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Home Foreclosure Discounts in Auctions Without Reserve Prices: Evidence from Cape Town

Policy Brief 42

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1 Stylised facts: Foreclosures in South Africa

In South Africa, when a homeowner defaults on their mortgage, the lender may obtain a court order to repossess the property. Subsequently, the property is sold through a public auction at the local sheriff's office. While it is common for auctioned properties to sell at a discount, global evidence indicates that these discounts are usually small, due to legislative safeguards at auctions. The most common of these safeguards is the use of reserve prices at auctions, which set a minimum acceptable bid and are typically based on the outstanding mortgage balance, unpaid taxes, or the property's appraised value. These safeguards are crucial, as economic theory suggests that without them, prices for properties sold at auction tend to be lower than if the same property were sold on the non-auction market.

Until 2019, however, South Africa was perhaps the only country in the world where foreclosure auctions were held without reserve prices, meaning a home could be sold to the highest bidder regardless of the bid amount. As a result, there has been substantial evidence of significant foreclosure discounts, leading to a R60 billion class action lawsuit against the major banks in the country.¹

This policy brief highlights research from my new ERSA Working Paper, which assembles data on all foreclosures in Cape Town between 2010 and 2018 to provide the first detailed empirical analysis of auction outcomes under this no-reserve system.² It finds:

- (1) **Foreclosures are prevalent**, accounting for 1.18% of all property transactions in Cape Town between 2010 and 2018.
- (2) Not all foreclosed properties are sold at a foreclosure auction. In fact, in Table 1, I show that **only 37.8% of foreclosed properties are sold at an auction**. The remaining foreclosures sell before the auction occurs (28% of properties) and after the auction (34.2% of all properties). The former represents cases where the distressed homeowner sells their property before an auction takes place, thus making an auction unnecessary. The latter indicates situations where an auction is delayed, usually through some settlement of the homeowner's arrears, allowing the homeowner to sell their property in the non-auction market after the auction date.

Table 1: Foreclosure Outcomes

	Number of transactions	Share of foreclosure	Mean price
Before auction	583	28.0%	R887,231
At auction	787	37.8%	R458,493
After auction	712	34.2%	R971,071
	2,081		R753,839

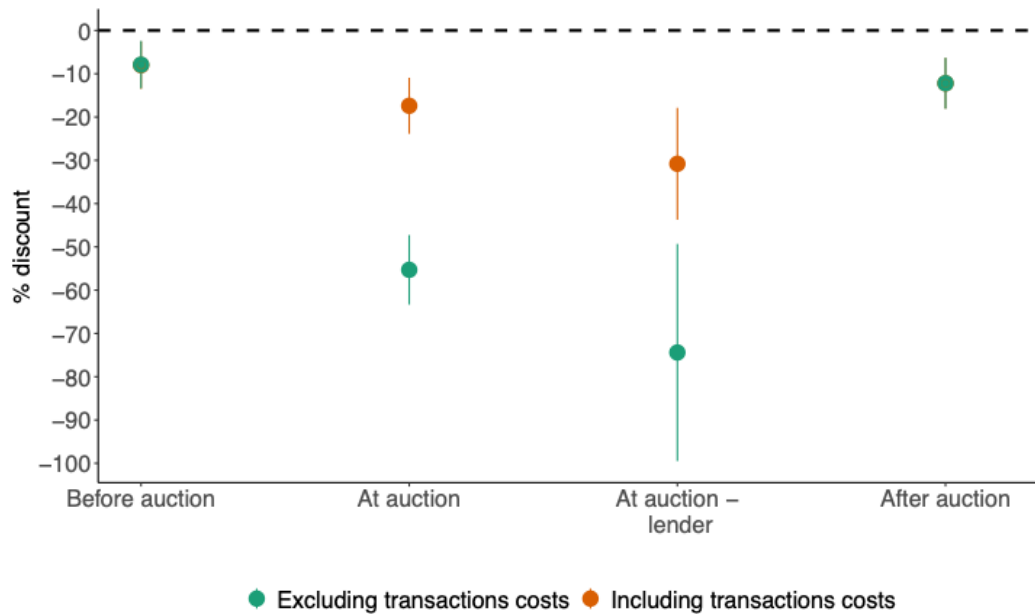
This table provides a breakdown of all foreclosure-related transactions with respect to when they transact relative to the auction date. I include the number of transactions, the share of all foreclosed transactions and mean prices.

