Property Auction Secrets

19 novice and expert strategies for profitable buying and selling at auction

By Damon Leigh & Martin Furber

Part of the Property Secrets Series

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Property values can decrease as well as increase! As authors and publishers 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 e-book are founded on substantial experience and backed up by 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, purchases, sales or lettings 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!

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1 FOREWORD

Auctions are becoming an increasingly common and accepted way to both buy and sell property.

For the property investor, the auction has the particular advantage that you don't have to wait for a chain to complete in order to buy, and if you want to raise cash fast, you know that the auction will deliver your money within 28 days.

However, **can you still buy a property at a discount** from an auction and sell it on (with or without work) for a profit?

The answer is yes, you can buy at a discount! But…

The answer is yes, because it is happening day in and day out.

People up and down the UK are buying and selling property through auctions and making healthy profits.

Equally, investors are successfully picking up discount property and adding value (via refurbishment or sorting out legal / tenancy / or financial problems), and then either selling the property on for a profit or turning it over to the rental market to build long term capital gains.

However, there are also plenty of cases of the novice buyer or investor getting caught up in the emotion and excitement of the auction room and ending up by buying a dog of a property.

… or paying too much for a substandard property,

… or finding out their property has huge building and renovation problems that they haven't budgeted for,

… or it has expensive legal or financial problems.

In Property Auction Secrets we've unpacked all the potential problems to show you the opportunity in each case.

You'll find thirteen different money making strategies that you can employ at the property auction (see Section **10**).

And, as the internet matures, it is becoming an increasingly important place to conduct your research into different properties and property neighbourhoods.

We've also, in conjunction with a top mathematician, developed **'price ceiling software'**.

This important spreadsheet will help you calculate the optimum and the maximum bid you should offer for any property. Two essential pieces of information if you intend to enter the auction room!

Property Auction Secrets also reveals the bidding tips and tricks of expert auction buyers along with sections on tenancy agreements, finance and tax.

The other way that we can help you is with our Property Secrets UK newsletters, private website and expert forums at www.PropertySecrets.net.

Auctions still offer huge opportunities, but knowing which strategy to use, and when, is becoming more and more important if you want to make it a success.

Cheers and good luck

Damon Leigh

1.1 About the Authors

1.1.1 Damon Leigh

Damon is a freelance writer and consultant, and author of the original “Property Auction Secrets”, published in 2003. He also co-authored, with Richard Davies, “Portfolio Property Secrets”, published in 2004.

He has been buying investment property since 1988, and many of his acquisitions were bought at auction.

1.1.2 Martin Furber

Martin Furber MNAEA ANAVA is a consultant Auctioneer who has been involved in the commercial property market as a specialised broker since 1990.

He first took to the rostrum in 2001 and is a graduate of the NAEA advanced auctioneering course. As well as heading his own property auction company, which specialises in the disposal of individual high value lots and portfolios of both commercial and residential properties throughout the north west of England, his work as a locum auctioneer takes him all around the UK. He is a full member of the National Association of Estate Agents, and an Associate member of the National Association of Valuers and Auctioneers.

In more recent times he has lectured on the subject of property auctioneering at various seminars in London and Manchester. He is in high demand for the unique lectures and presentations he undertakes on a consultancy basis for corporate clients of varying sizes. He has been the subject of various national and trade press articles, most recently being featured in the Financial Mail on Sunday and “Gavel” magazine.

His services as a consultant in all auction property matters are available on a limited basis to those who may seek further advice.

2 WHY AUCTIONS? WHY YOU? WHY NOT?

In this section you'll learn about:

- How auctions have changed over the years (see Section **2.1**)
- Why you should use an auction (see Section **2.3**)
- Whether auctions are the right place for you (see Section **2.42.4**)

It seems the property market is on the menu at every dinner party, being talked about in every bar, and features in most newspapers, most days.

There is a particular buzz around property auctions – those wondrous bazaars where the insiders and the lucky can pick up properties for a song, slap a bit of paint on the walls and sell it the next week at a healthy profit.

Look a bit deeper, and you'll find a number of books extolling the virtues of buying investment properties at auction. Many of them contain good stuff. Even the ones written by auctioneers are useful, providing you keep in mind that their agenda is to get you into their auction rooms and persuade you to spend money.

'Property Auction Secrets' is different. We'll be looking at everything you'll need to consider before going into buying a property at auction, starting with a look at whether or not auctions are right for you, all the way through to thirteen solid, tried-and-tested strategies for buying properties at auction at below their market value.

By the time you've finished reading *'Property Auction Secrets'*, you'll understand exactly What to do, How to do it, When to do it and, perhaps most importantly, Why to do it.

But first, a brief history.

2.1 Property Auctions Since the 1970s

Many of the myths and rumours that you hear today are out-dated hangovers from previous times. Myths such as "Property auctions are closed shops" and "All properties auctioned are repossessions" are still commonplace today, and you'll probably hear them from friends and family.

This section is designed to lay these to rest by looking back over the last three decades of property auction history.

2.1.1 The Closed Shop of the 1970s

The myth that property auctions are largely closed shops comes from the 1970s. At that time, you *did* have to be 'in the know', or at least know someone who was, to get involved. If you just walked into one cold, you were likely to get ignored or ripped off.

In the 1970s, auctions were run largely by chartered surveyors. The buyers were almost exclusively serial landlords and cash buyers, and it wouldn't be uncommon for regular buyers to be 'tipped the wink' by auctioneers about good deals coming through.

Clearly, such a closed and opaque way of doing business could not continue indefinitely.

2.1.2 The Bulk Sales of the 1980s

By the early 80s, the auction process was much, much more open. Most of the chartered surveyors had left the auction business to return to...well...surveying, and professional auctioneers and estate agents had taken over the reins.

In terms of the properties available, a substantial proportion was provided by bulk sellers off-loading unwanted property stocks or investments. These bulk sellers included banks, insurance companies, large corporations and, of course, the local authorities. The latter were given a free rein by the Thatcher government to sell off public properties to raise cash.

The buyer population, meanwhile, had expanded out to smaller property dealers, investors and renovators.

2.1.3 The Repossessions of the Early 1990s

In the late 80s and very early 90s, the world economy went into a steep nose-dive. The UK economy swiftly followed, and the property market collapsed.

This led to many, many homeowners finding themselves unable to pay the mortgage due to salary cuts or redundancy and, if that wasn't bad enough, their property value slipped below what they'd paid for it, resulting in the infamous negative equity trap.

Thousands of unlucky homeowners were unable to escape this trap, and had their homes repossessed by the banks and building societies. At one stage, Barclays Bank became the largest property owner in the UK – larger even than the National Health Service or the Ministry of Defence – due to the number of repossessed properties it was holding. The banks then, in turn, had to off-load them.

They chose to use auctions to off-load their vast amounts of property as fast as possible at virtually any price. As a result, auctions became property dustbins, and their reputation plummeted.

Charles Smailes, senior partner at auctioneer Feather, Smailes and Scales, does point out, however, that whilst the common perception was that banks were acting with almost criminal negligence in that they were seen to be selling off repossessed property dirt-cheap, the banks actually had little choice. They could not get insurance cover for repossessions for any more than six months, so if they didn't sell, they'd be left with an uninsured liability.

Most of the repossessions had worked their way through the system by the mid-90s. In 2004, repossessions hit a 22 year low, with 6,230 houses taken back by lenders. The Council of Mortgage Lenders says it expects the number of repossessions to rise by 35% in 2005 to 8,350 - and possibly reach 11,000 in 2007.

2.1.4 The Takeovers of the Early 1990s

Over a similar period to the economic crash, banks and building societies started taking over estate agents en masse. In business-speak, this was a move towards vertical integration. Much of their business came from domestic and commercial mortgages, so it made sense to take one more step up the chain and take over the agencies that sold the properties to the public.

John Weatherall, director and auctioneer at Andrews & Robertson, says that the banks and building societies changed the entire system for auctioning properties.

They made:

- most property viewings accompanied, where previously the customer was just handed the key
- all relevant title documents available to interested parties prior to the auction
- auctions more consumer friendly, for both buyers and sellers.

As a result, many estate agents took the money and ran, leaving the business altogether. This led to a massive skill shortage, and the property auction business was particularly hard hit.

Charles Smailes, as well as being a senior partner and auctioneer, is also chairman of the National Association of Estate Agents Auctions Committee. Since 1996, he and one other auctioneer have been doing their part to replenish this loss by running courses to train new property auctioneers.

2.1.5 The Last Decade

Property auctions have gone from strength to strength since the early-to-mid 1990s. The buy-to-let market has been a big driver, as has the arrival of the Assured Shorthold Tenancy (AST) that allows landlords to exert more control over their own let properties than did previous tenancies. (For more details on this, see Section **8.4.2**).

According to the Land Registry, around 15,000 residential properties were sold by auction in 2004, out of a total of 1,050,000 property transactions.

It's clearly becoming an increasingly popular way to buy and sell property and, as Gary Murphy, residential property auctioneer at Allsop's says:

> *"Auctions are now, finally, a credible option to the private treaty route."*

It's also a very open market place, with plenty of room for the small investor. Indeed, according to John Weatherall:

> *"The small property investor is now king, providing he takes a long term view."*

The property auction business has never been better, and there's never been a better time to get involved.

2.1.6 A Record Year Requires Clarity

In 2005, the top 20 auctioneers transacted £3.38 billion; a 12% increase over the previous 12 months, according to the Royal Institute of Surveyors (RICS).

And the trend continues as an ever wider cross-section of the public buys and sells at auction.

At Allsop's last auction of 2005, private investors snapped up £120m of property.

Private investors also flexed their muscles at Jones Lang LaSalle's 2005 auction finale.

The £81m sale, the firm's best ever December auction and second biggest of 2005, took its annual sales to £400m over six events.

That was more than £100m higher than the previous year.

While the appetite for retail property at auctions recovered momentum, it was the industrial and pub sectors that grabbed the attention of the 500 auction-goers present.

And it was a private individual who paid £5m to acquire the G-Plan Upholstery plant in Melksham, Wiltshire.

The property produced £394,600 a year and is let until 2018 with a net yield of 7.89%.

But, as auctions become more popular and investors get more adventurous in what they buy, the Royal Institution of Chartered Surveyors (RICS) has felt a growing need to clarify the legal processes of buying and selling at auction.

And there is an even greater need for the 'buyer beware' mentality to kick in.

It was during 2005 that private investors buying S-Mart convenience shops at auction had their fingers burned when the company went bust.

The shops were sold two months after the company should have filed its 2004 accounts to Companies House.

In order to clarify the auction process, RICS has published an updated version of its 2002 guide ‘Common Auction Conditions’.

The publication is aimed at all parties involved in the auction process - buyers, sellers, solicitors, and auctioneers themselves.

It has also recently published a free guide, called ‘Going once, Going twice, Sold to...' on buying and selling at auctions.

The guide contains simple information on the auction process, from both buyers and sellers' points.

You can download it from:

http://www.rics.org/Property/Auctioneering/going_once.htm

2.1.7 Auction fever in 2006

Data from the first half of 2006 demonstrates that the 2005 record of £917m spent at auction could be matched again - despite an interest rate rise in August.

For instance, the commercial auction market in the first quarter of 2006 underwent the biggest ever year-on-year increase in sales - 44%.

Mainly banks have forced the pace in commercial auctions - selling their freeholds at the same time as making a concerted drive to return to the high street i.e: leasing the premises back from the buyers.

In mid-2006, a bank with 20 years left on its lease in a prime spot will sell at a yield of 4%-4.5%; at the beginning of the year, 4.5% was the benchmark.

And a slowdown in the supply of property for sale may be the only thing that will dull the popularity of the auction room in 2007.

No one beats the auction's system for buying well-let property, the property trade paper asserts.

2.2 2007 – Another Booming Year?

Property auctioneers estimate that there has been a 60% rise in the number of properties bought at auction since 1998.

Thousands of professional investors now go to the UK's auction rooms and 21,000 homes go under the hammer each year.

Allsop's September 2006 residential auction has raised in excess of £50m in front of the busiest Allsop auction room so far.

A total of 259 lots were sold resulting in a success rate of 85%.

The largest lot sold attracted competitive bidding, selling for well over the guide price of £2m.

The property consisted of 43 leasehold flats situated within three purpose built blocks and it went for £4m.

A former day centre for the elderly, with potential for redevelopment, was sold for £1m.

This has brought the total raised at Allsop residential auctions in 2006 to more than £258m.

Receivership lots and un-modernised houses sell well, as do regulated tenancy and ground rent investments.

But what is driving the trend and will it continue?

David Sandeman, Managing Director of auction specialists, the Essential Information (E.I.) Group, says:

"Buying at auction has become a lot easier for both novice and professional investors, with the number of properties being bought and sold at auction increasing by 60% since 1998.

"One of the main reasons for this is the internet, which facilitates the whole process, giving potential buyers access to information on lots for sale across the country in advance of the auction.

“You can see a property you like, and own it within a couple of weeks."

And it’s not just residential lots that are continuing to sell hard and fast. Commercial units are selling well too.

Trends demonstrate that over the past couple of years, sophisticated investors have been piling their money into offices, shop units and warehouses through trust funds set up for their children.

There is a lot of money around, and investors are paying cash for properties valued at £1 million and upwards.

The result is ever dropping yields - now down to 4.5%.

These investors are buying for the long term and seem unconcerned about low returns.

This situation is likely to remain so for 2007 with properties being sold to those with deep pockets – no matter what the return is.

And that applies whether you are a small investor or an institution.

Many institutions and pension funds have changed their asset allocation to include more property in their portfolios.

For example, one property fund has been taking in £10 million a week in new money and was sitting on £300 million at one stage which it desperately needed to get invested.

If the money remains as cash this hurts the fund’s ‘performance’.

It is rumoured that more than £50 billion of institutional money is looking for a home in the commercial property market.

Plus private investors simply have a lot of cash too. And they perceive property to be safer than equity funds.

The result?

Yields are being pushed lower and lower, dropping by a quarter of a percent every three months.

But when prime yields are heading towards just 4%, they begin to look less attractive in comparison to equities and gilts.

Even so, in this low interest environment, most investors will continue to back property as a long term performing asset class throughout the next year…while they have the cash.

2.3 Why Go To An Auction & Not An Estate Agent?

In a private treaty sale – i.e. one conducted through an estate agent – there is minimal opportunity to buy properties significantly below their market value. There are two reasons for this:

- The seller is generally an individual who is looking to sell his or her primary residence and move on to something bigger, better, smaller, easier to manage, in a different area, or whatever. They have a clear idea of what their property is worth, and that's what they want for it.
- The agent is working to help the seller sell the property. The seller's idea of value probably came from the estate agent, who will aim at the upper end of what's possible to a) attract the seller to that agency and b) extract maximum commission from the sale. (Agents' commissions are calculated as a percentage of the final sale price).

As a buyer stepping in to this dynamic, the natural push from both seller and agent is for you to pay the market value (as perceived by the agent) or even more.

The other big downside to private treaty sales is the lack of certainty. There can be several months between a seller putting a property on the market, or a buyer finding a property, the two parties agreeing on a price, exchanging contracts and finally completing. In this time lag, there is always a chance of another buyer coming in with a higher price, the seller changing their mind, the legal process falling through, and so on.

According to research accessed by Charles Smailes, one in three initially agreed private treaty sales fall through in the UK. That's 1.3 million sales in the UK, and a total cost to buyers and sellers of £350 million. (For more on private treaty sales, see Section **12.2**)

By contrast, property auctions *do* offer opportunities to buy property at below market value, and they *do* offer certainty. In order to understand why, we need to look at the ways in which auctions differ from the estate agent's window.

2.3.1 The Seller

Often, the seller at an auction is not an individual, but rather an institution of some kind – a company, a government department, a bank, or a pension fund. To them, the properties on their books have no emotional connections whatsoever. They are simply assets and, when the assets become surplus to requirements, they are sold off in the most efficient way possible – by auction.

Why are auctions more efficient for these bulk sellers of property? There are three reasons:

- The administration burden is lighter on the bulk vendor
- The reserve price can be set by pure accountancy requirements and if it sells, it sells
- There is less of a need to bring the property up to a good standard for sale since the expectations of buyers at auction tend to be lower.

In situations where the seller is an individual, it may be:

- Someone with a portfolio or a 'rent machine' to cash in on, or one or more properties to sell that are not physically attractive for one reason or another
- A probate sale, following the death of the owner
- A 'distressed' sale, following a divorce or relationship breakdown
- Someone who just needs the cash fast, or to be free of the debt fast
- One of a new breed of investors who are buying properties at auction at one end of the country and offering them for sale in an auction at the other.

They use the auction route for similar reasons as the institutions. Selling by auction will be covered in more depth in Sections **11** & **12.**

2.3.2 The Buyer

As a potential buyer, you are stepping into a completely different dynamic from that operating in the case of a private treaty sale.

For a start, if you are bidding on a property belonging to an institution, the chances are the reserve has been set at a level that is less based on the market value, and more on what the institution needs to realise from the sale of that asset.

There is no emotional input from this kind of seller and, since the goal is to offload the asset rather than squeeze every last penny from the sale, the reserve will likely be set at a level low enough to attract buyers. (It's unusual for a reserve to be disclosed at an auction. For the sake of argument, let's assume here that the reserve and the guide price are the same. For more on the guide and reserve from a seller's perspective, see Section **12.8**).

The advantage to you, as a buyer, is there are fewer emotions to deal with from the seller – emotions that can often lead to irrational decisions – and if the below-market reserve price is met or exceeded, the property will sell.

The *disadvantage*, of course, comes from the competition, your fellow auction-goers who are similarly attracted by a low reserve. In a competitive bidding situation, the seller effectively disappears from the dynamic, and the price is driven relentlessly upwards, purely as a result of the level of interest in the room, the skill of the auctioneer, and the heights to which serious bidders are prepared to go.

Conversely, where there is little competition, the bidding will be lacklustre, and the price will barely manage to make the reserve, let alone exceed it. (Seeking out situations where you will encounter little competition underlies many of the buying strategies laid out in Section **10**).

2.3.3 The Process

The property auction is a frenetic, against-the-clock process. If the private treaty sale is a vintage car rally, an auction is a Formula 1 race.

Here are the major differences between buying via the normal ‘private treaty’ route and buying at auction.

Private Treaty	Auction
You have a relatively unlimited time to view the property, take professional advice, and discuss it with your nearest and dearest.	You have the time between the publication of the catalogue and the auction date to achieve all this, and more! This could be less than a month.
You can put in an offer, which thereby reserves the property for you. Then you can spend money on a survey, safe in the knowledge that if all is well, you can go ahead and complete.	If you do a survey, it’s at your own risk. You may find you survey several properties that turn out to be perfect, but that you are unable to buy any of them on the day as the competition is prepared to pay more.
Once your offer is accepted, you can take your time to arrange the finance based on that specific property, at the specific agreed price, and the mortgage company can take their time processing the loan.	You ideally need to have finance in place before the auction, despite the fact you may not know exactly what property you will buy, if any, nor at what price. And you have 28 days to complete. Sometimes 21 days.
You can make an offer, have it accepted, and still pull out during your ‘cooling off’ period.	When the auctioneer brings his gavel down, you’re committed. There is no pulling out.
Your offer is ‘subject to contract’.	Your bid is unconditional.

2.3.4 The Environment

The occasional private treaty sale can shift into a ‘bidding war’ between two keen buyers, but it’s a relatively rare occurrence and, when it does happen, the exchanges and bids are often communicated by letter, via solicitors.

In the auction room, a bidding war is virtually guaranteed – that’s the whole point! And you have seconds to make your move, not days.

Much like a Formula 1 driver, you need to think and act fast, maintain a cool head, have nerves of steel, and not get rattled by the noise and buzz that’s going on all around you.

What you have at your disposal is:

- The information given in the auctioneer's catalogue
- Your prior research on the property (or properties) in which you are interested. This may have cost you money, and there's no guarantee you won't have spent it in vain.
- The guide price. Often, the reserve price is kept secret between the seller and the auctioneer. The guide price may be the same as, or more than, the reserve price.
- Your price ceiling. This is vitally important, and will be discussed more fully in Section **7.3.**
- Your 'partners' in the room – the Duke of Discipline and Lady Luck!

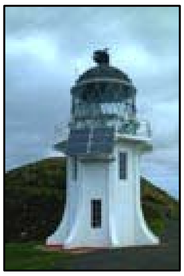
What you don't have is lots of thinking time or a calm, quiet, peaceful place in which to ponder.

2.3.5 The Advantages of the Property Auction

The big advantages of a property auction are:

- It's a very transparent process
- There is cash and competition in the room, which itself is a confined space, and there is a time limit on the proceedings
- It's a level playing field, where the smallest of investors can bid against the biggest of tycoons, knowing that they're playing as equals
- There's a set timeframe within which the deal must happen
- There is certainty for both buyer and seller, removing the risk of gazumping, pull-outs and so on

2.4 Why You? And Why Not?



The answer to the first question is relatively straightforward. The property market is hotter and sexier than any other investment market you care to mention right now.

The stock market is in the doldrums, showing no real sign of improving significantly in the near future.

There is increasing distrust in the big financial markets in the wake of Enron, WorldCom and others.

Even your 'reliable' old pension fund is falling in value at best, and at worst has disappeared to fund executive salaries.

You have looked for alternatives, decided on property, and you want to get on board with some bargain property investments. Fair enough.

What about the second question? Is property investment right for you? Specifically, is purchasing investment property through an auction right for you? It may not be. Here are the counter-indicators:

- You are a first-time buyer on a tight budget
- You don't have any funds with which to 'speculate'
- You wouldn't be able to get finance in place
- You don't have the time, the resources or the patience to do significant research into the auction houses available to you, the process, the properties that interest you, their locations and so on
- You get very emotionally attached to property
- You get 'rattled' easily
- You have a competitive, win-at-all-costs outlook on life
- You like to mull things over, take your time, and move slowly when big, important things are afoot.

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.

Let's take a closer look at each one of these.

2.4.1 A First-Time Buyer on a Tight Budget

The first-time buyer status is only a potential block in that it can make buying a property bigger and scarier than it needs to be, and the auction environment will exacerbate that feeling. However, there's no reason why a determined first-timer can't familiarise him or herself with the auction process, and wade in!

The tight budget could, of course, be helped if the property is bought at 20% below market value. You either keep more of your money (deposit or monthly payments) for furnishings and renovation, or you spend the same and get more property for your outlay.

The tight budget becomes a problem in the upfront costs of an auction, however, which leads into the next counter-indicator.

2.4.2 No Funds With Which to 'Speculate'

When chasing a property at auction, it's vital to have cash to spend up front. You'll almost certainly need to spend something, somewhere, especially if you're new to property.

Surveys cost money. Getting quotes from builders can cost money. Legal and financial advice costs money. Even travel to view a number of properties will cost you in time, effort and fuel.

If you don't have a 'fighting fund' readily available, over and above your deposit, then you really should not be considering the auction route.

2.4.3 No Finance in Place

Every auctioneer's nightmare is the novice buyer who buys at auction without having the finance in place.

There are some exceptions, but assume for now, at least, that unless you have the money ready to go, either as cash, an equity release from your home, or some other form of credit, then you won't get it together within the 28 day completion period. And that means you risk losing your deposit and, perhaps, being sued by the vendor.

One possible alternative is Spectrum Business Finance. They can be found at www.s-b-f.co.uk, and are more fully discussed in Section **9.2.6**.

2.4.4 No Time or Patience For Research

As you'll discover in Section **5**, there's a lot of work to do before you walk into an auction. Even if you have a fighting fund, you still need to be prepared to put in the leg-work, the time and the effort to ensure that your fund is spent wisely, on the right properties offered by the right auction houses in the right locations.

('Right' is a personal value judgement, according to what it is you want to achieve. See Section **10** on different strategies and **7.3** on setting your price ceiling).

Key Tip

If you're not prepared to put the work in, or you simply can't find the time to do it in your busy life, then you need to make your purchases via the estate agents.

2.4.5 Emotional Attachment to Property

Emotion is human. It's also the cause of more auction room disasters than any other factor. Remember – in an auction, there is often no emotion on the side of the seller; so as the buyer, you too must remain unemotional and unattached.

If you don't, you will end up paying more than a fair price, more than the market value, perhaps even more than any sane person would even consider, to secure your 'dream home'.

If you're unable to remain coldly detached (at least until the gavel comes down) then you'll be a liability to yourself and your financial well-being at a property auction. (Again, see setting and keeping to your price ceiling **7.3**).

2.4.6 Easily 'Rattled'

When an auction room is in full flow, the energy there can be truly electric. The buzz can take your breath away, not to mention your rational thinking faculties and, more importantly, your cash!

Many a lot has been sold at an insanely high price because bidders got carried away in the heat of the moment.

There's pressure there, too.

Unless you're bidding over the phone, you're visible to the whole room. All eyes are on you when the bid is back with you. You can't just go someplace quiet to make a decision; you have seconds to do so, with everyone watching.

If you can't deal with this sort of pressure, at least bid over the phone or the Web (more of this in Section **7.4.2**). But you still have the time pressures.

2.4.7 A Competitive, Win-at-All-Costs Outlook

It can be quite hard to go to auction after auction and come home empty-handed.

Your friends and family are going to start questioning if you will ever buy something. And there's something of the hunter-gatherer, in the male in particular, that can make it difficult to not buy.

Add to this a fiercely competitive spirit, and again, you become a liability. You'll get carried away, take the competition personally, decide to win at all costs, and then find the costs to be unacceptably high.

2.4.8 You Like to Take Your Time

There's nothing wrong with a measured approach to life. You may even be able to tailor it to fit the rigours of the auction room.

But an auction is so time-pressured, from the time you first get the catalogue in your hand to the day itself, that if quiet thinking time is important to you, then a property auction is not the place to find it.

There are ways of mitigating some of these counter-indicators, such as bidding over the phone – more on this in Section **7.4.2** – but know that, if you can tick one or more of the above, you are going to have to work harder to be a successful property investor at auction.

Key Tip

Many of the 'emotional' risks of bidding at auction can be overcome by two things:

a) A very clear price ceiling and a willingness to stick to it come what may.
b) Practise – the more time you spend at auctions – the better you'll be able to handle the pressure.

The good news

But don't worry, even the best auction bidders had to start somewhere and they all had that feeling of butterflies in the stomach.

However, the important thing here is that auctions are not for everyone! That means fewer people will be willing to buy at auction than buy through an estate agent.

And so, with fewer people buying at auction there is a better chance of picking up a bargain!

Add to that:

- a **clear auction buying strategy**
- a rigid – 'walk away' **price ceiling**
- all the **tips and tricks of bidding** in the auction room
- **comprehensive research**

and you will enter the auction room with a huge advantage!

Giving you that huge advantage is what Property Auction Secrets is all about.

You will still have to handle the nerves and do the research, but …

If you follow the advice & strategies in this book and use the bonus price ceiling software, you can be sure that you'll be in pole position when it comes to securing the most profitable properties!

3 THIS IS HOW TO MAKE MONEY!

In this section you'll learn about:

- How to set an overall strategy for your investments (see **3.1**)
- Damon's strategy for making money (see Section **3.2**)
- Martin's strategy for making money (see Section **3.3**)
- What else is this book going to tell me? (see Section **3.4**)

Your interest in making property investments via auctions stems from making money. Whether you are thinking of immediate funds from a quick turnaround, or a secure investment for your pension, it all comes down to hard cash.

In order to achieve your goals in property, as in any endeavour, it's important to have a strategy.

3.1 Set Your Overall Strategy

Before you ever go anywhere near an auction room, you need an overall strategy that will form the basis for your future investment decisions. Ideally, it should cover the following major areas:

- **What** do you want your property investment to create for you? A home for you and your family? A nest egg for retirement? A steady cash flow each month? A period of intense work followed by a profit, which can then be reinvested in the next project? Or what?
- **How much** do you want to make? How much can you afford to invest? How much can you raise? How much can you afford in repayments every month? And what type of financing will best fit the bill for what you are planning?
- **How long** are you planning for? Are you looking at a 3-month timescale, or 3 years, or 10 years? Try to get as specific as possible, knowing you can always remain flexible with your strategy as events unfold.
- **Where** are you going to invest? Do you have the local knowledge you need to spot bargains? How are you going to manage a property that is far from your home?
- **What assumptions** are informing your strategy; assumptions such as how much the financing will cost, how much you'll spend on renovation work, how long it'll take to find a tenant and so on? Try changing these assumptions, one at a time, to the worst-case scenario. If this doesn't scare you off, at least you'll have a clearer idea of where your limitations lie.

