

News

Auction.com Aims Bigger Than Holyfield's 109-Room Mansion

Jeff Frieden, chief executive officer of Auction.com LLC, learned to sell real estate by managing a room full of bidders with rapid-fire patter.

"Gimme 100 here, 150 in the back, 175, 200," Frieden said during an interview at his firm's Irvine, California, headquarters, pointing to imaginary bidders while pretending to hold an auctioneer's microphone and push product with his mouth. "I've been on the auction block for nine hours and sold 500 houses in a day. That was in the old days."

Frieden, 52, is now offering property 24 hours a day on the Internet, where deals close silently with countdown clocks similar to those used by EBay Inc. Since starting Auction.com six years ago with Chairman Robert Friedman, the company is now the largest online real estate dealer in the U.S., profiting as lenders were forced to sell a record supply of foreclosed homes and commercial property following the worst real estate crash in seven decades.

The firm sold \$5.7 billion of property and mortgage notes last year, up 46 percent from 2011. This year it's been even busier, completing about \$5.3 billion in sales through September and collecting a 5 percent "buyer's premium" fee on most transactions.

It currently has more than 17,600 listings, including a 109-room mansion built by former world heavyweight boxing champion Evander Holyfield, which was repossessed last year by JPMorgan Chase & Co. The Fayetteville, Georgia property, with baseball field, indoor bowling alley and a starting bid of \$2.5 million, is one of about 6,000 bank-owned homes on the site.

AUCTION.COM INVESTORS

There's a 23-floor office tower in Dayton, Ohio, with a 6 percent occupancy rate and a starting bid of \$750,000; 15 German apartment buildings scheduled for a Dec. 1 sale, and in its



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latest coup, potentially the largest commercial mortgage-backed securities related-sale ever, after CWC Capital Asset Management LLC said last week it hired the firm to help market more than \$3.2 billion of distressed debt and real estate.

Auction.com's investors include Barry Sternlicht's LNR Property LLC and Stone Point Capital LLC, a private-equity firm run by former Goldman Sachs Group Inc. Chairman Stephen Friedman. Closely held Auction.com doesn't disclose profit and loss information, and Frieden declined to comment on the possibilities of going public or selling the company.

Now comes the hard part. To maintain Auction.com's growth, Frieden is trying to broaden beyond distressed properties, a diminishing slice of the recovering U.S. market.

GERMAN APARTMENTS

This year and last, Auction.com opened offices in Germany, the U.K. and Spain to gain a slice of Europe's distressed real estate.

"Spain has somewhere between \$400 billion and \$900 billion of nonperforming residential loans," Frieden said. "The losses might be larger than they were in the U.S. It's going to be big."

Frieden's betting buyers on the site will opt to sell there too after seeing how online sales generate high prices.

"Our value proposition is we sell for more money by wider distribution," Frieden said. "Someone who buys commercial real estate from us may say, 'I had to pay up for that.' So they become a seller. It has this marketplace effect."

That's been the case with Matthew Mattera, owner of Insource Financial Services LLC in Hauppauge, New York, who's bought about 70 properties for \$15 million on Auction.com since last year. Now Mattera, whose company fixes and flips about 300 properties worth \$50 million a year, has started selling about 10 percent of his real estate through the site.

'PAYING RETAIL'

Auction.com bidders "are paying retail, or close to it," Mattera said in a telephone interview. "They've got so many buyers and different classes of buyers that it definitely helps in the sales."

Frieden has evidence to back up his claims after striking a deal this year with Nationstar Mortgage Holdings Inc. (NSM), a debt servicer and originator, to list homes that had already received an offer in a short sale, with the lender facing a loss on its loan.

Of the 1,159 properties in the Market Validation Program, 61 percent received higher offers through Auction.com. Those came in at an average of \$34,643, or 18 percent, higher than the pre-auction price, according to data supplied by Frieden. In California, which had the most properties in the program, offers averaged \$46,476 more than the initial price. In New York, it was \$83,506 higher, the biggest difference of any state.

INCREASED TRANSPARENCY

"We see the expanded use of online auctions as a positive means to maximize proceeds for sellers of real estate," said John Hoffmann, a spokesman for Lewisville, Texas-based Nationstar, which is majority-owned by Fortress Investment Group LLC. (FIG) "It brings more potential buyers and transparency into the process and the increased sales price benefits both the borrower and the investor."

Not everyone agrees. Requiring auctions for short sales makes it harder and riskier for first-time buyers to purchase a house because they won't have an agent to help with negotiations after a price is agreed upon, said Angel Perez, a short-sale specialist with Coldwell Banker in Beverly Hills, California.

"My concern is it's really taking away from the first-time homebuyer, who isn't real estate savvy," said Perez, who had a short sale delayed this month when Nationstar ordered it to go through Auction.com. "They're just looking to buy a home in this market that's rebounding back. They want the American dream."

RESTRAINING ORDER

In April, New (NHSLTOT) York Supreme Court Judge Eileen Bransten issued a temporary restraining order blocking bulk sales on Auction.com of home loans in mortgage-backed securities serviced by Nationstar after an investor group sued, contending the notes sold "at fire sale prices." Nationstar has filed to dismiss the suit. Auction.com isn't a defendant.

