

Rettie Mortgage Briefing September 2025

Improving mortgage lending and housing affordability but *challenges remain.*



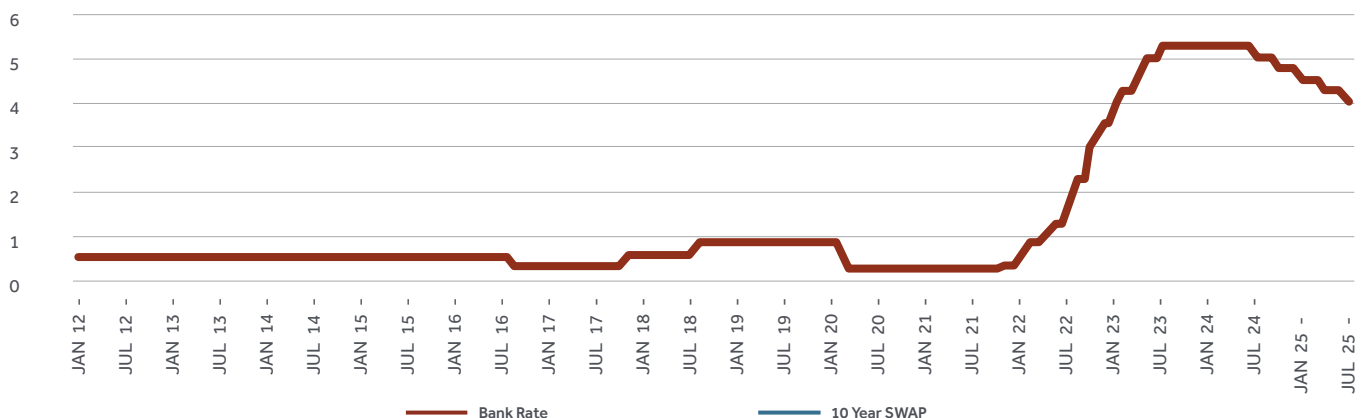
Introduction.

Pressure is slowly starting to ease off the mortgage market after a challenging spell dominated by harsh affordability conditions. Some signs are pointing towards improved lending conditions throughout the remainder of 2025 and into 2026, but the market is fluctuating. Mortgage payments are on a downward trend overall since 2023 and have remained below the average rental payment throughout the second quarter of 2025. In addition, the government has implemented a mortgage guarantee scheme enabling first time buyers to put down as little as a 5% deposit. However, despite recent tailwinds, there remains heightened political risk causing greater uncertainty around the short-term trajectory of mortgage payments.

After a period of turmoil in 2022 and 2023, markets responded with cautious optimism following Labour's landslide victory in the 2024 General Election at the dawn of a new political era with a government with a huge majority that was seen as capable of 'getting things done'.

The first signs of easing appeared last summer when the bank rate was cut by 0.25 percentage points after the July 2024 meeting, followed by two further consecutive cuts in November and most recently in August this year, when the base rate was cut to 4%.

Figure 1: UK base rates (%)



Source: Bank of England & Rettie





After a challenging couple of years in the mortgage space, activity is picking up, buyers are returning, and lenders are becoming more competitive. It's not a boom but, for the first time in a while, there's a sense of stability. Sub-4% fixed deals are reappearing particularly for those with strong deposits or good credit. While affordability remains tight, it feels like we've moved past the peak.

First-time buyers are clearly responding. In Q1 2025, 6,990 mortgages were issued to first-time buyers in Scotland, a 15.7% year-on-year increase (according to The Scottish Government Housing Market Review). This is likely linked to schemes from Halifax Intermediaries and Nationwide Building Society, which offer more flexibility to first-time buyers. The new affordability rules introduced in July can only help this figure grow more. In some cases, this can allow buyers to borrow up to 20% more than before. I've recently worked with clients who've secured homes they did not think were possible six months ago.

For homeowners approaching the end of their current fixed-rate deals in 2025, the transition to higher rates will be significant. Around 1.3 million customers will need to remortgage this year, moving from rates as low as 2% to rates of 4.5% or more. This underscores the importance of careful planning and professional advice. Navigating these changes with expert guidance can ensure affordability and financial stability as the market continues to stabilize and rates are expected to decline.

