Stafford Property Advisory

Preparing to win at auction

Tips for success in the Melbourne property market

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Auctions are many things, they're public theatre, they're emotional, they're daunting and can even be exciting – so long as you're not caught in the middle of them.

Remember, this is a high stakes game. A lot of money is at stake - your money.

Once you're the winning bidder at auction, you've got to live with the decision.

Read on…

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Stafford PROPERTY ADVISORY Search, Locate, Negotiate

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The Search for "The One"

There's a lot of legwork involved when looking for your next home, so it's important to have the right process in place.

The first step in this journey to home ownership is the search for promising properties that are currently for sale; there are other properties too, that are not advertised but available through what's known as an "off market" sale, and you'll need access to your networks to find these opportunities.

But let's get it clear right from the beginning. There's no such thing as the "perfect" property. Even in the highest price, compromises are made, no matter how small or how luxurious a detail it might be.

In the 30+ years I've been in real estate, I've had a lot of clients come to me with a list of features they want in a property that, at the time, are their "must-haves", and the property they eventually purchase can be vastly different to the original list.

This list varies from client to client as it's a very personal choice and we all have set criteria for the type and internal composition of our next property and this is generally driven by budget, what ticks the boxes on our non-negotiables, while retaining as many "wishlist" features as we can manage. It's human nature to want more than we can afford, but it's also important to make good decisions about which features you can and can't live without.

There are external features that should also be considered as important in any property to enhance its desirability and therefore the future sale potential, and these homes will be heavily competed for.

So make sure your non-negotiables are realistic to your budget as well as the area and the type of property you're looking for. Above all else, be willing to compromise on something.

The difference between grades of properties

From my travels through the various markets, I see virtually all the prime, or 'A' grade properties, perform very well with 2 or 3 bidders and results sometimes well above the reserve, and a higher number of them are now not even hitting the public marketplace, they're being sold "off-market" – I get offered these on a regular basis which indicates that this is a growing strategy for vendors of the more highly desirable properties – there's a growing cohort of buyers in the market who have been looking for longer than they want, so when something comes up that meets most of their criteria, they'll move quickly to a decision.

What is also evident is that vendors of the less desirable properties (the ones I call 'B' and 'C' grade properties) are often struggling to achieve good results – a quick check of auction results will confirm this.

These B or C grade properties can be poorly renovated, on busy roads, have compromised layouts, or have over-optimistic vendors asking too much – this is where your research will be critical

If you've found a 'B or C grade' property that you like, and it's going to auction, my advice would be to check the reason for selling with the agent, be there on the day, watch what other competition there is for it, then position yourself to have the right to negotiate the sale immediately after the public part of the auction is done.

The likelihood is that there may not be any other serious competition except the vendor's expectations, so knowing their circumstance can help you frame an offer that has other elements that are more important than price.

There is a "but" though… You must be very aware of the market and the home, otherwise you'll end up paying too much to an over optimistic vendor, or missing out because you outsmarted yourself by being inflexible and refusing to give a little bit.

Bidding at auction

In a rising market, it's far more common for properties to be put up for auction, which is a public method of selling, and it's easy to get swept up in the theatre and heat of the occasion. You'll need to be careful and ensure that the price you pay at the end of the proceedings is appropriate value so that you're not paying more than other, similar properties have sold for recently. The trick is to remain rational and keep the emotion out of your decision until afterward.

Regardless of how hard the regulators try, there'll always be misleading information out there, and you need to have access to all the available information to be able to see through the suggestions that a particular property is going to sell for less than what a reasonable market price would be; some of this information is available in the public domain, but more is found on paid subscription sites that the professionals use and could save you thousands in the long run by saving your wasted time and money of inspections and consultations with legal representatives for a property which was never really going to be within your budget.

If you are preparing to enter the market, or even if you've been outgunned in the frenzy recently, the following pages will give you tips to take on board before bidding at auction.

Get your house in order

Prepare thoroughly

Get your finance pre-approved so you know your limits – talk to your bank or broker and get your application underway before you turn up at the auction; where possible, have a written approval in place prior to bidding.

Do your research

As an advocate, I'm a very big believer in thorough research into any property I'm looking at for a client rather than just relying on what the agents want us to hear from them, and I'm constantly looking at all available information on the property I'm targeting; including recent sales around it, zoning, restrictions on its use (ie heritage overlays, planning amendments etc) and getting a thorough building inspection done by a registered building inspector.

Talk to other agents in the area about what else has been sold or is on the market that you might not have seen, and do as much due diligence as you can. Set your limit according to the data.

