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55 YEARS

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Auctions, auctions everywhere...And its time to drink up the opportunities

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You can hardly pick up a newspaper or even listen to a campaign speech these days without hearing the words "foreclosure" or "auction". Last year my company conducted more than 1,000 auctions and it seems that the torrid pace will continue for at least another year or two. The auctions that we conduct are of both residential and commercial real estate and they are comprised of both foreclosures and non-distressed auction sales.

It is estimated that 12% of all real estate sold in 2011 was at auction and that figure is projected to double in the next 5 years. The good news is that these auctions present tremendous opportunity for buyers, sellers, and brokers alike. Having conducted 15,000 real estate auctions over the past 25 years I have seen scores of savvy brokers, sellers and, of course, buyers capitalize on the process.

Buyers:

Ironically enough, perhaps the most difficult way to take advantage of the auction market is on the "buy side". In the foreclosure arena you can conduct all of the due diligence imaginable on any given property but you will never know what the foreclosing lender is willing to accept for the property until the auction. There is a common misconception that the bank will just bid the amount of their debt and I have seen buyers miss out on deals because they researched the loan amount and decided not to attend the auction. Just yesterday we had an auction of a warehouse building where the bank was owed \$1.9 million, but they were willing to let it go at the auction for \$1 million. So, by all means, do as much research on as you can, but you may have to attend 50 or 100 auctions before you find a great deal.

Sellers:

There are several fundamental psychological differences between selling your property conventionally and selling at public auction. The mind-set of a buyer at a conventional sale is "what is the least amount I can pay for this property" while the auction buyer ponders "what is the the highest price that I am willing to pay." This is advantageous to the seller because the dynamic has changed from the buyer trying to bring the seller's price down to justifying bringing their own price up.

Researchers from the Kellogg School of Management and London Business School recently confirmed, through an extensive study, what those of us in the auction business have known forever; Namely, that low rather than high starting bids result in much higher selling prices. For years we have been telling sellers that you can't start where you want to finish. Lower starting bids diminish the barriers to entry and generate more bidders. As any given bidder competes for the property they actually feel a sense of ownership for that split second when they are the high bidder. When that ownership is taken away by another bidder, the natural reaction is to get it back and the auction takes on the dynamic of winning vs. losing. Since this all happens in public there are also

the added dimensions of pride and ego at play. I recently witnessed this at an auction where we had almost 20 bidders and the property sold for \$1 million more than the appraised value.

Brokers:

Auctioneers used to be seen as a threat to brokers. Today we can be an added weapon in the arsenal of any cutting edge brokerage firm. We have worked together with both commercial and residential brokers to sell all manner of properties. We have even developed a program where brokerage firms can develop an exclusive affiliation with us so that they can take advantage of our 25 years in the auction business and use it as a selling point for their company.

In today's market brokers need to be very well educated in the advantages that an auction may offer to their sellers-many of which are enumerated above. But a good broker also has to be able to advise a buyer who is contemplating buying at auction. In each case this knowledge will result in more sales and higher revenue.

As we all continue to chart our course through this challenging real estate market, auctions will continue to be a tremendous source of opportunity for all real estate professionals.

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