

Online property sales are booming in China

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From a three-story villa in Chongqing to a rundown factory in Jiangsu province, you can search, find, and buy it without leaving your living room in China.

Online distressed property sales are booming in the world's largest bad-debt market. Global funds like Oaktree Capital Group LLC and Bain Capital LP are getting in on the action but the Internet has meant even individuals or smaller companies can snag a bargain. Banks, real estate firms and people saddled with debt they can't service are facing either forced sales or are keen to offload assets for quick cash.

Distressed property listings on Alibaba Group Holding Ltd's Taobao auction site, the country's largest, rose 88% in October from a year earlier as the company expanded its offerings by working with courts and asset managers. Across all auction sites in China, distressed real estate listings surged to a record 1.3tril yuan (RM780mil) this year, data compiled by realtor Seatune show.

"With bad loans rising and property prices falling, be assured this trend will continue," said James Feng, the chairman of Poseidon Capital Group, a Chinese fund that specialises in buying distressed assets.

Alibaba, which started its auction site about six years ago, facilitated around 500bil yuan (RM301bil) of such auctions last year, accounting for more than half of China's total, Feng estimates.

Getting a bargain is one of the main reasons people buy property online. A two-bedroom apartment in downtown Shanghai worth about 10mil yuan (RM6mil) at current market prices went for a 44% discount on Taobao in September. In Hangzhou, a city in eastern Zhejiang province, a 60mil yuan (RM36.2mil) unit with marble floors, sweeping staircases and chandeliers is listed on Taobao for around 40% less than current prices.

Distressed property – be it homes, which individuals are more interested in, or land or warehouses, which companies like – is typically offered at about two-thirds of its market value. Heated bidding can see prices pushed up to about 9% of that, according to Zhejiang Province Zheshang Asset Management Co, although only about 40% of listings actually sell.

Still, the opportunities are expected to keep coming, with bad loans tied to property increasing. Real estate underpins China's US\$1.4tril (RM5.8tril) nonperforming loan market, accounting for as much as 80% of debt in portfolios sold, PricewaterhouseCoopers LLP said in a report last month.

To bid, prospective buyers have to deposit funds in advance. Alibaba doesn't take a commission, and can also facilitate third-party services, such as due diligence from a law firm. Local courts can also help getting photos of a property, including its address, size and estimated market value.

Buying a home online is of particular interest to individuals wishing to circumnavigate austerity measures in China's bigger cities that cap the number of properties a person can own. Shanghai is the only tier-one center that currently excludes distressed real estate transactions from home-buying restrictions, and has witnessed some of the most online sales, Seatune Chief Executive Officer Liu Yanmeng said.

But such transactions aren't without risk.

Some buyers have bought distressed property online only to realize significant taxation costs weren't listed on the site. One man in Shenzhen purchased a home in March for 3.7mil yuan (RM2.2mil) and later discovered an additional 2.4mil yuan (RM1.4mil) owing in value-added taxes, local media reported at the time.

Alibaba said in an emailed statement that its website "includes clear auction procedures and specific deposit requirements to ensure transparency of the sale."

"Buyers should conduct due diligence on the real estate itself to understand the situation," said Yao Kunlun, a China advisory business director at PricewaterhouseCoopers. "As pressure to resolve nonperforming loans rises, more and more real estate collateral will be put up for sale." – Bloomberg