Bob Duncan Cert CII (MP) Managing Director, Rettie Financial Services



The Mortgage Guarantee Scheme allows greater lending to first-time buyers – with an additional estimated 46,000 first-time buyers, 13% higher than current levels in the UK. First-time buyers are the life-blood of the market, accounting for over one-third of residential sales in the UK. Allowing greater to access mortgage finance should improve market activity, with wider economic benefits for all sectors associated with residential sales, e.g. not just estate agents but conveyancers, removal firms, new kitchen suppliers, etc.

Lowering the income thresholds and allowing higher loan to income (LTI) levels means that renters who have been stuck paying high rents can now prove they are able to handle mortgage payments.

Dr John Boyle (MRICS) Director of Research & Strategy, Rettie

Key findings.



01. Mortgage affordability is slowly improving.

Mortgages payments have slowly started to fall as the base rate and mortgage rates have eased. This will assist with revitalising a housing market that has largely been subdued by tough lending conditions over the past three years. The average mortgage payment in Scotland currently stands at £1,057 in Q2 2025, compared to over £1,200 per month at the end of 2023.



02. Mortgage lending is nearly back at pre-pandemic levels.

Mortgage activity has gradually increased after suffering significant declines in 2021-23. Improving mortgage rates and more support for first-time buyers are the main factors driving the recent recovery.



03. Challenges ahead.

While falling interest rates will be welcome news to many, the average mortgage payment is still at historically high levels and affordability challenges remain. There is likely to be a few bumps in the road ahead, as swap rates continue to influence the cost of mortgage lending. The longer-term picture points towards gradual and modest improvements in lending conditions, which should boost market activity but not substantially.

Key findings *explored.*

01. Mortgage affordability is slowly improving.

The average mortgage payment in Scotland peaked at the end of 2023. Since then, average payments have fallen due to declining mortgage rates and with income growth outpacing house price growth. This has helped to revitalise the housing market, which has been impacted by tough lending conditions in recent years. The average mortgage payment based on an average 2-year fixed rate mortgage is now £1,057 compared to £1,200 at the end of 2023.

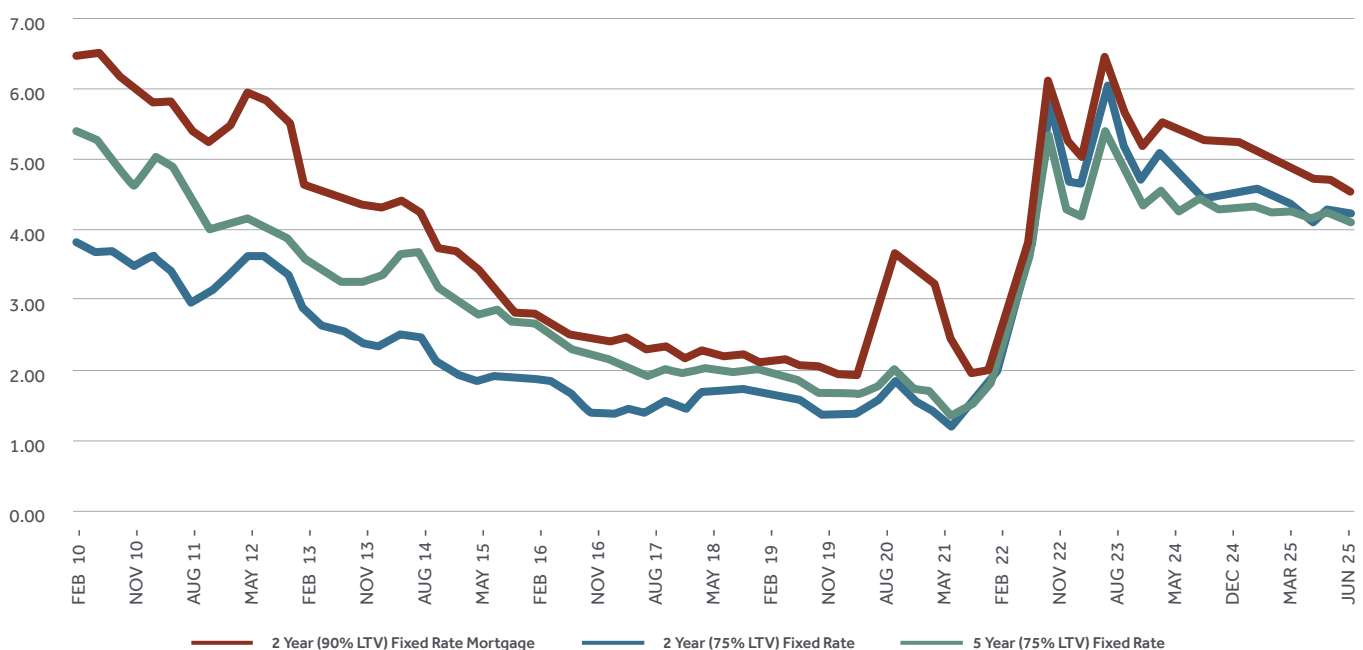
Affordability can be measured by estimating the percentage of the average gross household income spent on the mortgage payment for the average house. Edinburgh has historically been the least affordable city in Scotland, with the average mortgage payment accounting for up to half of the average income in 2022. The average payment in the Capital has now fallen to under 40% of the average household income in Q2 2025.

