Savills Research – Winter 2023

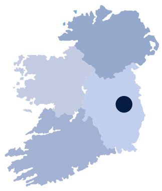
MARKET IN MINUTES

Savills Research

Prime Country Homes Market

The Old Rectory, Trim, Co Meath

A record €105m worth of prime country home transacted in H1 2023



Kildare comprised 15% of prime country home sales

International buyers accounted for 31% of the market

69% of purchasers were cash buyers

Economic Overview

Irish GDP continues to grow despite challenges constraining global activity

Real Irish GDP continues to grow despite the wider challenges facing the global economy. Modified domestic demand – which strips out the distortionary effects of multinational activity – is also growing at a faster pace, signifying greater strength in the underlying domestic economy. Overall, output is more than a third higher than it was before the Covid-19 pandemic. Looking ahead, the Central Bank of Ireland is predicting full-year GDP growth of 2.9% y/y in 2023, followed by 2.5% y/y in 2024.

The outlook for the Irish economy comes in the context of the challenges facing both the domestic and international economies – high inflation and, consequently, high interest rates. To achieve price stability, the European Central Bank (ECB) targets medium-term inflation of 2.0%. However, inflation was set on a rapidly upwards spiral during the pandemic and the initial breakout of war in Ukraine, which caused severe supply chain and energy crises. The ECB's key policy tool for controlling price changes is the interest rate.

Mounting inflation has led the Bank to implement successive rate hikes for more than a year. Although Euro Area inflation has slowed considerably in recent months, it remains above the target rate. The European Commission is forecasting full-year Euro Area inflation of 5.6% in 2023, with that rate slowing to 2.5% in 2024. In the meantime, the higher interest rate environment has raised the cost of debt for both developers and mortgage borrowers, although the market has weathered these increases well thus far.

Wider housing market context

Residential property price inflation has been slowing nationally for more than a year. When Dublin is excluded from the residential property price index, we can see that price growth peaked at 17.1% y/y in March 2022, with that figure entering the low single digits since then. Given that property price inflation has been lagging general inflation, real property values have declined in recent months. Nevertheless, prices are growing strongest on a regional basis, with prices in the South-East and the South-West holding up well. These regions are home to popular prime country home locations like Kinsale and Glengarrif, Co Cork, and Caragh Lake, Co Kerry.

Notably, the average weighted interest rate on new mortgage lending has increased over the past year, according to Central Bank of Ireland data, with Irish banks gradually adopting higher lending rates in line with the ECB. The ECB is of the view that its higher rates – if held for a "sufficiently long duration" – should help to facilitate a timely return to target inflation. This reflects a wider consensus among global central banks that interest rates will be held at elevated levels for as long as it takes to return inflation to the target rate. That means mortgage holders and aspiring homeowners can expect the high interest rate environment to persist for the months ahead. Country home purchasers should nevertheless be relatively shielded from these conditions as they are often cash buyers who are not reliant on borrowing for their transaction.

