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October 16, 2007

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California Real Estate *magazine*

Going, Going, Sold!

What You Need to Know Before Listing Property for Auction and the Gavel Drops

By Roger Cruzen

So what now?" your seller asks. Her normally perky tone has an unmistakable sharp edge. "We've lowered the price four times and haven't had a single offer. If you can't sell my house, I'll find someone who can."

There goes your commission faster than you can say "expired listing"—words most agents haven't used in the same sentence in years.

But there may be another option for agents on the brink of losing a listing.

Sell the property at auction.

It's a concept loaded with negative connotations. Historically, auctions are the sales tactic of last resort—the end of the line for desperate home sellers struggling to stay one step ahead of the bank. For many REALTORS®, a home listed at auction is a lost opportunity to earn a commission and sends a negative signal to the market.

These pre-conceived notions may be changing as real estate auctions become a viable way to market everything from newly constructed condominiums in overbuilt markets to existing detached homes sitting fallow.

Market Anomaly or Emerging Trend?

Whether auctions will become a trend in California is a matter for debate. The National Association of Auctioneers claims some \$14 billion in real estate auctions were consummated nationally during 2005, up 8.4 percent over 2004. Most involved residential real estate, but the number of industrial, farm land, and commercial property auctions is growing at 4 to 5 percent annually.

Beverly Hills-based Kennedy-Wilson, Inc., a real estate services and investment firm, conducts between 100 and 250 auctions a year. Richard "Rhett" Winchell, senior vice president in charge of Auctions & Residential Sales, expects those numbers to increase as the market slows and homebuilders, banks, agents, and sellers run out of clever financing, advertising, and other premiums to entice buyers.

"Auctions are a good way to move a lot of inventory quickly, so we've seen more and more builders and developers using them," says Winchell. "I think the success of auctions over the next few months will determine whether more individual sellers go that route. A lot of it will have to do with how aggressively sellers are willing to price their properties."

And with other factors. If interest rates rise, so will foreclosures and the number of properties offered at auction.

"Converts" See the Light at the End of a Gavel

A 17-year veteran of traditional "list-sell" real estate, Covina REALTOR® Fabian Casarez was sold on auctions when he attended his first one a year ago. "I was just blown away," he recalls. "There were 250 people standing in the front yard waiting to bid on a house that on a good day was worth about \$580,000, even in that market." When the bidding was over, the auction brought a sales price of \$660,000.

These days, Casarez travels the Southland educating REALTORS® about auctions as area developer with Bakersfield-based Pacific Auction Exchange (PAX), the nation's first franchised real estate auction operation. Between May and September of 2006, Casarez closed 12 auction sales; by December 2006, he had closed another 28 auction sales.

Why Auctions Work

Rising inventory and time on the market mean sellers have trouble attracting buyers even if they drop the price. Consequently, it can take months to figure out which combination of concessions will attract an offer. Some sellers can't wait that long.

Proponents say auctions result in faster sales and prices that more accurately reflect today's market. All you have to do is set a date, market the property, hold the auction, and close the deal. The whole process can take as little as 30 days.

"Auctions identify the players and bring them to a point of action," says Tony Isbell, a pioneer of online auctions and CEO of RealtyBid.com. "There's something about the word that gets people interested. Typically, they think it means a bargain, so they're that much more willing to go see a property. Once you get somebody to look at a property, you're a lot further toward getting it sold."

"I like to tell people, 'We sell properties in minutes, while everybody else sells them in months,'" says Casarez.

Candidates for Auctions

Not all properties—or sellers—are candidates for the auction block. "I look for sellers who need to sell, not who want to sell," says Casarez. "Someone who has been on the market six or seven months, who has a sense of urgency. Someone who is realistic about the market."

Kennedy-Wilson's Winchell calls pricing key. "Sellers need to be flexible when setting a minimum bid and be willing to price the property aggressively," he says. "You need to look at the lowest, most current comps and price below that to get any interest. The key is getting people to come and participate. From there, the bidding can only go up."

