

Understanding Auctions and is it for You?

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There is a lot of talk these days about auctions and particularly selling OREO at auction. Financial institutions, the FDIC, Fannie Mae and many others use auctions on a routine basis to liquidate properties. In today's financial climate, bankers need every tool available to maximize returns, limit losses and reduce risk. An auction can help accomplish all three of those objectives, and it's worth understanding the role auctions can play in your short-term and long-term strategies.

About Auctions

Institutions face two major challenges in selling their real estate: (1) Getting it sold in a timely manner, and (2) getting the market value for properties. Central to both of those challenges is the question of pricing. Even though there's an appraisal, the ultimate value of a property is the one at which someone is willing to buy it, and it's not always easy to know where to set the asking price. If it's too low, you get traffic and might even achieve a quick sale, but you may have left money on the table. Conversely, a high price may result in a holding period, which is equally undesirable.

A properly marketed auction can effectively address both of these challenges. The auction date forces buyers to act on the seller's timetable, and the competitive nature of the auction ensures a fair market value.

Online Vs Live Auctions

Until just a few years ago, auctions were almost always live. Today, technology provides far more opportunities for reaching bidders in different ways. Live auctions are as popular as ever, and there are still many key benefits to selling at a live event. Most importantly you get a contract signed and a earnest deposit right then! With the introduction of online bidding, many auctioneers implemented a bidding system known as a *simulcast auction*. The simulcast auction has live bidding and online bidding occurring in real time against each other. Bidders can now choose how they bid. The number of properties selling in different types of auctions varies widely from one company to the next. At our firm, John Dixon & Associates, it's about 50/50 for online versus the live event

When to use the auction method?

Using the auction method has to be right for you. Often potential sellers ask what type of properties to sell at auction. It is more about the situation than it is about the property. Here are some situations for financial institutions that produce good auction candidates.

- Properties have been marketed for a significant period of time with no results.
- Properties are accumulating and a certain portion needs to be liquidated so personal can manage the volume.

- Losses are managed and need to be taken in a particular quarter.
- Properties obtained through mergers and acquisitions.
- Properties under a loss share agreement with the FDIC that have aged and need to be sold prior to the expiration of the agreement.
- Properties whose holding cost escalated due to failure to sell by traditional methods.
- Properties that create significant liability to the bank.

Choosing an Auction Company

No matter what you are doing, choosing the right vendor or the right person is a critical decision. Choosing the right auction company can be the difference in a successful or not so successful auction. It can be the difference in selling properties or not! Look beyond the flashy literature, the fancy websites and the colorful statistics...they do not sell properties. Auction firms are experts at creating marketing and logistical plans for different locations; therefore, the firm doesn't have to be located next to the property. You don't need the biggest firm or the smallest; you just need the right firm! Here a few helpful hints:

- 1)** Find an auction company that has experience with financial institutions.
- 2)** Ask for a list of recent auctions.
- 3)** Ask for a list of references and call them! You need at least three from financial intuitions and one that can give you a financial capability for the auction firm.
- 4)** Ask questions and more questions.
- 5)** Find out who will be your day to day contact person and make sure you meet them first.

About John Dixon & Associates

John Dixon & Associates, headquartered in Atlanta, GA with offices in Tallahassee and Chattanooga, is a national real estate auction firm that serves the needs of financial institutions, the FDIC, REITs, hedgefunds, investment groups and individuals. John Dixon & Associates is now preparing for a multi-seller bank owned property auction on April 22-24. If you would like to learn more about this event and how auctions can be right for you call Buddy Lee at 850.765.2353 or Bob Green at 770.425.1141. The deadline for inclusion in the April event is March 12, 2014