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Sold: Auctions becoming popular alternative to sell homes

BY MARILYN BOWDEN

More and more would-be sellers are looking into auctioning off residential properties rather than listing them for an indeterminate time in a market where prices continue to fall, auctioneers say.

According to the National Auctioneers Association, the number of residential real estate properties sold at auction nationally increased 47.7% from 2003 to 2008.

"Auctions have not in the past been common in real estate," said Chris Longly, association spokesperson, "but they are becoming more so as we move forward." He said it's estimated that sales of residential real estate by auction grossed \$58.6 billion across the US last year, a 1.1% increase over the 2007 total.

"We've heard from members that 2008 was a sit-out year as people waited to see where the market was heading," Mr. Longly said, "but they are seeing more activity this year as people accept reality and become much more aggressive."

Jim Gall, president and founder of Miami-based Auction Company of America, said auctions have two advantages over traditional sales.

"People are realizing that auc-

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tions are not only the fastest and most effective way to sell their homes," he said, "but also bring the true fair market value of the property. They can sell as is without any financing contingencies, so it can be a real win for them."

Those who need to sell within a specific timeframe are most likely to seek out the auction process, said Laura Brady, president of Boca Raton-based Concierge Auctions, an affiliate of Sotheby's concentrating in the luxury market.

"We are definitely seeing it growing as an available alternative to traditional brokerage," she said.

Mr. Gall said the most activity currently comes within the \$500,000-\$1 million price range, where mortgages are just now starting to adjust.

"The area where I have the most success is with probate-

related properties," said Troy Fowler, principal of Auction Generation in Miami Shores, "people who have inherited a property they are not emotionally attached to and that will become a burden."

Sellers who want to guarantee a certain return can set a minimum price, or reserve. Otherwise, in what is called an absolute auction, the property is sold to the highest bidder.

"An absolute auction is the way to go," Mr. Gall said, "because it brings out a lot more buyers, the bidding gets intense and the seller ends up with more money."

Sometimes, Ms. Brady said, it's necessary to get lenders as well as buyers to agree to an absolute auction, especially when, as is common today, the price achieved is likely to be less than the amount owned on the loan.

"We have to educate sellers on the inventory situation in their area," she said. "It could take upwards of five years for some of these properties to sell."

"We've found that the majority of our sellers are very pleased. They have been so frustrated by the status quo that they're happy to see the turnout that we've produced. And they are able to see the value of the

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Troy Fowler

property firsthand on auction day."

Mr. Fowler said about 90% of his auctions are reserve auctions, and he finds they can draw a good crowd.

"Sometimes an absolute auction is too risky," he said. "If I had a property to auction, I would not want the gamble on an absolute auction unless I had to."

Mr. Fowler, who is also licensed as a real estate broker, said he won't take a property unless he believes the reserve price is achievable – but often sellers end up accepting lower bids anyway, rather than forfeit the money they paid in advance for advertising and gambling on listing the properties with a broker instead.

For buyers at auction, it's caveat emptor, said Mr. Gall. "They need to know their

pricing," he said, "and they might want to have a home inspection done as well, because the property is sold as is."

The terms include a 10% buyer's premium added to the top bid to pay the auctioneer, he said, and buyers must pay a 10% deposit on auction day.

Ms. Brady said about 85% of buyers over the years – 100% so far in 2009 – have been end-users.

"We've seen investor interest in some of our properties," she said, "but end-users are paying the highest prices. We get a lot of international participation from bidders."

Not all bidders are physically present, Mr. Fowler said; his auctions frequently include bids taken over the phone or the Internet.

There's some distrust, he said, between auctioneers and brokers.

"I'd like to see more collaboration" he said, "between the traditional real estate community and auction community."

One the other hand, Ms. Brady said, "we oftentimes hear from Realtors and buyers that we produce market value, and the auction process is a viable alternative to producing the highest value on the property."