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Williams: Auctions on the Rise for REO Disposition

By James Comtois

In the past few years, lenders and investors have faced increases in REO Disposition and distressed properties that are headed for foreclosure. This is only natural when the mortgage servicing industry sees increases in loan volumes and refinancing.

There are a number of ways and means to deal with these foreclosed properties. Traditional list pricing has been the more standard approach. The problem with this is that sometimes the distressed property is on the market for an indefinite period of time. Another method is to be more paternalistic and repair the property and rebuild the home to make it user-friendlier to the marketplace. The problem with this approach is that not only is this a costly move with a distressed property, but it may bring the price up for the buyer substantially.

Another method of dealing with such properties is bringing it to auction. The co-founder and CEO of a real estate auction and brokerage services firm has noted that real estate auctioning has been an increasingly popular and practical method for selling off these REO properties.

Williams & Williams, which was founded in 1986 to provide specialized, individual real estate auctions in the Midwest, Northeast and Southeast, launched its REO Sales Division in 2003, providing a nationwide outsourcen solution for foreclosed real estate.

"Real estate auction has grown by leaps in bounds in the United States for the past ten years. It's capturing more market share and being more readily accepted," said Dean Williams, CEO of Williams & Williams. "More to the point," he added, "institutions [that] have the resources to compare different strategies can use auctioning as a bottom-line prospective."

The reason for this is because since a foreclosed property deteriorates in value the longer it is left unattended, it needs to be sold sooner rather than later. "Time in vacancy is the big killer in REO. With REO Disposition we're trying to get the highest price possible, we're trying to get the deal done as fast as possible," said Mr. Williams.

The advantage he pointed out with auctioning is that the average listing-to-sale time is 35 days, whereas traditional list-pricing can average from immediately (indicating that the property was underpriced) to a year or longer (indicating that the property was overpriced).
"In the auction, the buyer dictates the price," said Mr. Williams, something that is not the case with traditional list pricing. He pointed out that his company has seen 8% of the aged assets taken to auction achieving sales prices over and above the asking price, something that never happens in traditional real estate scenarios.

"It's taking off, our own company didn't serve the mortgage banking industry two years ago. Now, we have more than two-dozen clients, including more of the major lenders in the U.S. People who have never used auction two years ago are using it as a major tool for dealing with REO Disposition," said Mr. Williams.

Auctioning is one of many ways the industry is trying to create more liquidity in the real estate industry. Mr. Williams noted that, beginning in April, the Chicago Mercantile Exchange is going to be offering an index—not unlike the S&P 500—called the S&P CME Housing Futures & Options. "This is going to allow institutional investors and consumers to trade bets on housing prices in general. It's a way to hedge against risk of default. If you're an investor, banker or individual, if you have a prospective of real estate prices, it allows you to create a hedging vehicle from the REO prospective," he said.

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