Only now is it time to get into the specifics of identifying potential properties, meeting with builders and surveyors, talking to letting agents and arranging the finance. If the bank asks, you could even show them an outline business plan, based on your strategy!

3.2 Damon's Strategies

I'm going to make things easy for you, right up front.

You haven't really had the time to think through your own strategy to answer those questions, and you don't have all the information that you need yet. So, let me lay out the strategy I would take.

This is not a recommendation. This is right for me, in my own situation, and I offer it here as a model, an example of what pops out once all the questions above have been answered.

3.2.1 Context

For me, this is a great time to be involved in the property market:

- The cost of borrowing is still close to a 40-year low
- The average growth in property prices is slowing but is still beating the equity markets
- There are no signs of a significant slowdown (or crash) in the property market, despite what the media gloom-mongers may like to write.

Looking to the longer term, there are many drivers that will push the property market ever onwards, regardless of any minor dips or hiccups that may come along.

The demand for property will increase, at a time when supply is extremely low, because:

- The long-term trend is away from large households towards smaller ones. If the population is fairly stable, this means more households.
- The number of single occupancy households is growing, whether they are young people choosing to stay single longer, elderly people, single parents, divorcees or whatever.
- People are living longer.

And property is affordable for a widening segment of the population because:

- Borrowing money is cheap
- Credit is widely available
- The percentage of incomes paid nationally towards mortgages is currently 28%, an historically low level comparable with the 1960s. (This is partly due to low interest rates).

The strategy I would use to take maximum advantage of all these conditions is in two parts.

The short-term play is designed to take advantage of the cheap money that's available today, and makes maximum investment use of it.

The long-term play ignores any short-term market dips and interest hikes that may come along over the next ten or twenty years, and focuses on building a retirement portfolio which is far more robust than anything the government, an employer, or a pensions provider could offer in this climate.

3.2.2 The Short-Term Strategy

With cash at the ready, I would go for one of the shortest of short-term strategies and trade properties, buying them and selling them, fast and furious, making modest profits on each one.

The best way to do this is to focus on the London auctions.

Granted, the competition tends to be greater in London than elsewhere – Allsop's are currently getting upwards of 1,000 people at each of their London sales, according to Gary Murphy, their residential auctioneer.

But the competition can drop away sharply for non-London properties.

At the big London auctions I look for properties in my own areas of interest in the north of England. Broadly speaking, London auction buyers are interested in properties in the south east, so I know the competition for northern properties can be relatively light.

I also have the advantage of knowing the northern property market intimately, a knowledge that will not be widely shared by other bidders in the room.

So what I'm looking to do is to bid on properties in an area I know well, with little competition from other bidders. These two factors combine to help me find bargains.

Once I've bought a property in this way, I then offer it immediately for sale through an auctioneer in the north, close to where the property is situated. The buyers there will largely be local, plugged into the local market and actively looking for local properties.

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

Sometimes, if the property is vacant and scruffy, I might spend a day or two tidying it up and cleaning it. But often, I won't even go near it. And the chances are, it'll sell on the same day for a modest profit.

Clear £2-3,000 on every property, with fifty properties a year, and you're making a very healthy income.

Key Tip

If you live outside London, or even if you are based in London, you will probably have some additional or intimate knowledge of an area that 99% of the people in the room don't have!

Use that knowledge to your advantage.

3.2.3 The Long-Term Strategy

Refinancing my own home to release the equity tied up there, I raise enough to cover the 15% deposits (the usual minimum for buy-to-let mortgages) on two residential properties, plus an emergency fund.

I buy the two properties at auction. I look to buy at a discount to the market price, which may mean they have sitting tenants.

That's fine – it saves me finding new tenants! Or it may mean the properties need some basic modernising or refurbishment, in which case I'll need a refurbishment fund, too.

I let these properties out for enough money to cover the mortgage repayments, and then some. (Most buy-to-let mortgage providers require the rent is equal to 130-150% of the mortgage repayment anyway).

I do the same the next year, and the year after that, and so on. This assumes I can raise the deposits. If my own home keeps on appreciating, this can always be done by releasing equity.

Around Year 4 or Year 5, the strategy becomes self-financing.

Instead of remortgaging my own home, I'll start to remortgage my investment properties, starting with the two I bought in Year 1. This gives me enough for the deposits on two further properties, and so the empire grows.

Providing I never sell any of the properties, I never have to pay Capital Gains Tax. And providing I plan properly, my descendants will not have to pay Inheritance Tax. (See **Inheritance Tax Secrets**, also from Property Secrets for more details - www.PropertySecrets.net).

To get really tax-efficient, I am also moving my various pension funds under the umbrella of a self-invested personal pension, or SIPP.

I can then use this money to buy a commercial property investment that will sit within my pension, free from income tax, CGT and IHT.

3.3 Martin's Strategies

In a rapidly rising market, as we have seen in the last few years, some simple strategies are blindingly obvious, e.g. buy residential property below market value, refurbish it, and sell it on. Even amateurs who have been enthralled by the television programmes and who have done a second rate job of refurbishing a property have still managed to sell on at a profit.

Suddenly, the world and his wife is a property developer!

3.3.1 Look at the Less Obvious Lots

In a calmer, flatter 2006 market, take a long hard look at what is on offer at auction, and especially at the less obvious lots that are usually dismissed in the first instance.

That closed down, boarded up petrol station for example. Would it make a good hand car wash? Planning would probably be a simple formality. Could you brand it, and then find yourself a willing tenant who would happily pay a premium to move in there?

What about that apparently worthless, 'land-locked' piece of land with no reserve? It's very easy to find out who owns the piece of land next to it from the Land Registry (www.landreg.gov.uk). Might they be interested in buying it from you at a suitably marked-up price?

Or how about the former public house with a car park? Did you know that planning permission is not normally required for change of use from a public house to A1 retail?

The people who are going to continue to make money from property auctions, even in a quiet, flat or declining market, will be those who don't follow the herd.

3.3.2 Deemed Consent

Have you ever wondered why some large site developments seem to take longer than necessary? A few years ago, whilst negotiating on behalf of a client, I learnt one possible reason, and that same reason has since made that client, and many others, substantial amounts of money for doing virtually nothing.

When detailed planning permission has been granted for a commercial development, and the relevant authorities have been notified, and the work does finally commence, then the developer is deemed to have consent to erect advertising hoardings around that site until the work is finished, or for two years, whichever is the sooner.

There are many advertising-hoarding companies out there that will pay serious amounts of money to get their hoardings up on a site for a year or two. It's money for nothing!

3.3.3 Mark It Up and Sell It On!

In recent years there have been a growing number of professionals who have been using auctions as a means of selling rather buying.

These vendors will typically buy up as much property as their finances permit within a particular area. They buy from local estate agents, or they use other methods, such as advertising in local newspapers to buy property for cash.

These properties are then sold in an auction at a far higher price than they would achieve in a local estate agent's window.

How can this happen?

Frequently, people get carried away at an auction. This is a particularly prevalent phenomena in the north, where there are still pockets of properties at very cheap prices. Buyers come in from out of the area and feel they are getting a bargain.

Unfortunately for them, they have not bothered to research the local estate agents to get the average market prices for the area. They have assumed that, because it is in the auction, it must be cheap. This is not necessarily so.

And there need only be three or four people at an auction in this frame of mind and that very cheap property will sell at a price way above its market value.

As a buyer you can never research your target properties enough!

Use the resources listed in Section **16**. Go and try out the offer from the EI Group in Section **5.4.3** and check out the other information resources there. There is no shortage of information out there now, and therefore no excuse to skimp on your research.

If you're interested in being a seller, there's all the information you need in Sections **11** & **12**.

3.4 The Rest of This Book

We're now going to go into some depth as to the steps you need to take, the areas you need to cover, the factors you need to understand, in order to build your own strategy and partake effectively and profitably in property auctions.

This includes chapters on Types of Property, Research, Surveys, what you do At the Auction, Legal issues, Money issues and Tax issues.

Then, Section **10** lays out 13 Strategies for Buying at Auction. By the time you read it, you'll have a firm grasp of all the issues around investing through property auctions, and you'll be able to decide on the right strategy, or strategies, for you.

Section **12** looks at the process of selling through auction, while Section **11** looks at strategies for selling, although you'll find a broad recommendation throughout this book that, if you can avoid selling, do so!

Section **15** looks at how to use the spreadsheet software to calculate your maximum auction bid or price ceiling.

And the final sections are full of useful Books and Resources for you to utilise in your pursuit of your property goals.

4 TYPES OF PROPERTIES

In this section you'll learn about the types of property that come up in auctions, including:

- Residential investments (see Section **4.1**)
- Non-residential investments (see Section **4.2**)
- Commercial property investments (see Section **4.3**)
- Unusual property (see Section **4.4**)
- Foreign property (see Section **4.5**)

Looking for guidelines as to what types of properties typically come up at auction is not an exact science.

The London auction houses, for example, are attracting ever-larger crowds. This means there is greater competition in the room, which tends to drive prices higher, which in turn means that, more and more, any property is considered suitable for auction.

In the rest of the country, auctioneers are more cautious about what they'll put through their auctions, and they look for specific qualities and types.

Properties that are specifically suited to sale by auction, rather than sale by private treaty, include:

- Any property that's not obviously mortgageable
- Any property to which one can add value, i.e. that's unmodernised or in need of refurbishment
- Any property that's unique, quirky or unusual, and therefore difficult to value
- Any property likely to generate a lot of interest
- Houses of multiple occupation (HMOs)
- Shops with flats above

It's important to an auctioneer to get the right properties into his auction, which is partly about the properties themselves, partly about the vendors, and partly about the audience he can expect.

It's important because he puts a lot of store by his sales figures. Of course, he'd like to sell 100% of the lots at every sale.

Realistically, auctioneers are happy with a sale of 85-95% of lots. If this figure drops significantly, something in the mix is wrong.

Key Tip

Some smart investors are avoiding the busy London auctions.

Instead, they are attending either the smaller London auctions or looking for London based properties being auctioned in other parts of the country.

4.1 Residential Investments

Some types of residential investments come up at auction all the time.

The types of properties listed here are those most likely to come up at auction and, in some cases, least likely to be made available by private treaty in the window of an estate agent.

4.1.1 Vacant Possession

A property may be vacant for any number of reasons, including it being the subject of a repossession by a lender, a death and probate situation, a divorce, or a divestment by another property investor.

Typically, it will date from Victorian times, or up to the 1930s, in need of serious interior modernisation.

This may include a new bathroom and kitchen, central heating, full redecoration, a rewire, insulation, maybe a re-skim for a few walls and, perhaps, some work on the externals such as the roof, guttering and so on.

It's not a bad idea to be suspicious in your surveying and research on such properties. Many of them are fine, but watch for those that have subsidence problems, on-going boundary disputes, or other such nasties.

The seller is under no obligation to reveal most of these unless you specifically ask the right questions.

On the positive side, a vacant property is ready to move into, either literally or in order to renovate or refurbish, as soon as you take possession. You can get it rent or resale-ready quickly, ensuring that your investment is working for you.

The downside is that a vacant property is potentially vulnerable to vandals, firebugs and squatters.

This is important to you because you are responsible for insuring the property *from the moment the gavel falls*, not from the moment you complete.

Ideally, you should have insurance arranged before the auction.

4.1.2 Tenanted

Here, you are buying a property with a tenant already installed. This should mean that it's fit to let already, there's a regular monthly rent cheque coming in from a good tenant, and that it's safely occupied from day one.

It should mean all that, but it's still your job to check.

You also need to **be aware of the type of tenancy under which the building is let, the terms of the tenancy, and how long the agreement has to run**.

For example, with a modern Assured Shorthold Tenancy (AST), you know there will be a rent review, or the opportunity to give the tenant notice (if you want to possess, or are unhappy with them for some reason) within 6-12 months.

At the other end of the scale are the old-style Regulated Tenancies, under which there are virtually no opportunities to take possession while the tenant is still alive, and s/he may be able to leave the benefit of the tenancy to their offspring in their will.

Obviously, **properties which are let under the old-style Regulated Tenancies rules sell at a substantial discount, though they are getting ever rarer**.

Also, check not only the amount the property could / should be rented out for, but also **find out the amount of rent that is currently being collected**, which may be lower.

Why?

If the tenant is having their rent paid by the DSS, there's likely to be a shortfall that the government expects the tenant to make up.

In these cases, landlords often write this shortfall off as not worth the effort of collecting.

4.1.3 Residential / Commercial Mix

Typically this means a retail premises with a flat above.

These tend to sell almost exclusively through auction, but can be a nice, gentle way in to commercial property.

You have the flat, which you can rent out as normal, while the shop gives you an opportunity to deal with a commercial tenant.

One or both parts may have existing tenants, in which case all the above factors apply.

100% capital allowance on converting flats above shops
Another advantage of these properties came with the introduction of 100% capital allowances on converting flats above shops.

This means that you can offset the capital expenditure on this against your tax liability.

The criteria are as follows:

- Part of the building must have been disused, or used only for storage, for at least a year prior to conversion
- The building must be used for the purposes of a business on the ground floor
- The original purpose of the above-ground floors must have been as dwellings
- There must be no more than four floors above the ground floor
- And the building must date from before January 1st 1980

4.1.4 Wrecks

These are for the ambitious, but offer great opportunities!

In essence you need to be willing to run and manage a project. (See Renovation Secrets on how to run a successful and profitable renovation project.)

A property that has been empty for many years, or that has been vandalised or fire-damaged, is going to take a lot of time, effort and money to make good.

Individual investors make the mistake of shying away from bidding on derelict properties because they believe they're up against professional builders and developers.

It's true – you may well be. But that's not a reason to hold back.

Think about it. A builder or a developer is looking to profit from the project. So are you, of course, but the chances are you won't have the cost base that a builder has – his yard, vehicles, employees and so forth. He has to cover all those costs, and still make a profit.

You don't have his cost base and, using the information elsewhere in this book, you'll be able to keep your refurbishment costs down, too. On the day, that translates into the fact that you can probably afford to pay somewhat more than he can, and still make money.

When it comes to the guide price on wrecks and other properties in need of refurbishment, Graham Barton, auctioneer at Fulfords, cites three variables that he has to consider when valuing such properties:

- What is the end value of the property?
- How much is it going to cost to get there?
- Will the buyer want to profit from the project and if so, by how much?

All three are harder to pin down than they first appear.

The final value is probably the easiest, in that it can be arrived at by looking at similar properties in the area that are modernised to see what they sell for.

The cost of bringing it up to scratch is more difficult, as it depends on the quality of the work done, who does it, how well it's managed, the quality of the materials, the extent of the work and so on. It could work out at £40 per square foot, or £70.

The profit question isn't as straightforward as it looks, either. Not all auction-goers are investors. Some are looking for a property they can afford, and that they can do up to their own tastes and specifications. Money is a consideration, of course, but profit isn't.

As a buyer, you can research the first two questions, and answer the third for yourself. You already have an advantage over the auctioneer!

Bear in mind that the bulk of your purchase price on any property, but wrecks in particular, tends to be for the land, rather than the building.

So if the building is no longer structurally sound, don't be afraid to apply for planning permission to pull it down and start over.

If it's a listed building, or in a deprived area short of housing stock, you may even be able to get a grant. Get in contact with your local council for the local rules.

See www2.tagish.co.uk/tagish/localgov/CountyC.htm as a starting point for your local council.

4.2 Non-Residential Investments

Most people moving gingerly into property investment for the first time quite naturally gravitate towards the residential market. It's what we all know.

We've all lived in a house or a flat at some point in our lives. We've probably rented in the past. We may well be homeowners now.

Buying a second property to renovate, sell or let is a natural progression, if the funds and the will to do it are there.

While there's absolutely nothing wrong with this approach, auctions can throw up a whole host of interesting opportunities that you'd only spot if you were keeping an eye open for non-residential properties, too.

So don't get too hung up on houses, flats and bungalows! There's a lot more variety out there if you care to broaden your scope a little, and consider other, less ordinary types of property investment.

4.2.1 Ground Rents

Ground rent is the money paid by the leaseholder of a building to the company or individual who owns the land the building occupies, otherwise known as the freeholder.

By buying a freehold – and they come up all the time in auctions – you are buying a very stable, very long-term income stream.

There are some peculiarities that you need to be aware of:

- Freeholds are quite inexpensive to buy, mainly because of the modest income, and the fact you can do little with them.

- Ground rents in the UK are quite modest. You can expect in the region of £50 a year from each freehold, regardless of the building, so you'll need quite a few to create a significant income.
- They are fixed over the term of the lease, which can be anything from 99 years to 999 years. This long-term element makes them impervious to all the usual vagaries of the stock market, the economy, even the property market itself.

There are only two opportunities for change in a ground rent situation:

- If and when the leaseholder applies for an extension of the lease, you are legally obliged to grant it, and you'll typically receive half of the formally agreed change in the property value. You can also take the opportunity to raise the annual ground rent.
- If and when the leaseholder makes an offer to buy the freehold from you. You are not legally obliged to sell in this circumstance.

So ground rents are very long-term income producers, virtually risk-free and, not counting the annual invoice for payment sent to the leaseholder, virtually hassle-free, too.

An alternative to going it alone is to invest money in a ground rent fund.

Those open to small, private investors tend to be few and far between, however, and the best option may be to start your own.

A group of like-minded people looking for an 8-9% return every year on, say, a £10,000 investment, with the occasional windfall from a lease extension or freehold sale, could set up a legal entity to own and operate a ground rent fund.

Ground rents are not the most exciting form of property speculation, but they do offer good solid returns.

4.2.2 Syndicates

This rather fancy word can mean anything from a large property company (set up along syndicate lines) to simply a group of people pooling their resources to tackle the property market more efficiently.

A group of people can raise more funds, provide more time and energy and expertise, and negotiate better 'bulk' deals than the average individual.

Joining a syndicate typically costs a minimum amount of investment, which is then used to grow the portfolio, or to increase the value of existing properties through development.

Often, if the syndicate is formally and legally set up, your share of it will take the form of shares.

These shares are not likely to be freely traded on the stock market, but there should be some guarantee that when (and if) you want to release some or all of your investment, there's a route to doing so.

Your investment should grow in line with the overall pool since you joined, so you get back your original sum plus the percentage the portfolio has grown in value since you joined.

There may also be the opportunity for pro rata payments as and when the syndicate completes a deal and banks the profits.

If you do consider joining a syndicate, do all the usual due diligence checks to ensure the people running it are genuine, the track record is good, the syndicate is financially sound, and so on.

As an alternative, there's nothing to stop you forming one yourself. With all the expertise you can lay your hands on, of course, especially on the legal front.

4.3 Commercial Property

This is a different game altogether from your standard residential buy-to-let.

For instance, commercial tenants are legal entities rather than individuals, and such legal entities go bust from time to time.

Tenancy agreements can be longer than those in the residential market, but the legalities surrounding them, particularly over transfer rights and covenants, are completely different.

Market forces and requirements vary, so you can't base anything on the regional knowledge you may have built up in buying and selling residential properties.

Unless you do some serious homework here, you are opening yourself up to considerable risk.

OK, now you're scared, let's consider some of the upsides:

- The long leases reflect the fact that businesses tend to prefer a stable location, where their customers can find them easily, and so they don't have to reprint office stationery every year.

So a good tenant, who stays in business, could be a tenant for 5, 10, even 20 years, with regular rent reviews built in. You don't find that with a residential tenancy!

- Even the rent reviews tend to be fairly straightforward.

You're negotiating a business expense with a business, which is a lot less emotive than negotiating a personal living expense with an individual.

Although commercial property tends to offer lower gross yields and lower capital appreciation you have, on balance, an easier management job, with fewer tenancy changes, lighter agents fees (if you use them), a tenant who will probably choose to pay the rent by standing order, and fewer costs.

A business tenant will expect to:

- pay rates
- pay council taxes
- pay insurance premiums
- carry out some (or sometimes all) the repairs and decorations, plus an end-of-lease item known as 'dilapidations', which is a compensation to the landlord for any failure to meet their repair and decoration obligations.

And, if you do find yourself with a bad tenant, it's relatively easy to take goods to the value of the rent owed…

…**and it's much easier to get a business out of your property than it is to get a domestic tenant out of your house.**

Location, location, location is as important as ever in commercial property, so where should you be looking?

4.3.1 Secondary retail areas

Secondary retail areas out in the suburbs, where capital values are off their peaks, and retailers are being gradually replaced by more service-oriented businesses, are a good place to start.

Costs are lower than in the town or city centre, and they tend to be in fairly stable communities.

Once you find a place, you still have all the options open to you of finding inventive ways to add value.

If there's a reasonable plot of land with the unit, consider a budget to build outwards to increase the retail space.

If there's a space above the shop, consider turning it into a flat.

If there's a flat there already, offer it to your prospective tenants, or put a tenant in yourself. **Better still; convert it into offices, which is potentially a much more lucrative option**.

4.3.2 Industrial estates

If wholesale is more appealing to you than retail, look around industrial estates.

A low-management option is to buy development land and just sit with it until someone makes you a decent offer for it in years to come. Or until you decide to develop it yourself.

Another relatively gentle entry in is to buy a wholesale or industrial unit with a good tenant already in situ, but you still need to do your homework on the location, and on the covenant.

Beware of very cheap lots in trading estates. Some are cheaply built, and some suffer from the effects of old pollution.

New pollution from your tenants, on the other hand, will cause suffering for you, as you will be held partly responsible. Keep an eye open for any careless handling or disposal of hazardous waste.

Finally, if all this seems a bit too much, at least for now, then it may be worth considering a fund.

There are plenty of commercial property funds around, some of which are ISA eligible, or, if you have some market knowledge, or can partner with someone who does, you could start your own.

4.4 Unusual Properties

Residential property buyers tend to stick to what they've always known, and do the same thing year in, year out.

Commercial property buyers tend to be even more conservative, which is fair enough, given the larger stakes and risks involved.

Neither group is particularly known for their imagination or lateral thinking but…

…if you can apply imagination and a bit of lateral thinking, there are some interesting opportunities waiting for you.

One angle to take is to seek out buildings that have neither commercial nor industrial nor residential classification, no planning permission, and that no one really has a clue as to what to do with.

Apply aforementioned imagination and lateral thinking, add a bit of luck with the planning authorities and a large wedge of borrowed cash, et voila!

The advantage of taking on such buildings is that:

- you generally get a lot of space for your shilling, you have the chance to put an interesting yet neglected building to good use, and you're up against virtually no competition.

The disadvantage is:

- centred around the possibility that either luck, the planners or the bank will abandon you.

Key Tip

Of course, lack of competition should mean two things:

a) low price
b) it may not sell first time round at an auction

These two factors mean that you should be able to develop your plans and test the local planning authorities with your ideas before you take the plunge and buy it.

So, use the increased freedom of time and lower price to invest in more planning.

4.4.1 Churches

The Church of England is seriously short of cash.

The Church got embroiled in property speculation in the 1980s, which turned into something of a disaster, and it has seriously under-estimated its pension obligations.

As a result, church properties continue to be sold off to address this cash shortage.

The reason that ecclesiastical properties can offer interesting opportunities when they come up at auction is that the Church tends not to focus on the development potential when pricing them.

As a result, churches tend to be somewhat undervalued.

A fine example of this is St Saviour's Church in Knightsbridge, London. It's now a single dwelling, and was last sold for £10m. However, the church was sold in its undeveloped state for just £1.2m.

Period parsonages and vicarages rarely come onto the market now.

The church has sold off an estimated 8,000 parsonages since 1945, and have few left themselves. Of the 16,000 churches in the UK, however, around 900 have been sold and developed to other uses since 1969.

Converting a church is no small undertaking, and the potential to make a pig's ear of it is huge.

The best conversions retain as many of the architectural features as possible and use quality materials that blend in to the overall feel of the place.

If the conversion is to apartments, it's best to make them airy and spacious, befitting the overall space, rather than greedily cramming in one or two more than is really feasible.

4.4.2 Barns

Old stone barns ripe for conversion are quite a rarity nowadays.

If you do manage to track one down, bear in mind that its beauty and charm comes from the way it was originally built. Like churches, barns need sympathetic treatment if they are to be converted successfully.

One major element of the barn-charm is the fact they encapsulate huge, open-plan spaces, which can easily be ruined by installing too many partition walls and low ceilings.

Also, they tend to be quite dark places, owing to the fact the windows are few and small.

Getting more light into the property may be vital, but consider using Velux roof-lights; putting large picture windows in the walls will be costly, and will potentially ruin the look of the building.

In very old, stone built properties, it's often a bad idea to install a damp proof course.

Stone buildings are designed to breathe naturally, and the minimal amount of damp you'll almost certainly get in them can be kept at bay by keeping the property well ventilated.

4.4.3 Schools

Victorian and Edwardian schools come up at auction occasionally.

Again, schools attract little interest and can often be bought quite cheaply (relative to the space on offer).

On the downside, they're a **more significant conversion challenge** than churches, as they typically have one large assembly hall and lots of smaller classrooms.

In some cases, **this design has lent itself more to a community of small business units** rather than one or more residential dwellings.

One interesting feature of a school is that it will often come with a playground and, in some cases, a sports field.

This extra playground space offers the opportunity to extract more value from your investment by either selling off some of the land for development, or developing it yourself.

4.4.4 Railway Arches

Once upon a time, railway arches were used exclusively as makeshift shelters by the unfortunates of our society, the homeless and the dispossessed.

When the first arches were developed, which generally meant little more than throwing up a wall at each end, one with a door in it, they were usually let very cheaply to 'back street' garage businesses and auto-repair shops.

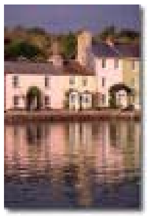
In the last ten years, railway arches have moved up-market, and now house cafes, restaurants, gyms, and even the occasional home.

In London, where space is at a premium, arches in many of the most obvious locations have long since been developed.

However, with the financial infrastructure of the British railway network in such a dire state, look out for arches in other parts of the country that may lend themselves to interesting and profitable uses.

4.4.5 Other unusual types of property

These are just a few examples of unusual properties you may come across at auction.



Others include castles, islands, reservoirs, old pumping stations and telephone exchanges, lighthouses, water towers, warehouses, mills, fire stations and railway stations.

Financing such properties as an individual can be a challenge, particularly when a substantial amount is needed in order to convert to something useable.

However, there are some mortgage companies and lenders that are geared up to handling old and unusual properties.

One such lender is the Ecology Building Society who specialise in lending on 'rescue' projects of derelict and dilapidated properties -

www.ecology.co.uk.

4.5 Foreign Property

Properties in mainland Europe come up at auction all the time in the UK, and buying a foreign property can be an attractive form of portfolio diversification.

You get to own a place in the sun (and/or snow) that you could use yourself while you watch the property gain in value each year, or you could choose to take an income from it in the form of holiday lets or longer term rental.

Ideally, look for areas and properties that can offer good rental yield and good capital growth.

Traditionally, the country of choice for British buyers was France, (though Spain is now more popular), and the properties of choice in France lay in either the Alpine or Mediterranean regions.

However, the advent of budget airline flights to more and more European destinations from more and more UK airports is making foreign property ownership and management increasingly easy, and is creating new areas of choice around the airports.

To take advantage of this trend, look out for smaller airports that have just opened up international routes to the UK and elsewhere, or are about to.

Such a move tends to foreshadow a significant leap in property values in the immediate vicinity, a leap that then ripples out into the surrounding areas. Properties within an hour's journey to one of these airports are worth considering.

Airports in France, for example, that have opened up to UK flights in the last few years include Poitiers, La Rochelle, Carcassonne, Dijon, Grenoble and Caen.

Buying abroad is not cheap.

In France, legal costs amount to around 10% of the cost of the property. Mortgages are available, but you'll need a deposit of at least 15%, whether you borrow from a French or a British bank, and 20% is more the norm.

