Rettie Financial Services Research Autumn 2026

Base Rate Eventually Responds to Market Changes.



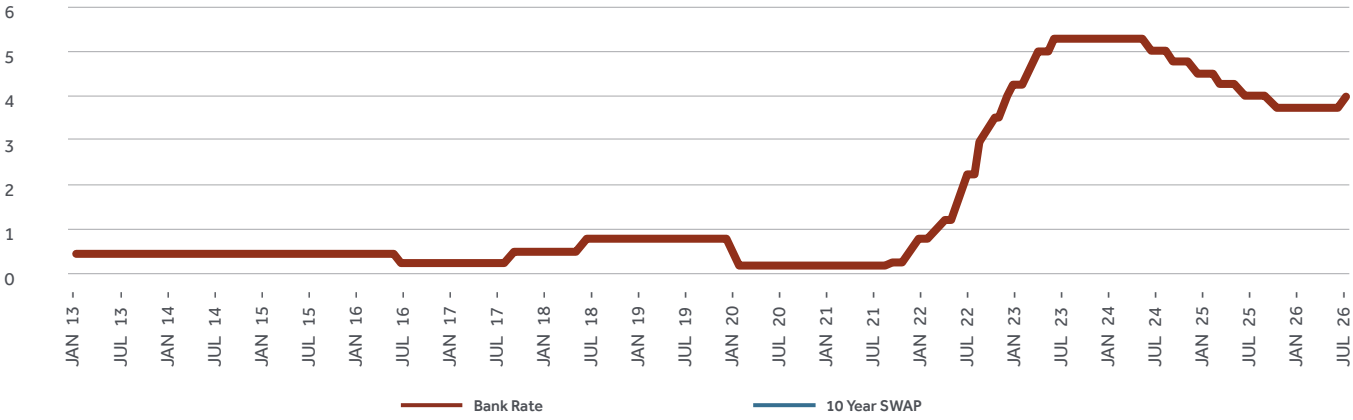
In Flux.

In our Mortgage Market Briefing from last year, we pointed to rising pressures in the UK mortgage market after a challenging spell. Although there were some signs of improving lending conditions, the market was still in flux and there was heightened political risk.

The warning on political risk was not misplaced as the US-Iran conflict from early 2026 has caused further economic volatility and rising inflation globally. The base rate increased to 4% on 5th November, after remaining at 3.75% for almost 12 months since its reduction in December 2025. Market expectations are that this rate will continue to rise, possibly by as much as another percentage point in the next year, which will likely drag up mortgage rates and act as a dampening effect on the housing market and the wider economy.

The market continues to function but appears to be slowing. House sales in Scotland in 2026 (up to September) are stable compared to the same period last year but are down c.6% in Q3. The deceleration in the market corresponds with greater uncertainty and rising financing costs, although activity is still happening and this is much more of a slowdown than a collapse.

Figure 1: UK base rates (%)



Source: Bank of England



Glasgow

Rettie Financial Services Research Report



"The findings in this briefing provide a clear reminder of the affordability pressures facing borrowers. Against that challenging backdrop, it is worth recognising that property prices across many parts of Scotland remain comparatively affordable when set against much of the rest of the UK. It is also important to remember that the housing market has continued to thrive through previous periods when interest rates were higher. Government support can help first-time buyers take their first step onto the property ladder, while home movers may have greater flexibility than the headline figures suggest - where selling prices soften, this can often be balanced by securing better value on their onward purchase, reducing the overall impact across the move.

For homeowners whose current fixed-rate mortgage deal is due to end within the next 12 months, the message is clear: seek advice early. Working with a mortgage broker who providers access to a wide range of products, can help borrowers understand their options and secure the most competitive rate available for their circumstances."

Alan Cumming
Head of Sales & Financial Services
Rettie Financial Services



"2026 has been a challenging year so far in the mortgage market due to rising rates, increasing costs and weakening affordability. The impact to date has been slight compared to the rate jumps experienced in 2022-23, but conditions do not look like improving and will likely become more challenging over the next 6-12 months.

The market has coped with steeper rises in mortgage rates and costs before and, although the outlook looks bleaker than at the time of our previous report this time last year, the housing market does remain active."

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

Key *findings*.



