

Marketing Report

Auction Marketing in 2004

The GWENT Group, Inc. Annual Real Estate Industry Analysis

THE MARKET

Historical Perspective

The auction method of marketing real estate is not a new concept. It has been used in this country since before we became a nation. It has enjoyed periods of both favor and disfavor. In the last century, it developed a negative connotation due to the “depression mentality” which many real estate decision makers obtained due to the frequency and manner with which the auction method of marketing was used during the Great Depression. Due to the lack of controls on the manner in which properties were foreclosed, it became common place to auction foreclosed property with very little notice or regard for the owner of record. It took the industry until the 1970’s to recover from that period.

Beginning in the 1970’s, the real estate auction market began to regain the credibility it had lost due to the situations that occurred during the depression. By 1980, the amount of real estate sold at auction in the United States had reached ten billion dollars annually with a substantial percentage of those sales being of agricultural properties. The auction method of marketing was used predominantly by local or small regional firms, and the market utilizing the method remained a local and disorganized one. Residential properties from estates, foreclosures, tax sales and normal inventory reduction from local builder/developers were continuing to cause the use of the auction method of marketing real estate to grow and to achieve greater acceptance. This trend continued upward in 2004.

A mainstay in regional economies with an agricultural base, the auction method of marketing real estate also began to be accepted throughout the nation. Additional exposure to the method was provided by governmental agencies such as the Veterans’ Administration, Housing and Urban Development, Farmers’ Home Administration and others who developed major auction marketing efforts throughout the 1980’s. This trend continued with the major emphasis the Resolution Trust Corporation placed on the auction method of marketing and the on-going use of the method by other governmental agencies. The involvement of governmental agencies created a platform that is now recognized as a viable manner for the reallocation of real estate in all markets. The private sector has followed the trend toward utilizing the auction method of marketing real estate.

The Market Today

In today’s real estate market, clients have a need for quick turn around of their assets. Real estate investors are placing more emphasis than ever before on the need for careful analysis of the true cost of holding and marketing property.

Two other factors are playing important roles: technology and demographics. The introduction of e commerce depends heavily on the auction method of marketing. Many new applications of auction marketing are being used. One of the largest projected users of auction services will be the “Boomer” generation. “Boomers” are inheriting more than any demographic group in history. Many times the only solution for liquidating those assets in a timely, and economically attractive, fashion is at auction. This trend is seen to accelerate as the Boomers inherit more from the WWII generation.

The auction method of marketing is now being used more frequently as the accepted form of reallocation of real

property assets. The nature of the real estate market today requires quick but commercially feasible action for both buyers and sellers. This atmosphere has fostered dramatic growth of the auction method of marketing as the preferred method of marketing or reallocating assets in many situations. It also bodes well for the continued rapid growth of this industry throughout this decade.

The Auction Industry

The auction industry, in this country, consists of approximately 35,000 full-time auctioneers with an estimated 24,000 selling real estate at some time. Approximately 1,000 firms specialize in real estate and market over 70% of all real estate sold at auction. In fact, less than fifty (50) national and regional firms conduct the greatest dollar volume of real estate transactions. In 1980 over \$50 billion in real and personal assets were sold utilizing the auction method of marketing. Real property made up \$10 billion of this amount. By the end of 1998 over \$115 billion (estimated) in assets were sold annually utilizing the auction method, including over \$49.5 billion in real property. Real estate auction sales for 2002 were estimated to have been in excess of \$54.5 billion. Sales of all categories of real property in 2004 are estimated to exceed \$60 billion, including all public and private sector transactions in all real estate categories.

Reasons for Growth

The introduction of new techniques, computer technology, better marketing and national referral systems have allowed the rapid growth of this element of the real estate industry. The auctioneers themselves have grown professionally over the last ten years through the expansion of licensure, education, and specialization.

Today, the National Association of Realtors (NAR), which for many years fought the use of the auction method of marketing, has accepted it and even provides a special section on the method for its members.

