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EBS Building Society and DKM economic consultants publish latest EBS/ DKM Affordability Index

Housing affordability for a First Time Buyer Couple has more than halved in the past three years - from 26% to 12.6%

Monday, May 24th 2010: The quarterly EBS / DKM Affordability Index released today shows that the average first time buyer (FTB) working couple is paying just 12.6% of their joint income to service their mortgage compared with 26% three years ago. This equates to average monthly mortgage repayments for a FTB working couple of €644 in April 2010 as opposed to €1,323 which a couple would have paid in December 2006.

With FTB house prices now back to 2002 levels and interest rates remaining low, affordability will continue to improve for potential first time buyers. The EBS / DKM Affordability Index, which is tracked on a monthly basis, measures the proportion of after tax income required to meet first year mortgage repayments for an 'average' FTB working couple, each on average earnings with a 90% mortgage. It takes into account mortgage rates, changes in the level of mortgage interest relief, and is based on average earnings and average FTB new house prices nationally and in Dublin.

Affordability has consistently improved each month since 2007 and this trend is likely to continue for the foreseeable future. Projections to June 2010 expect further falls in house prices in some regions and interest rates, while increasing slightly, are still expected to stay relatively low. As a result, net repayments for a national FTB working couple are projected to fall further to 12.4% of net income.

The corresponding improvement in housing affordability for FTBs in Dublin has resulted in net repayments falling to 14.4% of net income in June 2010 from 32.5% in December 2006.

Commenting on the latest Index Dara Deering, Director of Membership Business, EBS said: "The continuing improvement in affordability levels is very positive for First Time Buyers and seems to be encouraging activity from this segment. According to Irish Banking Federation figures issued last week First Time Buyers continue to be the strongest segment in the market. The figures from the IBF mirror EBS's own experience. So far in 2010 we have continued to see strong improvement in the number of First Time Buyers applying for a home loan with c2,100 applications received year to date , an increase of 50% on application levels for the same period in 2009. Unlike some other financial institutions in the market, we continue to actively seek to provide credit in this market as we remain consistent and transparent on all of our terms and conditions of lending.

"There are new and interesting dynamics within the overall housing market as distinct individual trends have started to present themselves in the information available. Firstly we have started to see some regional variations on house price movements and this trend seems a more probable

direction for the market to take in the future as we are likely to see regions recover at different paces depending on the demand and supply factors within each area. The market is still contracting across the country as a whole, but there are pockets around Dublin that have seen house prices stabilize and certain properties in Galway are experiencing price increases. These kinds of trends are likely to become more commonplace as demand levels pick up," she concluded.

Annette Hughes, Director, DKM Economic Consultants said: "Recent signs that the economy is stabilising are unlikely to result in a bottoming out of house prices just yet. Employment growth typically lags economic recovery, particularly after a sharp contraction, implying that uncertainty in the employment outlook can be expected to continue to act as a drag on the housing market. In terms of where house prices might settle, if one were to assume an average house price to earnings ratio of around 3.5, this would imply that national average FTB house prices would bottom out at around €136,000, based on income levels used to calculate the affordability index.

She added: "It's important to remember that a key risk going forward comprises the possibility of further increases in mortgage rates, as a result of the international debt crisis. Any increase in mortgage rates could impact confidence further and delay the return to stable house prices."

The latest EBS / DKM Affordability Index can be found at www.ebs.ie or www.dkm.ie