



## A Guide to Real Estate Auctions

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**T**he word “auction” is derived from the Latin word “auctus,” which means increasing, or a gradual increase. The word “auction,” as we have come to know it, means a public sale of property to the highest bidder. Real estate auctions for residential, commercial, and agricultural real estate continue to be one of the fastest growing sectors of the auction market, generating \$58.4 billion in 2007 according to the National Auctioneers Association. NAA also reports that the residential real estate auction sector alone generated about \$17 billion last year – up 5.3 percent from 2006.

Here in Central Virginia, auction signs can be seen in area neighborhoods, and an increasing number of auction properties are appearing in the MLS. For many Sellers, an expedited settlement and the elimination of long-term carrying costs is very appealing. For Buyers, auctions can save time and money.

Auctions offer a new opportunity for agents to assist both Seller and Buyer clients. But as with any real estate transaction, understanding the process and advance preparation are essential to providing professional and informed representation. “Every auction has its own set of terms and conditions,” says Tom Luper of Luper Auction Galleries. “Contacting the auction firm early on helps to ensure that all parties have complete and accurate information.”

**Agents working with a Buyer client who is going to make an offer on an auctioned property prior to the sale should:**

- Download and carefully review the property information and bid package from the auction firm’s website. Make your Buyer aware of all terms and conditions, as well as any pre-auction or deposit requirements.
- Register your Buyer client with the auction firm.
- Confirm the purpose for the auction: (i.e. estate, incapacitated, relocation, foreclosure) and whether the sale offers the deed free and clear of all liens and back taxes OR if it is being sold subject to the buyer assuming any risk of prior taxes or title issues.
- Find out if the Auction is “absolute” (no reserve or minimum) or being sold “subject to confirmation,” and fully explain this to your Buyer.
- Confirm from the auction firm if the property is being sold “as is, where is” and if a home buyer’s warranty or any other warranties will apply to the sale.
- Understand the terms and offer of co-broker compensation.
- Determine if there will be a buyer’s premium added to the high bid and what percentage it will be (10% is most common).
- Prepare a CMA for your buyer and help them establish their bidding strategy in advance.
- Arrange for systems/roof/structural/radon inspections ahead of time if the buyer wants them (this must be done before bidding and is at the buyer’s expense).
- Attend the auction with your client.

When representing a Seller client contemplating an auction, there are several key factors to consider. According to Linda Staples of Tranzon Fox Auctions, “An auction works well when the seller is highly motivated to sell (due to relocation, financial duress, divorce, or estate settlement) AND there is good equity in the house. Those are the two main factors -- motivation and equity.” Property characteristics and current market conditions are also factors an agent will want to discuss with his or her Seller client.

Education is one of the ways agents can expand their knowledge of the auction process and increase their revenue producing potential. The Real Estate School at RAR offers classes on real estate auctions, and NAR now offers the “Introduction to Real Estate Auctions” course online through REALTOR® University. To find out more about in-classroom and online auction classes, visit our website at [www.RARealtors.com](http://www.RARealtors.com), or call (804) 422-5016 to speak with an RAR Education Specialist. **L**