

Exploring Auction as a Mode of Sale and Purchase During a Down-Market

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Singapore's property market has gradually moved towards a more mature level over the years, mirroring markets such as Australia where auction is the most popular method used by owners to sell their properties. Both sellers and buyers here have grown to accept the auction mode of sale, as the open bidding system translates to a very transparent and efficient way of sale.

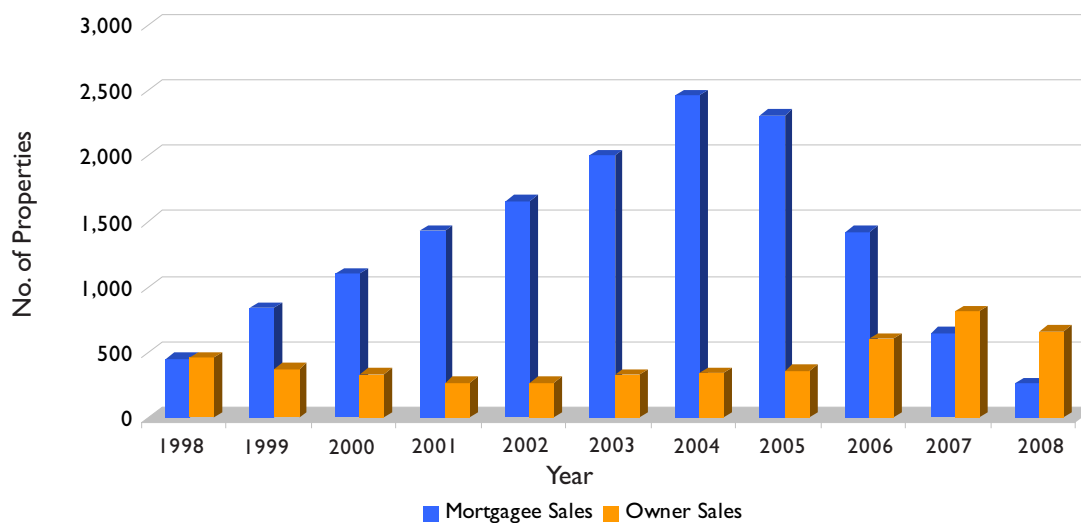
Property auction in Singapore was traditionally associated with distressed properties as it was often used by banks as a mode of sale, as evidenced during the last two recessions in 1985 and 1998, to dispose off properties belonging to owners who had difficulty servicing their loan payment.

Such scenario has however changed in the last 11 years as the market sees a growing trend of property owners approaching auction houses to sell their properties. The proportion of owner sales has increased from 50% in 1998 to 72% in 2008. In comparison, the proportion of mortgagee sales has declined from 50% in 1998 to just 28% in 2008.

During the property boom years of 2006/2007, developers like Sentosa Cove Pte Ltd and Tuan Sing Holdings Limited have successfully conducted auctions on an international level to sell high-end land parcels in Sentosa and several residential units in BOTANIKA, respectively. Not only did these developers achieve record prices, they have also attracted high foreign participation and gained great exposure for their project.

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PROPERTIES PUT UP FOR AUCTION SALE IN SINGAPORE (1998 - 2008)



Source: Colliers International Singapore Research

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One could find a wide variety of properties at auctions today. Properties ranging from those in the mass market such as apartments at Braddell View, Telok Kurau and Tiong Bahru to high end bungalows at Sentosa, Good Class Bungalows at Astrid Hill and Swettenham Road as well as prestigious apartments like St. Regis Residence were being put up for auction sale by property owners.

Properties under construction such as those in The Clift, Sky Eleven and The Oceanfront were also seen at auctions. Besides residential properties, owners and companies have also used auction to sell shop units in prime locations such as Peninsula Plaza as well as shophouses in popular suburban towns like Ang Mo Kio, Clementi, Tampines and Toa Payoh.

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With the deteriorating economic conditions and expected increase in job losses, it is predicted that the number of repossessed properties will increase in the next six months. Attendance and interest at auctions will continue to be buoyant as buyers look towards auctions for their ideal properties. Strong interest is expected in the mass market segment and for properties in the region of S\$1 million dollars as up-graders seek out “opportunistic buys”.

Lacklustre property market but strong underlying demand

Despite the lull in the property market amidst the global financial crisis, the market is seeing strong buying interest at auctions. However, the sales volume is low due to the mismatch between the expectation of sellers and buyers. A turnaround is likely to happen only when buyers start to perceive that the market has “bottomed-out”.

Auction houses like Colliers International, DTZ, Jones Lang LaSalle and Knight Frank typically hold one auction session a month, usually in the function room of a hotel. It is a common sight for auction halls to be jam-packed with potential buyers and attendees, often spilling onto the corridor, with hardly any standing room.

Serious buyers are flocking to auctions in search of their ideal property; hoping to clinch an opportunistic buy for distressed sales. Compared to just one to two requests received per day in 2008, auction houses are now receiving an average of five requests each day from the public asking to be put on their auction mailing list.

