

EBS / DKM AFFORDABILITY INDEX SHOWING SIGNS OF MARKET STABILISATION

8th November 2012: The cost of funding a mortgage nationally on a home for the average first time buyer (FTB) working couple today stands at 11.7% of their joint disposable income. This is an improvement compared with October 2011 when it stood at 12.8% and is substantially better than the 26.4% which FTB couples required to fund their mortgage repayments in 2006. In Dublin, affordability for FTB couples was at 13.9% in September 2012 compared to 15.6% in September 2011 and 32.5% at the peak in 2006.

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 – calculated using the average standard variable mortgage rates published by the CSO. The last average rate published was 4.25% in August 2012. The EBS / DKM Affordability Index is tracked on a monthly basis and has used the CSO Residential Property Price Index (RPPI) data since August 2009.

The sustained improvement in the affordability index over the last number of years has been largely due to the decline in property prices over the period. The latest house price data, published by the CSO, shows that prices were down nationally by 9.6% year on year to September 2012. However, prices were relatively flat in the seven months up to September and as a result affordability has stabilised over the same period.

The EBS / DKM Affordability Index shows that single first time buyers nationwide are expected to pay 23.2% of their net incomes in mortgage repayments in December 2012 compared with around 29% in December 2010.

Despite the sustained reduction in affordability over the last number of years, the volume of transactions remains low. While the mortgage market remains relatively subdued, the market profile statistics confirmed a year on year increase in the home purchase segments, i.e. First Time Buyers and Next Time Buyers sectors. This is the first year on year increase since Q3 of 2006.

Commenting on the latest quarterly EBS / DKM Affordability Index, Owen Purcell, Head of Mortgages at EBS said: "While it is too early to say that property prices have found an absolute floor, the limited change in house prices over the last 7 months has resulted in affordability stabilising. It is reasonable to assume that the recent modest increase in the volume of house purchases is the result of potential house purchasers identifying this change in market dynamics. It is clear that some have decided that now is the time to return to the market, something that is borne out by the recent IBF Mortgage Market figures. It is important to note, however, that there are a number of changes expected over the next few months which may negatively impact consumer confidence and overall affordability.

"One major factor which is likely to have an impact on consumer confidence will be the forthcoming Budget. It is expected that further austerity measures will impact the disposable income of Irish households, while home owners are also preparing for the introduction of a property tax. The decision to remove Mortgage Interest Relief will come into effect from December and will have some impact on affordability."

Annette Hughes, Director, DKM Economic Consultants commenting on the latest figures said: "The recent trends in property prices have led to some stability in the housing affordability measure, with the proportion of net income required to fund a mortgage for the average FTB working couple in the State at around 11.7% since February this year. This stability reflects the fact that net repayments and disposable incomes have fallen at around the same rate (c. 1%) over the past eight months. The current affordability estimate compares with 12.8% in October 2011. In Dublin, housing affordability, reached 13.9% in September, but is still well below the corresponding percentage recorded twelve months earlier of 15.6%."

Commenting on the levels of negative equity in the market she said: One factor that will continue to impact the property market is the growing problem of negative equity. Research undertaken in the market suggests that up to 50% of all mortgage holders are now in negative equity. This issue could limit suitable first time buyer stock coming on to the market which could delay a return to a fully operational market."

The latest EBS / DKM Affordability Index can be found at www.ebs.ie or www.dkm.ie

Housing Affordability Trends for a FTB Couple and Single Person December 2006 – September 2012 with Projections to December 2012

	Dec- '06	Dec- '07	Dec- '08	Dec- '09	Dec- '10	Dec- '11	Sept- '12	Nov- '12 Estimate	Dec- '12 Forecast
Average Variable Mortgage Rate	4.81%	5.37%	4.80%	3.32%	4.02%	4.24%	4.25%	4.35%	4.35%
National FTB Working Couple - both working on average earnings									
Monthly Repayments	1,323	1,230	1,008	722	683	579	554	551	547
As % of Net Income	26.4%	24.1%	19.4%	14.5%	13.9%	12.2%	11.7%	11.7%	11.6%
Ave. House Price (000s)	279.0	260.8	224.2	188.1	168.4	140.3	134.1	132.3	131.4
National Single FTB - on average earnings									
Monthly Repayments	1,390	1,306	1,008	722	683	579	554	551	547
As % of Net Income	55.4%	51.1%	38.7%	29.0%	27.8%	24.4%	23.5%	23.4%	23.2%
Ave. House Price (000s)	279.0	260.8	224.2	188.1	168.4	140.3	134.1	132.3	131.4
Dublin FTB Working Couple									
Monthly Repayments	1,741	1,577	1,326	929	877	720	697	693	688
As % of Net Income	32.5%	29.0%	24.0%	17.6%	16.9%	14.3%	13.9%	13.8%	13.8%
Ave. House Price (000s)	359.0	333.9	294.9	241.9	216.1	174.4	168.7	166.3	165.1

