

# Scottish Housing Market Review Q1 2023

March 2023

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## Key points for this issue

### Sales

- After significant volatility in housing market activity following the Covid-19 pandemic, **Registers of Scotland statistics indicate house sales in Q4 2022 were close to their pre-pandemic levels**, with residential property transactions up 0.2% in Q4 2022 relative to the 2016 – 2019 average for Q4.
- **However, more recent residential LBTT returns, available to February 2023, suggest that activity has been weakening**, with LBTT returns for the period December 2022 – February 2023 9.7% lower than in the corresponding months of 2019 (Source: Revenue Scotland)

### House Prices

- **The elevated level of house price growth since the Covid-19 pandemic continued in Q4 2022, although there are signs of a significant slowdown in house price growth, with the average (geometric mean) Scottish house price increasing by an annual 6.5% to £190K** down from 11.7% in Q2 2022. The most recent figure for January 2023 of 1.0% provides further evidence that house price growth is moderating. (Source: UK HPI)
- **The strongest annual price growth by property type in Q4 2022 was for detached properties, up by an annual 9.4%**, whilst flats increased by the lowest amount, up by 3.1%. (Source: UK HPI)
- **The average new build property price increased by an annual 11.0% to £280k in Q3 2022**, higher than the increase on the average existing build price of 7.7% (note these figures are one quarter behind other HPI data). (Source: UK HPI)

### Rental Prices

- **Private housing rental prices continued to increase.** Latest ONS figures to February 2023 show an annual 4.9% increase in nominal terms across all tenancies in Scotland, although caution is needed in interpreting this figure given the methodology used for these experimental statistics is unlikely to fully account for the Scottish rent freeze context. (Source: ONS). Separate letting agent data, which reflect advertised rents only, show higher growth rates in recent months.
- **The Cost of Living (Tenant Protection) Act has been extended to 30 September 2023**, with the changes to the Act meaning that from 1 April 2023 if a private landlord chooses to increase a tenant's rent mid-tenancy then the increase will be capped at 3% (previously 0%). Private landlords will alternatively be able to apply for a rent increase of up to 6% (previously 3%) to help cover certain increases in costs in defined and limited circumstances. Enforcement of evictions will continue to be paused for up to six months except in a number of specified circumstances.

## Lending

- **Lending to both first-time buyers and home movers** fell in Q4 2022, with new mortgage advances to first-time buyers decreasing by an annual 11.4% whilst for home movers they decreased by 5.2%. Increases in interest rates, as well as market volatility after the UKG Plan for Growth/mini-Budget on 23 September 2022, are likely to have contributed to this fall. (Source: UK Finance).
- Although **the number of 95% LTV products** has shown some recovery in recent months, reaching 161 on 1 March 2023 relative to 132 on 1 October 2022, this **remains substantially below levels prior to the UKG Plan for Growth/mini-budget in September**, with over 300 products available during the first eight months of 2022. In contrast, non-high LTV mortgage products, which also fell sharply in September, have now largely recovered, such **that total mortgage product numbers, at 4,372 on 1 March 2023, are not far off their level of 4,407 on 1 August 2022**. (Source: Moneyfacts).
- **The Bank of England has increased the Base Rate eleven times since December 2021, taking the rate from 0.1% to 4.25%**. A 415 basis point increase is estimated to increase the monthly payments by around £370 on an average new variable rate regulated mortgage and by £200 on an average outstanding variable rate regulated mortgage in Scotland.
- **The Bank Rate increases and market volatility following the UKG Plan for Growth/mini-Budget caused sharp increases in mortgage rates**, with the average quoted two-year and five-year fixed mortgage rates reaching 6.65% and 6.51% on 20 October. However, more recently they have fallen back somewhat to 5.32% and 5.00% respectively as at 1 March 2023. (Source: Moneyfacts)
- **The number of regulated mortgages entering arrears across the UK rose by an annual 36.0% in Q4 2022**, although from a low base; **relative to the pre-pandemic level in Q4 2019, they fell by 7.6%**. Similarly, while **new regulated mortgage possessions in the UK rose to 661 in Q4 2022 (an annual increase of 53.0%)**, this is down from 1,319 in Q4 2019. (Source: UK Finance)

## Housing Supply

- **There were 22,905 all-sector new build homes completed over the one year period to Q3 2022**, an annual increase of 9.7% (2,023 homes) on the previous year, **the highest annual figure to end September since 2008**. There were also 19,227 new build starts across all sectors in the year to end Q3 2022. (Source: SG).
- **A total of 9,727 affordable homes were delivered over the one year period to Q4 2022, an increase of 1.2% on the year prior. Approvals and starts have decreased over the one year period to Q4 2022**, potentially due to the ongoing challenges with price inflation, materials and labour in the construction sector.

## Housebuilding Material Prices

- **Construction output price inflation for new public and private housing increased by 11.0% annually to December 2022.** One of the drivers of output price inflation has been large increases in the **prices of construction materials used in new build**, although the annual growth rate **has moderated from 24.0% in June 2022 to 7.7% in January 2023.** Source (ONS and BEIS)
- **The growth in construction output prices has likely contributed to an increase in construction company insolvencies in Q4 2022.** There were 60 insolvencies of construction companies registered in Scotland, up by 30.4% relative to the 2017 – 2019 average for Q4. There were 1,052 insolvencies of construction companies registered in England and Wales, 50.4% above the 2017 – 2019 average for Q4, and the highest level since Q1 2012. (Source: The Insolvency Service)

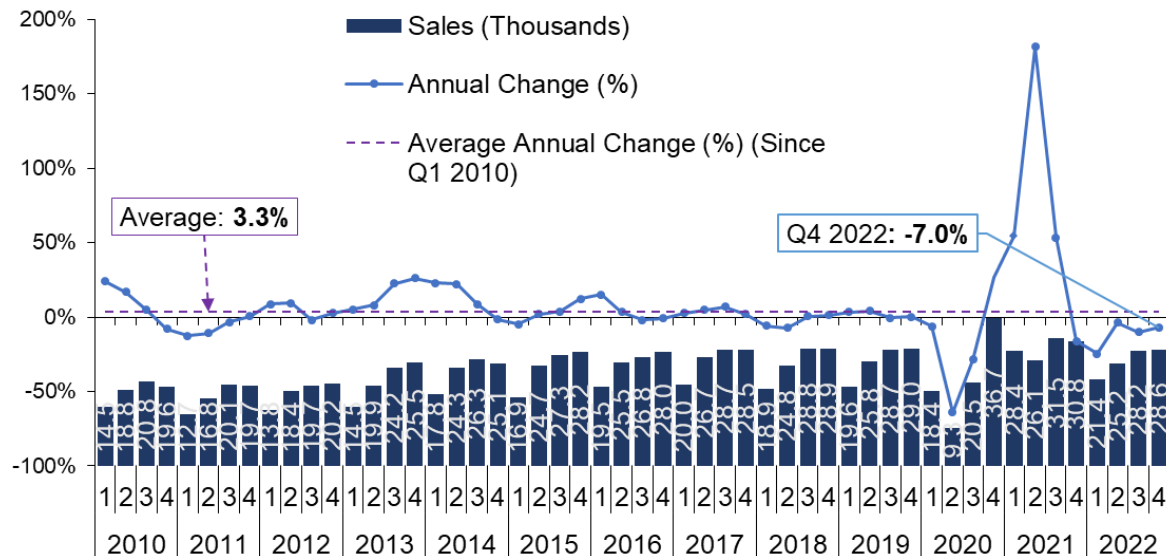
Data to: 31 March 2023

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# 1. Sales

## National

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



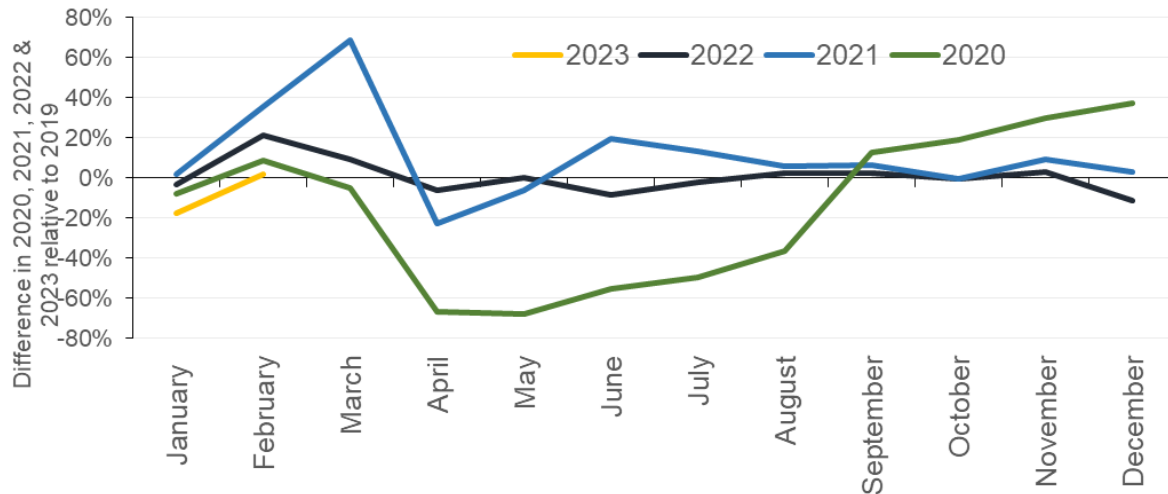
Source: Registers of Scotland

### Scottish Sales Performance: National

Following the surge in transactions after home move restrictions were lifted in late June 2020, which was fuelled by pent-up demand as well as the temporary reduction in LBTT (which ended on 31 March 2021), data for Q4 2022 suggests housing market activity had stabilised at pre-pandemic levels, with Registers of Scotland statistics showing that there were 28,641 residential property sales registered across Scotland. Whilst relative to Q4 2021 this was an decrease of 7.0%, relative to the pre-pandemic average for Q4 (2016 - 2019), transactions increased by 0.2%.

More timely statistics from Revenue Scotland on the number of residential LBTT returns suggests that this stability might have changed more recently. Chart 1.2 plots the percentage difference between monthly residential LBTT returns over the period 2020 to 2023 relative to the corresponding month in 2019, with 2019 chosen as the baseline to reflect pre-Covid market conditions. While it can be seen that for much of the latter half of 2022, transactions closely tracked their level in 2019, over the last 3 months (December 2022 to February 2023) transactions were 9.7% lower than in the corresponding months of 2019. This could be due to the upward trend in interest rates, as well as the volatility in mortgage markets which followed the UKG Plan for Growth/mini-Budget on 23 September 2022.