Get a building inspection done well before the day – a thorough, professional building and pest inspection is essential to identify areas of concern and future works and rectification methods. Building inspectors have a duty to the client to advise of all major and minor defects, and safety hazards – this will be a very comprehensive report of their observations and photos, and (in some cases) the likely cost of the rectification works. This can save you buying a property which has many thousands of dollars to be spent on it on top of the purchase price and no, unless Uncle Harry is qualified to do this, regardless of how well intentioned he is, he won't pick up the faults you need him to.

Do your investigations thoroughly, or get a professional involved to do it for you, you'll save yourself time, stress and quite possibly a lot of your hard-earned money.

The Legalities

Check the contract or get your legal advisor to do it for you. Real estate can get complicated for the unaware, there are an array of legal aspects and potential pitfalls that need to be understood properly to ensure that any sale proceeds as easily as possible for all concerned, and it's likely most people aren't fully conversant with the laws and documentation, if you don't understand it well you could be placing yourself at some risk – get an expert to look over it for you.

Section 32

Here in Victoria, there's a document known as a Section 32 statement (from section 32 of the Sale of Land Act) – its more correct name is the "Vendor's Statement".

This is a vital part of the sale paperwork and underpins the contract itself, it's a legal document given by the seller of a property to the interested buyer which provides specific information about the property in question and should only be completed by a solicitor or conveyancer. Unless this is given to the purchaser at the time of contract and signed by them, the sale will be void and the buyer can pull out of the sale.

Get comfortable with the process

Get acquainted with the way an auction works; go to as many auctions as you can, get a feel for the for the atmosphere and the process, and watch different bidding strategies as no one strategy will work in all situations.

Give nothing away.

Tell the vendor's agent you're interested in the property but not how much you'd be willing to pay. By telling them of your interest, if an offer is made prior to auction, and they agent knows you're interested, you'll get a call to advise that the property might be sold before the day.

My strategies over the longer term have been to have a range of prices in mind for my clients, culminating in a "don't look back" price. And have your terms agreed to prior to bidding – if you want a longer or shorter settlement, or to pay a different amount of deposit, have the vendors consent for this before the day.

Setting your price

If you've decided you're going to bid for this property, the next thing you will need to do is complete some further due diligence of your own.

Specifically, you want to find out an estimate of what the property is worth in the current market, so you can begin to formulate your price points. Now this could get a challenging if you don't have access to comparable sales data and market information.

When checking properties for my clients I use a couple of sites, but these are subscription-based, so you may need to find a way around this. There are a wide range of other online price-prediction tools that home buyers can use to work out a range that a property could be worth, but these should be taken with a grain of salt as they're normally based on algorithms which might not take all data into account.

I've seen some of these sites indicate properties were worth well above or well below what they really were. Remember, even a few thousand out and you could be misled about market price, so it is vital to form a very accurate estimate from your research.

I try to narrow my estimated selling price to as far down as possible, and then check against what my instinct tells me. Some of the best resources are very local - other Real Estate Agents, neighbours and local resident can provide some great information.

I work on four price points:

- Your "Ecstatic" price; the figure that you would be overjoyed to have bought at
- Your "Yes! We've got it" price, where you're happy to have paid the figure you have, it's a fair number for both sides
- Your "Walk Away" price, it's above our estimated range but we've done the deal and you've got your new home, and
- Your "Don't Look Back" price; when the competition's stiff and there's a bidding war going on, the amount you'll pay if you're forced to, but not one dollar more

Who's your competition?

I've talked about fair market price a bit up to this point and how you establish this, and how to set your "Walk Away" price in line with this… BUT, if you really want this property and your intention is to buy it no matter what, you need to seriously consider how far you are really prepared to go when it comes to price.

And at auction, price always wins.

Depending on the type of the property, you might be able to assume a particular buyer profile will be attracted to it. I attend many auctions where it is the norm to see mum and dad buyers buying their dream home or helping their kids with the deposit, or a professional couple who are upgrading.

These types of Buyers have two key features to be aware of:

1. They're cashed up after selling the family home or organised their finance well in advance, and
2. They will be buying with their emotions.

Not every time, but in most cases these people will be your competition

Emotional bidders can turn an otherwise quiet Auction into a runaway result that sees the vendors achieve a record price, much to the delight of the selling agent and their client.

