

Spring Market Briefing March 2025

Modest *improvements* look set to continue in the Scottish housing market in 2025.



Headlines.

- **Rettie forecasts average house prices to rise by 3% in Scotland this year due to a slightly improving economic outlook.**
- **Our transactions forecast for 2025 is +2%.**
- **Rent rises have cooled for the time being but there are supply and availability concerns in the sector because of government legislation.**

Gradual change is not very exciting, but small improvements stacked together year-on-year can be significant over time.

The housing market in Scotland and the wider UK has been adjusting to higher interest rates and mortgage rates from Autumn 2022, with the market largely stabilising in terms of average prices and transactions over 2024. Rising mortgage rates have dripped into the market as households have gradually come off their fixed mortgage deals, allowing them to time to adjust.

Interest rates are now starting to fall but this is expected to happen slowly and having relatively high rates for longer will continue to act as a depressant on the market. Sales market recovery will therefore likely be slow. The rental sector has cooled in the main cities but there has been a significant weakening in availability and concerns that the demand/supply imbalance may worsen again over the next few years because of new taxation and legislative changes.





Introduction

“As we forecast at the end of 2023, the Scottish housing market sailed along at a pretty slow and steady pace over 2024. There was little change in the key market metrics, which is a reasonably good outcome considering the headwinds of higher interest rates and a fairly anaemic economy. The exception is the new build sales market, which has continued to come under pressure due to the additional supply-side pressures and regulatory changes it is facing. The rental market has cooled after substantial growth in rents, but availability is becoming a more significant problem and could be exacerbated by forthcoming Scottish Government legislation.”

Best wishes,

Dr John Boyle MRICS
Director of Research & Strategy
john.boyle@rettie.co.uk
0131 624 4073



Key findings.



01. Sales market maintains stability.

The sales market remains stable and only modest improvement is expected in 2025. Interest rates will need to fall further to support affordability and encourage greater activity.



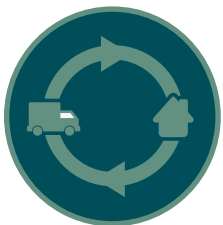
02. New build sales continue to fall.

New build transactions fell back a further 14% in 2024. Rising costs in the face of a stagnant sales market, along with increasing Government regulations, continues to suppress activity.



03. Mortgage affordability improves.

Mortgage affordability is improving, although mortgage rates remain at historically high levels. This is driving average mortgage costs below average rental costs, incentivising people to purchase rather than to rent.



04. Tighter supply drives the cost of renting upwards.

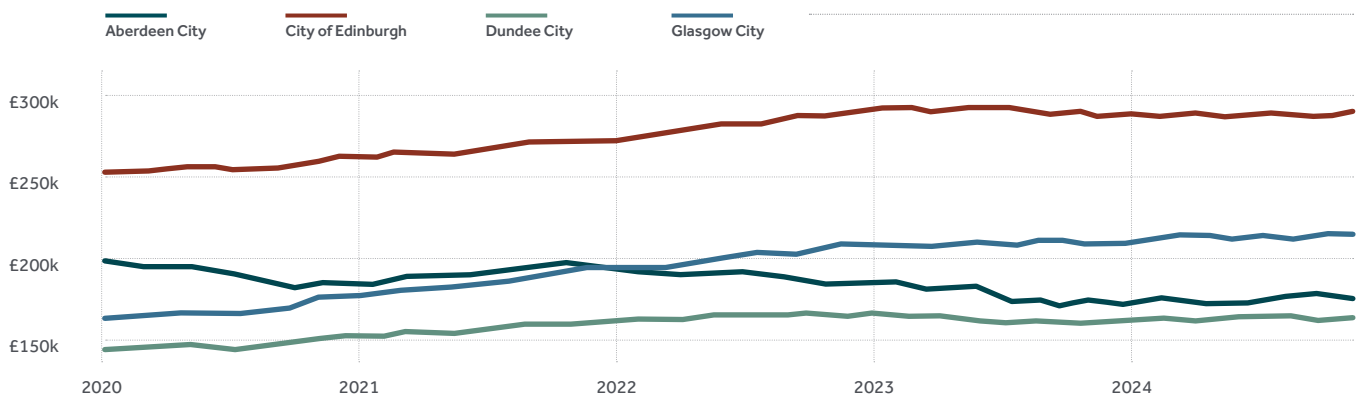
The number of new listings in the rental market continues to fall, clearly highlighting the demand/supply imbalance. Rent rises are cooling in the main cities but there have been substantial two-digit rises in the previous two years, creating affordability issues.

