LEVEL 1

propertysecrets*

* unveiling the truths of property investment

Beat The Credit Crunch & Make A Fortune Through Property Auctions!

Revealing the bidding secrets of the pros and how YOU can use them to make a killing…

Rob Best

Part of the propertysecrets* series

Property Secrets

Beat The Credit Crunch & Make A Fortune Through Property Auctions!

Revealing the bidding secrets of the pros and how YOU can use them to make a killing...

By Rob Best

Part of the Property Secrets Series
www.propertysecrets.net

If you would like to recommend this book to others, why not take advantage of our affiliate scheme? We will happily pay you for any recommendations that lead to a sale.

Published by: Visium Group Limited, Rail House, Gresty Road, Crewe, Cheshire, CW2 6EA

Disclaimer

As with all investment advice, you are advised to take proper financial and legal advice at all stages. Investment values can decrease as well as increase!

As authors we have endeavoured to deliver information and advice of the highest quality; however you are advised not to rely on this book as your sole source of advice.

The basic principles in this book are founded on substantial experience and backed up by statistical evidence. However, please take care - not every property behaves as the 'average' - there are always lots of risky options around and we encourage you to take full and good advice on any investments or purchases that you intend to make. Equally, the nature of markets is that they are unpredictable.

Don't forget the story of the statistician who drowned in a river that was (on average) only 1 metre deep!

Whilst Property Secrets comments on the services and advice offered by other companies and individuals, none of these owners has authorised, sponsored, endorsed, or approved this publication.

Property Secrets and Visium Group Ltd has not received any remuneration in return for including any company or product in this book.

For legal reasons, we have been recommended to include the following:

To the fullest extent permitted at law, Property Secrets and Visium Group Limited are providing this book, its subsidiary elements and its contents on an "as is" basis and makes no (and expressly disclaims all) representations or warranties of any kind with respect to this book or its contents including, without limitation, advice and recommendations, warranties of merchantability and fitness for a particular purpose. In addition, Property Secrets and Visium Group Limited do not represent or warrant that the information accessible via this book is accurate, complete or current.

To the fullest extent permitted at law, neither Visium Group Limited nor any of its affiliates, partners, directors, employees or other representatives will be liable for damages arising out of or in connection with the use of this book. This is a comprehensive limitation of liability that applies to all damages of any kind, including (without limitation) compensatory, direct, indirect or consequential damages, loss of data, income or profit, loss of or damage to property and claims of third parties. For the avoidance of doubt, Visium Group Limited does not limit its liability for death or personal injury to the extent only that it arises as a result of the negligence of Visium Group Limited, or its directors, employees or other representatives.

This book is published under the laws of England and any disputes would fall under the jurisdiction of English courts.

Table of Contents

1 About The Author

Rob Best

Rob bought his first investment property in 1988, and in recent years has focused on buying below market value property from auctions and from private vendors.

He is the author of **Property Auction Secrets** (under the pen-name Damon Leigh) and **Portfolio Property Secrets**.

As well as a full-time investor and author, Rob also runs property investment seminars, a twice-monthly newsletter, and is father to 2-year-old Sam.

He lives in Northumberland with son Sam and his wife, Tricia.

2 WHAT IF YOU DARE TO BUY…?

Successful property investor, property auction expert, author of **Property Auction Secrets** and Property Secrets' exclusive blog **Under The Hammer**, Rob Best brings his considerable experience to bear on the UK property auction scene in his latest book, *Beat The Credit Crunch & Make A Fortune Through Property Auctions!*

Today's property market is a challenging one. The temptation to simply hold or even sell up is a huge one. But what if you chose to buy instead? Rob certainly believes that's the best strategy – the real trick is buying the right property at the best price.

And property auctions are where these best buys are to be found right now.

Unfortunately for many investors, auctions hold a certain amount of fear.

How does an auction actually work?

Does buying at auction really offer advantages?

What are the downsides?

How do you bid?

How do you know what's a bargain and what's not?

And many, many more questions…

With *Beat the Credit Crunch & Make A Fortune Through Property Auctions!*, Rob Best answers them all, dispelling the fear and giving you the confidence to take advantage of real bargains right now.

3 Why Buy Now & Why At Auction

Let's start by listing a few worries we have all come across in the last few months -

- a possible economic recession
- a global credit crunch
- the sub-prime meltdown in the US
- more struggling UK banks (think Northern Rock)
- significant drops in High Street spending
- significant falls in share prices in the retail sector
- and increasing jitters about the risks buried away within the derivatives markets.

All of these are contributing to a housing market slowdown in the UK. There's a lack of confidence and there's a lack of ready finance and these are hitting the market hard.

This brings to mind the ancient Chinese curse - *"May you live in interesting times"*. Interesting times are certainly upon us, and they look to be sticking around for a while.

So, in light of all the doom and gloom (which, of course, the media is taking great delight in spreading at every opportunity!) what do we, as property investors, do for the best?

Well, we only really have three options, as always.

1. We could sit tight and do nothing until the storms blow over
2. We could sell up now before prices really drop
3. We could keep on buying

The first option is, to some extent, the easiest – but I would argue that you'd be missing the kind of opportunity professional investors relish,

Selling up now is definitely the worst choice. Every amateur landlord in the land will be running for the exits soon, if they're not there already. And by amateur, I don't mean part-time. I mean the ill-informed dabblers.

This will create a glut of tenanted and empty properties that will further depress the housing market. It's just one of the mechanisms that can turn bad news and gloomy predictions into self-fulfilling prophecies.

And that leaves us with buying, which is far and away the best choice right now. As every smart investor knows, you buy at the bottom of the market.

Or...

> "The time to buy is when the blood is running in the streets"
>
> Nathan Rothschild

Well, there's no blood just yet – but you get the idea!

If you want the real bargains – and, as we know, the profit in any property deal is in the purchase price, not the selling price – you do not want to rely on estate agents.

Where you want to be this year is in the auction house.

There are two BIG reasons why the best bargains will go to auction:

- Repossessions

These largely go to auction to ensure full transparency, but it's also a relatively hassle-free route for banks and mortgage companies to off-load repossessed property quickly and in bulk. And the number of repossessions will rise this year, without a doubt. In fact, they already are.

- Panicking Landlords

Auctions offer two big advantages to sellers over the estate agent route – speed and certainty. If an amateur landlord wants out fast, then auction is the best route.

> "I buy my straw hats in the winter"
>
> J.P Morgan

So, auctions are where the real bargains are to be found, and it's at auctions where you'll make a real killing this year...*if you know what you're doing.*

The good news is – I'm here to help you out!

Here are just some of the things I'll be covering...

- Powerful Methods of Auction Financing
- Bidding Tricks to Beat the Pros
- Top Buying Strategies
- Don't Go to An Auction Without These Five Items!
- A Little-Known Killer Strategy
- Buy Nothing Until You Understand These Six Cash Concepts!
- A Short-Term Strategy for Quick Profits!
- A Long-Term Strategy for Capital Growth

It's a good start, but it's not enough, by itself, to get you really rocking.

In my Property Secrets blog **Under The Hammer** I bring you my Top Picks from the auction world *every Friday*.

I give you the auction house, the time, date and place of the auction, the lot number, and a short analysis of why I think it'll be a bargain on the day.

But in this book I want to talk about specific strategies, give you some case studies of successful and show you how they can be implemented in the real world.

And in case you're wondering why I don't just go ahead and buy these myself, I'll tell you.

There's only so much one person can do!

I'm a great believer in abundance (as opposed to scarcity). There truly is more than enough for everyone, and I'm more than happy to pass on what I find to others.

> "Be fearful when others are greedy and greedy only when others are fearful."
>
> Warren Buffet

To give you an example of what you can expect from **Under The Hammer** – and, more importantly, demonstrate ***WHY*** auctions are the way to go in the current climate – here's a few examples of what can be found ***IF*** you know where to look.

Remember, these were genuine auctions ***YOU*** could have taken advantage of.

3.1 Top Pick 1

3.1.1 The Planning Permission Strategy

Agent: Countrywide Property Auctions

(**www.countrywidepropertyauctions.co.uk**)

Auction Date: February 5th, 2008

Lot 96: Bridge Farm, Bury St. Edmunds, IP28 8LQ

Guide Price: £175,000 - £200,000

This was marketed as a bungalow in need of extensive renovation. From the photographs, I'd have been tempted to pull it down and start over!

The property is in a semi-rural location, about ten miles outside of bury St. Edmunds, just to the north of the A11. What makes it interesting is that it's sitting on a 6-acre plot.

Now, if you type the full postcode into **www.ourproperty.co.uk**, you'll only find one sale, and that was back in 2002. Not a lot of use. However, leave off the last letter of the postcode – Q – and you'll get a lot more choice of roads and properties in the immediate vicinity.

What stands out is that detached properties in the area sell for £200,000 and over.

Now, you can easily get a very nice detached house on half-an-acre, which suggests 12 for this plot. However, you also need to think about access roads, verges and so on, so just fore the sake of argument, assume you can build eight nice houses here – IF you can get planning permission, of course.

Gross Developed Value (GDV) = 8 x £200,000 (min) = £1,600,000

The Rule of Thirds for development projects is 1/3 for land, 1/3 for build, and 1/3 for profit.

In other words, if you could have got planning permission for eight detached houses on this plot, you could immediately sell the plot on to a developer for £1,600,000 / 3 = £533,333. That's a pretty healthy profit right there!

3.1.2 Strategy

1. Visit the site and get a feel for the immediate area. On aerial photos (via **www.multimap.com**) there's a colourful plot two doors down. That could be a scrap yard, which might throw a spanner in the works.

2. If your visit works out, have an informal chat with the local planning department (01473-432000) and get a response from them. Would they support such a project?

Consider a possible Plan B – the property is only five miles from Newmarket. Would it lend itself to some sort of equine use, such as stables, livery, a riding school?

3.2 Top Pick 2

3.2.1 The Ugly Duckling Strategy

Agent:	Savills (Nottingham) (**www.savills.co.uk**)
Auction Date:	January 31st, 2008
Lot 12:	71 Sycamore Rd, Hollingwood, Chesterfield, Derbyshire, S43 2HH
Guide Price:	£45,000 - £50,000

The last couple of semis to sell in this street before this auction came around (Numbers 61 and 39) went for £108,000 and £132,950. The latter was the most recent sale showing, and that was pre-2007.

This lot did need a full renovation. However, if you conservatively assumed that nothing had changed in the past year, assumed your finished house would have been worth £132,000, and then dropped it to £125,000 to avoid stamp duty, then that gives you a £50,000 fix-up budget, and leaves you with a tasty £25,000 profit.

3.2.2 Strategy

1. Arrange to view the property through the agents. Take your builder with you if you need to, and make a fairly detailed assessment of exactly what needs doing.
2. Cost it out as accurately as you can. Add a 10% contingency. If it comes out at under £50,000 (and it's hard to see how it wouldn't) then you're onto a winner!
3. When you know how much the work will cost, decide on how much profit you want, and that gives you the maximum you want to pay for the property. (It's always better to make this an odd number – say, £51,700. There's less chance then that yours is the same as anyone else's). That's your price ceiling – make sure you stick to it on the day!

3.3 Top Pick 3

3.3.1 A Cheap-Cheap Investment!

Agent: Leonards (**www.leonards-hull.co.uk**)

Auction Date: January 30th, 2008

Lot 2: 12 Malvern Ave, Cecil Street, Hull, North Humberside, HU3 5RD

Guide Price: £30,000 - £35,000

If you're reading this in the south of England, you're probably stunned that houses still sell for such little money in this country. But they do, all the time!

The last two sales shown in this road were Numbers 3 and 8, and they sold in 2007 for £40,250 and £42,995 respectively. Even taking the lowest of these, and the highest of the guide price range, you were still looking at a 13% discount.

The property has double-glazing, central heating, two receptions and two bedrooms.

Rents within half a mile of this property range from £280 to £380 per month (see **www.rightmove.co.uk**).

3.3.2 Strategy

1. Call the local authority and ask about clearance areas. Hull is undergoing some fairly large clearances right now, and you don't want to be caught up in a CPO situation.
2. Talk to some local letting agents about demand in the area.
3. Visit the property, set your ceiling, and away you go!

4 GETTING STARTED WITH THE BASICS

We've established we are living in *"interesting times"* with regard to the property market.

We also agreed that now is the time to be buying property, *"while the blood is running in the streets"*.

Finally, I showed you why the auction house is the place to be in order to take maximum advantage of the opportunities available.

Now, let's take a high-level look at the auction process itself and assume, for the sake of argument, that you've never been to a property auction before, or at least have never taken part in one.

First, let's answer a basic question.

What exactly do property auctions offer the savvy investor?

- Certainty – when the gavel falls, both sides are committed
- Transparency – there's no place to hide in an auction room
- Competition – this is what drives the price
- Motivation – sellers take a property to auction to sell. They don't want to leave with it unsold
- A level playing field – you're playing exactly the same game as the 'Big Boys' plus, of course...
- Below market value (BMV) opportunities

In addition, you'll find that the auction process removes much of the emotion that can accompany a private treaty sale, plus you'll have loads of strategies and techniques you can employ to your advantage, as we'll see later in the book.

Of course, there are **downsides to the auction process**, too.

- You can spend time and money researching properties with no guarantee of buying them on the day
- There's every opportunity to get carried away in the heat of the moment and pay over the odds
- When you do win a lot, you only have 28 days (or sometimes 14 days!) to complete on it

Now, let's take a look at the basic elements of the auction itself.

4.1 Registration

Most auctioneers require you to register if you intend to bid. You can generally do this on the day, and you'll have to provide some sort of ID. Auction houses differ, so check first, and make sure you get there nice and early, so you're not still queuing to register when your target lot goes through!