Perhaps the most dramatic impact is due to the specialization of auction marketing firms. Real estate auction marketing firms have developed specific marketing techniques for selling categories of real property. Categories such as luxury homes and estates, land, commercial / retail properties, hotel/motels, etc. This has allowed these firms to gain a great deal of experience in marketing such property and to market a large volume of property on an annual basis. Having specialized support divisions or subsidiaries such as mortgage banking, advertising agencies and real estate workout units all lead to the capability of major auction firms to be full service companies for their clients.

The personnel who have been attracted to the industry in recent years have significantly improved the stature of the industry as well as making it more acceptable to many real estate decision makers. They are dealing with professional real estate executives who have selected the auction method of marketing as their sales method. This trend will continue as many traditional commercial and industrial brokers; asset managers and real estate finance executives begin to see the commercial feasibility of this marketing method. This recognition will create considerable competition in this field within the next ten years. Well-established companies, operating on a national scale with proper capitalization, talent and creativity, have found themselves in the enviable position of industry leadership. But as in all positions of leadership, a keen eye must be maintained on the winds of change. It is here that there lies an opportunity for "boutique" regional auction marketing firms. Large national firms have found it difficult to retain the experienced personnel in their many regional offices.

Will the Auction Alternative Continue to Grow?

Today's economy requires the timely marketing of a property before its equity value is eroded by the ongoing costs associated with holding the property during the time required to market it through a typical negotiated sale. These costs include interest, taxes, insurance, maintenance, security, management fees and promotional expenses. Corporate America is reviewing these expenses more closely than ever before because of the concern over the eroding value of equity invested in such facilities. The cycles in the economy also draw upon the need to reallocate assets in a timely manner.

The rapid changes taking place in our economy, both regionally and nationally, have caused asset management specialists to evaluate their portfolios more than ever before. This analysis frequently determines that the rapid sale afforded by the auction method of marketing will, in fact, provide a much more satisfactory return than a negotiated sale might. Owners of real property, all types of real property, are sensitive to the issue of the "time value of money." It is that issue which brings the impetus for the growth of the auction method of marketing.

One of the major reasons for the rapid expansion of the auction method of marketing is the increase in corporate merger and acquisition activity in the last decade. Auctions have been used successfully to both prevent and facilitate merger and acquisition activity. In the case of a takeover defense, assets are sold quickly to raise cash from equity in existing facilities. In other cases, assets are being sold to retire debt associated with acquisition. This trend will continue as the economy continues to reshape in the remainder of 2004 and into 2005. "Bricks and clicks" will review their holdings and shave traditional real estate and inventory needs by utilizing the auction method of marketing.

Technology

B2B e-commerce is just beginning to seriously impact real estate. The impact it will have on real estate commerce will be huge. The auction industry will play a major role in this changing business model impacting billions of dollars of inventory and goods being transferred. The impact of this technology can already be seen at e-Bay and Amazon for personal property and it is just getting started for real property as well. This decade will bring critical changes in the ways the real estate and auction industries combine to utilize these tools. As a financial management tool, the auction method is used as an alternative in long term fixed asset reallocation through the sale for cash of fully depreciated assets. The auction method is also used in distress situations such as estate or partnership dissolutions. Auctions are also utilized to reallocate the assets of companies in bankruptcy, all of these will have both traditional and e-commerce auction applications.

Traditional brokers who consider themselves progressive and leaders of the real estate industry will be learning all they can about the auction alternative as an additional marketing tool to represent to their clients. This will present even larger opportunities for auction professionals since they will have more properties made available to them to market through such networked contacts. Both traditional and e-commerce applications of the method will come into play here, as well.

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AUCTION FIRM BUSINESS ANALYSIS QUESTIONNAIRE
developed by the Gwent Group,Inc.

Perhaps the most difficult part of planning is getting started. To many people the process is threatening. Yet you do it intuitively, everyday of the year. In some cases it is the information written down on the back of the napkin in the coffee shop, in others the annual New Years Resolutions, to yet others, the plans you make for the upcoming year when you prepare to talk to your accountant about filing your annual tax return. In any case, we need the answers to the following questions prior to our visitation to your firm.

