

Real Estate Auctions as a Pricing Gimmick are Back - What Homebuyers Need to Know

January 18, 2023 - You may be familiar with foreclosure auctions. These take place when a bank is foreclosing on a home and they can lead to some real bargains for those looking for a home and with access to plenty of cash. But these aren't the only way to purchase a home at auction. Real estate agents are now advertising properties that aren't distressed in the MLS as auctions. But this is just a pricing gimmick that most people aren't familiar with which can lead to a lot of frustration for buyers.

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When the housing market crashed a little more than a decade ago, real estate professionals were looking for ways to sell houses quickly. There were a lot more homes for sale than there were buyers. Because many of the homes on the market were distressed - meaning that they were bank owned, under threat of foreclosure or short-sales - buyers quickly got used to bargain hunting. In many cases, foreclosure auction dates were included in listings. So it didn't take long for real estate agents representing non-distressed buyers to start using auctions of their own as a pricing gimmick. That's because many buyers had started to associate "auctions" with "bargains." But that isn't always the case.

Around 2011, real estate prices began to soar and these auctions quickly fell by the wayside. That was true until around May of last year. In many markets, when a house became available it would have multiple offers. No pricing gimmicks were required.

Over the past few months though, real estate sales have fallen off a cliff and there's still no bottom in sight. That's led to some enterprising agents to return to the use of gimmick auctions. To understand why we call them a gimmick, you need to know how they work.

When a home is listed in the MLS, it is normally listed with a fixed price. Let's say a house is listed for \$500,000. If a buyer comes along and makes an offer of \$500,000, the seller can't really negotiate on price; only on other terms. But when a home is listed as an auction property, it's a different story entirely.

Auction properties are listed with a price too. In most cases, that price is the minimum bid to participate in the auction. But even that number may not be acceptable to the seller. Seller's have the right to set a "reserve price," which doesn't

need to be advertised. So let's say that a property is listed in an auction at \$500,000 but the seller has set a reserve price of \$600,000. That means any offers that come in below the \$600,000 level won't be entertained. You might ask how this benefits the seller.

The goal here is to generate some excitement around the sale. When a house is listed in the MLS this way, it looks like a bargain. That gets people to start looking at it that wouldn't if it was simply listed at the market price. Some of these people may decide that they want to participate in the auction.

Once the auction actually starts - usually on a set day and at a set time - everyone participating can see bids as they come in. This can generate more excitement and get those who submitted lower bid to increase their price as the auction moves along. It can lead to a bidding war that runs the price up substantially.

On the other hand, if the bids that come in never reach the reserve price, the seller is under no obligation to sell. It's a win-win for the seller, but can be detrimental to buyers.

It is quite likely that this is a trend that will only increase in the coming months as housing prices continue to tumble. Potential home buyers need to be aware of it so they don't get caught up in bidding wars that cause them to overpay for property. Just keep in mind that simply because a property is being auctioned off and its listing price appears too good to be true, that doesn't mean that you're going to be getting a bargain.

by Jim Malmberg

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