IS HOUSING VIA MORTGAGE AFFORDABLE IN ALBANIA?

EVIDENCES FROM A COMPOSITE AGGREGATED INDEX-BASED ANALYSIS

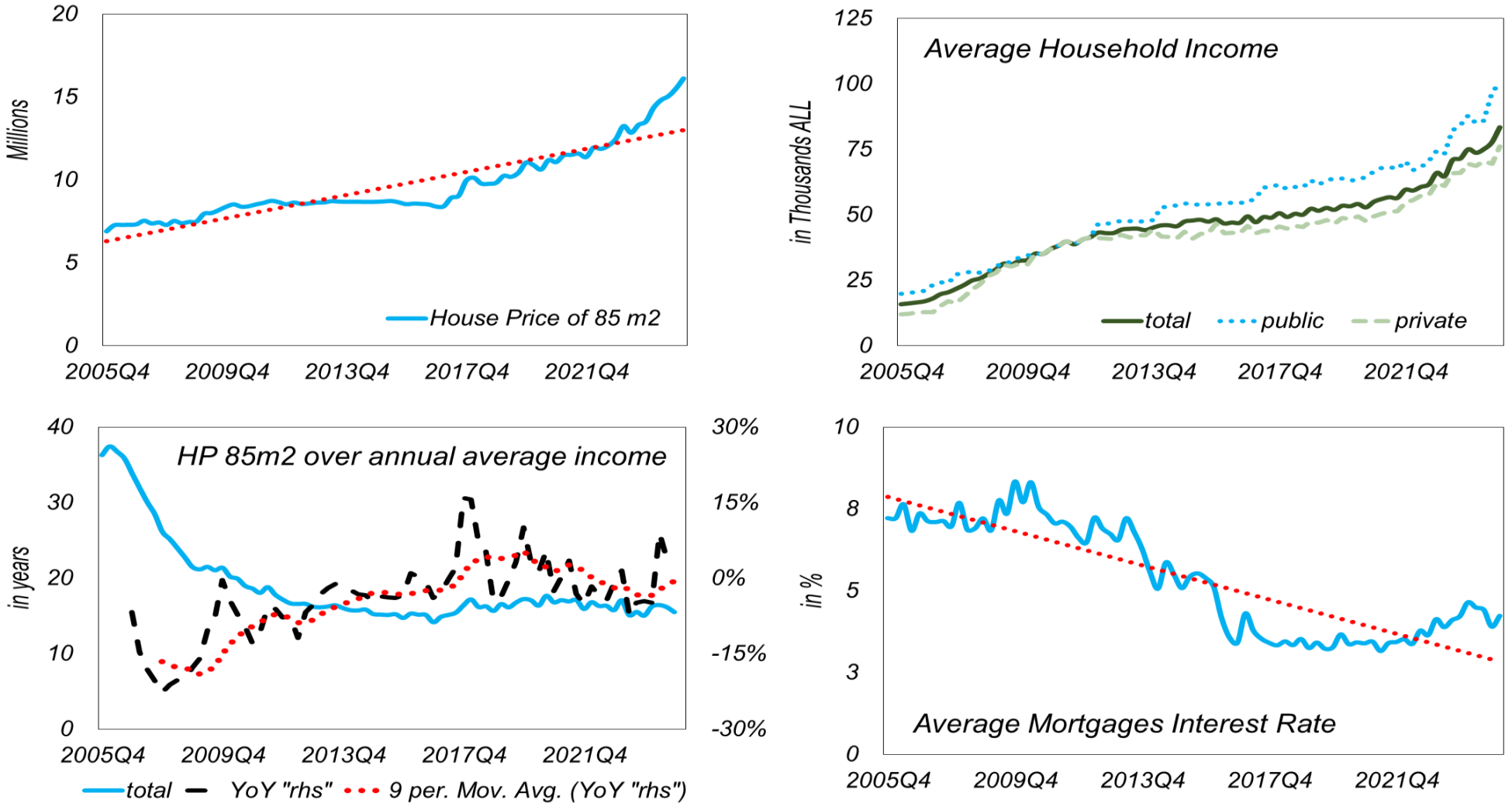
by

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Figure 1. House price, interest rate, income and loan-to-value, over 2005 – 2024.



Source: Bank of Albania, INSTAT, Author's calculations.

