As we begin the new year, a certain degree of optimism accompanies the goals we set for the next 12 months. What can we do better than we did last year? How can we make a difference? What challenges and opportunities lie ahead that can be resolved and perhaps turned around for good? Certainly no one anticipated some of the challenges of 2005: Hurricanes Katrina and Rita, $3.00 per gallon gasoline prices, 30,000 job losses from a major national employer, high heating oil prices and the threat of the bird flu.

The economic impact of these and other ongoing challenges that have affected 2005 will continue to be factors in the 2006 economy and influence planning.

Sometimes meeting those challenges means reflecting on what we’ve done in the past, analyzing the results and finding new strategies that will help us meet the goals in the midst of changing circumstances. As the saying goes, “Doing the same ole, same ole will get you the same ole, same ole.” In other words, don’t expect different results by doing the same thing.

Looking at the economy in 2006, we want to 1) reduce REO inventory time, 2) increase turn rates, 3) reduce costs and loss severity, and 4) maximize return among others. What if there was a mechanism that told us the optimum time to sell REO properties? What if the mechanism also indicated the point in a sales cycle that maximized return? In the REO world
when a property does not sell, we systematically reduce list prices by \(X\) percent every month, hoping against hope that the “magical” buyer will come along that will pay the asking price.

The economic approach says that according to the law of supply and demand, the market price drops in order to intersect the market demand curve. Hopefully this occurs in the first 90 days a property is an REO.

After 90 days, the “retail” pricing model (obtaining 95 percent to 105 percent of estimated current market value) is over. After 90 days, the list price has been reduced 12 percent to 15 percent on average, potential buyers are waiting for the list price to continue to be reduced, and the wholesale mentality takes over. Yet, hope against hope, we keep reducing the list price by \(X\) percent every month.

Finally, after 180 days or longer, the “sell it for whatever you can get,” or “let’s get another BPO to get the updated value” mentality occurs, and the property is reduced to such a low price, who wouldn’t buy it? Loss severity has gone up, not to mention all the carrying costs associated with each property.

By analyzing data for sales over the past one to two years, if it is possible to determine that a property can be sold at a wholesale pricing level at 90 days that will increase return by 20 percent over what it will sell for after the 180 or 210-day mark in addition to saving the 2.5 percent carrying costs per month, then we can conclude that even if the price achieved at the 90-day sale time frame is 10 percent to 15 percent below what we hope it will sell for at 90 days (current list price), perhaps it is a good time to stop hoping and start selling.

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