4.2 The Auctioneer

Always remember – the man at the front is working for the auction house that, in turn, gets paid a commission on every sale. He's also working form the vendor of the property, so of course he wants you to pay as much as possible. So when he says to you, in friendly tones, “I think he’s about ready to give up, sir” (referring to the person bidding against you), bear in mind that he's just trying to get you to part with more cash!

4.3 The Competition

Everyone in the room is a potential competitor – remember that when you're 'networking' before the auction starts! Don't give anything away.

4.4 The Guide Price

As well as being suspicious of the auctioneer, and everyone else in the room, it also pays to be suspicious of the guide price, which is the price printed in the catalogue for every lot. Its part of the marketing used by the auction house, and is set at a point designed to generate interest.

4.5 The Reserve Price

The reserve is decided upon between the auctioneer and the vendor, sometimes as late as the day of the auction. Deciding factors will include how much interest has been shown in the property, the number of viewings, the number of requests for the Legal Pack and so on.

The reserve price represents the absolute minimum that the vendor will accept, and it is generally kept a secret. However, when the reserve is met, the auctioneer will sometimes let the professionals in the room know with a code phrase such as “It’s in the room now” or “It’s here to be sold”.

Finally, I think it's only fair to point out that there are some people who should not, under any circumstances, go near a property auction.

So, you might want to re-consider this route for yourself if you...

- Are a first-time buyer on a tight budget, as you could blow that budget on chasing properties without ever actually buying one!
- Have no funds with which to ‘speculate’, see above.
- Are unable to get finance in place, which takes you out of the property game generally.

- Have no time, no resources or no patience to do significant research into the auction houses available to you, the process, the properties that interest you, their locations and so on.
- Get very emotionally attached to property.
- Get 'rattled' easily – not a good character trait in the frenetic, adrenaline-fuelled environment of a busy auction.
- Have a competitive, win-at-all-costs outlook on life, for the same reason.
- Like to mull things over, take your time, and move slowly when big, important things are afoot. You simply won't have the time!

There are no judgements implied here. We're all different, and some situations, temperaments and personalities are simply not suited to the property auction room.

5 What To Do Before You Even Get To Auction

Conducting your research for buying property at auction is broadly similar to researching any other property purchase, with the addition of researching the auction houses themselves.

No apologies, though, if some of this looks very familiar to you. I want to offer you a good grounding in this area, as it's vital and yet frequently overlooked by some of the more impatient or lazy investors.

Let's start with your chosen geographical area.

5.1 Researching the area

First, you want to get a general feel for the area, by looking at...

- How well is the area served by public transport, and how important is this to people living there?
- How well is it served by schools, and how do the schools rate in the government league tables?
- How well is the area served by retailers?
- How well served is it by public amenities such as libraries, leisure facilities, open spaces and so on?
- What sort of crime levels does the area attract, and of what types?
- How susceptible is the area to flooding?
- How is the area rated for house and motor insurance?

Then, you want to get some idea of how the property market in your chosen area has performed in recent months and years. One good resource that offers this (and much of the above) is **www.upmystreet.com**.

Finally, you need to look forward in time, to try to spot trends or future developments that could have a positive or negative effect on house prices. Look at things like...

- Inward or outward migration of people to or from the area – the former can lead to more demand and higher prices, the latter can mean the opposite.
- Demographic trends – what age groups are attracted to your area, and are you catering for their housing needs?
- Is your area being hit by gentrification (or about to be)? The arrival of a Starbucks is a fairly good indicator!
- What plans do the council have for house clearances or redevelopments? These are often available on the local authority website.
- Are any major new businesses due to move into the area (think of the BBC planning to move to Salford Quays)?

- Are there any new transport links planned or under development (think of the high-speed Channel Tunnel link that's been talked about for years)?
- Are there any large-scale events planned for the area? Liverpool is the European City of Culture this year; the 2012 Olympics is happening in East London, and Glasgow recently won the 2014 Commonwealth Games.

5.2 Selecting the auction

Once you've selected your area, you then need to find auction houses that are selling properties in that area.

If you're investing in London, then you have a lot of choice, including access to some of the bigger operations such as Allsop and Savills.

If you're investing outside of London, look for your local auction houses (in the phone book, online, or in the local newspapers). Also get catalogues from the London auctions (or see what they have coming up on their websites) as London auctioneers sell property all over the country.

In either case, you'll probably find you can short-list a handful of suitable auction houses to work with. However, before you start getting onto their mailing lists, ordering catalogues and so on, do a little bit of background checking first.

- Are they reputable (especially the smaller, regional ones)?
- Where do the auctions take place? (Big, elaborate settings can equal higher prices!)
- How popular are they? Go along to a few auctions, just as an observer, and see for yourself. This will also give you an opportunity to start getting used to the 'buzz' of an auction.
- What are their numbers like? In other words, what percentage of lots do they generally sell on the day?

Once you've made your selection, you need to get access to their catalogues, preferably as soon as they're released. You may have to pay for this, and you can usually select a hard copy through the mail, or online access.

Once you're on their list, you'll get each catalogue as it's released. You will also get fast notification of any updates or changes to the lots prior to the auction itself. This is particularly important if the update involves one of your target properties, especially if it says that, actually, there is no tenant, or the property is leasehold and not freehold, or even that it's been withdrawn from sale or 'sold prior'.

Remember – auctions are a competitive game, so you need access to information the moment it's available, to give you the maximum time to select your property and do the research on it.

5.3 Researching the property

You have researched your target area fully, you know the auction you will attend, you've been receiving and scanning the catalogues, and then you find one or more properties due to be auctioned that fit your criteria.

Then, you'll go ahead and do all your usual due diligence on those individual properties. I'm not going to go into this in depth on the basis that you're already a property investor and should know and practice this already. If this is not the case, there's plenty of information on due diligence elsewhere on the Property Secrets site.

However, the main focuses of your research will be...

- Location – or, as the old cliché goes, Location, Location, Location!
- Ownership – freehold or leasehold? Ex Local Authority?
- Price – how does it compare to it's neighbours?
- Rents & Tenants – how much, what terms, when does the tenancy end?
- State of Repair – what needs doing?

Now, be aware that you may not be able to gain access to the property you're looking at bidding on. This is often the case where there are tenants in situ, and is perfectly normal.

The other slight oddity you may find in dealing with an auction house is that of group viewings. For vacant properties in particular, the auctioneers will not generally take you along on your own to view a property. It's more likely that they'll give every interested party a time and a date, and you just turn up and take a look around.

This can feel a little strange the first time you do it but, again, it's normal practice in this world. It also gives you a chance to assess the level of interest in your target property – the higher the interest, generally, the higher the price – and get a feel for who your potential competitors may be. Remember, too, that there may be more than one group viewing.

5.4 Research sources

We are truly blessed today, as much of our research can be done online. Here are some of my favourite research resources...

For Area Research

- **www.proviser.co.uk/regional/towns**
- **www.upmystreet.com**
- websites of the local councils and authorities

For Auction Research

- **www.eigroup.co.uk**
- websites of individual auctioneers

For Property Research

- www.ourproperty.co.uk
- www.rightmove.co.uk
- www.multimap.com
- http://www.ukpropertyshop.co.uk/letting-agents.shtml
- websites of individual estate and letting agents

Once you've done all of the above, then you've completed what I call Level 1 Research.

Level 2 Research is a bit more in-depth than just a drive-past or a viewing, and typically involves paying out for a survey (where access to the property is granted).

5.5 The Insider's Guide to Surveys – the options, the pros…and the cons

Here, we're going to step back from the auction scene for a while and focus on one area of the purchasing process that many investors find daunting, difficult or dear – the survey.

Homebuyers tend to see the survey as a pretty important part of buying a property.

It will, in theory at least, tell them what will need fixing / replacing / tearing down in the next few months / years, from which one can deduce costs, negotiate a discount, and start budgeting for any works that will need to be carried out.

As investors, we don't usually see surveys in quite the same light. So, are they a vital part of what we do, or are they an avoidable expense?

This question becomes even more fraught when you're buying at auction because the timescales are so tight, and access to the property may be limited, or even denied (in the case of many tenanted properties)

Let me say, right up front, that I very rarely have my own survey carried out on an investment property I'm looking to buy. There are several reasons for this policy…

- It's £300 - £1,000 of potential cost that stays in my pocket
- I have enough experience to spot most big faults myself
- I have people I can call upon to look for issues I would miss
- The mortgage company will do their own survey that will pick up any major issues anyway

On the other hand, if we all miss the collapsing gable end, or the subsiding kitchen, or the rotten roof, then saving a grand will quickly look like false economy!

There are three types of 'official' survey.

- The Valuation Survey
- The Homebuyer's Survey & Valuation
- The Building Survey

The Valuation Survey is what you will pay for, and will be carried out on behalf of your lenders. There's no obligation for them to show you this report (though a good broker will get it for you) and it is the highest-level survey there is.

The main purpose is to a) decide on the market value of the property, and b) ascertain whether or not the property is sound enough to stand for the duration of your mortgage. This is all to protect the lender, to make sure they can get their money back if you default.

The Homebuyer's Survey & Valuation (HSV) is one step above the valuation report carried out by the lender and, according to the Royal Institution of Chartered Surveyors (RICS), is suitable for conventional homes built within the last forty years.

It covers much the same ground as the Valuation Survey, but in greater depth. For example, where a valuing surveyor will look into the loft space, and may even enter it, a surveyor doing an HSV may actually get up onto the roof.

The cost of an HSV varies depending on the area – typically, the south of England is more expensive than elsewhere in the country – but they tend to be in the £250-350 range.

The Buildings Survey is much more comprehensive, more detailed and more technical. You can, for example, extend a Building Survey beyond the building itself and into the immediate environment.

A Building Survey will typically set you back £600-700, but some surveyors can charge over £1,000.

Generally, the more you spend on a survey, the more you'll find out about the property and, potentially, the greater your peace of mind.

(On the other hand, I've had surveys done when I'm buying a home and, instead of peace of mind, I've ended up more worried than ever because the surveyor has picked up on every tiny thing wrong with the place! A list of Things to Do is not always what you want to get in return for £1,000!)

The vast and comprehensive disclaimer that comes with all survey reports may also undermine your peace of mind. It's a bit crude, but reasonably fair to say that these disclaimers basically say that we did our best but if we missed something, it's not our fault.

The good news is, you can get the survey information you need without spending lots of money, and without having to read disclaimers. There are two 'unofficial' surveys you might want to consider.

5.5.1 The Trustworthy Builder Survey

If you've been in property for any length of time, you're bound to know a good builder or two. Even if you're relatively new to the game, you'll either have a friend who's in the building trade, or one of your friends will have a builder friend, or someone you know will have used a builder in the past who they can recommend.

If you arrange with them to accompany you when you go to view the property, you're getting two pairs of eyes looking the place over, and one of them will be an expert!

It's unlikely s/he'll want to charge you for this. It is unofficial, it won't take long and, of course, if there is any work to be done, chances are you'll pass it their way.

Do bear in mind, though, that builders only make money when they're doing stuff! So it's in their interests to find stuff to do!

I once sent one of the builders I use to check out a damp problem in a downstairs Tyneside flat in North Shields. I was convinced the old damp course had failed and, in initial discussions, he explained how he would fix that properly, which involved removing a course of brick, cleaning out the wall cavity, installing a new damp course, replacing the brick work and sorting out the internal décor. I was prepared for a bill of several thousand pounds!

However, after he'd visited the property, his assessment was that the tenants weren't opening the windows enough, and the damp was actually condensation from the shower and kitchen. He proposed two permanently open vents, front and back, to solve the problem. It cost £170.

Do you think I trust that man now? Of course I do! He could easily have 'sold' me the big solution, and I'd have been none the wiser.

If you find someone like him, treat him like a friend, pay him on time, and he'll save you a fortune over the years.

5.5.2 The DIY Survey

With all due respect to surveyors, doing a reasonably good survey on a property is not exactly rocket science!

No, you're not qualified to do an official survey, and you may not have the skills of your friendly builder, but with a bit of common sense, a sharp eye, and a good checklist, you could do a pretty good job on your own in half a day.

I'm going to assume you've got the common sense and the sharp eye. Now I'll provide you with a good checklist that you can print off and carry with you to every property you go to inspect from now on.

Leave the mortgage surveyor to do the valuation, and you'll have everything you need to do everything else.

If you put the information contained within this section into practice for just one property you consider buying from auction, you could easily save enough money to cover your Property Secrets subscription for many years to come!

Let's get on with it.

When You Leave Your House...

...make sure you have the following items.

1. The address of the property you're viewing, and the name and number of the person showing you around. Yes, it's funny, but only until the day you drive 40 miles to discover you left this vital information behind!

2. A notebook and pen, and / or a Dictaphone. I like writing notes, and I feel a bit uncomfortable talking into a little machine. You may feel the opposite – it's a matter of personal taste. The important thing is to capture as much information about the property as you can.

3. A camera. Pictures paint a thousand words, and all that!

4. A pair of binoculars.

5. A copy of this section!

Start your inspection visit with a very, very slow wander around the whole property, inside and out, just to get a general, overall feel for the place. Allow your senses to roam freely, picking up on anything that stands out.

Then, it's out with the checklist, and away you go.

6 DIY SURVEY CHECKLIST

6.1 Structure

6.1.1 External Walls

- Material used?
- External finish?
- Any cracks or signs of movement (especially at the corners of door or window frames, or below the damp proof course)?
- Bulging walls?
- Signs of damp or salt staining?

6.1.2 Internal Walls

- Materials used? (Tapping will tell you if it's a hollow stud wall or a solid brick or block wall. Also, look out for lat-and-plaster walls in older houses – this often needs to be stripped off completely and replaced).
- Any party wall issues with the neighbours?

6.1.3 Windows and Doors

- Materials used?
- How old are they?
- What is the condition of the woodwork?
- What is the condition of the paintwork?
- Does any of the window putty need replacing, or any of the glass panels?