Key findings *explored.*

01. Sales market maintains stability.

On a 12-month rolling basis, Glasgow led the way among Scotland's main cities in 2024, with the average house price increasing by 2.3%. The rise in Edinburgh average prices was just 0.6% and the other main cities also experienced flat price changes. This continues a trend identifiable from late 2022.

Figure 1: Average house prices have stabilised from late 2022
12 month rolling average price



Source: @ Crown Copyright Registers of Scotland



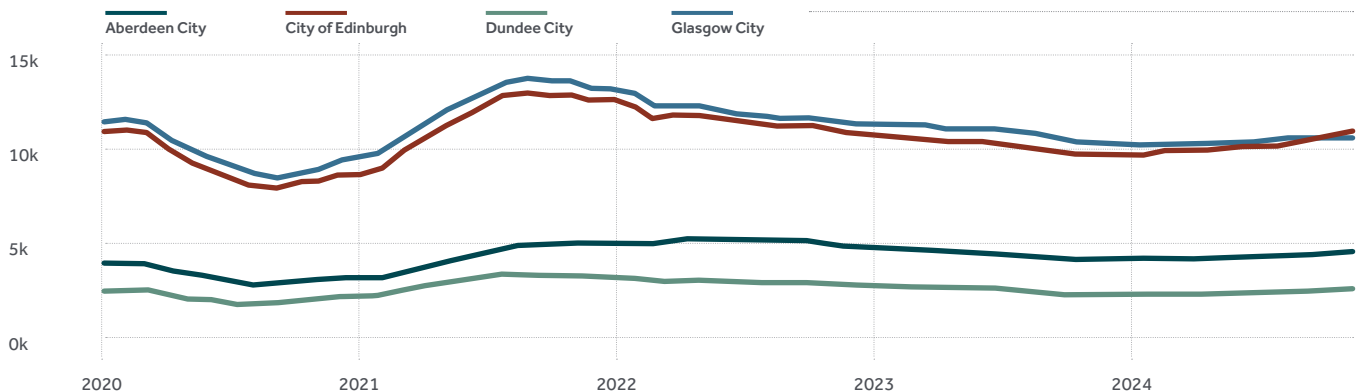
Rettie Research Report

The number of house sales in 2024 rose across the country by 5% and there was a modest uptick in most parts of Scotland. This was a welcome change to the previous two years, which saw cumulative declines exceeding 10%.

The rebound was mainly driven by lower mortgage rates and better access to credit, especially for the likes of first-time buyers, which has helped to get transaction chains moving again. However, this improvement in market conditions has been modest as lending remains more expensive and restricted than prior to late 2022.

Figure 2: Transactions levels are recovering across Scotland's cities

12 month average transaction volumes



Source: @ Crown Copyright Registers of Scotland



Pollokshields, Glasgow

Key findings *explored.*

02. New build remains in retreat.

The new build market continued to struggle throughout 2024, as the industry has been affected by demand-side and supply-side impacts from the cost-of-living crisis and higher interest rate environment, combined with a more difficult and costly regulatory environment.

Overall, new build sales were down 14% in Scotland in 2024, although did show signs of stabilising, with pockets of activity, at year end.