01. Mortgage affordability has fallen modestly.

Mortgage payments have risen since the start of the Middle East conflict. The average mortgage payment in Scotland currently stands at £1,200 per month in Q3 2026, compared to under £1,100 per month at the end of 2025. This is a small increase but the impact on sentiment and concerns about future rises are causing dampening effects on both the mortgage market and the housing market.

Despite this rise, the average mortgage payment remains below the average private rent in Scotland (by around 4%) and Scottish house sales in 2026 (up to Q3) have held on reasonably well (data from my house price / Registers of Scotland).



02. Mortgage lending has dropped back due to weakening affordability and poorer sentiment.

The number of mortgage approvals in the UK is down c.19% YoY in 2026 (up to September 2026) due to rising rates, constrained affordability and weaker market sentiment.

First-time buyers make up over half of mortgage sales in Scotland and the wider UK and are the lifeblood of the market. Government stimulus packages are there to encourage such buyers, but this will likely only slow the downturn.



03. Challenges ahead.

The longer term picture points towards gradual improvements in lending conditions, which will boost market activity, but the short to medium term signal declining mortgage affordability and lending, although government stimulus may help the market to weather the worst of the storms.

Key findings *explored.*

01. Mortgage affordability has fallen modestly.

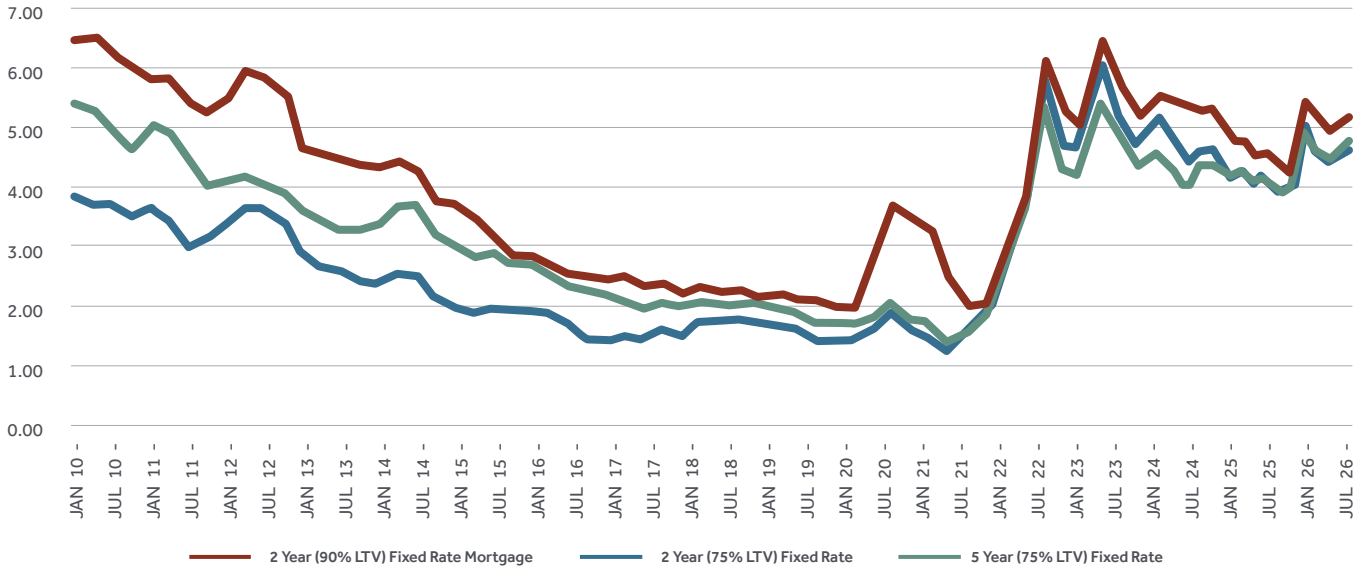
The average mortgage payment in Scotland has risen again in 2026 following a period of falling average payments from the end of 2023. Since the start of the latest Middle East conflict, mortgage rates have jumped from their three-year low. The average 2-year 85% loan to value (LTV) rate has increased from 4.4% to 5.1% over the past two quarters alone. The average mortgage payment, based on an average 2-year fixed rate mortgage, is now £1,200pcm and around £150pcm above pre-conflict levels. This is not a marked difference, but it is a change of direction and currently looks like both average rates and payments are heading upwards, although will still likely be some way off the levels experienced in 2022-23.