6.1.4 Roofs

- Materials used?
- General state of repair? You'll see a lot from across the road (with the binoculars), but don't forget to look at the front, the back, and at any returns. Also, access the roof space if you can, and look for daylight patches, or signs of water coming in. While you're there, check the...
- Woodwork – for damage, rot, or woodworm infestation. (Little tell-tale holes are one sign of woodworm, but they could be old and vacant. Your real problems start if there are little piles of fine, fresh sawdust beneath the holes! See also Timber below).
- Check flat roofs for repair patches / failure.

6.1.5 Chimney Stack

- Any loose bricks, damaged pointing or signs of damp?

6.1.6 Ceilings

- Original?
- Good repair?

6.1.7 Floors

- Materials used?
- General state of repair? Fitted carpets will make this tricky, but walk all over to check for moving boards, creaks and so on.
- Check the state of the staircase.

6.1.8 Damp Proof Course (DPC)

- Is there one? If there is one, you'll generally be able to see it on the outside of the external walls as a black line two or three brick layers up from the ground.
- Is it working? Check for signs of damp on the internal plaster, remembering to look behind furniture, too. Often, a house or a particular room will smell damp. Be aware that damp may have causes other than a failed DPC, such as a leaking roof, damaged or blocked gutters, faulty downpipes or overflows, or bad plumbing. Invest in a moisture meter if you're intending doing a lot of surveys yourself, and that will give you accurate moisture readings. Bear in mind that in older, stone-built properties, it can be fine to have a certain amount of damp, and a DPC is neither practical nor necessary. Indeed, older stone properties are designed to breathe, and need to be well ventilated to prevent a build-up of damp.

6.1.9 Air Vents

- If there are any, note where, how many, and are they clear? These are necessary to ventilate the space beneath timber floors. Without them, mildew and rot can set in.

6.1.10 Timber

- From roof joists to floorboards, look for signs of rot, dry rot or woodworm.
- Rot is caused when wood has been left damp for a long time, and it turns crinkled and weak. It can be treated, or replaced, but only after the source of dampness has been tracked down and fixed.
- Dry rot, on the other hand, is a fungus that emerges when an airborne seed lands on damp timber. When it grows, the tendrils reach out for, and eventually destroy, dry timber. It's a nasty problem to face, and can only be effectively tackled by experts.
- Woodworm, as mentioned earlier, leave piles of fresh sawdust if they're active. However, they prefer damp conditions, and if a house is dry and centrally heated, chances are they've left for pastures new.

6.2 Internal Décor

- What are your overall impressions of the décor?
- Look specifically for cracks in the plaster.
- What is the state of fittings such as lights?
- What is the serviceability of sinks, toilets, baths, showers and so on?

6.3 Alterations

- Check the quality of work in extensions, loft or basement conversions. Basements in particular can be problematic, being underground, and therefore susceptible to damp.
- Make sure everything was done with full Building Regulations permission, and that it complies with all relevant building standards. (It may not be a disaster if this turns out not to be the case. Providing you know exactly what’s involved to bring the work up to a legal minimum, simply drop your price ceiling by a commensurate amount. This knowledge could also give you tremendous bargaining power if the lot doesn’t sell on the day, and you’re able to negotiate after the auction).

6.4 Services

6.4.1 Central Heating

- What type?
- How old? There's usually a sticker on the boiler somewhere that will give you the date of installation.
- Is it working? Unless you're looking to replace the system, find out if there's an up to date service book.
- If there's a tenant in situ, a gas boiler must have a current CP12 certificate.

6.4.2 Water Supply

- Where are the storage tanks, and how serviceable are they?
- Is there an immersion heater, and does it work?
- Is it a shared mains supply (as in some older flat conversions)?
- Has a water meter been fitted?

6.4.3 Gas & Power

(A non-expert can only do a superficial inspection of these. In these two areas, if you are in any doubt whatsoever, call in the experts.)

- Check how old or new the plug sockets and light switches look, as this can give some indication as to the state of the wiring.
- Failing this, height givers you a clue as to age. Older light switches are at about my shoulder height (I'm 5'11"), whereas recently re-wired houses have switches nearer elbow height).
- Check the overall state of any wiring you can access; in the loft space, for example.
- Make sure any gas appliances work, and there’s no smell of gas.
- Check again for a current CP12 in the case of tenanted properties.

It's a legal requirement to have the gas system certified. It's not yet a legal requirement to have the electrics certified, but it's coming soon!

6.4.4 Rainwater Drainage

- Materials used? Iron or tin guttering or downpipes may need replacing.
- Any cracks or leaks? This is easier to spot on a wet day, of course.
- Does the water go to a soakaway or into the main drainage system? (Most in the UK are connected to the mains. Ones that aren’t tend to be in remote rural areas and on the edges of small villages).

6.4.5 Soil Drainage

- Check pipes and outlets for age and damage.
- Flush the toilet, turn on a tap or the shower, and check that the water drains away properly.

6.5 Outside

6.5.1 Outbuildings

- Check on the condition of sheds, greenhouses, garages, barns and so on.

6.5.2 Walls, Fences & Gates

- Materials used?
- Check the overall condition
- Who is responsible for what amongst the adjoining properties?

6.5.3 Gardens, Paths & Driveways

These tend to constitute the first impressions, and are therefore important, especially if you are looking to sell on or let.

- Is the tarmac or concrete broken up?
- Are there weeds between the paving slabs?
- What condition is the garden in?

A combination of this level of information, plus an indication of value gleaned from your research of the area and immediate neighbourhood, and from the mortgage valuation, will take you reasonably close to a survey report.

It will also allow you to make a note of what needs doing in what order of priority, plus any questions you may need to raise with the vendor.

7 Getting To Auction – What Do You Need?

The day has arrived!

You've been poring over auction catalogues for months.

You've viewed a few potential properties, done the research, and had your solicitor look at the legal packs for you.

You have your financing in place.

And now, you've found a property that fits the bill perfectly!

You've done more in-depth research on this one. You've conducted your own survey on it, and you have all the figures nailed down for any work that needs doing. Your solicitor has been through the legal pack with a fine-toothed comb, and s/he's happy.

Now, all you have to do is get along to the auction and get into the fray!

But before you leave the house, make sure you have all the important stuff with you.

The five things you must take with you when you go to bid at auction are...

- Your research
- Your chequebook
- Your personal ID
- Your solicitors' details
- Your price ceiling

Let's delve into each of these in turn.

7.1 Your Research

You don't need to take the entire file, unless you really want to, but I'd strongly advise you to take at least a written set of bullet points covering everything you've found out about your target property.

You might consider including...

- Market value estimates
- Rental estimates
- Type of tenancy (for an occupied property)
- A headline list of works required (for a vacant property)
- Outcome of your conversations with the planning department (for a development project)
- Etc...

There are two reasons why such a list can prove invaluable on the day.

First, you have all the information down in front of you as you're bidding. You may think you can remember it all but, once you've researched fifty properties and been to several auctions, the details can start to merge into one another, and you can easily get mixed up.

Second, auctions can be a moveable feast. There's every chance that, just as your target lot comes up, the auctioneer makes an announcement on that lot. Perhaps the rental income is less than they indicated in the catalogue. Perhaps there's no tenancy agreement in place. Maybe the size of the development plot is actually different to the approximate numbers given.

There are a host of possible things that can change on the day, and it's incredibly helpful if you have your research to hand so that you can respond to these changes by altering your figures, changing your assumptions, or perhaps deciding against bidding altogether.

7.2 Your Chequebook

You'll be asked to pay a deposit on any properties you purchase. This is normally 10%, subject to a minimum of £1,000, although this can sometimes be raised to £1,500. Make sure you know what's required for your target lot.

If you're bidding on more than one lot, make sure you have enough cheques to pay one per deposit. A letter of comfort from the bank is also a good idea, reassuring the auctioneer that the funds are in your account.

Make sure, too, that you have sufficient *cleared* funds in your account on the day of the auction. Some auctioneers will push your cheque through the express clearing route, which means it clears the following day. So don't rely on the usual 3-7 days of breathing space before your cheque clears!

This is probably obvious, but I'll mention it anyway, just in case – do NOT try to pay cash! If you turn up to an auction with a suitcase of tenners in today's paranoid world, you'll be whisked off as a suspected money-launderer and could find yourself in shackles and an orange jump-suit before your feet touch the ground!

7.3 Your Personal ID

Auction houses vary slightly on what they require in terms of ID, so it's worth checking well ahead of time.

Sometimes, one piece of photo-ID is sufficient, such as a passport or a new style driving licence. Sometimes you may also be asked for something like a bank statement or utility bill to prove your address.

7.4 Your Solicitor Details

On your first one or two outings, you may like to bring your solicitor along to be there with you. This can get expensive, though, so you'll generally find yourself there without personal legal representation – and you'll be fine!

Do take the details of the solicitor you intend to use with you, though, so you can pass them on to the auctioneers on the day, in order to set the wheels in motion as quickly as possible. It's best to take along one of their cards, or a letter from them, so that you're passing on the details accurately and in full.

7.5 Your Price Ceiling

At an auction, it's frighteningly easy to get carried away with the excitement of the moment, the jostling for position in bidding for a property you've set your heart on, the heady feeling of being at the centre of attention.

Allow this to happen, and you're well on the way to making the worst, most costly mistake possible at an auction, which is to lose sight of all limitations and just keep bidding up in order to secure the property you want.

The one and only way to avoid such a mistake is to firmly set your price ceiling before you arrive at the auction room, and preferably before you even leave home.

You've researched the property and the area.

You know the market value of the property.

You know the guide price.

You know what needs spending on it.

You know what you can afford to pay,

and, more importantly, you know what the property is worth to you.

Your price ceiling will be a figure. Not a range, or a 'thereabouts', or any other type of vagueness.

Your ceiling is a figure and, once you've settled on it, and it works against all your criteria of affordability, discount to market value and so on, you commit to it and never, ever waver from it. Then, no amount of excitement in the room, cajoling from the auctioneer, or pressure from having all eyes upon you, will allow you to stray into over-priced territory.

Be firm in your conviction. If you don't get that one, there'll be plenty more along in the future.

It's worth being creative with your figure, however. If you choose a nice, rounded figure – say, £200,000 – then that's not creative. That's probably the same figure that all your competitors in the room have chosen, and only one of you can land on it!

At that price level, another few hundred or a thousand is neither here nor there, so why not choose something like £201, 350?

(Incidentally, if you own the startlingly good **Property Auction Secrets**, you'll find the software that comes with it is designed to take all the figures you uncovered through your research (and it prompts you to plug gaps you may not even know you had!) and calculate a price ceiling for you).

8 Six Top Tips, Tricks & Tactics To Confound Your Competition!

If you're about to attend your first auction, as a potential buyer, then it might be a bit early to take on the tricks and tactics laid out here.

Indeed, at your first auction, it's worth making yourself known to the auctioneer beforehand, telling him the lots your interested in, and then sitting in an aisle seat, or standing near the front so he'll easily spot you. You might even decide to wear a Hawaiian shirt or something equally bright!

If you are going after a lot, get involved in the bidding early. This reminds the auctioneer to keep an eye on you throughout the bidding. If you come in at the last moment, there's a chance he'll miss your signal, and you'll miss your bargain!

All this will help you on your first outing or two, and it will help the auctioneer, too. However, remember that the auctioneer is ultimately working for the vendor (to get the best possible price) and for the auction house (to get the best possible commission). You are definitely third in the pecking order!

Once you've got a couple of auctions under your belt, then you can cut loose from the advice above, and position yourself to hammer your competition by taking advantage of the ideas below!

Here are six tips, tricks and tactics that will give you an advantage over most other auction-goers, and therefore most of your competitors in the room.

8.1 Stay Invisible & Anonymous

Everyone is a competitor in the auction room, including the auctioneer! So, once you have your first auction behind you, it's vital that you then keep a low profile.

No matter how friendly and sociable the atmosphere (and many auctions are) you must guard against getting too involved in conversations and giving away your intentions.

Loose Tongues Cost Lots (to paraphrase the old wartime posters!)

Another good reason for remaining in the shadows is the danger of picking up followers. Followers look for regular auction-goers who do their homework and set strict price ceilings. They then simply out-bid them, safe in the knowledge that those price ceilings will never be broken.

If you're the one being followed, that's a nightmare!

Now, it could be a while before you have to worry about this, but it's worth being aware of from the start.

So avoid drawing attention to yourself in any way at all, and you won't attract these characters to you, and you won't give anything away to your competition.

Here are some specific Do's and Don'ts...

- DO dress conventionally.
- DON'T get into conversations.
- DO stand towards the back of the room.
- DO keep a low profile.

8.2 Bid by Proxy

As the next step in the low profile game, you might consider avoiding the auction room altogether and bidding over the phone, or online, or even using a bidding agent.

In the case of using the phone or the Internet, you'll need to get three things to the auction house in plenty of time for the auction – like days before, rather than hours!

1. A proxy form, filled out and signed, that gives auction staff permission to act on your behalf
2. A registration form, to register for the auction
3. A cheque for the deposit, in case your proxy is successful.

If you complete the cheque with an amount, you're limited to a bid of ten times that amount, and are therefore specifying your price ceiling (which is highly recommended in any event). If you don't want such a limitation, leave the amount on the cheque blank and the auctioneer will make it out for you, if you are successful.

8.3 Phone Bidding

If you want to bid by phone, tell the auctioneers in good time. They will ask you which properties you are interested in, and then make an arrangement for one of their staff to call you on the day, from the salesroom, shortly before the lot you are interested in comes up.

On the day, you'll have a professional representative in the room bidding on your behalf, as you give him instructions over the phone.

As well as the anonymity phone bidding offers, it also means you can slow the auction down by taking a bit longer to consider your next bid, and you're less likely to get caught up in the excitement.

