

# Going, going, gone.....



## You've finally found your dream home, but there remains one final hurdle before it's all yours – the auction. Auctions can be daunting for the uninitiated, but you can greatly improve your chances of success if you know how to play the game

On first glance, an auction may seem a strange, almost silly way to trade properties – with the seller's expected price carefully hidden from prospective buyers, and the fact that buyers are forced to viciously compete against one another to win a home.

However, when put up against private treaties – the most commonly used method to trade residential property – numerous advantages are at once obvious. For a start, auctions are a far more transparent means of buying property compared to private treaty. All interested parties are present on the day, and it is clear how much each bidder has offered for the property.

Auctions can also help you get your home faster. The result is decided in a few short minutes, whereas private treaties can involve a large amount of to-ing and fro-ing, and can prove a frustrating exercise if you are suddenly trumped by a mysterious party.

Auctions are the preferred means of sale for scarce properties and homes with heritage value, and are popular for selling deceased estates or mortgagee in possession sales, according to buyers agent Julie-Ann Cronin of The Home Straight.

Often a seemingly daunting affair to the uninitiated, anyone armed with a few tips and tricks of the trade can participate successfully in an auction. The most important thing to bear in mind is that an auction should be seen as a game – it's essential to have formulated a clear strategy or game plan before you show up on the day.

### So your dream home is being auctioned

You've been scouring the market for several months now, and have built up a clear picture of your ideal home. Then, one Saturday, there it is in the real estate pages. You carefully tear out the listing, but notice that one detail is mysteriously absent – the asking price.

'An auction', you repeat over and over to yourself, as an involuntary lump begins to swell in your throat. The very thought of showing up in front of a crowd of eager onlookers, putting your hopes, dreams and finances on the line is almost too much to bear.

But before you back away, it's worth remembering that you don't necessarily need to bid – you can have an experienced friend or even employ somebody to do it for you. Buyers agents are increasingly being called upon to win properties at auctions for those lacking the time or the inclination to bid.

MYOB consultant David Naar made this decision when buying his first investment property last year, and employed buyers agent Paul Giezekamp of Property Secrets to bid on his behalf. "It really took the pressure off. Especially when you're new to auctions and you have never participated before.

"It's like a game; you have to know how to play it. Paul was totally in control, and we'd agreed on that beforehand. I knew he wouldn't go over what we'd agreed I was going to spend, and that kind of took the emotion out of it from my point of view," Naar says.

He emerged victorious from the auction, without losing any sleep over the experience. "Eventually the property was passed in, then Paul went up to the agent and emerged five minutes later saying 'we've got it'. If I'd been there on my own I would never have known what to do – if it was passed in, that would have been it," he says.

### "It's like a game; you have to know how to play it"

David Naar

### Arm yourself

Buyers agents have the advantage of knowing the game inside out, but so can you if you're prepared to learn the rules. Without subjecting yourself to the emotionally charged experience of bidding at several auctions as a warm-up, an alternative is to simply attend a number of auctions in the area in which you wish to buy.

Most properties are advertised up to three weeks before the day of the auction, so this gives you plenty of time to formulate your plan of attack. Aside from attending other auctions in the lead-up, take some time to thoroughly research the market, so you can work out roughly what price you think the owners are expecting – this is known as the reserve price.

"You can drive past those houses before auction and work out why houses on the same land block sizes have sold for varying prices. You need to know what the sales are in the area so you can gauge what you're going to do as far as your limit. At least you've got some kind of a guide, and you're not going into it blind," advises Giezekamp.

In the week of the auction, don't let any mounting anxiety prevent you from being organised. You will need to register with the selling agent in the days

prior to the auction, and will have to verify this on the day by bringing photo identification such as your drivers' licence with you.

You will also need to organise a building and pest inspection report, but check with the selling agent who may have conveniently organised one especially for the benefit of prospective buyers. Having finance approval for the amount you envisage the property will sell for is a must, as is the completion of any required council or land title searches, according to Cronin.