The aim of this paper is two-fold, upon which it:

1. *Develops a comprehensive metric for assessing housing affordability in the context of Albania;*

2. *Evaluates households' ability to qualify for a mortgage based on key financial indicators;*

Following the approach of Biljanovska, *et al.*, (2023), our Housing Affordability Index (HAI) focuses on two key dimensions:

1. The ability of *a dual-income household* to qualify for a mortgage loan to purchase an average-priced, optimally sized home, considering *financial costs*, *income type*, *loan maturity*, and other relevant economic factors;

2. Listings of single-family homes and apartments (*and exclude listings of rentals, land parcels, mobile homes, or commercial properties*).

HAI provides us with a way to track over time (on quarterly basis) whether housing is becoming more or less affordable for the typical household (family).

The methodology to build the HAI … (1 – 3)

The construction of a Housing Affordability INDEX, at the aggregate level in the case of Albania, is based on the Price-to-Income Ratio approach, proposed by Biljanovska, *et al*., (2023), which see HAI as a function of a set of information related to 6 different aspect, e.g.

(i) price of a typical house (*HP*);
(ii) monthly income of a typical household (*HI*);
(iii) monthly expenses on mortgages loan a typical house;
(iv) average mortgage interest rates (*IR*);
(v) typical loan-to-value (*LTV*) ratio;
(vi) and the typical maturity term of a mortgage (LMT);

The value (price) of a typical (optimal) house (*HP*) is estimated by multiplying the average price (P) per meter square to buy a house by the average size of a home ($\overline{HS}$). And the monthly mortgage repayment (P*MT*) is estimated as follows:

$$PMT_t = HP_t * LTV_t * \frac{IR_t}{12} * \left[1 - \frac{1}{\left(1 + \frac{IR_t}{12}\right)^{LMT}}\right]^{-1} \quad (1)$$

The methodology to build the HAI … (2 – 3)

Then, *HAI* is calculated as follows:

$$HAI_t = \left(\frac{MEDINC_t}{QINC_t}\right) * 100 \qquad (2)$$

where, *MEDINC* is the median household income and $QINC$ is the necessary annual income a household needs to qualify for a mortgage loan on a typical home, which is obtained as:

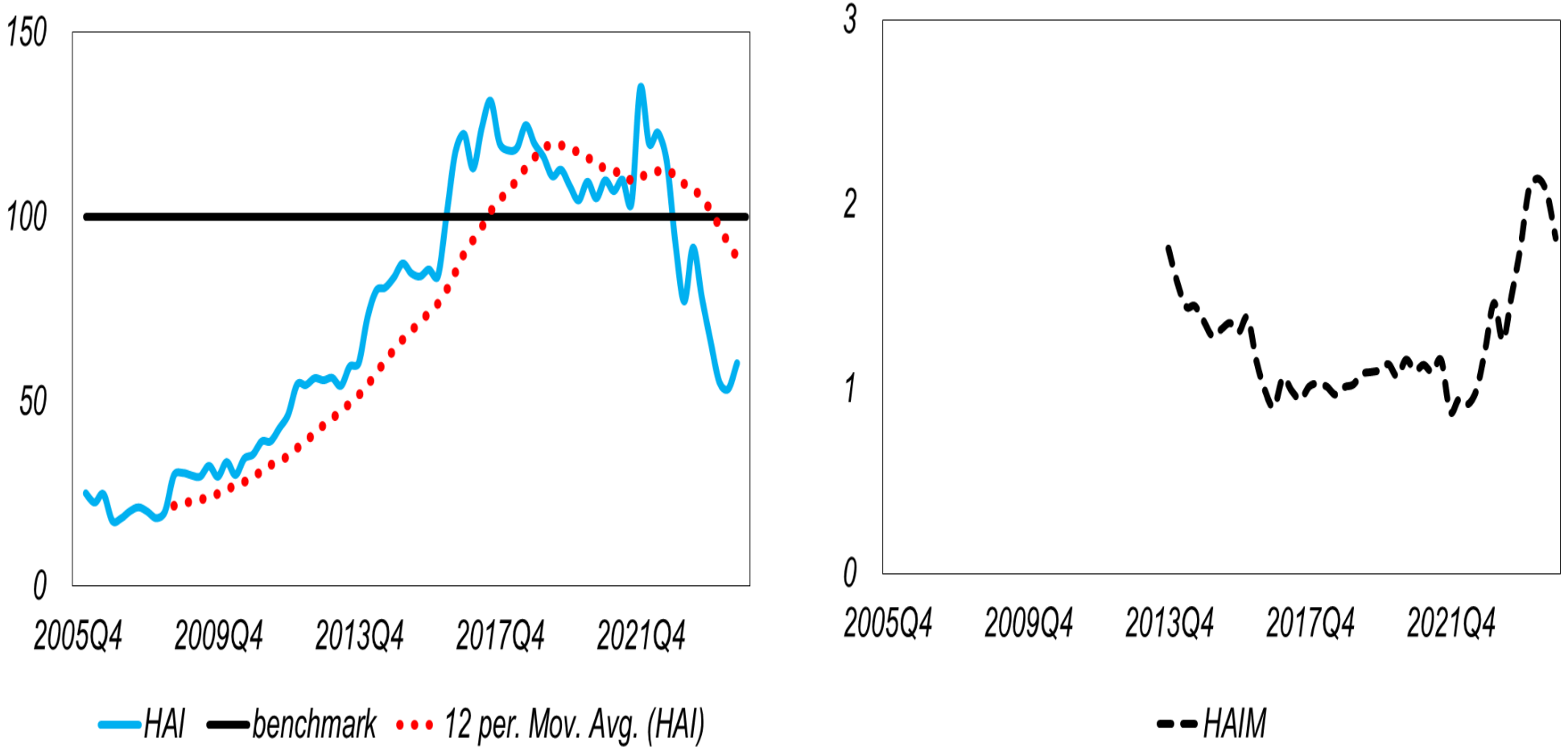
$$QINC_t = PMT_t * 2.5 * 12 \qquad (3)$$

