

EBS DKM IRISH HOUSING AFFORDABILITY INDEX

July 2017

The EBS DKM Affordability Index is a measure of the proportion of after tax income required to meet the first year's mortgage repayments for an 'average' first-time buyer (FTB) working couple, each on average earnings. It takes into account, not just property prices, but mortgage rates, mortgage interest relief and disposable incomes for the average FTB working couple in Dublin, outside Dublin and across the State. Note: There have been major revisions to the measure of affordability following publication of the more comprehensive Residential Property Price Index by the CSO in September 2016 which now includes all cash and mortgage based transactions. As a result, figures reported back to 2005 may differ from those reported in previous publications. Please see the notes on the back page for the main methodological changes.

The logo for DKM Economic Consultants, featuring the letters 'DKM' in a dark red, serif font, with a stylized blue and red wave graphic to the right. Below 'DKM' are the words 'ECONOMIC CONSULTANTS' in a smaller, blue, sans-serif font.

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KEY MESSAGES

- ✓ WE are now halfway through 2017 and housing supply continues to be one of the most contentious issues in the Irish economy. The Central Statistics Office (CSO) recently published housing data collected in Census 2016 which indicates that, in the five years since the previous census, housing stock grew by just under 9,000 units. According to data from Department of Housing, Planning, Community and Local Government some 50,000 units were completed between 2011 and 2016.
- ✓ The issues surrounding housing supply are having a knock-on effect on affordability for first time buyers (FTBs). It is now over two years since the Central Bank of Ireland introduced loan-to-value (LTV) and loan-to-income (LTI) ratios in order to create some transparency and certainty in the market. In that time a definite deterioration in affordability has become apparent across all regions of the State, however much of this deterioration can be linked to the lack of housing supply in the market.
- ✓ In late 2016 the Central Bank introduced amendments to the macroprudential rules. First time buyers (FTBs) can now borrow up to 90 per cent of the value of the house, regardless of the value while the LTI ratio remains unchanged. FTBs are also benefiting from the Government's Help to Buy scheme which was introduced as part of Budget 2017. The incentive, which applies to new build purchases and self builds, takes the form of a rebate of income tax paid over the previous four years, was primarily introduced to encourage house building in the economy.
- ✓ While the Help to Buy scheme has only been in operation for seven months there are indications, among other factors, that it and the Central Bank measures are already having an impact on FTBs. In May 2015 the proportion of disposable income required to fund a mortgage for the average FTB working couple was 18.7 per cent. This has now increased to 21.2 per cent in May 2017 and is forecast to increase further through the remainder of 2017.
- ✓ The FTB working couple is particularly constrained if they wish to purchase their first home in the capital. In May 2017 the average FTB property price in Dublin was €336,914, implying an average mortgage of €269,531, assuming an 80 per cent LTV ratio. FTBs purchasing in Dublin were paying 27.4 per cent of their net income to service their mortgage, compared to 25.5 per cent 12 months previous. It is estimated that this will increase to approximately 29 per cent by December 2017.
- ✓ Single FTBs are the most impacted in the market. In calculating the affordability index we assume that single FTBs earn one and a half times the average income. Based on this assumption, the average single FTB was paying 32.2 per cent of their net income on their monthly mortgage repayments in May. Considering that a sustainable rate of



KEY MESSAGES CONTINUED

mortgage repayment is approximately 38 per cent of net income affordability continues to be a real challenge for FTBs in this category.

- ✓ The disequilibrium between housing supply and housing demand is evident in the CSO's Residential Property Price Index. In May, the Index, which now includes all cash and mortgage based sales, continued on a persistent upward path registering growth of 11.9 per cent in the year. While house price pressures have been evident for a long time in Dublin (with growth of 11.2 per cent in the year to May 2017), difficulties are becoming more apparent in the rest of the country with growth of 12.8 per cent recorded in the same period.
- ✓ An assessment of housing affordability by county reveals significant differences across the country. Estimates, based on transaction prices, reveal that Dublin and its commuter belt are the least

affordable areas for FTBs. Within Dublin, Dún Laoghaire-Rathdown is the least affordable area with FTB working couples paying 35.8 per cent of their net income in monthly mortgage repayments. A single FTB buying in the same area would pay over half (53.6%) of their net income in repayments.

- ✓ Across the country, at least 10 per cent of the FTBs' net income, whether single or in a couple, is now required to service monthly repayments on a mortgage. For both the FTB working couple and FTB single person the most affordable counties are now Longford, Offaly and Leitrim.

EASING OF CENTRAL BANK RESTRICTIONS SEES FIRST TIME BUYER DEMAND SURGE AHEAD

The Central Bank of Ireland revised their macroprudential rules in late 2016. The review, which was based on extensive analytical work and public consultation, identified a number of refinements to improve the effectiveness and sustainability of the measures:

- ✓ The ceiling on the loan to value (LTV) ratio for all first time buyers will be set at 90 per cent. This was a shift from the initial requirements, which put the ceiling at 90 per cent for loans up to €220,000 but at 80 per cent for the balance of loans above that threshold. This alteration means that all first time buyers will be in a position to borrow up to 90 per cent of the value of the home regardless of its value.
- ✓ The Central Bank decided to hold steady on their loan-to-income ratio of 3.5 times salary.
- ✓ The current two-month valuation period was also extended to four months in recognition of the fact that housing transactions rarely conclude in this timeframe.

While the Central Bank rules have been introduced to account for the demand side of the market, the supply side of the market is only now beginning to show signs of recovery. In particular, from an affordability perspective, house prices have continued to increase in recent months. Indeed CSO data on residential house prices indicated a surge in house prices in February 2017, one month after the Central Bank introduced changes to its macroprudential policy. In the year to May 2017, residential prices rose nationally by 11.9 per cent. This compares to an annual increase in April of 10 per cent. A similar escalation occurred in the Dublin market with residential prices increasing by 11.2 per cent in the year to May compared to a rise of 7.7 per cent in the year to April 2017.



SIGNIFICANT INCREASE IN FTB MORTGAGE APPROVALS AND DRAWDOWNS ON FOOT OF THE GOVERNMENT'S HELP TO BUY SCHEME

As part of Budget 2017, the Government introduced a detailed package of fiscal measures in a bid to restore a properly functioning housing market. The Help to Buy incentive, which is only applicable to FTBs, is designed to help new buyers gather the deposit required under the Central Bank's macroprudential rules (as they existed prior to January 2017).

Under this scheme, which is expected to run through to the end of 2019, a maximum rebate of €20,000 is available for qualifying applicants, for all new houses that are valued at a maximum of €500,000. When the measure was initially introduced in late 2016 the rebate was available for houses valued up to a maximum of €600,000 - this cap applied to all new houses purchased between 19 July 2016 and 31 December 2016. The maximum house price was later revised down to €500,000 as of 1 January 2017.

