

# EBS DKM IRISH HOUSING AFFORDABILITY INDEX

November 2016

The EBS DKM Affordability Index is a measure of the proportion of after tax income required to meet the first year's mortgage repayments for an 'average' first-time buyer (FTB) working couple, each on average earnings. It takes into account, not just property prices, but mortgage rates, mortgage interest relief and disposable incomes for the average FTB working couple in Dublin, outside Dublin and across the State. Note: There have been major revisions to the measure of affordability following publication of the more comprehensive Residential Property Price Index by the CSO in September. Please see the notes on the back page for the main methodological changes.

**DKM**  
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## KEY MESSAGES

- ✓ **Housing supply and housing affordability remain at the top of the political agenda. With the very positive turnaround in the economy and jobs market, the restoration of a properly functioning housing market is central to sustained economic growth.**
  - ✓ **The analysis of affordability has benefited from the more comprehensive coverage of the CSO's Residential Property Price Index (RPPI) which now covers all market transactions, both cash and mortgage based. Consequently the housing affordability index data has been updated.**
  - ✓ **The measure of affordability used refers to the potential buyer's ability to fund monthly mortgage repayments out of net income; it does not deal with the borrower's ability to raise the mortgage, which is determined by the Central Bank's macroprudential rules, now in place for twenty one months. The Central Bank is currently reviewing these rules and the outcome of this review is expected late November 2016.**
- Assuming a LTV ratio of 84 per cent, the measure of housing affordability has remained reasonably stable since introduction of the macroprudential rules in February 2015.**
- ✓ **The average first-time buyer (FTB) property price was estimated at €232,552 in August 2016 implying an average mortgage of €195,344, assuming an 84 per cent LTV ratio. The corresponding average monthly mortgage repayments was €1,009 which compares with the average monthly rent nationwide in Q2 2016 of €1,037 (Daft.ie Rental Report). The required deposit, before the tax rebate under the Help to Buy initiative, was €37,208 in August 2016.**
  - ✓ **Affordability for FTB working couples across the State was relatively stable throughout 2015 at around 20 per cent reflecting a moderation in house price growth during 2015. By August 2016, affordability was hovering under 21 per cent and is expected to remain around that level up to December 2016.**
  - ✓ **Property prices in Dublin over the past decade have tended to be around 35 to 40 per cent higher than the national average property price, except during the 2008-2012 recession when the differential was closer to 20 to 30 per cent. The recovery in national property prices commenced in the second half of 2013 while prices in Dublin recovered in the second half of 2012. Dublin property prices increased at an annual rate of 4.5 per cent in August 2016, compared with 7.2 per cent nationally and 11.4 per cent outside Dublin.**
  - ✓ **The availability of regional house price indices for the first time from the new CSO RPPI show the annual rate of house price inflation in August was highest in the South West (+14.8%), Midlands (+14.1%) and West (11.9%) and lowest in South Dublin (2.9%) and Dún Laoghaire Rathdown (+1.5%).**
  - ✓ **Repayments as a percentage of net income for a Dublin FTB working couple had been rising sharply since the beginning of 2014 and reached a peak of around 28 per cent in each of the three months to November 2014. However since February 2015 the proportion has been stable at around 25 to 26 per cent and remained in that territory over the eighteen months to August 2016.**
  - ✓ **The average FTB property price in Dublin was estimated at €314,303 in August 2016 implying an average mortgage of €264,015, assuming an 84 per**



## KEY MESSAGES CONTINUED

cent LTV ratio. The corresponding average monthly mortgage repayment was €1,364 which compares with average monthly rents in Dublin of between €1,351 (West County) and €1,735 (South County) in Q2 2016 (Daft.ie Rental Report). The highest deposit is required in Dublin at around €50,000, before the tax rebate under the Help to Buy initiative.

- ✓ The proportion of net income required to fund a mortgage for a FTB working couple outside Dublin was 16 per cent in August 2016, based on an average property price of €177,403 implying an average mortgage of €149,018, assuming an 84 per cent LTV ratio. The corresponding deposit required is less than €30,000 before the tax rebate.
- ✓ Housing affordability for single FTBs remains challenging. For the purposes of this affordability analysis, a single person is assumed to earn one and a half times average earnings or around €55,000 (August figure) while the LTV ratio is assumed to be 84 per cent. For FTBs, affordability was at 31.4 per cent of net income in August 2016, with a corresponding monthly mortgage of €1,009. The deposit required is €37,208 before the tax rebate under the Help to Buy initiative.

**The total value of all residential property based transactions was estimated at €9.7 billion in 2015, of which €4.4 billion represented mortgage drawdowns.**

### **Mortgages account for around half of all transactions**

- ✓ Transactions in the housing market can be either funded with a mortgage or funded by cash. An analysis of all transactions in the Property Price Register shows that between 2011 and 2015 about half of all property transactions were funded by a mortgage compared with 81 per cent in 2010. The proportion of mortgages was 54 per cent in 2015 and, based on the first nine months of 2016, mortgages accounted for 51 per cent of the total.

### **FTBs accounted for around 57 per cent of total mortgages over the past six years**

- ✓ The total number of FTB mortgages was up 2.1 per cent in the first nine months of 2016 to 9,834, compared with the same period in 2015. The average FTB mortgage nationally, according to data from the Banking and Payments Federation Ireland (BPF), was €181,023 in the first nine months of 2016, up from €172,457 in 2015. Assuming the average mortgage is based on an 84 per cent LTV ratio, would imply an average FTB property price of €205,306 in 2015 and €215,504 in the first nine months of 2016.

### **Regional and County affordability analysis**

- ✓ All single FTBs across the country, earning one and a half times average earnings and buying the average property with an 84 per cent LTV ratio, are paying 30 per cent or less of their income in monthly mortgage repayments, apart from in the four local authority areas of Dublin, Wicklow, Kildare, Meath, Galway City and Cork City.
- ✓ Outside of the four local authority areas of Dublin, the least affordable counties are Wicklow, Kildare and Meath in the Mid-East region.
- ✓ The most affordable locations are Mayo, Waterford City and Roscommon where single FTBs are paying 15 per cent or less of net income in mortgage repayments.
- ✓ In Donegal where the average property price and average earnings are almost 48 and 26 per cent respectively below the national average, a single FTB is paying 20.2 per cent of net income in mortgage repayments.
- ✓ All FTBs working couples are paying less than 25 per cent of their net incomes in monthly mortgage repayments apart from buyers in Dún Laoghaire-Rathdown, Dublin City and Wicklow.

## HELP TO BUY INCENTIVE WILL POSITIVELY IMPACT AFFORDABILITY PROVIDED THE SUPPLY OF NEW HOMES INCREASES

Budget 2017 included a package of fiscal measures to address the restoration of a properly functioning housing market. From an affordability perspective the main measure is the Help to Buy Incentive which is designed to help FTBs with the deposit required under the Central Bank's macroprudential rules:

- ✓ The incentive will take the form of a rebate of income tax paid over the previous four years, up to a maximum of 5 per cent of the purchase price of a new home up to a value of €400,000.
- ✓ The maximum relief, which is €20,000, will be available for new houses that are valued between €400,000 and €500,000. Any homes over €500,000 will not be entitled to this relief.
- ✓ The incentive itself will run until the end of 2019.
- ✓ The first-time buyer must take out a mortgage of at least 70 per cent of the purchase price.

This measure will have a positive impact on affordability, provided it is accompanied with an increase in new supply. Potential FTBs will now not need to raise the full deposit previously required. However, those who have already saved their deposit will be able to pay more for a property. Those who have not yet raised their deposit will now be able to enter the market more quickly. And those who are currently renting or living at home may now decide to get onto the property ladder. The measure is designed to boost the supply of new homes. However, there will be no increase in the short-run, which implies that property prices will rise when faced with this higher demand and greater purchasing power.



# HOUSING REMAINS THE KEY POLICY PRIORITY AS TAX REBATE INTRODUCED TO ASSIST FIRST TIME BUYERS AND KICK START SUPPLY

Although it has been a few months since the last *EBS DKM Affordability Index* was published, the topic of housing and housing affordability has not gone away. Indeed housing has been very much to the fore of the policy agenda over the past several months. There remain serious supply constraints in urban areas, notwithstanding evidence of significant pent-up demand and rapidly rising rents are the norm. There is the escalation of homelessness and significant legacy issues, notably a household sector with significant outstanding mortgage debt, which is amongst the highest in the euro area. Meanwhile the economy and jobs market have experienced a remarkable turnaround, and net inward migration returned in the year to April 2016 for the first time in seven years. Yet the scale of housebuilding is well below normal levels and developers tell us that residential development is not viable in some locations.

The main development over recent months has been publication of the *Action Plan for Housing and Homelessness* in July 2016. The Plan aims to ramp up the delivery of housing supply across all tenures. It further aims to help individuals and families meet their housing needs and those who are currently housed to remain in their homes or be provided with appropriate options of alternative accommodation, especially those families in emergency accommodation. The recent Budget also contained measures (elaborated on later) to promote home ownership and encourage investment and supply in the owner occupied and private rented sector.

