

A Guide to Property Auctions & Bidding Strategies

So you're interested in bidding at a Property Auction but not sure where to start? Don't worry, we've got you covered! This guide will walk you through what to expect throughout the process and help you understand those pesky terms and conditions.

Disclaimer - Please note that this guide should not be used in place of a professional consultation. The Mortgage Approval Company recommends that you seek professional advice where necessary.

Before You Bid - Preliminary Research



If you want to raise yourself above the competition, it is important that you do some research before the day of the auction. Remember, a smart bidder is a well-prepared bidder. There are several things you can do that will help you make a more informed decision and improve the quality of your bid:

- Make sure you gather information on the market. You can do this by conducting research through the internet, attending auctions, monitoring the results of local auctions or speaking with your real estate agent. Ideally, you want to be able to tell a great deal apart from a good deal; at the very least, you want to avoid a bad deal.
- Seek the opinions of experts in relevant fields, such as legal or financial. There is a reason why these people make a living off what they do, and that reason is because they're good at it. Having a second opinion from a professional is never a bad thing.

IMPORTANT:

Please note that if you are the winning bidder, the contract you will be offered will consist of the same terms and conditions as the one that was on display prior to the auction. Unless the vendor agrees to it, you will be unable to make any amendments or changes to the contract (for example, securing a finance or increasing the length of the settlement period). It is in your best interest to thoroughly check the details of the contract before bidding so that you are aware of details such as how much must be paid on the day or what payment methods are acceptable.



Auction Bidding

There are several different ways in which an auctioneer may conduct their auction. Generally, the auctioneer will attempt to encourage as many people to bid as possible in order to achieve the highest possible price for the property being auctioned. The price between bids will increase by an amount set by the auctioneer. These increases are called rises or bidding advances. You can choose to bid in line with these rises or offer an alternative amount. It is up to the auctioneer to decide whether or not they want to accept that bid. The increments in which the bidding increases will decrease as the auction nears its end.

Throughout the auction, the auctioneer has the right to exercise his authority in various ways:

- They may choose to refuse a bid at any point during the auction
- If a dispute erupts over a bid, the auctioneer may choose to go carry on from the last undisputed bid or to start the entire bidding process over again.
- The auctioneer may consult with the seller at any point in time prior to the auction's conclusion.
- It is within the auctioneers power to withdraw the property from sale at any point in time prior to the end of the auction.

For the uninitiated, be warned that bidding can be the most daunting ordeal in the auction process. Think of it like this: have you ever entered a parking lot only to find out that there was absolutely no parking? When you finally see a spot open, someone else beats you to it and you're back to playing "I Spy" for a parking space. We've all been there. It's a stressful and frustrating experience. Sadly, this is the kind of experience many people have when they attend property auctions, but instead of a handful of people fighting over a parking spot, it's the entire room competing over a piece of property. Although we can't help you with finding a parking spot (sorry about that!), we can offer you some tips and strategies that will help you survive your next auction and maybe even secure a new property!

Strategies for Auction Bidding



1) Bid in Large Amounts

If I showed you a photograph of a random house that I passed by on the way to work this morning, would you be able to tell me its exact value? Was the house worth \$700,000? \$705,000? \$710,000? Chances are you wouldn't be able to tell me. Don't feel bad though because the fact is that *no one* would be able to tell me. Nobody is able to pinpoint the exact value of a house down to the thousands. As a result, people often engage in bidding wars over a property and end up overpaying.

Imagine a hypothetical property auction where the bidding increased in \$10,000 increments. You're pretty sure that the value of the property is around \$850,000 to \$1,000,000. The bidding reaches \$840,000 and it's down to the final two bidders - you and random Joe. The auctioneer calls out 85 and you bid, then Joe bids next, and then you bid again and so forth. You think to yourself that Joe must be nearing his financial limit and that one more bid of \$10,000 will take him out of the running. Guess what, *he's thinking the exact same thing*. Before you know it, the bidding has reached \$950,000 when you finally secure the property. The catch? The property was only worth \$850,000. You just overpaid \$100,000.

Let me throw another hypothetical at you. If I offered you \$100 off a \$200 coat you would think "wow what a great deal!", but if I only offered you \$100 off a \$100,000 sports car you would most likely scoff at my offer. The question is *why*? What's changed? \$100 is \$100 regardless of where it came from. The issue here is that people are notoriously bad when it comes to relative cost. As the price of an item increases, we tend to think in bigger numbers.

This is a common pitfall people fall into at a property auction. In a bidding scenario, you might think to yourself "what's another couple thousand", not realizing how quickly it's adding up. Bidding in larger amounts allows you to appreciate the amount you're putting on the line as well as helping you better gauge the value of the property. Additionally, aggressive bidding will make other bidders more cautious of placing their own bids. They may even decide that it's not worth it and drop out of the running.

2) Start Off Strong

If there are a lot of parties interested in the property you are after, it may be helpful to start off with a strong bid. This is what is referred to as a "knock-out bid". The purpose of this kind of bid is to knock out the competition before they can grab their bearings. For example, imagine that you are at an auction where the value of the property is around \$1.3 to \$1.4 million. Someone else starts the bidding at \$1.1 million. When the auctioneer calls for a rise of \$10,000, bid \$1.3 million. This drastic increase will catch most of the competitors off guard and will result in many of them dropping out.

