

AUCTION TIPS

BEFORE THE AUCTION

If you are like most people, bidding for a property at auction is something that happens just 2 or 3 times in your life, and therefore you are not especially skilled at getting the most positive result. The following is a comprehensive guide on what to do prior to and at the auction.

Gain clarity on what you are looking for

The first thing you need to do when you embark on buying a property is to get clarity on exactly what you are looking for. We suggest the following:

1. Decide on what suburbs you are looking at, a suggestion is that you narrow this down to 1 or 2 suburbs, rather than spreading your search too thin (which eventually drains and confuses buyers).
2. Decide on exactly the type of property you need within these suburbs (for example, a 2 bedroom unit in Bronte).
3. Find out (through asking a few agents or looking through a few open houses) the approximate value of the property that you require.

Get pre-approved

Once you know what sort of property you are looking for, you should then get pre-approved with a lender. A pre-approval is written confirmation from the bank that they are happy with you as a borrower up to a certain purchase limit.

It is especially important to have a pre-approval arranged before you go to an auction. It can be risky to buy at auction without finance arranged.

Make sure that the bank you are approved with will lend you the money for the type of property you will be bidding for. For example, if you wish to buy a 45 square metre unit, there are some banks who will not accept this type of security.

It is always a good idea to let your bank or broker know the details of any property you are interested in purchasing so you can be sure the bank will accept the property as security for your loan. Take care to mention the post code, the size of the unit, how many units in the block and whether a unit is a company or strata title.

Research

Once you have your pre-approval organized it is essential that you conduct the necessary research on any property you wish to bid on. With properties that are not being sold at auction you can make offers and have them accepted by the seller subject to research done by you and the bank. In this instance you are not signing a contract for the property until you have done the relevant checks and your bank has formally approved the finance.

At an auction, however, it is risky because there is a chance that you can buy at auction and the bank can will refuse to accept that particular property as security, even though you may have a pre-approval. Additionally, the bank may not value the property at the same price that you have bought it for, which means they may not be prepared to lend you as much as you need to complete the purchase.

Establish & know the true value of your property

The safest way to ensure you will not be paying too much is get your broker or your bank to organize a valuation before the auction. Most banks will let you do this. All you do is tell the bank how much you are willing to purchase the property for then ask that they do their valuation with this in mind. If they come back with the same figure or a higher figure you are safe. If they come back with a lower figure you then need to re-consider your purchase price for the property.

However this exercise can prove quite expensive. Banks usually include one complementary valuation, then and any subsequent valuation will be charged to you at around \$250. If you did this for five or so auctions this may become quite expensive, however may be a small price to pay to give you the peace of mind that your finance will definitely be in place after the auction. If you get a valuation done prior to the auction, you will be sure that the bank finds the property acceptable in terms of both the type of property and the value of the property.

You can also work out the value of the property yourself through thorough research. To make an informed estimation of a property's value, you need to inspect and analyse a lot of properties. While time consuming, it is quite a simple process to find out what comparable properties have been selling for in the area. Be thorough and ask a lot of questions about the properties you are comparing, which is essentially what the bank appointed valuer will be doing. However bare in mind that the valuer does this for a living and the bank will be using his value not yours!

Another way to establish the value of a property is to get real estate agent to help you. If it's the agent who is selling the property ensure that their value is backed up by recent comparable sales.

While there are a number of agents who are very up front with the value, most like you to work it out for yourself. Use an agent who you know and trust and ask them their opinion on the value. Ask how they came up with his value, ask for recent sales or if they or their colleagues have sold any similar properties. An agent has access to services such as RP Data and auction results which can help you with your research.

Building & pest inspection

As there are costs to doing building and pest inspections these should be conducted after you have established the value of the property and are very keen to bid. People sometimes balk at the cost of getting them done but \$500 is a small price to pay compared to finding out that the building you have just bought has concrete cancer, costing you an extra \$40,000!

Once the inspection is done; ask the inspector to go through the report with you, especially if there are some signs of problems. Quite often there can be issues with pests or the condition of the building that may need to be addressed but don't turn you off the property altogether. Small defects can also be used to your advantage as a negotiation tool when you are settling on a price with the vendor.

For a potential house purchase, building and pest inspections are extremely important. For a unit, many buyers find it sufficient to obtain a strata report which should give you a good idea about the history of the building and any work and extra costs that will be needed in the future.

Go to other auctions

This seems like common sense but, it's amazing how many people don't go to any other auctions before they actually bid in one themselves. If you are going to do the bidding yourself it is a very good idea to go to several other auctions to get a good feel for how they work. They can be quite intimidating and the auctioneer and agents are a lot more experienced at them than you. We recommend going to at least 3 auctions prior to bidding your self (but 6-7 would be best).

This will also add to your knowledge of the value of similar properties. By the same token you can see how the combination of competition and emotion can drive the highest bid over the true value of the property.

Get a good solicitor

It should be no surprise that it is paramount that you get yourself a good solicitor for the conveyancing process. Once you have hired them it is their job to check over the contract of every property you are thinking of purchasing.