Having researched comparable sales in the market, you should by now have an idea of what the property is worth, and what the vendor is expecting. "Have a 'top dollar' price in your head that you are prepared to pay for the property, and tell the person who you're going to attend the auction with your limit so they can help keep your emotions in check when it comes time to bid," advises Cronin.

## "You need to know what the sales are in the area so you can gauge what your limit will be"

Paul Giezekamp

### D-Day

On arrival at the auction, you must register as a bidder with the agent or auctioneer, who will give you a fetching number placard, which you use to place bids. As with any important event, it's best to arrive early and secure yourself a good vantage point, as David Scholes, chief auctioneer with Laing+Simmons explains: "Stand yourself in a position where you have a good view of everything – be up the front, but make sure you can view a bit of the crowd as well as the auctioneer. Don't go hiding

behind cars or trees – the auctioneer has to be able to see you."

Once the bidding kicks off, many novice bidders are put off their game plan merely because of the break-neck pace at which the auction moves – and it's not just about how quickly the auctioneer speaks. Scholes says a major mistake made by prospective buyers is that they refuse to enter a bid – often until it's too late.

"Probably the biggest mistake I see is where people sit back and don't bid because they're really indecisive, and it gives everyone else at the auction so much confidence. People have got to be a little bit aggressive at an auction. The whole point about going to an auction is to try and buy the property – so how do you buy a property without actually competing?"

The jury is out on whether or not you should put on a poker face, although most experts agree that you shouldn't divulge your game plan to any other party

*Real life...*

# The price is right five times over

Having recently moved to Brisbane from Victoria, Joanne Dalton and David Toal had spent most of 2006 getting used to life in Queensland. After securing employment, the pair had been renting while they shopped around for the perfect family home.

While Joanne was conveniently employed in the city, David's workplace was in Brisbane's northern suburbs adjoining the airport, and a full 84km commute from where they were renting on the south side. The pressure to find a suitable home within easy reach to both their workplaces was mounting.

"We wanted somewhere that was far enough out to avoid the rat race, and also somewhere that would be close to my husband's work," says Joanne. "Also, we wanted somewhere close enough to the Sunshine Coast that we could pop up there within three-quarters of an hour."

While auctions are rare in Queensland, they are quite commonplace in Victoria, so when the ideal property came on the market to be sold by auction, Joanne and David felt ready to rise to the challenge.

"We weren't scared – we put in a very, very low bid to start off with. No one else bid, then the vendor put a bid in. The bidding went up in \$10,000 increments – we literally bid twice and the vendor had a bid, then the auction stopped. The reserve price hadn't been met, but we had the highest bid," says Joanne.

Fortunately, the pair had done a good deal of homework prior to the auction, and were totally clear on their limit – and prepared to stick to it. "We had done a lot of research, and we had our five goals set. We had a price that we would love to buy the property for, a price that we knew we could afford that was still decent, we had a price we would go to and we had a walk-away price."

David, who did the negotiating after the property was passed in, admitted that he was extremely nervous when he sat down with the selling agent. While the couple had fully expected to walk away if their limit was reached, luck was on their side. "It came in just under our walk-away price," says Joanne.



"We knew what we could afford, and we didn't want to go above this. We didn't want to put ourselves in too much debt. We like our lifestyle, so why jeopardise it?"

Joanne says the old adage of having eyes in the back of your head is true when bidding at auction. "You're always looking to see who else is registering, who is the competition. And as your real estate agent will tell you, the person who normally starts the auction is normally the person who gets the property."

**Bid like an expert****Top tips from auctioneers and buyers agents****Get your house in order**

A number of housekeeping items are required before you can bid at auction. Firstly, ensure your lender has approved you for finance, and that you have drawn a cheque or a deposit bond for 10% of the property's value. Next, you have to register as a bidder with the selling agent. You'll also need to carefully formulate your game plan for the big day.