- (3) **Foreclosed homes are sold at auction at an average discount of 55.3% compared to similar properties sold privately**. This discount is much larger than the 7.9% for properties that sell before auction and the 12.2% for those sold afterwards. One reason for these large auction discounts is the additional transaction costs buyers face, such as the auctioneer's commission and costs related to property tax arrears and eviction. After accounting for these costs, I find that the actual foreclosure discount is 17.4%, which, while more comparable to the pre- and post-auction discounts, remains substantial. These results are presented in Figure 1.

¹ See for example: "[R60bn class action suit against the banks set down for 2026](#)" - MoneyWeb, 24 June 2025

² Davids, A. 2025. [Home Foreclosure Discounts in Auctions Without Reserve Prices: Evidence from Cape Town](#). ERSA Working Paper 903.

Figure 1: Foreclosure discount



This figure reports estimates of foreclosure discounts from the main hedonic specification in equation (1) with and without transaction costs. The vertical bars indicate the 95% confidence interval.

- (4) **I find evidence that buyers of foreclosed properties at auction tend to resell them quickly rather than keep them.** Table 2 shows that 44.33% of all properties purchased at foreclosure auctions are sold within 12 months. The buyers of these auctioned foreclosures are more likely to be non-natural persons (companies, trusts, etc.) who buy multiple properties. In fact, one in four buyers at these auctions ends up purchasing two or more properties during the period of study.