where, it is assumed that for a household to qualify for a mortgage loan, the (*PMT*) should not exceed a 40% of the household's monthly income.

Another interesting indicator is the *AFFORDABILITY MULTIPLE (HAIM)* that describes the multiple of average full-time earnings required to affordably services mortgages repayments under prevailing conditions, calculated as follows:

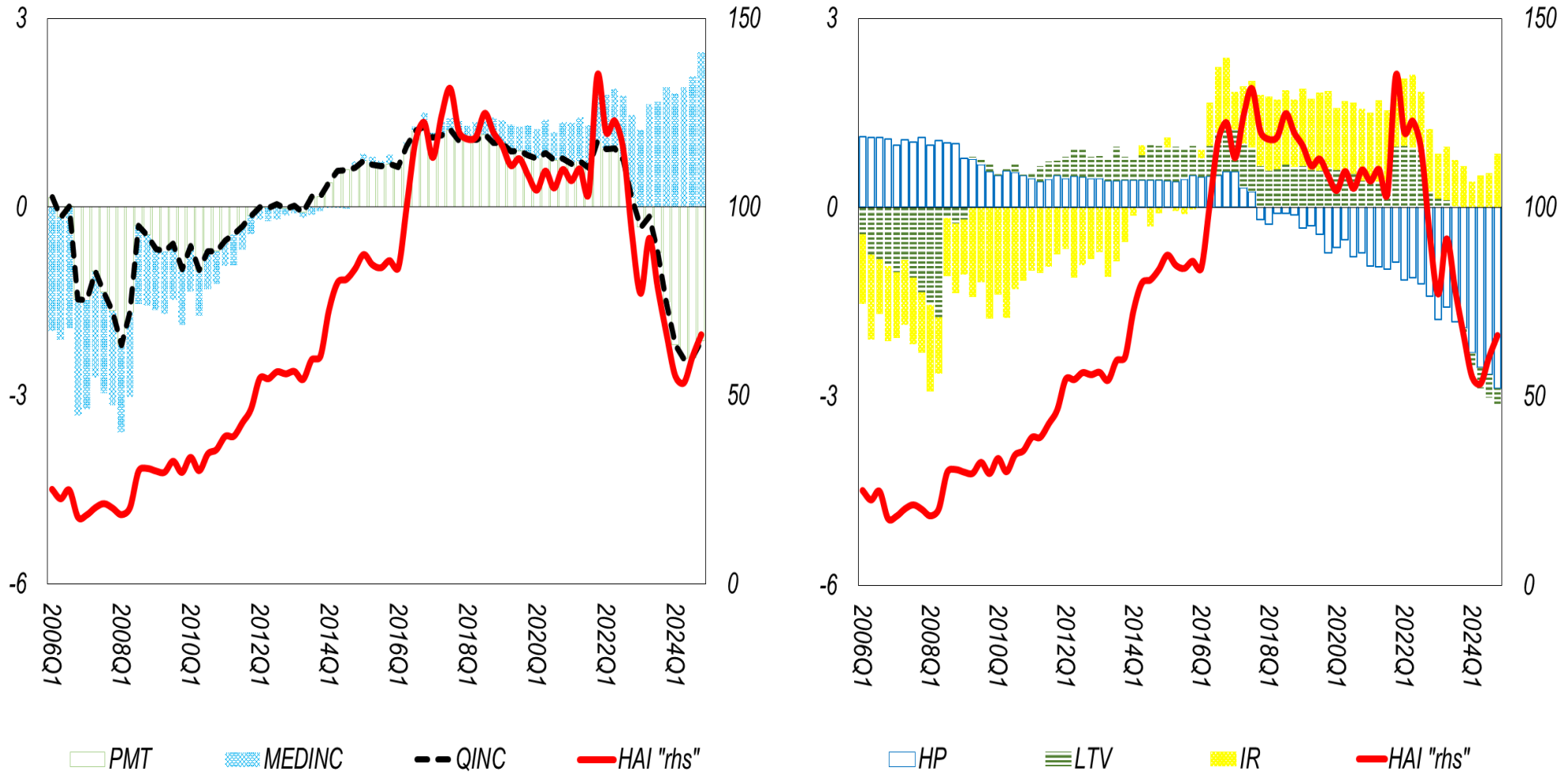
$$HAIM_t = \frac{100}{HAI_t} \qquad (4)$$

