

The Basics

Why the rich and famous auction their homes

Owners of high-end properties are increasingly turning to auctions when it's time to sell -- and soon, you might be, too.

By Jay MacDonald, Bankrate.com

Country music star Barbara Mandrell tried for years to sell Fontanel, her 136-acre Nashville estate that featured an indoor pool, shooting range and helipad. Every time a real estate agent would call, the Mandrell home went into Normandy Invasion mode to tidy the 27,000-square-foot log home for the showing, all to no avail.

Mandrell turned her sad country song into a boot-scootin' boogie by calling J.P. King, a fourth-generation, family-owned property auction company in Gadsden, Ala. Within days, an auction date was set and qualified bidders were invited to inspect the property during a two-week showing period. When the gavel dropped, Fontanel sold for \$2.1 million, to the delight of both buyer and seller.

Mandrell's case is not unusual, especially among wealthier homeowners. True, home auctions still more commonly evoke foreclosure images. But owners of \$1 million-plus properties are increasingly turning to auction companies as their first choice when selling a home.

The reason: It's fast, it's convenient and it's final. There's no dickering on price, no contingencies, caveats or conditions. High bidder takes all, period.

"What Barbara liked about the auction was the viewing dates were known," says J. Craig King, president of J.P. King. "She got her home ready one time and it was a lot easier on her and her family."

"Upper-income people have gotten where they are going out and making things happen as opposed to waiting on things to happen," says King. "If they were to list a property in this price range, it could linger on the market for a year or more, and it's hard to create enthusiasm for a shopworn property. More of our sellers are coming to us now as their first alternative."

Auction equals action

Property auctions are on the rise. Reaping the benefits of the growing auction-by-owner segment are the J.P. King company, its Gadsden-based neighbor National Auction Group, Chicago auction house Sheldon Good & Company and other such firms across the country.

According to The Gwent Group, a Bloomington, Ind., firm that tracks the auction market, real property auctions brought in more than \$54.5 billion in 2002, a fivefold increase since 1980. While residential auctions only account for about 2% of home sales today,

the National Association of Realtors estimates that within the next seven years, one in three properties will be sold at auction.

An auction creates an event around a property, effectively lifting it out of the local real estate market where comparable values, financing and negotiating often make home selling a drawn-out and frustrating ordeal. For an average 8% to 10% of the selling price (vs. a 6% to 7% real estate commission), an auction company markets the property, primarily and most effectively, through its company database of interested investors.

"At J.P. King, we have a proprietary database of more than 250,000 people who have contacted us on past campaigns with their buying parameters," says King. "Not only do we target our mailings to these people, but we have our staff make a personal call to as many as 500 or 1,000 individuals to let them know we have a property within their criteria.

"A typical campaign will have 50 people that will touch some aspect of that auction process, as opposed to a typical agent who will be driving the sales process on their own."

High-end homes in particular can be highly individualistic in terms of design, décor and location, not always a good thing when trying to sell. Case in point: The pink Dallas mansion of Mary Kay Ash, founder of Mary Kay Cosmetics. In frustration, she called National Auction Group.

"When you get into these kinds of properties, it takes an event to bring out the competitive nature in people. It puts the pressure on the buyers," says William Bone, National's founder and president. "We sold Mary Kay's home before the auction. Somebody made a full-price offer and she took it."

Wealthy welcome auctions

High-worth individuals need little convincing of the efficiency and effectiveness of auctions.

"The owners of high-end properties have always embraced the auction method for the sale of antiques, fine horses and art. Now they're seeing they can sell their fine real estate by public auction with equal success," says King.

Several high-profile auctions in recent years helped spur the trend. Bone recalls one of his New York City auctions that ended up pitting the Rev. Son Myung Moon against then-Louisiana Gov. Edwin Edwards. Headlines naturally followed.

At another event, Moon catered the entire auction and hired a full mariachi band for ambiance. Other auction clients have included Ross Perot, Kenny Rogers, ValuJet founder Lewis Jordan and former Treasury Secretary Lloyd Bentsen.

Prospective buyers must post certified funds of \$100,000 or more just to bid on \$1

million-plus properties, the minimum in this market. Many fly in with an inspector or architect in tow to preview the property prior to the call to bid.

Sellers may choose from two kinds of auctions. In a restricted auction, the seller may retain the property if bidding doesn't reach a certain level. In an absolute auction, the property goes to the highest bidder, period.

And no financing in this crowd; it's strictly cash on the (wine) barrelhead. The whole shebang takes anywhere from five minutes to 30 minutes tops.

Absolute attractions

Absolute auctions tend to generate the most excitement, especially for hard-to-price trophy properties.

"People will travel across the country, and it's not that they want to buy it cheap. They just want to know they're not wasting their time," says Bone. "Absolute puts a real element of drama in there."

The finality of an absolute auction tends to spur the bidding, as was the case in the 2003 sale of the historic 300-acre Crescent H Ranch in Jackson Hole, Wyo.

"The lawyer Jerry Spence and one of Sam Walton's children were there, along with the former chairman of Columbia Pictures and the current chairman of Solomon Smith Barney. This was a fierce, competitive situation and they wanted to show each other who was the heaviest. **This was a ranch that we were asking \$14.5 million for and brought \$18.5 million,**" says Bone.

Bone estimates that less than 25% of residential auctions exceed the anticipated selling price. Then again, he says, "You can't price these properties. Who knows what some of this stuff is worth? The owners don't.

"Auctions are great for something you can't really put a price on."

Long-running auction fever

Historically, home auctions in the United States have been more associated with Depression-era foreclosures and distress sales of low-end houses than the marketing of trophy properties. By contrast, in countries such as Australia and New Zealand, as many as 50% of residential real estate sell under the gavel.

By the 1970s however, auction houses such as Sotheby's began to expand into select U.S. real estate, says Steve Martin, president and CEO of The Gwent Group.

"Sotheby's realized they were walking into these very high-end mansions and collecting \$40, \$50 million in estate art, jewelry, china, furniture and whatnot, and walking away from the single biggest asset in the estate. Back in the '70s, the light came on," he says.

Several other factors have accelerated the popularity of home auctions since then, including:

- The maturing of the baby boom: Boomers caught in the sandwich, with parents and kids to care for, often need to liquidate quickly -- an auction's strong suit.
- Economic micromanagement: Investors are looking closer than ever at the cost of holding and marketing property.
- Dynamic regional real estate markets: In some hot markets, informal auctions already determine who buys and who flies. In Southern California, you'd better come in with a full-price offer, or more, to compete in some neighborhoods.
- The Internet: The growing popularity of online auction sites such as eBay has Americans rediscovering this ancient form of ownership transfer.

"The Internet has provided a lot of options," says Martin. "There are all kinds of foreclosure and FSBO (for sale by owner) sites where people who are marketing those properties can list at very little cost and try to find a buyer before they actually try a live auction."

With auctions gaining in popularity, real estate companies are fast catching the wave. In early 2004, mortgage giant Cendant, which owns Century 21, ERA and Coldwell Banker, acquired Sotheby's International Realty. Many regional real estate firms have formed joint ventures with property auction specialists (a handful of 50 auction firms handle more than 70% of residential auction sales nationally), giving real estate agents another option when a high-end listing lingers on the market.

"An auction should be an alternative that you have in your golf bag, that right club when the need arises," says King. "That may be in an estate situation, or upsizing or downsizing or relocating. When that case comes along and they're ready to sell and sell now, the auction is the way to go."