

PROPERTY SALES

Property sales formed a major part of Danaharta's activities. The properties offered in Danaharta's tenders were either those given by borrowers to Danaharta as set-off for their loans or properties which were collateral for their loans. Danaharta owned the former but not the latter. The ownership of the property collateral remained with borrowers.

While there was a difference in how these properties came into Danaharta's portfolio, their disposal methods were the same. The objective of the disposal was also the same in that it was to achieve maximum recovery for the loan.

At the end of 1999, property-related loans accounted for almost a third of the total NPLs in Danaharta's portfolio. More importantly, Danaharta was then holding RM16.2 billion worth of property as collateral for the NPLs¹. The properties held at the time ran the full spectrum of the property market; there were plots of agricultural and development land, hotels, industrial properties, offices, retail properties and residential properties.

Most of the property-related loans were a result of indiscriminate investment in the property market during the boom in the mid-90s. Property developers and non-property developers alike, jumped on the bandwagon without proper feasibility studies. When the crisis hit, most of these loans became non-performing.

FIRST PROPERTY TENDER

At the point when Danaharta was about to hold its first sale of foreclosed properties the property market was very weak.

So, what was the best way to sell a variety of properties in multiple locations, in an inherently reluctant market? To complicate the situation, the work had to be done quickly and the method used must be above board and transparent.

Finally, it was decided that the tender approach would be used because it afforded transparency and accountability, and it allowed the market forces to set the prices for the properties. However, the entire tender process had to be designed from scratch because of the sheer volume of the properties and the need to educate potential buyers to participate in a tender on a nationwide basis.

To guard against fire sales, it was decided that each property put up for tender would carry an indicative value that was as current as possible (not more than a year old). All valuations were carried out by independent professional valuers. A confidential reserve price would also be set based on the valuation, below which the property would not be sold.

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To help market the properties, real estate agents from all over Malaysia were put on Danaharta's panel to help out. The agents offered Danaharta the nationwide presence that was impossible with the minimalist set-up of Danaharta's property division. Through the agents, Danaharta could take the properties to buyers all over Malaysia and overseas as well without having to establish branch offices and add more staff.

Danaharta also worked out an aggressive selling strategy that included a variety of print and audio advertisements to promote its property tenders. Much time was spent brainstorming to produce well laid-out brochures, which had details of the properties on offer. This was a first for the property market. Never before had foreclosed properties offered in a tender been accorded the same amount of attention to detail that newly-launched properties were regularly given.

The whole bidding process was also designed to be buyer-friendly and transparent. To bid for the properties, members of the public could obtain from Danaharta, or the real estate agents, brochures featuring key information about the properties, and purchase a tender package for the property that they were interested in. The tender package contained a copy of the latest valuation report on the property, a copy of the sale & purchase agreement, and the terms & conditions of the sale. Guided by this information, the prospective buyers could then submit bids for the properties. Real estate agents provided their services free to potential buyers, as they would be paid by Danaharta from the sale proceeds.

At the close of each tender, all the bids received were collated by a Tender Committee comprising senior Danaharta management officials who were not involved in organising and managing the tender process. This was done in the presence of external auditors. The winning bids were later presented to the Tender Board for its approval. The Tender Board was made up of two Danaharta representatives (including the Managing Director), a representative of the Foreign Investment Committee, and a valuer. Once the bids were approved, all bidders were notified in writing of the success or failure of their bids.

Footnote 1

Loans collateralised by property accounted for 43% of Danaharta's NPL portfolio as at the end of 1999. Another 20% of the NPLs were secured by shares while the remaining 37% were unsecured.

THE COST OF MARKETING THE PROPERTIES

All real estate agents appointed to Danaharta's panel were invited to try and market the properties. But only the agent whose client successfully bid for a property would be paid commission upon the signing of the Sales and Purchase agreement and obtaining the relevant approvals. Danaharta paid the agents commission as approved by the Board of Valuers, Appraisers & Estate Agents, if they successfully marketed the properties.

The agency fees combined with other marketing costs like media advertisements and promotions meant that Danaharta paid out in total about 5% of the sale proceeds to secure sales of these properties. Nevertheless, Danaharta felt that the cost was justified. Given the "difficult portfolio", Danaharta had no choice but to commit a higher percentage for advertising and marketing expenses to sell the properties.

BUYER INCENTIVES

Danaharta made all efforts to make the tender as buyer-friendly as possible and buyers were offered all sorts of incentives to purchase from Danaharta.

The service provided by real estate agents to potential bidders was one of a number of incentives offered by Danaharta. The real estate agents provided free value-added service, performing inspection work, working out yields and comparative values for potential clients, in the hope of a successful bid for their client.

Buyers were given a stamp-duty waiver for all properties bought from Danaharta, whether through tenders or privately negotiated sales. The waiver could translate to significant savings for buyers. Apart from that, Danaharta also gave buyers vendor end-financing at prevailing competitive commercial rates² and promised vacant possession of the property³.

All properties were promised free of encumbrances to the buyers within nine months of the signing of the sale and purchase agreement. Failing which, the buyer could terminate the sale.

PROPERTY SALE RESULTS

Properties that were not sold in its first attempt through tender would be reoffered either in subsequent tenders or through private negotiated sales held in between tenders. Marketing efforts were ongoing to ensure that as many of the properties as possible were sold.

By 30 September 2005, Danaharta had held as many as 25 tenders - 10 major tenders and 15 smaller ones. In total, 1,298 properties worth RM3.70 billion were offered to the market. Of this, a total of 1,026 properties, comprising 79% of the total offered, had been sold for RM2.17 billion.

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Results of property sales as at 30 September 2005

	Number of properties	Indicative value (IV) (RM million)	Consideration received (C) (RM million)	C/IV
Total offered to the market	1,298	3,702.51	n/a	n/a
Total unsold properties	272	1,304.07	n/a	n/a
Total sold	1,026	2,362.44	2,170.76	92%

Of the 272 unsold properties, 88 had been transferred to Danaharta as part of its closure plan. The transfer was to facilitate a conversion process, i.e. to transfer the ownership of the unsold properties from the borrowers to Danaharta to smoothen the eventual hand-over of the properties to the Minister of Finance Inc, Danaharta's shareholder, upon Danaharta's closure. A total of 87 properties had been withdrawn from sale due to redemption by borrowers or legal issues.

The remaining 97 properties were not transferred to Danaharta as these were mostly Malay reserve land. Some other types of properties such as hotels, abandoned projects and tenanted shopping complexes were also not transferred. For these properties, the ownership remain with the borrowers until they are sold.

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Footnote 2

For the first seven property tenders only. The financing was also subject to buyers' credit standing.

Footnote 3

This was an advantage which was not available to court auction properties. Vacant possession was promised for all property types in Danaharta's sales except categories of property where it was impossible to guarantee vacant possession - shopping complexes, hotels, abandoned property projects and empty land.