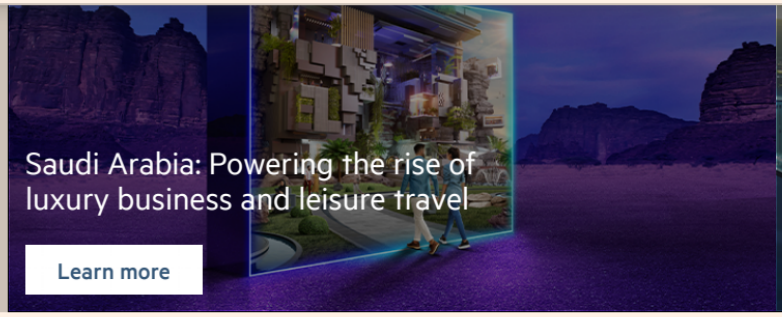

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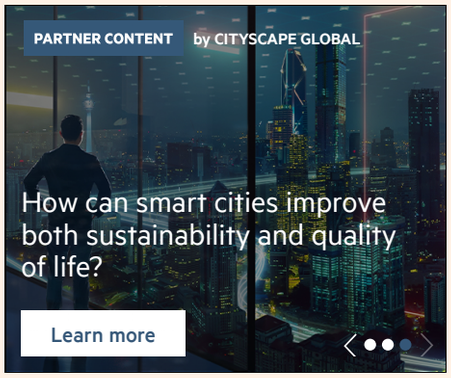
Cash buyers wield a new level of power in the property market

The ability to pay upfront earns preference and price cuts, while those with mortgages go to the back of the queue

Hugo Cox 2 HOURS AGO 7

© Stephen Collins

A few miles inland from Cannes, on the French Riviera, the hilltop town of Mougins has become a popular spot for affluent Parisians and those from abroad seeking a home in which to enjoy the summer holiday season. But buying agent Tim Swannie recently negotiated €300,000 off the €2.9mn sale price of a home in the village on behalf of a client who was buying with cash.



The seller had rejected a mortgaged offer of €2.8mn a few weeks earlier but had received no further offers, despite advertising the home extensively, and was getting worried, says Swannie. “By now, the home had been on the market for nearly five months, during which mortgage rates had increased: our client had cash and was keen to complete as soon as possible.”

Without the delays and uncertainties associated with securing a mortgage, cash has long conferred an advantage to homebuyers across the world. But with today’s high mortgage rates increasing the chances a mortgage application will be rejected or that a prospective buyer will decide they can’t afford the monthly payments, cash has a new level of power.

In Manhattan, the number of cash purchases as a proportion of all transactions has set a new record in each of the last three quarters, and now stands at 65 per cent, according to estate agent Douglas Elliman. In France, mortgaged buyers have left the market in large numbers: the €1.05bn of new mortgages granted in June is less than a sixth of the €6.76bn of a year earlier, according to Banque de France. In the UK, property portal Zoopla predicts mortgage-backed sales will fall 28 per cent this year, with cash sales falling just 1 per cent.

“If we had a mortgage or a property to sell, we wouldn’t be at the table; instead, we are in front of the queue,” says UK buying agent Henry Pryor, whose client has just had their cash offer — £25,000 off the £650,000 asking price — accepted on a three-bedroom maisonette in west London, beating a higher rival offer from someone with a mortgage.

Median sales prices in Manhattan fell 6.1 per cent in the first half of 2023 © Ryan Deberardinis/Alamy

Discounts for cash buyers are growing. In Miami Beach over the three months to June, the average discount for a home purchased in cash for between $2mn and $5mn was 8.1 per cent, up from 5.2 per cent a year earlier, according to Miller Samuel. During that period, in April, one cash buyer there bought an apartment for $4mn — $1.2mn less than the list price.

Between February and July this year, Claudia Garcia made 10 offers for homes in Miami that were unsuccessful — she estimates that in half of those cases, she lost out to buyers who had cash. “There was a sense that if they had cash offers, buyers wouldn’t even look at our offer,” she says.

Other homes are going to cash buyers before they are even advertised. In March, when Sammy Scoffham and her husband were looking to buy a home with cash in Port Grimaud, next to St Tropez on the French Riviera, a local agent alerted them to a one-bedroom flat that hadn’t yet been listed on any website or actively marketed, for sale at €395,000. The couple’s €385,000 offer was accepted immediately before anyone else viewed the home; the seller then helped speed the buying process, which was completed in June. “The fact we were cash buyers was definitely part of the speed,” says Scoffham.

In the UK, where new borrowers must prove they can afford mortgage payments at rates close to 8.5 per cent, 34 per cent of UK homes sold so far this year have been bought with cash, up from 30 per cent over the same period in 2022, according to Hamptons.

Cash is particularly advantageous in probate sales, where executors are less anchored to expectations of what a home is worth based on previous price levels — a significant impediment in the current market, according to Pryor. In south London, one of his clients has just had an offer accepted on a probate sale — where the executors, the deceased owner’s children, are also the beneficiaries — for £2.1mn in cash. “The home was listed for £3mn in February, then dropped to £2.5mn,” he says. There was at least one higher non-cash offer, he adds, but for the sellers “whatever they get is profit”.