There are generally two reasons for this:

These Buyers have deep pockets and are not afraid to pay the price required just to secure the property. They don't care about market prices or comparable properties. This is the property they want and will pay what they need to, to get it. These Buyers are your most dangerous competition, because if you're competing against someone like this, it is easy to lose your head and pay above your Don't Look Back price just to come out a winner.

They're emotionally invested in the home and even though they know where the property's value lies in terms of market value, they are still prepared to pay an above-market price to secure the property, which might be the property of their dreams.

You need to consider what your strategy will be if you have to bid against someone like this in the cauldron of your auction. I'll go into some of the strategies I use further in this book but another way of asking this question is, at what point are you prepared to lose the house? This is my "Don't Look Back" price that I referred to earlier.

My view is that the trick to winning at auctions is not to be afraid to pay more for a property, but to understand what is driving you to buy this property. In other words, if you are fully aware of the condition of the property, familiar with comparable sales and you're still prepared to pay the price you are prepared to pay, regardless of what any of your research tells you, then that is your decision. I'm not going to stop you, and neither is the agents or the auctioneer… I've had clients tell me "don't lose this for me"!

By doing this, you'll avoid Buyer's Remorse, or most of it...

Tips for Auction Day:

Steady your nerves.

Auctions are a nerve-wracking time for all concerned, especially you as the bidder with the pressure applied by the auctioneer – keep yourself calm by some slow breathing or a quick meditation before the circus starts. It might sound obvious, but do not drink alcohol prior to the auction. The very last thing you want in the heat of competition is impaired judgement, even if only slightly.

Go over your bidding strategy again and make sure you're clear about how and when you're going to bid before you get to the auction; know exactly what you're going to do once you start bidding and someone else bids against you – do you go in early and make the opening bid, or wait till the very end? Try to slow things down with smaller bids? Bid quickly once another bid is made? Bid above the auctioneer's increment? Try a knockout bid? These are strategies you only master with experience.

Have your deposit ready.

Most agencies will now accept electronic funds transfer as a means of payment of the deposit, but check with them first; if not, have a bank cheque drawn to the agent for the amount you think will be enough to cover the deposit, if more is required (which hopefully it won't!), it can be transferred on the next business day.

Dress smartly

You've heard the stories of people turning up to auctions looking as though they've just spent the day in the garden and end up being the buyer of multi-million dollars homes? Well, they're mostly urban myths. You're there to do business, dress like you want to be taken seriously – it'll also put your competition off just that little bit.

Get there early

Have another look at the property and confirm in your mind that this really is where you want to live or invest, have a final talk to the agent and see if you can get them to give you any further guidance on the vendor's reserve

Check the competition.

A lot of people think the auctioneer is your competition – it isn't. As I said before, it's whoever else is in the crowd that is bidding against you – it takes practice to work out who they are sometimes, but body language is one of your key factors here – it's an exciting time, even with the number of auctions I've called or bid on, I still get that surge of adrenaline when I'm there for a client – sometimes, whoever is bidding will look on edge, a little nervous; check who's looking as though they're there to do business – having that air of confidence about you will put them off their strategy, they'll be guessing your next bid and how much higher they'll have to go to beat you.

Auction Day - Let the games begin!

Position, position, position… think about where you're going to stand; everyone has their own view on where's best, there's a school of thought that being at the back of the crowd gives you an advantage as no one knows you're there – whilst this is normal behaviour when we're uncertain of a situation, this strategy is a little counterproductive and does you no favours. You need to be in view of the auctioneer so that your bids are noticed. I like to be able to see the crowd and assess how the other bidders are behaving so generally stand to one side, or on occasion, almost right next to the auctioneer! Once again, confidence is the key.

Who goes first?

Once the auctioneer has finished his or her preamble, they'll call for an opening bid – and are usually met with silence! For about the first time in the course of proceedings, everyone goes very quiet, looks at their feet or their phones, no one is willing to show their hand; again, this is perfectly normal and auctioneers are trained to meet it. If no one kicks off the bidding, they'll generally open with a Vendor Bid (see my glossary for a definition of this) and try to coax bidding from that point forward. Virtually everyone expects the bidding to start well below the market value and then increase quickly, creating a bidding frenzy. Agents, auctioneers and vendors dream of this every time they market a home, the runaway price, the suburb record.

One strong strategy I use is designed to take the advantage before it gets to this and open the bidding with a bid close to where I expect the reserve will be – this takes the momentum away from the competition and may partially eliminate them, if not knock them out altogether – I've had properties passed in (again, this term is in my glossary) to me on just a single opening bid and then gone on to buy it in post-auction negotiations for less than my client's budget. I've also bought property with one knock-out opening bid (again under what we'd decided was our Don't Look Back price) – gutsy tactic, but one that can work if you know what you're doing.