**Chart 1.2 Residential LBTT Returns: Percentage Difference Between 2020, 2021, 2022 & 2023 Relative to 2019 (Monthly)**



Source: Revenue Scotland

### Scottish Sales Performance: Regional

Registers of Scotland data shows that housing market activity in Q4 2022 decreased relative to Q4 2021 across Scotland. The largest annual fall in residential property sales, of 15.3%, took place in Aberdeen/shire and Moray, whilst the smallest decrease, of 2.4%, took place in the Forth Valley. However, the large reductions in residential property sales reflects the high level of transactions in Q4 2021 across Scotland.

Analysing the annual change using a rolling four quarters method, it can be seen that the decrease in transactions at the national level for the one year period to Q4 2022 relative to the year prior has also been experienced across Scotland. The largest fall in residential property sales over this time period (13.6%) took place in Argyll & Bute and Highlands & Islands, whilst the smallest decrease again took place in the Forth Valley, where sales decreased by an annual 7.9%. Once again, the large reductions in residential property sales reflects the high level of transactions in 2021.

A summary of residential property sales activity by Scottish region is outlined in Table 1.1 below. This contains the number of residential property sales registered in Q4 2022, the annual change, as well as the annual change in sales using a rolling four quarter period to Q4 2022. The latter is included to smooth out volatility in quarterly data.

**Table 1.1 Regional residential transactions**

<b>Aberdeen/shire and Moray</b> Sales – Q4 2022 <b>2,917</b> 12 Month Change <b>-15.3%</b> Annual change (rolling 4 quarters) <b>-9.3%</b>	<b>Edinburgh, Lothians and Borders</b> Sales – Q4 2022 <b>5,618</b> 12 Month Change <b>-9.1%</b> Annual change (rolling 4 quarters) <b>-12.1%</b>
<b>Argyll &amp; Bute and Highland &amp; Islands</b> Sales – Q4 2022 <b>2,113</b> 12 Month Change <b>-3.2%</b> Annual change (rolling 4 quarters) <b>-13.6%</b>	<b>Forth Valley</b> Sales – Q4 2022 <b>1,582</b> 12 Month Change <b>-2.4%</b> Annual change (rolling 4 quarters) <b>-7.9%</b>
<b>Ayrshires and Dumfries &amp; Galloway</b> Sales – Q4 2022 <b>2,625</b> 12 Month Change <b>-6.9%</b> Annual change (rolling 4 quarters) <b>-10.7%</b>	<b>Tayside &amp; Fife</b> Sales – Q4 2022 <b>4,112</b> 12 Month Change <b>-6.4%</b> Annual change (rolling 4 quarters) <b>-13.2%</b>
<b>Clyde Valley</b> Sales – Q4 2022 <b>9,674</b> 12 Month Change <b>-4.9%</b> Annual change (rolling 4 quarters) <b>-11.2%</b>	<b>Scotland</b> Sales – Q4 2022 <b>28,641</b> 12 Month Change <b>-7.0%</b> Annual change (rolling 4 quarters) <b>-11.4%</b>

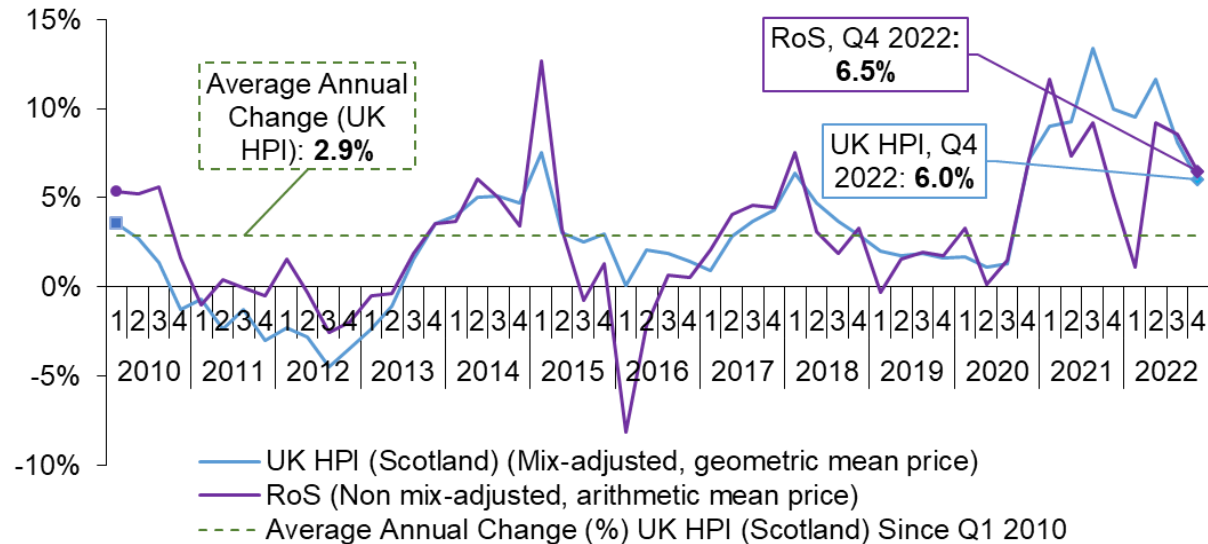
Source: Registers of Scotland



## 2. House Prices

### National

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



Source: Registers of Scotland / UK HPI

### Scottish House Price Performance: National

Average house prices in Scotland, as measured by the UK HPI, increased in Q4 2022 by 6.0% relative to Q4 2021. Although this remains a high level of annual house price growth, this is down from the 11.7% annual house price growth to Q2 2022. The average property price (geometric mean) in Scotland stood at £190K in Q4 2022. More recent monthly data (which is more volatile than the quarterly averages) shows that house price inflation had fallen to 1.0% in January 2023.

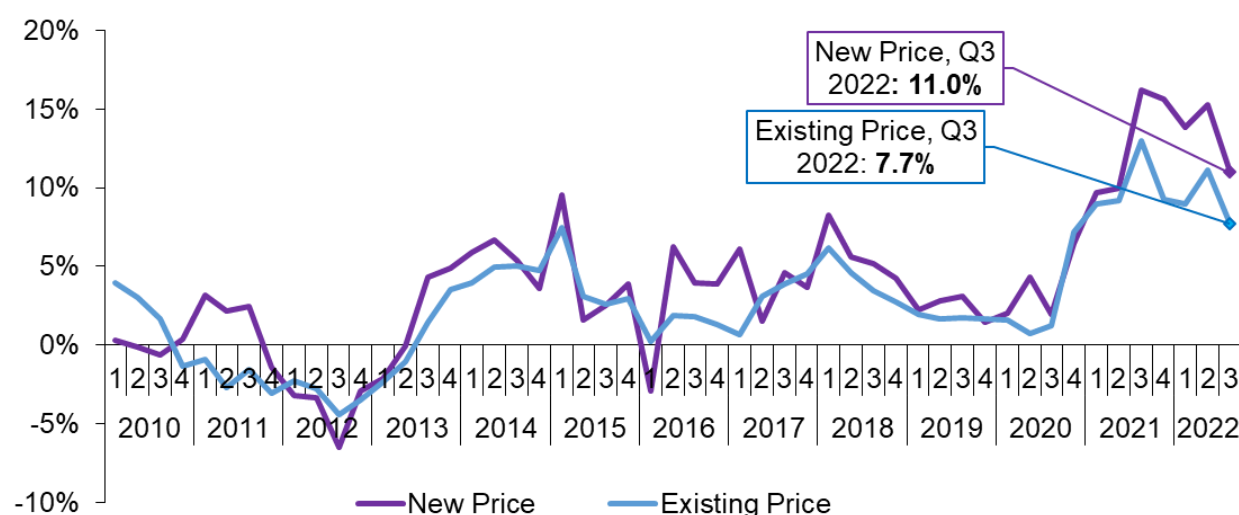
Data from Registers of Scotland showed similar annual house price inflation in Q4 2022, of 6.5%. Registers of Scotland data is not mix-adjusted, so will be affected by the composition of properties sold. The average (arithmetic mean) house price in Scotland as at Q4 2022 according to Registers of Scotland data was £221K.

UK HPI data shows that annual price growth to Q4 2022 was highest for detached properties (9.4%). Flats increased by the lowest amount (3.1%).

### 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 relative to the headline HPI. In Q3 2022, the average Scottish new build property price increased to a greater extent than the existing build price, rising by an annual 11.0% to £280K. The average existing build price rose by 7.7% to £187K. The large rise in new build property prices can be partly explained by the large increase in new build construction prices (see Chart 10.3).

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



Source: UK HPI (Scotland)

The UK HPI also shows that the average price of a property bought by former owner occupiers in Scotland increased by an annual 6.4% in Q4 2022, to £230K. Meanwhile, the average price of a property purchased by a first-time buyer increased by an annual 5.5% in Q4 2022, to £152K.

### Scottish House Price Performance: Regional

Registers of Scotland data show that house prices increased over the one year period to Q4 2022 for all regions in Scotland, although to a varying extent. The largest increase was in the Ayrshires and Dumfries & Galloway, where house prices increased 8.6% annually to 179K (average arithmetic mean price; prices not mix-adjusted). The smallest increase was in Aberdeen/shire and Moray, where prices increased by 1.2% annually to £211K.

The longer-term trend (as measured by the change in house prices over the four-quarter period to Q4 2022 over the previous four-quarter period) also shows that house price growth has been positive in all areas of Scotland. The strongest price growth was seen in Argyll & Bute and Highlands & Islands, where house prices increased by 9.3%, whilst the smallest increase in house prices was again seen in Aberdeen/shire and Moray, where house prices increased by 1.0%.

A summary of the average house price in Q4 2022 by Scottish region is included below. This also includes the annual change in the average house price in Q4 2022, as well as the annual change in the average house price using a rolling four quarter period to Q4 2022, which smooths out volatility in quarterly data (Source: Registers of Scotland).

