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BID TO WIN!!



**A GUIDE TO AUCTIONS
FOR TODAY'S MARKET**

BY BEN PARR

THE PURPOSE OF THIS GUIDE

It is no secret that the word 'auction' can be a little intimidating for a vast majority of people. We don't tend to buy and sell property that often, and when we do, chances are it may not be through the auction process.

This guide is designed to help simplify the auction process from your initial enquiry to the auction day and hopefully placing that winning bid.

P.S. once you get the 'auction bug' it is hard to shake.... it is almost a hobby for me now. I love going to auctions just to be present in the moment where the lives of a few people are completely changed.

REMEMBER: IF YOU ARE A LITTLE UNSURE OF THE PROCESS AND DON'T FEEL COMPLETELY CONFIDENT IN BIDDING AT AUCTION, LETS BOOK IN A TIME TO DISCUSS THE PROCESS. I'LL HELP ANSWER ANY QUESTIONS YOU HAVE AND RUN THROUGH, FROM START TO FINISH, WHAT TO EXPECT.



TABLE OF CONTENTS

3. AUCTIONS AND THE CURRENT MARKET
4. REGISTERING TO BID
5. THE AUCTION DAY
6. FINANCE AND AUCTIONS
7. AUCTION CONDITIONS
8. RESEARCH AND AUCTIONS.... WHERE DO I START?
9. PRICE GUIDES AND THE LAW / OFFERS PRIOR TO AUCTION DAY
10. QUESTIONS TO ASK THE AGENT
11. GLOSSARY OF TERMS

GLOSSARY TERMS WORTH NOTING

VENDOR BID

A vendor bid is a bid placed on behalf on the vendor in an auction. Essentially, this may be used if the current bidders have not placed a bid of reasonable value pursuant to the property and expectation of the vendor. The auctioneer tends to exercises this right.

DEPOSIT AT AUCTION

Deposits at auction generally work in the same way as they would for a private treaty sale. The auctioneer will clearly state the required deposit amounts prior to the auction commencing by way of declaring the auction conditions.

CASH UNCON- DITIONAL

Purchasing at auction is deemed to be of an unconditional nature meaning there is no finance, building and pest or other associated clauses with your offer/ bid. The term 'cash' is a loose one and more info is located on page 6 of this booklet.

FALL OF THE HAMMER

The fall of the hammer is the end of the auction. The auctioneer will bang their gavel and the auction is done. The fall of the hammer can denote a successful bid, no contest (no registered bidders) or the call to pass the property in (see below).

PASSED IN

If a property is 'passed in' at auction, it means that the reserve price was not met and the auction will cease. Negotiations will start with any registered parties as well as any conditional buyers with the option to buy under auction conditions.

AUCTION CONDITIONS

Auctions in QLD are deemed to be saleable with no conditions or cooling off periods. It is unconditional in nature however settlement and deposit terms are still required. These will be called at the start of the auction so you are aware of the expectations.

DUMMY BID

First and foremost, a dummy bid is illegal. It is the act of the auctioneer accepting a bid by a party that doesn't exist (such as a tree) or even from a party that isn't registered. It is against the law to have a family member or the like attempt to drive the price!

RESERVE PRICE

The price in which the sellers will not sell the property under this value. The reserve is typically set just before, or the day prior to the auction and can be adjusted during the auction also. In QLD, the auctioneer cannot place a bid on or over the reserve price.

PRICE GUIDE

In Queensland, a price guide for properties going to auction is not available. Unfortunately, current legislation prevents us from giving any indication of the price that the property is expected to sell for. See page 5 for more info regarding price / price guides.

QUESTIONS TO ASK THE AGENT

There are probably a million things swirling through your head like: is there anything wrong with the property? how much do I offer? what if I pay too much? or is this a good buy in today's market? (amongst plenty more).

There are a few good questions that can help answer a bunch of these concerns and make the process of decision making slightly easier in a complex time with an auction.

Some great questions are outlined below which are designed to help the pieces of the puzzle fall into place a little easier. Take note of these questions and remember to ask the agent when you find yourself looking at a property auction.



- ✓ Will the owners accept an offer prior to auction?
- ✓ Has a building and pest inspection been done?
- ✓ What is the preferred settlement term?
- ✓ What deposit is required?
- ✓ How do I make an offer?
- ✓ Can you please provide me with some recent sales?
- ✓ Can you please provide me a copy of the conditions of sale?
- ✓ Have the smoke alarms been updated with new legislation?
- ✓ Do you have a pool safety certificate (if applies)?

Please note that asking an agent about the expected sale price won't get you very far. Agents are bound by legislation as to not disclose the expected sale price nor give any indication of such. Going back to your research and the agent's recent sales in the area can help to write that storyline a little better.

AUCTIONS AND THE CURRENT MARKET

Selling a property via auction is quickly becoming a very popular choice with a lot of sellers in today's market. Reasons for this vary, but a contributing factor is that some people actually don't know what they are prepared to accept as a reasonable offer, so the decision to take a property to auction seems logical.

