

**EBS/DKM Affordability  
Index**

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## EBS/DKM Affordability Index

**Affordability** – revisit of our methodology.....

Our definition – *the proportion of net income for a FTB working couple required to meet net mortgage repayments on the 'average' house price based on a 90% loan to value ratio and a 25-year mortgage*

# Measuring Affordability .....

- **Data on average new house prices:**

*monthly tsb/ESRI data for first-time buyers nationally and for Dublin buyers we assume FTBs pay 84% of the average Dublin house price;*

- **Average earnings after tax (disposable income):**

*assume average industrial earnings for all employees plus 10% for Dublin workers; all earnings increase in line with pay agreements, estimated gross earnings in October 2008 = €41,200 per person;*

- **Mortgage rates** - average monthly mortgage rate for house purchase loans  
(Source CSO);

- **Loan-to-value ratios** - assume 90% loan to value ratio;

- **Mortgage interest relief** - max of €4,000 for married couple = €333 per month;

### Developments in the key affordability variables.....

- ◆ ECB **interest rates** reduced by 50 basis points to 3.75% on 8<sup>th</sup> Oct 2008
- ◆ Assume 40 basis points passed on giving average Irish **mortgage rates** of 5.43% from November
- ◆ Average house prices in September:
  - nationally 14% below their peak in January 2007 (-€43,400)
  - FTB prices 14.4% below their peak in March 2007 (-€40,000)
  - Dublin prices 13.6% below their peak in April 2007 (-€57,000)

but there are locations in Dublin and elsewhere where reductions are much greater
- ◆ **Average earnings after tax**: Sustaining Progress expired end March'08; new agreement assumed although not ratified = 3 months pay pause to 31/06/08 followed by 3.5% for next six months up to 31/12/08 and 2.5% thereafter
- ◆ **Loan-to-value ratios** – continue to assume **90%** loan to value ratio;

## Has the Budget helped FTBs?

### - **Increased Mortgage Interest Relief**

Maximum relief thresholds unchanged: €10,000 for single person and €20,000 for a married couple ...but rate of relief increased from 20% to  
25% in Years 1 and 2;  
22.5% in Years 3 to 5; and  
back to 20% Years 6 and 7.

*Changes benefit first time home owners in first 5 years of their mortgage*

### - **Changes in Personal Taxation**

Standard rate tax band increased by €1,000 from single person and €2,000 for married couple

1% income levy

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### Impact for our typical FTB working couple on twice average earnings...

- ✓ If twice average earnings =  $€41,200 * 2 = €82,400$  then
  - Changes in standard tax band boost disposable income by €420 per annum
  - Income levy reduces disposable income by €824 per annum
- ✓ Overall disposable income reduced by €404
- ✓ Higher MIR means if buying at average national FTB house price and borrowing 90%, saving is worth €572 per annum

Thus our typical FTB working couple is better off by €168 per annum

Corresponding saving for a Dublin FTB working couple would be €259 per annum (reflects higher house price)

