Have you ever wondered why real estate auctions seem more common these days?

From luxury homes to large [commercial properties](http://www.auction.com/commercial/), auctions are frequently in the news, and with good reason. Most properties today readily pass the National Association of Realtors’ “[Two-Thirds Rule](http://www.realtor.org/auction/what-properties-are-suited-for-auction),” which holds that, after an “analysis of the market, property and seller situation…if two of the three parts (market, seller, property) lean towards auction, then auction should be offered to the seller as a sales option.”

Brokers have an interest in auctions because they represent another way to assist buyers and sellers. Real estate licensees can [participate](http://www.realtor.org/auction/how-to-get-involved-in-auctions) as listing brokers, co-brokers, cooperating brokers or referral brokers, depending on the individual transaction and client preferences.

**REASONS TO CHOOSE AN AUCTION**

For brokers, an auction is simply another marketing tool, a way to get a property bought or sold. However, unlike other forms of marketing, auctions have a number of unique characteristics that make them especially attractive.

**Simplicity:** There was a time when real estate contracts were just a few pages in length. That’s no longer the case. Today, real estate agreements are lengthy documents filled with tiny type and covering just about every contingency that could possibly arise short of meteor strikes. Auctions bring back simplicity: Homes are sold without contingencies and settled within a few days.

**Certainty:** According to NAR, in January 2015, the typical existing home was on the market for [69 days](http://www.realtor.org/news-releases/2015/02/existing-home-sales-cool-in-january-as-available-inventory-remains-subdued) before being sold, two days more than a year earlier.

For real estate professionals, more time on the market means increased marketing costs, greater seller dissatisfaction and delayed commission payments. With an auction, a property is scheduled for sale on a given date. If there’s no seller reserve, the property sells then and there, as-is, and without fanfare.

**DOM strategies:** An average days-on-the-market (DOM) figure can work both for and against buyers and sellers. A new listing may encourage interest at or near the listing price for a buyer who wants that particular property. A listing that lags on the market beyond the local DOM average is likely to see lesser offers because buyers may think, “If the property is so great, how come it hasn’t already sold?”

With an auction, DOM questions are irrelevant. The property will be offered at a given time and date and likely sold within a few minutes. That’s it. For the seller, an auction means not worrying about a lengthy marketing process, while for buyers interpreting DOM figures is replaced by visible bids in real time.

**Transparency:** One of the most difficult situations in real estate is a property sale with multiple bids. No traditional buyer wants their offer revealed and no purchaser wants to bid more than they should. With an auction, multiple bids are a way of life: All bids are open and visible, so the marketing process creates a level playing field for everyone. A prospective purchaser can bid or not bid with a clear understanding of the property’s demand. Rumor and intimations are out, and claims that “another buyer may be interested” have no meaning when a buyer can readily see and evaluate a solid bid with money on the table.

**Luxury homes:** Homes in the upper price brackets have always represented unique problems for real estate brokers. As home values rise, the pool of potential buyers becomes smaller, simply because fewer people can afford big-ticket properties. With an auction, the availability of a property is open to all prospective buyers, including some from the [Auction.com](http://www.auction.com/) database that the brokerage community may not have known about.

**Fair housing:** In recent years, there’s been an increase in the use of “[pocket listings](http://www.realestateeconomywatch.com/2012/12/pricey-pocket-listings-put-a-dent-in-mls-dominance/)” and “[coming soon](http://www.realtor.org/articles/coming-soon-is-it-in-the-seller-s-best-interest)” listings. These are listings accepted by an MLS-member broker but not immediately placed on the system. As an example, a broker might acquire a listing and then sell the property directly or share it with a small group of other brokers, practices that may raise significant fair-housing issues.

According to [Elizabeth Miller-Gadabouts](http://ww.car.org/media/pdf/Elizabeth%27s_presentation.pdf), senior counsel to the California Association of Realtors, “If agents limit their listing exposure to only certain sectors of the market, it may have an alleged discriminatory effect, i.e. reinforcing segregated housing patterns, even when there is no intent to discriminate.”

With an auction, everyone gets the same chance to bid, at the same time, and with the same disclosures. Marketplace exposure is expansive, not restricted, and all are welcome. With public announcements and widespread promotion, there are no pocket listings when a home is sold through an auction.

