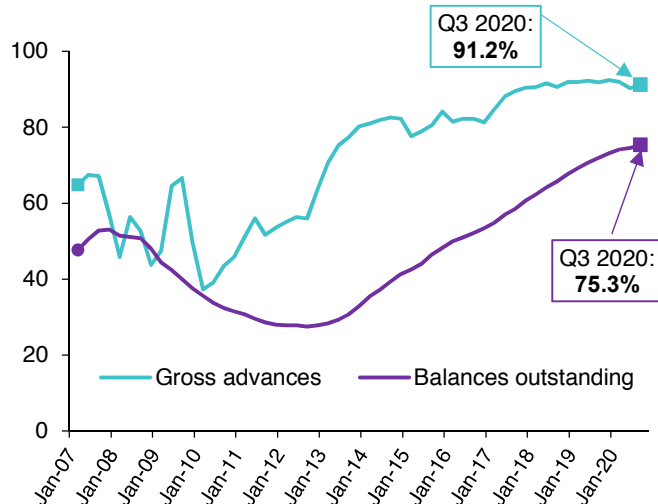


Chart 4.8 Share of Mortgage Lending at Fixed Rates: UK, % (Quarterly)

Source: FCA



4.2 Lending To Homebuyers: Arrears

Arrears

Please note: Covid-19 related mortgage payment deferrals are not considered to be formal arrears, and so will not be reflected in the statistics below.

There were 9,229 regulated mortgages that went into arrears across the UK in Q3 2020, a decrease of 21.5% (-2,532) on Q3 2019. As shown in Chart 4.9, this is also 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.

The share of lenders' outstanding mortgage balances that were in arrears stood at 0.87% at the end of Q3 2020, the same level seen in Q3 2019. Chart 4.10 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.

UK Finance data show that there were 7,820 buy-to-let mortgages in arrears of 1.5% or more of the outstanding balance across the UK in Q3 2020. This is up by an annual 17%. This is still low relative to the period of the 2008 financial crisis.

Possessions

There were 113 new regulated mortgage possessions across the UK in Q3 2020, an increase relative to Q2 2020 of 45 (66%) as can be seen in Chart 4.11. However, this is significantly less than Q3 2019 (-89%). It can also be seen that regulated and non-regulated possessions moved in a similar direction over the recent period. Under current guidance (for latest see next section), the FCA expects lenders to stop repossession action until 31 January 2021 to help customers affected by Covid-19. Mortgage borrowers can still request their home be repossessed if they believe it's in their best interest, e.g. they have made plans for other accommodation (Source: FCA).

FCA Covid-19 Mortgage Guidance - January Update

The FCA published updated draft guidance for mortgage lenders in January 2021, outlining their expectations of how customers whose financial situation has been affected by Covid-19 should be treated. This guidance remains broadly similar to the previous guidance issued in September 2020. The revised guidance proposes to extend the date that firms should not enforce repossessions from up to 31 January 2021 to up to 1 April 2021. The FCA's guidance is under regular review, and more detail on this guidance can be found on the their website.

Chart 4.9 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)

Source: FCA

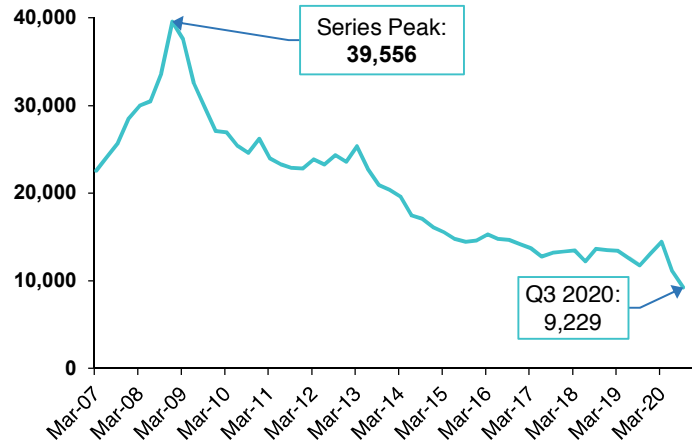


Chart 4.10 Balances in Arrears by Severity: UK, % (Quarterly) (to Q3 2020)

