

Prime Country Homes Market



Ochiltree, Marble Hill, Co. Donegal



Record €198m worth of sales of prime country homes in 2022



Cork comprised 28% of prime country home sales



International buyers accounted for 43% of the market



90% of purchasers are cash buyers

Economic overview

Economy continues to expand in the face of significant challenges

The Irish economy is expected to expand by 3.2% in 2023 according to the European Commission, higher than the EU average of 2.7%. The most considerable headwind facing both the domestic and global economies remains inflation. As the global economy recovered from the pandemic towards the second half of 2021, inflationary pressures started to build. Initially, inflation was seen as a transitory effect of the global re-opening, but the war in Ukraine has elongated this

inflationary period. This volatility has fuelled strong pricing growth in commodities and food, leading to inflation of 8.2% last year with 6.0% expected this year.

The long-term monetary objective of the ECB is price stability – defined as 2% inflation over the medium term – which appears unlikely to be achieved until at least 2025 based on most institutional forecasts. There are significant ramifications for the property sector due to growing

headline inflation. The ECB ended its bond-buying programme last year and has raised rates in an aggressive manner. This is impacting the cost of financing for house buyers and developers alike, even if they are rising from historic lows. The ECB has calculated that house prices across the continent could fall 1% for every 10bps of interest rate hikes, taking some of the heat out of the housing market.

Wider housing market context

An interesting feature of the Irish property market has been that prices outside of Dublin have been rising faster than those within Dublin for over five years now, illustrating the strength of the market outside of the capital. While the housing market remains robust, prevailing headwinds from elevated inflation and interest rates means price growth is moderating substantially. The pass-through of European Central Bank interest rate increases to the mortgage rates of retail banks has been relatively slow so far, but will become more of a factor as we progress in 2023. The average fixed interest rate for mortgages last year was approximately 2.5%. Applying this to a 90% mortgage on a property of €400,000 over a 25-year term, the monthly repayments would be €1,615. If mortgage rates were to go up by 200bps, the repayment cost would increase by 2.4% to €2,001, adversely affecting household budgets already stretched by other rising costs. Countering these

headwinds are supportive factors for house prices. For example, demand at lower price points is expected to be supported by the new shared equity scheme while the slight relaxation of mortgage lending rules will also mitigate the effects of rising rates. Most crucially, the market continues to suffer from a dearth of supply. After a period of substantial disruption to construction during the pandemic period, the supply of housing started to respond last year, with completions in Q2 2022 at their highest level since before the GFC. However, this supply response is proving short-lived as higher development and finance costs are impacting the viability of schemes, limiting new construction. While a ramp-up in new housing supply is badly needed to alleviate the now decade-long period of under delivery, the challenges of construction cost inflation in a rising interest rate environment means we are unlikely to see this dynamic improve in 2023.