Also, if you're dealing with a French bank, forget about trying for a buy-to-let mortgage, as there's no such thing. Therefore, rental income will be ignored when considering your ability to repay a loan.

Useful links:

Spanish Property

www.spanish-property-auctions.com

www.worldpropertylinks.com/propertyauctionsspain.html

5 PRE-AUCTION RESEARCH

In this section you'll learn about:

- How to research the local area (see Section **5.1**)
- How to select your auction (see Section **5.2**)
- How to select your property (see Section **5.3**)
- How to locate and use research sources (see Section **5.4**)

Before you get to the point where you first raise your hand to bid on a property, you have a lot of preparation to do.

Gary Murphy, residential auctioneer at Allsop's, has three words of advice for auction buyers;

"Do your homework!"

That's what this section is all about.

5.1 Researching the Area

What you look for in a neighbourhood depends very much on what type of property you're looking for, and what you want to achieve with it.

Whatever it is you want though, you absolutely must do your research thoroughly.

By all means pick and choose from this list according to what's important in your own circumstances, but don't miss or skip something purely for the sake of convenience, or it may come back to bite you later:

- How well is the area served by public transport?
- How important is this to people living there? (Less affluent areas rely more heavily on public transport due to lack of cars, or funds to fuel one).
- How well is it served by schools?
- How do the schools rate in the government league tables?
- How well is the area served by retailers?
- How well stocked is it with 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?
- Is the area rated comparatively cheaply or dearly for house and motor insurance?

For a full list of useful research websites please see Section **16.1.**

There are two standard ways of researching property – one is to look back and the other is to look forward!

As any recent stock market investor will know, past performance is no guide to the future.

5.1.1 Historical research

This approach requires you to **research into historical house price trends**, with the aim of selecting areas that have consistently beaten the average capital growth rates for the country, on the basis that this trend will continue.

It's a reasonable idea, but remember that areas hide sub-areas that may not be doing so well, and averages hide inconsistencies in growth patterns.

A good place to do this is:

www.proviser.co.uk/regional/towns

or

www.upmystreet.com

5.1.2 Forward thinking

The alternative view is to think about migration of people.

Essentially, when more people move to any given area, the price of property will increase.

When people move away from an area, the price will fall.

Therefore, your job as an investor is to spot which areas will experience a net gain of residents. Here will be your biggest property price increases.

For instance, based on the fact that the population of the UK, and most developed nations, is ageing, concentrate on areas and properties that are attractive to the elderly. This means friendly seaside resort towns and bungalows.

Equally, the movement and gentrification of city centres is often heralded by the appearance of a Starbucks coffee shop, a new bistro or wine bar, or increasingly, the renewal of neighbourhoods under local council schemes (such as East Manchester).

Key Tip

This forward thinking is actually the essence of becoming a good property investor.

If you can learn to spot the signs of an influx of people into that neighbourhood then regardless of whether you expect to rent the property or refurbish and sell, you will be selling into an upward market.

And that means you will underpin your efforts by an additional capital gain whilst you hold the property.

5.2 Selecting the Auction

All your research will be driven by the strategy you are working with, and that starts with the actual auction you choose to go to.

In some cases, you'll find the property first, perhaps in a newspaper ad, and that will take you to a particular auction house.

Sometimes, you may find that the area you are looking at, or the type of property you are seeking, is only covered by one or two auctioneers, in which case your selection process should be short and simple.

Assuming you have a fair choice of auctions in your area, what should you be looking for?

- Due Diligence. Make sure the firm of auctioneers is sound and reputable. You need to worry much less if they are part of a big national company. If they are smaller, more local, then go along and ask around in the breaks to find if anyone has had dealings with them before.
- Setting. Auctions are held in the ballrooms of big, expensive hotels to improve the image and attract a better class of clientele. This translates into higher prices. Don't dismiss the fancy ones, but be aware that a modest auction room will often equal lower prices.
- Popularity. Go along to several of their auctions, and see how crowded the room gets. Get a feel for how frenetic the bidding is, and whether or not there's a tendency for the crowds to disperse two-thirds of the way through. Quieter auctions mean less competition and, again, lower prices.
- Recent History. Do most lots get sold? How do the prices compare to market values? You can usually buy this information after the auction from the auctioneers, or it's available on the internet.

Once you have selected the auction house(s) you are going to focus on, consider getting yourself onto their mailing lists.

In this way, you ensure that you get the catalogue mailed to you the day it is published. You have so much to do that your main priorities should be to get the information as soon as it's available.

You'll probably find there's a cost for this service, so this may be the first point at which your fighting fund gets used.

5.3 Selecting the Property

You have researched your target area fully, you know the auction you will attend, and then it happens! One or more apparently ideal properties turn up in the catalogue for the next auction. Exciting times!

Now, you turn your research radar to the specific property, safe in the knowledge that the area matches your requirements, and you know it in enough depth to avoid any dark spots or less desirable streets.

Your research will focus on two broad areas – the building and area, and the documentation. You can do a lot on the first yourself, and the second will be largely down to your solicitor (though it pays to take a close interest in what s/he's doing!).

5.3.1 Location, Location, Location

- Where is the property in relation to a town or city?
- What transport links are available?
- What is the parking like? Does it have off-street parking?
- How far is it to the nearest railway station?
- How far is it to the nearest school?
- How far is it to the nearest local shops, or shopping centre?
- How far is it to the nearest park or play area?

5.3.2 Ownership

- Is it leasehold or freehold?
- If it's leasehold, how much is the ground rent?
- Are there any management charges payable? If so, how much are they?
- If the property is part of a block of apartments, say, then are there any renovations going on? If so, what would your share of the costs be?
- Is the property a privately built home or a Local Authority one?
- Is the immediate neighbourhood Local Authority, ex-Local Authority (now privately owned) or private?

- If it's a Local Authority area with some private ownership, what's the proportion of private to Local Authority ownership?

5.3.3 Price

- Is the property on the market (or guided) at a price comparable to neighbouring properties of a similar kind, in similar condition? An easy way to find this out now is through www.nethouseprices.com.
- If it's significantly higher, do you know why?
- If it's significantly lower, do you know why?
- How long do similar properties take to let or sell?

5.3.4 Rents & Tenants

- If there is a tenant, how long has s/he been there?
- Is the quoted rent the same as the rent being paid? (Sometimes, a property will attract a potential rent of, say, £4,000 a year, but the landlord is accepting only £3,500 because the tenant is on Housing Benefit, that's all the DSS will pay, and it's considered too difficult – unfair, even – to ask the tenant to make up the balance).
- What rent do similar properties in the area attract?
- Is the property easy to let out? Is there demand for rental property in the area?

5.3.5 State of Repair

- How well is the property presented at first glance?
- If there's been any conversion work or extensions, have they been done well?
- Is this similar, better or worse than the properties adjoining or nearby?
- If it's over 30 years old, have an electrician check it over. Rewires are expensive.
- Check the state of utility meters, as old ones will need replacing.
- Are the local public buildings, shops and schools in good order?
- Are the road and pavement surfaces in the area in good condition?
- How much litter or dog poo is evident in the neighbourhood?
- What's the condition of the cars parked nearby?

This last section on the state of repair very much represents a first-look overview.

However, there's a lot more to it than that, and it's an important area of research to get right, as it's one of those that will cost you money if you miss something significant.

5.4 Research Sources

This undoubtedly sounds like a lot of work. It is, but it is worth it!

You're plodding the streets, looking for sign-boards, trawling through phone directories and newspapers, ordering catalogues, checking out prices with local estate agents, and so on.

Surely there's a better way.

Well, there is.

5.4.1 The Auctioneers

The first information you will get about the property is likely to be from the auctioneer's catalogue.

This information is similar in depth to that which you would get from an estate agent.

If you register your interest with the auctioneers, this will enable them to keep you updated if there are any changes.

Sometimes, for example, the guide price is published after the catalogue, so they'll let you know when it is agreed.

Also, a property may be withdrawn from the sale, in which case a call from the auctioneer will save you a wasted trip.

If you choose not to register your interest, you can call the auctioneers to find out if there have been any significant changes to the lot(s) you are chasing.

On the day, there will be an Addendum made available at the auction, which you should check. This can also be faxed out to you, if it's ready a day or so prior to auction.

5.4.2 Local estate and letting agents

It is also a good idea to check out the offerings of BOTH the local estate agent and the local letting agent.

Get the local rental lists and the properties for sale.

Essentially, you want to gather as much comparative information as possible.

5.4.3 Online property information sources

There are also an increasing number of online sources that you can use. These are listed in full in Section **16.5**.

However, below we have listed three particularly useful websites.

They typically receive information from auction houses about properties coming up to auction, and package this information with other information from related sources.

Essential Information Group (www.EIGroup.co.uk)
Working with virtually every auction house in the country, the EIGroup maintain the most comprehensive database of auctions and auction prices in the UK.

Data includes sale price information from almost all the property auctions since 1991, which allows you to get a feel for what a property should sell for.

The database is impressive and:

- Offers details of over 280,000 auction lots going back to 1991
- Works with over 200 auction houses around the country
- Covered 1,066 auctions in 2004
- And contains about 31,000 lots, valued at £4.2 billion

The detailed search facility is very comprehensive, allowing you to access the data using virtually any criteria you choose.

Of course, you still need to know what you're looking for, in which area, and for what purpose, but this site gives you access to property details all over the country, from your own home.

You can search:

- By tenure type, or tenancy
- By Commercial or Residential, and many sub-categories of each
- By location, from street to county
- By date range, both past results and forthcoming auctions
- By auctioneer
- By sold status, i.e. sold, unsold, sold prior or sold post

Once you find a suitable property there is a lot of supplementary information available on it, above and beyond that which is supplied by the auction houses.

For example, you might get a location map, an aerial photograph of the property and the immediate vicinity, and details of similar properties that have gone through auctions previously.

This will answer many of your initial questions about a property, and could save you many wasted viewing trips.

If you're thinking all this must cost a fortune, you'd be wrong. Indeed, as the founder David Sandeman himself puts it, the EI Group offers:

> *"Very affordable access costs – much less than a single bid increment at an auction, in fact!"*

He's not being coy about the pricing. He really wants to keep the pricing as flexible as possible, to meet the needs of his customers.

However, the best way for you to see if the service is right for you, as a potential property investor, is to try it out for yourself.

So, David has offered a free, two-week trial of the EI Group service to readers of Property Auction Secrets.

All you have to do is call David, or one of his team, on 0870 112 3040, quote "Property Auction Secrets", and they will give you a user name and password that will be good for two weeks.

Two weeks may not be enough to find your first or next deal, but if you are serious about property auctions, this service is a must.

Investment Property Database Service

This group run a site called www.auctionpropertyforsale.co.uk on which they maintain a comprehensive database of current and future auctions in the UK.

This is also a subscription site, but even in the 'free' areas, there is a lot of useful information including a Buyers Guide, links to other property websites, and a list of good property books to further extend your reading and knowledge.

ukPAD

An auction directory site at www.ukpad.com, this is primarily a way of finding out what auctions are coming up in the next few months.

The user is then provided with contact details for the relevant auction house and an online auction catalogue request service (OACRS).

If you're interested in renovating property, ukPAD offer a handy email alert system, based on the region(s) you choose, of properties that come available and are in need of renovation.

There is an online forum, where you can discuss property and get advice from fellow investors, plus a mortgage quotation area, and an AST agreement.

6 SURVEYS & VALUATIONS

In this section you'll learn:

- The pros and cons of paying for a survey (see Section **6.1**)
- How to understand the different types of survey (see Section **6.2**)
- How to work with property surveyors (see Section **6.3**)
- How to conduct your own survey (see Section **6.4**)
- How to assess the market value of the property (see Section **6.6**)

It would be a shame to find the ideal property in the ideal area, offered through your favourite local auction house, only to miss a really significant structural fault in it that ends up costing you a small fortune to put right.

It's every property investor's nightmare.

To reduce, minimise or eliminate this risk is, once again, down to the legwork and homework on your part.

This section is designed to guide you through the process of thoroughly checking out a property, so you know exactly what it is you're going to buy.

Whilst the importance of this section should be obvious, it may come as more of a surprise that little actual skill or training is required on your part.

Much of what follows is common sense. On the odd occasion when you definitely need an expert, that will be made clear.

6.1 The Pros & Cons of Surveys

There are a lot of unavoidable costs associated with buying a property, which tends to highlight the costs that are avoidable. Perhaps the most significant avoidable cost is the survey.

If you're a builder (or even a surveyor) yourself, then there's clearly little point in bringing in an expert to tell you what you can readily deduce yourself.

However, for the majority of us who don't have such expertise, there are two main arguments against spending up to £1,000 on a full surveyor's report:

- There is no legal obligation to have one done
- The mortgage lender (if you're using one) will do their own survey, so why double up?

The first is true, so you're breaking no law or regulation if you choose not to have a survey carried out.

The second is also true, but how good a survey is it? Strictly speaking, the survey carried out on behalf of the lender (and paid for by you!) is a valuation survey.

It's designed purely to reassure the lender that you're not using their £150,000 to buy a property worth only £120,000. (Obviously, this is not done with only your interests at heart – they want to ensure they can get their money back if you default). As such, it's very limited in scope.

There will, of course, be all the usual considerations about the values of comparable properties in that area.

Other than that, they are only really looking for serious defects, such as subsidence, that will have a direct negative influence on the valuation.

They are not going into the level of detail required to reveal problems that may crop up in the longer term, or lesser defects that, whilst not impacting the valuation as such, may cost you a goodly sum to put right.

So, it can be a bit of a gamble to decide against having a survey carried out.

If you do decide to save yourself this particular cost, (and four out of every five house buyers in the UK do) then at least do a thorough inspection yourself (see guidance for this in Section **6.4**).

If you have a friend who is a builder, or at least knows stuff you don't, take them with you.

Key Tip

One way of getting more value out of a full structural survey is to consider it a day's training from an experienced surveyor.

Tell your surveyor that you will be present, and want to ask him lots of questions about the property and how he surveys it.

That way, even if you don't end up buying the property, you will be better positioned to conduct your own survey next time around.

6.2 Types of survey

If you do decide to have a survey done, your next decision is around the type of survey you want. There are two on offer:

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

6.2.1 Homebuyer's Survey

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.

This report will cover the same major areas of structural defect as a valuation report, but will do so in greater detail and with more effort.

To survey the roof for a valuation report, for example, the surveyor will get into the loft space and look for signs of leakage, obvious gaps in the tiles, or any internal damage.

With an HSV, the surveyor will actually get out onto the roof and search for external defects too, such as damage to the flashing, or a badly pointed chimney. Elsewhere, he will cover factors such as woodworm, damp, and dry rot.

An HSV is not 100% comprehensive, but serves to give the buyer some peace of mind, over and above the valuation survey, without costing a fortune.

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.

6.2.2 Buildings Survey

The Buildings Survey is much more comprehensive, more detailed and more technical.

And it costs more, of course! Again, price is influenced by the region, but also by the level of detail required.

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.

At this sort of price, you need to be sure that a) it's a worthwhile outlay, and b) you get exactly what you need from it.

Some tips on knowing what you need, getting what you need, and asking the right questions, appear in Section **6.3**

As for whether or not it's worthwhile, it's a question of relative value and risk.

If, for example, you buy a house at auction in Newcastle for £5,000 that you know will be worth £10,000 after a bit of tidying up, it's not going to be worth spending 20% of the purchase price on a full survey, especially when you have a locked-in profit anyway.

6.2.3 'Unofficial Survey'

Another option might be to ask in a builder you can trust.

He should know what he's looking for, and he'll give you on-the-spot estimates of how much various works are going to cost.

The downside is that it's 'unofficial', so you'll have no redress if he misses something vital.

6.3 Property Surveyors

Once you have decided on the type of survey you want, the next step is to find someone to do it for you.

The obvious choice, of course, is a professional property surveyor!

However there is, typically, some distrust between property purchasers and property surveyors.

Purchasers think they are paying too much for relatively bland, non-committal advice that cannot be challenged legally if it's found to be incomplete or inaccurate, due to the clever disclaimers contained within a survey report.

Surveyors, on the other hand, can have a very clear idea of what a potential purchaser wants, or needs, that may be quite different from his / her expectations.

It doesn't need to be like this!

A good surveyor knows his way around property better than Michael Schumacher knows the route around Monte Carlo, and has the potential to save you vast amounts of money.

It's worth getting around this impasse, and there are three things you need to do:

- Find a good surveyor you can trust
- Create a relationship in which the surveyor can trust you
- Give that surveyor a good brief

Trust is vital in any relationship. The vast majority of surveyors out there are perfectly trustworthy, but it's frequently misunderstandings, caused by bad communication, that trip things up.

So, let's take each one of these actions and put some useful flesh around the bones.

6.3.1 Finding a Surveyor

The best way to find any professional is through word of mouth.

If you're not getting any such recommendations, then you need to go out and find someone yourself.

Ask around. Ask local builders. Ask local estate agents. Ask the Local Building Control Officer. Ask people nearby who have recently had work done, such as an extension, or a renovation.

Key Tip

Ask at the auction. Attending an auction is a great way of networking with other auction buyers.

You'll find that they will often be happy to share a good surveyor or builder contact.

But make sure you ask for the kind of surveyor you require!

- If you are relatively new to the property market, for example, then you need someone who will give a full appraisal on the property you are considering, and explain things in layman's terms.
- If you are intending to let the property, you want someone who will go into details that an experienced landlord would already know.

It's **also worth finding a surveyor who is familiar with the area**, and perhaps with the type and age of property you are considering.

6.3.2 Combining a Survey with a Valuation Report

If you are borrowing from a mortgage lender, it's sometimes worth using the same surveyor they use for the valuation report.

This means the surveyor can do both reports in one visit, and that can save you money.

However, there is one potential downside here.

If you amalgamate the two surveys, it means your lender will get to see the whole thing, rather than just the valuation report they require.

And if the surveyor has unearthed a problem the valuation report would have missed, the lender may decide to withhold funds until the problem is fixed.

So don't feel obliged to use the one your bank recommends.

You can also contact RICS (details in Section **16.4**) and ask for a list of chartered surveyors working in your area.

Membership of RICS means that the surveyor is bound by a code of conduct, and has indemnity insurance (ultimately paid for, of course, by you, the client!)

However you track a surveyor down, always make sure he has the right letters after his name. These will either be FRICS, ARICS or TechRICS.

Another acronym to look out for is SAVA, which is another level of accreditation meaning they have reached a particular level of competence.

Key Tip

A small practice is more likely to give a personal service than a large one.

Hence, you may find that a small practice is willing to answer any additional questions you may have.

6.3.3 Creating a Good Working Relationship

Once you've identified one or more possible surveyor candidates, go and meet them.

There's no real substitute for a face-to-face meeting; you're intending to hire this person, after all, and you would never hire someone in any other circumstance without meeting him or her first.

What you are looking for during this meeting are indications that you can work together.

If you've found them as a result of a direct recommendation, then it's probably safe to assume that they are technically and professionally competent; the next level is to find out if you'll be able to work together as individuals.

Be open with them about what it is you are planning to do.

Tell them about the property you have in mind, if your plans are up to that stage. Explain the time limitations involved, and explain your own level of expertise and knowledge, to give them some indication of how much detail you will require in their report.

Asking the right questions will help you to find out more about the way they work. It will also generate a conversation that you can use as the basis for building a relationship based on mutual understanding and trust.

6.3.4 Giving a Good Brief

A good brief is really the culmination of two factors already mentioned:

- being clear about your intentions, and
- being clear about your expectations, based on your own level of expertise.

Here are some points to consider when thinking about your intentions:

- Are you looking to do a straightforward buy-to-let?
- Are you considering a buy-to-let that needs some work doing to it?
- Are you willing to take on a full-blown renovation project?
- Are you intending to renovate and sell, rather than becoming a landlord?

Here are some points to help you clarify your expectations:

- Have you ever bought property before?
- Have you ever bought property other than your own home?
- Do you have any practical experience or expertise in DIY?
- Are you confident about doing some or all the work yourself?
- Are you a complete novice?

If you are left in any doubt about your level of expertise, then assume yourself to be a novice. This is playing it safe.

With your surveyor, and indeed with your builder, it's always a mistake to 'pose' as something of an expert because you'll only trip yourself up later.

Either the true expert you hire will see through you or, if they don't, you'll get a report based on assumptions of expertise that are a product of your posturing, rather than being grounded in reality.

Once you have the report, read it through carefully. Don't be tempted to just skip to the summary and leave it at that.

Don't be afraid to contact the surveyor to ask about anything that's unclear. Remember – you hired him! Make sure you get from him what you need.

But hang on a minute! All this stuff about relationships and trust and honesty and communication is all very well, but what about the cost? That's not been mentioned once so far!

True enough, and for good reason – it's not really a factor.

Of course, you can shop around and make your choice based primarily, or solely, on price. But this is often false economy.

What you are looking for is a good, competent service, resulting in a report that meets your expectations, at a fair price. The reality is, you'll always find someone cheaper, but is a drop in quality really worth the saving?

Think about what it is you're actually buying here.

You're buying hard-earned expertise that you don't have, that will identify exactly what a property requires, if anything, to make it habitable, rentable, safe, legal, and so on.

You're buying a torch, in effect, to illuminate all those dark money-pits that can suck away your resources and make all the difference between a profitable project and bankruptcy.

Are you sure you want to do this on the cheap?

This may sound obvious, but it's surprising how many people get caught out every year.

They think they've made a prudent saving in hiring the £350 surveyor rather than the £500 one, only to find that the renovations that were going to cost £10,000 actually end up costing £20,000.

And the property might have cost £100,000 in the first place; with such big numbers flying about the equation, a £150 saving on such a key service is, indeed, false economy.

(The point here is to hire a surveyor based on the relationship, and on the quality you require, rather than purely on price. The point is not that all lower-price surveyors will do a bad job!)

6.4 How to do your own Survey

One of the biggest problems with buying property at auction is a lack of time.

You may not have long between getting access to the property and the day of the auction, and arranging a survey may take more time (and money) than you can afford.

However, if you do decide against a survey, you will need to conduct a thorough inspection yourself, with the help of a builder friend if you have one. In order to do this well, it's useful to know the areas a surveyor would cover.

One thing to be aware of with regard to your own survey – it is not rocket science!

Of course, surveyors do a fine job on the whole, and are trained to find faults that could potentially save you a fortune. But if you know what to look for, it really isn't that hard.

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.

If you can, arrange an inspection visit when it's raining.

Not only will the property look at its worst on a wet day, but also you'll spot faults in the roof, guttering and downpipes much more easily in a downpour.

Once you've completed your initial tour, go round again, this time looking carefully for the specifics, much of which is common sense.

It can be useful to take a camera, notebook and pen with you, so you have something to refer back to later.

If you don't want to scribble lots of notes, take a small recorder or dictaphone and speak your thoughts into that instead.

6.5 Structure

External Walls

- Ascertain the type of construction – whether it's solid brick, cavity walls etc.
- What is the external finish, if any, such as whitewash, pebble dash etc.?
- What is the general state of repair? In particular, look for cracks, especially at the corners of door or window frames, which can be a sign of subsidence or movement. Cracks below the damp proof course can be a particularly bad sign. It's worth looking at similar properties in the street to see if it's a common fault. Another sign of movement are crooked mortar lines. Also look for bulges, walls or window frames out of true, defective pointing, and any signs of damp or salt-staining.

Internal Walls

- Ascertain how the partition walls are built – whether they be brick, block, or stud – but bear in mind you can't remove a chunk of plaster to find out for sure! Generally, a stud wall will sound wooden and hollow when tapped (because it is wooden and hollow!) whereas brick or block will feel more solid.
- Check if there are any party wall issues with adjoining properties.

Windows and Doors

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

Roofs

- What type of construction are the roofs?
- What is their general state of repair? You can see a lot from a ground-level vantage point, but don't forget to check front, back, and any returns. You can also try to get access to the loft space for a close-up internal check, looking for patches of daylight, signs of water coming in, damage to the felt or lats, and damage to the tiles.
- Check flat roofs for patchy repairs. They may be fine, but also check the ceilings below. If they weren't replaced at the same time, water may still be lying on them.

Chimney Stack

- Are there any loose bricks, damaged pointing or signs of damp? A pair of binoculars can be a great help here and, again, don't forget to look from all possible angles.

Ceilings

- Are they original?
- Are they in good repair?
- Do they incorporate soundproofing material? (You can discover this, weirdly enough, by the way they sound).

Floors

- Check what materials are used in each room, and the general state of repair. Fitted carpets make a full inspection virtually impossible, but remember that your £700 surveyor will face exactly the same limitations.
- Check the state of the staircase.

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. The clues lie in the positioning and extent of the dampness. A surveyor will use a moisture meter, which you could invest in 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.
- It's not usually worth calling out a damp proofing specialist. They tend to want the business, so they'll almost invariably tell you that there's damp that needs treating.

Air Vents

- Check where they are, how many there are, if they are clear, and if they are working. These are necessary to ventilate the space beneath timber floors. Without them, mildew and rot can set in.

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.
- As for woodworm, don't be fooled by the little holes – these may be decades old, and the worms themselves may be long gone. They prefer damp conditions, and if a house is dry and centrally heated, chances are they've left for pastures new. If you see, as well as fresh holes, small amounts of fresh sawdust lying in the vicinity, then you may have a problem. (If you're unsure about woodworm in a property you already own, tape paper tightly over the holes and leave for a year. If there's activity, a beetle will have buried out and left a hole in the paper).

Internal 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?
- What are your overall impressions of the décor?

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).

6.5.1 Services

Central Heating

- Ascertain the kind of central heating system (if any), the type of boiler fitted, and how old it is. Most boilers have a sticker on them somewhere giving the date it was fitted. Ideally, there should be a service record, too, to give you some indication of how well it's been looked after.

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?

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.
- 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.

Rainwater Drainage

- Conduct a visual check of all gutters, downpipes and drains.
- Are they the old iron and tin types, or modern plastic?
- Are they cracked or damaged anywhere?
- 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).

Soil Drainage

- Conduct a visual check of all pipes and outlets.
- Check that when a toilet is flushed, or a shower is turned on, the water drains away properly.
- If in doubt, call the experts.

6.5.2 Outside

Outbuildings

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

Walls, Fences & Gates

- Check the overall condition
- What types of construction are used?
- Ascertain who is responsible for what amongst the adjoining properties.

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, 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.

6.6 How to Assess the Market Value of Property Yourself

Important note: there are two potential valuations for any property!

1. the market value – ie. what the 'normal' person would be willing to pay for a property, and
2. what the property is worth to you.

You can, either yourself, or as a result of a surveyor's valuation report, come to a broad conclusion about the market value.

However, it may be that you would not be willing to pay that market value, because of the auction strategy you have chosen to use.

To calculate what the property is worth to you, you need to use the 'price ceiling' software. Please see Section 15.

Key Tip

If you can find a property whose value to you is greater than the market value (because the property has a perceived problem or unrealised potential) then you have a very attractive auction proposition.

The market value of a property is typically its value in its current condition; it does not allow for potential.

This is the essence of buying property at a discount!

Once you realise or open up the potential of the property you can create a substantial increase in its market value.

Once you have completed your DIY survey, the next task is to come to some decision about the market value of the property.

If you're not using a mortgage lender who will do a valuation for their own use, then this task is down to you.

It is arguably more difficult than doing the survey itself, but with a little application and common sense, plus the checklist below, it can be done.

6.6.1 General Details

- Note down whether it is a leasehold or freehold property
- Get the size of the site, and the floor area of the building
- Find details of any existing tenancies
- Check if there any peculiarities relating to the building, the site, or the immediate vicinity and neighbourhood.

6.6.2 Repairs

- From your inspection notes, list the faults and defects that need to be fixed.
- Make an estimate of how much each of these will cost. Use specialists wherever appropriate. Tend towards over-estimating to negate nasty surprises later!
- Consider how a buyer (like you or those who may be bidding against you on the day) would view these faults and costs.

6.6.3 Comparables

- Collect details of similar properties that have been sold (or let) in the immediate area over the last 12-18 months. You can use www.nethouseprices.com for some of this research. If the property you are looking at is vacant, use similar vacant properties if possible for comparison; if you are intending to let the property, look for comparable tenanted properties.
- Adjust these prices with regard to the way the local area market has moved over the period since the transaction took place.
- Allow for differing states of repair.

