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The eBay Effect

Technology helps increase the audience for commercial real estate auctions.

by Steven L. Good, JD, AARE, and Paul A. Lynn, CCIM

Once thought to be a sales tactic best suited for distressed and hard-to-market properties, auctions are gaining ground in today's market as an efficient and effective disposition strategy. In fact, the National Association of Realtors estimates approximately 30 percent of all U.S. real estate will be sold via auction in the next 10 years. What's contributing to the rise in auction sales? A competitive marketplace is certainly a factor, but equally important is the growing role technology is playing in the marketing and sales processes.

Technology's Role

Nothing has elevated the visibility of auctions in today's society more than the success of personal property auction sites such as eBay. Yet online auction sites have limi-

tations when it comes to selling real estate and other big-ticket items. While many products are universal in scope, real estate is unique by nature. Properties vary in every way from location to size to income, and these factors do not always translate easily into an online format.

Despite this fact, the Internet continues to evolve as a tool in the marketing and selling of real estate at auction. For example, www.sheldongood.com generates more than 40,000 visitors from six continents regularly pursuing properties coming to market via auction. In a recent mixed-use property portfolio auction, more than 6,000 of 8,000 interested parties registered for the auction online. Bidders can sign up to bid online for open outcry auctions, although the vast majority of bidders still

opt to bid in person. Online bidders can bid in real time either via posted printed bids, or by participating in live open outcry auctions that are audio and/or visual broadcasts over the Internet.

Additionally, technology can be an invaluable aspect of marketing and selling property via auctions. Online listing services, such as CCIMNet and LoopNet, provide vast exposure to potential buyers worldwide, creating an unlimited pool of prospective purchasers. Distributing due diligence materials and other pertinent documents via e-mail and online is another process that saves time and increases efficiency in the auction sales process. Internet-based tools such as STDBonline play an important role in creating due diligence materials for auction properties and developing marketing distribution lists. In

addition, the use of video, audio, and Web capabilities to simulcast auctions worldwide is increasing the viability of auctions as a mainstream sales technique.

Who's Using Auctions?

Sellers and buyers who use auctions today include institutions, investors, developers, corporations, real estate investment trusts, partnerships, individuals, banks, and government agencies, among others. The properties they sell and buy are just as diverse and range greatly in size and scope. Prime candidates for sale via auction are properties not easily valued on a traditional pricing matrix, unusual or special-purpose properties, portfolios of multiple properties, properties that require a sale deadline or controlled timing, and properties that require transparency. A few examples of sellers who are using the auction process to dispose of commercial real estate assets follow.

American Greetings recently sold a 770,000-square-foot distribution center in Arkansas and a 504,000-sf distribution center in Kentucky via auction. Both properties are located in predominately rural areas and were difficult to evaluate through traditional pricing matrixes. Because of their size and location, these sites were offered on a sealed-bid basis. In both cases, the auctions created a sale deadline. One of the properties actually sold before the auction — the buyer did not want to risk going through a competitive bidding process. The other center was sold after the auction to a buyer identified through the marketing process. Post-auction sales are often the result of purchasers who want to buy the property under slightly different terms than those set forth in the auction deal structure.

In another instance, a major manufactured-housing REIT offered 97 home communities in 15 states through a series of three live auction sales during a period of 18 months. The first sale was for 12 communities in five states, with 11 communities offered absolute. The second sale was for 14 communities in nine states, with 13 offered absolute. In the final sale, 71 communities in 15 states were offered, with 15 being sold on an absolute basis. As a result,

Top: After an aggressive marketing campaign, these two tracts of land sold in a live auction for more than five times above the minimum bid price. Below: The rural location of these two distribution centers made them difficult to price through traditional methods; buyers were identified through a sealed-bid auction process.



made it necessary to distribute due diligence quickly. Once registered online at the Web site, nearly 3,000 prospective bidders were provided with an access code for the properties they were interested in pursuing. They were able to receive detailed due diligence packages in either hard copy or a downloadable PDF file and also were regularly contacted via e-mail and telephone for updated information during the marketing program. When auction day arrived nearly 1,000 prospective purchasers attended and bids received approached \$250 million of property.