We've all heard the ramble of agents stating that there is a mass exodus from the Southern states. It isn't that drastic, however there certainly is an increase of migration to our wonderful part of the country in South East Queensland. With this in mind, buyers from Sydney, Melbourne and the like are well rehearsed with auctions as it is such a popular method of sale down South.

It makes sense for a vendor to decide to take their property to auction as they would be putting it in front of a wide market that know how auctions work. Getting used to what auctions look like is a must!



As mentioned in my other guides, there are various methods of sale in which a vendor can take a property to market.

Auctions typically provide a streamlined, no fuss process of selling and buying typically geared toward a scenario whereby you have a 30 days settlement with a 10% deposit payable at the fall of the hammer with no other conditions and cooling off period waived.

It is imperative to familiarise yourself with how this process works. Attend plenty of auctions and understand the ins and outs of the auction day. If you would like more information or just pick my brain about the entire process, I'd be more than happy to sit down and chat through any questions or queries you have.

REGISTERING TO BID



In order to bid at auction, a party must be registered. To do this, a form will need to be filled out stating the bidder's name, address and details such as driver's licence (photo I.D sighted).

The general rule of thumb is that anyone who is going to be on the Contract of Sale (and mortgage documents) must be on the registration form i.e. a husband and wife, business partners or friends.

If you are purchasing under a Trust, the Trustee is deemed as the registered party and a copy of the Trust Deed must be sighted in order for the agent to accept your registration to purchase in the Trust.

Similarly, if you are purchasing through a Company, a Company search will need to be conducted by the agent in order to verify that you are a Director of that company. If you are the sole Director, no other supporting documents will be required. If there is more than one Director, a signed consent form on a company letterhead is required to give you the authority to purchase the property under the Company name.

In the sense of remaining pragmatic, I would certainly suggest completing your registration to bid prior to the auction day to avoid any time delays.

Ensuring you have the correct documentation and approvals to bid at auction is important, so take the time to speak with the agent regarding what they require in order to complete your registration (Trust Deed, Director's letter etc). Any good agent will ensure that you have all of the information you need to facilitate a smooth process leading into the auction.

PRICE GUIDES AND THE LAW

The current legislation in Queensland prohibits an agent or the vendor from disclosing the expected price or any indication of price to anyone in the marketplace (this also includes family and friends). The main reason behind this is to prevent an un-even playing field whereby the agent or vendor can show bias toward someone in giving them information that someone else does not have. One of the biggest advantages of an auction is that the process is completely out in the open and there are no curtains to hide behind. Registered bidders are in the same place, at the same time, with the same information being given so they can make a decision based on identical facts.

The way in which agents are allowed to tackle the pricing questions differs from state to state. Buyers in Melbourne are given a price guide and have a clear indication of where the expected sale price would be for a certain property. In Queensland, we have no such luxury as yet.

Agents can however, make available some recent sales and other resources to help you to better research the market and make your own informed decisions.

Recent sales in the area can assist in drawing some better conclusions and I would certainly suggest that you spend as much time as possible trying to ascertain where the value of the property sits in relation to a handful of 5 or 10 most similar properties in the area. This can help write that storyline of the expected price but keep in mind that it would be your own perceived value and every buyer will have a slightly different opinion of the value compared to other properties (this is why auctions can be so much fun!!).

OFFERS PRIOR TO AUCTION

Just because a property is being sold by auction doesn't mean that there isn't the opportunity to submit an offer prior to the auction day.

Offers that are being submitted prior to auction will generally need to be of an unconditional nature. An auction can't really be stopped on a conditional contract i.e. if you are still waiting for finance to be approved past the date of the auction. Sometimes, an agent may allow you to work towards the conditions of the contract but it would need to be unconditional by a certain time prior to the auction day (most likely a week at least).

If an offer is made, it will be taken to the vendor for consideration and one of two things will happen. Your offer may be accepted **OR** the vendors will give instructions that the offer was not quite good enough to stop the auction from going ahead. If this is the case, you are able to submit another offer however, due to the nature of the auction process, negotiations tend not to take place with offers prior to auction.

RESEARCH AND AUCTIONS

Research plays a vital role in preparing to purchase a property at auction. Price guides cannot be given in Queensland, therefore it is very important that you conduct as much research as possible to ascertain where the property holds value in your eyes and pertinent to your situation.

Each buyer will see the value of the property slightly differently as everyone is potentially buying for a different reason. Investors will want to see yield percentages and financial viability, whereas homeowners are looking for their family home and want the confidence in what will be their home for the best part of maybe 10. It is important to figure out where you see value for yourself.



When researching pursuant to an auction, the best thing to do is to write a list of recent sales that are (within reason) comparable to the property that you are looking at. For instance, if properties similar to the home you're looking at are selling between \$850,000- \$900,000, then you have a reasonably good idea that you can expect a similar price for this home. Having that confidence will allow you to best prepare yourself moving into the auction. It is important to note that it is reasonable to expect the home to sell for slightly higher than that range so take that into consideration with your budget.

