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## Real estate: How to buy a luxury home with cash

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Cash is king in high-end real estate this year, serving to stabilize the market as tight credit conditions and depreciated home values continue to plague the embattled real estate sector.

At least 30 percent of all purchases were financed with cash between mid-April and mid-May, according to the [May 2011 Realtors Confidence Index](#) by the National Realtors Association, and the numbers are even more robust for the luxury property market.

In the Fort Lauderdale, Florida area, 57 percent of all single-family homes purchased and priced over \$1 million were cash buys between Jan. 1 and May 31 of this year, says Vickie Arcuri, an agent with EWM Realtors. In the million-dollar plus condo market, 42 out of the 47 units sold during the same time period were cash purchases.

The south Florida market is particularly hot for out-of-state and foreign investors, who often find it more difficult to secure financing.

"Tight credit and lending criteria are some of the reasons why cash is so popular and it significantly affects the upper-end of the market," says Arcuri. [Jumbo loans](#) — those too big for underwriting by Fannie Mae and Freddie Mac — typically have higher interest rates than government-backed mortgages. The loan amount that falls into jumbo loan territory varies from one local real estate market to

another. In the Fort Lauderdale area, a jumbo loan is anything above \$620,000.

When you wave cash around, you can lower the purchase price and dictate the terms of the deal so much more effectively" said Ross Levine, a partner in the law firm of Schwartz, Levine and Kaplan. He recently represented a seller looking to offload a \$4.5 million Manhattan property — a smooth deal made easy because of cash.



"The sellers said they would have never gotten the deal done if they had ... (used) ... a bank because the jumbo loan market makes it difficult to get a loan. Beginning on October 1, the government will dial back on the size of mortgages it guarantees in high-cost areas like San Francisco, New York and Washington.

Arizona is also benefiting from a cash spending spree — it's a hot market for snowbirds, retirees, and those looking to purchase second homes. In 2005, only 11 percent of sales were cash, compared to 30 percent in 2009 and 43 percent in 2011, says Lynn Murtagh, branch manager of Coldwell Banker Residential in Scottsdale, Arizona.

In the north Scottsdale area, 45 percent of all sales were cash purchases for the month of May. In the high-end market — homes priced at \$850,000 or more — 66 percent were purchased with cash, says Murtagh.

Even some of the top metropolitan markets around the country are seeing cash purchases on the rise. In Las Vegas, 49 percent of purchases were cash in the second quarter of this year, according to data from the popular real estate site [Zillow](#). In Los Angeles, 33 percent of second-quarter buys were financed with cash compared to 17 percent in the same quarter of 2009. In San Francisco, 24 percent were cash buys for the same time period versus 16 percent in the second quarter of 2009.

Cash buyers are propping up the market, increasing the number of properties sold, decreasing the level of inventory and flushing distressed properties through the system, says Jim Gillespie, CEO of Coldwell Banker Real Estate.

"If cash buyers evaporated tomorrow, real estate would be in a lot more difficult position. They are stabilizing the market even though they're purchasing 10 to 15 percent below value," he says.

For the seller, cash buys mean no appraisal or mortgage contingencies and faster closing dates, while the buyer enjoys the piece of mind knowing they don't have a mortgage payment, can tap their home equity if needed, and can negotiate some extra perks in their favor.

Levine is currently representing a 23-year-old cash buyer looking to purchase a \$2.5 million ground-level Manhattan property. Concerned about privacy in the all-glass building, she was able to negotiate renovations with the developer.

"She wanted to tint the windows but arguably that would permanently alter the structure and we needed the board's consent. So I carved that language in the contract, which requires the board to approve the tinting before closing. There is no way if she had a bank with 80 percent financing that they would have ever entered into this kind of deal," Levine says.

While a cash buy may be the sexier option at the moment, here are a few things to keep in mind for buyers and sellers.

### Get educated on value

An appraisal contingency — a condition that the purchase price of the property must be appraised at an agreed upon amount or the purchase can be canceled without penalty — is not required for a cash sale. But it may be a good idea to put an appraisal clause in your agreement to ensure you're not overpaying. If you don't want to go the appraisal route, be sure to solicit a market analysis from a real estate agent.

"Realtors have the tools to do an in-depth market analysis, giving the buyer a ball-park figure. They can show a buyer exactly what's been sold in that area because we have access to a lot of data and information," says Ingrid Carlos, branch manager of Coldwell Banker Residential in Hollywood, Florida.

### Don't make a low-ball offer

A common misconception among cash buyers is that you can deeply discount the purchase price. But with so many cash offers flooding the market, competition is steeper than you may think. Often times, the property will go to someone more well-informed on the local market.

"Typically in the luxury market, we don't have a lot of distressed properties and distressed sellers. Owners of these properties are very secure financially and can hold onto the property for an extended period of time without accepting a low-ball offer because they're desperate," Arcuri says.

Don't get swayed by the overall weakness of the real estate market. "Buyers will see the market has come down a certain percentage, and they will go in with an offer price that is discounted the same percentage on the listing price instead of realizing the news is trying to tell them that the market has come down that percentage over a number of years," Carlos warns.

### Make sure the buyer has the cash

If selling a luxury property, you want to be sure the potentially buyer can pony up seven figures when the bill comes due. A letter from the buyer's financial institution stating the funds to finance the purchase price are available is a must. An account statement will also work, providing the funds will come from that account.

"Anyone can put an offer in writing, but if you don't have the proof to back it up than it's just writing on a paper and not a legitimate offer unless there are proof of funds," Carlos says. "Sometimes buyers are reluctant to give that information and then they lose out on the potential transaction because a seller won't even look at their offer."



Sandy Schwartz, another partner in Levine's firm, says if a cash buyer presents a seller with an offer it's important to have a clause in the agreement prohibiting the buyer from seeking a mortgage at a later point in negotiations. "I represented a buyer once who lead me to believe it was an all-cash deal on a multi-million-dollar property. After he spoke to his financial adviser, and after we were already in the contract, he said he wanted to get a mortgage. There was no prohibition in the contract from obtaining the mortgage and the closing was 30-45 days later than what the seller had anticipated," Schwartz says.

That may have inconvenienced the seller, but it worked out well for the buyer — he was left with all that cash, ready to wave at the next big deal down the road.

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