Your valuation will be the output from all these considerations.

So, if you're happy with your choice, and you're confident you know exactly what you're buying, then it's time to go to the auction.

Remember – your job as a successful auction investor is to find property with a low market value but high potential and then realise that potential.

So, how do you assess the potential of a property? Simple, open up the 'price ceiling' software and get cracking with the numbers. See Section **15**.

Key Tip

Don't forget that any mortgage you hope to raise on the property will be based on the 'current condition' of the property.

So, make sure you have the cash to do the things you want to do to it!

See Section **9** on the money side of auction.

7 AT THE AUCTION

In this section you'll learn about:

- The basic elements of an auction (see Section **7.1**)
- Preparing for an auction (see Section **7.2**)
- Setting a price ceiling (see Section **7.3**)
- Bidding tips and tricks (see Section **7.4**)

In Section **2** we looked at the main elements of an auction as an overview. Here, we'll take a much closer look at the event itself, its component parts, and what you need to be aware (and wary!) of, and the things you'll need to take with you.

There is also a section on Tips & Tricks, full of tried and tested ideas to give you that all-important edge on the day.

7.1 The Basic Elements of an Auction

Let's start by having a look at the elements of an auction, and examine them from the point of view of you as the buyer. All may not be as it first appears!

7.1.1 Registration

Some auctioneers require you to register on the day if you intend to bid. This will involve getting to the auction early to fill in a registration form, provide some form of ID, and get a bidding number. These come in the form of a paddle, which you hold up for the auctioneer to see when you're bidding and, more importantly, when you've bought.

Not every auctioneer has a registration process, so it's worth checking first.

7.1.2 The Auctioneer

As a buyer, the auctioneer is your competitor!

He is working for the auction house, which gets paid according to the number of lots he sells, and the price he realises for each one. The higher the price, the more he makes for his firm.

He is also working for the vendor, who is his client. The vendor expects the auctioneer to get absolutely as much money as possible for his or her property.

Both these factors are conspiring against you and your wallet, but it's easy to forget that in the heat of the moment. Gary Murphy, residential property auctioneer at Allsop's, says:

"An auctioneer is a man able to pick your pocket with his tongue!"

It's a light-hearted metaphor, if not the best of images, but underlying it is a serious message. The auctioneer wants you to pay more, and will try everything to make you. This includes coaxing you on with such classic phrases as “I think he’s about ready to give up, sir” and “Do you really want him to go home with this property?”

7.1.3 The Competition

You are potentially bidding against everyone in the room. They are all your competition. Bear this in mind in the time before the auction starts. Beware of giving too much away as you mix and mingle.

In reality, however, a popular lot in a big auction may have a dozen people interested, of whom only a handful will get around to bidding and, towards the end, you’ll be up against one, maybe two others.

7.1.4 The Guide Price

This is the price printed in the catalogue, next to every lot. It can be a single figure, or a range. In any case, it’s one of the weapons in the auctioneer’s armoury.

Graham Barton, auctioneer with Fulfords Auctioneers, puts it well:

> *“The guide price is a carrot, designed to generate interest. It’s part of an overall push to go from zero interest to a buyer with chequebook out in three to five weeks.”*

It’s likely that the guide price will be somewhat below a market value, or at least a *perceived* market value, which it is what develops the interest. But it will be based on a valuation.

And, when the auction house has done a good pricing job, the final price will be at, or some way above, the guide price. Graham Barton averages sale prices at 25-30% higher than the guide price at the auctions he conducts. (See Section **12.8** for more details).

7.1.5 The Reserve Price

The reserve is decided upon between the auctioneer and the vendor, sometimes as late as the day of the auction.

The decision is based, at least partly, on how much interest has been shown in the property, judged on the number of viewings and the number of requests for the Legal Pack (see Section **8.1.1**).

The agreement means that the property cannot be sold at any price below the reserve price. The reserve price represents the absolute minimum that the vendor will accept.

If interest is high, the reserve will be set high. If interest is low, the vendor may push for a lower reserve, particularly if s/he is keen to sell. Or the auctioneer may be keen on a low reserve in order to try and ensure the property is sold. **(See Section 12.8 for more details).**

The reserve is very rarely disclosed, although if you're sneaky or lucky enough to get close to the auctioneer and peer over his shoulder, you'll often see the reserve scribbled on the page for each lot.

In order to get the bidding going, an auctioneer may start at a level below the reserve.

Up to the point where the reserve is reached, the auctioneer is allowed to take fictitious bids from the floor – so-called 'bids off the wall' – to drive the price beyond the reserve and into territory where it can be sold.

At the point where the bidding passes the reserve, the auctioneer may let the professionals in the room know by a variety of phrases, such as "It's in the room now" or "It's here to be sold".

Key Tip

Each auctioneer will use different signals to indicate that the property has reached its reserve price.

By attending a few auctions you will begin to recognise the signs!

7.2 Be Prepared

You already know most of what you need when you turn up at the auction.

Everything is collated below, however, including the one or two items you may not have thought about.

7.2.1 Your Research

By the time you walk into your chosen auction, you will have:

- Decided your strategy
- Filtered it through the auctioneer's catalogue
- Selected one or more 'target' properties
- Synthesised your own research around these properties

And, most important of all:

Decided on your maximum bid. (If you don't know this yet, stop right now and see Section 15 on using the spreadsheet software to calculate your bid.)

You'll only be preparing to bid on properties where all of this fits together very clearly for you. Add to this:

- Some idea of how its worth compares with the guide price (and any estimate as to the reserve price)
- A clear idea of how you will afford to pay for the property
- A clear idea of how you will finance it
- A clear idea of what you intend to do with it

7.2.2 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.

Bring 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.

Some auctioneers will get your cheque through the express route, which means it clears the following day. This means the funds need to be cleared in your account on the day of the auction. Don't rely on the usual 3-7 days of breathing space!

7.2.3 Personal ID & Solicitor Details

We now live in a super-vigilant world, and you will need to bring along at least one form of identification to present, should you purchase a property.

To be safe, call the auctioneers to find out specifically what they require. Sometimes, one piece of photo-ID is sufficient, such as a passport or a new style driving licence.

Sometimes you may be asked for something like a bank statement or utility bill to prove your address.

Bring the details of the solicitor you intend to use with you, so you can pass them on to the auctioneers on the day, in order to set the wheels in motion as quickly as possible.

7.3 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.

This is to lose sight of all limitations and just keep bidding up in order to secure the property you want.

Don’t Let That Happen to YOU!!!

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, what the property is worth to you.

If you haven’t already, see Section 15 on how to calculate your price ceiling.

Your price ceiling will be a figure. Not a range, (though there are times when a range is appropriate) or a ‘thereabouts’, or any other 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, your ceiling is then made of six-foot-thick reinforced concrete.

That’s right! **Once you set you’re ceiling, you *never waver*.**

Then, no amount of excitement in the room, cajoling from the auctioneer, or buzz from having all eyes upon you, will allow you to stray into over-priced territory.

And guess what?

Even if the ‘buzz’ is low, and it’s looking like the guy who’s bid just £1,000 over your ceiling is about to secure the property, you *still* don’t waver.

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 level, another few hundred or thousand is neither here nor there, so why not choose £201, 400? That'll fox 'em!

If you take nothing else from this book away with you to an auction, take the price ceiling. It's guaranteed to save you money and heartache.

In fact, this is such an important feature in your auction adventures that there is a spreadsheet provided with this book to help you calculate your price ceiling. See Section **15** for a full explanation of how to use it.

7.4 Bidding Tips & Tricks

At your first auction, you have a stark choice:

- Either you try to merge into the carpet, remain anonymous, not stand out, and bid furtively from a darkened corner of the room (see below). There are times when this is a good idea, especially when you get a little more experienced.
- Or, you can speak to the auctioneer beforehand, perhaps the day before over the phone, explain to him what lots you are interested in and then, on the day, take the advice of Graham Barton, auctioneer at Fulfords:

  "Wear something bright and cheerful, so I can see you easily. We're good at spotting bids, but we're not super-human!

  Also, sit in an aisle seat. This gives you an open space into which you can wave your hand, or your catalogue, which again makes it easier for me to spot.

  Finally, if you do decide to bid, join in fairly early on. That gives me the signal to keep an eye on you throughout the bidding, and I'm less likely to miss one of your bids."

Take this advice by all means, but never forget that the auctioneer necessarily has his own and the vendor's best interests at heart – not yours!

So, once you're there and settled, is there anything you can do to get some advantage over your competition?

In short – yes!

7.4.1 Staying Invisible & Anonymous

Property auctions are strange environments. They can be quite friendly, almost social affairs, yet everyone in the room is potentially a competitor, bidding against you for the property you want.

The auctioneers are professionals, yet they are effectively representing both sides of a deal simultaneously.

They're working for the vendor to get the best possible price (and therefore the largest commission for themselves), and working for the buyers in creating an environment where properties can be picked up at prices that represent good value.

Almost by definition, the regular auction-goers are sharp, intelligent people, and are probably your stiffest competition.

Similarly, the auctioneers know the faces, the buying habits, the preferences of their regulars, and this can alter their behaviour when conducting an auction.

Another phenomena you need to be aware of is that of shadowing.

There are professional property buyers out there who are either running extremely profitable operations on their own behalf, or are being very well paid by a larger concern to pick up high-yield properties at auctions.

Some people make the mistake of taking on a high-profile in the sale room, perhaps dressed in a recognisable style and making their presence felt at every auction they attend. It's a form of celebrity, and it's a mistake.

What invariably happens is a group of 'followers' watch what he's bidding for, and bid against him, safe in the knowledge that he's done his homework, and that he has a strict ceiling, above which he will never go. If a 'follower' can get that property one notch up from where the pro pulls out, then he knows he's onto a winner.

Which of course is great, if you're a 'follower'.

However, if you find yourself as the one being followed, then that's a disaster.

You're going to be pipped at the post by a 'wannabe' every time, and you'll find it increasingly hard to buy anything at all.

To avoid this ever happening to you, blend in.

Don't dress in anything other than a nondescript convention.

Stand towards the back of the room.

Keep a low profile. Then you're a lot less likely to build up a 'following', and auctioneers and competitors will either not notice you at all or, if they do, you'll be almost impossible to figure out and manipulate.

(This is, of course, in direct contrast with the advice given by Graham Barton above. His advice is aimed at the new auction-goer, whereas this is for when you become an active, experienced buyer.)

7.4.2 Bidding by Proxy (over the phone and web)

An even surer way of keeping a low profile is through phone bidding, or bidding across the internet, where you don't even go to the saleroom on the day.

You will find a proxy form inserted into the auction catalogue. Make sure the auctioneers get this from you in plenty of time. You will also need to fill in a registration form, and provide a cheque for the deposit.

If you complete the cheque with an amount, you're limited to a bid of ten times that amount. 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.

Bidding Over the Phone

This is how it works.

You tell the auctioneers in good time that you wish to take part in the auction by phone. Ask them, and they will specify the notice period they require. They will ask you which properties you are interested in, and make an arrangement for one of their staff to call you on the day, from the saleroom, 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.

There are a lot of advantages to this method, over and above the anonymity it offers.

- You don't need to travel to the auction
- You have a professional explaining to you what is happening, so you effectively hear what is happening through the view of an expert
- The process necessarily slows the auction down, which gives you more time to think and consider your next move
- You're in a remote location, so you're less likely to get caught up in the excitement of the moment, and therefore paying more than you intended.

There are a few disadvantages, too.

- You cannot see and feel what is happening in the room
- You cannot see how much competition you are up against
- You cannot tell if and when the auctioneer is taking bids off the wall, see Section **7.4.4**

But the biggest disadvantage, and one that puts many people off using the proxy method, is that on the proxy form you have to specify your price ceiling. And then you have to hand over 10% of that amount before the auction takes place.

Considering that the auctioneer is a stranger, working on commission, looking for the highest possible price, this feels uncomfortable to many people.

However, the auctioneer needs to protect himself by getting clear instructions in writing before the auction, and any auctioneer worth his salt will carry out proxy bidding in a completely fair and honest way.

Graham Barton, auctioneer, at Fulfords, estimates that at one of his sales, there may be 200 people in the room, as against 3 on the phone.

Bidding Over the Internet

An extension of bidding by phone, with most of the advantages intact, is the recent phenomenon of bidding over the internet and interactive television channels, such as The Auction Channel. Not all auctioneers will offer this option.

Using a Bidding Agent

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

Typically, such agents will be an accountant or a solicitor. This is all well and good, but bidding skilfully at auction is not what they are primarily trained to do.

If you want to use a bidding agent to represent you, the best solution is to appoint another auctioneer from a different company to go and do your bidding.

Of course, not all auctioneers are willing to do this. The ones that are, however, sometimes offer various additional services, such as surveying a property for you.

You can find out more at www.bidding-agent.co.uk.

7.4.3 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.

If you are the jumper, you wait…and wait…and wait.

The lot you intend to move on may initially have several people in the bidding. However, as the price moves higher and the increments get smaller, people drop out of the melee until only two rivals are left. And still you wait.

What you're waiting for is a sign that one party or the other is about to fold under the pressure, the point where the writing is on the wall.

The about-to-be loser is nervous and frustrated, perhaps. His opponent is relaxed and excited at the prospect of picking up another easy bargain. At that point, you make your first bid, perhaps two or three increments higher than the previous bid.

You are the cat amongst the pigeons, the curve ball from left field, the ninja pouncing from the shadows. You take the advantage and throw both the other parties completely off balance.

If you use this technique well, your first bid will be the one that secures the property for you.

Another version of jump bidding is to wait until the bidding is slowing down and you feel the property is about to be sold. At this stage, typically, the auctioneer will reduce the size of increment by which the price goes up – say, from £5,000 early on to get things moving, down to £1,000, then perhaps to £500 or even £250.

When you see this starting to happen, get in there with a bid that raises the price by more than the current increment; if the auctioneer is looking for increases of £500, shout out a bid that's £2,000 higher. That can scare the competition right off!

7.4.4 Spotting Off the Wall Bids

These are bids that the auctioneer appears to take, but he's actually making it up, and not responding to any signal in the room.

Why would he do this?

Usually because the bidding is sluggish, competition is light, and the bidding is still below the reserve price.

The property will not sell below reserve anyway, so he feels he may as well get it up there and, if that means bidding against the only interested party in the room, then so be it.

Legally, the auctioneer can only bid up to the reserve, and not beyond it.

All the auctioneer is trying to achieve by taking bids off the wall is to get the bidding up to the reserve price so it can be sold.

If you are a buyer, and the auctioneer uses his skill to get your bid up to the reserve price, and there are no higher bids, then you will get the property at that price.

Off the wall bids are hard to spot, especially in a crowded auction room, but if you do see it going on, it could mean there's a bargain to be had.

Sometimes, the auctioneer will let the professionals in the room know that, one way or another, the reserve price has been reached.

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

7.4.5 Bidding High

A good psychological tactic that Gary Murphy, residential auctioneer at Allsop's, has often seen work is the high bid.

As soon as the property that you are intending to bid on comes up for sale, the auctioneer will likely start low, to get things rolling.

You step in immediately and shout out a high bid to him, somewhere close to where you believe the bidding will end up.

Your competition will often see this as a sign of massive determination and very deep pockets, and will just let you have it.

A variation on this is to put your hand up early on, and leave it up. Just leave it right up there, waving in the air.

Again, this sends a signal to those bidding against you that you are there for the duration. This may mean they leave the fray faster, which lets you pick up a bargain.

7.5 Frequently Asked Questions

An auctioneer hears many of the same questions from potential buyers. Here are the Top Eleven questions, plus, of course, the answers.

7.5.1 Are These Your Own Properties You Are Selling?

Quite frequently in an auction catalogue you will see notices along the lines of "Estate Agents Act 1979 – A Director of XX Auctioneers has an interest in this property".

The Estate Agents Act 1979 does indeed require all selling agents, including auctioneers, to declare any interests they or an associate may have in a property they are advertising for sale.

This act is wide and far-reaching.

The word "associate" covers employees, relatives, or other connected business persons. When you consider that some of the larger auction houses have up to fifty staff, it's clearly not uncommon for the vendor of a property to be a relative of someone who works at the auction house, or is an associate.

It would be very unlikely that the property offered for sale actually belongs to the auction house selling it. Unlikely, but not impossible, and if this were the case, then there would be a notice to this effect.

7.5.2 Why is This Property Being Sold by Auction?

There are many types of vendors of property by auction these days, and many different reasons for going down the auction route.

It would be wrong to assume that the property is repossessed, or that there is something wrong with it, although you should, of course, have the legal pack checked thoroughly by your solicitor and be sure you are happy with the structural condition of the property.

7.5.3 Is It a Repossession?

If you want to find this out for yourself you can do so by checking the "Special Conditions of Sale" for the particular lot you are interested in. For other clues, see Section **10.11**.

7.5.4 How much is the reserve?

This is the minimum price at which the property can be sold and is confidential between the auctioneer and the vendor. It is usually set about three days before the auction, but may not be decided upon until the day itself.

7.5.5 Can I Make a Pre-Auction Offer?

Yes, you can. Indeed, this is one of the specific strategies given in Section **10**.

The auctioneer is duty bound to pass on your offer to the vendor, unless he has been given instructions to the contrary. However, as an auctioneer, he will usually prefer the property to go into the room on the day, especially if there are lots of good pre-auction offers being made for a particular lot.

That is what an auction is all about – lots of potential buyers outbidding each other in the room on the day!

7.5.6 Can I Get a Mortgage on an Auction Property?

Absolutely! However, make sure you have a firm written mortgage offer before the day of the auction. Most auctioneers will be able to introduce a potential buyer to finance companies or financial advisers who are qualified to give the correct financial advice if you need a mortgage.

7.5.7 Do I Need to Bring My Solicitor With Me?

This is not necessary, though you should have had the legal pack checked out by him/her beforehand.

7.5.8 What Do I Need to Bring to the Auction?

First and foremost, the deposit for any lot you intend to buy! Always check the auction catalogue for the specific methods of payment. Some auctioneers will only accept a bankers draft, other will accept personal and company cheques for the deposit, which is usually subject to a minimum of £2000 on low value lots.

You will also need to bring two forms of identification, one of which must show your residential address, such as a recent utility bill or bank statement. The other must be some form of photo ID – either a passport or new style driving licence.

7.5.9 What Happens If I Fail to Complete on Time?

The usual completion date is 28 days after the auction. If you, as the buyer, fail to complete, you will almost certainly lose your deposit.

And that's not all!

If the property is re-offered for sale by auction, and the new selling price is lower than the original price, then the vendor can sue you as the original buyer for the difference, plus any other direct costs incurred as a result of the default.

We cannot stress strongly enough the need to check the Special Conditions of Sale for the lot you are bidding for, and any Addendum published by the auctioneer on the day of the sale. This is where any amendments to the completion date will be noted.

7.5.10 What is in the Legal Pack?

Typically the legal pack will contain:

- Office Copy Entries; these are documents held at the Land Registry which record the title number of the property, how much was paid for it and whether there are any mortgages or other legal charges on it.
- Special Conditions of Sale
- Requisitions on Title
- Local Authority Searches
- Coal Board Search
- Copies of any leases or tenancies

7.5.11 What Are the Special Conditions of Sale?

The Special Conditions of Sale are prepared by the vendor's solicitor and are unique to that particular lot. Auctioneers usually ask for these in a standard format, but solicitors rarely comply!

The Special Conditions of Sale take precedence over the Common Auction Conditions and there are no hard and fast rules as to what they may contain.

The things to watch out for are the unpleasant surprises. If the vendor wants to complete in 14 days, rather than 28, this is where that stipulation will be made. Or, in the case of a plot of land being sold without planning permission, you might find a 50% profit clawback clause in the Special Conditions of Sale if the land is ever developed in the future.

8 THE LEGAL SIDE

In this section you'll learn about:

- The basic legal elements of buying at auction (see Section **8.1**)
- Common auction conditions (see Section **8.2**)
- Preparing to rent an auction property (see Section **8.3**)
- Types of tenancy (see Section **8.4**)
- Handling rent arrears (see Section **8.5**)

When buying property at auction, you're going to need to involve a solicitor, just as you would in a private treaty sale.

This section is in no way meant to replace that service, but rather to point to some of the areas you need to be aware of as an auction participant.

There is much common ground between a private treaty sale and an auction sale, but auctions do throw up some unique terms and conditions and legalities, many of which are covered here.

8.1 General Points

The seller is under very little legal obligation to provide information about the property being sold, although s/he is legally prevented from actively misrepresenting the property.

Therefore, the principle of caveat emptor – Buyer Beware! – applies very strongly.

It is your responsibility to check out everything you possibly can about a prospective property, as you will have very little comeback on either the seller or the auction house after the sale has taken place.

Some of the areas you need to be mindful of are:

- Don't believe the plans! They are rarely accurate.
- Don't wrestle with the legal documents unless you are a lawyer well versed in property law. If you're not, hire one.
- There are a multitude of different laws and Acts of Parliament that differ according to the type of property, the type of tenancy, and the nature of title. Special conditions can also apply, and there's no obligation for the seller to mention these.
- The seller need not tell you about hidden or obvious defects in the building.
- The seller need not tell you about any obvious oddities in the title (though hidden ones must be disclosed).
- The seller need not reveal any surveys or searches to you.
- The seller need not release copies of any title documents to you before the auction, though many auction houses do conduct a due diligence process that includes accessing such documents, and making them available to the buyer in some form, usually on request.

So what does caveat emptor mean in practice?

Well, in the Common Auction Conditions (see Section **8.2**) there is a phrase that sums it up nicely. The prudent buyer will:

> *"Take professional advice from a solicitor and, in appropriate cases, a chartered surveyor and an accountant, read the conditions – i.e. the legal terms of the contract – inspect the lot, carry out usual searches and make usual enquiries, check the content of all available leases and other documents relating to the lot, check that what is said about the lot in the catalogue is accurate, and have finance available for the deposit and the purchase price."*

It's a lot! Let's break it out into its component parts and examine what each one means in practice.

8.1.1 Professional Advice from a Solicitor

Title deeds can be dense documents, referring to all sorts of esoteric conditions and caveats. For your own peace of mind, if for no other reason, get a solicitor to look over the title documents in detail.

Most auction houses now ask for a nominal fee to send out copies of the legal documents, generally organised into a Legal Pack. It's normally around £10, to cover photocopying and postage.

8.1.2 Professional Advice from a Chartered Surveyor

This is covered in some depth in Section **6.3**, but a chartered surveyor will give you some comfort as to the overall state of repair of the building, and perhaps give you some indication of repair and renovation costs.

8.1.3 Professional Advice from an Accountant

This will not always be appropriate for every purchase (though you should probably have someone taking a professional interest in your overall property investment affairs).

There may, however, be specific situations where you need to involve an accountant in a purchase decision.

8.1.4 Read the Terms of the Contract

You may like to leave this entirely to your solicitor but, as contracts gradually become easier to understand, it's a good idea to get into the habit of reading them yourself. After all, you're the one who will be signing it!

8.1.5 Inspect the Lot

You wouldn't dream of buying a car without first seeing it and driving it. Go and find out what it looks like, what it feels like, who's in it or on it right now, what the area is like and so on.

Take a friendly builder with you, if possible, and consider whether or not to hire a surveyor, or conduct one yourself. See Section **6** for further guidance.

In terms of viewing a property, there are likely to be one of three different options offered you:

- Unaccompanied – usually for a vacant property. You will need to arrange to pick up the keys from the auctioneer, perhaps pay a returnable deposit for them, and go to the property in your own time.
- Accompanied – where you arrange to meet an employee of the auction house, either at the office or at the property, who will then show you round.
- Viewings at pre-arranged times. This is often for properties likely to generate a lot of interest. Generally, you don't need to book. Just turn up.

8.1.6 Usual Searches

These are generally conducted by your solicitor, and 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.

8.1.7 Usual Enquiries

These are also conducted by your solicitor, but are much less formal, much vaguer. 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.

8.1.8 Leases & Documents

See Section **8.1.1**.

8.1.9 Catalogue Details

Make sure the published details in the catalogue are correct. Auctioneers are under a legal obligation to get these right or, at the very least, ensure they are not misleading. However, understand that auctioneers are also working within very tight timeframes to get the catalogues published, so don't rely too heavily on them.

8.1.10 Finance

Covered in detail in Section **9.2**, this highlights the fact that, if you are the successful bidder at auction, you must pay a 10% deposit there and then, and you must generally complete within 28 days.

8.2 Common Auction Conditions

As with any legal document, there have been problems and mistakes made over the years, by both buyers and sellers at an auction, caused by a general reluctance to read the small print.

The Royal Institution of Chartered Surveyors has been actively tackling this problem by designing a set of conditions that will be reasonably standard across the country. Importantly, they are written in clear, accessible language.

They are designed to make the auction process clearer to both buyers and sellers, and are freely available on the RICS website.

The Conditions cover four main areas:

The rules as to the conduct of the auction
The auction catalogue is issued only on the basis that the bidder has agreed to abide by the rules of the auction. These give the auctioneer the power and authority necessary to run an effective auction.

The general conditions
The general conditions cover matters such as apportionments, landlord's consent, rent deposits, transfer of going concerns, capital allowances, tenant's rights under the Landlord and Tenant Act 1987, maintenance contracts, receivership sales, warranties, pending lease renewals and incomplete rent reviews.

The special conditions (to be completed by the seller's lawyers in accordance with a preset template)
The special conditions, which are prepared by the seller's lawyers, set out under some twenty headings the particular issues relating to the property. From the special conditions, one can see - for each lot in the catalogue - details of the seller, details of the seller's lawyers, the type of title (and title guarantee), whether the land is registered, how the deposit is to be held, the agreed completion date, the position as to insurance pending completion and a host of other factors.

Read these especially carefully! Sometimes, oddities can be slipped in by the seller, such as hitting you for some or all of his costs. You don’t need nasty surprises like that. The aim is to make the legal job easier for both the buyers and sellers’ solicitors, thereby reducing the associated legal costs for you. It will also make it easier to seek finance, as the terms and conditions are gradually standardised and simplified.

The memorandum of sale
The final part of the conditions is the sale memorandum to be completed by the auctioneers.

The Common Auction Conditions are not mandatory. Some auctioneers have adopted them, but others are more reluctant.

In some ways, they may be too broad. In an effort to encapsulate absolutely every auction scenario, they have become too big and cumbersome.

In addition, because the General Conditions are so huge, they necessarily generate more Special Conditions to counteract the General Conditions that don't apply, making the whole thing bigger again!

8.2.1 The Auction Contract

The contract to buy / sell a property at auction is made when the auctioneers gavel falls. No questions. No arguments. It is this that makes auctions so much more attractive that private treaty sales…and so much more scary!

When you go up to pay your 10% deposit at the end of the sale, you'll also be asked to sign the memorandum of sale, which is the written version of the legally binding contract you made at gavel-fall. 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.

Another point to note is that everything the auctioneer says while conducting the auction forms part of the contract, 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 any lot you are interested in.

8.2.2 Too Much Law?

Under the current legal framework, auctioneers have to be extremely careful when they produce their catalogues, so as not to fall foul of the many laws under which they operate. When time is of the essence, this becomes even more of a challenge.

Current legislation includes:

- Much of the ordinary contract law that applies to private treaty sales also applies to auctioned properties.
- The Landlord & Tenants Act 1987 applies to let properties sold through auction.
- The Property Misdescription Act 1991 makes it a criminal offence to give false statements in the sale of a property.

- The Proceeds of Crime Act 2002. This is the anti-money-laundering legislation designed to stop criminal funds being channelled into legitimate business dealings, and means that all buyers and sellers will have to prove their identity to the auction house.

In the near future, this legal burden looks set to increase significantly;

- The Common Auction Conditions look set to become standard fare in the auction world. Though they are not, in themselves, legally required, much of them encapsulate the law as it applies to auctions.
- There is talk of the government introducing a compulsory 'Sellers Pack' for auction vendors. This will take more time to prepare, push more costs onto the seller, and produce a survey that, because the seller arranged for it and paid for it, is unlikely to be trusted by the buyer.

