



JOE WARD

PROPERTIES

Real Estate & Auction Guide

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The Art and Science of Purchasing Rural Properties

Purchasing a piece of rural property combines a blend of science and art, with a touch of gambling thrown in. There is no right or wrong way, as each purchaser has distinct wants and needs to fulfill and each property will offer a wide variety of strengths and weaknesses. It goes without saying that anyone who has previously lived in a rural environment has the advantage over the "city-slicker" making the first move to the country. There are, however, some general rules that apply to anyone who is buying rural property in Oregon.

HOUSE INSPECTIONS:

The rules here are identical to rules for buying residential property in the city. A pest inspection, also known as a substructure inspection or termite/dryrot report, is most important, for two reasons...to begin with, it involves an area that is not visible in a general walkthrough. More importantly, most problems begin in the substructure area and work their way up.

This inspection generally costs between \$95 and \$150 and takes a qualified expert 1-2 hours to perform the service. There are three critical qualifications that an inspector should possess:

- an active license from the Oregon Construction Contractor's Board (which also guarantees bonding and insurance).
- a license from the Department of Agriculture, which guarantees that they have been trained in the field of detecting wood destroying pests and organisms and that they are licensed to perform chemical treatment.
- be a member of the Pest Control Operators of Oregon, a trade association that holds its members to the highest standards of inspection (including not only the existence of wood destroying pests and organisms but the identification of conditions that favor their growth, as well.)

WHOLE HOUSE INSPECTIONS:

Rules here, once again, are identical to the in-town property. It is to the purchasers benefit to know as much as possible about condition of the various systems (electrical, plumbing, heating, etc.) in the house they are purchasing, and the "Whole House Inspection" is gaining wide acceptance as a vehicle for this.

The cost is considerably more, usually from \$300-500, and is often paid for by the purchaser. These inspections cover virtually everything one could possibly wish to know about a home.

On the negative side, whole house inspections tend to measure the subject property against a modern home built to current code, and this can result in magnifying the normal defects (especially in older homes) and scare off some sellers (when the offer comes in) and some buyers (when the report comes in).

To further complicate matters, regulation of the whole house inspectors is somewhat new and anything but stringent, and the existence of modern computer programs in this field (especially the multiple choice check-off variety) can lend an air of authenticity to the work of even a rank amateur with minimal experience in the building trades.

Fortunately, There are some large national companies who hire only experienced tradespeople as their inspectors and also put them through a rigorous training program. Thus, the rural property purchaser should be extra cautious about selection of an inspector in this field.

An attractive alternative in many situations (especially where there may be one or two particular areas of concern) is to hire an active professional in that field. A plumbing contractor's report on the plumbing system, or an engineer's report on the structural integrity of the dwelling, will be of considerably more value than anything one would find in a Whole House Inspection.

OTHER INSPECTIONS:

Reports on the utility supply and disposal system (wells and septic) are what generally separate the city property from the country one. Although there are occasional exceptions, city lots usually have hookups to municipal systems (water supply and sewage treatment plants).

Maintenance of these systems is performed by the city and/or utility company. Rural properties include the well (water supply) and septic system (sewage), and maintenance, repair and replacement is a burden of the property owner.

WELL:

There are two critical tests which any well should be subjected to: quality and quantity. Oregon state law mandates that the seller test for the presence of bacteria and nitrates. The cost is generally \$25-35 per sample to have an independent pump technician perform this service. It is never recommended that any party with an interest in the transaction (buyer, seller, Realtor, etc.) take the sample to the lab because wells do change over the course of time and no one wants to be involved in a lawsuit where there is the appearance of impropriety or conflict of interest.

It is recommended that the well be given the "Complete Package" test, which includes not only the state required ones but also additional tests for iron, ph, turbidity and lead, among others. Many people new to Oregon are surprised to learn that one of the mandated test substances, Nitrate, is generally only present in unacceptable levels in commercial farmland where chemical fertilizers are used...and that more common rural concerns are toxic substances like arsenic and salt. The former can be successfully treated with a reverse osmosis system, but treating the latter is not economically feasible and drilling a new well is generally the solution.

