Scotland's Housing Market 2024

'Stability is your friend'

A stormy winter period in Tayside has seen many of us hunker down and catch our breaths following another busy year in 2023, and 2022, and 2021… and 2020. Trying to describe the housing market post-lockdown is an almost impossible task, with most estate agents and surveyors in the area simply opting for: *"Crazy!"*

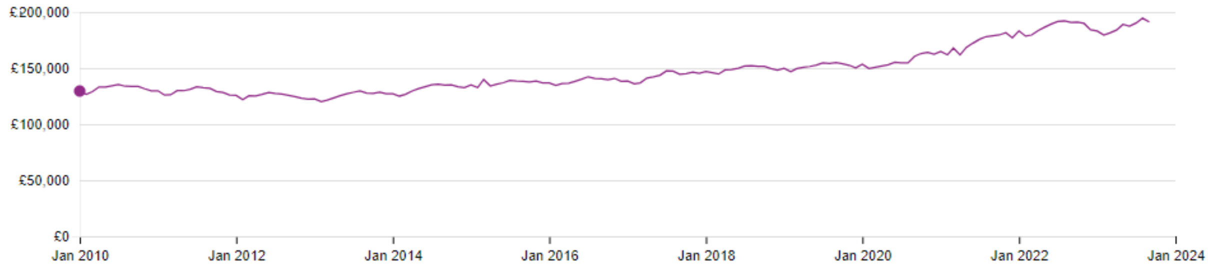
Source: The Guardian online

It was forecast by most that after a return to normality, the property world too would resume regular service. There was an expectation that people would slowly emerge back out into the light after being shut inside for months, slightly cautious but with just the right amount of optimism. We expected a light flurry of stock from those people who began to grow tired of the same four walls seen during lockdown and sought a change; perhaps a bigger garden should we be locked down again, or somewhere with a view. Likewise, lockdown allowed for many of us to put some savings away, particularly first-time buyers and so we were looking forward to welcoming a nice influx of young people entering the market.

Never did we expect however the furore of the masses to descend upon the market, and to do so with a vigour not seen for over a decade. With optimism high and saving rates low, cash appeared limitless as buyers competed against one another for properties they had been dreaming about throughout lockdown. We began to see sales prices achieve well in excess of Home Report value. Those who were not moving appeared to be extending and renovating and tradesmen soon had full diaries for the year ahead.

Surveyors, estate agents, solicitors and the like became a well-oiled conveyor belt set on double speed. Properties were coming to the market and were away again before many even got the chance for a viewing. Whilst this left many potential purchasers disappointed, sellers were elated and we truly had entered a 'sellers' market'. Between March 2020 and September 2023 Scotland saw an increase of 27.5% in average house prices; a significant increase on many historical records for the same period, as is shown below:

Average House Price for all Property Types in Scotland



Source: Land registry data: Scotland House Price Indexes.

Whilst superficially this sounds like excellent news, the housing market must be taken in the context of wider financial stability. As is widely reported, housing prices have been growing at significantly higher rates compared to salaries; and so, where is the extra money coming from?

The unfortunate answer is that it is not really coming from anywhere in significant amounts. We are instead seeing people taking greater financial risks to secure their purchase. Funds that once would be put towards holidays, future family planning or into savings, were being siphoned straight towards mortgage repayments. Rather than linear movements in the market we were seeing giant and often unnecessary leaps upwards. By this we mean, rather than a young couple purchasing a 2 bedroom flat and moving upwards into an affordable 3 bedroom semi-detached property we were seeing this same couple jump up into 4 and 5 bedroom detached properties. The same 4/5 bedroom properties that once would have been reserved for established families who have worked their way upwards towards this. Whilst this is indicative of wider social trends in the modern world, it was one that was noticeably more fervent during the post lockdown period.

Source: *Keeping Up ith The Joneses* (Cupples & Leon Company – New York, 1920) by 'Pop' Momand

The result of this for many is that they are left with a property they can only just afford and so when interest rates go up, their affordability goes down. This unfortunately leaves many faced with the dilemma of having to sell and down-size on account of their mortgage repayments becoming too high. It would be remiss to accuse only the youth of this error and it is with sadness to say that this switch from comfortable life to a life of financial pressure has been commonplace in all ages throughout this period. *So, what then is the solution to preventing such potential financial disasters?*