As a buyer, you should be pleased that your interests are increasingly well protected at auction.

8.2.3 Building Insurance

One important area of note is 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. So you must make insurance arrangements immediately to protect yourself from loss.

Key Tip

A friend of mine recently bought a vacant property.

In order to keep the garden alive during the hot summer he set up a sprinkler system based on a timer.

He went away for 10 days holiday and came back to find that there had been a fire. The cause? Overloading the circuit.

Luckily he was insured! Please take note.

As the owner of an empty property, you not only have to insure the property itself, but you also have a duty of care towards any trespassers who may stray onto your property. You therefore need to make sure that the property is secured against people just wandering into it.

And if you've done something drastic, like removed the ground floor, you are obliged to place a warning sign on the outside of the property.

Either contact your local high street insurance broker or alternatively speak to the auction house for recommendations.

8.3 Preparing to Rent

If you are intending your residential investment property to bring you a rental income, you need to be aware of the standards that you are legally obliged to meet.

Mostly they encapsulate common sense and safety issues.

Broadly speaking, there are two types of residential lets.

The single occupation model is a home where an individual or family lives exclusively, with access to all parts of the property and, typically, their own front door, either out onto the street, into their garden or, in the case of an apartment, into a shared entrance hall.

The house of multiple occupation (HMO) is a building where a number of individuals live. Each will have a private room or rooms, but will share facilities such as toilet, bathroom and kitchen, with other residents. Typically, these will be bedsits.

The legal obligations differ for each type.

For detailed information on letting property, HMOs and tenancies please see Buy to Let Secrets, available from www.propertysecrets.net.

8.3.1 Single Occupation Checklist

- You need to gain permission from your mortgage lender to rent out the property, unless you have a buy-to-let mortgage, in which case permission is already implicit.
- If it's a leasehold property, you need to gain permission from your freeholder, and comply with any conditions or payments they may require.
- You may also need to gain permission from your insurance company in order to maintain insurance cover.
- You must ensure the property is in a fit state for habitation. This means it's clean and sanitary, that the structure and exterior are sound, that the drains, gutters and external pipes are in good order, and that all installations relating to water, power, gas, sanitation and heating are working properly.
- If there are gas appliances, you need to have them checked over and certified by a CORGI specialist *before* the tenants take up residence, and yearly thereafter.
- All electrical items must be safe to use and in good condition. If you are in any doubt, ask a qualified electrician, or pick up leaflets from your local Trading Standards Office.
- It's worth having the wiring checked annually. This is not a legal requirement as yet, but some mass letters, such as the Student Union, will often insist on a certificate.
- Furniture must comply with Furniture and Furnishings Regulations in that it must be fire-resistant, which generally means it carries a British Standards kite mark. This goes for all soft furnishings.
- You must get landlord's liability insurance cover. This goes beyond normal household insurance, as you need to be covered for third party liability and public liability, i.e. someone falling and injuring themselves on your property.

- Keep good records. Maintain a list of all the items in the property, along with the general condition, and review this each time the property becomes vacant. Keep all receipts for work done, and all certificates in case the authorities do a spot-check.

8.3.2 HMO Checklist

With a house of multiple occupation, you're likely to have more people, which means greater risks, and the regulations you have to abide by are more extensive. These can vary somewhat according to the size of the property, and the number of residents.

They include all those for single occupation homes, plus:

- You will need planning permission if you are converting a property into an HMO.
- The Environmental Health Department will take an interest in issues such as number of toilets and bathrooms per head, kitchen facilities, drainage and provisions for waste. It's worth consulting them before your tenants move in.
- The local fire station can be consulted about fire regulations. These will vary according to the type of property, but will typically include the provision of fire doors, fire extinguishers and smoke alarms.

In April 2006, new legislation requires HMO landlords to be licensed, and this section of the market will become very heavily regulated. For example, there will be a strict limit on the number of people living in an HMO, and heavy fines for you if this limit is broken, even if it's simply by one of your tenants inviting her boyfriend back for the night.

8.4 Types of Tenancy

Once you have all the legal requirements sorted out as far as the property goes, you then need to be aware of the various types of tenancies that you can use.

This section can also be referred to if you are buying a property with a tenant in situ. Once you find out the type of tenancy that is in force, you need to know what rights the tenant has, and what rights you will be assuming as the landlord.

There are eight tenancies in common use.

8.4.1 Assured Tenancy

This gives the tenant maximum security because, providing he or she complies with all the conditions laid out in the tenancy agreement, there are only two ways that you, the landlord, can remove them.

One is to obtain a court order by proving you have an urgent need to take possession. The other is for the tenant to voluntarily give one month's notice.

There is no obligation for the tenant with an Assured Tenancy to move out when the tenancy comes to an end.

8.4.2 Assured Shorthold Tenancy

Similar to an Assured Tenancy, an AST does provide for the tenant to move out of the property at the end of the rental agreement. It is this one difference, giving landlords more power over their asset whilst maintaining the rights of the tenant, that moved buy-to-let from being an activity exclusive to professional landlords to being so attractive to the average investor.

Outside of some very specific circumstances, such as non-payment of rent, death of the tenant, or repossession by the mortgage company, the tenant has the right under an AST to remain in the property for a minimum of six months.

The landlord has the option to extend the term, or have it as a rolling, month-by-month agreement. This can then be terminated with one month's notice from the tenant, or two months from the landlord.

If the tenant does not comply with a properly served notice to quit, the courts must then issue a possession order.

8.4.3 Holiday Let

These are generally short-term – typically a few days, or a few weeks at most – and, to be legally recognised as a holiday let, the tenant must genuinely be on holiday.

8.4.4 Out of Season Let

If you have a holiday home, you will be letting it at a premium rate throughout the holiday seasons, perhaps a week at a time. An Out of Season Let allows you to let it in off-peak times for longer periods under a modified version of the Assured Tenancy, and get it back when the next season begins and you need to revert back to holiday lets.

8.4.5 Company Let

The Assured Tenancy and the Assured Shorthold Tenancy are protected under the Housing Act 1988, providing they were created after January 15th 1989. Since a company let is with a company, not an individual, it does not enjoy the same protection.

The tenant is typically a limited company or a PLC, registered at Companies House, and they will use the property for their own employees. There is no security of tenure, and the company must leave at the end of the period of agreement, unless the agreement is renewed.

The upside of this type of tenancy is that you can often ask for a higher rent than you could from an individual. The downside is there is likely to be a higher level of wear and tear exacted on the property.

8.4.6 Residential Landlord

If you are living in the building and renting out part of it, your agreement comes under general contract law, and not under any of the tenancies within the Housing Act 1988.

As mentioned elsewhere, the Inland Revenue currently allows you to charge a tenant £81.73 a week (or £4,250 a year) to share your home, and this income will be tax-free. If you are letting jointly, this allowance will be divided up equally between you.

Bear in mind that someone who shares your home is a lodger, and has a licence rather than a tenancy agreement. A tenant has a self-contained area of your home, complete with toilet, bathroom and kitchen.

8.4.7 High-Rent & Low-Rent Properties

If your property attracts a very high rent – above £25,000 per annum – then it falls outside the security of the Housing Act 1988. This means the tenant has no security of tenure, and the landlord can take possession once the fixed term has expired, having given two months' notice.

Similarly, properties with rents of less than £1,000 a year in London, or less than £250 a year outside of London, fall into this category.

Common Law Tenancies

The above three tenancies do not enjoy protection from the Housing Act 1988, but they are still covered by common law. This means that all the legal requirements applying to the habitability and safety of the building still apply.

However, unlike tenancies protected under the Act, there is:

- No rent control – that's a matter of agreement between the two parties
- No right of the tenant's family to inherit the tenancy

8.4.8 Rent Act Tenancies

Any tenancies drawn up prior to January 15th 1989 are regulated by the Rent Act of 1977, and are variously called 'protected tenancies', 'statutory tenancies' or 'regulated tenancies'.

There are not many in existence now, but you may come across some at auction being offered with tenants in situ. Beware of them. There are many restrictions on what you can and can't do with this type of tenant, plus you are legally obliged to carry out certain repairs and improvements. Proceed with caution!

The Rent Act of 1977 was a highly unpopular piece of legislation that virtually killed the private rental sector in the UK for many years. Not only did it give huge security of tenure to tenants, to the point where it was virtually impossible for a landlord to ever repossess his or her property, but it also provided for a centrally governed system of rent control.

It also allowed for tenants to leave their tenancies to their spouse or other members of their family on their death.

These factors are still true of the ever-dwindling number of Rent Act tenancies, although the situation has been updated.

Security of Tenure

Tenants of this type tend to be on low incomes, and probably qualify for legal aid. The courts are understandably reluctant to make them homeless. This makes for a combination whereby, if you were to go to court to try to effect an eviction, you'll probably lose, and you'll probably have to pay costs, too.

However, there are two major situations where the courts have no choice but to evict the tenant.

If tenants fail to pay any rent at all, they will be evicted. If they fall behind, the courts can award a suspended repossession order, giving them time to make payments and catch up. Sometimes these orders can be issued repeatedly.

The one thing that will trip up a claim on these grounds is if the property is in a poor state of repair, in which case the tenant can counter-claim against you.

The other scenario is to offer the tenant alternative housing. Providing this is in a similar area, in a similar state of repair, and meets the needs of the tenants, it can sometimes be enough to sway the courts. However, be aware that there are vast numbers of complications around such a case, and you will certainly need money and patience to see it through.

Rent Control

Although under the Rent Act, a landlord was free to set any rent s/he chose, the tenant could always appeal to the Rent Officer, who had the power to set a 'fair rent'. The landlord then had to charge this rent, and could only have it reviewed every two years.

When this system fell away after 1989, some landlords increased their rents massively, so a supplementary piece of legislation was brought in – the Rent Acts (Maximum Fair Rent) Order 1999 – to limit these increases.

If you do own a Rent Act tenancy, make sure you get the rent reviewed properly and regularly to avoid falling foul of this Order.

8.5 Rent Arrears

It's every landlord's nightmare. You have tenants installed in your investment property. You're making the mortgage payments every month. And the tenants stop paying. What do you do?

There are basically two options open to you – obtaining a County Court Judgement against the tenant, or initiate possession proceedings.

8.5.1 County Court Judgement (CCJ)

The first step on this route is to write to the tenant a 'letter before action'. This makes it clear that if they don't clear the debt within, say, 14 days, you will take them to court.

This threat is often enough to spur them into action. A CCJ makes it extremely difficult to obtain credit for at least three years, and most people will work quite hard to avoid it.

Actually getting a CCJ from the court is then relatively easy. What's harder is enforcing it. You'll have to go back to the court and, ideally, get an attachment of earnings, whereby the court rules that the employer of the tenant withholds a set sum from his or her wages every month in order to clear their debt with you.

Even without enforcement, a CCJ is an uncomfortable thing to have attached to one's credit record and, if the tenancy agreement is for only six months, evicting them after this time for non-payment should be reasonably straightforward.

8.5.2 Possession Proceedings

There are two types of possession proceedings:

The fixed date version is quite complex and involves a court appearance at which you have to claim and prove rent arrears. It's not usually worth the hassle unless the arrears are significant.

The 'accelerated' version means you serve, via the court, a Section 21 notice on your AST tenant, which gives him or her two months' notice to leave the property. There is no proviso here for the repayment of rents due, but you can apply for a CCJ at the same time to try and reclaim the money you are owed.

There is a tendency for both sides to bury their heads when the question of arrears arises, hoping it will go away. It won't.

A responsible tenant will tell you in plenty of time if there is a problem looming, such as redundancy or the breakdown of a relationship. For your part, as landlord, you are legally entitled to rent on your property, and you do no one any favours by evading the issue.

9 THE MONEY SIDE

In this section you will learn about:

- Paying the deposit (see Section **9.1**)
- Financing the deal (see Section **9.2**)
- Understanding your credit record (see Section **9.3**)
- Understanding yields and gearing (see Section **9.4**)
- Understanding your return (see Section **9.5**)

Yes, you are going to have to find the money to pay for your investment property from somewhere! That's the bad news.

The good news is that borrowing is cheaper now than at any time since the 1950s, and there are no signs that it'll get much dearer anytime soon.

Broadly speaking, if you have cash readily available, don't spend it on buying a property outright. Split it up and use it as deposits on several properties. In this market, having cash tied up in a property as equity is a waste.

If you don't have cash readily available, look first to the equity in your own home. How long is it since you took out the mortgage? How long since you had the place valued?

If you work out the difference between what your home is worth, and what you owe on it, think what you could achieve if you released that equity as ready cash for further property investment.

But dipping into your life savings, or re-financing your home, are not the only options open to you.

9.1 Paying the Deposit

When the gavel falls, and yours was the last bid, you are bound by law to purchase that property and, usually, you have 28 days in which to do so.

Your first step is to pay the deposit to the auction house, there and then, and sign a memorandum of sale.

It's always worth checking with the auction house well before the sale to see what options are open to you in the payment of the deposit.

A credit card is often fine.

A personal cheque is usually acceptable only after prior arrangement, and perhaps a letter of comfort from your bank, assuring the auctioneers that the funds are there.

Cash is universally unacceptable now. Property auctioneers have been encompassed by the Proceeds of Crime Act 2002, the anti-money laundering legislation, and large cash transactions are now considered a huge no-no.

9.2 Financing the Deal

When you buy a property by private treaty, via an estate agent, you are likely to be frustrated by the amount of time it takes to get everything into place.

The searches and surveys have to be carried out. The deeds have to be checked. The mortgage has to be approved and processed. And you probably find yourself on the phone a lot, chasing various parties to do what they need to do in order for the transaction to be completed.

One of the biggest challenges of buying at auction is the complete opposite. You don't have the luxury of time. You have to ensure all the same things are carried out and completed but – and it can be a big BUT – you have 28 days to do it, or you lose your 10% deposit.

Finance can be one of the most difficult sticking points. Mortgage companies tend not to offer guarantees that they can get a mortgage processed within that time frame. Frankly, that's not acceptable to you as a buyer.

There are, however, alternative methods.

9.2.1 Credit Cards

Buying property on a credit card?? That's crazy! Or is it?

Credit card companies are desperate for your business and, at any one time, there are hundreds of good deals on offer.

- There are cash refund cards, for example, which refund a small percentage of all your purchases back to you.
- There are card companies offering 0% introductory periods, or 0% on transferred balances for a set period.
- There are affinity cards that pay a small percentage of the value all your purchases to a charity or group of your choosing.
- Some cards come complete with discounts on big-ticket items such as cars and holidays.
- Air miles are another valuable perk.

It's a competitive market, and there's a lot of choice.

Strangely, the British are very lazy about putting these deals to good use, and it's costing us cold, hard cash. A 2002 report published by the National Association of Citizens Advice Bureau estimated that we spend £4 billion on unnecessary credit card interest payments every year.

So what does all this have to do with buying properties at auction? Well, quite a lot if you do your research and get inventive on financing properties.

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.

Just recently, I 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.

The intention is to use this new limit to the max when I next come across a property to buy. Then, before the payment date rolls around, I'll have applied for a second card.

This second card will have to meet four criteria:

- It must have no annual fees
- It must have a period of six months or more where transferred balances attract 0% interest
- It must have a period of six months or more where new purchases attract 0% interest
- It must be from a major credit card company. Some bargain-basement cards have massive penalty charges if you miss a payment date that can knock out any advantages very quickly.

I'll then transfer the large balance over from the first card to the second, before the first payment is due, and pay no interest on it for six months.

After five months, I could do the same again, and keep the balance outstanding and attracting 0% interest indefinitely.

The potential pitfalls here are:

- Forgetting that the money is borrowed, and will have to be paid back at some stage!
- Missing a payment, or making a late payment. Penalties during zero-interest periods can be severe.
- Eventually hitting a wall where every card company turns me down because they can all see the history of this one balance moving endlessly from one 0% zone to another, and they no longer want to play.

One alternative to this is to find a card offering a fixed, low rate of interest on the transferred balance *for the life of the balance.* These are not common, but they do exist from time to time.

Another alternative is to call the second card company towards the end of the introductory period and cancel the card.

This will trigger a call from their loyalty, or turnaround team, whose sole job it is to persuade customers who are cancelling to change their mind.

The tools they use are improved deals, and sometimes these deals can be nearly as good as signing up with a new company, but without the hassle. It's definitely worth a try.

Key Tip

Please read all the small print on any credit card application to check that you are using the credit card with agreed terms.

Also, remember to remain a good borrower and always pay the credit card companies on time. See Section 9.3.2 on protecting your credit rating.

9.2.2 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 Liverpool, Manchester and Newcastle for £5-10,000. And that sort of sum can be covered by an overdraft or a personal loan.

If you get no joy from your own bank, go elsewhere.

Banks are desperate for your business these days. You could even open a few accounts at a few different banks, get a modest overdraft or loan from each, add them together et voila!

A word of warning: all debt has to be paid back.

Think carefully about how you're going to make payments. Property is always more expensive to run than you think, and then there are periods where you have no tenants, or you can't find a builder, or you can't sell a place.

There's nothing wrong with borrowing heavily to finance your investments; in fact, given the wonders of gearing (see Section **9.5.1**), it is preferable to do so!

But you have to make the borrowed funds work hard for you, and you have to be able to pay them back from somewhere.

9.2.3 Chequebook Facility

If you have equity locked up in your existing property, it's a relatively easy task to re-mortgage and release it.

For example, say you bought your home five years ago with an £80,000 mortgage, and it's now worth £120,000. You can get a valuation to prove the current value, and then re-mortgage.

You may not want (or be allowed) to go to 100% of the value, so you may choose to re-mortgage for £100,000. You use £80,000 to pay off the original mortgage, and you have £20,000 to use as a deposit on an investment property, and/or as a renovation fund.

The downside of re-mortgaging is the timing.

If you re-mortgage to raise a deposit before you've found a property, you could be paying interest on that money for months before you get around to using it.

If you have the deposit, but need to re-mortgage in order to complete, 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 £20,000 and starting to pay interest on it 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.

9.2.4 Trading Facility

This is a method for getting around another conundrum that budding property developers face.

If you want to buy a run-down property, renovate it and sell for a profit, that's fairly straightforward. However, it does need financing, which can be done by re-mortgaging your home, as described above.

But what happens if you want to turbo-charge the process, so that you have one property just bought, one or two in mid-renovation, and one or two completed properties on the market *at all times?*

How on earth can you finance that?

The answer is by using a Trading Facility.

Now, this is a secured finance package, which means you do need a reasonable amount of equity locked up in property assets in order to take advantage of it.

So, if you have your home, a holiday home, and a couple of buy-to-lets up and running, all of which have equity tied up within them, you can use a Trading Facility to unlock the equity and have it available to draw upon whenever you need it.

You could then finance a conveyor belt of properties being bought, renovated and sold.

There are several advantages to operating in this way:

- You don't have to renovate one property at a time, which may take months, and wait further months until it is sold and the money is in the bank before you move on to the next project
- You are moving from a hobby to a proper business, with a cash flow

- You can offer steady, continuous work to a good team of builders and tradesmen with whom you can build relationships. This makes you a more attractive client than if you were just doing one-off houses.

9.2.5 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 property up to a given price.

However, many properties come up at auction because they are difficult to mortgage, so make sure the letter relates to the specific property you intend to bid on. A mortgage in principle, unrelated to a specific property, is not a good enough basis on which to bid at auction.

Also, be aware that many lenders have a minimum, usually £25,000, so this method is not suitable for properties at the lower end of the market.

Buy-to-Let Mortgage

If it's a buy-to-let mortgage you're intending to arrange, here are some points to bear in mind:

- Lenders will typically lend up to 85% of the property value (which could be more, or less, than what you pay for it at auction).
- The basis will be the rent, not your income. Lenders want the potential monthly rent to be 130-150% of the mortgage payments, as certified by a local letting agent.
- Capital values, on average, double every 7-10 years. Rents double every 7-12 years.

If you're considering the buy-to-let route into property investment, be prepared for the long haul. It's a five-year project, minimum.

See www.buy-let-mortgage.co.uk for a list of mortgage rates.

Let-to-Buy Mortgage

This is a variation on a theme, and works well if you are looking to move yourself to a new home, and you have a lot of equity tied up in your existing home.

You can either re-mortgage your existing home with a buy-to-let mortgage, freeing up enough money to put down on your new home. Or you can take a straight loan on the new property and keep your existing mortgage. Don't forget to get permission to let from your existing lender, though.

Bridging Finance

If you do go down the mortgage route for an auction property, and delays look like taking you beyond the 28-day completion date, all is not lost.

Most sellers will be sensible about it and let you complete as fast as you can, rather than re-auction the property. However, they are under no obligation to do so, and can just take your deposit and walk away. If they feel like it, they can also sue you for completion.

The other possibility is to arrange bridging finance. This will enable you to complete, and will tide you over until the mortgage process is finished.

Bridging finance is almost always for a short time, and is 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.

The bridging finance companies that advertise from time to time in various auction catalogues specialise in auction purchases, and are able to move fast.

If you are intending to purchase on a regular basis then it is always worthwhile establishing a rapport with a bridging finance company before you actually need them, thereby placing yourself in a stronger position to agree a reasonable rate with them.

If you wait, and only contact a bridging finance company after you have agreed to buy at auction, then they'll realise you need to get the deal done or risk the consequences. This is a much weaker bargaining position for you to be in.

The arrangement fees can vary greatly between various bridging finance companies. At the time of writing, competition between them is fierce and, like all businesses, competition means they are more eager to negotiate.

So negotiate hard!

9.2.6 A Potential Financing Partner?

In the course of our work in the property investment field, we have recently come across a finance company that claims to be able to handle the challenges of funding auction properties (as well as renovation and development projects, and commercial properties).

We haven't used these guys ourselves, yet, but we have spoken to several people who have, and they all sing their praises.

Spectrum Business Finance was set up specifically to meet the needs of the small business or investor who is often overlooked by the major lenders. They approach every client, and every project, as a unique proposition, avoiding the more common one-size-fits-all approach.

Perhaps of more immediate interest is that they never charge up-front fees, and they rarely charge broker fees, making the entire transaction cheaper. They also say they can move on a project within days, rather than weeks, making them a good choice for the auction situation.

Why not give Peter Hughes a call on 0870 922 0949? Or check out their site at

www.s-b-f.co.uk.

9.3 You & Your Credit Record

Whether you just want a home, or to build an investment portfolio, it's likely you're going to have to borrow money at some stage in order to buy property. Unless, of course, you have oodles of cash squirreled away somewhere, or are the fortunate beneficiary of a large trust fund!

And whichever way you decide to go about borrowing this money, your credit record is of vital importance.

9.3.1 Your Credit Record

Your ability to borrow money in the UK is almost entirely dependent on your personal credit rating and this, in turn, is entirely dependent on the information that the two main credit rating agencies (CRAs) hold on you – Experian and Equifax.

www.experian.com

www.equifax.com

The power of the collated data held by these companies is quite awesome, and can be very damaging to your ability to raise funds.

Each time you go to borrow money, the lender will contact one of these firms to access your file.

Your file contains full details of your credit cards, mortgages, loans, store cards, HP agreements, the various credit limits, the duration of the agreements and your repayment patterns.

There will also be a record of every address you've ever occupied, and details on every person who's ever occupied each of those addresses, (which means if your flat-mate once missed a payment on a bank loan, this can reflect badly on your credit rating!)

As if that's not enough, there is also a record kept of every time your file is accessed, so it's clear where and when you have previously applied for credit, and the outcome.

All this information is distilled into a score which, in addition to what's on file, also takes into account your current address – areas carry credit ratings, too – your occupation, and your age.

This score will be used to determine whether or not your application for a loan is accepted or not.

9.3.2 Protecting Your Credit Record

Here are some straightforward methods of ensuring your credit record is kept clean and healthy at all times:

DO:

- Pay all bills and credit repayments on time
- Make sure you are on the electoral role
- Live within your means!

DON'T:

- Miss payments, particularly on your credit cards or mortgage
- Apply for credit many times over a short period – this indicates desperation!

9.3.3 Accessing & Fixing Your Credit Record

Human nature being what it is, few people give their credit rating a second thought until they have an application for credit turned down.

When this happens, it's not always clear as to why, and the lender is under no obligation to tell you. Your best bet is to go to the Credit Rating Agencies (CRAs) direct, and ask to see your credit file. This will cost you £2.00.

See:

www.equifax.co.uk/consumer/usefulcontacts.html

What you're looking for are mistakes.

It may be, for example, that you have a 'black mark' because a flat mate has missed a loan payment.

If you have no financial connections to that flat mate, then you should not be penalised, and you should write and advise the CRA of the error. Similarly, you may find you're being penalised for a previous owner or tenant of your current or previous address.

If you find a mistake by one of your lenders, then write to them direct, and ask them to put it right.

This may, for example, be a missed or late payment that you disagree with, or that was due to a miscommunication, or through no fault of your own. If the lender refuses to fix it, ask the CRA to dispute it on your behalf.

But what if you have had financial problems in the past?

A County Court Judgement (CCJ) against you, for example, which will stay on your record for six years, or a repossessed flat, or a large credit card bill you were unable to pay. Then what?

Well, if the information is correct, there's nothing you can do to alter it.

The only option open to you is to write a note, of no more than 250 words, explaining the circumstances that led to the problem in question – illness, injury, redundancy and so on. This will then be attached to your file.

All this is open to you to do yourself, for a tiny £2.00 fee.

As a final word on credit ratings, avoid credit repair companies like the plague! They will spend the £2.00 for you, write a few letters if necessary, and charge you £150 or more. Do it yourself! It's easy.

For excellent, up-to-the minute ideas on all aspects of finance, visit www.moneysavingexpert.com.

9.4 Yields & Gearing

Financing the property deal isn't enough; you also have to know how it's going to shape up in the medium term. Will you be able to cover your loan costs? Will you be able to make a profit? Is it going to be worth your while?

Here are two tried and tested tools to help you answer some of these questions.

9.4.1 Working Out the 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. The average yield for a let residential property is around 8%. Buying through an auction can raise this considerably.

At auction, there are two scenarios where the yield becomes important.

One is if you are buying a property to let. The other is if you are buying a property with tenants already installed and paying rent.

The second, of course, removes the hassle of estimating the rent and of finding tenants. You're essentially buying an income stream; all you need to ensure is that the costs of your borrowings, and other costs, don't outstrip that income stream.

If you're buying to renovate and sell, or buying simply to sell, then the yield is irrelevant to you.

There are two types of yield to think about:

- 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.

Let's take a look at each of them in more depth.

9.4.2 Gross Yield

Although the national average for domestic properties may be down around 6%, buying a property at auction at 15% or 20% below the market price puts you in a strong position immediately. Your initial outlay is lower, therefore your yield is pushed up.

Sometimes, properties come to auction with sitting tenants, a known level of rental, and when you look at the guide price, or watch it sell on the day, you'll be staggered by the gross yield. It's not uncommon to see yields of 30%, 40%, 50%; even 80% is not unheard of.

But beware!

Does a gross yield of 60% seem too good to be true when the national average is 6%? Well, you will see examples of high yielding properties, but there is always a 'but', and it usually has something to do with the 'L' word – Location.

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.

Domestic tenants can be a flighty lot at the best of times. Place them in a run-down, inner city estate, where drugs, prostitution and street violence are commonplace, and you raise the chances considerably of suffering rent defaults, disappearing tenants and evictions.

This is not to say that every tenant in a run-down estate has such anti-social tendencies. Nor, indeed, is to imply that every tenant in a 'posh' area of town will be a faultless payer and a joy to deal with. However, 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-yield property, the capital growth on it is likely to be microscopic, or even zero.

Conversely, buy a property that promises high capital growth and you'll find your yield is at the lower end of the spectrum.

You can have one or the other, but rarely both.

Key Tip

Work out the gross yield for any property you're considering – this should almost be your first calculation!

When you come to put the numbers into the Price Ceiling spreadsheet software you will be asked for the gross yield that you think the property will achieve.

9.4.3 Net Yield

The gross yield can serve 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. It may even be negative. But before we look at how to respond to the result, let's see how it's worked out.

