

# Make them do your bidding

With clearance rates high, it takes discipline to ensure you don't pay too much in the bidding room.

By Lesley Parker

Rising auction clearance rates have set the amber light flashing for those who believe you're better off finding a "For Sale" sign than buying under the hammer.

A year ago, sellers in Sydney and Melbourne had only a 50:50 chance of seeing their property go at auction. But auction clearance rates have surged above 70 per cent in recent weeks.

Buyers' agent David Morrell, who operates in Melbourne and Sydney, says: "What we're seeing at the moment, particularly if it's a good-quality property, is an auction can be a painful experience – there's no such thing as 'pinching' a triple-A address."

Property investment adviser and author Margaret Lomas, of Destiny Financial Solutions, says there's only ever a slim hope of bagging a bargain at auction anyway – perhaps if your research shows there's not much demand in a particular area or much interest in a particular property.

"But in a situation where demand exceeds supply – and that's easy to work out, as there'll be a lot of auctions, a lot of people at auctions and clearance rates will be pretty high – in those circumstances, stay away from auctions."

Lomas says the problem is that few buyers have the willpower to avoid getting carried away at auction – and losing your head can be devastating for your investment or, for owner-occupiers, your personal finances.

"If you're buying as a property investor, I really recommend against going to an auction," she says.

"As an investor, cash flow is pretty important ... if you've done the right kind of research, you'll have estimated what price you can get the property at, what rent it's going to get and you'll have a fair idea of what the costs are going to be.

"If you go to an auction and you get carried away by the emotion of the auction, which most people do – people become quite competitive at auctions – it's highly likely that you'll pay more than your figures suggested you should pay.

"For some people that could be a financial nightmare."

Let's say you're proceeding on the basis that the annual interest cost on a \$500,000 purchase will be \$480 a week. If you end up paying \$530,000 at auction your interest cost jumps to \$510 a week.

"That's \$30 a week you may not be able to afford," Lomas says.

There's no denying it's a more emotional decision for an owner-occupier, who's choosing a home not an investment, but the bottom line – the monthly repayment – still matters, she says.

"An auction will be OK but the warnings remain. If you're inexperienced, at least take someone experienced along with you to bid on your behalf and make sure you're clear on what price you'll go to."

All buyers should have built 2 percentage points of interest rate rises into their calculations before they lift a hand at an auction, she says.

Property lawyer Carolyn Deigan,

managing director of the firm Prudent Juris, thinks the only beneficiaries of auctions are real estate agents. However, one of her tasks is bidding on behalf of clients. Deigan says her advice at auction is to "never, never, never bid until the property has reached the reserve".

Auctions are psychological theatre, she says, and silence gives you the advantage.

If there hasn't been a bid, the agent will try to get you to bid to show your hand, she says, but don't do it.

If there's been some bidding but the property hasn't reached the reserve price and therefore isn't officially "on the market", you'll be urged to bid so the property is passed "in your favour". Deigan says to tell the agent: "No – but I might bid if you reduce the reserve."

"If the property is passed in to another bidder and you identify yourself to the agent as an interested purchaser, they will negotiate with you as well," Deigan says.

Should the property reach its reserve, start to bid strongly and quickly in small increments – with the aim of scaring others into thinking you'll just keep going and they should give up now.

Deigan and Morrell both say they're not shy about talking to other bidders. They'll follow the agent around the room and ask other bidders what the agent just said to them.

Morrell says he'll sound out a rival bidder about how far they're prepared to

If you get carried away by the emotion of the auction it's highly likely that you'll pay more than your figures suggested you should.' Margaret Lomas, Destiny Financial Solutions



go, asking: "Have you got another 100 [thousand dollars]?", suggesting they may as well drop out now.

Deigan says there's a point where you've got to stop, not just because you're in danger of paying too much but also because by pushing another bidder higher you're helping to inflate prices generally.

"If you don't get this property, you don't want to make the next one you try to buy more expensive," she says.

There's one plus side to auctions – at least you know where the market is, Morrell says. "With a private sale you could be \$200,000 or \$300,000 over the market and not know it." (See our story on working out the true value of a

property so you pay the right price, page 14.)

Of course, you could always try to secure a property before auction but Morrell says you need to be sure you're not paying an unnecessary premium for taking it out beforehand.

If you make an offer, don't leave it sitting there to be offered against, he says. Set a deadline and tell the agent that if the offer is rejected they should come back with the figure at which they'll sell.

"Be in control," he says. "The whole idea when buying a property is to be in charge of the negotiation, to be proactive not reactive, whether it's a private sale or an auction."

# House proud

Kylie and Mark Watson have bought houses by private treaty and by auction but much prefer auctions because of the certainty and control.

"We've bought a few houses by private treaty and they leave you hanging ... you feel quite powerless," she says. "At an auction it's only 15 to 20 minutes that you have to play 'the game', versus three or four days with a private sale: they might not call you back, then they turn your offer down, then you don't call them ..."

The Watsons are confident they don't pay too much at auction because they research the market and individual properties thoroughly and set a price limit before entering the auction room.

"Mark does heaps and heaps of research and sets the price he won't go beyond," Kylie says. "He turns into a shark at auctions – it's the only time I ever see him really serious. But he justifies it by pointing out it's an investment for our girls [aged one and three years]."

The Watsons now have five investment properties – they bought three but split two of them into separate titles – plus their family home in Canberra.



Prefers auctions ... Kylie Watson with her daughter. Photo: Stefan Postles

## Need to know

- Few people have the willpower to avoid being carried higher at an auction.
- Investors in particular can't afford to blow their budget.
- If you must take part in an auction, don't bid until the reserve is reached.
- After that, bid strongly and quickly to disconcert other bidders.
- Whether it's a private sale or auction, be in control of the process by taking the initiative.

