

Public Property Sales in the Czech Republic

0.1 Topic

We compare two methods of public property sales in the Czech Republic. These common methods are public auctions and first-price-sealed-bid auctions. The comparison is focused on outcomes of the auctions and on the success rate of both methods. Due to the substantial amount of public property sold every year, revenues from the sales are of high importance.

The data come partly from VASMAJETEK.CZ and the rest was collected by the author.

0.2 Basic facts

1. The exact amount of public property sold in 2012 is unknown. However, the following table can give you an idea about the amount:

	Amount of property sold in 2012	Source
UZSVM	899 515	Annual Report 2012
Public auctions of municipalities' property	66 401	MMR
All ministries	450 000*	VASMAJETEK.CZ

* This is only a guesstimate based on the data collected from the websites of the ministries. Some properties can be included twice and some of them may not be sold yet.

Note: It is not possible to sum these amounts up, because some property of the ministries can be sold via public auction. However, this is a rare case.

2. So-called public auctions are English auctions which are strictly regulated and the whole procedure including standards for publicity is prescribed by law (The Act 26/2000 Coll., on Public Auctions). First-price-sealed auctions are regulated only by the general laws about disposing of public property, i.e. most importantly, it has to satisfy the following: The sale must be realized at the minimum amount of the estimated price.
3. Auction theory predictions suggest that under certain assumptions revenues of both types are equal. This is known as the Revenue Equivalence Theorem. However, in case of risk-averse bidders higher outcome through first-price-sealed-bid auction is predicted.
4. Results of the previous empirical investigations differ (see e.g. Athey, Levin, and Seira (2011) and Chow and Ooi's (2012)). However, in neither of these papers public property sales are discussed (only private property is discussed).

0.3 Results

1. The data indicate that the properties sold through first-price sealed-bid auctions are more often underestimated.
2. The comparison of outcomes based on administrative prices show that the outcomes are very similar for both methods of sale which fits the theoretical predictions.
3. Public auctions show higher rate of success and lower variance of outcomes.

0.4 Open research questions

1. What does influence probability of sale?
2. Is the rate of success systematically linked to the method of sale employed?
3. Are transaction costs of one of the methods higher to the extent that it influence its attractiveness?

References

- [1] *Act No. 26/2000 Coll., on Public Auctions, as amended.* 2000. Prague: Parliament of the Czech Republic.
- [2] ATHEY, Susan, LEVIN, Jonathan, SEIRA, Enrique 2011. Comparing Open and Sealed Bid Auctions: Evidence from Timber Auctions, *The Quarterly Journal of Economics* 126, 207-257.
- [3] DAMME VAN, Eric and BÖRGERS, Tilman 2004. Auction theory for auction design. In: *Auctioning public assets: analysis and alternatives*, Janssen C. Maarten, ed., UK: Cambridge University Press, 2004, pp. 19–63.
- [4] OOI, Joseph T. L. and CHOW, YuenLeng, 2012. *First-Price Sealed-Bid Tender Versus English Auction: Evidence from Land Sales*. IRES Working Paper Series, National University of Singapore.