



Is this the beginning of an end?

The first two property auctions in Dubai this year were a flop. Experts say the timing and the pricing were not right. **Ritwika Chaudhuri** finds out why property auctions, seen as successful tools to offload properties in matured markets, have received a cold response from the UAE's realty circle.

The first two property auctions in Dubai this year not only failed to set a trend, but also failed to meet auctioneers' expectations, with virtually no properties being sold. Do these failures indicate the beginning of an end to property auctions in a market that has thus far been a realtor's dream?

Experts don't believe so, as the emirate's third property auction this year, conducted by Madania Real Estate on July 22, did yield a result. Although the lots at the auction

failed to meet their reserve prices on the night of the auction, post-event negotiations delivered the first and only sale. A Meadows villa with a landscaped garden was sold for more than AED4.2 million.

In a market where other objects like cars, antiques, car plates, paintings and jewellery are getting overwhelming responses in auctions, one would think that property auctions would be an easy choice for value hunters. In reality, though, that does not seem to be the case.

Realtors and property consultants alike are expressing their concerns about this relatively new experiment to offload properties.

Dubai's first property auction this year, also conducted by Madania Real Estate, was held in May. Of the four properties chosen for that auction, three were villas in Arabian Ranches and one was a penthouse in Jumeirah Beach Residence.

The second auction, conducted by Sherwoods Independent Property Consultants, was held



in June. That auction featured properties in The Palm, Dubai Marina, Downtown Dubai, Jumeirah Lakes Towers and other locations in the UAE. The property offerings covered a broad price range and featured a mix of ready-to-use, nearly completed and off-plan residential and commercial units, as well as a number of plots targeted at GCC residents, including one near Dubai International Airport. Sherwoods also offered a financing option of up to 90 per cent of the property values.

The third auction of the year featured eight properties, including two residential properties in the Meadows and Jumeirah Beach Residence, one apartment in International City and three commercial office spaces in Jumeirah Lake Towers. Madania is confident after the first sale resulting from the auction and is planning another event next month.

Of course, one swallow does not make a summer. Selling only one property out of eight – and not even at the event, but rather outside of it through negotiations – cannot be described as a success story.

Charles Neil, CEO of Landmark Advisory, has an idea as to why these auctions were unsuccessful.

“The auctions failed because, unlike other countries, the properties for auctioning were not repossessions [from banks] or major distress sales. The auction was used as more of a selling tool to give sellers an alternative to the regular forms of selling. The properties available were no different from what was available on the market in terms of price,” he argues.

Sunil P. Gomes, chief guru of Guru Real Estate, adds that a lack of bidders and a lack of understanding about the process made the auctions unsuccessful. According to Gomes, property auctions are culturally alien for

people in the UAE. In addition, buyers and sellers were unwilling to come to an equilibrium price.

“It is a question of timing. It was bad timing. These are not the times for introducing anything new. There is still uncertainty everywhere and people are yet to see where the bottom is,” says Gomes.

Andrew Charlesworth, head of corporate finance advisory at Jones Lang La Salle (MENA), adds: “Property auctions are popular in the US, Europe and the UK. But there is no such trend in the GCC. Those selling properties have different expectations and people here have no real experience of buying properties at auctions. It will take time to popularise this specialised tool of sales.”

That the real estate market has not matured enough to respond to a niche marketing tool like auctions is also observed by David Macadam, director of commercial sales and leasing at Better Homes.



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Additionally, Macadam attributes the lukewarm acceptance of property auctions to a lack of clear UAE property laws specifically relating to property auctions.

“There is no clear law in the UAE for auctions. Hence, there are a number of grey areas. And very few purchasers have real free cash at this point, as these properties may be a challenge to finance quickly,” he explains.

Officials at Knight Frank Middle East argue that although property auctions have not worked well thus far, there is scope for auctions to dispose of stock wholesale. The popularity of auctions could, however, reduce prices dramatically, they add.

What happened?

As mentioned before, the first auction was a washout. Not one of the four properties featured in that auction made its reserve price (the minimum price that a seller is willing to accept), according to Zawya.

Of the four properties, bids were received for only two. But both failed to sell. As for the other two properties, there were no bidders. Madania has attributed the reasons for the failure of the auction to a “huge gap between the expectations of the buyers and the sellers”. The failure has not deterred the company, though. Madania still plans to hold monthly auctions in Dubai, hoping for a better response in the future.

