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# BUYING AT AUCTION



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# BUYING AT AUCTION

An Auction is an exciting way to buy property. There are hundreds of Auctions across Australia every weekend of the year and buyers should feel comfortable bidding at Auction. Because most people don't bid at Auction very often in their lives, they're usually very unsure about how the process is played out. Confidence is a key component of buying at Auctions, and knowledge helps build confidence. So, to help demystify the process, we'll explain how Auctions work and give you some of the various bidding strategies.

## Auction Basics

An Auction is a public sale by a licensed auctioneer where the property is sold to the highest bidder. The vendor puts a reserve price on the property and it will not be sold until bidding has exceeded this price. If the bidding doesn't reach the reserve price, the property is passed in and the highest bidder has the first right to negotiate with the vendor.

## Public Negotiation

The reason why Auctions are successful for buyers and sellers is immediacy. A buyer knows if they put their hand in the air right now that they can probably own it and a seller knows if they accept the highest bid that they have sold their property. It works really well for both parties. An Auction is really just a public negotiation. You've got a vendor on one side of the table and multiple buyers on the other. Everyone's discussing price and, by the end of the Auction the best offer will come forward and the vendor will say 'yes' or 'no'.

# AUCTIONS AT A GLANCE

View or obtain pest and building inspections. The vendors may have them available for viewing and purchase, or arrange to have your own inspections completed if not available.

Assistance with a price guide so you know if the property is in your price range.

How to get finance approval in order to bid at (or make an offer) before auction.

Flexible deposit and settlement terms available.

More time to research, prepare and think about the price you want to pay than with many 'for sale' properties.

A modern, transparent and ethical way to transact property.

## RE-MODELLING THE WAY AUCTIONS ARE CONDUCTED TO MAKE THE PROCESS NICER FOR ALL PARTIES.

Through extensive consumer research, it was discovered that many buyers had a fear or dislike of standard auctions and therefore would avoid them. This may have been from a negative experience for them or a friend in the past, or a sensationalised media story based on a minority.

We found this unfortunate, knowing how transparent a well-run auction could be. We also knew that it would not be best for the vendors of a property to sell using a standard auction system if some buyers were turned off by the process. Rather than give up on such an effective process altogether like many agents, we went about addressing the main areas of concern to create a better way to transact property.



# PREPARING TO BUY AT AUCTION

1. Inspect the property as early as you can in the campaign.
2. Advise a accredited solicitor / conveyancer of your interest in the property and forward a contract to them for their perusal. This should be free of charge, so do it early, before you have decided on your final price or if you are definitely bidding, as you will be more prepared to act.
3. Obtain a copy of the draft contract and inspection reports if available immediately after your inspection.
4. Meet the agent prior to auction for a wrap-up and advice on bidding at auction. This can also be done in a pre-booked phone call and is best done approximately 4 days out from the auction.
5. Make the agent aware of your interest and provide them with all your contact details including a back up phone number so the agent can communicate important updates such as a heads up when another buyer has made an offer prior to auction. If you have registered your interest, we will not sell the property before speaking with you.
6. Advise a bank or accredited broker of your interest in the property. This step is critical, even though you may have a “pre-approval”, as you may need to conduct further steps to be ready to offer unconditionally or bid.  
  
Conduct second or subsequent inspections and bring along any other decision makers. Again, conduct these inspections as early as possible, so you can be ready to act if there is the chance of a sale happening prior to auction. Advise the agent of your ongoing interest and progress.
7. Confirm your deposit with the agent at least 3 days prior to auction. If you wish to request a deposit amount that differs from what is stipulated in the contract, it must be approved by the vendor and their solicitor / conveyancer in advance.
8. If you wish for an agent or someone else to bid on your behalf, or if you are bidding on behalf of a company or self managed super fund, then the appropriate documentation is required. This is very simple to organise, but please prepare early.
9. Be at the auction early to register and once the auction is underway, bid with confidence, to where you are comfortable.



# THE MAIN OBJECTIONS FROM BUYERS ABOUT AUCTIONS

## HAVING NO IDEA OF PRICE AND THE AGENT WON'T HELP ME

Wherever possible, we provide a price guide whether it be verbal or printed. This guide is updated constantly throughout the campaign and any buyer who has shown serious interest will be informed of this guide. The guide takes into account buyer feedback to date, where the vendor would like to see bids come in and other recently sold properties.

On average, most properties sell within 10% of their price guides. This is just a guide but allows you to prepare finance etc. before bidding. If you really want to secure the home, you may allow for slightly more, though you may not need it.

## HAVING TO PAY TO GET PEST AND BUILDING INSPECTIONS DONE PRIOR TO BIDDING AT AUCTION BECAUSE THERE IS NO COOLING OFF PERIOD IN AUCTION SALES

Pest and building report are always conducted by a licensed inspector and a panel of reputable inspectors are used to ensure the opinion is neutral. The buyer still has the option to get their own inspections done if they wish, but by having the report there for viewing, the buyer can save hundreds of dollars and still bid well informed.

