EBS

EBS DKM IRISH HOUSING AFFORDABILITY INDEX

May 2015

The EBS DKM Affordability Index is a measure of the proportion of after tax income required to meet the first year's mortgage payments for an 'average' first-time buyer (FTB) working couple, each on average earnings. It takes into account, not just property prices, but changes in mortgage rates, mortgage interest relief and disposable incomes for the average FTB working couple in Dublin and across the State.

DKM
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KEY MESSAGES

- ✓ **Housing affordability improved in the opening months of 2015 thanks to a small decline in property prices, however, house price growth resumed in March.** Supply still remains the overriding issue. The improving economy combined with the shortage of supply could see sustained house price growth resume again later in the year as the new Central Bank rules become embedded in lending policy.

- ✓ In the Dublin market, housing affordability improved since October 2014. The proportion of net income required to fund a mortgage for the average Dublin first-time buyer (FTB) working couple was 22.7 per cent in March 2015, but down from 24.3 per cent last October. A further improvement in affordability is forecast over the next three months, with the proportion of net income required to fund a mortgage expected to fall to 22.1 per cent in June, just over one-fifth of disposable income.

- ✓ Trends in national housing affordability are influenced by trends in the Dublin market. The proportion of disposable income required to fund a mortgage for the average FTB working couple was 19.5 per cent in March 2015, down from 20.6 per cent last October. The average FTB property price was estimated at €206,000 in March, implying an average mortgage of €171,000, assuming an 83% loan-to-value (LTV) ratio.

- ✓ Affordability has clearly been an issue for single persons for some time. Mortgage repayments, based on average earnings (€36,000), were well above what is considered to be a sustainable mortgage, accounting for over 40 per cent of a single person's net income in the latter months of 2014. Affordability was at 39.1 per cent of net income in March, and is expected to improve to 38.3 per cent in June.

- ✓ The CSO index for property prices outside Dublin was unchanged in February but increased by 0.7 per cent in March, albeit it declined by 0.9 per cent in January compared with December. As a result affordability has been less volatile for FTBs outside the Dublin area. The proportion of net income required to fund a mortgage for the average FTB working couple was 15.9 per cent in April, down marginally from 16.5% in October. Affordability is projected to improve slightly to 15.7 per cent in June. The average property price outside of Dublin is estimated at around €167,300 which is 33.5 per cent below the corresponding estimated FTB price in Dublin.

- ✓ The implementation of the Central Bank's new regulations on mortgage lending have been broadly welcomed and had a positive impact on property prices in the first two months of the year. Any impacts are likely to be mostly felt by potential FTBs buying properties in excess of the €220,000 limit for the 90 per cent LTV ratio. Moreover, their potential ability to buy is likely to be further eroded by their reduced capacity to save, due to the continued increase in rents, particularly in urban areas.

Housing market still not functioning properly – as pent-up demand and a supply shortage, rising rents and new lending regulations are key features of the market in early 2015

The housing market continues to attract much attention. Whether it is with regard to developments in house prices and rents, mortgage rates, mortgage arrears or housing supply, the subject is receiving considerably media and press coverage. This reflects the focus on ensuring that the imbalances experienced in the past do not materialise again. A properly functioning housing market is critical to ensuring a sustained economic recovery but progress in this regard has been relatively slow. Thus measures to accommodate the urgent delivery of housing supply have to be the key priority, even though an adequate increase in supply will take considerable time to come on stream.

Developments in the opening months of 2015 saw a reversal of the upward trend in property prices during 2014. Property prices declined in the first two months of the year nationally and in Dublin, although the rate of decline was slower in February than in January. Uncertainty in advance of the new Central Bank lending guidelines may have been partly responsible for the decline in the opening months. The announcement of the new LTV limits on 27 January will have removed any uncertainty. The decline was quickly reversed in March when property prices nationally increased by 0.9 per cent in the month and by 1.1 per cent in Dublin. Under the new rules, while potential buyers with approvals will be accommodated, other potential buyers will now be required to raise a higher deposit, particularly those for whom the LTV moves closer to 80 per cent.

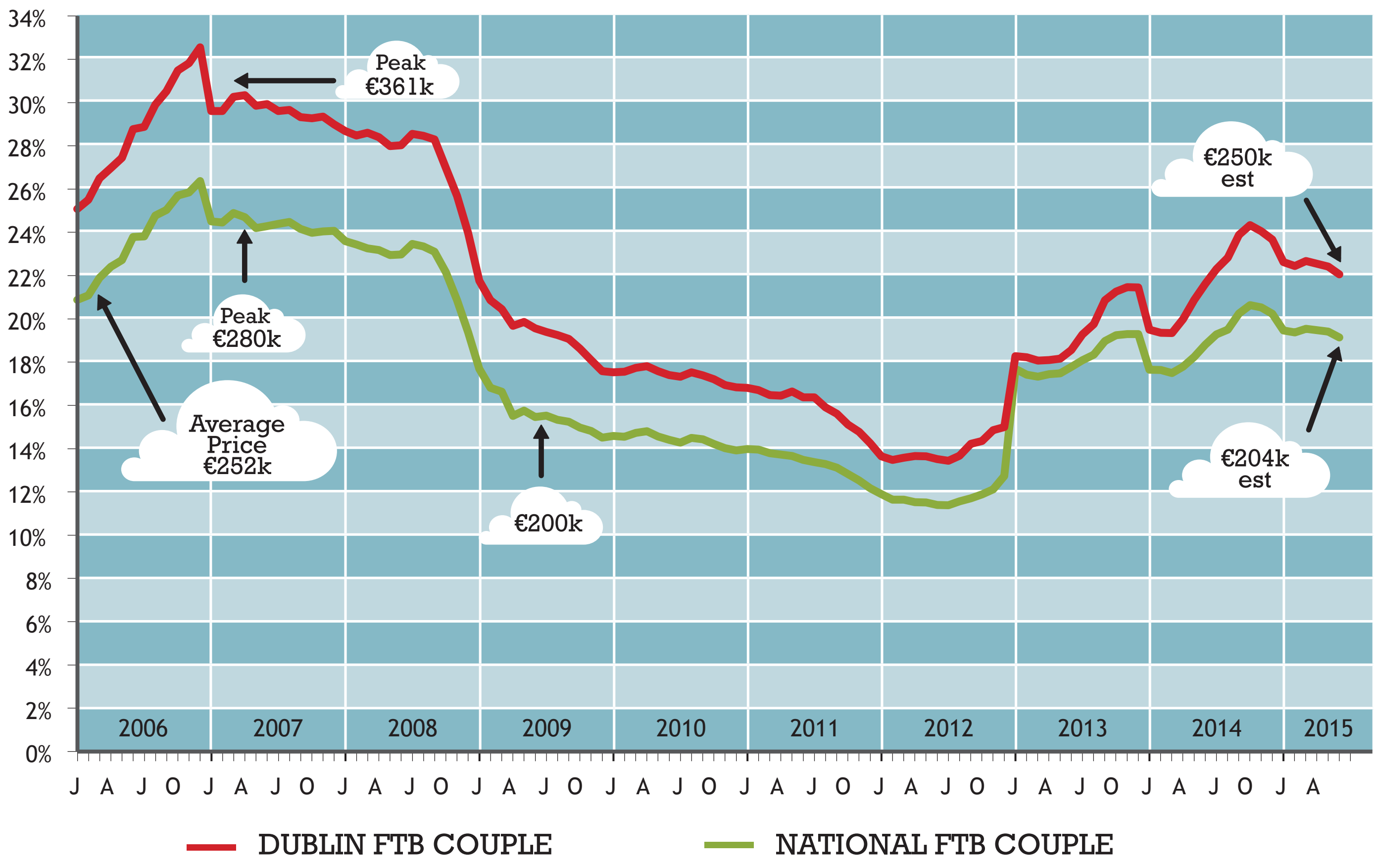
However, there is considerable pent up demand in the market at present with projections from the Housing Agency suggesting that the housing supply requirement in the Dublin region is equivalent to 37,700 new dwellings in the period 2014-2018 or almost 80,000 across all urban settlements. Across the country as a whole, the ESRI has projected a need for between 19,000 and 33,000 additional dwellings per annum - an average of 26,000 - which would amount to around 130,000 dwellings in the five years 2014-2018.
In the meantime, just 1,822 units were completed (i.e. connected for electricity) in Dublin last year and 11,016 nationally.