**A NEW NICHE FOR BROKERS**

If brokers can specialize in such areas as neighborhoods, condo projects, HOAs, farms, commercial properties and office leasing, then why not in auctions? After all, at this point, auctions are a growing factor in the real estate marketplace, yet not often a broker specialty.

Looking toward the future, it’s clear that more and more brokers will want to increase their knowledge about and participation in auctions for the very simple reason that auction activity is growing. For instance, Auction.com recorded approximately 35,000 transactions in 2013, a number that grew to almost 50,000 in 2014. Meanwhile, during the period when auction activity was soaring, existing-home sales actually declined 3.1% in 2014, according to NAR.

For brokers, the conclusion is obvious: If auctions represent more business opportunities, then why would anyone look the other way?

There are several ways to get involved in real estate auctions:

* Agents/brokers can refer clients or customers
* Be a cooperative agent/broker
* Be a listing agent/broker (co-broker)

OPTION A: Agents/Brokers can refer clients or customers

A real estate agent or broker can refer a seller to an auction company and receive a referral fee. The referring agent or broker may also be instrumental in convincing the seller of the merits of auction.

**Responsibilities of Referring Agent/Broker:**

* Help seller analyze his needs, the property, and market to determine if a good auction situation exists.
* Refer seller to professional real estate auction company.
* If a negotiated sale listing agreement exists, cancel the previous listing to be superseded by an auction contract.
* Send notice to MLS stating that the property will be sold at public auction.
* Collect referral fee from auction company when the property closes.

Types of Agreements Used in This Situation

* Auction contract to supersede listing agreement

OPTION B: Be a Cooperative Agent/Broker

A cooperating (selling) agent is any agent/broker who sells a property. He may be the:

* Subagent
* Buyer's agent
* Dual agent

A cooperating agent or broker registers a buyer who purchases property offered through an auction and earns a commission established by the auction firm. This agent or broker accompanies the bidder to pre-auction events and the auction, registers him to bid, and receives a portion of the commission.

**Responsibilities of Cooperating Agent/Broker:**

Before the Auction

* Call auction companies to be placed on their mailing lists.
* Attend real estate auctions to learn how they work.
* Advertise as an agent/broker who is knowledgeable about auctions to obtain prospects.
* Attend pre-auction open houses with prospects.
* Help prospects determine the market value of the property prior to sale (check comparables, property indebtedness, title, lien and market conditions, and read the due diligence or bidders packet).
* Learn the rules necessary to earn a commission for registering a successful buyer.
* Learn the terms of the auction.
* Register bidder prior to the auction pursuant to the auction firm's requirements.
* Assist bidder with auction strategy.

During the Auction

* Attend the auction with prospects.
* Help them register.
* Assist prospect with bidding strategy.
* Accompany successful bidder to contract room.

After the Auction

* Collect commission check when property closes (usually handled by title or escrow company).

Types of Agreements Used in This Situation

* Buyer registration at open houses
* Broker registration for prospect representation

OPTION C: You can be a Listing Agent/Broker (Co-Broker)

A listing agent/broker is an agent of the seller who markets the seller's property and represents the seller during the sale and at the closing. In a sale by auction, the listing agent/broker manages many traditional real estate functions and shares the commission based on the amount of involvement and the relationship defined by the parties involved. This relationship is beneficial for auctioneer and agent when services by a local auction or real estate company are needed or when an agent identifies a potential auction situation for a seller and the agent is not an auctioneer.

**Responsibilities of Listing Agent/Broker:**

Before the Auction

* Provide the lead (in most cases).
* If a negotiated sale listing agreement exists, cancel the previous listing to be superseded by an auction contract.
* Send notice to MLS stating that the property will be sold at public auction.
* Provide a fact sheet on the property.
* Perform market analysis.
* Provide local licensing information.
* Complete due diligence.
* Order and obtain sign, photographs, and keys.
* Obtain bids for maintenance and supervise property management.
* Hold open houses for inspection.
* Assist bidders with pre-qualification process.
* Provide feedback (progress reports) to the seller.

During the Auction

* Assist auctioneer in bid process as needed.
* Accompany buyer to contract signing room.

After the Auction

* Help buyers with post-auction inspections, insurance, financing, etc.
* Assist in pre-closing events.
* Attend closing.
* Collect commission check when the property closes.

Types of Agreements Used in This Situation

* Listing agreement between the broker, auction company, and seller
* Auction contract to supersede listing agreement
* Pre-auction sales contracts and addendum
* Prospect registration forms