

Auction Column, By Thomas L. Williams, CAI

How are you going to take advantage of one of the fastest-growing trends in the American economy today? That question ought to be on the minds of every professional in the default servicing industry. Once unwisely regarded as a relic of the Great Depression, auctions are big business in America and around the world. According to an annual study conducted for the National Auctioneers Association, the live auction industry saw revenues of over \$270 billion last year. And at the same time the national housing market has experienced a decline, the fastest-growing segments of the auction industry are real estate related. Since 2003, revenues from residential real estate have grown 46.6%, from \$11.5 billion in 2003 to \$16.9 billion in 2007. In just the last year, residential real estate auction revenues grew 5.3%.

The point of reviewing these figures is not for a proud auctioneer to brag about his industry (though I'm glad to), but rather to demonstrate that real estate auctions are on the rise. More and more people are choosing to sell property via auctions, and more bidders are bringing more cash to real estate auctions than ever before in our history. For those who are taking advantage of this trend, times are good. And for those who haven't embraced it, the chance of being left behind is real – one need only look at the daily news for confirmation of that. Real estate auctions offer a substantial solution to the problems facing the default servicing industry. But what do professionals in the industry need to know about real estate auctions before using them? Here are five points to keep in mind.

Number One:

When marketed and conducted correctly, auction is the only way to determine true, current market value. In other realms of finance, this has been a given for centuries. It is the reason stocks are traded through an auction platform, the reason art and livestock and classic cars have been traded at more traditional auction venues for years. In more recent years, Google tapped into this fundamental tenet of commerce to operate its massive ad sales program. If you want your ad to pop up during a particular Google word search, you're going to have to bid on it. The reason each of these fields relies on an auction is simple: an auction creates an open marketplace in which knowledgeable buyers and sellers can determine the market value of an item. This is not to say everyone agrees on the market value (bidding wouldn't be needed if that were the case) or even want the true current market value (there are an inestimable number of speculators with properties listed at this very moment). But for those who do want the current market value, an auction provides it in a defined period of time. This leads to our next point.

Number Two:

Auctions offer the universal benefit of time-definite sales. This benefits buyers, sellers and communities. The whole point of an auction is to deliver the market on a specific property at a specific time. Once the auction is scheduled, everyone concerned knows when the property will sell. This may sound very basic, but the financial and psychological implications are tremendous. With an individual home put up for auction, the prospective buyers don't wait for a listing price to drop but instead show up to compete. For financial institutions with thousands of such homes, the time-definite sale means an ability to sell strategically with a known end rather than waiting for luck to strike. More importantly, it allows institutions to move vacant, non-earning assets off their books in the most efficient manner possible – and then put that money toward investments that actually yield a positive return. For communities, the time-definite sale means less blight and more stewards with a stake in their town. A vacant home is a magnet for crime, and a neighborhood with many vacant homes sees that phenomenon magnified. A vacant home is also an organic structure and deteriorates if left unmaintained. The importance of the time-definite sale is apparent for all parties involved, but it can be hindered. This leads me to our next point.

Number Three:

Bidders pay more when they know they will be the owner if they win the auction. There is a common misconception that the success of an auction rests solely on the shoulders of the auctioneer. To be sure, an auctioneer is responsible for marketing the home and conducting an effective auction that delivers market value. But as is the case in any type of sale, buyer psychology is of great significance. In my company's experience, about half the high bidders at real estate auctions are homeowner occupants while the other half are investors. And as any auctioneer can tell you, those same investors show up time and time again to auctions in their community. They are knowledgeable about the process. So when those investors catch on to the fact that a particular seller takes weeks to analyze high bids on their REO, not only do they start to lose faith in the process but they also factor in that time value of money they will lose while waiting for an approval or rejection. And that causes them to lower the highest bid they will put forward. On the flip side, if the bidder knows a particular seller is prompt with an acceptance or rejection they know they will either have their new investment in hand shortly or have their down payment returned and with it the freedom to move on to other projects. The default servicing industry serves an important oversight role on behalf of its clients, but prolonged decision-making on high bids does a disservice to all parties.



Number Four:

The U.S. is the only country in the world that believes real estate should only be auctioned during times of distress. Americans love auctions. Bids for fine art, classic cars, antiques, and thoroughbred horses are at an all-time high. Online auction operations like eBay have transformed our economy over the last decade, while new enterprises like the rapidly-growing Auction Network promise to continue the trend. Charity auctions have become more commonplace in communities throughout the nation, to the point that many auctioneers now specialize solely in that field. And yet real estate auctions are still viewed as a last-ditch resort for those in distress. The numbers on this don't hold up. Five years ago, at the height of the real estate boom, my own company was selling REO for lenders nationwide and obtaining 95-to-105% of the servicer's appraised value in Michigan, Ohio and other states. High net worth individuals have turned to auction houses like J.P. King and Sheldon Good for years when it was time to sell their property. As President of the National Auctioneers Association, I've had the opportunity to travel and visit with auctioneers around the world. In countries like Australia and South Africa, auction is the preferred method of real estate sales. In countries worldwide it is broadly accepted. So why the stigma for real estate auctions in the United States? It goes back to the Great Depression. In the wake of that calamity, with foreclosed property stacking up, the government turned to its preferred real estate sales method – the same approach used by the Union Army to sell seized lands following the Civil War: auction. Knowing auctions to be efficient and transparent, the federal government determined to use them for foreclosed property sales. The government then made a critical error which has undoubtedly cost investors millions – if not billions – of dollars since that time: instead of entrusting those foreclosure auctions to professional auctioneers who made a living from their skill in the field, they government turned it over to the local sheriff. Most sheriffs know as much about auctioneering skill as I know about modern law enforcement theory, and today the sheriff's auction is a relic, a bureaucratic formality which keeps homes out of the hands of new stewards even longer. It is also the first thing many people think of when they hear the words “real estate auction” – thus the stigma. To fully understand the damage of a sheriff conducting an auction, however, we need to consider the fifth and final point.

Number Five:

Auction is a sales art form. Auctioneering is no different than acting or singing in that anybody can pretend to do it but professionals spend years developing their talent. And just as with actors or singers, there are good auctioneers and there are bad auctioneers. To the casual observer, the talent difference may be hard to notice but the auction results don't lie. The great auctioneers of today have spent considerable time and effort learning from experience how

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best to bring in higher and higher bids. And on a larger level, professional auction companies – who employ those auctioneers – have often conducted successful auctions for decades, have been schooled in the business, and close the vast majority of the assets they sell. Those who treat auction as a side-bar or as an opportunity to capitalize on tough times often do more harm than good. For the best results, those in the default servicing industry would be well advised to take note of the experience and talent level possessed by any auctioneer they contract with to sell REO.

Auctions can do a tremendous service to this industry if used wisely. The National Auctioneers Association always stands ready as a resource should you have questions or wish to locate an auctioneer for a sale. You can visit the National Auctioneers Association at auctioneers.org.