The demand is coming from different groups of potential purchasers, including those households who have postponed purchasing a home due to affordability issues in the run up to the peak in 2007, or thereafter due to falling property prices until recently. The new Central Bank lending guidelines may cause potential house buyers to postpone their decisions to buy, resulting in more pressure on the private rented sector.

Although prices declined in the opening two months of the year, the upward pressure on prices in 2013 and 2014 has had adverse consequences for rents in Dublin. This in turn is creating a further difficulty for those aspiring FTBs unable to get onto the housing ladder and who now may have to stay longer in the rented sector. With rents increasing in urban areas and by 10 per cent on average in Dublin (PRTB Rent Index), the ability to save the higher deposit now required for house purchase may be more difficult. This will have even greater consequences for lower income households who will be faced with even higher rents, a trend which is already emerging in supply constrained locations.

FIGURE 1: EBS-DKM HOUSING AFFORDABILITY INDEX

The proportion of net income required by a FTB working couple to fund mortgage repayments on the 'average' FTB property.
For a FTB working couple December 2006-March 2015 with projections to June 2015



RECENT TRENDS IN AFFORDABILITY

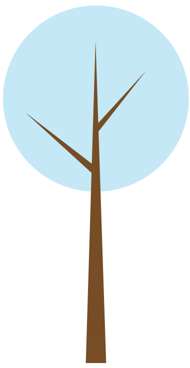
Affordability refers to the potential buyer's ability to fund a mortgage but is also about his/her ability to raise the mortgage. For the purposes of the measure of affordability used here the main indicators used are mortgage rates, disposable incomes and property prices. The various scenarios shown for the *EBS-DKM Affordability Index* are based on a single person and a working FTB couple, each on average earnings, borrowing 83% of the average FTB property price since January 2014. Recent trends are set out below.

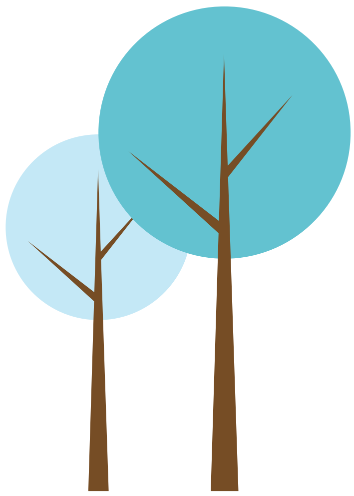
TABLE 1: EBS DKM HOUSING AFFORDABILITY TRENDS

For a FTB working couple and single person in December 2006-April 2015 with Projections to June 2015

	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14	Apr 15	Jun 15
										Estimate	Forecast
Average Market Mortgage Rate	4.81%	5.37%	4.80%	3.32%	4.02%	4.24%	4.33%	4.48%	4.40%	4.30%	4.20%
National FTB Working Couple - both working on average earnings											
Monthly Repayments	1,323	1,230	1,008	722	683	579	603	902	959	939	924
As % of Net Income	26.4%	24.1%	19.4%	14.5%	13.9%	12.2%	12.7%	19.3%	20.2%	19.5%	19.1%
Ave. House Price (000s)	279.0	260.8	224.2	188.1	168.4	140.3	145.0	178.7	207.8	205.4	204.3
National Single FTB - on average earnings											
Monthly Repayments	1,390	1,306	1,008	722	683	579	603	902	959	939	924
As % of Net Income	55.4%	51.1%	38.7%	29.0%	27.8%	24.4%	25.5%	38.6%	40.5%	38.9%	38.3%
Ave. House Price (000s)	279.0	260.8	224.2	188.1	168.4	140.3	145.0	178.7	207.8	205.4	204.3
National (excluding Dublin) FTB Working Couple - both working on average earnings											
Monthly Repayments	1,257	1,176	1,007	773	734	634	654	769	776	765	756
As % of Net Income	25.0%	23.0%	19.4%	15.5%	14.9%	13.3%	13.8%	16.4%	16.4%	15.9%	15.7%
Ave. House Price (000s)	266.3	249.4	224.0	201.4	180.9	153.5	146.0	152.4	168.0	167.4	167.1
Dublin FTB Working Couple - both working on average earnings*10%											
Monthly Repayments	1,741	1,577	1,326	929	877	720	754	1,065	1,191	1,155	1,131
As % of Net Income	32.5%	29.0%	24.0%	17.6%	16.8%	14.3%	15.0%	21.4%	23.7%	22.6%	22.1%
Ave. House Price (000s)	359.0	333.9	294.9	241.9	216.1	174.4	181.3	210.9	258.0	252.7	250.1

(See Assumption on last page)





AFFORDABILITY FOR FTBs IN DUBLIN:
22.6 PER CENT OF NET INCOME

The index of average property prices in the Dublin market bottomed out in the first half of 2013 and began to pick up in the final three months of the year, generating an average monthly increase in property prices of 1.2 per cent in 2013. Although prices fell modestly in the first three months of 2014, they increased at an average monthly rate of 3.2 per cent between April and October. Prices overall increased at an annual rate of 22.3 per cent in December 2014 or an average of 1.7 per cent per month during the year. With one-third of total transactions taking place in the Dublin market in 2014, these trends seriously impacted on affordability for FTBs during 2014.

