

# **EBS/DKM Affordability Index**

**Media Briefing**

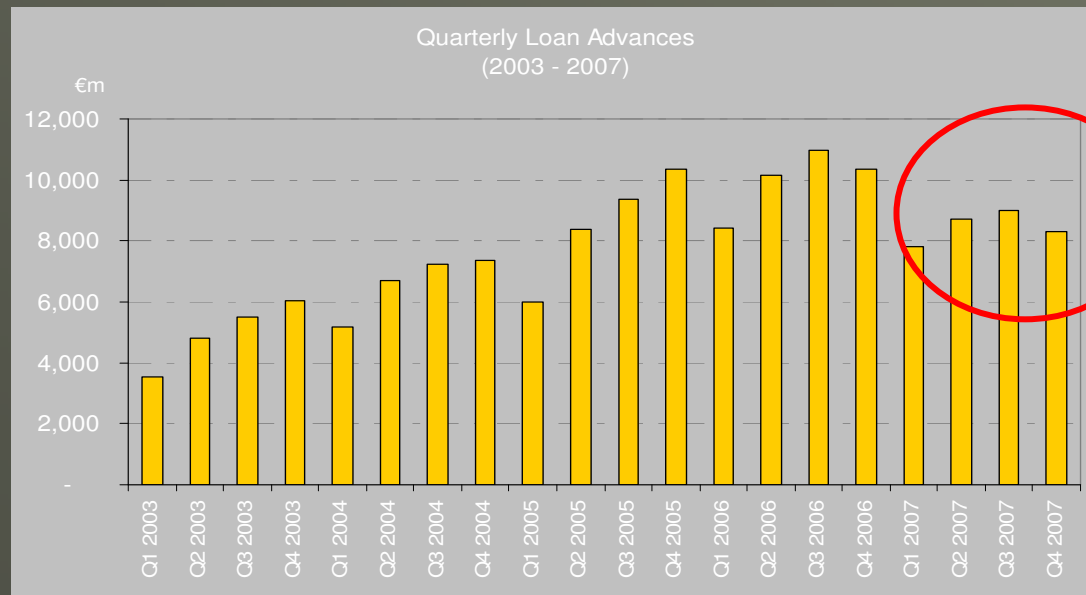
**3<sup>rd</sup> April 2008**

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**Editor, Irish Property Buyer**

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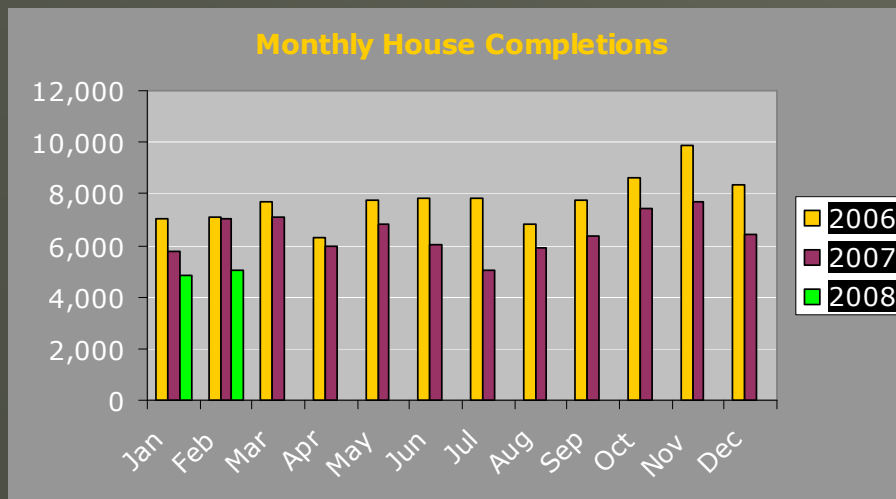
## Slow Down in New Lending throughout 2007

- ◆ Demand for new mortgages decreased in 2007 following 8 increases in interest rates.
- ◆ While some of this was offset through changes in mortgage interest relief, many buyers, first time buyers in particular chose to take a wait and see approach to buying.