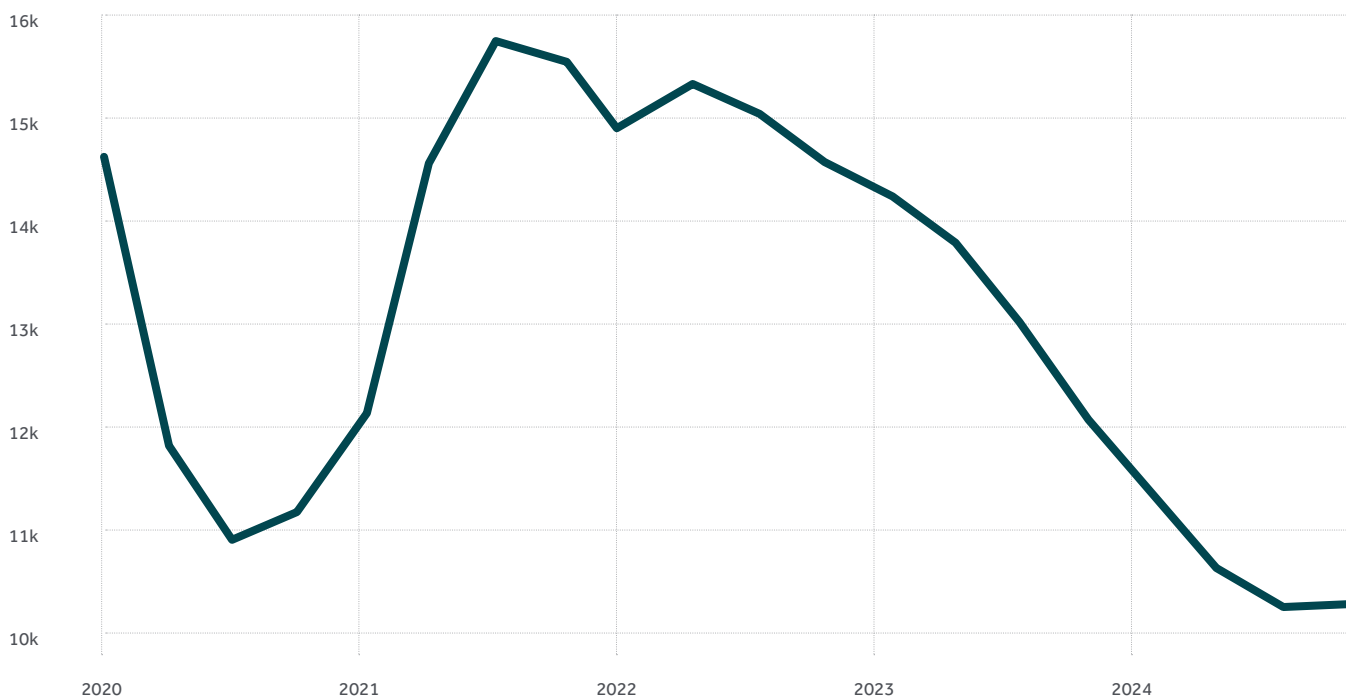
New build sales only accounted for 11% of all Scottish house sales in 2024, a figure that is normally around 15% in recent years.

The average price of a new build in Scotland has continued to rise and is now around £329,000 (up 2.2% YOY), but incentives are commonly being used at approximately 3-5% of gross sales prices, meaning that, in net terms, prices are likely falling in most locations.



Figure 3: New build sales are on a clear downward trend in the last two years

New Build 12 month rolling average transaction volume



Source: Rettie.

