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Go figure: 25% of Twin Cities home buyers paid in cash

By Marlys Harris | 09:50 am

MinnPost photo by Corey Anderson

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When I was in the Peace Corps in Guatemala, my fellow volunteers and I developed a meteorological theory of underdevelopment. The Mayan people we worked with had become resigned to their lot — poverty, disease and injustice — not for lack of ambition but because of the climate. "You'd be fatalistic too, if you knew you were going to be rained on for six months," we used to tell each other.

So given our recent weather, you can understand why I was about as enthusiastic about city planning today as suffering a two-hour dental appointment, which, alas, is on my schedule for tomorrow.

But I got all hepped up when I read a story in the Washington Post about how Wall Street investors are buying large lots of single-family houses across the nation. Nobody knows exactly why. Maybe it's that Warren Buffett happened to remark last year that single-family houses were a singularly attractive investment. A big buyer, he suggested, could snap them up at distressed prices, get a mortgage (so he'd be using his investors' dough to do the deal), rent the houses out and then, when the housing market recovers, sell them at a nifty profit. In some cities, such buyers comprise 50 percent or more of the market.

In the Twin Cities, houses have been moving briskly in the last year, and sellers are in short supply. According to the Minneapolis Area Board of Realtors, the median price of a house two weeks ago was $176,000, up nearly 18 percent, and buyers are getting 95 percent of their asking prices. At the same time, inventories have decreased by more than 25 percent. My own real estate agent was breathing heavily. "Things have been good," she said. "Really good."

Wall Street investors?

I wondered, however: Could all this wonderful stuff be happening in the Twin Cities because hedge funds and other avatars of the 99 percent had come to town to scoop up lots of houses? If so, they could be bidding up the prices of houses to the point where ordinary people couldn't afford them. Such folks would then be consigned to renting, which might explain why so many developers were putting up apartment complexes all over the metro and particularly downtown.

If that were all true, I'd have a helluva story. Bad news, true, but a helluva story. For a few moments, it looked as though the sun were coming out.

Some calls later, things were as bleak as ever. Local folks said that they hadn't seen any evidence of Wall Street activity here. Mark Willis, research fellow for the Furman Center for Real Estate at New York University, observed: "It's mostly happening in states with the biggest collapse in housing prices." That's where investors can find the best bargains. The Twin Cities saw prices drop in the Great Recession, but nothing like what happened in Phoenix or Las Vegas. Investors are flocking to those places, he said.

Willis did point out, however, that an increasing number of homes across the nation were changing hands in all-cash sales. And that is true in the Twin Cities. According to the Board of Realtors, which covers a 13-county area, 25.1 percent of buyers in March paid in cash. In fact, that share has held steady for the last two years, up from about 5 percent in 2006.

Interpreting what that means is difficult. Some have suggested that baby boomers and others of my generation are buying houses for their adult kids who are too strapped by student loans to purchase on their own. But, knowing boomers as I do, I suspect most are too cash-strapped to let go of so much moolah (which they might need for themselves in their future senescence). Another possibility: We are being flooded by drug kingpins, mobsters and other disreputable types who can't qualify for financing because they don't want to report their incomes to a bank -- and have IRS agents swoop down on them like hungry eagles.

Likely scenario

A more likely scenario is that individual investors (rather than hedge funds), having heard Buffett's call to arms, have decided to take their 401(k) dough or the money grandma left them to try to become real estate moguls. These days banks are skittish about lending to investors in single-family properties; so they have to buy in cash.

This would an on-one-hand-on-the-other-hand phenomenon. On the one hand, investor money may bolster prices enough so that people who were underwater on their mortgages (owed more than their houses were worth) could now sell and escape with a little profit. On the other hand, investors could be pricing people who want to occupy a house out of the market, creating an entire generation of permanent renters. And, while not everybody is cut out to be a homeowner, having communities dominated by a large class of landlords who want nothing more than to keep their expenses low might doom school-bond issues and other costly local improvements.

Finally, with a ton of investors aiming to lease houses and developers dropping apartment buildings all over the landscape, there could come a day when rents drop. Then investors would want out, and housing prices could collapse once again.

So for anybody entering the market, either as a buyer or investor -- or builder, for that matter -- the byword should be caution. History has shown that we can be fooled again.

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A Minnesota native, Marlys Harris has been an investigative reporter and editor with specialties in consumer protection and finance for Money Magazine and Consumer Reports. She has a master's degree in urban planning. Cityscape is supported by grants from the McKnight Foundation and the Central Corridor Funders Collaborative.