**Table 2.1 Regional house prices**

<b>Aberdeen/shire and Moray</b> Average Price – Q4 2022 <b>£211K</b> 12 Month Change <b>1.2%</b> Annual change (rolling 4 quarters) <b>1.0%</b>	<b>Edinburgh, Lothians and Borders</b> Average Price – Q4 2022 <b>295K</b> 12 Month Change <b>6.9%</b> Annual change (rolling 4 quarters) <b>7.2%</b>
<b>Argyll &amp; Bute and Highland &amp; Islands</b> Average Price – Q4 2022 <b>£223K</b> 12 Month Change <b>6.6%</b> Annual change (rolling 4 quarters) <b>9.3%</b>	<b>Forth Valley</b> Average Price – Q4 2022 <b>£210K</b> 12 Month Change <b>7.5%</b> Annual change (rolling 4 quarters) <b>7.5%</b>
<b>Ayrshires and Dumfries &amp; Galloway</b> Average Price – Q4 2022 <b>£179K</b> 12 Month Change <b>8.6%</b> Annual change (rolling 4 quarters) <b>8.5%</b>	<b>Tayside and Fife</b> Average Price – Q4 2022 <b>£206K</b> 12 Month Change <b>5.8%</b> Annual change (rolling 4 quarters) <b>5.8%</b>
<b>Clyde Valley</b> Average Price – Q4 2022 <b>£201K</b> 12 Month Change <b>8.3%</b> Annual change (rolling 4 quarters) <b>7.4%</b>	<b>Scotland</b> Average Price – Q4 2022 <b>£221K</b> 12 Month Change <b>6.5%</b> Annual change (rolling 4 quarters) <b>6.6%</b>

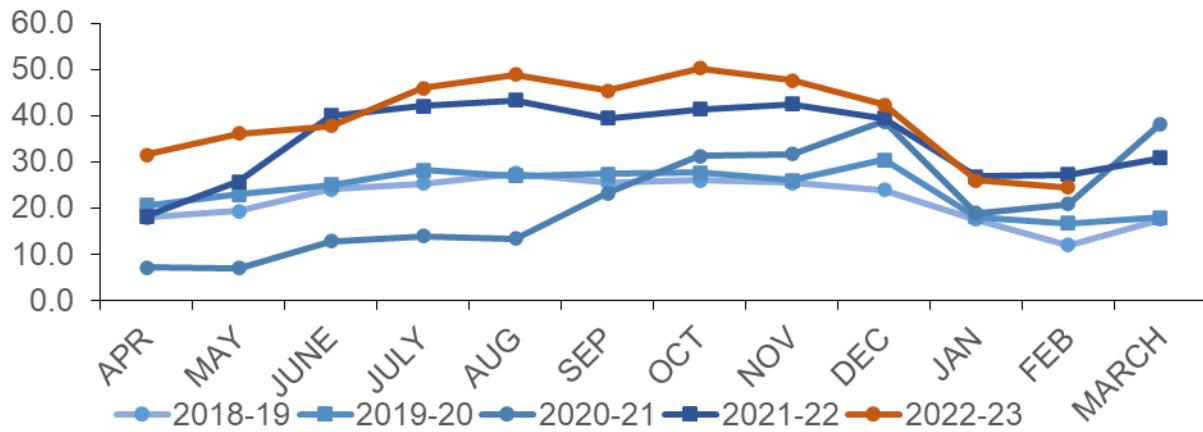
Source: Registers of Scotland

### 3. Residential LBTT

Residential LBTT revenues excluding ADS rose sharply from £20.8m in February 2021 to £38.1m in March 2021, before falling to £18.2m in April 2021, as transactions were brought forward due to the temporary increase of the zero rate threshold for all buyers to £250K, which took effect on 15 July 2020 and ended on 31 March 2021. Then from May 2021 residential LBTT revenues picked up and remained elevated relative to previous years, with revenue for the 2021-22 financial year 53.3% higher than the average for 2019-20 and 2020-21.

This trend has continued in the first eleven months of 2022-23, with revenue 61.9% higher than the same eleven months in 2019-20, prior to Covid-19. The increase in residential LBTT revenue can be explained by higher house prices (see Chart 2.1).

**Chart 3.1 Residential LBTT Revenue (Excluding ADS, Monthly, £ millions)**



Source: Revenue Scotland

## 4. Private Rental Sector

### Private Housing Rental Prices

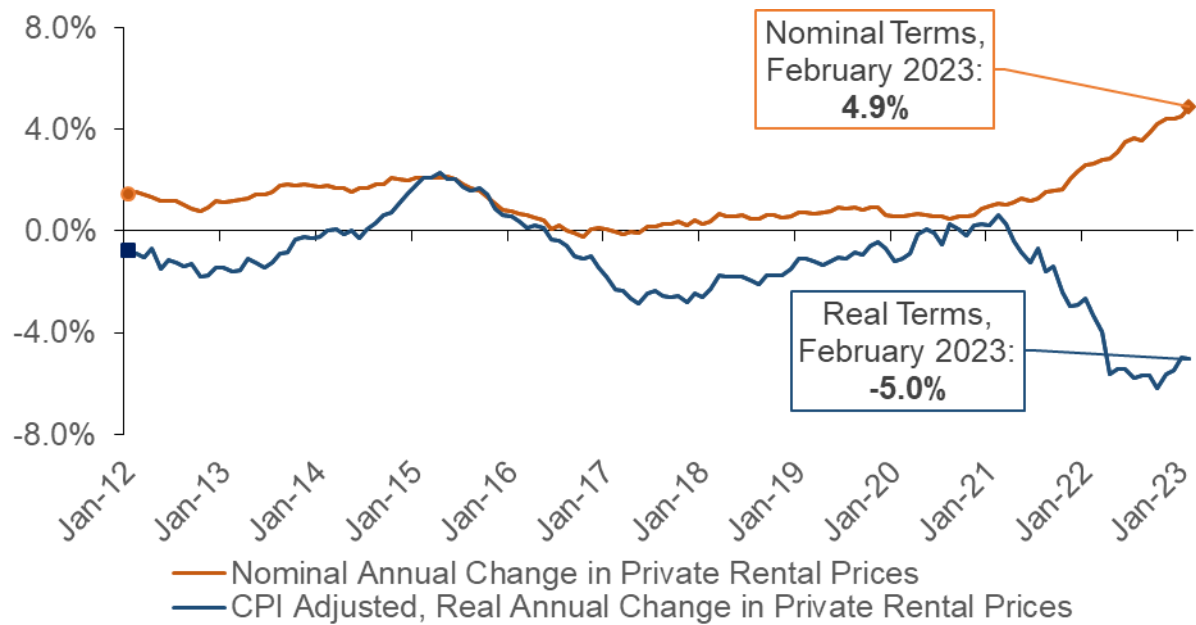
The ONS Private Housing Rental Price Index for Scotland increased by 4.9% annually in February 2023. Previously, nominal private rental price growth across Scotland as a whole had been relatively stable, ranging between 0% and 2% from June 2017 to November 2021. However, in recent months nominal rental prices have increased significantly, with February's figure the highest annual growth recorded since the index began.

While the ONS index uses data drawn from the Rent Service Scotland data collection, which is largely based on advertised rents, it attempts to make an allowance for rents paid by existing tenants by assuming that a rent record remains unchanged for a period of 14 months. Therefore, when rental growth begins to accelerate, the ONS index will lag indices which are based entirely on new let rents. This explains the difference with letting agents' reports, with Citylets reporting annual growth of 11.9% and Rightmove 9.7% in Q4 2022. Letting agencies only cover around half of the private rented sector, and each letting agent's data will be affected by its market coverage, which will vary by geography and market segment; in contrast, Rent Service Scotland data (which is also used in the Scottish Government private rent statistics discussed below) is designed to be representative of the whole market.

Note that caution is needed in interpreting recent figures for Scotland from the ONS index, given that the methodology used in combining advertised rental data along with an assumption on average tenancy period is unlikely to fully take account of the current restrictions on rent increases for existing tenants in Scotland.

In real terms (adjusting for inflation, using CPI), the annual change in the ONS Private Rental Index in November 2022 was -5.0%, due to CPI inflation reaching 10.4% over the same period. The heightened level of CPI inflation can be partly explained by an increase in the price of Housing and Household Services, principally from electricity, gas, and other fuels.

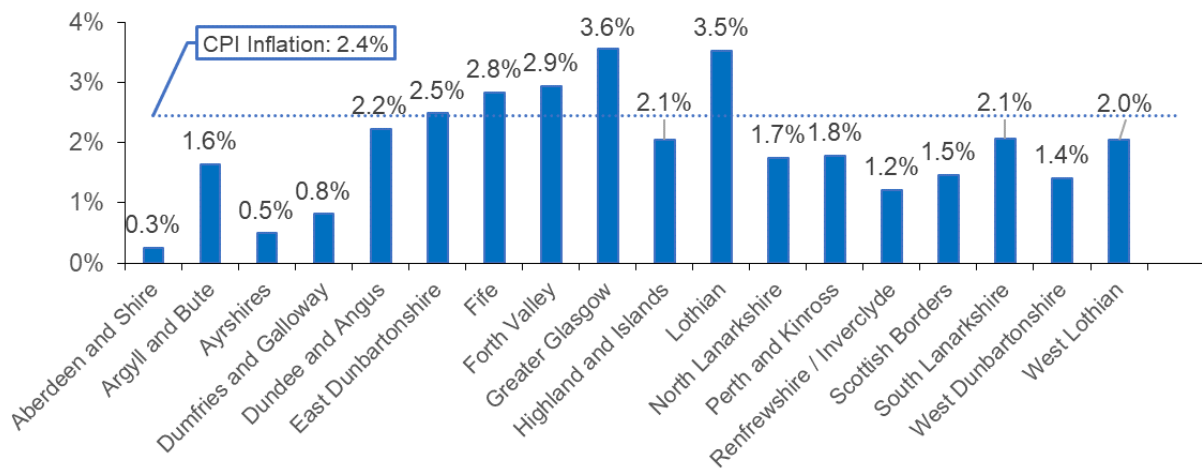
**Chart 4.1 Annual Change in Private Housing Rental Prices (Monthly): Scotland**



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

Scottish Government statistics show that from 2010 to 2022 (years to end September), five broad market rental areas (“BRMAs”) have seen average rents for 2 bedroom properties increase, on an average annualised basis, above the average level of CPI inflation (2.4%): these are the Greater Glasgow (3.6%), Lothian (3.5%), Forth Valley (2.9%), Fife (2.8%) and East Dunbartonshire (2.5%) BRMAs. Therefore, the annualised average rate of change was equal to or below that of inflation (CPI) in 13/18 BRMAs, with the lowest annualised rate of change seen in Aberdeen and Shire of just 0.3%.

**Chart 4.2 Annualised Average Rate of Change in Mean Rent (2 Bedroom Property), YTE Sept-10 to YTE Sept-22, by BRMA**



Source: SG/ONS CPI

\* Note: Scottish Government statistics are based almost entirely on advertised rents at point of new let, whilst the ONS methodology makes an allowance for existing lets. In addition, Chart 4.2 looks solely at 2 bedroom properties, whilst Chart 4.1 looks at the entire market.