8.4 Online Bidding

This is still not commonly available but, where it is, it offers largely the same advantages as phone bidding, with the same requirements of getting funds and prior warning to the auction house in plenty of time.

8.5 Using a Bidding Agent

Alternatively, you may decide to use a bidding agent who will attend the auction and act on your behalf.

Most people tend to use an accountant or a solicitor, but they are not trained to bid skilfully at auction.

If you want a good bidding agent to represent you, why not appoint another auctioneer from a different company? If anyone knows what they're doing at an auction, surely it's an auctioneer!

8.6 Jump Bidding

If you do decide to turn up at the auction in person, here's a technique that requires steely nerves and perfect timing. With practice, it can be devastatingly effective.

All you do, as the bidding is taking place on your target lot, is wait.

As the price gets higher, you generally find some early bidders drop out, finally leaving just two people slogging it out. The bidding will inevitably slow. The increments in which the auctioneer tries to raise the price will shrink, perhaps from £5,000 to £1,000 to £500. Hesitancy will creep in for one or both the opponents.

And just as it looks like it's all over, you make your first bid, perhaps two or three increments higher than the previous bid. Or, you could shout out a bid that takes the increment back up again; say the bids have been increasing £500 at a time, and you suddenly shout out a price that is £2,000 above the last bid.

Either tactic will always throw both sides off balance and, quite often, your first bid will be all that's required to secure the property.

8.7 Bidding High

Similar in some ways to jump bidding, and perhaps even more psychologically devastating to your competition, is the high bid.

You should generally use this early in the proceedings, rather than late, when the auctioneer is trying to coax bids from the audience by starting low to get things rolling.

This is a bit of a game – the auctioneer knows he has to get back up in price to reach the reserve, and the buyers know they'll never secure a property for the low prices he's starting at (unless there is no reserve) but it's a way to get going safely that doesn't require people to show their hand too early.

A high bid from you can completely undermine this charade, and shatter the confidence of other bidders.

Let's take an example.

A property you're interested in has a guide price of £155,000, and you have your ceiling set at £140,000. The auctioneer tries to start at £100,000, gets no bids, drops and drops until finally the bidding starts at £75,000. He takes bids in £5,000 increments, but before he gets to £90,000, say, you come in by shouting out a bid for, say, £125,000.

Now, in all likelihood the bidding would have got there in the end anyway, and probably gone beyond. However, your big move immediately makes your competition think Whoa! – Big Determination and Deep Pockets! This scares them off, and you get a bargain.

8.8 Spotting Off the Wall Bids

We know that an auction lot must reach its reserve before it will sell, right? Therefore, by definition, it won't sell below that reserve price.

So, if bidding is sluggish for a lot, and the price is still below the reserve, the auctioneer may take bids "off the wall", which means he appears to be accepting bid signals as usual, but in actual fact, they don't exist. He's making them up in order to drive the price up to the reserve.

Legally, he's allowed to do this only up to the reserve and no further.

If you can see that he's doing it, then you know not to get involved until the reserve is reached. And how do you know when the reserve is reached? Well...

8.9 Listen For Key Phrases

Whether the reserve has been reached by the auctioneer taking imaginary bids, or by genuine bids from the room, the auctioneer will sometimes let the professionals know when the reserve has been met.

Phrases to listen out for that indicate this are "it's in the room", "it's on the market" and 'it's going to be sold". When you hear one of these, and there's still little interest in the lot, then you could pick the property up for its reserve price or just over.

(Reading this over, I can't help but notice my portrayal of auctioneers as being male. The simple reason for this is – it's largely true! I've been to a lot of auctions over the years, and talked to many auctioneers in the course of researching **Property Auction Secrets**, and I've yet to come across a female auctioneer).

9 SIX TOP BUYING STRATEGIES!

I'm sure you know by now that the profit in any investment deal is in the purchase, not in the sale.

Your job, as a successful property investor, is to only buy properties below market value.

We've already established that auctions are one of the best places to find BMV properties on a regular basis. Now, here are six strategies for hunting them down.

9.1 Focus on Quiet Auctions

The price you pay for a property at auction is a direct result of the amount of competition you find yourself up against. If several people in the room are keen on securing the same property, competition will be intense, and the final price will be high.

Conversely, if there is little or no interest in the room for the property you're interested in, then the chances are you'll get it for the reserve price, or just over.

So the best auctions at which to pick up bargains are the quiet ones.

You might be lucky enough to find an auction near you that is regularly quiet. However, you're more likely to succeed with this one if you pick your nights carefully, rather than the auction house. For example, factors such as dreadful weather, or an important soccer game on TV, are often enough to keep folks away from an auction.

You might also look at lots in the final third or quarter of the auction. By this time, many people tend to have drifted off home.

In terms of season, any sale close to Christmas is likely to be pretty quiet, and offer some great end-of-year opportunities.

9.2 The Ugly Duckling Strategy

I gave an example of this at the beginning of this book. People tend to under-estimate the cost of structural repairs, and over-estimate the cost of largely cosmetic work. And if the cosmetics of a property are truly terrible, this can have a sufficiently strong emotional effect on potential buyers to put them off.

There is no logical rationale for this, of course, so if you're aware of this tendency, you can step back from it yourself and gain an immediate edge.

If you're not looking for a full-blown renovation project, the best properties to seek out are the run-down, shabby ones. These tend to attract less interest and, providing there are no structural issues, these can be the best of auction bargains.

9.3 Look for Late Entries

Timescales are tight at auction for auctioneers and vendors, as well as buyers.

The glossy catalogue you order has to be prepared, printed and distributed in good time, and this is a big job in itself. Add in the need to take photographs, check details, proof-reading, run everything past a solicitor, and run a marketing campaign for every sale, and you can see how much work goes on behind the scenes.

Auctioneers I've spoken to would like nine weeks in which to get all this done. That's too long for vendors, though, so they generally settle for seven weeks and work longer hours!

Even then, some vendors will try to push lots in with only four or five weeks to go. If the auction house can accommodate them, you'll see these late lots turn up as loose-leaf inserts in the catalogue.

Being late, they are often over-looked by the crowd, attract little interest and, if the vendor is in a hurry, the reserve will be set low.

What a great combination!

Just make sure you check, check and check again the details for these lots. They were prepared in a hurry, and mistakes do get made.

9.4 Focus on Over-Priced Lots

Our natural instinct, when looking to pick up bargains, is to look at the price or, in an auction catalogue, the guide price.

And that's what everyone does!

Conversely, when a guide price looks high, people tend to pass it by, as it appears not to be worth the effort. Once again, less interest equals less competition equals lower prices!

9.5 Buy Non-London Lots in London!

As we saw in an earlier section, sellers, particularly bulk corporate or institutional sellers, will tend to put all their lots through a London auctioneers, and these lots will be sold in London.

However, these properties can be anywhere in the country. Leaving aside phone and online bidders, the vast majority of buyers at any given London auction are, funnily enough, Londoners, looking for properties they can manage – i.e. within the M25 or Home Counties.

What this means in real terms is that non-London properties sold at London auctions frequently sell at a discount, as they attract less interest.

If you bring your knowledge of your own local property market to a London auction, and you bid on lots that are in that market, you'll often pick them up cheaply. You then take your new acquisitions home with you, and immediately put them up for auction with your local auctioneers, (or up with a local estate agent) where they will be sold at a price closer to the local market value.

And you pocket the profit!

9.6 Find Un-Mortgageable Properties

This strategy is only suitable if you have the resources to buy investment property without the aid of a mortgage.

Mortgage companies simply won't touch properties with structural faults until these faults have been rectified. Anyone pursuing the standard mortgage route on such properties will either get a flat refusal, or will be offered a mortgage under which a sum of money is retained until the problems are fixed, at which point it will be released.

This then means the buyer has to find the shortfall between the price of the property and the initial sum offered by the bank, and additionally has to find the money to carry out the repairs. This is enough to put most buyers off, or put it out of reach of their pockets, leaving the field relatively clear for you to profit.

Of course, you do need to be careful here, and make sure you get expert structural advice on each deal. What you'll often find, though, is that un-mortgageable does not necessarily mean unsafe, or even uninhabitable. From the banks' perspective, they're just not good enough to sell on fast to recoup their money, and therefore represent too much of a risk.

The fact that these properties are seen as a liability by both vendor and lender gives you a space to step in and pick them up for sometimes 50% or less of their market value.

If you can then repair the damage for less than 50% of the repaired value, you're in profit.

If the property is basically safe and sound, you could even let it out at the full rate on the basis that the structural problem isn't going to impinge at all on the tenant's safety or their enjoyment of the building. And that will translate into a fantastic yield on your investment. You could then carry out the remedial work at your leisure.

A typical fault that would make a property un-mortgageable is a crack or two in the walls caused by subsidence or some other structural movement. Often, that movement may have happened forty years back and stopped for good long ago. In other words, there's no current problem of movement; only an old issue to rectify.

10 Six MORE Top Buying Strategies!

Following on from last time, here are a further six top buying strategies for you to employ in order to pick up the best bargains from auction.

10.1 Focus on Unsold Lots

At a typical auction, anything from 10% to 35% of lots will not get sold on the day because they fail to reach the reserve price.

Clearly, an unsold lot means a vendor stuck with a property s/he hoped to sell, and an auctioneer minus one commission, so no one's happy. In the case of an individual vendor (as opposed to an institution) they might actually be in the room on the day of the sale, feeling a bit dejected.

Or, to put it another way, feeling especially *motivated* to sell!

That's the time to move in with an offer. It should be above the best bid on the day, of course, but don't go too far over. The vendor and the auctioneer between them will probably be keen to help you secure the property (thereby taking it off the hands of the vendor, and ensuring a commission for the auctioneer) and may drop large hints as to what your offer needs to be in order to do the deal.

This is a strong position to be in.

Don’t be tempted to go over the limit you set yourself, and don’t be afraid to negotiate hard. Walk away if you don’t think they’re playing the game. If they chase after you, your position just gets stronger.

If you know enough about the property, and have done the research on it already, then by all means approach the auctioneer as soon as possible, preferably before he goes home that night. If the vendor is present, so much the better!

If you need time to check it out, use the alternative tactic, which is to wait for a few days. It gives you time to do your due diligence, and it gives the vendor a few days to sit and worry!

Then you pounce with an offer, and you might find you get your arm taken off – figuratively speaking, of course!

You can find unsold lots by the hundred (virtually every one in the UK, in fact!) of you subscribe to **www.eigroup.co.uk**. Alternatively, you can get a carefully elected and analysed "best of the bunch" (between 16 and 24 properties a month) from **www.thepropertyman.co.uk**.

10.2 Focus on Short Lease Properties – and Then Extend Them!

Do you recall the un-mortgageable strategy? This is similar, in that lenders will not lend on residential properties with short leases (under 50-70 years). They typically want a minimum of 40 years of the lease remaining after the mortgage period has ended.

So, if you see a property with less than 65 years remaining on the lease, you're in cash-buyer-only territory, and therefore your competition will be severely reduced.

Then, you can look to extend the lease under the 1993 Leasehold Reform and Urban Development Act, which was updated in 2002.

Under certain conditions, this Act provides a mechanism whereby leaseholds can be extended by 90 years.

The conditions are:

- The leaseholder must have owned the flat for at least 2 years.
- The original lease must have been granted for at least 21 years.

The first condition is just a matter of time, so you can't buy a short lease flat at auction, extend the lease and sell it on for a fast profit.

The second condition is beyond your control – the lease is either older than 21 years, or it isn't.

Be aware, however, that there are some confusing complications in the law, and in certain cases the cut-off can be 35 years. It pays to check in every individual case.

Be aware, also, that not all leases are extendable. I researched one in Chelsea a few years ago, and found out that, under the terms of the original lease, it was not extendable under any circumstances.

The process of extending is fairly straightforward.

You contact the freeholder, arrange a formal valuation to assess the difference between the value as it stands, and the new value with an extension in place. The difference is known as the 'marriage value', which is then generally split equally between you as the owner, and the freeholder.

You'll be asked to pay legal costs, and you'll have to find 50% of the marriage value to pay to the freeholder. In return, you get a much more valuable property which is, overnight, available to buyers using the usual mortgage route.

10.3 The Grant Strategy

There are local authority and government grants available for certain types of property renovation and alteration, but they tend to be very specific, and change from region to region, council to council.

Your best bet is to do the research first.

Grants tend to be aimed at the disadvantaged areas and populations of the country, such as the de-industrialised northern cities and run-down inner city areas, and they'll focus on projects that extend the stock of good, affordable housing.

So, forget about getting help to put a conservatory on the back of a four-bedroom semi, for example. But turning that same semi into an HMO (House of Multiple Occupation) by converting the bedrooms into bedsits and complying with all the fire and safety regulations, may attract financial help from the local authority, if there's a clear demand for low-cost housing.

10.4 Try a Pre-Auction Offer

Sometimes, you'll hear the phrase "Sold Prior" at auction, referring to properties that have been sold before the auction. Around 15% of auction properties are sold in this way, and you are perfectly at liberty to make an offer on any property before the day of the auction. The auctioneer will pass any offer on to the vendor, and advise her whether to take it or not.

It's worth noting that your offer probably won't be entertained in the case of a sale resulting from bankruptcy, as the receivers have to be seen to be scrupulously fair in the way they dispose of assets.

If you do make an offer, bear in mind an important (if obvious!) point that you can't ever make a lower offer than you're opening one! So you're better off going in really low, and moving up from there.

I tend to offer at least 20% below the guide price, assuming that is still some way below my own price ceiling. Clearly, you don't need to have many such offers accepted to make a real boost to the equity in your portfolio!

Once you've decided on the offer, you must make it in writing, either by fax or letter. Enclose proof of funds to make your offer stronger.