Under both the Central Bank rules and the Government's initiative, a FTB wishing to purchase a home valued at €400,000 at 90 per cent LTV will require a deposit of €40,000 with potentially up to half of this coming from the Help to Buy scheme (in the event that the maximum €20,000 rebate is received).

In a situation where the FTB couple had already saved the €40,000 for a new build purchase, they will now have a €60,000 deposit, including the Help to Buy rebate (in the event that they receive the maximum €20,000 rebate), but will be restricted to purchasing a property valued at €500,000 or lower.

In the first seven months of the scheme some 5,242 applications had been approved with a further 2,764 applications pending approval¹. Of the applications that had been approved, a total of 2,652 had been claimed. The Banking and Payments Federation Ireland (BPF) recently released data for the first four months of the year which shows that FTB mortgage approvals (in volumes) grew by 19 per cent year on year.

There was also a significant increase in the value of FTB approval activity with the value of mortgage approvals increasing by 25.8 per cent, year-on-year. These figures are somewhat subdued compared to data released in March which indicated year-on-year growth of 69.2 per cent in the number of FTB approvals and 93.1 per cent in the value of FTB approvals. FTBs also continue to drive market expansion with regard to the levels of drawdowns in the year to Q1 2017. FTB mortgage drawdowns rose year-on-year by 27.5 per cent in volume terms and by 39.5 per cent in value terms.

In the last edition of the Affordability Index we highlighted that this policy would only have a positive impact on affordability provided it is accompanied by an increase in new house building. Until such time it is difficult to identify the impact from such a scheme, particularly in light of the revisions to the macroprudential policy made by the Central Bank in recent months. It should be noted that the Help to Buy scheme is currently under review by the Government and may be phased out prior to the end of 2019.

1. <http://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/help-to-buy-stats.pdf>

2. The Central Bank of Ireland increased the loan to value ratio for first time buyers from 80 per cent to 90 per cent in November 2016. An 80 per cent LTV ratio is maintained in our calculations. Our survey period covers the first five months of 2017 and so it is assumed that, at the time of writing, the new LTV of 90% was not fully implemented by banks. The LTV ratio will be reviewed and/or revised in future editions.



AN UPWARD TREND IS BEGINNING TO EMERGE IN HOUSING AFFORDABILITY

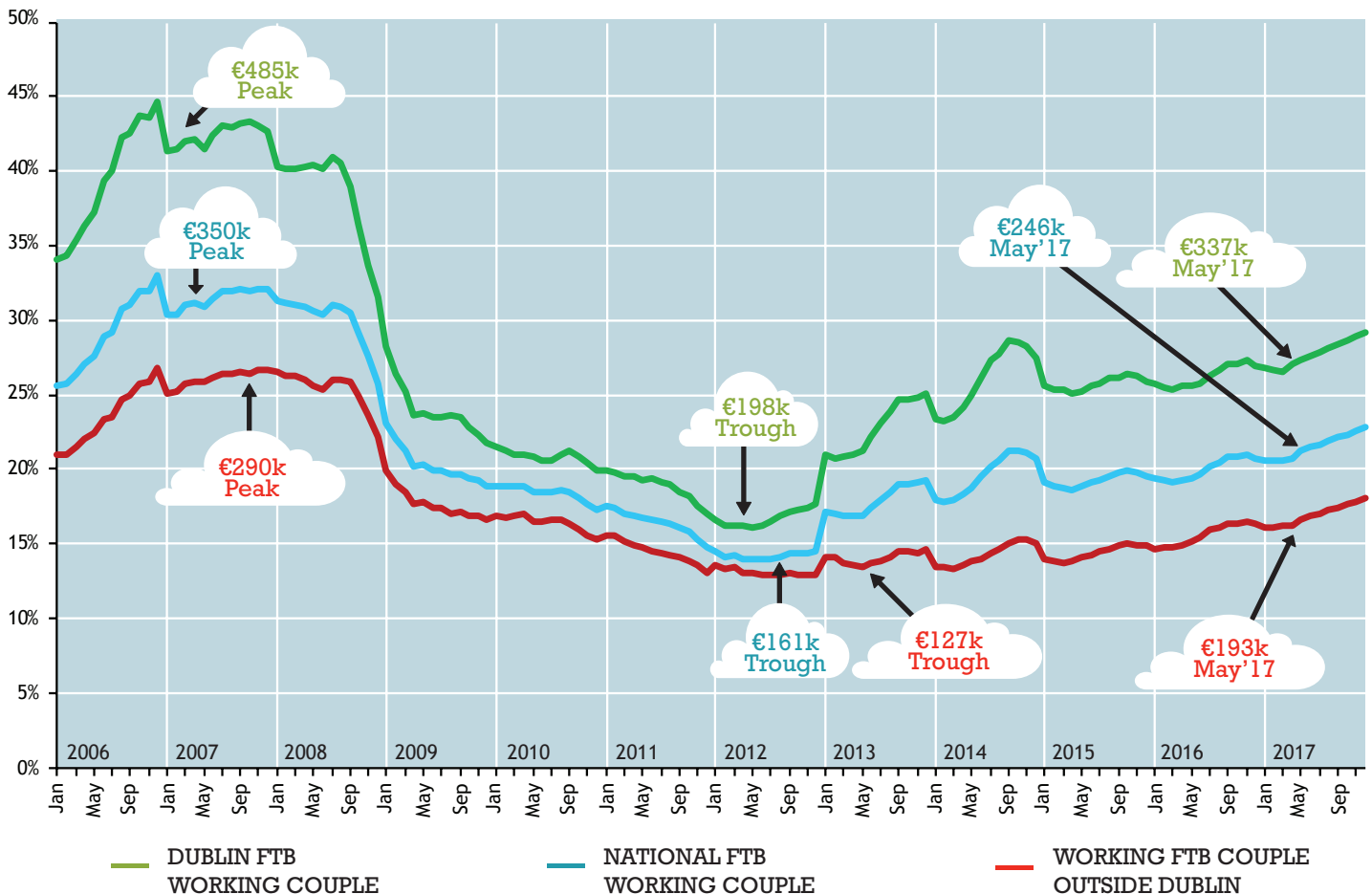
Affordability refers to the potential buyer’s ability to fund a mortgage. Based on this the influencing factors on affordability are mortgage rates, disposable incomes, property prices and the LTV rate². The various scenarios shown for the EBS-DKM Affordability Index are based on a working single FTB and a working FTB couple, each on average earnings, borrowing 80 per cent of the average FTB property price since

January 2015. Recent trends in the Index are set out in Figure 1 and Table 1 below.

