
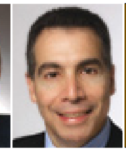

By **Paul A. Lynn,** vice president and Southwest regional manager, and **Bud Blinick,** vice president and Midwest regional manager
Chartwell Group LLC/TCN Worldwide

How to Capitalize on Real Estate Auctions

Sales events can help brokers build a client base

AUCTION SALES ARE USED FOR ALL TYPES of transactions in the United States, including real estate. Real estate auctions were used extensively during the previous major real estate collapse in the late 1980s to move vast quantities of real estate expeditiously. Now may be the time for well-organized and coordinated real estate auctions to become a more viable method for the sale of real estate in the U.S. Further, real estate auctions may be one of the most-effective methods to determine the current market value of any given property.

Many mortgage brokers seeking alternative lead-generation and business methods could be well-positioned to help auction-buyers find financing, as well as to develop relationships for future business and referrals. In addition, brokers often can work with auction companies as the "preferred financing source" and sometimes can earn referral fees for bringing sellers to these companies.

To capitalize on auctions and their marketing potential, brokers must understand how they are different from traditional real estate sales, what strategies and formats best guarantee success, and how financing — and thus, brokers' role — comes into play.

Sellers have control

The main difference between an auction sale and a traditional real estate sale is control. In an auction, the seller controls the timing of the sale, the purchase-agreement terms, the closing date, the financing and the offering of the property on an as-is basis. The only part the buyer controls is the price.

Typically, auctioneers make the property available for extensive scheduled on-site inspections when all interested buyers can tour the property. The seller, through the auctioneer, prepares a detailed due-diligence or bidder's-information package that provides potential bidders enough information to allow them to make an informed buying decision on the day of the auction.

The bidder's-information package gives the buyer detailed information on the property that is comparable to the type of information a buyer would seek in the traditional post-contract, free-look period. The more information that potential bidders receive before the auction, the greater the prices likely will be during the bidding.

Auction strategies

The structuring of the offering is extremely important to a real estate auction's success. If it is properly marketed, an auction can generate action for a property that has been stagnant activity for months or years. An auction also can yield pricing that is 10-percent to 15-percent greater or less than the current market value.

There are three basic types of strategies for real estate auctions:

1. **Without-reserve sale:** Here, there is no reserve or required minimum bid. The property is sold to the highest bidder regardless of price. A without-reserve sale is the strongest calling card. It attracts purchasers from the greatest geographic area. Buyers can justify the time and effort they spend inspecting and bidding on a property because they know there is no question that it will be sold.
2. **Minimum-bid sale:** This type of auction is effective if the minimum bid is substantially less than the buyer's perceived value of the property. The property will be sold at any price equal to or greater than the minimum bid.

   Setting a minimum bid price is an art. Often, the minimum bid price is at a level at which the seller would prefer not to sell the asset but at which many serious bidders perceive substantial additional value and would bid beyond that value. Typically, with a minimum bid, sellers can anticipate bids to grow 50 percent or more. If bids don't meet the minimum price, the seller can accept or reject the bid price.
3. **With-reserve, no stated price:** With this approach, there is no definite price at which the seller guarantees a sale. The seller can accept or reject the highest bid either at the auction or within five days after the auction. With no certainty of guaranteed sales, the final prices realized can be lackluster.

Format also can affect a real estate auction's success. There are three main auction formats:

1. **Live, open-outcry auction:** This approach is most effective when there are multiple buyers. Bringing them to the same venue at the same time will create a competitive bidding condition that likely will produce the highest price for the seller.
2. **Sealed-bid sale:** This strategy is most effective for properties that have only a few

continued ››

Paul A. Lynn is vice president and Southwest regional manager, and **Bud Blinick** is vice president and Midwest regional manager, for the Chartwell Group LLC/TCN Worldwide. Lynn has more than 35 years' commercial real estate experience and is active with the CCIM Institute. Blinick has more than 30 years' experience as a broker and investor. Reach Lynn at (713) 914-8055 or plynn@chartwellgroup.com; reach Blinick at (847) 929-9254 or bblinick@chartwellgroup.com. Visit www.chartwellgroup.com for more information.