Salt is often found in levels insufficient to identify it by taste but at a level high enough to kill garden plants and household shrubs, so lab testing for this substance is highly critical.

The cost of the "Complete Package" test is only \$125-200 and is an excellent investment for any purchaser of rural property.

A water quantity test for a well is also very important. To begin with, an adequate supply is obviously important as it is difficult (and sometimes impossible) to sell a property where the water supply runs out or is inadequate.

- The industry standard....that is, the amount that is recommended by real estate professionals to their prospective purchasers, as well as the amount that most lenders require in order to fund a loan, is 5 gallons per minute for a 4 hour flow test. In reality, this amount may be well below or above the amount that is actually required, depending entirely on the property and its intended use.
- A 2 gallon per minute flow will generally be more than adequate for "domestic" use...that is, the average household use of the average family. That translates into 1880 gallons per day, roughly three times the amount that it is calculated for use by an average family. A small garden can sometimes even be accommodated with the use of drip irrigation and a storage system.
- The 5 gallon per minute well will generally handle all domestic use for the average family, plus a small to medium garden and accompanying landscaping.
- A 10 gallon per minute well is generally considered the minimum for an "irrigation" well, which would handle the large home garden or small commercial garden. This, too, of course, will depend upon actual land under cultivation and desired production, as well as whether or not drip irrigation and/or additional storage is used.
- In large commercial ventures in our area, of course, irrigation from a river or large creek may be necessary.

A proper well flow test will also include the "drawdown"which is a record of where the static water level is during the four hour pump test. If there is very little drawdown, it is a good indication that the water strata is sufficient. Even a 5 gallon per minute test where the water level drops down to the pump setting near the end can be cause for concern, especially if some irrigation is planned.

And, of course, many wells are affected by the water table ...thus, the best time to gauge the condition of a well's capacity is during the peak of summer. Pump technicians generally charge \$30-40 per hour for their services, so the flow test usually runs about \$120-160.

Some rural properties use springs as a water source. In some cases, springs are equal or even superior to a well system as a water source. However, most conventional lenders will not loan on property which utilizes spring water, and that, of course, is a major negative. The same is also true for a lower volume well which utilizes a storage system...so, while either of these alternatives may, in practice, be acceptable to a rural property purchaser, it will create concerns for value and resale.

In the event that a new well needs to be drilled, the cost will vary, of course, depending upon the depth. I was once involved in a sale where the seller drilled 5 dry wells at a total cost of \$25,000. We generally use the figure of \$5000-7000 for an average well, which would include drilling (200-300 feet), casing, pump, small pump house, electrical service and pipe to the house. There are, obviously, many variables.

SEPTIC SYSTEMS:

Sewage disposal on rural property is generally handled by an on site septic system, which generally consists of a concrete holding system (septic tank) and a disposal field (known as leach lines or drainage ditches).

Other materials used for tank construction include steel, poly plastic, fiberglass and wood, but concrete is far and away the preferred product. The disposal field consists of a series of trenches, filled first with drain rock, then perforated pipe, backfilled with the native soils.

The inspection can cost anywhere from \$60 to \$200, depending on whether or not the owner locates the tank and provides access to the lid. If the location is unknown, and the soil is particularly hard, it may take extra labor and/or heavy equipment to provide means for inspection. By looking into the tank, and introducing water into it, the inspector can determine if the inlet and outlet systems are properly functioning. A visual inspection of the apparent drain field area can identify signs that the system may be in a failure mode. Sometimes an inspection will reveal that an adequate system does not exist, or that a once-adequate system needs to be repaired or replaced.

Most modern systems currently in existence are called "standard" systems as described above. In the past 20 years, the "sand filter" system has become much more popular.

County sanitarians, under the direction of the Department of Environmental Quality, are increasingly limiting new systems to the sand filter design and it is predicted that in another few years the standard system may no longer be permitted in any circumstance.

