Selling Estate Assets at Auction

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What is the best approach if you need to sell an inherited estate, excess inventory from your business, or high-priced collectibles you no longer want? Use these tips on selling property at auctions to help you handle the sale and get the best price.

When you want, or need, to sell valuable personal property, you might consider putting it up for auction. Unlike a subjective appraisal, the auction process determines the real fair market value of an item by extracting the highest price an actual buyer is willing to pay.

In an English auction—the most common type for artwork and other collectibles—potential buyers keep raising their bids until no one wants to pay more than the last bid entered. At that point the auctioneer cries "Sold!" strikes a hammer on the block, announces the price, and identifies the buyer. The buyer pays the auction house the agreed amount and takes the item home or arranges for delivery. Shortly thereafter (typically within 35 days), the auction house pays the seller the net proceeds from the sale. Net proceeds generally consist of the selling price less commission and expenses.

If the net proceeds are higher than the seller's cost, income tax will be due, most likely at the 28% rate that applies to collectibles. If the item is sold for less than the seller's cost, no tax deduction is allowed. That, in a nutshell, is how traditional auctions work at houses such as Sotheby's and Christie's. Of course, now that eBay has tapped the power of the Internet to publicize live auctions, buyers all over the world can enter their bids with the click of a mouse from the comfort of home. The auctioneer's call and "Sold!" declaration may be missing, but with no limit to the number of buyers that can compete, the chances are greater that an item will sell at a higher price than if bidders were limited to just one physical locale.

To get the highest price for your collections or other personal property, follow these pointers on how to use the auction process to liquidate items you wish to sell.

Know the property

The first step in the auction process is to get an auction estimate from the auctioneer. This is not a formal appraisal but a realistic estimate of the price the auctioneer thinks the property might bring.

To start the process, you will need to provide a complete description of the property, including its history, or provenance. This can impact the price.

Remember when Jacqueline Kennedy Onassis's estate was auctioned off in 1996? Bidders paid far more than the intrinsic value for items just because they had belonged to her.

Find a good auctioneer

The increased longevity that boomers can expect Sotheby's and Christie's are the nation's largest auction houses, but there are many smaller, independent auctioneers that can help you evaluate your property to determine if it is suitable for auction as well as handle all the details associated with the auction itself. Check the Yellow Pages, look at auction ads in the newspaper, or visit the National Auctioneers Association (www.auctioneers.org/find-auctioneer) to find a reputable auctioneer.

Trustworthiness is essential in an auctioneer, because he or she is responsible for collecting the money and paying the seller. Also important is the auctioneer's ability to market the item properly so it gets good exposure among qualified buyers. When hiring an auctioneer, consider the following factors:

Expertise. Some auctioneers specialize in a particular type of property, while others are generalists. Depending on your property, a specialist may be required to properly appraise it and attract niche buyers. See Sotheby's list of specialties for an idea of how narrow some of these markets can be. Finding an auctioneer who specializes in your type of property can make a difference in the quality of bidders and the ultimate price.

Services. What will the auctioneer do to earn his or her commission? More specifically, how will your property be presented and how will the auction be promoted to attract buyers? Remember, auctioneers do not set the price (although they should provide a reasonable estimate of what they think the property might sell for), but they can influence the ultimate price by properly publicizing the auction and presenting the property in an attractive light.

Fees. Auctioneers charge a commission equal to a percentage of the hammer price. This is usually on a sliding scale and may be as high as 20% for lower-priced items, with the percentage decreasing as the dollar amount goes up. It is obviously in the auctioneer's best interests to have the property sell for the highest amount, but some disreputable auctioneers may go for the quick sale rather than work to bring in a higher price. In addition to the commission, there may be other fees associated with insurance, shipping, and handling. There may be a charge if the item doesn't sell.

Experience and reputation. Seasoned auctioneers know the market, are able to attract qualified buyers, and know how to get the best price. Find out how long the auctioneer has been in business and how many auctions the house conducts each year. Also ask around to determine the auctioneer's reputation in the community. An auctioneer who is trusted and respected will be more likely to have a devoted following of buyers and garner better attendance at auctions.

Contract terms. You may want to have an attorney review the terms of the contract before signing on with an auction house. Find out when the property must be released, when the proceeds will be paid, what happens if the item doesn't sell, and other such details.

Prepare the property for sale

The auctioneer will be able to provide guidance on this. Some items need nothing more than to be carefully packaged and shipped to the auction house. Others may need some type of maintenance or repair to bring the best price.

Determine the reserve price

It is usually a good idea for sellers to pick a price below which they will not sell. This is called the reserve price and is not disclosed to bidders. If the auction is not very well attended or if bidders fail to recognize the value of the property, the reserve price protects the seller from having to accept a ridiculously low price. One rule of thumb is to set the reserve price at 80% of the lower end of the auction price estimate. For example, if the auctioneer thinks the piece might sell for $4,000 to $5,000, the reserve price might be set at $3,200.

Prepare to give up the property. When the hammer comes down, the contract between buyer and seller is binding. You should only auction off their property if you are sure you are ready to give it up.

Selling an item by auction usually takes longer than privately selling it, because of the time it takes for the auction house to appraise and catalog the item, get it on the auction calendar, and pay the proceeds to the seller. But the delays may be worth it if the item brings a much higher price than most sellers could obtain on their own.

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