Just answer the questions as best you can, giving them considerable thought before you write down the answer.

Here's a running list of items we will need to know for our work. By completing the following questions you will be able to provide many of these answers:

Mission Statement, if write
Corporate Ownership
List of Primary Principals Represented
Description Of Types of Property Sold for Each
Competitive Comparison
Marketplace Analysis
Industry Analysis
Core Competencies (Your Keys To Success)
Industry
Marketplace
The Company
Marketplace Forecast
Strategy And Implementation Summary
Marketing Strategy
Pricing Strategy
Promotion Strategy
Marketing Programs
Sales Strategy
Strategic Alliances
Service And Support
Benchmarks Which you Use for Success
Management Summary
Organization Structure
Management Team
Personnel
Financial Strategy
Tax Returns for the Last Three Years
Key Financial Indicators
Projected Profit And Loss
Cash Flow Analysis
Balance Sheet

Your AUCTION Firm Business Plan Discovery Questions

Think about these questions as you provide answers to the questions posed on the following pages. Your written response will do much to help us when we meet with you.

- Q. What type of AUCTION business do you have?
- Q. How would you define the essence of this business?
- Q. What is the key message or phrase used to uniquely describe your business in one sentence?
- Q. Who is your target customer base?
- Q. Who would you define as your competition?
- Q. How is your service differentiated from that of your local competition?
- Q. What is the pricing of your provided service versus your competition?
- Q. What are the significant trends taking place within your industry segment, and local marketplace THAT AFFECT YOUR FIRM?
- Q. List your goals, and the strategies you intend to use to achieve them.
- Q. What plans do you have for institutional advertising & promotions?
- Q. How will you finance company growth?
- Q. Do you currently have the management team in place that will be needed to achieve your goals?

STEP ONE: AUCTION Firm History

1. What is the founding date? Who were the founders of your Company?

Date Founded: _____

Founders: _____

2. Please describe subsequent changes in name, legal status, or ownership of your business.
3. In what state is your Company incorporated? _____
4. What is your Company's organization type? (partnership, C corp., S corp., LLC etc.)

STEP TWO: AUCTION Firm Company Culture

1. Write your company's Vision Statement.
2. Write your company's Mission Statement.

STEP THREE

1. Describe the "Core Values" of your company. (The core values of your auction firm are the heart of your firm. What do you stand for? How do you want outsiders to perceive the firm and what steps you take to try to implement your ideals into action.)

STEP FOUR: The Industry your AUCTION firm operates within

Market Analysis

1. Please describe the industry and industry segments in which your company operates.
2. What is the rate and nature of technological change within the industry segments and how does that impact your company?
3. What are the key factors of demand for the industry segments your firm serves?
4. Where do you anticipate future demand for the products of your industry segments to be headed?
5. What are the barriers to entry in the AUCTION business in your industry segment?
6. What do you see as the biggest obstacle to future growth in the industry segments your auction firm serves?

Industry Segment Trends

1. What trends are occurring, or are expected to occur, in the industry segments you serve and how will these trends impact your AUCTION firm? How does your firm track these trends
2. What trends are occurring in other industries that might affect your auction business in the future? Think about all of the market segments you represent.

STEP FIVE: Your AUCTION Business

Services Strategy

Current Principals & Products Sold (What you sell at auction)

1. Please list your principals and the respective products you market for them. Then create a list, ranking by synergistic opportunity, the types of products or property you sell.

