

# YOUR GUIDE TO BUYING AT AUCTION



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An Auction is an exciting way to buy property. There are hundreds of Auctions across Australia every weekend of the year and buyers should feel comfortable bidding at Auction.

Because most people don't bid at Auction very often in their lives, they're usually very unsure about how the process is played out. Confidence is a key component of buying at Auctions, and knowledge helps build confidence. So, to help demystify the process, we'll explain how Auctions work and give you some of the various bidding strategies.

## AUCTION BASICS

An Auction is a public sale by a licensed auctioneer where the property is sold to the highest bidder. The vendor puts a reserve price on the property and it will not be sold until bidding has exceeded this price. If the bidding doesn't reach the reserve price, the property is passed in and the highest bidder has the first right to negotiate with the vendor.

## PUBLIC NEGOTIATION

The reason why Auctions are successful for buyers and sellers is immediacy. A buyer knows if they put their hand in the air right now that they can probably own it and a seller knows if they accept the highest bid that they have sold their property. It works really well for both parties. An Auction is really just a public negotiation. You've got a vendor on one side of the table and multiple buyers on the other. Everyone's discussing price and, by the end of the Auction the best offer will come forward and the vendor will say 'yes' or 'no'.

## BUYER BENEFITS

The biggest benefit to buyers is being able to assess the competition on the day and observe them bidding, as opposed to a private treaty negotiation, which takes place behind closed doors. If you make an offer on a For Sale (Private Treaty) property and the agent tells you there are other buyers who are willing to offer more, how can you tell if they are genuine or not? Where's the transparency there?

Through competitive bidding, an Auction establishes a security price benchmark for buyers. In private treaty negotiations, you have no idea what competing buyers are prepared to offer. You can place an offer of \$550,000 because that's what your research indicates is a fair price. But you don't know if the next highest offer was \$549,000, \$500,000 or \$450,000.

At Auction if someone bids \$580,000 then you bid \$582,000 and another bidder comes in at \$583,000, you're all on the same page in terms of value. When a property is knocked down to you, you know someone else is willing to pay about the same amount you were. So there's a high degree of comfort that the price is right, because it's been benchmarked in public.

Generally speaking owners who take their properties to Auction are far more motivated to sell their property as quickly as possible. Whilst it is true that in-demand property can get a premium price at auction, it's also true that you can pick up a bargain at an Auction. In fact, you'll find some of the best buys come from Auctions. If a vendor is committed to selling on the day, they might be disappointed with the highest bid, but they'll often make the decision to sell anyway.

## TOP FOUR AUCTION BENEFITS

- The price is benchmarked with other buyers in public – this is the market talking.
- You get an immediate result.
- If you are the winning bidder, you won't be gazumped.
- You can pick up a bargain.

# UNDERSTANDING THE AUCTION PROCESS

## AUCTION ANXIETY

Not everyone is enthusiastic about buying property at Auction. Many people are intimidated by the process and are wary of getting caught up in the emotion on the day and paying too much.

We totally understand how people get nervous at Auctions. But, if you avoid Auctions because you're uncomfortable with the process, you're going to miss a lot of good buying opportunities, because most of the better properties around Australia are sold by auction. Especially in the capital cities.

What you need is a strategy to overcome your fear. We always recommend attending a few Auctions before you actually bid on a home. You'll get more comfortable with the setting and atmosphere, the auctioneer's patter and the pace and tension of the event. You'll see which bidding strategies work and which don't.

If you're still anxious about bidding at Auction you can always get someone to bid on your behalf. Someone who is experienced and familiar with the Auction scenario won't be intimidated by the Auctioneer or the process, and is definitely a good ally to have.

If you don't have any friends or relatives with suitable experience, you can always get a buyers agent to bid for you. Whilst there's no guarantee you'll win the Auction, it's much easier for someone who's an experienced bidder and not emotionally attached to the sale to project confidence. Plus they won't get carried away and go over your limit.

## BUYING BEFORE AUCTION

A lot of buyers don't realise you can buy a property before the auction. This is another good strategy if your not confident bidding at Auction. Simply ask the agent if the vendor is willing to sell privately. If your offer is right, the vendor may be willing to sell before Auction. Our company sells approximately 30% of our Auction listings prior to Auction day.

If the market is rising or hot, it is to your advantage to try to secure the property without the competition of others. Whether the vendor will accept your offer depends a lot on market conditions. If buyer interest is poor, a vendor may be more open to a pre-auction offer. However, if the market is hot the vendor is more likely to let the price be determined by competitive bidding.

Of course, one of the risks of making a pre-auction offer is that you've shown your hand. You've given the vendor a line in the sand to set the reserve. Some vendors will be inclined to sell before auction if you offer them what they consider to be a premium price, or if you're the only interested buyer. If you've done your research and you'd like to secure the property before Auction, we'd recommend offering close to your walk-away price.

## NEGOTIATING TERMS AND CONDITIONS

A sale at Auction is subject to the contract of sale (you can get a copy from the agent). If you want to vary the terms (eg from a 30 day settlement to 50 days) or to alter the deposit payable from 10% to a fixed amount, or maybe you'd like to include a building or pest inspection clause if the owner hasn't already provided them, feel free to ask the agent if the vendor will agree to that. But always get confirmation in writing before the Auction that those terms will be varied if you're the successful bidder.