**Do your homework**

This old chestnut is true when searching for properties and preparing for auctions. You need to work out how much you think the property will sell for, as well as how much you think it's worth. You can fork out for a recent sales report from a statistical provider like Residex, and combine this with a religious dedication to the real estate pages in your local paper. Don't just scan the listings and then throw the paper out – be sure to follow up the properties that sold at auction, especially the price that the vendors achieved.

**Set your price range**

Rather than simply saying: "I think the reserve is \$500,000," it's advisable to have a range of prices in your head before you attend an

auction. Besides what you think the reserve would be, decide the price you would most like to have the property for – but try to be realistic. Another price to visualise is your walk-away price – if the bidding escalates past this amount, this is the point where you throw in the towel.

**Define your limit – and stick to it**

Once you've figured out your walk-away price, there are a number of things you can do to make sure you don't exceed it. Bringing a 'reality check' to the auction in the form of your partner, friend or relative is probably your best insurance policy. Be sure to discuss any variations from your agreed plan with this person before making any sudden moves – particularly if they are the joint purchaser!

**Don't give the game away**

Experts are divided on whether you need to adopt a poker face, but one thing everyone agrees on is that you should play your cards close to your chest. In other words, don't under any circumstances divulge your strategy – including your limit, or what you think the reserve might be – audibly to anyone other than your partner.

**Don't be a shrinking violet**

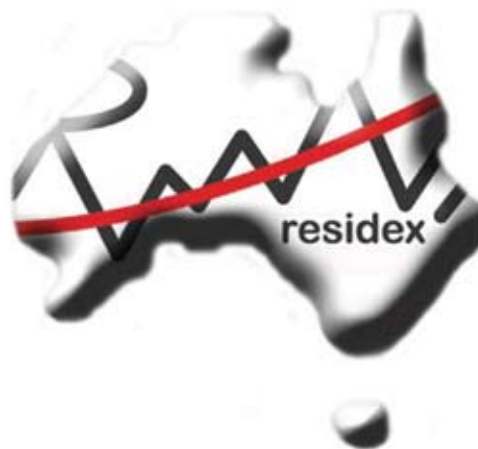
It's important to actively participate in the auction. While being too keen may give your game plan away to other bidders, there's no point in sitting back and waiting for someone else to enter a bid. In fact, experts say that the first person to enter a bid often ends up being successful at auction. Don't be afraid to put your hand up in the early stages – but by the same token, there's no point in artificially bolstering the price.

**Be a smooth operator**

If the auction is passed in and you are the highest bidder, it can be rather tempting to start exuding an aura of supreme confidence. Don't be fooled – you may be given the option to negotiate, but don't assume that this means you have an exclusive right of refusal. An invitation to negotiate is at the discretion of the agent or auctioneer, and doesn't mean that other bidders can't participate.



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present – particularly the vendor’s agent. Keeping your emotions in check is an essential factor, says Giezekamp.

“I would try not to be too keen for the property, because the agent can pick up on it – it’s like fear with a dog, they can smell it. If they see that you’re emotional about the property, or that you’re nervous, they’re going to be aiming at you and playing with your heartstrings,” he says.

So when should you enter your first bid? While it depends on the circumstances of the auction, a rule of thumb is that “people [should] start the bidding at an auction around 15–20% below their limit,” says Scholes.

### Sold to the lady in red

If you’ve made the highest bid, you will still not be successful unless the bid is equal to or higher than the vendor’s reserve price. In the event that the reserve is not met, the property will be ‘passed in’. If this occurs, and you are the highest bidder, it is not time to pack up and go home, as most auctioneers extend to the highest bidder an invitation to negotiate with the vendor.

Here is your chance to put in a slightly higher offer, but one which is still within your pre-determined limit. Thousands of buyers have been successful following auctions where properties were passed in. That said, this is an invitation to negotiate, not a legal obligation of the vendor.