2. Provide the breakdown of volume and gross commissions received, by principal, for the most recent three years. (Please provide on a separate spreadsheet, showing % of totals.)
3. Describe the company's geographic territory, note if territories are "exclusive" i.e. you totally dominate the geographic territory mentioned.
4. Please describe any recent major Principal additions. Indicate how added, synergistic activity gained by addition, amount of resources allocated to gain client and potential income expected. Indicate how you will allocate your resources to meet the clients needs.
5. Please describe any anticipated future additions to the company's major Principal line-up. What new major Principals do you hope to represent? How will you obtain their business?
6. Please describe any Principals which the company has lost in the past 3 years. State the reason for loss, steps which were taken to overcome loss and impact on the firm.
7. Please describe any trends in sales mix between higher commission rate vs. lower commission rate product lines i.e. describe the different commission rates you receive.
8. Please describe the various markets the company sells its services to, along with the percentage of sales to each market.
9. Please describe any plans for the addition of new sales offices.
10. What is your firms current monthly break-even point? \$ _____
(Include all legitimate expenses.)
11. What is your firms current average monthly commissions? \$ _____
12. List the Gross Commission Income, by principal and client, for the past three years on a separate spreadsheet for all major continuing clients.

STEP SIX:

Your Marketplace Trends

1. Describe the significant trends in your company's marketplace/territory

Marketplace Competition

Competitive Roundup

The following chart illustrates how [Company]'s service compares to the competition in several different key areas. PLEASE CREATE A CHART LIKE THIS WITH YOUR COMPETITORS NAMED:

Competitive Roundup-- By Company "A" "B" "C"

Product	[x]	[x]	[x]
Company	[x]	[x]	[x]
Estimated 20[xx] Sales \$[x]	[\$[x]	[\$[x]	[\$[x]
Estimated Share of Market	[x]%	[x]%	[x]%
Estimated Advertising Budget	[\$[x]	[\$[x]	[\$[x]

Rank: 1= Weak to 5= Strong

Product/ Services Line	[x]	[x]	[x]
Quality	[x]	[x]	[x]
Technology	[x]	[x]	[x]
Advertising Effectiveness	[x]	[x]	[x]
Sales Force Excellence	[x]	[x]	[x]
Auction Marketing Efficiency	[x]	[x]	[x]
Standing in Industry	[x]	[x]	[x]
Future Potential	[x]	[x]	[x]
Seriousness of Competition	[x]	[x]	[x]
Number of Employees	[x]	[x]	[x]
Greatest Strength	[x]	[x]	[x]
Key Weakness	[x]	[x]	[x]

Competitive Roundup--By Service Area "A" "B" "C"

Price	[x]	[x]	[x]
Size of area served	[x]	[x]	[x]
Capacity	[x]	[x]	[x]
Ease of Use by Clients/Customers	[x]	[x]	[x]
Range of Services Provided	[x]	[x]	[x]
Appearance at Auction Event	[x]	[x]	[x]
Quality of Auction Events	[x]	[x]	[x]
Design of Marketing Materials	[x]	[x]	[x]
Technology Used	[x]	[x]	[x]
Responsiveness	[x]	[x]	[x]
State-of-the-Art Systems	[x]	[x]	[x]
24-Hour Availability/Support	[x]	[x]	[x]
Technical Expertise	[x]	[x]	[x]
Efficiency	[x]	[x]	[x]
Guarantee/Warranty	[x]	[x]	[x]
On-Time Capability	[x]	[x]	[x]

1. Who are the primary competitors for each of your significant long term Principals? Think in terms of synergistic opportunities. (Create a List)

2. What is the estimated market share of each of these Competitors? (Prepare a spreadsheet)

3. Who are the AUCTION firm competitors in your marketplace, what is their size, in people, in commission income? (Prepare a spreadsheet)

4. Please describe the advantages your company maintains over its AUCTION firm competition.

5. Please describe the advantages your local AUCTION firm competition maintains over your company.

6. How does your firm combat competition with other Auctioneers selling identical services in your territory?

7. What are the special barriers to entry into the AUCTION business in your marketplace/territory?

8. List your firm's distinctive competencies. (What you do better than any other firm.)

Sales/Marketing

1. What is your company's primary basis for competing; uniqueness of long term Principals represented, breadth of product sales capabilities, specialization, superior services, etc.? Please explain.

2. How does your company react to price competition?

3. Please describe your company's primary institutional sales/marketing efforts.(Marketing your services as an auction marketing firm.)

