

EBS, DKM and IRISH PROPERTY BUYER PUBLISH THE FIRST AFFORDABILITY INDEX OF 2008

STABILITY IN THE HOUSING MARKET IS GOOD NEWS FOR FIRST-TIME BUYERS' AFFORDABILITY

By December the average first time buyer working couple in Ireland was spending 22.6% of their net income on mortgage repayments, compared with 26.4% a year ago.

3rd January 2008: The latest EBS/DKM Affordability Index, published by Irish Property Buyer magazine, shows that affordability for first time buyers has improved over the past year. The EBS/DKM Affordability Index also indicates that affordability will continue to improve throughout the course of 2008. The average first time buyer working couple was spending 8.8% less in mortgage repayments in December 2007 compared with December 2006. As a percentage of their net income, their mortgage repayments had fallen from 26.4% one year ago to 22.6% last month.

The EBS/DKM Affordability Index is an indication of a first time buyer couple's mortgage-paying commitments in the early years, on the presumption that each of them is on average earnings, buying the "average" new house and that their mortgage is worth 90% of the value of their property. The Index takes into account changes in mortgage rates, changes in the level of mortgage interest relief, increases in average earnings and any other economic or external factor that impacts overall affordability.

First-time-buyer affordability has improved due to a number of developments in 2007:

- there were no further interest rate increases by the European Central Bank following the increase, to 4 per cent, in June of that year - critically, the ECB is expected to hold, if not reduce rates this year;
- changes in the Budget, in particular changes to mortgage interest relief, have had a direct and positive impact on affordability;
- and the decline in average house prices, by 6 per cent.

These factors combined are welcome news for first-time buyers and have had the result of giving first-time buyers more purchasing power.

The past year saw many first time buyers staying out of the market, with many waiting to see if the winner of the general election delivered an immediate change to stamp duty. This decision by many to wait contributed to quite a significant slowdown in the market however it did have a positive impact on rental yields which increased by 12 per cent year on year in some areas. The number of homes completed in 2007 slowed, falling by approximately 11,000 from the record levels witnessed in 2006.

“Looking ahead, the housing market is expected to continue adjusting to normal levels of growth,” predicts Dara Deering, Director of Membership Business, EBS Building Society. “It will take some time for positive sentiment to fully return in the market. House prices will continue to ease back - probably in the order of 5 per cent in 2008, with some areas impacted more than others. I would expect to see this trend reverse in the second half of 2008 with the period of interest rate stability and a lack of further price increases encouraging buyers back. It is expected that housing completions will be in the region of 55,000 to 60,000 units in 2008. This will be enough to meet the demand of new buyers who want to enter the market this year.”

According to Annette Hughes, DKM Economic Consultants: “We estimated that at the end of 2007 the average first-time buyer couple nationally was spending 22.6 per cent of their net income on a 90 per cent mortgage, compared with 26.4 per cent at the end of December 2006. We expect that the average working couple will be spending 21.7 per cent of their net income on their mortgage by the end of March 2008.

“The recent stamp duty reforms announced in the budget together with the anticipated changes to mortgage interest relief are having a favourable impact on affordability for first time buyers. When looking back on previous indices, it is interesting to note that the level of affordability recorded now at the outset of 2008 is almost exactly back to the levels that were there at the beginning of 2006. This should encourage the return of buyers to the market and should lead to an increase in demand as the year progresses.”

Garreth Murphy, Editor, Irish Property Buyer said: “First-time buyers should be encouraged by the latest tax incentives for purchasing a home. From the start of this year, mortgage interest relief has been increased for first-time buyers. In real terms, this will boost the maximum monthly relief available to €166 for a single person and €333 for couples. Compare this to the relief available back in mid 2006 when mortgage interest relief was at €66 for single people and €133 per month for couples.

“One other incentive which has not been given much attention was the decision by the Minister for Finance, Brian Cowen, to significantly increase the levels of the Rent a Room scheme - allowing a buyer to earn €10,000 tax-free from a tenant in their home. This is an increase up from €7,620.”

The latest EBS/DKM Affordability Index is published by Irish Property Buyer magazine and can be found at www.irishpropertybuyer.ie or at www.ebs.ie.

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