

California Real Estate Magazine

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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.

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

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.

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.