BROKEN CHAINS: WHY ARE UK PROPERTY DEALS FALLING THROUGH?

MFS®

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UK real estate is a popular investment class for those seeking a secure asset able to weather market shocks and periods of economic volatility. The eagerness to invest in real estate over a number of decades has resulted in the steady growth of average national house prices. Nationwide's latest House Price Index revealed that the average price of a UK home rose by 2.6% in the year to April 2018, reaching £213,000. Moreover, house prices are expected to increase by 18% over the next five years, making property a leading asset when it comes to the delivery of long-term returns.

However, while the UK property market may present lucrative investment opportunities across the residential and commercial sectors, limited supply and rising demand have made the process of buying a property extremely competitive. As a result, the chance of becoming stuck in a delayed or broken property chain has become a growing reality for the majority UK buyers and sellers.

In Q1 2018, the number of house sales falling through before completion reached 38.8% – the highest it has been in over a decade. To understand why the number of collapsed property sales is on the rise, Market Financial Solutions (MFS) has surveyed a nationally representative sample of 2,000 UK adults to uncover the common reasons leading to a house purchase falling through. With access to finance being identified as a key barrier, the findings also reveal how the UK perceives alternative finance opportunities as a way of avoiding collapsed property chains.

A summary of the key research statistics

MFS surveyed a nationally representative sample of more than 2,000 UK adults to uncover just how common it is for property transactions to fail. Quizzing those respondents who have had an offer accepted on a UK property in the past 10 years, the study delved into the major instigating factors that have caused a property chain to collapse, finding:

- 23% of UK adults have had an offer accepted on a UK property in the past 10 years – equivalent to 11.91 million people
- Of this, 31% (3.69 million) saw a deal fall through before completion, forcing them to start their property search again – the figure is almost double in London (61%)
- A breakdown within the chain (41%) was the most common reason for people losing out on a purchase after having an offer accepted
- 33% saw their deal fail because they encountered delays in getting their mortgage delivered by a bank
- 16% of buyers said that their property purchase fell through because, despite having a mortgage in principle, the lender later rescinded the agreement
- 11% said they ultimately settled for a different property they liked less after their earlier deal fell through

Collapsing property chains

The competitive nature of the UK property market is being fuelled by the imbalance that currently exists between housing supply and buyer demand. The limited number of homes on the market has made property chains increasingly convoluted – with fewer properties to choose from and more competition from others, buyers can find themselves waiting for a seller to find their next purchase before being able to complete on a deal. In turn, this inability to effectively progress a sale due to the complications of someone else can lead to significant delays and increase the risk of a property purchase not being completed.

To uncover the extent of this issue, MFS asked a nationally representative sample of 2,000 UK adults whether they have had an offer accepted on one or more properties in the last decade. Demonstrating real estate's on-going popularity as an asset, 23% of responded in the affirmative – the equivalent of nearly 12 million people across the country. Of this figure, nearly a third (31%) of those who have had an offer accepted on a property since April 2008 said that they had experienced a property sale falling through before completion. This equates to 3.69 million UK adults.

Taking into account the costs involved in the sale and purchase of a property, missing out on a sale despite an initial commitment from the buyer and seller can also incur significant financial outlay. It is estimated that property buyers lose an average of £2,899 in solicitor and surveyor fees as a result of a failed purchase. This means that since 2008, as much as £10.7 billion has been lost in fees by people commencing the legal house-buying process after having an offer accepted only for the deal to later fall through.

Why are sales falling through?

MFS uncovered a number of common factors contributing to an eventual collapse of a deal. However, the most prevalent issues revolved around problems encountered in the property chain; 41% of buyers who have had a deal fall through after having an offer accepted said that a breakdown in their chain was the cause.

Of all the factors increasing the risk of a collapsed chain, a significant proportion of respondents identified access to finance as one of the leading issues inhibiting the completion of an acquisition, particularly when it came to dealing with high street banks. The imposition of stringent lending measures from mainstream lenders has not only increased the amount of time it can take to have a mortgage approved; it can also lead to applicants being denied a mortgage when already committed to a purchase.

MFS found that 33% of those who have experienced a failed property deal said they encountered problems due to delays from the bank providing their mortgage. A further 16% of buyers said that their purchase fell through because, despite having a mortgage in principle, the lender later rescinded the agreement. The research also revealed that gazumping remains a major contributing factor for buyers, with 39% stating that they have seen a deal fall through due to the seller accepting a better offer from another buyer.

Looking to alternative finance

Time-consuming background checks and stringent lending measures from high street finance providers can significantly increase the time it takes for buyers to commit to a sale, thereby increasing the chances of a sale collapsing. Moreover, it was revealed that in March 2018, British banks approved the second lowest number of mortgages since January 2015, with only 37,567 mortgages being successfully issued.

Thankfully, the range of financial instruments available to those looking to invest in property – particularly those who already own real estate – has risen over the past decade. Since 2007, alternative finance options have become a viable source of credit, offering an expanding number of non-traditional loan opportunities for prospective property buyers. Bridging loans, for example, have become a popular source of finance for those seeking to use an existing property as security to secure a loan. As a result, gross annual bridging lending in the UK surpassed £5 billion in 2017, which was a new record for the industry.

Importantly, the MFS research revealed that buyer awareness of alternative finance is rising. Of those who had successfully completed on a property sale in the last decade, 13% of buyers had used a bridging loan at some point to help them secure the necessary finances to complete a deal. Moreover, 16% of homebuyers said that they have considered using alternative finance but felt that they did not have the confidence or ability to proceed with this option, while 21% said they did not feel they had a strong enough understanding of the alternative finance options available to them when buying a property.

Staying on top of the chain

With alternative finance instruments offering property buyers the opportunity to access the capital required to complete on a purchase quickly, and thereby reduce the chances of being stuck in a chain, industry awareness of options such as bridging is vital. While there is evidently a reasonable understanding of the industry, it is important that more is done so those considering using alternative finance are able to successfully follow through with these intentions.

Whether rejected by a lender or facing severe delays, buyers must ensure they are aware of all the options available to them – including the increasingly popular alternative finance markets – so they do not suffer unnecessary financial and emotional strains by experiencing a property purchase collapse. Importantly, it is necessary to increase market awareness of alternative finance avenues such as bridging loans, ensuring buyers are effectively positioned to quickly complete on a property purchase by having access to the finance needed at the critical closing stages of a sale.

MFS

Berkeley Square House
Berkeley Square
Mayfair
London W1J 6BD
United Kingdom

T: +44 (0)20 7060 1234
E: info@mfsuk.com