



18th November 2011

Further improvement in purchasing affordability for First Time Buyers

Latest quarterly EBS/DKM affordability index finds cost of financing a new home has fallen to 12.1% of DTB net income

The cost of funding a mortgage on a new home for the average first time buyer (FTB) working couple today stands at 12.4% of their joint income, compared with more than quarter of their income (26.4%) in 2006, and is predicted to fall to 12.1% next month. This represents a further decline from 13% since the July EBS / DKM Affordability Index as FTB affordability continues to improve.

The improvement for those FTBs purchasing in Dublin is even more pronounced with the cost today representing 14.7% of their joint income, compared with 32.5% five years ago.

The EBS / DKM Affordability Index measures the proportion of after-tax income required to meet first year mortgage repayments for an 'average' first time buyer working couple, both assumed to have average earnings and based on a 90% mortgage. It also takes into account mortgage rates – including the recent ECB rate reduction - and average FTB new house prices. The index is tracked on a monthly basis and uses the CSO Residential Property Price Index (RPPI) data since August 2009.

The sustained improvement is due to the continued decline in property prices over the period and the recent reduction in interest rates by the ECB. As the interest rate reduction is passed on to mortgage rates, the proportion of net income required to fund mortgage repayments falls from 12.4% in October to an estimated 12.1% at the year-end.

Housing Affordability Trends for a FTB Working Couple and Single Person December 2006 – October 2011 with Projections to March 2012

	Dec'06	Dec'07	Dec-08	Dec-09	Dec-10	Oct-11	Dec-11	Mar-12
							Est	Forecast
Average Mortgage Rate	4.81%	5.37%	4.80%	3.32%	4.02%	4.29%	4.04%	4.04%

National First Time Buyer Working Couple								
Monthly Repayments	1,323	1,23	1,008	722	683	608	584	609
As % of Net Income	26.4%	23.0%	18.6%	13.9%	13.4%	12.4%	12.1%	12.4%
Ave. Property Price (000s)	279.0	260.8	224.2	188.1	168.4	146.7	143.8	139.5
Dublin First Time Buyer Working Couple								
Monthly Repayments	1,741	1,577	1,326	929	877	767	751	774
As % of Net Income	32.5%	27.7%	23.0%	16.9%	16.3%	14.7%	14.4%	14.8%
Ave. Property Price (000s)	359.0	333.9	294.9	241.9	216.1	185.1	181.4	176.0
National Single First Time Buyer								
Monthly Repayments	1,390	1,306	1,008	722	683	608	584	635
As % of Net Income	55.4%	49.0%	36.4%	27.3%	26.9%	24.8%	23.8%	25.9%

Ave. Property Price (000s)	279.0	260.8	224.2	188.1	168.4	146.7	143.8	139.5
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A single person on average earnings is currently paying around 24% of his/her disposable income towards monthly mortgage repayments. Their average price to income ratio was down to 3.8 in November compared with 7.4 at the peak in December 2006.

EBS-DKM Housing Affordability Index: The proportion of net income for a FTB working couple required to meet net mortgage repayments on the 'average' FTB property price based on a 90% loan to value ratio and a 25-year mortgage

Commenting on the latest Index Dara Deering, Director of Retail Business, EBS said: "Consumer sentiment rose noticeably in October to 63.7, the highest level since July 2010. For the first nine months of the year consumer sentiment averaged at 55 and this low level impacted the volume of mortgage applications to financial institutions. Given the continuing economic crisis it is difficult to know if the uplift seen in October will be maintained. Low levels of demand and reduced appetite for lending by financial institutions resulted in €1.2bn of new lending in the first half of this year. While First Time Buyers are the most resilient segment in the market, new mortgages to FTB fell by 49% in Q2 when compared to the same period last year. Housing supply remains challenging on two levels: the number of completions remains very low with almost 8,000 to the end of September 2011; and the level of unfinished dwellings varies greatly depending on location.

"Affordability remains at its lowest levels in years and while changes in the budget are likely to impact on personal disposable incomes, the reduction in rates by the ECB coupled with continued reduction in house prices will see that buying their first home is likely to remain affordable for the short to medium term."

Annette Hughes, Director, DKM Economic Consultants said: "There are a number of changes in the pipeline which are likely to impact on affordability in January 2012. These will include possible reductions in incomes arising from changes in the forthcoming December Budget, as well as the introduction of the €100 property tax for principal residences, changes to mortgage interest relief (MIR) which will be much reduced for new borrowers from January, and stricter Central Bank criteria around mortgage lending, which are likely to result in the possibility of smaller loan amounts being approved. So while there has been good news on interest rates and house prices in recent months, potential buyers should consider how these changes may impact on their incomes.

Regarding 2012, Annette Hughes concluded that "Key elements influencing how the market develops during 2012 will be progress on measures to restore a supply of mortgage credit as well as developments in the wider economy in regard to unemployment and incomes".