

the other bidder's top price might be. The auctioneer opens bids at \$200 and begins to lower the price. As the price approaches \$125, Bidder B has to decide how much longer he or she can afford to wait before someone else jumps in. At some point, Bidder B can wait no longer and raises a hand.

If the same auction were to be held in the English format, bidding would start at \$50 and gradually move up to \$100. At that price, only Bidders A and B would be left. When the bid goes to \$101, Bidder A drops out, and Bidder B wins. Thus the Dutch auction results in a substantially higher selling price.

There is no question that commercial property auctions are likely to become more common. In a growing list of U.S. metropolitan markets, auctions and short sales already represent a majority of home sales transactions. According to the Overland Park, Kansas-based National Auctioneers Association, almost \$59 billion worth of residential, commercial, and farm properties were auctioned in 2008. With residential markets still searching for a bottom and commercial properties now beginning to feel the full effects of the recession and the credit crunch, auction activity is likely to grow over the next 24 months.

While the Treasury is likely to use the sealed-bid auction methodology, private sector owners can consider the pros and cons of alternative auction formats. As auctions are used for an increasing number of assets and asset classes, the existing negative view of auctions should diminish. This is especially true in a world where willing sellers and willing buyers are blindly searching for each other. In such a world, the lowly auction may turn out to be the Cinderella of sales techniques. **U**

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Real Property Auctions—the Government Kind

WITH THE NATIONWIDE downturn of the real estate market, the practice of auctioning real property has been hailed as a “new” win-win solution for real estate buyers and sellers on the nightly news. This practice is not new to the General Services Administration (GSA), however. With auctions no longer restricted to vehicle, estate, or livestock sales, marketing real estate through the auction method is standard business practice for GSA's Office of Real Property Disposal. Created to increase the efficiency and economy of federal government procurement, use, and disposal of property, GSA's Public Buildings Service (PBS) is the largest and most diversified real estate organization in the world.

As the federal landlord, PBS is responsible for the design, construction, operation, and

maintenance of thousands of federally owned facilities for more than 1 million civilian employees of the government at 60 different agencies. When assets no longer meet the needs of GSA or its customer agencies, the Office of Real Property Disposal disposes of those assets, realizing financial benefits and avoiding future costs.

As the federal real property experts, GSA must develop strategies and execute realty transactions through good times and bad. Rather than considering auctions to be a sales method of last resort in economic bust times, GSA has learned that auctions are the most effective real estate marketing method around regardless of economic conditions. As part of its day-to-day asset management tool kit, GSA uses online, public “live outcry,” and sealed-bid auctions. The tra-

ditional live outcry and sealed-bid sales were augmented first by written auctions in 1992 and then online auctions in 1998. Auctions, by nature, recapture the highest possible value for surplus properties as they are able to move properties much more quickly than was possible in the past, in a more cost-effective manner, and to a larger base of customers.

During the past five years, GSA has sold 790 properties for \$3.7 billion via auction. Auctions that have further confirmed use of this sales method include El Toro, Middle River Depot, Las Vegas BLM auctions, and Council Bluffs.

El Toro. In 2005, GSA sold the 3,700-acre (1,500-ha) former Marine Corps Air Station, El Toro, located in Orange County, California, to Lennar Communities for \$649.5 million. El Toro is the largest single public sale of U.S.

A vast array of excess and surplus buildings and land is being sold by the U.S. General Services Administration's (GSA) Public Building Service, the largest and most diversified real estate organization in the world. The largest winning bid for a GSA online auction occurred in 2005—\$650 million for the decommissioned El Toro Marine Corps Air Station in California.



Navy Base Realignment and Closure (BRAC) property and GSA's largest online auction to date.

Once El Toro was identified for closure in 1993, an epic land use battle was unleashed pitting airport advocates against neighboring El Toro communities that welcomed lower-scale development. Following the aftermath of 9/11 and the economic downturn, it became obvious that the idea of an airport needed to be scrapped. Instead, the navy, with the support of GSA and the city of Irvine, determined that a public sale of the property was the best way to implement the Great Park redevelopment plan and to generate funds for the navy.

