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April 2008 affordability index

Affordability for first time buyers improves.

Buying is more economical than renting in the medium term.

Analysis of renting versus buying finds buying more economical if owners plan to keep their house for more than three years.

Thursday 3rd April 2008: The latest EBS/DKM Affordability Index, published by Irish Property Buyer magazine, shows that affordability for first time buyers continues to improve, and that this trend is set to continue over the coming months. DKM also consider, for the first time, the cost effectiveness of renting versus buying, for the average first time buyer. The results of this analysis found that the average first-time buying couple is better off buying than renting today if they intend to keep their property for more than three years.

The EBS/DKM Affordability Index is an indication of a first time buyer couple's mortgage-paying commitments in the early years, on the presumption that each of them is on average earnings, buying the "average" new house and that their mortgage is worth 90% of the value of their property. The Index takes into account changes in mortgage rates, changes in the level of mortgage interest relief, increases in average earnings and any other economic or external factor that impact on overall affordability.

The index found that the average working couple buying their first home would spend 22% of their net income on their mortgage repayments today compared with 23% at the end of last year, and 26.4% at the end of 2006. This improvement represents a reduction in average monthly mortgage repayments of € 137 between December 2006 and March 2008.

The continued improvement in buyer affordability is due to continued decreases in house prices and the introduction of new mortgage interest relief bands in Budget 2008. Dara Deering, Director of Membership Business, EBS commented on the index: "We expect affordability to improve further for first-time buyers this year on the back of slowing house prices and possible decreases in mortgage interest rates – we expect that during 2008, more than likely the latter half of the year, that the ECB will reduce rates albeit it is difficult to predict by how much. It was in the context of these market conditions that we thought it relevant to ask DKM Economic Consultants to consider the benefits to the average first-time buying couple of renting versus buying."

Analysis carried out by DKM Economic Consultants found that even given the conditions prevailing in the housing market at this point in time, that the typical first time buyer couple is better off buying than renting, if they intend to hold onto their property for more than three years. A first-time buyer couple purchasing a property today would be better off by the end of 2011 than if they had rented from today.

Annette Hughes, Director, DKM Consultants explains: "We selected two typical first-time buyer properties in two distinct Dublin locations. By Year 4, the buyer would be better off by over €5,000 and by Year 7 – even after selling his property and paying his transaction costs, the buyer would be better off by almost € 41,000.

"It is important to stress that this conclusion is based on our assumption for key variables, in particular house prices. Yet, improved ceilings for mortgage interest relief and the "Rent a Room Scheme" have tipped the balance of incentives for the first time buyer couple towards buying as opposed to renting in the medium term."

Garreth Murphy, Editor, Irish Property Buyer said: "First-time buyers wondering whether to rent or buy a new home now have guidance in the analysis by DKM Economic Consultants, which shows that purchasing a new home offers better value in just four years."

The latest EBS/DKM Affordability Index is published by Irish Property Buyer magazine and can be found at www.irishpropertybuyer.ie