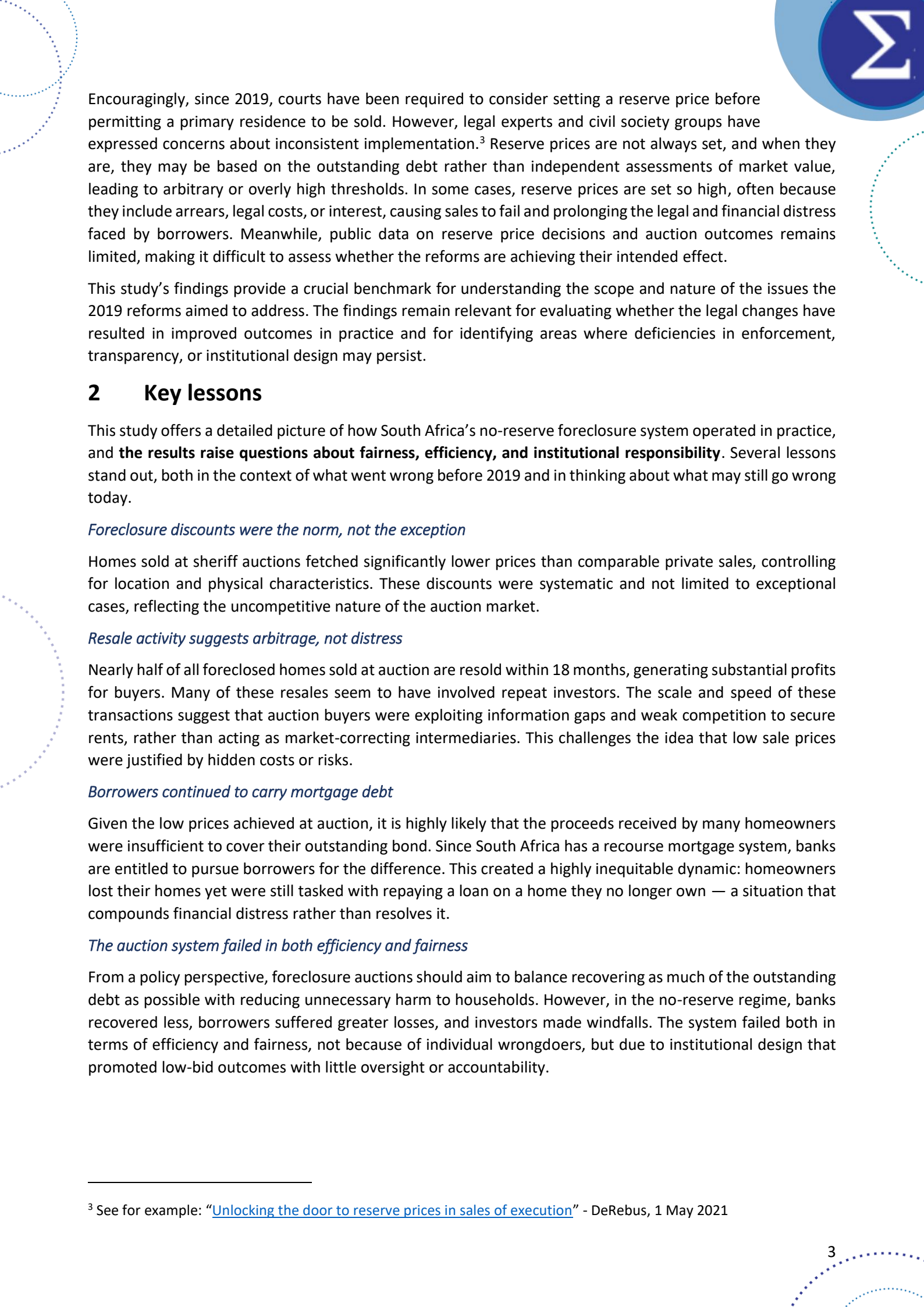
Table 2: Foreclosure Outcomes

	Not Foreclosed	Non-auction foreclosures	Auctioned foreclosures
% sold in 6 months	0.97%	10.89%	26.69%
% sold in 12 months	2.65%	18.60%	44.33%
% sold in 18 months	4.66%	22.42%	51.55%
% sold to non-natural persons	8.22%	18.82%	27.00%
% of buyers who purchases 2+ properties	8.46%	7.00%	24.60%

This table reports several summary statistics across non-foreclosed property, non-auctioned property, and auctioned foreclosed property, which reflect who the buyers of these properties are and when these properties are resold.

- (5) **When buyers of foreclosed properties resell these properties, they realise significant returns. In fact, these buyers achieve a 71.1 per cent higher annualised return compared to other buyers who buy and sell properties in the same suburb, even within the same year.** This high return could, of course, be explained by buyer-specific factors, such as the fact that those purchasing at auction may be more skilled or experienced in reselling properties. I demonstrate that, while this plays a role, it cannot fully explain the difference. By leveraging the fact that many of these buyers buy and sell multiple properties (both foreclosed and non-foreclosed) throughout the study period, I find that these buyers attain a 32.3 percentage point higher annualised return when reselling *foreclosed* properties compared to when the same buyer sells another *non-foreclosed* property. This paints a picture of a highly inefficient auction market, where buyers can purchase foreclosed properties at a discount and resell them at higher prices shortly after, thereby realising sizeable gains.

These stylised facts illustrate how foreclosure auctions, when unconstrained by reserve prices, can generate significant value loss for households while concentrating resale gains among a small group of investors.



Encouragingly, since 2019, courts have been required to consider setting a reserve price before permitting a primary residence to be sold. However, legal experts and civil society groups have expressed concerns about inconsistent implementation.³ Reserve prices are not always set, and when they are, they may be based on the outstanding debt rather than independent assessments of market value, leading to arbitrary or overly high thresholds. In some cases, reserve prices are set so high, often because they include arrears, legal costs, or interest, causing sales to fail and prolonging the legal and financial distress faced by borrowers. Meanwhile, public data on reserve price decisions and auction outcomes remains limited, making it difficult to assess whether the reforms are achieving their intended effect.

This study's findings provide a crucial benchmark for understanding the scope and nature of the issues the 2019 reforms aimed to address. The findings remain relevant for evaluating whether the legal changes have resulted in improved outcomes in practice and for identifying areas where deficiencies in enforcement, transparency, or institutional design may persist.

2 Key lessons

This study offers a detailed picture of how South Africa's no-reserve foreclosure system operated in practice, and **the results raise questions about fairness, efficiency, and institutional responsibility**. Several lessons stand out, both in the context of what went wrong before 2019 and in thinking about what may still go wrong today.