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 on this measure, with the average mortgage payment accounting for almost half of the average income in 2023. After falling back for a time, the average mortgage payment in the Capital is back up to 38% of the average household income in Q3 2026.

Glasgow remains at a significant discount to Edinburgh, with the average mortgage payment accounting for 27% of average household income, in line with the national average but now also on a rising trend. Affordability remains stronger in Scotland, on average, than it is in the wider UK.

The average mortgage payment in Scotland remains below the average rent, however, both have seen increases since the start of 2026. Q3 2026 has seen a further rise in the average mortgage repayment, while average rents have been more stable. The average monthly mortgage payment is currently 4% lower than the average monthly rent, which does incentivise people to buy rather than rent but the difference is now marginal.

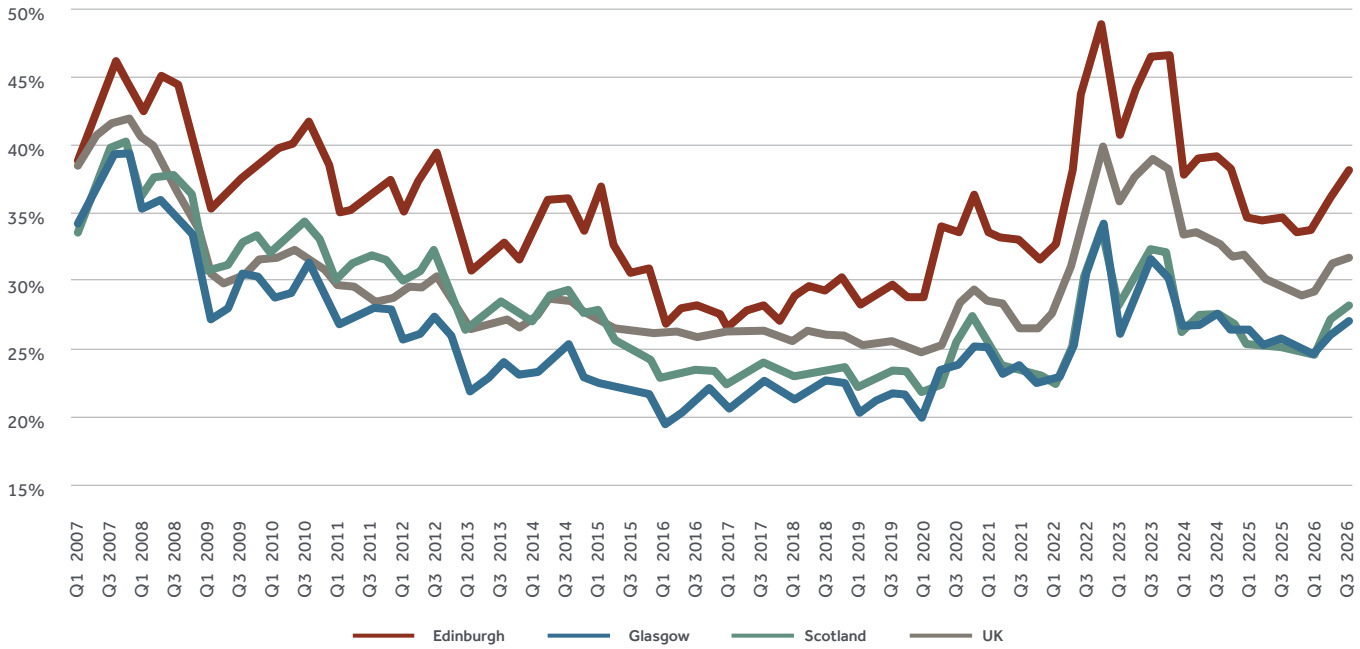
Figure 2: Mortgage rates have risen again in 2026.
Comparison of monthly interest rates across various mortgage products.



Source: Bank of England & Rettie

Figure 3: The average mortgage payment as a percentage of average household income has risen in 2026 after a period of stability but Scotland remains affordable in a UK context.

