

Thinking of buying a repossessed home? Here are the pros and cons

Paul Stevens, CEO of Just Property, explains the process and the pitfalls of bank-assisted property sales, sales in execution and sheriffs' auctions.

From 2018, a reserve price was required at sheriffs' auctions. This rule was put in place after the Lungelo Lethu Human Rights Foundation (LLHRF) brought a case before the full bench of the Johannesburg High Court to prevent ridiculous prices from being fetched at auctions (some as low as R10). These results often left the previous owner with a large shortfall on their outstanding bond.



Source: www.pixabay.com

An affidavit obtained in support of the LLHRF R60bn class-action suit against South African banks found a sample of about 12,000 properties repossessed since 1994. These houses had been sold mainly through sheriff's auctions for 50-60% of their proper value. And two hundred of those houses were sold for less than 17.2% of their market value.

So buying a repossessed home seems almost unethical to those who see it as possibly profiting from others' misery. With interest rates as low as they are currently and banks approving more first-time home loans, isn't there a win-win solution where distressed sellers can still get a reasonable price for their home and buyers can still get good value?

"Yes," says Paul Stevens, CEO of Just Property. "These days far fewer homes reach the sheriffs' auctions due to the introduction of distressed, or bank-assisted, property sale programmes. These allow a seller in financial difficulty and unable to meet their bond payments to approach the bank to market the home through property companies. The intended result is financial relief for the seller, and the recovery of the outstanding debt on the home loan."



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The advantages

Attractive purchase prices

Because bank-assisted sales are usually urgent and sales in execution are a last resort to recoup the money loaned to the previous owner, Stevens says such properties are often well priced.

No transfer duty

A low transfer duty attaches to bank-assisted sales, and often bond costs may be significantly discounted. Transfer fees and attorney registration must still be paid.

In the case of repossessed homes, there will be a sale in execution. The attached property is auctioned, and there is no transfer duty. A reserve price is set, and if no bids come in above that, the bank will buy the property at the reservation price. If your bid is successful, a 10% deposit and sheriff's commission are immediately payable, and attorney registration and transfer fees will fall due on transfer.

Outstanding rates, etc., settled for distressed property sales

The bank will settle outstanding rates, etc., up to registration or occupation. (Note: this is not the case for sheriff's auctions, and those costs will be for the new owner to settle.)



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The pitfalls

“Voetstoets”

A major risk, says Stevens, is that such properties are sold “voetstoets” - in other words, in their current condition, without any guarantees. “This is a real problem as it is not always possible to inspect such a property,” he adds.

Limitations on viewings

While it should be possible to view a bank-assisted sale house with the property management company or the agent who is marketing it, it is more difficult to view and assess a repossessed home unless the previous owner has vacated the property. “In such cases, at least do your research to determine the market value of the home based on its location and previous sales in the area and the rates or levies that will become your responsibility as the new owner,” says Stevens.

It may be occupied

“Where a property is tenanted, the sale will include the current lease,” says Stevens. “And if the previous owner is still living there, the new buyer will need to request that they vacate the premises or start formal eviction proceedings, the costs of which will be for their own account.”

Transfer issues

The transfer process takes longer than it would for a normal property sale.

No conditional sales

While it is certainly possible to get a home loan to buy such properties, the banks won't agree to a sale conditional on the sale of another property.

Is it a good idea?

You can find a list of properties for sale by banks on the major property portals and a list of sheriffs' auctions in the government gazette. You don't bid at these auctions - buyers submit offers to purchase to the bank concerned.

"The savings can make these properties attractive to property investors who are prepared to fix them up with a view to 'flipping' them (reselling them quickly) or letting them out," says Stevens. "They can also be an opportunity for prospective homeowners to buy a property you wouldn't have been able to afford otherwise. However, there are significant risks, and if you are unable to inspect the property, I would rather recommend working with a professional agent who can help you find a property you can afford and properly assess."



Paul Stevens, CEO of Just Property

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