And don't, under any circumstances, chase the auctioneer for an answer. If you're ever tempted to pick up the phone to find out what's happening, just remember – he'll see you as desperate, and desperate buyers pay more!

10.5 Focus on Repossessed Properties

Sadly, the number of repossessions looks set to rise quite steeply at the time of writing, which is a tragedy for the many thousands of families that will be affected. I've seen some estimates suggesting we could be running at 100 repossessions a day.

Every one of these properties will have had to have been sold by the repossessing mortgage lender in order to get at least some of their money back. A fair proportion will be sold at auction.

In an auction catalogue, you can spot them by scanning the sellers for each lot. If the seller is a bank or building society, the chances are it's a repossessed property.

Also, look for tell-tale phrases such as:

- On the instructions of a liquidator
- On the instructions of an LPA receiver
- On behalf of mortgagees in possession

Often, the mortgagee is more interested in recouping their money, and getting the property off their books, than getting the full market price.

10.6 Hire an Auctioneer!

We mentioned this in a slightly different context a couple of chapters back, when we said you can hire an auctioneer to do your proxy bidding for you.

You can also ask one to accompany you and advise you 'live' or bid for you.

Many professional buyers, including senior directors of some of the larger property companies, engage an auctioneer to accompany them to an auction.

If you are relatively new to auctions, you can even find that some auctioneers are willing to act as a mentor at an auction, offering advice on the entire process from assessing the legal pack, through the bidding on the day, and through paying the deposit and tying up the legal paperwork afterwards.

Having an auctioneer working for you at an auction is like taking a game-keeper out poaching with you – if there's tasty salmon there to be had, you're with the best person to help you nab them!

I've left one final buying strategy for last, and I'll cover that one in detail in the next chapter. It's fairly advanced, not at all well known, and it can be very profitable indeed.

11 A Little-Known Killer Auction Strategy

One of the strategies I talked about in the last chapter was making pre-auction offers. If you go in at 20% or more below the guide price, you only need a few of those to be accepted every year for you to make a tidy profit from BMV property.

Underwriting is a step or three on from the straightforward pre-auction offer, and is a potentially lucrative procedure that is little known in the property investment business.

Let me say right up front that it’s not for the inexperienced or the faint-hearted and, as with any transaction that involves an element of risk, you should always seek professional advice first.

Underwriting is all about making a pre-auction offer on a certain type of property that, in certain circumstances, the vendors will find difficult to resist. In fact, not only will the vendor be tempted, but the auctioneer will be pleased to recommend the offer, and the property will still be offered for sale in the auction room.

Confused? Then read on!

Basically, on certain types of property, you make a pre-auction offer that you are happy to pay, just as with the straight offer we talked about last time. However, you also let it go to auction as originally planned and, if it makes more than your offer on the day, you split the difference with the vendor.

You either make a purchase at the right price, or you make a profit on the sale. The vendor, meanwhile, has a guaranteed sale at a guaranteed price that s/he's happy with, set before the day of the auction. Anything extra is a bonus that they'll be happy to share with you.

So – what's the ideal property for underwriting? Who's the ideal vendor? And how do you go about structuring an underwriting deal?

The ideal property is one from which you can unlock value in some way, and make a profit, if you were to pay close to the guide price. Ideally it will be mortgaged, vacant, and likely to attract a fair bit of interest on the day. You may well end up buying the property, so make sure you're happy with that before you proceed.

The ideal vendor is, you won't be surprised to hear, motivated! Having a mortgage on a vacant property means a month-on-month loss for the owner, so that's a pretty good indicator on its own. Add to that the fact the property coming to auction (for a fast sale) and you've got an ideal vendor profile for an underwriting offer. If the vendor is experiencing financial difficulties as well, and if the place has been on the market for a while, so much the better.

11.1 Making An Offer

In the same way as making a normal pre-auction offer, you simply decide on how much you'd be willing to pay, and make your offer in writing via the auctioneer.

However, there are two key differences with an underwriting offer

1. Your offer should be at or near your price ceiling – in other words, the most you'd be prepared to pay. You want to make this attractive to the vendor, so going in at 20% below the guide price makes no sense here.
2. You'll make clear that you are offering to underwrite the sale, not to buy it pre-auction.

If your offer to underwrite is accepted, you'll enter into a contract with the vendor and the auctioneer, and you'll pay the auctioneer 10% of your chosen figure up front. The property will then go into the auction, and one of two things will happen.

11.2 Possible Outcome 1

In the auction, the highest bid for the lot in question is *below* your offer price. The property doesn't sell at that price because you've underwritten the sale at a higher price. You'll then have the usual 28 days to complete on the deal.

Here, you get a property you want, at a price you were happy to pay, without all the hassle of bidding!

11.3 Possible Outcome 2

In the auction, the highest bid on the day is *over* your offer price, in which case the property is sold to that bidder. However, the difference between the price at which you underwrote the property and the eventual selling price is then split 50/50 between the vendor and you, as the underwriter.

Here, you make a tidy profit for the sake of a couple of phone calls, a written offer, and a cheque that will be returned to you! Your share of the difference will be passed to you on completion – again, 28 days from the date of the sale.

In order to make this work for you, be sure to follow the rules...

- Do all the research and due diligence, just the same as if you were planning to bid in the normal way.
- Only underwrite properties you are really prepared to buy and own, and that fit your overall strategy.
- Don't get involved in underwriting unless you have the funds available and can prove that to be the case at the time you make your offer.
- Don't over-estimate what the property is likely to achieve on the day.

Providing you choose the right property, the right vendor, and offer the right price, then this buying strategy is pretty fail-safe, and is a true Win-Win.

In either outcome, you are up on the day (either by one property or by a lump of cash) and, in either outcome, the vendor has sold their property. (In Possible Outcome 2, that certainty came at a price, and that's part of the deal they signed up to).

In summary, underwriting is a strategy with the possibility of high returns. It’s a method by which it is possible to make a profit from an auction without buying or selling anything or, if you do buy, it’s a property you want at price you are happy to pay.

One health warning to end on – don't use this strategy as a speculative way to make money by guessing the outcome of an auction. If you go into it with that attitude, you will more than likely lose.

12 Five Lots to Avoid Like the Plague!

On top of all the tactics and strategies I've shared with you to this point, I've also taken you though all the ways I know of spotting property bargains at auction.

There is, of course, a flip side, too, in that properties frequently show up at auction that you would not want to buy, even if they were giving them away!

So it's only fair to share with you now the five types of properties that will give you problems, and are best steered away from unless you have some relevant and specific expertise.

12.1 Pre-Fabricated Houses and Bungalows Built in the 1950s

After the Second World War, the UK government promised the men returning from the front a better life and, to be fair, they worked very hard to deliver on that promise. (Ah, the good old days, when politicians made promises and actually set out to keep them!)

Part of the deal was good housing. However, we lost a lot of skilled men in the war, and materials were in short supply since the bulk of the industrial production capacity of the country had been turned towards the war effort. It took some years to reverse this focus back to civilian needs.

So, with few materials and not a lot of skilled labour, the housing shortage was addressed by the use of pre-fabricated dwellings. These were essentially pre-made slabs that were delivered to the site, erected, and topped off with a pre-made roof.

They were designed to be temporary, with a life of around 10-15 years. Predictably, some are still in use today!

Don't buy them. You'll find it almost impossible to finance them and, even if you do, they're a heap of trouble from a maintenance perspective.

It's worth noting, however, that the pre-fab model is returning in a new form. Some student accommodation blocks and hotels, in particular, are now being built from pre-fabricated rooms! They come on the back of a truck, complete with desk, bed, curtains, shower room and so on, and are then simply stacked where they're required, plumbed in and wired up.

I also understand that Ikea are selling self-assembly houses now. Seriously. I bet there's always a bolt missing, though!

12.2 Flats in High-Rise Blocks

This mainly applies to ex-local authority blocks of flats, particularly those that are higher than four floors. Once again, this is mainly a financing issue, i.e. mortgage companies don't like them.

12.3 Properties With Flat Roofs

Flat roofs are just one of those ideas that can never have looked particularly good. I mean, if it's flat, where does the rain go? And when the rain forms puddles on the flat roof, how long will it be before it starts to seep in? Usually, not long!

There is now a new flat roof technology that has a hugely long guarantee, and is apparently being very well received by those who have tried it. I haven't, so I can't comment.

New technology aside, flat roofs will present you with financing problems, as mortgage lenders don't like them, either.

I'm talking here about properties where the entire roof is flat. Lenders don't worry so much about the garage of a semi, for example, which is not integral to the overall structure.

12.4 Properties on Flood Plains

This is a particular bug-bear of mine.

I mean, when was it *ever* a good idea to build homes on a flood plain? The clue, as they say, is clearly there in the title – it's a *flood* plain.

Rivers flood. It's part of what they do. Yes, we can build the banks up higher, but that only averts the smaller floods. Every few years, conditions coincide to create a big flood, and the high banks become as much use as a chocolate fireguard.

Then we have the issues around climate change. Not one serious scientist is disputing this process now, and we have predictions ranging from the mild and long-term to the vicious and short term. Worryingly, the balance of opinion seems to be moving from the former to the latter.

So, if there are flooding issues now in an area, it's only likely to get worse and more frequent in the coming years.

Why would you buy into that sort of scenario?

The same goes for low-lying coastal regions. If sea levels do start to rise in our lifetimes, what are you going to do with your beachfront villa – lift it onto a truck and move it up the hillside? Well, I suppose you could if it was an Ikea flat-pack job...

On a more immediate and practical note, insurance companies are becoming increasingly reluctant to insure homes with a history of flooding, or that are in a flood risk area.

NB. The government are planning to ease the housing shortage by building many thousands of new homes in the area known as the Thames Gateway. Or, to give it it's non-marketing name, the Thames Flood Plain. Want a brochure?

12.5 Properties With Radon Problems

Radon is a natural gas that seeps out of the bedrock. It's a problem in some areas of the southwest of England, and can be carcinogenic in sufficient quantities and concentrations.

There's not much you can do about radon, as far as I'm aware, apart from avoid properties in parts of Devon and Cornwall!

As part of your due diligence, make sure you check your target property with the Environment Agency. The website can give you details of flood and radon issues, as well as other nasties such as underground workings and old mines (leading to subsidence problems) and contaminated land.

Go to **http://www.environment-agency.gov.uk/** for the low-down on the lowlands, the gas on the gas.

13 The Legal Side Of Property Auctions

13.1 Your Legal Checklist

Buying bargain property at auction can be a great idea – so long as you're armed with a certain amount of essential legal knowledge.

Right up front, I'm going to give you the two best bits of advice possible when it comes to dealing with the legal side of buying property at auction;

1. Caveat Emptor – or, in English, Buyer Beware!
2. Arrange for the Legal Pack to be sent direct to your solicitor

Let's look into each one of these in more depth.

Caveat Emptor
The vendor of any property is not allowed to misrepresent the property in any way. However, they are not under too much obligation to tell you everything about it, either. The introduction of HIPs (Home Information Packs), that are required for auction properties as well as those being sold by private treaty, has improved this situation slightly, but you still need to be careful. You have very littler comeback once the gavel has fallen.

In the HIP, the vendor must provide...

- An Energy Performance Certificate
- Sale statement
- Standard searches
- Evidence of title
- Home Information Pack Index

It's a good start, but it's not everything! Here are some of the things you need to watch out for.

- Don't rely on the plans of the property as they are rarely accurate.
- There are a multitude of different types of property, types of tenancy, and property titles. Make sure you're clear on what you're buying!
- "Special conditions" can be applied to a lot – make sure you understand them fully.
- The seller need not tell you about hidden or obvious defects in the building unless you, or your solicitor, ask the right questions.
- The seller need not release copies of any title documents to you before the auction, though the HIP does require evidence of title.

Happily, you can hand the burden of much of this over to your solicitor, which is where the next piece of advice comes in.

Have the Legal Pack Sent Direct to Your Solicitor
This pack needs to get to your solicitor anyway. Apart from the obvious delay in having it sent to your home first, there's also the question of size. Some legal packs are huge!

I was looking at a commercial property once, and I made the mistake of asking for the legal pack to be sent to me. It came in a Lever Arch file, and there must have been 200 pages or more! Most of it was too dense for my brain to cope with, and then I had to pay again to mail it to my solicitor. What a waste of time!

So, once your solicitor has the legal pack, what do want to know from him or her about the specific lot you're considering?

13.2 Terms of the Contract

Have him explain these to you, and point out any oddities or danger signals. It's also worth reading contracts yourself – they are getting less dense nowadays, and in plainer English.

13.3 Searches

These are now included in the HIP, and should include areas such as planning, highways, drainage, water, existing titles, environmental, flood risk, any special notes relating to area, location or proposed use, and so on.

13.4 Other Enquiries

These are conducted by your solicitor, but are much less formal, and much more vague. They generally relate to disputes and, in order to be as sure as possible that you are getting all the information, it's important to ask the right questions in the right way. Imprecise questions will lead to general answers, behind which can lurk a multitude of sins.

13.5 Leases & Documents

Your solicitor will make sure that everything is provided, and will ask for anything that is missing. If it remains missing by the time of the auction, you need to know about it, and understand the risks that may be present as a result.

13.6 Special Conditions

Not every lot will have Special Conditions attached. Where they are present, they will have been completed by the seller's lawyers and are set out under about twenty headings covering the particular issues relating to the property. Make sure your solicitor explains every element in there, and make sure you understand it all thoroughly.

13.7 Building Insurance

Although you won't have the right to take ownership of the property until you have completed, you are responsible for insuring the property from the moment the gavel falls. You must make insurance arrangements immediately to protect yourself from loss.

In addition to these elements for your specific lot, you also need to be familiar with the Common Auction Conditions. These are designed to make the auction process clearer to both buyers and sellers, and are freely available on the RICS website (**www.rics.org**)

It's definitely worth taking the time to read through these yourself, and then ask your solicitor to explain anything you don't understand.