## Market Responded by Easing Supply

- ◆ The number of housing units completed in 2007 slowed throughout the year.
- ◆ This is not really surprising following the years of strong supply (chart below), and the construction industry is now reacting to current demand and economic conditions
- ◆ 9,887 new housing units completed in the first two months of the year, 23% lower than in the same period in 2007.
- ◆ Even though housing has slowed the level of planning permissions granted continues to record growth. In quarter four last year, 17,733 planning permissions were granted for dwelling units; 9.1% more than in the same quarter in 2006



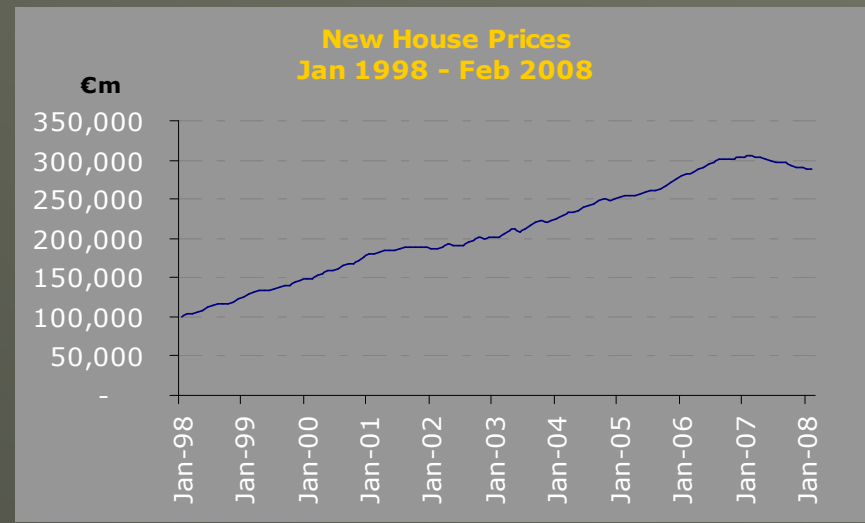
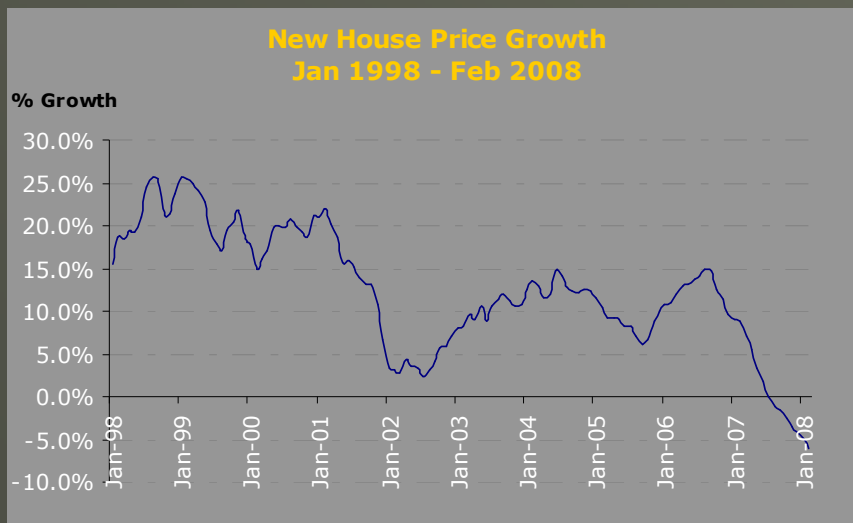
**Number of Dwelling Units Approved**

	Houses	Apartments	Total
<b>Quarter 4 2006</b>	13,054	3,197	16,251
<b>Quarter 4 2007</b>	13,135	4,598	17,733
<b>% change</b>	+0.6%	+43.8%	+9.1%

