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ALL HAIL THE KING

Cashing In

How Cash Buyers Are Increasingly Supporting A Dwindling Sales Market

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Cash is king, and it's good to be king: Tight lending standards are handing over the housing market to cash-rich buyers, with non-mortgage purchases making up almost 40 percent of the Massachusetts housing market so far this year.

There have always been certain market segments where cash purchases are more likely. At the high end, many customers simply don't need to turn to the bank for a mortgage. Likewise for those in the market for a second home in a vacation spot. Investors interested in buying real-estate owned property at auction have to put cash on the barrelhead in order to compete.

But a Banker & Tradesman investigation of data provided by The Warren Group, our publisher, shows a spike in cash purchases across the commonwealth. We examined the number of sales recorded in each town and the number of purchase mortgages associated with those sales. It's possible, although rare, for more than one mortgage to be associated with a single sale, which our methodology could not account for.

Widespread Phenomenon

Statewide, out of 32,525 residential sales through June, only 20,566 have purchase mortgages attached, meaning that 11,959 were cash purchases – 36.8 percent of the market.

That's a big jump from 2010, when cash purchases made up 24 percent of the market, and a huge surge from the boom years: From 2005 to 2007, cash purchases ranged from 12.1 to 12.5 percent of the market in Massachusetts.

Even some of the more typical locales for

a cash purchase have seen a spike. Provincetown is a vacation mecca at the tip of the Cape, and even during the boom years, many well-heeled buyers put down cash, including 32.5 percent in 2005. But so far this year, 54.4 percent of P-town buyers haven't used a mortgage – by far the highest percentage in the town in the past seven years.

Realtors and brokers on the ground said they can't help but notice the shift.

"Of the last three sales I had, two were cash and one was two-thirds cash," said Patricia McCorry of McCorry Real Estate in Plymouth. She said she has two closings scheduled later this month that are also cash sales.

Dorrie Arnold, senior vice president of Coldwell Banker in Duxbury, reported that cash sales in her office have more than doubled compared to last year, making up 39 percent of sales for the first seven months, compared to 15 percent of sales last year.

But trying to pin down exact reasons for the surge can be tough.

When presented with Banker & Tradesman's research, Karl Case, emeritus professor of economics at Wellesley College and co-inventor of the highly regarded Case-Shiller Home Price Index, cited several possible groups who might find themselves in position to make a cash deal. Sellers who have plenty of equity in their current homes and are looking to downsize; foreign buyers looking to scoop up deals; and speculators betting that home prices will soon rise again are all good bets to pay cash, Case said.

"My guess is, a whole lot of it is baby boomers who have been waiting for a break in the market," said Case. "I know a lot of

A SAMPLING OF CASH SALES IN TOWNS WITH MORE THAN 50 YTD SALES

	TOTAL # OF SALES THROUGH JUNE:	% OF CASH SALES:
DARTMOUTH	67	59.7%
WESTPORT	55	58.2%
BREWSTER	112	56.3%
EDGARTOWN	53	54.7%
PROVINCETOWN	90	54.4%
CAMBRIDGE	485	53.6%
NEW BEDFORD	204	52.0%
HULL	62	51.6%
BRIGHTON	174	51.1%
CHARLTON	51	51.0%
MASSACHUSETTS	32,525	36.8%

SOURCE: THE WARREN GROUP

people who are buying right now, who have postponed buying for a number of years and have a lot of equity, and they want to move in order to downsize, because they've changed jobs or something's going on in their family."

But whatever the cause, Case said, "It's a dramatic jump, it's really amazing."

A Tight Market

Agents on the ground say the continued tightness in the mortgage market is another big factor.

"In my experience, [cash buyers are] throughout the spectrum, and it's a reaction

to not very positive experiences dealing with the banks,” said Mary O’Donoghue of Prudential Howe & Doherty in Andover. “More people who might have gotten a loan in the past are now using cash because they’re just finding [getting a loan] is so irritating.”

Pat MacNaught, of Coldwell Banker in Milton, said she dealt with just such a situation last month – a buyer intended to obtain a mortgage, but after several delays in approval by the bank, threw up his hands and paid cash in full.

“He had more money [in his account] than he was purchasing the house for, he’d been working [the same job] for 34 years, his wife was working, he had perfect credit and had paid off his own home,” MacNaught said. “The bank kept putting off its

commitment to him. We had four extensions. So he called me the day before the closing and said, ‘I will be put off no more, I will pay cash for this house.’ And that’s what he did.”

Of course, fewer people being able to qualify for a mortgage helps drive down the total number of sales, meaning a larger percentage of deals that do get done naturally involve cash buyers.

Mortgage lending representatives attributed the shift to opportunist investors looking for deals, harsh underwriting and strict secondary mortgage market guidelines.

“I think you have more speculators in the market who are looking to get into the market, and they’re looking to take advantage of the dip in values,” said Elizabeth

Phelan, chairwoman of the Massachusetts Mortgage Bankers Association. She also agreed that tightened guidelines were also affecting the market.

But it’s also the case that in the current low-interest rate environment, most banks don’t want to keep long-term, fixed-rate loans in their own portfolios, instead preferring to sell them onto the secondary market, Phelan pointed out.

In those cases, she said, even if a given borrower might meet the bank’s own underwriting standards, “If you’re looking to sell those loans onto the secondary market, meaning Fannie, Freddie or an investor, you’re faced with stringent guidelines that don’t have much flexibility.” ■

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