The average variable mortgage rate assumed in this assessment, is a weighted average of the variable mortgage rates offered by the main financial institutions to FTBs and is estimated to be 4.1 per cent since January 2017.

FIGURE 1: EBS DKM HOUSING AFFORDABILITY INDEX

The proportion of net income required by a FTB working couple to fund mortgage repayments on the ‘average’ FTB property for a FTB working couple January 2006-May 2017 with projections to December 2017



Note: There have been major revisions to the measure of affordability following publication of the more comprehensive Residential Property Price Index by the CSO in September 2016. The Index now includes all cash and mortgage based transactions. As a result, figures reported back to 2005 may differ from those reported in previous publications. Please see the notes on the back page for the main methodological changes.

TABLE 1: EBS DKM HOUSING AFFORDABILITY INDEX – AFFORDABILITY TRENDS

DECEMBER 2007 TO MAY 2017 WITH PROJECTIONS TO DECEMBER 2017

	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14	Dec 15	Dec 16	May 17	**June 17	**Sep 17	**Dec 17
Average Market Mortgage Rate	5.37%	4.80%	3.32%	4.02%	4.24%	4.33%	4.48%	4.40%	4.15%	4.15%	4.10%	4.10%	4.10%	4.10%

NATIONAL WORKING FTB COUPLE - each on average earnings

Monthly Repayments (€)	1,637	1,341	937	849	705	683	903	979	947	1023	1059	1070	1103	1138
As % of Net Income	32.0%	25.8%	18.8%	17.3%	14.8%	14.4%	19.3%	20.6%	19.6%	20.7%	21.2%	21.5%	22.1%	22.1%
Ave. House Price (000s)	344.8	298.3	243.9	209.3	170.7	164.4	178.9	209.4	218.5	235.9	245.7	248.2	256.0	264.0
Deposit (before tax rebate)										47,173	49,132	49,640	51,195	52,798
Deposit (after tax rebate)										35,379	36,849	37,230	38,396	39,599

DUBLIN FTB WORKING COUPLE - each on average earnings* 10%

Monthly Repayments	2,320	1,743	1,147	1,036	860	884	1,247	1,383	1,334	1,412	1,452	1,466	1,507	1,550
As % of Net Income	42.7%	31.5%	21.5%	19.9%	17.0%	17.6%	25.1%	27.5%	25.9%	26.9%	27.4%	27.6%	28.4%	29.2%
Ave. House Price (000s)	468.6	387.8	298.7	255.4	208.3	212.6	247.0	295.9	307.6	325.7	336.9	340.1	349.7	359.6
Deposit (before tax rebate)										65,150	67,383	68,012	69,934	71,910
Deposit (after tax rebate)										48,862	50,537	51,009	52,450	53,933

REST OF COUNTRY FTB WORKING COUPLE - each on average earnings

Monthly Repayments (€)	1,365	1,151	827	749	619	610	682	713	718	796	831	841	870	901
As % of Net Income	26.7%	22.1%	16.6%	15.3%	13.0%	12.9%	14.6%	15.0%	14.8%	16.4%	16.7%	16.9%	17.4%	18.0%
Ave. House Price (000s)	289.5	256.0	215.4	184.6	149.9	136.0	135.1	152.6	165.7	183.6	192.7	195.0	201.9	209.0
Deposit (before tax rebate)										36,724	38,548	38,548	40,379	41,808
Deposit (after tax rebate)										27,543	28,911	29,248	30,284	31,356

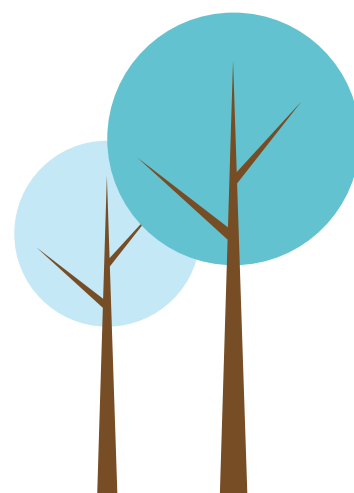
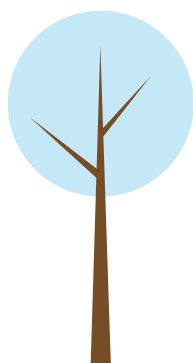
NATIONAL SINGLE PERSON FTB - on average earnings* 150%

Monthly Repayments (€)	1,770	1,389	937	849	705	683	903	979	947	1023	1059	1070	1103	1138
As % of Net Income	52.1%	40.3%	28.8%	26.5%	22.7%	22.1%	29.6%	31.5%	29.8%	31.5%	32.2%	32.5%	33.5%	34.5%
Ave. House Price (000s)	344.8	298.3	243.9	209.3	170.7	164.4	178.9	209.4	218.5	235.9	245.7	248.2	256.0	264.0
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*Assumes tax rebate of 5% of purchasing price.

**Estimate



AFFORDABILITY FOR FTB WORKING COUPLES – NATIONAL TRENDS: *21.2% OF NET INCOME*

In recent months there has been a noticeable upward trend in housing affordability for FTBs. In the two years since the Central Bank introduced the LTV and LTI ratios, the average FTB house price has increased from €208,366 to €245,662. This represents an increase of 18 per cent in 24 months. In the same period, average disposable incomes rose at a much more subdued rate of 3 per cent.

The most recent data available for May 2017 indicates that some 21.2 per cent of net income is currently required to fund a mortgage. This compares to 19.4 per cent 12 months previously and 13.9 per cent in mid-2012. Although properties are becoming less affordable, the percentage of income going towards

mortgage repayments is still some way off where the market was at the peak of the housing bubble. At the height of the boom, in late 2006 and early 2007, approximately 32 per cent of net income was required to fund a mortgage.

The average FTB property price is estimated to increase to €263,992 by December 2017. Assuming an 80 per cent LTV ratio this implies an average mortgage of €211,194. Based on these forecasts, the corresponding average monthly mortgage repayment will be €1,138 which compares to an average monthly rent nationwide in Q1 2017 of €1,131 (Daft.ie Rental Report Q1 2017).



AFFORDABILITY FOR FTB WORKING COUPLES – DUBLIN TRENDS: 27.4% OF NET INCOME

Dublin property prices have been on a notable upward trend since the end of 2014. The housing market ‘bottomed out’ in the first half of 2012 and began to pick up pace from 2014 onwards. As of May 2017, the average price of a FTB house in Dublin was €336,914. In the almost five years since the trough of the market, house prices in Dublin have increased by an astonishing 70 per cent. Affordability in the capital city has undoubtedly been affected by this surge in prices. At the lowest point in the market, in April 2012, the cost of servicing a mortgage was approximately 16.2 per cent of net disposable income. In the five years to May 2017 the cost of servicing a mortgage has increased to 27.4 per cent.

