

## **THE BENEFITS OF SELLING REAL ESTATE AT AUCTION**

Some common questions asked by prospective sellers and buyers of real estate are: “Why should I sell my property at auction?”, “Aren’t auctions only for distressed property?”, “Is the owner in trouble?”, “Is this property in foreclosure?”, “Why isn’t the owner using a traditional real estate sale to sell this property?”

Once considered a last resort for selling distressed property, professionally conducted real estate auctions have now entered the “mainstream” of residential, commercial and industrial real estate marketing and sales. The increasing popularity of real estate auctions can be attributed to one simple fact — they work. In many states, including California and Florida, auctions are used to kick off successful marketing campaigns of large residential developments. In more and more cases, a real estate auction will yield a much higher net selling price in a shorter period of time than traditional brokerage!

Auction marketing is gaining in popularity, however to some buyers the auction process is still misunderstood. Even some of the most knowledgeable lenders, attorneys, financial planners, accountants, and their residential and commercial real estate clients don’t understand the financial benefits of a well-run real estate auction.

The benefits of selling residential and commercial real estate at auction are many but almost all arise from a shorter marketing period. Months and sometimes years of marketing expense are eliminated. This shorter time frame minimizes the risk of declining asset value, attracts the highest number of potential buyers, and provides numerous benefits to the seller and their legal, financial, and accounting advisors. This article will highlight some of these benefits.

### **High Exposure to Prospects**

Traditional real estate brokerage marketing cannot be compared compared to the intensity of high impact, high visibility auction advertising and promotional techniques. A well-run real estate auction is an event attracting the attention of buyers and the news media. Multi-colored brochures, eye catching display ads in newspapers, trade journals and magazines, brightly colored signs, unique public relations campaigns, and professionally done web sites attract the attention of local, regional, and even global bidders. These prospects can instantly gain access to information about the property as well as take a “virtual tour” of the premises and then contact the auction firm to get more details about the property and the auction. Most of these potential buyers would never be reached by traditional real estate marketing methods and

the property may sell for much less than what it's worth.

### **Higher Sales Prices Than Traditional Brokerage**

Auctions allow buyers to bid more than the listing price! Traditionally, a broker lists a property for more than they expect the owner to receive. Buyers then make low counteroffers trying to determine what the seller will really take. This results in the property being on the market for a long period of time or selling very quickly (because the property was undervalued.) Have you ever heard of a property selling within 2 hours after going on the market and wondering whether it would have sold for more if more people had known that it was for sale? By using a well-run real estate auction, all of the qualified buyers in the market at the time of the auction will be given the opportunity to bid against each other. This will increase the price of the property until it reaches it's true market value. Contrary to popular belief, the best properties to sell at auction are the highly desirable homes, lots or commercial properties that many people desire.

### **Pre-Qualified Buyers**

Because a deposit of up to 10% in the form of a cashiers or certified check is received from the Buyer upon the signing of the auction sales agreement, only truly qualified buyers participate in the bidding. "Tire kickers" are eliminated. The best professional real estate auction firms will have access to financing though high quality lender participation in an effort to pre-qualify all interested bidders. By selling at auction, the seller knows that the prospects are serious and have the financing in place to complete the transaction. How many private transactions have you heard about or been involved in where the financing fell through at the last minute and the buyer could not complete the transaction? This almost never happens at auction.

### **Sense of Urgency Created**

The axiom, "He who hesitates loses", is never truer than during a real estate auction. Buyers who have been dragging their feet are now forced to get serious or lose the property. Because potential bidders know that a property will be sold on specific date at a specific time, the serious prospects will surface to do their "due diligence." Commercial buyers and developers know that if they don't act quickly and decisively on a property being offered at auction, their competition will. Because of this sense of urgency, a momentum is created causing buyers to bid beyond their original self imposed price limitations, rationalizing that "if I bid a few more dollars, the property is mine!" This sounds like wishful thinking, but it happens to even the most sophisticated buyer at almost every well-run real estate auction.

### **Temporarily "Frozen" Market**

The lag time between the time a potential buyer learns of an auction through word of mouth, signage, and brochures, or targeted advertising and the actual auction date is short,

usually 30 to 45 days. This motivates potential bidders to wait until the auction before making a buying decision on similar properties in the same general location. This in effect “freezes” the market of similar properties allowing the auctioned property to be highlighted. It is impossible for conventionally marketed properties to compete for attention with one being auctioned in the same area. This is because the buyer is afraid of buying a similar property and losing out on a “good deal” at the auction. Take the example of a residential home buyer who desperately wants to purchase a house in a certain neighborhood and sees that one of the properties in that neighborhood is going to be auctioned in 2 weeks. Do you think she will submit an offer on another property or wait until the auction?

