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Does a seller have any leverage in a buyer's market? Regain control through a real estate auction strategy

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"Does a seller have any leverage in a buyer's market?"

The Issue

The market is clearly different than it was a few years ago. In good times, a seller received multiple offers for a property, often above the asking price, with regularity. Bidding wars were commonplace, the credit markets were liquid and investors were (seemingly) forever able to defer taxes by conducting Â§1031 exchanges. But that is not the world we live in today. These days, as cap rates decompress and supply continues to grow, properties are sitting on the market longer, the rate of foreclosures has increased dramatically, and buyers do not have an ability to finance their purchases the way they could when credit was readily available. By virtually every metric, this is the definition of a buyer's market.

In a buyer's market, a buyer has little or no incentive to make any moves; he has multiple choices and no urgency to act. In a buyer's market, the buyer dictates terms, pricing and timeline. In a buyer's market, a seller has little ability to control his destiny. Thus the issue at hand is: Does a seller have any leverage in a buyer's market?

Fruitless Efforts

The conventional brokerage model is flawed and particularly ineffective in a buyer's market for several important reasons. First, conventional sales programs are lengthy and unnecessarily costly (from cost of carry, cost of sale and opportunity-cost perspectives). Second, fluctuating markets make valuation problematic (particularly in the absence of relevant comparable sales). Finally, systematic price reductionsâ€"the most common response to a declining market from sellers and their brokers in a conventional sales programâ€"are ineffective (because, despite a reduced asking price, buyers will still want to feel like they are "getting a good deal" and will want to pay less).

Owners and developers have tried numerous other, more creative strategies to incentivize brokers and buyers alike. Such strategies include offering landlord concessions (for example, in the form of more free rent in residential or commercial leasing contexts), providing greater and greater seller concessions in residential developments (such as the subsidizing of closing costs or mortgage-related costs or payments) and presenting other monetary and non-monetary incentives. (My favorite was the offer of a free Mini Cooper to the broker who leases a retail space at a particular Madison Ave. building in 2009).

The bottom line, however, is that these tactics are rarely effective enough to persuade a buyer to actually make a buying decision at a time when buyers have so much leverage.

The Solution

The real estate auction is a structured marketing strategy used by select sellers to regain leverage and exercise a certain level of control in the marketing and sale of their real estate. It is compelling, faster and more effective than virtually any other strategy one can implement and it squarely addresses the issues faced by sellers in a buyer's market.

The auction focuses the market's attention on the subject property, immobilizing the marketplace with respect to the sale of competitive product. It creates a deadline, forcing purchasers to act immediately and it eliminates the prolonged carrying costs associated with conventional sales programs. Furthermore, in an auction program, the seller sets all terms of sale in advance and they are typically non-negotiable. It establishes value without setting any ceiling on price and can sometimes be used to identify the party or parties most interested in the asset. Moreover, portfolio sellers or developers (i.e., any party seeking to sell multiple properties at the same time) can execute "bulk sales" for "retail pricing" (meaning, for example, that a developer can sell 25 condominiums to 25 individual purchasers simultaneously).

Essentially, the real estate auction is a unique and persuasive means by which sellers can regain some of the leverage they have given up in a buyer's market. It does so by creating urgency and fear of loss at a time when such seller-friendly buyer sentiments are clearly lacking.

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