After starting off strong, it is important to finish strong. The knockout bid will leave only a handful of competitors who are still interested in the property. In order to out-bid those who remained, practice bidding in large amounts. Essentially, you want your competition to believe that you have more funds to spare in your wallet than they do, even if it's a bluff. Consider this, at professional poker game, the most successful players are the ones who pull off the best bluffs. The best bluffs happen when the competitor plays off the idea that they have something better than their opponent. The same idea applies here. By starting off strong and maintaining that aggression throughout the proceedings, you send a clear message to the other bidders that money is not an issue for you. This will deter the other bidders from pursuing what they now believe is a hopeless cause.

3) Round Your Bids

People seem to have an affinity for nice, round numbers. I don't think I've ever heard of a gambler who set his spending limit at 827 dollars and 23 cents. Likewise, no bidder has ever said "okay, if the bidding goes over \$827,413 then I'm out!". When bidders set their spending limit, they tend to round to the nearest couple of thousands. This means that most bidders will have a spending limit consisting of a clean looking number, such as \$800,000 or \$950,000. A skilled bidder should be able to take advantage of this subconscious habit in people and use it to increase the odds in their favour.

During the auction proceedings, it is good practice to round your bids since this will be the most effective way to eliminate the competition. If several of your competitors have set their limit at \$900,000, a bid of that amount may cause them to drop out of the bidding. Additionally, rounding your bids can also get you the best price for the property you are after. For example, imagine that the bidding came down to you and a final competitor. Both your spending limit and your opponents is a clean \$1 million. The bidding currently stands at \$990,000 after your last bid and is rising in \$10,000 increments. It's now your opponent turn and he bids the \$1 million first. At this point you have one of two options: you can either drop out of the bidding since your limit has been reached or you can bid another \$10,000 over your set limit. Either way, you're not achieving the best outcome. If you had rounded your bid and bet \$1 million first, then your opponent would have withdrawn and you could have gotten the property at \$10,000 less.

Vendor and Co-Owner Bids

Throughout the auction process, you might encounter the terms vendor bids and co-owner bids. This is because both the vendors and co-owners of the property are also allowed to bid at the auction. **The arrangements for these conditions must be identified in the rules that were on public display prior to the auction and they must be announced again at the start of the auction.**

Vendor Bids

A vendor bid is a bid made by the auctioneer on behalf of the seller in order to keep the bidding process alive. These bids are made when the seller is not satisfied with the last bid. **Only the auctioneer is able to make a vendor's bid and the bid must be announced when it is made.**

Co-Owner Bids

Co-owners who are interested in buying the property may bid among the rest of the bidders. The co-owners have the option of either bidding themselves or selecting a proxy to represent their interests. **The auctioneer will not make any bids on the co-owner's behalf.**

Key Terms

"On the market"

During the auction, the auctioneer may put the proceedings on hold to consult with the vendor. They will inform bidders that they are going inside to seek advice. If the bidding has reached the reserve (the lowest price that the vendor is willing to sell the property at) or is close to it, the auctioneer will ask the vendor if they are willing to sell to the highest bidder. If the vendor agrees, the property will now be on the market.

"Passed in"

If the reserve the vendor has set is not met as the auction is closing, the auctioneer will attempt to find additional bids. If there are no additional bids or the additional bids still do not meet the reserve, the property may be "passed in" or "withdrawn from auction". If this occurs, then the highest bidder will earn the right to negotiate with the vendor and see if they can reach an agreement.

IMPORTANT TIP:

If you are ever the highest bidder and the property passes in, **DO NOT** go inside. This is a common tactic used by the Auctioneer for negotiating a higher price. Their aim is to trap you inside and in a situation where *they* are negotiating from a position of power. You want to avoid this. Instead, remain outside. This weakens the vendor's position and puts *you* in a position of power. The vendor will be paranoid that you may simply walk off and that they will have wasted money on the advertising costs and the auction proceedings. Thus, even if you are prepared to offer more than your last bid, it is still wise to stay outside.

So You're the Successful Bidder, What's Next?

If you are the winning bidder at the auction, you will be required to sign a legally binding contract. The process will take place in the following manner:

- Immediately after the auction, you will be asked to sign a contract consisting of the same terms and conditions that were made public before the auction.
- As previously mentioned, you will be unable to make any changes to the conditions outlined in the contract without the consent of the vendor.
- There will be **no cooling-off period** once the contract has been signed. A cooling-off period is the duration after the purchase where the buyer may cancel the transaction.
- The contract must be signed by both you and the seller in order to officiate the offer to buy the property.
- You must pay the deposit that was specified in the contract agreement (unless other arrangements were made between you and the seller).

Once the contract has been signed and the deposit has been paid, the transaction is completed. The sale is now legally binding and enforceable. Congratulations on your new property!

Paying a Deposit at Auction

Although there are no laws specifying the amount a deposit should be, it is generally 10% of the purchase price. Payment for the deposit can be made through any method unless otherwise stated by the selling party. The deposit will be held in a trust account by the seller's representatives (lawyer or estate agent) until the day of the settlement. The funds can be released to the seller before the settlement date with your consent.

