

Buying a House at Auction: Is It Worth It?

By Laura Agadoni · Sep 26, 2016



Before you head over to the next house auction in your area (or bid online), you should learn the ins and outs of buying a house at auction.

When houses go to auction, they are usually deeply discounted. So if you're in the market to buy a home, you might consider buying yours at auction to snag one of these great deals for yourself.

But whenever [something sounds too good to be true](#), there's usually a catch. And this is the case with buying a house at auction. If you're not a professional or an experienced real estate investor, that "great deal" could turn out to be a huge mistake. Before you head over to the next house auction in your area (or bid online), you should learn the ins and outs of buying a house at auction.

Why the Houses Are Discounted

The reason you can get great deals on houses at auction is that these homes are usually the [products of foreclosure](#) or unpaid [property or state income taxes](#).

There are various types of house auctions with different kinds of homes for sale. Mark Ferguson, a real estate investor and the creator of [Investfourmore.com](#), explains the differences.

The Three Types of Auctions

1. Foreclosure/trustee/sheriff's auction: These auctions typically require the buyer to pay cash at the auction or soon after. The auctions are in person and are located at the courthouse or trustee's office.

2. Online REO auctions: Real estate owned properties are bank-owned foreclosures that have already been through the foreclosure auction. The bank owns the homes and auctions them online. Popular online auction sites are [Auction.com](#), [Xome](#), and [Hubzu](#).

3. In-person REO or traditional auctions: Here, the auctions are held at the property, but even so, there is usually no inspection or contingencies allowed.

What You See Isn't Always What You Get

Even when [traditional home sellers](#) post lots of photographs online of the interior and exterior of their home, when you visit the house as a potential buyer, there's a good chance you'll be disappointed. Maybe the house has a bad odor, a roof leak, an ancient HVAC system, or is in a bad neighborhood. And that's what you might find after inspecting a traditional house for sale *with* photos.

With homes being auctioned, you probably won't get to see any photos, or if you do, they are likely just exterior ones. You might be [bidding on a house sight unseen](#) or with a very limited view. And keep in mind that many of these homes are in bad shape. If the house went to foreclosure, for example, and the owners couldn't afford to make the mortgage payments, they probably couldn't afford to maintain the home, either.

Sometimes, owners become spiteful during a foreclosure. "We've gone in to find cement poured in the toilets and a lot of other issues that are tough to deal with if you don't fix and flip houses for a living," says Dev Horn, VP of Marketing for [We Buy Houses](#). "In most cases, non-professionals should not do it."

If you do get to see the property, there's usually not enough time to do a proper inspection. "In most auctions, buyers will have only a brief window (such as an hour) before the auction to walk through the property," says Brian Davis, a real estate investor with [Spark Rental](#). "There is no time for a professional home inspection, and unless the buyer brings a contractor with them to the auction, they will have to estimate repair costs themselves." And that's only if the auction you attend allows you to see the property. Foreclosure auctions typically don't.

The workaround:

If you don't know the condition of the home, only bid a certain percentage of the home's market value. [HouseLogic](#) recommends this percentage to be 70 percent.

You Need a Lot of Cash

All auctions are different, so you would need to check the requirements of the auction you're considering. But many of them require you to pay for the house in cash, usually using a cashier's check, if you win the bid. If you don't need to pay for the entire house right away, you will still need to [provide some cash](#) on auction day, such as for a deposit. "The deposit is usually higher than in traditional buying arrangements," says Davis. "And there is usually no way to recover the deposit if the buyer fails to settle. No contingencies, and no way to back out."

Liens and Title Defects

You're taking a risk when you buy a house and don't know whether there's a clear title. Maybe the proper paperwork was never filed, and someone will pop out of the woodwork claiming ownership. Another reason you want clear title is to ensure there are no liens against the property, such as a contractor's lien or a second mortgage, which will then become your problem if you buy.

Alan Doran, Executive Vice President and General Counsel of [OneTitle](#), says, "Buyers can be obligated to purchase the property under the terms of the sale even if it is later discovered that the property is subject to undisclosed liens or other title defects."

The workaround: "Obtain a title search from a title insurer or abstract company," says Doran.

You Can Get a Bargain ... If You're Prepared

Although most people who are successful at getting good deals through auctions are real estate investors, first-time auction buyers can be successful too ... if they know what they're doing and are prepared to put in some work. "Anyone not looking for a fixer-upper should totally avoid house auctions," says Emily Mort of [S&D Real Estate Services in Lakeland, FL](#). "You typically get [a house] for a much lower price. However, you could be walking into a money pit."

You also need to be prepared for the original owner still being there. In that case, you would need to go through the eviction process, which can be costly and time-consuming.

If You Want Buy at Auction

If you're not an investor, are [just trying to buy a house](#) that you can get a great deal on, and you think that buying at auction is the way to go, here is some advice. Jim Esposito, a [Fort Lauderdale, FL](#), real estate agent, says, "Find someone already familiar with the process who will help you for some kind of a percentage."

Rob Strickland of [Furrow Auction Co.](#) offers additional advice:

Get your financing lined up or be preapproved before the auction.

Make arrangements for a home inspection in advance of the auction. (Note that this step isn't always possible at every auction.)

Make sure you have reviewed the title work on the property before you bid. Or have the title work prepared for you if the auction company does not provide it.

Determine the home's value by looking at comparable sales in the area.

Have a [real estate agent](#) represent you.

Bottom Line

It's possible to get a good deal by buying a house at auction. But you need to know what you're doing, what to bid, as much about the property as possible, and be patient by waiting for the right deal. If you've done all that, Brian Davis offers this last piece of advice: "Attend at least 10 auctions before actually bidding. When you do bid, be especially conservative."

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