



Utilizing absolute auctions: For the motivated seller, its not a half-baked idea

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For the motivated seller with some equity in their property, absolute auction—selling without a reserve to the highest bidder—is more than just the optimal auction method; it's the optimal selling method. While it would appear that going absolute is a high-risk enterprise designed only for the true thrill-seekers among us, history has shown that with effective marketing, absolute auction gets better results than any other means of transacting real estate.

To be honest, it's not as hard to achieve as it may sound. In fact, over the years, our auction team has come to the conclusion that creating a successful absolute auction is a lot like baking a cake—spend ample time selecting the best ingredients in the proper measure, apply the perfect level of heat for just the right amount of time, and voilÃ¡, your profits will rise and your seller won't get burnt. We use this simple analogy to formulate our strategy each time we begin creating an absolute auction marketing plan, and the results inevitably exceed our seller's expectations.

As any good baker will tell you, step one, choosing the right ingredients, is the most important part of the process. Accordingly, we spend the greatest amount of time crafting our marketing package, the main ingredient for a successful absolute auction. There is an enormous draw in the word "absolute" as it relates to real estate, and it consistently sets those listings apart from the rest. Prospective buyers know that an absolute auction is the "real deal"—the asset is going to sell on a specific day at the fair market price established—and we use that association as prominently as possible, in as many outlets as possible. The time and effort are always well spent; our mix of print ads, Internet listings, targeted mailings and email blasts produces quantifiable results weeks ahead of the auction date, which tells us just how much additional heat we'll need to get that particular "cake" baked.

Another important ingredient is providing others with the opportunity to create a win-win experience, otherwise known as the "what's in it for me" effect. In the context of our absolute auction plan, this takes two main forms: a broker participation program and buyer-targeted advertising that presents the property in a "Such a deal!" light. Our broker participation program is simple and effective—the broker who brings the successful buyer to the table gets a percentage of our compensation. The advertising message is equally simple: "Don't waste time worrying about what the seller may be willing to take; come to the auction and bid to have a say in the construction of the price yourself." We have found that both methods generate high levels of interest, and both methods drive the auction price upward—critical elements of our recipe for success.

Last but clearly not least, there are a number of seller-side ingredients that contribute to the realization of our absolute auction goals (let's face it, if the seller doesn't want to bake the cake in the first place, the baker is out of business!). Like many experienced professional auctioneers across the country, our team utilizes a very appealing no-commission, no-contingency contract; we

make our "commission" via a buyer's premium which, as the name implies, is paid by the buyer. Openly disclosed to all potential buyers to ensure they make informed decisions when bidding, the buyer's premium is a percentage of the high bid (usually 10%) that the buyer pays in addition to their bid. This combined amount of high bid plus buyer's premium then becomes the final purchase price of record for the property.

The no-contingencies contract is also a boon to the seller, and at our company, it is used for both reserved and absolute auctions. For sellers going the absolute route, not only is there a guaranteed sale date for their property, there is also a guarantee that no changes will be haggled back and forth once the buyer signs the contract on auction day. The closing date is also set contractually, with a stipulation that time is of the essence, eliminating yet another stumbling block that sometimes bogs down the process. As with all facets of the absolute auction method, the contract is designed to facilitate an efficient, timely transaction with little to no opportunity for failure.

Once all of these ingredients have been combined and implemented, we focus our efforts on time and temperature. Though we auction a wide variety of properties, from single-family residences to multi-acre estates to industrial complexes, we have found that the "Buy today only!" nature of auction allows for the same basic timetable to work equally well in all but the most unique situations. From placement of the first round of advertising to auction day, we generally work within an action-packed four-week public time frame— not a lot of wiggle room for potential buyers looking to "work the system." In this way, we—hence, the seller—maintain control of the overall plan from start to finish. Because the asset is something people want to buy, and they know they are on a level playing field which enables them to have a say in constructing the price, and they will only have one chance to do it, at the end of the day, there are always plenty of bidders willing to play by the seller's rules.

As we noted above, we determine how much additional "heat" to apply by evaluating the effectiveness of our initial marketing campaign. In our experience, where absolute auctions are concerned, there is often no need to artificially fuel the process. We simply allow the natural energy produced by auctions in general—the show-like atmosphere and the buzz of the live-crowd environment—to work to our advantage, and then add the temporal urgency of absolute auctions to elevate that energy to new heights. This phenomenon, which we call "the white heat of selling," is a unique benefit of the auction method, and creating and sustaining it is the ultimate goal of every auctioneer.

The white heat of selling was in full effect last August when we offered Spring House, a residential/commercial rental property in bucolic Barryville, via absolute auction. Built on the upper Delaware River nearly a century ago, the property enjoyed popularity during the early 20th century as The Spring House Commons, a well-known boarding house for tourists and Erie Railroad employees. In 2006, after an electrifying 10-minute flurry of bidding activity, we sold the revamped property at absolute auction for \$990,000, a fair market value that greatly pleased our seller.

The numbers indicate that auctioneers nationwide are meeting with similar success. Current data from an independent study conducted by Morpace International underscores the impact auctions are having in the real estate market, despite the "soft" market indicators. The study reports that in the live auction industry—projected to generate \$264.8 billion in revenue for 2007—real estate is the clear front runner in terms of growth. From 2003-2006, the total percentage of sales growth for residential real estate auctions was a whopping 39.2%; land and agricultural real estate increased by 33%; and commercial and industrial real estate increased by 27.4%. By comparison, the

next-closest growth margin was charitable auctions at 16.3%. In other words, there is no soft market in auction real estate; like our cake, the only way to go is up.

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