

A Reprint from *Tierra Grande*

Buy the Piece

Multi-Parcel Auctions

Gain Popularity

By Harold D. Hunt

The stars are aligning for a different kind of real estate auction. Multi-parcel or “multi-par” auctions divide large properties into smaller tracts that can be bid on individually or in any desired combination.

While standard auction conventions still apply, multi-par auctions are more complex than traditional ones. The result is an auction that is more exciting for buyers and often more profitable for sellers.

Heightened Interest in Auctions

Much of the fascination with auctions can be attributed to the increasing popularity of eBay. A National Auctioneers Association (NAA) poll found that eBay has given consumers a positive impression of auctions, so much so that many say they would like to attend a live auction in the future. The survey revealed that about 57 percent of Americans have witnessed a live auction.

Real estate is the fastest-growing segment of the auction industry. According to NAA, 22.3 percent of gross revenues from all auction activity involves the sale of real estate. Gross rev-

enues from land and agricultural real estate auctions increased about 7 percent in 2005.

Recreational, Retirement Property Demand

As baby boomers enter their peak earning years, demand for second homes and recreational acreage is increasing. Multi-par auctions are designed to increase small-buyer participation, which benefits individuals looking for more affordable tracts (see “A Simple Multi-Par Auction”).

For example, assume the owner of a 2,000-acre ranch is considering an auction to dispose of the property. The number of qualified buyers willing to bid on the whole property may be much smaller than the number willing to bid on tracts of 50 acres or less.

Raw land is the most common property type sold through multi-par auctions, but properties with improvements may be candidates as well. In the example, a tract containing the ranch house and barn could be auctioned off as an individual parcel.

As a result, the potential for real estate licensees to collect referral fees for registering multi-par bidders is much greater than it is with traditional auctions.

Auctioneers would like to deal with real estate licensees on every sale, according to Brent Graves of Alliance Land Auction LP in Amarillo.

“Auctioneers want to form alliances with local real estate professionals,” said Graves. “We typically offer buyer brokers a commission of 2.5 percent of their clients’ opening bids and

another 1 percent of the remaining amount above the opening bid if they purchase anything."

Carl Naylor, an auctioneer for the Dallas-based Mike Jones Auction Group, points out that multi-par auctions reap benefits for sellers, too.

"Multi-par auctions often help sellers obtain a retail price from wholesale buyers," Naylor says.

If buyers interested in the whole property are forced to bid against a host of small bidders desiring individual tracts, the property should sell for more.

An alliance between auctioneers and real estate professionals works well on the seller side as well.

"Real estate brokers have the local knowledge, and we have the ability to carry out a great deal of marketing in a short time," said Graves. "We've spent anywhere from \$8,000 to \$72,000 marketing properties, and it's hard for the real estate folks to commit to that level of marketing cost."

Marketing the properties correctly is critical to the success of a multi-par auction.

As sellers become more aware of the advantages, the volume of real estate changing hands through multi-par auctions should increase, leading to more listings for sellers' agents.

Managing Complex Bidding

Multi-par auctions have been conducted for more than a decade. The earliest auctions displayed tract combinations and high bids on a series of chalkboards. This method was effective for properties partitioned into only a handful of tracts, but the system was cumbersome when a large number of parcels were involved.

Today, multi-par bids are compiled on laptop computers using customized software. The bids are then projected onto a screen along with scanned maps of the property that display the high-bid tract combinations in real time. "Bid assistants" provide information to bidders regarding the current amount necessary to bid on a particular tract or combination of tracts.

Informed Buyers Mean Higher Sales Prices

Some potential bidders may be intimidated by the multi-par auction process. To ensure that bidders understand how auctions are conducted, most auctioneers brief interested parties on the process before and on auction day.

"The auctioneer also has the option to stop the auction at any time if further explanation is needed," says Scott Swenson of Austin-based Swenson Auctioneers.

Swenson has at times conducted mock auctions with bid assistants acting as bidders to clarify the process for participants. Auctioneers know that to get the highest prices for sellers, bidders need ample time to consider the bids and weigh the wisdom of bidding on alternative tracts if their first-choice properties become too expensive.

Although the process can vary by auction, multi-pars are always composed of two bidding periods. In the first period,

bids are entered on each parcel individually until a base price has been established for every tract.

