

## Busted: 6 myths about real estate auctions debunked

According to lead auctioneer and director of High Street Auctions Joff van Reenen, even seasoned investors sometimes still believe old myths about auctions.



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“The fact is that auctions are the most transparent way of buying or selling anything, including real estate, and the only way of ascertaining true market value, but people often find auctions intimidating because they do not understand the process and over the years several myths have become ‘truisms’ that are in fact the furthest thing from correct.

“As an auctioneer, I find myself constantly answering questions from the public about auctions and the sales process, and after more than 25 years in the industry, two things are abundantly clear.

“The first is that there’s a genuine desire for knowledge among consumers, and the second is that certain auction myths crop up over and over again. This stubborn handful seems to have become entrenched in common lore and needs to be debunked once and for all.”

Van Reenen busts the real estate auction myths that most frequently cross his desk:

### **Myth #1 – Buying a property at auction is taking advantage of someone else’s hardship.**

High Street has been in business for more than a decade and during that time property funds, corporates, multinationals and private investors have comprised about 95% of the company’s client base.

The notion that all real estate auctions consist only of distressed properties is not only decades out of date but plain wrong. Bank instruction sales, even in the current economic strife, are in fact a tiny percentage of the overall business.

The main reason the real estate auction industry is now dominated by the private business sector is the speed at which auctions can translate bricks and mortar into liquidity in a transparent manner at a market-

related value. From a fiduciary perspective, it also ticks all the boxes for corporate buyers and sellers.

## **Myth #2 - If a property is on auction, there is something wrong with it.**

The origin of this myth seems to be linked to myth #1, specifically that auctions comprise distressed properties and distressed properties must, by virtue of being repossessed, also be in a state of disrepair.

Besides the inherently faulty logic of that statement, property investors' needs differ greatly and by far the majority of real estate sold at auction is on par with or in fact superior to the fixed assets offered by traditional brokers.

In fact, history has shown over and over again how, particularly in the residential sector, as with dazzling works of art, spectacular feature homes on auction frequently achieve equally spectacular results for their owners, many of whom arrive on auctioneers' doorsteps disillusioned after months or even years of disappointing experiences with traditional brokerages.

In certain upmarket residential areas, where greenfields land is scarce, there's also demand for old, unrenovated houses on good plots that are bought to be stripped to basic shells and enlarged or torn down totally for redevelopment.

The bottom line is experienced auctioneers understand their markets and service them, offering buyers everything from warehouse shells for personalised retrofitting to move-in-ready mansions overlooking the beach.

## **Myth #3 – Sellers have to sell, regardless of price.**

A licensed, professional auctioneer will guide real estate sellers through the process ahead of time to set realistic market-related target reserve prices on properties, as well as the channels to safeguard assets should market appetite not measure up on the day.

The seller is protected under the conditions of sale, which usually include that the property will not be sold the reserve price is not met. This mitigates the seller's risk in the auction process. The final hammer price will, however, still be presented to the seller for consideration in the event that the reserve is not met on auction day.

Reputable specialist real estate auctioneers' engagement procedures with sellers aim to establish a competitive reserve appraisal during the evaluation and assessment process which generally negates the possibility of not achieving the required price at the auction.

## **Myth #4 – Auctioneers compete with traditional estate agents.**

Reputable real estate auctioneers are broker advocates, not competitors. Collaborations on desirable properties are welcomed and referral fees are usually offered for working together towards the success of an auction. The ultimate aim is client satisfaction.

Sellers working with traditional brokers can ask to discuss their options with specialist auctioneers, just as brokers who believe their mandate properties are good candidates for auctioning are welcome to get in touch as well.

## **Myth #5 – If I buy property at auction, I buy sight-unseen without a viewing.**

High Street Auctions advises all prospective buyers to conduct physical inspections or viewings of properties prior to auction (legal conditions permitting, such as those that fall under the SA government's Disaster Management Act). All reputable auctioneers offer this service to clients.

Since the inception of the Covid-19 lockdown, however, attempting international or even cross-country travel has become increasingly onerous for prospective investors, while others have chosen to minimise exposure risk to their families and only venture out in public when absolutely necessary.

For those investors and others who want immersive digital previews prior to site visits, High Street Auction has for the past year offered full 3D virtual tours of all auction properties to supplement the investor packs available online.

## **Myth #6 – Auctioning real estate is the avenue of last resort.**

If this is true, why are record prices for collectibles, sundry movable assets and real estate consistently set at auction rather than through private or broker sales?

This myth is a hangover from decades ago when auctions were deemed the easiest way to dispose of distressed assets, but the industry has undergone an evolution, including sector specialisation. It now serves myriad clients including listed companies with vast fixed asset portfolios that are regularly updated.

In a nutshell, the transparency of the auction model means real estate prices are dictated by bidder demand making it the only transactional method by which a seller can realise value exceeding that which was initially set.

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