

Auctions: poor years to continue?



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The results of Bohemian and Moravian auctioneers were not impressive in 2007. There was historically the lowest number of auctions, down 14% compared to 2006. On the other hand the value of the property sold in auctions increased year-on-year by about 5%, but the long-term curve of this indicator shows a visible dampening of demand for auction sales. According to the Czech Association of Auctioneers (CAA), last year did not revert this trend. "The situation is getting worse, the Ministry for Local Development is idle and everything is moving the realm of electronic auctions," says Jiří Bureš. His comment hints where CAA sees the biggest weaknesses of domestic auctions: unsuitable legislation (responsibility of the Ministry for Local Development) and non-transparent auction processes, which is to a great degree eliminated by the aforementioned electronic auctions. "Auction sales directly from owners are minimal, there are fears of intriguers," Bureš explains. Libor Nevšimal, of the Naxos auction hall, which is not a member of CAA and does not always identify itself with CAA's opinions, confirms the words of its representatives in this case: "Eight out of ten of our potential clients are afraid of unfair practice." And he evaluates the condition of the whole auction sector in a similar manner: "The declining prices and interest reduce turnovers." However, there are several causes for this decline.

Gloomy auction landscape

Although accurate statistical data on the development of the auction sector in 2008 is not available, the way in which market participants talk is very concordant and much can be deduced from older statistics. The problems of domestic auctioneers are best reflected in their number. "The assumptions of the Ministry for Local Development that when an amendment to the Act on Vendues is adopted (vendue differs from auction, which is just a public competition finished by bidding and is governed by different legal regulations - editorial note), the ranks of auctioneers will grow, have not proved to be true." This is a quotation from CAA's statement which also mentions that at 22 January 2008, 1,205 auctioneers were registered. However, only 722 of them have organized an auction and 376 have not exceeded the limit of 10 auctions. The long-term crisis in this sector is especially apparent from the comparison of the number and volumes of transactions: between 2002 and 2007 the number of auctions dropped from 4,600 to 2,700 and their financial volume from CZK 16.2 to 9.5 billion. Last year's development was probably similar and can be largely attributed to banks. "They don't want to finance problems, so we have to focus on investors with their own finances, independent of bank loans," says Nevšimal. According to him auctions are still a good way to sell high-revenue real estates that bring profit from rents and guarantee good return, while the market in manufacturing complexes has come to an almost complete halt. In the past this especially covered textile works, porcelain plants and glass works, which are joined by suppliers to the stagnating

automobile industry today. Nevšimal says there are many “free” buildings formerly used by manufacturing plants in the whole Czech Republic.

Certain shifts are also visible in the regional distribution of auctions, i.e. locations of the auctioned real estates. “Ostrava is going up slowly,” Nevšimal comments the results of Naxos’ five individual branches in the Czech Republic. He also says that South Moravia is also attractive, with the biggest influx of capital from Italy, Austria, Germany and Israel. Investors are interested in the centres of cities with more than 30,000 residents.

Crisis as an opportunity?

Could the much-discussed crisis spur renewed interest in auctions? Jiří Bureš is sceptical in this regard, pointing at the mentioned legislative problems: “So far auctions are not organized in accordance with the new Insolvency Act, which sets forth a 5% limit on encashment by means of auction. In case of small auctions this will not even cover the costs of an expert opinion.” Jaroslav Novotný, of the real estate agency Rak, is not too optimistic, either: “I wouldn’t say that good or bad times could in any way accelerate this method of sale of real estates. My decision to use an auction to sell something is based on other parameters, such as excess demand over supply for the specific type of property, proposed call price and other factors.” In this connection Nevšimal brings to attention another obstacle - there are few buyers today and they are more exacting when it comes to the dealer’s attitude to their needs. “Buyers today prefer exclusivity, they don’t want to compete against other bidders.” However, he can see factors limiting interest in auctions among sellers as well. “Towns are selling a lot these days; frequent sales of former military property are a good example, usually barracks. However, municipal councils require many conditions to be met, e.g. regarding the future use of the buildings or location. However, auctions do not allow this option - the bid price is the sole criterion and the seller does not have a chance to require anything else.”

However, Novotný sees a certain hope in the expected higher number of bankruptcies: “Many debtors will not be able to pay their liabilities to their creditors, who can use the strongest solution of the creditor-debtor relationship and resort to an auction of the property, as an optimum tool to satisfy their liability. However, the upcoming months and years will show if this will be the case.”

In spite of these chronic problems, auctions will not be definitely erased from the real estate market. Much will depend on the auctioneers as such. “If we want to get people to participate in auctions, the offered property has to be very attractive, and the potential bidders have to be addressed and the sale has to be organized at the highest quality level imaginable,” Libor Nevšimal thinks. In our context auctions have their weaknesses as well as undisputed advantages; one of them is the possibility to achieve the maximum selling price. “Our knowledge shows that for the time we have been in the auction business, the average difference between the lowest bid and the final auction price is 80%,” Libor Nevšimal explains. The recent auction of an apartment house in Prague 2 is a good example directly from Naxos’ practice. The call price was set at CZK 24.9 million, the auction involved 17 interested parties and the price achieved through the auction climbed to CZK 59 million.

The future of auctions will be definitely interrelated to the development of prices. According to Naxos’ data, the prices of auctioned property have not decreased significantly yet. “For most of the sold properties it is not necessary to reduce their price principally because of the crisis,” says Libor Nevšimal. In his opinion we can expect that potential investors are waiting for this kind of price drop so they could start buying with an advantage. The developers of residential projects are already starting to offer lower prices - if this trend penetrates certain segments of commercial real estates, too, it would enliven interest in auctions. However, one of the factors typical for the whole area of real estates will hamper any price adjustments. “The owners of the properties on sale still have exaggerated expectations,” Nevšimal concludes.

Stavební fórum's discussion meeting on **Recession as an opportunity to improve the quality of real estate agencies** will be held on Thursday, 15 January 2009, from 11:30 till 13:30 o'clock, in Adria Hotel, Václavské náměstí 26, Prague 1. For more information on the programme and for an online registration form visit www.stavebni-forum.cz/diskuse2009.

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