Recognising that home ownership is the tenure which people ultimately aspire to, affordability is one of the main criteria which impacts a buyer's ability

to become a home owner. The Index tracks trends in housing affordability across the country on a monthly basis for a first-time buyer (FTB), whether a single person or a working couple. The definition of affordability is the proportion of after tax income required to meet the mortgage repayments in the first year. The income of a single FTB is assumed to be one and a half times average earnings while for the FTB working couple, each is on average earnings.

The analysis has benefited from the more comprehensive coverage of the CSO's Residential Property Price Index (RPPI) which incorporates significant methodological improvements over the original RPPI. The new index now covers all market transactions, both cash and mortgage based; previously cash based transactions were excluded. The affordability data has been revised based on the revamped RPPI and absolute FTB price levels in August 2016.

The measure of affordability used refers to the potential buyer's ability to fund monthly mortgage repayments out of net income. The measure says nothing about the borrower's ability to raise the mortgage, which is determined by the Central Bank's new lending regulations, now in place for twenty one months. The most onerous impact of the new rules is the requirement to raise a significantly higher deposit than under the previous regime, although the Help to Buy initiative for first-time buyers will help in this regard. The related restriction on borrowings of 3.5 times gross income has further dented the capacity to borrow for potential house buyers. The Central Bank is currently reviewing these rules and the outcome of this review is expected late November.



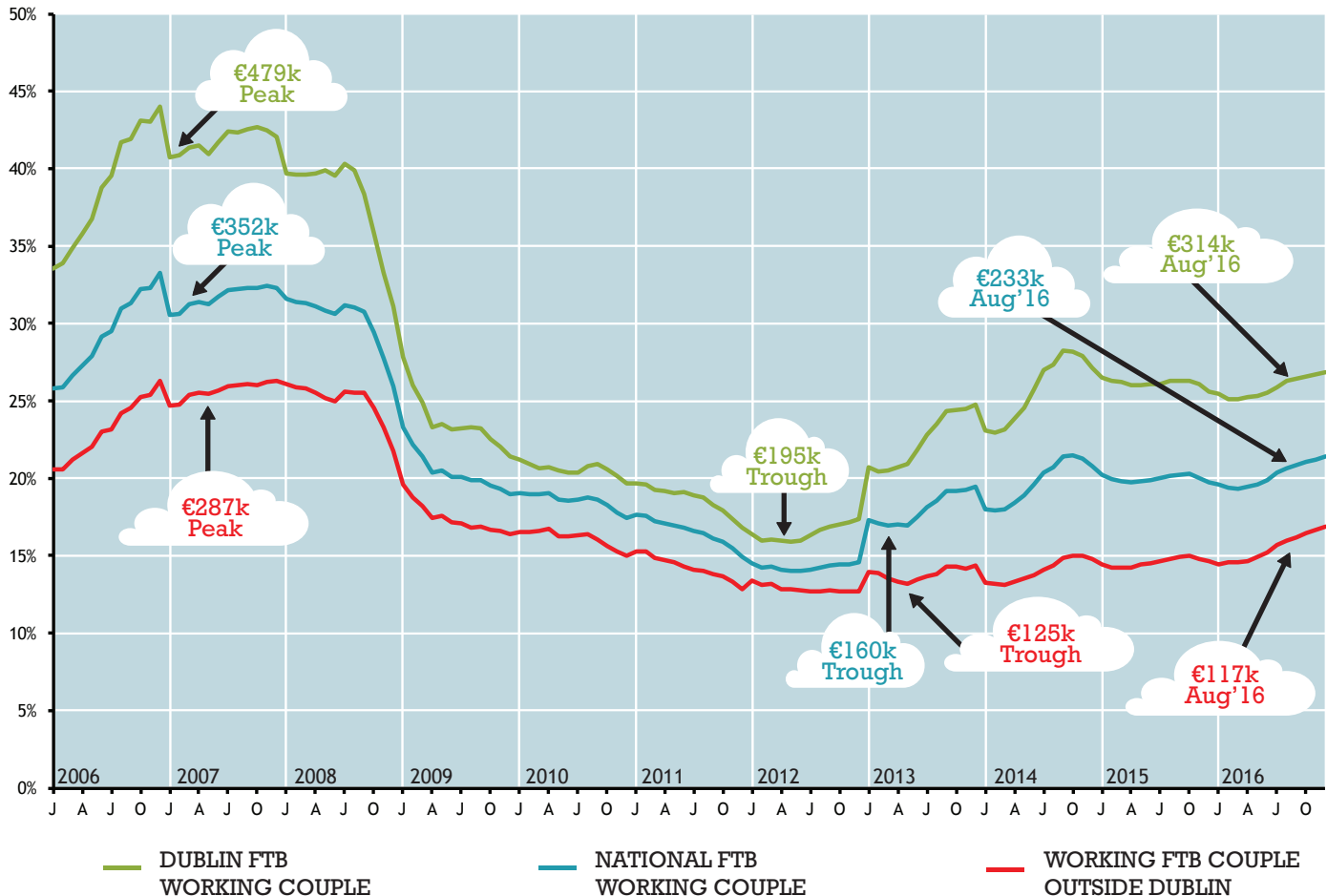
# THE MEASURE OF HOUSING AFFORDABILITY HAS REMAINED REASONABLY STABLE SINCE INTRODUCTION OF THE MACROPRUDENTIAL RULES

Figure 1 provides trends in the proportion of disposable income required to fund mortgage repayments for FTBs over a decade. The influencing factors are mortgage rates, disposable incomes, property prices and the loan to value (LTV) ratio. The latter has been at 90 per cent since commencement of the monthly *EBS DKM Affordability Index* in 2005 until December 2013. The experience of the property crash led to more rigorous lending behaviour by financial institutions, which resulted in a reduction in the

average LTV ratio to 84 per cent from January 2014. Notwithstanding the introduction of the Central Bank rules in February 2015, following which the pipeline of approvals at the time would have fallen outside of the new rules, the LTV ratio is retained at 84 per cent since January 2014. These assumptions represent a change from what was assumed for the previous Affordability Index. The rationale is that few FTB are purchasing properties at prices which would require a LTV of less than 84 per cent<sup>1</sup>.

## 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-August 2016 with projections to December 2016



1. For a house price of €500,000, under the Central Bank’s rules, the average loan to value (LTV) ratio would be 84.4 per cent, implying a deposit of 15.6 per cent.

# TABLE 1: EBS DKM HOUSING AFFORDABILITY INDEX – AFFORDABILITY TRENDS

DECEMBER 2007 TO AUGUST 2016 WITH PROJECTIONS TO DECEMBER 2016

	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14	Dec 15	Mar 16	Aug 16	Nov 16	Dec 16
Average Market Mortgage Rate	5.37%	4.80%	3.32%	4.02%	4.24%	4.33%	4.48%	4.40%	3.70%	3.70%	3.70%	3.70%	3.70%

NATIONAL WORKING FTB COUPLE - each on average earnings

Monthly Repayments (€)	1,652	1,351	944	856	710	689	910	986	956	951	1009	1039	1050
As % of Net Income	32.3%	26.0%	19.0%	17.4%	14.9%	14.5%	19.5%	20.8%	19.7%	19.3%	20.7%	21.2%	21.4%
Ave. House Price (000s)	347.5	300.6	245.8	210.9	172.0	165.6	180.2	211.0	220.2	219.1	232.6	239.5	241.8
Deposit (before tax rebate)										35,059	37,208	38,317	38,694
Deposit (after tax rebate)										24,103	25,581	26,343	26,602

DUBLIN FTB WORKING COUPLE - each on average earnings\*10%

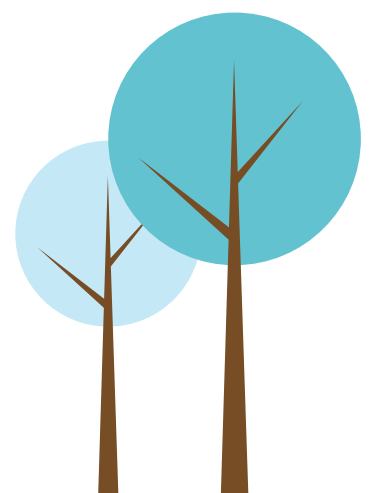
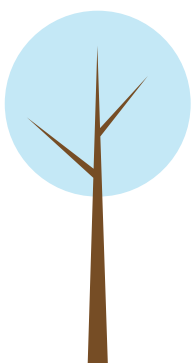
Monthly Repayments	2,287	1,721	1,132	1,023	849	873	1,230	1,365	1,318	1,312	1,364	1,390	1,399
As % of Net Income	42.0%	31.1%	21.2%	19.6%	16.8%	17.4%	24.8%	27.1%	25.6%	25.1%	26.3%	26.7%	26.9%
Ave. House Price (000s)	462.5	382.7	294.8	252.1	205.6	209.9	243.8	292.1	303.6	302.4	314.3	320.3	322.3
Deposit (before tax rebate)										48,379	50,289	51,250	51,575
Deposit (after tax rebate)										33,260	34,573	35,235	35,458