**Question: If the vendor's have paid for the report, how can we be sure it doesn't favour the vendor?**

**Answer:** The report is conducted and written in exactly the same way, regardless of who it is ordered for. Our company is pushing for it to be compulsory that pest and building reports are supplied for every property for auction. It is

like a 'road worthy certificate' that you would provide with a car that you sell. The reports will show all defects that can be detected by the inspector. Some solicitors will suggest that you get your own reports done, and that is absolutely fine. Bear in mind that these inspectors are the same reputable inspectors that many law firms and conveyancers recommend for buyers in the area.

By providing a report the vendors show they aren't hiding anything. In fact, we urge you to take all factors into account when deciding on your price. This is not a luxury you get with most 'for sale' properties. Most of the time the price you offer for a 'for sale' property may be higher than you would offer after reading the reports. Many sales fall over this way and all parties have incurred costs by the point of breakdown.

## NOT LIKING THE PRESSURE OF AUCTION OR HAVING TO MAKE A DECISION ON THE SPOT

We have overcome the issue of having to make a decision on the spot by giving the buyer more information than private treaty sales (and other auctions) earlier.

Think about how little time you have to make a decision on a well-priced 'for sale' property when you see it listed. In many cases, if you are lucky enough to get to the first open home in time, there may be offers on the property before you even inspect or make enquiries with the agent. Then, you have to decide, often in as little as 30 minutes. Or you may be one of the lucky ones and have the luxury of a whole 24 hours in which to make this huge life decision.

With 'for sale' properties you do not get to find out what the other offer is and you often do not have a chance to read the contract first before making an offer. In most cases you don't get to see a pest and building report either before deciding on what price you will pay. Now that's pressure! Many buyers surveyed were disappointed they didn't get the opportunity to decide on an offer or to research a property properly before it went under contract with another buyer.

You normally have up to four weeks to decide on the home price you are prepared to bid, to conduct research on the area, to seek legal advice, gain finance approval and often inspect several times. Even if you didn't see our extensive marketing early and only got to the property in the last week of the campaign, we still have more information for you to help you make an informed decision than with the majority of 'for sale' properties.

Our Auction days are run professionally and are designed to be fun and low stress. Sure you are buying a property and there are formal proceedings involved, but this is part of every sale. We aim to make the process as easy and memorable as possible.



# AUCTION BENEFITS

The biggest benefit to buyers is being able to assess the competition on the day and observe them bidding, as opposed to a private treaty negotiation, which takes place behind closed doors. If you make an offer on a For Sale (Private Treaty) property and the agent tells you there are other buyers who are willing to offer more, how can you tell if they are genuine or not? Where's the transparency there?

Through competitive bidding, an Auction establishes a security price benchmark for buyers. In private treaty negotiations, you have no idea what competing buyers are prepared to offer. You can place an offer of \$550,000 because that's what your research indicates is a fair price. But you don't know if the next highest offer was \$549,000, \$500,000 or \$450,000.

At Auction if someone bids \$580,000 then you bid \$582,000 and another bidder comes in at \$583,000, you're all on the same page in terms of value. When a property is knocked down to you, you know someone else is willing to pay about the same amount you were. So there's a high degree of comfort that the price is right, because it's been benchmarked in public.

Generally speaking owners who take their properties to Auction are far more motivated to sell their property as quickly as possible. Whilst it is true that in-demand property can get a premium price at auction, it's also true that you can pick up a bargain at an Auction. In fact, you'll find some of the best buys come from Auctions. If a vendor is committed to selling on the day, they might be disappointed with the highest bid, but they'll often make the decision to sell anyway.



## TOP AUCTION BENEFITS

- The price is benchmarked with other buyers in public – this is the market talking.
- You get an immediate result.
- If you are the winning bidder, you won't be gazumped.





# THINGS TO KNOW

1. The vendor is usually legally entitled to bid on their own property at Auction. This is known as vendor bidding. The purpose is to help the property reach the reserve price. A vendor bid is typically used to start the Auction off, or to bring the bidding closer to the reserve if it stalls. If there are no bidders, the Auctioneer will sometimes pass in the property on a vendor bid. Vendor Bids must be clearly disclosed by the Auctioneer throughout the course of the Auction.
2. If you're the highest bidder when the hammer falls, you're legally bound to buy the home. It's imperative to have all your due diligence complete and funds ready to pay the deposit before the Auction day.
3. Bids should be fast and assertive. Agonising over every bid is a definite sign of weakness. If a buyer is looking worried and having hushed conversations with their partner every time they make a bid, that's a clear signal they're near (or over) their limit. You don't want to send this signal to other bidders, because they know if they keep going a little bit longer they've got you.
4. Create the impression that you will continue to bid until you own the home, no matter what. It's about projecting confidence and psyching out the other bidders. More timid bidders are often put off by an aura of unstoppable self-assurance, and they'll stop bidding. You must create the perception that you don't have a limit.
5. If the property is passed in, it's a big advantage to be the highest bidder. The highest bidder is given the first opportunity to negotiate with the vendor to buy the property.