4. What level of funds do you designate for institutional sales/marketing/promotion activities?

5. How many major Principals and frequent clients does the company maintain? How does the firm approach creating clients out of customers?

6. Please attach a list of your top 10 clients and the revenue derived from each for the past 3 years. Indicate potential for 3 year future growth for each. (In spreadsheet format.)

7. What portion of the company's business is repeat business and what portion is new business generation annually and for the past three years.

Year one: Repeat _____%, New Business _____%

Year two: Repeat _____%, New Business _____%

Year three: Repeat _____%, New Business _____%

8. What is a "typical" size transaction? \$_____ Indicate if this is where you want to be in the future.

9. What is the structure of your sales staff? Please explain. (Attach organization chart)

10. What is the degree of turnover in your sales staff? Explain the turnover rate. Inside sales/support ___%/yr. outside sales _____%/yr.
11. What is the structure and level of compensation for sales personnel? (Attach a copy of your compensation plan.)
12. Are there any anticipated changes in your overall sales efforts?
13. Please describe any seasonal or cyclical factors affecting demand for your company's primary product sales. Consider product line by product line which you sell at auction.

STEP SEVEN: AUCTION Firm Facilities & Equipment

1. Please describe your Company's current facilities including location, building type, square footage, usage, and ownership.
2. If your facilities are leased, who is the lessor, what are the terms, and are the leases based upon fair market rents? How would a forced change in facility affect company operations?
3. What are the current capacity utilization rate of these facilities? _____%
4. Are any changes to the facilities required or anticipated in the future? Yes _____, No _____
If yes, please describe your plans for same.
5. Please describe all major equipment utilized by the company.
6. Please describe any recent additions of equipment and describe how they will enhance the company's position in the marketplace. Discuss firm's status as to internal use of technology, computer based sales presentations, auction event computerization, etc..
7. Please describe any anticipated future additions of equipment, their uses, and anticipated costs, and payback.

Personnel

1. Please outline the number of employees as of this date and your manner of classifying personnel. Indicate if they are full or part-time, administrative, clerical, set-up, etc.
2. Please describe all fringe benefits provided to employees.
3. Are your key people covered under a "non-compete" contract? Yes? No? _____
If "Yes", when was it last reviewed by legal counsel? If "No", please indicate why not.
5. Do you have "key man" insurance in place for key employees? Yes? _____ No? _____
6. Do You have disability insurance in place for key employees of the firm? Yes? ____ No? _____

AUCTION Firm Management

1. Members of your management team? Please list in the following format:

Name: Title: Age: Role: Time Allocated:

2. Please describe any recent or anticipated changes in senior management?

3. Please describe the risks associated with the loss of any key members of your management team.

4. Describe in detail your management succession plan. (or attach a copy) Do you have a separate exit plan for leaving the firm when you feel it is time to go?

5. Are there any disputes or conflicts among senior management? How will these be resolved?

AUCTION Firm Advisors

1. Please list the name, address, etc. of the firms legal counsel, accountant, and banking relationship(s) Also, any agent involved in the sales of “Key Man” or other company related insurance products.

2. Please list the members of the board of directors, if any.

3. Please describe any current litigation the company is involved in. Indicate the consequences to the company if you should lose any litigation you are involved with.

STEP EIGHT: AUCTION Firm General Business Items

1. List the trade associations in the industry segments that you cover? Please indicate those associations of which your firm is a member. Indicate your level of activity in each.

2. List the trade periodicals in the industry segments that your firm covers. Indicate those to which your firm subscribes? Indicate how information from each is used in your firm.

3. What do you feel are the 10 most important “benchmarks” for evaluating your AUCTION business?

STEP NINE

After completing the questionnaire, please send all work copies to us for our review so that we might best plan our time with your company. If you have questions concerning any of the areas posed, please call us for clarification. We already have a nondisclosure agreement with your firm in affect which prevents us from sharing the information we gain from you with any one else. We agree to continue to be held to that agreement.