ENDS

For further information contact:

Q4 PR

01-4751444

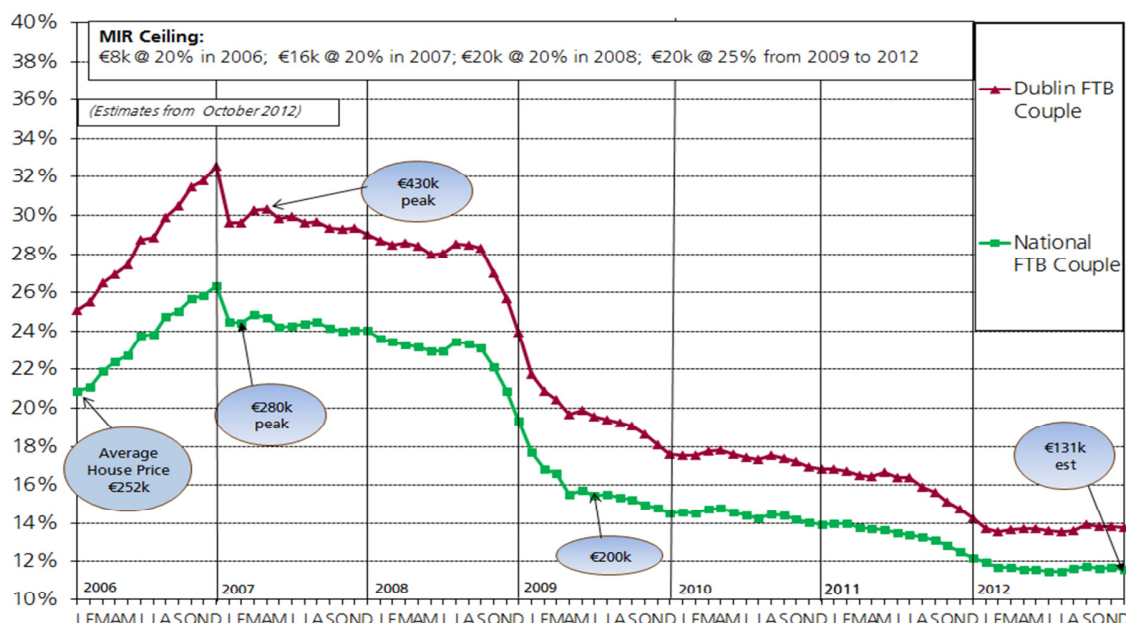
Suzanne Sullivan

086-3797291 Angie Kinane 087 8126249

Notes to the Editor :

Chart on next page

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.



ASSUMPTIONS

Monthly FTB Property Prices: permanent-tsb/ESRI FTB up to July 2009. Data from August 2009 derived by assuming that FTB prices fall in line with the CSO's *Residential Property Price Index* up to September 2012. Post September 2012, assume average FTB property prices decline nationally and in Dublin by 0.7% per month until December 2012. This % reduction represents the average monthly fall in the first nine months of 2012.

The average Dublin FTB property price is assumed to be equal to 84% of the average Dublin price, based on the permanent-tsb/ESRI dataset.

Loan to value ratio: 90% **Mortgage term:** 25 years.

Average Variable Mortgage Rate: is an average of the standard variable mortgage rates for Mortgage Lenders reporting to the Central Bank & Financial Services Authority of Ireland (CSO/CB data). Latest published figure is 4.25% for August 2012. Average rates are assumed to increase to 4.35% in November and remain at that level in December 2012.

Maximum Mortgage Interest Relief for FTBs: €20,000 max MIR available for married couples at 25% since Jan 2009 = max of €417 per month and held at this level for FTBs in 2012.

Average Gross Earnings: Gross income figures represent average earnings according to the CSO's *Earnings, Hours and Employment Costs Survey*. The FTB working couple started out earning €70,000 in June 2005. Average earnings increased to €38,380 in Q2 2007 and fell back to €35,673 in Q1 2010, 3.3% below the corresponding figure in Q1 2009. Latest CSO data show earnings at €35,768 in Q2 2012, unchanged from Q2 2011. Average earnings of €35,857 projected in 2012, almost unchanged from the average figure for 2011 (€35,880).

Incomes of Dublin buyers are assumed to be 10% higher than for buyers across the State as a whole.

Income and health levies replaced by the new Universal Social Charge from January 2011.

Disposable Incomes derived by adjusting gross incomes for tax bands and credits, PRSI and USC rates announced.

NOTE: Information in this report was compiled on 1st November and reflects the latest data available at this date.