



Why the real estate auction is a more relevant means of disposition than ever

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The national real estate market, at the core of the current economic crisis, has undergone a tremendous transition in the last 24 months.

As we make our way through these difficult times, buyers and sellers of real estate, like many others, are faced with challenging issues. One major question revolves around how sellers of real estate can achieve their disposition objectives—concerning pricing, timeline and terms—in such a market.

The real estate auction is a structured, accelerated sale whereby real estate owners may sell any type of property on their terms and timeline. Specifically, the seller sets forth the property or interest therein that he wishes to sell, the terms of sale (in the purchase and sale agreement distributed to prospective buyers), and all due diligence materials (in a prospectus). Interested parties inspect the property and all due diligence materials, including the terms of the typically non-contingent purchase and sale agreement, in advance of their auction-day bids. The nature of the auction process is one of efficiency; it eliminates lengthy negotiations and significantly reduces the risk that a deal will fall apart.

While these characteristics are valuable in any market, they are particularly advantageous in this turbulent market.

Difficulty Obtaining Financing

One of the major obstacles in today's markets relates to buyers' inability to obtain financing. Previously, lenders' willingness (perhaps, eagerness) to permit ever higher loan-to-value ratios caused buyers to stretch and pay more (overpay?) than they would otherwise for acquisitions; for certain asset-classes, those sums were often staggering (consider Manhattan office buildings trades, 2004-2006).

Now, however, with financing dried up as it has, diminishing deal flow is accompanied with significantly lower pricing across the board. Buyers, virtually all of whom are required to put down a much more significant portion of purchase prices, have naturally responded with drastically lower offers.

The structured format of the auction allows sellers to convey on whatever terms they wish and can provide seller-financing as part of the package. Sellers who have the ability to hold paper can therefore build this into the terms of sale (on their terms), allowing serious parties to avail themselves of a financing alternative which will likely be more attractive than traditional lender financing—causing buyers to pay more than they would otherwise.

Developer/Portfolio Sales

Portfolio owners wishing to sell numerous properties in one or more asset classes or geographic areas may implement an auction program to execute individualized marketing programs for each

asset individually, but on a simultaneous timeline. That is, a single seller can sell multiple properties in different locations, all to individual buyers (which is how price is maximized) at the same time.

One significant example of thisâ€”perhaps the fastest growing segment of the auction business nationallyâ€”includes residential developers seeking to accelerate the sale of finished inventory of condos, single-family homes, and townhouses. Auction programs allow developers to sell numerous units (50 condos, for example) to individual buyers, all in one day. The conclusion is that this yields higher pricing than a bulk sale and is accomplished on an accelerated timeline (as opposed to a conventional, retail program, which can take months or years).

The auction's ability to market and sell numerous units or properties in a single day is especially valuable in this type of market.

"Buyer's Market"

Two other themes predominant in this market make matters difficult for sellers. One is that buyers are waiting on the sidelines for the correction to take its full course before they re-enter the marketplace to buy at the bottom. The second is that, particularly with respect to certain asset classes (e.g., residential), the exceedingly high supply of available inventory naturally causes tremendous downward pressure on pricing.

The deadline inherent in the auction process creates a sense of urgency and forces buyers to act. Furthermore, and perhaps more importantly, the auction focuses the market's attention on the subject property and freezes activity with respect to competitive product available in the marketplace at the same time.

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