REST OF COUNTRY FTB WORKING COUPLE - each on average earnings

Monthly Repayments (€)	1,344	1,133	814	737	609	600	671	702	708	706	770	804	816
As % of Net Income	26.3%	21.8%	16.4%	15.0%	12.8%	12.7%	14.4%	14.8%	14.6%	14.6%	16.0%	16.7%	16.9%
Ave. House Price (000s)	285.0	252.1	212.1	181.7	147.6	133.9	133.0	150.2	163.1	162.8	177.4	185.3	188.0
Deposit (before tax rebate)										26,045	28,384	29,652	30,087
Deposit (after tax rebate)										17,906	19,514	20,386	20,685

NATIONAL SINGLE PERSON FTB - on average earnings \*150%

Monthly Repayments (€)	1,785	1,401	944	856	710	689	910	986	956	951	1009	1039	1050
As % of Net Income	52.5%	40.7%	29.0%	26.7%	22.9%	22.3%	29.8%	31.8%	30.1%	29.4%	31.4%	32.3%	32.5%
Ave. House Price (000s)	347.5	300.6	245.8	210.9	172.0	165.6	180.2	211.0	220.2	219.1	232.6	239.5	241.8
Deposit (before tax rebate)										35,059	37,208	38,317	38,694
Deposit (after tax rebate)										24,103	25,581	26,343	26,602





## **AFFORDABILITY FOR FTB WORKING COUPLES – NATIONAL TRENDS: 20.7% OF NET INCOME**

The average property price paid by FTB owner occupiers across the country was €232,552 in August 2016. FTB prices for the period back to January 2005 are obtained by applying the mix-adjusted monthly percentage change for All Residential Properties nationally, using the new CSO RPPI. Previously, FTB house prices from the old permanent-tsb index were used until 2009, but this more recent data is more representative of property prices across the whole market, not just for mortgage based transactions or for one financial institution. Using the new CSO monthly percentage changes, FTB property prices are around 20 per cent higher in the period 2005 to 2011 compared with the old series. Since 2011 the differences are minor. Thus affordability at the peak for a FTB working couple was closer to 33 per cent of net income compared with 26 per cent under the old methodology.

During the recession housing was most affordable for FTB working couples in 2012 when less than 14 per cent of net income was required to fund a mortgage. The recovery in property prices nationally commenced in early 2013, increasing at an annual rate of 8.9 per cent in December 2013 and 17.1 per cent in December 2014. Consequently properties became less affordable over this time, with 20.8 per cent of net income required to fund a mortgage by the end of 2014. The combination of mortgage rates close to 4.5

per cent, evidence of prime movers in the property market and the shortage of supply, led to affordability reaching close to 21 per cent of disposable income in the final four months of 2014. Affordability was relatively stable throughout 2015 at around 20 per cent reflecting a moderation in house price growth during 2015. By August 2016, although house prices had increased by 5.6 per cent since December 2015, affordability weakened slightly to 20.7 per cent. The LTV ratio is unchanged since January 2014 at 84 per cent. The projections expect a modest increase in repayments from 20.7 per cent of net income in August 2016 to 21.4 per cent in December. The further modest increase in house prices over the remainder of the year is associated with an increase in the required deposit from €37,208 in August to €38,694 in December 2016, before taking account of the tax rebate under the Help to Buy Initiative.

**The average FTB property price was estimated at €232,552 in August 2016 implying an average mortgage of €195,344, assuming an 84 per cent LTV ratio. The corresponding average monthly mortgage repayment was €1,009 which compares with the average monthly rent nationwide in Q2 2016 of €1,037 (Daft.ie Rental Report).**



## **AFFORDABILITY FOR DUBLIN FTB WORKING COUPLES: 26.3% OF NET INCOME**

Property prices in Dublin over the past decade have tended to be around 35 to 40 per cent higher than the national average property price, except during the 2008-2012 recession when the differential was closer to 20 to 30 per cent. The recovery in Dublin property prices commenced early 2013, with prices up by 16.2 per cent year-on-year in December 2013 compared with 2.2 per cent twelve months earlier. Prices continued to accelerate during 2014, reaching an annual rate of 25 per cent mid-year. The annual rate moderated to 19.7 per cent by December 2014 and remained around 20 per cent in the first three months of 2015. However, the introduction of the Central Bank's macroprudential rules in February 2015 led to a sudden sharp slowdown in house price inflation. Prices actually fell in four of the twelve months of 2015, reaching an annual rate of 3.9 in December 2015. There was little movement in prices during 2016 until July and August, when prices rose each month by 1.7 and 1.5 per cent respectively. Dublin prices in August were up by 3.5 per cent on the corresponding level in December 2015 and by 4.5 per cent year-on-year, compared with 7.2 per cent nationally.

The pattern of house price inflation in Dublin has impacted positively on affordability since the end of 2014, a period when submissions were being made on the proposed Central Bank's rules. Repayments as a percentage of net income for a Dublin FTB working couple had been rising sharply since the beginning of 2014 and reached a peak of around 28 per cent in each of the three months to November 2014. However since February 2015 the proportion has been stable at around 25/26 per cent and remained in that territory over the eighteen months to August 2016.

**The average FTB property price in Dublin was estimated at €314,303 in August 2016 implying an average mortgage of €264,015, assuming an 84 per cent LTV ratio. The corresponding average monthly mortgage repayment was €1,364 which compares with average monthly rents in Dublin of between €1,351 (West County) and €1,735 (South County) in Q2 2016 (Daft.ie Rental Report). The highest deposit, is required in Dublin at around €50,000, before the tax rebate under the Help to Buy initiative.**



## **AFFORDABILITY FOR NON-DUBLIN FTB WORKING COUPLES: 16% OF NET INCOME**

Property prices outside Dublin are rising faster than in Dublin or across the country as a whole. The latest annual rate of property price inflation was 11.4 per cent in August 2016, up from 8.7 per cent at the end of December 2015 and 13 per cent in December 2014. The CSO RPPi for properties outside Dublin recorded the largest differences when compared with the old mortgage based house price index, due primarily to better coverage of transactions outside Dublin in the new series.

Housing affordability for FTBs outside Dublin bottomed out at around 13 per cent in the second half of 2012. In the following three years, it weakened gradually to reach 14.6 per cent by December 2015. The proportion of net income required to fund a mortgage for a FTB

working couple was 16 per cent in August 2016, based on an average property price of €177,403 implying an average mortgage of €149,018, assuming an 84 per cent LTV ratio. Based on house prices outside Dublin increasing at an estimated rate of 1.5 per cent per month to the end of the year, housing affordability for FTB working couples is expected to deteriorate further, reaching almost 17 per cent of net income by December 2016. The corresponding deposit required is less than €30,000 before taking account of the tax rebate under the Help to Buy initiative.

A more disaggregated analysis of affordability outside Dublin is provided in the regional and county analysis of affordability which is set out later.