Putting added pressure on Dublin FTBs is the fact that the average disposable income increased by no more than 4 per cent over the same period.

House prices are forecast to increase further and if the latest data from the CSO’s Residential Property Price Index is any indication, it may be a case that FTB property prices in Dublin could increase at a much more accelerated rate than currently anticipated. In any event, it is unlikely that incomes will increase by much more than their current rate of growth and so the knock-on effect will mean that properties are likely to become increasingly less affordable for FTBs in the Dublin market.

AFFORDABILITY FOR FTB WORKING COUPLES – NATIONAL TRENDS (EXCLUDING DUBLIN): 16.7% OF NET INCOME

The situation for the national economy, excluding Dublin, is more positive although the EBS-DKM Affordability Index shows that FTB properties have become increasingly less affordable in recent years. The recovery in FTB house prices has been much slower to take hold outside of Dublin. Positive annual average growth rates have been recorded in Dublin FTB prices since the end of 2012, however positive growth did not return to other regions until early 2014. While slow to take off, the rate of annual growth nationally, outside of Dublin, has remained robust in the last three years averaging approximately 10 per cent year-on-year.

In early 2014 the proportion of net income required to fund a mortgage for a FTB working couple was 13.5 per cent, based on an average property price of €134,127 and an average mortgage of €112,667 (assuming an 84 per cent LTV ratio). Given the current trends in the market, housing affordability looks set to deteriorate further in the coming months, reaching 18 per cent of disposable income by December 2017 - it currently stands at 16.7 per cent (assuming an 80 per cent LTV ratio).

The average property price outside of Dublin is estimated at around €192,740, approximately 57 per cent below the corresponding estimated FTB price in Dublin.



AFFORDABILITY FOR SINGLE FTBs – NATIONAL TREND ***32.2% OF NET INCOME***

The Affordability Index for May 2017 indicates that approximately 32.2 per cent of a single FTBs net income goes towards servicing a mortgage. This is based on the average FTB price of €245,662 and a corresponding mortgage of €196,530. For the purposes of this affordability analysis, a single person is assumed to earn one and a half times the average earnings which equates to €56,325 as of May 2017 and to borrow 80 per cent of the property value. While this level is below the margin of what is considered, as a general rule of thumb, to be a sustainable mortgage for a single person, equivalent to around 38 per cent of net income (30 per cent of gross income) affordability continues to be a real challenge for single FTBs.

Affordability for single FTBs peaked in late 2007 at 52.2 per cent of disposable income before falling, in line with house prices, to just over 20 per cent in mid-2012. Since then affordability has worsened and rose to almost 33 per cent in 2014 before improving marginally to its current level. With increased pressure on house prices, affordability is expected to deteriorate in the coming months to 34.5 per cent by December 2017, at which time the average FTB house price is projected to be €263,992.

INCOMES – AVERAGE WEEKLY EARNINGS

Preliminary Earnings and Labour Costs data from the CSO indicates that average weekly earnings in the economy increased by 1.4 per cent year-on-year in the first quarter of 2017. Based on the assumptions used for ascertaining affordability, the average working couple who started out with joint earnings of almost €71,000 in 2005 have seen their gross earnings

increase by approximately 6 per cent over the 12 years. While earnings improved in the two quarters since Q3 2016 the rate of growth is lower than the rate of inflation seen in other aspects of the economy, in particular in the rental market, and this is having a knock-on effect on overall affordability.