The strong underlying demand presents opportunities to both sellers and buyers alike.

A public auction ensures that the process is transparent as there is open competition and this ensures that the best price is obtained for the property. In a down-market, determining the selling price of a property could be difficult. Hence, for companies who may want to dispose off their excess properties or re-organize their property portfolio, they could turn to auction as it satisfies the objective of shareholders’ accountability.

If you were a property owner looking to dispose your property in this lacklustre market, auction could also be the avenue for your disposal. Auction generally has the ability to capture a wider target market given the prominent advertisements and extensive database/ mailing list. The publicity generated and the interest drawn consequently increases the probability of a sale.

Moreover, auction is a quick and fast mode of sale as



the sale date is fixed. This is advantageous to those owners who need to dispose their property to organize their personal finances.

For property owners who choose to sell their property via auction, they could expect a higher success rate as the potential buyer would have done his/her homework prior to the scheduled auction date and checked on issues such as financing. Whereas in a private sale, sellers would often face the situation where the buyer has to terminate the purchase as he/she was not able to secure the required financing quantum since most buyers tend to approach the banks after they have identified the property.

The other factor that contributes to a higher success rate is that buyers who purchase a property at auction are required to pay a 10% deposit instead of just 1% in the case of private sale and sign the Sale and Purchase Agreement immediately when the property is knocked down to them. Hence, these act as deterrents for the buyer to forfeit the option.

Even if a property fails to sell on the scheduled auction day, the property owner could then take the last bid price as the basis for negotiation. This is definitely a plus point compared to a private treaty sale as the seller may not get any offers since many buyers are hesitant to make a commitment.

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Tips for owners in view of the weak market sentiments

- ▶ Be realistic in fixing your asking price. It should trend as close to valuation as possible. Buyers will often be encouraged to make an appointment for viewing and consequently make a firm offer for it. On the other hand, if they think that the asking price is high, in comparison to comparable properties, they will not be interested to view your property.

Case in point:

Seller A wants to sell his apartment in Bukit Timah and has set his asking price at valuation. He received an offer, which is 8% below the valuation price. After some negotiation, the seller managed to seal the deal at 5% below the valuation price and he is now awaiting the completion of the sale. In this case, a buyer was secured within one month of marketing the property.

On the other hand, Seller B has tagged an asking price that is 20% above valuation for his apartment

near Orchard Road. Despite marketing the property for three consecutive months, he was not able to attract buyers to view his property and there was no offer to purchase.

- ▶ Ask the auctioneer for advice on the valuation price, comparable asking prices, recent transactions and feedback on the viewing appointments before fixing your Reserve Price, i.e. the minimum price below which you will not sell, so as to increase the chances of success.
- ▶ Give at least three weeks lead time to the Auction House so that there will be adequate preparation time to organize the mailing list, advertisements and viewings before the scheduled auction date. The longer the lead time, the higher the chance of success.
- ▶ Determine whether you are selling your property with vacant possession or tenancy as well as the completion period. Your solicitor will need your instructions to prepare the term and conditions of the sale. A typical completion period is three months. If you require a longer lead time, you

may discuss with your solicitors to fix a longer completion period.

Tips for buyers in view of the weak market sentiments

- ▶ Set a realistic budget.
- ▶ Understand that the prices of repossessed properties are still guided by valuation.

Case in point:

An enthusiastic foreigner quipped that in his country, the banks will sell the repossessed property for anything. Failing to understand that the price of repossessed properties in Singapore is guided by valuation, he rattled off his wish list for a bungalow in Bukit Timah Road as well as an apartment in Orchard Road and asked to be posted of such good buys.

- ▶ Give realistic counter-offers. Generally, auctioneers are not able to accept a counter-offer that is way below the opening price, e.g. 50% below the opening price. A reasonable gauge is in the region of 5% below the opening price.

How to Participate in an Auction Sale

- ▶ Look out for advertisements in the classified page as Auction Houses would usually advertise one to two weeks before the scheduled auction date.
- ▶ Alternatively, you may call the various Auction Houses to request to be put on their mailing list so that you are kept posted of the auctions on a regular basis.
- ▶ Call the Auctioneer to make an appointment for viewing.
- ▶ Obtain a copy of the Property Particulars and Conditions of Sale which state the terms of the sale i.e. whether it's to be sold with vacant possession/tenancy and the completion period for the sale.
- ▶ Do your homework. Check with the bank/financial institution on the valuation figure and the quantum that they are prepared to finance. Some banks have mobile teams who can visit your home and are able to revert within three days with an in-principle approval for your loan.
- ▶ Determine the price that you are willing to bid for the property and discuss with the Auctioneer.
- ▶ Arrive early on the actual auction day to get a seat so that you can bid in comfort. Due to the overwhelming response, latecomers may not be able to get into the auction room.
- ▶ Bring your cheque book and identity card(s) as you have to pay the deposit and sign the Sale and Purchase Agreement immediately if you are the successful purchaser.

Notes:

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