## **AFFORDABILITY FOR NATIONAL SINGLE FTBs: 31.4% OF NET INCOME**

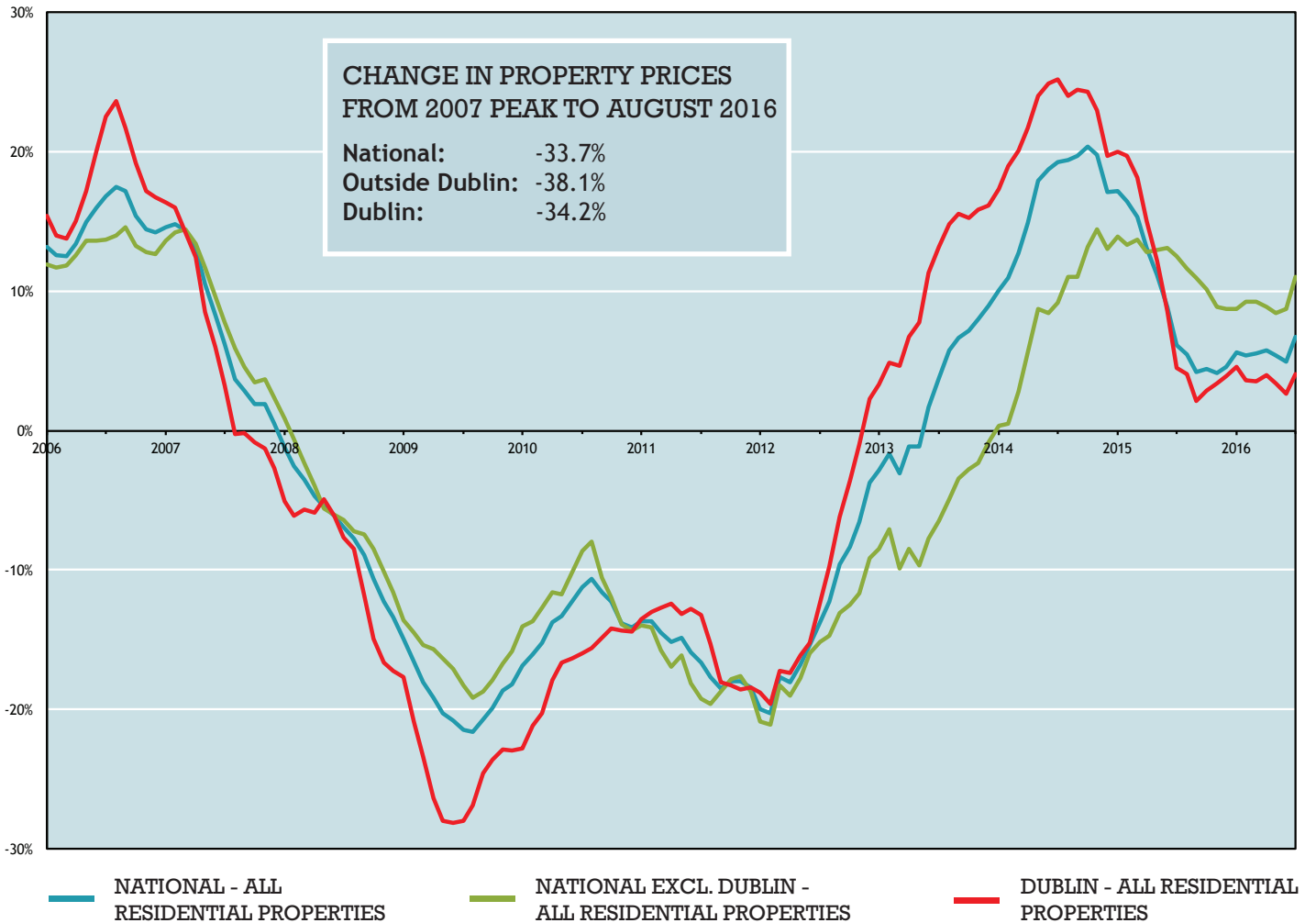
We would have previously acknowledged that housing affordability for single FTBs is challenging. For the purposes of this affordability analysis, a single person is assumed to earn one and a half times average earnings or around €55,000 (August figure) while the LTV ratio is assumed to be 84 per cent.

Due to the higher house prices generated during the boom period using the new CSO dataset, housing affordability for a single FTB on 1.5 times average earnings peaked at around 53 per cent in late 2007. It subsequently improved during the recession, falling

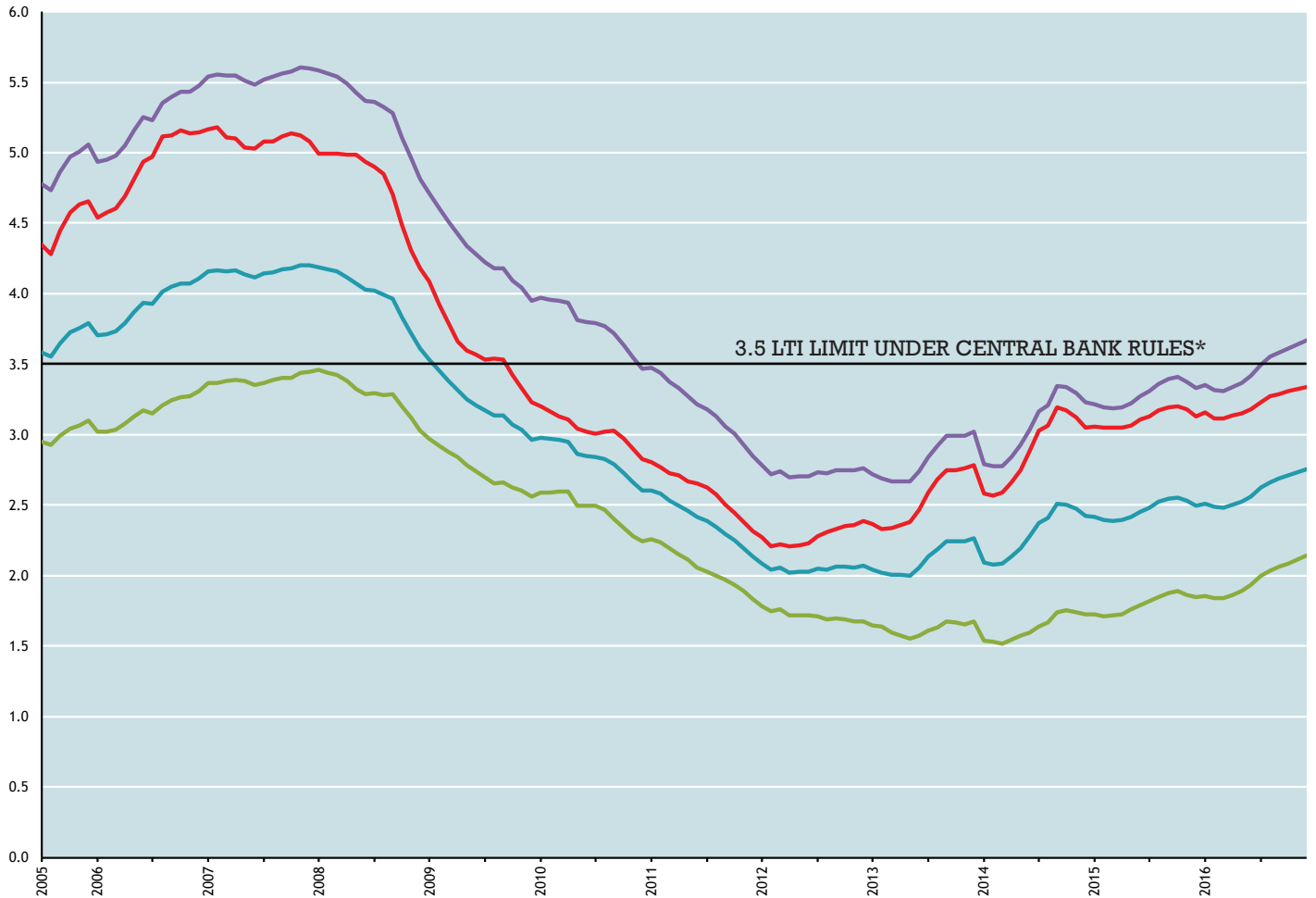
to around 21 per cent of net income at the trough in 2012. Mirroring the upward trend in property prices in 2013 and 2014, affordability pressures got worse for single FTBs, reaching 31.8 per cent of net income at the end of 2014. By December 2015, lower mortgage rates and relatively flat house prices led to a more stable trend in FTB affordability, although it had improved marginally to 30 per cent by the year end. By August 2016, affordability was at 31.4 per cent of net income, with a corresponding monthly mortgage of €1,009. The deposit required was €37,208 before taking account of the tax rebate.



## FIGURE 2: RESIDENTIAL PROPERTY PRICES OVER PAST DECADE

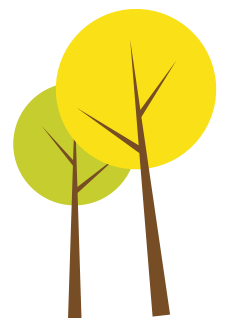


# FIGURE 3: LOAN TO INCOME RATIOS FOR CATEGORIES OF BUYERS



\* Central Bank Loan to Income Limit of 3.5 applies since February 2015.  
 For the LTIs in the chart above, the loans are based on an 84 per cent Loan to (House Price) Value ratio

- NATIONAL FTB WORKING COUPLE
- DUBLIN FTB WORKING COUPLE
- OUTSIDE DUBLIN FTB WORKING COUPLE
- SINGLE FTB ON 1.5 TIMES AVERAGE EARNINGS



## AVERAGE EARNINGS: *INCREASED AT ANNUAL RATE OF 0.5% IN Q2 2016*

CSO data relating to Earnings and Labour Costs shows that average weekly earnings across the economy increased by 0.5 per cent year-on-year in the second quarter of 2016 (latest data available) following an annual increase of 1.5 per cent in the first quarter. The average weekly figure was equivalent to annual earnings of around €36,600 in Q2 2016. However, a review by economic sector shows significant variations in annual earnings growth, with average earnings for workers in Professional, Scientific and Technical Activities up 5 per cent and for construction workers up 3.9 per cent. Amongst those sectors recording the largest annual decline in earnings were Arts, Entertainment and Recreation and Other Service (-2.1%) and Public Administration and Defence (-3.4%).

For the purposes of estimating affordability in the month of August 2016, a FTB single person is earning

one and a half times the average or around €55,000 ( $€36,672 \times 1.5$ ), while a working FTB couple is earning twice the average or around €73,350. This figure compares with earnings of €70,000 which the national FTB working couple had in 2005. While earnings increased in the early years, reaching almost €76,000 in 2007, earnings of the FTB working couple August were 4.4 per cent below where the level in the peak month (June 2007). This has adversely impacted a FTBs ability to save for a deposit, particularly given that private sector rents have risen by 23.8 per cent in the past five years (RTB data). The projected annual average earnings over the twelve months of 2016 is €73,672 (used to estimate national affordability in 2016 in the county analysis). This figure is some 2.7 per cent below the average in 2007.