### **“Deal Killing” Contingencies Are Eliminated**

Under traditional brokerage, the buyer dictates most of the terms of the agreement of sale, i.e., settlement date, amount of deposit, which tests and inspections will be done, the terms of a mortgage contingency and many other buyer protections. Under the auction marketing method, the seller determines the terms of the agreement of sale. The seller knows exactly what day settlement will take place, the seller determines how much will be deposited on the property and the seller can eliminate most of the traditional contingencies. Contingencies and renegotiations will not slow down the sale or settlement of a property sold at auction because these issues have already been addressed and resolved. Our auction firm suggests that contingencies that are informative or are going to be required by a lending institution such as a home inspection, wood infestation inspection, water tests and septic tests be done prior to the auction. Making major repairs, removing underground tanks, or conducting phase I environmental tests should be done by qualified and certified contractors prior to the auction. Since most legitimate buyers will already be qualified by a lender before shopping for a property, the fact that an auction agreement does not have a mortgage contingency is not a problem. However, a sophisticated auction firm will often allow specific buyers to include mortgage contingencies in the auction agreement of sale if that buyer has already been approved in writing for a loan. This increases the pool of buyers. The best auction firms also work closely with a variety of lenders to assist buyers in obtaining financing.

### **High Carrying Costs Are Reduced**

Months and sometimes years (on larger properties) of interest, taxes, insurance, association fees, and property maintenance expense and payments are eliminated. The avoidance of these carrying costs often cannot be achieved by traditional brokerage where the marketing time is much longer and the settlement date is unknown. A company conducted an auction a couple of years back where a developer had 7 commercial units that he could not sell and the lender was about to foreclose on the property. The lender decided to use an auction. Within 60 days from the running of the first advertisement, the bank had been paid in full and the lender walked away with money in his pocket!

## **Time Value of Money**

Because of the nature of an auction's expedited marketing campaign, the seller will receive funds from the sale of their real estate sooner than with a traditional brokerage approach. When it comes to getting paid, sooner is always better than later! An auction's high impact, shorter marketing and settlement period allows a seller of real estate to take full advantage of settlement funds for otherwise lost opportunities. In effect, the sooner a property sells, the more money will be available for reinvestment into other opportunities.

## **Seller Controls the Type of Auction**

There are three general methods used to auction real estate depending on the needs of the seller. At absolute auction, real estate is sold without minimums or reserves. That means that once a property is offered, it is sold to the highest bidder regardless of price. Although most sellers fear an absolute auction, this form generates the maximum interest and response from the market place and the highest possible selling price. An auction that is subject of confirmation allows the seller to reserve the right to reject or accept the final bid. This type of auction affords protection to the seller but usually generates less enthusiasm than the absolute auction. The final alternative is the minimum bid auction also known as an auction with reserve. Here, the seller agrees to sell to the highest bidder after a stated minimum price is reached. Minimum bid auctions work only when the stated minimum, or reserve, is substantially below fair market value.

## **Popularity of Auctions Increasing**

The marketing and sale of real estate through auctions is on the rise. More real estate brokers, attorneys, financial institutions, government agencies, and individuals are now considering the auction option as an alternative to private brokerage. In the past, financial institutions, attorneys and the general public equated real estate auctions with bankruptcy or foreclosure. Today, these same people are going beyond recouping their investment and discovering that real estate auctions can be an avenue to profitability.

## **Use of Auctions as a Selling Tool**

Although still unique to many people, properly conducted real estate auctions are becoming powerful selling tools and will continue to grow in importance. The combination of attorneys, bankers, financial planners, and accountants working as a team with a professional real estate auction firm is going to be a huge resource and benefit to clients. Professionals in the estate planning area are continuing to find that the best way to sell real estate in most cases is with the help of a professional and experienced real estate auction firm.

## **Marketing Approach**

The auction approach is different than traditional marketing techniques. Both sellers and purchasers have said that **conventional means** of selling real estate is disadvantageous because:

- It is typically passive, with awareness of the property and buyers limited to the local area.
- That submitted offers are usually kept confidential leaving other potential buyers unaware of the properties sale status and the property may actually be taken off the market, then put back on the market if the property does not close, losing interest of previous potential buyers.
- There is no definite sale date, and no sense of urgency to make an offer now.

We employ a direct approach to marketing, using high-impact advertising, concentrated at a variety of potential purchasers including investors, developers, speculators, and end-users. Structured over a 4 to 6 week period, interested purchasers are provided with detailed property improvement plan (PIP), giving them the details to make an informed decision. Due diligence by the purchaser is completed before the auction, accelerating the closing period.

Purchasers have the advantage of competitive bidding under a specific time structure. By providing an interactive format, qualified purchasers are directly involved in the outcome of the sale. Purchasers bidding against each other at the same time, aware that the property will sell within seconds, stimulates interest, provides a sense of urgency, which ultimately increases the selling price.

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