



## **EBS BUILDING SOCIETY AND DKM ECONOMIC CONSULTANTS PUBLISH LATEST AFFORDABILITY INDEX**

### **AFFORDABILITY CONTINUES TO IMPROVE FOR FIRST TIME BUYERS**

### **FIRST TIME BUYER COUPLE CAN SAVE €2,600 WHEN PURCHASING A HOME NOW COMPARED WITH 2 YEARS AGO**

### **INCREASED MORTGAGE INTEREST RELIEF AND FALLING HOUSE PRICES PROVIDE GOOD NEWS FOR FIRST TIME BUYERS**

**4<sup>th</sup> November 2008:** The latest EBS/DKM Affordability Index shows that affordability for first time buyers continues to improve and that this trend is set to continue over the coming months.

The EBS/DKM Affordability Index calculates mortgage repayments for a first-time buyer working couple, each on average earnings, in the initial years of their mortgage. It is based on the assumption that the couple buys the 'average' new house for the 'average' price and takes out a 90% loan to value ratio. The Index takes account of changes in mortgage rates, the level of mortgage interest relief, average earnings after tax and house prices, all of which comprise the main determinants of affordability.

The index published today predicts that the average working couple buying their first home is currently paying around 20% of their net income in mortgage repayments, compared with 26% two years previously, at the end of 2006. By the end of January 2009, the proportion of net income required to fund their mortgage will have fallen further to 18.8% compared with 22.4% in January 2008. The January 2009 figure, which is calculated before any further reductions in mortgage rates, highlights the significant improvement in housing affordability which has occurred over the past two years.

This improvement in affordability represents a reduction in average monthly mortgage repayments of €275 or 21% between December 2006 and January 2009. The corresponding reduction in the proportion of net income required to fund the mortgage is 7.6% over the same period. *(Figures for couple living in Dublin at the end of release).*

Exploring the impact of Budget 2009 on the 'typical' first time buyer working couple, Annette Hughes, DKM Economic Consultants, who computes the Affordability Index concludes: "Budget '09 has resulted in a slight improvement in the circumstances of the 'typical first time buyer couple. While we estimate that the new income levy will reduce the average first-time buyer's disposable income nationally by €404 per annum, after the increase in the standard tax band, the increase in mortgage interest relief, now available at 25%, will reduce mortgage repayments by €572 per annum from next year. Thus our

first-time buyer couple is better off by €168 per annum. This increases to €259 per annum for the Dublin First Time Buyer couple, reflecting the higher average house price in the area.”

Looking at the overall market trends, Ms. Dara Deering, Director of Membership Business, EBS said: “House prices are currently in line with those recorded in August 2005, with the average first time buyer home costing €239,598 in September. This trend in house prices looks set to continue into 2009 and it is clear that value and affordability have improved significantly over the past two years”.

“Despite the fact that affordability is improving there continues to be a lower level of activity in the market. This is having an impact on the level of mortgage debt growth. Current growth stands at 9% compared with almost 30% in March 2006.”

Considering the market outlook into 2009, Dara Deering said: “Consumer sentiment is at an all time low. Until sentiment begins to improve and stability returns to world markets we are unlikely to see levels of activity in the housing market increase.”

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

## **ENDS**

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### **Notes to the Editor:**

#### **Affordability for Dublin First Time Buyer Couple:**

The index also shows that the average working couple buying their first home in Dublin in January would spend 23.1% of their net income on their mortgage repayments today compared with 27.2% in January of this year, and 32.5% at the peak (end of 2006). This improvement represents a reduction in average monthly mortgage repayments of €368 between December 2006 and January 2009. The corresponding reduction in the proportion of net income required to fund their mortgage is 9.4% over the same period.

**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.