

# THE FORSYTHE APPRAISALS FLASH

Appraisal Insights for Real Estate Professionals

## Going Once, Going Twice, Sold!

*Can auction sales be used as comps within a valuation analysis?*

By Karen Oberman, SRA, National Review Division Manager

Touted by some advocates as a marketplace that allows buyers and sellers to work more efficiently together in an open and competitive environment, real estate auctions are becoming increasingly more common. However, auction sales are still not considered to be conventional transfers of property in terms of widespread acceptance and practice. And, there is much ambiguity regarding the use of these transfers as comparable sales within a valuation analysis. As a result, like any real estate transaction, caution should be observed.

In order for an auction sale to be used as a comparable sale, it must meet the definition of "market value" and thus reflect the following components: "a knowledgeable buyer and seller, each acting prudently and in their own best interests and under no undue duress; as of a specific date; and the transaction is in terms of cash or its equivalency."

While auction transfers can certainly claim any and all of these components, questions should be asked and analysis performed to ensure that this was indeed the case. Some specific questions for which answers may need to be sought include:

- Was there a reserve?
- Were the bids open or closed?
- What are the typical market conditions in the area?
- Was the advertising adequate to fulfill the requirement of "reasonable exposure to the open market"?

If a property is listed for auction with a reserve and doesn't sell, and then is re-auctioned at a later date with a lower reserve that does transfer, what obligations does an appraiser have to report and analyze this listing history? Reserves reflect some pre-determined conclusions to the value of the property, similar to when a property is listed for sale with a real estate agent. However, if a property is over-listed and, as a result, possibly over-exposed, this can sometimes have an effect on the final sales price of that property. Similar to a typical listing, previous unsuccessful auctions of a sale should be considered in the overall analysis.

If the bids are open, and a "frenzy" ensues - would it potentially skew what a buyer would have paid for the property had they not been in the heat of the moment? A closed bid situation more closely approximates what we would consider a "typical" transaction. However, consider a scenario in which 15 bids were placed and 14 of them were (unknowingly) substantially less than the highest bid. In an open bidding, the high bidder would not pay significantly more than the next highest bidder.

Is the market declining or increasing in value? Either scenario may impact the motivations of an auction bidder, similar to how buyers view active MLS listings.

The easy answer as to whether auction sales could or should be used as comparable sales in an appraisal assignment *depends* upon the situation. Proper research and analysis needs to take place with auction transfers, the same way it should take place with any other sale.

*Do you have any suggestions for future articles you'd like to see?  
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