



nerej

Selling and buying real estate at auctions - cure for market

March 26, 2008 - Front Section

In the first Quarter of 2008, property values continue to drop as the result of an ongoing downward transition in the nationwide real estate market begun in 2005. Savvy investors who bought in the early '90s and sold before the end of 2004 made great profits, while those unwilling or unable to sell have watched their equity plummet. Faced with a rapid slide in values, owners are having difficulty adjusting their expectations to today's new reality. By setting overly high asking prices, properties may languish even longer on an already slow market, frustrating seller's plans for their trapped assets and further compounding U.S. economic woes. As was the case in earlier downturns, the auction method of selling real estate will prove to be the best and quickest path to a turnaround. Properly marketed and professionally conducted real estate auctions empower sellers to move property quickly on their terms, while calling buyers to action, and allowing the marketplace to determine what constitutes "fair market value."

A troubled economy exacerbated by predatory lending practices has caused the number of foreclosures, and consequently, the size of lenders Real Estate Owned (REO) portfolios to grow at an alarming rate. As witnessed during the downturns of the '70s and '80s, we predict that within a year carrying costs and shareholder expectations will drive lenders to begin selling large blocks of owned real estate through auction. This strategy will allow market forces to take over and set new property values. Some institutions such as Countrywide have already started the process. In the light of rising shareholder unease and growing pressure from large municipalities like Boston and Providence, R.I. that are seeking to increase financial responsibility for owners of vacant REO properties through legislation, many others will soon follow.

At first, when these large portfolios are auctioned, prices will drop, further eroding the property values of individual owners. Eventually, as investors re-enter the market, the huge surplus of property for sale will be absorbed, and the cycle will begin again with an upward swing in values. Property owners who wish to beat the bottom and sell now must be willing to allow market forces to work their magic. Otherwise, they will be forced to watch as their equity continues to diminish and then slowly begins to rebuild over the next few years. Meanwhile, carrying costs of 12-20% per year accrued while waiting for that elusive "right buyer" will never be recovered.

In 2007, \$58.5 billion of real estate was sold at live auction. Led by the FDIC, RTC, and the numerous banks that successfully employed professional auctioneers for the timely and effective disposition of real estate assets during the S&L crisis, an increasing number of individuals and institutions are turning to the auction method of sale. Sellers appreciate the speed of the process and prices elevated by competition rather than diminished through negotiation. They welcome the degree of certainty provided by auction sales without contingencies that consistently achieve a 95% closing rate. Sellers are particularly drawn to auction firms that employ a "buyer's premium" added to the high bid that passes commission costs on to the Buyer.

When contracted as the lead auction firm to sell \$32.2 million of surplus real estate for the Commonwealth of Mass.' Division of Capital Asset Management (MA DCAM) at absolute auction, JJManning Auctioneers was able to attract huge crowds of bidders and achieve sale prices far above the Commonwealth's expectations. Bidders are drawn to the "free market" aspects of auction that ensure they are paying the lowest possible price when they bid one last increment higher than their competition. At absolute auction, bidders are further empowered by their ability to establish the true value of a property in competition with other bidders without the influence of seller's goals. The degree of comfort this reassurance provides is never more appealing than during times of market transition where prospective purchaser's conviction that they will be paying a "fair price" provides them with the necessary confidence to buy in the face of economic uncertainty.

JJManning Auctioneers is accepting consignments through April 4, 2008 for our Spring Auction Calendar. Please visit www.JJManning.com or call 800-521-0111 for further information.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540