## **Rent Freeze and Evictions Moratorium**

Tenants have increased protection from rent increases and evictions during the cost of living crisis under emergency legislation passed by the Scottish Parliament. The Cost of Living (Tenant Protection) Act introduced a temporary rent cap, a temporary moratorium on the enforcement of evictions (except in a number of specified circumstances), and damages for unlawful evictions have been increased to a maximum of 36 months' worth of rent.

This cap, which applies to in-tenancy rent increases, was initially set at 0% for rent-increase notices served from 6 September 2022 until 31 March 2023. The Act has since been extended to 30 September 2023, with changes meaning that from 1 April 2023 if a private landlord serves a notice to increase a tenant's rent mid-tenancy then the increase will be capped at 3% (previously 0%). Private landlords will alternatively be able to apply for a rent increase of up to 6% (previously 3%) to help cover certain increases in costs in defined and limited circumstances. Enforcement of evictions will continue to be paused for up to six months except in a number of specified circumstances. The rent cap for student accommodation has been suspended, recognising its limited impact on annual rents set on the basis of an academic year.

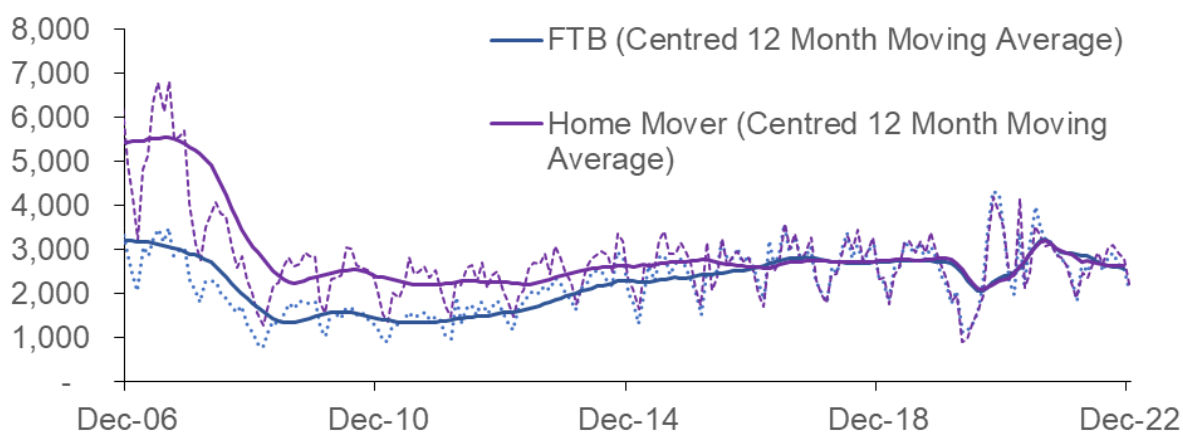
The temporary legislation balances the protections that are needed for tenants with some safeguards for those landlords who may also be impacted by the cost crisis. The measures can be extended by a further six months, subject to Parliamentary approval.

## 5. Mortgage Approvals & LTVs

### New Mortgage Advances

Chart 5.1 plots the monthly number of new mortgages advanced to first-time buyers and home movers in Scotland. There were 7,400 new mortgages advanced to first-time buyers in Scotland in Q4 2022, an annual decrease of 11.4% (-950). Meanwhile, there were 7,900 new mortgages advanced to home movers in Scotland in Q4 2022, an annual decrease of 5.2% (-430). These large annual decreases are likely the result of increases in interest rates and the mortgage market volatility after the UKG Plan for Growth/mini-Budget on 23 September 2022. Comparing the 12-month period to Q4 2022 against the 12 months prior, new mortgage advances to first-time buyers decreased by 12.8% whilst for home movers they decreased by 11.0%, reflecting the high levels of housing market activity after the release of Covid-19 pandemic restrictions. (Source: UK Finance).

**Chart 5.1 New Mortgage Advances for Home Purchase (Monthly), Scotland**



Source: UK Finance

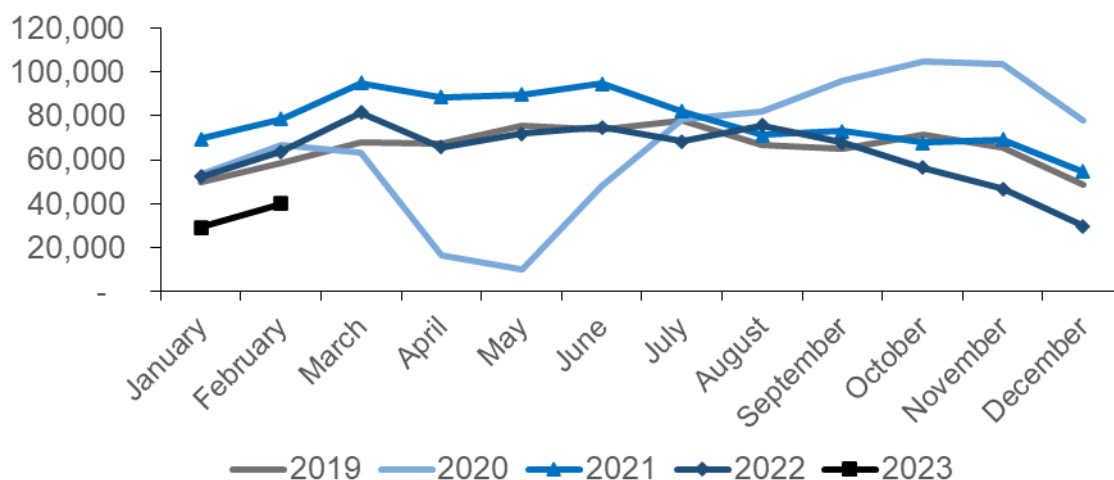
### Mortgage Approvals

Chart 5.2 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.

Mortgage approvals for house purchase across the UK rebounded strongly following the lockdown in the second half of 2020, with mortgage approvals increasing from 9,922 in May 2020 to 104,806 in October 2020 (see Chart 5.2). Mortgage approvals returned to more normal levels up until September 2022, with mortgage approvals for house purchase 3.0% higher in the first nine months of 2022 relative to the 2016-2019 average for the same months. However, the volatility in the mortgage market following the UKG Plan for Growth/mini-Budget on 23 September 2022 led to a 33.8% fall in mortgage approvals over the period October 2022 to February 2023 relative to the same five-month period to February 2020.



**Chart 5.2 Mortgage Approvals - House Purchase (Monthly) (UK)**

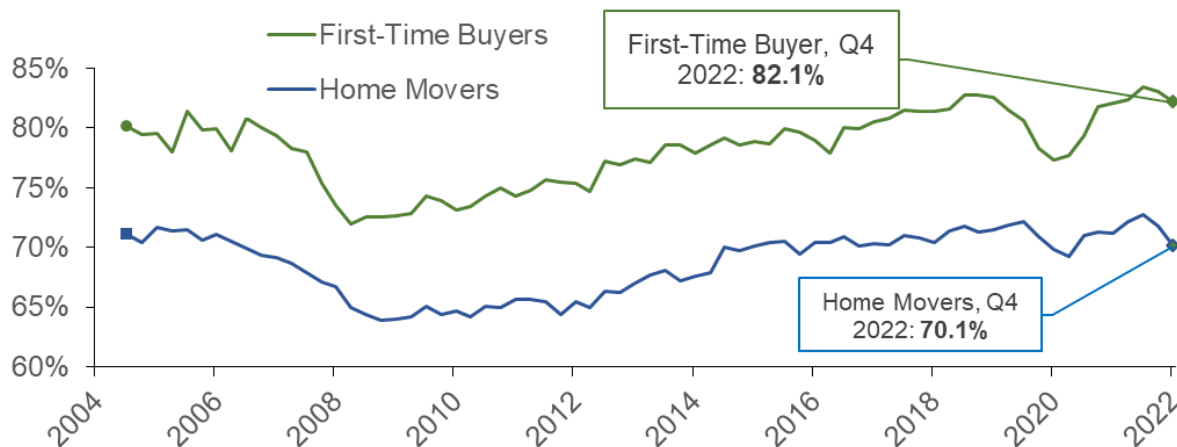


Source: Bank of England

### Loan-to-Value (LTV) Ratios

In Q4 2022, the mean Loan-to-Value (LTV) ratio on new mortgages advanced to first-time buyers in Scotland stood at 82.1%, the same LTV as at Q4 2021. Meanwhile, the mean LTV ratio for home movers in Scotland stood at 70.1% in Q4 2022, down 1.1 percentage points over the one year period. This is shown in Chart 5.3. (Source: UK Finance).

**Chart 5.3 Mean Loan to Value Ratio (Quarterly), Scotland**

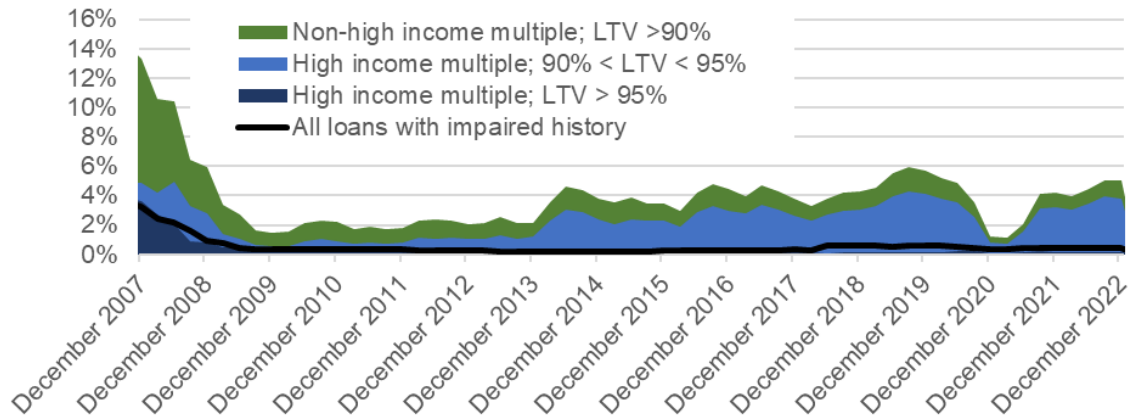


Source: UK Finance

Chart 5.4 shows that while there was a reduction in new lending at high LTV mortgage ratios across the UK which coincided with the Covid-19 pandemic, the market has been recovering. The share of gross mortgage advances across the UK in Q4 2022 with an LTV ratio greater than 90% was 5.1%, 0.9 percentage points above the share in Q4 2021 but 0.7 percentage points lower than the share in Q4 2019. There has also been an increase in lending which is both high LTV and high LTI (loan-to-income) over the quarter, with the share of gross advances classified as high LTV and LTI increasing to 4.0% in Q4 2022, up by 0.6

percentage points on Q4 2021 but 0.3 percentage points lower than the share in Q4 2019.