## MORTGAGE MARKET ACTIVITY: *NUMBER OF FTB MORTGAGES UP 2.1% IN FIRST NINE MONTHS OF 2016*

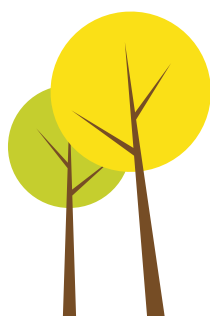
Transactions in the housing market can be either funded with a mortgage or funded by cash. An analysis of all transactions in the Property Price Register shows that between 2011 and 2015 about half of all property transactions were funded by

a mortgage compared with 81 per cent in 2010. The proportion of mortgages was 54 per cent in 2015 and, based on the first nine months of 2016, mortgages accounted for 51 per cent of the total.

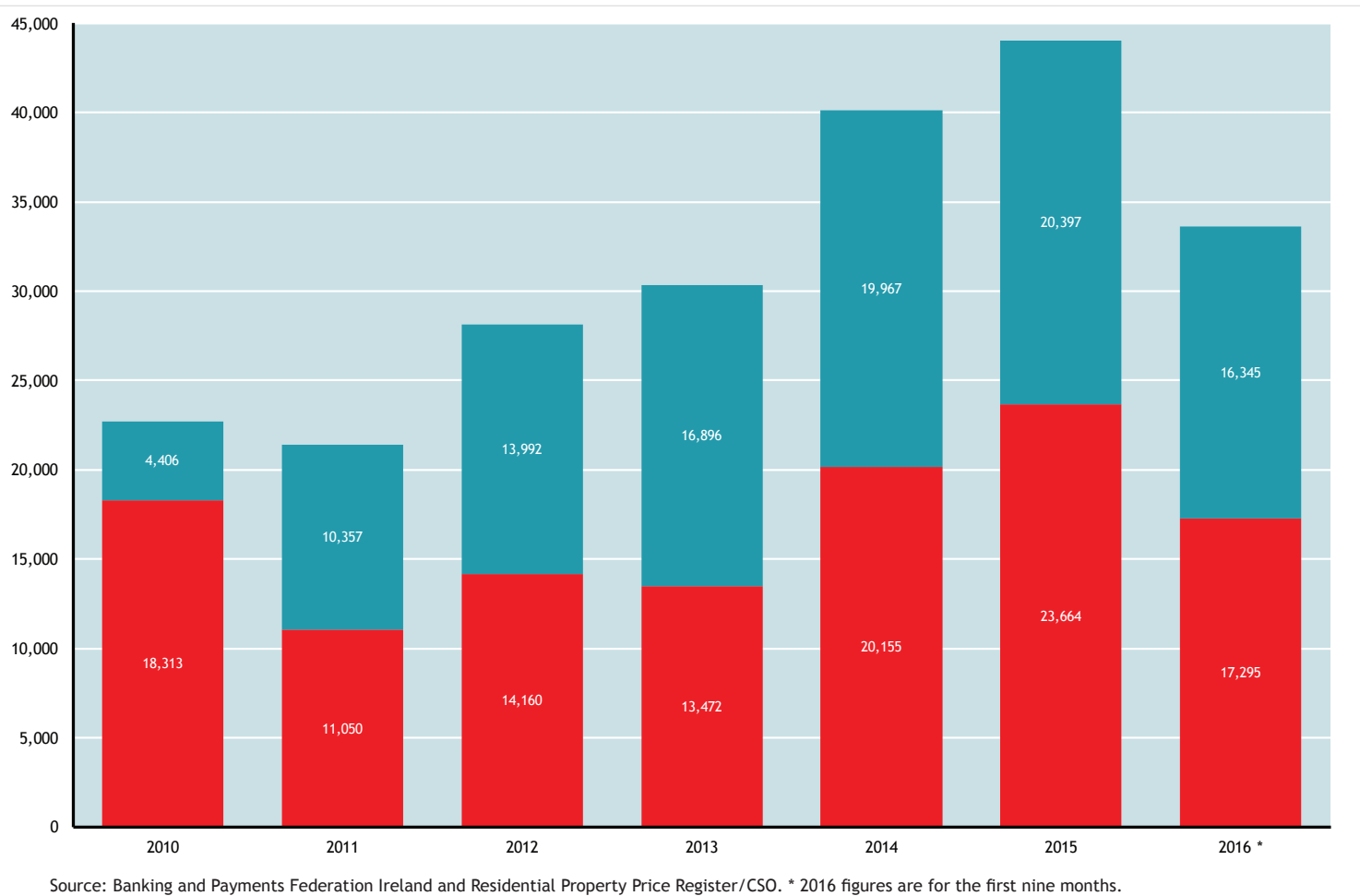
### TABLE 2: TOTAL PROPERTY TRANSACTIONS INCLUDING MORTGAGE DRAWDOWNS (NUMBER)

	Mortgage Drawdowns for Property Purchases <sup>1</sup>					Total Property Transactions <sup>2</sup>	
	FTB Purchases	Mover Purchases	Investment Purchases	Total Drawdowns for Mortgage Transactions	FTB as % of total Mortgages	Total Property Transactions	Mortgages as % of total Transactions
2010	10,619	6,533	1,161	18,313	58%	22,719	81%
2011	6,300	4,241	509	11,050	57%	21,407	52%
2012	8,648	4,921	591	14,160	61%	28,152	50%
2013	7,535	5,340	597	13,472	56%	30,368	44%
2014	11,476	7,649	1,030	20,155	57%	40,122	50%
2015	13,396	8,966	1,302	23,664	57%	44,061	54%
2016 <sup>3</sup>	9,834	6,530	931	17,295	57%	33,640	51%

Source: 1) Number of mortgage drawdowns involving a property transaction from the Banking and Payments Federation Ireland. 2) Property Price Register/CSO. 3) Based on first nine months of 2016.



## FIGURE 4: TOTAL NUMBER OF RESIDENTIAL PROPERTY TRANSACTIONS



— MORTGAGE-BASED

— CASH-BASED





FTBs have consistently accounted for around 57 per cent of total mortgages over the past six years. The total number of FTB mortgages was up 2.1 per cent in the first nine months of 2016 to 9,834, compared with the same period in 2015. The total value of FTB mortgages increased by 7.1 cent in the first nine months of 2016 to €1.8 billion, substantially below the record level of €8.4 billion in the full year 2006.

The average FTB mortgage nationally, according to data from the Banking and Payments Federation Ireland (BPF), was €181,023 in the first nine months of 2016, up from €172,457 in 2015. Assuming the average mortgage is based on an 84 per cent LTV ratio, would imply an average FTB property price of €205,306 in 2015 and €215,504 in the first nine months of 2016. These figures are close to the average FTB prices estimated by the CSO.

