

Distress Sale Property- A trap

Beware of Heavily Discounted Property aka Distressed Property ! It could be a Trap

The offer of a Discounted Property offer is tempting but should you fall for it?

A discounted / distressed property, by definition, is a property that suffers a reduction in its market price because of pressures operating on the owner, such as threatened divorce, settlement of an estate, or fear of economic changes that might decrease the value.

Discounted / Distressed property is attractive for just 1 reason. That is the value. The discount.

Definitely, there's money to be made in discounted / distressed properties. Do your math in advance. Know your limits. Remember, for real estate investors, time is money.

Nowadays, a number of discounted / stressed properties offers are floating in the Real Estate market. A buyer may proceed if convinced about the bonafides of the offer since these aren't easy to deal with...

However, an advisor / buyer should be extra cautious.....

However, an advisor / buyer should be extra cautious, if the honey-coated property is being offered at a price, discounted by 15-50 % over the prevailing market price. It makes economic sense only if it passes critical scrutiny for a big potential to earn a hefty 6 % - 9 % return, plus appreciation!.

As current Real Estate market conditions are pretty tough, a seller in the urgent need of funds maybe making an offer too good to refuse. Under ideal conditions, it may take 3-6 months to complete the property transaction. In the case of discounted / distressed property, a seller is in a hurry to close the deal subject to immediate payment of the sale consideration to close the deal within 2-3 weeks is the sole criterion..

Below are 5 'most common' reasons for heavily discounted offers

1. Reason # 1 for special offer : Dispute :

- Typically, the 2 major disputes are :
- Inherited property
- Marital conflict / family discord

- Issues of inherited property : there may be a dispute with regard to the WILL of the deceased or among Class I heirs. A little bit offline investigation in the neighbourhood may throw light on such possibilities.

Solution : The best solution in such cases is to make a wife or class I legal heirs as either confirming party or witness to the property transaction.

Issues of marital conflict : A husband tries to sell the property before any divorce proceedings are listed in the courts. The reason being, once the divorce proceedings are initiated, the courts may rule that status quo be maintained. As the matter is considered sub-judice, the property cannot be sold; later may have to face the prospect of parting with half of the property to the wife.

Reason # 2 for special offer : problem with property :

Instance 1 ~ In some cases there is an inherent problem with the property. It is imperative to inspect the property multiple times during the day time before finalizing. The best times are early morning, late morning, afternoon, early evening, late evening and night. In one case, the wife of the prospective buyer observed a foul smell during late evening and night inspections. The husband was in a hurry to close the deal as it was discounted property & hence a good deal. On detailed investigation, they discovered that there is an STP {sewerage treatment plant} right below the wing in which they were finalizing the property. The smell was nauseating when the wind direction was towards the flats. The flats in that wing were tough to sell even at a substantial discount. Second consideration against their withdrawal was that it's a health hazard.

Instance 2 ~ In another case, a buyer shared pictures of the resale flat. The seller insisted that the house was recently painted with the objective of increasing the resale value. In the following few days the buyer discovered that the flat had a serious seepage problem. Therefore, to hide the same, the seller freshly painted the house before closing the deal.

Reason # 3 for special offer : Master Plan :

Master plans are a blueprint for urban planning. Like we have MPD {Delhi Master Plan} 2021, Mumbai has MDP {Mumbai Development Plan} 2034 & so for every city/town. Infrastructure keeps adding up to meet the requirements of the local population. Prior to buying a heavily discounted property, it's a good idea to check the draft or final master plan of your city for greenbelting, enhancing road connectivity, road widening, slum rehabilitation, Industrial park, metro development etc etc. You may check whether or not discounted property will be impacted by these master plans in foreseeable future.

Reason # 4 for special offer : Govt Project / Notified Property:

An instance : In the year 2006, the property prices in some pockets of Chembur, Ghatkopar, Santacruz, etc. in Mumbai suddenly crashed by 30%. Some friends bought discounted property in these areas. They also insisted me to purchase the one as it was falling under my budget. I became suspicious. Through little bit research, i found murmurs of proposed Santacruz Chembur Link Road. It was a most ambitious project to link Eastern Express Highway to Western Express Highway. No one was aware of exact logistics. Many people said it would not happen as large number of apartments were on the proposed path. Later on, it was discovered that the discounted property bought by my friends were notified by the govt for acquisition.

Similarly, not long ago, a similar situation unfolded in Bangalore. The govt has notified large no of properties for road widening project. Despite suggestions against such properties, some clients fell for & bought discounted property. The common notion is that municipal authorities will not demolish properties enmasse due to political compulsions. The buyers, unfortunately, who did not do their due-diligence were left with dodos. It is wrong notion and with increasing burden on city infrastructure, road widening will happen may be after few years.

Reason # 5 for special offer : perpetuating a fraud:

Intention of fraud is another reason for the heavily discounted property. It could be perpetuated on following counts :

- Joint / co-owned property : In the case of joint property, one of the owners may, insist 100% payment be made to him. However, payment should be released in the proportion of ownership in the property. To pre-empt such a scenario, relevant safeguards should be incorporated in the sale deed.
- Mortgaged property : The majority of payment in such cases is demanded upfront at the time of execution of sale agreement To hedge risk, the buyer should pay the minimal amount as token money. The balance substantial amount should be paid at the time of registration.
- Multiple buyers : A property already sold, maybe offered for sale.

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