



*27<sup>th</sup> January 2011*

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

The EBS / DKM Affordability Index released today shows that the average first time buyer (FTB) working couple is paying 12.6% of their joint disposable income to fund their mortgage. This means that, according to the index, housing is more affordable today than at any time in the past twenty five years.

Based on quarterly figures derived by DKM for the period 1988 to 2004, the average working couple is paying slightly less today than at the lowest points in previous housing affordability cycles i.e. in Q2 1988 and Q1 1995. Despite average house prices today being 2.1 to 3.2 times their average levels in Q1 1995 and Q2 1988 respectively, the proportion of net income required to fund a mortgage has reached its lowest point in twenty five years: December 2010 12.6%; versus 13.4% in Q2 1988 or 13.8% in Q1 1995.

This significant shift in affordability is particularly evident when the cost of servicing a mortgage today is compared with the same cost at the height of the boom: in December 2006, monthly mortgage repayments for the average first time buyer couple were €1,323 or 26.4% of their net income, this has more than halved to monthly repayments of €639 or 12.6% of a couple's net income.

An interesting trend to emerge since the peak has been the convergence of the housing affordability measures for both national and Dublin buyers, with single buyers now spending around 25.2% of their net income to fund a mortgage, down from around 55% in December 2006. House price to income ratios are also converging, with average house price to income ratio down to 4.2 times gross income for a single person, compared to 4.1 times joint income for an average FTB working couple.

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 recently announced budgetary changes, mortgage rates, and is based on average earnings and average FTB new house prices nationally and in Dublin.

Commenting on the latest Index Dara Deering, Director of Membership Business, EBS said: "Consumer confidence continues to be a key factor influencing new mortgage activity and unsurprisingly given the tumultuous events throughout 2010, the level of new mortgage lending reached a historical low. The most recent ESRI sentiment index published has shown sentiment at 44.4 points. Consumer sentiment showed some increases in early to mid 2010, however, due to very difficult economic conditions, this dropped back at the end of 2010.

“Interestingly, rentals have continued to stabilise throughout 2010 and the most recent CSO rental index has shown that year on year negative growth has slowed to -1.5% (versus -15.4% in 2009). This stabilisation could be pointing towards the fact that the supply/demand factors in the rental market are finding equilibrium, and should bring more confidence to the rental market.

“New lending has been very subdued throughout 2010 with the overall market continuing to decline. New mortgage lending last year was most likely in the order of c€5bn, a reduction of almost 90% from the peak of €40bn in 2006. However, the first time buyer segment is proving to be the most resilient and based on figures released by the IBF for the first nine months of 2010 - lending to this segment represents 43% of the mortgage market. First time buyer lending is likely to remain a significant proportion of the market in 2011.”

Annette Hughes, Director, DKM Economic Consultants said: “The 2011 Budget brought in a range of income tax/PRSI increases, including a 10% reduction in the value of income tax bands and credits, the removal of the employee PRSI ceiling and the introduction of the new Universal Social Charge to replace the income and health levies, plus other tax raising measures. These changes will increase the burden for all income earners, many of whom will not know the net impact of these changes until they receive their first pay-slips. These changes will result in a reduction in disposable income and as such will have an adverse impact on housing affordability.

“With this in mind, we considered a number of likely scenarios for a FTB couple, taking into account the recent changes announced in the budget, reductions in gross income and an increase in mortgage rates. In each scenario, the fact remains that the proportion of income currently required to fund a mortgage is very low and is not going to rise appreciably this year.”

The latest EBS / DKM Affordability Index can be found at [here](#) or at [www.dkm.ie](http://www.dkm.ie)