Over the four months to February 2015, the average price declined by 0.6 per cent per month. As a result affordability improved, with the proportion of net income required to fund a mortgage for the average Dublin FTB working couple back to 22.4 per cent in February, a level last reached in July 2014 and before then, in February 2009. The pick-up in Dublin prices in the month of March (+1.1%) reversed the improvement in affordability which weakened to 22.7 per cent of net income. With house prices in Dublin expected to decline slightly in the short-term, affordability improves again over the next three months, with the proportion of net income required to fund a mortgage estimated at 22.6 per cent in April and expected to fall further to 22.1 per cent in June. This has been achieved despite the fact that average property prices in March had recovered by 44 per cent from their lowest point (August 2012 according to the CSO RPPI) while disposable incomes had fallen by 2 per cent over the same period.

However, with the housing supply shortage in Dublin unlikely to be addressed to any noticeably extent over the coming months, this recent improvement in affordability may be short lived.

AFFORDABILITY FOR FTBs – NATIONAL TRENDS: *19.5 PER CENT OF NET INCOME*

Following a period of relative stability in the opening months of 2014, housing affordability for FTBs began to weaken in April as average property prices across the State rose by 16.8 per cent in the seven months to October. A modest decline in average disposable incomes over the period was also responsible, as affordability reached a peak of 20.6 per cent in October. Average property prices hardly changed since October and by February 2015 had declined by just 0.9 per cent. With the resumption of price increases in March (+0.9%), affordability weakened marginally to 19.5 per cent of net income. The average FTB property price was estimated at €204,853 in March, implying an average mortgage of €170,028, assuming an 83 per cent LTV ratio. The corresponding average monthly repayment was €936, which compared with the average monthly rent across the country of €829 (Q4 2014). The estimated mortgage compares with the average FTB mortgage of €167,097 in Q4, 2014 (latest available), according to data from the Banking and Payments Federation Ireland (BPFI).

Housing affordability is currently estimated at 19.5 per cent of net income for a FTB working couple. A further modest reduction in average property prices and the average mortgage rate is expected to deliver a marginal improvement in affordability by June (19.1%).

AFFORDABILITY FOR FTBs – NATIONAL TRENDS (EXCLUDING DUBLIN): *15.9 PER CENT OF NET INCOME*

The housing market outside of Dublin contrasts sharply with trends in the Dublin market. After reaching a low point in March 2013, average property prices outside Dublin bumped along the bottom for over twelve months, rising and falling by between +1.5 per cent and -1.5 per cent in some months. Between May and December 2014, the index for outside Dublin increased each month or in total by 11.4 per cent. As a result the proportion of net income required to fund a mortgage for the average FTB working couple peaked at 16.5 per cent in October. Affordability subsequently improved reaching 15.8 per cent in February, reflecting the trend in property prices since October 2014. The marginal recovery in prices in March (+0.7%) pushed affordability upwards to 15.9 per cent, although the projection expects affordability outside Dublin to fall to 15.7 per cent of net income in June. Given the influence of urban areas (excluding Dublin) in the overall mix, there will be non-urban locations where house purchase represents an even more affordable proposition for FTBs (see county analysis below).

The average property price outside of Dublin is estimated at around €167,400 which is 34 per cent below the corresponding estimated FTB price in Dublin.

AFFORDABILITY FOR A SINGLE FTB– NATIONAL TRENDS: *39.1% OF NET INCOME*

The decision to purchase a property by a single person on average earnings is an entirely different proposition. House purchase has been beyond the reach of a single person on average earnings in urban areas for quite some time. Mortgage repayments based on just average earnings (€36,000), were well above what is considered to be a sustainable mortgage, consuming over 40 per cent of a single person's net income at the end of 2014. Based on the proportion of income deemed to be the maximum one should allocate to a sustainable mortgage (30% of gross income), a single person would need to be earning a minimum of €37,000. This, however, would be equivalent to almost 39 per cent of net income, which remains a significant proportion of disposable income. In contrast, mortgage repayments at 30 per cent of net income would require a gross income of €54,000.

Affordability for single FTBs improved marginally over recent months, falling to 38.8 per cent of disposable income in February 2015, based on the average property price of €204,200. The price increase in March weakened affordability as it reached 38.9 per cent but a further modest improvement to 38.3 per cent is projected by June.

