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AUCTIONS . One More Marketing Tool

Profiting from Auctions in Residential and Commercial Sales

If the thought of a real estate auction conjures up images of desperately trying to sell a distressed property, then you've got it all wrong, according to full-time real estate auctioneer, Don Erler, with RE/MAX Commercial Brokers out of Louisville, Kent. Erler, an NAR member, presented "Profiting from Auctions in Residential and Commercial Sales" at the recent NAR Convention. He, along with many others in the industry, is convinced that auctions can provide a viable option in a REALTOR'S® marketing arsenal.

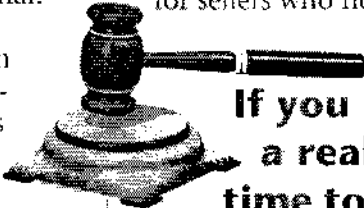
According to Erler, "The reason there's an NAR Auction Committee is that NAR believes the auction marketing process is a complementary activity to what REALTORS® do everyday. There are only about 6,500 members of the National Auctioneers Association. We're not competing with REALTORS®, but we can certainly enhance your image and your pocketbook," Erler said.

No longer a last resort
Erler says that auctions may have the wrong connotation for some people. "If you think auctions are only for distressed property . . . only for broken down industrial plants . . . only for homes that are uninhabitable, you're wrong. We do a lot of residential work, and we do it for a lot of reasons. Auctions are no longer a last resort, and an auction does

not signal distress. It's a marketing method with a purpose."

A tool for buyers as well as sellers

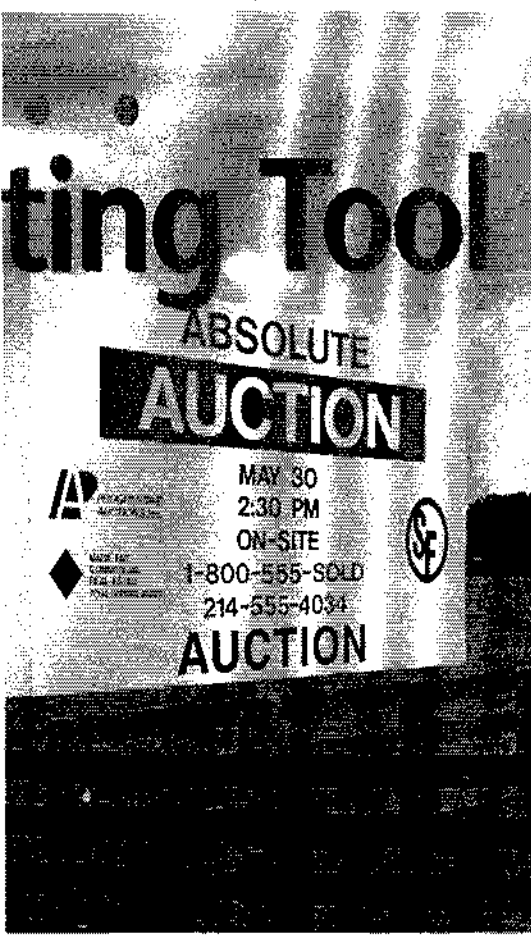
"If you consider yourself progressive and a real estate industry leader, now is the time to learn all you can about the auction marketing alternative as an additional marketing tool to present to your clients and customers. It's going to enhance your image and it's going to enhance your income. It's a tool for sellers who need to sell."



If you consider yourself progressive and a real estate industry leader, now is the time to learn all you can about the auction marketing alternative.

Not only is it a tool for sellers, but it is a tool for buyer's too, says Erler. "Rather than having to obtain a bridge loan, which a lot of people can't afford, or waiting indefinitely for the property to sell, wouldn't it really be nice if the property would sell on a specified date?"

There are several obvious differences between a negotiated sale and an auction. In a negotiated sale, the price is already established, and usually, the negotiated one is lower than that established price. The selling date is unknown and there can be a number of contingencies.



The auction process basically takes the whole situation and flips it over. The date of sale is certain. The seller determines the terms of the sale. Bidding sets the price. The buyer feels good because he or she is in control, and the seller feels good because each bid is a higher offer. It is typically a contract with no contingencies and a substantial down payment.

A change of focus
According to Erler, REALTORS® help their clients when they explore the possibilities of having an auction.

Illinois REALTOR® Looks To a Bright Future in Auctions

Jeff Canterbury is a REALTOR®/Auctioneer with RE/MAX Professionals in Springfield. A licensed salesperson for six years, he's been involved with real estate auctions for two years. In the Springfield area, this marketing medium is a relatively new concept for residential properties. Canterbury sees it as a growing trend, however. Canterbury says he had about a dozen auctions in 1998, and he still lists property—he was #4 in his company in 1998. In the spring of 1999, his company will open an "Auction Center" which will allow them to provide more of a full service to customers.



According to Canterbury, the typical auction properties are foreclosures and estates, but farm ground and land auctions are the most successful in his market. "Farmers are geared toward purchasing ground at auction," he said. He's had anywhere from zero people to 75 people show up for one of his auctions, but he's seen as many as 200 at others. Although Canterbury says his market isn't quite ready for it, he says some of the large auction houses in the Chicago area make huge productions out of their auctions with entertainment such as live bands.

"It's a good way to sell. It can be sold and closed in 30 days or less following two to three weeks of hard marketing. And it sells 'as is,'" said Canterbury. "This year we had a few sellers test the market with auctions. In some cases, if the property didn't sell, at least we helped the sellers 'find the market.' We may have showed the seller that a price reduction was needed.