Foreclosure discounts were the norm, not the exception

Homes sold at sheriff auctions fetched significantly lower prices than comparable private sales, controlling for location and physical characteristics. These discounts were systematic and not limited to exceptional cases, reflecting the uncompetitive nature of the auction market.

Resale activity suggests arbitrage, not distress

Nearly half of all foreclosed homes sold at auction are resold within 18 months, generating substantial profits for buyers. Many of these resales seem to have involved repeat investors. The scale and speed of these transactions suggest that auction buyers were exploiting information gaps and weak competition to secure rents, rather than acting as market-correcting intermediaries. This challenges the idea that low sale prices were justified by hidden costs or risks.

Borrowers continued to carry mortgage debt

Given the low prices achieved at auction, it is highly likely that the proceeds received by many homeowners were insufficient to cover their outstanding bond. Since South Africa has a recourse mortgage system, banks are entitled to pursue borrowers for the difference. This created a highly inequitable dynamic: homeowners lost their homes yet were still tasked with repaying a loan on a home they no longer own — a situation that compounds financial distress rather than resolves it.

The auction system failed in both efficiency and fairness

From a policy perspective, foreclosure auctions should aim to balance recovering as much of the outstanding debt as possible with reducing unnecessary harm to households. However, in the no-reserve regime, banks recovered less, borrowers suffered greater losses, and investors made windfalls. The system failed both in terms of efficiency and fairness, not because of individual wrongdoers, but due to institutional design that promoted low-bid outcomes with little oversight or accountability.

³ See for example: "[Unlocking the door to reserve prices in sales of execution](#)" - DeRebus, 1 May 2021

The 2019 reforms should be praised, but more work needs to be done

Rule 46A marks a significant step in the right direction: it requires courts to decide whether a reserve price should be set before a primary residence can be sold. However, as legal scholars and civil society have pointed out, the rule leaves important decisions, including whether to establish a reserve price and how to determine it, up to judicial discretion. In practice, some judges use transparent valuation methods, while others accept lenders' requests to waive reserves. In some provinces, reserve prices are based on debt owed rather than market value, undermining the purpose of the safeguard.

The foreclosure system still lacks transparency

There is no national registry of foreclosure auctions or outcomes. Data on reserve prices, the number of bidders, final sale prices, and resale values are not published. This lack of transparency makes it difficult to monitor whether reforms are effective, or if low-price sales continue.

3 Policy recommendations

While legal reform has created an opportunity for more equitable foreclosure outcomes, implementation gaps and structural weaknesses remain. This research points to five areas for policy attention.

Develop enforceable guidelines for reserve prices

The discretion granted to courts under Rule 46A should be restricted through national practice directives or amendments that require reserve prices to be based on independently verifiable market assessments, such as municipal valuations, recent comparable sales, or certified independent appraisals. Reserve prices should not be set solely by the bond amount, as this may result in artificially low floors. Guidelines should also specify when a reserve can be waived and mandate proper justification.

Require data collection and public reporting

The absence of data on foreclosure sales remains a major obstacle to reform. Courts, sheriffs, and creditors should be required to record and report information on:

- What the outstanding bond amount was
- What the property tax arrears were
- Whether a reserve was imposed
- What the reserve price was
- Final sale prices and number of bidders

This information should be made publicly available via a central registry, either housed within the National Credit Regulator (NCR), the Department of Justice, or an independent oversight body.

Broaden access and reduce bidder barriers

The foreclosure market remains inaccessible to ordinary households and prospective owner-occupiers. Policies to improve access could include:

- Standardised online auction platforms with clear timelines and information
- Certified pre-bid property condition reports

The aim is to shift the market away from insiders with capital advantages towards a more open, competitive process.

Empower regulators to monitor practices actively

The NCR should be formally tasked with overseeing foreclosure auction practices and ensuring compliance with Rule 46a. Its responsibilities should include providing regular reports to Parliament, issuing public



bulletins, and possessing the authority to investigate lenders or legal representatives who attempt to bypass reserve requirements. This would shift auction oversight from merely a legal concern to a matter of consumer protection.