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## BUYING PROPERTY AT AUCTION

# GOING ONCE ... GOING TWICE ... **SOLD!**

*During the height of the housing downturn, "auction" usually referred to a foreclosed piece of property sold to the highest of many jostling bidders on the local courthouse steps. Typically, there was no chance for a preview of the property, little time for due diligence and the requirement of full and immediate payment upon acceptance of the win-*

*ning bid. With a steady (albeit slow) recovery underway, that scenario is being overtaken by auctions of a more traditional sort, both on-site and online. And smart investors are finding lots of opportunity.*

BY KAREN APPOLD

Properties are often sold at auction to close a transaction quickly. For some homeowners, this may be due to a foreclosure, desire to get money fast or because of a life-changing event such as a divorce, bankruptcy or job transfer. For others, including an increasing number of real estate investors, it's just another among varied vehicles

for buying and selling a property.

The goal of a real estate auction, as with any other, is to drive interest in – and therefore the selling price of – the item up for bid, in this case, residential investment property.

While many potential buyers view it as an opportunity to scoop up the "deal of a lifetime," that's not always the case. Sometimes, the reserve price (or minimum that the seller will accept) is set nearly at market value, so the winning bidder ends up buying closer to retail than wholesale. Still, there are deals to be had, so it pays off for the savvy investor to keep an eye out for auctions with properties that look worthwhile.

We spoke with several experts in the field to explain the process and provide some pointers to help investors new to buying real estate at auction. As with any other



investment opportunity, it's essential you do your due diligence to ensure the auction company or site as well as the property is right for you.

## FINDING A REAL ESTATE AUCTION

Nowadays, you can buy properties on-site and in person or online in the comfort of your easy chair. They're not hard to find; advertisements abound on roadside billboards, TV, radio, newspapers and other periodicals, mailers and the Internet.

RealtyBid, which conducts online auctions via its website ([www.RealtyBid.com](http://www.RealtyBid.com)), offers a free email alert system. Simply sign up and the company will email you about new listings based on criteria you provide.

## BEFORE THE BIDDING BEGINS

Before bidding on any property, no matter which type of auction, it's advisable to have financing in place in the form of cash or a credit line, says Tim Brewer, a master auctioneer at Crye-Leike Auctions in Hendersonville, Tenn., which offers both online and onsite auctions. In fact, many auction companies require it.

"It's not a good idea to buy a property at auction using a mortgage lender because there may be contingencies," Brewer says. You'll probably be required to put down a large deposit (approximately 10 percent of the bid amount) as earnest money, which in most cases is non-refundable.

Bidding requirements vary. "Paramount Realty USA often requires bid-

ders to purchase a due diligence package in advance and bring a certified or cashier's check to the auction in an amount equal to 5 to 10 percent of the property's value," says Misha Haghani, Esq., principal, Paramount Realty USA, New York, N.Y., which does live and sealed-bid auctions.

Due diligence material includes everything a buyer needs to know in order to make an informed decision, such as the home's square footage; information regarding the school district, homeowners association and covenants; a recent title report and appraisal; survey; and a copy of the actual purchase agreement the winning bidder will need to sign.

"The goal is to provide as much information as possible to potential buyers before the auction in order to have an informed group of bidders," Haghani says.

For auctions at RealtyBid, you must first register (for free) on its website with a credit card to confirm that you're of legal age to purchase real estate and to protect against spam registrants, says Daphne Shannon, vice president of marketing for the Rainbow City, Ala., company.

Other auction companies may require registration with a credit card with a specific monetary authorization (\$2,500 is typical), or they may ask you to provide "proof of funds."

## DO YOUR HOMEWORK

A property is advertised approximately 30 to 90 days before an auction date. During this time, do some homework on the property. "Ask lots of questions and attend open houses to get an understanding of the terms and conditions as well as the auction process," advises Scott Shuman, partner, Hall and Hall Auctions, in Eaton, Colo. Hall and Hall Auctions hosts live auction events with an online compo-

nent when applicable. Find out if the seller will furnish a general warranty deed and title insurance. By getting an insured title, you can be sure all liens are clear. Inspect the property with someone who has expertise in this area. If renovations are necessary, find out how much it would cost to make them. Ask a Realtor to pull comparable sales to help you figure out a property's worth in its present condition and its value after it's renovated.

Typically, auctioned properties are sold "as is." "This means that all provided information is believed to be accurate but is not guaranteed," Brewer explains.

## THE BIDDING PROCESS

There are two common types of auctions. At an absolute auction, the property is sold regardless of the final bid amount. At a reserve auction, the seller reserves the right to accept or reject the highest bid if it does not meet the reserve price, explains Rick Sharga, executive vice president, Auction.com, Irvine, Calif., which offers both online and on-site auctions.