**Chart 5.4 Higher Risk Lending\* as a % of all Residential Lending (Quarterly), UK**



\* Higher risk lending 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 purchaser/s

Source: FCA

Following a sharp fall due to the impact of the Covid-19 pandemic, there was a strong recovery in the number of high LTV products offered by mortgage lenders, with the number of 95% LTV mortgages products increasing from 8 in December 2020 to over 300 in the first 8 months of 2022. However, after the UKG Plan for Growth/mini-budget on 23 September 2022, the number of 95% LTV products dropped to 132 as at 1 October. There has been a slight recovery since then, with 161 95% LTV mortgages products at 1 March 2023. While the impact was starkest in the high LTV sector, the impact on the volatility in the mortgage markets was felt across different LTV levels, leading the total number of residential mortgage products to fall from 4,407 on 1 August 2022 to 2,258 on 1 October 2022. However, this was followed by a strong recovery in non-high LTV mortgage products, such that total mortgage product numbers, at 4,372 on 1 March 2023, are not far off their level of 4,407 on 1 August 2022. (Source: Moneyfacts Mortgage Treasury Report).

## 6. Mortgage Interest Rates

In March 2020, Bank Rate was cut by a total of 65 basis points to 0.1% as a result of the Covid-19 pandemic. More recently in response to the rise in inflation, the Bank of England has increased the Bank rate eleven times since December 2021, most recently by 50 basis points in February 2023 and by 25 basis points in March 2023. Since December 2021, Bank rate has increased by 415 basis points to 4.25%, its highest level since 2008.

A 415 basis point increase in interest rates is estimated to increase the monthly payment by around £370 per month for an average new variable rate and by around £200 per month on the average outstanding variable rate mortgage in Scotland.

Chart 6.1 and Chart 6.2 show data on the effective (or average) interest rates on outstanding mortgage balances and new mortgage advances. (Source: BoE). From December 2021 to January 2023, the increases in mortgage rates have been below the cumulative 340 basis point increase in Bank Rate during this period: the average variable rate on outstanding mortgages increased by 285 basis points to 5.17%, the average variable rate on new advances increased by 269 basis points to 4.29%, and the average fixed rate on new advances increased by 224 basis points to 3.82%. The average fixed rate on outstanding mortgages has started to increase, albeit by only 23 basis points since December 2021 to 2.17% as at January 2023.

## Effective Monthly Mortgage Interest Rates (UK)

Chart 6.1 Outstanding Balances (%)

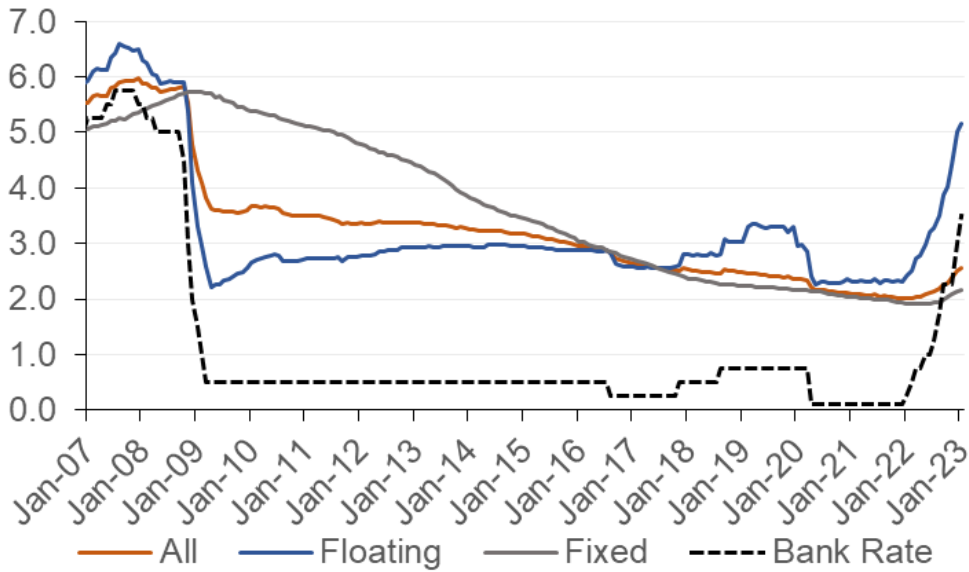
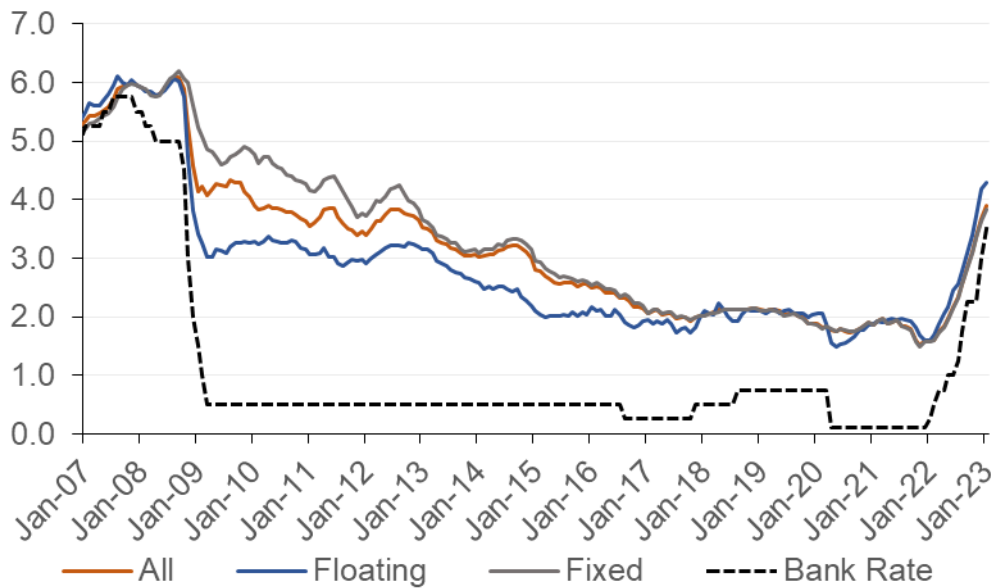


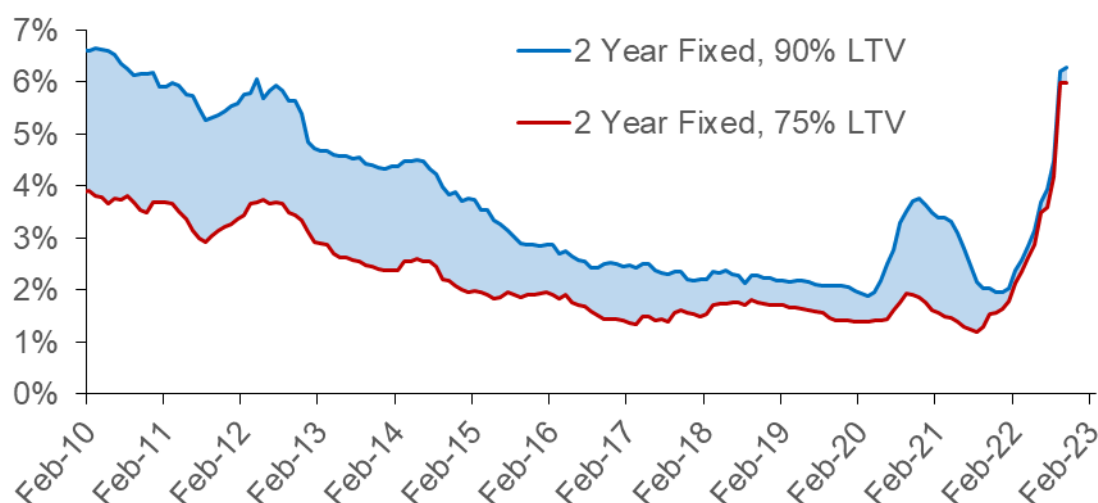
Chart 6.2 New Mortgages (%)



Source: Bank of England

As shown in Chart 6.3, the spread between the average advertised rate on 2 year fixed 90% and 75% LTV mortgages increased during the pandemic from 51 basis points in April 2020 to 189 basis points in December 2020. However, since then the spread has returned towards pre-pandemic levels, with the spread equal to 56 basis points in February 2023. (Source: BoE).

**Chart 6.3 Average 2 Year Fixed 90% and 75% LTV Mortgage Rates (Advertised)**



Source: Bank of England

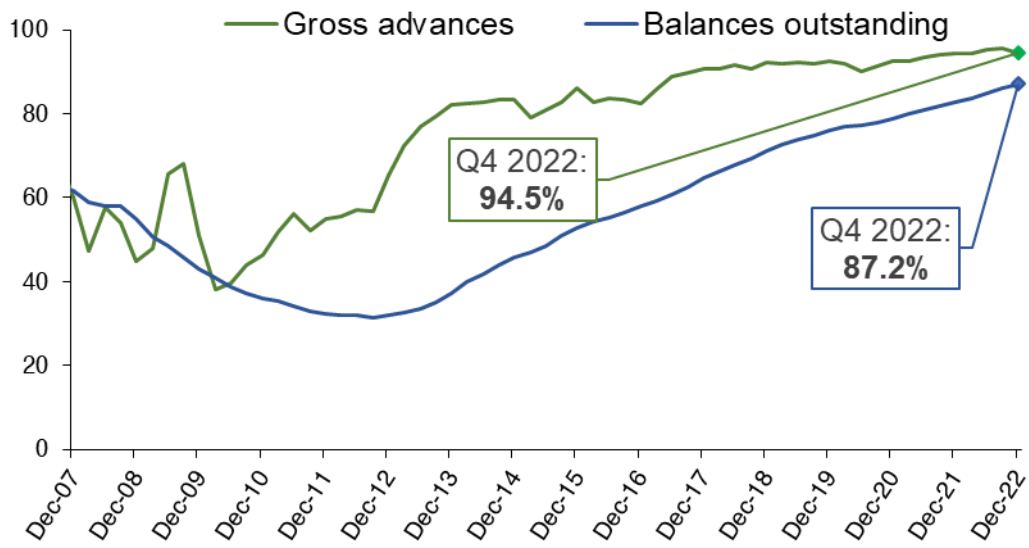
Moneyfacts' data for 1 October 2022, after the UKG Plan for Growth/mini-Budget on 23 September, shows that the average quoted two-year and five-year fixed rates had increased by 119 and 90 basis points relative to 1 September 2022, reaching 5.43% and 5.23% respectively. By 20 October, both of these rates had breached 6%, with the average two-year rate at 6.65% and the average five-year rate at 6.51%. Since then, the average two-year and five-year fixed rates have fallen slightly, with the average two-year fixed rate at 5.32% and the average five-year fixed rate at 5.00% as at 1 March 2023. (Source: Moneyfacts Mortgage Treasury Report and news release).

