Auctioning homes getting tougher in a tepid market

There are many property bargains in the market today which make home auctions less appealing, says expert

by FARA AISYAH

THE excess supply of homes and a tepid secondary market have dragged property auctions, forcing auctioneers to reopen bids and lower prices before a house can go under the hammer.

Property auctions generally received good responses in the past as buyers sought homes at discounted prices.

But the overwhelmingly available unsold units and a muted property market have scared investors who are largely looking to make a quick flip from these purchases.

Non-performing loans (NPLs) related to properties are also on the rise, pushing more units onto the table of auctioneers.

TEN Auctioneers Sdn Bhd CEO Charles Tan said the market is taking a longer time to sell off the auctioned properties despite the supply of homes not surging in recent years.

"At the first auction, the house will be sold at the initial price, but at the second auction, the price will be reduced by 20%. The price will be cheaper at the third auction.

"Previously, a home can be sold during the fourth round of auctioning. Today, it may go to the fifth or sixth auction," he told *The Malaysian Reserve (TMR).*

He said there are many property bargains in the market today which make home auctions less appealing.

"Buyers can find almost the same price in the subsale and primary markets. Homeowners are willing to reduce the price of their subsale properties, while developers are providing rebates. So to a buyer, it is better to go for the secondary or primary homes. And they can get loans easier," he said.

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Tan said it is harder to get loans for auction homes because they may be caveats imposed on a property which will take time to remove.

"For example, one home may not belong to only one owner. So, buyers need to have 100% cash for auction homes," Tan said.

According to the monthly statistics from Bank Negara Malaysia (BNM), the NPLs for the purchase of residential property rose to RM6.82 billion as of September 2019 compared to RM6.03 billion a year ago.

The NPLs of commercial banks and Islamic banks as at the third quarter of 2019 (3Q19) were at RM6.82 billion, the highest since 1Q13.

Properties above RM250,000 made up the biggest bulk of the NPLs valued at RM5.05 billion; followed by properties between RM150,000 and RM250,000 (RM711.4 million); RM100,000 and RM150,000 (RM454.7 million); RM60,000 and RM100,000 (RM369.7 million); RM25,000 and RM60,000 (RM205.7 million) and below RM25,000 (RM27.8 million).

Meanwhile, investment banks' NPLs totalled RM2 million as at 3Q19, the highest for this year.

On a monthly basis, NPLs related to residential properties for September rose 3.33% from RM6.6 billion in August 2019.

Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said lenders have been prudent in their lending standards due to the robust regulatory requirements demanded by BNM.

"By historical standards, the impairment ratio is not too alarming. It is just that the trend of impairment ratio has been gradually on the rise.

"Given the fact that the economic outlook is expected to be very challenging next year, the impairment trend seems to remain at an elevated level going forward," he told *TMR*.

Mohd Afzanizam said homeowners may face some difficulties to service their mortgages, especially those who have more than one house amid higher cost of living which could compromise their repayment trend.