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Online Boost For Property Auctions

By Joseph Dobrian

Buyers and sellers of real estate are increasingly discovering the advantages of doing business through auction, rather than through a broker. And auctions with an online component offer added advantages.

Auctions ensure a timely sale, reducing the costs that accumulate on an unsold property, and assign an accurate market value. And the excitement they generate often drives the sale price higher than expected. These advantages are especially relevant in today's market, when differing expectations of buyers and sellers are slowing sales and depressing prices.

"For several years we've seen unbelievably easy lending standards and overgenerous appraisals, and now we're seeing a reaction," says Mike Jones, president of Kansas City, Mo.-based United Country Auction Services. "The wild prices are not there anymore — especially for recreational properties in the \$1 million-plus range."

Mr. Jones predicts that because buyers are becoming fewer and more discerning, the importance of real estate auctions will grow, relative to brokered sales. We'll see more overseas buyers, he says, due to the current weakness of the dollar. Therefore, Mr. Jones urges, whether you're buying or selling, it's usually best to work with an auctioneer who has strong online capabilities.

"We conducted the first auction with an online component 12 years ago," says William R. Bone, president of the National Auction Group in Gadsden, Ala. "It was a 7,000-square-foot ocean-front mansion in Rehoboth Beach, Del., that belonged to Phil Zaffere of Stove Top Stuffing and Lean Cuisine fame, and it was sold sight-unseen for \$1.8 million. It cost us \$50,000 to set up the online-auction facilities. Since then, it has become much easier and cheaper to arrange online auctions."

For higher-quality property, a live auction is held, with remote bidders logging on to a Web site where they can observe the action and place bids in real time. Clerks stand by at computers at the auction site to record and announce remote bids. Virtual tours of the properties are always available online, and occasionally someone will buy without ever visiting the property in person, but that's rare.

"It usually makes the seller feel better when people actually gather to bid," says Mr. Bone, "and it's easier for us to encourage them to bid more if they're there in person, so we always have a live component to our auctions."

Remote participants in these auctions have to put up a deposit (by credit card or wire transfer) to be held by a licensed, bonded title company, just as live bidders do. The default rate for online bidders is slightly higher than for live bidders — 3% compared with 1% — says Dean C. Williams, CEO and chairman of Williams & Williams

Worldwide Real Estate Auction in Tulsa, Okla. "But it's still nominal," he adds.

"Adding online bidders can maximize the value of the property," says Mr. Williams. "The bulk of the market for any asset tends to be local, and online participants are the high bidders only 15% to 20% of the time, but online bidding encourages foreign participation and thus becomes more important with each passing quarter that the dollar stays low."

Generally speaking, if you're auctioning a luxury residential or higher-end commercial property, you can expect the most serious bidders to show up at the site of the auction to place their bids. But certain property types tend to attract a good many online bidders, who will inevitably drive up the price.

The higher the asset value, Mr. Williams says, the more likely the winning bid will come from a

live participant, but for lower-priced properties the winning bid often comes from cyberspace.

Some auctioneers prefer to start collecting bids on a property online, before the actual auction, and in rare cases the seller accepts a bid and the auction is called off. John P. Hanenfeld, president of Seaford, Del.-based buyatauction.com, accepts online bids weeks in advance, but the process almost always ends with a public outcry auction.

With regard to checking out the property before completing the sale — the due-diligence process — a real estate auction company will offer the same information and assistance that a conventional broker would, Mr. Hanenfeld says.

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John Hanenfeld,
BuyAtAuction.com

with no money down," he adds. "We're selective about what we sell; we put the property out for inspection several weeks in advance, with brokers on premises, and we guarantee that the property you see today will be in like condition when you close on it."

Several reputable vendors offer robust, secure, private and customizable auctioning software. Live and online bids usually flow together, legal issues are the same for online and live bidders, and in most cases a complete due-diligence package can be downloaded from the auctioneer's Web site.

"The unique, high-end properties do better at live auctions than they would online," says J. Craig King, president and CEO of J.P. King Auction Company in Gadsden, Ala. "But a portfolio of, say, 20 fast-food restaurants, all net-leased [the lessee pays for utilities and taxes], might sell well online. In that situation, you're bidding on the income stream, so you'll be looking at the capitalization rates rather than at the bricks and mortar."