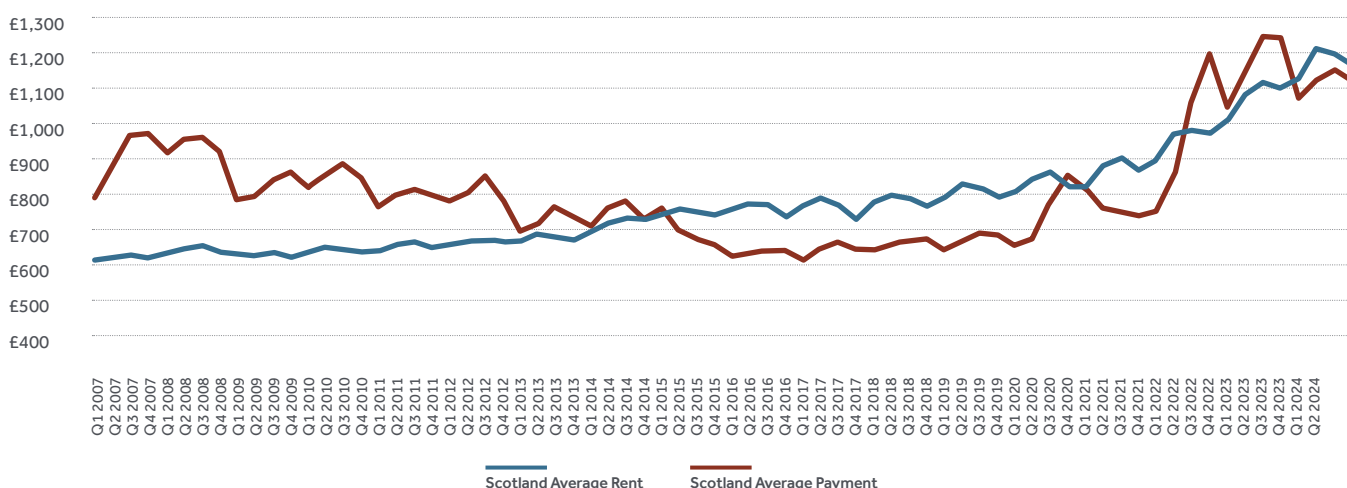
Key findings *explored.*

03. Mortgage affordability improves.

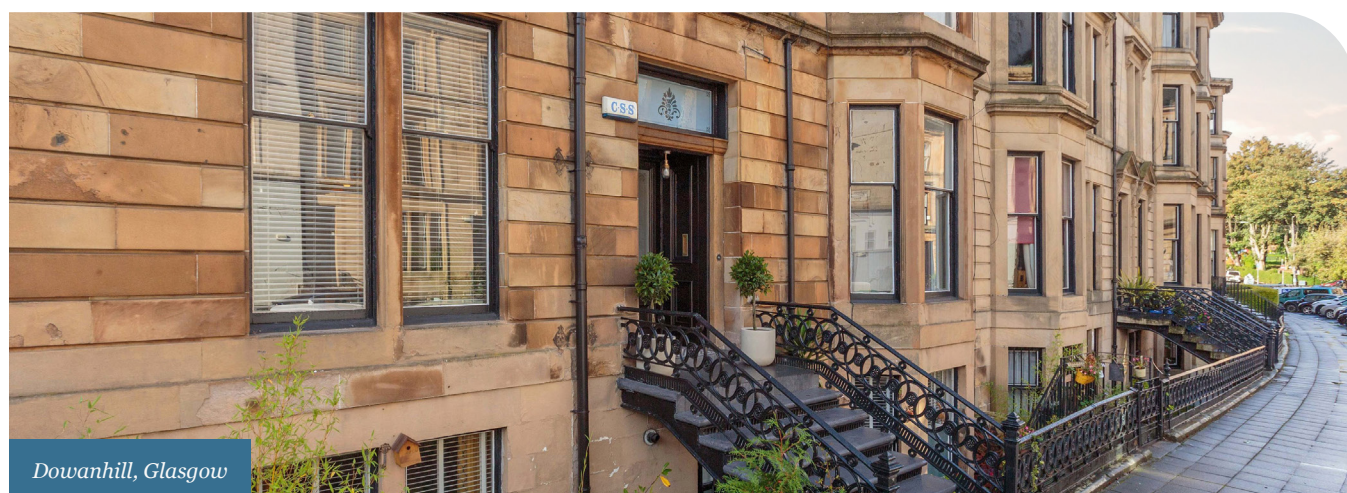
The greater relative affordability of house buying, particularly in relation to renting, improved in the 2010s, with the cost of the average mortgage payment (based on average 2-year fixed rate mortgage at 85% loan to value) below that of the average rent over much of the 2015-22 period.

Sharply rising mortgage costs from Autumn 2022 reversed this position, providing greater incentives, especially for the likes of potential first-time buyers, to rent rather than buy. As inflation has cooled and mortgage rates have fallen, the affordability of house buying has improved. The average mortgage payment in Scotland was at £1,125pcm in late 2024, a little lower than the average rent in Scotland.

Figure 4: Average mortgage costs are back below average rents in Scotland
Scottish average rent vs. Scottish average mortgage payment



Source: Rettie.