FIGURE 2: RESIDENTIAL PROPERTY PRICE TO GROSS DISPOSABLE INCOME RATIO FOR FIRST-TIME BUYERS

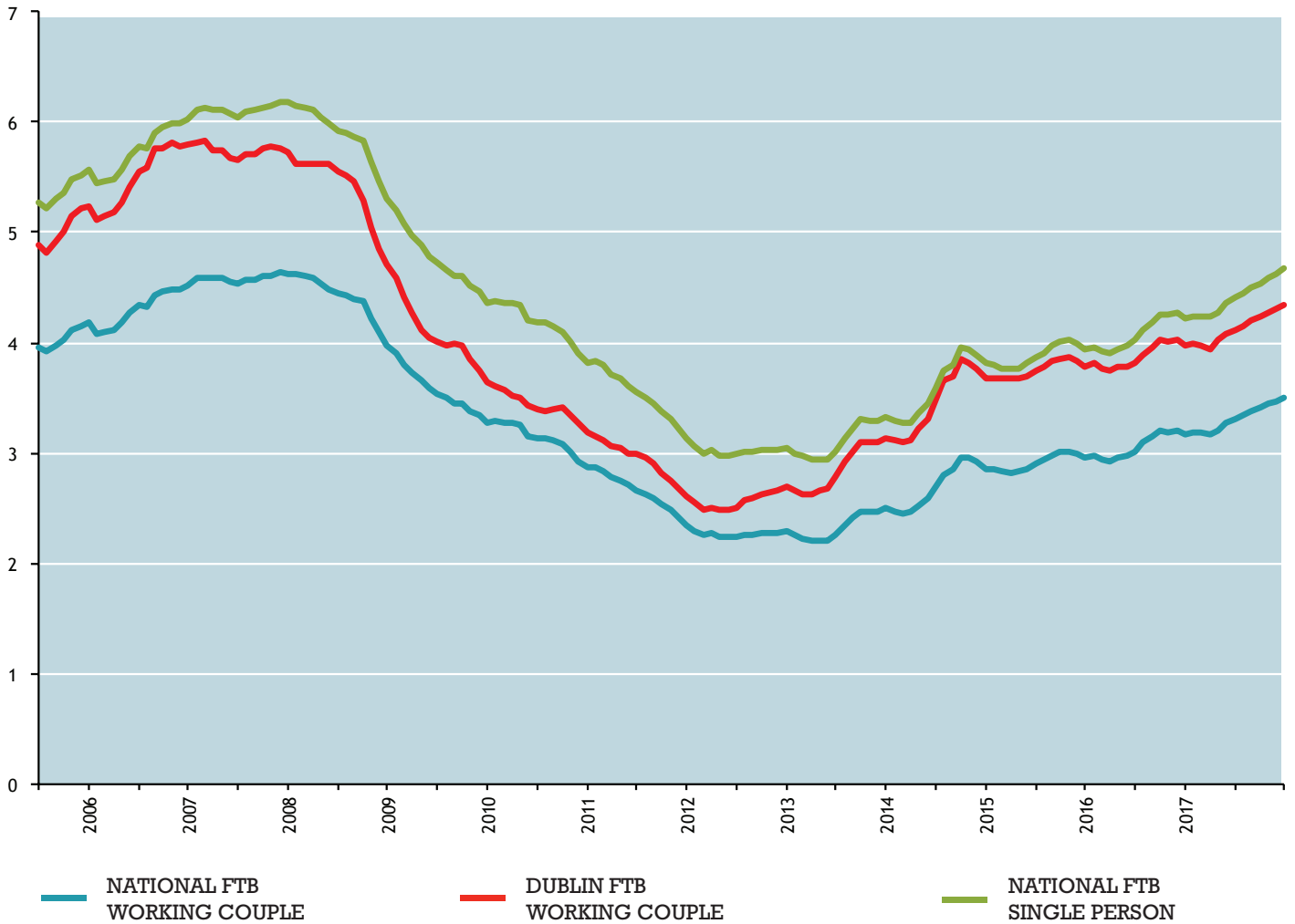
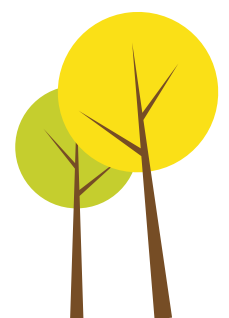
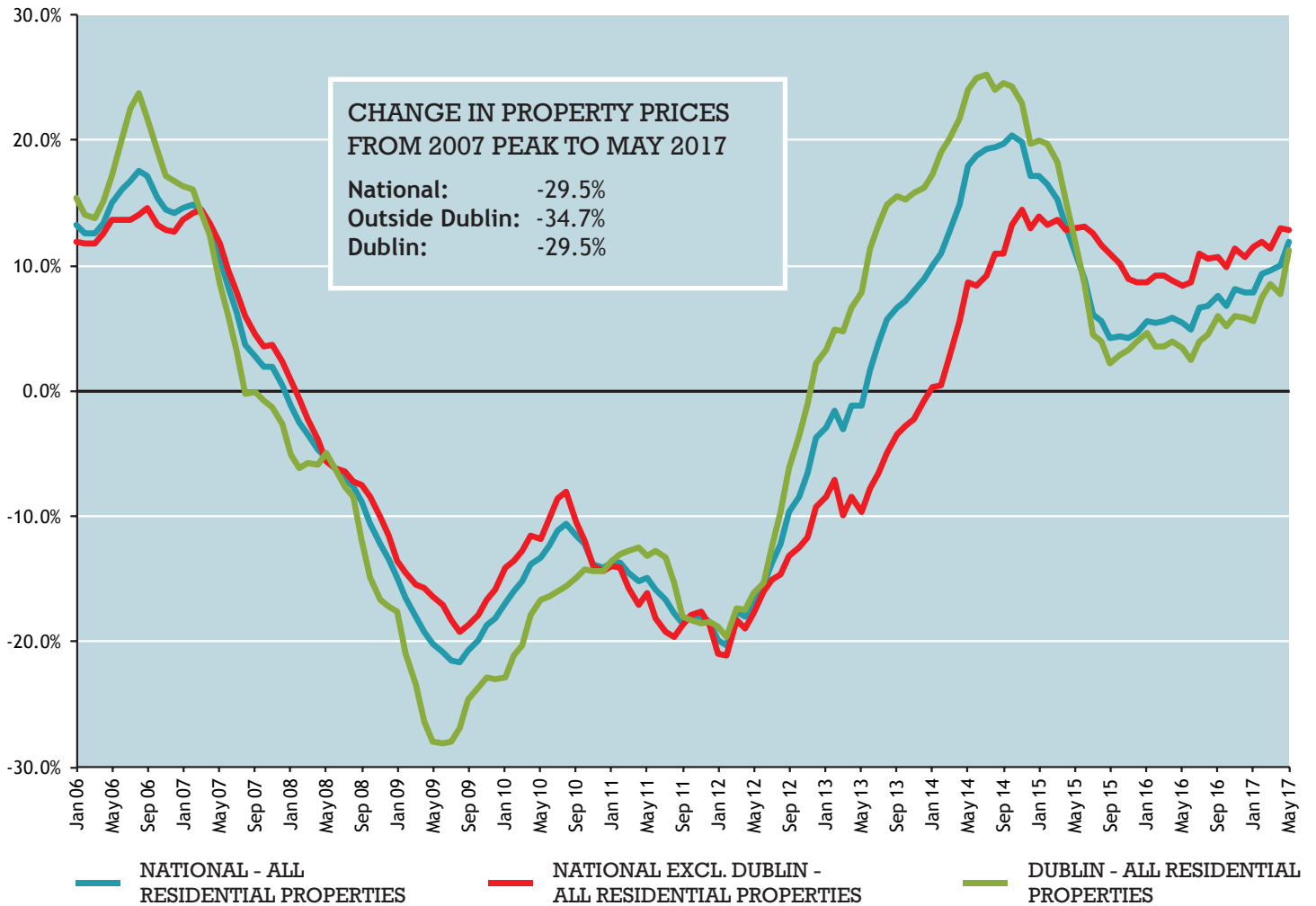


FIGURE 3: YEAR-ON-YEAR CHANGE IN RESIDENTIAL PROPERTY PRICES (%)



MORTGAGE MARKET RATES: *ESTIMATED AT 4.1 PER CENT SINCE JANUARY 2017*

The average mortgage interest rate is a key input in our calculations of affordability and is based on a review of the lending rates provided by mortgage lending institutions. It is estimated that the average standard variable mortgage rate is 4.1 per cent for a loan to value ratio of 80 per cent.

These estimates are held constant through the end of 2017.

REGIONAL AND COUNTY AFFORDABILITY ANALYSIS

As per previous issues we also present an up to date analysis of housing affordability by county. The analysis utilises the average transactions price from the CSO and an estimate for disposable income per working couple by county, to ascertain mortgage repayments as a percentage of net income for a FTB working couple. The average property price used is based on transactions in each county according to the PPR up to May 2017. Estimates for housing affordability are based on a LTV of 80 per cent, an average variable mortgage rate of 4.1 per cent and a mortgage term of 25 years.

The average annual earnings for the State, according to the CSO Earnings, Hours and Employment Costs Survey (EHECS) were €36,836 in 2016 or €73,671 for a FTB working couple on average earnings. The analysis assumes that a single person earns one and

a half times average earnings i.e. €55,254. Income data, based on County Income data published by the CSO (latest data 2014), is then used to derive the corresponding figure for each county. The 2014 relatives are assumed to remain unchanged up to 2016 although significant differentials are evident in the year between some counties and the national average. For example, the total income per person is 18.2 per cent higher in Dublin compared to the national average. Conversely, average earnings in Donegal, Monaghan and Roscommon are 26.7, 18.5 and 17.2 per cent respectively below the national average.

