




Why gamble?


THE DOS AND DON'TS OF SEALED BID AUCTIONS


 **DO** recognize that not every type of real estate is suitable for sale using an auction – public or private. Auctions work well for properties that appeal to a lot of buyers. For example, a prime farm will appeal to producers and non-farm investors from a wide radius.


On the other hand, a set of buildings appeals to a smaller market. Demand for recreational properties has been strong for nearly 20 years. However, the buyers of recreational properties are scattered over a wide area. They are less likely to be aware of an auction in a certain county on a certain day. Real estate brokers who are active in the market for recreational, rural residential and highly improved properties are a better marketing choice than an auction format.


 **DON'T** try to auction a blended property, or, if you do, offer the components separately. Offer the rural residential acreage separate from the surrounding cropland, and split off recreational woods from cropland.


 **DON'T** make it complicated. Try to avoid unconventional sales circumstances. Terminate any leases. Don't close the sale during the growing season. Avoid selling a property subject to a first refusal option.


 **DO** consider an auction as an effective way to meet a deadline. If there is a reason to ensure a piece of real estate is sold by a certain date—the end of the fiscal year or before a foreclosure is filed, for instance—scheduling an auction is the way to go. One of the reasons recreational properties and rural building sites aren't suited for an auction is because they normally require more time on the market.

 **DO** use an auction—private or public—if your client's ultimate goal is to determine the highest price someone is willing to pay. However, your client may want to make sure a relative or neighbor gets the property. If that is more important to them than getting top dollar, an auction may not be the way to go.


 **DO** advertise in more than the local weekly paper. We at **Benchmark Agribusiness** are in the full time business of keeping track of the market. If we aren't aware of the auction, chances are good many of the prospective bidders aren't aware of it either. An advertising bill of \$8,000 is only \$50/acre on a 160-acre farm. **DON'T** be penny-wise and pound-foolish. The Des Moines Sunday Register is watched closely by “1031” buyers. The weekly farm papers like AgriNews, Iowa Farmer Today and Farm News are effective. An ad in The Farm Bureau Spokesman is a must. Venues like Craigslist haven't gained a lot of traction yet but, that is the likely trend in the future.

 **DO** make a sale brochure available online to provide easy access to information for interested buyers. An online presence could eliminate some nuisance phone calls from pesky appraisers and “window shoppers,” and it saves you from being the gatekeeper of the information.


 **DON'T** share an appraised value or high minimum bid in the ads. Nobody wants to knowingly pay more than what a valuation expert thinks the property is worth. A high minimum bid will limit the number of bidders, and potential buyers don't want to be told what to bid.


 **DO** schedule the bid opening at a time and location that are convenient for the most likely buyers. I once witnessed a sealed bid auction that ended with a high bid of \$8,000 less than the seller's minimum acceptable price. The bidders were asked to drive 90 miles from the farm to raise

their bid. Would the serious bidders go anyway? Sure, but casual bidders may have spurred one more round of bids. One more bid of just \$25/acre on an 80-acre farm would pay for 10.0 hours of billable time for the attorney at \$200/hour. That would likely pay for the attorney's round trip to the vicinity of the property being sold.

 **DON'T** limit the number of bidders. One auction advertised that only the top three bidders would be invited to the attorney's office at which they would be given an opportunity to raise their bid. The three high bidders turned out to be the adjoining farmer and his two grown sons. All bid the exact same amount. There obviously was no further bidding. It is a more common practice to limit the number of bidders to five, but why? If you are limiting bidders because "that's the way it's always

been done," rethink your reason. There will be more adrenaline flowing in a bigger crowd.

 **DO** allow bidders plenty of time to raise their bids, and let a slow bidder back into the bidding even if he missed out on a round of bids. The analytical "appraiser-looking" guy in the back of the room may be a slow decision maker, but he's probably been pinching pennies for 35 years to buy the parcel you have for sale.

 **DO** open bids on the same day the bids are due. The bidders have their adrenaline going by the time they make the commitment to bid. Use that motivation and the competitiveness between bidders before they experience "bidders remorse." Besides, why not to open the bids right away?

For a "Grade A" sealed bid auction, keep these basic thoughts in mind:

- Is it **APPROPRIATE**?
- Have I created **AWARENESS** through **ADVERTISING**?
- Is my time and location **AVAILABLE** to promote **ATTENDANCE**?
- And, finally, can I keep the bidders' **ADRENALINE** pumping? Answer "yes" to these questions and you'll have made the grade!

At **Benchmark Agribusiness Inc.**, we're more than valuation experts. We are also marketing consultants. Let us help you determine if a sealed bid auction is the right approach. And then let us help you maximize the effectiveness of the process.



Benchmark Agribusiness Inc.

641-424-6983

benchmarkag@mchsi.com

23 Third St. N.W., Mason City, IA 50401

www.benchmarkagribusiness.com

More than \$5 Billion of real estate appraised since 1988.