

ASK  
PATRICK

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Property expert Patrick Bright explains the importance of keeping your emotions at the door when buying real estate.

**Q.** My husband and I really like a property that's up for auction. How do we know what we should pay for it and how do I make sure that my husband doesn't get carried away and pay too much?

**A.** Keeping a cool head is very important when bidding in the highly emotional auction environment. If you keep your cool and know what the property is worth you can nab yourself a bargain. On the flip side, however, I have seen many people get carried away with the auction momentum and end up paying too much, or even worse, buying a property that is beyond their means.

There are a couple of real problems that can occur as a result of this lack of control:

Firstly, there's financial stress. We're currently witnessing the heartache of a large number of families across the country that have overcommitted financially. Instead of factoring in the cost of a few interest rate rises when they took out the loan, many borrowed to their max or close to it and are now experiencing serious mortgage stress. Why would you want to put yourself and your family into this situation because you can't control your emotions on auction day?

Secondly, there's affordability. When people bid beyond their financial means and above the real value of the property then it can put the property purchase in jeopardy. If the successful bidders have paid above what their finance provider considers to be the fair market value of the property then they will have to fund the difference between the bank's valuation and what they paid in cash.

At the end of the day, the lending institution needs to know that if you default on the loan then they can sell the property and recoup their money. Why would they knowingly lend you more money than the property is worth and put their shareholders at risk of potential financial loss?

What happens if you aren't able to come up with the cash or obtain a loan to pay the balance of the purchase price after your 10 per cent deposit? In this situation you will lose your deposit entirely - something that does happen. Why would you want to risk throwing tens of thousands of dollars of your hard earned money away?

The bottom line is that you must know your figures. Conduct thorough research to assess the property's value and know your borrowing capacity and the amount you're comfortable to repay each month on a loan before you bid at an auction. If you don't have the time to conduct the research then consider hiring a buyer's agent to assist you or at the very least obtain a valuation on the property before you bid. That way you know how the bank will view the property value. Don't just rely on the numbers the bank or lending institution says you can borrow, as it could be more than you should. As a rough guide, don't put yourself in a financial position where the monthly repayment amount is more than 25 per cent of your monthly household income.

When bidding at auction, don't even go \$1 over your limit. If you feel there is even a small risk that you may bid beyond your limit then you need to recruit someone to bid on your behalf. If you want to do it yourself then I highly recommend that you go to a dozen different auctions and get familiar with the auction environment so that you know what to expect. **wcm**

Patrick is a real estate buyer's agent and successful property investor. [www.epspropertysearch.com.au](http://www.epspropertysearch.com.au).



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