

BRIGHT



ASK PATRICK

Property expert Patrick Bright answers all your questions about the tricks and challenges of buying and selling property.

Q. There seems to be more and more property going up for auction? Why is this happening?

A. You're certainly right there. Selling property via auction is growing in popularity particularly in Melbourne and Sydney and there are a number of reasons for this. Firstly, auctions are very popular with selling agents as it provides them with greater opportunities to advertise and market themselves and their own services to the neighbourhood and wider community. Secondly, there is an incorrect perception that vendors will sell their property for a higher price if the property goes under the hammer. Of course, there will be times when a property sells above what is considered fair value at auction, but just as often there will be times where the buyer gets a good deal below fair value. As with most things, the reality is that there are positives and negatives to selling or buying property at auction.

Given that a significant percentage of property is now sold via auction, you cannot afford to ignore the auction process if you want to have access to the entire market when looking to buy.

To increase your chances of success when buying at auction, you need to know the process intimately. It's important to understand the motivations and psychology of the vendor – as well as the psychology of the selling agent if you want to outfox them. In my book, *The Insider's Guide to Saving Thousands at Auction* I dedicate a chapter on the pros and cons of the auction process. Here is a summary:

Sale deadline

One of the auction benefits for vendors is that they've got a timetable to work to, so it's easier to make plans for the future. The typical auction campaign is four weeks, and the vendor knows there's a high likelihood they'll sell the property on or before auction

day. Because the home has a fixed selling date it also tends to stop buyers from procrastinating. In an auction sale there is no cooling off period (unlike most private treaty sales), so once the hammer has fallen the buyer can't change their mind. Selling to a deadline is an especially important consideration for vendors who have already bought another home. They've usually got to sell on, or very close to, the auction date or else they'll have to arrange bridging finance to pay for their new home.