Let's take an example where there is already a tenant in, on an Assured Shorthold Tenancy, and the gross yield is an attractive 27%. This is worked out from the fact that the property was bought at auction for £15,000 (it's in the cheaper north-west of England) and the rent is £4,100 p.a.

$$\frac{4,100}{15,000}x100 = 27.3\%$$

That's the gross yield, remember.

To arrive at the net yield, we need to take our costs and expenses off that yearly rental figure. We can do it initially as percentages, and translate them into ££'s later.

So, what do we need to subtract?

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

Some of these 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!

Now, we take 10+6+3+15 = 34% (or £1,394) off our annual rental income to arrive at a net income of £2,706.

Then, to calculate the net yield, we simply insert the new figure into the same formula:

$$\frac{2,706}{15,000}x100 = 18\%$$

That's still pretty good! But you can see that when you start with a lower gross yield of, say, 9%, and you make all your deductions to get to your net figure, it may turn out to be barely worth your while.

Incidentally, there are no costs related to borrowing the money or repaying it included in this calculation, but be aware that a mortgage introduces gearing (see next section) which in turn boosts the yield. Another cost left out of the example for simplicity is whatever the Inland Revenue take off.

Now you're familiar with the tool, the way you use it is entirely up to you.

9.5 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.

In our example, the gross yield worked out as follows:

$$\frac{4{,}100}{15{,}000} x100 = 27.3\%$$

Let's extend the example by saying that the house was bought with £10,000 cash and a five-year personal loan (mortgages often have a £25,000 minimum) of £8,000, which is costing £120 a month. The total of £18,000 covered legal fees and a redecoration, too, and there is no stamp duty on purchases below £120,000.

The cash paid out is £10,000. The cash coming in is the £4,100 less loan payments, £120 x 12, or £1,440 a year, leaving £2,660.

So, the cash-on-cash return is:

$$\frac{2.660}{10{,}000} x100 = 26.6\%$$

This is not a convenient way of getting back close to the gross yield! It just gives 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 for 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.

9.5.1 Gearing – a brief explanation

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 (revs, or RPM) 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.

Property financing also 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 4% 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 4% = 10,400 after 1 year.

Gain - £400

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 a modest 8% in your first year of ownership, then you can add another £8,000 on to double your gain!

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!

9.6 Two More Accountancy Concepts

Mention accountancy and most non-accountants switch off. If you're serious about investing in property (or anything else for that matter) it would pay you to get a basic grasp of accountancy terms and concepts, at least.

We've already looked at gearing and yields. There are two more here which are worth knowing about, and should be borne in mind throughout the process of working with this tool, and at two stages in particular.

9.6.1 Opportunity Cost

The first is known as the **'opportunity cost' of money**.

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 4% 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 4%. (If you're going to borrow at, say, 6%, then you need to at least cover that).

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 4% 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%.

9.6.2 Sunk Costs

This one doesn't sound good, does it?

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

Let's take an example.

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 twenty 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.

"I want to drop it, but look at all that time and money I'll have wasted."

NO! This way of thinking is the road to ruin! Ever heard of the phrase 'throwing good money after bad'? It happens because of this very train of thought.

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. Irretrievable. History.

And it is a cataclysmically bad idea to decide to continue down a darkened path, just because you've invested so much in it already.

You have been warned.

9.7 Renovations

Some of the best bargains to be had at auction are properties in need of work.

This can be anything from a quick spruce-up to a full-blown renovation, or even beyond to demolition and building a brand new property on the site.

By the time you come to bid, you'll have done your research, you'll know all about what's required, and have a good idea as to what it will cost.

However, there are a number of ways to save significant sums of money on this work, and any savings you make at this stage translate directly into profits for you.

Here are some to consider:

- Register for VAT, and claim all the VAT you spend back from Customs and Excise.
- Open an account at a local builders' merchants. This will give you an immediate discount on all materials and tools bought from there.
- Hire tradesmen through recommendations and word-of-mouth, if at all possible, and look for smaller ones who are not VAT registered, which means they won't charge you VAT on their labour.
- Manage the project yourself, and hire tradesmen individually. This saves on the management and sub-contracting fees that you'll pay if you hire a builder to run the project for you.
- Teach yourself to do some of the work yourself. Avoid electrics and gas unless you're properly trained, but putting up a stud wall, or laying insulation, is not rocket science.

10 THIRTEEN STRATEGIES FOR BUYING AT AUCTION

In this section you'll learn about:

- The thirteen strategies for buying at auction (starting at Section **10.1**).

The key to any investment is in the buying and the selling. Property is no different.

Buy at the wrong time (like in 1989, when the market was at its peak, just ahead of the crash), or pay too much for it, or get the financing wrong, and you could be working for years just to get it back to a point where you're breaking even.

Sell at the wrong time (like in 1992, just as the market was getting ready to turn), or sell too cheaply, and the whole deal will end up costing you your cold, hard cash.

However, the *profit* in any investment, and particularly in property, lies primarily in the buying.

If you buy cleverly – i.e. below the market value, and/or at exactly the right time, and/or in exactly the right location, then your profit is assured from the outset.

The timing of a purchase contains many variables, from you having funds available (or not) to the macro-economic environment.

You have more control over the place, and good property investment is all about the famous Three 'L's – Location, Location and Location.

As for buying property at below market value, the best way to do this is at an auction house.

Here are thirteen strategies for getting the buying right, and locking in investment profits for the future.

10.1 Look For 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 need to visit auctions beforehand to ascertain whether they tend to be quiet or busy. Bear in mind that other factors come into play that can change the situation from month to month, for example:

- Bad weather will keep people away
- Something big or important on the TV, such as a major football match, or some 'event' in one of the soaps, will tend to depress the numbers

Look for auctions in your area that are always quiet, or go to busier ones on nights that are likely to be quieter.

Another angle on this is to choose lots that are close to the end of the catalogue, and will come up later on in the evening.

Often, there is a peak of interest in lots that are close to the beginning of an auction, or towards the middle.

Once these have passed, the crowd tends to thin out, and competition for later lots tends to be far less.

Key Tip

Look for late season auctions. These are auctions that fall very close to Christmas.

10.2 Look For the Ugly Ducklings

There's a strange truism in the property market…

> *" – people tend to under-estimate the cost of structural repairs, and over-estimate the cost of largely cosmetic work."*

Also, 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 so, if you are aware of this tendency amongst your fellow auction-goers, and can step back from it yourself, you'll 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.

For the emotional reasons laid out above, these will attract less attention from the crowd and, consequently, the price will remain depressed.

Providing you can keep your emotions in check, and be sure there are no lurking structural issues, shabby properties can be turned into the best of bargains.

10.3 Look for Late Entries

One of the features of the property auction process is the compressed timescales, compared to a private treaty deal.

In almost all cases, a property deal initiated at an auction has to be completed within 28 days. (Occasionally, an auction house or vendor will specify 14 days. Steer away! This is too short to be reasonable, and you risk losing your deposit).

However, deadlines are not only tight for you in the post-auction period, but also in the pre-auction preparations for the vendor and the auction house.

Most auctioneers publish a full colour, glossy catalogue to accompany their auctions, and the printers typically need four weeks to produce this.

Prior to this deadline, the auction house and the vendor must work together in order to pull together details of the property and any tenancies, visit the properties, check the details are accurate, take pictures, type out the particulars, lay them out with any images so they are print-ready, have them approved by the vendor through his solicitor and agent, advise on value and reserve price, complete the brochure copy in full and proof-read it.

And we haven't even mentioned getting sale adverts into the press to publicise it. It's a lot of work!

Ideally, this whole auction catalogue process would take around nine weeks – five for the auction house to prepare the information, and four for the printers to produce the catalogue.

But a final deadline for vendors to submit properties for sale that is a full nine weeks ahead of the sale date is an unacceptable one to many vendors, so frequently the notice period will be reduced to seven weeks. This is very tight indeed.

Yet, human nature being as it is, some vendors will push even this deadline with a sudden change in circumstances, perhaps, that makes a sale urgent.

If that vendor is a good client, then the auction house will bend over backwards to get the property into the sale, which is why catalogues often contain loose sheets with late entry lots hurriedly printed on them.

These late entries frequently get overlooked, attract little interest from the floor and, if the vendor is in a hurry to sell, then often the reserve price is set low.

What a combination if you're looking for a bargain!

A word of caution, though.

A late entry missed the deadline, which means everything was done in even more of a rush than is usual, making it more likely that mistakes were made.

Check everything even more thoroughly than you would normally before making a decision to bid on a late entry lot.

If you decide to focus on late entries as a strategy, it's worth streamlining all your pre-auction processes so you can move faster than your competition.

This means building relationships with builders, surveyors and financiers so they can move fast with you when required.

10.4 Look for Over-Priced Lots

This strategy will suit the contrarian in you!

Our natural instinct, when looking to pick up bargains, is to look at the price.

In a property auction catalogue, the only price to look at is the guide price, and the herd will tend to use this to spot the elusive bargain.

Fair enough.

However, going with the herd will leave you facing stiff competition. How about looking in an entirely different direction? How about looking at lots where the guide price is so high it definitely looks over-priced?

Like late entries, over-priced lots do not attract much attention.

The herd thinking is:

> *Why bother spending time and energy on a property that's over-priced?*

This means you'll face little competition over these lots and – guess what – they may well turn out to be bargains after all!

It's worth noting here that there is nothing very scientific about reserves.

An auctioneer will typically recommend that a vendor sets a reserve some way below the guide price, in order to ensure a sale.

To make a property even more attractive, the guide price can sometimes be set below the valuation figure.

Some vendors, however, may insist on a reserve equal to the guide price, on the basis that he doesn't want to settle for anything less than a recent valuation figure.

Large vendors, such as the NHS or the MoD, may shun reserves all together, preferring the certainty of sale and assuming a natural evening-out across a range of properties, rather than worrying too much over the price of each individual property.

For more on reserves, see Section **12.8**.

So search out those over-priced properties, for amongst them are sure to be over-looked bargains.

10.5 Buy Lots Outside of London, in London!

There is an extraordinary anomaly in the auction world that people take advantage of all the time, and you can too.

Sellers, particularly bulk corporate sellers, will tend to put all their lots through a London auctioneers, and these lots will be sold in London. That's fine if the properties are within the M25 or, at least, within the Home Counties.

Frequently, however, lots will be sold in London with addresses in Devon, Cornwall, Yorkshire, Humberside, Manchester, Northumberland, Scotland – indeed, addresses all around the UK.

Granted, the auctioneers will offer telephone bidding facilities, perhaps internet access, and the option to bid by written proxy.

However, these do tend to be less popular with buyers, so this does not get away from the fact that the vast majority of people at a London auction are from London.

Largely, they want their properties to be in London, so they can be easily managed.

What this means in real terms is that non-London properties sold at London auctions frequently sell at a discount.

What you do is quite simple.

You bring your knowledge of your own local property market to a London auction, and you bid on lots that are in that market, looking to pick them up cheaply.

You then take your new acquisitions home with you, and immediately put them up for auction with your local auctioneers, where they will be sold at a price closer to the local market value.

And you pocket the profit.

Graham Barton, auctioneer at Fulfords, has several clients who do little else in the property market than work this strategy, buying flats and houses in the south-west from auctions in London, and selling them through Fulfords, based in Exmouth.

In one example, a client bought a Plymouth property at a London auction for £42,000. He never set foot in it, but immediately handed it to Fulfords for inclusion in their next sale. Five weeks later, about a week after he completed on the flat, Fulfords auctioned it and it sold for £66,000.

This is not a typical example, but nor is it unique.

10.6 Look for Un-mortgageable Properties

This is another contrarian strategy, but only suitable for those who can buy investment property without the aid of a mortgage.

Note: This needn't mean access to a mountain of cash or a trust fund – see Section 9.2 for some innovative alternatives to standard property financing.

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 latter sum will eventually be forthcoming from the bank, once they are satisfied with the work, but it adds up to a lot of extra funding hassles that most people would rather avoid.

Again, by looking at the situation in a different way to ‘most people’, you avoid the bulk of the competition and are more likely to get a good deal.

How can a property that’s falling down be classified as a good deal?

Well, in reality, these un-mortgageable properties are not generally falling down at all.

The reason banks are wary of these properties is that they are not in a fit state to sell quickly and recoup their money, should you default on the payments. That’s all they’re really interested in.

The fault may be a crack that signals subsidence, for example, but it may be decades old, and the subsidence may have stopped long ago.

Of course, it’s worth getting an expert investigation into it, but in many cases you’ll find that the problem is an old one that no longer exists, the damage is not significant to the structural integrity of the house, and there’s no urgent need to do anything about it.

The upshot of this is that you could pick up such a distressed property for perhaps 50% of its repaired value.

This strategy is a great combination of low interest on the auction floor, because of the problems, and a low reserve price to ensure the place is sold.

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

Or you could let it at the full rate on the basis that an old crack 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.

10.7 Look for Unsold Lots

If you find yourself in a position whereby you’ve done all the research on a particular property, checked it out as best you can, decided on your upper limit, gone along to the auction, got involved in the bidding, only to see it withdrawn as it failed to reach it’s reserve, then…

…**make an approach.**

An unsold lot does no-one any favours.

The auctioneer misses out on his commission. The vendor is stuck with a property he doesn’t want. No one is happy.

So when you come along with an offer a little over the final bid from the floor, you'll be welcomed with open arms.

Now that's not to say you'll necessarily get it for less than the reserve (although you might!). But the auctioneer and the vendor are likely to be keen to help you, and drop large hints as to what you'll need to pay to secure the property.

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. And if they don't? Well, there'll always be another property.

One way is to move fast.

The vendor may actually be in the room, fed up that he hasn't sold the property, and will be ready to listen to you.

Approach the auctioneer at the earliest opportunity – perhaps during a break – and get things rolling.

Or you might choose to take your time.

An alternative tactic, if you are prepared to take a chance on there being no other interest in the property immediately after the auction, is to check back with the auctioneer one or two weeks later.

The remaining unsold properties are there for the taking. The vendor is, by then, in a real position of weakness as far as negotiations are concerned. And remember – the auctioneer won't get his commission if the property isn't sold!

10.8 Extending Residential Leases

Another type of property that mortgage providers will tend to shy away from is the leasehold flat with a relatively short time remaining on the lease.

The typical mortgage is over 25 years, and the mortgage company is likely to insist on a further 40 year period of unexpired lease after the mortgage period is over.

This means any property with a lease of less than 65 years remaining is going to prove problematic to anyone relying on standard property financing.

Indeed, anything under 70 years will make a mortgage company uncomfortable. By the time the unexpired period drops to 50 years, you're firmly in cash-buyer territory.

However, if you can approach the deal with cash in hand, or using some of the other non-mortgage techniques discussed in Section **9.2**, then you may be in a position to pick up some seriously cheap property.

So, you buy a flat that no one else wants because it has a short lease. Then what?

Well, the good news can be found in 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.

10.8.1 The Process

The first step is to locate the freeholder.

This is usually straightforward because the existing leaseholder will have been paying ground rent to the freeholder, at the very least, and perhaps a maintenance charge as well.

Then, you need to get a formal valuation of the cost of an extension. A surveyor will provide this. The Royal Institution of Chartered Surveyors (RICS) will supply lists of surveyors in your area who specialise in this form of valuation.

The surveyor calculates the value of the property under its current leasehold arrangement, and then calculates what it would rise to if a lease extension were granted.

Generally, the less time the existing lease has to run, the greater the jump in value, so it's worth acting sooner rather than later. The difference between the two figures is known as the 'marriage value'.

Since any potential profit arising from such an extension is dependent on the obligation placed on the freeholder to grant the extension, the law states that this profit be shared between the two parties.

Although it only specifies that the freeholder's share should be no less than 50%, leaving it open to negotiation, most arrangements are made at a 50-50 split.

Though the leaseholder pays the surveyor and legal costs, and pays 50% of the marriage value to the freeholder, the chances are they'll end up with a property with a higher value, and one that's much easier to sell.

10.9 Look For Grant Opportunities

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.

Don't waste your time contacting wealthy London boroughs or councils in the Home Counties; 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.

Councils in such areas have a legal obligation to provide decent, low-cost housing for the poorer members of society and, since the Great Council House Sell-Off that started under Mrs. Thatcher in the 1980s, many have struggled to fulfil this obligation.

Now, these councils are increasingly turning to the private sector to help them out, and offer grants to attract private investors to get involved, on the basis that it's a cheaper alternative to building and maintaining new council houses.

The type of project is a key consideration.

No one will offer you a grant to add a conservatory on the back of a three-bedroom semi, for example.

But turning that 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.

Timing is also important.

The financial year starts and ends around April 5th.

Sometimes, if the council has too much in its coffers towards the end of a year, it will go all out to spend it to avoid a reduction in budget the following year.

On the other hand, they'll sometimes run out of cash in February, and reject all applications out of hand until the new money arrives at the start of the new financial year.

If you can find a contact inside the council, or ask the right people the right questions, you may be able to find out the state of play with their piggy bank, and time your application accordingly.

10.10 Try a Pre-Auction Offer

One way to avoid the stress and nerves of a property auction (assuming you're not one of those who thrive on the buzz!) is to put forward a pre-auction offer.

Around 15% of auction properties are sold in this way.

There's never any harm in trying this tactic, though it's worth noting a couple of factors to guide your thinking:

- When a property is being auctioned as a result of a personal or corporate bankruptcy, usually offered by an insolvency practitioner or a bank (as a repossession), a pre-auction offer will not normally be entertained, unless it is spectacularly attractive to the vendor.

  The reason for this is the need to be seen to be fair. When assets go to auction due to repossession or bankruptcy, those in charge of them are generally keen to do all they can to keep things clean, obvious, public and above board.

  Accepting a pre-auction offer could be seen by some as a sneaky, behind-the-scenes deal that is not necessarily in the best interests of the creditors.

- If you do decide to submit an offer, where do you pitch it?

Well, the only figure you're likely to have from the auctioneers is the guide price and, based on the reality that you can always offer more if your first shot is rejected, but you can't offer less if it's accepted, **start at around 20% below the guide price**. If that falls on stony ground, try 15% below. Then 10%.

You don't need many of your 20%-below offers to be accepted before you have a portfolio with significant locked-in profits!

Be aware that most auctioneers will insist that you put your pre-auction offer to them in writing, either by mail or fax.

They will then present this to the vendor. This can take time, so be patient.

Key Tip

Chasing the auctioneer will make you seem eager, and an eager buyer may well pay more!

10.10.1 Making a Pre-Auction Offer - The 4 Golden Rules

If you are going to make a pre-auction offer for a property – be professional and follow these rules.

1. **Don't fabricate your reasons**. The auctioneer has heard them all before, from the genuine ones to those that stretch beyond the parameters of the human imagination!
2. **Make your offer in writing**.
3. **Enclose proof of funding**. A letter from your bank or copies of a bank statement can go a long way to support your offer.
4. **Don't make the offer if you don't intend to follow it through**. It wastes everybody's time and will only diminish your credibility with the auctioneer.

10.11 Look For Repossessed Properties

In a rising property market there are fewer repossessions on the market than there were in, say, the early 1990s, when the floor fell out of the property market and many were caught in the negative equity / redundancy trap.

Fewer, but they're still there.

Indeed, in 2001, according to government figures, there were 27,000 repossessions in the UK, though by 2004 this had dropped to 6,230, a 22-year low.

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 have been 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

Elsewhere, mortgage companies are obliged, by law, to advertise the fact that they've had an offer on a property and, if there are no better offers within a stated timeframe, it will be sold.

These announcements tend to be buried away in the smallest classifieds in a local newspaper, but they're worth looking out for to guide you to repossessed properties.

10.12 Hire an Auctioneer!

It is a little known fact that many professional buyers engage an auctioneer to accompany them to an auction.

Even the most senior directors of some of the larger property companies prefer to leave their bidding to someone who is trained specifically in that field.

If you are a more novice bidder, you'll find that some auctioneers are willing to act as a mentor at an auction. They will offer advice with regards to the legal pack, and will then deal with all the bidding and, of course, the legal paperwork and the deposit afterwards.

When an auctioneer acts on your behalf as a buyer, as opposed to acting on behalf of the vendor, you can be sure you will not bid a penny more for the property than necessary.

10.13 Ones to Avoid

Given that many properties that come up for auction are difficult to mortgage, you'll find most have some sort of risk or difficulty attached to them.

A key auction success strategy is to learn which ones to avoid.

However, some are more difficult than others.

So, having examined the thirteen strategies for buying at auction, here's some guidance on specific properties to avoid.

Amongst those worth avoiding are:

- **Pre-fabricated houses and bungalows built in the 1950s** – they were only ever meant to be used for a decade or so!
- **Flats in high-rise blocks**, particularly blocks that are higher than four floors
- **Properties with flat roofs**, which are notoriously difficult to maintain and keep water-tight
- **Properties on flood plains**, that are now almost impossible to insure against flood damage
- **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, for example.

See Section **16** for useful research websites.

11 FIVE STRATEGIES FOR SELLING AT AUCTION

In this section you'll learn about:

- Fixing the ugly duckling (see Section **11.1**)
- Setting your price strategy (see Section **11.2**)
- Fixing the un-mortgageable (see Section **11.3**)
- Selling with a grant (see Section **11.4**)
- Selling privately (see Section **11.5**)

As we've seen in the previous chapter, auctions aren't just good places to pick up properties at a discount; if you know what you are doing, **auctions can also be good places to sell too.**

By studying the buying strategies in Section **10,** it's apparent that some of them, at least, can be flipped onto their heads to give some guidance on sales strategies.

Remember, there is certainty, speed and transparency in selling a house through auction. **In the UK in 2002, an average of 78% of properties offered for sale by auction were successfully sold**.

On the other hand, you may have a rush of people into your house in the weeks before the auction, **and selling at auction can be more expensive than the estate agent route**.

You'll be charged for marketing and a proportion of room hire regardless of whether or not your property sells, and **auction commissions run at around 2.5%**.

You'll also need your solicitor at the sale itself to answer any last-minute queries.

And don't forget the 28-day time limit. As the seller, this is the time you have to move out.

11.1 Fixing the Ugly Duckling

Here are some of the areas you'll need to think about to turn an ugly duckling into a profitable swan, with the minimum of time and expense.

11.1.1 The Garden

This is the first thing a purchaser sees, and we all know the importance of creating 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 carefully and regularly. 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.

Inside, you'll choose relatively bland colours over bold primaries, conventional carpets over outlandish, so as to avoid putting people off on the grounds of taste. In the garden, shun fancy features for the same reasons.

Go for lawns over flowerbeds, as they require much lower maintenance.

Plant evergreens over perennials in case you're showing buyers around in the winter.

If gardening isn't your bag, find someone by asking around for recommendations. A landscape gardener can be very expensive, although the results can be startling, especially around larger properties.

A local gardener is usually your best bet, though. He or she is likely to be significantly cheaper, probably won't charge VAT, and will work to your requirements to a pre-agreed budget.

11.1.2 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.

11.1.3 House Doctors

If you have neither the time, the skill, nor the inclination to do any of this yourself, then consider using a house doctor.

They come in to do an entire house, or just one room, and they do everything from the design and costing, through choosing and sourcing the materials, to actually doing the work.

Useful website:

www.homestagers.co.uk

11.1.4 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?

11.1.5 Tennis Court

At the higher-value end of the property market – properties worth in excess of £500,000 – a tennis court may be worth considering.

If there's sufficient acreage of flat lawn, and an access way for heavy machinery such as JCBs, then a grass court will set you back around £4,000.

A tarmac court is over £20,000 including all fixtures and fittings (except floodlights – which would just be silly!)

The only extras will be for the removal and dumping of the lorry-loads of topsoil.

11.1.6 Outdoor Swimming Pool

In a word, don't.

Not in the UK, anyway.

They are expensive to build, expensive to run, expensive to maintain, rarely used, and a real safety hazard when there are small children around.

The only possible exception to this rule is in homes worth over £1 million, where they can be a selling point, given enough available land and adequate safety fencing.

11.1.7 Home Improvements

You can always go one step beyond fixing, and actually look at improving your property prior to sale. In general, home improvements are a good idea, and will add value to your investment.

However, there are some things you need to keep in mind, particularly around the local price ceiling and the suitability and saleability of the improvements you make.

11.2 Pricing Strategy for Sale

This is all about making your property attractive through your pricing.

The auctioneer will advise you, of course, and the chances are, 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 who does a bit of homework will spot 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 if the worst-case scenario comes to pass, i.e. that you get the reserve price and no more, you won't lose out financially.

11.2.1 The Price Barrier

In almost every locality, for almost every type of property, there is a price barrier.

This is governed by such factors as the immediate environment, proximity to trunk roads, facilities and fields, whether the street is largely private or Local Authority housing, whether the properties nearby are well kept, the size of the house, and so on.

Be aware of this barrier, and don't spend more on improvements than you can ever hope to recoup on a sale.

An extreme example might be a suburban street of ex-council houses in the Midlands, all three-bedroom terraced houses, reasonably well kept.

The barrier might be £80,000. That's the most any buyer has paid recently, and that was for a very, very good house.

Then the owner of one of the end-of-terrace houses, who has a larger garden than most, decides to spend £20,000 on a heated outdoor pool.

There is no way that that will entice a buyer to give him £100,000 for his house, because it's in an £80,000-or-less area. And a pool looks so out of place!

11.2.2 What's Suitable & Saleable?

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.

11.2.3 What Should You Avoid?

Beyond the obvious extravagance like a swimming pool, avoid:

- 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.

11.3 Fixing the Un-mortgageable

If you have a property to sell that you know has old structural damage, then you also know this will have a severe effect on the demand for that property, due to the fact there are relatively few people around who have the resources to buy it without a mortgage, or who can handle the hassle of a retention by the mortgage company, and the pressure to get the fault fixed.

So why not get it done yourself, and remove that obstacle?

The same applies to flats with short leases remaining.

If you meet the conditions laid out in Section **10.8**, then go ahead and apply for a lease extension. In fact, applying may be enough in some instances. If you meet the conditions and apply, you sell the application along with the flat.

You don't have to cough up for the extension, and the buyer doesn't have to meet the conditions.

On this basis, the buyer will probably be willing to pay nearer the market value of the extended lease, since the freeholder is obliged, under law, to grant the extension.

11.4 Sell With a Grant Application

In a similar way to selling a short-lease flat with an application for an extension, or selling a plot of land with outline planning permission, 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.

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.

11.5 Sell Privately

If you have managed to pick up a property at auction for 10-20% below its market price – which is by no means uncommon – then you could consider selling it by other means, where you're likely to get closer to the market value, especially if you've done some cosmetic improvement work.

The obvious option is the local estate agent.

They get paid on the basis of the selling price, and will work to get the most they can for your property. The downside is they charge a lot of money for their services – typically between 1.5% and 2.5% of the sale value.

The internet has opened up many more options now for those who wish to sell privately. This used to mean just placing classified ads in local newspapers and waiting for the phone to ring.

Nowadays, 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.

Deals and services vary, but check out some of the sites listed in the Resources section – they'll certainly save you money.

If you're unsure, then why not use both routes simultaneously – advertise privately on the web, and place your property with a local agent.

Just be sure that your contract with the agent does not give it 'sole agency rights'. If it has 'sole selling rights' it means the agent is entitled to their commission regardless of where it was sold, and by whom.

12 SELLING YOUR PROPERTY AT AUCTION

In this section you will learn about;

- A duty of care (see Section **12.1**)
- Selling by auction (see Section **12.5**)
- Frequently asked questions (see Section **12.10**)

If you want to sell at auction it is important that you comply with a few key legal issues. Here we lay out these issues so that you can ensure your sale runs smoothly and you achieve the best possible result.

12.1 A Duty of Care

If you approach a professional with the intention of engaging him or her to market and sell your property, then that person, whether s/he is an auctioneer or an estate agent, has a Duty of Care to you as a potential vendor.

This Duty of Care obliges them to advise as to the best method of sale for your property, taking into account the circumstances under which you are selling it.

For example, if you want to sell your 3-bed semi-detached house, which is on an estate of similar properties, and you are in no particular hurry because you want to obtain the best open market price, then you should be guided down the private treaty route.

Equally, if you are selling an adjacent field of land next to your property and want to be able to pick and choose who buys it, and indeed what the buyer does with it in the future, then there are other methods of sale that are more appropriate.

