

House & Home

Buyers push for discounts in distressed property markets

With recession on the horizon and a big drop in transactions, buyers sense an opportunity



A four-bedroom apartment in Paris's 6th arrondissement, €3.3m, after a price cut of 8.3 per cent last month, through Daniel Féau

George Steer JUNE 5 2020

Harry Tang and his partner had outgrown the one-bedroom flat they rented in north-west London long before lockdown began. In February, two months after their first child was born, the couple found the perfect upgrade: a two-bedroom apartment in a new-build development in Park Royal, west London, for £500,000. When the developer offered them a £30,000 discount, they agreed to buy it.

The purchase has been on hold since April, however, and Tang, a solicitor, who did not want to give his real name, now wonders whether he should be asking for an even bigger reduction.

“I’ve read that prices could fall by 13 per cent this year,” he says, referring to a report by the Centre for Economics and Business Research. “I am re-evaluating”.

Since May 13, when the government reopened the property market in England, many of the 373,000 property transactions estimated to have been put on hold by the crisis were allowed to resume. However, like Tang, lots of potential buyers will be nervous about picking up where they left off.

Given that the outbreak is expected to cause the worst economic recession in living memory, says Jonathan Hopper, CEO of Garrington Property Finders, “you cannot pretend the housing market is detached from it.”

Confusion over values

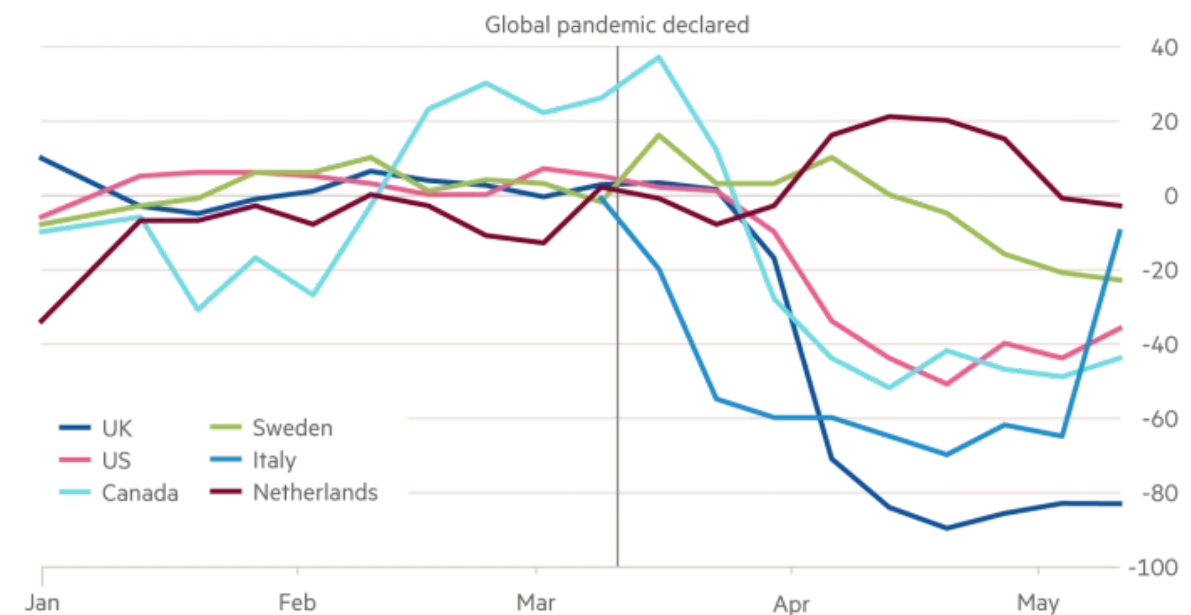
Trying to work out how much house prices have fallen since the outbreak of the virus is difficult because transactions have slowed dramatically.

While both Rightmove and the Office for National Statistics decided to suspended their house price indices in recent weeks due to lack of data, Nationwide published its index for May on Tuesday. It found that average prices have fallen by 1.7 per cent, the largest monthly fall for a decade — but that prices were still up 1.8 per cent on May last year.

“Have prices really fallen, or is the market just on pause? No one really knows,” says Edward Burton, a property lawyer at Maurice Turnor Gardner. Property of a good standard is not automatically worth less today than it was in February, he says.

