Residential Real Estate Auctions

By ANTHONY MARGULEAS
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Auction sales of residential real estate are still rare and are usually associated with "distressed" properties that are in foreclosure, probate or bankruptcy.

An exception is the home sold last Sunday on Akron, where the owner apparently chose to sell the property that way to guarantee a "quick" sale. To my knowledge, the last home to sell at auction in the Palisades was at 742 Via de la Paz, in 2002, when the owner passed away and the proceeds were donated to UCLA.

Why would a homeowner choose to sell at auction in the current market? One reason to go this route is the unique aspect of an auction. The property differentiates itself from homes sold through the conventional process of listing with a real estate agent. It also means the seller doesn't have to wait for offers (sometimes for months)—offers which may have contingencies, or which may eventually fall through. And if the buyer defaults after the auction, the seller gets to keep the deposit.

The potential downside for the seller is the risk that bidders may not bid as high a price as the seller wants. What if only a few bidders show up, all intent on paying a low price? Once the hammer falls, the seller is compelled to accept the highest bid. In a regular sale through a real estate agent, the seller is at liberty to reject unsuitable offers, or rely on their real estate agent's expertise to negotiate a better price with prospective buyers.

For the purchaser, there are advantages and disadvantages to buying at auction. The biggest plus for the successful bidder is that there is no waiting to see if the seller will accept the offer. Just a few months ago, when we were seeing numerous multiple offers on properties—a time-consuming and frustrating process—buyers often had no idea what their odds were. In the auction process, everyone knows not only who the competition is but also what they are willing to pay.

Perhaps the biggest misconception about buying homes at auction is that you will pick up a bargain, especially if there is no minimum bid. Auction Web sites and late night infomercials abound, with promises of "saving up to 50 percent," a highly dubious figure. As with all aspects of buying real estate, the price is driven by supply and demand.

Given the current real estate market, and with home inventories in the Palisades at a 40-year low, it is not surprising that the Akron property sold at auction for market value or above.

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