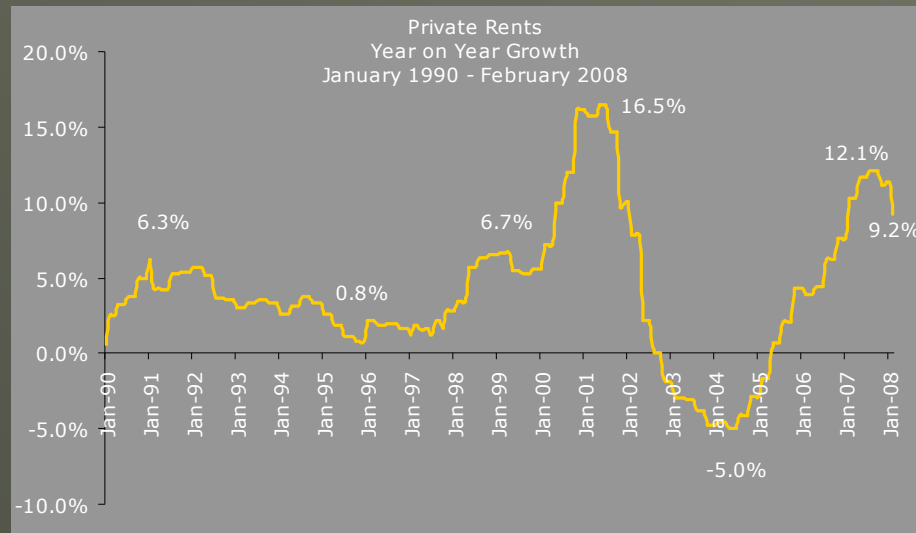
\*Direct comparisons with the beginning of 2006 are not possible due to a large number of houses completed in 2005 but included in 2006 statistics

## Slow Down in New House Prices Has Created Value for Buyers

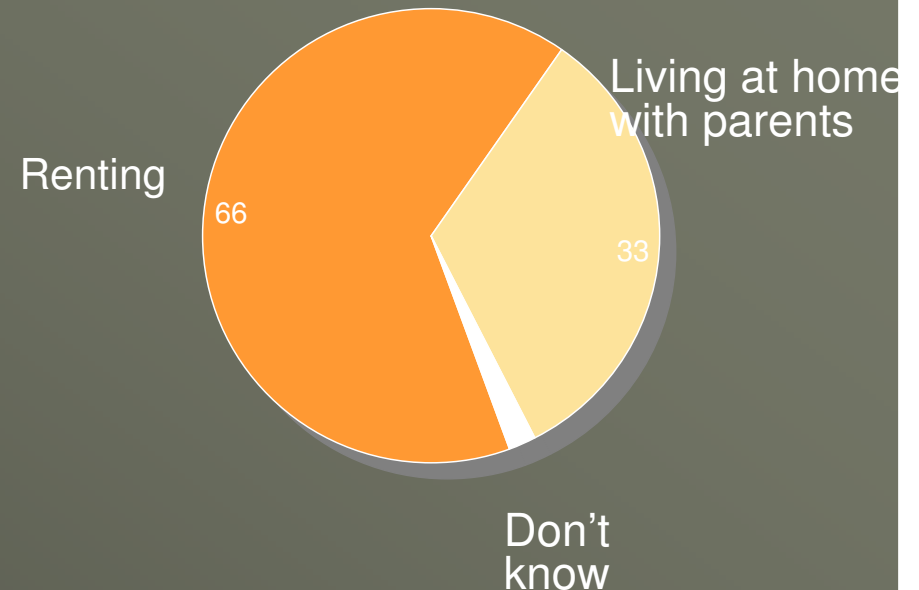
- ◆ In February the ESRI/PTSB index recorded new house price decline of 0.4% for the month, similar to the decline recorded in January
- ◆ The index shows that the average price paid for new properties recorded a decline of 6% over a twelve month period
- ◆ This means that there is value in the market for first time buyers which is also supported by improved affordability



## Rents strong but Moderating



## Driven By First Time Buyers



- **Demand for rent increased over the summer months with the year end growth rate reaching 12.1% driven by two factors:**
  - **Many FTB's took a wait and see approach to buying**
  - **Those who did buy chose to rent first. 2 in 3 first time buyers rent a property before they buy [EBS Research]**
- **However, we believe that the market is close to the tipping point and there is evidence that First Time Buyers are coming back into the market.**

## Trends in 2008



**House price deceleration to continue (up to 10% in 2008), however towards the latter half of 2008, depending on activity levels, we could see some monthly positive growth in house prices**