Source: FCA

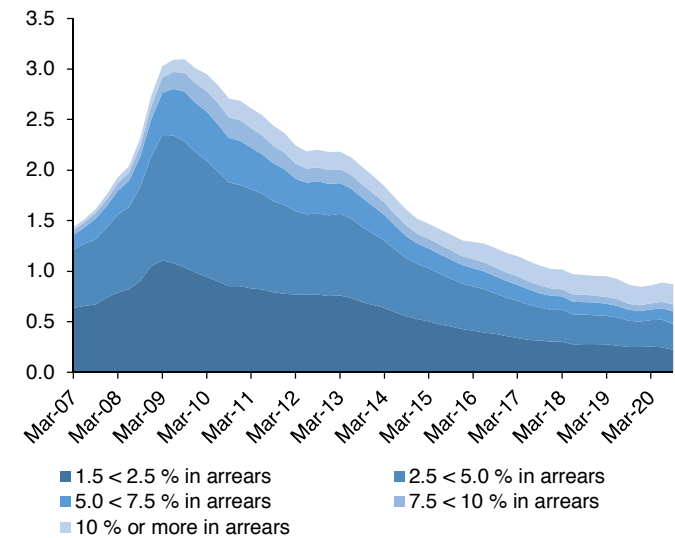
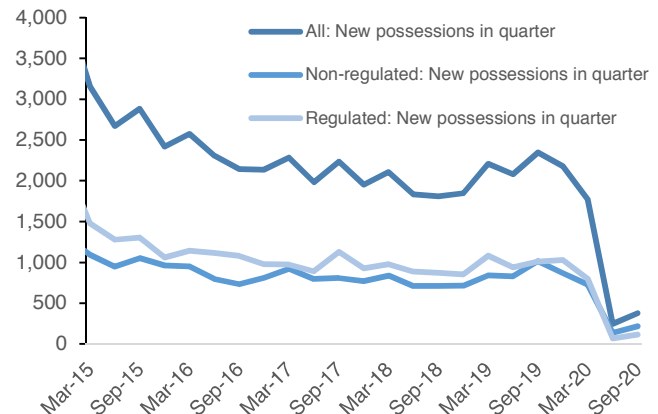


Chart 4.11 New Possessions in quarter by type (Quarterly)