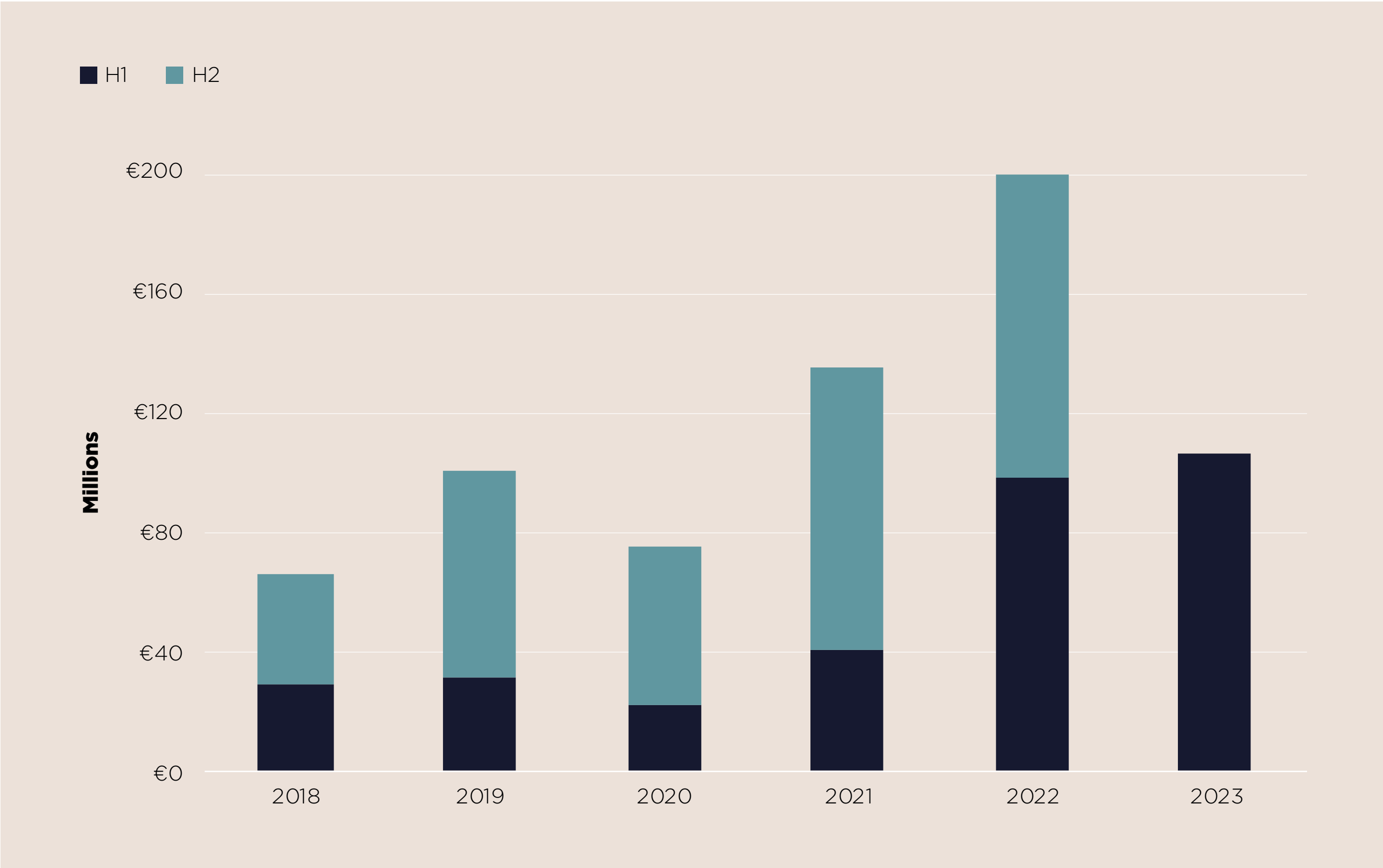
Furthermore, despite the tighter lending conditions, consumer sentiment remains upbeat. Evidence that higher mortgage costs are dampening housing demand is weak so far, with residential sales volumes and mortgage approvals continuing to grow. That said, there has been a decline in mortgage drawdowns recently, primarily because of weaker activity among people moving homes. This may be positive for cash buyers of prime country homes because of the way interest changes affect the decisions of mortgage borrowers. Less activity among movers would, all else equal, cause prices to soften in the short to medium-term. Nevertheless, while we anticipate that price movements outside of Dublin will continue to slow this year, they are unlikely to enter negative territory – especially in the undersupplied country homes market.

"Evidence that higher mortgage costs are dampening housing demand is weak so far, with residential sales volumes and mortgage approvals continuing to grow."

Sprayfield, Sandycove, Co Cork

Trends in the prime country homes market

Figure 1: Value of prime country home sales



Source: Savills Research, Property Price Register

> **Total prime country home transactions increased by 8.7% y/y, totalling €105 million in H1 2023.**

Our approach to analysing the prime country homes market involves analysing sales above one million euros from the Property Price Register (PPR) dataset. As part of this, we remove sales that occurred in Dublin, north Wicklow and the major regional cities. This methodology has its limitations, especially where property inflation drives more dwellings over the sales price threshold over time, as well as boundaries that might eliminate a property from inclusion based on a small distance. Notwithstanding, this analysis is useful for assessing the performance of an important segment of the Irish property market.

The first half of 2023 returned the highest volumes recorded by the country homes market since records began in 2010. Total prime country home transactions increased by 8.7% y/y, totalling €105 million in H1 2023. The number of deals completed rose by 7.8% y/y to 69, implying an average deal size of €1.5 million. Since this figure is broadly unchanged from a year ago, this means that the increase in sales values was primarily driven by the rise in transactions rather than the value of properties sold. Looking further back, the average deal size in H1 2019 was €1.6 million, when only €30 million in sales were achieved across 19 transactions.

The recent surge in deals partly reflects some residual effects of Brexit as some UK buyers continue to relocate to Ireland to remain in the EU. However, the main driver has been the pandemic, which ignited a trend towards working from home that facilitated relocations from major cities to rural towns and villages. Although many employers have started tightening their flexible working arrangements, country living will continue to be a viable option for many, including those in senior positions who may benefit from more freedom in how they work. They are the same cohort with the earnings potential to afford prime country homes, potentially providing underlying support to the market. That said, there may be some moderation in activity as the initial boost attributable to the pandemic begins to settle.