Reprinted from *Scotsman Guide* Commercial Edition on scotsmanguide.com, February 2010

‹‹ continued

potential buyers and the possibility of great disparity between those buyers' potential bids. In essence, the sealed bid is a private sale, but buyers tend to be concerned about what to bid.

3. **Online:** Online auctions have become more visible in the past few years. Many traditional brokerages have joined forces with auction companies and started to embrace auctions as an alternative to their traditional brokerage operations. Initially, they have not shown great success in selling their portfolios, however, and their efficacy remains to be seen. Some recent online-only real estate auctions have had limited to no success.

Some form of live auction format likely is most effective. Plus, the more bidders you can have as part of the process, the better the opportunity to get the seller their best price and to ensure a sale.

How real estate auctions are marketed also is key to getting potential bidders to the table. The Internet has changed the way auctions are marketed in the past decade.

In the late 1980s and early 1990s, newspapers and direct mail were the predominant ways auction sellers communicated with potential buyers. Because local newspapers are losing subscribers and postal mailing costs are escalating, new and creative marketing formats must be used and expanded.

Today's auction marketers must use not only some of those low-tech forms of marketing but also e-mail blasts, banner advertisements, targeted cable and radio ads, and local and regional commercial real estate Web sites. Extensive public-relations campaigns also are effective for promoting an auction.

Financing alternatives

The real estate axiom of "location, location, location" has a new call: Financing, financing, financing.

Traditional forms of real estate financing have become more difficult or nonexistent and buyers often must seek nontraditional financing sources to finance and close their deals. In the auction environment, for the property to sell and close quickly with the best price, some financing alternatives often are offered and publicized as part of the auction marketing. These may include:

1. **Assumption of the existing loan** with a pre-commitment from lenders about what the assuming borrower must do to comply;
2. **A pre-committed, third-party lender** that takes part in the auction process and that allows the potential buyers to go through the preliminary application process prior to the auction event. Buyers know their bidding capacity and can plan their bids accordingly; and
3. **Seller financing, usually** with 30-percent to 40-percent down, at market rates. This allows multiple bidders to participate. It also allows finance buyers and cash buyers to compete.

Mortgage brokers are well-positioned to participate in and earn fees via auction programs on the selling and buying sides of the transaction.

Mortgage brokering is a relationship business. And in the unusual financing climate we are in, providing solutions for clients' problems is important for maintaining long-term relationships.

Further, most lenders have or could have surplus properties. Brokers who recommend use of an auction program can help lenders move nonperforming assets to a sale or to a new performing loan expeditiously. Brokers also may realize an appropriate mortgage fee as part of that transaction.

For commercial borrowers who have a property "on the bubble" and risk losing all their equity or facing foreclosure, it may be appropriate to recommend an auction for a timely sale. Working in conjunction with the lender, the auction process can help the borrower sell the property in 90 days, establish real market value, and create an agreement and understanding where the borrower and the lender agree to take a "haircut" so neither party ends up getting slaughtered. Many auction firms will provide fair referral fees for an introduction to an auction seller.

On the buying side, mortgage brokers can participate in auction programs and earn fees in numerous ways. The key to the success of any sale, including an auction sale, is some type of prearranged financing.

Many auction firms have a preferred lender or mortgage representative as part of the auction campaign. This preferred mortgage resource often is publicized in auction brochures and materials. It also attends on-site inspections and is part of the auction team. The benefit comes from having the property preapproved and only subject to buyers' qualifications. Bidders often meet with these mortgage resources before the auction so they know in their bidding what their borrowing capacity is and can bid accordingly.

Another benefit mortgage brokers can see is that by meeting with a number of potential prospects, they can create relationships. Those bidders who aren't the ultimate buyer of a specific auction property may call upon the mortgage broker when they need mortgage assistance on future purchases.

Any auction event requires team effort, and mortgage brokers can be key members of that team, making the auction success a win-win event for all participants.

When properly formatted, marketed and structured, real estate auctions can provide property-sellers the opportunity to sell a single asset or a large portfolio in a defined, controlled environment. While every seller and lender can fantasize about the prices and values of 2006, real estate auctions can help them find today's real market value and sell their properties expeditiously. •