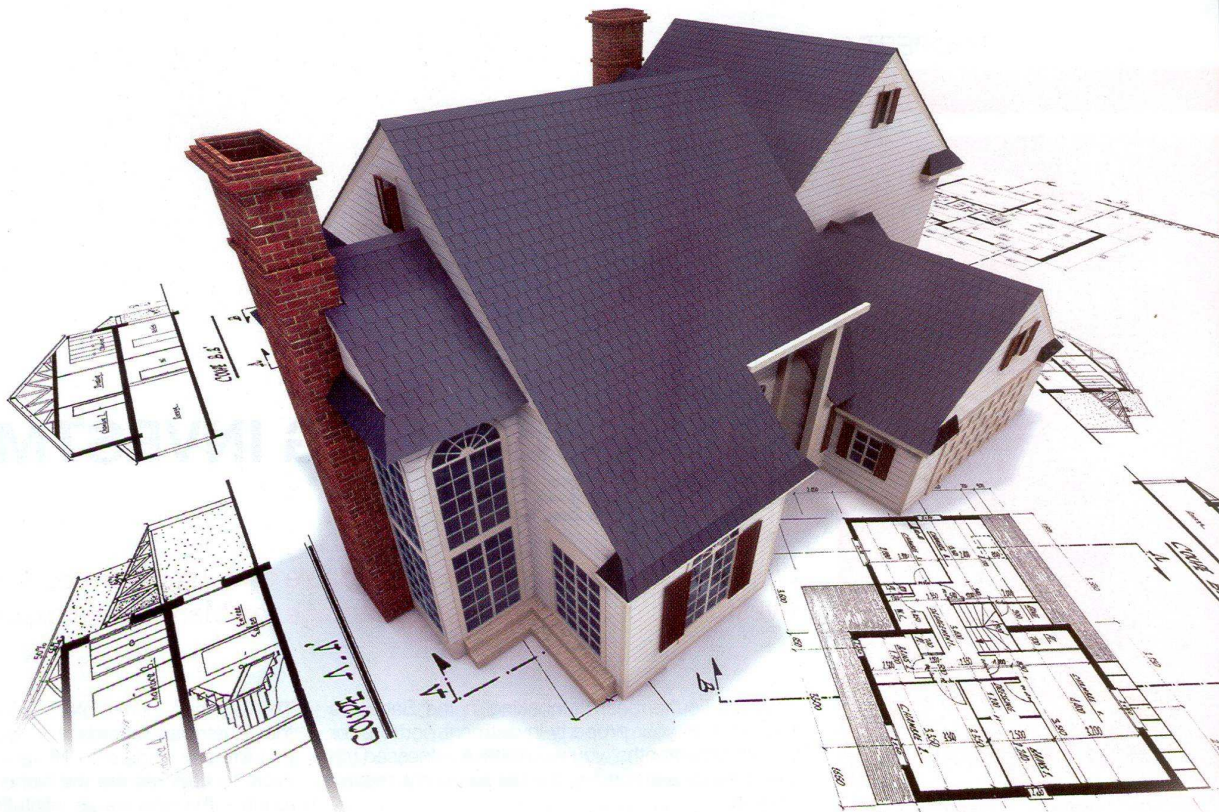
Failed auctions

The vendor's biggest worry is that no one will show up at the auction. Their second biggest worry is that the reserve isn't met and the property is passed in. When a property is passed in it sets a public price benchmark – few buyers will want to pay more. It puts a stigma on the property and buyers worry that there's something wrong with it that they haven't discovered as yet. These days buyers have easy access to auction results via various property data services. Most auction results are published in the weekend papers, so a failed auction is hard to hide. If a buyer asks the selling agent whether the property has already been to auction the selling agent is obliged to tell them.

Under pressure to sell

Auction vendors have made their own commitment to sell, but they can also be under a tremendous amount of external and psychological pressure to sell as well. The vendor is under pressure to sell on auction day because:

- They've already spent a lot of money on advertising. If they don't sell they've got nothing to show for it, and the prospect of spending more on another sales campaign in the future isn't very appealing. More good money after bad is most likely what they're thinking.



- They don't want the stigma of a failed auction which will make their property harder to sell.
- An auction is a public event and everybody wants to be seen as a success.
- If necessary the selling agent will put them under pressure to lower their reserve price to ensure a sale..

All this pressure is a drag for the vendor, but it can benefit the buyers. It means the vendor is usually more committed to selling and may accept a lower price on auction day than they otherwise would have the week before.

Buyers have to pay for inspections upfront

If you're holding the highest bid when the hammer falls you own the property with all its faults and flaws. To protect yourself against buying a renovator's nightmare without knowing it you need to have all your pest and building inspections complete and the contract checked by your solicitor or conveyancer before auction day. So you have to spend money before you can bid at an auction. And potentially you might have to go through that process several times before you actually buy. So buying a property at auction can be a costly business. That's why if you intend to bid on a property you must research its fair market value. Never just rely on the price guide selling agents give you as they routinely misquote the vendor's true expectations. Some underquote prices by a few percent, most by around 10 per cent, and a few will be so bold as to do it by 20 per cent or more. You need to find out whether the property is in your price bracket before you spend money on inspections.

Under pressure to buy

It's not only the vendors who are under pressure on auction day. Buyers are under

pressure too because they've already spent hundreds, if not thousands, on inspection reports and solicitor's fees an auction condenses the entire negotiation process into a few minutes – they have to think quickly on their feet, and if bidding is slowing down the selling agents will often come over and harass them into raising their bids, saying things buyers don't want to hear, such as: "You're going to miss out. Surely you can afford another \$5000 can't you? \$5000 isn't that much. Go on, just another five grand and you might own it".

Buyers don't like auctions

Many property buyers don't like auctions, so they simply avoid them. Some of the reasons why buyers avoid auctions are because:

- They don't like the stress and pressure of the process.
- They don't know if the price guide is true, or under by 5%, 10%, 20% or even more.
- The timeframe doesn't suit them.
- They don't want to risk paying for inspections and legal fees for nothing.

This is good news for buyers who are willing to bid because it reduces the competition. Obviously it's bad news for vendors because it reduces the potential number of buyers for their property. These days many buyers, especially ones who have missed out on a couple of auctions, wait to see if the property is passed in and then begin negotiations.

Negotiation transparency

There are certainly a lot of shenanigans that go on with auctions, but in the final analysis it is usually a more transparent method of sale than private treaty. At auction you can see and

assess your competition out in the open. I'm happy to bid once a property has been called on the market because I know I'm playing for keeps and there's less chance of a dummy bidder. It's very rare for a dummy bidder to bid above the reserve, because it's too risky – they could end up buying the property. In a private treaty sale all the negotiation takes place behind closed doors. You can put in an offer only to be told someone else has offered more, but the selling agent won't tell you how much. Essentially you're flying blind. Whereas at auction, once the property has reached reserve I'm pretty confident all bids are genuine, I can see who I'm bidding against and I know exactly how much they're willing to offer. Open bidding once the reserve has been reached is a clear indication of how much buyers are willing to pay for the property (but not necessarily how much they think it's worth), so the price is benchmarked in public.

In summary, I have bought many properties at what I would consider bargain prices at auctions, considering what they were really worth and the price we were prepared to pay. But that doesn't mean you can always buy property cheaper at auction than private treaty. There are opportunities for good deals with both methods of sale you just have to understand the process and the game you're playing. [wcm](http://www.wcm.com.au)

Do you have a question for Patrick? Email editorial@tomahawkmedia.com.au.

Find this and other advice in Patrick's latest book 'The Insider's Guide to Saving Thousands at Auction'. Patrick is a real estate buyers agent and successful property investor.