A Midwest regional manufacturing company wanted to sell two remaining parcels — 22 acres and 5.2 acres — of an original 150-acre tract in Denton, Texas, a rapidly growing area north of Dallas. The property had been listed with a major brokerage company that quickly sold two of the tracts and continued to market the remaining parcels. After 18 months of little action on the two remaining tracts, including an unsuccessful sealed-bid auction, the listing broker referred the property to Sheldon Good & Co. In conjunction with an aggressive marketing program, a minimum bid offering in a live-auction format resulted in nearly 100 calls, 30 bidder's information packages sold, and 12 bidders at the auction with the required certified check amounts to bid. After the auction was completed, bids of more than \$1.3 million had been received. The sites closed in 30 days on an "as-is, where-is" basis and the prices obtained at the auction were nearly five times above the minimum bid prices.

Auctions' Growing Appeal

Each of these transactions illustrates different types of auction strategies each based on the specific characteristics of the property being offered. Every property and situation requires customization that takes into account the property's dynamics, the property's location, and the seller's objectives.

Today's commercial real estate auctions are certainly not what they used to be. All types of selling entities and prop-

more than 50 communities were sold for a total of nearly \$200 million.

Both portfolios' geographic diversity and net operating incomes, which ranged from \$100,000 to more than \$1.5 million,

Sheldon Good & Co.

Auction Basics

To understand how auctions function in the marketplace, commercial real estate brokers should be aware of auction formats, types, strategies, and costs and fees.

FORMATS. The most common format is the open outcry auction, wherein the bidding is live and visible. Open outcry auctions are used where there is depth of market and competitive bidding is anticipated.

Sealed-bid auctions are used in thin market scenarios, where there may be only one or two bidders, where the auction forces the only logical purchaser into bidding, or where flexibility is required in offering the parts of the property versus the whole.

In the sealed-bid convertible auction format, the sealed-bid format is converted to an open outcry event when the interest level in the property becomes stronger than what was anticipated.

TYPES. A stand-alone sale generally is used for a single property or a group of properties in the same geographic location. In stand-alone sales, the entire marketing focus is on the property being auctioned.

Multiple-property sales may be portfolio sales for one seller or multiple non-competing properties for multiple sellers. For multiple-property sales, auctions may be conducted at one central location or in a caravan style, going from location to location over several days. Generally the sale is held at a site other than the property, such as a hotel, to control the environment and create a neutral atmosphere.

STRATEGIES. Absolute auctions occur when owners agree to sell a property regardless of price. The allure of a bargain and the absolute nature of the sale usually cause potential buyers to make their best offers. This auction type is the most aggressive from the seller's perspective. However, this strategy maximizes price because there generally are more participants. Income properties fare very well under this offering strategy as well as multiunit residential properties.

Minimum bid auctions occur when owners agree to sell a property at or above a stated minimum price. This strategy allows owners to limit their risk. The primary objection is it also acts as a deterrent to generating maximum interest in the property.

Reserve auctions occur when owners reserve the right to accept or reject the highest bid regardless of the amount. This method eliminates the seller's risk; however, when no sale is guaranteed, it is more difficult to generate buyer interest because buyers are unwilling to invest time and money when they do not know at what price the seller is willing to accept.

COSTS AND FEES. Auctions allow sellers to shift most transaction costs to buyers, who pay most or all of the marketing costs and commissions. This is accomplished by the use of a buyer's premium, which is a stated percentage of the high bid that is added onto the high bid to become the contract purchase price. The marketing budget varies based on whether the market for the property is local, regional, national, or international. Another variable to consider is the property's value. For example, a \$1 million property in a regional auction might have a \$40,000 marketing budget (4 percent of the property's value), whereas a large portfolio of properties selling for \$60 million might have a \$300,000 marketing budget (.5 percent of the portfolio's value). Buyers' premiums generally range from 3 percent to 10 percent depending on the property's value and normally reimburse sellers' costs of sale, including commissions and marketing.

erties are utilizing auctions, particularly for properties that are not easily valued and multiple-property portfolios. Auctions give sellers an opportunity to control the sale's timing and the offering format and generally help them achieve a fair-market sales price. Brokers and sellers should consider real estate auctions as a creative and alternative method for the sale of their properties. ■

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Unfortunately Steven L. Good passed away a few years ago. Steve was one of the pioneers and innovators of Real Estate auctions and accelerated marketing techniques.

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