Chart 6.4 shows that the vast majority of regulated<sup>1</sup> mortgages are on fixed rates, with 94.5% of new mortgages and 87.2% of outstanding mortgages on fixed rates as of Q4 2022. The corresponding figures for unregulated<sup>2</sup> mortgages are 94.2% and 76.8%. (Source: FCA). However, the sustained increase in mortgages on fixed rates appears to be slowing, most likely due to the interest rate on new fixed rate mortgages increasing, as shown in Chart 6.2.

<sup>1</sup> A regulated loan is a loan to an individual, secured by a first or second charge on residential property, where the property is for the use of the borrower or a close relative.

<sup>2</sup> A non-regulated loan is all other mortgage lending to individuals that is not regulated, such as buy-to-let lending.

**Chart 6.4 Share of Regulated Mortgage Lending at Fixed Rates: UK, % (Quarterly)**



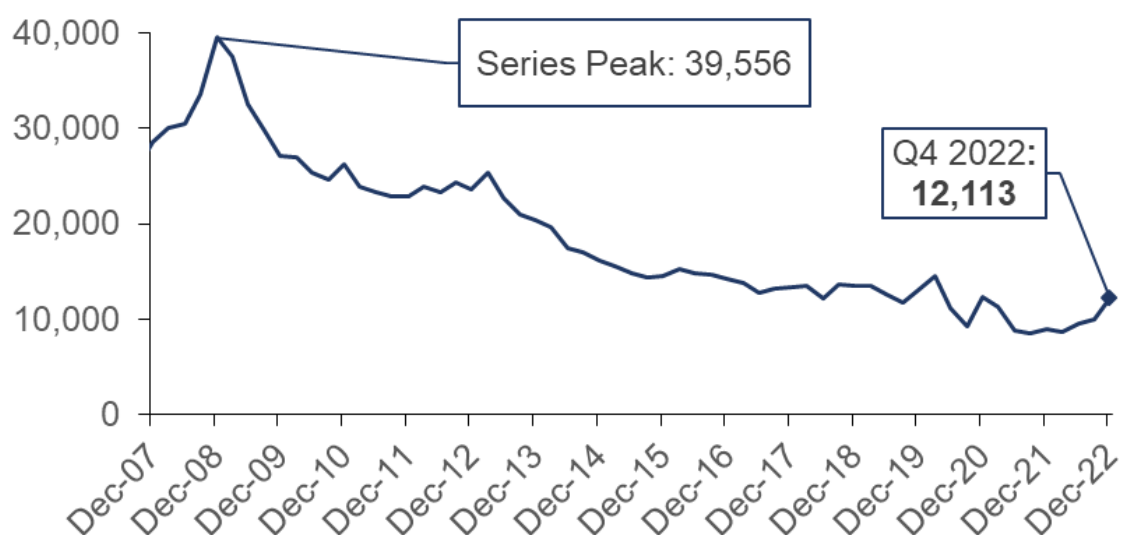
Source: FCA

## 7. Mortgage Arrears & Possessions

### Arrears

There were 12,113 regulated mortgages that went into arrears across the UK in Q4 2022, an annual increase of 36.0% (3,207), although this is from very low levels in Q4 2021. Comparing to the pre-pandemic period in Q4 2019, the number of regulated mortgages entering arrears has fallen by 7.6% (-997). As shown in Chart 7.1, following a peak of 39,556 in Q4 2008 during the financial crisis, there was a declining trend in the number of regulated mortgages entering arrears, which has started to increase towards pre-pandemic levels. It should be noted that Covid-19 payment holidays were not classified as technical arrears, and thus are not reflected in these figures; however, even when these payment holidays came to an end in April 2021, this did not result in a substantial increase in arrears. (Source: FCA)

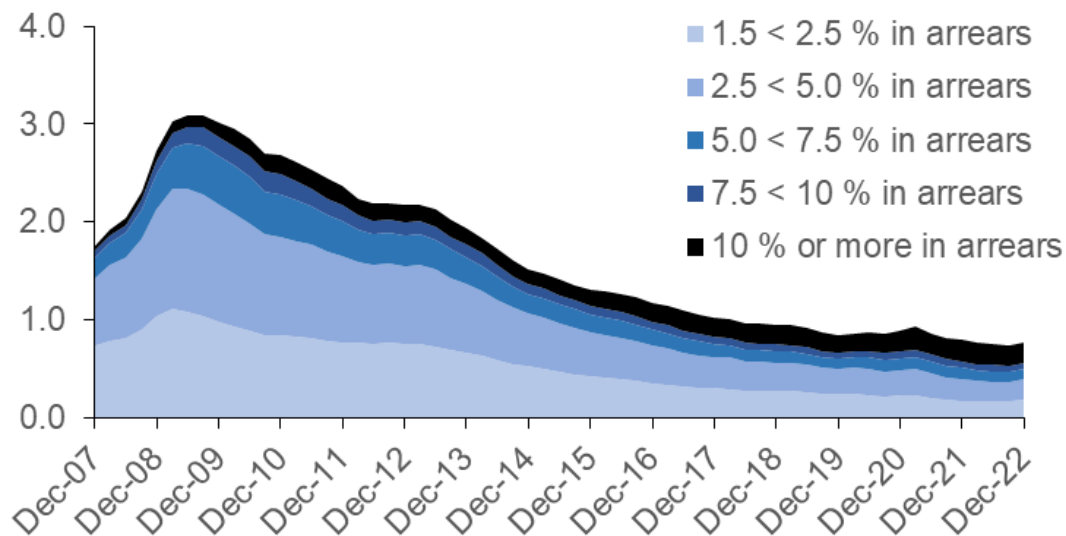
**Chart 7.1 Number of Mortgage Loan Accounts Entering Arrears: UK (Quarterly)**



Source: FCA

The share of lenders' outstanding regulated mortgage balances that were in arrears stood at 0.77% at the end of Q4 2022. This has remained broadly stable during the pandemic, with arrears at 0.86% at the end of Q1 2020. Chart 7.2 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.

**Chart 7.2 Regulated Mortgage Balances in Arrears by Severity: UK, % (Quarterly)**



Source: FCA

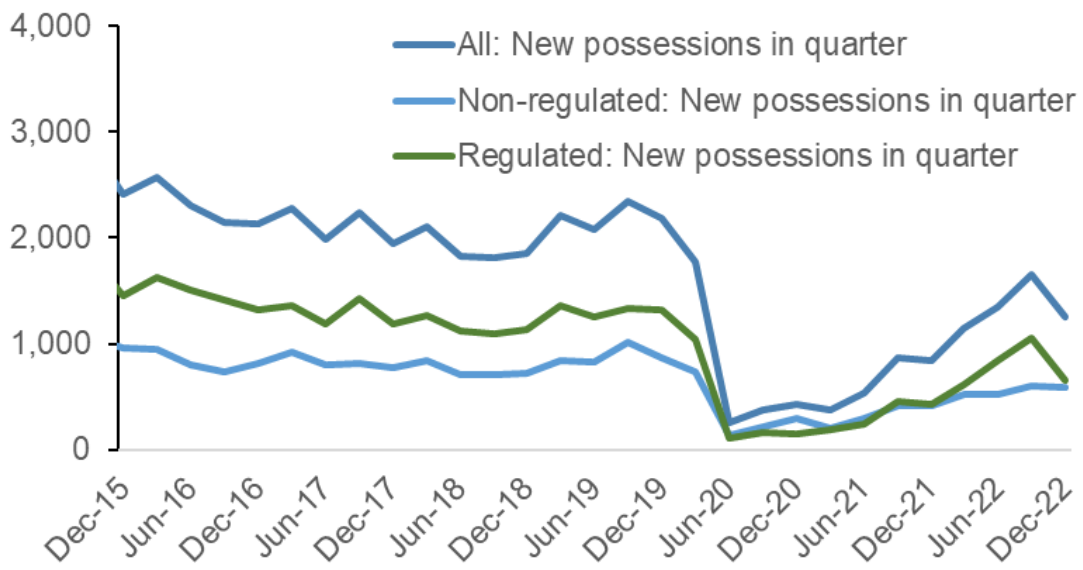
UK Finance data show that there were 6,060 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance across the UK in Q4 2022. This is up slightly by an annual 0.8% (50), but remains well below the period of the 2008 financial crisis. The number of buy-to-let mortgages in arrears of 2.5% or more as a percentage of the total number of buy-to-let mortgages was 0.30% as at Q4 2022, very similar to Q4 2021 (0.29%).

### Possessions

Chart 7.3 shows that despite restrictions on possessions being lifted since 1 April 2021, there were only 661 new regulated mortgage possessions across the UK in Q4 2022. While this was an increase relative to Q4 2021 of 229 (+53.0%), possessions are still substantially lower (down 658, or 49.9%) relative to Q4 2019, prior to the pandemic.