The sand filter has the advantage of using less area for installation, and it can be placed almost anywhere, including wet areas. On the negative side, they are exposed and less aesthetic, require considerably more maintenance and are quite costly. The average cost of the standard system is \$6000-8000, whereas the sand filter system generally runs from \$12,000-15,000. In some areas, where space is limited, special neoprene liners are required, and special soils have to be imported to the site to accommodate installation. In some cases, these systems can run from \$18,000-20,000 and up. In some extreme instances, there may not even be adequate replacement area for these systems and abandonment of the property may be the only alternative if the existing system fails.

Thus, it is critical that anyone purchasing rural property be fully informed not only as to the condition of the existing system, but as to availability of suitable replacement area.

Replacement area is especially critical on smaller parcels because of setbacks. State law mandates that there be a distance of at least 50 feet between a well (or a spring) and a septic tank, and at least 100 feet between a well (or a spring) and a drain field.

On an acre or less, this can become a problem, especially if the property is surrounded by other small parcels with wells, springs and septic tanks, for the setbacks apply to the adjoining properties as well. Although it is unlikely, it is conceivable that a small parcel of land even as large as 1-2 acres could be prohibited from having a well drilled or a septic system installed if the neighboring parcels had their

systems located near the property line. Extreme caution is urged for anyone considering the purchase of small rural lots with well and septic system. Setbacks also apply to streams and springs.

LOT LINES AND SURVEYS:

Knowing exactly where one's property actually lays is very important, whether it is in-town or rural property. But, as a general rule, the bigger the property, the bigger the potential for concern.

In a perfect world, every property would be resurveyed prior to sale. However, surveying rural property can be quite costly, prohibitive to either the buyer or seller. To further complicate matters, all new survey work originates from previous existing survey work recorded at the county offices, and some existing work (often done 100 or more years ago when surveying was not the science it has since become) contains errors.

It is a fact that there are "overlapping" surveys...in other words, two side by side parcels each having been verified to contain 10 acres apiece, which actually measure out to 19 acres when surveyed together. There is a "missing" acre of no man's land and, depending on which existing monuments are used, the case could be made for either one as being the 10 acre parcel.

On the other hand, there are also survey "gaps", where the same two adjacent 10 acre parcels total 21 acres, with an "extra" acre of no man's land lying somewhere in the middle. Obviously, this problem is always the easier to solve.

To further complicate matters. Oregon statute provides for one party to seize control of another's land by virtue of "adverse possession". Simply put, if one party uses another party's land for 10 years or more, and meets certain criteria, the first party can claim the land as his own. While the criteria is difficult to meet, no one wants to be purchasing a piece of property where the fence line has been off for more than 10 years. Even a victory in court to regain the land is quite costly.

And the general rule is... the older the fence, the less likely that it's on the property line. Most old fences are close, but I've seen cases where they are off by hundreds of feet.

The alternative to resurveying the property is to simply have a surveyor locate the existing corners. This can generally be accomplished for a few hundred (as opposed to a few thousand) dollars and, in most cases, the adjacent property owner is willing to split the cost. If the neighbor is unwilling to participate, that is a factor that should be considered when purchasing the parcel.

It should also be pointed out that creeks and streams are often used as common boundary lines. If the legal description simply refers to the boundary line as the center of the existing stream (rather than describing set monuments placed in or near the stream), then a change in the course of the stream's flow means a change in the property lines. Therefore, following flood conditions (an inherent risk on property with surface water), a property owner may pick up or lose additional land, depending on relocation of the stream.

LAND USE AND ZONING

This is perhaps the area of greatest concern and subject to the most misunderstanding for any purchaser of rural property. Oregon established statewide land use planning in 1973 and our system has since become a model for many other states across the nation.

Because our system is so strict, and anything but "development friendly", there has been considerable controversy over the regulations, and particularly in regards to the manner in which subsequent modifications have been adopted and applied. The purpose here is not to pass judgment on the system, but merely to shed some light on it and to offer advice.