It is stressed that this exercise is for illustrative purposes only to provide an indication of the relative differences in housing affordability across the country at a single point in time.



KEY TRENDS IN AFFORDABILITY BY COUNTY AND REGION

The results are set out in the following chart and show counties ranked from the least affordable to the most affordable.

- ✓ Nationally, the average FTB working couple is paying 21.5 per cent of their disposable income in mortgage repayments on a mortgage worth €196,530.
- ✓ Dublin represents the least affordable county with the FTB couple required to pay 26.4 per cent of their net income in servicing their mortgage. Within the Dublin region the least affordable council area is Dún Laoghaire-Rathdown with a couple paying 35.8 per cent of their income serving a mortgage to the value of €365,142. Of the four Dublin City Councils, the most affordable area is Fingal where the FTB couple is required to allocate 24.0 per cent of their net income to servicing a €245,114 mortgage.
- ✓ Across the country, FTB couples in only one county are paying less than 10 per cent of their net income in monthly mortgage repayments -Longford at 9.9 per cent.
- ✓ Two key commuting counties, Kildare and Wicklow, follow Dublin in terms of affordability for FTBs. Couples wishing to buy their first properties in these counties pay 23.2 per cent and 24.7 per cent (respectively) of their income in servicing monthly repayments.
- ✓ In terms of average house prices, the largest year-on-year increase occurred in the West and South-

East³ regions where prices increased by 18.2 per cent and 18.6 per cent respectively in the year to May 2017. In May 2016, both regions registered year-on-year growth of just 8.1 per cent (West region) and 3.9 per cent (South East region).

- ✓ The lowest annual increase occurred in Fingal with average house prices increase by just 6.8 per cent in the 12 months to May 2017. This represents a substantial slowdown in the area where growth of almost 25 per cent was reported in the year to February 2015.

The situation is much more difficult nationwide for a single FTB.

- ✓ The single FTB is required to pay 32.6 per cent of their net income in monthly mortgage repayment. Of the four Dublin councils the least affordable is Dún Laoghaire-Rathdown where single FTBs will pay 53.6 per cent of their income servicing a mortgage while the same FTB will pay 36 per cent of their net income if they purchase their first property in Fingal. As already mentioned, the general rule of thumb is that a sustainable mortgage for a single person is equivalent to around 38 per cent of net income.
- ✓ Outside of Dublin, the least affordable counties for single FTBs are Kildare, Wicklow and Galway (City), where monthly mortgage repayments equate to 35.1 per cent, 37.5 per cent and 32.9 per cent of net income respectively.



3. West Region: Galway City, Galway County, Mayo and Roscommon.
South-East Region: Carlow, Kilkenny, Waterford and Tipperary.

Rising house prices, beyond Dublin and the Commuter Belt, could have serious implications for affordability.

- ✓ Longford is now the most affordable county for the FTB working couple, as detailed above. However, data presented in Table 2, which compares the value of sales to FTBs, volume of sales to FTBs and the average FTB purchase price between the first five months of 2016 and the first five months of 2017 indicate that pressures are starting to build in these counties too. The data, sourced from the CSO's Residential Property Price Index, shows clearly that the average FTB purchasing price rose considerably in the first five months of 2017 compared to the same period in 2016 (M01-M05 2016). In the first five months of 2016 a FTB paid an average €89,812 for a property in Longford. In the year to the first five months of 2017 this increased to €102,768 - an increase of 14.4 per cent.
- ✓ Similar and greater gains were also recorded in other counties. The average sale price in Carlow,

for example, rose by almost 26 per cent in the period with both the value and volume of sales increasing considerably, by 80 per cent and 40.7 per cent respectively. Kilkenny was the only county in which a decline in the average sales price was recorded between the two periods - a fall of 3 per cent.

- ✓ Beyond Dublin, a double digit growth in house price for FTBs was recorded in all other regions, ranging from 11 per cent in the Mid-East⁴ to 14.6 per cent in the South-West. The affordability for a FTB working couple on double the average income is currently 21.5 per cent (Mid-East) and 18.4 per cent (South-West) and it appears that this situation is likely to deteriorate further in the coming months if house prices and demand continue on an upward trend.

⁴ Mid-East Region: Kildare, Louth, Meath and Wicklow.
South-West Region: Cork and Kerry.