Covid-19 lockdowns cause sharp drop in property listings

Weekly listings in 2020 compared with same week in 2019 (%)



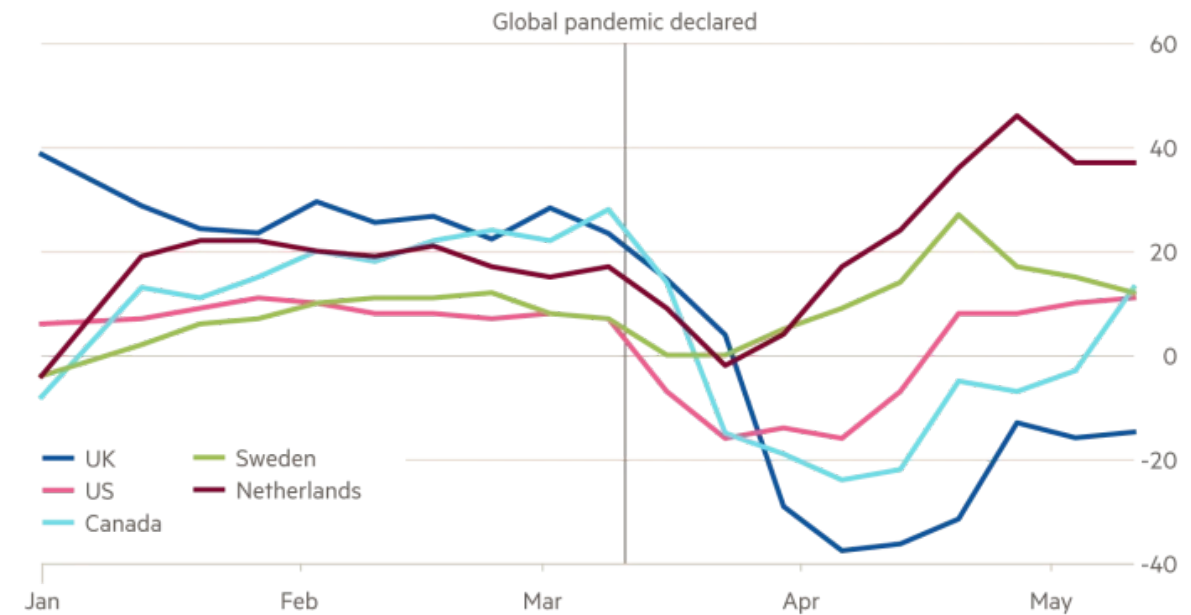
Sources: Mike DelPrete; Hemnet; Funda; Zoopla; Redfin
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The same question can be asked of property markets in Paris, Milan, New York and other cities around the world, where the full impact of coronavirus has yet to sink in.

In many places, the first thing that happened after the World Health Organization declared Covid-19 a global pandemic on March 11, was a sharp drop in the number of properties on the market.

Interest in online property listings is revived

Weekly traffic in 2020 compared with the same week in 2019 (%)



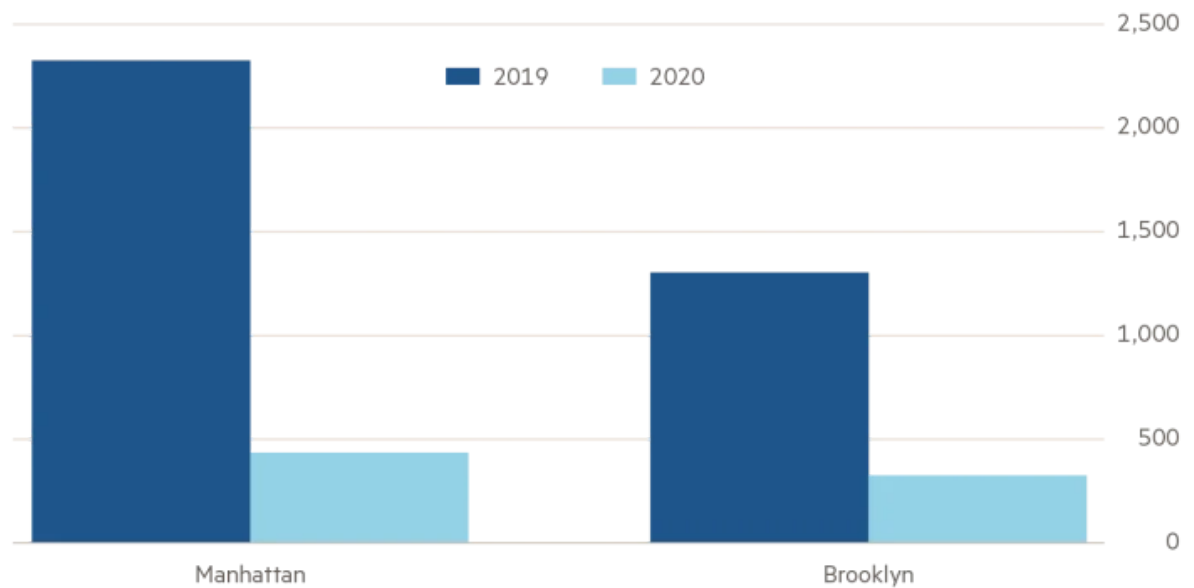
Sources: Mike DelPrete; Hemnet; Funda; Zoopla; Redfin
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By the third week in April, the number of new listings recorded in the US was down 51 per cent compared with the same week in 2019, according to data compiled by Mike DelPrete, a real-estate tech strategist at the University of Colorado Boulder. In Italy, listings were down 70 per cent over the same period; in the UK, listings on Zoopla had dropped by just under 90 per cent.