Ask yourself the question "is it worth missing out on the property for \$1,000?"

If the answer is no, then get in there and secure your next home! My advice to a lot of home buyers in the market that are hunting around auctions, is to always keep a little bit of "emergency money" up your sleeve. Missing out on the perfect property by \$1000 on the day means that you are back to square 1 again.

THE AUCTION DAY

The big day has arrived! All the ducks are lined up and the auctioneer is getting very close to commencing the bidding..... so what actually happens?

Typically, the reserve price for the auction is set (this may also be done the night before), all interested parties complete their registration to bid (if not done prior to the day) and the crowd gathers for what is typically an exciting time!

SO WHAT NEXT??.....

The auctioneer will call the commencement of the auction in a central location where everyone can be seen and heard. From there, they will stipulate the terms of the auction by typically announcing the expected settlement terms, required deposit and other particulars pursuant to the sale. Any good real estate agent will have provided you with the Terms and Conditions of Sale by Public Auction either prior to or upon registration to ensure you're aware of all expected terms and conditions.

THE MAGIC ONLY HAPPENS AT AUCTION

The auctioneer will ask if there are any questions in relation to the sale and proceed to call for an opening bid. It is in the hands of the public to decide the fair and reasonable value of the property and bidding will get under way. If the bidding reaches or exceeds the reserve price, then the property will sell 'under the hammer'. If not, the property will be "passed in" and negotiations will commence with interested parties.

If the property is passed in, negotiations can be with anyone in the public but typically (out of respect for the registered parties), start with the registered bidders to see if they can reach a mutual agreement on price at the time.

With current Queensland legislation, there is no first right of refusal for the negotiations to start with the highest bidder. Most of the time, the question will be asked of the highest bidder if they are prepared to enter negotiations before any conditional buyers (anyone that cannot commit to an unconditional sale at the time of the auction finishing).

If the property sells under the hammer or just after, it is still deemed to be sold under auction conditions and the SOLD sign can be put up and two families can enjoy the beginning of their new chapter!

FINANCE AND AUCTIONS

The term 'cash un-conditional' has a very sharp ring to it. In essence, it describes a contract being without clauses, grey areas or flexibility. A majority of people in the market are under the opinion that auctions must be 'cash un-conditional' typically denoting that the 'cash has to be in the bank'.

I want to preface the next few paragraphs of information by saying that properties being sold via the auction process are unconditional in nature meaning there are no conditions attached to the sale (see page 7 for more details around this) but the extra word 'cash' puts a different spin on the ball.



THE TERM CASH UNCONDITIONAL NEEDS TO BE DE-MYSTIFIED!

With the above information in mind, there is no finance clause attached to the contract in an auction. You will need to have the suitable approval from your lender or mortgage broker that you are able to bid with confidence up to whatever the approved amount is and that the funds will be available at settlement.

The common misconception here is you need to have the cash in the bank. This is not necessarily true. The financial institution has to give you the authority that the funds will be available at settlement and that you have the green light to bid up to the approved amount. My recommendation is to preface the conversation with your broker / lender that you are looking to bid at auction and ask them to do what is necessary in order to prepare you financially to bid.

The process of getting that approval to bid is only slightly different from a standard approval process and the funds must be approved for the settlement to take place on the nominated place. If you fail to have these funds available on settlement, you run the risk of forfeiting your deposit by being in breach of a major condition of the contract.

If you have the approval to bid at auction by your broker or lender, you can have the confidence to register, wave that paddle around, spend some money and have some fun!!

AUCTION CONDITIONS

Properties that are being sold via auction are of an unconditional nature. This means that the standard conditions of a contract, namely the building & pest and finance clauses are removed and DO NOT apply to the contract of sale.

Due to the process of the auction, and to remain completely unbiased to the entirety of the market, the process similarly does not allow the inclusion of other clauses and conditions such as 'subject to sale' or 'subject to settlement' as this then changes the playing field and offers favouritism toward someone needing that particular clause.

If you purchase at auction, the contract is not subject to the statutory 5-business day cooling off period so it is important to note that, at the fall of the hammer, if you are the highest bidder, you are legally required to purchase the property. If you don't sign the contract, the auctioneer has the legal authority to do so!



With a property being sold by auction, the settlement period and the required deposit are the only two variables that are typically changeable within the contract of sale. The deposit usually calls for somewhere between 5-10% of the purchase price but this may be confirmed prior to the start of the auction. Similarly, most auction campaigns are usually have a 30 day settlement period however, once again, this time frame for settlement can be flexible if agreed to.

In order to have the flexibility of the abovementioned, a prospective buyer would need to engage the agent to see if it is possible to make a change.

For example, if a buyer needs a settlement of 45 days instead of the noted 30, the request would need to be approved by the vendor. That change would need to be made available to the rest of the registered bidders on auction day. The auctioneer will note that the accepted settlement timeframe is 30-45 days so it is completely even and fair to the rest of the field (again, to ensure there is no bias toward any one buyer).