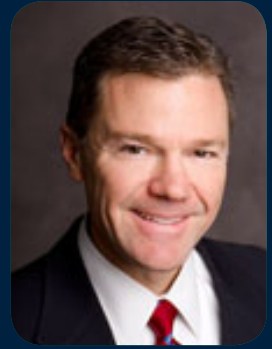




Knowing When to Auction a Property



An 18-year veteran of the auction industry, Douglas Johnson is currently the managing director of Auction Services, at CBRE, in Chicago, IL. Mr. Johnson is widely quoted as an expert regarding the benefits of selling via the real estate auction. A frequent speaker on the subject, he has addressed a number of professional organizations.

By Douglas P. Johnson

There are many myths about selling commercial real estate at auction. These myths may include the notion that auctions are only used to sell low value junk properties or that auctions are liquidation programs of last resort and they do not maximize the value of the property.

Auctions are used around the world to sell the most expensive art, jewelry, furniture and other high cost items. As is the case with fine art owners, commercial real estate owners in the U.S. are discovering that the auction process for the sale of quality real estate will maximize the value of their property on their terms.

However, one of the most common questions asked by owners is: When is a property a good auction candidate? The answer can become complicated; however, it is generally as simple as determining if the seller wishes to maximize the value of his or her property with speed and certainty. The desire to sell a property with speed and certainty in an accelerated marketing process “auction” can be for many reasons; high cost of asset carry, certainty of sale by end of quarter/year, stale current marketing efforts, rebounding from the buzz of an auction; or the seller wants to control the terms of sale. To better understand why these factors are important, let's define them more clearly:

Speed: Seller's can be assured they will sell their property within eight weeks from the date the Broker/Auctioneer is engaged to sell the property.

Certainty: Buyers must submit non-refundable earnest money totaling 10 percent of the Purchase Price. Properties are sold “as-is, where-is” with no contingencies with a closing that will occur within 10 to 45 days from the date of Seller's acceptance of the offer.

Maximization of Value: Properly conducted real estate auctions are high powered marketing programs that aggressively target buyer groups through print and website advertising, direct mail and email blasts, public relations, web search optimization strategies, personal outreach to prospective buyers, and other marketing techniques.

There are Many Different Auction Forums and Methodologies

Online Auction: Also referred to as a timed auction, similar to an e-Bay auction. Bidders bid electronically from their computer. Bidders must bid the minimum bid increment requested by the online auctioneer. The high bidder at the conclusion of the auction is the winner.

Open Outcry/Webcast: An open outcry webcast auction allows bidders to bid in person at the auction location. The webcast feature of the open outcry auction allows the bidders to see and hear the auctioneer and bid online from their computer.

Sealed Bid/Convertible: Allows bidders to bid by filling out the Purchase and Sale Agreement and send it to the auctioneer with the required earnest money deposit prior to the bid deadline. Seller may have the option to convert the offering to an open outcry or online auction after the review of the sealed bids.

Auction Methodologies: Absolute; Minimum Bid; or With Reserve

Absolute Auction: Requires the seller to sell the property to the highest bidder regardless of price.

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plus of available land for sale adjacent to the property.

Unable to secure a sale on a conventional basis by another brokerage firm, the client engaged CBRE Auction Services to create an auction strategy that would maximize value of the property with speed and certainty of closing. Given the challenges of the property and the seller's business plan for the non-core surplus property, we recommended an absolute open outcry webcast auction. This auction strategy placed the property to the forefront of the market and created a sense of urgency for buyers to act on a property. Working in conjunction with local CBRE professionals, CBRE Auction Services launched a comprehensive regional and national marketing plan. The robust aggressive marketing program included public relations, a national print and online advertising campaign, direct mail and email blasts, and inbound marketing strategies.

CBRE Auction services held the auction in a hotel ballroom in Albuquerque, NM. The open outcry with webcast real-time online bidding generated several qualified bidders prepared to bid at the auction on an "as-is, where-is basis" with no contingencies. Each bidder was required to submit an initial earnest check in the amount of \$100,000 in the form of certified funds on the day of the auction. The high bidder was then required to increase that deposit to a total of 10 percent of

Minimum Bid Auction: Requires the seller to sell the property to the highest bidder at or above the published minimum bid.

With Reserve Auction: Requires the seller to sell the property to the highest bidder at or above the unpublished reserve.

Other Auction Concepts

Buyer's Premium: Many auctioneers require the high bidder to pay a Buyer's Premium (BP) in addition to the high bid amount. This nominal percentage of the high bid price may be retained by the auctioneer as his or her compensation.

It's important to remember that the property and the seller's business plan will dictate the proper auction forum and methodology that will be used for the sale of the property at auction. Auctioneers may require the high bidder to pay a Buyer's Premium (BP) in addition to the high bid amount.

For example, CBRE Auction Services was recently retained by a well known manufacturer to sell a vacant non-core 165,000 sf former manufacturing facility in Belen, NM. Belen is located about 45 minutes south of Albuquerque.

The property presented a few notable challenges for CBRE Auction Services. First, the building had been listed for sale conventionally for a few years and was even put under contract on a few occasions, but no buyer ever completed a purchase. Second, the property was located in a tertiary market with high unemployment, a struggling economy, and a sur-

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the purchase price within five business days of the auction. As an additional incentive, CBRE Auction Services recommended to the client to offer an expedited closing incentive to encourage the eventual high bidder to close within 10 days. The competitively bid auction resulted in a sale facility for an amount within our range of value and the transaction closed 10 days later.

The real estate auction process continues to evolve and the number of properties sold at auction continues to increase as owners discover the benefits of selling a property at auction.

If an owner is considering selling a property at auction, they should consider the auctioneer's experience before hiring an auctioneer.

Selling commercial real estate at auction is a sophisticated process that is governed by the Uniform Commercial Code and state and local laws. The auctioneer must have an understanding of the auction law or statute governing the sale of real estate at auction, asset type, local market conditions, how to market the property, knowledge of title, easements, survey, financial analysis, legal, issues surrounding the property, and experience advising legal counsel on how to structure the Purchase and Sale Agreement to insure the deal is a commercially reasonable transaction.


Successful commercial real estate auctioneers are generally licensed real estate brokers that have practiced real estate auctions for more than 10 years. If an auctioneer does not have the adequate depth of experience for the asset type they are selling at auction, they should partner with an auctioneer that has the necessary real estate brokerage and auctioneer experience so the client can receive best of class service.

Properly structured commercial real estate auctions provide the client with an efficient process to sell a property on a date certain at its maximum value.

Primary Auction Benefits

Speed and Certainty: Properties are sold in eight-weeks on an "as-is, where-is" basis with no contingencies as a timed auction, similar to an e-Bay auction.

Maximizing the Value: Extensive marketing programs, in a condensed timeframe, identify the buyers and the competitive auction process drives value.

Determine Property's Value: The auction determines value for difficult to value unique properties. 

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