

Coming to a PC Near You: Real Estate Auctions

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In the era of eBay, when virtually any tangible object is sold over the Internet, commercial real estate investors are beginning to give online auctions for income-producing properties a serious look.

While the phenomenon is still new and there are few industry-wide statistics, it's clear that more buyers are growing comfortable with bidding on properties that they may have only seen on the Web. One indication is the steady increase in out-of-state deals in which investors snap up properties beyond their local turf. According to Real Capital Analytics, private out-of-state buyers spent \$32 billion on core properties last year, up from just \$24 billion in 2004. Through the end of August, such sales had reached \$27 billion — a level of transactions that suggests they are on track to hit nearly \$40 billion by year-end.

"The investment buyer is no longer limited to his geographical area. Provided he can perform the level of due diligence he requires, and then manage the ultimate disposal of his new property, there are some real bargains online," says Laura Reimers, senior vice president of marketplace development at online auction company [Bid4Assets Inc.](#), Silver Spring, Md.

Online auctions are already old hat for some real estate investors. William W. Lange, president and CEO of the [LFC Group of Companies](#) in Newport Beach, Calif., says his commercial real estate auction company hasn't held a conventional auction since late 2003. While traditional auctions attracted a few dozen potential buyers "if we were lucky," now, he says, a typical online auction draws hundreds of prospective bidders. Since launching in early 2004, the LFC Online program has racked up more than \$400 million in commercial property sales worldwide, Lange says. This year, through the end of August, LFC Online has conducted more than 60 auctions in four countries: the United States, Canada, Germany and the Philippines.

An auction can feature one or more properties. LFC's auction process includes property research and due diligence, advertising and public relations, traditional real estate brokerage (whereby LFC acts as the broker), title insurance, mortgage finance and escrow. LFC also provides a useful prospecting tool-software that can pinpoint who's shown interest in various properties being advertised online.

A typical LFC assignment is the current listing for 35 undeveloped acres in the Seattle suburb of Bothell, Wash. September 14 was the bidding deadline for the property, with a minimum sealed bid of \$2 million and a seller-suggested value of \$4.8 million. According to [Grubb & Ellis](#), which is brokering the deal, the land can accommodate roughly 1 million sq. ft. of office space or a high-end condominium complex.

Craig Hill, vice president and managing director of Grubb & Ellis in Seattle, says the online auction is ideal for attracting local, national and international buyers. Tapping LFC for the online auction "was a natural progression, because it's basically a marriage between conventional brokerage services, advertising and technology," he says.

Some sellers do remain skeptical about online auctions. Paul McBride, who sold three former [Coca-Cola Enterprises](#) bottling plants through LCF, is one of them. The Coca-Cola deal involved an 114,000 sq. ft. property in Monticello, Ark. that snagged \$985,000; a 60,000 sq. ft. property in Abilene, Texas, that fetched \$400,000; and a 50,000 sq. ft. property in Oshkosh, Wis., that yielded \$425,000.

McBride, a broker with [RFP Commercial](#) Oshkosh, Wis., says he still prefers his usual method of marketing property — sending targeted mailers, working the phones and posting the property on the RFP Web site — to the online auction. "It's not your standard way of marketing a building," he says. "Maybe I'm just not used to it." That's one obstacle to the widespread adoption of online commercial real estate auctions: Many commercial brokers, like McBride, may continue to conduct business the old fashioned way.

Where online auctions may gain more immediate traction is in exposing a huge audience to properties that investors refer to as "special situations." In 1999, Bid4Assets set up shop to create an online market place for forfeited or foreclosed properties from such government agencies as the [U.S. Marshals Service](#) and the [U.S. Department of the Treasury](#). This year alone, Bid4Assets has sold about 25 commercial properties online, including three raw parcels in Middletown, Ohio, that collectively sold for nearly \$112,000.00.

Through a Bid4Assets auction, a private seller pays a \$5 listing fee and a commission of up to 10% on the winning bid, and must cover costs for photography, informational materials and advertising, says Laura Reimers, senior vice president of marketplace development. Government sellers typically negotiate a contract for auction services and fees. In a traditional auction, the seller incurs additional expenses, such as hiring the auctioneer, renting the auction hall and hiring security guards.

Depending on the auction, the buyer may pay what's called a buyer's premium of varying percentages — a common practice in traditional auctions — as well as additional fees for costs such as transferring the deed, Reimers says. That premium helps offset the commission paid by the private seller. "But, of course, the buyer doesn't incur the expense and inconvenience to get wherever the auction is being held," Reimers says. Bottom line: Fees associated with an online auction are similar to what you'd pay in a traditional auction, "minus the inconveniences," she says. Yet the convenience factor also presents a dilemma: You can't inspect the property unless you visit it yourself or pay a local representative to do it for you.

Despite that risk, five to 10 years from now all "serious" real estate auction marketing companies will be conducting sales online, LFC's Lange predicts.

Erica Brown, a spokeswoman for the [National Auctioneers Association](#) in Overland Park, Kan., says her trade group doesn't believe online auctions will make live auctions obsolete. Some people always will want to tour a property in person before signing on the dotted line, she says.

Brown says online and offline auction businesses can coexist, as they do at companies such as Sothebys. She says auctioneers are embracing the group's [NAA Live](#), a Web site created to accommodate online auctions and coverage of live auctions via Web cams. Some auctioneers on the site even conduct online auctions simultaneously with traditional live auctions, Brown says. "There will still be a place for the mom-and-pop auctioneer," LFC's Lange says, "but he or she will be conducting small dollar-volume local auctions that have local target markets."