

Bank valuations 'distorting property market'

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The conservative approach of the lending institutions to granting home loans is now putting selling prices under pressure - and distorting the property market in the process.

So says Aida Pretoria director Johan van der Westhuizen, who explains that banks have become more willing to grant 100% bonds but that they are now more often valuing properties at far below the price agreed by sellers and buyers.

"Banks understandably want to reduce their risk in the face of the prevailing economic conditions but by valuing properties at less than the price that the market has determined, they are in effect prescribing to sellers how much they may ask for their homes.

"We are noticing the trend across the board and in some cases the amount that the banks are willing to lend is up to 20% less than the agreed selling price.

"This practice flies in the face of free market principles - in a free market buyers and sellers should be able to make deals without interference or prescription by third parties."

Van der Westhuizen says valuations far lower than agreed selling prices undermine buyers' confidence in the market and perhaps their own judgement. "If your bank values the property at 20% less than the price you are willing to pay because you see it as a fair deal, you may well start questioning your own judgement or the integrity of the seller," he says.

Sellers, on the other hand, are in effect at the mercy of third parties that determine at what price they can sell their property, he says. They are, of course, free not to sell at the price "determined" by a bank but if they have to sell fast because of a new job in a different town, for instance, they often have little choice but to accept arbitrary valuations by lending institutions.

Compounding the problem, according to Van der Westhuizen, are distressed properties sold at auction or through special mechanisms instituted by banks to clear distressed stock off their books. "So-called distressed properties, where bondholders are in financial trouble, typically realise only 80 to 90% of market value, at most. These transactions are registered at the Deeds Office without any distinction whatsoever and consequently distort statistics on current market values."

He adds, though, that buyers in certain areas, such as Centurion, for example, are currently obtaining bonds for properties costing less than R1,5m with relative ease. The vibrant area attracts younger buyers thanks to easy access to a network of highways and the Gautrain route, as well as affordable units, particularly townhouses.

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