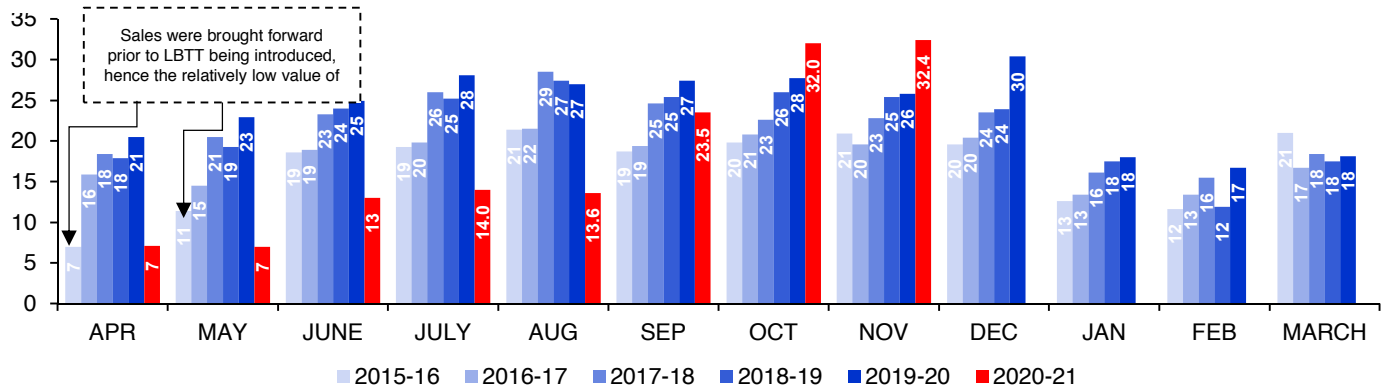
Source: FCA



5. Residential LBTT; Homelessness

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

Source: Revenue Scotland



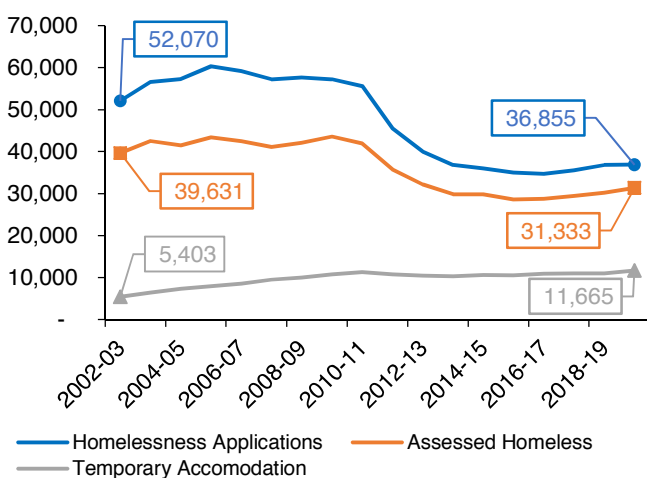
Residential LBTT

There has been a sharp fall in residential LBTT revenue in 2020-21, which is primarily due to the slowdown in housing market activity. In addition, the Scottish Government temporarily raised the zero rate threshold for all buyers to £250K (from £175K for first-time buyers, and £145K for other buyers), which took effect on 15 July 2020 and is due to end on 31 March 2021. It is estimated that this will result in around eight out of ten buyers paying no LBTT (excluding the Additional Dwelling Supplement), and will save buyers up to £2,100 in tax paid.

From July to November 2020, following the lifting of the restrictions on homes, residential LBTT liabilities excluding ADS totalled £115.5m, which is down 15.1% on the same period in 2019-20. Meanwhile, gross ADS liabilities totalled £64.2m from July to November 2020, down by an annual 16.2%. Revenue Scotland data shows that LBTT returns in this period have fallen for those in the lowest (-12.2%) and second lowest (-2.5%), LBTT price bands but have increased for the remaining 3 bands (1.3%, 11.0% and 9.4%), respectively).

Chart 5.2 Homelessness in Scotland (Annual)

Source: Scottish Government



Homelessness

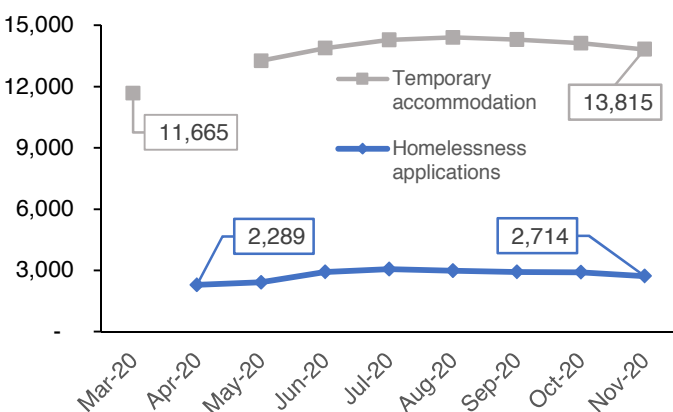
There were 36,855 homelessness applications in Scotland in 2019-20, which is a similar level to 2018-19 (up by 84 applications, 0.2%). Over the same period, 31,333 households were assessed as being homeless (including those threatened with homelessness), up by an annual 3.6%. This included 35,654 adults (69%) and 15,711 children (31%).

In response to Covid-19 pandemic, the Scottish Government is publishing monthly Management Information on homelessness applications and households in temporary accommodation, although this is not directly comparable to the official homelessness statistics. The monthly data shows that in November 2020 there were 2,714 homelessness applications, an increase of 19% on April 2020. The number of households in temporary accommodation peaked at 14,397 at the end of August 2020, but has since fallen to 13,815 at the end of November, although this is still substantially higher than at the end of March 2020.*

* Note that the monthly temporary accommodation data for April was missing data from 5 local authorities. Therefore, this data point is suppressed in Chart 5.3. Instead, the figure at the end of March, taken from official statistics, is shown for comparison purposes.