Well over 50 per cent of passed-in auctions sell to the highest bidder. So you want to put your self in the box seat
- to negotiate with the vendor. If you are not the highest bidder, but you're still interested in buying the property, you should definitely let the agent know. You're still in with a chance to buy the property if negotiations break down with the highest bidder, or if you're prepared to pay more than they are.
6. Rather than putting yourself in a position where you have to make these decisions on the spot, it's advisable to think through all the angles before auction day. Know your walk-away price – you have to go into an Auction knowing at what figure you absolutely will not make another bid.
7. Keep in touch with the agent. It can be a mistake to distance yourself and pretend you have no interest in the home you wish to own. Agents are your best source of information relating to other buyer interest, price expectations or if the property is possibly going to be sold prior to Auction to another buyer.

Your agents can also recommend professionals to help you be ready to bid on the day.

The sales agent and owner will want you to purchase the home as much as you want to buy it. Let them help you.



# SUMMARY/ADDITIONAL TIPS

Always listen to your agent, we have helped many buyers through this process and can advise you on how to maximise your chances of securing a property with minimal stress and fuss! Your Fitzpatrick's Real Estate Agent is the only person legally allowed to communicate with buyers, sellers, lenders, buyers' solicitors and vendors' solicitors.

Fitzpatrick's Real Estate adheres to a strict code of ethics and treats every buyer with equal respect. Even though the Real Estate agent is employed by the vendor, we know the key to a successful sale is to make sure every buyer has an equal opportunity to pay their best price.

## DON'T BE FEARFUL

Although buying at auction may seem like a daunting process, it is actually not a lot different than 'for sale' except that with auctions you generally get more time to prepare and receive most of the information you require for your due diligence before you make an offer or bid, instead of after. Regardless of which method you use to buy property there are always decisions to make and papers to sign. Fitzpatrick's Real Estate aims to make this process as smooth as possible.

## BE PRO-ACTIVE

Whether buying by 'for sale' or by auction, you have to work through the process of preparation. Those who FOLLOW THE STEPS EARLY always have the best chance. Don't leave things to the last minute and always ask your Fitzpatrick's Real Estate agent for help if you need it.

## CONDUCT YOUR OWN RESEARCH

Your Auction agent will aim to provide you with as much useful information as they can. However some questions may not be easy to answer as the information may not be easy to obtain.

Use resources like RPData, PriceFinder, Home price guide and others to obtain information. Be wary of 'opinions' of well-meaning third parties that have no financial interest in your decisions.



# FREQUENTLY ASKED QUESTIONS

## **Q. Can I buy prior?**

A. Any property can legally be sold prior to auction though this may not always suit the vendor. We understand you may have reasons for offering prior to the auction, so here is a check list to make your offer most appealing to the vendor:

1. Be prepared up to at least step 7 of the “steps to preparing to buy at auction” checklist provided in this booklet.
2. Offer above the indicated price guide on the property (if a guide is given).
3. Provide your offer on a signed contract for the property, with a certificate from your solicitor waiving the cooling off period & authority to exchange contracts.
4. Provide 10% deposit with your offer to allow exchange of contracts if the vendor is agreeable.

By following these 4 steps you are demonstrating your serious intent to purchase & that you are not just testing for the vendor's reserve price.

These 4 steps are similar to the terms of auction sale. You don't have to follow these steps but it is recommended to give you the best chance of tempting the vendor to cancel the campaign they have invested in and hence the auction and therefore any chance they have to sell to another buyer.

## **Q. What if my offer isn't accepted prior to auction & I have followed the steps? Have I wasted my time?**

A. Not at all. The vendor just may not be ready to sell prior to the auction. Often an offer that was not accepted prior to the auction may be acceptable or strongly considered on auction day. After the vendor has had the entire marketing campaign to consider the feedback from the market they are often more flexible on price at auction than prior. This can be advantageous to you as the buyer to be registered and bidding as the vendor may be more inclined to sell under the hammer to gain a result.

## **Q. What if I cannot bid under the standard auction terms but still wish to participate?**

A. After performing as many as possible of the 10 steps outlined in the “steps preparing to buy at auction” checklist you should provide a request to the agent in writing outlining what terms you require to be able to purchase. For example: a lower deposit or longer settlement. The agent will then speak to the vendor and their legal representative and seek permission for the buyer to participate under these terms.

## **Q. How can I pay a deposit?**

A. The standard contract deposit on ‘for sale’ or auction properties is 10%. You can pay this by bank cheque, personal cheque, deposit bond, cash (consult the agent first), or direct deposit post auction. Due to it being difficult to predict the exact amount of deposit required (as the auction doesn't have a fixed price) the agent can request approval from the Vendor for an agreed fixed deposit amount. Alternatively an arrangement can be entered into for the buyer to have a bank cheque available at the auction for an agreed amount and then they can pay the remainder of the deposit post auction so that the 10% is reached.

**TIP:** Always speak to the agent as early as possible (at least 7 days prior) about the deposit and how you will pay it, as some arrangements like deposit bonds can take some time to be approved.





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