



Real Estate Finance Today

AUGUST 12, 1988

A First: Income Property Auction Held Nationwide

BY ANITA WILLIS-BOYLAND
REFT SENIOR STAFF REPORTER

In what was billed as the first nationally promoted single offering of 57 commercial properties, Chicago-based Sheldon Good & Company boasted a success rate of \$55.40 million in sales for 49 properties across the country.

Conducted between June 14 and June 30, the auction was held at six regional locations: Denver, CO; Phoenix, AZ; Dallas and Houston, TX; Fort Lauderdale, FL; and Chicago, IL.

A real estate auction for commercial properties is turning into "a very high-profile, state-of-the-art technique that goes well with the computer age," observed Gordon Greene, president of Real Estate Auctions, Inc., the real estate auctions subsidiary of Good & Company. He noted that "each success leads to more interest," and said the company is planning a second national auction for late October that will offer an estimated 100 properties.

Greene said the concept of a national auction for commercial real estate simply "made sense. Over the past few years, the

network of [commercial] real estate auctions has grown." Further, he noted several emerging market trends. "First, the investor market has broadened to encompass the US, Canada, Europe, Asia and South America. These buyers will purchase reasonably priced commercial real estate wherever it is located. Second, commercial buildings are increasingly being sold to buyers who occupy at least 50 percent of the space, so we needed a national marketing effort to locate these corporate users." Given all these factors, Greene suggested, a national auction not only made sense but was a practical approach as well.

In the end, 49 of 57 properties from more than 15 owners were sold.

The first step was to put together a large listing of commercial properties the company represented and approach the sellers for their approval. "It took five 'no's to get one 'yes'" from property owners, Greene said. "It took a lot of selling [to convince owners] that this was the right venue for their product. Interestingly, most sellers were convinced that their properties were not getting enough national exposure."

In the end, 57 properties from more than 15 owners were slated for the auction. Each property was offered with "reserve," meaning that the seller could reject the high bid. Initially, a total of \$54.11 million in high bids were received. By the end of July, however, sellers had accepted bids on 43 of the properties, for a total sales volume of \$40.17 million. By August 9, six additional properties had been sold, for a total of 13 apartment buildings, 13 offices, six shopping centers and other assorted parcels.

Approximately 65 percent of the portfolio was real estate owned (REO) properties. However, Greene estimated that in stronger markets like Chicago, the ratio of REO properties dropped to 20 percent.

Each of the six auctions took on a regional flavor in that the properties offered were generally within a 400 mile radius of the location.

The number of inquiries topped 7,000 for the 57 commercial properties located in 28 cities, and the bidding population was international. More than 4,000 bidders came from 37 states and numerous countries including Japan, Germany, England, Canada, France, Saudi Arabia, Mexico and Hong Kong. The sellers included nine financial institutions, seven corporations, six life insurance companies, an investment group and a school district.

Greene said that "one reason sellers retained Good & Company to auction their commercial real estate was to ascertain their properties' values under current economic

conditions and revised tax laws... Now that most tax shelter incentives have been eliminated by the Tax Reform Act of 1986, real estate owners who purchased properties primarily as tax shelters want to sell them in a rapid, cost-efficient manner. Auctions are solving this dilemma for an increasing number of owners because they reduce property sales periods from one- to one-and-a-half years to 60 days."

NOTE: 5 of the original properties were withdrawn prior to sale because sellers were unable to deliver title. 14 of the original properties were represented by a 23 acre development landsite in Beaumont, Texas that drew no interest. Actual success to date is 49 parcels sold. Of the 9 not currently under contract, but still being serviced by 7 full time Sheldon Good & Company real estate brokerage offices, most are in remote locations such as Craig, Colorado; Bismarck, North Dakota; Georgetown, Texas and Odessa, Texas. The company's next National Program will be in late October, 1988.