## TABLE 3: TOTAL PROPERTY TRANSACTIONS INCLUDING MORTGAGE DRAWDOWNS (VALUE)

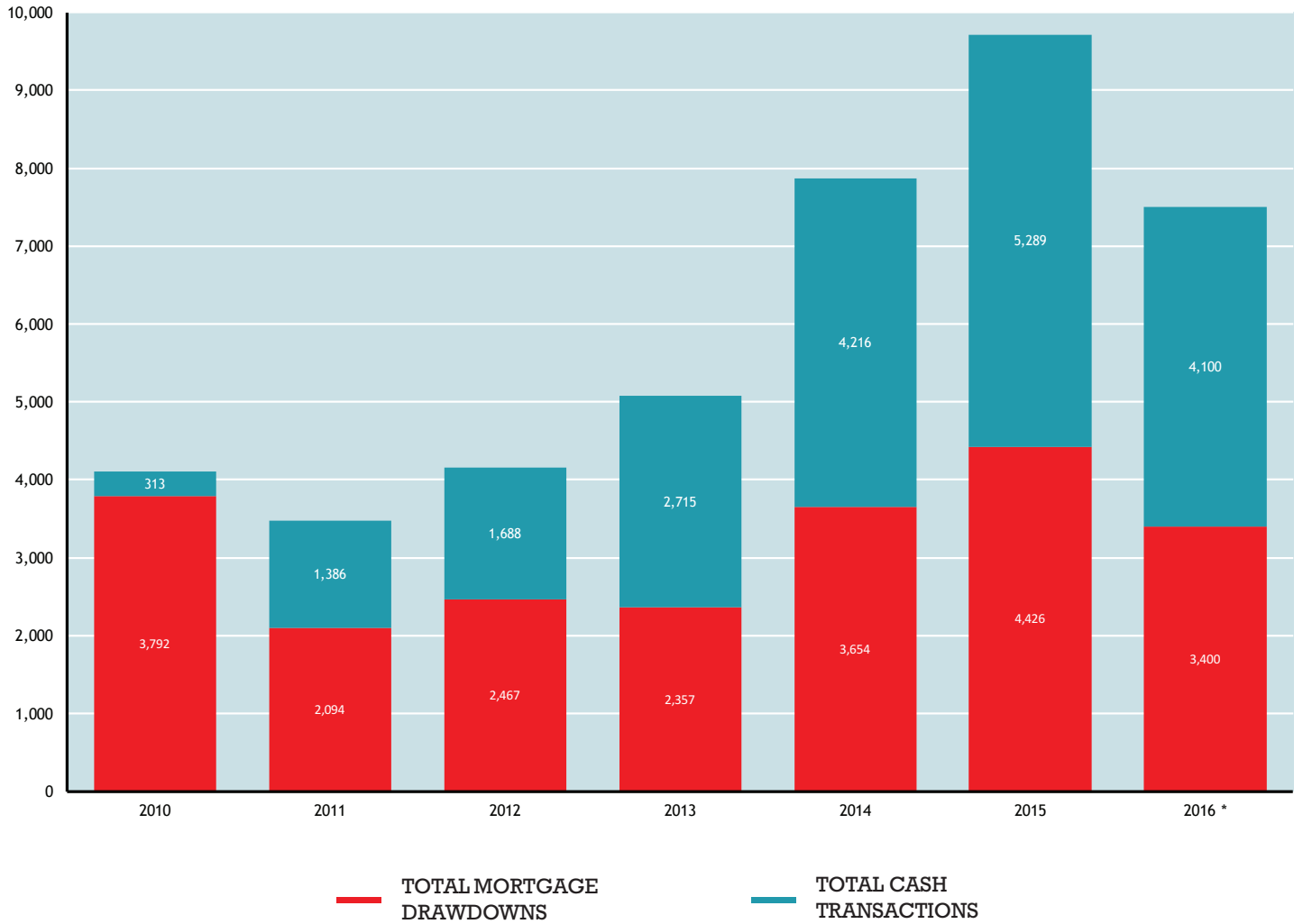
	Value of Mortgage Drawdowns for Property Purchases <sup>1</sup>					Average Mortgage		
	FTB Purchases €m.	Mover Purchases €m.	Investment Purchases €m.	Total Drawdowns for Mortgage Transactions €m.	FTB as % of total Mortgages by Value	Total Market based Residential Property Transactions <sup>3</sup> €m.	FTB Mortgage (€)	All Borrowers (€)
2010	2,037	1,539	216	3,792	54%	4,105	192,059	207,066
2011	1,100	916	78	2,094	53%	3,480	173,418	189,502
2012	1,351	1,032	84	2,467	55%	4,155	157,249	174,223
2013	1,154	1,133	70	2,357	49%	5,072	152,449	174,955
2014	1,877	1,665	115	3,654	51%	7,870	161,727	181,295
2015	2,313	1,965	149	4,426	52%	9,715	172,457	187,035
2016 <sup>2</sup>	1,784	1,504	113	3,400	52%	7,500	181,023	196,583

Source:

- 1) Value of mortgage drawdowns involving a property transaction from the Banking and Payments Federation Ireland.
- 2) Based on first nine months of 2016.
- 3) Total value of market sales from CSO RPPI.



# FIGURE 5: TOTAL VALUE OF RESIDENTIAL PROPERTY TRANSACTIONS



Source: Banking and Payments Federation Ireland and Residential Property Price Register/CSO. 2016 figures are for the first nine months.



## REGIONAL AND COUNTY AFFORDABILITY ANALYSIS

The improved coverage of the residential property price data by the CSO allows a more comprehensive analysis of regional and county affordability. The CSO provides average property prices each month for different types of buyers based on average prices generated by taking the total value of transactions divided by the number of sale, recorded in the Property Price Register. The price data used is the average property price paid for all property purchased by first-time buyer owner occupiers in the month of August 2016. It is important to note that the price data is not mix-adjusted but comparisons are only being made at a point in time across counties and regions. The data also covers average prices across the regions and the four local authorities of Dublin as well as the four city councils of Cork, Galway, Limerick and Waterford.

To determine repayments as a percentage of net income on the average property in each area, some measure of income is required. The average annual earnings figure across the State is estimated at €36,836 in 2016. Using the County Income data published by the CSO (2014 was the latest available at time of writing), the corresponding figure for each county is derived based on the published indices for Total Income per Person. The differential for each county relative to the State average is applied to ascertain the equivalent average earnings in each county. The 2014 relativities are assumed to remain unchanged up to 2016. Significant differences arise between some counties and the national average. In Dublin, for example, the total income per person is

18.2 per cent higher than the national average, with only Limerick, Kildare and Cork ranking well below Dublin in second, third and fourth places at 6.6, 2.5 and 2 per cent respectively, above the national average. Conversely, average earnings in Donegal, Monaghan and Roscommon are 26.7, 18.5 and 17.2 per cent respectively below the national average.

Net disposable incomes are derived after deducting 2016 income tax, Universal Social Charge and PRSI. The analysis assumes a single person is earning 150 per cent of average earnings or €55,254 ( $36,836 \times 1.5$ ), while for a working couple, twice the average earnings is assumed at €73,672 ( $36,836 \times 2$ ).

The estimates for housing affordability in 2016 are based on a LTV of 84 per cent and an average standard variable mortgage rate of 3.7 per cent. The mortgage term assumed is twenty-five years. The level of deposit is shown separately in the Table before and after taking account of the Help to Buy Initiative announced in the Budget. As the single person and the working couple are purchasing the same property, the deposit required is the same in each case. It is interesting that the tax rebate cap of €20,000 under the Help to buy initiative only arises in the case of FTBs purchasing in Dún Laoghaire Rathdown. The highest deposits are required in Dún Laoghaire-Rathdown, Dublin City, South Dublin, Wicklow, Fingal and Kildare - all are above €40,000. The lowest deposit is required in Roscommon at €11,653, before a tax rebate of €3,642.



The main observations from the analysis of affordability for a single FTB are as follows:

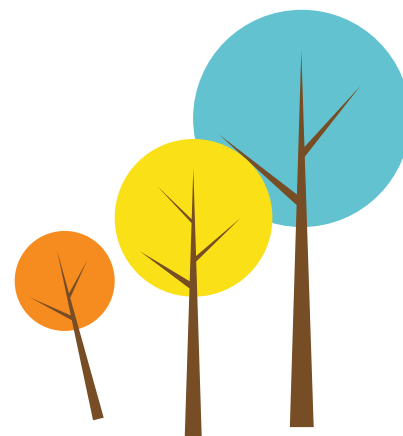
- ✓ The average single FTB across the State earning 1.5 times average earnings is paying 31.4 per cent of net income in mortgage repayments and would require a deposit of €25,581 after taking the tax rebate into account.
- ✓ All single FTBs are paying 30 per cent or less of their income in monthly mortgage repayments, apart from in the four local authority areas of Dublin, Wicklow, Kildare, Meath, Galway City and Cork City.
- ✓ Outside of the four local authority areas of Dublin, the least affordable counties are Wicklow, Kildare and Meath in the Mid-East region.
- ✓ The most affordable region is the Border where a single FTB is paying 20.3 per cent of net income in mortgage repayments. This reflects house prices which are 43 per cent below the national average while incomes are 17 per cent below the national average.
- ✓ The most affordable locations are Mayo, Waterford City and Roscommon where single FTBs are paying

15 per cent or less of net income in mortgage repayments.