Glasgow remains at a significant discount to Edinburgh, with the average mortgage payment accounting for c.30% of the average household income, in line with the national average. Nevertheless, these average payments are well in excess of the levels achieved pre-2022, which has been a factor in subduing the sales market.

The average mortgage payment in Scotland has remained below the average rent since Q1 2024, with the average rent now at £1,250pcm. The average monthly mortgage payment is now 15% lower than the average rent, which is the greatest differential since 2021, which does incentivise people to buy rather than rent.

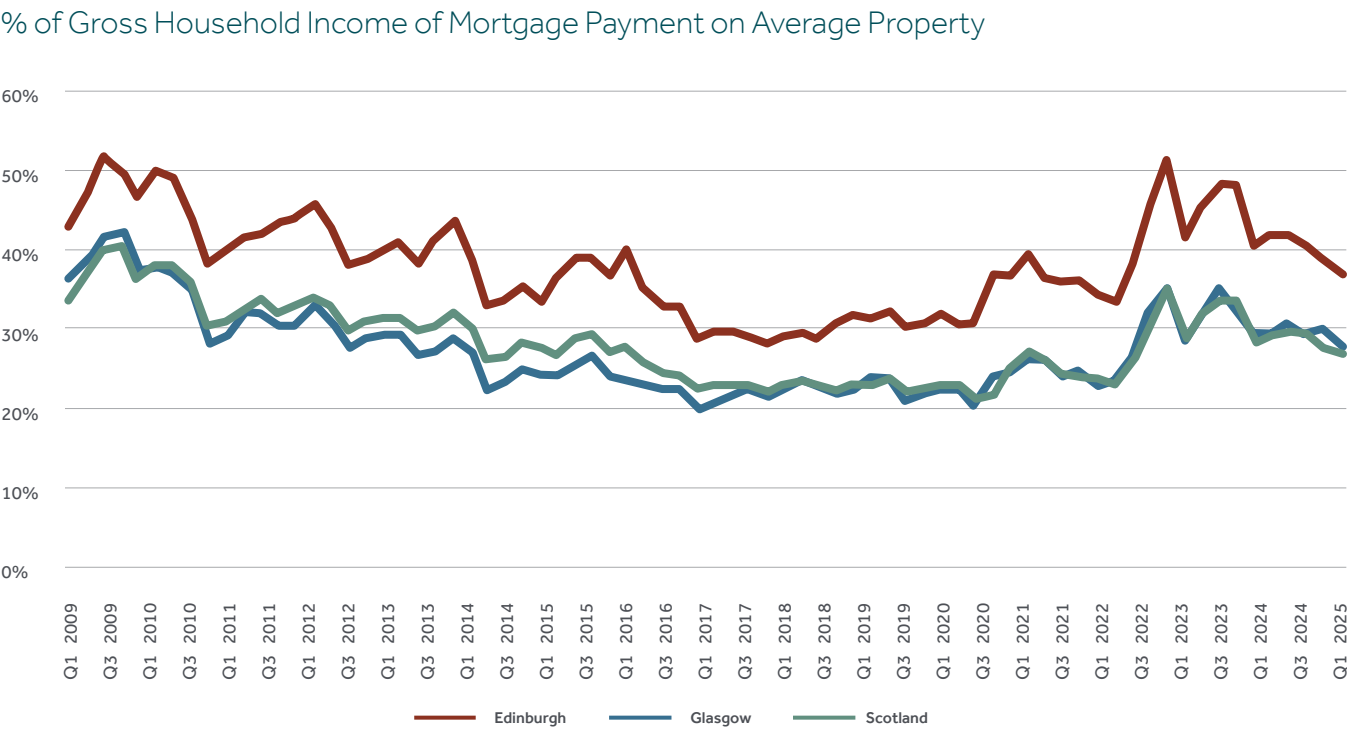
Figure 2: Mortgage rates for many products have fallen back over 2024-25

