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JULY 30, 2019

**Drop in Cash-Sale Investors Could Help First­ Time Buyers**

**Double-digit home price increases once enticed mom-and­ pop investors to enter the market, but cash sales are falling along with year-to-year price increases. However, a spike in small investors leaving the market could cause**

**the number of affordable home listings to surge.**

WASHINGTON- Just a few years ago, more than a third of homebuyers didn't blink at throwing down cold hard cash to make their purchases. But the share of all-cash homebuyers has trended down since 2014, and the decline has accelerated in recent months.

In June, just 16% of homebuyers paid in cash, down from 23% in February, according to the National Association of Realtors. The rest bought the old-fashioned way- by taking out a mortgage. Applications for home loans jumped 9.5% last month from a year earlier, according to the Mortgage Bankers Association.

The shift can be traced to several factors, including a less competitive, more buyer­

friendly market and tumbling mortgage rates.

The trend could be good news for a sluggish housing market in which existing home sales fell 4.2% the first half of the year compared with the same period in 2018, according to NAR figures.

The slowdown may partly reflect a drop in cash deals and the rise in purchases of homes using mortgages, says lan Shepherdson, chief economist of Pantheon Macroeconomics, an economic research firm. Since mortgage applications can take a couple of months to process, the lag could mean there will be a surge in home sales this fall, painting a brighter housing picture,he says.

Here are some reasons cash sales have lost favor: Bidding wars have faded

When competitive bidding was the rage, "People were cashing in their savings, such

as 401(k) plans ... in order to beat out" rival bidders who needed mortgages, says Jessica Reinhardt, a broker at RE/MAX Alliance in Denver. Sellers loved cash offers because they meant quick purchases with few hassles.

In many cases, parents gave cash gifts to their kids to buy homes. And some real estate brokers even put up cash for their clients, says Jessie Culbert, a Redfin agent in Seattle. "You needed cash to stand out," she says. Often, she says, the buyers then took out loans to quickly repay whomever provided the funds.

But the market has cooled as home prices climbed beyond the reach of many

buyers. Last month, just 12% of purchase offers handled by Redfin faced competitive bids, down from 51.7% a year earlier.

As a result, shoppers who would have come with cash a year or two ago are taking out mortgages.

Investors have pulled back

Fifty-seven percent of investors- who buy homes to rent them out or make repairs and then sell for a big profit- pay in cash, NAR says. Yet the share of home purchases made by investors has declined from 11.3% in 2018 to 11.1% so far this year, according to a housing research firm CoreLogic.

Many are less eager to buy homes than they were a few years ago on fears that prices may have peaked. Nationally, average home prices have risen 55.2% from their

2012 bottom and are 12.6% above their pre-housing crash peak, according to the

S&P CoreLogic Case-Shiller home price index.

"Investors naturally have become more cautious," says Lawrence Yun, chief economist of the National Association of Realtors.

Also, foreign purchases of American homes fell36% in the 12 months ending in March compared with the previous 12-month period, partly because of a sluggish global economy and tighter capital controls by China, according to the National Association of Realtors.

Falling borrowing costs

Mortgage rates have decreased sharply since last year, which makes home loans more affordable. The average 30-year fixed mortgage rate was at 3.75%, down from

4.54% a year earlier, according to Freddie Mac. That has led many buyers who might

have put up cash- whether investors or owners who plan to live in their units- to obtain mortgages instead, Shepherdson says.

Some investors get mortgages

Some investors still are in the market but higher home prices are forcing them to turn to mortgages, says Ralph Mclaughlin, deputy chief economist of Corelogic. Darius Smith, a Detroit developer, has always paid cash for units that cost $10,000 to

$20,000, including renovations, he says. But now, he says, the same units cost

$60,000 to $80,000, and so he likely will begin taking out mortgages. "The cost for things is way higher than it was," he says.

The stock market swoon

The big sell-off in stocks late last year may have spooked homebuyers who intended to pay in cash, Shepherdson says. They may have seen the drop in share values as a sign of a coming recession that also would have clobbered home values.

"Making a cash purchase means the buyer is exposed dollar for dollar to any decline in home prices," Shepherdson says.

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