The experience with the Sherwoods auction was the same, although there was no communication from the company after the auction to that effect. Sherwoods didn’t respond to questions from **MONEYworks** on the subject.

Before the auction, however, Sherwoods did say that one of the main advantages of holding an auction was that it eliminated the need for time-consuming offers and counteroffers. Indeed, auctions do speed up the sales process and ensure prompt payment and quick handover of a property. Furthermore, sale by auction usually ensures greater marketing exposure and wider advertising coverage compared to traditional routes.

Jeremy Mayhew-Sanders, head of investments and developments at Sherwoods, had said that auctions were a good barometer of the market, serving as an indicator of where true open market value lay. He had also said that auctions provided a high-intensity sales environment of willing sellers and willing buyers, ensuring high sales rates.

Of course, that was not the environment Sherwoods witnessed at its auction. But that doesn’t mean that in the future, this way of selling could not work.

Madania is upbeat after the sale resulting from its July auction. Says Raymond Kuceli, CEO of

Madania: “This sale is a real milestone for us. It reconfirms our belief that the auction method of sale will work in Dubai. In the months to come, we will continue to pioneer this method and educate sellers and buyers about the advantages of buying and selling property at auction.”

He further adds: “The biggest myth we’re trying to dispel among bidders at the moment is the belief that they will get rock bottom prices simply because it’s an auction. The auction method of sale is really about getting the fairest market value for any given property on the day.”

Both Neil and Charlesworth are of the opinion that developers, presently in a dull market, are looking for alternative methods of promoting property sale. Neil explains: “Developers just want to recover their costs now. Therefore, for them to sell at original prices [when the building was launched] or even less means they can revive some cash flow. However,



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one must remember that unless it is repossession or a drastically under-priced property for a quick sale, the chances of it selling at an auction are limited. Also, the property must be something that is not available on the everyday market.”

Realtors in Dubai say that property auctions are not a totally new concept in this region. The Dubai Land Department has successfully sold a number of plots through auction. During 2008, Salwan Properties held an auction in the Burj Al Arab that fetched the company US\$68.1 million. IFA Hotels and Resorts also conducted auctions in Dubai a few years ago.

According to UAE law, properties can be repossessed by banks if owners default on their mortgages and sold off at public auctions by the Dubai Land Department. Although owners in the UAE are given 60 days to demonstrate whether they are able to pay the arrears, on the expiry of 60 days, a judge can order the sale



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of the property. The Dubai Land Department claims to have started giving licences for public property auctioning to private parties.

Apart from the UAE, there are a few instances of property auctions in the neighbouring GCC countries. Reports say that one property auction in Saudi Arabia last year netted US\$1 billion in a matter of hours. Even a couple of years ago in Oman, the Muscat Municipality conducted an auction for the beachfront villa properties known collectively as ‘The Wave, Muscat’.

Experts’ views

Although the UAE, along with other GCC countries, has yet to catch up with the trend, property auctions are very successful in many other well-regulated markets like the UK, the US, Europe, Australia, Hong Kong and Singapore. Gomes says that in the western markets, banks hire lot of auctioneers to offload their books.

“It all depends on the perspective of the buyers and sellers. The model proves to be extremely effective if it follows the right process at the right time,” he adds.

In most of the above markets, properties that go under the hammer are mostly distress sales. Of course, any investor would like to believe that a seller is looking for a price that is more in line with the market.

“It is mainly repossessed properties or those that are reclaimed by the tax or inheritance office [due to the owner passing with no next of kin] that go under the hammer. These properties are priced very low in order to make it attractive to buyers and investors,” says Neil.

But there are hardly any instances of banks repossessing properties in the UAE. Nor are there instances of the tax or inheritance office getting involved. These reasons could help to explain why auctions have not really flourished in the UAE.



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Yet, it is very important for a market like Dubai that aspires to be an important property player in the region to have a robust auction market. It benefits a buyer, as it reduces his costs vis-à-vis the market price. Banks also benefit, as it helps them in the process of repossessions and selling to get their money back. And auctioneers benefit because they make a percentage of the sales.

However, timing, pricing, methodology and the volume of stocks will be the key for successful auctions. There is no reason why Dubai can’t develop a robust property auction market and be a trendsetter for the rest of GCC. It might take a while, though, as the market will need to mature and buyers and sellers will need to get familiarised with the concept. Above all, the market will have to be ready to accept the fact that auctioning a great property may not always fetch the best value.