

ESTABLISHING PRICES IN AUCTION SALES

I. INTRODUCTION

Auctions offer an excellent method for efficiently disposing of real estate properties, especially useful for an organization with the scale of disposition activity of the RTC. The theory behind auctions is that if marketed correctly, the properties will be exposed to many potential purchasers (far more than would be possible for each property when marketed individually) and that an early sale will enable the RTC to forego actual holding costs and opportunity costs. There are three general methods for conducting auctions:

- o Selling properties absolute, that is, to the highest bidder without regard to a minimum price;
- o Selling properties absolute with minimum bid absolute prices, that is, to the highest bidder as long as the final bid price is greater than a pre-determined price established for the asset; and
- o Selling properties with the right of reserve to accept or reject any offer.

While the last method results in the greatest protection to the seller, it is a general belief that selling properties absolute will generate the greatest interest among potential investors, since they know that the seller is obligated to sell the properties, and hence, result in attaining true market value. Similarly, setting minimum prices high, rather than low, discourages participation and thus reduces actual bidding.

The RTC will explore conducting auctions on specified properties as an alternative to marketing properties through local, regional, or national brokers. Well conducted auctions can approximate the sales prices obtained by other methods of sales, in aggregate, if not on each property. Key characteristics of successful auctions are:

- o Large scale, national or international marketing of the properties so that the auction brings even greater market exposure than would normally be attained through a normal listing arrangement;
- o Accurate, sufficient information on each of the properties available to potential purchasers; and
- o Ample time and opportunity for prospective bidders to inspect the property and property records.

Well conducted auctions with extensive marketing, and which enable the RTC to reduce its actual and opportunity costs of money, are consistent with the RTC's mandated objectives of: 1) maximizing the net present value return from the sale of assets; and 2) minimizing the impact of such transactions on local real estate and financial markets.

The pricing policies for auctions stated below are believed to maximize net present value return for the RTC.

II. POLICY

The following policy shall be followed by RTC staff and private sector contractors for establishing prices in auctions:

- 1) Auctions will require extensive marketing efforts with large scale regional, national, and possibly international, exposure. Minimum marketing efforts will include extensive advertising in newspapers and appropriate trade journals, publication and distribution of brochures, press releases and solicitations to prospects in RTC's data base of potential buyers.
- 2) Properties may be sold absolute in auctions if (i) the property has an established market value below \$100,000; and the property has been widely exposed to the market. Property in conservatorship which satisfies the eligibility requirements for RTC's Affordable Housing Program may not be sold at auction. Finally, RTC will reserve the right to reject any and all offers which are made in the absence of a competitive bidding environment.
- 3) All other properties may be sold at auctions with reserve prices set at levels to take into account the benefits of an expedited sale, including savings of holding costs, and marketings costs. Furthermore, to stimulate active bidding associated with the auction process, RTC may set reserve prices at less than the expected sale price excepting under no circumstances can reserve prices be set at less than 70% of the current appraised value, adjusted for any savings of sale's expenses or costs as a result of an expedited sale.

III. CONCLUSION

The auction pricing policy outlined above gives the RTC reasonable flexibility when conducting auctions on real estate properties. If an auction exposes property to the market sufficiently and is otherwise properly conducted, disposition prices will establish the true market value, and if any discount is received, the cost savings resulting from the expedited sale compensates for any discount from market value.

It is thus expected that, in aggregate, RTC will have as high a net present value return from auction sales as from individual sales under existing policy. The sale prices on individual properties may vary up or down from that standard. The 70% reserve price floor for the larger properties has been established to meet the needs of the expected few properties which may sell well below established appraised value. A higher reserve figure would discourage participation and probably reduce aggregate net present value yield.

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