% of Gross Household Income of Mortgage Payment on Average Property.



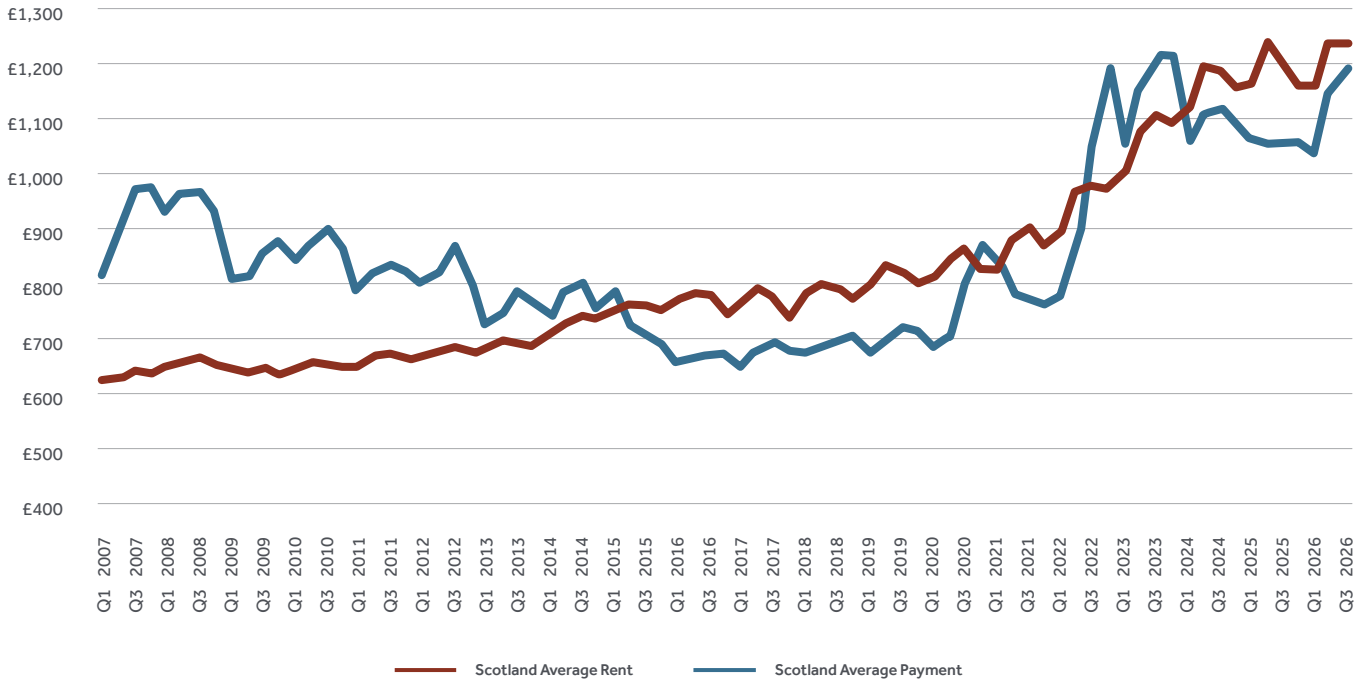
Source: Bank of England / Rettie / My House Price / City Lets



Edinburgh

Figure 4: Both average rents and average mortgage payments have risen in 2026 but average mortgage payments remain lower.

Scottish Average Rent vs Average Mortgage Payment.



