

Introducing Auctions into an MLS
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October 31, 2008

There are three basic issues when it comes to putting auctions in the MLS: structure, cooperative compensation, and pricing.

Structure - There are at least two ways to introduce auction listings into an MLS. One way is to create a separate property category for the auction property and another way is to integrate auctions into current sales categories. There are advantages and disadvantages to both.

Separate Property Category – Creating a separate category for auction listings allows an MLS to minimize concerns over the other major issues related to auctions, cooperative compensation and pricing. By creating a separate category, auctions may be described in as much detail as desired since the MLS will basically be starting the design with a blank sheet of paper. Subscribers who are leery of having auctions in the MLS may be more accepting of the concept if the auctions aren't mingled with other listings.

If there is strong aversion to indicating a price, then the MLS could design the category without one. If there are concerns over having to offer cooperative compensation using the NAR format (percentage of sales price or specific dollar amount), then the MLS could create an Information Exchange auction category. This is similar to the NAR Commercial Information Exchange model where cooperative compensation is not allowed and participants are not required to enter their listings.

The disadvantages to having a separate property category include the inability of subscribers to use one search to find all property for sale and the expense of having a vendor add a category to the MLS.

Integrated Auctions – Placing listings in the same category as other listings for sale eliminates the problem of multiple searches. A vendor may not charge as much to add fields to an existing category, but the number of fields may be limited. Cooperative compensation would be required and pricing issues are amplified when the auction listings are integrated.

Cooperative Compensation – Challenges with offering cooperative compensation with auction listings seem to relate to fears that the auction company would be constrained by having to specify the compensation before the auction takes place and by having to express it as a percentage of the sales price or specific dollar amount. Neither concern is insurmountable.

Auction companies typically receive their compensation from the buyer in the form of a Buyer's Premium. This is usually a percentage of the sales price and is used to cover marketing and other expenses related to the auction. The auction company will typically offer a cut of the Buyer's Premium to the cooperating broker.

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Since the co-broker compensation isn't linked directly to the sales price, but instead the Buyer's Premium, there is a perception that this somehow falls outside the NAR model. But elementary mathematicians will soon realize that this scenario falls exactly into the NAR guidelines. For example, if an auction company offers 10% of the Buyer's Premium to cooperating brokers and if the Buyer's Premium is 20% of the sales price, then this is the same as offering 2% of the sales price. No matter how you slice it, the cooperating broker will receive \$2,000 on the sale of a \$100,000 house.

Auctions are a fast-paced affair. Sometimes the auction broker has to make on-the-spot decisions in order to make a deal work. This may include agreeing to lower the Buyer's Premium. Auction brokers may be concerned that committing to a cooperative compensation arrangement through the MLS will prevent these types of last-minute reductions in compensation. While it is true that offers of cooperative compensation are unconditional, two brokers are always entitled to agree to different compensation arrangements if they desire, the key word here being "agree." It is not outside a Realtor's normal practices to agree to a commission reduction in order to make a deal work since the Realtor Code of Ethics calls for Realtors to put their clients' needs above their own.

Pricing – The third major issue that tends to crop up during discussions about Auction listings is the matter of list price. Although an auction broker and a seller will typically discuss a property's value, the seller's needs, and a likely sales price; a list price is not established and disclosed because its disclosure could be detrimental to the auction process. In some auctions, a minimum bid price is established, while other times a reserve price is determined under which the seller is not obligated to proceed with the sale. These prices may or may not be disclosed before or during the auction, but neither represents a list price.

Other than simply requiring the price to be entered, there are at least three ways to handle list prices for auction property: not require a price to be entered, require a price be entered but not disclose it, or allow a price range to be entered. Each method has advantages and disadvantages.

Not Requiring a List Price – NAR guidelines allow auction listings to be entered without a list price provided that there isn't one stated in the listings agreement. These listings, however, would not be included when a subscribers searches using a minimum price.

Requiring a Non-disclosed List Price – Problems with searches can be handled by using a mechanism known as "ghost pricing." Ghost pricing uses the listing price in searches, but does not display the price. The matching listings show up in searches either at the beginning or end of search results to keep a sort by price from disclosing the list price. The listing price can be discovered, however, by manipulating the price range used in the search.

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Allowing a List Price Range – Entering a price range instead of a single list price using ghost pricing keeps an exact price from being discovered. Auction listings with listing price ranges show up on searches that include a price that falls anywhere within the range.

Regardless of the method, using ghost pricing will require work on the part of the MLS vendor. Decisions regarding how the listings will be handled on listing activity reports (hotsheets) and in statistics will also need to be addressed by the MLS.

More Information

<http://AuctionMarketingCouncil.org>

<http://www.realtor.org/auction/>