

# Winning

## the bidding war

The highly charged bidding arena of auctions can turn even the calmest and most collected person into a nervous wreck. But beating the competition to score your dream property can be an easy feat – all it takes is prior training, practice and tactical know-how, writes **Carolyn Koens**

**B**uying at auction can be somewhat of a sporting experience. Bidders take their ends of the ring, perform a sparring match of verbal numerical jabs and employ a range of tricks to take the match, under the watchful gaze of a shrewd auctioneer and spectators. It's a competition complete with stipulated rules and regulations. However, it can be a slippery slope for buyers, and all too often those legal aspects work against, rather than for, the buyer.

Homes sold by auction are usually the result of a booming real estate market by which a real estate agent believes they'll be able to obtain a higher selling price.

Around 30% of homes in Melbourne are sold at auction, compared to around 23% in Sydney, 11% in Brisbane, 26% in Adelaide and 3% in Perth. According to RP Data, more than 2,000 properties in Sydney went under the hammer in October last year as property buyers expected to cash in on the anticipated boom in Sydney-dominated auction sales.

"In terms of numbers of properties offered for auction and total value of sales achieved, October 2007 was the strongest month since November 2003," says John Wakefield, research director with RP Data. "In the current market, vendors have been selling their properties with expectations of higher prices, and buyers have, to date, been willing to meet those expectations," he says.

### Shaping up for the big event

Finance should be pre-approved before attending an auction, according to Leanne Pilkington, general manager, Laing and Simmons. "Before the big day arrives, it's imperative to sit down with your lender to establish your definitive bidding limit."

A lender will assess your income, liabilities, assets, equity and whether you

may be eligible for a First Home Owner Grant. To get an indication of how much you can borrow, look at *Your Mortgage's* online calculator at [www.yourmortgage.com.au](http://www.yourmortgage.com.au)

"There's a fair bit of paperwork that can be done prior to the auction that can take some of the angst out of the day," says Pilkington. "You can request a contract of sale pre-auction, which should be read thoroughly and, if necessary, with a solicitor, so you're fully aware of all the clauses of the transaction."

Once you have a pre-approved limit, that's the maximum amount you have to play with. Successful bidders will be required to pay a deposit of up to 10% on the day, while the balance will then need to be paid in full within a specified number of days, depending on the contract. No purchase can be contingent upon financing; therefore, all purchases are based on the ability to close. Additional costs such as stamp duty will also need to be considered.

### Preparing to jostle

Pilkington says the next plan of attack for prospective buyers is to be as well prepared as possible. "This means thoroughly researching other properties and prices in the local market. A good way of doing this is by attending numerous local auctions to form an idea of the price benchmarks in the area. The more opinions you can gauge, the better," she says.

Understanding the process beforehand and witnessing the nature and techniques of the players will also prepare you for your own future bouts.

Comparing recent sales results of properties in your favoured areas, in magazines such as *Your Investment Property* and on websites such as [www.rpdata.com](http://www.rpdata.com) or [www.residex.com.au](http://www.residex.com.au), will

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**Damien Cooley, Cooley Auction Services**

give you a good indication of what’s a fair market value.

Find out each desired property’s specifics, including size, amenities, how much is owed on it (if anything) and what the opening bid is.

### **Professional coaching**

Buyers should employ a solicitor and conveyancer to examine contracts of any properties of interest to ensure all terms are agreeable before the auction day.

John Milane, director of Cousins and Co Real Estate, says doing the legwork prior to bidding will potentially help buyers sort through the bargains from the property lemons. “I believe in using a solicitor and conveyancer to read through any contracts of sale and to have a building and pest inspection done on houses or a strata search if it’s a unit, because what you see isn’t always what you get,” cautions Milane.

Building inspection reports will determine the strength of the property’s engineering and structure, and ensure there are no nasty hidden surprises such as pests or termites. Failure to identify any problems prior to auction can result in costly future expenses, as there’s no opportunity to perform such checks once the auction has taken place.