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



Glasgow

Key findings *explored.*

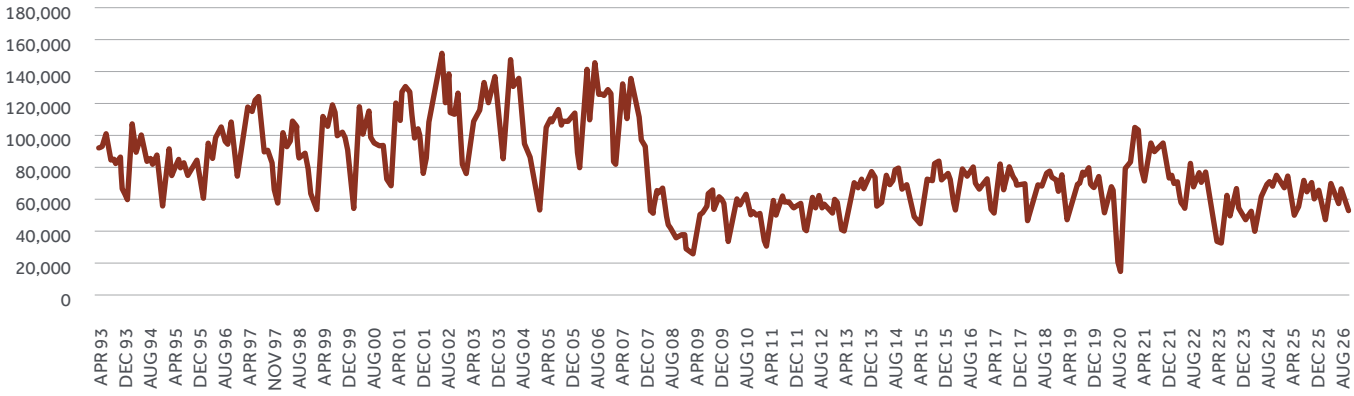
02. Mortgage lending has dropped back due to weakening affordability and poorer sentiment.

Mortgage lending in the UK has also been impacted by the Middle East conflict. In 2026 to September, the number of mortgage approvals is down 19% on the same period last year (Sep 2025 compared to Sep 2026).

In Scotland, data from UK Finance indicates that the number of new mortgages for first-time buyers (FTBs) increased by 2.7% in the last 12 months ending in June 2026. This reflects a decelerating growth rate from the previous year, when FTB mortgage approvals rose by 15.5%. Nevertheless, FTBs still account for over half of all mortgage approvals, reflecting their importance in both the mortgage market and the housing market. It is expected that the number of approvals in Scotland for both FTBs and home movers will decline over the rest of 2026.

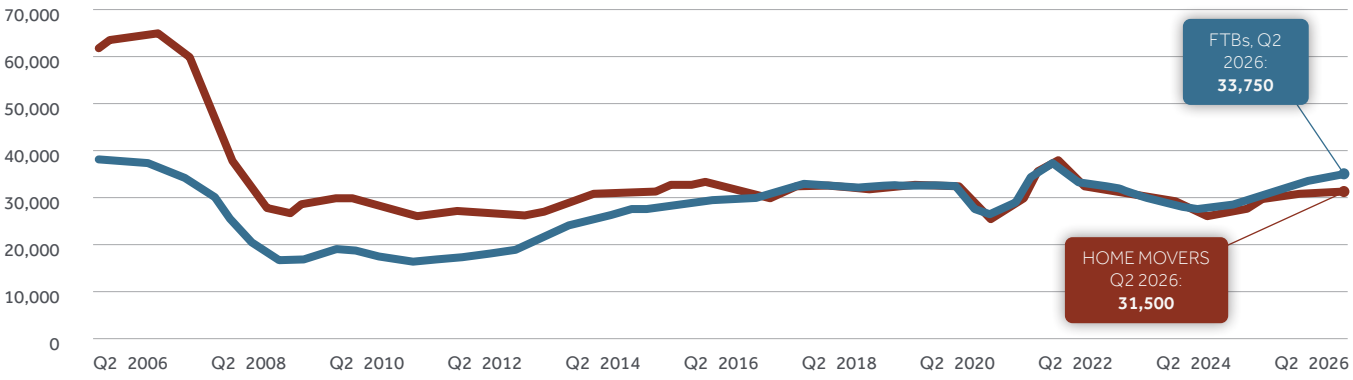
Figure 5: The volume of new mortgage approvals in the UK has fallen back in 2026.

Monthly Mortgage Approvals.



Source: Bank of England & Rettie

Figure 6: Volume of mortgage approvals for FTBs and home movers in Scotland.



