

# The Realtor's Job: Understanding the Auction Process

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## It really is an auction

Real Estate is almost always sold in an auction process, yet most people and even many real estate professionals do not fully appreciate that fact. When sellers and their agents don't understand, they often sell a property for many thousands of dollars less than they might have. When buyers and their agents fail to understand this, they can be quite dismayed when faced with competing offers on a desired property. We see this happen time after time, and therefore do our best to educate our clients, both buyers and sellers.

In some real estate sales, the auction process is not evident (e. g. only one buyer), or subverted (a buyer's offer is accepted before others have a chance even to see the property). With multiple offers the auction process becomes clear. At that point, the custom in this area is to ask each bidder to submit a "highest and best" offer. In this situation, the bidder doesn't know what the other offers will be.

It is worth keeping in mind the proper goal of the agents involved in a real estate transaction. In general terms, it is to create an "efficient" market that will bring a "fair price" for the property. An efficient market is one that finds, from all potential buyers, the one who most wants a particular property and is willing to pay accordingly. A fair price is what an informed buyer and seller agree to after the property has been fully exposed to the market – the universe of potential buyers.

The auction process serves to facilitate an efficient market.

## Are Sellers Allowed to do this?

We as Realtors are often asked, "Doesn't the seller **have to** sell it to me if I offer full price?" The answer follows from the discussion above, not necessarily. Other, possibly better, offers may have been made; the seller obviously must choose but one.

Only in the special case of a buyer making a truly "no contingency" full price cash offer without other buyers competing could a case be made that the seller may have some obligation to sell to a buyer. Even then, we are told by our attorneys, it would be difficult to win this argument in court. The seller in that case would owe a commission to the broker since the broker had earned it by finding a buyer willing to pay the seller's price. However, until the seller actually signs a contract and returns it to the buyer, it would be difficult to win a "specific performance" claim against the seller, that is, to force a sale.

## What's to be done?

Because buying a home is often the most expensive and emotional purchase of one's life, it can be very stressful, especially if one must make a blind bid. When people find themselves in this situation, there are a number of different reactions; many people get angry; some raise their offer a minuscule amount (virtually

guaranteeing a losing bid), and some drop out altogether. A minority, it seems to me, can accept the situation, remain calm and decide what they are willing to bid. Most of these difficulties can be avoided if buyers are educated ahead of time.

Buyers ask, “How can I make an informed bid when I don’t know what others are offering?” To the extent you have information you are “informed.” In this case, information about other bids is the only missing piece. The information you do have includes an estimate of market value based on comparable properties. Most important, though, is what the home is worth to you, because there’s a good chance you may have to pay a premium to buy it. If it is just what you want, would you consider paying that premium? If not, that’s fine, there are many others to choose from. If you’d be disappointed to lose it, the decision is how much is it worth to you and can you afford that? In 1986 my wife and I fell in love with a Woodstock home and paid the full price of \$75,000, about 15% over what I believed was the market value. Today it’s worth well over \$250,000, so the extra \$10,000 we bid to make sure we won it seems trivial now. As a real estate investor, I have purchased and sold over 70 properties of my own. For only 3, I paid asking price or over – those were homes I wanted for my family, not for investment. Owning the home was paramount, a bargain price mattered not at all.

### **Benefits to both Buyers and Sellers**

Subversion of the auction process is a disservice to sellers; it exposes them to the risk that they have underpriced their property. For some properties, it is particularly difficult for the broker to assign, with certainty, a market value when putting it up for sale. This is often true if the property is unique, or if it is the only one of its kind or in its price range available for sale. For this reason, if we have a question as to market value, it’s in the sellers' interest to remain open to offers for a period of time, preferably at least two or three weeks. The alternative - to price very high - often fails by limiting the number of buyers who see the property.

It may be hard for a buyer faced with bidding against others to realize it, but buyers benefit from the auction process as well. When a property is snapped up immediately after it is listed, many buyers simply miss the opportunity to see it, let alone to buy it. Better to have a chance to bid than not even know about it. It is my view that a broker who allows this to happen without advising his clients of the alternatives is negligent. It makes sense for properties listed for sale to remain on the market for at least a couple of weeks before any offer is accepted. This has not been common practice here.

We at Century 21 Teran Realty do our best to educate our clients. We try to assure that every buyer with an agent has a chance to see every property that we list for sale. Buyers with no agent working for them will always be at a disadvantage and will often miss chances to buy interesting and well priced properties.

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