In the second period, bidders can rebid any tract, group the tracts in any desired combination, or bid on the whole property, subject to a specified increase over the current high bid. This stage typically consists of a number of bidding rounds as bidders attempt to obtain their preferred parcels.

All bids remain active until the auctioneer closes the bidding and announces the property sold. Multi-par auctions can take from a few minutes to several hours to complete, depending on the number of tracts offered and the motivations of the bidders.

To Survey or Not To Survey

Individual tracts are typically determined by the property's natural or man-made boundaries. According to the terms and conditions of the auction, tracts purchased are subject to a survey. If the size of a tract differs by more or less than a predetermined amount, the tract sales price is adjusted.

The seller must conduct the survey before closing so that buyers, title companies, lenders and other interested parties know the specifics of the purchased tracts. Whether to have the individual tracts surveyed before the auction is a critical decision for the seller. A pre-auction survey removes any doubt regarding how much land each tract includes. The seller must bear this expense up front, however, and it may be money wasted if the property sells as a whole.

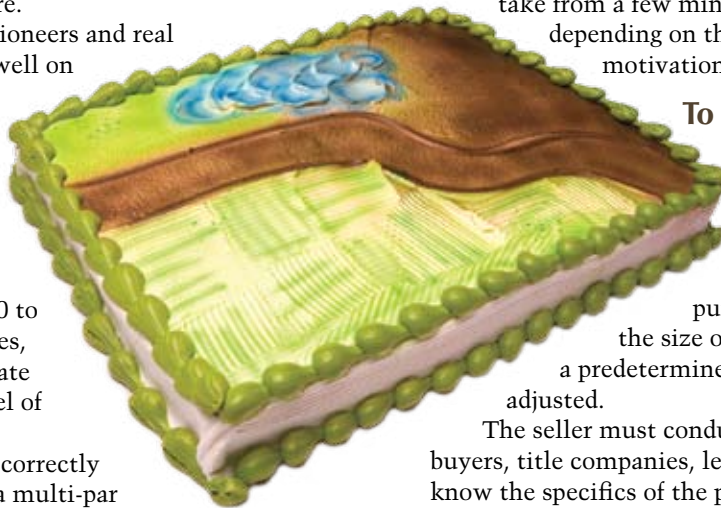
Another option is for buyers to arrange for their own surveys, but this can create problems. Auction terms generally specify that closings must occur within 30 to 45 days after the auction has been completed. This may not be sufficient time for a buyer to arrange for a survey.

The most popular option is to stake and number individual tracts before the auction. This secures a surveyor's services before the auction, ensuring that the survey can be completed before the closing date. It also lets the buyer know the survey's approximate cost.

Multi-par auctions make sense for marketing certain property types. They offer real estate licensees more opportunities to collect commissions. And beyond that, multi-par auctions can be quite entertaining. Both the real estate and auction industries stand to benefit as the popularity of this kind of auction grows.

For more information on auctions, see "Going Once, Going Twice, Sold!" in the July 2002 *Tierra Grande*. ♣

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THE TAKEAWAY

Multi-parcel auctions are becoming more popular thanks to advances in computer technology. Real estate licensees stand to profit from this complex type of auction that allows buyers to choose and bid on specific tracts or combinations of tracts within a larger property.

The availability of smaller parcels increases the bidder pool, which results in higher prices for sellers.

A Simple Multi-Par Auction

Rules and Assumptions

- (1) Bidding is always based on the highest bid price for the desired tract or tracts.
- (2) Assume a 160-acre tract is divided into 4 tracts of approximately 40 acres each for purposes of this sale.
- (3) Assume a minimum bid increase of \$2,000 above the previous high bid.

First Round of Bidding

Tracts are first offered individually to create a base price for each tract. Here are the high bids after Round 1:

Tract No.	Acres	Total Bid	High Bidder
1	40	\$100,000	A
2	40	\$120,000	B
3	40	\$50,000	C
4	40	\$80,000	D
Totals	160	\$350,000	

Tract 1

Tract 2

Tract 3

Tract 4

Second Round of Bidding

The bidding is opened to "multi-par" bidding. Bidder D wants tracts 1, 3 and 4. The minimum bid required for the three-tract combination is calculated as follows:

- (1) Add the original high bids for the desired tracts (1, 3 and 4):
 $\$100,000 + \$50,000 + \$80,000 =$ **\$230,000**
- (2) Add the required minimum bid increase of \$2,000:
\$2,000
- (3) New high bid for the Tract 1, 3 and 4 combination:
\$232,000

The current high bid for Tract 2 is \$120,000, the same as in Round 1. The total of the high bids at the completion of Round 2 is now \$352,000.