One of the main questions that is often asked of the experienced rural property broker is "Can I subdivide or partition this land?" The answer is almost always "No". Parcel size in Oregon is regulated by the "Property Development Standards" in each particular zoning, and that would include the minimum number of acres. Most larger parcels (20 acres and up) are designated as "Resource Land", and that is primarily the various classes and zonings relating to farm and forest lands. As a general rule, the minimum parcel size is 80-160 acres, which would mean that an owner or purchaser would need a minimum of 160-320 acres to create two parcels from an existing single parcel.

Other criteria including availability of fire protection (for forest land) and soil type and productivity (for farm land) may also be taken into consideration when partition or development of "Resource Land" is contemplated.

In some instances, acreage meeting minimum parcel size might still not be allowed one homesite. To further complicate matters, each individual county has some latitude in interpreting and complying with state land use planning goals...thus, zoning classifications and development can vary from one area to another. It can be stated with certainty that our rules for development of farm and forest lands are so complex that a thorough investigation into this issue is strongly recommended for any purchaser of vacant land with these zonings prior to close of escrow. Without exception, a prior written approval from the county planning department should be obtained if any value at all is given to the potential for a home site. A more flexible zoning for development is the "Rural Residential" designation. A single family dwelling is generally permitted outright (the primary exception being the small parcel where setbacks for well and/or septic are an issue). Minimum acre size in this zone can run from 2-20 acres. However, most of the parcels remaining are 5 acres or less. So, while it is possible to develop up to ten parcels from a 20 acre piece zoned RR-2 (Rural Residential, 2 acre minimum), very few of these opportunities still remain.

Another common question of the rural property broker is "Can I build a second dwelling on this parcel?" Once again, the answer is almost always "No". Simply put, the rule for Oregon land-use law is "One parcel, one dwelling", assuming, of course, that the criteria is met for "Property Development Standards". There are six general instances in which a second dwelling may be available.

1. The pre-existing, non-conforming use ("grandfather clause"). In such cases, two or more dwellings exist on a single parcel but were placed there prior to the inception of our current land use laws. They are legal because they pre-existed and can generally be used as rentals. It should be noted, however, that the county planning department will generally not allow replacement in

the event the extra dwelling is destroyed by fire or otherwise. And, for this reason, the lenders who will loan on such properties will generally charge a higher interest rate (2-3% more) and will not allow for the value of the extra dwelling(s) in the appraisal.

2. The "Farmer Jones" exception. In any instance where farm or forestry practices require year round hired help, secondary housing may be provided on site. This is almost always in commercial uses involving large acreages and is usually not an option for most rural property purchasers.
3. The "hardship" mobile home. This is a very common exception in Oregon and is available when a blood relative of the owner needs to live close by due to a documentable hardship (usually, but not always, medical). Such cases are almost always limited to mobile homes which must be placed near the main dwelling and connected to the same septic system. Requirements include the agreement to remove the mobile home whenever the hardship party leaves. This provision is not strictly enforced so there are a number of instances when hardship mobiles are being used as rentals in violation of county ordinance. Therefore, it is always wise to verify the legality of any second dwelling, particularly when it is a mobile home, before accepting its value as a second home site.
4. The "guest house". Some counties have provisions for a guest house but invariably include requirements (such as no kitchen, or kitchen sink) in an effort to prevent it from becoming a rental. Once again, buyers should be careful that a second dwelling is not really a guest house with an added kitchen sink.
5. The "duplex". The Rural-residential zone and limited other zonings allow a duplex...that is, a second dwelling is acceptable if it is attached (sometimes even by a breezeway) to the main dwelling. This is a relatively routine matter and a great alternative for anyone seeking two residences on the same property. Of course, many people are wanting privacy from the second party (particularly if it is being used as rental) and this option is usually not acceptable.
6. The "bootleg" dwelling. Sometimes a second dwelling is added illegally without county planning approval. Perhaps the most common instance is the "apartment" inside of a barn. In some cases, it may be a totally separate building and a very professional job may be done....to further complicate matters, county assessors are not generally apt to report new construction to the planning and building departments. Therefore, it may be that county records confirm the existence of two separate dwellings when only one of them, in fact, is legal. The existence of multiple dwellings on any parcel should always be investigated through the planning and building departments to verify which, if any, are legal dwellings. The advice here is not necessarily to avoid consideration of any parcel with a "bootleg" dwelling...but, rather, to be aware of the circumstances and potential consequences before making a determination on value.