Comparison of monthly interest rates across various mortgages



Source: Bank of England & Rettie

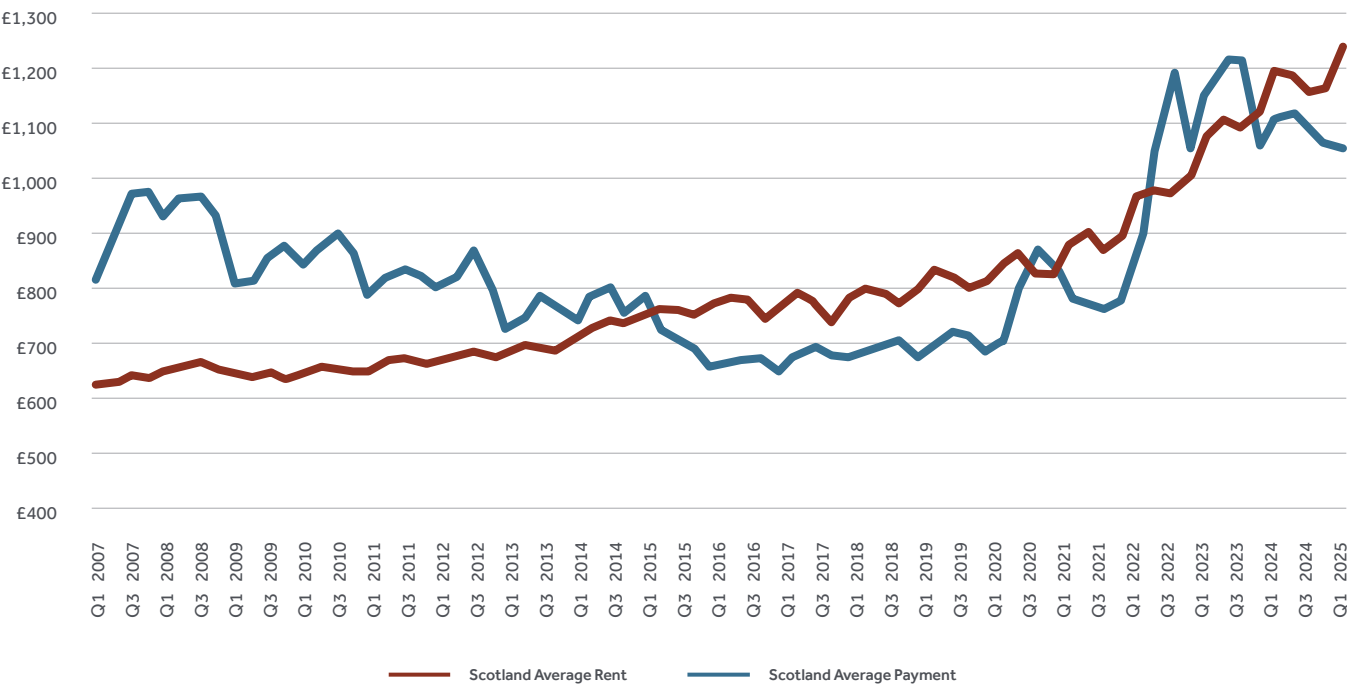
Figure 3: The average mortgage payment as a percentage of average household income has remained stubbornly high but is dropping back slightly



Source: Bank of England / Rettie / My House Price / City Lets



Figure 4: The average rent in Scotland is now 15% higher than the average mortgage payment
Scottish Average Rent vs. Average Mortgage Payment