When an on-site auction begins, raise your hand or nod your head to place a bid. As bidder participation slows, the auctioneer will reduce the bid increment until a final bid is made, Sharga says. If it's a sealed-bid auction, you'll submit a written offer by the bid deadline, often with a certified or cashier's check. The highest bidder gets the property.

At RealtyBid.com, a seller sets a reserve price and time frame for the auction, Shannon says. Property information is displayed on the bid page, along with all bids and the Internet transaction fee. Bidders can enter a maximum bid by using a tool called BidAssist. A countdown clock tracks how much time remains in the auction.

## PAYING FOR A PROPERTY

After placing a winning bid, the buyer signs a sales contract with all of the pertinent addenda, such as property condition exemption, lead-based paint disclosure and so forth, Brewer



says. The closing typically takes place in 30 to 45 days. This gives the title company, surveyors, lenders, etc., time to compile all of the closing documents.

For the closing, the buyer goes to the office of an attorney or closing agent to make the final payment, sign final paperwork and get the keys to the property.

Buyers must typically pay in cash, Haghani says, meaning that they are permitted to get a mortgage but must close on the purchase by the closing deadline or risk losing the deposit paid at the auction.

When someone buys a property on RealtyBid.com, he or she will need to sign and return the purchase agreement, provide proof of funds or a pre-qualification letter and give a deposit check (in the amount shown on the property's bid page during the auction). The buyer makes the remaining payments at closing.

Many auction companies add a "buyer's premium," or upcharge (typically 5 percent of the winning bid) to the purchase price.

## ADVANTAGES AND DISADVANTAGES

When buying property at auction, you might get a good deal. Purchasing and closing dates are known, and there won't be any long negotiations. "The sales process is transparent and straightforward – either you are the high bidder and winner or you are not," says Sharga. Bidding online is easy and convenient; all of the information about a property is at your fingertips.

On the downside, since contracts are non-contingent you have to be sure that you have sufficient funds to close the transaction or else risk losing your deposit.

In addition, there can be less time for due diligence. Some people may dislike the quickness of the bidding process.

"You could pay too much," Brewer says. "Or you could get outbid."

## ONLINE VERSUS OFF-LINE AUCTIONS

There are pros and cons to on-site and online auctions. At a live auction, you physically get to see what you're bidding on and who you are bidding against. "For some people, this transparency is important," says Shuman, who serves on the National Auctioneers Association Board of Directors. "For others, the ability to bid from the comfort of their home offsets any advantage of attending an event."

Online auctions often cater more to investors who are looking for better pricing — so buyers may get a better deal, Haghani says. But buyers may have more competition because bidders can be anywhere, and they generally have less information about the competition (i.e., who they are and how many there are), so it is less transparent.

The big advantage of online auctions is having the ability to bid on a property even if you can't be physically present. On the other hand, the ability to bid in smaller increments isn't always an option with an online auction, which may have them set at \$5,000 steps, for example.

## RED FLAGS

To ensure that an auctioneer is legitimate, ask if he or she is a member of the State or National Auctioneers Association. These auctioneers have agreed to a code of ethics. Beware of new companies and new auctioneers; watch them for awhile before bidding at their auctions.

Be on the lookout for fake bidders. Brewer has seen someone place a bid and then withdraw it, which drives up the price. "This is often done on a reserve sale, where the seller will not take less than a certain amount," he says.

## OTHER TIPS FOR ON-SITE AUCTIONS

If you're new to auctions, start out by going to a smaller one. Even if you don't bid at your first event, you'll be able to see what takes place and what

## RESOURCES

Auction.com  
www.Auction.com  
800-793-6107

Crye-Leike Auctions  
www.TimBrewerAuctions.com  
615-424-9711

Hall and Hall Auctions  
www.hallandhall.com  
970-716-2120

Hudson and Marshall  
www.hudsonandmarshall.com  
866-539-4173

National Auctioneers Association  
www.auctioneers.org  
913-541-8084

Paramount Realty USA  
www.prusa.com  
212-867-3333

RealtyBid  
www.RealtyBid.com  
877-518-5600

Williams and Williams  
www.williamsauction.com  
800-801-8003

type of people attend. Try to meet everyone there. That lets you scope out who's the "real deal," and also allows you to establish yourself as one in their eyes.

Even if an auction at first glance doesn't appear to have any properties you think you'd bid on, it often pays to register anyway. Sometimes a property is added at the last minute that could be just what you're looking for.

The back of the room may offer you the best vantage point for bidding. You can see who you're bidding against – or in some cases, see that you're not really bidding against anyone.

Some experienced bidders say it's best to wait on making your first bid until everyone else has made the final one. That is, when the auctioneer says, "Going once ... going twice ..." then THAT is the time for you to jump in. 🏠