

## Peer To Peer Property Sales Hits South Africa

Buying property comes with all sorts of challenges. Not only is the purchase itself a large financial outlay but it comes with extra costs such as a deposit, transfer duties and legal fees. These costs, coupled with the increasing difficulty to get a home loan, leaves a lot of South African's without the means to own property. That is, until now...

Peer to Peer lending or financing has existed in South Africa for the longest time. The *stokvel* system used in farming communities is one such example. Essentially peer to peer financing is a way of funding financial transactions without the involvement of the bank. A peer to peer property sale is one of these financial transactions.

"Traditionally buying property requires a home loan but with only 37% of the 22 million credit active consumers in South Africa with a 100% clean credit record getting a loan can often prove very difficult," says Meyer de Waal, a practicing conveyancing lawyer. "This is compounded when a buyer wants to acquire a second home like a holiday house, vacant plot, commercial property or agricultural property where the bank demands a deposit of 30-40-% of the purchase price."

According to Wikipedia, peer to peer lending is described as:

*Peer-to-peer lending commonly abbreviated as P2PL is the practice of [lending](#) money to unrelated individuals, or "peers", without going through a traditional [financial intermediary](#) such as a bank or other traditional [financial institution](#). This lending takes place online on peer-to-peer lending companies' websites using various different lending [platforms](#) and [credit checking](#) tools. Many also use the abbreviation "P2P" when discussing the peer-to-peer lending or investing industries more generally.*

We have all been conditioned to go to a bank to obtain a home loan to buy a property – With a Peer to Peer property transaction – you do not need a bank – right now, perhaps later, once you are in a much better situation to negotiate better terms and conditions – or perhaps never.

Peer to peer property transactions are one way to get around the bank's heavy demands. For one to work you need a few things: a property for sale, a willing seller and a willing, capable buyer. "Essentially we have the seller operating as a temporary bank," de Waal explained. "The parties agree on a price, terms and conditions and are ready to enter into a peer to peer property sales contract. The seller retains ownership of the property but the buyer is the one who takes over servicing the costs such as an existing mortgage, insurance and rates. Our contract even factors in the annual inflation so the owner doesn't lose out on any capital growth."

The contract between the seller and the buyer is laid out much like that of a bond, with certain amounts put aside for the saving of a deposit that will be used to get acquire a loan to buy the

property outright at a later stage. This deposit is often the stumbling block when it comes to purchasing high value commercial buildings.

“Recently a buyer wanted to purchase a commercial property for R8 million,” de Waal said. “The purchaser was budgeting to pay the bank R100 000 per month and when the bank turned down the loan due to the high deposit required, we re-negotiated the deal between the buyer and the seller. The purchaser continued with his R100 000 per month payment, with R40 000 allocated as “rental” each month and R60 000 towards capital reduction. After two years the buyer would have saved a deposit of R 1 440 000, which makes it a lot easier to raise finance for the balance purchase price required by then. The seller was very comfortable to receive R100 000 per month as if he invested the purchase price, he would only have received +/- R33 000 interest per month.”

While a peer-to-peer transaction looks easy to put together it is a combination of 7 years of research work by de Waal and his team. They combined existing, tried and tested products and services to create a complete set of legal agreements that ensure both the buyer and seller come out on with the best deal possible.

“We do a very comprehensive due diligence on both the buyer and the seller to ensure they are financially sound enough for such a deal to be put in place. The buyer must meet out stringent requirements as we are not willing to put all this together just for it to flop back in our faces a few months later,” says Meyer.

The Seller is provided with extra services such as monthly rent collection, rental guarantee and legal costs protection, should the unfortunate need to evict a non-paying tenant ever occur. The rental income is protected as part of the product, underwritten and managed by a rental guarantee company with a track record of more than 12 years. This rental guarantee gives the seller extra security and peace of mind.

Our legal team prepares the agreements in one of two ways: a Rent-to-Buy scheme or an agreement commonly known as an Instalment Sales Agreement. Both these agreements have their own particular applications and the most appropriate agreement is applied for each transaction.

“Our legal team has excelled themselves as the leaders in the Rent-to-Buy and Instalment Sales type agreements over the past few years. Our work has been recognised in the media, with articles published on the subject,” de Waal said. “This experience and knowledge has enabled us to fine tune the peer to peer lending model and offer an unrivalled service.”

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