**House Completions in the order of 45,000 units in line with medium term estimates for housing demand.**



**Competition in the market continues to increase, offering better value to consumers. A first time buyer survey\* by Amárach Consulting found that 87% of those surveyed thought better long term value was the most important when selecting a mortgage provider.**



**Affordability will continue to improve. The European Central Bank is expected to reduce rates... difficult to predict by how much but at this stage looks to be one decrease in H2 (by 0.25%).**

\* 500 first time buyers were surveyed by Amárach Consulting in August 2007, commissioned by IBF

**Annette Hughes**  
**DKM Economic Consultants**

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

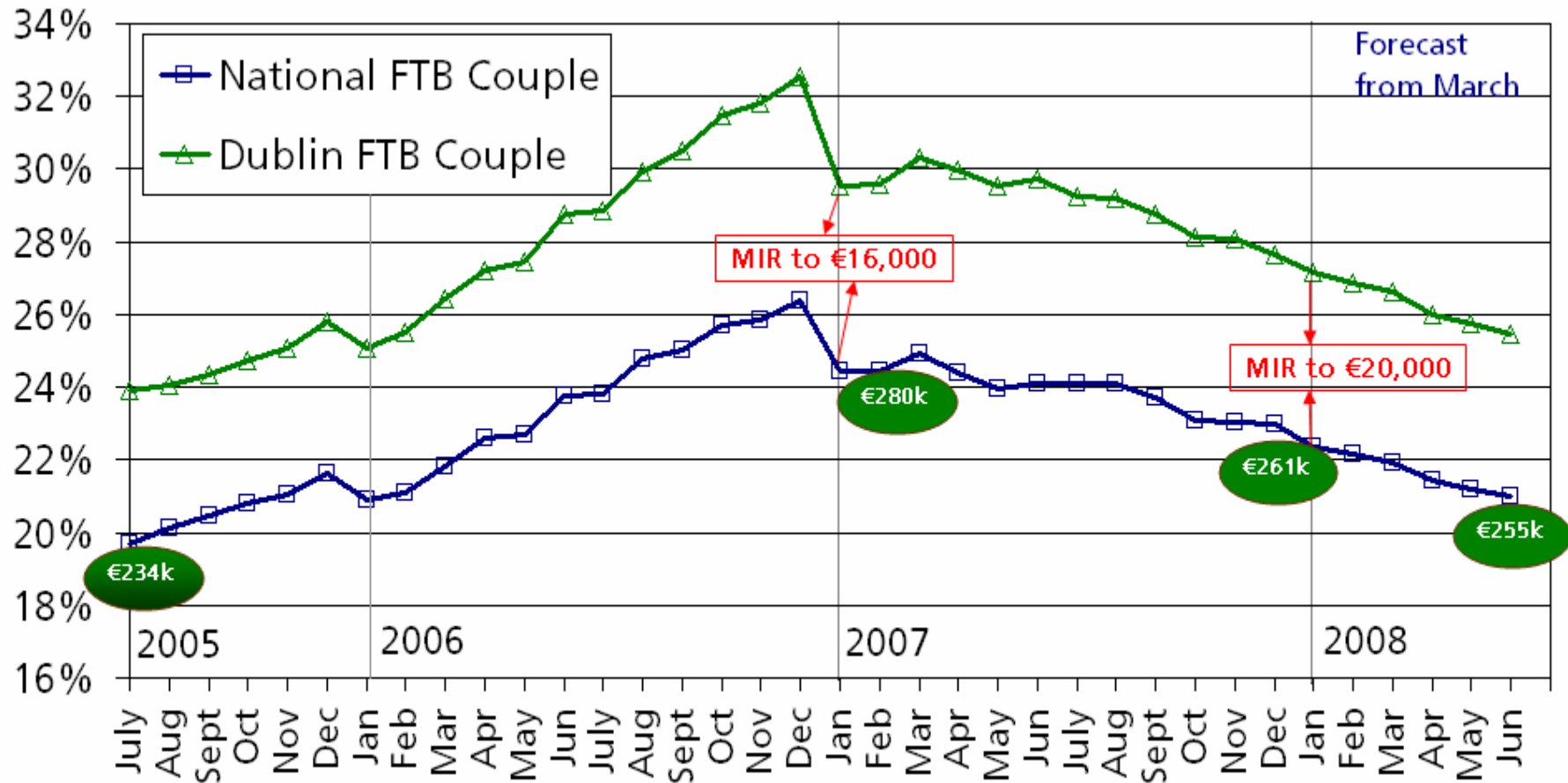
- ◆ ECB **interest rates** unchanged at 4% since 13<sup>th</sup> June 2007
- ◆ Keeping average Irish **mortgage rates** unchanged at 5.34% since
- ◆ Average **house prices** in February:
  - nationally 8.8% below their peak in January 2007 (-€27,500)
  - FTB prices 9% below their peak in March 2007 (-€25,000)
  - Dublin prices 9% below their peak in April 2007 (-€39,000)
- ◆ **Average earnings after tax** boosted by extra 2.5% increase in gross earnings in October 2007 under Sustaining Progress; +5.1% year-on-year in March 2007
- ◆ **Loan-to-value ratios** – continue to assume **90%** loan to value ratio;