Figure 2. The HAI and HAIM patterns over the period 2005 – 2024
(HS-85m^2; HI – Public sector; MA – 360)



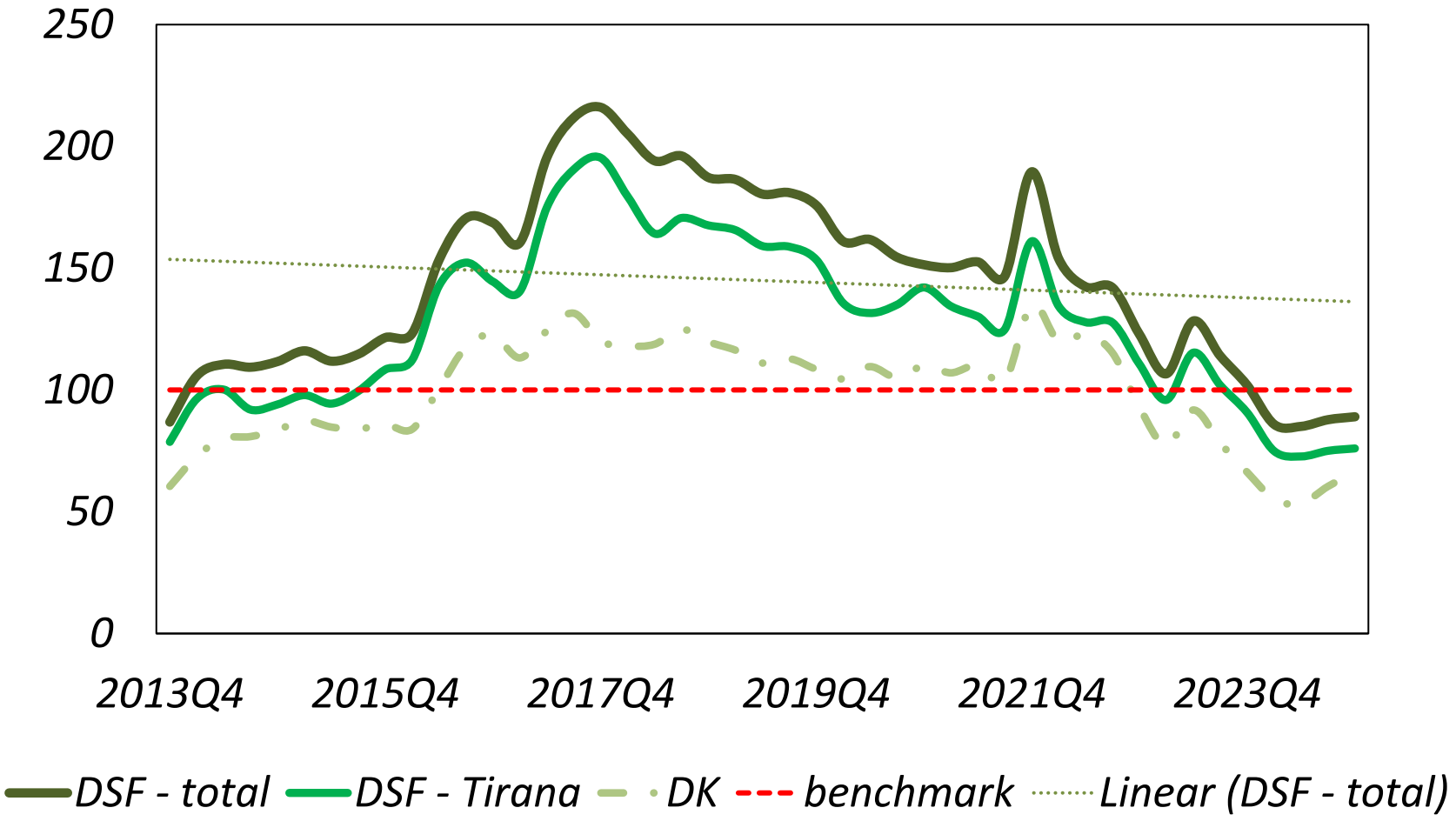
Source: Author's calculations.

