

Is buying repossessed property worth it?

By  Adrian Goslett

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While many may think that a sale of execution and a repossessed property are one in the same, they do differ.



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If a homeowner can no longer pay their bond and are in substantial arrears, the bank will take legal action by serving the owner with a summons, taking judgment and eventually attaching the property. If the homeowner is still in arrears by the time the property has been attached, the bank will instruct the sheriff of the court to provide with selling the property at a public auction. A representative from the bank is entitled to attend the auction and purchase the home if the bidding amounts are not substantial enough to cover the outstanding balance owed to the bank. The home will become a repossessed property or property in possession once it has been 'bought back' by the bank at the sale in execution.

Bank becomes legal registered owner

Once the bank has purchased the property at the auction, it becomes the legal registered owner. At this stage, one of two things are likely to happen. Either the bank will sell the property to recoup their losses, or in some cases, they may allow the previous owner to rent back the property from them on a month-to-month lease agreement. If the bank decides to sell, they will advertise the property for sale. Certain banks will also provide lists of repossessed properties to real estate companies for them to sell.

As a buyer, there are several benefits to purchasing a repossessed home – especially if the amount owed to the bank is less than the home's market value. Banks are not looking to make a profit on the sale, but merely recoup their losses, so buyers could find themselves a bargain by purchasing one of these homes. Another benefit is that because the bank is a VAT vendor, there is no transfer duty payable on a repossessed property. And the bank will need to ensure that the municipal accounts are up to date, so no need to worry about taking on someone else's municipal debt.

Possible renovations required

On the flipside, repossessed homes are often in poor condition and will require renovation. Buyers will need to factor in the cost of the renovation on top of the purchase price to see whether they are really getting a bargain or buying a money trap. As with all property purchases, location is vital. It is best not to compromise on location just to get a perceivably good deal.

Another possible disadvantage is that if there are tenants in the property, the new owner will be responsible for vacating them. It could be as simple as giving the occupants notice, or it could entail going through the process of a legal eviction. While purchasing a repossessed property does have its perks, buyers need to be aware of the possible hassles and decide whether the purchase is still worth their while.

ABOUT ADRIAN GOSLETT

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions and offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years real estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.

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