INCOMES – *AVERAGE WEEKLY EARNINGS UNCHANGED IN 2014 COMPARED WITH 2013*

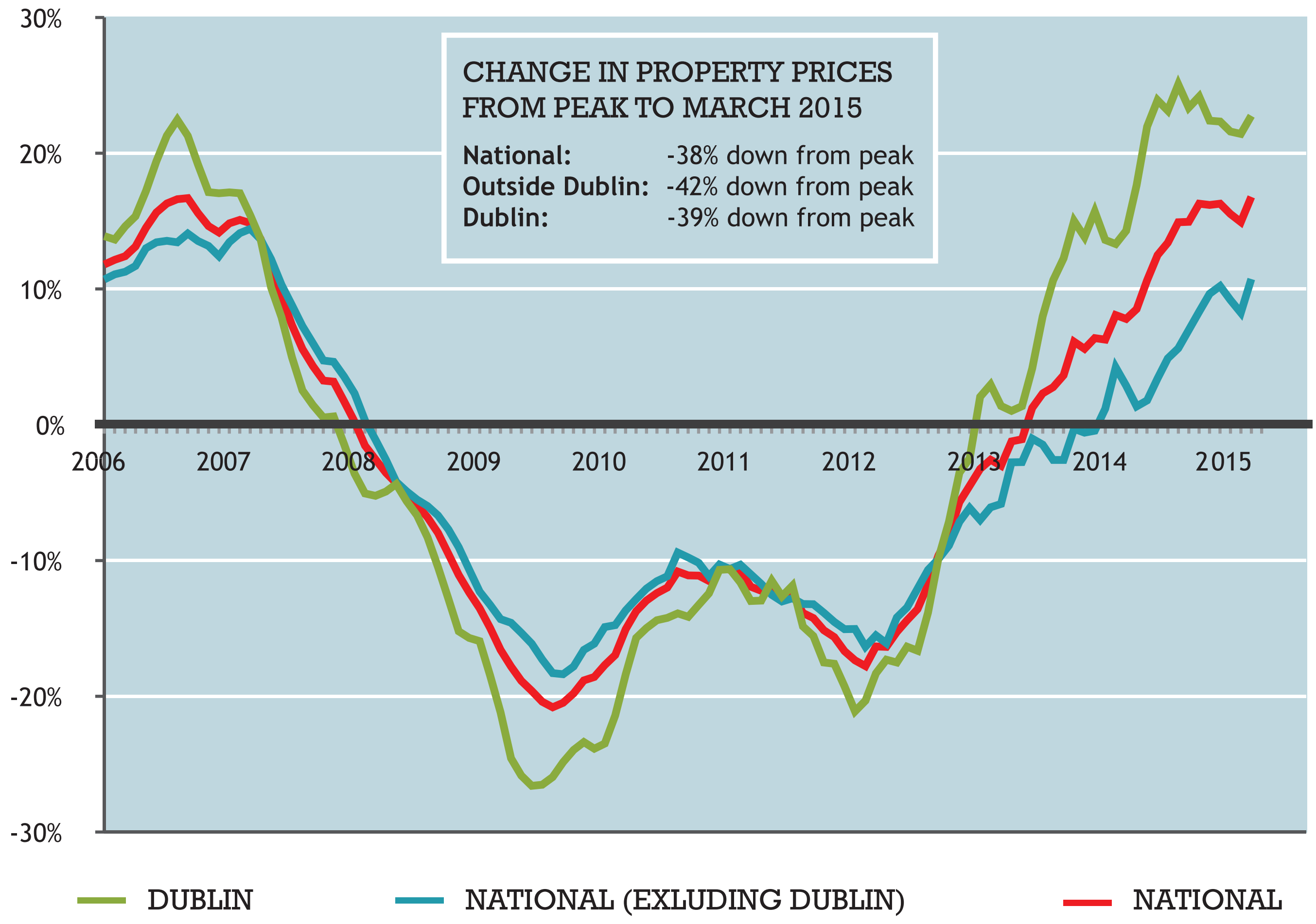
The data used for average earnings is based on the CSO's Earnings and Labour Costs Survey. The latest data showed average weekly earnings up 2.3 per cent year-on-year in Q4 2014. However, based on data for the year as a whole, average earnings were almost unchanged compared (-0.1%) with 2013. Based on the assumptions used for ascertaining affordability, the average working couple who started out with joint earnings of €70,000 in 2005 would have seen their gross earnings increase by 8.2 per cent between 2005 and 2007. However, gross average earnings declined by 5.5 per cent to €71,571 between 2007 and 2014 for our FTB working couple. Households would have seen increasing demands on their take-home pay over this period as a result of increases in the cost of living such as, for example, the introduction of the local property tax. For FTBs in the rented market, who have been saving for a deposit to purchase their first home, average rents have increase by 10 per cent since Q1 2012 nationally and by 23.2 per cent in Dublin, according to the PRTB Rental Index. For the purposes of estimating affordability trends in the short term, average earnings are assumed to increase by 0.25 per cent each quarter, which is an annual rate of 1.04 per cent.

MORTGAGE MARKET RATES – *ESTIMATED AT 4.3% SINCE JANUARY 2015*

The other variable required to calculate affordability is the average standard variable mortgage rate. Based on a review of existing mortgage lending institutions, the standard average variable mortgage rate is currently estimated at 4.3 per cent. Following the recent reductions announced by AIB, EBS and Haven the overall average mortgage rate is projected to reduce from June 2015.

FIGURE 2: RESIDENTIAL PROPERTY PRICES

Annual Percentage Change (Monthly from January 2006)



THE TIMING OF THE CENTRAL BANK GUIDELINES – WHY NOW?

The new regulations introduced by the Central Bank at end of January have two main objectives:

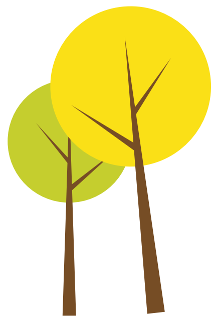
- ✓ To improve financial stability with respect to the property market, and
- ✓ To reduce the risk of bank credit and house price spirals from developing in the future.

The new regulations will apply proportionate limits to mortgage lending by financial institutions. Specifically they have introduced proportionate limits for loan to value and loan to income ratios for both principal dwellings and buy to let mortgages. The total value of new lending for principal dwelling mortgages above these limits is to be no more than 15 per cent of the value of all mortgages drawn down in a year. The financial institutions will continue to assess affordability and lend prudently on a case-by-case basis.

The new rules are being introduced at a time when the mortgage market is operating well below what would be considered a 'normal' level of lending. The total value of mortgage drawdowns where a residential property transaction was involved was €3.66 billion of which 51 per cent went to FTBs. This figure compares with €14.5 billion of which one-third went to FTBs in 2008; this total figure was almost 50 per cent below the unsustainable peak reached (in terms of drawdowns for house purchase) in 2007 (€28 billion).

Similarly, total loan approvals for house purchase were up almost 50 per cent in 2014 to 25,500 and were up by 42.4 per cent in the first two months of the year on the corresponding period in 2014. The total loan approvals in the first three months increased by 41 per cent on the same period in 2014.

While the implementation of the new lending measures have been broadly welcomed and while having a positive impact on property prices in the first two months, there are likely to be negative consequences for rents and deposits. Moreover, the new rules are likely to place FTBs at a disadvantage to cash buyers which accounted for 51 per cent of the market last year. However, while the need for some measures to stem the rise in property prices is welcome, the supply side issue also needs to be addressed if the many households who have been waiting for some time to purchase a property are to be accommodated.



Loan-to-Value Restrictions on Residential Mortgage Lending

Under the new rules the maximum mortgage provided is based on the following rule:

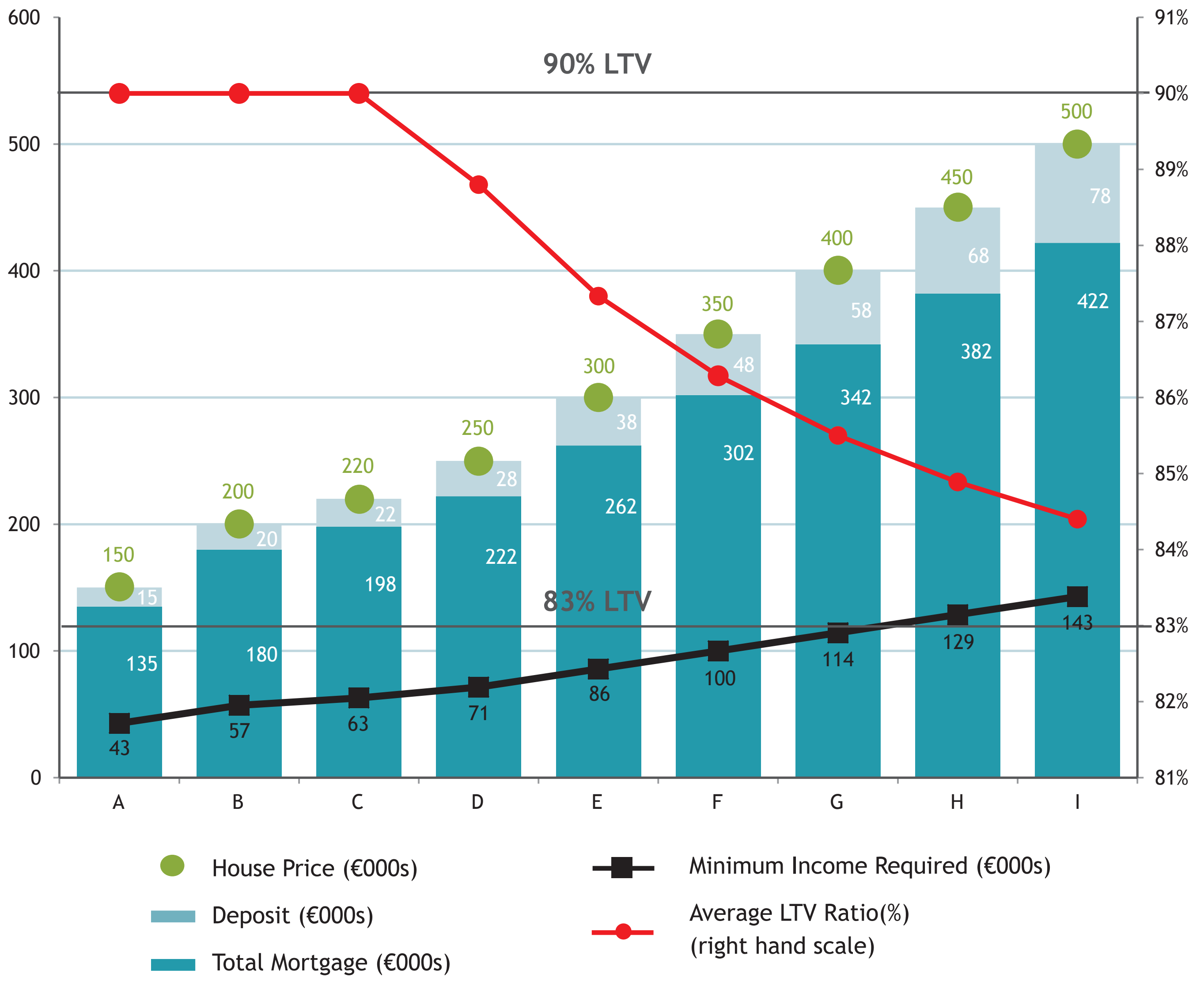
- ✓ An amount equal to 90 per cent of the value of the principal home up to and including the amount of €220,000, and
- ✓ An amount equal to 80 per cent of the amount (if any) of the value of the principal home in excess of 220,000.

The Central Bank guidelines will impact first-time buyers the most

The main impact of the new guidelines is likely to be felt by FTBs, given the requirement to raise a significantly higher deposit compared with the previous regime when the maximum loan to value (LTV) ratio was in excess of 90 per cent. The issue will be particularly onerous for FTBs purchasing properties where the LTV ratio is closer to 80 per cent. As such potential FTBs in Dublin and to a lesser extent, in other cities, are likely to be most impacted by the new rules.

The following Chart and Table shows the deposits required by FTBs based on a range of house price scenarios between €150,000 and €500,000 and the level of income that would be required to purchase those properties, based on the new loan to income limits (see below). The deposit required across the nine cases (A to I) ranges from €15,000 or 10 per cent of the house price to €78,000 or 15.6 per cent of the house price. Based on the current average FTB house price in Dublin of around €250,000, a potential borrower would have to raise a deposit of €28,000, while the minimum gross income required would be €71,000. For property prices in excess of this amount, the deposit rises substantially, to €48,000, for example, for a property valued at €350,000 while the minimum gross income required is €100,000. These deposit levels are likely to be onerous for single FTBs and households with children, who may now have to rent for longer in advance of making a purchase.

FIGURE 3: MAXIMUM DEPOSITS AND LTV RATIOS FOR A RANGE OF HOUSE PRICE SCENARIOS



In terms of housing affordability, while our measure suggests that housing affordability is improving because property prices have declined modestly in the opening months of the year, it does not take into account the ability to raise the deposit. As a result, the new rules are likely to have a negative impact on the ability to save for a deposit.

The Table shows the corresponding monthly mortgage repayments for each property. There is a threefold increase in the monthly mortgage repayment between the lowest and the highest priced property. The FTB working couple assumed in the analysis of affordability has a monthly disposable income of €4,822. Thus based on net income, the mortgage repayment for each property ranges from 15.4 per cent to 48.2 per cent of disposable income. For the corresponding single person, they are paying almost one-third of net income for the lowest priced property (€150,000) and over one-half of their disposable income for the property priced at €250,000.

TABLE 2: MONTHLY MORTGAGE REPAYMENTS FOR RANGE OF HOUSE PRICE SCENARIOS

	A	B	C	D	E	F	G	H	I
House Price (euro)	150,000	200,000	220,000	250,000	300,000	350,000	400,000	450,000	500,000
Mortage (euro)	135,000	180,000	198,000	222,000	262,000	302,000	342,000	382,000	422,000
Max LTV	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Deposit (euro)	15,000	20,000	22,000	28,000	38,000	48,000	58,000	68,000	78,000
Deposit (% of house price)	10.0%	10.0%	10.0%	11.2%	12.7%	13.7%	14.5%	15.1%	15.6%
Mortgage Rate	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Monthly Mortgage (euro)	743	991	1,090	1,222	1,442	1,662	1,883	2,103	2,323
As % of Disposable Income for									
FTB Working Couple (on €74k)	15.4%	20.5%	22.6%	25.3%	29.9%	34.5%	39.0%	43.6%	48.2%
Single Person (on €37k)	30.8%	41.1%	45.2%	50.7%	59.8%	68.9%	78.1%	87.2%	96.3%

(See Assumption on last page)