Figure 3. The HAI patterns and its main contributors.



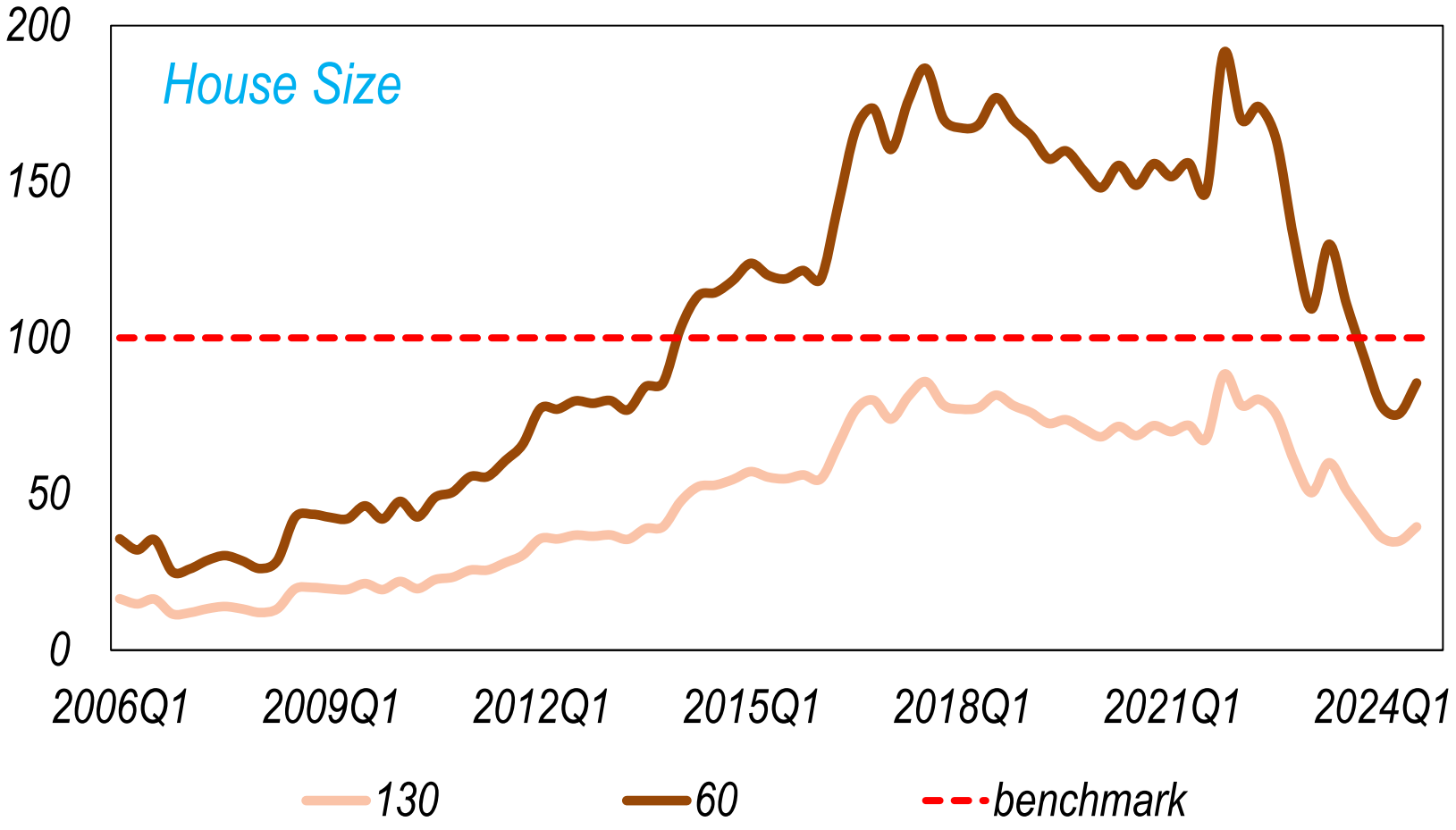
Source: Author's calculations.

