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Property owners rely on auctions instead of agents

This is due to the weak secondary market situation

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PETALING JAYA: Property owners are auctioning their real estate amid a weak secondary market instead of relying on agents, according to auction houses.

The property market is divided into the primary market where people buy from developers, and the secondary or sub-sale market where they buy from owners via agents.

Private auctions are being held to sell residential, commercial properties and land, said one of the largest auction houses in the country Ng Chan Mau & Co Sdn Bhd.

Business development manager Tom Low Chee Hian said private, or owner-appointed auctions, is an avenue that seemed to be growing.

His company started organising private auctions eight months ago and has so far sold 40%, in terms of volume of properties that came his way.

Other auction houses involved in private owner-appointed auctions include Ehsan Auctioneers Sdn Bhd and Property Auction House. Both declined comment.

Low said owners turned to private auctions because they were unable to sell their properties, sometimes for years, via a real estate agency. He highlighted a case in which an owner tried to sell land in Gombak for three years.

"He lowered the price to RM17mil and was ready to go down to RM16mil. We sold the land for RM20mil in the first round," he said.

Low said the company was able to do so because of its large data base. His company auctioned more than RM1bil worth of proper-

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Leong Wye Hoong

ties in 2018, mainly foreclosures.

Licensed auctioneer Leong Wye Hoong from Leong Auctioneer Sdn Bhd said private auctions is "quite a common practice". It started private auctions four years ago, and has organised between 50 and 60 of them, with a success rate of 20% to 25%.

"We advise owners on the current market price. A reserve price is determined, there is no negotiation involved between bidder and owner. This price may not be the final price. If there is more than one bidder, the price goes up. The price can be reduced if the property enters the second auction due to a lack of interest.

"If the owner does not want to reduce the price, there is no point trying to sell the property via a private auction," Leong said.

"Owners seek out auctioneers because there is an element of hope that the unit will be bid upwards. But they have to accept the fact that the price may be reduced," he said. Owners may not want to go through a long negotiation process with a series of buyers, with no results, he added.

He said the secondary market has been slow the last few years with the demand more towards residential units although he had organised private auctions for commercial retail. That market, he said, seemed to be slower than the residential market.

Unlike a bank-related auction resulting from a foreclosure, potential bidders can view the property before the private auction takes place. Vacant possession is from the owner, and not from the bank, said Leong.

"In the event the property is still under financing, we have to know what is the sum owed to the bank. If the amount owed to the bank is higher than the price that we are able to sell, the owner will not want to sell it because if there is a successful bid, the owner will have to pay back the bank," Leong said.

Instead of the normal 10% when bidding for a property that is being foreclosed by the bank, a deposit of 2% to 10% is required, according to Leong.

"This deposit is used in the event the successful bidder is unable to deliver the balance of the purchase price within 90 days."

The deposit is forfeited if the successful bidder is unable to get a bank loan, they have changed their mind, or if they have been declared a bankrupt but were unaware of it.

"If the property needs a state authority to do the transfer, as in a leasehold property, a time extension will be granted and will be further extended if needed. The sales contract replaces the Sale and Purchase Agreement," said Leong.

The slow market has resulted in real estate agencies accepting project sales contracts with developers, where they help developers to market their projects instead of concentrating on servicing the secondary market.