

Auctioneer

JULY 2006

The official publication of the National Auctioneers Association



Investing in NAA's Future:
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Sellers say: "I need to sell, but.."

Dealing with sellers now that the real estate bubble has burst

By George Richards, real estate Auctioneer

For many months economists and business writers have been whining about the coming decline in real estate markets. Most of us who sell real estate at auction saw this coming months ago. Indeed, conditions are reminiscent to the late 1980s which ultimately led to the collapse of an entire industry, the Savings and Loan associations.

While many political observations could be made that were connected to that collapse and gave rise to government intervention through the Resolution Trust Corporation, conditions in 2006 are not the same. Simply stated, what goes up eventually comes back down. Real estate has almost always been such a market.

For the past few years, prices being paid for residential properties lacked any true support or justification. It is often said appraising real estate is an art and not a science. In this market appraising real estate probably requires a crystal ball or mirrors. As most markets continue declining, appraising real estate will offer challenges to even the most sophisticated and professional appraisers. Since most purchasers depend upon being able to finance through lenders, obtaining appraisals in support of the purchase price is essential to commerce. In truth, there is not any real means to know if and when the market will bottom out. Some markets remain vibrant, however, while a state of panic has not been declared, major price reductions are in store.

There can be little doubt about a transition from a seller's market to a buyer's market with many products to choose from. The number of properties now listed through the Multiple Listing Service (MLS) is growing rapidly, causing some sellers to become anxious. Those with high monthly payments or who are making payments on more than one property are probably nearing high levels of frustration. Many markets are saturated with single family homes, condomini-

ums, vacant land, residential vacant lots and acreage. Many developers and home builders continue projects at a curtailed pace, yet taking the next step, that is, delaying new construction starts, could have immediate impact to our economy. One of the most important economic measuring sticks relates to construction starts since America's economic well being depends upon industries supplying products and services to builders. Once construction grinds to a halt or is significantly slowed, other industries will soon falter.

There are now more sellers than buyers, however, many with real estate to sell find themselves in the unenviable position of knowing they need to sell, but have situations which might make doing so next to impossible.

Many have mortgages with outstanding balances which far exceed the current value of their property. Others are still grasping for that straw of hope which tells them their property is worth far more than it really is. Yet others, are not willing to admit they now find themselves upside down in an unpredictable market where competition is fierce. Many recent appointments with potential sellers who are now considering auctions as the vehicle of salvation say they want to sell, are forced to sell, but must have some set certain price. Sadly, some are likely to find themselves in court facing foreclosure, bankruptcy and almost certain financial ruin.

On the other hand, there are sellers who recognize the uncertainty of this market and welcome the advice of a professional Auctioneer. From past experience, I've found that when a potential seller must be convinced an auction would be useful to them, there is usually a no sale waiting right around the corner. As the old commercial so aptly states: "No wine before its time." Sometimes it seems sellers have to suffer with a property or situation for an extended period of time before coming to the decision an auction would be beneficial to them.

Sellers unwilling to let market prevail

Some of those seeking information about auctions seemingly have an agenda, special conditions or unrealistic expectations. Many expect their properties to be sold even though they are not willing to allow the market to seek and find its own level which is best accomplished through a true absolute auction. Some seem to recognize the dire state of their financial affairs yet expect Auctioneers to have a "magic bullet" in their briefcase capable of taking away the pain of realizing what true market value is likely to bring.

Only sellers who are truly motivated are likely to find success. It is hard to understand the reason anyone would want to have a professionally conducted auction yet be unwilling to accept the final price achieved. When a property fails to sell at an auction, it is unusual for prices to increase since most properties tend to become tainted by the final price obtained on auction day. It is devastating to the market value of a property when the top bid price ends at 50% of what it should have brought on auction day.

If we believe in this method of sale, then it only follows that prices achieved on auction day equal market value. This

statement assumes the Auctioneer employed to conduct the event actually knows their job and understands conditions of the marketplace.

Certainly, there are reasons properties fail to achieve actual market value, however, past experience indicates the major source of failure lies in the first meeting with a seller, when demands are made for certain price levels. Often, the best course of action is to decline the auction rather than accept conditions imposed by an unmotivated seller. When a seller is unwilling to sell to the highest bidder, there is little to no equity in a property or an expectation of achieving the price stated in an appraisal recently ordered, even an auction might not provide a solution.

There can be other contributing factors such as the inexperience of the Auctioneer in charge of the event, however, most properties that fail to sell at auction can be tracked back to that very first meeting with the seller. When they are committed to the success of the auction, every effort will be made to make certain the event works the way it was planned.

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No doubt, some Auctioneers will be trying to sell real estate at auction who lack experience who are hired by unknowing sellers. Selling real estate at auction is a specialty that is similar to Auctioneers selling thoroughbred horses, fine artwork, antiques or similar items where knowledge of the product being offered is essential in the outcome of the event. Sadly, some real estate brokers and others lacking expertise will attempt conducting auctions with predictable results.

Some in the real estate market recently had as their motivation to become rich, with no regular job and no cash investment but an ability to amass a large net worth through investing in real estate. Some purchased properties that were yet to be built (pre-construction) knowing they would never live there since the contract would be flipped. In some markets, this produced great results, however, it has created an artificial market.

Florida's glut of unsold condos

For example, in South Florida, it was recently reported there are more than 25,000 unsold condominiums. The same report indicated other projects scheduled to break ground in 2006 will not be built because of a weakening market. Also consider the large number of rental apartment complexes that were in the process of being converted to condominiums.

Many of the same complexes have nearly abandoned marketing efforts and now seek tenants since there is little demand for their units. Many people purchased acreage and vacant lots in towns and cities foreign to them which were intended to be resold on eBay or some other electronic source. This has also resulted in creation of artificial markets with prices that are difficult to justify. These conditions remind me of the land rush of the early 1900s in Florida when unsuspecting investors were sold swamp land. There will be a day of reckoning, a day when unsuspecting land owners actually visit the land they now own or are making mortgage payments on.

Probably one of the most serious situations concerns owners of residential properties who have virtually lived from refinancing and creation of artificial equity accumulation. There are many who watched the market closely and as there was a build up of equity, they immediately refinanced. Some used this cash to purchase other over priced property. It is almost like a dangerous game of dominos. Many people find themselves in this untenable position making monthly payments, paying real estate taxes and insurance on properties that are worth far less than they are obligated to. Since most real estate taxation is based upon the price paid for a property, these trends are likely to have far reaching complications.

Will prices come back? Like all markets that rise and fall, eventually prices will come back, however, will that happen in time to rescue the owner? That answer is probably not. Some are likely to lose properties to foreclosure, an increased number of bankruptcy filings and ruination of credit scores which allowed them to get into this position to start with. When lenders lose sight of the basic principles of extending credit, that is, the ability of the borrower to repay, results are not hard to predict. Some lenders will end up trying to sell their foreclosed properties via on line auctions conducted by unskilled, untrained, unlicensed and inexperienced people who claim to be Auctioneers. Others, will try sealed bid auctions since they lack the guts to have a real auction. I believe it is incredible anyone connected to the profession of Auctioneering would actively support electronic auctions or sealed bid auctions that take away from the traditional method of selling at public outcry auctions. When all else fails, America's Auctioneers will get the job, just like always. It is truly amazing that auctions seem to be the sale of last resort, yet when action is required that truly brings successful solutions to difficult problems, Auctioneers will swing into action and get the job done.

George Richards, of Boynton Beach, FL can be reached at griehards@natlauction.com.

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