They should know all the little conditions to look out for and additions that you might want to ask for.

Choose a solicitor who has been recommended to you by someone you trust and someone who is experienced with conveyance. They are a hugely important part of the process, not only when dealing with the purchase but also when dealing with the banks.

Have deposit ready

You will need to know what amount of deposit you will have to pay on the night. This will be on the contract and is usually 10%. However, you may only have 5% or no deposit at all.

If you only have a 5% deposit you will need to get your solicitor to call the seller's solicitor and request to have a special contract drawn up for you which will allow you to pay a 5% on the night.

If you are purchasing and using no deposit you need to arrange a deposit bond. A deposit bond is simply a guarantee from the deposit bond company that the vendor will get the agreed deposit in the event of you not completing the purchase.

There are only a few companies and banks providing deposit bonds and the easiest thing to do is to get your mortgage broker to set this up for you in advance.

Set your limit

Once you have done all the relevant research you need to establish a limit for which you will not go over in any circumstances. This is the maximum you are prepared to pay for that particular property, and should not be greater than the purchase price agreed to with your bank.

Make offers before the auction

There is nothing to stop you making offers prior to auction. The seller may be nervous and happy to just end the whole process and sell right there and then. It doesn't hurt to try. Make sure all offers are on paper (use email) so that you can be sure that the agent passes them on (which they are required to do by law).

AUCTION NIGHT

Someone to bid on your behalf??

Auctions can be quite intimidating for the uninitiated. If you are inexperienced or lack confidence, using someone to bid on your behalf can be a good solution. This takes a lot of the stress out of the process. Your stand in will not have the same emotion connected with the property and will stick to the limit and be less likely to give away clues to the auctioneer as to where you are at.

It is best to choose someone who has bought a number of properties at auctions themselves. While this is not essential, the more experienced they are the less likely they are to be tricked or intimidated by the auctioneer into a bid they don't want to make.

Another option is to hire a licensed buyer's agent. Some allow you to hire them just to go to the auction and bid on your behalf.

If you have done the required research, by the time auction night comes around you should take comfort in the thought that all the hard work has been done.

There should be only three outcomes

You purchase the property at a price that you are prepared to pay for it.

Someone else buys the property at a price which is over what you are prepared to pay for it.

The property is passed in because the vendor is not willing to accept the highest bid.

Where to stand/sit

General consensus is that the best place to be is at the back of the room. This is because, not only can you see the auctioneer, you can also see your opposition bidders and see who you are up against. They should be sitting down and lower than you and having to look around and over their shoulder, sometimes not knowing where the bids are coming from. This can be quite intimidating for the competition, and good for you!

Ask questions

You have the right to ask question before the auction takes place and during the auction. The questions can be about anything from the property to the contract. You do this to for two reasons; to confirm and answer any questions that you have, and also to make sure that all bidders know of any issues with the property as well!

You can also ask where a bid has come from, especially if you think the auctioneer is pulling bidders 'out of thin air'.

Stick to your limit

Know your limit and stick to it. Some people simply can't do this as they get too emotionally attached to the property. If you feel you will not have the control to stick to your limit simply find someone to bid on your behalf.

How to bid

It's important to remember that you are putting in the bid, not the auctioneer who can only suggest increments for bidding to go up by. So for property that will sell for \$550,000 some one may start the

bidding at \$400,000 and the next bid may be \$410,000 then go up by \$10,000 increments. There is nothing stopping you slowing the bidding down by bidding by \$1,000. This is particularly useful towards the final stages of an auction.

Sometimes waiting until late in the auction before you make your first bid can be a good idea. It is emotionally draining for your competition to think that they have just won their dream property only to find that another bidder has entered the fray before the hammer falls. You may well have the same or similar limit to the other bidders, but because you have come in late people will feel that you have lots of bidding left in you.

When you bid you want to create an air of confidence. You can do this by your dress. Think about the type of image that you want to portray, it may be that of a real estate agent (making opposition nervous about the legitimacy of your bids), or of a builder or a developer, or of someone who is very wealthy. Make your bids loud and strong.

DO NOT LET THE AUCTIONEER BOSS YOU AROUND. You may want to go up by \$1,000 but the auctioneer says "Sorry sir we're going up by bids of \$5,000 can you make it an even \$500,000?" you should answer "That's great but my bid is \$496,000, please accept my bid sir."

SUMMARY

- 1) Have your finance pre-approved and your deposit ready. Take care to ensure the lender is satisfied that the property is acceptable security.
- 2) Conduct all the relevant research and inspections to establish the true value and condition of the property. Don't be afraid of making offers prior to auction.
- 3) Attend other auctions before bidding at one yourself.
- 4) Ensure you have a good solicitor and that they have thoroughly checked over the contract.
- 5) Know your limit for the property and stick to it.
- 6) Have a plan. Know where you will stand and how to bid. If you are not confident arrange someone to bid on your behalf.