

Buyers need new support to stay on top of tight offers



BY **BONNIE HEATZIG**

Although there is still an inventory shortage, cash buyers can use this time to enjoy a wider selection of homes than buyers who are taking out a loan.

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For a large part of the pandemic, mortgage rates hovered at historic lows. These all-time low interest rates were a significant contributing factor underlying the perfect storm that hit the housing market over the past two years, leaving Americans with a housing shortage and low inventory that many experts believe will not yet be balanced in 2022.

Now with rates on the rise for the foreseeable future, buyers are going to need new support to stay on top of tight offer negotiations. One thing that seems to be a clear and recession-proof winning edge for low inventory competitive markets? Cash offers.

Rising rates mean less affordability

But with inflation on the rise, homebuyers are seeing those very appealing mortgage rates disappear quickly, with rates now hitting over 6 percent and market experts predicting continued rate hikes in the coming months. The higher the interest rate, the less purchasing power the buyer has because it becomes much more expensive to borrow money.

In other words, with higher interest rates, you get less house for your borrowed money, forcing buyers who need to finance their purchase to consider less expensive homes than they were looking at when mortgage rates were lower. That's a tough nut for buyers to swallow, and it puts them in a disheartening predicament.

Bidding wars will continue

To compound the rising interest rate setback for buyers, buyers continue to face bidding wars when a new listing hits the market. Many times, these bidding wars are driving the selling prices above the asking price. This reality is forcing buyers to explore homes listed below their maximum budget, as they can reasonably anticipate having to pay above the asking up to their budget limits to secure the house.

And, while cash buyers are not reliant on interest rates as a factor affecting how much they can spend on a house, they do have to access more cash and stretch their budget to beat out competition when these bidding wars arise.

Higher mortgage rates may end up working to the advantage of cash buyers because rising rates quell purchasing power of borrowers and may weed out a lot of competition.

All things being equal, a seller is far more likely to accept a cash offer over a financed offer to be free of the contingency that accompanies an offer contingent on a mortgage.

Cash could open up more inventory

Cash buyers should use this time to enjoy a wider selection of homes than buyers who are taking out a loan. There is still undoubtedly an inventory shortage, but there is more

inventory that cash buyers can afford to buy that borrowers using financing are now priced out of.

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