Source: Bank of England / Rettie / My House Price / City Lets



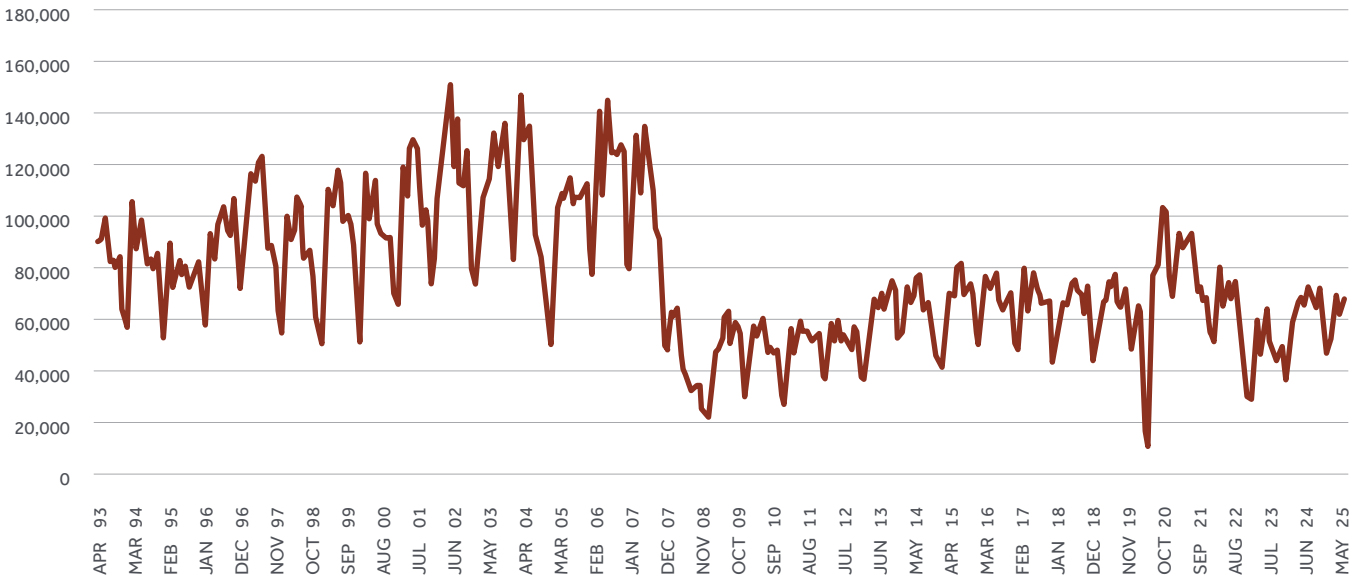
Key findings *explored.*

02. Mortgage lending is nearly back to pre-pandemic levels.

Mortgage lending in the UK suffered significant reductions over 2021-23. Since 2024, the number of new UK mortgage approvals has gradually increased and is now only 10% below pre-pandemic averages.

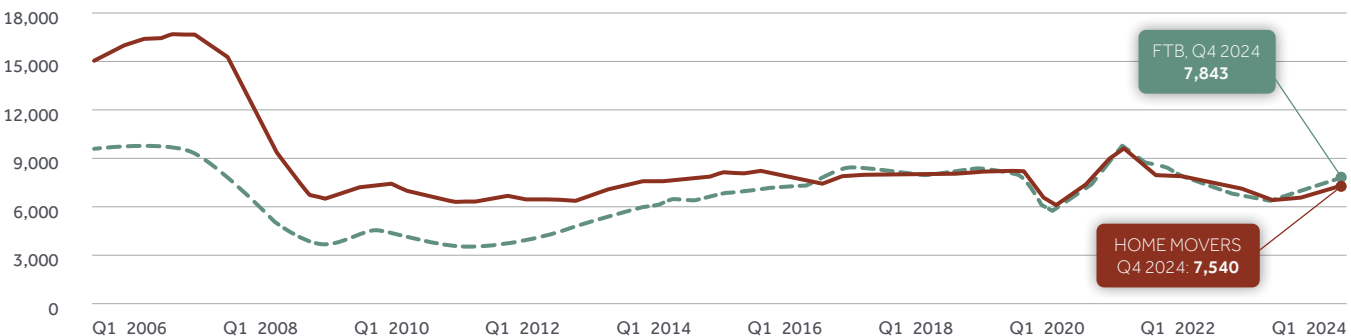
In Scotland, mortgage activity is also recovering. The latest data available from UK Finance indicates that the number of new mortgages for first time buyers and home movers increased by 22% YOY.

Figure 5: The volume of new mortgage approvals in the UK is almost back to pre-pandemic levels



Source: Bank of England & Rettie

Figure 6: The volume of new mortgage approvals is improving for both FTBs and home movers in Scotland