Cash buyers come without the uncertainty of securing finance at a time when falling prices mean that returning the home to the market after a sale collapse is likely to mean the seller gets less. UK house prices fell 3.8 per cent in the year to July, the largest drop since 2009, according to Nationwide. Median sales prices in Manhattan fell 6.1 per cent in the first half of 2023, compared with a year earlier, according to Douglas Elliman.

Sammy Scoffham, pictured here in Italy, had her cash offer accepted immediately…

…in Port Grimaud, near St Tropez in the French Riviera © Alamy

In France, sellers may be particularly exposed. Typical contracts give buyers up to two months to arrange a mortgage but no obligation to complete the purchase, or lose their deposit, if they can't get one; sellers are legally bound to go through with the sale until their buyer drops out, and may not show the home to anyone else during this period.

"There has been a notable increase in the number of deals that don't go through because mortgages aren't approved," says Swannie.

"Understandably, vendors would rather not wait two months to find out their buyers cannot obtain finance and the sale falls through," says Fiona Watts, of International Private Finance, a company that arranges mortgages for British buyers of European homes.

> **There was a sense that if they had cash offers, buyers wouldn't even look at our offer**

Even when mortgages are approved, down-valuations — where banks value a home for mortgage purchases lower than the price a buyer has agreed to pay, which have become increasingly common in many places — are causing buyers to pull out.

"In London and the south, selling agents are now particularly scared of agreeing a deal based on a mortgage whose valuation then comes in under the price that has been agreed," says Pryor.

In Miami, Garcia's mortgage lender valued the home for less than the $500,000 she had agreed to pay, and she had to find extra cash to make up the difference.

David Ravitz, a Florida luxury agent, estimates that one in five home sales collapse because of such down-valuations, or because increasing rates on available mortgages between having an offer agreed and securing a mortgage means buyers pull out. "A year ago, this was maybe one in 20."

In some cases, cash purchases now appeal more to buyers, too.

Liam Wilkinson arranges mortgages for non-EU residents, buying homes in Europe — mainly France, Spain and Italy. For homes priced over €3mn, his clients have traditionally favoured private banks in places such as Monaco or Luxembourg, which offer better rates and are more willing to lend to them than domestic banks.

Guy and Cara Norfolk were worried about the conditions attached to French loans when buying a property in Île de Ré

These private banks favour high loan-to-value mortgages, in some cases 100 per cent of the home's value, in exchange for taking as security for the loan other assets, typically investment portfolios, which the bank will then manage as part of the agreement. That way, the bank secures an additional source of income while forging closer ties with the client to sell additional services in future.

But 2022 was a torrid year for stock market returns, with the MSCI Europe index down 15 per cent. Wilkinson says his clients are opting increasingly to sell their assets to fund some or all of a purchase in cash since, with higher mortgage rates, it feels like the safest bet.

"It is much harder for private banks to beat the cost of debt with their investment returns, after applicable taxes and private banking fees. Plus, in 2022, the European private banks experienced a lot of pain in their clients' investment portfolios," he says.

Tougher terms from mainstream domestic banks are also pushing foreign buyers towards cash. In the past year, the range of mortgages available to non-resident buyers in France has fallen, according to Watts.

Foreign buyers considering borrowing from local banks, where mortgage rates may be lower than at home, are discouraged by strict conditions.

When Guy and Cara Norfolk, who live in the UK, were looking for a home on France's Île de Ré, French mortgage rates, which are lower than those in the UK, made a mortgage appealing. But the loans came with onerous conditions. One would have required the couple to create a French company through which to purchase the home; another would have required them to buy life insurance and deposit a large amount of money into a euro bank account with the mortgage provider.

"And the level of checks from the mortgage company was extraordinary," says Cara, citing a contract that the mortgage bank called up for a car the family leased at a cost of £500 a month. "They wanted to inspect every item of our monthly outgoings."

Claudia Garcia and family made many offers for homes in Miami that were unsuccessful

In Miami, the average discount for homes bought with cash is rising © Shutterstock/Ivan Cholakov

In the UK, Financial Conduct Authority data shows new mortgage lending fell 41 per cent in the first three months of the year, compared with a year earlier. Net mortgage approvals in July fell to 49,400, 22 per cent lower than July 2022, according to the Bank of England. That leaves cash buyers firmly in the driving seat. In London, they accounted for 22 per cent of sales so far this year, says Hamptons, up from 17 per cent in the same period last year.

In March, Suzi, who had been looking for her first home, found one she liked in north London on the market for £325,000. There was a rival bidder, with cash; both had raised their offers to £350,000 when Suzi, who asked not to use her real name, decided to tug on their heartstrings.

"I explained in an email to them how desperate I was to find somewhere, how I would look after the home, and how little chance people like me have to buy a home in London when we are competing with cash buyers," she says.

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and her offer was accepted — a move she attributes to their emotional investment in the home, as well as a shared concern about London's rising housing costs. "They had raised a young family in this flat. I guess they agreed with me that London is being ruined by cash buyers and oligarchs," she says.

"But obviously I'm incredibly lucky, most people wouldn't have sold to me. I don't think you should have to write a letter like this to get a home."

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