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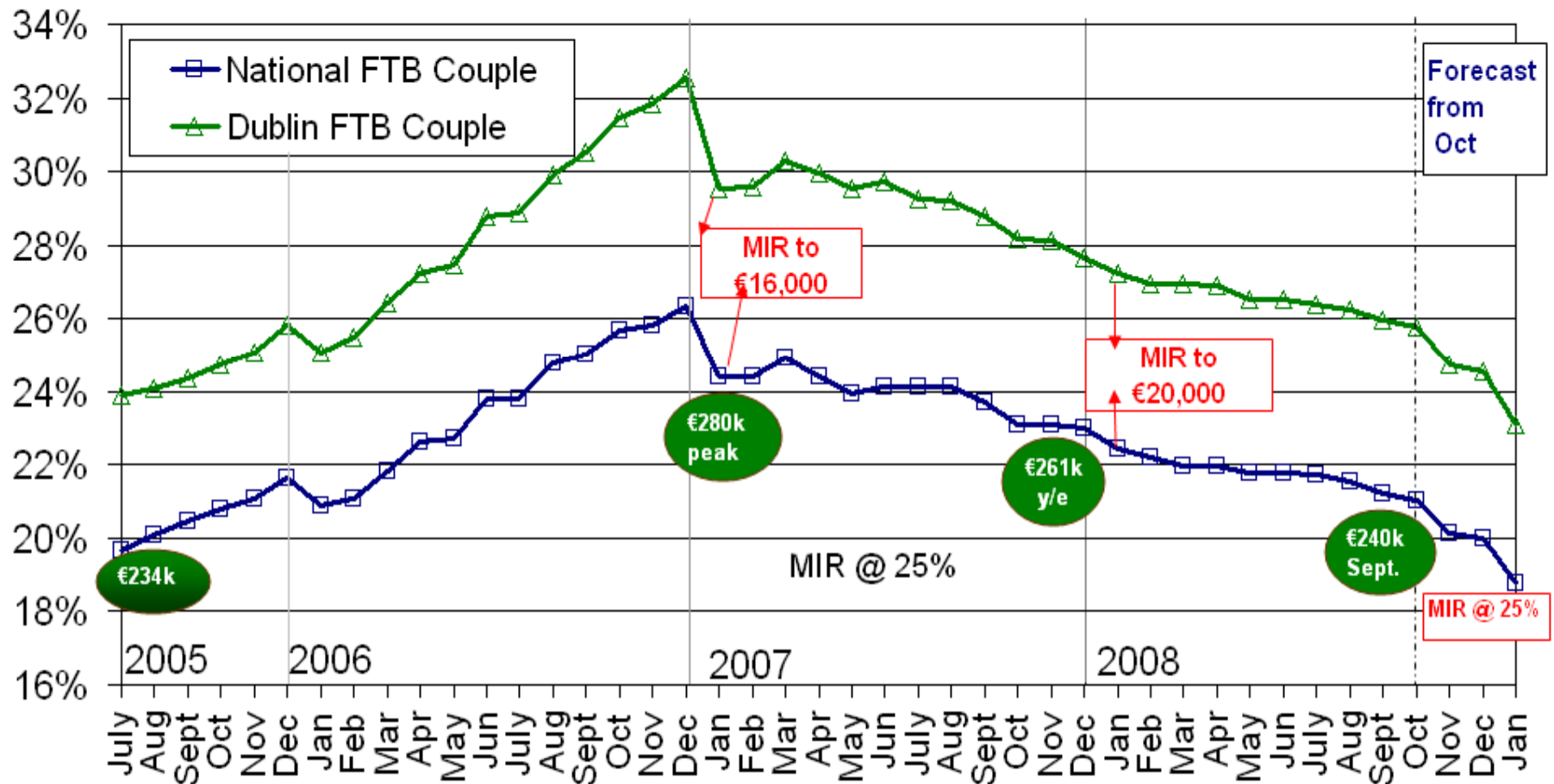
## Housing Affordability - Recent Trends for FTB Working Couple with Forecasts to Jan 2008

	Dec'05	Dec'06	Dec'07	Jan'08	Mar'08	Jun'08	Aug'08	Oct'08	Dec-08	Jan-09
								Actual	Forecast	Forecast
Average Mortgage Rate	3.63%	4.81%	5.35%	5.37%	5.40%	5.54%	5.86%	5.83%	5.43%	5.43%
<b>National First Time Buyer Working Couple</b>										
Monthly Repayments	1,018	1,323	1,228	1,213	1,188	1,179	1,191	1,163	1,105	1,048
As % of Net Income	21.6%	26.4%	23.0%	22.4%	22.0%	21.8%	21.5%	21.0%	20.0%	18.8%
Ave. House Price (000s)	249.5	279.0	260.8	257.2	251.3	246.5	242.6	237.4	233.2	231.1
<b>Dublin First Time Buyer Working Couple</b>										
Monthly Repayments	1,295	1,741	1,573	1,565	1,550	1,525	1,544	1,516	1,445	1,372
As % of Net Income	25.8%	32.5%	27.7%	27.2%	27.0%	26.5%	26.2%	25.8%	24.6%	23.1%
Ave. House Price (000s)	309.6	359.0	333.9	331.9	327.8	319.0	314.4	309.5	304.9	302.6

**Assumptions:** 1) house prices decline c.1% per month out to Jan'09; 2) Mortgage interest rates unchanged up to Jan'09; 3) Gross earnings in line with new wage agreement; 4) Budget changes to tax bands and MIR take effect from Jan'09.

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## Recent Trends with Forecast to Jan 2009



*..affordability back to early 2005 levels by Jan 2009.....*

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*Thus housing affordability has improved consistently since January 2007 and is expected to continue to improve over the next twelve months as mortgage rates will fall in 2009*

***But uncertainty over the future direction of house prices is damaging confidence, resulting in potential first timers postponing their decision to buy .....***

***Credit situation driving housing market now more so than prices and mortgage rates .....***