In Manhattan, the drop in property transactions has been “unprecedented”, says Garrett Derderian, chief executive of GS Data Services, which tracks the real-estate market.

Property sales drop in NYC

Homes under contract, Apr 1-May 31



Source: GS Data Services
© FT

However, Derderian says it is unlikely that the market will be as badly affected as it was following the financial crisis of 2008, when repossessions and distressed sales became widespread across the country. “[This time]housing is a casualty of a public-health emergency turned economic crisis, not the cause of the crisis itself,” he says.

Viet Shelton, an analyst at Zillow, agrees: “The last housing bubble burst was all about excess credit, excess homeowners, excess building — today we have none of that.”

Buyers are asking for discounts

Despite there being little evidence of sellers being in distress, some buyers think they can sense an opportunity.

“Prices for [New York’s] town houses, where you have your own space and do not have to interact with a doorman or other residents, have stayed pretty consistent, but there are bottom fishers preying on sellers clearly desperate to leave the city who are asking for discounts of 30, 40, 50 per cent,” says Paula Del Nunzio, a broker at Brown Harris Stevens.



A three-bedroom apartment with views of the New York skyline from every room, reduced last week by 7.6 per cent to \$2.399m, through Christie's

Some sellers are starting to lower expectations. Last week, the owners of a three-bedroom apartment in Weehawken, New Jersey, with views of Manhattan over the Hudson river, dropped the asking price by 7.6 per cent to \$2.399m. The property is available through Christie's International Real Estate.

In Paris, Daniel Féau is selling a four-bedroom apartment in the 6th arrondissement for €3.3m, after having its price cut by 8.3 per cent last month. In London, Lurot Brand is selling a three-bedroom mews house in Earls Court for £3.35m, after dropping its guide price by £250,000 on June 1.



A three-bedroom mews house in South Kensington, London, £3.35m, through Lurot Brand



The exterior of the mews house

Most sellers have not accepted big discounts. Low interest rates around the world and the introduction of forbearance measures — which allow homeowners affected by the coronavirus crisis to apply for mortgage holidays — have helped to prevent widespread distressed selling.

But with many countries reporting big spikes in [unemployment](#) — last week the jobless tally in the US since mid-March surpassed 40m — it is unclear what will happen when these payment-holiday schemes are withdrawn.

Does ‘gazundering’ work?

In England, some buyers who had already agreed prices have been lowering their offers just prior to the exchange of contracts, a practice known as “gazundering”. But have they been successful?

The market for smaller flats relies on international buyers and they are just not around right now

Roarie Scarisbrick, a buying agent at Property Vision

“I’ve just got signed off on an exchange for around £3m where the buyer tried to have a pop right at the end and get another 50 or 60 grand off,” says Burton. “It got a very hard ‘no’ from the vendor.”

“We’ve seen transactions going through at prices agreed pre-Covid and we’ve seen people, many of whom may have been invested in stocks, saying, I need to reconsider,” says Laura Conduit, a property lawyer at Farrer & Co.

“But if a client of mine is buying their dream home, I would advise against price-chipping at the last minute.”

In France, price chipping is more difficult. Both parties are locked into a purchase earlier in the buying process than in parts of the UK.

“There was a free for all among people who had made an offer and had it accepted but not yet signed the presale agreement,” says Susie Hollands, chief executive of property company Vingt Paris. “It was pretty nasty: a lot of sellers effectively put their middle fingers up [at buyers’ reduced offers].”



In France, 'price chipping' is more difficult than in parts of the UK © Cyril Marcilhacy/Bloomberg

According to Knight Frank, the only cities where it expects prices to rise this year are Lisbon, Monaco, Shanghai and Vienna. In London, it predicts the prime market will see “flat or low price falls” of less than 5 per cent throughout 2020, before a return to growth next year.

The damage is unlikely to be evenly distributed, says Roarie Scarisbrick, a buying agent at Property Vision. “A terraced house in Notting Hill with a garden is going to be all right,” he says, “but the market for smaller flats will be more affected because they rely on international buyers — and they are just not around right now.”

Be cautious if buying a new-build

Anyone buying one of London’s new-build apartments — typically more expensive than older homes — should be especially cautious about what price they pay, says Hopper of Garrington Property Finders. To avoid falling into negative equity, buyers should be sure they are still comfortable paying the new-build premium and should be wary of any incentive packages that developers might offer to preserve their prices.

“Everything the original valuation was based on is now irrelevant,” says Hopper. He advises first-time buyers to seek independent advice from a surveyor, who can check the pound-per-sq-ft rates for the appropriate postcode to better gauge the value of a property.

As for Harry Tang, he has decided to take a hard line and ask for another 10 per cent reduction off the price of his apartment. “If I were dealing with a mum and dad with a family I’d feel a bit guilty,” he says, “but I’m not, so I’m going to be aggressive.”

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