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# SmartProperty

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# BECOMING AN AUCTION PRO

FIRST-TIME INVESTORS OFTEN GET SWEEPED AWAY IN THE EXCITEMENT OF AN AUCTION. STEFANIE GARBER EXAMINES HOW BUYERS CAN MASTER THE AUCTION PROCESS

# "GOING ONCE, GOING TWICE..."

- WHAT HAPPENS NEXT IS THE DIFFERENCE BETWEEN OWNING A NEW PROPERTY AND WALKING AWAY EMPTY HANDED



A lot of the auction system revolves around superficial theatre and provided you can see through that, you probably can manage the process on your own

Auctions are designed to keep buyers on the edge of their seats. The real estate agent is relying on competition to push prices higher. The auctioneer leans heavily on buyers, pressuring them to part with increasingly large amounts of money.

In hot markets, auctions become particularly fraught, with multiple buyers vying for the same prize.

While auctions can be daunting for novices, they can also be an effective way to snag an investment at a fair price.

## Preparing for auction

A lot of advice about winning at auction focuses on the auction day, but auction success depends just as much on the buyer's preparation.

"Research is extremely important. You need to know what the market price is for the home," *Real Estate Uncovered* author Peter O'Malley says.

Beforehand, buyers must ensure they fully understand sales statistics in the local area, including comparable sales prices and median rents, he says.

Property Wizards buyer's agent Liz Sterzel agrees that research is the secret to avoid overpaying at auction.

"The crucial first step is finding comparable sales evidence to assess what the property is worth, as well as knowing what else is on offer in the marketplace," she says.

This information allows you to determine the maximum price you are willing to pay for a property.

However, investors are also warned to question the statistics they find, particularly when provided by agents.

"Believe nothing the agent says and check everything," Mr O'Malley urges.

As an example, auction clearance rates have recently come under fire for under-reporting failed auctions.

Mr O'Malley says clearance rates in Sydney are well below the 80 per cent mark quoted in the media.

"The real estate agents know that a high clearance rate will attract more

buyers to the auction," he says. They often refuse to report failed campaigns to keep clearance rates inflated.

He thinks buyers taken in by these statistics may act rashly for fear of missing out on a purchase.

"I would encourage purchasers not to go to an auction thinking the clearance rate is 80 per cent and they have just got to jump in," he says.

Underquoting on the auction price guide can also be a concern.

This is a tactic where agents post an unrealistically low price in their advertisements to lure buyers to the auction, director of SQM Research Louis Christopher explains.

"The big problem with auctions is how, in their own advertising, agents may well say 'Offers from \$600,000' whereas the vendor has no intention of selling at that price," he says.

Mr O'Malley suggests this practice is "rampant", as agents hope to attract a crowd to bid off against each other.

"How do you have an auction with one buyer? You can't," he says.

Given that building and pest inspections need to be completed before each auction, this underquoting may cost buyers a significant sum.

"If you're naïve and swallow the agent's bait price, you may spend money on pest and building inspections three or four times just to bid at an auction," Mr O'Malley says.

"The way you protect yourself is to research the property independently of the agent's price guide," he says.

Once investors have identified a property worth bidding on, Ms Sterzel emphasises that the sales contract is unconditional.

"Potential investors need to check the house and contract of sale thoroughly, carry out building and pest inspections, and obtain the seller's agreement to any contract variations in writing ahead of the auction day, as it can't be changed afterwards," she says.

Doing all the legwork in advance

means you can bid knowing the property holds no hidden surprises.

### On auction day

The greatest danger on auction day is that bidders might lose their cool and overpay. Investors should try not to be swayed by the drama of the auction process, Mr O'Malley says.

"A lot of the auction system revolves around superficial theatre and provided you can see through that, you probably can manage the process on your own," he says.

Particularly in a hot market, buyers trying to win at all costs may pay more than the property is worth.

"Investors do need to be very careful at those times in the property cycle as there's often more emotion and hype to get caught up in," Ms Sterzel says.

Mr Christopher cautions investors to stick to their budget, no matter what else happens on the day.

"You need to set your limit. You know that is absolutely your limit and you don't go beyond that," he says.

If you are concerned your heart might overrule your head, Mr O'Malley suggests giving authorisation to a friend or agent to bid on your behalf.

"It can just be a family friend or a buyer's agent with written authority as to the maximum price you're prepared to bid to," he says.

Indeed, buyer's agents could be invaluable to any investor nervous about buying at auction.

"A buyer's agent is there for you. You're paying them to be there for you, whether it be through a commission or an additional fee," Mr Christopher says.

"The good thing about buyer's agents is that this is their life. What they do is negotiate price on properties for a living."

In Ms Sterzel's experience, some buyers become too nervous to bid. Employing a buyer's agent can help combat these auction day jitters.

She also believes buyers should have

a clear strategy for buying at auction.

"Investors must decide how soon they will start bidding and how fast they will place their subsequent bids in response to other bids," she says.

One common tactic is to bid aggressively up to your ceiling to intimidate other bidders, advises Mr O'Malley.

"So often the decisive buyer - the one who is perceived to be the most aggressive - will scare other buyers out of the race," he says.

In certain circumstances, investors could try to start the bidding within \$20,000 or \$30,000 of their perceived fair value to cut down on the length of the auction, he suggests.

However, Mr Christopher says knowing the value of the property is more important than tactics.

"There are of course various bidding tactics out there, but I don't think there is any hard evidence that one works better than the other. Often these tactics are countered by other tactics," he says.

Investors should also keep an eye out for unethical practices at auctions.

Dummy bidding has become less common, with Fair Trading authorities cracking down over the past few years - but some agents may still plant people in the crowd. These fake bidders drive up the price with no intention of purchasing the property.

"It's not rampant but you need to be sure you're dealing with a proper bidder on the other side. That can be done by getting that bidder to be identified," Mr Christopher says.

Above all, investors should be assertive if they believe something about the auction is unfair.

"Don't be afraid to ask questions even as the auction is proceeding. Speak up and get it on the record," Mr Christopher says.

### Auction vs private treaty

Some investors may wish to bypass auctions for fear of overpaying.

**"IF YOU'RE NAÏVE AND SWALLOW THE AGENT'S BAIT PRICE, YOU MAY SPEND MONEY ON PEST AND BUILDING INSPECTIONS THREE OR FOUR TIMES JUST TO BID AT AN AUCTION"**

Mr O'Malley suggests private treaties tend to be fairer to both sides, as each party has an opportunity to make decisions in a calm environment.

He suggests investors could try to buy the property before auction day.

"Thirty per cent of auction sales this year happened prior to the auction. Just because the owner wants to go to auction, doesn't mean the buyers have to," he says.

In addition, many owners have been talked into an auction by their agent. They may be happy to accept a private treaty for a reasonable price, he says.

However, Mr Christopher believes private treaties can deliver less equitable results than auctions, particularly in a hot market.

In private sales, real estate agents may play buyers off against one another without disclosing their true offers, he explains.

"It ends up becoming a very 'un-transparent' process, where as a buyer you have no idea whether the agent is telling you lies to get you to lift the sale price," he says.

Ms Sterzel agrees, saying auctions can deliver better value for buyers.

"You don't have to guess what other buyers are thinking and come up with an offer to beat theirs - the offers are on the table for all to see," she says.

Auctions can be intimidating environments for first-time investors. However, investors who plan ahead and set boundaries should have nothing to fear on auction day. ■



### KEY ADVICE

- Do your research ● Keep your cool ● Stick to your budget
- Seek professional advice if nervous ● Beware unethical practices

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