FIGURE 4: COUNTY AFFORDABILITY FOR FTB COUPLE ON AVERAGE EARNINGS, MAY 2017

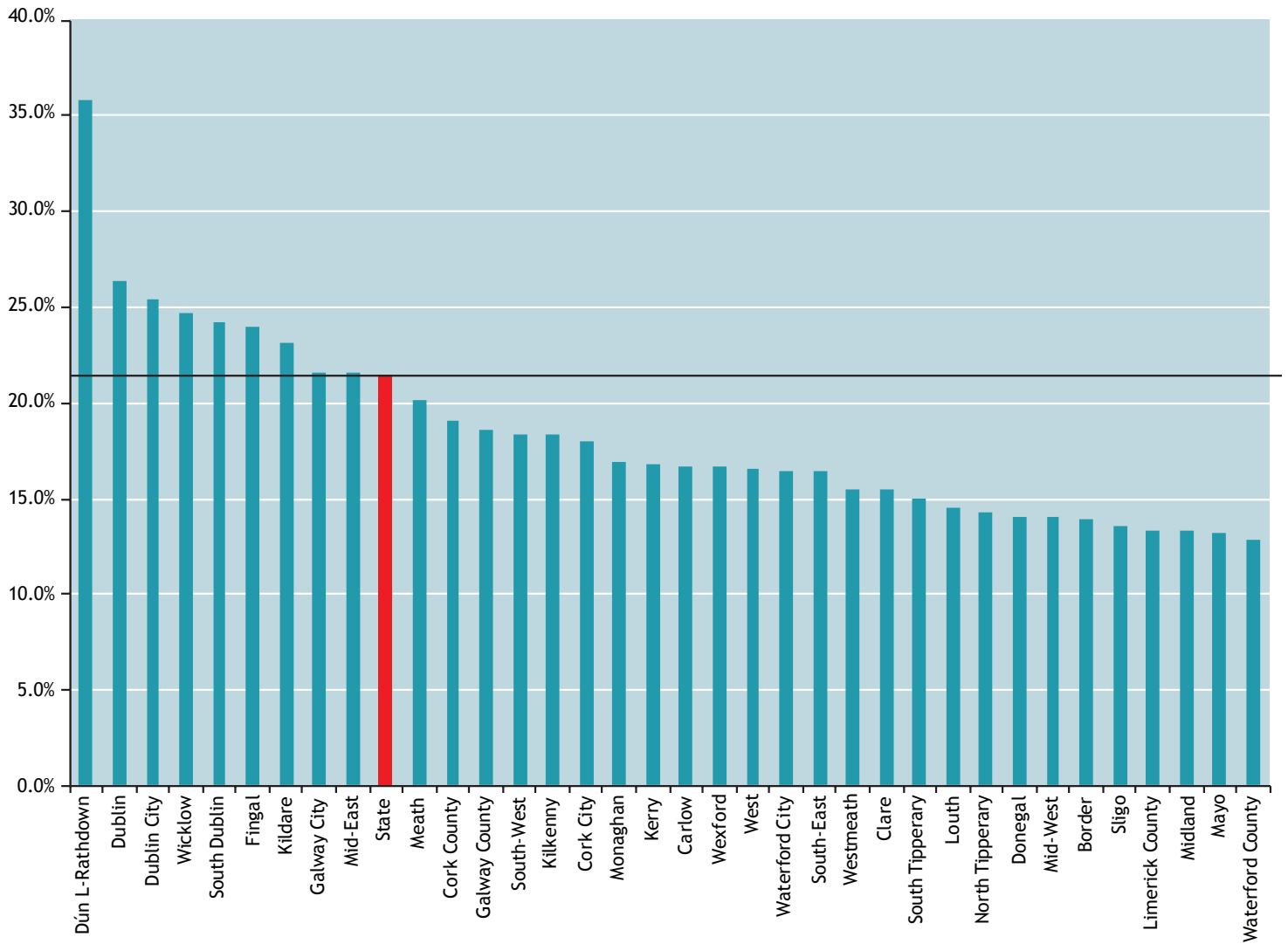


FIGURE 5: REGIONAL AFFORDABILITY FOR COUPLE ON AVERAGE EARNINGS AND SINGLE PERSON ON 1.5 TIMES AVERAGE EARNINGS, MAY 2017