Your auctioneer is duty bound to advise you as to the best method of sale when he appraises your property and your particular circumstances for selling. Indeed, if he were challenged in open court, he would have to prove that he had explained the merits or otherwise of selling by **private treaty**, **by tender** and **by auction**.

Before we proceed, let's briefly cover the two other methods. This will help create an understanding of all the options open to you, as a vendor.

12.2 Selling by PrivateTreaty

This is the most common method of selling property in the UK.

Private treaty is where you place your property for sale on the open market through a selling agent, or an estate agent. He or she will market your property as necessary, and will negotiate on your behalf, to obtain the best possible price for you.

The estate agent acting on your behalf is prohibited by law to act on behalf of the potential purchaser in the sale.

Since most readers will be familiar with the private treaty process, either through direct experience or by witnessing it through friends or family, we'll spend no more time on it here.

12.3 Selling by Tender

Tenders are frequently used as an alternative to selling by auction.

The procedure, prior to offering the property for sale by tender, is similar to that prior to offering a property for sale by auction. The vendor's solicitor will prepare a legal pack for prospective purchasers to inspect, together with the terms and conditions of the tender.

Tenders (or sealed bids) are then invited from prospective purchasers.

The main difference between a tender and an auction is that, in a tender, the buyer only bids once on your property, and that bid is not made in the public forum that is the auction room. Instead, it is made in writing by a certain closing date. In a tender, a potential buyer has no idea what the other bids may be.

Interestingly, in a sale by tender, the winning bid may not necessarily be the highest bid. For example, in the case of a local authority selling a piece of land by tender, it may be that the bid that creates the most jobs on the site is the bid that wins.

Tenders can be formal or informal.

12.3.1 A Formal Tender

A formal tender can be constructed so that the bids are legally binding and contracts to buy and sell are exchanged at the point where the winning bid is accepted, in a similar way to an auction.

12.3.2 An Informal Tender

An informal tender may, for example invite the best or highest offers by a certain time and date. It may be arranged that the bid is not legally binding, and allows each party a certain amount of time after the close of the tender to exchange contracts.

12.4 Auction Sale vs Private Treaty vs Tender

Taking the top level of what we've learnt so far about the auction process, we can now take a quick look at the three main sales routes open to you, and briefly compare them.

PRIVATE TREATY

- Negotiations are conducted through the selling agent
- The seller can pick and choose the buyer
- The seller can change their mind about the sale, right up to the point where contracts are exchanged
- The buyer can change their mind right up to the point where contracts are exchanged
- Several potential buyers may be involved in a contract race
- The potential buyer may be gazumped
- The seller may be gazundered.

TENDER

- Bids are made in secret – you have no idea how much other interested parties are bidding
- The seller can make various stipulations regarding the sale – for example, the winning bidder may not necessarily be the highest bidder
- The tender may be formal or informal, and exchange of contracts may or may not take place upon acceptance of the bid
- The sale price achieved can only be found out by undertaking a land registry search
- The potential buyer has only one bid
- An unsuccessful bidder may incur wasted expenditure.

AUCTION

- Bids are made in an open, competitive situation
- The highest bid is always the winning bid, providing it's at or above the reserve
- At the fall of the gavel, the contract to buy and sell is made
- The sale price achieved is public knowledge
- The seller cannot pick and choose the buyer
- The potential buyer can weigh up the other potential bidders and can make as many bids as they wish (or can afford!)
- An unsuccessful bidder may incur wasted expenditure.

12.5 Selling at Auction

Now, let's take a much closer look at what happens when you and your auctioneer decide that the auction method is the best method of sale for your property.

Here are the main things you need to consider:

12.6 Auctioneer Fees

The fees an auctioneer charges you for selling your property can vary greatly, as with estate agents. Typically though, an auctioneer's fees are made up of two elements:

- A non-refundable entry fee to enter your property into his auction catalogue. This will usually include general advertising of the sale but, if your property is of potentially high value or is likely to attract vast amounts of interest, he may suggest extra marketing of the property. If you agree, then you may be required to pay an additional amount for this prior to the auction.
- A commission if the property is sold at the auction, or if it is sold afterwards, providing such an agreement is within the terms of the agency contract you are required to sign.

12.7 Terms of Agency

Many people are intimidated by contracts and terms of engagement. However, if you are going to appoint an auctioneer to sell your property, you need to be aware of the types of agreement and the likely terms of that agreement in advance.

All instructions to sell your property, whether by auction or otherwise, must be in writing. You must also receive a copy of the terms before you have to sign them.

At the NAEA/RICS Auctioneering Forum in 2004, a straw poll of those who attended indicated that some 95% of auction houses throughout the country have adopted the Common Auction Conditions as their Conditions of Sale. RICS is currently looking at developing a common set of Terms of Agency, which will hopefully be equally widely adopted.

Below are a number of important elements abstracted from the Terms of Agency currently used by Martin Furber & Co. The list is not exhaustive, but the more important elements are included. A brief explanation is included below each element.

i) "We are appointed as sole selling agents for the sole selling agency period. If you have instructed any other agents to sell the property such instructions must be withdrawn forthwith unless you have made other arrangements with us."

Quite often properties going into auction have been previously marketed with other estate agents. Here, the auctioneer is letting the vendor know that if he is appointed as sole selling agent and the property sells during this period to a buyer introduced by another agent, the vendor will still be liable to pay the auctioneer his commission as if he had introduced the buyer.

If you are considering selling a property by auction that has previously been on the market with an estate agent, you need to check your terms of agency with the original estate agent very carefully. Fail to do this, and you may well find yourself liable for two lots of agency fees.

ii) "Our commission will be 3% of the sale price, subject to a minimum of £800.00 + VAT and is payable on exchange of contracts to sell the property."

Most auctioneers have a minimum fee. You will notice that the commission is payable on "exchange of contracts". Remember that contracts are exchanged at the fall of the gavel. That means you have to pay up on the day.

The buyer will pay a deposit for the purchase of your property. This deposit is usually held by the auctioneer on your behalf in a client account. The auctioneer will deduct his fees from this deposit and pass on the balance to your solicitor in readiness for completion.

iii) "In addition to the commission referred to above you will be liable to pay the following Auction Expenses: A contribution of £500.00 + VAT towards the cost of marketing, advertising and inclusion in our catalogue."

This is the entry fee to the auction that is generally payable when you appoint the auctioneer, and is usually non-refundable. As mentioned above, it's possible in the case of high value or particularly unusual lots that the vendor and the auctioneer will agree some extra, specific advertising for the property in addition to the auctioneer's usual marketing. This will be agreed in advance and will be included in writing in the Terms of Agency.

iv) A charge not exceeding £100.00 + VAT may be levied if we are advised within 7 days of the Auction date of changes or additions to the documentation of the lot of a nature requiring notification to potential customers."

The auctioneer will produce an addendum, usually on the morning of the sale, with any last minute alterations to the information contained in the catalogue. However, if something has changed significantly on a property, the auctioneer may well decide it is better to write to potential buyers of that particular property in advance to let them know of the changes.

For example, if a property was tenanted and it is now going to be offered with vacant possession because the tenants have left, then this is a significant matter. Potential buyers who were interested may well change their minds. Some may have already viewed the property and expressed an interest in it. They may have already placed proxy or telephone bids with the auctioneer.

All of these people will need to be informed of these changes by the auctioneer, thereby incurring expenses that will be passed on.

v) "As a condition of the inclusion of a lot in our Auction catalogue, all sale negotiations during the selling agency period are to be undertaken by us only."

Experienced purchasers will frequently try to negotiate a sale prior to the auction, either directly with the vendor or even, on occasion, with the vendor's solicitor.

This can lead to all types of confusion. It can also lead to the vendor achieving a lower price. The auctioneer is experienced at dealing with pre-auction offers and is acutely aware of the various tactics a determined buyer will use to undermine the confidence of the vendor.

The auctioneer's job is to obtain the best possible price for the vendor. If he receives a high offer for the property prior to the auction, and circumstances dictate that the vendor should accept this offer, then the auctioneer will advise the vendor accordingly.

On the other hand, if the auctioneer receives half a dozen good offers on the same property prior to the auction, then it is obvious that the property should go into the room, where the interested parties can battle it out in an open, competitive bidding situation. That is, after all, what an auction is all about – and why the vendor has placed the property in an auction in the first place!

vi) "If at the Auction a bid is made by you, or on your behalf at a figure equal to or above the reserve, then should that be the highest bid we may regard the property as having been sold and commission will be due."

It has been known on occasions for vendors to try to get the price higher by employing a friend or colleague to bid up on their behalf. If this happens, and the bid they make is at or above the reserve, then the lot can be knocked down to said friend or colleague!

Don't be tempted to bump up prices in this way. If the lot needs some encouragement to reach the reserve, the auctioneer will take bids off the wall (see Section **7.4.4**) in order to drive the price (though he is not allowed to take sequential off-the-wall bids).

Leave your auctioneer to do his job – that's what you are paying him to do.

vii) "We shall be entitled to place reliance on information provided by you or by your solicitors or agents and you will indemnify us in respect of any loss or damage suffered as a consequence of the inaccuracy of such."

The auctioneer frequently has to rely on information supplied by you, as the vendor. This does not, of course, excuse him from his legal obligations under the various regulations which control the industry. The paragraph above lets you know in writing that you must be open and honest in the information you provide to the auctioneer.

viii) "In accordance with the provisions of statutory instrument no. 861 (1991) you do not require written notification from us of offers submitted."

Auctioneers, like estate agents, are legally obliged to pass on to you any offers they receive for your property, promptly and in writing.

During such an intensive marketing period it is possible for the same person to make several offers on one or more properties in one day. For speed, the auctioneer may telephone the vendor when such offers are received and discuss the matter with him in detail.

By including the above clause in the Terms of Agency, he is complying with the legislation that states he must pass on all offers promptly and in writing unless instructed otherwise in writing.

ix) "Where a purchaser instructs an agent to bid on his behalf, we shall have the authority to release the bidder from personal liability, provided that such request for release is made prior to bidding or where the purchaser is represented by a professional estate agent, surveyor, solicitor or accountant."

In the auction, if a person bids on behalf of someone else, or on behalf of a company, they are personally liable if the person or company they are bidding on behalf of does not complete the purchase.

Estate agents, solicitors, surveyors and accountants are exempt from personal liability under Common Auction Conditions.

This paragraph informs the vendor, that they won't be able to seek damages personally from one of the above professionals if, for some reason, the client they are representing at auction fails to complete on an agreed purchase.

x) "You hereby authorise us to sign a contract for the sale of the property at the reserve price or higher on the day of the Auction or on the next working day without specific reference to you."

Under established custom and practice, it is usual for the auctioneer to sign the memorandum of sale on behalf of the vendor.

After all, the contract to buy and sell has actually been made at the fall of the gavel; from that point onwards, the buyer must buy and the seller must sell.

This clause reconfirms the fact that the auctioneer has the right to sign the memorandum. If your property does not sell in the auction, it also gives the auctioneer the right to sign a contract to sell the property, at the reserve price or higher, the same day or the next day, without referring back to you.

(Many properties are sold immediately after the auction, when the auctioneer will reveal the reserve price).

This allows the auctioneer to act immediately while potential buyers are still present in the auction room.

xi) “We reserve the right to regulate the bidding and the right (without providing any reason therefore) in our sole, absolute discretion to refuse to accept a bid. In the event of any dispute on bidding, our decision shall be final. We shall have the authority to bid on your behalf up to (but not including) the reserve price.”

To conduct an auction successfully the auctioneer needs to be in total control of the room, and have his wits about him. His job means he needs to think on his feet.

There are very few reasons why an auctioneer will refuse to take a bid, but if he does, it is with very good reason.

In the above paragraph he is emphasising that he has the right to control how the bidding is conducted - the increments, the starting price and so forth.

He is also emphasising that he can and will refuse to accept a bid if he has good reason to. The second part of the paragraph again gives him explicit permission to take bids off the wall.

12.8 Setting the Price

At auction you need to set two prices – guide and reserve.

The **guide price** is the price the auctioneer publishes prior to the auction.

The **reserve price** is the minimum a property will be sold for on the day of the auction, and is usually a confidential matter between the auctioneer and the vendor.

Let’s look at these two important elements in a little more detail.

12.8.1 The Guide Price

In simple terms, the guide price is exactly what it says – a guide.

It is there to give some guidance as to the likely price the property will achieve. If you read the small print carefully in any auction catalogue, you may well find the auctioneer in question gives their own definition of what the guide prices mean.

For example, it may say “Guide prices are merely the auctioneer’s opinion of what the property is likely to achieve”, or “Guide prices are for guidance only”.

There is no doubt that, if you want to attract a great deal of interest in a property, a low guide price is the best way of doing so.

However, while the guide price is doubtless an excellent marketing tool, it must not be misleading, and it certainly must not be below the reserve.

12.8.2 The Reserve Price

An auctioneer will discuss a likely reserve with you when he initially appraises the property, although the actual reserve may well not be finalised until a couple of days before the auction.

12.8.3 How the Guide and Reserve interact

There needs to be a fine balance between the guide and the reserve.

Let's take a look at the following scenario regarding guides and reserves.

Let's assume that you are looking to achieve about £95,000 for your property, and the auctioneer sets the guide price at £100,000.

In the first two weeks of the four week marketing campaign the auctioneer receives several offers in excess of the guide price, and you decide not to accept any of them.

You are now confident that the property will achieve in the region of £110,000, and you tell the auctioneer that £110,000 is your new reserve.

How can the auctioneer react in this situation?

To keep advertising the property with a guide of £100,000 would be misleading, and it would break the regulation that states the guide cannot be below the reserve.

If the guide prices are printed in the catalogue, however, as opposed to on a loose insert, there is little the auctioneer can do about it.

However, what you may well find is that the auctioneer will increase the guide price shown for your property on his website, where such a change is relatively fast and simple.

Also your new, higher guide price will appear on the final list of guide prices which the auctioneer will have printed on the day of the auction. The auctioneer may also choose to make a pre-auction announcement, if he feels that's appropriate.

12.8.4 Pricing Your Property to Sell

Many properties sell for many tens of thousands above the guide price. How can you ensure your property is one of them?

The short answer is – set your guide price low (while still ensuring it reflects your reserve).

With careful marketing, a lower guide price tends to attract the most interest. The higher the level of interest on the day, the higher the level of competition, and the higher the final price.

Conversely, ask yourself this – how many people will bid on such a popular lot if the guide price was, say, 25% higher?

If you set the reserve price substantially higher, then the guide price would also have to be higher. The property may not then attract so much interest; it may not even reach its reserve.

Don't be tempted, however, to drive up your reserve and guide prices based on a recent lot you've seen sell at auction.

If you tell the auctioneer you would not be willing to accept less than 90% of what the recently sold property achieved, then the auctioneer would have to set the guide price to reflect this, and the property would not necessarily attract the same amount of interest that the previous lot did.

The auctioneer's job is not an easy one, and involves a great deal of skill, judgement and tact in advising his vendor as to the best guide price and a likely reserve.

12.9 Working With the Auctioneer

As a vendor, you need to know what your auctioneer is thinking when he is evaluating a guide and reserve price with you.

- He wants the property in his auction, providing you are realistic about the price you want to achieve.
- He needs to know your bottom line in order to advise you on setting the guide price and the reserve.
- Once the guide and the reserve price are set, the auctioneer can commence marketing your property to attract maximum interest.

An auctioneer strives to attract motivated vendors keen on getting a good price, and keen buyers eager for a bargain. Martin Furber & Co clearly does better than many…

> *"Our recent sale exceeded all expectations resulting in 95% of all properties offered being sold under the hammer at well above the guide prices"*

12.9.1 Preparing the Legal Pack

The legal package is vital to ensure a smooth sale, and is prepared and provided by your solicitor for the benefit of any intending bidders.

You need to find a solicitor who can act quickly for you, and who is familiar with the auction process and the Common Auction Conditions.

The solicitor will obtain the deeds for the subject property from you or from the mortgagees. They will then undertake the same searches that would be normally undertaken by the buyer's solicitor in a private treaty sale and will typically include:

- A Local Authority search
- Index Map Search
- Coal Mining Search
- Commons Registration Search
- Replies to Standard Requisitions on Title
- Replies to Standard Pre-Contract Enquiries

It will also include copies of all other available documents such as tenancy agreements, title notices, guarantees, planning permissions and so on.

In addition, it is vital that your solicitor prepares “Special Conditions of Sale” for your lot. It is in this document that the solicitor can place other conditions. These may typically include things such as;

“The buyer will reimburse the seller the cost of all searches in the sum of £xxx.xx”

“Completion shall take place 14 days after exchange of contract”

“The buyer shall pay a sum of £500 towards the Auctioneer’s fees”

“The buyer shall pay an additional 1% of the purchase price towards the Seller’s legal fees”

It is vital that this information is made clear to any potential buyer in order that they can fairly assess how much their maximum bid is going to be.

12.9.2 Viewings

Viewings are more often than not undertaken on a block bookings basis. There are several reasons for this, not least of all because it saves the auctioneer and his staff time and money in doing more viewings than are necessary.

It does also offer the added bonus of getting the competition going between interested parties at an early stage. If, for example there are ten interested parties all viewing a property at once, then the competition is there to be seen.

The auctioneer will usually arrange one block booking for the week after the auction catalogue is published, and then arrange other block bookings subject to demand.

If the property you are selling is empty, then viewings need to be undertaken by someone from the auctioneer’s office.

If the property is your home, then you are perfectly within your rights to conduct the viewings yourself, as you would if you were selling by private treaty.

If your property is tenanted, viewings may well be restricted to just one, or there may be none at all. Similarly, some empty, vandalised properties may be suitable for external viewings only. Frequently in such cases the auctioneer will have no access to the property – it really is a case of ‘Buyer Beware!’

If a potential buyer is interested in a property to the point of arranging a survey, then the surveyor will usually contact the auctioneer directly to make arrangements.

12.9.3 Dealing with Pre-Auction Offers

We have already established that when a property is placed in an auction, a great deal of thought has usually gone into it by the both the vendor and the auctioneer. Then along comes a pre-auction offer to throw off all those carefully laid plans!

Auction buyers frequently think about making a pre-auction offer. (See Section **10.10** for the buyer's perspective). Your auctioneer should discuss the merits of any pre-auction offers with you and he should also advise accordingly.

While an auctioneer may be loathe to see a property sold beforehand – he is, after all, an auctioneer and not an estate agent – he is duty bound tell you when he believes an offer is worth considering. Always listen to the advice the auctioneer gives to you.

When many pre-auction offers are made, especially if they are at or beyond the high end of the guide price, then the auctioneer is likely to recommend that your property should go into the room, thereby taking full advantage of the high level of interest your property has generated.

12.9.4 Getting it Sold

On the day of the auction the auctioneer will be looking out for familiar faces in the crowd – the experienced buyers he knows well (often standing at the back so they can have a good view of the proceedings), those who have been to view the properties, and those who are selling the properties (usually sitting at the front).

When it comes to the turn of your lot, the auctioneer will already have some idea of who in the crowd may be particularly interested in it. They may be individuals who have viewed your property, or who have made offers prior, or who are regular buyers whose buying criteria match your property.

He will use his skill to get the interest going, and get the price above the all important reserve figure, perhaps by taking bids off the wall. Hopefully, the auctioneer will bring his gavel down at a figure well above your reserve!

12.9.5 What Happens Next?

Once the gavel has fallen, it's too late for you as the seller to change your mind, and it's too late for the buyer to change his mind, or even to raise post auction questions or enquiries.

The buyer will be immediately approached by a member of the auctioneer's team and asked for his or her deposit for the property. Depending on the criteria of the particular auction house it will usually be in the form of a cheque or a banker's draft.

The buyer will also be required to sign the memorandum of sale.

Remember that this is merely a written record of the contract that has already been made – the contract to buy and to sell is made at the fall of the auctioneer's gavel.

If you're not present at the sale, or the buyer is on the end of a phone line, then the auctioneer, through established custom and practice, has the authority to sign the contract on behalf of either the buyer or the seller.

At this point the buyer will either be given the legal pack and a copy of the memorandum of sale, or they will be sent directly to his solicitor by the auctioneers. If it is handed directly to the buyer, he should take it to his solicitor post haste.

From this point onward the transaction should be very straightforward. The buyer will be required to pay the balance to his solicitor in advance of the completion date, which is usually 20 working days after the fall of the gavel, i.e. 28 days in total.

Speed is of the essence here!

If your solicitor has altered the completion date, this should again be pointed out to the buyer immediately after the auction to make sure he is in no doubt.

If the buyer is getting a mortgage to complete the purchase then he will have preferably secured a loan offer prior to the auction. The buyer will need to ensure that his solicitor has a copy of the mortgage offer in order that the matter can be dealt with quickly.

In theory, if everything goes to plan, the sale will complete within the given timescale.

Your solicitor will receive the funds from the buyer on the completion date. They will then pay off any charges on the property, such as an outstanding mortgage. They will also deduct their own fee and the auctioneer's fee, and the balance will be paid to you.

If you sell your primary residence at auction then you need to be sure that you are ready to move out on the completion date. Just as the buyer cannot raise enquiries or negotiate post contract, neither can you!

12.9.6 Missing the Completion Date

Well, it happens in about 1% of auction transactions.

If the buyer fails to complete in time then he is in breach of contract.

He will lose his deposit. And he can be liable for damages if the property is reoffered at auction and obtains a lower price the second time around.

The vendor is entitled to keep the buyer's deposit, minus the auctioneer's fee (which will probably be reduced) and any solicitor's fees (which will probably be increased!)

12.10 Frequently Asked Questions

Potential vendors tend to ask auctioneers a fairly standard set of questions. Here are the most common.

12.10.1 Can I Set My Own Reserve Price?

Absolutely!

The property will not be sold for less than this price in the auction.

However, you should listen very carefully to the auctioneer's opinion on setting the guide price and the reserve. The properties that don't sell at auction are often the ones where the seller has not followed the advice offered by the auctioneer.

12.10.2 What Should I Do About Pre-Auction Offers?

The auctioneer will forward any pre-auction offers on to you for consideration, unless you have instructed him to the contrary. He will usually include his opinion on the merits of the offer but, ultimately, the decision to accept or reject is yours.

12.10.3 Does My Solicitor Need to be at the Auction?

Not usually, although different auctioneers operate in different ways.

Some firms of auctioneers insist that your solicitor be there to deal with the contract. Some firms have their own solicitors present to deal with contractual matters on your behalf.

12.10.4 Do I Need to be There?

No. The auctioneer will take care of everything on your behalf. You can, of course, go along and see the bidding for yourself.

But remember it is illegal for you to bid on your own lot if you have given the auctioneer consent to bid on your behalf up to (but not including) the reserve.

12.10.5 What If My Lot Doesn't Sell on the Day?

If your property doesn't sell in the auction, the auctioneer will invite interested parties to speak with him immediately after the auction and try to negotiate a sale at the reserve price on your behalf.

The auctioneer's terms of engagement usually permit him to sign the contract of sale for up to 24 hours after the auction without having to refer back to you.

If he receives an offer below the reserve, however, he will have to make contact with you for permission to sell.

13 A DAY AT THE AUCTION

In this section you will learn:

- About the changing marketplace (see Section **14.1**)
- How the buyers at property auctions have changed in recent years (see Section **14.2**)
- What it's like to be in the room on the day (see Section **14.3**)
- About Online Auctions (see Section **14.4**)

13.1 A Changing Marketplace

Lately investors can't get enough of property and the excess demand has pushed the prime yields down to 4.9%, reflecting a fall of almost 0.25% since the end of last year.

Why?

This is the first time that widespread private wealth has coincided with a marketplace in which it is possible to purchase good-quality real estate, according to Property Week.

The cost of medium-term money may have risen slightly - the more cautious banks are unable to lend competitively more than 80% of the purchase price - but any possible funding gap is more than made up by the increased amount of equity that investors are willing to commit.

Now some commentators talk about the top of the market and some talk about the start of a 10-year love affair with property.

Wherever we are in the cycle, buyers - new or old – should be extra cautious when buying at auction to ensure they don't get carried away in the heat of the moment.

13.2 A New Breed of Investor

For the past five years, investing in commercial property has been easy for the average private investor – banks have been quick to lend, borrowing was cheap and quality stock has been on the market.

But now these types of buyers, who often had an emotional attachment to the property they bought, are being outnumbered by an increasingly sophisticated auction crowd.

That's because in today's auction world, investors can no longer afford to behave like naive first-time buyers.

Increasing competition for lots means prices have been pushed up, significantly reducing the return on property bought unwisely.

And as a result, private investors have been building more diverse portfolios, as well as tracking bank lending trends to make better informed choices on the types of investments they buy.

Additionally, increased borrowing has allowed private investors, once only targeting investments below 250,000 properties, to buy much larger lot sizes.

Today's auction investors are beginning to realise that if real money is to be made, time also has to be invested in managing and reworking properties, changing planning consents and restructuring leases.

Richard Auterac, a Jones Lang LaSalle auctioneer, says:

“In the past five years they (private investors) have come of age. We are now working with private investors who have gained a foothold in the market and have accrued serious purchasing power.”

In short, the private investors are making the traditional institutional buyers sit up and take notice.

13.3 A Day at Auction

Enter a packed auction room in a London hotel – and the room is hot, very hot!

And it’s not just the weather - the bidding pace is fast and furious.

For instance, a run down residential investment in Holland Park goes for £1.4 million. We wince at the price.

“Although there’s a lot of competition out there you should be patient,” a fellow investor says as he works out the potential yield on his calculator.

The bid was taken over the phone so nobody saw the lucky (or unlucky) buyer.

All we know is that the same property was advertised for sale a month later through a local agent. Price: £1.7 million.

On the other side of the jammed room however, it is the auctioneer’s job to goad on the buyers, many of whom are standing in the aisles.

As bidding slows and creeps up by only the hundreds of pounds, he teases the room. Surely there’s another £1,000 in it!

This time it’s a tenanted flat above a shop in a scruffy South London street – he’s right, someone pays the extra grand. Fierce bidding continues throughout the day.

John Dunsdon has spent 33 years in auction rooms as an investor. Interviewed in Property Week, here’s his view of the auction crowd:

“The people in that room are cold and hard. Some of them wear expensive suits and are worth tens of millions of pounds; some wear scruffy T-shirts and anoraks, get the bus here, and are worth far more.”

It seems the lesson from a real lifetime of experience is: you never know who you are up against – so do your homework and stick to your price. Don’t get carried away!

The auction veteran has another rule which it is wise to follow:

He claims: “I only buy property where the rental income covers the interest. I still stick by that rule.

“People who don't cover themselves by buying guaranteed rental income are in danger.”

He has also been keen to buy properties in provincial cathedral towns like York and Winchester as well.

He says: “A prime investment in my view equates to prime property in a prime location with a prime tenant. It's that simple.”

13.4 The Advent of Online Auction

The first internet commercial property auction was held in 2006 – launched by online investor forum Propex.

And its first online lot was a telephone mast offered on behalf of Capital & Regional.

The mast, which is let to mobile phone network Orange until 2014, raised a final bid of £74,500, reflecting a net initial yield of 7.25%, from private investor Elliot Sorsky.

It is early days for the concept and there is an industry debate about whether investors will find it difficult to trust the efficiency and security of an online auction.

But Propex denies its ‘Ebay-style’ platform was set up as direct competition for the likes of Allsop or Savills.

They say: “The average commercial lot size is creeping up, but we’re deliberately targeting smaller properties so there is room for both of our markets to grow.”

It may be that this type of service will become an adjunct to the services of traditional auction houses in the future. Time will tell.

www.propex.co.uk

14 EXPERT STRATEGY - UNDERWRITING

In this section you will find:

- A brief overview of underwriting (see Section **14.1**)
- An underwriting scenario (see Section **14.2**)
- The four golden rules of underwriting (see Section **14.3**)
- The advantages for the underwriter (see Section **14.4**)
- The disadvantages for the underwriter (see Section **14.5**)
- The advantages for the vendor (see Section **14.6**)
- The disadvantages for the vendor (see Section **14.7**)

Underwriting is a potentially lucrative procedure that is little known by many in the property investment business. At a recent property seminar in London there were well over 200 attendees, and not a single one of them was familiar with underwriting!