In a similar vein, buyers of rural property should be concerned about any significant work done without building permits. The consequences of an illegal second dwelling are generally removal of the dwelling or

conversion of it to non-habitable status. Because of the difficulty in developing "Resource" zoned lands, however, there are cases in which there is only one dwelling and it is illegal. This is not as hard to accomplish as one might imagine. Accessory outbuildings are permitted in "Resource" zones for farm or forest related activities even where dwellings are not, and conventional power can be hooked up. Wells are also allowed. In such instances, a bootleg septic system can be added and a barn can be converted to a home, or an outbuilding added onto. While these cases are extremely rare, they do exist and the county planning and building departments are always the place to research the potential of this circumstance. Much more common, and a much greyer area, is the remodeling, conversion or addition onto an existing legal dwelling. Oregonians are by tradition an independent bunch, and the philosophy that "A man's home is his castle" and that it is not the government's business or duty to interfere in such matters as building is rather common in our rural areas. And, sometimes, the line between what is a cosmetic remodel and what actually requires a building permit is not clearly defined. It is my experience that a significant amount of rural properties in our state have had some work done without permits. In most instances, it is not of particular concern. However, extreme caution is urged where major new work is added without permits and inspections.

I was once involved in the sale of a property in which the original owner had legally placed a small mobile home with a well and septic. Eventually, an addition was put on without permits, then another, and a final remodel included removal of the mobile home. What was left was a modern 1900 square foot home in a secluded location without any valid building permits. The owners eventually divorced and rented the home. Later, the tenant was unable to make the payments and was served an eviction notice. Somehow, the tenant had found out the history of the building and filed a complaint with the county building compliance officer in retaliation for the eviction. The owners were served with notice that they had ten days to apply for a permit, and would be fined \$100 per day in the event they failed. This fine, incidentally, would attach to the title of the property and become a lien. When the permit was applied for, the cost (\$1700 based on the size of the dwelling) was doubled (to \$3400) as penalty for failing to obtain the original permit. The owners were also required to hire an engineer to determine what needed to be done to bring the home up to the current code (the house was now 20 years old but would be required to meet code as of the day the permit was applied for). The cost of the engineer's report was \$3500. The house, although fully insulated, was built with 2x4's and did not meet current insulation requirements (now 2x6 construction). And, although all the windows and patio doors were thermo pane, they did not meet the new energy code and all had to be replaced. The home was also built over an old growth fir stump and the engineer called for its removal. A contractor's bid on the report came to \$39,000.

It is wise to remember that, in a situation such as this, the county will hold the CURRENT homeowner liable for these upgrades when it comes to their attention...rather than the person who actually owned it at the time the violation was committed. We were able to sell this property but only at a substantially discounted price.

CONCLUSION

Of course, entire books have been written on buying rural property and even they leave out much information, so the preceding passages are only intended as a brief general guide to anyone considering making such a move. And, fortunately, most transactions do not involve many of the problems described above. However, no one wants to be the exception to the rule who winds up with a property of little value that is difficult to dispose of, and taking advantage of the services offered by a professional in this field only makes sense.

No rational person would hire a corporate tax attorney to defend them on a criminal charge, nor a dermatologist to perform heart surgery. Anyone thinking about purchasing rural property should use a Realtor who specializes in the field.

About Real Estate Auctions

Everybody loves an auction. It has the spine tingling excitement of a Super Bowl game or a World Heavyweight Championship boxing match. It is one of the few events where a person can be a spectator or a participant, or both. An auction creates the sporting spirit, arouses enthusiasm and stimulates competition. Bids are influenced by the judgement of others and the judgement of the public determines price and value. It is the modern method of marketing.