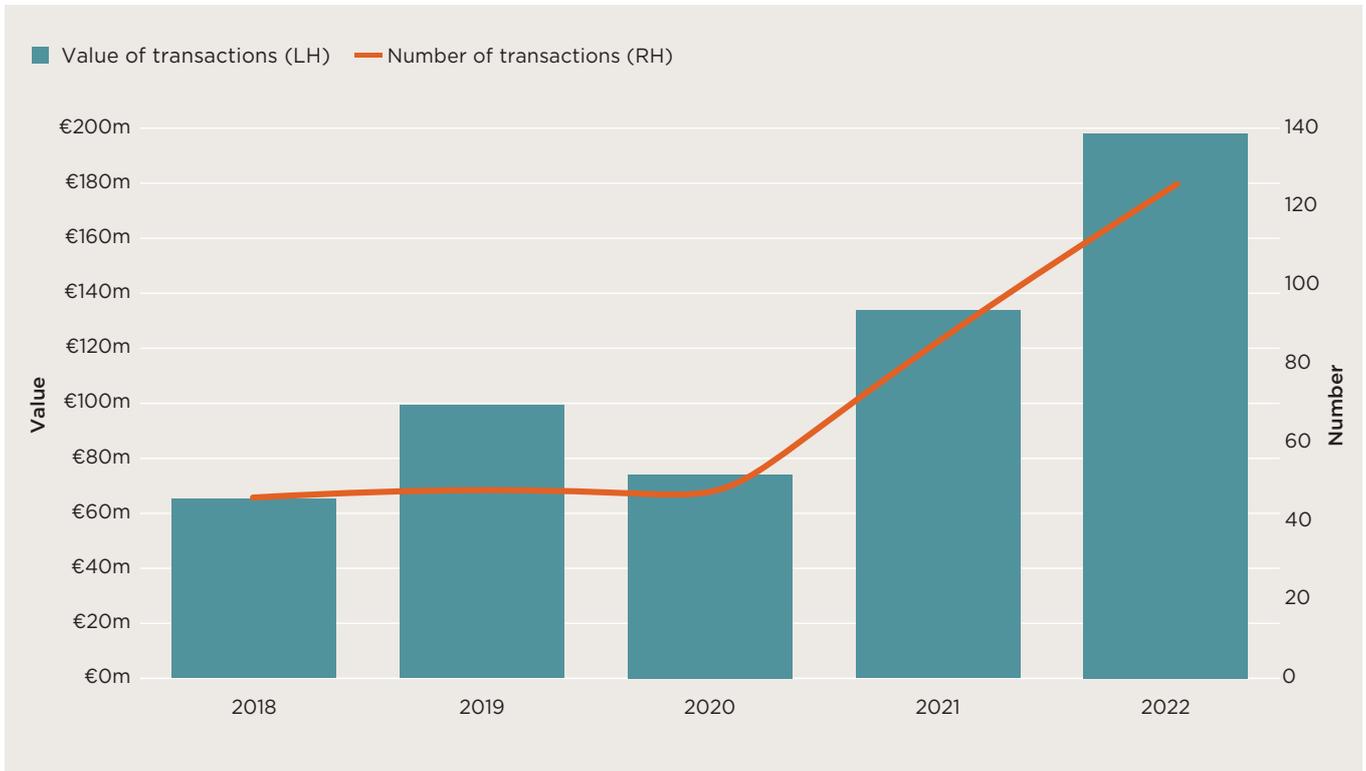
🗨️ **Most crucially, the market continues to suffer from a dearth of supply.** 🗨️



Rocketts Castle Estate, Portlaoise, Co. Waterford

Trends in the prime country homes market

Figure 1: Value and number of prime country home sales



Source: Savills Research, Property Price Register

👉 **2022 was a bumper year for the prime country home market with €198m worth of transactions taking place, the highest level since the Property Price Register was introduced in 2012.** 👉

Using the Property Price Register data, we examined prime country home transactions which we have defined as transactions greater than one million euros and located outside of Dublin, the major regional cities, and the large coastal towns in north Wicklow. This methodology has limitations, and by its very nature, more properties will qualify for our definition of country homes as prices inflate over time. Nevertheless, it provides insight into a much-overlooked segment of the Irish housing market.

2022 was a bumper year for the prime country home market with €198m worth of deals taking place, the highest level since the Property Price Register was introduced in 2012. Comparing last year with 2021, total transaction values increased by 48% when €134m transacted. Interestingly, with the average value of deals

remaining at approximately €1.5m, the increase was driven by more transactions taking place in 2022 at 130 compared to 86 in 2021. The comparison with the pre-covid era is even more pronounced, with €65m and €99m taking place in 2018 and 2019 across 46 and 49 deals respectively.

48%
increase in volumes in 2022
compared to 2021.

“ After years of rapid house price growth, willing sellers are now putting properties on the market to capitalise on pricing gains. ”



The prime country homes market remains more insulated from macroeconomic volatility because of the large presence of wealthy cash buyers. For many buyers, properties at this price point remain a small percentage of their overall wealth. After years of strong house price growth, sellers are bring high volumes of properties to the market as they look to capitalise on pricing gains. These sellers often look to downsize and are therefore happy to wait for the right price to be achieved. Savills proprietary data shows that 43% of country home sales listed ‘trading down’ as their reason for sale.

Despite any short-term volatility, prime country homes continue to be in strong demand as remote or flexible working is now a viable working pattern for many. Furthermore, buyers in this segment of the market are likely to be in more senior positions so are granted more flexibility in how they allocate time between the office and working from home. Changes to where and how people work has made country living more viable for these more established workers who may not be required to be in the office for the vast majority of the time. This helps explain the extraordinary boost in sales volumes witnessed in 2022, and is likely to be a permanent feature of the prime country homes market this year and beyond.

“ Changes to where and how people work has made country living more viable for these more established workers who are not required to be in the office for the vast majority of the time. ”

Who is buying / What are they looking for?

