

Buying Real Estate at Auction  
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Buying real estate at auction can be a way of purchasing property at a huge discount, if you know what you are doing, know what the value of a property is ahead of time, and are able to evaluate the condition of the property quickly.

In general terms, most real estate auctions require a ten percent deposit on the part of the winning bidder on the day of the auction. Most auctions will allow the successful purchaser a specific time to come up with the balance, often around 30 days or so.

Few auctions will allow for any sort of financing contingency, so you had better have your financing lined up beforehand. If you can't raise the rest of the money, you can lose your deposit.

#### Reserve vs Absolute Auctions

A reserve is a term used to mean that the seller won't sell the property unless the bid is above a minimum amount, the reserve. Many real estate auctions set a reserve, and if the reserve price isn't met, the property doesn't sell.

An "absolute" auction is where no minimum reserve price is set. In theory the property could sell for any price at all. Absolute auctions are found in real estate, but they are much more common in general auctions selling personal property.

#### Sheriff Sales

One subset of the reserve auction is sheriff sales. Most of these take place at the county courthouse in the jurisdiction where the relevant properties are located.

In the typical sheriff sale, the lender's representative will "bid" the amount owed against the property on the first mortgage. If the property is worth significantly more than this amount it could be a good deal.

Drawbacks of the sheriff's sale include an inability to do a thorough inspection of the property, as well as the inability to make any form of contingent

offers. With a sheriff sale, you buy it as is, no contingencies. You buy the lender's interest, whatever it is. No warranty deed, no inspection, no financing contingency.

In a market that is falling rapidly, there are usually better bargains than what is available at the sheriff's sale. In the real estate market right now, most properties were over mortgaged, and are worth considerably less than what is owed against them.

### General Auction Strategies

When buying property at auction, try to inspect the properties in question in advance, at least a few days.

Check the courthouse records to find out what previous sales prices were, recorded square feet, assessed value, etc. Keep in mind that with properties falling in price rapidly, the assessed value and previous sales prices were probably inflated far above it's current value. Still, relative values can be useful.

Get your financing lined up well in advance, since most auctions expect you to pay for the property within thirty days or so of the auction.

Most smaller auctions--of one property at a time or several properties sold sequentially--are held on the properties in question. Larger auctions of many properties are generally sold in an auditorium or large meeting room of some sort. Try to arrive early enough to get a decent seat, preferably a place where you can see the stage and auctioneer without trouble.

In terms of auction etiquette, cool is the approach. Bid on a place but don't fall in love with it. If it goes significantly higher than what you had anticipated paying, bow out and wait for the next bargain. No point in paying so much for a property that it's no bargain.

One of the goals of any good auctioneer is to build excitement, to get people bidding against each other. This is good, up to the point that the property is priced too high. Many people will go to auctions and pay more for something than they could have gotten it for elsewhere.

Some bidders hold up their arm, some nod their head to to bid, some shake their head left to right to show they don't want to bid any higher. Whatever your

body language is, be sure the auctioneer can understand you.

## Beware of the Shill

In auction terms, a shill is someone who bids on a property with no intention of purchasing it--he's only bidding to get you to bid higher than you would have otherwise.

You can normally figure out who is a shill--they bid on many properties but always bow out at the last minute and never actually buy anything.

A good auctioneer will never permit a shill, but they're still out there from time to time. A lot of money is on the table at an auction, and a shill is an underhanded way of getting more of it out of your pocket.

## Selling to Other Bidders After the Auction

In some cases you may purchase a property at auction, and another bidder may wish to purchase it from you at a higher price than you paid. Maybe they expected to get another property and couldn't get it, maybe you bought more than you expected to buy and have a little "inventory" that you could sell.

Chances are the auction personnel will require you to go ahead and purchase the property, but there is rarely any rule against you conveying it to someone else later on, or even the same day that you close on it.

This can be a way of making a quick and tidy profit if you are lucky and in the right place at the right time. If you aren't in love with a property, why not take a quick profit?

## Don't Get Psyched Out

Lots of people go to auctions and talk big, act like big shots, but never end up buying anything. It's easy to talk big before the action begins, but it takes a steady temperament to bid tens or hundreds of thousands of dollars with the nod of a head.

If you are serious about investing and serious about doing your homework

and have your financing lined up ahead of time, you will do a lot better than most of the people who talk a good game. Buying at auction isn't about talking, it's about steady nerves, study, and being astute.

If you do win a bid or two, don't get too carried away. Set a maximum amount ahead of time for each property you wish to bid on. You might allow a fudge factor of five or ten percent if the bidding goes higher, but don't bid significantly higher and get carried away.

By the same token, decide on a strategy if the bidding stays low and you are able to buy more properties than you had anticipated. Maybe you can afford to buy four properties instead of two, but can you deal with the four properties?

Successful bidding isn't really winning anything, since you are just starting a business relationship. If you buy at a good price, you're just setting yourself for success by buying at the right price. It's still a long term investment.

Different auctions run in different ways. In some auctions, the early bidding is high, and the later bidding tends to be lower. Some auctions begin with low bidding and end up going higher later on. If you can perceive a pattern in a particular auction, it may help you to decide on which properties to bid on, depending on where they are in an auction.

In very long auctions with a lot of properties you can get some bargains toward the end, simply because many bidders have already left.

### Some Property Isn't A Bargain At Any Price

You will tend to find some cats and dogs at many auctions--properties that the lending institution just couldn't sell that have some real drawbacks.

Many properties sold at auction will make OK investments, but some are no bargain even if they are free. These would include properties in really bad areas, in extremely flood prone areas, houses which were very poorly built, houses with very bad floor plans, etc. Many of these houses will eventually turn around and be profitable, but often they are a lot more trouble than they are worth. One doggy property can take up as much management time as five good properties (or more). Some properties are nothing but trouble from day one, and many of these places will be sold at auction. One of your main jobs at an auction is to steer clear of

these problem properties, and recognize them well in advance.

Learn to be selective when buying at auction. Don't think that you have to buy a property at an auction when there is nothing that really appeals to you. Some people at auctions will buy a doggy property just because they felt they had to buy "something". Bidding at auction is very compelling--that's why they have auctions in the first place! Don't get sucked in by the spirit of things, keep a cool head at all times.

### Never Pay Market Price

It almost goes without saying that you should never pay market price at an auction. Most likely a property purchased at auction is no bargain unless it's at least twenty percent under market.

Personally, I like to see a property at least thirty percent or more under market before I would consider it a bargain. Often you are unable to make a very thorough inspection, so there are normally some condition issues you are unaware of. In markets where there are large scale auctions, the market is normally still falling, so you need a significant cushion to be sure that you can make a reasonable return.