Chart 5.3 Homelessness in Scotland (Monthly)*

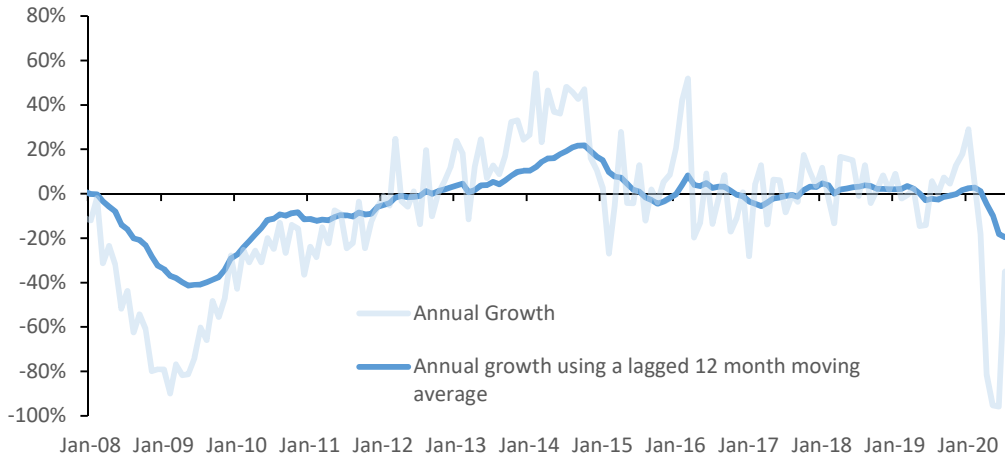
Source: Scottish Government



6. Housing Supply: Starts and Completions

Chart 6.1 Scottish Private New Build Sales to Q2 2020

Source: UK HPI (Scotland)



Key Points

Private new build sales fell by as much as an annual 86% in May due to the restrictions on non-essential construction activity, but more recently there has been a recovery, with sales down by 15% in July.

The supply of affordable housing has also recovered, but in Q3 remained substantially below the Q3 2019 level (down 49%)

The latest quarterly statistics on new housebuilding that would usually be included in this section are not available as there have been delays in some local authorities being able to provide new build data due to Covid-19 related staffing and resourcing issues. Separate figures on Private new build sales have been used to provide an idea of trends in private-led house building in Scotland over this period. However, it should be noted that these time series are not directly comparable due to differences in the construction of each dataset.

Private New Build Sales: Scotland

Private new build sales decreased substantially during the restrictions on non-essential construction activity in Q2 2020, as can be seen in Chart 6.1, with sales falling by as much as 86% year on year in May 2020. Since then, sales have recovered, being down by an annual 15% in July. Due to this recovery, the impact of Covid-19 on new build sales has so far not been as significant as the 2008 credit crunch.

Geographic Trends

Chart 6.2 provides the annual growth in private new build sales by region from Q2 2019 to Q2 2020. Private new build sales fell by nearly 80% for Scotland as a whole. Analysing the data by region, it can be seen that most regions suffered to a similar extent, with all regions reporting a roughly 80% decrease in new build transactions, except Ayrshires and Dumfries & Galloway which reported a lower reduction of 53.9% (Source: UK HPI).

Affordable Housing Supply Programme

The supply of affordable housing has recovered slightly since the restrictions on non-essential construction activity in Q2 2020; however, supply remains below the Q3 2019 level for all three categories. 1,057 affordable housing completions were recorded in Q3 2020, an annual decrease of 49% (-1,030). This brings the total for the year to Q3 2020 to 7,198, down by an annual 21%. Starts and approvals were also adversely affected by Covid-19 disruption in Q3 2020. There were 2,009 starts in Q3 2020, down by an annual 24.2% (-641). Approvals were also down, totalling 1,026 in Q3 2020, a decrease of 53.4% (-1,176) (Source: SG).

Chart 6.2 Annual Growth in Scottish Private New Build Sales by Local Authority to Q2 2020

Source: UK HPI (Scotland)