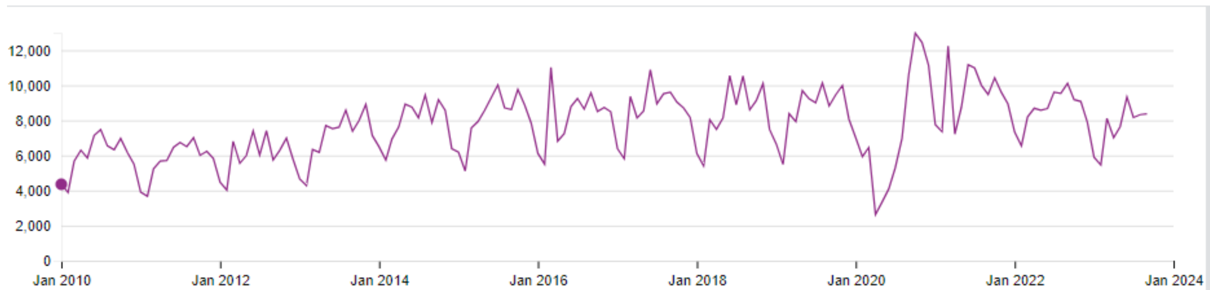
It is a brave person who claims that a jump in interest rates is just what we needed and so we shall let someone else put their name to that. However, whilst a punch in the stomach to many as their new mortgage offer landed in their inbox, the rise in rates in the second half of 2023 put the brakes on what was becoming an out-of-control train in the property market. Offers were being made with hearts over heads and both future affordability and equity started to become a concern from those looking in. The rates hike meant for the first time in three years, people began to take a step back and start really analysing their purchase. What happens if we need to move in 2-3 years' time; will my house be worth what I'm paying for it now? In a number of cases, the answer was predicted to be no.

Now, despite the mainstream media's best attempts to scaremonger the public into thinking we were freefalling into another market crisis, sensibilities remained and stability started to emerge. Before giving too keen an ear to your local newsagent tabloid spread, it is worth bearing in mind that these same news streams predicted the market to crash post COVID and will continue to do so whenever the opportunity presents itself:

Source: The Sun, April 2020.

Stock levels entering the market, whilst purported to be down, were broadly in line with historic levels as we analysed them on a seasonal basis. Buyers entering the market were inevitably down as affordability factors played their part and offers, whilst still strong, began to come in closer to the Home Report value (although this is a topic of relativity amongst itself as these Home Report values themselves had risen to account for the strong sales since 2020). Importantly, whilst the volume of sales registered is down on recent post COVID highs, the market is providing consistent growth returns when looking at annual returns. The graph below shows a positive increase in sales volumes, with typical spikes and drops through the seasons:

Sales Volumes for All Property Types in Scotland between January 2010-2024



Source: Land registry data: Scotland House Price Indexes.

When the onslaught of hyperbolic headlines is circulated with the words, “crash”, “plummet”, “decline”, “crisis” it is important to remember that all statistics are presently being analysed against a backdrop of record highs and so it is only natural for there to be a dip. The dips we are seeing at the moment should not be worrying, they are instead placing us back to a level seen pre COVID; a market that, for the best part, was heralded as being remarkably uneventful. Everything now is hopefully pointing in one direction: *a return to a stable market.*

Stability is what any successful market truly needs to survive and it is important to note that by stability we don’t mean a flatline, we mean stable growth. Whilst mountainous growth spikes on graphs look exciting, they inevitably come with a descent just as severe. Despite contrary tabloid reports, the market is currently operating on a trajectory that should be keeping nervous energy at a minimum. Interest rate hikes have slowed and mainstream lenders have been periodically dropping their mortgage rates as competition between one another increases and this has helped keep traction within the market. Forecasts are predicting no more interest rate rises for this year, although as ever, this is highly changeable.

We recognise that there are a number of factors that will throw banana skins to our optimistically smooth stable ride for the year; not least being impending internal elections and external international dangers. There are always opposing forces operating intrinsically to the market, and your perception of stability is often pushed of course based on the media coverage given to any given issue. This year we will no doubt see coverage on how property investors are leaving the market as energy efficiency regulation changes act as the straw that broke the camels back. The media will proclaim that this will have devastating effects on the housing and rental markets. They will be right in some of their commentary, although will fail to give much attention to the fact that this will increase stock levels, particularly at the lower end of the market and this will allow for many young first-time buyers to jump on the ladder after being priced out for so many years. They will then move upwards to their next sensible purchase after a few years, and so the cycle continues.

It is important therefore to see stability as your friend. Excessive sale prices are great when selling but reality hits when having to fund your onward purchase. Take comfort in operating in a market where you have time to properly analyse your purchase, to read your Home Report, and to do some number crunching. Everything for 2024 points towards you being able to do this so take advantage of it. Do not rush into a purchase but at the same time, do not be scared to enter the market because a newspaper has said you will not be able to sell your home. The market is working exactly as it should right now and we should all take advantage of it while we can.