

# 26th ASEAN Valuers Association Congress

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## Plenary Session 3 - Valuation Education, Training and Research

### Topic 10: Identifying the Influence of Transaction and Market Conditions on Liquidation Value Post-Multiple Auction Failures in Indonesia



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26th ASEAN Valuers Association Congress

# IDENTIFYING THE INFLUENCE OF TRANSACTION AND MARKET CONDITIONS ON LIQUIDATION VALUE POST- MULTIPLE AUCTION FAILURES

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Singapore, 5 November 2024

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# Discussion Outline

## 1. Valuation and Auction

Property valuation plays a key role in transactions like auctions, where properties are sold to recover debt.

## 2. Transaction and Market Conditions

Identifying how transaction and market conditions impact liquidation value after multiple auction failures, focusing on Indonesia, where liquidation value may rise unexpectedly.

## 3. Case Study and Findings

Three valuation cases were analyzed, each under different conditions. The study examines how liquidation value correlate with market and transaction conditions.

## 4. Conclusion & Recommendation

Transaction and market values play key roles in influencing liquidation value. Valuers, investors, researchers, and stakeholders should consider market trends and property conditions for better decision-making in auctions.



# Property Valuation for Auctions

Property valuation plays a critical role in various transactions, including buying, selling, financing, and legal protection. Accurate valuations empower stakeholders to make informed decisions, particularly in the context of auctions.

Auctions are commonly used as a means to recover debt by selling properties used as collateral in the event of default or non-performing loans.



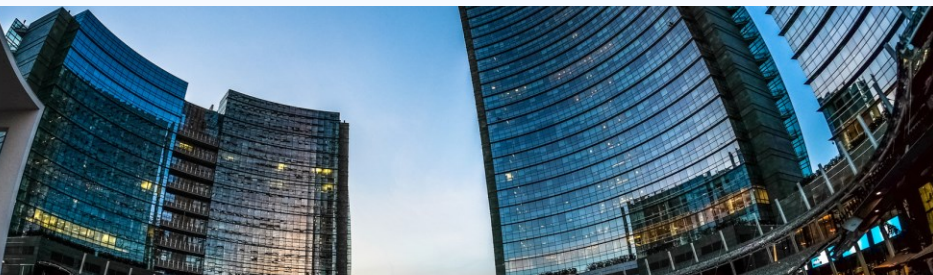
**Rely on Two Value Measures**



**Liquidation Value Expectation**



**Transaction and Market Conditions**





# Two Values Measure: Market Value vs Liquidation Value



**Market Value** is the price an asset would fetch in an open market under normal conditions.

**Market Value** assumes the asset is sold within a reasonable, typical marketing period without pressure to sell.

**Market Value** relies on normal market conditions, considering full exposure to the market and competitive offers.

  
*Purpose and condition of sale*

  
*Time Frame for Sale*

  
*Valuation scenario*



**Liquidation Value** is what an asset would sell for under forced or orderly liquidation, typically in a less favorable or time-constrained situation.

Can involve a shortened marketing period, especially in forced sales, resulting in a potentially lower price.

Reflects a more limited sale scenario, often involving piecemeal sales and considering the costs and constraints of preparing the asset for disposal.

# Liquidation Value Expectation



## Typical Expectation:

Liquidation value generally decreases with each failed auction, as the property becomes less attractive to buyers.



## Counterintuitive Trend:

In Indonesia, some properties that have failed multiple auctions experience increases in liquidation value, defying expectations.



**REFERENCE RANGE FOR CORRECTION/DISCOUNT OF LIQUIDATED CONDITIONS COMPARED TO  
NORMAL MARKET**

	<b>CATEGORY AND CRITERIA</b>	<b>ESTIMATED EXPOSURE TIME</b>	<b>DISCOUNT RANGE</b>
<b>GENERAL PROPERTIES (RESIDENTIAL AND COMMERCIAL)</b>	Location, type/function highly favored by investors or the market is relatively good	3 - 6 months	10% - 19%
	Location, type/function in normal market conditions, favored by investors but not excessively, requires adequate marketing to sell	>6-9 months	20% - 40%
	Location, type/function in abnormal market conditions or relatively unfavored by investors, requires longer marketing time	>9 months	>40%

Source: Indonesian Valuation Standard, 2018



# Dynamic between the Two Values :







# Specific Factor that Influence Liquidation Value

1

First Auction

## The Influence of Market Conditions

market conditions are external factors that impact the valuation. These include broader economic influences such as property market trends, rapid appreciation or depreciation in property values, changes in tax laws, or new building restrictions.

2

Auction Failure

## The Influence of Transaction Conditions

Transaction conditions refer to internal factors within the transaction, such as the motivations of the buyer and seller, their relationships, or specific constraints they face.