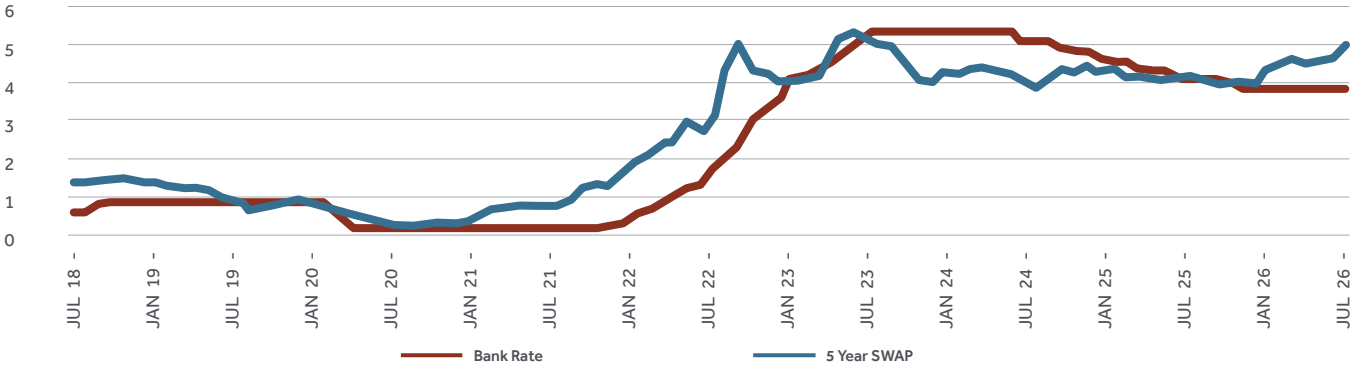
Source: Scottish Government & UK Finance

Key findings *explored.*

03. Challenges ahead.

The recent increase in the base rate to 4% was anticipated, marking the first-rate hike by the Bank of England since 2023. Swap rates (which are the interest rates that banks charge each other for borrowing and then priced into products such as mortgages) are continuing to rise and sit above the base rate by a full percentage point. It is therefore generally expected that the base rate will rise further over the next 6-12 months.

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



Source: Bank of England / www.investing.com

The Bank of England's Monetary Policy Committee (MPC) has an inflation target of 2%, with the current rate comfortably above this at 3.5%. However, the MPC also has to take account of the UK's low level of economic growth and cooling jobs market, and the fact that there are no clear 'second order' effects of price spikes in the energy sector feeding through into wages and general goods and services as yet.

The recent MPC meeting in November voted to increase the base rate by 25 basis points in an 8:1 vote, with the dissenting vote suggesting a 50-basis point increase. Market expectations are that the base rate will rise further and remain higher for the foreseeable future. There has been a distinctive hawkish shift in the MPC compared to the previous vote in September, suggesting future bank rate rises are now more likely.

Figure 8: Summary of central projections from the latest Bank of England MPC Report (Nov 2026).

	2026 Q4	2027 Q4	2028 Q4	2029 Q4
GDP	2.2%	1.0%	1.4%	1.6%
CPI Inflation	3.8%	4.0%	2.0%	1.8%
LFS Unemployment Rate	4.8%	5.0%	5.1%	5.0%
Bank Rate	3.9%	4.9%	4.9%	4.7%

Source: Bank of England

Conclusion.

The UK mortgage market is now out of its period of cautious recovery that had brought down mortgage rates and costs. There has been a reversal in 2026 as a direct result of the Middle East conflict, which is beginning to have material impacts on housing and mortgage markets.

Mortgage affordability is more stretched relative to long-term norms, with payments consuming around 27–38% of average household income in Scotland's largest cities. Elevated swap rates and global uncertainty will likely see a rise in average mortgage costs over the next 6-12 months at least. Supportive government schemes could draw more buyers back into the market, including the Scottish Government's recently launched First Homes Fund and the UK Government's extension of Help to Buy (Your First Home), although the latter will be for new build only. The relaxation of mortgage borrowing rules by the Financial Policy Committee of the Bank of England last year has also enabled more first-time buyers to borrow at higher levels and these may be relaxed further. First-time buyers remain the key driver of activity (accounting for over half of all mortgage sales), while homeowners remortgaging will need to manage affordability pressures carefully as legacy low-rate deals expire.

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Monitoring the interaction between swap rates, inflation trends and government policy will be crucial in assessing how far and how fast affordability will be impacted. Whether you are 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 are here to help you navigate the options with confidence and find the solution that works best for your circumstances.

Book a free, initial, no obligation mortgage consultation with one of our Mortgage & Protection Advisors.

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