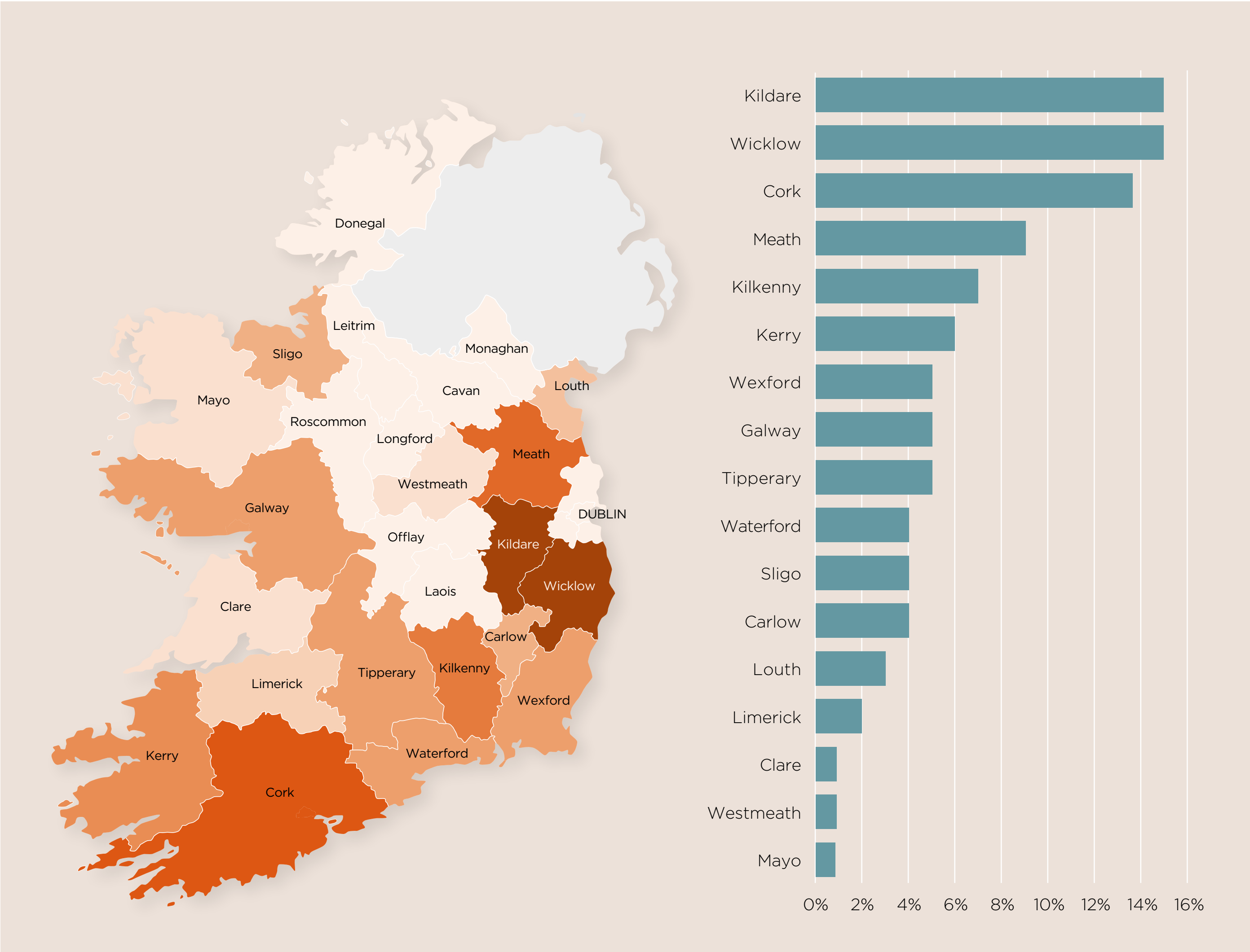
Who is buying and what are they looking for?

Where are purchasers buying?

Kildare County made up 14.8% of total sales in H1 2023, amounting to almost €16 million across 13 deals, our analysis of the PPR data shows. Wicklow, excluding areas in the north and close to Dublin, was the second-most popular location at 14.5% of sales, or €15 million across nine deals. Cork followed in third place at 11% of sales worth €12 million across eight deals. It is notable that Cork's share of total sales was down from 33% a year ago, reflecting a greater geographical distribution of purchases across Ireland compared to previous years. At €9 million worth of sales, Meath accounted for 9% of the total properties transacted. Kildare, Wicklow and Meath together form the Greater Dublin Area, implying that the highest level of activity occurred within commutable distance of the Capital city. Despite this, these counties still underperformed relative to their pre-covid trend as flexible work policies continue to enable buyers to move further afield.