3

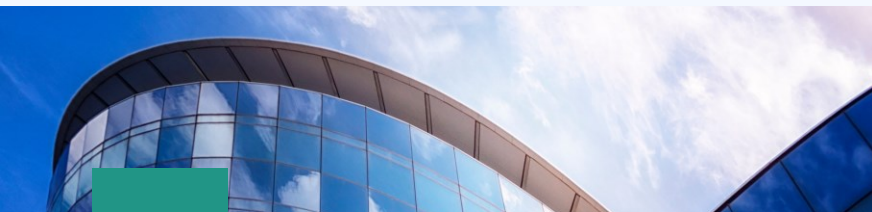
More Failures

## How these conditions influence? (Multiple Auction Failures)

Multiple auction failures can indicate deeper issues affecting the property's marketability, such as legal uncertainties, possession challenges, or undesirable physical conditions. These factors, combined with shifts in market dynamics, may lead to unexpected outcomes in liquidation value that are not easily predicted by conventional valuation logic.



# Transaction and Market Conditions in Property Valuation

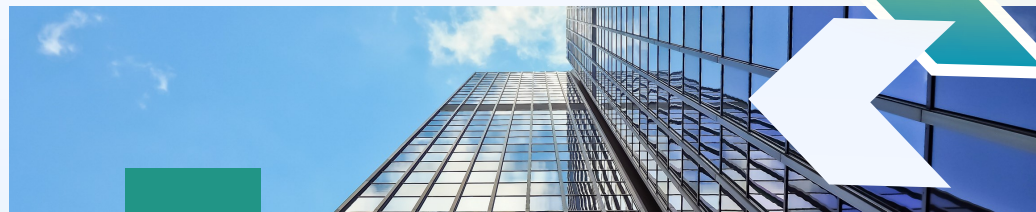


## Buyer-Seller Motivations

Factors like financial pressure, personal relationships, and urgency affect the transaction price.

## Auction Timing and Buyer Interest

Payment terms, auction timing, and access to information within the transaction process influence buyer participation and auction outcomes.



## Economic Trends and Property Demand

External economic factors, shifts in demand, and changes in legislation impact both Market and Liquidation Values.

## Market Timing and External Forces

Broader economic cycles, property market trends, and external regulations influence the probability of a successful sale and overall property value.

# Case Study and Findings

## Selection Based on Auction Failures

Case studies were chosen because they represent properties that have failed multiple times at auction

## Variety in Locations

This helps in understanding how geographical factors and market trends specific to certain areas influence the liquidation value after auction failures.

## Transaction Conditions Comparison

involves different transaction-specific factors, such as exposure times.

## Differences in Market Conditions:

Reflect varying market conditions at the time of auction.

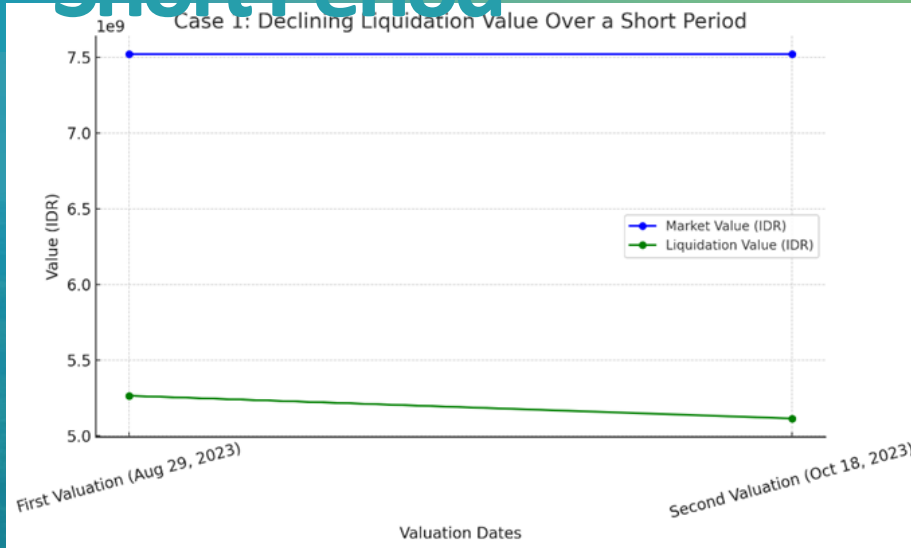
## Time Periods of Valuation

different time intervals between valuations, providing insights into how both short-term and long-term changes in market and transaction conditions.