Now, if you're the highest bidder for your lot on the day, you're committed! The contract to buy / sell a property at auction is made the moment the auctioneers gavel falls. No questions. No arguments.

You will then meet with the auction staff, either immediately or at the end of the auction, and you'll be asked for your 10% deposit. You'll also be asked to sign the memorandum of sale, which is the written version of the legally binding contract you made when the gavel fell.

The auctioneer will be authorised to sign it on behalf of the seller.

The memorandum will include details of the price you are paying, VAT where applicable, and the completion date, usually 28 days hence.

It's also worth noting is that everything the auctioneer says while conducting the auction forms part of the contract, too, so listen very carefully to any announcements the auctioneer makes immediately prior to the auction and, in particular, any he makes immediately prior to starting to auction the lot you are interested in.

Your solicitor will come along with you to the sale, providing you give her enough notice and, of course, pay her for her time! It might be worth doing this the first couple of times but, once you get confident, you'll be sufficiently well armed on the day to deal with any eventuality.

Finally, speaking of being well armed, in the next chapter I'll be going through what you need to know to be your own accountant and make sure

14 Be Your Own Accountant: Six Financial Terms For Your Toolbox!

You can't be a successful property investor without knowing at least a few basic accountancy terms, and how to apply them to your investment decisions.

Yes, you might say you just 'ask an accountant' whenever you need to, but there's not always one standing right next to you on the auction floor, or while you're looking round a property!

It's worth getting these clear in your own mind, and to be able to use them freely and easily, whenever the need arises (as it frequently will).

First off...

14.1 Yield

The yield on any investment is basically the annual income you can expect from it expressed as a percentage of what the investment costs you to buy.

If you're buying a property to let, you need a pretty good estimate of the rent it's likely to attract, and the price you're prepared to pay, in order to work out the yield. Alternatively, you might estimate the rent, decide on the yield you want, and work back from there to the price ceiling that will make that yield reality.

If you're buying a property with tenants already installed and paying rent, then all you need to do is decide on your price ceiling based on the yield you want, or calculate the yield based on your price ceiling.

There are two types of yield:

- Gross yield, which is simply annual rent / price paid for the property x 100
- Net yield, which is annual rent less expenses / price paid for the property x 100.

The gross yield tends to be the headline one used in the catalogues, but the net yield will tell you more about the realities of owning and running a property.

14.2 Gross Yield

A high gross yield generally comes with a high element of risk and, more often than not, that risk is connected to the immediate environment. There is usually a higher perceived risk in run-down areas, and that risk is compensated for by higher-than-average yields.

The other thing to consider, apart from risk, is capital growth. As a rule, if you're buying a high-gross-yield property, the capital growth on it is likely to be microscopic, or even zero. (Let's not talk about negative capital growth just yet!)

14.3 Net Yield

Use the gross yield as a good comparison figure when looking at a range of properties. However, when you get down to the nitty-gritty of running your property, the net yield is going to be a lot more useful to you.

The only difference between the gross yield and the net yield is that you've pulled out all your expected expenses to work out the net yield. The resulting figure will therefore be lower.

To arrive at the net yield, take your costs and expenses off the yearly rental figure. Do this initially as percentages, and translate them into money later. For example...

- Management costs (through an agent) – 10%
- Arrears and void (empty) periods – 6%
- Re-letting costs – 3%
- Building insurance and repairs – 15%

So, using these guide figures, you'll take a total 34% off the gross rent, then divide that new figure by the amount you're paying for the property, and that will give you your net yield.

Some of these percentages may seem a little pessimistic, but it's better to err on the side of caution. If the deal still looks good, imagine how much better it will look if things go exceptionally well!

14.4 Cash-on-Cash Return

The third way to look at yield is your cash-on-cash return. This only focuses on the cash you've used to buy the property – typically deposit plus legal fees and stamp duty – and the cash you get out of it every month after paying costs.

To work out the cash-on-cash return, take the annual rent, less mortgage payments and other costs, divide this by the amount of money you invest in the deal, and multiply by 100.

This is a more accurate picture of what your cash is actually doing within the deal.

Be aware that this version of the yield is only valid at the moment you buy the property and have it let out. It takes no account of future renovations, capital growth, comparisons with other types of investments, tax and so forth.

14.5 Gearing

Whether you're conscious of it or not, gearing is the one thing that puts property investment, in the medium / long term, streets ahead of other forms of investment.

So what is gearing?

Gears in a car essentially allow you to do more with less. The revolutions per minute of the engine stays the same, and you keep your right foot in the same position, yet the car moves faster as you climb up through the gears.

The concept of gearing is where you use your money to take control of an asset with a value far greater than you have at your disposal.

Your outlay is the same – your accelerator pedal and RPM are the same – but by gearing up, your investment is suddenly turbo-charged!

Property financing allows you to do more with less. Here’s an example.

You have £10,000 to invest.

You consider three options – leaving it in an online bank paying 5% interest, investing it directly (and wisely) in the stock market and getting a 10% return, or using it as a 10% deposit to buy a property with a sitting tenant and a modest yield of 8%.

Which is the most lucrative option? On the face of it, the stock market looks the best. But this is where gearing comes in to skew the picture in favour of the property.

Let’s work each one through using simple, rather than compound, interest.

The Bank
10,000 x 5% = 10,500 after 1 year.
Gain - £500

The Stock Market
10,000 x 10% = 11,000 after 1 year.
Gain - £1,000

The Property
10,000 used as a 10% deposit on a 100,000 house
The yield is 8% x 100,000 (NOT 10,000) = 8,000
Gain - £8,000

Even after costs are deducted, this is still spectacularly better than the other options. And this is taking no account of the possibility of capital growth. If the property increases in value by 8% in your first year of ownership, then you can add another £8,000 on to double your gain!

Once you understand gearing fully, you'll find yourself looking for money in all sorts of weird places, knowing that it'll work far harder for you if you invest it in a geared situation.

14.6 Opportunity Cost

Let’s say, for the sake of argument, you have £100,000 in the bank, and you are considering buying and renovating a property with this money. (As already mentioned, the ideal here would be to use the money as deposits on several properties and borrow the balance, to take advantage of gearing, but we'll keep this example simple).

On deposit, you'd be lucky to get a 5% return on it over the course of a year. So there's no point in moving it and working it unless you are going to achieve more than 5%.

So, you look around at what 'opportunities' you have to invest your money, look at the returns and the amount of time, energy and work required, the risks involved, and decide on your own best and worst profit margin.

Generally, the more effort and risk, the greater return you should expect. In other words, your property projects should be promising you a healthy return, otherwise it's simply not worth the time and effort.

So, if you can get 5% from the bank with no risk or effort, and say, 10% from the stock market with some risk and effort, then your renovation project, with some risk and lots of effort, should be making 10% minimum, I would suggest, and preferably nearer 20%.

If it's less than that, then you need to consider moving on to other, better opportunities to invest your money in a different project. Or, you need to tweak the numbers – mainly your buying price – in order to make the opportunity work for you.

14.7 Sunk Costs

This refers to the time and money you have already spent on a project, and how that should NOT impact on your decision to abandon it.

Say you've seen a property you like, coming up for auction, in your price range. You go to view it. You go back again with a builder. You decide to hire a surveyor to get a proper report done on it. Your solicitor is doing some work on the documents in the Legal Pack.

All in all, you've probably spent £1,500 and around eight hours.

Then, something comes up that you don't like. One of the neighbours has a reputation for loud, late parties, perhaps. Or the flat roof on the extension needs replacing. Suddenly, the property doesn't look quite so attractive, and you consider dropping the idea of buying it.

Now, human nature being what it is, you will naturally feel the need to balance the idea of dropping the project against the time and money you have spent on it.

If a project suddenly turns bad on you, for whatever reason, then you must base your decision on the realities of what's ahead, and forget about the time and money already spent.

Since it is already spent, it is a sunk cost. It's gone. And it's an extremely bad idea to continue with a project, just because you've invested so much in it already.

15 SEVEN WAYS TO FINANCE YOUR AUCTION PURCHASE

The one element of buying at auction that people find most difficult to get to grips with is that of financing the purchase. For the purposes of this book, we'll merge the funding of the deposit and the funding of the entire purchase together as one, and leave it to you to sort out how to use the various options on a deal by deal basis.

When you're used to buying through an estate agent, where the process can be languid and relaxed to say the least, the 28-day-to-completion rule laid down for most auction lots seems something of a stretch! (I say 'most' lots because you'll occasionally come across lots, usually repossessed properties, where the limit shrinks to 14 days!)

It's a fair concern, since the penalties for missing that deadline can be harsh – loss of deposit, sued by the vendor and so on. However, people do it every day, quite successfully. So let's take a look at the options that may be open to you.

- Credit Cards
- Overdrafts and Personal Loans
- A Chequebook Facility
- A Trading Facility
- Bridging Finance
- A Mortgage
- A Joint Venture Partner

As you can see, there are a lot of possibilities! Let's now look at each one in more detail.

15.1 Credit Cards

USE WITH CARE!!

Your first stop should be your existing cards. How much credit do you have available on them? If you are a good customer, paying more than the minimum each month or, best of all, paying the full balance off every month, then you could just call them and ask them to increase your credit limit to something that will be useful for paying a deposit, say, or funding a renovation.

I once called my card provider and asked them to double the credit limit, taking it from £10,000 to £20,000. After a few cursory questions, they agreed, and upped it on the spot.

Now, if you do use a card to pay for an auction purchase, make sure you have the next step figured out, too. At best, you'll have 50-something days to pay off that purchase – you do NOT want to be paying credit card interest rates here! – so it's important you get that planned ASAP.

You're top two options, in my view, are...

1. Transfer the debt onto a new 0% card (but then make sure you know what to do with it after the 6- or 9-month introductory period ends)

2. Refinance the property with a standard BTL mortgage, and repay the card debt from that.

If you start using credit cards to build your portfolio, don't fall into the trap of forgetting the money is borrowed, and will have to be paid back at some stage! And don't miss payments, as this does, of course, impact on your credit rating.

One side benefit of using cards in this way can be the points or air miles you get in relation to your spending. Years ago, when I worked in the City, I remember the story of an American who bought a painting at auction, and paid for it using his American Express card. I think the price of his new investment was in the region of $16 million (Amex is a charge card, remember – it can be used without limits, but must be paid off in full every month).

It was then estimated that the air miles this transaction earned him would be enough for five return trips to the moon, or a return trip from London to LA every week for the next 48 years!

15.2 Overdrafts & Personal Loans

At first glance, this looks almost as crazy as using a credit card.

However, it's worth remembering that investing in property is not always an expensive proposition.

There are flats available in the inner city areas of cities like Hull and Bolton for £25-30,000. And that sort of sum can be covered by an overdraft or a personal loan.

Again, do remember that all debt has to be paid back.

15.3 Drawdown Facility

If you have equity locked up in your existing property, it's a relatively easy task to re-mortgage and release it. The downside of re-mortgaging is the timing.

If you re-mortgage to raise cash before you've found a property, you could be paying interest on that money for months before you get around to using it. And if you have the deposit, but need to re-mortgage in order to complete on the purchase, you're running the risk that the process won't be completed within the available 28 days, which puts your deposit at risk.

One way around this conundrum is the chequebook facility, also known as a drawdown facility.

It works in exactly the same way as any other re-mortgage, up to the point where you get the money. Then, instead of you being handed the funds and starting to pay interest immediately, you're supplied with a chequebook.

This enables you to write up to ten cheques a year, up to the value of equity you've released from your home. And you only start paying interest when the first cheque is used, and only for the value of that cheque.

This means you can set up the facility well in advance of your first auction, with no interest costs, and it's there to use for deposit, legal fees, completion monies, renovation works or whatever.

15.4 Trading Facility

Lets say you own your own home, you have a holiday home somewhere, and also a couple of buy-to-lets up and running, all of which have equity tied up within them, then you may be able to get a trading facility to unlock the equity and have it available to draw upon whenever you need it.

This is the more sophisticated version of the draw-down facility described above, and allows you to use previously locked-up equity to fund a conveyor belt of deals, should you so wish.

15.5 A Mortgage

It's a common myth that, if you need a mortgage, you can't buy at auction. You can. It just takes a slightly more lateral approach.

Firstly, be aware that everything is negotiable, including the conditions of sale at an auction.

The auctioneers will typically ask for a 10% deposit on all lots. Approach them beforehand, ask them to talk to the seller on your behalf, and you could negotiate this down to 5%. Similarly, you may be able to get the completion time extended beyond 28 days, providing the auctioneer and the seller are in agreement with you before the auction.

Secondly, you can sometimes negotiate a mortgage on a property you intend to buy, ahead of the auction. The lender will then write out a 'letter of comfort' for you to show the auctioneer that effectively guarantees the mortgage will be granted on the specific property up to a given price.

You might also consider a let-to-buy mortgage.

There are also a couple of organisations around who specialise in auction finance.

15.6 Bridging Finance

Bridging finance is almost always for a short time, and can be expensive. However, if it comes to a choice between getting that auction bargain or losing it, then the overall cost of bridging finance should be added to your purchase price. If the deal still stacks up, then don't dismiss it as an option.

Bridging finance has become relatively easy to access in recent years. Indeed, there are several individuals who I know personally and who are in this market now, offering very reasonable rates.

You can expect an arrangement fee, and then rates in the region of 1% per month. Make sure your arrangement has the interest calculated daily. That way, you only pay for the time you need the funds, and not just in full month chunks.

Be aware, too, that there is *open* bridging and *closed* bridging.

Closed bridging is usually for about 24 hours, and is used primarily to do no money down deals.

Open bridging can be for anything from 1 – 6 months, and is what you'll need to arrange for your auction purchases, if you decide to go down this route.

15.7 A Joint Venture Partner

Finally, consider this.