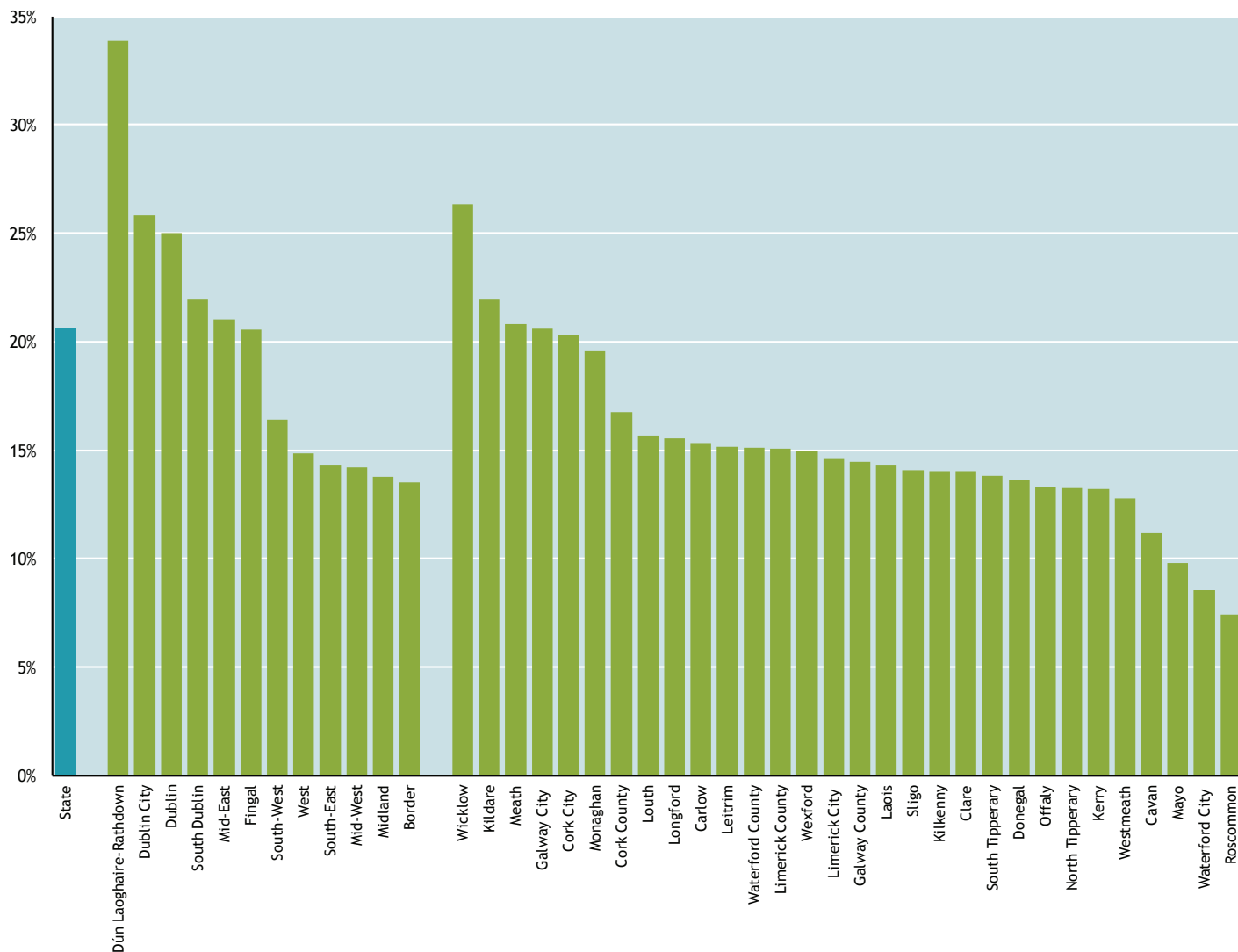
- ✓ In Donegal where the average property price and average earnings are almost 48 and 26 per cent respectively per below the national average, a single FTB is paying 20.2 per cent of net income mortgage repayments.

**A similar set of observations arise from the analysis of affordability for a FTB working couple, except the higher earnings improves affordability in all regions and counties:**

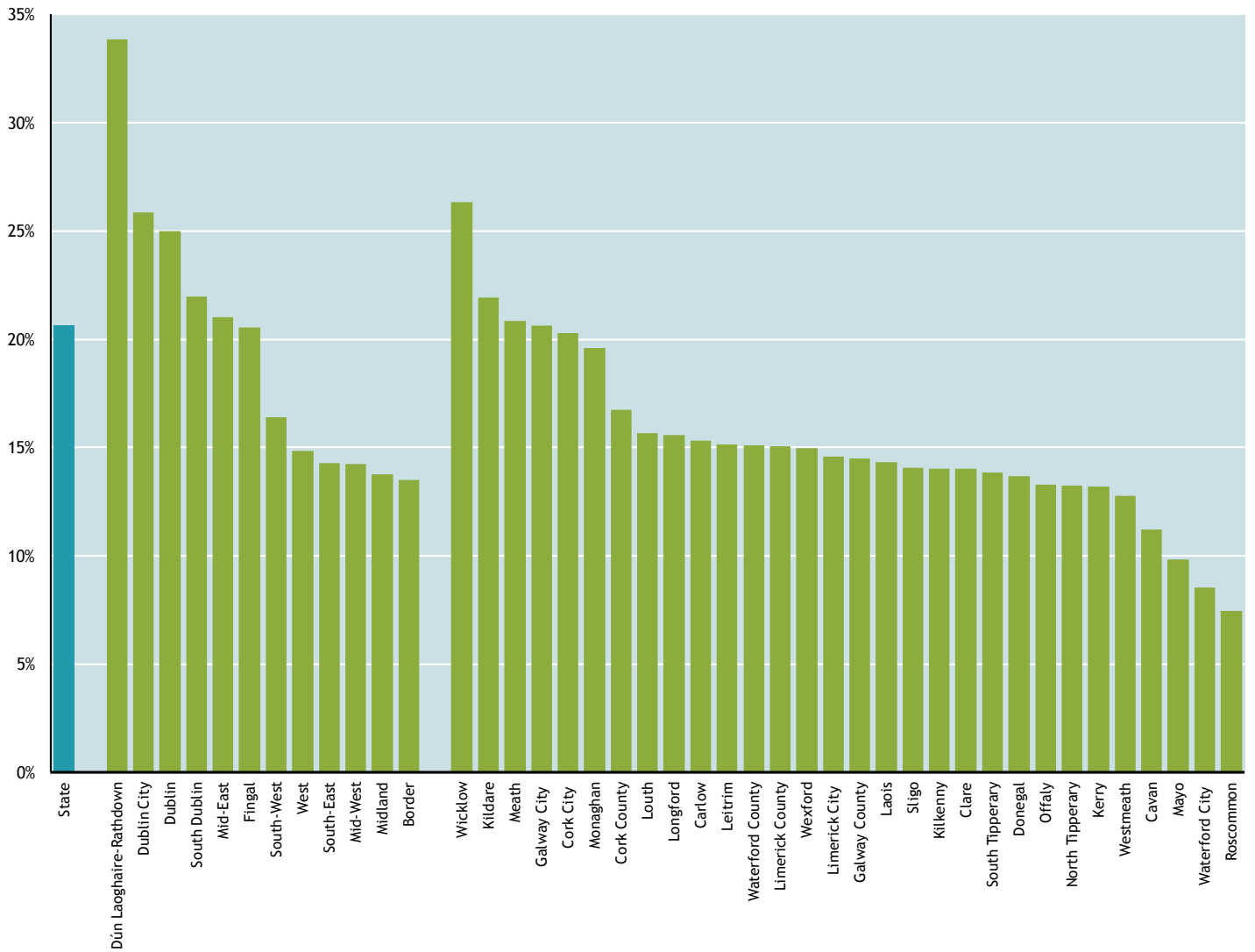
- ✓ The average FTB working couple across the State earning twice average earnings is paying 20.7 per cent of net income in mortgage repayments and would require the same deposit as for a single FTB of almost €25,000 after taking the tax rebate under the Help to Buy initiative into account.
- ✓ All FTBs working couples are paying less than 25 per cent of their net incomes in monthly mortgage repayments apart from buyers in Dún Laoghaire Rathdown, Dublin City and Wicklow.