Making a low opening bid can often work against you, as it gives the auctioneer and your competition some confidence that your budget is lower than theirs and you'll give them the momentum, rather than keep it for yourself.

Another tactic that I've used is to wait until the property is on the market and about to be sold before bidding, coming in right at the very end of the proceedings and aiming for the element of surprise. This can also show results as by then you've probably seen every other buyer show their hand and run themselves dry in terms of their budget, but it means allowing the momentum to get away from us and taking the chance that we won't secure the property within my client's budget

Be prepared for the pressure tactics of the selling agent; they're there to do the best job for the vendor, and this means extracting the maximum money from you. They'll stand next to you, urging you "another bid and I think you'll get it" or "it looks like the other bidder's slowing down, jump on them now". Remember who they work for and keep to your strategy.

Starting to waver? Don't.

Advocates like me, and some other, more seasoned bidders can pick indecision at a mile – we'll use it to our advantage and try to knock you out of the bidding once you show a lack of confidence or try to slow the bidding down. Stay strong, bid clearly and decisively, make the other bidders think that you've got more money, even if you're close to your "Don't Look Back" price.

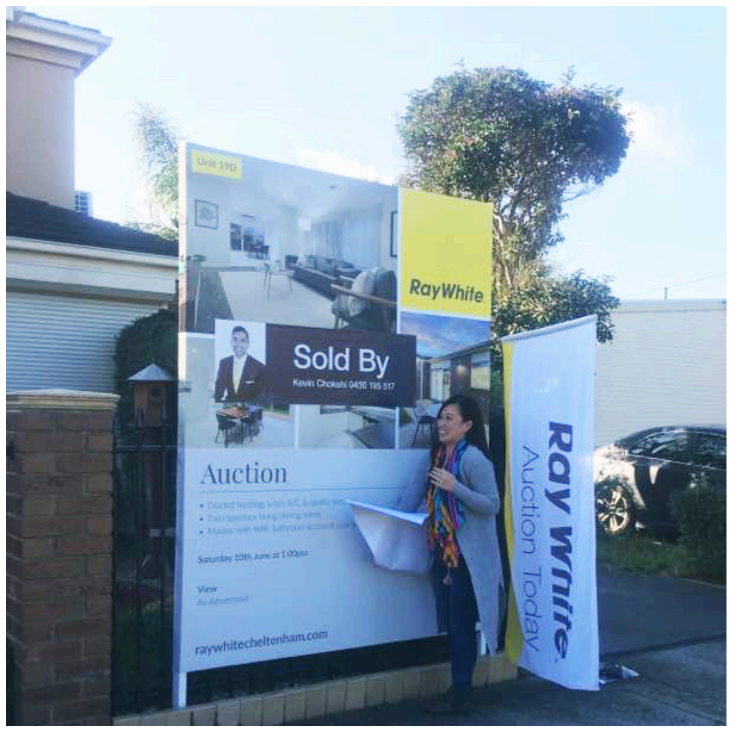
Keep everyone guessing about your limit and you'll keep the advantage even if you're almost at your Don't Look Back price.

Keep your emotions in check; having your heart set on one particular property can be counter-productive and a dangerous thing when it comes time to bid because this is when reason can be overwhelmed by emotion – if you think that you might fall into this cycle of thinking, get someone who is objective and removed from the situation to bid on your behalf.

When to let the selling agent bid for you

When you are paying any professional, they are representing you and must be free of any possible conflicts of interest, and selling agents are paid by the vendor to get them the best possible outcome – and that is to sell the property at the highest possible price and on the best terms for them. This is not, under any circumstance, in the buyer's best interests.

If one of the vendor's selling agents is bidding on your behalf at auction, they have a clear conflict of interest. An independent buyer's advocate acts exclusively for you as the buyer and is paid a fee for representing you. They do not list properties for sale as their business is not involved in direct selling.



Remember, nothing is for free, and if the agent bidding for you is from the same agency as the one representing the vendor, then it's in the vendor's and the agency's best interest for you to pay the highest possible price – in a high number of cases, the selling agent will also be interested in securing the listing of the sale of your current home too, so there's a further vested interest as they will earn commission on that transaction also.

It's incredibly easy to get caught in the emotion of an auction environment, therefore it's vital that you have someone who can think rationally for you and understand the process to make sure you don't go over your limits and pay more than what is a fair price for the home.

