

# Sold



As the real estate market in Michigan continues to evolve, auctions are gaining wide acceptance in the marketplace as a sound way to sell property.

BY KYLE OLSON

According to one member of the business, revenues from residential real estate sold at live auction have grown over 46% since 2003, translating to over \$58 billion in 2007 alone. Commercial and industrial real estate sales by auction also rose by a hearty 32.7% in the same four years.

A 2004 study by Harris Interactive, published by the National Auctioneers Association (NAA) in 2007, showed 83% of respondents felt auctions are “a good way to get good values on items.” In addition, the poll found consumers will travel 1.3 hours to attend a live auction.

An analytical publication provided by NAA said, “As the sale of real estate through live auction has increased, real estate agents have discovered the opportunity that live auctions provide for quicker turnaround of property. Finally, Auctioneers’ interest in marketing real estate has accelerated, particularly using multi-tract sales to increase a property’s value.”

There are some key things to know about real estate auctions and how they work. Mortgage Foundation, a Florida-based mortgage company, provides a good synopsis on their website. According to the site, there are three types of auctions:

**Absolute:** The property sells regardless of price; often seen during home foreclosure proceedings. Sellers are generally reluctant to participate in an absolute auction because they relinquish the right to reject an offer.

**Minimum-bid:** The seller enters offers above a certain price. Bids begin at the amount designated by the auctioneer, but the seller is still not obligated to sell to the winning bidder. In many cases, however, the price is set at a level the sellers would strongly consider accepting.

**Reserve:** The seller accepts bids only if they're above a secret minimum that the auctioneer doesn't disclose to those bidding. So buyers can make an offer without any idea of whether it will actually be accepted.

Costs associated with an auction include advertising and marketing expenses for the seller and a "buyer's premium" — that is, a percentage of the selling price (usually 3%-10%) — is tacked on at the end for the buyer.

Ken Lindsay, owner of American Eagle Auction & Appraisal Company in Livonia, said, "For years, auctions were taboo with traditional agents. However, within the past few years, the National Association of Realtors reported that auctions are not a sale of last resort and now embrace this method. The result is, more and more real estate agents are learning how to network with professional auctioneers and they are earning healthy commissions on otherwise dead properties."

"Especially in this market, there is no sense of urgency using the traditional method whereas an auction guarantees a seller a date and time when their home can be sold. Bottom line is we are getting the job done whereas traditional selling has become increasingly frustrating for sellers," Lindsay said.

Lindsay also believes interest in auctions comes from sellers coming to grips with the reality of a stale Michigan real estate market. "No longer do sellers have an inflated sense of value of their property like they did during the real estate bubble. They see what's going on around them and are more sensible and realistic with their expectations," he said.

Auctions may be a way for owners to cut their losses and move on. Mortgage Foundation maintains a blog of real estate stories and one told of an auction in Troy in late 2006.

"Many of the high-end residences were furnished and were builders'

models. Some were builders' closeouts. An upscale, three-bedroom home in Rochester Hills sold for \$400,000 in the first 15 minutes of the auction. The asking price of the 3,031-square-foot, three-bedroom home was \$523,297."

"A few minutes later, a home in the same subdivision sold for \$315,000. No deep discounts pervaded, but there were some good deals during the day," the blog says. It is clear auctions are a key tool for those looking for a deal, as well as those looking to accept one just to sell a property.

To wit, Gary Berry believes frustrated sellers turn to auctions as a way to get a deal done. "Since the downturn, approximately 95% of our calls inquiring about selling real estate at auction involve properties which have been on the market for a year or more. These are primarily owners who have a property with holding costs they can no longer afford. Many of them are willing to sell and bring money to the closing table, to get out from under the high costs of holding," Berry, owner of Gary M. Berry Auctioneers-Realtors of Rochester Hills said. "Sellers know an auction will get them offers. That's what they are looking for, offers."

If this next example is any indication, even the auction market may have cooled a bit—or at least demand is being met. Carol Marshall, writing in the Oakland Business Review July 10, 2008 on a recent industrial property auction, said, "And there were only a few bidders, who made offers for half the properties."

The statewide auction of foreclosure properties, conducted by Colliers International, consisted of parcels from "from Gladwin to Fraser to Pontiac. There was a historic Charlotte commercial building and a retail building in Inkster for sale. And, there were residential lots in Idlewild and Midland. Even a residential cabin in Northern Michigan's St. Helen." The lackluster outcome may be an indication of the poor business climate in Michigan, rather than an indictment of real estate auctions in general.

"It was sort of mediocre," said Len Tosto of Colliers, according to Marshall's story.

Former MAR president and NAR regional vice president Joe Banyai of

Signature Associates was quoted in the story and summed the day up well: "The advantage to buying it at auction is that the bank has the assurance that the offer is the true market value of that property. It's what someone is willing to pay." Banyai was marketing a Pontiac industrial property "for months," according to the story, and with the auction, a deal was struck within two days.

Prior to the downturn and lengthy listings, "Most of our real estate auctions were estates, bankruptcies and investors selling off excess inventories," said Berry.

"From 1979 through the early 1980's we were going through a period similar to the current real estate market, with a lot of property on the market, not enough buyers, with values falling quickly. The auction method of selling real estate continued to grow slowly through the 1980's and 1990's," Berry, a licensed Realtor, said. "Since 2000 there has been a tremendous amount of publicity about real estate auctions with the general public becoming much more aware of the opportunity to sell real estate at auction, quickly."

Berry cautions that a real estate auction may not be for everyone. "We do not recommend an auction to every potential seller. We are very careful about interviewing the seller to ascertain whether they are in a position to accept current market value, which they are likely to obtain at auction." He added, "If they are not in a position to sell under the current market, we do not recommend auction. If we believe that we have a 90-95% chance of selling the property, and thus pleasing the seller, we recommend auction."

Mike Murray, an Ohio-based Realtor who has conducted sales of auction properties in Michigan, concurs. In the July 3, 2008, Ann Arbor Business Review, he was quoted as saying that by auctioning a property, it puts the parcel "at the front of the parade," and is a "faster, quicker and simpler process."

Neatly summarizing the entire situation, Colliers International Realtor Cameron McCausland said in the same article, "This was just really trying to accelerate the process in a market that's not moving very quickly." **MAR**