Milane suggests you make a checklist at each open house inspection, noting anything you’d like to have further examined by a professional and clarifying what the inclusions may be: fixtures, curtains, furniture, etc.

Your legal team may wish to make additions or variations to the agreement and the relevant items, if negotiated and agreed to, can be amended accordingly.



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## Winning in an auction

After trawling the property market for a number of months, Luke and his wife Jane decided to buy their first property – in an auction. With limited understanding and no experience in buying properties, they opted to bring in the big guns.

“I consulted buyer’s agency The Home Straight and conferred with them about my assessment of the value of the property. Fortunately, our homework was already paying dividends as my evaluation was consistent with the market.”

Once building, pest and energy efficiency reports provided by the vendors proved satisfactory, Luke employed the services of a solicitor and conveyancer to

entering bidding on the third and final call,” says Luke. “Employing this technique well into the auction, after the property has reached its reserve, which was \$640,000, gave us some control as we weren’t overly eager jumping in, but placed some pressure on the previous bidder.”

With quiet confidence, Luke and Jane entered the bidding at the third and final call with \$680,000 after playing the waiting and observing game as bidding increased by a further \$40,000. On the home run, they secured the property with approximately six bids, seizing the auction and their new home with a final offer of \$733,000. “We maintained



liaise with the vendor’s solicitors and to organise bank cheques for show time.

On auction day, Luke and Jane assumed a position towards the rear of the crowd, enabling them to scan both the auctioneer and the other bidders with ease. As they intended to begin bidding towards the latter part of the auction, they felt that a subtle though confident demeanour and position were the key winning elements.

“We collaborated with The Home Straight Buyer’s Agency, which formulated a strategy for us that involved waiting and observing the competition and the pace of the auction bids before

excellent communication with our consultant on the day and throughout the process, which enabled us to establish a top dollar figure of what we were prepared to pay, and would have walked away if it hadn’t been successful,” admits Luke.

With game plan in place, ample assertion and conviction, minus the nerves, sticking to their strategy was the deal breaker for Luke and Jane.

Luke believes anyone can learn auction lingo and logistics; all it takes is a little practice and patience.

“Novice buyers at auction need to do their research, consult the professionals, establish a game plan or strategy, and then stick to it,” Luke says. “The rest will fall into place after the hammer does.”



### Sidestepping the cheap shots

Unfortunately, underquoting does occur. While many real estate agents are reputable in their dealings, there’ll always be those who will quote unrealistically low prices to attract buyers to auction. Quotes can’t be viewed as being realistic or accurate markers of final selling price, but rather, as general estimate guides of expected sale prices. This may be great news for sellers, but frustrating for buyers with inflexible spending limits, who may feel pressured to go beyond their spending threshold.

To combat this, buyers should have a realistic expectation of what the value will be on auction day, formulate a probable estimated reserve and calculate the property’s future capital growth potential.

Under the federal Trade Practices Act, buyers have some protection from underquoting and associated practices in each state and territory, and are encouraged to fully comprehend their rights, while the Real Estate Institute of Victoria has already introduced guidelines to standardise the quoting process for both auctions and private treaties.

Currently, auctions are run similarly across states, except for a few legalities. In NSW, the vendor is only permitted to have one vendor bid at auction, while in Queensland and Victoria they can have as many bids as they like. In all states, the vendor bid must be disclosed and generally must be done so by the auctioneer.

### Spitting the dummy

Dummy bidding is an illegal practice buyers should be aware of, in which a bidder makes false bids to drive up the price of a property and create competition, with no real intention to buy.

This practice often results in legitimate bidders being excluded from the auction until bidding approaches the vendor’s



reserve price, thereby causing bidders to enter bids above and beyond their limits.