If you want the best outcome for you, put your faith in the right person on auction day.

Don't ever let the selling agent or their staff bid for you at auction.

After Auction Action – Private Treaty Negotiations

If a property is passed in at auction, the sale generally reverts to a private treaty negotiation with the highest bidder immediately afterward.

Although the vendors reserve will normally be disclosed at this point, it doesn't have to be and the price nominated by the vendor or agents may be higher than they're actually prepared to accept. Negotiations are conducted directly with the vendors agent, and you can now attach conditions to any negotiation. It never hurts to stand your ground initially as the reserve has been tested in open competition and found to be above what the market believes is fair value for the property.

I've seen a lot of buyers get caught up in trying to secure the property for what they might consider a bargain at this point. They feel they can really "crunch" the vendor into accepting a low offer since there are no other competing Buyers.

If this is your approach, you'll be disappointed as the agents just won't let this happen – their duty is to represent the vendor's best interests, not yours. So don't go into any post-auction negotiations thinking you're about to nab the bargain of the century – the vendors, disappointed as they may be, have access to more information and advice than you do as their agent has supplied them with data that you might not have had access to; purely because the property has passed in doesn't mean you should deviate from your price ranges, except you shouldn't have to pay your "Don't Look Back" price as your maximum because the only competition is now the vendor, and a lot is going to depend on their motives for selling.

Remember that if you haven't been able to agree price and terms with the vendors, once you leave the property you no longer hold the advantage in any negotiation and it's open slather with any other interested parties, meaning you stand a very real chance of missing out.

If you can't separate off the emotion from the transaction, again, get a professional. A buyer's advocate can help conduct the negotiations for you and help acquire the property on the best terms and at the best price for you. There are many cases where the deciding factor for the vendor may not necessarily be the highest price – sometimes, the motivation is more around the terms of the offer rather than the money.

Thank you

Thank you for reading.

I hope you've gained some insight and value from this short e-book.

For further information, please feel free to contact me to discuss how I can assist you with your next property adventure.

Yours Truly,

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Glossary - Understanding the Auctioneers Jargon

What Does "Reserve" mean?
The "*Reserve" (or Reserve Price)* is the lowest price that a Vendor will accept to sell their property. The Reserve is usually set at the beginning of the Auction in consultation between the Auctioneer and the Vendor.

What is "Underquoting"?
Underquoting occurs when a property is advertised at a price or as being within a range that is less than the estimated selling price, the seller's asking price, or at a price already rejected by the vendor (source: Consumer Affairs Victoria) This practice is now outlawed in most states in Australia including here in Victoria and agents have to provide justification for the range they are quoting as being the likely sale range for the property, although not all agents are providing factual or accurate ranges in their information, or they're using the sales data from properties which don't directly compare with the property they're selling to support their quoted range. Heavy fines apply to agents caught engaging in this behaviour.

What Does "Passed In" Mean?

The term "*Passed In*" is used to describe the situation when a property has not been sold because the maximum bid failed to reach the Reserve. To use an example, if a property has a Reserve Price of $550,000 and the highest Bidder is only prepared to bid to $516,000, then the property will "Passed In" and the Auctioneer will generally negotiate with the highest bidder for a period of time.

What Do They Mean When The Auctioneer says "On The Market"?

A property is considered "*On The Market"* when the bidding reaches the Reserve and the Auctioneer states that the property will be sold to the highest bidder past that point. For example, if the Vendor sets the Reserve at $550,000 and the bidding reaches $551,000, the Auctioneer will announce to the crowd that the property is "*On The Market*" to draw out any other interest and increase the price as much as possible.

Why Does The Auctioneer Call Out The Highest Bid Three Times?

It's standard Auction practice is to indicate to Buyers that the property is about to be sold or that the bidding has reached its final stages and the property will be "Passed In" if the Reserve has not been reached. This is generally done by the Auctioneer calling out the highest bid at the time and announcing it "Going Once, Twice, For a Third and Final time…" This is used to increase pressure for further bids from any other parties who are also interested in buying the property, the Fear of Loss then comes into play for them to show their hand.

What's A "Vendor Bid"?

A "*Vendor Bid*" is a bid that is placed by the Auctioneer on the Vendor's behalf to either start the bidding off or to move the bidding up and assist the Vendor to get closer to the Reserve. The Auctioneer can place a Vendor Bid at his or her discretion throughout the Auction, but this bid will not be above the Reserve – by law in Victoria, only the auctioneer can place Vendor Bids and must identify them clearly to the crowd as "Vendor Bid".