HISTORY

The word "auction" is derived from the Latin words "auctio" or "auctus", which roughly translate into "an increasing or gradual increase". Auctioneering is one of the world's oldest professions, dating back well over 2500 years. The ancient Greek historian Herodotus referred in 450 B.C. to a Babylonian custom whereby maidens were sold into marriage to the highest bidder at an annual assembly. In Roman times, booty and captives of war were disposed of at auction and it was a popular system for commercial trade. Expansion of the Roman Empire eventually gave root to the system in England, where King Henry VII is believed to have first required licensing of Auctioneers in the 13th Century. On one of the voyages of Christopher Columbus, a ship's log notes the purchase of British goods at a public outcry. In 1712, a Frenchman named Pierre Antoine Matteus established the first general auction house offering diversified goods at a single sale as opposed to the specialty auctions that had been commonplace. The tradition has continued into modern times throughout the world in much the same way. Today, the auction method of sale is often considered as the quickest and fairest means of disposition of property and is more widely accepted than ever before. Virtually everything has been sold at auction, from tobacco to tanks and from sandbags to skyscrapers. As the auction profession has progressed, it has become increasingly specialized, with experts selling in diversified fields such as antiques, paintings, livestock, farm equipment and automobiles.

REAL ESTATE AUCTIONS

The sale of real estate by public or private registered bidding is currently being conducted by both the "specialty house" and "single sale" methods. In the former, any number of properties will be offered on the same day and at the same site in a designated order. The advantage to this method is that numerous properties can be sold at the same time, which can greatly reduce advertising expenses and labor. Some people, such as investors, can buy one or more properties at the same site on the same day. The advantage to the "single sale" method is that the one property is "spotlighted", and the bidding is held on site, where it can be viewed just prior to and during the sale. A third method combines the best of both systems, with a limited number of properties being offered the same day on site. Each sale is separated only by the time it takes to travel from one site to another. In any case, the real estate auction is a professionally staged event with its own "program", usually a multi-paged brochure with a complete history and description of the property, including maps, photos, dimensions and descriptions, plus a current Preliminary Title

Report. Because such items as appraisals, tests and inspections are subjective, these are generally left to each prospective bidder to conduct independently in the period between the initial advertising and the actual sale date, usually 4-8 weeks. The brochure will offer financing options, with the owner often willing to carry the paper, at least for a short period of time. There will often be a conventional loan officer available during the marketing period to prequalify potential buyers and to assist in financing, and on-site at the sale to assist in the loan application paperwork, if necessary and desired. A certified funds cashier's check will generally be required to register to bid, in the amount of \$1,000 on up, depending on the value of the property. These checks are returned to all unsuccessful bidders at the end of the sale, at which time the purchaser will deposit a larger check as non-refundable earnest money. Closing is generally within 30 days of the sale, although that may fluctuate in either direction depending upon the circumstances. The sale may be conducted in public or in private, depending on the wishes of the seller and Auctioneer. The latter is more common in the sale of the more exclusive and expensive properties, and only registered bidders are allowed to attend (usually in the largest room of the facility being auctioned).

PACIFIC NORTHWEST

The sale of real estate at auction has long been accepted in many parts of the United States as a viable alternative to the traditional "private treaty" or "term method" of sale, which is the industry standard. However, it is still in its relative infancy, particularly in the Western part of the country. Because much of the auction activity locally has been confined to the sale of tax delinquent property or "courthouse step" foreclosures, many people are under the impression that it is strictly a process for distress situations. Nothing could be further from the truth. In fact, there are a number of distinct advantages for a seller to sell at auction.

ADVANTAGES TO SELLER

Selling real estate at auction is the quickest and most convenient method for a seller. Because a selling and closing date are determined in advance, the owner can plan his move accordingly. Auction sales are primarily non-contingency, with inspections, tests, title search and financing taken care of in advance. Holding costs (mortgage, interest, taxes, utilities, etc.) are reduced or eliminated. And, unlike the common method where there is a listed price from which the negotiations work down, there is no ceiling on how much the property will bring at an auction. And the possibility that a property will be listed at too high of a price, and become "market worn", is eliminated.