Dowanhill, Glasgow

Key findings *explored.*

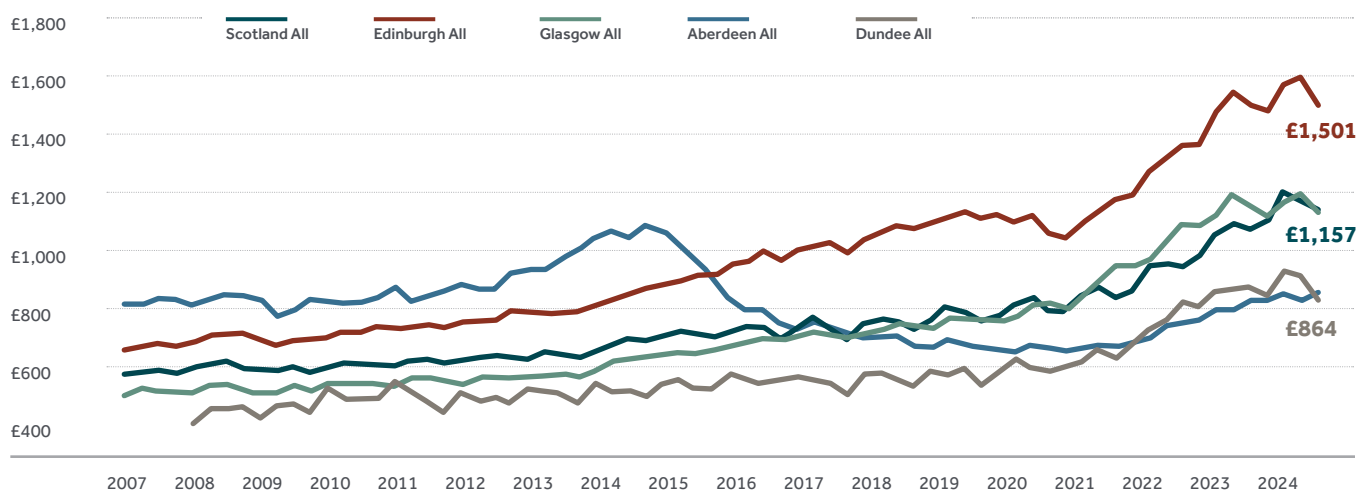
04. Rental market has cooled but availability remains reduced.

Average advertised rents (new rents between tenancies) in the private rented sector (PRS) cooled in 2024 after substantial rises throughout 2022-23. This is evident across the main cities as well as Scotland as a whole.

The Scottish Government's rent freeze and then cap within tenancies had the effect of pushing up rent rises between tenancies. There was also the incentive for landlords who had been under-renting properties to push these to market value as soon as they could, given the later rent adjudication process was based on this. This now seems to have worked its way through the system, but, overall, probably means that Scotland has higher rents than it would have had without the policy intervention.

Figure 5: Average advertised rents level off after 2-year spurt

Average advertised rents



Source: Citylets.