Buyers from the technology and construction sectors are the most common employment sectors in Savills country home transactions. Buyers from the construction industry are purchasing renovation projects which need upgrading, and these buyers have the means and the risk tolerance for taking on these intensive projects. Technology buyers are increasingly younger than the historic buyer type in this market segment, and their influence on product type and trends in the sector is growing. These purchasers typically prefer contemporary-style homes with all the technological conveniences they're accustomed to in urban areas. These preferences are widening the pricing gap between modern or recently renovated stock and older stock. Knowing there is strong demand for these more contemporary styled homes, particularly on waterfronts, buyers are willing to pay a premium, knowing that there is only a select number of properties in Ireland ever on the market which meet their strict criteria.

Another key trend driving the sector has been Environmental, Social and Governance (ESG) factors. Many buyers coming from the Technology, Construction and Financial sectors are seeing a greater emphasis placed on these ESG factors at work and are increasingly bringing this into their demands for housing. We are seeing more significant interest in buyers looking for farmland for purposes

other than food, as buyers are increasingly interested in re-wilding projects, offsetting their carbon footprint and increasing the biodiversity of their properties. Buyers are also becoming more conscious of how energy efficient these larger properties are. The increase in commodity prices, in particular energy products, has made many homes that rely on oil and gas for heating exorbitantly expensive to run.

International buyers remain a key demographic in the prime segment of the country home market, with 43% of the market comprised of international purchasers. Buyers with more significant links to Ireland are typically the most likely to complete transactions. These tend to be Irish nationals who now live abroad and want properties close to where they grew up, or international buyers brought up abroad who want a connection to family roots.

43%
of the market was comprised of international purchasers.



“ Buyers remain interested in re-wilding projects, offsetting their carbon footprint and increasing the biodiversity of their properties. ”

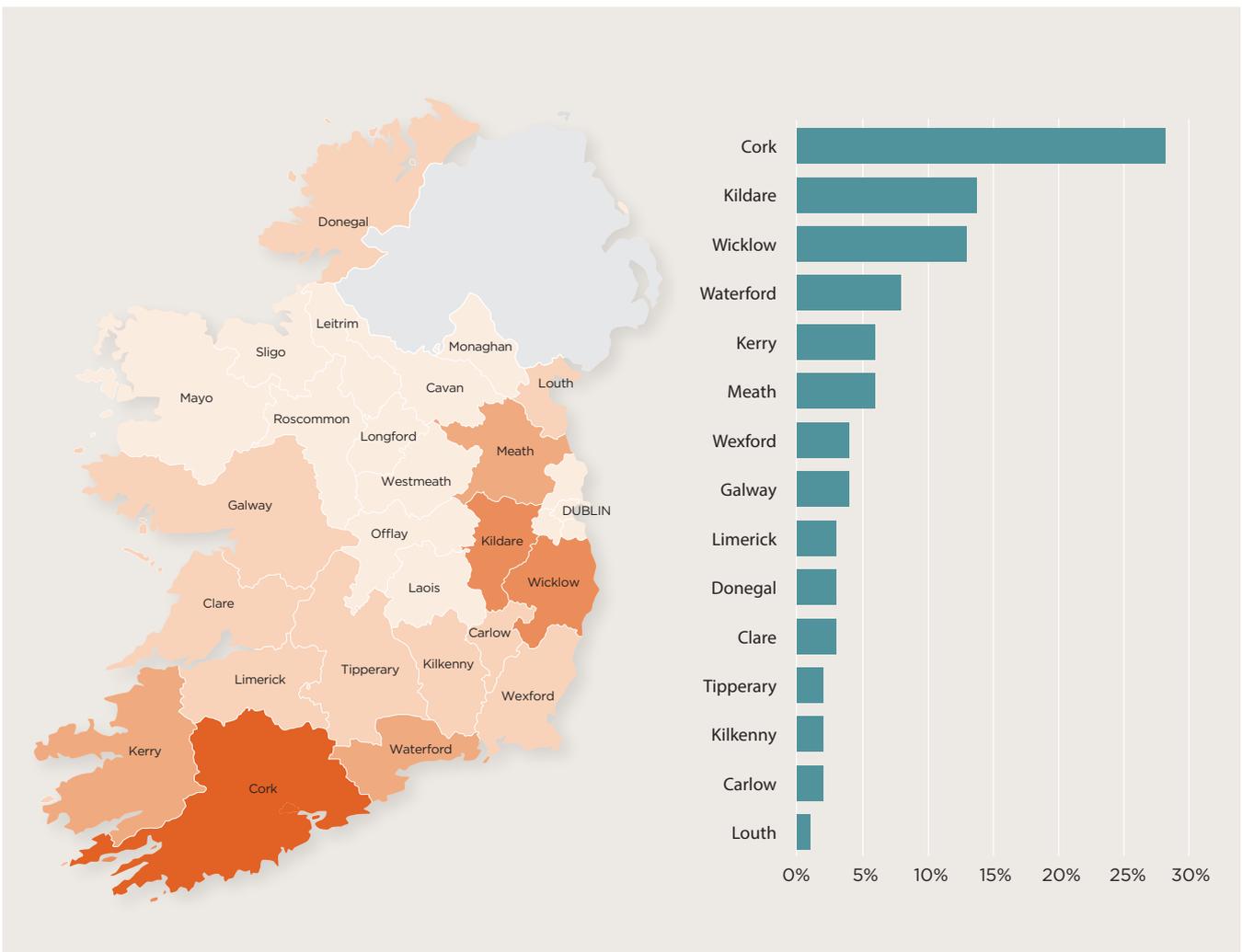
Where are purchasers buying?