Figure 4. The HAI patterns based on Different HPI.



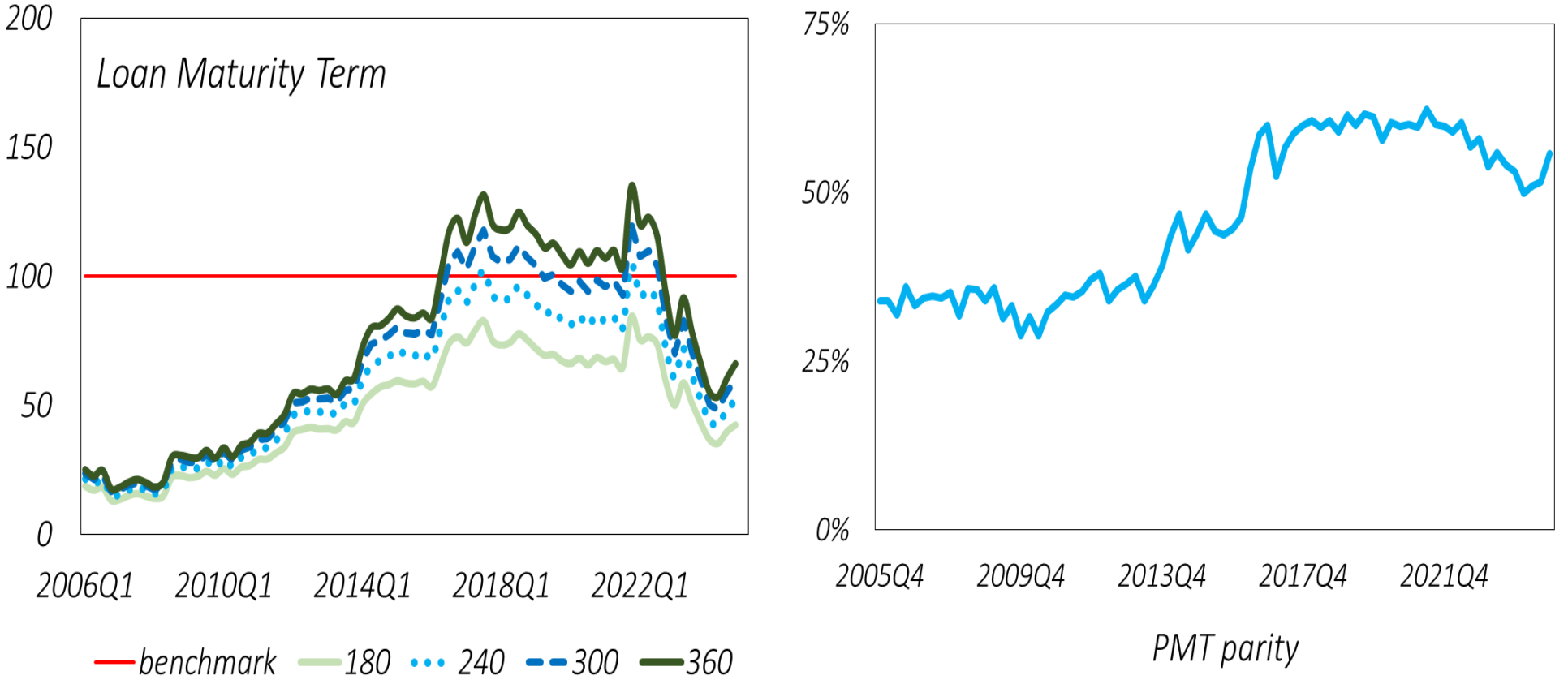
Source: Author's calculations.

Figure 5. The HAI patterns with different Household Size.



Source: Author's calculations.

Figure 7. Sensitive analysis on different Loan-Term Maturity.



Source: Author's calculations.