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

	Dec'05	Dec'06	Mar'07	June'07	Sept'07	Dec'07	Jan'08	Mar'08	Jun'08
Average Mortgage Rate	3.63%	4.81%	5.08%	5.30%	5.35%	5.34%	5.34%	5.34%	5.34%
<b>National First Time Buyer Working Couple</b>									
Monthly Repayments	1,018	1,323	1,288	1,266	1,245	1,227	1,210	1,186	1,150
As % of Net Income	21.6%	26.4%	24.9%	24.1%	23.7%	23.0%	22.4%	21.9%	21.0%
Ave. House Price (000s)	249.5	279.0	279.8	270.1	264.5	260.8	257.2	252.1	244.6
<b>Dublin First Time Buyer Working Couple</b>									
Monthly Repayments	1,295	1,741	1,667	1,663	1,609	1,571	1,561	1,530	1,484
As % of Net Income	25.8%	32.5%	30.3%	29.7%	28.8%	27.6%	27.2%	26.6%	25.5%
Ave. House Price (000s)	309.6	359.0	360.5	351.9	340.5	333.9	331.9	325.3	315.6

**Assumptions: 1)** house prices decline 1% per month out to June;  
**2)** Mortgage interest rates unchanged; **3)** increase in MIR from Jan 2008;  
**4)** No change in gross earnings from October (€79,585) to March but Budget changes to tax credits and tax bands take effect from Jan'08; assume a further 2.5% increase in gross earnings in April 2008.

## Recent Trends with Forecast to June 2008



*..affordability back to Feb 2006 levels in June 2008...*

*Thus housing affordability has improved consistently throughout 2007 and in the first quarter of 2008 and is expected to continue to improve over the coming months – allowing more potential housebuyers to transact in the housing market*

***But uncertainty over the future direction of house prices is generating a dilemma for potential first timers looking to meet their accommodation needs***

.....

***Should we buy or should we rent?***

## Buying versus Renting – Assumptions..

- ◆ A first-time buyer couple has the 10% deposit and is faced with decision to buy or rent – if rent, couple can invest their deposit;
- ◆ FTB couple stays in their first home for 7 years;
- ◆ FTB couple pays transactions costs (buying and selling fees);
- ◆ FTB renter pays one month's rent as deposit;
- ◆ Renters get rent relief (€67/month); Buyers get MIR (€333/month);

Key factors which influence decision are what we assume for:

- House prices
- Mortgage rates
- Rents

## Buying versus Renting – Key Variables

	<b>House Price</b>	<b>Mortgage</b>	<b>Rent</b>
	<b>Growth %PA</b>	<b>Rate %</b>	<b>Growth %PA</b>
<b>2008</b>	-10.0%	5.3%	8.0%
<b>2009</b>	3.0%	5.0%	5.0%
<b>2010</b>	3.0%	4.5%	2.0%
<b>2011</b>	3.0%	4.5%	0.0%
<b>2012</b>	3.0%	4.5%	0.0%
<b>2013</b>	3.0%	4.5%	-3.0%
<b>2014</b>	3.0%	4.5%	-3.0%

We considered two properties: Dublin City apartment and 3 bed house on Malahide Road