Our analysis of the property price register – again isolating transactions exceeding one million euros outside of Dublin, north Wicklow and Ireland’s other major cities – provides insight into the preferred location of prime country home buyers. Cork County is the most popular location in our analysis of the prime country home transactions, comprising 28% of all purchases. The coastal town of Kinsale on the southern coast of Cork was the country’s most popular town in this housing market segment, making up 9% of transactions. Kinsale is an idyllic, popular holiday location and highlights the use of the country homes market as an avenue to purchase second homes for Irish-based holidays.

The second and third most popular locations were Kildare and Wicklow. These locations likely highlight the movement of households away from County Dublin to benefit from homes with better amenities and space, all facilitated by a more flexible work culture in many of Dublin’s largest employers. Buyers in this market segment prioritise living standards and amenities over the location. Buyers are generally benefiting from the better value in these locations. They are increasingly willing to sacrifice a longer commute time for a property with better living standards and modern technology capabilities. Waterford and Kerry were the next most popular locations, reflecting the natural beauty of these counties and the resultant high demand for prime country homes.

👉 Cork County is the most popular location in our analysis of the prime country home transactions, comprising 28% of all purchases.👉

Figure 2: Transactions by county, 2022



Source: Savills Research, Property Price Register

How are buyers financed?

Cash buyers remain the dominant financing arrangement for the prime country homes market. So far this year, 90% of buyers in this market segment have acquired properties without financing agreements, up from 87% in 2021. The heavy presence of cash buyers may provide tailwinds for this market, as buyers in the current inflationary environment have greater incentives to purchase assets and move out of cash where inflation generally erodes value.

Furthermore, higher interest rates should have little direct impact on this market segment as mortgage affordability impacts few buyers and houses at this elevated price point remain a small portion of buyers' overall wealth.

🗨️ **Cash buyers account for 90% of market.** 🗨️



Outlook

The prime country homes market has thrived since the pandemic: the market witnessed its strongest year on record by some distance, with the 130 transactions in 2022 representing well over double the 49 that took place in 2019. Structural changes in how we work and what families want from homes are undoubtedly boons to the market. The shift towards remote working has changed the demographic of buyers, leading to preferences shifting towards modern or recently refurbished units that meet more contemporary living styles. Stock that meets this criterion is limited in Ireland, with build cost inflation and regulation around changes to these historic homes impeding refurbishment of existing older stock. This lack of supply and change in preferences is widening the pricing gap between properties that meet these requirements, those that can feasibly change and the rest. We foresee this

price discrepancy continuing as country living becomes more appealing to a greater number of people.

Macroeconomic headwinds may provide some turbulence to the broader housing market, as higher interest rates impact affordability. The prime country homes market should be relatively well-shielded from any ill effects in this regard, as cash purchases make up the majority of purchases. Negative sentiment might slip over from the general housing market into the country homes market as buyers question if this is the time to move. International buyers remain a key cohort for the country homes market, and US buyers may increase their presence. The strong dollar, which effectively discounts prices paid in euros, is a factor that may encourage buyers to purchase and boost sales in 2023.



Savills team

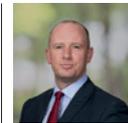
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