It is something that is practised by a few, longstanding professionals. 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.

14.1 A Brief Overview

You are, by now, familiar with the auction procedure. You are aware of some of the reasons why properties go to auction, and you know that auction sellers are all, to varying degrees, motivated sellers.

In this chapter we are going to take a look at how it is possible to make pre-auction offers on certain types 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!

Underwriting is a method whereby an individual or a company can make a type of pre-auction offer on a property which, if accepted, means that the buyer could get the property at a price he is happy to pay. On the other hand, he may end the day without the property, but with a tidy cash profit instead.

How? Well, let's walk through a typical underwriting scenario and find out more.

14.2 An Underwriting Scenario

When choosing the ideal lot to underwrite, both the type of property in an auction and the circumstances of the vendor, are vital.

14.2.1 Choosing the Right Property

Let's say, for example, that you find a property in an auction catalogue with a guide price of £50,000 to £60,000.

You go and see the property, which is vacant, and in an area you know. You have your solicitor check over the legal pack, from which you've gleaned the fact that the vendor is a private individual.

You believe this property is going to attract a reasonable amount of attention at the auction, and you feel that there is value in the property, at the right price, that you could unlock.

You feel that with a small amount of investment there is a profit to be made if you paid, say, £60,000 for this property.

14.2.2 Choosing the Right Vendor

As you investigate the legal pack, you see from the "Office Copy Entries" that the Local Authority has a charge on the property, and that there is also a mortgage on it.

What can we establish from the research so far?

- The vendor is not making any money from the property at present, as it is vacant.
- He is possibly in financial difficulties – he is not only paying a mortgage, but has also failed to pay some type of debt to the Local Authority (which would, of course, be paid off by the vendor on completion of a sale).
- The vendor is therefore motivated to sell the property and is probably using an auction because of the guaranteed timescale of sale, i.e. 28 days after the property has been sold in the auction room.

Such a motivated vendor is a perfect example of the type you are looking for when planning to underwrite. He's a private vendor, and he's probably in financial difficulties. Look out also for small companies selling properties – they may also be experiencing problems.

Conversely, there are vendors who will almost certainly not consider an underwriting proposition under any circumstances. These include large companies, banks and other financial institutions, government departments, local authorities and utility companies.

You then dig a little deeper and discover that the property has been on the market for some time. The chances are, the vendor will be happy to talk about an underwriting deal with you.

This will be even more likely if the property is not generating much interest in the run-up to the auction. Your motivated seller will be getting nervous as to whether or not his property will actually sell on the day. You can then step in and offer to help.

14.2.3 Making Your Offer

How can you make an offer that is better and more attractive than any other pre-auction offer? How can you make an offer that the vendor will find difficult to refuse? And, if the vendor accepts your offer, how come the property will still go into the auction room on the day?

Well, you can make such an offer. You offer to underwrite the property.

In essence, what this means is you offer to underwrite the property at a particular price. In this instance, let's say you offer to underwrite it at £58,000.

If your offer to underwrite is accepted, you will enter into a contract with the vendor and the auctioneer, and you will pay the auctioneer 10% of your chosen figure; in this case £5,800.

Then, the property will go into the auction, and one of two things will happen.

14.2.4 Possible Outcome 1

In the auction, the highest bid for the lot in question is £56,000.

The auctioneer does not bring the hammer down at this price, however, as the £58,000 that you underwrote the property for is effectively the reserve amount. Since the bidding in the room failed to reach this figure, then you will be obliged to purchase the property for £58,000.

As usual, you will have to complete 28 days after the auction.

14.2.5 Possible Outcome 2

In the auction the highest bid for the lot in question is £64,000.

In this outcome, the bidding in the room has exceeded the price at which you underwrote the property, and so the auctioneer brings the hammer down and the property is sold to the winning bidder at £64,000 in the normal way.

However the difference between the price at which you underwrote the property – £58,000 – and the eventual selling price of £64,000, is £6,000. This is then split 50/50 between the vendor and you, as the underwriter.

14.3 The 4 Golden Rules of Underwriting

At first glance, underwriting may appear to be a very exciting and profitable thing to do. However, there are four golden rules to follow if you are going to consider underwriting a property.

14.3.1 Golden Rule Number 1

Only consider underwriting a property that you really want to buy, and that fits in with your buying strategy. Remember – you will be obliged to buy the property if a higher offer is not received on the day of the auction.

14.3.2 Golden Rule Number 2

Only consider underwriting if you have the cash in the bank; in fact, you may be asked for proof of funding when you make your offer.

14.3.3 Golden Rule Number 3

Make sure you research the property and the legal pack fully before making your offer to underwrite the property.

14.3.4 Golden Rule Number 4

Be very careful not to over-estimate what the property is likely to achieve in the auction room.

14.4 Advantages for the Underwriter

So why would you choose to underwrite a property? What are the advantages in doing so?

14.4.1 It's a Win-Win Situation – If You Get it Right!

Providing you:

- choose the right property – one that you want
- choose the right vendor – one who is likely to want to deal
- choose the right price at which to underwrite

…then you really can't go wrong!

As we've seen above, you'll either get a property that you want at a price you are more than happy to pay, or you'll get a few thousand pounds in your hand for little more than some research and a couple of phone calls.

A true win-win situation!

14.4.2 A Certain Timescale

Whatever the outcome on the day, the timescale remains the same.

You will either have the usual 28 days in which to complete on your purchase, or you can expect to receive your share of the excess from the vendor in 28 days.

14.5 Disadvantages for the Underwriter

Apart from getting the whole thing wrong from the start – and that's the risk of doing this without seeking professional advice – there are two other potential disadvantages for the underwriter.

14.5.1 Out-Bid!

If you're underwriting a property you really, really want, then you run the risk of being out-bid on the day, thereby losing it to a buyer willing to pay more.

You will, of course, have your share of the difference as a consolation prize but, if the property was important to you, that may not be quite enough to mitigate the disappointment.

14.5.2 Paying Too Much

The amount at which you underwrite a property may, on the day, exceed the final highest bid by a significant amount.

This would suggest that you underwrote at too high a price or, at the very least, you could maybe have secured the property for less, simply by bidding in the room in the normal way.

14.6 Advantages for the Vendor

From the viewpoint of the vendor, there are advantages to accepting an offer to underwrite. Indeed, these are, in the right circumstances, sufficiently strong to make an offer to underwrite outshine all other pre-auction offers.

14.6.1 Certainty of Sale

With an underwriting offer firmly sealed in a contract, the vendor knows for a fact that the property will sell on the day, one way or another.

Of course, if the reserve is set correctly, and the guide is sufficiently interesting, the vendor can be fairly sure that the property will sell even without an underwriting buyer. In the underwritten situation, though, a reasonably certain sale becomes a guaranteed sale.

14.6.2 Certainty of Price

The vendor knows, in advance of the auction, the minimum price at which it will sell – the price at which the lot has been underwritten.

Not only does the vendor know the minimum he'll get for the property, he also retains the possibility of achieving a higher price as the property is still auctioned on the day. This would, of course, be impossible had he accepted a normal pre-auction offer.

14.7 Disadvantages for the Vendor

On the other hand, the certainty of sale and the certainty of price come at a cost.

14.7.1 Selling Too Low

There is a possibility that, in Possible Outcome 1 above, where the property is sold to the underwriter, the vendor may come away feeling that he's sold his property too cheaply. This is easily dismissed by the logic that he received more for it than he would otherwise have done from the buyers in the room, but the feeling may nevertheless persist.

14.7.2 Sharing the Excess

In Possible Outcome 2, where the property is sold at a price above the underwritten price, the vendor will then have to share out the excess equally with the underwriter.

This is the price he pays for certainty. If it's a lot, he may feel that it was a high price to pay.

In summary, underwriting is a high-risk 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.

It is **not** simply a speculative way to make money by guessing the outcome of an auction. If you go into it with that attitude, you will get burned!

15 USING THE PRICE CEILING SPREADSHEET SOFTWARE

The spreadsheet software has been provided as a tool to help you to **calculate your price ceiling** on any property you are interested in buying.

Remember, this price ceiling is based on what the property is worth to you – based on what you intend to do to the property and what you believe it will be worth afterwards.

The '**price ceiling'** is not the same as the **property's market value**!

The property's market value (see Section 6.6) is based on its current condition – and effectively discounts its potential.

Key Tip

Hence, as mentioned before, the ideal auction property is one where the market value is below your price ceiling.

This will occur when you can spot original ways to improve the property (check your strategy options again in Section **10**) that haven't been reflected in the sale price.

The 'price ceiling' is defined as the maximum that you are willing to pay for the property such that it meets your financial goals.

15.1 Two Ways of Viewing Your Investment

Whichever of the strategies (see Section **10**) you have chosen to pursue, your personal strategy (see Section **3.1**) will fall into either:

1. Develop and re-Sell consisting of:
Buying a property, (usually improving it – but not necessarily) then selling in a matter of months (certainly less than 1 year).

2. Hold and let consisting of:

Buying a property, (possibly to improve), let it out, hold over a matter of 5 to 20 years.

So, in assessing 'how much to bid' for a property you also need to consider whether you will buy to sell or buy to let - as this will affect the amount that you are willing to offer.

Property Auction Secrets — **Price Ceiling Calculator** — Please read the disclaimer

www.Property-Auction-Secrets.co.uk — part of the www.PropertySecret series

A Developer / re-sell strategy or a Hold and let strategy? Which is right for you? Well, as the spreadsheet below will help you Property Auction Secrets you will probably have decided the strategy or strategies that you wish to use for your property au that you will use either route - so long as the numbers stack up for that particular property!

		BEST-GUESS SCENARIO			WORST-CASE SCENARIO
1. Developer / re-sell strategy					
	Profit Required on successful sale of property	£ 30,000	<< insert figure	£	30,000
	Sale price of property that you expect to achieve	£ 250,000	<< insert figures >>	£	250,000
	Sale price of property after selling costs	£ 246,250		£	246,250
	Cash Down / Amount you are able to put into the pr	£ 50,000	<< insert figures >>	£	50,000
	Time in months before property ready to sell	4	<< insert figures >>		6
	% Annual rate at which you borrow money for this p	7.00%	<< insert figure		7.00%
	Finance cost as a percentage of overal project	2%			4%
	Finance costs	3,879			5,819
	Fixed/ refurbishment costs	£ 27,610		£	32,230
v Insert Figure Below					
###	Selling costs	£ 3,750		£	3,750
	Amount borrowed	£ 166,250		£	166,250
	LTV	90%			93%
	Profit margin (Total profit / Cash Down)	60%			60%
	Property Purchase Price	**£ 184,761**		**£**	**178,201**
		Do not bid more than this!			Optimum purchase price

		BEST-GUESS SCENARIO			WORST-CASE SCENARIO
2. Hold and let strategy					
	Expected annual gross rental income (ex void)	£ 18,000	<< insert figure	£	18,000
	Gross rental yield required	8.75%	<< insert figure		8.75%
	Property Purchase Price	**£ 178,104**		**£**	**173,484**
		Do not bid more than this!			Optimum purchase price

As you can see, for each way of assessing your investment you have 2 price ceilings.

Property Purchase Price	**£ 184,761**	**£ 178,201**
	Do not bid more than this!	Optimum purchase price

and

Property Purchase Price	**£ 178,104**	**£ 173,484**
	Do not bid more than this!	Optimum purchase price

This gives you a price ceiling for both your Best Guess Scenario and also your Worst Case Scenario.

Under no circumstances should you bid above your Best Guess Scenario.

So, in this example:

If you decide to develop and sell – your maximum price ceiling is:

£ 184,761

However, your optimum price is:

£ 178,201

There again, if you decide to buy and hold, then your maximum price ceiling is:

£ 178,104

However, your optimum price is:

£ 173,484

So, now you know!

As well as assisting you in calculating your price ceiling, this tool also has other, more subtle qualities:

- It acts as a check-list, ensuring that you haven't missed any vital elements of cost
- It forces you to research deeper *before* you buy to discover the costs you are signing up for
- It highlights the costs you can't pin down, and it forces you to guesstimate those as best you can
- It produces a stark, simple, no-nonsense financial picture for you, including a snapshot of your position given various margins of error.

15.2 Opening Your Price Ceiling Spreadsheet

There are different spreadsheets depending on your computer software.

Essentially,

If your PC runs **Microsoft Excel** then

Click here to open the Price Ceiling Spreadsheet

If your PC runs **Microsoft Works** then

Click here to open the Price Ceiling Spreadsheet

15.3 Opening the Spreadsheets on an Apple Mac

According to Apple's website www.apple.com/appleworks/, the latest version of Appleworks software should be able to read Microsoft Excel spreadsheets.

If you have Appleworks 6.04 then there is a small file to download to upgrade it to accept Excel files at:

www.apple.com/appleworks/update/

There are instructions are on the webpage.

If you have an earlier version of Appleworks (6.0 or 6.03) then please go to www.info.apple.com/usen/appleworks/ to upgrade to Appleworks 6.04, then use this link to upgrade to Appleworks 6.1 first.

www.apple.com/appleworks/update/

It seems a little complex - but all the info is on Apple's support page for Appleworks. At the time of writing, the upgrades are free.

15.4 Entering Data to Calculate the Developer / Re-Sell Price Ceiling

		BEST-GUESS SCENARIO			WORST-CASE SCENARIO	NOTES
1. Developer / re-sell strategy						
	Profit Required on successful sale of property	£ 30,000	<< insert figure		£ 30,000	This the profit that makes the project worth while for you!
	Sale price of property that you expect to achieve	£ 250,000	<< insert figures >>		£ 250,000	The final, completed value of the property, gleaned from recent sales of similar properties (via an estate agent?) in the area.
	Sale price of property after selling costs	£ 246,250			£ 246,250	
	Cash Down / Amount you are able to put into the project	£ 50,000	<< insert figures >>		£ 50,000	Total amount of your money that you'll use as a deposit and to fund the refurbishment etc
	Time in months before property ready to sell	4	<< insert figures >>		6	Consider how many months you will need to finance the property before you are able to realise its value by selling it.
	% Annual rate at which you borrow money for this project	7.00%	<< insert figure		7.00%	Use the APR - not the headline rate
	Finance cost as a percentage of overal project	2%			4%	
	Finance costs	3,879			5,819	These are the costs of paying for the loan on the property until you are able to complete a sale
	Fixed/ refurbishment costs	£ 27,610			£ 32,230	This figure is taken from below - please see the tan section to adjust
v Insert Figure Below						
1.50%	Selling costs	£ 3,750			£ 3,750	Allow for estate agents fees (or auction fees) plus solicitors costs as a percentage of the total selling price
	Amount borrowed	£ 166,250			£ 166,250	assumption : borrow enough to pay finance costs, purchase, fixed costs, less deposit
	LTV	90%			93%	
	Profit margin (Total profit / Cash Down)	60%			60%	
	Property Purchase Price	£ 184,761			£ 178,201	
		Do not bid more than this!			Optimum purchase price	

You will only need to insert data where you see:

<< insert figure

or

<< insert figure >>

The key figures that you need to insert are:

Profit required on successful resale of property

Here's where you get to decide how much profit you want to make. You can adjust this figure upwards or downwards according to your own personal goals.

Sale price of property that you expect to achieve

Insert here the gross amount that you think you'll sell the property for after you have completed your work, changed the leases or other work.

Cash Down / Amount you are able to put into the project

Include the total amount of your own cash that you are putting into the project.

Time in months before property is ready to sell

Estimate how many months you'll hold the property before you are able to complete a sale. Allow time to sell it through an estate agent.

% Annual rate at which you will borrow money for this project

Insert the APR figure at which you will borrow money for this project.

The spreadsheet will then calculate all the other cells for you.

15.5 Enter Data to Calculate the Buy and Hold Price Ceiling

To look at the value of the property from a hold and let point of view, enter the data into the following cells:

	BEST-GUESS SCENARIO		WORST-CASE SCENARIO	NOTES
2. Hold and let strategy				
Expected annual gross rental income (ex void)	£ 18,000	<< insert figure	£ 18,000	This amount should allow for any void periods etc...
Gross rental yield required	8.75%	<< insert figure	8.75%	
Property Purchase Price	£ 178,104		£ 173,484	property see the www.buy-to-let-secrets.co.uk spreadsheet
	Do not bid more than this!		Optimum purchase price	

You will only need to insert data where you see:

<< insert figure

or

<< insert figure >>

The key figures that you need to insert are:

Expected annual gross rental income (ex void)

Insert the figure of the total amount of rent that you anticipate each year. By calculating this amount across the year, you should allow for some void weeks – depending on the type of property and tenants.

Gross rental yield required

Insert your desired gross rental yield. (See Section **9.4.2**) for an explanation of gross yield. Set this figure according to your own personal goals.

… and then let the spreadsheet software calculate your price ceiling.

15.6 Fixed / Refurbishment Costs

These costs are those that you should know up front, and in some detail. If not, go back and arrange a survey (see Section **6**) or pick up the phone and ask for quotes.

The point here is that as a smart investor, you want to reduce your exposure to risk, and you can only do this by maximising the information you have available to you.

FIXED/ REFURBISHMENT COSTS	BEST-GUESS SCENARIO			WORST-CASE SCENARIO		NOTES
Set up costs						
Building Insurance	£	250	<< insert figures >>	£	300	Ideally, this should kick in the moment you secure a property, so get quotes.
Furniture and furnishings costs	£	500	<< insert figures >>	£	600	Remember you may with to 'dress' the property even if you don't intend to let it out.
Total Set up costs	£	750		£	900	
Buying costs						
Auction Fees	£	500	<< insert figures >>	£	550	Check what fees the auction house charges. Check the minimum for cheaper properties.
Legal & Survey Fees	£	500	<< insert figures >>	£	500	Call your solicitor and a few local surveyors for quotes.
Finance Arrangement Fees	£	1,000	<< insert figures >>	£	1,000	Your lender may or may not charge an arrangement fee. Always ask, and check the small-print.
Total Buying costs	£	2,000		£	2,050	
Building/ renovation costs						
Building Work						
- general	£	7,500	<< insert figures >>	£	9,000	**It is easy to get these figures wrong, mistakes are VERY expensive - so build in a margin of error.**
- roof	£	2,000	<< insert figures >>	£	3,000	A complete replacement roof is very expensive! What might be your worst-case?
- internal walls & ceilings	£	100	<< insert figures >>	£	100	An extreme worst-case scenario would be a re-plastering of all internal surfaces. Wallpaper can hide a lot of horrors!
- floors	£	350	<< insert figures >>	£	500	Replacing a wooden floor can mean the supporting joists as well as the boards, which can get expensive.
- damp remediation	£	100	<< insert figures >>	£	100	Damp work can usually be quoted for, but beware of the possibility of more damage turning up as the job proceeds.
- structural work (such as underpinnin	£	-	<< insert figures >>	£	-	See damp remediation, above.
Internal Improvements						**The cost of mistakes here is a lot less, (though they could still add up to several thousand pounds!)**
- bathroom	£	500	<< insert figures >>	£	500	Price a new bathroom, get a fitting price - how far wrong can you go?
- kitchen	£	3,000	<< insert figures >>	£	3,000	See bathrooms.
- windows & doors	£	1,000	<< insert figures >>	£	1,500	Choose a window or door type and style, multiply by the number you need, and add labour.
- plumbing	£	500	<< insert figures >>	£	600	Plumbing can usually be accurately quoted for.
- electrics	£	500	<< insert figures >>	£	600	Your worst-case here is a complete re-wire, which start at around £1,500 for a two-bed bungalow.
- central heating	£	50	<< insert figures >>	£	100	This can be anything from a boiler service, through an upgrade, to a completely fresh installation.
- internal decoration	£	2,000	<< insert figures >>	£	2,200	Again, you can generally get an accutrate quote. Consider buying materials at decorator suppliers and doing it yourself.
- carpets	£	2,000	<< insert figures >>	£	2,200	Floor area (square meters) x the price of the carpet you choose
External Improvements	£	-	<< insert figures >>	£	-	**With the exception of drainage, these are largely ascetic, but hugely affect the resale value**
- drainage	£	-	<< insert figures >>	£	-	Bad drainage from the property to the sewers would need fixing urgently; a puddle on the lawn may be less urgent.
- external walls	£	-	<< insert figures >>	£	-	Fixing existing rendering or pebble-dash is an easily-quoted job.
- paths & driveways	£	-	<< insert figures >>	£	-	Anything from pulling up a few weeds to a complete re-lay.
- garden	£	-	<< insert figures >>	£	-	This is a big contributor to first impressions, but time and hard work are often sufficient to do a reasonable job.
- walls, fences & gates	£	-	<< insert figures >>	£	-	Is it a repair, or a replacement, or a new fence or wall?
- garage & out-buildings	£	-	<< insert figures >>	£	-	The biggest cost here, other than a rebuild or a conversion, may be the repair or replacement of a flat roof.
Other building costs	£	-	<< insert figures >>	£	-	Add anything else
Total	£	25,100		£	29,300	
v Insert Figure Below						
10% Building slush fund	£	2,510		£	2,930	Always keep a slush fund - for the things that escaped your budget!
FIXED / REFURBISHMENT COSTS TOT/		27,610			32,230	

15.6.1 Set Up Costs

Building Insurance

Building Insurance definitely will apply. You are responsible for insuring the building the moment the gavel falls, so you really ought to have it all arranged, ready to 'press the button', prior to the auction.

Furniture and furnishings costs

If you intend to let the property, you may need to spend money on replacing furniture and furnishings. Even if you expect to sell the property on immediately on after renovation, you may wish to allow a small budget to 'dress' the property to achieve the maximum sale price.

15.6.2 Buying Costs

Auction Fees & Deposit

The Auction Fees you can find from the auctioneer. The Deposit is going to be 10% of whatever you get the property for, subject to a minimum of £1,000, or sometimes £1,500. It always pays to check!

Legal & Survey Fees

Legal Fees will be set by your solicitor. He should have had sight of all the paperwork prior to the auction, and therefore his quote should be accurate. However, be aware that unexpected costs can and do arise at times. Your Survey Fees will be dependent on what survey route you choose, as explained in Section **6.**

Finance Arrangement Fee

If you're borrowing money, you may have to pay an Arrangement Fee to the lender. Make sure you know how much this is. (And always ask if it can be waived – you may get lucky!)

15.6.3 Building / Renovation Costs

This is where the guesstimation comes into play (or your structural survey – see Section **6**). A guesstimate is halfway between a guess and an estimate.

In some ways, it can be scary plugging figures in when you're not certain of them.

On the other hand, it can be quite liberating.

You need not show the figures to anyone else, there's probably no one else who knows better than you anyway, and when you give yourself permission to guesstimate, you'll probably amaze yourself with how much knowledge you are actually bringing to the process.

You'll have noticed that the spreadsheet tool has two columns, headed 'Worst-Case Scenario' and 'Best-Guess Scenario'. This is to make you accept that you don't know, and also to give you an opportunity to move away from your default position.

If you're a natural optimist, you need to give some thought to the worst possible case. If you're a pessimist, then you can dream of a best-case scenario. Neither one will be 100% accurate.

The Building Work, Internal Improvements and External Improvements have all been covered in some depth in Section **6.4** on surveys, so there's no need to say much more here.

Just be aware that the more you can get in the way of quotes and estimates, the more accurate your model is going to be.

15.6.4 Building a Slush Fund

It is an excellent idea to keep a slush fund for all the things you forget to include!

You can adjust the size of your slush fund by changing the % figure.

v Insert Figure Below					
10%	Building slush fund	£	2,510	£	2,930

15.7 Best Guess vs. Worst Case

The advantage of using both the Best-Guess and Worst-Case Scenarios is that the gap between them will tell you a lot about your position.

Broadly speaking, the larger the gap between the Best Guess and Worst Case scenarios, the less you are sure about your project.

So, if you are very confident of your figures, then the two scenarios will appear very similar.

If however, this is your first renovation project, then leave yourself a wide margin.

It will also reveal some of the specific areas where you know the least.

If you have time, then you can do something about narrowing those knowledge gaps. If not, you must decide if you can live with the risks associated with not knowing, or whether it would be prudent to abandon the project and seek out the next one.

And this is where you must recall the section on sunk costs (see Section **9.6.2**) to avoid throwing good money after bad.

If your two columns are reasonably close, then the chances are you're in the right ballpark at least.

But don't let this lull you into a false sense of security – all sorts of unexpected factors can leap out at the most unexpected moments to completely throw all your calculations! It's all part of the fun!

One way to get familiar with this tool, and gain a fuller understanding of how it can help you at auction, is to carry out a few dry runs.

Take yourself through the entire process, from selecting a property suitable for your real investment needs, go and view it, and get as much of the data as you can without spending too much money.

Then plug it all in, guesstimate the numbers you don't have, and see what emerges.

Play with the figures to see how any of them change the overall picture.

And then go to the auction, having decided on your price ceiling, and see how your ideas stand up in the real world.

16 ON-LINE RESOURCES

The internet is a great source of information. But often knowing where to start is the hardest part. So, to help we've put together a list of our favourite sources.

16.1 Research Sites

The greatest research site of all is www.google.co.uk or the US version www.google.com.

Key Tip

Google it!

Before you buy any property you should search for the property street and town address in Google.

The chances are that you'll turn up links to all the websites of all the people living in the neighbourhood.

If you find that all the neighbourhood websites extol the virtues of Ecstasy – then you know what kind of neighbourhood you are joining.

I once did this for a property and found the local green parliamentary candidate living 5 doors down. At least I had a source of news on the local environmental issues.

These sites give detailed information about an area according to postcode. They include crime rates, demographic make-up, political representation, types of properties, average house price, educational facilities and so on.

www.upmystreet.co.uk

www.proviser.com

www.landreg.gov.uk

www.hometrack.co.uk

www.homecheck.co.uk

To find 'disadvantaged areas' with no stamp duty payable on properties up to £150,000, go to http://www.hmrc.gov.uk/so/pcode_search.htm

Flooding is a major factor to consider now that the Association of British Insurers have withdrawn flood cover for properties built on a flood plain:

www.environment-agency.gov.uk/subjects/flood

Another site offering environmental assessments:

www.homecheck.co.uk

Also, don't forget www.PropertySecrets.net - this is an invaluable source of information and comment on the direction (and therefore opportunities) in the UK property market.

16.2 For Renovators

The Builders Guild www.buildersguild.org

The Federation of Master Builders www.fmb.org.uk

www.homepro.com

www.improveline.com

The Institute of Plumbing www.plumbers.org.uk

www.referenceline.com

www.skills-register.com

www.yell.com

and for building supplies with prices try

www.screwfix.com/

Try your local council for any grants that may apply:

www2.tagish.co.uk/tagish/localgov/CountyC.htm

16.3 House doctoring

www.homestagers.co.uk

16.4 Surveys

The site for the Royal Institution of Chartered Surveyors

www.rics.org

This site gives you access to letting agents around the country, who can help you with estimating how much rent you can get for your target property.

www.ukpropertyshop.co.uk/property_to_rent.shtml

16.5 Online Auctions & Property Sites

www.auctionmyigloo.com

www.houseweb.com

www.easier.co.uk

www.propertybroker.com

www.fish4homes.co.uk

www.auctionpropertyforsale.co.uk

www.ukauctionlist.com

www.propertyauctions.com

www.ukpad.co.uk

And don't forget to take advantage of your free, two-week trial membership at…

www.eigroup.co.uk

Spanish Property Auctions

www.spanish-property-auctions.com

www.worldpropertylinks.com/propertyauctionsspain.html

16.6 Legal Matters

The National Federation of Residential Landlords

www.help4landlords.org

The location of the RICS Common Conditions for Auction

www.rics.org/property_auctions

A good site for legal stuff

www.landlordlaw.co.uk

16.7 Tax and Finance Matters

The Inland Revenue, font of all knowledge

http://www.hmrc.gov.uk

The Financial Services Authority

www.fsa.gov.uk

The UK Customs & Excise site, for all your VAT-related questions

www.hmce.gov.uk/

Lender for dilapidated properties

www.ecology.co.uk

Congratulations, you've now finished Property Auction Secrets and are ready to tackle your first project.

It just remains for me to wish you the very best of luck and hope that you don't outbid me in the auction room!

Good luck

Damon

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