Loan-to-Income Limit of 3.5 Times Gross Income

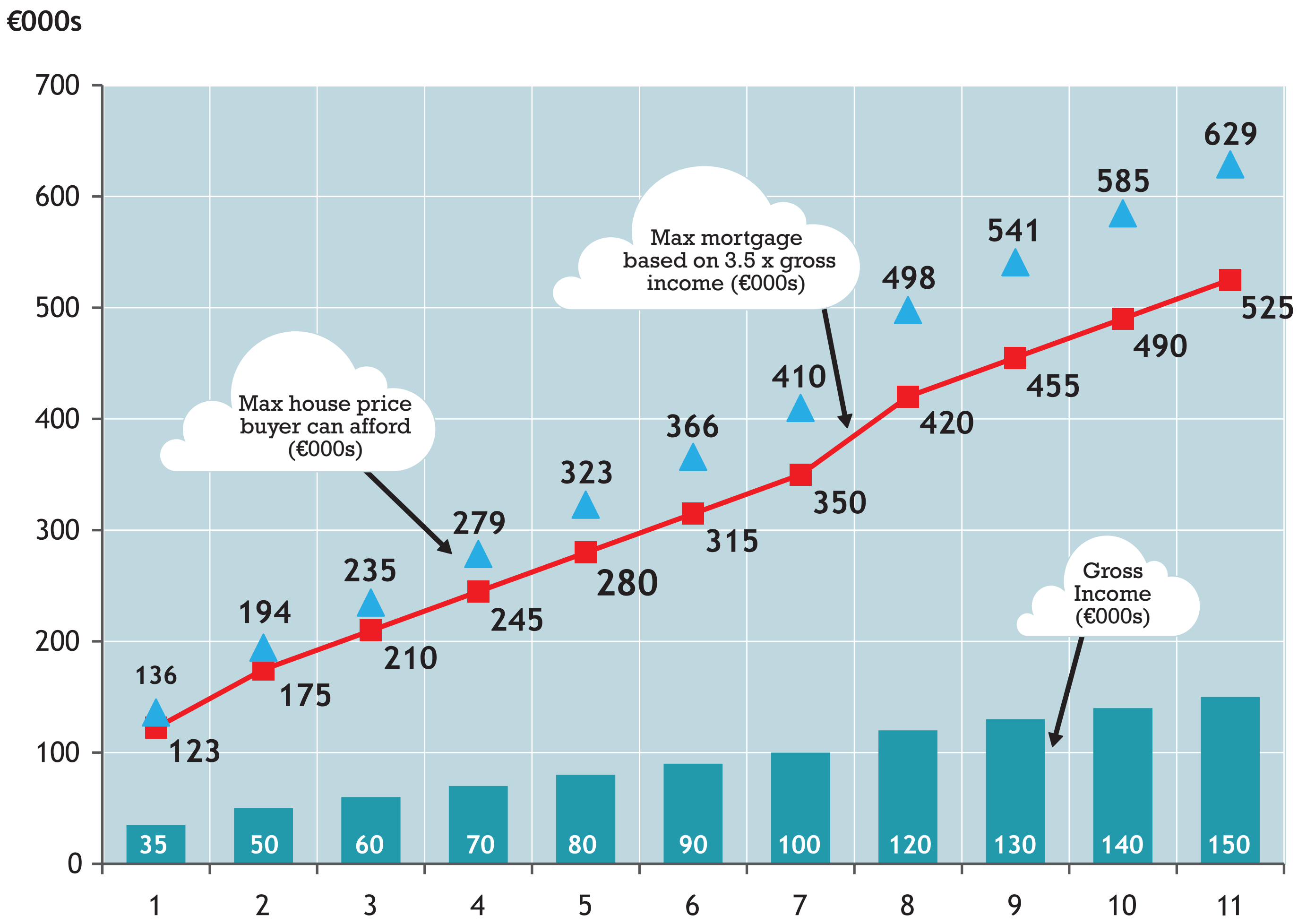
The new rules have also set a Loan to Income (LTI) limit of 3.5 times for the loan to gross income ratio for principal dwellings but allow 20 per cent of new lending to be above this cap. The next chart shows the maximum mortgages based on gross incomes ranging from €35,000 to €150,000 and the corresponding maximum house prices those buyers can afford to pay. It is understood that the mortgage advanced in each case will be the lower of the two based on the LTV and LTI rules. Thus taking a few examples:

- ✓ An individual or couple earning €50,000 will be in a position to raise a mortgage of €175,000 on a property worth €194,000, implying a deposit of €19,000.
- ✓ Taking the closest example to our FTB working couple assumed in the analysis of affordability, based on gross earnings of say, €70,000, the couple can afford to raise a mortgage of €245,000 for a property priced at €279,000, implying a deposit of €34,000.
- ✓ An individual or couple earning €100,000 will be in a position to raise a mortgage of €350,000, implying a maximum house price of €410,000 and a deposit of €60,000.

Clearly the deposit requirement becomes a more burdensome issue the higher the house price and as the LTV ratio falls below the 90 per cent and moves closer to 80 per cent.

It is also important to note that the borrower's capacity to borrow will also be determined by their ability to repay their mortgage out of their disposable income. The financial institutions will continue to assess each applicant on a case by case basis in this regard.

FIGURE 4: MAXIMUM MORTGAGES BASED ON LOAN-TO-INCOME LIMIT OF 3.5 TIMES GROSS INCOME



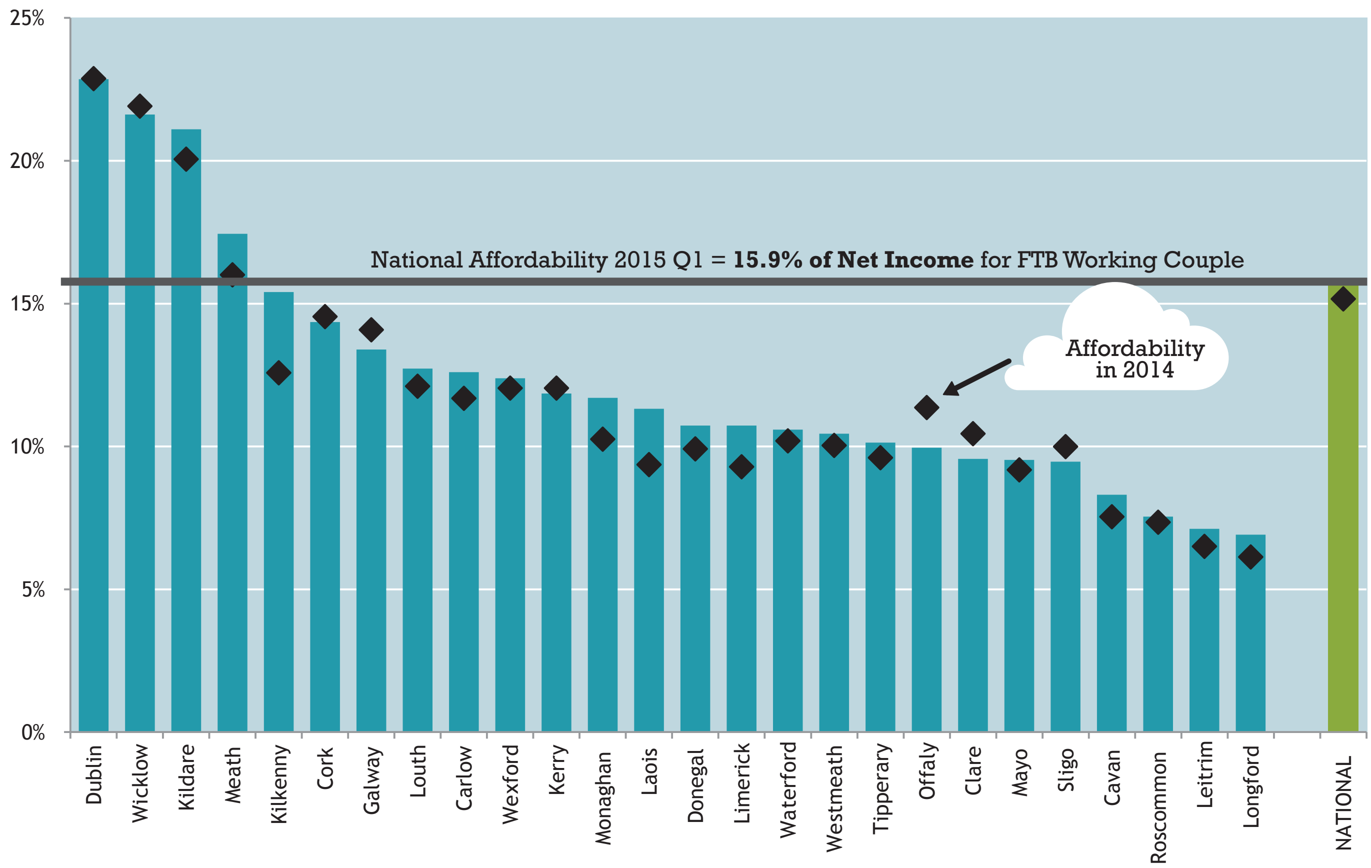
There are likely to be other indirect impacts of the Central Bank measures such as:

- ✓ The impact on *consumer spending* as potential FTBs struggle to save to raise the higher deposit, while at the same time they are faced with rising rents in the private rented sector. A related adverse development may be that parents, who are in a position to do so, contribute towards the deposit for their children, thus withdrawing more potential spending from the economy.
- ✓ The impact on the *current crisis in the private rented sector* as an increased demand for renting is likely to put further upward pressure on rents, placing home ownership possibly outside of the reach of even more potential FTBs, especially for those in Dublin.
- ✓ The impact on potential development and *future housing supply* if developers and housebuilders become concerned about their potential market for new sales and reduce supply below what it otherwise might have been. Given that the core issue is housing supply, this would be a very unwelcome impact of the new rules if it materialised.

The Central Bank has also set a maximum LTV of 70 per cent for investors which may see more investors coming into the market. However the decision to invest in rented property is influenced by many other factors, plus with a significant proportion of current vendor sales arising in the residential investment market, the impact on investor demand is difficult to quantify.

FIGURE 5: HOUSING AFFORDABILITY BY COUNTY*

% of net income required to fund a mortgage for a FTB working couple on average earnings with an 83% LTV in Q1 2015



* Using data for median house prices from the Property Price Register for 2014 and Q1 2015 and excluding all transactions over €5 million and under €20,000.

This issue presents an up to date analysis of housing affordability by county. The methodology employed uses the median transactions price from the Property Price Register (PPR) for the approximately 9,400 transactions in Q1 2015 and an estimate for disposable income per working couple by county, to ascertain mortgage repayments as a percentage of net income for a first time buyer working couple. The same calculation is shown for comparison using the full dataset for the year 2014.

The income data used is based on the County Income data published by the CSO, the latest data of which is for 2012. Firstly the average annual earnings figure across the State according to the CSO Earnings, Hours and Employment Costs Survey (EHECS) was €35,780 in 2014 or €72,000 for a FTB working couple, assuming each is on average earnings. The corresponding figure for each county is derived based on the published indices for Total Income per Person by the CSO. The differential for each county relative to the State average is applied to ascertain the equivalent gross income for a working couple in each county. The relativities are assumed to remain unchanged between 2012 and 2014, although significant differentials are evident in the year between some counties and the national average. In Dublin, for example, gross earnings are 18.8 per cent higher than the national average, with Limerick and Cork ranking a distant second and third at 7.9 and 0.7 per cent higher respectively, compared with the national average.

Conversely, average gross earnings in Donegal and Monaghan are 24.2 and 22.4 per cent respectively below the national average. Net disposable incomes in 2014 are derived using the 2014 tax bands and deducting PRSI and the Universal Social Charge. For 2015, the estimate for gross earnings by county in Q1 2015 is assumed to remain unchanged from the 2014 figures, but the 2015 tax changes in regard to the Universal Social Charge and the tax band thresholds are used to generate disposable income by county in 2015.

The median property price used is based on transactions in each county according to the PPR for the full year 2014 and for Q1 2015. Only properties for which the full market value is provided are included and VAT at 13.5% is added to those properties that are listed excluding VAT. Outliers covering properties priced above €5 million are excluded due to multiple properties being recorded in single transactions while, at the lower end, transactions below €20,000 are also excluded. It is stressed that this exercise is for illustration purposes only to provide an indication of the relative differences in housing affordability across the country. It is also noted that the volume of transactions can be substantially lower in some counties compared to others. Also the basket of transactions in any county from one period to the next can be very different (implying that prices are not mix-adjusted) due to the mix of house types and sizes. It is noteworthy that in both periods Dublin accounted for around 34 per cent of the total transactions dataset used, while Cork and Galway ranked a distant second and third accounting for around 11 per cent and 6 per cent respectively.

Key Trends

In terms of affordability across the country, the results are set out in the following Table and Chart and show counties ranked from the least affordable to the most affordable. The estimates for housing affordability in 2014 and 2015 Q1 are based on a LTV of 83 per cent and an average market standard variable mortgage rate of 4.3 per cent. The main observations are as follows:

- ✓ The 2015 tax changes would have had a positive impact on disposable incomes in each county. For the average FTB working couple earning €72,000 in 2014 and in Q1 2015, it is estimated that their disposable income would have increased by €768 as a result of income tax and USC changes in Budget 2015. However trends in property prices between 2014 and Q1 2015 will dictate the impact on affordability. Thus with prices overall higher in 2015 Q1 compared with 2014 (+6%) using PPR data, the measure of housing affordability nationally increased from 15.2 per cent of net income in 2014 to an estimated 15.9 per cent in Q1 2015.

- ✓ In Dublin, where the median price only increased marginally, affordability remained unchanged at 22.9 per cent of net income for a FTB working couple.

- ✓ A comparison of the median prices derived from the PPR in each period shows that median property prices fell in Galway, Kerry, Offaly, Clare and Sligo. As a result housing affordability in each of these counties improved in Q1 2015 compared with the outturn for 2014. The strongest improvement was in Offaly where the median price declined by 11.7 per cent and as a result, affordability improved from 11.4 per cent of net income in 2014 to 10 per cent in Q1 2015.

- ✓ In counties where the median price increased significantly between the two periods, notably in Kilkenny (+23.3%) and Laois (+21.7%), affordability weakened in Q1 2015 to 15.4 per cent and 11.3 per cent of net income respectively.