There are numerous wealthy individuals out there who have the cash, and the interest to invest it in property (either long- or short-term) but have no time to do the deals themselves. You, on the other hand, could be finding the deals, but don't have ready access to funds.

This is where finding a joint venture partner can be very beneficial to both sides – you get access to cash so you can do more deals, while your partner gets to invest her money in the property market, in a way you both agree upon, and without it taking up any of her time.

Make sure you draw up proper contracts between you to ensure this 'match made in heaven' doesn't end up in a messy 'divorce'!

Now, don't let me hear you say you can't finance auction purchases! There are plenty of options open to you – figure out which one (or ones) suit your circumstances the best, and then make it work for you.

16 Profit From Your Auction Finds!

16.1 Part 1: Fix Up the Ugly Duckling

Auctions aren't just good places to pick up properties at a discount; if you know what you're doing, auctions can also be good places to sell too.

The advantages to you, you may recall, are:

- certainty of sale
- speed of sale
- transparency

On the downside, it can be more expensive than selling through an estate agent, with marketing costs, room hire costs and legal fees adding to a sales commission of around 2.5%.

One of the most common routes to profit through an auction sale is to take an 'ugly duckling', improve it, and sell it on. An 'ugly duckling' is a property that no one wants, often due to décor, dirt or damage. It was over-looked when it last came to market, and you snapped it up for a song!

Your intention is to fix it up and sell it on, at auction, in a month or three.

What do you need to focus on (and avoid) in order for this to be a successful venture?

16.1.1 The Garden

This is the first thing a purchaser sees, and this is where you can create a good first impression.

If there is a garden in existence, do all you can to bring it up to a good standard. Cut the lawns. Trim the edges. Pull the weeds, not only in the beds but also around the patio paving stones, or along the driveway. Deadhead the roses. Clear up the dead leaves. Tidy up.

If you're starting with a wilderness, or a bare patch of earth, think along similar lines as when you're decorating the interior. You want bland over fancy, lawns over flowerbeds (as they require much lower maintenance), evergreens over perennials (in case you're showing buyers around in the winter).

If you're no gardener, hire someone! A landscape gardener can work wonders for larger properties and, for the bog-standard terrace or semi, ask around to get the name of a good local gardener.

16.1.2 The Interior

Touch up the paintwork, scrub until everything sparkles, replace those tired old curtains, fix any loose skirting boards, clean the grouting, replace all broken tiles, and sort out any dripping taps.

Tidy up, everywhere.

The rooms to really get right are the kitchen and bathroom.

An old, shabby, dirty bathroom will have a disproportionately negative effect on prospective buyers; equally, a modern, clean, fresh one will have a disproportionately positive effect.

16.1.3 The Garage

On average, houses with a garage sell for 6% more than ones without. This figure climbs to 15% when it's a double garage.

If you have the space, and you can get planning permission, then expect to spend around £10-12,000 building a single garage.

If this is less than 6% of the value of your property, then go for it!

What have you got to lose?

16.1.4 Other Improvements

In general, home improvements are a good idea, and will add value to your investment. However, do keep in mind the local price ceiling and the suitability and saleability of the improvements you make.

As a general rule, improvements to the structure of the property will pay returns, as will improvements to the services. Examples of improvements to focus on are:

- Install or update the central heating system
- Install a modern fitted kitchen and/or bathroom
- Install security features, such as good locks and an alarm system
- Add an extra toilet, perhaps downstairs, and/or a shower
- Have the property professionally rewired
- Add a driveway or off-road parking area.

Bear in mind, these improvements won't always add to your profit on sale, but they should add value at least to the extent you spend, and will make the property easier to sell.

And what are the "improvements" to avoid?

- Extravagances, such as a swimming pool
- Stone cladding and other exterior decoration
- Extreme interior décor, such as large patterns, bright colours or very dark colours
- A garden pond, which can be a danger to small children and will put parents off.

16.1.5 Your Pricing Strategy

The pricing strategy you use should be designed to make your property attractive to potential buyers.

In most cases, you won't need to worry too much about getting this right as the auctioneer will advise you and, if it's a reputable company, the advice will be well worth heeding.

The rule of thumb is to set the guide price below the market valuation of the property. Any buyer will then see it as being apparently under-valued, and will do the legwork required with the intention of being in the bidding on the day.

As a safety net, set the reserve at the same price as the guide, thereby ensuring that you get at least that figure for your investment.

Be sure that you're happy with the reserve price, and that in the worst-case scenario, i.e. that you get the reserve price and no more, you won't lose out financially.

Next time, we'll look at three other scenarios in which you can turn a relatively fast profit by selling your auction finds.

16.2 Part 2: Three More Profitable Selling Strategies

Two of these final three strategies for selling and making a profit from your auction purchases link back in to the buying strategies I laid out for you earlier.

As I'm sure you're well aware by now, your profit is in the purchase – but releasing that profit comes from what you do with it once you own it.

The two strategies I'm linking back to here are...

- Buying Un-Mortgageable Properties
- Looking for Grant Opportunities

The third, as you'll see, steps away from auctions all together and suggests an alternative route to market.

16.2.1 Turning Around the Un-Mortgageable

You may recall that there are certain properties out there that lenders will not touch with an 8-foot pole and, for our purposes, they generally fall into one of two categories. They are either...

1. structurally unsound, or
2. on a very short lease

If you've bought a place that is structurally unsound, you'll have done so with your eyes wide open. You'll know the extent of the problem, the urgency of getting it fixed, and the likely cost.

If there is no great urgency, and the property is safe and secure, and you can leave your cash tied up for a while, then consider installing a tenant until such time as the works can be done.

At some point, though, you'll do the required work and bring the place up to scratch again from a surveyor viewpoint.

I've seen properties double in value overnight in this way!

It's not that the work you do doubles the value of the property per se. What happens is your work to make the property sound means that, once again, it can be mortgaged. And if it can be mortgaged, then it is opened up to the entire property-buying population, rather than just investors with cash.

This means there is more competition, and so the property can be re-valued and sold at its true market value, rather than as damaged and un-mortgageable goods.

The same applies to flats with short leases remaining.

If you meet the necessary conditions, then go ahead and apply for a lease extension. In fact, applying may be enough in some instances to allow a buyer to get a mortgage on it. Applications, in general, are simply rubber-stamped through the process, and meet little resistance as the freeholder is obliged, under law, to grant the extension.

You simply sell the application along with the flat, which means you don’t have to actually pay for the lease extension, and the buyer doesn’t have to meet the conditions (because you did).

16.2.2 Securing a Grant Application

In a similar way to selling a short-lease flat with an application for a lease extension, you may have the opportunity to sell your property with a grant application already in place.

This shows potential buyers that the property is at least potentially eligible for a grant, and that the plans have been drawn up.

Grants are generally available from local authorities in the more deprived areas, and they are aimed at bringing older housing stock up to modern standards. They may cover such improvements as re-wiring, installing modern central heating, new windows and doors, or new bathroom and kitchen.

Of course, there’s no guarantee that the application will be successful, but that’s something the buyer needs to factor in to his price. It’s not your problem.

You could go one step further and sell with a grant approved. However, you’ll need to check with the Local Authority to make sure that the grant is being granted to the property, not to you as owner, in which case it may not be transferable.

It’s an unlikely scenario, but it always pays to read the small print.

16.2.3 Selling Privately

Finally, if you have managed to pick up a property at auction for 20% or more below its market price – which is by no means uncommon – then you could consider selling it by means other than auction or via an estate agent.

You could choose to sell privately.

This used to mean just placing classified ads in local newspapers and waiting for the phone to ring. Nowadays, the Internet has opened up many more options for you.

There are companies out there who take a very pro-active approach to marketing your property, and offer a much broader reach than your local rag, getting your property listed on RightMove and Fish4Homes, as well as dozens of other places, all for a few hundred pounds.

I've used **www.thelittlehousecompany.co.uk** with great success in the past, and there are many more out there to choose from.

If you're unsure, then you could advertise privately on the web, and place your property with a local agent at the same time. Just be sure that your contract with the agent allows you to sell elsewhere without them charging you commission.

17 A Short-Term Strategy

I'm going to wrap up this book with a discussion of a specific strategy, designed to generate cashflow in a reasonably short period of time, that you could take out and start using tomorrow.

As we've already seen, a good buying strategy is to focus on the big London auctions, and look for lots that are well outside of London, and preferably in areas you know well.

You have a double advantage here.

1. You'll be one of the few in the room looking for properties outside of London and the southeast, so the competition should be fairly low (meaning lower prices).
2. You'll have intimate knowledge of the area in which you are buying, giving you a greater insight into the profit potential of any given property.

You're basically looking to become a property trader here. Start off with one or two to 'get your feet wet', though ultimately you could look to trading full-time, which means buying and selling maybe tens of properties a month.

Now, let's look at some of the conditions you need to meet before you get into this strategy.

17.1 Knowledge

This strategy relies on you having good knowledge about an area or region outside of London and the Home Counties. This will most likely be your hometown and the surrounding area.

You either have such knowledge at this point, or you don't.

If you don't – perhaps you've only ever lived in London, or perhaps you moved to the UK from abroad – then you have two options.

You could select an area – perhaps somewhere where you have family, or somewhere you visit occasionally, or a town that's a current property hotspot – and then start researching it. (Location research is a large topic on its own, and beyond the scope of this book, but you can achieve a lot online with RightMove, UpMyStreet and so on).

Alternatively, you could partner up with someone who has intimate knowledge of a particular area. I come from the North East, but built my first portfolio in Belfast, while I was living in London. The only way I was able to succeed in Belfast (which, in the 1980s, had 'hotspots' of all the wrong kinds!) was because I partnered up with a guy who was born and bred in the city.

17.2 Cash

You may not choose to get a survey done on every property, preferring to follow the DIY survey checklist provided earlier in the book. However, you will need a deposit for every purchase, and you will need to be ready to complete within 28 days.

This will require a ready supply of cash, and this is hardest to achieve at the beginning; once you've traded a few properties, you'll find that cash becomes less of a problem.

If you don't have, say, £40,000 in a savings account (and few do these days!) then consider getting a line of credit on your home, or on another investment property.

The best route to take here is always to get a drawdown facility. This way, you don't need to take the entire available sum at once. You just take what you need, as you need it, and pay interest only on what you've drawn down.

17.3 Time

You can easily start doing this part time, especially if you're based in London, or visit the capital frequently.

You will also need to find time to check out the property lots that come up in your area of choice.

However, be smart about how you use your time.

For example, if you are based in London, but you know County Durham well, then you sort out the auction end of things in London, and find someone based in Durham to view the properties for you.

Conversely, if you're based in Durham, find an auctioneer or solicitor to attend the auctions for you or, as a cheaper option, arrange to bid over the phone.

Once you have these things in place, you can then start scanning the London auction catalogues for properties that are in your target area. Research them, visit them (or have your partner go along), and select the property (or properties) you think have the greatest potential.

Refer back to the buying strategies from earlier for inspiration.

Then, set your price ceiling, and go for it!

Once you've bought a property in this way, as a property trader, you will then immediately put it up for sale through an auctioneer or an agent in same locale as the property – ideally, before you've completed.

The buyers there will largely be local, plugged into the local market and actively looking for local properties.

Set the guide price at a level similar to what it was in the London sale and, if possible, the reserve at the price you paid (or slightly above to cover costs).

If the property is vacant and scruffy, you could spend a day or two tidying it up and cleaning it, or get professional cleaners in to do this for you. Often, you'll find you won't even go near it.

It's important to remember that you're not looking for mega-profits here. If you can clear £2-3,000 on every property, after costs, and you can turn over a property a week, then you'll be making a very healthy income.

That's it from me for this book!

I hope you've enjoyed these insights into property auctions, and I trust they've given you a deeper understanding of how to profit from the bargains I'm uncovering, week after week, in my **Under The Hammer** blog.

If you have any questions about property auctions, just leave a comment on the blog, and I'll get back to you.

I'll leave you with some genuine case studies that **PROVE** how profitable auctions can be...

18 Case Study 1: Buy Non-London Lots in London!

Dave Robertson (not his real name) is a property dealer living in Plymouth.

He started building a small portfolio about five years ago, to the point where he had seven BTL properties in the Plymouth area, and two HMOs bought for their high-yielding, cash-generating qualities.

Three years ago, he was made redundant from his job at a pharmaceutical company. This was the catalyst he needed to make the jump from full-time employee to full-time investor.

There was nowhere near enough money coming in from the portfolio to support Dave and his little family (wife and one small daughter of two), but he still felt that property was his forte, and didn't really relish the idea of embarking on a steep learning curve to get into stocks, forex, or some other investment vehicle.

While pondering on this issue, he was also looking to increase the size of his portfolio – partly using equity released from his current properties, and partly using some of his redundancy money. Aware of the bargains to be had at auction, he started sending away for auction catalogues.

Dave soon discovered that, in the big London auctions at least (Allsop, Barnard Marcus and the like) properties in the southwest often had relatively low guide prices attached to them. This tempted him to research a few that were coming up, get the legal packs into the hands of his solicitor, work out a price ceiling for himself, and go along to the auctions to see if he could pick up a bargain or two.

On his first trip, he bought three properties – a 2-bed terrace (£67,500), a 3-bed semi (113,000) and a 1-bed flat (£72,000), all in and around Plymouth. He found little competition for them in the room as most people present were buyers and investors focused around London and the Home Counties.

He felt like the only 'Plymouth Expert' there!

Now, he was happy enough to keep all of his new purchases because the prices he'd paid were around 20% - 25% below market value. However, he wanted to try and generate some income so, on his return home, he made two phone calls – one to his mortgage broker to arrange some fast financing, and the other to an auction house in the southwest.

He arranged for a bridging loan to purchase one of the properties, a refinance of another of his properties to buy the second, and the third would be bought from his redundancy money. If he did find himself owning one or more of the three properties, he would refinance them as soon as possible with a standard BTL mortgage.