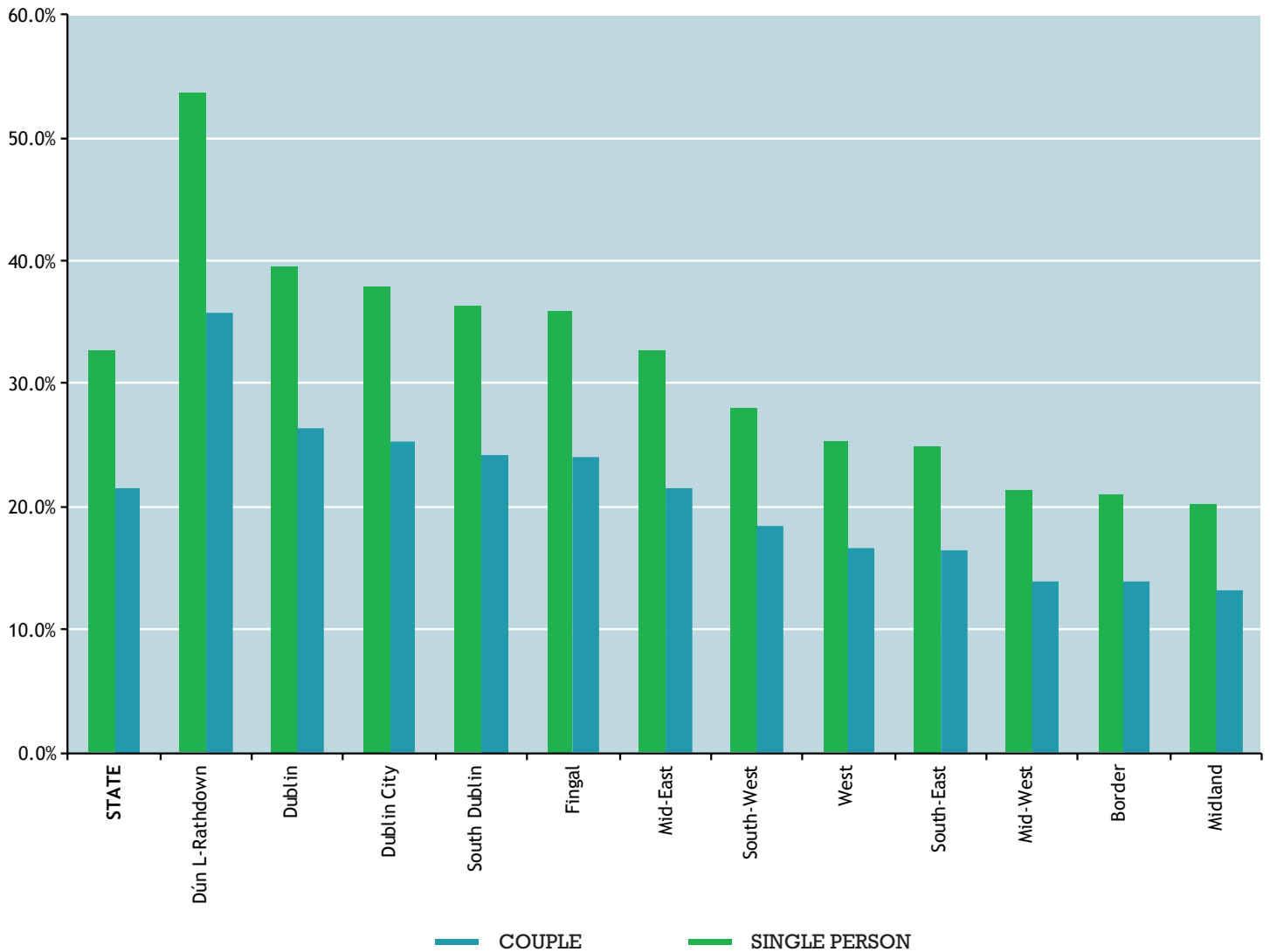


TABLE 2: REGIONAL AND COUNTY AFFORDABILITY, VALUE AND VOLUME OF PURCHASES AND AVERAGE HOUSE PRICE BY FTB, MAY 2017

Region/County	Average FTB House Price	REPAYMENTS AS % OF NET INCOME		% CHANGE IN FIRST FIVE MONTHS (YoY)		
		FTB Couple - Twice Avg. Earnings	FTB Single - 1.5 times Avg. Earnings	Volume of Sales	Value of Sales	Average House Price - FTB Owner - Occupier
STATE	245,662	21.5%	32.6%	10.0%	23.3%	12.1%
DÚN L-RATHDOWN	456,427	35.8%	53.6%	15.1%	21.7%	5.9%
DUBLIN	336,914	26.4%	39.6%	12.1%	22.2%	9.0%
DUBLIN CITY	323,670	25.4%	38.0%	15.3%	26.1%	9.4%
SOUTH DUBLIN	309,380	24.3%	36.3%	16.5%	24.2%	6.2%
FINGAL	306,392	24.0%	36.0%	2.2%	14.4%	11.2%
MID-EAST	246,725	21.5%	32.7%	15.1%	28.0%	11.0%
SOUTH-WEST	208,050	18.4%	28.0%	16.8%	33.4%	14.6%
WEST	178,038	16.6%	25.4%	8.5%	28.0%	17.5%
SOUTH-EAST	172,940	16.4%	25.0%	5.2%	18.2%	11.8%
MID-WEST	159,328	14.0%	21.3%	-2.3%	11.2%	14.1%
BORDER	138,633	13.9%	21.0%	2.9%	18.3%	14.4%
MIDLAND	137,610	13.3%	20.2%	2.2%	13.4%	12.4%
WICKLOW	282,496	24.7%	37.5%	37.1%	55.4%	14.1%
KILDARE	269,167	23.2%	35.1%	1.2%	9.0%	7.1%
GALWAY CITY	238,385	21.6%	32.9%	32.0%	27.5%	-5.4%
MEATH	227,899	20.2%	30.7%	15.8%	31.1%	13.0%
CORK COUNTY	220,851	19.1%	28.9%	15.2%	29.6%	13.9%
CORK CITY	208,090	18.0%	27.3%	39.0%	50.3%	2.3%
GALWAY COUNTY	205,109	18.6%	28.3%	20.6%	48.9%	24.9%
KILKENNY	197,000	18.3%	28.0%	2.1%	-3.8%	-3.0%
WATERFORD CITY	177,909	16.4%	25.1%	19.5%	28.6%	4.4%
CARLOW	174,708	16.7%	25.4%	40.7%	80.8%	25.7%
KERRY	170,981	16.8%	25.5%	2.2%	29.8%	24.5%
WEXFORD	169,727	16.6%	25.2%	-11.1%	9.8%	23.4%
CLARE	166,236	15.5%	23.7%	-5.7%	1.6%	9.1%
MONAGHAN	166,163	17.0%	25.5%	70.8%	91.4%	22.6%
WESTMEATH	164,056	15.5%	23.7%	1.8%	19.4%	12.5%
LIMERICK COUNTY	158,926	13.3%	20.2%	-6.3%	3.8%	16.1%
NORTH TIPPERARY	157,033	14.3%	21.9%	9.4%	29.8%	20.2%
SOUTH TIPPERARY	157,033	14.9%	22.8%	**	**	**
LOUTH	154,122	14.5%	22.1%	16.5%	25.2%	8.2%
SLIGO	147,089	13.6%	20.8%	11.4%	8.7%	1.9%
LIMERICK CITY	146,700	12.3%	18.6%	-14.3%	2.0%	17.7%
WATERFORD COUNTY	138,750	12.8%	19.6%	3.1%	17.0%	6.5%
MAYO	136,827	13.2%	20.1%	-14.9%	-3.2%	6.0%
LAOIS	134,545	12.6%	19.3%	20.0%	23.3%	3.9%
CAVAN	127,700	12.6%	19.0%	6.8%	18.3%	9.6%
DONEGAL	126,567	14.0%	20.8%	-16.7%	-10.3%	8.6%
ROSCOMMON	112,292	11.3%	17.0%	-4.1%	22.4%	33.1%
LEITRIM	109,333	10.5%	15.9%	-28.1%	0.0%	17.3%
OFFALY	102,333	10.3%	15.5%	-12.5%	-5.1%	2.0%
LONGFORD	100,222	9.9%	14.9%	-3.0%	21.4%	14.4%

Notes: House prices are the average FTB owner occupier house prices from the CSO Residential Property Price Index for May 2017.

*Percentage change between first five months of 2016 and first five months of 2017.

**CSO provides volume and value of sales for Tipperary County as a whole.

ASSUMPTIONS⁵

The assumptions underlying the calculation of housing affordability for FTBs are summarised below.

Monthly FTB Property Prices:

The house price data has been revised to incorporate the more comprehensive Residential Property Price Index published by the CSO. The latest data is for May 2017. Taking the average FTB property price in May and taking it backwards to 2005, using the monthly percentage change in the mix-adjusted Property Price National Index, generates a time series for absolute FTB prices. The time series for the average Dublin FTB property price is similarly estimated. For FTB property prices outside Dublin the weighted average property price in all regions except Dublin is derived for May 2017 and previous values are estimated using the monthly percentage change in the mix-adjusted National (excluding Dublin) Properties Index.

There have been major revisions to the measure of affordability following publication of the more comprehensive Residential Property Price Index by the CSO in September 2016. The Index now includes all cash and mortgage based transactions. As a result, figures reported back to 2005 may differ from those reported in previous publications.

The latest house price data is up to May 2017. Estimates for the monthly percentage changes beyond May are based on the average monthly percentage changes in the previous three months. The latter are used to forecast average property prices until December 2017.

Loan to Value ratio: 90 per cent until December 2013; 84 per cent from January 2014, 80 per cent from January 2015. These assumptions are based on consultations with EBS.

Mortgage Term: 25 years.

Average Variable Mortgage Rate:

is a weighted average of the standard variable mortgage rates for the six main Mortgage Lenders

in Ireland The current weighted average variable mortgage rate is estimated to be 4.1 per cent.

Maximum Mortgage Interest Relief for FTBs:

€20,000 max MIR available for married couples at 25 per cent since Jan 2009 = max of €417 per month and held at this level for FTBs in 2012. MIR abolished from January 2013.

Average Gross Earnings:

Gross income figures represent average earnings according to the CSO's Earnings, and Labour Costs Survey (up to Q1 2017, preliminary). The FTB working couple start out earning €70,879 in June 2005. Gross earnings for the FTB couple increased by 8.2 per cent by June 2007 (€76,759) and fell by 6.8 per cent between 2007 and 2011. Based on trends in the CSO data, average gross earnings increased by 0.5 per cent in 2012, declined by 0.7 per cent in 2013 and increased in 2014 (+0.7 per cent) and 2015 (+1.2 per cent). Monthly earnings are estimated by interpolating between the quarterly earnings figures.

The average earnings figures assumed for May 2017 and for 2016 as a whole are as follows:

Earnings (euro)	Month May-17	Yearly (average) 2016
Average Earnings	37,550	36,899
Single Person on 1.5 times average earnings	56,325	55,348
FTB Working Couple on Twice average earnings	75,100	73,798

For the purposes of estimating affordability, the incomes of Dublin buyers are assumed to be 10 per cent higher than for buyers across the State as a whole, except in the county analysis where the 2014 relativities are used. Income and health levies were replaced by the new Universal Social Charge from January 2011.

5. The analysis of housing affordability in this report is based on data published up to the 11th July 2017.

NOTES



NOTES





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