**Chart 7.3 New Possessions in quarter by type (Quarterly)**



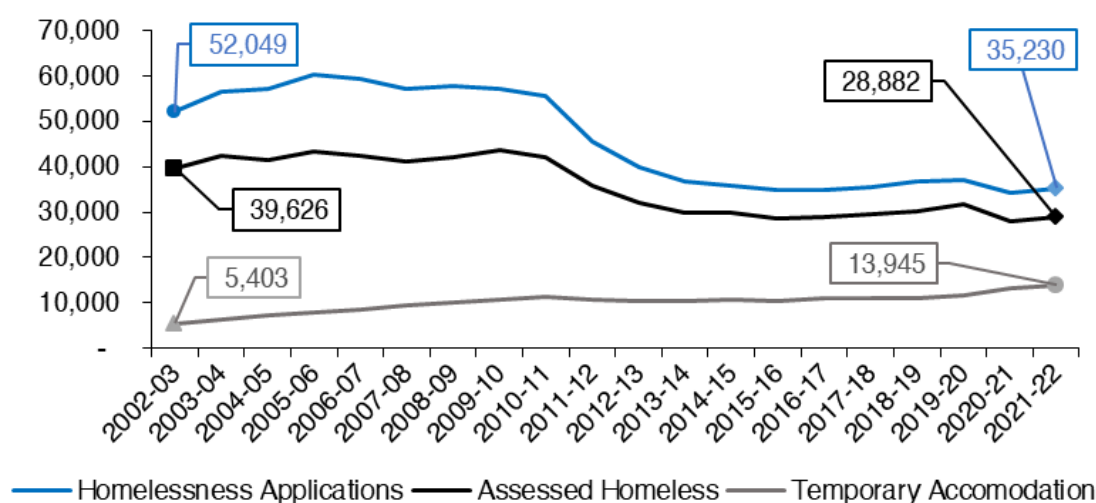
Source: FCA

## 8. Homelessness

As illustrated in Chart 8.1, 2021/22 saw 35,230 homelessness applications in Scotland, an annual increase of 2.8% (+944), but this remains below the pre-pandemic level of 37,060 in 2019/20. 28,882 households were assessed as being homeless (including those threatened with homelessness), an increase relative to 2020/21 of 3.0% (+840) but again below pre-pandemic levels of 31,612. The 28,882 households assessed as being homeless included 32,592 adults and 14,372 children. There were 13,945 households in offered temporary accommodation as at 31 March 2022, an annual increase of 4.4% (+586).

On a per capita basis, West Dunbartonshire has the highest number of households assessed as homeless per 100,000 population (aged 16+) in 2021/22, at 1,404. This compares to a Scottish average of 632.

**Chart 8.1 Homelessness in Scotland to 31 March 2022 (Annual)**

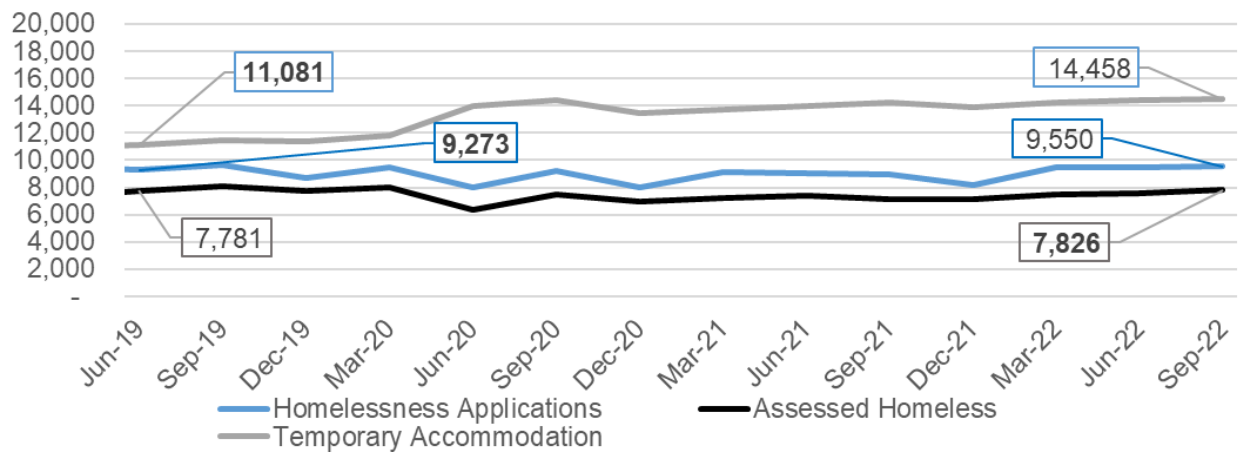


Source: Scottish Government

More recent data to 30 September 2022 shows that the number of homelessness applications have increased to 9,550 over the quarter and now marginally exceed pre-pandemic levels (9,475 over Q1 2020). The number of households assessed as homeless has also risen gradually to 7,826 in the latest quarter but remains below pre-pandemic levels, where there were 7,972 households assessed as homeless in Q1 2020. The number of households in temporary accommodation continued to rise and equals 14,458 at 30 September 2022. These increases are thought to be a result of the backlog of cases that built up during COVID-19 and the ongoing cost and supply issues for materials and lack of tradespeople which are required to provide settled accommodation.

Please note that the number of homelessness applications and those assessed as homeless are a flow variable (i.e. the number shown is the number of homelessness applications and the number of households assessed as homeless over the quarter). On the other hand, the temporary accommodation figures shown are a stock variable, which means there were 14,458 households in temporary accommodation as at 30 September 2022.

**Chart 8.2 Homelessness in Scotland to September 2022 (Quarterly)**



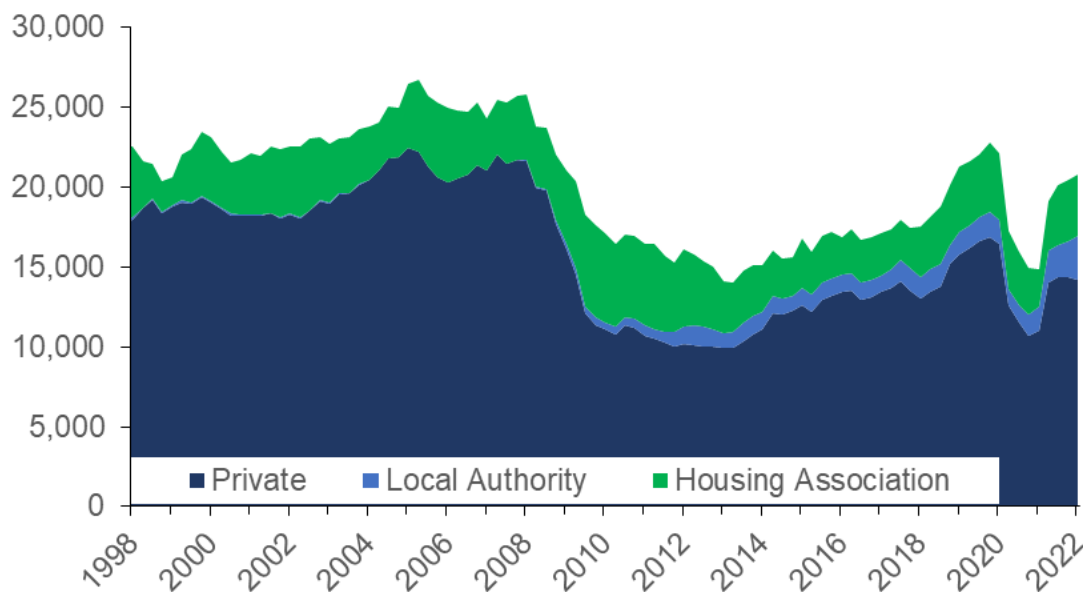
Source: Scottish Government

## 9. Housing Starts & Completions

### New build completions – all sectors

There were 22,905 new build completions across all sectors in Scotland in the year to end Q3 2022, an increase of 9.7% (2,023 homes) on the previous year, the highest annual figure to end September since 2008. This is outlined in Chart 9.1, which includes the breakdown of new build completions by sector. Meanwhile, there were 19,227 new build starts across all sectors in the year to end Q3 2022, down by 7.1% (1,470) relative to the Q3 average for 2016 – 2019.

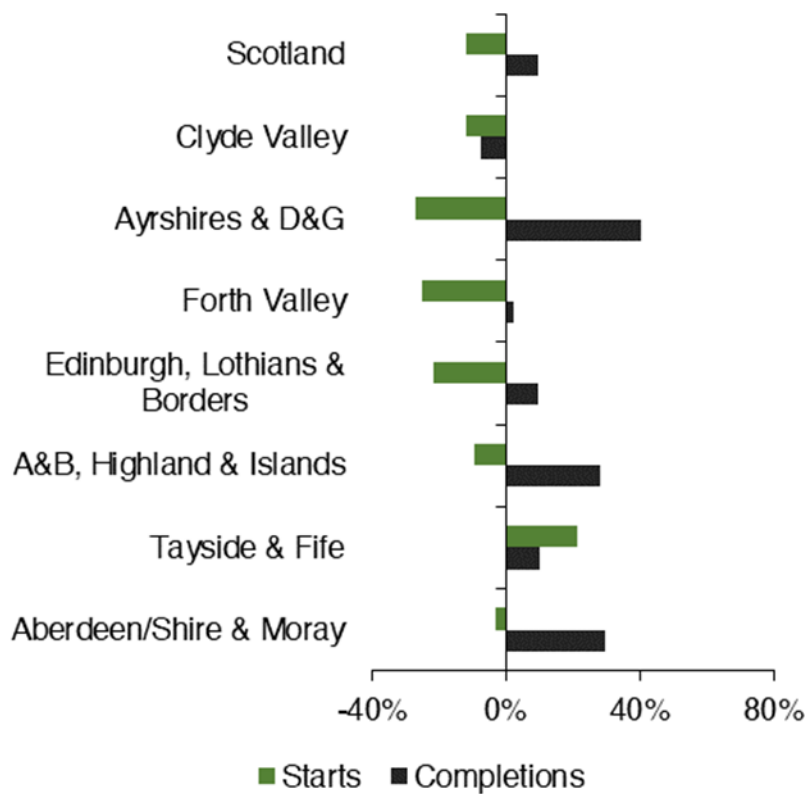
**Chart 9.1 Scottish New Build Completions by Sector (4Q Moving Total, to Q3 2022)**



Source: Scottish Government

Chart 9.2 outlines the growth in new build completions and starts for all sectors by region over the one year period to Q3 2022, relative to the year prior. New build completions increased for the majority of regions shown, with the largest increase seen in the Ayrshires, Dumfries and Galloway (+40.4%) and the only decrease found in the Clyde Valley (-7.6%). With respect to all sector new build starts, the picture was more varied by region, with the largest increase found in Tayside and Fife (+21.4%), whilst the largest decrease was found in the Ayrshires, Dumfries and Galloway (-27.4%).