City Centre apartment: **Price:** €420,000; **Rent:** €1,500 per month

**We look at the difference between what the buyer pays for his accommodation costs and what the renter pays for his accommodation costs over the 7 years based on the above assumptions**

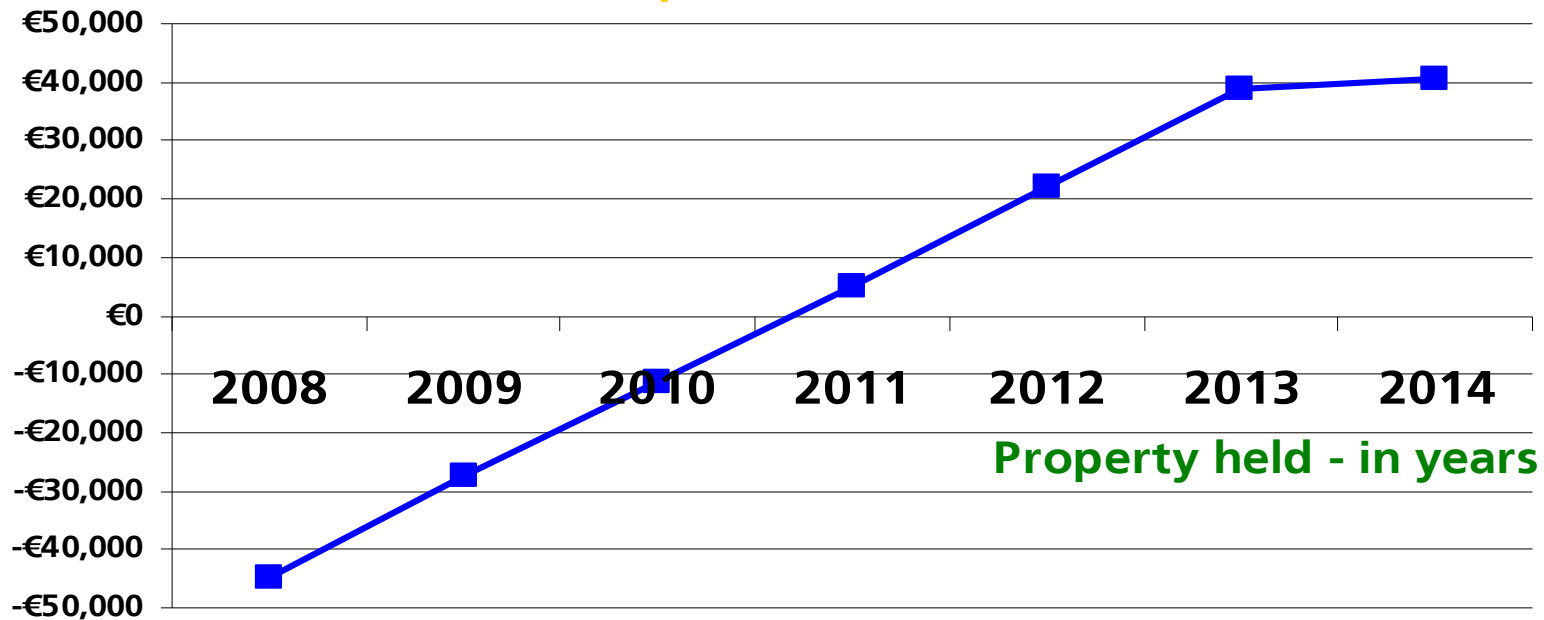
# Buy or Rent?