“Nobody should sit back feeling glib and smart and confident. Quite honestly, that can change in less than a minute and a half if someone else walks in and offers another \$15,000.

“In fact, I think it’s the responsibility of the selling agent to contact the other bidders and invite them to put in a final offer,” says Scholes.

If you are successful, either under the hammer or at the negotiating table, you must act quickly to secure the property. Unlike private treaties, there is no cooling off period – you are expected to leave a deposit on the property that day, either by cheque or deposit bond. Thirty-day settlement periods following auctions are the norm in most states, and the only negotiating you’ll have to do after that is with the removalists! 🏠

### Spot the dummies

Although legally outlawed in all states, the practice of fictitiously inflating bids to maximise the sale price – known as ‘dummy bidding’ – is still seen and worth keeping an eye out for. “Dummy bidding is the practice of people being employed by vendors or agents to fictitiously drive the price upwards and pretend that they are buyers. People front up to auctions, particularly those which don’t have many bidders present, and drive the bidding forward until the price is something that the vendor would consider,” says David Scholes, chief auctioneer at Laing+Simmons.

The presence of dummy bidders often means that bona fide bidders are locked out of the action until bidding approaches the vendor’s reserve price. It can mean that you are forced to enter a bid that is beyond your limit and pay more than the property’s value.

Buyers agent Paul Giezekamp of Property Secrets reckons he can spot one. “If I happen to sense that something is happening that is not right, I will pull right back and I will advise my client that I think there is a dummy bidder there.”

## Real life...

# First homebuyers face the music

In the months leading up to the purchase of their first home, Cate Read and partner Simon Dunwoody had all but ruled out an auction in favour of a private treaty sale.

“Originally we weren’t even going to consider buying a house through an auction because money was tight – we didn’t want to have to fork over extra for building reports, that kind of thing,” says Cate.

Eventually, after scouring suitable homes across Sydney’s inner southern suburbs for five months, the pair realised that something had to give. Of the 20 they had inspected to date, all were sold by private treaty. Except one.

This house just happened to show the most promise – it was exactly what the pair had been looking for. Instead of throwing it on the reject heap, Cate and Simon decided to take the plunge, and bid on the property at auction.

The first step was to prepare for the big day, explains Cate. “Within a week and a half of the auction we started seriously considering

the property and had the contract sent to our solicitor for review. We spent the night prior to the auction researching auction tips on the internet, and I spoke to some of my colleagues at Resi Mortgages who gave me good tips.”

At the auction, Cate and Simon found that some of the traditional aspects of auctioneering were still in evidence. “Even though there were only a couple of bidders, there were still lots of people standing around, and the auctioneer gave a little legal preamble before he got started, and he actually had a wooden hammer, not that he banged it on anything.”

The pair were hesitant to enter the bidding guns ablaze, having been warned against acting too keen, too soon, but were egged on by the auctioneer. “Given that we’d read everywhere that you shouldn’t bid until there was a pressure to bid, the auctioneer was saying ‘now I know you’ve all read that you shouldn’t bid early on, but it’s got to sell, someone’s got to bid’,” Cate says.

Hanging back a little worked in their favour, although they managed to overstep the mark slightly in terms of their pre-agreed limit.

“It was quite interesting, because the bids started at \$450,000. Five people had signed up to bid and two people bid all the way up from \$450,000 to \$493,000, and that’s when we made our first bid. The night before we’d set our limit – it was \$493,000 – and we got a little bit carried away and ended up paying \$503,000 on the day,” says Cate.

She maintains that a major red herring came in the form of the selling agent’s comments immediately prior to the auction. “The selling agent was a little unrealistic. He said to us a couple of days before the auction that the owner’s reserve would be in the high \$400,000s. So we thought that their reserve would be about \$480,000 or \$490,000, and afterwards we found out that it was \$499,000. So there was a bit of a buffer built in from their point of view.”