



GAZUMPED BRITAIN II: UNCOVERING THE CHALLENGES FACING UK HOMEBUYERS

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Throughout 2019, Market Financial Solutions (MFS) has been speaking with brokers and professional clients across the UK about the challenges they face when looking to quickly complete on a property transaction. Indeed, the specialist finance market, and in particular the bridging loan sector, has become a popular option for those seeking to close on existing transactions without delay.

There are plenty of reasons that explain why bridging loans have risen in popularity over the last decade. The flexibility and speed with which they can be deployed has certain advantages, particularly when we consider the competitiveness of the UK property market. Domestic and international demand for bricks and mortar investment remains strong, and with a shortage in available housing, more buyers find themselves at risk of missing out on a property opportunity if they cannot access funds promptly.

When the house-buying process becomes drawn out, one of the practices we often see is gazumping – whereby a buyer loses out on sale due to another bidder placing a higher offer on the same property just before contracts are exchanged. This has become a significant issue here in England and Wales; but just how many homebuyers have experienced being gazumped and what have been the implications?

To find out, we have surveyed over 750 people who have bought a residential property in the UK over the last decade to uncover how many have been gazumped, the reasons why it occurred and the effect it had on them. This report, a sequel to a previous study we completed in late 2016, presents the findings of this timely survey.

Overall, the research demonstrates it remains a prominent issue that needs to be tackled head on. It also shows the importance of having access to fast capital to ensure property transactions can be quickly completed, in turn reducing the chances of a buyer being undercut at the last call.

GAZUMPING REMAINS A SIGNIFICANT PROBLEM FOR HOMEBUYERS

Gazumping occurs when a seller who has already accepted one buyer's offer then goes on to accept a higher offer by another buyer at the critical closing stages. As a result, the initial buyer loses out on the property, leading to significant financial and emotional implications. It is sometimes confused with the term gazundering, which occurs when a buyer waits until the contracts are about to be exchanged before suddenly lowering their offer on the property.

Both are routinely criticised as careless or callous behaviours that cause property chains to collapse and lead to a vicious cycle of buyers and sellers constantly trying to take advantage of one another. However, gazumping has also been seen as a type of buying tactic prevalent in markets where pent-up demand for housing outstrips supply. While there are laws to reduce the practice, it is still legal in England and Wales.



Yet our research has revealed 31% of UK homeowners have previously lost out on a property as a result of being gazumped in the last decade. This figure rises to nearly half (47%) for those based in London, reflecting the competitive nature of buying property in the capital. The implications of gazumping a buyer are significant, and do not just involve losing out on a property. The process

of buying a home can take up to four months, and during this period the prospective buyer needs to pay the necessary conveyancing, survey, mortgage valuation and brokerage fees. As a result, we found that two fifths (39%) of homeowners have had to pay intermediary fees despite not completing on a property purchase. Figures from Which? show that on average homebuyers lose £2,899 when a house deal falls through.

Nonetheless, UK homebuyers are not averse to gazumping a rival buyer in the future if it meant they could successfully complete on a property acquisition. Of those we surveyed, 43% said they would consider doing so at some point in the future.

1. 31% of UK homeowners have previously lost out on a property as a result of being gazumped in the last decade



2. Two fifths (39%) of homeowners have had to pay fees to intermediaries despite not completing on a property purchase



3. 43% of homeowners would gazump another buyer if it meant successfully completing on a property purchase





WHY IS GAZUMPING SO COMMON?

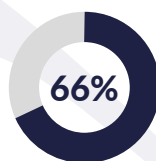
UK property is in high demand. Even as Brexit uncertainty hangs above the market, the national average house price been steadily rising, offering notable capital growth for property investors. According to the UK Government, in the 12 months to September 2019 house prices increased on average by 1.3%, with the average property in the UK now valued at £234,370.

However, with competition rising, our research revealed that two thirds (66%) of homeowners think the process of buying a property has become more difficult over recent years as a result of increased competition and a lack of housing supply.

In turn, this has increased the risk of people getting stuck in protracted and delayed property chains, made more complicated by the time it takes for buyers to apply and receive a mortgage. The longer a property deal takes to complete as a result of delays, the higher the risk of the deal falling through.

Of those we surveyed who said they have experienced one or more property purchases fall through in the past decade, 34% said it was due to either themselves or someone in the chain not getting their mortgage approved in time. This number rises to half (49%) for those aged between 18 and 34. Access to finance is clearly an issue; mortgages can take anywhere from 18 to 40 days to be deployed and are completely out of the buyer's control.

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STAMPING OUT GAZUMPING IN ENGLAND AND WALES

Despite widespread calls for the Government to clamp down on gazumping, England and Wales do not yet have legislative measures in place to limit the practice. However, the situation is different in Scotland. While there are no formal rules outlawing last-minute underbidding, the chances of it occurring are minimal due to the fact that the binding contract is concluded soon after a verbal agreement has been made between the buyer and the seller.

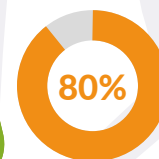
Asked about whether they were in favour of laws to prevent buyers being undercut in England and Wales, a resounding 80% of respondents said they would support such a measure. This figure rose to 90% for those aged 55 and over.

In October 2019, the UK Government said it was considering the introduction of a “reservation agreement” to bind buyers and sellers to a deal. In other words, once the sale has been agreed to, both the buyer and seller would be required to put money into what is known as an “escrow account”. An agreement would then be signed, stating a set period

for the completion of the sale. If either side withdraws during this period, they will have to forfeit their deposit.

It has been touted that a pilot version of the “reservation agreement” could be trialed as early as Q1 2020, though no further details have been released yet. There are also fears that ongoing Brexit delays and the upcoming General Election on 12 December will further stall progress in this space.

80% of homeowners in the UK are favour of laws to ban gazumping in England and Wales





CREATING A FAIR AND SUSTAINABLE PROPERTY MARKET

As demonstrated from our research, not only is gazumping a cause for frustration and disappointment, it can also incur significant costs to the prospective buyer. Avoiding complicated chains and having immediate access to finance can reduce the chances of a prospective buyer missing out on a purchase, but it is clear from the findings that further measures are needed to prevent it in England and Wales. This is something homebuyers are calling for, and it is now up to the next elected government to look at measures to stamp out gazumping as a top priority.

However, the solution does not just lie with the government. Traditional and specialist finance lenders also need to play their role by ensuring brokers, property investors and homebuyers are in a position to readily receive loans. That's why we work closely with all our clients to make sure they have access to the bridging loans needed to complete on property deals within days of making an enquiry.

If you want to find out more about our bridging loan services, be sure to get in touch by emailing info@mfsuk.com







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