



nerej

What happened to real estate auctions during the COVID-19 pandemic? - by Justin Manning

July 30, 2021 - Spotlights

Justin Manning

When people think about real estate auctions, they very often first think about the distress and stigma attached to foreclosures. However, auctions of real estate do occur for many other non-distress reasons as well. We handle auctions to help settle estates, to assist with a divorce, to meet a tax deadline or to just sell quickly and contingency-free. But, the segment of foreclosure auctions came to a screeching halt in 2020 due to state and federal moratoriums implemented to address the fallout of COVID-19. Because of these forbearances, 2020 was a banner year for those of us that conduct private real estate auctions for voluntary sellers (estates, individuals, companies, banks, etc.). The voluntary/private auctions benefitted from the overflow of bidders who no longer had any foreclosures to attend.

In the past couple of decades, a successful and well attended auction might be considered one where 5 to 8 registered/qualified bidders attended with their negotiable bank check. Also, at every auction, there are always as many or more curious onlookers made up of neighbors, investors and others interested in the property but who are unable to meet the terms of the auction sale. COVID created the perfect storm which generated the ultimate bidding war machine at our real estate auctions. We began to see 15, 20 and even as many as 30 registered and qualified bidders showing up cash-ready to compete. Not only did the lack of foreclosures throw fuel on the fire but in addition, low interest rates and the lowest housing supply of recent record catapulted the process to unseen levels.

This auction bidding war machine allowed the market to set the price of real estate. People oftentimes wonder how to properly appraise their property. These days owners look at the Zestimate and Realtor.com and any other online listing sites and then pick the highest one as their valuation. Interestingly enough, in a hot real estate market with low rates and high demand and low supply, the real estate auction actually becomes the perfect real estate appraisal mechanism. A property is only worth as much as someone is willing to pay. Real estate auctions, although fewer in volume during the pandemic, certainly generated what would be deemed to be at or above market price for any piece of real estate.

When property is sold at auction, we usually see a situation where half of the attendees think the property was given away, while the other half can't believe the amount of the final bid. At the end of a properly marketed and professionally conducted auction event, the number that is realized becomes the market price. All substantial commodities in the world have their price set at auction, whether it be gold, cotton, fish, textiles, you name it. Real estate auctions, especially in a hot market like the last year and a half, do virtually the same thing...they set the market for real estate.

Many newer real estate brokers who haven't experienced the cyclical nature of the economy, saw themselves in scenarios during COVID where the situation almost mimicked a real estate auction. Open houses became overcrowded events with lines of masked buyers. Multiple offers came in all at the same time forcing the broker to set a date and a time for everyone's best and final offer... "Ladies and gentlemen, that's an auction!" The biggest difference is that in an auction, the prospective purchasers make their offers by holding up their bidder paddle and the winning bidder makes a big deposit and signs the no contingency P&S on the spot. COVID and the circumstances surrounding COVID showed the power of bidding wars to real estate brokers and gave them a taste of what we private real estate auctioneers enjoy in all of the auctions we conduct in every market, whether up or down.

Bottom line, like so many industries and businesses, this unprecedented time made us question whether or not our respective businesses would survive during this once-in-a-lifetime event. I said to myself we might have zero in sales this year, however 2020 turned out to be as good or better for JJManning Auctioneers than the prior 10 years. So, COVID created winners and losers during its terror but real estate and especially private real estate auctions truly flourished during this time. It will be extremely interesting to see how the new tax codes, if pushed through, affect inflation, interest rates and the potential for larger amounts of distress/foreclosure auctions in coming years. In my 29 years in this real estate auction business, I have never seen a time where our private real estate auctions have created such a buzz and such a competitive forum. Going once, going twice, going three times...SOLD!

Justin Manning, CAI, AARE is president/owner of JJManning Auctioneers, Boston, Mass.

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