- ✓ As in 2014, Dublin (22.9%), Wicklow (21.6%) and Kildare (21.1%) remained the least affordable counties in Q1 2015. The Dublin figure of 22.9 per cent compares with an average affordability of 22.4 per cent in the three months January-March of 2015 using the *EBS DKM Housing Affordability* Model.

- ✓ Roscommon, Leitrim and Longford were the most affordable counties in Q1 2015, requiring 7.5, 7.1 and 6.9 per cent respectively of net income to fund a mortgage at 83% LTV.

- ✓ There remains a significant group of counties in the middle – 12 in total – where housing affordability is between 10 per cent and 13 per cent of net income, assuming an LTV of 83%. This indicates that these markets are not yet in the recovery phase.

- ✓ There is a further tier of counties represented by the bottom 7 counties where housing affordability for a FTB working couple requires less than 10 per cent of net income to fund a mortgage with an 83% LTV. Based on this analysis, this would suggest that these counties remain the furthest away from any recovery, although median prices in Longford, Cavan and Leitrim did increase (albeit from a very low base) by 13.5, 11, and 10.1 per cent respectively between both periods.

- ✓ The Chart visibly displays the trend in housing affordability by county, showing the changes between 2014 and Q1 2015. Galway, Offaly and Sligo stand out as counties which experienced an improvement in affordability between both periods, with Kilkenny and Laois recording the most negative developments.

This assessment of affordability by county in the first quarter of 2015 is generally encouraging despite the overall increase in median house prices. The proportion of net income required to fund a mortgage in the three most expensive counties hardly changed between the two periods and in each accounts for just over a fifth of a FTB working couple's disposable income. This is below the threshold of 30 per cent of net income which is considered to generate a mortgage burden for households. This assumes potential buyers have no difficulty raising the necessary deposit or obtaining mortgage finance but of course, the new Central Bank guidelines, as previously discussed, are likely to be most onerous for potential FTBs moving from an LTV in excess of 90 per cent previously to closer to 80 per cent as a result of the new rules.

TABLE 3: HOUSING AFFORDABILITY BY COUNTY BASED ON 83% LTV

	2014 & 2015 Q1	2014	2015 Q1 (est)	2015 Q1 vs. 2014	2014	2015 Q1 (est)
	Average Gross Earning for FTB Working Couple (euro)	Median Transaction Price (euro)		% Change in Median House Price	Housing Affordability based on %of Net Income required to Fund Mortgage Repayments	
Dublin	85,536	262,000	265,000	+1.1	22.9	22.9
Wicklow	72,000	225,000	225,000	0.0	21.9	21.6
Kildare	74,880	211,000	225,000	+6.6	20.1	21.1
Meath	70,992	162,968	180,000	+10.5	16.0	17.4
Kilkeny	63,000	118,000	145,500	+23.3	12.6	15.4
Cork	72,504	150,000	150,000	0.0	14.5	14.4
Galway	68,256	140,000	135,000	-3.6	14.1	13.4
Louth	66,024	118,000	125,000	+5.9	12.1	12.7
Carlow	64,872	112,365	122,000	+8.6	11.7	12.6
Wexford	61,704	111,000	115,000	+3.6	12.0	12.4
Kerry	61,704	111,000	110,000	-0.9	12.0	11.9
Monaghan	55,872	87,000	100,000	+14.9	10.3	11.7
Laois	62,280	87,000	105,845	+21.7	9.4	11.3
Donegal	54,576	82,500	90,000	+9.1	9.9	10.7
Limerick	77,688	100,000	117,000	+17.0	9.3	10.7
Waterford	66,744	100,000	105,000	+5.0	10.2	10.6
Westmeath	64,008	95,420	100,000	+4.8	10.0	10.4
Tipperary	64,764	92,250	98,000	+6.2	9.6	10.1
Offaly	58,392	100,000	88,261	-11.7	11.4	10.0
Clare	64,800	100,380	92,500	-7.9	10.4	9.6
Mayo	62,136	85,125	89,000	+4.6	9.2	9.5
Sligo	65,160	96,475	92,000	-4.6	10.0	9.5
Cavan	60,120	68,000	75,500	+11.0	7.5	8.3
Roscommon	59,616	65,800	68,000	+3,3	7.3	7.5
Leitrim	63,360	61,290	67,500	+10.1	6.5	7.1
Longford	60,048	55,243	62,713	+13.5	6.1	6.9
National	**72,000**	**155,719**	**165.000**	**+6.0**	**15.2**	**15.9**

Source: CSO, Property Price Register and DKM analysis.

ASSUMTIONS [1]

The assumptions underlying the calculation of housing affordability for FTBs are summarised below.

Monthly FTB Property Prices

p-tsb/ESRI FTB property price up to July 2009. Data from August 2009 is derived by assuming that FTB prices fall in line with the CSO's Residential Property Price Index up to December 2012. The average property price nationally is assumed to be €170,000 in 2013, based on the average FTB loan of €152,449 in 2013, according to Banking and Payments Federation Ireland (BPFI) data, assuming a 90% LTV. From January 2014, average prices move in line again with the CSO's Residential Property Price Index. Post March 2015, the latest data available, the average monthly FTB property price is assumed to change in line with the average change over the latest three months (-0.28% per month). The revised assumptions from January 2013 reflect the pick-up in prices in 2013 but cause a sudden jump in property prices between December 2012 and January 2013. The sudden jump in the Chart also reflects the termination of Mortgage Interest Relief in December 2012.

The average price in Dublin is based on the p-tsb/ESRI Dublin price up to July 2009 and thereafter the price changes in line with the CSO RPPI Dublin property price index. The EBS-DKM Affordability Index model uses 90% of the average Dublin house price from January 2013 as a proxy for the average Dublin FTB property price. Post March 2015, the average FTB property price in Dublin is assumed to change in line with the average monthly change over the latest three months (-0.5% per month).

Loan to Value ratio: 90% until December 2013; 83% from January 2014.
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). The current average mortgage rate is 4.3% and is expected to fall to 4.2% in June.

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. MIR abolished from January 2013.

Average Gross Earnings

Gross income figures represent average earnings according to the CSO's Earnings, and Labour Costs Survey (up to Q2, 2014). The FTB working couple started out earning €70,000 in June 2005. Gross earnings for the FTB couple increased by 8.2% by 2007 (€75,754) and fell thereafter by 5.2% by 2011. Based on trends in the CSO data, average gross earnings increased by 0.5% in 2012, declined by 0.7% in 2013 and were almost unchanged in 2014 (-0.1%). Earnings are assumed to increase by 0.25% per quarter in Q1 and Q2 2015.

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

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

1 The Analysis of housing affordability in this report is based on data published up to the 1st May 2015.

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