"It's getting more common for companies to have their own auctioneers. Old time auctioneers did a lot of farm sales, and we've evolved from that. I grew up going to auctions. Now there's a need for consumers to have a professional who understands there's a choice and who knows the real estate laws, disclosures and changes."

If your company doesn't have its own auctioneer and you'd like to work with one, Canterbury recommends interviewing two or three to find the right fit, just as you would recommend to a consumer hiring a REALTOR®. "Get one who specializes in real estate and who knows about real estate disclosures and lead-based paint, etc. Auctions are a great tool but they haven't caught on 100 percent," said Canterbury.

Auction Licensing Act to be Proposed

In the 1999 Spring Session, IAR will pursue legislation, in conjunction with the Auctioneers Association and the Office of Banks and Real Estate, to create an Auction Licensing Act, and to add auction provisions to the Real Estate License Act. The Auction Licensing Act would require persons who auction in Illinois to have an auctioneer's license. The Act would exempt from the license requirement real estate licensees who auction real estate. The word "auction" will be added to the section of the Real Estate License Act defining "broker" to cover real estate auctioneers. A limited real estate license exemption for auctioneers who have auctioned real estate for an extended period of time is under consideration.

"It changes the focus from waiting for an offer to stimulating the market to get all possible offers. The focus changes from reducing the price to having no price at all. It also can add to REALTOR® profits. How much do you make on an expired listing? Nothing. Consider selling at auction or co-listing with an auctioneer."

One of the byproducts of auctions is the number of leads they produce. "When 50 people come through the open house for the auction, how many people will end up buying the property, and how many people are left over? You can take the leads and use them to make more money.

"You'll find that the same people who buy from you buy at auctions. You'll find that the people who sell

Types of Auctions

Absolute Auction (auction without reserve)

- The property is sold to the highest bidder, regardless of the price.
- Since a sale is guaranteed, buyer excitement and participation is heightened.
- Generates maximum response from the market place.
- Many sellers, including financial institutions and government agencies, have begun to use this method more frequently.

Minimum Bid Auction

- Auctioneer will accept bids at or above a published minimum price. Minimum price is always stated in the brochure and advertisements and is announced at the auction.
- Reduced risk for seller as the sales price must be above a minimum acceptable level.
- Buyers know they will be able to buy at or above the minimum.
- The seller may, however, limit interest in the auction to only those buyers willing to pay the minimum bid price, and therefore it must be low enough to act as an inducement rather than a hindrance.

Reserve Auction

(auction subject to confirmation)

- In this scenario, the high bid is reduced, in effect, to an offer not a sale. A minimum bid is not published, and the seller reserves the right to accept or reject the highest bid within a specified time—anywhere from immediately following the auction up to 72 hours after the auction concludes. Sellers predetermine the price at which the property will be sold and are not obligated to confirm a sale other than at a price that is entirely acceptable to them. The main disadvantage of a Reserve Auction is that prospective buyers may not invest the time and expense of due diligence when there is no certainty they will be able to buy the property even if they are the highest bidder.

Source: NAR's One REALTOR® Place

at auctions are savvy, sophisticated investors who know pricing is the toughest part of real estate. They're people who value time over a few more dollars," said Erler. "About the most expensive thing you can own these days is a vacant property."

Auctions create urgency, excitement

"Auctions establish a deadline to purchase," said Erler. "They create an urgency to do something and the possibility of a bargain. Buyers like auctions, because they promote fair competition, and everyone is on the same playing field."

"When you only have one possible buyer, he'll want a steal, but if you put enough of them there together they'll create fair market value."

"Auctions create open competition. An auction is an event. It can create a market where one doesn't necessarily exist. It can get people interested who are not necessarily looking for property. About half of the people who buy from me at auction are not looking to buy."

Erler said that one option is for REALTORS® themselves to purchase property at auctions. "I don't know anybody in the world who understands the value of real estate better than REALTORS®, and when you see a bargain that's a great time to do it."

One of the most often asked question about auctions is "What kinds of property sell well at auction?" Erler says that all kinds of property can sell. "There are no particular characteristics of a property that say it's appropriate, but it may not be appropriate for some sellers."

The "2/3 rule"

"What is the right fit? Many recommend the 2/3 rule (satisfying two out of the three characteristics listed below). That's ok, except I think it should be a 3/3 rule. All these issues

need to be there for it to be right: Market, Seller, Property. All three of those really need to be appropriate for the auction to work correctly. I turn down four out of every five properties I look at for one of the three reasons that isn't right."

Market—Think of auctions when there is a changing market and we can't reliably price it or when there is a dull market. You can also use them for emerging markets or subdivision openings or closings. Auctions interest new people.

Seller—The seller can be one who needs immediate cash, possibly due to a partnership or marital dissolution. Other options could be people who are moving soon or retiring. People should be auction minded and very open to the idea.

Property—The worst time to set up an auction is when the listing is about to expire, but it can still be done. Properties with substantial equity sell well as do unique or high demand properties. Any piece of vacant property is a good prospect.

Erler says that the reason for the increase in auctions is that the cost of holding vacant property is so high. It's becoming very expensive to hold property if it's not productive, consequently, people are looking at auctions as a way to get the property off their books.

One myth that's out there is that the seller has to accept the high bid at auction. Not necessarily. The seller has the right to accept, counter or reject any bid. Sellers select the type of auction that best suits their needs. (See sidebar.)

More information on auctions can be found through the NAR Auction committee, National Auctioneers Association (www.auctioneers.org), or the Auction Marketing Institute (www.auctionweb.com).

By Deborah Herr, assistant editor