# FIGURE 6: REGIONAL AND COUNTY AFFORDABILITY FOR FTB SINGLE PERSON ON 1.5 TIMES AVERAGE EARNINGS



# FIGURE 7: REGIONAL AND COUNTY AFFORDABILITY FOR FTB WORKING COUPLE ON TWICE AVERAGE EARNINGS



## TABLE 4: REGIONAL AND COUNTY HOUSING AFFORDABILITY BASED ON AN 84 PER CENT LTV RATIO

Region/County	SINGLE FTB			WORKING COUPLE FTB		DEPOSIT REQUIRED		
	Average FTB House Price	Repayments as % of Net Income	Average Earnings * 1.5	Repayments as % of Net Income	Twice Average earnings	Deposit before Tax Rebate	Tax Rebate (5% of House Price)	Deposit after Tax Rebate
STATE	232,552	31.4 %	55,254	20.7%	73,672	37,208	11,628	25,581
DÚN L-RATHDOWN	425,864	50.7%	65,309	33.9%	87,079	68,138	20,000	48,138
DUBLIN CITY	325,012	38.7%	65,309	25.8%	87,079	52,002	16,251	35,751
DUBLIN	314,304	37.4%	65,309	25.0%	87,079	50,289	15,715	34,573
SOUTH DUBLIN	276,189	32.9%	65,309	22.0%	87,079	44,190	13,809	30,381
MID-EAST	237,715	31.9%	55,474	21.0%	73,966	38,034	11,886	26,149
FINGAL	258,452	30.8%	65,309	20.5%	87,079	41,352	12,923	28,430
SOUTH-WEST	182,828	24.9%	54,314	16.4%	72,419	29,252	9,141	20,111
WEST	157,260	22.7%	50,115	14.9%	66,820	25,162	7,863	17,299
SOUTH-EAST	148,750	21.8%	49,120	14.3%	65,494	23,800	7,438	16,363
MID-WEST	159,657	21.6%	54,867	14.2%	73,155	25,545	7,983	17,562
MIDLAND	140,612	20.9%	48,126	13.8%	64,167	22,498	7,031	15,467
BORDER	132,767	20.3%	45,971	13.5%	61,294	21,243	6,638	14,604
WICKLOW	297,146	40.0%	55,309	26.3%	73,745	47,543	14,857	32,686
KILDARE	251,226	33.2%	56,635	21.9%	75,513	40,196	12,561	27,635
MEATH	232,250	31.7%	54,259	20.8%	72,345	37,160	11,613	25,548
GALWAY CITY	224,700	31.5%	52,325	20.6%	69,766	35,952	11,235	24,717
CORK CITY	231,577	30.7%	56,358	20.3%	75,144	37,052	11,579	25,473
MONAGHAN	189,250	29.4%	45,031	19.6%	60,042	30,280	9,463	20,818
CORK COUNTY	191,159	25.4%	56,358	16.7%	75,144	30,585	9,558	21,027
LOUTH	164,392	23.9%	49,562	15.7%	66,083	26,303	8,220	18,083
LONGFORD	155,857	23.5%	46,965	15.6%	62,620	24,937	7,793	17,144
CARLOW	158,333	23.3%	48,789	15.3%	65,052	25,333	7,917	17,417
LEITRIM	156,233	23.1%	48,568	15.2%	64,757	24,997	7,812	17,186
WATERFORD CO.	161,375	23.1%	50,723	15.1%	67,630	25,820	8,069	17,751
LIMERICK COUNTY	177,038	22.8%	58,900	15.1%	78,533	28,326	8,852	19,474
WEXFORD	150,906	22.7%	47,297	15.0%	63,062	24,145	7,545	16,600
LIMERICK CITY	171,333	22.0%	58,900	14.6%	78,533	27,413	8,567	18,847
GALWAY COUNTY	157,804	22.1%	52,325	14.5%	69,766	25,249	7,890	17,358
LAOIS	150,071	21.8%	49,617	14.3%	66,157	24,011	7,504	16,508
SLIGO	149,950	21.5%	50,557	14.1%	67,409	23,992	7,498	16,495
KILKENNY	149,145	21.5%	50,336	14.0%	67,114	23,863	7,457	16,406
CLARE	148,643	21.4%	50,170	14.0%	66,893	23,783	7,432	16,351
SOUTH TIPPERARY	143,386	21.1%	48,899	13.8%	65,199	22,942	7,169	15,772
DONEGAL	121,539	20.2%	40,777	13.7%	54,369	19,446	6,077	13,369
OFFALY	130,667	20.0%	45,971	13.3%	61,294	20,907	6,533	14,373
NORTH TIPPERARY	143,386	20.3%	51,662	13.3%	68,882	22,942	7,169	15,772
KERRY	132,154	20.0%	46,965	13.2%	62,620	21,145	6,608	14,537
WESTMEATH	133,125	19.5%	49,231	12.8%	65,641	21,300	6,656	14,644
CAVAN	112,167	16.9%	46,965	11.2%	62,620	17,947	5,608	12,338
MAYO	100,167	14.9%	48,070	9.8%	64,094	16,027	5,008	11,018
WATERFORD CITY	91,250	13.1%	50,723	8.5%	67,630	14,600	4,563	10,038
ROSCOMMON	72,833	11.2%	45,750	7.4%	61,000	11,653	3,642	8,012

Notes: House prices are the average FTB owner occupier house prices from the CSO Residential Property Price Index for August 2016. Earnings are based on assuming the relativities which prevailed in 2014 are unchanged in 2016. Although house prices are provided for the individual city and county council areas, the figures for earnings are only provided for each city and county as a whole. There are slight discrepancies between the definitions of the regions used by the CSO for measuring house prices and incomes. For example when measuring house prices the CSO has Louth in the Mid-East (not in the Border as for earnings); and South Tipperary in the Mid-West (not in the South-East as for earnings). These differences are not expected to materially impact the analysis.

# BUDGET 2017: HOUSING MEASURES TO ADDRESS THE RESTORATION OF A PROPERLY FUNCTIONING HOUSING MARKET

Budget 2017 included a package of fiscal measures to complement the measures contained in the Action Plan. A number are aimed at boosting housing supply in the owner occupied, private rental and social housing sectors.

## Help to Buy Incentive

This scheme will help FTBs with the deposit required under the Central Bank's macroprudential rules. The incentive will take the form of a rebate of income tax paid over the previous four years, up to a maximum of 5 per cent of the purchase price of a new home up to a value of €400,000. The maximum relief, which is €20,000, will be available for new houses that are valued between €400,000 and €500,000. Any homes over €500,000 will not be entitled to this relief. The incentive itself will run until the end of 2019. The first-time buyer must take out a mortgage of at least 70 per cent of the purchase price.

This is the one measure which will have a positive impact on affordability, provided it is accompanied by an increase in new supply. Potential FTBs will now not need to raise the full deposit previously required. However, those who have already saved their deposit will be able to pay more for a property. Those who have not yet raised their deposit will now be able to enter the market more quickly. And those who are currently renting or living at home may now decide to get onto the property ladder. The measure is designed

to boost the supply of new homes. However, in terms of supply, there will be no increase in the short-run, which implies that property prices will rise when faced with this higher demand and greater purchasing power.

## Rent a Room Relief Extension

The ceiling for income under the Rent a Room relief will be increased from €12,000 to €14,000, with the aim of encouraging homeowners to rent out vacant rooms and should lead to an overall increase in the availability of rental accommodation.

## Increased Mortgage Interest Deductibility for Landlords

A phased unwinding of the restriction on interest deductibility for residential landlords has been announced in Budget 2017. An increase in interest deductibility from 75% to 80% will take effect from January 2017.

## ISIF Supported Fund for Housing

The Ireland Strategic Investment Fund (ISIF) and the National Treasury Management Agency (NTMA) are examining the feasibility of establishing a new funding vehicle that will deliver new mixed tenure residential developments in a way that is both off-balance sheet and is commercially viable. If established this vehicle has the potential to deliver up to 5,000 additional units over a five year period for social housing.





### ISIF Enabling Infrastructure Fund

ISIF shall also support major housing developments by providing infrastructure such as roads, drainage, and water supply pipelines. This will involve the supply of up-front capital to developers with repayments being made either as sites or completed housing units. The level of infrastructure financing is expected to be around €250 million.

### Student Accommodation Investment Funding Support

ISIF, along with other third party investors, is open to further investment opportunities with respect to student accommodation, having already invested in a scheme for Dublin City University.

### Enhancement of the Living City Initiative for Landlords

The Living City Initiative will be opened up to landlords to invest in heritage properties for subsequent rental. Other changes in the initiative

include amending the residential element of the scheme to remove the limitation on the maximum floor size of a property, removing the requirement that the property must have been previously used as a dwelling and reducing the minimum amount of expenditure needed to qualify for the incentive.

### CAT Tax Free Threshold Increase

Budget 2017 saw the Band (A) Capital Acquisitions tax (CAT) tax free threshold increased to €310,000. In addition to this, both the Band (B) and the Band (C) tax free thresholds will be increased by 7.8%. The new Band (B) CAT tax free-threshold will be €32,500 while the Band (C) threshold will increase to €16,250.

### Home Renovation Incentive Extension

The Home Renovation Incentive is to be extended for a further two years until the end of 2018, in order to assist homeowners and landlords in repairing and renovating their properties.



# ASSUMPTIONS <sup>1</sup>

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

## Monthly FTB Property Prices:

The house price data has been revised to incorporate the more comprehensive Residential Property Price Index published by the CSO in September 2016. The latest data is for August 2016. Taking the average FTB property price in August and taking it backwards to 2005, using the monthly percentage change in the mix-adjusted All Residential Property Price National Index, generates a time series for absolute FTB prices. The time series for the average Dublin FTB property price is similarly estimated, taking the Dublin average FTB property price in August 2016 and applying the monthly change in the mix-adjusted Dublin All Property Price Index. For FTB property prices outside Dublin the weighted average property price in all regions except Dublin is derived for August 2016 and previous values are estimated using the monthly percentage change in the mix-adjusted National excluding Dublin All Residential Properties Index.

The latest house price data is up to August 2016. Estimates for the monthly percentage changes beyond August are based on the average monthly percentage changes in the previous six months. The latter are used to forecast average property prices over the remaining five months of the year.

**Loan to Value ratio:** 90% until December 2013; 84% 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 variable mortgage rate is assumed to be 3.7%.

## 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, 2016). 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 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 increased in 2014 (+0.7%) and 2015 (=1.2%). Average earnings declined by 1.2% in the first six months of 2016 and are forecast to increase by an average of 0.8% in 2016 as a whole. Monthly earnings are estimated by interpolating between the quarterly earnings figures.

The average earnings figures assumed for August 2016 and for 2016 as a whole are as follows:

Earnings (euro)	Month Aug-16	Yearly (average) 2016
Average Earnings	36,672	36,836
Single Person on 1.5 times average earnings	55,008	55,254
FTB Working Couple on Twice average earnings	73,344	73,672

For the purposes of estimating affordability, the incomes of Dublin buyers are assumed to be 10% higher than for buyers across the State as a whole, except in the county analysis where the 2014 relativities are used. Income and health levies were replaced by the new Universal Social Charge from January 2011.

<sup>1</sup> The analysis of housing affordability in this report is based on data published up to the 21st October 2016.



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