From May 2002 through late 2004, the navy and GSA implemented a transaction structure and a marketing effort, known as Heritage Fields, that would allow the city of Irvine the time and ability to establish a general plan and zoning for the Great Park. The plan would permit buyers to have enhanced development rights for 4,000 homes, 3 million square feet (278,700 sq m) of office and retail space, and educational and golf uses, in return for reconvey-

ing approximately 1,400 acres (567 ha) and payment of \$200 million to create the Great Park. Allowing the city of Irvine to develop the zoning overlay provided certainty to potential developers and investors, increasing the property's value.

The GSA-managed online auction was conducted in early 2005 and Lennar Communities was identified as the highest bidder for all 3,700 acres (in four parcels) with a combined purchase price of \$649.5 million. By law, the navy must use the funds for base closure-related activities, primarily environmental cleanup.

While the market has suffered, both Lennar and the Orange County Great Park Corporation are moving ahead with their respective plans for private and public development.

Bureau of Land Management (BLM) Las Vegas Sales. The Southern Nevada Public Land Management Act (SNPLMA) became law in October 1998, identifying 74,000 acres (29,960 ha) of BLM land around Las Vegas, Nevada, for disposal through sale. The revenue derived from land sales is split between the state of Nevada general education fund (5

percent), the Southern Nevada Water Authority (10 percent), and a special account available to the Secretary of the Interior for environmentally sensitive land acquisitions. Other provisions in the SNPLMA direct the BLM to convey title of land in the McCarran Airport noise zone to Clark County, and provide for the sale of land for affordable housing.

Land is selected for disposal via a joint selection process—local governments select the land for each sale—allowing development consistent with zoning and planning regulations. To date, 34,498 acres (13,966 ha) have been sold by GSA, generating \$3 billion in revenue and allowing for the acquisition of 49,199 acres of land (19,918 ha) in fee and 1,039 acres (420 ha) in conservation easements of environmentally sensitive land.

Council Bluffs Federal Building Post Office and Courthouse. The Council Bluffs property in Iowa was considered an ideal pilot for a simulcast auction because it was not a simple sale, nor was it mired in problems or political turmoil. The property consisted of a 1.1-acre (0.44-ha) parcel of land improved with a three-story office building constructed in 1958. Also included was an 88-space paved parking lot on 0.44 acre (0.17 ha). One requirement of the sale was to lease back a portion of the property to the federal government. GSA had already tried to negotiate a sale with Council Bluffs and they were not interested enough to pursue acquisition further, so there were no local political stipulations involved with the sale.

The live, online simultaneous bidding worked just like any other

outcry auction in which bidders congregate at the auction site to make their bid known to the auctioneer. Bidders could also live far away and attend and bid online from their computers where they could hear and see the auctioneer via the Internet. Once one was registered as an online bidder, there was a Web site where one could log in to watch the sale. In addition to the video frame, there was a large virtual "bid" button on their computer monitor along with the current "ask" price the auctioneer was calling. By clicking the bid button on the screen, the online bidder virtually held up a bid number like a bidder at the auction site would do. The online bid clerk then notified the auctioneer that an Internet bid was made. People in the audience could see when bids were made because a screen was projected showing what bids were coming in from the Internet. The auction kicked off with an online bid of \$800,000, which was much higher than expected for the opening. The property went for more than fair market value.

By offering Internet bidding at the live auction, the number of bidders not only doubled, but also a wide variety of interested parties was able to learn about GSA's real property sale program for the first time. Although the real estate market may be down, ideas and innovation in the sales of real property continue to be on the rise at GSA.

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For more information on GSA's role and efforts in real property disposal, visit www.propertydisposal.gsa.gov.



In Iowa, the Council Bluffs Federal Building Post Office and Courthouse property was offered for sale in a live online auction; the auction kicked off with a bid of \$800,000.