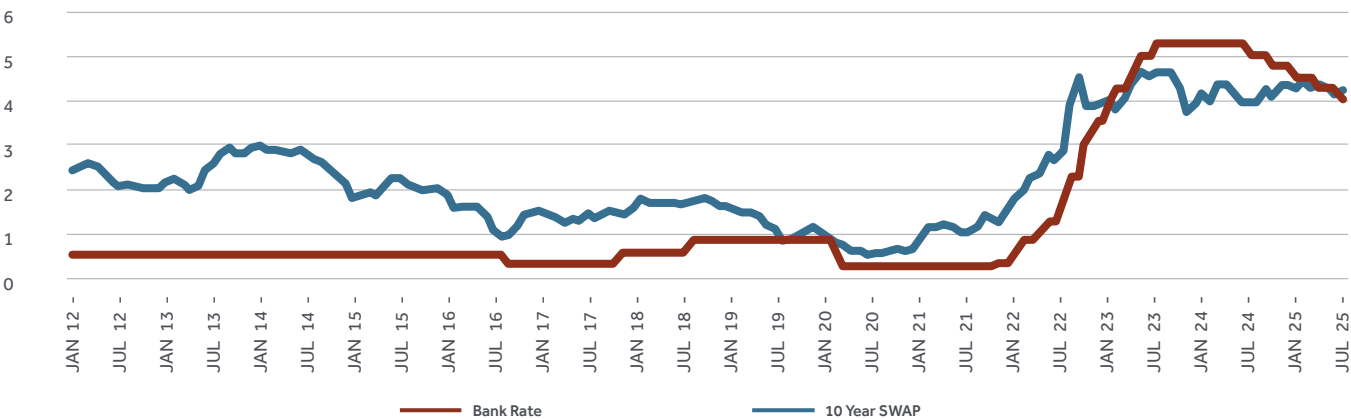
Source: Bank of England & Scottish Government

Key findings *explored.*

03. Challenges ahead.

Recent cuts to the base rate will be welcome news to most, although other factors (such as swap rates, which are the interest rates that banks charge each other for borrowing and which are then priced into products such as mortgages) will continue to impact the extent to which mortgages rates begin to fall. Many commentators expected mortgage payments to fall by more than they have following recent base rate reductions, but the average mortgage payment drifted upwards at the end of 2024. Through the first half of 2025, average mortgage payments have fallen, but future falls may be limited as the swap rate now sits above the bank rate. We can therefore expect mortgage rates to remain stubbornly high in the short term.

Figure 7: Bank of England Base Rate vs. SONIA SWAP Rates (%)



Source: Bank of England & Rettie

The main factors driving the recent reduction in the base rate were continued disinflation, lacklustre economic growth and a cooling jobs market. The future path of the base rate is dependent on consistent disinflation towards the Bank of England's target of 2%. Continuing conflict in the Middle East and a volatile trade-policy has led to heightened uncertainty around the trajectory of inflation and has led the Bank of England's Monetary Policy Committee to take a cautious approach to reducing rates over the short- to medium-term. Market expectations are that interest rates will remain around 3.5-4% for the foreseeable future, therefore some minor reductions are expected over the next year but no substantial change.

Summary of various projections from the latest Bank of England Monetary Policy Committee Report (August 2025).

-	2025 Q3	2026 Q3	2027 Q3	2028 Q3
GDP	1.2	1.3	1.5	1.7
CPI Inflation	3.8	2.7	2	2
LFS Unemployment Rate	4.8	4.9	4.8	4.8
Bank Rate	4.1	3.5	3.6	3.7

Source: Bank of England & Rettie

Conclusion.

The UK mortgage market has entered a period of cautious recovery. Falling base rates, easing mortgage costs, and government support schemes have already helped reduce the average Scottish mortgage payment to £1,057 in Q2 2025, 15% below the average rent and down from over £1,200 in late 2023. Mortgage activity is now only 10% below pre-pandemic levels, with first-time buyer volumes in Scotland up 15.7% year-on-year.

Affordability, however, remains stretched relative to long-term norms, with payments still consuming around 30–40% of average household income in Scotland's largest cities. Elevated swap rates and global uncertainty are also likely to limit the pace of further reductions in mortgage costs, with most forecasts pointing to base rates stabilising in the 3.5–4% range over the next 12 months.

Looking ahead to 2026, further modest easing in rates combined with supportive government schemes should continue to draw more buyers back into the market. First-time buyers will remain the key driver of activity, while homeowners remortgaging will need to carefully manage affordability pressures as legacy low-rate deals expire. Monitoring the interaction between swap rates, inflation trends, and government policy will be crucial in assessing how far and how fast affordability can improve.

Whether you're a first-time buyer looking to step onto the property ladder, or a homeowner preparing to remortgage, the right advice can make all the difference. At Rettie Financial Services, we're here to help you navigate the options with confidence and find the solution that works best for your circumstances.

Contact the team at:

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Rettie Financial Services

Or book a free initial mortgage consultation with one of our Mortgage & Protection Advisors.

