

EBS DKM Index shows mortgage affordability is improving for First-Time Buyers

Mortgage affordability for first-time buyers is improving, according to the latest EBS DKM Affordability Index published today. This is due to a lower Loan to Value ratio for first-time buyers, while average earnings went up by almost 2 per cent in 2015 and average mortgage interest rates had fallen to 3.7 per cent in January 2016 compared with 4.3 per cent one year earlier.

The new lending rules introduced by the Central Bank of Ireland in February 2015 have made it more difficult for first-time buyers to raise a mortgage due to restrictions on Loan to Value and Loan to Income ratios. But the rules have also resulted in first-time buyers borrowing less, thus improving affordability.

Affordability is defined as the proportion of after-tax income required to meet mortgage payments in the first year for an average first-time buyer working couple each on average earnings.

The average first-time buyer property price nationally was estimated at €222,782 in January 2016 implying an average mortgage of €178,255 based on an 80 per cent loan to value ratio (LTV). Paying this off cost 19.1 per cent of average net income in January 2016 - down from 19.5 per cent a year earlier.

Dublin homes became more affordable, but are still much less affordable than almost everywhere else in the country. Repaying a mortgage in the capital accounted for 21.3 per cent of the net income of an average working couple in January 2016, down from the most recent peak of 24.3 per cent just over one year earlier.

Outside of Dublin, average property prices went up by 10.5 per cent in 2015, according to CSO figures - almost twice the corresponding rate in 2014.

The analysis of housing affordability by county firstly reveals the differences in earnings in and outside the Capital. Donegal and Monaghan have the lowest joint-earnings for a FTB working couple at €54,823 and €56,125 respectively - or 24.2 per cent and 22.4 per cent below the national average. This compares with average earnings for a working couple of €85,924 in Dublin, which is 18.8 per cent above the national average.

However, despite this, properties have become more affordable in almost all counties. The most affordable county is Longford where it takes just 5.9 per cent of after-tax income to fund a mortgage followed by Leitrim and Roscommon (6.6 per cent), and Cavan (7.9 per cent).

There is also a massive affordability gap between the Dublin area and most of the country. This isn't helped by the just over 8,000 new housing units commenced nationwide last year, of which only 3,100 were in Dublin - far less than the number required.

Affordability for single buyers improved slightly in 2015 but remains very challenging with repayments accounting for 38.1 per cent of net income.

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For further information please contact DKM on 01 6670372.