Is California real estate soon to become liquid?

By Dean C. Williams

For all of the talk of property prices going up, affordability crunches and a real estate bubble, one thing has remained a constant: Most sellers stick an asking price on their property first and then wait for buyers’ offers later. If the property sells immediately, the seller can’t help but wonder if perhaps he priced it too low. If some time passes without a sale, the seller typically reduces the price and continues to do so until a sale occurs. It is, to say the least, an inexact science. In most financial markets, the Internet and the information age have brought almost instant liquidity—the ability to buy, sell and generally trade practically anything, from stocks and bonds to vehicles and Google ad space, via an open and competitive auction system of pricing.

Even real estate lending, the process by which most people obtain their mortgage funding, is now liquid in that lenders openly compete for business, decreasing the time, costs and hassle it takes to get financing. The packaging and sale of mortgage-backed securities has added something of a paradigm shift, especially for vacant or non-earning property, where time on the market kills not only pricing and deals, but net value received, due to all the holding costs incurred. In total, these costs of illiquidity can total as much as 30 percent or more to get property finally sold and closed or liquid.

For California banks, corporations and even individual sellers who are motivated to sell, this new competitive bidding approach may be just in time and superior to just testing the market. If even any of the more moderate predictions prove accurate, sellers can expect more efficient and healthy pricing, if not also keep the market minimum, lessen any downturns in liquidity, the lender finally turned to the auction as a solution. Thirty-five days later, we auctioned the property for just under $1.4 million. Closing was wrapped up in another 30 days.

For real estate buyers, the auction process is pretty straightforward and value-driven. You only have to give one higher bid than someone else to become the new owner. There are no negotiating, hassles or delays. Practically all transaction and closing details are handled in advance, before each scheduled auction occurs. For sellers, this nationwide auction exchange offers something of a paradigm shift, especially for vacant or non-earning property, where time on the market kills not only pricing and deals, but net value received, due to all the holding costs incurred. In total, these costs of illiquidity can total as much as 30 percent or more to get property finally sold and closed or liquid.

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