With finance in place, and the three properties in the next Plymouth auction, due to take place before his completion dates fell, he was then able to sit back, comfortable with whatever happened.

He set the reserve prices nice and low – just above his break-even figure, in fact, once all costs had been taken into account – in order to attract as much interest as possible.

In the event, all three sold on the day, and he was able to hurry through two completions so that he never had to buy them himself. The third he did buy and then immediately sold on to his auction buyer, relieving him of the need to refinance it.

This is how the numbers looked after the entire deal had been tied up...

2-bed terrace

Purchase Price:	£67,500
Purchase Auction Fees	£300
Sale Auction Fees:	£2,855
Legal Fees:	£600
Finance Fees:	£1,500
Break-Even:	£72,755
Reserve Set:	£72,800
Sale Price:	£78,500
Profit:	£5,700

3-bed semi

Purchase Price:	£113,000
Purchase Auction Fees	£300
Sale Auction Fees:	£4,200
Legal Fees:	£600
Finance Fees:	£1,800
Break-Even:	£119,900
Reserve Set:	£120,500
Sale Price:	£127,400
Profit:	£7,500

1-bed flat

Purchase Price:	£72,000
Purchase Auction Fees	£300
Sale Auction Fees:	£3,100
Legal Fees:	£600
Finance Fees:	£400
Break-Even:	£76,400
Reserve Set:	£77,000
Sale Price:	£81,500
Profit:	£5,100

After all deal costs, he was left with a profit on all three sales of £18,300. Even after he takes out costs of his time, his fuel, perhaps an overnight stay in London, he was still left with well over £15,000 – and the whole process took about eight weeks, start to finish.

Not surprisingly, Dave did it again, and again, and today, this is how he makes his living.

As you can see, he's not greedy with his reserves, and would rather get a property sold at the reserve for a few hundred pounds profit (which does happen from time to time) than for it not to sell at all.

However, he's always prepared for a property not selling, and always makes sure they are properties he'd be happy to bring in to his portfolio in the event of them not selling.

In this way, his portfolio grows gradually over time and, in the meantime, he is banking anything from £5,000 to £25,000 a month. In many cases, he's able to arrange a 'back-to-back' deal, where he sells an acquisition in Plymouth before he's actually paid for it in London.

Since his turnover of properties is high, the Inland Revenue class him as a property trader, and his profits are taxed as income rather than as capital gains.

Do you have an area in the UK that you're familiar with, and that is outside of London and the southeast? If so, why not start generating some cash by emulating Dave's system?

19 CASE STUDY 2: FIND UN-MORTGAGEABLE PROPERTIES

A few years ago, I spotted an interesting property in Scarborough that was due to come for auction.

My understanding of the full market price was around £180,000, and the guide price had yet to be set. I decided my price ceiling should be £142,120 (a little more than 20% BMV). Then the guide was published at £90,000 plus!

This is where it looked as if the wheels might fall off the deal.

The vendors had commissioned a survey for the legal pack, and it turned out that there was a crack up the back of the house, just in from the gable end, and a matching (though less obvious) one at the front. There were metal ties holding the gable end in place – they'd obviously been there for years – but the building was structurally unsound, and there was no chance that a mortgage lender would be at all interested in providing finance for it.

Hence, the low guide price.

And the issue hadn't come to light before as this was a probate sale, and the deceased owners had been there for about forty years. Either they bought it without ever knowing about the cracks, or they had long since been forgotten.

It was still a nice house, though, and I was still interested in buying it!

By releasing equity from elsewhere, I could afford to buy the house for cash, so I arranged with the auctioneers to bring in a firm of structural engineers to do a thorough assessment of the damage, and to cost up the work.

Here are the bones of what their report contained...

The gable end was almost entirely separated from the rest of the house.

The damage had been caused by mining subsidence, probably in the first ten years of the house being built (in the 1920s).

There was no evidence of recent movement, and they suspected it hadn't moved since at least 1950.

They deemed the building perfectly safe for habitation, though recommended any remedial work be carried out within five years as the steel ties were showing signs of weakness.

They gave me a price of £22,000 to underpin the entire house, and re-tie the existing gable end into position.

Alternatively, they would take the entire gable end down, do the underpinning work, and rebuilt it, using the original bricks, for £28,000.

With this information, I went back to the auctioneers and made a pre-auction offer of £100,000. Since this was probably the top end of the price range expected by the auctioneers, I hoped they would recommend that the vendors accept. They duly did, and the property was taken out of the sale and marked "Sold Prior".

In my mind, I had been prepared to buy the property for £142,000 when it looked like a straightforward deal. Now, despite (or perhaps because of) the attendant issues, it looked like I would end up paying about £10,000 less, all in.

So, I bought the property for £100,000 in cash, immediately put it onto the letting market as a multi-let, and got four young professionals in paying a total of £1,100 a month.

Why didn't I go right ahead and do the work?

Well, my two reasons for letting it first was a) to generate some cashflow (and that's a 13.2% yield, by the way!) and b) because I didn't have any more funds available to pay for it.

In the end, I let it for two years to that same group of people. By the time the last guy moved out, I was ready with funds (another remortgage!) to pay for the remedial work on the gable end. I had it taken down and replaced, and it finally cost me just over £30,000.

Once it was done, I then had it surveyed and re-mortgaged at it's full market value and pulled all the money out that I had invested into the deal, and then some.

This is how the figures worked...

Purchase Price:	£100,000
Two Years Cost of Borrowing (@ 5%):	£10,000
Two Years Rent	£26,400
Two Years Positive Cashflow	**£16,400**
Cost of Underpinning and Gable	
Reconstruction:	£31,000
Post Work Valuation:	£210,000
Re-mortgage at 85% LTV:	£178,500
Profit After Two Years	
Re-mortgage Funds	£178,500
Plus Positive Cashflow:	£16,400
Less Purchase Price	£100,000
Less Construction Costs:	£31,000
Less Purchase, Legal & Mortgage Costs	£1,500
TOTAL:	**£62,400**

For relatively little work over a two-year period, that works out at over £31,000 per year.

Can you see how easily property can be made to replace your full time income, if you know what you're doing?

Let's take a quick look at some of the nuances of this deal, just so you fully understand how you could set up something similar for yourself.

19.1 The Structural Engineer

Don't ever dream of doing a deal on an unsound property without consulting the experts (unless, of course, you're an expert yourself!).

In hindsight, though, it was a bit of a risk to bring in the structural engineers myself. What I should have done is asked the auctioneers to arrange for the vendors to get that report prepared, at their cost. It would have been a big waste for me had I not managed to buy the property.

19.2 The Pre-Auction Offer

I could, of course, have simply waited for the day of the auction, and taken my chances in the room. I decided to make an offer because it was really starting to look like a great deal. I was sure I was a few days ahead of the crowd in that understanding, and I wanted to secure the deal before anyone else had the chance to step in.

19.3 Letting the Property

I simply didn't have the money to do the work required, having just paid for the property in cash! Even if I did, it would have taken 2-3 months to arrange.

The building was safe, so it seemed eminently sensible to multi-let it, extract as much cash as I could from it for a year or two and, in that time, make arrangements to fund the work, and to get contractors lined up and booked.

20 CASE STUDY 3: THE UGLY DUCKLING STRATEGY

You'll recall that the Ugly Duckling Strategy works on the basis that people tend to over-estimate the cost of a cosmetic refurbishment, and are therefore overly put off by 1970's big-flower wallpaper, swirly orange carpets and an avocado bathroom suite.

(Apologies if you're very attached to your avocado bathroom suite!)

This then represents an opportunity to step in and pick up a bargain that everyone else in under-valuing.

Last year a friend of mine, Harry, wanted to get into property. He's a good all-round builder, and had recently inherited a house from his father. He let it out, and then got a drawdown facility on it from the Royal Bank of Scotland, giving him access to £150,000 of the equity in the house with a chequebook.

Soon afterwards, he spotted a classic Ugly Duckling opportunity in the Keith Pattinson auction catalogue. It was quite an unusual first floor flat in a terrace of houses on the outskirts of Newcastle. Not only were the rooms pleasingly large, but the terrace itself was set at right angles to the main road and, since the flat was at the end furthest from the road, it was a very quiet property.

At the same time, it's right on a major bus route, and only ten minutes from the centre of the city, and from the airport.

Inside, though, it was like an explosion in a paint factory!

It wasn't just that every room was a different – and very strong – colour, but virtually every wall was different! There were deep reds, bright oranges and yellows, bright blues, and one room even had one black wall and a black ceiling!

The carpets were too horrible to even describe here.

Happily, the bathroom suite was not avocado. The bath was pink, and the toilet and hand basin were powder blue.

And the less said about the kitchen, the better, except I do recall the radiator had been painted bright yellow with – I kid ye not – large blue polka dots all over it.

Outside, the entire terrace had wooden windows painted brown. Except this flat. The previous owners had taken the trouble to (badly) paint the window frames, and the front door, pillar-box red.

We were reliably informed (by the neighbours) that there'd been at least a dozen people view it so, on auction day, Harry did expect some competition.

Research (including a conversation with a local agent) told Harry that the open market value would be around £125,000. He knows his way around the building trade, so he costed the work himself and it came out at £13,000.

He allowed £15,000, added £10,000 profit, which brought his price ceiling in at £100,000. Knowing that's not a clever place to set it (too easy to use a round number) he set his at £103,700.

In the event, he was only bidding against one other person all the way through, and his competitor had clearly decided that it was going to take a LOT of time and money to get the property into a state where it could either be sold on or let. He dropped out about £25,000 below Harry's price ceiling, and Harry got it for £78,500 – a real result!

When Harry went over to pay his deposit, the vendor was there, too, and he was able to arrange instant access to the property to start work right away.

By the time Harry needed to complete, the bulk of the work had been done!

Here's how it worked out financially...

Purchase Price:	£78,500
Refurbishment Cost:	£14,200
Total Investment:	£92,700
Post-Works Valuation:	£127,500
Re-mortgage (@ 85% LTV):	£108,375
Cash Out After Legal and Mortgage Costs:	£14,200

So at this point he had...

- A newly refurbished flat
- All his money back out
- £14,200 in cash
- £19,000+ in equity

He then let the property for £550 a month, and more or less forgot about it!

Finally, let me just make a couple of points for the sake of clarity.

The reason Harry paid such a low price was a lack of interest, and the lack of interest was down to the fact that the place was just butt-ugly.

Harry was able to cost up the work and do a fair bit of it himself, and pull in people as he needed them, because he's a builder. If you're not a builder – go find yourself one! Become a good customer, either by paying promptly or by paying promptly *and* giving your 'team' a lot of work, and you'll find your costs will be reasonable.

Included in the refurbishment costs was not only the cost of materials and labour. Harry also included items such as skips (for all those horrible carpets!), kit hire (such as a scaffolding tower), the monthly payments on any borrowings during the refurbishment period, and utility costs (power, water, gas). It can be too easy to skip over these, or forget about them entirely, and they can badly skew your cost calculations.

21 CASE STUDY 4: FOCUS ON UNSOLD LOTS

Personally, I've always liked unsold auction lots. There are several advantages of buying unsold lots after the auction has finished, as opposed to bidding in the fray on the day.

- You know the asking price – there's no longer any guesswork
- You have time – the pressure is generally off
- The 28-day time to completion can sometimes be negotiated away
- The vendor is more motivated now the lot didn't sell, therefore...
- Everything is up for discussion!

One way to nab an unsold lot is at the auction itself. If a lot you're interested in didn't reach the reserve, then immediately find one of the auction staff. There's a fair chance that the vendor is in the room, and they'd rather leave knowing the property is sold than leave with it unsold.

The auctioneer, too, has a vested interest in getting a deal done, and so might act as a useful lever.

The other way to do it is to find out what went unsold in the days after the auction, and start your research from there. You can either get this information direct from the auctioneers – and, more and more now, it'll be available on their website within 2 hours of the sale ending – or you can get the information from a compiler.

The best in the business is, far and away, the EI Group (**www.eigroup.co.uk**). Contact David Sandeman there, mention my name or that of Property Secrets, and he'll look after you.

I found one of my best unsold lot deals through the EI Group...

About this time last year, a multi-let house came up in Leeds. At £100,000, I wasn't entirely convinced it was a BMV property, but the yield convinced me to look beyond that – how does 17% a year sound to you?

The five rooms were all let at £50 - £60 a week. Two were private, three were DSS, and all the rents were being paid directly into a bank account by standing order.

The other thing I liked about it was that there was already a lot of health and safety kit installed in the house – fire alarm, fire doors, mains smoke alarms, emergency lighting and so on.

It was just a normal terrace house on two floors, and with five tenants, it would likely fall outside of HMO regulation. However, it had been designed to be safe and, if and when regulation extends to this property, there should be little left to do.

Just before I called the auctioneer, I found out that the last bid on the day had been £92,000. This told me two things...

The vendor was not going to accept £92,000.

But the vendor might accept an offer between £92,000 and £100,000.

It must feel odd when, as a vendor, you hear a bid in the room at £92,000 on a property you want to sell but, since it's below your reserve, you effectively turn it down. Psychologically, it'll be much harder for him or her to turn down a second within days!

I put an offer in at £95,500 and it was accepted the same day. The vendor held me to 28 days completion but, since I already had a funding line in place, that didn't present a problem.

Since completion, I've had no problems with the tenants, and they've all stayed on for now. Each month I receive a little over £1,400 in rent, and each month I pay £375 for the mortgage (5.5% fixed for three years, interest only).

One doesn't need too many of these properties running before you're full time income starts to look a lot less attractive!

Congratulations! You have completed

Beat The Credit Crunch & Make A Fortune Through Property Auctions!

Why not take a look at our complete range of publications at

www.propertysecrets.net