The high bids after the second round are:

Tract No.	Acres	Total Bid	High Bidder
2	40	\$120,000	B
1	40		D
3	40		D
4	40		D
1, 3, 4 combo	120	\$232,000	D
Totals	160	\$352,000	

Tract 1

Tract 2

Tract 3

Tract 4

Third Round of Bidding

Bidder A, who was outbid in Round 2, now wants tracts 1 and 2. Under this scenario, Bidder A must add another \$2,000 to the overall sales price to break up the previous Tract 1, 3, 4 combination. This also brings Bidder C back in as top bidder for Tract 3 and Bidder D back in as top bidder for Tract 4 without any new bids from them.

The bid for the new Tract 1, 2 combination is calculated as follows:

- (1) Add the original high bids for the desired tracts (1 and 2):
 $\$100,000 + \$120,000 =$ **\$220,000**
- (2) Add \$2,000 to meet the previous bid combination:
\$2,000
- (3) Add the required minimum bid increase of \$2,000 for Round 3:
\$2,000
- (4) New high bid for the Tract 1 and 2 combination:
\$224,000

The current high bid for Tract 3 reverts to \$50,000, the original Round 1 bid from Bidder C. The current high bid for Tract 4 reverts to \$80,000, the original Round 1 bid from Bidder D. The total of the high bids at the completion of Round 3 is now \$354,000.

The high bids after the third round are as follows:

Tract No.	Acres	Total Bid	High Bidder
1	40		A
2	40		A
1, 2 combo	80	\$224,000	A
3	40	\$50,000	C
4	40	\$80,000	D
Totals	160	\$354,000	

Tract 1

Tract 2

Tract 3

Tract 4

Fourth Round of Bidding

A new bidder (Bidder E) wants the whole property. Under these circumstances, the new bidder must merely raise the overall bid for all 160 acres by \$2,000.

- (1) Total all of the current high bids for the whole 160-acre property:
 $\$224,000 + \$50,000 + \$80,000 =$ **\$354,000**
- (2) Add the required minimum bid increase of \$2,000:
\$2,000
- (3) New high bid for all four tracts made by Bidder E alone:
\$356,000

The high bids after the fourth round are:

Tract No.	Acres	Total Bid	High Bidder
1	40		E
2	40		E
3	40		E
4	40		E
1, 2, 3, 4 combo	160	\$356,000	E

Tract 1

Tract 2

Tract 3

Tract 4

Fifth Round of Bidding

Bidder B, who was outbid in Rounds 3 and 4, now wants tracts 2 and 4. Under this scenario, Bidder B must add another \$2,000 to the overall sales price. This also brings Bidder A back in as top bidder for Tract 1 and brings Bidder C back in as top bidder for Tract 3 without any new bids from them.

The bid for the new Tract 2, 4 combination is calculated as follows:

- (1) Add the original high bids for the desired tracts (2 and 4):

$\$120,000 + \$80,000 =$	\$200,000
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- (2) Add \$6,000 to meet the previous bid combination:

	\$6,000
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- (3) Add the required minimum bid increase of \$2,000 for Round 5:

	\$2,000
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- (4) New high bid for the Tract 2 and 4 combination:

	\$208,000
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The current high bid for Tract 1 reverts to \$100,000, the original Round 1 bid from Bidder A. The current high bid for Tract 3 reverts to \$50,000, the original Round 1 bid from Bidder C. The total of the high bids at the completion of Round 3 is now \$358,000.

After the fifth round of bidding, no more bids are offered and the auctioneer declares all of the tracts sold.

The final high bids after the fifth round are as follows:

Tract No.	Acres	Total Bid	High Bidder		
2	40		B		
4	40		B		
2, 4 combo	80	\$208,000	B		
1	40	\$100,000	A	Tract 1	Tract 2
3	40	\$50,000	C		
Totals	160	\$358,000		Tract 3	Tract 4

Final Auction Results

Bidder A purchased Tract 1 for \$100,000.

Bidder B purchased the Tract 2, 4 combination for \$208,000.

Bidder C purchased Tract 3 for \$50,000.

Total purchase price for the property was \$358,000.



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Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: JP Beato III, p. 1.