# Case 1: Declining Liquidation Value Over a Short Period



A

## Property Information

- Appraised Property: Residential House
- Address: A housing complex in Gading Serpong Area, Pakulonan Barat, Kelapa Dua, Tangerang, Banten, Indonesia
- Land Area: 386 m<sup>2</sup>
- Building Area: 277 m<sup>2</sup>

1

## First Valuation

First Valuation (Debt Collateral, August 29, 2023):

- Indicated Property Market Value: IDR 7,523,000,000
- Indicated Liquidation Value: IDR 5,266,000,000

2

## Second Valuation

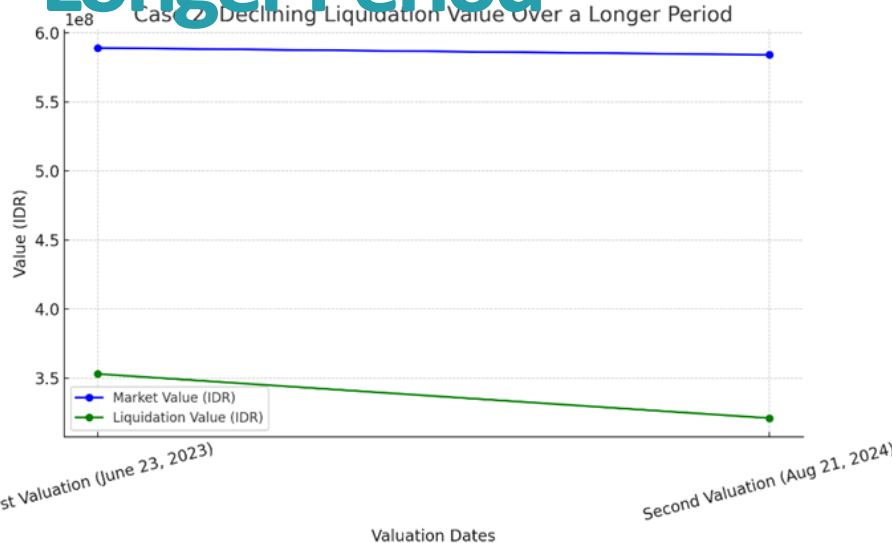
Second Valuation (Auction, October 18, 2023):

- Indicated Property Market Value: IDR 7,523,000,000
- Indicated Liquidation Value: IDR 5,116,000,000





# Case 2: Declining Liquidation Value Over a Longer Period



B

## Property Information

- Appraised Property: Residential House
- Address: A housing complex in Singajaya, Jonggol, Bogor, West Java
- Land Area: 230 m<sup>2</sup>
- Building Area: 48 m<sup>2</sup>

1

## First Valuation

First Valuation (Auction, June 23, 2023):

- Indicated Property Market Value: IDR 589,000,000
- Liquidation Value: IDR 353,000,000

2

## Second Valuation

Second Valuation (Auction, August 21, 2024):

- Indicated Property Market Value: IDR 584,000,000
- Liquidation Value: IDR 321,000,000

# Case 3: Increasing Liquidation Value Despite Auction Failures



## Property Information

- Appraised Property: Residential House
- Address: Tanah Baru, Beji, Depok, West Java
- Land Area: 345 m<sup>2</sup>
- Building Area: 201 m<sup>2</sup>



## First Valuation

First Valuation (Auction, March 17, 2023):

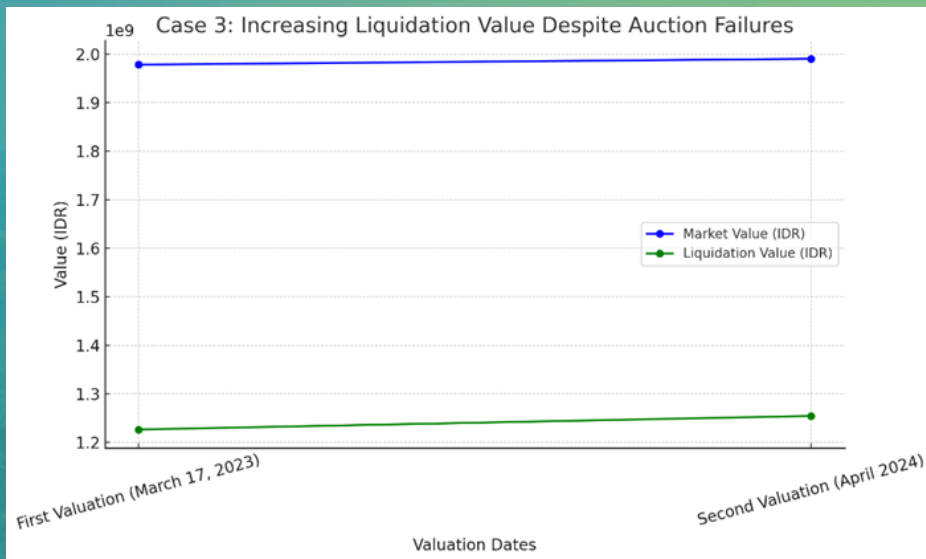
- Indicated Property Market Value: IDR 1,978,000,000
- Indicated Liquidation Value: IDR 1,226,000,000