Rettie Research Report

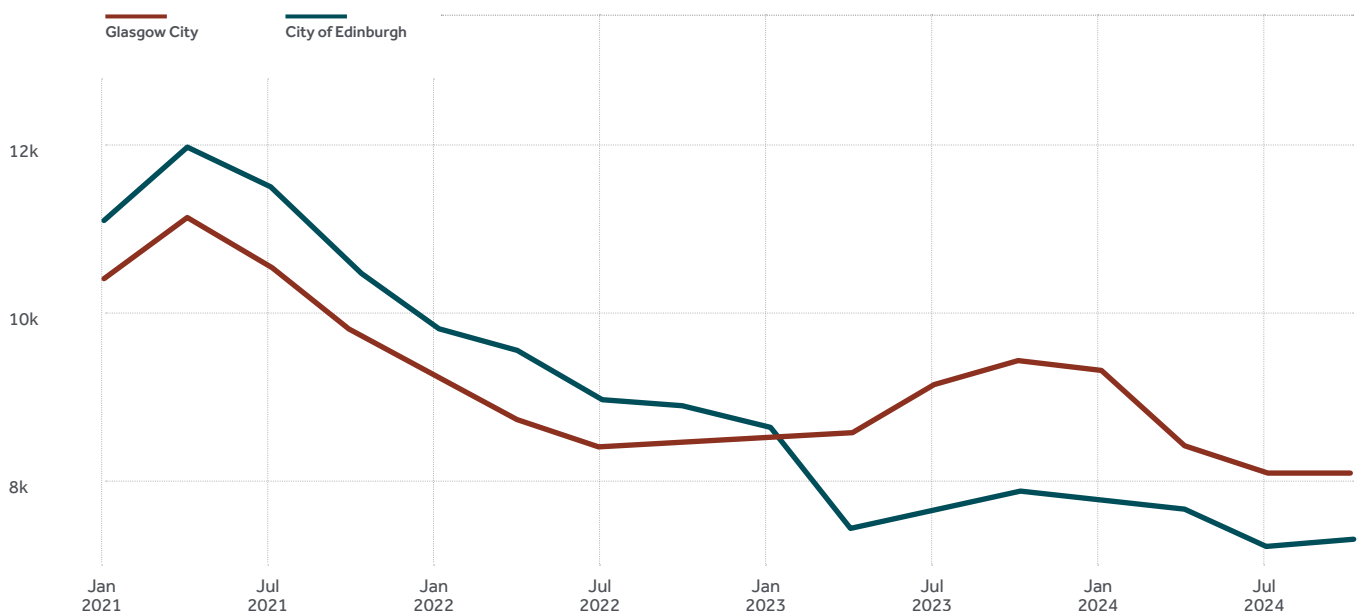
The Scottish Government's Housing Bill is continuing its parliamentary journey and the Housing Minister seems committed that the Bill will be completed by the Summer recess this year (end of June), although Autumn is more likely in our view. A key sector concern is the rent cap of CPI +1%, with a maximum cap of 6% per year, to apply within and between tenancies. There is a consultation to begin shortly on Bill exemptions, which may include Build to Rent (BTR) and Mid-Market Rent (MMR). **Rettie has given evidence to the Parliamentary Committee scrutinising the Bill** twice in recent months as we continue with attempts to ensure that it does not switch off investment and damage stock supply and availability.

Another recent significant change introduced by the Scottish Government was the increase in the Additional Dwelling Supplement (ADS) from 6% to 8% on second home purchases, including Buy to Let, in December 2024. With the intention of allowing first time buyers to compete more effectively for housing for sale, this will likely exert downward pressure on rental supply.

The number of new rental listings in Scotland's largest cities has reached five-year lows in the second half of 2024, with the number of listings in Edinburgh now firmly below those of Glasgow, which is an interesting reversion and demonstrates that the demand/supply imbalance in the capital is becoming particularly acute.



Figure 6: Rental properties listed on the main portals have fallen back significantly in the last 3 years
Rolling 12 month new listing count