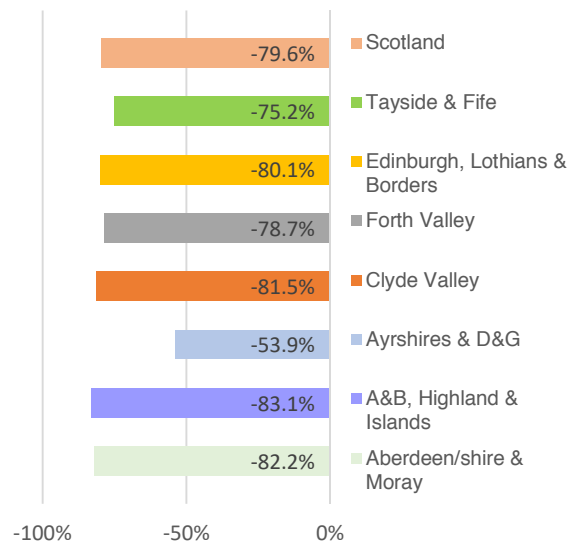
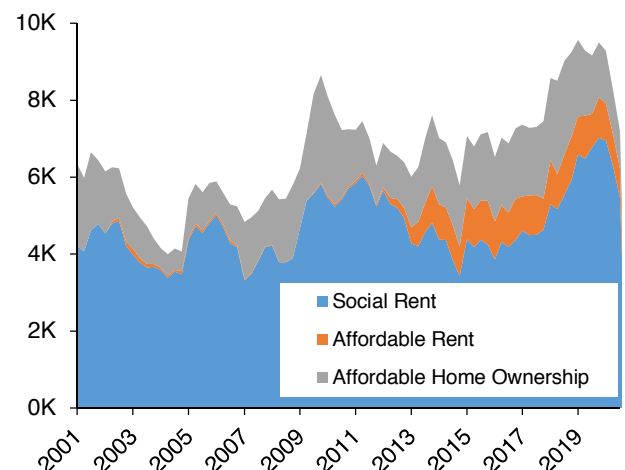


Chart 6.3 AHSP Completions (4Q Moving Total, to Q3 2020)

Source: Scottish Government



7. House Building: Lending

Lending to House Builders

The value of loans outstanding to UK firms involved in the construction of domestic dwellings increased by nearly one-third from February to March 2020, increasing by £1.9bn (+31%), as shown in Chart 7.1. However, the value of loans has returned to pre-March 2020 levels since October 2020. The sudden increase likely reflected the need for credit to fund short-term liabilities owing to Covid-19 restrictions on construction activities and home moves, which had adversely affecting firms' income. In addition, firms may have drawn down funds as a precaution, given the economic uncertainty. As at November 2020, the value of loans stood at £6.1bn, £63m (or 1%) lower than the value of loans at February 2020 (£6.2bn).

Construction Material Prices

Data from BEIS on the cost of construction materials used in new house building (Chart 7.2) shows there was substantial volatility from January 2016, with strong price growth up until 2019, which coincided with the depreciation of Sterling.

While this price growth eased in 2019, with construction materials inflation moving into negative territory at end of 2019, since the Covid-19 pandemic there has been a pick-up in inflation, which reached an annual 3.2% in November 2020.

The trade agreement reached with the EU at the end of December has removed the threat of higher construction material inflation due to tariffs on imports from the EU, but it remains to be seen whether increased non-tariff barriers will put upward pressure on prices.

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

Source: Bank of England

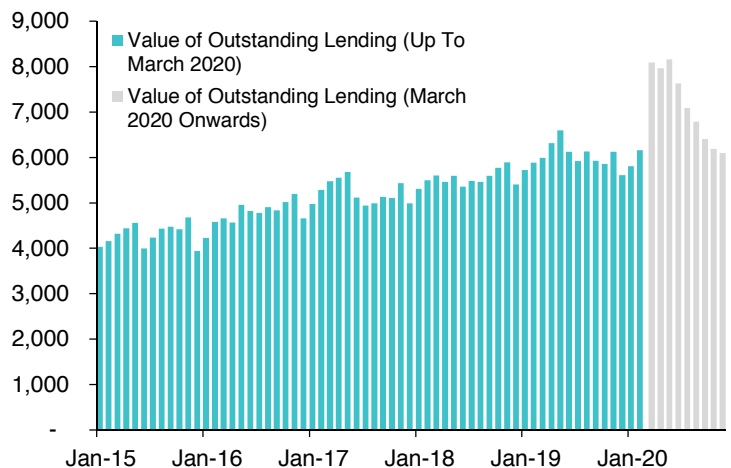


Chart 7.2 Annual Change in Price of Construction Materials for New Build Housing: UK (Monthly)

Source: BEIS