**Chart 9.2 Annual Change in New Build Starts and Completions (YTE Q3 2022)**

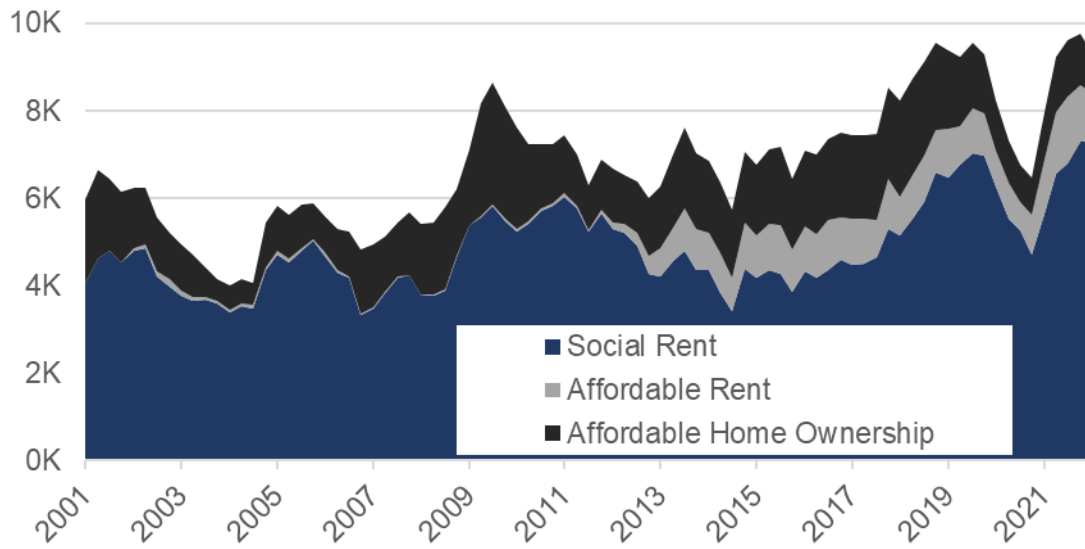


Source: Scottish Government

**Affordable Housing Supply Programme**

Chart 9.3 shows that the supply of affordable housing has increased since the restrictions on non-essential construction activity were eased in Q3 2020. 9,727 affordable housing completions were recorded over the one year to Q4 2022, an increase of 1.2% compared to the year prior. However, over the same period approvals have fallen by 22.1% to 6,554, whilst starts have decreased by 24.2% to 7,502. This potentially reflects the ongoing challenges with price inflation (as shown in Chart 10.3), materials and labour in the construction sector. (Source: SG).

**Chart 9.3 AHSP Completions (4Q Moving Total, to Q4 2022) Source: Scottish Government**



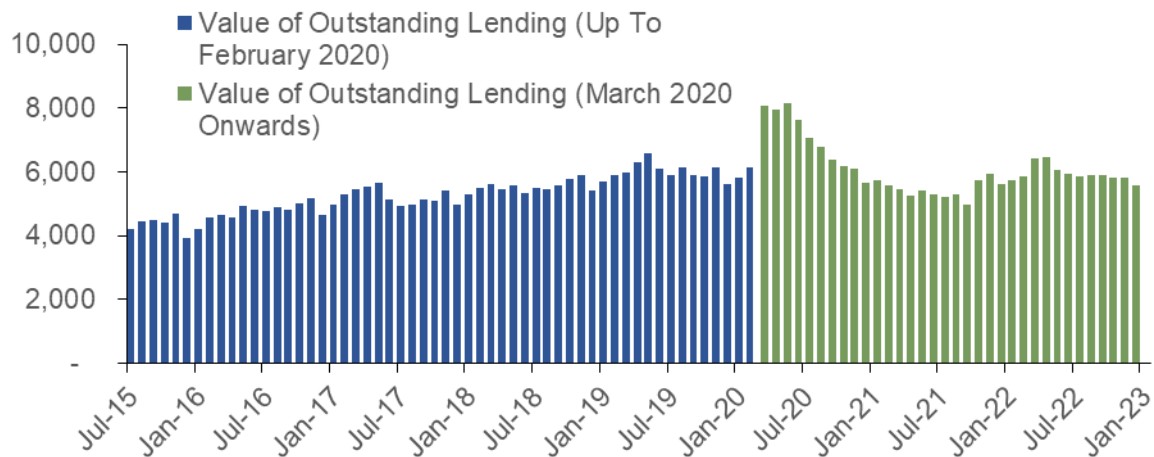
## 10. Lending to House Builders, Insolvencies & Construction Prices

### Lending to House Builders

The value of loans outstanding to UK firms involved in the construction of domestic dwellings rose by £1.9bn from February to March 2020, an increase of nearly one-third (31%), as shown in Chart 10.1. 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 affected firms' income. In addition, firms may have drawn down funds as a precaution, given the economic uncertainty.

From May 2020 to September 2021 the value of loans steadily decreased, falling below pre-covid levels. However, the value of loans seems to have returned to pre-pandemic levels, with the value of outstanding loans for 2022 so far 1.1% below the same period in 2019, despite the sharp increase in construction output prices (compare Chart 10.3).

**Chart 10.1 Loans Outstanding to Firms Involved in Construction of Domestic Buildings: UK (£ Millions)**

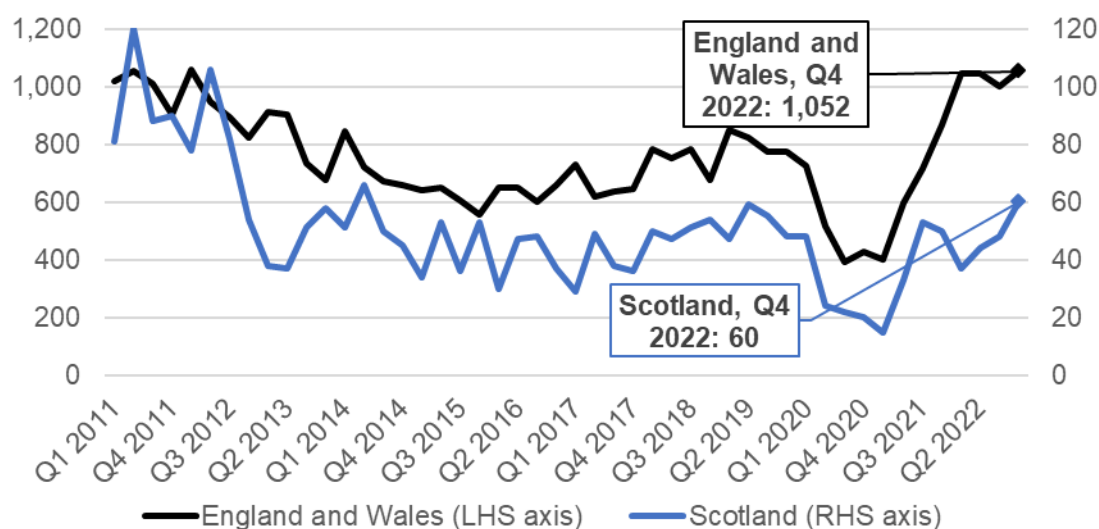


Source: Bank of England

### Insolvencies

Chart 10.2 shows that during the pandemic insolvencies of construction companies registered in Scotland fell from 48 in Q1 2020 to 15 in Q1 2021, with a similar proportional fall evident for England and Wales, likely due to the business support in place. However, with this support unwinding, new build construction output prices increasing (as shown in Chart 10.3) and cost of living pressures potentially impacting demand, insolvencies for construction companies registered in Scotland appear to be rising. There were 60 insolvencies in Q4 2022, an increase of 20.0% on Q4 2021 and relative to the 2017 – 2019 average for Q4 an increase of 30.4%. For construction companies registered in England and Wales insolvencies have increased to a larger extent, with an annual increase of 21.5% on Q4 2021, reaching 1,052. This is also 50.4% above the 2017 – 2019 average for Q4. This is the highest level of registered company insolvencies in England and Wales since Q1 2012 (1,057).

**Chart 10.2 Number of Registered Company Insolvencies in the Construction Sector (Quarterly)**



Source: The Insolvency Service

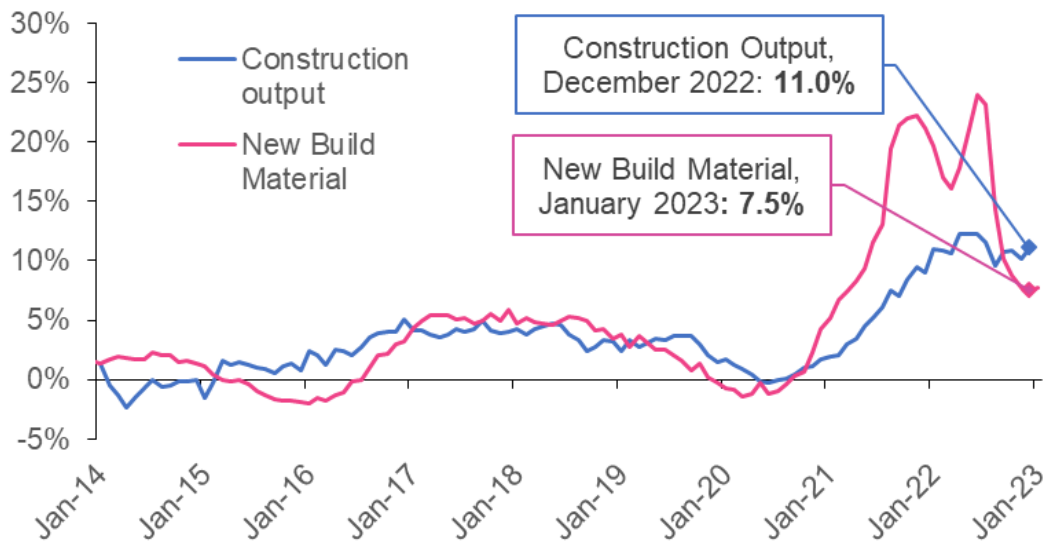
### Construction Prices

Data from the ONS on the annual change in the construction output index price of new build housing (public and private), which covers the range of costs associated with building new public and private housing, shows an annual increase of 11.0% to December 2022 (Chart 10.3).

Data from BEIS (also illustrated in Chart 10.3) shows that the annual growth rate in the cost of construction materials used in new house building, which had reached as high as 24.0% in June 2022, has been moderating more recently, to stand at 7.7% in January 2023. The annual change has been driven in particular by insulating material (+40.9%), gravel, sand, clays and kaolin, including aggregate levy (28.5%) and cement (+24.8%). The largest annual decrease in prices came from imported sawn or planed wood (-15.8%), imported plywood (-8.2%) and particle board (-7.0%).



**Chart 10.3 Annual Change in the Output Price Index of New Build Housing and the Price of Construction Materials for New Build Housing: UK (Monthly)**



Source: ONS and BEIS



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