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## Auction.com's Delicate Real-Estate Expansion

Online bidding service says its business model works for traditional brokers too



Auction.com's Yan Khamish and Rick Sharga at a Manhattan event sponsored by the company to strengthen its ties to commercial real-estate brokers. PHOTO: PETER GRANT/THE WALL STREET JOURNAL

By PETER GRANT

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The hors d'oeuvres and drinks were flowing at an Auction.com broker party in Midtown last week when Rick Sharga shushed the crowd of commercial real-estate brokers to explain to them why the online property-sales service is their friend, not their competitor.

About 75 brokers from the New York region were at the event, lured in part by Auction.com's promise to give away five \$1,000 gift certificates. The service—one of the largest online property-auction sites—also is offering brokers \$5,000 for simply listing one of the properties they represent on the site, whether or not it's actually sold.

"We believe the best model is a hybrid model" that combines traditional brokerage and Auction.com's online bidding service, Mr. Sharga, an executive vice president with the firm, told the crowd.

Auction.com is launching a major push to develop stronger ties with brokers as part of a broader effort to expand its commercial-property business. The firm, which started online real-estate auctions in 2008, has been listing commercial property since 2009.

But so far its volume has been dominated by residential sales. The firm expects to sell 1,000 to 1,500 commercial properties this year and 50,000 to 60,000 homes.

Now Auction.com executives are hoping to boost their commercial volume as part of an effort to expand their business in a changing real-estate market. In the firm's earlier years, most sellers using the service were lenders selling foreclosed real estate. Now Auction.com wants to represent more owners of both commercial and residential property who are simply putting their buildings on the block.

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Doing that means winning over more brokers who act as middlemen in the great majority of property deals. Some brokers are naturally suspicious of an online service that essentially does what they do: bring together buyers and sellers and execute transactions for a percentage of the price.

“There are two schools of thought” for an online service like Auction.com, Mr. Sharga said in an interview. “One is go to the owner and disintermediate the broker. The other is that brokers have the lion’s share of the market.”

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wins,” he said.

In October, the online service hired Yan Khamish, a former senior vice president with [Fortress Investment Group](#), to oversee its effort to reach out to the brokerage industry. Based in New York, he’s been doing so through trade associations, Auction.com’s sales force, advertising and events like last week’s broker party at the Tender Lounge.

But the key to Auction.com’s success with brokers will be figuring out how to divvy up commissions. The service generally charges buyers 5% of the sales price. Listing brokers, meanwhile, generally charge sellers a standard commission of about 5%. Auction.com typically negotiates smaller percentages with sellers as the price tags on transactions increase, a common practice in the real-estate industry.

But no matter what, it’s unlikely buyers and sellers could agree on a deal that would pay a 5% commission to both Auction.com and the seller’s broker. “Most properties couldn’t handle that load,” Mr. Sharga agreed.

Until now, commercial brokers who have sold properties on Auction.com generally have accepted slightly smaller commissions, Mr. Sharga said. Benefits for brokers have included lower marketing expense, a faster sales and closing process and the potential buyers they meet from the site that might be interested in their other listings, Mr. Sharga noted.

Auction.com also is considering changing its commission structure so that brokers don’t have to take a smaller commissions, according to a person familiar with the matter. The service, for now, also is offering brokers the \$5,000 listing bonus, as well as an additional \$10,000 bonus when properties get sold.

Paul Halvatzis, a broker based in Astoria, Queens, who attended the Auction.com party, said he sees the benefits of working with the online service: “The beauty of it for the broker is that you not only get the property sold, it’s the potential buyers you make contact with for other deals.”

Eric Anton, a veteran New York broker with HFF, said Auction.com’s technology is “very impressive” but he pointed out that many New York transactions involve complicated issues involving such things as zoning and lease expirations that need more of the human touch. “For something that takes creativity, the computer has not replaced the professional,” he said.

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