ADVANTAGES TO BUYER

Buying real estate at auction offers many of the same seller advantages to the buyer. There is no waiting period to find out if inspections turn up major problems, or if there are problems with the title or financing, as these items are taken care of in advance. The buyer has a lengthy time period to evaluate the property and accept as much advice as is necessary to determine what price they are willing to pay. The buyer is secure in the knowledge that the property is selling for market value, rather than the wishful thinking of a seller and an agent.

BEST FOR BUYER AND SELLER

The seller wants to sell for the most money possible and the buyer wants to buy for the least amount of money possible. Is that an insurmountable conflict of interest? Of course not, and that is exactly what makes this event so exciting. In a true auction, the seller has committed to sell even at well below market value. This brings the greatest number of buyers to the scene, because of the possibility that there will be a bargain. No one really knows who will wind up with the advantage prior to sale and, in fact, it is disputable at times even after the fact. One thing is certain. At a well-advertised auction, the product will bring market value, at the very least for that time and place.

BEST FOR EVERYONE

The agent ("auctioneer") can concentrate all advertising into a short period of time and saturate the market. The spotlight is put squarely and solely on the property to be auctioned. The media loves an auction because it transcends the normal sale of real estate and becomes an "event". It is a public relations coup. There is more exposure and higher visibility.

AUCTION PSYCHOLOGY

When an attractive property is first put on the market, there may be a significant amount of activity at first. In some cases the property may sell, but in others the seller holds out, overconfident at the initial flurry and hoping a better buyer comes along. Eventually, the activity diminishes and the property becomes stale. When a property is first listed, often times it is the buyer who is hesitant. They are sometimes unwilling to make the first move, insecure at the notion that they might be the only ones interested in what could prove to be a suspect property. They are suspicious of stories that other parties may be looking, or even offering, on the same property because they don't necessarily see it taking place. At a real estate auction, these trains of thought never get on track. A seller is secure and comfortable in the knowledge that his property's imminent sale has been disclosed to the greatest number of people possible, and that numerous potential buyers will be competing to purchase. The seller will, in fact, receive fair market value for his property because it will be sold to the highest bidder. The buyers are secure in the knowledge that all the facts on the property are known in advance, that they have an excellent idea as to the value, and that all negotiations of all parties will be done right out in the open. Buyers come to a moment of decision, particularly with the knowledge that the property is desirable enough to produce multiple purchasers. They will know they paid fair market value because of the competition.

BEST PROPERTIES

Any property can be a good candidate for auction if certain guidelines are followed. Obviously, some properties have distinct advantages over others, however. For instance, it is highly preferable that a property to be auctioned has not been on the market, particularly for any length of time. If a property has been for sale and hasn't sold, there will be a perception by the general public that there is something wrong with the property and that, at the very least, it is priced too high. In many cases, that may well be true. However, there are a number of other reasons a property may not have sold, many relating to

marketing efforts. In any event, a market worn property will not create the excitement nor the participation of a new one. It is also true that the more unique a property, the better the auction. The chance to get something that is one of a kind will draw the greatest interest and attention. For this reason, commercial/business and rural properties are generally better than, say, a tract house. Obviously, it can be difficult to determine the value of a distinct property....such as five acres in the country with two houses and a one acre pond, or the only undeveloped lot remaining in a high traffic commercial location....when they're sold, they're gone. There may well be no comparable sales. The value is clearly set at auction. Conversely, in the sale of a standard 3 bedroom, 2 bath tract home in a subdivision, there is usually no great mystery as to value, because a number of similar homes in the area have recently sold, and a number of similar ones are still available. Because there is no mystery as to value, there is no excitement. Because there are other similar ones available, there is no urgency to buy. This is assuming, of course, normal market conditions. When the demand far exceeds the supply of even the simplest and most unimaginative housing, auction conditions are inadvertently created and buyers will bid the prices up even on listed properties.