# BE PREPARED

## THE BID IS WITH WHO?

The vendor is usually legally entitled to bid on their own property at Auction. This is known as vendor bidding. The purpose is to help the property reach the reserve price. A vendor bid is typically used to start the Auction off, or to bring the bidding closer to the reserve if it stalls. If there are no bidders, the Auctioneer will sometimes pass in the property on a vendor bid. Vendor Bids must be clearly disclosed by the Auctioneer throughout the course of the Auction.

## BE PREPARED

If you're the highest bidder when the hammer falls, you're legally bound to buy the home. It's imperative to have all your due diligence complete and funds ready to pay the deposit before the Auction day.

An Auction is conducted in full view of the public and allows buyers and sellers to observe the most open and transparent form of negotiation avoiding any speculation surrounding preference towards any specific parties. Despite some conservative Mortgage Brokers & Banks advising their clients not to bid at Auction the reality is a licensed bank valuation will never disagree with the price achieved at auction as for centuries this method of sale has been used to gauge true market value of a property.

A perfect example of this is mortgagee sales and deceased estates which almost always will be Auctioned to determine fair market value. Always ensure you have up to date written approval from your lender and bid within the parameters you have been set. This way you won't have the issue of a lender refusing finance.

## PROJECT CONFIDENCE

Unfortunately there's no bidding strategy with guaranteed success, except having the most money to spend! Some bidders try an early, high knockout bid in an attempt to scare off more timid bidders. Other bidders wait until the last moment to make their first bid. It's a good idea to attend a few Auctions as an observer to see different bidding strategies in action.

The one Auction strategy that seems to work consistently is creating the impression that you will continue to bid until you own the home, no matter what. It's about projecting confidence and psyching out the other bidders. More timid bidders are often put off by an aura of unstoppable self-assurance, and they'll stop bidding. You must create the perception that you don't have a limit.

## ASSERTIVE BIDDING

Bids should be fast and assertive. Agonising over every bid is a definite sign of weakness. If a buyer is looking worried and having hushed conversations with their partner every time they make a bid, that's a clear signal they're near (or over) their limit. You don't want to send this signal to other bidders, because they know if they keep going a little bit longer they've got you.

So you have to keep your cool, even if you're only a few thousand from your limit. Don't hesitate on your bids. If other buyers are dithering over their bids, you can knock the wind out of their sails by immediately responding with a higher bid. Be prepared to bid confidently up to your limit and then walk away.

Rather than nodding your head or holding up your paddle to agree to the Auctioneers suggested bid, call out the amount of the bid in full. This allows you to project confidence and determination with your tone of voice. It also reinforces the full price being bid, rather than the increment, which may be only \$5000, \$1000 or even \$500.

When the bidding is down to small increments, it's easy for buyers to lose sight of the amount of money being bid. Calling out the full amount of your bid is a reality check for other buyers who may be at or above their limit. A few extra \$1000 bids may not seem like much. But if you call out 'five hundred and seventy four thousand' your competition might suddenly realise they're actually \$7000 over their limit and stop bidding.



# PLANS AND STRATEGIES

## IF THE PROPERTY IS PASSED IN

If the property is passed in, it's a big advantage to be the highest bidder. The highest bidder is given the first opportunity to negotiate with the vendor to buy the property.

Well over 50 per cent of passed-in auctions sell to the highest bidder. So you want to put your self in the box seat to negotiate with the vendor.

If you are not the highest bidder, but you're still interested in buying the property, you should definitely let the agent know. You're still in with a chance to buy the property if negotiations break down with the highest bidder, or if you're prepared to pay more than they are.

## STICK TO YOUR WALK AWAY PRICE

The rapid pace of an Auction leaves you little time to make decisions on the fly. With a private treaty sale, you have the opportunity to rethink your position on price with every counter offer. You can talk your offer over with your partner, redo your sums and, literally, sleep on it.

At an Auction, you don't have this luxury. You may well be put in a position where you have to make a snap decision about something that can have long-term repercussions for your life. Do you go \$10,000 over the limit you've set in your head, or risk missing out on a home that could bring you much happiness and security for years to come?

Rather than putting yourself in a position where you have to make these decisions on the spot, it's advisable to think through all the angles before auction day. Know your walk-away price – you have to go into an Auction knowing at what figure you absolutely will not make another bid.



# CONTROL YOUR DESTINY

## THE HAND OF FATE

At an Auction, the person who wants it the most and has the biggest chequebook will buy the home so you need to be mentally prepared to miss out. You could be outbid.

Don't be too casual though, because otherwise you'll never get in to the market. You have to create an Auction plan and go hard. But also accept that if it's not meant to be, it's not meant to be. Be assured, though, that you can always find the perfect home in your price range sooner or later (hopefully sooner!).

## YOUR PROFESSIONAL

Keep in touch with the agent. It can be a mistake to distance yourself and pretend you have no interest in the home you wish to own. Agents are your best source of information relating to other buyer interest, price expectations or if the property is possibly going to be sold prior to Auction to another buyer.

Your agents can also recommend professionals to help you be ready to bid on the day.

The sales agent and owner will want you to purchase the home as much as you want to buy it. Let them help you.

Good luck

**SALES 8943 3000**

39 CAVENAGH STREET, DARWIN NT 0800

LICENSED REAL ESTATE AGENT & BUSINESS AGENTS

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