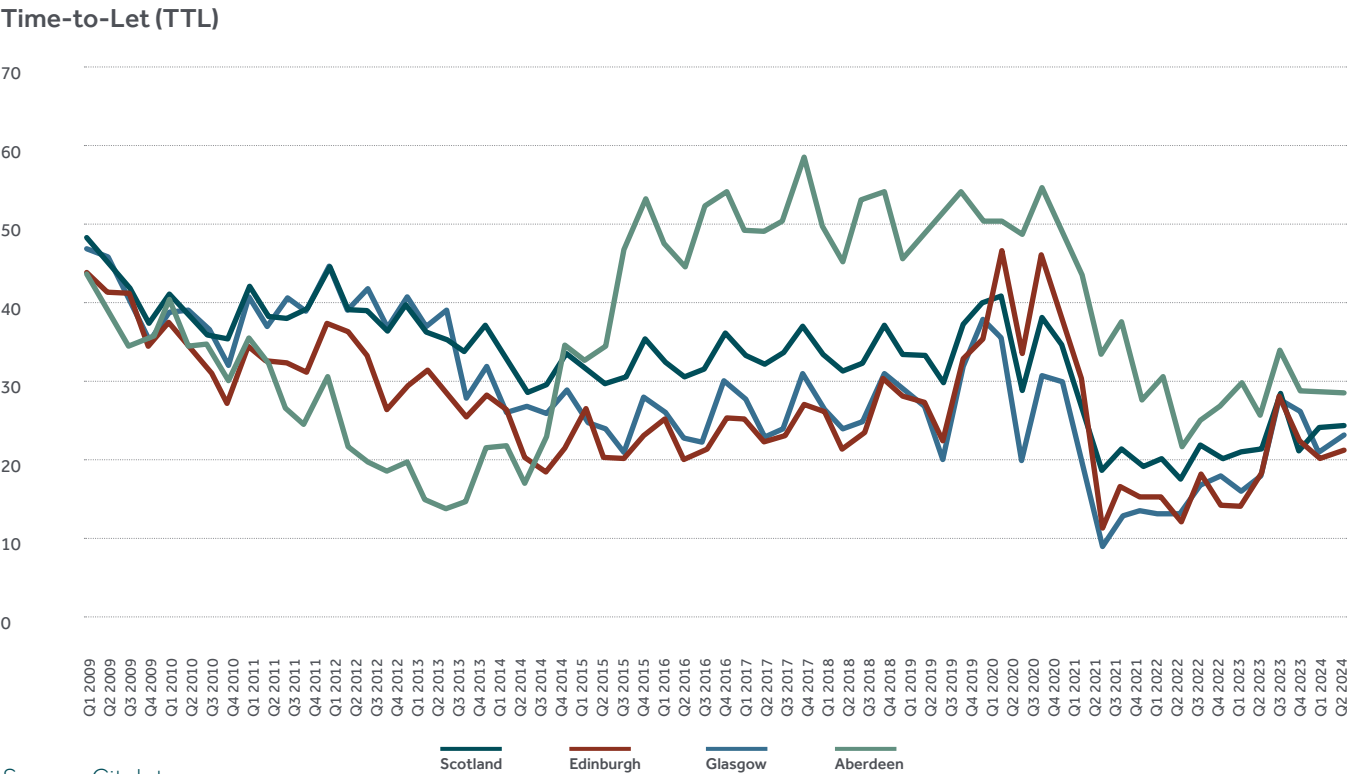


Source: Rightmove.

Rettie Research Report

The time-to-let (TTL) a rental property in the PRS has stabilised over the last year, after experiencing a notable rebound from late 2023. TTL remains low compared with pre-pandemic averages and, given the reduction in new listings coming to market, TTL will likely remain well below historical averages in the short- to medium-term.

Figure 7: Time to let remains low in an historical context



Market Outlook & *Forecasts.*

While mortgage rates are now reducing, they will remain above historic levels for a time, maintaining a headwind for the market. This is likely to exert continued downward pressure on house prices across Scotland. There remains active demand, although considerably weaker than in 2021 to mid-2022.

The latest **Bank of England Monetary Policy Committee report** expects the overall economy to be stagnant in 2025, with **modest growth in the succeeding two years**. Inflation is also expected to be close to 3% (and above target) over 2025 and 2026, meaning that the scope for further reductions in interest rates (after the 0.25 percentage points cut in early 2025) will be limited. The markets are expecting another two 0.25 percentage point cuts in 2025, which will help boost economic and housing market activity (but only to a slight extent) and there will be borrowers approaching the end of their current generous mortgage terms who will need to be refinancing at higher rates than they did a few years ago.

Our market forecasts have been reasonably good in recent years. Looking at the outturn from our **similar briefing last year**, we correctly forecast limited price growth and transaction recovery in 2024.

For 2025, in our central forecast, **we expect average prices to rise** this year by around 3%. With stronger economic performance from 2026, we expect to be moving back closer to the long-term trend (of around 4%) in subsequent years. It will take time for the whole market to adjust to higher interest rates, as people gradually come off fixed term deals, which will probably lead to average house price growth at modest levels for a time.

Sales activity recovered slowly in 2024 and close again to its 10-year average. Another year of gradual improvement in 2025 should move us back to this longer-term trend of c.100,000 sales per year, still some way below the 154,000 sales in 2007 at the market peak.

This will vary across geographies and property types.

In terms of the rental market, the cost of the average mortgage falling below the average advertised rent may **ease some of the pressures on the private rented sector** (PRS) as demand dampens a little. This is already being seen in the main cities, although sharper reductions in supply may increase pressures again because of legislative change.

Scottish Average House Price Forecasts

	Lower	Central	Upper
2025	2%	3%	4%
2026	3%	4%	5%
2027	3%	4%	5%
2028	3%	4.5%	6%
2029	3%	4.5%	6%

Scottish Transactions Forecasts

	Lower	Central	Upper
2025	97,000	100,000	103,000
2026	99,000	102,000	105,000
2027	99,000	103,000	107,000
2028	100,000	105,000	110,000
2029	100,000	105,000	110,000