Elsewhere, there was some increase in the popularity of western counties, with the share attributable to Sligo, Clare and Galway rising from 5% in H1 2022 to 11% in H1 2023. The counties together achieved sales of €11 million. Neighbouring counties Wexford and Waterford have also risen in popularity since the pandemic. While there were no prime country home transactions in these counties recorded on the PPR in 2019, they made up 12% of total sales last year and 10% in the latest data at a combined total of almost €10 million. Kilkenny and Kerry were also sought-after locations, making up 8% (€7 million) and 6% (€6 million) of total transactions, respectively. While Kilkenny County also facilitates easy access to Kilkenny City, where a number of multinational firms are located, the appeal of Kerry is reflected in its picturesque landscape.

Figure 2: Transactions by county, H1 2023



Source: Savills Research, Property Price Register

Who is buying?

While our Savills Prime Country Homes sales data are indicative of certain patterns and trends, we would highlight that they provide just a snapshot of overall market activity as they are based on transactions our team have made. That said, our data show that a good portion of the market was characterised by overseas buyers who accounted for 31% of our H1 sales figures. These buyers were primarily from the UK and the US, although their motivations for purchasing an Irish country home differed. In many instances, purchasers from the UK are looking to relocate to Ireland because of family ties. They are often couples with children, where one parent is Irish and who are keen to return home. Ireland's reputation as a centre for multinational activity also means UK buyers see it as a strategic career option and can comfortably commute 2-3 days a week to city centre offices while enjoying life in the countryside. On the other hand, US buyers are more inclined to purchase a prime country home for use as a holiday property. Their purchasing power has been supported by the strength of the dollar, which is being buoyed by the high interest rate environment and strong US economic performance. While US buyers may also have family links to Ireland, an emerging trend is their desire to escape very hot summers at home in exchange for Ireland's temperate climate. This trend will likely grow as changing weather patterns see summer temperatures across much of North America continue to increase in the years ahead.

Meanwhile, the trend towards working from home has led to a good level of activity among domestic buyers, who are leveraging the opportunity to relocate to coastal villages or scenic rural landscapes, or to be closer to home. According to the Savills data, the majority of buyers in the first half of the year were Irish. Most domestic buyers were trading up from a smaller home, again reflecting their preference for the space and privacy that prime country homes provide. Additionally, a number of purchasers were relocating from their current place of residence, whereas a few were buying a second home. Our analysis suggests buyers are seeking out family homes that suit their lifestyles, rather than searching for a second home or an investment property. Irish buyers are also generally not concerned with finding a modernised property, indicating their willingness to invest in a refurbishment that delivers a home for life. However, there is appetite for oven-ready, modernised properties among young professionals who are keen to move in quickly.

31%

of the market was composed of overseas purchasers

White Walls, Ballymoney, Co Wexford

How are buyers financed?

Cash buyers were once again the dominant players in the Irish prime country homes market in H1 2023, making up 69% of total transactions recorded by Savills. While 28% of these buyers were relocating, the same proportion was buying a second home. By comparison, only 13% of mortgage purchasers were relocating. Perhaps unsurprisingly, none were buying a second home whereas 88% were trading up. By year-end, we would expect the share of cash buyers to be more in line with previous years at around 90%.

Higher interest rates should have little direct impact on this segment of the market as mortgage affordability affects few buyers. Yet, while cash buyers are not directly impacted by the high interest rate environment, its effect on mortgage holders can have knock-on effects by reducing their activity in the market. While this would logically lead to a softening in prices, the restricted supply of prime country homes continues to support prices and makes them a much sought-after asset within the wider residential property market.

Kilree Estate, Kilree, Co Kilkenny

Outlook

Plenty of firms will continue to facilitate working from home, not least because it is a useful retention tool, and this means remote working will remain a key feature of the prime country homes market. The fact that flexibility can increase with seniority is also important because this could potentially ensure a steady stream of demand from this cohort of the professional labour market. Nevertheless, many flexible working policies have become embedded in company policies and some employers are looking to encourage staff back into the office – at least more regularly. This means the role that remote working will play in growing future demand for prime country homes is likely to ease.

Another trend, which is emerging more readily, relates to property sales on large landbanks in excess of 100 acres. For some, this is a desirable option because of its recreational and farming potential. A bigger appeal, however, is the fact that large sites allow buyers to make an ecological impact on the local area with initiatives like rewilding enhancing the natural habitat and helping to counteract environmental degradation. This appeals to many buyers because it can help them to meet – both their personal and professional – ESG and sustainability commitments. It is a trend that is likely to grow as the urgency of climate action continues to amplify and, consequently, we expect property purchases on large plots of land to become a bigger feature of the Irish country homes market.

The supply of prime country homes, especially modernised properties ready for contemporary living, remains restricted. Taken alongside continued demand both domestically and internationally, the market is expected to remain buoyant throughout the latter half of the year and into 2024.

Savills team

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