## Positive Value means Buying is Better

### Buying versus renting

Position at year end

2-bed apartment in Dublin 1



Property held - in years

**FTB couple is better off buying than renting if they intend to hold onto their property for more than 3 years**

## Buy or Rent? Position after 7 Years

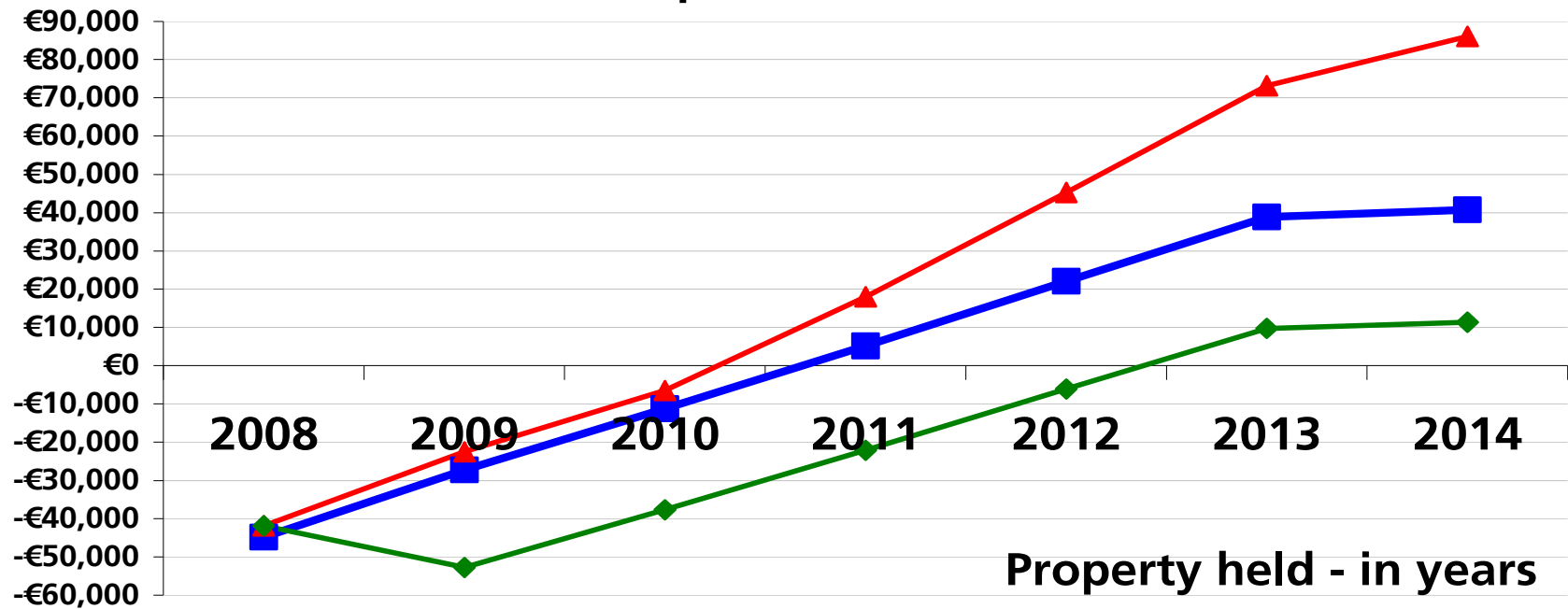
1 Buyer's buying costs Year 1	€4,200
2 Total cost of mortgage repayment over 7 years	€147,728
3 Total costs of rent over 7 years	€142,838
4 Additional accommodation costs to buyer (2-3)	€4,890
5 Buyer's total equity after 7 years	€109,447
6 Buyer's selling costs (2% of house price)	€9,027
7 Renter's funds on deposit	€50,579
8 Buyer better off compared with renter (5-1-4-6-7)	€40,751

***After 7 years FTB couple is better off by €40,751  
Model does not take account of 'Rent a room' Scheme –  
tax free income up to €10,000 = €833/month tax free***

# Buy or Rent? – different scenarios

## Buying versus renting Position at year end

### 2-bed apartment in Dublin 1



RED LINE = LOWER MORTGAGE RATES AND STRONGER RECOVERY IN HOUSE PRICES AFTER 2010 (5%p/a)

GREEN LINE = HOUSE PRICES FALL BY 5% IN 2009 AND MORTGAGE RATES AT 4.5% FROM 2008

## Summary

- ◆ **Affordability continues to improve-** and prospect of lower mortgages rates and earnings growth will improve it further.
- ◆ Decision to buy or rent strongly influenced by what one expects to happen to house prices, mortgage rates and rents.
- ◆ Notwithstanding current trends in house prices, **buying is more attractive than renting** if retain property for more than three years.
- ◆ Decision to buy further supported by '**Rent a Room**' scheme.
- ◆ While renting will always be more attractive in the very short term, buying is generally a better investment decision for the medium term.

Thank You