Linda Burney, NSW Minister for Fair Trading, says that while she believes the current auction laws in NSW are working well to protect buyers and sellers, there's always room for improvement. "Rules around dummy bidding were enhanced earlier this year and we're always looking at the effectiveness of our laws and will make changes as required," she says.

Colluding to interfere with free and open competition at an auction carries serious penalties. The seller is entitled to have one bid made on their behalf by the auctioneer. When the seller's bid is made, the auctioneer must announce it as a vendor bid. A seller who requests someone to bid on their behalf can be fined up to \$55,000. Any bidder who dummy bids for the seller is also liable to be prosecuted and fined up to \$55,000, along with any agent or auctioneer who may be involved in the arrangement.

Bidders should always be aware of tricks employed by dummy bidders, to avoid being compelled to make higher bids.

### Getting in the ring

No matter how much you prepare for the big bout, when you're trading substantial sums of money with the competition it's easy to get carried away in the bidding momentum. "The key is to remain level headed and composed," says Milane. "If you engage another party to bid on your behalf, give them instructions on the maximum price you'd be prepared to pay and brace yourself for all outcomes."

Buyers agents have an intricate understanding and knowledge of how the game works and take away some of the stress, pressure and emotion for bidders.

Pilkington agrees. "It can be a minefield on the day, so it might be worth

hiring a professional buyer to carry out bidding on your behalf. They'll liaise with both parties and bid for the property according to your instructions, but without the emotional attachment."

If you prefer to go solo, you must register with the auctioneer beforehand, providing name, address and phone number, proof of identity, and will be given a number to display during the bidding process.

### Fancy footwork

While there are a myriad of tactics bidders can employ to help secure a property, the bidders, auctioneer and general ambience of the day will be different for each auction. Essentially, the rule of thumb is to keep a calm, clear mind at all times and be mindful of your limit.

Damien Cooley, director of Cooley Auction Services, says the methods bidders employ need to be assessed on the day once the competition is determined. "If there are only two bidders, I wouldn't go out shouting out the big offers. I'd take my time, use small increments, and play it cool," he advises. "If there's a lot of competition, go hard and give it your best shot. The bidder who wastes no time in bidding and isn't afraid to bid strongly will generally always win."

Buyers should ensure the agent is aware of their interest, without appearing over-enthusiastic or showing their hand too early in the game.

Pilkington says serious bidders should stand close to the auctioneer to increase the chance of being seen and reduce the chance of a bid being missed.

"Bid strongly straight up and don't be afraid to bid first, as this gives you some authority, both in the eyes of the auctioneer and the other bidders. Of course, don't bid your limit from

the outset, but refrain from making inappropriately low bids," she says.

The auctioneer will begin by calling for opening bids. Once numbers are thrown in the air, he'll continue to coax the crowd to raise bids to exceed the seller's reserve price. When it comes to raising, do it confidently and quickly; increasing your bid by \$1,000 a time is generally a good increment.

Cooley believes it's crucial to keep the set limit in mind. "If you reach this amount and don't want to go any further, leave the auction immediately so you're not tempted to bid again. It's my job as an auctioneer to get you to keep bidding. Professional auctioneers will see your inexperience or emotional attachment and will convince you to keep bidding. Sounds harsh, but that's what we're paid for."

### Down for the count

Once the auctioneer has achieved the property's reserve price, and the bidding has reached what appears to be the final amount, the auctioneer will attempt to evoke further bids. After "going once, going twice, going three times" is announced, the hammer falls and no further offers will be accepted.

If a seller's reserve price isn't met, the auctioneer will continue to find further bids amongst the crowd. If the reserve is still not met, the property is declared 'passed in' and the seller has the opportunity to negotiate with the highest bidders to reach a sale at their discretion. Once title and transfer contracts are signed and exchanged and the balance is paid, the property is considered sold.

Cooley says the best approach is to dive in headfirst. "If you're sensible you can make a lot of money. I don't believe in setting limits. Do your research, be prepared, and then just go out and buy it if you really want it." **YM**