## Second Valuation

Second Valuation (Auction, April 2024):

- Indicated Property Market Value: IDR 1,990,000,000
- Indicated Liquidation Value: IDR 1,254,000,000



# GENERAL FINDINGS

**The liquidation value of properties was affected by both market conditions and transaction conditions**

In cases 1 and 2, we observed that despite stable market conditions, transaction-related factors such as extended exposure times and higher liquidation discounts led to declining liquidation values. This suggests that, in these instances, when market conditions are stable, transaction conditions had a greater influence on the final liquidation value.

**Market conditions—even slight improvements in land prices—were able to offset negative transaction conditions**

Leading to an increase in liquidation value despite repeated auction failures. This case highlights that while transaction conditions are crucial, favourable market conditions can still improve liquidation outcomes.



# Comparison with Existing Literature

1

## Market and Transaction Conditions are Key

The findings support existing literature that both market conditions (such as price trends and demand) and transaction conditions (like buyer motivation and urgency of sale) are critical in determining liquidation value.

2

## Market Stability Can Reduce Risk

Stable market conditions can sometimes lower the risk associated with transactions, even in challenging sales situations like auctions. This aligns with previous research showing that market stability can reduce uncertainties for both buyers and sellers, as seen in Case 3.

3

## Impact of Long Exposure Times and Transaction Changes

Extended exposure times and changes in transaction mechanisms, such as stricter payment terms or unsold property perceptions, can lead to a decline in liquidation value, as demonstrated in Case 1 and Case 2. This highlights how transaction-specific challenges can significantly influence outcomes.

4

## Market Conditions Can Offset Auction Failures

The study extends the understanding of liquidation value by showing that favorable market conditions can sometimes offset the negative impact of repeated auction failures. Case 3 illustrates that rising market values can counterbalance transaction difficulties, leading to higher liquidation values despite auction failures.





# The Impact of Market and Transaction Conditions



## MARKET CONDITIONS

In Case 3, even small improvements in land values were enough to offset the negative effects of repeated auction failures. This suggests that in favorable market conditions, properties may maintain or even increase their liquidation value, as buyers become more willing to accept the risks.



## TRANSACTION CONDITIONS

Conversely, in Cases 1 and 2, despite stable market conditions, worsening transaction conditions—primarily extended exposure times and increased liquidation discounts—caused liquidation value to decline. This highlights the critical role that transaction-specific factors play in the valuation process, particularly for properties facing auction failures.



## INTERPLAY BETWEEN MARKET AND TRANSACTION CONDITIONS

These findings illustrate that although both conditions are important, interactions between them can produce different outcomes. In Case 1, when market conditions are stable, transaction conditions play an important role in influencing the liquidation value. However, if the market experiences changes, then market conditions will have a significant role, as shown in Case 3.

# Conclusion

(01)

This study aimed to investigate how market conditions and transaction conditions influence the liquidation value of properties that have experienced multiple auction failures. By analyzing three distinct case studies, the research has provided valuable insights into the dynamics that drive changes in liquidation value. The findings reveal that while both market conditions and transaction conditions affect liquidation value, their impact varies depending on the context of each case.

## Main Point

In favourable market conditions, even properties with repeated auction failures can experience an increase in liquidation value. Small improvements in land value and buyer demand helped offset the challenges posed by previous auction failures.

# Conclusion

(02)

Extended exposure times and higher liquidation discounts were the primary causes of declining liquidation value when market conditions remained stable.

The study demonstrates that the interaction between these two sets of conditions is complex. In some cases, unfavorable transaction conditions outweighed stable market conditions while in others, favourable market conditions improved liquidation outcomes despite challenging transaction circumstances.

The study confirms that while market conditions play a significant role in determining liquidation value, transaction conditions can be even more influential in certain contexts.

# Recommendations



## Property Valuers

- Emphasize Transaction Conditions in Valuations
- Regularly Update Market Data
- Analyze Auction History



## For Investors and Buyers

- Understand Transaction Conditions
- Evaluate Market Trends



## Auction Stakeholders

- Minimize Exposure Time
- Optimize Marketing Strategies for Auction Properties
- Flexible Transaction Terms



## Future Research Suggestions

- Legal Challenges
- Market Cycles
- Property Characteristics



# KJPP MBPRU and Partners

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**Asti Widyahari**

Property Valuer & Advisor and will be celebrating 10 years of experience in 2025



# THANK YOU !!!

*Let's seize this moment to bring greater clarity and precision in navigating the complexities of market and transaction conditions for a stronger and more resilient future in real estate!*

*Contact Us for More Information*

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