

Residential Auctions More Popular

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RESIDENTIAL real-estate auctions, traditionally perceived as the last resort of desperate developers, are fast becoming an acceptable, sometimes preferable sales strategy, real-estate experts say.

In the midst of a real-estate slump that has left the state blanketed with for-sale signs, anxious sellers are more quickly turning to the auction block to lure cautious buyers to their properties. And according to auctioneers, real-estate agents, developers and the buyers themselves, the strategy is working better than anyone expected.

For buyers, an auction can offer the opportunity to purchase property at bargain prices, with savings often measured in tens of thousands of dollars. For builders, auctions create a robust market of customers instilled with a sense of excitement, competitive spirit and an urgency to buy.

The auction is a "win-win situation," real-estate experts say, because a quick sale reduces the developer's often substantial carrying costs and passes those savings along to purchasers. Although individual properties are sometimes sold at auctions, the method usually involves condominiums and multihome developments.

While most experts agree that the auction will never replace the traditional negotiated sale, it is quickly gaining acceptance as some of the state's most successful brokers and developers turn to auctioneers out of design rather than desperation.

"We expect that by the year 2000 we'll be looking at 40 percent of the real-estate market being sold at auction," said Joseph M. Zidek, manager of the auction division of Schlott Realtors Inc., a Wayne-based company with more than 100 offices in New Jersey.

"The auction is the best vehicle for determining market value, and that's an advantage for both the buyer and the seller," Mr. Zidek said.

He said Schlott Realtors, which has had an auction division for industrial and commercial property since 1982, recently expanded its operation to include the residential condominium market.

This change in attitude toward auction sales is providing hope for builders still limping through the real-estate slump that followed the market boom of the early and mid-80's. The sluggish market has been slowed even more in recent months by the deepening troubles in the state's savings and loan industry - a situation that has tightened mortgage money supplies for both builders and buyers and has made bankers less tolerant of cash-strapped developers with unsold properties. Indeed, the banks themselves are taking a new look at auction sales. "We used auction because it was a new marketing alternative, not as a last resort," said Denise Vontobel, senior vice president of the Prospect Development Corporation, a subsidiary of the Prospect Park Savings Bank in West Paterson.

Ms. Vontobel said her company, which she said was the first to conduct a real-estate auction in northern New Jersey, held three auctions in the last year and a half; two were for projects developed by the company, and the third was for a developer who had a loan with the bank. All three, she said, were considered successful.

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"It's an exciting thing to experience," Ms. Vontobel said. "They're fun, and everybody walks away thinking they have gotten a good deal. And usually, they have."

In the past, residential real-estate was sold at auction only when circumstances like imminent foreclosure or bankruptcy necessitated an immediate sale. As a result, auction sales acquired a negative connotation.

During the last year and a half, however, an increasing number of auctions have been held with the intent being to avoid or minimize potential losses rather than as final acts of desperation.

For example, a builder with a 100-unit condominium development might be able to sell the first 75 units in the development using conventional methods. The remaining 25 units, however, could languish on the market for months.

The carrying costs on those units would quickly accumulate and cut into the profits made on the ones already sold. If enough time passed, the builder could be left with an overall loss on the project.

"Taxes, interest, insurance, maintenance all take their toll," said James E. McCullough, national sales manager for Larry Latham Auctioneers Ltd., a Scottsdale, Ariz., company. "The clock just keeps on ticking."

An auction, he said, allows the builder to avoid that situation by enabling him to sell the remaining units before carrying costs accumulate.

'The Time Value of Money'

"He sells all the units in one day as opposed to two years," Mr. McCullough said. "He's benefiting from the time value of money."

The two things that make an auction successful, he said, are "urgency and competition among buyers."

In a slow or stagnant real-estate market, Mr. McCullough said, buyers delay making purchases because there is no pressure to do so and because they believe that prices may drop even lower over time.

An auction, however, creates a sense of urgency and competition among buyers because they see the auction as perhaps their last chance to purchase a unit in a particular development.

"They realize that if they want one of the units," Mr. McCullough said, "they need to get their act together, get their money lined up and attend the auction ready to buy."

Auction Attended by 200