Bliss Morris, CEO of First Financial Network, an Oklahoma City-based loan broker, said Auction.com misleads bidders by failing to disclose the reserve prices required to close deals and secretly bidding on behalf of sellers to drive up prices.

"You don't know who you're bidding against," Morris said in a telephone interview. "If you have a reputable auction house, they're not bidding against you."

Those practices are common in the industry, said Frieden, a native of Anaheim, California, who started trading property 30 years ago and moved to Australia in 1989 to study real estate auctions.

"There's no mystery about this, and nothing unusual either," Frieden said of the process. "Well over 90 percent of all reserve auctions are done without publishing the reserve price. And the auctioneer has the right to bid on behalf of the seller to protect the reserve price."

BALLROOM AUCTIONS

Frieden and Friedman speak from experience brokering distressed properties. They co-founded Real Estate Disposition Co. in 1990 to auction excess inventory for developers whose sales slumped during a recession triggered by the closing of Southern California

military facilities after the Cold War ended. They began selling bank-owned homes at ballroom auctions in 1993 and later sold commercial real estate.

They founded Auction.com in 2007 in anticipation of the growing wave of mortgage defaults and as a response to transactions of all kind moving to the Internet. They started selling residences online in 2008, followed by commercial properties the next year, when real estate was in free fall.

CMBS INFLUENCE

The site's influence has moved beyond real estate investors. Bond analysts such as Keerthi Raghavan of Barclays Plc in New York follow bidding on Auction.com to get a window on the value of the approximately \$50 billion of troubled loans packaged into commercial mortgage-backed securities.

Prices paid on the site can be critical to the value of a bond. Keerthi cited Auction.com's sale of \$480 million in distressed debt, including a portfolio of Southern California office properties that were part of a \$6.6 billion CMBS issuance in 2007, as the lead example in a Sept. 20 report.

Auction.com is one of several firms using the Internet to change the way people shop for real estate. Unlike such companies as Zillow Inc. (Z), Trulia Inc. (TRLA) and Move Inc. (MOVE), which allow potential homebuyers to search listings, compare prices and tour open houses without hiring an agent, Auction.com is trying to change the way they buy.

"They're informational," Frieden said. "We're transactional."

Deals on Auction.com end when the bidding clock stops, unlike a traditional real estate sale, in which a buyer and seller negotiate final details during escrow. With Auction.com transactions, due diligence takes place upfront and documents such as property-inspection reports are posted online to review during a pre-bidding period.

BEST MODEL

While auctions long have been a popular sales model in countries such as Australia, they've been limited to the low and high ends of the U.S. residential market, according to Stefan Swanepoel, a real estate sales consultant from Ladera Ranch, California.

"The best auctioneering model is Auction.com," Swanepoel, editor of Swanepoel Trends Report, an annual study of real estate, said in a telephone interview. "There's no indication from a statistical point of view that we can find that it's a threat to the entrenched real estate companies."

Investors such as Warren Buffett's Berkshire Hathaway Inc. and Leon Black's Apollo Global Management LLC have poured money into real estate brokerages, betting that traditional sales

channels will grow as the housing market recovers. Berkshire's Home Services of America Inc. is the largest brokerage after Apollo-controlled Realogy (RLGY) Holdings Corp., which sells through brands such as Coldwell Banker, Century 21 and Sotheby's International Realty.

HOME SALES

Most Auction.com customers are investors rather than buyers of owner-occupied homes. The site's home-sales volume exceeds its commercial deals because the U.S. residential market is so much larger, Frieden said, and because landlords are buying more houses after a decline in the U.S. homeownership rate to its lowest level since 1998.

New and existing U.S. home sales totaled almost \$1.5 trillion in the 12 months through August, according to data compiled by Bloomberg. About \$360 billion in U.S. commercial real estate traded in the same period, excluding deals of less than \$2.5 million, according to Real Capital Analytics Inc.

Most of Auction.com's commercial sales are smaller than \$10 million, according to Frieden.

"In 2009, we were selling gas stations," he said. "People are now giving us bigger assets."

The company said yesterday that Auction.com will be the sole adviser on the sale in December of \$601.3 million in loans on 447 apartments.

BIGGEST TRANSACTION

CWC Capital, a special servicer that represents lenders in soured loans, hired Auction.com and CBRE Group Inc. to sell \$2.57 billion of assets, with bidding scheduled for next month. A further \$665 million of properties will be offered in December by Auction.com. The company's biggest single transaction was selling two commercial buildings in 2012 for \$73.2 million to private-equity firm Blackstone Group LP. (BX)

Frieden describes Auction.com as a combination real estate and technology company. It has about 1,100 full-time employees, including 600 at its Irvine headquarters and about 100 in the Silicon Valley city of Belmont. Its newest office opened in Austin, Texas, in August, a location chosen for the local pool of technology talent.

While online auctions may not have threatened the real estate establishment, the Internet will continue to change the way people buy and sell property, Frieden said.

"The world's moving online and we happen to be the leader of selling real estate online," he said. "Buyers are going to follow the process because they want the building. They may not always like the process because we're democratizing the process and making people pay thousands of dollars more than the guy below them. But they'll follow it."

By John Gittelsohn