How far up is the big question. In October, Kennedy-Wilson auctioned 30 two-bedroom, two-bath condominiums in Aliso Viejo previously priced from \$460,000 to \$482,700. On auction day, with approximately 1,000 onlookers and bidders on-hand, the bidding on each unit started at the set minimum price—\$295,000. When the final gavel fell, 30 homes sold for an average of \$400,000.

The auction followed standard protocol: Pre-registered bidders came with a \$5,000 cashier's check that would be applied to the 3 percent of purchase price deposit once the auctioneer yelled "Sold!" Buyers covered closing costs and were required to close within 30 days (tardy closings cost buyers a non-refundable \$1,500 fee). For their efforts, buyers' brokers received 2 percent of the sales price.

Internet Auctions

There's nothing like the carnival atmosphere of a live auction to encourage buyers to "up the ante." But the prospect of drawing buyers from across the globe makes Internet auctions attractive as well.

With Alabama-based RealtyBid.com, agents can post property information, photos, and virtual tours for a \$100 listing fee. Once the listing is posted, the listing agent markets the property locally and RealtyBid notifies its database of 400,000 potential buyers by e-mail. Buyers have 14 days to inspect the property and consider a bid, which can be placed online at any time or during a "live Internet" auction on the final day. Otherwise, the rules are similar to those of a live auction.

Most bids occur at the end of the auction period, says RealtyBid.com's CEO, whose company has completed 11,000 live and 4,000 Internet auctions. "The last two days is when you see the most active bidding, and the last two hours are similar to what you see on eBay."

Internet auctions appeal to investors and individuals, Isbell notes. "We have one group in South Carolina who uses us to buy properties in 10 states. Recently, there was a female soldier stationed in Iraq who used a satellite laptop computer to place a winning bid on some property in her hometown."

Isbell says REALTORS® like RealtyBid.com because it prohibits for-sale-by-owners and keeps agents at the center of the transaction. "We don't affect the agent's commission or interfere with the seller relationship," says Isbell. "Our philosophy is that agents control the market. We want to be a tool for them."

Taking the Auction Plunge

Here are some tips if you want to try your hand at the auction game: Educate yourself. Auctions look easy, but there are plenty of nuances. Be sure to do some online research, but the best-case scenario would be to shadow someone with experience or find a knowledgeable partner.

Educate others. Unless you can convert existing unsold listings, you'll need to attract sellers who

might consider an auction. Lenders are a growing source of auction listings. And don't forget to make the rounds of auction companies to let them know you are available. In any case, you'll need a special presentation focusing on the economics and the process.

Read the fine print. If you're a listing agent working with an auctioneer, be sure to codify your responsibilities (and theirs) in writing. You'll want to have a clear picture of your responsibilities throughout the auction process. And, if you're representing a buyer, be aware that many auctioneers won't pay a referral fee unless you accompany your buyer to the auction and assist them with making a bid and closing the transaction.

How Auctions Work

Auctions pit buyer against buyer, creating an environment that mimics a seller's market. The rules are set in advance and typically follow one of three approaches:

Absolute Auction

The seller offers the property for sale and promises to sell it to the highest bidder—regardless of the final price (also known as Auction Without Reserve).

Minimum Bid Auction

The seller agrees to sell the property at a price that is equal to, or greater than, a pre-stated minimum bid.




Reserve Auction

In a reserve auction, the seller "reserves" the right to accept or decline any bids within a specified time, or to withdraw the property prior to the final gavel. Reserve auctions commonly are used with court-ordered or other sales where a price must be ratified before closing.

A key benefit is the absence of contingencies. Auction buyers typically inspect a property before deciding how much to bid. That means sellers no longer have to live through the nail-biting that occurs while waiting for post-offer inspections or a buyer to obtain financing.

Commissions and fees vary, but buyers typically pay up to 10 percent of the sales price to the auctioneer, a share of which is apportioned to participating agents.

Roger Cruzen is a freelance writer and public relations consultant based in Minneapolis, Minn.

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