

Open House: Auctions making increased bid in home sales

by Jim_Woodard

When home sellers cannot afford to wait the required time needed to sell a home the conventional way, they often turn to auctioning their property.

The auctioning of residential properties is the fastest growing niche in the auction industry. About \$17 billion in auctioned home sales were finalized in 2007, the last year figures have been tabulated. That reflects an increase of 46.6 percent over the volume of homes auctioned in 2003, according to the National Auctioneers Association.

There are pros and cons to the auction process. It's certainly not the best option for all home sellers. But for those needing immediate cash because they have purchased another home, need to expedite a divorce settlement, or other special circumstances, auctioning can be a viable option.

Properties that lend themselves to auctioning are homes that are difficult to appraise due to very unusual features and characteristics. A well-promoted auction can effectively determine its market value. Vacant homes and those with a lot of equity are also good auction candidates.

A professional auctioneer does a lot of advance preparation. A marketing program is implemented to generate a substantial number of bidders, including media and Internet ads and publicity, mailings and other forms of communication. Realtors are often invited to bring prospective buyers to the auction, generating a referral fee for if their registered client is the successful bidder. In fact, Realtors have played a key role in the growth of home auctioning.

It might be a fast way to market a home, but it's not inexpensive. Costs could include an advance fee of up to \$1,500 if the auctioneer prepares and implements a custom marketing plan. Commissions charged by auctioneers generally range from 4 percent to 10 percent of the final selling price.

A new wrinkle in the auction industry is to offer multiple residential units in a single development, with potential buyers making their bids online. One such auction was held recently for 79 units in The Rowan Lofts in downtown Los Angeles.

Participants were able to set their own price and see what others were bidding on The Rowan units shown on large screens at the auction site, or at home on their own computers, said a spokesman for the auctioning firm.

The Feb. 8 auction resulted in 62 lofts sold for a total of \$21.8 million. “The success of this auction confirms that there are plenty of prospective buyers sitting on the sidelines because they are uncertain of values in this real estate market,” said William Stevenson, a partner with Downtown Properties, the property owner.

Q: What positive indicators are surfacing in the home selling market?

A: Positive signs are emerging in the home selling market. Here’s an encouraging report from the research and publishing firm of HSH Associates Financial: “After existing home sales bounced up by 6.5 percent in December, the National Association of Realtors reported that their pending home sales index also bumped up by 6.3 points during that month. That means that January’s and February’s existing home sales figures are likely to also sport a rise when they are released.

“The increase is due to improving affordability, roughly defined as the intersection between price and financing costs. Home sales figures still remain low but do seem to be finding some kind of bottom around these levels. Also, the pace of credit tightening is slowing, according to the Federal Reserve’s survey of Senior Loan Officers.”

Provisions of the new stimulus package structured by the Obama administration should create a significant boost to the home selling market in coming months. All factors, including historically low mortgage interest rates and lower home prices, point to a revitalizing market in 2009.

Q: Considering current market factors, is it better to rent or buy?

A: That old question is now taking on more significance: Are there really solid reasons to own a home as opposed to renting in today’s market?

As always, the simple answer is yes, homeownership offers strong benefits over renting. But there are new factors to consider. With many families being forced out of their homes after experiencing a foreclosure, more people are shopping for the limited number of rental units. At the same time, fewer new rental units are being produced, due to financing problems.

Therefore, an increasing number of consumers are looking for a diminishing supply of rental units. This is a scenario that inevitably leads to higher rents.

Home buyers, on the other hand, have a large inventory of properties to choose from — many at sharply reduced prices. And mortgage interest rates are still at historically low levels. In a growing number of cases, the monthly cost of homeownership is less than rent paid for a comparable housing unit.

Also, consider the long established advantages of ownership. You build equity in the property with every mortgage payment. The interest you pay, along with real estate taxes, are deductible on your federal income tax return. And, in the long term, the value of the property will increase, as it always has in the past. It is, without doubt, the best of all family investments.

Finally and perhaps most important, you can enjoy pride of ownership. You can make custom changes to fit your personal lifestyle preferences.

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