FORMAT

There are three different formats under which real estate may be auctioned. This would be the "absolute" method, the "reserve" method and the "owner confirmation" method. In an "absolute" auction, the seller agrees to take the highest bid regardless of price. This method, of course, creates the most interest from a buyer's perspective and the most risk from a seller's perspective. In a "reserve" auction, the seller establishes a minimum bid which they will accept, and the auction will start at that price. In the "owner confirmation" sale, there is no minimum starting price. However, once the bidding ends, the seller has the right to accept or reject the highest bid. The best format for a real estate auction is the "absolute" method, for that will create the most interest and bring the greatest turnout, which in turn will create the greatest activity and the most vigorous bidding. Most sellers are unwilling to accept these terms, however, because of the risk involved. The least favorable method is the "owner confirmation" because no one (including, at times, the seller) knows for certain whether there will be a sale at any price. Therefore, the "reserve" method is the most popular and it can be as successful as the "absolute" auction if the proper minimum price is established. This would be defined as a price which is clearly perceived by the public as below market value and at which the property is certain to sell. There will still be, of course, an element of risk for the seller. As with virtually any investment opportunity, however, the old saying is true... "the greater the risk, the greater the reward".

THE PSEUDO-AUCTION

Whenever there is a new concept in any market, there is bound to be imitations and facsimiles which attempt to capitalize on the idea. Unfortunately, some states (including Oregon) do not require licensing in the field of Auctioneering and, thus, anyone with a real estate license can advertise and conduct a real estate "auction" regardless of their experience (or lack of it). This has resulted in a number of "pseudo-auctions" which are, in fact, merely "open houses" in disguise. Almost without exception, these are properties that have been on the market and have failed to sell, and have minimum bids starting at or

near the listed price. With a stale product being offered at an unrealistic price, there is absolutely no excitement or enthusiasm generated, and the properties don't sell. It is an auction in name only, and generally discredits the business. Even the one advantage to the agent, drawing in a small group of people to what is really an open house, will eventually backfire as buyers begin to realize that the sellers are not really committed to a sale.

CONCLUSION

Everyone who is interested in real property or investing should take the time and benefit by attending a real estate auction. Become familiar with values and note what prices the auctions bring. Determine whether or not the auction method is not, indeed, the best way to buy and sell property.

Joe Ward Auctions

The Auction Advantage

THE AUCTION EVENT

- All eyes are on the property being sold.
It is the sole focus in the market.
- A sale will result in a short marketing time, generally 30-60 days.
- As a "sole and separate" feature, much advertising is done on the auction property.
It is a "media event".
- The event controls the market.
Interested parties must be present to successfully buy.
- The event itself is a catalyst to promote the interest and draw in participants.
- A true indicator of market value.
No limit on the upside potential as property will bring what it is worth.
- Eliminates any guesswork or need for so-called "independent appraisal".
The public will determine the price.
- Conditions of the sale are set in advance prior to auction.
Negotiations are unnecessary.
- Property is sold with no contingencies as any test, inspections, financing, etc, are done in advance prior to sale.
- Multiple offers are submitted to the seller before and during the auction.

PRIVATE TREATY SALE

- Property must compete with many other listings being advertised and shown.
- Property may remain on market for months, even years, before a sale is completed.
- There is minimal advertising on property and much reliance on a Multiple Listing Service. Even heavy advertising can get lost in crowd.
- Minimal time motivation for buyer as many properties are on the for long periods.
- State properties must use "price reduction" technique to stimulate market.
- Any upside potential is completely eliminated by the asking price, as that is the highest figure a property can generally bring.
- Sellers may overprice and miss the market, or risk under pricing and end up accepting less than market value.
- There is no pre-determined formula.
All aspects of the sale are negotiated with offer.
- All tests, inspections, financing, etc. occur subsequent to offer. Surprises are common and negotiations often break down.
- Few offers are received and multiple offers are rare. Some properties receive none.